Annual Report on the Operation of the Capacity Market in 2020/21 and 2021/22

Publication date: 22nd August 2022

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Overview:

The Electricity Capacity Regulations 2014 (as amended) ("Regulations") require Ofgem to provide the Secretary of State for Business, Energy and Industrial Strategy ("Secretary of State") with an annual report on the operation of the Capacity Market.

As per Regulation 83(5), annual reports must be published within six months following the completion of each T-4 Auction and, if no T-4 Auction is held, by no later than six months after the end of that Capacity Year.

If you are unable to access some of the information in this document and need it in a different format:

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Capitalised terms used in this document shall have the same meanings given in the Capacity Market Rules.

Contents

Executive Summary

The seventh report on the operation of the Capacity Market (CM), covers two Capacity Market Delivery Years ("Delivery Year"): 1 October 2020 to 30 September 2021 and 1 October 2021 to 30 September 2022 (to date). Four CM Auctions were scheduled in this period: 2020/21 T-1 Auction (Delivery Year 2021/22), 2020/21 T-4 Auction (Delivery Year 2024/25), 2021/22 T-1 Auction (Delivery Year 2022/23), and 2021/22 T-4 Auction (Delivery Year 2025/26). The report describes Auction outcomes, including Prequalification processes and observations.

We are also seeking views on how to improve this report for future iterations. We discuss this further and explain how you can get in touch in the 'Next Steps' Section of this report.

Prequalification

2020/21 Prequalification Outcomes

The Electricity Market Reform Delivery Body ("Delivery Body") received a total of 908 Prequalification Applications for the 2020/21 T-4 Auction, totalling 58.8 GW of De-rated Capacity. The final number of prequalified CMUs for the T-4 Auction was 675, totalling 53.3 GW of De-rated Capacity.[1]

The 2020/21 T-1 Auction saw a total of 251 Prequalification Applications submitted by CMUs totalling 4.7 GW of De-rated Capacity. The final number of prequalified CMUs for the T-1 Auction was 213, totalling 4.4 GW of De-rated Capacity.[2]

2021/22 Prequalification Outcomes

The Delivery Body received a total of 923 CMU Applications for the 2021/22 T-4 Auction, totalling 55.3 GW of De-rated Capacity. The final number of prequalified CMUs for the T-4 Auction was 660, totalling 49.1 GW of De-rated Capacity.[3]

The 2021/22 T-1 Auction saw a total of 311 Prequalification Applications submitted by CMUs totalling 5.7 GW of De-rated Capacity. The final number of prequalified CMUs for the T-1 auction was 257, totalling 5.3 GW of De-rated Capacity.[4]

[1] CMR 2020 T-4 Auction (published 23 February 2022)
[2] CMR 2020 T-1 Auction (published 23 February 2022)
[3] CMR 2021 T-4 Auction (published 23 February 2022)
[4] CMR 2021 T-1 Auction (published 25 February 2022)

2020/21 Dispute Outcomes

The Delivery Body received 78 requests for a reconsidered decision ("Tier 1 dispute") for the 2020/21 T-4 Auction and 73 for the 2020/21 T-1 Auction. Tier 1 disputes for the 2020/21 T-4 and T-1 Auctions had a success rate of approximately 58% and 78% respectively. A total of 31 CMUs submitted an Appeal to the Authority ("Tier 2 dispute") for the T-4 Auction, and 13 CMUs entered a Tier 2 dispute for the T-1 Auction. 16 CMUs submitting Tier 2 disputes in the T-4 Auction had their Prequalification decision overturned, whilst 11 CMUs submitting Tier 2 disputes in the T-1 Auction had their Prequalification decision overturned.[5]

2021/22 Dispute Outcomes

The Delivery Body received 159 requests for Tier 1 disputes for the 2021/22 T-4 Auction and 56 for the 2021/22 T-1 Auction. Tier 1 disputes for the 2021/22 T-4 and T-1 Auctions had a success rate of approximately 83% and 88% respectively. A total of 7 CMUs submitted a Tier 2 dispute for the T-4 Auction and 8 CMUs entered a Tier 2 dispute for the T-1 Auction. 2 CMUs submitting Tier 2 disputes in T-4 Auction and 1 CMU submitting Tier 2 dispute in T-1 Auction had their Prequalification decision overturned.[6]

Auction Results

2020/21 Auction Outcomes

The 2020/21 T-4 Auction cleared at a price of £18.00/kW-year and a total of approximately 40.8 GW of De-rated Capacity were awarded Capacity Agreements. Gas CMUs gained the most De-rated Capacity in the auction at approximately 26.4 GW which was over half (65%) of the total De-rated Capacity procured in the auction. This was followed by Interconnector CMUs at 17% totalling approximately 6.9 GW of De-rated Capacity.[7]

The 2020/21 T-1 Auction cleared at a price of £45.00/kW-year and a total of approximately 2.3 GW of De-rated Capacity were awarded Capacity Agreements. The majority of De-rated Capacity awarded agreements was from Gas CMUs totalling approximately 1 GW (44%).[8]

2021/22 Auction Outcomes

The 2021/22 T-4 Auction cleared at a price of £30.59/kW-year and a total of approximately 42.1 GW of De-rated Capacity were awarded Capacity Agreements. More than half (65%) of

[5] Data provided by the Delivery Body and Ofgem
[6] Data provided by the Delivery Body and Ofgem
[7] 2020 Final Auction Results T-4 (DY 2024/25)
[8] 2020 Final Auction Results T-1 (DY 2021/22)

Capacity acquired through the Auction was gained by Gas CMUs totalling approximately 27.6 GW. This was followed by Interconnector CMUs at 16% totalling approximately 7.0 GW of De-rated Capacity.[9]

The 2021/22 T-1 Auction cleared at a price of £75.00/kW-year, the highest Clearing Price in the history of the CM. Target Capacity was 5.361 GW however only 4.996 GW was procured due to the capacity entering the auction being less than the target capacity. The majority of awarded agreements was from Gas CMUs totalling 3.4 GW De-rated Capacity (68%).[10]

Renewable Participation

2020/21 Auctions

This was the second year that renewable technologies were able to participate in the CM Auctions. A total of 66.3 MW of Onshore Wind and Solar De-rated Capacity entered prequalification for the 2020/21 T-4 Auction, of this 45.0 MW (31.5 MW Onshore Wind and 13.5 MW Solar) prequalified.[11] As a result, 40.5 MW (27.9 MW Onshore Wind and 12.5 MW Solar) gained Capacity Agreements.[12]

Onshore Wind and Solar submitted a total of 26.3 MW of De-rated Capacity for prequalification in the 2020/21 T-1 Auction which all prequalified and gained Capacity Agreements (13.6 MW of Onshore Wind and 12.7 MW of Solar).[13] [14]

2021/22 Auctions

These Auctions saw renewable technologies being able to participate for the third time. A total of 41.3 MW of Onshore Wind and Solar De-rated Capacity entered prequalification for the 2021/22 T-4 Auction, of this 18.4 MW (17.9 MW Onshore Wind and 0.5 MW Solar) prequalified[15] and 9.6 MW of Onshore Wind secured a Capacity Agreement.[16]

Onshore Wind and Solar submitted a total of 19.4 MW of De-rated Capacity for prequalification in the 2021/22 T-1 Auction and 16.6 MW prequalified (11.6 MW of Onshore

[9] 2021 Final Auction Results T-4 (DY 2025/26)
[10] 2021 Final Auction Results T-1 (DY 2022/23)
[11] CMR 2020 T-4 Auction (published 23 February 2022)
[12] 2020 Final Auction Results T-4 (DY 2024/25)
[13] CMR 2020 T-1 Auction (published 23 February 2022)
[14] 2020 Final Auction Results T-1 (DY 2021/22)
[15] CMR 2021 T-4 Auction (published 23 February 2022)
[16] 2021 Final Auction Results T-4 (DY 2025/26)

Wind and 5.0 MW of Solar).[17] From this 16.2 MW gained Capacity Agreements (11.6 MW of Onshore Wind and 4.6 MW of Solar).[18]

[17] CMR 2021 T-1 Auction (published 25 February 2022)
[18] 2021 Final Auction Results T-1 (DY 2022/23)

1. Background

Purpose of report

1.1 This report covers the operation of the CM in the Delivery Years 2020/21 and 2021/22 (as of August 2022). This report includes a factual presentation of the Prequalification process and the outcomes of four Auctions: 2020/21 T-4 Auction, 2020/21 T-1 Auction, 2021/22 T-4 Auction and 2021/22 T-1 Auction.

1.2 The report is one of two Ofgem is required to provide to the Secretary of State after each T-4 Auction, under Regulation 83(1)(a) of the Electricity Capacity Regulations 2014 (the "Regulations").[19] The second report is on the performance of the National Grid Electricity System Operator's ("NGESO") functions as the Delivery Body for the Capacity Market. This is now included in the 12-month review of the Electricity System Operator's Performance that was published on 27 July 2022.[20]

Scope of report

1.3 The report outlines the Prequalification process and outcomes, and reports on the outcomes of four Auctions: 2020/21 T-4 Auction, 2020/21 T-1 Auction, 2021/22 T-4 Auction and 2021/22 T-1 Auction.

1.4 It includes:

- analysis of participation outcomes and bidding behaviour;
- an update of delivery against milestones of Capacity Agreements won in earlier Auctions; and
- an overview of Satisfactory Performance Days ("SPDs") data from the 2020/21 and 2021/22 Delivery Years.

[19] The Electricity Capacity Regulations 2014.
[20] Electricity System Operator's Mid-Scheme Review 2021-23

1.5 The Secretary of State may instruct us to report on any particular matter as part of this report. No such instruction was received in relation to this report.

Background to the Capacity Market

Overview of the CM

1.6 The CM was introduced in 2014 to maintain sufficient levels of Capacity to ensure security of electricity supply.

1.7 The CM provides revenue in the form of Capacity Payments to potential Capacity Providers. In return, participants must commit to delivering electricity at times of system stress and face penalties if they fail to do so.

1.8 Capacity Payments are determined via competitive Auctions, held four years (T-4 Auction) and one year (T-1 Auction) before each delivery period. The T-1 Auctions are used to 'top-up' the target Capacity for the Delivery Year and spread the risk. Prospective Capacity Providers must meet certain eligibility requirements and prequalify before they can participate in the CM Auctions.

1.9 CM Auctions are technology neutral. Therefore, generators, Demand Side Response ('DSR') [21], interconnectors, and renewables not receiving subsidies, e.g. Contracts for Difference, may all participate.

Overview of the Prequalification process

A high-level summary of the Prequalification process

1.10 To participate in a CM Auction, a CMU must prequalify by meeting the requirements set out in the CM Rules (the "Rules") and Regulations.[22] The Prequalification process is run by the Delivery Body, who review Applications submitted by CMUs and determine whether they are eligible.

[21] Demand Side Response is provided by customers who lower or shift their electricity use at peak times, which may be done by those customers utilising backup generation.
[22] The Electricity Capacity Regulations 2014 and the Capacity Market Rules.

1.11 Unsuccessful Applicants can ask the Delivery Body to review its initial decision (a 'Tier 1 appeal'). Following an unsuccessful Tier 1 appeal, an Applicant may submit an appeal to the Authority (a 'Tier 2 appeal').

Classification of CMUs

1.12 CMUs are classified as follows: generators and interconnectors that are currently operational ('Existing'), generators investing in an existing asset ('Refurbishing') and new generators and interconnectors ('New Build'). DSR may also participate. They may have completed a DSR Test ('Proven DSR') or not ('Unproven DSR').

1.13 Existing CMUs and all DSR CMUs are eligible for agreements that last for one year. Refurbishing and New Build CMUs are eligible to receive agreements up to 3 and 15 years respectively in the T-4 Auctions.

Overview of the Auction process

Overarching Auction design

1.14 The CM Auctions have a descending clock format, with bidders exiting the Auction when the price drops below the level at which they are willing to take on a Capacity Obligation. There are multiple 'rounds,' starting at a price cap and reducing incrementally.

1.15 Existing CMUs are by default 'Price Takers,' which means they can only place Bids below a certain threshold (£25/kW/year). In order to Bid above this threshold, they must become 'Price Makers' by submitting a Price Maker Memorandum, outlining why they may need to Bid above the threshold. All other CMUs are Price Makers and can Bid up to the Auction Price Cap (£75/kW/year).

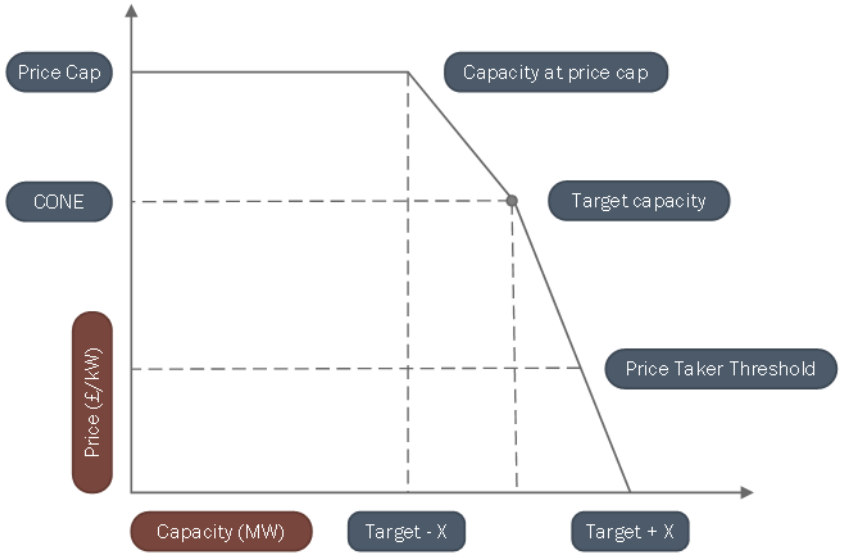
1.16 As well as placing Bids to exit the Auction, Refurbishing and New Build CMUs may place a Bid at the price at which they would like to switch from a 3-year or 15-year agreement to a one-year agreement. Refurbishing CMUs can also specify a price at which they would like to switch to a 'Pre-refurbishing' state, where they would instead receive an Existing CMU contract for one year, with no obligation to invest in the asset.

1.17 The Auction continues until the total Capacity offered by remaining participants falls below the demanded Capacity at that price (the 'Clearing Round'). CMUs still in the Auction will receive a Capacity Agreement at this price.

1.18 The demand curve for the Auction, as shown in Figure 1, is sloped downwards, reflecting the benefit in securing more Capacity when the price is low. A variability from the target ("X") defines the slope of the curve.

1.19 As established by the Demand curve parameters, the Auction price cap is set at £75/kW-year and the price floor is £0/kW-year. In addition to these parameters, net-CONE (net Cost of New Entry) represents gross CONE less expected energy and ancillary services revenues. The Demand curve design mitigates exercises of market power, in addition to the design, price thresholds are established for participants classifying as Existing Generation CMUs.

Figure 1: Capacity market Auction Demand curve



Historical overview: Auction timelines

T-4 Auctions

1.20 Since 2014, there have been seven Capacity Market T-4 Auctions and one T-3 Auction. The T-4 Auction in 2018/19 was suspended and a T-3 Auction was scheduled in its place for delivery of Capacity in 2022/23.

Table 1: Capacity market T-4/T-3 Auctions

Delivery Year	Auction Conclusion / Cleared	Clearing Price
2018/19	02-Jan-15	£19.40/kW-year
2019/20	10-Dec-15	£18.00/kW-year
2020/21	08-Dec-16	£22.50/kW-year

2021/22	08-Feb-18	£8.40/kW-year
2022/23	Suspended[23] (Rescheduled as T-3 Auction Jan 30 & 31, 2020)	N/A
2022/23	T-3 Auction concluded 31-Jan-20	£6.44/kW-year
2023/24	06-Mar-20	£15.97/kW-year
2024/25	10-Mar-21	£18.00/kW-year
2025/26	22-Feb-22	£30.59/kW-year

T-1 Auctions

1.21 There have been five Capacity Market T-1 Auctions. The T-1 Auction in 2018 was postponed and rather than holding the Auction in January 2019 as previously scheduled, it was held June 2019 for delivery of Capacity in 2020/21.

Table 2: T-1 Auctions

Delivery Year	Auction Conclusion / Cleared	Clearing Price
2018/19	01-Feb-18	£6.00/kW-year
2019/20	12-Jun-19	£0.77/kW-year
2020/21	07-Feb-20	£1.00/kW-year
2021/22	02-Mar-21	£45.00/kW-year
2022/23	15-Feb-22	£75.00/kW-year

Transitional Arrangement (TA) Auctions

1.22 The TA Auctions involved two additional Auctions designed to encourage growth in specific categories of Capacity, to enable them to participate in the main CM in future.[24] TA Auctions offered targeted support to Demand Side Response (DSR), to encourage

[23] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/864748/T-3_2020_for_delivery_2021_22_Auction_Monitor_Report_Final_v1.pdf

[24] BEIS, Evaluation of the Transitional Arrangements, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/589494/Evaluation_of_the_Transitional_Arrangements_-_Phase_1__Full_Report.pdf

enterprise, and increase levels of participation in the two years preceding full Capacity Market delivery in 2018 to 2019.[25]

Table 3: Transitional Arrangement (TA) Auctions

Delivery Year	Auction Conclusion / Cleared	Clearing Price
2016/17	27-Jan-16	£27.50/kW-year
2017/18	22-Mar-17	£45.00/kW-year

Early Auction

1.23 An additional one-year ahead CM Auction was introduced by the Department for Business, Energy & Industrial Strategy (BEIS) in 2017 as an Early Auction. This was held in January 2017 to procure Capacity for delivery in 2017/18.[26]

Table 4: Early Auction

Delivery Year	Auction Conclusion / Cleared	Clearing Price
2017/18	03-Feb-17	£6.95/kW-year

[25] Gov.uk, Transitional arrangements Auction, https://www.gov.uk/government/collections/transitional-arrangements-Auction
[26] Gov.uk, Transitional arrangements Auction, https://www.gov.uk/government/collections/transitional-arrangements-Auction

2. Renewable Participation

2.1 Following the 2019 CM Rule amendment consultation,[27] BEIS allowed additional renewable Capacity to participate in CM Auctions. The decision maintained the exclusion from the CM of those receiving support under a Contract for Difference, Renewables Obligation, or Feed-in-Tariff. However, it stated that new build renewable technologies not in receipt of such subsidies could now participate. Given that such technologies could benefit from other low-carbon support which constitute state subsidies, formerly State aid, changes were made to the Rules to take account of this.

2.2 Rules 6.6 & 8.3.8 & Regulation 49A were amended to account for low-carbon support, creating a channel to take account of existing subsidies in payments made to renewable CMUs. The rules require non-dispatchable generating technology to declare support received under relevant subsidy schemes.

2.3 Appropriate De-rating Factors are applied as contribution to meet the reliability standard is limited by intermittency and non-dispatchability. The values for the four auctions that occurred during Delivery Years 2020/21 and 2021/22 can be found in Table 5.

Table 5: De-rating Factors for 2020/21 T-1, 2020/21 T-4, 2021/22 T-1 and 2021/22 T-4 Auctions

Generation Type	2020/21 T-1 Auction [28]	2020/21 T-4 Auction [29]	2021/22 T-1 Auction [30]	2021/22 T-4 Auction [31]
Onshore Wind	8.01%	7.81%	7.81%	6.25%
Offshore Wind	12.11%	11.13%	11.33%	8.59%
Solar	2.54%	2.34%	2.15%	3.32%

[27] Section 1-3 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/805554/Capacity-market-further-amends-consultation-response-2019.pdf
[28] 2020 T-1 and T-4 Capacity Market Auction Guidelines
[29] 2020 T-1 and T-4 Capacity Market Auction Guidelines
[30] 2021 T-1 Capacity Market Auction Guidelines
[31] 2021 T-4 Capacity Market Auction Guidelines

2.4 Table 6 shows the Capacity that applied for prequalification for these four auctions before de-rating was applied. All data in Table 6 and 7 is taken from the Capacity Market Register ("CMR") that were published on 23 February 2022 for 2020/21 T-4, 2020/21 T-1 and 2021/22 T-4 Auctions and 25 February 2022 for 2021/22 T-1 Auction.

Table 6: Intermittent generation Capacity for 2020/21 T-1, 2020/21 T-4, 2021/22 T-1 and 2021/22 T-4 Auctions

Generation Type	2020/21 T-1 Auction	2020/21 T-4 Auction	2021/22 T-1 Auction	2021/22 T-4 Auction
Onshore Wind	170 MW	564 MW	149 MW	399 MW
Solar	75 MW	491 MW	64 MW	493 MW

2.5 Table 7 shows the De-rated Capacity that prequalified for these four auctions.

Table 7: Intermittent generation De-rated Capacity that prequalified for 2020/21 T-1, 2020/21 T-4, 2021/22 T-1 and 2021/22 T-4 Auctions

Generation Type	2020/21 T-1 Auction	2020/21 T-4 Auction	2021/22 T-1 Auction	2021/22 T-4 Auction
Onshore Wind	13.6 MW	31.5 MW	11.6 MW	17.9 MW
Solar	12.7 MW	13.5 MW	5.0 MW	0.5 MW

2.6 Table 8 shows the De-rated Capacity that was awarded Capacity Agreement for these four auctions. All data are from the Auction Results data published on the Deliver Body's EMR Portal

Table 8: Intermittent generation De-rated Capacity that gained Capacity Agreements for 2020/21 T-1, 2020/21 T-4, 2021/22 T-1 and 2021/22 T-4 Auctions

Generation Type	2020/21 T-1 Auction	2020/21 T-4 Auction	2021/22 T-1 Auction	2021/22 T-4 Auction
Onshore Wind	13.6 MW	27.9 MW	11.6 MW	9.6 MW
Solar	12.7 MW	12.5 MW	4.6 MW	0.0 MW

3. Prequalification and appeals process

3.1 This section covers Prequalification results for the 2020/21 T-4, 2020/21 T-1, 2021/22 T-4 and 2021/22 T-1 Auctions. This section provides an overview of the Prequalification results, as well as a summary of the appeals processes.

3.2 All data unless stated is taken from the Capacity Market Registers ("CMR") that were published on 23 February 2022 for 2020/21 T-4, 2020/21 T-1 and 2021/22 T-4 Auctions and 25 February 2022 for 2021/22 T-1 Auction.

Prequalification outcomes for the 2020/21 T-4 Auction (Delivery Year 2024/25)

Applications

3.3 The 2020/21 T-4 Auction Prequalification commenced 20 July 2020 and ended 11 September 2020.[32] A total of 908 CMU Applications were made during the Prequalification Window, totalling 58.8 GW of De-rated Capacity.[33]

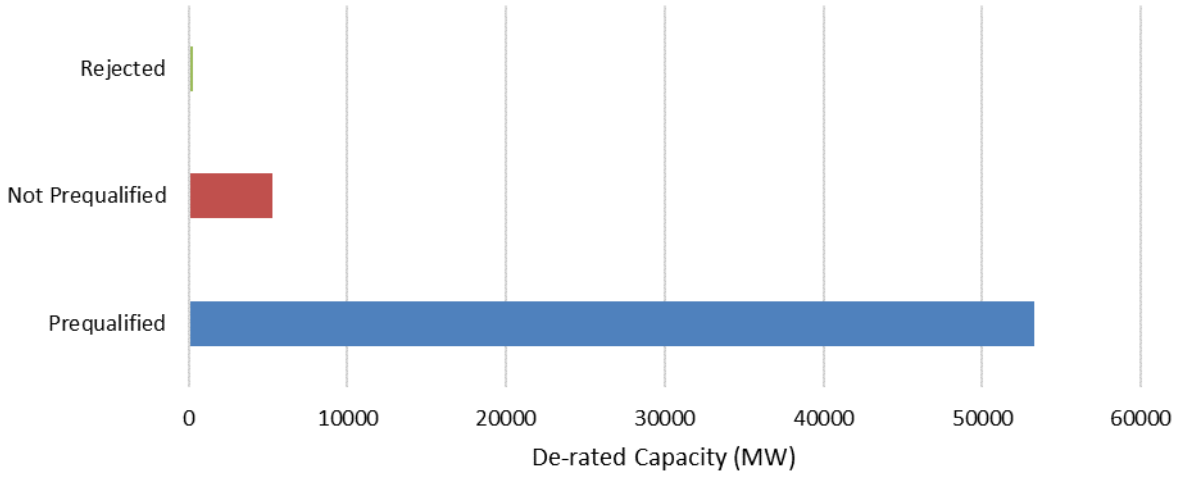
3.4 A total of 34 CMUs with 15 GW of Anticipated De-rated Capacity opted out of Prequalification. 26 CMUs stated that they would be closed down, decommissioned or otherwise non-operational by the start of the Delivery Year. 4 CMUs opted-out despite their intention to remain operational throughout the Delivery Year. The remaining 4 CMUs stated that they would be temporarily non-operational for the winter of the relevant Delivery Year but operational thereafter.

3.5 Figure 2 below illustrates in further detail the Prequalification outcomes for the 2020/21 T-4 Auction.[34] Of the 58.8 GW of De-rated Capacity entering Prequalification, the share of Capacity receiving a prequalified status totalled 91% (53.3 GW), 9% received a not

[32] 2020 T-1 and T-4 Capacity Market Auction Guidelines
[33] Volume includes total De-rated and post-refurbishing De-rated Capacity amounts for all Prequalification decisions (rejected, conditionally prequalified, prequalified, not prequalified). These are illustrated in Figure 2.
[34] At Prequalification, three decisions are made at the outset: 'Prequalified,' 'Rejected,' or 'Conditionally Prequalified.' If a unit has conditional Prequalification status, it must meet the conditions of its status to become 'Prequalified.'

prequalified status (5.3 GW) and 1% of De-rated Capacity was rejected at Prequalification (0.3 GW).

Figure 2: 2020/21 T-4 Auction Prequalification decisions



Prequalified CMUs

3.6 675 CMUs were successful in prequalifying, totalling 53.3 GW of De-rated Capacity. This was 13.2 GW more than the target level of Capacity (40.1 GW)[35] meaning there was competition going into the auction.

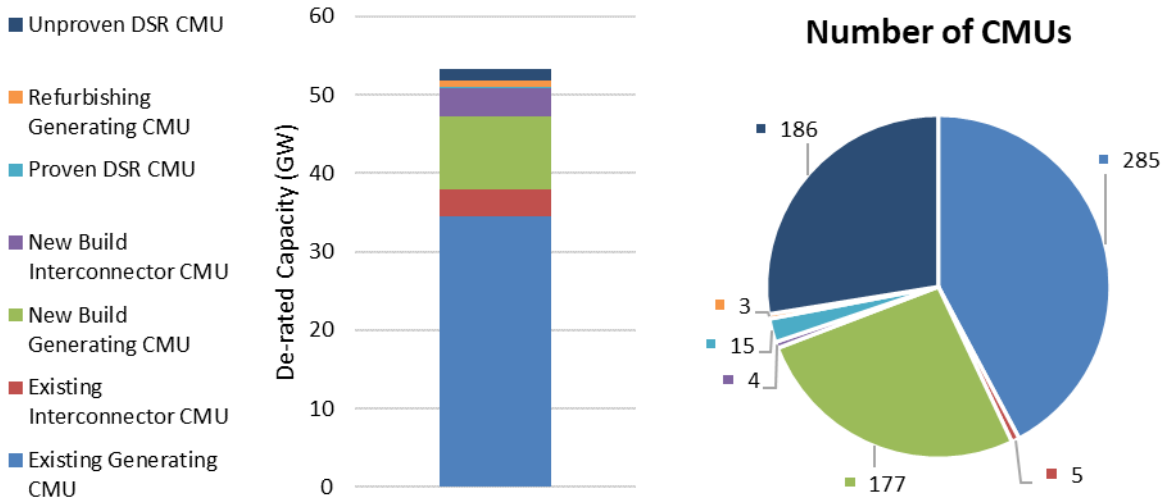
3.7 Figure 3 demonstrates that Existing Generating CMUs accounted for the largest share of De-rated Capacity that prequalified representing 65% (34.5 GW) of total De-rated Capacity that prequalified. New Build Generating CMUs accounted for 18% (9.4 GW) of total De-rated Capacity that prequalified, whilst the remaining CMU categories accounted for 7% or less.

3.8 Figure 3 also shows that New Build Generating CMUs (26%) and Unproven DSR (28%) CMUs make up a greater proportion of the total number of CMUs compared to De-rated Capacity. This demonstrates their smaller average size compared to Existing Generating

[35] Letter from Secretary of State on 29 January 2021 outlining Capacity Target

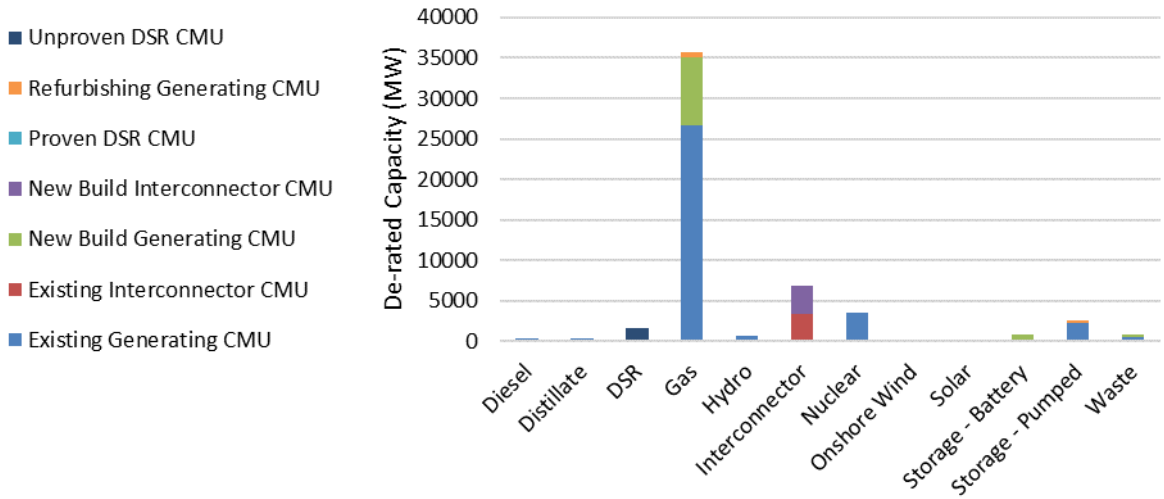
CMUs (121 MW). As New Build Generating and Unproven DSR CMUs that prequalified had an average size of 53 MW and 8 MW, respectively.

Figure 3: 2020/21 T-4 Auction Prequalified by CMU Category



3.9 Figure 4 shows that Gas CMUs accounted for a significant share of De-rated Capacity that prequalified for the auction totalling 67% (35.7 GW). From this 75% was Existing Gas CMUs (26.7 GW), 24% was from New Build Gas CMUs (8.4 GW) and the remaining 1% was from Refurbished Gas CMUs (675 MW). Gas CMUs were followed by Interconnector CMUs as they shared 13% (6.8 GW) of the total De-rated Capacity that prequalified for the Auction.

Figure 4: 2020/21 T-4 Auction Prequalified by Primary Fuel Type and CMU Category



3.10 Table 9 shows the breakdown of the top ten parent companies which make up approximately 70% of the total prequalified Capacity. However these top ten companies

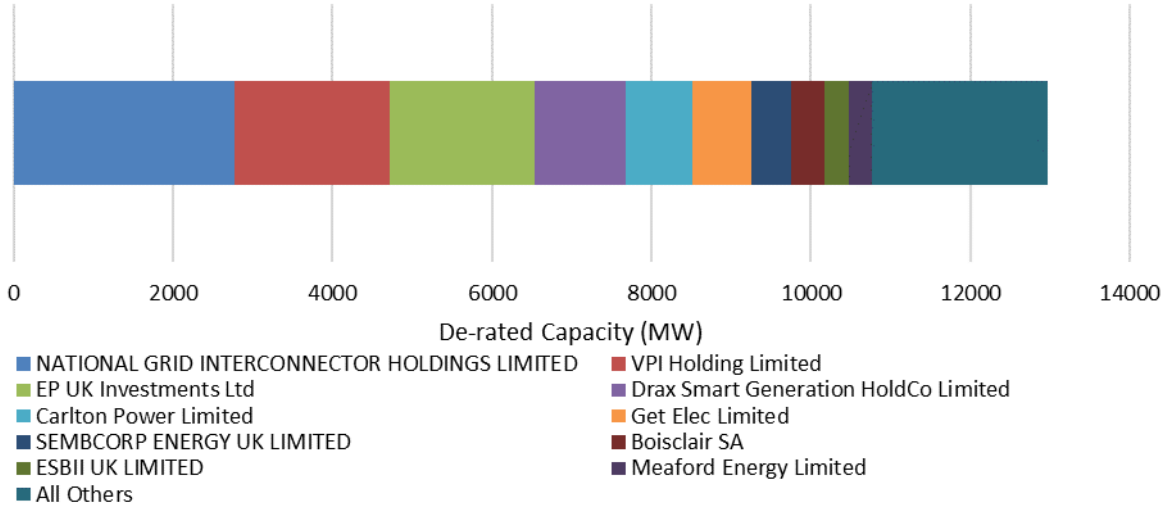
only make up 18% of the number of CMUs that prequalified for the Auction. Enel X International S.R.L had the most CMUs prequalify for the 2020/21 T-4 Auction with 70 CMUs, although these CMUs had an average size of 7.9 MW and therefore, they only made up 1% of the total prequalified De-rated Capacity.

Table 9: Top 10 Parent Companies by Total De-rated Capacity that Prequalified for the 2020/21 T-4 Auction

Parent Company	De-rated Capacity (MW)	Share of submitted De-rated Capacity at Prequalification T-4 Auction (%)
RWE Generation UK Holdings Limited	6,624	12%
VPI Holding Limited	4,900	9%
SSE Plc	4,358	8%
NATIONAL GRID INTERCONNECTOR HOLDINGS LIMITED	4,254	8%
Uniper Holding GmbH	4,241	8%
EP UK Investments Ltd	3,889	7%
EDF Energy Holdings Limited	3,516	7%
INTERGEN PROJECTS (UK) LIMITED	2,478	5%
First Hydro Holdings Company	1,814	3%
National Grid Holdings One plc	1,380	3%

3.11 Figure 5 illustrates the top 10 parent companies entering a New Build Generating CMU or New Build Interconnector CMU, receiving a prequalified status. Only National Grid Interconnector Holdings Ltd, VPI Holding Limited and EP UK Investment remained in the top 10 for both total prequalified De-rated Capacity and New Build prequalified De-rated Capacity. National Grid Interconnector Holdings Ltd had the most new prequalified De-rated Capacity with 2.8 GW, followed by VPI Holding Limited with 2.0 GW, EP UK Investment Ltd with 1.8 GW and Drax Smart Generation HoldCo Limited with 1.1 GW the remaining parent companies all prequalified less than 1 GW of De-rated Capacity.

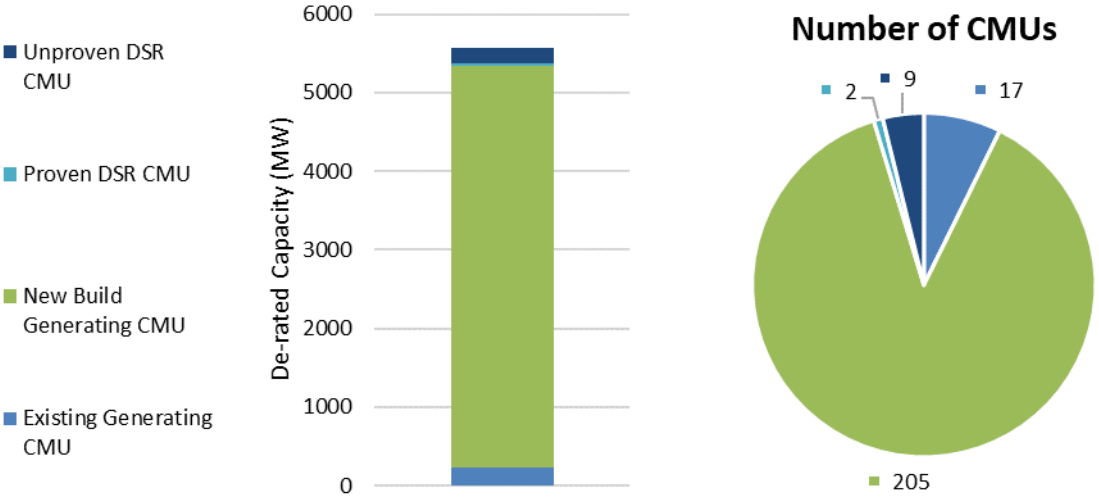
Figure 5: 2020/21 T-4 Auction New Build Generating and New Build Interconnector Prequalified by Parent Company



Unsuccessful CMUs

3.12 A total of 233 CMUs, amounting to 5.6 GW of De-rated Capacity, failed to prequalify. Figure 6 shows that the majority of these (205 CMUs) were New Build Generating CMUs which totalled 5.1 GW. This was followed by 17 Existing Generating CMUs totalling 231 MW, 9 Unproven DSR CMUs totalling 206 MW and 2 Proven DSR Units totalling 34 MW.

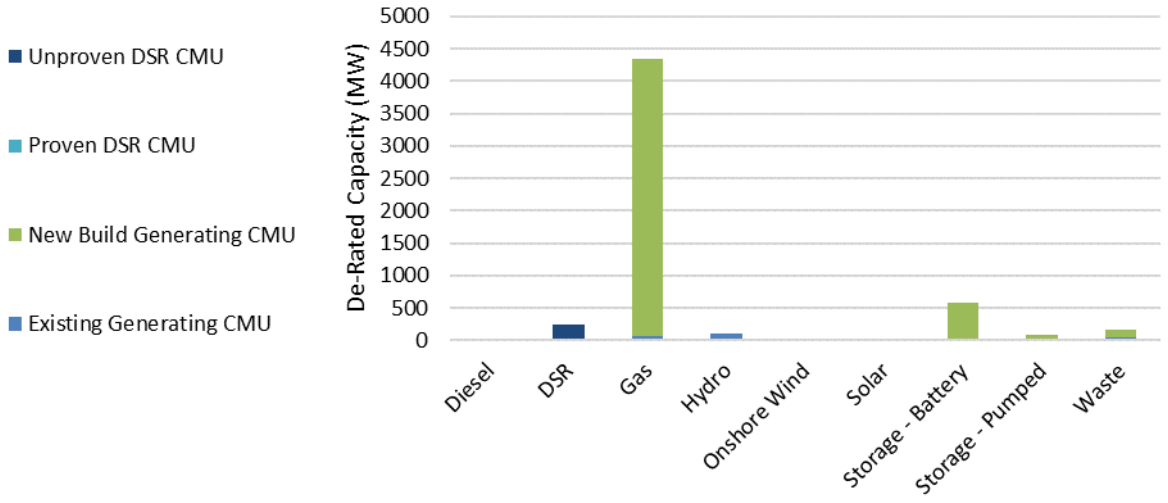
Figure 6: 2020/21 T-4 Auction Unsuccessful in Prequalification by CMU Category



3.13 Figure 7 shows that Gas CMUs accounted for a significant share of De-rated Capacity that was unsuccessful in prequalification totalling 78% (4.3 GW). From this 99% was from New Build Gas CMUs (4.28 GW) and 1% was from Existing Gas CMUs (61 MW).

Gas CMUs were followed by Battery Storage CMUs as they shared 10% (584 MW) of the total De-rated Capacity that were unsuccessful in Prequalification.

Figure 7: 2020/21 T-4 Auction Unsuccessful in Prequalification by Primary Fuel Type and CMU Category



Prequalification outcomes for the 2020/21 T-1 Auction (Delivery Year 2021/22)

Applications

3.14 The 2020/21 T-1 Auction Prequalification commenced 20 July 2020 and ended 11 September 2020.[36] A total of 251 CMU Applications were made during the Prequalification Window, totalling 4.7 GW of De-rated Capacity.

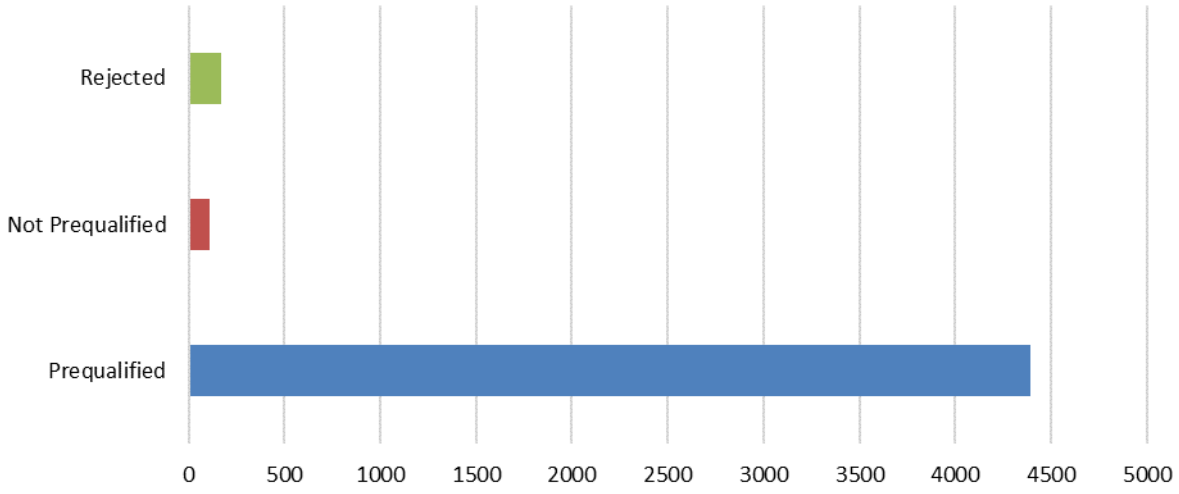
3.15 A total of 10 CMUs with 4.7 GW of Anticipated De-rated Capacity opted out. 9 CMUs stated that they would be closed down, decommissioned or otherwise non-operational by the start of the Delivery Year and 1 CMU opted-out despite their intention to remain operational throughout the Delivery Year.

3.16 Figure 8 below illustrates in further detail the Prequalification outcomes for the 2020/21 T-1 Auction. Of the 4.7 GW of De-rated Capacity entering Prequalification, the share of

[36] 2020 T-1 and T-4 Capacity Market Auction Guidelines

Capacity receiving a prequalified status totalled 94% (4.4 GW), 4% was rejected (170 MW) and 2% received a not prequalified status (108 MW).

Figure 8: 2020/21 T-1 Auction Prequalification Decisions



Prequalified CMUs

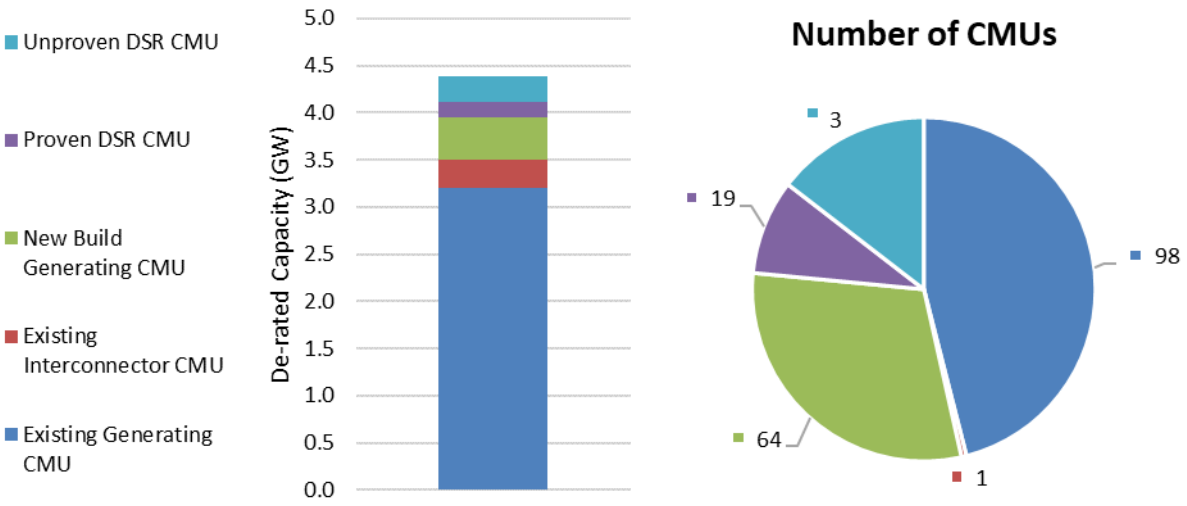
3.17 213 CMUs were successful in prequalifying, totalling 4.4 GW of De-rated Capacity. This was 2.0 GW more than the target level of Capacity (2.4 GW)[37] meaning there was competition going into the auction.

3.18 Figure 9 shows that Existing Generating CMUs accounted for the largest share of De-rated Capacity that prequalified representing 73% (3.2 GW) of total De-rated Capacity that prequalified. New Build Generating CMUs accounted for 10% (444 MW) of total De-rated Capacity that prequalified, whilst the remaining CMU categories accounted for 7% or less.

3.19 Figure 9 also shows that New Build Generating CMUs (30%) make up a greater proportion of the total number of CMUs compared to De-rated Capacity. This demonstrates their smaller average size (7 MW) compared to Existing Generating CMUs (28 MW).

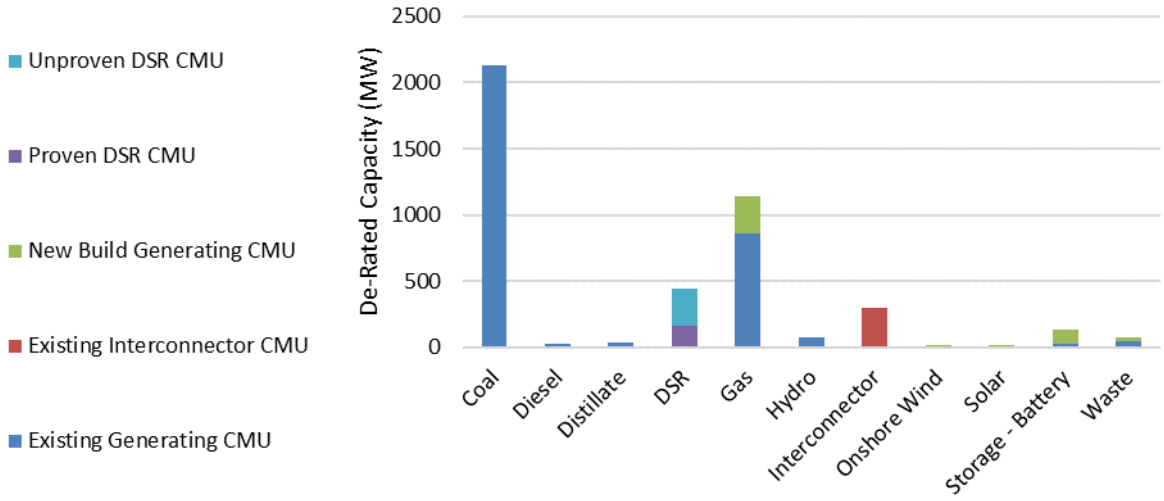
[37] Letter from Secretary of State on 29 January 2021 outlining Capacity Target

Figure 9: 2020/21 T-1 Auction Prequalified by CMU Category



3.20 Figure 10 shows that Coal CMUs accounted for a significant share of De-rated Capacity that prequalified for the auction totalling 48% (2.1 GW). Coal CMUs were followed by Gas CMUs as they shared 26% (1.1 GW) of the total De-rated Capacity that prequalified for the Auction. This was made up from 855 MW of Existing Gas CMUs and 290 MW of New Build Gas CMUs.

Figure 10: 2020/21 T-1 Auction Prequalified by Primary Fuel Type and CMU Category



3.21 Table 10 shows the breakdown of the top ten parent companies which make up approximately 61% of the total prequalified Capacity. However these top ten companies make up 57% of the number of CMUs that prequalified for the Auction. Aggregated Micro Power Infrastructure 2 plc had the most CMUs prequalify for the 2020/21 T-1

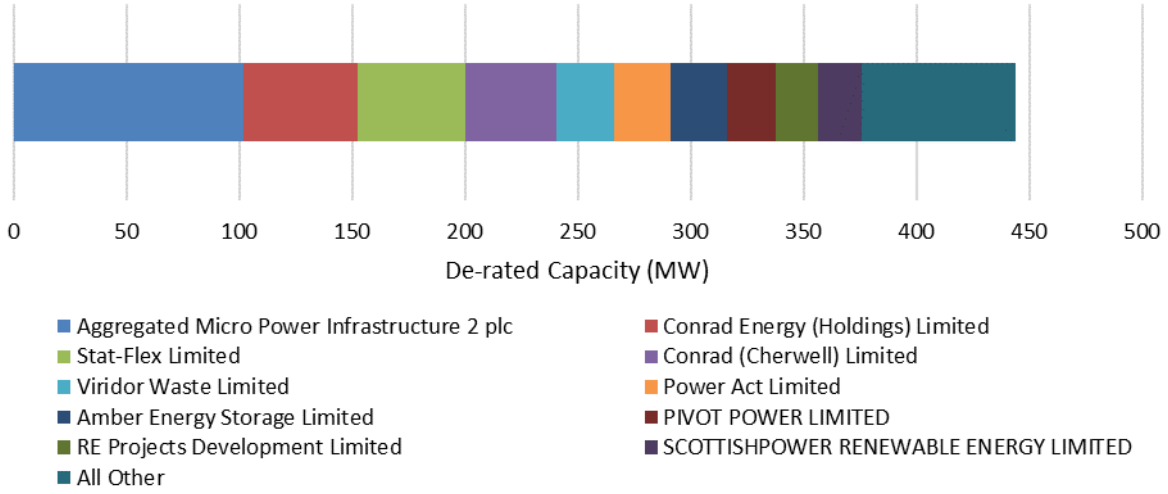
Auction with 28 CMUs, although these CMUs had an average size of 4 MW and therefore, they only made up 1% of the total prequalified De-rated Capacity.

Table 10: Top 10 Parent Companies by total De-rated Capacity that Prequalified for the 2020/21 T-1 Auction

Parent Company	De-rated Capacity (MW)	Share of submitted De-rated Capacity at Prequalification T-1 Auction (%)
EDF Energy Holdings Limited	1,732	39%
Uniper Holding GmbH	435	5%
ESBII UK LIMITED	366	4%
EirGrid plc	295	3%
ENEL X INTERNATIONAL S.R.L.	229	3%
General Electricity Holdings Ltd	158	2%
GridBeyond Limited	120	1%
Aggregated Micro Power Infrastructure 2 plc	107	1%
E.ON UK Plc	103	1%
Centrica Plc	85	1%

3.22 Figure 11 below illustrates top 10 parent companies entering a New Build Generating CMU, receiving a prequalified status. Only Aggregated Micro Power Infrastructure 2 plc remained in the top 10 for both total prequalified De-rated Capacity and New Build prequalified De-rated Capacity. Aggregated Micro Power Infrastructure 2 plc also had the most new prequalified De-rated Capacity with 102 MW and was followed by Conrad Energy (Holdings) Limited with 88 MW. The remaining parent companies all prequalified less than 50 MW of De-rated Capacity.

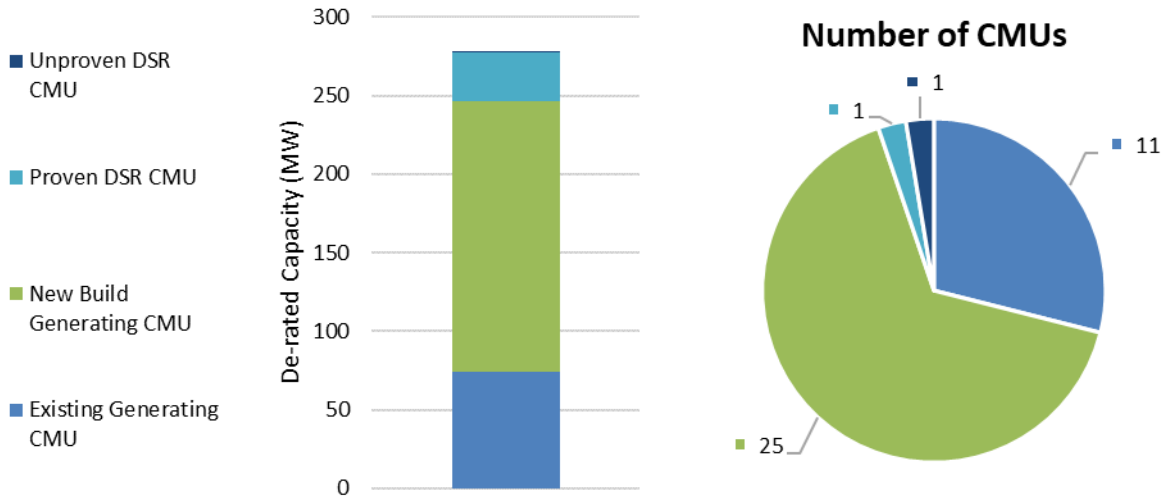
Figure 11: 2020/21 T-1 Auction New Build Generating Prequalified by Parent Company



Unsuccessful CMUs

3.23 A total of 38 CMUs, amounting to 278 MW of De-rated Capacity, failed to qualify. Figure 12 shows that the majority of these (25 CMUs) were New Build Generating CMUs which totalled 172 MW. This was followed by 11 Existing Generating CMUs totalling 75 MW, 1 Proven DSR CMUs totalling 31 MW and 1 Unproven DSR Units totalling 1 MW.

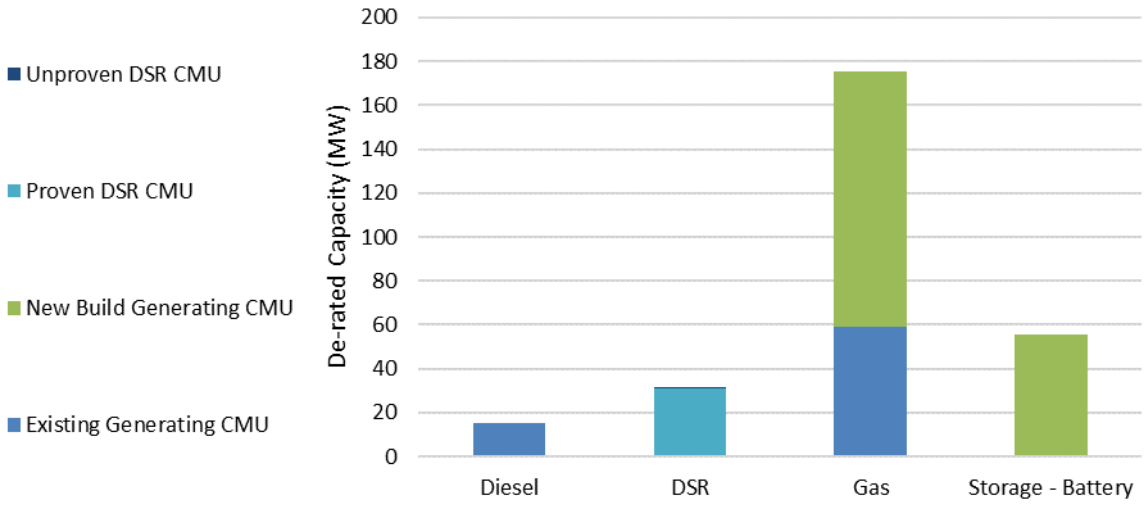
Figure 12: 2020/21 T-1 Auction Unsuccessful in Prequalification by CMU Category



3.24 Figure 13 shows that Gas CMUs accounted for a significant share of De-rated Capacity that was unsuccessful in prequalification totalling 63% (176 MW). From this 66% was from New Build Gas CMUs (116 MW) and 34% was from Existing Gas CMUs (59 MW).

Gas CMUs were followed by Battery Storage CMUs as they shared 20% (56 MW) of the total De-rated Capacity that were unsuccessful in Prequalification.

Figure 13: 2020/21 T-1 Auction Unsuccessful in Prequalification by Primary Fuel Type and CMU Category



Prequalification outcomes for the 2021/22 T-4 Auction (Delivery Year 2025/26)

Applications

3.25 The 2021/22 T-4 Auction Prequalification commenced 21 July 2021 and ended 14 September 2021.[38] A total of 923 CMU Applications were made during the Prequalification Window, totalling 55.3 GW of De-rated Capacity.

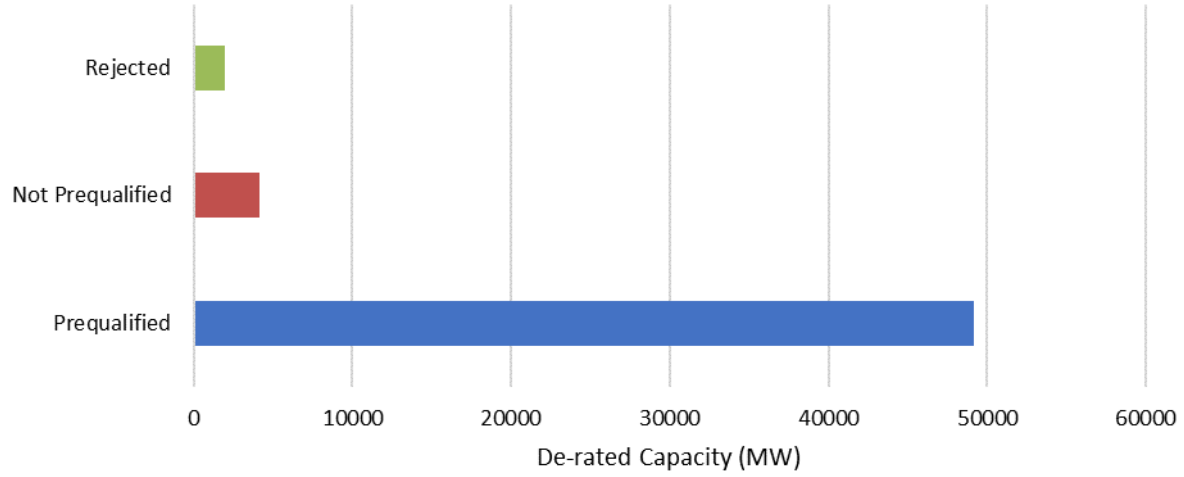
3.26 A total of 28 CMUs with 13 GW of Anticipated De-rated Capacity opted out. 22 CMUs stated that they would be closed down, decommissioned or otherwise non-operational by the start of the Delivery Year. The remaining 6 CMUs opted-out despite their intention to remain operational throughout the Delivery Year.

3.27 Figure 14 below illustrates in further detail the Prequalification outcomes for the 2021/22 T-4 Auction. Of the 55.3 GW of De-rated Capacity entering Prequalification,

[38] 2021 T-4 Capacity Market Guidelines

the share of Capacity receiving a prequalified status totalled 88% (49.1 GW), 7% received a not prequalified status (4.1 GW) and 4% of De-rated Capacity was rejected at Prequalification (2.0 GW).

Figure 14: 2021/22 T-4 Auction Prequalification Decisions



Prequalified CMUs

3.28 660 CMUs were successful in prequalifying, totalling 49.1 GW of De-rated Capacity. This was 7 GW more than the target level of Capacity (42.1 GW)[39] meaning there was competition going into the auction.

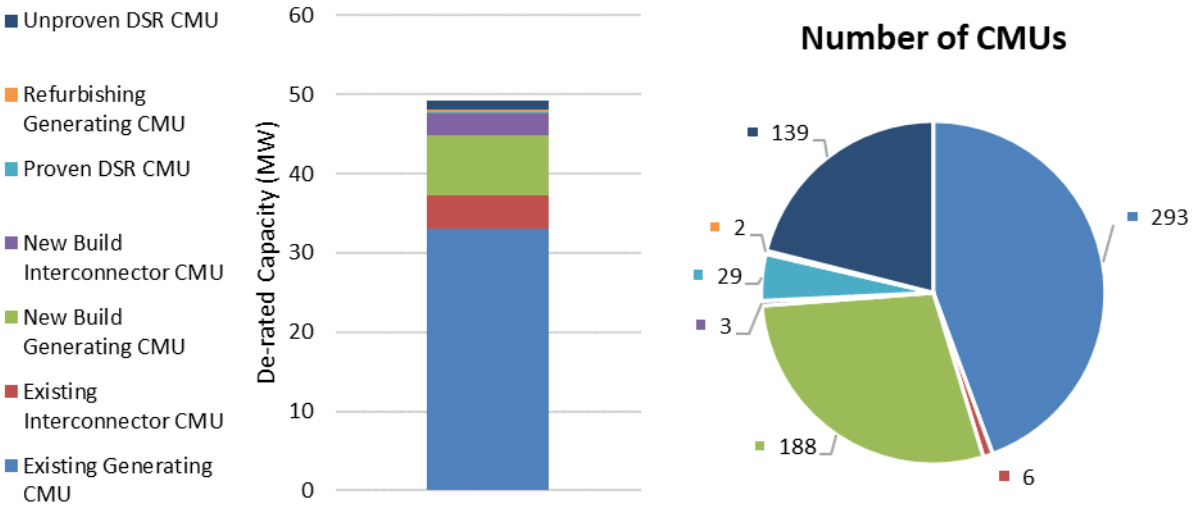
3.29 Figure 15 illustrates that Existing Generating CMUs accounted for the largest share of De-rated Capacity that prequalified representing 67% (33.1 GW) of total De-rated Capacity that prequalified. New Build Generating CMUs accounted for 15% (7.6 GW) of total De-rated Capacity that prequalified, the remaining CMU categories accounted for 8% or less.

3.30 Figure 15 also shows that New Build Generating CMUs (28%) and Unproven DSR (21%) CMUs make up a greater proportion of the total number of CMUs compared to De-rated Capacity. This demonstrates their smaller average size compared to Existing CMUs (111

[39] Letter from Secretary of State on 21 January 2022 outlining Capacity Target

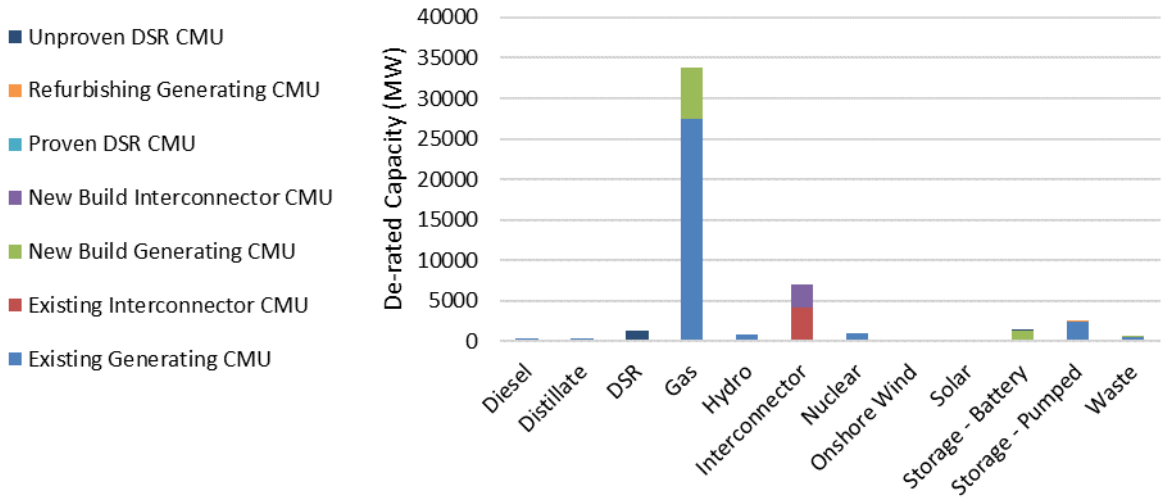
MW). As New Build Generating and Unproven DSR CMUs that prequalified had an average size of 40 MW and 8 MW, respectively.

Figure 15: 2021/22 T-4 Auction Prequalified by CMU Category



3.31 Figure 16 shows that Gas CMUs accounted for a significant share of De-rated Capacity that prequalified for the auction totalling 69% (33.7 GW). From this 82% was Existing Gas CMUs (27.5 GW) and 18% was from New Build Gas CMU (6.2 GW). Gas CMUs were followed by Interconnector CMUs as they shared 14% (7.0 GW) of the total De-rated Capacity that prequalified for the Auction.

Figure 16: 2021/22 T-4 Auction Prequalified by Primary Fuel Type and CMU Category



3.32 Table 11 shows the breakdown of the top ten parent companies which make up approximately 72% of the total prequalified Capacity. However these top ten companies

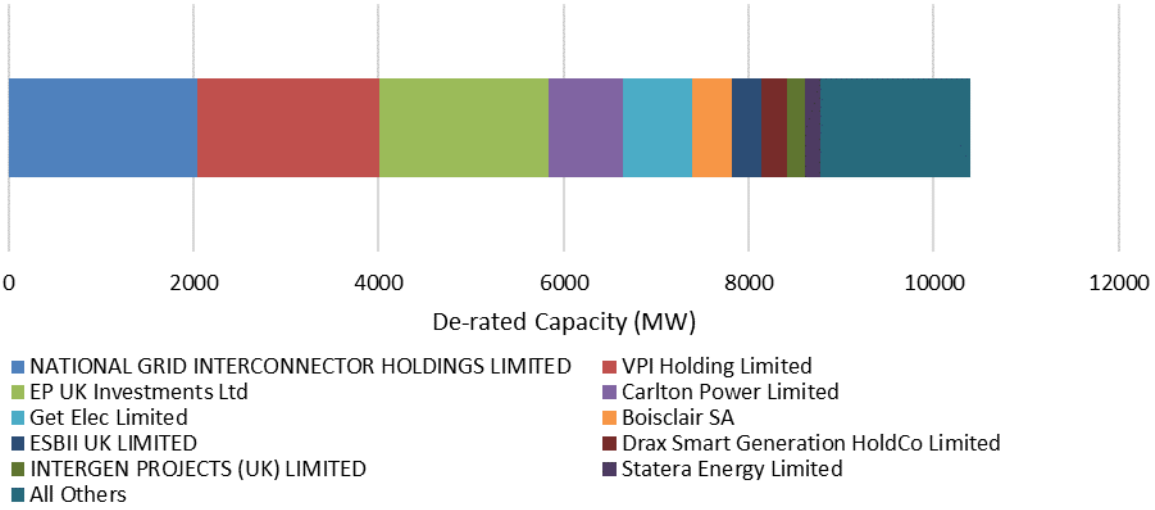
only make up 17% of the number of CMUs that prequalified for the Auction. Enel X International S.R.L had the most CMUs prequalify for the 2021/22 T-4 Auction with 62 CMUs, although these CMUs had an average size of 7.9 MW and therefore, they only made up 1% of the total prequalified Capacity.

Table 11: Top 10 Parent Companies by Total De-rated Capacity that Prequalified for the 2021/22 T-4 Auction

Parent Company	De-rated Capacity (MW)	Share of submitted De-rated Capacity at Prequalification T-4 Auction (%)
RWE Generation UK Holdings Limited	6,647	14%
VPI Holding Limited	4,949	10%
SSE Plc	4,372	9%
NATIONAL GRID INTERCONNECTOR HOLDINGS LIMITED	4,346	9%
Uniper Holding GmbH	4,259	9%
EP UK Investments Ltd	3,927	8%
INTERGEN PROJECTS (UK) LIMITED	2,542	5%
First Hydro Holdings Company	1,814	4%
National Grid Holdings One plc	1,380	3%
UK Transition Power Limited	1,259	3%

3.33 Figure 17 below illustrates top 10 parent companies entering De-rated Capacity of a New Build Generating CMU or New Build Interconnector CMU, receiving a prequalified status. National Grid Interconnector Holdings Ltd, VPI Holding Limited, EP UK Investment and Intergen Projects (UK) Limited are in both the total prequalified De-rated Capacity and New Build De-rated Capacity top 10. National Grid Interconnector Holdings Ltd had the highest New Build De-rated Capacity with 2.04 GW, followed by VPI Holding Limited with 1.97 GW and EP UK Investment Ltd with 1.83 GW. The remaining parent companies all prequalified less than 1 GW of New Build De-rated Capacity.

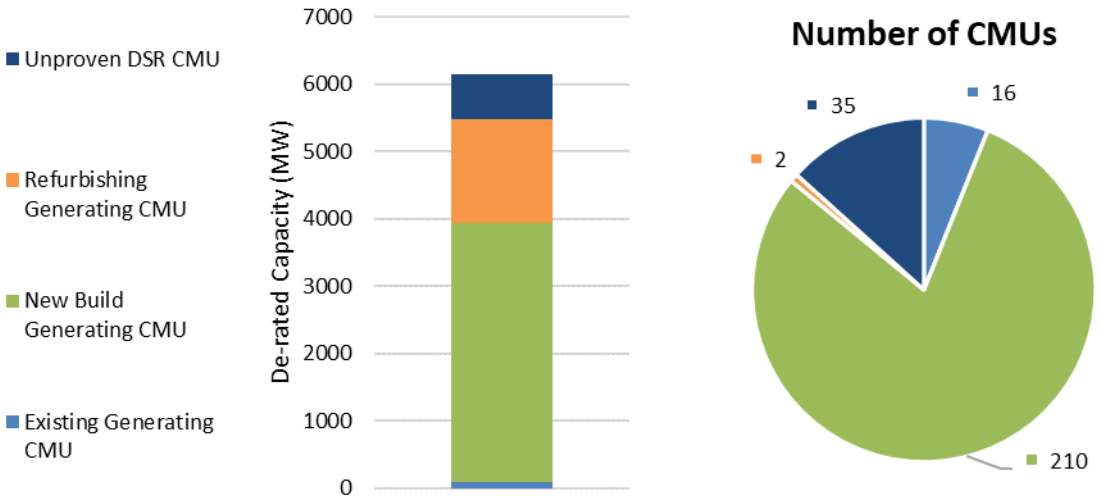
Figure 17: 2021/22 T-4 Auction New Build Generating and New Build Interconnector Prequalified by Parent Company



Unsuccessful CMUs

3.34 A total of 263 CMUs, amounting to 6.1 GW of De-rated Capacity, failed to qualify. Figure 18 shows that the majority of these (210 CMUs) were New Build Generating CMUs which totalled 3.9 GW. This was followed by 2 Refurbishing Generating CMUs totalling 1.5 GW, 35 Unproven DSR CMUs totalling 657 MW and 16 Existing Generating CMUs totalling 84 MW.

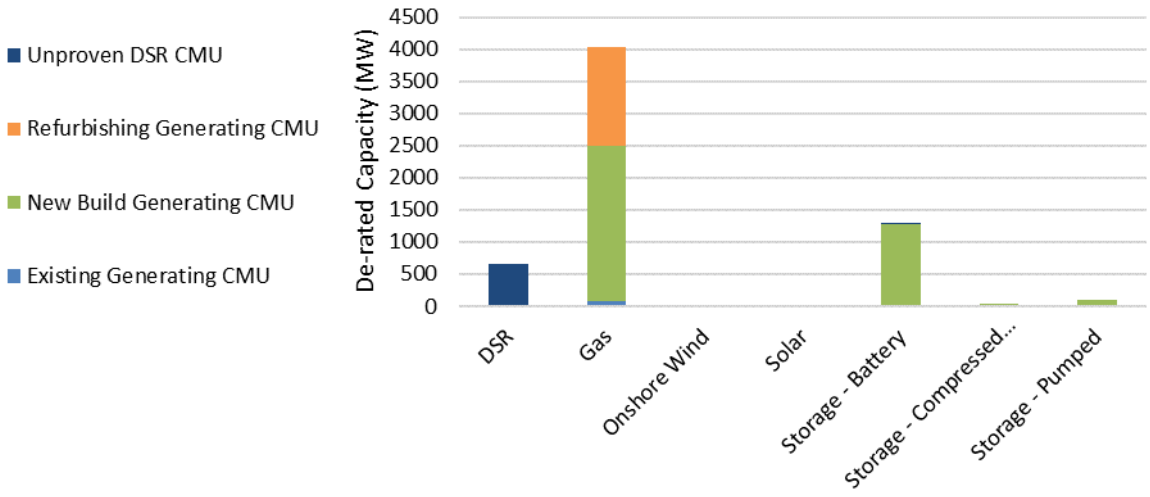
Figure 18: 2021/22 T-4 Auction Unsuccessful in Prequalification by CMU Category



3.35 Figure 19 shows that Gas CMUs accounted for a significant share of De-rated Capacity that was unsuccessful in prequalification totalling 66% (4.0 GW). From this 60% was from New Build Gas CMUs (2.4 GW), 38% was from Refurbishing Generating Gas CMUs

(1.5 GW) and the remaining 2% was from Existing Gas CMUs (84 MW). Gas CMUs were followed by Battery Storage CMUs as they shared 21% (1.3 GW) of the total De-rated Capacity that were unsuccessful in Prequalification.

Figure 19: 2021/22 T-4 Auction Unsuccessful in Prequalification by Primary Fuel Type and CMU Category



Prequalification outcomes for the 2021/22 T-1 Auction (Delivery Year 2022/23)

Applications

3.36 The 2021/22 T-1 Auction Prequalification commenced 21 July 2021 and ended 14 September 2021.[40] A total of 311 CMU Applications were made during the Prequalification Window, totalling 5.7 GW of De-rated Capacity.

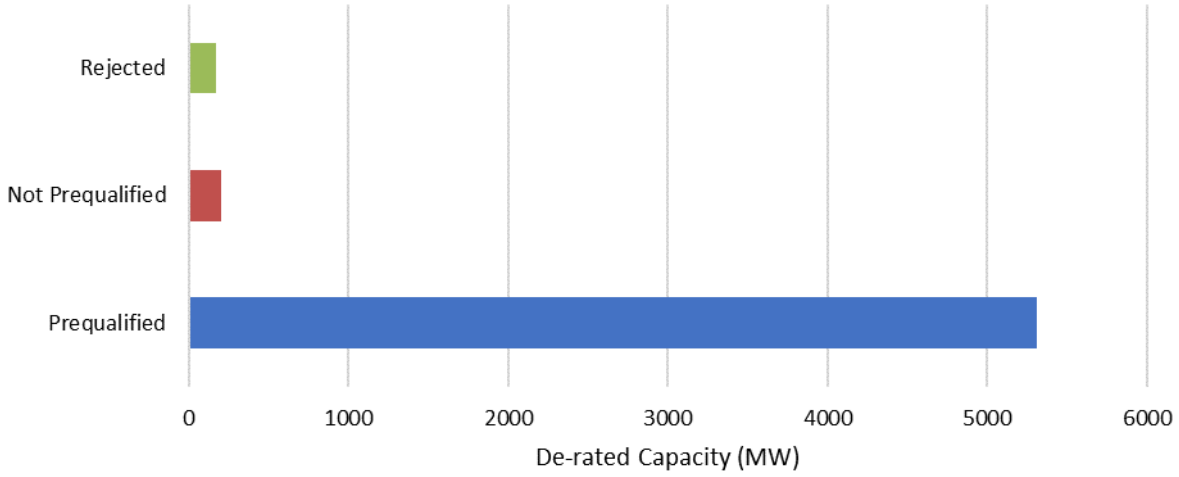
3.37 A total of 14 CMUs with 7.9 GW of Anticipated De-rated Capacity opted out. All 14 CMUs stated that they would be closed down, decommissioned or otherwise non-operational by the start of the Delivery Year.

3.38 Figure 20 below illustrates in further detail the Prequalification outcomes for the 2021/22 T-1 Auction (Delivery Year 2022/23). Of the 5.7 GW of De-rated Capacity

[40] 2021 T-1 Capacity Market Auction Guidelines

entering Prequalification, the share of Capacity receiving a prequalified status totalled 93% (5.3 GW), 4% received a non-prequalified status (202 MW) and 3% were rejected (176 MW).

Figure 20: 2021/22 T-1 Auction Prequalification Decisions



Prequalified CMUs

3.39 257 CMUs were successful in prequalifying, totalling 5.311 GW of De-rated Capacity. This was 50 MW less than the target level of Capacity (5.361 GW)[41] meaning there was not enough competition going into the auction.

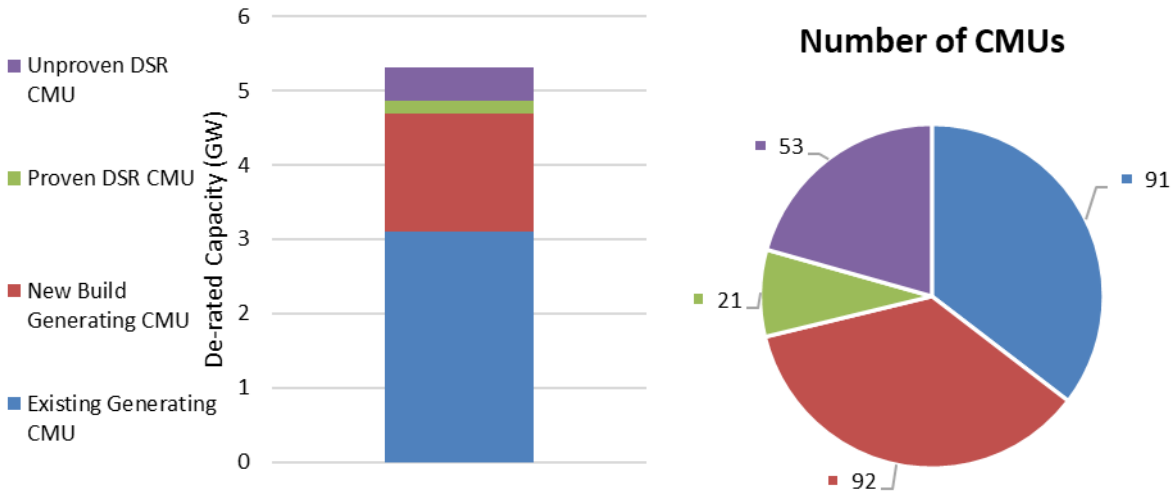
3.40 Figure 21 illustrates that Existing Generating CMUs accounted for the largest share of De-rated Capacity that Prequalified representing 58% (3.1 GW) of total De-rated Capacity that Prequalified. New Build Generating CMUs accounted for 30% (1.6 GW) of total De-rated Capacity that Prequalified, the remaining CMU categories accounted for 9% or less.

3.41 Figure 21 also shows that New Build Generating CMUs (36%) make up a greater proportion of the total number of CMUs compared to De-rated Capacity. This

[41] Letter from Secretary of State on 21 January 2022 outlining Capacity Target

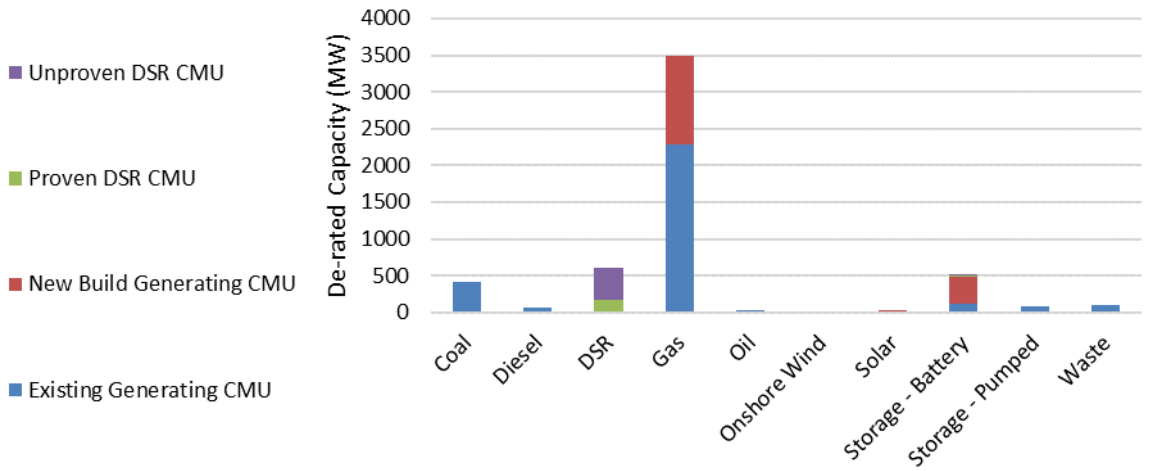
demonstrates their smaller average size (17 MW) compared to Existing Generating CMUs (34 MW).

Figure 21: 2021/22 T-1 Auction CMUs that Prequalified by CMU Category



3.42 Figure 22 shows that Gas CMUs accounted for a significant share of De-rated Capacity that prequalified for the auction totalling 66% (3.5 GW) of which 66% (2.3 GW) was Existing Gas CMUs, whilst the remaining 34% (1.2 GW) was New Build Gas CMUs.

Figure 22: 2021/22 T-1 Auction Prequalified by Primary Fuel Type and CMU Category



3.43 Table 12 shows the breakdown of the top ten parent companies which make up approximately 74% of the total prequalified Capacity. However these top ten companies only make up 40% of the number of CMUs that prequalified for the Auction. ENEL X INTERNATIONAL S.R.L. had the most CMUs prequalify for the 2021/22 T-1 Auction with

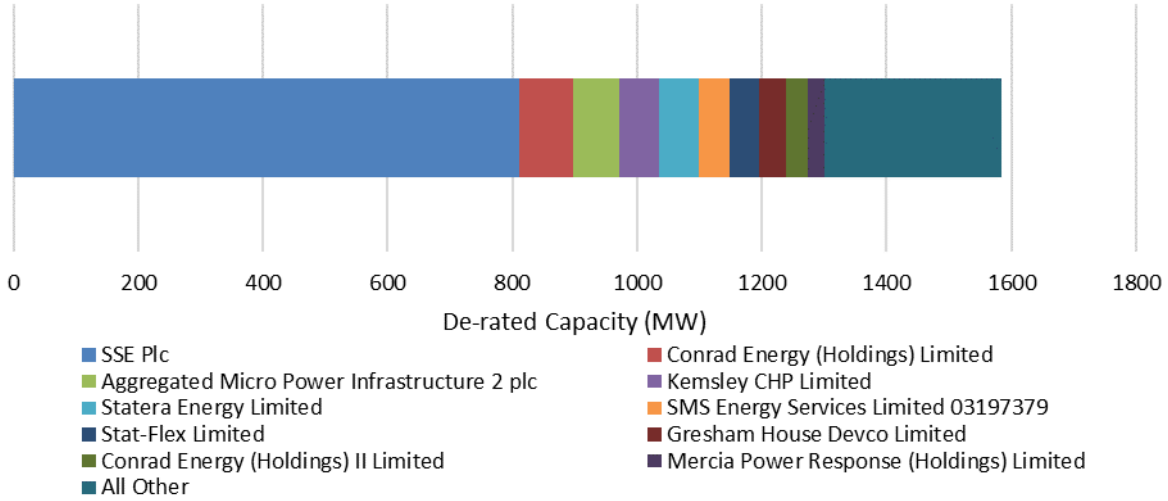
37 CMUs, although these CMUs had an average size of 8.6 MW and therefore, they only made up 6% of the total prequalified Capacity.

Table 12: Top 10 Parent Companies by Total De-rated Capacity that Prequalified for the 2021/22 T-1 Auction

Parent Company	De-rated Capacity (MW)	Share of submitted De-rated Capacity at Prequalification T-4 Auction (%)
SSE Plc	2,293	43%
Uniper Holding GmbH	444	8%
ESBII UK LIMITED	370	7%
ENEL X INTERNATIONAL S.R.L.	319	6%
Conrad Energy (Holdings) Limited	98	2%
First Hydro Holdings Company	85	2%
GridBeyond Limited	82	2%
Whitetower Holdings UK Limited	81	2%
Aggregated Micro Power Infrastructure 2 plc	76	1%
Conrad (Cherwell) Limited	70	1%

3.44 Figure 23 below illustrates top 10 parent companies entering a New Build Generating CMU, receiving a prequalified status. Only SSE plc, Conrad Energy (Holdings) and Aggregated Micro Power Infrastructure 2 plc were in the top 10 for both total prequalified De-rated Capacity and New Build prequalified De-rated Capacity. SSE plc had the highest New Build De-rated Capacity with 811 MW. The remaining parent companies all prequalified less than 100 MW of De-rated Capacity.

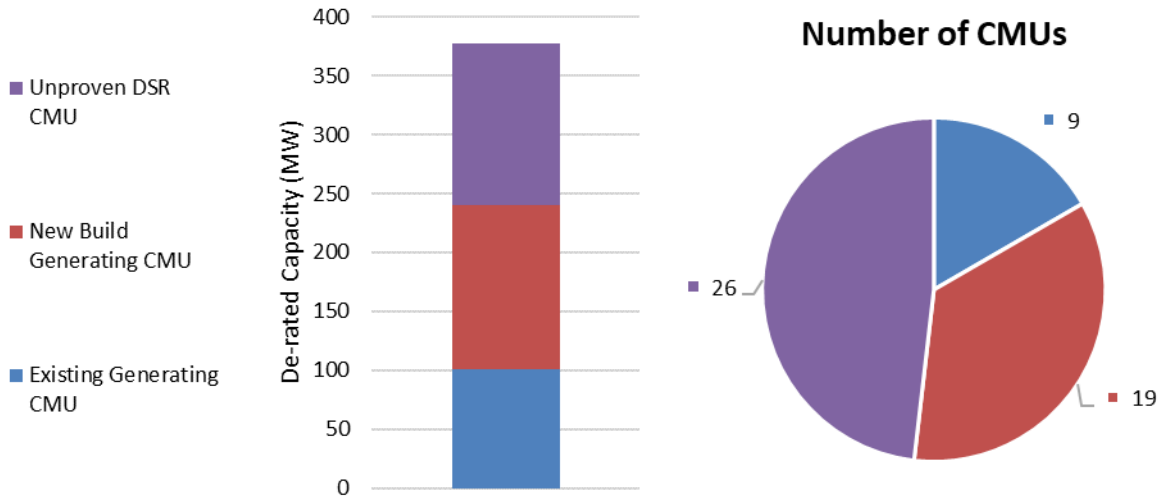
Figure 23: 2021/22 T-1 Auction New Build Generating Prequalified by Parent Company



Unsuccessful CMUs

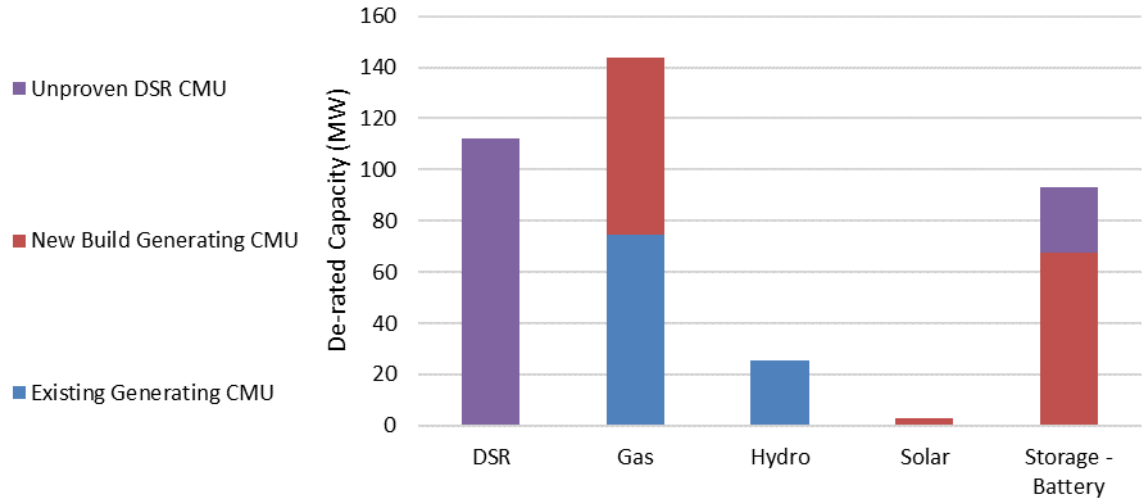
3.45 A total of 54 CMUs, amounting to 378 MW of De-rated Capacity, failed to qualify. Figure 24 shows that the 19 New Build Generating CMUs which totalled 139 MW failed to qualify. This was followed by 26 Unproven DSR CMUs totalling 138 MW and 9 Existing Generating CMUs totalling 100 MW.

Figure 24: 2021/22 T-1 Auction Unsuccessful in Prequalification by CMU Category



3.46 Figure 25 shows that Gas CMUs accounted for a significant share of De-rated Capacity that was unsuccessful in prequalification totalling 38% (144 MW). From this 52% was from Existing Gas CMUs (75 MW) and 48% was from New Build Gas CMUs (69 MW). Gas CMUs were followed by DSR CMUs as they shared 30% (112 MW) of the total De-rated Capacity that were unsuccessful in Prequalification.

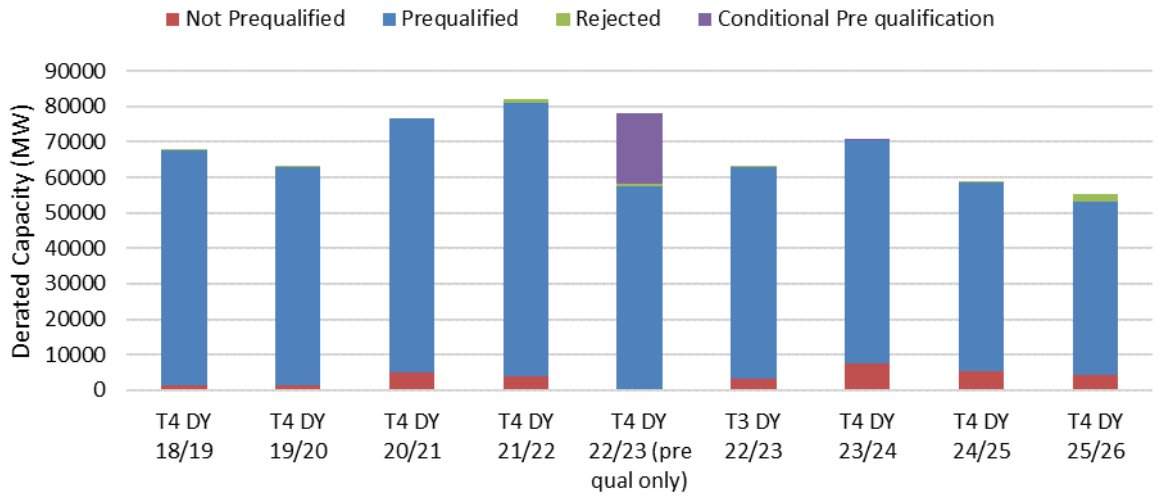
Figure 25: 2021/22 T-1 Auction Unsuccessful in Prequalification by Primary Fuel Type and CMU category



Overview of previous Prequalification results for T-4 Auctions & T-3 Auctions, and T-1 Auctions

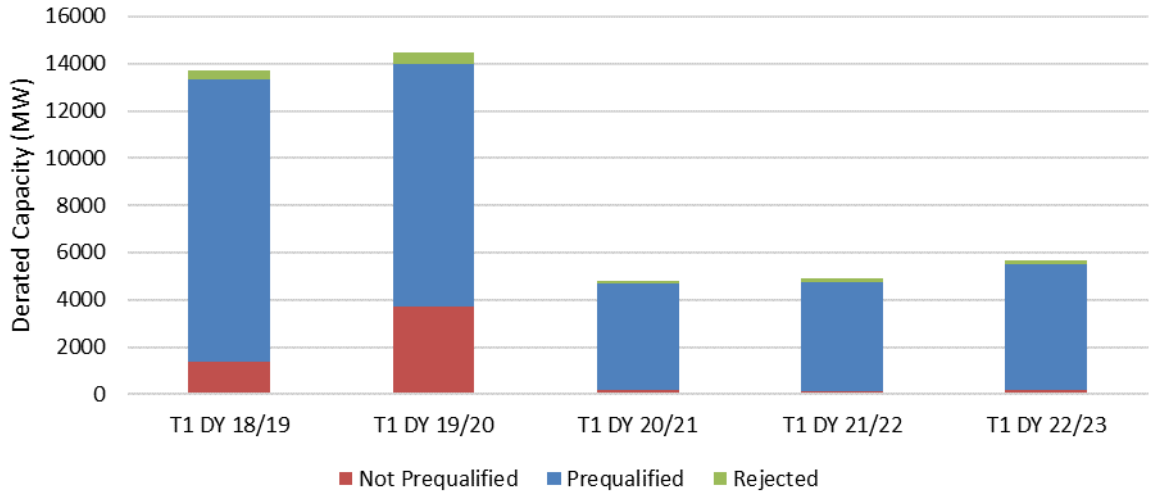
3.47 Figure 26 illustrates T-4 and T-3 Auctions over an eight-year period. The 2017/18 T-4 Auction (Delivery Year 2021/22) had the most De-rated Capacity apply for Prequalification. However there has been a big decrease as the 2021/22 T-4 Auction (Delivery Year 2025/26) had approximately 33% less De-rated Capacity apply than in the 2017/18 T-4 Auction.

Figure 26: Historical Overview of T-4 and T-3 Prequalification Decisions



3.48 Figure 27 shows the T-1 Auctions prequalification results since the first auction in 2017/18 (Delivery Year 2018/19). The 2018/19 T-1 Auction (Delivery Year 2019/20) had the highest amount of De-rated Capacity (14,494 MW). Participation dropped in the 2019/20 (Delivery Year 2020/21) T-1 Auction as only 4,826 MW of De-rated Capacity (67% decrease) participated. This has remained consistent in the 2020/21 (Delivery Year 2021/22) and 2021/22 (Delivery Year 2022/23) T-1 Auctions.

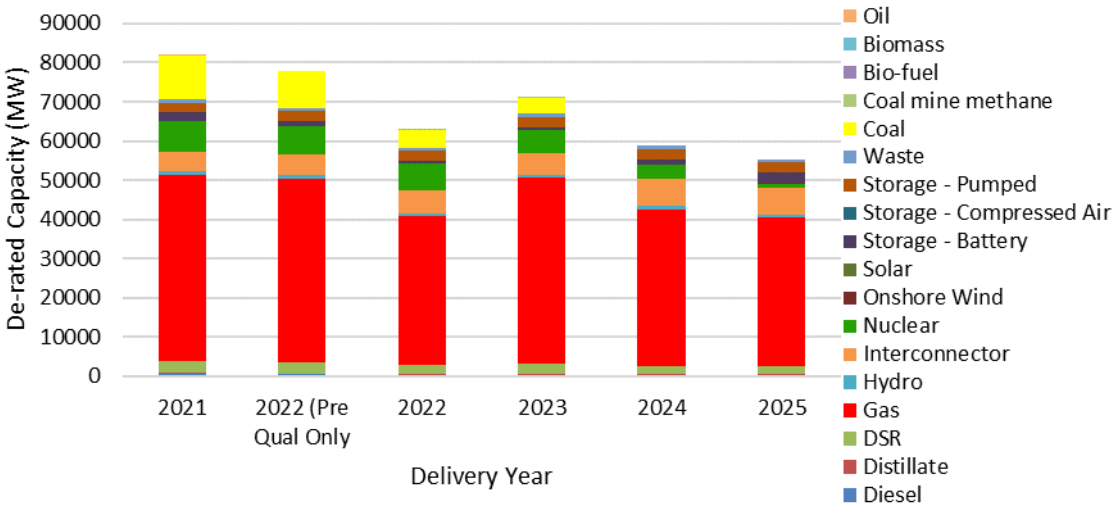
Figure 27: Historical Overview of T-1 Prequalification Decisions



3.49 Figure 28 shows the Primary Fuel Types entering Prequalification for the T-4 auctions over the previous 5 years. This shows a large decrease in Nuclear (green), Gas (red) and Coal (yellow) CMUs taking part in the auctions. Gas and Nuclear Capacity have decreased by 21% (48 GW to 38 GW) and 88% (8 GW to 1 GW) since the 2017/18 T-4 Auction (Delivery year 2021/22) respectively. Coal cannot take part in the T-4 auctions anymore due to CM emissions limits which apply from 1st October 2024 for Capacity in operation before July 2019.[42] Therefore the 11 GW of Coal that previously took part in the T-4 auctions from 2017/18 are no longer able to gain CM agreements. These three types of plant have caused a significant decrease in volume entering the T-4 Auction and have not been replaced. New categories such as Onshore Wind and Solar only enter small capacities, whilst Hydro and Storage CMUs have remained at the levels, they were at 5 years ago.

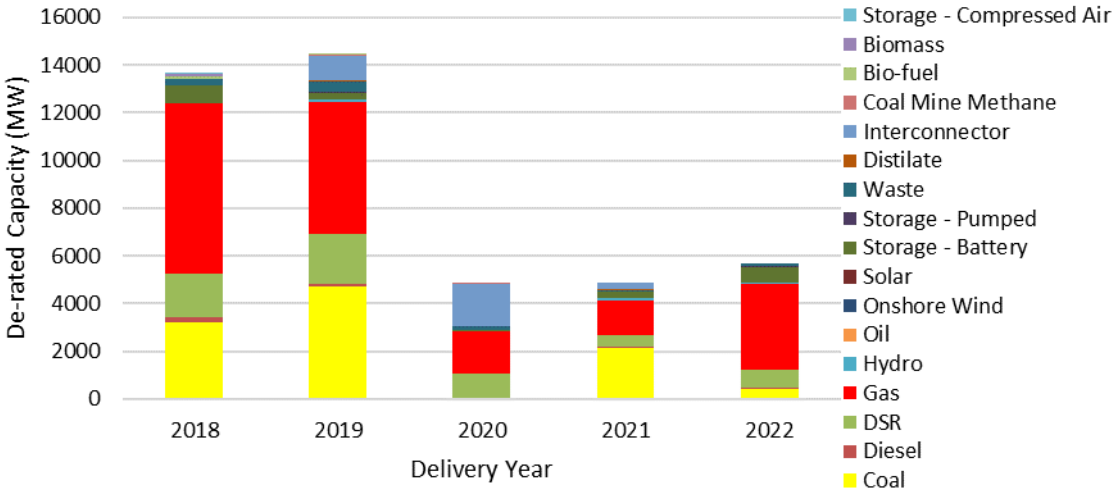
[42] CM Rules – Rule 3.4.11(b)

Figure 28: Primary Fuel Types entering Prequalification for T-4 Auctions over the last 5 years



3.50 Figure 29 shows the Primary Fuel Types entering the T-1 auctions over the previous 5 years. There is a large decrease in Gas (red) and Coal (yellow) CMUs that are taking part in the auction. Coal has decreased by 87% and Gas has decreased by 49%. These volumes have not been replaced by any category as Hydro, Onshore Wind, Solar and Storage still enter relatively small capacities.

Figure 29: Primary Fuel Types entering Prequalification for T-1 Auctions over the last 5 years



Appeals process review

2020/21 Auctions

3.51 The Delivery Body received 78 appeals for reconsideration for the 2020/21 T-4 Auction and 73 for the 2020/21 T-1 Auction.

3.52 Appeals submitted to the Delivery Body for reconsideration for the 2020/21 T-4 Auction had a success rate of 58%. Whilst the 2020/21 T-1 Auction had a 78% success rate.[43]

Figure 30: Outcome of Appeals to Reconsider a Prequalification Decision Submitted to the Delivery Body for the 2020/21 CM Auctions

3.53 The five most common reasons for Applicants failing Prequalification for the 2020/21 T-4 Auction were:[44]

- Failure to select Low Carbon Exclusion options within the Application as required by CM Rule 3.4.7
- Prequalification Certificate missing Registration number as per CM Rule 3.12.3

[43] Data provided by the Delivery Body to Ofgem on 01 April 2022
[44] Data provided by the Delivery Body to Ofgem on 01 April 2022

- Not providing Declaration relating to Emissions Related Material changes as per CM Rule 3.6.6
- Certificate of conduct missing Registration number as per CM Rule 3.12.4
- Missing Fossil Fuel Emissions Commitment (Exhibits ZB) as per CM Rule 4.4.2 (i)

3.54 The five most common reasons for Applicants failing Prequalification for the 2020/21 T-1 Auction were:[45]

- Missing Fossil Fuel Emissions Declaration (Exhibit ZA) – as per CM Rule 4.4.2 (j)
- Not providing Declaration relating to Emissions Related Material changes as per CM Rule 3.6.6
- Prequalification Certificate missing Registration number as per CM Rule 3.12.3
- Certificate of conduct missing Registration number as per CM Rule 3.12.4
- Missing Fossil Fuel Emissions Commitment (Exhibits ZB) as per CM Rule 4.4.2 (i)

3.55 A total of 31 CMUs submitted appeals to the Authority for the T-4 Auction and 13 CMUs entered an appeal to the Authority for T-1 Auction. 16 CMUs that submitted appeals for the T-4 Auction had their decision overturned, whilst 11 CMUs that submitted appeals for the T-1 Auction also had their decision overturned.

3.56 The breakdown of the reasons and numbers for both Auctions are in Table 13 below.

Table 13: Number of Appeals to the Authority, and the Reasons for Appeals in 2020/21

Subject of dispute	2020/21 T-4 Auction	2020/21 T-1 Auction
Missing documents	2	1

[45] Data provided by the Delivery Body to Ofgem on 01 April 2022

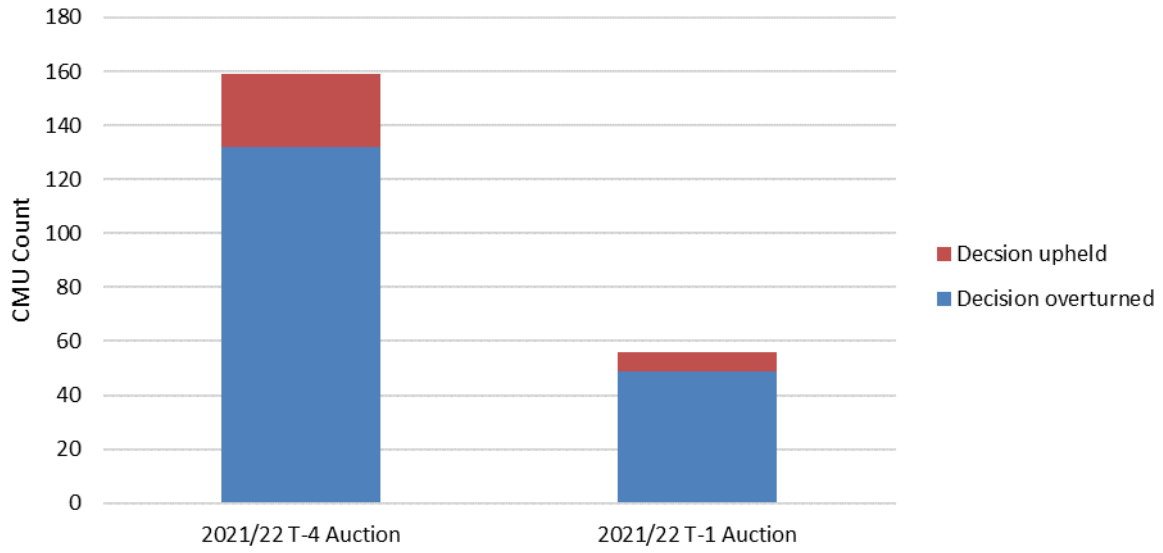
Missing information on documents	8	2
Failed criteria	2	-
Exhibit errors	19	10
Total	**31**	**13**

2021/22 Auctions

3.57 The Delivery Body received 159 appeals for reconsideration for the 2021/22 T-4 Auction and 56 for the 2021/22 T-1 Auction.

3.58 Appeals submitted to the Delivery Body for reconsideration for the 2021/22 T-4 Auction had a success rate of 83%. Whilst the 2021/22 T-1 Auction had an 88% success rate.[46]

Figure 31: Outcome of Appeals to Reconsider a Prequalification Decision Submitted to the Delivery Body for the 2021/22 CM Auctions



3.59 The five most common reasons for Applicants failing Prequalification for the 2020/21 T-4 Auction were:[47]

[46] Data provided by the Delivery Body to Ofgem on 01 April 2022
[47] Data provided by the Delivery Body to Ofgem on 01 April 2022

- Prequalification Certificate only has one Director's signature though two active Directors on Companies House as per CM Rule 3.12.3

- Certificate of Conduct only has one Director's signature though two active Directors on Companies House as per CM Rule 3.12.4

- Fossil Fuel Emissions Commitments (Exhibit ZB) missing second Director's signature as per CM Rule 4.4.2(i)

- Agent Nomination Form is missing Agent/Applicant details as per CM Rule 3.4.1

- Component classification – CMU stated as DSR, the associated components cannot be given a Generating Technology Class other than DSR as per CM Rules – Schedule 3

3.60 The five most common reasons for Applicants failing Prequalification for the 2020/21 T-1 Auction were:[48]

- Component classification – CMU stated as DSR, the associated components cannot be given a Generating Technology Class other than DSR as per CM Rules – Schedule 3

- Connection Agreement cannot be deferred for T-1 Application as per CM Rule 3.7.3

- Fossil Fuel Emissions Declaration (Exhibit ZB) – incorrect/missing Part 2: Declarations in respect of the Relevant CMU as per Rule 4.4.2 (i)

- Invalid Applicant Status – Legal Owner selected instead of DSR Provider for Proven or Unproven DSR in their Applicant status as per Rule 3.2.2

- Fossil Fuel Emissions Declaration (Exhibit ZB) – missing Part 3 Relevant CMU Emission Related Material Change as per Rule 4.4.2 (i)

[48] Data provided by the Delivery Body to Ofgem on 01 April 2022

3.61 A total of 8 CMUs submitted appeals to the Authority for the T-1 Auction and 7 CMUs entered an appeal to the Authority for T-4 Auction. 1 CMU that submitted an appeal for the T-1 Auction had their decision overturned, whilst 2 CMUs that submitted appeals for the T-4 Auction also had their decision overturned.

3.62 The breakdown of the reasons and numbers for both Auctions are in Table 14 below.

Table 14: Number of Appeals to the Authority, and the Reasons for Appeals in 2021/22

Subject of dispute	2021/22 T-4 Auction	2021/22 T-1 Auction
Missing documents	6	8
Missing information on documents	1	-
Total	**7**	**8**

4. 2020/21 T-4, 2020/21 T-1, 2021/22 T-4 and T-1 Auction Results

2020/21 T-4 Auction (Delivery Year 2024/25) outcomes

Auction Parameters: Clearing Price and volume

4.1 The 2020/21 T-4 Auction price cap was £75/kW/year. The price decrement per round was £5/kW/year, resulting in a maximum of 15 rounds for the Auction. The T-4 Auction concluded in round 12 at a Clearing Price of £18.00/kW-year.[49]

4.2 Of the 53.2 GW that prequalified 52.0 GW took part in the auction with approximately 40.8 GW of Capacity being awarded a Capacity Agreement through the Auction. This is slightly more than the target Capacity of 40.1 GW.[50]

Results by CMU Category

4.3 As demonstrated in Figure 32, a significant share of cleared volumes was from Existing Generating CMUs (75%). This was followed by New Build Interconnector CMUs which shared 9%. The remaining CMU categories each contributed less than 8% of total volumes clearing the 2020/21 T-4 Auction, and each category representing less than 17% of total Capacity offered in the Auction.

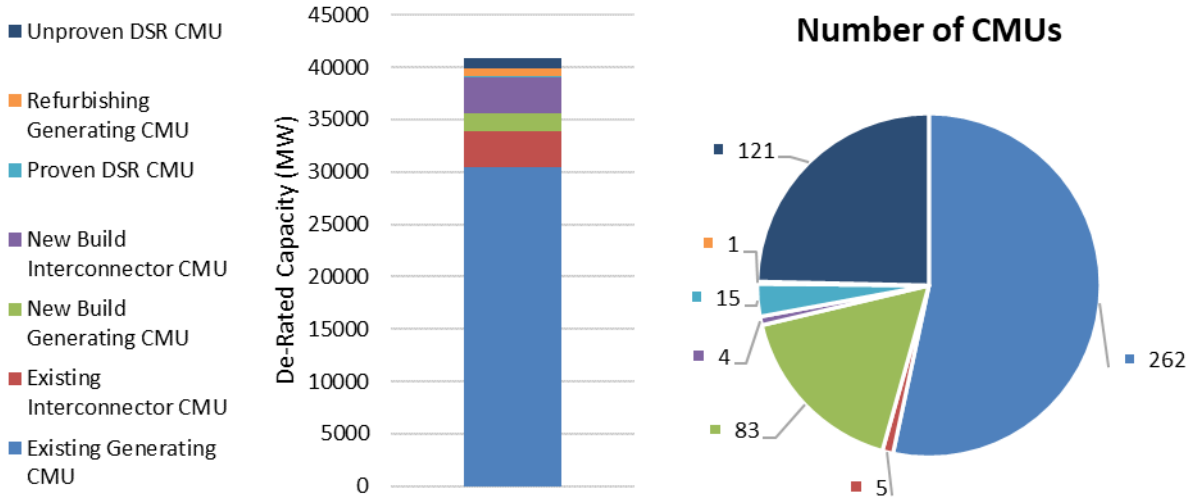
4.4 Existing Generating CMUs offered a total of 34.5 GW in the Auction, of this 30.5 GW cleared equating to an 88% success rate in obtaining Capacity Agreements. New Build Generating CMUs offered a total of 8.4 GW and saw 21% secure Capacity Agreements (1.7 GW).

4.5 Refurbishing Generating CMUs accounted for 1.3% of total Capacity offered in the Auction and saw 100% of its offered Capacity clear. New Build and Existing Interconnector CMUs both represented 7% of total Capacity entering the Auction. Each had 100% of its offered Capacity secure Capacity Agreements.

[49] 2020 Final Auction Results T-4 (DY 2024/25)
[50] Target Capacity outlined in the Open Letter from BEIS on 29 January 2021

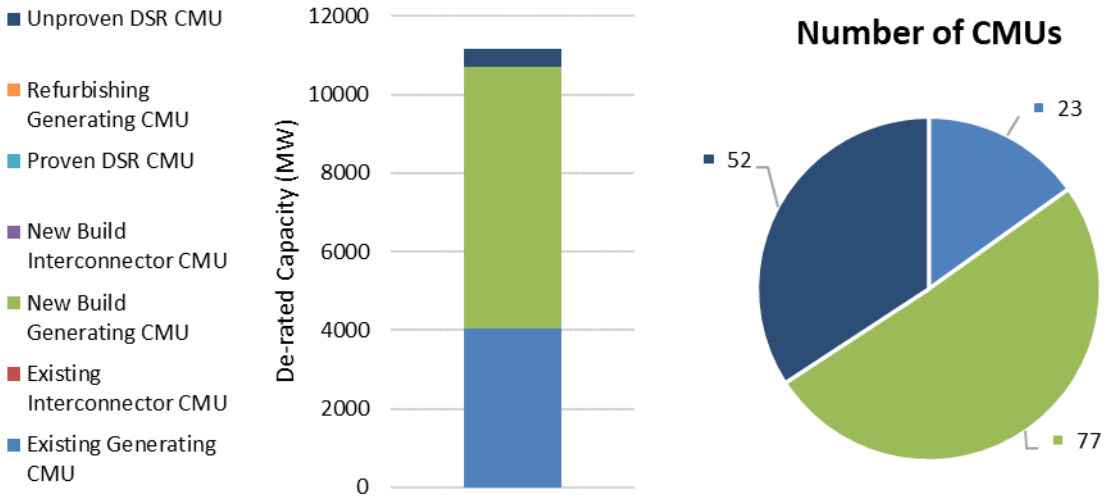
4.6 Proven and Unproven DSR CMUs accounted for 2.9% of total volumes offered in the Auction, together clearing 1.1 GW of De-rated Capacity. Proven DSR CMUs saw 100% of its offered volumes clear and Unproven DSR CMUs saw 68% clear.

Figure 32: 2020/21 T-4 Auction Cleared De-rated Capacity by CMU Category



4.7 Figure 33 illustrates the proportion of CMU Capacity failing to secure Capacity Agreements by CMU category. A total of approximately 11.2 GW of Capacity did not win Capacity Agreements: 60% is attributed to New Build Generating CMUs, 36% to Existing Generating CMUs and 4% Unproven DSR CMUs.

Figure 33: 2020/21 T-4 Auction Exited De-rated Capacity by CMU category

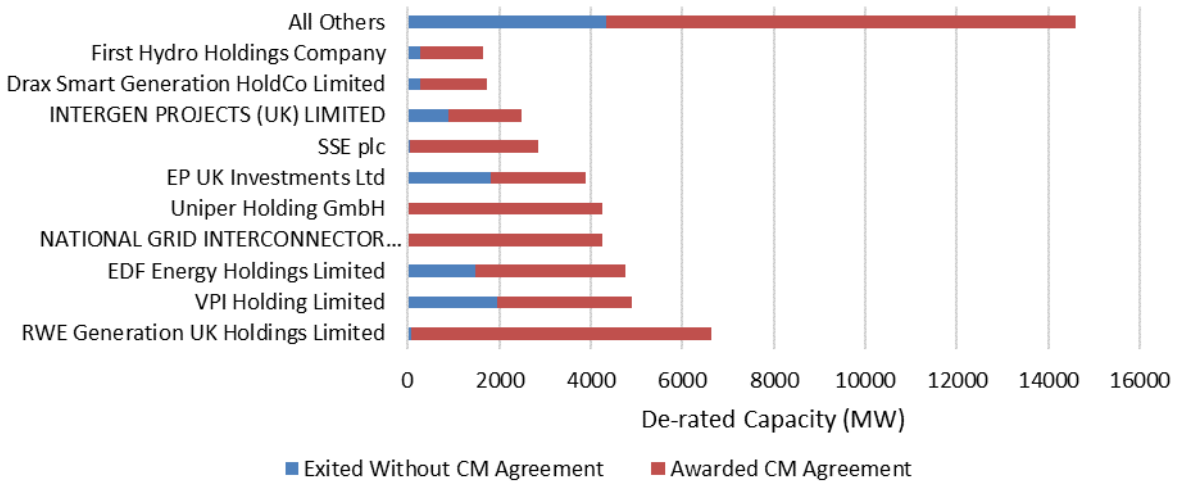


Results by Company

4.8 Figure 34 below illustrates the top 10 companies by total volume entered in the Auction. RWE Generation UK Holdings Limited represented 13% of total volumes offered in the Auction and saw 99% of its offered volumes secure a Capacity Agreement. VPI Holding Limited accounted for 9% of total volumes offered in the Auction and saw 60% of its offered volumes clear.

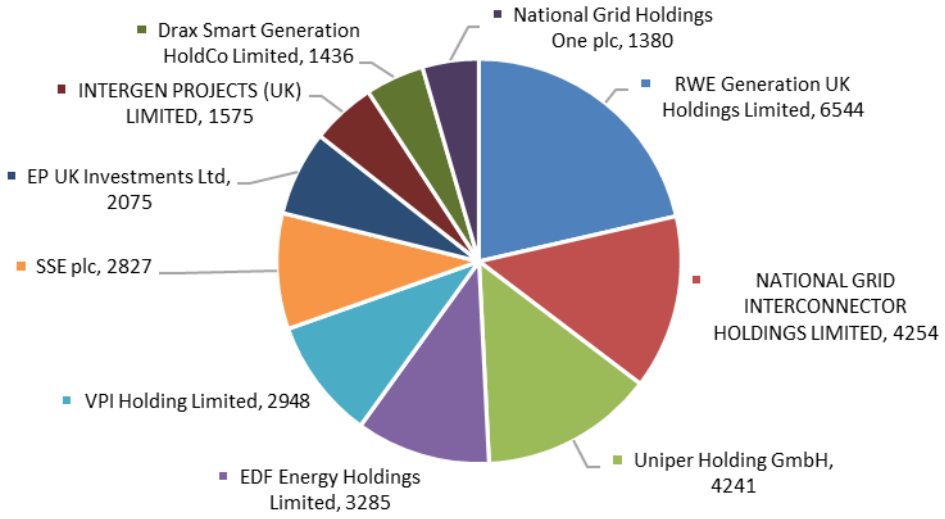
4.9 Out of the top 10 companies, only National Grid Interconnector Holding Limited and Uniper Holding GmbH gained Capacity Agreements for 100% of the Capacity that entered the auction. The remaining eight ranged from 53% to 99% of their Capacity gaining agreements.

Figure 34: 2020/21 T-4 Auction Results of top 10 Parent Companies by De-rated Capacity Entered



4.10 Figure 35 below illustrates the top 10 parent companies by largest cleared volumes. RWE Generation Limited represented 16% of total cleared volumes (6.5 GW), National Grid Interconnector Holdings Limited accounted for 10% (4.3 GW) and Uniper Holding GmbH accounted for 10% (4.2 GW). The remaining companies each accounted for less than 8% of total cleared volumes.

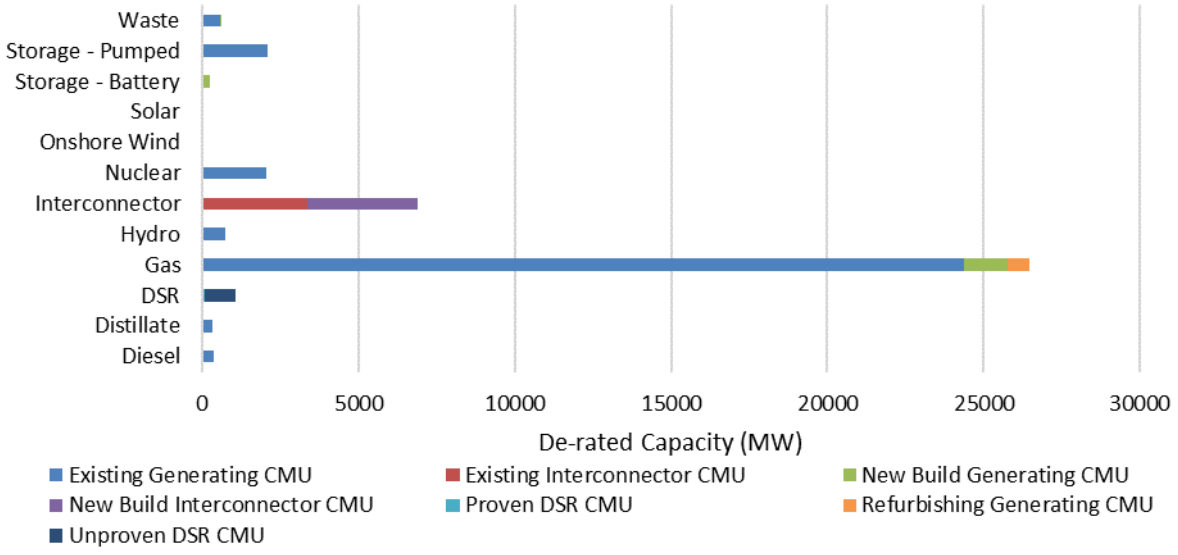
Figure 35: 2020/21 T-4 Auction Cleared De-rated Capacity by Parent Company



Results by fuel and technology type

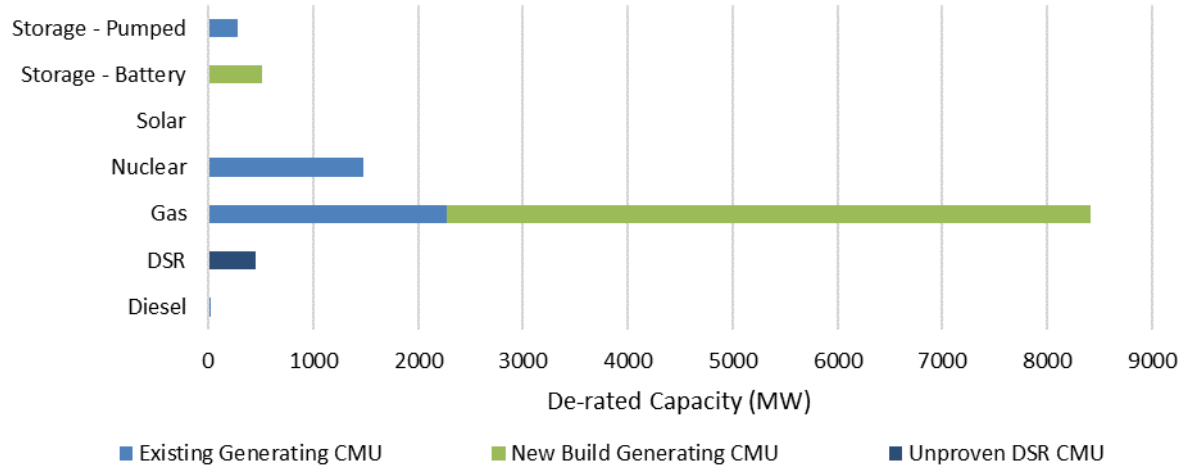
4.11 Figure 36 illustrates that more than half (65%) of the Capacity acquired through the 2020/21 T-4 Auction was gained by Gas Capacity, totalling 26.4 GW. The vast majority (92%) from Existing Gas CMUs. Interconnector Capacity accounted for 17% of cleared volumes totalling 6.9 GW. This was followed by Pumped Storage Capacity at 2.1 GW (5%), Nuclear at 2.0 GW (5%), DSR at 1.1 GW (3%), Hydro at 730 MW (2%) and Waste at 629 MW (2%). The remaining fuel type categories accounted for 1% or less of total Capacity cleared in the Auction, totalling less than 1 GW.

Figure 36: 2020/21 T-4 Auction Results for Cleared De-rated Capacity by Primary Fuel Type and CM Category



4.12 Figure 37 below focuses on the Capacity that exited the Auction without an agreement. Gas accounted for a significant portion of Capacity exiting the Auction (75%), totalling 8.4 GW. Of this 6.1 GW of this was New Build Gas CMUs (73%), whilst the remaining 2.3 GW was Existing Gas CMUs (27%). Gas was followed by Nuclear CMUs at 1.5 GW (13%), Battery Storage at 515 MW (5%), DSR at 457 MW (4%), Pumped Storage at 274 MW (2%), Diesel at 19 MW (0.17%) and Solar at 1 MW (0.01%).

Figure 37: 2020/21 T-4 Auction Results for Exited De-rated Capacity by Primary Fuel Type and CM Category

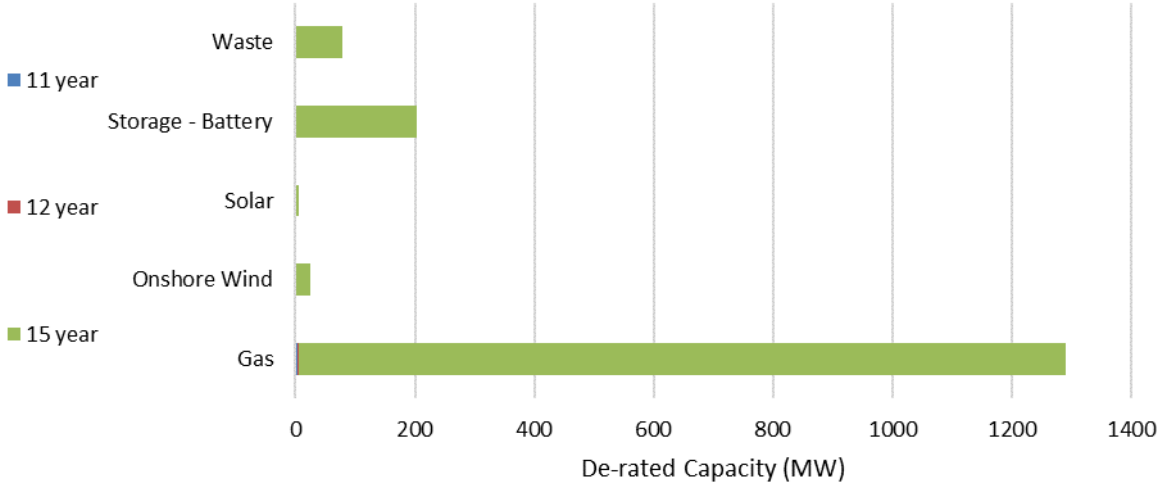


Length of Agreement

4.13 96% (39.2 GW) of the De-rated Capacity that won Capacity Agreements in the 2020 T-4 auction were one-year agreements. The remaining 4% (1.6 GW) were made up of 11 years (3 MW), 12 years (3 MW) and 15 years (1.6 GW).

4.14 Figure 38 shows that the multi-year contracts were made up mainly from Gas CMUs (1.3 GW), with 99% being 15-year contracts. This was followed by Battery Storage CMUs (202 MW), Waste CMUs (79 MW), Onshore Wind CMUs (24 MW) and Solar CMUs (5 MW).

Figure 38: 2020/21 T-4 Auction Results by Multi-year Contracts



2020/21 T-1 Auction (Delivery Year 2021/22) outcomes

Auction Parameters: Clearing Price and volume

4.15 The 2020/21 T-1 Auction price cap was £75/kW/year. The price decrement per round was £5/kW/year, resulting in a maximum of 15 rounds for the Auction. The Auction concluded in the 6th round at a Clearing Price of £45.00/kW-year.

4.16 The Capacity market Auction applies a Net Welfare Algorithm if the clearing volume awarded to participants does not exactly match target Capacity (Demand at Clearing Price). The target volume of Capacity was 2.4 GW,[51] however, the outcome of the Net Welfare Algorithm was negative, and the marginal unit was not procured resulting in 2.3 GW of De-rated Capacity being procured.

4.17 This 2.3 GW was procured from the 4.2 GW that took part in the auction from the 4.4 GW that prequalified for the auction.

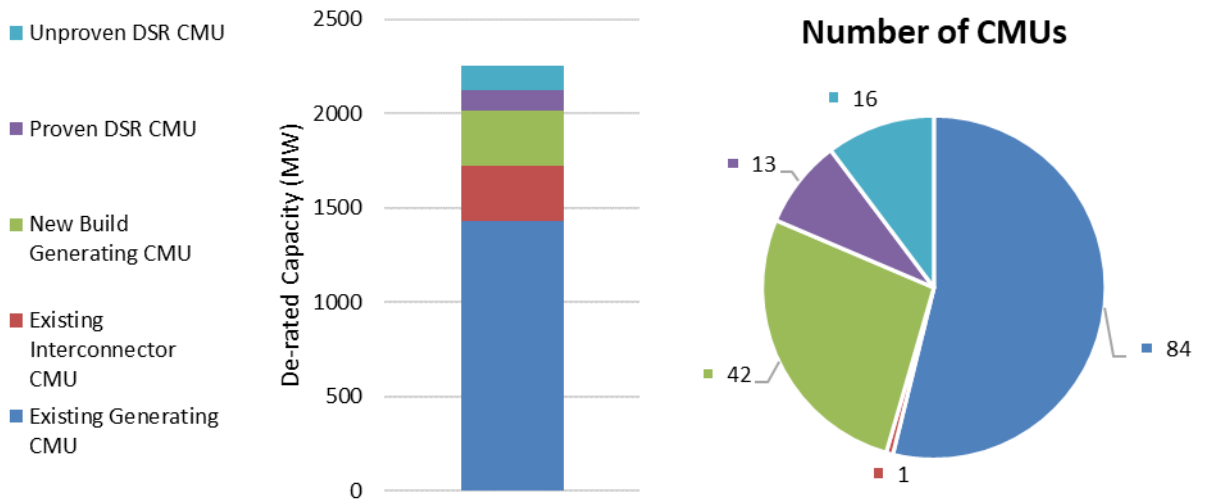
[51] Target Capacity outlined in the Open Letter from BEIS on 29 January 2021

Results by CMU category

4.18 The majority of cleared Capacity was from Existing Generating CMUs (63%), as demonstrated in Figure 39. This is followed by Existing Interconnector CMUs (13%) and New Build Generating CMUs (13%), Unproven DSR CMUs (6%) and Proven DSR CMUs (5%).

4.19 Existing Generating CMUs represented 3.2 GW of total Capacity entering the Auction, of this only 45% secured Capacity (1.4 GW). This was followed by Existing Interconnector CMUs as all De-rated Capacity that entered the Auction won agreements (295 MW). New Build Generating CMUs secured 71% (290 MW) of the total De-rated Capacity entering the auction, whilst Unproven DSR secured 60% (129 MW) of the total De-rated Capacity entering the Auction. Finally Proven DSR won 98% (111 MW) of the De-rated Capacity that entered the Auction.

Figure 39: 2020/21 T-1 Auction Cleared De-rated Capacity by CMU Category

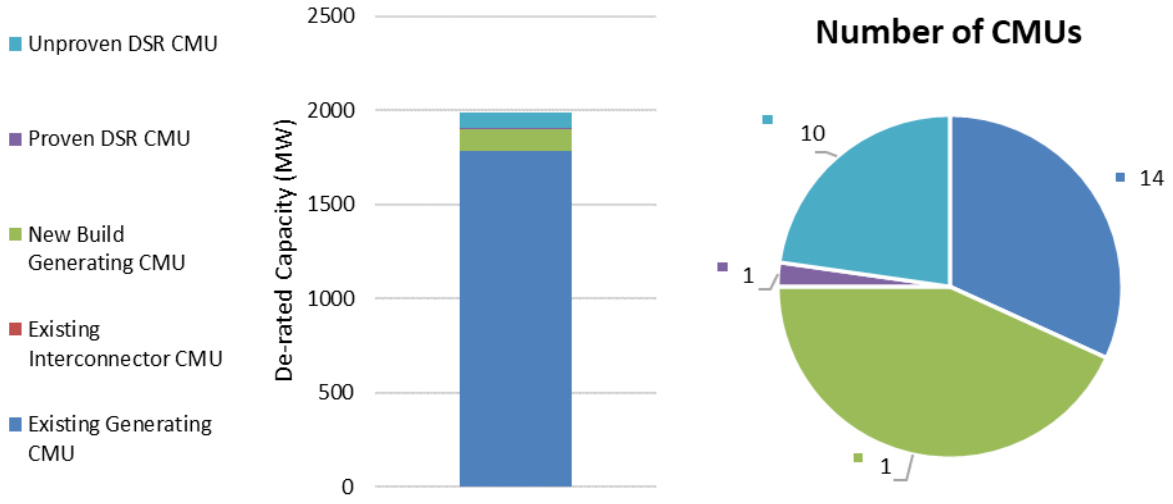


4.20 The majority of Capacity not securing Capacity Agreements was from Existing Generating CMUs (1.8 GW), as demonstrated in Figure 40. Existing Generating CMUs represented a significant share of total De-rated Capacity entered in the Auction (76%). This is followed by New Build Generating CMUs Capacity, which represented 10% of total Capacity entered in the Auction and saw 121 MW exit the auction without an agreement.

4.21 Proven DSR CMUs that saw 2% of total De-rated Capacity entered in the Auction exit without Capacity Agreements. Unproven DSR CMUs saw 40% of total De-rated Capacity submitted exit without a Capacity Agreement. Proven and Unproven DSR CMUs

represented approximately 3% and 5% of all Capacity entered in the Auction, respectively.

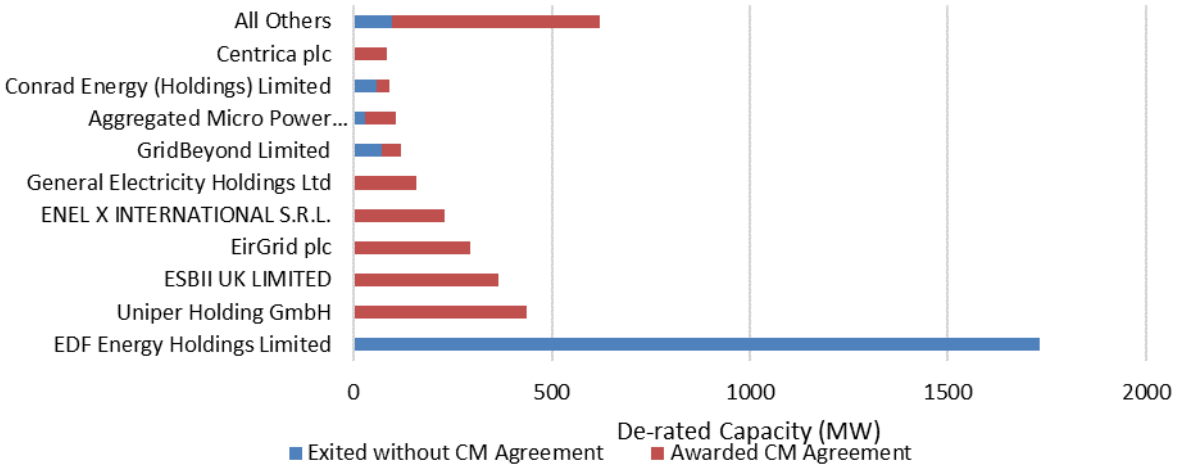
Figure 40: 2020/21 T-1 Auction Exited De-rated Capacity by CMU Category



Results by company

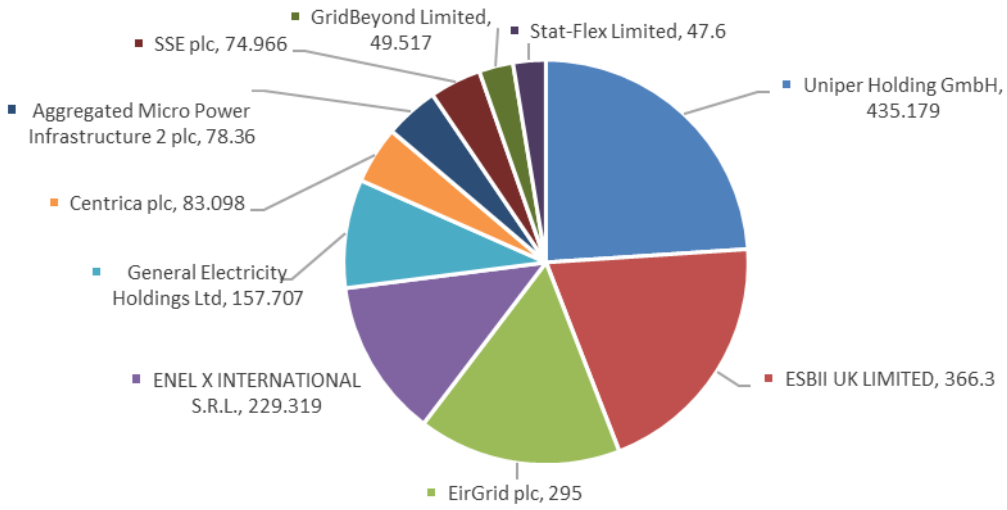
4.22 Figure 41 compares the top 10 companies with largest volumes entered into the Auction. Of these companies, Uniper Holding GmBH, ESBII UK Limited, EirGrid plc, ENEL X International S.R.L and General Electricity Holdings Limited each had a 100% success rate clearing all Capacity entered in the Auction, whilst EDF Energy Holding Limited had all its Capacity exit the auction. The other 4 companies had success rates between 36% to 98%.

Figure 41: 2020/21 T-1 Auction Results of Top 10 parent company by De-rated Capacity Entered



4.23 Figure 42 below illustrates the top 10 parent companies by largest cleared volumes. Uniper Holding GmbH represented 19% of total cleared volumes (435 MW), ESBII UK Limited accounted for 16% (366 MW) and EirGrid plc accounted for 13% (295 MW). The remaining companies each accounted for less than 10% of total cleared volumes.

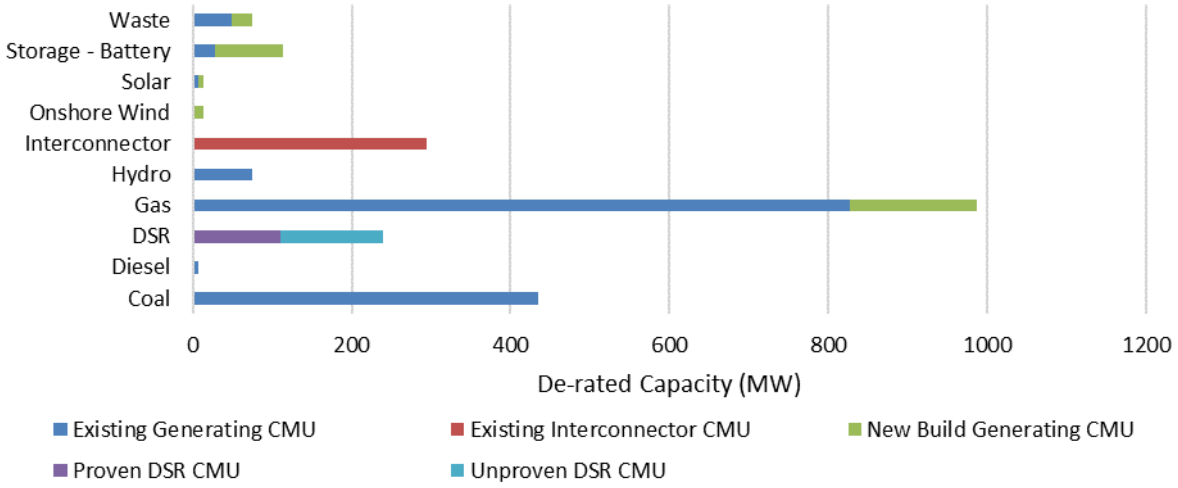
Figure 42: 2020/21 T-1 Auction Cleared De-rated Capacity by Parent Company



Results by fuel and technology type

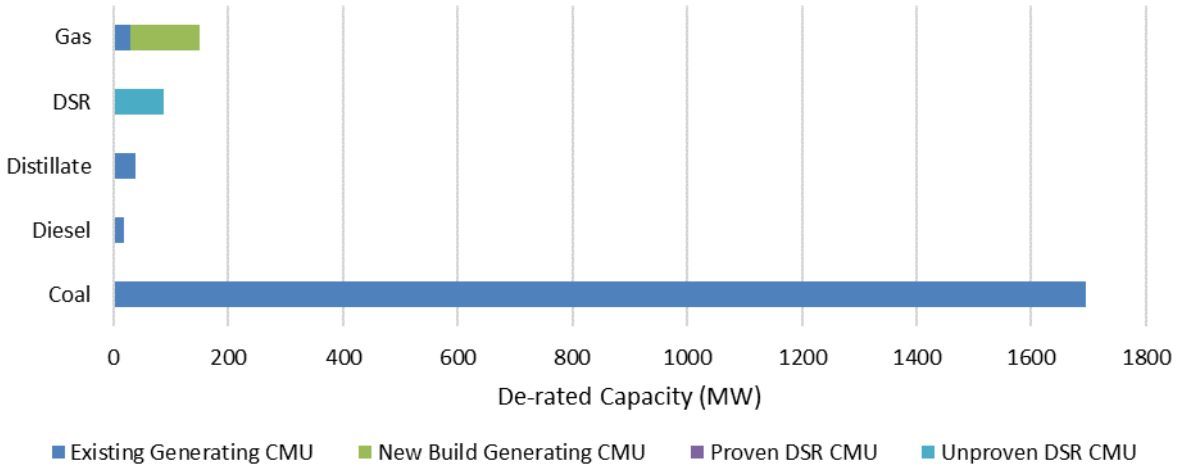
4.24 Figure 43 illustrates that almost half (44%) of the Capacity acquired through the 2020/21 T-1 Auction was gained by Gas Capacity, totalling 986 MW. The vast majority (84%) from Existing Gas CMUs. Coal Capacity accounted for 19% of cleared volumes totalling 435 MW. This was followed by Interconnector Capacity at 295 MW (13%), DSR at 239 MW (11%), Battery Storage at 114 MW (5%), Hydro at 75 MW (3%) and Waste at 74 MW (3%). The remaining fuel type categories accounted for 1% or less of total Capacity cleared in the Auction, totalling less than 35 MW.

Figure 43: 2020/21 T-1 Auction Results for Cleared De-rated Capacity by Primary Fuel Type and CM Category



4.25 Figure 44 below focuses on the Capacity that exited the Auction without an agreement. Coal accounted for a significant portion of Capacity exiting the Auction (85%), totalling 1.7 GW. This was followed by Gas Capacity at 150 MW (8%), DSR at 87 MW (4%), Distillate at 38 MW (2%) and Diesel at 19 MW (1%).

Figure 44: 2020/21 T-1 Auction Results for Exited De-rated Capacity by Primary Fuel Type and CM Category



2021/22 T-4 Auction (Delivery Year 2025/26) outcomes

Auction Parameters: Clearing Price and volume

4.26 The 2021/22 T-4 Auction price cap was £75/kW/year. The price decrement per round was £5/kW/year, resulting in a maximum of 15 rounds for the Auction. The T-4 Auction concluded in the 9th Round at a Clearing Price of £30.59/kW-year.[52]

4.27 Of the 49.1 GW that prequalified 48.6 GW took part in the Auction with approximately 42.4 GW of Capacity being awarded a Capacity Agreement through the Auction. This is slightly more than the target Capacity of 42.1 GW.[53]

Results by CMU category

4.28 As demonstrated in Figure 45, a significant share of cleared volumes was from Existing Generation CMUs (76%). This was followed by Existing Interconnector CMUs which shared 10%. The remaining CMU categories each contributed less than 7% of total volumes clearing the 2021/22 T-4 Auction, and each category representing less than 14% of total Capacity offered in the Auction.

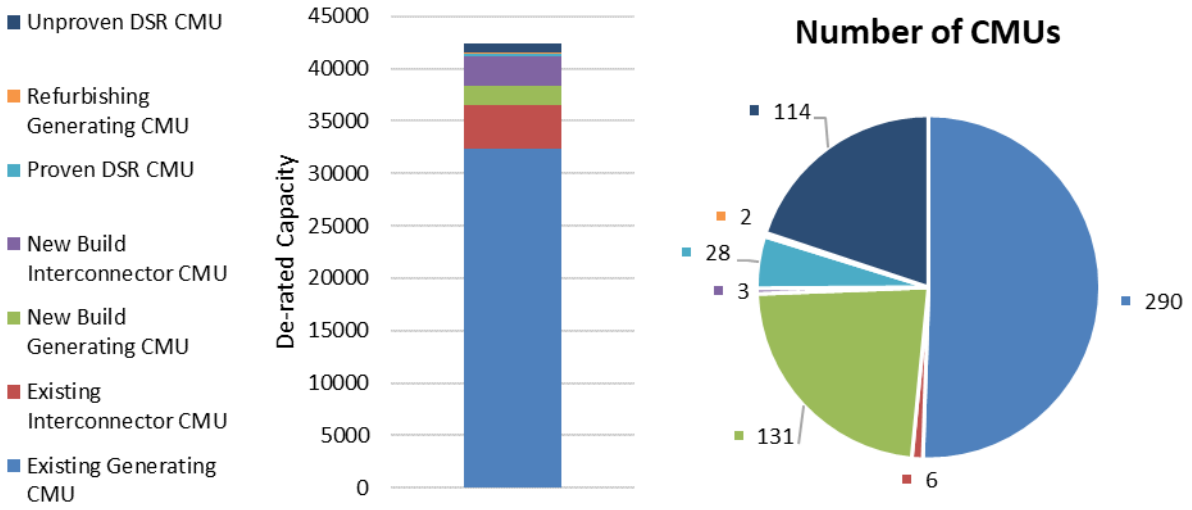
4.29 Existing Generating CMUs offered a total of 33.1 GW in the Auction, of this 32.3 GW cleared equating to an 98% success rate in obtaining Capacity Agreements. New Build Generating CMUs offered a total of 7.3 GW and saw 26% secure Capacity Agreements (1.9 GW).

4.30 Refurbishing Generating CMUs accounted for 0.4% of total Capacity offered in the Auction and saw 100% of its offered Capacity clear. Existing and New Build Interconnector CMUs represented 9% and 6% of total Capacity entering the Auction, respectively. Each had 100% of its offered Capacity secure Capacity Agreements.

[52] 2021 Final Auction Results T-4 (DY 2025/26)
[53] Target Capacity outlined in the Secretary of State's letter to the delivery body

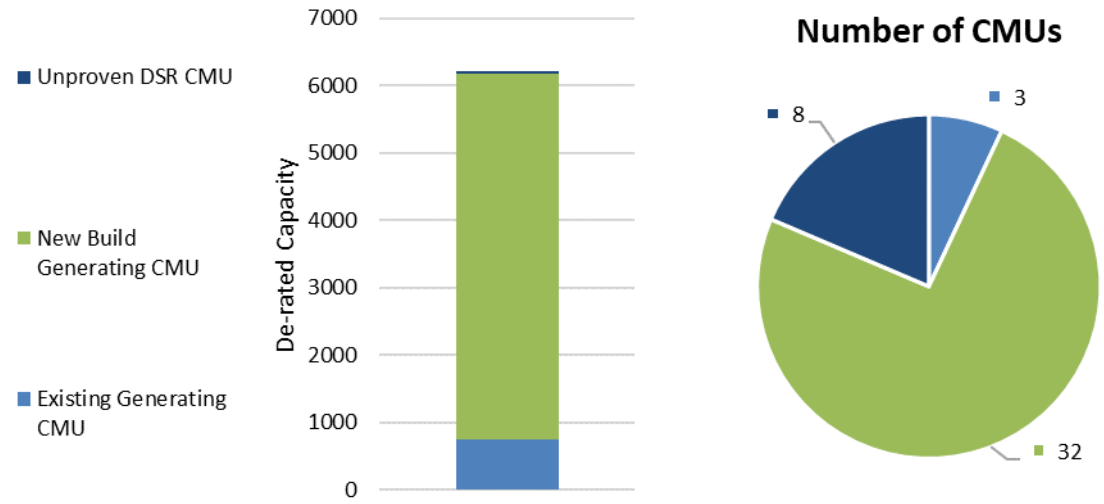
4.31 Proven and Unproven DSR CMUs accounted for 2.1% of total volumes offered in the Auction, together clearing 1.0 GW of De-rated Capacity. Proven DSR CMUs saw 100% of its offered volumes clear and Unproven DSR CMUs saw 95% clear.

Figure 45: 2021/22 T-4 Auction Cleared De-rated Capacity by CMU Category



4.32 Figure 46 illustrates the proportion of CMU Capacity failing to secure Capacity Agreements by CMU category. A total of approximately 6.2 GW of Capacity did not win Capacity Agreements: 87% is attributed to New Build Generating CMUs, 12% to Existing Generating CMUs and 1% Unproven DSR CMUs.

Figure 46: 2021/22 T-4 Auction Results Exited De-rated Capacity CMU Category

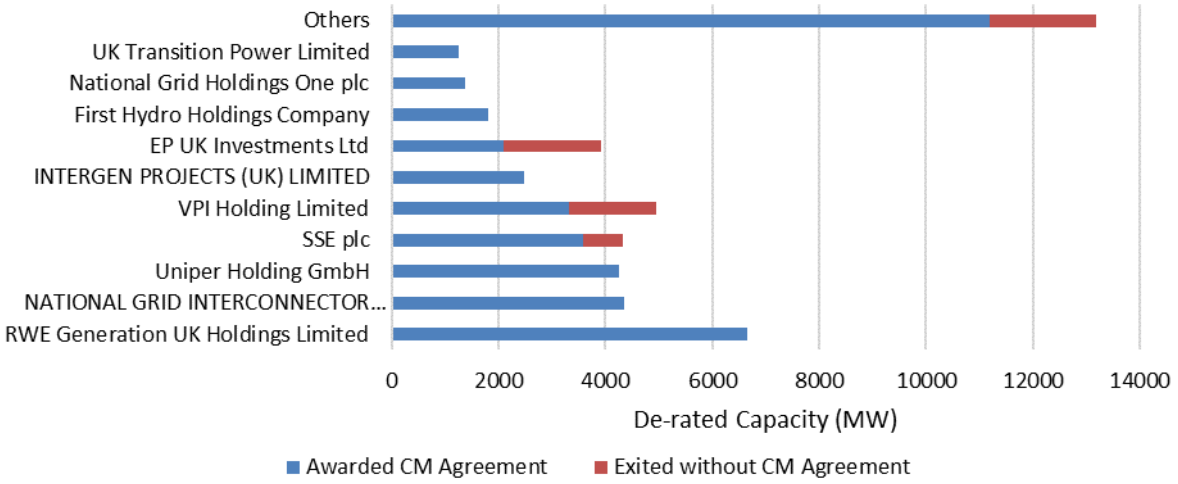


Results by company

4.33 Figure 47 below illustrates the top 10 companies by total volume entered in the Auction. RWE Generation UK Holdings Limited represented 14% of total volumes offered in the Auction and saw 100% of its offered volumes secure a Capacity Agreement. VPI Holding Limited accounted for 10% of total volumes offered in the Auction and saw 67% of its offered volumes clear.

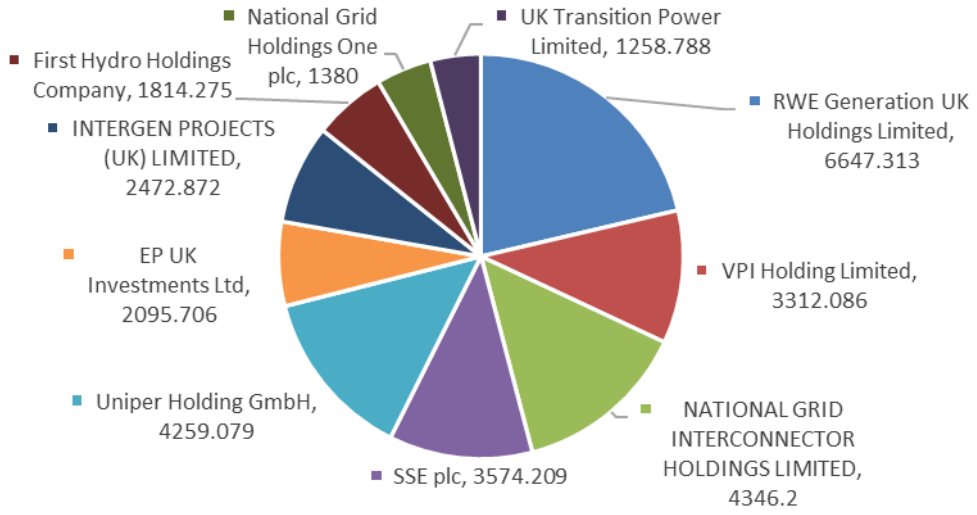
4.34 Out of the top 10 companies, seven gained Capacity Agreements for 100% of the Capacity that entered the auction, whilst EP UK Investments Ltd saw 47% of its De-rated Capacity exit without an agreement (47%), followed by VPI Holding Limited (33%) and SSE plc (17%).

Figure 47: 2021/22 T-4 Auction Results of Top 10 Parent Companies by De-rated Capacity



4.35 Figure 48 below illustrates the top 10 parent companies by largest cleared volumes. RWE Generation Limited represented 16% of total cleared volumes (6.6 GW), National Grid Interconnector Holdings Limited accounted for 10% (4.3 GW) and Uniper Holding GmbH accounted for 10% (4.3 GW). The remaining companies each accounted for less than 8% of total cleared volumes.

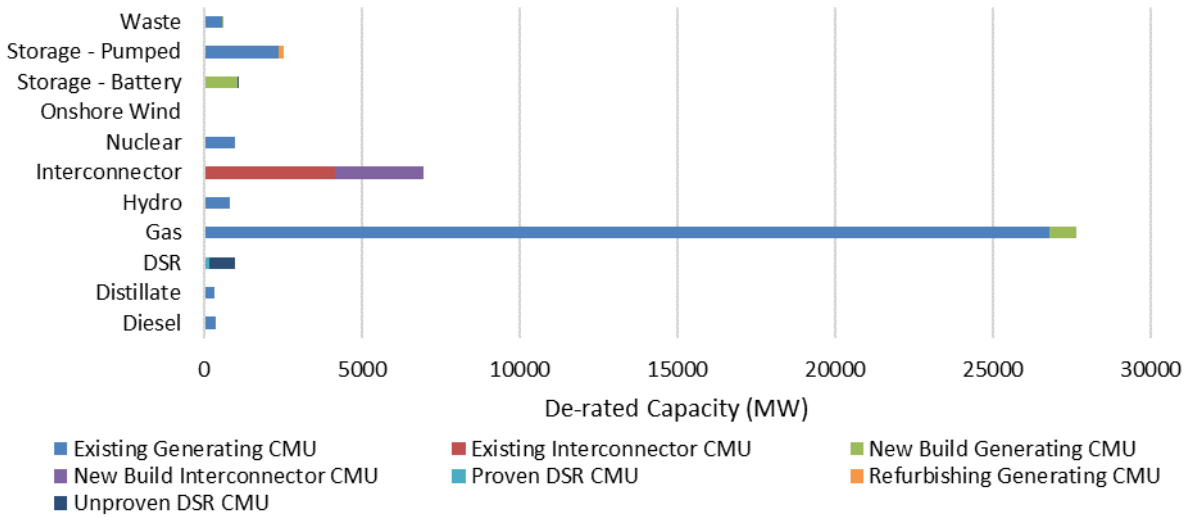
Figure 48: 2021/22 T-4 Auction Cleared De-rated Capacity by Parent Company



Results by fuel and technology type

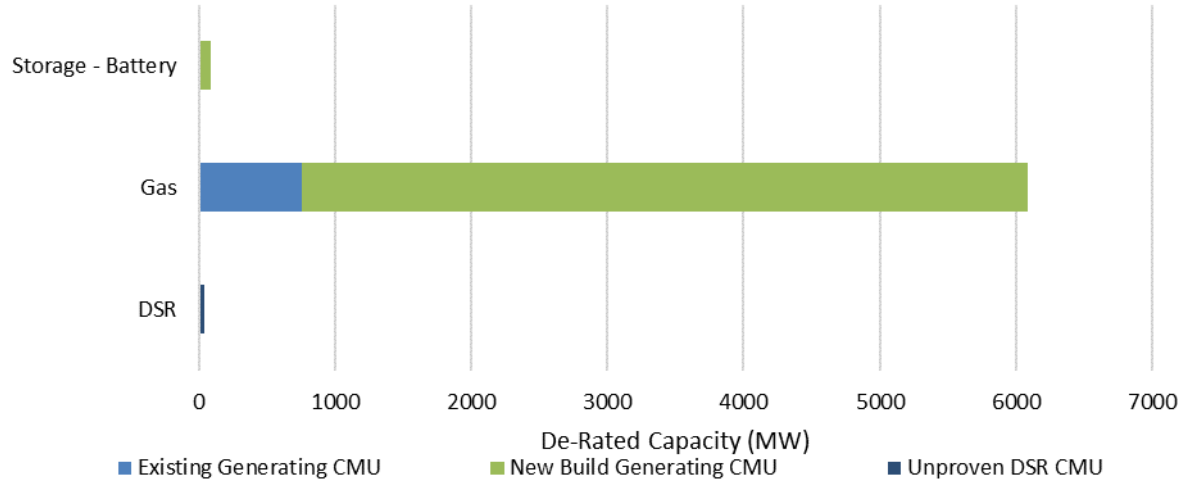
4.36 Figure 49 illustrates that more than half (65%) of the Capacity acquired through the 2021/22 T-4 Auction was gained by Gas Capacity, totalling 27.6 GW. The vast majority (97%) from Existing Gas CMUs. Interconnector Capacity accounted for 16% of cleared volumes totalling 7.0 GW. This was followed by Pumped Storage Capacity at 2.5 GW (6%), Battery Storage at 1.1 GW (3%), Nuclear at 1.0 GW (2%), DSR at 1.0 GW (2%) and Hydro at 842 MW (2%). The remaining fuel type categories each accounted for 1% or less of total Capacity cleared in the Auction, totalling 1.3 GW.

Figure 49: 2021/22 T-4 Auction Results for Cleared De-rated Capacity by Primary Fuel Type and CM Category



4.37 Figure 50 below focuses on the Capacity that exited the Auction without an agreement. Gas accounted for a significant portion of Capacity exiting the Auction (98%), totalling 6.1 GW. Of this 5.3 GW of this was New Build Gas CMUs (88%), whilst the remaining 0.8 GW was Existing Gas CMUs (12%). Gas was followed by Battery Storage CMUs at 92 MW (1%) and DSR at 39 MW (5%).

Figure 50: 2021/22 T-4 Auction Results for Exited De-rated Capacity by Primary Fuel Type and CM Category

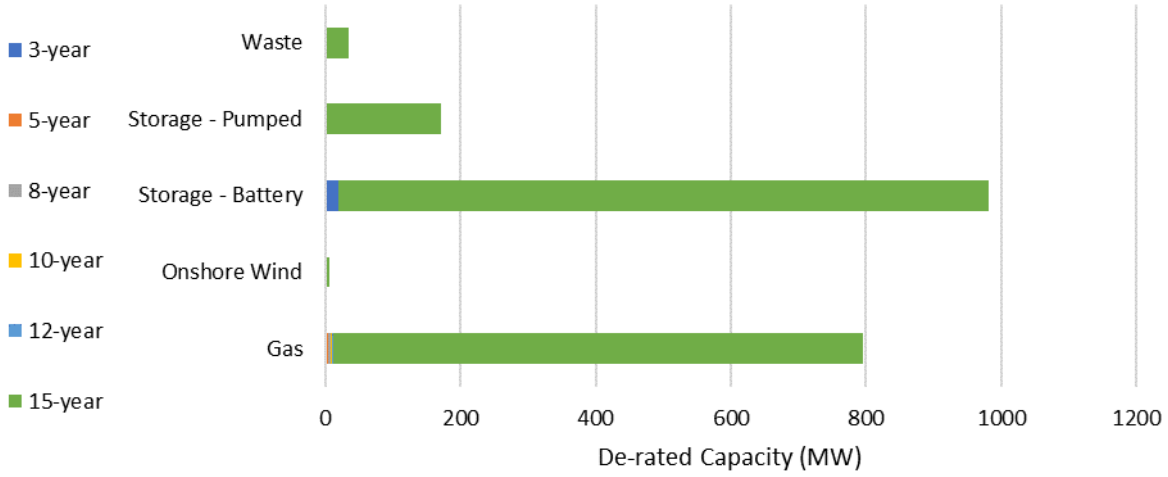


Length of Agreement

4.38 95% (40.4 GW) of the De-rated Capacity that won Capacity Agreements in the 2021/22 T-4 auction were one-year agreements, the remaining 5% (2.0 GW) were made up of 3-year (19.9 MW), 5-year (4.8 MW), 8-year (2.5 MW), 10-year (3.2 MW), 12-years (0.9 MW) and 15-year (1.9 GW) agreements.

4.39 Figure 51 shows that the multi-year contracts were made up mainly from Battery Storage CMUs (983 MW), 98% of these were 15-year contracts. This was followed by Gas CMUs (796 MW), Pumped Storage CMUs (170 MW), Waste (34 MW) and Onshore Wind CMUs (7 MW).

Figure 51: 2021/22 T-4 Auction Results by Multi-year Contracts



2021/22 T-1 Auction (Delivery Year 2022/23) outcomes

Auction Parameters: Clearing Price and volume

4.40 The 2021/22 T-1 Auction price cap was £75/kW/year. The price decrement per round was £5/kW/year, resulting in a maximum of 15 rounds for the Auction. The Auction concluded in the 1st round at a Clearing Price of £75/kW-year.

4.41 The target volume of Capacity was originally set at 4.5 GW,[54] however on 7 January 2022 the Delivery Body updated the target Capacity to 4.7 GW.[55] Finally on 21 January 2022 the Secretary of State set the target Capacity to 5.361 GW.[56] The target was increased due to the broader uncertainties within the power sector. Therefore due to the De-rated Capacity entering the auction (4.996 GW) being less than the target Capacity all entrants into the T-1 auction were given a Capacity Market Agreement.[57]

[54] Target Capacity outlined in the 2021 Capacity Market Auction Guidelines, Section 1.2 Auction Parameters.
[55] Target Capacity outlined in the Report to Secretary of State Adjustment to Demand Curve, Page 7
[56] Target Capacity outlined in the Secretary of State's letter to the delivery body
[57] DB Final Auction Report - 2021 T-1 Auction

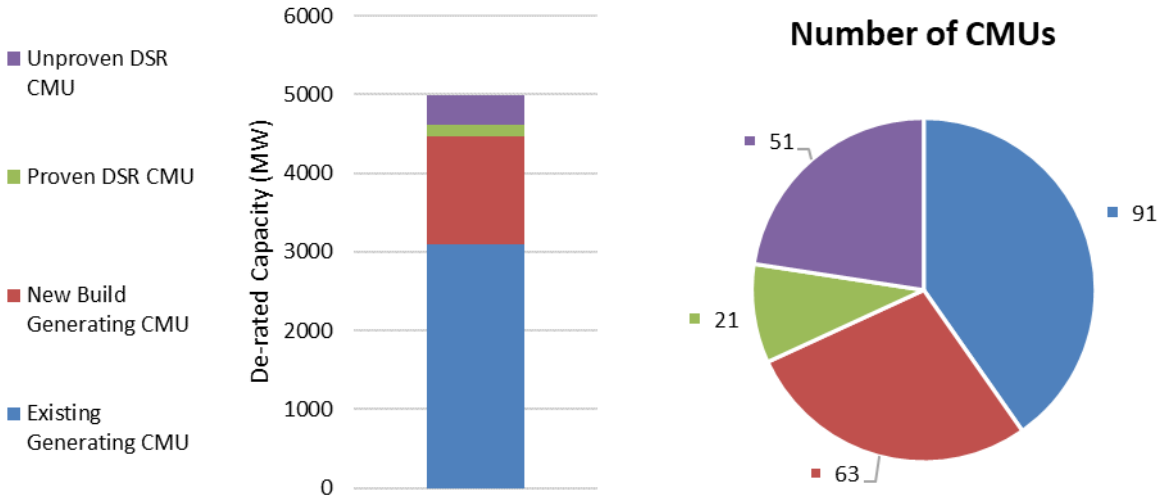
4.42 The total De-rated Capacity that prequalified for the Auction was 5.3 GW, which was under the Target Capacity. Approximately 300 MW of De-rated Capacity did not take part in the Auction despite Prequalifying.

Results by CMU category

4.43 The majority of cleared Capacity was from Existing Generating CMUs (62%), as demonstrated in Figure 52. This is followed by New Build Generating CMUs (27%) and Unproven DSR CMUs (7%) and Proven DSR CMUs (3%).

4.44 Existing Generating CMUs won agreements representing a total of 3.1 GW. This was followed by New Build Generating CMUs at 1.4 GW, Unproven DSR CMUs at 374 MW and Proven DSR CMUs at 154 MW.

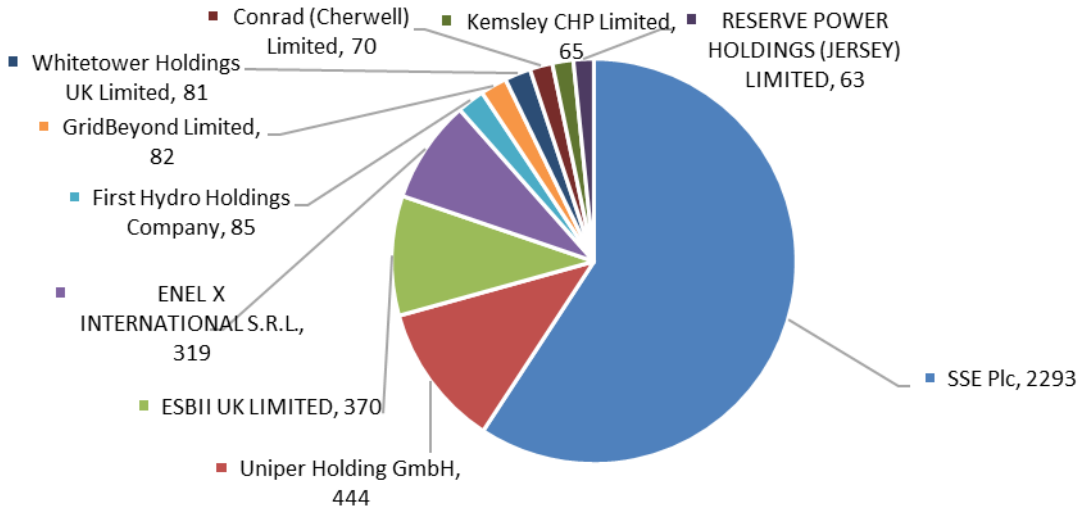
Figure 52: 2021/22 T-1 Auction Cleared De-rated Capacity by CMU Category



Results by company

4.45 Figure 53 compares the top 10 companies with largest volumes that secured Capacity Agreements in the T-1 Auction. SSE Plc secured a significant portion of total cleared Capacity (46%). This was followed by Uniper Holding GmbH at 9%, ESBII UK Limited Veolia UK Limited at 7% and ENEL X International S.R.L at 6% of total Capacity cleared. The remaining 6 companies represented approximately 1-2% of cleared volumes, and all other companies represented 23% of total cleared Capacity volumes.

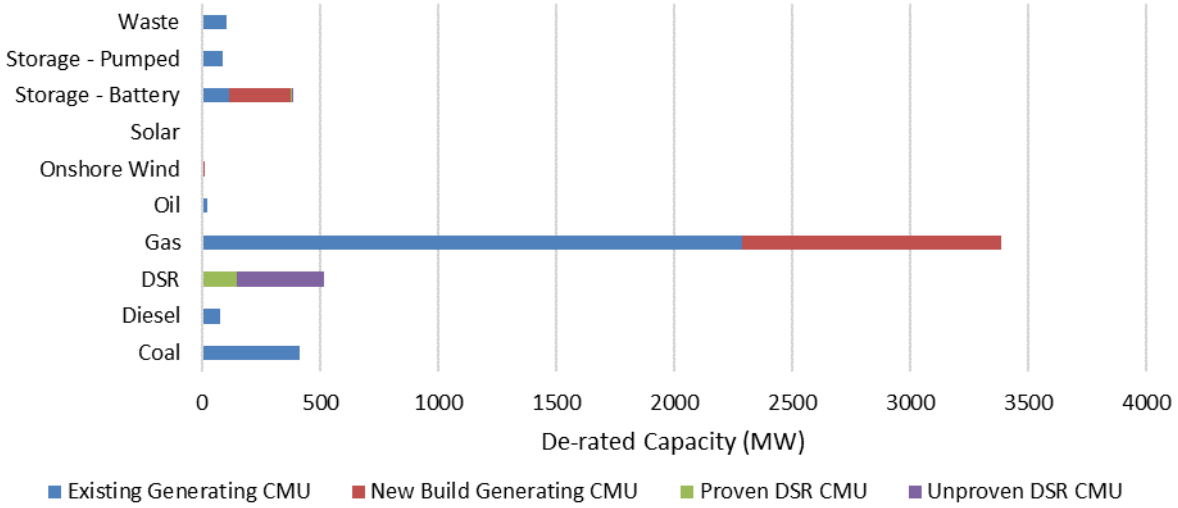
Figure 53: 2021/22 T-1 Auction Cleared De-rated Capacity by Parent Company



Results by fuel and technology type

4.46 Figure 54 illustrates that more than half (68%) of the Capacity acquired through the 2021/22 T-1 Auction was gained by Gas Capacity, totalling 3.4 GW. The majority (68%) from Existing Gas CMUs. DSR Capacity accounted for 10% of cleared volumes totalling 516 MW. This was followed by Coal Capacity at 411 MW (8%), Battery Storage at 385 MW (8%), Waste at 101 MW (2%) and Pumped Storage at 85 MW (2%). The remaining fuel type categories accounted for 1% or less of total Capacity cleared in the Auction, totalling 112 MW.

Figure 54: 2021/22 T-1 Auction Results for Cleared De-rated Capacity by Primary Fuel Type and CM Category

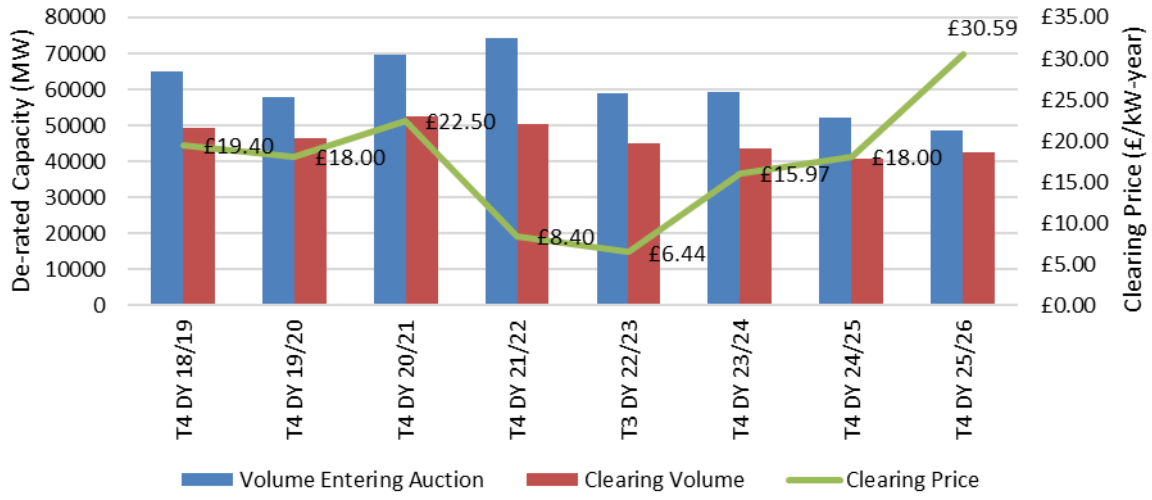


Further observations

Price volatility

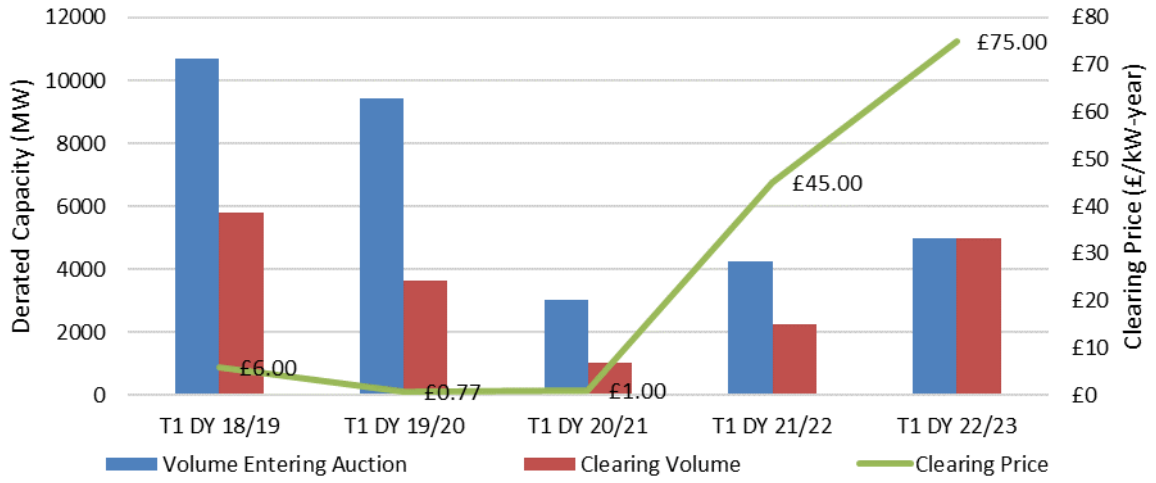
4.47 Figure 55 below shows the correlation between the difference in volume entering the T-4 Auctions and T-3 Auction and clearing volume with the Clearing Price. There is a moderate correlation of 0.64 between the difference in target volume and clearing volume with the Clearing Price. So if the volume entering the auction is much greater than the clearing volume the Clearing Price is likely to be smaller as we can see from the T-4 Auction in 2017 (Delivery Year 2021/22).

Figure 55: Historical Overview of T-4 and T-3 Auctions Participation, Clearing Volume and Clearing Price



4.48 Figure 56 below shows that as the volume entering for T-1 Auction decreases and the clearing volume increases the Clearing Price increases. We especially see this for the 2021/22 T-1 Auction (Delivery Year 2022/23) as all Capacity entering the auction was cleared, thus the auction cleared at the price cap.

Figure 56: Historical Overview of T-1 Auctions Participation, Clearing Volume and Clearing Price



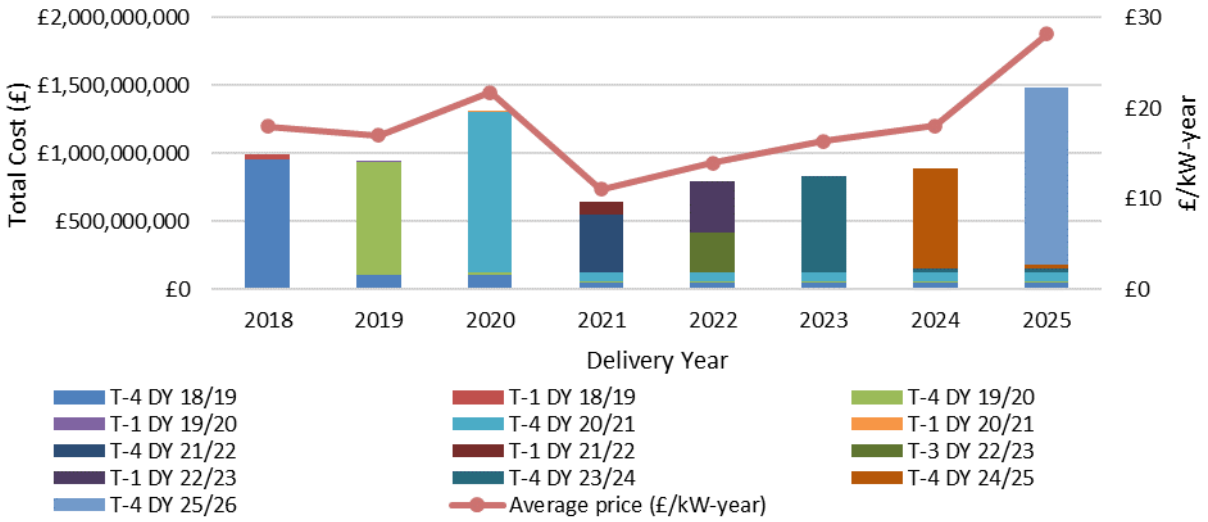
Total cost from Capacity Market Auctions for Delivery Years 2018/19 to 2025/26

4.49 Figure 57 below illustrates the total costs from CM Auctions for the Delivery Years 2018/19 to 2025/26 alongside the average price per kilowatt for that year.

4.50 The most expensive Delivery Year since 2018/19 is 2025/26 (£1,481,854,952). This is due to the high Clearing Price of the T-4 auction (£30.59/kW-year) which resulted in the auction cost to be £1,295,924,365. It should also be noted that the T-1 auction for 2025/26 is still to be run so it is likely that the cost of this Delivery Year will be even higher.

4.51 The least expensive Delivery Year since 2018/19 is the 2021/22 (£649,128,918). This is the cheapest due to the T-4 auction for this year securing 50.4 GW for a £8.4/kW-year. Therefore even though the DB secured 2.3 GW in the T-1 auction for £45/kW this kept the cost for this Delivery Year very low.

Figure 57: Total CM Auction Costs for Delivery Years 2018/19 to 2025/26[58]



[58] 2014 Final Auction Results T-4 (DY 18/19), 2015 Final Auction Results T-4 (DY 19/20), 2016 Final Auction Results T-4 (DY 20/21), 2017 Final Auction Results T-4 (DY 21/22), 2019 Final Auction Results T-3 (DY22/23), 2019 Final Auction Results T-4 (DY 23/24), 2020 Final Auction Results T-4 (DY 24/25), 2021 Final Auction Results (DY 25/26), 2017 Final Auction Results T-1 (DY 18/19), 2018 Final Auction Results T-1 (DY 19/20), 2019 Final Auction Results T-1 (DY 20/21), 2020 Final Auction Results T-1 (DY 21/22), 2021 Final Auction Results T-1 (DY 22/23)

5. Bidding Behaviour

5.1 This section provides an overview of the bidding approaches of participants in the 2020/21 T-4, 2021/22 T-1, 2021/22 T-4 and 2021/22 T-1 Auction.

Background

5.2 CMUs have the option to submit an Exit Bid to indicate the minimum price at which it would seek a Capacity Market agreement. Alternatively, CMUs that do not place an Exit Bid automatically remain in the Auction and will be awarded an agreement at the market Clearing Price.

Capacity Auction bidding rules

5.3 In each round, the following actions are available to Auction participants:

- **Exit Bid** – all CMUs have the option to specify the price at which they exit the Auction.[59]
- **Proxy Exit Bid** – CMUs have the ability to submit Proxy Exit Bids at or below the Price Taker Threshold at any point during the Auction. Submitted Proxy Exit Bids become active & take effect in a later round.[60]
- **Duration Bid** – specifies the duration of the Capacity Agreement that a Bidder requires at any particular price.
- **Duration Bid Amendment (DBA)** – New Build and Refurbishing CMUs that qualify for longer agreements can specify the price at which they want to reduce the length of their agreement, in the event the price falls below a particular level.

[59] Participants may amend or delete any Exit Bids or Duration Bid Amendments that have not yet been realised. https://www.emrdeliverybody.com/Lists/Latest%20News/Attachments/72/Auction%20Guidance%20v1.pdf

[60] https://www.emrdeliverybody.com/Lists/Latest%20News/Attachments/72/Auction%20Guidance%20v1.pdf

- **Continue as Pre-refurbishing** – Refurbishing CMUs can specify a price to switch to an Existing contract (and as a result only receive a one-year agreement)

Our monitoring

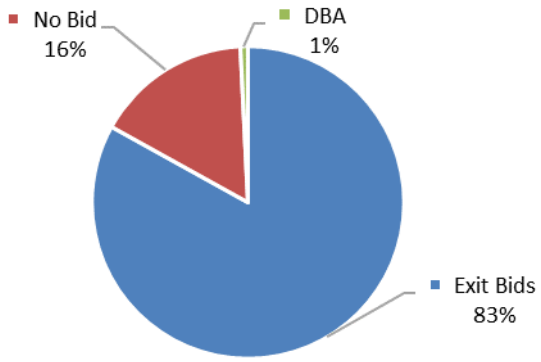
5.4 We monitor bidding patterns and behaviour following the CM Auctions for several reasons, including in performance of our regulatory and competition law functions, and to monitor compliance with the CM Rules. We also monitor to inform decisions on whether to make changes to the CM Rules.

5.5 This section focusses on the bidding behaviour illustrating the various strategies adopted by CMUs.

Summary of bidding behaviour in the 2020/21 T-4 Auction

5.6 Figure 58 illustrates that 84% of participants submitted Bids into the T-4 CM Auction, and that approximately 16% were CMUs that did not submit an Exit Bid ('No Bidders'). The strategy of not bidding requires that CMUs remain in the T-4 Auction and receive the Capacity market Auction Clearing Price, entitling them to a Capacity Agreement.[61]

Figure 58: Bidding approaches for CMUs in the 2020/21 T-4 Auction

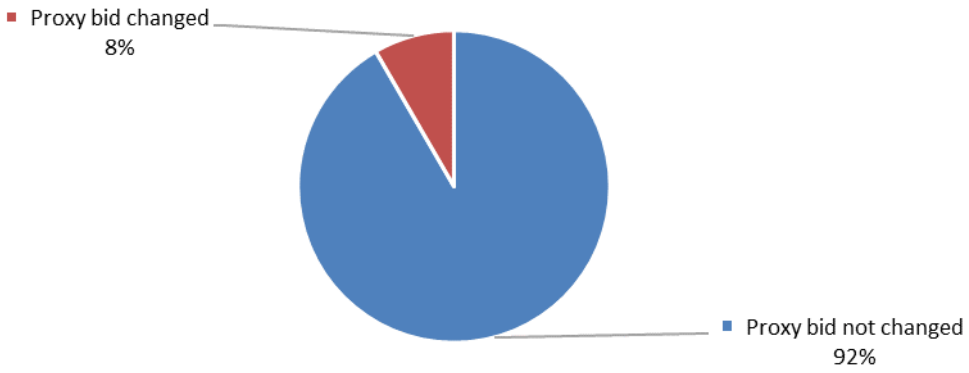


5.7 This 84% includes CMUs submitting proxy and non-proxy Exit Bids. Figure 59 illustrates Proxy and Non-Proxy Exit Bid price changes by CMUs over the Auction period. The chart

[61] Data provided by the Delivery Body on 01 April 2022

illustrates Proxy Exit Bid changes comparing the first and last Proxy Exit Bid price. Of CMUs entering Proxy Exit Bids, 92% left theirs unchanged and 8% changed their Proxy Exit Bid price. [62]

Figure 59: Proxy Exit Bid price changes by CMU in the 2020/21 T-4 Auction



5.8 Price Makers accounted for 21% of total submitted Capacity in the 2020/21 T-4 Auction, totalling approximately 10.8 GW of De-rated Capacity. As illustrated in Figure 60 below, Price Makers represented the largest share of Capacity exiting the Auction totalling 7.9 GW. Price Takers accounted for 78% of total submitted Capacity offered in the Auction, totalling 40.5 GW. Price Takers cleared 37.3 GW of De-rated Capacity and only accounted for 29% of Capacity exiting the Auction (3.2 GW). Price Takers with pre-refurbishing status made up the remaining 1% Capacity submitted to the auction and cleared 675 MW of De-rated Capacity.[63]

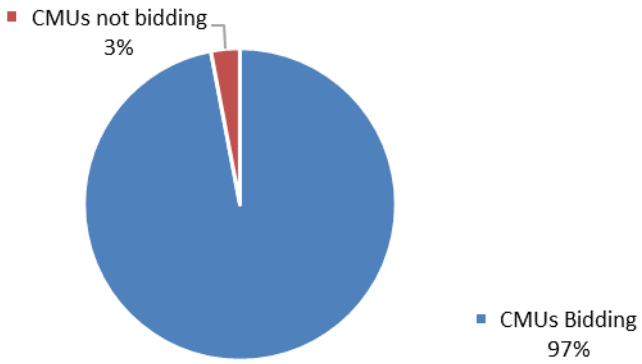
[62] Data provided by the Delivery Body on 01 April 2022
[63] Data provided by the Delivery Body on 01 April 2022

Figure 60: Cleared and exited Capacity by Price Makers and Price Takers in the 2020/21 T-4 Auction

Summary of Bidding Behaviour in the 2020/21 T-1 Auction

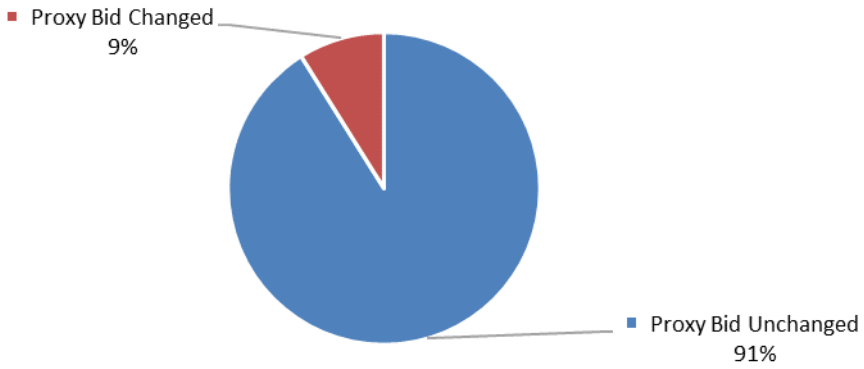
5.9 Figure 61 illustrates that 97% of participants submitted Bids into the T-1 CM Auction, and that 3% were CMUs that did not submit an Exit Bid. The strategy of not bidding requires that CMUs remain in the T-1 Auction and receive the Capacity Market Auction Clearing Price, entitling them to a Capacity Agreement.

Figure 61: Bidding approaches for CMUs in the 2020/21 T-1 Auction



5.10 This 97% includes CMUs submitting proxy and non-proxy Exit Bids. Figure 62 illustrates Proxy Exit Bid price changes by CMUs over the Auction period. The chart illustrates Proxy Exit Bid changes comparing the first and last Proxy Exit Bid price. Of CMUs entering Proxy Exit Bids, 91% left theirs unchanged, 9% changed their last Proxy Exit Bid price.

Figure 62: Proxy Exit Bid price changes by CMU in the 2020/21 T-1 Auction



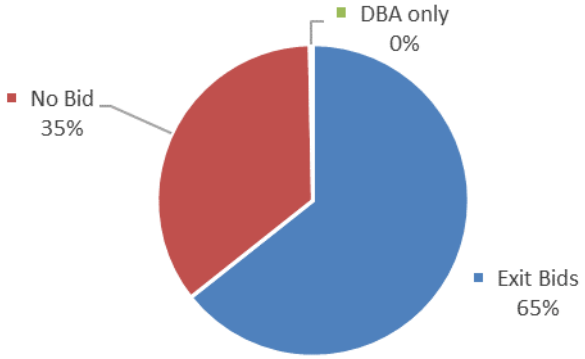
5.11 Price Makers accounted for 59% of total submitted De-rated Capacity in the 2020/21 T-1 Auction, totalling approximately 2.5 GW of De-rated Capacity entering the Auction (Figure 63). Price Makers represented 100% of total De-rated Capacity exiting the Auction (2.0 GW) as all Price Takers were awarded a Capacity Agreement due to the Clearing Price (£45/kW-year) being higher than the Price Taker Threshold (£25/kW-year). Price Takers accounted for 41% of total submitted Capacity offered in the Auction, totalling approximately 1,722 MW.

Figure 63: Cleared and exited Capacity by Price Makers and Price Takers in the 2020/21 T-1 Auction

Summary of bidding behaviour in the 2021/22 T-4 Auction

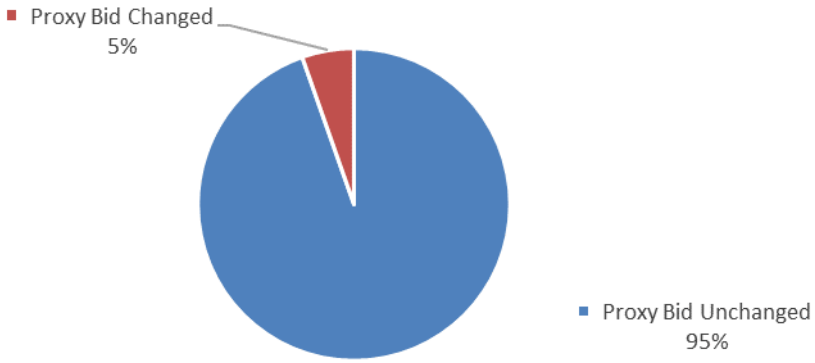
5.12 Figure 64 illustrates that 65% of participants submitted Bids into the T-4 CM Auction, and that approximately 35% were CMUs that did not submit an Exit Bid ('No Bidders'). The strategy of not bidding requires that CMUs remain in the T-4 Auction and receive the Capacity Market Auction Clearing Price, entitling them to a Capacity Agreement.

Figure 64: Bidding approaches for CMUs in the 2021/22 T-4 Auction



5.13 This 65% includes CMUs submitting proxy and non-proxy Exit Bids. Figure 65 illustrates Proxy and Non-Proxy Exit Bid price changes by CMUs over the Auction period. The chart illustrates Proxy Exit Bid changes comparing the first and last Proxy Exit Bid price. Of CMUs entering Proxy Exit Bids, 95% left theirs unchanged and 5% changed their Proxy Exit Bid price.

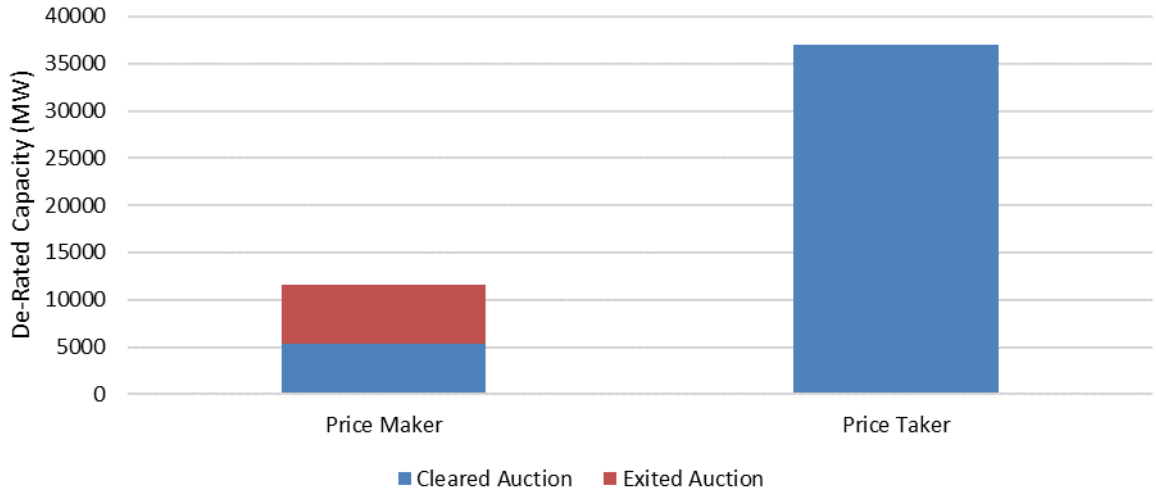
Figure 65: Proxy Exit Bid price changes by CMU in the 2021/22 T-4 Auction



5.14 Price Makers accounted for 24% of total submitted Capacity in the 2021/22 T-4 Auction, totalling approximately 11.6 GW of De-rated Capacity. As illustrated in Figure 66 below, Price Makers represented the largest share of Capacity exiting the Auction totalling 6.2

GW. Price Takers accounted for 76% of total submitted Capacity offered in the Auction, totalling 37.0 GW. Every CMU that was a Price Takers cleared due to the Clearing Price being above £25/kW-year.

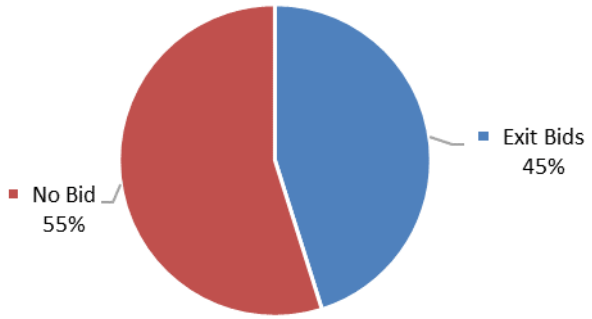
Figure 66: Cleared and exited Capacity by Price Makers and Price Takers in the 2021/22 T-4 Auction



Summary of bidding behaviour in the 2021/22 T-1 Auction

5.15 Figure 67 illustrates that 45% of participants submitted Bids into the T-1 CM Auction, and that 55% were CMUs that did not submit an Exit Bid. The strategy of not bidding requires that CMUs remain in the T-1 Auction and receive the Capacity market Auction Clearing Price, entitling them to a Capacity Agreement.

Figure 67: Bidding approaches for CMUs in the 2021/22 T-1 Auction



5.16 This 45% includes CMUs submitting proxy and non-proxy Exit Bids. As there was only 1 round in this auction there were no price changes for CMUs that submitted Proxy Exit Bids.

5.17 Price Makers accounted for 69% of total submitted Capacity in the 2021/22 T-1 Auction, totalling approximately 3.4 GW of Capacity entering the Auction. Price Takers accounted for 31% of total submitted Capacity offered in the Auction, totalling approximately 1.5 GW. All this Capacity was accepted due to the target Capacity being higher than the Capacity entering the Auction.

6. Delivery Milestones

6.1 This section provides a summary of the performance of CMUs against meeting their milestones from obtaining CM agreements to delivery, including investment, construction and testing. New Build CMUs are required to meet financial and construction milestones in order to participate for the Delivery Year.

Delivery milestones for Auctions (2016-2022)

6.2 Successful New Build Generating, Refurbishing and New Build Interconnector CMUs (i.e. Prospective CMUs) must meet a number of pre-Delivery Year milestones.

6.3 New Build CMUs are required to achieve the Financial Commitment Milestone (FCM)[64] and Substantial Completion Milestone (SCM) by deadlines specified in the CM Rules.[65] A failure to do so can result in a loss of CM payments, and/or a termination of their CM agreement.[66]

Table 15: Successful New Build Capacity/CMUs, Auction milestones achieved, and all terminated De-rated Capacity to date

Auction	Successful New Build and Post Refurbished Capacity (GW)	Successful New Build and Post Refurbished CMUs	Capacity met FCM	Capacity met SCM	Total Terminated Capacity (GW)	Total Terminated CMUs
2016/17 T-4 (DY 2020/21)	3.549	128	100.0%	93.6%	2.1	10
2019/20 T-1 (DY 2020/21)	0.076	14	100.0%	97.6%	0.005	2
2017/18 T-4 (DY 2021/22)	2.558	45	100.0%	68.8%	2.8	69
2020/21 T-1	0.261	40	100.0%	100.0%	0.032	4

[64] Financial Commitment Milestone is a requirement on the Capacity Provider to demonstrate that 10% of total project spend for that CMUs has incurred.
[65] Minimum Completion Requirement obligates the Capacity Provider to have an aggregate physical generating Capacity De-rated exceeding 50% of its Capacity Obligation. Substantial Completion Milestone requires the CMU to demonstrate an aggregate physical generating Capacity De-rated equal or exceeding 90% of its Capacity Obligation. A failure to achieve these milestones by a specified date may result in a loss of CM payments, or a termination of the Capacity Obligation.
[66] Progress towards meeting these milestones is monitored by a requirement on Prospective Capacity Provider to submit construction reports to the Delivery Body until the SCM is achieved.

(DY 2021/22)						
2019/20 T-3 (DY 2022/23)	3.079	39	99.8%	71.0%	1.5	9
2021/22 T-1 (DY 2022/23)	1.365	63	84.3%	0%	N/A	N/A
2019/20 T-4 (DY 2023/24)	4.333	87	99.9%	71.2%	0.1	14
2020/21 T-4 (DY 2024/25)	5.254	87	82.6%	40.3%	N/A	N/A
2021/22 T-4 (DY 2025/26)	4.884	136	60.5%	0%	N/A	N/A

Milestones by Auction Overview

6.4 For the 2016 T-4 Auction, 100% of New Build and Refurbishing Capacity met the FCM and approximately 94% have met the SCM.[67] 10 CMUs have been terminated to date which totals 2.1GW of De-rated Capacity. 4 of these CMUs were New Build and Refurbishing generating which made up 532 MW of the De-rated Capacity which was terminated.[68]

6.5 For the 2019 T-1 Auction, 100% of New Build and Refurbishing Capacity met the FCM and approximately 98% have met the SCM.[69] 2 CMUs have been terminated to date which totals 5 MW. These were from an Existing Generating CMU and an Unproven DSR.[70]

6.6 For the 2017 T-4 Auction, 100% of New Build and Refurbishing Capacity met the FCM and approximately 69% have met the SCM.[71] 69 CMUs have been terminated to date which totals 2.8GW. 29 of these CMUs were New Build and Refurbishing CMUs which made up 861 MW of the De-rated Capacity that was terminated.[72]

6.7 For the 2020 T-1 Auction, 100% of New Build and Refurbishing Capacity met the FCM and SCM.[73] 4 CMUs have been terminated to date which totals 32 MW. 2 of these CMUs

[67] Data provided by the Delivery Body on 01 April 2022
[68] CMR 2016 T-4 Auction data (published 23 February 2022)
[69] Data provided by the Delivery Body on 01 April 2022
[70] CMR 2019 T-1 Auction data (published 23 February 2022)
[71] Data provided by the Delivery Body 01 April 2022
[72] CMR 2017 T-4 Auction data (published 16 February 2022)
[73] Data provided by the Delivery Body 01 April 2022

were New Build Generating CMUs which made up 30 MW of the De-rated Capacity that was terminated.[74]

6.8 For the 2019 T-3 Auction, approximately 99.8% of New Build and Refurbishing Capacity met the FCM and approximately 71% have met the SCM.[75] 9 CMUs have been terminated to date which totals 1.5 GW. 3 of these CMUs were New Build CMUs which made up 7 MW of the De-rated Capacity that was terminated. [76]

6.9 For the 2021 T-1 Auction, approximately 84% of New Build and Refurbishing Capacity met the FCM and 0% have met the SCM.[77] No CMUs have been terminated to date.[78]

6.10 For the 2019 T-4 Auction, approximately 99.9% of New Build and Refurbishing Capacity met the FCM and approximately 71% have met the SCM.[79] 14 CMUs have been terminated to date which totals 118 MW. 12 of these were New Build CMUs which made up 107 MW of the De-rated Capacity that was terminated.[80]

6.11 For the 2020 T-4 Auction, approximately 83% of New Build and Refurbishing Capacity met the FCM and approximately 40% have met the SCM.[81] No CMUs have been terminated to date.[82]

6.12 For the 2021 T-4 Auction, approximately 61% of New Build and Refurbishing Capacity met the FCM and 0% have met the SCM.[83] No CMUs have been terminated to date.[84]

Metering Assessment

6.13 Prior to or after Prequalification a CMU must complete a Metering Assessment questionnaire. The questionnaire will then determine if the CMU is subject to a Meter Test. Meter Tests are conducted by EMR Settlement Limited (EMRS)[85] who subsequently

[74] CMR 2020 T-1 Auction data (published 23 February 2022)
[75] Data provided by the Delivery Body on 01 April 2022
[76] CMR 2019 T-3 Auction data (published 23 February 2022).
[77] Data provided by the Delivery Body on 01 April 2022
[78] CMR 2021 T-1 Auction data (published 25 February 2022)
[79] Data provided by the Delivery Body on 01 April 2022
[80] CMR 2019 T-4 Auction data (published 23 February 2022).
[81] Data provided by the Delivery Body on 01 April 2022
[82] CMR 2020 T-4 Auction data (published 23 February 2022
[83] Data provided by the Delivery Body on 01 April 2022
[84] CMR 2021 T-4 Auction data (published 23 February 2022)
[85] Acting on behalf of the Electricity Settlements Company (the CM Settlement Body)

provide a Meter Test Certificate if the CMU demonstrates it successfully met its obligation.[86]

6.14 The table below shows the number of CMUs that have submitted the Metering Assessment and those with outstanding requirements. The outstanding CMUs are subject to a number of different deadlines depending on the CMU categorisation they are given at Prequalification.[87] All CMUs have the option to defer the Metering Assessment at Prequalification and if required, the obligation to provide a Meter Test Certificate. Failing to meet the deadline or complete the questionnaire results in termination.[88]

Table 16: Metering assessment outcomes for Delivery Years 2020/21 to 2025/26[89]

Auction	Metering Assessment Submitted	Outstanding Metering Assessment
2016/17 T-4 (DY 2020/21)	551	53
2019/20 T-1 (DY 2020/21)	33	0
2017/18 T-4 (DY 2021/22)	417	14
2020/21 T-1 (DY 2021/22)	176	0
2019/20 T-3 (DY 2022/23)	341	25
2021/22 T-1 (DY 2022/23)	119	107
2019/20 T-4 (DY 2023/24)	392	92
2020/21 T-4 (DY 2024/25)	326	165
2021/22 T-4 (DY 2025/26)	297	277

[86] CM rules - 13.3.6
[87] CM rules - 3.6.4, 3.10, 8.3
[88] CM rules - 6.10
[89] Data received from the Delivery Body on 01 April 2022.

7. Delivery Year Performance

7.1 This section provides a progress report on Delivery Year performance for the 2020/21 and 2021/22 Delivery Years. Specifically, this section covers the Satisfactory Performance Days ("SPD") for the 2014/15 T-4, 2015/16 T-4, 2016/17 T-4, 2019/20 T-1 Auctions for Delivery Year 2020/21 and the 2014/15 T-4, 2015/16 T-4, 2016-17 T-4, 2017/18 T-4 and 2020/21 T-1 Auctions for Delivery Year 2021/22.

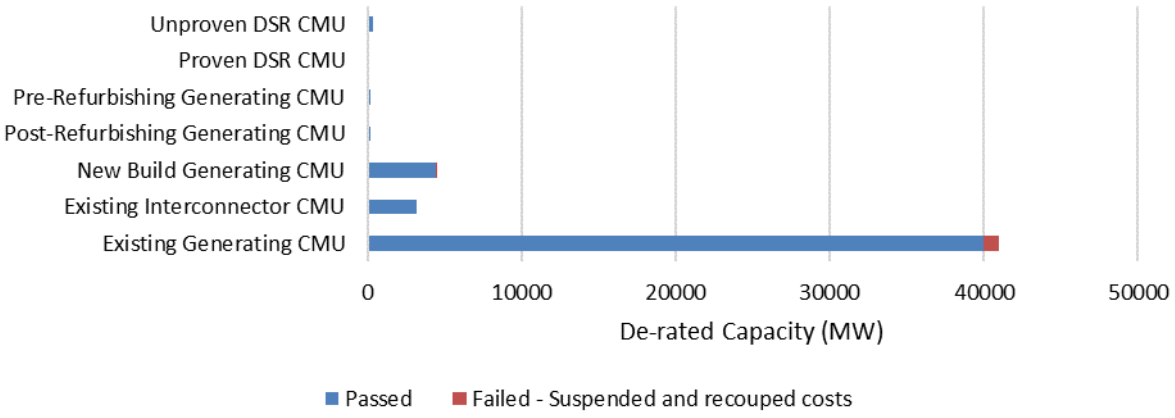
Satisfactory Performance Days

7.2 Capacity Providers are obligated to meet capacity obligations as set in their Capacity Agreement Notice (CAN).

Delivery Year 2020/21

7.3 As of 30 March 2022, approximately 1% of CMUs (not including secondary trades) with Capacity Agreements had failed to meet the SPD for Delivery Year 2020/21 (Figure 68). This accounted to 1 GW of De-rated Capacity. Existing Generating CMUs (998 MW) accounted for 99% of the total De-rated Capacity failing to meet SPD criteria, followed by New Build Generating CMU at 1%. In total, 98% of De-rated Capacity had passed SPD criteria.[90]

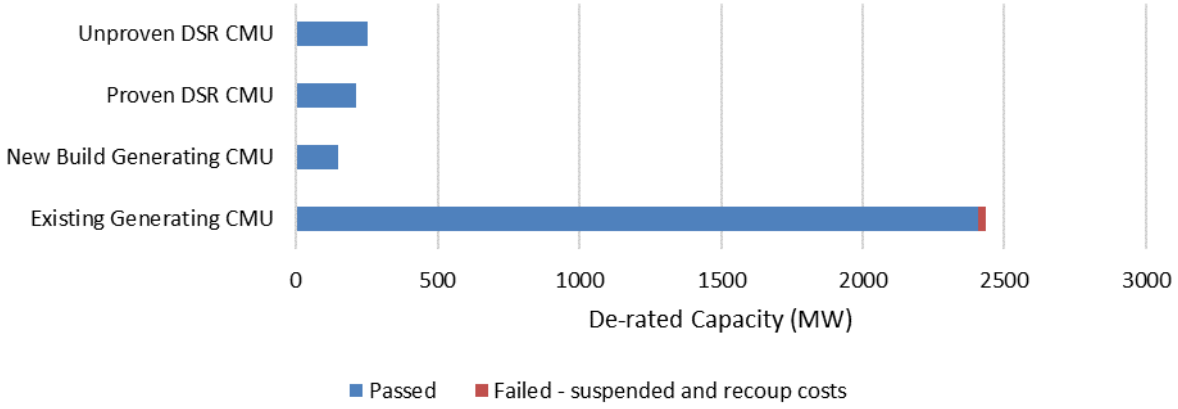
Figure 68: Satisfactory Performance Days by CMU category for the Delivery Year 2020/21 not including secondary trading (as of 30 March 2022)



[90] Data provided by the Delivery Body on 24 May 2022

7.4 Figure 69 shows Transferee CMUs that are required to meet the SPD criteria. As of 30 March 2022, a total of 119 CMU Transferees had passed SPD criteria. Existing Generating CMUs accounted for the largest passed SPD volume totalling 2.4 GW, followed by Unproven DSR CMUs at 254 MW, Proven DSR CMUs 212 MW and New Build Generating CMUs with 148 MW of passed volume. A total of 7 CMUs failed SPD criteria. These were all Existing Generating CMUs with a total De-rated Capacity of 30 MW. [91]

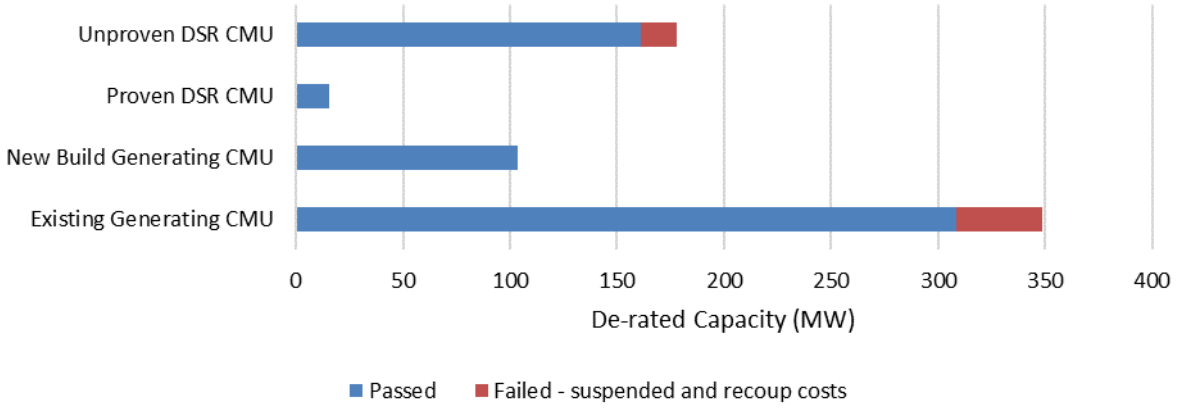
Figure 69: Satisfactory Performance Days by CMU category for the Delivery Year 2020/21 for Transferee's in secondary trading (as of 30 March 2022)



7.5 Figure 70 shows Transferor CMUs that were still required to meet SPD Criteria in the Delivery Year 2020/21. As of 30 March 2022, a total of 26 CMUs with 588 MW of Capacity passed SPD criteria. Existing Generating CMUs accounted for the largest share of passed volume with 309 MW, followed by Unproven DSR CMUs with 161 MW, New Build Generating CMUs with 103MW and Proven DSR CMUs with 15 MW. There were 2 CMUs who failed to meet the SPD criteria for the Delivery Year 2020/21:one Existing Generating CMU with a De-rated Capacity of 40 MW and one Unproven DSR CMU with a De-rated Capacity of 17MW. [92]

[91] Data provided by the Delivery Body on 24 May 2022
[92] Data provided by the Delivery Body on 24 May 2022

Figure 70: Satisfactory Performance Days by CMU category for the Delivery Year 2020/21 for Transferor's in Secondary Trading (as of 30 March 2022)

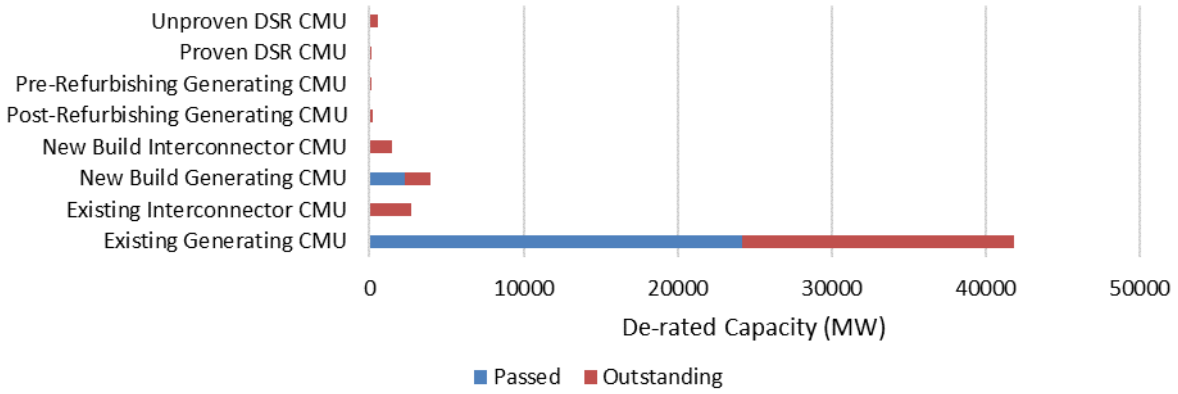


Delivery Year 2021/22

7.6 As of 30 March 2022, approximately 59% of CMUs with Capacity Agreements have an outstanding requirement to meet the SPD criteria for Delivery Year 2021/22 (Figure 71). The deadline for these units to pass the SPD criteria was 31/07/2022. The 59% of CMUs account for 24.4 GW of De-rated Capacity. Existing Generating CMUs (17.7 GW) make up 70% of the total De-rated Capacity that are still to meet the satisfactory performance day criteria, followed by Existing Interconnector CMUs at 11% (2.7 GW), New Build Generating CMUs at 7% (1.7 GW), New Build Interconnectors CMUs at 6% (1.5 GW), Unproven DSR CMUs at 2% (519 MW), Post-Refurbishing Generating CMUs (173 MW) and Proven DSRs (128 MW) with 1% and Pre-Refurbishing CMUs at less than 1% (37 MW). In total, 52% of De-rated Capacity have so far passed the SPD criteria.[93]

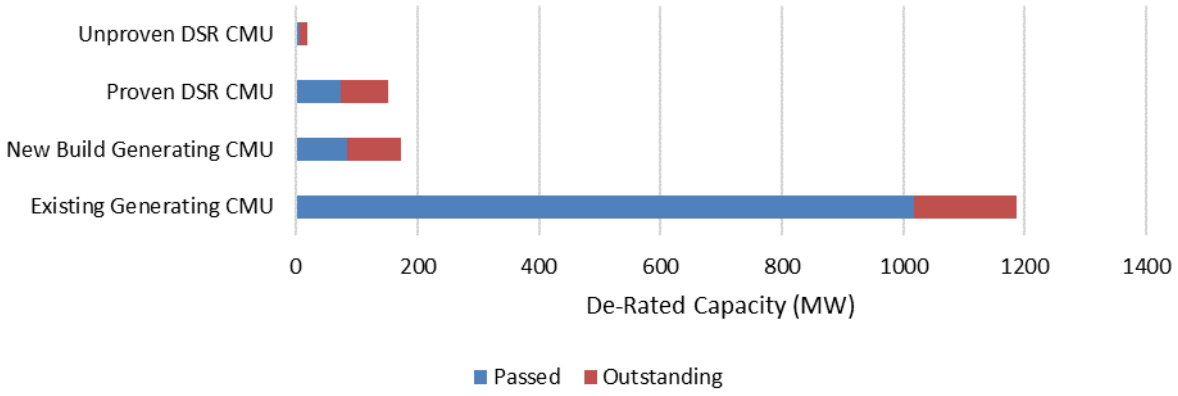
[93] Data provided by the Delivery Body on 24 May 2022

Figure 71: Satisfactory Performance Days by CMU category for the Delivery Year 2021/22 not including secondary trading (as of 30 March 2022)



7.7 Figure 72 shows Transferee CMUs that are required to meet the SPD criteria. As of 30 March 2022, a total of 47 CMU Transferees have passed SPD criteria. Existing Generating CMUs accounted for the largest passed SPD volume totalling 1.0 GW, followed by New Build Generating CMUs at 85 MW, Proven DSR CMUs at 73 MW and Unproven DSR CMUs with 5 MW of passed volume. A total of 39 CMU Transferees still have an outstanding requirement to meet SPD criteria. The majority of these are Existing Generating CMUs with a total De-rated Capacity of 169 MW. This is followed by New Build Generating CMUs at 89 MW, Proven DSR CMUs at 79MW and Unproven DSR CMUs at 14 MW. [94]

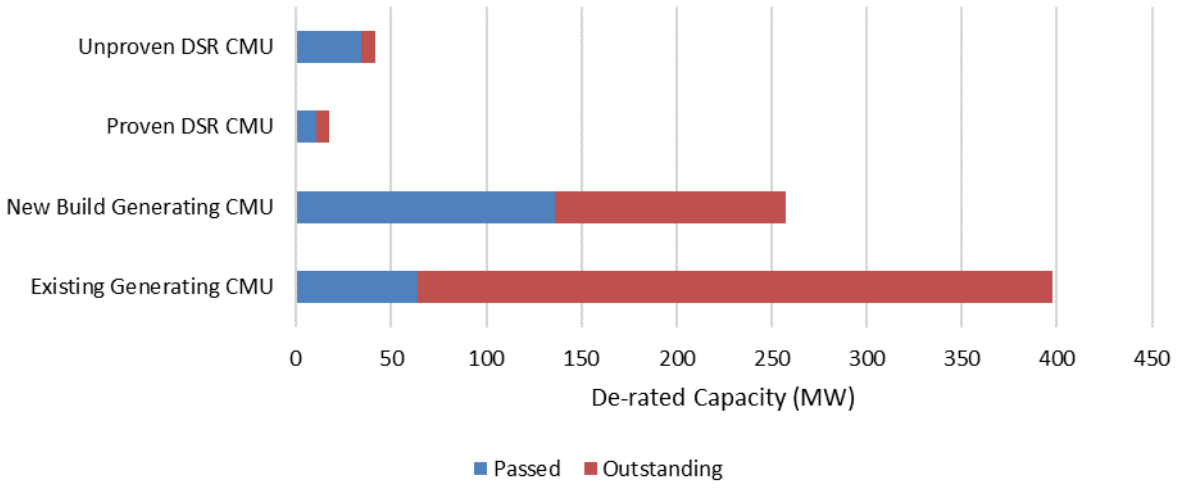
Figure 72: Satisfactory Performance Days by CMU category for the Delivery Year 2021/22 for Transferee's in secondary trading (as of 30 March 2022)



[94] Data provided by the Delivery Body on 24 May 2022

7.8 Figure 73 shows Transferor CMUs that are still required to meet SPD Criteria in the Delivery Year 2021/22. As of 30 March 2022, a total of 22 CMUs with 245 MW of De-rated Capacity passed SPD criteria. New Build Generating CMUs accounted for the largest share of passed volume with 136 MW followed by Existing Generating CMUs with 64 MW, Unproven DSR CMUs with 35 MW and Proven DSR CMUs with 11 MW. There are 19 CMUs who still have to meet the SPD criteria for the Delivery Year 2021/22: 9 Existing Generating CMUs with a De-rated Capacity of 333 MW, 6 New Build Generating CMUs with a De-rated Capacity of 122 MW, 1 Proven DSR CMU with a De-rated Capacity of 11 MW and 1 Unproven DSR CMU with a De-rated Capacity of 7 MW. [95]

Figure 73: Satisfactory Performance Days by CMU category for the Delivery Year 2021/22 for Transferor's in Secondary Trading (as of 30 March 2022)



[95] Data provided by the Delivery Body on 24 May 2022

8. Next steps

8.1 Ofgem will continue to play a key role in the CM, which includes:

- Responsibility for the CM Rules (the Rules)
- Oversight and enforcement powers over how the Delivery Body, suppliers and generators are complying with the Regulations and the Rules
- Determine disputes where participants disagree with a decision made by the Delivery Body
- Report on the effectiveness of the CM generally and on the Delivery Body's performance

8.2 We have recently decided to establish a Capacity Market Advisory Group (CMAG)[96] where Elexon will be the Secretariat. We are planning on having our inaugural CMAG meeting in the Autumn 2022, following our approval of Balancing and Settlement Code modification P440.[97]

8.3 We are planning to consider a further optimal approach for the format of the 2022/23 CM Operation Report, and we would welcome stakeholder views to get a better understanding on how this CM Operations report is used. This approach may include alternative and possibly streamlined reporting approaches. We would like to know the following from stakeholders:

- What the value of the CM Operations Report is to industry?
- Which parts of the Report are most useful?
- Are there any CM Operation areas where reporting is not currently available but could be useful?

[96] Decision on establishing the Capacity Market Group (CMAG) | Ofgem
[97] https://www.elexon.co.uk/documents/change/modifications/p401-p450/p440-authority-decision-letter-v1-0/

If you have any thoughts on the above questions, please contact: Luke.McCartney@Ofgem.gov.uk