SCOTTISHPOWER

Rupert Steele OBE
Director of Regulation

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Dear Phil,

WHOLESALE POWER MARKET LIQUIDITY: FINAL PROPOSALS FOR A 'SECURE AND PROMOTE' LICENCE CONDITION

Thank you for the opportunity to provide views on behalf of ScottishPower in response to Ofgem's final proposals on wholesale market liquidity.

We welcome Ofgem's conclusion that near term market liquidity remains satisfactory and that no intervention is needed at this stage. We are content with the proposed reporting requirements on day-ahead auction volumes.

We are broadly content with Ofgem's proposals for the Supplier Market Access (SMA) rules, which generally reflect our own voluntary approach in trading with independent suppliers. We think that at least five business days will be needed for the initial acknowledgement (longer in the case of simultaneous requests), given that it is proposed that the licensee would need to check the application for completeness in the time. We also think that the SMA and day-ahead volume reporting conditions should be standard generation licence conditions, allied to market share criteria, rather than special conditions for named groups or companies. This is both more appropriate and more robust to any changes in the market.

The proposals on mandatory market making give us considerable concern as they would be an unprecedented measure in European power markets, entailing a significant change in our business model. ScottishPower is an engineering and customer service company and our trading is focussed on hedging our assets and customer relationships. Indeed, Iberdrola group companies do not market make in any of the markets in which we are involved throughout Europe. Particular issues we would raise include:

(a) EU financial regulation: It is absolutely essential to avoid any solution which would cause UK suppliers and their groups being classed as Non Financial Counterparties above the threshold (NFC+) according to the European Markets Infrastructure Regulation (EMIR). Such a result would not only increase costs for UK consumers but would cause the groups concerned to have to clear all derivatives on a global basis (regardless of whether they are used for hedging purposes or not). This would be a clearly disproportionate outcome.

Although Ofgem has acknowledged this problem, the proposed solution (allowing licensees to nominate a third party to discharge the obligation on their behalf) is not sufficiently certain as it relies on a suitable third party coming forward at reasonable cost. Another possible solution – allowing the market making to be undertaken on centrally cleared exchanges – is also not currently viable because Ofgem is proposing to lay down conditions about other participants which are both uncertain and impossible for licensees to monitor.

(b) Protection against sophisticated traders: The current proposals do not adequately protect licensees (and therefore customers) against exploitation by specialist trading houses or high frequency trading. Simple measures such as a 5 minute reload time (whereby a market maker can automatically stop purchasing any products for 5 minutes after a purchase was completed and the same for sales) and fast market rules can help address this. Restricting the obligation to limited trading windows of say an hour each day could also help concentrate liquidity and reduce risk and cost, without undermining the objectives of the policy. Consideration should also be given to gross position limits that would allow obligated parties to withdraw from the market for the day.

(c) Cost and proportionality: Ofgem are required to have regard to the need to secure that licence holders are able to finance the activities which are the subject of obligations on them and if parties are obligated to market make then they must be able to recover the costs they incur from the market. We believe that Ofgem have significantly underestimated the costs of their proposals for market making (principally by assuming that companies will not need to close positions to minimise value at risk), and have proposed a structure that will result in a disproportionate sharing of costs across different sizes of supply and generation businesses.

A market maker will generally lose money from closing its positions and make money from spreads. We do not think Ofgem has done enough analysis to demonstrate that its suggested bid/offer spread limits will enable obligated market makers to cover their costs. Consideration should therefore be given to replacing the *ex ante* spread limits with an *ex-post* obligation for spreads to be objectively justifiable so that the market sets spreads at an efficient level and Ofgem need only intervene if parties set spreads in a way that constitutes avoidance. This would also allow spreads to widen in faster moving market conditions, as is observed elsewhere. If the market making activity does not cover its costs, then it is imperative that the obligation is designed so that its cost is proportionate to the size of the obligated party, so that a relatively small participant such as ScottishPower does not face a competitive disadvantage. It is essential to us, as it is in other markets and countries, that we do not face obligations that are disproportionate to our size.

We are also concerned that the market making obligation is proposed to be applied to named companies by way of special licence conditions rather than by way of standard conditions subject to criteria. As there clearly must be some objective criteria behind Ofgem's policy, these (rather than company names) should drive the obligation.

Given the significance of the proposed market making obligation to ScottishPower and the wider Iberdrola Group, if Ofgem decides to take forward that proposal in its current form, we would need to consider whether the matter should be subject to independent review.

Our responses to the detailed questions in the consultation are provided in Annex 1. I hope that you will find these comments useful. Should you wish to discuss any of these points further then please do not hesitate to contact me.

Yours sincerely,

Rupert Steele

Rupert Steele
Director of Regulation

Annex 1

WHOLESALE POWER MARKET LIQUIDITY: FINAL PROPOSALS FOR A 'SECURE AND PROMOTE' LICENCE CONDITION

SCOTTISHPOWER RESPONSE

Question 1: Do you agree with our updated assessment of the wholesale market?

We agree that availability of products that support hedging, robust reference prices along the curve and an effective near-term market are key objectives for ensuring that the GB wholesale power market supports competitive supply and generation markets through reliable trading in key products and provision of robust signals.

While churn is a broad indicator that does not measure whether the specific key objectives are met, we agree that it is a useful indicator to monitor. The current level (of around three times) is broadly comparable with the European average of a multiple of 3.4 across the seven biggest markets (source: Bloomberg).

In relation to availability of products that support hedging, we believe that initiatives by ScottishPower and some other major generators continue to provide improved access to the market for independent market participants. We have continued to follow up the commitments we made in 2010 to provide access to the electricity wholesale market and are now actively engaged with 20 independent suppliers and have established trading relationships with 6.

Ofgem's updated analysis shows that trading in baseload products over 12 months out is increasing but that trading in peak products over 12 months out is declining. For our part, we find it convenient to trade baseload over 12 months out and shape our requirements through shorter term trading. It may be that the increasing focus on baseload beyond 12 months reflects others adopting a similar strategy.

In relation to robust reference prices along the curve, Ofgem's analysis shows that bid-offer spreads are narrowing and are at their lowest for several years. This is evidence of an improving market for large and small players. The current bid-offer spreads in the UK compare well with other European markets and are the second narrowest spreads in the EU.

In relation to an effective near-term market Ofgem have noted that volumes traded on near-term exchanges have consolidated at the high levels reached as a result of the actions taken by us and other major market participants on a voluntary basis to deliver increased liquidity into the day-ahead market. We are continuing to trade a minimum of 30% of our daily GB generation day-ahead and sustained day-ahead liquidity is now sufficient for the Government to propose that this market should be used for the reference price for intermittent low-carbon generation.

We expect that market coupling under the European Target Model planned for implementation later this year should attract increased liquidity to the day-ahead market. Bringing trading on the two day-ahead platforms in GB together through the virtual 'GB hub' will enable parties trading on either of the auction platforms to access a single pool of liquidity which could potentially attract new players to the GB market.

Question 2: Do you agree with our conclusion that we should intervene in the market in the form of the 'Secure and Promote' licence condition set out in this document?

We agree that the Supplier Market Access (SMA) rules will facilitate entry and competition by smaller suppliers by addressing directly the specific issues faced by these firms. The rules are based on voluntary commitments made by us and some other major vertically integrated players over the last few years. If similar commitments could be obtained from all of the major players, including major generators who are not vertically integrated with domestic supply, then this would further improve competition for smaller suppliers without the need for regulation. In the absence of such commitments, an intervention along the lines of the SMA rules is appropriate.

We agree with Ofgem's decision that intervention in near-term markets is not appropriate at this stage given the actions taken by us and other major market participants on a voluntary basis which have delivered increased liquidity into the day-ahead market. We agree that Ofgem should monitor liquidity in this market to ensure it remains at an appropriate level.

We do not agree that the case has been made for the mandatory market making obligation in its current form for the reasons stated in the covering letter and detailed responses below.

Question 3: Do you agree with our proposed legal approach to 'Secure and Promote'?

We do not agree that the Secure and Promote obligations should be applied to named companies by way of special licence conditions rather than by way of standard conditions subject to criteria. As there clearly must be some objective criteria behind Ofgem's policy, these (rather than company names) should drive the obligations.

The SMA and short term liquidity reporting obligations should be standard conditions of generation licences, linked to a market share threshold (of generator and affiliates). The condition should recognise that the obligation can be undertaken on the generator's behalf by affiliates.

If Ofgem proceeds with a version of the mandatory market maker, we believe that it would be appropriate for the obligation to be structured as a standard condition of electricity supply licences, conditional on threshold (licensee plus affiliates) market shares of electricity domestic supply and generation. If there is a possibility that obligated parties will incur significant costs as a result of this obligation (which we believe is certainly the case under Ofgem's current proposals), then there needs to be a clear route to recovery of these costs in the market. To achieve this, Ofgem would need to find a way to ensure that costs are shared in a more equitable manner, which could involve linking aspects of the obligation to retail market share.

Question 4: Do you agree with our proposals for who should face the obligations under 'Secure and Promote'?

Ofgem's rationale for selecting the licensees to face the market making obligation is based on domestic supply market share, vertical integration and trading capabilities and have selected the six largest players in the generation and supply market. However, Ofgem have not defined objective criteria for inclusion in the obligations, and without a definition based on supply and generation market share, future changes in these market shares will leave obligated and non obligated parties uncertain as to their position. Any obligation imposed on these companies requires to be proportionate to their size in the market, their ability to provide generation, their market power and their ability to recover costs from their customer base, none of which have been defined in the criteria for inclusion in the obligations.

Question 5: Do you have any views on our final proposals for the Supplier Market Access rules, particularly those aspects listed under 'key outstanding design questions'?

We agree that the SMA rules will facilitate entry and competition by smaller suppliers by addressing directly the specific issues faced by these firms. They build on voluntary commitments made by us in 2010 aimed at assisting independent suppliers to access the electricity wholesale market. We have followed up these initial commitments and in January 2012 we wrote to all 56 supply licence holders with whom we had no existing bilateral trading relationship making them aware of the commitments we had made and inviting them to establish a trading relationship with us. We are now actively engaged with 20 independent suppliers and have established trading relationships with 6. We have transacted over 500 power and around 600 gas trades bilaterally with independent suppliers between early 2010 and June 2013.

It is important that small independent suppliers can access the trade sizes they require to hedge their businesses. We have transacted power trades to date at a granularity of 0.05MW and of varying bespoke sizes between 0.25MW and 18.5MW contrasting with a standard market clip size of 10MW. We have also traded small clip sizes in the gas market with volumes as low as 50 therms/day compared with a standard clip size of 25,000 therms/day.

Smaller suppliers also need access to the trade durations they require to hedge their businesses and we have to date traded electricity with durations of between 1 and 182 days, covering periods of up to 16 months ahead of delivery, and gas trades between 1 and 181 days.

Scope

In terms of the scope of the SMA rules we can see the potential benefits for small independent suppliers of extending the scope. We believe that the major benefits to small independent suppliers will come from the Supplier Market Access rules rather than from market making. However extending the threshold up to which suppliers will be eligible for treatment under the rules to 5TWh per annum would enable suppliers with around 1.5 million domestic customers (and turnovers of c. £750million) to be eligible for these benefits and we do not believe that such suppliers could be classified as small. We would suggest extending this threshold to 2TWh per annum which would allow suppliers with over 0.5 million domestic customers to qualify. We agree that any supplier with an affiliate generating more than 1TWh per annum should not be eligible and that the maximum volume each licensee should be required to provide to any eligible supplier should be 0.5TWh per annum. Licensees would of course be free to provide higher volumes if they chose to do so.

Response to trading requests

In terms of responding to trading requests we agree with the aim of ensuring that small suppliers are not treated as a low priority. Negotiating a trading agreement is a bi-lateral iterative process and we agree that if agreement cannot be reached in 60 working days that the licensee should ensure that the small supplier is aware of the outstanding issues which require to be resolved for agreement.

The draft licence condition requires the licensee to acknowledge a written request for a trading agreement from an eligible supplier within 2 working days after receipt and that the acknowledgement must specify any required information that the supplier has failed to provide in their request. It will thus be necessary for someone from the licensee's team dealing with small suppliers to assess the request in some detail before responding. Given the requirement to scrutinise the request, we consider that the timescale for acknowledging a written request should be a minimum of 5 working days, which should not unduly delay the overall time to negotiate a trading agreement. Where a significant number of requests are made simultaneously, it will not be possible to review all these requests in the timescales proposed by Ofgem, and consideration must be given to modifying timescales in this situation.

Credit and collateral

Credit and collateral are key considerations for small suppliers. We have granted bilateral credit lines worth an aggregated total value of £15.5m to the independent suppliers we have established trading relationships with, enabling them to trade with us for periods of up to 36 months ahead. Credit lines have been extended to counterparties who do not have investment grade credit ratings.

We agree that the credit terms and collateral arrangements offered to the supplier must be a reasonable reflection of the risks of trading with the supplier and must relate to the information submitted by the supplier that has been used to determine the supplier's credit worthiness. We agree that the licensee should provide the supplier with a Credit Transparency Form setting out the basis for its credit decision including the credit terms and collateral arrangements offered, the quantitative and qualitative factors considered and also setting out the factors under the control of the supplier which could change the credit terms. We include a draft Credit Transparency Form in Annex 2 which could be used as a basis for providing this information to the supplier.

Costs

In terms of the costs of implementing these proposals our estimate of the set-up cost to provide the services to small independent suppliers set out in the SMA rules is over £100k, which is at the low end of Ofgem's estimates. We are currently engaged with 20 independent suppliers and have established trading relationships with 6 and this estimate covers the costs we have incurred in progressing our offers to establish trading relationships including performing counterparty credit checks.

Based on our experience to date our estimate of the SMA ongoing costs is also at the low end of Ofgem's estimates, under £200k per annum. This includes providing trade notification services, monitoring continuing lines of credit, undertaking financial regulatory compliance and transferring qualifying over-the-counter trades to exchanges for clearing. It also, unlike Ofgem's estimate, includes the cost of processing small clip size trades recognising that when a small clip is traded an open position will be created which will need to be combined with other small trades before it can be traded out in the market. The costs of this are not significant since the open positions created are small but these costs would be significant if larger open positions had to be held for any significant period of time.

This cost does not include the potential cost of default by a counterparty which can be a significant risk for parties who do not have investment grade credit ratings or parent company guarantees. It also does not include the costs of more onerous obligations under European financial legislation if these were triggered by trades under the SMA rules.

Ofgem's draft licence condition requires that prices must be the licensee's assessment of the prevailing market price, including at cost any wholesale market trading fees normally incurred, but with no other additional fees or charges. We believe this is unduly restrictive and could stifle innovation. We think that sufficient protection could be provided for small suppliers by requiring that the price is objectively justifiable (by analogy with the Transmission Constraint Licence Condition) or reflects costs that are reasonably incurred.

Reporting

We agree that licensees should provide Ofgem with updates on the number of independent suppliers they are actively engaged with, the number they have established trading relationships with and the extent of their trading under the SMA rules.

Question 6: Are there any further areas that these rules should cover?

The rules cover the major areas which are relevant in ensuring small independent suppliers can secure bilateral credit lines and can access the wholesale market in the trade sizes, durations and shapes required, and at fair market prices, to operate their businesses.

Question 7: Do you have any comments on our proposed detailed design for the market making obligation, particularly those listed under 'key outstanding design questions'?

A fundamental concern with the market making proposals centres on their interaction with European financial regulations, in particular EMIR. The consultation document suggests that market making trades may amount to 330TWh[1], which equates to £18bn per annum in value (or double this for EMIR threshold calculations as there are two sides to each trade). If these trades were in scope for EMIR threshold calculations then there would be an EMIR classification issue based on the EMIR threshold of €3bn per year. Indeed it would be likely that all six integrated companies would face a Non Financial Counterparty + (NFC+) classification – the implications of which are particularly onerous. This classification would lead to mandatory clearing of global derivatives trading even where these are used for hedging purposes. There would also be more onerous reporting, trade processing and related risk reduction requirements from this classification.

The result of this would be significant extra costs for UK consumers as well as significant costs in other global markets in which the affected companies' groups are trading. We believe the following issues should be considered:

- To ensure these trades are out of scope for EMIR, there should be an option to market make on a cleared platform such as ICE or Nasdaq OMX. The current Ofgem proposal requires a platform with at least ten licensed parties (generation or supply licence holders). This creates both uncertainty as to whether this is a reliable route to avoid EMIR risks (for example, if a player left the platform during the year or if no platform had the requisite number of players) and serious measurement difficulties for licensees. It should be noted that ScottishPower cannot confirm how many licensed parties trade on an exchange as they may not be exchange members and may simply trade through a clearing broker. The exchange itself may not know how many licensed parties actually trade through their platform. In short, the proposed requirement that any platform must have at least 10 licensed parties would mean that exchange trading is not a feasible approach for addressing the EMIR risks.

- Ofgem's proposal for third party market making is also presented as helping to address concerns relating to EMIR. However, there can be no assurance that suitable third parties will be available at reasonable costs to undertake this function. The possibility that suppliers may be able to appoint a third party is therefore not a sufficiently sure approach to avoid major EMIR risks.

Moreover, market making activity will be regulated by MiFID II. At this point it is not clear whether Ofgem proposals could be accommodated through the exemption for commodities market makers contemplated in the latest drafts of MiFID II. Our modelling indicates that the current Ofgem proposal could lead to very high volumes traded by market makers and thus this activity may not comply with MiFID II exemptions. This could cause problems for licensees both in the UK market and globally.

Platform

Market makers must have the ability to choose the platforms through which they or a third party may trade. An implicit designation of any particular platform may be anti-competitive as well as potentially creating EMIR issues as noted above.

Availability

The proposal to impose a requirement to market make for 50% of market open hours creates a potential exposure to very high volumes and associated costs that is inappropriate for the UK electricity market. Simple measures such as a 5 minute reload time (whereby a market maker can automatically stop purchasing any products for 5 minutes after a purchase was completed and the same for sales) and fast market rules can help address this. Consideration should also be given to gross position limits that would allow obligated parties to withdraw from the market for the day.

[1] Modelling by ScottishPower suggests that the volume of market making trades could in fact be as high as 2,400TWh per annum. This is based on the proposed market making rules being applied on a minute-by-minute basis across a trading day rather than any assessment of the need for this volume.

If trading windows are introduced and each market maker is required to post bids and offers during this trading window irrespective of the platform chosen then those seeking access to the market would be able to choose the best bid or offer across all market makers and all platforms. The market would still operate for the same opening hours as at present and all parties would be able to instigate trades at times outside the trading windows. Trading windows would also reduce operating costs for market makers since they would not need to dedicate resources to market making for all market opening hours. A single trading window per day of one hour duration would be sufficient to provide this choice and would also have the advantage of concentrating liquidity into these periods. ScottishPower modelling indicates that trading volumes in excess of Ofgem's forecast would still occur with a 1 hour window.

Bid-offer spreads

A market maker will generally lose money from closing its positions and make money from spreads. We do not think Ofgem has done enough analysis to demonstrate that its suggested bid/offer spread limits will enable obligated market makers to cover their costs. Consideration should therefore be given to replacing the *ex ante* spread limits with an *ex-post* obligation for spreads to be objectively justifiable (or were representative of market conditions at the time) so that the market sets spreads at an efficient level and Ofgem need only intervene if parties set spreads in a way that constitutes avoidance. This would also allow spreads to widen in faster moving market conditions, as is observed elsewhere. If the market making activity does not cover its costs, then it is imperative that the obligation is designed so that its cost is proportionate to the size of the obligated party, so that a relatively small participant such as ScottishPower does not face a competitive disadvantage. It is essential to us, as it is in other markets and countries, that we do not face obligations that are disproportionate to our size.

The levels of bid-offer spreads in Ofgem's proposals are we believe set at about 50% of the observed spreads between best bid and best offer over the last year in the market. If each of potentially 6 market makers were limited to these levels then this would be forcing artificial conditions on the market which would be likely to lead to trading losses.

Trade size

We agree that a single trade of any size between 5MW and 10MW should be offered by the market maker as this reflects trade sizes commonly seen in the forward market at present.

Question 8: Do the detailed elements of the proposed market making obligation appropriately balance costs and risk for the licensees?

We believe Ofgem have significantly underestimated the potential ongoing costs of obligated market making as set out in the proposals, particularly in relation to the potential costs of open positions. Ofgem have recognised that if the market maker manages open positions by going back into the market as soon as possible to close these positions this could be very expensive, perhaps over £30m per annum across all obligated parties, but state that they do not believe that obligated parties will follow this strategy. We believe that obligated parties will need to close positions promptly (though not necessarily immediately) in order to manage value at risk and that it is inappropriate to assume that the costs of doing this will somehow disappear. On the basis of our modelling we estimate that the cost of closing out market making positions in a reasonable timescale could be significantly higher than the £30m estimated by Ofgem.

Ofgem estimate that 330TWh would be traded per annum through market making, equivalent in volume to GB total generation. As noted previously, our modelling suggests that the traded volume could in some circumstances be as high as 2,400TWh, which would result in very significant risks and costs for obligated companies. In addition, without any limits on open positions, we believe costs could potentially reach £15m per annum for each market maker.

Ofgem suggest that on the basis of the market making proposals costing £10m per annum that they could produce benefits through reductions in operational costs and/or profits which would outweigh the costs. However, as set out above we believe that Ofgem have significantly underestimated the risks and costs associated with market making and thus it is unlikely that sufficient benefits will be realised to outweigh the likely level of costs.

Again, Ofgem has also underestimated the major risks licensees face from European financial regulation and this has not been alleviated by allowing obligated parties to contract out the delivery of their market making obligation to a third party. Market making volumes in GB, whether carried out directly or through a third party, may change a company's categorisation across Europe under legislation such as EMIR and thus could have implications on a company's operations across Europe and in all classes of derivatives (not only commodities).

Question 9: Do you believe that an industry-run tender process could more successfully deliver our proposals for a market maker? If so, do you have views on how we can solve the practical challenges we have identified?

Notwithstanding our view that the UK electricity market is relatively liquid with narrow bid-offer spreads, we believe that this is the option that has the best chance of delivering Ofgem's objectives without incurring excessive costs and risks to obligated parties. An industry run tender process to contract with for example three market makers would allow costs to be defined through a competitive tender process and would potentially address the implications of EU financial regulation.

Tender process

The industry, or the proposed obligated parties, could appoint an organisation that has the capability to run the overall tender process. Potential third parties should be asked to tender on the basis of Ofgem's final decision on the form of market making but could also propose other forms which could be more economic.

Procurement risk

Although we do not know if there are firms who would be interested in tendering to become market makers under the current proposals, a tender process would obviously show the cost of attracting a market maker into this market. It would also show what conditions are acceptable and what risks are not acceptable to a commercial market maker.

Timetable

Following a successful tendering process market making could commence before the end of 2014 and if successful could deliver improved liquidity into forward prices before winter 2014/15.

Counterparty to the contract

All licensees could be the counterparty to the contract with the market makers, allowing costs to be shared proportionately across the industry.

Collection of fees

If licensees are obligated to ensure that a third party provides market making services then Ofgem should seek to ensure that the charges levied by the third party are allocated to suppliers on an equitable basis. The ability of licensees to recover these costs from their customers will be related to the size of their customer base. Costs should therefore be allocated on the basis of market share in the retail market. The requirement for an obligation that is shared proportionately on mandated parties is fundamental to ensure cost recovery.

Question 10: Do you agree with our analysis of the costs, risks and benefits of intervening in the near-term market?

We agree that volumes traded on near-term exchanges have consolidated at the high levels reached as a result of the actions taken by us and other major market participants on a voluntary basis to deliver increased liquidity into the day-ahead market. We are continuing to trade a minimum of 30% of our daily GB generation day-ahead and sustained day-ahead liquidity is now sufficient for the Government to propose that this market should be used for the reference price for intermittent low-carbon generation which should encourage further increased liquidity into the day-ahead market.

We also agree that market coupling under the European Target Model planned for implementation later this year should attract further increased liquidity to the day-ahead market. Bringing trading on the two day-ahead platforms in GB together through the virtual ‘GB hub’ will enable parties trading on either of the auction platforms to access a single pool of liquidity which could potentially attract new players to the GB market.

Question 11: Do you agree that we should not intervene in near-term markets at this stage?

Ofgem have recognised that intervening in the day-ahead market through a licence condition risks introducing distortions and inefficiencies to the behaviour of licensees and to the wider market. They also recognise that by attempting to lock in progress to date through a licence obligation they could unintentionally stifle further progress with licensees not incentivised to increase their market participation beyond that required in the licence condition. In 2013 to date we have traded 37% of our daily GB generation in the day-ahead market compared to the commitment we gave to trade a minimum of 30%, demonstrating the benefits of voluntary commitments compared to licence obligations.

We agree with Ofgem’s decision not to intervene in near-term markets at this stage and that it is appropriate for Ofgem to seek regular information on volumes bought and sold through day-ahead auctions from vertically integrated companies and large generators.

ScottishPower
August 2013

Annex 2

Draft Credit Transparency Form

A. Company details

Contractual counterparty	e.g. ABC Energy Ltd	**Date**	
Credit support provider (if any)		**Agreements under negotiation**	e.g. GTMA/NBP97/EFET

B. Information requested and received

Information	Received	Details
Audited financial accounts (Essential)	Yes/No	e.g. year end, small company exemption
Interim financial statements (e.g. management accounts, half-year results)	Yes/No	
Credit support/security offered by counterparty	Yes/No	e.g. type (cash, letter of credit, parent guarantee)
Other information (e.g. website, business plan etc.)		

C. Credit review

Quantitative factors considered	For example but not limited to: P&L factors: Sales Operating profit Financial expenses Net profit Balance sheet factors: Total assets Working capital Gross debt Net debt Tangible net worth	**Qualitative factors considered**	For example but not limited to: Market position Strategy Management experience

D. **Outcome of review**

Can an unsecured limit be offered?	Yes/No
Value of credit support received (if any)	e.g. £1m letter of credit, £500k guarantee from parent company
Financial covenants required?	e.g. decline in tangible net worth
Term/Tenor offered	e.g. 1 year ahead

E. **What could improve/diminish credit review**

Quantitative	Example text: Improvements in profitability, growth in sales, adequate capitalization and strengthening of the balance sheet may result in an increase in the trading limits Alternatively, if these factors decline year-on-year then, in line with the Credit Policy, we would have to reduce the trading limit.
Qualitative	Example (note that this list is not exhaustive) Clear strategy Management stability Robust Business Plan
Other	Include any case specific factors that may improve/diminish the trading limit.