



UK Government

Capacity Market

Consultation on proposals to integrate low carbon technologies and enhance delivery assurance ahead of Prequalification 2026

Closing date: 8 January 2026



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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 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 participate in competitive auctions to obtain Capacity Market Agreements under which, if awarded, these providers 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 while supporting the transition to a decarbonised energy system. These changes are intended to encourage deployment of a broader mix of technologies, including low-carbon and flexible assets, while ensuring value for money for consumers by keeping the impact on bills as low as possible. The reforms also seek to support the delivery of the capacity adequacy objective by ensuring sufficient reliable capacity is available when needed, and to enhance delivery assurance through strengthened controls and accountability measures.

The consultation complements other government initiatives to support security of supply and deliver clean power by 2030. It also follows recent government publications such as:

- The “Clean Power 2030 Action Plan: A new era of clean electricity”¹, published in December 2024, sets out how clean power in Great Britain will be delivered. Through this, the government will tackle 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 Hydrogen to Power (H2P) market intervention need and design was published.² This committed to the development of a H2P Business Model and enabling H2P's participation into the Capacity Market as soon as practical.
- In March 2025, the government published a call for evidence on innovative H2P projects.³ This sought evidence to understand technical barriers for

¹ DESNZ [Clean Power 2030 Action Plan: A new era of clean electricity – main report - GOV.UK](#)

² DESNZ [Hydrogen to power: market intervention consultation: government response](#)

³ DESNZ, [Call for Evidence: Innovative hydrogen-to-power projects](#), March 2025.

delivering potential projects by 2030, ahead of wider enabling hydrogen infrastructure.

- 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.⁴
- 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.⁵
- In July 2025, the government published the Clean Flexibility Roadmap⁶, building on the Clean Power 2030 Action Plan and setting out the government's vision for flexibility and how it will be delivered.
- In October 2025, the government issued a summary of the responses received from its call for evidence (CfE) on Consumer Led Flexibility (CLF) in the Capacity Market in December 2024⁷. The CfE sought stakeholder views on whether current CM arrangements appropriately reflect the characteristics of DSR technologies and how reforms could improve their participation, whilst maintaining delivery assurance.
- In October 2025, the government published a call for evidence seeking views on how to categorise Hydrogen to Power to inform potential changes to the Capacity Market to enable participation. The call for evidence also sought views on a new approach for determining the technical reliability of interconnectors for the purpose of setting their de-rating factors.⁸
- In October 2025, the government published a consultation seeking views on proposed changes to allow access to a higher clearing price to enable bringing forward enough dispatchable enduring capacity to ensure the security of electricity supply is maintained ("the October 2025 consultation").⁹ The consultation also seeks views on proposals to reduce the scope of strategic bidding, improve participation and delivery assurance of consumer flexibility and to improve the transparency of Capacity Agreements. The changes proposed herein are planned to take effect for the 2026 prequalification cycle alongside those of the October 2025 consultation and are designed to complement these earlier proposals.

⁴ DESNZ, [Capacity Market: Proposals to maintain security of supply and enable flexible capacity to decarbonise](#) December 2024

⁵ DESNZ, [Capacity Market consultation: government response](#), May 2025

⁶ DESNZ, [Clean Flexibility Roadmap](#), July 2025

⁷ DESNZ [Capacity Market: consumer-led flexibility - GOV.UK](#), October 2025

⁸ DESNZ, [Capacity Market: Hydrogen to Power and interconnectors - GOV.UK](#), October 2025

⁹ DESNZ, [Capacity Market: proposed changes for Prequalification 2026 - GOV.UK](#), October 2025

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 improve security of supply, align the scheme with the government's net zero goals, and improve the functioning of the scheme.

Consultation details

Issued: 2 December 2025

Respond by: 8 January 2026

Enquiries to:

Electricity Security and Market Reform

Capacity Market Delivery Team

Department for Energy Security and Net Zero

3-8 Whitehall Place

London

SW1A 2EG

Email: capacity.market@energysecurity.gov.uk

Consultation reference: Consultation on proposals to integrate low carbon technologies and enhance delivery assurance ahead of 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 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-low-carbon-delivery-assurance>

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

Your response will be most useful if it is framed in direct response to the questions posed, though 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).

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.

If you want the information that you provide to be treated as confidential, please tell us, 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.

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 for public services. Since its introduction in 2014, the Capacity Market (CM) has been at the heart of the government's strategy to ensure sufficient capacity to achieve consistent and reliable electricity supply in Great Britain (GB), complementing the large-scale deployment of renewable technologies.

Existing and new-build electricity capacity, in the form of generation, interconnectors, consumer-led flexibility (CLF), and other technologies, compete in CM auctions to obtain agreements under which they commit to delivering capacity when needed, in return for guaranteed payments. These agreements provide revenue streams which support investment in electricity capacity, which in turn ensures security of supply.

As we move forward at pace to deliver the mission of clean power by 2030, renewables will make up a larger proportion of total capacity. Alongside renewables, we will also need sufficient flexible capacity which can be deployed to meet peak demand when the sun isn't shining, and the wind isn't blowing. A diverse portfolio of flexible technologies will be essential to balance supply and demand across varying timescales, including the contribution of dispatchable capacity provided by Long Duration Energy Storage over longer durations than conventional storage traditionally covers.

This consultation is part of the government's ongoing work to ensure the CM remains fit for purpose as the electricity market evolves. These proposals will continue to maintain electricity security as the grid decarbonises, ensure fairness and transparency in market participation and deliver reliable capacity at the lowest cost to consumers. Subject to parliamentary time, the proposed changes are intended to be implemented ahead of Prequalification 2026 and the 2027 auctions.

This consultation includes proposals to address the following:

- **Managing the transition of Existing Generating Capacity Market Units (CMUs) into alternative schemes:** Ensuring that where a Contract for Difference (CfD) has been awarded following a Secretary of State direction, the relevant Generating Unit can continue participation in the CM, so long as there are no periods where the unit would be supported by both the schemes concurrently. The change recognises the strategic importance of these assets for the UK's energy transition and to Security of Supply.
- **Long Duration Electricity Storage Cap and Floor (LDES C&F):** Capturing the interaction between the LDES C&F and the CM by proposing CM eligibility criteria for participating LDES Cap and Floor projects. The proposals consider where any adaptations to existing Rules are necessary. These include mitigations against market distortions and addressing scope for delays to projects becoming operational having succeeded in CM auctions.
- **Improving Delivery Assurance:** Strengthening the CM delivery assurance framework by proposing two approaches to making the termination framework

in the CM more stringent: either raising all fees by 30% in line with inflation from 2016 to today, or by simplifying the regime to have one fee, set at £45,500/MW, to reflect inflationary changes to the current highest fee level since 2016. Both approaches improve the regime by incentivising delivery of CM agreements. We are also proposing to hold Credit Cover until a New Build CMU has completed commissioning in order to further incentivise Capacity Providers to build their CMUs and fulfil their obligations. Credit Cover will be increased to align with the new updated Termination Fee levels.

- **Clarifying Rules around Secondary Trading entrants and CMU transferors:** Providing greater certainty on the eligibility criteria for Applicants who wish to become an Acceptable Transferee through the Secondary Trading Entrant process. The proposal also aims to improve the clarity of the Rules, removing barriers to entry.
- **Introducing additional measures for Multiple Price Capacity Market (MPCM) eligibility** to ensure eligible capacity provides genuinely new capacity and offers value for money. This includes a new requirement to meet a higher capital expenditure (CapEx) threshold in order to qualify for the second, higher price cap. In addition, eligible capacity will be required to provide evidence of a certificate of disconnection where new builds are located on a previously commissioned site. The Delivery Body will also have the ability to request additional evidence to ensure all projects, whether eligible for the MPCM or not, are meeting the necessary Total Project Spend requirements.

Consultation proposals

Managing the transition of Existing Generating CMUs into alternative schemes

Background

The government is committed to ensuring there are no unnecessary regulatory hurdles to the transition of generating assets from the Capacity Market (CM) to alternative technology-specific support schemes to maintain security of supply.

In October 2024, the government responded to its consultation on “Capacity Market Phase 2” which included changes to Regulation 16(2) of the Electricity Capacity Market Regulations (‘the Principal Regulations’) to clarify that an Applicant must not prequalify for a CM auction if it had entered into a Contract for Difference (CfD), regardless of when the CfD was set to begin. The original policy intent for this Regulation was to ensure that there would be no double subsidy for CMUs seeking to enter the CM whilst also being supported by a low carbon support scheme.

In that response, the government noted that it was important to address concerns that a plant might enter into a targeted support scheme and that it would be unable to participate in the CM for the delivery years between entering into the targeted support scheme and that scheme commencing. The government understands that, without action, these assets may be excluded from the CM and left without support in the period between entering into an agreement for a targeted support scheme and the targeted support scheme commencing payments.

The government has since considered how best to address these concerns and is proposing to create an appropriate exception to the general rule that excludes capacity subject to a CfD from participating in the CM.

In May 2025, the government responded to its consultation regarding a “managed exits” process to enable multi-year CM agreements for unabated gas plants to be voluntarily exited in order for the asset to transfer to a Dispatchable Power Agreement (DPA). A key policy position that the government noted was that unabated gas plants in single year agreements are able to participate in bilateral negotiations for a DPA whilst in the CM and agree to a date to become party to a DPA for when their single-year agreements have ended. The government seeks to align this policy position to be broader in relation to CMUs with a single-year agreement.

The government has become aware that it is possible that Existing Generating CMUs may wish to enter into a bespoke CfD arrangement following the direction of

Secretary of State. Currently, these assets could not do so without risking the termination of existing CM agreements and being disallowed from entering into auctions for future Delivery Years. This would occur even if the bespoke arrangement had not yet started and wouldn't begin until after CM support would have ended. We believe that this acts as a disincentive for investment in the generating assets that will be important to achieve the government's ambitions for clean power by 2030.

In general, the policy intent of the scheme is that where a CMU has a CfD awarded that has not terminated or expired, it should not be eligible to participate in the CM. This is to ensure that there is no double subsidy.

The government recognises that an unintended consequence of this policy is that the Regulations and Rules as drafted inadvertently capture other schemes that utilise the CfD framework where offers are made following a direct award from the Secretary of State and not via the Allocation Round process. There is currently no route for Existing Generating CMUs to continue to participate in the CM auctions as an Existing CMU and receive payments pursuant to their CM Agreements up until the point where their CfD would begin.

Proposal

The process to enable flexibility for assets that are awarded a CfD following a direction from Secretary of State will, where possible, align with other excluded schemes that provide low carbon support. A person is excluded from qualifying for the CM if they benefit from a Low Carbon Exclusion. However, a Capacity Provider can still be accredited under a Low Carbon Exclusion so long as they submit a notice which demonstrates that benefits do not overlap with the relevant Delivery Year or period of Delivery Years in the case of a multiple-year agreement.

A Capacity Provider that wishes to enter into a directly awarded CfD would have to provide evidence that they will not be receiving any benefit from this scheme during the CM Delivery Period for which they are Capacity Committed. We propose that this evidence be provided by way of a declaration similar to the existing "Non-Support Confirmation" process under the current Rules. We propose that this will be a new confirmation that if an Existing Generating CMU has agreed to a CfD offered following a direction from Secretary of State, that any support will not begin until the CM Agreement ends. The Applicant will need to provide a copy of the document which sets out the term of their entitlement to benefit from the CfD. If the contract includes a window in which the terms of their contract will begin, then the earliest possible date that the CMU could benefit from its new arrangement will be used. This will mitigate any benefits of waiting to begin targeted support to hedge the potential benefits in a CM auction.

We are proposing to provide more clarity in defining CfD contracts won via the competitive Allocation Round process and those that are awarded following a direction from Secretary of State. We have no intention of changing the policy intent

that CMUs that apply to take part in the CfD auctions should be disallowed from prequalifying into the CM. However, it is our intention to ensure that Existing Generating CMUs can continue to be available to contribute to security of supply whilst waiting for their directly awarded CfD to begin. It is therefore proposed that Regulation 16 of the Principal Regulations be amended to state that the Delivery Body cannot prequalify a CMU that has entered into a directly awarded CfD unless that CMU has provided non-support confirmation that these CfD payments will not begin during the relevant Delivery Period.

We are also proposing to amend CM Rule 3.4.7 to provide this same clarity that CMUs cannot enter into the CM if they are subject to an application, have been offered, or have accepted an offer for a competitively awarded CfD. However, where a CfD is made following a direction from Secretary of State, this will be treated the same as a Low Carbon Exclusion and will only disallow applications where there is a possibility that support from both schemes could overlap during the same period.

This proposal will only affect CMUs that are subject to a CfD following a direction by Secretary of State that occurs where there would be a gap in Delivery Years between the completion of a CMUs' most recent Capacity Agreement and the starting of the terms of their CfD. This proposal allows these CMUs to continue to enter the CM where they would otherwise have no possibility support from another scheme. These proposals do not allow an expansion to the policies that enable a CMU to exit their agreement early. The government published the results of a Call for Evidence in May 2025 to seek evidence and feedback on further decarbonisation pathways.¹⁰

The government seeks views on how this proposal would impact Capacity Providers and whether there are any unintended consequences that would need to be considered if this proposal was implemented?

Question 1: Do you agree that, where a CfD has been awarded following a direction from Secretary of State, the relevant CMU can continue to participate in the Capacity Market so long as support from the CfD would not overlap with the Delivery Period for the Capacity Agreement won by the relevant CMU?

Question 2: Are there any unintended consequences that the government should be aware of in implementing this change? If so, what are they? Provide evidence if possible.

Question 3: Do you agree that these provisions should continue to not be available to CfD Applicants to the competitive Allocation Round process?

¹⁰ [Capacity Market call for evidence: government response](#)

Question 4: Would there be any unintended consequences if we did expand this proposal to cover all forms of CfD agreements?

Question 5: Do you agree that the check for overlapping payments should be from the earliest possible point that the CMU could benefit from the CfD awarded at the direction of Secretary of State?

Question 6: If you do not agree with the proposal to check payments, please provide more details.

Question 7: Do you agree that a Capacity Provider that wishes to enter into such a directly awarded CfD would have to provide evidence that they will not be receiving any benefit from this scheme during the Capacity Market Delivery Period for which they are Capacity Committed?

Question 8: Do you agree that this evidence should be a copy of the document which sets out the term of their entitlement to benefit from the directly awarded CfD?

Question 9: Please provide any additional comments on the evidence provision for a directly awarded CfD. Please include any evidence where possible.

Long-Duration Electricity Storage Cap and Floor (LDES C&F)

Background

The government confirmed in October 2024 its decision to introduce a cap and floor scheme to support the development of Long Duration Electricity Storage (LDES)¹¹. The intent of the LDES Cap and Floor is to address the investment hiatus witnessed across the preceding four decades owing to LDES high CapEx costs and long build times.

LDES projects typically operate in wholesale markets, the Capacity Market (CM), and balancing and ancillary service markets. LDES offers low carbon, flexible capacity to support system optimisation as is required as part of the ongoing energy transition, alongside supporting security of supply in-line with CM objectives.

The LDES Cap and Floor is designed such that where revenues across the assessed period do not meet the floor level, consumers will cover the shortfall (provided the project meets the minimum availability threshold). Conversely, where earnings exceed the cap, a portion of those earnings is to be returned to consumers.

¹¹ DESNZ, [Long duration electricity storage consultation: Government Response](#), October 2024

In this design, consumers are only required to provide financial support to projects whose revenues have fallen short of what is required to recover the cost of invested capital (debt and equity) and provide a return similar to the cost of debt for both equity and debt investors. Funds required to service any shortfalls relative to floor levels are to be recovered through network charges¹².

As part of its response to the October 2024 consultation, government confirmed that projects receiving LDES Cap and Floor support would be able to participate in the CM. The government also noted it would keep this position under consideration; this consultation addresses those aspects. This consultation introduces proposals on additional eligibility criteria LDES Cap and Floor recipients would need to meet to participate in the CM, specifically addressing feedback highlighted in the government response on the potential for CM auction distortions and the length of CM agreements made available to such projects.

Under current CM Rules, new build and refurbishing Capacity Market Units (CMUs) are price-makers¹³ and may be eligible for agreements of up to 15 years (subject to meeting relevant criteria including CapEx thresholds¹⁴ and Extended Years Criteria¹⁵). Recent CM changes have introduced support for projects facing long build times, including those projects eligible for the LDES Cap and Floor, in the form of an additional 12-month extension on top of the original 12-month long stop period¹⁶. Longer agreement lengths and options to delay go-live dates provide incentives to developers of low carbon generation, in turn enabling the CM to support the wider government mission of becoming a Clean Energy Superpower.

The government must ensure that the CM operates efficiently and provides value for money for consumers. Current Rules apply to LDES Cap and Floor recipients without any additional limitations being applied to their eligibility for the CM or the criteria applied to their participation in the scheme. The government has previously introduced eligibility restrictions to capture interactions between the CM and other investment support schemes, whether by limiting access to government support running in parallel to the CM¹⁷ or allowing entry into the CM with limitations applied to participation. An example of the latter sees Interconnector CMUs defaulted to price-taker status¹⁸ when entering CM auctions and sees them restricted to obtaining only single-year agreements.

¹² This remains subject to Parliamentary progress as part of the Planning and Infrastructure Bill [Planning and Infrastructure Bill - Parliamentary Bills - UK Parliament](#)

¹³ Price-maker status means any CMU which is registered on the CM Register and is notified of its status per CM Rules 4.5.1(b) or Rule 4.8.3. This is typically reserved for new-build or refurbishing generation and for Demand Side Response

¹⁴ Determined annually. See the most recent thresholds at the following link: [Full details of auction parameters and interconnector de-rating factors - GOV.UK](#)

¹⁵ See CM Rules 8.3.6A and 8.3.6B

¹⁶ [Capacity Market Phase 2 Consultation: government response update \(15 October 2024\)](#)

¹⁷ See [The Electricity Capacity Regulations 2014](#), Regulation 16

¹⁸ A Price Maker Memorandum may still be submitted to Ofgem per CM Rule 4.8

With the introduction of the LDES Cap and Floor and the support it provides to projects in parallel to the CM, there is need to consider the interactions between the two schemes and whether any adaptations to the schemes are necessary. The government wishes to consider the introduction of proportionate and appropriate limitations on the eligibility and criteria through which LDES Cap and Floor recipients may participate in the CM. Any changes introduced would seek to ensure the CM continues to deliver value for money and maintains its delivery incentives, whilst also seeking to avoid unintended consequences from their introduction.

Proposals

The government welcomes feedback on measures relating to LDES Cap and Floor projects' participation in the CM. These include:

- Defaulting LDES Cap and Floor projects to be Price Takers, whilst retaining the option to submit a Price Maker Memorandum;
- The maximum length of CM agreements made available to LDES Cap and Floor recipients;
- Restricting Long Stop access for LDES Cap and Floor recipients and live applicants; and
- Director's Declarations.

On Price-Taker Status:

The government considers that the financial support and improved investor confidence provided by the LDES Cap and Floor introduces opportunity for that floor support to be leveraged during a CM auction. That opportunity could incentivise strategic bidding, thereby impacting clearing prices secured by all CMUs. The government therefore proposes that the default eligibility for LDES Cap and Floor projects is to be price-takers, with the Price Maker Memorandum option remaining available as under Rule 4.8.

There is scope that LDES Cap and Floor recipients participating in the CM may seek to draw on the relative income support comfort provided through the floor guarantee to affect auction clearing prices¹⁹. That scope extends beyond the prospective LDES Cap and Floor CMU itself to the applicant's wider CMU portfolio or its parent company's CMU portfolio. The guarantee of floor payments, for example, may incentivise a prospective LDES Cap and Floor-supported CMU to raise its auction bid beyond what it should reasonably require from the CM to support its development and, in doing so, raise the auction clearing price. That auction clearing price would be received by all CMUs clearing the auction, including those within wider portfolios, with increased costs borne by consumers. Whilst this could see the prospective LDES Cap and Floor CMU itself not clear the auction, the net position

¹⁹ CM participants are expected to bid according to their requirements and their willingness-to-accept the clearing price as it is determined through auction processes; this is in line with Rule 5.12 on market manipulation.

across wider portfolios could be such that this behaviour is incentivised. In absence of a CM agreement for the LDES Cap and Floor project, the revenue support offered by the Cap and Floor scheme itself reduces the opportunity cost of adopting this form of strategic bidding.

Separately, CM auction clearing prices could be distorted due to the guarantees provided by the LDES Cap and Floor. An LDES Cap and Floor recipient bidding into the CM may have a lower willingness-to-accept clearing price level at which it bids into the CM versus the counterfactual where it had not secured LDES Cap and Floor support. A reduced willingness-to-accept price level could, for example, be derived from reduced borrowing costs and debt raising opportunities bolstered by the floor level income guarantees. This is a function of the CM's market design to elicit bids reflective of revenue need and therefore its willingness-to-accept price level. Non-LDES Cap and Floor projects, meanwhile, are more exposed to merchant revenue volatility and may require a higher clearing price in the CM for their investment prospects. There is scope that LDES Cap and Floor recipients bidding as price makers (with a lower willingness-to-accept price level on account of its LDES C&F status) could secure CM agreements and distort auction clearing prices downwards to the point that non-LDES Cap and Floor CMUs fail to secure a CM agreement and the accompanying revenues, in turn affecting their investment underpinnings.

Owing to the above concerns, the government proposes that LDES Cap and Floor recipients assume Price Taker status barring circumstance where a Price Maker Memorandum is submitted to Ofgem. The government understands that justifications to assume Price Maker status may present themselves and therefore considers it reasonable that LDES Cap and Floor applicants should retain the option under Rule 4.8 to present reasoning to Ofgem on its qualification as a Price Maker, should this be necessary.

Question 10: Do you agree with proposals that LDES Cap and Floor recipients should be Price Takers by default?

Question 11: If you disagree, please provide your reasoning.

Question 12: Do you agree that LDES Cap and Floor recipients should retain the option to submit a Price Maker Memorandum as under Rule 4.8?

Question 13: If not, please provide your reasoning.

Question 14: Do you believe the introduction of the above risks unintended consequences? If so, please provide details and evidence.

On agreement length:

The government welcomes the views of stakeholders on two main approaches which could be applied to LDES Cap and Floor recipients participating in the CM, those being (i) restricting LDES Cap and Floor recipients to single-year only agreements, or (ii) retaining the option for agreement lengths extending up to 15-years, subject to meeting wider qualifying criteria as under existing CM Rules.

Multi-year agreements were introduced in the CM to provide greater investor certainty and confidence to support the commissioning of new and refurbishing capacity. Following that initial agreement period, CMUs can apply to enter auctions on an annual, rolling basis to obtain single-year agreements²⁰.

The government, as part of its 2023 Capacity Market Phase 2 consultation²¹, consulted on proposals to introduce criteria enabling Declared Low Carbon CMUs to have expanded access to multi-year agreements. Changes implemented following that consultation included the introduction of (i) agreements of up to 3 years for Declared Low Carbon CMUs with zero CapEx (£0/kW) and (ii) agreements of up to 9 years for Declared Low Carbon CMUs acting as a midpoint between the existing 3-year and 15-year limits, with the £/kW CapEx threshold set at the midpoint for the non-Declared Low Carbon CMUs. The rationale for the introduction of these policies was to incentivise investment in low carbon technologies and encourage their participation in the CM.

The LDES Cap and Floor scheme was introduced to address the investment hiatus in LDES by partly, but not wholly, de-risking that investment; plants are still incentivised to operate efficiently and competitively even when included in the LDES Cap and Floor scheme. This is because the floor is only set at a level to enable recovery of the cost of invested capital and so would not provide any profits if engaged. Support offered through the LDES Cap and Floor is typically expected to cover a period of 25-years, running in parallel to the CM. Revenues from the CM would form part of the revenue stack against which Cap and Floor revenue periods are assessed and where any payments or repayments are determined. As such, whilst there are interactions between the two schemes, they can be seen as complementary rather than duplicative.

The government understands that, where multi-year agreements remain accessible to LDES Cap and Floor recipients, the investment case may be enhanced. Opportunity to access fixed CM revenues across a sustained period could improve investor confidence²². For project developers, this could present in increased competition and options to finance, for example, in the form of lower borrowing rates or preferential terms which in turn strengthens the economic case for the project (all other things remaining equal). Previous commercial analysis relating to the

²⁰ Except where qualifying as a Refurbishing CMU and subject to meeting those eligibility requirements.

²¹ DESNZ, [Capacity Market 2023: Phase 2 proposals and 10 year review - GOV.UK](#), December 2023

²² Access to multi-year agreements would not preclude CM participants from opting for shorter-term agreements. Flexibility would be on offer to meet commercial considerations.

Interconnector Cap and Floor scheme, published in 2015²³, however, had determined that longer term CM agreements would not significantly increase the level of financing available to new interconnector projects. Government invites views and supporting evidence relating to financing options for prospective LDES Cap and Floor recipients.

The government equally invites views on the option of restricting LDES Cap and Floor recipients to single-year agreements. Multi-year agreements in the CM were introduced to further investor confidence and to provide some of the underpinning in taking those investment decisions. The LDES Cap and Floor scheme, meanwhile, was introduced to address the investment hiatus in LDES, including the years following the CM's introduction. Multi-year access to some form of revenue certainty running in parallel to one another, whether through CM revenues or through the Cap and Floor, which serves to meet the same overarching objective requires consideration of its justifications and impacts.

The government welcomes stakeholders' views and supporting evidence on the application of any Rules or Regulations changes which could limit the length of CM agreements available to LDES Cap and Floor recipients. This could include revisions to CM agreement lengths where an LDES Cap and Floor is secured following success at CM auctions.

The government does not consider the justifications for single-year restrictions applied to Interconnector CMUs can be wholly and directly translated and applied to LDES Cap and Floor recipients. There is no dependency on generation outside the GB system for LDES as there is with Interconnector CMUs whose modelling and consequent de-rating is determined on that basis.

Question 15: Do you believe LDES Cap and Floor recipients participating in the CM should have access to agreements extending beyond one year and up to 15 years or be limited to a single year only?

Question 16: Please provide reasons and evidence to support your views.

Question 17: Please share your views on the option of reducing CM agreement lengths for a CMU successful at CM auctions which is latterly successful in an application to the LDES Cap and Floor.

On Long Stop Dates for LDES Cap and Floor recipients and applicants:

The CM Rules allow access to a Long Stop Date which permits delays to operational 'go live' dates relative to the first Delivery Year of a CM agreement. The rationale behind the Long Stop Date was to enable a degree of flexibility where delays to meet CM Delivery Years relative to respective auction timings would make CM

²³ DECC, [Government Response to CM Supplementary Design Consultation v.pdf](#), 2015

participation (and perhaps the development of a generating plant as a whole) unviable. The government, under changes made following its 2023 Phase 2 consultation²⁴, introduced a further option beyond the existing Long Stop Date for Declared Low Carbon CMUs meeting eligibility criteria detailed under Rule 3.8A. This extension to the Long Stop Date, specific to low carbon technologies and which must be requested at initial application, enables Declared Low Carbon CMUs to delay their CM obligations by 24-months relative to the first Delivery Year of their agreement.

Use of the long stop options referenced above sees the T-4 auctions procure capacity which won't be deployed in time for its first Delivery Year²⁵, despite that capacity clearing within the relevant T-4 auctions. To address any such capacity gaps for those years, interim auctions must procure additional capacity either through the T-1 auctions (in relation to the 12-month long stop) or through T-1 and T-4 auctions (in relation to the 24-month long stop). T-1 auctions in particular are supplements to the core T-4 auctions and are intended to address capacity gaps close to near-time, reflected by their smaller target capacity (GW).

Ofgem is due to determine the final capacity procured through the LDES Cap and Floor's first window in summer 2026. The target for the first window is between 2.7GW and 7.7GW and is required to be operational between 2030 and 2033²⁶, to support the government's Clean Power mission. Capacity forthcoming via the LDES Cap and Floor using any form of Long Stop Date introduces potential for significant uplifts in auction target capacity for those interim years. That interaction could impact the CM auctions themselves clearing, i.e. the target capacity being procured, as well as the cost of those auctions by way of the clearing price.

To mitigate the capacity gap risk introduced by the interaction outlined above, the government is minded to restrict access to Long Stop Dates for LDES Cap and Floor recipients and live applicants to that scheme. Within the Rules, Long Stop Dates for LDES Cap and Floor recipients and live applicants would be set to the start of the first Delivery Year to which the agreement relates. The government considers the investment impetus and income floor provided through an LDES Cap and Floor agreement, coupled with the option to latterly seek CM agreements, may be considered sufficient to commence with development or refurbishment.

Where introduced, this policy would see those LDES Cap and Floor CMUs delay their participation in CM auctions to the point at which they can meet the T-4 Delivery Year timings. This is intended to reduce the risk of a capacity gap between auction targets and deliverable capacity come the start of the relevant CM Delivery Year.

²⁴ DESNZ, [Capacity Market Phase 2 Consultation: government response update](#), 2024

²⁵ Delivery Years still commence relative to the T-4 auction. A CMU using the Declared 24 Month Long Stop securing a 15-year agreement would in practice start its delivery, and therefore receipt of CM revenues, from the third year. CM payments would be made for thirteen years.

²⁶ Ofgem may approve extensions to operational dates to 2032 or 2035. See Section 6 of Ofgem, [Financial Framework: LDES Window 1 Cap and Floor regime](#), 2025

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The proposal seeks to diminish opportunity for depressed auction clearing prices which could see non-LDES Cap and Floor CMUs being outcompeted by LDES Cap and Floor CMUs whose de facto first delivery year is later than that to which the auction relates and for which the project already has underpinning support via a parallel scheme.

The government considers this proposal to be a proportionate response to the increased capacity coming forward supported by wider government schemes.

Question 18: Do you agree or disagree that LDES Cap and Floor recipients and live applicants should be restricted from accessing long stop options?

Question 19: Please provide justification and evidence to support your response.

On Director's Declarations:

The government proposes that prospective CMUs under a Storage Generating Technology Class (GTC) will be required to submit a Director's Declaration at the point of prequalification. This will include confirmation of that CMU's application status in relation to the LDES Cap and Floor and detail of any relevant identifiers as recorded by Ofgem.

Where there is interaction between projects accessing the LDES Cap and Floor – including holding an agreement or having an application live to the scheme – and the CM, the government proposes that director's declarations are made such that any eligibility criteria proposals in the consultation above which are latterly implemented can be enforced. Knowingly providing a false declaration would see CMUs subject to potential termination being applied under Rule 6.10.1(o) or similar; stakeholders are encouraged to review proposals below in this consultation on updates to Termination Fees.

The government is aware that changes in status for a prospective LDES Cap and Floor project may occur between its application at prequalification and it being operational. The government believes that requiring updates to confirm a director's declaration remains correct should be provided at the following junctures: (i) 22 working days prior to the first bidding window for the Capacity Auction to which the Application relates; (ii) at the point of the Financial Commitment Milestone (Rule 6.6); (iii) at the point of the Substantial Commitment Milestone (Rule 6.7); and (iv) at any stage following the commencement of the relevant CM agreement.

Subject to policy decisions on the broader proposals above and amendments to director's declarations, there may be cause to amend Price Taker / Price Maker status and reduce CM agreement lengths to a single year (where agreements had initially extended beyond one year). The intent of such adjustments to prequalified

status or CM agreements would be to bring LDES Cap and Floor projects into line (or insofar as is possible²⁷) with Rules and Regulations to apply as though the project had held an LDES Cap and Floor prior to submitting its application.

Question 20: Do you agree that a Director's Declaration should be made at the point of prequalification declaring interests in the LDES Cap and Floor?

Question 21: Please provide reasoning for your views.

Question 22: Do you agree with proposals to require interim confirmation of a project's status following prequalification and potential changes in eligibility criteria aligned to that?

Question 23: Please provide reasoning for your views.

Question 24: Do you agree with the proposed terminations to be applied where LDES Cap and Floor participants do not adhere to their director's declaration?

Question 25: Please provide reasoning for your views.

Standardisation of Termination Fees and Credit Cover

The Capacity Market (CM) delivery assurance framework is a set of controls designed to maximise good faith participation in the scheme and ensure the successful delivery of obligations. At present, any New Build CMU that has won a Capacity Agreement but fails to meet milestones and build out may face termination. Termination events also cover an existing plant which fails to maintain appropriate delivery and operating standards. Beyond the loss of Capacity Payments, the amount of the Termination Fee payable by a CMU is outlined in the Capacity Market Rules ('Rules') and Electricity Capacity Regulations 2014 ('the Principal Regulations').

Termination Fees

Termination Fee rates are scaled by the De-rated capacity of the Capacity Agreement (defined as £/MW), and there are currently five rates which are set out in the Principal Regulations:

- $TF_{1_{rate}}$ is £5,000/MW;

²⁷ It would not be possible, for example, to amend a project's Price Maker status following an auction's completion.

- TF2_{rate} is £25,000/MW;
- TF3_{rate} is £10,000/MW;
- TF4_{rate} is £15,000/MW;
- TF5_{rate} is £35,000/MW.²⁸

Termination Fee rates were originally set with the intention of striking an appropriate balance between risks for Capacity Providers and consumers. They aim to encourage participation by not setting rates so high as to create a barrier to entry, but also to mitigate against the risk of speculative participation in the CM and ensure that non-delivery is appropriately disincentivised.

Despite reviews of individual events, the entire Termination Fee regime has not been substantially reviewed since 2016.²⁹ Since Termination Fees and Credit Cover were last substantially reviewed, there have been major changes in the wider energy and economic landscape which have prompted the government to review the framework.

Recent CM auctions have seen a diminishing difference between the supply of prequalified capacity entering the auctions, and the target capacity. In the T-4 Auction for the 2020/21 Delivery Year, the first held after the major review of Termination Fees was concluded in 2016, over 17GW of capacity exited the auction above the clearing price.³⁰ This is almost a quarter of capacity that entered. In the most recent auction, just 1.6GW of capacity exited above the clearing price, meaning over 96% of capacity that entered the auction successfully won an agreement.

As liquidity in the auctions lessens, ensuring that the capacity procured is of high quality is more important than ever. Increasing delivery assurance measures in the CM will ensure that the scheme continues to encourage high quality capacity to deliver on time and ensure security of electricity supply by fulfilling their obligations to supply electricity when required.

In addition, as the government works towards achieving clean power by 2030 and the pace of renewables rollout increases, we will rely increasingly on a renewables-led system as a foundation for a decarbonised grid. The nature of risks relating to electricity security faced by the system are changing. Ensuring peak demand can be met will be vital, especially as the economy increasingly electrifies or when there are periods of low renewable generation.

Finally, since Termination Fee levels were last reviewed in 2016, there has been an approximate 30% increase in inflation (based on Office for National Statistics database, Consumer Price Index (CPI) Annual Rates).³¹ This has meant that

²⁸ See [The Electricity Capacity Regulations 2014](#), Regulation 32

²⁹ DESNZ, [Government Response to the March 2016 consultation on further reforms to the Capacity Market](#), May 2016

³⁰ National Grid, [Final Auction Results T-4 Capacity Market Auction for 2020/21](#), December 2016

³¹ [Office for National Statistics, CPI Annual Rate](#)

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Termination Fees requirements have become misaligned with the original level set in 2014 and the level set after the review in 2016. The government must ensure that Termination Fees continue to be suitable and that the delivery assurance framework continues to strike the right balance between incentivising build out, while not posing an undue barrier to entry.

In light of the above, it is appropriate to review the level at which Termination Fees are set.

Credit Cover

In addition to Termination Fees, the CM also uses Credit Cover to provide added protection against non-delivery by asking prospective Capacity Providers to demonstrate their financial capacity and thus their ability to deliver on their obligations. To maintain the link between new build terminations and Credit Cover through the Termination Fee process, a review of Credit Cover should be conducted in tandem.

The majority of conditionally prequalified CMUs, Unproven DSR, New Build Generation, and New Build Interconnectors must lodge Credit Cover. Credit Cover is returned once the relevant milestones referenced in the Principal Regulations have been met. Where milestones are missed, the CMU may be subject to either increased Credit Cover until further milestones, or they may face the termination of their agreement and draw down of their Credit Cover. At present, Credit Cover is held:

- For Unproven DSR: Until a DSR test is completed. This can be as late as 1 month prior to a DY beginning, or even later if the unit appeals its termination.
- For all other New Build CMUs, it is until the Financial Completion Milestone (FCM) has been met.

Where units do not confirm entry into the Capacity Auction, or in the case of an Auction being cancelled, postponed or rearranged, Credit Cover is returned. Units that do not successfully acquire an agreement in an Auction also receive their Credit Cover back. It is also returned if a CMU has transferred its Capacity Agreement and the transferee has provided replacement Credit Cover and if the Delivery Body has terminated the agreement of a Generating CMU upon receipt of a CFD or ROO conversion notice, or a CCS CFD transfer notice.

Generally, Credit Cover levels are aligned to the exposure to Termination Fees, so that in the event of termination these fees can be recouped through Credit Cover. This means that for Prospective CMUs that have met FCM, Credit Cover would be returned by the start of the Delivery Year.

Once the Delivery Year starts, no collateral against potential termination is held from which the Settlement Body can recoup Termination Fees should a unit be terminated

after reaching its FCM, but before it reaches its Minimum Completion Requirement (MCR) by the Long Stop Date.

The Credit Cover framework has also not undergone a significant review since 2016. In seeking to strengthen incentives for delivery between a unit reaching its FCM and a Delivery Year starting, the government also considers it appropriate to review the length of time that Credit Cover is held for.

Proposals

On Termination Fees:

Option 1 - Introduce an inflationary increase to both Termination Fee rates and Credit Cover requirements.

The government proposes an increase to both Termination Fee rates and Credit Cover requirements. This would be a flat fee increase that is linked to inflation. Since Termination Fees were last reviewed in 2016, there has been approximately a 30% increase in inflation, based on Office for National Statistics database, CPI Annual Rates. As a result, we propose a 30% rise in Termination Fee rates and Credit Cover requirements. The Termination Fee structure would be:

- $TF_{1_{rate}}$ is £6,500/MW;
- $TF_{2_{rate}}$ is £32,500/MW;
- $TF_{3_{rate}}$ is £13,000/MW;
- $TF_{4_{rate}}$ is £19,500/MW;
- $TF_{5_{rate}}$ is £45,500/MW.

Increasing Termination Fees in line with inflation aligns the level of fees to those that were implemented previously, at the start of the scheme in 2014 and in 2016, and will provide more appropriate incentives for units to build out and to deliver capacity on time, while not imposing excessive barriers to market entry.

Increasing Termination Fees by a fixed amount ensures that market participants are aware prior to entering the auction what the fees will be set at, which can then be considered in their business planning and factored into their bidding strategy. This provides a fixed risk premium that participants add onto bids, compared with directly linking the fees to an inflation index, such as CPI, which would fluctuate year-on-year. As a result, the government has ruled out linking Termination Fee levels directly to a fluctuating inflation index such as CPI, which would change annually.

The new Termination Fees and level of Credit Cover would apply to agreements won in auctions held from 2027 onwards only, in line with the previous changes to the framework.

A further option of applying a multiplier to Termination Fees and Credit Cover that scaled with the clearing price was also discounted. This would have meant that for an agreement won in an auction in which the clearing price was high, the associated Termination Fees and Credit Cover would have been higher than for an agreement won in an auction with a lower clearing price. This was discounted as it would have also introduced greater uncertainty into the scheme, potentially increasing risk premiums and bidding prices.

Question 26: Do you agree with the proposal for an inflationary increase to Termination Fee rates? Please provide reasons with your answer.

Question 27: Do you agree with the proposal for an inflationary increase to Credit Cover requirements? Please provide reasons with your answer.

Question 28: Do you agree with the proposal to increase Termination Fees and Credit Cover by 30%, in line with inflation? Please provide reasons and suggest an alternative amount to raise them by.

Question 29: Do you agree with the proposal to not link increases in Termination Fees requirements to an inflation index, such as CPI, which would move year-on-year? Please provide reasons with your answer.

Question 30: Would the proposal in Option 1 have any unintended consequences? Please provide details.

Option 2 - Introducing a single, fixed Termination Fee structure

The government has also considered an alternative approach to reforming the Termination Fee regime.

Since the initial design of the Termination Fee structure in 2014 and the addition of new Termination Fee levels in 2016, the CM has become more complex in terms of the types of capacity that enters the scheme. The number of different types of Termination Events has also increased from 10 when the scheme started to 20 events as of 2025. This increase has made the termination framework more complicated for scheme participants and has created ambiguity about which Termination Event, and associated fee, applies in some cases. The government has also seen examples where CM participants have sought to exit agreements at the lowest cost possible.

It is critical for security of supply that Capacity Providers are incentivised to deliver the capacity procured through CM auctions. The government is therefore seeking views on an alternative proposal as part of the consultation, that would simplify the termination framework and provide more clarity regarding the incentives to maintain a Capacity Market Agreement after winning one in a CM auction.

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This approach would standardise Termination Fee levels, creating a single Termination Fee for all Termination Events. The government considers this approach appropriate as the impact of non-delivery of any capacity is the same regardless of technology type and cause of the termination.

The government proposes that the fee be set at the current largest Termination Fee, uprated for inflation (£45,500/MW). The rationale on the size of the higher fee remains the same: it is the current TF5 level, adjusted to account for the approximate 30% increase in inflation since 2016 (based on Office for National Statistics database, Consumer Price Index (CPI) Annual Rates).

The government recognises that there may be limited situations where discounts to the Termination Fee, or indeed no fee, could be appropriate, including where Capacity Agreements are terminated in the very early stages of a new build agreement, and we invite industry to respond to this consultation with suggestions on how and when these discounts could be applied whilst maintaining the simplicity of this updated approach. We do not intend to introduce fees for agreed voluntary termination events, such as for Generating CMUs transferring to CfD or Renewables Obligation.

The CM already provides options for Capacity Providers to mitigate unforeseen risks to their CMUs, including through Secondary Trading and through Capacity Market Volume Reallocation if a System Stress Event does occur.

The government is interested in the views of all respondents to these proposals and would welcome any evidence that is submitted in addition to the questions that are asked below.

Question 31: Do you agree with the proposed reforms to the Termination Fee regime set out under Option 2? Please provide details.

Question 32: Do you agree with setting the Termination Fee level at £45,500/MW, to reflect the current TF5 fee, adjusted for inflation? Please provide reasons.

Question 33: What specific events should carry a lower, or zero, Termination Fee? Please provide details and any evidence.

Question 34: Are there any Generating Technology Classes that could be disproportionately impacted by the proposal in Option 2? Please provide details and any evidence.

Question 35: Do you think that the proposed reforms under Option 2 make the Termination Fee regime fairer, by applying a simpler fee structure? Please provide reasons.

Question 36: Would the proposal in Option 2 have any unintended consequences? If so, please provide details.

Question 37: Do you prefer Option 1 or Option 2 in regard to changes to the Termination Fee framework? Please provide details.

On Credit Cover:

The government also proposes holding Credit Cover for longer, with New Build CMUs posting Credit Cover until meeting the SCM, while aligning the requirements to different milestones as a unit progresses. The current Credit Cover system provides no delivery assurance past the FCM, which is not a guarantee that a unit will be built. It also means that there is no pool of money from which to recoup Termination Fees should a unit be terminated between the FCM and later Termination Events.

Holding Credit Cover for longer would provide added incentive to build out a unit, while ensuring that Termination Fees can be recouped. To achieve this, the government proposes that the amount of Credit Cover that New Build CMUs would need to post should vary over the build-out period. In practice, this would mean that the requirement would, when adjusted with the proposed inflationary increase to Credit Cover requirements under Option 1, look as follows:

- For New Build CMUs:
 - Units would initially post £13,000/MW Credit Cover.
 - If units failed to hit FCM after 11 months, this would rise to £19,500/MW, in order to cover failing to meet FCM, which is a TF4 event.
 - If it does not meet FCM, it is terminated, and its Credit Cover is drawn down to pay the fee.
 - If it does meet the FCM at a later date, the Credit Cover required is reduced back to £13,000/MW.
 - If units fail to meet the SCM by its latest identified date, the Credit Cover that a unit must post would rise to £45,500/MW.
 - For non-Declared Long Stop Date CMUs, the extra Credit Cover will be required to be posted from the first day of the Delivery Year.
 - For Declared Long Stop Date CMUs, the extra Credit Cover will be required to be posted 2 months before the Long Stop Date ends, in line with current FCM Credit Cover Rules.
 - As soon as the CMU meets the obligations required for CM payments to begin, the unit will receive the full £45,500/MW Credit Cover back, or the £13,000/MW if the SCM was met on time and was not raised.

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- If the CMU is unable to meet the obligations required for CM payments to begin, the unit is terminated, and its Credit Cover is drawn down to pay the fee.
 - Under this proposal, Credit Cover could be drawn down for any failure to reach the SCM, even if that was not the direct reason for termination.
- For Unproven DSR CMUs:
 - Units would need to post £6,500/MW in Credit Cover to meet the potential TF1 for failing to provide a DSR test.
 - Units seeking an Agreement exceeding one Delivery Year would need to post £13,000/MW and will still be subject to rules regarding DSR Partial Credit Cover Release as described in Rule 6.7B and Regulation 59 of the Principal Regulations.

Proceeding with the changes to Termination Fees outlined in Option 2 would also see the level of Credit Cover required increase. In practice, this would mean that the requirement would, when adjusted for the flat fee proposal in Option 2, look as follows:

- For New Build CMUs:
 - Units would be required to post Credit Cover at the 50% mark of the new Termination Fee, or £22,750/MW.
 - If the unit failed to meet the SCM by its latest identified date, the Credit Cover requirements would then rise to 100% of the proposed Termination Fee, or £45,500/MW.
 - For non-Declared Long Stop Date CMUs, the extra Credit Cover will be required to be posted from the first day of the Delivery Year.
 - For Declared Long Stop Date CMUs, the extra Credit Cover will be required to be posted 2 months before the Long Stop Date ends, in line with current FCM Credit Cover Rules.
 - As soon as the CMU meets the obligations required for CM payments to begin, the unit receive the full £45,500/MW Credit Cover back, or the £22,750/MW if the SCM was met on time and was not raised.
 - If the CMU is unable to meet the obligations required for CM payments to begin, the unit is terminated, and its Credit Cover is drawn down to pay the fee.
 - Under this proposal, Credit Cover could be drawn down for any failure to reach the SCM, even if that was not the direct reason for termination.
- For Unproven DSR CMUs:
 - All units successful in T-1 Auctions would need to post Credit Cover at 50% of the new Termination Fee rate, or £22,750/MW. These units would not be required to undertake any additional testing before the

DSR Test, which must be completed at least one month prior to the Delivery Year starting.

- All units successful in T-4 Auctions would need to post Credit Cover at 50% of the new Termination Fee, or £22,750/MW.
 - Applicants would be required to provide a declaration, no later than one year prior to the first Delivery Year starting, signed by two directors of the Applicant company which identifies DSR components that have been acquired, or to which the Applicant has Contractual DSR control, and that these components are expected to provide at least 50 per cent of the CMU's De-rated Auction Acquired Capacity.
 - This must be submitted alongside a report prepared by an Independent Technical Expert (ITE) confirming that the ITE is satisfied that the above declarations are true and correct.
 - If a unit successfully provides this declaration and ITE report, their Credit Cover Requirements will be reduced by 50 per cent, to £11,375/MW. This will align with current Partial Credit Cover Release processes but will differ in that single-year DSR Agreements secured at the T-4 stage will also be eligible for a reduction in Credit Cover.
 - If an Applicant fails to submit this declaration, the Credit Cover Requirements will remain at £22,750/MW until a DSR test is completed.
 - If the Unproven DSR CMU is terminated for failure to complete a DSR test, it will be liable to pay the flat £45,500/MW Termination Fee. Its Credit Cover of £22,750/MW, or £11,375/MW if it had met 50 per cent of its De-rated Auction Acquired Capacity before one year prior to the first Delivery Year starting, will be drawn down to partially cover a Termination Fee.

This proposal to change the Credit Cover process aims to strengthen incentives to build out a unit, while also ensuring that the government can recoup Termination Fees from participants that fail to meet milestones and deliver capacity, ensuring greater value for money for consumers.

The proposal under Option 1 to hold Credit Cover for longer will not require Capacity Providers that successfully reach the SCM by the beginning of the first Delivery Year to post more money than is currently held until FCM, aside from the inflationary increase also being consulted on. This proposal will only require Capacity Providers that do not achieve the SCM by the respective deadline to post additional Credit Cover. This approach has been proposed to align with current Rules around the FCM milestone and to minimise the impact to the majority of Capacity Providers that do meet milestones on time.

The government is also proposing to make failing to post extra Credit Cover for missing the SCM a Termination Event, in line with current Rules around failing to increase Credit Cover for missing the FCM after 11 months. The government is

proposing that this event should be a TF5 termination, because this will align with the Termination Fee for not meeting the Minimum Completion Milestone.

The new Credit Cover requirements would apply to agreements won in auctions held from 2027 onwards only.

Question 38: Do you agree with the rate at which the new Credit Cover requirements are set in option 1? Please provide reasons and evidence.

Question 39: Do you agree with the rate at which the new Credit Cover requirements are set in option 2? Please provide reasons and evidence.

Question 40: Do you agree with the proposal in option 2 to introduce a requirement for Unproven DSR units that win Agreements in T-4 Auctions to submit a declaration signed by two directors that evidences it has contracted a minimum of 50% of its Obligated Capacity, before 12 months prior to the start of the first Delivery Year? Please provide reasons.

Question 41: Do you agree with the proposal to introduce a requirement for Unproven DSR units that win Agreements in T-4 Auctions to submit report by an Independent Technical Expert that evidences it has contracted a minimum of 50% of its Obligated Capacity, before 12 months prior to the start of the first Delivery Year? Please provide reasons.

Question 42: Do you agree that the 50% of Obligated Capacity is the correct level at which to set this requirement? Do you agree that this declaration should be required 12 months prior to the start of the Delivery Year? Please provide reasons.

Question 43: Do you agree with the proposal to hold Credit Cover until SCM is met and to align the requirements to different milestones? If not, are there any alternative dates that the government could hold Credit Cover until? Please provide reasons with your answer.

Question 44: Would the proposed amendments to Credit Cover have any unintended consequences? If so, please provide details.

Question 45: Do you have any additional suggestions to improve delivery assurance in the CM? If so, please provide details with your answer.

Clarifying Rules around Secondary Trading Entrants and CMU Transferors

Background

The government recognises the importance of clarity regarding which of the Rules relating to Applications must be followed by Secondary Trading Entrant Applicants. Under Rule 3.13.1, to successfully become an Acceptable Transferee for Secondary Trading through the Secondary Trading Entrant Process, an Applicant must follow Chapter 3 of the CM Rules, which governs Prequalification Applications for Capacity Auctions.

Acceptable transferees can only transfer their agreement in line with the Rules set out in Chapter 9 of the CM Rules. Participants looking to become Acceptable Transferees must also align with the definitions in Regulation 4 of the CM Regulations. Currently, an Application to prequalify for a Capacity Auction or to be an Eligible Secondary Trading Entrant may not be made for a CMU that already possesses a Capacity Agreement for a given Delivery Year to which a Capacity Auction relates to³².

In addition, Regulation 4(2) of the Regulations states that a “Generating CMU” is a generating unit which provides electricity and is capable of being controlled independently from any other generating unit. Therefore, a Generating Unit that holds two separate Capacity Agreements for the same Delivery Year could not independently control honouring one Capacity Agreement without impacting on the other.

Noting the above, any Application made for a Generating Unit, part of a Generating Unit, or DSR Component that already holds a Capacity Agreement for a relevant Delivery Year, either from another Capacity Auction or as a Secondary Trading Entrant, would not be able to successfully Prequalify for the Capacity Auction or as a Secondary Trading Entrant under the current Rules.

A Capacity Provider that has won an agreement at auction and holds an active Capacity Obligation may transfer the obligation to an Acceptable Transferee, subject to the Rules in Chapter 9. CMUs may become Acceptable Transferees via several routes. One of these is by becoming an Eligible Secondary Trading Entrant pursuant to Rule 9.2.6, which requires an Applicant to submit an Application for the CMU.

As part of the Secondary Trading framework, a CMU Transferor may transfer all or part of its Capacity Obligation for all or part of a Delivery Year to an Acceptable Transferee. If the CMU Transferor has transferred the entirety of its Capacity Obligation away, its Capacity Obligation is reduced to 0MW. This provides the option

³² Rule 3.3.3(a) states that an Application for a Capacity Auction may not be made for a CMU if the Generating Unit or DSR CMU Component currently has a Capacity Agreement or is part of a CMU which has a Capacity Agreement, for a relevant Delivery Year.

to manage the risk of not being able to meet a Capacity Obligation during a System Stress Event, which may be necessary because of events such as plant outages.

If a CMU Transferor has traded away its entire Capacity Obligation in a Secondary Trade, it has reduced its obligation to 0MW but not removed its Capacity Agreement entirely. As a result, the CMU Transferor cannot apply as an Applicant for a new Capacity Agreement as a Secondary Trading Entrant, as this would contravene the CM Rules prohibiting one unit holding two Capacity Agreements for the same Delivery Year. However, these units can still be Acceptable Transferees so long as their obligation does not exceed the stated de-rated capacity in their initial Application.

The government is also aware of the need for clarity in the CM Rules governing the prohibition of CMUs that have reduced their Capacity Obligations to 0MW from being an Applicant for new Capacity Agreements via Secondary Trading as CMU Transferees.

Proposal

The government is proposing to amend Rule 3.13 to clarify that for Secondary Trading Applicants, when applying the other Rules in Chapter 3, “Capacity Auction” must, where appropriate, be read as “the Delivery Year to which the Application relates”.

This will provide greater certainty on the eligibility criteria for Applicants who wish to become an Acceptable Transferee through the Secondary Trading Entrant process. The proposal also aims to improve the clarity of the CM Rules.

The government considered an alternative which would involve the Delivery Body publishing guidance to provide greater clarity on this topic, rather than amending the CM Rules themselves. This was discounted as the government is committed to ensuring that the CM Rules are as clear as possible.

In addition, the government is also proposing to amend Rule 9.2 to clarify that Transferors will maintain their Capacity Agreement, even when they trade their obligation down to 0MW. The amendment will also clarify that such Transferors are only permitted to be a transferee so long as the obligation is below their initial declared De-rated capacity.

This will align with the policy intent of Regulation 4(2)(b) of the Regulations, which states that CMUs must be capable of being controlled independently from any other generating unit and that no one CMU can hold multiple active Capacity Agreements for all or part of a relevant Delivery Year.

These changes ensure that each CMU, Generating Unit or DSR Component can only hold one Capacity Agreement per Delivery Year at all times for up to the De-rated Capacity of the CMU.

Question 46: Do you agree with the proposed amendments to Rules 3.13 to clarify that Secondary Trading Entrant Applications may not be made for a CMU that already possesses a Capacity Agreement for a given Delivery Year? Please provide reasons with your answer.

Question 47: Do you agree with the proposed amendment to Rule 9.2 to clarify the Capacity Agreement status of CMU Transferors? Please provide reasons with your answer.

Question 48: Do you think that the proposed changes to Rules 3.13 and 9.2 will have any unintended consequences? If so, please provide details.

Introducing additional measures for Multiple Price Capacity Market (MPCM) eligibility

Background

The government set out the proposal to introduce a new second, higher price cap for eligible capacity in the *Capacity Market: proposed changes for Prequalification 2026* consultation.³³ This reform - called the Multiple Price Capacity Market (MPCM) - aims to secure additional new build dispatchable enduring capacity, if needed, helping to cost-effectively maintain security of supply in a decarbonised system.

Adjusting the price cap could help ensure enough new capacity that can provide a reliable back-up supply during rare but extended periods of system stress can be secured if needed, particularly as older assets potentially retire. To manage scheme costs, the government is proposing changes to the T-4 auction design so that only eligible new build dispatchable enduring projects can access the higher price cap, while other participants can continue to secure agreements up to the existing £75/kW/year cap.

The consultation on proposed Capacity Market (CM) changes for Prequalification 2026 sets out the full detail on the anticipated requirements for the MPCM. The additional measures in this consultation are designed to offer greater assurance that capacity secured through the MPCM is genuinely new capacity and will involve substantial capital investment, thereby justifying the potentially higher price and ensuring value for money. The government are also proposing a related change enabling the Delivery Body to request additional evidence to confirm that all projects, whether eligible for the MPCM are not, are meeting Total Project Spend requirements.

³³ [Capacity Market: proposed changes for Prequalification 2026 - GOV.UK](#), October 2025

Each proposal is outlined below, including references to anticipated changes to existing Capacity Market Rules and Regulations. Further amendments may be identified following a detailed legislative review and stakeholder engagement.

Proposals

Proposal 1: Introducing a new, higher, CapEx threshold that applies only to New Build CMUs eligible for the higher price cap

As set out in Rule 3.7.2(d), 8.3.6(a) and Regulation 11(3) of the Electricity Capacity Regulations 2014,³⁴ a generating Capacity Market Unit (CMU) must meet the Extended Years Criteria and Fifteen Year Minimum £/kW Threshold to be eligible to bid for a Capacity Obligation for a period of more than three and up to fifteen Delivery Years.

The Fifteen Year Minimum £/kW Threshold is increased annually in line with inflation. For the T-4 auction in 2025 for delivery in 2028/29, the level was set at £340/kW.³⁵

The MPCM will introduce the possibility of significantly higher value CM agreements for eligible New Build CMUs. The government wants to ensure that only New Build plants, investing a significant level of CapEx commensurate with the value of the MPCM agreements, are able to participate.

The government is proposing to introduce a new higher Fifteen Year Minimum £/kW Threshold (a “higher price CapEx threshold”) into Regulation 11(3) to operate separately from the existing Fifteen Year Minimum £/kW Threshold. Eligible New Build CMUs must commit to meeting this new threshold in order to be eligible for agreements at a clearing price up to the second, higher price cap and gain agreements of more than three and up to fifteen Delivery Years at the higher clearing price.

This will require changes to Rule 3.7.2 to specify that any New Build CMUs that are eligible for the second, higher price cap must declare whether their CapEx is equal to or greater than the higher price CapEx threshold. Plants that are both eligible and meet the higher price CapEx threshold will qualify to bid for an agreement length of more than three and up to fifteen years with a value up to the higher price cap. New Build CMUs that are eligible for the second, higher price cap but only meet the existing Fifteen Year Minimum £/kW Threshold will only be able to access CM agreements up to the existing CM price cap of £75/kW. The government proposes amending Rule 3.8.1 to clarify that Refurbishing CMUs are not eligible for the second, higher price cap.

This new proposed threshold, as with others, will be a parameter set annually by the Secretary of State. Initially, the government proposes setting the higher price CapEx

³⁴ [The Electricity Capacity Regulations 2014](#)

³⁵ [Final auction parameters, T-1 and T-4 Capacity Market auctions - GOV.UK](#)

threshold at £475/kW for the 2027 CM Auction. Based on internal analysis, which the government intends to publish in due course, we believe this to be slightly under the lowest central CapEx assumption for any new build dispatchable enduring capacity (the capacity type that is eligible for the second, higher price cap), taking into account a degree of uncertainty.

The government expect most or all eligible New Build projects to clear this threshold and qualify for higher clearing prices. However, this proposed threshold would protect scheme value for money by ensuring that any projects that do not need support above £75/kW/year, such as New Build projects with atypically low CapEx requirements, or projects that are not genuine New Build, would not be eligible. As is currently the case, CMUs need an Independent Technical Expert (ITE) to verify capital expenditure as part of Total Project Spend.

- If the Capacity Provider provides an ITE verification of CapEx that failed to meet the higher price CapEx threshold but was high enough to meet the Fifteen Year Minimum £/kW Threshold, then the capacity agreement will remain at 15 years but will be reduced to the lower clearing price (below the £75/kW Price Cap).
- If the Capacity Provider fails to provide any ITE verification of meeting the Qualifying CapEx in time, or the Capital Provider has not even met the Fifteen Year Minimum £/kW Threshold, then not only will the capacity agreement be reduced to one Delivery Year, but the Capacity Provider will also only receive the lower clearing price.

This may also require other consequential changes to the Electricity Capacity Regulations 2014 and CM Rules to clarify that the capacity cleared price for a capacity agreement will have a dependency on the CapEx threshold the CMU is able to meet. The changes will also allow the Delivery Body to amend the duration and capacity price of an agreement if the CMU fails to meet the relevant threshold.

Question 49: Do you agree with the introduction of a new higher price CapEx threshold? If not, please explain why.

Question 50: Do you agree with setting the new higher price CapEx threshold initially at £475/kW? If not, please explain why and suggest what you think a more appropriate threshold might be.

Question 51: Do you agree with the proposed penalties for failing to meet the proposed new higher price CapEx threshold?

Proposal 2: Adding a pre-qualification requirement for New Build CMUs eligible for the second, higher price cap, to provide evidence of a certificate of disconnection, if they are building on a site that has been previously commissioned.

In the October 2025 consultation,³⁶ we set out that only New Build eligible CMUs will be able to access the second, higher price cap. We want to ensure that a proposed New Build CMU located on a site previously used for generation is genuinely new, and to do so by requiring evidence that previous generation on the site has been decommissioned.

Regulation 4(8) defines a “Prospective generating CMU” as a generating unit which, in summary, has not been commissioned (or recommissioned following an improvements programme in the case of a Refurbishing CMU), and, when commissioned, will meet the conditions in Regulation 4(2).³⁷ The definitions of commissioned and decommissioned are set out in the Regulations.

The CM Rules define “New Build CMU” as “a Prospective CMU other than a Refurbishing CMU”. “Refurbishing CMU” is defined as “an Existing CMU which is the subject of an Application as a Prospective CMU by virtue of an improvements programme that will be completed prior to the commencement of the first relevant Delivery Year”.

Proposal

The government proposes adding a requirement in Rule 3.7 for New Build CMUs that are eligible for the second, higher price cap to declare whether they are located on a site containing a unit which has previously been commissioned. If so, the CMU must provide evidence of:

- A. A previous certificate of disconnection, which should have been provided by NESO or another system operator of the GB transmission grid and;
- B. Where the unit has previously participated in the CM, the unique CMU identifier and;
- C. Where the unit has previously participated in the Balancing Mechanism (BM), a BSCP15-4.2 De-Registration of Primary BM Unit form showing the de-registration is a disconnection of circuits from the Transmission System or Distribution System.

This will ensure that any plants on a site that has previously been commissioned are not a refurbishment of an existing plant but are genuinely new capacity, eligible to qualify as a New Build CMU. In order to avoid compliance burdens for participants, the new evidential requirements are not proposed to be applied to all CM New Build applications, but only to those eligible for higher clearing prices under the MPCM, for which an extra level of assurance is proportionate.

As per the existing CM Rules, if the CMU does not provide the information required for Pre-Qualification, which will now include the declaration regarding whether the site has previously been commissioned and evidence of disconnection if relevant,

³⁶ [Capacity Market: proposed changes for Prequalification 2026 - GOV.UK](#), October 2025

³⁷ [The Electricity Capacity Regulations 2014](#)

then the CMU will not Prequalify. If the declaration is found to be false or misleading before the start of the first Bidding Window for the relevant Capacity Auction, the Delivery Body will inform the CMU that it is no longer Prequalified.

If the declaration is found to be false or misleading after the CM auction, the CMU ultimately could be terminated under Rule 6.10.1(o) on the basis that information or declaration submitted in or with an application relating to the Capacity Agreement did not comply with the requirements in Rule 3.12.1³⁸.

Question 52: Do you agree with this proposed change as a means of providing further assurance that all New Build applications seeking higher prices under the MPCM constitute genuinely new and additional capacity?

Question 53: Are there any reasons why it might be challenging for New Build CMUs, on sites which have previously been commissioned, to provide the evidence proposed above? If so, how would you propose these to address challenges while retaining robust assurance that MPCM applications are for genuinely new capacity?

Question 54: Are there any specific challenges for units on sites which were only partially decommissioned previously to provide the evidence proposed above? If so, how would you propose to address these challenges while retaining robust assurance that MPCM applications are for genuinely new capacity?

Question 55: Do you consider there to be any other gaps or ambiguities in the definition of New Build that should be addressed?

Proposal 3: Introducing a new provision under Rule 8.3.6 to enable the Delivery Body to request additional evidence relating to Total Project Spend.

Currently, under Rule 8.3.6(a), Capacity Providers must submit a certificate from an ITE to the Delivery Body confirming that the Total Project Spend meets or exceeds the CapEx threshold corresponding to the agreement length awarded. However, the Delivery Body does not currently have the power to request that additional evidence is provided to support the ITE report.

While ITE certification is normally sufficient, there may occasionally be circumstances where CapEx spend, and thus eligibility for a certain agreement length, is in doubt. Additional evidence would provide assurance that the different Capacity Market Agreement lengths are being used appropriately, helping to ensure value for money. This is important for all new and refurbishing projects and will be even more so given the potential for higher-value agreements under the MPCM.

³⁸ As per the October 2025 consultation, government has proposed that a Termination Fee of TF4 (£15,000 per MW) is associated with this Termination Event.

The government proposes that a new provision is added to Rule 8.3.6 requiring Capacity Providers to submit additional evidence to the Delivery Body, if requested, confirming that their Total Project Spend meets the agreed CapEx threshold for their Agreement. Failure to do so could result in a reduced Agreement length to one Delivery Year³⁹ and the Delivery Body will not process the provider's Total Project Spend. Further information on what sources of evidence are considered acceptable by the Delivery Body will be set out in the Prequalification guidance.

This new proposal, unlike proposal 1 and 2, would apply to all relevant Capacity Providers, and not just those eligible for the MPCM, from Prequalification 2026 onwards. It also complements a broader package of reforms aimed at strengthening the ITE process, including the enhanced reporting framework currently under consultation by Ofgem. Further proposals may be considered as part of a more comprehensive ITE reform programme for future auction rounds.

Question 56: Do you anticipate any challenges with the new requirement to submit additional evidence - when requested by the Delivery Body - confirming that Total Project Spend meets the agreed CapEx thresholds?

Question 57: Are there any particular changes to the ITE process that should be considered for future auction rounds?

Consultation questions

Question 1: Do you agree that, where a CfD has been awarded following a direction from Secretary of State, the relevant CMU can continue to participate in the Capacity Market so long as support from the CfD would not overlap with the Delivery Period for the Capacity Agreement won by the relevant CMU?

Question 2: Are there any unintended consequences that the government should be aware of in implementing this change? If so, what are they? Provide evidence if possible.

³⁹ This reduction will be enabled by the Regulations.

Question 3: Do you agree that these provisions should continue to not be available to CfD Applicants to the competitive Allocation Round process?

Question 4: Would there be any unintended consequences if we did expand this proposal to cover all forms of CfD agreements?

Question 5: Do you agree that the check for overlapping payments should be from the earliest possible point that the CMU could benefit from the CfD awarded at the direction of Secretary of State?

Question 6: If you do not agree with the proposal to check payments, please provide more details.

Question 7: Do you agree that a Capacity Provider that wishes to enter into such a directly awarded CfD would have to provide evidence that they will not be receiving any benefit from this scheme during the Capacity Market Delivery Period for which they are Capacity Committed?

Question 8: Do you agree that this evidence should be a copy of the document which sets out the term of their entitlement to benefit from the directly awarded CfD?

Question 9: Please provide any additional comments on the evidence provision for a directly awarded CfD. Please include any evidence where possible.

Question 10: Do you agree with proposals that LDES Cap and Floor recipients should be Price Takers by default?

Question 11: If you disagree, please provide your reasoning.

Question 12: Do you agree that LDES Cap and Floor recipients should retain the option to submit a Price Maker Memorandum as under Rule 4.8?

Question 13: If not, please provide your reasoning.

Question 14: Do you believe the introduction of the above risks unintended consequences? If so, please provide details and evidence.

Question 15: Do you believe LDES Cap and Floor recipients participating in the CM should have access to agreements extending beyond one year and up to 15 years or be limited to a single year only?

Question 16: Please provide reasons and evidence to support your views.

Question 17: Please share your views on the option of reducing CM agreement lengths for a CMU successful at CM auctions which is latterly successful in an application to the LDES Cap and Floor.

Question 18: Do you agree or disagree that LDES Cap and Floor recipients and live applicants should be restricted from accessing long stop options?

Question 19: Please provide justification and evidence to support your response.

Question 20: Do you agree that a Director's Declaration should be made at the point of prequalification declaring interests in the LDES Cap and Floor?

Question 21: Please provide reasoning for your views.

Question 22: Do you agree with proposals to require interim confirmation of a project's status following prequalification and potential changes in eligibility criteria aligned to that?

Question 23: Please provide reasoning for your views.

Question 24: Do you agree with the proposed terminations to be applied where LDES Cap and Floor participants do not adhere to their director's declaration?

Question 25: Please provide reasoning for your views

Question 26: Do you agree with the proposal for an inflationary increase to Termination Fee rates? Please provide reasons with your answer.

Question 27: Do you agree with the proposal for an inflationary increase to Credit Cover requirements? Please provide reasons with your answer.

Question 28: Do you agree with the proposal to increase Termination Fees and Credit Cover by 30%, in line with inflation? If not, please provide reasons and suggest an alternative amount to raise them by.

Question 29: Do you agree with the proposal to not link increases in Termination Fees requirements to an inflation index, such as CPI? If not, please provide reasons with your answer.

Question 30: Would the proposal in Option 1 have any unintended consequences? If so, please provide details.

Question 31: Do you agree with the proposed reforms to the Termination Fee regime set out under Option 2? Please provide details.

Question 32: Do you agree with setting the Termination Fee level at £45,500/MW, to reflect the current TF5 fee, adjusted for inflation? Please provide reasons.

Question 33: What specific events should carry a lower, or zero, termination fee? Please provide details and any evidence.

Question 34: Are there any Generating Technology Classes that could be disproportionately impacted by the proposal in Option 2? Please provide details and any evidence.

Question 35: Do you think that the proposed reforms under Option 2 make the Termination Fee regime fairer, by applying a simpler fee structure? Please provide reasons.

Question 36: Would the proposal in Option 2 have any unintended consequences? If so, please provide details.

Question 37: Do you prefer Option 1 or Option 2 in regard to changes to the Termination Fee framework? Please provide details.

Question 38: Do you agree with the rate at which the new Credit Cover requirements are set in option 1? Please provide reasons and evidence.

Question 39: Do you agree with the rate at which the new Credit Cover requirements are set in option 2? Please provide reasons and evidence.

Question 40: Do you agree with the proposal in option 2 to introduce a requirement for Unproven DSR units that win Agreements in T-4 Auctions to submit a declaration signed by two directors that evidences it has contracted a minimum of 50% of its Obligated Capacity, before 12 months prior to the start of the first Delivery Year? Please provide reasons.

Question 41: Do you agree with the proposal to introduce a requirement for Unproven DSR units that win Agreements in T-4 Auctions to submit report by an Independent Technical Expert that evidences it has contracted a minimum of 50% of its Obligated Capacity, before 12 months prior to the start of the first Delivery Year? Please provide reasons.

Question 42: Do you agree that the 50% of Obligated Capacity is the correct level at which to set this requirement? Do you agree that this

declaration should be required 12 months prior to the start of the Delivery Year? Please provide reasons.

Question 43: Do you agree with the proposal to hold Credit Cover until SCM is met and to align the requirements to different milestones? If not, are there any alternative dates that the government could hold Credit Cover until? Please provide reasons with your answer.

Question 44: Would the proposed amendments to Credit Cover have any unintended consequences? If so, please provide details.

Question 45: Do you have any additional suggestions to improve delivery assurance in the CM? If so, please provide details with your answer.

Question 46: Do you agree with the proposed amendments to Rules 3.13 to clarify that Secondary Trading Entrant Applications may not be made for a CMU that already possesses a Capacity Agreement for a given Delivery Year? Please provide reasons with your answer.

Question 47: Do you agree with the proposed amendment to Rule 9.2 to clarify the Capacity Agreement status of CMU Transferors? Please provide reasons with your answer.

Question 48: Do you think that the proposed changes to Rules 3.13 and 9.2 will have any unintended consequences? If so, please provide details.

Question 49: Do you agree with the introduction of a new higher price CapEx threshold? If not, please explain why.

Question 50: Do you agree with setting the new higher price CapEx threshold initially at £475/kW? If not, please explain why and suggest what you think a more appropriate threshold might be.

Question 51: Do you agree with the proposed penalties for failing to meet the proposed new higher price CapEx threshold?

Question 52: Do you agree with this proposed change as a means of providing further assurance that all New Build applications seeking higher prices under the MPCM constitute genuinely new and additional capacity?

Question 53: Are there any reasons why it might be challenging for New Build CMUs, on sites which have previously been commissioned, to provide the evidence proposed above? If so, how would you propose these to address challenges while retaining robust assurance that MPCM applications are for genuinely new capacity?

Question 54: Are there any specific challenges for units on sites which were only partially decommissioned previously to provide the evidence proposed above? If so, how would you propose to address these challenges while retaining robust assurance that MPCM applications are for genuinely new capacity?

Question 55: Do you consider there to be any other gaps or ambiguities in the definition of New Build that should be addressed?

Question 56: Do you anticipate any challenges with the new requirement to submit additional evidence - when requested by the Delivery Body - confirming that Total Project Spend meets the agreed CapEx thresholds?

Question 57: Are there any particular changes to the ITE process that should be considered for future auction rounds?

Next steps

This consultation will remain open to written responses for 5 weeks from 2 December 2025, closing on 8 January 2026. The government will analyse all responses to inform further policy development. A response is expected in spring 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 responses.

Glossary

Abbreviation / Term	Definition
Acceptable Transferee	Defined in Rule 1.2 as a person who: (a) is not a Defaulting CMU; (b) is not subject to an Insolvency Event; (c) is not subject to an Enforcement Order; (d) is not subject to a Capacity Market Suspension Order; (e) is not subject to a Termination Notice in respect of any Capacity Agreement; and (f) has not been disqualified from participating in the Capacity Market.
Allocation Round	Defined in Rule 1.2 as a round of bidding in a Capacity Auction during which Bids may be submitted or withdrawn, and Exit Bids may be submitted.
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.
Cap and Floor	The maximum (cap) and minimum (floor) Capacity Payments that a Capacity Provider may receive in respect of a Capacity Agreement, as determined in accordance with the Rules
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 Committed	Capacity committed CMU, in relation to a delivery year, means a CMU that is identified in the capacity market register as being subject to a capacity obligation for that delivery year.
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.

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Capacity Market Unit Transferor	A Capacity Provider that transfers all or part of its Capacity Obligation to another person in accordance with Chapter 9 (Transfer of Capacity Obligations).
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).
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.
Connection Capacity	The capacity available to a CMU on the distribution (MEC) or transmission network (TEC).
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.
Contracts for Difference	The Contracts for Difference (CfD) scheme is one of the key mechanisms designed to incentivise the investment required in the UK's energy infrastructure and to deliver low carbon and reliable energy supplies, while minimising costs to consumers.
Credit Cover	Refers to financial security (usually a deposit or guarantee) that Applicants must provide to participate in Capacity Auctions. It ensures compliance and is subject to release or drawdown under specific conditions (e.g., Rule 5.5.16(b), Regulation 59).

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CPI Annual Rates	These are used for indexation of Capacity Payments under Rule 6.4, adjusting payments in line with inflation as measured by the Consumer Price Index.
Declared Low Carbon	Declared Low Carbon means a CMU in respect of which an Applicant or Capacity Provider provides a Low Carbon Declaration.
Deferred Support Confirmation	Confirmations submitted by Applicants regarding participation in auctions, particularly for Refurbishing CMUs and Pre-Refurbishment CMUs (see Rule 5.5.15).
Delivery Body	The National Energy System Operator (NESO).
Delivery Partners	Refers to Ofgem, the Settlement Body and the Delivery Body.
Delivery Period	Delivery Period means the Delivery Year or Delivery Years for which a Capacity Obligation would be awarded in respect of a CMU ("CMU i") if a bid in respect of CMU i were 15 accepted at the Capacity Auction for which the Applicant is applying for Prequalification,
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.
Dispatchable Power Agreement (DPA)	The Dispatchable Power Agreement (DPA) is a private law contract, based on the renewables contract for difference (CfD), of between 10 and 15 years between a power plant developer and a DPA contract counterparty.
Demand Side Response (DSR)	Also known as consumer led flexibility (CLF). DSR 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. CMUs can be Proven or Unproven DSR CMUs, with specific testing and metering requirements.

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Demand Side Response (DSR) component	A DSR CMU Component is an individual site or unit within a DSR CMU. Each must be metered and tested, and changes to components are governed by Rule 8.3.4.
Extended Years Criteria	Defines the minimum and maximum duration of Capacity Agreements: New Build/Refurbishing CMUs: up to their Maximum Obligation Period. or Declared Long Stop CMUs: minimum durations (e.g., 9 years for 24-month, 3 years for 12-month).
Financial Commitment Milestone (FCM)	For a Prospective CMU, the provision to the Delivery Body of: (a) a report by an Independent Technical Expert meeting the Required Technical Standard confirming the Capital Expenditure and financial commitment requirements specified in Rule 6.6; and (b) a Funding Declaration.
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.
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.

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Low Carbon Exclusion	Refers to the exclusion of CMUs from Capacity Auctions if they are supported by other low-carbon mechanisms (e.g., CfDs). This is tied to Regulation 15(5) and Rule 6.10.1(d)(iii).
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.
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.
Office for National Statistics (ONS)	Provides CPI data used for indexation of payments under Rule 6.4.
Ofgem	The Office of Gas and Electricity Markets, the regulator overseeing the Capacity Market. It may review rules and enforce compliance.
Prequalification	The process set out in the Capacity Market Rules for the Delivery Body to confirm whether a CMU may bid in a capacity auction. A CMU must meet the requirements specified in the Regulations and the Capacity Market Rules to be prequalified.
Prequalification Window	The period during which Applicants submit their CMU applications for prequalification. Key deadlines and confirmations (e.g., Rule 5.5.14) occur here.
Price Maker Memorandum	Applicants who wish to be Price Makers must submit a Price Maker Memorandum and Certificate under Rule 4.8, justifying their bidding behaviour above the price cap.
Price Taker	A CMU that bids at or below the auction price cap and does not submit a Price Maker Memorandum. Default status unless otherwise declared.
Relevant Planning Consent	Applicants must demonstrate they have obtained necessary planning permissions for their CMUs. This is part of the Prequalification process and affects eligibility.
Secondary Trading	Trading by capacity providers in respect of the Capacity Obligations they hold. Takes the form of obligation trading or volume reallocation.

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Secondary Trading Entrant	A Secondary Trading Entrant is an entity that applies to participate in the Capacity Market only for the purpose of secondary trading, rather than bidding in primary Capacity Auctions. These entrants must follow a specific application process outlined in Rule 3.13, and their prequalification decisions are notified under Rule 4.9.
Settlement Body	The CM Settlement Body is the designated entity responsible for: • Administering payments (e.g., Capacity Payments, Termination Fees). • Receiving and managing Credit Cover. • Overseeing metering data and performance compliance. It plays a central role in financial and operational settlement under the Capacity Market framework.
Settlement Period	A period of 30 minutes beginning on an hour or half-hour.
Subsidy Control	Compliance with UK subsidy control regulations. CMUs must ensure that any support received aligns with subsidy control rules.
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.
Termination Fee	A Termination Fee is a financial penalty imposed when a Capacity Agreement is terminated due to non-compliance or failure to meet obligations. The Delivery Body must notify the CM Settlement Body if a Termination Fee is payable (see Rule 14.4.3(f))

Capacity Market: Consultation on proposals to integrate low carbon technologies and enhance delivery assurance ahead of Prequalification 2026

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.
Wholesale Electricity Market	The market in which generators sell electricity to suppliers.

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