

Top Energy values Hedgebook when it comes to debt management



CUSTOMER

Top Energy

CHALLENGE

Top Energy needed a tool to help manage derivative valuations and assist in cashflow management. For audit purposes, there was a requirement to value its derivative position, including both CVA and DVA

SOLUTION

Hedgebook provides third-party independent valuations for a wide range of derivatives – including both CVA and DVA. It also enables a small team to manage a relatively large interest rate swaps portfolio.

OUTCOME

Top Energy uses Hedgebook to manage its hedged debt across both parts of its business including monthly and annual reporting with audit compliance.

Independent valuations including CVA and DVA

Top Energy owns and operates the local electricity network serving the far north of New Zealand. It is also involved in renewable energy generation, primarily through its Ngāwhā Geothermal Power Station, which supplies a significant portion of the region's electricity needs. Both parts of the business require debt management and hedging interest rates is a big part of this - as is managing its forward exchange contracts.

Debt management may look simple on the surface

Top Energy's use of Hedgebook is very basic on the surface; it doesn't trade and uses the tool kit in a relatively straightforward way. However, as financial controller Paul Thompson explains it – Hedgebook ticks all the boxes for how he uses it and he couldn't imagine valuing debt and managing interest and FX cashflow without it.

“As part of our debt structure we capture all the term debts into Hedgebook and from that we are able to get the cashflows and interest rates coming off the term borrowings,” he explains. “As part of the term borrowings we enter into interest rate swaps which we capture in Hedgebook to manage the valuations.

“In addition, we capture interest rate swaps for cash flow purposes and get the cashflow projection coming out of Hedgebook to extract the interest received and paid on the swaps,” he says. “Another thing we capture in Hedgebook is our forward exchange contracts as it's another derivative for cashflow purposes.

“For both the interest rate swaps and the forward exchange contracts we use Hedgebook to do the valuation of our derivative position using both CVA and DVA. We then send this valuation through to our external auditors – for semi-annual and annual reporting. We also mark-to-market our derivatives on a monthly basis and use Hedgebook for all of that.”

“I wouldn’t even try to do this without Hedgebook. While I could potentially handle the interest rate swaps, I wouldn’t even try to do the CVA, DVA and all that manually.”

Paul Thompson, Financial Controller,
Top Energy

“It will be important to make sure you invest in that initial set up and talk with Hedgebook to ensure it is done correctly. There will be a learning curve to understand what you’re putting into the book and making sure it is accurate.”

Paul Thompson, Financial Controller,
Top Energy

Hedgebook is ticking the boxes

Paul says that while it might sound a lot it doesn't feel that way mainly because Top Energy wasn't trading. But he was also quick to point out Hedgebook played a key role in helping him to deliver this to the business in an efficient and cost-effective way.

“I wouldn't even try to do this without Hedgebook,” he exclaimed. “While I could potentially handle the interest rate swaps, I wouldn't even try to do the CVA, DVA and all that manually. “It would take an extreme amount of time and you couldn't get the value from that time back. So long as we correctly enter the data into Hedgebook, we have removed a lot of that human risk. Plus, we wouldn't otherwise get the checks and balances we have inbuilt in Hedgebook or the independent valuations.

“While we have our swaps out five years our book doesn't move too much but the valuations can,” he goes on to explain. “We can have millions of dollars moving from month-to-month just on the valuations.

“It doesn't really mean much until it settles as we are not trading for profit, but we still need to manage it. And ultimately, to do that, we need a tool to provide checks and balances through the process and provide accurate reporting and valuations when it comes to the audit. Hedgebook ticks all those boxes.”

Invest in data quality up front

Paul also had some advice for those looking to use Hedgebook that may not have extensive treasury expertise.

“It will be important to make sure you invest in that initial set up and talk with Hedgebook to ensure it is done correctly. There will be a learning curve to understand what you're putting into the book and making sure it is accurate.

“However, once you've made that upfront investment and done it a few times it is really easy. When you have confidence in the data you will be able to use it not only as a reference but as a generator of information.

“Another thing we are potentially looking at is FX options and booking that into Hedgebook as there is no way I am doing the valuations on that without it,” says Paul. “But when we do, I will be reaching out to Hedgebook support to make sure we are capturing the options in the right way and have everything set up correctly.”

About Hedgebook

Hedgebook is an intuitive and easy-to-use treasury management system that helps treasurers and finance departments improve the way they record, report and proactively manage foreign exchange, interest rates and commodities risk. Simple and intuitive, Hedgebook provides real-time visibility and insights of hedge positions for better hedging decisions and eases the burden of management and compliance reporting.

For more information visit:
www.hedgebook.com

