

Schedule to the Payment Security Policy

Relevant Sections of the NIE Networks Payment Security Policy for Counterparties

The following are the relevant sections of the NIE Networks payment security policy prepared under Condition 24 of NIE's [Electricity Distribution Licence](#) setting out the applicable NIE Networks policy on the taking of security under relevant agreements. These relevant sections are current as at the date set out at above and may be amended by NIE Networks from time to time in accordance with applicable procedures.

The remainder of the payment security policy is confidential and not available to Counterparties.

These relevant sections do not amend the relevant agreement and, to the extent of any conflict, the agreement prevails.

1 Credit Rating

NIE Networks will not require security cover where the Counterparty has an approved long term investment grade credit rating, being at minimum BBB- by Standard and Poor's or Fitch and Baa3 by Moody's..

2 Amount of Security Cover

2.1 If a Counterparty does not have an approved credit rating, it must provide security to NIE Networks.

2.2 Except as described in paragraph 2.3 below, the security cover for all Counterparties (new and existing) must be equal to an amount, in the reasonable opinion of NIE Networks, representing the aggregate amount payable to NIE Networks in the period specified in the following table:

	Agreement	Period
1.	Distribution Use of System (UOS) Agreement	5 weeks (based on an average over such period calculated from the annual estimated use of system charges) under the relevant agreement
2.	PSO Agreement	5 weeks (based on an average over such period calculated from the annual estimated PSO charges) under the relevant agreement

- 2.3 Where the calculated amount is less than £15,000 under the relevant agreement, or £30,000 in aggregate across two or more relevant agreements, then NIE Networks may agree that security cover will not be required.
- 2.4 NIE Networks will review the level of security cover as it considers appropriate. For this purpose it may require a Counterparty to provide information on projected business activity or customer demand. NIE Networks will inform a Counterparty where an adjustment is required. The Counterparty will be given 5 business days to have the amended level of security in place.
- 2.5 Where any Counterparty exceeds the credit terms on invoices twice in a 6 month period, it will be required to increase its level of security to an amount, in the reasonable opinion of NIE Networks, representing:
1. where a 5 weeks calculation is applied under paragraph 2.2 above, an amount being twice the original figure; or
 2. in any other case, the original amount applied under the agreement plus such additional amount as is provided for under the relevant agreement.
- 2.6.1 If a Counterparty believes that the level of security cover provided is excessive, because the level of payments it makes in respect of the relevant agreement has decreased, then it can apply for a reduction in the level of security cover. The relevant NIE Networks business will review the request and within 1 month of the date of application, subject to verification of the change in circumstances, seek to agree the appropriate level of security cover required. In the event of a failure to agree, either party may refer the matter to NIAUR for determination.
- 2.7 A Secured Amount Statement will show the calculation of the security cover required from the Counterparty. The form of the statement is set out in appendix 1 to this schedule.

3. Credit Cover

NIE Networks will accept security by way of Letter of Credit or Cash Deposit, and may at its discretion accept security in any other form. Paragraphs 4 to 6 below refer.

4. Letter of Credit

- 4.1 A Letter of Credit must be from a Bank for the amount stated in the Secured Amount Statement and must be at all times valid for a period of not less than 3 months.
- 4.2 The Bank must have an approved long term investment grade credit rating of not less than BBB- by Standard and Poor's or Fitch and Baa3 by Moody's.
- 4.3 The wording of a Letter of Credit from a Bank must be approved in advance by the NIE Networks Legal Department or, alternatively, be in the standard form previously approved by NIE Networks set out in appendix 2 to this schedule.

5. Cash Deposit

A cash deposit must be in a bank account for the amount stated in the Secured Amount Statement and must comply with the following requirements:

1. The account is in the sole name of NIE Networks with the Counterparty identified.
2. Interest on the amount deposited in the account accrues for the benefit of the Counterparty, after any deduction for any tax or bank charges.
3. Payments from the bank account will be against the sole signature of NIE Networks.
4. Payment from the bank account to NIE Networks will only be made to settle any outstanding debt and accrued interest due by the Counterparty to NIE Networks under the UOS and/or the PSO Agreements.
5. If the Counterparty has terminated its UOS and PSO Agreements with NIE Networks or if the amount of credit cover is reduced then payment will be made by NIE Networks to the Counterparty from the bank account as appropriate.
6. Amounts (other than interest) standing to the credit of the account will not be paid to the applicant without the prior written agreement of NIE Networks.

The bank must have an approved long term investment grade credit rating of not less than BBB- by Standard and Poor's or Fitch and Baa3 by Moody's..

6. Other forms of security

- 6.1 NIE Networks may, at its sole discretion, agree to accept any other form of security from the Counterparty. Such credit cover must have a validity of at least 3 months. Alternative forms of security may include:
 1. A guarantee from an EU government/state body under which the government/state body guarantees and indemnifies NIE Networks for any non-performance of any of their subsidiary businesses in settlement of their debts; or
 2. A guarantee from a parent company that achieves the credit ratings set out at 1.1 above.
- 6.2 The wording of a guarantee must be approved in advance by the NIE Networks Legal Department prior to a final agreement. The guarantee must cover the full liability of the counterparty under the relevant agreement.
- 6.3 The strength of the guarantee given must be reviewed by the NIE Networks Legal Department to ascertain its legal validity. This may involve obtaining a legal opinion on the validity of the guarantee in the legal jurisdiction of the parent/ state body if the NIE Networks Legal Department is not satisfied as to the effectiveness of the guarantee. If a further legal opinion is required it will be obtained by NIE Networks and the cost will be passed onto the provider of the guarantee.

APPENDIX 1

Secured Amount Statement: Example

Counterparty:

Date Information Supplied by Counterparty:

Date security level must be provided to Counterparty:

T&D DUoS Charges

Estimated Customer Numbers

	Unit Sales GWh	Estimated DUOS Charges £'000
Annual distribution use of system	<hr/>	<hr/>
Average for 5 Weeks' based on annual figure	<hr/>	<hr/>

APPENDIX 2

Form of Irrevocable Letter of Credit

[On the letterhead of [Bank]]

To: Northern Ireland Electricity Networks Limited

(the "Beneficiary")

Attention: []

Date: [], 20

Dear Sirs,

We refer to the [*name of agreement*], between Beneficiary and [*name of supplier*] (the "**Applicant**") dated [], 20 , as such agreement may be amended or restated from time to time (the "**Agreement**").

We [*name of issuing bank*] establish this irrevocable letter of credit in your favour available for drawing in one or more amounts up to a maximum aggregate amount of £[*Amount of Security- Amount to be determined under the terms of the Agreement*] (less any amounts previously drawn down) upon your written demand.

Your demand shall be in the form of the Certificate attached to this letter of credit with the blanks completed as appropriate.

Payment will be made by us not later than one business day (i.e. a day on which the banks are open for business in Dublin, Belfast and London) after receipt of your demand.

Payment by us under this letter of credit shall be in Sterling for same day value and shall be paid to your account at [*details of account*] or to the account designated in your demand.

This letter of credit expires at 3.00 p.m. London time on [] for presentation of your demand at our counters.

Any demand or communication from you to us in respect of this letter of credit shall refer to this letter of credit and be made in writing, sent by postage prepaid registered mail or tested telex (telex number [*Bank's telex number*]) or delivered by hand to us at [*address of Bank*], or such other address and/or telex number as we may specify in writing. In any event, each demand and communication must be addressed "To the attention of [*Bank's Documentary Credits dept.*] and pre-advised by fax to [*Bank's Doc. Credits dept. fax no.*]".

This letter of credit shall be governed by and construed in accordance with the laws of England, and for our benefit only, the courts of England shall have exclusive jurisdiction to settle any disputes arising out of this letter of credit.

This letter of credit is subject to the Uniform Customs and Practice for Documentary Credits, 2007 Revision, International Chamber of Commerce Publication No. 600 insofar as the same are applicable (but so that Article 32 thereof shall be deemed excluded and the second sentence of Article 36 thereof shall be deemed excluded for this purpose with effect that, if this letter of credit expires during any interruption of business referred to in the first sentence of such Article, the Bank shall remain liable to make payment under this letter of credit in respect of any demand no later than 15 Business Days after it has notified the Beneficiary that its business has ceased to be so interrupted).

The terms of the Contracts (Rights of Third Parties) Act 1999 shall not apply to this letter of credit.

Yours faithfully,

For and on behalf of
[BANK]

.....
Name:

Title:

CERTIFICATE

**This certificate forms an integral part of [Bank], [London]'s
Letter of Credit No. [] and must remain attached hereto**

[On headed paper of Beneficiary]

Date:
[]

We refer to:

- (a) the [*name of Agreement*] made between Beneficiary and [] (the **Applicant**) dated [], 20 (the **Agreement**); and
- (b) the letter of credit No. [] issued on [] by [BANK] for a maximum aggregate amount of Sterling £[*Amount of Security- Amount to be determined under the terms of the Agreement*] (less any amounts previously drawn down) (the **Letter of Credit**).

We hereby demand payment of £[] under the Letter of Credit and that payment be made to the account referred to in the Letter of Credit or such other account as may be agreed between us.

Yours faithfully,

For and on behalf of
Beneficiary