

ELEXON

CAPACITY MARKET ADVISORY GROUP

SIX - MONTHLY UPDATE: APRIL 2023



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FOREWORD

I am pleased to present the first six monthly report by Elexon as the Capacity Market Advisory Group (CMAG) Secretariat.

The primary function of the CMAG is to develop changes to the CM Rules, including those that have been proposed by industry, and submit well-considered reports to Ofgem, making recommendations on whether change should be made.

Ofgem appointed Elexon as the CMAG Secretariat in May 2022 and the first CMAG meeting was in October 2022. At the point we took on the role there was a pre-existing pipeline of seven changes. I'm really pleased that six of these changes have been either been completed (with the report sent to Ofgem), closed, or are in progress (where they are more complex).

We have received six new Change Proposals during the first six months of CMAG operation. The CMAG has re-opened the door for interested stakeholders to propose changes to the current arrangements, and discuss their thoughts with industry experts. This discussion opportunity was previously not available for industry, and it helps ensure that solutions are more robust and efficient.

The CMAG has delivered some less quantifiable, but equally important positive outcomes in the short time it has been operational. For example, it has created an opportunity for further engagement between industry, the regulator, government and central CM organisations, to discuss improvements to, and provide feedback on, the CM.

The CMAG has started to create greater visibility around regulatory processes, timescales for the progression of CM Rules Change Proposals through parliamentary processes, and the grandfathering of provisions. We also continue to discuss the new government subsidy control framework with the Department for Energy Security and Net Zero (DESNZ) and hope to provide further clarity for industry in this space in due course.

The CMAG communicates on its work through the monthly CMAG newsletter, covered in more detail later in this report. We continue to make improvements to the CMAG website, including information on the process for submitting CM Rules Change Proposals and individual Change Proposal webpages.

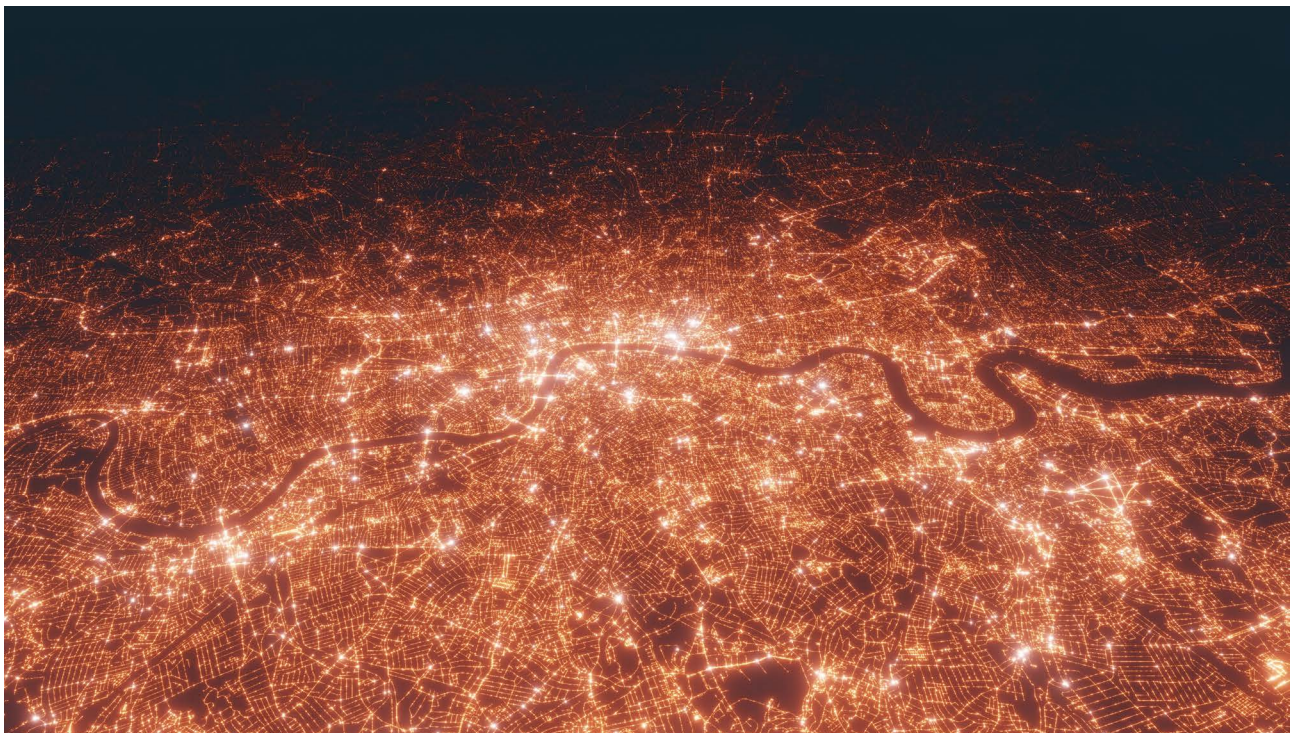
We recognise that industry has a desire to see prompt change in the CM space, but it takes time to embed new processes, and learn how we can be more efficient. Some of the Rule Changes proposed to date interact with government policy. Both Ofgem and DESNEZ can make decisions on Rule Changes, however as CMAG was created by Ofgem in support of Ofgem processes, we need to consider how best to treat ideas that impact government policy. Therefore, over the coming months, we will review CMAG processes to create clarity on how ideas to improve the CM arrangements that touch on government policy can be progressed.



We have benefitted from Department for Energy Security and Net Zero (DESNZ) attendance at CMAG meetings, and have welcomed multiple guests, as observers or presenting ideas for CM Rules improvements. It is great that the CMAG has already created such positive response and interest from industry.

We are looking forward to continuing working closely with our CMAG membership (Members, Representatives, guests) and interested stakeholders, and will produce a further six-monthly report in October 2023. In the meantime, if you'd like to get in touch with the CMAG, please contact us via [our website](#), or email cmag@elexon.co.uk.

Elliott Harper
Head of Governance Services & CMAG Facilitator (Chair)



Change Proposal Progression Summary

One of the key functions of the CMAG is to prioritise and submit well-considered CM Rule Change recommendations to Ofgem. To support this work, over the last six months, the CMAG has undertaken a number of activities to ensure that existing proposals are prioritised and that recommendations made by the CMAG include appropriate analysis and justification.

Key activities include:

- Development and agreement of a CMAG Terms of Reference and Operating Procedure which detail the functions, processes and responsibilities of the CMAG
- Creation of a Forward Workplan showing a prioritised list of all proposals with expected timescales for progression of each one
- A dedicated [CMAG website](#) with individual proposal pages showing the progression of each change including recommendations, reports and supporting documentation.

A summary of the change proposals considered over the past six months are detailed below.

Proposals submitted to Ofgem

CP365 'Independent Technical Expert (ITE) Report Requirements'

Change Proposal [CP365 'ITE Report Requirements'](#) was sent to Ofgem on 14 February 2023, with the CMAG recommendation to approve this Change Proposal.

CP365 seeks to remove the requirement for Capacity Providers who own new build or refurbishing Capacity Market Units (CMUs) to provide assessment reports from an Independent Technical Expert if Construction Milestones are moved by more than two months from the date in the pre-qualification application Construction Plan.

CP365 has the potential to lower the administrative burden and costs to Capacity Providers whilst ensuring that the Capacity Market Rules have sufficient assurance mechanisms in place to monitor and deter changes to Construction Milestones.

The final CM Rules Change Proposal Report for CP365 can be found on the [CMAG website](#).

CP366 'Definition of Total Project Spend'

Change Proposal [CP366 'Definition of Total Project Spend'](#) was sent to Ofgem on 23 February 2023, with the CMAG recommendation to approve this Change Proposal.

CP366 seeks to change the definition of Total Project Spend so that capital expenditure for Refurbishing CMUs can be included 77 months prior to the start of the first Delivery Year of the application.

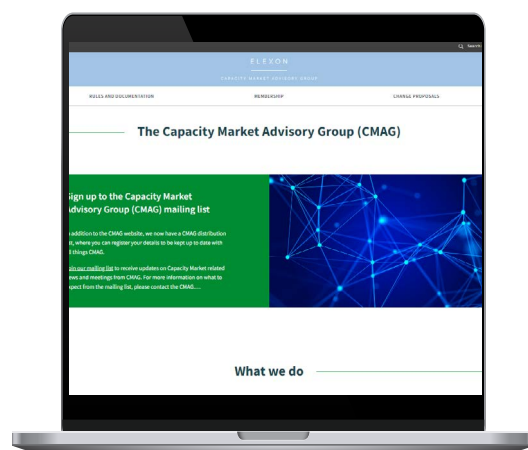
This proposal aims to allow more Refurbishing CMUs to qualify for multi-year Agreements and promote further investment in the Capacity Market. The final CM Rules Change Proposal Report for CP366 can be found on the [CMAG website](#).

CP368 'CVR Publication and CMVRN Submission Deadlines'

Change Proposal [CP368 'CVR Publication and CMVRN Submission Deadlines'](#) was sent to Ofgem in March 2023 with a recommendation to approve.

CP368 seeks to adjust the deadline for Capacity Volume Register (CVR) publication by an additional 30 minutes to 17:30. This is to allow for CMVRN submissions received at 17:00 to be processed by Electricity Settlements Company (ESC) and included within the CVR published on that Working Day.

CP368 makes it easier for the ESC to comply with its obligations under the Capacity Market Rules whilst ensuring accurate and up to date information is contained in the CVR for stakeholders.



Proposals in Development by the Capacity Market Advisory Group

CP364 'Allow Secondary Trading from T-4'

Change Proposal [CP364 'Allow Secondary Trading from T-4'](#) was initially considered by the CMAG at its November 2022 meeting.

This proposal seeks to allow secondary trading for a Delivery Year from the conclusion of the relevant T-4 auction, rather than the conclusion of the relevant T-1 auction. The Proposal was discussed by the CMAG at four meetings in conjunction with the programme of work of secondary trading process improvements.

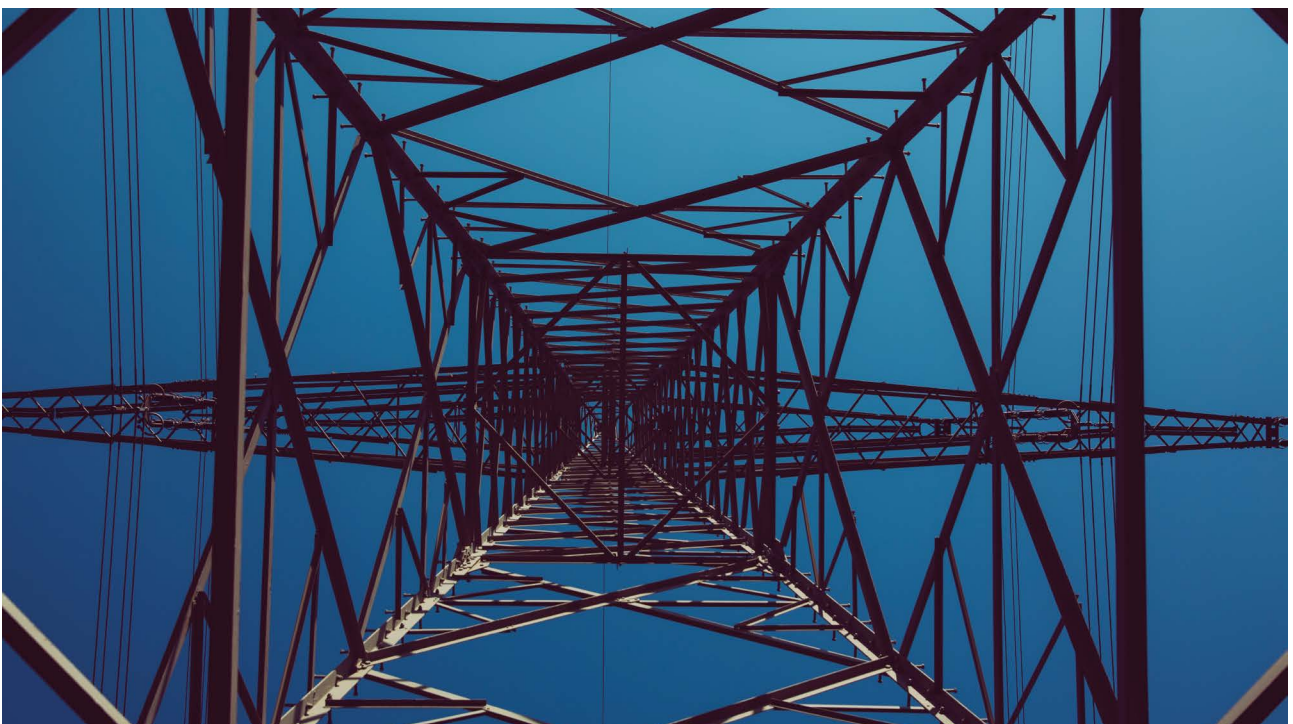
In accordance with the CMAG Operating Procedure and the Terms of Reference a specialist subgroup was created to consider technical questions raised by the Delivery Body so that technical impacts on key stakeholders can be better evaluated. This is the first subgroup that has been set up by the CMAG and the level of engagement from relevant stakeholders has been good. We continue to expect the creation of specialist subgroups by the CMAG in the development of future Change Proposals in the small number of cases where technical subgroups can add value to the development of a proposal.

The first subgroup meeting was held on 6 March 2023 where initial consideration of the technical questions were considered and follow up actions agreed.

CP362 'CM Agreement Transfers'

Change Proposal [CP362 'CM Agreement Transfers'](#) was initially considered by the CMAG at its January 2023 meeting.

The proposal seeks to ensure that Capacity Market (CM) Agreement transfers are allowed before a CMU site has met its Substantial Completion Milestone (SCM). This Proposal is currently being reviewed to ensure that all relevant elements of the Capacity Market Rules have been considered when drafting the legal text to avoid inconsistencies.



Proposals rejected by Ofgem

Under the CM Regulations, Ofgem have the ability to reject CM Rules Change Proposals without the usual statutory consultation requirements required when CM Rules changes are developed, provided that Ofgem publish their reasons for rejecting the proposal without any further consideration. Ofgem provided guidance on example rejection reasons which include policy over-reach, better alternative routes to achieve desired outcome and the solution detailed not resolving a detailed issue.

Ofgem have rejected the following CM Rules proposals:

- CP357** – No Title
- CP358** – Previous Settlement Period Performance
- CP360** – Efficiency Modifier for Capacity Price
- CP367** – Deferral of Fossil Fuel Emissions Declaration

In the case of all proposals, Ofgem first sought views from the CMAG, who were in agreement with Ofgem’s decision to reject. It’s worth noting that two of the proposals were withdrawn by the proposers, but still fall under the Ofgem rejection process on this occasion.

Ofgem published its decision to reject the above proposals on 17 March 2023.

The table below gives a summary of the number of CM Rules change proposals that have been considered over the last six months.



Other work conducted by the CMAG

Secondary Trading

At its initial meetings the CMAG considered what its areas of key focus should be for CM Rules changes in the coming months. CMAG Members shared their views with the secretariat and these views were collated and discussed by Members. The most important area highlighted by the CMAG was secondary trading, and so over the last six months the CMAG has been working on highlighting which areas of secondary trading are causing issues and canvassing views on how these issues could most suitably be resolved.

The CMAG is now currently considering a programme of work to make improvements to the current Secondary Trading arrangements under the Capacity Market Rules. An initial approach has been discussed by the CMAG.

This approach has involved:

- Identifying issue areas associated with Secondary Trading
- Matching existing proposals that have been raised to these issue areas; and
- Prioritising the identified issue areas and considering these areas in further detail.

The CMAG have identified Trading Eligibility, calculations and timeframes as priority areas for further consideration as well as Agreements/Obligations Risks are will consider these areas in detail in the coming months and if appropriate raise supporting Change Proposals to resolve the identified issues.

DESNZ Consultation Response

On 9 January 2023 DESNZ published their consultation titled 'Capacity Market 2023: strengthening security of supply and alignment with net zero'. This consultation builds upon a call for evidence that was published in July 2021 that sought views on proposals to better align the CM with the governments net zero targets and improvements in delivery assurance. To support DESNZ in its consultation the CMAG considered the proposals raised in this consultation.

The CMAG submitted their response to the Department for Energy Security and Net Zero (DESNZ) 'Capacity Market 2023: strengthening security of supply and alignment with net zero' consultation on 23 February 2023.

The response detailed the CMAG's views on the consultation including the Satisfactory Performance Days, Extended Performance Testing and Emissions Limits. The full response can be found on the [CMAG website](#).

CMAG Mailing List

The CMAG identified that there was a need to ensure that the work of the CMAG can be effectively communicated to other interested stakeholders (outside of the CMAG Membership) to keep them identified of key news and proceedings of the CMAG.

To help support this the CMAG created a new mailing list to keep interested parties informed about key news and updates and news in relation to the CMAG and the Capacity Market as well as meeting papers for CMAG Meetings. [Sign up to the CMAG mailing list](#).



Other work conducted by the CMAG

(continued)

CMAG Survey

At its December 2022 meeting, Elexon asked CMAG Members for constructive feedback on its role as the CMAG Secretariat.

Eight responses were received in total, and a selection of responses are given below.

We also received some constructive comments for consideration. For example, we received feedback that it would be helpful to have indicative timings for agenda items.

Due to the nature of CMAG discussions being theoretical, in many cases, it would be a shame to cut discussion short. However, we recognise that it may be helpful to have defined break times so that attendees can plan their day and schedule important ad-hoc calls accordingly.

Therefore, from the April meeting, we will trial defined break times. We continue to be open to suggestions on how we can work more efficiently, and welcome all constructive feedback from stakeholders.

Responses to the CMAG Survey: December 2022

"Elexon facilitation has been excellent. Good participation from all members"

*"The **organisation has been excellent as has the facilitation.** Contributions have been constructive and the chair has ensured that the widest range of views have been heard. It has been very helpful to have **DESNZ and Ofgem in attendance (as well as the other delivery partners)** and that they have been active in discussions and brought topics to the meetings"*

*"Planning and timing of meetings as well as allowing a full **hybrid approach.** The hybrid approach is incredibly important as key attendees could find it challenging to go to all meetings in person"*

*"**Excellent well-rounded and respectful discussions** around the agenda items. **Great technical support** in terms of agenda, meeting materials and minutes"*

Attendance

Below is a record of the attendees at all CMAG meetings between 1 October 2022 and 31 March 2023 which is required to be published in the six monthly report as specified in the CMAG Operating Procedure.

As mentioned previously, we have had strong attendance at all CMAG meetings to date from CMAG Members, Representatives (organisations such as Ofgem, LCCC/ESC, NGESO-DB), as well as interested stakeholders.

Note that for central organisations, colleagues are grouped, as it's the attendance by organisation that is pertinent to the operation of the CMAG, rather than the specific named individuals.

Attendance	Capacity	Meeting 1	Meeting 2	Meeting 3	Meeting 4	Meeting 5	Meeting 6
Elliott Harper	CMAG Facilitator	Y	Y	Y	Y	Y	Y
Various colleagues	CMAG Secretariat	Y	Y	Y	Y	Y	Y
Various colleagues	DESNZ	Y	Y	N	Y	Y	Y
Various colleagues	NGESO-DB	Y	Y	Y	Y	Y	Y
Various colleagues	LCCC/ESC	Y	Y	Y	Y	Y	Y
Various colleagues	Ofgem	Y	Y	Y	Y	Y	Y
Brian Lake	Member	Y	Y	Y	Y	Y	Y
Caroline Farquhar	Member	N	Y	Y	Y	N	N
Claire Sedgwick	Member	Y	Y	Y	Y	Y	Y
Emma Burns	Member	Y	Y	Y	Y	Y	Y
Lee Priestley	Member	Y	Y	N	Y	N	N
Libby Glazebrook	Member	Y	Y	Y	Y	Y	Y
Mark Duffield	Member	Y	Y	Y	Y	Y	Y
Paul Jones	Member	Y	N	Y	Y	Y	Y
Raoul Thulin	Member	Y	Y	Y	Y	Y	Y
Richard Thwaites	Member	Y	Y	Y	Y	Y	Y
Sarah Honan	Member	Y	Y	Y	N	Y	Y
Sophie Lethier	Member	Y	Y	Y	Y	N	N
Euan Graham	Member	N	N	N	N	Y	Y
Eleanor Haynes	Guest/Proposer	N	Y	Y	Y	Y	Y
Kyran Hanks	Guest/Proposer	N	N	N	Y	N	N
Lisa Waters	Guest/Proposer	N	N	N	N	Y	Y
Mel Ellis	Guest/Proposer	N	N	N	N	N	Y
Matthew Billson	Guest	N	N	N	N	Y	N
Caspar Ruane	Guest	N	N	N	N	N	Y

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