

CREDIT ASSESSMENT PRICE CONSULTATION – JUNE 2016

Target Audience BSC Trading Parties

Date Published 14 June 2016

Deadline for Responses **17:00 Tuesday 21 June 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 an increase of the CAP to £37/MWh from the current value of £33/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 21 June 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 21 June 2016 and the Credit Committee will meet shortly thereafter to determine if a new CAP value and/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 March 2016. This review resulted in the value of CAP being decreased from £38/MWh to £33/MWh. The trigger level was also reviewed and kept at the same value of +/- £4/MWh. The changes were effective from 5 April 2016.

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

Effective From	Effective To	Value (£/MWh)	Trigger level (£/MWh)
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	04/04/2016	38	4
05/04/2016	-	33	4

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3. The CAP Review Process

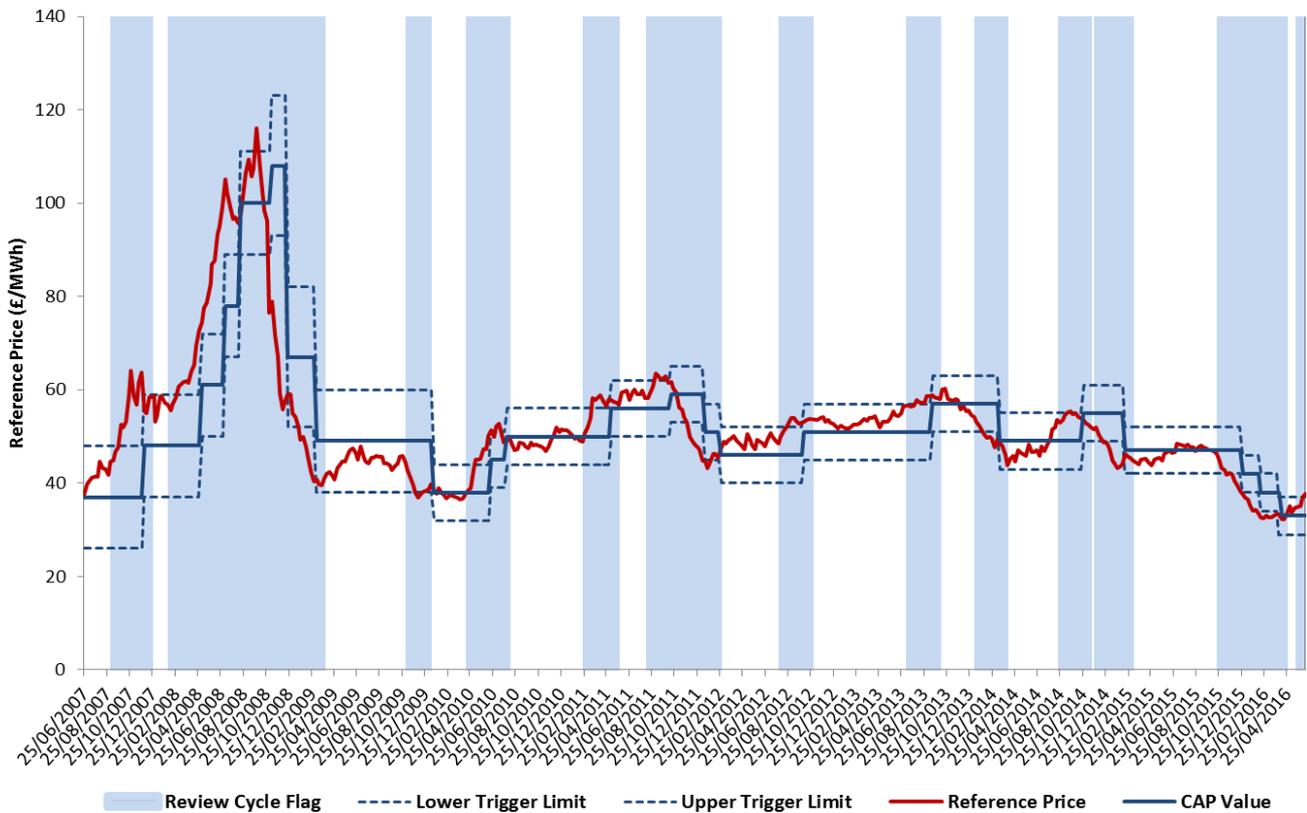
- 3.1 On the first working day of each week we compare the value of CAP to the reference price, which is derived from average monthly forward market prices currently provided by ICIS Heren. Where the absolute difference between the two values exceeds the trigger level (currently +/- £4/MWh) it is termed 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 £34.67/MWh in May 2016 and was based on June and July 2016 forward market prices. From 1 June 2016, the reference price calculation changed to use July and August 2016 forward prices. Higher prices for delivery on those months have caused the reference price to breach the higher trigger level.
- 4.2 On Tuesday 5 April 2016, a new CAP value of £33/MWh was implemented. Following a continuous downward trend in market prices that caused the CAP to breach its lower threshold three times since November 2015, the reference price stabilised around the newly implemented CAP value. It is only since early June that July and August 2016 prices increased, causing a breach of the higher trigger level by £0.68/MWh.
- 4.3 This explains the recommendation of setting the new CAP value to £37/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.
- 4.5 The graph shows that the reference price has been continuously decreasing from September 2015 until it stabilised in February 2016. Under the CAP methodology, the current reference price is based on an equally weighted average of July and August 2016 forward prices.

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Graph 1: Reference Price and CAP



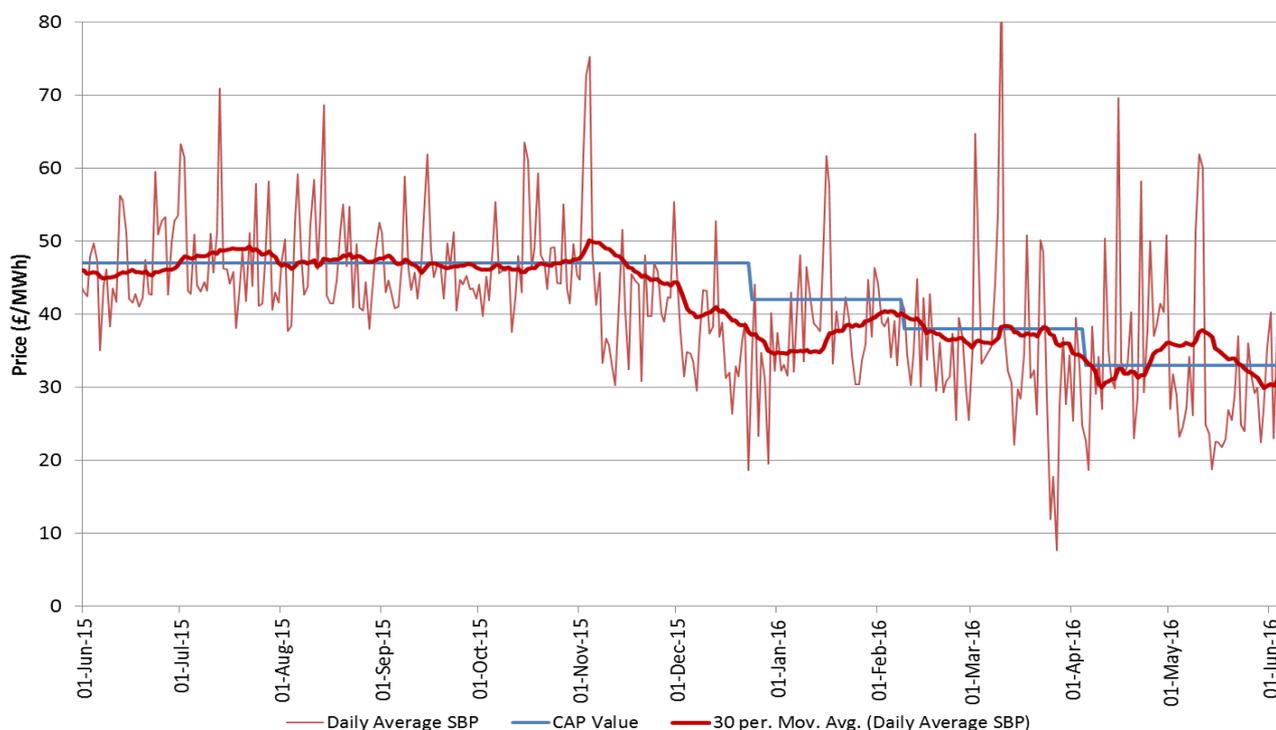
Forward Prices provided by ICIS Heren

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.

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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 until the end of April 2016, 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 £37/MWh.

5. Changes to the CAP review process

5.1 In light of the number of CAP review since November 2015, the Credit Committee asked ELEXON to consult, in agreement with the BSC Panel, on options to improve the CAP review process to make it more efficient, flexible and accurate. The proposed options included:

- Reducing the notice period timescale for implementing a new CAP value from 20 to 15 Working Days;
- Changing the reference period to account for the coming two months instead of quarters; and
- Changing the prices used in the CAP reference price calculation to only account for peak prices.

5.2 Following the consultation, the Credit Committee, at its meeting on 7 March 2016, recommended to the BSC Panel to allow the change to the reference period used to calculate the reference price, from the next three quarters, a quarter ahead, to the next two months. This change was approved and was implemented on 1 April 2016. Additionally, [BSC Modification P345](#) was raised to amend the new CAP implementation timescales, reducing it to 15 Working Days following the Credit Committee's decision. This BSC Modification went to the June 2016 Panel meeting and approved for Self-Governance. The Modification is now out for consultation and responses will be brought to the Panel at its July meeting for final decision.

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6. Next Steps

- 6.1 Following the end of the consultation period, the Credit Committee will meet on the week commencing on 20 June 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 21 June 2016**.

For more information, please contact:

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