

# Fact Sheet: Security Requirements for Major Customer Connections

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Part of Energy Queensland

## Purpose

Ergon Energy Corporation Limited (Ergon Energy) and Energex Limited (Energex) are subsidiaries of Energy Queensland, a Queensland Government-owned corporation and, accordingly, have a responsibility to employ sound financial practices.

The carrying out of works by Ergon Energy and Energex (DNSPs) to enable Major Customers to connect to their Distribution Networks, and the supply of connection services through relevant infrastructure, may result in a financial risk to the DNSPs if these costs are not managed appropriately.

To minimise such risk, the DNSPs may request financial security (referred to as collateral) from Major Customers in respect of such transactions.

## Which organisations may be required to provide collateral?

All organisations that are proposed to be counterparties to Large Counterparty Construction Contracts or Large Counterparty Connection Agreements are required to undergo a Credit Assessment. Organisations that are unrated and non-investment grade companies (as determined by Standard & Poor's, Moody's or Fitch rating agencies), may be required to provide collateral.

## Acceptable forms of collateral

A DNSP will normally accept collateral to secure credit risk exposure in the form of cash deposits, bank guarantees, parent guarantees, surety bonds or letters of credit to the satisfaction of the DNSP.

## Assessment of collateral

For a bank guarantee or surety bond to be acceptable, all of the following criteria must be met:

- They must be made out to the relevant DNSP contracting entity, including the relevant Australian Business Number (ABN). Therefore, if the DNSP contracting party is Ergon Energy then the bank Guarantee or surety bond is to be made out to Ergon Energy.
- The financial institution or insurance company must have offices or representation within Australia and must be assessable directly by the Group.
- The financial institution or insurance company must have a public rating of at least BBB+ or equivalent rated by Standard & Poor's, Moody's or Fitch.
- The bank guarantee or surety bond must state that it is unconditional and payable on demand.
- The expiry date or issue period of the bank guarantee or surety bond must be sufficient to cover the relevant contract period and term for which the credit risk will exist.
- The company names and Australian Business Numbers on the bank guarantee or surety bond must be accurate.
- The original bank guarantee or surety bond, fully executed by the financial institution or insurance company, must be provided to the relevant DNSP.

## Security types appropriate to Construction Contracts

Security Type	When Required
Security for construction cost	If a Major Customer negotiates to pay the Construction Charges by instalments/staged payments and/or to provide security instead of upfront cash payments.
Security for defects/retention	Where a Major Customer designs and constructs Connection Assets and transfers these assets to a DNSP. This Security is to ensure the DNSP is covered for any defects present in the Connection Assets.
Removal cost security	To cover the costs of the DNSP having to remove Connection Assets if the Construction Contract is terminated prior to energisation of the Major Customer Connection.
Security for financial loss due to early termination	If the Major Customer terminates the Construction Contract early and the DNSP suffers a financial loss as a result.

## Security types appropriate to Connection Agreements

Security Type	When Required
Security for Network Charges	Required where a Major Customer is invoiced directly by the DNSP for Network Charges, as opposed to where the Network Charges are passed through to the Major Customer via a retailer.
Removal cost security	To cover the costs of the DNSP having to remove Connection Assets if the Connection Agreement is terminated early.
Security for financial loss due to early termination	Where the Major Customer terminates the Connection Agreement and the DNSP suffers a financial loss as a result.

### For further information

Major Customers may contact their Project Sponsor to obtain further specific information.