

Capacity Market Advisory Group Final Minutes

Meeting number **2**

Venue **Elexon Offices/MS Teams**

Date of meeting **15 November 2022**

Classification **Public**

Attendees and apologies

Attendees

Brian Lake	BrL	Member
Caroline Farquhar	CF	Member
Claire Sedgwick	CS	Member
Emma Burns	EB	Member
Lee Priestley	LP	Member
Libby Glazebrook	LG	Member
Mark Duffield	MD	Member
Raoul Thulin	RaT	Member
Richard Thwaites	RiT	Member
Sarah Honan	SHon	Member
Sophie Lethier	SL	Member
Ash Yamir	AY	BEIS
Kathryn Bird	KB	BEIS
Oliver Power	OP	BEIS
Sarah Howarth	SHow	BEIS
Ross Haigh	RH	Representative (LCCC/ESC)
Jared Morgan	JM	Representative (NGESO)
Rebecca Yang	RY	Representative (NGESO)
Andrew Macdonell	AM	Representative (Ofgem)
Grendon Thompson	GT	Representative (Ofgem)
Ridwan Ibrahim	RI	Representative (Ofgem)
Eleanor Haynes	EH	Guest (EDF Energy)
Elliott Harper	EH	Elexon (Facilitator)
Amy Stackhouse	AS	Elexon (Secretariat)
Ben Lathbury	BeL	Elexon (Secretariat)

Attendees and apologies

Chris Arnold	CA	Elexon (Secretariat)
Kathryn Gay	KG	Elexon (Secretariat)

Apologies

Paul Jones	PJ	Member
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1. Welcome and Introductions

- 1.1 Elliott Harper (EH) welcomed Members and Representatives and noted apologies from Paul Jones (Raoul Thulin as alternate). EH noted Caroline Farquhar had joined CMAG replacing Ed Rees.

2. Action Log

- 2.1 The CMAG reviewed the Action Log, all 'Complete' actions will be marked as closed. Discussion on actions remaining 'In Progress' are noted below.
- 2.2 **CMAG/1022/03 - Members to provide contact information on their Alternate to the CMAG Secretariat.** EH requested those Members who had not yet provided their Alternate information to do so.
- 2.3 **CMAG/1022/07 - Ofgem Representative to review the Triton Power Change Proposal displayed on the Ofgem website.** The CMAG Secretariat (CA) noted they contacted Triton Power to ask whether Triton wished to submit a formal Change Proposal to the CMAG, noting that if Triton does not wish to, the Proposal will be removed from the pipeline. EH noted that discussions with Ofgem, highlighted that this Change Proposal was likely included in error.
- 2.4 **CMAG/1022/08 - CMAG Secretariat to reschedule the February 2023 meeting to a later date.** EH noted an updated meeting invite will be circulated to CMAG once all responses have been received.

3. BEIS – Update on Consultation Options

- 3.1 BEIS noted that it is considering options to ensure the Capacity Market (CM) is aligned with the net zero agenda as early as possible to avoid locking in high carbon emitting generation past 2035.
- 3.2 In the 2021 Call for Evidence, BEIS noted it was looking at how CM Agreements are awarded to unabated gas plants past 2035 as unabated gas plants do not complement its net zero agenda.
- 3.3 The current proposal from BEIS is to focus on intensity and yearly emission limits that new build unabated gas plants must meet to be able to participate in the CM. BEIS is proposing to decrease the limits from 2034 for new build and refurbishing plants only.
- 3.4 KG noted the principle of the CM is to remain technology agnostic, and queried if BEIS has looked at including different clearing prices instead of using different calculations. BEIS advised the principle of technology neutrality remains, the proposal is about ensuring the CM aligns with net zero. BEIS further noted that Review of Electricity Market Arrangements (REMA) is looking at how the CM is set up on an enduring basis.
- 3.5 A Member stated that BEIS could consider no longer splitting auctions and this would ultimately help to address costs. The BEIS Representative advised REMA is going back to basics on market arrangements including the CM; the basis for split auctions was to split new and existing capacity and low carbon intensity and high carbon intensity in order to keep the total cost of auction down. This could be done in conjunction with the BEIS proposal but is not mutually exclusive.
- 3.6 A Member noted the 2034 date within the proposal could consequentially result in an investment hiatus leading up to this, the transition may need to be managed. The BEIS Representative informed BEIS is looking to manage this in a smooth transition and that is why it is only considering new and refurbishing plants to begin with.

- 3.7 A Member queried if there is any interaction between the BEIS proposal and the REMA. BEIS advised they cannot comment on REMA plans yet but the principle of the proposal is still applicable to the net zero agenda.
- 3.8 It was noted there are parallels between this proposal and the [Large Combustion Plant \(LCP\) Directive](#). The BEIS Representative highlighted many of the measures in the LCP Directive applied to older plants, this proposal is only considering new and refurbished plants at this time.
- 3.9 A Member queried how BEIS views the CM working with other low carbon mechanisms like Dispatchable Power Agreements (DPA). The BEIS Representative noted DPA accounts for 'first of a kind' carbon capture projects, and is intended to be rapidly phased out once the projects are competitive. Participants of DPA cannot also become a CM Participant due to subsidy control.
- 3.10 The BEIS Representative presented the BEIS view on future options for existing plants, noting the current proposal does not include emissions limits for existing plants and this is to preserve security of supply. BEIS is seeking to avoid a 'step-change' in plant closures by gradually reducing intensity and annual limits in a smooth transition for existing plants.

4. P448 – Impact on CM

- 4.1 BEIS noted the [P448](#) workgroup and proposer are aware of interactions between P448 and CM, subject to P448 approval, there is no intention from the P448 workgroup to subsequently have any changes to the CM Rules. BEIS further noted this does not prevent CMAG from raising a change to the Rules, if they feel necessary.
- 4.2 A Member noted some parties may have responded differently to the P448 consultation had they been aware there was no intention to change the CM Rules, although the CM penalties are smaller, as in the Member's view the gas plants should not be exposed to CM Penalties. The CMAG noted this was out of scope of BSC Modification P448.
- 4.3 The LCCC/ESC Representative noted a Rule change would only apply to the next prequalification or future Agreements, it would not be delivered in time for this winter. Members queried whether mid-year contractual Rule changes are allowed, the Ofgem Representative agreed to seek clarity on this.
- 4.4 **CMAG/1122/01 – Ofgem, LCCC/ESC and National Grid Delivery Body to provide clarity on whether mid-year CM Rules changes are allowed, and any constraints that may be in place.**
- 4.5 A Member queried if there is any clarity on what happens in the event of blackouts, and the subsequent impact of a black start market suspension event on the CM. KG noted EMRS is investigating this, EMRS would still have sight of market data to provide to NGENSO who would identify if it is a planned blackout or market suspension. A Member queried if either a partial or full market suspension would be considered a System Stress Event, KG agreed to provide some additional clarity on this.
- 4.6 The NGENSO Representative noted the responsibility as the Delivery Body and NGENSO are quite separate, there are ongoing discussions on the different scenarios.
- 4.7 **CMAG/1122/02 – National Grid Delivery Body to confirm how it would respond to, and the impacts on the CM of, a partial or total market suspension.**

5. CM Representative Updates

- 5.1 The LCCC/ESC Representative noted they are currently preparing the operational logistics required for potential System Stress Events. The LCCC/ESC Representative further noted they would be seeking to raise a number of CM Rule Change Proposals to address a backlog of areas for improvement.
- 5.2 The NGENSO Representative noted they have completed the application assessment and outcomes and are currently going through the dispute process. There have been some inconveniences flagged with the Portal which are being investigated. There is currently a system security logic behind these issues however this feedback is being included within the redesign plan. NGENSO is preparing for the upcoming action and is engaging with BEIS regarding operational planning procedures. NGENSO will update its Portal with auction guidelines shortly.
- 5.3 The NGENSO Representative informed CMAG of a customer session held last week to test the Portal in a beta environment. A user group for this has been established previously, the details of which will be shared with CMAG. A Member noted they participate in the user group which will be testing Portal changes in a sandbox environment shortly.

5.4 **CMAG/1122/03 – The NGESO Representative to share details with CMAG on the NGESO User Group for Portal update testing.**

5.5 The Ofgem Representative noted Ofgem received a new CM Rules Change Proposal deemed urgent by the proposer. The Change Proposal considers the current Rules on fossil fuel emission limits and proposes to lower these to account for current instability in the Capacity Market.

5.6 Ofgem is minded to reject this Change Proposal without further consideration. Ofgem's view is this proposal does not align with current government policy and direction including the net zero agenda. Ofgem does not feel that the CM Rules are the appropriate vehicle for challenging or changing government policy. There is also not enough evidence to suggest that this is a significant problem, currently only one plant has been identified as being impacted by this Change Proposal. The Ofgem Representative queried if CMAG were happy with this approach would want sight of the Change Proposal first.

5.7 **CMAG/1122/04 – CMAG Members to provide their initial views on urgent Change Proposal CP367 and whether it should be considered further by CMAG.**

6. **Ofgem End to end CM Rules Change Process**

6.1 The Ofgem Representative noted Change Proposals can be submitted at any time during the year, Ofgem will encourage submission via the CMAG Secretariat.

6.2 The Ofgem Representative highlighted the process includes a step for initial views from Ofgem, and queried if Members had any comments on this. CMAG agreed the initial view is helpful in ensuring CMAG work is focussed and does not overlap with BEIS and Ofgem consultations. CMAG noted it would still want sight of all Change Proposals during the initial view stage.

6.3 The Ofgem Representative noted it will carry out statutory consultations on a demand-led basis, the intention is to move away from an annual process and be more flexible with what CMAG requires.

6.4 A Member queried what the process is for laying CM Rules Changes in parliament. The Ofgem Representative agreed to provide further information on this at the next meeting.

6.5 **CMAG/1122/05 – The Ofgem Representative to provide further information on the process and timescales for laying CM Rules Changes in parliament.**

6.6 The Ofgem Representative noted it had considered including deadlines for submitting changes but this is difficult to determine and would often change according to auction timelines and the implementation period associated with each Rules change.

7. **CMAG Operating Procedure**

7.1 EH presented the Operating Procedure and noted Members should provide any comments on this procedure to the CMAG Secretariat.

7.2 **CMAG/1122/06 - CMAG Members to review the CMAG Operating Procedure and provide any comments to the Secretariat by 25 November 2022.**

7.3 A Member queried the annual membership appointment process. EH informed CMAG the first term for all CMAG Members is two years after which the CMAG Member terms are annual. Members may re-apply with no limit to tenure, and the appointment process does not apply to Representatives.

7.4 A Member noted 4.8.6 should reference the 'Prioritisation Tool' for clarity.

7.5 EH noted they would review the agenda for each meeting, where there is ability to include 'quick wins' and lower priority Change Proposals this will be done.

7.6 A Member noted CMAG may also consider a view of prequalification and specific CM milestones and bring in changes earlier for discussion so that they fit within the delivery year timeline.

7.7 A Member noted CMAG may also want to consider if there is an alternative solution for any Change Proposal it considers. EH noted CMAG can put forward alternative solution options, where this is not agreed by the proposer, CMAG can raise its own change proposal. The Ofgem Representative noted it will review all Change Proposals whilst taking into account any views shared by CMAG, it may then decide what solution to take forward to statutory consultation.

8. CM Rules Change Prioritisation update

- 8.1 CA provided an update on the prioritisation tasks Members were requested to complete following the last meeting. The prioritisation scores provided by Members were all closely aligned apart from CP362.
- 8.2 One Member noted they initially found the tool confusing and hard to navigate, there were some elements that were considered during their own methodology for prioritising that were not part of the tool.
- 8.3 A Member noted the tool is useful as it is objective but does require some minor adjustments, including the determination of frequency and likelihood of occurrence.
- 8.4 Members agreed that the prioritisation tool should be used for the purposes of determining priority rankings in future subject to some minor revisions.
- 8.5 CA presented the feedback received on specific Change Proposals as part of the review. CA noted the Proposer of CP358 has withdrawn their Change Proposal on the basis that it is no longer applicable.
- 8.6 Members noted CP363 is a change to the Portal and therefore may not need to be pursued as a CM Rules Change. EH informed Members the Proposer has identified concerns with the process of requesting a change to the Delivery Body Portal and believes a Rules change would create clarity and certainty.
- 8.7 A Member highlighted that portal configuration is not part of the Rules and therefore queried if CP363 is right for consideration by CMAG.
- 8.8 The NGESO Representative informed CMAG of plans to address the concerns raised within CP363 in the new portal, allowing for one login per portfolio. EH noted there would be benefit to discussing this directly with the Proposer to ensure their feedback is considered in the development of the new portal.
- 8.9 A Member noted CM Participants are able to view multiple CMUs under one portal login, this is dependent on how you initially register each CMU. CM Participants must be mindful of their "Agent" as the Rules only allow for an Agent to be appointed to one applicant and this is built into the current portal.

9. CMAG website update

- 9.1 CA presented the proposed solution for displaying CM Rules Change Proposals on the CMAG website. It is the intention to have a separate webpage for each Change Proposal. There were no further comments on the proposed solution.
- 9.2 A Member queried if there is scope for CMAG to create an area to log CM Participant grievances with the Rules that are not directly a Rules change, for example any issues with the portal or related items. EH noted this can be considered by the CMAG and considering views from industry on the CM and its arrangements is in scope of the CMAG.
- 9.3 The LCCC/ESC Representative noted they always welcome feedback, especially where there are issues that can be easily resolved for CM Participants without the need for a formal Rules change.

10. Developing CM Rules Change Proposals – CP364 Secondary Trading

- 10.1 EHa noted this CP seeks to address the issue that secondary trades cannot be executed until after the T-1 auction for the relevant Delivery Year. This means that any capacity which becomes available for the Delivery Year is first offered a T-1 Agreement before there is an opportunity to accept a secondary trade, and by default it means that secondary trades have a maximum duration of one year.
- 10.2 EHa further noted NGESO assumes capacity that has not been able to secondary trade is unavailable and therefore includes this capacity in the auction and may be procured twice (once at T-4 and a second time at T-1). 19% of capacity procured at T-1 had been previously procured at the previous auction. This results in consumers essentially paying twice for capacity which drives up the clearing price.
- 10.3 Secondary trading is often used as a last resort as most capacity providers will try to have capacity available. Secondary trading is often the only option to avoid termination, where it is not an option, capacity providers will be terminated and pay a subsequent termination fee.
- 10.4 EHa stated CM Participants should be allowed to come to commercial arrangements to ensure capacity agreements are met.

- 10.5 The proposal is to allow secondary trading from the conclusion of T-4 auction rather than T-1. Secondary trading from T-4 would allow trading for multiple years through commercial agreements rather than being limited to one delivery year.
- 10.6 The proposal also suggests secondary trading is paused before T-1 so that an estimate for procurement at auction can be made.
- 10.7 EHa informed CMAG that Dunguness B capacity would not have entered the 2022/23 T-1 auction if this proposal had been in place, and this could have brought down the clearing price for all capacity providers taking part in the auction.
- 10.8 EHa highlighted an Ofgem consultation on secondary trading came to a similar conclusion.
- 10.9 A Member queried when engaging a secondary trading party, if they are on the same terms as the original contract. EHa noted this would be identified within the commercial arrangements between both parties.
- 10.10 A Member highlighted this is a complicated change, it does not solve the lack of liquidity problem in the CM for secondary trading.
- 10.11 A Member queried why secondary trading is limited till after T-1 currently. The Ofgem Representative noted the BEIS position at the time was to prevent participants who did not build in time from taking higher clearing prices. A Member further noted that new build plants are not allowed to secondary trade until they have reached their SCM to stop gaming, but the Rules allow for new builds to change their location – this is not currently allowed for existing plants.
- 10.12 EHa noted there is a distinction between allowing secondary trading ahead of T-1 and the problem with lack of liquidity to secondary trade in the CM, these should be considered separately as issues.
- 10.13 EHa stated the CP364 is marked as urgent. The Ofgem Representative agreed to provide an updated view on Ofgem's consideration of urgency with regards to CP364.
- 10.14 **CMAG/1122/07 – The Ofgem Representative to provide an updated view on whether CP364 should be considered Urgent.**
- 10.15 **CMAG/1122/08 – CMAG Members to consider whether any additional specific questions are required for CP364 and feedback to the CMAG Secretariat for consideration at the next meeting.**

11. Developing CM Rules Change Proposals – CP365 ITE Reports and CP366 Total Project Spend

11.1 CP365 – ITE Reports

- 11.2 LG noted this CP seeks to address the requirement for bi-annual ITE Reports required under Rule 12.2. Currently, where a milestone date moves by more than 2 months compared to the last report, an additional assessment report completed by an ITE is required. These can be significantly costly, and where milestones are close together, any changes will trigger an additional ITE report. LG further noted there is also no consequence in non-submission for an ITE report.
- 11.3 LG informed CMAG that Ofgem had proposed drafting for a solution to this, but it was later noted Ofgem would be considering this further. This proposed drafting has been slightly amended for CP365.
- 11.4 LG noted mitigating factors that have been considered within this CP are ensuring a progress report is still submitted and signed by two Directors and submission of a remedial report where a SCM is moved beyond the delivery year.
- 11.5 LG noted there is an estimated cost saving of £1.6 million, and this CP would also allow for a more efficient operation and administration of CM plants. For smaller CMUs, the costs associated with ITE reports can prove to be a barrier to entering the CM, and high cost of the ITE assessments is not justified by the delivery assurance that they provide.

11.6 CP366 – Total Project Spend

- 11.7 LG informed CMAG that CP365 seeks to ensure the capital expenditure included in the Total Project Spend is the same for new build and unproven DSR CMUs and refurbishing CMUs
- 11.8 Currently, for Refurbishing CMUs, expenditure is measured from Auction Results Day to the start of the first Delivery Year. This prevents Refurbishments CMUs from including expenditure associated with the refurbishment prior to the Auction Results Day. It may mean that they cannot meet Minimum £/kW thresholds for and so miss out on multi-year Agreements.

- 11.9 This change will enable costs ahead of the auction to be included in the Total Project Spend for Refurbishing CMUs, This could bring forward more refurbishment projects lowering the costs of the CM and enhancing security of supply.
- 11.10 This proposal is not deemed an urgent change but would deliver benefit to CM Participants if delivered in time for Prequalification in 2023. It is not expected that this will be a difficult change to implement as it is relatively simple in its premise and solution.
- 11.11 **CMAG/1122/09 – CMAG Members to consider whether any additional specific questions are required for CP365 & 366, and feedback to the CMAG Secretariat for consideration at the next meeting.**

12. Any Other Business (AOB)

- 12.1 A Member noted they were intending to raise a Change Proposal regarding the performance of battery assets, working with the Electricity Storage Network to do so, and would be in touch with the CMAG Secretariat in due course.
- 12.2 The Ofgem Representative queried what the CMAG next steps are regarding prioritisation of the Change Proposals discussed in this meeting, noting some of the issues raised are currently under consideration by BEIS. EH noted they are aware of a number of proposals being discussed by BEIS and will open up discussion around this offline.
- 12.3 A Member raised the new Balancing Reserve Project published by National Grid ESO and queried if this is something the CMAG would focus on. The Member agreed to provide their initial thoughts to the CMAG Secretariat for consideration at the next CMAG Meeting.
- 12.4 There was no further business and the meeting was closed. The next CMAG meeting will take place on 13 December 2022.