

CREDIT ASSESSMENT PRICE CONSULTATION – NOVEMBER 2018

Target Audience BSC Trading Parties

Date Published 5 November 2018

Deadline for Responses **17:00 Tuesday 13 November 2018**

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 a decrease of the CAP to £68/MWh from the last notified value of £75/MWh. A change to CAP can impact the amount of Credit Cover required by a Trading Party.

If all respondents and Credit Committee members are in agreement, the proposed value will be implemented on Tuesday 4 December 2018 and the trigger level will remain the same.

If at least one respondent or Credit Committee member requests it or disagrees with the proposed value, ELEXON will arrange a Credit Committee meeting. The Credit Committee will determine if a change needs to be made to the value of the CAP, the trigger level 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 by 17:00 on Tuesday 13 November 2018.

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 £6/MWh. As a result, a consultation on a new CAP value has commenced. The consultation period will end on Tuesday 13 November 2018 at 17:00.
- 1.3 If required, the Credit Committee will meet shortly thereafter to determine if a new CAP value and CAP trigger level should apply.
- 1.4 If the Credit Committee **does not meet**, the proposed CAP value will be implemented on **Tuesday 4 December 2018**.

2. The CAP Value and trigger level

- 2.1 The Credit Committee met following the last review of the CAP in September 2018 as all respondents did not agree with the proposed CAP value issued in the consultation. This Credit Committee determined that the value of CAP would be increased from £59/MWh to £75/MWh. The trigger level remained at +/- £6/MWh. The changes were effective from 28 September 2018.

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2.2 The following table shows the historical CAP values since January 2017:

Effective From	Effective To	Value (£/MWh)	Trigger level (£/MWh)
05/01/2017	13/02/2017	63	5
14/02/2017	20/03/2017	57	5
21/03/2017	24/04/2017	49	5
25/04/2017	25/09/2017	43	5
26/09/2017	05/03/2018	55	6
06/03/2018	06/06/2018	47	6
07/06/2018	14/08/2018	53	6
15/08/2018	27/09/2018	59	6
28/09/2018		75	6

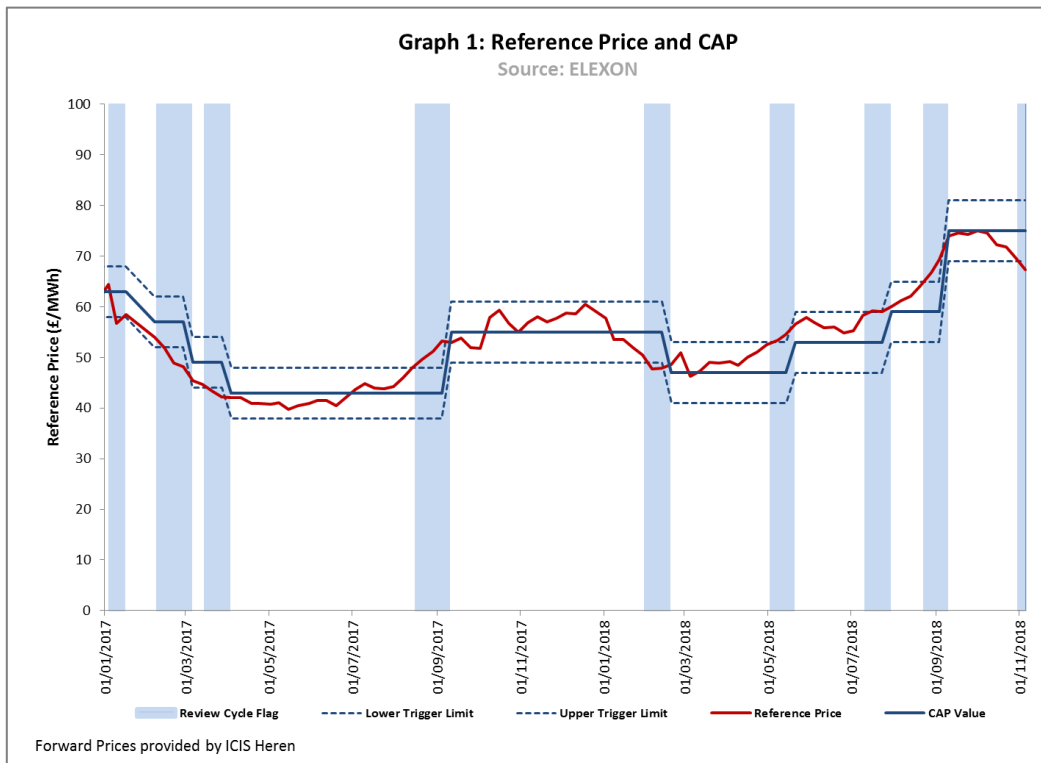
3. The CAP Review Process

- 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, it is termed a 'trigger event'.
- 3.2 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 the newly notified CAP value for the comparison with the Reference Price
- 3.3 Following a trigger event, we issue a consultation proposing that the CAP is changed to the current Reference Price.
- 3.4 Following the consultation, if at least one respondent or Credit Committee member requests it, ELEXON will arrange a Credit Committee meeting to determine the new CAP value. If all respondents and Credit Committee members agree with the proposed value no meeting will be held.
- 3.5 If a Credit Committee meeting is held, the Credit Committee will confirm the date from which change will take effect. This date will not be less than 15 Working Days after BSC Parties receive notification of the change.

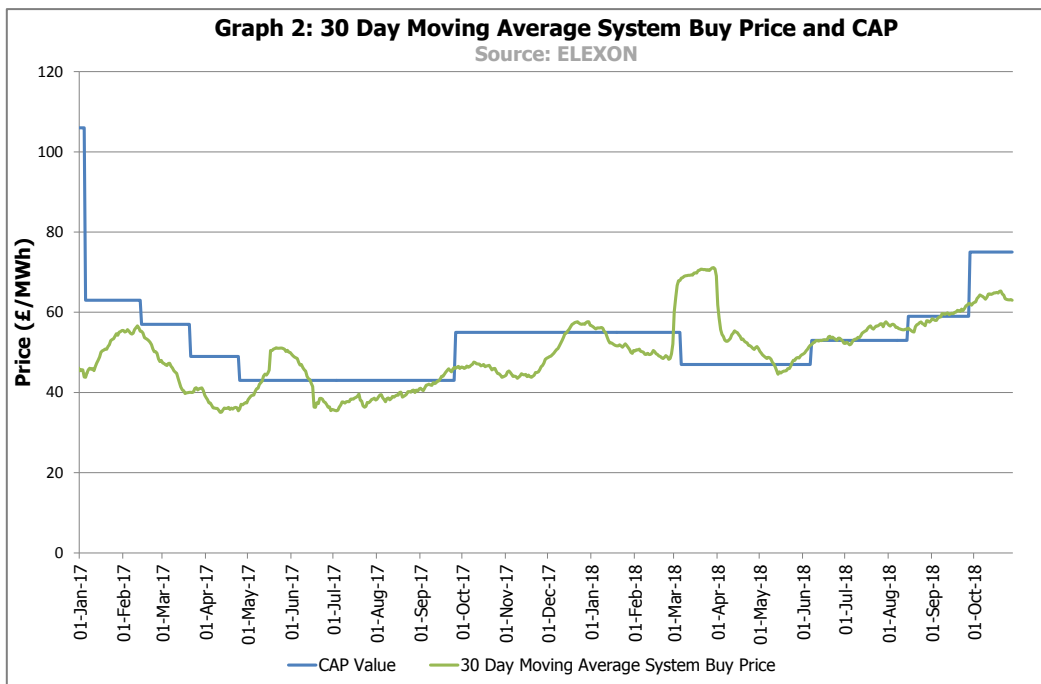
4. Recent Pricing Data

- 4.1 The Reference Price has averaged £72.23/MWh in October 2018. From 1 October 2018, the Reference Price calculation has changed to use December 2018 and January 2019 forward prices.
- 4.2 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.

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4.3 Graph 2 shows the daily average System Buy Price (SBP), 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.



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- 4.4 Following the 5 November 2015 change to a single System Price and smaller Price Average Reference (PAR) volume, we have seen more volatile prices. This is an issue for a single CAP at a Settlement Period level. Looking at the 30 day moving average, the absolute error was ~£11/MWh in October 2018.
- 4.5 We invite Parties to consider the proposal to **decrease** the value of CAP to **£68/MWh**, from its last approved level of £75MWh, based on the current reference price and latest forward market prices.

5. Next Steps

- 5.1 Following the end of the consultation period, if required, the Credit Committee will try to meet on the week commencing 12 November 2018 to consider the responses, and decide whether to change the current CAP value and the trigger level. Any change will be notified to all BSC Parties, and the new value will come into effect at least 15 Working Days later.
- 5.2 If a Credit Committee meeting **is not required** at the end of the consultation period, the new CAP value of **£68/MWh** will be implemented on **Tuesday 4 December 2018**.
- 5.3 You are invited to respond to this consultation using the consultation proforma. Please return responses to Credit.committee@elexon.co.uk by **17:00 on Tuesday 13 November 2018**.

For more information, please contact:

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