

# CREDIT ASSESSMENT PRICE CONSULTATION – SEPTEMBER 2019

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**Target Audience** BSC Trading Parties

**Date Published** 9 September 2019

**Deadline for responses** **17:00 Tuesday 17 September 2019**

**Classification** Public

**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 an increase of the CAP to £54/MWh from the last notified value of £43/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 Wednesday 9 October 2019 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](mailto:Credit.committee@elexon.co.uk) by 17:00 on Tuesday 17 September 2019.

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## 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 £5/MWh. As a result, a consultation on a new CAP value has commenced. The consultation period will end on Tuesday 17 September 2019 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 **Wednesday 9 October 2019**.

## 2. The CAP Value and trigger level

A Credit Committee was held following the last review of the CAP in June 2019 as there was objections to the proposed CAP value issued in the consultation. This Credit Committee determined that the value of CAP would decrease from £48/MWh to £43/MWh. The trigger level had changed from +/- £6/MWh to +/- £5/MWh.

# CREDIT ASSESSMENT PRICE CONSULTATION – SEPTEMBER 2019

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2.1 The following table shows the historical CAP values since March 2017:

| Effective From | Effective To | Value (£/MWh) | Trigger level (£/MWh) |
|----------------|--------------|---------------|-----------------------|
| 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     | 03/12/2018   | 75            | 6                     |
| 04/12/2018     | 05/03/2019   | 68            | 6                     |
| 06/03/2019     | 02/04/2019   | 56            | 6                     |
| 03/04/2019     | 15/07/2019   | 48            | 6                     |
| 16/07/2019     | -            | 43            | 5                     |

## 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.

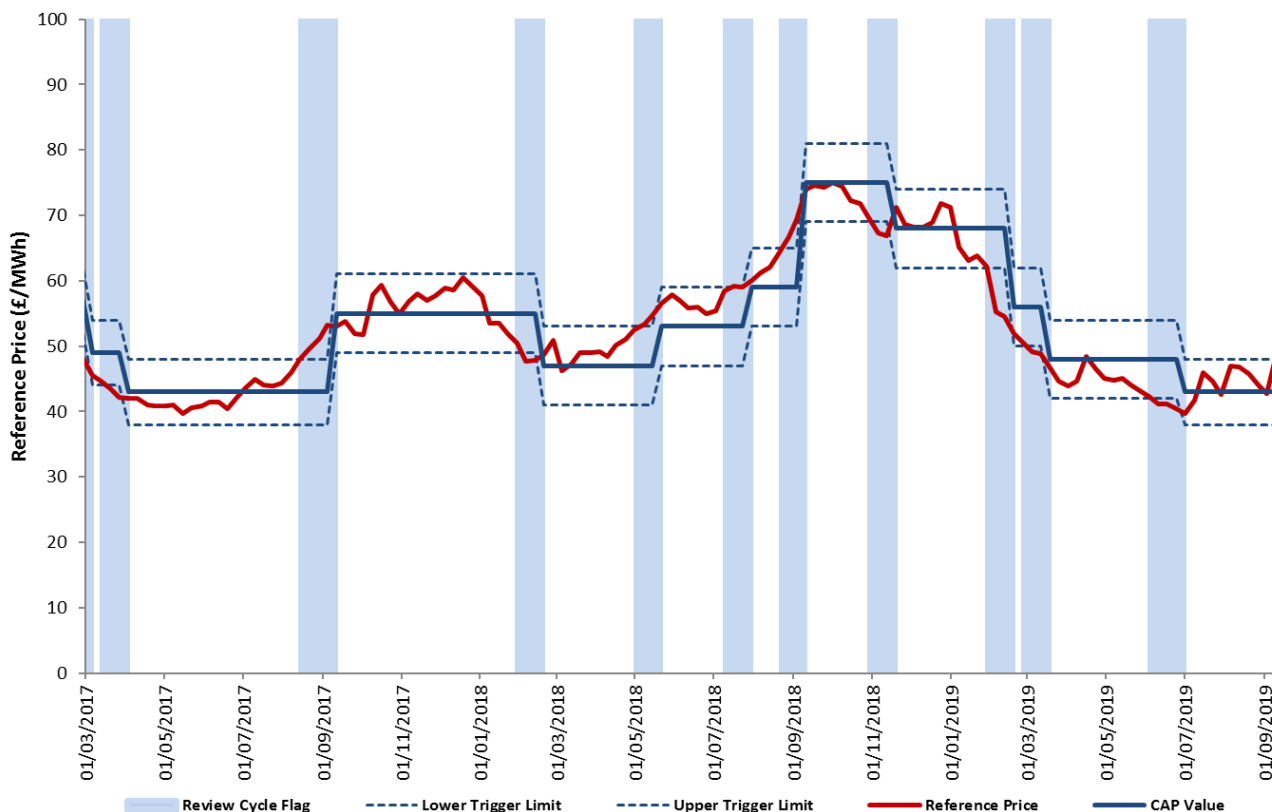
## 4. Recent Pricing Data

- 4.1 The Reference Price has averaged £45.87/MWh in August 2019. From 1 September 2019, the Reference Price calculation has changed to use October 2019 and November 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.

# CREDIT ASSESSMENT PRICE CONSULTATION – SEPTEMBER 2019

Graph 1: Reference Price and CAP

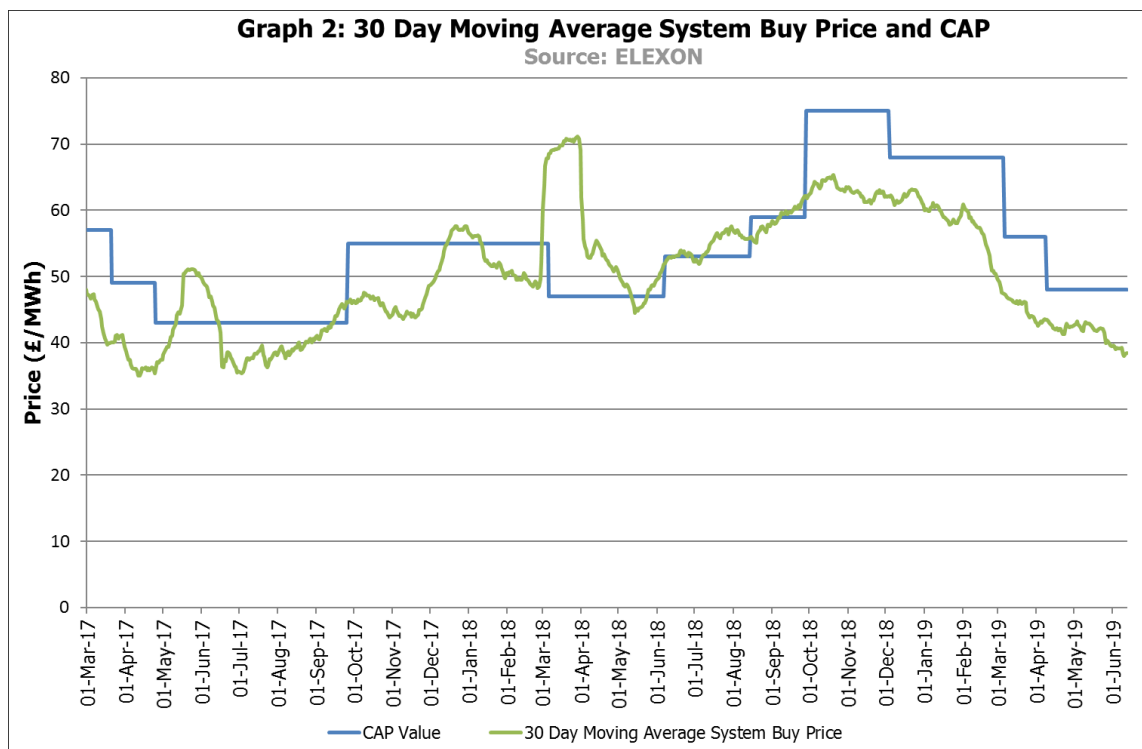
Source: ELEXON



Forward Prices provided by ICIS Heren

- 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.

# CREDIT ASSESSMENT PRICE CONSULTATION – SEPTEMBER 2019



- 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 ~£3/MWh in August 2019.
- 4.5 Interactive versions of Graphs 1 and 2 in this consultation are available to BSC Parties on the 'Calculating new CAP values' page of the [ELEXON website](#).
- 4.6 We invite Parties to consider the proposal to **increase** the value of CAP to **£54/MWh**, from its last approved level of £43/MWh, 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 16 September 2019 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 **£54/MWh** will be implemented on **Wednesday 9 October 2019**.
- 5.3 You are invited to respond to this consultation using the consultation proforma. Please return responses to [Credit.committee@elexon.co.uk](mailto:Credit.committee@elexon.co.uk) by **17:00 on Tuesday 17 September 2019**.

### For more information, please contact:

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