

WP45 – Supplier Capacity Market Credit Cover

EMRS Working Practice

Public

Version: 11.0
Date: 9 August 2021



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2. Change Amendment Record

Version	Date	Description
1.0	14 June 2016	Go-live Version
2.0	28 August 2016	Updates to Letter of Credit processes
3.0	17 January 2017	Amended LoC and SWIFT Templates: <ul style="list-style-type: none"> Supplier now has 10WD to comply if their LoC issuing bank no longer meets requirements (Monitoring LoC Validity Section 3.3) Drawdown on LoC if less than 10 days remaining and still CC Obligation Period (Section 2.4 and 3.5 amendments)
4.0	4 August 2017	Document transfer to new template and cosmetic changes.
5.0	30 August 2018	Update to include reference to SWIFT template type Update to timings to 24 hour Include LoC cover provided by third parties
6.0	3 April 2019	Housekeeping updates
7.0	14 August 2019	Housekeeping and internal process updates
8.0	30 March 2020	Update to include bank account name requirements for any cash return request due to the introduction of Confirmation of Payee.
9.0	24 August 2020	Annual Review
10.0	4 March 2021	Update to returning credit cover process section 4.10
11.0	9 August 2021	LCCC/ESC Change of Address Small amends to Credit Cover Process

3. Introduction

Under the Capacity Market (CM), Suppliers are obligated to provide Credit Cover to mitigate the risk of non-payment of charge to the Capacity Providers during a Delivery Year. The amount of Credit Cover is set at 110% of the monthly Capacity Market Supplier Charge (to allow for non-payment of the monthly charge, mutualisation and reconciliation payments and late payment interest accrued).

3.1 Scope and Purpose

The purpose of this document is to provide details of how Suppliers can lodge Credit Cover and request its return. It also provides information of EMR Settlement Ltd.'s (EMRS) role in recording and monitoring Credit Cover received and details of how and when Credit Cover will be used.

3.2 Main Users of this Document and Responsibilities

Role	Responsibilities
Supplier	Responsible for ensuring they provide and maintain valid Credit Cover to EMRS.
Electricity Settlements Company (ESC)	Responsible for the validation and authorising draw down of Credit Cover, specifying the Letter of Credit (LoC) and banking requirements.
EMR Settlement Ltd (EMRS)	Responsible for receiving, managing and monitoring Supplier Credit Cover.

3.3 Associated Documents

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

Document
The Electricity Capacity (Supplier Payments etc.) Regulations 2014 and all subsequent amendments.
Electricity Capacity Regulations 2014, and all subsequent amendments ¹
WP41 – Late Payment Procedure ²
WP05 – Supplier CM Demand Forecast ²

¹ Regulations can be found at <http://www.legislation.gov.uk/ukdsi/2014/978011116777/contents>

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

4. Supplier Capacity Market Credit Cover

4.1 Credit Cover Requirements

Suppliers are responsible for ensuring Credit Cover is provided for each month of a Delivery Year, in the correct format and for the required amount or greater. The minimum amount of Credit Cover required is 110% of the monthly Capacity Market Supplier Charge.

EMRS will calculate the monthly amounts required, using the forecast of demand³ provided by Suppliers and will issue a schedule to each Supplier. The amounts will be revised once actual metered data for the winter period of high demand is received (for the requirements relating to months May – September).

4.2 Credit Cover validity

Credit Cover can be accepted as either cash or Letter of Credit (LoC). Cash needs to be deposited in a bank specified by ESC (for ease of reference it is included in section 4.1).

For LoCs, these must:

- Be in a valid format
- Have Electricity Settlements Company as the beneficiary
- Be issued via SWIFT to ESC's agent
- Be issued by a qualifying bank:
 - A bank with a long term debt rating of either;
 - A- or better, by Standard and Poor's⁴
 - A3 or better, by Moody's⁵
 - A bank approved by ESC
- Not yet, be expired.

Monitoring Credit Cover

EMRS (on behalf of ESC) are responsible for monitoring receipt and validity of the lodged Credit Cover; EMRS advise Suppliers of the status of the Credit Cover, managing non-payment of charges and maintaining the Credit Cover Default Register.

4.3 Credit Cover draw down

Credit Cover can be drawn down if a Supplier fails to meet its obligations to provide the funding to ensure Capacity Providers can receive their payments. Draw down can be used for non-payment of monthly Supplier charges, mutualisation, reconciliation payments and interest owed, but excludes the Settlement Cost Levy. Draw down can also occur if the bank ratings on a Letter of Credit have decreased below the specified level or there is less than 10WDs remaining until the LoC is due to expire.

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

³ Details can be found in 'WP05 - Supplier CM Demand Forecast', <https://emrsettlement.co.uk/publications/working-practice/>

⁴ Details can be found at: <http://www.standardandpoors.com>

⁵ Details can be found at: <https://www.moody.com/>

4.4 Lodging Credit Cover

Suppliers can lodge Credit Cover at any point but they must ensure the appropriate level is in place by no later than 12 Working Day before the start of the month.

Table 1: Lodging Credit Cover.

Ref	Regulations	When	Action	From	To	Input Information Required	Method
4.4.1	28(1).	Ad hoc but by no later than 12 WDs before the start of the month ⁶	Transfer cash and notify contact@emrsettlement.co.uk	Supplier	EMRS	Account Details Bank: RBS Account Name: ESC Supp Credit Cover Acc. No.: 10018530 Sort Code: 60-70-80 IBAN: GB69NWBK60708010018530 SWIFT: NWBKGB2L	Bank transfer
			Alternatively, provide LoC	Issuing bank	NatWest	Appendix 1 - SWIFT Letter of Credit format LoC validity requirements ⁷ SWIFT: NWBKGB2L	SWIFT ⁸

⁶ If Credit Cover lodged continuously meets the requirements for each month, then further Credit Cover does not need to be provided – only if Credit Cover becomes invalid or insufficient, Supplier must ensure corrected by 12 WDs before the start of the month.

⁷ Letter of Credit validity requirements can be found in section 4.2

⁸ Where the issuing bank is also NatWest (ESC’s agent), SWIFT will not be used and the LoC will be issued to EMRS directly.

Ref	Regulations	When	Action	From	To	Input Information Required	Method
4.4.2		Within 2 WDs of 4.5.1	Check Credit Cover bank account for cash. received, and if so then go to 4.1.5	EMRS	-	As provided in 4.1.1 Bank details.	Internal process
4.4.3		Within 1 WD of 4.5.1	Log and validate SWIFT submission, send confirmation to EMRS.	NatWest	EMRS		Internal process
4.4.4		Following 4.5.3	Validate LoC and issuing bank. If Credit Cover is valid then go to 4.1.5. If Credit Cover is invalid or insufficient then go to 4.1.6	EMRS	-	LoC validity requirements. Bank ratings.	Internal process
4.4.5	28(2)	Following 4.5.2 and 4.5.4	Record lodging and notify Supplier of successful lodging. If Credit Cover has been supplied to replace previously lodged LoCs ⁹ then go to 4.5.6 otherwise END PROCESS.	EMRS	Supplier	Authorised Credit Cover contact details. Company emails.	Email

⁹ May occur due to loss of an acceptable rating by a LoC-issuing bank (process 4.2), LoC expiry or request to return a partial value of a LoC (process 4.6).

Ref	Regulations	When	Action	From	To	Input Information Required	Method
4.4.6	28(2).	Following 4.5.4	<p>Notify Supplier of invalid Credit Cover or non-receipt of Credit Cover and check if affected Supplier has any;</p> <ul style="list-style-type: none"> Late payments due. Outstanding Credit Cover requirements. <p>If yes, then retain LoC¹⁰, notify Supplier of obligations and END PROCESS.</p> <p>If no, go to 4.5.7</p>	EMRS	Supplier	<p>Supplier's CM statement of account.</p> <p>Credit Cover requirements.</p>	Email
4.4.7		Within 1 WD of 4.5.6	<p>Cancel invalid LoC</p> <p>END PROCESS</p>	NatWest	Issuing bank		SWIFT

¹⁰ Where it is believed that a Supplier is unlikely to meet their CM obligations, Credit Cover will be retained until Supplier has demonstrated compliance.



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