

Credit Committee Quarterly Report: October 2008 to December 2008

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Overview or Purpose of Document:

This document is the quarterly report of the fourth quarter of 2008 on the Credit Assessment Price (CAP) review process. 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 October, November, and December of 2008). 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 2 occasions leading to 2 CAP changes. These changes are summarised in Table 1.

Date of Trigger Breach	Effective Dates	CAP Value actually implemented	CAP Value proposed in Consultation
07/07/2008	13/08/2008 – 05/11/2008	£100/MWh	£105/MWh
29/09/2008	06/11/2008 - 16/12/2008	£108/MWh	£116/MWh
10/11/2008	17/12/2008 – 03/03/2009	£67/MWh	£79/MWh

Table 1

Further detail on the reference price, CAP changes and CAP review process over the last quarter is provided in the 6 month report on the CAP review process.

3 Trigger Level Change

During this quarter the trigger level was increased to £15/MWh from £11/MWh to deal with sharp changes and volatile behaviour in the reference price. This trigger level became effective on 6 November 2008 and was effective for the remainder of the 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 quarter, the graph shows that the £100/MWh CAP was an effective value. CAP was increased to £108/MWh and this became effective when the reference price was on a downward trend. However, this CAP value was set during a period of high prices and volatility. Following this, CAP was restored to a level that was more reflective of the lower reference prices and SBP with the implementation of the £67/MWh CAP.

The last reference price of the quarter, on 29 December 2008, was £58.97/MWh. The reference price had not been at this level since the end of February 2008.

Graph 2 (Appendix A) demonstrates the relationship between CAP and daily average SBP, from 01 July 2006. The graph shows that, aside from the £108/MWh CAP, that there has been a reasonable match between CAP and SBP over the fourth quarter of 2008.

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. The Q4 '08 forward price is the average forward price for the Q4 product on 26 September 2008. It should be noted that the end of September was a period of volatility and very high forward prices.

5 Conclusion

This last quarter has seen a decreasing trend in reference price and there have been 3 effective CAP values over this period. The CAP trigger level was increased to £15/MWh in reaction to price volatility and towards the end of the quarter CAP was decreased to £67/MWh in order to match the lower reference prices and SBP.

Appendix A



