

# Capacity Market: Proposals to maintain security of supply and enable flexible capacity to decarbonise

Summary of responses to the consultation



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# 1. Executive summary

Making Britain a Clean Energy Superpower is one of the Prime Minister's five defining missions. There are two parts to this mission: delivering clean power by 2030 and accelerating delivery of net zero. The security of our electricity supply will be key to delivering this mission.

Clean power means that by 2030, Great Britain will generate enough clean power to meet our total annual electricity demand in a typical weather year.<sup>1</sup> It is crucial that renewables are complemented with flexible capacity, which will ensure security of supply by delivering power irrespective of calm or dull weather conditions.

Low carbon flexible technologies - including power with Carbon Capture, Usage and Storage (power CCUS), Hydrogen to Power (H2P), and Long Duration Electricity Storage (LDES) - will be deployed as quickly as possible to deliver long-duration flexibility. Whilst low carbon flexible technologies are scaling up over the period to 2030, security of supply will be protected with the maintenance of an expected 35GW of unabated gas reserve capacity.<sup>2</sup> As set out in the Clean Power Action Plan,<sup>3</sup> there will be a fundamental shift in the role and frequency of unabated gas generation, moving from generating almost every day, to an important strategic reserve role, used only when essential.

Between 15 October and 10 December 2024, the government consulted<sup>4</sup> and called for evidence<sup>5</sup> on proposed changes to the Capacity Market (CM) to maintain security of supply and enable flexible capacity to decarbonise. The consultation received 41 responses, including from generators and developers, trade bodies, academia, non-governmental organisations (NGOs), think tanks, and energy delivery bodies. Most respondents were broadly content with our proposals, whilst others provided useful feedback. As a result, the government plans to:

- Lower the capital expenditure (capex) threshold for 'refurbishing' three-year CM agreements to £65/kW for Capacity Market Units (CMUs) prequalifying in 2025, to support the economic case for investment to extend the life of ageing plants. In subsequent years, the capex threshold will be adjusted in line with inflation.
- Ensure that all substantially refurbishing or new combustion power plants participating in the 2026 T-4 CM auction (for the 2029/30 delivery year) commit to having a credible plan in place to decarbonise, either through converting to H2P or to power CCUS. The decarbonisation plan must be in place before they become operational.
- Introduce an exit pathway ("managed exit") to enable the decarbonisation of unabated gas by allowing multi-year CM agreement holders to leave without penalty and transfer to a Dispatchable Power Agreement (DPA), enabling conversion to power CCUS. This pathway is subject to the Capacity Provider becoming party to a DPA, subject to Transport and Storage (T&S) capacity, value for money and affordability.

<sup>&</sup>lt;sup>1</sup> DESNZ, '<u>Clean Power Action Plan</u>', Dec 2024 <sup>2</sup> DESNZ, '<u>Clean Power Action Plan</u>', Dec 2024

<sup>&</sup>lt;sup>3</sup> DESNZ, 'Clean Power 2030 Action Plan', Dec 2024

<sup>&</sup>lt;sup>4</sup> DESNZ, 'Capacity Market: Consultation on proposals to maintain security of supply and enable flexible capacity to decarbonise', Oct 2024 <sup>5</sup> DESNZ, 'Capacity Market: Call for Evidence on proposals to maintain security of supply and enable flexible capacity to decarbonise', Oct

<sup>2024</sup> 

# 2. Introduction

Reliable energy supplies are fundamental for the economy, society and public services. Since its introduction in 2014, the CM has secured sufficient capacity to ensure a consistent and reliable electricity supply. The CM has complemented the deployment of renewable and low carbon energy by ensuring electricity security of supply in Great Britain.

As set out in the Clean Power Action Plan, by 2030, clean energy sources will produce at least 95% of Great Britain's total generation in a typical weather year.<sup>6</sup> It is projected that 40-50GW of dispatchable and long-duration flexible capacity will be required in 2030 to support our clean power system, particularly during extended periods of low renewable output.<sup>7</sup>

The government is determined to drive the development and deployment of low carbon longduration flexibility. However, both the government's Clean Power Action Plan and the independent analysis published by NESO estimated that only a small proportion of the flexible capacity needed in 2030 can be met by low carbon dispatchable power and LDES.<sup>8</sup> Therefore, it is crucial to maintain most of the existing unabated gas-fired capacity on the system (approximately 35GW), which would operate only when needed to provide long-duration flexibility and ensure security of supply.

In October 2024, the government published a consultation, seeking views to inform changes to the CM to maintain security of supply and enable flexible capacity to decarbonise.<sup>9</sup>

The first proposal set out in the consultation aims to support developers to invest in lifetime extension of existing assets by reducing the capex threshold for three-year 'refurbishing' agreements in the CM. This should support the retention of existing CMUs that have a vital role to play in ensuring security of supply.

The government is committed to ensuring that new build and substantially refurbishing power plants are ready to decarbonise, and that existing unabated gas plants can decarbonise, once the enabling low carbon infrastructure expands. The second proposal in the consultation aims to ensure that all new or substantially refurbishing combustion power plants seeking to secure a 15-year agreement in the next CM auction round commit to being compliant with the new Decarbonisation Readiness legislation.<sup>10</sup> The third proposal aims to ensure that unabated gas plants can leave the CM in order to transfer to a DPA, enabling conversion to power CCUS.

This response summarises the feedback received to the consultation and sets out the changes to be implemented as a result. The policies set out in this response are aligned with the Clean Power Action Plan and are consistent with achieving clean power by 2030. There is also alignment with the wider Review of Electricity Market Arrangements (REMA) programme. The REMA Autumn Update highlighted how the proposed CM reforms will help maintain a strategic

<sup>&</sup>lt;sup>6</sup> DESNZ, '<u>Clean Power 2030 Action Plan'</u>, Dec 2024

<sup>&</sup>lt;sup>7</sup> DESNZ, 'Clean Power 2030 Action Plan', Dec 2024

 <sup>&</sup>lt;sup>8</sup> DESNZ, '<u>Clean Power 2030 Action Plan</u>', Dec 2024; NESO, '<u>Clean Power 2030</u>', Nov 2024
 <sup>9</sup> DESNZ, '<u>Capacity Market: Consultation on proposals to maintain security of supply and enable flexible capacity to decarbonise</u>', Oct 2024

reserve of unabated gas capacity necessary for security of supply, whilst enabling unabated gas to transition to a back-up role and providing routes for its decarbonisation.<sup>11</sup>

# 2.1 Consultation responses

The consultation was published on GOV.UK and ran from 15 October to 10 December 2024. The consultation received 41 responses from a range of stakeholders, including generators and developers, academia, NGOs and thinktanks, trade bodies, delivery bodies, suppliers and manufacturers and private individuals. These responses were submitted through an online portal (Citizen Space, 40 responses) or by email (one response). Figure 1 provides a breakdown of respondents by type.



#### Figure 1: breakdown of consultation respondents by type

This response summarises the feedback received and outlines the action the government is taking as a result. The government is grateful to all respondents for taking the time to submit their views. All consultation responses have been considered as part of policy development, although for brevity the government has not commented on all responses individually. Furthermore, once an issue raised by respondents has been addressed, the response is not be repeated when the same issue is raised in response to other questions.

In summarising the responses received to each question, "the majority" indicates a view was held by more than 50% of respondents to that question, "most" or "many" indicates more than 70%, "some" between 30% and 70%, and "a few" less than 30% of respondents who expressed a view. This is consistent with the approach used for other UK government consultation responses.

<sup>&</sup>lt;sup>11</sup> DESNZ, '<u>Review of electricity market arrangements (REMA): autumn update, 2024'</u>, Dec 2024

# 2.2 Changes to be implemented

Using the feedback received, alongside further policy development, the government has refined and finalised the policies. The intention is to implement these changes before the CM auction prequalification window opens in 2025, parliamentary time allowing.

**On lifetime extensions**, the capex threshold for all three-year 'refurbishing' CM agreements will be reduced to £65/kW for CMUs prequalifying in 2025 to facilitate lifetime extensions.<sup>12</sup> In subsequent years the capex threshold will be adjusted annually for inflation. CMU directors will be required to declare that total qualifying project spend excludes routine or statutory maintenance works unless undertaken for the purposes of lifetime extension. Directors will also need to declare if they are undertaking lifetime extension works. Independent technical experts (ITEs) will continue to certify that total qualifying project spend excludes routine or statutory maintenance, unless undertaken for the purposes of lifetime extension.

**On modifying the CM to incorporate Decarbonisation Readiness (DR)**, applicants prequalifying for the CM in 2025 will need to commit to meeting DR requirements in line with the new DR legislation<sup>13</sup> ahead of the first delivery year. This will be a measure which applies to the 2025 prequalification round only.

**On managed exits,** a first exit pathway will be implemented, enabling unabated gas generators to leave a multi-year CM agreement, without penalty, to transfer to a DPA. This will facilitate conversion to low carbon by retrofitting carbon capture. This pathway is subject to the Capacity Provider becoming party to a DPA, which is subject to T&S capacity, value for money and affordability. Plants will be able to use this managed exit pathway from January 2026, when the first designated notification window will open.

<sup>&</sup>lt;sup>12</sup> A reduction from the current thee-year agreement capex threshold, set at £170 for the CM T-4 auction held in 2025 for delivery in 2028/29. See DESNZ, '<u>Final auction parameters, T-1 and T-4 Capacity Market auctions</u>', Feb 2025

<sup>&</sup>lt;sup>13</sup> HM Government, <u>'The Environmental Permitting (Electricity Generating Stations) (Amendment) Regulations 2025'</u>, Feb 2025

# 3. Lifetime extensions

This chapter summarises Section 4 of the consultation (Lifetime Extensions), questions 1-6.

# 3.1 Consultation position

An independent study conducted for the government by Baringa<sup>14</sup> and the government's engagement with generators suggested that one-year CM agreements for existing CMUs may not be sufficient to provide the revenue certainty required to make lifetime extension investment decisions. The Baringa study concluded that the lack of a good economic case is one of the major barriers to continued availability of existing assets and suggests that market arrangements could be adjusted to facilitate investment decisions.

Greater certainty of revenue could be provided by enabling plants to access multi-year 'refurbishing' agreements if they meet a lower capex threshold than at present. These agreements could provide greater commercial certainty to underpin the upfront capital cost of work to extend the plant's operating life.

The consultation set out a proposal to lower the capex threshold to £50/kW for all three-year CM agreements to support the retention of existing CMUs which have a role to play in ensuring security of supply.

To ensure access to these agreements is a necessary and proportionate response to a CMU's investment needs, it was proposed that refurbishing CMU applicants be required to submit a certificate from an ITE. The certificate would have confirmed that the proposed improvements are necessary to extend the operational life of the CMU for at least the full term of the agreement.

The consultation included six questions on this policy proposal, seeking views on: the impact of the proposed change, the revised capex threshold, gaming risks, and the proposed mitigation through ITE certification.

# 3.2 Impact of lifetime extensions

**Question 1**: Do you support the proposal of changing the CM to reduce capacity risks by facilitating investment to extend the lifetime of CMUs? Can you tell us what you would do differently if the proposal is implemented?

**Question 2**: Do you agree that lowering the capex threshold in this way would achieve the desired outcome? Please provide detail with your answer.

#### 3.2.1 Summary of responses

**Question 1** received 37 responses, 20 (54%) of which expressed support for the proposal, although nine of these had areas where they recommended further consideration. 12 (32%) disagreed with the proposal and the remaining five (14%) were unsure.

<sup>&</sup>lt;sup>14</sup> Baringa Partners, '<u>Assessing the deployment potential of flexible capacity in Great Britain – an interim report</u>', DESNZ research paper number: 2023/051, Feb 2024

Of those that agreed with the proposal, most concentrated on the need to maintain existing gas to ensure security of supply during the transition to clean power by 2030. Respondents were supportive of plans to retain sufficient capacity to ensure capacity adequacy whilst low carbon flexible technologies are still scaling up. This was seen as particularly important during a time of increasing peak demand and rapid expansion of intermittent renewables. A few respondents did want to see more information setting out how the proposal aligns with Clean Power 2030, and how it might impact CM market liquidity and clearing prices. A few respondents suggested that longer-duration agreements may encourage life extension beyond three years.

Of those opposed to the proposal, the majority thought there was a lack of clarity about alignment with the wider REMA programme and wanted greater consideration of proposals to create of an out-of-the-market Strategic Reserve to manage power from unabated gas.

Most of those opposed were concerned that locking in unabated gas beyond 2030 does not align with Clean Power 2030 and will expose consumers to volatile international gas prices for longer. Some respondents were worried that the proposal will increase investment in unabated gas at the expense of low carbon flexible generation. Respondents suggested that this could happen either by increasing market liquidity, thus reducing CM prices and sending negative investment signals to low carbon flexible technology developers, or by distracting developers and lowering incentives for developers to decarbonise. Some asked for more clarity about how much unabated gas will be required in 2030, and the role that the government expects long and short-duration low carbon flexible technologies to play.

Two respondents were concerned that Combined Cycle Gas Turbines (CCGTs) will bundle up maintenance work or conduct unnecessary work to meet the capex threshold. This will mean they could enter the auction as a price maker and seek to recover costs from consumers, driving up the CM auction clearing prices and delivering poor value for money for consumers.

Two respondents expressed concern that the proposal might conflict with the CM's technology neutrality. Additionally, one respondent was worried about creating an uneven playing field between assets that have already invested in lifetime extensions and those that have not.

**Question 2** received 29 responses. 16 (55%) respondents felt that the proposal to lower the capex threshold would achieve the desired outcome, although eight of those had areas where they recommended further consideration. Seven (24%) disagreed that the proposal would have the intended impact, whilst the remaining six (21%) were unsure.

Of those that supported the proposal, the consensus was that the policy will give much needed longer-term revenue certainty that cannot be provided by one-year agreements. This will promote investment in ageing unabated plants, which are needed for security of supply whilst low carbon flexible technologies are scaling up.

However, a few of those that were supportive were also concerned about the balance between incentivising investment and preventing gaming (plants applying for three-year agreements even though the works would have been carried out regardless of agreement length). Others flagged the need for more information on the assessment criteria to be applied. Some flagged

that this policy alone would not be sufficient to ensure security of supply, and that the government should continue to consider the need for new build unabated gas capacity.

Of those that opposed the proposal, the primary concern was that the benefits of lifetime extensions are not worth the risk of locking in unabated gas beyond 2030 and potentially delaying the transition to low carbon flexible technologies. It was suggested that the government should instead concentrate on delivering low carbon flexible generation in time to mitigate any capacity adequacy risks. Almost half of those opposed to the proposal were concerned that the proposed new capex threshold is set too low, so will lead to more multi-year agreements than is necessary for security of supply, resulting in poor value for money for consumers.

#### 3.2.2 Government response

In light of the majority support and alongside wider considerations for electricity security of supply, the policy of reducing the capex threshold for all three-year agreements will be implemented.

This proposal is aligned with our Clean Power Action Plan, published in December 2024.<sup>15</sup> The Clean Power Action Plan is clear that around 35GW of unabated gas is required to ensure security of supply. Retaining the existing gas fleet where possible is likely to be the most cost-effective way of achieving that. The running hours of gas generators have already been significantly reduced, and it is expected that by 2030, no more than 5% of Great Britain's total generation will come from unabated gas in a typical weather year. This means that gas will set the price of electricity less frequently. The government is also committed to creating clear and viable pathways to decarbonisation for unabated gas assets, as and when the enabling low carbon infrastructure expands. Recent legislation<sup>16</sup> will ensure all substantially refurbishing and new combustion plants are built decarbonisation ready. Steps are being taken to ensure CMUs can exit the CM without penalty to decarbonise (see chapter 5 below).

The government acknowledges concerns about the impact of the proposal on future CM liquidity and clearing prices. The government's assessment is that there will be minimum impact on CM liquidity. The proposal should increase participation in the CM compared to the counterfactual where existing gas plants do not invest in lifetime extension and retire. Although the proposal will lock in more capacity for three years, capacity targets will reduce in line with capacity procured. For the foreseeable future, the government judges that there is little incentive for investors to lock into a CM agreement for three years unless they need greater revenue certainty to undertake refurbishment. The CM Rules changes will be implemented to ensure that only plants undertaking significant refurbishing works can apply for three-year agreements. The capex threshold is higher than standard maintenance costs and there are checks in place to prevent plants from counting routine and statutory maintenance spend towards qualifying spend (unless required for lifetime extension – see section 3.4.2). Therefore, whilst the increase in take up of multi-year agreements cannot be forecast, this

<sup>&</sup>lt;sup>15</sup> DESNZ, <u>'Clean Power 2030 Action Plan'</u>, Dec 2024

<sup>&</sup>lt;sup>16</sup> HM Government, 'The Environmental Permitting (Electricity Generating Stations) (Amendment) Regulations 2025', Feb 2025

proposal is expected to have negligible impacts on liquidity and cost pressure on the CM given tight market conditions.

Finally, concerns were expressed about alignment with wider REMA reforms. The REMA Autumn Update<sup>17</sup> from December 2024 set out that the government is committed to retaining the CM as our primary capacity adequacy mechanism. The reforms being proposed to existing market frameworks are the best way to ensure that the necessary strategic reserve capacity of unabated gas generation remains on the system. The government's view, as set out in the REMA Autumn Update,<sup>18</sup> is that a novel out-of-the-market mechanism to manage that reserve may have a role in the long-term phase-out of unabated gas capacity, but only once its volume in the system has significantly reduced and long-duration low carbon flexible technologies have been deployed at scale. However, reforms to existing market arrangements, including the reforms set out in this document, are currently sufficient to ensure that strategically necessary unabated gas capacity remains available. REMA will continue to monitor the deployment of low carbon long-duration flexible technologies and associated infrastructure, and review whether our market arrangements need to evolve.

### 3.3 Revised capex threshold

**Question 3**: Do you agree with the proposed reference cost level underpinning the new capex threshold? Do you have any evidence that this specific cost level would overcome existing barriers? If you disagree, please provide evidence for an alternative reference cost level.

#### 3.3.1 Summary of responses

**Question 3** received 27 responses, of which eight (30%) expressed support and seven (26%) disagreed. The remaining 12 (44%) were unsure.

Those that were supportive suggested the proposed revised capex threshold of £50/kW was the right level to encourage lifetime extension work. One respondent did request clarification about the qualifying period for total project spend.

Of those that disagreed, the majority thought the proposed level was too low and risked capturing work that would have been done anyway, locking in too much gas and increasing the costs for consumers. Where respondents did offer alternatives, they suggested either leaving the threshold at £135/kW or reducing it to £100/kW. One respondent thought the proposed level was too high, creating the risk that plants conduct more refurbishing work than necessary just to meet the threshold, resulting in inefficiency and poor value of money for consumers.

Of the respondents that were unsure, most did not offer an explanation or explained that they did not feel well placed to express an opinion.

#### 3.3.2 Government response

The responses to this question do not indicate a clear preference, with the largest percentage of respondents being unsure whether the proposed capex threshold is at the right level. Of

<sup>&</sup>lt;sup>17</sup> DESNZ, '<u>Review of electricity market arrangements (REMA): autumn update, 2024'</u>, Dec 2024

<sup>&</sup>lt;sup>18</sup> DESNZ, 'Review of electricity market arrangements (REMA): autumn update, 2024', Dec 2024

those that expressed a firm view, there was roughly equal support and opposition to the proposed capex threshold of £50/kW. Overall, the majority of respondents were concerned about gaming, reflected in particular among respondents who believed the capex threshold should be higher.

To address gaming concerns, the government intends to implement a higher capex threshold than proposed in the consultation. It is important that the threshold achieves the desired goal of supporting lifetime extension work whilst also reducing gaming risk. The government has taken account of further stakeholder engagement and recent research conducted by CEPA and GHD<sup>19</sup> for government into the costs of extending life of existing generation assets, alongside the Baringa analysis on which the £50/kW figure was based. This evidence suggests a capex threshold of £65/kW will achieve the right balance.

In addition, this higher threshold reflects CM Phase 2<sup>20</sup> changes to the definition of 'Total Project Spend'. These changes have expanded the window to account for capex costs for refurbishing CMUs to 77 months prior to the commencement of the first delivery year. CMUs will therefore now have more time to reach the capex threshold.

In summary, a capex threshold of £65/kW will be low enough to encourage lifetime extension works, whilst also reducing the risk of three-year agreements being sought for work that would have been undertaken anyway. The capex threshold will be kept under regular review to ensure that it is set at the appropriate level and will be adjusted annually for inflation.

### 3.4 Risks and mitigations

**Question 4**: In your opinion, would this proposal result in a gaming risk; and would the proposed ITE certification be sufficient to mitigate the risk? If not, what other safeguards do you think should be put in place?

**Question 5**: Do you have any views on how the proposed ITE certification should be implemented in a way that is proportionate and reasonable?

**Question 6:** Are there any potential unintended consequences or risks that you think the government should consider?

### 3.4.1 Summary of responses

Of the 29 responses to **question 4**, 22 respondents (76%) thought that the proposal would result in a gaming risk in the form of plants applying for a three-year agreement even though the works would have been carried out regardless of agreement length. Seven respondents (24%) that were not concerned about a gaming risk thought that an ITE was unnecessary. The follow up part of **question 4** asked whether certification by an ITE would be sufficient to mitigate the risk. The largest group (11 respondents – 38%) were unsure. Only eight (28%) respondents agreed and four (14%) disagreed.

<sup>&</sup>lt;sup>19</sup> CEPA and GHD, <u>Electricity Generation Cost Study – Extending the Life of Existing Generation Assets</u>, May 2025

<sup>&</sup>lt;sup>20</sup> DESNZ, Capacity Market: Policy Update - 2023 Phase 2 Consultation, Dec 2024

Even the respondents who were supportive of the proposed ITE certification were concentrated on the need to do more to ensure ITE independence and improve the reliability of ITE reporting. There was a focus on the need for guidance and clear criteria for ITEs to work towards in order to ensure objectivity. One respondent flagged a risk of delays due to insufficient ITE resource.

Of the respondents who did not think ITE certification would be sufficient, all felt that the ITE process is not sufficiently robust to mitigate the gaming risk. There was also concern that ITE independence could not be guaranteed.

The concerns of those supportive of the ITE proposal, and those against, were also reflected in the comments of respondents that were unsure whether the ITE would mitigate the risk.

21 people expressed views on **question 5**, which asked how the proposed ITE certification should be implemented in a way that is proportionate and reasonable. The majority expressed concerns around the use of ITEs, similar to those expressed in question 4. The most common suggestion for implementation related to the development of standardised criteria, including timescales and penalties. A few respondents wanted the government to do more to ensure that ITEs have sufficient expertise to make a judgement about lifetime extension work.

**Question 6** received 29 responses suggesting additional factors that the government should take into consideration. The following factors were raised in response to question 6 and have been addressed in the sections above: alignment with Clean Power 2030 and REMA reforms, impact on CM liquidity/prices (including the resultant impact on consumers) and impact on the development and deployment of low carbon technologies.

#### 3.4.2 Government response

In light of the mixed views of respondents, the government does not think the proposed ITE certification requirement only for lifetime extensions would be an appropriate way to reduce the purported gaming risk. The government has determined that the requirement would create two routes to a three-year agreement: one for lifetime extension requiring an ITE and one for other refurbishments not requiring an ITE, potentially enabling a CMU to bypass the ITE requirement.

As noted in 3.3.2 above, setting the capex threshold at £65/kW, instead of the £50/kW initially proposed in the consultation, should help to mitigate any purported gaming risk. The CM capex threshold will be kept under review to ensure that it is set at the appropriate level to achieve the policy aim without facilitating gaming.

To further mitigate the risk of gaming, the director(s) of a CMU will be required to declare whether the work qualifies as lifetime extension work or not. If it does, they will also need to declare that qualifying capital expenditure has been determined, so far as possible, without reference to any substantive routine or statutory maintenance works other than those necessary to deliver said lifetime extension works.

It is currently implicit in the CM Rules that an ITE must certify that the project spend does not include routine or statutory maintenance at the financial commitment and substantial completion milestones. Exhibit A in the Capacity Market Rules references the factors used to determine qualifying capital expenditure without including any routine or statutory maintenance costs.

Finally, the final investment decision for Total Project Spend and Evidence of Total Project Spend both require certification by ITEs. This will continue to be the case and should further reduce the risk of gaming. Noting stakeholder feedback, the CM's delivery assurance processes will continue to be reviewed to ensure that they are as robust as possible.

Some limited gaming risk will remain, but this is believed to be proportionate to the benefit to security of supply from securing existing gas capacity.

# 4. Decarbonisation Readiness (DR)

This chapter summarises Section 5 of the consultation (Decarbonisation Readiness), questions 7-12.

# 4.1 Consultation position

Since 2009, new build combustion power plants in Great Britain sized at or above 300MW have been subject to the Carbon Capture Readiness (Electricity Generating) Regulations 2013 (CCR). <sup>21</sup> These requirements were intended to ensure that planning consent is only granted to combustion power plants for which it will be technically and economically feasible to retrofit CCUS. However, the 300MW threshold created an unintended market distortion by disincentivising the deployment of combustion plants of 300MW and above.

From 28 February 2026, CCR will be replaced in England by DR<sup>22</sup> as part of the environmental permitting regime, which will remove the 300MW minimum capacity threshold and expand the electrical generation technologies in scope to include biomass, energy from waste and combined heat and power (CHP) plants. It will also enable combustion power plants to demonstrate DR through conversion to H2P or retrofitting CCUS. Finally, it will extend the requirements to include "substantially refurbished" combustion power plants.

The implementation date of the DR legislation<sup>23</sup> means that new combustion plants prequalifying in 2025 for the T-4 CM auction for the 2029/30 delivery year could obtain 15-year CM agreements without having plans or the ability to decarbonise.

To mitigate this risk and support the transition away from unabated gas, the government proposed amending the CM Rules. This amendment would ensure that all plants securing agreements in the 2026 T-4 auction that would be captured under the new DR legislation if it were already in effect will comply with the new DR requirements (unless already captured under the existing CCR requirements). Three options were proposed:

**Option A**: Introduce a requirement at Rule 3.7 for relevant applicants to commit to applying for an environmental permitting regulations (EPR) permit, which includes DR requirements, ahead of their first delivery year.

**Option B**: Introduce a requirement at Rule 3.7.1 for applicants to commit to applying for an EPR permit and to declare that they will provide evidence of having secured it no later than 10 working days prior to the T-4 auction opening round in the calendar year prior to the start of the relevant delivery year (2029/30).

**Option C**: Include the requirement to obtain a DR permit in the existing Extended Years Criteria (EYC) provision in rule 8.3.6B, meaning that prospective CMUs would need to provide

<sup>&</sup>lt;sup>21</sup> HM Government, '<u>The Carbon Capture Readiness (Electricity Generating Stations) Regulations 2013'</u>, 2013

<sup>&</sup>lt;sup>22</sup> HM Government, '<u>The Environmental Permitting (Electricity Generating Stations) (Amendment) Regulations 2025'</u>, Feb 2025

<sup>&</sup>lt;sup>23</sup> HM Government, 'The Environmental Permitting (Electricity Generating Stations) (Amendment) Regulations 2025', Feb 2025

evidence of having acquired an EPR permit no later than the deadline specified in rule 8.3.6(zaa).

# 4.2 Impact of DR provision in the CM

**Question 7**: What impact does a proposal for plants in England to demonstrate compliance with upcoming DR requirements have on plant participation in prequalification in 2025 and the early 2026 T-4 auction?

#### 4.2.1 Summary of responses

Of the 29 responses to **question 7**, 17 (59%) were broadly positive, feeling that the impact would be minimal. Some noted that the DR legislation itself has been public information for some time so operators should have already been preparing for DR requirements. However, concerns were raised that the proposal would deter some plants from entering the CM, increasing risks to electricity security of supply. There were also concerns around the fact that the measure would only apply in England.

#### 4.2.2 Government response

In light of the broadly positive response to the principle of requiring plants to demonstrate compliance with the upcoming DR legislation, the government will proceed with one of the options set out in the consultation. While noting concerns about the possible impact on CM participation in the T-4 auction for delivery year 2029/30, the government does not feel that this is a significant risk because compliance with DR legislation will be a legal requirement going forward. Similarly, it is acknowledged that the proposed change applies only to England, but this is reflective of the fact that the DR legislation itself is also region specific.

# 4.3 Options for implementing the change

**Question 8**: Do you foresee any difficulties in prospective plants being able to comply with the proposed requirements under Option A? If so, please say what they are.

**Question 9**: Do you foresee any difficulties in prospective plants being able to comply with the proposed requirements under Option B? If so, please say what they are.

**Question 10**: Do you foresee any difficulties in prospective plants being able to comply with the proposed requirements under Option C? If so, please say what they are.

Question 11: Which option do you prefer? Please explain why.

#### 4.3.1 Summary of responses

Only three (11%) of the 27 of respondents to **question 8, 9 and 10** foresaw any problems complying with Option A. This compares to 12 (44%) who saw compliance issues with Option B, and 11 (42%) for Option C. The majority of those who did see issues with Option A were concerned about introducing a measure based on legislation that is not yet in force.

All of the respondents opposed to Option A cited a lack of oversight as a concern, whilst some also pointed to a lack of penalty for non-compliance. The main concerns expressed for both

Option B and C were the time it might take to process permit applications, with a majority of those opposed to these options citing this as an issue. In particular, there was concern that the Environment Agency (EA) would not process permits in time, resulting in CMUs being penalised through no fault of their own. Respondents did note, however, that the risk was lower for Option C as that allowed for more time to provide evidence of having obtained a permit. Some also suggested that Options B and C would be an administrative burden for CMUs and that it might even deter CMUs from entering the CM. A few also cited concerns that the DR legislation will not be in effect and that (at time of responding) there had been no guidance from the EA on DR requirements.

Of the 30 responses to **question 11**, 12 (40%) respondents preferred Option A, requiring applicants to simply commit to meeting DR requirements ahead of the first delivery year. 10 (33%) preferred Option C with four (13%) opting for Option B. A further two (7%) respondents would prefer **either** B or C, whilst another two (7%) felt that none of the options should be taken forward.

#### 4.3.2 Government response

The government has decided to proceed with Option A, which was the most popular of the individually selected options across all respondents. It was also the clear preference among generator and developers specifically as it was seen to have the fewest compliance issues for CMUs. It is the lightest touch approach, requiring that prospective CMUs declare that they will obtain the relevant EPR permit prior to their first CM delivery year, whilst providing assurance that new and substantially refurbishing CMUs seeking to enter the CM for delivery year 2029/30 will commit to being decarbonisation ready.

Although this option does not include any monitoring or enforcement within the CM, the government considers that the risk of non-compliance is small given the potential number of affected prospective CMUs and the efforts made in drafting DR requirements to ensure that they do not impose a significant burden. Given the government's emissions goals, there is a strong investment incentive for new or substantially refurbishing combustion plants to plan for future decarbonisation. This approach helps minimise the risk of these assets becoming stranded.

As it was the second most preferred option, careful consideration was given to Option C. Ultimately, however, it was concluded that seeking to monitor and enforce compliance with DR requirements within the CM would both introduce undue additional administrative burden on applicants and, critically, overlap with the enforcement responsibilities of the EA.

### 4.4 Making the change permanent

**Question 12**: If Option B or C are implemented, what are your views on whether they should be a permanent measure which applies to all future CM applicants?

#### 4.4.1 Summary of responses

Of the 24 responses to **question 12**, 15 (63%) felt that the measure should be made permanent. However, some of those in favour of making the measure permanent favoured the transitional Option A over Options B and C.

#### 4.4.2 Government response

As the government has decided to proceed with Option A, the change will not be made permanent, and the government will only be requiring a commitment to obtain the relevant EPR permit during prequalification for the 2026 T-4 auction. Plants prequalifying for auctions beyond this date will be captured by the DR legislation.

# 5. Providing clear and viable routes to decarbonisation

This chapter summarises Section 6 of the consultation (Providing clear and viable routes to decarbonisation), questions 13-20.

### 5.1 Consultation position

Converting existing unabated gas to power CCUS<sup>24</sup> could support the roll-out of low carbon flexible generation. Currently, unabated gas capacity is unable to permanently leave a CM agreement without penalty. This acts as a disincentive for Capacity Providers to decarbonise prior to the completion of their CM agreements, which could be as late as the 2040s.

The government consulted on a proposal to introduce a first managed exit pathway to enable unabated gas in multi-year agreements to exit their agreements, without penalty, and transfer to the Dispatchable Power Agreement (DPA). This would facilitate decarbonisation through retrofit of carbon capture equipment (referred to in the consultation as pathway A). The government developed the DPA, a business model which will incentivise the mobilisation of private finance to enable power CCUS to play a valuable mid-merit role in our generation mix. Alongside the consultation, the government called for evidence on additional managed exit pathways that could enable flexible capacity to decarbonise.<sup>25</sup>

The consultation sought views on eight questions related to managed exits process design (Figure 1) and eligibility criteria (Table 1), generation outage management for conversion (Table 2), Reviewable Decisions, and wider questions aimed at identifying barriers to using the proposed managed exit pathway and further policy changes required to drive decarbonisation.

Figure 1: Example managed exit process timings. The government will continue to review this in line with any changes to the CM auction cycle.



<sup>&</sup>lt;sup>24</sup> Gas-fired power generation with carbon capture, usage and storage technology.

<sup>&</sup>lt;sup>25</sup> DESNZ, 'Capacity Market: <u>Call for Evidence on proposals to maintain security of supply and enable flexible capacity to decarbonise</u>', Oct 2024

#### Table 1: Proposed eligibility criteria for pathway A

Eligibility Criteria	Description
CM agreement length	The CMU must hold and be exiting from a multi-year capacity obligation of up to 15 years.
Intended Post-	Power CCUS
Conversion Technology	
DPA application status	The Capacity Provider must have evidence of being party to a DPA when notifying intent to use a managed exit. This evidence could include a summary of the DPA key terms being published in the public register by the Low Carbon Contracts Company (LCCC). The evidence will be accompanied by a declaration signed by the CMU director(s) and submitted to the CM Delivery Body.

### 5.2 Pathway A: process and eligibility criteria

**Question 13:** Please indicate whether you would consider using pathway A and provide details to support your answer.

**Question 14:** Do you agree with the managed exit process timings for pathway A, as set out in Figure 1?

**Question 15:** Do you agree with the proposed eligibility criteria set out in Table 1? Do you see any barriers to providing evidence of being party to a DPA at the required time? Please provide details to support your answer, including sharing your views on the nature of the evidence we suggest providing.

#### 5.2.1 Summary of responses

**Question 13** received 26 responses. 10 respondents (38%) indicated they would consider using pathway A. A few respondents stated they would use the pathway if the economics of the DPA were sufficient to drive investment, or if they had access to a three-year CM agreement. Others highlighted that the proposed pathway reduces the risk of extending the life of, or constructing new build, unabated gas capacity.

Eight respondents (31%) reported they would not consider using the pathway, with one respondent citing that the pathway is not a viable route for reciprocating engines. Six respondents (23%) said they were unsure, providing reasons such as the need for clarity on timing of CO<sub>2</sub> infrastructure. The remaining two respondents (8%) did not indicate whether they would use the pathway. Across the range of responses, some respondents suggested broadening the scope of the managed exit policy to include other technologies, business models and CM agreements (such as single-year agreement secured through the T-4) and a few respondents suggested the pathway should allow partial volumes of capacity to exit.

**Question 14** received 26 responses. 17 respondents (65%) agreed with the process timings set out for pathway A, however one of these respondents suggested there should be flexibility in the termination date. Six respondents (23%) were unsure, and three respondents (12%) did not agree, with one respondent suggesting the government should review the process timings once there is more clarity on conversion and the duration of plant outages. Some responses noted the process timings gave sufficient time for the CM Delivery Body to assess the flow of capacity from the CM to the DPA and consider the impact in their capacity modelling. A few responses noted the importance of aligning the managed exit process with the DPA process.

**Question 15** consisted of two parts. The first part, which asked whether respondents agree with the eligibility criteria, received 24 responses. 17 respondents (70%) agreed with the eligibility criteria, four (17%) disagreed and three (13%) were unsure. A few respondents were in favour of introducing a managed exit pathway for CMUs with multiple single-year agreements secured through the T-4 auctions to broaden out the eligibility criteria from only multi-year agreement holders. Others thought the eligibility criteria should be broadened to reflect other routes for decarbonisation. A few responses mentioned the need for clarity on the termination process or route to appeal, requirements of the evidence and secondary trading arrangements. Other respondents suggested the government should request proof of financial viability of the project as part of the evidence, whilst another noted the need for clarity on the  $CO_2$  network code.

The second part of **question 15** asked whether there are any barriers to providing evidence at the required time. It received 20 responses. 10 respondents (50%) reported no barriers, seven respondents (35%) identified barriers and three (15%) were unsure. A few respondents cited uncertainty regarding the DPA process or decision-making framework for contract allocation as a barrier to providing the required evidence. A few respondents said that a faster pace on Track 1 and Track 2 CCUS clusters is required, whilst others sought clarity on the process for providing the evidence. Across both parts of question 15, one respondent stated that the eligibility criteria could provide an unfair commercial advantage to fossil fuel CMUs.

#### 5.2.2 Government response

In line with majority support, the government has decided to proceed with the implementation of pathway A. This pathway will allow unabated gas plants with multi-year agreements to leave the CM without penalty and transfer to a DPA, facilitating conversion to power CCUS. This pathway is subject to the Capacity Provider becoming party to a DPA, which is subject to T&S capacity, value for money and affordability.

#### Process timings

The government is not making any changes to the proposed process timings (Figure 1). This process will allow sufficient time for the CM Delivery Body to assess the flow of capacity from the CM to bespoke support and consider any adjustments to auction target setting required to ensure security of supply. The government recognises that respondents raised the importance of aligning the managed exit process with the DPA process and will continue to review the

process timings to ensure they remain in line with the DPA process and any changes to the CM auction cycle.

The DPA will be awarded by the government in reliance on legislative powers relating to Contracts for Difference (CfD). As the DPA will be granted by the government in the form of a CfD, notifying the CM Delivery Body of a managed exit will be referred to as serving a 'Carbon' Capture (usage) and Storage Contract for Difference Transfer Notice' or 'CCS CfD Transfer Notice'.

The key dependencies are set out below:

- The Capacity Provider will, outside of the CM, enter bilateral negotiations with the government to become party to a DPA as part of a cluster development or expansion process, subject to value for money, affordability and T&S capacity.
- The CM Rules will allow an existing CMU to become party to a DPA agreement whilst in the CM without being terminated for breaching the General Eligibility Criteria (GEC)<sup>26</sup>.
- In order to ensure the Capacity Provider is not terminated for breaching the GEC, they will need to notify the CM Delivery Body that they intend to or have become party to a DPA as soon as possible.<sup>27</sup> This is a separate notification to the subsequent CCS CfD Transfer Notice required to start the managed exits process and will only be used as information by the CM Delivery Body to ensure the Capacity Provider does not get identified as breaching the GEC.
- The DPA's target commissioning date will need to be negotiated to fall after the CM agreement has been terminated via a managed exit. This is to ensure the Capacity Provider can move from one subsidy to another, ensuring compliance with subsidy control requirements of the Subsidy Control Act 2022.
- The Capacity Provider will serve a CCS CfD Transfer Notice on the CM Delivery Body within a designated notification window, enabling the CM Delivery Body to account for the exiting capacity in their modelling and Electricity Capacity Report.<sup>28</sup>
- If the Capacity Provider serves a CCS CfD Transfer Notice (which is accepted as valid by the CM Delivery Body) seeking termination during the Delivery Period of its Capacity Agreement, it will be terminated on the last day of the following delivery year by way of voluntary termination.
- If the plant serves a CCS CfD Transfer Notice (which is accepted as valid by the CM Delivery Body) seeking termination before the Delivery Period of its Capacity Agreement, it will be terminated six working days after the relevant notification window.

The government will review how the process will work in relation to future DPA competitive allocation frameworks.

<sup>&</sup>lt;sup>26</sup> A Capacity Provider breaches the GEC if they become party to a CfD because this is contrary to Regulation 15(5).
<sup>27</sup> This will be implemented by way of an exception to Rule 8.2.1 (which requires a Capacity Provider to notify the CM Delivery Body of breach of the GEC) and an amendment to the termination event in Rule 6.10.1(d)(iii). The Capacity Provider will need to notify the Delivery Body of its intent to enter a DPA or where a DPA has been entered, in order to benefit from that exception.

<sup>&</sup>lt;sup>28</sup> Note that termination for a managed exit will operate differently to termination under Regulation 33 and Rule 6.10.2 of the CM Rules,

because, for managed exits, there will be a period between termination and the termination taking effect, and no termination fee/repayment of capacity payments. During the time between termination for a managed exit and the termination taking effect, a CMU may still be issued a termination notice under Rule 6.10.1 and 6.10.2 and be terminated for the reason specified in such a notice.

The Rules are being amended to ensure that any secondary trades or transfers will not go beyond the voluntary termination date. The CMU will not be allowed to take on secondary trades which would last until after it has been terminated, following existing CM precedent.

#### Eligibility criteria

The government is not making any changes to the proposed eligibility criteria for pathway A (Table 1) and notes that in parallel to the consultation, a Call for Evidence<sup>29</sup> was published which sought views on additional managed exit pathways, including on any further pathways which government has not already identified, and which would be required to support the decarbonisation of CMUs. The government will consider the responses to this consultation alongside the Call for Evidence to inform the development of future policy recommendations.

The government also notes that unabated gas plants in single year agreements are able to participate in bilateral negotiations for a DPA whilst in the CM and agree a date to become party to a DPA for when their single year agreements have ended.

Although pathway A will not support partial exits of capacity, Capacity Providers will be allowed to re-enter individual generating units that have not obtained a DPA back into the CM. The individual generating units would need to be separately metered to ensure no overcompensation of subsidy for the same units.

#### Evidence requirements

Capacity Providers will be asked to provide information to the CM Delivery Body as part of the CCS CfD Transfer Notice. The notice will include the following details (with a Directors' Declaration confirming the information):

- 1. The 'nominated' termination date (which will depend on whether the capacity provider seeks to exit before or during their Delivery Period).
- 2. The CMU's identifying information from the CM Register.
- 3. Evidence of the existence of the DPA: This evidence may consist of a link to the DPA on the LCCC website.
- 4. A report setting out information regarding the impact of the DPA: The CM Delivery Body requires information that is necessary to feed into considerations for capacity modelling and recommendations included in the Electricity Capacity Report. Therefore, the Capacity Provider will need to describe the projected revised capacity after conversion and the planned outage dates for conversion at point of serving the CCS CfD Transfer Notice (we note that plants are separately obligated to keep these dates current via the REMIT platform).

The government will work with the CM Delivery Body to develop guidance on the practical process for submitting the required evidence.

<sup>&</sup>lt;sup>29</sup> DESNZ, 'Capacity Market: <u>Call for Evidence on proposals to maintain security of supply and enable flexible capacity to decarbonise</u>', Oct 2024

Following the announcement in October 2024<sup>30</sup> of funding for the initial CCUS Track-1 cluster configurations, HyNet and the East Coast Cluster, further decisions for continued CCUS deployment, including for Track-2 clusters, will be taken in due course. The award of subsidy to prospective DPA projects, both new build and retrofit, will be subject to matters including value for money, affordability and T&S network availability and capacity.

The government has considered the responses related to fairness concerns which suggest the proposal provides unfair commercial advantage to fossil fuel CMUs. The CM undergoes regular reforms to make sure it remains up to date and aligned with policy intent. The government is committed to establishing decarbonisation pathways for unabated gas and finds that the changes are proportionate to enable the clean power policy objective.

# 5.3 Managing pathway A

**Question 16:** Can you identify any unforeseen consequences in the CM that could arise from a managed exit via pathway A? Please give details with your answer.

#### 5.3.1 Summary of responses

**Question 16** received 29 responses. 19 respondents (66%) identified unforeseen consequences in the CM that would arise from managed exit pathway A; seven respondents (24%) said there were no unforeseen consequences, three respondents (10%) were unsure.

Of those that identified unforeseen consequences, some responses noted impacts on security of supply, with the majority of these noting the importance of considering how security of supply will be managed if large volumes of capacity leave the CM via managed exits. One noted the impact of parasitic loss and delays to CCUS transport and storage infrastructure or conversions. A few responses suggested the current proposal does not give the CM Delivery Body enough time to manage security of supply considerations. Others drew attention to the inherent risks associated with deploying first of a kind technology.

A few respondents noted market volatility, speculative bidding behaviour or impact to auction dynamics. One response noted the proposal created an unfair commercial advantage.

#### 5.3.2 Government response

The government is grateful to respondents for identifying potential consequences of the managed exits policy.

The government is working with the CM Delivery Body, Ofgem and LCCC to mitigate unforeseen impacts on security of supply. Pathway A is only accessible to unabated gas plants with multi-year agreements. Based on data from the CM Registers,<sup>31</sup> this means the current total eligible capacity is under 5GW, therefore limiting the capacity-related risk created by this pathway. Furthermore, capacity moving out of the CM will not be directly replaced. The

<sup>&</sup>lt;sup>30</sup> DESNZ, '<u>Government reignites industrial heartlands 10 days out from the International Investment Summit - GOV.UK</u>', October 2024 <sup>31</sup> NESO. Capacity Market Register portal.

reduction of capacity as a result of decarbonisation may be replaced through the T-1 auction, which the managed exit process timings have been designed to allow for.

If delays to T&S capacity impact the ability of a plant to generate electricity, the CM Delivery Body have safeguards in place to incorporate these scenarios into their CM modelling. Furthermore, in times of system stress, the plant could run unabated if commercially viable. However, to minimise the impact of delays to CCUS transport and storage infrastructure or to mitigate first of a kind technology risk, it is advisable for the plant to stay in the CM as long as possible and only serve a CCS CfD Transfer Notice when the plant can connect to CO<sub>2</sub> T&S capacity.

Detail on the DPA process, including the subsidy control requirements for that scheme, will be set out in the DPA Standard Terms and Conditions, and template agreement, to be published in due course.

## 5.4 Retrofitting carbon capture

**Question 17:** If you were a multi-year agreement holder for an unabated gas CMU that you planned to convert to power CCUS, how would you prefer to manage the outages associated with the conversion process? Please provide details of your answer with reference to the options stated in the proposed generation outage management section and any supporting information, including the conversion type, capacity size, and generation outage period.

# Table 2: Summary of generation outage management options to facilitate conversion of unabated gas to power CCUS.

Option	Description
1	Outages could take place in the final months of the CM agreement prior to exit. The CMU would still be subject to CM obligations and would not be able to generate within the same agreement post conversion to a different generating class.
2	CMUs could choose to replace their capacity through secondary trading their capacity obligations if an outage period is significantly longer than a typical outage period.
3	If the CMU is unable to convert whilst meeting its CM obligations, then the work could take place after the CMU has exited its CM agreement. The plant would therefore have an outage after the completion of their final CM delivery year and prior to commencing delivery through the DPA. The precise timing of conversion and outage would be a commercial decision.

#### 5.4.1 Summary of responses

**Question 17** received 18 responses. Five responses (28%) favoured Option 1 (converting in the last few months of CM agreements). Five responses (28%) favoured Option 3 (converting after leaving the CM). One respondent favoured Option 2 (replacing the capacity via secondary trading), with two respondents (11%) noting that secondary trading is likely to be required. The remaining respondents did not express a favoured option but provided feedback.

Some respondents noted issues with Option 2 due to lack of liquidity in the secondary trading market. A few respondents claimed Option 1 penalises plants during conversion, with one response saying there should be flexibility in penalties when using this option. One response stated Option 3 could risk system tightness in a scenario where CCGTs are offline for long periods to convert to low carbon.

A few respondents noted that agreement holders should have flexibility to manage outages themselves, as this would provide optionality for developers to cater to site specific requirements. A couple of respondents reported that all three options could be used by developers, although others mentioned that the availability of Original Equipment Manufacturers (OEMs) might be an issue if conversion takes place at the same time as routine maintenance, which might be a deciding factor in when the plants can convert.

#### 5.4.2 Government response

This answer generated a range of responses reflecting the diverse requirements of plants converting to power CCUS. The government agrees that CMUs should manage their outages based on commercial preferences. It is important to maintain as much optionality as possible for developers to manage their outages associated with conversion. Therefore, the government will be allowing agreement holders to use all three options set out in Table 2. Choosing which option to manage generation outage during the managed exits process will be a commercial decision for developers. The optionality accommodated will support plants to align their outages with site-specific needs and the availability of wider enabling factors, including OEMs.

The government recognises that there is concern with current secondary trading arrangements. Secondary trading is an area of the CM Rules which requires review and clarification and is an area of ongoing work with the CM Delivery Body, Ofgem, and LCCC.

The option of converting during the final months of the CM agreement has been included to facilitate the timely conversion to power CCUS during a period when unabated gas would routinely take an outage. If the plant follows the correct process during their CM agreement, the last possible Satisfactory Performance Day (SPD) would be 30 April. This would provide the plant with a five-month window at the end of the CM agreement to take the necessary outages required for conversion. The government is working with the CM Delivery Body to ensure these options for generation outage management are embedded into their CM modelling and capacity reporting to manage security of supply.

The government will continue to review the policy to ensure there are no consequences on security of supply related to managing outages. However, to ensure the CM Delivery Body has the information it needs to accurately forecast capacity needs, Capacity Providers should continue to record their outages via REMIT, including outages related to converting to power CCUS.

### 5.5 Barriers to using pathway A

**Question 18:** Are there any additional barriers, whether under the CM or not, which would prevent you from using pathway A?

#### 5.5.1 Summary of responses

Question 18 received 22 responses. 13 respondents (59%) identified barriers which would prevent them from using pathway A. Four respondents (18%) said they have not identified any barriers, and five respondents (23%) were unsure.

A few respondents noted access to T&S capacity as a barrier, including the planning and permitting requirements which are required to provide foresight on future infrastructure access. A few other respondents noted lack of CCUS maturity, uncertainty around the DPA process and decision-making framework and the need to accelerate the CO<sub>2</sub> network code. Others raised the availability of skills, supply chains and grid connections.

A few respondents noted clear market and policy signals are required to overcome barriers and to enable developers to assess viability of converting to CCUS. Without this, securing financing for conversion projects remains a significant barrier. A few respondents noted potential penalties for converting using generation outage management Option 1 as a barrier to using pathway A.

A few respondents raised the eligibility criteria as a barrier due to their plant or intended mode of exit not being within scope. One respondent said the CM price cap is a barrier to using pathway A because it is too low to bring forward new plants to later decarbonise.

#### 5.5.2 Government response

The government notes that clear market and policy signals are required to overcome barriers and enable developers to assess the viability of converting to CCUS. As set out in the Clean Power Action Plan<sup>32</sup>, NESO have suggested that up to 2.7GW of power CCUS and H2P would need to be deployed by 2030.<sup>33</sup> The importance of power CCUS beyond 2030 is also highlighted by the Climate Change Committee in their Carbon Budget 7 report, where they model 15GW of dispatchable low carbon electricity generation (both power CCUS and H2P) in 2040 in their Balanced Pathway scenario.<sup>34</sup> The policy intent of introducing a first managed exit pathway is to enable the roll out of power CCUS through retrofitting unabated gas. The government will continue to consider additional pathways required to enable decarbonisation of unabated gas, such as the pathways in the parallel Call for Evidence. A summary of responses has been published simultaneously to this document.<sup>35</sup>

On 10 December 2024 it was announced that construction of the UK's new carbon capture industry will start in 2025.<sup>36</sup> A DPA contract was signed with Net Zero Teesside Power, the world's first at scale gas power plant with carbon capture, supplying up to one million homes with low carbon, secure power from 2028.

The government recognises the need for significant reform of the connections process and is working with Ofgem and the network companies to do this. On 15 April 2025, Ofgem approved

<sup>&</sup>lt;sup>32</sup> DESNZ, '<u>Clean Power 2030 Action Plan'</u>, Dec 2024

<sup>&</sup>lt;sup>33</sup> NESO, '<u>Clean Power 2030</u>', Nov 2024

<sup>&</sup>lt;sup>34</sup> Climate Change Committee, 'Seventh Carbon Budget', February 2025

<sup>&</sup>lt;sup>35</sup> DESNZ, 'Government Response to the Capacity Market: call for evidence on proposals to maintain security of supply and enable flexible pacity to decarbonise', May 2025

<sup>&</sup>lt;sup>36</sup> DESNZ, 'Contracts signed for UK's first carbon capture projects in Teesside', Dec 2024

NESO proposals to reorder the connections queue and prioritise viable projects that meet our strategic needs, as set out in the Clean Power Action Plan.<sup>37</sup> On current timings, NESO will invite projects in the existing queue to submit evidence that they meet the readiness criteria in July 2025 and will then assess which projects will receive a confirmed place in the reformed queue. Network companies will then need time to create a new coordinated network design for the reformed queue, before NESO can issue updated offers.

Barriers relating to generation outage management, the DPA process and decision-making framework have been addressed in sections 5.2-5.4.

# 5.6 Refusal of a CCS CfD Transfer Notice

**Question 19:** What are your views on whether a decision to refuse a notice of intent to use a managed exit should be a Delivery Body reviewable decision under Regulation 68 of the Electricity Capacity Regulations 2014?

#### 5.6.1 Summary of responses

**Question 19** received 17 responses. 14 responses (82%) supported that a decision to refuse a notice of intent to use a managed exit should be a CM Delivery Body reviewable decision. The remaining three (18%) respondents said this needs consideration. Respondents noted the importance of clear associated guidance, seeking clarity on what grounds this would be applicable, and a few respondents requested clarity on route to appeal. One respondent said there needs to be communication between the CM Delivery Body and LCCC, as the DPA counterparty.

#### 5.6.2 Government response

Although the government aims to minimise barriers in the managed exits process, a CCS CfD Transfer Notice may be rejected by the CM Delivery Body if it does not include the required information or is not accompanied by the required evidence (see section 5.2.2. for more information on evidence requirements). Capacity Providers will be allowed to amend the CCS CFD Transfer Notice during the designated notification window if there are administrative errors. If the Capacity Provider fails to amend a CCS CfD Transfer Notice during the designated notification by the CM Delivery Body, the Capacity Provider will need to appeal via a Reviewable Decision. This will be delivered by way of amendment to Regulation 68 and 69.

The CM Delivery Body will check whether all plants that have an impending DPA start date have served a CCS CfD Transfer Notice. If a plant fails to notify, they will be required to notify the following year. Due to subsidy control requirements, the LCCC will not make payments due under the DPA until the plant has been terminated from the CM, therefore failure to notify for a managed exit will delay termination and support under the DPA. It is critical that the Capacity Provider serves a CCS CfD Transfer Notice at the designated time to allow the CM Delivery

<sup>&</sup>lt;sup>37</sup> DESNZ, '<u>Clean Power 2030 Action Plan'</u>, Dec 2024

Body to consider the movement of capacity in target auction setting and to ensure both schemes remain compliant with subsidy control principles.

### 5.7 Decarbonising unabated gas

**Question 20:** What wider changes to the CM and other policy would you expect to be needed to enable unabated gas CMUs to decarbonise?

#### 5.7.1 Summary of responses

**Question 20** received 30 responses. Some respondents requested clarity on how the proposal joins up with REMA. A few respondents requested clarity on the join up with clean power by 2030. Others sought clarity on the role of unabated gas (including a Strategic Reserve) and gas decarbonisation policy, with one respondent saying there will need to be incentives for unabated gas to decarbonise. A few respondents noted the Carbon Price Support, the UK Emissions Trading Scheme, and the Large and Medium Combustion Plant Directive as important policies to enable unabated gas to decarbonise.

Some respondents cited availability of the relevant low carbon infrastructure to deploy power CCUS. A few responses cited accelerating Track 1 and Track 2. A few other responses sought clarity on the DPA process and noted the need for acceleration of CO<sub>2</sub> network code. A few respondents raised development of hydrogen policy and the need for clarity on deployment of H2P and hydrogen blending.

Responses sought wider development of the managed exits policy itself. A few respondents requested greater optionality of managed exits pathways to enable more technologies to decarbonise, including showing consideration of impacts on CHP plants. Others wanted the pathway to allow partial exits of capacity, whilst others sought clarity on which length agreements are eligible to use pathway A.

A few respondents mentioned reforming the CM to value flexibility, reviewing the CM price cap and secondary trading arrangements. Others suggested wider changes to emission limits would be required to decarbonise unabated gas.

A few respondents expressed concerns with the proposed changes to the CM. For example, one respondent said the changes could over burden the CM Rules and Regulations. Another respondent said the existing CM framework is not understandable to market participants and another expressed concern over the viability of CM policy implementation.

One respondent said clarity is required on the LDES cap and floor mechanism and another said that strategic planning of decarbonised clusters is required.

#### 5.7.2 Government response

Some respondents sought clarity on the proposals join up with the REMA programme, Clean Power 2030, the role of gas (including strategic reserve) and short-duration flexibility. Please see section 3.2.2. which sets out the alignment of these with the proposals in this consultation.

To accelerate deployment of H2P, the government is implementing a H2P business model (H2PBM) to de-risk investment and mitigate our identified deployment barriers, as set out in the government's December 2024 response to the consultation on 'H2P need for and design of a market intervention'.<sup>38</sup> The H2PBM will be designed based on a DPA-style mechanism. The government intends to publish a market engagement document in Spring 2025, outlining further detail on the proposed design of the H2PBM.

The deployment of low carbon long-duration flexible technologies and associated infrastructure will continue to be monitored, and the government will review whether our market arrangements need to evolve to manage the transition to clean power. For example, in December a consultation and Call for Evidence was published, aiming to improve the participation and delivery assurance of consumer-led flexibility, delivered via Demand Side Response mechanisms in the CM. Alongside this, the government consulted on proposals to simplify the CM Rules and make the Rules more accessible for participants. The CM Rules are kept under review and DESNZ will engage with Delivery Partners to ensure the CM Rules and accompanying guidance is as clear as possible.

<sup>&</sup>lt;sup>38</sup> DESNZ, '<u>Hydrogen to power: government response</u>', Dec 2024

# 6. Assessment of impact

This chapter summarises Section 7 of the consultation (Assessment of Impact), question 21.

# 6.1 Consultation position

The Assessment of Impact covered all three proposals set out in the consultation.

For **lifetime extensions**, the assessment noted that the proposal is expected to have negligible cost pressure on the CM clearing prices given tight market conditions. The proposal is likely to increase the volume of existing capacity participating compared to the counterfactual where more retirements occur, but it will also lock assets into multi-year agreements.

For **decarbonisation readiness**, the assessment noted that the proposal will remove the risk that new unabated gas plants receive support from the CM without having a built-in route to decarbonise. There is a risk that the proposal could reduce liquidity by deterring some plants from entering the 2026 T-4 auction, but the risk is regarded as negligible.

For **providing clear and viable routes to decarbonisation**, the assessment noted that the proposal will help accelerate the rollout of low carbon flexible technologies with a positive impact on decarbonisation. The size of the impact will depend on wider factors outside the CM. The proposal is expected to encourage investment in unabated gas assets by offering more options and pathways to convert later, reducing the risk of stranded assets. The proposal is therefore expected to have a positive impact on the CM's capacity adequacy objective.

#### 6.2 Summary of responses

**Question 21:** Do you agree with the consideration of impacts set out in this consultation? Are there any additional impacts of the policies we are consulting on which the government has not considered? Please provide supporting evidence where possible.

**Question 21** received 31 responses. 42% (13 respondents) agreed with the consideration of impacts set out, 26% (eight respondents) disagreed and 32% (10 respondents) were unsure.

Of those that disagreed, the majority were concerned about the perceived lack of alignment with Clean Power 2030 and wider REMA reform, including how the manifesto commitment to a strategic reserve might interact with the proposals. A few of those that agreed with the assessment of impact also wanted more information about alignment with Clean Power 2030 and wider REMA reform. A majority thought that there needed to be a more holistic consideration of security of supply requirements and different options for meeting those. This included greater focus on low carbon technology, short-duration flexibility and non-dedicated flexible assets. Some wanted to see an assessment on how the proposals would impact CM clearing prices and thus the business cases for low carbon flexible technologies.

Of those that were unsure, most agreed with the assessment of impact but were concerned about missing elements, mirroring the concerns raised by those that disagreed.

#### 6.3 Government response

The assessment below covers the finalised policies set out in this government response. The close alignment between these policies and the Clean Power 2030 Action Plan and wider REMA reform has been addressed elsewhere (see introduction and section 3.2.2).

#### Lifetime extensions

The assessment remains that whilst the increase in take up of multi-year agreements cannot be forecasted, this element of the proposal is expected to have negligible cost pressure on the CM given tight market conditions, and that it will help reduce capacity adequacy risks.

Whether a plant wants to apply for a 'refurbishing' three-year agreement in the CM is a commercial decision, based on the specific technical and economic requirements of a plant. The change will reduce the capex threshold, making it easier for plants to qualify for a three-year CM agreement. While other technologies may use the three-year 'refurbishing' CM agreement, it is judged that the vast majority of capacity utilising this agreement will be existing unabated gas CCGTs, at least in the short term.

The government expects that participation of existing assets in the CM will increase relative to a scenario without the proposal. This will prevent a reduction in CM liquidity by reducing the likelihood of existing assets dropping off the system, reducing capacity adequacy risks. CM liquidity will be minimally impacted as although the proposal will lock in more capacity for three years, the longer agreement lengths will be reflected through the auction target considerations process, in line with current approach for multi-year agreements in the CM. For the foreseeable future, it is judged that there is little incentive for investors to lock into a three-year CM agreement unless they need greater revenue certainty to undertake refurbishment.

Furthermore, the capex threshold is higher than standard maintenance costs, so plants should not be able to apply for multi-year agreements just to cover routine and statutory maintenance costs. Checks are in place to prevent plants from counting routine and statutory maintenance spend towards qualifying spend (unless required for lifetime extension).

Therefore, whilst the increase in take up of multi-year agreements cannot be forecasted, the proposal is expected to have negligible impacts on CM prices given tight market conditions.

#### Decarbonisation Readiness

The assessment remains that the proposal could potentially reduce CM liquidity by deterring some plants from entering the 2026 T-4 auction. Plants could be deterred if they have already secured an environmental permit under the existing rules and deem the addition of a new requirement to be too onerous. However, this risk is regarded as negligible, particularly as the DR requirements will apply through legislation to all new build and substantially refurbishing plants seeking to enter the 2027 T-4 auction onwards.

#### Providing clear and viable routes to decarbonisation

The assessment remains that the proposed managed exit pathway will help accelerate the rollout of low carbon flexible technologies with a resultant positive impact on decarbonisation.

The size of the impact will depend on wider factors outside the CM, in particular how quickly CCUS technology develops and the pace enabling T&S infrastructure is rolled out. The proposal is expected to encourage the participation of existing and new build gas assets in the CM by offering more options and pathways to convert later. The proposal is therefore expected to have a positive impact on the CM's capacity adequacy objective.

7. Glossary	
Abbreviation/Term	Definition
Capacity Agreement	The rights and obligations accruing to a Capacity Provider under the CM 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 (CM)	A mechanism to contract reliable sources of capacity, and ensure they respond when needed, to help support security of supply. This results in payment to any Capacity Provider who can respond when called on by the CM Delivery Body in times of system stress. Auctions for this capacity take place both four years (T- 4) and one year (T-1) ahead of delivery, and agreements generally last for one year.
Capacity Market Rules ("the CM Rules" or "the Rules")	The CM Rules 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 Demand Side Response (DSR) capacity that can be put forward in a capacity auction. It is the product that forms the capacity to be purchased through the CM.
Capacity Provider	A person who holds a Capacity Agreement or a transferred part in respect of a Capacity Agreement.
Capital Expenditure (capex)	Money spent by a business or organisation on acquiring or maintaining fixed assets, such as land, buildings, and equipment.
Capital Expenditure Thresholds	Auction parameters that determine whether a CMU can access a multi-year agreement (either as a refurbished CMU or a new build CMU) based on their amount of capital expenditure (in £/kW).
Carbon Capture Readiness (CCR)	Requirements under Section 36 of the Electricity Act 1989 consent applications relating to the planning of new combustion plants, at or over 300 MWe capacity,

	and covered by the EU Large Combustion Plant Directive, that such plants should be built "carbon capture ready".
Carbon Capture (usage) and Storage Contract for Difference Transfer Notice or 'CCS CFD Transfer Notice').	The notice a Capacity Provider will serve the CM Delivery Body to use a managed exit. The 'CCS CFD Transfer Notice' will include a declaration confirming the DPA information alongside the CMUs identifying information from the CM Register and will be accompanied by evidence of the DPA (which may consist of the link to the DPA on the LCCC website). It will also be accompanied by information indicating proposed dates for low carbon conversion and revised capacity to inform the CM Delivery Body's auction modelling and capacity considerations.
Carbon Capture, Usage and Storage (CCUS)	A technology for capturing carbon dioxide that would otherwise be emitted from a process (e.g. electricity generation) and either using it (often in industrial processes) or permanently storing it.
CM Delivery Body	National Energy System Operator (NESO).
Combined-Cycle Gas Turbine (CCGT)	An electricity generation technology in which a gas turbine and a steam turbine are used in combination to achieve greater efficiency.
Contracts for Difference (CfD)	15-year private law contracts between low carbon electricity generators and the LCCC. Contracts are awarded in a series of competitive auctions. Generators receive revenue from selling their electricity into the wholesale market. When the market reference price is below the strike price, generators receive a top-up payment for the additional amount. If the reference price is above the strike price, the generator must pay back the difference.
Decarbonisation Readiness (DR)	Relates to environmental permitting requirements that will come into effect from 28 February 2026 for new and substantially refurbishing combustion power plants in England to be built ready to decarbonise. These requirements will replace the existing Carbon Capture Readiness (CCR) requirements.
Delivery Year	In relation to a capacity auction, this means the year for which a one-year Capacity Obligation is awarded, or the first year of the period for which a multi-year Capacity

	Obligation is awarded. Delivery years run 1 October - 30 September of each calendar year.
Dispatchable Power Agreement (DPA)	A private law contract between a carbon emitting electricity generator and the DPA Counterparty, which will be the LCCC, issued pursuant to section 10 of the Energy Act 2013, as a type of CfD. The contract will set out the terms for capturing and storing carbon and the compensation which the generator will receive in return.
Electricity Capacity Regulations ("the CM Regulations" or "the Regulations")	This refers to the Electricity Capacity Regulations 2014, S.I. 2014/2043, the principal regulations underpinning the CM.
Flexibility	The ability to shift the consumption or generation of energy in time or location. Flexibility is critical for balancing supply and demand, integrating renewables, and maintaining the stability of the system. Flexibility technologies include power CCUS, H2P, LDES, flexible demand and interconnectors.
Generating Technology Classes (GTC)	A class of Generating Unit, defined by the technology used to generate electricity, for which the Secretary of State requires the CM 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).
Hydrogen to power (H2P)	The conversion of low carbon hydrogen to produce low carbon electricity.
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 commentary required by the Rules to the Required Technical Standard.
Long Duration Electricity Storage (LDES)	Encompasses a group of conventional and novel technologies, storing and releasing energy through mechanical, electrochemical, and chemical means.

	LDES will be pivotal in delivering a smart and flexible energy system that can integrate high volumes of low carbon power, heat, and transport.
Low Carbon Contracts Company (LCCC)	LCCC operates the CfD scheme in Great Britain, acting as the private law counterparty to the contracts, undertaking settlements and providing advisory services to the government. LCCC's sister company ESC is the settlement body for the CM, undertaking settlement services and key operational activities. ESC works alongside NESO, focused on the efficient operation of the CM. LCCC is also the designated counterparty of the Low Carbon Hydrogen Agreements, Power and Industrial CCUS, Revenue Support Agreement and will be the settlement body within the Regulated Asset Base.
National Energy System Operator (NESO)	An independent, public corporation responsible for planning Britain's electricity, gas and hydrogen networks, as well as operating the electricity system. In the GB electricity system, NESO performs several important functions, from second-by-second balancing of electricity supply and demand, to developing markets and advising on network investments. NESO replaced the National Grid Electricity System Operator on 1 October 2024.
Original Equipment Manufacturers (OEMs)	A company whose goods are used as components in the products of another company.
Power Carbon Capture Usage and Storage (power CCUS)	Gas-fired power generation with CCUS technology.
Refurbishing Capacity Market Unit (CMU)	An existing CMU which is the subject of an application as a Prospective CMU by virtue of an improvements programme that will be completed prior to the commencement of the first relevant delivery year.
REMIT platform	Regulation (EU) No 1227/2011 on wholesale energy market integrity and transparency. It is a mechanism for reporting and preventing wholesale energy market abuse, in force since 28 December 2011.
Review of Electricity Market Arrangements (REMA)	The government launched REMA following a commitment in the British Energy Security Strategy. 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.
Unabated gas generation	Electricity generation where carbon dioxide from burning natural gas is not captured and stored.

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