



## Credit Assessment Price Consultation – August 2013

**Target Audience** BSC Trading Parties

**Date Published** 5 August 2013

**Deadline for Responses** **12:00pm Monday 12 August 2013**

### 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 £58.00. 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 5 August 2013.

## 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 on 6 September 2012. This review resulted in the value of CAP being increased from £46/MWh to £51/MWh. This change became effective from 4 October 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



# CAP Consultation

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	03/10/2012	46
04/10/2012	-	51

## 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.

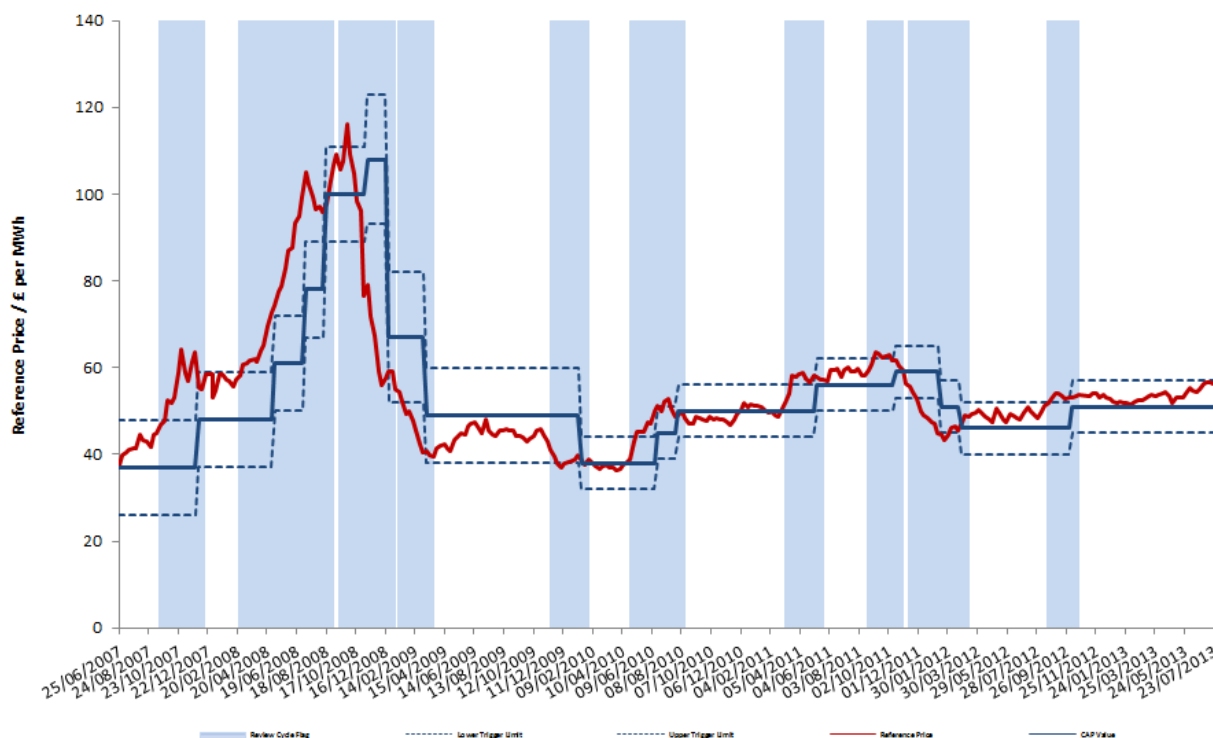
## 4. Recent Pricing Data

- 4.1 The reference price averaged about £56.50 during July and was based exclusively on Quarter 4 2013 prices. Under the reference price methodology, the reference price calculation changed in August. For the next month it uses two-thirds of Quarter 4 2013 prices and one-third of Quarter 1 2014 prices. The higher Quarter 1 2014 prices have caused the reference price to breach the trigger level. On Monday 5 August, the reference price was £57.90, breaching the trigger level by £0.90.
- 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.



# CAP Consultation

Graph 1: Reference Price and CAP

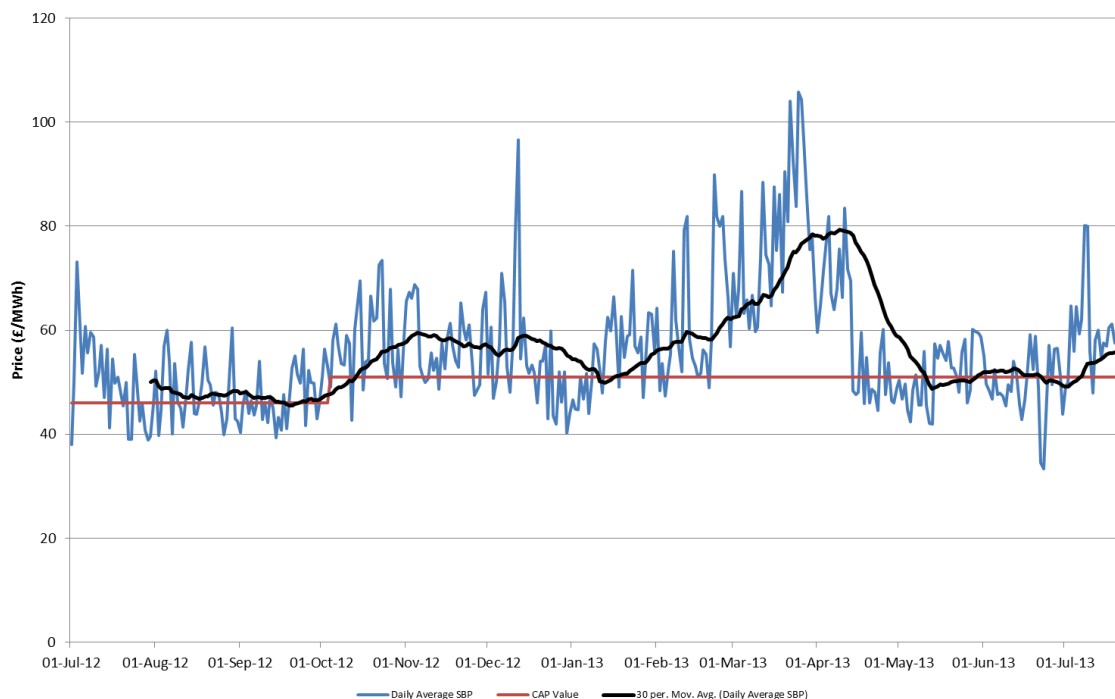


- 4.3 The graph shows that the reference price has remained higher than CAP since the £51/MWh value was introduced, and has been increasing over the last three months. The reference price is currently based on a mix of Q4 2013 and Q1 2014 forward prices. At the moment, Q1 2014 prices are around £60/MWh, and in September, the price will be more heavily based on Q1 2014 than Q4 2013 prices, which are currently around £56.50. Unless Q1 2014 prices fall, the reference price will remain at its current level or will 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.



# CAP Consultation

**Graph 2: Daily Average System Buy Price and CAP**



- 4.5 This shows that since the introduction of the £51/MWh value, the CAP has generally underestimated the SBP, but over the past three months the CAP has been much closer to the average SBP.
- 4.6 We are recommending that the current reference price of £58/MWh is used as the new value of the CAP.
- 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.

### For more information, please contact:

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