

Reducing Complexity in the Capacity Market Workstream

Expert Group members are asked to:

- **Note and provide comments on the scope, aim and objectives of the proposed ‘reducing complexity’ project.**
- **Consider the areas where they think this project should focus on.**
- **Indicate whether they would be willing to discuss possible areas for simplification in more detail at a meeting in early January.**

Aim and objective

To identify where (if appropriate) the design of the Capacity Market can be simplified

The objectives of this exercise are to:

- Reduce complexity in the Capacity Market;
- Reduce any administrative burdens on potential capacity providers and delivery partners; and
- Improve the investability of the Capacity Market.

This will be achieved by testing:

- The current Capacity Market design which is being consulted on to reduce complexity where possible; and
- Any proposed new policy / design for the Capacity Market to ensure complexity is not being added to its design.

Context

The EMR October 2013 consultation document includes the question (CM85), ‘*can the proposed design of the Capacity Market be simplified without sacrificing the ability for the mechanism to deliver the Government’s objectives*’.

Alongside this, throughout the consultation period (October – December), there have been repeated calls from industry and others for the Capacity Market design to be simplified. For example, at a ‘Lenders’ workshop (11th November), there was unanimous feedback to DECC of the need to “*simplify the Capacity Market so that the risks are better explained and understood by the banks and credit committees*”.

This workstream is therefore designed to examine whether:

- There are elements of the Capacity Market that could be simplified; and

- ii. Any new proposals to the Capacity Market's design add complexity unnecessarily.

Scope

The project will examine and look to reduce complexity in two areas:

- i. "Design complexity", i.e. where existing, and any proposed, designs could be simplified to still have the same effect. This will help reduce unnecessary costs to potential capacity providers and improve the investability of the Capacity Market.
- ii. "Administrative complexity", i.e. where existing and any new requirements on potential capacity providers and / or delivery partners could be streamlined to reduce administrative burdens.

Approach

To complete the aim and objectives, the approach will involve three main steps:

Step 1 – Analysing Capacity Market design at October consultation

This will involve:

- Liaising with: Design leads; Commercial; Legal; Delivery partners (National Grid, Ofgem and Elexon); Capacity Market Project board; and Capacity Market Expert group and Energy UK to identify candidate issues.
- Examining in detail with the relevant design lead (and others, e.g. National Grid) whether a candidate issue could be simplified and if so how (and if not, why).
- Analysing consultation responses (in particular against question CM85) to examine whether any additional issues are suggested that should be simplified (and if so, test).

Step 2 – Ensuring new design options do not add complexity

This will involve:

- Analysing new design proposals and identify any proposals which are likely to add complexity (design and / or administrative) to the Capacity Market;
- Discussing with design leads whether any of their new proposals will add complexity and if so, whether the proposal could be simplified (and how) and if not, why.

Step 3 – Producing paper

- Producing paper summarising findings:
 - Which aspects of the Capacity Market have been simplified and how;
 - How new proposals since the October consultation have been tested so that they do not add unnecessary complexity; and

- Why it is not possible to simplify some aspects of the Capacity Market that stakeholders have highlighted as needing to be simplified.

Timetable

To be taken forward between December and February so that any findings can be fed into the relevant policy instructions, as well as ensuring that new design proposals do not also add complexity.

Output

The output will be:

- i. Spreadsheet that details:
 - a. Design at consultation:
 - The specific element of the Capacity Market's design at consultation that was reviewed (e.g. penalty regime, levelised cost of entry, pre-qualification and entry requirements) ;
 - Whether there was any scope for simplifying and the reasons for / against; and
 - The recommended action if it was thought that simplification was possible.
 - b. New proposals since October:
 - Listing any new proposals (i.e. not all) that are likely to add complexity to the design / administration of the Capacity Market; and
 - How they have been simplified, or why it is not possible to simplify.
- ii. Paper summarising the findings (including how any new design proposals have been identified and tested) and explaining how complexity (design / administrative) has been minimised.