

A Utility Company Efficiently Sharpens Its Focus on the Credit Risk of New Customers

The Client: A multinational utility that develops hundreds of onsite distributed energy generation systems, including solar and storage, in North America and Europe.

Users: Their credit risk team.

Distributed generation (DG) systems often use clean energy resources, such as solar, for what are typically small decentralized installations onsite and off-grid. Many commercial and industrial companies use DG to lower emissions, as well as to reduce utility costs during peak hours. The growth of DG has substantially increased the number of customers being served by energy providers with deregulated lines of business that offer these capabilities. These are long-term projects with payoff periods of 10 to 20 years, thereby involving substantial exposure to off-taker risk.

Pain Points:

As a provider of DG systems in North America and Europe, the credit risk team at this utility had been struggling to track the creditworthiness of hundreds of new customers as the business began to grow. The team wanted to put in place a consistent and efficient system that would help them assess their customers' ability to pay for these capital investments over the long term. They turned to S&P Global Market Intelligence ("Market Intelligence") to discuss various approaches.

The Solution:

Market Intelligence outlined an approach that would utilize a Corporate Credit Assessment Scorecard. Scorecards are Excel[®]-based tools that use forward-looking qualitative assessments, and financial ratio analysis to derive stand-alone implied credit scores that are designed to quantitatively approximate ratings from S&P Global Ratings¹, and are further supported by historical default data back to 1981.

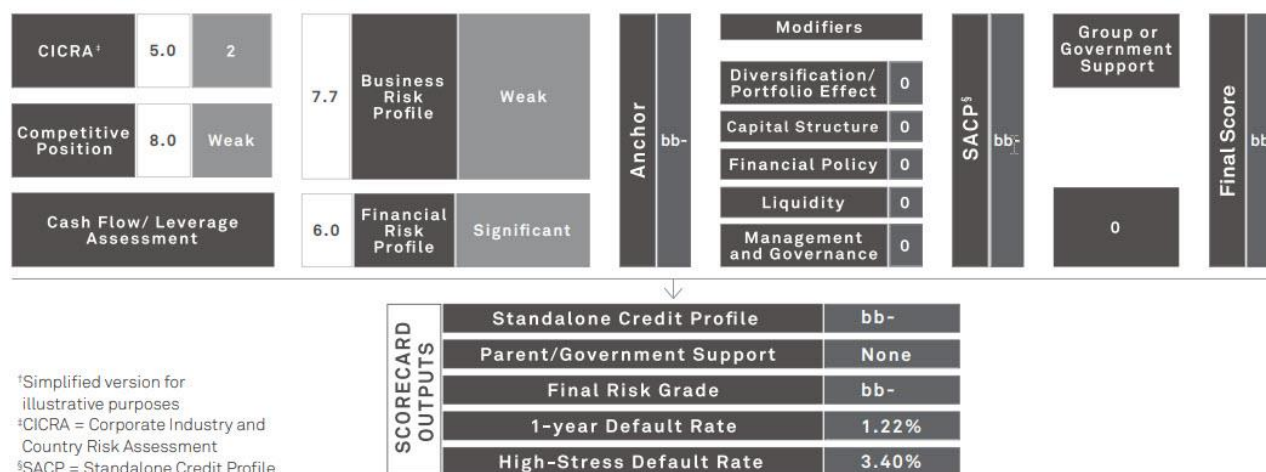
Market Intelligence provides 70 different Scorecards, which include:

- **Corporate Scorecards**
- **Project Finance Scorecards**
 - ✓ Power and Renewables
 - ✓ Oil and Gas
 - ✓ Chemicals and LNG
 - ✓ Infrastructure
 - ✓ Commodities

¹ Lowercase nomenclature is used to differentiate S&P Global Market Intelligence credit model scores from the credit ratings issued by S&P Global Ratings.

Market Intelligence Sample Generic Corporate Credit Assessment Scorecard

Sample Corporate Scorecard†



†Simplified version for illustrative purposes

‡CICRA = Corporate Industry and Country Risk Assessment

§SACP = Standalone Credit Profile

Source: S&P Global Market Intelligence. For illustrative purposes only.

The analytical framework follows the corporate assessment criteria, where the combination of business risk and financial risk determines the entity’s “anchor” Stand-Alone Credit Profile (SACP). This anchor acts as a starting point for calculating the actual SACP for a firm. It essentially represents the baseline creditworthiness of a representative company operating in that particular market.

The assessment of business and financial risk is based on an analysis of several credit risk factors. The anchor score is then adjusted upwards or downwards based on credit risk modifiers that measure management and governance, as well as liquidity and financial flexibility. Once the SACP of the entity is derived, it is possible to factor in any explicit external support that might come from a group or government.

Key Benefits:

The Corporate Credit Assessment Scorecard provides a number of important benefits for the credit risk team:

- **Encompasses quantitative factors, as well qualitative ones that users can input:** This includes risk factors, weights, benchmarks, and scoring algorithms delivered in a “glass box” environment.
- **Offers global and sector-specific coverage:** Widely applicable, but also sector and geographically-specific coverage.
- **Can be quickly deployed:** Is an out-of-the-box solution, enabling users to free up resources for other value-added activities.
- **Automated financial spreading:** For public and private company data on Capital IQ and the Market Intelligence platform, the Excel® plug-in feature provides a convenient spreading solution.
- **Enables seamless updates:** A rigorous annual review process validates that the Scorecard is analytically sound and that the scoring criteria and User Guide are up-to-date.

To learn more about how we help utility, energy, and industrial companies of all sizes optimize their credit risk management systems, contact our team at spglobal.com/sc-en-casestudy for a personalized tour of our offerings.

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