



Credit Assessment Price Consultation – March 2011

Target Audience BSC Trading Parties

Date Published 21 March 2011

Deadline for Responses **12:00pm Monday 28 March 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 £60. 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 by 12.00pm on Monday 28 March 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 June 2010. This review resulted in the value of CAP being increased to £50/MWh. This change became effective from 28 July 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	-	50

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

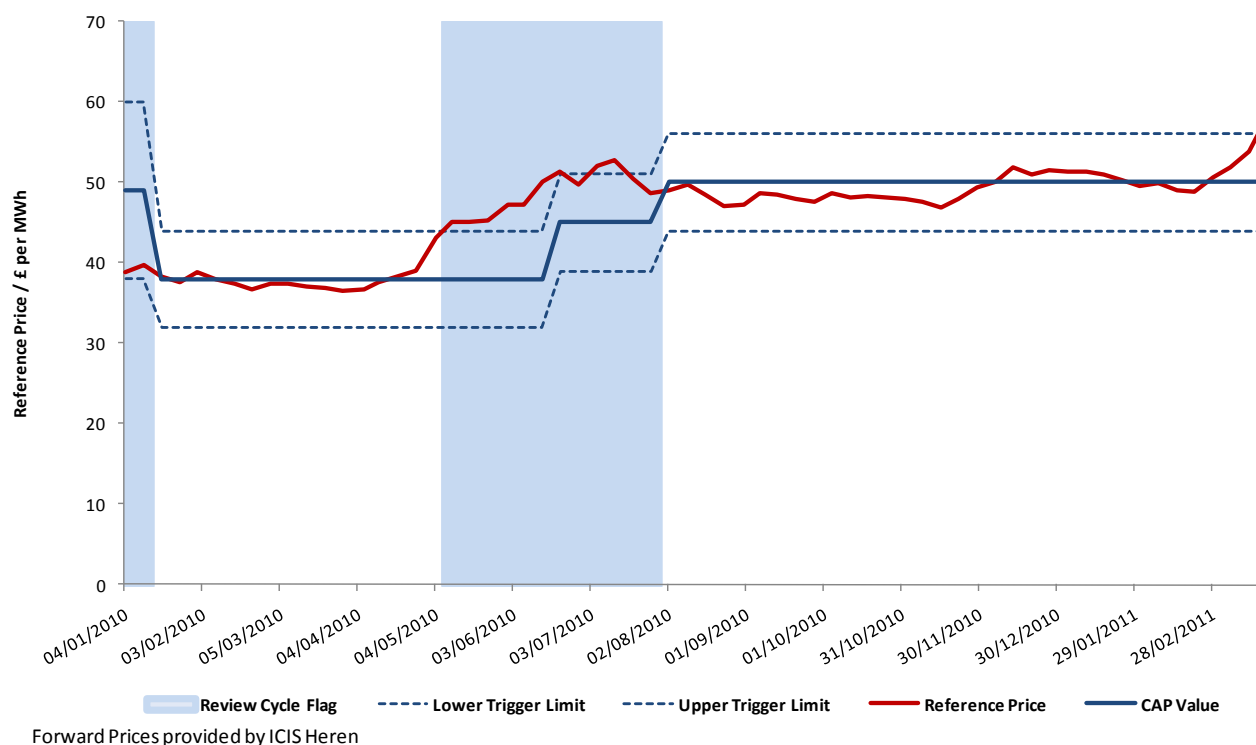
On Monday 21 March 2011, the reference price rose to £58.26, breaching the trigger level by £3.26.

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



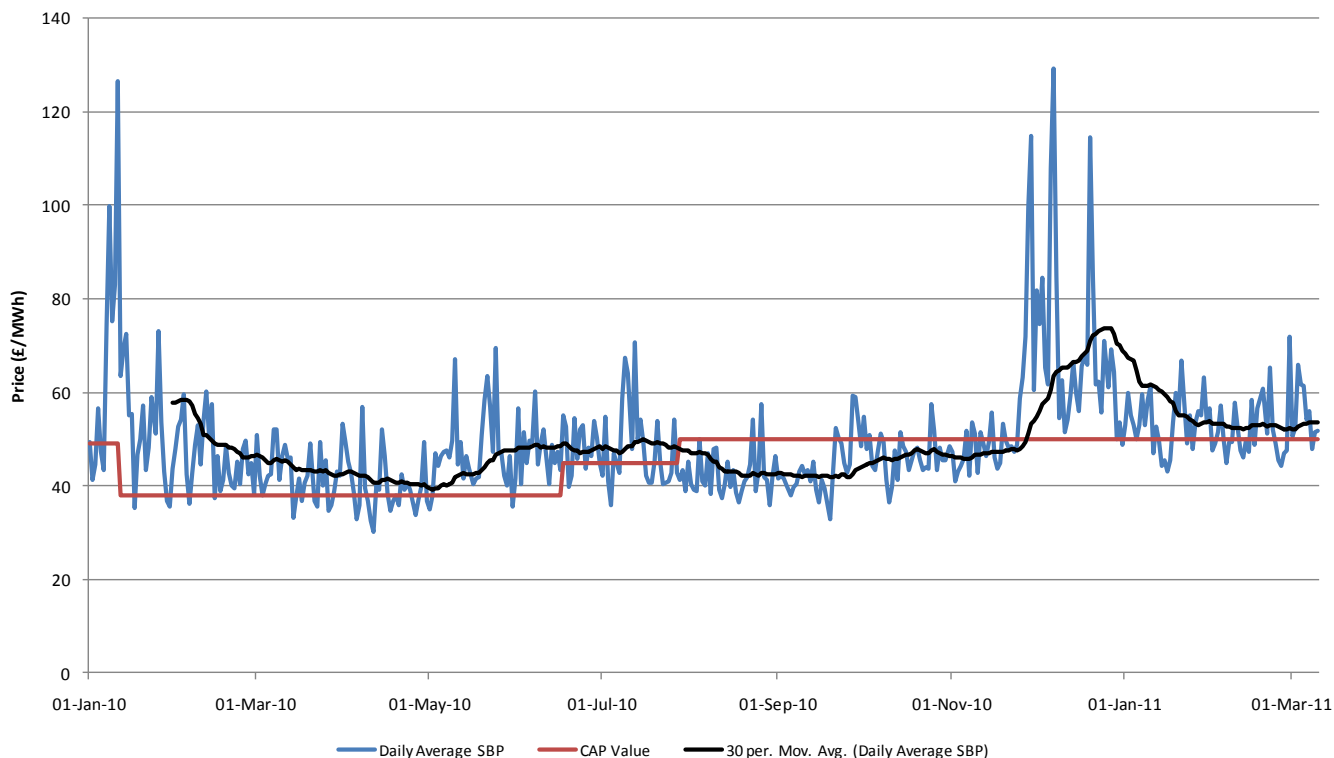
The graph shows that following a period of relative stability since the last review in June 2010, the reference price began to rise rapidly from a value of £48.81 on 21 February 2011, reflecting the current rise in oil prices. Since 14 March 2011, the reference price had been rising by an average of £1.00 each day. Therefore, to allow for more growth, we are suggesting a revised CAP value of £60.

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 2: Daily Average System Buy Price and CAP



This graph shows that, except for the period of very cold weather we experienced in December, since the introduction of the £50 value CAP has provided a reasonable reflection of the average SBP. The current rise in the reference price that has resulted in this breach is too recent to see if it is also reflected in Imbalance Prices. However, CAP has been under-estimating SBP by an average of £5 for the most recent two weeks where pricing data is available (1 – 14 March), so increasing CAP to £60 would be no less an accurate proxy for SBP than we already have, if prices were not set to rise.

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?"