

Capacity Market Advisory Group (CMAG) Meeting 16

16 January 2024

Meeting Agenda

Agenda Item	Lead	Guide Start
Standing Items		Time
1. Welcome and Apologies	Lawrence Jones (CMAG Facilitator)	10:00 (5 mins)
2. CM Representative Updates	LCCC/ESC; EMR Delivery Body; Ofgem and DESNZ	10:05 (20 mins)
3. CMAG Secretariat Update	Lawrence Jones	10:25 (10 mins)
Decision Items		
4. Developing CM Rules Change Proposal CP376 'Clarifying Restrictions on the Role of Agent' – Ofgem	Andrew Macdonell and Olga Okoulova (Ofgem)	10:35 (30 mins)
Break (11:30 – 11:40)		
 5. CMAG Surgery CMAG Change Process Review ITE Report Requirements 	Phillip Paul and Chris Arnold (CMAG Secretariat)	11:40 (60 mins)
Lunch	(12:45 – 13:30)	
Information Items		
6. Subsidy Control Framework Update	Rebecca Rhodes-Spencer (DESNZ)	13:30 (30 mins)
7. Industry Feedback	Lawrence Jones	14:00 (15 mins)
8. CMAG Forward Work Plan	Chris Arnold	14:15 (10 mins)
9. Action Log	Amy Stackhouse	14:25 (10 mins)
10. Any Other Business (A.O.B)	All	14:35
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• Set breaks at:

Break Type	Time
Comfort Break	11:30 – 11:40
Lunch	12:45 – 13:30
Comfort Break	14:30 - 14:40



WELCOME AND APOLOGIES

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CM REPRESENTATIVE UPDATES - LCCC/ESC - EMR DB - OFGEM - DESNZ



CMAG SECRETARIAT UPDATE

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DEVELOPING CM RULES CHANGE PROPOSALS

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CP376 'CLARIFYING RESTRICTIONS ON THE ROLE OF AGENT' - OFGEM

What is the issue?

- The policy intent for Rule 3.3.5 is that each single CMU or multiple CMUs who all belong to the same Group (a holding company and its subsidiaries) is represented either by the Applicant themselves or by a nominated Agent who acts as Applicant, Bidder and/or Capacity Provider for only that CMU or the CMUs of that Group.
- This rule is in place to ensure that those with the ability to bid in the CM auctions are acting independently so that the market remains competitive.
- It is currently possible and within the rules for one Group to act as an Agent for multiple CMUs from different Groups by forming subsidiaries, such as a special purpose vehicle (SPV). However, this clearly contradicts the policy intent behind Rule 3.3.5.

What is the proposed solution?

Amending Rule 3.3.5 to clarify that an Agent cannot also be a member of a Group (the direct or indirect Holding Company and any Subsidiary of that Holding Company) that includes a member acting as an Agent representing other Applicants.

3.3 Submitting an Application for Prequalification

3.3.5 An Applicant may nominate an Agent to submit an Application for a CMU on its behalf and to otherwise perform its obligations under the Regulations or the Rules (whether in its capacity as Applicant, Bidder or Capacity Provider) provided that:

(a) an Agent Nomination Form with respect to such Agent is included in the Application;

(b) only one Agent is appointed by an Applicant with respect to a CMU at any one time;

(c) such Agent (or any subsidiary within the Agent's Group) is not also the Agent for any other Applicant (unless the other Applicant is a member of the same Applicant Group);

(d) if the Applicant wishes to revoke the appointment of an Agent or to appoint a different Agent, the Applicant must submit a new Agent Nomination form to the Delivery Body; and

(e) the Agent shall have not have the authority to sign any Prequalification Certificate, Price-Maker Certificate, Certificate of Conduct or any other directors' or officers' certificate or other formal representation required to be submitted by the Applicant pursuant to the Regulations or the Rules.

CP376 Standard Questions

Question	Comment
Are there any related changes to the CM Rules in the pipeline?	None identified.
Does the CP impact on the Regulations?	At CMAG Meeting 15, CMAG did not determine any impact on the Regulations.
Are there any impacts on any other central industry frameworks or obligations?	None identified.

CP376 Standard Questions

Question	Comment
Does CMAG agree with the Proposer's solution?	CMAG to determine
Are there any suitable alternative solutions to address the defect?	CMAG to determine
Does the draft legal text deliver the intention of the solution?	CMAG to determine

CP376 Standard Questions

Question	Comment
Are there any impacts on consumers, and if so, what are the impacts?	CMAG to determine
What are the expected impacts and implementation/enduring costs for Delivery Partners?	Does the CMAG request an Impact Assessment from CMSB or EMR DB? If not, what are the impacts?
What are the expected impacts and implementation/enduring costs for CM Participants?	Does the CMAG need to consult to determine the possible CM Participant impacts? If not, what are the impacts on CM participants?

CP376 - Standard Questions

Does the CP further the CM Rules Change Objectives and/or Ofgem's Principal Objectives?(Yes, No or Neutral)

Ofgem's Principal Objective:

Protect the interests of existing and future consumers in relation to gas conveyed through pipes and electricity conveyed by distribution or transmission systems. The interests of such consumers are their interests taken as a whole, including their interests in the reduction of greenhouse gases in the security of the supply of gas and electricity to them and in the fulfilment by the Authority...

CM Rules Change Objectives:

(a) Promoting investment in capacity to ensure security of electricity supply

(b) Facilitating the efficient operation and administration of the Capacity Market

(c) Ensuring the compatibility of the Capacity Market Rules with other subordinate legislation under Part 2 of the Energy Act 2013

Proposer View:

This proposal would facilitate the efficient operation and administration of the CM by supporting competition in the CM and preventing the misuse of market power which may lead to inefficient auction outcomes, as set out in the CM objectives under Regulation 78 of The Electricity Capacity Regulations 2014. It would also help to track the number of truly individual entities who are bidding in the CM Auctions.

Next Steps

- The CMAG Secretariat will request an Impact Assessment from CMSB and EMR DB, to be presented back to CMAG at Meeting 17 on 22 February 2024.
- CMAG Members will consider the Impact Assessment response, and make their recommendation to Ofgem whether to Implement/Reject CP376.

The CMAG recommends to Ofgem:

- a) That the Proposed CP376 solution better facilitates Ofgem's Principal Objective;
- b) That the Proposed CP376 solution better facilitates the CM Rules Change Objectives:
 (b)Facilitating the efficient operation and administration of the Capacity Market
- c) The draft legal text for the CP376 solution.
- d) That the CP376 solution should be implemented



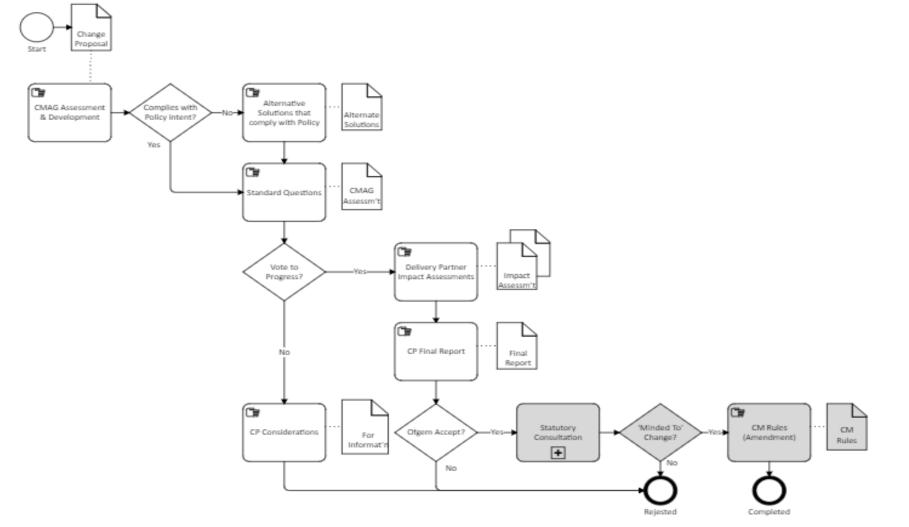
CMAG SURGERY

CMAG CHANGE PROCESS REVIEW

CMAG Change Process Review

The CMAG Secretariat has produced a flow diagram of the current CMAG process as described within the CMAG Operating Procedure v2.0.

We request Members to review the diagram, and provide feedback, including any areas of improvement by **Friday 2 February 2024**. Members should highlight any pain points within the process.



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ITE REPORT REQUIREMENTS REVIEW

ITE Report Requirements Review Background and Context

 A frequent topic of discussion in previous CMAG meetings has been the CM Rules Independent Technical Expert (ITE) requirements. Previous discussions have included:

- Development of CP365 'ITE Reporting Requirements' that sought to remove the requirement for an ITE assessment of the progress report if construction milestones have moved by more than two months, either earlier or later than that set out in the Construction Plan in the Pre-qualification application.

- In the development CP371 'Protection from Very Late Network Connections' the CMAG discussed the suitability of using ITE reports to evidence that delays in network connections are solely due to Transmission Licensees or DNOs when considering suitable assurance provisions for the extension of Long Stop Dates (LSD).

- CMAG Members and Representatives have previously stated:
 - Industry is continually seeing that ITE Reports are not providing an appropriate level of assurance.

- In some cases ITEs have written what is requested by the Capacity Provider without even visiting site when it might be reasonably expected of them to do so

 The CMAG Facilitator has previously noted that the CMAG may seek to look further into the perceived issues with ITE reports in the future, and consider how the ITE Report framework can be strengthened. Ofgem as part of its Consultation on Capacity Market Rules Change Proposals held in 2020 stated the following:

'We are proposing amendments to reduce the administrative burden and cost of participating in the CM, where appropriate. As highlighted in the Five Year Review, we are still minded to remove the requirement to submit progress reports, and associated independent Technical Expert ("ITE") assessments, in all cases except ITE assessments for any remedial plan associated with the Substantial Completion Milestone and Financial Commitment Milestone, along with any report associated with Total Project Spend and the Long Stop. To maintain the relevant assurances we are proposing to introduce a new reporting milestone to capture the critical information relating to construction progress.'

- Does CMAG believe there would be value in conducting a review of the CM Rules ITE Requirements?
- Suggested areas of consideration:
 - 1) Review existing ITE reporting areas in the CM Rules and identify any key areas of consideration
 - 2) Review the definition of ITE
 - 3) Review the requirements of ITE reports
- The objective of the discussion at this meeting is to agree the initial scope for the review and take any initial thoughts from CMAG Members and Representatives.

ITE REPORTING AREAS

ITE Reporting Areas

- If CMAG Members believe there would be value in conducting a review of the CM Rules ITE Requirements the next slides detail the current CM Rules requirements for ITEs.
- CMAG Members are invited to consider the following:
 - Are any of the areas highlighted a priority to consider?
 - Are there any areas that have not been included that should be considered as part of the review?

Area	Description of Requirement
Financial Commitment Milestones (FCM)	The CM Rules require the ITE to prepare a report confirming 10% Capital Expenditure has been incurred and that a Final Investment Decision has been taken and, where necessary, Financial Close has occurred.
Achieving the Substantial Completion Milestone (SCM)	The CM Rules require a Capacity Provider seeking to extend the Long Stop Date to provide a report from an ITE confirming that the sole reason for the delay is a result of failure of a TL/DNO to provide a connection.
Construction Progress Remedial Plans	Following a progress report, where the latest date a Prospective CMU is expecting to achieve SCM is later than the first day of the relevant Delivery Year, the Capacity provider must provide a remedial plan detailing the steps that can and will be taken to meet SCM by the star of the relevant Delivery Year. This plan must include a commentary from an Independent Technical Expert addressing whether the remedial plan is achievable

ITE Areas in the CM Rules

Area	Description of Requirement
DSR Partial Credit Cover Release	 For an Unproven DSR CMU for DSR Partial Credit Cover Release provide an ITE report confirming that: There are reasonable grounds to believe that the Qualifying £/kW Capital Expenditure for the CMU will be equal to or greater than the expected Qualifying £/kW Capital Expenditure The DSR CMU Components identified in the declaration, which have been acquired and/or in respect of which Contractual DSR Control has been acquired to form the CMU, are expected to provide at least 50 per cent of the CMU's Derated Capacity.
Termination Events	Termination Events under Rule 6.10 are mentioned in the ITE definition but I believe that it is through the other areas listed that ITE input could potentially be used in these contexts. Might be worth considering if anything specific needs to be considered in relation to termination events.
Evidence of Total Project Spend	Varying requirements based on CMU types as detailed in 8.3.6.

Area	Description of Requirement
Extended Years Criteria	The relevant Capacity Provider must, under 8.3.6A(b), provide to the Delivery Body a certificate from an Independent Technical Expert, confirming that the Independent Technical Expert is satisfied that the CMU meets the Extended Years Criteria.
Definition of "Operational"	 To prove that a CMU is Operational the CM Rules require the following: for a Distribution CMUs, an Independent Technical Expert must issue a certificate confirming that all Distribution Network Operator commissioning tests required to commence export have been completed such that that Generating Unit is permitted to despatch that physical capacity into the Distribution Network. for a Refurbishing CMU, whose Connection Capacity is greater than the Connection Capacity of its equivalent Pre-Refurbishment CMU, an Independent Technical Expert must issue a certificate confirming that the relevant test from "(a), (aa) or (b) above has been met (substituting FON for ION where applicable), and the CMU and supporting infrastructure has been fully commissioned (as defined in the Regulations); for any Refurbishing CMU, whose Connection Capacity is less or equal to the Connection Capacity of its equivalent Pre-Refurbishment CMU, an Independent Technical Expert must issue a certificate confirming that the relevant test from "(a), (aa) or (b) above has been for any Refurbishing CMU, whose Connection Capacity is less or equal to the Connection Capacity of its equivalent Pre-Refurbishment CMU, an Independent Technical Expert must issue a certificate confirming that the CMU and supporting infrastructure has been fully commissioned (as defined in the Regulations);

ITE DEFINITION

Definition

- Areas for consideration in relation to the ITE definition could include:
 - Is international experience element of the definition required?
 - Should there be a minimum number of years of experience for ITEs?
 - Should there be more detail on the type of experience required by ITEs?
 - Is there a need for more bespoke requirements for Generating Units, Interconnector CMUs and DSR CMUs?
 - Is there a need for further provisions to better ensure ITEs act independently to avoid possible conflicts of interest?
 - Should there be any qualification or membership of quality assurance schemes requirements?

CMAG Questions

- Do the above areas for consideration look suitable?
- Are there any other areas for consideration that should be added to the scope?

ITE REQUIREMENTS

Requirements

Areas for consideration could include:

- Should the CM Rules specify what is expected in the relevant reports/certificates in the CM Rules to better facilitate consistent quality of output across different ITE providers?

- Should there be an approved list of ITE providers?
- Is there a need to specify how certain ITE reports are evaluated?

CMAG Questions

- Do the above areas for consideration look suitable?
- Are there any other areas for consideration that should be added to the scope?

Next Steps

 CMAG Secretariat to consider responses and develop relevant CMAG surgery items for consideration at the CMAG Meeting 17 (February 2024).



SUBSIDY CONTROL FRAMEWORK UPDATE

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OFFICIAL-SENSITIVE

Subsidy Control

CMAG 16th January 2024

Contact: Rebecca Rhodes-Spencer, Policy Advisor *rebecca.rhodesspencer@energysecurity.gov.uk*

> Department for Business, Energy & Industrial Strate

> > Department for Energy Security & Net Zero

OFFICIAL-SENSITIVE

OFFICIAL-SENSITIVE

Objectives for today

- Provide an overview of the domestic subsidy control regime
- Set out relevance for the Capacity Market: how do we fit within the new framework?
- Interest for CMAG going forwards



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What is subsidy control?

- In September 2020, the government announced its intention to design a new domestic subsidy control regime further to EU Exit
- The Subsidy Control Bill was introduced to Parliament in June 2021, and passed as an Act on 4th January 2022
- The purpose of the regime is to enable public authorities to design subsidies that deliver strong benefits for the UK taxpayer
- To determine if subsidy control rules might apply, PAs first need to establish if the support (financial assistance) meets the definition of a subsidy or scheme under the regime



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What is a subsidy under the Act?

- " "Subsidy" means financial assistance which—
 - (a)is given, directly or indirectly, from public resources by a public authority,
 - (b)confers an economic advantage on one or more enterprises,
 - (c)is specific, that is, is such that it benefits one or more enterprises over one or more other enterprises with respect to the production of goods or the provision of services, and
 - (d)has, or is capable of having, an effect on-
 - (i)competition or investment within the United Kingdom,
 - (ii)trade between the United Kingdom and a country or territory
 - outside the United Kingdom, or
 - (iii)investment as between the United Kingdom and a country or territory outside the United Kingdom. "
- A **subsidy scheme** means a scheme made by a public authority providing for the giving of subsidies (as above) under the scheme.

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Subsidy control & the CM

- The CM is classed as a **subsidy scheme**, since it is possible for subsidies as defined by the Act to be awarded under it
- The CM is also a **Scheme of Particular Interest (SoPI)**, due to a higher potential risk of distortive or negative effects.
- This is based on monetary thresholds for subsidies, plus sensitivity of energy as an economic sector, creating greater risk of market distortion.
- Since the CM pre-dates the subsidy control regime, it is classed as a "legacy subsidy scheme"

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Subsidy Control Principles

- Principle A Common Interest (policy objective/market failure/equity issue)
- Principle B Proportionate and necessary
- Principle C Designed to change behaviour
- Principle D Costs that would be funded anyway (additionality)
- Principle E Least distortive means (appropriateness)
- Principle F Competition & Investment
- Principle G Positive effects to outweigh negative effects

To subsidies given in Energy or Environment, the Energy & Environment principles will also apply (Schedule 2 of the Act).

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The Subsidy Advice Unit (SAU)

- Part of the Competition & Markets Authority (CMA)
- Responsible for discharging CMA's functions and powers under the Act
- The SAU has an administrative function provides independent advice in the form of an evaluation of the PA's assessment of compliance
- This is to supports PAs' decision making regarding the design and assessment of subsidies
- Provide non-binding advice in respect of certain subsidies or subsidy schemes that are referred to it by PAs:
 - Subsidies or scheme of interest (SSols)
 - Subsidies of scheme of particular interest (SSoPIs)

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Relevance for CMAG going forwards

When considering or proposing changes to the CM, an assessment of whether it is permitted or non-permitted under subsidy control is required, with due regard given to compliance with subsidy control and relevant Energy & Environment principles.

Six types of permitted modification:

- 1. provide for an increase in budget of a subsidy or subsidy scheme of up to 25%
- 2. provide for an extension of a subsidy scheme of up to six years;
- 3. are administrative in nature;
- 4. are made to a legacy subsidy or legacy scheme that are consistent with its terms;
- 5. are made to allow a subsidy or subsidy scheme to operate effectively and/or avoid deficiencies arising from the withdrawal of the UK from the European Union; or
- 6. are made under Regulation (EC) No 1370/2007 (on public transport services by rail and road), which is retained EU law in the UK.

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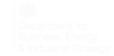
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- **Non-permitted** modifications are those that fall outside the scope of the six permitted modification types
- E.g. an increase of over 25% of the original budget for the subsidy or subsidy scheme.
- Introducing a non-permitted change is equivalent to the "making of a new scheme"
- This requires an assessment against the subsidy control principles to be referred mandatorily to the Subsidy Advice Unit (SAU), followed by publication of a non-binding report by the SAU, before the new scheme can be "made"

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Subsidy Control – helpful resources (linked)

- BEIS Subsidy Control statutory guidance
- <u>CMA Subsidy Advice Unit Guidance</u>
- Subsidy Control Act 2022
- <u>The Subsidy Control (Subsidies and Schemes of</u> <u>Interest or Particular Interest) Regulations 2022</u>



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INDUSTRY FEEDBACK

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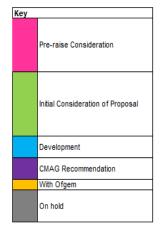


CMAG FORWARD WORKPLAN

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CMAG Forward Workplan

	2023	2023										
Title	August	September	October	November	December	January	February	March	April	May	Commentary	
											CMAG recommended CP366 be approved to Ofgem	
CP366 - Definition of Total Project Spend											In DESNZ's response to its 2023 CM Consultation, DESNZ has confirmed	
											it intends to carry out further analysis/development on its proposed	
1											changes to the Total Project Spend definition	
											CMAG recommended to Ofgem that CP365 be approved	
CP365 - ITE Reporting Requirements												
											In DESNZ's response to its 2023 CM Consultation, DESNZ has confirmed	
											it intends to take forward its proposed changes to ITE Reports with an expected implementation before the 2024 CM Auctions	
											expected implementation before the 2024 CM Additions	
CP364 - Allow Secondary Trading from T-4											Awaiting impact assessment from EMR DB on the alternative solution	
CP363 - Changes to EMR Delivery Body Portal											The Proposer has agreed to keep this change on hold, pending delivery	
											of the new EMR Portal v2.0	
CP362 - CM Agreement Transfers											CMAG recommended to Ofgem that CP362 be approved	
CP356 - Facilitate Secondary Trading before											To be considered as part of CMAG's wider review of Secondary	
CMU Termination											Trading. The Proposer has agreed to keep this change on hold, pending	
CP368 - CVR Publication and CMVRN											the outcome of CM Rules Change Proposal CP364	
Submission Deadlines											CMAG recommended to Ofgem that CP368 be implemented	
CP369 - Secondary Trading with CMU											CMAG recommended to Orgem that CP366 be implemented	
Metering Aggregation Rules											CMAG recommended to Ofgem that CP369 be implemented	
											At CMAG Meeting 7, DESNZ and Ofgem highlighted the policy	
											interactions with CP367	
CP370 - Changes to Extended Performance												
Test											It was agreed this Proposal would be discussed offline and not be	
											progressed further by CMAG due to the interactions with policy	
CP371 - 'Management of connection delays											The CMAG recommended to Ofgem the the CP371 alternative solution be	
by network companies'											implemented	
					_						The CMAG agreed not to progress further with this on the basis that	
CP372 - 'Change to Rule 4.4.4'					-						DESNZ expect to lead on this work as part of its Phase 2 consultation.	
											CMAG discussions including the outcome of the industry survey will be	
CP373 - 'Delivery Body and Settlement Body											presented to Ofgem and DESNZ.	
Metering Process'												
Acting Process											CMAG recommended that CP373 be implemented	
											CMAG agreed not to progress the proposal at Meeting 15 as there was	
											a significant risk this proposal was contrary to the Regulations and	
					1.4.4	1 mm					policy intent (as expressed by DESNZ at CMAG Meeting 14), seen as a	
				Up	dated	l Timelir	ie				low priority (due to likely impact of the issues applying to a low number	
											of sites) and work could be superseded by the wider review of Rule	
CP374 - Splitting CMUs											4.4.4	
											CMAG agreed not to progress the proposal at Meeting 15 as there was	
											a significant risk this proposal was contrary to the Regulations and	
				Ur	dated	l Timelir	le				policy intent (as expressed by DESNZ at CMAG Meeting 14), seen as a	
											low priority (due to likely impact of the issues applying to a low number	
CD275 Marging CMUs											of sites) and work could be superseded by the wider review of Rule 4 4 4	
CP375 - Merging CMUs CP376 - Clarifying restrictions on the role of											4.4.4	
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CMAG Forward Workplan

	2023					2024							
Title	August	September	October	November	December	January	February	March	April	May	Commentary	Ke	у
CPXXX - ITE Report Requirements Review (wider review than CP365)				L	lpdate	d Timel	ine				CMAG to initially consider approach at CMAG Meeting 16		Pre-raise Consideration
CPXXX - Housekeeping Changes													Initial Consideration of Proposal
CPXXX - DSR Component Reallocation											This was discussed in a CMAG surgery in September 2023. A Proposal is currently being drafted by Sarah Honan for further consideration		Development
CPXXX - Rule 2.3.3 De-rating Factors							▶				Ofgem/DESNZ/EMR-DB in discussions to clarify policy intent		CMAG Recommendation
CPXXX - Managing SPDs and Secondary Trading													With Ofgem
CPXXX - Extension of Secondary Trading Principles for Extended Performance Testing				ι	Jpdate	ed Time	ine				Placed on hold as this is expected to be considered by DESNZ separately.		On hold

Key Updates

- CP364 'Allow Secondary Trading from T-4' moved recommendation to February 2024 as CMAG are awaiting an updated impact assessment from EMR DB following the notification of expected timescale changes at CMAG Meeting 15.
- CP372 'Change to Rule 4.4.4' moved CMAG recommendation backwards to December 2023 to reflect discussions at CMAG meeting 15. CP372 will not be progressed as changes to Rule 4.4.4 will be considered by DESNZ.
- CP374 'Splitting CMUs' and CP375 'Merging CMUs' timelines updated to reflect discussions at CMAG Meeting 15.
- CPXXX 'ITE report requirements review' to be considered as a surgery item before further progression and timeline has been updated to reflect this.
- CPXXX Rule 2.3.3 De-rating Factors delayed further pending feedback from Ofgem/DESNZ/EMR DB.
- CPXXX 'Extension of Secondary Trading Principles for Extended Performance Testing' placed on hold as this is expected to be considered by DESNZ separately.
- Removed CPXXX 'Managing Late Connections due to Planning Consents and Supply Chain Delays' as CMAG did not
 expect to take any part of the initially considered proposal forwards and no formal CP was raised



ACTION LOG PLEASE FOLLOW THE LINK TO VIEW

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AOB AND MEETING CLOSE

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