

CREDIT ASSESSMENT PRICE CONSULTATION – FEBRUARY 2016

Target Audience BSC Trading Parties

Date Published 16 February 2016

Deadline for Responses **17:00 Tuesday 1 March 2016**

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 of the CAP to £33/MWh from the current value of £38/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 the CAP, and when any new value should be implemented.

Trading Parties are invited to respond to this consultation using the proforma available on the Consultations page of the ELEXON website. Please return responses to Credit.committee@elexon.co.uk by 17:00 on Tuesday 1 March 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 Tuesday 1 March 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 12 January 2016. This review resulted in the value of CAP being decreased from £42/MWh to £38/MWh. The trigger level was also reviewed and kept at the same value of +/- £4/MWh. These changes were effective from 9 February 2016.

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

Effective From	Effective To	Value (£/MWh)	Trigger level (£/MWh)
23/02/2012	03/10/2012	46	6
04/10/2012	11/09/2013	51	6
12/09/2013	11/03/2014	57	6
12/03/2014	22/10/2014	49	6
23/10/2014	11/02/2015	55	6
12/02/2015	23/12/2015	47	5
24/12/2015	08/02/2016	42	4
09/02/2016	-	38	4

3. The CAP Review Process

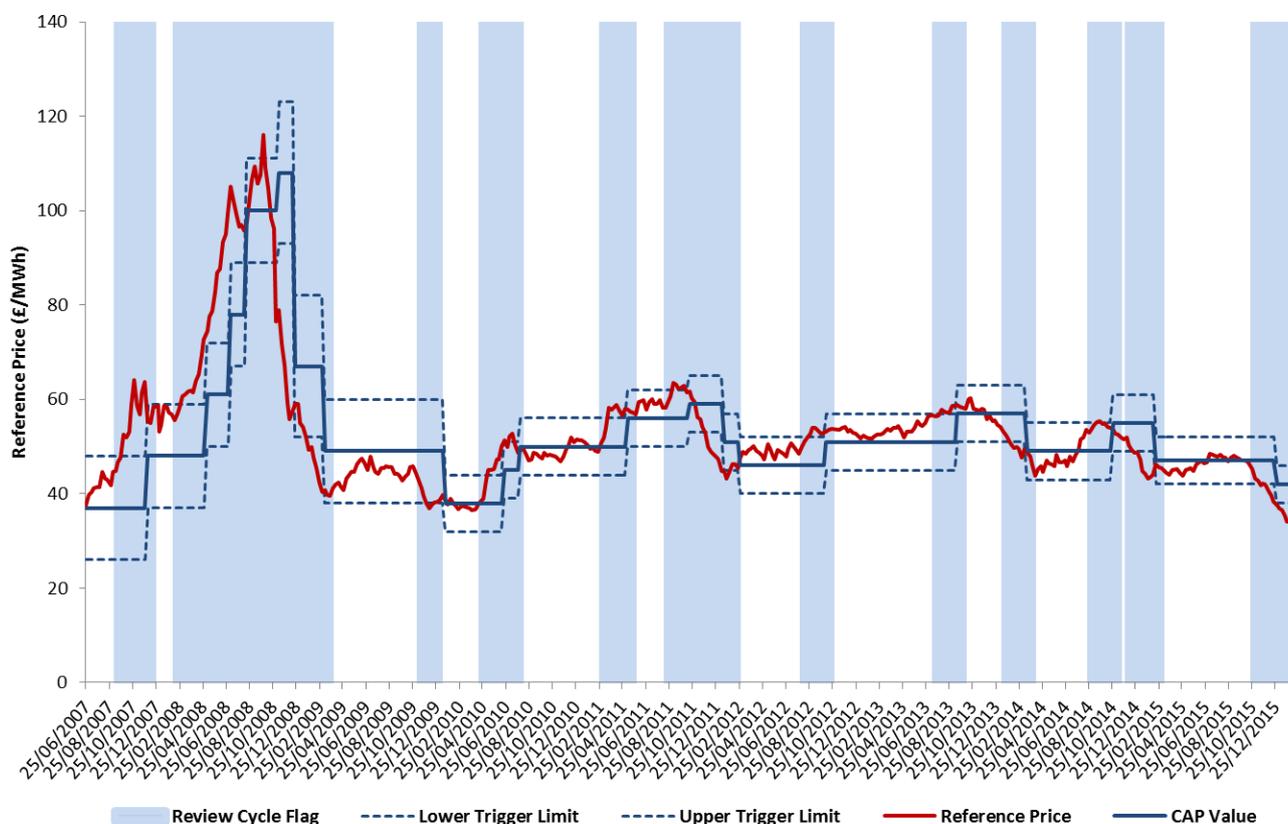
- 3.1 On the first working day of each week we compare the value of CAP to the reference price, which is derived from average quarterly forward market prices currently provided by ICIS Heren. Where the absolute difference between the two values exceeds the trigger level (currently +/- £4/MWh) it is termed a 'trigger event'.
- 3.2 Following a trigger event, we issue a consultation proposing that the CAP is 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 January 2016 and was based on Quarter 2 2016 forward market prices. From 1 February 2016, the reference price calculation changed to have two thirds weighting to Quarter 2 2016 and one third to Quarter 3 2016 forward prices. Lower Quarter 3 2016 prices have caused the reference price to breach the lower trigger level.
- 4.2 On Tuesday 9 February 2016, a new CAP value of £38/MWh was implemented. Following a continuous downward trend in market prices, the reference price breached the newly implemented CAP the following Monday, 15 February 2016, with a value of £32.66/MWh, breaching the lower trigger level by £1.34/MWh.
- 4.3 This explains the recommendation of setting the new CAP value to £33/MWh.
- 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.

CREDIT ASSESSMENT PRICE CONSULTATION – FEBRUARY 2016

Graph 1: Reference Price and CAP



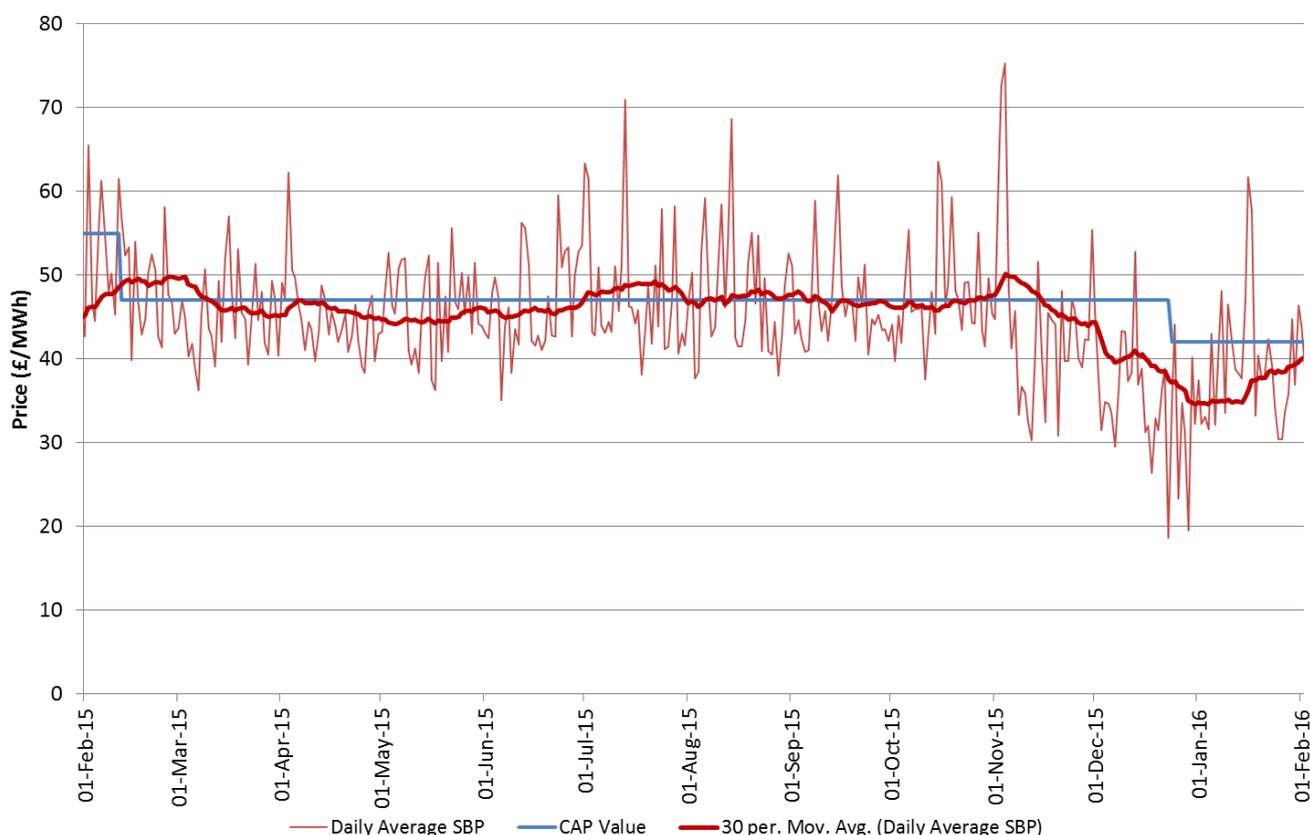
Forward Prices provided by ICIS Heren

- 4.5 The graph shows that the reference price has been continuously decreasing since September 2015. Under the CAP methodology, the current reference price is based on a weighted average of Quarter 2 and Quarter 3 2016 forward prices. The reference price is forecast to decrease further in March 2016, as there will be a greater weighting on the lower Q3 2016 prices.
- 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 [BSC Modification P305 'Electricity Balancing Significant Code Review Developments'](#)), there has been a single System Price determined under a revised methodology.

CREDIT ASSESSMENT PRICE CONSULTATION – FEBRUARY 2016

Graph 2: Daily Average System Buy Price and CAP



4.7 As demonstrated in the graph above, from November 2015, the SBP has continuously been decreasing until January 2016. From November 2015 onward, the CAP has persistently overestimated the average SBP. However, the average SBP has shown an upward trend in the latest data.

4.8 As per the usual setting procedure, we are recommending a new CAP value of £33/MWh.

5. Current proposal to change the CAP review process

5.1 Following the changes in the System Price calculation implemented by [BSC Modification P305](#) on 5 November as well as the continuous downward trend of forward looking market prices, the Credit Committee is undertaking a review of the CAP setting and implementation process, supported by the BSC Panel.

5.2 After reviewing options to improve the accuracy and the flexibility of the CAP review process, the Credit Committee has issued a different consultation seeking the industry's view on the proposed changes. The areas currently under review are:

- The products used to calculate the reference price;
- The reference period used to calculate the reference price; and
- The notice period required to implement a new CAP value.

5.3 We invite you to respond to this second consultation by 17:00 Friday 4 March 2016. Please note that this is a separated consultation, with different timescales and purpose to the CAP value setting.

5.4 The consultation document, including analysis supporting the changes and the consultation proforma can be found on the [Consultations page](#) of the ELEXON website.

CREDIT ASSESSMENT PRICE CONSULTATION – FEBRUARY 2016

5.5 One of the proposed solutions is to use solely peak forward market prices to calculate the reference price compared to the current method using an average of both baseload and peak prices. Under the proposed method, the reference price would have been £34.24/MWh, £0.24/MWh higher than the lower trigger level.

6. Next Steps

6.1 Following the end of the consultation period, the Credit Committee will meet on the week commencing on 7 March 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 Credit.committee@elexon.co.uk by **17:00 on Tuesday 1 March 2016**.

For more information, please contact:

Thomas Routier, Market Analyst

Thomas.routier@elexon.co.uk

020 7380 4378