



Department for
Energy Security
& Net Zero

Capacity Market: Government response

2023 Phase 2 Consultation and 2024 Rule
amendments to support auction liquidity



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Executive Summary

This document is in two parts:

- **Part 1** of this document is a government response to the Capacity Market consultation on proposals to improve security of supply and align with net zero (the “Phase 2” consultation) which was consulted on in 2023.
- **Part 2** of this document is a government response to the Capacity Market consultation on Rule amendments to support auction liquidity.

Summary of Part 1: Capacity Market consultation on proposals to improve security of supply and align with net zero (the “Phase 2” consultation).

Between 16 October 2023 and 8 December 2023, the government consulted on proposals to reform the Capacity Market (CM) aimed at improving security of supply, aligning the scheme with government’s net zero goals, and improving the functioning of the scheme¹. The consultation included two parts:

- Part A: Strengthening security of supply and alignment with net zero.
- Part B: Call for evidence for review of the Capacity Market.

This document sets out our response to the questions posed in Part A of the consultation.

Part B was a call for evidence to help inform the 10-year review of the CM. A summary of responses to the Part B call for evidence is included in the 10-Year Review, which we intend to publish later this year.

The Phase 2 proposals included in the Part A consultation built on the previous consultation and engagement with stakeholders (the “Phase 1 consultation” in January 2023) that was set out in a government response in June 2023². Phase 1 proposals were implemented prior to the prequalification window in 2023 for the 2024 CM auctions³.

A total of 41 responses were received for the Phase 2 consultation, primarily from industry stakeholders, but representative bodies and delivery organisations also responded. Most of the responses were broadly supportive of the proposals, while others provided useful feedback on the proposals.

Due to limited availability of Parliamentary time before the opening of the prequalification window in 2024, we are not making amendments to the Electricity Capacity Regulations 2014

¹ Available at: <https://assets.publishing.service.gov.uk/media/65296ec4697260000dccf811/capacity-market-phase-2-10-year-review-consultation.pdf>

² Available at: <https://assets.publishing.service.gov.uk/media/648837ec5f7bb700127fa8e4/capacity-market-2023-consultation-government-response.pdf>

³ See the Capacity Market (Amendment) Rules 2023: <https://assets.publishing.service.gov.uk/media/64aebd3d8bc29f000d2ccc16/capacity-market-amendment-rules-2023.pdf> and the Electricity Capacity (Amendment) Regulations 2023: <https://www.legislation.gov.uk/uksi/2023/860/contents/made>

because that would require a statutory instrument to be laid and debated in Parliament, and instead the proposals intended for implementation include the following which only require amendments to the Capacity Market Rules 2014:

- Proposal to roll over a temporary amendment to **enable mothballed plants to prequalify for the CM auction**;
- Proposal to **support battery participation in the CM**;

Summary of Part 2: Capacity Market consultation on Rule amendments to support auction liquidity.

Government ran a consultation from 8 April to 5 May 2024 to seek stakeholders' views on five proposals designed to support liquidity in future CM auctions by improving the operation of the CM emissions verification process⁴. These proposals are intended to minimise risks ahead of the 2024 Prequalification Window.

The consultation received 14 responses, 12 of which were from industry stakeholders, one of which was from the delivery body (ESO) and one response was from an industry trade body. Respondents were requested to set out their responses to each question separately, however not all did this. Where it was possible to infer which part of their remarks related to which proposal, we have included the substance of their remarks by reference to 'indirect' responses. The responses were overwhelmingly supportive of all the proposals, however they did feature a number of caveats raising concerns and requests for clarification.

The proposals intended for implementation by way of changes to the Capacity Market Rules 2014 include:

- **Enabling CM Applicants to be able to have their emissions verified after the deadline for submitting Applications to prequalify for the CM.** This is to ensure the CM against security of supply risks should Applicants be unable to secure a verification slot in time.
- Amendments to the CM Rules which currently require some CMUs to use a Combined Heat and Power Quality Assurance Programme (CHPQA) certificate which evidences their emissions for a given calendar year to **better align with the definition of an 'Emissions Year' in the Rules.**
- Requiring **Applicants relying on previously verified Fossil Fuel Emissions Declarations (FFEDs) to resubmit the relevant document.**
- Removing **outdated sections of the Exhibit ZA and improve functionality.**
- **Enabling older versions of the FFED to be accepted at prequalification**, provided they were verified no later than four weeks after an updated version of the declaration was inserted into the CM Rules.

⁴ Available at: <https://assets.publishing.service.gov.uk/media/661027c52138730011031b00/capacity-market-rule-amendments-to-support-auction-liquidity-april-2024.pdf>

Context

Background

Since its introduction in 2014, as part of the Electricity Market Reform (EMR) programme⁵, the Capacity Market (CM) has ensured that Great Britain maintains and brings forward sufficient capacity to deliver secure supplies of electricity to power our homes, businesses, and public services.

Existing and new build capacity compete in technology-neutral auctions to obtain agreements, under which they commit to making their capacity available when needed in return for guaranteed payments to support investment in new and existing capacity. Government has routinely made changes to the CM to improve its functioning and ensure it remains fit for purpose in the changing energy policy and technology context.

Recent global events have impacted energy security. The easing of Covid-19 restrictions in 2021 contributed to a surge in wholesale gas prices and in turn caused a significant increase in wholesale electricity prices. This trend was exacerbated in February 2022 when Russia illegally invaded Ukraine which has led to higher gas and electricity prices across Europe and increased concerns about energy security. This has put the need for energy security into sharp focus; we must secure our energy system by ensuring a resilient and reliable supply, increasing our energy efficiency, and bringing bills down through decisive action to increase Great Britain's low carbon domestic electricity supply.

These factors have further strengthened the need for the continued evolution of the CM design to ensure it continues to deliver effectively and efficiently in a changing world.

⁵ Available at: <https://www.gov.uk/government/publications/implementing-electricity-market-reform-emr>

Part 1: Consultation on proposals to improve security of supply and align with net zero (Phase 2)

Between 9 January and 3 March 2023, government consulted on a range of policy proposals aimed at enhancing the delivery assurance within the CM and aligning the scheme with net zero⁶ (the “Phase 1 consultation”). The response to the Phase 1 consultation, published in June 2023, set out a two phased approach for implementing reforms to the CM.

Phase 1 encompassed proposals to strengthen security of supply, ensure better value for money for consumers and increase opportunities for auction competition. These changes came into force following the July 2023 amendments to the Capacity Market Rules⁷.

Phase 2 following a further consultation (the “Phase 2 consultation”) which ran from 16 October 2023 and 8 December 2023, consisted of two parts. **Part A** outlined further reforms that built on the previous consultation and wider engagement with stakeholders and industry. The proposed reforms set out in the consultation represented the next phase of the evolution of the CM, aiming to improve security of supply and, by accelerating investment in low carbon technologies, increase the role that they play in the CM, aligning it better with government’s net zero objectives.

In March 2024, government published its second consultation as part of its Review of Electricity Market Arrangements (REMA)⁸. The second REMA consultation outlined government’s view on the future of capacity adequacy and that the Capacity Market would be retained as the primary capacity adequacy mechanism.

Furthermore, the second REMA consultation outlined that further work is underway considering options on an Optimised CM by introducing a minimum procurement target (otherwise known as ‘minima’) into the auction to support investment in low carbon flexible technologies. As well as considering reform to the auction design, we are working to ensure that the CM is able to reflect the changing nature of security of supply.

Overview of consultation proposals

Part A of the Phase 2 consultation posed 23 questions, which sought views on a wide range of proposals which are set out below:

⁶ Available at: <https://assets.publishing.service.gov.uk/media/63bbe5698fa8f55e31a9f1bb/capacity-market-2023-consultation.pdf>

⁷ Available at: <https://www.gov.uk/government/publications/capacity-market-rules>

⁸ Available at: <https://www.gov.uk/government/consultations/review-of-electricity-market-arrangements-rema-second-consultation>

Improving security of supply:

- Supporting amendments to timelines for volume reallocation activities, to ensure that settlement processes following a System Stress Event (SSE) are appropriately aligned, following changes made in July 2023 to the timelines for calculating non-delivery penalties;
- Rolling over a temporary amendment to enable mothballed plant to apply to prequalify for CM auctions, by allowing Existing Generating Capacity Market Units (CMUs) that have not been operational for the 24 months before prequalification to use operational data older than 24 months when applying to prequalify;
- Aligning the wording of Regulation 50 to the Rules and policy intent that failure to meet Extended Performance Tests (EPTs) should be treated in the same way as failure to meet Satisfactory Performance Days (SPDs) requirements; and
- Adding further clarification to Regulation 16(2) that a plant cannot prequalify for the CM auction if it is the subject of a Contracts for Difference (CfD) that has not expired or been terminated.

Accelerating investment in low carbon technologies:

- Clarifying that battery augmentation is permitted so that storage CMUs can manage the natural decline in capacity due to degradation, by way of an express exception to Rule 4.4.4;
- Enabling the level of the EPT obligation to be adjusted through secondary trading, in line with the approach for other CM testing frameworks;
- Seeking views on no Capital expenditure (Capex) thresholds for low carbon, low Capex technologies such as unproven Demand Side Response (DSR) and new build capacity only (previously consulted on in January 2023 consultation);
- Setting out our plans to implement 9-year agreements and Capex thresholds for low carbon, new build and refurbishing capacity;
- Building on the January 2023 consultation that asked for feedback on challenges faced by projects with long build times and potential supportive measures by proposing to offer a declared (12-month) long stop date and a declared additional (24-month) long stop date, for new build and refurbishing low carbon projects meeting the Capex thresholds of 15 and proposed 9-year agreements participating in T-4 auction;
- Removing barriers faced by domestic DSR providers by partially redacting residential addresses published on the publicly available CM Register and amending the current re-allocation cap of 40 components that exists for DSR CMUs;
- Seeking evidence and views on the creation of new Generating Technology Classes (GTCs) to cover DSR; and
- Proposing an amendment to Rule 8.3.6B definition of Extended Years Criteria to clarify the requirement to replace a turbine.

Decarbonising the Capacity Market:

- Proposing that CM emissions are published on the CM register to ensure transparency and provide valuable information to investors, policymakers, and the public, as previously consulted in the Capacity Market: 2021 consultations on improvements.⁹

Responses to the Phase 2 consultation

The Phase 2 consultation was published online and ran between 16 October 2023 and 8 December 2023. The consultation received 41 responses in total; these responses were submitted through an online portal (Citizen Space – 14 response) and by email (27 responses).

The 41 responses were received from a range of stakeholders, as follows:

- **Industry**, including capacity providers: 32 respondents (78%)
- **Commercial representation**, including trade associations and industry bodies: seven respondents (17%)
- **Delivery**, including government delivery partners: two respondents (5%)

Government is grateful to all respondents to the consultation for taking the time to submit their views.

When we refer to the proportion of respondents to a question that responded to it in a particular way, we are referring only to those respondents that expressed an opinion on that question. In this context, “most” or “many” indicates more than 70% of such respondents, “the majority” indicates a view held by more than 50% of such respondents, “some”, to a view of between 30% and 50% of such respondents, and “a few” to a view of less than 30% of respondents who expressed an opinion. When considering this summary of responses, please also note that:

- Due to the large volume of responses received, this summary does not seek to exhaustively capture all views expressed, but rather to summarise the prevalent themes and particularly notable points of feedback within responses.
- Respondents used either an online response form or sent in their responses by email.
- Not all responses answered each question, or addressed specific questions, and the number of responses each question received varied significantly. Government have noted the number of responses each question received; this number excludes those who stated they had no opinion or comment to give on the question.

Government ran several stakeholder events during the consultation period to support respondents in developing their responses; views expressed solely during these events are not captured here but were factored into our decisions on implementation.

⁹ Available at: <https://www.gov.uk/government/consultations/capacity-market-2021-proposals-for-improvements#:~:text=Consultation%20description,reducing%20costs>

Summary of Responses

Government is grateful to every respondent for taking the time to submit their views to this consultation. The proposals were broadly supportive, while others provided useful feedback. Specifically:

- All respondents agreed with the proposed changes to timelines for the Electricity Settlements Company (ESC) volume re-allocation window and associated activities. It was noted that timelines for calculating over-delivery payments may also need to be adjusted to bring them in line with the proposed changes to the volume re-allocation.
- Most respondents agreed or generally agreed with the proposal to extend the existing temporary measure in relation to mothballed plants to apply to the 2024 Prequalification Window and the associated 2025 auctions. Those in favour of this measure felt that it supports security of supply and works towards ensuring sufficient liquidity in future CM auctions. Those that generally agreed presented mixed views on whether credit cover should be required and whether the measure should be made permanent.
- The majority of respondents agreed with the proposal to amend Regulation 50 so that it further aligns with policy intent and CM Rules, bringing clarity to the relationship between EPTs and SPDs. Those that did not support the proposal had strong views that there needs to be a solution to the challenges around EPTs before the change to Regulation 50 can be put into effect.
- Most responses agreed to the proposal to further clarify Regulation 16 so that a plant cannot prequalify for the CM auction if it is the subject of a CfD that has not expired or been terminated. Some responses raised some potential unintended consequences, stating that the wording needed to provide clarity to generators and to remove barriers to participation for renewable generation that does not receive a subsidy but may be captured by the current wording, as well as clarification around how this Regulation might apply to other support mechanisms.
- Most respondents agreed with the proposal to introduce a definition of Permitted Augmentation and enable EPT requirements to be reduced when secondary trading occurs. When asked about any unintended consequences, a number of responses identified that without additional testing requirements, the changes could potentially introduce opportunities for market gaming. Respondents identified secondary trading as a key element of effectively managing risk in the CM. Regarding the retention of the EPT framework, a number of respondents questioned the continuing use of the EPT regime, highlighting recommendations beyond the EPT framework.
- The majority of respondents supported the proposals on 3- and 9-year agreements for low carbon CMUs, citing the importance of aligning the CM with decarbonisation goals, and enabling better access for an expanded range of technologies. A few respondents questioned the introduction of 3-year agreements with no Capex thresholds.
- Most responses were supportive with the proposal to introduce 12- and 24-month Declared Long Stops for low carbon projects with long build times. Supportive responses were of the view that the proposal achieved a suitable balance between

supporting such projects and maintaining the current auction design and processes. When asked about any unintended consequences, some responses raised the risks of increased clearing prices and a reduced certainty of capacity availability. A number of responses also urged government to clarify its approach in respect of an appropriate market mechanism for Long Duration Electricity Storage (LDES) technologies.

- Most respondents agreed with the proposal for partial redaction of addresses on the CM registers for domestic DSR components. Supportive responses felt this was a sensible way of addressing the UK General Data Protection Regulation (UK GDPR) risk faced by domestic DSR units. A few respondents suggested that the redaction should be extended to the Meter Point Administration Numbers (MPANs) of assets located at residential premises. The majority of responses to the proposed changes to component reallocation were also in favour. Supportive responses felt this was an appropriate measure to enable larger portfolios to manage their delivery risks. Other responses felt that the proposals didn't go far enough, suggesting the limit should be removed altogether.
- Most respondents agreed with the proposed changes to the Extended Years Criteria, expressing the view that the amendment would better reflect the range of technologies and projects participating in the CM.
- The majority of respondents supported change to the DSR GTC, citing that it could allow for more accurate de-rating factors and mitigate delivery risk. Responses conveyed a range of views on the best direction of travel for reform, and additional related challenges that may need to be investigated.
- While there was agreement with the majority of respondents on the principles of the proposal to publish carbon emissions data to improve transparency in the CM, a number of concerns were raised around data accuracy and commercial sensitivities. There were also questions about how the CM register would be maintained in a way that accurately reflects efforts to improve efficiency or decarbonisation.

Next steps

Government intends to implement the following proposals so that they are in place in advance of the 2024 prequalification window for the 2025 CM auctions [to increase auction liquidity to ensure the security of supply]. The proposals will be implemented by making amendments to the Capacity Market Rules, subject to the availability of Parliamentary time:

- Allowing the roll over a temporary amendment to **enable mothballed plants to prequalify for the CM auction** (*Section 5.2 of the consultation*);
- Supporting **battery participation in the CM** (*Section 6.1 of the consultation*);

Because of the limited availability of Parliamentary time before the pre-qualification window, the following proposals will not be implemented for the 2025 CM auctions. Government will consider if the following proposals will be implemented for a future cycle:

- Proposal to **extend timescales for volume reallocation activities**, to ensure that settlement processes following a System Stress Event are appropriately aligned, following changes made to the timelines for calculating non-delivery penalties (*Section 5.1 of the consultation*);
- Proposal to **align Regulation 50 with Policy intent and CM Rules** to explicitly cover EPTs as well as SPDs (*Section 5.3 of the consultation*);
- Proposal to **amend Regulation 16 to add further clarity on plants which are not permitted to prequalify if they are the subject of a CfD** (*Section 5.4 of the consultation*);
- Proposal to introduce **3-year agreements with a Capex threshold of £0/kW, only available to low-carbon New Build and Unproven DSR capacity** (*Section 6.2 of the consultation*);
- Proposal to introduce a **new 9-year Capex thresholds agreement for low carbon capacity** to act as a midpoint between 3-year and 15-year thresholds (*Section 6.2 of the consultation*);
- Proposal to **update the Capex reference cost level** (*as consulted on in the Phase 1 consultation*);
- Proposal to amend CM Rules to **update the definition of total project spend** for refurbishments to align with that of new build (*as consulted on in Phase 1 consultation*);
- Proposal to **introduce a declared additional (24-month) long stop date, as well as a declared (12-month) long stop date** (*Section 6.3 of the consultation*);
- Proposal to amend CM Rules to **remove the requirement for residential addresses for domestic DSR components to be published on the CM register** (*Section 6.4 of the consultation*);
- Proposal to amend CM Rules to **update the rules for Extended Years Criteria** (*Section 6.5 of the consultation*);
- Proposal to amend CM Rules to change the limit on the number of components that can be added to a DSR CMU during the delivery year, **introducing a proportional limit alongside the current one** (*Section 6.6 of the consultation*); and
- Proposal to **publish CM emissions data on the CM register** to ensure transparency and provide valuable information to investors, policy makers and the public as we transition to a net zero electricity system (*Section 7.1 of the consultation*).

Given the announcement of the General Election, Parliamentary time has been highly constrained in the lead up to the 2024 pre-qualification window. Government has therefore prioritised those technical measures that could be implemented via Rules amendments in the short period before the commencement of the pre-qualification window. Policies not being

progressed prior to the 2024 pre-qualification window will now be considered on a longer timescale.

Subsidy Advice Unit Report

In line with requirements under the Subsidy Control Act 2022, we referred a subsidy control principles assessment of the CM scheme to the Subsidy Advice Unit (SAU) within the Competition & Markets Authority on the 15 February 2024 which covered the scheme as proposed to be amended. The SAU published their advisory report on the 5 April 2024 which was broadly positive. Now that the referral process has concluded and we have been able to consider the SAU's report, proposals will be taken forward for implementation as set out above.

Improving security of supply

This chapter summarises Section 5 of the Phase 2 consultation (Questions 1 to 5), which considered a range of issues and options related to delivery assurance within the Capacity Market (CM), to improve security of supply.

Penalty regime – timelines for calculating non-delivery penalties

Following the extension to penalty calculation and invoicing timelines by Electricity Settlements Company (ESC) to 35 working days, made through changes to Regulation 41(2) in July 2023, Questions 1 and 2 sought views on proposals to amend the timescales for ESC to determine the Adjusted Eij (where “E” is energy delivered, and “i” is the relevant CMU, and “j” is the relevant Settlement Period in which that CMU delivers energy) to 34 working days to bring these in line with Regulation 41(2).

Summary of responses

Of the 24 responses to **questions 1 and 2**, all 24 agreed with the proposed changes to timelines for the ESC volume re-allocation window and associated activities.

One respondent noted that timelines for calculating over-delivery payments may also need to be adjusted to bring them in line with the proposed changes to the volume re-allocation window.

Policy Response

Government welcomes the feedback received in the responses to amend the timescales for ESC to determine the adjusted Eij, and will continue to consider appropriate changes to the penalty regime.

This proposal will not be implemented before pre-qualification in 2024 because of the limited availability of parliamentary time, and government will consider whether the proposal will be implemented in due course.

Mothballed plant

Question 3 consulted on a further temporary amendment to allow Existing Generating CMUs to demonstrate performance using operational data from the most recent 24 months of operation where there is no data from the 24 months of operation prior to the closure of the Prequalification Window. This would be done through a time-limited modification to the CM

Rules (such as some previous auction cycles) and would apply to 2024 prequalification period for the auctions in 2025.

Summary of responses

Of the 22 responses to **question 3**, eight agreed, 13 generally agreed but presented some caveats, and one disagreed. Responses in favour of this measure were generally supportive on the basis that it supports security of supply and works towards ensuring sufficient liquidity in future capacity market auctions.

Of the 13 respondents who generally agreed but presented caveats, views were mixed on whether credit cover should be required and whether the measure should be made permanent.

Some respondents noted that this proposal, as originally consulted on in the January 2023 consultation, included requirements to post credit cover until demonstration of a Satisfactory Performance Day (SPD) and asked that this requirement be re-assessed alongside exploration of a permanent solution to avoid the need to rollover this amendment annually and give certainty to future CM participants.

Some respondents also suggested there should be a maximum period over which mothballed plant performance data could be cited, in the absence of SPD demonstration, to ensure prospective CMUs are capable of meeting their stated output. Others suggested that mothballed plants should be treated as a new CMU category and a de-rating factor applied, or a Financial Completion Milestone (FCM) put in place, to appropriately rate or determine the CMU's capacity.

One respondent disagreed on the basis that this is the third time this temporary amendment would be implemented and thus may pose a risk to security of supply as the time period over which mothballed plant would not have to provide operational data will have been extended twice. This respondent encouraged government to bring forward policy to ensure there is enough operational capacity available for future auctions to avoid the need for this policy to be extended further.

Policy Response

Government will seek to extend the existing temporary measure in relation to mothballed plant. This was put in place for the 2022 and 2023 Prequalification Windows and allowed existing generating CMUs that could not meet the requirement of Rule 3.6.1 to provide performance data that was older than 24 months prior to the end of the Prequalification Window. The extension of this measure will apply to the 2024 Prequalification Window only and the associated 2025 auctions. These plants will still have to demonstrate satisfactory performance during the delivery year, like other capacity partaking in the CM. This temporary change has not been applied to secondary trading entrants. An assessment of impacts on the participation of mothballed plants on a temporary basis

was included in the ‘Capacity Market: rules amendments to improve auction liquidity’ consultation in July 2022¹⁰.

The measure will increase the pool of capacity eligible to apply to prequalify for the Capacity Market, and allow a greater number of CMUs to participate in the CM which may increase liquidity, putting downward pressure on clearing prices and the overall costs of the CM.

Further aligning Regulation 50 with policy intent

Question 4 consulted on government’s proposed approach to aligning Regulation 50 with policy intent.

The consultation outlined the following proposal:

- The proposed amendment to Regulation 50 is such that it further aligns with the policy intent and CM Rules, in that failure to meet Extended Performance Tests (EPTs) is to be treated in the same way as failure to meet Satisfactory Performance Days (SPDs) across suspension of payments.

Summary of responses

Question 4 received 27 responses. Of these, 20 responses expressed support, three agreed with the principle of the proposal but had areas where they recommended further consideration, and two responses did not agree with the proposal. A further two responses did not state whether they supported the proposal but raised some potential unintended consequences of the change.

Of the 20 supportive responses, the overwhelming majority agreed with the proposed amendment to Regulation 50 so that it aligns with the policy intent and CM Rules - in that failure to meet EPTs is to be treated in the same way as failure to meet SPDs as regards suspension of payments. The majority felt that it will bring clarity to the relationship between EPTs and SPDs, and that it would make sense that the two demonstrations of performance are treated in similar fashion with a focus on security of supply.

Three respondents agreed with the proposal but also raised other considerations; they agreed with the amendment to align Regulation 50 with policy intent so long as EPTs are only applied to storage resources and not to Demand Side Response (DSR) CMUs. They argued that the application of EPTs to DSR CMUs would be inherently expensive. One respondent expressed the view that the EPT regime is not fit for purpose. Another respondent suggested it would then be necessary to address wider issues associated with battery degradation.

Two respondents did not state whether they supported the proposal. The respondents acknowledged that the objective of the amendment is to align the rules and regulations and

¹⁰ Available at: <https://www.gov.uk/government/consultations/capacity-market-rules-amendments-to-improve-auction-liquidity>

mirror the language in Regulation 50 regarding SPD failure. However, the stakeholders highlighted their concern stating that it was difficult to provide comments on the possible unintended consequences of this change as the precise drafting and redlining has not been provided.

Policy Response

Government welcomes respondents' views on the proposed approach to aligning Regulation 50 with policy intent and the Capacity Market Rules.

This proposal will not be implemented before pre-qualification in 2024 because of the limited availability of parliamentary time, and government will consider whether the proposal will be implemented in due course.

Changes to the regulations clarifying non-permitted Capacity Market and Contract for Difference participation

Question 5 consulted on the government's proposed approach to add further clarification to Regulation 16(2) that a site cannot prequalify for the CM auctions if they hold a Contract for Difference (CfD). This is intended so the regulation aligns with policy intent.

The consultation outlined the following policy proposal:

“The Regulations were drafted to achieve the policy intent outlined above; however, the proposed amendment aims to provide further clarity to industry by adding further detail to Regulation 16(2). This would be to provide expressly that a CMU can only be prequalified where no CfD has been awarded in respect of it, even if the CfD is for a later delivery period, unless the CfD in question has expired or been terminated. There is no policy change associated with this proposed amendment.”

Summary of responses

A total of 30 responded to **question 5**. Of these, 14 responses expressed support, three agreed with the principle of the proposal but had areas where they recommended further consideration, and four responses did not agree with the proposal. A further nine responses did not state whether they supported the proposal but raised some potential unintended consequences of the change.

The supportive responses welcomed the proposed amendment to provide additional clarity in the regulation stating the proposal aligns with the existing policy intent to prohibit CfD generators from accessing the CM before the start of a CfD agreement. The respondents stated the current wording could be clearer in specifying when a CfD 'applies' (i.e. to say that it applies from the point the CfD is awarded). They also welcomed the proposed wording to confirm that a CMU can prequalify if it has been subject to a previous CfD that has expired or has terminated.

Among the stakeholders who supported the proposal, one respondent expressed that the wording should be further refined. This would provide clearer guidance to generators and eliminate obstacles captured by the current wording. Another respondent felt that the regulation around plants that cannot prequalify for the CM should be deleted from the regulations and be defined in the rules instead.

Four respondents opposed the proposal. Respondents felt the proposed addition is ambiguous, and that the regulation should be more specific in order to allow for potentially overlapping timelines for CfD and CM auctions. Rather than when a CfD has been ‘awarded,’ it would be preferable to specify that a CMU can only prequalify if a CfD contract has been entered into, rather than using the terminology of ‘awarded’. There were also concerns that it may unnecessarily prevent future projects from participating in the CM.

Of the nine respondents that did not state whether they supported the proposal, many stated the wording needs to be further developed to provide clarity to generators and to remove barriers to participation for renewable generation that does not receive a subsidy, and that government should provide clarity on the intent. Ruling this out may have some unintended consequences related to types of CfD other than the renewables CfD.

One respondent felt that the consultation document is not clear about assets rolling off CfDs to bid into the CM and requested further clarification on the intent and objective of the proposed amendment as well as the expected available routes for different support mechanisms. The respondent raised concerns with the approach to resolve problems related to delayed CfD start dates through amending CM regulations and felt this may lead to unintended consequences and impact investor confidence. Unintended consequences may include unintentionally restricting a plant from bidding for a Dispatchable Power Agreement (DPA) in the future if it already holds a CM agreement, or if an asset has a DPA much further in the future and is seeking a CM agreement in the interim if the CO2 network is not available.

Policy Response

Government welcomes the detailed feedback from respondents and continues to be of the position the current wording of Regulation 16(2) is not inconsistent with the intended policy intent.

This proposal will not be implemented before pre-qualification in 2024 because of the limited availability of parliamentary time, and government will consider whether the proposal will be implemented in due course.

Accelerating investment in low carbon technologies

This chapter summarises Section 6 of the consultation (Questions 6 to 22), which considered a range of issues and options related to accelerating investment in low carbon technologies by removing barriers to participate in the CM.

Addressing challenges faced by batteries in the Capacity Market

Over recent years there has been increased participation in the CM from CMUs with a Storage Generating Technology Class (GTC), namely lithium-ion and other battery chemistries. This has gone from around 0.1GW of de-rated capacity awarded for the 2018/19 delivery year, to 4.2 GW of de-rated capacity currently holding T-4 agreements for delivery year 2027/28.

As outlined in the both the Phase 1 and Phase 2 consultations in 2023, Capacity Providers have raised concerns about the ability of battery storage CMUs to meet the Extended Performance Test (EPT) over the course of multi-year agreements.

Section 6.1 of the Phase 2 consultation outlined the specific constraints presented by certain CM Rules and Regulations which either restrict, prevent, or cause uncertainty for battery CMUs seeking to take action to manage battery degradation.

Questions 6 to 9 consulted on proposals to address barriers faced by storage CMUs in managing battery degradation by introducing:

- an amendment of Rule 4.4.4 of the CM Rules, to enable Permitted Augmentation of battery storage sites; and
- enabling the level of EPT requirement to be appropriately adjusted when secondary trading occurs.

Government understands that degradation is challenging to analyse and predict, especially for battery assets that are participating in various markets and services, such as frequency regulation, wholesale energy market trading and the Balancing Mechanism (BM).

It is government's position that whilst it is challenging for battery operators to predict degradation, they can take action to manage and mitigate system deterioration in order to maintain long term capacity. This is especially pertinent to new build battery assets with multi-year Capacity Agreements, where they need to deliver at set capacity levels for agreements of up to 15 years.

Summary of responses

Question 6 asked respondents if they agreed with the introduction of a definition for Permitted Augmentation and enabling EPT requirements to be reduced when secondary trading occurs. Of the 30 responses received, 19 agreed with the proposal, while 11 responses partially agreed, urging government to further support batteries, rather than objecting to the proposal.

Most respondents agreed with the proposed definition of Permitted Augmentation.

Government proposes that the definition of ‘Permitted Augmentation’ would:

- Allow CMUs of the fuel type ‘Storage – Battery’ to replace and/or add batteries at an existing CMU site, to enable batteries to maintain the level of capacity required to meet EPT requirements;
- Not enable a Capacity Provider to supplement a CMU’s capacity with capacity from another CMU; and
- Not enable a CMU to increase its Auction Acquired Capacity Obligation.

The vast majority of respondents agreed with the proposed definition. Noting the ambiguity currently associated with Rule 4.4.4, most respondents also stated that outlining a definition would provide clarity and enable Capacity Providers to confidently manage battery degradation through augmentation. Respondents agreed that this was a clarification to existing process and guidance, recognising this was not new policy.

One respondent highlighted the need for clear language for what is acceptable for Permitted Augmentation for battery degradation, compared to requirements to achieve Satisfactory Performance Days (SPDs) or be able to perform in System Stress Events.

A limited number of responses that partially agreed with the proposal highlighted concerns with the proposed definition of Permitted Augmentation. Some respondents raised concerns around the condition that battery CMUs cannot supplement their capacity with capacity from another CMU, citing that relaxing this condition would allow providers better degradation management at a portfolio level, as well as allowing the maximum utilisation of valuable materials needed to build batteries.

Further responses highlighted wider concerns in respect of Rule 4.4.4, urging government to provide greater clarification, including further detail on what constitutes reconfiguration. One response was of the view that Rule 4.4.4 is vague for duration limited assets, while another wanted to see the rule deleted in its entirety.

Most respondents also agreed with the proposed amendments to secondary trading requirements, which would enable the EPT requirement to be adjusted to a level that reflected the secondary trade. Respondents welcomed the move to align with the current CM Rules and arrangements for SPDs, ensuring consistency between the types of tests in the CM.

Some responses urged government to apply these proposals to existing Capacity Market Agreements. In contrast, others urged government to be cautious in its application, as this

approach could create inconsistency, penalising those Capacity Providers who had taken lower capacity agreements to reduce their risk of failing to demonstrate extended performance due to battery degradation and the associated agreement terminations.

In addition, respondents stated that wider changes to secondary trading would be required for the proposal to meet its policy intent, which are outlined further in response to Question 8.

Question 7 sought views on any unintended consequences that could arise from the proposal set out in question 6 and received 18 responses.

A number of responses identified that without additional testing requirements the change to secondary trading arrangements could potentially introduce opportunities for market gaming. Several responses outlined options for addressing this, including retesting requirements or requiring the secondary trade to cover the relevant three Delivery Years. This point is addressed in the policy response section below.

One respondent urged government to adopt a wider, technology neutral perspective, stating that allowing augmentation for battery Storage CMUs may risk creating a two-tier system where other technologies are still bound by the restrictions stated in Rule 4.4.4.

A few respondents sought further clarity around the management of the EPT process, highlighting the need for certainty in respect of how the Technology Class Weighted Average Availability (TCWAA) threshold figure is utilised in EPT calculations.

Respondents noted that, although the TCWAA threshold does not vary significantly, the uncertainty of how much it could change increases the complexity for battery Storage CMUs. Furthermore, they highlighted that having certainty and a clear timetable for any changes could support investment in future battery Storage CMUs.

Question 8 asked respondents to share their views on any other supporting changes required to accommodate the proposals set out in question 6. Of the 25 responses received, 21 expressed views on additional changes, while four respondents believed no changes were required.

A number of responses identified secondary trading as a key element of effectively managing risk in the CM, emphasising that the secondary trading aspect of the proposals is predicated upon a better functioning secondary trade market. Some responses called for wider changes to secondary trading, citing the limited nature of the secondary trading market. One response referenced current illiquidity, stating this would impact a Capacity Provider's ability to trade.

Another respondent suggested that the TCWAA for a multi-year agreement should be fixed at the relevant values at the first Delivery Year.

A few respondents felt that government should prioritise introducing wider measures to effectively manage battery degradation. Some respondents strongly urged government to go further in its support for battery storage CMUs and introduce policies to reduce the risk of agreement termination for CMUs with existing agreements.

Suggestions were provided in response to both Questions 7 and 8 and included introducing capacity degradation profiles and linking EPT performance to a CMU's agreement (which would essentially enable agreements to be reduced in correlation with degradation rates, as opposed to the CMU being terminated).

In addition, one response also identified the need for a review of, and guidance on, CM participation for co-located storage assets as a further change that should be considered.

Question 9 sought further comments and concerns regarding the retention of the EPT framework for storage CMUs and received 21 responses.

A number of respondents questioned the continuing use of the EPT regime, with a small number of respondents urging government to remove the requirement to demonstrate extended performance. Another response called for the removal of automatic termination for CMUs failing an EPT.

The majority of stakeholders highlighted recommendations beyond the EPT framework, with the introduction of degradation profiles (or curves) being the most prevalent suggestion raised.

Respondents stated that the ability to submit a degradation profile would prove an effective method for managing degradation, whilst also incentivising Storage CMUs to enter their full connection capacity into the CM, maximising the contribution of Storage CMUs to security of electricity supply, as well as encouraging wider participation of battery assets in the CM.

Respondents who took this view stated that the current proposals do not go far enough to manage degradation, especially for assets that do not intend to augment due to cost or site configuration. The majority of respondents urged government to consider the proposal for degradation profiles further.

Policy Response

Government welcomes respondents' views on the EPT and managing the challenges of battery degradation.

Government considers the EPT framework a necessary measure for ensuring confidence that Storage CMUs can deliver against their Capacity Agreements, both in terms of duration and capacity.

As Storage CMUs are duration limited, the EPT arrangements aim to provide assurance that CMUs in a Storage GTC can deliver capacity for the relevant duration, over the course of their agreement. Without this assurance it is likely that de-rating factors for Storage CMUs would need to decrease to account for the additional delivery risk, which may risk losing liquidity in the CM.

Permitted Augmentation for Storage – battery CMUs

As outlined in the consultation, battery augmentation is a recognised tool for maintaining the capacity of battery energy storage systems. To address the perceived barriers to augmentation, government will introduce a definition of ‘Permitted Battery Augmentation’ for battery Storage CMUs within the CM Rules.

This clarification will be consistent with previous guidance provided by the Delivery Body and confirm that the augmentation of battery energy storage systems is considered general maintenance for battery Storage CMUs.

To ensure compliance with the general principles of Rule 4.4.4, Permitted Battery Augmentation will allow CMUs in a ‘Storage Generating Technology Class that is Duration Limited’ to replace and/or add batteries at an existing CMU site, to enable batteries to maintain the level of capacity required to meet EPT requirements.

Permitted Battery Augmentation will not allow a Capacity Provider to supplement a CMU's capacity with capacity from another CMU, or increase its Auction Acquired Capacity Obligation.

Government considers that augmentation is permitted for all battery Storage CMUs, in line with previous guidance issued by the Delivery Body.

Adjusting the Extended Performance Testing Requirement through Secondary Trading

For clarity, the CM rules that prohibited the ability to reduce a CMU's EPT requirement through secondary trading were intentional and sought to minimise the opportunities for, and risks of, market gaming, such as those identified in the consultation responses.

Nevertheless, recognising that managing degradation is key to enabling ongoing battery participation in the CM, and that augmentation will not be appropriate for all battery energy storage systems, it now feels appropriate for this policy to be revised.

In line with the proposal outlined in the consultation, the CM Rules will be amended to enable the MW requirement of the EPT to be appropriately reduced when secondary trading occurs, and that the requirement will increase if the CMU is a CMU Transferee.

Reducing ‘Adjusted Connection Capacity’ through secondary trading will align with the general principle that following a secondary trade, a Capacity Provider's rights and obligations are rateably reduced. At the same time, the Rules will be amended so that the Adjusted Connection Capacity is increased where a Capacity Provider's Capacity Obligation is increased by virtue of a secondary trade.

The Rules will seek to minimise the opportunity for market gaming, with providers who trade before the first EPT having their test done based on their Capacity Obligations (CO) on the day of their first test. Following the first test, if the CO increases through secondary trading, the plant must perform another EPT within 60 working days/before the end of the Delivery Year (whichever is earlier).

It is possible to start a new Delivery Year without a trade having occurred, such that the CO is effectively increased since the last EPT. In subsequent Delivery Years, if the Capacity Obligation exceeds, at any time, the Capacity Obligation which the CMU had at the time of its last EPT, the plant will be required to perform another EPT within 60 working days/before the end of the Delivery Year. This includes a situation where a plant has not secured a trade in the requisite timescales before the start of a new Delivery Year, which may result in it having an increased Capacity Obligation. In that case, an EPT would be required (within 60 working days of the start of the new Delivery Year) to address the risk of there being unproven capacity in the market.

A Permitted Battery Augmentation may enable a CMU to demonstrate extended performance, but it will not in itself trigger an EPT requirement or increase a CMU's Capacity Obligation.

The amendments to the CM rules which will enable the reduction of the EPT requirement through secondary trading will apply to Capacity Obligations for the Delivery Year commencing from 2024 onwards, and to all future agreements.

Clarity in respect of TCWAA

Responses to the consultation highlighted concerns in respect of the application of the TCWAA, stating that the uncertainty of how much it could change, increases the complexity for battery Storage CMUs.

The government, having previously consulted the Delivery Body, has determined that no amendment to the Rules is necessary because the TCWAA of a battery Storage CMU that is the subject of a multi-year Capacity Agreement should not change during the course of that Capacity Agreement and this is consistent with the Rules as they stand.

Government recognises that the measures outlined above will not fully resolve the risk of termination for some storage CMUs, such as those with existing agreements who are unable to augment.

Nevertheless, government considers that the EPT is an appropriate mechanism for ensuring delivery assurance and that it is proportionate to expect CMUs of all technologies to take action to manage and mitigate system deterioration in order to maintain long term capacity.

Multi-year agreements for low carbon, low Capex technologies

Section 6.2 of the consultation outlined the proposal for multi-year agreements for low carbon, low Capital expenditure (Capex) technologies to provide greater revenue certainty and incentivise further low carbon participation in the CM. Question 10 sought further views on the introduction of 3-year agreements with no Capex thresholds for low carbon, low Capex

technologies, and the introduction of a new mid-point 9-year Capex threshold for low carbon capacity.

Summary of responses

Question 10 elicited 26 responses, out of which 17 respondents agreed with the proposals, eight offered a mixed response, while one respondent disagreed with the proposal. Of the 17 respondents who supported the 3-year and 9-year agreement proposals, the majority believed both would enable better access to the CM for an expanded range of technologies.

Citing the importance of aligning the CM with decarbonisation goals, supportive responses emphasised the value of defining which projects would be considered as low carbon, and welcomed the definition of projects that are able to satisfy an emissions intensity limit of 100gCO₂/kWh.

One respondent highlighted the interactions with the development of the Carbon Capture Utilisation and Storage (CCUS) business model, urging government to ensure that those projects who utilise these support mechanisms are not excluded from bidding into the CM, and in return existing CMUs are not excluded from applying for CCUS support.

Other respondents flagged that both Capital Expenditure thresholds and Total Project Spend would require amending to compliment the implementation of this proposal.

Of the eight respondents who provided a mixed view on the proposals, the majority were supportive of the 9-year agreements but raised various concerns with the 3-year agreements.

While not objecting to the proposals, one respondent was in favour of longer-term contracts based on the type of capacity procured, not the Capex cost of the capacity. The response cited concerns that thresholds can push Capacity Providers to spend more than is legitimately required. The respondent further flagged that the recent supply chain price rises have meant meeting the current thresholds is not an issue, but future cost reductions may result in inefficient expenditure. They also noted that they expect some new technologies will require over £75/kW to secure investors.

Only one respondent disagreed with the proposal, specifically on introducing 3-year agreements with a Capex threshold of £0/kW for New Build and Unproven Demand Side Response (DSR) capacity. The respondent disputed that DSR already benefits from additional flexibility in the CM compared with other types of CMUs and that this disparity should not be extended in this way. While this respondent disagreed with the 3-year agreement proposal, they did support 9-year agreements, stating that this should be made available for new and refurbishing capacity that meets the stated emission limit, ensuring security of supply is met at the lowest cost for consumers.

Policy Response

Government welcomes and appreciates the feedback shared on this proposal, and notes that some respondents questioned the introduction of 3-year agreements with no Capex thresholds.

This proposal will not be implemented before the prequalification window in 2024 because of the limited availability of Parliamentary time and the need for further consideration of the policy in light of consultation responses.

In order to appropriately define which projects should be considered low carbon, government will develop a definition, considering whether further consultation is needed, taking into account relevant information and appropriate evidence.

Capital expenditure thresholds

As part of the Phase 1 consultation, the government consulted on the proposal to update the reference cost levels of the CM's Capex thresholds. This is to ensure these thresholds are appropriate following changes in the technology mix of the CM and developments in the power sector.

The consultation proposed that the reference cost level of a 3-year agreement would be changed to be linked to the cost of refurbishing on Open-Cycle Gas Turbine (OCGT), resulting in a threshold of £135/kW (in the CM year 2021/22). As reference levels are linked to inflation, the Capex threshold was £165/kW for the last auction in 2024. This is with the aim of making this threshold more relevant to the types of refurbishments likely to be seen competing in the CM in the coming decade.

The 15-year agreement threshold was proposed to remain at its existing level (£325/kW for Delivery Year 27/28) to ensure that a wide range of carbon technologies can continue to benefit from eligibility for long multi-year agreements to better support their investment case.

Policy Response

Government notes that some respondents, for various reasons, questioned the continued use of Capex thresholds. Government notes the rationale for reserving the longest agreements for high-Capex technologies, which still need to be competitive in CM auctions to support future security of electricity supply.

This proposal will not be implemented before pre-qualification in 2024 because of the limited availability of parliamentary time, and government will consider whether the proposal will be implemented in due course.

Total project spend

As part of the Phase 1 consultation, the government consulted on the proposal to amend the definition of 'Total Project Spend' so the window to account for Capex costs for Refurbishing CMUs is aligned with that of new build CMUs, to cover a period of 77 months prior to the commencement of the first Delivery Year. This is to enable Refurbishing units to capture their full Capex costs, recognising that some refurbishments are as complex and intensive, as building new capacity units. A further rationale for this proposal is that it may help encourage more projects coming forward as capacity looks to decarbonise in the future (i.e. retrofitting unabated gas plant to fire hydrogen), including costly and complex refurbishment projects.

A total of 27 responses were received for this proposal, out of which the overwhelming majority agreed with the proposal, with only two responses disagreeing with it, and a further two neither agreeing nor disagreeing with the proposed change.

Policy Response

Government notes the responses from the Phase 1 consultation on the amendment to the definition of Total Project Spend.

This proposal will not be implemented before pre-qualification in 2024 because of the limited availability of parliamentary time, and government will consider whether the proposal will be implemented in due course.

Projects with long build times

Section 6.3 of the Phase 2 consultation outlined the participation challenges faced by projects with long build times and proposed implementing two new options alongside the existing long stop date provisions:

- **Declared (12-month) long stop date** - This would enable a Prospective Generating CMU to benefit from a total of up to 12 months additional construction time (as allowed for by the existing long stop date) and declare at prequalification its intent to deliver for the start of the second Delivery Year. This would not be compulsory, and a CMU which does not submit a declaration would still be able to benefit from existing long stop date provisions.
- **Declared additional (24-month) long-stop date** - This would enable a Prospective Generating CMU to benefit from a total of up to 24 months additional construction time and declare at prequalification its intent to deliver for the start of the third Delivery Year. Access to the Declared Additional (24-month) long stop date would only be available through declaration at prequalification.

To maintain capacity and security of supply, low carbon refurbishing assets as well as new build assets would be able to utilise the new options.

The consultation outlined options for minimising potential security of supply risks associated with this proposal, including an applicable criteria, prequalification requirements and operational parameters.

Summary of responses

Question 11 asked respondents if they agreed with the introduction of Declared Long Stops, both the 12- and 24-month options for low carbon projects with long build times. 30 responses were received, with 20 respondents agreeing with the proposal. A further six respondents partially agreed, with four respondents disagreeing with the proposal.

Supportive respondents were of the view that the proposals achieved a suitable balance between supporting relevant projects and maintaining the current auction design and processes. In addition, respondents noted that the additional construction time would help to de-risk projects that may otherwise find it hard to commit to capacity agreements.

A number of respondents stated that the Declared Additional (24-month) Long-Stop would likely benefit potential long duration storage projects, as well as Hydrogen to Power (H2P) and Carbon capture and storage (CCS)-enabled generation and retrofit.

A number of respondents were of the alternative view that the additional 24-months would be insufficient to support the large-scale project construction times, such as those required for LDES projects. Two respondents of this opinion cited 36-months as an alternative long-stop.

Other respondents caveated their support, stating that suitable eligibility and operational conditions would be necessary to minimise the risks and uncertainties of non-delivery.

Those respondents who opposed the proposals stated that they believed the changes could result in consumer dis-benefits, which they expanded on in response to Question 14. They stated that if investment in technologies with long build times were deemed necessary, government should explore bespoke funding mechanisms that may be preferable for such technologies.

One response provided wider views on construction timelines, citing challenges associated with grid connections and the change request being considered by the Capacity Market Advisory Group (CMAG), “CP371: Protection from Very Late Network Connections”¹¹. This respondent also urged government to move the T-4 auctions to afford projects four full years to deliver and a review of the appeals process.

Question 12 sought views on whether the option to declare a (12-month) Long Stop Date provides developers with any benefits versus relying on the existing Long Stop Date process. 15 responses were received, with six respondents of the view that there were benefits, five respondents had mixed views and four did not see any benefit to introducing the option to declare a 12-month Long Stop.

¹¹ <https://cmag.elexon.co.uk/cp/cp371-protection-from-very-late-network-connections/>

Respondents who saw benefit in this option stated that the declared option would provide optionality and greater certainty that there is a further 12-month window for construction, rather than participants having to rely on the existing mechanism that is currently engaged later. Supportive responses generally highlighted that this option could benefit investors and partners, by providing a means of evidencing the later start date.

A few supportive responses also raised that the ability to declare the 12-month long stop would give the Delivery Body greater oversight of the intended delivery date of acquired capacity, unlike the current Long Stop. Responses of this view suggested that this could allow replacement capacity to be procured in a later auction, such as the relevant T-1, if required for security of electricity supply.

Those respondents who did not see any additional benefits cited the inflexible nature of the proposed Declared 12-month Long Stop, stating that declaring a Long Stop Date at prequalification would restrict the Capacity Provider from accessing other benefits if delivery was ahead of schedule, such as taking on an earlier agreement through secondary trading.

Respondents who were of a mixed view generally provided a statement of neutrality or agreed that the fixed nature of the declared long stop limited the benefits for projects.

Question 13 asked whether a Declared Additional (24-month) Long Stop Date, together with Rule 6.7.7 (if applicable) and the existing 120 working days from a Notice of Intention to Terminate provide sufficient time for slippage, and if not, sought views on what would be an appropriate amount of time which would need to be considered.

14 responses were received. Five respondents agreed, whilst five provided a mixed response. Four respondents disagreed that the existing termination period would be sufficient.

Respondents generally agreed that the additional 24-month period would cover the majority of situations where further build times are required.

Mixed responses caveated their support by highlighting that long build projects are likely to be highly complex and Capex intensive, with many construction milestones and interactions between construction stages.

One respondent noted that, depending on the scale of the infrastructure and the development stage of the technology, projects could take up to seven years to complete construction. For such projects with long build times, the introduction of a 24-month long stop date may still not be sufficient if they have very long build times or encounter significant, unexpected delays in construction.

A further response stated that, to account for such risks and avoid non-delivery, such projects should still be able to make use of the existing, non-declared, 12 months long stop date if required beyond the 24-month window.

Another respondent noted that issues with connections and supply chains may require more flexible requirements to account for unseen delays. The respondent proposed allowing

participants to apply for the 24-month long stop and then revert to the current 12-month long stop date to avoid the risk of non-delivery and other contract failures in the CM.

Another response highlighted that reforms to secondary trading could provide further options to CM participants who might need additional time if a CMU is subject to even longer delays. This response highlighted the CMAG change proposal “CP362: CM Agreement Transfers”¹² which would allow a CMU to secondary trade before it achieves its Substantial or Minimum Completion Milestone.

Responses also noted that the route to appeal terminations with the Secretary of State provides a potential final option for CM participants facing very long project delays.

One respondent urged government to conduct a wider review of the termination rules and the associated powers granted to the Secretary of State.

Respondents who disagreed with the proposal called for longer timeframes and urged government to apply greater flexibility, like that afforded by the current long stop mechanism.

Question 14 invited views on any foreseen unintended consequences which could arise from the introduction of the declared long stop dates. 16 respondents provided views.

A number of respondents expressed the view that the proposed Declared Long-Stop Dates could introduce potential risks to security of supply, with the potential for increasing clearing prices and reducing certainty of capacity availability.

These responses generally continued to say that these risks had been appropriately addressed through the criteria established within the proposals. One respondent urged government to ensure parties were informed of how much capacity had declared its intention to utilise the long stops before the auction.

Two respondents highlighted the need to ensure the CM aligned with other support mechanisms for low carbon generation such as CCUS equipped power generation.

Question 15 sought views on whether respondents agreed with the proposed eligibility criteria and elicited 18 responses. 11 responses agreed with the proposed criteria, with a further five providing mixed views and two respondents disagreeing.

Supportive responses agreed that the eligibility criteria were proportionate and would ensure that only projects that genuinely required longer construction times would benefit from the additional time provided by the long-stop dates.

Mixed responses sought more clarity on how the eligibility criteria would be implemented and the requirements of the Independent Technical Expert (ITE) report.

¹² <https://cmag.elexon.co.uk/cp/cp362-cm-agreement-transfers/>

One such response sought for the ITE report to be deferred between prequalification results and the auction itself, suggesting this could be aligned with planning permission timelines.

A number of responses highlighted that first-of-a-kind technologies and/or projects may require additional flexibility with reference to historical construction timeframes not being possible. Additionally, another respondent stated that historical build-times are not a reflection of expected times, due to supply chain constraints, which are subject to significant variation.

Question 16 asked respondents for their views on proposed operational conditions. 16 respondents replied, with nine supportive responses and a further three providing mixed views. Four responses outlined disagreement with the operational conditions.

Supportive responses stated that the operational conditions were appropriate and would ensure that only those projects who genuinely needed the additional build time would utilise the declared long-stops, minimising the impact on CM auctions.

Additionally, a number of responses agreed that it was reasonable that participants should not be able to start their agreement early, to avoid over procurement of capacity.

Those respondents who disagreed stated that the proposals did not incentivise CMUs to deliver earlier, as the start of the agreement would be fixed to the relevant Delivery Year. Respondents of this view stated that projects that deliver early should be able to enter the relevant T-1, or take on a secondary trade, prior to the start of their agreement.

A few respondents considered that eroding the 15-year term of a CM agreement by up to 24-months could make some projects, which need to take advantage of the full term, un-bankable.

Question 17 sought views on the relationship between a CMU utilising the Declared Additional (24-month) Long-Stop and its role as Price Maker versus Price Taker in the CM auctions. 21 respondents detailed their views.

Some respondents were of the view that the use of the additional long stop should not impact the Price Maker status of a CMU. The majority of these responses stated that the complex and high Capex nature of long build projects, coupled with the declared long-stop reducing the CMU's agreement length, would likely result in projects requiring an auction clearing price higher than the Price Taker threshold of £25/kW.

Furthermore, respondents felt that the £25/kW threshold would not be a sufficient price level to encourage investment in new build capacity and stated that projects should participate in the auction as Price Makers.

One respondent highlighted that, as a consequence of the proposed policy, it may be possible for CMUs with a Declared Additional (24-month) Long-Stop Date to set the auction price for a delivery year in which it is known not to be available. A few responses also urged government to provide greater clarity on the interactions between parameter and auction processes.

Question 18 sought views on any further required changes for the implementation which had not been identified in the consultation. 16 responses were received.

A number of responses urged government to clarify its approach in respect of an appropriate market mechanism for LDES technologies.

Other respondents raised the 77-month window for Total Project Spend and sought amendments to ensure the rules would account for both long-stop proposals and extend to Refurbishing CMUs.

Policy Response

Government welcomes the majority support received for these proposals, and following feedback from stakeholders, that the Declared (Additional) Long Stop will not influence a CMU's role as Price Maker versus as a Price Taker. To maintain the integrity of the CM, it is important to implement the proposals in a way that minimises potential security of supply risks.

This proposal will not be implemented before pre-qualification in 2024 because of the limited availability of parliamentary time, and government will consider whether the proposal will be implemented in due course.

Demand Side Response participation

Questions 19 and 20 consulted on proposals to reduce participation barriers for Demand Side Response (DSR) CMUs comprised of large portfolios with domestic assets. These proposals were put forward in light of the changing nature of the sector, and to increase participation in the CM by these assets.

The first proposal was to limit the publication of residential addresses on the CM register by only publishing the first half of the postcode – the outward code (e.g. NE1) – and redacting all other address information (street address, town, city, second half of postcode and 6-figure grid reference). Such information is personal data for the purposes of applicable privacy and data protection law, and there is no need to publish it on the publicly available CM register where it could be accessed by third parties such as advertisers.

The second proposal included in the consultation aimed at reducing participation barriers for domestic DSR related to component reallocation. It proposed changing the limit on the number of components that can be reallocated within a portfolio, which is currently set at 40, to either this current limit or a new proportional limit set at a certain % of portfolio size (whichever is the higher of the two). This was proposed in recognition of the fact that customers need to be freely able to change their supplier or flexibility provider to create efficient markets and that the current limit may no longer be appropriate in light of the increasing size of DSR portfolios participating in the CM.

Summary of responses

Question 19 asked respondents whether they agreed with the proposal for partial redaction of addresses on the CM registers for domestic DSR CMU components. This question received 26 responses, of which 23 agreed with the proposal, two felt it did not go far enough, and one proposed an alternative approach on which information to publish.

Supportive respondents felt the proposed approach was a sensible way of addressing the UK General Data Protection Regulation (GDPR) risk faced by domestic DSR units. A few respondents also specifically cited the need to reduce barriers to entry for DSR participants in the CM given that the current rules were not established with these types of portfolios in mind, and more broadly the important role that DSR has to play in our future energy system.

Of the respondents who were supportive, a few also indicated support for a wider review of what information needs to be collected for the CM and how it should be collected and stored in order to minimise administrative burdens. This echoes the feelings from the respondents who felt the proposal did not go far enough, one of whom felt that the requirement to identify domestic DSR components individually should be removed altogether due to the administrative burden. Suggestions from all these respondents for things that should be considered as part of a wider review include: the rates of data being rejected for minor discrepancies; improvements to the bulk upload process for handling large portfolios; the reliability of the CM portal; and standardisation of information collected from other markets and whether data could be taken from existing sources, especially with increasing work underway on cross-market data sharing.

A few respondents also indicated support that this proposal would continue to require information provided to the Delivery Body in full (alongside the redacted address) so that appropriate governance checks can still be carried out, and support that some geographical information would still be published to enable external scrutiny against non-compliance.

A few respondents also suggested that the proposed redaction should be extended to the MPANs of assets located at residential premises, as this information can be used to look up an individual's address by parties with access to industry databases and so should not be made publicly available in the spirit of UK GDPR.

One response suggested a slightly different approach, where instead of keeping just the outward postal code for domestic units on the published registers, it should be just the 4-figure grid reference that is kept, as they felt this might make their location-based analysis easier.

Question 20 asked respondents whether they agreed with the proposed changes to component reallocation and, if so, what percentage they propose might be appropriate to set as the new limit. This question received 21 responses, of which 12 were in favour, one was against, and eight responses were mixed.

Supportive responses felt this was an appropriate proposal to address the challenge of increasingly large DSR portfolios in the CM and the delivery risks that can occur if providers are not able to replace assets in their portfolio over which they no longer have control due to

consumer switching. A few responses emphasized how important this ability of consumers to switch between providers freely and easily is in the establishment of effective markets.

Of the eight mixed responses, most felt that the proposal didn't go far enough and that the limit on component reallocation should be removed altogether. They cited the importance of ensuring consumers can switch providers without risking their ability to participate in the market (and thus earn revenues) and that any limit introduces some degree of delivery risk if assets cannot be replaced. However, some of these responses did state that they agreed the proposed policy would be an improvement on the status quo. Of the supportive responses, a few of them echoed this feeling that there should, eventually and in principle, be no limit, but that relevant changes to governance processes, testing regimes and administrative systems would need to be in place first.

Another mixed response said that they supported the principle of component reallocation and agreed with the limit being in place but wanted to ensure consistency between the CM Rules for DSR CMUs and generation CMUs, who also have significant restrictions on their ability to reconfigure.

The consultation outlined the administrative burdens that can be associated with high levels of component reallocation, and this was referenced in some responses. Of these, respondents felt they did not feel the administrative burden was a valid reason to restrict component reallocation and should not be used to inform the level setting. Some recognised the current challenges but stressed that it is essential they are removed as quickly as possible through IT upgrades and process changes, especially in light of portfolio sizes likely to increase rapidly in the future. One response, however, felt that it was important to consider administrative burdens when setting an appropriate limit, citing that significant volumes of DSR reallocation can tie up delivery partners and reduce their capacity to support in other areas.

A few responses also highlighted the need for strong governance checks to be in place, to verify that reallocated components would be able to deliver the required capacity. Some respondents suggested proposals to this end such as requiring additional DSR tests if a portfolio reallocates above a certain level and some outlined shortcomings with the current testing regime that could be remedied.

Another view highlighted from a few responses is the importance of explicitly considering the impacts of this policy on non-supplier providers (e.g. aggregators) and not just suppliers when developing this policy.

Six responses suggested a percentage value that might be appropriate to set the new limit. Three of these suggested values in the 40-50% range, citing the importance of a generous limit in mitigating delivery risk and the other three all suggested 10% as an appropriate value. One response did not provide a value but suggested using Ofgem's regular reporting on consumers switching rates to determine the appropriate level to set it at.

Policy Response

Government welcomes the feedback from respondents that residential MPANs carry similar data privacy concerns to addresses. Responses which indicated support for a wider review of information collection and storage requirements for DSR in the CM are recognised and the challenges highlighted by these responses shall be taken into consideration in future policy development.

Government appreciates the views from the few respondents who felt that there should be no limit at all on component reallocation, however, this will not be pursued at this time due to the concerns around governance and administration raised in many of the responses, but views will be incorporated into future policy development.

This proposal will not be implemented before pre-qualification in 2024 because of the limited availability of parliamentary time, and government will consider whether the proposal will be implemented in due course.

Extended Years Criteria

The Extended Years Criteria is defined in Rule 8.3.6B, which states that Prospective Generating CMUs must detail the extent of the works, meet apparatus requirements, and confirm that the expected lifespan of the project will exceed 15 years from the point of the first Delivery Year, as well as additional requirements for certain technologies. Prospective Generating CMUs must declare intentions to follow this requirement, as well as Total Project Spend, to be eligible to prequalify for a 15-year agreement.

Question 21 consulted on the proposed changes to the Extended Years Criteria, in the CM Rules to clarify the requirement to replace a turbine, with stakeholders asked for their view on the proposed changes and any unintended consequences.

Summary of responses

Question 21 on the proposed changes to the Extended Years Criteria elicited 24 responses. Most respondents supported the proposal, with 20 stakeholders agreeing with the proposed changes. Responses from four stakeholders were neutral and did not take a strong view on the proposed changes.

The majority of supportive responses expressed the view that the proposed amendment would better reflect the range of technologies and projects which are currently participating in the CM, as well as those likely to participate in the future. In addition, responses highlighted that the proposal would enable a wider range of potential Capacity Providers to satisfy the Extended Years Criteria, therefore enabling better access to CM agreements for refurbishing capacity.

One respondent highlighted the benefit to those Capacity Providers looking to retrofit gas turbines to enable compatibility with 100% hydrogen and hydrogen fuel blends.

Four respondents did not state clear support or opposition to the proposal, with one clarifying that they did not take a strong view on the criteria change.

Policy Response

Government welcomes the majority supportive responses to this proposal on changes to the Extended Years Criteria.

This proposal will not be implemented before pre-qualification in 2024 because of the limited availability of parliamentary time, and government will consider whether the proposal will be implemented in due course.

Call for Evidence on Demand Side Response Generating Technology Classes

Question 22 posed a Call for Evidence question on creating new, more granular Generating Technology Classes (GTCs) for DSR. The consultation outlined the context that there is currently only one GTC for DSR, which covers an extremely broad range of technology and customer types (backup generators, electric vehicle fleets, Industrial & Commercial customers, domestic turndown etc.), which has a de-rating factor that some stakeholders report as being higher than they felt some DSR forms would be able to provide for.

This means that the current system has the potential to introduce a delivery risk and places the burden for managing that risk on DSR providers which could discourage their participation. Some options for how to split out the current class (i.e. by technology type, or by duration) were mentioned, however, this was not an exhaustive list, and government is actively seeking views on any potential new classes that could be created.

Summary of responses

This question asked for views on the creation of new GTCs for DSR and which new classes should be created. It received 18 responses, 13 of which were supportive of some change in this space. Responses supportive of change generally cited the ability to calculate more accurate derating factors and thus mitigate delivery risk. Of the responses who were not in favour of change, or who expressed concerns, some felt that given the variety of technologies covered by DSR, new GTCs would still not be able to accurately represent the reliability profiles of all the assets covered under their classes.

Other responses also suggested wider changes for DSR in the CM that would complement the aims of GTC reform, or that may be necessary to enable some reforms to take place. This included baseline calculation, changes to the testing regime and issues with the penalty regime. The broad theme across most of these responses was to ensure that the derating factor has an impact on DSR, but that this impact also isn't double counted by penalising DSR for its reliability profile in other areas.

Policy Response

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Government welcomes the evidence provided in responses to this Call for Evidence on changing the GTC for DSR. Given the majority support for reform in this space, government intends to review this question further to put forward a specific policy proposal for how to change the GTC, using the responses provided to inform a decision. In particular, government notes concerns and suggestions from respondents on participation, asset variation and accompanying rule changes that may be required and will take account of these issues when developing a policy proposal.

Decarbonising the Capacity Market

This chapter summarises Section 7 of the consultation (Question 23), which considered publishing carbon emissions data as part of efforts to improve transparency in the CM as it transitions to net zero.

Publishing Capacity Market emissions data

Summary of responses

Question 23 elicited 29 responses out of which seven fully supported the proposal, recognising that transparency on emissions data is vital for supporting the net zero transition for both the CM and the wider electricity system. Some responses stated that they had no comment or concerns about the proposal. Other responses supported the policy in principle but raised concerns about inadvertently revealing commercially sensitive data to their competitors. Three responses disagreed with the proposal, for the same reason. Some also cited general concerns about how accurate and reflective the data may be of the plant's performance, as calculations based on design efficiency can only represent a best-case scenario and do not account for other factors.

Several general questions were raised in other responses. These included questions about how the CM register will be maintained in a way that accurately reflects efforts to improve efficiency or decarbonise. There were also questions about whether the policy will require the publication of previously submitted data.

Some responses cautioned about the data being used to predict future delivery years or auction qualification.

Policy Response

Government welcomes feedback from the respondents and has noted the concerns pertaining to commercial sensitivities and use of the data to inform delivery years or auction qualification. The CM regime is already highly transparent in many ways, and the register contains a great deal of data about individual CMUs and their components. Robust carbon monitoring and reporting is important for ensuring that electricity markets are aligning with net zero.

This proposal will not be implemented before pre-qualification in 2024 because of the limited availability of parliamentary time and a focus on ensuring prioritisation of technical measures that best supports liquidity in the next auction. Government will consider whether the proposal will be implemented in due course.

Assessment of impacts

A number of the proposals included in this consultation were previously considered in the January 2023 CM consultation, including proposals on multi-year agreements for low carbon, low Capex technologies and proposals on Capex thresholds.

For further information on the assessment of impacts for proposals in the January 2023 CM consultation, please see section 5 of the January 2023 CMU consultation¹³.

Given previous work and that proposals were considered technical amendments and minor changes to improve administrative arrangements, the Assessment of Impact section focussed on describing the expected impact of two key topics under consultation, rather than encompassing all measures being consulted on. These directly related to sections 6.1 and 6.3 of the consultation document, so we have deemed that the review of responses to the questions in these sections also encapsulates views on the associated assessment of impact. Questions sought views on unintended consequences of policy proposals and the policy response to each section outlines how we have sought to mitigate or minimise these impacts.

¹³ Available at: <https://www.gov.uk/government/consultations/capacity-market-consultation-strengthening-security-of-supply-and-alignment-with-net-zero>

Part 2: Rule amendments to support auction liquidity

Introduction

The government ran a consultation from 8 April to 5 May 2024 to seek stakeholders' views on five proposals designed to support liquidity in future CM auctions by improving the operation of the CM emissions verification process. These proposals were intended to remove or minimise risks ahead of the 2024 Prequalification Window.

The proposals were as follows:

- Rule amendments to enable CM Applicants to be able to have their emissions verified after the deadline for submitting Applications to prequalify for the CM. This is to ensure the CM against security of supply risks should Applicants be unable to secure a verification slot in time.
- Rule amendments which currently require some CMUs to use a Combined Heat and Power Quality Assurance Programme (CHPQA) certificate which evidences their emissions for a given calendar year to better align with the definition of an 'Emissions Year' in the Rules.
- Rule amendments to require Applicants relying on previously verified Fossil Fuel Emissions Declarations (FFEDs) to resubmit the relevant document.
- Rule amendments to remove outdated sections of the Exhibit ZA and improve functionality.
- Rule amendments to enable older versions of the FFED to be accepted at prequalification, provided they were verified no later than four weeks after an updated version of the declaration was inserted into the CM Rules.

The consultation received 14 responses, 12 of which were from industry stakeholders, one of which was from the delivery body and one response was from an industry trade body. Respondents were requested to set out their responses to each question separately, however not all did this. Where it was possible to infer which part of their remarks related to which proposal, we have included the substance of their remarks by reference to 'indirect' responses.

The responses were overwhelmingly supportive of all the proposals, however they did feature a number of caveats raising concerns and requests for clarification. We have summarised the responses and responded to them below.

Next steps

Following the conclusion of the consultation and the review of responses, government intends to implement the following proposals so that they are in place for the 2024 Prequalification period for the 2025 CM auctions. The proposals will be implemented by making amendments to the CM Rules, subject to Parliamentary timelines:

- Rules amendment to **enable CM Applicants to have their emissions verified after the deadline for submitting Applications to prequalify for the CM**. This is to ensure the CM against security of supply risks should Applicants be unable to secure a verification slot in time.
- Rules amendment to allow some CMUs to use a Combined Heat and Power Quality Assurance Programme (CHPQA) certificate which evidences their emissions for a given calendar year to **better align with the definition of an ‘Emissions Year’ in the Rules**.
- Rules amendment to **require Applicants relying on previously verified Fossil Fuel Emissions Declarations (FFEDs) to resubmit the relevant document**.
- Rules amendments to **remove outdated sections of the Exhibit ZA and improve functionality**.
- Rules amendments to **enable older versions of the FFED to be accepted at prequalification**, provided they are verified no later than four weeks after an updated version of the declaration was inserted into the CM Rules.

Summaries and Government Response

Deadline Extension for the Verification of Fossil Fuel Emissions Declarations (FFEDs) submitted at prequalification

Questions 1 and 2 asked whether respondents agreed with the proposed deadline extension for FFEDs submitted at prequalification, and whether they foresaw any unintended consequences. Question 1 received 13 responses, of which two were indirect. All 13 responses supported the proposal, with four of these providing caveats to their support. This included three responses which wanted greater clarity on what evidence would be required for access to the deadline extension to ensure consistency, as well as responses which raised the risk of a verification bottleneck being only postponed until after prequalification.

Question 2 received 11 responses which mostly stated they did not foresee any unintended consequences. Some did raise the risk of there being insufficient IEV capacity to enable plants to meet the extended deadline, confusion for applicants, and the risk of sunk costs for the applicant if they failed to prequalify ahead of their IEV verification slot.

Policy Response

In line with the consensus view of the respondents, government intends to proceed with the implementation of the deadline extension proposal. In recognition of the need to specify what evidence would be acceptable to access this extension, government intends to specify in the CM Rules that the Applicant must provide an email confirmation from the verifier to the Applicant which confirms the verifier's commitment to carry out the work before the extended deadline and makes it clear that the commitment is contractually binding and relates to the CMU in respect of which the Application is made.

Government notes that some respondents raised the risk of insufficient verifier capacity and potential bottlenecks only being delayed, however this is mitigated by the requirement to book verifications ahead of accessing the deadline extension. As such the ability to obtain an extension would indicate there being sufficient verifier capacity prior to the new deadline. Furthermore, government notes that wasted verification costs are always a risk for applicants seeking prequalification, as an applicant might always fail to prequalify for an unrelated reason, or not succeed in winning an agreement at auction.

The deadline extension should only be used as a last resort as while government has confidence that there is sufficient verifier capacity prior to the conclusion of the prequalification period (provided applicants do not unnecessarily delay booking verifications), there will not be as much verifier capacity post prequalification, particularly as Emissions Trading Scheme (ETS) verifications commence in late Autumn. As such applicants must not delay booking verifications under the assumption a deadline extension will be guaranteed, as that in turn will be determined on whether IEVs have sufficient capacity prior to the extended deadline. Likewise, if an Applicant knows they will

not be able to meet the default prequalification deadline, they must also aim to book a verification slot and request a deadline extension at the earliest possible opportunity.

Amendment to align Qualifying CHPQA certificate and ‘Emissions Year’ definitions

Questions 3 and 4 asked whether respondents agreed with the proposed amendment to the definition of ‘Emissions Year’ and whether they foresaw any unintended consequences. Questions 3 received 13 responses of which three were indirect. All responses supported the proposal, although one respondent did query whether it would apply to capacity agreements awarded prior to the implementation of this proposal. There were seven responses to question 4 but none of them identified any unintended consequences.

Policy Response

Following further consideration of the issue, government has identified that the misalignment issue would only practically affect CHP plants which choose to utilise the carbon capture or composite fuel formulae to determine fossil fuel emissions. This is because the data inputs for the Transferred CO₂ Factor (TCF) need to be linked to the Qualifying CHPQA certificates, as opposed to the definition of an Emissions Year.

As such, although the immediate impact of this misalignment in the definitions is unlikely to cause issues for existing applicants, government intends to implement this proposal for the upcoming prequalification to better align descriptions and future proof the emissions regime. The amendments will not have a practical impact on existing CHP plants.

Amendment to require applicants to re-submit previously verified FFEDs

Questions 5 and 6 asked whether respondents agreed with requiring applicants to re-submit previously verified FFEDs and whether they foresaw any unintended consequences from this proposal. Out of the 12 responses, 10 agreed with the proposal and two disagreed. Respondents who disagreed were concerned with the administrative burden and risk of failure to prequalify being shifted onto the Applicant. These responses included suggestions on portal improvements as an alternative to the requirement to resubmit.

Of the seven respondents to question 6 regarding unintended consequences, five did not identify any, while the remaining two raised the risks of confusion in the case of name changes and proposed rectifying this via cover letters.

Policy Response

Government is grateful for the feedback this proposal has received. In light of the majority view, this proposal intends to be implemented for the upcoming prequalification. Government notes that this is a minor administrative burden on the applicant and would also avoid the Delivery Body making the assumption on behalf of the Applicant that there had been no Emissions Related Material Changes. Failure to prequalify as a result of not providing a previously verified FFED could be rectified by providing this document during the disputes process. As such it is unlikely to increase the risk of ultimately failing to prequalify. Applicants are encouraged to provide any supporting information on name changes and CMU IDs in cover letters which would further aid the Delivery Body in processing their applications.

Amendments to the Fossil Fuel Emissions Declaration (Exhibit ZA) to remove outdated elements and improve functionality

Questions 7 and 8 asked whether respondents agreed with the proposed amendments to the FFED to remove outdated elements and improve functionality, and whether they foresaw any unintended consequences from this proposal. All 12 responses to question 7 agreed with the proposal, with respondents adding that the exhibit should be regularly updated and simplified. Some respondents queried the re-numbering/lettering of the exhibit and one respondent suggested part 6 of the exhibit may be useful as a checklist. The only unintended consequences raised in response to question 8 referenced the need to remove reference to part 6 in the exhibit.

Policy Response

Government intends to implement the consulted proposal for the upcoming prequalification. While it is recognised part 6 may have offered a useful checklist, IEVs will be best placed to ensure the applicant is submitting the correct supporting evidence.

Amendment to enable the acceptance of older versions of the Exhibit ZA which have been verified

Questions 9 and 10 asked whether respondents agreed with proposed amendment to enable the acceptance of older versions of the Exhibit ZA which had previously been verified, and whether they foresaw any unintended consequences from this proposal. Of the 12 responses to question 9, 11 agreed with the proposal with one offering an unclear verdict. The responses raised issues regarding the complexity of the solution as well as the risk that the stipulated 4-week grace period is not enough.

Responses to question 10 regarding unintended consequences raised the risk of problems arising from lack of clear communication to capacity providers and IEVs and the need to make clear what the latest version is and the cut offs for the grace period. One response also flagged

that the upcoming 2024 prequalification would feature a number of novel introductions, such as the FFED verification requirement, which may further confuse applicants.

Policy Response

In line with the majority view, government intends to implement this proposal ahead of the upcoming prequalification. All relevant channels will be used to communicate changes to ensure applicants have every opportunity to familiarise themselves with what will be required from them, and government maintains regular engagement with IEVs.

Government notes concern from several respondents that a 4-week grace period may not be sufficient, however as verifiers typically only request a FFED when they are about to verify the information it contains, the 4-week grace period is likely to provide ample time to transfer to a new exhibit and obtain the required signatures if necessary.

Glossary

Abbreviation	Definition
Auction clearing price	The price at which the supply of capacity offered by bidders at that price is equal to the volume of capacity required to be secured in the auction.
Auction parameters	The parameters of the capacity auction, which are determined by the Secretary of State. This includes the capacity target, net-CONE, the price-taker threshold, price cap, the capacity margins, and the capital expenditure thresholds.
Balancing Mechanism (BM)	The mechanism used by National Grid ESO to balance electricity demand and supply across the national transmission network.
Capacity	An amount of electrical generating capacity or DSR capacity, usually expressed in megawatts (MW) unless stated otherwise.
Capacity adequacy	A term to describe whether the pool of generation assets is sufficient to meet electricity demand at any given moment amid any given set of circumstances.
Capacity Agreements	The rights and obligations accruing to a capacity provider under the Regulations and the Rules in relation to a CMU for one or more delivery years.
Capacity Auction	An auction held under Part 4 of the Regulations, as a result of which successful bidders are awarded capacity agreements.
Capacity Market Rules (“the Rules”)	The Capacity Market provide the technical detail for implementing the operating framework set out in the Regulations.
Capacity Market Unit (CMU)	A unit of electricity generation capacity or DSR capacity that can be put forward in a

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	capacity auction. It is the product that forms the capacity to be procured through the CM.
Capacity Market Volume Reallocation Notification (CMVRN)	Capacity Providers who have under-delivered against their obligations during a System Stress Event may re-allocate this capacity volume post stress event by trading volume with the CMUs who have over-delivered, to reduce the amount of penalty charges they owe.
Capacity Obligation (CO)	An obligation awarded pursuant to a capacity auction, applying for one or more delivery years, to provide a determined amount of capacity when required to do so in accordance with Capacity Market Rules.
Capacity Provider	A person who holds a capacity agreement or a transferred part in respect of a capacity agreement.
Capital expenditure thresholds (Capex)	Auction parameter that determines whether a CMU can access a multi-year agreement based on their amount of capital expenditure (in £/kW).
Carbon Capture, Utilisation and Storage (CCUS)	The process of capturing carbon dioxide from industrial processes, power generation, certain hydrogen production methods and greenhouse gas removal technologies such as bioenergy with carbon capture and storage and direct air capture. The captured carbon dioxide is then either used, for example in chemical processes, or stored permanently in disused oil and gas fields or naturally occurring geological storage sites.
Co-located storage	Technologies sharing the same utility-scale grid connection point, often within the same site.
Combined Heat and Power (CHP)	An electricity generating unit that also supplies heat.
Connection Capacity	The capacity available to a CMU on the distribution or transmission network.

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Contracts for Difference (CfD)	CFDs are 15-year private law contracts between low carbon generators and the Low Carbon Contracts Company. CFDs stabilise revenues for generators at a fixed price level, set by a government (the 'strike price'). Generators receive revenue from selling their electricity into the market as usual, but when the market reference price is below the strike price, they receive a top-up payment. If the reference price is above the strike price, the generator must pay back the difference.
Credit Cover	A letter of credit or cash deposit required to be provided by a person (a prequalification applicant, a capacity provider, or a supplier) to the Settlement Body. The Settlement Body may draw down on credit cover in certain circumstances set out in the Regulations and the Supplier Payment Regulations, e.g. if the person must pay the Settlement Body a termination fee in relation to the termination of a capacity agreement.
Decarbonisation	A process of reducing the amount of carbon dioxide released into the atmosphere.
Delivery Assurance	An umbrella term that refers to the framework of checks and balances that are used to ensure that CMUs are available to deliver their Capacity Obligation at the start of and during the delivery year. This includes processes in the lead up to the delivery year, such as termination events and the posting of credit cover, as well as processes within the delivery year such as Satisfactory Performance Days.
Delivery Body	The national electricity system operator (i.e. National Grid ESO).
Delivery Year	In relation to a capacity auction, this means the year for which a 1-year Capacity Obligation is awarded, or the first year of the period for which a multi-year Capacity Obligation is awarded. Delivery years run 1st

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	October- 30th September of each calendar year.
Demand Side Response (DSR)	DSR is a method of reducing electricity demand. This can be achieved by either reducing demand by switching off assets (see turn-down DSR), or by starting up on-site generators to provide electricity in place of drawing it from the distribution network or transmission network (see behind the meter generation).
De-rated Capacity	The capacity that a CMU is likely to be technically available to provide at times of peak demand, which is specific to the CMU's technology type and individual characteristics.
De-rating Factor	A factor that is applied to a CMU's capacity to derive its de-rated capacity.
Dispatchable Power Agreements (DPA)	A DPA is a private law contract between a carbon emitting electricity generator and government which sets out the terms for capturing and storing carbon and the compensation which the generator will receive in return.
Electricity Market Reform (EMR)	A programme created by DESNZ (formerly BEIS/DECC) to deliver secure electricity supply and new low carbon generation. It consists of four mechanisms: Contracts for Difference, the Capacity Market, Carbon Price Support, and an Emissions Performance Standard.
Electricity Settlements Company (ESC)	Referred to in the CM legislation as the "Settlement Body". A private limited company owned by the Secretary of State for the Department, established to oversee the settlement of payments to and from suppliers and capacity providers such as the supplier charge and capacity payments.
Extended Performance Test (EPT)	Requires a CMU from a Storage Generating Technology Class with an agreement

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	awarded after 21 December 2017 to generate continuously at an average of their Connection Capacity multiplied by Technology Class Weighted Average Availability for a number of consecutive Settlement Periods equivalent to the CMU's storage duration. This test is taken at one of the CMU's three Satisfactory Performance Days in the winter of the CMU's first Delivery Year and must be repeated once every three years thereafter.
Flexibility	The ability to change generation and/or demand in response to an external signal (e.g. price or contract terms). Flexibility enabling technologies include batteries, demand side response, interconnectors and fossil fuel generators.
Fossil Fuel Emissions Declaration (FFED)	Information provided to demonstrate compliance with the carbon emissions limits in respect of relevant Fossil Fuel Components comprised in a CMU. Exhibit ZA in the Capacity Market Rules sets out the content and form in which the declaration must be provided.
Generating Technology Classes (GTC)	Means a class of Generating Unit, defined by the technology used to generate electricity, for which the Secretary of State requires the Delivery Body to publish a De-Rating Factor
Generator	(i) Any equipment that produces electricity, including equipment which produces electricity from storage; and (ii) A business which operates such equipment.
Gigawatt (GW)	A unit of capacity (1000 Megawatts)
Independent Technical Expert (ITE)	A person who is independent of the relevant Capacity Provider and is engaged by the relevant Capacity provider to prepare the technical assessment, report, certificate or

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	commentary required by the Rules to the Required Technical Standard.
Kilowatt (kW)	A unit of capacity (1000 Watts)
Megawatt (MW)	A unit of capacity (1000 kilowatts)
Minima	Where all technologies continue to compete in the same auction, but a mechanism is introduced to allow different clearing prices to be determined for desirable characteristics.
Net Zero	Refers to a point at which the amount of greenhouse gas being put into the atmosphere by human activity in the UK equals the amount of greenhouse gas that is being taken out of the atmosphere.
New Build CMU	A generating CMU that is not built at the time of the relevant capacity auction.
Ofgem	A non-ministerial government department and an independent regulator, governed by the Gas and Electricity Markets Authority. Ofgem’s powers and duties in relation to the CM are provided for in Chapter 3 of Part 2 of the Energy Act 2013 (c. 32), the Regulations and the Capacity Market Rules, in which it is referred to as “the Authority”.
Open-Cycle Gas Turbine (OCGT)	A combustion turbine plant fired by liquid fuel to turn a generator rotor which produces electricity.
Penalty regime	The regime of financial penalties that are applied to capacity providers who do not provide their committed capacity during a system stress event.
Prequalification	The process set out in the Capacity Market Rules for the Delivery Body to confirm whether a CMU may bid in a capacity auction. A CMU must meet the requirements specified in the Regulations and the Capacity Market Rules to be prequalified.

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Review of Electricity Market Arrangements (REMA)	REMA is a major review into Britain’s electricity market design to radically enhance energy security and to help deliver our world-leading climate targets whilst reducing exposure to international gas markets.
Satisfactory Performance Days (SPDs)	Days within the delivery year in which capacity providers must demonstrate that they are able to deliver their Capacity Obligation.
Secondary Trading	Trading by capacity providers in respect of the Capacity Obligations they hold. Takes the form of obligation trading or volume reallocation.
Settlement Period	A period of 30 minutes beginning on an hour or half-hour.
System Stress Event (SSE)	An SSE occurs when demand for electricity outstrips supply; it is defined in Rule 8.4.1 of the Rules.
T-1 Auction	This is the capacity auction held one year ahead of the delivery year, which ‘tops up’ any capacity secured in the relevant T-4 auction.
T-4 Auction	This the capacity auction held four years ahead of the delivery year, which secures the large majority of capacity needed in the relevant delivery year.
Technology Class Weighted Average Availability (TCWAA)	The TCWAA is calculated by the Delivery Body using the method set out in Rule 2.3.5(a).
Termination	A CMU which meets the criteria for a termination event set out in rule 6.10.1 may have its capacity agreement terminated, as per the procedure set out in rule 6.10.2, resulting in termination fees, as set out in rule 6.10.3.

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The Electricity Capacity Regulation (“the Regulations”)	This refers to the Electricity Capacity Regulations 2014, S.I. 2014/2043, the principal regulations underpinning the CM.
UK General Data Protection Regulation (UK GDPR)	The UK implementation of the General Data Protection Regulation. This refers to a series of legal protections concerning the collection and use of personal data.
Unabated (gas) generation	Electricity generation where carbon dioxide from burning natural gas is not captured and stored.
Unproven Demand Side Response (DSR)	DSR that has not yet demonstrated it has the necessary metering in place or demonstrated it can deliver a specified level of capacity.

ANNEX A – List of respondents

Only organisations that gave permission for their **Phase 2 consultation** response to be made public have been included on the list below. Responses received from organisations that did not give permission for their response to be made public; or organisations that indicated they do not want identifying information published; or from individuals, have been taken into account but are not included on the list below.

ADE	Balance Power
British Hydropower Association	CCSA
Centrica	Conrad Energy
EDF Energy	Electricity Storage Network & Regen
Enel X	Energy UK
EON	FGG
Flexitricity	GB Interconnectors Forum
Hydrogen UK	Intergen
IREGG	MCS Foundation
National Grid ESO	Octopus Energy
Piclo	REA
Renewable UK	RWE Supply & Trading
Scottish Power	Scottish Renewables
Sembcorp Energy UK	SSE
Statkraft	Tees Valley Combined Authority
Tesla	Uniper

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Only organisations that gave permission for their **rule amendments to support auction liquidity consultation** response to be made public have been included on the list below. Responses received from organisations that did not give permission for their response to be made public; or organisations that indicated they do not want identifying information published; or from individuals, have been taken into account but are not included on the list below.

Centrica	EDF Energy
EON	FGG
Flexitricity	Mercia Power Response
National Grid ESO	RWE
SSE	Triton
Uniper	

This publication is available from: <https://www.gov.uk/government/consultations/capacity-market-2023-phase-2-proposals-and-10-year-review>

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