

# G5 – Supplier CfD and Nuclear RAB Credit Cover

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  |
| 7.0     | 19 August 2020   | Annual Review   |
| 8.0     | 3 February 2022  | Annual Review   |
| 9.0     | 30 June 2023     | Included updates for Nuclear Regulated Asset Base (RAB) and annual review         |
| 10.0    | 3 January 2024   | Housekeeping changes and Annual Review  |
| 11.0    | 28 March 2024    | Housekeeping changes  |
| 12.0    | 7 January 2025   | Annual Review   |
| 13.0    | 4 September 2025 | Updates to reflect new LCCC and EMRS visual identities                            |
| 14.0    | 26 November 2025 | Information added on automatic repayment of interest accrued on cash credit cover |
| 15.0    | 22 January 2026  | Annual Review   |

## 1. Introduction

This guidance document details how the Contracts for Difference (CfD) and Nuclear Regulated Asset Base (RAB) schemes mitigate risk of funding shortfall through the provision of Credit Cover<sup>1</sup> and how this Credit Cover is managed by EMR Settlement Ltd (EMRS) on behalf of the Low Carbon Contracts Company (LCCC).

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## 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?
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## 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 and Nuclear RAB schemes. Credit Cover requirements for Suppliers under the Capacity Market and for other involved organisations will be described in other documents.

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## 4. Associated documents

This document should be read in conjunction with:

- WP42 – Supplier CfD and Nuclear RAB Credit Cover<sup>2</sup>
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## 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 or Nuclear RAB. This protects LCCC's ability to make payments to CfD Generators and Revenue Collection Counterparty (RCC). Thus, Supplier Credit Cover helps protect the wider industry from adverse impacts as a result of non-payment by any individual Supplier.

Credit Cover for CfD and Nuclear RAB are lodged separately to mitigate against non-payment under each scheme.

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

CfD Generators and the Relevant Licensed Nuclear Company (LNC) 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 and the Revenue Collection Counterparty (RCC) the full amounts they are due. Credit Cover is in place to ensure the Counterparty's ability to pay the 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. Drawn down amounts are not returnable to the Supplier but will clear the obligations that prompted the draw down<sup>3</sup>.

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<sup>1</sup> 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 \(CfD\)](#) and [The Nuclear Regulated Asset Base Model \(Revenue Collection\) Regulations 2023](#).

<sup>2</sup> <https://www.emrsettlement.co.uk/publications/working-practices/>

<sup>3</sup> Where LCCC believe that a Supplier is unable to meet their obligations, a Supplier's cure period will be waived.

## 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<sup>4</sup>.

The Credit Cover obligations under the CfD and Nuclear RAB are separate from each other and any other Credit Cover obligations that Suppliers may face (such as under the Capacity Market or Balancing and Settlement Code (BSC)). Any Credit Cover lodged for CfD or Nuclear RAB will be treated independently of other requirements.

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

The Credit Cover required for both CfD and Nuclear RAB is calculated daily. It is equal to a Supplier's metered volumes over a 21-day reference period multiplied by the current Interim Levy Rate (the rate applicable at point 1, below).

The reference period depends on the availability of BSC metered data and therefore consists of the most recent 21 calendar days available to EMRS at the time the calculation is performed.

For any given reference period, the metered data may include a combination of Interim Information (II) and Settlement Final (SF) settlement runs. Figure 1 illustrates the timescales used to calculate the minimum Credit Cover requirement for a given day.

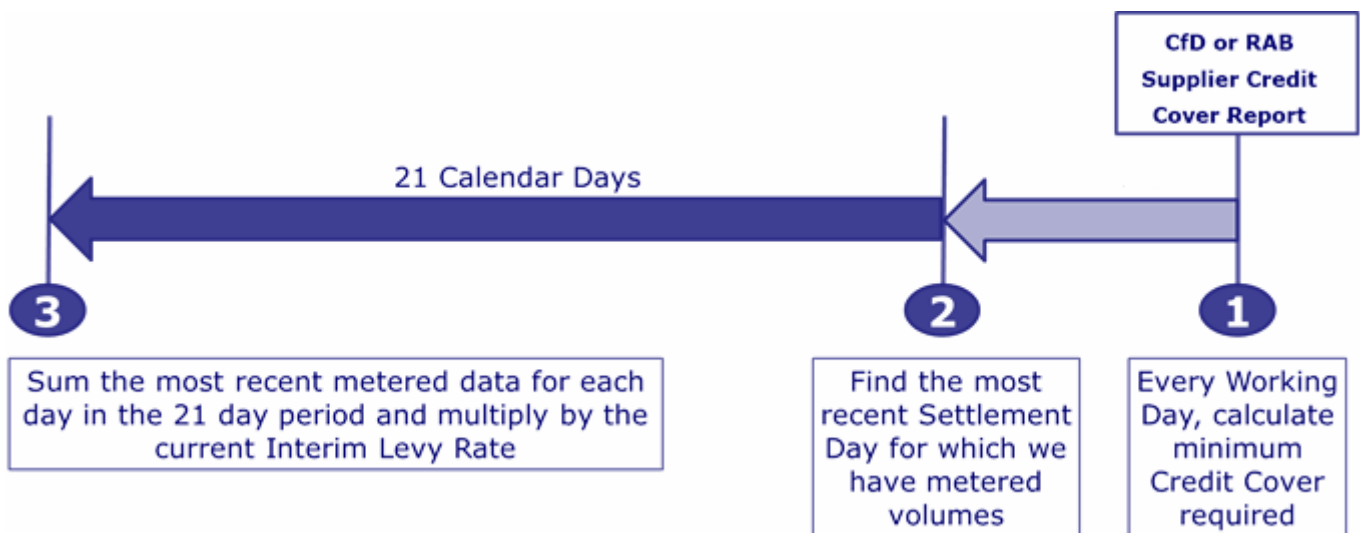


Figure 1: Metered Data used to calculate Minimum Credit Cover.

Credit Cover may be provided as either cash or Letter of Credit. However, where a Supplier has been notified that they are in Credit Cover Default, only cash can resolve the default<sup>5</sup>. Further details on how to lodge Credit Cover can be found in WP42 – Supplier CfD and Nuclear RAB Credit Cover<sup>6</sup>.

On each Working Day, a Supplier is issued with a Credit Cover Report. The report sets out the minimum Credit Cover required, the total available Credit Cover as at the end of the previous day, and the difference between the two (the Supplier's net position).

- A positive net position indicates that the Supplier has surplus Credit Cover
- A negative position indicates that the Supplier has not met its Credit Cover obligation and must take action to restore compliance.

While the scheme allows Suppliers to manage their Credit Cover position on a daily basis, some may find it more practical to lodge Credit Cover equal to their expected maximum requirement for an extended period. This can be

<sup>4</sup> [The Contracts for Difference \(Electricity Supplier Obligations\) Regulations 2014 19\(2\)](#) for CfD and [The Nuclear Regulated Asset Base Model \(Revenue Collection\) Regulations 2023 19\(2\)](#) for Nuclear RAB.

<sup>5</sup> 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

<sup>6</sup> <https://emrsettlement.co.uk/publications/working-practices/>

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estimated by identifying the 21-day reference period during which the Supplier expects to deliver its largest metered volumes.

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

Where it is determined that a Supplier has not met its Credit Cover requirement, the Supplier will enter a two-day cure period to allow the shortfall to be addressed prior to escalation.

If the Supplier meets its Credit Cover requirement by the end of the second day of the cure period (the 'cure day'), no further action is taken. A Supplier is considered to have successfully exited the cure period if it has either:

- A positive position on the cure day's Credit Cover Report; or
- Lodged sufficient Credit Cover by the end of the cure day to meet the requirement set out on the cure day's Credit Cover Report.

If neither of these conditions is met by the end of the cure day (point 2 below) the Supplier is required to lodge the difference between the cure day Credit Cover requirement and the Credit Cover held at the end of that day. In these circumstances, LCCC may also issue a Credit Cover Default Notice.

Where a Credit Cover Default Notice is issued, the Supplier must lodge the outstanding amount in cash by the end of the following Working Day (point 4). These steps are illustrated in Figure 2 below.

The Credit Cover Default Notice is also provided to Ofgem as notification that the Supplier has not met its regulatory obligations and is published on LCCC's website for a minimum period of 12 months.

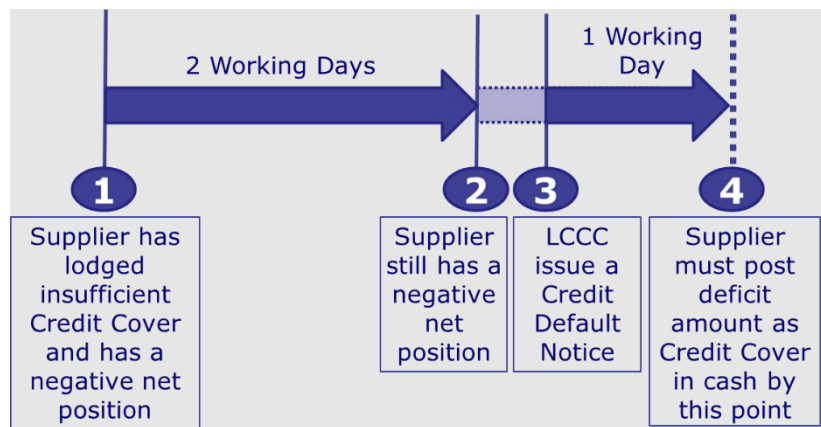


Figure 2: Escalation when a Supplier does not rectify a negative Credit Cover position

### 10. How do Credit Cover requirements work in practice?

The following principles apply individually to both CfD and Nuclear RAB Supplier Credit Covers:

- A negative position on Working Day D may be resolved by:
  - Having a positive position on Working Day D+2 (the cure day);
  - Lodging sufficient Credit Cover by the end of D+2 to meet the requirement calculated for D+2; or
  - Lodging Credit Cover equal to the difference between the D+2 requirements and the Credit Cover held at the end of D+2.

*Example:*

*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, their requirement is £115. As a shortfall of £15 still exists at the end of the cure day, the Supplier must lodge £15 in cash.*

- Each daily assessment is independent of subsequent assessments

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Where a Supplier has a negative position of -£20 on Working Day D and -£15 on D+1 (i.e., on consecutive days), sufficient Credit Cover must be 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 both be positive to prevent further escalation.

- Where a Credit Cover Default Notice is issued, only cash Credit Cover may be used

In the first example above, if a valid Letter of Credit for £20 is received by LCCC on D+3 before a Credit Cover Default Notice is issued, the Supplier would resolve the negative position. However, if the Default Notice has already been issued, the Letter of Credit would apply only to future assessments 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     |
|--|--------|------|---------|--------|---------|
| <b>Credit Cover requirement</b>                    | £120   | £115 | £115    | £105   | £100    |
| <b>Credit Cover lodged(by end of previous day)</b> | £100   | £100 | £100    | £100   | £120(C) |
| <b>Daily report net position</b>                   | £-20   | £-15 | £-15    | £-5    | £20     |
|  |        |      |         |        |         |
| <b>Default check<sup>7</sup></b>                   |        |      | £-15(A) | £15(B) |         |

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

- Where the net position on D<sub>0</sub> is positive, **no escalation action is taken.**
- Where the net position on D<sub>0</sub> is negative but the net position on D<sub>2</sub> is positive, **no escalation action is taken.**
- Where the net position on D<sub>0</sub> is negative and the net position on D<sub>2</sub> remains negative but the Credit Cover requirement calculated for D<sub>2</sub> is met by the end of D<sub>2</sub>, **no escalation action is taken**
- Where the net position on D<sub>0</sub> is negative and the net position on D<sub>2</sub> remains negative, and the Credit Cover requirement for D<sub>2</sub> is not met by the end of D<sub>2</sub>, a **Credit Cover Default Notice is issued.**

As each daily Credit Cover shortfall is assessed independently, a Supplier may be simultaneously at different stages of escalation for shortfalls arising from different daily checks.

Each Credit Cover Default Amount is also treated independently. As a result, a ratcheting effect may occur in the level of cash Credit Cover required. For example, if two consecutive shortfalls of £20 are not resolved following the respective Credit Cover Default Notices, a total of £40 in cash Credit Cover would be required to clear the outstanding obligations.

It should be noted that a Supplier is not eligible to use the cure period until it has successfully lodged sufficient Credit Cover at least once. Where this condition has not been met (for example, when a Supplier first begins supplying electricity) a Credit Cover Default Notice may be issued on the same day that a negative position is first identified.

<sup>7</sup> 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

## 11. Extended Example

The following provides a worked example of a Supplier over a period of 10 Working Days starting from Working Day ‘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 or Nuclear RAB minimum Credit Cover obligation

| Working Day | Minimum Credit Cover req. | Credit Cover available <sup>8</sup> | Net position | Cure day | Cure day net position | Cure day Credit Cover – cure day req. | Credit Cover Default Amount <sup>9</sup> | Due Date to lodge cash <sup>10</sup> | When negative position is rectified |
|-------------|---------------------------|-------------------------------------|--------------|----------|-----------------------|---------------------------------------|--|--------------------------------------|-------------------------------------|
| D           | 120                       | 100                                 | -20          | D+2      | 100 - 125             | -25                                   | 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                                    | -  | -                                    | D+4                                 |
| D+3         | 107                       | 110                                 | 3            | -        | -                     | -                                     | -  | -                                    | -                                   |
| D+4         | 130                       | 125                                 | -5           | D+6      | 115 - 125             | -10                                   | 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           | -        | -                     | -                                     | -  | -                                    | -                                   |

<sup>8</sup> 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.

<sup>9</sup> 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’.

<sup>10</sup> If Credit Cover is lodged after a Default Credit Notice has been issued, only cash will rectify the Credit Cover Default.

## 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 CfD and Nuclear RAB 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., late payment).

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## 13. Need more information?

For more information, please visit our website [www.emrsettlement.co.uk](http://www.emrsettlement.co.uk) or email us at [contact@emrsettlement.co.uk](mailto:contact@emrsettlement.co.uk).

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## 14. What happens to interest accrued on Credit Cover?

Credit cover cash deposits are paid into an interest-bearing account and, therefore, accrue interest. EMRS automatically repays the accrued interest to Suppliers at the end of every month for the prior month. For example, interest accrued in April 2025 will be repaid in May 2025.

Each month, EMRS sends an email to Suppliers confirming that interest repayments will be made by the end of the month. Please note that interest repayments are not included in your invoice.

Please also note that for international bank accounts, repayments for values below £25 will not be made. Repayments will be made when the accrued interest exceeds the £25 threshold.

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## 15. Acronyms and Definitions

A list of acronyms and definitions can be found in the Glossary<sup>11</sup> on the EMRS website.

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<sup>11</sup> <https://www.emrsettlement.co.uk/glossary/>