
CC45/01 - Review of the Credit Assessment Price

Credit Committee

Date of meeting **14 October 2021**

Paper number **CC45/01**

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Purpose of paper **Decision**

Classification **Public**

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Summary The Credit Assessment Price (CAP) upper trigger level of £202/MWh (£18/MWh above the last notified CAP value of £184/MWh) was breached on Monday 04 October 2021. Following consultation on a proposed value of £259/MWh, some industry responses 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 4 November 2021, should be set.

1. Background

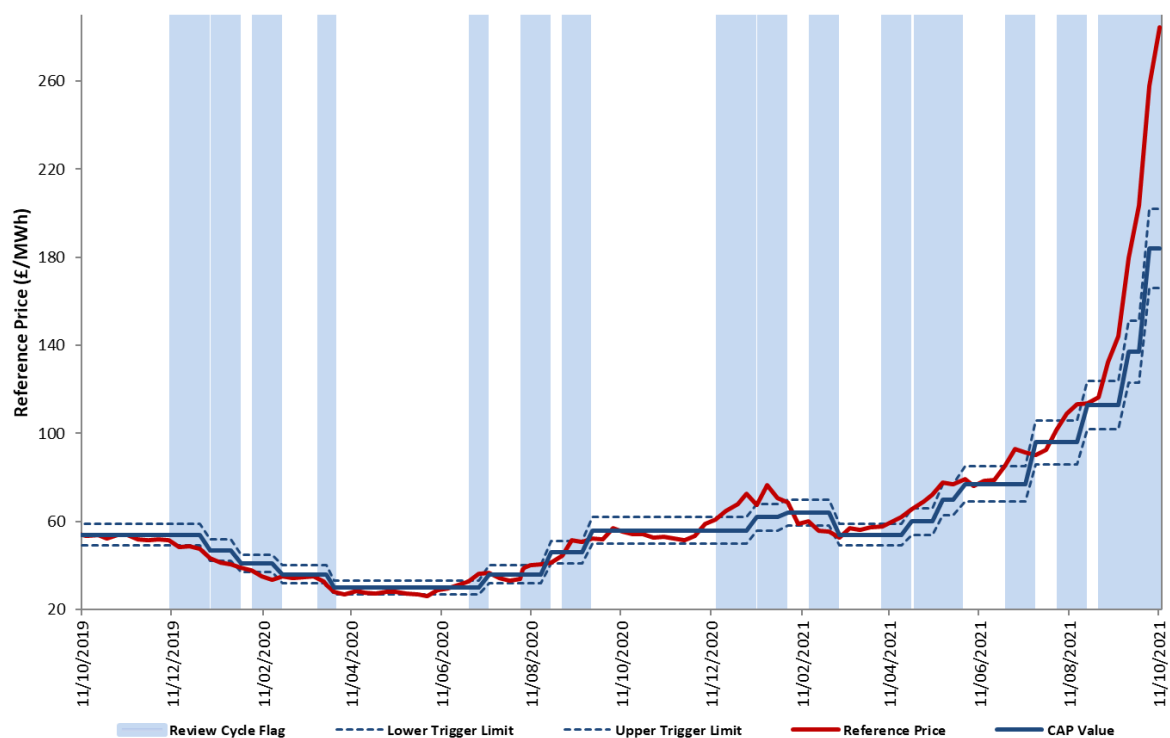
- 1.1 The last notified value of the Credit Assessment Price (CAP) is £184/MWh. Each week, Elexon compares this against a reference price, based on forward market price data. If the difference exceeds the trigger level of 10% (currently +/- £18/MWh), Elexon initiates a review of the CAP value.
- 1.2 The CAP was last reviewed in late September 2021. A new value of £184/MWh notified to the Parties after the consultation closed on 28 September. This new CAP will be effective from 21 October however the trigger monitoring process resumes using the new CAP since 4 October 2021.
- 1.3 On Monday 4 October 2021, the reference price was £258/MWh, breaching the upper trigger level of the latest agreed CAP by £56/MWh.
- 1.4 Based on December 2021 and January 2022 forward market prices on the consultation day, the five-day average price was £259.19/MWh. This was an estimate of what the reference price would be on the implementation day in November, and used to set the proposed value in the consultation. This has now increased to £269.08/MWh.
- 1.5 Following the breach on Monday 4 October 2021, a proposed CAP value of £259/MWh was sent out to industry for consultation. The consultation ended on Tuesday 12 October 2021. Some consultation respondents also disagreed with the proposed CAP value.
- 1.6 The Credit Committee members agreed to escalate to the Panel that the current CAP review process might not be fully representative of the recent volatile market situations. Elexon presented to the 14 October BSC Panel a paper recommending an alternative methodology for CAP review process under extreme market events.
- 1.7 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. Based on the current arrangements, if a decision is made to change the CAP, it would be effective no earlier than 4 November 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 November and December have averaged at £245.59/MWh for baseload and £306.55/MWh for peaks. The latest reference price was £267.11/MWh on 14 October 2021 (calculated using last five Working Days forward market baseload and peak data in November and December).
- 2.3 In November, forward prices for December 2021 and January 2022 will be used in the reference price calculation. They have averaged since consultation day at £250.28/MWh for baseload and £307.13/MWh for peaks. The projected reference price in November using December and January prices is calculated at £269.08/MWh on 14 October 2021.

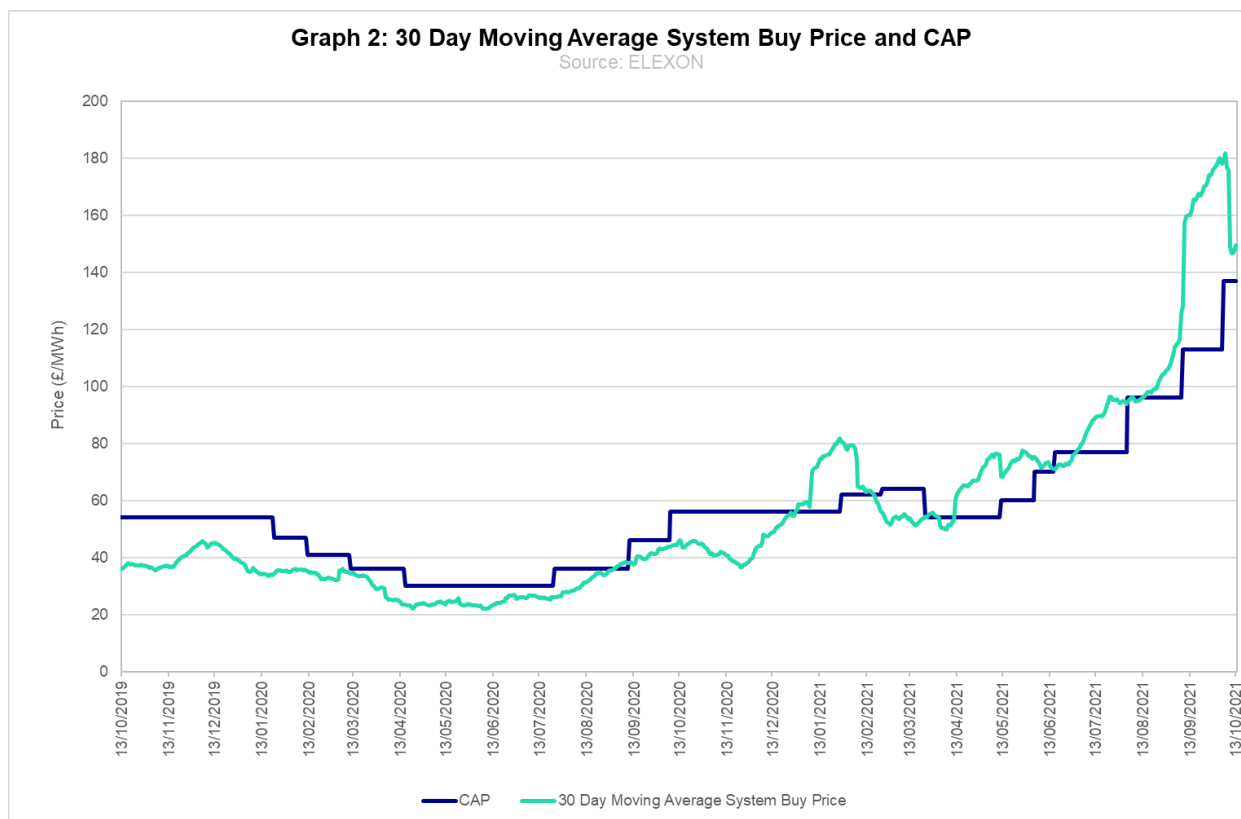
Graph 1: Reference Price and CAP

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 4 October 2021 inviting Trading Parties to consider the proposal to increase the CAP to £259/MWh, based on the use of December and January 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 £259/MWh. They have suggested the process should be put on pause to assess the credit provisions more generally across the market. They believe the financial strains on suppliers are growing by a number of market and regulatory factors such as CFDs, CMP 361 (BSUoS), and also potential future credit requirements due to modifications driven by DNOs and ESO (CMP349 and CMP 311). The respondent have also expressed their concerns over the current trigger mechanism for a review of the CAP (10% of the CAP) not being as efficient and fast as expected when prices start falling from high CAP values.
- 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 £259/MWh is extreme, will limit the market efficiency and drive “oligopoly” in the UK power markets.

4. Alternative methodology presented to the BSC Panel

- 4.1 Following the CAP trigger event on 4 October the Credit Committee members highlighted the importance of escalating to the BSC Panel that the current CAP review process might not be fully representative of the recent volatile market situation.
- 4.2 Elexon presented a paper to the BSC Panel on 14 October 2021, recommending an alternative CAP review process. This is to be used under periods of extreme market situations to give more flexibility and power to the Credit Committee to set a CAP faster that is fair and representative of system prices.

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 Thursday 4 November 2021. The trigger monitoring process will then resume on Monday 18 October 2021 using the new CAP.
- 5.3 If the Credit Committee decides not to set a new CAP value the trigger monitoring process resumes on Monday 18 October 2021 with the last notified CAP of £184/MWh.

6. Recommendations

- 6.1 We invite you to:
 - a) **NOTE** the contents of this paper;
 - b) **APPROVE**
 - i. The increase of the CAP value to £259/MWh, as proposed in the industry consultation; or
 - ii. An alternative CAP value, which reflects the recent market data;
 - c) **CONFIRM** that when revised, the new CAP value will be effective from 4 November 2021.

For more information, please contact:

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