PAYMENT DEFAULT

This document outlines the methodology used to assess the Settlement Risk related to Payment Default. We are not seeking to exhaustively outline all aspects considered during this assessment; our aim is to draw out the main data items considered and any key assumptions when estimating a future impact range.

The risk that… Trading Parties do not or are unable to pay Trading Charges fully or at all, such that it triggers an Event of Default **resulting in…** default funding by other Trading Parties.

Category: Trading Charges and central aggregation

Sub category: Payment Default

Estimated impact in 2020/21

Lower	Middle	Upper
£0	£1.1m	£6.5m

Covers: Failure for Parties to pay any Trading Charges as defined under BSC Section T

Does not cover: Other BSC charges that do not meet the definition of Trading Charges, e.g. Supplier Charges

Please note: For this assessment, we focused on the impact of Default Funding Share resulting from Supplier of Last Resort (SoLR) events, as this is where the material instances of the risk have manifested.

At risk population

As part of this assessment, we seek to understand the population at risk in the upcoming period, i.e. how many times will the underlying process occur where the risk can manifest.

The at risk population for this risk is energy consumption from all active Suppliers.

Data point considered

To assess the volume of energy at risk, we considered historical GB Supplier market consumption as recorded in BSC Central Systems. The below table provides energy consumption as per BSC Central Systems.

2016/17	2017/18	2018/19
291m MWh	287m MWh	280m MWh

- We have seen a continued trend in the decrease in consumption year on year. This is the result of the expansion of embedded generation and improved energy efficiency.

Forecast

Below are the key considerations when forecasting the at risk population in the 2020/21 period:

- We estimate a similar level of consumption as recorded in the 2020/21 period although have accounted for the continued trend in the consumption of energy.

Failure rate

From the population at risk, we need to estimate the proportion where the risk will manifest, i.e. the failure rate. To do this, we assess historical performance in the area and consider any upcoming changes that have the potential to impact future performance.

Data points considered

When assessing historical performance in the area, we considered previous SoLR events, Default Funding Share amounts and trends in system buy and sell prices.

ELEXON

PAYMENT DEFAULT

The following table provides the proportion of the Supplier market undergoing failure based on its pre-failure yearly consumption.

2016/17	2017/18	2018/19
0.18%	0.02%	1.27%

- This risk is of a binary nature, i.e. there is the chance that the risk does not manifest at all in an annual period
- Since the 2016/17 period, we have seen at least one SoLR event in each BSC Year

Forecast

Below is a key consideration when forecasting failure rates in the 2020/21 period:

- In recent years, with a larger number of smaller participants operating in the market and tough market conditions for a Supplier, we have seen the frequency of SoLR events increase. We considered this recent trend for future forecasts.

Impact

To estimate the future impact of a risk we need to understand the impact of historical occurrences and other feasible scenarios of this risk.

Historical SoLR events

The following table provides the estimated impact of historical SoLR events on Trading Charges.

	2016/17	2017/18	2018/19
Parties exiting the market	1	1	12
Default Funding Share	£794,664	£24,600	£4,423,816

- We have estimated future impact of SoLR events where Reconciliation Settlement Runs are yet to complete
- These estimates are based on net impact of the SoLR Party, as this is level that is reported by the Funds Administration Agent (FAA)

Forecast

- In the upper impact value, we account for a Market Failure rate of 1.5% based on if there was a similar or slightly increased failure rate compared to 2018/19 (1.27%).