

Transaction Checklist

Transactions differ greatly and not all issues will be relevant to each proposed transaction.

After a commercial and independent risk review is completed, an Executive Summary of Proposal for Risk Committee Consideration should be prepared depending on the level of authority required by policy.

A complex transaction covering several different businesses may require a full and lengthy assessment covering all or most of the issues covered below.

- Clear summary of proposal and strategic/commercial rationale
 - Background and context to proposal: - reasons for initiating; link to business strategy; follow on from any previous consideration of proposal.
- Details of deal
 - Background details of proposal; and rationale
 - Equity investment in assets
 - Detailed strategic /commercial rationale for proposal
 - Why is this deal being proposed
 - Why will it add value
 - How does it fit with broader corporate strategy
 - How does it fit with the corporation's existing portfolio
 - Current status of negotiations/timing for possible finalization
 - Nature of the decision which is being requested
 - What alternatives to the recommended have been considered?
 - What are the decision makers being asked to decide between?
- Type energy
 - Detailed description of proposed transaction: type of transaction (EXAMPLE 15 year Power Purchase Agreement)
- Main terms
 - Duration
 - Start time
 - Market(s)
 - Fuel requirements
 - Contract terms
- Pricing arrangements
- Time periods
 - Volumes
 - Financial size measures

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- Counterparty
 - Counterparties; any other material terms (EXAMPLE contract reopener provisions; termination arrangement)
- Valuation
 - Base valuation for the proposal; benefits should be clearly described, and quantified financially; benefits which are not readily quantifiable should be described. If several options are being considered, what is the value for each?
 - Valuation 'curves' used
 - Market curve of date
 - Fundamentals escalator set of date xx (standard requirement is escalator set for longer term transactions).
 - Which curves are used? Are they the correct ones for the transaction under consideration? If there are any curves derived from the base approved curves, are the calculations reasonable.
 - Volatilities and price distributions; how are they sourced?
 - Are they reasonable?
 - Are they consistent with independent in house estimates in models or specifically designed for this transaction?
 - Discount rate utilized
 - Is it consistent with official in house rate; whether or not it is; does it seem to reasonably match the risk profile of the project?
 - Other assumptions
 - Capital costs; operating costs; tax rates; inflation rates; customer numbers
 - Demand levels are they clear; is the rationale clear and supported as appropriate by objective data and analysis
 - Valuation methodology, including modeling approach (EXAMPLE Uses simulation from in house model; Uses standard external model)
 - Has the modeling been reviewed?
 - Is it reasonable; are any limitations clearly spelled out and the impact assessed?
 - What, if any, extra modeling/analysis is necessary?
 - Do any of the forecast assumptions seem implausible; unduly optimistic or pessimistic?
 - Do they show sudden and unexplained changes from past trends?
 - Summarize key aspects of valuation, approach, modeling and assumptions.
 - What are your views as to how reasonable it all is? What concerns, if any, do you have?

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- Defined and Measurable Risks

Key risks to value should be clearly identified and described (price, capital costs; changes in regulatory rules.) The risks may differ greatly between different types of project; and there may be several different categorizations/checklists.

- Standard risk categorization: Market Risk, Credit Risk; Operational Risk (systems, models, processes; people; physical problems with supply chain), Strategic Risk
- Typical energy project risks:
 - Gas price curves ; power prices; carbon prices; spreads in prices; exchange rates; capital costs; operating costs; customer numbers; customer demand; competitor activity; price profiles over the year and throughout the day (for power); price volatilities; price distributions; correlations; regulatory arrangements; capacity mechanism; imbalance pricing mechanism; environmental requirements); physical risks (potentially including extreme events)
- Political risks: (EXAMPLE change in government policy re environmental rules; nature of regulation and price controls; new structures such as capacity mechanisms; export restrictions)
- Regulatory risks (EXAMPLE review of imbalance pricing mechanism in power market)
- Economic risks: exchange rates; energy prices; costs; competitors; customers; etc.
- Social risks: general developments in society which may impact views on political/regulatory risks or customer responses
- Technical/physical risks
- Environmental risks : (EXAMPLE developments in global warming and consequent regulatory arrangements)
- Legal/contractual risks: (EXAMPLE the contract does not cover some unforeseen circumstance adequately)
- Risks should be quantified: Depending on the project this could require a combination of:
 - Sensitivity analysis,
 - Scenario analysis / stress testing;
 - Probabilistic simulation: the overall distribution of transaction value can be estimated (extent of this depends on the materiality of transaction and the nature of the transaction. Large complex transactions with significant optionality are more likely to require this).

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- The risk assessment should give an indication of the risks for the whole project, taking account of all of the key risks; not just individual risks one-by-one.
 - Risk assessment methodology including modeling approach EXAMPLE is simulation from in house model; based on scenario analysis; is this in house standard model; is this based on financial modeling that is in house).
 - Has the modeling been reviewed? Is it reasonable; are any limitations clearly spelled out and the impact assessed?
 - What, if any, extra modeling/analysis is necessary?
 - Are the risk assessments consistent with standard corporate assumptions; volatilities; and fundamentals scenarios?
 - Have the risks been considered on a portfolio basis as well as a stand-alone basis (a project with substantial risk on a stand-alone basis may hedge another part of the portfolio, or at least diversify the overall portfolio risks).
 - Particularly for big projects, has the need to assess risks on a year by year basis as well as for the life of the project been considered?
 - What is the risk/ reward trade-off, and how is this incorporated into the development of the proposal?
- Risk mitigation/ contingency plans
 - What are the potential actions to mitigate / control the risks for the key risks?
 - What contingency plans have been considered? Is any special monitoring required?
 - What resources, skills and processes are needed to manage the proposal? Are they available and ready? What are the risks associated with these issues.
 - Where multiple decision options are being considered, discuss and compare the risks and risk reward characteristics of each.

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