

CP364 Subgroup Meeting 1 Minutes

Meeting number **1**

Venue **Elexon Offices/MS Teams**

Date of meeting **6 March 2023 10:00-16:00**

Classification **Public**

Attendance and apologies

Attendees	Initials	Type
Raoul Thulin	RaT	CMAG Member
Aled Williams	AW	Representative (ESO-DB)
Pravnick Heer	PH	Representative (ESO-DB)
Bir Virk	BV	Representative (LCCC/ESC)
Ross Haigh	RH	Representative (LCCC/ESC)
Tom Oliver	TO	Representative (LCCC/ESC)
Caspar Ruane	AM	Representative (Amp Clean Energy)
Mehdi Sunda	MS	Representative (Ofgem)
Eleanor Haynes	EIH	Representative (EDF/Proposer)
Alex Bashforth	AB	Representative (EDF)
Elliott Harper	EH	Chair (Elexon)
Chris Arnold	CA	CMAG Secretariat (Elexon)
Kathryn Gay	KG	CMAG Secretariat (Elexon)
Matthew Woolliscroft	MW	CMAG Secretariat (Elexon)

Apologies		
Claire Sedgwick	CS	CMAG Member

1. Welcome and Introductions

- 1.1 EH welcomed the CMAG Subgroup to the meeting and gave an overview of the meeting and the agenda. CA discussed the background and explained that the subgroup was formed to look at a series of technical questions (that were circulated to attendees prior to the meeting) associated with the CP364 solution.

2. Solution

- 2.1 CA (Elexon) explained the objective of the proposal is to allow secondary trading from T-4 rather than the conclusion of the T-1 Auction. CA highlighted that a key aspect of the proposal is the introduction of a weighted Physically Traded Capacity Obligation (PTCO) to ensure that the maximum Bidding Capacity threshold for a

given CMU involved in Secondary Trading is not exceeded. KG also highlighted that the implementation of CP364 could help reduce the over procurement of capacity in the T-1 auction.

- 2.2 The AB (EDF) questioned what extra information would be required to be tracked by the Delivery Body at the component level that isn't already tracked by the DB. AB commented that the current Capacity Market Register already shows the de-rated capacity and connection capacity of components for each Capacity Market Unit (CMU). PH (ESO-DB) commented that there may be issues that need to be considered in relation to tracking components and the Auction Acquired Capacity Obligation (AACO) as this is tracked at a CMU level rather than at a component level.
- 2.3 **SCP364/01 – ESO-DB will give a presentation at the next subgroup meeting clarifying the existing ESO-DB system and process constraints which would limit the CP364 proposals.**

3. Consideration of Key Questions

- 3.1 KG and MW (Elexon) presented the questions that were circulated to subgroup attendees to be considered by the CP364 subgroup. These were:
- How do we ensure that the Maximum Bidding Capacity threshold is not exceeded?
 - What are the impacts on Credit Cover?
 - To allow for the demand curve adjustment process to consider completed secondary trades should restrictions on trading be extended further to the last day of the Pre-Qualification Application Submission Window through to the Auction Results Day?
 - How should possible differences in De-Rated Capacity positions be managed?
 - Are multi-year agreements to be included as part of this proposal? – If so, what are the impacts of allowing this and what amendments may need to be made to accommodate this?
 - Is there a more basic proposal that could be implemented by July 2023 that could be progressed?
 - Should CP356 and CP369 also be considered as part of the subgroup?

The following questions below from the key questions list above were considered by the subgroup and a summary of the discussions against each item is given below.

What are the impacts on Credit Cover?

- 3.2 Elexon Representatives asked subgroup Members whether or not they expected there to be any impacts of credit cover as a result of the CP364 solution. Subgroup Members agreed that they did not foresee any impact as a result of implementing the current CP364 solution.

To allow for the demand curve adjustment process to consider completed secondary trades should restrictions on trading be extended further to the last day of the Pre-Qualification Application Submission Window through to the Auction Results Day?

- 3.3 KG clarified that the restrictions in the CP364 drafting are in place 6 weeks prior to the T-1 Auction to allow the ESO's EMR-Modelling team to perform analysis that is used to inform the setting of key auction parameters. The NGENSO representative noted the importance of performing the Prequalification assessments on fixed values and having an extended window would be key in allowing ESO-DB to perform its analysis in support of the demand curve adjustment process.
- 3.4 The EDF Representative commented that the de-rating capacity is what it is regardless of whether the component has secondary traded and the main issue that the subgroup should consider is how much of a given de-rated component capacity should be allowed to be brought forward to a given auction i.e. the auction bidding capacity. PH (ESO-DB) agreed with the comments given by the EDF Representative.
- 3.5 EIH asked the subgroup for clarification on the suggested approach. It was clarified that the subgroup position was:
- Secondary Trading under this solution can happen after a CMU has prequalified up until the trading suspension period
 - The trading suspension period doesn't necessarily have to be as early as the pre-qualification application submission window (as suggested in the question) through to the auction results day if there is a mechanism by which bidding capacity is automatically adjusted to account for relevant secondary trades.
 - Regardless of when the trading suspension period is, any secondary trades that occur after the prequalification assessment window through to the trading suspension period will not be taken account

in the demand curve adjustment process (which could lead to over procurement of capacity at a given auction).

How should possible differences in De-Rated Capacity positions be managed?

- 3.6 An Elexon Representative presented a worked example of how de-rated capacity positions are managed under the CP364 solution via the weighted PTCO. The worked example consisted of three CMUs (CMU X, Y and Z) with four separate components (A, B, C and D) each with 100MW connection capacities. Components A and B each had a de-Rating factor of 90% at the T-4 auction and components C and D each had a de-rating factor of 80% at the T-4 auction. Elexon explained that the weighted PTCO for each component was calculated via the following equation:

Weighted PTCO

$$= \frac{\text{De - rated Capacity of Component}}{\sum \text{De - rated Capacity across all Components within a CMU}} \times \text{Connection Capacity}$$

The Elexon Representative asked subgroup members to consider the following scenario

- At T-4 prequalification, four units/components are assembled into one 400MW CMU (CMU X), but the CMU is unsuccessful in the auction. Sometime after the T-4 auction concludes, the Applicant for CMU X accepts a Capacity Obligation from another Capacity Provider via a secondary trade for 100MW.
- At the following T-1 prequalification, the Applicant wants to split the site into two 200MW CMUs and enter the T-1 auction that way instead, where: components A & C form CMU Y, and components B & D form CMU Z.

In this scenario the secondary trade from the previous T-4 auction needs to be accounted for in the bidding capacity across the four components to ensure the de-rated capacities are not exceeded following the T-1 auction. The weighted PTCO formula ensures this by subtracting by calculating the bidding capacity in the following manner:

CMU Bidding Capacity for T - 1

$$= \sum \text{Component de - rated Capacity applicable for T - 1} \\ - \sum \text{Component weighted PTCO from previous secondary T - 4}$$

- 3.7 An LCCC representative commented that it was not clear that the above approach would not work in the case where parts of an obligation rather than the whole obligation was traded (the example given was trades over daily periods). The EDF representative commented that if a CMU has picked up an obligation prior to the T-1 auction then the available bidding capacity would be based on the largest total PTCO(s) acquired, even if this was held for just one day.
- 3.8 The CMAG Member highlighted that there might be practical difficulties that should be considered as part of the solution if CMU configurations change between T-4 and T-1. An EDF Representative highlighted that the information required for tracking individual components should be available as part of the meter aggregation process and also that LCCC/ESC must currently have a way of tracking components as this is required to ensure double payments are not occurring for the same capacity.
- 3.9 PH (ESO-DB) asked for a point of clarification from the subgroup regarding the treatment of applications with reference to an acceptable transferee where a secondary trade application and a T-1 application have both been made. An Elexon representative clarified that it would be the maximum of the two.
- 3.10 RaT queried what would happen in a scenario where a CMU acquired traded obligation after the T-4 auction, but suffered a catastrophic failure on one of its units before the T-1 Auction. They contemplated whether the weighted PTCO allocated to that component should be shared among the remaining units. At the T-1 auction, the failed unit would bid in with a connection capacity of zero, thus giving it a weighted PTCO greater than its connection capacity. AB noted that in this case the CMU would max out and have no bidding capacity at the T-1 auction. They likened the scenario to a wind farm that had acquired a T-4 obligation and subsequently suffered failures on some of its units, and warned about creating a difference in approach between auction acquired and traded obligations. AB commented that for both traded obligations and auction acquired obligations there would

be a risk of unit failure resulting in a CMU being unable to deliver its obligation or meet assurance requirements, and believed this was a reasonable risk for transferees to accept.

- 3.11 Elexon presented three key constraints in relation to CP364. These were:
1. A CMU would need to be prevented from gaining multiple Capacity Obligations that exceed its total de-rated capacity in one Delivery Year, to prevent over-payments and potential under-delivery of capacity in a System Stress Event or for a performance test.
 2. A Capacity Provider would need to have the option to reduce its CMU's bidding capacity if the CMU prequalified for a T-1 auction and then gained a Capacity Obligation for that relevant Delivery Year through a secondary trade before the auction took place. This would be especially necessary for existing CMUs which are Price Takers and could not otherwise withdraw from the auction after prequalification.
 3. As components of CMUs can change between years of prequalification, there would need to be a way for ESO-DB to track Capacity Obligations at a component-level, and ensure any obtained via secondary trades are accounted for in the bidding capacity before entering a subsequent auction.

An Elexon representative that whilst point 2 above had been covered in the session further work would be required to consider points 1 and 3 at future meetings.

3.12 **SCP364/02 – Elexon to explore options on how a CMU could be prevented from gaining multiple Capacity Obligations that exceed its total de-rated capacity in one Delivery Year, to prevent over-payments and potential under-delivery of capacity in a System Stress Event or for a performance test**

3.13 RaT asked whether there would be a need under CP364 to prohibit secondary trading back to the party that was awarded an initial T-4 agreement.

3.14 An Elexon representative highlighted that if the CP364 proposal was implemented there would be a need to ensure that relevant parties are setting up meter aggregation rules earlier than is currently the case. The subgroup expressed a preference for CP369 to be progressed alongside this proposal.

3.15 The Proposer suggested that only one year proposals were in mind as extending secondary trading to include whole multiyear (i.e. 3 year and/or 15 year) agreements would likely constitute a policy change and would therefore be outside the remit of the CMAG. Subgroup Members suggested a legal text review should take place to ensure that the current legal text clearly prohibits secondary trades for 3 and 15 year agreements.

3.16 **SCP364/03 – Elexon and subgroup members to review legal text to ensure that current drafting clearly prohibits secondary trades for 3 and 15 year agreements**

3.17 The subgroup discussed whether or not there is a simple proposal that could be progressed and implemented prior to July 2023 to give potential capacity providers the ability to secondary trade from T-4 by the next relevant auction. Due to the further work required, the time required to carry out this work and carry the statutory consultation on any solution and a desire by the subgroup not to take piecemeal approach to the progression of CP364 the subgroup agreed that this was not achievable.

3.18 Elexon further commented on the implementation date, which the Proposer explained that it should be done as one proposal and implemented as soon as possible.

3.19 The RaT suggested that an amendment should be considered with rule 4.4.2 to make sure that the DB is able to qualify CMU's or components that have a capacity agreement.

4. **Actions and Next Steps**

4.1 **SCP364/01 – ESO-DB will give a presentation at the next subgroup meeting clarifying the existing ESO-DB system and process constraints which would limit the CP364 proposals. SCP364/02 – Elexon to explore options on how a CMU could be prevented from gaining multiple Capacity Obligations that exceed its total de-rated capacity in one Delivery Year, to prevent over-payments and potential under-delivery of capacity in a System Stress Event or for a performance test**

4.2 **SCP364/03 – Elexon and subgroup members to review legal text to ensure that current drafting clearly prohibits secondary trades for 3 and 15 year agreements**

4.3 CA agreed to circulate minutes and organise a further subgroup meeting to further consider the proposal.

5. Any Other Business (AOB)

5.1 There was no further business and the meeting was closed.