

CC40/01 - REVIEW OF THE CREDIT ASSESSMENT PRICE

MEETING NAME	Credit Committee
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Date of meeting	24 June 2019
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Paper number	CC40/01
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Owner	Sabina Bham Nick Baker
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Purpose of paper	For Decision
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Classification	Public
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Summary	<p>The Credit Assessment Price (CAP) lower trigger level of £42/MWh (£6/MWh below the last implemented CAP value of £48/MWh) was breached on Monday 10 June 2019. Following consultation on a proposed value of £41/MWh, Credit Committee members and some industry respondents disagreed with the new suggested value.</p>
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We therefore invite the Credit Committee to consider a change to the CAP value, which would become effective no earlier than Tuesday 16 July 2019.

1. Introduction

- 1.1 The current value of the Credit Assessment Price (CAP) is £48/MWh. Each 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 March 2019, with a new value of £48/MWh effective from 9 April 2019.
- 1.2 On Monday 10 June 2019, the reference price was £41.14/MWh, breaching the lower trigger level of the latest agreed CAP by £0.86/MWh.
- 1.3 The reference price averaged £44.19/MWh in May 2019, and was based on June and July 2019 forward market prices. From 1 June 2019, the reference price calculation changed to use July and August 2019 forward market prices. The calculated reference price has averaged £41.34/MWh in June so far².
- 1.4 Following the breach on Monday 10 June 2019, a proposed CAP value of £41/MWh was sent out to industry for consultation. The consultation ended on Tuesday 18 June 2019. Credit Committee members and some consultation respondents disagreed with the proposed the CAP value.
- 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 16 July 2019, 15 Working Days after the Credit Committee's decision and notification to BSC Parties.

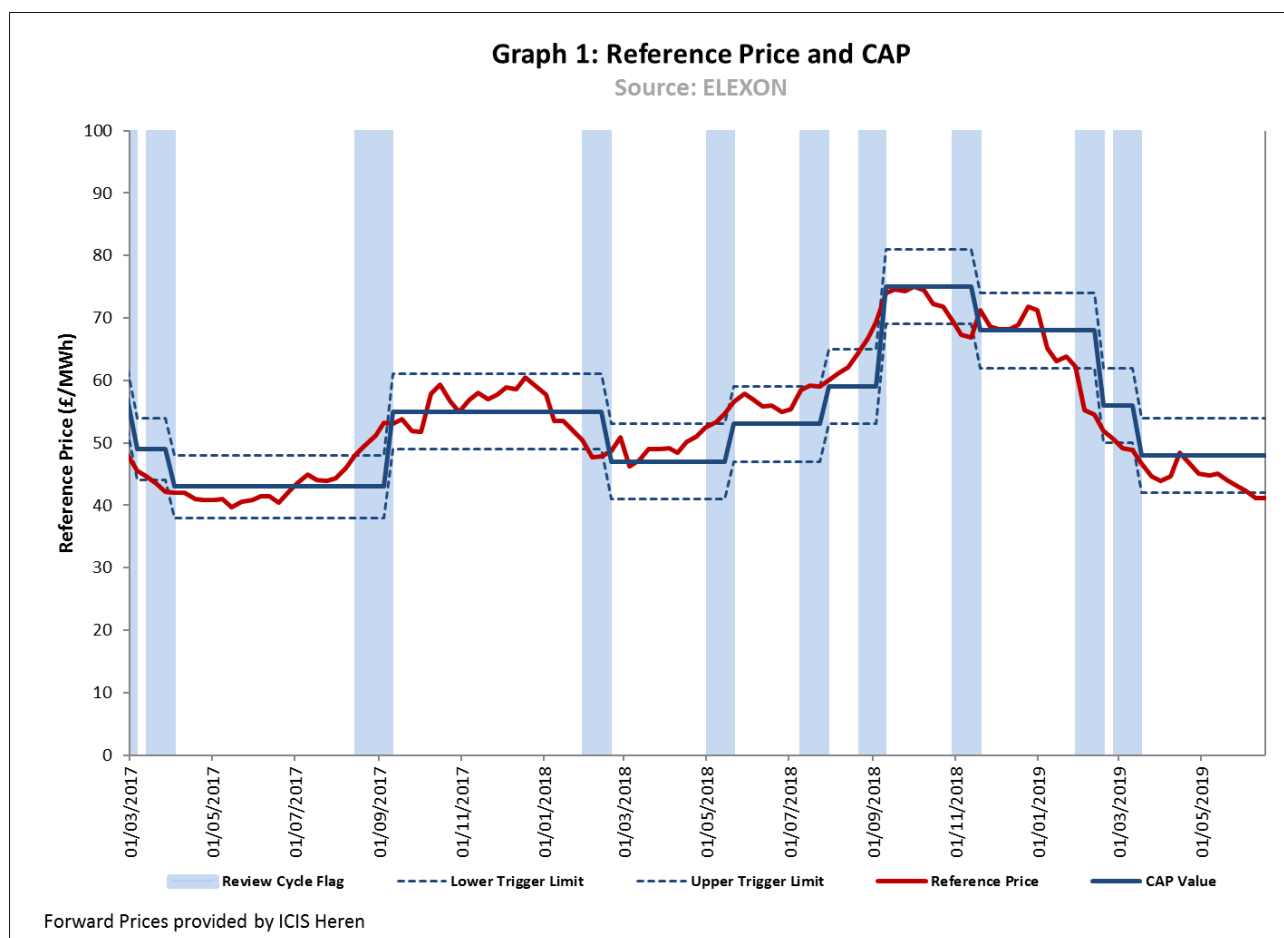
¹ ICIS Heren provides forward price data.

² Latest forward market pricing data from 21 June 2019.

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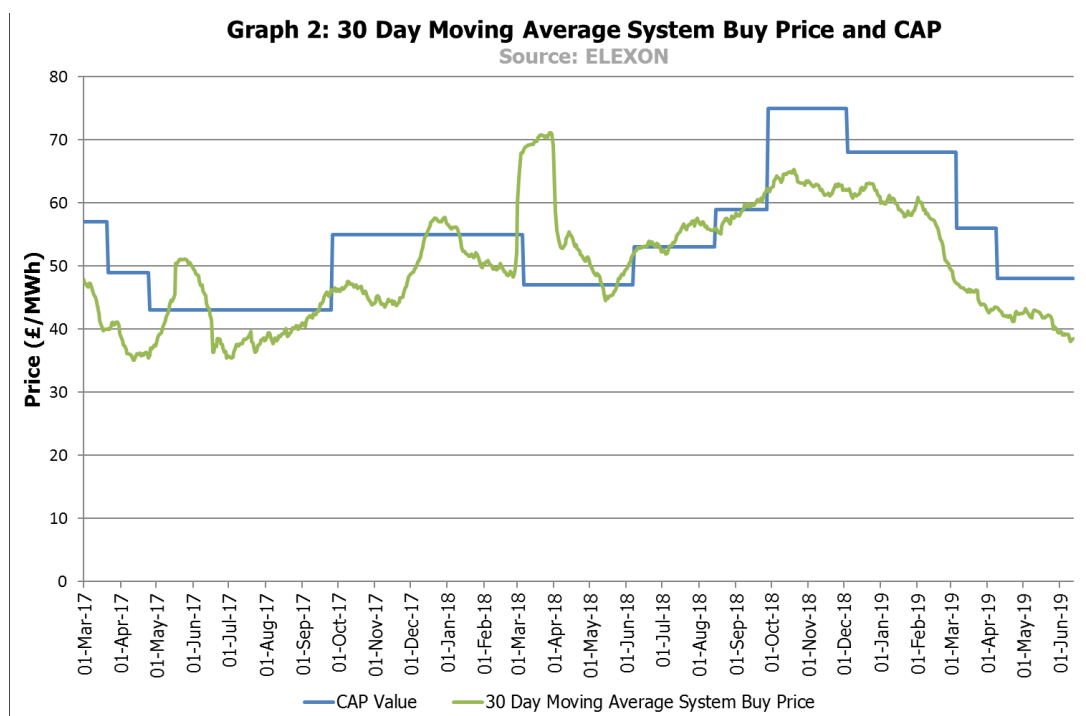
2. Recent pricing data

- 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 March 2017. The areas shaded in blue on this graph indicate the periods where the CAP value was under review. The graph shows that the reference price has been decreasing since the middle of April 2019.



- 2.2 Since the reference price breach, forward prices between 10 June 2019 to 21 June 2019 have averaged £39.17/MWh for baseload and £42.55/MWh for peaks. The latest reference price was £40.59/MWh on Friday 21 June 2019 (calculated using last five Working Days forward market baseload and peak data in July and August).
- 2.3 July and August forward prices are now used in calculating a reference price. In June to date, baseload prices have averaged £39.21/MWh and peak prices have averaged £42.90/MWh, giving an average calculated reference price of £41.17/MWh.
- 2.4 **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.

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- 2.5 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. Note the second phase of Modification P305 was implemented on 1 November 2018, reducing the PAR value further to 1MWh.

3. Consultation responses

- 3.1 We issued a consultation on 10 June 2019 inviting Trading Parties to consider the proposal to decrease the CAP to £41/MWh, based on the current reference price and the use of July and August forward market prices in the calculation from the start of June.
- 3.2 A Credit Committee meeting will be held to discuss the CAP value. We have received three industry responses to the consultation. One respondent agreed the proposed level of the CAP and believed the current trigger level is appropriate, but two respondents disagreed with the proposed level of the CAP. The two respondents both suggested a CAP value of £45/MWh was more appropriate based on System Prices from the previous summer. They also highlighted concerns on lowering the Cap based on the number of suppliers who have defaulted in the last year.
- 3.3 ELEXON also received an email response from a BSC Party which agreed with the proposed CAP value.
- 3.4 A Credit Committee member also viewed the consulted on CAP of £41/MWh to be too low and requested a meeting to 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 at Credit Committee meeting 39 in March 2019, the Committee decide to keep the trigger level at its current value.
- 4.2 We invite the Credit Committee to consider if a change in the trigger level value or methodology is appropriate.

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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 16 July 2019.

6. Recommendations

- 6.1 We invite you to:
 - a) **NOTE** the contents of this paper;
 - b) **APPROVE**
 - i) The decrease of the CAP value to £41/MWh, 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 16 July 2019.

Attachments

Attachment A – Consultation Responses

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