

Capacity Market participants,
prospective participants and
other interested parties

Email: EMR_CMRules@ofgem.gov.uk

Date: 16/02/2024

Dear colleague,

Rejection of Capacity Market Rule Change Proposal without Consultation: CP366

Intent to reject CP366 because of proposer's withdrawal.

Summary:

- The change proposal CP366 was submitted to the Capacity Market Advisory Group (CMAG) by ENGIE on 13 October 2022.
- CP366 was sent to Ofgem with the CMAG recommendation to approve this Change Proposal on 23 February 2023.
- However, Department for Energy Security & Net Zero (DESNZ) subsequently picked up this proposal in their January 2023 consultation¹ and their Phase 2 consultation² and the proposer was happy that the changes met their requirements
- DESNZ consulted on CP366 in their January 2023 consultation, and it was broadly supported. In consultation with CMAG, DESNZ and the proposer, there was an agreement that an additional consultation is not required from Ofgem's side.

¹ [Capacity Market 2023 consultation \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)

² [Capacity Market: consultation on proposals to improve security of supply and align with net zero \(Phase 2\) and call for evidence on Ten-year Review \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)

Rejected Proposal without Consultation

Discussions with CMAG, DESNZ and the original proposer have identified a CM Rule Change proposal that we will reject without further consultation – CP366. A brief description of the proposal and the specific reasons for rejection are given below:

CP366 – Total Project Spend (ENGIE)

Summary of Proposal

New Build and Unproven Demand Side Response (DSR) Capacity Market Units (CMUs³) can include capital expenditure from 77 months before the start of the Delivery Year (DY) in their Total Project Spend.⁴ For Refurbishing CMUs, expenditure is measured from Auction Results Day to the start of the first DY. This prevents Refurbishing CMUs from including expenditure associated with the refurbishment prior to the Auction Results Day. It may mean that they cannot meet Minimum £/kW thresholds and therefore cannot apply for multi-year CM Agreements. This could discourage CMUs from refurbishing and investing in capacity where multi-year CM Agreements cannot be secured.

The CP366 rule change would enable costs ahead of the Auction to be included in the Total Project Spend for Refurbishing CMUs by changing the definition of Total Project Spend so that capital expenditure for Refurbishing CMUs can be included 77 months prior to the commencement of the first DY to which the application relates.

Reason for Rejection

DESNZ consulted on the issue raised in this proposal in their January 2023 consultation,⁵ and it was broadly supported. The proposal implementation falls within their Phase 2 consultation.⁶ We suggested the proposer withdraw the proposal from the Ofgem process because DESNZ had already adequately addressed this rule change and they were happy to do so .

³ Unproven DSR CMU means an unproven Demand Side Response CMU as defined in [Regulation 5](#) of the [Regulations](#)

⁴ Total Project Spend determines the type and length of an Agreement a CMU can apply for as there is a Minimum £/kW threshold to apply for multi-year agreements

⁵ [Capacity Market 2023 consultation \(publishing.service.gov.uk\)](#)

⁶ [DESNZ - Phase 2 consultation](#)

Next Steps

CP366 requires no further Ofgem action. DESNZ has consulted on the issue raised in this proposal in their January 2023 consultation⁷, published its response in June 2023⁸, and the government intends to progress this as part of their phase 2 consultation⁹.

Yours Faithfully,

Andrew Macdonell

Senior Policy Manager, Domestic Market Management
For and behalf of the Gas and Electricity Markets Authority

⁷ [Capacity Market 2023 consultation \(publishing.service.gov.uk\)](https://publishing.service.gov.uk/government/consultations/capacity-market-2023)

⁸ [Capacity Market 2023 Consultation: Government response \(publishing.service.gov.uk\)](https://publishing.service.gov.uk/government/consultations/capacity-market-2023-consultation-government-response)

⁹ [Capacity Market: consultation on proposals to improve security of supply and align with net zero \(Phase 2\) and call for evidence on Ten-year Review \(publishing.service.gov.uk\)](https://publishing.service.gov.uk/government/consultations/capacity-market-consultation-proposals-improve-security-supply-align-net-zero-phase-2-and-call-evidence-ten-year-review)