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# CC44/01 - Review of the Credit Assessment Price

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## Credit Committee

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Date of meeting	<b>30 September 2021</b>	Paper number	<b>CC44/01</b>
Owner/author	<b>Mehdi Jafari</b>	Purpose of paper	<b>Decision</b>
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**Summary**      The Credit Assessment Price (CAP) upper trigger level of £151/MWh (£14/MWh above the last notified CAP value of £137/MWh) was breached on Monday 20 September 2021. Following consultation on a proposed value of £184/MWh, one industry response disagreed with the suggested value.

We therefore invite the Credit Committee to decide whether a new CAP, which would become effective no earlier than Thursday 21 October 2021, should be set.

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## 1. Background

- 1.1 The last notified value of the Credit Assessment Price (CAP) is £137/MWh. Each week, Elexon compares this against a reference price, based on forward market price data. If the difference exceeds the trigger level of 10% (currently +/- £14/MWh), Elexon initiates a review of the CAP value.
- 1.2 The CAP was last reviewed in early September 2021. A new value of £137/MWh notified to the Parties after the consultation closed on 14 September. This new CAP will be effective from 5 October however the trigger monitoring process resumes using the new CAP since 20 September 2021.
- 1.3 On Monday 20 September 2021, the reference price was £179.88/MWh, breaching the upper trigger level of the latest agreed CAP by £28.88/MWh.
- 1.4 Based on November and December 2021 forward market prices on the consultation day, the five-day average price was £184.27/MWh. This was an estimate of what the reference price would be on the implementation day in October, and used to set the proposed value in the consultation. This has now increased to £208.18/MWh.
- 1.5 Following the breach on Monday 20 September 2021, a proposed CAP value of £184/MWh was sent out to industry for consultation. The consultation ended on Tuesday 28 September 2021. One Credit Committee member suggested the CC members should meet to discuss further CAP increase. Some consultation respondents also disagreed with the proposed CAP value.
- 1.6 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 21 October 2021, 15 Working Days after the Credit Committee's decision and notification to BSC Parties.

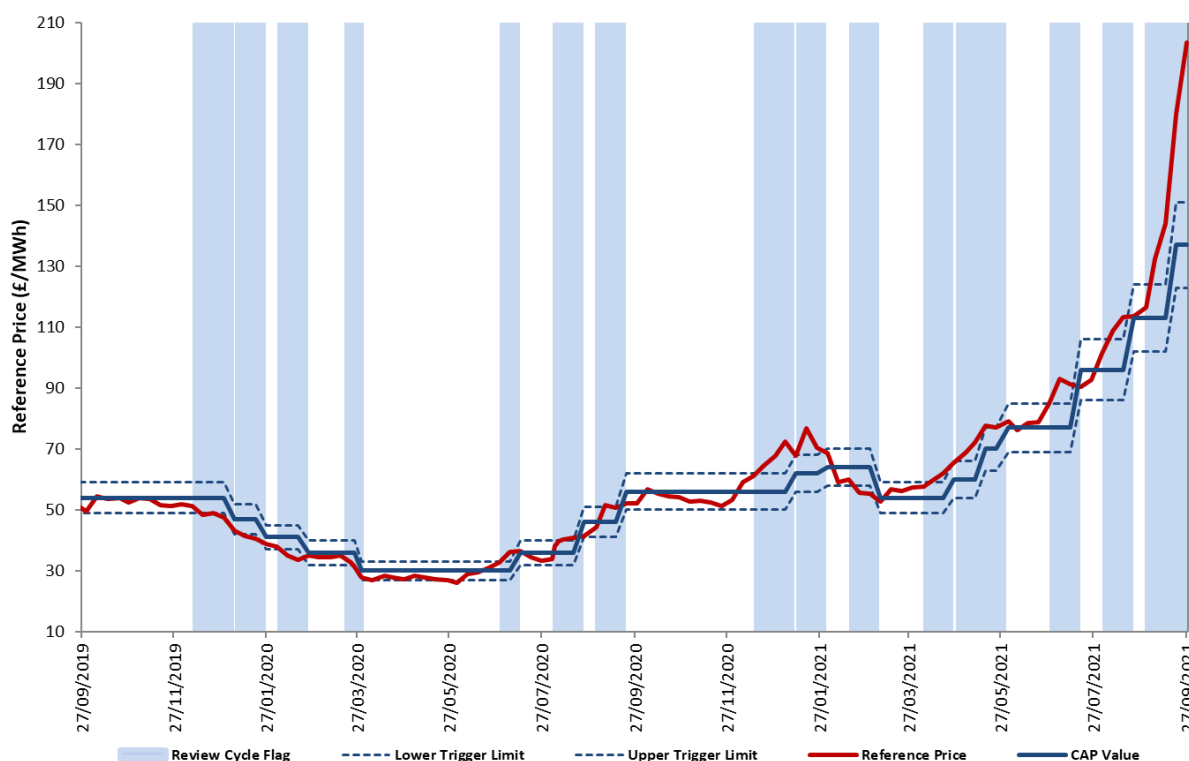
## 2. Recent pricing data

- 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 September 2019. The areas shaded in blue on this graph indicate the periods where the CAP value was under review.

- 2.2 Since consultation day, forward prices for October and November have averaged at £192.08/MWh for baseload and £227.02/MWh for peaks. The latest reference price was £219.07/MWh on 29 September 2021 (calculated using last five Working Days forward market baseload and peak data in October and November).
- 2.3 In October, forward prices for November and December will be used in the reference price calculation. They have averaged since consultation day at £192.73/MWh for baseload and £234.84/MWh for peaks. The projected reference price in October using November and December prices is calculated at £222.40/MWh on 29 September 2021.

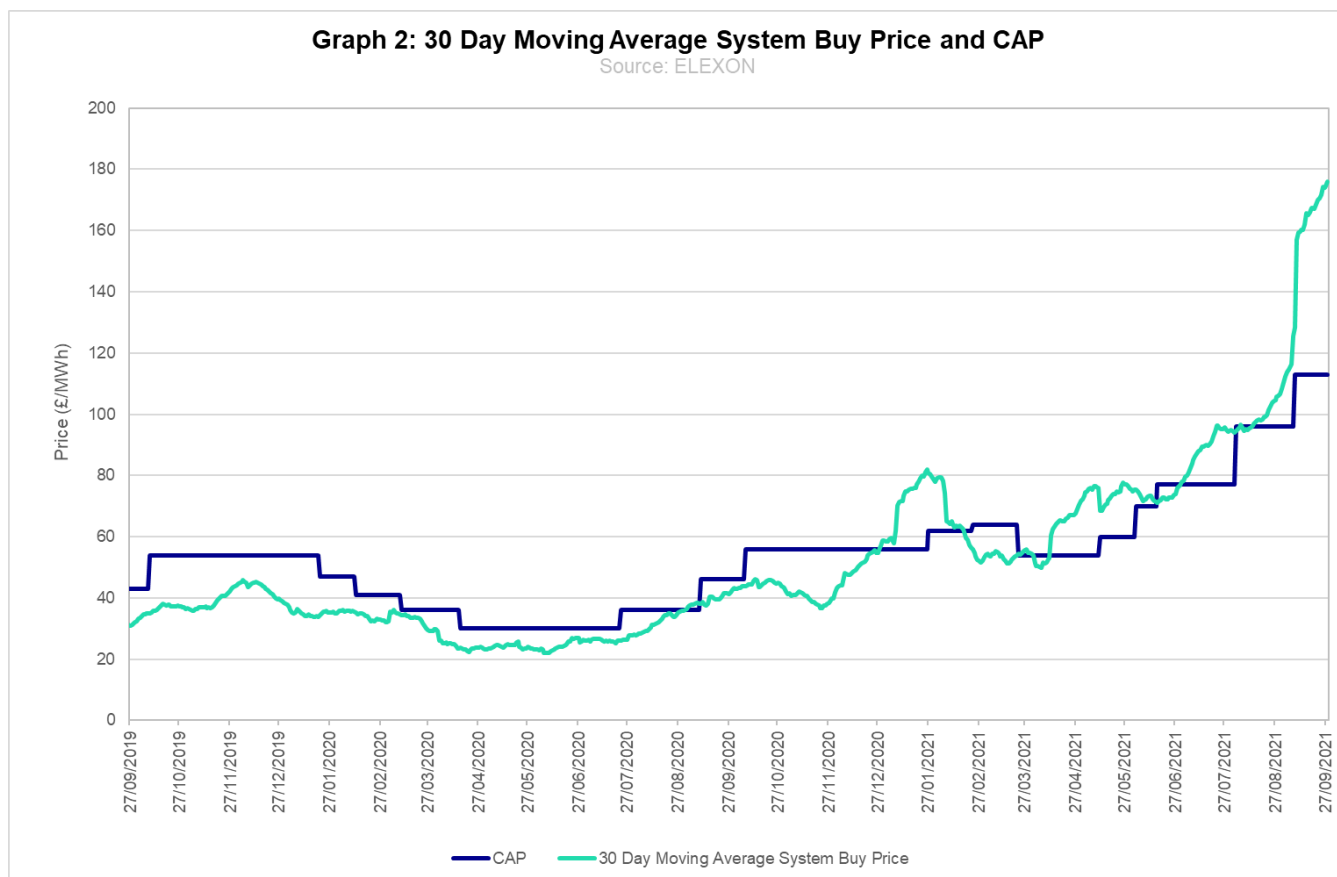
**Graph 1: Reference Price and CAP**

Source: ELEXON



Forward Prices provided by ICIS Heren

- 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 a good measure of accuracy, as we consider CAP to be a proxy for outturn SBP.



### 3. Consultation responses

- 3.1 We issued a consultation on 20 September 2021 inviting Trading Parties to consider the proposal to increase the CAP to £184/MWh, based on the use of November and December forward market prices in the calculation.
- 3.2 A Credit Committee meeting will be held to discuss the CAP value. We have received one industry response to the consultation. The respondent disagreed with increasing the CAP to £184/MWh. They highlighted the concern that under current market situation with wholesale prices being extremely high and many suppliers failed, increasing the CAP will cause more suppliers to fail which will ultimately be to the detriment of the end consumer and the UK economy as a whole. The respondent has suggested that keeping the CAP at the latest notified value of £137/MWh would help more suppliers survive the current market situation and in long term would benefit the end consumers.
- 3.3 ELEXON also received an email response from a BSC Party which disagreed with the proposed CAP value. The customer believes the increase to £184/MWh is quite extreme and they suggest setting the CAP at £154/MWh instead.
- 3.4 A Credit Committee member also suggested that given overall market situation Credit Committee members should meet to discuss further CAP increase and to make a conscious decision.

### 4. Next Steps

- 4.1 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.

- 4.2 The new CAP value would be effective from no earlier than Thursday 21 October 2021. The trigger monitoring process will then resume on Monday 4 October 2021 using the new CAP.
- 4.3 If the Credit Committee decides not to set a new CAP value the trigger monitoring process resumes on Monday 4 October 2021 with the last notified CAP of £137/MWh.

## 5. Recommendations

- 5.1 We invite you to:
- a) **NOTE** the contents of this paper;
  - b) **APPROVE**
    - i. The increase of the CAP value to £184/MWh, as proposed in the industry consultation; or
    - ii. An alternative CAP value, which reflects the recent market data;
  - c) **CONFIRM** that where revised, the new CAP value will be effective from 21 October 2021.

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### For more information, please contact:

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