CREDIT LIMIT CALCULATION

Objectives

- Understand credit limit mechanisms

- Differentiate potential/final liabilities

- Get familiar with the invoicing timeline

- Tackle frequently faced issues with credit limit calculation

Content

- What is *credit limit* (CL)?
  - How is it calculated?
  - How does the system check it?
    - Increase/decrease of CL, product differentiation, rejected bids, acknowledgments, period to be secured

- Invoicing timeline
  ◦ When are accounts debited/credited, warnings sent?
  ◦ How is credit limit updated after invoicing?

- Frequently faced issues with credit limit
  - Case 1: multiple bids on several auctions
  - Case 2: bank guarantee validity
  - Case 3: credit limit and invoicing/blocked amount
  - Case 4: update of credit limit after fund transfer
  - Case 5: Credit limit and yearly auctions
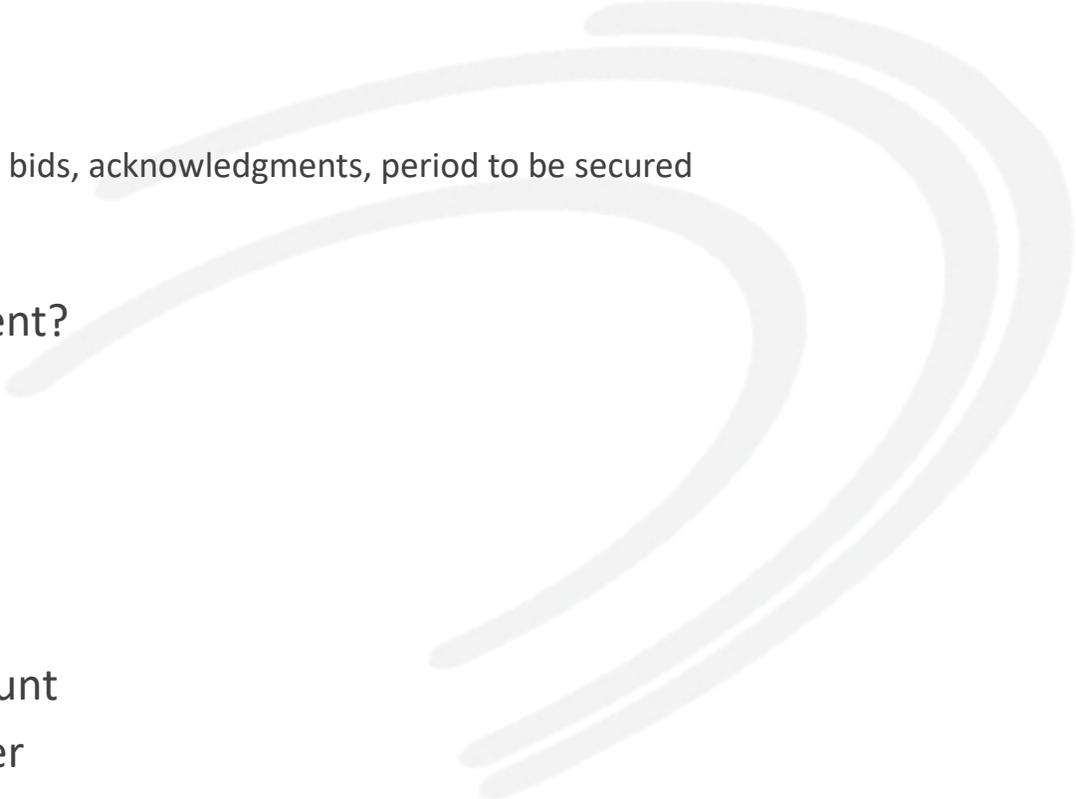
Credit limit calculation

$$CL =$$

<u>cash deposit</u> **+** <u>bank guarantee</u> **–** <u>outstanding payment obligation(s)</u>

| Balance of business account | **+** | Valid letter of guarantee covering auctions requirements ("period to be secured") | **–** | Any capacity acquired and to be invoiced next month + one extra instalment for products over 1 month + potential liabilities |
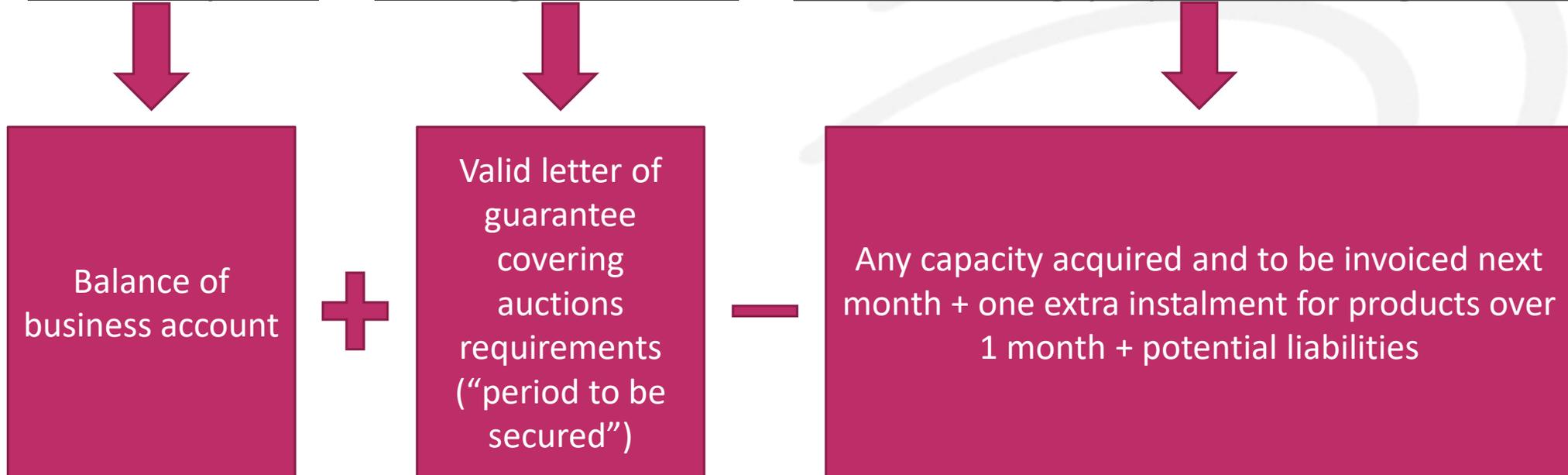
Increase of credit limit

CL will increase if:

1. Business account is credited (fund transfer)

2. Bank guarantee is added (new bank guarantee)

3. Amount of existing bank guarantee is increased

4. Validity of bank guarantee is extended until period to be secured for targeted auction(s) is covered

5. Compensations are paid on business account (instead of corporate account)
   By defaults compensations/selfbilling are paid to the corporate account

6. Placed bids are not winning

Decrease of credit limit

CL will decrease if:

1. Cash is withdrawn from business account

2. Bank guarantee becomes invalid

3. Bank guarantee expires

4. Bank guarantee amount is decreased

5. Bids are placed

6. Capacity is acquired

Credit limit and bank guarantees

Bank guarantee must cover the "period to be secured".

It represents the minimum validity period of bank guarantee

This minimum period differs for each auction horizon

→ *See allocation rules for more details*

The exact period to be secured is available in *eCAT-> Auction-> Auctioning parameters tab*

Credit limit and bidding – 1

For short-term auctions:

When placing a bid, auction tool will calculate potential liabilities (PL).

1. If PL do not exceed credit limit, a positive acknowledgment is generated

2. If PL exceed credit limit, a "positive" acknowledgment is generated
   A. The amount of missing collateral is displayed in the acknowledgment
   B. Outstanding payments obligations are considered
   C. Potential liabilities for all bids are considered as outstanding payment obligations

Potential Liabilities:

Represent maximum potential amount to pay if bids are selected.

Calculated as maximum exposure of a party's bids, meaning the most possible amount a participant might have to pay.

Credit limit and bidding – 2

For long-term auctions:

When placing a bid, auction tool will calculate potential liabilities (PL).

1. If PL do not exceed credit limit, positive acknowledgment (ACK) is generated

2. If PL exceed credit limit, positive ACK is generated with warning
   A. The warning is included in the ACK
   B. The amount of missing collateral is displayed in the warning message
   C. If set of bids is exceeding CL, the system removes the bid with the lowest bid price and computes again until CL is sufficient
   D. When results are being computed, final liabilities are calculated using the clearing price and CL is updated
   E. Outstanding payments obligations are considered
   F. All calculated maximum payment obligations are considered as outstanding payment obligations

Invoicing timeline

JAO's invoicing timeline is based on Luxemburg's calendar of public holidays

The following example illustrate the timeline for April 2019

Week days	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T
Working day (WD)	1	2	3	4	5	⊘	⊘	6	7	8	9	10	⊘	⊘	11	12	13	14	15	⊘	⊘	⊘	16	17	18	19	⊘	⊘	20	21
Day of the month	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30

- **Public holiday** 22/04/2019 (Easter Monday)
- **10th WD** Invoice or Selfbilling issued by JAO
- **15th WD** Deadline for MP to credit the Business account (Due date of invoice)
- **16th WD** Debit of MP's Business account by JAO + Update of the Credit limit
- **17th WD** Payment of a Selfbilling by JAO

Update of credit limit – case 1

Participant's collateral is <u>only cash on the business account</u>

1. If the participant will receive an invoice (allocation greater than compensation)

   On 16th WD after JAO debits business account:

   A. If participant credits account with invoice amount, CL does not change if participant only holds Yearly, Seasonal or Quarterly capacity

   B. If participant has not credited business account with invoice amount, CL decreases

   C. New awarded capacity since beginning of the month is already blocked from the credit limit

   D. Potential liabilities are also blocked from credit limit

2. If the participant will receive a self-bill (compensation greater than allocation)

   A. On 17th WD CL does not change if participant only holds ongoing Yearly, Seasonal or Quarterly capacity

   B. Monthly, weekly and short-term capacity is released from credit limit

Update of credit limit – case 2

Participant's collateral is <u>only a bank guarantee</u>

1. If the participant will receive an invoice (allocation greater than compensation)

    On 16th WD participant **must** have credited business account with invoice amount,

    A. CL does not change if participant only holds Yearly, Seasonal or Quarterly capacity

    B. CL will increase if participant had monthly, weekly or short term capacity but has not participate to any other auction for next month(s)

    C. New awarded capacity since beginning of the month is already blocked from the credit limit

    D. Potential liabilities are also blocked from credit limit

2. If the participant will receive a self-bill (compensation greater than allocation)

    A. On 17th WD CL does not change if participant only holds ongoing Yearly, Seasonal or Quarterly capacity

    B. Monthly, weekly and short-term capacity is released from credit limit

Update of credit limit – case 3

Participant's collateral <u>both bank guarantee and cash on business account</u>

1. If the participant will receive an invoice (allocation greater than compensation)

   On 16th WD after JAO debits business account:

   A. If participant credits account with invoice amount, CL does not change if participant only holds Yearly, Seasonal or Quarterly capacity

   B. If participant has not credited business account with invoice amount, CL decreases

   C. New awarded capacity since beginning of the month is already blocked from the credit limit

   D. Potential liabilities are also blocked from credit limit

2. If the participant will receive a self-bill (compensation greater than allocation)

   A. On 17th WD CL does not change if participant only holds ongoing Yearly, Seasonal or Quarterly capacity

   B. Monthly, weekly and short-term capacity is released from credit limit

Case 1: multiple bids on several auctions

Monthly auction for November (30 days)

Credit limit is EUR 300,000

2 auctions: AT-IT closing at 14:00 and FR-IT closing at 15:00

Participant is only allocated some capacity on FR-IT although none of his bids is exceeding the credit limit

→ *see details in the appendix notes*

Case 2: Bank guarantee validity
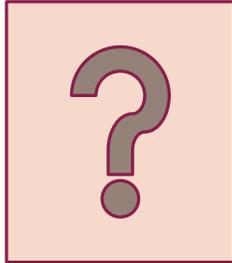
I placed some bids for the Monthly November auctions.
My bank guarantee ends on December 15th and fully covers the potential liabilities of all my bids.

Why do I get a warning that my credit limit is too low?

Your bank guarantee is valid until 15th December, for monthly products the period to be secured is thirty (30) calendar days after the end of the Product Period(s).

Always check the end of the period to be secured in the auction menu of eCAT and make sure to update your collaterals in advance of the auctions.

Case 3: credit limit and invoicing/blocked amount

I bought some monthly capacity for November, I know the value is blocked from my credit limit until November.
I was expecting this capacity to be released on November 1st and my credit limit to increase.

Why has my credit limit not increased?

Business account are only debited on 16th working day of the month (→ see invoicing timeline).

If you did not credit the invoice amount to your business account, your credit limit will decrease after we debit it.

Case 4: Update of credit limit after cash transfer

I made an urgent cash transfer to my business account this morning. I urgently need to participate to an auction closing in 30 minutes.

It is 15:00, why has my credit limit not increased yet?

Fund transfer usually take 1 to 2 working days to be received by our bank. Moreover, please note that our bank send us the daily transactions only once a day (Monday to Friday) at 20:30.

Balances and credit limits are only updated at that time.

Case 5: Credit limit and yearly auctions

I participate to a yearly auction in February 2022 for delivery period 2023.

Will my credit limit decrease in February or only in December?

Your credit limit will be updated right after the auction closes, in February 2022. Your first invoice for this capacity will be sent in December 2022. Between February 2022 and December 2022, 1/12th of the total value of this yearly capacity will be decreased from your credit limit.

THANK YOU

For more details about credit limit, please contact our support team using our JIRA platform.

ttps://servicedesk.jao.eu

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