



## Credit Default

### This document covers:

- What is included in the credit checking process;
- What happens if you breach the Credit Default thresholds; and
- How Credit Default interacts with Payment Default and BSC Default ([Section H](#)).

### What is the Credit Checking Process?

At any given time, Trading Parties may have accrued Trading Charges which have not yet been paid. The purpose of the credit checking arrangements is to ensure that, should a Trading Party become unable to pay the Trading Charges, sufficient collateral is available to cover the charges.

To this end, credit checking comprises two components:

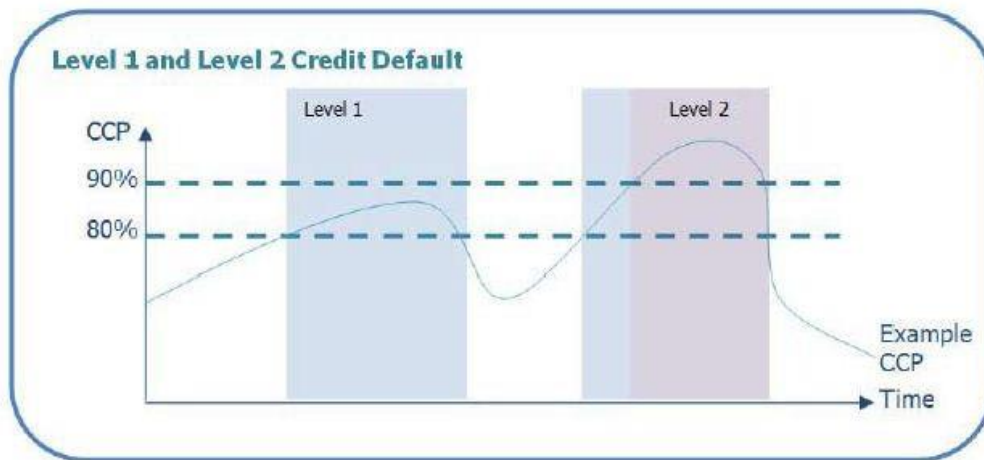
- the calculation of an estimate of each Trading Party's accrued Trading Charges, known as the Energy Indebtedness; and
- a comparison of a Trading Party's Energy Indebtedness with the amount of Credit Cover in place, to determine the Credit Cover Percentage (CCP).

If your CCP increases over a specified level the Credit Default provisions are initiated.

This guidance does not detail the calculation of [Energy Indebtedness](#) and [CCP](#) as this is covered in the [Credit Cover guidance](#) on the [Credit](#) page of the [BSC Website](#).

### What Happens if I exceed the Credit Default Thresholds?

There are two Credit Default thresholds. The Level 1 Credit Default process is initiated if your CCP exceeds 80% and the Level 2 Credit Default process is initiated if your CCP exceeds 90%.



## Level 1 Credit Default

### *Query Period*

The Level 1 Credit Default is initiated if your CCP becomes greater than 80%. At this point you will be informed that your CCP has exceeded 80%, and a Query Period will commence. The Query Period is a minimum of 24 hours in duration and must contain five consecutive Business Hours, where Business Hours are 09.00 to 17.00 on a Business Day.

To ensure that you can be contacted immediately if a breach occurs, please provide ELEXON with a 24 hour contact. During the Query Period you may query the determination of your CCP. If you do raise a query then ELEXON will undertake a review.

### *Default Cure Period*

If, at the end of the Query Period, any investigation has determined that the CCP for the given Settlement Period was definitely greater than 80% you will enter a Default Cure Period. This means you must ensure that your CCP is reduced to less than 75% for at least one Settlement Period before the end of the next Business Day. You can reduce your CCP by increasing collateral or by purchasing (and having notified to the ECVAA) contracts for additional energy and hence reducing your indebtedness. While additional collateral may only be posted during Funds Administration Agent (FAA) Business Hours, Energy Indebtedness can be reduced at any time. However, reducing Energy Indebtedness will involve taking a 'long position' in one or more Settlement Periods, during which time you will be exposed to the System Price.

### *Level 1 Credit Default*

If you fail to reduce your CCP by the end of the Default Cure Period, then you will be in Level 1 Credit Default. The consequences of Level 1 Credit Default are that a notice is published on the Balancing Mechanism Reporting Agent ([BMRA](#)) website, and ELEXON issues an authorisation notice to the ECVAA that permits the rejection and refusal of notifications if your CCP subsequently becomes greater than 90%.

You will no longer be in Level 1 Credit Default when your CCP becomes less than 75%. At this point, the notice will be end-dated on the BMRA website and the authorisation notice withdrawn. The BMRA website notice will be removed after seven calendar days.

## Level 2 Credit Default

The Level 2 Credit Default process is initiated if your CCP becomes greater than 90%. The Query Period still applies but there is no Default Cure Period relating to Level 2 Credit Default.

### *Refusal and Rejection Periods*

The consequences of Level 2 Credit Default are that a notice is published on the BMRA website, and Volume Notifications will be refused and/or rejected as follows:

- any Energy Contract Volumes Notifications (ECVNs) or Metered Volume Reallocation Notifications (MVRNs) that are submitted and which would increase (or not decrease) Energy Indebtedness at any point in the future will be **refused**; and
- any Energy Contract Volumes or Metered Volume Reallocations 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 ECVA.

Energy Contract Volumes and Metered Volume Reallocations that increase Energy Indebtedness are those which represent the sale of energy by one Trading Party to another Trading Party, and make the first Trading Party's Account Energy Imbalance Volume shorter. As future Systems are unpredictable there is no way of knowing whether new ECVNs or MVRNs containing both sales and purchases will, overall, increase or decrease financial indebtedness. Therefore if an ECVN or MVRN represents the sale of energy in any Settlement Period, it is refused.

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 otherwise be left short 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.

You will no longer be in Level 2 Credit Default when your CCP becomes less than 90%. At this point, the notice will be end-dated on the BMRA website and contracts will no longer be restricted. The BMRA website notice will be removed after seven calendar days.

## How is Credit Default Linked to Payment Default?

You may be in Level 1 or Level 2 Credit Default but continue to pay your Trading Charges when they are due i.e. you are in Credit Default but not Payment Default. While not causing any bad debt to other BSC Parties, a Trading Party in Credit Default is a risk to other BSC Parties because if it does stop paying invoices, it may not have sufficient collateral to cover all of its debts. Where a Trading Party's debts are not recovered, they would have to be recovered from all other Trading Parties.

## How is Credit Default Linked to Section H Default?

Section H of the BSC sets out the rules relating to default under the BSC and includes details of how a BSC Party can become a Defaulting Party. Although the general defaulting provisions are much wider than just Credit Default, Section H does cover instances where prolonged Credit Default can result in a BSC Party becoming a Defaulting Party.

A BSC Party in Credit Default can, in the following circumstances, become a Defaulting Party under the general provisions in Section H of the BSC if that Party:

- has been in Level 1 Credit Default for 90 continuous days or an intermittent period of 120 days out of 180;

- has been in Level 2 Credit Default for 60 continuous days or an intermittent period of 75 days out of 120;
- has been in Level 2 Credit Default with a Credit Cover Percentage greater than 100% for more than two working days; or
- has breached 100% Credit Cover Percentage six times within a rolling period of six months on separate days and as a result of separate instances.

Where a BSC Party becomes a Defaulting Party as a result of one of the above Credit Default scenarios, the BSC Panel may take a number of steps including withdrawing the right to be party to any notifications, potentially de-energisation and expulsion from the BSC. More information can be found in the [Defaulting Party and Failing Supplier Process Section H](#) Default guidance.

## Need more information?

Further information on this subject is contained in the [Balancing and Settlement Code \(BSC\)](#).

- [BSC Section M: Credit Cover and Credit Default](#)
- [BSC Section P: Energy Contract Volumes and Metered Volume Reallocations](#)
- [Defaulting Party and Failing Supplier Process Section H](#) Default guidance
- [Credit Cover guidance](#)
- [Credit Default guidance](#)
- [BMRA Website](#)

For more information please contact the **BSC Service Desk** at [bscservicedesk@cgi.com](mailto:bscservicedesk@cgi.com) or call **0370 010 6950**.

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