

CC38/01 - REVIEW OF THE CREDIT ASSESSMENT PRICE

MEETING NAME Credit Committee

Date of meeting 7 September 2018

Paper number CC38/01

Owner Nick Baker

Purpose of paper For Decision

Classification Public

Summary The Credit Assessment Price (CAP) upper trigger level of £65/MWh (£6/MWh above the last implemented CAP value of £59/MWh) was breached on Tuesday 28 August. Following consultation on a proposed value of £70/MWh, not all respondents and Credit Committee members were in agreement.

We therefore invite the Credit Committee to consider a change to the CAP value, which would become effective no earlier than 28 September 2018. We are also inviting the Credit Committee to determine if the trigger level value should be changed.

1. Introduction

- 1.1 The current value of the Credit Assessment Price (CAP) is £59/MWh. Every week, ELEXON compares this against a reference price, based on forward market price data¹. If the difference exceeds the trigger level (currently +/- £6/MWh), ELEXON initiates a review of the CAP value. The CAP was last reviewed in July 2018, with a value of £59/MWh effective from 15 August 2018.
- 1.2 On Tuesday 28 August 2018, the reference price was £66.75/MWh, breaching the upper trigger level of the latest agreed CAP by £1.75/MWh.
- 1.3 The reference price averaged £64.08/MWh in August 2018, and was based on September and October 2018 forward market prices. From 3 September 2018, the reference price calculation changed to use October and November 2018 forward market prices. The calculated reference price has averaged £73.04/MWh in September so far².
- 1.4 Following the breach on Tuesday 28 August 2018, a proposed CAP value of £70/MWh was sent out to industry for consultation. The consultation ended on Tuesday 4 September 2018. Credit Committee members and consultation respondents were **not** in agreement on the proposed the CAP value, and hence it was not implemented.
- 1.5 We invite the Credit Committee to determine whether the CAP should be revised and, if so, to determine the new value and its implementation date. If a decision is made to change the CAP, it would be effective no earlier than 28 September 2018, 15 Working Days after the Credit Committee's decision and notification to BSC Parties.

¹ ICIS Heren provides forward price data.

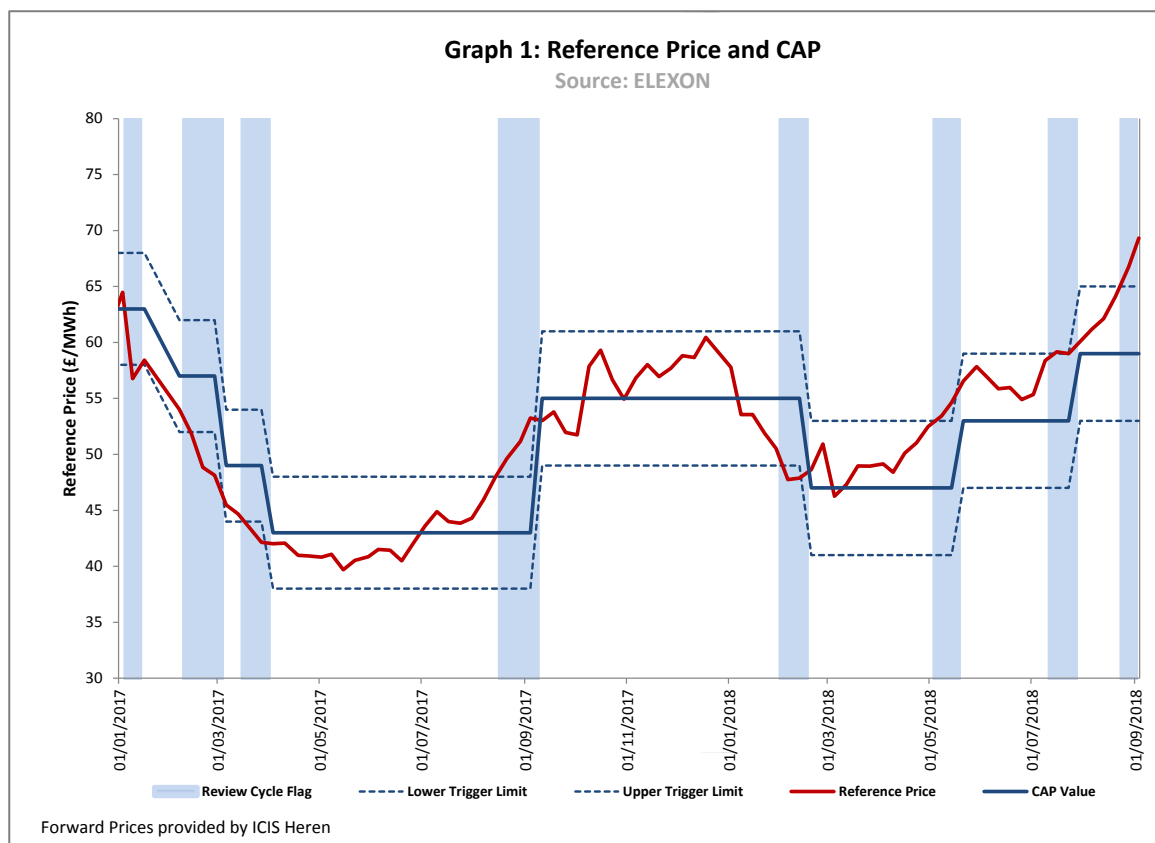
² Latest forward market pricing data from 5 September 2018.

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2. Recent pricing data

2.1 **Graph 1** shows the reference price in comparison to the CAP value, and the upper and lower limits of the trigger level since 2017. The areas shaded in blue on this graph indicate the periods where the value of the CAP was under review. The graph shows that the reference price has been increasing since March 2018.

2.2



2.3 Since the reference price breach, from 28 August 2018 to 31 August 2018, forward prices averaged £67.13/MWh for baseload and £72.07/MWh for peaks. The latest reference price was £69.33/MWh on Monday 3 September 2018, which was calculated based on the last five Working Days forward market baseload and peak data in August.

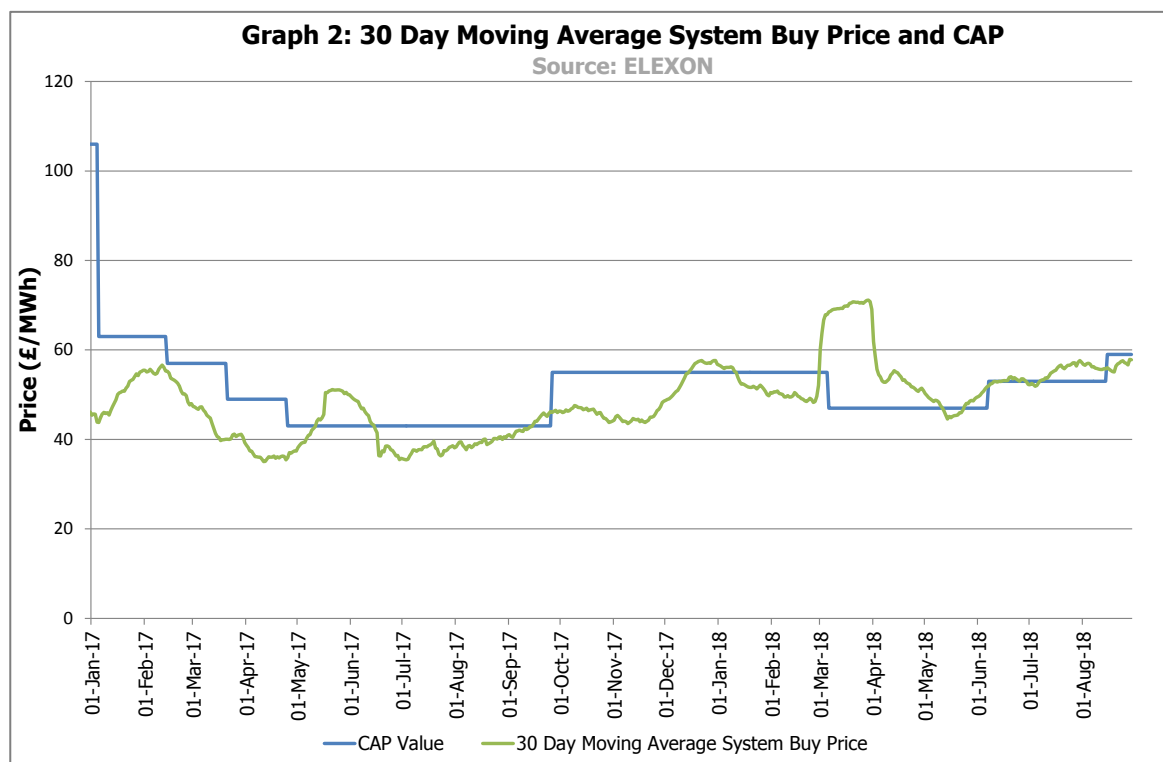
2.4 October and November forward prices are now used in calculating a reference price. In September to date, baseload prices have averaged £69.93/MWh and peak prices have averaged £76.83/MWh, giving an average calculated reference price of £73.04/MWh.

2.5 **Graph 2** shows the 30-day moving average of System Buy Price (SBP) and the value of the CAP. We believe that this is good measure of accuracy, as we consider CAP to be a proxy for outturn SBP.

2.6 Following the implementation of Modification P305 on 5 November 2015, a single price and smaller Price Average Reference (PAR) volume has resulted in more volatile prices. This is an issue for a single CAP at a Settlement Period level.

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2.7



3. Consultation responses

- 3.1 We issued a consultation on 28 August 2018 inviting Trading Parties to consider the proposal to increase the CAP to £70/MWh, based on current level of the reference price and the use of October and November forward market prices in the calculation from the start of September.
- 3.2 A Credit Committee meeting will be held if at least one industry or a Credit Committee member requests one. We have received one industry response to the consultation covering eight Trading Parties. The respondent agreed the proposed level of the CAP and believed the current trigger level is appropriate.
- 3.3 However as a Credit Committee member has requests a Credit Committee meeting, one will be held.

4. Trigger level

- 4.1 The CAP Review Guidance Document requires the Credit Committee to review the trigger level at least once a year. The value last changed at the Credit Committee meeting on 5 September 2017, from +/- £5/MWh to +/- £6/MWh. The Credit Committee reviewed the trigger level value as part of the July 2018 CAP consultation and decided to keep it at its current level.
- 4.2 We invite the Credit Committee to consider if a change in the trigger level value or methodology is appropriate.

5. Next steps

- 5.1 If the Credit Committee agrees on a new value of the CAP, ELEXON will notify the BSC Panel, all Trading Parties, the Funds Administration Agent (FAA) and Energy Contract Volume Aggregation Agent (ECVAA) of the new value by the next Working Day following the meeting.
- 5.2 The new CAP value would be effective from no earlier than Friday 28 September 2018.

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6. Recommendations

6.1 We invite you to:

- a) **NOTE** the contents of this paper;
- b) **APPROVE**
 - i) The increased £70/MWh CAP value, as proposed in the industry consultation; or
 - ii) An alternative CAP value, which reflects the recent market data and consultation responses;
- c) **REVIEW** the trigger level value of +/- £6/MWh, and agree if it should be changed; and
- d) **CONFIRM** that where revised, the new CAP value will be effective from Friday 28 September 2018.

Attachments

Attachment A – Consultation Responses

For more information, please contact:

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