



FACT SHEET: Security Requirements for Major Customer Connections

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Purpose

Ergon Energy is a Queensland Government-owned corporation and, accordingly, has a responsibility to employ sound financial practices.

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

To minimise such risk, Ergon Energy 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

Ergon Energy will normally accept collateral to secure credit risk exposure in the form of cash deposits, bank guarantees, surety bonds or letters of credit. Ergon Energy's Legal group and Billing & Collections team must assess all collateral offers prior to Ergon Energy accepting any such collateral. Certain conditions apply to the provision of collateral, as set out in the relevant agreements and as summarised below.

Assessment of collateral

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

- the bank guarantee must be made out to Ergon Energy Corporation Limited ABN 50 087 646 062;
- the financial institution or insurance company must have offices or representation within Australia;
- the financial institution or insurance company must be assessable directly by Ergon Energy;
- the financial institution or insurance company must have a public rating of at least A- or equivalent rated by Standard & Poor's, Moody's or Fitch;
- the bank guarantee or surety bond must state that it is irrevocable, 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 that the credit risk will exist;
- the company names and Australian Business Names on the bank guarantee or surety bond

must be accurate; and

- the original bank guarantee or surety bond, fully executed by the financial institution or insurance company, must be obtained.

For a letter of credit to be acceptable, all of the following criteria must be met:

- the financial institution must have a public rating of at least A- or equivalent rated by Standard & Poor's, Moody's or Fitch;
- the company names and Australian Business Names on the letter of credit must be accurate;
- the original letter of credit, fully executed by the financial institution, must be obtained; and
- appropriate evidence provided that the signatory is authorised to sign the document on behalf of the financial institution.

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 installments/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 Ergon Energy. This Security is to ensure Ergon Energy is covered for any defects present in the Connection Assets.
Removal cost security	To cover the costs of Ergon Energy 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	In the event that the Major Customer terminates the Construction Contract early and Ergon Energy 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 billed directly by Ergon Energy 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 Ergon Energy 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 Ergon Energy suffers a financial loss as a result.

For further information

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