

CREDIT ASSESSMENT PRICE CONSULTATION – JANUARY 2017

Target Audience	BSC Trading Parties
Date Published	10 January 2017
Deadline for Responses	17:00 Tuesday 17 January 2017

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 decrease of the CAP to £57/MWh from the last implemented value of £63/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. The Committee will determine if a change needs to be made to the value of the CAP and the trigger level, 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 17 January 2017.

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 17 January 2017 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

The Credit Committee last reviewed the value of CAP and the CAP trigger level on 9 December 2016. This review resulted in the value of CAP being decreased from £106/MWh to £63/MWh. The trigger level was also reviewed and decreased from +/- £8/MWh to +/- £5/MWh. The changes are effective from 5 January 2017. The following table shows the historic CAP values since December 2015:

Effective From	Effective To	Value (£/MWh)	Trigger level (£/MWh)
24/12/2015	08/02/2016	42	4
09/02/2016	04/04/2016	38	4
05/04/2016	20/07/2016	33	4
21/07/2016	12/09/2016	38	4
13/09/2016	20/10/2016	42	4
21/10/2016	21/11/2016	53	4
22/11/2016	12/12/2016	98	8
13/12/2016	04/01/2017	106	8
05/01/2017	-	63	5

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3. The CAP Review Process

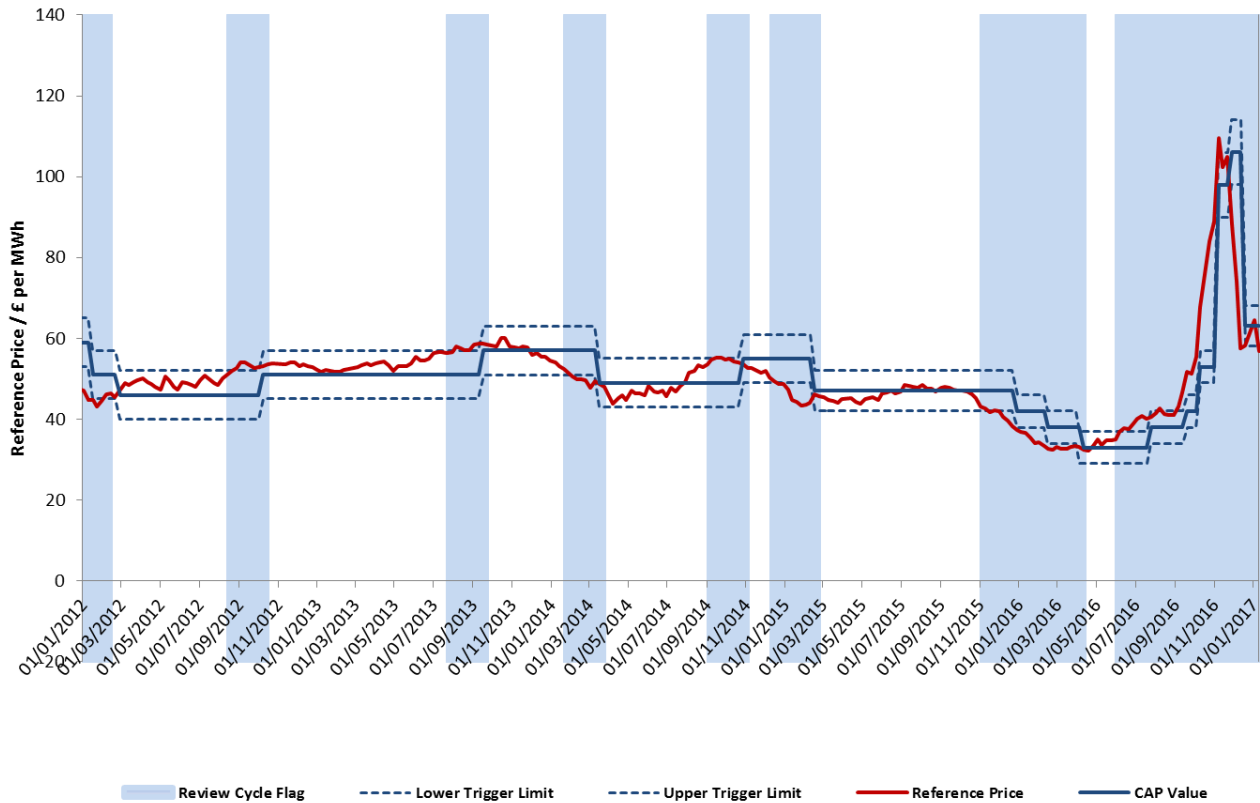
- 3.1 On the first working day of each week, we compare the value of CAP to the reference price, which is derived from average monthly forward market prices currently provided by ICIS Heren. Where the absolute difference between the two values exceeds the trigger level it is termed a 'trigger event'.
- 3.2 Once a new CAP value is notified to BSC Parties the weekly trigger process is resumed on the first working day of the following week. The trigger process uses that newly notified CAP value for the comparison with the reference price
- 3.3 Following a trigger event, we issue a consultation proposing that the CAP is changed to the current reference price.
- 3.4 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 be changed, the Credit Committee will confirm the date from which the change will take effect. This date will not be less than 15 Working Days after BSC Parties receive notification of the change.

4. Recent Pricing Data

- 4.1 The reference price averaged £63.21/MWh in December 2016. From 1 January 2017, the reference price calculation changed to use February and March 2017 forward prices and the reference price averaged £60.62/MWh. Lower prices for delivery on those months could cause a further decrease in the reference price.
- 4.2 On Friday 9 December 2016, a new CAP value of £63/MWh was agreed and notified to BSC Parties on 12 December 2016. Following the notification, a continuous downward trend in market prices has caused the reference price to breach the CAP lower threshold (£58/MWh) by £1. 23/MWh, one week after implementation.
- 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.
- 4.4 The graph shows that the reference price had been continuously increasing from August 2016 until November 2016 due to the expected winter period and the market volatility. Under the CAP calculation methodology, the current reference price is based on an equally weighted average of February and March 2017 forward prices and its value is now decreasing.

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Graph 1: Reference Price and CAP



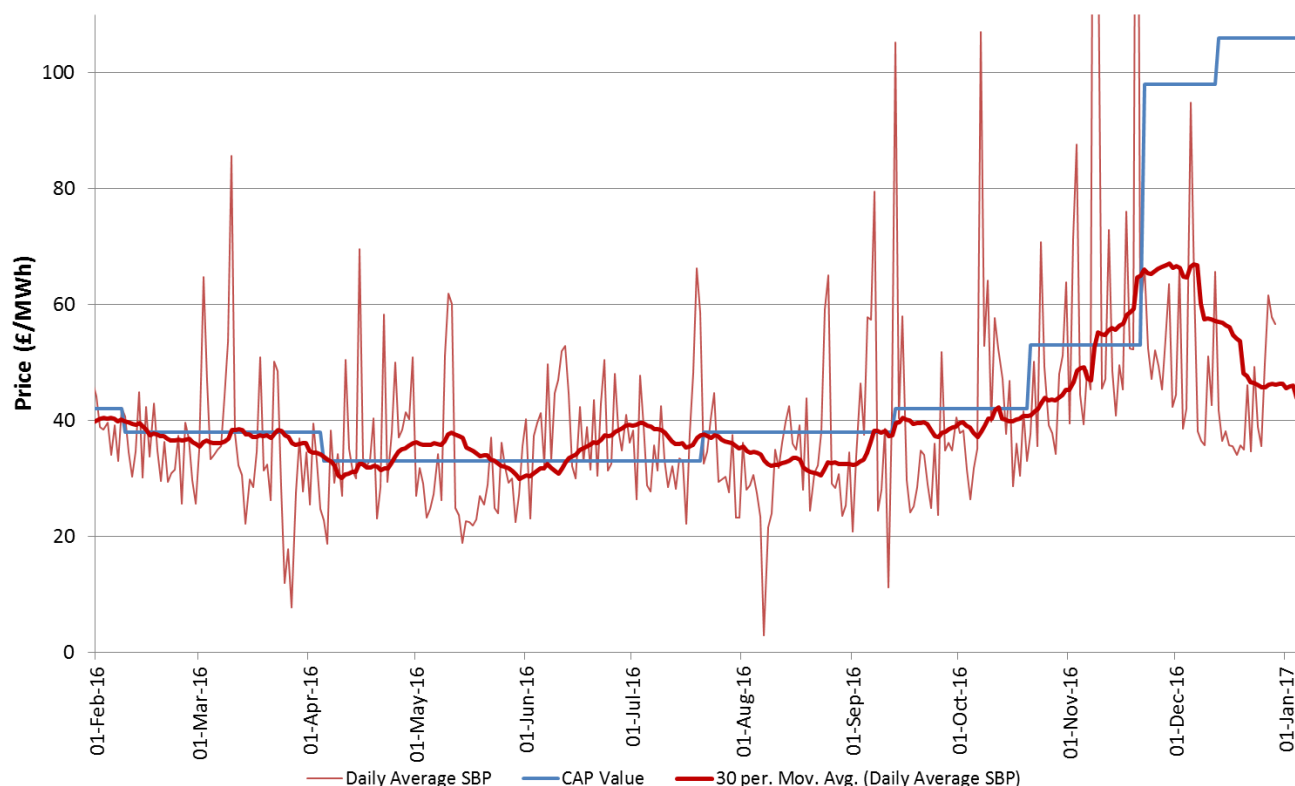
Forward Prices provided by ICIS Heren

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 [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



4.6 Following the 5 November 2015 change to a single price and smaller Price Average Reference volume, we have seen more volatile prices. This is an issue for a single CAP at a Settlement Period level. Looking at the 30 period moving average, the absolute error is ~£47/MWh in December 2016.

4.7 We invite Parties to consider the proposal to **decrease** the value of CAP to **£57/MWh**, from its last implemented level of £63/MWh, based on current level of the reference price.

5. Next Steps

5.1 Following the end of the consultation period, the Credit Committee will try to meet on the week commencing on 16 January 2017, to consider the responses and whether or not to change the current CAP value and the trigger level. Any change will be notified to all BSC Parties, and the new value will come into effect at least 15 Working Days later.

5.2 You are invited to respond to this consultation using the consultation proforma. Please return responses to Credit.committee@exelon.co.uk by **17:00 on Tuesday 17 January 2017**.

For more information, please contact:

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