G5 – Supplier CFD Credit Cover

EMRS Guidance

Public

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Change Amendment Record

Version	Date	Description
1.0	5 Aug 2015	Go-Live Version
2.0	25 Nov 2015	Clarification of defaulting; new calculation/escalation diagram.
3.0	14 Apr 2016	Updated to include guidance on using the Credit Cover Report (D0363)
4.0	4 Aug 2017	Document transfer into new template and cosmetic changes
5.0	3 Nov 2017	Housekeeping changes
6.0	24 April 2019	Housekeeping updates

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1. Introduction

This guidance document details how the Contracts for Difference (CfD) scheme mitigates risk of funding shortfall through the provision of Credit Cover and how this Credit Cover is managed by EMR Settlement Ltd (EMRS) on behalf of the Low Carbon Contracts Company (LCCC).

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 a Supplier does not provide enough Credit Cover?
- How do Credit Cover requirements work in practice?
- What if a Supplier has 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 CfD scheme[1] . Credit Cover requirements for Suppliers under the Capacity Market and for other involved EMR Parties will be described in alternative documents.

4. Associated documents

This document should be read in conjunction with:

- EMRS Working Practice WP42 – Supplier CFD Credit Cover[2]

5. Why must Credit Cover be lodged?

Supplier Credit Cover provides LCCC with a guarantee of payment if a Supplier does not meet their obligations to fund the CfD. This protects LCCC's ability to make payments to CfD Generators and,

1 This guidance and other EMRS documents use the term 'Credit Cover' for consistency and clarity for involved parties. This should be considered synonymous with the term 'collateral' in the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014
2 https://www.emrsettlement.co.uk/publications/working-practices/

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therefore, the wider industry from adverse impacts as a result of non-payment by any individual Supplier.

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

CfD Generators are paid using the funds collected from Suppliers through the interim rate levy, quarterly reconciliations, reserve amounts and mutualisation. Without these payments, the Counterparty would not be able to pay the Generators the full difference payments they are due. Credit Cover is in place to insure the Counterparty's ability to pay the difference amounts against any Supplier's non-payment. When a Supplier fails to pay the full invoiced amount, EMRS will draw down on their Credit Cover. Credit Cover is not used to protect the non-payment of the Operational Costs Levy and Late Payment Interest. Draw down will take place when such payments have not been made, subject to a 'cure period' of two days after the due date to correct the missed payment[3]. Drawn down amounts are not returnable to the Supplier, but will clear the obligations that prompted the draw down.

7. Who must lodge Credit Cover?

All Suppliers who are supplying electricity in the UK have an obligation to lodge sufficient valid Credit Cover to meet their calculated minimum requirements. It is the Supplier's responsibility to ensure that LCCC is holding sufficient Credit Cover on any day it is required[4].

This obligation is separate to any other Credit Cover obligations that Suppliers may face (such as under the Capacity Market or 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 amount of Credit Cover required is determined on a daily basis and is equal to a Supplier's metered volumes for a 21 day reference period multiplied by the current Interim Levy Rate (the rate applicable at point 1, below). The reference period is determined by the availability of Balancing and Settlement Code Company (BSCCo) metered data, and therefore is based on the 21 calendar days available to EMRS prior to the calculation taking place. In practice this means the 21 day period will start 7 WDs prior to the day on which the calculation is being performed.

For any given reference period this will include metered data from both Interim Information (II) and Settlement Final (SF) settlement runs. ***Figure 1*** is a representation of the timescales involved with calculating the minimum Credit Cover requirement for a given day.

3 Where LCCC believe that a Supplier is unable to meet their obligations, a Supplier's cure period will be waived
4 The Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 19(2)

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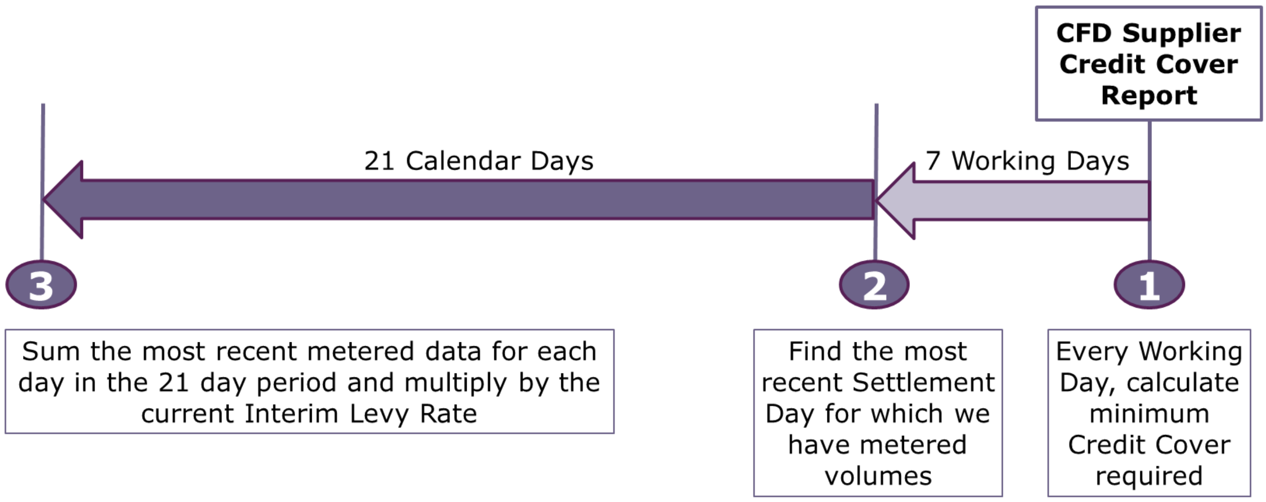

Figure 1: Metered Data Used to Calculate Minimum Credit Cover.

Credit Cover can be provided as either cash or Letter of Credit, except when a Supplier has been notified that they are in Credit Cover Default in which case only cash can rectify the position[5]. Further details on how to lodge Credit Cover can be found in WP42 – Supplier CFD Credit Cover[6].

On each Working Day a Supplier will be sent a Credit Cover Report[7]. The report will inform the Supplier of the minimum Credit Cover required, the total available Credit Cover as of the end of the previous day and the difference between the two, i.e. their net position.

- A positive position indicates that the Supplier has surplus Credit Cover
- A negative position indicates they have failed to meet their obligations, which must be rectified.

Whilst the scheme allows Suppliers the flexibility to manage their Credit Cover position on a daily basis, Suppliers may find it more convenient to simply lodge their likely maximum Credit Cover requirement for longer periods. This can be estimated by identifying the 21 day reference period on which they are likely to deliver the largest metered volumes, and making use of the Supplier Obligation Forecasting Model (SOFM) Transparency Tool on the LCCC website[8].

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

When it has been determined that a Supplier has not met its Credit Cover requirement, they will enter a two day cure period to allow the Supplier to correct their position prior to escalation. If the Supplier has met their Credit Cover requirement by the end of the second day of the cure period -

[5] Letters of Credit received will still be lodged for subsequent assessments but the outstanding requirement to post the Credit Cover Default Amount in cash will remain
[6] https://emrsettlement.co.uk/publications/working-practices/
[7] See Section 15 Appendix- Daily Credit Cover Report Format
[8] https://lowcarboncontracts.uk/suppliers

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the 'cure day'- no further action is taken. A Supplier will have successfully left the cure period if they have:

1. A positive position on the cure day's Credit Cover Report; or

2. Lodged enough Credit Cover by the end of the cure day to meet the requirement detailed on the cure day's Credit Cover Report

However, if the Supplier has not met either of the above criteria by the end of the cure day (point 2, below) then a requirement to lodge the difference between the cure day requirement and the Credit Cover lodged at the end of the day. In this situation, LCCC may also issue a Credit Cover Default Notice to that Supplier, who must then lodge the difference in cash Credit Cover by the end of the following Working Day (point 4). These steps can be seen in Figure 2 below. The Credit Cover Default Notice will also be issued to Ofgem as notice of a Supplier not meeting its regulatory obligations, and published on LCCC's website for a minimum of 12 months.

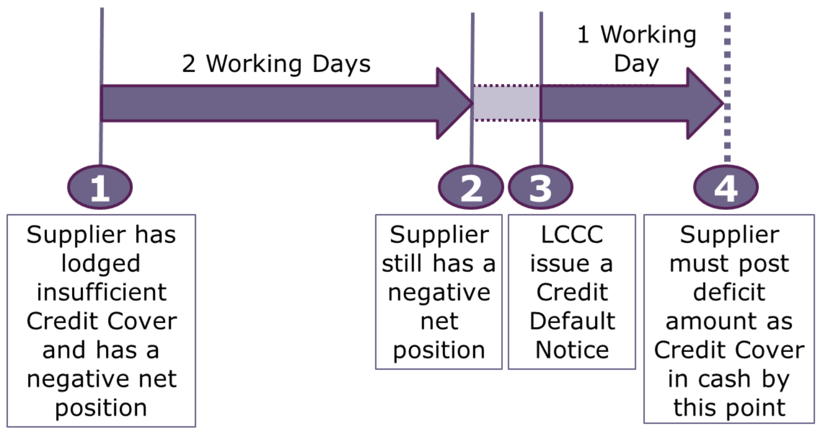

Figure 2: Escalation when a Supplier does not rectify a negative Credit Cover position

Credit Cover Default Amounts are based on the difference between the **cure day requirement** and the Credit Cover lodged at the **end of the cure day**

10. How do Credit Cover requirements work in practice?

The following principles apply to CFD Supplier Credit Cover:

1. A negative position on Working Day D can be rectified by:

- Having a positive position on Working Day D+2 (the cure day)

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- Lodging sufficient Credit Cover by the end of D+2 to meet the requirement from D+2; or
- By lodging Credit Cover to cover the difference between the D+2 requirements and the Credit Cover available at the end of D+2.

If on Working Day D a Supplier has lodged Credit Cover of £100 for a requirement of £120, they have a negative net position of £20. The Supplier lodges no additional Credit Cover and on D+2, they have a requirement of £115. As a shortfall of £15 still exists at the end of the day, the Supplier must lodge £15 in cash to rectify the position.

2. Each assessment is independent of subsequent assessments

If a Supplier has a negative position of −£20 on Working Day D and −£15 on D+1 (i.e. on two subsequent days), they need to have sufficient Credit Cover in place by the end of ***both*** *D+2 (cure day for D) and D+3 (cure day for D+1) i.e. values (A) and (B) in table 1 must be positive to prevent further escalation.*

3. If LCCC issue a Credit Cover Default Notice, only cash Credit Cover will rectify a negative position

If, in the first scenario, a valid Letter of Credit for £20 was received by LCCC on D+3 prior to them issuing a Credit Cover Default Notice, then the Supplier would rectify their position. If, however, the Credit Cover Default Notice had been issued then the Letter of Credit would be lodged for future assessments only and the Supplier would still have to lodge £20 Credit Cover in cash (C).

Table 1: An example Supplier's Credit Cover position

	Day, D	**D+1**	**D+2**	**D+3**	**D+4**
Credit Cover requirement	£120	£115	£115	£105	£100
Credit Cover lodged(by end of previous day)	£100	£100	£100	£100	£120(C)
Daily report net position	£-20	£-15	£-15	£-5	£20
Default check[9]			£-15(A)	£15(B)	

The following rules will apply to the daily Credit Cover check:

- If D_0 net position is positive, then **no escalating action is taken**

[9] The Credit Cover Default Amount is based on the cells highlighted in blue – the Supplier has until the end of the cure day to lodge Credit Cover to avoid escalation

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- If D_0 net position is negative BUT D2 net position is positive, then **no escalating action is taken**
- If D_0 net position is negative AND D2 net position is negative BUT D2 Credit Cover requirement is met by the end of D2, then **no escalating action is taken**
- If D_0 net position is negative AND D2 net position is negative AND D2 Credit Cover requirement is not met by the end of D2, then **issue Credit Cover Default Notice**

As each daily Credit Cover shortfall is treated independently of others, it is possible that a Supplier may be at multiple stages in the above escalations for shortfalls that arise on different daily checks.

Each Credit Cover Default Amount is treated independently and therefore there is a ratcheting effect on the amount of cash Credit Cover lodging required e.g. if two subsequent shortfalls of £20 are not corrected by the respective Credit Cover Default Notices then £40 would need to be lodged to clear the outstanding obligations.

It should be noted that a Supplier will not have use of the cure period until they have successfully lodged sufficient Credit Cover at least once. Where a Supplier has not met this criterion (i.e. when a Supplier first supplies electricity) a Credit Cover Default Notice can be issued on the same day that a negative position is first identified.

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11. Extended example

The following provides a worked example of a Supplier over a period of 10 Working Days starting from WD ‘D’. The columns have been colour coded to show where the information is provided to help Suppliers manage their obligations. The following colour coding has been used in the table:

Credit Cover Report	Credit Cover Default Notice	Not shown in notices

Table 2: Worked example of a Supplier's CFD minimum Credit Cover obligation

Working Day	Minimum Credit Cover req.	Credit Cover available[10]	Net position	Cure day	Cure day net position		Cure day Credit Cover – cure day req.		Credit Cover Default Amount[11]	Due Date to lodge cash[12]	When negative position is rectified
D	120	100	**-20**	D+2	100 - 125	**-25**	110 - 125	**-15**	15	D+4	D+4
D+1	118	100	**-18**	D+3	110 – 107	**3**	-	-	-	-	D+3
D+2	125	100	**-25**	D+4	125 – 130	**-5**	130 - 130	**0**	-	-	D+4
D+3	107	110	**3**	-	-	-	-	-	-	-	-
D+4	130	125	**-5**	D+6	115 - 125	**-10**	122 - 125	**-3**	3	D+8	D+8
D+5	115	130	**15**	-	-	-	-	-	-	-	-
D+6	125	115	**-10**	D+8	130 - 125	**5**	-	-	-	-	D+8
D+7	120	122	**2**	-	-	-	-	-	-	-	-
D+8	125	130	**5**	-	-	-	-	-	-	-	-
D+9	105	120	**15**	-	-	-	-	-	-	-	-

10 The total Credit Cover value is the amount of available Credit Cover lodged by 5pm of the previous Working Day e.g. The Supplier lodges an additional £25 by 5pm of D+3; this is represented in the D+4 Credit Cover Report.
11 A Credit Cover Default Notice will be issued if the ‘Cure day net position’ and ‘Cure day Credit Cover – cure day requirement’ columns are **both** negative. In all cases, it is assumed that a Credit Cover Default Notice is issued the day after the cure day. This will be to the value of ‘Cure day Credit Cover – cure day requirement’.
12 If Credit Cover is lodged after a Default Credit Notice has been issued, only cash will rectify the Credit Cover Default.

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12. What happens 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 service desk (for further details see WP42: Supplier Credit Cover). 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).

13. Need more information?

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

14. Acronyms and Definitions

A full list of acronyms and definitions included within this document can be found on the EMRS website[13].

13 https://www.emrsettlement.co.uk/publications/working-practices/ > Related documents

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15. Appendix – Daily Credit Cover Report format

EMRS sends each Supplier a daily Credit Cover Report. This is available in two formats: a 'T018' CSV file, and optionally as an industry standard DTN file. These are explained below.

T018 file format

The 'T018' file is in CSV (comma separated variable) format. The first row of the T018 file contains column header codes. These codes are explained in Table 3 below. Subsequent rows contain the corresponding data items.

Table 3: Daily Credit Report - CSV format

Column	Column Header	Data Item	Notes
A	/BIC/N1_J1889	EMR Party ID	A unique code for each legal entity for the purposes of EMR, determined during registration
B	/BIC/N1_J2048	Date	Issue date of notice
C	/BIC/N1_J1993	Reference Period Start Date	The first day of the reference period used to calculate CFD Credit Cover requirements
D	/BIC/N1_J0073	Settlement Date	The settlement date used in the reference period
E	/BIC/N1_J0146	Settlement Code	The settlement run type applicable to the reference date
F	/BIC/N1_J1963	LoC ID	Unique identifier for the LoC
G	/BIC/N1_MPID	MPID	Supplier's Market Participant Identifier
H	/BIC/N1_J2022	Total Credit Cover	The total amount of Credit Cover currently lodged by a Supplier
I	/BIC/N1_J2021	Total Cash Credit Cover	The total amount of cash Credit Cover currently lodged by a Supplier
J	/BIC/N1_J2028	Total Letters of Credit	The total amount of Credit Cover currently lodged by a Supplier in LoCs
K	/BIC/N1_J1968	Minimum Credit Cover	A Supplier's calculated CFD Credit Cover requirement
L	/BIC/N1_J2016	Surplus Credit Cover	The difference between Total Credit Cover and Minimum Credit Cover. A positive value indicates

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Column	Column Header	Data Item	Notes
			surplus Credit Cover, while a negative value indicates insufficient Credit Cover, which must be rectified.
M	/BIC/N1_J1992	Reference Period End Date	The last day of the reference period used to calculate CFD Credit Cover requirements
N	/BIC/N1_J1959	Interim Levy Payment	The rate used in calculating CFD Credit Cover requirements
O	/BIC/N1_J1962	LoC Amount	The amount of Credit Cover currently available from an LoC
P	/BIC/N1_J1964	LoC Valid	An indication as to whether an LoC is valid
Q	/BIC/N1_J2057	LoC Expiry Date	Date on which a valid LoC will expire

DTN file format

Suppliers can elect to receive their Credit Cover Report in the industry standard DTN (Data Transfer Network) format[14].

This is supplied as a plain text file with pipe-separated data fields, populated according to MRASCo flow reference D0363. Table 4 below provides an overview of how the file is structured. For information on the individual data fields in the groups, refer to the MRASCo website[15].

Table 4: Credit Cover Report – DTN file format

Row type	Notes
First row	File header
68I	Fields in this row provide a summary of the Supplier's credit cover position for a particular reference period.
69I	Each 69I row itemizes the credit cover requirements for each day in the reference period.
70I	Each 70I row provides details on a letter of credit held.
Last row	File footer

14 See http://www.electralink.co.uk/services/data-transfer-network/
15 https://dtc.mrasco.com/DataFlow.aspx?FlowCounter=0363

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