

ELEXON

P469 'Credit Default Refusal and Rejection Period Modification'

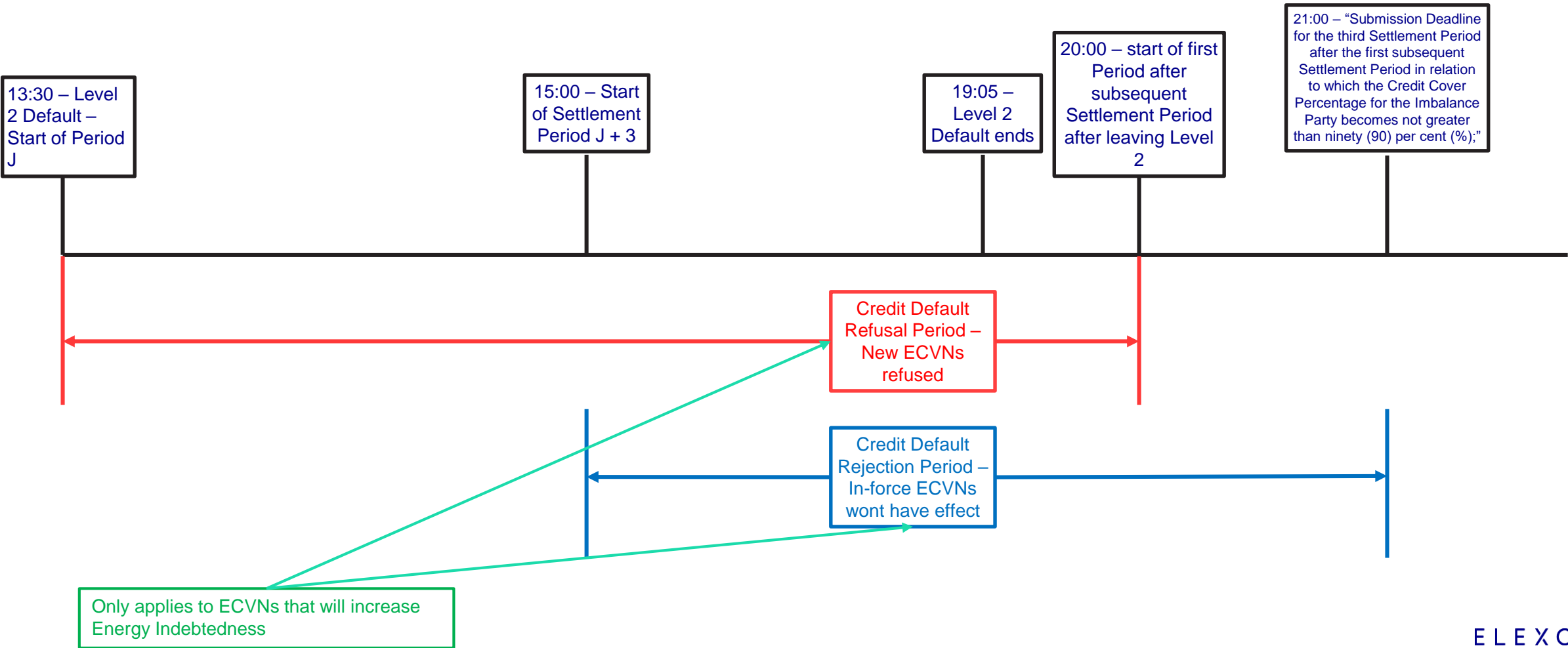
348/08 – Cecilia Portabales (Elexon) &
Francois Gonsior (European Commodity
Clearing)

14 March 2024

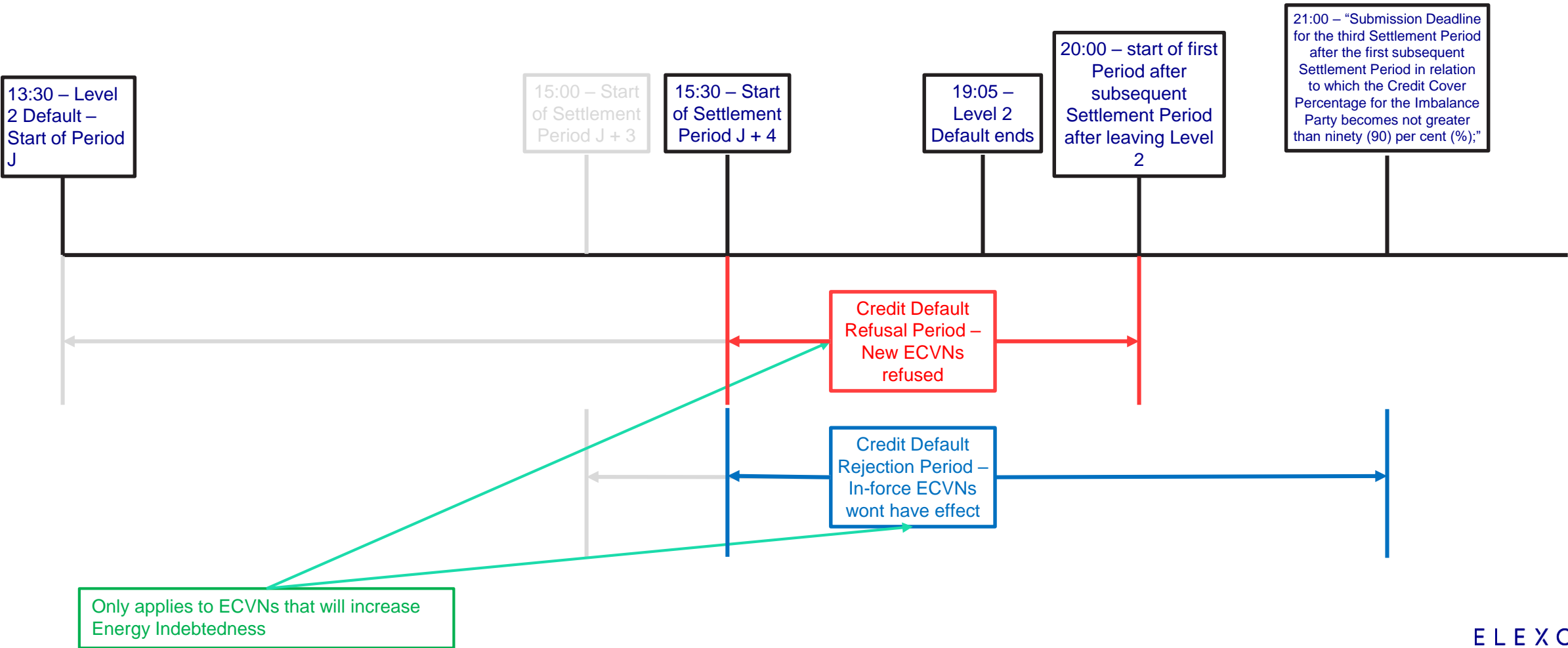
Issue

- At the moment, Energy Contract Volume Notifications (ECVNs) and Metered Volume Reallocation Notifications (MVRNs), including those previously submitted and accepted, can be refused and rejected without prior notice to counter-parties involved in the trade
- The risk of the defaulting party is packed onto the counterparty of the defaulting party unable to use market mechanisms to get rid of this risk
- This Modification follows on from discussions held as part of [Issue 106 'Review of BSC Credit Cover Arrangements'](#) which made a recommendation that a Modification be raised to modify the Credit Default process by delaying the rejection/refusal of any ECVNs & MVRNs after a Party has entered authorised Level 2 Default
- Alongside this modification, Elexon has raised [Issue 110 'Modernising ECVN/MVRN submission and acknowledgement processes'](#) on 11 January 2024 to review how ECVN are currently submitted and to find potential ways to improve the system

Existing Arrangements (ECVNs also = MVRNs)



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Solution

- The proposed solution is to delay the Refusal and Rejection of ECVNs both to four Settlement Periods (ECVNs refused at the start of Settlement Period J+4 instead of Period J, and rejected at J+4 instead of J+3)
- This change would give parties a two-hour window from the Level 2 Credit Default notification until the time when any ECVNs related to the defaulting party are rejected
- Implementation of this solution would require changes to [BSC Section M, 3.3.3 a \(i\) & BSC Section M, 3.3.3 a \(ii\)](#)

Justification against BSC Objectives

- The Proposer expects this Modification to have a positive impact on BSC Applicable Objective (c) and (d)
- Due to risk mitigation obligations for European regulated Clearing Houses, the risk mentioned in the issue has to be covered by margins and limits and thus dampening trading and by that also competition among the trading parties
- The current setup does not allow for a proper reaction time to the event of a default for the non-defaulting counterparty, the additional given time is after the analysis of Elexon very small additional risk (if any) for a huge operational gain, meaning a strong increase of operational effectiveness of the BSC

P469: Areas to consider and Workgroup membership

- In addition to the standard Workgroup's Terms of Reference, we aim to verify with the Workgroup:
 - Does P469 overlap with Issue 110 in terms of implementations regarding changes to ECVAA?
 - Does P469 give advantage to one class of BSC Party i.e the Panel Objectives?
 - Whether there needs to be a caveat for Parties entering a Supplier of Last Resort procedure?
 - Should the end of the Refusal and Rejection period be amended too?
- Elexon suggests that the assessment of this Modification Proposal requires knowledge in:
 - Electricity Trading arrangements;
 - ECVN and MVRN submission processes and industry practices; and
 - Issue 106

P469: Proposed Progression

- As the solution was initially discussed during Issue 106, we believe that this modification can be progressed with a truncated timeline:

Event	Date
Workgroup Meeting 1	W/C 15 April 2024
Workgroup Meeting 2 (if required)	W/C 13 May 2024
Assessment Procedure Consultation (10 WDs)	28 May 2024 – 11 June 2024
Workgroup Meeting 3	W/C 24 June 2024
Present Assessment Report to Panel	11 July 2024
Report Phase Consultation (15WDs)	15 July 2024 – 30 July 2024
Present Draft Modification Report to Panel	08 August 2024

P469: Impacts & Costs

Organisation	Implementation (£)	On-going (£)	Impacts
Elexon	Low	None	• Potential change to Section M
BSC Agents	Low	None	• ECVAA - parameter change and testing
Trading Parties	Low	None	• L – implementation impacts are minimal
Generators	Low	None	• L – implementation impacts are minimal
Total	Low		

No impacts anticipated on:

- NETSO
- Settlement Risks
- MHHS
- EBGL
- Configurable items
- SCR – Ofgem granted the SCR exemption on 7 March 2024

P469: Recommendations

We invite the Panel to:

- a) **AGREE** that P469 progresses to the Assessment Procedure;
- b) **AGREE** the proposed Assessment Procedure timetable;
- c) **AGREE** the proposed membership for the P469 Workgroup; and
- d) **AGREE** the Workgroup's Terms of Reference.