



Department for
Energy Security
& Net Zero

Capacity Market: proposals to modernise Rules and improve participation and delivery assurance of consumer-led flexibility

Government Response



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Executive Summary

Between 16 December 2024 and 17 February 2025, the consulted on proposals to reform the Capacity Market (CM)¹. This consultation was published alongside a Call for Evidence (CfE) seeking views and evidence on consumer-led flexibility within the CM and the Capacity Market Ten Year Review. This document provides a summary of responses to the consultation and the government's proposed next steps. A summary of responses to the CfE will follow later this year.

The consultation focussed on:

- Rules Modernisation changes; and
- Consumer-led flexibility changes, as delivered via Demand Side Response (DSR) within the CM.

The Rules Modernisation proposals sought to ensure the continued accessibility and modernisation of the CM by proposing policy clarifications and CM Rule amendments and revocations. Meanwhile, the consumer-led flexibility proposals sought to reduce administrative requirements falling on CM participants and CM Delivery Bodies whilst maintaining delivery assurance for DSR within the CM.

The consultation consisted of 22 questions in total, with questions 1-15 focussing on Rules Modernisation and questions 16-22 focussing on consumer-led flexibility. The consultation received 25 responses in total, with additional responses to the CfE which are not examined here. Responses were received from a range of stakeholders including energy industry operators, representative trade bodies, CM delivery organisations, and private individuals.

Each proposal received a majority of positive support from respondents. Additional feedback was shared on further considerations and alternative solutions to some of the proposals. The government intends to introduce CM Rules and Regulations to implement the proposals as set out in the consultation ahead of the CM Prequalification window in 2025.

This document also summarises a further amendment to the CM Rules to implement the Phase 2 policy proposals regarding the ability to provide a Low Carbon Declaration after an auction. This change is in line with the previous government response dated 15 October 2024².

¹ [Capacity Market: proposals to modernise Rules and improve participation and delivery assurance of consumer-led flexibility \(16 December 2024\)](#)

² [Capacity Market Phase 2 Consultation: government response update \(15 October 2024\)](#)

Context

Background

Making Britain a Clean Energy Superpower is one of the Prime Minister's five defining missions³. 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.

Achieving clean power by 2030 will mean we will rely increasingly on a renewables-led system as a foundation for a decarbonised grid⁴. The government will work with the private sector and Great British Energy to accelerate the deployment of low carbon technologies. It is crucial therefore that we complement renewables with flexible capacity, which will ensure security of supply by delivering power irrespective of calm or dull weather conditions. The National Energy System Operator (NESO) assess that, depending on the pathway to Clean Power 2030, the electricity system in Great Britain could require 10GW to 12GW of consumer-led flexible capacity to ensure security of supply⁵.

Since its introduction in 2014 as part of the Electricity Market Reform (EMR) programme, 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. The 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.

In 2024, the government published the response to the Capacity Market Phase 2 consultation, focussing on proposals for CM changes to strengthen security of supply and accelerate investment in low carbon technologies. These built upon the reforms of the previous Phase 1 consultation and were introduced into legislation, both CM Rules and Regulations, on February 14th 2025.

This consultation, launched in December 2024 and concluded in February 2025, builds on those changes and sets out changes to the CM to modernise existing CM Rules and improve participation and delivery assurance of consumer-led flexibility. Alongside this consultation, the government simultaneously conducted a Call for Evidence (CfE) to inform potential future changes to the CM (see Capacity Market: Consumer-led flexibility). The government will

³ [Make Britain a Clean Energy Superpower – Gov.uk](#)

⁴ [Clean Power 2030 Action Plan: a new era of clean electricity – main report](#)

⁵ [Advice on achieving clean power by 2030](#) - NESO

evaluate the responses received to the CfE and publish a summary of responses, and any subsequent actions, later this year.

Overview of consultation proposals

Rules Modernisation

Questions 1 through 15 of the consultation set out proposals to modernise existing Capacity Market (CM) Rules. The consultation sought views on a series of changes to the Rules aimed at improving their accessibility and clarity. These changes included:

- Enabling Capacity Market Units (CMUs) to change their Opt-out status following a change in operational circumstances. This aimed to clarify policy intent regarding the ability of these units to change this status and take part in future T-1 auctions if operational circumstances have changed since the initial Opt-out Notification and the CMU is able to remain operational.
- Clarifying the policy intent that CMUs cannot change their Generating Technology Class (GTC) after Prequalification.
- Seeking to clarify powers of the Delivery Body when an application would not prequalify if it was viewed afresh after Prequalification Results Day but before the First Bidding Round for the relevant auction.
- Improve the accessibility of the CM Rules through the revocation of Rules on Transitional Arrangements, which governed arrangements put in place to facilitate the delivery of Demand Side Response (DSR) and smaller non-Central Meter Registration Service (CMRS) distribution CMUs prior to the Delivery Year of the first full Capacity Auction, and Coronavirus arrangements.
- Amending an error which has entered the Rules following previous changes in which an Exhibit cross-references another Rule that does not exist. Other minor errors have been identified during the course of the consultation and will be corrected via amendments.
- An extension to enable mothball plants to apply for 2025 Prequalification for auctions held in 2026.

Consumer-led flexibility

Questions 16 through 22 of the consultation set out proposals to enhance consumer-led flexibility in the Capacity Market (CM) by improving participation and delivery assurance through Demand Side Response (DSR) mechanisms. The consultation sought views on a series of measures to streamline processes, reduce administrative burdens, and strengthen delivery incentives. These measures included:

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- Allowing large aggregated domestic portfolios to submit a single business model entry instead of separate entries for each individual component. This aimed to simplify the application process and encourage greater participation in the CM.
- Introducing a separation period between the DSR Test Period and the notification of DSR components, Metering Assessment, and Metering Tests. This measure was intended to provide CM Delivery Partners with additional time to complete validation processes, ensuring that capacity commitments were robust and verifiable.
- Enhancing delivery assurance through the application of a TF1 Termination Fee of £5,000/MW for failure to provide a DSR Test Certificate. The proposed application of a Termination Fee was to incentivise the fulfilment of capacity obligations while avoiding the introduction of an excessive barrier to market entry.

Amendments to Capacity Market Phase 2 Changes

Alongside changes to implement this consultation, the government is making a change to the Capacity Market Rules to allow Capacity Providers to submit a Low Carbon Declaration after being awarded an agreement, aligning the CM Rules to the policy intent of the initial Phase 2 government response dated October 15, 2024. This ensures that CMUs meeting the Low Carbon Threshold can be a CMU Transferee under Rule 9.2.5A for Secondary Trading.

Responses to the consultation

- The consultation on proposals to modernise Capacity Market Rules and improve participation and delivery assurance of consumer-led flexibility was published online and ran between 16 December 2024 and 17 February 2025.
- The consultation received 25 responses in total; these responses were submitted through an online portal (Citizen Space – 15 responses) and by email (10 responses).
- Stakeholders included energy suppliers, generators, DSR Providers, representative industry trade bodies, delivery bodies and a private individual.

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

For the purpose of calculating the proportion of respondents that had a particular view of a question, only respondents that provided an opinion are counted in the “total number of responses”. 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.

Rules Modernisation

This chapter summarises Section 4 of the consultation (Questions 1 to 15) which considered a range of amendments that aim to improve the accessibility and clarity of the Capacity Market Rules.

Changes to opt-out status

Question 1 sought views on proposals to amend Rule 3.11 to allow a change of operational status if new information becomes available after the time when the initial Notification is submitted and before the Delivery Year for which the unit was retired for, that extends a unit's operability.

All Mandatory CMUs must participate in the CM Auctions or submit an Opt-out Notification. A CMU that opts out because it will be non-operational under Rule 3.11.2(f)(i) becomes 'Retired' for that Delivery Year. A Retired CMU is excluded from entering auctions for two subsequent Delivery Years following the Delivery Year it retired for, under the definition of "Excluded CMU".

The proposed change would require Capacity Providers to provide a Directors' Declaration and Summary Statement detailing the new information that has become available which allows them to continue operating as part of the process for changing status from retired to operational.

Question 2 sought views on whether this Directors' Declaration should be treated as part of the Application to prequalify for the first Capacity Auction that the Unit would have been excluded from. Question 3 asked if any additional information or supporting evidence should be provided in addition to a Director's Declaration and Summary Statement to allow an Opt-out change.

Summary of responses

The majority of respondents agreed with the proposed amendment to Rule 3.11 to introduce a Directors' Declaration and Summary Statement to enable a Capacity Market Unit to change its Opt-out status when new operational information is available, with a few highlighting it would provide clarity for Capacity Providers and could increase liquidity, reducing clearing prices. One respondent agreed but asked for further clarity on the type of evidence that should be provided in a summary statement.

One respondent questioned the necessity of the change because plants can already opt-out as operational to avoid any consequence of opting out as retired.

The majority of respondents also agreed with question 2, with some saying it seemed appropriate and sensible. One respondent agreed but flagged potential gaming risks, while another agreed but requested clarity regarding the Prequalification round that a Declaration would need to be submitted in.

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A few respondents disagreed with question 2 and one stated that the Declaration should be submitted as soon as the decision is made to opt-in, to give the Delivery Body as much time as possible before upcoming auctions. Another respondent questioned the need for another certificate and stated it can be difficult to get directors to sign documents.

In response to question 3, the majority of respondents did not think that any additional information or supporting evidence would be needed, with a few noting that this is in line with trends at the Capacity Market Advisory Group (CMAG), which has favoured Directors' Declarations over Independent Technical Expert (ITE) reports due to the lower associated costs and time burdens.

One respondent believed further information or supporting evidence should be provided, stating an ITE report would provide better protection against potential gaming. Another respondent said that plants can already opt-out so a Directors' Declaration is unnecessary.

Policy response

The government recognises that, after Prequalification for a T-4 auction, new information can become available to Capacity Providers that extends a unit's operability. The government welcomes the positive feedback from respondents that this change would provide clarity.

The government also appreciates feedback from respondents that raised concerns around gaming and possible barriers to entry.

In line with the view of the majority of respondents, the government intends to proceed with the amendment to Rule 3.11 to allow a change of operational status if new information that extends a unit's operability becomes available after the time when the initial Opt-out Notification is submitted and before the Delivery Year for which the unit was retired.

In line with the view of the majority of respondents to question 2, the government intends to treat the Directors' Declarations as part of the Application to prequalify for the first Capacity Auction for which the Unit would have been excluded had a change of status not been made.

Some respondents asked for further clarity on the Prequalification round in which this Application would need to be submitted. A Capacity Provider would not have to submit the Directors' Declaration and Summary Statement as part of the Prequalification for the T-1 auction for the T-4 year that they Opted-out of, but would need to submit the documents for the following T-1 auction, which is the first it would have been excluded for if no change in status was made.

In line with the majority of responses to question 3, the government does not feel that any additional information or supporting evidence will be needed to allow a change in Opt-out status. The government appreciates the views from respondents who flagged potential gaming risks but recognises that the proposed approach is less burdensome on participants and is more in line with recent trends at CMAG, which favours Director Declarations over ITE reports.

Some respondents wanted clarity on what a Summary Statement would contain. A Summary Statement will require a description of the reasoning behind the initial retirement declaration and the events and rationale that have triggered the change in Opt-out status. The Summary Statement must make clear the material differences in circumstances between the time when the initial Opt-out Notification was submitted and the time when this status has been changed.

Clarifying acceptable updates to the Capacity Market Register

Questions 4 and 5 sought views on a proposed amendment to the Rule 7.5.1(ra) to clarify that a Capacity Market Unit's (CMU) Generating Technology Class (GTC) cannot be changed once a unit has been prequalified and asked for any potential unintended consequences.

Summary of responses

The majority of respondents agreed with the proposal to amend Rule 7.5.1(ra), with some commenting that it would add clarity to the Rule when read alongside Rule 4.4.4. A few respondents disagreed with the proposal, with one commenting there should be an exception for storage and DSR units and another identifying "edge-case" technology like Vehicle-to-Grid chargers. One respondent stated that the government should focus more on de-rated capacity and not on GTCs, while another said the government should be indifferent to the GTC of the technology that delivers the de-rated capacity.

Question 5 sought views on any unintended consequences that could arise from proposal set out in question 4. The majority of respondents responded that there would not be any unintended consequences, although some of these responses identified concerns with the existing Rule 4.4.4. A few respondents commented that there should not be a requirement for like-for-like substitution of the components of a DSR CMU as these may invariably change. This was raised in response to the accompanying Call for Evidence (CfE) which sought views on the addition of GTCs for different DSR technologies. Two respondents commented that Rule 4.4.4 should be reviewed in detail. Three respondents commented that the change to the rule was welcomed as it clarified the policy intent regarding CM Registers. One respondent raised concerns that register changes were not being applied to all registers. The respondent suggested that a clear code with governance would allow changes to apply to everybody as Rules are amended.

Policy response

The government considers it important to provide clarity as to what elements of the CMU can and cannot be changed and to remove any potential ambiguity between CM Rules. The government welcomes the positive feedback from respondents that this change aligns with this approach.

The government appreciates the views from respondents who felt that in its current form, Rule 4.4.4 could limit the flexibility of DSR CMUs. Views from this consultation and responses to questions 1 and 2 of the CfE will be considered.

In line with the view of the majority of respondents, the government intends to proceed with the change to Rule 7.5.1(ra) to clarify that Generating Technology Class cannot be changed through the Delivery Body amendment process to the Capacity Market Register.

Clarification of decision-making powers of the Delivery Body

Questions 6 and 7 consulted on an amendment to Rule 4.4.3A to clarify that if the Delivery Body becomes aware that an Application would no longer comply with the requirements of Rule 3.12.1 if it were considered afresh, the DB should no longer prequalify the unit. This will align 4.4.3A with Capacity Market Rules 4.4.AB and 4.4.3AC. Respondents were also asked to identify any potential unintended consequences of this change.

Summary of responses

Of the 18 responses to question 6, most respondents agreed with this proposal. Many respondents said it would provide better delivery assurance, ensure more consistency between Prequalification and the period before the first Bidding Round and ensure only eligible participants take part. Some respondents wanted more clarity on how this change would work in practice and when the Delivery Body would look to utilise such a change. Some respondents requested clarification on how this change will affect Regulation 68 of the Electricity Capacity Regulations relating to Delivery Body Reviewable Decisions. One respondent was concerned that this may disincentivise the Delivery Body from making correct decisions in the first instance.

Of the 16 responses to question 7, most respondents said that the change would not have any unintended consequences. One respondent added that assets could always seek to be prequalified in future auctions if they made changes which meant they could no longer be prequalified. Some respondents believed that this provision was already in the Capacity Market Rules and that there was no justification for making such a change.

Policy response

In line with the views of most respondents, the government intends to proceed with the proposal to amend 4.4.3A. The government intends to specify that, if considered afresh, the Delivery Body believes that any information or declaration submitted in or with an Application in respect of a Prequalified CMU does not comply with the requirements in Rule 3.12.1 or that any declaration submitted under Rule 4.7, the CMU will no longer be Prequalified. This aligns the Rules with 4.4.3AB and 4.4.3AC which provides clarity, especially as this is currently not the position of 4.4.3A. This consistency of approach is important for the delivery of the scheme.

Government is aware that respondents wanted to clarify how this process will operate in practice. As per Rule 4.4.3C, any decision by the Delivery Body will be subject to Part 10 of the Electricity Capacity Regulations 2014 which covers Delivery Body decisions. Any revised Prequalification decision will be treated as a reviewable decision. Applicants should always inform the Delivery Body of any changes that may affect their Application.

Removal of unnecessary Chapters and Rules

Question 8 asked respondents if they agreed with proposals to remove several time-bound Chapters and Rules that have become redundant because sufficient time has elapsed that means they no longer impact ongoing agreements, or else have been superseded. This included Rules that govern changes to the scheme made during the COVID-19 pandemic and Transitional Capacity Auctions (Table 1).

Table 1: Chapters and Rules the government is proposing to remove or rewrite, and associated Electricity Capacity Regulations which are being revoked.

| Category | Rules being removed or rewritten |
|---|--|
| Transition Period and Transitional Capacity Auction | <p>To amend/revoke Rules:</p> <p>Chapter 11.</p> <p>Paragraph 75 in Schedule 7.</p> <p>Definitions of “Transition Period”, “Transitional Capacity Auction”, “Second Transitional Capacity Auction” and others.</p> <p>To amend regulations:</p> <p>Definition of “DSR transitional auction”, regulation 6(2), regulation 7, 11, 39.</p> |
| Conditional Capacity Auctions and Agreements | <p>To amend/revoke Rules:</p> <p>Chapter 16.</p> <p>Definition of “Conditional Agreement Auction”, “Conditional Capacity Agreement”, “T-1 auction for the Delivery Year commencing on 1 October 2019” and others.</p> <p>To amend regulations:</p> <p>Chapter 2 of Part 3, Chapter 2 of Part 4, and Part 5 of the Electricity Capacity (No. 1) Regulations 2019.</p> |

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|--|---|
| Coronavirus arrangements | <p>To amend/revoke Rules:</p> <p>Chapter 18.</p> <p>To amend regulations:</p> <p>Regulation 4 and schedule 2 to the Electricity Capacity (Amendment etc.) (Coronavirus) Regulations 2020.</p> |
| Supplementary Auctions | <p>To amend/revoke Rules:</p> <p>Rule 3.10A, Rule 4.5.1(b)(iva), to amend to remove references to 3.10A, Rule 6.10.1(ea), Rule 6.10.1(fa), Rule 7.4.1(d)(vii)(ee), Rule 7.4.1(d)(vii)(ff), Rule 7.4.5 (ka), Rule 8.3.1(c), Rule 8.3.1(d), Rule 9.2.6(e)(vi).</p> |
| 2017/18 Capacity Auctions | <p>To amend/revoke Rules:</p> <p>Rule 4.5ZA, Rule 7.5.1(x).</p> |
| First and Second Full Capacity Auctions | <p>To amend/revoke Rules:</p> <p>4.5.1(b)(iv).</p> <p>To amend regulations:</p> <p>Regulation 2, regulation 44, regulations 87 - 87C.</p> |
| Subsequent Capacity Auctions | <p>To amend/revoke Rules:</p> <p>Chapter 17.</p> <p>Definitions of “Subsequent Capacity Auction” and “Subsequent Credit Cover” and others.</p> |
| Pre-2024 T-1 Auction Rules (in respect of Fossil Fuel Emissions) | <p>To amend/revoke Rules:</p> <p>Rule 3.6.5(d), Rule 3.6.7, Rule 3.9.5(d), Rule 3.9.7.</p> |

Question 9 asked for views on the applicability of Rule 4.5ZA, while question 10 sought views on the potential unintended consequences of removing the Rules in Table 1. Question 11 asked respondents to identify additional redundant Rules or Chapters that should be removed.

Summary of responses

For question 8, most respondents agreed with the government that the Rules in Table 1 are redundant. For question 9, the majority of respondents agreed with the government that the text in Rule 4.5ZA should be amended to remove the word “following”. One respondent suggested that Rule 4.5ZA should be amended to remove the reference to “2017/18” as this would have the same intended effect whilst keeping the Rule if needed for future Prequalification Windows and Capacity Auctions.

For question 10, all respondents agreed that these proposed changes would not have any unintended consequences and would not alter other Rules mentioned in the consultation. For question 11, most respondents agreed that there were no other additional redundant Rules or Chapters that should be removed.

In their responses to questions 8 and 11, a few respondents suggested that additional Rules should be removed. These included Rules governing Demand Side Response (DSR) Capital Expenditure (Capex) limits, to allow DSR providers to make use of the newly proposed three-year agreements for low-carbon low-Capex projects, and Chapters with references to the T-3 CM auction.

A few respondents suggested that holistic review and reform of the Rules would be required as part of the Review of Electricity Market Arrangements (REMA) to make them easier to interpret. One respondent also suggested a review of the Exhibits to ensure there were no additional unintended consequences outside of the Rules.

Policy response

In line with the majority of responses, the government will implement the proposed changes in questions 8-10 in full. The government welcomes the positive feedback from most of the respondents that these deletions will make the Rules simpler, cleaner, and more accessible for the parties which use them.

The government acknowledges the suggestions of additional Rules to be removed and will remove these where appropriate. The government will take into consideration the removal of additional Rules following responses to question 11 for future Rules modernisation.

Government will also revoke the associated regulations that we have identified alongside the Rules above.

Correction of an Error

The government has identified an error in Exhibit ZA, and questions 12 to 13 consulted on amending this and asked for views on potential unintended consequences.

Summary of responses

Question 12 sought views on whether the reference to Rule 3.15.6(b) in Exhibit ZA should be corrected.

Most respondents agreed with the proposal to correct the incorrect reference to Rule 3.15.6(b) in Exhibit ZA. One respondent stated the administrative changes to the Capacity Market (CM) will increase the efficiency and accuracy of the scheme.

Question 13 asked if the correction to Exhibit ZA would have any unintended consequences or alter any other Rules.

The majority of respondents agreed that the proposal to correct the reference in the Exhibit ZA would not have any unintended consequences nor alter any other Rules. One respondent stated that not making the change will have unintended consequences as it does not refer to an existing Rule reference. Therefore, this change should be made as soon as possible.

Question 14 sought views on whether there are any other Rules which contain drafting errors that the government should consider addressing by way of Rules amendments.

The majority of respondents had not identified any drafting errors in the Rules. Respondents reported that if participants detect any drafting errors in the future, amendments could be raised via the CM Advisory Group (CMAG) for Ofgem to review and consult on. In line with question 11, one respondent suggested further Rules relating to DSR Capex be removed. Another suggested that "Laws of England and Wales or Scotland" should be re-written and have square brackets, since the choice needs to be made between "England & Wales" Law or "Scotland" Law.

One respondent would like the government to revisit the policy intent from the 2023 CM consultation and amend the Rules around historical output and the ability to use Connection Entry Capacity (CEC).⁶

⁶ [Capacity Market 2023 consultation: Strengthening security of supply alignment with net zero](#)

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Another respondent stated that the government should ensure it aligns with Delivery Partners in identifying drafting errors. They also flagged that Rule 3.5.1A potentially conflicts with the use of “Anticipated De-Rated Capacity” elsewhere in the Rules. The respondent also stated a further review of the Rules is required to ensure consistency and resolve conflicts.

Policy response

The government welcomes the positive feedback from respondents that this change will not have any unintended consequences.

Following the support shown for this proposal, the government will implement the proposed changes in question 12 and 13 in order to increase the efficiency and accuracy of the scheme.

The government notes the suggestion of additional Rules to be reviewed in question 14 and will consider changing these with Government Legal Department colleagues. The government may propose further changes to the Rules to remove any redundancies and will take into consideration the removal of additional Rules following responses to question 11. This may be taken forward in future consultations on the Capacity Market Rules and accompanying Regulations.

Mothballed Plant

Question 15 consulted on a further temporary amendment to allow Existing Generating Capacity Market Units (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 Capacity Market (CM) Rules (such as some previous auction cycles) and would apply to 2025 Prequalification period for the auctions in 2026.

Summary of responses

Question 15 sought views on the proposed temporary rule change to operational requirements for Existing Generating CMUs which are mothballed.

Most respondents support the government’s proposal to carry over the CM Rules extension to allow mothballed Existing Generating CMUs to use operational data from the last 24 months to participate in the CM Prequalification process. They believe that the extension to Rule 3.6.1 (aa) will allow for greater auction liquidity and maintain security of supply cost-effectively. One respondent commented that it may be necessary for plants to come offline for an extended period of time to undertake conversions.

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One respondent noted that the January 2023 consultation proposed that CMUs that cannot demonstrate 24 months of previous settlement performance must provide credit cover until they have shown their first qualifying performance data.⁷

Some respondents commented that the proposal has been considered a 'temporary' measure for several years, and that if the government intends to implement the change beyond 2025 Prequalification, the Rule change should be made permanent. Another respondent commented that this proposal should be made permanent as long as delivery assurance is applied equally to all assets that participate in the CM.

One respondent raised concern that a possible unintended consequence is the potential of increased failure/non-delivery risk, and that the government should avoid an outcome where mothballed plant is held to a lower standard than operational plant.

Another respondent commented that the government should bring forward policy to ensure that there are enough operational CMUs to end this temporary rule change.

Two respondents commented that the temporary amendment to the Rules for mothballed plant was due to the concerning circumstances affecting security of supply in the winter of 2022, due to Russia's invasion of Ukraine. One respondent does not believe that the government has outlined why an extension of this security of supply relaxation of the Rules may be necessary for future auctions.

Policy response

The government welcomes the feedback from respondents. In line with the views of most respondents, the government will proceed with the extension to the 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. The government will consider all comments in taking a longer-term view on the need for any permanent change in the future.

⁷ [Capacity Market 2023 consultation: Strengthening security of supply alignment with net zero](#)

Consumer-led flexibility

This chapter of the government response covers Section 5 of the consultation, which focused on consumer-led flexibility. For the purposes of CM Rules and Regulations, consumer-led flexibility is delivered through Demand Side Response (DSR) technologies.

The chapter below provides a summary of responses to questions 16-22 and outlines the government's next steps following feedback from respondents. Questions 16-19 considered administrative tasks on behalf of Capacity Providers and CM Delivery Partners, whilst questions 20-22 proposed the introduction of a Termination Fee for DSR Capacity Market Units (DSR CMUs).

Streamlining requirements for proven DSR Business Model submissions

Questions 16 and 17 sought views on proposed amendments to the Rules (3.9.3 and 3.10.1) to require similar DSR CMUs to be collated into a single business model or plan at Application. Question 16 asked whether respondents agreed with the proposal, whilst question 17 invited responses on any potential unintended consequences from the proposed amendments.

The CM has seen increasing numbers of large, aggregated portfolios entering into capacity agreements in recent years. These typically consist of many thousands of domestic properties offering turn down services from EV charging and heat pumps, as well as demand shifting by using large appliances at different times of the day. These portfolios carry additional administrative difficulties due to the large numbers of components they are comprised of.

This proposal is intended to address one aspect of the administrative difficulties associated with such portfolios by allowing identical, duplicative components to be collated into a single line entry at Prequalification. This may occur when a Capacity Provider is creating an aggregated portfolio of thousands of properties all using the same method (e.g. EV charging) to provide for a response from their DSR CMU. Instead of replicating the same entry multiple times, Capacity Providers will be able to provide a count for duplicative entries. This also simplifies the process for the delivery body when reviewing such business models at Prequalification.

Summary of responses

Question 16 received 15 responses. Most respondents supported the proposal to streamline DSR business model submissions, with several respondents agreeing with the overarching goal of reducing administrative barriers for large, aggregated portfolios. Some respondents also reiterated the need for additional changes to reduce administrative barriers for DSR within the CM.

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Some respondents questioned the definition of 'identical' and 'similar' components used in the consultation. A few respondents questioned the difference in language between 'identical' and 'similar', suggesting it was important to establish what criteria would determine if a business model was similar enough to constitute collation into a single entry.

One respondent supported the measure as outlined for Proven DSR, however opposed the change applying for Unproven DSR, stating that Unproven DSR should be held to a higher standard. Other respondents specifically questioned whether Unproven and Proven DSR would both be included.

Question 17 invited respondents to provide details of any unintended consequences from the proposed amendments in question 16. It received 14 responses, with similar themes to responses from question 16 being raised, such as the definition of 'similar' and 'identical' components.

One respondent raised the potential for Rule 8.3.3(f)(ii)(aa) requiring amendment to support the proposal. Another respondent questioned how the delivery body would ensure the same types of components were being submitted under the same business model, with large portfolios consisting of potentially tens of thousands of components, it would be effectively impossible to check all components entered under the same business model.

Policy Response

The government welcomes the responses and notes the requests for clarification regarding the difference in language between 'similar' and 'identical' used in the consultation document. The government can confirm that, where information requested under Rule 3.9.3 and submitted to the Delivery Body can be reasonably considered duplicative across components, it can be collated under a single line entry.

Following the support shown for the measure, the government intends to introduce the proposal to reduce administrative burdens on Capacity Providers.

Business plans relating to Unproven DSR, pursuant to Rule 3.10.1, will equally have the option to collate duplicative information across components within its business plans. This is required where the Capacity Provider has an established relationship with the component.

The government will continue to review this measure following its implementation to ensure it provides the desired improvements to reducing administration burdens, without compromising delivery assurance.

Introduction of a separation period between (i) the DSR Test Period, and (ii) Notifying DSR components and Metering Assessment and Metering Tests

Questions 18 and 19 asked respondents if they agreed with proposals to introduce a separation period between the DSR Test deadline and the notification of DSR components and Metering Assessments or Metering Tests.

The presence of DSR CMUs in the CM has expanded in recent years, reflecting the growing importance of DSR portfolios within the CM and the wider energy system. This growth has increased demands on administrative and processing functions for both DSR providers and delivery bodies. CM Rules require a range of activities to be completed at least one month prior to the relevant CM Delivery Year to evidence Proven DSR capacity. Actions are required across all of Capacity Providers, the Delivery Body, and the Settlement Body.

The government proposed the introduction of a separation period between the DSR Test deadline and the required activities prior to completing a DSR Test. This is intended to reduce the risk of bottlenecks and to provide sufficient opportunity for validation activities to be conducted fully. Distinctions in separation periods were made for T-1 and T-4 auctions, 10 and 20 working days respectively.

Question 18 asked respondents to share their agreement or disagreement with the proposed separation periods. Question 19 requested those in disagreement to provide further supporting evidence behind their views and invited suggestions for alternative solutions to be shared.

Summary of responses

Question 18 drew 14 responses. Most respondents supported the proposals.

Question 19 invited respondents who disagreed with the separation period proposal to provide justifications for their disagreement as well as inviting suggestions for alternative solutions to meet the proposal's intent. A total of 9 responses were received.

Several responses to question 19 provided additional support to their positive responses to proposals in question 18. The proposal was seen as a proportionate response to the increased activity and processing required of CM Delivery Partners in relation to growing numbers of DSR components. One respondent requested updated guidance be made available where the proposal was to be taken forward.

Of those with dissenting views to the proposal, some respondents queried if the policy intent could be better achieved through reducing processing activities and streamlining requirements of Capacity Providers to provide information to the Delivery Body and Settlement Body. A few respondents queried the balance of administrative tasks and assurance processes required of individual CMUs relative to their capacity offered to the Capacity Market by that CMU. One respondent stated that increased transparency on the turnaround times for their processes in

CM Delivery Partners would be welcomed. Some respondents queried whether the separation periods proposed would apply to CMUs subject to Secondary Trading arrangements.

Policy Response

The government welcomes and appreciates the views of respondents, including the suggestions shared on alternative approaches and aspects for further consideration.

In line with the support for its introduction from respondents, the government intends to introduce the separation periods as outlined in the proposal. The separation period will be 10 working days in relation to T-1 auctions and 20 working days for T-4 auctions.

Separation periods will not be applied in relation to Secondary Trading at this stage. This position will be reviewed in future should need for its introduction be identified.

The government will continue to keep arrangements for DSR CMUs under review and will seek to identify appropriate and proportionate adjustments – both on the part of Capacity Providers and Delivery Partners – to adapt or introduce Rules to best accommodate DSR CMUs in the CM.

Termination fees for failure to deliver DSR Test

Questions 20, 21 and 22 consulted on the introduction of a TF1 (£5,000/MW) Termination Fee for Unproven DSR CMUs which fail to provide a DSR Test Certificate by the required deadline, in addition to the existing £5,000/MW loss of credit cover. Question 20 sought views on the introduction of the Termination Fee, whilst question 21 asked respondents to provide their reasoning and question 22 asked if there could be unintended consequences to introducing the TF.

Failure to provide a DSR Test Certificate currently results in a loss of credit cover worth £5,000/MW. However, there are similar termination events with higher termination penalties, such as failure to provide a metering test certificate which currently results in a Termination Fee of £10,000/MW. Additionally, in recent years there have been significant numbers of Unproven DSR CMUs which have won T-4 agreements and subsequently failed to achieve a DSR Test Certificate ahead of the delivery year. This results in a loss of capacity for that delivery year as it is too late to procure replacement capacity.

This measure aims to align the failure to provide a DSR Test Certificate termination event with similar events and improve delivery assurance for Unproven DSR.

Summary of responses

Question 20 received 20 responses, with most respondents in favour of its introduction. The responses showed a strong alignment based on respondent type. Of those opposed, DSR providers and representative trade bodies were most prevalent meanwhile of those in favour,

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the majority were generators, delivery partners or energy suppliers. Only a few DSR providers and trade bodies supported the measure. Question 21 received 18 responses, with most respondents supporting the Termination Fee in their justification, although some provided caveats or alternative suggestions to the implementation of the fee. Those who opposed introducing the Termination Fee also suggested alternatives such as reforms to Secondary Trading.

Question 22 elicited 17 responses regarding potential unintended consequences of the proposal. The most frequently cited issue was a potential barrier to entry the fee would present by increasing liquidity requirements and risk for DSR Capacity Providers. This was particularly noted for Capacity Providers with large, aggregated portfolios which could change in composition significantly between the auction and delivery years.

Supporters of the proposal cited improvements to delivery assurance and the potential to reduce “speculative applications” as their primary reasons for backing the fee. Improving energy security, aligning with other fees, and providing better value for customers were also cited as reasons for supporting the measure.

Additionally, one supporter of the Termination Fee suggested implementing it only for those who acquire T-4 agreements to deter “speculation” between auction prices but not applying it to T-1 agreements who make legitimate efforts to fulfil their agreements.

Of those who supported the measure and expressed a view on the level of the fee, all but two supported it as being set at a “fair” level, with one respondent believing the fee should be set at a higher level and one believing the fee should be set on a sliding scale, with the fee varying depending on how the CMU performs in its DSR Test and what level of capacity shortfall exists. It was also suggested that the fee could be recouped via credit cover instead of through a specific Termination Fee.

In response to subsequent questions 21 and 22, several supporters of the fee raised the possibility of it creating a barrier to entry for DSR participants and suggested alternative measures in addition to or instead of the Termination Fee. These included changes to Independent Technical Expert reporting, reforms to Secondary Trading and adopting rolling testing, with the New England Independent System Operator given as an example of this in practice.

Adopting changes to Secondary Trading instead of introducing a Termination Fee was also raised by some of those opposed to the measure, with the suggestion of extending the Secondary Trading window beyond the DSR Test deadline being made by one respondent. However, a supporter of the Termination Fee pointed out that, as of January 2025, Unproven DSR already accounted for a significant proportion of secondary traded capacity and trade volumes.

A few respondents opposed the Termination Fee, citing a lack of justification for its introduction and raising concerns around the potential barrier to entry this would create by raising the level of risk and liquidity necessary for Unproven DSR. This was especially noted for DSR providers with large, aggregated portfolios who would need to deliver thousands or tens of thousands of

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individual components which carry significant potential for customers to move provider or lose flexible assets during the time between winning a CM agreement and the Delivery Year. Additional concerns raised by those opposed to the measure included impacts to auction liquidity, the perception of the fee running against CP2030 goals, and potentially reducing the amount of Unproven DSR entering the CM. The New England ISO approach to rolling testing was again identified as a potential alternative approach to the Termination Fee.

Policy response

In line with the support shown for its introduction, the government intends to introduce the TF1 £5,000/MW termination fee for Unproven DSR CMUs which fail to obtain a DSR Test Certificate. This is intended to improve delivery assurance for Unproven DSR and reduce risks of non-delivery. The government considers the TF1 fee being applied as a proportionate response. This will be applied to all DSR Tests for agreements secured from auctions in 2026.

The fee will apply to both T-1 and T-4 agreements as the discrepancy between auction prices can exist in both directions and as such there is cause for the termination fee to apply to both T-4 and T-1 agreements to deter dropping out of one agreement to fulfil another.

The government welcomes the range of views shared on these questions, in particular the potential alternative policy proposals. Reforms to Secondary Trading and exploring alternative options to how fees are enforced, as noted in the summary section, will be considered as part of future policy development.

The government will continue to keep this and other termination fees under review as we seek to provide delivery assurance within the Capacity Market in a proportionate manner.

Amendment to Capacity Market Phase 2 Rule Changes

Provision of Submitting Low Carbon Declaration during a CM Agreement

Through the Capacity Market Phase 2 changes, the government enabled CM applicants to provide a Low Carbon Declaration alongside a Fossil Fuel Emissions Commitment or Fossil Fuel Emissions Declaration during Prequalification or before the relevant auction.

However, it has been identified that some capacity providers may not have provided a Low Carbon Declaration at these stages but may seek to do so after an auction and this would inadvertently have an impact on which CMUs may take on secondary trades. This includes CMUs that submitted a Fossil Fuel Emissions Commitment at Prequalification due to comprising no Fossil Fuel Components. This also includes CMUs required to provide the Delivery Body with a Fossil Fuel Emissions Declaration at a deadline specified in the Rules, for example, due to an Emissions Related Material Change resulting in the CMU falling below the Low Carbon Threshold.

To address this gap, the government are clarifying the Rules to enable those capacity providers to submit a Low Carbon Declaration after an auction, in order to allow a secondary trade to take place.

This change ensures that these capacity providers can be a CMU Transferee under Rule 9.2.5A for the purposes of Secondary Trading.

Next steps

The government has reflected on the feedback received from respondents and intends to implement the above proposals. Changes will be implemented in advance of the 2025 Prequalification window. The proposals will be made via amendments to the Capacity Market Rules and Electricity Capacity Regulations 2014.

The government wishes to thank all those who took the time to respond to this consultation and the associated Call for Evidence, to which the government will respond later this year.

List of respondents to the consultation

The consultation received 25 responses in total from a range of stakeholders.

Only organisations that gave permission for their consultation response to be made public have been included on the list below. Responses from individuals or organisations that indicated they do not want identifying information published or did not specify permission to share information have been considered as part of the consultation responses but are not listed below.

| Respondent Name |
|---------------------------|
| CUB (UK) Ltd |
| Drax Group PLC |
| Elexon |
| Enel X |
| Energy UK |
| Flexitricity |
| Octopus Energy |
| RWE Supply & Trading GmbH |

Glossary

| Abbreviation/Term | Definition |
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| 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. |
| Capacity | An amount of electrical generating capacity or Demand Side Response capacity, usually expressed in megawatts (MW) unless stated otherwise. |
| Capacity Agreement | 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, where successful bidders are awarded capacity agreements. |
| Capacity Market | The Capacity Market ensures security of electricity supply by providing a payment for reliable sources of capacity. |
| Capacity Market Rules/ CM Rules (“the Rules”) | The Capacity Market 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 DSR capacity that can be put forward in a Capacity Auction. It is the product that forms the capacity to be procured through the CM. |
| Capacity Obligation | 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 Payment | A payment to a capacity provider under the Regulations for its commitment to meet a Capacity Obligation during a Delivery Year. |
| Capacity Provider | A person who holds a capacity agreement or a transferred part in respect of a capacity agreement. |

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| Capex | Capital Expenditure. Amount spent to buy, maintain and improve fixed assets. |
| Conditional Agreement Auction | T-1 auction for the Delivery Year commencing on 1st October 2019. |
| Conditional Capacity Agreement | An agreement awarded in a Conditional Agreement Auction. |
| Connection Entry Capacity (CEC) | The figure specified as such for the Connection Site and each Generating Units as set out in Appendix C of the relevant Bilateral Connection Agreement |
| Consumer-led flexibility | <p>Flexibility by energy consumers – or taken on their behalf by suppliers with consumers’ consent – to shift their electricity use in response to system need. For example, shifting away from peak periods or taking advantage of surplus renewable generation.</p> <p>Within the Capacity Market, consumer-led flexibility is represented via ‘Demand Side Response’ mechanisms.</p> |
| 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. |
| Delivery Body | The national electricity system operator (i.e. NESO). |
| Delivery Partners | Refers to Ofgem, the Settlement Body and the Delivery Body. |
| 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 1 October- 30 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 |

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| Demand Side Response (DSR) | behind the meter generation). DSR mechanisms in the CM deliver consumer-led flexibility. |
| Demand Side Response Test (DSR Test) | A DSR Test is conducted to verify that DSR Capacity Providers can fulfil their obligations. This involves demonstrating the ability to reduce demand or increase generation to a specified level. Failure to deliver the DSR Test results in the risk of termination of the relevant Capacity Agreement. |
| 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. |
| Generating Technology Class | 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. |
| Gigawatt (GW) | A unit of capacity (1000 megawatts). |
| Interconnector | (i) A physical link that allows for the transmission of electricity across GB's borders; and (ii) A business which operates such equipment. |
| Kilowatt (kW) | A unit of capacity (1000 Watts). |
| Megawatt (MW) | A unit of capacity (1000 Kilowatts). |
| Meter Point Administration Numbers (MPANs) | A 21-digit reference number used to identify electricity supply points, e.g. a domestic residence or industrial/commercial unit, at which an electricity meter or meters are located. |
| National Energy Systems Operator (NESO) | The organisation operating the national electricity transmission network for GB. |
| 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. |
| Ofgem | A non-ministerial government department and an independent regulator, governed by the Gas and |

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| Ofgem | 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". |
| Opt-out | <p>A Mandatory CMU must state in the Opt-out Notification for an Existing CMU for a Capacity Auction that the CMU is:</p> <p>(a) opting out of the Capacity Auction and will be closed, decommissioned or otherwise non- operational by the commencement of the Delivery Year to which the Capacity Auction relates; or</p> <p>(b) opting out of the Capacity Auction and will be temporarily non-operational for all the Winter of the Delivery Year to which the Capacity Auction relates but will be operational thereafter; or</p> <p>(c) opting out of the Capacity Auction but will remain operational during the Delivery Year to which the Capacity Auction relates.</p> |
| Opt-out Notifications | For each Capacity Auction, if a Mandatory CMU makes no application, the person who is the legal owner of that Mandatory CMU must, during the Prequalification Window, submit an Opt-out Notification to the Delivery Body. This must state the reason why the CMU is opting out. |
| 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. |
| Prequalification Window | For any Capacity Auction, the period specified in the Auction Guidelines within which applications for Prequalification are to be made. |
| Primary Fuel Type | The primary fuel for a Generating CMU. If the Generating CMU comprises Generating Units which use different |

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| Primary Fuel Type | fuels, the primary fuel is the fuel used by the majority of the Generating Units on a MW basis. |
| Review of Electricity Market Arrangements (REMA) | The government has launched the Review of Electricity Market Arrangements (REMA) following 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. |
| System Stress Event (SSE) | A System Stress Event 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 most of the capacity needed in the relevant Delivery Year. |
| 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. |
| TF1 / TF3 / TF4 | Termination fee categories. Certain termination events have fees associated with them. There are five types of fees depending on the type of termination event which has occurred. These are categorised as TF1 through to TF5. Details can be found in EMRS Guidance: G11 – Termination of Capacity Agreements . |
| TP3 | Capacity payment repayment category. There are four types of repayment categories depending on the termination event which has occurred. These are categorised as TP1-4 in Regulation 43B. |

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| The Electricity Capacity Regulations (“the Regulations”) | This refers to the Electricity Capacity Regulations 2014, S.I. 2014/2043, the principal regulations underpinning the CM. |
| Transitional auctions | T-1 auctions held in 2015 and 2016 to facilitate the delivery of DSR CMUs and smaller non-CMRS Distribution CMUs in the Delivery Years prior to the Delivery Year for the first full Capacity Auction. |
| 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. |
| Vehicle-to-everything (V2X) energy | V2X, where “X” stands for everything, is the umbrella for all forms of technology whereby the EV battery can export electricity back to a system, be that a home (V2H), a building (V2B) such as a business or back to the electricity grid (V2G). |
| Vehicle-to-Grid (V2X) | A leading example of V2X – it allows electric batteries to store energy and discharge it back to the electricity network when it is most needed. |
| Winter | A period from 1 October to the following 30 April. |

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