

# POLICY



**TITLE:** WHOLESALE ENERGY  
CREDIT POLICY


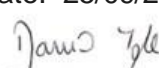

**DATE:** 06/11/2024

**DOCUMENT TYPE:** POLICY

**DOCUMENT OWNER:** CHIEF FINANCIAL OFFICER **DM NUMBER:** 9010115

This document is not to be considered in isolation, but in relation to its position in the document hierarchy as illustrated under section heading: document hierarchy and questions.

## 1 ENDORSEMENTS

Sign off	Signature and date	Name	Title
Author:	Date: 20/09/2024 	Hayden Thomas	CFO
Endorsed by: (where applicable)	Date: 25/09/2024 	David Fyfe	Chair (on behalf of Trading Risk Management Committee)
Approver (board or committee chair):	Date: 06/11/2024 	Denise McComish	Chair (on behalf of Audit and Risk Committee)
Approval details			
Final approval date:	06/11/2024	Effective date:	06/11/2024
DM number	9010115	Version number	10
Review period:	Annually	Date next review:	2025

## 2 PURPOSE

This policy sets out the standard credit processes to be followed for wholesale energy trading activities with approved counterparties and applies to all Synergy staff involved in these activities. The policy is intended to:

- (a) safeguard Synergy's financial resources through the effective implementation of a credit risk management framework and credit risk control procedures in order to minimise credit risk associated with Synergy's wholesale energy trading activities; and
- (b) ensure that Synergy complies with its non-discrimination obligations and other regulatory obligations.

## 3 BACKGROUND

This policy together with the wholesale electricity supply policy meet the written policy requirements under regulation 23 of the Regulations.

The definition of terms highlighted in italics in this policy, are attached as schedule 2.

## **4 INTENT**

This policy seeks to ensure Synergy complies with its legal obligations, including its non-discrimination obligations and obligations to:

- (a) prepare and maintain a written policy setting out standard processes to be followed in offering a wholesale supply of electricity to the CBU, a retail competitor, or a generation competitor, including processes for;
  - i. assessing the ability of the CBU, the retail competitor, or the generation competitor to make payments for the wholesale supply of electricity; and
  - ii. determining the terms and conditions on which the wholesale supply of electricity is to be offered, taking into account that assessed ability.
- (b) ensure credit terms are not, having regard to all relevant circumstances, more favourable to the CBU than terms offered to a retail competitor or a generation competitor.

This policy only deals with credit risk arising directly from wholesale energy trading activities. In particular, it does not address:

- (a) energy trading on the STEM and Real-Time Market;
- (b) non-energy related sales and services; or
- (c) credit risk arising directly from treasury operations / transactions (which are governed by the treasury policy).

### **4.1 Breaches of this policy**

Any breach of this policy must be reported promptly to the corporate finance team in Finance, the executive general manager of the WBU and the chief financial officer.

The corporate finance team is responsible for reporting the breaches to the TRMC which reports to the ARC. The reporting must include the nature of the breach and root cause, any remediation action taken, proposed rectifying action and/or approval.

A material breach of this policy must be reported by the chairperson of the TRMC promptly to the chairperson of the ARC.

### **4.2 Consequences of breaching this policy**

Failure to comply with this policy may lead to Synergy breaching its statutory obligations. If that occurs, then Synergy, may be exposed to, among other things, civil penalties under the Act and the Regulations.

Synergy is audited for compliance with the Act and the Regulations.

## **5 POLICY REQUIREMENTS**

### **5.1 Standard credit processes**

Standard credit processes required by the Regulations are attached as schedule 1.

## **5.2 Guiding principles of this policy**

The TRMC is responsible for approving an approved counterparty's assessed limit and ensuring these are in accordance with the intent of this policy.

The credit exposure of any proposed wholesale energy trading activity must fall within the approved counterparty's existing available limit or be pre-paid in accordance with standard processes.

On-going monitoring and re-assessment of approved counterparties and assessed limits must be conducted in accordance with standard processes.

Any deviation from standard processes must be approved by the TRMC in advance of any related wholesale energy trading activity taking place.

## **6 WHOLESALE ENERGY TRADING ACTIVITIES BETWEEN WBU AND CBU**

This policy does not apply to the CBU to the extent it is engaging in an activity under the ISWA.

If the WBU and the CBU engage in the wholesale supply of electricity that is not an ISWA activity, then Synergy must apply the standard credit processes attached as schedule 1.

In applying these processes, Synergy must ensure that:

- (a) any credit premium previously paid by the CBU in lieu of providing security is to be treated as credit supported by security;
- (b) if a fixed credit limit would apply to the relevant activity if the CBU was another approved counterparty under standard processes, then a fixed credit limit may be applied; and
- (c) if the credit exposure is expected to exceed the available credit limit, then a credit premium will be charged to the CBU instead of requiring the CBU to increase the available credit limit with security (unless the available credit limit can be increased in another way permitted by this policy).

The CBU is otherwise to be treated, and qualifies, as an approved counterparty.

## **7 ROLES AND RESPONSIBILITIES**

### **7.1 Board**

The board has ultimate responsibility for credit management. The board delegates its credit management function to the TRMC.

### **7.2 ARC**

The ARC oversees credit activities as delegated formally by the board.

### **7.3 TRMC**

The TRMC provides operational oversight over credit risk activities.

### **7.4 Policy governance**

This policy is to be reviewed at least annually.

The chief financial officer is responsible for managing this policy. Any material changes to this policy must be approved by the board.

The board has delegated authority to the ARC to approve minor amendments to this policy that are not material and/or do not alter the intention of this policy.

Organisational changes that result in modification to position titles referenced in this policy can be approved by the chief executive officer where the responsibilities of affected positions remain essentially the same and will be submitted to the ARC or board for noting during the next scheduled review of this policy.

## 8 DOCUMENT HIERARCHY AND QUESTIONS



The document hierarchy diagram (left) shows where in the document hierarchy this system sits and how it relates to all other documents in the hierarchy.

Any questions or feedback related to this document should be directed to the document owner in the first instance

## 9 RELATED DOCUMENTS

Document title	Document number
Electricity Corporations (Electricity Generation and Retail Corporation) Regulations 2013.	DMS# 21729478
Wholesale electricity supply policy	DMS# 19856664

Schedule 1: Standard process for assessing the credit risk posed by CBU and approved counterparties  
 Schedule 2: Definitions

## **SCHEDULE 1: STANDARD CREDIT PROCESS FOR ASSESSING THE CREDIT RISK OF CBU AND APPROVED COUNTERPARTIES**

### **(a) Credit limit requirement**

Synergy must comply with the credit limit requirement before engaging in any wholesale energy trading activity. Complying with the credit limit requirement involves the following steps:

- i. determining the credit exposure;
- ii. calculating the available credit limit; then
- iii. comparing the credit exposure arising from the proposed wholesale energy trading activity with the available credit limit.

Section 6 of the policy sets out additional requirements in relation to the application of this policy to wholesale energy trading activities between the WBU and the CBU.

### **Step 1 – Determining credit exposure**

#### **(b) Guidelines for calculating credit exposure**

The credit exposure is calculated in accordance with the following guidelines:

- i. for wholesale energy trading with monthly settlement, the credit exposure is the maximum monthly trading value or the maximum contract value if the contract term is less than one month;
- ii. if the approved counterparty has a deferred payment arrangement, then the credit exposure is the maximum balance outstanding under the arrangement. For example, if a customer is allowed to defer payment for a period, the credit exposure for this customer in relation to the arrangement is equal to the maximum amount that could be accumulated for that period before the customer starts to make payments;
- iii. where Synergy enters into both purchase and sale transactions with the same approved counterparty, the exposure shall be calculated as the gross sale transactions ignoring any purchase transactions, unless Synergy has been provided with legal right to offset any payable against receivables, in which case the exposure shall be calculated as the sale exposure net of the purchase amount;
- iv. for swap contracts, consideration shall be given to the timing of sale and purchase legs. Where the purchase leg takes place first, the credit exposure shall be zero, unless otherwise determined (for example, credit exposure to Synergy from associated fees, swap fees, transport charges or any other charges applicable). Where the sale leg takes place first, the exposure shall be the value of the sale leg and any other applicable charges. Due to the complexity of swap contracts, the exposure shall be monitored on an ongoing basis;
- v. GST is included in the calculation; and
- vi. where other electricity supply related cost, including carbon cost is passed through to customers, it is included in the calculation of maximum exposure.

**(c) Approval to deviate from the guidelines**

Any deviation from the above guidelines must be approved by the TRMC. For example, where historical take-up was significantly lower than the maximum quantity, the historical average could be used with approval by the TRMC.

**Step 2 – Calculating the available credit limit**

**(d) Calculating the assessed limit**

The TRMC is responsible for approving an approved counterparty's assessed limit.

The assessed limit is primarily based on the credit rating assessed by an independent rating agency. In addition to considering the credit rating, the TRMC may also consider:

- i. financial information obtained from the approved counterparty;
- ii. approved counterparty trade history;
- iii. approved counterparty credit requirements;
- iv. industry; and
- v. trading activities.

**(e) Assessed limit for closed groups**

Where an approved counterparty is part of a closed group, at the TRMC's discretion the credit assessment may be performed on the group rather than the approved counterparty itself.

Where Synergy has more than one approved counterparty in the same closed group, the cumulative assessed limit for all approved counterparties in the closed group shall not exceed the assessed limit for the entire closed group.

The TRMC may require legal review of the cross-guarantee arrangements to ensure they support the approved counterparty's assessed limit.

**(f) Credit assessment of all approved counterparties**

A formal credit assessment is to be performed for all new approved counterparties with expected credit exposure, and at least every 12 months for all approved counterparties, except for the following:

- i. an approved counterparty with a total annual credit exposure of less than \$100,000;
- ii. an approved counterparty with a total annual credit exposure of less than \$180,000, if the transactions with that counterparty are limited to physical gas swaps;
- iii. an approved counterparty with which Synergy is not currently trading and does not expect to trade within the next three months;
- iv. government departments and government agencies (both federal and state), including the AEMO;
- v. financial institutions approved under the treasury policy and which have a current independent rating agency rating of A or better;
- vi. the other statutory bodies corporate under the Act, namely Horizon and Western Power;

- vii. any other statutory bodies corporate which have similar government support in their enabling legislation as that offered within section 119 of the Act (e.g. Water Corporation); and
- viii. approved counterparty whose available credit limit is solely dependent on credit supported by security (parent company guarantee, bank guarantee or letter of credit).

For credit supported by security that is based on a parent company guarantee, the financial standing of the guarantor company shall be assessed annually.

Where the available credit limit of an approved counterparty includes both an assessed limit and credit supported by security, a formal credit assessment of the approved counterparty is required every 12 months, notwithstanding that the credit supported by security component is applicable until the underlying security's expiry date.

A formal credit assessment for the CBU is to be conducted once every 12 months. In carrying out this assessment, the financial position of the CBU is to be taken to be the financial position of Synergy as provided for in the Regulations. See section 5 of this policy for further information about the application of this policy to the CBU.

In order to avoid unnecessary waste of resources, a credit assessment request is to be confirmed with the approved counterparty before Synergy engages an independent rating agency. Where the approved counterparty refuses to provide Synergy with the necessary information to carry out a credit assessment, then the approved counterparty will be assigned an average or a lower credit rating (based on other information available) and the assessed limit for the approved counterparty will be nil.

#### **(g) Ongoing monitoring of approved counterparties**

At the discretion of the TRMC, Synergy will implement a process for ongoing monitoring of approved counterparties. For example, a review of the assessed limit may be undertaken if any financial information that may alter the level of risk is identified or where there are indications of change to financial health of the approved counterparty.

#### **(h) Credit premiums**

No credit premiums will be added to an approved counterparty's prices to reflect credit risk. The only exception to this rule is the CBU, which may be required to pay a credit premium in lieu of providing credit supported by security, as set out in section 5 of the policy.

#### **(i) Calculating the available credit limit**

The available credit limit is the sum of the assessed limit plus credit supported by security less any overdue receivables and credit exposure arising from existing wholesale energy trading activities which are not covered by prepayment.

Step 3 – Comparing the credit exposure arising from the proposed wholesale energy trading activity with the available credit limit

#### **(j) Available credit limit assessment**

If the available credit limit for an approved counterparty is less than the credit exposure for the proposed wholesale energy trading activity, then additional credit must be sought via one or a combination of the following:

- i. a formal credit assessment being completed which reflects an improved financial position of the approved counterparty and may support a higher assessed limit;

- ii. the approved counterparty providing additional security (refer to point (k) and (l));
- iii. the approved counterparty settling overdue balances;
- iv. the approved counterparty prepaying for the sale (refer below to point (n)); or
- v. the TRMC or board approving an upward adjustment to the available credit limit.

#### Temporarily trading outside the available credit limit

In rare cases temporary trading outside the available credit limit (e.g. cases where trade commences a week earlier before the security can be put in place) may be allowed to suit Synergy's business needs. Such a trade must be temporary in nature (less than 2 weeks) with a total maximum exposure no more than \$500,000 and it must be endorsed by the general manager of the WBU and approved by the TRMC.

#### Adjustment to available credit limit

Any change to the available credit limit by deviating from the above guidelines is considered an adjustment. Adjustments to the available credit limit must meet Synergy's non-discrimination obligations.

Any adjustment must be objective and based on factual information where possible. To provide full transparency, all adjustments to an approved counterparty's available credit limit must be documented and minuted in the meeting of the TRMC.

#### **(k) Increasing the available credit limit with additional security**

If the available credit limit for an approved counterparty is less than the credit exposure for the proposed wholesale energy trading activity, the approved counterparty can provide additional security to support the wholesale energy trading activity.

The value of proposed securities must be assessed on the basis that they are given unconditionally and irrevocably. Any credit supported by security may be assessed on the basis that the security be sufficient to support a multiple of the monthly credit exposure.

#### **(l) Changes to the credit limit requirement**

An adverse change in the financial health of an approved counterparty or market conditions may result in a change to the credit limit requirement for the approved counterparty. It is therefore good practice to ensure legal rights exist within the contract to enable an approved counterparty to provide additional security.

#### **(m) Fixed credit limits**

The TRMC may pre-approve fixed credit limits for approved counterparties in respect of a wholesale energy trading activity that involves credit exposure within specified

thresholds from time to time. If the credit exposure of the proposed wholesale energy trading activity falls within the fixed credit limit, then Synergy may proceed with the activity without conducting further credit assessment.

#### **(n) Prepaid activities**

Should an approved counterparty engage in wholesale energy trading activity without meeting the above (schedule 1a-1m) requirements, the approved counterparty must prepay in full or in part, as agreed with Synergy.

Prepayment must be in the form of cleared funds in Synergy's bank account.



At Synergy's sole discretion, after taking into consideration the historical payment performance of an approved counterparty and the particulars of a proposed wholesale energy trading activity, Synergy may accept remittance advice as proof of prepayment. Approval to accept remittance advice as proof of prepayment is required from the manager corporate finance within Finance.

## SCHEDULE 2: DEFINITIONS

The following definitions apply in this policy.

Term	Definition
Act	the Electricity Corporations Act 2005 (WA).
AEMO	the Australian Energy Market Operator
Approved counterparty	a counterparty that has been approved by the TRMC in accordance with Synergy's trading risk policy (tier 4 instrument).
ARC	the audit and risk committee.
Assessed credit limit	<p>is the measure by which the credit exposure of wholesale energy trading activities of an approved counterparty is compared in order to comply with the credit limit requirement, as set out in schedule 1, section (a).</p> <p>The available credit limit for each individual approved counterparty is calculated in accordance with the following formula:  <math>ACL = (AL + Se) - (AD&gt;30D + CEe)</math></p> <p>where:  AL = assessed limit  Se = the total credit supported by security  AD&gt;30D = overdue receivables  CEe = the total existing monthly credit exposure.</p>
Assessed limit	is the amount determined in accordance with schedule 1, sections (d) to (g) and is a component of the available credit limit of an approved counterparty.
Board	the board of directors of Synergy.
Business unit	a part of Synergy which is responsible for the conduct and operation of a distinct area of the business, including each of the TGBU, the CBU and the WBU.
Carbon cost	costs arising as a result of the carbon price mechanism in the Clean Energy Act 2011 (Cth), including purchase cost of carbon units, additional purchase costs for fuel and energy supplies.
Closed group	a group bound by cross guarantee.
Credit exposure	the maximum financial losses Synergy could suffer due to the credit risk associated with a wholesale energy trading activity, which is calculated in accordance with schedule 1, section (b) and (c).
Credit limit requirement	is the requirement that the credit exposure of any proposed wholesale energy trading activity must fall within the existing available credit limit of an approved counterparty. It is determined as set out in schedule 1, section (a).

Credit premium	the premium charged to the CBU in addition to the contract price for energy trading, as detailed in section 5 of the policy.
Credit rating	a rating assessed by an independent rating agency which forms the basis of assessed limit.
Credit risk	the risk of potential loss caused by the approved counterparty to a contract being unable or unwilling to meet their financial obligations.
Credit supported by security	an increase to the available credit limit assigned to an approved counterparty that is supported by security acceptable by Synergy as set out in schedule 1, section (k).
Customer business unit (CBU)	the business unit that conducts the "retail business" as defined in the Regulations.
Fixed credit limit	a fixed amount of credit made available to an approved counterparty as detailed in schedule 1, section (m).
Generation competitor	has the meaning given to that term in the Regulations.
GST	goods and services tax.
Horizon	the Regional Power Corporation.
Independent rating agency	an approved rating agency such as Standard and Poor's, Moody's or Equifax.
Internal synergy wholesale arrangement (ISWA)	an arrangement to apply to the operations of the WBU and the CBU made in accordance with the Regulations and for which a price determined under the foundation transfer price mechanism applies, together with any directly related arrangements (including a supply balancing cost allocation arrangement and forecasting error settlements cost allocation arrangement).
Material breach	A material breach of this policy. A breach is considered material if either: the breach was knowingly or intentionally conducted; or the breach is part of a repetitive series of breaches; or  the breach results in a financial exposure to Synergy of \$500,000 or more.
Monthly credit exposure	is taken as the credit exposure for the purposes of calculating the available credit limit.
Non-discrimination obligations	refers to the requirement that Synergy must ensure: (a) that a wholesale supply of electricity is not offered to the CBU on terms and conditions that are, having regard to all relevant circumstances, more favourable than the terms on which a wholesale supply of electricity is offered to retail competitors or generation competitors; and that the financial interests of the CBU are not taken into account in determining the terms and conditions on which a wholesale supply of electricity is offered to retail competitors or generation competitors.
Overdue receivables	receivables overdue from the approved counterparty for more than 30 days.

Policy	this policy, the wholesale energy credit policy.
Purchase leg	refers to where commodity is delivered to Synergy.
Regulations	the Electricity Corporations (Electricity Generation and Retail Corporation) Regulations 2013.
Retail competitor	has the meaning given to that term in the Regulations.
Sale leg	refers to where commodity is delivered to the approved counterparty.
Staff	has the meaning given in regulation 3 of the Regulations.
STEM	the short term energy market.
Synergy	Electricity Generation and Retail Corporation established under the Electricity Corporations Act 2005.
Thermal generation business unit (TGBU)	that part of the Synergy that conducts the generation business as defined in the Regulations.
Tier 1 instruments	refers to acts made by the parliament of Western Australia, such as the Act.
Tier 2 instruments	refers to subsidiary legislation made under any tier 1 instruments, such as the Regulations.
Tier 3 instruments	refers to protocols, policies, mechanisms and directives issued or approved by the minister that are not tier 2 instruments.
Tier 4 instruments	refers to internal Synergy policies.
Trading risk policy	tier 4 policy developed to ensure Synergy manages its energy trading risk effectively.
TRMC	the trading risk management committee.
Western Power	the Electricity Networks Corporation.
Wholesale business unit (WBU)	the business unit that conducts the "wholesale business" as defined in the Regulations.
Wholesale energy trading activities	any energy, environmental, capacity or fuel transaction between the WBU and CBU, and between the WBU and third parties. Transactions between the TGBU and WBU are not in the scope of this policy.