

CAP CONSULTATION PROFORMA

Trading Parties ("Parties") are invited to respond to this consultation, expressing their views or providing any further evidence on any of the matters contained within the consultation document. Parties are invited to supply the rationale for their responses to the set questions.

Please send your responses by **17:00 on Tuesday 24 November 2015** to CreditCommittee@exxon.co.uk and please title your email 'CAP Consultation'. Please note that any responses received after the deadline may not receive due consideration by the Credit Committee.

Any queries on the content of the consultation pro-forma should be addressed to BSC Helpdesk on 0870 010 6950, or to CreditCommittee@exxon.co.uk.

Respondent:	<i>Gary Henderson</i>		
Company Name:	Everis obo ScottishPower		
No. of BSC Parties Represented			
Parties Represented	ScottishPower Energy Management Ltd; ScottishPower Generation Ltd; Damhead Creek Generation Limited; South Coast Power Limited; SP Transmission Ltd; SP Manweb plc; SP Distribution Ltd; SP Renewables (UK) Ltd		
No. of Non BSC Parties Represented			
Non Parties represented	<i>Please list all non-Parties responding on behalf of (including the respondent company if relevant).</i>		
Role of Respondent	<i>Generator Trader Distributor</i>		
We intend to publish the consultation responses on the ELEXON website. Do you agree to this response being published on the ELEXON website? [Y/N]	<i>Y</i>		
Q	Question	Response ¹	Rationale

CAP CONSULTATION PROFORMA

1.	Do you support the recommendation that the value of the Credit Assessment Price (CAP) should be decreased to £42/MWh ?	Yes	
2.	If your answer to Question 1 is "Yes", please give your rationale. If your answer to Question 1 is "No", please give the value of CAP that you consider to be more appropriate and your rationale for that value.		Looking at the analysis we agree that the trend for next spring is downward and this should be reflected in a decrease in the CAP price.
3.	What do you expect the trend in System Buy Price (SBP) to be over the next 2 months (or more) and relate this to your preferred value of CAP?		See above
4.	Do you have any further comments relating to the appropriate value of CAP or the other points made in the consultation document?	No	

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Please send your responses by **17:00 on Tuesday 24 November 2015** to CreditCommittee@elexon.co.uk and please title your email ‘CAP Consultation’. Please note that any responses received after the deadline may not receive due consideration by the Credit Committee.

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Respondent:	<i>Martin Mate</i>		
Company Name:	<i>EDF Energy</i>		
No. of BSC Parties Represented	<i>9</i>		
Parties Represented	<i>EDF Energy plc; EDF Energy Nuclear Generation Ltd; EDF Energy Customers Plc; British Energy Direct Ltd; Seeboard Energy Limited; Jade Power Generation Ltd; West Burton Ltd; EDF Energy (West Burton Power) Ltd; British Energy Generation (UK) Ltd</i>		
No. of Non BSC Parties Represented	<i>-</i>		
Non Parties represented	<i>-</i>		
Role of Respondent	<i>Supplier/Generator/Trader</i>		
We intend to publish the consultation responses on the ELEXON website. Do you agree to this response being published on the ELEXON website? [Y/N]	<i>Y</i>		
Q	Question	Response ¹	Rationale

CAP CONSULTATION PROFORMA

1.	Do you support the recommendation that the value of the Credit Assessment Price (CAP) should be decreased to £42/MWh ?	No	<p>It would be prudent to include an additional margin on price above expected market prices until the relationship between the forward prices used in setting BSC Credit Assessment Price (CAP) and the new P305/P323/328 imbalance price calculation is more established. A margin has not been explicitly introduced with P305, but falls in forward price provide opportunity to build in such a margin by not reducing CAP now. We suggest leaving CAP as it is until the winter period is over and more experience of operation with P305 has been obtained.</p> <p>CAP acts as a substitute for imbalance price in estimation of unpaid party imbalances for BSC credit monitoring purposes. It is used during the first week following any particular day, before the indicative settlement calculations. Historically, forward market wholesale electricity prices have turned out to be a reasonably reliable estimate of average SBP for shortfall imbalances, this being the type of imbalance most likely to create indebtedness. Use of the same price for spill imbalances tended to provide false credit benefits, but sustained shortfall is the condition for which credit is most important. Recent changes to imbalance pricing (a) introduce a single imbalance price which should reduce average indebtedness levels for parties with symmetrical imbalances and (b) are expected to increase imbalance payments in a particular direction relative to forward trading (through use of more marginal prices and scarcity value) and (c) are intended and expected to incentivise parties to avoid shortfall at times of system stress.</p> <p>Use of single price and increased incentives to balance may reduce average imbalance charges most of the time, but at times of system stress the prices may be higher than previously, all else being the same. This will increase the indebtedness of parties who are short, compared to previously, and hence a higher CAP than would previously have been selected seems appropriate, at least until more experience of P305 has been obtained.</p>
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2.	<p>If your answer to Question 1 is "Yes", please give your rationale.</p> <p>If your answer to Question 1 is "No", please give the value of CAP that you consider to be more appropriate and your rationale for that value.</p>	<p>Leave Unchanged (47 £/MWh)</p>	<p>Maintain CAP at its current level (47 £/MWh) for the first quarter of 2016, or at least until more experience of P305/P323/P328 has been obtained. See response to question 1 for rationale.</p>
3.	<p>What do you expect the trend in System Buy Price (SBP) to be over the next 2 months (or more) and relate this to your preferred value of CAP?</p>	<p>Yes / No</p>	<p>Out-turn SBP (=SSP) will depend on circumstances as they occur, including demand levels, generation failures, demand forecasting errors, and the particular balancing actions taken to resolve particular situations. If SBP turns out spiking up towards Value of Lost Load, then CAP becomes relatively immaterial. But if smaller but systematic increases in imbalance prices occur due to P305, then a non-reduced CAP would be more appropriate.</p>
4.	<p>Do you have any further comments relating to the appropriate value of CAP or the other points made in the consultation document?</p>	<p>Yes</p>	<p>Some of the changes introduced with P323 and P328 mean that extreme imbalance prices may not be known until a week after the event.</p> <p>The increased potential for extreme imbalance prices under P305/P323/P328 compared with previously and compared with CAP means there could be occasions when initial BSC indebtedness estimates do not reflect eventual liabilities. Use of relatively modest CAP until real prices are used in the II settlement run could on the one hand delay alerting of credit defaults and potential future payment defaults, but on the other hand could give parties more time to average opposing imbalances or find other ways of mitigating cumulative imbalance exposure. Eg. individual spill in extreme system shortfall will tend to offset shortfall in other periods.</p>