Department for Energy Security & Net Zero

Capacity Market

Frequently Asked Questions for 2025

July 2025

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Capacity Market – Frequently Asked Questions for 2025

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Disclaimer

These FAQs are for information only and do not supersede or replace the requirements contained in The Capacity Market Rules 2014 (as amended) and The Electricity Capacity Regulations 2014 (as amended). These FAQs do not constitute legal or investment advice. Applicants and Capacity Providers are urged to consult their professional advisors if unsure on any matter.

Purpose

The purpose of this document is to set out clarifications to the Capacity Market Rules, especially where there have been updates to the Capacity Market Rules (‘The Rules’) or the Electricity Capacity Regulations 2014 (‘The Regulations’).

Acronyms

Acronym	Meaning
CAPEX	Capital Expenditure
CCS	Carbon Capture and Storage
CCUS	Carbon Capture Usage and Storage
CfD	Contract for Difference
CM	Capacity Market
CMU	Capacity Market Unit
DB	Delivery Body
DPA	Dispatchable Power Agreement
DR	Decarbonisation Readiness
DSR	Demand Side Response / Consumer-Led Flexibility
GEC	General Eligibility Criteria
IEV	Independent Emissions Verifier
ITE	Independent Technical Expert
NESO	National Energy System Operator
PQ	Prequalification
SCM	Substantial Completion Milestone

Key Documents

Document(s)	Hyperlink
Capacity Market Rules and Informal Consolidation	Capacity Market Rules - GOV.UK
Electricity Capacity Regulations 2014	The Electricity Capacity Regulations 2014
Electricity Capacity (Supplier Payment etc.) Regulations 2014	The Electricity Capacity (Supplier Payment etc.) Regulations 2014
Emissions Guidance	Carbon emissions limits in the Capacity Market - GOV.UK
Capacity Market Appeals Guidance	Capacity Market appeals process - guidance - GOV.UK

Application of Rules and Regulations

Unless otherwise indicated, amended Capacity Market Rules and Regulations will apply to all Agreements from the point of implementation onwards, as well as to all Applicants to future Capacity Market Auctions.

Section 1 – General queries

Question 1 - Will Storage CMUs classified as Battery Storage be allowed to self-declare a Connection Capacity less than those calculated in Capacity Market Rule 3.5?

- Yes, NESO have confirmed in guidance that Battery Storage CMUs will be allowed to self-declare a Connection Capacity, so long as it is at or below what would be its Connection Capacity if it had calculated it using Capacity Market Rule 3.5.
- Battery Storage CMUs will be the only CMUs that can self-declare their capacity in this way. This is due to the fact that, although these units are permitted to augment their CMU through Rule 4.4.4A and can appropriately reduce their EPT requirement through Secondary Trading, these CMUs need the flexibility to declare a Connection Capacity below the methods of calculation presented in Rule 3.5, due to the requirement to meet an Extended Performance Test.

Question 2 - Can the Delivery Body change its decision on any element of an application when reconsidering a Prequalification decision to reject the application?

- Under Regulation 69(3) of the Electricity Capacity Regulations 2014, any request submitted within timelines set out in legislation and Auction Guidelines and made correctly as per Regulation 70(3) of the Regulations will be considered by the Delivery Body.
- In 2021, then-BEIS consulted on changes to allow for greater discretion for the Delivery Body to consider information in a PQ Dispute which corrected minor clerical/administrative mistakes or omissions or something similarly immaterial.
- This change did not alter the principle that applicants must maintain a high standard of quality in their applications. Therefore, there is no guarantee that applicants will be able to resolve errors in the disputes process, as the DB will apply a high bar when considering whether a dispute falls within the bounds of Regulation 69(5A) in respect to whether any error was clerical, trivial or in some other way inconsequential.
- Therefore, Applicants should note that whilst the Delivery Body will consider any dispute raised in accordance with the Regulations, it may take into account whether your original application was generally high-quality. In particular, the Delivery Body may assess whether the dispute falls within the scope of Regulation 69(5A), which relates to whether the error in question was clerical, trivial, or otherwise inconsequential.

Question 3 – Can an exhibit be altered once signed

- No, all exhibits are immutable once signed by a Director, IEV, or any other such person required to sign them. If a document requires amending after being signed, it must be re-signed after such amendments are made, even if the signature is from a third party such as an IEV.
- The pro forma text in the Exhibits themselves must also not be altered, unless the Exhibit explicitly requires it, for example where it requires a choice between different options. However, incorrect choices in an application in an editable section of the pro forma, may lead to the application being rejected.

Question 4 - Where can I find the latest information on Capacity Market participants / pre-qualified capacity / etc?

- The Capacity Market Register, maintained by the Delivery Body, records both prequalified and successful Capacity Market participants. The register confirms the existence of a capacity agreement and the right to a capacity payment for that CMU for the stated delivery year. A form of the register will be available at Capacity Market Register and updated at appropriate times. The entry in the Capacity Market Register is the definitive document. This information can also be found in the NESO Data Portal.
- Additionally, at the request of any person the Delivery Body must provide a written statement of any entry on the Capacity Market Register within five Working Days, as per Rule 7.6.2.

Question 5 – How many IEVs are there?

- There are currently four Independent Emissions Verifiers that can verify Fossil Fuel Emission Declarations in the Capacity Market. The list is available here: https://www.ukas.com/accreditation/about/developing-new-programmes/development-programmes/ecm-verification/

Section 2 – Demand Side Response / Consumer-led flexibility

Question 6 – From when and to which agreement delivery years will December 2024 consultation changes apply?

- Rules changes or updates relating to Demand Side Response technologies in the CM apply from the day the Rules are made. The changes or updates therefore apply to existing agreements as well as to those applying as part of the 2025 prequalification period.
- The Settlement Body will be engaging with Capacity Providers with impacted Unproven DSR CMUs to outline the change to the deadline and work to facilitate through the testing process.

Question 7 – How are updated Business Models and Business Plans to be submitted following the December 2024 consultation changes?

- Capacity Providers are required to submit their Business Models and Business Plans in accordance with the CM Rules. There is no requirement to use the NESO-designed template, however, providers may wish to use those templates which can be found at: https://emrdeliverybody.nationalenergyso.com/IG/s/article/Exhibits-and-Templates

Section 3 – Rules Modernisation

The revocation of redundant Rules relating to previous auctions will not be in force until the amendments to the to the Regulations are approved by Parliament, which we expect to be by end of December 2025, depending on the availability of Parliamentary time (See 1.2.1 and Part 9 of the Capacity Market (Amendment) Rules 2025).

Question 8 – When can the Owner of a CMU that has previously opted-out under Rule 3.11.2(f)(i) change the Opt-Out status of that CMU if operational circumstances change?

- An Updating Out-Out Notification must be provided if the CMU is being entered into a Prequalification for a Delivery Year it otherwise would have been classed as an Excluded CMU as part of the Application.
- These would be the Prequalification Windows for Delivery Year "t" where the CMU was Opted-Out under Rule 3.11.2(f)(i) for Delivery Years t-1 or t-2.
- *Example: If a CMU Opted-Out under Rule 3.11.2(f)(i) for the Delivery Year 2030/31. The Applicant must submit an Updating Opt-Out Notification as part of the Application for Delivery Year 2031/32 or 2032/33.*
- *Once the Updating Opt-Out Notification has been provided and accepted by the Delivery Body, it does not need to be resubmitted again as the CMU will no longer be classified as "Retired."*

Question 9 – What must I include in my Updating Opt-Out Notification

- In order for the Updating Opt-Out Notification to be accepted by the Delivery Body, it must fully comply with Rule 3.11.2 and the changes to the Opt-Out Notification status in order to fall within Rule 3.11.2(f)(ii) or 3.11.2(f)(iii), i.e. Non-operational for the Delivery Year in question but operational thereafter, or operational for that Delivery Year respectively. This must relate to the condition of the CMU for the Delivery Year that the CMU was initially Opted-Out as Retired.
- To comply with Rule 3.11.2, the Notification must state all the details required in 3.11.2(a) through to 3.11.2(e). It must then select the relevant change in status from Rule 3.11.2(f)(i) to 3.11.2(f)(ii) or 3.11.2(f)(iii). It must also provide a summary of the reasons for this change in status. The Delivery Body will not

accept an Updating Opt-Out Notification that does not provide all of the above information, as per Rule 3.11.2C.

Question 10 – When would the Delivery Body decide to no longer Prequalify a CMU?

- The amendment to Rule 4.4.3A clarifies the position that if the Delivery Body becomes aware that an CMU that has Prequalified would no longer do so if the Application was considered afresh, then the Delivery Body will notify the Applicant that the CMU is no longer Prequalified and it will not be allowed to take part in the relevant CM Auction. This is to ensure that the attributes of any Applicant CMU remain unchanged between PQ and the Auction.

Question 11 – Is it a Reviewable Decision if the Delivery Body decide to no longer Prequalify a CMU following a decision taken under 4.4.3A?

- Yes, any decision relating to the Prequalification of a CMU applying for an Auction can be reviewed under Regulation 68 of the Regulations.

Section 4 – Lifetime Extensions

Question 12 – Are three-year agreements at the £65/kW capex threshold only available for plants undertaking lifetime extension works?

- No. The £65/kW capex threshold applies to **all** three-year agreements regardless of whether the works are being undertaken for the purposes of lifetime extension.

Question 13 – How do I know whether my improvements programme qualifies as lifetime extension works?

- The following definition of Lifetime Extension Works has been added to the list of definitions in Chapter 1.2 of the Rules:
    - "*Lifetime Extension Works means, in respect of a Refurbishing CMU which is the subject of an Application, works that are expected to:*

      (a) extend the duration of time which the CMU will be Operational from the date the Pre-Refurbishment CMU which comprises that CMU is projected (at the time the Application is made) to be permanently closed down, decommissioned or otherwise non-Operational; and
      (b) ensure that the CMU will remain Operational for at least the Delivery Period of the Capacity Agreement:
        (i) once refurbished; and
        (ii) should the CMU be awarded a Capacity Obligation in the Capacity Auction to which the Application relates"

Question 14 – How do I apply for a three-year agreement for lifetime extension works vs other refurbishment works?

- Directors are required to declare if they are undertaking Life Extensions Works using *Exhibit AB: Form of Lifetime Extension Declaration*. This is in

addition to the usual Directors' declaration made using *Exhibit A: Form of Prequalification Certificate*.

Question 15 – In what circumstances can statutory and routine maintenance work be included in the Total Project Spend for a three-year agreement?

- Statutory and routine maintenance can be included in the total qualifying project spend only where they are a necessary element of Lifetime Extension works as defined in the Rules. The statutory and routine maintenance must also be incurred, or expected to be incurred, between the Auction Results Day for the T-4 Auction to which the Application relates and the start of the first Delivery Year.
- Please refer to *Exhibit AB*.

Question 16 – What role do Independent Technical Experts play in verifying project spend on lifetime extension work?

- 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 as per Rule 8.3.6(a).
- There are no new ITE certifications required for the purposes of validating lifetime extension works.

Question 17 – How does the new £65/kW capex threshold for three-year agreements interact with the CM Phase 2 changes to the definition of 'Total Project Spend'?

- CM Phase 2 changes to the definition of 'Total Project Spend' expanded the window to account for capex costs for refurbishing CMUs to 77 months prior to the commencement of the first delivery year. This applies to all projects.

Section 5 – Modifying the CM to Incorporate Decarbonisation Readiness

Question 18 – Do I need to declare that I will comply with the new Decarbonisation Readiness legislation when it comes into force in February 2026?

- In accordance with Rule 3.7.5, all new and substantially refurbishing combustion plants pre-qualifying for the CM in 2025 will need to commit to meeting the requirements of the new Decarbonisation Readiness (DR) legislation[1] ahead of the first delivery year. The Environment Agency has consulted on draft guidance on DR requirements.[2]

Question 19 – Will I need to demonstrate compliance?

There is no review milestone for the demonstration of compliance with upcoming DR legislation. However it should it be noted that a termination event would be triggered

[1] HM Government, 'The Environmental Permitting (Electricity Generating Stations) (Amendment) Regulations 2025', Feb 2025

under Rule 6.10.1 (o), if the Delivery Body has become aware, or reasonably believes that any information or declaration submitted in or with an Application in respect of a Prequalified CMU did not comply with the requirements set out in Rule 3.12.1 (Declaration to be made when submitting an Application).

Question 20 - What happens in future pre-qualification rounds?

- Rule 3.7.5 applies to the 2025 prequalification round only. Relevant plants prequalifying for auctions beyond the 2026 T-4 auction will be captured by the DR legislation, once in force.

Section 6 – Managed Exits (Pathway A: Multi-year Capacity Market agreement to Dispatchable Power Agreement)

Pathway A will not be in force until the amendments to the to the Regulations are approved by Parliament, which we expect to be by end of December 2025, depending on the availability of Parliamentary time.

Question 21: Who is eligible to use managed exit pathway A?

- Generating Capacity Market Units with multi-year agreements of up to 15 years. This includes three-year agreements and 15-year agreements. These CMUs must also be eligible for a Dispatchable Power Agreement, which means the type of generating capacity which is eligible is gas plants.
- Eligible plants must be party to a Dispatchable Power Agreement (DPA) for power CCUS at point of serving a CCS CFD Transfer Notice. Becoming party to a DPA is subject to transport and storage capacity, value for money and affordability.
- Capacity Providers currently on single year agreements that obtain a three-year agreement under the new CAPEX threshold of £65/kW will become eligible to use a managed exit.

Question 22: You set out in the government response that a Capacity Provider will need to notify the CM Delivery Body that they intend to or have become party to a Dispatchable Power Agreement (DPA) to ensure they are not terminated for breaching the General Eligibility Criteria (GEC). How is this different from serving a CCS CfD Transfer Notice?

- By providing the CM Delivery Body with information on your intention to begin bilateral negotiations for a DPA or that you have become party to a DPA you are ensuring the Delivery Body does not pursue action for a Capacity Market Unit breaching the General Eligibility Criteria (e.g. for the CMU becoming party to a CFD, contrary to Regulation 15(5)). You should use existing Agreement Management arrangements to communicate with the Delivery Body and this information should be provided to the Delivery Body as soon as

possible. Sharing this information does not commit you to the managed exits process and you will not receive a termination notice from the Delivery Body in response as the DPA is subject to negotiation.

- For example, if you are intending to enter bilateral negotiations, you should notify the Delivery Body and then start the process of becoming party to a DPA. This may be several years before you are required to serve a CCS CfD Transfer Notice.
- Once you have become party to a DPA, you are then eligible to serve a CCS CfD Transfer Notice. You should provide this, alongside the required evidence, in the relevant notification window in the penultimate Delivery Year of which the CMU seeks to exit.

Question 23: Will it breach my CM agreement(s) if I enter bilateral negotiations for a Dispatchable Power Agreement for my CMU that has multiple single year agreements stacked up through the T-4 (which aren't currently eligible for a managed exit)?

- Capacity Providers with unabated gas plants in single year agreements can participate in bilateral negotiations for a DPA without breaching their CM agreements.
- As part of bilateral negotiations, the Capacity Provider should only agree to become party to the DPA after the Delivery Years for which they hold single year agreements have ended.

Question 24: What happens if I don't serve the CCS CfD Transfer Notice during the relevant notification window or if I submit the wrong/incorrect evidence?

- If you don't serve the CCS CfD Transfer Notice during the correct notification window, you will be required to serve it the following year when the notification window opens. 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.
- Capacity Providers will be allowed to amend the CCS CfD Transfer Notice and/or evidence during the designated notification window if there are administrative errors. It is advised you serve the CCS CfD Transfer Notice as soon as possible when the notification window opens to allow sufficient time for any required amendments.
- If the Capacity Provider fails to amend a CCS CfD Transfer Notice during the designated notification window and is therefore given a refusal notice 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.
- If a CMU does not serve a CfD Transfer Notice and is therefore not terminated from their Capacity Market agreement before receiving payments under the DPA, they will be in breach of the General Eligibility Criteria.

Question 25: Can the Delivery Body reject my CCS CfD Transfer Notice if I have submitted the correct evidence during the correct notification window?

- No, the CM Delivery Body will not reject a valid CCS CfD Transfer Notice that is provided with the correct evidence during the designated notification window.
- 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. Capacity Providers will be allowed to amend the CCS CfD Transfer Notice and/or evidence during the designated notification window if there are administrative errors.

Question 26: Can I secondary trade or transfer my obligations after I have served a CCS CfD Transfer Notice?

- Yes, but the secondary trading obligations and transfer arrangements must conclude by the voluntary termination date (ie, the last date of the delivery year). This is to ensure the generating unit is available to operate under the DPA and be converted to low carbon, achieving the policy intent of using a managed exit.