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

Government Response

Department for Energy Security and Net Zero (2026)

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1. Executive Summary

The Capacity Market (CM) 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 CM Agreements under which, if awarded, these providers commit to deliver capacity when needed in return for regular payments.

On 2 December 2025, the government launched a consultation seeking views on proposals aiming to ensure the continuation of security of supply while supporting the transition to a decarbonised energy system. These changes were 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 consultation consisted of 57 questions:

- Questions 1 – 9 related to managing the transition of existing Generating Capacity Market Units (CMUs) into alternative schemes
- Questions 10 – 25 related to Long Duration Electricity Storage Cap and Floor (LDES C&F)
- Questions 26 – 45 related to the standardisation of Termination Fees and Credit Cover
- Questions 46 – 48 related to clarifying rules around Secondary Trading entrants and CMU Transferors
- Questions 49 – 57 related to introducing additional measures for Multiple Price Capacity Market (MPCM) eligibility

The government has considered the feedback provided in response to the consultation and intends to take forward the changes outlined below.

2. Introduction

2.1 Overview of consultation proposals

The government launched a consultation on 2 December 2025 to seek views on the following areas:

Managing the transition of 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 to participate in the CM, without allowing support from both schemes to be received at the same time. This would ensure value for money for consumers and would allow existing capacity to continue participating in the scheme. The change recognises the strategic importance of these assets for the UK's energy transition and to Security of Supply.

LDES C&F – Capturing interactions between the LDES C&F and the CM by proposing CM eligibility criteria for participating LDES C&F projects. The proposals consider where any adaptations to existing CM Rules and Regulations are necessary. Proposals included mitigations to avoid market distortions and those to address access to mechanisms through which projects can delay becoming operational relative to CM auctions in which they participate.

Improving Delivery Assurance – Strengthening the CM delivery assurance framework by proposing two approaches to making the termination framework in the CM more stringent. In addition, a proposal to hold Credit Cover until a New Build CMU has completed commissioning their CMU to further incentivise Capacity Providers to build their CMUs and fulfil their obligations. It is important to strengthen the delivery assurance of new build assets in the scheme to ensure it continues to deliver on its primary objective of ensuring the security of Great Britain's electricity supply, while also maintaining value for money for consumers.

Clarifying Rules around Secondary Trading entrants and CMU transferors – Updating the CM Rules around Secondary Trading, which is the CM's mechanism which allows for the transfer of CM agreements and capacity obligations for all or part of a Delivery Year to an Acceptable Transferee. The change intends to provide greater certainty on the eligibility criteria for Applicants who wish to obtain Capacity Agreements through the scheme's Secondary Trading process. The proposal also aims to improve the clarity of the Rules.

Introducing additional measures to support eligibility for the Multiple Price Capacity Market (see consultation published on 2 October – Capacity Market: proposed changes for Prequalification 2026): This would ensure eligible capacity provides genuinely new capacity and offer value for money. This included a new requirement to meet a higher capital expenditure (CapEx) threshold to qualify for the second, higher price cap.

2.2 Consultation Responses

- The consultation was published online and ran between 2 December 2025 and 8 January 2026
- The consultation received 46 responses; these responses were submitted through an online portal (Citizen Space) and by email
- Stakeholders included generators and developers, suppliers, trade bodies, investors and delivery bodies

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.

2.3 Changes to be Implemented

Managing the transition of existing generating CMUs into alternative schemes, CMU’s with CfDs awarded following a direction from Secretary of State under Section 10 of the Energy Act 2013 will be allowed to enter Prequalification for the CM. This is subject to these generators declaring they will not receive any support under the CfD during the relevant CM Obligation Period.

The imposition of Price Taker status for LDES C&F projects participating in the CM, the government intends to introduce the proposal as originally drafted. LDES C&F projects will be Price Takers by default whilst retaining the option to submit a Price Maker Memorandum under the existing process**.**

Requirements for LDES C&F projects participating in the CM to provide a Director’s Declaration at the point of Application, the government intends to implement this as outlined in the consultation. Updates to LDES C&F status will only be required by exception where a change in that project’s status has occurred. Termination for failure to provide updates to that status by the milestones described in the consultation will be implemented.

The Standardisation of Termination Fees and Credit Cover, the government will proceed with a 30% increase to Termination Fee rates and Credit Cover requirements, in line with the Consumer Prices Index (CPI) inflation since the scheme was last reviewed in 2016. The government will also implement the proposal to hold Credit Cover for longer, requiring New Build CMUs to post Credit Cover until the requirements for Capacity Payments to begin are met, while aligning the requirements to different milestones as a unit progresses. The government will be implementing the condition that failing to post extra Credit Cover for

missing the SCM will become a TF5 (now TF9) Termination Event, analogous to the current CM Rules around failing to increase Credit Cover for missing the FCM after 11 months.

Clarifying Rules around Secondary Trading, the government intends to implement the proposal to amend Rule 3.13 to provide clarity around the Rules that apply to Secondary Trading Entrant Applications. The government has decided not to proceed with amendments to Rule 9.2 to clarify that CMU Transferors will maintain their Capacity Agreement, even when they trade their Capacity Obligation down to 0MW. The government believes the current rule is sufficient to achieve the policy intent.

3. Managing the transition of existing generating CMUs into alternative schemes

Consultation position

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 Regulations 2014 (‘The Principal Regulations’).[1] This change clarified that an Applicant must not prequalify for a CM auction if it had entered into a 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. In that response, the government committed to considering how best to address this concern by creating an appropriate exception to the general rule that excludes plants with a CfD from participating in the CM, without producing any unintended consequences. The government understood that there was an unintended consequence with its initial amendment to Regulation 16(2) that inadvertently captured 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.

The government proposed to align the policies that 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)[2] so that Existing Generating CMUs can enter into a CfD following a direction from Secretary of State, under Section 10 of the Energy Act 2013. A Capacity Provider that wishes to enter into a directly awarded CfD would have to provide evidence that they will not be receiving any financial benefit from this scheme during the CM Delivery Period for which they are Capacity Committed. Relevant CMUs would have to provide a “Non-Support Confirmation” declaration and 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.

The government also proposed to provide a clear distinction between competitive Allocation Round CfDs awarded through Section 14 of the Energy Act 2013 and CfDs awarded via a direction from Secretary of State under Section 10 of the Energy Act 2013. The government also proposed to amend CM Rule 3.4.7 to provide clarity that CMUs cannot enter the CM if

[1] DESNZ (2024), Capacity Market Phase 2 Consultation: government response update (15 October 2024)
[2] DESNZ (2024), Capacity Market consultation: Proposals to maintain security of supply (2024)

they are subject to an Application, have been offered, or have accepted an offer for an Allocation Round 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.

Summary of responses

Questions 1 and 2 asked whether respondents agreed that units with CfDs awarded following a direction from Secretary of State could participate in the CM so long as there was no overlap in support and whether this might have any unintended consequences. Of the 25 responses to Question 1, most respondents agreed that, where a CfD was awarded following a direction from Secretary of State, the relevant units should be allowed to prequalify into the CM so long as there was no overlap in support between the two schemes. Some respondents who agreed sought additional clarity as to what was meant by a “benefit” and who would be defined as a “Direct Award CfD”. Some other respondents indicated that clear guidance should be provided in advance of the next prequalification round to ensure Applications are made correctly. A few respondents who disagreed with the proposal indicated that the change would increase the administrative burden on Delivery Partners. For Question 2, most respondents did not foresee any unintended consequences. Some respondents commented that it was important that changes would not lead to either unintended exclusions of capacity or lead to a greater risk of double payments to relevant units.

Question 3 and 4 asked whether Allocation Round CfDs should continue to be prohibited from prequalifying for the CM and if this might have unintended consequences. Of the 20 responses to Question 3, most respondents agreed that assets with Allocation Round awarded CfDs should still be prohibited from prequalifying from the CM. Some respondents said that this would increase the complexity in managing and participating in CfDs and would reduce the integrity of both the CM and CfD schemes.

Some respondents stated that, whilst they agreed with the principle of not having overlapping benefits, there may be an emerging risk of assets that are finishing their CfD contract and are unable to enter the CM until their agreement expires, leaving them without support in the interim period. A few respondents wanted additional clarity that these proposals would apply generally to all CfDs not awarded via the competitive Allocation Round and would not create unintended complications for different schemes.

For Question 4, most respondents agreed there would be unintended consequences in expanding these provisions to all CfDs. Some respondents noted that there may be a greater risk of gaming between the CfD and CM to maximise revenues and this could have an adverse impact on security of supply. Some respondents believed that these provisions should be expanded to plants with Allocation Round-awarded CfDs. These respondents said that expanding eligibility would increase auction liquidity and would lower the likely clearing prices of CM auctions.

Question 5 and 6 asked whether 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 and invited respondents to provide more detail if they disagreed with this proposal. Of the 20 responses to Question 5, most respondents agreed that overlapping payments should be checked by using the earliest possible point that an asset could benefit from the CfD awarded at the direction of Secretary of State. Some respondents commented that it would improve transparency and reduce the risk of error if, where a CMU is also subject to a directly awarded CfD that will commence in the future, the dates of the entitlement to such a CfD were published on the CM Register. A few respondents who agreed wanted clarification that benefit would be defined in terms of receiving payments, not just at the point that a contract is entered into. A few respondents wanted the proposed changes to account for any slippage in the delivery of the direct-award CfD.

Question 7 and 8 asked whether a Capacity Provider that wishes to enter into such a directly awarded CfD would have to provide evidence that they will not have any overlapping benefit and whether this evidence should be a copy of their terms of entitlement. Of the 19 responses to Question 7, all respondents agreed with the proposal. All respondents also agreed that the evidence should take the form of their terms of entitlement document as proposed in Question 8. Some respondents said this would strike the balance of providing needed assurances whilst not creating an undue administrative burden. A few respondents requested that the entitlement document be redacted when submitted to the Delivery Body. Some other respondents noted that the evidence requirement will need to be flexible to not require legislative changes as more emerging schemes begin.

Question 9 asked for any additional comments on the evidence provision for a directly awarded CfD. The government received 8 responses to this question. Some respondents asked for more clarity as to what was meant by a benefit in the consultation document. Some respondents commented that each document of entitlement was likely to be different and that the amendments must be accommodating of the bespoke nature of these contracts. A few respondents indicated that changes should account for any delays that occur to the generator that might impact the directly awarded CfD.

Government response

In line with most responses, the government will implement the proposed amendments to the Principal Regulations and CM Rules enabling generators with a directly awarded CfD to prequalify for the CM, so long as participation does not result in overlapping benefits between the two schemes.

The government will amend Regulation 16(2) to clearly define the difference between CfDs awarded following a direction from Secretary of State and those won on standard terms following an Allocation Round. The amendments will make it clear that the Delivery Body may prequalify generators subject to a directly awarded CfD, so long as there is no overlap in the benefits of both schemes.

An Applicant for the CM that has entered into a CfD following a direction from Secretary of State must declare in their Application that they will not be in receipt of any support from their CfD during the course of their scheduled Delivery Year as part of their Application. The Applicant will also have to provide a copy of the document which sets out the term of their entitlement to benefit. This copy must provide the date to which they will begin to receive payments, or if applicable, the earliest possible date payments could begin if there is a window to which the directly awarded CfD could begin.

The government will amend CM Rule 3.4.7 to clarify that generators who apply to enter the Allocation Round CfD process will still be ineligible to prequalify for the CM but that generators under a directly awarded CfD may prequalify so long as they will not benefit from this contract during the relevant Delivery Year.

The government welcomes the detailed feedback it received to Questions 1-9. Some respondents asked for clarity as to what was meant by “benefit” in the consultation. Benefits will be viewed as the receiving of a generating counterparty payment or the making of a generating party payment as per Regulation 4 of the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014. This is the earliest date that a generator may receive or make a payment for their directly awarded CfD and the first day of the scheduled CM Delivery Year. Some respondents wanted further clarity on how the government will define a “directly awarded CfD”. This will be defined as any CfD awarded following a direction from Secretary of State under the provisions of Section 10 of the Energy Act 2013.

The government does not intend to provide any adjustments for force majeure events that may delay the beginning of the benefit for the directly awarded CfD. This is to minimise the risk of any double subsidy and to prevent any unintended consequences.

The government notes the concern from a few respondents who indicated that some Allocation Round-awarded CfDs are due to expire soon and these generators will not be eligible to enter the CM until these contracts expire. This may leave these generators without the possibility of receiving support for multiple years before becoming eligible to enter the CM again. The government will consider this issue further and may provide further amendments that ensure continued auction liquidity without creating any unintended consequences.

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

Consultation position

The government consulted on a range of proposals to capture interactions between the LDES C&F scheme. As part of its October 2024 government response to the design of the policy framework to support investment in LDES, the government confirmed that LDES C&F projects would be eligible for the CM. That confirmation, however, was caveated that further determination of the eligibility criteria for CM participation would follow. The LDES C&F has now received Royal Assent as part of the Planning and Infrastructure Act 2025[3] and Ofgem is in the process of determining the outcome of the first Application window.

The consultation invited responses on four proposal topics. The intent of the proposals was to ensure that LDES C&F projects participating in the CM did so on a basis which would support security of supply, continue to meet value-for-money considerations, and not introduce unintended consequences. The proposals were:

- To impose Price Taker status on LDES C&F projects entering the CM, whilst retaining the option for developers to submit a Price Maker Memorandum (Questions 10-14).
- To restrict LDES C&F projects to single-year only CM agreements. Alternatively, to maintain the status quo such that LDES C&F projects could secure CM agreements extending to 15-years (subject to meeting eligibility requirements). Views were also sought on retrospective reductions to agreement terms where an LDES C&F licence was secured following initial success in CM auctions (Questions 15-17).
- To remove access to Long Stop Date options for LDES C&F projects entering the CM (Questions 18-19).
- To require a Director’s Declaration confirming LDES C&F status of Storage CMUs entering the CM and subsequent updating at set milestones. CMUs would see eligibility criteria adjusted where restrictions are introduced and would be subject to terminations where Director’s Declarations are shown to be false (Questions 20-25).

Summary of responses

Price Taker status

Regarding Price Taker and Price Maker status, 70% of respondents supported the Question 10 proposal to impose Price Taker status on LDES C&F projects, with 80% supporting the Question 12 proposal to retain the option to submit a Price Maker Memorandum (PMM) to Ofgem. Several respondents supporting the Price Taker status imposition caveated their support on the basis that the PMM option remained open to those projects. The PMM was considered to provide appropriate mitigation for where a CM clearing price above the £25/kW

[3] UK Parliament (2025), Planning and Infrastructure Act 2025 - Parliamentary Bills - UK Parliament

threshold is to be required to make projects investable. The PMM was also highlighted as providing a degree of oversight and transparency due to the determining analysis required which forms part of the PMM assessment prior to application to Ofgem. Additionally, supporters highlighted how this approach would maintain consistency with Interconnector Cap and Floor projects participating in the CM. Some respondents suggested that the PMM process should be more evaluative and that additional guidance should be provided as to the contents and evidence required as part of the process.

Some respondents suggested that CM revenues form a critical part of the revenue stack to inform investment decisions and that Price Maker status is necessary to achieve sufficient revenue certainties to inform those decisions. Conversely, other responses suggested that the LDES C&F determines the investment case such that removing Price Maker status should not present issues in taking investment decisions. Stakeholders also shared contrasting views with regards to market distortion aspects raised in the consultation. Some respondents suggested that defaulting LDES C&F to be Price Takers would depress auction clearing prices and introduce distortions, whereas other respondents responded positively to the imposition of Price Taker status due to its ability to mitigate distortion risks.

Length of CM agreements available to LDES C&F projects

Question 15 saw 52% of respondents support LDES C&F projects having access to CM agreements extending beyond one year. Question 16 requested additional rationale and evidence to qualify views. Reasoning shared in support of permitting LDES C&F projects to access multi-year agreements were varied. Many respondents outlined that the principles applied to Interconnector CMUs differ insofar as de-rating factor determinations are required. Investor impacts were frequently cited, referencing the role of revenue certainty in informing investor confidence and investment decisions, how the cost of capital and cost of equity would be impacted based on agreement lengths available, and how having single or multi-year agreement options provided value to investors. Further points were raised in relation to the CM's importance as part of the revenue stack considered in cap and floor revenue assessments and how the LDES C&F in and of itself is not sufficient to inspire investor confidence. Contention was also raised regarding technology neutrality and how limiting LDES C&F projects to single-year only agreements would forgo consumer benefits from reducing costs across both schemes. Consumer costs were suggested to be improved in the round across the two schemes acting as complements to one another, whilst the system benefits offered from LDES were also raised by some respondents.

Several respondents who supported restriction of agreement length for LDES C&F projects to single-year CM agreements raised that participation in parallel schemes represented duplicative support and that appropriate limitations should be imposed to reduce the amount of duplication. Duplication of support was suggested to lead to additional risk and cost to be borne by consumers, resulting in poor value-for-money or over remuneration. Other respondents furthered views on duplication of support and questioned the October 2024 position taken by the government to permit participation in both schemes in parallel whatsoever. Respondents suggested that the investment case is met through the LDES C&F and that multi-year agreements are not needed to bolster incentives for investors. Views were

also shared that requiring LDES C&F projects to participate in auctions on an annual basis encourages market efficiencies and that the relative value to security of supply from LDES C&F assets in the CM would be better captured by annually rebasing de-rating factors instead of fixing de-rating factors and CM revenues through multi-year agreements.

Question 17 invited responses on reducing the length of CM agreements to reflect for CMUs which are latterly successful in the application to the LDES C&F. In effect, this would mean that a CMU securing a multi-year agreement with more than one year remaining on that agreement would have its agreement length reduced to a maximum of one year and see it then bid annually in CM auctions. The majority of responses to this question rejected the proposal, stating that retrospective action introduces unnecessary risk to projects and that revenue and regulatory certainty were important factors in taking investment decisions. Some responses noted that the schemes should be mutually exclusive and complements to one another, rather than having direct interdependencies. The introduction of interdependencies was seen to bring electricity system risks in addition to the investment risks highlighted before.

Of those supporting reductions following latter success in the LDES C&F, respondents suggested that LDES C&F projects should be treated in the same manner as Existing CMUs and be restricted to single-year only agreements and hold Price Taker status. Another response suggested that it would reduce the risk of over-remuneration (outlined above). There was also consideration that, where an LDES plant holds a multi-year CM agreement, that its investment case had already been met and that a parallel LDES C&F licence would not be required, rendering the proposal redundant.

Access to Long Stop Dates

Question 18 saw 64% of respondents disagree with the proposed removal of Long Stop Dates from LDES C&F projects. Respondents shared a significant amount of feedback on the proposal and highlighted the nuances between the different forms of Long Stop Date available to projects, in particular Low Carbon CMUs. Distinctions were drawn between Long Stops available on an ongoing basis, i.e. that allowing a delay of up to 12-months and the extension to that Long Stop owing to missed connections (Rule 6.7.7), versus the Declared 12- and 24-month Long Stop options introduced under the 2023 Phase 2 consultation.[4]

Some of those who supported the removal of Long Stop options – either in part or in full – agreed that there is risk of a capacity gap occurring owing in part to capacity whose investment case is underpinned through another investment support mechanism. Some respondents agreed that deferring CM participation until a high degree of certainty on beginning operation would reduce capacity gap risks. Similarly, risks of negative consumer impact from higher clearing prices in subsequent auctions, i.e. those auctions procuring capacity to address deferred capacity not yet being available, were also highlighted. Feedback also raised concern of depressed clearing prices and distorted auction outcomes where LDES C&F projects accessed Long Stops, in turn providing it with an advantage over other CMUs participating in auctions.

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

Some respondents noted how access to Long Stops can be crucial in projects getting to and taking a Final Investment Decision, including those in supported through the LDES C&F. Concerns were shared regarding misalignment between the CM and LDES C&F (in which the LDES C&F offers a 2-year backstop for force majeure as a parallel to CM Long Stops) and where project developers should not be punishable due to delays outside their control (referring to Rule 6.7.7 above). Respondents also suggested that risks of capacity shortfalls due to Long Stops were already an accepted risk as part of CM frameworks and that the coincidence of the LDES C&F should not alter that principle. Further views were shared that wholesale removal of Long Stops would increase the risk of termination and that such uncertainty introduces investment risk and could reduce the viability of the LDES pipeline. The application of restrictions specific to LDES C&F projects was also flagged as running in contradiction to technology neutrality principles.

Director's Declarations

Question 20 saw 87% of respondents agreed with the proposal for Storage CMUs to provide a Director's Declaration indicating their status in the LDES C&F at the point of CM Application. Question 22 saw 76% of respondents agreed with the proposal to require interim updates be made to those Director's Declarations where a project's status in the LDES C&F changes. Any eligibility or agreement terms would be adjusted subsequent to those Director's Declarations updates where linked proposals are taken forward. Finally, 84% of respondents to Question 24 agreed with terminations should a Director's Declaration not be adhered to or proven incorrect at the relevant milestone.

Questions 21 and 23 invited further narrative responses to the requirement of Director's Declarations both at prequalification and at specified milestones during pre- and post-auction auction periods. Those responses suggested that the approach would bring greater transparency, accountability, and enforcement mechanisms to support fair participation. Respondents noted that any requirements should be proportionate to their needs and not be overly burdensome, with a number of responses suggesting that updates following the initial Application should be made by exception instead of requiring an explicit confirmation where no change in project status had occurred.

Question 25 elicited supplementary comment from respondents on terminations being imposed where an LDES C&F project knowingly failed to provide updates to that status. Several respondents pointed to the need to maintain the CM's integrity and that the introduction of a Director's Declaration supports both the scheme's integrity and its enforcement means. Some respondents commented that this being a termination event was disproportionate where it was due to oversight and that the Delivery Body could send a reminder ahead of milestones to prompt updates or could allow a window in which to make corrections where updates were required.

Government response

The following positions will not be applied retrospectively. Any capacity which entered and won an agreement prior to or during auctions held in March 2026 will not be subject to the CM Rules changes outlined below. Changes will apply to any agreements sought after these Rules come into force.

Price Taker status

The government intends to proceed with the proposals as originally set out in the consultation. LDES C&F projects will be defaulted to Price Takers, whilst retaining the option to submit a Price Maker Memorandum to Ofgem. This position provides mitigation against risks of strategic bidding and maintains consistency with the bidding status of Interconnector CMUs. Additionally, the continued option to request Price Maker status through the PMM means that projects can submit justifications for enhanced auction bidding powers. The PMM process will continue to support projects requiring auction clearing prices exceeding the Price Taker threshold whilst providing additional transparency and oversight to CM delivery partners.

Length of CM agreements available to LDES C&F projects

The government will continue to permit LDES C&F projects to access multi-year CM agreements. No retrospective reduction to agreement length relating to subsequent success in obtaining an LDES C&F licence will be introduced. Existing causes for agreement length reductions, e.g. failing to meet relevant capital expenditure thresholds, will remain.

The government recognises feedback that investment stimulus is provided through the LDES C&F and concerns shared over the schemes operating in parallel. However, it is government's view that the schemes are complementary and that appropriate mitigations exist to protect consumers from risk of over remuneration through the cap mechanism. The government is mindful of introducing policy which would dampen investment signals and how this could introduce increased costs – in particular for equity investment – whose impacts would be realised in the C&F scheme and may introduce consumer disbenefit. Investor confidence will be informed by appropriate certainties, e.g. foresight of de-rating factors and expected CM revenues and will be a determining factor in the interactions between the two schemes and the impacts they bring to the wider energy system.

Access to Long Stop Dates

The government welcomes the extensive and detailed feedback on this proposal, which government will consider further. No changes will be made to Long Stop Dates within CM Rules for LDES C&F participants at this time.

The government does, however, wish to clarify, in response to feedback on alignment to the LDES C&F's force majeure mechanism, that no such mechanism exists in the CM. Rule

6.9.1 does not permit for delays caused by force majeure. No rule changes are to be affected to alter that position.

The Declared Long Stop policy will be reviewed by 2028 as outlined following the 2023 Phase 2 consultation.

Director's Declarations

The government intends to introduce requirements for LDES Scheme Participants to declare an LDES Scheme Status Declaration at the point of CM Application and in the lead up to auctions (by 22 working days prior to the first bidding window for the Capacity Auction to which the Application relates). No updates will be required following those milestones due to multi-year agreements remaining available to LDES C&F projects entering the CM. Updates to LDES Scheme Status Declaration will be required by exception only where a change has occurred.

Termination fees aligning with Rule 6.10.1(o) will be applied and will carry a TF8 rate (£19,500/MW) as expanded on in the section below. The government appreciates feedback referencing accidental oversight in not providing updates to LDES Scheme Status Declaration. However, as this proposal is intended to capture the status of LDES C&F projects participating in the CM and that CM eligibility criteria will be amended to reflect that status where updates occur, it is government's view that the responsibility for providing timely updates and the consequences of not doing so remains with the Capacity Provider.

5. Standardisation of Termination Fees and Credit Cover

Consultation position

Termination Fees

Termination Events cover any CMU that has won a Capacity Agreement but fails to meet milestones and build out, as well as CMUs who fail to maintain appropriate delivery and operating standards. Some Termination Events carry associated Termination Fees, which are scaled by the De-rated capacity of the Capacity Agreement and outlined in the Capacity Market Rules ('Rules') and Electricity Capacity Regulations 2014 ('the Principal Regulations'):

$TF1_{rate}$ is £5,000/MW;

$TF2_{rate}$ is £25,000/MW;

$TF3_{rate}$ is £10,000/MW;

$TF4_{rate}$ is £15,000/MW;

$TF5_{rate}$ is £35,000/MW.[5]

The rates at which Termination Fees are set have not been substantially reviewed since 2016. Since this last review, major changes in auction dynamics and the economic landscape have substantially altered the level of assurance provided by the current Termination Fee regime. To maintain suitable delivery assurance incentives, the government therefore proposed two options for reforms to the Termination Fee framework.

Option 1 proposed a 30% increase to Termination Fee rates and Credit Cover requirements, in line with the approximate 30% increase in inflation since 2016, based on Office for National Statistics database, CPI Annual Rates.[6]

Option 2 proposed introducing a single, flat Termination Fee, which would be set at £45,500/MW – the current TF5 rate uprated by 30%, in line with CPI annual inflation since 2016.

Credit Cover

In addition to Termination Fees, the CM 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 Capacity Obligations. To maintain the link between terminations and Credit Cover through the Termination Fee process, Credit Cover has been reviewed in tandem.

The government proposed increasing Credit Cover requirements, while also requiring Credit Cover to be held for longer. The government proposed that New Build CMUs post Credit Cover until meeting the requirements for Capacity Payments to begin, with Credit Cover requirements aligning to different milestones as a unit progresses. Increasing Credit Cover requirements in tandem with an increase in Termination Fee rates maintains the link, while holding Credit Cover for longer provides additional delivery assurance incentives, and ensures that Termination Fees can be recouped.

The government also proposed to make failing to post extra Credit Cover for missing the Substantial Completion Milestone (SCM) a Termination Event, in line with current Rules around failing to increase Credit Cover for missing the Financial Commitment Milestone (FCM) after 11 months. The government proposed that this event should be a TF5 termination, because this would align with the Termination Fee for not meeting the Minimum Completion Requirement (MCR).

Summary of responses

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

[5] Legislation Gov (2014), The Electricity Capacity Regulations 2014, Regulation 32(2)
[6] Office for National Statistics (2026), Office for National Statistics, CPI Annual Rate

Question 26 asked whether respondents agreed with the proposal for an inflationary increase to Termination Fee rates. Of the 37 responses, the majority disagreed with the proposal. The majority of respondents stated that if the government were proposing to raise Termination Fees, it should also make commensurate changes to auction parameters, particularly the Auction Price Cap.

Some respondents requested that, if the government chose to proceed with increasing Termination Fees rates, only capacity eligible for the MCPM consulted on as part of an earlier package, should be exposed to these higher rates.[7] Some respondents warned that applying the higher rate of Termination Fee to all CMUs could risk creating asymmetry in Capacity Auction, and lead to an unfair balance of risk and reward between different types of CMUs. A few respondents also stated that the proposal would disproportionately impact DSR CMUs. A few respondents agreed with the proposal, noting the rationale for change and the need to maintain the original intent of Termination Fees by providing robust assurances of delivery.

Question 27 asked whether respondents agreed with the proposal for an inflationary increase to Credit Cover requirements. Of the 32 respondents, the majority also disagreed with this proposal. Some of these respondents provided the same feedback for Credit Cover as had been provided for Question 26. A few of these respondents also said that increasing Credit Cover requirements would increase project costs and ultimately costs to consumers. A few respondents also flagged that it may have a larger impact on DSR CMUs. A few respondents agreed with the proposal, noting the importance of aligning Credit Cover requirements with Termination Fees.

Question 28 asked if respondents agreed with the increase being set at 30% and asked those who disagreed to provide reasons and an alternative amount for Termination Fees and Credit Cover to be increased by. Of the 30 respondents, most did not agree with the rate at which the proposed increase was set. Some respondents who disagreed with the proposal provided the same feedback as was provided in Question 26 and Question 27. Some respondents noted that a 30% increase to Termination Fees and Credit Cover was too great and could disproportionately impact small participants. Two alternative fee rates were offered by respondents. A few respondents agreed with the rate at which the increase was set, noting the logic of realigning Termination Fees and Credit Cover requirements with the level they were at when introduced in 2016.

Question 29 asked if respondents agreed with the proposal not to link increases in Termination Fees to an inflation index such as CPI, which would fluctuate year-on-year. Of the 28 respondents, the majority agreed with the proposal, with a few stating that linking to CPI would create uncertainty and make forward planning harder for businesses.

Some respondents disagreed with the proposal, stating that CPI was more predictable than periodic government reviews of the framework.

Question 30 asked if the proposals set out under Option 1 of the Termination Fee reform would have any unintended consequences. Of the 26 respondents, the majority said that the proposal

[7] DESNZ (2025), Consultation on changes for Prequalification 2026

would have unintended consequences. Some stated that it may disincentivise small participants and DSR providers from taking part in the scheme, decreasing auction liquidity and increasing consumer costs. Some respondents also raised concerns that it would negatively alter the risk-to-reward ratio of the scheme. A few respondents stated that the proposal would have no unintended consequences.

Government response

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

The government has considered the feedback received from stakeholders regarding the proposed reforms to the Termination Fee regime. While the government acknowledges the concerns that respondents raised, the government will proceed with changes to the Termination Fee regime set out under Option 1 and increase rates by 30%, approximately in line with CPI inflation since these fees was last reviewed in 2016. The government will also proceed with the proposal to introduce a new Termination Event for failing to post extra Credit Cover for missing the Substantial Completion Milestone (SCM) and will link this to the new highest Termination Fee rate.

Changes to the Termination Fee regime will apply to Agreements won in Capacity Auctions from 2027 onwards only and will not be applied retrospectively. The government will not increase the rate of the current TF2 Termination Fee because it has been grandfathered and has not applied to any Termination Events since 2016.

In practice, this will see the new Termination Fee rates set at:

- $TF6_{rate}$ is £6,500/MW;
- $TF7_{rate}$ is £13,000/MW;
- $TF8_{rate}$ is £19,500/MW;
- $TF9_{rate}$ is £45,500/MW.

The most common reason that respondents cited for disagreeing with the proposal in Option 1 of Termination Fee reform was that the government was not also consulting on a corresponding increase to the Auction Price Cap for all participants. The government does not believe that an increase to Termination Fee levels requires a change to the Price Cap.

The Price Cap is a consumer protection tool designed to ensure consumers do not pay too much for the scheme. It does this by limiting costs to consumers, while also allowing a range of projects and technologies to participate in the auction.

In contrast, Termination Fees are delivery assurance mechanisms that aim to ensure that non-delivery is disincentivised, while not discouraging participation. The last time the Termination Fee regime was comprehensively reviewed in 2016, the government raised the highest payable rate from £25,000/MW to £35,000/MW, an increase of 40%. This was not accompanied by a commensurate increase in the Auction Price Cap.

As recent Capacity Auctions have seen a trend of diminishing differences between the supply of prequalified capacity entering the auctions, and the target capacity since the Termination Fee regime was last reviewed in 2016. This has made it more important than ever to ensure that the capacity procured is of high quality, and to incentivise credible projects that will be able to deliver capacity.

At the same time, the government has seen increased numbers of terminations, rising from 21 in the 2020/21 Delivery Year, which was the first T-4 Delivery Year with exposure to updated Termination Fees, to 92 in the 2024/25 Delivery Year, which is the most recent Delivery Year where the Minimum Completion Requirement deadline would expire for T-4 agreement holders.

With regards to the size of the fee increase, the government notes the negative feedback from most respondents but reiterates its belief that the proposal to increase Termination Fees by 30% is a necessary realignment of delivery assurance incentives. In line with the majority of feedback received, the government will not link the Termination Fee rates to an inflation index, such as CPI, which would fluctuate year-on-year.

One of the most frequently cited unintended consequences was the impact that paying higher Termination Fees may have on smaller Capacity Providers. The government considers the proposed fee rates to be fair when considered against the potential benefit that the scheme offers and the need to ensure robust incentives are in place to encourage procured capacity to be available. In addition, as Termination Fees are only payable when a Capacity Provider has failed to adhere to relevant CM Rules and is terminated, the majority of participants will not be required to pay them.

Although some respondents highlighted concerns of disproportionate impacts on DSR CMUs, the government considers this unlikely given that DSR-specific Termination Events remain subject to the lowest active Termination Fee rates.

With regards to the change increasing auction risk premia, the government believes that the retention of a graduated and targeted approach to Termination Fees will help reinforce delivery incentives and assurance without significantly raising auction bid prices.

The government will continue to engage with market participants and Delivery Partners to monitor the impact of these Termination Fee reforms and to ensure that they remain proportionate and provide appropriate delivery assurance.

Termination Fees Option 2 - Introduce a single, fixed Termination Fee structure

Question 31 asked if respondents agreed with the proposed reforms to the Termination Fee regime set out under Option 2. Of the 34 respondents, most disagreed with the proposals to reform Termination Fees set out under Option 2. Some respondents stated that this option would place too much risk on investors. Concerns were raised that moving to a single Termination Fee would be disproportionate, as Termination Events have varying severities, reflecting the different risk profiles in the CM. Some respondents felt that this would create a significant barrier to entry in the CM, and that this would have a disproportionate impact on smaller CMUs. Some respondents noted that this could also result in less capacity being entered into the auction because of the added risk premium, which would reduce liquidity and could raise auction prices and consumer costs. Respondents also raised concerns that this increased risk in the scheme arose because the Auction Price Cap was not adjusted in parallel. A few respondents agreed with the proposal, welcoming a simplified Termination Fee regime and stating that it would help reduce speculative behaviour.

Question 32 asked whether respondents agreed with setting the Termination Fee level at £45,500/MW. Of the 30 respondents, the majority also disagreed with the proposal to set the single Termination Fee level at £45,500/MW, citing the same concerns that were raised in the previous question. A few respondents agreed with the proposal, stating that this fee level would provide an appropriate deterrent against non-delivery.

Question 33 asked if any events should carry a lower, or zero Termination Fee. This question received 29 responses. Respondents suggested multiple events that were appropriate for carrying a lower, or zero, Termination Fee. Some respondents cited early-stage self-termination as appropriate, as this would allow time for procurement of capacity in T-1 auctions. Some respondents also requested that the circumstances outside of a Capacity Provider's control, such as grid delays, should carry no or a low fee. They stated that situations where the Capacity Provider has no ability to prevent a termination should be considered and that fees should be based on the degree of control a provider has to prevent termination.

A few respondents felt that lower termination fees should apply to smaller participants, or that the scheme should make technology-specific adjustments, where risk profiles and delivery characteristics differ. A few respondents noted that introducing lower or no fee events would undermine the approach of moving to a single fee structure under Option 2 and that this option could incentivise speculative behaviour.

Question 34 asked if there were any GTCs that could be disproportionately impacted by Option 2. This question received 23 responses. Respondents suggested that DSR, smaller assets, and several low-carbon technologies would be disproportionately impacted by Option 2. Respondents also noted that there was a risk that these technologies would drop out of the CM as the risk exposure would be too high.

Question 35 asked if respondents agreed that the reforms under Option 2 would make the Termination Fee regime fairer by applying a simpler fee structure. Of the 30 respondents to this question, most did not agree that the proposed reform under Option 2 would make the

Termination Fee regime fairer. Some of these respondents stated that the fee level was disproportionately high, while a few said it could create a barrier to entry. A few respondents felt this option would make the regime fairer, citing that it would remove gaming risks and strengthen delivery incentives.

Question 36 asked respondents if the proposal in Option 2 would have any unintended consequences. Of the 30 responses, the majority thought that Option 2 would cause unintended consequences, highlighting the issues that have been referenced above.

Question 37 asked if respondents preferred Option 1 or Option 2 of Termination Fee reform. Most respondents preferred Option 1 to Option 2, though a few respondents caveated their preference for Option 1 by stating they only agreed with the changes if the Auction Price Cap was also increased.

Government response

In line with feedback from the majority of respondents, the government will not proceed with the proposal set out under Option 2 of Termination Fee reform, which would have introduced a single Termination Fee rate.

The government has noted the concerns that stakeholders raised regarding this proposal and welcomes the feedback that a graduated and more targeted approach to Termination Fees remains preferable for most stakeholders.

Credit Cover

Question 38 asked whether respondents agreed with the rate at which the new Credit Cover requirements are set in Option 1. Of the 31 responses, the majority of respondents did not agree with this rate, stating that this would be disproportionate without increasing the Price Cap, which could lead to the risk of deterring participation and undermining technology neutrality, with a feeling that this would increase costs to consumers. Respondents felt that the 30% increase was too steep and instead suggested that it should be a lower or graduated uplift to reduce the risk of deterring participation. They also expressed the need for clarity on the exact reasoning and evidence for this increase, as this can materially affect financing structures.

Some respondents agreed with this rate, understanding the need for higher Credit Cover, while at the same time noting concerns that increased requirements could disproportionately affect projects that require a longer timeline, which could increase financial pressures and feed into higher costs and reduced liquidity.

Question 39 asked whether respondents agreed with the rate at which the new Credit Cover requirements are set in Option 2. Of the 31 responses, the majority of respondents disagreed with this proposal. Some respondents felt that this would alter incentives for DSR providers and for small companies, deterring participation. Participants would need to have access to a large amount of capital ahead of delivery, which could be a barrier to entry for some

participants and undermine delivery assurance. A few respondents also noted the need for clarity and evidence regarding the rationale for the change.

Question 40 asked whether respondents agreed 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 they have contracted a minimum of 50% of their Obligated Capacity, before 12 months prior to the start of the first Delivery Year. Of the 21 responses, the majority of respondents disagreed with the proposal, with some respondents feeling that the government has not identified the problem that this measure aims to solve, or how it would improve delivery or protect consumers. Respondents felt that this would create administrative burdens without strengthening delivery incentives or improving termination fee recovery, with the additional milestone being difficult to manage within obligations. Most respondents felt that the increase would be unnecessary punitive on DSR aggregators and would risk incentives for DSR to enter the CM.

A few respondents agreed with the proposal because they considered it would strengthen delivery assurance for Unproven DSR units through earlier accountability requirements, where a director's declaration could provide a proportionate and low-cost mechanism to do so, while providing greater certainty over delivery of DSR capacity ahead of the T-1 auctions.

Question 41 asked whether respondents agreed with the proposal to introduce a requirement for Unproven DSR units that win Agreements in T-4 Auctions to submit a report by an Independent Technical Expert (ITE) that evidences they have contracted a minimum of 50% of their Obligated Capacity, at least 12 months prior to the start of the first Delivery Year. Of the 22 responses, the majority disagreed with this proposal as it was perceived to carry an additional administrative burden. Respondents felt there would be a risk that the ITE reports would become largely procedural or a tick-box exercise without appropriate delivery assurance. Respondents also noted that this could add costs, introduce timing risk, and provide limited value, while also acting as a barrier to entry for smaller participants. A few respondents supported this proposal, as they felt it would be a proportionate measure which would bolster delivery assurance.

Question 42 asked whether respondents agreed that setting 50% of Obligated Capacity as the correct level, and whether respondents agreed that the declaration should be required 12 months prior to the start of the Delivery Year. Of the 18 responses, the majority disagreed with this proposal, with many believing that this measure was unnecessary as there are already sufficient incentives in place to ensure delivery. A few respondents felt that this could act as a barrier to entry, and a few noted that while additional milestones for New Build CMUs make sense, it is not appropriate for DSR units as they typically have rapid installation on an existing asset. A few respondents agreed with this proposal as a pragmatic threshold but said they needed more clarity from the government on the requirement and requested that rules and/or guidance demonstrate clear objectives which are verifiable.

Question 43 asked whether respondents agreed with the proposal to hold Credit Cover until the SCM is met and to align the requirements to different milestones. Of the 30 responses, the majority agreed with the proposal to hold Credit Cover until the SCM. These respondents

agreed that the measures would improve delivery assurance, mirror existing DSR treatment, align Credit Cover with true construction-stage risk, and ensure that termination fees can be recovered. Some of these respondents did note, as with the proposed inflationary increase to Termination Fees, that the proposed Credit Cover level of 30% is too high.

Respondents who did not agree with the proposal felt that the requirement was unnecessary once a project has passed the FCM and taken FID, and that it could increase costs and tie up capital for years, which may hinder financing. A few respondents highlighted the lack of government evidence on the scale of termination fee shortfalls and emphasised that Credit Cover changes must be proportionate, clearly aligned with the MCR/SCM rules, and sensitive to delays outside a project’s control.

Question 44 asked respondents whether the proposed amendments to Credit Cover would have any unintended consequences. The government received 25 responses to this question. The majority of respondents felt that the proposed amendments would lead to unintended consequences, citing the creation of barriers to entry, particularly for less-established providers, and the introduction of asymmetries between higher penalties and static rewards. Respondents felt there would be risks that Credit Cover would be drawn down for delays caused by Transmission Owners (TOs) /Distribution Network Owners (DNOs) which would be outside the Capacity Providers’ control. Some respondents also noted that the higher and longer Credit Cover requirements would increase financing costs, reduce debt availability, and force up bid prices to account for the added risk premium, which could in turn reduce auction liquidity, disadvantaging smaller CMUs and favouring larger players with stronger balance sheets. A few respondents highlighted concerns around the administrative complexities, the impact on less established and flexible providers, and the cumulative burden of multiple credit requirements already faced across the sector.

Question 45 asked whether respondents had any additional suggestions to improve Delivery Assurance in the CM. The government received 20 responses to this question. A common theme concerned the testing regime, including making testing more targeted and aligned with more realistic System Stress Event conditions, allowing Unproven DSR CMUs to test as they acquire components, thereby allowing Credit Cover to be released back to participants earlier, and strengthening metering assurance. A few respondents requested that the government review the Secondary Trading framework to increase liquidity. Finally, a few respondents requested that the government review the Termination Fee and Credit Cover more frequently, so that participants do not experience large one-off rises in fees.

Government response

On Credit Cover:

The government has considered the feedback received from stakeholders regarding the proposed reforms to the amount of Credit Cover held in the scheme. While the government acknowledges the concerns respondents raised, the government will proceed with changes to align Credit Cover with the Termination Fee regime set out under Option 1 and increase rates for Unproven DSR and New Build CMU Credit Cover by 30%, in line with CPI inflation since the scheme was last reviewed in 2016.

In line with the majority of respondents, the government will also implement the proposal to hold Credit Cover for longer, requiring New Build CMUs to post Credit Cover until they meet their obligations required for the CM payments to begin, while aligning the requirements with different milestones as a unit progresses. The government maintains the view that holding Credit Cover for longer provides added incentives to build out a unit, while ensuring that Termination Fees can be recouped.

As such, the Credit Cover regime, when adjusted with the 30% increase to Credit Cover requirements, will be as follows:

For New Build CMUs:

- Units would initially post £13,000/MW Credit Cover.
  - If units failed to meet the FCM after 11 months, this would rise to £19,500/MW, in order to cover failing to meet the FCM, which is a TF8 event.
  - If they do meet the FCM at a later date, the additional £6,500/MW posted will be released, reducing the Credit Cover requirement 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. A CMU will be subject to a TF9 Termination Fee if this Credit Cover is not posted when required.
  - 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, which is analogous to current FCM Credit Cover Rules.
  - As soon as the CMU meets the obligations required for CM payments to begin, including meeting its MCR, it will be returned all of its Credit Cover.
  - 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.

The government anticipates that this graduated approach to Credit Cover should help reinforce delivery assurance whilst not materially impacting auction risks.

6. Clarifying Rules around Secondary Trading

Consultation position

The government proposed amendments to the CM Rules to improve clarity and certainty in the operation of Secondary Trading. The proposals focused on clarifying eligibility requirements for Secondary Trading Entrant Applications and the status of CMUs involved in transfers.

The amendment to Rule 3.13 aims to clarify how eligibility criteria apply to Applicants seeking to become Acceptable Transferees through the Secondary Trading Entrant Application process. The government proposed clarifying that, where relevant, references to a “capacity auction” in Chapter 3 should be read as referring to the Delivery Year to which the Application relates.

In addition, the government also proposed amendments to Rule 9.2 to clarify that CMU Transferors will maintain their Capacity Agreement, even when they trade their Capacity Obligation down to 0MW to clarify that such Transferors would only be permitted to be a Transferee so long as the Capacity Obligation is below their De-rated Capacity.

Summary of responses

Rule 3.13 and Secondary Trading Entrant Applications

Question 46 asked respondents if they agreed with the proposal to amend Rule 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. This question received 24 responses. The majority of respondents supported the proposal to amend Rule 3.13 to clarify Secondary Trading Entrant Applications. Some respondents agreed that preventing Secondary Trading Entrant Applications from CMUs already holding a Capacity Agreement improves clarity and aligns with existing Capacity Market Advisory Group (CMAG) work, while some others cautioned that the Rule is restrictive, particularly for assets able to provide additional or “headroom” capacity. These respondents argued that preventing such CMUs from taking on further obligations keeps capacity out of the market and reduces liquidity.

Some respondents disagreed with the proposal stating a preference for a comprehensive Secondary Trading review. A few respondents said that the proposal would block CMUs from bringing capacity to market, and that it limits already constrained Secondary Trading routes.

Rule 9.2 and CMU Transferors

Question 47 asked respondents if they agreed with the proposal to amend Rule 9.2 to clarify the Capacity Agreement status of CMU Transferors and received 22 responses. Most respondents supported the proposal. A few respondents acknowledged the importance of improving clarity within the Secondary Trading Rules but emphasised that a broader and more

comprehensive review of the overall framework is required to address issues associated with Secondary Trading. Some respondents disagreed with the interpretation of existing Rules and raised concerns that it would unnecessarily restrict the ability of CMUs to bring headroom capacity to market. A few respondents who opposed the change argued that once a CMU has traded its Capacity Obligation down to 0MW, it no longer meaningfully holds a Capacity Agreement and should not be treated as if it does.

Unexpected consequences

Question 48 asked respondents to identify any unexpected consequences from the proposals to amend Rules 3.13 and 9.2 and received 18 responses. Respondents suggested several potential unintended consequences of the proposed amendments to Rules 3.13 and 9.2. A shared concern was the risk of misalignment with ongoing CMAG reforms, particularly proposals that would allow CMUs to hold multiple agreements where verified headroom exists. Some respondents warned of disproportionate impacts on storage, DSR, and other flexible assets that gain headroom over time. Respondents stated that preventing such CMUs from contracting additional capacity until a future Delivery Year would reduce flexibility, lower delivery assurance, and increase costs to consumers.

While some respondents recognised the need for greater clarity in Secondary Trading rules, they stressed that the issues cannot be resolved through clarifications alone and instead asked for a comprehensive review of the Secondary Trading framework. Other potential unintended consequences included respondents arguing that the proposals would unnecessarily constrain trading, limit efficient use of deliverable headroom, leave available capacity unpaid and unused, and reduce market efficiency and consumer benefits.

Government response

The government intends to implement the proposal to amend Rule 3.13 to provide clarity around the Rules that apply to Secondary Trading Entrant Applications. The amendment is clarificatory and does not alter the scope of Secondary Trading, the eligibility of participants, or access to the CM. Instead, it makes explicit the way in which the existing Rule is intended to apply.

The government has considered the feedback raised by respondents and will amend Rule 3.13.2 to read *"An Application submitted in accordance with Rule 3.13.1 must comply with Chapter 3 as if it were an Application for a Capacity Auction, except to the extent that this Chapter 3 requires the submission of the Application during the Prequalification Window*". The government continues to believe that the amendment to Rules 3.13 will improve the existing framework. The government considers that this increased clarity reduces barriers to entry arising from inconsistent interpretation.

The government notes the feedback it received regarding broader changes to Secondary Trading and will consider further improvements to administrative processes to the CM. With

regards to calls for a broader and more comprehensive overhaul of Secondary Trading arrangements, the government is aware that the CMAG is currently in the early stages of reviewing the Secondary Trading framework.

The government has decided not to proceed with amendments to Rule 9.2 as the existing Rules and Regulations are sufficient. In accordance with Regulation 30(6), CMUs will continue to maintain their Agreement when they trade down to 0MW. In line with Rule 9.2.6(c), an Acceptable Transferee can be a Capacity Provider so long as the relevant Capacity Agreement for that Delivery Year is below the De-rated Capacity of the Prequalified CMU.

7. Additional measures for Multiple Price Capacity Market (MPCM) eligibility

Consultation position

The government set out the proposal to introduce a new second, higher price cap for eligible capacity in the Autumn [Capacity Market: proposed changes for Prequalification 2026] consultation, published on 2 October. This reform - called the MPCM - aimed to secure additional new build dispatchable enduring capacity, if needed, helping to cost-effectively maintain security of supply in a decarbonised system.

This Winter consultation published on 2 December 2025 set out two additional measures to support the MPCM proposal which would apply only to Capacity Providers that would be eligible for the second, higher price cap. It proposed the introduction of a new higher Fifteen Year Minimum £/kW Threshold (a “higher price CapEx threshold”) into Regulation 11(3) that eligible New Build CMUs must commit to meeting as well as a pre-qualification requirement under Rule 3.7 for New Build CMUs to provide evidence of a certificate of disconnection, if they are building on a site that has been previously commissioned. These measures were designed to give confidence that any capacity supported through the MPCM is a genuine new build that requires significant capital investment.

In addition, the government proposed introducing a new provision under Rule 8.3.6 to enable the Delivery Body to request extra evidence to confirm that all projects, whether eligible for the MPCM or not, are meeting Total Project Spend requirements.

On 16 February 2026, the government announced the decision to not proceed with implementing the policy proposals associated with the MPCM ahead of Prequalification for the next CM Auction in March 2027.[8] The rationale for this is set out in the

[8] DESNZ (2026), [Capacity Market reform: MPCM update - GOV.UK]

government response to the Autumn consultation, which has been published alongside this response[9].

Summary of responses

Question 49 asked if respondents agreed with the introduction of a new higher CapEx threshold. Of the 37 responses, 49% supported the proposal to ensure only genuine capital-intensive projects access the higher price cap, helping to prevent over-rewarding and protecting consumer value for money, 32% disagreed, largely due to wider concerns about the MPCM itself. Some also felt the proposed CapEx threshold would not effectively limit eligibility to efficient, lower-emission new build projects and could allow smaller, less efficient unabated gas plant or technologies that do not need extra support to benefit.

Question 50 asked if respondents agreed with initially setting the new higher CapEx threshold at £475/kW. Of the 26 responses, 65% disagreed for reasons such as the level was too low, which could end up supporting projects that do not need the higher price cap, and that the rationale for the proposed figure lacked transparency. Some also felt the threshold should be linked to the level of the higher price cap and reviewed annually, while a small number suggested significantly higher alternative thresholds, ranging from £950-1500/kW. Of those who responded 23% supported the proposal. Some felt £475/kW struck a reasonable balance by limiting access to the higher cap while still accommodating genuine eligible projects, and others believed it aligned with expected investment costs for new build technologies. Around 12% were neutral, saying they needed more detail on the MPCM before forming a view.

Question 51 asked respondents if they agreed with the proposed penalties for failing to meet the new higher CapEx threshold. Of the 22 responses received that specifically answered the question, 73% were supportive and saw penalties as important for deterring speculative bidding and protecting value for money, with some noting that clear rules and guidance would help avoid disputes. Of the 27% that disagreed, the majority felt the proposed penalties were too strong and could introduce unnecessary regulatory and financing risk which could deter investment. Others were concerned that the penalties could be disproportionate if driven by timing or evidential issues rather than true non-compliance and that they added complexity. A few respondents wanted more information about how the penalties would impact overall capacity setting in the CM.

Question 52 asked respondents whether they agreed with the proposal to require a certificate of disconnection for New Build CMU’s seeking to qualify for the higher price cap if they are building on a site that has been previously commissioned. Of the 25 responses received that specifically answered the question, 52% were supportive and saw an additional validation step as appropriate for helping to prevent gaming. Some of those in favour noted that obtaining evidence could be challenging and suggested that the requirements should remain flexible and proportionate. In contrast, 44% disagreed due to concerns that the requirement could slow down new build delivery by adding unnecessary complexity, for example by making it harder to

[9] Link to Autumn consultation publication

reuse an existing grid connection. Others argued that the existing CM new build criteria or ITE certification already provide sufficient assurance, making additional requirements unnecessary.

Questions 53 and 54 asked whether New Build CMUs on previously used or partially decommissioned sites might face challenges in providing the proposed evidence requirements, and how such challenges could be addressed while still ensuring robust assurance that MPCM Applications relate to genuinely new capacity. Both received 15 responses that specifically answered the question, with 80% of respondents for Q53 and 67% for Q54 stating that the evidence would be difficult to provide. The main difficulties raised was the lack of reliable documentation, which may never have been issued, may have been lost over time, or may not have transferred when ownership changed. Many also noted that older or partially decommissioned sites often retain or reuse elements of existing infrastructure, such as shared grid connections or equipment, which makes it hard to produce formal proof of full disconnection. Several respondents were concerned that this could discourage redevelopment or reuse of existing sites and connections. Suggested ways to address these issues included keeping evidence requirements flexible and proportionate, allowing the system operator discretion where appropriate, and accepting alternative forms of validation such as ITE certification, capex checks, or operator verification letters.

Question 55 asked respondents whether they considered there to be any other gaps or ambiguities in the definition of New Build that should be addressed. Of the 12 received, 50% expressed the view that they did not identify any gaps. The other responses did not point to specific gaps or ambiguities but raised broader concerns, including a need for clearer wording and for the definition to be set out explicitly in legislation and the CM Rules, while a few felt the existing CM definition of New Build is already sufficient.

Question 56 asked respondents whether they anticipated any challenges with the new requirement to submit additional evidence confirming that Total Project Spend meets the agreed CapEx thresholds, if requested to do so by the Delivery Body. Of the 21 responses received, 57% anticipated challenges with the new requirement to provide additional evidence of Total Project Spend, mainly because they felt there was not enough clarity on why the change was needed, how it would work in practice, or what evidence might be requested. Some were concerned this could add risk and uncertainty for developers, undermine the role of the ITE, or require expertise the Delivery Body may not have. The remaining 43% did not foresee major issues, though some still wanted clearer guidance on acceptable evidence, felt the requirement should be set out in the CM Rules rather than guidance, and said CMUs should have a route to challenge decisions.

Question 57 asked respondents for views on whether any other changes to the ITE process should be considered for future auction rounds. Of the 16 responses received, 59% said the ITE process would benefit from clearer guidance, stronger standards and better oversight to ensure more consistent assurance. Some also highlighted the cost and administrative burden of appointing ITEs and stressed that any additional requirements should remain simple and practical. Several respondents emphasised that any future changes must be clearly justified, evidence-based and transparent, and noted concerns about inconsistent ITE capability, the

lack of formal accreditation and the growing need for specialist technical expertise. A few felt no further changes should be made until current CMAG-proposed reforms have been tested.

Government response

Following consideration of the issues raised in the consultation, a decision has now been taken not to proceed with implementing the policy proposals associated with the MPCM ahead of Prequalification 2026.

The government continues to recognise the important role that dispatchable enduring capacity plays in supporting a reliable electricity system, particularly during periods of tight supply. The government will continue to work with industry to improve understanding of the barriers these technologies face and to consider where further action may help ensure that such capacity can come forward when needed. The government remains committed to ensuring that the CM continues to deliver on its security of supply and cost-effectiveness objectives and remains fit for a changing energy system. The government will continue to consider how best to ensure a resilient mix of capacity in future.

In addition, following stakeholder feedback and discussions with the Delivery Partners, the government will not take forward the proposal to give the Delivery Body extra powers to request Total Project Spend evidence at this stage. The government will continue to review how evidence is submitted across all areas of the CM.

Next steps

The government has reflected on the feedback received from respondents and intends to implement the CM Rules and Regulations changes below:

Managing the transition of existing generating CMUs into alternative schemes

- Allow the prequalification of generators that are in possession of a CfD following a Section 10 direction from the Secretary of State, so long as there is no overlap in the support offered under the CfD and CM Agreement.

Long-Duration Electricity Storage Cap and Floor

- LDES C&F projects will be Price Takers in CM Auctions. The Price Maker Memorandum will remain an option to LDES C&F projects.
- Introduce a new requirement for LDES C&F projects to provide a Director's Declaration in relation to a project's LDES C&F status.
- Introduce a termination event where LDES C&F projects do not provide or update their status by milestones to be set out in the CM rules.

Standardisation of Termination Fees and Credit Cover

- Amend the Electricity Capacity Regulations 2014 ('the Principal Regulations') to implement a 30% increase to Termination Fee rates and Credit Cover Requirements for agreements awarded in the future.
- Introduce a requirement for agreements awarded in the future to hold Credit Cover for longer, requiring New Build CMUs to post Credit Cover until they meet their obligations required for the CM payments to begin, while aligning requirements to different milestones as the as the unit progresses.
- Introduce a new Termination Event into the CM Rules for failing to post extra Credit Cover for missing the SCM.

Clarifying Rules around Secondary Trading

- Amending Rule 3.13 to provide clarity around the Rules that apply to Secondary Trading Entrant Applications.

These changes will be implemented ahead of the opening of Prequalification in July 2026. The changes will be made via amendments to the Capacity Market Rules 2014 and The Electricity Capacity Regulations 2014.

List of respondents to the consultation

The consultation received 46 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
National Grid Ventures
British Sugar Plc
RWE
Gresham House
Invinity Energy Systems
Centrica
ADE Demand

This publication is available from: https://www.gov.uk/government/consultations/capacity-market-proposals-to-integrate-low-carbon-technologies-and-enhance-delivery-assurance-ahead-of-prequalification-2026

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