

Credit Committee Quarterly Report: January to March 2009

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Overview or Purpose of Document:

This document is the quarterly report on the Credit Assessment Price (CAP) review process covering the first quarter of 2009. This document is intended to aid the Credit Committee in its obligation to examine the suitability of the CAP Review process from time to time.

Target Audience:

Credit Committee Members and BSC Parties

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1 Introduction

This report provides an overview of the performance of the CAP review process. It focuses on the review process over the last quarter (i.e. this report covers the months of January, February and March 2009). Areas which are considered in the report include the weekly trigger checks and the performance of CAP against outturn SBP and forward market prices.

2 Overview of the Last Quarter

During this last quarter, the CAP trigger has breached on 1 occasion leading to a single CAP change from £67/MWh to £49/MWh. The details are set out in Table 1.

Date of Trigger Breach	Effective Dates	CAP Value actually implemented	CAP Value proposed in Consultation
10/11/2008	17/12/2008 – 03/03/2009	£67/MWh	£79/MWh
26/01/2009	04/03/2009 -	£49/MWh	£49/MWh

Table 1

3 Trigger Level Change

As the reference price had decreased substantially, the Credit Committee took the decision to reduce the trigger level from £15/MWh to £11/MWh during this quarter. (It had been increased in the last quarter of 2008 from £11/MWh to deal with sharp changes and volatile behaviour in the reference price.) This trigger level became effective on 4 March 2009 and was effective for the remainder of this quarter.

4 Analysis of Pricing Data

Graph 1 (Appendix A) shows the reference price in relation to the CAP value and the upper and lower limits of the trigger level. The areas shaded in blue on the graph indicate periods where the value of CAP was under review. Over this first quarter of 2009, the graph shows that the reference price continued the downward trend evident in the last quarter although the decline has been less marked. At the very end of the quarter there were some signs that the reference price might have flattened out. This may be temporary, but as we move into quarter 2 of 2009, the reference price is derived from quarter 3 and, in May and June, an increasing contribution from quarter 4 forward prices, which may then be an upward driver on the reference price.

Graph 2 (Appendix A) demonstrates the relationship between CAP and daily average SBP, from 01 July 2006. The graph shows that there has been a reasonable match between CAP and SBP over the first quarter of 2009.

Graph 3 (Appendix A) shows the average outturn System Buy Price (SBP) over each quarter against the forward price for that quarter. This forward price is based on the last available forward

market price before the quarter commenced. For the first quarter of 2009, the last forward price was a reasonable prediction of the out-turn average SBP and re-established a reasonably good correlation between this forward price and out-turn SBP that had been missing from the last quarter's figures, when the forward price was set at the end of September 2009, a period of price volatility.

5 Conclusion

This last quarter has again seen a decreasing trend in reference price and there have been 2 effective CAP values over this period. The CAP trigger level was decreased to £11/MWh given that price volatility had dropped from the previous quarter and at the beginning of March CAP was decreased to £49/MWh in order to match the lower reference prices and SBP.

Appendix A



