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REDUCING COMPLEXITY IN THE CAPACITY MARKET

Section 1: SUMMARY

- This paper summarises the findings from the 'reducing complexity' project, in particular:
  (i) The headline messages received on simplifying the Capacity Market;
  (ii) The recommended simplification measures to be implemented to help reduce complexity in the Capacity Market; and
  (iii) The list of all simplification suggestions received, including those not recommended be taken forward.

- Comments and support are sought from Expert Group members to the recommended simplification measures. Following this, the recommendations will be taken forward in detail by the respective design lead and included in the policy instructions.

Section 2: SUMMARY OF RECOMMENDATIONS

- Between December 2013 and January 2014, work was undertaken to examine the feasibility of reducing complexity in the Capacity Market. This involved analysing consultation responses, engaging with stakeholders and working with design leads. By undertaking this work, a number of the Capacity Market's design areas can be simplified.

- The recommended simplification measures are set out in annex A for comment. The measures focus on reducing complexity in the design areas of: eligibility and pre-qualification; capacity auction; delivery (including penalties and over-delivery payments); and payment.

- The list of all simplification suggestions received is included in annex B for reference.

- Annex C provides detail on the proposal to streamline the re-application process for previously qualified applicants.

- Following approval the recommendations will then be taken forward by the respective design lead to develop the detailed change and integrate it within their revised policy instructions (rather than through specific simplification instructions).

Section 3: BACKGROUND

- The aim of the simplification work is to:
  Identify where (if appropriate) the design of the Capacity Market can be simplified

- The objectives of the work are to:

(i) Reduce complexity in the Capacity Market (i.e. look to simplify existing design to still have the same effect or remove provisions deemed unnecessary); and
(ii) Reduce any administrative burdens on potential capacity providers and delivery partners (i.e. where processes could be streamlined to reduce costs)

- To achieve the aim and objectives the work has involved:
  (i) Analysing the responses to the October consultation;
  (ii) Engaging within DECC, other Government Departments, delivery partners and industry; and
  (iii) Discussing with design leads.

- The aim, objectives and approach were signed off at the 11th December Project Board and 17th December Expert Group meetings.

- As a result of analysing the simplification suggestions received, it is apparent that suggestions fall into three categories:
  (i) Suggestions that if implemented will help reduce complexity in the Capacity Market, e.g. introducing a flat penalty rate (£/kWh) into the Regulations rather than basing it on a fluctuating rate based on Value of Lost Load minus Cash Out.
  (ii) Suggestions that are in fact fundamental design changes that do not impact positively or negatively on the complexity of the Capacity Market, e.g. splitting the capacity auction into one for existing plant and one for new plant; and
  (iii) Suggestions that when worked through could potentially add to the complexity of the Capacity Market, particularly once it is operational (e.g. de-rating).

- Taking into account the three categories of suggestions, the analysis showed that:
  (i) There is general agreement that the Capacity Market is complex and could be simplified, although there was a general guarding against radical re-design to achieve this;
  (ii) Simplification will help make the Capacity Market more investable and potentially reduces costs to capacity providers;
  (iii) There is agreement that areas such as pre-qualification and penalties should be streamlined;
  (iv) There is little consensus on the simplification measures needed to reduce complexity in the Capacity Market; and
  (v) A number of simplification suggestions are in fact fundamental design changes that, in some cases, actually increase complexity.

- It should be noted that suggestions that fall under the fifth category above (e.g. splitting the auction, grandfathering provisions) were not assessed as part of the simplification work as they are not simplification measures and analysis of these types of suggestions is being taken forward through other work streams.

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Section 4: PROPOSED CHANGES TO BASELINE POLICY DESIGN

- The recommended simplification measures will all have an impact on the baseline policy design. It should though be noted that as the simplification work is not seeking to replicate the detailed design work, the recommendations do not include the detailed change proposal for the majority of the recommendations (with the exception of the re-application proposal with further details provided in annex c). All the recommendations will be integrated into the policy instructions.

- The recommendations are listed in annex a. In summary, the recommendations will:
  - (i) Streamline the pre-qualification process, particularly for existing plant and the application process from Year 2;
  - (ii) Remove portfolio requirements, including the portfolio penalty cap;
  - (iii) Simplify the penalty regime;
  - (iv) Streamline anti-gaming measures (without weakening the necessary anti-gaming protections); and
  - (v) Result in administrative savings.

- It is expected that the impact of the recommendations will help reduce complexity, streamlining processes to improve the implementation of the Capacity Market, contribute to making the Capacity Market more investable and help reduce administrative burdens to both capacity providers and delivery partners.

Section 5: POLICY IMPLICATIONS

- Wider impact: the main impact of the simplification work is on potential capacity providers and delivery partners – helping to reduce complexity, streamline processes and minimise administrative burdens. In undertaking the forward, discussions were held with design leads, legal and commercial, delivery partners and industry.

- Industry resolution process: n/a

- Legal: as highlighted throughout this paper, the recommended measures will be integrated into revised policy instructions to be delivered by the respective design lead rather than through specific 'simplification instructions'.

- Simplification: the impact of the recommended measures will be to reduce complexity and minimise administrative burdens on potential capacity providers and delivery partners.

Section 6: NEXT STEPS

- Following agreement to the final recommended simplification measures, the detailed proposals will be finalised and integrated into policy instructions.

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ANNEX A:
RECOMMENDED SIMPLICATION MEASURES

	Area of Capacity Market design	Specific design issue	Recommendation	Impact of recommendation
1	**Eligibility and pre-qualification**	Pre-qualification process for existing plant	Streamline requirements, including: • Rationalise the number of certificates / declarations that need to be submitted; • Consider whether existing plant can provide certain information on request rather than making it mandatory that some information has to be provided (e.g. connection arrangement, generation licence, transmission entry capacity and historic performance); • Require only one board signatory per certificate (along with excerpt from board meeting); • Giving a provider the choice of submitting a certificate for each CMU or aggregating up to plant level; • Allowing a provider to make an application which comprises all their individual CMUs rather than submitting an application per CMU (although an applicant would still need to provide the basic requirements of each CMU – but not individual board certificates etc); and • National Grid pre-populating data for pre-qualification from Year 2 (i.e. using data from previous pre-qualification where the applicant confirms there is no change in the data) (see re-application proposal)	Streamlines pre-qualification process significantly, reducing administrative costs to existing plant and potentially National Grid.

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	Area of Capacity Market design	Specific design issue	Recommendation	Impact of recommendation
2	**Eligibility and pre-qualification**	Re-application process for previously qualified applicants (annex c for more information)	To look to streamline the re-application process for previously qualified applicants, so that: • All applicants who successfully pre-qualified in a previous Capacity Market year and wish to re-apply do not need to re-submit all basic application data • Applicants still have a duty to check all data and confirm no changes (signing a declaration) or amend where necessary • An applicant's details are stored on the online application portal. If the applicant wishes to re-apply, their details are automatically brought up and amendments can be made • Applicants must still submit any amended items and the following information: - Declaration of solvency - Previous settlement period performance data if outside a valid timeline - Grid Code compliance - Business plan • All existing CMU applicants who successfully pre-qualified in a previous Capacity Market year and whose proven capacity remains the same do not need to undertake verification checks • DSR applicants with an existing CDR Test Certificate and an unchanged proven capacity do not need to re-apply for another CDR Test Certificate	Contributes to streamlining the pre-qualification process and reduces administrative burdens from Year 2 onwards for previously qualified applicants In particular it reduces the number of items required for the re-application process for previously qualified applicants

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	Area of Capacity Market design	Specific design issue	Recommendation	Impact of recommendation
3	**Eligibility and pre-qualification**	Low carbon support letters	Applicants should be able to self-declare confirming they are not in receipt of low carbon support and Ofgem can carry out random spot tests	Reduced administrative burden, in particular to capacity providers and Ofgem
4	**Eligibility and pre-qualification**	Portfolio holder requirements	Remove portfolio holder provisions in the Rules (linked to portfolio penalty cap removal)	Reduces complexity – portfolio arrangements are complex – and removes potential barriers to participation Administrative burdens are reduced by removing requirement to provide a level of detail at the corporate level
5	**Eligibility and pre-qualification**	Refurbishment category	Refurbishment requirements should be re-evaluated, particularly the requirement for all work to be completed within 24 months following receipt of a Capacity Agreement	May reduce complexity of refurbishment requirements
6	**Eligibility and pre-qualification**	Financial requirements for new plant / milestone tests for new plant	Proposal is to retain up-front collateral requirements and re-define the 50% spend test – which now becomes 10% of total project costs or project commitment (i.e. director's certification, signed EPC contract or sign contracts >20% total project costs) Milestone test will be applied 18 months post auction rather than 12 months	Reduced complexity for providers of new plant
7	**Eligibility and pre-qualification**	CMU definition	Work with industry to align CMU definition with BSC's BMU definition with the aim of enabling applicants to define what constitutes a CMU, which would allow several BMUs to be in a CMU	Harmonising CMU / BMU definitions will reduce complexity for applicants and may also make performance monitoring and processes more streamlined

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	Area of Capacity Market design	Specific design issue	Recommendation	Impact of recommendation
8	**Auction**	Price taker	Retain as important to design (and any possible investigation into price manipulation) but increase price taker threshold based on new analysis	Revise price taker threshold on the latest analysis. Any increase will reduce administrative burdens on both capacity providers and National Grid as number of justifications prepared / submitted likely to reduce
9	**Auction**	Anti-gaming measures	Streamline anti-gaming measures in the Rules, specifically: - Remove rule 5.11.2 as unworkable (i.e. very difficult to police / enforce and should be covered by the certificate of ethical conduct); - Remove rule 3.5.8(f) as provision to disclose the "Chinese wall arrangements" within joint ventures is a considerable administrative overhead and such disclosures are anyway illegal under competition law (so no need to be repeated); and Consider whether any anti-gaming provisions replicate existing legislative requirements and so can be removed	Will contribute to reducing complexity through simplifying some of the rules covering anti-gaming measures
10	**Delivery – including penalties and over-delivery payments**	Penalty rate	Introduce a flat penalty rate hard wired into the Regulations	Introducing a specific penalty rate in the Regulations will reduce complexity and increase certainty to providers by making it clear upfront what the penalty rate will be

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	Area of Capacity Market design	Specific design issue	Recommendation	Impact of recommendation
11	**Delivery – including penalties and over-delivery payments**	Portfolio penalty cap	Portfolio cap on penalties should be removed (linked to removal to portfolio holder requirements)	Reduced complexity (and risk) as penalties will be capped at plant level rather than portfolio. Reduces complexity in the Rules as need for portfolio adjustment payer (and accompanying algebra) is no longer required
12	**Delivery – including penalties and over-delivery payments**	Penalty cap	TBC – monthly penalty cap of [x% tbc] of monthly capacity payments	The penalty regime is seen as complex and these changes will help reduce complexity by allowing providers to manage risk more easily. In addition, monthly cap will make settlement quicker and less complex
13	**Delivery – including penalties and over-delivery payments**	Obligations / penalties applying 0-4 hours following CM Warning	No obligations / in-year penalties should apply before the stress event comes into force (i.e. 4 hours after the issuing of the CM Warning) Propose that performance in the 0-4 hour period will be considered for adjustments to subsequent years de-rating figure	Reduces complexity as avoids putting some providers at a higher obligation than others and provides upfront clarity on what is required of a capacity provider once a CM Warning is issued (i.e. obligations only come into effect 4 hours after warning)
14	**Delivery – including penalties and over-delivery payments**	Load Following Obligation	Design lead and National Grid to consider whether load following obligation should be determined ahead of a stress event rather than after the event This could be based on the System Operator's demand forecast and determining the actual need for capacity (i.e. Demand Forecast and the output of non-Capacity Market plant)	Reduces complexity as increases certainty upfront on its obligation during a specific stress event

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	Area of Capacity Market design	Specific design issue	Recommendation	Impact of recommendation
15	**Payment**	Settlement timetable and charging methodology	Shorten payment timetable and simplify method of assigning share of capacity market charge to suppliers to reduce variability	Shortened settlement timetable means providers will be paid more quickly (proposal is for payments to be made 27 working days after the end of a capacity month instead of the current 37 that is proposed) Simplified charging methodology
16	**Payment**	Alignment of payment regulations with CfD regulations	Align Capacity Market payment regulations with CfD regulations, specifically ensuring consistency on Settlement Body – Counterparty roles and treatment of Elexon in the regulations	Better alignment of Capacity Market – CfD payment regulations will help reduce complexity to suppliers and providers. Will impact positively operationally as payment for both will be administered and settled using the same systems

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ANNEX B:
LONG LIST OF SIMPLIFICATION SUGGESTIONS

	Area of Capacity Market design	Specific design issue	Baseline	Suggested action to simplify	Recommendation	Impact of recommended simplification measure
	Amount to auction	*N/a – no suggested simplification measures received / identified*				
1	**Eligibility and pre-qualification**	Pre-qualification process for existing plant	The purpose of pre-qualification is to ensure that participants in the Capacity Market auction can deliver the capacity they offer and ensure that National Grid has the best information available for adjusting the amount to auction. Specific rules will apply for pre-qualifying, de-rating, metering and baselining DSR capacity	a. Should be streamlined, it is too onerous and some of the requirements (e.g. providing connection arrangement) are not required b. A single applicant should not have to register each of its units separately c. Existing plants do not need to include generation licence status, details of connection / distribution agreements, transmission entry capacity and historic performance d. National Grid / Elexon should pre-populate details of existing plant held on their respective systems e. When submitting certificates, only one board signatory should be required f. Remove provision that applicants have to declare that all information in all their declarations are true and correct	Streamline requirements, including: • Rationalise the number of certificates / declarations that need to be submitted; • Consider whether existing plant can provide certain information on request rather than making it mandatory that some information has to be provided (e.g. connection arrangement, generation licence, transmission entry capacity and historic performance); • Require only one board signatory per certificate (along with excerpt from board meeting); • Giving a provider the choice of submitting a certificate for each CMU or aggregating up to plant level; • Allowing a provider to make an application which comprises all their individual CMUs rather than submitting an application per CMU (although an applicant would still need to provide the basic requirements of each CMU – but not individual board certificates etc); and • National Grid pre-populating data for pre-qualification from Year 2 (i.e. using data from previous pre-qualification where the applicant confirms there is no change in the data) (see re-application proposal)	Streamlines pre-qualification process significantly, reducing administrative costs to existing plant and potentially National Grid.

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	Area of Capacity Market design	Specific design issue	Baseline	Suggested action to simplify	Recommendation	Impact of recommended simplification measure
2	**Eligibility and pre-qualification**	Re-application process for previously qualified applicants (annex c for more information)	Applicants need to follow pre-qualification requirements, even if previously qualified	To streamline the re-application process for previously qualified applicants	To look to streamline the re-application process for previously qualified applicants, so that: • All applicants who successfully pre-qualified in a previous Capacity Market year and wish to re-apply do not need to re-submit all basic application data • Applicants still have a duty to check all data and confirm no changes (signing a declaration) or amend where necessary • An applicant's details are stored on the online application portal. If the applicant wishes to re-apply, their details are automatically brought up and amendments can be made • Applicants must still submit any amended items and the following information: - Declaration of solvency - Previous settlement period performance data if outside a valid timeline - Grid Code compliance - Business plan • All existing CMU applicants who successfully pre-qualified in a previous Capacity Market year and whose proven capacity remains the same do not need to undertake verification checks • DSR applicants with an existing CDR Test Certificate and an unchanged proven capacity do not need to re-apply for another CDR Test Certificate	Contributes to streamlining the pre-qualification process and reduces administrative burdens from Year 2 onwards for previously qualified applicants In particular it reduces the number of items required for the re-application process for previously qualified applicants

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	Area of Capacity Market design	Specific design issue	Baseline	Suggested action to simplify	Recommendation	Impact of recommended simplification measure
3	**Eligibility and pre-qualification**	Low carbon support letters	To verify that plants opting in to the Capacity Market are not in receipt of low carbon support	Those eligible should be able to self-declare about confirming whether they are not in receipt of low carbon support rather than requiring confirmation from Ofgem / counterparty	Applicants should be able to self-declare confirming they are not in receipt of low carbon support and Ofgem can carry out random spot tests	Reduced administrative burden, in particular to capacity providers and Ofgem
4	**Eligibility and pre-qualification**	Portfolio holder	Arrangements set out for determining a portfolio holder for a CMU	Overly complex and bureaucratic	Remove portfolio holder provisions in the Rules (linked to portfolio penalty cap removal)	Reduces complexity – portfolio arrangements are complex – and removes potential barriers to participation Administrative burdens are reduced by removing requirement to provide a level of detail at the corporate level
5	**Eligibility and pre-qualification**	Refurbishment category	To give incentive to existing plant to undertake significant refurbish and stay on the system	a. The category should be scrapped b. Should be removed and instead all existing plant should be able to choose an agreement length of up to 3 years c. Financial thresholds are too high and should be re-evaluated d. Eligibility requirements for a "refurbishment agreement" should be simpler and less onerous	Refurbishment requirements should be re-evaluated, particularly the requirement for all work to be completed within 24 months following receipt of a Capacity Agreement	May reduce complexity of refurbishment requirements

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	Area of Capacity Market design	Specific design issue	Baseline	Suggested action to simplify	Recommendation	Impact of recommended simplification measure
6	**Eligibility and pre-qualification**	Financial requirements for new plant / milestone tests for new plant	To ensure plants under construction holding capacity agreements have strong incentives to build on time.	a. All requirements on new plant to provide upfront financial collateral should be removed. Instead monitoring and milestone requirements should be strengthened b. 50% spend test for new plant is not workable	Proposal is to retain up-front collateral requirements and re-define the 50% spend test – which now becomes 10% of total project costs or project commitment (i.e. director's certification, signed EPC contract or sign contracts >20% total project costs) Milestone test will be applied 18 months post auction rather than 12 months	Reduced complexity for providers of new plant
7	**Eligibility and pre-qualification**	CMU definition	Proposed three types of generating CMUs providing detailed description of each CMU and how they are defined	The CMU definition should, where possible, be better aligned with the BSC's BMU definition	Work with industry to align CMU definition with BSC's BMU definition with the aim of enabling applicants to define what constitutes a CMU, which would allow several BMUs to be in a CMU	Harmonising CMU / BMU definitions will reduce complexity for applicants and may also make performance monitoring and processes more streamlined
8	**Eligibility and pre-qualification**	De-rating	Seeks to establish the amount of capacity each plant can be relied upon to deliver.	a. Capacity providers should be allowed to choose their own de-rating b. There should just be the National Grid provided central de-rating with no deviation allowed	Proposal (a) is not recommended – due to potential gaming risks. However, de-rating policy ins being re-examined, recommendation tbc	

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	Area of Capacity Market design	Specific design issue	Baseline	Suggested action to simplify	Recommendation	Impact of recommended simplification measure
9	**Auction**	Price taker	Existing generating CMUs will default to being a price taker unless they submit evidence, approved by their board, that they need to bid higher Contributes to mitigating against potential abuse of market power	a. Scrap the price taker requirement as competitive forces will ensure that the auction clears at the correct price b. Increase price taker threshold to reduce administrative burden on existing plant having to make case to bid above price taker threshold	Retain as important to design (and any possible investigation into price manipulation) but increase price taker threshold based on new analysis	Increasing the price taker threshold will reduce the number of price taker justifications which will reduce administrative burdens on both capacity providers and National Grid
10	**Auction**	Price maker memorandum	To be lodged with the Law Debenture	Scrap the requirement that the Price Maker Memorandum has to be lodged with the Law Debenture	No change – providers will have to write the memorandum in any case and any administrative saving would be minimal	
11	**Auction**	Length of capacity agreements	The provision of longer agreements for providers undertaking significant capital expenditure will give providers an appropriate degree of longer-term certainty when taking their investment decisions	Have one year contracts for all categories of plant	Reject, important to provide incentives to new plant and existing plant undergoing significant refurbishment	

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	Area of Capacity Market design	Specific design issue	Baseline	Suggested action to simplify	Recommendation	Impact of recommended simplification measure
12	**Auction**	Anti-gaming measures	The auction rules will include a specific prohibition on Capacity Market participants engaging in market manipulation and insider trading	Scrap the ethical requirement declaration and anti-gaming measures that do not add anything beyond existing legislation (i.e. in the Competition Act)	Streamline anti-gaming measures in the Rules, specifically: - Remove rule 5.11.2 as unworkable (i.e. very difficult to police / enforce and should be covered by the certificate of ethical conduct); - Remove rule 3.5.8(f) as provision to disclose the "Chinese wall arrangements" within joint ventures is a considerable administrative overhead and such disclosures are anyway illegal under competition law (so no need to be repeated); and Consider whether any anti-gaming provisions replicate existing legislative requirements and so can be removed	Will contribute to reducing complexity through simplifying some of the rules covering anti-gaming measures
13	**Auction**	Splitting capacity auctions	Currently proposing one auction with new and existing (and DSR) plant participating	Capacity auctions should be split; one for existing / refurbished plant + DSR; one for new plant	Not a simplification measure – significant design change. Not considered as part of the simplification work	

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	Area of Capacity Market design	Specific design issue	Baseline	Suggested action to simplify	Recommendation	Impact of recommended simplification measure
14	**Secondary trading**	Restrictions to secondary trading are lifted / amended as financial trading requires symmetry between penalties and over-delivery payments which is not there	Secondary trading is an important tool for parties to manage their risk of exposure to Capacity Market penalties. Secondary trading can be physical or financial.	a. Restrictions on physical should be lifted b. A CMU is able to nominate their output to someone else's account so that a CMU's MW is traded to become someone else's c. Secondary trading should be removed, capacity providers should manage their own risk, e.g. by using performance contracts with those operating plant / maintaining plant manage risk and penalties d. Secondary trading should be removed from design of Capacity Market, no need for Government to get involved – let the market evolve secondary trading	Secondary trading is being looked at in detail with industry and therefore not considered within the simplification work	
15	**Delivery – including penalties and over-delivery payments**	Application of penalties	Capacity agreements oblige participants to deliver a specified quantity of electricity in system stress periods	Penalties should be based on availability during a stress event rather than delivered energy	Not a simplification measure – significant design change. Not considered as part of the simplification work	

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	Area of Capacity Market design	Specific design issue	Baseline	Suggested action to simplify	Recommendation	Impact of recommended simplification measure
16	**Delivery – including penalties and over-delivery payments**	Penalty rate	Penalties will be based on the value of lost load minus cash out using formula to determine rate of penalty	Introduce a single penalty rate (£/MWh) hardwired into the Regulations rather than basing it on a formula (VoLL minus cashout)	Introduce a flat penalty rate hard wired into the Regulations	Introducing a specific penalty rate in the Regulations will reduce complexity and increase certainty to providers by making it clear upfront what the penalty rate will be
17	**Delivery – including penalties and over-delivery payments**	Portfolio penalty cap	Providers' performance will be assessed at a portfolio level, in addition, the penalty cap will also apply to a portfolio	Remove portfolio cap on penalties	Portfolio cap on penalties should be removed (linked to removal to portfolio holder requirements)	Reduced complexity (and risk) as penalties will be capped at plant level rather than portfolio. Reduces complexity in the Rules as need for portfolio adjustment payer (and accompanying algebra) is no longer required

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	Area of Capacity Market design	Specific design issue	Baseline	Suggested action to simplify	Recommendation	Impact of recommended simplification measure
18	**Delivery – including penalties and over-delivery payments**	Penalty cap	Providers' total penalty exposure in a delivery year will be capped at a multiple of the relevant auction's clearing price multiplied by their MW of capacity agreements held – proposed to be 101%-150% of the unit's annual capacity revenue to minimise the risk of gaming	a. Introduce monthly penalty cap and cap at 100% b. Change penalty regime to: - For existing plant: "3 strikes and out" provision (i.e. if not turn up on 3 occasions, barred from participating in next 2 CM delivery years, but not financial penalty) - For new plant: deductions for unavailability (5% on each occasion unavailable) c. Introduce differential penalty caps: - Existing plant: 100% cap - New plant: incremental caps based on agreement length (i.e. 0-5 years 30%; 5-8 60%; 9-10 90%) d. Maximum penalty for failure to deliver in a single scarcity event should be set in proportion to the number of scarcity events that are expected in the year (determined by statistical average)	Number of penalty cap suggestions are fundamental design changes and do not reduce complexity. But penalty regime is seen as complex and re-examining penalty caps may allow secondary trading to take place more easily. Therefore recommend move to monthly penalty cap of [x% tbc] of monthly capacity payments	The penalty regime is seen as complex and these changes will help reduce complexity by allowing providers to manage risk more easily. In addition, monthly cap will make settlement quicker and less complex

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	Area of Capacity Market design	Specific design issue	Baseline	Suggested action to simplify	Recommendation	Impact of recommended simplification measure
19	**Delivery – including penalties and over-delivery payments**	Obligations / penalties applying 0-4 hours following CM Warning	Providers' obligations in periods of stress up to four hours after any Capacity Market warning will be based on their scheduled output.	a. There should be no requirement on CMUs during the 0-4 hour notice period before the CM Warning comes into effect b. Scrap any penalties applying between 0-4 hours	No obligations / in-year penalties should apply before the stress event comes into force (i.e. 4 hours after the issuing of the CM Warning) Propose that performance in the 0-4 hour period will be considered for adjustments to subsequent years de-rating figure	Reduces complexity as avoids putting some providers at a higher obligation than others and provides upfront clarity on what is required of a capacity provider once a CM Warning is issued (i.e. obligations only come into effect 4 hours after warning)
20	**Delivery – including penalties and over-delivery payments**	Load Following Obligation	To determine a providers' obligation during a specific system stress event. This is based on the 'adjusted load following capacity obligation' and is determined after the event	This should be based on the System Operator's demand forecast (e.g. 4 hours ahead of stress event) rather than determining a capacity provider's obligation following a stress event	Design lead and National Grid to consider whether load following obligation should be determined ahead of a stress event rather than after the event This could be based on the System Operator's demand forecast and determining the actual need for capacity (i.e. Demand Forecast and the output of non-Capacity Market plant)	Reduces complexity as increases certainty upfront on its obligation during a specific stress event

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	Area of Capacity Market design	Specific design issue	Baseline	Suggested action to simplify	Recommendation	Impact of recommended simplification measure
21	**Delivery – including penalties and over-delivery payments**	Over-delivery payments	Providers that deliver more than their obligation at times of stress will be paid for their excess delivery	a. Scrap over-delivery payments as they do not equal penalties and may hinder secondary market b. Scrap over-delivery payments and instead allow CMUs to trade their surplus over-delivery up to their metered level c. Simplify over-delivery payments so that they are paid at the inverse of the penalty rate	Currently being re-examined	
22	**Delivery – including penalties and over-delivery payments**	Force majeure provisions	There should only be limited delivery exceptions provided for force majeure events outside of a providers' control as to do otherwise would weaken delivery incentives and be unnecessarily costly for end consumers.	a. Extend force majeure provisions to include handling of gas emergencies, e.g. if gas system emergency is called, then force majeure applies only to those instructed off the system. b. Extend force majeure provisions to interruptions of gas supplies and extreme weather events affecting operations and progress of new plant build	No change – not proposing to extent FM relief for gas emergencies or construction	

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	Area of Capacity Market design	Specific design issue	Baseline	Suggested action to simplify	Recommendation	Impact of recommended simplification measure
23	**Delivery – including penalties and over-delivery payments**	Timing of delivery year	Currently October - September	Change timing of delivery year to April – March	Reject – to be considered at a later date (i.e. "day two" issue). Although there might be some potential administrative saving by aligning delivery year with financial year, TNUoS charging and the CfD timetable, it will be bring added complexity in the short-term, e.g. would need to consider the impact on each section of the Regulations and Rules as the first year would be 18 months long (e.g. impacting annual formula) and lock potential participants (e.g. interconnectors) out till 2020	
24	**Payment**	Settlement timetable and charging methodology	Capacity Market settlement timetable is aligned with the availability of data in the BSC settlement process	a. Change to monthly capacity payments b. Payment timetable is too long and should be shortened c. Should better align CM / CfD payment regulations	Shorten payment timetable and simplify method of assigning share of capacity market charge to suppliers to reduce variability	Shortened settlement timetable means providers will be paid more quickly (proposal is for payments to be made 27 working days after the end of a capacity month instead of the current 37 that is proposed) Simplified charging methodology

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	Area of Capacity Market design	Specific design issue	Baseline	Suggested action to simplify	Recommendation	Impact of recommended simplification measure
25	**Payment**	Alignment of payment regulations with CfD	Set out in the draft Capacity Market Payment Regulations	There should be better alignment between the Capacity Market's and CfD's payment regulations	Align Capacity Market payment regulations with CfD regulations, specifically ensuring consistency on Settlement Body – Counterparty roles and treatment of Elexon in the regulations	Better alignment of Capacity Market – CfD payment regulations will help reduce complexity to suppliers and provivers. Will impact positively operationally as payment for both will be administered and settled using the same systems
26	**Payment**	Credit requirements	Suppliers are required to lodge credit cover with the settlement body so that they are in a position to cover their Capacity Market supplier obligation and settlement body charge payment obligation for one month in the event of a default	Credit requirements are too onerous and should be streamlined Allow Parent Company Guarantees instead of Letters of Credit as the former do not carry an interest rate cost	No change, keep with position that suppliers will need to post 110% credit cover for their payments for cover for an event that a supplier defaults on payment Also keep with Letters of Credit as this is consistent with CfD and Parent Company Guarantees are not a bankable form of credit and not immediately accessible if needed	
	DSR / DSR transitional arrangements	*N/a – no suggested simplification measures received / identified*				

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	Area of Capacity Market design	Specific design issue	Baseline	Suggested action to simplify	Recommendation	Impact of recommended simplification measure
	Governance and appeals	*N/a – no suggested simplification measures received / identified*				
27	**Legal framework**	Grandfathering provisions	The draft Regulations confirm that the price and duration of a Capacity Agreement will not change even if there is change to the legal framework over time. Draft Regulations also include run-off provisions which will preserve the sanctity of the Capacity Agreement .	The regulatory model should include grandfathering provisions so that key changes do not apply retrospectively to existing Capacity Agreements	Not a simplification measure – significant design change. Not considered as part of the simplification work	

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ANNEX C
Proposed Re-application Process

Existing Items	Re-Application Process Items (to be confirmed with Delivery Partners)
All Applicants:	• How long should information stay on portal? • How long should various items remain valid before the applicant has to fully resubmit?
• General details about the applicant	• Data to remain on database and applicants have a duty to check and confirm, or amend and resubmit.
• Legal status of the applicant	• Under Rule 3.5.2 (b) - applicant does not have to resubmit details of its corporate form and legal status, and a copy of its constitutive documents and other related evidence if the information remains accurate and up to date.
• Nominations relating to the CMUs	• Data to remain on database and applicants have a duty to check and confirm, or amend and resubmit.
• Classification of CMUs	• Data to remain on database and applicants have a duty to check and confirm, or amend and resubmit.
• Statement as to the de-rated capacity	• Data to remain on database and applicants have a duty to check and confirm, or amend and resubmit. Need to ensure that the correct de-rating figure has been provided. That is, during a previous performance check/delivery year the applicant may have had their de-rating capacity amended against their original statement.
• Declaration of solvency	• To be reconfirmed each year
• Ethical conduct of the applicant	• To be reconfirmed each year (if we still keep this)
Additional information for existing generating CMUs:	
• Previous Settlement period performance data	• Data to remain on database and applicants have a duty to check and confirm, or amend and resubmit. • Should we place a timeline on how long their current data remains valid before the applicant has to fully resubmit this information, i.e. 3 years?
• Grid Code compliance	• To be reconfirmed each year
• Connection arrangements	• Data to remain on database and applicants have a duty to check and confirm, or amend and resubmit.

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Existing Items	Re-Application Process Items (to be confirmed with Delivery Partners)
Additional information for perspective generating CMUs:	• This requirement (to resubmit the following year) would disappear naturally for those new projects which had been successful. • For a successful project, the documents would need to remain on the record for the duration of the long term agreement. • For any unsuccessful projects who then wait to bid the following T-1 auction, the consents could stay in place on the system, however the applicants have a duty to check and confirm, or amend and resubmit.
• Relevant planning consents	• Data to remain on database and applicants have a duty to check and confirm, or amend and resubmit.
• Construction plan	• To be reconfirmed each year as the plan will be different
• Connection arrangements	• Data to remain on database and applicants have a duty to check and confirm, or amend and resubmit.
Additional information for proven CDRs:	
• CDR Test Certificate	• Data to remain on database and applicants have a duty to check and confirm, or amend and resubmit.
• Business Model	• Data to remain on database and applicants have a duty to check and confirm, or amend and resubmit.
Additional information for unproven CDRs:	
• CDR Test	• Test requirement ahead of Delivery Year applies in any case
• Business plan	• To be reconfirmed each year