

# ELEXION

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**P469 Credit Default Refusal and Rejection  
Period Modification**

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Meeting 1

8 May 2024

# Meeting Agenda

Objectives for this meeting:

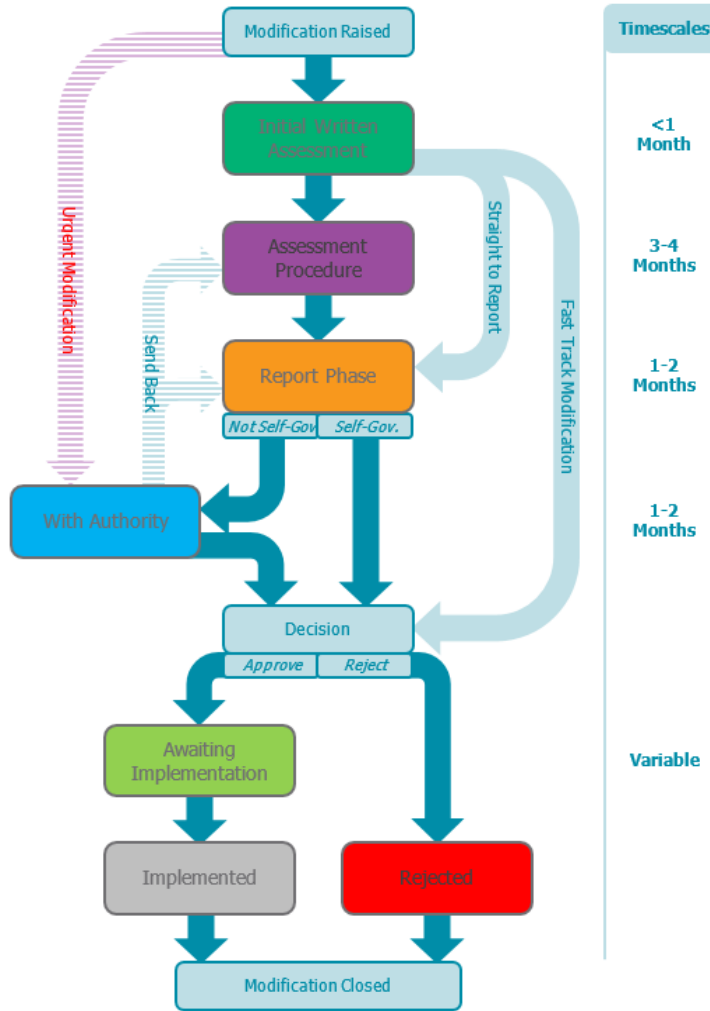
- Introduction and explanation of the BSC Modification process
- Explanation of the issue and proposed solution
- Review of ToR and Workgroup discussion

Agenda Item	Lead
1. Welcome and meeting objectives	Patrick Matthewson (Chair)
2. BSC Modification Process	Cecilia Portabales (Lead Analyst)
3. What is the issue	Francois Gonsior - ECC (Proposer)
4. What is the proposed solution	Francois Gonsior & Chris Wood (Market Design)
5. ToR review	Cecilia Portabales & Chris Wood
6. Workgroup discussion	Patrick Matthewson and Workgroup
7. Next Steps	Cecilia Portabales
8. Meeting close	Patrick Matthewson



# BSC MODIFICATION PROCESS

## BSC Modification Process - Intro

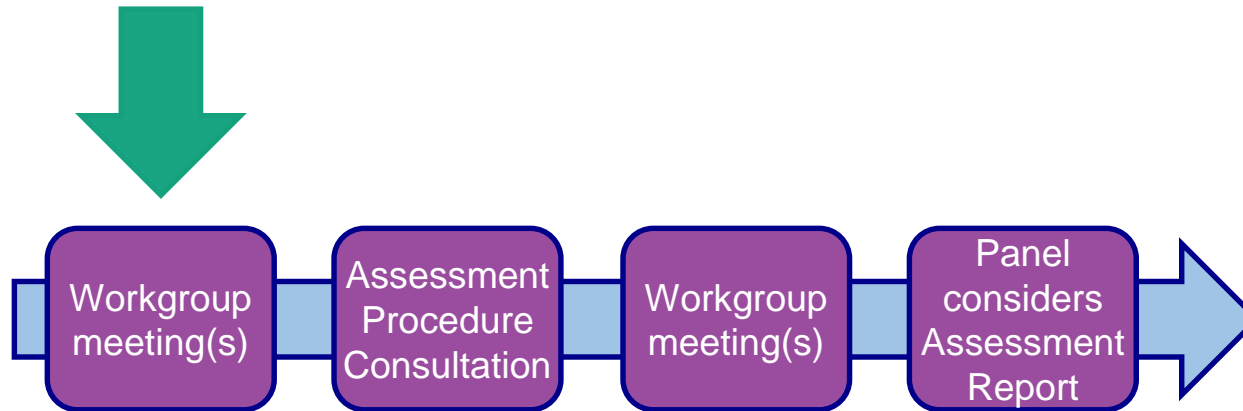


- The flow diagram shows all iterations of the Modification Process
- P469 plans to follow the standard route for Modifications (i.e., not Urgent, Straight to Report or Fast Track)
- For P469, the Panel approved a 2 months Assessment Procedure. The aim is to have 1 Workgroup meeting
- P469 so far:
  - Modification Proposal raised by ECC on 29 February 2024
  - Initial Written Assessment presented to the BSC Panel on 14 March 2024
  - Terms of Reference (ToR) agreed by the BSC Panel on 14 March 2024

# Where are we in the Assessment process?

- The role of the Workgroup is to assist the Proposer in developing the most appropriate solution, answer the Terms of Reference set by the BSC Panel and consider the costs and impacts of making the change

We are here







# P469 MODIFICATION PROPOSAL

- 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 lower the 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'](#) , due to the lack of performance on ECVAAs to process ECVNs and issue Acknowledgements in a timely manner, which is an additional problem in terms of visibility.

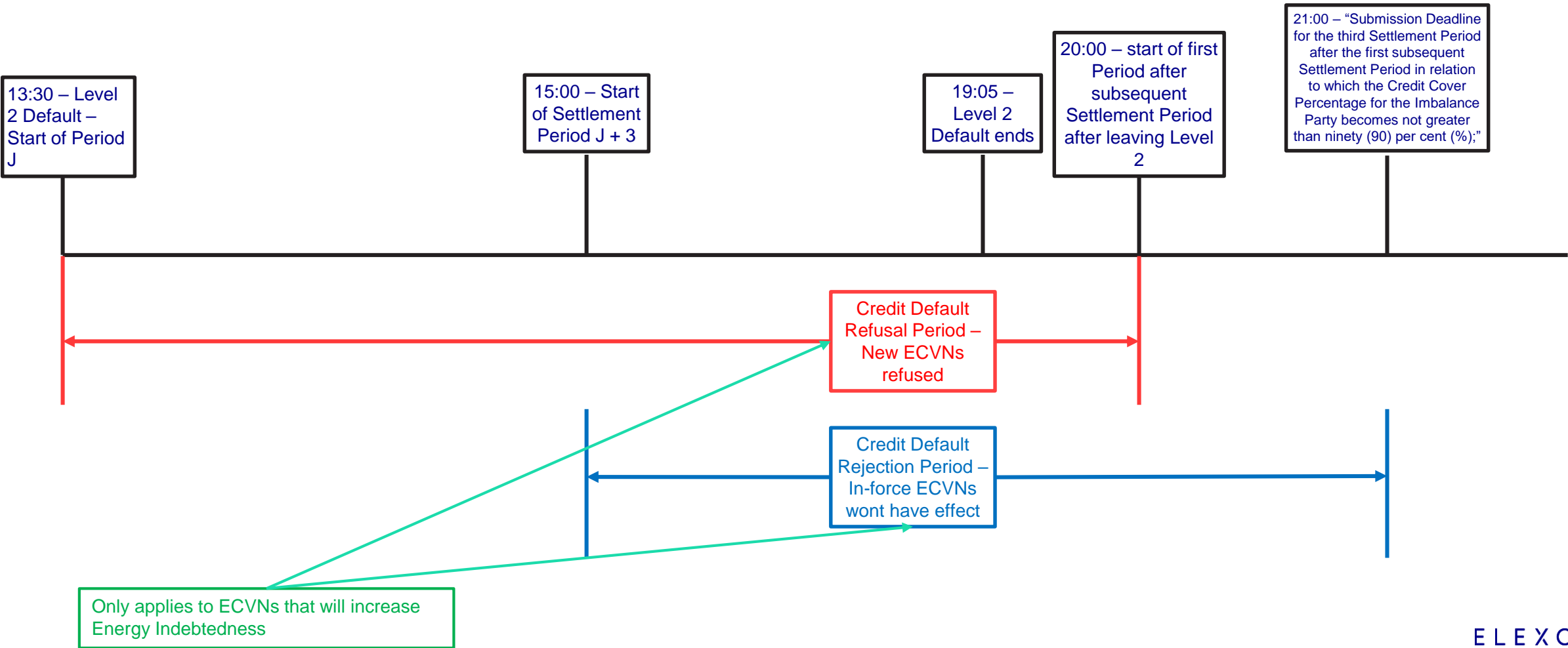
## Solution

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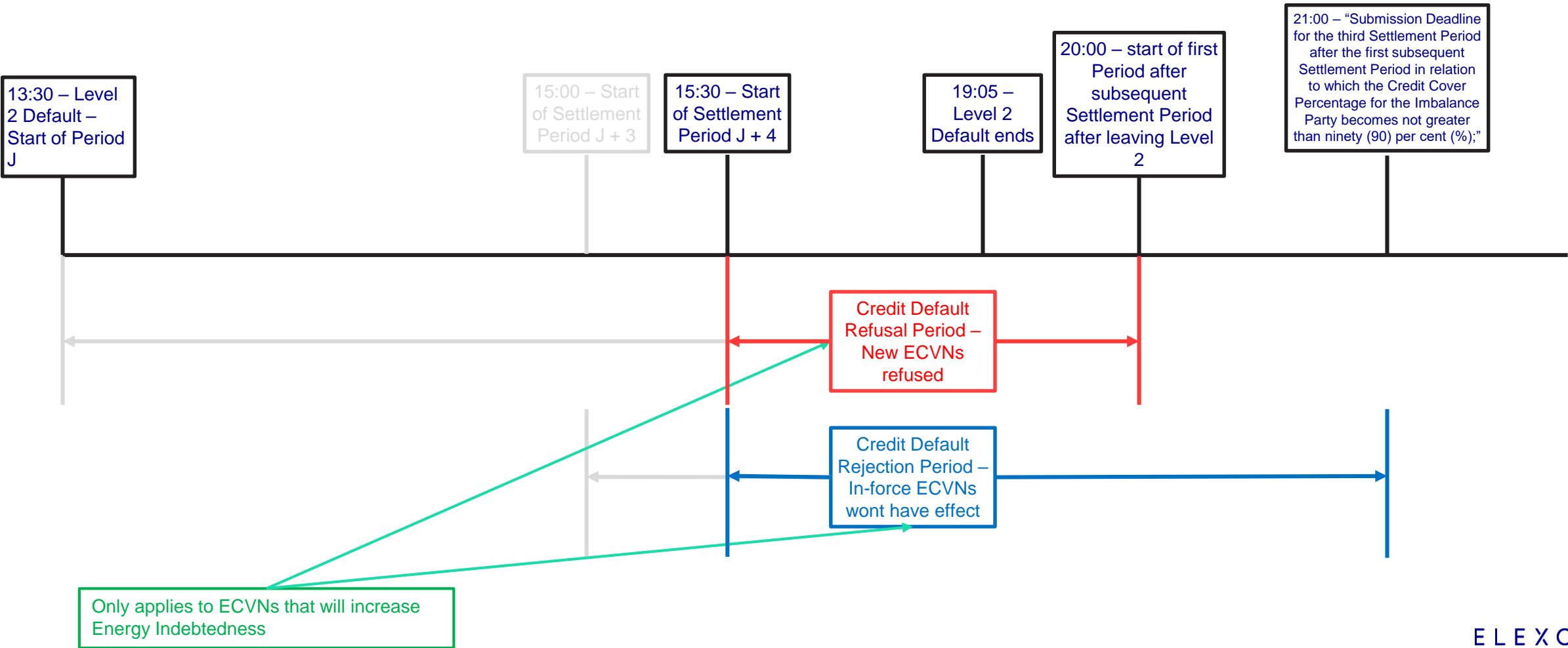
- The proposed solution is to delay the Refusal and Rejection of ECVNs both to four Settlement Periods (ECVNs refused at the start of Settlement Period J+4 instead of Period J, and rejected at J+4 instead of J+3).
- This change would give parties a two-hour window from the Level 2 Credit Default notification 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 \(ii\)](#)



# Existing Arrangements (ECVNs also = MVRNs)



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## P469: Impacts & Costs

Organisation	Implementation (£)	On-going (£)	Impacts
Elexon	Low	None	• Changes to Section M
BSC Agents	Low	None	• EVAA - 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



# WORKGROUP TERMS OF REFERENCE

# P469 specific ToR

ToR	Details
a)	Does P469 overlap with Issue 110 in terms of implementations regarding changes to ECVAAs?
b)	Does P469 give advantage to one class of BSC Party, i.e. the Panel Objectives?
c)	Whether there needs to be a caveat for Parties entering a Supplier of Last Resort procedure?
d)	Should the end of the Refusal and Rejection period be amended too?
e)	Is there any impacts to interconnectors' nomination windows? In principle, the only moment when Credit Default Rejection/Refusal period becomes relevant for interconnectors is when one is defaulting.
f)	Analyse potential risk impacts on BSC Parties that are at risk of defaulting. Are we transferring the risk from one market to another? If we are, what is the size of it?



# P462 standard ToR

ToR	Details
g)	Does P469 impact on the consumer benefit criteria?
h)	How will P469 impact the BSC Settlement Risks?
i)	What changes are needed to BSC documents, systems and processes to support P469 and what are the related costs and lead times? When will any required changes to subsidiary documents be developed and consulted on?
j)	Are there any Alternative Modifications?
k)	Should P469 be progressed as a Self-Governance Modification?
l)	Does P469 better facilitate the Applicable BSC Objectives than the current baseline?
m)	Does P469 impact the EBGL provisions held within the BSC, and if so, what is the impact on the EBGL Objectives?



# SPECIFIC TOR WORKGROUP DISCUSSION

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## ToR a) Does P469 overlap with Issue 110 in terms of implementations regarding changes to ECVAA?

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- Issue group 110 is concerned with ECVAA performance and specifically acknowledges the speed of ECVNs
- Even with lower acknowledgement times, the window for reaction to a default is too small to act
- In conclusion – no overlap with issue group 110

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## ToR b) Does P469 give advantage to one class of BSC Party, i.e. the Panel Objectives?

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- Not a specific class. Any Party that is a counterparty to a defaulting Party will benefit from P469
- There is no change to principles, just a change to the timings

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## ToR c) Whether there needs to be a caveat for Parties entering Supplier of Last Resort (SOLR)

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- The process for entering default is not changing
- Initial indicator of potential SOLR is entering L2 Default – this will still happen
- The defaulting party may be able to benefit from this arrangement – being able to ‘trade-out’ any future imbalance
- P469 is aimed at counter-parties not having residual impact
  - This will apply when defaulting party is on their way to SOLR, via the L2 default process

Elexon conclusion – no need for SOLR caveat



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## ToR d) Should the end of the Refusal and Rejection period be amended too?

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- An ECVN submitted during the Refusal Period will be treated as refused and will not become effective where:
  - (a) a relevant ECVN is in force; and
  - (b) either of the Parties is in L2 Default.
- Such ECVN will be rejected, and will have no effect for the Settlement Period(s) for which Gate Closure falls within the Rejection Period
- A relevant ECVN is one which, if in force and not treated as rejected, would have the effect of increasing the Energy Indebtedness of the Party in L2 Default for that Period
- From example above:
  - Refusal Period– ends at 2000 (start of Period 41) – when new ECVNs/MVRNs for P41 and P42 for are refused
  - Rejection Period– ends at 2100 (start of Period 43) – when in force ECVNs/MVRNs have no effect on Energy Contract Volume Data (volume used in Trading Charges and ergo Energy Indebtedness calculations)
  - ECVNs/MVRNs submitted for P43 onwards will be accepted
- Unclear why there isn't alignment – could align?

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## ToR e) Is there any impacts to interconnectors' (ICs) nomination windows?

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- In principle, the only moment when Credit Default Rejection/Refusal period becomes relevant for interconnectors is when one is defaulting
- Interconnector have separate rules for calculation of CEI (first 2WD), but same as other Credit Qualifying BM Units i.e
  - MVRN is used in the CEI calculation, so will allow ICs the ability to trade-out their position if impacted
- BSC Section T 4.1 specifically deals with 'Treatment of Interconnector BM Units' in terms of BM Unit Metered Volume
  - ECVN/MVRN data is not used
  - No other reference to special requirements for Interconnectors in respect of Trading Charges and therefore Energy Indebtedness

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**ToR f) Analyse potential risk impacts on BSC Parties that are at risk of defaulting.** Are we transferring the risk from one market to another? If we are, what is the size of it?

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- We are not transferring the risk from one market to another but implementing a mitigation measure
- This change will reduce the subsequent risk of the counter-party defaulting as they have more time to trade-out their position
- While it will primarily benefit the Power Exchanges, it apply equally to all Trading Parties
- By reducing Energy Indebtedness, the amount of Credit Cover could reduce, therefore reducing the value of cover notes and the amount of interest paid on those cover notes – thus freeing up cash flow
- If a Trading Party is able to reduce their Imbalance (and therefore Energy Indebtedness) then it reduces the overall risk in the market (albeit very slightly) of a default occurring and as such, reduced risk of socializing costs

## Issue 106's Analysis of the impact to delaying the Rejection of ECVNs

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- Analysis looked at genuine instances of Level 2 Credit Default within the last 12 months and what the impact would be in each scenario if rejection of ECVNs were delayed by one Settlement Period.
- As the proposal is to delay the rejection of ECVNs by a further Settlement Period (ECVNs rejected at J+4 instead of J+3), The value of impact is determined by what ECVN volume is seen on J+3 from the period in which the Party entered level 2 Default. ECVN volume at J+3 would no longer be rejected under new proposal and would be 'permitted' to enter Settlement within the Credit calculation.
- A theoretical example was also looked at using the maximum ECVN volume seen for a tier 1 supplier. This would provide a view on what the maximum impact would likely be on the BSC if the rejection of this ECVN was delayed.

## Instances of Credit Default within the last 12 months

	<u>Party Type</u>	<u>Date entered Credit Default</u>	<u>Reason for Credit Breach/Default</u>	<u>Length of Default (Hours)</u>	<u>Length of Default (Settlement Periods)</u>	<u>Impacted Volume (Mwh)</u>	<u>Value of Impact (£)</u>	<u>How the Default was resolved</u>
1	Non-Physical Trader/Interconnector User	29th December 2022	Breach occurred between the Christmas and New Year holiday periods.	22.5	46	0.15 Mwh	16	Party lodged additional Credit Collateral to clear Default
2	Supplier	31st December 2022	Breach occurred during the New Year holiday period.	82.5	164	8 Mwh	840	Party lodged additional Credit Collateral to clear Default
3	Wind Farm Generator	4th April 2023	Breach occurred a week before the Easter bank holiday period.	2	4	No Contract Volume was Rejected as Party had no net contracted volumes which increased the energy indebtedness within the first 5 Settlement Periods of Default commencing		Party Cleared the Default by naturally reducing it's indebtedness position
4	Non-Physical Trader/Interconnector User	12th April 2023	Breach occurred during the Easter holiday period.	9.5	19	No Contract Volume was Rejected as Party had no net contracted volumes within the first 7 settlement Periods of the Default commencing		Party lodged additional Credit Collateral to clear Default
5	Non-Physical Trader	24th August 2023	General Credit Breach over 80% indebtedness	7.5	15	12 Mwh	1,260	Party lodged additional Credit Collateral to clear Default

- 3 out of the 5 instances of Credit Default were during bank holiday periods where the ratio between the number of CEI, MEI & AEI days vary within the credit calculation.
- None of the Defaults were as a result of Section H SoLR events, and hence as a result of a Party failing or trading at 100% imbalance and subject to high system prices.
- 2 Parties had no ECVN volumes rejected on J+3 as they either had no net contracted volumes which increased the energy indebtedness, or no net contracted volumes at all.



## Example Scenario

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### Tier 1 Supplier Example

- If we used an example of a Tier 1 supplier and looked at the highest ECVN volume over a period of the last 12 months, we can see the following.

Highest Energy Contract Volume in a single Settlement Period over last 12 months was in January 2023 = **1,678 Mwh**  
Using a Current CAP value of £105/Mwh, the total contracted volume in a value amount = **£176,190**

- This is not a single ECVN for the Settlement Period, rather the net sum amount of ECVN trades within that Settlement Period.
- This represents the biggest period loss that we would have seen over the last 12 months if rejection of ECVN's were to be delayed by a further Settlement Period.

## Summary Of Analysis

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- The analysis gives an estimated value of impact. We use the CAP value as it gives a proxy for system prices, however it is difficult to know the true value of impact on trading counter parties.
- The process is doing what was intended in that the incentive to resolve the Default promptly is there. The measure of incentive is instances of where Parties have avoided entering Credit Default.
- Given we class material impacts in Settlement at a minimum of £3000, none of the examples exceed the materiality level deemed to be of significant value.
- From previous examples seen, and even when considering the biggest period loss using the example of a Tier 1 supplier, the overall impact on the BSC is low, and when compared to the benefits of delaying the rejection of ECVNs for liquidity in trading between counter Parties and limiting utilisation of collateral outside of the BSC, it represents a small risk.
- The threat of entering Credit Default level 2 is prominent and by delaying the rejection of ECVNs by one further Settlement Period will bring benefits to Counter Parties as it allows greater control and opportunity to terminate ECVN's with any Defaulting Party that may impact their own position.
- Delaying the rejection and refusal of ECVNs will be of benefit to all Counter Parties so as to mitigate as much as possible its risk of trading with another Party that is in Default.
- There is also a big difference to the many BSC Parties that utilise the power exchanges and the benefits of increased competition in short term trading and for Counter parties to reduce risk of exposure.
- There is an administrative effort involved in changing the guidance documentation and updating the BSC. However the change to the system should be relatively simple in that we are changing the parameters that already exist.



# STANDARD TERMS OF REFERENCE

## ToR g) Does P462 impact on the consumer benefit criteria?

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- Consumer benefit criteria:
  - Improved safety and reliability - NEUTRAL
  - Lower bills than would otherwise be the case – **POSITIVE** – reducing risk for market parties or costs in terms of liquidity for risk coverage are reduced potentially generating savings to pass through to consumers.
  - Reduced environmental damage - NEUTRAL
  - Improved quality of service - NEUTRAL
  - Benefits for society as a whole - NEUTRAL

## ToR h) How will P469 impact the BSC Settlement Risks?

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- Elexon believes that P469 is unlikely to have a negative impact on Settlement Risks
- Settlement Risk 30: ECVAA Processes – This is the risk that ECVAA does not carry out processes correctly, such that output files are inaccurate
  - With this Risk in mind, the current system incentivises rushed actions within certain situations, which may increase the chances of a process failure
  - A change to allow for more time would be beneficial in this case as it is likely to increase the chance that the process is completed accurately and correctly



## ToR i) What changes are needed to BSC documents, systems and processes to support P469?

- P469 aims to modify [BSC Section M, 3.3.3 a \(i\) and \(ii\)](#)
  - (a) for the purposes of the provisions of [Section P](#) as to the refusal and rejection of Energy Contract Volume Notifications and Metered Volume Reallocation Notifications, subject to [paragraph 3.3.5](#):
    - (i) the "**Credit Default Refusal Period**" is the period from the Submission Deadline for Settlement Period J+4 until the Submission Deadline for the Settlement Period after the first subsequent Settlement Period in relation to which the Credit Cover Percentage for the Imbalance Party becomes not greater than ninety (90) per cent (%);
    - (ii) the "**Credit Default Rejection Period**" is the period from the Submission Deadline for Settlement Period J+34 until the Submission Deadline for the third Settlement Period after the first subsequent Settlement Period in relation to which the Credit Cover Percentage for the Imbalance Party becomes not greater than ninety (90) per cent (%);

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# ToR j) Are there any Alternative Modifications?

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Workgroup discussion

## ToR k) Should P469 be progressed as a Self-Governance Modification?

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- For a Modification to proceed as Self-Governance needs to:
  - **NOT** impact the EBGL Article 18 terms and conditions, except from Housekeeping changes
  - Is **unlikely** to have a material effect on:
    - i) Consumers
    - ii) Competition
    - iii) NETSO; and
    - iv) sustainable development, safety or security of supply, or the management of market network emergencies; and
    - v) The Code's governance procedures or modification procedures; and
    - vi) Is unlikely to discriminate between different classes of Parties.
- When a Mod meets the Self-Governance criteria, it is not send to Authority for Decision
- Since **P469** has a material effect on Competition, **it cannot progress as a Self-Governance Modification**

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## ToR I) Does P469 better facilitate the Applicable BSC Objectives than the current baseline?

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- The Proposer expects this Modification to have a positive impact on **BSC Applicable Objective (c) and (d)**
- Reducing the Risk of being not able to react to a default from a counterparty allows companies to find a new counterparty and this reduces financial costs and thus strengthens the overall competition (If you price in the risk its bad because you have higher costs, if you don't you will fall on your nose once it happens)
- The current setup does not allow for a proper reaction time to the event of a default for the non-defaulting counterparty, meaning a strong increase of operational effectiveness of the BSC

### Applicable BSC Objectives

- (a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence
- (b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System
- (c) Promoting effective competition in the generation and supply of electricity and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity
- (d) Promoting efficiency in the implementation of the balancing and settlement arrangements
- (e) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency [for the Co-operation of Energy Regulators]
- (f) Implementing and administrating the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation
- (g) Compliance with the Transmission Losses Principle

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## ToR m) Does P469 impact the EBGL provisions held within the BSC?

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- Section M is not mapped on the [BSC Section F-2](#) as the BSC provisions identified as constitutive of the EBGL Article 18 terms and conditions
- Hence, P469 is not believed to impact EBGL





# NEXT STEPS

# Progression plan

Event	Date
Present IWA to Panel	14 March 2024
<b>Workgroup meeting 1</b>	<b>8 May 2024</b>
Workgroup meeting 2	If needed
Assessment Procedure Consultation (15WDs)	27 May 2024 – 14 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