UK Government

Capacity Market: proposal regarding locational changes of Capacity Market Units

Government Response

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

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Executive Summary

From 3 – 28 November 2025, the government consulted on a proposal to reform the Capacity Market (CM)[1]. This proposal aimed to increase confidence in the delivery of capacity in line with the initial application by removing the Change of Address (CoA) provisions in the CM Rules. The consultation was undertaken urgently to provide clarity to Capacity Providers and ensure the delivery of capacity in line with CM agreements.

The government considers that the current drafting of CoA provisions in the CM Rules has led to unintended consequences and unnecessary benefit to CM agreement holders by allowing too much flexibility in the moving of agreements to different locations. This has created a risk that new build Capacity Market Units (CMUs) delivered are materially different than the units that won new build CM agreements. The government believes it is important to ensure that projects brought to auction and awarded agreements are sufficiently feasible in the form applied for to secure the highest likelihood of delivery.

The consultation consisted of 8 questions with Questions 1, 2, 4, 5 and 6 focusing on the omission of Rule 8.3.7 and Rule 7.5.1(r) and any unintended consequences these omissions may have. Question 3 engaged with the impact of the proposal on Demand Side Response (DSR) CMUs and Questions 7 and 8 requested any information on whether respondents have used the CoA provisions previously. The consultation received 26 responses in total from a range of stakeholders including energy industry operators, representative trade bodies and private individuals.

The government agrees with the feedback that applying the rule change to existing agreements may undermine investment decisions that were taken at a time when the provisions existed and that providers have faced some uncertainty due to the ongoing grid connection reform process. The government is also aware of the need to urgently provide an update on this proposal to ensure potential CM applicants have time to adequately prepare for the next Prequalification window.

Taking account of this feedback, the government has made adjustments to the implementation to allow providers sufficient time to adjust and will only apply the rules to new agreements won at the 2027 auctions and beyond. The government believes that implementing the removal of the CoA provisions in this way will help mitigate any associated risks of increased terminations.

[1] Capacity Market: proposal regarding locational changes of Capacity Market Units

Context

Background

Since its inception the CM has been continuously evolved, to keep pace with wider policy and market changes, to ensure it remains fit for purpose. Rule 8.3.7(a) introduced evidential requirements to demonstrate that any proposed location would be feasible to build the project laid out in the initial Application for that CMU.

The purpose of the CM is to act as the main electricity security of supply scheme for Great Britain; its focus is on ensuring viable projects enter the auctions and win agreements to secure the country's security of supply. The government believes that the current CoA provisions offer an unnecessary and unintended benefit to some providers and weakens delivery assurance. Allowing material locational changes after an auction introduces a risk that the CMU ultimately delivered is not the same project that secured the agreement. This does not sufficiently incentivise applicants to seek only to prequalify viable projects at the point of Prequalification.

This urgent consultation, which launched on 3 November 2025 and closed on 28 November 2025, sought to clarify the policy intent of the CoA provisions as soon as possible and provide greater delivery assurance for the scheme.

Overview of consultation proposals

In the 3 November 2025 consultation, the government sought views on a proposed change to the Rules that would disallow any New Build CMU or DSR CMU from changing the location of a Generating Unit or DSR Component in the manner currently described in Rule 8.3.7. This change would not affect DSR CMU's ability to reallocate DSR components under CM Rule 8.3.4(e) or to notify component locations under rule 8.3.3A.

The government proposed the omission of Rule 8.3.7 in its entirety and the omission of Rules 12.2.1(ca)(iv), which refers to Rule 8.3.7, and Rule 7.5.1(r) which allows Capacity Providers to notify the Delivery Body of a change of location. The government proposed that this change would apply to all current and future agreements from the point of its coming into force.

Responses to the consultation

- The consultation on CoA provisions was published online and ran between 3 November 2025 and 28 November 2025.
- The consultation received 26 responses in total; these responses were submitted through an online portal (Citizen Space) and by email.

- Stakeholders included generators and developers, suppliers, trade bodies, investors, and a private individual.

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

For the purpose of calculating the proportion of respondents that had a particular view of a question, only respondents that provided an opinion are counted in the “total number of responses”. In this context, “most” or “many” indicates more than 70% of such respondents, “the majority” indicates a view held by more than 50% of such respondents, “some”, to a view of between 30% and 50% of such respondents, and “a few” to a view of less than 30% of respondents who expressed an opinion.

Change of Address Provisions

The consultation comprised of eight questions which break down into 3 key themes: the proposal and any unintended consequences, the impact on DSR and previous uses of the CoA provisions. This response will address the questions under these three key themes.

The proposal and unintended consequences

Questions 1 and 2 sought views on the proposal to omit Rules 8.3.7, 12.2.1(ca)(iv) and 7.5.1(r). The government asked whether respondents agreed with the proposal and to supply further detail to substantiate their response. Question 4 and 5 asked if respondents could see any unintended consequences to removing the CoA provisions in Rule 8.3.7 and to elaborate on their response. Question 6 asked if there are unintended consequences of removing Rule 7.5.1(r).

Collectively, these questions sought respondents' views on the proposal and whether they believed this proposal would have any unintended consequences.

Summary of responses

The majority of respondents disagreed with the proposal set out in the consultation (Question 1); however, despite disagreeing with the proposal as stated, 14 of 26 respondents were in favour of stronger checks on CoA applications generally as opposed to 4 who believed the current rules were sufficient.

Those who agreed with the proposal responded to Question 2 indicating that they believed it would improve delivery assurance and support the technological neutrality of the scheme, since large-scale transmission connected new build projects are not able to change location due to having to provide a Development Consent Order (DCO) and grid connection offer before participating and this would bring the rules for other types of New Build CMUs in line with those of large-scale transmission connected units. Another respondent raised that the CoA provision provided competitive advantage to developers with large portfolios while disadvantaging smaller providers.

The main themes of the responses which disagreed with the proposal related to the fact that it would apply to existing as well as future agreements, flexibility and managing delivery risks, and unintended consequences of the rule change. Some respondents disagreed with the change being applied to existing CM agreements from the date it comes into force. Those who disagreed with applying the change to existing agreements indicated that it would undermine investor confidence and change the conditions under which investment decisions were made by providers.

The majority of respondents indicated that the CoA provisions offered the ability to manage delivery risks for CMUs. These responses suggested that, despite the documentation required

at Prequalification, unforeseen circumstances, such as land or grid connection issues, still arise following Prequalification that may make the original site inviable. Respondents argued that, in these circumstances, the CoA provision allows providers to deliver the agreed capacity as planned at a different site rather than risk termination.

Regarding unintended consequences (Questions 4,5 and 6), some respondents cited concerns that the proposal would drive increases in terminations and overall CM costs either due to terminations or a reduction in auction liquidity. Some suggested that removing CoA provisions could prevent providers from managing delivery risk by forcing a provider to terminate if a site becomes unviable after Prequalification. Respondents argued that this would increase reliance on the more expensive T-1 auctions to make up lost capacity. A few respondents also indicated that removing the flexibility provided by CoA provision could discourage providers from bringing projects forward to auction, reducing liquidity, or cause them to seek higher auction prices to mitigate the risk of not being able to change location later.

Policy response

The government recognises concerns around applying this change to all existing agreements from the date it comes into force. Although CM rule changes do typically apply to all existing agreements from the date they come into force, in this case, the government recognises that, while NESO is undertaking a process of grid connection reform, there is a concern from participants that the risk of grid connection delays and associated challenges is likely to be higher than normal. The government also acknowledges that investment decisions for previous auctions have been taken based on the existence of the change address provision. As a result of these issues, the government proposes that the rule change will apply to all future CM agreements starting from CM auctions in 2027. This will allow providers time to factor the change into their investment decisions and, since NESO will have issued gate notifications, will also mean projects will have a clearer understanding of their likely connection date to inform their investment decisions. Government undertook the consultation and response urgently and considers that, with the changes coming in before prequalification in 2026, this provided applicants with as much time as possible to assess their portfolios and ensure they are entering viable projects into future Prequalification rounds.

While the government understands that respondents are keen not to lose the flexibility provided by CoA provisions, there are a variety ways delivery risk can be managed within the CM Rules: Long Stop Dates (and declared Long Stop Dates) provide additional time for providers to reach Minimum Completion Requirements (MCR) and can be extended to allow for connection issues under rule 6.7.7, providers can receive partial payments by meeting the MCR which only requires delivery of 50% of operational capacity, and providers can

extend their window to meet Financial Completion Milestones by posting additional credit cover. Additionally, only 63 CMUs, representing just 8% of all new builds, had CoA requests approved by the Delivery Body between 2021 and 2025, comprising around 867MW of capacity. The small proportion of capacity which has made use of the CoA provision since 2021 suggests that the risk of a spike in terminations and associated need to source high levels of capacity in the T-1 auctions is likely to be low. The government believes the importance of increasing delivery assurance and ensuring that projects brought forward to auction have sufficient viability to guarantee the highest possible likelihood of delivery makes the risk of a small increase in terminations tolerable.

Impact on DSR

Question 3 asked whether respondents agreed that removing the CoA provisions would not have a negative impact on DSR CMUs. Under previous changes made to the CM Rules, DSR can make changes to components through Rule 8.3.4 which, the government believes, reduces the need for the CoA pathway for DSR CMUs.

Summary of responses

Responses to Question 3 were mixed with 59% agreeing that this change would not negatively affect DSR CMUs and 41% disagreeing. The responses indicate that there is a lack of clarity around how DSR CMUs should enter addresses and whether CoA provision is of use to them. A few respondents requested greater clarity around the rules for DSR and location.

Of the responses that felt the change was not relevant for DSR, the reasons were mainly related to the fact that unproven DSR is not required to provide address details of components at Prequalification. Provided this continued, these responses did not see that the rule change would be an issue. One response also highlighted that if DSR CMUs did not have a site commissioned at the time of auction, they are still able to apply under the unproven DSR route and only provide component details under Rule 8.3.3A. The responses that believed this change would have a negative impact on DSR cited two main reasons. It was suggested that Rule 8.3.4 is too restrictive, as it does not allow changes to be made until the start of the Delivery Year. It was also raised that, under the proposal set out in the Consultation on proposed changes for Prequalification 2026 (published 2 October 2025), DSR will be required to undertake new tests after components are added or reallocated. CoA would not trigger this requirement, but without it, DSR will need to re-test in the event of component churn.

Policy response

The government recognises that the ability to change components is necessary for DSR. In order to address the issues raised in the consultation responses, greater clarity on how DSR interacts with the CoA provisions is necessary. There are some differences between how unproven and proven DSR interact with the rules around component reallocation and in how they enter locations at Prequalification.

Unproven DSR does not provide an address at Prequalification, but instead at the point they notify components. Unproven DSR CMUs can update their component addresses ahead of the Delivery Year through rule 8.3.3A. There is no limit on the number of times this can be done provided it is completed before the date specified in 8.3.3A(b).

Proven DSR should already have their components committed at the time of Prequalification and, therefore, must provide an address for each component at Prequalification. Under Rule 8.3.4, Proven and Unproven DSR can reallocate components when in the Delivery Year. Although there are reallocation limits with regard to additions and there can only be 10 reallocations per Delivery Year, so far, DSR providers have not approached these limits when using this rule to reallocate components. Additionally, since 2019, only 5 CoA requests have been made by DSR units under Rule 8.3.7.

Given the provisions for updating component addresses (Rule 8.3.3A) and reallocating components (Rule 8.3.4), alongside the minimal use of Rule 8.3.7 by DSR and the fact that DSR providers rarely reach the limits under Rule 8.3.4, the government does not expect any unintended consequences from these proposals for DSR CMUs.

Regarding how the CoA proposals interact with other consultations, the issues raised will be considered alongside the October consultation and the government will respond ahead of Prequalification 2026.

Previous use of Change of Address provisions

Questions 7 asked respondents whether they had previously used the CoA provisions in the CM Rules or would consider using them in the future. Question 8 asked respondents who had responded yes to Question 7 to provide as much detail as possible as to why they used the provisions.

Summary of Responses

The majority of respondents said that they had not used the CoA provisions. Of those who said that they had used the provisions, the reasons for doing so included an unspecified land issue, delays in compliance and regulatory processes, and managing delivery risk within the

provider's portfolio. Within portfolios, respondents suggested they had used the rules to transfer agreements from a site that would not be ready in time for delivery milestones, to a site within their portfolio that was more likely to meet the relevant timescales. A few respondents also cited using the provision to transfer new build contracts with CM agreements from other providers which could not achieve Financial Completion Milestones (FCM) or Substantial Completion Milestones (SCM) or were unable to be delivered at their original site to viable sites within their portfolios.

Policy response

Whilst the government accepts that there is evidence of the CoA provisions being used to manage risk across portfolios and deliver on Capacity Agreements in unforeseen circumstances, the government does not believe that these uses outweigh the risk to the delivery of new build capacity presented by the CoA rule as currently drafted. The ability to use this rule as a portfolio management strategy is an unnecessary and unintended benefit only available to those providers large enough to hold sizable portfolios and the government believes that removing the CoA provisions will provide a more level playing field.

Through the consultation responses the government has also become aware that this rule appears to be used in some instances to avoid secondary trading rules, particularly around agreements not being traded away until they have met their SCM. This is also not an intended use of the CoA provisions, and implementing the proposal will prevent this going forward.

Next steps

The government has reflected on the feedback received from respondents and intends to implement the proposal as follows.

- Amend Rules 7.5.1(r), 8.3.7(a), and 12.2.1(ca)(iv) so they are not available to agreements prequalifying in 2026 for the 2027 CM auctions onwards.
- Maintain Rules 7.5.1(r), 8.3.7(a), and 12.2.1(ca)(iv) in respect of agreements existing before prequalification in 2026.

The government intends to implement the changes in advance of the March 2027 auctions. The proposals will be made via amendments to the Capacity Market Rules 2014.

The government wishes to thank all those who took the time to respond to this consultation.

List of respondents to the consultation

The consultation received 26 responses in total from a range of stakeholders.

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

Respondent Name
Flexitricity
EDF
RWE
Flexible Generation Group
E.ON
Uniper
Electricity Storage Network
Gresham House
Energy UK

This publication is available from: https://www.gov.uk/government/consultations/capacity-market-proposal-regarding-locational-changes-of-capacity-market-units

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