| BSC Modification Proposal Form | At what stage is this document in the process? |
|---|---|
| # P469<br>## Mod Title: Credit Default Refusal and Rejection Period Modification | 01 Modification<br>02 Workgroup Report<br>03 Draft Modification Report<br>04 Final Modification Report |

**Purpose of Modification:**

This Modification seeks to delay the Refusal and Rejection Period for Energy Contract Volume Notifications (ECVN).

**Is this Modification likely to impact any of the European Electricity Balancing Guideline (EBGL) Article 18 Terms and Conditions held within the BSC?**

☐ Yes ☒ No

| | |
|---|---|
|  | The Proposer recommends that this Modification should:<br>• Not be a Self-Governance Modification Proposal<br>• be assessed by a Workgroup and submitted into the Assessment Procedure<br>This Modification will be presented by the Proposer to the BSC Panel on 14 March 2024. The Panel will consider the Proposer's recommendation and determine how best to progress the Modification. |
|  | High Impact:<br>Trading Parties, Generators |
|  | Medium Impact:<br>Energy Contract Volume Aggregation Agent (ECVAA) |

## Contents



## Timetable

**The Proposer recommends the following timetable:**

| | |
|---|---|
| Initial Written Assessment presented to Panel | 14 March 2024 |
| Initial consideration by Workgroup | W/C 1 April 2024 |
| Assessment Procedure Consultation (10 WDs) | 15 April 2024 - 26 April 2024 |
| Workgroup Report presented to Panel | 9 May 2024 |
| Report Phase Consultation (15 WDs) | 13 May 2024 - 31 May 2024 |
| Draft Modification Report presented to Panel | 13 June 2024 |
| Final Modification Report submitted to Authority | 13 June 2024 |
| Implementation date | To be suggested over the Assessment Procedure |

**Any questions?**


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# 1 Why Change?

## What is the issue?

There is a risk for all Balancing and Settlement Code (BSC) Parties that Energy Contract Volume Notifications (ECVNs) and Metered Volume Reallocation Notifications (MVRNs), including those previously submitted and accepted, could be refused and rejected with limited notice to counter-parties involved in the trade. This potentially presents barriers to trade.

At the moment, Energy Contract Volume Notifications (ECVNs), including those previously submitted and accepted, can be refused and rejected without prior notice to third parties involved in the trade.

If an ECVN is submitted during a Credit Default Refusal Period, the notification is refused and the trade invalidated. However, in that trade, Party B may not know that Party A entered Level 2 Credit Default until the contract they believed confirmed is refused.

In many scenarios, the amount of time that Party B has to revert a trade and find new trading parties to deliveries is between one second to one hours (depending on the contract being rejected or refused). Often, this tight timeframe makes arranging a new trade unfeasible.

As an illustrative example, at 13:31, three events occur simultaneously:

- Party A entering Level 2 Credit Default is published on the Balancing Mechanism Reporting Service (BMRS).
- Party A agrees to sell 1 MWh of energy to Party B for delivery in Settlement Period (SP) 29.
- The ECVN representing this trade is sent to the Energy Contract Volume Allocation Agent (ECVAA).

However, the Credit Default Refusal Period starts earlier, at 13:30 as the ECVAA – the Submission Deadline for SP J. Consequently, the ECVN sent to the ECVAA (by the ECVN Agent (ECVNA)) at 13:59 is refused because it falls within the Credit Default Refusal Period. Thus, the trade between Party A and Party B, which they believed was confirmed, is invalidated.

This refusal impacts Party B, particularly if it lacks sufficient time to arrange a new trade before the Submission Deadline, coinciding with the start of the SP 29 from 14:00 – 14:30. For instance, to trade for delivery in SP 29, the deadline for ECVN submission is 14:00. Since Party A entered Level 2 Credit Default and traded with Party B at 13:59, Party B has only one second to arrange an alternative trade.

In this scenario, the Credit Default Rejection Period begins at 15:00:00 BST. Before this, Parties A and B have completed trades and successfully submitted notifications accepted by the ECVAA for deliveries in Settlement Periods 31 (15:00 – 15:30) and 32 (15:30 – 16:00).

If Party A does not resolve its Level 2 Credit Default, the previously accepted ECVNs for SP 31 will be rejected at 15:00:00 BST, and those for SP 32 at 15:30:00 BST.

Currently, Parties A and B can agree that if either enters Level 2 Credit Default, they may request to reverse the ECVNs whose submission deadlines are yet to occur. This arrangement helps avoid last-minute ECVN rejections and the resulting exposure to Trading Charges. However, the current Credit Default Refusal Periods provide insufficient time for reversing a trade and submitting a new ECVN to Elexon.

For example, if a trade is reversed, Party B has until the start of the Credit Default Rejection Period (15:00:00 BST) to arrange a new trade. Given that the time in the example is 13:59:59 BST, Party B has

only one hour to find a new trading partner for deliveries in SPs 31 and 32. Often, this tight timeframe makes arranging a new trade unfeasible.

## Desired outcomes

The desired outcome is to make trading easier and more practical for parties affected by the default.

As discussed during Issue 106 'Review of BSC Credit Cover Arrangements'[1], the risk of entering Level 2 Credit Default is prominent. Delaying the Rejection of ECVNs by one more Settlement Period will benefit Counter Parties as it allows them more control to cancel ECVNs with any party that might default, which could affect their own position.

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.

[1] https://www.elexon.co.uk/smg-issue/issue-106/

# 2 Solution

## Proposed Solution

P469 proposal seeks to delay the Credit Default Refusal and Rejection Periods. This change would give parties a two-hour window from the Level 2 Credit Default notification until the time when any ECVN related to the defaulting party are rejected.

During Issue 106 'Review of BSC Credit Cover Arrangements'[2], Elexon presented an analysis that looked at genuine instances of Level 2 Credit Default during a 12 months-period 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 impact depends on how many ECVNs are submitted on J+3 after the party has been declared in Level 2 Default. ECVN volume at J+3 would no longer be rejected and would be 'permitted' to enter Settlement within the Credit calculation.

A theoretical example was also looked at during Issue 106, using the maximum ECVN volume seen for a tier 1 supplier. This provided a view on what the maximum impact would likely be on the BSC if the rejection of this ECVN was delayed.

The table below shows genuine instances of Level 2 Credit Default between Dec 2022 and Dec 2023, and what impact would be in each scenario if rejection of ECVNs were delayed by one Settlement Period.

The Analysis showed:

- Three out five instances of Credit Default were during bank holiday periods where the ratio between the number of Credit Assessment Energy Indebtedness (CEI), Metered Energy Indebtedness (MEI) and Actual Energy Indebtedness (AEI) days vary within the credit calculation.
- None of the Defaults were as a result of Section H SoLR[3] events, and hence as a result of a Party failing or trading at 100% imbalance and subject to high system prices.
- Two 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.

[2] https://www.elexon.co.uk/smg-issue/issue-106/
[3] https://bscdocs.elexon.co.uk/bsc/bsc-section-h-general

| Party Type | Date entered Credit Default | Reason for Credit Breach/Default | Length of Default (Hours) | Length of Default in Settlement Periods | Impacted Volume (Mwh) | Valour of Impact (£) | How the Default was resolved |
|---|---|---|---|---|---|---|---|
| Non-Physical Trader / Interconnector User | 29 December 2022 | Breach occurred between Christmas and New Year holiday periods | 22.5 | 46 | 0.15 Mwh | 16 | Party lodged additional Credit Collateral to clear Default |
| Supplier | 31 December 2022 | Breach occurred during the New Year holiday period | 82.5 | 164 | 8 Mwh | 840 | Party lodged additional Credit Collateral to clear Default |
| Wind Farm Generator | A April 2023 | Breach occurred before the Easter bank holiday period | 2 | 4 | Party had not yet contracted volumes | | Party Cleared the Default by naturally reducing its indebtedness position |
| Non-Physical Trader / Interconnector User | 12 April 2023 | Breach occurred during the Easter holiday period | 9.5 | 19 | Party had not yet contracted volumes | | Party lodged additional Credit Collateral to clear Default |
| Non-Physical Trader | 24 August 2023 | General Credit Breach over 80% indebtedness | 7.5 | 15 | 12 Mwk | 1260 | Party lodged additional Credit Collateral to clear Default |

From the examples given, P469 risks of negatively impacting the BSC is minor. Given Elexon classes material impacts in Settlement at a minimum of £3000, none of the examples exceed the materiality level deemed to be of significant value.

To implement the proposed Solution, this Modification aims to change BSC Section M, 3.3.3 a (i)[4] from:

‘(i) the “Credit Default Refusal Period" is the period from the Submission Deadline for Settlement **Period J** 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 (%)’

to:

‘(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 (%)’

And to modify BSC Section M, 3.3.3 a (ii) from:

‘(ii) the “Credit Default Rejection Period" is the period from the Submission Deadline for Settlement **Period J+3** 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 (%)'

to:

‘(ii) the “Credit Default Rejection Period” is the period from the Submission Deadline for Settlement **Period J+4** 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 (%)’.

## Benefits

By adding 1 and a half hours to the Credit Default Refusal Period and half an hour to the Credit Default Rejection Period, PXXX will allow sufficient time to enable Party B to trade-out its positions with Party A, which entered into Credit Default and to enter into new trades with another Party so that Party B avoids being exposed to Trading Charges as a consequence of Party A entering Level 2 Credit Default.

This benefit is most obviously realised at CCPs where it allows this risk to be managed operationally, rather than through additional collateral requirements. CCPs, like ECC, have regulatory requirements to apply margin on this risk of Credit Default . The change would completely negate the risk since the CCP would be able to trade out the position of Party A.

After an analysis presented during Issue 106 ‘Review of the BSC Credit Cover Arrangements’, it was showed that this extra Settlement Periods does not extend Party A indebtedness, which could present a risk for all the remaining if Party A debt gets mutualised.

To put this change in context, EPEX SPOT estimated in 2022 that the benefit of removing this risk was to free up to £100m - £150m of financial exposure on a daily basis. The current arrangements harm near-term liquidity through discouraging new market parties and reduced trading activity due to the higher trading costs associated with additional collateral requirements.

[4] https://bscdocs.elexon.co.uk/bsc/bsc-section-m-credit-cover-and-credit-default

# 3 Relevant Objectives

| Impact of the Modification on the Relevant Objectives: | |
|---|---|
| Relevant Objective | Identified impact |
| a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence | Neutral |
| (b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System | Neutral |
| (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 | **Positive** |
| (d) Promoting efficiency in the implementation of the balancing and settlement arrangements | **Positive** |
| (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] | Neutral |
| (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 | Neutral |
| (g) Compliance with the Transmission Losses Principle | Neutral |

*Please explain how this change will positively or negatively impact the Applicable BSC Objectives. Where you have identified an impact, concisely explain the rationale.*

We expect this Modification to have a direct impact on BSC Applicable Objective (c) and (d). The solution facilitates trading, which could increase margins and potentially generate savings to pass through to consumers.

By reducing the barriers to trading, we expect an increase in competition. We believe that the change will also boost liquidity through increased trading opportunities (lower collateral requirements) and encourage more participants (and indirectly lower bills).

In terms of efficiency, simplifying the ECVAA rules would make the design simpler and more efficient. Easier Refusal/Rejection rules would make the process more understandable for Parties.

# 4 Potential Impacts

## Impacts on Core Industry Documents

| Impacted Core Industry Documents | | | |
|---|---|---|---|
| ☐Ancillary Services Document | ☐Connection and Use of System Code | ☐Data Transfer Services Agreement | ☐Use of Interconnector Agreement |
| ☐Retail Energy Code | ☐ Transmission License | ☐System Operator Transmission Owner Code | ☐Supplemental Agreements |
| ☐Distribution Code | ☐Grid Code | ☐ Market Half Hourly Settlement | ☐ Other (please specify) |

There are no impacts expected.

## Impacts on BSC Systems

| Impacted Systems | | | | |
|---|---|---|---|---|
| ☐CRA | ☐CDCA | ☐PARMS | ☐SAA | ☐BMRS |
| ☐EAC/AA | ☐FAA | ☐TAAMT | ☐NHHDA | ☐SVAA |
| ☒ECVAA | ☒ECVAA Web Service | ☐Elexon Portal | ☐Other (Please specify) | |

A parameters' change will be required in the ECVAA.

## Impacts on BSC Parties

| Impacted Parties | | | |
|---|---|---|---|
| ☒Supplier | ☐Interconnector User | ☒Non Physical Trader | ☒Generator |
| ☐Licensed Distribution System Operator | ☐National Electricity Transmission System Operator | ☐Virtual Lead Party | ☐Other (Please specify) |

Any Party with an Energy Account will be impacted as they may need to re-consider their trading strategies and, potentially, their automated systems, depending on their trading models.

## Impacts on consumers and the environment

| Impact of the Modification on consumer benefit areas: | |
|---|---|
| Consumer benefit area | Identified impact |
| Improved safety and reliability<br>*Will this change mean that the energy system can operate more safely and reliably now and in the future in a way that benefits end consumers?*<br>[Insert rationale and comments here] | Neutral |
| Lower bills than would otherwise be the case<br>*Will this change lower consumers' bills by controlling, reducing, and optimising spend, for example on balancing and operating the system?*<br>*If possible, this section should include any quantifiable benefits.*<br>By optimising the way Trade is done, costs are reduced potentially generating savings to pass through to consumers. | **Positive** |
| Reduced environmental damage<br>*Will this proposal support:*<br>• *new providers and technologies?*<br>• *a move to hydrogen or lower greenhouse gases?*<br>• *the journey toward statutory net-zero targets?*<br>• *decarbonisation?*<br>[Insert rationale and comments here] | Neutral |
| Improved quality of service<br>*Will this change improve the quality of service for some or all end consumers. Improved service quality ultimately benefits the end consumer due to interactions in the value chains across the industry being more seamless, efficient and effective.*<br>[Insert rationale and comments here] | Neutral |
| Benefits for society as a whole<br>*Are there any other identified changes to society, such as jobs or the economy.*<br>[Insert rationale and comments here] | Neutral |

As said above, we believe that the change will boost liquidity through increased trading opportunities (lower collateral requirements) and encourage more participants (and indirectly lower bills).

## Legal Text Changes

The suggested redlining is presented in the Attachment A.

# 5 Governance

## Self-Governance

| ☒ **Not Self-Governance –** A Modification that, if implemented: | |
|---|---|
| ☐ materially impacts the Code's governance or modification procedures | ☐ materially impacts sustainable development, safety or security of supply, or management of market or network emergencies |
| ☒ materially impacts competition | ☐ materially impacts existing or future electricity consumers |
| ☐ materially impacts the operation of national electricity Transmission System | ☐ is likely to discriminate between different classes of Parties |
| ☐ involves any amendments to the EBGL Article 18 Terms and Conditions related to Balancing; except to the extent required to correct an error or as a result of a factual change | |
| ☐ **Self-Governance –** A Modification that, if implemented: | |
| Does not materially impact on any of the Self-Governance criteria provided above | |

## Progression route

| ☒ **Submit to assessment by a Workgroup** –:A Modification Proposal which: | |
|---|---|
| does not meet any criteria to progress via any other route. | |
| ☐ **Direct to Report Phase** – A Modification Proposal whose solution is typically: | |
| ☐ of a minor or inconsequential nature | ☐ deemed self-evident |
| ☐ **Fast Track Self-Governance** – A Modification Proposal which meets the Self-Governance Criteria and: | |
| is required to correct an error in the Code as a result of a factual change including but not limited to: | |
| ☐ updating names or addresses listed in the Code | ☐ correcting minor typographical errors |
| ☐ correcting formatting and consistency errors, such as paragraph numbering | ☐ updating out of date references to other documents or paragraphs |
| ☐ **Urgent –** A Modification Proposal which is linked to an imminent issue or current issue that if not urgently addressed may cause: | |
| ☐ a significant commercial impact on Parties, Consumers or stakeholder(s) | ☐ a Party to be in breach of any relevant legal requirements. |
| ☐ a significant impact on the safety and security of the electricity and/or gas systems | |

Since this proposal was discussed during Issue 106, and agreed by the Issue Group, we are proposing for this Modification a concise Assessment Procedure to open the discussion to the wider Industry. We are expecting to have one Workgroup before and after the Assessment Procedure Consultation and thus minimize the risk of rejection, while maintaining the highest efficiency possible with the process.

## Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

We do not expect this Modification to impact a Significant Code Review, and we are requesting this change to be treated as an SCE Exempt Modification Proposal.

## Does this Modification impact any of the EBGL Article 18 Terms and Conditions held within the BSC?

There are no EBGL Article 18 impacts expected.

## Implementation approach

Since the proposed solution depends on a minor system change, the implementation approach will be discussed after receiving confirmation from the Service Provider. However, we are expecting an implementation of five WDs after Authority Decision as part of a special release.