

CREDIT ASSESSMENT PRICE CONSULTATION – DECEMBER 2015

Target Audience BSC Trading Parties

Date Published 29 December 2015

Deadline for Responses **17:00 Thursday 7 January 2016**

Summary The Credit Assessment Price (CAP) is used in the Energy Indebtedness calculations to convert Credit Cover into an energy volume. We are consulting on a reduction to the (CAP) to £37/MWh from the current value of £42/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 Thursday 7 January 2016.

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 £4/MWh. As a result, a consultation on a new CAP value has commenced. The consultation period will end on Thursday 7 January 2016 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 26 November 2015. This review resulted in the value of CAP being decreased from £47/MWh to £42/MWh. The trigger level was also reduced from £5/MWh to £4/MWh. These changes were effective from 24 December 2015.

The following table shows the historic CAP values since January 2012:

Effective From	Effective To	Value (£/MWh)
10/01/2012	22/02/2012	51
23/02/2012	03/10/2012	46
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	23/12/2015	47
24/12/2015	-	42

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3. The CAP Review Process

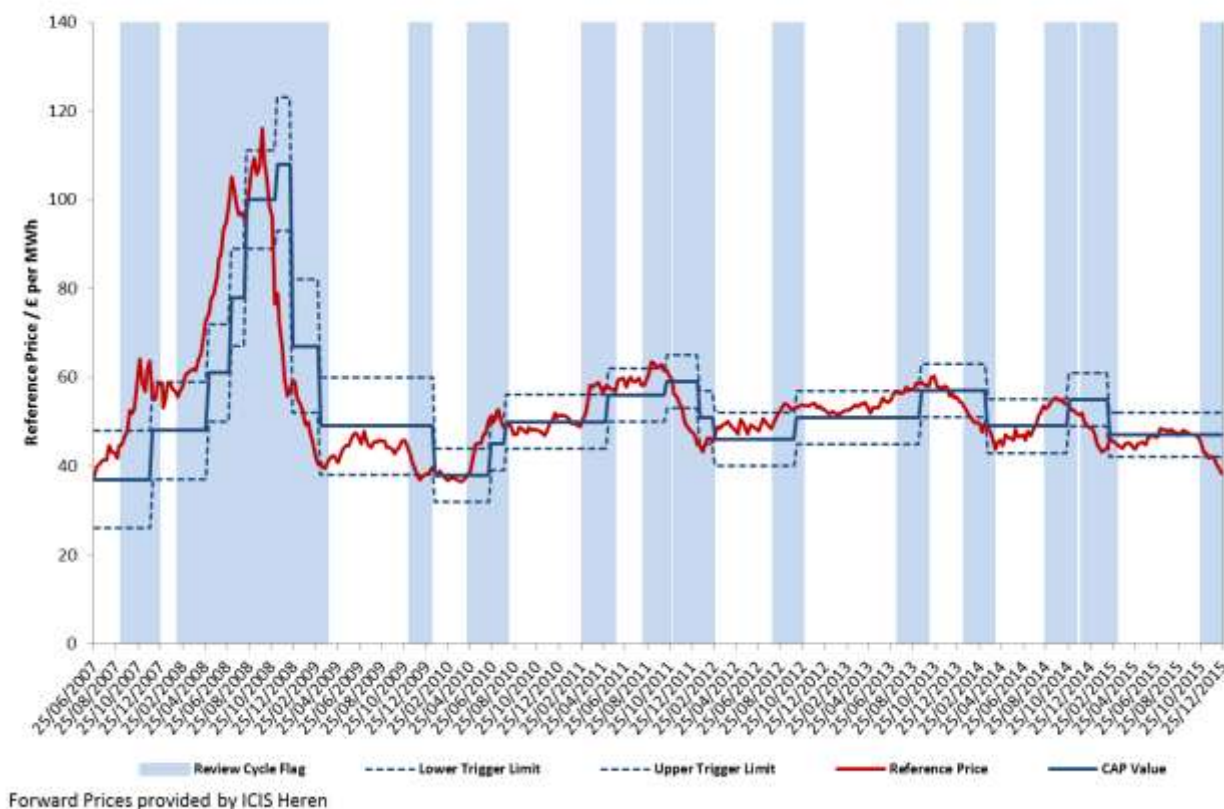
- 3.1 On the first Working Day of each week we compare the value of CAP to the reference price, which is derived from average quarterly forward market prices currently provided by ICIS Heren. Where the absolute difference between the two values exceeds the trigger level (currently £4/MWh) it is termed 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 £42.36 in November 2015 and was calculated based on two thirds weighting to Quarter 1 2016 and one third weighting to Quarter 2 2016 forward prices.
- 4.2 From 1 December 2015, the weightings changed to one third to Quarter 1 2016 and two thirds to Quarter 2 2016 forward prices. Lower Quarter 2 2016 prices have caused the reference price to breach the lower trigger level.
- 4.3 The current CAP value of £42/MWh with a trigger level of £4/MWh was implemented on 24 December 2015. However the reference price continued to decrease since the previous CAP review. On Tuesday 29 December 2015, the reference price was £37.43, breaching the trigger level by £0.56.
- 4.4 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

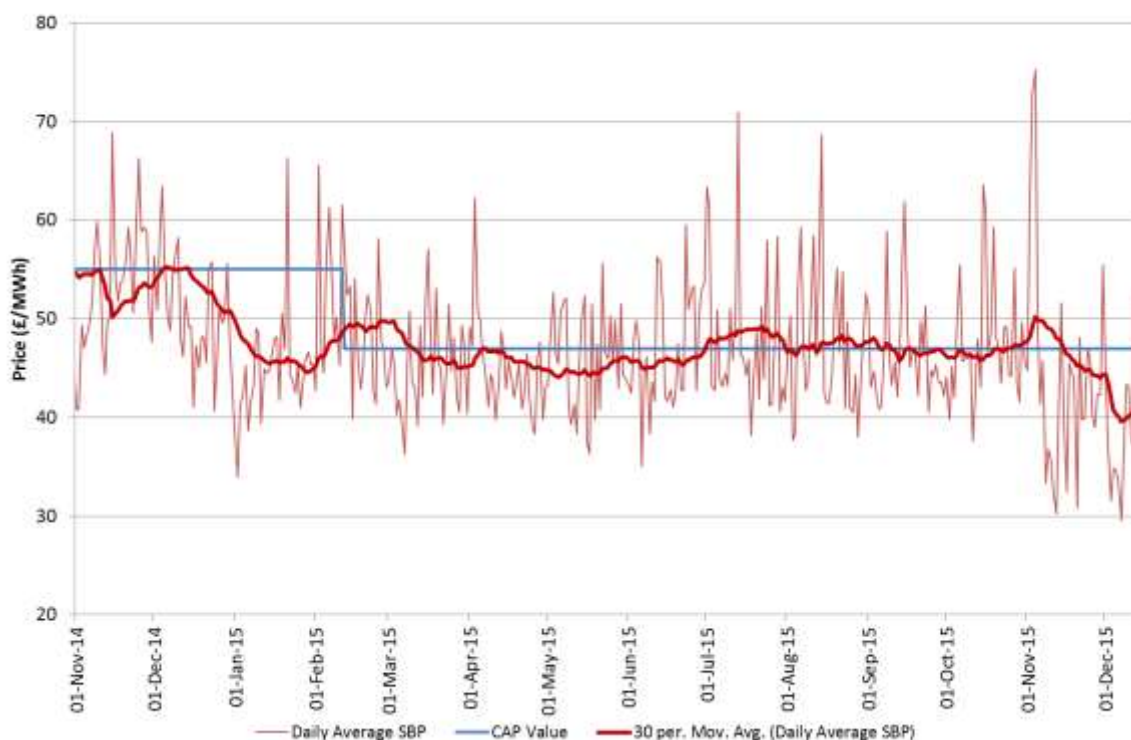


- 4.5 The graph shows that the reference price increased from March 2015 to July 2015 and then started decreasing from September 2015 onwards. Under the CAP methodology, the current reference price is based on a weighted average of Quarter 1 and Quarter 2 2016 forward prices. The reference price is forecast to decrease further in January 2016, as it will be calculated based on the lower Q2 2016 prices only.
- 4.6 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



- 4.7 The graph shows that average System Buy Price started to decrease since mid-November 2015 and was over-estimated by the CAP. At the previous Credit Committee meeting on 26 November 2015, the committee decided that the value of CAP should be reduced to £42/MWh and that the trigger level should be reduced from £5/MWh to £4/MWh. This took effect from 24 December 2015. However as the reference price further decreases in December, the new lower trigger level of £38/MWh was breached on 29 December 2015.
- 4.8 We are recommending that the current reference price of £37/MWh is used as the new value of the CAP, to reflect the anticipated fall in market prices next year.

5. Potential review to the CAP process

- 5.1 At its meeting on 26 November 2015, the Credit Committee considered a potential review into the reference price calculation and the notice period in light of BSC Modification [P305 'Electricity Balancing Significant Code Review Developments'](#) and expressed this view to the BSC Panel ([Panel 247/09](#)).
- 5.2 ELEXON advised the BSC Panel that there are a number of options to consider in taking the CAP review process forward, ranging from amendments to the CAP review guidance document to BSC Modification. As more data becomes available from the new price calculations, ELEXON will determine the accuracy of CAP with a single cash-out price.

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6. Next Steps

- 6.1 Following the end of the consultation period, the Credit Committee will meet in the week commencing 11 January 2016 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.
- 6.2 You are invited to respond to this consultation using the consultation proforma. Please return responses to creditcommittee@elexon.co.uk by 17:00 on Thursday, 7 January 2016.

For more information, please contact:

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