

CREDIT ASSESSMENT PRICE CONSULTATION – NOVEMBER 2015

Target Audience BSC Trading Parties

Date Published 17 November 2015

Deadline for Responses **17:00 Tuesday 24 November 2015**

Summary The Credit Assessment Price (CAP) is used in the Energy Indebtedness calculations to convert Credit Cover into an energy value. We are consulting on a reduction to the (CAP) to £42/MWh from the current value of £47/MWh. A change to CAP can impact the amount of Credit Cover required by a Trading Party.

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 the value of CAP, and when any change should be implemented.

Trading Parties are invited to respond to this consultation. Responses must be provided using the proforma available on the Consultations page of the ELEXON website. Please return responses to creditcommittee@elexon.co.uk by 17:00 on Tuesday 24 November 2015.

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 A trigger event has occurred, meaning that the absolute difference between the CAP and the reference price is greater than the trigger level of £5/MWh. As a result, a consultation on a new CAP value has commenced. The consultation period will end on Tuesday 24 November 2015 and the Credit Committee will meet shortly thereafter to determine if a new CAP value or CAP trigger level 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 7 January 2015. This review resulted in the value of CAP being decreased from £55/MWh to £47/MWh. The trigger level was also reduced from £6/MWh to £5/MWh. These changes were effective from 12 February 2015.

The following table shows the historic CAP values since March 2009:

Effective From	Effective To	Value (£/MWh)
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

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04/10/2012	11/09/2013	51
12/09/2013	11/03/2014	57
12/03/2014	22/10/2014	49
23/10/2014	11/02/2015	55
12/02/2015	-	47

3. The CAP Review Process

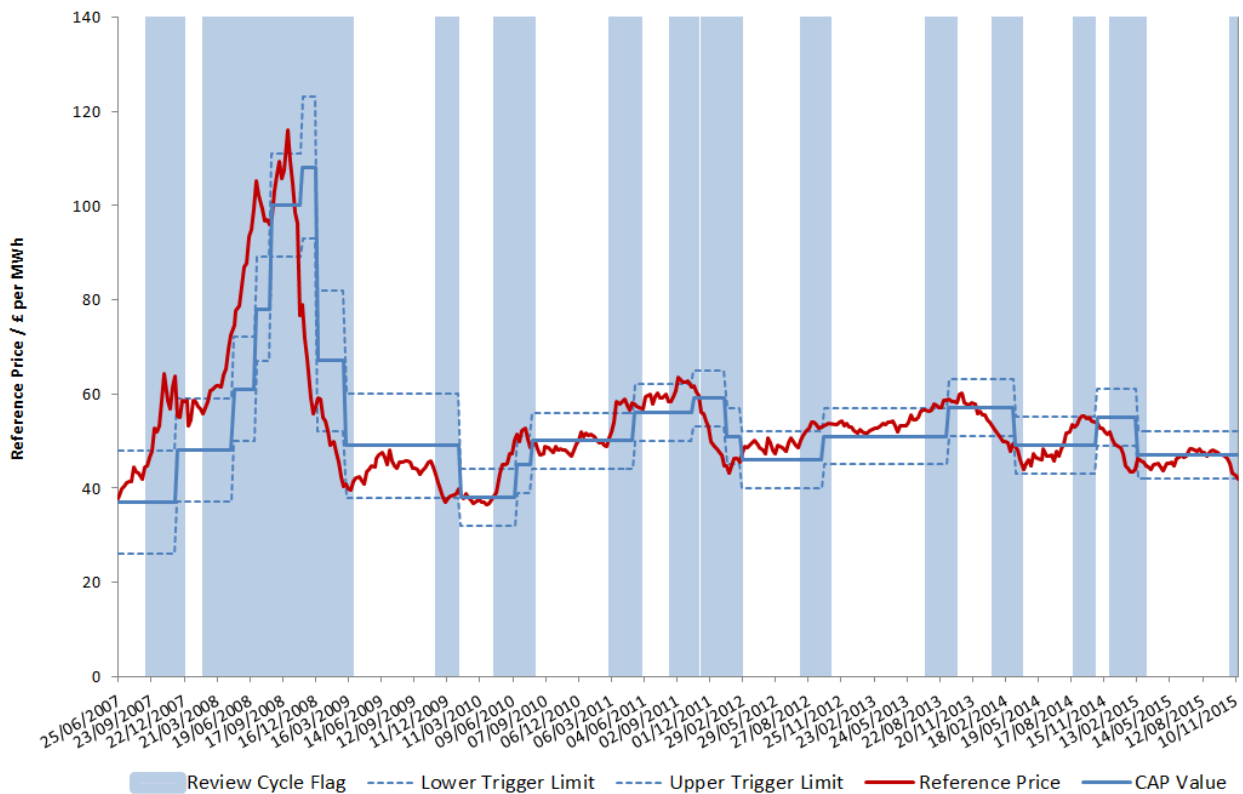
- 3.1 On the first working day of each week we compare the value of CAP to the reference price, which is derived from average quarterly forward market prices currently provided by ICIS Heren. Where the absolute difference between the two values exceeds the trigger level (currently £5/MWh) it is termed 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. The Credit Committee will also consider changing the trigger level. If either 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 £46.35 in October 2015 and was based on Quarter 1 2016 prices. From 1 November 2015, the reference price calculation changed to have two thirds weighting to Quarter 1 2016 and one third to Quarter 2 2016 forward prices. Lower Quarter 2 2016 prices have caused the reference price to breach the lower trigger level.
- 4.2 On Monday 26 November 2015, the reference price was £41.79, breaching the trigger level by £0.21.
- 4.3 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



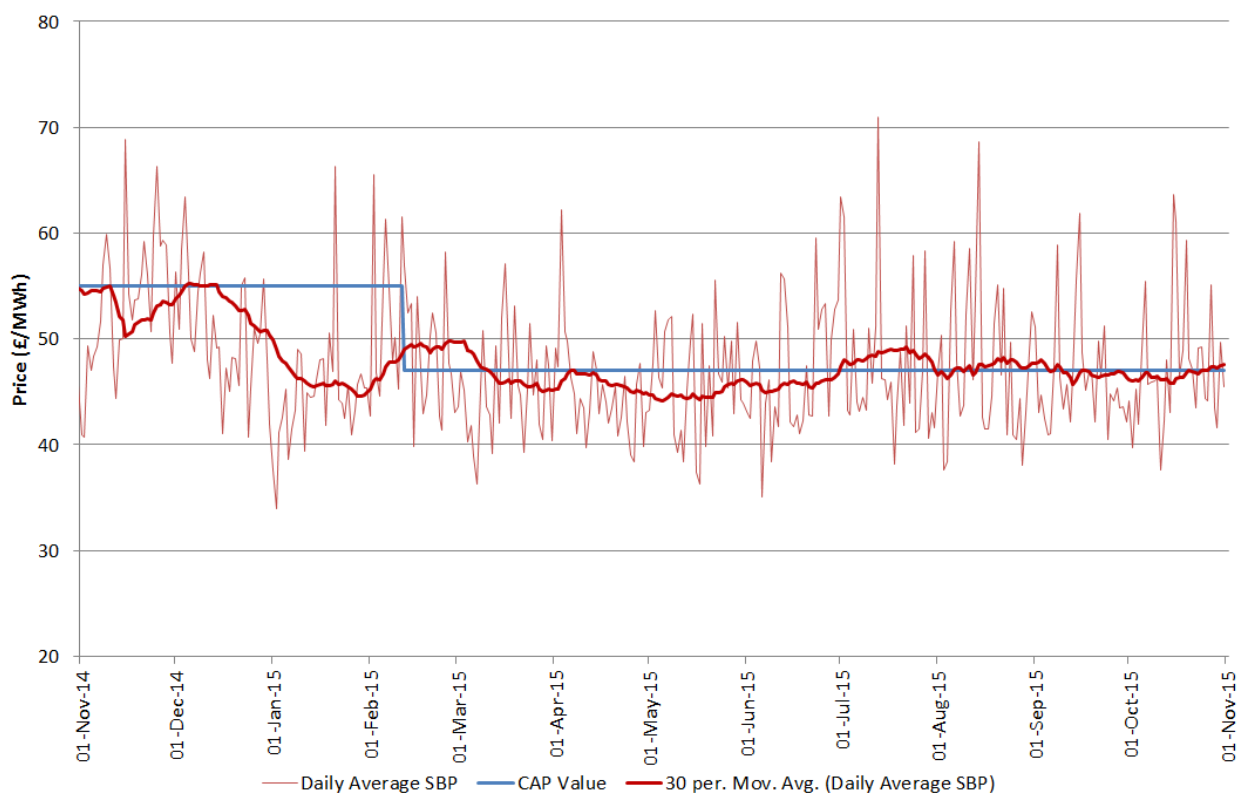
Forward Prices provided by ICIS Heren

- 4.4 The graph shows that the reference price increased from March 2015 to July 2015 and then started decreasing from September 2015 onwards. Under the CAP methodology, the current reference price is based on a weighted average of Quarter 1 and Quarter 2 2016 forward prices. The reference price is forecast to decrease further in December 2015, as there will be a greater weighting on the lower Q2 2016 prices.
- 4.5 Graph 2 shows the daily average System Buy Price (SBP)¹, the 30 day moving average of SBP and the value of CAP. This is a measure of how effective the current CAP review process is, as CAP is intended to be a proxy for outturn SBP.

¹ Please note since 5 November 2015 (the Implementation Date of [Modification P305 'Electricity Balancing Significant Code Review Developments'](#)), there has been a single System Price determined under a revised methodology.

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Graph 2: Daily Average System Buy Price and CAP



4.6 This shows that after the introduction of the £47/MWh value on 11 February 2015, the CAP value overestimated the SBP from March 2015 to July 2015. Following an underestimation in July 2015, the CAP value has been very close to SBP since August 2015.

4.7 We are recommending that the current reference price of £42/MWh is used as the new value of the CAP, to reflect the anticipated fall in market prices next year.

5. Next Steps

5.1 Following the end of the consultation period, the Credit Committee will meet on Thursday 26 November 2015 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 at least 20 Working Days later.

5.2 You are invited to respond to this consultation using the consultation proforma. Please return responses to creditcommittee@exxon.co.uk by 17:00 on Tuesday, 24 November 2015.

For more information, please contact:

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