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# Credit Assessment Price Consultation – 04 October 2021

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Target Audience **BSC Parties**

Purpose of paper **For consultation**

Date published **04 October 2021**

Classification **Public**

Deadline for responses **12 October 2021 17:00**

## 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 **£259/MWh** from the last notified value of £184/MWh. A change to CAP can impact the amount of Credit Cover required by a BSC Party.

If all respondents and Credit Committee members are in agreement, the proposed value will be implemented on Tuesday 2 November 2021. Please note the last notified CAP value of £184/MWh will still be implemented on Thursday 21 October 2021.

Credit Committee members have decided to escalate the market situation to the BSC Panel. The BSC Panel will discuss the CAP process and its sustainability under the current fast market circumstances. Please note the process proceeds as defined in the [CAP Review Process Guidance](#) unless advised otherwise by the BSC Panel. We will be communicating any decisions made by the Credit Committee and the BSC Panel in due course.

BSC 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 28 September 2021.

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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 BSC 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 current trigger level of +/- £18/MWh. As a result, a consultation on a new CAP value has commenced. The consultation period will end at 17:00 on Tuesday 12 October 2021.
- 1.3 If required, the Credit Committee will meet shortly thereafter to determine if a new CAP value should apply.
- 1.4 If the Credit Committee **does not meet**, the proposed CAP value will be implemented on **Tuesday 2 November 2021**.
- 1.5 Credit Committee has decided to take discussion around the current market situation resulting in dramatic prices escalations to the BSC Panel. A further circular will be sent out regarding Credit Committee’s decision and the consultation results.

## 2. The CAP Value and trigger level

- 2.1 Following a breach of the upper trigger level we last consulted a new CAP of £184/MWh on 20 September 2021. The trigger level is set at 10% of the CAP value, rounded to the nearest whole pound. As there was some objections to the proposed CAP, the Credit Committee met on 30 September 2021 and decided that from 21 October the CAP will increase to £184/MWh.
- 2.2 The CAP that is being consulted on in this paper, £259/MWh, would be the highest CAP since the parameter was introduced in March 2001. There have been six previous instances of the CAP value being greater than £100/MWh:

Effective From	Effective To	Value (£/MWh)
13/08/2008	05/11/2008	100
06/11/2008	16/12/2008	108
13/12/2016	04/01/2017	106
08/09/2021	04/10/2021	113
05/10/2021	20/10/2021	137
21/10/2021	-	184

2.3 The following table shows the historical CAP values since October 2019:

Effective From	Effective To	Value (£/MWh)	Trigger level (£/MWh)
09/10/2019	20/01/2020	54	5
21/01/2020	11/02/2020	47	5
12/02/2020	10/03/2020	41	4
11/03/2020	15/04/2020	36	4
16/04/2020	22/07/2020	30	3
23/07/2020	09/09/2020	36	4
10/09/2020	06/10/2020	46	5
07/10/2020	26/01/2021	56	6
27/01/2021	22/02/2021	62	6
23/02/2021	22/03/2021	64	6
23/03/2021	11/05/2021	54	5
12/05/2021	02/06/2021	60	6
03/06/2021	15/06/2021	70	7
16/06/2021	02/08/2021	77	8
03/08/2021	07/09/2021	96	10
08/09/2021	04/10/2021	113	11
05/10/2021	20/10/2021	137	14
21/10/2021	-	184	18

### 3. The CAP Review Process

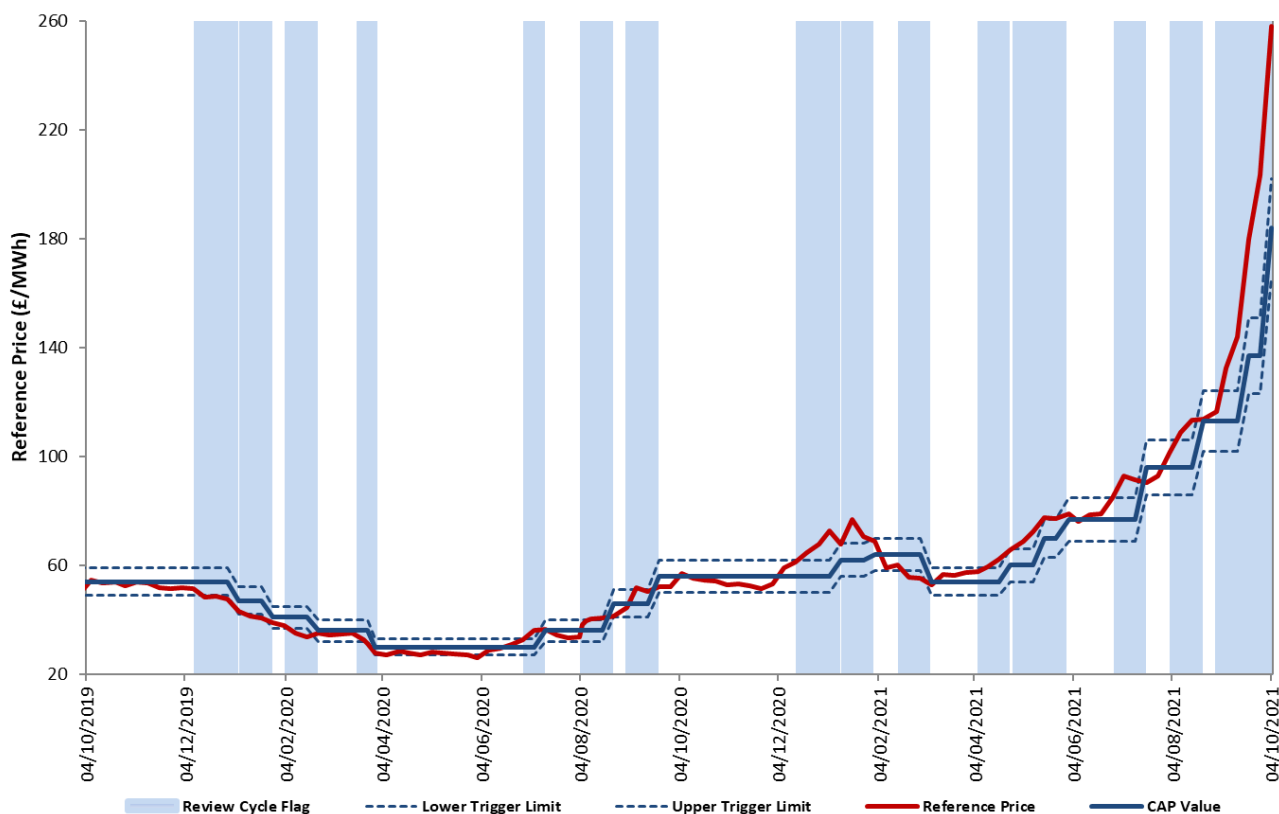
- 3.1 On the first working day of each week, we compare the value of CAP to the Reference Price, which is derived from average monthly forward market prices currently provided by Independent Commodity Intelligence Services (ICIS). Where the absolute difference between the two values exceeds the trigger 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. Following a trigger event, we issue a consultation proposing that the CAP is changed.
- 3.3 Following the consultation, if at least one respondent or Credit Committee member requests it, Ellexon 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.
- 3.4 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 current Reference Price (based on a five day average of November and December 2021 forward prices) is **£258.00/MWh**. This has triggered a CAP review with the Reference Price breaching the current upper trigger level of £202/MWh (the recently notified CAP of £184/MWh +/- £18/MWh).
- 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.

**Graph 1: Reference Price and CAP**

Source: ELEXON

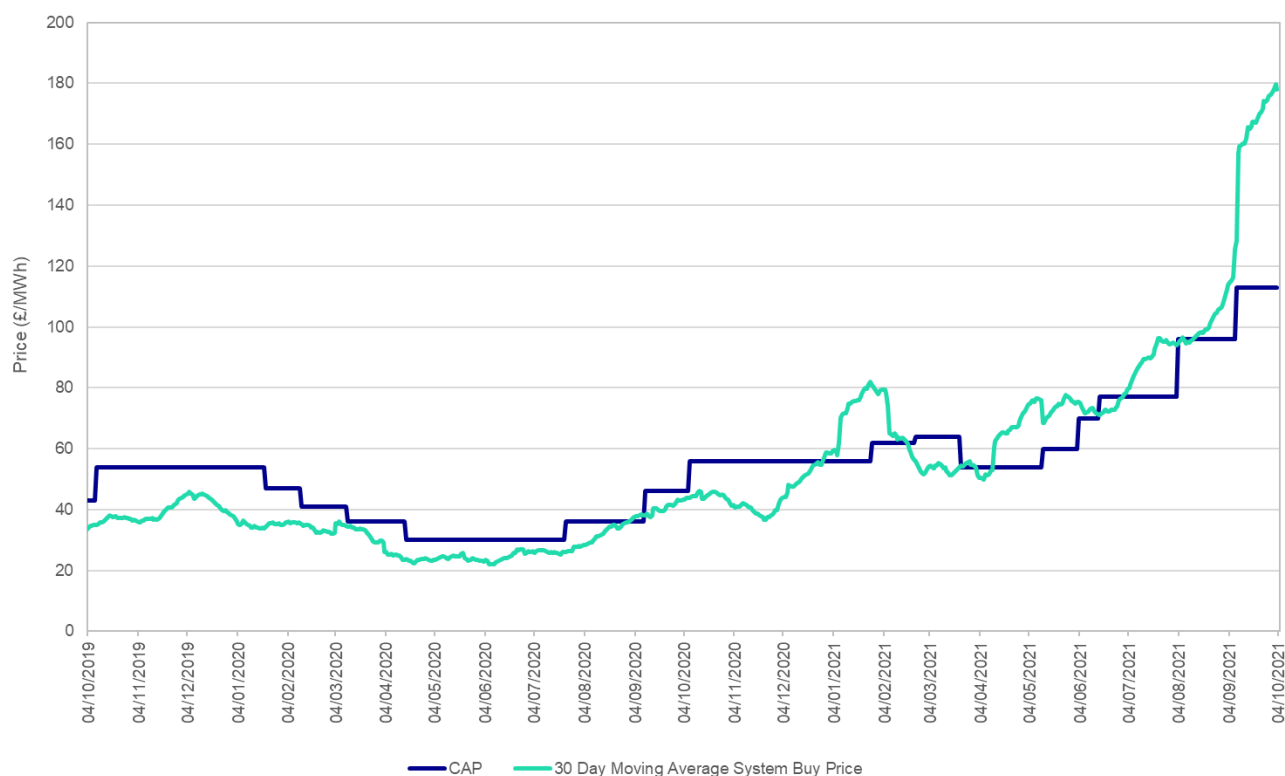


Forward Prices provided by ICIS Heren

- 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.
- 4.4 Interactive versions of Graphs 1 and 2 in this consultation are available to BSC Parties on the [Elexon website](#).
- 4.5 We invite Parties to consider the proposal to **increase the value of CAP to £259/MWh**, from the last notified CAP of £184/MWh, based on the current reference price and latest forward market prices.
- 4.6 The trigger level will increase to **+/- £26/MWh**.

Graph 2: 30 Day Moving Average System Buy Price and CAP

Source: ELEXON



- 4.7 Following the process described in the [CAP Review Process Guidance](#), Elexon issue a consultation for a new CAP value based on the implementation date for the new CAP. As a new CAP would potentially be implemented in November 2021, the consulted on value is calculated based on a five-day rolling average of December 2021 and January 2022 forward market prices (those which would be used in the Reference Price calculation in November 2021). The current five-day rolling average of December 2021 and January 2021 forward market prices is **£259.19/MWh**.

## 5. Next Steps

- 5.1 Following the end of the consultation period, if required, the Credit Committee will try to meet on the same week that the consultation closes, 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 **£259/MWh** would be implemented on **Tuesday 2 November 2021**.
- 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 12 October 2021**.

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