



Credit Assessment Price (CAP) Review Guidance Document

1. Introduction

This guidance document sets out the processes ELEXON uses to determine when a review of the Credit Assessment Price (CAP) will be held and the procedures followed during a review of the CAP value.

The Credit Assessment Price is defined in section M1.4 of the Balancing and Settlement Code (BSC). The CAP is essentially a parameter used to convert Actual Energy Indebtedness and the credit cover lodged by a BSC Party into an equivalent MWh amount.

In accordance with the procedures set out in this guidance document, ELEXON actively monitors the CAP value against forward looking electricity prices. Where significant deviations occur the CAP value is reviewed.

More information on the Credit Assessment Price is available by contacting the BSC Service Desk at bscservicedesk@logica.com.

This guidance document is approved for use by the BSC Panel and can only be changed with its approval, with the exception of the value of the trigger level, set out in section 4 which may be amended by the Credit Committee. The Credit Committee may also recommend other changes to this guidance document for consideration by the BSC Panel.

2. Process Overview

The CAP review procedures are as follows:

- On the first working day of each week ELEXON compares the current CAP value to a value derived from forward looking electricity prices. This is known as the reference price and its calculation is described in section 3;
- If the difference between the CAP and the reference price exceeds a pre-set trigger value ELEXON issues an industry consultation seeking views on the CAP change;
- The Credit Committee meets after the end of the consultation period to consider the responses and the latest data and, if the Committee feels it appropriate, approves a new CAP value;
- If a new CAP value is approved by the Credit Committee, this value comes into effect following a 20 working day implementation period as required by section M1.4.2(b) of the Code.

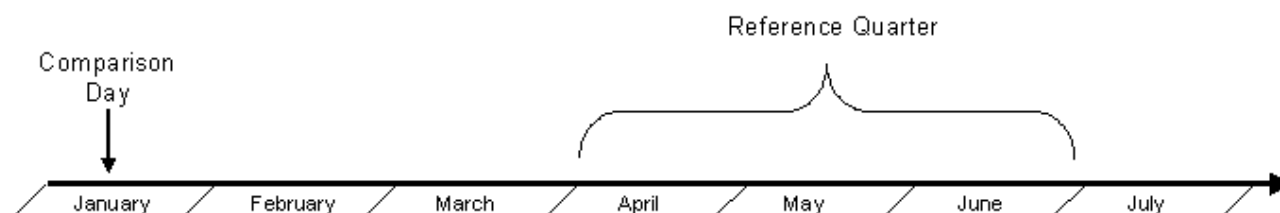
3. Use of Forward Price Data

Forward price data is received by ELEXON from a provider approved by the BSC Panel. The Credit Committee will keep the suitability and availability of such data for CAP review purposes under review and may recommend a change of provider, or data, or to this guidance document to the BSC Panel from time to time. On the first working day of each week this forward price data is used to derive a value which is compared to the current value of CAP. This section provides an overview of how this value is derived.

The reference price is essentially a forward price which covers a three month period (i.e. CAP is compared to a quarterly forward price). For the purpose of this guidance document this three month period shall be referred to as the 'reference quarter.'

Determining the Reference Quarter

The three months which make up the reference quarter are determined by the current month (i.e. the month that the first day of the week falls in). To reflect the time that it takes to review CAP, the reference quarter will begin on the first day of third month on from the current month. For instance, in the diagram below the comparison day lies in January therefore the reference quarter will begin on the first day of April and end on the last day of June.



Columns 1 to 3 of the following table show the corresponding reference quarter for each month of the year:

Table 1

Month that First Day of Week Falls In	Start Date of Reference Quarter	End Date of Reference Quarter	Forward Price Calculation Factor
January	1 April	30 June	Q2
February	1 May	31 July	$(2/3 * Q2) + (1/3 * Q3)$
March	1 June	31 August	$(1/3 * Q2) + (2/3 * Q3)$
April	1 July	30 September	Q3
May	1 August	31 October	$(2/3 * Q3) + (1/3 * Q4)$
June	1 September	30 November	$(1/3 * Q3) + (2/3 * Q4)$
July	1 October	31 December	Q4
August	1 November	31 January	$(2/3 * Q4) + (1/3 * Q1)$
September	1 December	28/29 February	$(1/3 * Q4) + (2/3 * Q1)$
October	1 January	31 March	Q1
November	1 February	30 April	$(2/3 * Q1) + (1/3 * Q2)$
December	1 March	31 May	$(1/3 * Q1) + (2/3 * Q2)$

Where Q1 is the average Quarter 1 forward price based on five days' worth of data; Q2 is the average Quarter 2 forward price based on five days' worth of data, etc. so the derived forward price value is a simple average of one or more Quarter prices.

Calculating the Reference Price

On the first working day of each week ELEXON gathers the quarterly forward price data produced on the last five working days (for which there is data available) and uses an average of this data to calculate the forward price over the reference quarter, i.e. the derived value. For each day an average is calculated of the highest price bid by buyers and the lowest price offered by sellers for both peak and baseload trades. The reference price is the average of the five most recent daily values.

The supplier of forward price data provides ELEXON with prices which are divided into four distinct quarters as follows:

Q1	Q2	Q3	Q4
January	April	July	October
February	May	August	November
March	June	September	December

It is therefore often necessary to mix the forward price products to obtain a quarterly forward price over the reference quarter. In such cases the appropriate forward price calculation factor shown in *Table 1* will be applied to obtain the derived value, where:

- Q1 = the forward price for quarter one, based upon the average quarterly prices for quarter one produced on the last five working days before the comparison day.
- Q2= the forward price for quarter two, based upon the average quarterly prices for quarter two produced on the last five working days before the comparison day.
- Q3 = the forward price for quarter three, based upon the average quarterly prices for quarter three produced on the last five working days before the comparison day.
- Q4 = the forward price for quarter four, based upon the average quarterly prices for quarter four produced on the last five working days before the comparison day.

Once the reference price has been calculated, in accordance with the appropriate formula in *Table 1*, it will be compared against the current CAP value. Where these two prices deviate by more than the trigger value it will be termed a trigger event.

4. The Trigger Level

The trigger level is set the following value effective from 12 January 2010: **£6/MWh**
(Prior to that date, it was set at £11/MWh.)

The value of the trigger level is determined by the Credit Committee and will be subject to its review from time to time and at least once a year. This guidance document will be reissued following any change of the trigger level.

5. The CAP Review Process

A CAP review is initiated when a trigger event occurs. With the agreement of the Credit Committee, the CAP trigger check process can be suspended for up to two weeks; or the consultation period may be extended. These options are intended to avoid any problems in convening meetings and receiving substantive consultation responses, particularly over the Christmas/New Year period. Where the process has been suspended, ELEXON will retrospectively examine whether the trigger event would have occurred in this situation and still seek to initiate the consultation immediately following any such extended general holiday period.

Once initiated, the CAP review process is as follows:

- The weekly trigger process is suspended. This suspension is to ensure that a situation does not arise where there are multiple reviews of the CAP occurring simultaneously. The suspension lasts until either (1) the point at which a decision is made not to implement a new value of CAP or (2) where a decision is

made to implement a new value of CAP, the point at which that new value of CAP is implemented. Following this point the weekly trigger process is resumed.

- However, during the suspension, ELEXON continues to calculate the derived weekly values (from forward prices) and provides this information to the Credit Committee meeting at which it is asked to make a decision on a CAP value following the industry consultation, noting that such data will not have been available to consultees;
- ELEXON will issue a consultation no later than one working day following the trigger event. The consultation will last for five working days, except where the consultation period has been extended with the agreement of the Credit Committee.
- ELEXON will arrange a Credit Committee meeting for the first practical date after the consultation closes but with at least one clear working day between the closure of the consultation and the Credit Committee meeting to allow ELEXON time to collate and distribute the responses to Committee members;
- At this meeting the Credit Committee shall consider the consultation responses and the reference price calculated by ELEXON since the consultation was initiated and set a new CAP value if it deems it appropriate to do so;
- If the Credit Committee decides not to set a new CAP value then the review shall be closed and the suspension of the trigger process will be lifted;
- Should the Credit Committee set a new CAP value then BSC Parties, the FAA and ECVAA will be informed of the new CAP value and the date from which it is effective in accordance with the Code;
- Once a new CAP value comes into effect the weekly trigger process is resumed on the first working day of the following week.