

Overview of Credit Default

November 2011. Version 1.0

This document covers:

- What is included in the credit checking process
- What happens if you breach the Credit Default thresholds
- How Credit Default interacts with Payment Default and Section H Default.



If you have any questions on Credit, please contact the BSC Service Desk on 0870 010 6950 or email bscservicedesk@logica.com.

What is the Credit Checking Process?

At any given time, Trading Parties may have debts in respect of Trading Charges incurred but which have not yet been paid. The purpose of the credit checking arrangements is to ensure that, should a Trading Party default, sufficient collateral is available to pay these debts.

To this end, credit checking comprises two components:

- the calculation of an estimate of each Trading Party's accrued Trading Charges, known as the Energy Indebtedness
- a comparison of a Trading Party's Energy Indebtedness with the amount of Credit Cover in place, to determine the Credit Cover Percentage (CCP).

If your CCP increases over a certain level the Credit Default provisions are initiated.

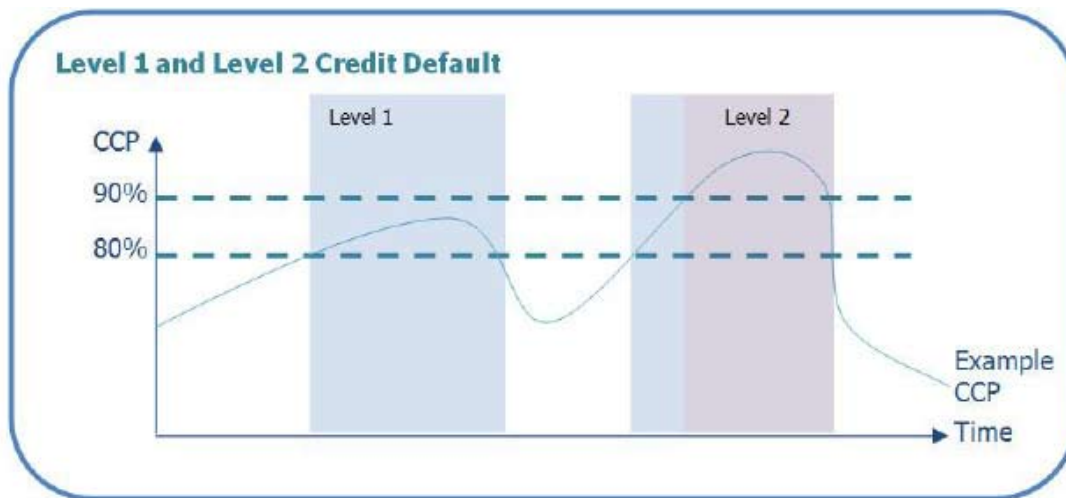
This Guidance Note does not detail the calculation of Energy Indebtedness and CCP as this is covered in the Credit Cover Guidance Note in the [Credit section of the ELEXON website](#).

What Happens if I Breach the Credit Default Thresholds?

There are two Credit Default thresholds. The Level 1 Credit Default process is initiated if your CCP exceeds 80% and the Level 2 Credit Default process is initiated if your CCP exceeds 90%.



Visit our website:
www.elexon.co.uk



Level 1 Credit Default

Query Period

The Level 1 Credit Default is initiated if your CCP becomes greater than 80%. At this point you will be informed that your CCP has exceeded 80%, and a Query Period of 24 hours will start. To ensure that you can be contacted immediately if a breach occurs, you should ensure that ELEXON has up-to-date 24 hour contact details. During the Query Period you may dispute the determination of your CCP. If you do raise a query then the Energy Contract Volume Aggregation Agent (ECVAA) will undertake a review.

Default Cure Period

If, at the end of the Query Period, any investigation has determined that the CCP for the given Settlement Period was definitely greater than 80% you will enter a Default Cure Period. This means you must ensure that your CCP is reduced to less than 75% for at least one Settlement Period before the end of the next Business Day. You can reduce your CCP by either posting additional collateral or by reducing your indebtedness by purchasing (and having notified to the ECVAA) contracts for additional energy. While additional collateral may only be posted during Funds Administration Agent (FAA) business hours, Energy Indebtedness can be reduced at anytime. However, reducing Energy Indebtedness will involve taking a 'long position' in one or more Settlement Periods, during which time you will be exposed to the System Sell Price.

Level 1 Credit Default

If you fail to reduce your CCP by the end of the Default Cure Period, then you will be in Level 1 Credit Default. The consequences of Level 1 Credit Default are that a notice is published on the Balancing Mechanism Reporting Agent (BMRA) website, and ELEXON issues an authorisation notice to the ECVAA that permits the rejection and refusal of notifications if your CCP subsequently becomes greater than 90%.

You will no longer be in Level 1 Credit Default when your CCP becomes less than 75%. At this point, the notice will be removed from the BMRA website and the authorisation notice withdrawn.

Level 2 Credit Default

The Level 2 Credit Default is initiated if your CCP becomes greater than 90%. Provided that an authorisation notice (as described above) has been issued by ELEXON (and not withdrawn) you will be in Level 2 Credit Default immediately.

Default Cure Period

It is possible that you breach the 90% threshold before the Level 1 Query Period and/or Default Cure Period have expired and therefore the authorisation notice has not been issued. In this circumstance a Level 2 Default Cure Period will apply, provided your CCP has not breached 100%. A Level 2 Default Cure Period will last until 1200hrs following the expiry of the Level 1 Query Period; unless this falls on a non Business Day, in which case it would expire at 12pm on the next Business Day following the expiry of the Level 1 Query Period. If your CCP does breach 100% at any time, an authorisation notice will be issued by ELEXON and you will be in Level 2 Credit Default.

Refusal and Rejection Periods

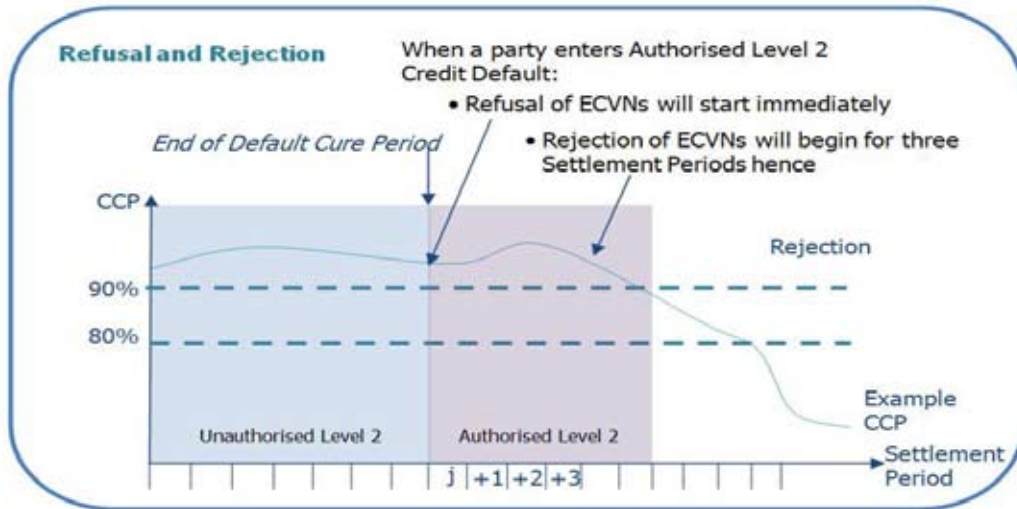
The consequences of Level 2 Credit Default are that a notice is published on the BMRA website, and Volume Notifications will be refused and/or rejected as follows:

- any Energy Contract Volumes Notifications (ECVNs) or Meter Volume Reallocation Notifications (MVRNs) that are submitted and which would increase (or not decrease) Energy Indebtedness at any point in the future will be **refused**
- any Energy Contract Volumes or Meter Volume Reallocations that have been previously notified and which increase Energy Indebtedness for the upcoming Settlement Period will be **rejected**, and the counter-parties to the notification are informed by the ECVA.

Energy Contract Volumes and Meter Volume Reallocations that increase Energy Indebtedness are those which represent the sale of energy by one Trading Party to another Trading Party, and make the first Trading Party's Account Energy Imbalance Volume shorter. As future System Buy or System Sell Prices are unpredictable there is no way of knowing whether new ECVNs or MVRNs containing both sales and purchases will, overall, increase or decrease financial indebtedness. Therefore if an ECVN or MVRN represents the sale of energy in any Settlement Period, it is refused.

For previously notified ECVNs and MVRNs, the Energy Contract Volumes or Metered Volume Reallocations are rejected one Settlement Period at a time. However, rather than reject these for the Settlement Period for which Gate Closure has just elapsed, they are rejected for three Settlement Periods later. This gives the counter-party, who will otherwise be left short by the cancellation of a Volume Allocation in their favour, a limited time in which to re-contract with a different, non-defaulting Trading Party.

You will no longer be in Level 2 Credit Default when your CCP becomes less than 90%. At this point, the notice will be removed from the BMRA website.



How is Credit Default Linked to Payment Default?

You may be in Level 1 or Level 2 Credit Default but continue to pay your Trading Charges when they are due i.e. you are in Credit Default but not Payment Default. While not causing any bad debt to other BSC Parties, a Trading Party with a CCP of more than 100% is a risk to other BSC Parties because if it does stop paying invoices, it is unlikely to have sufficient collateral to cover its debts. Consequently there would be a risk that the Trading Party's debts might not be recovered, and would have to be recovered, instead, from all other Trading Parties.

How is Credit Default Linked to Section H Default?

Section H of the BSC sets out the rules relating to default under the BSC and includes details of how a BSC Party can become a Defaulting Party. Although the general defaulting provisions are much wider than just Credit Default, Section H does cover instances where prolonged Credit Default can result in a BSC Party becoming a Defaulting Party.

A BSC Party in Credit Default can, in the following circumstances, become a Defaulting Party under the general provisions in Section H of the BSC if that Party:

- has been in Level 1 Credit Default for 90 continuous days or an intermittent period of 120 days out of 180
- has been in Level 2 Credit Default for 60 continuous days or an intermittent period of 75 days out of 120
- has been in Level 2 Credit Default with a Credit Cover Percentage greater than 100% for more than two working days
- has breached 100% Credit Cover Percentage six times within a rolling period of six months on separate days and as a result of separate instances.

Where a BSC Party becomes a Defaulting Party as a result of one of the above Credit Default scenarios, the BSC Panel may take a number of steps including withdrawing the right to be party to any notifications, potentially de-energisation and expulsion from the BSC.

Further Information

Further information on this subject is contained in BSC Section M 'Credit Cover and Credit Default' and BSC Section P 'Energy Contract Volumes and Metered Volume Reallocations'.



Your feedback helps us improve our communications. Please email communications@elexon.co.uk if you have any comments on this document or suggestions for other publications.

Intellectual Property Rights, Copyright and Disclaimer

The copyright and other intellectual property rights in this document are vested in ELEXON or appear with the consent of the copyright owner. These materials are made available for you for the purposes of your participation in the electricity industry. If you have an interest in the electricity industry, you may view, download, copy, distribute, modify, transmit, publish, sell or create derivative works (in whatever format) from this document or in other cases use for personal academic or other non-commercial purposes. All copyright and other proprietary notices contained in the document must be retained on any copy you make.

All other rights of the copyright owner not expressly dealt with above are reserved.

No representation, warranty or guarantee is made that the information in this document is accurate or complete. While care is taken in the collection and provision of this information, ELEXON Limited shall not be liable for any errors, omissions, misstatements or mistakes in any information or damages resulting from the use of this information or action taken in reliance on it.