

WP42 – Supplier CFD

Credit Cover

EMRS Working Practice

Public

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1. Change Amendment Record

Version	Date	Description
2.0	25 Nov 2015	First Go Live version.
3.0	18 Jan 2016	Changes to LCCC bank account.
4.0	13 Jun 2016	Update to the Letter of Credit Template
5.0	09 Sep 2016	Update to LoC templates and addition of SWIFT process
6.0	22 Aug 2017	Amended LOC and SWIFT Templates
7.0	30 Aug 2018	Update to include reference to SWIFT template type Update to timings to 24 hour Include LoC cover provided by third parties

2. Introduction

Suppliers are required to provide Credit Cover to LCCC in order to mitigate the risk of non-payment of obligations that are used to fund CFD Generator payments. This working practice specifies the relevant activities for Suppliers, EMR Settlement Ltd (EMRS) and the Low Carbon Contracts Company (LCCC) to enable the provision, reporting on and management of Credit Cover within the CFD scheme.

2.1 Scope and Purpose

This working practice details how Suppliers can provide, and request the return of Credit Cover as part of their obligations under CFD. It also details how EMRS will record and monitor Credit Cover against a Supplier’s requirements, and provides details on how and when EMRS will use it. This document covers any Credit Cover provided by Suppliers for use in the CFD scheme.

2.2 Main Users of this Document and Responsibilities

Name	Responsibilities
The Low Carbon Contracts Company (LCCC)	Responsible for authorising return or draw down of Credit Cover, specifying the Letter of Credit (LoC) requirements and acceptable risk ratings for banks issuing LoCs
EMR Settlement Ltd (EMRS)	Responsible for receiving, managing and monitoring Credit Cover under the CFD scheme in line with regulations
Supplier	Responsible for ensuring they maintain valid Credit Cover with EMRS to a minimum of the calculated Credit Cover requirement

2.3 Associated Documents.

This working practice is based upon, but does not replace the regulations overseeing CFD and should be read in conjunction with the following:

Document
Contracts for Difference (Electricity Supplier Obligation) Regulations (2014), and all subsequent amendments ¹
EMRS Guidance G5 - Supplier CFD Credit Cover ²
EMRS Working Practice WP41 - Late Payment Procedure ³

3. Supplier CFD Credit Cover

¹ <http://www.legislation.gov.uk/uksi/2014/2014/made>

² <https://emrsettlement.co.uk/publications/guidance/>

³ <https://emrsettlement.co.uk/publications/working-practices/>

3.1 Credit Cover requirements

It is the responsibility of Suppliers to lodge and maintain sufficient valid Credit Cover to meet their Credit Cover requirement on each day during the relevant period. As a minimum, a sufficient level is equivalent to the last 21 days of Gross Demand⁴ (excluding EII exempted electricity) multiplied by the Interim Levy Rate in force on the day for which the calculation is being performed⁵. This can be provided either via a valid Letter of Credit (LoC) and/or cash transferred into the correct bank account⁶.

EMRS will inform a Supplier of their Credit Cover requirements on a daily basis and will compare this against their currently lodged Credit Cover. Where found to be insufficient, a Supplier will be allowed a two day cure period to rectify their shortfall, after which additional escalating actions will be taken.

3.2 Credit Cover validity

Credit Cover must be provided and maintained in a valid form. Cash Credit Cover must be lodged in the correct LCCC bank account (for ease of reference it is included in section 4.1).

For LoCs, these must:

- Be in a valid format⁷
- Have the LCCC as the beneficiary
- Be issued via SWIFT to LCCC's agent (NatWest)
- Be issued by a bank with a suitable short-term rating (i.e. 1/3 of the following):
 - F1 rating by Fitch Ratings
 - P-1 rating by Moody's
 - A-1 rating by Standard and Poor's
 (or by a bank specifically approved by the LCCC)
- Not yet be expired

3.3 Use of Credit Cover

Credit Cover can be drawn down should a Supplier not meet their obligations to fund CFD Generator payments. This relates to any payments for Interim Levy Rate, mutualisation amounts, reserve payments and quarterly reconciliation amounts. Payments that are excluded from Credit Cover draw down are the operational levy and late payment interest.

Where Credit Cover cannot be drawn down, alternative escalating actions will be taken to encourage Suppliers to meet their obligations⁸.

⁴ See EMRS Guidance G2 – 'Calculation of Supplier Demand for EMR Charging', <https://emrsettlement.co.uk/publications/guidance/>

⁵ Details of the calculation can be found in EMRS Guidance G5 – 'Supplier CFD Credit Cover', <https://emrsettlement.co.uk/publications/guidance/>

⁶ LCCC's bank account details can be found in step 4.1.1 on page 6 of this document

⁷ The valid LoC template for Supplier CFD Credit Cover can be found in Appendix 1

⁸ Details can be found in EMRS Working Practice WP41 – 'Late Payment Procedure', <https://emrsettlement.co.uk/publications/working-practices/>

4. Interface and timetable information

4.1 Lodging Credit Cover

Suppliers can submit Credit Cover at any point, either in response to a requirement (e.g. a Credit Cover Default Notice) or as part of their own risk management activities.

Ref	When	Action	From	To	Input Information Required	Method
4.1.1	Ad hoc	Transfer cash and notify contact@emrsettlement.co.uk Alternatively, provide LoC	Supplier	EMRS	LCCC Credit Cover bank account: <u>Bank name</u> : Royal Bank of Scotland Group <u>Account name</u> : LCC Collateral account <u>Account number</u> : 10018417 <u>Sort code</u> : 60-70-80 <u>IBAN</u> : GB16NWBK60708010018417 <u>SWIFT</u> : NWBKGB2L Appendix 1- SWIFT Letter of Credit format LoC validity requirements ⁹ <u>SWIFT</u> : NWBKGB2L	Bank transfer/post SWIFT ¹⁰
4.1.2	Each Working Day (WD), at 5pm	Check Credit Cover bank account for cash received	EMRS	-	As provided in 4.1.1 Bank details	Internal process

⁹ Letter of Credit validity requirements can be found in section 3.2.

¹⁰ Where the issuing bank is also NatWest (LCCC's agent), SWIFT will not be used and the LoC will be issued to EMRS directly.

Ref	When	Action	From	To	Input Information Required	Method
4.1.3	Within 1WD of 4.1.1	Log and validate SWIFT submission, send confirmation to EMRS	NatWest	EMRS		Internal process
4.1.4	Following 4.1.3	Validate LoC and issuing bank If Credit Cover is valid then go to 4.1.5 If Credit Cover is invalid then go to 4.1.6.	EMRS	-	LoC validity requirements Bank ratings	Internal process
4.1.5	Following 4.1.2 (cash) 4.1.4 (LoC)	Record and notify Supplier of successful lodging If Credit Cover has been supplied to replace previously provided LoCs ¹¹ then go to 4.1.6 otherwise END PROCESS	EMRS	Supplier	Authorised Credit Cover Contact details Company emails	Email
4.1.6	Following 4.1.4	Notify Supplier of invalid Credit Cover and check if affected Supplier has: Any outstanding Credit Cover requirements, or Any late payments currently due	EMRS	Supplier	Supplier's CFD statement of account Credit Cover requirements (non-cleared Credit Cover Default Amount, or a shortfall of Credit Cover)	Email

¹¹ May occur due to LoC expiry (process 4.5), loss of an acceptable rating by an LoC-issuing bank (process 4.3), or request to return a partial value of an LoC (process 4.6)

Ref	When	Action	From	To	Input Information Required	Method
		<p>If yes, then retain LoC¹², notify Supplier of obligations and END PROCESS</p> <p>If no, got to 4.1.7</p>				
4.1.7	Within 1WD of 4.1.6	<p>Cancel invalid LoC</p> <p>END PROCESS</p>	NatWest	Issuing Bank		SWIFT

4.2 Monitoring Credit Cover requirements

EMRS will review on a daily basis whether Suppliers have lodged sufficient Credit Cover to meet their obligations. Escalating action will be taken if a Supplier does not meet their obligations and does not take action to rectify their position.

Ref	When	Action	From	To	Input Information Required	Method
4.2.1	Each Working Day	Calculate minimum Credit Cover requirement and compare with lodged Credit Cover	EMRS	-	Supplier metered volumes Current interim levy rate Lodged Credit Cover ¹³	Internal process
4.2.2	Following 4.2.1	<p>Create and issue Supplier CFD Credit Cover Report</p> <p>If Credit Cover is sufficient then END PROCESS</p>	EMRS	Supplier	See Appendix 3	Email/DTN

¹² Where it is perceived that a Supplier is unlikely to meet their CFD obligations, Credit Cover will be retained until the Supplier has demonstrated compliance.

¹³ Available to EMRS for draw down as at 5pm of the previous day. The lodged amount excludes any Credit Cover that expires on the day prior to the report.

Ref	When	Action	From	To	Input Information Required	Method
4.2.3	Following 4.2.2	Review Supplier CFD Credit Cover Report and lodge additional valid Credit Cover to meet obligation ¹⁴	Supplier	-	Supplier CFD Credit Cover Report	Process 4.1
4.2.4	3WDs after 4.2.2	Compare minimum Credit Cover requirement (from 2WDs after 4.2.2) with lodged Credit Cover If Credit Cover is sufficient then END PROCESS Otherwise request approval to issue a Credit Cover Default Notice	EMRS	LCCC	Supplier CFD Credit Cover Report	Email
4.2.5	Following 4.2.4	Review Credit Cover position and approve issue of a Credit Cover Default Notice	LCCC	EMRS		Email
4.2.6	Within 1WD of 4.2.5	Issue Credit Cover Default Notice	EMRS	Supplier LCCC Ofgem		Email
4.2.7	Following 4.2.6	Publish Credit Cover Default Notice	LCCC	Public	Credit Cover Default Notice	Website
4.2.8	Following 4.2.6 and within 1WD	Lodge Credit Cover Default Amount ¹⁵ in cash	Supplier	EMRS		Process 4.1
4.2.9	Following 4.2.8	Check that Credit Cover Default Amount has been lodged in cash Credit Cover	EMRS	Supplier LCCC	Credit Cover Default Amount Credit Cover lodged	Email

¹⁴ It is the responsibility of the Supplier to maintain adequate credit cover at all times to meet their regulatory requirements, irrespective of the CFD Credit Cover Report.

¹⁵ The Credit Cover Default Amount is equal to the difference between the requirement on the 2nd WD after the original shortfall (the 'cure day') and the Credit Cover lodged at the end of that day. A Credit Cover Default obligation can only be met through the lodging of cash Credit Cover.

Ref	When	Action	From	To	Input Information Required	Method
		If Credit Cover Default Amount has been cleared then notify the Supplier and END PROCESS		Ofgem		
4.2.10	Following 4.2.9	If a Credit Cover Default Amount liability remains then notify LCCC for escalation END PROCESS	EMRS	LCCC	Credit Cover Default Amount Credit Cover lodged	Email

4.3 Monitoring Credit Cover validity

EMRS will review on a daily basis whether the banks who have issued LoCs are valid under the CFD scheme. This is to prevent the loss of Credit Cover available to LCCC if an issuing bank were to default.

Ref	When	Action	From	To	Input Information Required	Method
4.3.1	Each Working Day by 12pm	Assess current bank ratings for all LoC-issuing banks If bank meets validity requirements then END PROCESS	EMRS	-	LoC validity requirements LoC issuing banks	Internal process
4.3.2	Within 1WD of 4.3.1	Notify Suppliers with affected LoCs that Credit Cover needs to be replaced	EMRS	Supplier	LoCs	Email
4.3.3	Within 10WDs of 4.3.1	Provide replacement Credit Cover. If sufficient to meet requirements, then END PROCESS	Supplier	EMRS		Process 4.1

Ref	When	Action	From	To	Input Information Required	Method
		If not, go to 4.3.4				
4.3.4	11WDs after 4.3.1	Assess affected bank ratings If bank has re-gained a 1/3 pass against ratings issuers then END PROCESS If the bank continues to fail rating requirements, go to 4.3.5	EMRS	-	Supplier CFD Credit Cover Report; Short-term bank ratings from: <ul style="list-style-type: none"> • Moody's • Fitch Ratings • Standard and Poor's 	Internal process
4.3.5	Following 4.3.4	Check if affected Supplier has: Any outstanding Credit Cover requirements, or Any late payments currently due If yes, then reduce Credit Cover lodging and END PROCESS ¹⁶ If no, then go to 4.3.6	EMRS	-	Supplier's CFD statement of account Credit Cover requirements (non-cleared Credit Cover Default Amount, or a shortfall of Credit Cover)	Internal process
4.3.6	Following 4.3.5	Cancel invalid LoC END PROCESS	NatWest	Issuing Bank		SWIFT

4.4 Drawing down Credit Cover

EMRS will look to draw down on Credit Cover if a Supplier has not made a relevant payment. A two day cure period after the due date is available for those Suppliers who are not considered at risk of defaulting on their payments, however timing and ability to draw down is at LCCC's discretion. Relevant payments include Interim Levy amounts (and data reconciliations), mutualisation amounts and reserve/quarterly reconciliation amounts.

¹⁶ Where it is perceived that a Supplier is unlikely to meet their CFD obligations, Credit Cover will be retained until the Supplier has demonstrated compliance.

Ref	When	Action	From	To	Input Information Required	Method
4.4.1	Each Working Day by 12pm	Identify Suppliers with overdue relevant payments	EMRS	-	Supplier's CFD statement of account	Internal process
4.4.2	Following 4.4.1	Determine amount and type of Credit Cover to be drawn down ¹⁷ and request approval from LCCC	EMRS	LCCC		Email
4.4.3	Following 4.4.2	Review payment position and authorise draw down of funds	LCCC	EMRS		Internal process
4.4.4	Within 1WD of 4.4.3	Notify Supplier of draw down If cash, then go to 4.4.5 If LoC, then go to 4.4.6	EMRS	Supplier	Overdue relevant late amounts; Approved draw down amount	Email
4.4.5	Following 4.4.4 and on the same Working Day	Transfer cash from Credit Cover bank account, reduce Credit Cover lodged and clear overdue items END PROCESS	EMRS	-		Bank transfer; Internal process
4.4.6	Following 4.4.4 and on the same Working Day	Notify Supplier of draw down. Email Form of Demand and draw down on LoC	EMRS NatWest	Supplier Issuing bank	Draw down amount; LCCC authorisation Form of Demand	Email SWIFT
4.4.7	Following 4.4.5	Transfer cash to LCCC bank account and may issue amended LoC (for partial drawdowns)	Issuing bank	LCCC NatWest		Bank transfer; SWIFT

¹⁷ Where possible, EMRS will first look to draw down cash only for efficiency. Following this we will prioritise LoC only and then a combination of both to meet the outstanding relevant amount.

Ref	When	Action	From	To	Input Information Required	Method
4.4.8	Within 1WD of 4.4.6	Reduce Credit Cover lodged and clear overdue items END PROCESS	EMRS	-		Internal process

4.5 Monitoring Credit Cover expiry

EMRS will monitor the length of validity of any received Letters of Credit (LoCs) to prompt preventative action from Suppliers to ensure sufficient Credit Cover is provided. Suppliers should monitor their own LoCs as they are responsible for ensuring sufficient Credit Cover is lodged with EMRS to meet their obligations.

Ref	When	Action	From	To	Input Information Required	Method
4.5.1	Each Working Day	Identify any LoCs expiring in 20 WDs	EMRS	-	LoC expiry dates	Internal process
4.5.2	Following 4.5.1 and on the same Working Day	Notify Supplier that LoC will expire in 20 WDs	EMRS	Supplier	LoC details	Email
4.5.3	Following 4.5.2	Lodge replacement/substitute/amended Credit Cover.	Supplier	EMRS		Process 4.1
4.5.4	Following 4.5.2 and the day before expiry ¹⁸	Amend the Credit Cover lodged and notify Supplier END PROCESS	EMRS	Supplier	LoC details	Internal process

4.6 Returning Credit Cover

Suppliers can request return of their Credit Cover at any point in time. Credit Cover will be released subject to the Supplier holding excess Credit Cover and not having any outstanding obligations that affect it.

¹⁸ As drawdown will take a minimum of two Working Days, the Credit Cover will not be considered effective from 5pm onwards on the penultimate day of validity.

Ref	When	Action	From	To	Input Information Required	Method
4.6.1	Ad hoc	Request return of Credit Cover to contact@emrsettlement.co.uk	Supplier	EMRS	Credit cover type and amount to be returned ¹⁹ ; Authorised Contact ²⁰	Email
4.6.2	On the same Working Day as 4.6.1 where received by 5pm	<p>Check to see if the Supplier:</p> <ul style="list-style-type: none"> • Has any currently outstanding Credit Cover requirements • Has any late payments currently due • Will have a shortfall of Credit Cover if the requested amount is returned <p>If no issues, then go to 4.6.4 If the Supplier will have a shortfall of Credit Cover then go to 4.6.3 If any outstanding requirements²¹ then notify the Supplier and END PROCESS</p>	EMRS	Supplier	Supplier’s CFD statement of account; Credit Cover requirements (non-cleared Credit Cover Default Amount, or a shortfall of Credit Cover)	Email
4.6.3	Following 4.6.2 and on the same working day	Confirm a revised return amount with the Supplier so that there will not be a shortfall of Credit Cover	EMRS	Supplier	Credit Cover requirements; Lodged Credit Cover	Email/ Phone call

¹⁹ An example email request template can be found in Appendix 4.

²⁰ Suitably Authorised Contacts who can request return of credit cover are: Credit Cover contact; the Finance Authority or the Primary Party Authority.

²¹ Where it is perceived that a Supplier is unlikely to meet their CFD obligations, Credit Cover will be retained until the Supplier has demonstrated compliance.

Ref	When	Action	From	To	Input Information Required	Method
4.6.4	Following 4.6.2/4.6.3 and on the same working day	Submit request to the LCCC to return Credit Cover	EMRS	LCCC	Credit Cover requirements; Lodged Credit Cover; Return request, including type of Credit Cover to return	Email
4.6.5	Following 4.6.4 and within one working day	Review Credit Cover request and approve return of Credit Cover If cash, then go to 4.6.6 If return amount is equal to a total LoC value, then go to 4.6.7 If return amount is only part of an LoC's value, then go to 4.6.8	LCCC	EMRS	Authorised amount to return	Email
4.6.6	Following 4.6.5 and within 2WDs of 4.6.1	Transfer cash from Credit Cover bank account to Supplier Credit Cover bank account and amend Credit Cover lodged END PROCESS	EMRS	Supplier	Supplier Credit Cover bank; account details	Bank transfer; Internal process
4.6.7	Following 4.6.5 and within 2WDs of 4.6.1	Notify bank of cancellation of LoC and notify Supplier END PROCESS	EMRS NatWest	Supplier Issuing Bank	LoC;	Email SWIFT
4.6.8	Following 4.6.5 and within 2WDs of 4.6.1	Notify Supplier that request has been approved and that an amended LoC can be provided	EMRS	Supplier	Amount authorised	Email

Ref	When	Action	From	To	Input Information Required	Method
4.6.9	Following 4.6.8	Lodge replacement/substitute Credit Cover and request return of original LoC (if applicable) END PROCESS	Issuing Bank	NatWest	LoC	Process 4.1

5. Contact Information

For all Supplier Credit Cover queries please contact:

Contact Organisation	Contact
EMR Settlement Ltd (EMRS)	Telephone: 020 7380 4333 Email: contact@emrsettlement.co.uk

6. Acronyms and Definitions

A full list of acronyms and definitions included within this document can be found on the EMRS website²².

²² <https://emrsettlement.co.uk/publications/working-practices/> > Useful Links

7. Appendix 1 – SWIFT Letter of Credit Format²³

To:

Low Carbon Contracts Company Limited
Fleetbank House
2-6 Salisbury Square
London
EC4Y 8JX

[DATE]

Dear Sirs,

IRREVOCABLE STANDBY LETTER OF CREDIT NUMBER: [NUMBER]

1. By this letter we, [*insert name of issuer*], establish our irrevocable standby letter of credit ("**letter of credit**") number [number] in your favour at the request of [*name of relevant supplier*] (the "**Principal**") of [*address of relevant supplier*] for the maximum aggregate pounds sterling amount of [£x.xx],[written version of the amount], (the "**Maximum Amount**").
2. This letter of credit is established in connection with the Principal's obligations under the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 (as amended or modified from time to time) (the "**Regulations**").
3. We unconditionally and irrevocably undertake to pay you, in pounds sterling to the bank account set out in your written demand for payment, the amount you claim on the date we receive your duly completed written demand at [*insert details of the issuing bank, department name and/or officer and address – Note: insert at least one precise location as close as possible to Fleetbank House, 2-6 Salisbury Square, London, EC4Y 8JX*] or at any of our other London branches or by email to [*insert email address*] or by SWIFT via our bankers National Westminster Bank Plc (SWIFT code NWBKGB2L) subject to the following conditions:
 - your demand must be received by us by 23.59 (London time) on the Expiry Date (as defined in paragraph 4); and
 - your demand must be substantially in the form attached to this letter of credit signed by you stating that the Principal has failed to comply with its obligations under the Regulations and the amount claimed which, in aggregate with any other claims made under this letter of credit, must not exceed the Maximum Amount.
4. This letter of credit shall expire at 23.59 (London time) on [*date*] ("**Expiry Date**"), after which we shall have no further liability to you, except in relation to any demand validly presented before expiry of this letter of credit that remains unpaid.
5. A presentation may be made for less than the Maximum Amount.

²³ The following constitutes the message that should be issued via a MT760 type SWIFT

6. More than one presentation may be made ("**Multiple Presentations**"). The aggregate of the Multiple Presentations shall not exceed the Maximum Amount.
7. Payments under this letter of credit will be effected immediately to the account you specify in your demand.
8. This letter of credit and any dispute or claim arising out of or in connection with it or its subject matter or formation (including non-contractual disputes or claims) shall be governed by, and construed in accordance with, the law of England and Wales. The parties to this letter of credit irrevocably agree that the courts of England and Wales shall have exclusive jurisdiction over any dispute or claim arising out of or in connection with this letter of credit or its subject matter or formation (including non-contractual disputes or claims).
9. Except to the extent it is inconsistent with the express terms of this letter of credit, this letter of credit is subject to the International Standby Practices ISP 98, ICC Publication No. 590.

Yours faithfully,

For and on behalf of

[Issuing bank]

FORM OF DEMAND

DEMAND UNDER IRREVOCABLE STANDBY LETTER OF CREDIT NUMBER: *[NUMBER]*

We, Low Carbon Contracts Company Limited, refer to the irrevocable letter of credit ("**letter of credit**") number *[number]* issued by you in our favour. This is a written demand under the letter of credit. Terms defined in the letter of credit have the same meaning in this demand.

We certify that the Principal has failed to comply with its obligations under the Regulations. The amount claimed by us is *[currency and amount]* ("**Claimed Amount**"), which we hereby demand.

We further certify that the aggregate of the Claimed Amount and all other amounts previously claimed by us under the letter of credit does not exceed the Maximum Amount specified in the letter of credit.

This demand is dated on or before the Expiry Date set out in the letter of credit.

We hereby demand immediate payment of the Claimed Amount and that the Claimed Amount be paid into the following bank account: *[details of account to be inserted by LCCC]*.

8. Appendix 2 – Approved Form of Letter of Credit²⁴

To:

Low Carbon Contracts Company Limited²⁵

Fleetbank House

2-6 Salisbury Square

London

EC4Y 8JX

[DATE]

Dear Sirs,

IRREVOCABLE STANDBY LETTER OF CREDIT NUMBER: [NUMBER]

10. By this letter²⁶ we, [*insert name of issuer*]²⁷, establish our irrevocable standby letter of credit (“**letter of credit**”) number [*number*] in your favour at the request of [*name of relevant supplier*] (the “**Principal**”) of [*address of relevant supplier*]²⁸ for the maximum aggregate pounds sterling²⁹ amount of [£x.xx],[written version of the amount], (the “**Maximum Amount**”).
11. This letter of credit is established in connection with the Principal’s obligations under the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 (as amended or modified from time to time) (the “**Regulations**”).
12. We unconditionally and irrevocably undertake to pay you, in pounds sterling to the bank account set out in your written demand for payment, the amount you claim on the date we receive your duly completed written demand at [*insert details of the issuing bank, department name and/or officer and address – Note: insert at least one precise location as close as possible to Fleetbank House, 2-6 Salisbury Square, London, EC4Y 8JX*] or at any of our other London branches or by email to [*insert email address*] or by SWIFT via our bankers National Westminster Bank Plc (SWIFT code NWBKGB2L) subject to the following conditions:

²⁴ Footnotes are for guidance only and should not be replicated in the Letter of Credit when issued.

²⁵ Regulation 19 of the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 (the “Regulations”) requires each supplier to ensure that on any day the CFD counterparty holds sufficient Credit Cover from such supplier to meet that supplier’s Credit Cover requirement for that day. Credit Cover can be provided in the form of cash and/or Letter of Credit. Low Carbon Contracts Company Limited (“LCCC”) is the CFD counterparty referred to in the Regulations. LCCC is required by Regulation 20(7) of the Regulations to publish a document setting out the terms of the Letters of Credit which it is likely to regard as appropriate. This Letter of Credit template constitutes that document.

²⁶ Letters of Credit provided by a bank other than National Westminster Bank plc must be provided through the interbank SWIFT banking system to: National Westminster Bank Plc – SWIFT Code NWBKGB2L. Letters of Credit provided by National Westminster Bank plc cannot be provided through the interbank SWIFT system and will be communicated to EMRS directly.

²⁷ Regulation 20 of the Regulations requires the Issuer to be a person holding the “required rating”. A person holds the “required rating” if the person has been assessed by:-

- Fitch Ratings Limited (registered company number 01316230) as having a short term debt rating of “F1” or better;
- Moody’s Investors Service Inc. (incorporated in the US State of Delaware with file number 0577904) as having a short term debt rating of “P-1” or better; or
- Standard & Poor’s Financial Services LLC. (incorporated in the US State of Delaware with file number 4621989) as having a short term debt rating of “A-1” or better.

²⁸ The applicant (i.e. the Principal) must be the relevant supplier. The name of the electricity supplier needs to match the name of the licenced electricity supplier as held with Ofgem (<https://www.ofgem.gov.uk/publications-and-updates/list-all-electricity-licencees-registered-or-service-addresses>).

²⁹ Letters of Credit must be in pounds sterling.

- your demand must be received by us by 23.59 (London time) on the Expiry Date (as defined in paragraph 4); and
- your demand must be substantially in the form attached to this letter of credit signed by you stating that the Principal has failed to comply with its obligations under the Regulations and the amount claimed which, in aggregate with any other claims made under this letter of credit, must not exceed the Maximum Amount.

13. This letter of credit shall expire at 23.59 (London time) on [date] ("**Expiry Date**"), after which we shall have no further liability to you, except in relation to any demand validly presented before expiry of this letter of credit that remains unpaid.

14. A presentation may be made for less than the Maximum Amount.

15. More than one presentation may be made ("**Multiple Presentations**"). The aggregate of the Multiple Presentations shall not exceed the Maximum Amount.

16. Payments under this letter of credit will be effected immediately to the account you specify in your demand.

17. This letter of credit and any dispute or claim arising out of or in connection with it or its subject matter or formation (including non-contractual disputes or claims) shall be governed by, and construed in accordance with, the law of England and Wales. The parties to this letter of credit irrevocably agree that the courts of England and Wales shall have exclusive jurisdiction over any dispute or claim arising out of or in connection with this letter of credit or its subject matter or formation (including non-contractual disputes or claims).

18. Except to the extent it is inconsistent with the express terms of this letter of credit, this letter of credit is subject to the International Standby Practices ISP 98, ICC Publication No. 590.

Yours faithfully,

.....

For and on behalf of

[Issuing bank]

ANNEX

FORM OF DEMAND

To: *[issuing bank, department and/or officer name and address]*

[DATE]

Dear Sirs,

DEMAND UNDER IRREVOCABLE STANDBY LETTER OF CREDIT NUMBER: *[NUMBER]*

We, Low Carbon Contracts Company Limited, refer to the irrevocable letter of credit ("**letter of credit**") number *[number]* issued by you in our favour. This is a written demand under the letter of credit. Terms defined in the letter of credit have the same meaning in this demand.

We certify that the Principal has failed to comply with its obligations under the Regulations. The amount claimed by us is *[currency and amount]* ("**Claimed Amount**"), which we hereby demand.

We further certify that the aggregate of the Claimed Amount and all other amounts previously claimed by us under the letter of credit does not exceed the Maximum Amount specified in the letter of credit.

This demand is dated on or before the Expiry Date set out in the letter of credit.

We hereby demand immediate payment of the Claimed Amount and that the Claimed Amount be paid into the following bank account:

[details of account to be inserted by LCCC].

Yours faithfully,

.....

For and on behalf of

Low Carbon Contracts Company Limited

9. Appendix 3 – SWIFT Letter of Credit Format (provided by third party)³⁰

To:

Low Carbon Contracts Company Limited
Fleetbank House
2-6 Salisbury Square
London
EC4Y 8JX

[DATE]

Dear Sirs,

IRREVOCABLE STANDBY LETTER OF CREDIT NUMBER: [NUMBER]

1. By this letter we, *[insert name of issuer]*, establish our irrevocable standby letter of credit ("**letter of credit**") number *[number]* in your favour at the request of *[name and registered company number of relevant entity requesting the letter of credit]* the ("**Requester**") on behalf of *[name of relevant supplier]* (the "**Principal**") of *[address of relevant supplier]* for the maximum aggregate pounds sterling amount of *[£x.xx]*, *[written version of the amount]*, (the "**Maximum Amount**").
2. This letter of credit is established in connection with the Principal's obligations under the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 (as amended or modified from time to time) (the "**Regulations**").
3. We unconditionally and irrevocably undertake to pay you, in pounds sterling to the bank account set out in your written demand for payment, the amount you claim on the date we receive your duly completed written demand at *[insert details of the issuing bank, department name and/or officer and address – Note: insert at least one precise location as close as possible to Fleetbank House, 2-6 Salisbury Square, London, EC4Y 8JX]* or at any of our other London branches or by email to *[insert email address]* or by SWIFT via our bankers National Westminster Bank Plc (SWIFT code NWBKGB2L) subject to the following conditions:
 - your demand must be received by us by 23.59 (London time) on the Expiry Date (as defined in paragraph 4); and
 - your demand must be substantially in the form attached to this letter of credit signed by you stating that the Principal has failed to comply with its obligations under the Regulations and the amount claimed which, in aggregate with any other claims made under this letter of credit, must not exceed the Maximum Amount.

³⁰ The following constitutes the message that should be issued via a MT760 type SWIFT

4. This letter of credit shall expire at 23.59 (London time) on [date] (“**Expiry Date**”), after which we shall have no further liability to you, except in relation to any demand validly presented before expiry of this letter of credit that remains unpaid.
5. A presentation may be made for less than the Maximum Amount.
6. More than one presentation may be made (“**Multiple Presentations**”). The aggregate of the Multiple Presentations shall not exceed the Maximum Amount.
7. Payments under this letter of credit will be effected immediately to the account you specify in your demand.
8. This letter of credit and any dispute or claim arising out of or in connection with it or its subject matter or formation (including non-contractual disputes or claims) shall be governed by, and construed in accordance with, the law of England and Wales. The parties to this letter of credit irrevocably agree that the courts of England and Wales shall have exclusive jurisdiction over any dispute or claim arising out of or in connection with this letter of credit or its subject matter or formation (including non-contractual disputes or claims).
9. Except to the extent it is inconsistent with the express terms of this letter of credit, this letter of credit is subject to the International Standby Practices ISP 98, ICC Publication No. 590.

Yours faithfully,

For and on behalf of

[Issuing bank]

FORM OF DEMAND

DEMAND UNDER IRREVOCABLE STANDBY LETTER OF CREDIT NUMBER: [NUMBER]

We, Low Carbon Contracts Company Limited, refer to the irrevocable letter of credit (“**letter of credit**”) number [number] issued by you in our favour. This is a written demand under the letter of credit. Terms defined in the letter of credit have the same meaning in this demand.

We certify that the Principal has failed to comply with its obligations under the Regulations. The amount claimed by us is [currency and amount] (“**Claimed Amount**”), which we hereby demand.

We further certify that the aggregate of the Claimed Amount and all other amounts previously claimed by us under the letter of credit does not exceed the Maximum Amount specified in the letter of credit.

This demand is dated on or before the Expiry Date set out in the letter of credit.

We hereby demand immediate payment of the Claimed Amount and that the Claimed Amount be paid into the following bank account: [details of account to be inserted by LCCC].

10. Appendix 4 – Approved Form of Letter of Credit (provided by third party)³¹

To:

Low Carbon Contracts Company Limited³²

Fleetbank House

2-6 Salisbury Square

London

EC4Y 8JX

[DATE]

Dear Sirs,

IRREVOCABLE STANDBY LETTER OF CREDIT NUMBER: [NUMBER]

10. By this letter³³ we, [insert name of issuer],³⁴ establish our irrevocable standby letter of credit ("**letter of credit**") number [number] in your favour at the request of [name and registered company number of relevant entity requesting the letter of credit] the ("**Requester**") on behalf of [name of relevant supplier]³⁵ (the "**Principal**") of [address of relevant supplier] for the maximum aggregate pounds sterling³⁶ amount of [£x.xx], [written version of the amount], (the "**Maximum Amount**").
11. This letter of credit is established in connection with the Principal's obligations under the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 (as amended or modified from time to time) (the "**Regulations**").

³¹ Footnotes are for guidance only and should not be replicated in the Letter of Credit when issued.

³² Regulation 19 of the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 (the "**Regulations**") requires each supplier to ensure that on any day the CFD counterparty holds sufficient Credit Cover from such supplier to meet that supplier's Credit Cover requirement for that day. Credit Cover can be provided in the form of cash and/or Letter of Credit. Low Carbon Contracts Company Limited ("LCCC") is the CFD counterparty referred to in the Regulations. LCCC is required by Regulation 20(7) of the Regulations to publish a document setting out the terms of the Letters of Credit which it is likely to regard as appropriate. This Letter of Credit template constitutes that document.

³³ Letters of Credit provided by a bank other than National Westminster Bank plc must be provided through the interbank SWIFT banking system to: National Westminster Bank Plc – SWIFT Code NWBKGB2L. Letters of Credit provided by National Westminster Bank plc cannot be provided through the interbank SWIFT system and will be communicated to EMRS directly.

³⁴ Regulation 20 of the Regulations requires the Issuer to be a person holding the "required rating". A person holds the "required rating" if the person has been assessed by:-

- Fitch Ratings Limited (registered company number 01316230) as having a short term debt rating of "F1" or better;
- Moody's Investors Service Inc. (incorporated in the US State of Delaware with file number 0577904) as having a short term debt rating of "P-1" or better; or
- Standard & Poor's Financial Services LLC. (incorporated in the US State of Delaware with file number 4621989) as having a short term debt rating of "A-1" or better.

³⁵ The applicant (i.e. the Principal) must be the relevant supplier. The name of the electricity supplier needs to match the name of the licenced electricity supplier as held with Ofgem (<https://www.ofgem.gov.uk/publications-and-updates/list-all-electricity-licensees-registered-or-service-addresses>).

³⁶ Letters of Credit must be in pounds sterling.

12. We unconditionally and irrevocably undertake to pay you, in pounds sterling to the bank account set out in your written demand for payment, the amount you claim on the date we receive your duly completed written demand at [*insert details of the issuing bank, department name and/or officer and address – Note: insert at least one precise location as close as possible to Fleetbank House, 2-6 Salisbury Square, London, EC4Y 8JX*] or at any of our other London branches or by email to [*insert email address*] or by SWIFT via our bankers National Westminster Bank Plc (SWIFT code NWBKGB2L) subject to the following conditions:
- your demand must be received by us by 23.59 (London time) on the Expiry Date (as defined in paragraph 4); and
 - your demand must be substantially in the form attached to this letter of credit signed by you stating that the Principal has failed to comply with its obligations under the Regulations and the amount claimed which, in aggregate with any other claims made under this letter of credit, must not exceed the Maximum Amount.
13. This letter of credit shall expire at 23.59 (London time) on [*date*] ("**Expiry Date**"), after which we shall have no further liability to you, except in relation to any demand validly presented before expiry of this letter of credit that remains unpaid.
14. A presentation may be made for less than the Maximum Amount.
15. More than one presentation may be made ("**Multiple Presentations**"). The aggregate of the Multiple Presentations shall not exceed the Maximum Amount.
16. Payments under this letter of credit will be effected immediately to the account you specify in your demand.
17. This letter of credit and any dispute or claim arising out of or in connection with it or its subject matter or formation (including non-contractual disputes or claims) shall be governed by, and construed in accordance with, the law of England and Wales. The parties to this letter of credit irrevocably agree that the courts of England and Wales shall have exclusive jurisdiction over any dispute or claim arising out of or in connection with this letter of credit or its subject matter or formation (including non-contractual disputes or claims).
18. Except to the extent it is inconsistent with the express terms of this letter of credit, this letter of credit is subject to the International Standby Practices ISP 98, ICC Publication No. 590.

Yours faithfully,

.....

For and on behalf of

[*Issuing bank*]

ANNEX

FORM OF DEMAND

To: *[issuing bank, department and/or officer name and address]*

[DATE]

Dear Sirs,

DEMAND UNDER IRREVOCABLE STANDBY LETTER OF CREDIT NUMBER: *[NUMBER]*

We, Low Carbon Contracts Company Limited, refer to the irrevocable letter of credit ("**letter of credit**") number *[number]* issued by you in our favour. This is a written demand under the letter of credit. Terms defined in the letter of credit have the same meaning in this demand.

We certify that the Principal has failed to comply with its obligations under the Regulations. The amount claimed by us is *[currency and amount]* ("**Claimed Amount**"), which we hereby demand.

We further certify that the aggregate of the Claimed Amount and all other amounts previously claimed by us under the letter of credit does not exceed the Maximum Amount specified in the letter of credit.

This demand is dated on or before the Expiry Date set out in the letter of credit.

We hereby demand immediate payment of the Claimed Amount and that the Claimed Amount be paid into the following bank account:

[details of account to be inserted by LCCC].

Yours faithfully,

.....

For and on behalf of
Low Carbon Contracts Company Limited

11. Appendix 5 – Daily Credit Cover Report

Daily report of a Supplier’s CFD Credit Cover position	
Item	Notes
CFD Credit Cover	
EMR Party ID	A unique code for each legal entity for the purposes of EMR, determined during registration
Date	Issue date of notice
Total Credit Cover	The total amount of Credit Cover currently lodged by a Supplier
Total Cash Credit Cover	The total amount of cash Credit Cover currently lodged by a Supplier
Total Letters of Credit	The total amount of Credit Cover currently lodged by a Supplier in LoCs
Minimum Credit Cover	A Supplier’s calculated CFD Credit Cover requirement
Surplus Credit Cover	The difference between Total Credit Cover and Minimum Credit Cover. A positive value indicates surplus Credit Cover, while a negative value indicates insufficient Credit Cover
Reference Period Start Date	The first day of the reference period used to calculate CFD Credit Cover requirements
Reference Period End Date	The last day of the reference period used to calculate CFD Credit Cover requirements
Minimum Credit Cover Detail (applicable for each day of the reference period)	
Settlement Date	The settlement date used in the reference period
Settlement Code	The settlement run type applicable to the reference date
Interim Levy Payment	The rate used in calculating CFD Credit Cover requirements
Letter of Credit Detail (applicable to each valid LoC currently lodged)	
LoC ID	Unique identifier for the LoC
LoC Amount	The amount of Credit Cover currently available from an LoC
LoC Valid	An indication as to whether an LoC is valid
LoC Expiry Date	Date on which a valid LoC will expire

12. Appendix 6 – Example request to return credit cover

The below must be submitted by an appropriate Authorised Contact for the organisation³⁷. In this case, it would be a Credit Cover Contact, Finance Authority or Primary Party Authority registered under the organisation's Supplier role. This template should be sent to contact@emrsettlement.co.uk.

Please return supplier CFD credit cover for [*EMR Party ID*] as specified below³⁸.

Amount: [*£0.00*]

Type: [*cash/LoC*]

LoC details (LoC return only):

- LoC reference number: [*ref #*]
- Issuing bank: [*bank name*]

³⁷ Further details can be found in EMRS Guidance G4 – 'EMR Settlement Authorisations'

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

³⁸ Please complete the template for each different return e.g. returning two LoCs would require two templates (can be submitted within one email)

