

TYPE & NUMBER EMR Circular 86

Date 14 June 2016

To EMR Circular List, Finance Authorities, Finance Contacts and Credit Cover Contacts

From EMR Settlement Limited

Purpose For action

Reminder: Suppliers are required to lodge CFD Credit Cover by 30 June 2016 and CM Credit Cover by 15 September 2016

This circular reminds **Suppliers** that under the *Contracts for Difference (Electricity Supplier Obligations) Regulations 2014* as amended, they need to lodge Credit Cover by the **30 June 2016** for the Quarterly Obligation Period **1 July 2016 to 31 September 2016**.

In respect of the Capacity Market, under the *Electricity Capacity (Supplier Payment etc.) Regulations 2014* as amended, **Suppliers** will also need to lodge Credit Cover for each month of the Delivery Year. Suppliers will, by the end of July, receive a notice that details their Credit Cover requirements for the upcoming Delivery Year. For October, the first month of the 2016/17 Delivery Year, Credit Cover is required to be lodged by **15 September 2016**. To support this activity, we have published a new working practice ([WP45 – Supplier CM Credit Cover](#)) which details the Credit Cover process.

The below table provides a summary of the Credit Cover requirements for both the CFD and Capacity Market schemes.

	Contracts For Difference (CFD)	Capacity Market (CM)
Why is Credit Cover required to lodged	To protect against the risk of non-payment by suppliers of charges which fund CFD Generator Payments.	To protect against the risk of non-payment by Suppliers of charges which fund Capacity Providers Payments.
Frequency of Credit Cover requirement	Daily Only when there is an Interim Levy Rate in place	Monthly 12 Working Days before the start of a month within the Delivery Year
When does the first Credit Cover need to be lodged	By 30 June 2016 One Working Day before the start of the Quarterly Obligation Period	By 15 September 2016 12 th Working Day before the beginning of October, the first month of the 2016/17 Delivery Year
Minimum Amount Required to be Lodged	21 days of metered volume x Interim Levy Rate	Monthly Capacity Market Supplier Charge x 110%
What types of Credit can be used	Letter of Credit, cash or a combination of the two	Letter of Credit, cash or a combination of the two
Letter of Credit	Beneficiary: Low Carbon Contracts Company Bank Ratings: Short term F1 rating by Fitch	Beneficiary: Electricity Settlements Company Bank Rating: Long term A3 rating by Moody

CIRCULAR

	P-1 rating by Moody A-1 Rating by Standard and Poor's	A- rating by Standard and Poor's
Communications to Suppliers	Daily Credit Cover report	Schedule to be issued by end July 2016 and will be revised and reissued by the end March 2017.

Please note, in order for Credit Cover to be considered to be lodged the cash amount must have been received in the relevant bank account or a valid Letter of Credit must have been received by EMRS.

CREDIT COVER FROM SUPPLIERS FOR CONTRACTS FOR DIFFERENCE

Any Supplier who is supplying electricity has an obligation to lodge sufficient valid Credit Cover to meet their minimum calculated requirements. It is the Supplier's responsibility to ensure that Low Carbon Contracts Company Ltd (LCCC) is holding sufficient Credit Cover on any particular day in the Quarterly Obligation Period.

When does my Credit Cover need to be in place?

Valid Credit Cover needs to be lodged by the last working day prior to the first working day of the Quarterly Obligation Period, which is **by 5pm on 30 June 2016**.

What types of Credit Cover can be used?

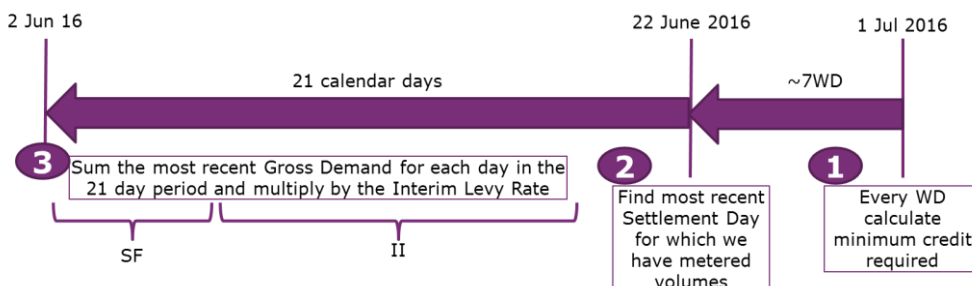
Credit Cover can be lodged as cash, Letter of Credit or combination of both. We'd like to recommend the following when lodging Credit Cover:

- Once Credit Cover has been provided (either cash or Letter of Credit) please notify us this has been actioned including the amount and format to contact@emrsettlement.co.uk
- If lodging as a cash amount please include your EMR Party ID in the reference
- If issuing a Letter of Credit it should be sent via a secure courier to our (EMRS) offices.

The **bank account details** can be found on page 6 of [WP42 – Supplier CFD Credit Cover](#) and the approved **Letter of Credit template** can all be found in Appendix 1.

How much Credit Cover is required?

The minimum Credit Cover requirement is a Supplier's metered volumes for a 21 day reference period multiplied by the Interim Levy Rate. The Interim Levy Rate for this Quarterly Obligation Period is **£0.005 per MWh¹**. The 21 day reference period for the first day that Credit Cover is required to be lodged for is **2 June 2016 to 22 June 2016**.



¹ A notice of the Interim Levy Rate and the Total Reserve Amount was issued to Suppliers on 23 March 2016. For further information please see EMR [Circular 78](#).

CIRCULAR

A Supplier will be sent a **Daily Credit Cover Report** to enable them to manage their Credit Cover position. The first day this will be issued for the upcoming Quarterly Obligation Period is **Friday 1 July 2016**. For information about Daily Credit Cover Report and how the reference period is calculated please to refer to [Guidance G5 – Supplier CFD Credit Cover](#).

CREDIT COVER FROM SUPPLIERS FOR CAPACITY MARKET

Suppliers are responsible for ensuring sufficient valid Credit Cover is lodged to meet their minimum requirements for each month of a Delivery Year. It is Supplier's responsibility to ensure that Electricity Settlements Company (ESC) is holding sufficient Credit Cover on any particular month in the relevant Delivery Year.

When does my Credit Cover need to be in place?

Suppliers are required to lodge Credit Cover by no later than 12 Working Days before the start of a month within a Delivery Year. As October is the first month of the 2016/17 Delivery Year, Credit Cover for that month needs to be lodged by 15 September 2016.

What types of Credit Cover can be used?

Credit Cover can be accepted as either cash or Letter of Credit or a combination of the two. The bank account details and the approved Letter of Credit template can all be found in [WP45 – Supplier CM Credit Cover](#).

How much Credit Cover is required?

The minimum Credit Cover requirement in respect of a month is 110% of the monthly Capacity Market Supplier Charge which ESC estimates will be payable by a Supplier in respect of that month. EMRS, on behalf of ESC, will calculate the monthly Credit Cover amounts required and will issue a schedule of monthly credit cover to each Supplier by the end of July 2016. A Supplier's monthly Credit Cover requirement will be calculated based on the forecast of their Net Demand they were required to provide by 1 June 2016. The monthly Credit Cover amounts will be revised once actual metered data is received and a new schedule of monthly Credit Cover will be issued in March for the remaining months of the delivery year (May – September 2017).²

WHERE CAN I GET MORE INFORMATION?

If you have any further questions about this circular, or your upcoming obligations, please email contact@emrsettlement.co.uk or call 020 7380 4333.

² Credit Cover is required to be lodged no later than 12 working days before the commencement of a month. The requirement to lodge Credit Cover for April will be before the metered data needed to revise the requirements will be available. Therefore April's Invoices and Credit Cover requirements will be based on forecasted demand.