

# Aim to reduce settlement risk by increasing the use of payment netting and reducing settlement times in the European energy industry

(Version 1.6)

**Solution:** 10<sup>th</sup> business day of the following month becomes due date for European Gas and Power

**Approach:** 1) European Energy Settlement Calendar agreed  
*[IN PROGRESS]* 2) Cross Product Payment Netting Agreement drafted  
*[ONGOING]* 3) Individual Master Agreements linked after std. reviews

## Benefits

Basle calculation methodology  
 8% risk capital requirement  
 20% p.a risk capital charge

CP A: Paying 5 mn for NBP Gas  
 CP B: Paying 5 mn for UK Power  
=> 5 mn residual amount not netted

8% x 5 mn = 0.40 mn  
 0.40 mn x 20% = 0.08 mn p.a  
Both CP's save 0.08 mn per year

## Costs and Challenges

- 1) Completing payment cycle by the 10<sup>th</sup> business day when receiving ZBT allocations on the 3<sup>rd</sup> or 4<sup>th</sup> business day
- 2) Peak in workload of Back Office due to shorter settlement times
- 3) Cross Currency Netting mechanics (concept established)

## Stages and Scope

- 1) Same currency Gas & Power
- 2) Cross currency Gas & Power

**Trial:** Live since October-04 (same currency netting)  
 –more trial participants welcome

## Business Day Definition

Business day Definition: Any week day that EUR and GBP can both move.

2005			2006		
GBP Holiday	EUR Holiday	Non-Business Days	GBP Holiday	EUR Holiday	Non-Business Days
03-Jan		<b>03-Jan</b>	02-Jan		<b>02-Jan</b>
25-Mar	25-Mar	<b>25-Mar</b>	14-Apr	14-Apr	<b>14-Apr</b>
28-Mar	28-Mar	<b>28-Mar</b>	17-Apr	17-Apr	<b>17-Apr</b>
02-May		<b>02-May</b>	01-May	01-May	<b>01-May</b>
30-May		<b>30-May</b>	29-May		<b>29-May</b>
29-Aug		<b>29-Aug</b>	28-Aug		<b>28-Aug</b>
26-Dec	26-Dec	<b>26-Dec</b>	25-Dec	25-Dec	<b>25-Dec</b>
27-Dec		<b>27-Dec</b>	26-Dec	26-Dec	<b>26-Dec</b>

## Settlement Cycle

Calendar Day	Commodities with Allocations (e.g ZBT)	Commodities without Allocations (all other)	
Fr 01-Apr-05	1 Prepare allocations	Prepare invoices	1
Mo 04-Apr-05	2 <b>ALLOCATIONS</b>	<b>INVOICING CP</b>	2
Di 05-Apr-05	3 Send allocations		3
Mi 06-Apr-05	1 Prepare invoices		4
Do 07-Apr-05	2 <b>INVOICING CP</b>	Send Invoices	5
Fr 08-Apr-05	3 Send invoices	Validate invoices	1
Mo 11-Apr-05	1 Validate invoices →	<b>Netting Statement</b>	2
Di 12-Apr-05	2 Payment process starts		3
Mi 13-Apr-05	3 <b>PAYING CP</b>		4
Do 14-Apr-05	4 Payment of Net amount due		5

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Di 05-Apr-05	3 Send allocations		3
Mi 06-Apr-05	1 Prepare invoices		4
Do 07-Apr-05	2 <b>INVOICING CP</b>	Send Invoices	5
Fr 08-Apr-05	3 Send invoices	Validate invoices	1
Mo 11-Apr-05	1 Validate invoices	<b>Netting Statement</b>	2
Di 12-Apr-05	2	Payment process starts	3
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