

G14 - Supplier CM Credit Cover

EMRS Guidance

Public

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Table of Contents

Change Amendment Record	3
1. Introduction	4
2. Purpose	4
3. Who is this document for?	4
4. Associated Documents	4
5. Why must Credit Cover be lodged?	4
6. What is the Credit Cover used for and when is it used?	5
7. Who must lodge Credit Cover?	5
8. How much and what type of Credit Cover is required?	5
9. What happens if a Supplier does not provide enough Credit Cover?	6
10. When does a new Supplier need to lodge Credit Cover?	6
11. What if a Supplier has provided too much Credit Cover?	7
12. Need more information?	7
13. Acronyms and Definitions	7
14. Appendix 1 – Timeline of Capacity Market Supplier Credit Cover	8

Change Amendment Record

Version	Date	Description
1.0	23 August 2016	Go Live Version
2.0	7 March 2017	Update to accommodate change in Payment Terms from 3 to 5 Working Days
3.0	4 August 2017	Document transfer into new template and cosmetic changes
4.0	24 October 2017	Housekeeping changes
5.0	1 March 2018	Capacity Market Supplier Charging using Gross Demand data
6.0	24 April 2019	Housekeeping changes
7.0	10 December 2020	Update following the Revised Supplier Schedules amendments & Annual Review
8.0	1 February 2022	Housekeeping Changes
9.0	30 June 2023	Included updates for Regulated Asset Base (RAB) and Annual Review

1. Introduction

This guidance document details how the Capacity Market (CM) scheme mitigates risk of a funding shortfall through the provision of Credit Cover and how this Credit Cover is managed by Electricity Market Reform (EMR) Settlement Ltd (EMRS) on behalf of the Electricity Settlements Company Ltd (ESC).

2. Purpose

The purpose of this document is to answer the following questions:

- Why must Credit Cover be lodged?
- What is the Credit Cover used for and when is it used?
- Who must lodge Credit Cover?
- How much and what type of Credit Cover is required?
- What happens if I do not provide enough Credit Cover?
- When does a new Supplier need to lodge Credit Cover?
- What if I have provided too much Credit Cover?

3. Who is this document for?

This guidance is relevant for all Suppliers; however, it refers only to Supplier Credit Cover obligations under the CM scheme. Credit Cover requirements for Suppliers under the CfD / RAB schemes and for other organisations will be described in alternative documents.¹

4. Associated Documents

This document should be read in conjunction with:

- EMRS Working Practice WP45 – Supplier CM Credit Cover
- EMRS Working Practice WP41 – Late Payment Procedure

5. Why must Credit Cover be lodged?

Suppliers are required to lodge Credit Cover with ESC so that they are in a position to cover their CM Supplier Charge for one month in the event of payment default.² This mitigates the risk of non-payment of charges to the Capacity Providers during a Delivery Year³.

¹ <https://www.emrsettlement.co.uk/publications/guidance/>

² The Electricity Capacity (Supplier Payment etc.) Regulations 2014 (28) and all subsequent amendments - <http://www.legislation.gov.uk/uksi/2014/3354/regulation/28/made>

³ The Electricity Capacity (Supplier Payment etc.) Regulations 2014 (28) <http://www.legislation.gov.uk/uksi/2014/3354/note/made>

6. What is the Credit Cover used for and when is it used?

Credit Cover can be drawn down if a Supplier fails to pay invoices relating to certain payment types issued by EMRS, on behalf of ESC. Credit Cover can be used for non-payment of Monthly CM Supplier Charges, Mutualisation, Reconciliation Payments and interest owed on these payments. Credit Cover cannot be used for Settlement Costs Levy (SCL). Draw down can also occur if the bank ratings on a Letter of Credit issuer have decreased below the specified level and the Supplier has not taken corrective action.

Where Credit Cover cannot be used, alternative escalating actions will be taken to encourage Suppliers to meet their obligations.⁴

7. Who must lodge Credit Cover?


All Suppliers who are making monthly CM Supplier Charge payments must also lodge sufficient valid Credit Cover to meet their minimum calculated requirement.

This obligation is separate to any other Credit Cover obligations that Suppliers may face (such as under the Contracts for Difference (CfD), Nuclear Regulated Asset Base (RAB) or Balancing and Settlement Code (BSC)) and any Credit Cover lodged through this obligation will be treated independently of other requirements.

8. How much and what type of Credit Cover is required?

The minimum amount of Credit Cover required is 110% of the monthly CM Supplier Charge.

EMRS will calculate the monthly Credit Cover amounts required, using the forecast of demand during the Period of High Demand (Peak Demand) provided by Suppliers on or before 1 June prior to the start of a Delivery Year. We will issue a schedule of Credit Cover requirements to each Supplier by the end of July.⁵ Suppliers must have sufficient Credit Cover in place prior to the start of each month during the Delivery Year. The required monthly amounts will be revised (for the months May – September) once actual metered data is received for the Peak Period, at which point EMRS will issue a revised schedule of requirements to each Supplier which they must then comply with. The revised schedule will also illustrate what these charges would have been for the previous months (October – April) in the current Delivery Year, if actual metered data had been

 – Peak Demand is calculated based on demand between 4pm and 7pm on Working Days in November - February.

⁴ Details can be found in 'WP41 - Late Payment Procedure', <https://emrsettlement.co.uk/publications/working-practices/>

⁵ Details can be found in WP05 Supplier CM Demand Forecast, <https://emrsettlement.co.uk/publications/working-practices/>

used. The revised schedule will be issued as soon as is reasonably practical which is expected to be in late March.⁶

Credit Cover can be provided as either cash or a Letter of Credit⁷. Further details on how to lodge Credit Cover can be found in WP45 – Supplier CM Credit Cover⁸.

Whilst the scheme allows Suppliers the flexibility to manage their Credit Cover position on a monthly basis, Suppliers may find it more convenient to lodge their maximum Credit Cover requirement for longer periods. This amount can be derived from the schedule of payments (and the revised version) issued by EMRS.

9. What happens if a Supplier does not provide enough Credit Cover?

Suppliers are expected to lodge sufficient Credit Cover by no later than 12 Working Days before the commencement of each month during the Delivery Year. If a Supplier has still not lodged sufficient Credit Cover then EMRS will send the Supplier a notice of the shortfall and the Supplier will be recorded on the Credit Cover Default Register (published on the ESC website⁹) as being in 'Capacity Market Stage 1 Credit Cover Default'. The Supplier must now rectify their Credit Cover shortfall within five Working Days of receiving this notice. If they fail to do so, they will be considered in 'Capacity Market Stage 2 Credit Cover Default', their Capacity Market Supplier Charges will then be mutualised between the non-defaulting Suppliers. Any payments to Suppliers will also be suspended. A timeline of these events is given in [Appendix 1 - Timeline of CM Supplier Credit Cover Requirements](#).

10. When does a new Supplier need to lodge Credit Cover?

By 1 June, all Suppliers are expected to provide EMRS with a forecast of demand during the Peak Demand Period.¹⁰ If a Supplier joins the market after 1 June and consequently does not provide EMRS with a forecast of its Peak Demand by that date (or it forecasted zero Gross Demand¹¹ for the Peak Demand), but subsequently does provide it during the Peak Demand period, they will not be required to lodge Credit Cover until April (12 Working Days prior to the start of May). It will also be expected to start making CM Supplier Charge Payments based on its actual recorded Peak Demand from the start of May.

⁶ For the previous months (October – April), the differences of Supplier Charge between the Provisional and the Revised Supplier Schedules will be reconciled. For the future months (May - September), the Revised Supplier Charge will be invoiced as per Monthly Supplier Invoice.

⁷ Electricity Capacity (Supplier Payment etc.) Regulations 2014 (Part 6)
<http://www.legislation.gov.uk/ukxi/2014/3354/note/made>

⁸ EMRS Working Practices <https://emrsettlement.co.uk/publications/working-practices/>

⁹ <https://lowcarboncontracts.uk/>

¹⁰ Details can be found in WP05 Supplier CM Demand Forecast, <https://emrsettlement.co.uk/publications/working-practices/>

¹¹ Gross Demand applies from Delivery Year 2018/19 for the Capacity Market Supplier Charge from the 1 October 2018. Prior to this date Net Demand is used in the calculation of the Capacity Market Supplier Charge.

All Suppliers who provided a forecast to EMRS by 1 June will receive a notice outlining its Schedule of CM Supplier Charges and Credit Cover Requirements for the upcoming CM Delivery Year. This will be sent to Suppliers by the end of July. The Suppliers will be expected to lodge sufficient Credit Cover 12 Working Days prior to the start of the CM Delivery Year, which starts on 1 October.

11. What if a Supplier has provided too much Credit Cover?

Suppliers can provide as much Credit Cover as they wish, provided they meet the obligations of the scheme. Should a Supplier wish to recoup their Credit Cover, they can request to do so through the EMRS service desk (for further details see WP45: Supplier CM Credit cover¹²). Credit Cover will be released unless:

- They are currently in Credit Cover Default;
- The amount of Credit Cover requested will put them into a negative position; or,
- They currently have payment obligations that are past the payment due date (i.e. a late payment).

12. Need more information?

For more information, please visit our website www.emrsettlement.co.uk or email us at contact@emrsettlement.co.uk.

13. Acronyms and Definitions

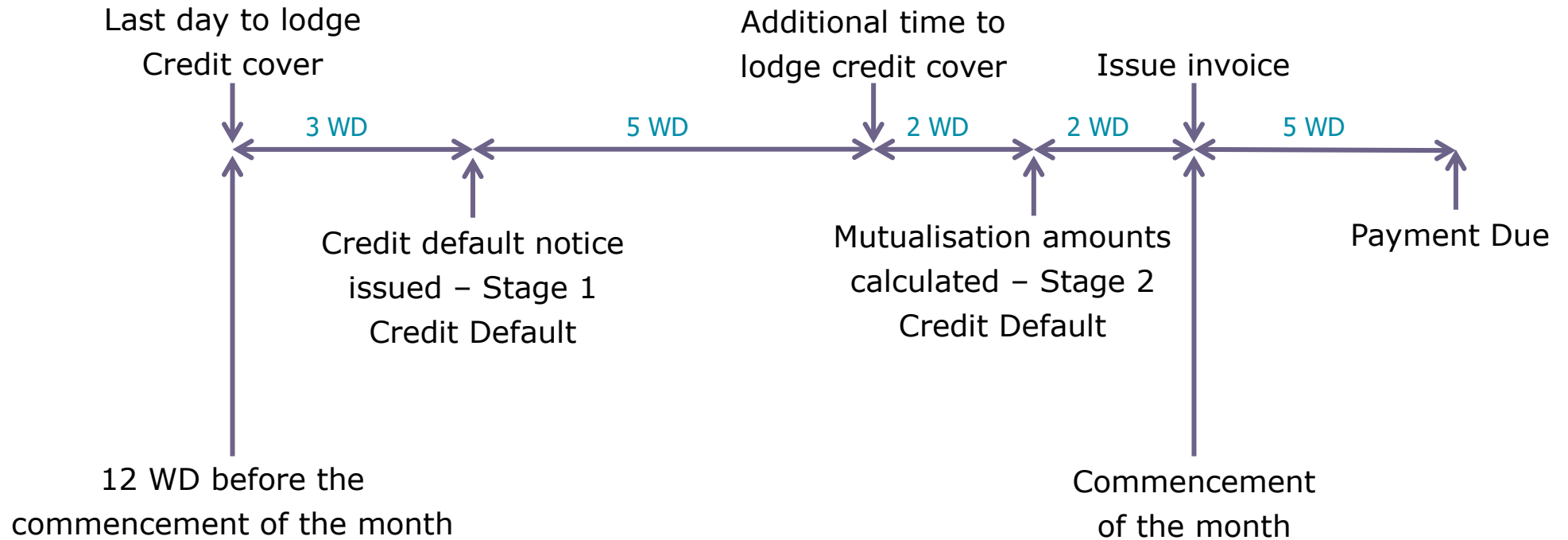
A list of acronyms and definitions can be found in the Glossary¹³ on the EMRS website.

¹² <https://emrsettlement.co.uk/publications/working-practices/>

¹³ <https://www.emrsettlement.co.uk/glossary/>

14. Appendix 1 – Timeline of Capacity Market Supplier Credit Cover

Suppliers must ensure that they have sufficient Credit Cover in place prior to the start of each month of the Delivery Year. Suppliers with insufficient Credit Cover lodged will pass into Credit Cover Default and their outstanding charges will be mutualised between non-defaulting Suppliers. The timeline of events is outlined below:





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