

# Capacity Market Advisory Group Draft Minutes

Meeting number **6**

Venue **Elexon Offices/MS Teams**

Date of meeting **21 March 2023 10:00-16:00**

Classification **Public**

## Attendance and apologies

Attendees	Initials	Type
Brian Lake	BL	Member
Claire Sedgwick	CS	Member
Emma Burns	EB	Member
Euan Graham	EG	Member
Libby Glazebrook	LG	Member
Mark Duffield	MD	Member
Paul Jones	PJ	Member
Raoul Thulin	RaT	Member
Richard Thwaites	RiT	Member
Sarah Honan	SHon	Member
Aled Williams	AW	Representative (EMR Delivery Body)
Rebecca Yang	RY	Representative (EMR Delivery Body)
Pravnick Heer	PH	Representative (EMR Delivery Body)
Ash Yamir	AY	Representative (DESNZ)
Georgina Morris	GM	Representative (DESNZ)
Sarah Howarth	SHow	Representative (DESNZ)
Ross Haigh	RH	Representative (LCCC/ESC)
Andrew Macdonell	AM	Representative (Ofgem)
Holly MacDonald	GT	Representative (Ofgem)
Mehdi Sundra	MS	Representative (Ofgem)
Eleanor Haynes	EHay	Guest (EDF Energy)
Lisa Waters	LW	Guest (Waters Wye Associates)
Caspar Ruane	CR	Guest (Amp Clean Energy)
Mel Ellis	ME	Guest (Shell Energy)
Elliott Harper	EH	CMAG Facilitator (Elexon)

## Attendance and apologies

Amy Stackhouse	AS	CMAG Secretariat (Elexon)
Kathryn Gay	KG	CMAG Secretariat (Elexon)
Matthew Woolliscroft	MW	CMAG Secretariat (Elexon)

## Apologies

Lee Priestley	LP	Member
Sophie Lethier	SL	Member

### 1. Welcome and Apologies

- 1.1 Elliott Harper (EH) welcomed Members and Representatives and noted apologies from Lee Priestly and Sophie Leither. The CMAG Facilitator confirmed that Richard Thwaites would be acting as Alternate for Lee Priestley and Libby Glazebrook would be acting as Alternate for Sophie Lethier.

### 2. Action Log

- 2.1 The CMAG reviewed the Action Log, all 'Complete' actions will be marked as closed. Discussion on actions 'In Progress' can be found in the CMAG Action Log v6.1 – 04.04.23

### 3. CM Representative Updates

- 3.1 The Ofgem representative noted that Ofgem has published its decision to reject CP357, CP358, CP360 and CP367 without statutory consultation, following discussions with CMAG. The full decision can be found on [Ofgem's website](#).
- 3.2 A Member highlighted there are a number of CM Rules Change Proposals currently with Ofgem for decision and queried when a decision can be expected. The Ofgem representative noted there is no formal timeline for decision on these change proposals yet, but a further update on expected timescales will be shared at the next CMAG meeting in April 2023.
- 3.3 **ACTION 0323/01 - The Ofgem representative to provide an update on the expected timelines for consultation and decision for CP365, CP366 and CP368.**
- 3.4 The LCCC/ESC representative informed the CMAG that they are continuing to progress the work on secondary trading and aggregation rules as discussed at the previous CMAG meeting. An update on this will be shared at CMAG Meeting 7 in April 2023 as per Action 0203/05.
- 3.5 The EMR Delivery Body (EMR DB) representative noted the Final Auction Report for the 2022 T-4 Auction has been published and is available on the [EMR DB website](#).
- 3.6 The EMR DB representative noted they are reviewing stakeholder feedback on the new EMR DB Portal and are in the process of finalising the plan for the Portal for April 2023.
- 3.7 The EMR DB representative highlighted they will be hosting a webinar tomorrow for CfD customers, following the Government budget announcement; those who are interested in attending can contact either Rebecca Yang or Aled Williams.
- 3.8 The DESNZ representative noted DESNZ is reviewing responses to its CM 2023 Consultation. The CMAG Facilitator queried if there is an expected timeframe for a response or outcomes to be published. The DESNZ representative advised this is still to be confirmed, but DESNZ is aware there are a number of changes that will need to be made in time for Prequalification for 2023/24.
- 3.9 A Member queried if there is a confirmed date for the DESNZ consultation, due in spring, on the Industry Supercharger and exemptions from CM payments for certain industrial customers. The DESNZ representative noted further information on this will be shared with the CMAG Secretariat for circulation.

3.10 **ACTION 0323/02 – The DESNZ representative to provide information regarding the DESNZ spring Consultation on the Industry Supercharger to the CMAG Secretariat for circulation.**

#### 4. **CMAG Secretariat Update**

- 4.1 The CMAG Facilitator noted they are currently progressing with the CMAG six month report, which will be shared with CMAG for review and comment at its meeting in April before it is submitted to Ofgem.
- 4.2 The CMAG Facilitator updated the CMAG that [CP368 'CVR Publication Deadlines'](#) is now with Ofgem for decision.

#### 5. **Secondary Trading Approach**

- 5.1 The CMAG Facilitator stated that it would be helpful to be clear what the scope and boundaries are for work CMAG can undertake in relation to Secondary Trading (ST).
- 5.2 The CMAG Facilitator expressed the view that CMAG should have the ability to progress incremental change to ST arrangements looking at addressing specific and limited challenges but where there is a DESNZ policy interaction, it would not be efficient for the CMAG to progress Change Proposals, as CMAG reports to Ofgem, whom may not be able to make decisions on changes that impact policy. EH stated that incremental change is still good but the expectation is that a wider ST review would better sit with DESNZ (if they wish to do so) as they have power to make wider policy decisions.
- 5.3 AM stated that that industry might be under the impression that lack of reference to ST in the recent DESNZ consultation could imply that this would be an area for CMAG to review so clarity on the CMAG scope in relation to ST is helpful.
- 5.4 CMAG Members broadly agreed with the approach outlined by the CMAG Facilitator.
- 5.5 The CMAG considered the high level topic areas for ST. PJ highlighted market transparency as an area that should be considered as a priority and noted the work being undertaken by EMRS/LCCC. PJ also suggested that there may be ways to improve processes, communications and ways of working that sit outside of the Rules.
- 5.6 EB highlighted that 'agreements/obligation risk' is likely to have the largest impact of the areas presented as this is the core of the current issue with ST. It was highlighted that improvements in this area are likely to facilitate better outcomes in other issues areas such as market liquidity.
- 5.7 A Member suggested that market liquidity is quite a broad umbrella category.
- 5.8 A Member queried whether there are any plans to do another mock stress event, noting that is has been some time since such an event and many issues were raised last time.
- 5.9 The LCCC/ESC representative noted that LCCC had moved away from industry wide end to end mock stress events, upon reviewing the issues from the exercise, improvements have been made in the data provisions between EMRS and LCCC. LCCC/ESC have moved to a model where they are performing Mock Stress Events virtually confirming if ALFCO (Adjusted Load Following Capacity Obligation) would have been delivered during Settlement Period with tight margins.
- 5.10 The EMR DB representative highlighted that a lot was learned from the last mock stress event in 2018 and that EMR DB have been working on process improvements and data accuracy ever since. The EMR DB representative identified that System Stress Event Webinar was held in October 2022. [Link to webinar](#)
- 5.11 The EMR DB representative agreed that there could be value in considering whether another mock event is needed to test the process again.
- 5.12 **ACTION 0323/03 – The LCCC/ESC representative to provide an update on lessons learned from the mock stress event in 2018, to be presented to CMAG.**

#### 6. **CP364 update – Timeframes and Calculations**

- 6.1 MW presented an update on the CP364 Subgroup that was held on 6 March 2023. PJ asked attendees to consider the scenario whereby 100MW of potential capacity is de-rated at 90% at the T-4 Auction and is then de-rated at 85% at the T-1 Auction and questioned whether 90MWs or 85MWs of capacity should be available to be delivered. MW clarified that under the current proposal the de-rated T-1 bidding capacity would be used

i.e. 85MW. CMAG Members requested that the CP364 Subgroup look at how this scenario would interact with SPDs in further detail.

- 6.2 MW presented current Trading eligibility requirements to CMAG Members. A Member questioned the need for prospective generating CMUs to meet SCMs by T-1 prequalification results. The Member suggested that they understood why this SCM requirement was needed by the time of trade but couldn't see why it was required prior to the Prequalification window for T-1 as there is plenty of time for a unit to meet its SCM requirements between Prequalification and the start of the Delivery Year.
- 6.3 The EMR DB representative questioned whether changing the above requirement would be considered to be in the remit of policy.
- 6.4 A Member suggested the requirements could be in place due to concerns around speculative bidding/applications. The Member also suggested that it might be worth looking deeper into the history of this requirement and intention of the requirement.
- 6.5 A Member expressed dissatisfaction with Capacity Market Rule 9.2.6(e)(ii) 'CMU satisfies 9.2.5(b) and has delivered de-rated capacity in six months before a Delivery Year' as the timescales associated with this requirement are unclear in practice. MW agreed to consider this in the development of the Trading Eligibility issue area.
- 6.6 The EMR DB representatives presented a Secondary Trades analysis to the CMAG including common reasons for rejection. EMR DB highlighted that they contact applicants with rejected trades to ensure they have the correct information and to ensure the applicants know the reason for rejection. It was highlighted that 90% of these initially rejected trades are resubmitted and approved.
- 6.7 The EMR DB representative asked CMAG Members how the figures presented compare to what they expected.
- 6.8 A Member noted they did not have preconceived ideas prior to the presentation, but highlighted the distinction between STs that are submitted by parties and rejected and STs that are never even submitted due to wider ST policy. The Member further noted that the latter issues are not seen but they prevent people submitting STs in the first place.
- 6.9 The EMR DB representative noted that roughly 3% of the capacity participating in auctions subsequently Secondary Traded.

## **7. Developing CM Rules Change Proposal - CP362 'CM Agreement Transfers'**

- 7.1 The CMAG Facilitator presented the updated legal text for CP362, noting changes to both Rule 6.7.1 and 9.2.5 are required together to ensure there is no discrepancy between the rules and that it is explicit what the intention of CP362 is.
- 7.2 The EMR DB representative noted they would complete an impact assessment on the updated legal text, to be presented at the next CMAG meeting in April.
- 7.3 The LCCC/ESC representative noted there is no impact to LCCC, but they wish to confirm that this change does not interact with the subsidy control framework.
- 7.4 The DESNZ representative confirmed that the updated legal text for CP362 does not interact with the subsidy control framework.
- 7.5 CMAG Members agreed with the updated legal text. The CMAG Facilitator noted a full recommendation would be made at the next CMAG meeting in April.

## **8. Review of Rule 4.4.4**

- 8.1 The CMAG discussed possible approaches for reviewing Rule 4.4.4. AS presented a summary of feedback from CMAG Members on this Rule and reminded members that this Rule was highlighted as the second most important area for consideration by the CMAG. KG suggested that a pragmatic approach would be to prioritise known issues with Rule 4.4.4 and group relevant items together before progressing Change Proposals.
- 8.2 RiT commented that under the current arrangements it was not clear what 'configuration' means. This was illustrated with the example of battery storage where it is not clear whether the current Rules would allow Capacity Providers the ability to refresh battery cells in existing CMUs.

- 8.3 PJ stated that careful consideration should be given to the treatment of de-rated capacity and emissions declarations when considering Rule 4.4.4 to avoid unintentional consequences.
- 8.4 RaT agreed with RiT that further clarity is needed as to what is meant by 'configuration'. The CMAG Member gave an example where an engine is made up of multiple smaller engines e.g. a 10x1MW engine comprised of 5x2MW engines and questioned whether these constituted different configurations under Rule 4.4.4. LW stated that she knows of an example whereby at prequalification 3 engines were declared and 4 engines were built and this discrepancy resulted in termination and questioned why this could be seen as a problem.
- 8.5 CMAG Members asked for clarification of the history and policy intent of Rule 4.4.4.
- 8.6 **ACTION 0323/04 – The Ofgem representative to confirm the history behind Rule 4.4.4, and outputs from its 5 year review of the CM.**
- 8.7 **ACTION 0323/05 – The DESNZ representative to confirm what constitutes a change of configuration in Rule 4.4.4 and the policy intent behind this Rule.**
- 8.8 A Member noted that removing Rule 4.4.4 would raise further complications with regards to ensuring the de-rating factor applied during prequalification remains the same. Removing the Rule entirely could result in CMUs swapping technology to achieve a more favourable de-rating factor.
- 8.9 A Member questioned whether any attendees had experience of trying to switch generation technologies and how this interacts with Rule 4.4.4 and how de-rating factors are managed. LW commented that while she had not seen full technology swaps e.g. gas turbines switching to batteries she had seen cases where Capacity Providers would like to switch fuels used for gas turbines or batteries wanting to add additional units. In practice, LW has suggested that Capacity Providers could not define configurations to the detail described above i.e. fuel types/number of battery units as to not fall foul of Rule 4.4.4.
- 8.10 AW informed CMAG members that from a DB perspective any changes to Rule 4.4.4 are likely to have significant system and process impacts. AW identified that this highlighted for 4.4.4 in EMR DB's October 2020 response to Ofgem's Consultation on CM Rule changes.
- 8.11 AW noted that the Delivery Body's current IT system and business processes were not designed to manage the proposed amendment to Rule 4.4.4 so to implement the change will require the development of entirely new capabilities and functionality to, for example, enable the tracking of components and metering test processes.
- 8.12 The LCCC/ESC representative confirmed that they expected that system changes would be required if Rule 4.4.4 was to be amended.
- 8.13 LW commented that care should be taken in the development of Change Proposals that any Rules should be shorter, easier to use and clearer than the current Rules.

## **9. Developing CM Rules Change Proposal - CP370 'Changes to Extended Performance Test'**

- 9.1 ME provided an overview of CP370, noting that where batteries are selected for a long duration contract, they must be regularly tested to prove it can perform to the required amount for the contract.
- 9.2 ME noted the Extended Performance Test (EPT) used a fixed percentage required for the battery to discharge in terms of volume, which is significantly higher than what the battery must actually deliver under contract. ME noted CP370 has been raised to address cases in which the EPT is more onerous than the delivery requirement during a system stress event.
- 9.3 ME informed the CMAG that some batteries have scaled down their capacity by up to 40% to ensure they can meet the requirements of the EPT; this results in decreased volumes entering an auction than normal.
- 9.4 A Member queried whether this change should be applied retrospectively or only for future agreements.
- 9.5 ME noted that if the EPT were to remain unchanged, it needs to be policed better so that it is understood how a battery can meet the requirements. The EPT is not the right test if the intention is to test duration rather than capability.
- 9.6 A Member noted the intention behind an EPT is fair and understandable but may be disproportionate to what it is trying to achieve. The Member believed that it also raised a long term issue of whether it will dissuade future volume from entering the CM.
- 9.7 EHay highlighted the issue of battery degradation was covered in the DESNZ CM 2023 consultation. EHay noted that often developers experiencing issues with battery performance will add further modules to their build.

EHay noted the technicality of this is incredibly difficult, and most battery warranties will include degradation so it is often more commercially viable to allow them to degrade.

- 9.8 The LCCC/ESC representative noted that degradation hadn't been given full attention as there were not many batteries during the start of the CM, so full understanding and implications of degradation was unavailable.
- 9.9 The LCCC/ESC representative queried what the solution is to address this issue, and if using a tapered AACO would resolve this, noting that a balance needs to be struck against ensuring delivery.
- 9.10 The DESNZ representative noted this is being reviewed within DESNZ and has been included within their consultation; DESNZ is aware of the future risk to security of supply if this issue goes unaddressed. There is still a need from a policy position to account for degradation, which can be varying across providers.
- 9.11 The CMAG Facilitator noted there would be an offline discussion on progressing this change and what it looks like as it overlaps with work by DESNZ and touches upon policy. A CMAG Member stated that unless the CMAG has a list or a steer from DESNZ on areas of the Capacity Market Rules to avoid progressing proposals that impact policy, It was suggested that if this information is provided then it should be published on the CMAG website so that potential proposers are aware of areas that fall outside of the remit of CMAG to consider.
- 9.12 LW stressed the need for this particular Change Proposal to be progressed promptly as it is expected to impact parties this year and has the potential to lead to terminations.
- 9.13 RiT asked whether changes to de-rating factors constitute DESNZ policy. The CMAG Member expressed the view that de-rating factors had become worse for batteries over the years. DESNZ clarified that this issue was included in the 2023 DESNZ consultation and de-rating factors and the methodology for determining de-rating factors constitute DESNZ policy.
- 9.14 The DESNZ representative stated the CMAG should also consider what are the levers and tools that could also help manage this issue if a change proposal is not made.
- 9.15 The CMAG Facilitator suggested that there is a need to consider the current CMAG processes in more detail to ensure that where Change Proposals impact either DESNZ policy or state subsidies this is identified quickly to avoid progressing Change Proposals that fall outside of the remit of CMAG and to ensure Change Proposals are progressed promptly. LW suggested that ensuring this is key to avoiding the perception that industry is slowing down the progression of proposals.
- 9.16 CMAG discussed the distinction between Capacity Providers output volume duration and the likelihood that the Capacity Provider can provide the expected output volume. In relation to batteries it was suggested that the de-rating factors may take into account differing system stress event durations. Degradation of generation assets over time was also discussed. A CMAG Member suggested that as capacity agreements are awarded at a specified output volume the responsibility lies with the Capacity Provider to account for generation asset degradation and to ensure that the required output volume can always be met across the relevant Delivery Years. It was highlighted that these issues while they might be pertinent to batteries are not unique to batteries.
- 9.17 LG suggested that the Belgian Capacity Mechanism addresses battery degradation by allowing potential Capacity Providers to submit battery degradation profiles as part of a prequalification application so that the system operator can take this into account. The CMAG Member suggests this should be considered when developing the CP370.
- 9.18 The LCCC/ESC Representative questioned whether batteries were allowed to charge in the run up to a system stress event as this could exacerbate problems related to security of supply. The Proposer commented that it is their understanding that there are no prohibitions against this under the current arrangements and has been discussed by industry on previous occasions.
- 9.19 The CMAG Facilitator noted that urgency can be requested by the proposer, but would be determined and granted by Ofgem if it meets Ofgem's urgency criteria. ME agreed to confirm offline if they wished to request urgency for CP370.

## **10. CMAG Forward Work Plan**

- 10.1 The CMAG Facilitator presented the CMAG Forward Work Plan and noted it has been updated to include new CM Rules change proposal CP370.
- 10.2 There were no comments on the CMAG Forward Work Plan, the CMAG Secretariat agreed to publish it on the CMAG website.

## **11. AOB**

- 11.1 The Ofgem representatives noted they will be attending the next CMAG meeting in person, and look forward to meeting other Members and Representatives.
- 11.2 EB noted this would be their last CMAG meeting as they move into a new role, they will be replaced by Claire Addison who is returning from maternity leave. The CMAG Facilitator thanked EB for their contributions and efforts at CMAG over the last six months and wished them well on future endeavours.
- 11.3 The EMR DB representative highlighted the next CMAG meeting coincides with the end of easter break, which could raise some challenges with resource between these meetings. The CMAG Facilitator noted the concern and asked CMAG Members to proactively flag any issues with deadlines or attendance but will proceed with the meeting date as agreed, given that amending the date would move constraints to the next meeting.
- 11.4 There was no further business and the meeting was closed. The next CMAG meeting date is Tuesday 18 April 2023.