# Credit Assessment Price (CAP) Review Guidance

# 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 CAP is defined in [Section M](https://www.elexon.co.uk/the-bsc/bsc-section-m-credit-cover-and-credit-default/) 1.4 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.

This guidance document is approved for use by the BSC Panel and material changes can only be made 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 (or if a new CAP value has been formally notified to BSC Parties prior to its implementation, that new 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 and if it believes the Credit Committee needs to meet to set the new value of the CAP;
* If at least one industry or Credit Committee member requests it, the Credit Committee will meet after the end of the consultation period to consider the responses and the latest data. If the Committee feels it is appropriate, it will approve a new CAP value;
* If a new CAP value is approved by the Credit Committee, this value comes into effect following an implementation period specified by the Credit Committee, which is currently at least 15 working days;
* If no Party has objected to the proposed new value of CAP included in the consultation, the new CAP will be implemented following the implementation period of at least 15 working days;
* The implementation period may be amended in accordance with [Section M](https://www.elexon.co.uk/the-bsc/bsc-section-m-credit-cover-and-credit-default/) 1.4.2(b) of the Code.

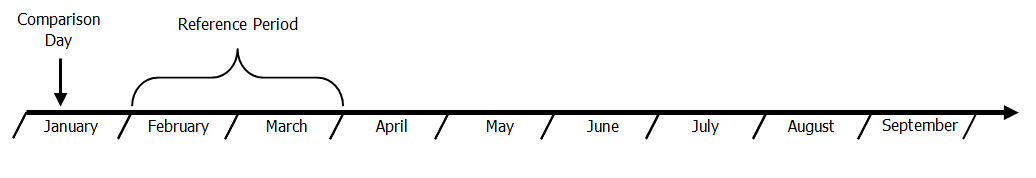
# 3 Use of Forward Price Data

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 two month period (i.e. CAP is compared to a monthly forward price). For the purpose of this guidance document this two month period shall be referred to as the ‘reference period’.

**Determining the Reference period**

The two months which make up the reference period are determined by the current month (i.e. the month that the first day of the week falls in). For instance, in the diagram below the comparison day lies in January therefore the reference period will begin on the first day of February and end on the last day of March.



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

| **Month that First Day of Week Falls in** | **Start Date of Reference period** | **End Date of Reference period** |
| --- | --- | --- |
| January | 1 February | 31 March |
| February | 1 March | 30 April |
| March | 1 April | 31 May |
| April | 1 May | 30 June |
| May | 1 June | 31 July |
| June | 1 July | 31 August |
| July | 1 August | 30 September |
| August | 1 September | 31 October |
| September | 1 October | 30 November |
| October | 1 November | 31 December |
| November | 1 December | 31 January |
| December | 1 January | 28/29 February |

# Calculating the Reference Price

On the first working day of each week, ELEXON gathers the monthly 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 period, i.e. the derived value. For each day, an equally proportional average on the two months in the reference period is calculated. The values used in the calculation are 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.

Once the reference price has been calculated, it will be compared against the current CAP value. Where these two prices deviate by more than the trigger level value, it will be termed a trigger event.

# 4 The Trigger Level

When a new CAP value is to be implemented, either following the agreement of the consulted on CAP in the industry consultation or following a new value being set by the Credit Committee meeting, ELEXON will calculate a new trigger level.

The trigger level will be set to 10% of the new CAP value.

The calculated trigger level will be rounded to the nearest whole £/MWh.

# 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. 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 notice of that new value of CAP is given to BSC Parties. 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 include a proposed new CAP value, based on the estimated reference price on the potential implementation date. It will ask industry whether the Credit Committee should meet to set the CAP to a different value or to implement the proposed value. The consultation will last for five working days, except where the consultation period has been extended with the agreement of the Credit Committee;
* If all respondents and Credit Committee members agree with the proposed value included in the consultation document, there will be no Credit Committee meeting and the new CAP value will be implemented at the proposed date. This date shall not be earlier than the implementation period of 15 working days after it is communicated out to industry. This will be done within one working day from the end of the consultation period. 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;
* If at least one respondent or Credit Committee member requests it, 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;
* When a new CAP value is to be implemented, either following the agreement of the consulted on CAP in the industry consultation or following a new value being set by the Credit Committee meeting, ELEXON will calculate a new trigger level based on the methodology described in Section 4 of this document;
* 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 and the newly calculated trigger level for the comparison with the reference price.

**Need more information?**

For more information please contact the **BSC Service Desk** at [bscservicedesk@cgi.com](mailto:bscservicedesk@cgi.com) or call **0370 010 6950**.

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