

# CREDIT ASSESSMENT PRICE CONSULTATION – AUGUST 2016

**Target Audience** BSC Trading Parties

**Date Published** 8 August 2016

**Deadline for Responses** **17:00 Tuesday 16 August 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 £42/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](mailto:Credit.committee@elexon.co.uk) by 17:00 on Tuesday 16 August 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 16 August 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 23 June 2016. This review resulted in the value of CAP being increased from £33/MWh to £38/MWh. The trigger level was also reviewed and kept at the same value of +/- £4/MWh. The changes were effective from 21 July 2016.

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

Effective From	Effective To	Value (£/MWh)	Trigger level (£/MWh)
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	20/07/2016	33	4
21/07/2016	-	38	4

# CREDIT ASSESSMENT PRICE CONSULTATION – AUGUST 2016

---

## 3. The CAP Review Process

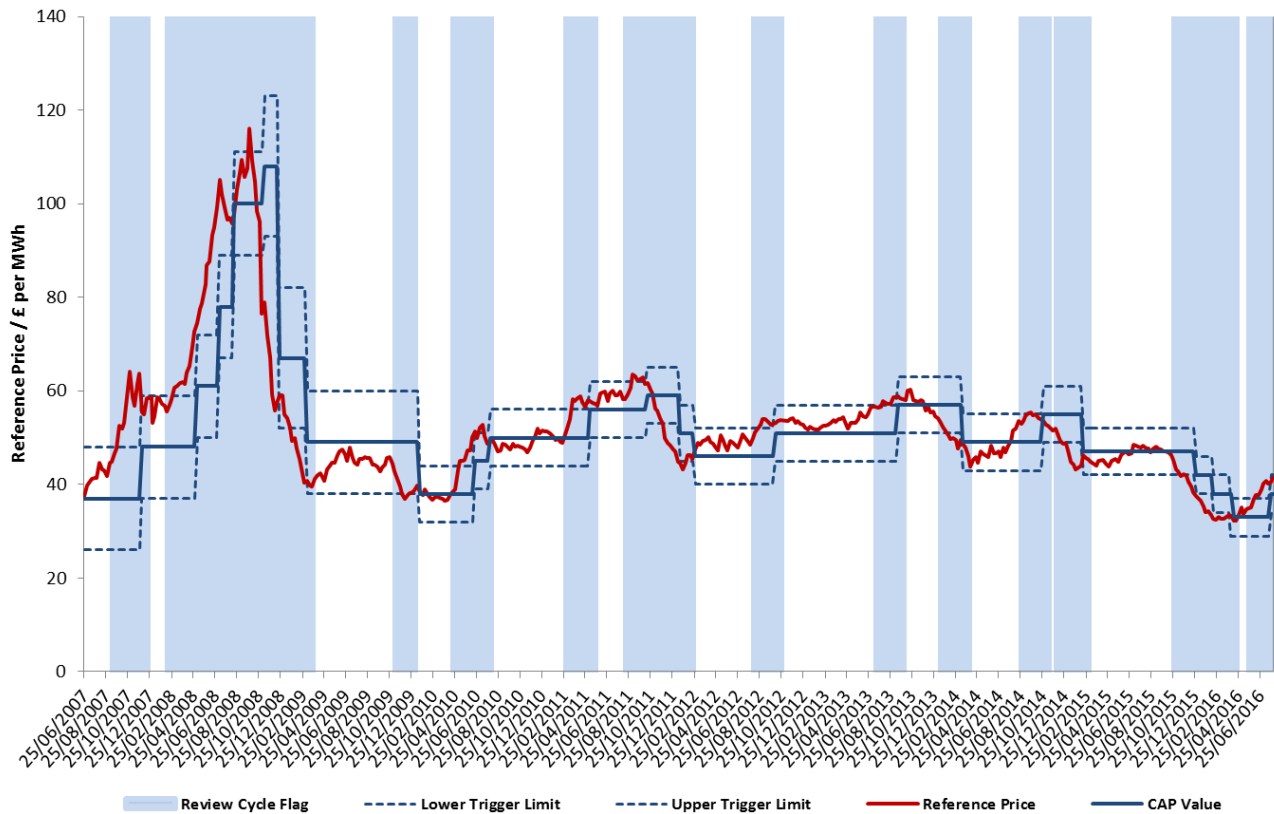
- 3.1 On the first working day of each week, we compare the value of CAP to the reference price, which is derived from average monthly forward market prices currently provided by ICIS Heren. Where the absolute difference between the two values exceeds the trigger level (currently +/- £4/MWh) it is termed 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 be changed, the Credit 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.
- 3.4 Note that, following the approval by the BSC Panel at its July meeting, [the BSC Modification P345 'Reducing the CAP change notice period and improving its flexibility'](#) will be implemented on the 19 August 2016. If the Credit Committee meets after this implementation date, the change in the CAP value will be allowed to take place from the 15<sup>th</sup> Working Day after the Credit Committee's decision and notification to BSC Parties.

## 4. Recent Pricing Data

- 4.1 The reference price averaged £40.48/MWh in July 2016 and was based on August and September 2016 forward market prices. From 1 August 2016, the reference price calculation changed to use September and October 2016 forward prices. Higher prices for delivery on those months have caused the reference price to breach the upper trigger level.
- 4.2 On Thursday 21 July 2016, a new CAP value of £38/MWh was implemented. Followed a continuous upward trend in market prices that caused the CAP reference price to breach its upper threshold by £0.57/MWh two weeks after its 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 has been continuously decreasing from September 2015 until it stabilised in February 2016. Under the CAP calculation methodology, the current reference price is based on an equally weighted average of September and October 2016 forward prices.

# CREDIT ASSESSMENT PRICE CONSULTATION – AUGUST 2016

Graph 1: Reference Price and CAP



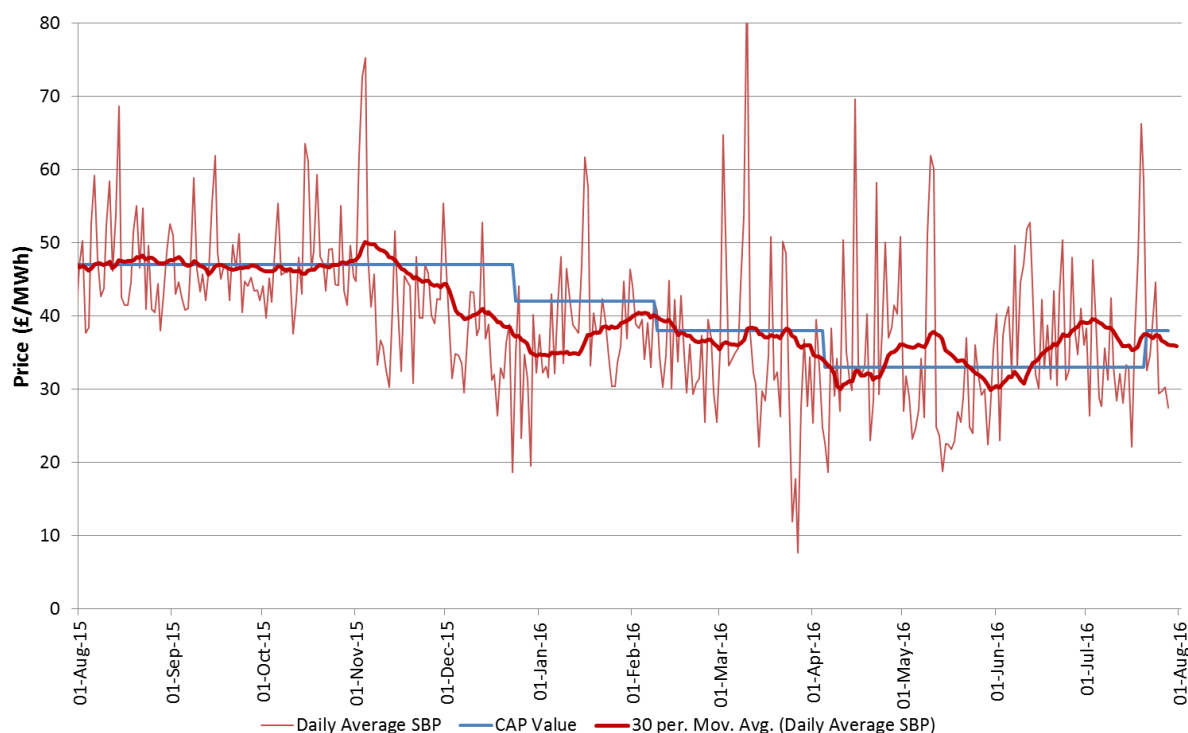
Forward Prices provided by ICIS Heren

4.5 Graph 2 shows the daily average System Buy Price (SBP)<sup>1</sup>, 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.

<sup>1</sup> 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 – AUGUST 2016

Graph 2: Daily Average System Buy Price and CAP



- 4.6 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.
- 4.7 As per the usual setting procedure, we are recommending a new CAP value of £42/MWh.

## 5. Next Steps

- 5.1 Following the end of the consultation period, the Credit Committee will try to meet on the week commencing on 15 August 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 unless the Credit Committee meets after 19 August 2016 in which case the notice period for implementing the new value will be reduced to 15 Working Days due to Modification P345.
- 5.2 You are invited to respond to this consultation using the consultation proforma. Please return responses to [Credit.committee@exxon.co.uk](mailto:Credit.committee@exxon.co.uk) by **17:00 on Tuesday 16 August 2016**.

### For more information, please contact:

Riccardo Lampini, Market Analyst

[riccardo.lampini@exxon.co.uk](mailto:riccardo.lampini@exxon.co.uk)

020 7380 4172