



## Credit Assessment Price Consultation – September 2011

**Target Audience** BSC Trading Parties

**Date Published** 5 September 2011

**Deadline for Responses** **12:00pm Monday 12 September 2011**

### Summary

We are consulting on a possible change to the Credit Assessment Price (CAP). This parameter is used in the calculation of BSC Parties' Credit Cover. This means any change can have an impact on the amount of Credit Cover that a party is required to lodge. We are proposing that the value of CAP is increased to £59. Any responses to this consultation will be presented to the Credit Committee at its next meeting. At the meeting the Committee will determine if a change needs to be made to CAP, and when any change should be implemented. Trading parties are invited to respond to this consultation using the proforma, which is available on the Consultations page of the ELEXON website. Responses should be returned to [creditcommittee@elexon.co.uk](mailto:creditcommittee@elexon.co.uk) by 12.00pm on Monday 12 September 2011.

### 1. Introduction

The Credit Assessment Price (CAP) is a parameter defined in Section M1.4 of the BSC as 'the price it would be appropriate to use to determine the equivalent financial amount of Trading Parties' Energy Indebtedness.'

The CAP review trigger level has now been breached and we are consulting on a new CAP value. The Credit Committee will meet following this consultation to determine if a new CAP value should apply.

### 2. The CAP Value and Trigger Level

The Credit Committee last reviewed the value of CAP and the CAP Trigger Level in April 2011. This review resulted in the value of CAP being increased to £56/MWh. This change became effective from 4 May 2010. The Trigger Level was left unchanged at £6/MWh.

The following table shows the historic values of CAP since January 2005:



For more information,  
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Effective From	Effective To	Value (£/MWh)
12/01/2005	30/09/2005	23
01/10/2005	28/02/2006	28
01/03/2006	02/10/2006	39
03/10/2006	02/04/2007	64
03/04/2007	26/11/2007	37
27/11/2007	29/04/2008	48
30/04/2008	30/06/2008	61
01/07/2008	12/06/2008	78
13/08/2008	05/11/2008	100
06/11/2008	16/12/2008	108
17/12/2008	03/03/2009	67
04/03/2009	11/01/2010	49
12/01/2010	16/06/2010	38
17/06/2010	27/07/2010	45
28/07/2010	03/05/2011	50
04/05/2011	-	56

### 3. The CAP Review Process

On the first working day of each week we compare the value of CAP to the reference price, which is derived from average quarterly forward market prices currently provided by ICIS Heren. Where the absolute difference between the two values exceeds the trigger level of £6/MWh it is termed a 'trigger event'.

Following a trigger event, we issue a consultation proposing that the CAP be changed to the current reference price.

Following the close of this consultation, the Credit Committee will meet to consider the comments received from Trading Parties and determine if the value of CAP should be changed. If the value is to change then the Committee will confirm the date from which the change will take effect. This date will not be less than 20 working days after BSC Parties receive notification of the change.

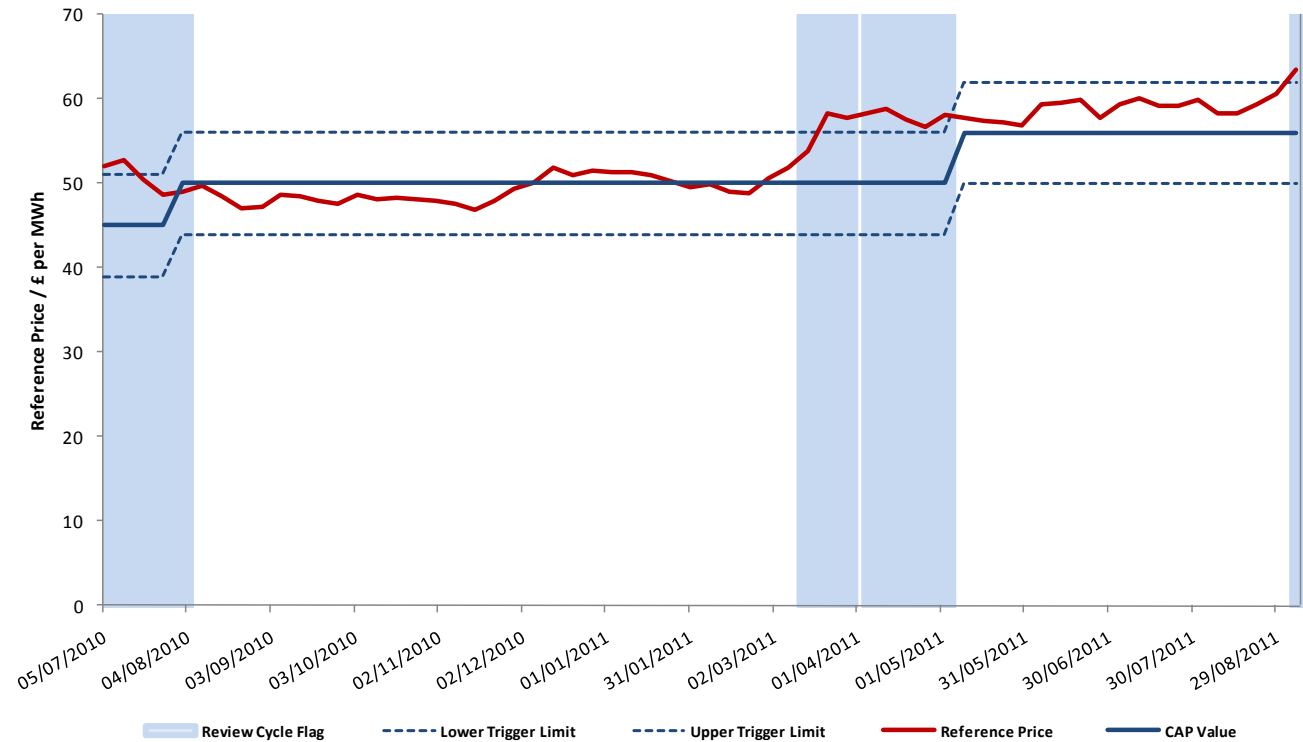
### 4. Recent Pricing Data

On Monday 5 September 2011, the reference price rose to £63.53, breaching the trigger level by £1.53.

Graph 1 shows the reference price in comparison to the CAP value and the upper and lower limits of the trigger level. The area shaded in blue on this graph indicates previous periods where the value of CAP was under review.

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Graph 1: Reference Price and CAP



Forward Prices provided by ICIS Heren

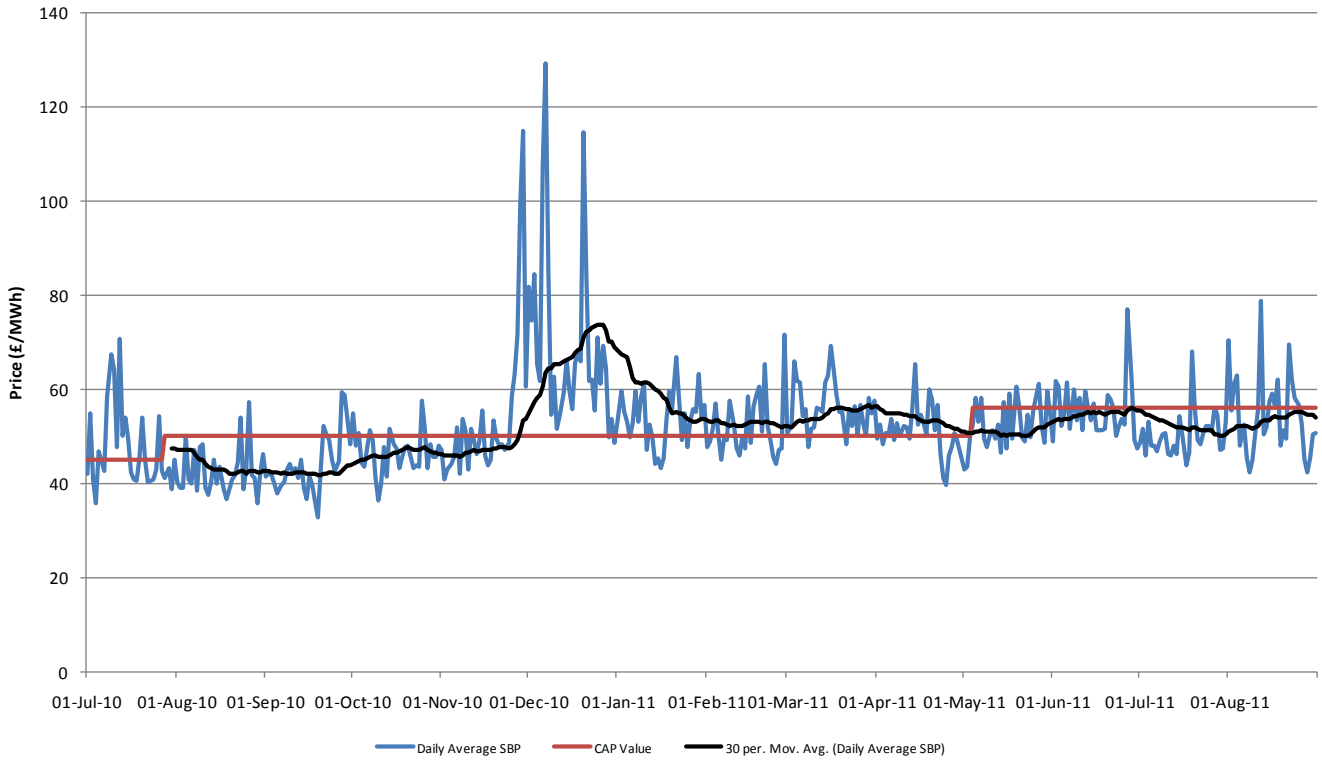
The graph shows that since the last review in ended in May 2011, the reference price has fluctuated around £59/MWh, and has been above the value of CAP for the entire period. The current review was triggered following a large jump in forward prices around the recent Bank Holiday weekend, where both Quarter 4 2011 and Quarter 1 2012 prices increased by £4 in a few days. They have since decreased, but a trigger event has still been caused. Increasing CAP to £59 would bring it into line with the recent trend in the reference price.

Graph 2 shows the daily average System Buy Price (SBP), the 30 day moving average of SBP and the value of CAP. We believe that this is the real measure of how good the current CAP review process is as CAP is intended to be a proxy for outturn SBP.



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Graph 2a: Daily Average System Buy Price and CAP



This graph shows that since the introduction of the £56 value CAP has provided a reasonable reflection of the average SBP, although it has been an over-estimation overall. The overall average SBP in the period has been £53.39. This would mean at present, increasing the value of CAP would make it less reflective of System Buy Price, although in the last two years we have witnessed an increase in SBP between Q3 and Q4.

One of the consultation questions (Question 3) asks respondents: "What do you expect the trend in System Buy Price (SBP) to be over the next 2 months (or more) and relate this to your preferred value of CAP?"