

CREDIT ASSESSMENT PRICE CONSULTATION – AUGUST 2017

Target Audience	BSC Trading Parties
Date Published	21 August 2017
Deadline for Responses	17:00 Tuesday 29 August 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 an increase of the CAP to £50/MWh from the last notified value of £43/MWh. A change to CAP can impact the amount of Credit Cover required by a Trading Party.

If all respondents and Credit Committee members are in agreement, the proposed value will be implemented on Wednesday 20 September 2017 and the trigger level will remain the same.

If at least one respondent or Credit Committee member requests it or disagrees with the proposed value, ELEXON will arrange a Credit Committee meeting. The Credit 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 29 August 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 29 August 2017.
- 1.3 If required, the Credit Committee will meet shortly thereafter to determine if a new CAP value and CAP trigger level should apply.
- 1.4 If the Credit Committee **does not meet**, the proposed CAP value will be implemented on **Wednesday 20 September 2017**.

2. The CAP Value and trigger level

The Credit Committee last reviewed the value of CAP and the CAP trigger level on 30 March 2017. This review resulted in the value of CAP being decreased from £49/MWh to £43/MWh. The trigger level was also reviewed and maintained at +/- £5/MWh. The changes are effective from 25 April 2017. The following table shows the historic CAP values since July 2016:

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Effective From	Effective To	Value (£/MWh)	Trigger level (£/MWh)
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	13/02/2017	63	5
14/02/2017	20/03/2017	57	5
21/03/2017	24/04/2017	49	5
25/04/2017	-	43	5

3. The CAP Review Process

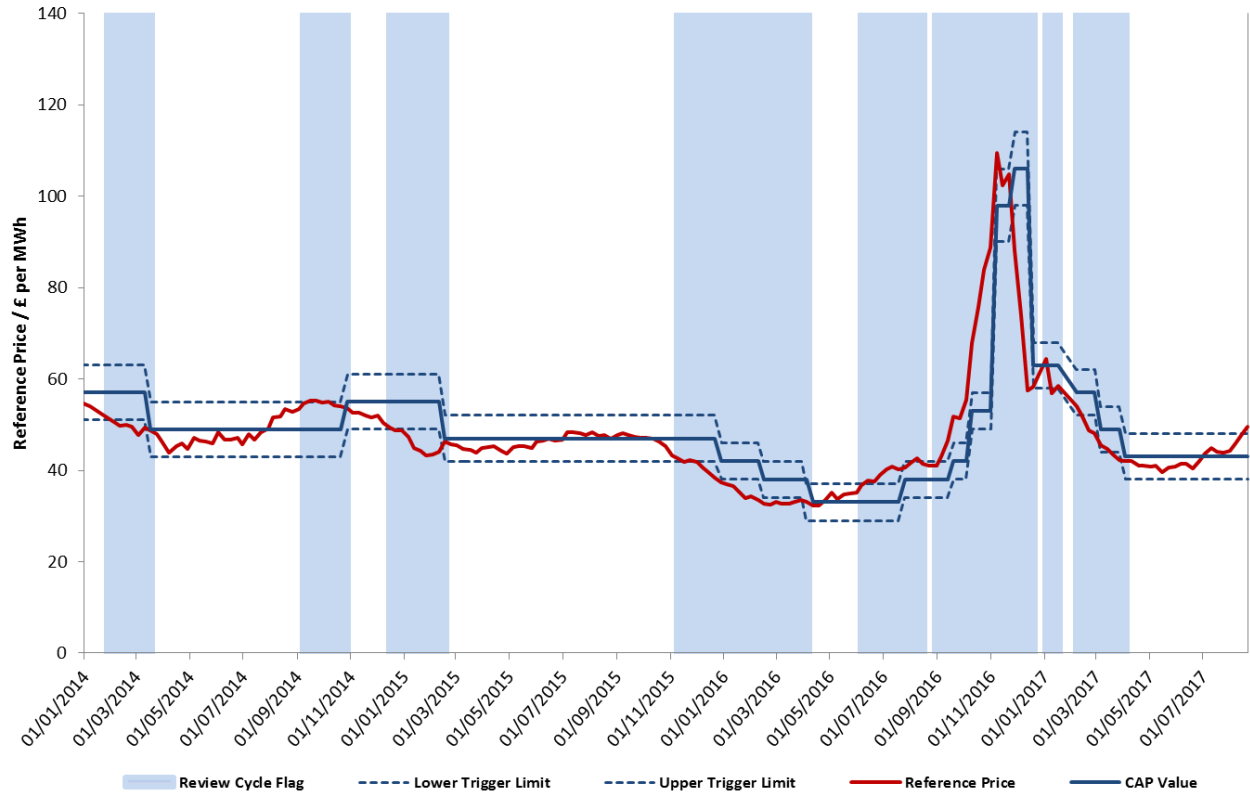
- 3.1 On the first working day of each week, we compare the value of CAP to the reference price, which is derived from average monthly forward market prices currently provided by ICIS Heren. Where the absolute difference between the two values exceeds the trigger level it is termed a 'trigger event'.
- 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 consultation, if at least one respondent or Credit Committee member requests it, ELEXON will arrange a Credit Committee meeting to determine the new CAP value. If all respondents and Credit Committee members agree with the proposed value no meeting will be held.
- 3.5 If a Credit Committee meeting is held, the Credit Committee will confirm the date from which 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 £44.29/MWh in July 2017. From 1 August 2017, the reference price calculation changed to use September and October 2017 forward prices and the reference price averaged £47.19/MWh. Higher prices for delivery on those months could cause a further increase in the reference price.
- 4.2 The upward trend continued until Monday 21 August 2017 when the reference price was higher than the current upper threshold of £48/MWh.
- 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 has been decreasing from December 2016. Under the CAP calculation methodology, the current reference price is based on an equally weighted average of September and October 2017 forward prices and its value is now increasing.

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Graph 1: Reference Price and CAP
Source: ELEXON



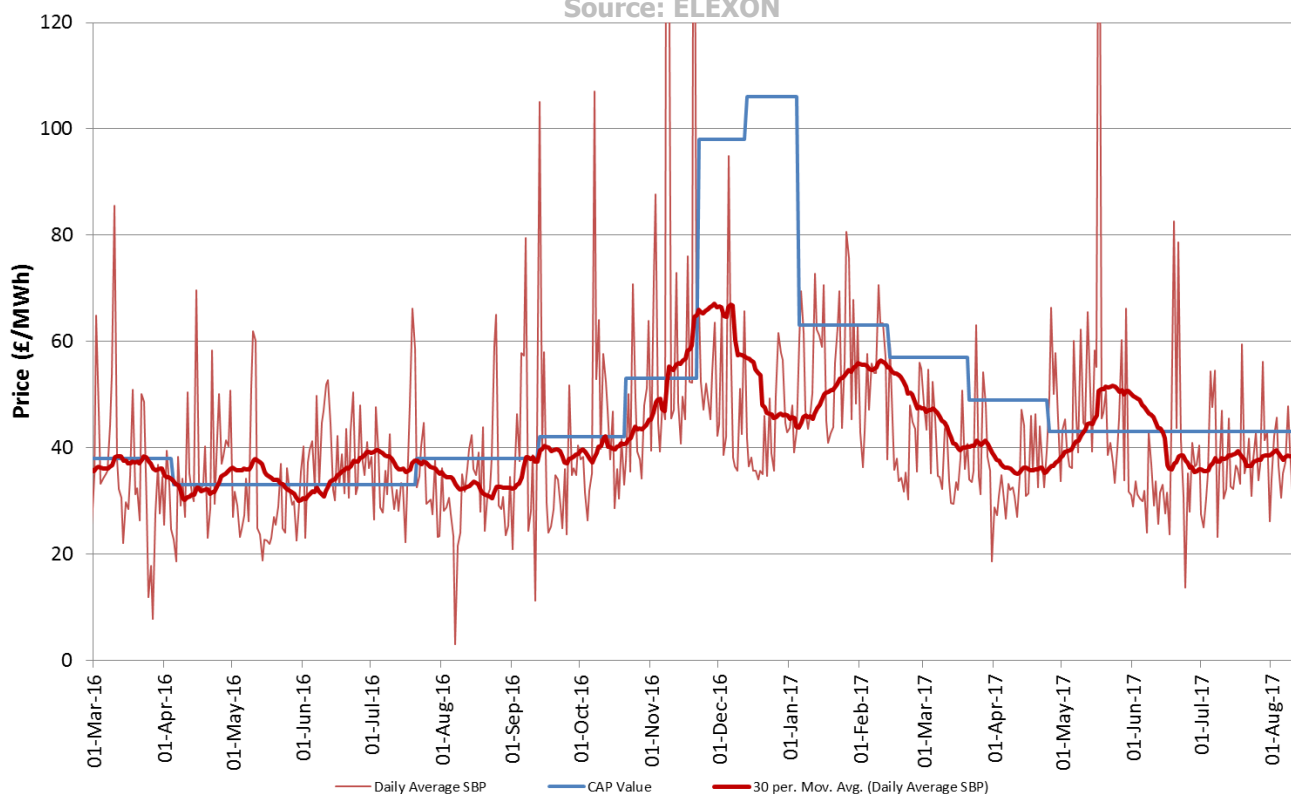
Forward Prices provided by ICIS Heren

4.5 Graph 2 shows the daily average System Buy Price (SBP), 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.

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Graph 2: Daily Average System Buy Price and CAP

Source: ELEXON



- 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 ~£5/MWh in July 2017.
- 4.7 We invite Parties to consider the proposal to **increase** the value of CAP to **£50/MWh**, from its last approved level of £43/MWh, based on the current reference price.

5. Next Steps

- 5.1 Following the end of the consultation period, if required, the Credit Committee will try to meet on the week commencing on 28 August 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 If a Credit Committee meeting **is not required** at the end of the consultation period, the new CAP value of **£50/MWh** will be implemented on **Wednesday 20 September 2017**.
- 5.3 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 29 August 2017**.

For more information, please contact:

Rebecca Kassube, Market Analyst

Credit.committee@elexon.co.uk

020 7380 4205