

# BSC Change Business Requirements

P385

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# BSC CHANGE BUSINESS REQUIREMENTS

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## Document History

Date	Version	Author	Reviewers	Description
20/06/2019	0.1	IM	DC	Initial draft
25/06/2019	0.2	IM	RH	Incorporated comments and further developed BRs and current/future state.
16/7/2019	0.3	IM	RH, NB, LJ	Amendments following finalisation of the P385 solution.
30/7/2019	1.0	IM	JA	Final draft

## Approvals

Date	Name	Role
30/07/2019	Justin Andrews	Head of Design Authority

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# BSC CHANGE BUSINESS REQUIREMENTS

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## 1. INTRODUCTION

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### 1.1 Purpose

The BSC Change Business Requirements document is produced as part of the 'End to End BSC Change Process' during the BSC Change Assessment process. It is produced in line with ELEXON's standards for Business Analysis.

The purpose of this document is to communicate the Business Requirements of BSC Change P385 to industry members and service providers. It enables an initial impact assessment to be carried out by a Service Provider.

In addition it describes the anticipated impact on BSCCo (people, processes and systems), the BSC, Code Subsidiary Documents, and other Configurable Items.

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## 2. BSC CHANGE SUMMARY

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### 2.1 BSC Change P385 Problem Statement

The BSC Panel has the ability to take mitigating action and provide financial protection when an Event of Default is triggered, but the current arrangements in BSC Section H 'General' are overly complex and prolong the period before an Event of Default is declared until it is often too late.

The frequency of BSC Parties failing to pay their debts and, as a consequence defaulting on the BSC, has increased in 2018. This results in greater exposure to unpaid Trading Charges; which are then mutualised across other BSC Parties. After a period of 10 years without a Supplier of Last Resort event, there was a single occurrence in 2016 followed by 7 events in 2018 and by 3 in 2019 at the time of writing.

The current timescales for escalating a Party to the point where an Event of Default is triggered means that mitigating action by the Panel is delayed. It is important to take action promptly to minimise costs to industry through Default Funding Shares which are ultimately passed on to the consumer.

Therefore, when a Party in financial difficulty has been identified, the BSC Panel should have the opportunity to apply Consequences of Default, as available in [BSC Section H 'General'](#) paragraph 3.2, as early as possible. This will allow failing Parties be promptly identified to the BSC Panel and the wider Industry, potentially allowing the Panel to restrict the Parties activities and risks to counterparties.

Because of this, it is impossible to change the thresholds for triggering Events of Default without raising a Modification, for which the timescales can be lengthy.

There is a an opportunity to make the information related to the thresholds for triggering existing Events of Default more readily available in a more timely and accessible manner by removing these parameters from the Code. Its proposed that these are set by the Panel instead, with Parties consulted on any change to the parameters. This has an additional benefit of making the arrangements more flexible in an increasingly volatile and unpredictable market by speeding up the process of changing these parameters.

Moving this detail out of Section H would enable a more agile and responsive response to changing market conditions by the Panel in the setting of rates for Events of Default, allowing them to consult with industry and set appropriate rates without the need for a modification in order ensure that Section H Default provisions remain efficient and effective.

### 2.2 BSC Change P385 Objectives

By amending and simplifying the criteria for what triggers Events of Default this will more promptly identify failing Parties to the BSC Panel and facilitate appropriate mitigating action.

### 2.3 BSC Change P385 Scope

P385 will make amendments to BSC Section H 'General' Section 3 'Default' subsection 3.1 'Events of Default'

### 2.4 References

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Document	Author	Date
P385 Initial Written Assessment	IM	1 April 2019

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## 3. BUSINESS REQUIREMENTS

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### 3.1 Current State (As-Is situation)

Under the BSC arrangements, payments by Trading Parties for Trading Charges arising on any particular Settlement Day are typically made 29 calendar days later, due to the availability of metering data from Settlement Runs.

Thus, at any given time, Parties may have debts (or be due payments) for Trading Charges incurred 29 days earlier plus all intervening days.

Each Party is therefore required to lodge Credit Cover to cover this period, to ensure that, should it default, there is sufficient collateral available to pay off its debts.

### Triggering an Event of Default

BSC Section H 'General' paragraph 3.1 covers Events of Default relating to seven scenarios. Once an Event of Default is triggered the BSC Panel can choose to apply the Consequences of Default, often referred to as 'Panel Resolutions', described under paragraph 3.2 of BSC Section H. Until an Event of Default is triggered, the BSC Panel are unable to take action.

Where an Event of Default has occurred, it is resolved immediately on remedy of the Credit or Payment Default.

Where a Level 1 or Level 2 Credit Default occurs the BSC allows this to persist for a number of consecutive or intermittent days before an Event of Default is triggered.

- Level 1 Credit Default can persist for a continuous period of 90 days or an intermittent period of 120 days out of 180 days.
- Level 2 Credit Default can persist for a continuous period of 60 days or an intermittent period of 75 days out of 120 days.
- Currently, a Party that is in Level 2 Credit Default with a Credit Cover Percentage that has exceeded 100% for 2 Working Days will trigger an Event of Default.

Recurrent events of Credit Default are described as a Relevant Credit Default Series which is an Event of Default under BSC Section H 3.1.1. (c) (iv). The Party must be in Level 2 Credit Default with a Credit Cover Percentage exceeding 100% on 5 occasions in 6 months with a cooling off period of 2 Working Days between events.

### Consequences of Default

ELEXON perform a number of monitoring processes to identify Events of Default. Where an event has been identified, information is gathered on the Party and its performance. The information is summarised in paper and presented to the Panel. This can be at the next scheduled monthly meeting or an urgent meeting held specifically to consider the Event of Default.

Where a BSC Party has an Event of Default presented to the Panel, they are invited to make representation to the Panel prior to and resolutions being set. The "Panel Resolutions" are described in the BSC as Consequences of Default and are special measures available to the Panel to mitigate the risks associated with an Event of Default.

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It is important to note that Consequences of Default are not automatically triggered by an Event of Default but are options available to use at the Panel's discretion.

After the Panel has considered the case, it may take one or more of these steps, detailed in Section H 3.2 'Consequences of Default'. It may apply these resolutions in part or completely, effective from the Settlement Period it chooses and can review these at any time.

The Panel may:

- notify other Parties of the Default;
- suspend the Party's right to submit contracts and/or disapply existing contracts. The Panel may only disapply contracts that place the Party in further debt;
- suspend the Party's right to be allocated Metered Volumes to its Interconnector BM Units;
- suspend the Party's right to submit Bid-Offer Pairs. ELEXON will consult with National Grid on this action;
- suspend the Party's right to register further Metering Systems and BM Units;
- suspend the Party's right to vote in BSC Panel elections and/or the right to receive reports and data. ELEXON can provide reports where appropriate;
- require the Defaulting Party to de-energise Apparatus associated with their BM Units. The Authority will approve these actions; and/or
- expel the Defaulting Party from the BSC.

When a Default occurs, the Panel will meet to discuss it – sometimes at short notice. ELEXON informs the Defaulting Party or the administrator of the Panel meeting, and they can make representations to the Panel.

The Panel has a duty of care to protect other Parties from the Default and will try to minimise the potential debt. It will consider information that ELEXON provides and consider the impact on the contracted counter Parties, and on the Defaulting Party.

For instance, it may not be in the interests of the industry as a whole, or individual counter Parties, to stop the Defaulting Party from trading immediately.

A short period of time may be necessary for counter-parties to make alternative arrangements to sell their energy, and allowing trading to continue reduces overall exposure for other Parties. The Panel will provide support to the rest of the industry.

## What's the issue?

The current payment rules allow a Party to exhaust its Credit Cover through non-payment before an Event of Default is triggered.

This can delay action until the Credit Cover is exhausted. Running down the Credit Cover can also lead to Credit Default but both Payment Default and Credit Default have a lag time to trigger an Event of Default and there is an opportunity to identify them earlier.

For Credit Default, a Level 1 Credit Default can persist for around six months prior to triggering an Event of Default, resulting in restrictive delays in identifying a Party as being in Default of the BSC despite clear indications of the

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Party's financial difficulty and likely inability to pay further debts in the near future. In this event there would be a notice on the BM Reports website whilst the Level 1 Credit Default persists.

In the event of Payment Default, a Party can fail to pay over a number of days as the Credit Cover is used to clear unpaid charges and thus resolving the Payment Default.

By amending and simplifying the criteria for what triggers Events of Default this will more promptly identify failing Parties to the BSC Panel and facilitate appropriate mitigating action.

## Relevant Credit Default Series

Recurrent events of Credit Default are described as an Event of Default under a Relevant Credit Default Series under BSC Section H 3.1.1 (c) (iv). However the complexities of the current provisions for meeting the conditions for triggering this scenario make it difficult for Parties to understand what is expected from them.

Recent Credit Defaults have shown that the triggering of Level 2 Credit Default in cases where the Party has also exceeded 100% Credit Cover Percentage is a reliable indication that a Party is experiencing financial difficulty. However, the complexity of applying the rules to Parties who are already in the process of failing delays remedial action until the opportunity to apply the Consequences of Default and take protective action on behalf of BSC Parties has passed.

## Non-payment of BSSCo Charges

The Payment Default processes related to BSC Trading Charges are described in [BSC Section N 'Clearing, Invoicing & Payment'](#) and this specifies the conditions for Payment Default. In the event of non-payment for a particular Payment Date, a BSC Party is notified of Payment Default at business day+1. If the Payment Default is not resolved by business day+2 the Credit Cover is used to clear the Payment Default. In the event of insufficient Credit Cover being available the Payment Default becomes an Event of Default. Any defaulted amounts are then mutualised across non-Defaulting Parties in accordance to their market share.

Under current arrangements, there is a 15-day notice period following non-payment of BSSCo charges before an Event of Default is triggered. This 15-day period provides an generous window in which Parties can delay payment of BSSCo Charges before triggering an Event of Default.

## Parties entering Administration

There have been several recent instances of Parties publicly stating a notice to cease trading. However, as these Parties had not explicitly admitted that they would be unable to pay their debts to ELEXON and had not triggered Events of Default, the Panel have been limited in what actions can be taken, thus allowing the Party to potentially increase its debt to the detriment of other BSC Parties.

Where an Administrator is due to be appointed to a failing Party, the Party is subject to a 14-day notice Period prior to the formal appointment as required by the Energy Act. The BSC does not recognise an Event of Default until the appointment of an Administrator.

By also simplifying the arrangements, BSC Parties will be clearer about how, why and when an Event of Default is triggered and the consequences of doing so.

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## 3.2 Future State

A proposed new Event of Default for Parties will trigger when Parties publically announce they are ceasing to trade. This will allow the BSC Panel to be alerted and able to apply the Consequences of Default in a shorter timeframe than at present.

A new Event of Default will trigger in the event that a BSC Party fails to pay Trading Charges on time on 3 or more occasions in a rolling 30 day calendar period, with payment counted at 9am on D+2. Amounts below the Advice Note Threshold (£500 currently) will not count as an occasion toward this Event of Default

A new Event of Default will trigger in the event that a Party publically announces that they are ceasing to trade.

Currently - Level 1 Credit Default can persist for a continuous period of 90 days or an intermittent period of 120 days out of 180 days. Level 2 Credit Default can persist for a continuous period of 60 days or an intermittent period of 75 days out of 120 days. These triggers for an Event of Default will be reduced from 10 and 5 Working Days respectively, with no intermittent periods.

A Relevant Credit Default Series currently occurs when a Party has breached 100% Credit Cover Percentage 6 times within a rolling period of 6 months on separate days with a cooling off period of 2 days in which Credit Defaults are no longer counted as a result of separate instances. This will be amended so that Relevant Credit Default Series occur upon any Level 1 or 2 Credit Default (i.e. Level 1 or Level 2 with any Credit Cover Percentage). In the event that a Party clears the Credit Default there will be no cooling off period. The number of occurrences will be reduced to 3 occasions in a 6 months rolling period.

As described in BSC section H 3.1.1 (b) (iii) a Party is currently served a default notice on BSSCo charges 15 Business days before an Event of Default is triggered. The 15 Business days notice will be considered and a reduction to 5 Business days is proposed.

Payment Default can be resolved by using the Credit Cover, a claim on the Credit Cover is made where payment is two Business days late. A new Event of Default will be introduced to trigger if the Party defaults on BSSCo charges 3 times in a rolling 12-month period.

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## 3.3 Business Requirements

The following table lists the business requirements for P385. They are prioritised as follows:

'M' = Must have

'S' = Should have

'C' = Could have

'W' = Won't have this time

### Summary of Business Requirements

Number	Title
<b>BR1</b>	Remove detail from Section H 3.1 'Events of Default'
<b>BR2</b>	Place parameters for Event of Default under Panel control
<b>BR3</b>	Introduction of a new 'Payment Default' Event of Default
<b>BR4</b>	Introduction of a new 'Ceasing to Trade' Event of Default
<b>BR6</b>	Relevant Credit Default Series occur upon any Level 1 or 2 Credit Default with no cooling off period
<b>BR7</b>	Amendments to BSSCO Charge Event of Default

Ref. no	Area	Business Requirement	Requirement Category	Priority
<b>BR1 – Remove detail from Section H 3.1 'Events of Default'</b>				
<b>P385- BR1</b>	Code (Legal Text)	Certain Events of Default under the scope of P385 must be amended to remove the exact thresholds for triggering Events of Default and replace them with references to parameters that are set by the Panel.	Legal	M
<b>BR1.1</b>	Code (Legal Text)	Parameters for the following Events of Default must be removed from BSC Section H, while retaining high level existing obligations and process detail. <ol style="list-style-type: none"> <li>1. new 'Payment Default' Event of Default – Section H 3.1.1 (a)(A)</li> <li>2. 'Credit Default' Event of Default - 3.1.1 (c)</li> <li>3. Credit Default Series - 3.1.1 (c) (A)</li> </ol>	Legal	M

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		4. Failure to pay BSCCo Charges Event of Default – H 3.1.1 (b)		
<b>BR1.2</b>	Code (Legal Text)	References to parameters must be replaced with appropriate text to facilitate BR2 - 'Placing Event of Default rates under Panel control'.  E.g. 'Parameters set by the BSC Panel and published on the BSC website' or 'X (where X is a parameter specified by the BSC Panel)	Legal	M

Ref. no	Area	Business Requirement	Requirement Category	Priority
<b>BR2 – Placing parameters for Event of Default under Panel control</b>				
<b>P385-BR2</b>	Code (Legal Text)	The BSC Panel must be able to determine the values to be applied to the Events of Default referred to in BR2.1	Legal /Operational	M
<b>BR2.1</b>	Panel	Any changes to the parameters, including the effective date, must be subject to a consultation prior to being changed and communicated to BSC Parties, with a minimum implementation period of 30 calendar days.	Operational	M
<b>BR2.2</b>	Panel	The Panel shall conduct reviews as appropriate and from time-to-time, with an initial review after a year.	Operational	S
<b>BR2.3</b>	Panel	Event of Default rates must be published and displayed on the BSC website from the implementation (go-live) date for P385.	Operational	M
<b>BR2.4</b>	Panel	In line with the go-live date for the P385 solution, the Panel shall agree to make the recommended changes to aforementioned parameters, this information shall be published on the BSC website.	Operational	S

Ref. no	Area	Business Requirement	Requirement Category	Priority
<b>BR3 – EOD1 Introduction of a new 'Payment Default' Event of Default</b>				

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<b>P385- BR3</b>	Code (Legal Text)	BSC Section H must be amended to introduce a new Event of Default that will trigger in the event that Parties fail to pay Trading Charges on time on 3 or more occasions in a rolling 30 calendar day period.	Legal	M
<b>BR3.1</b>	Code (Legal Text)	Parties that fail to pay Trading Charges in full by 9am on the second business day on 3 or more occasions within a 30 calendar day period must trigger this Event of Default.	Legal	M
<b>BR3.2</b>	Code (Legal Text)	Amounts below the Advice Note Threshold (£500 currently) must not count as an occasion (or strike) toward this Event of Default	Legal	M
<b>BR3.3</b>	Panel	In line with the P385 go-live date, the Panel shall approve the parameters for EOD1.	Operational	S
<b>BR3.4</b>	Funds Administration Agent (FAA)	FAA would be required to provide ELEXON the following information to operate the process: <ol style="list-style-type: none"> <li>1. For each Party, a count of non-payment at D+2 9am where the value of the non-payment is greater than or equal to the Advice Note Threshold Limit and the non-payment has occurred in the last 30 calendar days up to and including the latest D+2</li> <li>2. Data stored for rolling 7 years starting from date of implementation</li> <li>3. Notification of event of default trigger by email (as per payment default currently)</li> <li>4. Data in item 1. reported daily by email</li> <li>5. Data history to record Party, Party ID, Advice Note Value (£), Advice Note Reference, Payment Date</li> <li>6. Data history available on request to BSCCo</li> </ol>	Operational	M

Ref. no	Area	Business Requirement	Requirement Category	Priority
	<b>BR4 – EOD2 Introduction of a new 'Ceasing to Trade' Event of Default</b>			
<b>P385- BR4</b>	Code (Legal Text)	BSC Section H must be amended to introduce a new Event of Default that will trigger in the event that a BSC Party publically announces that they are ceasing to trade.	Legal	M

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<b>BR4.1</b>	Code (Legal Text)	The wording should allow flexibility to cover multiple forms of public announcement (e.g. announcements via social media or website)	Legal	S
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Ref. no	Area	Business Requirement	Requirement Category	Priority
<b>BR6 – EOD4 Relevant Credit Default Series occur upon any Level 1 or 2 Credit Default with no cooling off period.</b>				
<b>P385-BR6</b>	Code (Legal Text)	The parameters for Relevant Credit Default Series must be amended and simplified.	Legal	M
<b>BR6.1</b>	Code (Legal Text)	In Section H 3.1.1 (c) (iv) (A), Relevant Credit Default Series must occur upon any Level 1 or 2 Credit Default (i.e. Level 1 or Level 2 with any Credit Cover Percentage)	Legal	M
<b>BR6.2</b>	Code (Legal Text)	References to the “cooling off periods” in Section H 3.1.1 (c) (iv) (B) must be removed.	Legal	M
<b>BR6.3</b>	Code (Legal Text)	The number of instances before an Event of Default is triggered must be reduced to 3 occasions in a 6 months rolling period.	Legal	M
<b>BR6.4</b>	Panel	In line with the P385 go-live date, the Panel shall approve the parameters for EOD4.	Operational	S

Ref. no	Area	Business Requirement	Requirement Category	Priority
<b>BR7 – EOD5 Amendments to BSSCO Charge Event of Default</b>				

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<b>P385- BR7</b>	Code (Legal Text)	3.1.1 (b) (iii) must be amended to reduce the number of days a Party may default on payment of BSCCo Charges. It must be amended to introduce an additional trigger if the Party has not paid such amount on 3 occasions within a rolling 12 month period.	Legal	M
<b>BR7.1</b>	Code	In Section H 3.1.1 (b) (iii) an Event of Default shall occur if the Defaulting Party has not paid such amount in full by either the 5 <sup>th</sup> Working Day or failed to pay such amount on 3 occasions in a rolling 12 month period.	Legal	M
<b>BR7.2</b>	Panel	In line with the P385 go-live date, the Panel shall approve the parameters for EOD5.	Operational	S

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