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How Power Companies Employ Bills of Exchange to Support Their Procurement Needs

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Working Capital in an Evolving Environment

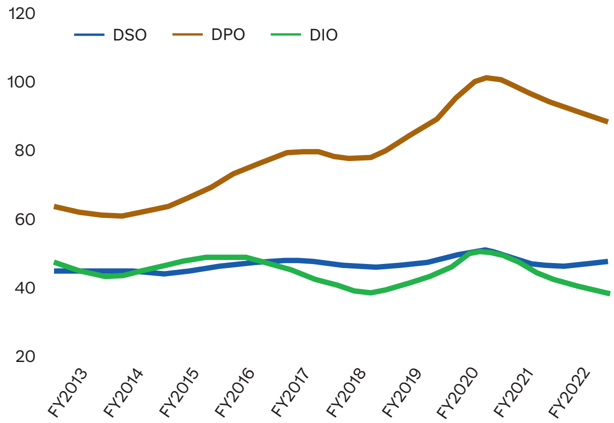
Migrating to renewable energy sources has been part of the conversation before and since the adoption of the Paris Agreement. With the passage of the Inflation Reduction Act in the United States and growing momentum in other parts of the world, utility providers are on the precipice of drastic change as they embark on developing renewable generating capabilities. Power and Utilities are looking to upgrade the total grid infrastructure from generation equipment to grid infrastructure in partnership with transmission operators as they are increasingly focused on renewable capabilities. The availability of Investment Tax Credits and Production Tax Credits figure to be a major catalyst for the industry as providers plot their path forward.

Still, despite the tailwind, utilities providers and other corporates must contend with elevated interest rates that appear may linger as central banks look to shore up price stability in an evolving inflationary environment. At their September meeting, the Fed held rates steady at 5.25% - 5.50% and the Federal Open Market Committee (FOMC) signaled that rates will likely be higher for longer[1].

Shifting towards a renewable future is enormously capital intensive as utility providers seek to build out new generating capabilities. Still, Days Payable Outstanding (DPO) has lengthened by an average of 27 days since 2014 for S&P 500 listed Electric Utility companies (see Figure 1.). Over the last 20+ years corporates have been focused on working capital by managing payment terms as a way to ensure stability without sacrificing potential for key strategic investments. One tool proving invaluable for renewable providers are Bill of Exchange programs where buyers can pay later to conserve cash while optimizing DPO.

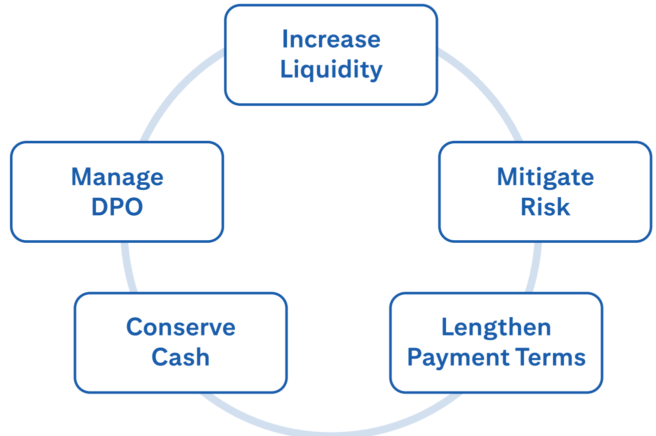
[1] Citi Velocity, US Economics - “Dots” Signal Higher for Longer Policy Rates, 2023

Figure 1. Avg. Days Sales Outstanding (DSO), Avg. Days Payable Outstanding (DPO), Avg. Days Inventory Outstanding (DIO), S&P 500 Electric Utility Companies



Source: Citibank, S&P Global

Figure 2. Objectives of Bill of Exchange



Source: Citibank

Staying nimble amid high interest rates and an evolving inflationary environment means skillful working capital management and ensuring ready access to liquidity at efficient rates. As corporates embark on shifting towards a renewable future, many seek solutions that can maximize cash flexibility in the most efficient manner possible.

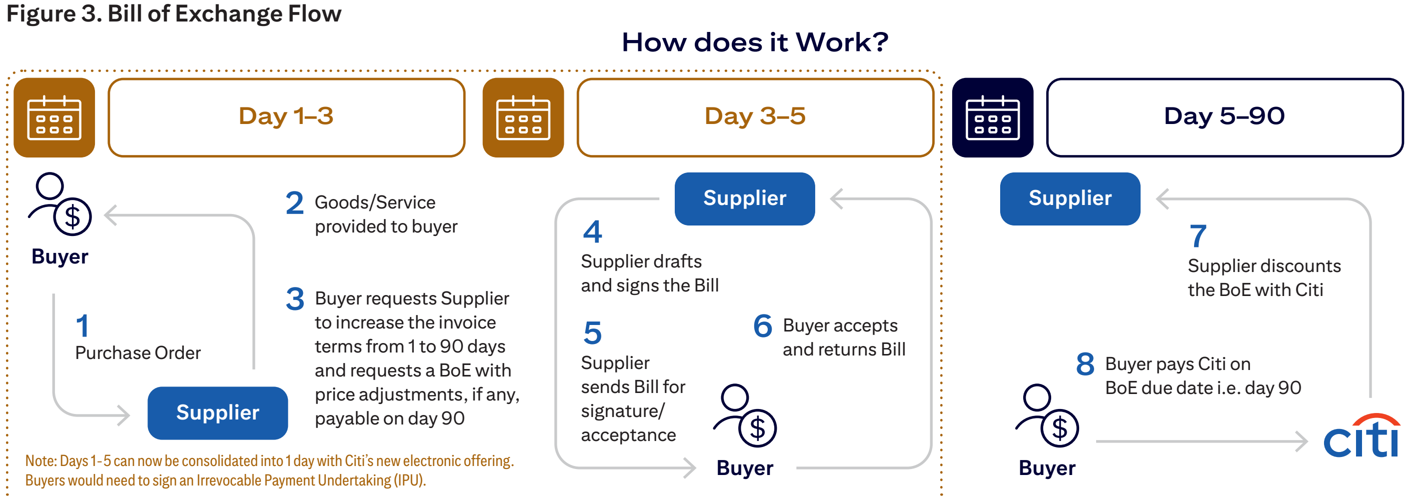
How Citi Can Support Utility Providers in Procuring Their Key Inputs

With cost of funds at an all-time high, customers are seeking flexible and longer payment terms. Bill of Exchange programs can prove beneficial for buyers as they can help buyers conserve cash while managing DPO. Companies purchasing new equipment for renewable generation can benefit from the deferred payment terms of utilizing a bill of exchange structure. For example, a renewable energy provider utilizes a Bill of Exchange program with the goal of securing improved payment terms on purchases, which are capital intensive or that have a long runway to generating returns. Bill of Exchange programs are an efficient working capital optimization tool that allow buyers to extend their payment terms. For highly rated buyers, suppliers can potentially have access to a cheaper and more simplified just-in-time funding source. The digital solution allows the transactions to flow through seamlessly and can provide same day funding.

Staying the Course on Working Capital

Remaining attentive to working capital is fundamental in ensuring operational stability throughout the entire economic cycle. Today, Citi has many mature Trade and Working Capital solutions in place and is equipped to help corporates meet their working capital aspirations.

Figure 3. Bill of Exchange Flow



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