

energycredit* enhances and automates AEP's credit risk management processes

For an energy company as large and diverse as AEP, credit management is viewed as a mandatory activity and one that requires a capable and competent solution. For AEP, *energycredit* is that solution.



FINANCIAL
OBJECTS

American Electric Power (AEP) is the largest electricity generator in the United States and owns more than 36,000 megawatts of generating capacity in the U.S. The company is also one of the United States' largest utilities, serving over 5 million customers across a number of states, and a leading energy marketer. AEP necessarily places strong emphasis on all aspects of risk management including managing and monitoring its credit exposures both at the operating company and enterprise-wide levels.

Indeed, the sheer size and complexity of AEP's business and its associated risks meant that AEP had been looking for a way to automate its credit management processes and associated risks. Although the company could obtain various reports from its trading systems that allowed management and monitoring of its credit exposures, the process was partly manual, somewhat laborious, and the reports produced were subject to the ever present potential for human error and unnecessary delay. "The system was workable but inefficient," states Mr. Frank Hilton, Chief Credit Officer for AEP.

AEP's patience pays off

For a number of years, AEP maintained an eye on the packaged software market in its search for an automated solution to its requirements. Although the company looked at a number of potential solutions over this time, it did not find anything on the market that could meet its needs. Then, in 2003, AEP finally found a packaged software solution that could meet its complex credit management requirements. That solution was Financial Objects' *energycredit*.

energycredit stood out as providing the basis for AEP's credit management business processes. "It was obvious to us that *energycredit* was the quality credit management platform that could meet our needs both in the short-term and in to the future," said Mr. Hilton. Furthermore, AEP felt that the solution offered relatively easy implementation and integration with existing systems, flexible margining functionality and was easy to use. Implementation of the system commenced in August 2003.

The implementation project included a number of enhancements that AEP required including:

- A new settlements risk module to auto-generate accruals and Accounts Receivable (AR) entries from the transaction set based on a set of defined business rules;
- The addition of margin interest calculations to allow automatic calculation of interest payable or receivable;
- The addition of volume limits and exposures (in addition to cash exposures);
- Additional contract language for trading and netting contracts.

energycredit went live on April 1st, 2004 first in parallel with existing systems and then stand-alone a month later. "We have been very impressed with Financial Objects' people on the project," reports Mr. Hilton. "They worked very well with our staff and listened to our needs while bringing their own expertise to the table."

Industry

Energy Trading

Scenario

Enterprise-wide credit risk management within energy marketing

Benefits

- Enhanced view of credit exposures with counterparties on a daily basis;
- More accurate credit information on a timely basis;
- Ability to aggregate exposures to same entity or group of entities and by AEP legal entity or enterprise-wide;
- Fully automated credit management process including margin interest calculations and a complete audit trail;
- Improved controls aids Sarbanes-Oxley implementation and enhances corporate governance;
- Central repository for all credit information.

Customer



Product

energycredit

energycredit meets AEP's credit management needs

Implementation of the system has improved AEP's efficiency, controls and accuracy in its credit management and risk area, and in particular the margin process including the ability to determine daily margin costs and interest. The company now has an enhanced and accurate view of credit exposures on a daily basis with all of its counterparties. For AEP, which transacts out of a number of legal entities, *energycredit* also provides the added benefit of being able to aggregate credit exposure not just by counterparty or groups of counterparty but also by AEP legal entity or enterprise-wide. This provides management with the information that they require to manage the business efficiently with an emphasis on risk management.

With all credit management data now residing in a single repository, reporting has become a much simpler, automated process free from the risk of error associated with manual processes. Additionally, an audit trail feature provides the accountability that is required in today's world of increased corporate scrutiny and aids in AEP's implementation of Sarbanes-Oxley legislation.

energycredit has helped improve controls and audit ability in the credit management function as well. "Corporate feels that in a business that has inherent risks, the best way to manage is to make sure that we know what our risks are every day and having access to accurate data closer to real-time is part of our strategy," says Mr. Hilton.

Summary

For today's energy company, managing and mitigating all risks is essential but monitoring and managing credit exposure has become a key business activity since the collapse of the mega-merchants. The fall-out from that event demonstrated the need for robust and scalable credit solutions that could provide management with accurate and actionable information. For an energy company as large and as diverse as AEP, credit management is viewed as a mandatory activity and one that required a capable and competent solution. For AEP, *energycredit* is that solution giving access to aggregated and disaggregated credit exposures across the enterprise and determining margin requirements and margin interest on a daily basis. "Utilising Financial Objects' solution has allowed AEP to significantly improve our credit controls," states Mr. Hilton.

** Financial Objects Plc acquired Raft International Plc in March 2006. raft credit is now known as energycredit*

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