

Minutes

Credit Committee 43

Meeting number	CC43	Venue	Online meeting (MS Teams)
Date of meeting	22 February 2021	Classification	Public

Attendees and apologies		
Attendees		
Michael Gibbons	MG	Chair
Andrew Colley	AC	Member
Lisa Waters	LW	Member
Robert Johnston	RJ	Member
Stuart Cotten	SC	Member
Mehdi Jafari	MJ	Elexon
Emma Tribe	ET	Elexon
Apologies		
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Summary

Considering high System Prices in 2021, at its 42nd meeting the Credit Committee discussed whether changing the Credit Assessment Price (CAP) calculation process to take a higher weight of forward market peak prices into account would better reflect the System Price.

Elexon carried out analysis and presented a paper including the analysis results to the Credit Committee. The paper recommended that no changes to the current defined process is needed.

The Credit Committee approved this recommendation, however they decided to escalate their concerns to the Panel about CAP not reflecting the high System Prices over periods of stress event.

Introduction

1. Credit Committee

- 1.1 Introductions were made and all attendees were confirmed.

Decision Paper

2. Review of the Credit Assessment Price (CAP) process

- 2.1 System Prices were high in 2021 particularly between 6 to 8 January, high prices between £1,000/MWh and £4,000/MWh increased the average of System Prices to around £73/MWh over period 1 January to 15

February. At its 42nd meeting, the Credit Committee expressed their concern that the current way of calculating reference price and CAP might not fully reflect the System Prices. They suggested that considering higher weights for peak prices in calculating CAP might better reflect the System Prices.

- 2.2 Elexon presented the CAP process Review paper to the 43rd Credit Committee meeting. The analysis considers two scenarios. The Peak_only scenario takes only forward market peak prices into account for calculating reference price and CAP. The P2B1 scenario takes peak and baseload prices but attributes a weight to the peak prices double that of baseload prices.
- 2.3 Elexon carried out analysis for period after 5 April 2016. This was when the reference period changed to take next two month rather than quarters. The data was split into two time periods because different behaviour of current CAP arrangements was seen over these two periods. Analysis shows that over April 2016 to September 2018, the Peak_only scenario and P2B1 scenario would have nearly halved the number of days where 30-day moving average System Price was higher than CAP. However, no major difference would have been seen over the period October 2018 to 15 February 2021 in either of scenarios compared to the current arrangements.
- 2.4 One Credit Committee Member discussed whether using the 30-day moving average of System Prices to evaluate the effectiveness of CAP is a proper measure. Elexon explained that this measure has long been in use considering that under current Settlement arrangements it takes 29 days until Parties' Indebtedness get settled and CAP is considered to be a proxy for outturn System Prices. Members confirmed that at the moment the 30-day moving average System Price seems to be a proper measure as it is in line with the Settlement arrangements.
- 2.5 Elexon also presented analysis on excluding high system prices which contribute to 18 Settlement Periods since 1 January 2021 to 15 February 2021. The average of System Price would fall by around £10/MWh and the number of days where with 30-day moving average System Price higher than CAP would increase by eight days. Analysis also shows that the majority of Imbalance Volumes do not occur over peak hours.
- 2.6 Credit Committee Members approved the paper recommendation that no changes to the current process of calculating reference price and the CAP is needed. However, they highlighted the need to escalate their concerns to the Panel that during periods of stress events, CAP arrangements do not seem to be accurately reflecting System Prices. As evidence they referenced the high number of defaulted BSC Parties in 2021 compared to normal circumstances.
- 2.7 One Member suggested that cross-code default arrangements might need to be considered and put in place to prevent Parties default when CAP could not reflect high System Prices. One other Member proposed looking into other ways of collateralisation such as using insurance products as a way to allow Parties lodge Credit. Elexon explained that they will need to discuss these with Settlement and Invoicing team as they run the Credit Cover process.
- 2.8 Credit Committee asked Elexon to present to the Panel a short paper expressing the Credit Committee's concern that the CAP process does not reflect high System Prices over periods of stress events and there is a need to look into other ways to help Parties lodge Credit Cover in such circumstances.
- 2.9 The Credit Committee:
 - a) **NOTED** the paper provided;
 - b) **APPROVED** that no changes to the current process of calculating reference price and the CAP is needed;
 - c) **CONFIRMED** that a paper on Credit Committee's concerns will need to be presented to the Panel.

3. The Credit Committee Terms of Reference

- 3.1 Along with other BSC Panel sub-committees' Terms of Reference (ToR), the Credit Committee's ToR is also going to be reviewed and approved by the March Panel. Elexon presented to the Credit Committee the proposed changes to the ToR.
- 3.2 The Credit Committee disagreed with deletion of first bullet point in section 4.2.2 under Powers and Functions of the Committee (in relation to setting the trigger level) and expressed their agreements with other proposed changes.
- 3.3 The Credit Committee:
 - a) **NOTED** the proposed changes to the CC's Terms of Reference;

- b) **COMMENTED** on the proposed changes to the CC's Terms of Reference;
- c) **ENDORSED** the updated Terms of Reference following an amendment; and
- d) **NOTED** that the updated Terms of Reference will be presented to the BSC Panel in March 2021 for approval.