
Balancing and Settlement Code (BSC) P469: Credit Default Refusal and Rejection Period

Decision:	The Authority ¹ directs that this modification be made ²
Target audience:	National Grid Electricity System Operator (NGESO), Parties to the BSC, the BSC Panel and other interested parties
Date of publication:	7 October 2024
Implementation date:	27 February 2025

Background

Balancing and Settlement Code (BSC) parties holding energy accounts are required to notify the BSC systems of the contract positions of their production or consumption accounts. This is achieved through two types of notification: Energy Contract Volume Notifications (ECVNs) and Metered Volume Reallocation Notifications (MVRNs). ECVNs are used to notify volumes of energy bought and sold between two energy accounts, either belonging to the same or different parties. MVRNs are used to notify that the energy flowing to or from a specific Balancing Mechanism Unit is to be allocated to a party's energy accounts to calculate its energy imbalances. These notifications are submitted to the Energy Contract Volume Allocation Agent (ECVAA) on behalf of the parties by notification agents known as Energy Contract Volume Notification Agents and Metered Volume Reallocation Notification Agents respectively.

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

When a party enters Level 2 Credit Default,³ the Balancing Mechanism Reporting Agent (BMRA)⁴ publishes a notice online⁵ and any ECVNs and MVRNs that would increase said party's Energy Indebtedness⁶ are refused or rejected by ECVA, even when previously submitted and accepted. At present, this can result in the defaulting party's counterparties being left with very little time (between one second and one hour) to re-arrange the refused or rejected trade with a non-defaulting party once the BMRA publishes the notice. As a result, counterparties might not be able to adjust their positions in such timeframe and may risk involuntarily increasing their exposure to imbalance prices.

The modification proposal

P469 'Credit Default Refusal and Rejection Period' (the Proposal) is a proposed modification to the BSC that aims to decrease the risk of a market participant not being able to re-arrange a trade refused or rejected by ECVA because of a counterparty's Level 2 Credit Default status.

The development of P469 follows on from discussions held in 2023 as part of BSC Issue 106: 'Review of BSC Credit Cover arrangements'⁷ and was raised by European Commodity Clearing (the Proposer) on 29 February 2024.

The Proposal intends to achieve its aim by extending the window between the start time of the settlement period (SP)⁸ in which the Level 2 Credit Default is notified and the time when ECVA begins to refuse or reject new and existing ECVNs and MVRNs to two hours. The Proposal would therefore entail:

³ This happens when a party's Credit Cover Percentage (CCP) becomes greater than 90%. The CCP is the ratio of a trading party's Energy Indebtedness (see footnote no.6) to the amount of credit cover they have lodged, expressed as a percentage. More information on credit default processes can be found here: [Credit Default - Elexon BSC](#).

⁴ The Balancing Mechanism Reporting Agent is the agent responsible for providing near to real-time reporting of all market information created by the national electricity transmission system operator or submitted to the Balancing Mechanism by market participants.

⁵ [Credit default notices | Insights Solution \(elexon.co.uk\)](#)

⁶ The Energy Indebtedness is the sum of a trading party's Credit Assessment Energy Indebtedness over all settlement periods falling within 29 settlement days expiring and including the settlement day on which the calculation is made. See section M 1.2.1 of the BSC: [BSC Section M: Credit Cover and Credit Default - Elexon Digital BSC](#).

⁷ [Issue 106 Review of BSC Credit Cover Arrangements - Elexon BSC](#)

⁸ A settlement period is one of the 48 half-hourly intervals an Electricity Forward Agreement day is made of for the purposes of trading and settling electricity.

- Delaying the Credit Default Refusal Period⁹ for ECVNs and MVRNs by four SPs. This is currently set at the SP in which BMRA publishes the Level 2 Credit Default notification (J), meaning that any new notification increasing a party's Energy Indebtness is refused from the SP in which the notification is published onwards. The Proposal would delay the refusal period to SP J+4, meaning that notifications would be refused only for deliveries happening from four SPs ahead onwards. For instance, if a party reached Level 2 Credit Default stage in SP 29 (14:00-14:30), only new trades with delivery from SP 33 (16:00-16:30) onwards would be refused.
- Delaying the Credit Default Rejection Period¹⁰ for ECVNs and MVRNs by one SP, from SP J+3 to SP J+4. At present, previously accepted notifications increasing a party's Energy Indebtness are rejected only for deliveries occurring three SPs ahead of the SP in which the Level 2 Credit Default notification was published. The Proposal would delay the start of the rejection period to four SPs ahead. For instance, if a party reached Level 2 Credit Default stage in SP 29 (14:00-14:30), only previously accepted trades for delivery in SP 33 (16:00-16:30) would be rejected; once SP 30 (14:30-15:00) ticked over, previously accepted trades for delivery in SP 34 (16:30-17:00) would then be rejected; and so forth on a rolling basis, always looking at deliveries four SPs ahead, until the party exits Level 2 Credit Default status.

By adding two hours to the Credit Default Refusal Period and half an hour to the Credit Default Rejection Period, the Proposal allows a counterparty to a defaulting party to avoid trading charges and provides additional time for the counterparty to make new trades with another party. The Proposer indicated that this will allow the risk of exposure to be managed operationally, rather than through additional collateral requirements.

With regard to the extension of the Credit Default Rejection Period, an analysis presented during BSC Issue 106 showed that the addition of one extra SP would have a low likelihood of

⁹ The Credit Default Refusal Period is the period in which ECVAAs refuse new ECVNs and MVRNs after a party enters Level 2 Credit Default.

¹⁰ The Credit Default Rejection Period is the period in which ECVAAs reject previously accepted ECVNs and MVRNs after a party enters Level 2 Credit Default.

negatively impacting the settlement process, even when considering the effect that the largest ECVN volume over a 12-month period would have had.¹¹

During BSC Issue 106, it was recognised that delaying the Credit Default Refusal and Rejection periods would increase the risk of a defaulting party continuing to trade and extending its indebtedness further, which would be a risk for all other parties in terms of potential debt mutualisation. However, this risk was assessed not to be substantial when looking at past defaults.¹²

The Proposer believes that such changes would better facilitate BSC objectives (c)¹³ and (d).¹⁴

The expected cost of the Proposal has been calculated at less than £25,000 to Elexon – which would be required to change ECVAAs systems and update documents, guides and processes – and at an undefined low amount for industry, with minimal implementation impacts. The BSC Panel assessed that the Proposal would have a positive impact in reducing BSC parties' risk exposure to imbalance prices by allowing more time to re-arrange a refused or rejected trade. This, in turn, can reduce parties' collateral requirements for trading.

No alternative solutions were identified during P469 workgroup meetings.

BSC Panel¹⁵ recommendation

At the BSC Panel meeting on 8 August 2024, the BSC Panel unanimously agreed that P469 would better facilitate the BSC objectives (c) and (d), and recommended its approval.

¹¹ See BSC Issue 106 Meeting 5 documents. See footnote no.7 for links to BSC Issue 106.

¹² See BSC Issue 106 Meeting 3 documents. See footnote no.7 for links to BSC Issue 106.

¹³ "(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."

¹⁴ "(d) Promoting efficiency in the implementation of the balancing and settlement arrangements."

¹⁵ The BSC Panel is established and constituted pursuant to and in accordance with Section B of the BSC and [Standard Special Licence Condition C3 of the Electricity Transmission Licence](#).

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 8 August 2024. We have considered and taken into account the responses to the industry consultations which are attached to the FMR.¹⁶ We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the applicable objectives of the BSC;¹⁷ and
- directing that the modification be made is consistent with our principal objective and statutory duties.¹⁸

Reasons for our decision

We consider this modification proposal will better facilitate BSC objectives (c) and (d), and has a neutral impact on the other applicable objectives.

(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

The Proposer and, unanimously, workgroup members and the Panel agreed that the Proposal would promote competition by reducing the risk of parties incurring extra financial costs because of a counterparty defaulting on a trade at short notice.

We agree that the Proposal facilitates BSC objective (c), as market participants would be less likely to find themselves financially exposed to imbalance prices because of a counterparty defaulting on a trade at short notice. This is expected to reduce collateral requirements from exchanges, therefore encouraging market participation and lowering barriers to trade.

¹⁶ BSC modification proposals, modification reports and representations can be viewed on the [Elexon website](#). See here for P469: [P469 Credit Default Refusal and Rejection Period - Elexon BSC](#).

¹⁷ As set out in [Standard Condition C3\(3\) of the Electricity Transmission Licence](#).

¹⁸ The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989.

(d) promoting efficiency in the implementation and administration of the balancing and settlement arrangements

The Proposer and, unanimously, workgroup members and the Panel agreed that the Proposal would increase the operational efficiency of the BSC by allowing more reaction time for a counterparty to a defaulting party to re-arrange a trade.

We agree that the Proposal facilitates BSC objective (d), as it reduces the risk of parties having to rush decisions and in the process potentially incurring trading charges in case of a counterparty defaulting on a trade at short notice.

Decision notice

In accordance with Standard Condition C3 of the Transmission Licence, the Authority hereby directs that modification proposal BSC P469: 'Credit Default Refusal and Rejection Period' be made.

Maryam Khan

Head of Electricity Security and Market Management – Energy Systems Management and Security

Signed on behalf of the Authority and authorised for that purpose