Credit Assessment Price Consultation – August 2012

Target Audience	BSC Trading Parties
Date Published	28 August 2012
Deadline for Responses	**12:00pm Tuesday 4 September 2012**
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 £52. 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 Tuesday 4 September 2012.

1. Introduction

1.1 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.'

1.2 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

2.1 The Credit Committee last reviewed the value of CAP and the CAP Trigger Level in December 2011. This review resulted in the value of CAP being decreased to £51/MWh. This change became effective from 10 January 2012. The Trigger Level was left unchanged at £6/MWh.

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

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

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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	13/10/2011	56
14/10/2011	09/01/2012	59
10/01/2012	22/02/2012	51
23/02/2012	-	46

3. The CAP Review Process

3.1 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'.

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

3.3 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

4.1 The reference price has risen steadily over the last month, and on Tuesday 28 August 2012, the reference price was £52.69, breaching the trigger level by £0.69.

4.2 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

4.3 The graph shows that the reference price has remained higher than CAP since the £46/MWh value was introduced, mainly fluctuating around £49/MWh. The reference price is currently based on a mix of Q4 and Q1 2013 forward prices. At the moment, Q1 prices are around £55/MWh, and in September, the price will be more heavily based on that than Q4, which are currently around £51.50, although both have stopped increasing in the last couple of days. Therefore next week, we can expect the reference price to increase further.

4.4 Graph 2 shows the daily average 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

4.5 This shows that while the forward prices have been increasing, the recent trend in SBP has been downwards, and although it has generally underestimated SBP since the introduction of the £46/MWh value, the CAP is currently very similar to the average SBP.

4.6 Increasing the value of CAP significantly would therefore mean it was over-estimating the current SBP. However, as the forward prices suggest a rise in prices in the next few months, this may only be a short term issue. We are suggesting £52/MWh as it is similar to the current reference price.

4.7 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?"

5. Next Steps

5.1 The Credit Committee will meet next week, following the end of the consultation to consider the responses and whether or not to change the current CAP value. Any change will be notified to all BSC Parties, and the new value will come into effect after 20 Working Days.

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