

P469 Credit Default Refusal and Rejection Period

This Modification seeks to delay the start of the Credit Default Refusal Period and Credit Default Rejection Period for Energy Contract Volume Notifications (ECVNs) and Metered Volume Reallocation Notifications (MVRNs) where acceptance of said ECVNs and MVRNs would increase a BSC Party’s Energy Indebtedness.

This Assessment Procedure Consultation for P469 closes:
5pm on Friday 28 June 2024
The Workgroup may not be able to consider late responses.



The P469 Workgroup initially recommends **approval** of P469



The P469 Workgroup **does not** believe P469 impacts the European Electricity Balancing Guideline (EBGL) Article 18 terms and conditions held within the BSC

This Modification is expected to impact:

- All Parties with an Energy Account
- Energy Contract Volume Aggregation Agent (ECVAA)

Phase
Initial Written Assessment
Definition Procedure
Assessment Procedure
Report Phase
Implementation

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About This Document

You can find the definitions of the terms and acronyms used in this document in the [BSC Glossary](#)¹.

The purpose of this P469 Assessment Procedure Consultation (APC) is to invite BSC Parties and other interested parties to provide their views on the merits of P469. The P469 Workgroup will then discuss the consultation responses, before making a recommendation to the BSC Panel at its meeting on 8 August 2024 on whether or not to approve P469.

There are four parts to this document:

- This is the main document. It provides details of the solution, impacts, costs, benefits/drawbacks and proposed implementation approach. It also summarises the Workgroup's key views on the areas set by the Panel in its Terms of Reference, and contains details of the Workgroup's membership and full Terms of Reference.
- Attachment A contains the P469 Proposal Form.
- Attachment B contains the draft redlined changes to the BSC for P469.
- Attachment C contains the specific questions on which the Workgroup seeks your views. Please use this form to provide your response to these questions, and to record any further views or comments you wish the Workgroup to consider.



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Not sure where to start?

We suggest reading the following sections:

- Have 5 minutes? Read section 1
- Have 15 minutes? Read sections 1 and 7
- Have 30 minutes? Read all except section 6
- Have longer? Read all sections and the annexes and attachments.

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¹ <https://www.elexon.co.uk/glossary/?show=all>



Why Change?

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

If an ECVN and/or MVRN 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 arrange an alternate trade is between one second, and one hour depending on whether the contract is being rejected or refused, and when the Level 2 Credit Default notice is published. Often, this tight timeframe makes arranging a new trade unfeasible.

This Modification follows on from discussions held as part of [Issue 106 'Review of BSC Credit Cover Arrangements'](#)² which made a recommendation that a Modification be raised to modify the Credit Default process by delaying the start of the Credit Default Rejection Period and the start of the Credit Default Refusal Period for any ECVNs and/or MVRNs submitted after a Party has entered authorised Level 2 Default, where such ECVNs and/or MVRNs would increase the Party's Energy Indebtedness.

Solution

The proposed solution, as discussed by the P469 Workgroup, is to delay the start of both the Credit Default Refusal Period and Credit Default Rejection Period for ECVNs and MVRNs to four Settlement Periods (J) after the Period in which the L2 Credit Default notice is posted so that ECVNs & MVRNs increasing the Energy Indebtedness of the Party in Level 2 Credit Default will be refused at the start of Settlement Period J+4 instead of Period J, and ECVNs and MVRNs will be rejected from the start of J+4 instead of J+3.

Impacts & Costs

P469 is expected to impact:

- All Parties with an Energy Account

Costs Estimates			
Organisation	Implementation (£)	On-going (£)	Impacts
Elexon	L	0k	ECVAA system changes, document and simple guides' updates, and processes.
NGESO	n/a	n/a	n/a
Industry	n/a	n/a	n/a
Total	L	0	

What is Credit Default?

The Credit Default processes are triggered when a Party's CCP exceeds a number of thresholds. **The Level 1 Credit Default** process is triggered when the CCP exceeds 80% and **the Level 2 Credit Default** process is triggered when the CCP exceeds 90%. The Party must reduce the Credit Cover percentage below 80% by the end of the query period to resolve the Credit Default.

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² <https://www.elexon.co.uk/smg-issue/issue-106/>

Implementation

The Workgroup recommends an Implementation Date for P469 of:

- **27 February 2025** as part of the Standard February 2025 BSC Release.

Elxon has issued a Change Request to the Service Provider to assess if P469 could be implemented sooner as part of Standard November 2024 BSC Release, or as part of Special Release. We expect to have a confirmation by the end of this Consultation.

Recommendation

The P469 Workgroup's unanimous initial view was that P469 should be approved.

There was unanimous agreement that the Modification better facilitates Applicable BSC Objectives (c) and (d). The Workgroup believes that P469 does not impact the EBGL provisions within the BSC. There was also agreement that P469 should not be considered as a Self-Governance Modification and should be submitted to Ofgem for decision.

What is the issue?

There is a risk for all Balancing and Settlement Code (BSC) Parties holding Energy Accounts from the possibility that ECVNs and MVRNs, including those previously submitted and accepted, could be refused and rejected with limited notice to counter-parties involved in the trade.

To illustrate this, consider the following example - at 13:59.59, three events occur simultaneously:

- The notice of Party A entering Level 2 Credit Default is published on [Insights Solution](#)³.
- Party A agrees to sell 1 MWh of energy to Party B for delivery in Settlement Period 29 (1400 – 1430).
- The ECVN representing this trade is received by the Energy Contract Volume Allocation Agent (ECVAA).

However, the Credit Default Refusal Period started earlier as 1330 is the start of the Settlement Period (period J) in which the Imbalance Party entered Level 2 Credit Default and the authorisation notice was in force.

Consequently, the ECVN sent to the ECVAA by Party A's ECVN Agent (ECVNA) at 1359 is refused by the ECVAA because it falls within the Credit Default Refusal Period and would result in increasing Party A's Energy Indebtedness. 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 Period 29 and potentially increases Party B's imbalance, and potentially their own Energy Indebtedness. For instance, to trade for delivery in SP 29, the deadline for ECVN submission is 1400 (not withstanding real-world time delays – see [Issue 110](#)). Since Party A entered Level 2 Credit Default and traded with Party B at 1359.59, Party B has only one second to arrange an alternative trade.

In this scenario, the Credit Default Rejection Period begins at 1500. Before this, Parties A and B have completed trades and successfully submitted notifications accepted by the ECVAA for deliveries in Settlement Periods 31 (1500 – 1530) and 32 (1530 – 1600).

If Party A does not resolve its Level 2 Credit Default, the previously accepted ECVNs for Period 31 will be rejected at 1500, and those for Period 32 at 15:30.

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.

For example, if a trade is reversed, Party B has until the start of the Credit Default Rejection Period (1500) to arrange a new trade. Given that the time in the example is

³ <https://bmrs.elexon.co.uk/>

1359, Party B has only one hour to find a new trading partner for deliveries in Periods 31 and 32. Often, this tight timeframe makes arranging a new trade unfeasible.

Alongside this modification, Elexon has raised [Issue 110 'Modernising ECVN/MVRN submission and acknowledgement processes'](#)⁴ on 11 January 2024 to review how ECVN are currently submitted and to find potential ways to improve the system and speed-up the process.

Background

What are ECVNs and MVRNs?

Parties are required to notify the BSC systems of their contract positions to enable Energy Imbalance Volumes, and subsequently Trading Charges, to be calculated. This is done by submitting notifications to the Energy Contract Volume Aggregation Agent (ECVAA), in relation to the relevant Party's Production and/or Consumption Energy Accounts.

There are two types of notification:

1. ECVNs notify the ECVAA of the volumes of energy bought and sold between two Energy Accounts. These Energy Accounts could belong to separate Parties or could both belong to the same Party;
2. MVRNs notify the ECVAA that the energy flowing to or from a particular BM Unit is to be allocated to one or more different Party's Energy Accounts for the purposes of Energy Imbalance calculations. (This must be from Production Account to Production Account or Consumption Account to Consumption Account).

These notifications are submitted on behalf of Parties by Notification Agents, appointed by the Parties specifically for this purpose, and known as Energy Contract Volume Notification Agents (ECVNAs) and Metered Volume Reallocation Notification Agents (MVRNAs) respectively.

Further background

ECVNs can be refused and/or rejected after being previously submitted and accepted. This happens when one of the Parties involved enters Level 2 Credit Default (which means its Credit Cover Percentage (CCP) becomes greater than 90%) and acceptance of said ECVNs and/or MVRNs would result in defaulting Party's Energy Indebtedness increasing. As a consequence, a notice is published by the BMRA, and Volume Notifications are refused and/or rejected as follows:

- Any ECVNs or MVRNs that are submitted and which would increase Energy Indebtedness at any point in the future will be refused; and
- Any ECVNs or MVRNs that have been previously notified and which increase Energy Indebtedness for the upcoming Settlement Period will be rejected on a Settlement Period by Settlement Period basis, and the counter-parties to the notification are informed by the ECVAA.

For previously notified ECVNs and MVRNs, the Energy Contract Volumes or Metered Volume Reallocations are rejected one Settlement Period at a time. However, rather than reject these for the Settlement Period for which the Submission Deadline has just elapsed, they are rejected for three Settlement Periods later. This gives the counter-party, who will

⁴ <https://www.elexon.co.uk/smg-issue/issue110/>

otherwise be effected by the cancellation of a Volume Allocation in their favour, a limited time in which to re-contract with a different, non-defaulting Trading Party. Yet, that limited time is currently insufficient to actually re-contract. Therefore, this Modification aims to extend that period.

Issue 106 'Review of BSC Credit Cover Arrangements'

The Russian invasion of Ukraine and subsequent global energy crisis, coupled with the aftermath of the COVID-19 pandemic, resulted in many participants in the energy market, particularly Suppliers, defaulting on their obligations as a result of extreme system prices. This accumulation of debt, totalling around £70 million over the last five years, raised concerns about the adequacy of Credit to protect the market from Supplier failures without imposing excessive burdens on market participants.

To address these issues, the Credit Committee proposed a review that would explore diverse perspectives and consider both incremental changes and more substantial revisions to Credit arrangements. Elexon initiated Issue 106 'Review of BSC Credit Cover Arrangements' on January 13, 2023, with the goal of re-evaluating the objectives of Credit Cover arrangements and assessing their effectiveness. The review aimed to identify areas for improvement through a comprehensive end-to-end evaluation, including compliance and its implications.

The initial scope of Issue 106 encompassed three main areas of inquiry:

- the necessity for Credit Cover and an examination of current arrangements and their pain points;
- the calculation of Indebtedness and the appropriate methods for lodging Credit; and
- considerations related to compliance, enforcement and risk mitigation.

Discussions held as part of Issue 106

During Issue 106, 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 SP.

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 SP.

The Analysis from Issue 106 indicated that:

- 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 SoLR⁵](#) 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.

Party Type	Date entered Credit Default	Reason for Credit Breach/Default	Length of Default (Hours)	Length of Default in Settlement Periods	Impacted Volume (MWh)	Value 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 MWh	1260	Party lodged additional Credit Collateral to clear Default

The examples indicate that the risks of P469 negatively impacting the BSC should be

⁵ <https://bscdocs.elexon.co.uk/bsc/bsc-section-h-general>

minor as Elexon classes material impacts in Settlement at a minimum of £3000 and none of the examples exceed the materiality level deemed to be of significant value.

Desired outcomes

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



In this section we detail the agreed solution. In section 6 we detail the rationale for the agreed 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 ECVNs and/or MVRNs related to the defaulting party are rejected.

Benefits

By adding an hour and a half to the Credit Default Refusal Period and half an hour to the Credit Default Rejection Period, P469 gives Party B enough time to trade its positions with Party A, which entered Credit Default, and to make new trades with another Party. This helps Party B avoid Trading Charges due to Party A's Level 2 Credit Default.

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

After an analysis presented during Issue 106, it was demonstrated that this extra Settlement Periods does not extend Party A indebtedness, which could present a risk for all the remaining if Party A's debt is 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 within their exchange. 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.

Assessment Consultation Question

Do you agree with P469 proposed solution?

Please provide your rationale.

The Workgroup invites you to give your views using the response form in Attachment C

Alternative solution

The Workgroup did not identify any Alternative Solution.

Assessment Consultation Question

Do you agree with the Workgroup that there are no other potential Alternative Modifications within the scope of P469 which would better facilitate the Applicable BSC Objectives?

Please provide your rationale and, if 'No', please provide full details of your Alternative Modification(s) and your rationale as to why it/they better facilitate the Applicable BSC Objectives.

The Workgroup invites you to give your views using the response form in Attachment C

Credit Cover Percentage

The Credit Cover Percentage (CCP) is the Energy Indebtedness divided by the Energy Credit Cover, as a percentage.

Legal text

The Proposed redlined changes to the BSC can be found in Attachment B.

Assessment Consultation Question
Do you agree with the Workgroup that the draft legal text in Attachment B delivers the intention of P469? <i>Please provide your rationale.</i>
The Workgroup invites you to give your views using the response form in Attachment C

Estimated costs of P469

Costs will be assessed during this consultation. However, for those roles the Workgroup believe will be impacted, the Workgroup have indicated whether it believes the costs are likely to be high, medium or low based on the following categories. We invite you to validate and refine these estimates via this consultation:

- High: >£1 million
- Medium: £100-1000k
- Low: <£100k

Implementation costs estimates			
Organisation	Item	Implementation costs (£)	Comment
Elxon	Systems	L	ECVAA parameter change and testing
	BSC Section M and Simple Guides	L	
Industry	Processes	L	
Total		L	

On-going costs estimates		
Organisation	On-going costs (£)	Comment
Elxon	N/A	
Industry	N/A	
Total	N/A	

P469 impacts

Impact on BSC Parties and Party Agents		
Party/Party Agent	Impact	Estimated cost
Parties with Energy Accounts	L – implementation impacts are minimal	L

Impact on the NETSO	
Impact	Estimated cost
No impacts anticipates	n/a

Impact on BSCCo		
Area of Elexon	Impact	Estimated cost
No impacts anticipated	n/a	n/a

Impact on BSC Settlement Risks
<p>No negative impacts anticipated.</p> <p>Settlement Risk 30: ECVAAs Processes – This is the risk that ECVAAs does not carry out processes correctly, such that output files are inaccurate.</p> <p>With this Risk in mind, the current system incentivises rushed actions within certain situations, which may increase the chances of a process failure.</p> <p>A change to allow for more time would be beneficial in this case as it is likely to increase the chance that the process is completed accurately and correctly.</p>

Impact on BSC Systems and process	
BSC System/Process	Impact
ECVAA	A parameter in the ECVAA needs to be changed.

Impact on BSC Agent/service provider contractual arrangements	
BSC Agent/service provider contract	Impact
ECVAA/CGI	Low. A Change Request is currently in place.

Impact on Code	
Code Section	Impact
<u>BSC Section M</u>	Section M, 3.3.3 a (i) and (ii) as per redlining attached

Impact on MHHS
No impacts anticipated

Impact on EBGL Article 18 terms and conditions
No impacts anticipated

Impact on Code Subsidiary Documents	
CSD	Impact
n/a	n/a

Impact on other Configurable Items	
Configurable Item	Impact
No impacts anticipated	n/a

Impact on Core Industry Documents and other documents	
Document	Impact
Ancillary Services Agreements	No impacts identified
Connection and Use of System Code	
Data Transfer Services Agreement	
Distribution Code	
Grid Code	
Retail Energy Code	
Supplemental Agreements	
System Operator-Transmission Owner Code	
Transmission Licence	
Use of Interconnector Agreement	

Impact on a Significant Code Review (SCR) or other significant industry change projects
No impacts identified. Ofgem granted the SCR exemption on 7 March 2024.

Assessment Consultation Question

Do you agree with the Workgroup's assessment of the impact on the BSC Settlement Risks?

Please provide your rationale.

Will P469 impact your organisation?

If it will impact, please provide a description of the impact(s) and any activities which you will need to undertake between approval and implementation (including any necessary changes to your systems, documents and processes) and any on-going operational impacts. Where applicable, please state any difference in impacts between the Workgroup's proposed solutions.

How much will it cost your organisation to implement P469?

If any, please provide details of these costs, how they arise. Please also state whether it makes any difference to these costs whether implemented as part of or outside of a normal BSC Systems Release. Where applicable, please state any difference in costs between the Workgroup's proposed solutions and if applicable, between the different roles.

What will the ongoing cost of P469 be to your organisation?

If any, please provide details of these costs, how they arise. Please also state whether it makes any difference to these costs whether P469 is implemented as part of or outside of a normal BSC Systems Release. Where applicable, please state any difference in costs between the Workgroup's proposed solutions and if applicable, between the different roles.

How long (from the point of approval) would you need to implement P469?

Please provide an explanation of your required lead time, and which activities are the key drivers behind the timescale. Please also state whether it makes any difference to this lead time whether implemented as part of or outside of a normal BSC Systems Release. Where applicable, please state any difference in lead times between the Workgroup's proposed solutions.

The Workgroup invites you to give your views using the response form in Attachment C



What are the consumer benefit areas?

- 1) 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?
- 2) Will this change lower consumers' bills by controlling, reducing, and optimising spend, for example on balancing and operating the system?
- 3) Will this proposal support:
 - i) new providers and technologies?
 - ii) a move to hydrogen or lower greenhouse gases?
 - iii) the journey toward statutory net-zero targets?
 - iv) decarbonisation?
- 4) 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.
- 5) Are there any other identified changes to society, such as jobs or the economy.

Impact of the Modification on the environment and consumer benefit areas:

Consumer benefit area	Identified impact
1) Improved safety and reliability	Neutral
2) Lower bills than would otherwise be the case BSC Parties will have more time to assess and determine appropriate action to resolve a counter-party imbalance. This will reduce the risk of exposure; meaning that they can reduce collateral requirement on their customers.	Positive
3) Reduced environmental damage	Neutral
4) Improved quality of service	Neutral
5) Benefits for society as a whole	Neutral

Assessment Consultation Question

Do you agree with the Workgroup's assessment of the consumer benefits?

Please provide your rationale.

The Workgroup invites you to give your views using the response form in Attachment C

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Recommended Implementation Date

Elxon recommends an implementation date for P469 of:

- **27 February 2025** as part of the standard February 2024 BSC Release.

The P469 Workgroup aims and recommends an earlier implementation date. Elxon has issue a Change Request to the Service Provider to assess if P469 could be implemented sooner as part of Standard November 2024 BSC Release, or as part of Special Release. We expect to have a confirmation by the end of this Consultation.

Assessment Consultation Question

Do you agree with the Workgroup's recommended Implementation Date?

Please provide your rationale.

The Workgroup invites you to give your views using the response form in Attachment C

The Workgroup met on 8 May 2024 to discuss Terms of Reference for P442, develop the solution and provide initial views on the proposal.

ToR (a) Does P469 overlap with Issue 110 in terms of implementations regarding changes to ECVAAs?

Elxon explained that Issue 110 is concerned with ECVAAs performance and specifically acknowledges the speed of ECVNs. It does not modify the Credit Default Process. Therefore, both changes can progress independently.

Assessment Consultation Question

Do you agree with the Workgroup that both changes can be progressed independently?
Please provide your rationale.

The Workgroup invites you to give your views using the response form in Attachment C

ToR (b) Does P469 give advantage to one class of BSC Party, i.e. the Panel Objectives?

Since any Party that is a counterparty to a defaulting Party will benefit from P469, the Workgroup does not believe that P469 benefits one class of BSC Party over the others.

P469 does not change the Credit Cover and Credit Default processes in principle, it proposes only a minor change in the timings.

Assessment Consultation Question

Do you agree with the Workgroup that P469 does not give advantage to one particular type of BSC Party over the others?
Please provide your rationale.

The Workgroup invites you to give your views using the response form in Attachment C

ToR (c) Whether there needs to be a caveat for Parties entering a Supplier of Last Resort procedure

As mentioned above, the process for entering Default is not changing. The initial indicator of a potential SOLR is entering Level 2 Default –this will still happen under the same premises than before.

The defaulting Party may be able to benefit from P469 by being able to 'trade-out' any future imbalance, or having slightly more time to lodge extra credit to cover the imbalance. The main P469 aim is to allow counter-parties not having residual impacts.

The Workgroup concluded that the P469 solution does not negatively impact on defaulting Parties, hence, there should not be any caveat for Parties entering a SOLR procedure.

Assessment Consultation Question

Do you agree with the Workgroup that there should not be a caveat for Parties entering a SOLR?
Please provide your rationale.

The Workgroup invites you to give your views using the response form in Attachment C

ToR (d) Should the end of the Refusal and Rejection period be amended too?

The Workgroup reviewed the timeline for the Credit default process and when the Refusal and Rejection periods start and end. Elexon showed how P469 impact on the timeline by moving the Rejection/Refusal periods forward.

The Workgroup did not raise any concern or suggestion regarding this modification and the idea of changing the end of the process too. Therefore, the ToR is marked as solved.

Assessment Consultation Question

Do you agree with the Workgroup that the end of the Refusal and Rejection period **should not** be amended?

Please provide your rationale.

The Workgroup invites you to give your views using the response form in Attachment C

ToR (e) Is there any impacts to interconnectors' nomination windows?

A BSC Panel member raised this question when the Proposer presented P469 to the Panel.

[BSC Section T 4.1](#)⁶ specifically addresses the 'Treatment of Interconnector BM Units' concerning BM Unit Metered Volume. ECVN/MVRN data is not utilised in this context. Additionally, there are no other references to special requirements for Interconnectors regarding Trading Charges and Energy Indebtedness.

P469 is modifying a procedure that is not used by Interconnectors, therefore, there is no impact on them.

Assessment Consultation Question

Do you agree with the Workgroup that there is **no impact** on Interconnectors?

Please provide your rationale.

The Workgroup invites you to give your views using the response form in Attachment C

⁶ <https://bscdocs.elexon.co.uk/bsc/bsc-section-t-settlement-and-trading-charges>

ToR (f) Analyse potential risk impacts on BSC Parties that are at risk of defaulting. Are we transferring the risk from one market to another? If we are, what is the size of it?

Elxon presented the analysis done during Issue 106 on the potential impacts from this proposal. The main concern was regarding Parties increasing their indebtedness or acting maliciously during the extra time that P469 gives. That could potentially result in bigger debts mutualised.

Elxon analysed genuine instances of Level 2 Default during a 12 months period (2022-2023). The conclusions were:

- The overall impact on the BSC was low, and when compared to the benefits of delaying the rejection of ECVNs for liquidity in trading between counter Parties and limiting utilisation of collateral outside of the BSC, it represents a small risk.
- The threat of entering Credit Default level 2 is prominent and by delaying the rejection of ECVNs by one further Settlement Period, this will bring benefits to Counter Parties as it allows greater control and opportunity to terminate ECVN's with any Defaulting Party that may impact their own position.
- Delaying the Rejection and Refusal of ECVNs will be of benefit to all Counter Parties to mitigate as much as possible its risk of trading with another Party that is in Default.
- There is also a big difference to the many BSC Parties that utilise the power exchanges and the benefits of increased competition in short term trading and for Counter parties to reduce risk of exposure.

Therefore, the Workgroup concluded that P469 does not transfer the risk from one market to another but implements a mitigation measure. This change will reduce the subsequent risk of the counter-party defaulting as they have more time to trade-out their position. While it will primarily benefit the Power Exchanges, it apply equally to all Trading Parties.

Assessment Consultation Question

Do you agree with the Workgroup that P469 **does not** transfer risk from one market to another?

Please provide your rationale.

The Workgroup invites you to give your views using the response form in Attachment C



7 Workgroup's Initial Conclusions

The Workgroup Members believe that P469 would **better facilitate** the Applicable BSC Objectives (c), (d), and so **should be approved**. The Workgroup believes that P442 would be neutral against all other Objectives.

Does P469 better facilitate the Applicable BSC Objectives?

Obj	Proposer's Views	Other Workgroup Members' Views ⁷
(a)	• Neutral	• Neutral
(b)	• Neutral	• Neutral
(c)	• Positive	• Positive
(d)	• Positive	• Positive
(e)	• Neutral	• Neutral
(f)	• Neutral	• Neutral
(g)	• Neutral	• Neutral

Applicable BSC Objective (c)

Reducing the Risk of being not able to react to a default from a counterparty allows companies to find a new counterparty and this reduces financial costs and thus strengthens the overall competition (If you price in the risk its bad because you have higher costs, if you don't you will fall on your nose once it happens)

Applicable BSC Objective (d)

The current setup does not allow for a proper reaction time to the event of a default for the non-defaulting counterparty, meaning a strong increase of operational effectiveness of the BSC.

Self-Governance

The Proposer and Workgroup agree that P469 should not be progressed under Self-Governance. P469 may have a material effect on competition, and should therefore be submitted to Ofgem for decision.

EBGL Article 18 Terms and Conditions

The Proposer and Workgroup agree that P469 will not impact the European Balancing Guideline (EBGL) Article 18 Terms and Conditions, as listed in [BSC Section F, Annex F-2](#) under the current proposed solution

What are the Applicable BSC Objectives?

(a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence

(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System

(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

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

(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]

(f) Implementing and administering the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation

(g) Compliance with the Transmission Losses Principle

P469

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⁷ Shows the different views expressed by the other Workgroup members – not all members necessarily agree with all of these views.

Assessment Consultation Questions

Do you agree with the Workgroup's initial unanimous view that P469 does better facilitate the Applicable BSC Objectives than the current baseline?

Please provide your rationale with reference to the Applicable BSC Objectives.

Do you agree with the Workgroup's assessment that P469 does not impact the European Electricity Balancing Guideline (EBGL) Article 18 terms and conditions held within the BSC?

Please provide your rationale.

The Workgroup invites you to give your views using the response form in Attachment C

Workgroup's Terms of Reference

Specific areas set by the BSC Panel in the P469 Terms of Reference	Conclusion
Does P469 overlap with Issue 110 in terms of implementations regarding changes to ECVAA?	Issue 110 is concerned with ECVAA performance and specifically acknowledges the speed of ECVNs. It does not modify the Credit Default Process
Does P469 give advantage to one class of BSC Party, i.e. the Panel Objectives?	Any Party that is a counterparty to a defaulting Party will benefit from P469. There is no change to principles, just a change to the timings
Whether there needs to be a caveat for Parties entering a Supplier of Last Resort procedure?	The process for entering default is not changing. Initial indicator of potential SOLR is entering L2 Default – this will still happen. The defaulting party may be able to benefit from this arrangement – being able to 'trade-out' any future imbalance. P469 is aimed at counter-parties not having residual impact.
Should the end of the Refusal and Rejection period be amended too?	There were no comments from the Workgroup. Hence, this ToR is resolved.
Is there any impacts to interconnectors' nomination windows? In principle, the only moment when Credit Default Rejection/Refusal period becomes relevant for interconnectors is when one is defaulting.	BSC Section T 4.1 specifically deals with 'Treatment of Interconnector BM Units' in terms of BM Unit Metered Volume. ECVN/MVRN data is not used. No other reference to special requirements for Interconnectors in respect of Trading Charges and therefore Energy Indebtedness.
Analyse potential risk impacts on BSC Parties that are at risk of defaulting. Are we transferring the risk from one market to another? If we are, what is the size of it?	We are not transferring the risk from one market to another but implementing a mitigation measure. This change will reduce the subsequent risk of the counter-party defaulting as they have more time to trade-out their position. While it will primarily benefit the Power Exchanges, it apply equally to all Trading Parties.

Assessment Procedure timetable

P469 Assessment Timetable	
Event	Date
Panel submits P469 to Assessment Procedure	14 March 2024
Workgroup Meeting 1	8 May 2024
Assessment Procedure Consultation	14 June 2024 – 28 June 2024
Workgroup Meeting 2	W/C 8 July
Panel considers Workgroup's Assessment Report	8 August 2024

Workgroup membership and attendance

P469 Workgroup Attendance		
Name	Organisation	8 May 2024
Members		
Patrick Matthewson	Elxon (<i>Chair</i>)	✓
Cecilia Portabales	Elxon (<i>Lead Analyst</i>)	✓
Francois Gonsior	ECC (<i>Proposer</i>)	✓
Joanna Bulley	Eon	✓
Johan Askehave	Outlook Energy	✓
Joe Grand	Brook Green Innovations	✓
Chloe Kinsella	Cenergise Limited	✓
Jonathan Priestley	Habitat energy	✓
Christoph Schreiber	Enspired GmbH	✓
Howard Wright	Epex	✓
Chris Wood	Elxon (<i>Market Design Advisor</i>)	
Riccardo Patrian	Ofgem	✓
Kenneth Smith	Scottish Power	✓