

Dear all,

Please find below a short summary of the key topics which were discussed at today's EMR Collaborative Development meeting. This summary will be in addition to detailed minutes which will be available in due course. Details of notes of workshops so far are available here:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/236619/Notes_of_CM_working_groups_so_far.zip.

The agenda for the second washup session was as follows:

Tuesday 24th September	
10.00 – 10:30	Welcome & Introductions Scope for Today
10:30 – 11:00	Demand Side Response
11:00 – 11:30	Governance – Handle a change to the Rules
11:30 – 12:30	Payments & Penalties Scenarios
12.30 – 13.30	Lunch
13:30 – 14:30	Penalty Caps
14:30 – 15:00	Payment Timetable
15:00 – 15:30	Credit
15:30 – 16:00	Wrap up

As part of introductory session, Fergal McNamara provided an update on the impending consultation. The consultation document is due to go out week of the 7th and is an omnibus consultation- currently it contains about 100 pages and contains about 20 questions. The document includes drafts of legal instruments, as well as drafts of regulation (there are three so far – concerning settlement, low carbon, and auctions). Model capacity agreements are also included with some examples, and descriptions of the model contracts themselves. Capacity market rules will also be published - this currently stands at 150 pages.

Fergal then went on to introduce the concept of revenue neutrality with respect to penalties and over-delivery payments. The current belief is that the supplier levy will be treated as a tax - the Office for National Statistics (ONS) will confirm this over the coming months. The concept of revenue neutrality means that penalties will need to match over-delivery payments over a delivery year. DECC recognises that there will be consequences as a result of this policy shift, including disruption of secondary market, but believe that the consequences will be relatively minor.

The consultation document will include questions on a number of topics related to the scope of the day's discussions, specifically:

- Penalty caps and portfolios (including their reasonableness)
- Settlement timeline
- Quantitative collateral and the associated terms
- Institutional governance
- DSR- including the nature of that resources, procedures for pre-qualification, launch of transitional arrangements

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Under the agenda item on Demand Side Response, Jane Elloway set out a revised maximum size for a CMU of 50MW instead of the original 2MW limit in response to points made during discussions as the Demand side Response workshop on the 17th of September. This proposed change was received favourably by participants, Jane also presented two slides related to de-rating and calculating "name plate" for DSR. Copies of these slides are included in the attached pack which includes all the slides used during the session.

Tom Whitehead then shared a revised process map for the Handle a Change to the Rules process (copy attached). The process map has been revised in response to comments made during the Governance workshop on the 28th of August. The changes made include a clarification on who can initiate a change to regulation or rules (any member of the public, Government or Ofgem). Discussions centred on changes to the rules that require changes to regulation (and vice versa) and roles of DECC, Ofgem and the Secretary of State.

Simon Francis then presented a series of 4 Capacity Market Scenarios (included in the workshop slide pack). The scenarios presented covered:

1. Stress event commences before the capacity market warning is issued
2. Short duration load shedding (period of load shedding is less than 15 minutes)
3. Stress event with no penalties or over delivery payments
4. Volume held off exceeds volume of load shedding

As part of the discussion of the scenarios, the impact of revenue neutrality was discussed. There were also discussions on the cost implications on suppliers.

The discussion on Penalty Caps introduced a small change in policy position such that there would be a cap imposed on an individual CMU's penalties. Any differences between the individual caps across a portfolio and the total portfolio liability would be borne by one of the participants in the portfolio. Industry response was that this still created a liability that is greater than the cap and from their perspectives, was essentially the same as for the previous policy position. Simon then presented a series of slides to explain how caps are derived and how penalties and the cap interact. The discussions that followed included questions on the sequence of payments of penalties and over delivery payments,

Mark Duffield then presented the overall payment timetable. This prompted further discussion on the settlement process and when penalty payments would be due and when over delivery payments would be due.

The last discussion topic was on Credit, presented by Tom Slater. Tom described the current proposals which require participants to have credit in place equivalent to 110% of a provider's monthly capacity payments. Discussions at previous workshops suggested that this was excessive. Participants were asked for their views on what would be more appropriate. Feedback indicated that 100% would be sufficient. Participants were asked to include their views in their response to the consultation document,