
Credit Assessment Price Consultation – 9 August 2021

Target Audience **BSC Parties**

Purpose of paper **For consultation**

Date published **9 August 2021**

Classification **Public**

Deadline for responses **17 August 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 **£113/MWh** from the current value of £96/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 Wednesday 8 September 2021.

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.

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 by 17:00 on Tuesday 17 August 2021.

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 +/- £10/MWh. As a result, a consultation on a new CAP value has commenced. The consultation period will end at 17:00 on Tuesday 17 August 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 **Wednesday 8 September 2021**.

2. The CAP Value and trigger level

- 2.1 Following a breach of the upper trigger level we last consulted a new CAP of £96/MWh on 5 July 2021. The trigger level is always set at 10% of the CAP value, rounded to the nearest whole pound. As there were no objections to the proposed CAP value in May, no Credit Committee was held.
- 2.2 The CAP that is being consulted on in this paper, £113/MWh, would be the highest CAP since the parameter was introduced in March 2001. There have been three 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 |

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

| Effective From | Effective To | Value (£/MWh) | Trigger level (£/MWh) |
|----------------|--------------|---------------|-----------------------|
| 16/07/2019 | 08/10/2019 | 43 | 5 |
| 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 | - | 96 | 10 |

3. The CAP Review Process

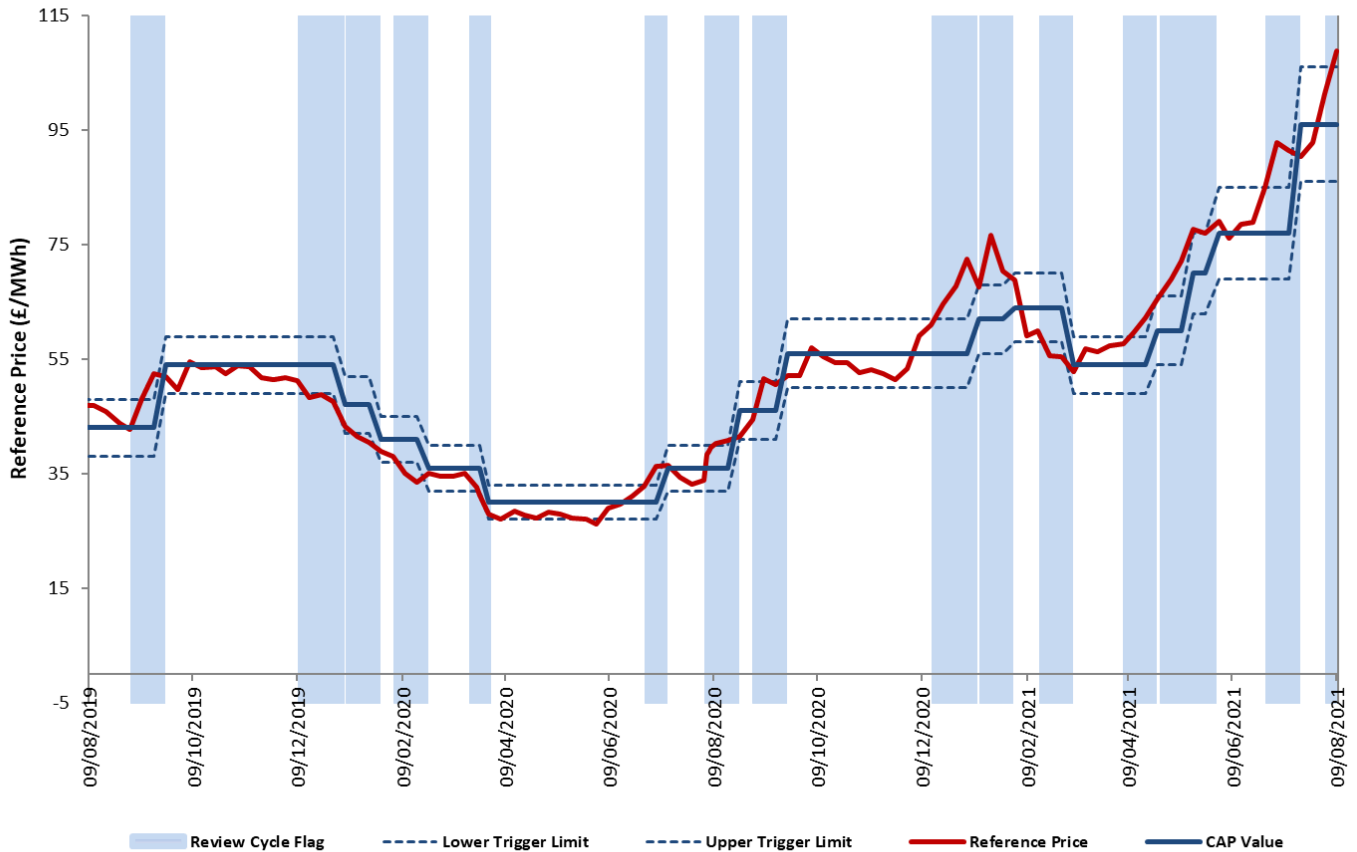
- 3.1 On the first working day of each week, we compare the value of CAP to the Reference Price, which is derived from average monthly forward market prices currently provided by Independent Commodity Intelligence Services (ICIS). Where the absolute difference between the two values exceeds the trigger 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, 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.
- 3.4 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 September and October 2021 forward prices) is **£108.82/MWh**. This has triggered a CAP review with the Reference Price breaching the current upper trigger level of £106/MWh (current CAP value of £96/MWh +/- £10/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

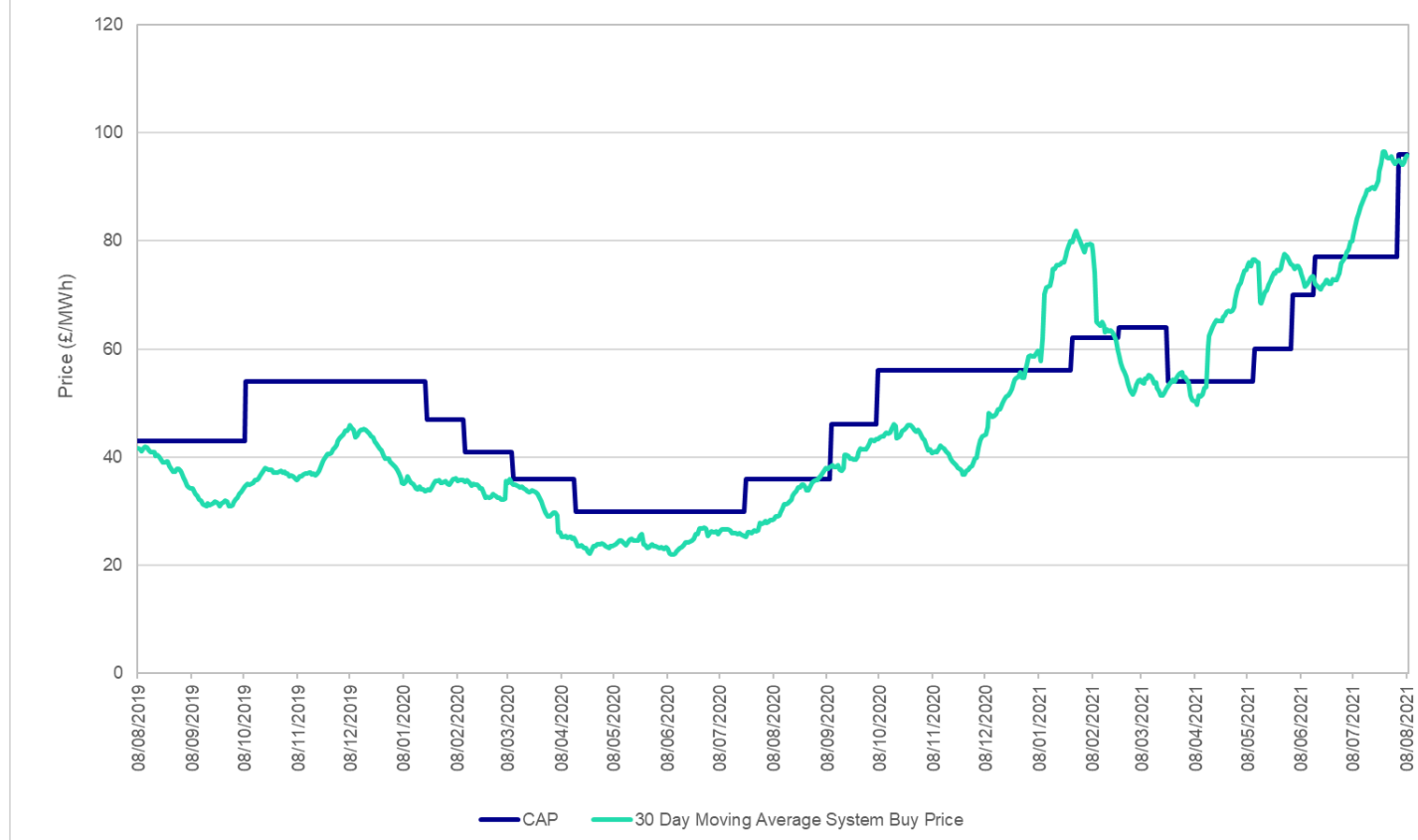


Forward Prices provided by ICIS Heren

- 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 £113/MWh**, from the current CAP of £96/MWh, based on the current reference price and latest forward market prices.
- 4.6 The trigger level will increase to **+/- £11/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 September 2021, the consulted on value is based on a 5-day rolling average of October and November 2021 forward market prices (those which would be used in the Reference Price calculation in September 2021). The current 5-day rolling average of October and November 2021 forward market prices is **£108.82/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 **£113/MWh** would be implemented on **Wednesday 8 September 2021**.
- 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 17 August 2021**.

For more information, please contact:

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