



Material Doubt BSC Section M

This document covers:

- The definition of material doubt
- The information that should be provided when claiming material doubt
- The process ELEXON follows for assessing material doubt.

How Does the Credit Calculation and Credit Default Process Work?

The rules governing Credit Cover and Credit Default are specified in [Section M: Credit Cover and Credit Default](#) of the Balancing and Settlement Code (BSC). In summary, Trading Charge payments are due 29 days after the Settlement Day. Credit Cover ensures that ELEXON has enough collateral to cover these payments if you cannot make them. Credit checking is carried out every half hour to ensure that you have enough Credit Cover lodged to pay your estimated Trading Charges (known as Energy Indebtedness) for the next 29 days. The Credit Cover calculation is discussed further in the [Overview of Credit Cover](#) guidance.

Credit Default is the process triggered when a Party's Credit Cover Percentage (CCP) breaches certain defined thresholds. The CCP is the ratio of Energy Indebtedness to Credit Cover in percentage terms. The Credit Default process is discussed further in the [Overview of Credit Default](#) guidance.

What is Material Doubt?

Material doubt as defined in [Section M](#) of the BSC can be claimed where substantial evidence shows that the CCP for an Imbalance Party as calculated by the ECVAA does not give a true reflection of that Party's Energy Indebtedness.

If you believe your CCP is not being accurately reflected, you can submit evidence to ELEXON for consideration under the material doubt provisions. We will validate this evidence and where agreed we will manage the discrepancy between the CCP calculated in central systems and the estimated correct percentage based on the data that you have provided.

Under [Section M](#) of the BSC, the Panel is required to establish these material doubt guidelines. These guidelines may be revised from time to time by the Panel, or the Imbalance Settlement Group (ISG) as appropriate.

Disclaimer

This document is a guidance document only. ELEXON has, and retains ultimate discretion as to whether it has a material doubt regarding a Party's Credit Default status. ELEXON will act fairly and consistently in applying the principles outlined in this document. In the event of an inconsistency between the information contained in this document and the BSC, the BSC will prevail.

[Section M](#) of the BSC gives ELEXON the ability to express a material doubt with respect to a Party's credit default status. Such a material doubt may arise because of circumstances identified generically in paragraphs M3.4 and M1.2, assessed according to the qualitative criteria set out in those paragraphs. However the set of specific situations that may qualify for consideration as grounds for

material doubt is not closed and the qualitative criteria are not translated in the BSC into equivalent quantitative standards capable of uniform application.

Consequently this guidance is restricted to general procedural details and previously encountered or anticipated instances of possible material doubt.

Where the established procedures do not present an appropriate means of establishing the presence or absence of material doubt, the resolution of the material doubt claim will be determined as ELEXON reasonably sees fit.

On What Grounds Can I Claim Material Doubt?

General Principle

Paragraph M3.4 of the BSC states that ELEXON may withhold authorisation relating to Credit Default where there exists “a material doubt as to whether, at the time, the systems and processes used by the Energy Contract Volume Aggregation Agent (ECVAA) are giving correct determinations of the values of Credit Cover Percentage for that Imbalance Party.”

Material doubt can be brought to ELEXON’s attention by the ECVAA or “otherwise”. Material doubt will often be raised as a result of the Imbalance Party submitting evidence to ELEXON of a circumstance likely to produce a material discrepancy between the ECVAA’s determination of CCP and the true CCP of the party.

Specific Instance

Paragraph M1.2 of the BSC sets out particular instances where material doubt may be claimed under paragraph M3.4. This applies where ELEXON:

- Is aware that the ECVAA has not received relevant Interim Information Settlement Run data from the Settlement Administration Agent (SAA) in accordance with Section T5.3; or
- Is aware that the ECVAA has not received relevant Credit Cover Volume Allocation Run data from the Central Data Collection Agent (CDCA) in accordance with Section R5.7; or
- Has substantial evidence or other reasons to believe that the data to be derived from the Initial Settlement Run for that Imbalance Party and that Settlement Day are likely to be significantly different (in the context of that particular Imbalance Party) from the corresponding Interim Information Settlement Run data received by the ECVAA from the SAA in accordance with Section T5.3; or
- Has substantial evidence or other reasons to believe that the data to be derived from the Initial Volume Allocation Run for that Imbalance Party and that Settlement Day are likely to be significantly different (in the context of that particular Imbalance Party) from the corresponding Credit Cover Volume Allocation Run data received by the CDCA in accordance with Section R5.7.

Energy Indebtedness is in the most part based on the Trading Charges calculated by the SAA in the Interim Information (II) Settlement Run. If the relevant II Run data is not received by the ECVAA from the SAA, or ELEXON has evidence that there is a significant discrepancy between the Trading Charges determined at the II Run compared with Initial Settlement (SF) Run data, this may constitute grounds for declaring material doubt.

Examples

It is not possible to provide an exhaustive list of all specific situations in which there may be grounds for material doubt. A declaration of material doubt would in each specific case be subject to an assessment according to the principles in this document and [Section M](#) of the BSC.

For information, some examples of possible situations in which grounds for material doubt could be identified are as follows:

- Use of unapproved estimations of Central Volume Allocation (CVA) metered volumes.
- Credit Cover Volume Allocation Run data is not representative of the Initial Volume Allocation Run data.
- Incorrect determination of Grid Supply Point (GSP) Group Takes (for example, due to incorrectly estimated CVA metered data) that has a significant impact on Supplier Deemed GSP Group Take.
- Manifest error in the Balancing Mechanism that has an impact on imbalance prices at the II Run.
- ECVAA failure where Energy Contract Volume Notifications (ECVNs) are not in the ECVAA system by the time of the II Run.
- Manifestly erroneous Credit Assessment Load Factor (CALF) value for a BM Unit.
- Incorrect Interconnector metered volumes notified by the Interconnector Administrator and disputed by the Interconnector User.
- ECVAA credit-checking error.
- A valid dispute of BSCCo-Determined Generation Capacity (GC) or Demand Capacity (DC) Estimates in accordance with BSC Section K.

How is Material Doubt Assessed?

General principle

In order to determine that material doubt exists, the following criteria must be satisfied:

- **"Substantial evidence"** (BSC Section M3.4, (M1.2)). The evidence via the ECVAA or submitted by the Imbalance Party must be substantial in the context of the particular case.
- **"Material"** (BSC Section M3.4; "materially affects matters" (BSC Section M1.2)). The doubt as to the Party's credit default status must, in ELEXON's reasonable opinion, be material in the context of the particular case.
- **"Significant"** (BSC Section M 1.2). Where applicable, a projected discrepancy between II and SF data must be of "significant" size.

What Information Should I Provide?

You should provide as much evidence as you can in the timeliest way. The required evidence will differ in each circumstance depending on factors such as:

- When you raise the material doubt claim. Where this is on a Business Day it is likely that you will have access to a wider range of data and more specialist personnel than on other days;

- Whether you could reasonably be expected to have been aware of the situation earlier than the time at which you raised the material doubt claim; and
- The particular grounds for material doubt claimed, and the supporting evidence that might be appropriate in your situation.

As there are a wide variety of instances that could lead to material doubt, the actual data required cannot be specified for all cases. However as general guidance, you should provide:

- **Statement of grounds – you should give a clear statement of the reason why you consider that the ECVAA calculation of your CCP is too high.**
- **Evidence and scale of materiality - you should give a clear statement of the extent by which you believe that the ECVAA determination of CCP overstates your true position.**

The following data flows and information are examples of evidence that might be useful in material doubt cases:

- Contract reports (ECVAA-I014) for relevant Settlement Days. We may use these to model ECVAA calculations to estimate the impact of the event claimed as grounds for material doubt;
- Settlement reports (SAA-I014) for relevant Settlement Days. We can use these to determine Trading Charges across the date range for the AEI calculation to re-estimate CCP; and
- If appropriate, you may be asked to provide historic BM Unit metered volume data, where this provides the agreed basis for re-estimating CCP.

When Should I Provide Evidence?

You can submit evidence to ELEXON in relation to a potential material doubt either before a Level 1 Credit Default notice has been issued or following receipt of a Level 1 Credit Default notice.

Where you become aware that a Level 1 Credit Default is likely to be triggered in circumstances of material doubt, you are encouraged to submit evidence as soon as possible. This will allow timely and thorough investigation of your claim. We would expect claims to be raised prior to the Level 1 Credit Default notice being issued where material doubt arises due to a reduction in your customer portfolio or a drop in demand over an Annual Holiday Period.

We will confirm receipt and review evidence as soon as practicable after receiving it, and will also verify any opinion formed in relation to such evidence as soon as practicable after a Level 1 Credit Default notice is received.

How Does ELEXON Assess Material Doubt?

We will assess material doubt according to the grounds and principles set out in [Section M](#) of the BSC. In doing so, we may need to evaluate the quality of evidence you have provided in support of your claim. For example, we may wish to consider:

- Whether the evidence presented and timeliness with which it was supplied is such as could be reasonably expected; and
- Whether you made use of the opportunity to present evidence before the Credit Default process was triggered.

It may not be possible for a final decision to be reached (or validated on the basis of centrally-held data) outside Business Days. In such circumstances we will use our discretion when deciding whether to withhold authorisation pending a final material doubt determination.

We reserve the option to refine our assessment as further evidence or centrally-held data becomes available.

In addition, we will monitor whether the determination of material doubt remains valid as each successive Settlement Day elapses, and new AEI data feeds into the calculation and the split between CEI, MEI¹ and AEI data in the 29-day period varies.

Further Information

Further information on this subject is contained in [BSC Section M: Credit Cover and Credit Default](#). The [Credit Cover](#) and [Credit Default](#) guidance also provides information on the credit calculation and credit default process.

If you have any queries regarding your credit position please contact the **BSC Service Desk** on **0370 010 6950** or by email at bscservicedesk@cgi.com. All queries relating to [Credit Default](#) or [Material Doubt](#) can be raised with the [BSC Service Desk](#). Outside of normal working hours the BSC Service Desk will refer urgent queries to the BSCCo Operational Manager on call as required.

Need more information?

For more information please contact the **BSC Service Desk** at bscservicedesk@cgi.com or call **0370 010 6950**.

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¹ For Credit Qualifying BM Units only.