

CC39/01 - REVIEW OF THE CREDIT ASSESSMENT PRICE

MEETING NAME Credit Committee

Date of meeting 15 March 2019

Paper number CC39/01

Owner Nick Baker

Purpose of paper For Decision

Classification Public

Summary The Credit Assessment Price (CAP) lower trigger level of £50/MWh (£6/MWh below the last notified CAP value of £56/MWh) was breached on Monday 4 March. Following consultation on a proposed value of £49/MWh, not all 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 9 April 2019. 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 £56/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 February 2019, with a value of £56/MWh effective from 6 March 2019.
- 1.2 On Monday 4 March 2019, the reference price was £49.09/MWh, breaching the lower trigger level of the latest agreed CAP by £0.91/MWh.
- 1.3 The reference price has averaged £48.79/MWh in March 2019², based on April and May 2019 forward market prices.
- 1.4 Following the breach on Monday 4 March 2019, a proposed CAP value of £49/MWh was sent out to industry for consultation. The consultation ended on Tuesday 12 March 2019. No responses were received from industry. Credit Committee members 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 9 April 2019, 15 Working Days after the Credit Committee's decision and notification to BSC Parties.

¹ ICIS Heren provides forward price data.

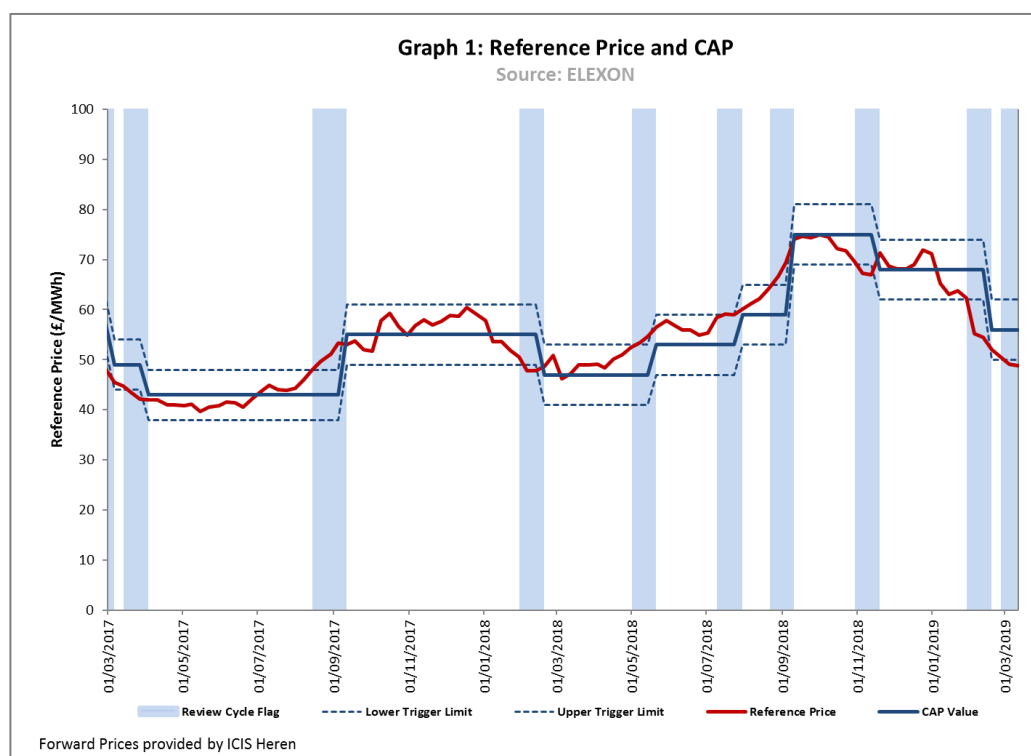
² Latest forward market pricing data from 13 March 2019.

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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 decreasing since January 2019.

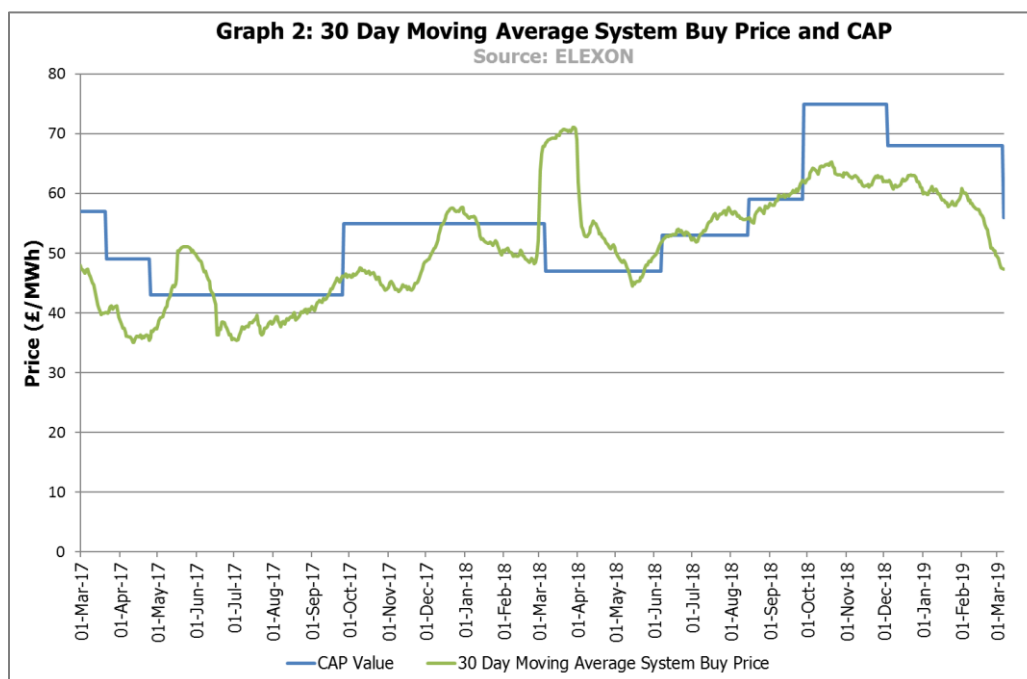
2.2



- 2.3 Since the reference price breach, from 4 March 2019 to 13 March 2019, forward prices averaged £46.81/MWh for baseload and £49.75/MWh for peaks. The latest reference price was £48.86/MWh on Monday 11 March.
- 2.4 May and June forward prices will be used in calculating a reference price at the time of the implementation (if the CAP is changed). Based on the last 5 Working Days, baseload prices have averaged £46.44/MWh and peak prices have averaged £50.29/MWh for these two months, giving an average projected reference price of £48.37/MWh for April at this time.
- 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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3. Consultation responses

- 3.1 We issued a consultation on 4 March 2019 inviting Trading Parties to consider the proposal to decrease the CAP to £49/MWh, based on current level of the reference price and the use of April and May forward market prices in the calculation from the start of April.
- 3.2 A Credit Committee meeting will be held if at least one industry or a Credit Committee member requests one. During this consultation of the CAP, a Credit Committee member has requested a meeting.
- 3.3 We have received no industry responses to the consultation.

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 February 2019 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 Tuesday 9 April 2019.

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6. Recommendations

6.1 We invite you to:

- a) **NOTE** the contents of this paper;
- b) **APPROVE**
 - i) The decreased £49/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 Tuesday 9 April 2019.

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