

CC36/01 - REVIEW OF THE CREDIT ASSESSMENT PRICE

MEETING NAME Credit Committee

Date of meeting 30 March 2017

Paper number CC36/01

Owner Thomas Routier

Purpose of paper For Decision

Classification Public

Summary The Credit Assessment Price (CAP) lower trigger level of £44/MWh (£5/MWh below the last implemented CAP value of £49/MWh) has been breached. We invite the Credit Committee to consider a change to the CAP value which would become effective from 25 April 2017. We are also inviting the Credit Committee to determine if the trigger level value should be changed.

1. Introduction

- 1.1 The current value of the Credit Assessment Price (CAP) is £49/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 27 February 2017 and set the CAP to £49/MWh effective from 21 March 2017.
- 1.2 The reference price averaged £50.66/MWh in February 2017 and was based on March and April 2017 forward market prices. From 1 March 2017, the reference price calculation changed to use April and May 2017 forward market prices. This change further enhanced the fall in the reference price. A continuous downward trend in market prices has caused the reference price to breach the lower trigger level.
- 1.3 On Monday 20 March 2017, the reference price was £43.43/MWh, breaching the lower trigger level of the latest agreed CAP by £0.57/MWh.
- 1.4 The change in the CAP value will take place from 15 Working Days after the Credit Committee's decision and notification to BSC Parties.
- 1.5 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 25 April 2017.

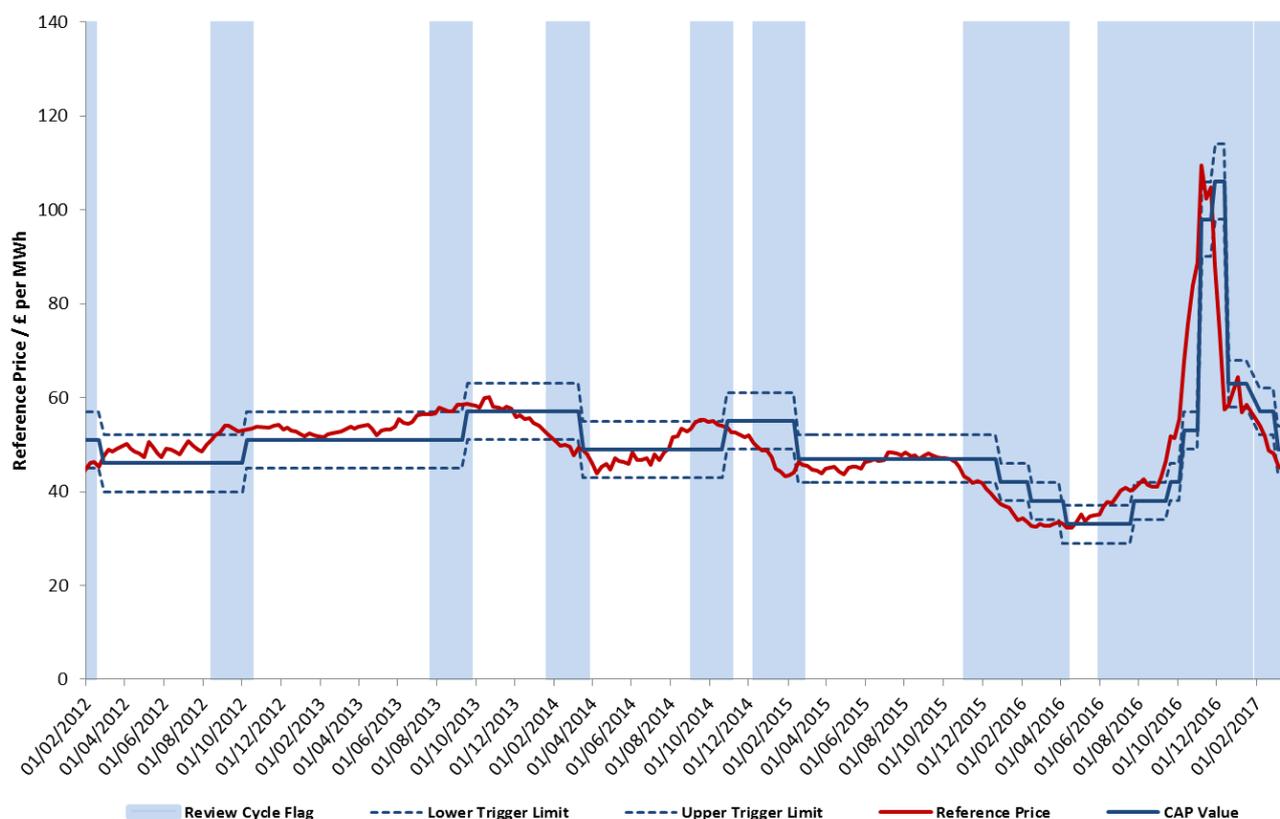
2. Recent pricing data

- 2.1 **Graph 1** shows the reference price in comparison to the CAP value and the upper and lower limits of the trigger level in the past five years. The areas shaded in blue on this graph indicate the periods where the value of the CAP was under review.
- 2.2 The graph shows that the reference price had been continuously increasing from August 2016 until November 2016 due to the expected winter period and the market volatility. Under the CAP calculation methodology, the current reference price is based on an equally weighted average of April and May 2017 forward prices and its value is now decreasing.

¹ ICIS Heren provides forward price data.

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Graph 1: Reference Price and CAP

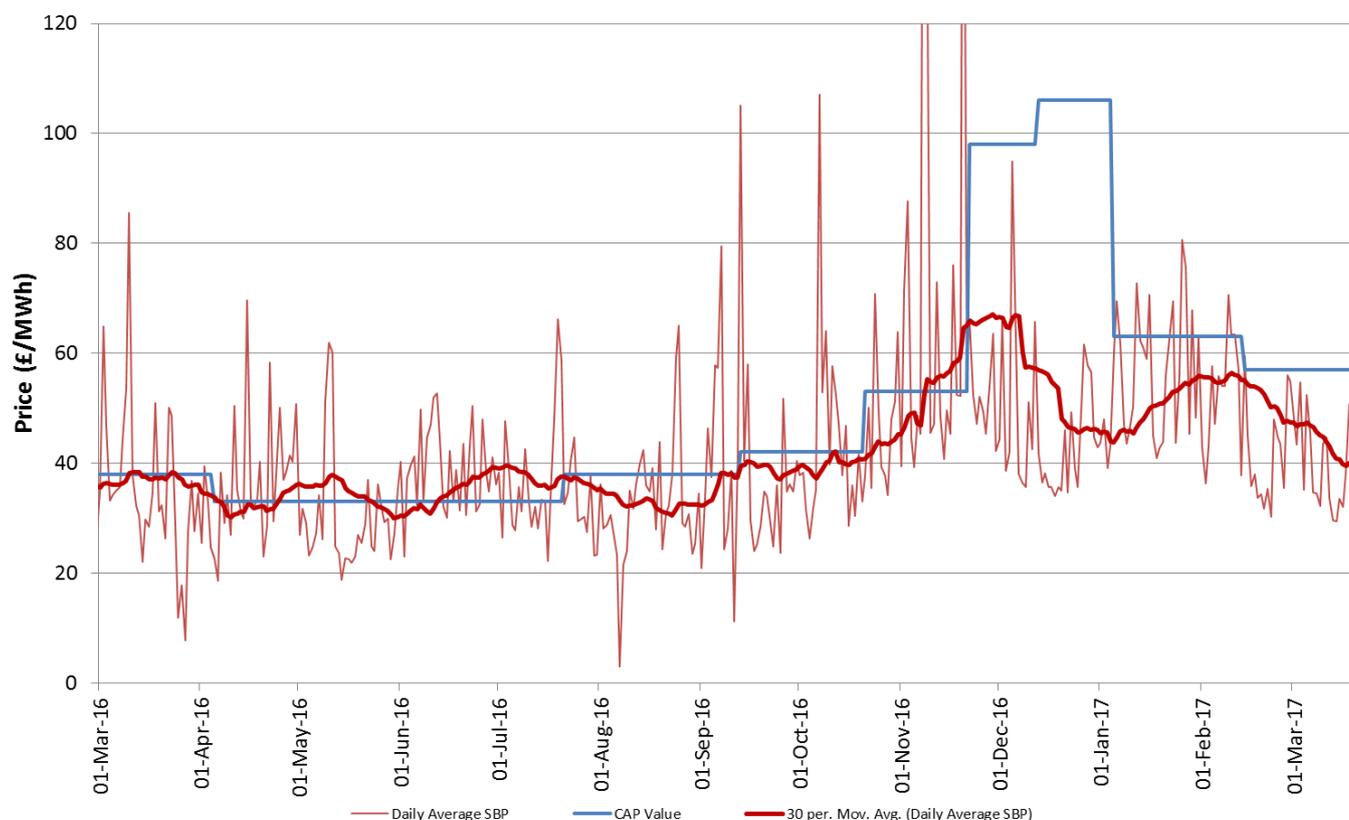


Forward Prices provided by ICIS Heren

- 2.3 Since we issued the consultation on 20 March 2017, April 2017 forward prices averaged £40.88/MWh for baseload and £42.71/MWh for peaks. May 2017 forward prices averaged £40.16/MWh for baseload and £43.56 /MWh for peaks. The latest reference price was £41.98/MWh on Tuesday 28 March 2017.
- 2.4 **Graph 2** shows the daily average System Buy Price (SBP), the 30 day moving average of 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.
- 2.5 Following the implementation of Modification P305 on 5 November 2015, a single price and smaller Price Average Reference (PAR) volume have resulted in more volatile prices. This is an issue for a single CAP at a Settlement Period level. Looking at the 30 period moving average, the absolute error was ~£13/MWh over the last month until the implementation of the new CAP value on 21 March 2017 which has reduced this gap to ~£9/MWh.

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Graph 2: Daily Average System Buy Price and CAP



3. Consultation responses

- 3.1 We issued a consultation on 20 March 2017 inviting Trading Parties to consider the proposal to decrease the value of CAP to £44/MWh, based on current level of the reference price.
- 3.2 We have received three responses to the consultation covering 10 Parties. The respondents agreed the proposed level of the CAP and believed the current trigger level is appropriate.

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 27 February 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 25 April 2017.

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6. Recommendations

6.1 We invite you to:

- a) **NOTE** the contents of this paper;
- b) **APPROVE**
 - i) The decreased value of CAP of £44/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 25 April 2017.

Attachments

Attachment A – Consultation Responses

For more information, please contact:

Thomas Routier, Market Analyst

Thomas.routier@elexon.co.uk

020 7380 4378