

CREDIT ASSESSMENT PRICE CONSULTATION – FEBRUARY 2020

Target Audience BSC Trading Parties

Date Published 10 February 2020

Deadline for responses **17:00 on Tuesday 18 February 2020**

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 a decrease of the CAP to **£36/MWh** from the last notified value of £41/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 11 March 2020 and the trigger level will remain the same at +/- £4/MWh.

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 18 February 2020.

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 £4/MWh. As a result, a consultation on a new CAP value has commenced. The consultation period will end at 17:00 on Tuesday 18 February 2020.
- 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 11 March 2020**.

2. The CAP Value and trigger level

As there were no objections to the proposed CAP value issued in the previous consultation in January 2020, no Credit Committee was held. It was confirmed that the CAP value was decreased from £47/MWh to £41/MWh on 22 January 2020, effective from 12 February 2020. The trigger level decreased at +/- £4/MWh.

CREDIT ASSESSMENT PRICE CONSULTATION – FEBRUARY 2020

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	08/10/2019	43	5
09/10/2019	20/01/2020-	54	5
21/01/2020	11/02/2020	47	5
12/02/2020	-	41	4

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. 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.

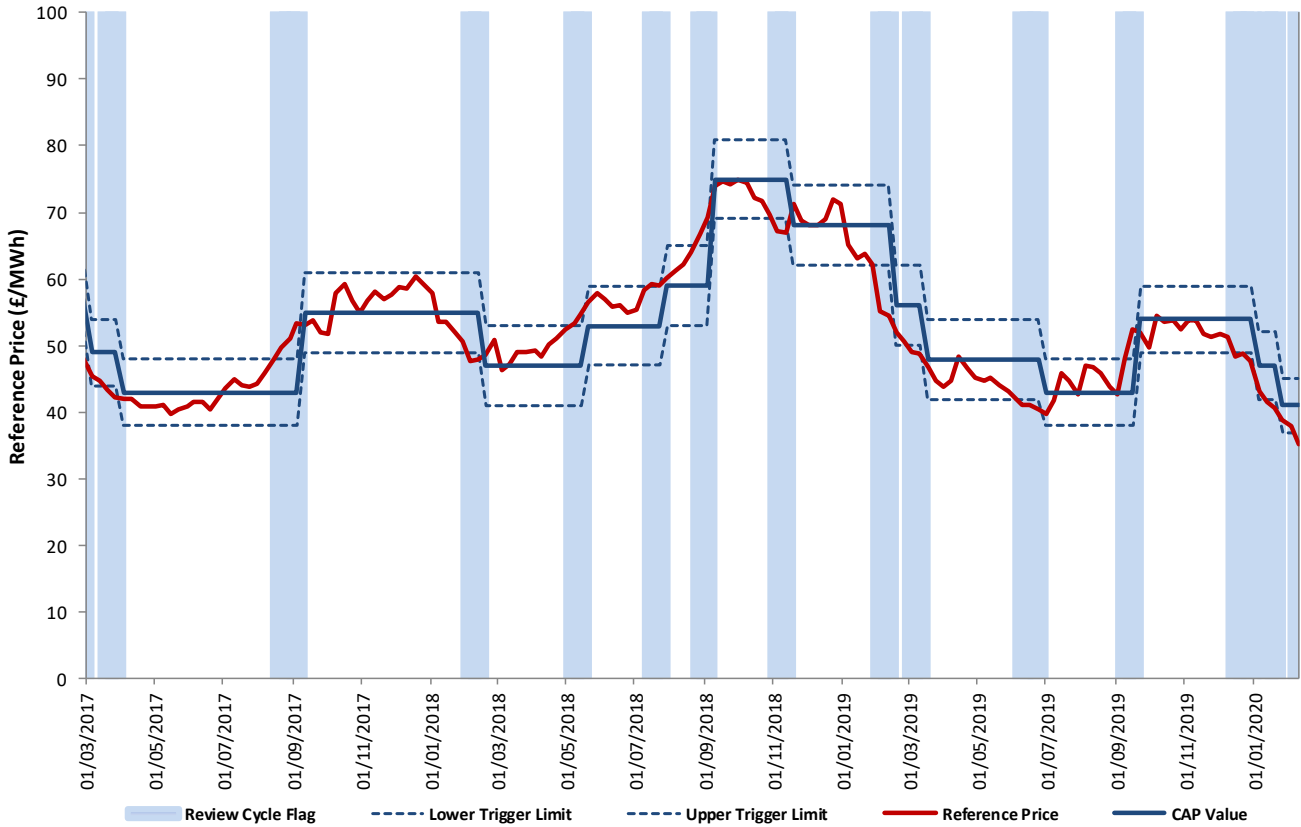
4. Recent Pricing Data

- 4.1 The current Reference Price (based on a five day average of March and April 2020 forward prices) is **£35.09/MWh**. From 1 March 2020, the Reference Price calculation will change to use April and May 2020 forward prices.
- 4.2 If we were to base the Reference Price on the current five day average of April and May 2020 forward prices, it would be **£35.67/MWh**.
- 4.3 **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 – FEBRUARY 2020

Graph 1: Reference Price and CAP

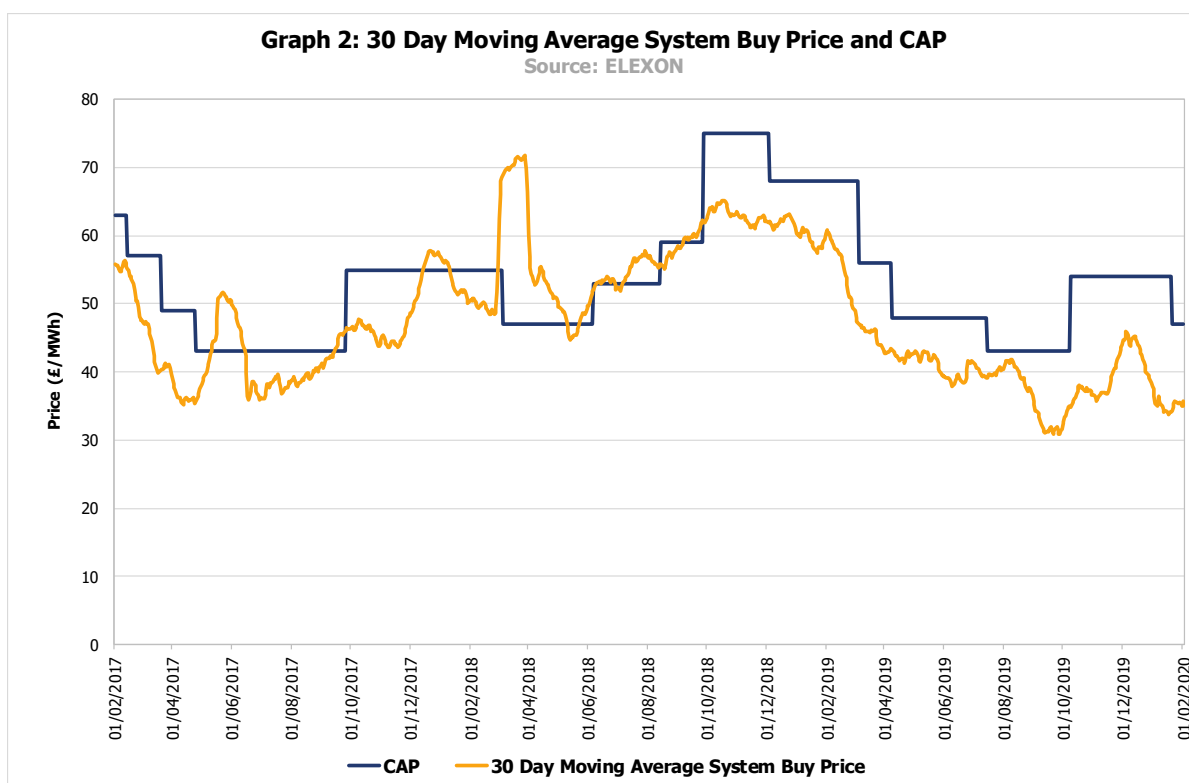
Source: ELEXON



Forward Prices provided by ICIS Heren

4.4 **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 – FEBRUARY 2020



- 4.5 Following the 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 \sim £12/MWh in mid-January 2020 to date.
- 4.6 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](#).
- 4.7 We invite Parties to consider the proposal to **decrease the value of CAP to £36/MWh**, from its last approved level of £41/MWh, based on the current reference price and latest forward market prices. The trigger level will remain at +/- £4/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 **£36/MWh** will be implemented on **Wednesday 11 March 2020**.
- 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 18 February 2020**.

For more information, please contact:

Yannis Kalligeros, Market Analyst
Credit.committee@elexon.co.uk
020 7380 4369