

CC37/01 - REVIEW OF THE CREDIT ASSESSMENT PRICE

MEETING NAME	Credit Committee
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Date of meeting	5 September 2017
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Paper number	CC37/01
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Owner	Nick Baker
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Purpose of paper	For Decision
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Classification	Public
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Summary	The Credit Assessment Price (CAP) upper trigger level of £48/MWh (£5/MWh above the last implemented CAP value of £43/MWh) has breached. We invite the Credit Committee to consider a change to the CAP value which would become effective from 26 September 2017. We are also inviting the Credit Committee to determine if the trigger level value should be changed.
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1. Introduction

- 1.1 The current value of the Credit Assessment Price (CAP) is £43/MWh. Every week, ELEXON compares this against a reference price, based on forward market price data¹. If the difference exceeds the trigger level (currently +/- £5/MWh), ELEXON initiates a review of the CAP value. The Credit Committee carried out the last review on 30 March 2017 and set the CAP to £43/MWh effective from 25 April 2017.
- 1.2 On Monday 21 August 2017, the reference price was £49.65/MWh, breaching the upper trigger level of the latest agreed CAP by £1.65/MWh.
- 1.3 The reference price averaged £48.65/MWh in August 2017 and was based on September and October 2017 forward market prices. From 1 September 2017, the reference price calculation changed to use October and November 2017 forward market prices. An increasing upward trend in market prices has caused the reference price to breach the upper trigger level (evidence for this is displayed in Section 2).
- 1.4 As part of the new CAP Review process, following the breach on Monday 21 August 2017, a proposed value of the CAP of £50/MWh was sent out to industry for consultation. The consultation ended on Tuesday 29 August 2017. A Credit Committee member asked for a meeting to be held and hence the proposed the CAP value was not implemented.
- 1.5 Following the Credit Committee meeting, any change in the CAP value will take place from 15 Working Days after the Credit Committee's decision and notification to BSC Parties.
- 1.6 We invite the Credit Committee to determine whether the CAP should be revised and, if so, to determine the new value. If a decision is made to change the CAP, it would be effective no earlier than 26 September 2017.

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 2014. The areas shaded in blue on this graph indicate the periods where the value of the CAP was under review.

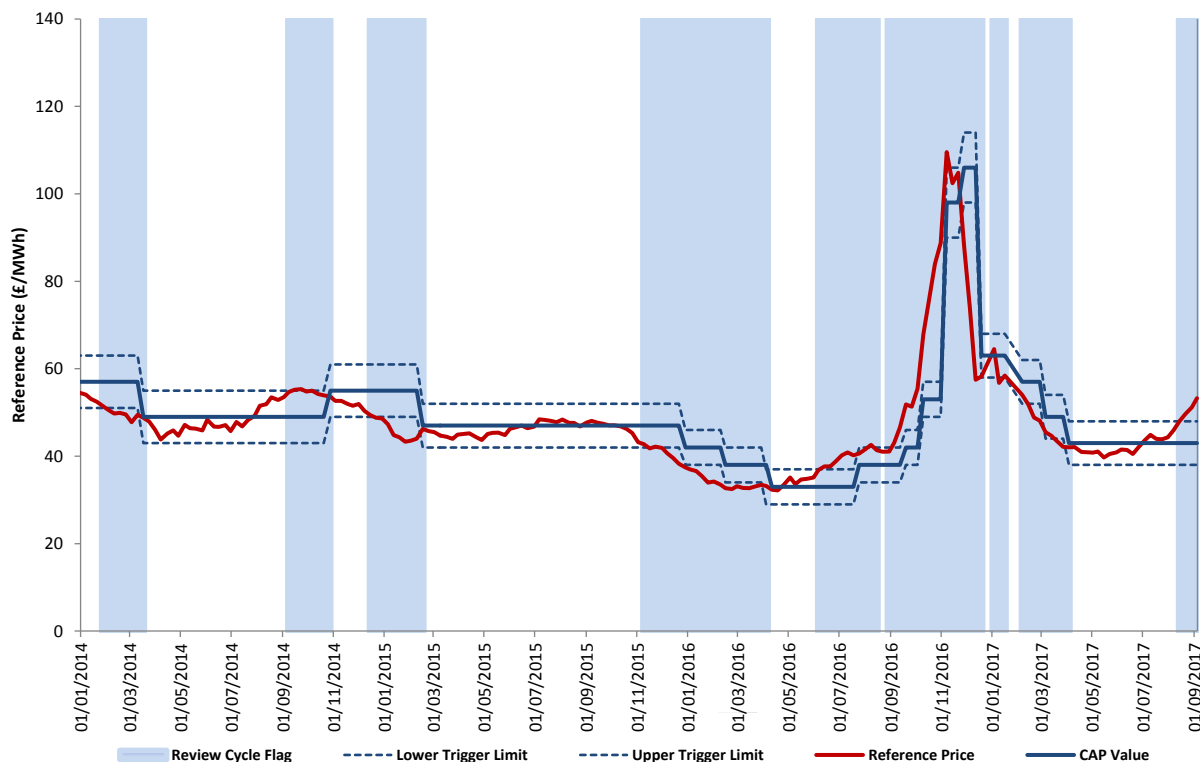
¹ ICIS Heren provides forward price data.

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- 2.2 The graph shows that the reference price has been decreasing from December 2016 until May 2017, when it started to increase again. Since 15 May 2017, when the reference price was £39.69/MWh, the reference price has increased by £13.57/MWh.

Graph 1: Reference Price and CAP

Source: ELEXON



Forward Prices provided by ICIS Heren

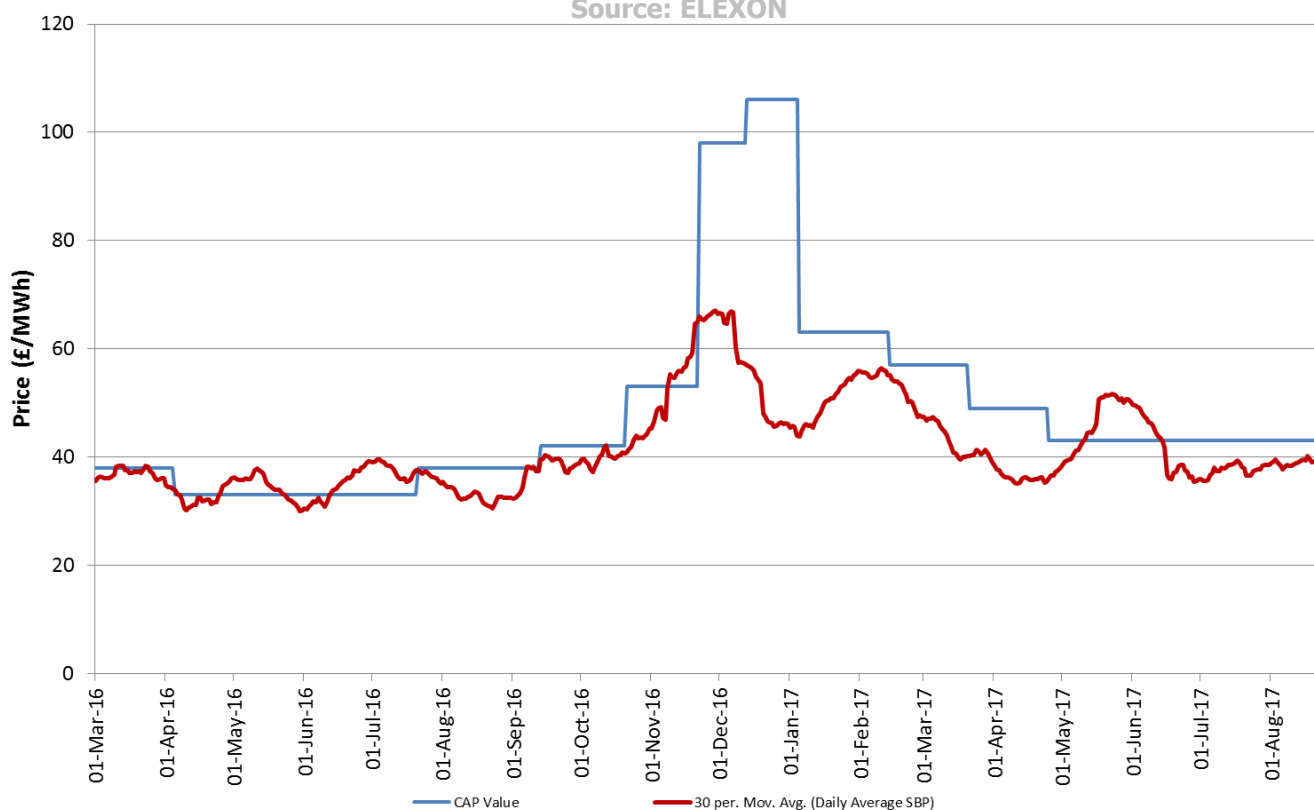
Between 21 August 2017 and 31 August 2017, forward prices averaged £48.19/MWh for baseload and £54.05/MWh for peaks. The latest reference price was £53.25/MWh on Monday 4 September 2017, the first day when October and November forward prices were used to calculate the reference price.

- 2.3 **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 measure of how good the current CAP review process is as we consider CAP to be a proxy for outturn SBP.
- 2.4 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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Graph 2: 30 Day Moving Average System Buy Price and CAP

Source: ELEXON



3. Consultation responses

- 3.1 We issued a consultation on 21 August 2017 inviting Trading Parties to consider the proposal to increase the value of CAP to £50/MWh, based on current level of the reference price.
- 3.2 We have received one response to the consultation covering eight Trading Parties. The respondent agreed the proposed level of the CAP and believed the current trigger level is appropriate.
- 3.3 Due to the new process, a Credit Committee meeting will be held if at least one industry or a Credit Committee member requests one. In this instance a Credit Committee member has requested a meeting.

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 was last changed at a previous Credit Committee meeting on 9 December 2016 from +/- £8/MWh to +/- £5/MWh. The Credit Committee reviewed the trigger level value at its meeting on 30 March 2017 and decided to keep it at its current level.
- 4.2 We invite you 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.
- 5.2 The new value would be effective from Tuesday 26 September 2017.

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6. Recommendations

6.1 We invite you to:

- a) **NOTE** the contents of this paper;
- b) **APPROVE**
 - i) The increased value of CAP of £50/MWh, as proposed for in the industry consultation; or
 - ii) An alternative CAP value in light of more recent market data available and consultation responses;
- c) **REVIEW** the trigger level value of £5/MWh and agree whether or not it should be changed; and
- d) **CONFIRM** that where revised, the new value of CAP will be effective from Tuesday 26 September 2017.

Attachments

Attachment A – Consultation Responses

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