Decision

Decision to reject 2026 Capacity Market Rules Change Proposals

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Under Regulation 79(3) of the Electricity Capacity Regulations 2014, where a qualifying proposal to amend the Capacity Market Rules is made to Ofgem, Ofgem must consider the proposal and either consult on whether to make the amendment or publish its reasons for rejecting the proposal without consultation. This document confirms Ofgem's decision to reject CP362, CP364, CP372, CP374, CP375, CP380, and CP383 without consultation and sets out its reasons for doing so.

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Executive summary

The Capacity Market Advisory Group (CMAG) submitted seven change proposals that were considered by CMAG and sent to Ofgem for consideration. Ofgem has decided to reject the proposals without publishing a statutory consultation. For three proposals, Ofgem has decided that the proposals would materially alter part of the policy intent of the Capacity Market and it would be for DESNZ to consider these proposals and whether the policy priorities of the scheme should be altered to accommodate such changes. For the remaining proposals, Ofgem has decided not to consult, having considered the CMAG reports and noting CMAG's position.

1. Introduction

Capacity Market Rules and Proposals we are deciding on

1.1 The CM is governed by a combination of the Regulations and the Rules. The Regulations permit us to amend, add to, revoke or substitute any provision of the Rules other than to confer functions on the Secretary of State or additional functions on ourselves. When changing the Rules, we must have regard to our principal objective and general duties, and the specific objectives set out in the Regulations (the "CM Rules objectives"):

- promoting investment in capacity to ensure security of electricity supply;
- facilitating the efficient operation and administration of the Capacity Market; and
- ensuring the compatibility of the Capacity Market Rules with other subordinate legislation under Part 2 of the Energy Act 2013.

1.2 Regulation 79 of the Electricity Capacity Regulations 2014 allows Ofgem to reject a proposal without consulting on it, so long as the reasons for rejecting the proposals are published.

1.3 Ofgem has provided CMAG with some example reasons for why Ofgem may reject a proposal without consultation[1]. These include but are not limited to:

- requirements to change the Electricity Capacity Regulations 2014;
- requirements to confer, alter, or remove powers from the Authority or Secretary of State;
- proposals that materially alter the policy intent of the scheme such that it may create tension with the government's stated aims for the Capacity Market;

[1] Rejection of CP Rule Change Proposals without Consultation – CP357, CP358, CP360 and CP367.pdf

- proposals that could be more effectively achieved without changing the rules. This could include process changes by Delivery Partners, or improved guidance; or
- proposals that do not align with Ofgem's objective and/or the objectives of the Capacity Market under Regulation 78

2. Decision on CP362

Background

2.1 CP362 ("CM Agreement Transfers") proposed amending Capacity Market Rules 6.7.1 and 9.2.5(a)(i) to allow a Capacity Market Agreement to be transferred through secondary trading before a prospective CMU has achieved its Substantial Completion Milestone (SCM). Under the rules as they stood, a prospective CMU that had not yet reached SCM could change the location of its project but could not transfer its Capacity Agreement to another participant, even where that participant was capable of delivering the contracted capacity. CP362 sought to provide greater flexibility by allowing such transfers earlier in the process, while retaining safeguards that the transferor must still have met its Financial Commitment Milestone (where applicable) and must not have received a Termination Notice. The proposal was intended to help manage situations where a participant encountered issues affecting its ability to deliver its capacity obligations, enabling the agreement to be transferred to a party better placed to fulfil it.

Reason for rejection

2.2 Ofgem considers that this proposal represented a material alteration of the policy intent regarding auction mechanics in the Capacity Market.

2.3 The Capacity Market relies on a delivery assurance framework of key pre-build milestones to ensure that a project is viable and can deliver upon its Capacity Obligation.

2.4 The proposal would materially alter the government's policy intention for the Substantial Completion Milestone as it would change the policy balance between assuring delivery and providing flexibility to participants.

2.5 Decisions that alter policy priorities in regard to delivery assurance are more appropriately considered by DESNZ.

2.6 Ofgem notes that DESNZ recently demonstrated its policy intent to prioritise delivery assurance by removing the option for New Build Generating CMUs to utilise provisions to change their location after a Capacity Agreement had been won in an auction.

2.7 Ofgem notes the potential benefits of avoiding re-procurement of capacity and will provide DESNZ with the CMAG Report and Change Proposal to allow DESNZ to consider this proposal as part of their policy development.

3. Decision on CP364

Background

3.1 CP364 sought to allow Capacity Market secondary trading for a Delivery Year from the conclusion of the relevant T-4 Auction, rather than only after the relevant T-1 Auction, with restrictions to prevent accepted transferees also entering the T-1 Auction for that Delivery Year. Its aim was to improve visibility of likely delivery and secondary trades before T-1 procurement decisions, reducing the risk of over-procurement and potentially lowering consumer costs where terminated or non-delivering capacity would otherwise be re-procured at T-1.

Reason for rejection

3.2 Ofgem considers that this proposal represented a material alteration of the policy intent regarding auction mechanics in the Capacity Market.

3.3 The Capacity Market operates in a structure of a T-4 auction for a Delivery Year, followed by a T-1 top-up auction, followed by the ability to Secondary Trade after this T-1 auction has concluded. Allowing Secondary Trading between the auctions changes the government’s intention for these auction mechanics.

3.4 Ofgem considers that consulting on CP364 would be inappropriate at this stage because the proposal would alter the sequencing and interaction of the T-4 auction, T-1 auction and secondary trading framework and should first be considered by DESNZ as a matter of Capacity Market policy design.

3.5 Ofgem notes the potential benefits of avoiding procurement of capacity and will provide DESNZ with the CMAG Report and Change Proposal to allow DESNZ to consider this proposal as part of their policy development.

4. Decision on CP372

Background

4.1 CP372 sought to amend Rule 4.4.4 to allow Capacity Market Units (CMUs) to change the configuration of the generating units comprising the CMU after prequalification, provided that the change did not reduce the CMU's derated capacity and it continued to meet its Auction Acquired Capacity Obligation. The proposal was intended to address concerns that the existing rule was unclear and overly restrictive, potentially preventing participants from replacing or upgrading generating units, including the adoption of lower-carbon technologies or changes needed to manage battery degradation in storage assets.

Reason for rejection

4.2 The CMAG and Ofgem agree that the proposal may have inconsistencies with the Electricity Capacity Regulations and has interdependencies with Secondary Trading arrangements.

4.3 Ofgem has noted the contents of the CP372 CMAG Report and will remain engaged with the CMAG's wider review into Secondary Trading and Rule 4.4.4 regarding CMU Configuration.

5. Decision on CP374 and CP375

Background

5.1 CP374 and CP375 were a linked package of proposals concerning post-prequalification changes to Capacity Market Unit (CMU) configuration. CP374 sought to allow an existing CMU to be split into multiple CMUs, while CP375 sought to allow multiple CMUs to be merged into a single CMU, in each case without changing the overall capacity commitment. Both proposals were intended to provide greater flexibility for Capacity Providers to reflect project development and commercial arrangements after prequalification, and both required changes to the rules governing CMU configuration.

5.2 Given that the proposals address opposite aspects of the same issue and raise common questions regarding CMU identity, configuration and the underlying Capacity Market policy framework, Ofgem has considered them together.

Reason for rejection

5.3 The CMAG and Ofgem agree that the proposal may have inconsistencies with the policy intent of the scheme and may not align with Regulation 31 of the Electricity Capacity Regulations 2014.

5.4 Ofgem has noted the contents of the CMAG Report for CP374 and CP375 and notes that the themes may form part of the wider Secondary Trading Review being undertaken by the CMAG.

6. Decision on CP380

Background

6.1 CP380 sought to extend only the deadline for Prospective CMUs with T-4 Agreements to incur and pay Capex equal to at least 10% of Total Project Spend, moving that Capex element of the Financial Commitment Milestone from 16 months after Auction Results Day to up to 30 months. Its purpose was to avoid forcing some projects to pay suppliers earlier than commercially necessary.

Reason for rejection

6.2 Ofgem considers that this proposal represented a material alteration of the policy intent regarding pre-build delivery assurance in the scheme.

6.3 The Capacity Market utilises two pre-build milestones for Prospective CMUs – the Financial Commitment Milestone and the Substantial Completion Milestone (with an extension to meet a Minimum Completion Requirement if needed). The government's intent with the FCM is to have a clear checkpoint to demonstrate that a project can meet requirements to be viable to be commissioned on time. Importantly, this includes a requirement to have met 10% of the Qualifying £/kW Capital Expenditure by this 16-month milestone. An extension to up to 30 months to meet this part of the FCM after the relevant T-4 auction would likely have ramifications for T-1 target setting and risks of over/under procurement.

6.4 Ofgem considers that consulting on CP380 would be inappropriate at this stage because extending the 10% Capex element of the Financial Commitment Milestone from 16 to up to 30 months would materially alter the policy priorities of the FCM as an early delivery-assurance checkpoint, with potential implications for auction target-setting and procurement risk that should first be considered by DESNZ as a matter of scheme policy.

6.5 Ofgem may consider targeted changes to meet acute risks (see CP397) or where the interaction with the policy intent of the FCM to provide evidence of a New Build CMU being progressed can be aligned. As such, this decision does not prevent CMAG from developing a revised proposal for future consideration, particularly where it is more clearly targeted at acute delivery risks or better aligned with the policy intent of the FCM.

6.6 Ofgem will provide DESNZ with the CMAG Report and Change Proposal to allow DESNZ to consider this proposal as part of their policy development.

7. Decision on CP383

Background

7.1 CP383 sought to improve transparency of battery storage participation in the Capacity Market by requiring the Capacity Market Register to publish storage duration information for storage technologies. The proposer argued that storage duration has a significant impact on de-rating factors and Extended Performance Testing requirements, but that this information is not currently visible in the published registers, making it difficult for stakeholders to understand the role and contribution of storage assets within the Capacity Market. The proposal therefore sought to amend Rule 7.4.1 to require publication of this information as part of the Capacity Market Register.

Reason for rejection

7.2 The CMAG and Ofgem agree that the Capacity Market Register provides a sufficient reporting requirement on the Delivery Body to provide information relating to storage technologies.

8. Next Steps

8.1 Ofgem would welcome reconsidered versions of these proposals, where Proposers and/or CMAG believe that the policy intention of the proposal can be better aligned to government policy priorities for the Capacity Market.

8.2 Ofgem will continue to review CM Rule change proposals currently submitted and expects that a number of change proposals may be suitable for statutory consultation in due course.

8.3 We will work closely with CMAG and DESNZ to support how government policy intent interactions can be best captured and discussed with CMAG Members to further improve the change proposal process.

Send us your feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this decision. We would also like to get your answers to these questions:

- Do you have any comments about the quality of this document?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Are its conclusions balanced?
- Did it make reasoned recommendations?
- Do you have any further comments?

Please send your feedback to stakeholders@ofgem.gov.uk.