UK Government

Capacity Market

Consultation on changes for Prequalification 2026

Closing date: 27 November 2025

October 2025

Any enquiries regarding this publication should be sent to us at:
futureelectricitysecurity@energysecurity.gov.uk

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Executive Summary

The Capacity Market is at the heart of the government's strategy for ensuring security of electricity supply in Great Britain. It was first introduced in 2014 as part of the Electricity Market Reform programme to support investment in capacity and deliver value for money for consumers. Existing and new build electricity capacity providers compete to obtain Capacity Market Agreements under which they commit to deliver capacity when needed, in return for guaranteed regular payments.

The proposals in this consultation aim to reform the Capacity Market to ensure continued security of supply, align the scheme with the government's decarbonisation goals, and improve the functionality of the scheme. The consultation seeks views on the following areas:

- **Multiple price Capacity Market** – Implementing targeted price-related reforms to ensure security of supply is cost-effectively maintained. This will be achieved by introducing a second, higher, price cap into the auction that could, if needed, secure new build dispatchable enduring capacity that can generate power over prolonged periods of tight supply.
- **Ensuring efficient bidding in Capacity Market auctions** – A package of interventions to reduce information provided to participants before and during auctions that will increase uncertainty relating to the expected gains and losses from bidding strategically and thereby ensure efficient bidding that maximises value for money.
- **Consumer-led flexibility** - Implementing additional delivery assurance processes in relation to Demand Side Response components entering the Capacity Market, both from an operations perspective and the Capacity Market value attributed to diverse Demand Side Response technologies in providing system response.
- **Self-nomination of connection capacity for battery storage technologies** – Allowing battery Capacity Market Units to self-nominate their connection capacity below their full network connection capacity to mitigate the risk of failing extended performance testing due to degradation.
- **Determining appropriate means for non-fossil fuel generation to access low carbon Capacity Market mechanisms**- Introducing appropriate sustainability criteria for biogenic sources to evidence against, which could enable them to access low carbon benefits in the Capacity Market.
- **Further improvements to Capacity Market administration and delivery assurance** – Ensuring clarity of the Rules by proposing policy clarifications, amendments and revocations, as well as introducing a Termination Fee for Termination Events that currently have no fee associated. These proposals also seek to improve value for money by suspending payments for Capacity Market Units that are subject to an Insolvency Termination Event.

Following this consultation, the government aims to introduce changes ahead of Prequalification 2026 for the auctions in 2027, subject to parliamentary time.

Alongside this consultation, the government has published a call for evidence[1] which seeks views on enabling Hydrogen to Power (H2P) to participate in the Capacity Market and on implementing a new methodology for the technical adjustment element of the process by which interconnector de-rating factors are set.

These documents are linked, but they can be considered separately. The government understands that some stakeholders may only wish to respond to one document and intends to issue separate responses to the two parts.

The consultation and call for evidence complement other government initiatives, and follow recent government publications such as:

- In December 2024, the government published the "Clean Power 2030 Action Plan: A new era of clean electricity",[2] setting out how clean power in Great Britain will be delivered.[3] In doing this, the government will solve three major challenges:
    - the need for a secure and affordable energy supply,
    - the creation of essential new energy industries, and
    - the need to reduce greenhouse gas emissions and limit our contribution to the damaging effects of climate change.
- In December 2024, the government's response to the consultation on H2P market intervention need and design was published.[4] This committed to the development of a H2P Business Model and enabling H2P's participation into the Capacity Market as soon as practical. The call for evidence on H2P's participation in the Capacity Market, being published alongside this document, will help towards this policy development.
- In March 2025, the government published a call for evidence on innovative H2P projects.[5] This sought evidence to understand technical barriers for delivering potential projects by 2030, ahead of wider enabling hydrogen infrastructure. Responses will help inform policy development set out in the call for evidence on H2P's participation in the Capacity Market.
- In May 2025, the government published a government response to the 2024 Capacity Market consultation on proposals to maintain security of supply and enable flexible capacity to decarbonise.[6]
- In May 2025, the government published a government response to the 2024 Capacity Market consultation on proposals to modernise Capacity Market Rules and improve participation and delivery assurance of consumer-led flexibility.[7]

[1] DESNZ, Capacity Market: hydrogen and interconnectors, October 2025
[2] DESNZ, Clean Power 2030 Action Plan, Dec 2024
[3] Energy Policy is largely devolved to the Northern Ireland Executive (NIE).
[4] DESNZ, Hydrogen to power: market intervention need and design, Dec 2024
[5] DESNZ, Call for Evidence: Innovative hydrogen-to-power projects, March 2025
[6] DESNZ, Capacity Market: Proposals to maintain security of supply and enable flexible capacity to decarbonise Dec 2024
[7] DESNZ, Capacity Market consultation: government response, May 2025

- In July 2025, the government published the Clean Flexibility Roadmap, building on the Clean Power 2030 Action Plan and setting out the government's vision for flexibility and how it will be delivered.[8]
- In July 2025, the government published a Summer update on the Review of electricity market arrangements (REMA) programme.[9]
- In October 2025, the government has also published a summary of responses[10] on the recent call for evidence "Capacity Market: Consumer-led flexibility".[11] This call for evidence was published in December 2024 and closed in February 2025.

[8] DESNZ, OFGEM and NESO, Clean Flexibility Roadmap, July 2025
[9] DESNZ, Review of electricity market arrangements (REMA): Summer Update, July 2025
[10] DESNZ, Call for evidence outcome Capacity Market: consumer-led flexibility, October 2025
[11] DESNZ, 'Capacity Market: Consumer-led flexibility', Dec 2024

General Information

Why we are consulting?

This consultation forms part of the government's commitment to regularly review the function and requirements on the participants of the Capacity Market. This is to ensure the scheme remains fit for purpose and reflects changing market conditions. The proposals in this consultation aim to reform the Capacity Market to ensure security of supply is maintained, align the scheme with the government's net zero goals, and improve the functioning of the scheme.

In this consultation, views are being sought on proposed changes to the Capacity Market to improve the accessibility and clarity of the Rules. Changes to improve the transparency of Capacity Agreements, improve participation and delivery assurance of consumer-led flexibility, reduce the scope for strategic bidding, and allow access to higher clearing prices are also being proposed.

Consultation details

Issued: 2 October 2025

Respond by: 27 November 2025

Enquiries to:

Electricity & Market Arrangements

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Consultation reference: Capacity Market: Consultation on changes for Prequalification 2026

Audiences: The government is seeking the views of the energy industry, consumer groups, academia, think tanks and other organisations who have an interest in security of supply and decarbonisation.

Territorial extent: Great Britain. The Capacity Market is in place across Great Britain. Energy is a transferred matter for Northern Ireland.

How to respond

Respondents are strongly encouraged to make use of the online platform wherever possible when submitting responses as this is the government's preferred method. This method also allows for the submission of a single, combined response to both this consultation and the associated call for evidence referred to above, should you wish to respond to both. Alternatively, responses in writing or via email will also be accepted.

To ensure your response is most effective in aiding government policy development, it is crucial that responses are framed as direct responses to the questions posed, supported by evidence where possible.

Respond online at: https://energygovuk.citizenspace.com/energy-security/capacity-market-consultation-pq2026

When responding, please state whether you are responding as an individual or representing the views of an organisation.

While direct responses to the questions posed will be most useful, further comments and evidence are also welcome.

Confidentiality and data protection

Information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018 and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential, please make us aware but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

Your personal data may be shared with our processor for the purposes of analysing the consultation responses on our behalf. Artificial Intelligence (AI) may be used in the analysis of consultation responses.

We will process your personal data in accordance with all applicable data protection laws. See our privacy policy.

We will summarise all responses and publish this summary on GOV.UK. The summary will include a list of names or organisations that responded, but not people's personal names, addresses or other contact details.

Quality assurance

This consultation has been carried out in accordance with the government's consultation principles.

If you have any complaints about the way this consultation has been conducted, please email: bru@energysecurity.gov.uk.

Introduction

A reliable electricity system is fundamental for a well-functioning society, economy and public services. Since its introduction in 2014, the Capacity Market (CM) has secured sufficient capacity to achieve consistent and reliable electricity supply in Great Britain, complementing the large-scale deployment of renewable technologies.

In the years following its introduction, the CM secured capacity at low prices relative to the current auction price cap of £75/kW/yr in T-4 auctions. However, excess supply in the auctions has decreased steadily over time while clearing prices have increased. The level of the auction Price Cap, however, has not increased from £75/kW/yr since the CM was introduced in 2014 and has therefore declined by around 30% in real terms.

Achieving clean power by 2030 will mean an increasingly renewables-led system as a foundation for a decarbonised grid. The government's Clean Power Action Plan[12] and the independent analysis published by the National Energy System Operator (NESO)[13] recognise the outsized value that low carbon flexible technologies can provide to a clean power system.

Under the government's Clean Power Action Plan, unabated gas generation will fall significantly from 26% of total annual electricity in 2024[14] to at most 5% in a typical weather year by 2030. Changes proposed in this consultation aim to support low carbon technologies in the CM by introducing measures to improve consumer-led flexibility's participation in the scheme, ensuring investor confidence for battery storage, and determining appropriate means for non-fossil fuel generation to access low carbon CM mechanisms.

Whilst low carbon flexible capacity and its supporting infrastructure is scaled up, there is still a need to provide sufficient dispatchable capacity from existing sources. NESO's resource adequacy analysis for the 2030s suggests that, with greater deployment of renewable generation and storage capacity, the nature of system needs will shift - with periods when capacity is tight occurring less frequently but of longer duration, for example when there are extended periods of low wind generation.[15]

A diverse portfolio of flexible technologies, each tailored to specific system needs, will be essential to balance supply and demand across varying timescales. Short-duration flexibility will play an increasingly important role in managing intra-day imbalances and reducing system costs but lacks capabilities to mitigate multi-day supply shortfalls. Dispatchable capacity capable of providing enduring output is required to maintain security of supply during prolonged periods of system stress.

The government is seeking views on a series of changes to the CM that enable bringing forward enough dispatchable enduring capacity, capable of generating power over prolonged periods of tight supply without relying on stored energy, to ensure security of electricity supply is maintained. This is accompanied by proposed changes looking to protect consumers' interests by encouraging competition in the CM. Further proposals look to make sure the CM

[12] DESNZ, 'Clean Power 2030 Action Plan', Dec 2024
[13] NESO, 'Clean Power 2030', Nov 2024
[14] NESO, Britain's Electricity Explained: 2024 Review, Jan 2025
[15] NESO, Resource Adequacy in the 2030s, Dec 2022

Rules are accessible and clear, boosting investor confidence and ensuring delivery from Capacity Market Units (CMUs).

Taken together, these proposals will continue to ensure our future electricity security at least cost to consumers. Following this consultation, the government aims to introduce changes ahead of Prequalification 2026 prior to the auctions in 2027, subject to parliamentary time.

This consultation includes the following proposals:

Multiple Price Capacity Market

As set out above, the CM Price Cap has not been updated, including to take account of inflation, since the scheme was introduced in 2014. Investment in new dispatchable enduring generation is becoming more challenging due to increasing uncertainty for investors about whether these plants can be commercially viable, taking account of their likely revenues via the CM, wholesale markets and balancing revenues. Changes to the CM Price Cap can ensure enough new dispatchable enduring capacity could be secured if needed, particularly as older existing assets (including some nuclear and biomass units) potentially retire. This new capacity would deliver enduring output, maintaining reliable back up capacity to mitigate the risk of less frequent, but potentially longer duration, stress events in the future.

To limit the potential increase in scheme costs, the government is proposing changes to the auction design for the T-4 auction. This would allow for eligible new build dispatchable enduring generation projects to receive payments up to the level of a second, higher price cap, while CM agreements for other participants would remain capped at the current level of £75/kW/yr.

The consultation proposes implementing this through a reformed T-4 auction designed to ensure that any eligible new capacity that may be needed can secure CM agreements. This would involve taking a decision each year on whether to set a minimum volume sub-target for eligible capacity in advance of the auction, which would then secure this capacity.

Alternatively, if a sub-target is not set, the auction would only secure eligible capacity if and to the extent it is needed to cover any shortfall between the overall auction capacity target and the volume of other capacity that has entered the auction. Under this approach, other price-maker participants may only submit Exit Bids once the price drops below £75/kW/yr.

The government is proposing that eligibility is limited to new build dispatchable enduring capacity due to its ability to generate power over prolonged periods of tight supply, without storage limitations. The government expects this to include biomass, Combined Cycle Gas Turbine (CCGT), Combined Heat and Power (CHP), Energy from Waste (EfW), hydro, nuclear, Open Cycle Gas Turbine (OCGT) and reciprocating engines; as well as most Hydrogen to Power (H2P) and power Carbon Capture, Usage and Storage (CCUS) generators once those technologies are enabled to participate in the CM.

If any new capacity procured is unabated gas, new decarbonisation readiness legislation coming into force in February 2026 will ensure that it is built ready to convert to hydrogen-firing or retrofit carbon capture technology within the plant’s lifetime, and in line with the government’s overarching Clean Power mission and legally binding Carbon Budgets.

NESO's Strategic Spatial Energy Plan (SSEP) mapping of potential locations, quantities, and types of electricity and hydrogen generation and storage will help to ensure that any new gas plants will be located where they can decarbonise in the future.

Ensuring efficient bidding in Capacity Market auctions

It is important that there is sufficient competitive tension in CM auctions to ensure the most cost-effective capacities are procured to meet projected demand in a given Delivery Year.

The liquidity of the T-4 CM auctions has dropped in recent years, and this is observed through the diminishing difference between the supply of prequalified capacity entering the auctions and the target capacity.

Currently, information published ahead of the auctions could be used to calculate the degree of auction liquidity and information reported between rounds provides further insight on how excess supply reduces over the course of the auction. In a low liquidity auction, this creates a risk that a participant with a significant degree of market insight might use this information to determine more confidently when their portfolio, or an asset within their portfolio, can be leveraged to unilaterally clear the auction.

The government is considering two changes to reduce information provided to participants before and during all CM auctions to guard against the risk of strategic behaviour whilst also ensuring that the CM remains to be an attractive market for a wide range of investors.

Consumer-led flexibility

The proposals for consumer-led flexibility, as delivered via Demand Side Response (DSR) technologies within the CM, cover topics spanning delivery assurance, Rules clarifications, and administrative burdens. The changes seek to balance strengthening the application of the Rules and firming up confidence in delivery, whilst reinforcing wider government intentions to support consumer-led flexibility.

Across the three categories, and building on the December 2024 call for evidence response,[16] proposals are included which seek to:

- Strengthen delivery confidence from DSR CMUs through the introduction of minimum capacity demonstration relative to capacity obligations secured and amending Rules on DSR Tests following component reallocations.
- Reduce administrative burdens relating to aggregated portfolios of small-capacity components.
- Amend requirements on submissions made during prequalification to support improved oversight by the Delivery Body.
- Introduce administrative changes to enhance data collection on DSR's participation in the CM.

[16] DESNZ, 'Capacity Market: Consumer-led flexibility', Dec 2024

Self-nomination of connection capacity for battery storage technologies

For delivery assurance, storage CMUs are required to undergo extended performance tests (EPT) every three years at their adjusted connection capacity and storage duration class. Battery Energy Storage Systems (BESS) degrade over time, and this reduces their energy capacity, power and efficiency.

To mitigate the risk of failing EPT in the later years of multi-year Capacity Agreements, many new build BESS providers choose to self-nominate a connection capacity that is lower than that requested from the Transmission or Distribution Network Operator (TEC/MEC) of the unit. This is done at the beginning of their CM agreement and applies for the entirety of their agreement.

The ability for a new build BESS to self-nominate connection capacity is currently outside the CM Rules. Therefore, if a Rules change is not made ahead of Prequalification 2026, BESS Capacity Providers will only be able to apply for Capacity Agreements at their full connection capacity and may risk termination in the later years of their Capacity Agreements.

The government is proposing to allow for BESS Capacity Providers to self-nominate a Storage Connection Capacity in their CM agreement. For transparency, the intent is for this to be submitted alongside the full connection capacity stated in the connection agreement of the unit.

Determining appropriate means for non-fossil fuel generation to access low carbon CM mechanisms

The current absence of an appropriate Monitoring, Reporting and Verification (MRV) process limits access to specific low carbon benefits in the CM (e.g., longer Agreements / declared long stop dates) and could reduce investor confidence in supporting New Build or Refurbishing units of these technologies. These policy proposals address the commitment the government made in its 2024 CM Phase 2 policy update[17] to review appropriate methodologies for calculating how biomass and other technologies with emissions from non-fossil fuel sources meet the CM-defined low carbon emissions threshold (100gCO2e/kWh).

The proposals are two-fold:

- An interim solution delivered by Prequalification 2026, which will require biomass to demonstrate compliance with an enhanced version of the established Renewables Obligation sustainability criteria (aligning with the stricter standards of the recent low carbon dispatchable Contracts for Difference (CfD) agreement specific to woody biomass).
- A longer-term solution for biomass which would be aligned to wider government policy, i.e., the cross-government biomass Common Sustainability Framework.

Government engagement to date has not identified an appropriate MRV for EfW to support access to low carbon benefits in the CM. The consultation seeks views on this position and invites alternative suggestions to enable access to those low carbon benefits.

[17] DESNZ, 'Capacity Market: Policy Update 2023 Phase 2 Consultation', Oct 2024

Further administrative and operational improvements to the Capacity Market

The proposals aim to update and ensure clarity of the Rules and underpinning Regulations by proposing policy clarifications and amendments to the Rules to ensure they remain clear, concise, and unambiguous.

The proposed Rules changes seek to improve accessibility by clarifying policy intent, and ensuring the Rules remain up to date - aiming to boost investor confidence and ensure continued security of electricity supply. Changes include:

Improvements to CM Administration

- Clarifying the meaning of 'Waste' for the EfW Generation Technology Class in Schedule 3 of the Rules to align with other legislation.
- Amending CM Rule 2.3.3 to formalise that the Delivery Body should use the De-rating Factors offered for the T-1 Auction for the Delivery Year relevant to the trade when offering a De-rating Factor to a Secondary Trading Entrant.
- Adding a Rule to suspend CM Payments for units that are under an Insolvency Termination Event under Rule 6.10.1 of the Rules.
- Adding a Rule to enable the Delivery Body to extend the end of prequalification if there is a severe IT issue with the designated EMR Delivery Body Portal.
- Amending Rule 8.3.3(f)(i) to provide greater clarity about information to be provided following the submission of a completed Metering Assessment.
- Updating the Capacity Auction Timetable and Guidelines in Rule 2.2.2 to accurately reflect the current indicative length of the process.
- Amending the Electricity Capacity (Supplier Payment etc.) Regulations 2014 to align to changes following the Ofgem-led Market-wide Half-Hourly Settlement (MHHS) workstream.
- Clarifying that updated guidance will be published to ensure Capacity Providers are aware of their obligation to provide six-monthly progress reports.

Improvements to Delivery Assurance

- Reducing the Long Stop Date of a one-year agreement secured by any New Build or Refurbishing CMU to be the start of the relevant Delivery Year.
- Amending the Termination Fees associated with Rule 6.10.1(o) and 6.10.1(q), increasing them from £0 to £15,000/MW.

Consultation Proposals

Multiple Price Capacity Market

Recent Capacity Market (CM) T-4 auctions have been increasingly illiquid, with excess capacity decreasing from around 12 GW five years ago to under 1 GW in the most recent auction.

The CM price parameters - used to shape the auction demand curve - have remained unchanged in cash terms since the scheme's inception. In real terms they are worth 30% less now than in 2014. While the CM has continued to support the deployment at scale of new short-duration flexible capacity,[18] the cost of developing new build dispatchable enduring capacity may now exceed the current £75/kw/yr price cap.

Recent CM reforms have been made to support lifetime extensions for all existing plants, including existing gas.[19] However, further action may be needed to unlock investment in new dispatchable enduring capacity that can generate power over prolonged periods of tight supply, without storage limitations. Dispatchable enduring capacity will be needed alongside other forms of supply and consumer-led flexibility to meet rising electricity demand and maintain adequate capacity margins, particularly as older nuclear and biomass plants potentially retire. Power Carbon Capture, Usage and Storage (CCUS) and Hydrogen to Power (H2P) will provide this as low carbon enduring dispatchable capacity, alongside the existing fleet of unabated gas plants.

Depending on wider circumstances, it is possible that a limited volume of capacity may need to come from new unabated gas plants, built ready to decarbonise as soon as the enabling infrastructure allows. The options proposed in this consultation would allow the cost-effective procurement of such capacity, if required.

Raising the auction price cap for all participants under the CM's pay-as-clear auction design, where the marginal unit sets the clearing price, could increase overall scheme costs. This could lead to higher consumer bills, should new build dispatchable enduring capacity be required and set the clearing price. To avoid this, alternative approaches have been considered that allow for price differentiation between categories of auction participants, specifically through a Multiple Price Capacity Market (MPCM).

Introducing a MPCM would involve adding a second, higher price cap for eligible new build dispatchable enduring capacity to the T-4 auction, while other capacity types would continue to compete under the existing £75/kW/yr cap. This targeted reform would keep consumer bills as low as possible while ensuring continued security of supply.

[18] Approximately 6.9 GW of nameplate capacity (1.8 GW de-rated) of new build batteries were secured in the 2024 (Delivery Year 2028/29) T-4 CM auction at a clearing price of £60. NESO, "Final Auction Report", March 2025.

[19] DESNZ, 'Capacity Market: Proposals to maintain security of supply and enable flexible capacity to decarbonise, Summary of responses to the consultation', May 2025

A single auction MPCM design maintains overall competition within the auction, while minimising the potential for significantly increased overall scheme costs that would come from a uniform price cap increase. It is also possible that competitive tension in the MPCM could lead to lower prices for non-eligible participants than under the current auction design and £75/kW/yr price cap. If prices for non-eligible participants fall sufficiently, this could even lead to lower overall scheme costs.

Finally, by increasing certainty that the target capacity will be secured, the reformed design will improve system margins, increasing overall competition in the energy market. It will also reduce the potential for price spikes in the wholesale market and balancing mechanism, compared to a scenario where the capacity secured by the CM under the current design and cap falls short of the tolerance limits for targeted capacity.

By taking this approach, the government is looking ahead to GB's future energy needs, as it is with other initiatives such as the Strategic Spatial Energy Plan (SSEP). The SSEP, being developed by the National Energy System Operator (NESO)[20] with its first iteration planned for publication in 2026, aims to support a more actively planned approach to energy infrastructure across GB between 2030 to 2050. The SSEP will be building upon the 2030 Clean Power Action Plan, as the government works towards delivering net zero.

The SSEP will show potential locations, amounts, and types of electricity and hydrogen production and storage between 2030 to 2050, including for the different types of dispatchable enduring technologies indicated in NESO's methodology[21] which would be eligible for this second higher price cap within the CM.

The government anticipates that the SSEP will be a foundational part of planning the future of the energy system, providing greater clarity to industry, investors, consumers and the public on the shape of our future reformed energy system. The government will use the SSEP, alongside the decarbonisation readiness legislation coming into force in February 2026, to help ensure that any new build unabated gas plants are built ready to decarbonise and are located where they can decarbonise in the future.

A reformed CM, as set out in this consultation, would help to ensure that security of supply is maintained, and is consistent with the government's broader plans to deliver a net zero energy system as set out in the SSEP.

The need to target dispatchable enduring capacity

As the proportion of electricity generated from variable renewable sources increases through the transition to a clean power system, the nature of stresses will shift. While the system will continue to achieve high levels of reliability, NESO highlights that, as weather becomes the dominant driver of risk, periods of potential system stress are shifting away from traditional evening peaks, towards prolonged periods of low wind and cold temperatures.[22]

[20] DESNZ, Strategic Spatial Energy Plan: commission to NESO, Oct 2024
[21] NESO's SSEP methodology, May 2025.
[22] NESO, Resource Adequacy in the 2030s, July 2025

It is important that the electricity system remains resilient to low-frequency but high-impact scenarios. NESO's modelling of critical tight periods in future scenarios (when the system is very close to demand exceeding supply) found that, while the system's overall reliability remains broadly constant at current high levels, the nature of these periods changes significantly, with them occurring more rarely but each of longer average duration.[23]

Whilst short-duration technologies can effectively manage intra-day shortfalls and help to reduce reliance on more expensive generation and network infrastructure, their ability to support the system over prolonged periods is more limited. As a result, dispatchable technologies that can run indefinitely are also essential.

Whilst these events will be rare, the system must be resilient enough to endure them. Technologies such as interconnectors and storage solutions may also face constraints during these periods, due to concurrent supply shortages in neighbouring markets or limited discharge durations respectively.

Therefore, given the changing nature of risks to security of supply, the continued availability of sufficient reliable, dispatchable capacity that is enduring and not dependent on stored energy will play an important and unique role in ensuring security of supply during prolonged periods of low renewable output.[24]

In the longer term, the government expects low carbon dispatchable enduring technologies, including most Hydrogen to Power (H2P) and power Carbon Capture Usage and Storage (CCUS) projects to also need access to the higher price cap - as they become eligible to participate in the CM. Currently these technologies are supported by bespoke mechanisms.

If new build unabated gas projects come forward under the higher price cap, new decarbonisation readiness legislation coming into force in February 2026 will ensure that they are built ready to convert to hydrogen-firing or retrofit carbon capture technology within the plant's lifetime.

Being built decarbonisation ready is in the financial interests of the plant as it avoids the risk of becoming a stranded asset. The government expects investors to be considering the long-term viability of their plants when bidding for long-term CM agreements, given the government's commitment to delivering Clean Power by 2030 and our legally binding carbon budgets.

The SSEP's mapping of potential locations, quantities, and types of electricity and hydrogen generation and storage will help to ensure that any new gas plants will be located where they can decarbonise in the future.

[23] NESO, Resource Adequacy in the 2030s, Dec 2022. References are to the Consumer Transformation scenario. System reliability is measured by Loss of Load Expectation.
[24] AFRY, 'Net Zero Power and Hydrogen: Capacity Requirements for Flexibility – A Report to the Climate Change Committee', March 2023

Which technology classes will be eligible for higher prices under an MPCM?

A definition for 'non-dispatchable' Generating Technology Classes (GTCs) already exists within the CM Rules,[25] therefore the government proposes that this approach is maintained and all GTCs not included in that definition will be considered dispatchable. Further sub categorisation will be introduced to illustrate the different capabilities between enduring and non-enduring dispatchable capacity.

A definition or description of 'dispatchable enduring capacity' will need to be introduced into the CM Rules. The government's intent is for it to cover technologies where - provided an adequate fuel supply is available[26] - these technologies generate electricity to provide a continuous supply over their operational lifetime and vary output in response to grid demand as performance is not reliant on stored energy.[27]

Under this category, the following GTCs (as described in Schedule 3 of the Rules) would be eligible: biomass, Combined Cycle Gas Turbine (CCGT), Combined Heat and Power Plants (CHP), Energy from Waste (EfW), hydro, nuclear, Open Cycle Gas Turbine (OCGT) and reciprocating engines. Once H2P and power CCUS technologies are enabled to compete in CM auctions their addition as GTCs will be considered.[28] To inform this, the government has published a call for evidence alongside this consultation to inform how H2P plants should be categorised within the CM.[29]

Under an MPCM, the second, higher price cap will need to be set at an appropriate level above £75/kW/yr to incentivise investment in the targeted new build enduring dispatchable capacity should it be necessary, to ensure consistent back up capacity over time and avoid capacity of this type retiring without replacement. The level of the second, higher price cap will also need to take account of the CM's cost-effectiveness objective, to ensure value for money for consumers.

The government recognises that capacity payments will remain a core component of the revenue stack for a broad range of flexible technologies. As such, an MPCM will continue to support the participation of interconnectors, storage across all durations, both proven and unproven Demand Side Response, and existing and refurbishing generating capacity by enabling these technologies to compete for agreements under the existing £75/kW/yr cap in both T-4 and T-1 auctions. Based on the results of previous auctions and the range of both existing and new build projects of different technology types that have been successful under

[25] A non-dispatchable Generating Technology class means a Generating Technology Class that is classed as "Onshore Wind", "Offshore Wind" or "Solar Photovoltaic" in Schedule 3. This classification is based on the definition of Intermittent Power Source as defined in the Grid Code.
[26] By adequate fuel supply, for the purposes of this consultation, government means a reliable access to undisrupted and consistent fuel supplies during ideal circumstances. Government will consider whether Rules need to be introduced to provide a statutory footing for this description.
[27] At present 'Intermittent Power Source' is defined in the Rules by reference to the Grid Code however HMG is considering whether amendments or refinements of this and other associated Rules will be necessary to this definition to align with this policy.
[28] Hydrogen used in H2P technologies would be typically treated as a fuel supply rather than stored energy. This is subject to the outcome of the call for evidence published in parallel. Government will consult on Rules change proposals alongside the proposals in advance of prequalification 2027 after the call for evidence, if considered necessary.
[29] DESNZ, Capacity Market: Hydrogen and interconnectors, October 2025.

current CM arrangements, the government considers that this remains sufficient to support assets within these categories and should therefore be retained.

More broadly, the Clean Flexibility Roadmap[30] sets out further measures government is taking across the full range of policy to support the deployment of low carbon flexibility. These include the appointment of a flexibility commissioner and establishing an ongoing roadmap governance framework. Through this framework, the government will monitor the delivery and impact of actions outlined in the roadmap, and work with stakeholders to understand where additional action may be needed.

Auction design changes to deliver an MPCM

Alongside introducing a defined category of CMUs within the CM that can access prices above the current price cap, delivering these reforms involves deciding upon a changed auction design.

Under the current descending clock pay-as-clear CM design, the auction "clears" at a price where excess supply, defined as the difference between the amount of capacity willing to accept an agreement and the auction demand curve, equals zero. In other words, the auction sheds excess capacity, from most expensive to cheapest, up until the point where shedding any more capacity would mean there would be less than the minimum target volume. All successful CMUs receive the marginal price set by the last, most expensive unit to be awarded an agreement. The auction target is set at the level intended to optimally balance the security of supply benefits of procuring more capacity, against additional costs to the consumer.

In developing options for auction design reform to enable price differentiation, several models were assessed against a set of criteria rooted in the CM policy objectives: security of supply, cost-effectiveness, and avoiding unintended consequences:

1. Uniform increase in the auction price cap: the auction price cap would be increased with all Price-Maker CMUs able to submit Exit Bids at or below the higher price cap.
2. Category-specific price multiplier: the auction would initially clear as one (at or below £75/kW/yr), a pre-determined multiplier to the price would be added afterwards for successful eligible CMUs. The multiplier would be made public before the auction takes place via the Auction Guidelines.
3. Split auction for eligible CMUs (takes places after the main T-4 auction): a supplementary auction for eligible CMUs, with a higher price cap, takes place after the main T-4 auction if insufficient capacity is secured to meet the overall target. The second auction would effectively act as a ‘top up’ if there was a significant shortfall in the main auction, meaning this would have cleared below the lower target tolerance at £75/kW/yr.
4. Split auction for eligible CMUs (takes place before the main T-4 auction): a supplementary higher price cap auction takes place before the larger, T-4 auction, to prioritise procurement of a set target volume of eligible capacity.
5. Single auction with two price caps:

[30] DESNZ, OFGEM and NESO, Clean Flexibility Roadmap, July 2025

- A single T-4 auction where only eligible CMUs can exit in the first round, bounded by the second, high price cap and the current auction price cap level of £75/kW/yr.
- If the auction clears in the first round (because there is insufficient capacity bidding lower than £75/kW/yr to meet the auction target), successful eligible capacity is paid the higher clearing price, and all other successful CMUs would be capped at £75/kW/yr.
- If the auction does not clear in the first round, because there is more excess non-eligible capacity relative to the target, the auction will proceed to the next price decrement as per the current auction design. This would, however, mean that no eligible CMUs were secured unless they submitted Exit Bids below £75/kW/yr.

6. Single T-4 auction with two price caps and provision to set a minimum volume of eligible capacity to secure within the overall auction target capacity:
    - As with option 5, this design would have a first round bounded by a higher price cap and a floor of £75/kW/yr in which only eligible CMUs can exit.
    - The design would also give the option, as with option 4, to set a minimum eligible capacity target or 'sub-target'.
    - If a sub-target is set then, unlike option 5, eligible capacity can be secured above £75/kW/yr at the sub-target volume without automatically awarding non-eligible capacity £75/kW/yr. If a sub-target is not set then, as in option 5, the auction could proceed as per current auction design without procuring new build dispatchable enduring capacity at a price above £75/kW/yr, if the auction demonstrates that it would be not needed to meet the auction capacity target.[31]
    - See below for more detail on how this auction design would function in practice, including different auction clearing scenarios.

The option assessed as being the most likely to meet the security of supply and cost-effectiveness objectives, while minimising unintended consequences such as strategic behaviour from auction participants, is option 6 – the single auction with a second, higher price cap, with provision to set a minimum volume of eligible capacity to secure if deemed necessary.

The government is minded to adopt this option to implement the MPCM, for the following reasons:

- The government considers that a single auction format, as opposed to a split auction, will deliver better outcomes by maintaining liquidity and facilitating competition between all CM participants.
- This auction design retains optionality in the approach to securing new eligible capacity.

Under this approach, it would be determined annually whether to set a target volume of eligible capacity to secure:

1. If it is not deemed necessary for security of supply to secure a minimum volume of eligible capacity, then the sub-target could be set at zero. The auction would then function in the same way as Option 5, securing new eligible capacity at a price

[31] This design is an adaptation of the New England Forward CM which sets separate targets for different 'zones' within a single descending clock auction to enable price differentiation.

above £75/kW/yr only if and to the extent needed to meet the auction's overall capacity target.

2. If it is deemed necessary to secure at least a minimum volume of new eligible capacity, then a non-zero sub-target would be set ahead of the auction. The auction design would then ensure that at least this volume is procured, and more if there was insufficient lower-cost, non-eligible capacity to ensure that the overall capacity target was met.

- In a scenario where new dispatchable enduring capacity is needed, a non-zero target would further support that investment by signalling firm demand to developers and investors in advance of the auction. Setting a target for the higher price eligible capacity could also help to control the effect of securing more expensive new capacity on overall auction costs, which are passed onto consumer bills. It does this by allowing for the (much larger) other part of the auction to establish its own clearing price, potentially below £75/kW/yr, while at the same time securing the targeted volume of eligible capacity.
- Equally, in a scenario where new dispatchable enduring capacity is not needed, then a sub-target of zero would result in lower costs for the consumer over the longer term by avoiding multi-year agreements above £75/kW/yr.
- This design therefore retains the benefit to overall competition that comes from a single auction approach (as per option 5), while allowing for a wider range of approaches to the mix of capacity secured.

Under this MPCM design, it is envisaged that the auction arrangements would change in the following ways:

- For the T-4 auction, there would be a second, higher price cap above £75/kW/yr.
- Each year before the auction, a decision would be taken on whether to set and announce a minimum volume sub-target of eligible capacity to secure. This decision would be taken following NESO's advice ahead of the auction, and would take account of the SSEP once it has been published in 2026.
- The first round of the auction would have a larger price decrement than subsequent rounds; it would be bounded by the higher price cap and a lower bound of £75/kW/yr.
- Subsequent rounds would reduce in decrements of £5/kW/yr as per the current design from £75/kW/yr.
- Only eligible, i.e., new build enduring dispatchable, CMUs would be able to submit Exit Bids in the first round (though they could submit Exit Bids in subsequent rounds).
- Non-eligible Price-Maker CMUs could submit Exit Bids from the second round onwards, and Price-Taker participants would not be able to submit an Exit Bid above the Price-Taker Threshold, as per current policy.
- All non-eligible CMUs could still receive payments up to £75/kW/yr, but eligible CMUs could receive payments up to the new higher price cap.

Dependent on the overall auction conditions and excess supply relative to the eligible sub-target and overall auction target, there are several ways that the single auction could clear under this new format.

Auction clearing scenarios under option 6:

(A) Eligible capacity drops to sub-target in round 1, auction clears in later round (see Figure 1).

- In round 1, eligible CMUs submit Exit Bids such that capacity drops to meet the minimum sub-target volume for the first round of the auction. Those eligible CMUs that have not already exited receive a CM agreement at the level of the marginal eligible Exit Bid.
- The auction then continues to round 2 (and any further rounds needed), with non-eligible CMUs submitting Exit Bids until total capacity drops to the demand curve and the auction clears. Remaining non-eligible CMUs receive a CM agreement at the clearing price.

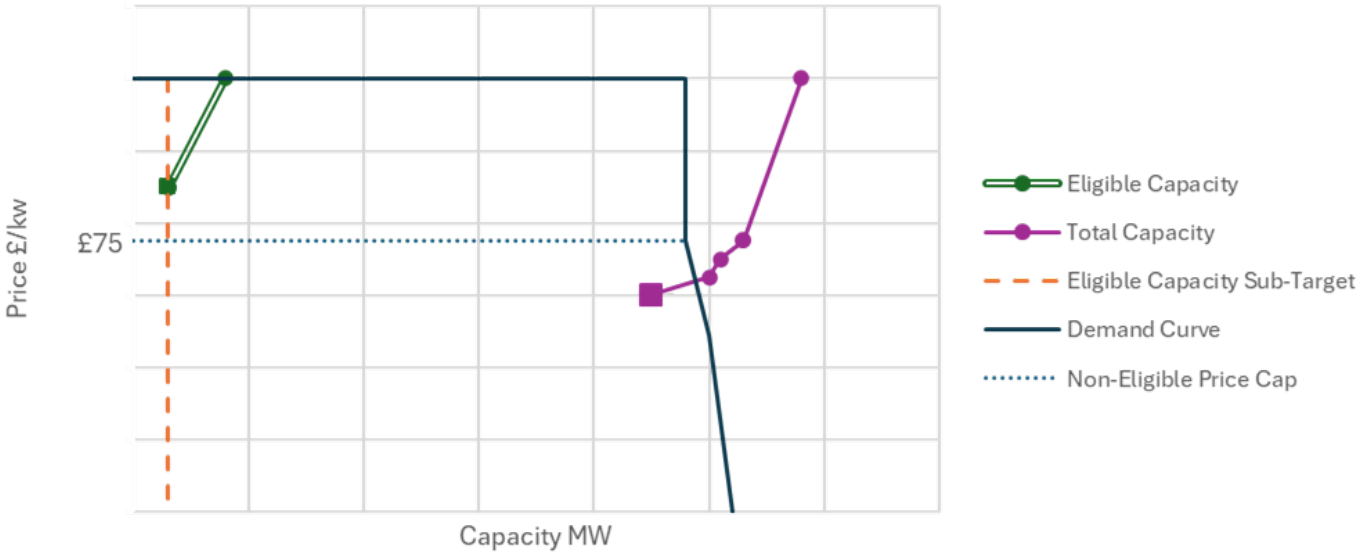

Figure 1 Eligible excess supply reaches 0 in Round 1. Overall excess supply reaches 0 in subsequent round.[32]

(B) Overall auction clears in round 1 (see Figure 2).

- This could happen if, at the start of the auction, excess capacity relative to the overall target is low, with a lower excess than against the minimum sub-target.
- In round 1, enough eligible CMUs submit Exit Bids for the overall remaining capacity to drop to (or below) the demand curve, at a price where the eligible capacity has not yet dropped to the minimum sub-target.
- Remaining eligible CMUs receive an agreement at the clearing price; non-eligible capacity receives an agreement capped at £75/kW/yr.
- In the unlikely scenario that excess eligible and non-eligible capacity was at, or below, the respective targets before the auction started then the auction would clear

[32] The charts are included simply to illustrate the broad nature of the design. The level of price caps and shape of demand curves will be decided following consultation.

immediately with eligible and non-eligible capacity receiving agreements at their respective price caps.

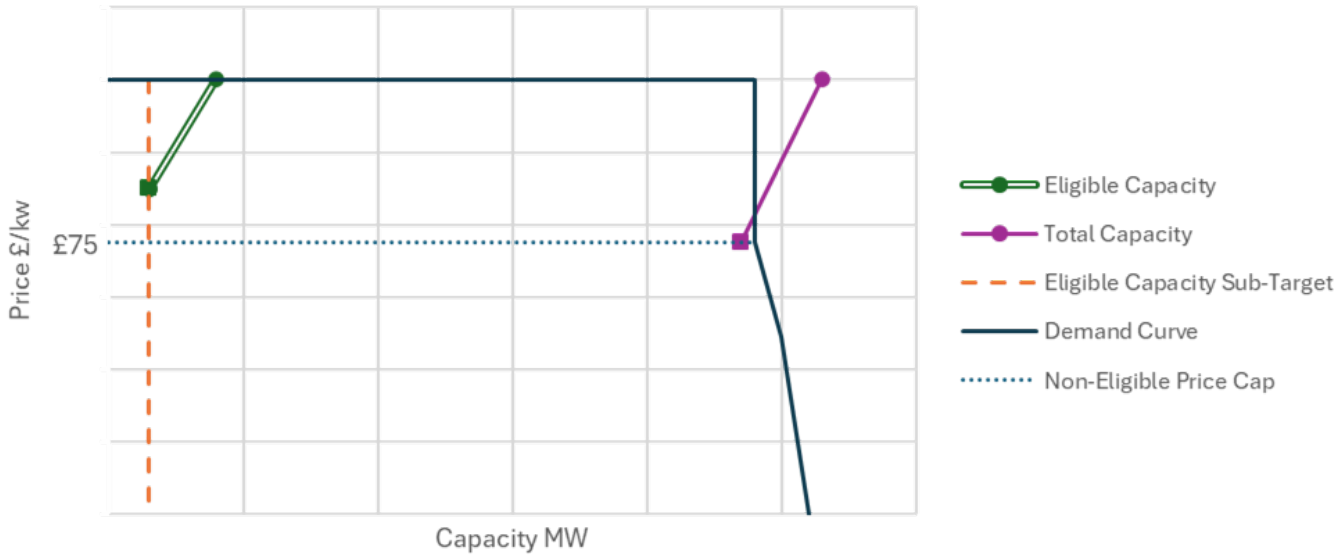

Figure 2 Eligible excess supply reaches 0 in Round 1. Overall excess supply is 0 before Round 2 starts.

(C) In round 1 the auction does not clear, and eligible capacity remains above minimum sub-target; eligible capacity later drops to minimum before auction clears (see Figure 3).

- In this scenario the auction proceeds to round 2 with all eligible capacity and price-maker participants able to submit Exit Bids.
- When enough eligible CMUs exit the auction for the remaining capacity to meet the sub-target minimum, eligible CMUs that have not already exited receive an agreement at the level of marginal eligible Exit Bid (below £75/kW/yr, in this scenario).
- The auction continues with non-eligible CMUs submitting Exit Bids until total capacity drops to the demand curve and the auction clears. Remaining non-eligible CMUs receive a CM agreement at the clearing price.

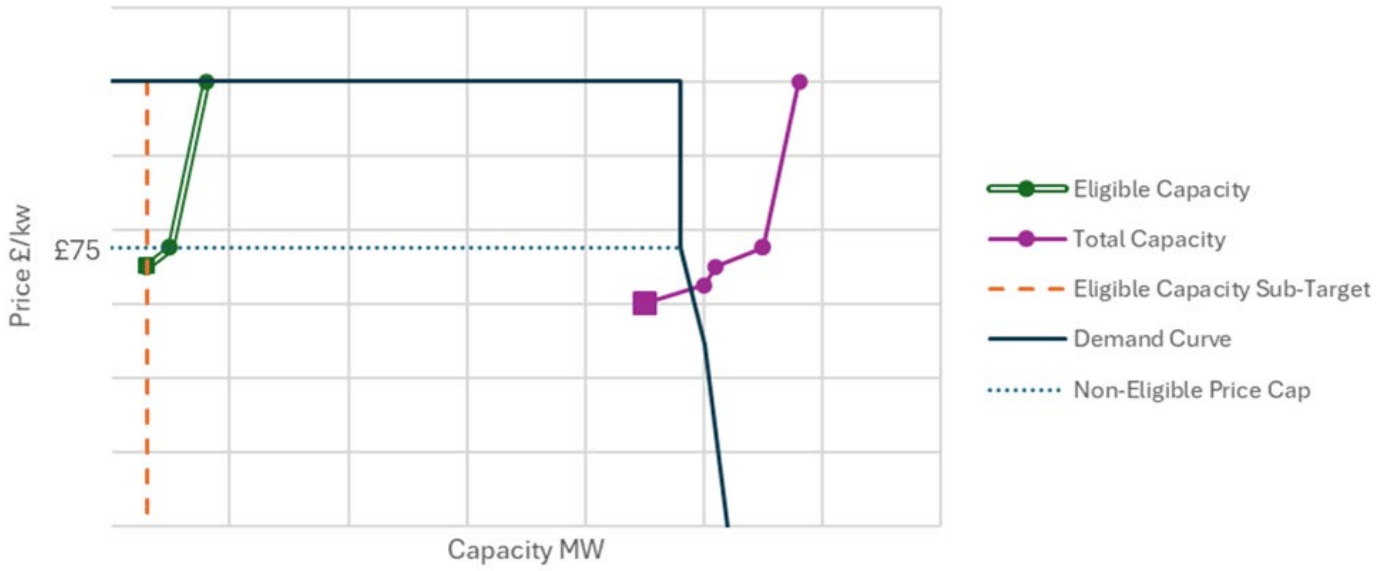

Figure 3 Eligible excess supply does not reach 0 in Round 1. Eligible excess supply reaches 0 before total excess supply.

(D) In round 1 the auction does not clear, and eligible capacity remains above sub-target minimum; auction later clears while eligible capacity remains above minimum (see Figure 4).

- If enough capacity submits Exit Bids for the overall auction to clear at a price where the remaining eligible capacity remains above the minimum sub-target, the auction ends. All remaining CMUs (eligible and non-eligible) receive agreements at the clearing price.

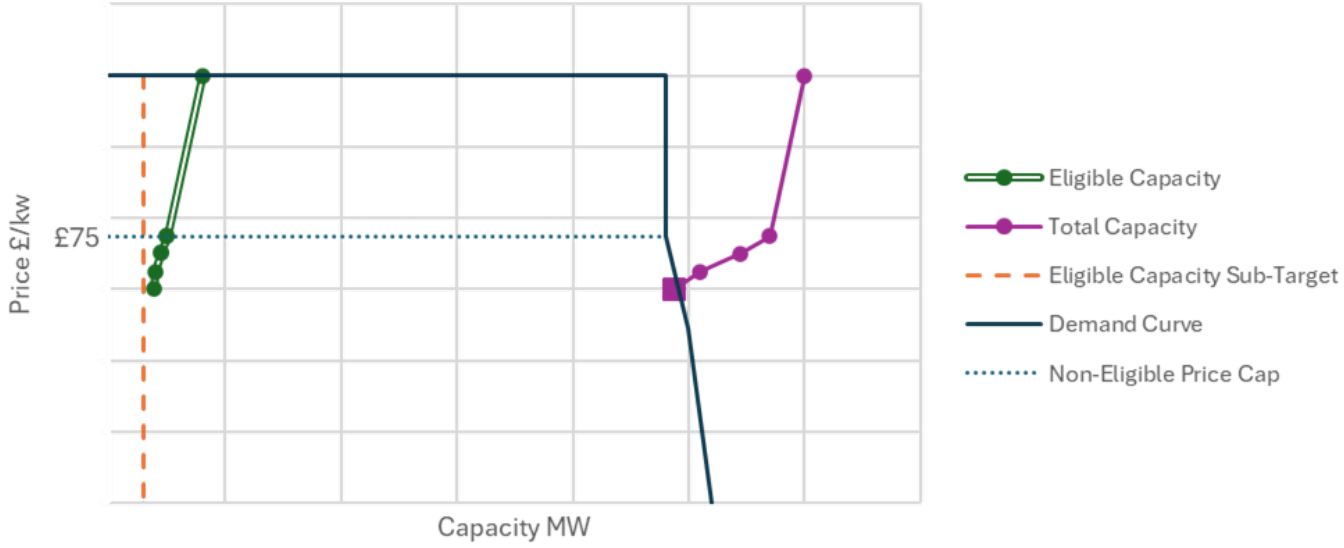

Figure 4 Total excess supply reaches 0 before eligible excess supply.

If the eligible capacity sub-target is set at zero, the auction would in effect operate as option 5, in which case only two of these potential auction scenarios apply in practice:

1. If there were insufficient non-eligible capacity (or eligible capacity exiting below £75/kW/yr), additional eligible new build capacity would be secured above £75/kW/year to within the auction target tolerances. The auction would clear in round 1, matching scenario B and Figure 2 shown above.

2. Should there be sufficient non-eligible capacity (and eligible capacity exiting below £75/kW/yr) to meet the auction procurement target, the auction would clear after round 1, as in scenario D and Figure 4, at a single clearing price below £75/kW/yr.

While option 6 remains the government's minded-to position for the reasons outlined, all options are under consideration and feedback is welcome on any element of these design choices.

Further design considerations:

In addition to introducing a second, higher price cap, the government recognises the relevance of the Net Cost of New Entry (CONE) figure used to anchor the auction demand curve and which forms the basis of the current £75/kW/yr auction price cap. Net CONE is defined as the cost of a new entrant after accounting for wholesale and ancillary market revenues. It may be appropriate to review and revise Net CONE in light of the proposals explored here, as well as auction parameters currently derived from Net CONE such as the Price-Taker Threshold. The government is not minded to alter the £75/kW/yr cap for non-eligible CMUs under an MPCM.

Additionally, rather than set the volume of eligible capacity to secure as a fixed number or zero, an alternative approach would be to set this as a demand curve with tolerances around a central sub-target. This would offer greater flexibility around the volume of eligible capacity to secure, depending on the overall auction conditions and relative liquidity of eligible vs non-eligible capacity. The government will consider all approaches and determine the most appropriate option, considering the CM's policy objectives, before setting auction parameters.

The Net Welfare Algorithm (NWA), used to determine auction results when there is not an exact match between demand and supply, would also need to be updated to accommodate this new design. There would need to be an equivalent NWA for the minimum volume of eligible capacity to secure, as well as the overall target. The NWA approach would also need to account for the different scenarios under which the auction could clear as a whole, set out above.

Changes to the annual CM auction cycle

To set the sub-target for the auction, as per the current process for agreeing auction parameters, NESO would make a recommendation on the overall capacity to secure for the relevant Delivery Year via the annual Electricity Capacity Report, and the government would then set the overall target volume for that auction. A decision would also need to be made on whether to set a sub-target of zero or a non-zero target for the minimum volume of eligible, New Build dispatchable enduring capacity to secure from within this overall target volume. This would be informed by factors including but not limited to the expected future demand and system need, changes in supply (e.g. plant retirement), and expected impacts on scheme cost,

and will take account of the SSEP. The level of the reformed price-related parameters and target volumes would be published in advance of Prequalification for the 2027 T-4 auction.

Auction participants would submit an application to prequalify for the T-4 auction as per the current process, with prospective CMUs that meet the definition of new build dispatchable enduring capacity (i.e., that they are one of the relevant GTCs and meet the New Build definition), once prequalified, being eligible to submit Exit Bids above £75/kW/yr.

It is not anticipated that there will be any significant changes to the prequalification process from the participant's perspective, nor is any additional information expected to be required from participants during prequalification.

The government proposes that the minimum volume of eligible capacity to secure could be reviewed following the results of prequalification and new or updated market information. No changes are anticipated to the current design and process for the T-1 auction as a result of this proposal.

Changes to Rules and Regulations

Under the proposed reforms above, changes to the following Rules and Regulations would be required, as well as the potential introduction of new Rules and Regulations where they are determined to be appropriate.

Regulations	Proposed amendments
Part 1: Introduction (regs 1-5A)	• Amendments to regulation 2 to introduce new definitions which reflect new auction concepts and provision for eligible CMUs, new descriptions of the price cap applicable only to eligible capacity and to potentially modify the existing price cap definition.
Part 3: Electricity Capacity Reports (regs 7-9)	• Amendments in respect of newly required auction parameters, and other potential consequential amendments to be determined following detailed review of the legislation.
Part 4: Capacity Auctions (regs 10-29A)	• Amendments in respect of target capacity and parameters for the new auction round including new provision giving the Secretary of State a function to set additional price cap, potential adjustments, and other minor consequential amendments to be determined following detailed review of the legislation.
All other Parts	• Minor potential consequential amendments to be determined following a detailed review of the legislation.

Table 1 Proposed MPCM amendments to The Electricity Capacity Regulations 2014

Rules	Proposed amendments
Chapter 1: General Provisions	• Amendments to Rule 1.2.1 to add new defined terms and modify existing defined terms to introduce the category of eligible CMUs, a description of the new auction round, and associated and consequential terms which require a definition.
Chapter 3: Prequalification information	• Potential amendments to information provided with an application by eligible CMUs, where determined necessary, and other consequential amendments to be determined following detailed review of the legislation.
Chapter 4: Determination of Eligibility	• Amendments to introduce new Rules enabling confirmation of eligible CMUs' participation in the new auction round, and other consequential amendments to be determined following detailed review of the legislation.
Chapter 5: Capacity Auctions	• Amendments to introduce new Rules and modifications to enable the new auction round, the process associated with that round and relevant matters such as the target for the new round, prices, clearing conditions under the relevant scenario positions, and capacity awarded agreements in the new auction round. • Amendment to the Net Welfare Algorithm to enable the auction to identify the appropriate volume of capacity to secure where there is not an exact supply and demand match, under the relevant clearing scenarios.
All other Chapters	• Minor potential consequential amendments to be determined following a detailed review of the legislation.

Table 2 Proposed MPCM amendments to CM Rules

Question 1: Do you agree that the proposed price-related reforms will be effective in achieving the CM's security of supply objective? [Yes/No]

Question 2: If you disagree, please provide reasons for your disagreement and evidence to support your views.

Question 3: Do you agree that targeting access to higher prices than currently allowed will be effective in achieving the CM's cost-effectiveness objective? [Yes/No]

Question 4: If you disagree, please provide evidence for your response.

Question 5: Do you agree with the proposed category of eligible capacity? [Yes/No]

Question 6: If you disagree, please provide evidence to support your position.

Question 7: Do you agree with the minded-to position to implement option 6 as the design of the multiple-price Capacity Market? Yes/No

Question 8: If you disagree, please explain which approach you would favour and why.

Question 9: What would be an appropriate level for the new, higher price cap, to make eligible new build dispatchable enduring projects commercially viable? Please provide evidence to support your position.

Question 10: What factors and considerations should be taken into account when deciding whether and at what volume to set a sub-target for eligible capacity?

Question 11: What, if any, practical changes beyond those set out in the consultation do you consider would be needed or merited to implement the proposed design?

Ensuring efficient bidding in Capacity Market auctions

In a Capacity Market (CM) auction, prospective Capacity Market Units (CMUs) should submit exit bids that are representative of the minimum price at which the respective CMUs could honour a Capacity Agreement.

The minimum price at which any individual CMU would want to be awarded a Capacity Agreement is known as its 'willingness-to-accept' which itself is defined as the point at which the net cost of being awarded a capacity agreement and having to fulfil the associated obligations is zero. Behaviour within auctions can be considered strategic if participants place exit bids above their willingness-to-accept with the intention of driving up the auction clearing price.

Strategic behaviour within CM auctions can, therefore, produce inefficient outcomes and increase the cost of electricity bills by placing upward pressure on the auction clearing price whilst lowering the volume of capacity procured. For this reason, CM auctions have been designed since the outset of the scheme to minimise the incentive and scope for strategic behaviour. Additionally, under certain circumstances, strategic bidding is directly prohibited under market rules.[33]

In a low liquidity auction, there is low excess capacity and thus less competition. This means the scope for strategic behaviour is increased because the likelihood of any CMU submitting an exit bid over its willingness to accept and still being selected for a Capacity Agreement is higher.

CM auctions have a high degree of information transparency, which is designed to drive competition and promote accurate price-discovery. For example, information published ahead of auctions and between auction rounds reveals the amount of excess capacity (the excess capacity reported is rounded to the nearest GW and once it falls below 1 GW it is reported as "below 1 GW" until auctions clear) relative to the auction parameters. The information allows bidders to get a sense of how much capacity the market will provide at a given price.

This, in turn, helps avoid the "winner's curse" – a phenomenon where bidders can behave too optimistically. By overestimating returns or underestimating operating costs, bidders may secure a capacity agreement that they can only meet at a loss. Maintaining information transparency allows participants to use wider market dynamics to inform their bidding strategies.

Providing this information helps make the CM attractive for investment, including for certain participants who may be less able to forecast the minimum clearing price needed for their asset/project, given interactions with other markets. In a highly liquid environment, the level of competition revealed in an auction also encourages participants to submit bids close to their willingness-to-accept as a hedge against the plausible risk of not securing a capacity agreement.

[33] For example, if the conduct amounts to market manipulation as defined within the Capacity Market rules. See Ofgem letter on 'Capacity withholding in the Capacity Market', August 2025

Conversely, in auctions where there is low liquidity, providing this same information can reveal to certain participants when their portfolio or an asset within their portfolio can be unilaterally leveraged to clear the auction earlier than would have otherwise been the case to intentionally drive up the clearing price.

The government intends for the information provided to encourage investment and wide participation, by making the auction easy to navigate while protecting consumers' interests by ensuring efficient bidding. It is appropriate to change the level of information currently provided, given that recent T-4 auctions have shown much lower liquidity than when the CM was introduced.

The government has considered whether changes should be applied across the T-4 and T-1 auctions, including under the modified auction format proposed for a Multiple Price CM as outlined in the previous section. All these auctions have different characteristics and liquidity levels, so the balance of benefit and harm from reducing information may be different. However, to limit delivery complexity and distortive impacts, the government recommends applying recommended changes equally to all CM auctions.

Increase the excess capacity rounding threshold to 3 GW

Except in relation to the first bidding round, excess capacity is reported at the beginning of each auction round (to the nearest GW). In a low liquidity environment, there is a risk that an auction participant might use this information to estimate how pivotal their assets might be in clearing the auction at any point between rounds and could adjust their bidding strategy accordingly.[34]

Proposal

Under this non-rule change proposal, the rounding threshold at which excess capacity is reported would be increased to 3 GW. This will reduce the amount of information that can be gleaned from the figure while not completely eliminating information available to bidders. The government recommends enacting this proposal for both the T-1 and T-4 auctions. Rule 5.5.8A allows the government to change the threshold from the 1 GW level used in auctions to date, but the government wishes to consult to inform that decision.

Question 12: Do you agree with the proposed increase to the excess capacity rounding threshold for all CM auctions?

Question 13: If you disagree, are there any likely unintended consequences associated with this change?

Delay publication of information about Prequalified capacity ahead of CM auctions

The identity of prequalified CMUs and their aggregate de-rated capacity is published ahead of auctions. Alongside the auction parameters, which include the target capacity range for the

[34] The government does not propose that the CM Rules which prohibit market manipulation are amended and Capacity Providers will continue to need to consider those Rules when participating in CM auctions.

auction, participants are able to use this information to form accurate estimates on the supply of capacity – and thus auction liquidity – before the auction takes place.

Proposal

The government proposes providing less information to bidders about supply by publishing information on prequalified capacity post-auction. This would reduce the risk of a participant engaging in strategic bidding by making it harder to know if, or when, they might be pivotal in the auction. This would require changes to Rules 5.5.10 and 7.4.1.

Question 14: Do you agree with the proposed delay in publication of the identity and aggregate de-rated capacity of prequalified CMUs for all CM auctions?

Question 15: If you disagree, are there any likely unintended consequences associated with this change?

Consumer-led flexibility

Consumer-led flexibility involves voluntary actions taken freely and directly by energy consumers to shift their electricity use. This includes residential customers using smart technologies such as smart-charging electric vehicles (EVs) and heat pumps, as well as industrial and commercial units adjusting demand or using behind-the-meter (BTM) generation or storage. These actions enable consumers to access cheaper electricity by flexibly adjusting their usage to times of lower demand on the grid. The financial benefits of flexibility on offer to consumers reflect the benefits to the wider electricity system, in turn benefiting all consumers.

Within the Capacity Market (CM) Rules and Regulations, consumer-led flexibility is referred to as Demand Side Response (DSR). CM agreements are available to those directly offering demand flexibility or to those who participate through Demand Side Response Service Providers (DSRSPs) or aggregators, i.e. those acting on the consumer's behalf to reduce electricity demand at times of system stress.

This consultation section follows on from and builds upon the December 2024 consultation and call for evidence package, to which responses were published in June 2025 (December consultation) [35] and in parallel to this consultation in October 2025 (December call for evidence).[36]

Streamlining component notification requirements for small assets

The volume of DSR participation and the number of components associated with DSR CMUs has grown significantly in recent years and is expected to grow further, particularly in domestic settings. This growth has placed a strain on Delivery Bodies. The government considers there is opportunity to streamline component notification requirements for some assets.

Under the current Rules, the Delivery Body is required to make publicly available detailed information on all individual components of a DSR Capacity Market Unit (CMU) within CM Registers. It is also separately required to list individual DSR components within Capacity Agreement Notices (CANs), as set out in Schedule 1 of the Rules. These requirements apply irrespective of the component's capacity.

These requirements have placed an increasing administrative burden on the Delivery Body and its systems, particularly where portfolios include many small-scale assets. In practice, this has led to operational inefficiencies that may not be proportionate to the value or risk associated with these smaller components.

Stakeholders have raised concerns that the inclusion of small assets on the Capacity Market Register (see Rule 7.2), such as those below 20 kW DSR capacity, offers limited additional assurance or transparency, while significantly increasing the complexity of CAN and CM Register processing.

[35] DESNZ, 'Capacity Market: consumer-led flexibility', June 2025
[36] DESNZ, 'Call for evidence outcome Capacity Market: consumer-led flexibility', October 2025

In light of these challenges, the government is considering targeted amendments to the notification requirements for small DSR components with the aim of reducing administrative overheads without compromising the integrity and auditability of CM participation.

Proposals

The government proposes to address the Rules and set a minimum nameplate capacity threshold per DSR component for the purposes of reporting by the Delivery Body. The threshold is proposed to be set at 20 kW and is principally intended to capture domestic DSR components such as EV chargers and heat pumps, although it would equally extend to other technology classes whose components are below the 20 kW threshold and form part of a qualifying CMU. Components below this threshold would no longer need to be listed separately in CANs or CM Registers. Instead, for CANs, these components would be aggregated together, showing the total capacity acquired in accordance with Part D of Schedule 1. The same collation into a single line entry would apply to CM Registers.

The proposed change would apply only to the Delivery Body publication and notification obligations and would not affect the underlying eligibility or performance monitoring of the assets. No change in obligations is intended for Capacity Providers. Capacity Providers would still be subject to the relevant reporting requirements, including any updates to Primary Fuel type, to ensure consistency with Rule 3.4.5.

This approach is intended to strike a balance between reducing administrative burdens whilst preserving the transparency and accountability of the CM. Views are welcomed on the appropriateness of the proposed 20 kW threshold, and whether alternative thresholds or aggregation methods should be considered.

Question 16: Do you agree with the proposal to reduce reporting requirements for individual components where their nameplate capacity is below a set value?

Question 17: If you disagree with the proposal, please provide reasons for your disagreement and evidence to support your views.

Question 18: The government has proposed a 20 kW threshold per component. Do you agree with the proposed threshold?

Question 19: If you disagree with the proposed threshold, please suggest an appropriate threshold where individual component reporting should be set and your rationale.

Question 20: If implemented, do you believe the proposal would introduce unintended or negative consequences? If yes, please provide details as to what these would be and the effects of those.

Question 21: Do you believe there are alternative approaches that could better meet the proposal's intent? If yes, please provide details.

Granularity of DSR data capture in Business Models / Business Plans and when notifying DSR components

DSR has been considered under a single and distinct categorisation within the CM Rules and Regulations since its inception. The government, as part of its December 2024 call for evidence,[37] consulted on the introduction of more granular categorisation of DSR CMUs so that it could capture the diversity in technical and operational capabilities of such technologies.

The call for evidence proposal was supported by stakeholders, with a tendency toward support for the following 3 categories:

- behind-the-meter generation
- behind-the-meter storage
- demand turn-down

Support for the introduction of specific categories for Electric Vehicle (EV) charging and Vehicle-to-Grid (V2G) was weaker. The government does not propose to introduce these categories at this stage and will review this position in future years.

Better data capture on DSR is seen to offer benefits at both the prequalification and DSR component notification junctures.

With regards to Business Models and Business Plans at prequalification, particularly for Unproven DSR whose component make-up is yet to be confirmed, the quality and consistency of submissions made under Rules 3.9.3 and 3.10.1 varies significantly. In some cases, the information provided is too high-level or vague to enable the Delivery Body to properly assess the appropriateness of the application. A lack of standardisation limits the ability to verify the operational viability of proposed DSR CMUs and can reduce confidence in delivery assurances.

Meanwhile, providing additional information on DSR components at the point they are notified, i.e., after a CM Agreement is secured, could in future be used to inform improved DSR De-rating Factors. The data provided would better support different DSR component type's contributions to System Stress Events to be captured and enable more accurate and appropriate treatment of those components.

Proposals

To address submissions at prequalification and in relation to Proven DSR, DSR categories would need to be recorded in Business Models as part of Rule 3.9.3(a)(i), with a free-text field available for additional detail which cannot be included in the set fields. These categories would be aligned to the proposed DSR categorisations supported in the December 2024 call for evidence. Those categories would be:

- Behind-the-meter generation;
- Behind-the-meter storage;

[37] DESNZ, 'Capacity Market: consumer-led flexibility', December 2024

- Demand turn-down

Failure to provide this information would result in the application being rejected at prequalification.

For Business Plans submitted under Rule 3.10.1, the same information would be required for any Unproven DSR with which the Capacity Provider has already established a relationship. For capacity that is yet to be acquired, the method of achieving load reduction under Rule 3.10.1(a)(iv)(aa) will be required under the same categories as outlined above.

These proposals seek to enable the Delivery Body to enforce minimum standards and improve the consistency of information provided.

Question 22: Do you agree with the proposals above to introduce additional DSR categorisations as part of the Business Model and Business Plan?

Question 23: Do you believe the introduction of these proposals carry unintended consequences? If so, please provide details.

The government intends to introduce requirements for Capacity Providers to submit and record granular DSR types under the Primary Fuel Type field at the point of notifying DSR components (see Rule 8.3.3A). This will apply to each DSR component and is intended to provide options to inform more granular De-rating Factors should these latterly be pursued. Capacity Providers will continue to have a free-text field available under the CM Component Data section through which to provide a fuller description of the DSR component.

The government also proposes to introduce an additional field to determine the location of DSR components. This is to follow recent Rule changes from the Phase 2 consultation, which determined if the “supply of electricity is taken wholly or partly for a domestic purpose” (Rule 3.9.3A).

The proposals above will require Capacity Providers to provide information:

- for Proven DSR – At prequalification
- for Unproven DSR – At the time of notifying DSR components per Rule 8.3.3A

Where a component is reallocated under Rule 8.3.4, the above information will be required as part of this process.

Question 24: Do you agree with the proposal to record DSR by the technology’s response type?

Question 25: Do you agree with the proposal to record DSR according to the purpose of electricity supply, i.e., domestic or non-domestic?

Question 26: If you disagree with the above proposals or have alternative suggestions to the above, please provide details.

Strengthening multi-year DSR evidence at application

Recent changes to the CM have seen DSR CMUs qualify for access to longer-term CM Agreements.[38] The length of agreement is subject to capital expenditure thresholds, with Capacity Providers needing to evidence CapEx above those thresholds to qualify for longer agreement lengths. Those thresholds span CM agreement periods of up to 3 years, up to 9 years, and up to 15 years, with relevant £/kW thresholds determined ahead of their respective prequalification period.

DSR CMUs are subject to some different requirements to those of generating technologies in the CM. For example, there is no requirement for DSR to meet construction or financial commitment milestones which New Build generating CMUs must demonstrate, whilst the Extended Years Criteria in CM Rules does not apply to DSR.

The government understands that consumer-led flexibility differs from other capacity: it can be deployed at pace, it may not face the same uncertainties as traditional generation, and potentially needs greater flexibility to operate efficiently. As indicated in the Clean Power 2030 Action Plan, the government has outlined a range of 10 to 12 GW of CLF in 2030 and, with the predicted rapid growth of this technology, the government needs to balance the flexibility of CLF against the non-delivery risk within the CM, in line with other capacity participating in the market. Therefore, DESNZ is considering improved delivery assurance to ensure the right balance is struck.

Proposals

The government intends to apply an adapted version of the existing Extended Years Criteria (as set out in Rule 8.3.6B) to DSR CMUs. This would in effect require those securing multi-year DSR Agreements to confirm, within their Independent Technical Expert report to the Delivery Body, that:

- with routine maintenance, the CMU would be expected to remain capable of operation for at least the length of the agreement beginning with the first Delivery Year for which the Capacity Agreement is awarded
- where the Capacity Agreement exceeds 3 years, CapEx claims relating to the DSR CMU and its constituent components, whether new build or refurbishing, had not been used or been available to use to provide capacity, whether demand turndown or export, to the GB electricity system in the 3 years preceding the Application

The government has, in parallel, updated guidance on qualifying CapEx spend for DSR applicants.[39]

The government believes that these measures, taken in aggregate, provide the necessary assurances and confidence against the enduring capacity of such DSR CMUs and meets value-for-money expectations.

[38] DESNZ, '[Capacity Market: Policy Update 2023 Phase 2 Consultation](#)', October 2024
[39] DESNZ, [Capacity Market: guidance concerning the definition of Capital Expenditure](#), August 2025

Question 27: Do you agree with proposals to require an Independent Technical Expert report confirming that the CMU's longevity will be met?

Question 28: Do you believe any additional or alternative measures could be introduced such that delivery assurance and value-for-money interests are met? If so, please provide details.

Completion of DSR Testing following component reallocation

As part of Phase 2 consultation changes,[40] the government amended Rule 8.3.4(j) to allow greater flexibilities within DSR CMUs and allowed for up to 40 components or 20% of the DSR CMU portfolio size (whichever is greater) to be reallocated.

DSR CMUs that submit component reallocations are permitted to take their DSR Test "prior to the commencement of the subsequent Delivery Year and after the final notification of component additions and/or removals" (Rule 13.2.2(c)). In effect, this allows a CMU to defer its DSR Test until the conclusion of the Delivery Year in which it is obligated to deliver capacity.

For single-year agreements, this presents a delivery assurance risk, as a significant amount of time may elapse between the addition of new components to the CMU and the DSR Test required to demonstrate that the revised composition of the CMU can continue to meet its capacity obligation. This may particularly be the case where new components are not like-for-like replacements and may vary compared to previous components in terms of reliability and performance relative to a System Stress Event.

Proposals

The government proposes to amend the Rules to ensure DSR Tests that follow component reallocations are aligned to deadlines for consequent metering and DSR testing required as part of pre-Delivery Year processes. This will ensure that any material changes to a CMU's composition are verified in the same timeframes as any other DSR CMU being brought in advance of delivery obligations commencing.

Specifically, the government is proposing changes to Rule 13.2.2(c) to bring forward the deadline by which Capacity Providers must begin the process to complete a DSR Test, following component additions or removals, to within 2 working days of the component reallocation. Provision will be made for instances where this would fall within the prequalification window (which prevent a DSR Test from being undertaken). The government proposes that no additional SPDs will be required should the requisite number of SPDs have been completed. The new DSR Test, so long as it meets the original auction acquired capacity obligation or any permissible reduction therein, is considered to provide the equivalent level of delivery assurance.

This proposal is intended to reduce the risk of untested configurations entering the existing Delivery Year. In addition, Rules 8.3.4(b) and 8.3.4(e), which govern the process for

[40] DESNZ, 'Capacity Market Policy Update 2023 Phase 2 Consultation', October 2024

component reallocation, may also require amendment to ensure consistency across the testing and reallocation framework.

Question 29: Do you agree with the proposal to align DSR Tests more closely with the timing of their component reallocations?

Question 30: Do you believe the proposal will introduce unintended consequences? If so, please provide details.

Question 31: If you disagree the proposal, please provide an explanation and suggest alternative solutions where possible.

Revising Rule 8.3.2 to require a minimum 50% evidencing versus Capacity Obligations

The government previously invited views on the introduction of completion milestones for DSR as part of its December 2024 call for evidence. Completion milestones, where introduced, would seek to ensure progress of capacity delivery remains on track and mitigates against capacity shortfalls where re-procurement of lost capacity cannot take place through CM auction processes. Following feedback, the government does not intend to introduce completion milestones for DSR at this time. However, broader intent to ensure capacity delivery remains.

Rule 8.3.2(c) allows Unproven DSR to reduce its capacity obligations to the capacity demonstrated as part of its DSR Test. DSR is only required to evidence 1 MW capacity following completion of its DSR Tests, irrespective of its original total Capacity Obligation. There is no limit to this reduction at present which presents risk of capacity shortfalls relative to system needs. Generating technology classes, i.e., non-DSR capacity in the CM, do not receive the same level of flexibility post-auction and must demonstrate a minimum 50% proof of de-rated capacity (the Minimum Completion Milestone per Rule 6.8.3(a)). The Substantial Completion Milestone meanwhile is considered to have been achieved where a generating unit meets or exceeds 90% of its capacity obligation (Rule 6.7.2).

DSR Tests are typically completed after the relevant T-1 auction targets are set and the auctions themselves have taken place. This presents risks of a capacity shortfall at a time when there is no ability within CM frameworks and auction cycles to re-procure that lost capacity.

Proposal

The government intends to amend Rule 8.3.2(c) such that DSR CMUs will be required to evidence a minimum 50% of its Capacity Obligation under DSR Tests or Joint DSR Tests. Where testing does not exhibit the minimum 50% threshold, Rule 6.10.1(i) would apply, and the agreement would face termination. Where testing meets or exceeds the 50% minimum threshold requirement, existing drafting to revise the CM payments would continue to apply to reflect its Proven DSR Capacity. Where component reallocations take place following the initial

DSR Test, Capacity Providers will need to continue to meet that original proven capacity. The proposed changes would apply only to agreements awarded in auctions from 2027 onwards.

The government considers the amendment of Rule 8.3.2(c) to be a proportionate response to ensure DSR CMUs continue to meet the capacity secured under their agreements and brings DSR in line with the minimum requirements of other generating technologies.

Question 32: Do you agree with the proposal to require DSR CMUs to evidence a minimum 50% capacity relative to its Auction Acquired Capacity?

Question 33: If you disagree, please provide details and supporting evidence to justify your position.

De-rating methodology for DSR

DSR de-rating is currently determined in accordance with Rule 2.3.4(b) which, in turn, points to the Non-Balancing Mechanism Short Term Operating Reserve (Non-BM STOR) run by NESO. The Non-BM STOR service operated by NESO will soon be retired and replaced by a new Slow Reserve service[41].

The government invited responses on alternatives to this Non-BM STOR basis for DSR de-rating during its December 2024 call for evidence. A variety of suggestions were communicated during that process; however, no consensus was reached.

The current CM Rule determining the methodology for DSR's De-rating Factor, Rule 2.3.5(b), is based on the mean average of Non-BM STOR data for the immediately preceding three Core Winter Periods (running across three months from the 1 December to the final day of February). Within the CM Rules, Non-BM STOR is referenced as "Average Availability of Non-BSC Balancing Services ("AABS")". When Non-BM STOR is retired, NESO will be unable to use data from the "three immediately preceding Core Winter Periods" in setting DSR De-rating Factors.

Proposals

The government intends to introduce, as an interim measure, CM Rules which would use the three most recent complete Core Winter Periods of the AABS, i.e. those periods covering all of 1 December to the final day of February.

The government is planning to further consult stakeholders on an enduring approach to DSR de-rating and will seek to present its position in 2026.

Question 34: Do you agree with the proposal to extend the current DSR de-rating methodology as outlined above?

[41] NESO, Slow Reserve & STOR Update, August 2025

Question 35: If you disagree, please provide rationale and alternatives to this proposal.

Use of Permitted On-Site Generating Units and Fossil Fuel Declarations in DSR

Under existing CM Rules, Capacity Providers are required to declare the use of Permitted On-site Generating Units (POSGUs). The Delivery Body similarly faces requirements to report on the primary fuel type of those POSGUs.

The government is aware of instances that have been identified involving CMUs which contain POSGUs, such as diesel generators or other small-scale fossil fuel-based components, without having been declared as part of their CMU configuration. Where such omissions are identified, they are treated as false declarations and terminated, but currently carry no financial penalty, limiting the deterrent posed.

This issue is particularly pronounced in Unproven DSR, where components are not required to be identified at the prequalification stage. As a result, POSGUs may remain undisclosed until DSR component notifications are due shortly before the start of a Delivery Year. This creates a lack of transparency and increases the risk that fossil-fuel based Generating Units are entering the market under the DSR framework.

The non-declaration of POSGUs similarly raises concerns with regards to Fossil Fuel Declarations not being made in line with existing Rules requirements for POSGU components. This can result in fossil fuel-based generation being used to deliver DSR obligations without being subject to the fossil fuel declaration requirements that apply to other CMU types. This is compounded by the lack of granularity in De-rating Factors for DSR, which remain relatively high-level compared to those applied to generating technologies. A financial incentive therefore exists for generating assets to enter the Capacity Market as DSR, where they are currently subject to less scrutiny and a more favourable regulatory framework.

These issues together raise questions about the integrity of the DSR classification and the effectiveness of current enforcement mechanisms. There is a risk that generating assets are being misclassified, declared incompletely, or omitted altogether, undermining delivery assurance and distorting competition within the CM.

Proposals

The government intends to clarify CM Rules to ensure POSGUs are clearly declared at application. These changes are intended to improve transparency, support accurate classification of technologies, and strengthen delivery assurance across the CM.

The government proposes to introduce a TF4 Termination Fee (£15,000/MW) for false declarations relating to the presence of POSGUs. This would apply where a Capacity Provider fails to declare a POSGU associated with a DSR CMU, in contravention of the CM Rules. This is intended to ensure that all relevant capacity is accurately reported.

This aligns with our proposals in this consultation to raise the Termination Fees for Termination Events 6.10.1(o) and 6.10.1(q) from £0 to a TF4 category, which covers false declarations during Prequalification and as part of a Funding Declaration respectively.

Capacity Providers will continue to be required to make their Fossil Fuel Emissions Declaration in accordance with the Rules.

Question 36: Do you agree with the intent to require greater clarity of POSGUs at the point of application?

Question 37: Do you agree with the introduction of a TF4 Termination Fee for false declaration of POSGUs?

Question 38: If you disagree with the TF4 Termination Fee, please provide your reasoning and alternative suggestions where possible.

Self-nomination of connection capacity for battery storage technologies

This policy seeks to ensure Capacity Agreements for battery storage technologies are accessible and represent the true capacity deliverable by battery Capacity Market Units (CMUs). The inclusion of Battery Energy Storage Systems (BESS) in the Capacity Market (CM) provides flexible capacity, as well as providing certain revenues for BESS Capacity Providers.

As referred to in the Capacity Market Phase 2 Consultation in 2023,[42] batteries degrade over time, and this reduces their energy capacity, power, and efficiency. The main factors that influence degradation rates include temperature, ramp rates, average state of charge, and depth of discharge. Degradation is challenging to analyse and predict, especially for battery assets that are participating in various markets and services such as frequency regulation, wholesale energy market trading, and the Balancing Mechanism.

To ensure confidence that BESS Capacity Providers can deliver against their Capacity Agreement obligation despite this degradation, storage CMUs are required to undergo extended performance testing (EPT) at their adjusted connection capacity and storage duration class. This adjusted connection capacity is the asset's stated connection capacity multiplied by a Generating Technology Class (GTC) availability factor, the 'TCWAA' (~95%).[43] EPT occurs one day in winter of the first Delivery Year of their agreement, and then one day in winter every 3 years following the first test.

Changes to the CM Rules were introduced as outlined in the CM Phase 2 Policy Update, allowing BESS Capacity Providers to make provisions for degradation and pass EPT.[44] This included a clarification around how batteries could be 'augmented' to restore or increase capacity by replacing and/or adding battery cells. Capacity Providers can also remove some or all of their Capacity Obligation through a 'secondary trade' to a different unit.

Stakeholder engagement has indicated that augmentation is currently not possible for all units or not financially viable. For example, if the cells in a BESS CMU are performing just below EPT level, it does not make financial sense for the whole module to be replaced. Inclusion of additional units is also not always possible due to space concerns. Additionally, secondary trading is not always a viable option due to participants being unable to find suitable trading partners.

To mitigate the risk of failing EPT in the later years of multi-year agreements, many new build BESS providers currently choose to self-nominate a connection capacity that is lower than the connection capacity (TEC/MEC) of the unit. This is done at the beginning of their CM agreement and applies for the entirety of their agreement.

There are specific constraints presented by Rule 3.5, however, which either restrict, prevent, or cause uncertainty for new build BESS CMUs seeking to take action to manage degradation by

[42] DESNZ, 'Capacity Market: consultation on proposals to improve security of supply and align with net zero (Phase 2) and call for evidence on Ten-year Review', October 2023
[43] NG ESO, 'Demonstrating satisfactory performance', Jan 2019
[44] DESNZ, 'Capacity Market: government response', July 2024

self-nominating their connection capacity. Without a Rules change, new build storage Capacity Providers will only be able to apply for Capacity Agreements at their full connection capacity from Prequalification 2026 and risk termination in the later years of agreements.

Proposals

The government is looking to amend CM Rule 3.5 to allow for battery CMUs in the Storage GTC to self-nominate a Storage Connection Capacity in their CM agreement. This Storage Connection Capacity will then be de-rated with respect to storage duration to give the Capacity Obligation of the CMU. The Storage Connection Capacity will be stated alongside the full connection capacity stated on the connection agreement of the unit to give maximum visibility to the Delivery Body.

The government is also considering introducing a minimum percentage floor of full connection capacity that a Capacity Provider may self-nominate when seeking a CM agreement. This floor of capacity volume by a minimum of a specified percentage aligns to the scheme's aim of ensuring security of supply and minimises a dilution of this aim. In the government's view, a floor of 50% of full connection capacity reflects a fair assessment of the maximum expected loss of capacity due to degradation.

This consultation seeks views on the implementation of a self-nominated Storage Connection Capacity for CMUs of the fuel type "Storage-Battery" by amendment of Rule 3.5.

Question 39: Do you agree with the proposal to allow self-nomination of connection capacity for CMUs of the fuel type "Storage – Battery"?

Question 40: If you disagree with the proposal in Question 39, please state why and provide evidence where possible.

Question 41: Do you agree with the inclusion of a floor on the self-nominated SCC of 50% full connection capacity, which Storage Capacity Providers must adhere to?

Question 42: If you disagree with the proposal in Question 41, do you foresee issues with the concept of the floor or the level to which it is set? If not 50%, what would be an appropriate level? Please provide evidence where possible.

Question 43: Do you foresee any unintended consequences or risks which could arise from the proposals set out in Questions 39 and 41?

Question 44: Noting the considerations outlined in this section of the consultation, do you have any further comments or concerns regarding Battery Storage CMUs participating in the CM? Are there any further required changes which have not been identified or considered?

Determining appropriate means for non-fossil fuel generation to access low carbon CM mechanisms

These policy proposals address the commitment made in the 2024 CM Phase 2 policy update[45] to review appropriate methodologies for calculating how biomass and other technologies with emissions from non-fossil fuel sources can meet and evidence against the CM-defined low carbon emissions threshold (100gCO2e/kWh).[46]

Prospective Generating Capacity Market Units (CMUs) meeting this threshold as Declared Low Carbon CMUs[47] can now access the following benefits ("low carbon mechanisms") within the CM:

- 9-year Agreements where qualifying spend thresholds are met
- 3-year Agreement with a CapEx threshold of £0/kW
- declared (12-month) long stop date and a Declared additional (24-month) long stop date

However, in the case of generation whose emissions are from biogenic sources, the government acknowledged that an appropriate Monitoring, Reporting and Verification (MRV) method is required that incorporates sustainability criteria and Life Cycle Assessments (LCA), rather than measuring stack emissions.

As biomass capacity exits the Renewables Obligation (RO) scheme from 2027 onwards, other sources of revenue certainty may be required to keep this capacity online for security of supply purposes and, if these assets are refurbishing, then they may be eligible to access low carbon mechanisms in the CM.

The government has engaged with industry since the Phase 2 consultation and has developed the following two-stage proposition:

- **an interim solution** to implement a CM-specific version of the established RO sustainability criteria which (for woody biomass generators only) aligns with the recent enhanced Contracts for Difference (CfD) Criteria[48] laid out below
- **a longer-term solution** to align with the forthcoming Common Biomass Sustainability Framework in due course.[49]

It should be noted that research and engagement to date has not identified an appropriate MRV, suitable sustainability criteria, or biogenic threshold that enables Energy from Waste (EfW) generators to access low carbon benefits within the CM, despite some biogenic content found in their feedstocks.

While a range of MRVs exist for EfW, for these to be applied in the CM they would need to exist alongside a minimum threshold of biogenic waste and an assurance process that the

[45] DESNZ, 'Capacity Market: Policy Update 2023 Phase 2 Consultation', October 2024
[46] For the purposes of conversion, 1 kWh is equivalent to 3.6 Megajoules - https://www.iea.org/data-and-statistics/data-tools/unit-converter
[47] A Declared Low Carbon CMU is a CMU in respect of which an Applicant or Capacity Provider provides a Low Carbon Declaration.
[48] UK Parliament, 'Written Statement by the Secretary of State for Energy Security and Net Zero', February 2025
[49] DESNZ, 'Biomass Strategy', 2023

biogenic content was evidenced to be waste material. Such a minimum threshold would not be viable within the CM, and it would not incentivise existing EfW business models to decarbonise.

Subsequently, the government does not believe it currently possible to introduce an MRV and minimum biogenic content threshold for EfW, which should provide assets with access to low carbon benefits.

Proposals

The proposals developed have considered wider government policies, such as the development of the biomass common sustainability framework to enable consistency across biomass sectors and strengthen biomass sustainability criteria in line with latest evidence. The department plans to consult on the biomass common sustainability framework separately in summer 2025 and stakeholders will have the opportunity to feed into that consultation to provide views on effects to their sectors. This "common sustainability framework" for biomass will apply to cross-government policies and form the basis of the longer-term solution that the CM intends to align with once developed.

Interim solution, longer-term solution, and enhanced criteria for woody biomass

As an interim solution for the CM, before the common framework is developed, the government intends to introduce an enhanced version of the established RO sustainability criteria (for generators ≥ 1 MW) in advance of the CM Prequalification 2026. As set out further below, a biomass generating CMU will be required to provide a director-signed declaration confirming that the asset is low carbon by meeting the sustainability criteria – this is likely to take the form of a new declaration in the Rules.[50] This interim solution is intended to offer familiarity for auditors and generators with experience of the RO,[51] as well as consistency with the most up to date sustainability criteria specific to woody biomass generators.

Alongside the interim solution relying on the established RO sustainability criteria, the government is proposing a longer-term solution, implementing the enhanced criteria of the recent low carbon dispatchable Contract for Difference (CfD) into the CM, which commits to 3 main changes specifically for woody biomass generators:[52]

- increase the proportion of woody biomass that must come from sustainable sources from 70% to 100%
- significantly cut the allowable supply chain emissions to a level in line with the stricter regulations of the EU's RED III[53] (from 55.6 gCO2e/MJ to 36.6 gCO2e/MJ)[54]
- exclusion of material sourced from primary forests and old growth forests from receiving support payments

[50] A Fossil Fuel Emissions Declaration is not required in respect of biomass.
[51] Ofgem, 'Renewables Obligation: Sustainability Criteria', May 2025
[52] UK Parliament, 'Statement by the Secretary of State for Energy Security and Net Zero', February 2025
[53] For the purposes of conversion, 1kWh is equivalent to 3.6 Megajoules - https://www.iea.org/data-and-statistics/data-tools/unit-converter
[54] An interim reduction to 50g CO2e/MJ came into force in April 2025 - but the Heads of Terms referenced here are still correct and show the comparison between the original and post-2027 criteria.

The government believes that, for the interim solution, it is proportionate for woody biomass electricity generators to meet these thresholds and criteria and be able to provide a declaration to the Delivery Body to be considered a Declared Low Carbon CMU.

Question 45: Do you agree with the interim solution of adopting a version of the established Renewables Obligation sustainability criteria?

Question 46: If you disagree, please provide any alternate suggestions.

Question 47: Do you agree with the proposed longer-term solution to align with the upcoming biomass common framework?

Question 48: If you disagree, please provide any alternative suggestions.

Question 49: Do you agree with the proposal to apply the enhanced sustainability criteria of the proposed low carbon dispatchable Contract for Difference to all CM eligible woody biomass generators ≥ 1 MW?

Question 50: If you disagree, please provide any alternative suggestions.

Implementation, evidence & NESO process

To implement both the interim and longer-term solutions, a bespoke process for evidencing compliance with the biomass sustainability criteria in the CM will be necessary.

For reporting purposes, the government is seeking to emulate the RO's Annual Sustainability Audit Report, along with elements of the CM's existing Exhibit ZA Fossil Fuel Emissions and Exhibit ZD Low Carbon Declarations,[55] both of which are required to be reported to the Delivery Body during the prequalification process.[56]

This would require the Capacity Provider to maintain monthly recording of feedstocks and an annual sustainability assurance report akin to that required for generators >1 MW in the RO scheme.[57] The government believes that this is necessary to evidence compliance with the emissions threshold criteria and to demonstrate adherence to the sustainability criteria. This reporting has precedent from within both the RO and CfD for biomass generators.

As is the case in the fossil fuel declarations process, a UKAS certified Independent Emissions Verifier (IEV)[58] would be required to audit reporting and sign off the annual sustainability audit report. These reports would be required to cover a period of at least 12 months within 2 years of the start of the relevant Delivery Year, in line with existing CM rules. A declaration verified by an IEV would be submitted alongside a declaration contained within the new exhibit to fulfil the reporting requirements at prequalification stage.

[55] The Low Carbon Declaration was introduced to the Rules by the Capacity Market (Amendment) (No.3) Rules 2024
[56] NESO, 'Exhibits and Templates', 2025
[57] Ofgem, 'Renewables Obligation: annual sustainability template', March 2025
[58] UKAS, 'Electricity Capacity Market – Verification of Fossil Fuel Emissions Declarations'

The government currently intends for the above solution to apply to both the interim and enduring solution. Subject to wider policy decisions and any need to adapt policy after PQ 2026, the government will revisit the requirements for the longer-term solution and consult on any changes as necessary.

Question 51: Do you agree the government should implement a process that includes annual reporting in the same format as the RO's Annual Sustainability Audit Report?

Question 52: If you disagree, please provide any alternate suggestions.

Energy from Waste

EfW generators use feedstocks comprised of a variety of fossil fuel and biogenic materials and a range of MRVs are in use across generators.[59] A significant fraction of this residual waste is fossil based, particularly plastics which produce significant CO2 emissions. EfW is not included as a low carbon energy source in the Clean Power 2030 Action Plan, where it is considered "a 'must-run' form of electricity generation, because of its current necessity as a waste management solution".[60]

Measuring the fossil content of waste fuel used across the EfW sector is recognised as particularly challenging, given the heterogenous nature of Residual Waste as a "fuel" and the wide variation in self-reported biogenic content.[61]

The government has considered various MRVs where the biogenic fraction of waste can be measured. However, for their application in the CM such that access to low carbon benefits is enabled, the government believes this would need to feature alongside a minimum threshold of biogenic waste. This would require a further assurance process to verify that the biogenic material was evidenced to be waste rather than biogenic products, as defined in the RO sustainability criteria. A further challenge specific to the CM is that unlike other schemes, CM payments are based on capacity provided, rather than electricity generated at a specific time, which further complicates the process of verifying the biogenic mix of EfW plants which have variable feedstocks.

Research and engagement to date has not identified an appropriate MRV, suitable sustainability criteria, or biogenic threshold such that EfW generators should have access to low carbon benefits within the CM, despite some biogenic content found in their feedstocks.

The government engagement also indicates that compliance with sustainability criteria for EfW runs counter to generators business models and operations. For example, unlike woody biomass, EfW does not "source" feedstocks more sustainably in the same way, as it is a by-product of the waste management system, not primarily a method for energy generation. Therefore, given EfWs are responsible for managing the material they receive, rather than

[59] CS NOW, 'MRV options for inclusion of Energy from Waste plants and Waste Incinerators within the UK ETS', May 2024
[60] DESNZ, 'Clean Power 2030 Action Plan: A new era of clean electricity - technical annex', April 2025
[61] Tolvik, 'UK Energy from Waste Statistics', 2023

“sourcing” material, setting minimum biogenic thresholds would not incentivise decarbonisation and could lead to detrimental environmental impacts in managing non-biogenic materials.

With reference to the above justifications, the government does not intend to introduce means through which EfW generators can access low carbon benefits in the CM. This proposal would, however, not preclude EfW with carbon capture technology from accessing the CM low carbon benefits, as this would be measured on the net stack emissions and therefore include providing a Fossil Fuel Emissions Declaration to evidence compliance with the CM benchmark emissions intensity threshold.

Question 53: Do you agree that EfW in its current form, without carbon capture and storage, is primarily a function of the waste management system, and as such, faces different decarbonisation challenges to other methods of electricity generation?

Question 54: If you disagree, please provide any alternative suggestions.

Question 55: Do you agree that the challenges in reliably measuring EfW biogenic content, setting a minimum biogenic threshold, and verifying that biogenic content in waste make this unworkable for the CM specifically, where payments are based on capacity provided rather than generation?

Question 56: If you disagree, please provide any alternative suggestions.

Further improvements to Capacity Market Administration and Delivery Assurance

The Capacity Market (CM) Rules (Rules) provide the technical detail for implementing the operating framework set out in the Electricity Capacity Regulations 2014 (The Regulations), which is the legislation underpinning the scheme.[62] The Rules are frequently amended to improve their functionality and to reflect the changing landscape in which the CM scheme operates.

The government is proposing to introduce:

- administrative changes to Rules to improve clarity and reduce ambiguity
- changes to Rules to improve delivery assurance and ensure security of electricity supply
- changes to the Electricity Capacity (Supplier Payment etc.) Regulations 2014 (Supplier Payment Regulations) to ensure that definitions and processes laid out in the Supplier Payment Regulations align with current industry standards

Clarifying what constitutes 'Waste' for the Energy from Waste Generation Technology Class in Schedule 3 of the Capacity Market Rules

All Generating Capacity Market Units (CMUs) must declare their Generating Technology Class (GTC) as part of their application. It is through this GTC that De-rating Factors are accorded for each CMU for a relevant auction. Only classes specified in Schedule 3 of the Rules are permitted.

EfW is one such permitted technology. In the most recent T-4 Auction held for the 2028/29 Delivery Year, 0.75 GW of De-rated Capacity was secured by EfW plants. Whilst Schedule 3 of the Rules gives examples of the types of plants that can participate as EfW (e.g., conventional steam generators, anaerobic digestion, pyrolysis, gasification), currently there is no definition for what constitutes waste.

The government recognises that it is important to provide clarity to industry and to the Delivery Body as to what is permitted within the GTCs listed in Schedule 3 of the Rules. This approach aligns with defining other terms that require further definitions, such as for wind turbines and photovoltaic solar cells.

Proposals

The government is seeking to define the meaning of 'waste' within the Rules. The government proposes to adopt the definition of 'waste' as defined in the Waste and Emissions Trading Act 2003 (the Act)[63], which is domestic legislation that is applicable across Great Britain. Section 37 of the Act defines 'waste' to mean anything that—

(a) is waste for the purposes of the Waste Directive for England and Wales, and

[62] The Electricity Capacity Regulations 2014
[63] Waste and Emissions Trading Act 2003

(b) is not excluded from the scope of that Directive by Article 2 of that Directive.

Article 3(1) of the Waste Frame Directive (WFD)[64] as read with Articles 5 and 6 defines "waste" to be "any substance or object which the holder discards or intends or is required to discard". "Discard" is not itself defined within the WFD and no single definition could reasonably be given. Instead, the Applicant or Capacity Provider should consider whether the waste being used in their plant is genuinely discarded waste.

Factors such as the substances being unwanted, burdensome, having no certain use, or being commonly classified as waste should be considered. For example, materials commonly used as a fuel are unlikely to be counted as discarded waste, especially where the calorific content of a material burnt is significantly less than a fuel that would be burnt as an alternative.

Applicants and Capacity Providers must also consider Article 5 and Article 6 of the WFD which makes clear that by-products and End-of-Waste products respectively are not to be counted as waste. In both cases waste is only defined where it is not excluded from the scope of the WFD by Article 2 of the WFD.

Under Article 5(1) of the WFD, a substance is not considered waste if it is a by-product. This means it is produced as part of a production process, it will definitely be used, it does not need further treatment, and it can be used lawfully. Article 6(1) states that waste stops being waste if it has been properly recovered or recycled, is ready for a specific use, has a market or demand for it, meets technical standards, and will not harm human health or the environment.

This update to the definition would confirm that only genuine waste is permitted to be used within EfW facilities. This provides clarity to those operating in, or applying to enter, the CM.

Question 57: Do you agree with the proposal to introduce a definition of "waste" into the CM Rules?

Question 58: Do you agree with the proposal to use the definition of "waste" found in Article 3(1) of the Waste Frame Directive, as modified by Article 5 and Article 6 of the Directive?

Question 59: If you disagree with the proposed definition of "waste", please provide any alternate suggestions.

Question 60: Are there any other GTCs that you think should be further defined in order to clarify the Rules and reduce uncertainty for market participants and Delivery Partners?

Question 61: Do you think that the proposal to add a definition of "waste" into the CM Rules will have any unintended consequences? If so, please provide details.

[64] Directive 2008/98/EC of the European Parliament and of the Council of 19 November 2008 on waste and repealing certain Directives (Text with EEA relevance) (Incorporated into UK Legislation in 2020)

Clarifying Rule 2.3.3 with regards to De-rating Factors and secondary trading

Capacity Providers may transfer active Capacity Obligations through secondary trading, subject to Chapter 9 of the Rules, to mitigate the risk of penalties if they are unable to meet their obligation. The Transferee's De-rated Capacity must be able to fulfil the obligation being transferred to maintain security of electricity supply.

The capacity of all market participants is de-rated according to their expected availability during System Stress Events, based on historical performance data for all units in the same technology class. De-rated Capacity is set by a CMU's Connection Capacity and the De-rating Factor of its GTC.[65]

Rule 2.3.3 governs how De-rating Factors apply to CMUs that acquire Capacity Obligations through secondary trading. It states that the De-rating Factors published in the Auction Guideline for a Delivery Year should be applied to any CMU that acquires a Capacity Obligation through secondary trading for that Delivery Year.

At present, there is no defined position on how the Delivery Body should de-rate an Acceptable Transferee in a GTC not defined for the Delivery Year covered by the relevant Auction Guidelines.

Proposals

The government proposes amending Rule 2.3.3(b) to state that the De-rating Factor for any Transferee will be the De-rating Factors provided in the Auction Guidelines for the T-1 auctions for the Delivery Year that the trade relates to.

This amendment seeks to provide certainty for Transferees where the GTC was not defined at the time of the Auction Guidelines for the auction that the Transferor won their agreement. This amendment also provides equality for Transferees that are picking up an agreement secured in a previous T-4 auction or a previous T-1 auction by providing the De-rating Factor equivalent to the T-1 Auction Guidelines relevant to the trade.

As such, this approach provides clarity to the Delivery Body in providing De-rating Factors to all Acceptable Transferees and should result in a fairer and more transparent process for secondary trading in the CM.

Question 62: Do you agree with the proposed amendment to clarify Rule 2.3.3(b)?

Question 63: Do you agree that the De-rating Factor for the Transferee CMUs should be set at the same level as the T-1 Auction for the Delivery Year relevant to the trade?

Question 64: If you disagree, please provide an alternative solution.

[65] The Capacity Market (Amendment) (No.4) Rules 2017

Question 65: Do you think that the proposal to amend Rule 2.3.3 will have any unintended consequences? If so, please provide details.

Suspending Capacity Market Payments for units that are under an Insolvency Termination Event

If a Capacity Provider triggers a Termination Event in accordance with Rule 6.10.1, the Capacity Agreement can be terminated. Where applicable, this results in repayment of Capacity Payments by the Capacity Provider, the loss of credit cover, and can incur Termination Fees as a consequence.

Rule 6.10.1(a) governs Insolvency Termination Events that occur when a Capacity Provider or Joint Owner of a CMU becomes insolvent. A Capacity Provider must notify the Delivery Body of an Insolvency Termination Event, after which a Termination Notice is issued to the Capacity Provider. A CMU is terminated after 60 working days of a Termination Notice being issued, unless it is extended.

At present, CMUs that have triggered an Insolvency Termination Event could continue to receive Capacity Payments in the period between a Termination Notice being issued and the date of the final termination. Under Rule 6.10.3A, a Capacity Provider is required to repay the Capacity Payments it has received.

However, when a Capacity Provider becomes insolvent, they are unlikely to be able to repay the Capacity Payments received after a Termination Notice was issued but before the final termination. This reduces the value for money of the CM and increases consumer bills while providing no benefits for the security of electricity supply.

Proposals

The government proposes to amend the Rules to suspend payments to a Capacity Provider that becomes subject to an Insolvency Termination Event and is issued a Termination Notice under 6.10.1(a). The current Rules require all Capacity Payments made to such a Capacity Provider during the period of the Termination notice be repaid once the CMU is terminated. As this proposal will suspend any Capacity Payments from the beginning of the Termination Notice, the government is proposing the removal of 6.10.1(a) as a TP1 event as there will be no Capacity Payments to repay.

This proposal is designed to improve the value for money of the CM and ensure that consumers are only paying for capacity which can be reliably delivered that is beneficial for maintaining the security of electricity supply.

Question 66: Do you agree with the proposal to suspend Capacity Payments to Capacity Providers that are being terminated because of an Insolvency Termination Event at the point of the Termination Notice being issued?

Question 67: Do you think the proposed amendment will have any unintended consequences? If so, please provide details.

Amendments to Rule 8.3.3(f)(i) to provide greater clarity

Rule 8.3.3(f)(i) sets out that a Capacity Provider or Capacity Market Volume Reallocation (CMVR) Registered Participant must provide applicable metering information to the Settlement Body.

The Rule states that Capacity Providers must ensure the accurate submission of information is provided to the Settlement Body "as soon as reasonably practicable and, in any event, within 10 Working Days". However, it does not include a trigger point for when the "10 working days" countdown should begin.

The government recognises that this Rule may cause confusion and that it is important that the Rules provide Capacity Providers with clear timelines on when certain actions should be taken.

Proposals

The government proposes an amendment to Rule 8.3.3(f)(i) to clarify that a Capacity Provider must provide the accurate submission of information to the Settlement Body within 10 working days of providing a completed Metering Assessment to the Settlement Body.

This proposed amendment intends to make timelines for Capacity Providers subject to certain actions clearer. The government is aware that this Rule has undergone multiple iterations and that the point in which the 10 working days countdown begins is currently unclear. By assessing the original drafting of this Chapter, this proposal best aligns with the intent to ensure the timely submission of metering information following a completed Metering Assessment.

Question 68: Do you agree with the proposal to amend Rule 8.3.3(f)(i) to clarify the timeline for the submission of information to EMRS after submitting a completed Metering Assessment?

Question 69: Do you think the proposal will have any unintended consequences? If so, please provide details.

Updating the approximate timetable in Rule 2.2.2 to reflect the indicative current length of the process

Rule 2.2.2 provides an approximate timetable and guidelines for Capacity Auction activities, such as the opening of the Prequalification Window. However, the government is aware that, in practice, the Capacity Auction timetable has shifted. This can cause confusion for Applicants, especially those who have not previously participated in the CM.

Recent CM Auctions have taken over 30 weeks between the opening of prequalification and the first Bidding Round. This has primarily been to allow more time in the Prequalification Window and to allow time for Applicants and the Delivery Body to settle any disputes arising from initial prequalification decisions. This is around 2 months longer than the approximate timetable in Rule 2.2.2 indicates.

The government recognises the importance of providing reasonable indicative timetables to allow Applicants to plan and prepare for the Prequalification Window and CM Auctions. The government also recognises the importance of ensuring the Rules are accurate.

Please note that specific details as to the running of each CM Auction are published by the Delivery Body in the form of Auction Guidelines.

Proposals

The government proposes amending the approximate Capacity Auction Timetable and Guidelines in Rule 2.2.2 to align more closely to the scheme's operational timetable within the Rules and reduce confusion and uncertainty. This will provide greater clarity to the Rules and make them easier to use for both Applicants and Delivery Partners. The government is proposing to extend the indicative timetable to 31 weeks between prequalification opening and the first Bidding Round.

The proposal also amends which events are included in the indicative timeline, primarily to indicate the publication of the first CM Register, following the assessment of initial prequalification disputes after prequalification closes (Tier 1 disputes).

Activity	Date
Prequalification Window opens	T – 31 weeks
Prequalification Window closes	T – 23 weeks
Prequalification Results Day (PQRD 1)	T – 17 weeks
Capacity Market Register (CMR) Publication following Tier 1 Disputes assessment completion	T – 13 weeks
Notification of updated Auction Parameters and confirmation of the conditional Prequalified Applicants which have fully Prequalified pursuant to Rule 4.6.3.	T – 3 weeks
Price-Maker Decisions and for decisions under 5.5.11 and 5.5.13 to be taken. Last date for relevant Applicants to confirm entry into the relevant Auction.	T – 2 weeks
Capacity Market Register (CMR) publication following the Auction status confirmation.	T – 1 week
Time for first bidding window to commence and first Bidding Window to close	T

Table 3: Proposed indicative timeline for Capacity Auction activities

The government is looking for views as to whether the milestones represented in Rule 2.2.2 are the most useful for stakeholders.

Question 70: Do you agree with the government's proposal to amend the approximate timetable in Rule 2.2.2 to align more closely to the scheme's operational timetable?

Question 71: Are there any activities not currently mentioned in the proposed amended Rule 2.2.2 that should be included in the indicative timetable? Are there any events currently mentioned in Rule 2.2.2 that should be removed?

Question 72: Do you think that the proposed change to Rule 2.2.2 will have any unintended consequences? If so, please provide details.

Extension to Prequalification Window following IT issue

Under the CM Rules, Applicants can only submit prequalification information using a Portal designated by the Delivery Body in the window of time specified in the Formal Auction Guidelines. Once the Formal Auction Guidelines are set, the length of the Prequalification Window may not be changed or extended.

The government is aware that severe IT issues, whether accidental or malicious, could affect the Portal used for prequalification submissions. Such a severe issue could reduce the ability of Applicants to complete and submit their Applications before the window closes and, therefore, their ability to prequalify for Capacity Auctions.

Where prequalification cannot be conducted fairly due to a failure that affects all users of the EMR Portal, the government believes there should be a formalised process to ensure prequalification can be concluded fairly.

Proposals

The government therefore proposes adding a new Rule that allows the Delivery Body to extend the deadline to submit a Prequalification Application if there was a severe IT issue that renders the prequalification process impossible to be concluded fairly.

The government is proposing that the extension would be instigated on the opinion of the Delivery Body and only where the issue is severe enough to render the prequalification process impossible or unfair to all Applicants.

To give industry certainty on any extension, the government proposes that the extensions be for a fixed amount of time, with the proposed length being 5 Working Days. To provide further certainty, the government proposes that such an extension would be considered if the severe IT issue occurred within the last 2 weeks of the prequalification and severely impacted all Applicants for a period of 24 hours or longer.

This approach aligns with other Rules that mitigate severe IT issues during the Auction process and provides the Delivery Body with flexibility to deliver successful prequalification.

The proposed Rule would not allow for an extension to the prequalification deadline in the case of an IT error on the side of individual Applicants.

The government is also considering providing an option to extend the end of the window by a further 5 working days if the severe IT issue is unresolved during the initial extension. Due to the effect of a longer extension, it would be proposed that a decision to grant extension beyond the initial 5 working days would only be taken by the Secretary of State.

This does not affect existing powers through Regulation 26(3)(b) of the Regulations for the Secretary of State to postpone a Capacity Auction if required to under exceptional circumstances.

Question 73: Do you agree with the proposal to add a new Rule allowing the Delivery Body to extend the deadline to submit a Prequalification Application if there was a severe IT issue that renders the prequalification process impossible or unfair to all Applicants?

Question 74: Do you agree that this extension should be instigated by the Delivery Body rather than the Secretary of State? If not, please provide details.

Question 75: Do you agree that any extension should be fixed for a certain amount of time to provide industry greater certainty? If not, please provide details.

Question 76: What are your views regarding the option for a further extension beyond an initial period of 5 working days? Do you think such a decision should be taken by the Delivery Body or Secretary of State?

Question 77: Do you agree that an extension should only be considered if the severe IT issue occurred in the last 2 weeks of the Prequalification Window and remained a severe issue for a period of 24 hours or longer?

Question 78: Do you think there are any unintended consequences of adding a new Rule allowing the Delivery Body to extend the deadline to submit a Prequalification Application if there was a severe IT issue that renders the prequalification process impossible or unfair to all Applicants? If so, please provide details.

Long Stop Dates and terminated one-year Capacity Agreements

The Long Stop date is a critical milestone for New Build Capacity Providers, signifying the final deadline for achieving sufficient Operational status under Rule 6.8.3 or 6.8.3A. For all prospective Capacity Agreements awarded in a T-4 auction, the Long Stop Date is 12 months after the start of the first Delivery Year, regardless of the length of the agreement won.

New Build CMUs need to have demonstrated that their aggregate physical capacity multiplied by their De-rating Factor exceeds 50% of their Capacity Obligation. This must be demonstrated by the Long Stop Date, which is defined as the end of the last day of their first Delivery Year (12 months after the start of the first Delivery Year). Prospective CMUs with a one-year

agreement from a T-4 auction that do not meet the Minimum Completion Requirement (MCR) by the Long-Stop Date could see their agreement expire before a Termination Notice is issued to them.

Under Rule 6.5.1, rights and obligations accrued prior to the expiry or termination of a Capacity Agreement survive such expiry or termination. This means that Capacity Providers with an expired Capacity Agreement remain liable for any obligations in the event a Termination Notice and/or Notice of Intent to Terminate were issued on or before the date of expiry for the relevant agreement.

The government recognises that there is a disparity between a Prospective CMU that has a Long Stop Date of the start of the Delivery Year if it won a one-year agreement in a T-1 auction but a Long Stop Date of 12 months after the Delivery Year starts, if it secures a one-year agreement in a T-4 auction. This is despite having a Long Stop Date of 12 months, meaning that the MCR Notice of Intent to Terminate would not be issued until the end of the agreement for such a CMU.

Proposals

The government is proposing to amend the definition of Long Stop Date to make it clear that any one-year agreement for a Prospective CMU is subject to a Long Stop Date that is the start of the first Delivery Year.

This proposal is designed to provide equality between one-year Agreements won by Prospective CMUs in T-4 and T-1 auctions and clarify that an agreement cannot expire before the CMU is either Operational or subject to a Notice of Intent to Terminate or Termination Notice.

Question 79: Do you agree with the proposal to amend the definition of Long Stop Date to clarify to Capacity Providers that secure a one-year Capacity Agreement for a New Build CMU or Refurbishing CMU in the T-4 Auction will have a Long Stop Date of the start of the first scheduled Delivery Year, aligning to the process for the T-1 Auction?

Question 80: Do you think there will be any unintended consequences of amending the definition of Long Stop Date to clarify this? If so, please provide details.

Amending the Electricity Capacity (Supplier Payment etc.) Regulations 2014 to align to changes following the Ofgem-led Market-wide Half-Hourly Settlement workstream.

In April 2021, Ofgem published its Final Decision to introduce Market-wide Half-Hourly Settlement (MHHS), which will enable the transition to market-wide half-hourly settlement of domestic and smaller non-domestic consumers' electricity usage.[66] Ofgem has given industry

[66] Ofgem,'Market-wide Half-hourly Settlement: Decision on implementation arrangements', April 2021.

the responsibility to deliver the programme and has appointed Elexon as the Senior Responsible Owner of the programme.

MHHS is a significant enabler of Great Britain's transition to clean power in 2030 and to net zero. Ensuring the successful rollout of MHHS will help unlock consumer-led flexibility for those who choose to participate and reduce electricity system costs by minimising generation and network build. It will also support innovation in the GB retail market. MHHS is due to begin implementation in September 2025, when changes to the Balancing and Settlement Code (BSC) and Retail Energy Code (REC) will occur, and the migration of Meter Point Administration Numbers (MPANs) and Metering System Identifiers (MSIDs) will begin.

Moving to MHHS will result in a shortened and more efficient timeframe for the BSC settlement process. The MHHS programme will implement a reduced Settlement Timetable and change the total duration for final settlement reconciliation from 14 months to 4 months. The settlement service provider, EMRS, will be required to change the Settlement Calendar and system. The cut over to the new Settlement Timetable is set to occur in July 2027.[67-68-69]

These changes will have an effect on the CM settlement timeline and the settlement data that triggers CM annual and monthly reconciliation. Without any change, the MHHS timetable would not be compliant with the Supplier Payment Regulations.

Proposals

To ensure that the CM continues to function and adheres to the Regulations, the government is proposing to amend the Supplier Payment Regulations to align with the MHHS Settlement Timetable. These changes are administrative in nature and do not alter policy intent.

Therefore, to align with the change in the total duration for final settlement reconciliation to 4 months, the government proposes that sections of the Supplier Payment Regulations be amended to include the new settlement timetable.

Specifically, the government is proposing to add provisions in Regulation 18 in the Supplier Payment Regulations to include the new Settlement timetable for reconciliation runs. This will ensure that the scheme's processes will adhere to the Regulations before MHHS is implemented and after MHHS has been implemented. The existing Regulations 18(1)(a) and 18(1)(b) will remain until MHHS is fully implemented, and all meters have migrated to, and are settled, half-hourly. The government will ensure that if there are any transitional arrangements, these will be accounted for in the updated Regulations to enable a smooth transition to the new settlement timetable.

The government is also proposing to amend a reference to reconciliation runs commencing "more than 28 months" after the last day of Month M or Year X in Regulation 18(2) in the Supplier Payment Regulations to further align with the MHHS Settlement Timetable.

[67] Ofgem, 'Decision on Market-wide Half Hourly Settlement Change Request CR055', November 2024
[68] MHHS Programme, 'Planning - MHHS Programme', December 2024.
[69] The cutover date may be as late as December 2027 according to the latest MHHS Plan.

To provide greater clarity to the Supplier Regulations, the government is also proposing to remove references to the standstill period in Regulations 17 through to 21.

The government is aware that the new Settlement timetable will not be enforced until July 2027. Amendments to the Regulations will enable the current Settlement timetable to still be adhered to, whilst ensuring a smooth transition to the new timetable.

Question 81: Do you agree with the proposals to amend the Electricity Capacity (Supplier Payment etc.) Regulations 2014 to align with the implementation of MHHS and ensure that the CM is adhering to legislation?

Question 82: Do you agree with the proposals to amend the Electricity Capacity (Supplier Payment etc.) Regulations 2014 to remove references to the now outdated processes regarding the standstill period?

Question 83: Do you think there are any unintended consequences of amending the Regulations to align with the implementation of MHHS? If so, please provide details.

Question 84: Are there any other additional Regulations or CM Rules that you believe the government should consider changing to ensure that the CM is adhering to legislation and continues to function?

Amendments to selected Termination Events

When a Capacity Provider is subject to a Termination Event described in Rule 6.10.1, it will receive a termination notice and, subject to any appeal, have their Capacity Agreement terminated. Many of the events set out in Rule 6.10.1 come with termination fees ranging from £5,000/MW to £35,000/MW.

The purpose of Termination Events is to ensure that Agreements are only awarded and held by entities capable of delivering against their obligations. The Termination Events and fees should therefore be sufficient to ensure that Capacity Agreements are honoured.

The government is interested in Termination Events that occur where there was a requirement for a Declaration submitted to be true and correct, and this was not adhered to in a material respect by the Capacity Provider. There are 2 Termination Events that are caused by this scenario:

- Rule 6.10.1(o) where information or a declaration submitted in the Application was not true and correct in all material respects in accordance with Rule 3.12.1
- Rule 6.10.1(q) where a Funding Declaration made was not true and correct in all material respects and/or authorised by the board of directors of the Capacity Provider in accordance with Rule 6.6.7

Currently, these Termination Events do not carry an associated termination fee but rather result in a Capacity Provider being required to repay all Capacity Payments received from the

date the payments began under the relevant Capacity Agreement until the date the Agreement was terminated.

The government is concerned that these Termination Events do not provide a sufficient incentive for a Capacity Provider to ensure Declarations are true and accurate until the point Capacity Payments begin to be received. As Termination Events are in place to ensure there are suitable incentives to deliver capacity, the government proposes changes to ensure that these Termination Events maintain this incentive.

Proposals

The government is proposing to add a Termination Fee to the Termination Events covered under Rule 6.10.1(o) and 6.10.1(q). The proposed size of this fee is £15,000 per MW, which is TF4 under Regulation 32(2) of the Regulations.

This fee has been sized to be commensurate to other common Termination Events, such as failing to meet the Financial Commitment Milestone or failing to meet the requirements for Satisfactory Performance Days / Extended Performance Tests, which are equivalent losses in Capacity. This fee is required to maintain the incentives on Applicants and Capacity Providers to ensure that relevant information provided to the scheme is true and correct.

The size of the fee also considered the fact that there are multiple opportunities to ensure that the Events triggered under 6.10.1(o) and 6.10.1(q) do not occur. This includes the provisions of Regulation 69(5A) of the Regulations that allow for the Delivery Body to consider information or evidence if an application contained a non-material error or omission, and this evidence can rectify such an error or omission.

The government is interested in the views of stakeholders as to whether they believe that this approach strikes a balance, providing a proportionate incentive to ensure relevant documents and declarations are submitted on time and are true and correct.

Question 85: Do you agree that a Termination Fee of category T4, set at £15,000/MW, is an appropriate fee level for Termination Events 6.10.1(o) and 6.10.1(q)? If not, please provide an alternative fee category/level.

Question 86: Do you think there will be any unintended consequences of increasing the Termination Fee level for these Termination Events? If so, please provide details.

Amendments to the Monitoring of Construction Milestone Progress Reports of Prospective CMUs

Rule 12.2 requires prospective Capacity Providers with a T-4 CM agreement to provide the Delivery Body, no less than every 6 months, a progress report outlining its progress against the milestones set out in their initial Construction Plan submitted in the prequalification process. This process provides assurances that Capacity Providers will be ready for the start of their Delivery Year in accordance with their agreement and identifies industry-wide issues that the government should seek to address to reduce the risk of delivery barriers. The information provided in the reports further provides crucial intelligence to the Delivery Body, System

Operator and the government, who are responsible for the safety and reliability of the electricity system. Currently around a third of the CMUs subject to this reporting requirement are non-compliant with the Rules.

To improve submission rates, the government intends to provide clearer guidance on the information that must be included in progress reports. The Delivery Body will publish updated guidance to clarify existing obligations and outline process changes. This is intended to ensure reporting is comprehensive across all technology types without being unduly burdensome. The government will also begin monitoring outstanding reports more closely and will engage directly with Capacity Providers that fail to submit reports on time.

Construction reports can currently be submitted in any format, so long as the requirements of Rule 12.2.1 are met. Introducing a standard template would have to ensure that Capacity Providers know exactly what to provide and can provide it in the most efficient way.

If progress report submission rates do not improve, the government intends to consider further options to address this, which could include future Rules changes to allow for penalties to be issued or mandatory Independent Technical Expert reports to be submitted.

Question 87: Do you agree that further clarifying the information needed in the progress reports and engagement with Capacity Providers who fail to submit them is an appropriate way of resolving this issue?

Question 88: Do you agree that a standardised construction progress report will improve the quality of reports submitted and make it simpler for Capacity Providers to submit reports by the relevant deadlines?

Question 89: Do you have views on the suitability and effectiveness of a penalty regime or the introduction of mandatory Independent Technical Expert reports on compliance with this Rule? What would an alternative option look like?

Consultation Questions

1. **Do you agree that the proposed price-related reforms will be effective in achieving the CM's security of supply objective? [Yes/No]**

2. **If you disagree, please provide reasons for your disagreement and evidence to support your views.**

3. **Do you agree that targeting access to higher prices than currently allowed will be effective in achieving the CM's cost-effectiveness objective? [Yes/No]**

4. **If you disagree, please provide evidence for your response.**

5. **Do you agree with the proposed category of eligible capacity? [Yes/No]**

6. **If you disagree, please provide evidence to support your position.**

7. **Do you agree with the minded-to position to implement option 6 as the design of the multiple-price Capacity Market? [Yes/No]**

8. **If you disagree, please explain which approach you would favour and why.**

9. **What would be an appropriate level for the new, higher price cap, to make eligible new build dispatchable enduring projects commercially viable? Please provide evidence to support your position.**

10. **What factors and considerations should be taken into account when deciding whether and at what volume to set a sub-target for eligible capacity?**

11. **What, if any, practical changes beyond those set out in the consultation do you consider would be needed or merited to implement the proposed design?**

12. **Do you agree with the proposed increase to the excess capacity rounding threshold for all CM auctions?**

13. **If you disagree, are there any likely unintended consequences associated with this change?**

14. **Do you agree with the proposed delay in publication of the identity and aggregate de-rated capacity of prequalified CMUs for all CM auctions?**

15. **If you disagree, are there any likely unintended consequences associated with this change?**

16. **Do you agree with the proposal to reduce reporting requirements for individual components where their nameplate capacity is below a set value?**

17. **If you disagree with the proposal, please provide reasons for your disagreement and evidence to support your views.**

18. **The government has proposed a 20 kW threshold per component. Do you agree with the proposed threshold?**

19. **If you disagree with the proposed threshold, please suggest an appropriate threshold where individual component reporting should be set and your rationale.**

20. **If implemented, do you believe the proposal would introduce unintended or negative consequences? If yes, please provide details as to what these would be and the effects of those.**

21. **Do you believe there are alternative approaches that could better meet the proposal's intent? If yes, please provide details.**

22. **Do you agree with the proposals above to introduce additional DSR categorisations as part of the Business Model and Business Plan?**

23. **Do you believe the introduction of these proposals carry unintended consequences? If so, please provide details.**

24. **Do you agree with the proposal to record DSR by the technology's response type?**

25. **Do you agree with the proposal to record DSR according to the purpose of electricity supply, i.e., domestic or non-domestic?**

26. **If you disagree with the above proposals or have alternative suggestions to the above, please provide details.**

27. **Do you agree with proposals to require an Independent Technical Expert report confirming that the CMU's longevity will be met?**

28. **Do you believe any additional or alternative measures could be introduced such that delivery assurance and value-for-money interests are met? If so, please provide details.**

29. **Do you agree with the proposal to align DSR Tests more closely with the timing of their component reallocations?**

30. **Do you believe the proposal will introduce unintended consequences? If so, please provide details.**

31. **If you disagree the proposal, please provide an explanation and suggest alternative solutions where possible.**

32. **Do you agree with the proposal to require DSR CMUs to evidence a minimum 50% capacity relative to its Auction Acquired Capacity?**

33. **If you disagree, please provide details and supporting evidence to justify your position.**

34. **Do you agree with the proposal to extend the current DSR de-rating methodology as outlined above?**

35. **If you disagree, please provide rationale and alternatives to this proposal.**

36. **Do you agree with the intent to require greater clarity of POSGUs at the point of application?**

37. Do you agree with the introduction of a TF4 Termination Fee for false declaration of POSGUs?

38. If you disagree with the TF4 Termination Fee, please provide your reasoning and alternative suggestions where possible.

39. Do you agree with the proposal to allow self-nomination of connection capacity for CMUs of the fuel type "Storage – Battery"?

40. If you disagree with the proposal in Question 38, please state why and provide evidence where possible.

41. Do you agree with the inclusion of a floor on the self-nominated SCC of 50% full connection capacity, which Storage Capacity Providers must adhere to?

42. If you disagree with the proposal in Question 40, do you foresee issues with the concept of the floor or the level to which it is set? If not 50%, what would be an appropriate level? Please provide evidence where possible.

43. Do you foresee any unintended consequences or risks which could arise from the proposals set out in Questions 38 and 40?

44. Noting the considerations outlined in this section of the consultation, do you have any further comments or concerns regarding Battery Storage CMUs participating in the CM? Are there any further required changes which have not been identified or considered?

45. Do you agree with the interim solution of adopting a version of the established Renewables Obligation sustainability criteria?

46. If you disagree, please provide any alternate suggestions.

47. Do you agree with the proposed longer-term solution to align with the upcoming biomass common framework?

48. If you disagree, please provide any alternative suggestions.

49. Do you agree with the proposal to apply the enhanced sustainability criteria of the proposed low carbon dispatchable Contract for Difference to all CM eligible woody biomass generators ≥ 1 MW?

50. If you disagree, please provide any alternative suggestions.

51. Do you agree the government should implement a process that includes annual reporting in the same format as the RO's Annual Sustainability Audit Report?

52. If you disagree, please provide any alternate suggestions.

53. Do you agree that EfW in its current form, without carbon capture and storage, is primarily a function of the waste management system, and as such, faces different decarbonisation challenges to other methods of electricity generation?

54. If you disagree, please provide any alternative suggestions.

55. Do you agree that the challenges in reliably measuring EfW biogenic content, setting a minimum biogenic threshold, and verifying that biogenic content in waste make this unworkable for the CM specifically, where payments are based on capacity provided rather than generation?

56. If you disagree, please provide any alternative suggestions.

57. Do you agree with the proposal to introduce a definition of "waste" into the CM Rules?

58. Do you agree with the proposal to use the definition of "waste" found in Article 3(1) of the Waste Frame Directive, as modified by Article 5 and Article 6 of the Directive?

59. If you disagree with the proposed definition of "waste", please provide any alternate suggestions.

60. Are there any other GTCs that you think should be further defined in order to clarify the Rules and reduce uncertainty for market participants and Delivery Partners?

61. Do you think that the proposal to add a definition of "waste" into the CM Rules will have any unintended consequences? If so, please provide details.

62. Do you agree with the proposed amendment to clarify Rule 2.3.3(b)?

63. Do you agree that the De-rating Factor for the Transferee CMUs should be set at the same level as the T-1 Auction for the Delivery Year relevant to the trade?

64. If you disagree, please provide an alternative solution.

65. Do you think that the proposal to amend Rule 2.3.3 will have any unintended consequences? If so, please provide details.

66. Do you agree with the proposal to suspend Capacity Payments to Capacity Providers that are being terminated because of an Insolvency Termination Event at the point of the Termination Notice being issued?

67. Do you think the proposed amendment will have any unintended consequences? If so, please provide details.

68. Do you agree with the proposal to amend Rule 8.3.3(f)(i) to clarify the timeline for the submission of information to EMRS after submitting a completed Metering Assessment?

69. Do you think the proposal will have any unintended consequences? If so, please provide details.

70. Do you agree with the government's proposal to amend the approximate timetable in Rule 2.2.2 to align more closely to the scheme's operational timetable?

71. Are there any activities not currently mentioned in the proposed amended Rule 2.2.2 that should be included in the indicative timetable? Are there any events currently mentioned in Rule 2.2.2 that should be removed.?

72. Do you think that the proposed change to Rule 2.2.2 will have any unintended consequences? If so, please provide details.

73. Do you agree with the proposal to add a new Rule allowing the Delivery Body to extend the deadline to submit a Prequalification Application if there was a severe IT issue that renders the prequalification process impossible or unfair to all Applicants?

74. Do you agree that this extension should be instigated by the Delivery Body rather than the Secretary of State? If not, please provide details.

75. Do you agree that any extension should be fixed for a certain amount of time to provide industry greater certainty? If not, please provide details.

76. What are your views regarding the option for a further extension beyond an initial period of 5 working days? Do you think such a decision should be taken by the Delivery Body or Secretary of State?

77. Do you agree that an extension should only be considered if the severe IT issue occurred in the last 2 weeks of the Prequalification Window and remained a severe issue for a period of 24 hours or longer?

78. Do you think there are any unintended consequences of adding a new Rule allowing the Delivery Body to extend the deadline to submit a Prequalification Application if there was a severe IT issue that renders the prequalification process impossible or unfair to all Applicants? If so, please provide details.

79. Do you agree with the proposal to amend the definition of Long Stop Date to clarify to Capacity Providers that secure a one-year Capacity Agreement for a New Build CMU or Refurbishing CMU in the T-4 Auction will have a Long Stop Date of the start of the first scheduled Delivery Year, aligning to the process for the T-1 Auction?

80. Do you think there will be any unintended consequences of amending the definition of Long Stop Date to clarify this? If so, please provide details.

81. Do you agree with the proposals to amend the Electricity Capacity (Supplier Payment etc.) Regulations 2014 to align with the implementation of MHHS and ensure that the CM is adhering to legislation?

82. Do you agree with the proposals to amend the Electricity Capacity (Supplier Payment etc.) Regulations 2014 to remove references to the now outdated processes regarding the standstill period?

83. Do you think there are any unintended consequences of amending the Regulations to align with the implementation of MHHS? If so, please provide details.

84. Are there any other additional Regulations or CM Rules that you believe the government should consider changing to ensure that the CM is adhering to legislation and continues to function?

85. Do you agree that a Termination Fee of category T4, set at £15,000/MW, is an appropriate fee level for Termination Events 6.10.1(o) and 6.10.1(q)? If not, please provide an alternative fee category/level.

86. Do you think there will be any unintended consequences of increasing the Termination Fee level for these Termination Events? If so, please provide details.

87. Do you agree that further clarifying the information needed in the progress reports and engagement with Capacity Providers who fail to submit them is an appropriate way of resolving this issue?

88. Do you agree that a standardised construction progress report will improve the quality of reports submitted and make it simpler for Capacity Providers to submit reports by the relevant deadlines?

89. Do you have views on the suitability and effectiveness of a penalty regime or the introduction of mandatory Independent Technical Expert reports on compliance with this Rule? What would an alternative option look like?

Next steps

This consultation will remain open to written responses for 8 weeks from 2 October 2025, closing on 27 November 2025. The government will analyse all responses to inform further policy development. A response is expected in early 2026, outlining the proposals the government intends to implement. These proposals will be informed by the range of responses the government receives by further stakeholder engagement and by additional analysis.

The government has historically made changes to the CM through legislative changes for the following Delivery Year. As in every year, this is, however, subject to when parliamentary time allows. Implementation will also be subject to ensuring the proposed changes are compliant with the requirements of the UK's domestic subsidy control regime.

The government has undertaken analysis as part of the public sector equality duty (PSED) process, and the government does not believe that any groups are likely to be disproportionately affected by the policies. The effect on consumer bills is expected to be minimal and no effects on protected groups are foreseen. The government will continue to assess the equality implications of these options and will keep the PSED closely under review. If you have any views on how the policies may affect equality, please indicate this in your response.

Glossary

Abbreviation / Term	Definition
Applicant	The person that has submitted or is entitled to submit an Application with respect to a Capacity Market Unit, as determined in accordance with Rule 3.2.
Application	An application that is to be completed by the Applicant in accordance with Rule 3.3.6(a) and includes a Registration Declaration.
Auction clearing price	The price at which the supply of capacity offered by bidders at that price is equal to the volume of capacity required to be secured in the auction.
Auction parameters	The parameters of the Capacity Auction, which are determined by the Secretary of State. This includes the Demand Curve, the Auction Capacity target, the Price-Taker Threshold, the Price Cap and the Capital Expenditure thresholds.
Balancing and Settlement Code (BSC)	The code for governance of electricity balancing and settlement in Great Britain which is maintained in accordance with the conditions of licences granted under section 6(1) of the Electricity Act 1989.
Balancing Services / Balancing Mechanism	The services procured by/mechanism used by NESO to balance electricity demand and supply across the national transmission network.
Battery Energy Storage System (BESS)	A system that uses batteries to store electrical energy for later use, including the battery cells and the management/support infrastructure.
Bidding Round	The Capacity Auction must be run as a series of price spread bidding rounds (each a “Bidding Round”) on a descending clock basis.
Capacity	An amount of electrical generating capacity or CLF 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, as a result of which successful bidders are awarded Capacity Agreements.
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.
Capital Expenditure thresholds (CapEx)	Auction Parameters that determine whether a CMU can access a multi-year agreement (either as a Refurbished CMU, a New Build CMU or Unproven DSR) based on their amount of capital expenditure (in £/kW).
Carbon Capture Utilisation and Storage (CCUS)	The process of capturing carbon dioxide from industrial processes, power generation, certain hydrogen production methods, and greenhouse gas removal technologies such as bioenergy with carbon capture and storage and direct air capture. The captured carbon dioxide is then either used, for example, in chemical processes, or stored permanently in disused oil and gas fields or naturally occurring geological storage sites.
Clean Power 2030 (CP2030)	The government is committed to decarbonise the power system. In a typical weather year, the 2030 power system will see clean sources produce at least as much power as Great Britain consumes in total over the whole year, and at least 95% of Great Britain's generation in a typical weather year.
Consumer-led Flexibility (CLF)	Also known to industry as Demand Side Response (DSR), CLF is a method of reducing electricity demand. This can be achieved by either reducing demand by switching off assets or by starting up on-site generators to provide electricity in place of drawing it from the distribution network or transmission network.
Connection Capacity	The capacity available to a CMU on the distribution (MEC) or transmission network (TEC).
Delivery Body	The National Energy System Operator (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 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 to 30 September of each calendar year.
De-rated Capacity	The capacity that a CMU is likely to be technically available to provide at times of peak demand, which is specific to the CMU's technology type and individual characteristics.
De-rating Factor	A factor that is applied to a CMU's capacity to derive its De-rated Capacity.
Distribution Network	This consists of smaller- and lower-voltage 'local' networks (compared to the high-voltage transmission network). It is used to carry electricity from the high-voltage transmission network to industrial, commercial, and domestic users.
EfW	Energy from Waste generators.

Extended Performance Test (EPT)	Requires a CMU from a Storage Generating Technology Class with an agreement awarded after 21 December 2017 to generate continuously at an average of their Connection Capacity multiplied by Technology Class Weighted Average Availability for a number of consecutive Settlement Periods equivalent to the CMU's storage duration. This test is taken at one of the CMU's 3 Satisfactory Performance Days in the winter of the CMU's first Delivery Year and must be repeated once every 3 years thereafter.
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 Delivery Body to publish a De-rating Factor.
Hydrogen to Power (H2P)	The conversion of hydrogen to produce low carbon electricity.
Insolvency Termination Event	A Capacity Provider or a Joint Owner that has had a liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator, or similar officer for itself or any of its assets. Or, a Capacity Provider or Joint Owner that has had a court in Great Britain make a judgment of insolvency or bankruptcy, entered an order for relief, made an order for its winding-up or liquidation, or an analogous step has been taken by a court in any other jurisdiction, and such judgment, order or other analogous step has not been dismissed, stayed, or discharged.
Interconnector	(i) A physical link that allows for the transmission of electricity across GB's borders; and (ii) A business which operates such equipment.
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.
Long Stop Date	For any Refurbishing CMU or New Build CMU, the date falling 12 months after the start of the CMU's first scheduled Delivery Year, except where a T-1 Agreement has been awarded in respect of a New Build CMU or Refurbishing CMU, the start of the relevant Delivery Year.
Market-wide Half-Hourly Settlement (MHHS)	Market-wide Half-Hourly Settlement will use the ability of smart meters to record a customer's usage during each half hour period to move domestic and small non-domestic customers to half-hourly settlement. Medium and larger non-domestic consumers have been settled half-hourly since Balancing Settlement Code modification P272.
Meter Point Administration Number (MPAN)	A Meter Point Administration Number (MPAN) is a 13-digit reference used to identify every electricity connection point in the country.

Metering System Identifier (MSID)	A unique number relating to a Metering Point which consists of a 2-digit number determined by reference to the Licensed Distribution System Operator, a 10-digit reference number provided by the relevant Licensed Distribution System Operator, and a 1-digit check number provided by the relevant Licensed Distribution System Operator.
MRVs	Monitoring, Reporting and Verification systems to demonstrate compliance with emissions thresholds.
National Energy System Operator (NESO)	NESO is an independent public corporation responsible for planning Great 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.
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.
Pumped Storage Hydro (PSH)	PSH is a storage technology that stores energy in the form of gravitational potential energy of water, pumped from a lower elevation reservoir to a higher elevation.
Renewables Obligation (RO)	A scheme in place since 2002 and administered by Ofgem to support large-scale renewable electricity generation in Great Britain. Closed to new applicants but will remain active for some generators until 2037.
Retail Energy Code (REC)	A set of detailed rules and governance arrangements designed to ensure the effective and efficient operation of the retail energy market in Great Britain. Energy companies are required to become parties to, and comply with, the Retail Energy Code.
Satisfactory Performance Days (SPDs)	Days within the Delivery Year in which capacity providers must demonstrate that they are able to deliver their Capacity Obligation.
Secondary Trading	Trading by capacity providers in respect of the Capacity Obligations they hold. Takes the form of obligation trading or volume reallocation.
Settlement Period	A period of 30 minutes beginning on an hour or half-hour.
Substantial Completion Milestones (SCM)	As per 6.7.2 or 6.7.3, before payments can begin in the Delivery Year, the CMU must demonstrate it is Operational with generating capacity or Net Output, adjusted for its De-rating Factor, equal to at least 90 percent of its Capacity Obligation. It must also complete the Metering Assessment under Rule 8.3.3(ba) and hold a valid Metering Test Certificate under Rule 8.3.3(d).
System Stress Event	A System Stress Event occurs when demand for electricity outstrips supply; it is defined in Rule 8.4.1 of the Rules.

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.
The Electricity Capacity Regulations ("the Regulations")	This refers to the Electricity Capacity Regulations 2014, S.I. 2014/2043, the principal regulations underpinning the CM.
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 is the Capacity Auction held 4 years ahead of the Delivery Year, which secures the large majority of capacity needed in the relevant Delivery Year.
Transmission Network	This is the high-voltage electricity network that transmits large quantities of electricity over long distances across the country (cf. distribution network).
Unabated (gas) generation	Electricity generation where carbon dioxide from burning natural gas is not captured and stored.
UK ETS	The UK Emissions Trading Scheme is a cap-and-trade system which caps the total level of greenhouse gas emissions, creating a carbon market with a carbon price signal to incentivise decarbonisation. The UK ETS came into force on 1 January 2021 to replace the UK's participation in the EU ETS, which was established in 2005.
Wholesale Electricity Market	The market in which generators sell electricity to suppliers.

This publication is available from: https://www.gov.uk/government/consultations/capacity-market-proposed-changes-for-prequalification-2026

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