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 the more detailed record of discussions which will be made 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 .

In the context of "Handle a CM warning notification", the discussion touched on:

- The publication of a capacity market warning and the process for that notification. If no warning notification is given, then no financial penalties or over-delivery liabilities occur. Only where a warning and a stress notification coincide has a stress event begun.
- How a stress event is determined and handled;
- How a capacity market warning is closed.

In the context of "Handle all bonuses and penalties for a stress event", the discussion touched on:

- The half hourly calculations for the hard cap for the stress event, conducted by the settlement agent
- The soft cap for each CP in the period for each period following the CMW
- The relevant calculations of obligations at times of stress as set out in the strawman document (reference Section 10 and Section 14 of the strawman). This takes into account whether the relevant period is within or after the 4 hour CMW notice period.
- The penalties and bonuses are determined for each CMU and portfolios.

For completeness, we have also included the notes from 3rd September, below.

Fergal introduced the topics for the day, setting out the policy framework in regards to money management.

He then set out the policy position to date regarding the payment model:

- **Dual Institutions -** A Public Body a GovCo to be the Settlement Body and a Settlement Agent (Elexon)
  - Capacity market not a tax unless and until so designated by the Office for National Statistics
- **Charging Method –** Peak Load Pricing implemented by the "TNUoS Triad Method"
- **Secured Credit and Acceptable Credit Instruments**
  - Cash or Letter of Credit for the "routine" monthly charges, wider forms acceptable for collateral against Termination Fees or Bid Bonds
- **Mutualisation and Administration Schemes**
  - If a Supplier defaults, credit, then mutualisation ensures continuity of payment flows. Administration Schemes (SOLR, ESCA) will also offer continuity where appropriate
- **Appeals –** Data Disputes and appeal of Settlement Agent
  - Different appeal routes available subject to the issue under dispute

Fergal also discussed the performance specification:

- **CO Performance Standard:** Produce electricity (MWh) at times-of-system-stress consistent with the de-rated capacity (MW) awarded at auction
  - Times-of-System Stress = Demand Control Instruction issued/rescinded by the SO
  - Obligation is modulated by load as a proportion of the peak i.e. load following obligation
  - Obligation is adjusted to reflect position in the Balancing Mechanism
- **Bonus or Penalty =** electricity produced varying from the Performance Standard receive bonus or attracts penalty
  - Bonus or Penalty = [Performance Standard – Production] X Penalty Rate
- **Penalty Rate = z*VoLL minus Cash-Out or z*VoLL for non-BM participants**
  - Assuming VoLL is 17,000 £/MWh and Cash-Out is 6,000 £/MWh (at times of system stress) then z will be calibrated to result in a PR of 1,000-3,000 £/MWh
- **Special Provisions Applying to Bonus/Penalties –** No Bonus/Penalty applied unless a Capacity Market Warning is in effect

    - 4 hours after the issue of warning - full Bonus/Penalties apply
    - Prior to 4 hours - Penalty = Penalty Rate* Max (FPN – Production,0)
    - This is in order to not make the system any worse after CMW
- **Penalty Cap –** 101-150% of Annual Payment
- **Soft Cap -** Reduces the rate at which the hard cap is reached; applied at a portfolio level and calculated as the settlement period penalty divided by the maximum theoretical period penalty, multiplied by the lower of the hard cap or the maximum theoretical penalty.
- **Force Majeure -** Section G, late connection and transmission constrained and any deficiency of the transmission or distribution failures (as not defined as a stress event in the first place)

In the context of “Handle the capacity market payment obligations", the discussion touched on:
- How the settlement body and agent undertakes their role in respect of each delivery year.
- This process encapsulates: the publication of an estimate of market-wide capacity costs for the delivery year ahead; breaking the costs down to a supplier level; estimating the settlement body and agent costs; charging and invoicing; and credit requirements.

In the context of “Handle a credit requirement on a supplier", the discussion centred around:
- How suppliers provide appropriate credit and the timing and size of those payments
- The arrangements upon default of a supplier, the impact of default on both the affected supplier and how the ongoing costs are mutualised for all other suppliers.

In the context of “Handle a billing cycle", the discussion included:
- The process for preparing and sending out invoices, and what happens under circumstances where various charges are unpaid (including: CM supplier charges, settlement body charges, penalty charges, and Over-delivery Funding Supplier Amounts)
- The Settlement Body calculates CP payments and over-delivery payments for each CA held by a CP and issues payments.

Kind Regards
Lesley