

# WP43 – CFD Generator

## Collateral

EMRS Working Practice

Public

**Version:** 2.0

**Date:** 4 August 2017



**EMR  
SETTLEMENT  
LIMITED**



**LOW CARBON  
CONTRACTS COMPANY**

## Table of Contents

<b>1. Change Amendment Record</b>	<b>3</b>
<b>2. Introduction</b>	<b>4</b>
2.1 <i>Scope and Purpose of the Working Practice</i>	4
2.2 <i>Main Users of this Working Practice and Responsibilities</i>	4
2.3 <i>Associated Documents</i>	4
<b>3. CFD Generator Collateral</b>	<b>5</b>
3.1 <i>Why is collateral required?</i>	5
3.2 <i>How is a collateral requirement communicated?</i>	5
3.3 <i>How much collateral is required?</i>	5
3.4 <i>When is collateral required?</i>	5
<b>4. Interface and Timetable Information</b>	<b>7</b>
4.1 <i>Provide collateral</i>	7
4.2 <i>Monitor Letters of Credit (expiry)</i>	10
4.3 <i>Monitor Letters of Credit (bank ratings)</i>	12
4.4 <i>Drawing down collateral for overdue relevant payments</i>	14
4.5 <i>Repayment of collateral</i>	17
<b>5. Contact Information</b>	<b>18</b>
<b>6. Acronyms and Definitions</b>	<b>18</b>
<b>7. Appendices</b>	<b>19</b>
7.1 <i>LCCC's Collateral Account</i>	19
7.2 <i>Qualifying Issuer of a Letter of Credit</i>	19
7.3 <i>SWIFT Letter of Credit format</i>	20
7.4 <i>Letter of Credit Template</i>	22
7.5 <i>Specified address</i>	25

## 1. Change Amendment Record

Version	Date	Description
1.0	19 Jan 2016	Go-Live Version
2.0	4 Aug 2017	CR126 - Updated to reflect LoC being processed by SWIFT. Changing the existing process around receiving and validating letters of Credit (LOCs). Inserted Signed off LOC and SWIFT templates Document transfer into new template and cosmetic changes

## 2. Introduction

The Contracts for Difference (CFD) scheme determines that CFD Generators are only required to provide collateral after three failures to pay on time in a rolling twelve month period. Collateral must be lodged within set timescales and maintained for the duration of the requirement.

### 2.1 Scope and Purpose of the Working Practice

The purpose of this document is to provide an overview of how CFD Generators should provide collateral when required to do so in line with the contractual terms and conditions. It also covers how the lodged collateral will be managed while the requirement is valid and when it may be drawn down on as well as what happens if the lodged collateral becomes invalid and what happens once the requirement expires.

### 2.2 Main Users of this Working Practice and Responsibilities

The table summarises the roles and responsibilities of those parties involved, with respect to this procedure only.

Role	Responsibilities
CFD Generator	Required to submit valid collateral in certain situations and maintain it for the duration of the collateral requirement in line with the terms and conditions of the CFD contract (or Investment Contract).
EMR Settlement Ltd (EMRS)	Receives, validates, monitors and releases collateral according to the requirement.
Low Carbon Contracts Company (LCCC)	Notifies the CFD Generator whenever a requirement to provide collateral arises or is amended. Determines when to make a Posted Collateral Demand. Determines further escalating action when CFD Generator does not comply with its obligations.

### 2.3 Associated Documents

This working practice should be read in conjunction with the following documents, but please note that it does not seek to replace them:

- CFD Contract along with its Terms and Conditions<sup>1</sup> including accompanying documents and amendments
- Investment Contracts<sup>2</sup>
- EMRS Working Practice WP41 - Late Payment Procedure<sup>3</sup>

<sup>1</sup> <https://www.gov.uk/government/publications/contracts-for-difference-standard-terms-and-conditions>

<sup>2</sup> <https://www.gov.uk/government/publications/final-investment-decision-fid-enabling-for-renewables-investment-contracts>

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

### 3. CFD Generator Collateral

#### 3.1 Why is collateral required?

The CFD contract includes provisions for collateral to mitigate the risk of CFD Generators not meeting their payment obligations. CFD Generators are not expected to be making continuous payments, only having to do so where the market price is higher than their strike price<sup>4</sup> or in ad hoc circumstances where they are required to make a lump sum payment, for example compensation payments. As such, CFD Generators do not have a continuous obligation for collateral. CFD Generators are only required to provide collateral when they have demonstrated a record of not meeting their payment obligations (identified as three late payments in a rolling 12 consecutive month period).

Not having to maintain continuous collateral reduces the costs of the scheme for CFD Generators, but enables LCCC to manage and mitigate the funding risk of the scheme.

#### 3.2 How is a collateral requirement communicated?

Notices will be sent by LCCC to the CFD Generator using the notification contact specified in the CFD contract (please note that this may be a different contact to those used by EMRS for settlement, depending on what details the CFD Generator gave EMRS). The content of these notices is set out in the CFD Contract Annex 8 - Pro forma notices (and equivalent in the Investment Contracts).

#### 3.3 How much collateral is required?

The Collateral Amount is determined in accordance with the formula set out in the CFD Standard Terms and Conditions in Section 55.4<sup>5</sup>. Factors include the Maximum Contract Capacity and Assumed Load Factor amongst others; it is therefore specific to each contract.

#### 3.4 When is collateral required?

CFD Generators, like other EMR Parties, can submit collateral at any point. However, collateral is only required from CFD Generators once a Collateral Posting Notice is sent. This happens when the CFD Generator fails to make a payment three times within a rolling twelve month period; the requirement to provide collateral remains, even if those payments are subsequently made.

The CFD Generator has until the Collateral Posting Date to provide Acceptable Collateral equal to the Collateral Amount as per Section 56.1. The Collateral Posting Date will be included in the Collateral Posting Notice and will be at least 10WDs after the notice is issued.

Should a CFD Generator have to provide collateral, they are required to maintain it for 12 months until a specified date (the Collateral Repayment Date). This date can subsequently be extended and valid collateral must be maintained for the length of the extended requirement. Failure to comply with collateral requirements can be considered a Termination Event.

<sup>4</sup> For an explanation of CFDs please see our website: <https://emrsettlement.co.uk/about-emr/contracts-for-difference/>

<sup>5</sup> Please note, where specific conditions are referenced in the CFD Standard Terms and Conditions please refer to the contract that you hold, whether it is an Investment Contract or a newer version.

Figure 1 & Figure 2(overleaf) illustrate these timelines.

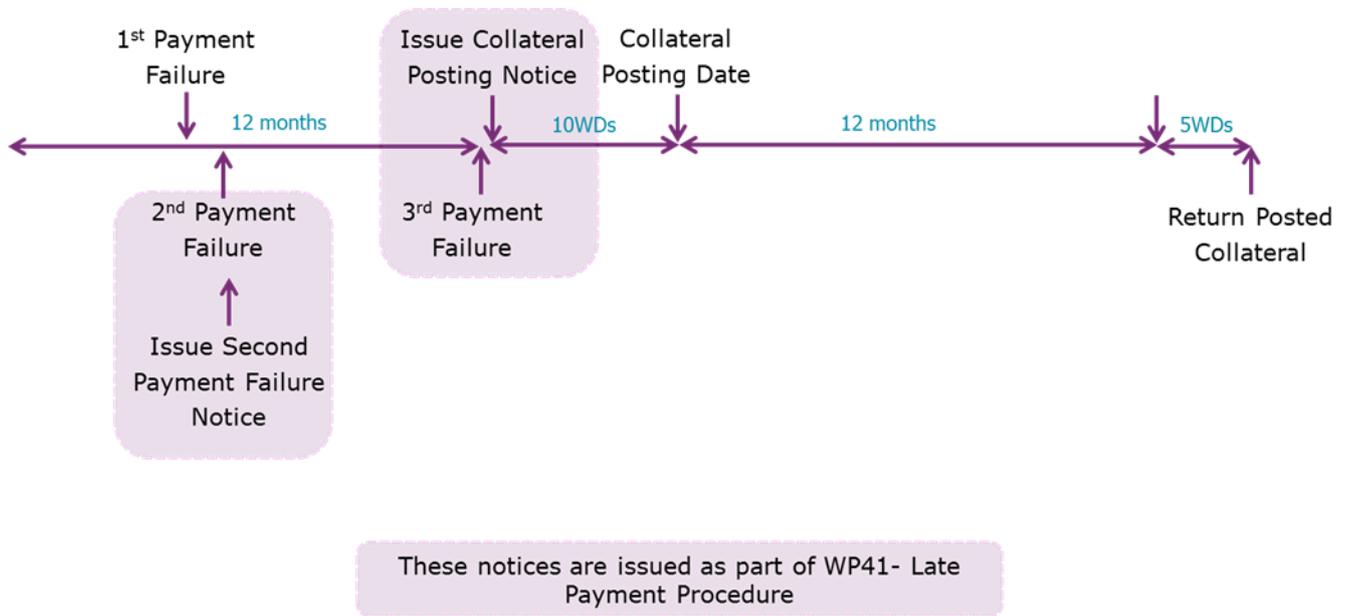


Figure 1: When collateral is needed

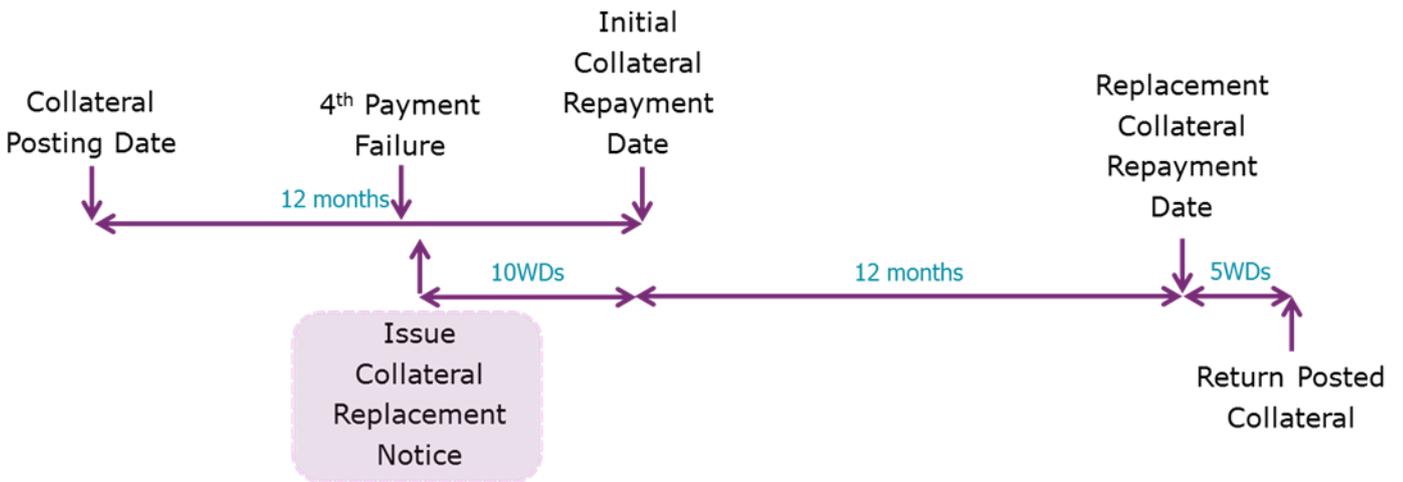


Figure 2: When the requirement to provide collateral is extended

At some point, Posted Collateral may cease to be Acceptable Collateral and/or be less than the amount required, for example if the issuer of a Letter of Credit no longer meets the credit rating requirements. In that scenario the LCCC may issue a notice to the CFD Generator to rectify the position. The CFD Generator would then have 5WDs to comply.

If the collateral has been the subject of a Posted Collateral Demand then the CFD Generator would have 2WDs to post more collateral.

## 4. Interface and Timetable Information

### 4.1 Provide collateral

Ref	When	Action	From	To	Input Information Required	Method
4.1.1	Upon receipt of a notice from LCCC requesting Collateral be lodged, or ad hoc to maintain Acceptable Collateral <sup>6</sup>	Either: Transfer cash, or Issue a Letter of Credit (LoC) <sup>7</sup> along with a Letter of Credit Details notice <sup>8</sup>	CFD Generator	LCCC Collateral Account for cash and/or EMRS for LoC <sup>9</sup>	Collateral Amount LCCC Collateral Account details: <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 7.3- SWIFT Letter of Credit Format LoC validity requirements <sup>10</sup> <u>SWIFT:</u> NWBKGB2L	Bank transfer for cash/post  SWIFT
4.1.2	Every Working Day, at 5pm	Check: Collateral bank account for cash received	EMRS	-	Collateral requirement Bank details	Internal process

<sup>6</sup> If substituting Collateral the CFD Generator must give 10WDs notice to LCCC

<sup>7</sup> For Letter of Credit Template please see the Appendix 7.4

<sup>8</sup> This is contained in the CFD terms and conditions and Investment Contracts.

<sup>9</sup> For the address to send the LoC please see the Appendix 7.5

<sup>10</sup> For Letter of Credit validity requirements please see the Appendix 7.2

Ref	When	Action	From	To	Input Information Required	Method
		<p>If no collateral received and deadline for CFD Generator to lodge Collateral has passed proceed to 4.1.7</p> <p>If collateral received proceed to 4.1.4</p>				
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 4.1.2 (cash) 4.1.3 (LoC)	<p>If LoC received then validate format, issuing bank and amount. If cash then validate amount.</p> <p>If collateral is valid and for the correct amount then go to 4.1.5.</p> <p>If collateral is invalid or not enough then go to 4.1.6.</p>	EMRS	-	LoC validity requirements Collateral requirement	Internal process
4.1.5	Within 1WD of 4.1.4	<p>If Posted Collateral meets collateral requirements, record lodging and notify CFD Generator.</p> <p><b>END PROCESS</b></p> <p>If a LoC or cash was provided to replace existing collateral then go to step 4.5.2 (in table 4.5) to complete the repayment of collateral process.</p>	EMRS	CFD Generator	Credit cover contact details	Email

Ref	When	Action	From	To	Input Information Required	Method
4.1.6	Within 1WD of 4.1.3	If LoC not acceptable or the Posted Collateral is not enough to meet requirement then, record lodging and notify CFD Generator. If deadline passes then proceed to step 4.1.7	EMRS	CFD Generator		Internal process and email
4.1.7	Following 4.1.2 (no collateral) or 4.1.6 (not accepted/sufficient)	Inform LCCC who decide on further escalation  <b>END PROCESS</b>	EMRS	LCCC	Collateral requirement Received Collateral details	Email

## 4.2 Monitor Letters of Credit (expiry)

Ref	When	Action	From	To	Input Information Required	Method
4.2.1	Each Working Day by 12pm	Identify Letters of Credit (LoC) that expire in 20 WD and notify CFD Generator	EMRS	CFD Generator	LoC details Credit Cover contact details	Email
4.2.2	Following 4.2.1	Provide replacement collateral if required	CFD Generator	LCCC Collateral Account (cash) or EMRS (LoC)	Collateral Amount LCCC Collateral Account details LoC validity requirements	Process 4.1 Provide Collateral
4.2.3	Following 4.2.1 and 9WDs before expiry	Check if collateral has been replaced/alterd and if requirement will not be met upon expiry  If requirement will be met then END PROCESS  If requirement will not be met then proceed to 4.2.4	EMRS	-	Collateral position	Internal process
4.2.4	Following 4.2.3	Request drawdown (Posted Collateral Demand) of LoC to hold as cash collateral	EMRS	LCCC	LoC details Collateral requirement	Email
4.2.5	Following 4.2.4	Instruct on whether to make a Posted Collateral demand.	LCCC	EMRS	LoC details Collateral requirement	Email
4.2.6	Following 4.2.5	Where LCCC instruct Posted Collateral Demand, Email Form of Demand and draw	EMRS NatWest	Issuing bank	LCCC authorisation Form of Demand	Email SWIFT

Ref	When	Action	From	To	Input Information Required	Method
		down on LoC				
4.2.7	Following 4.2.6	Transfer cash to LCCC bank account. EMRs treat the cash held as collateral.	Issuing bank	LCCC NatWest		Bank transfer; SWIFT
4.2.8	Following 4.2.7	Notify CFD Generator of draw down	LCCC	CFD Generator	Notification contact	Email
		<b>END PROCESS</b>				

### 4.3 Monitor Letters of Credit (bank ratings)

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 Identify Letters of Credit (LoC) issuing banks that do not pass rating requirements	EMRS	-	LoC details Bank ratings	Internal process
4.3.2	Same Working Day as 4.3.1	Check if requirement is not met without the LoC  If requirement is met then END PROCESS  If requirement is not met then notify LCCC	EMRS	LCCC	LoC details	Email
4.3.3	Following 4.3.2	Send Collateral Correction Notice	LCCC	CFD Generator		Email
4.3.4	Within 5WDs of 4.3.3	Provide replacement collateral	CFD Generator	LCCC Collateral Account (cash) or EMRS (LoC)	Collateral Amount Reserve Account details LoC validity requirements	Process 4.1 Provide Collateral
4.3.5	5WDs after 4.3.3	Check if collateral is now sufficient <sup>11</sup>	EMRS	LCCC	Collateral details LoC details	Email

<sup>11</sup> Collateral could be sufficient if bank ratings have improved or replacement collateral has been provided. If replacement collateral has been provided this will be validated as per Table 4.1.

Ref	When	Action	From	To	Input Information Required	Method
		<p>If collateral is now sufficient then notify LCCC and END PROCESS</p> <p>If collateral is not sufficient then notify LCCC</p>				
4.3.6	10WDs after 4.3.3	<p>Check if collateral is now sufficient</p> <p>If collateral is now sufficient then notify LCCC and <b>END PROCESS</b></p> <p>If collateral is not sufficient then request drawdown of LoC to hold as cash collateral</p>	EMRS	LCCC	<p>Collateral details</p> <p>LoC details</p>	Email
4.3.7	Following 4.3.6	Instruct on whether to make a Posted Collateral demand.	LCCC	EMRS	<p>LoC details</p> <p>Collateral requirement</p>	Email
4.3.8	Following 4.3.7	Where LCCC instructs a Posted Collateral demand, email form of demand and draw down Loc.	EMRS NatWest	Issuing bank	<p>LCCC authorisation</p> <p>Form of Demand</p>	Email SWIFT
4.3.9	Following 4.3.8	Transfer cash to LCCC bank account. EMRS treat the cash held as collateral.	Issuing bank	LCCC NatWest		Bank transfer SWIFT

#### 4.4 Drawing down collateral for overdue relevant payments

Ref	When	Action	From	To	Input Information Required	Method
4.4.1	Each Working Day by 12pm	Identify CFD Generators with overdue relevant <sup>12</sup> payments	EMRS	-	CFD Generator statement of account	Internal process
4.4.2	Following 4.4.1	<p>Following 4.4.1</p> <p>Determine whether there is collateral available</p> <p>If there is no collateral available proceed to step 4.4.3.</p> <p>If there is collateral available then proceed to step 4.4.4</p>	EMRS	-	<p>CFD Generator statement of account</p> <p>Collateral</p>	Internal process
4.4.3	Following 4.4.2	<p>Inform LCCC who decide on further escalation</p> <p><b>END PROCESS</b></p>	EMRS	LCCC	CFD Generator statement of account	Email
4.4.4	Following 4.4.2	Request drawdown of cash or LoC for the outstanding amount, or if outstanding amount exceeds the amount of cash or value of the LoC then request the full amount.	EMRS	LCCC	<p>CFD Generator statement of account</p> <p>Collateral</p>	Email
4.4.5	Following 4.4.4	Review payment position and instruct on whether to make a Posted Collateral demand.	LCCC	EMRS	CFD Generator statement of account	Email

<sup>12</sup> NPA payments.

Ref	When	Action	From	To	Input Information Required	Method
4.4.6	Within 1WD of 4.4.5	Where LCCC instruct Posted Collateral demand, notify CFD Generator of the posted collateral demand and send Collateral Correction Notice  If collateral is in the form of cash, then go to 4.4.9.  If collateral is in the form of a LoC, then go to 4.4.7.	LCCC	CFD Generator	Draw down amount	Email
4.4.7	Within 1WD of 4.4.6	Notify CFD Generator of Drawdown. Email Form of Demand and draw down LoC	EMRS NatWest	CFD Generator Issuing bank	Draw down amount; Form of Demand	SWIFT
4.4.8	Following 4.4.7	Transfer cash and may issue amended LoC (where partial draw down occurs)	Issuing bank	LCCC bank account and EMRS (where amended LoC is issued)		Bank transfer; SWIFT
4.4.9	Following 4.4.6 or 4.4.8	Clear overdue items  If overdue items are fully cleared then <b>END PROCESS</b>  If only partially cleared then proceed to step 4.4.10	EMRS	-		Internal process

Ref	When	Action	From	To	Input Information Required	Method
4.4.10	Following 4.4.9	Inform LCCC who decide on further escalation  <b>END PROCESS</b>	EMRS	LCCC		Email
4.4.11	Within 2WDs of 4.4.6	Provide replacement collateral	CFD Generator	LCCC Collateral Account (cash) or EMRS (LoC)	Collateral Amount Reserve Account details LoC validity requirements	Process 4.1 Provide Collateral

## 4.5 Repayment of collateral

In most cases, CFD Generator collateral will be returned within five working days of the end of a requirement to provide collateral. If a contract ends while there is still a requirement to provide collateral, any remaining collateral will be returned after the final reconciliation invoice for the contract.

Ref	When	Action	From	To	Input Information Required	Method
4.5.1	Collateral requirement ceases	Detect that the Collateral requirement has expired	EMRS	-		Internal process
4.5.2	Following 4.5.1	Request approval to return collateral	EMRS	LCCC		Email
4.5.3	Within 5WDs of 4.5.1	<p>If cash, transfer to CFD Generator collateral bank account<sup>13</sup></p> <p>If Letter of Credit, notify bank of cancellation of LoC and notify CFD Generator</p>	EMRS (on behalf of LCCC) NatWest	CFD Generator Issuing Bank	Bank account details LoC	Bank Transfer/SWIFT

<sup>13</sup> This is specified on the CFD Registration Form

## 5. Contact Information

For all Collateral queries please contact:

Contact Organisation	Contact
EMR Settlement Ltd (Settlement Services Provider)	Telephone: 020 7380 4333 Email: <a href="mailto:contact@emrsettlement.co.uk">contact@emrsettlement.co.uk</a>

## 6. Acronyms and Definitions

A full list of acronyms and definitions included within this document can be found on the EMRS website<sup>14</sup>.

<sup>14</sup> <https://emrsettlement.co.uk/publications/>

## **7. Appendices**

### **7.1 LCCC’s Collateral Account**

Please transfer cash collateral to the following account<sup>15</sup>:

Account number: 10018417

Sort Code: 60-70-80

### **7.2 Qualifying Issuer of a Letter of Credit**

If you wish to lodge a Letter of Credit to meet your collateral requirement then please ensure that it is in an acceptable form, please see the template in section 7.4, and from a Qualifying Issuer.

As defined in the CFD Contract, “Qualifying Issuer” means: (i) a bank or financial institution having a minimum short term rating of A-1 with Standard and Poor’s, P-1 with Moody’s or F1 with Fitch; or (ii) such other bank or financial institution, having such minimum rating as the CFD Counterparty may consent to or specify from time to time.

<sup>15</sup> Details of the Collateral Account will be included in the Collateral Posting Notice. If there is a discrepancy between the Notice and the details in this working practice please follow the instructions in the Notice.

## 7.3 SWIFT Letter of Credit format

### Generator CFD Letter of Credit SWIFT text<sup>16</sup>

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 generator] (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 agreement dated [•]<sup>17</sup> between the Principal and Low Carbon Contracts Company Limited, as may be amended from time to time (the "Agreement")
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 11.59 p.m. (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 Agreement 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 11:59 p.m. (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

<sup>16</sup> The following constitutes the message that should be issued via SWIFT

<sup>17</sup> The agreement referred to is the CfD (or Investment Contract, as applicable).

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 Agreement. 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*].

## 7.4 Letter of Credit Template<sup>18</sup>

### CFD Generator<sup>19</sup> Letter of Credit Template<sup>20</sup>

To:

Low Carbon Contracts Company Limited<sup>21</sup>

*Fleetbank House*

*2-6 Salisbury Square*

*London*

*EC4Y 8JX*

[DATE]

Dear Sirs,

#### **IRREVOCABLE STANDBY LETTER OF CREDIT NUMBER: [NUMBER]**

1. By this letter<sup>22</sup> we, [*insert name of issuer*]<sup>23</sup>, establish our irrevocable standby letter of credit (“**letter of credit**”) number [*number*] in your favour at the request of [*name of relevant generator*]<sup>24</sup> ( the “**Principal**”) of [*address of relevant generator*] for the maximum aggregate pounds sterling<sup>25</sup> 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 agreement dated [•]<sup>26</sup> between the Principal and Low Carbon Contracts Company Limited, as may be amended from time to time (the “Agreement”).
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 generic.email@address.co.uk, subject to the following conditions:

<sup>18</sup> Footnotes are for guidance only and should not be replicated in the Letter of Credit when issued.

<sup>19</sup> A generator, with whom Low Carbon Contracts Company Limited (“LCCC”) has an agreement (which may be a Contract for Difference or Investment Contract), is required in certain circumstances (which are specified in Part 13 of the relevant agreement) to provide Acceptable Collateral to LCCC. Acceptable Collateral may be in the form of cash and/or a letter of credit. If a letter of credit is provided, it must be in form and content reasonably acceptable to LCCC (see definition of “Letter of Credit” in the agreement).

<sup>20</sup> Footnotes are for guidance only and should not be replicated in the Letter of Credit when issued.

<sup>21</sup> If Acceptable Collateral is required, LCCC will issue a Collateral Posting Notice to the generator which will specify the Collateral Posting Date which is the date by which the Acceptable Collateral must be provided. The Acceptable Collateral must be maintained until the Initial Collateral Repayment Date, which is a date falling 12 months after the Collateral Posting Date. However, if there have been further Payment Failures of the Generator and LCCC has issued a Replacement Collateral Notice specifying a Replacement Collateral Repayment Date, the Acceptable Collateral must be maintained until that date.

<sup>22</sup> Letters of Credit provided by a bank (other than RBS or its subsidiaries including 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 RBS or one of its subsidiaries including National Westminster Bank plc cannot be provided through the interbank SWIFT system and must instead be sent by post to EMRS.

<sup>23</sup> The Letter of Credit must be issued by a Qualifying Issuer, which is defined in the agreement as (i) a bank or financial institution having a minimum short-term rating of A-1 with Standard and Poor’s, P-1 with Moody’s or F1 with Fitch or (ii) such other bank or financial institution, having such minimum rating as LCCC may consent to or specify from time to time.

<sup>24</sup> The applicant (i.e. the Principal) must be the relevant generator who is required under the agreement to provide the Acceptable Collateral. The name of the electricity generator needs to match the name of the generator specified in the agreement.

<sup>25</sup> Letters of credit must be in pounds sterling.

<sup>26</sup> The agreement referred to is the CfD (or Investment Contract, as applicable).

- your demand must be received by us by 11.59p.m. (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 Agreement 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 11.59 p.m. (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]

**ANNEX**

**FORM OF DEMAND**

To: *[issuing bank, department and/or officer name and address/ email 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 Agreement. 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**

## **7.5 Specified address**

Please post your Letter of Credit, via recorded delivery, to the following address:

EMRS at ELEXON Ltd,  
350 Euston Road,  
LONDON  
NW1 3AW

Please include with your Letter of Credit a copy of the Letter of Credit Details Notice which you can find a template for in your contract.

