UK Government

Capacity Market: Consultation Response on changes for 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 first introduced in 2014 as part of the Electricity Market Reform programme to support investment in capacity and deliver value for money for consumers. Existing and new build electricity capacity providers compete to obtain CM agreements under which they commit to deliver capacity when needed in return for regular payments.

From 2 October to 27 November 2025 the government consulted on a number of proposals relating to the Multiple Price Capacity Market (MPCM), ensuring efficient bidding in the CM, consumer-led flexibility (referred to as DSR in the CM Rules), self-nomination of connection capacity for battery storage technologies, determining appropriate means for non-fossil fuel generation to access low carbon CM mechanisms and improvements to CM administration and delivery assurance.

The consultation consisted of 89 questions:

- Questions 1-11 related to the MPCM
- Questions 12-15 related to efficient bidding in the CM auctions
- Questions 16-38 related to consumer-led flexibility
- Questions 39-44 related to self-nomination of connection capacity for battery storage technologies
- Questions 45-56 related to determining appropriate means for non-fossil fuel generation to access low carbon CM mechanisms
- Questions 57-89 related to further improvements to CM administration and delivery assurance

The government has taken account of the feedback provided and made some changes to the proposals in the consultations. The final changes that will be made are set out below.

2. Introduction

2.1 Overview of Consultation proposals

This consultation sought views on:

Multiple Price Capacity Market – Implementing targeted price-related reforms to ensure security of supply is cost-effectively maintained. This would be achieved by introducing a second, higher, price cap into the auction that could, if needed, secure new build dispatchable enduring capacity that can generate power over prolonged periods of tight supply.

Ensuring efficient bidding in Capacity Market auctions – A package of interventions to reduce information provided to participants before and during auctions. This would increase uncertainty relating to the expected gains and losses from bidding strategically and thereby ensure efficient bidding that maximises value for money.

Consumer-led flexibility – Implementing additional delivery assurance processes in relation to consumer-led flexibility assets entering the Capacity Market, both from an operations perspective and the Capacity Market value attributed to diverse consumer-led flexibility technologies in providing system response.

Self-nomination of connection capacity for battery storage technologies – Allowing battery Capacity Market Units (CMUs) to self-nominate their connection capacity below their full network connection capacity to mitigate the risk of failing extended performance testing due to degradation.

Determining appropriate means for non-fossil fuel generation to access low carbon Capacity Market mechanisms – Introducing appropriate sustainability criteria for biogenic sources to evidence against, which could enable them to access low carbon benefits in the CM.

Further improvements to Capacity Market administration and delivery assurance – Ensuring clarity of the Rules by proposing policy clarifications, amendments and revocations, as well as introducing a Termination Fee for Termination Events that currently have no fee associated. These proposals also seek to improve value for money by suspending payments for CMUs that are subject to an Insolvency Termination Event.

2.2 Consultation Responses

- The consultation was published online and ran between 2 October and 27 November 2025.
- It received 65 responses in total; these responses were submitted through an online portal (Citizen Space) and by email.

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

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

Ensuring efficient bidding in Capacity Market auctions – Changes will be made to increase the excess capacity rounding threshold and to delay the full publication of information about prequalified capacity ahead of CM auctions.

Consumer-led flexibility – Changes will be made to streamline component notification requirements for small assets, improve the granularity of Demand Side Response (DSR) data capture in Business Models/Business Plans, strengthen multi-year DSR evidence at Application, require DSR CMUs to demonstrate 50% of their Capacity Obligation during DSR Tests, extend the current DSR De-rating methodology, and to require the declaration of Permitted On-Site Generation Units (POSGUs) at Application.

Self-nomination of connection capacity for battery storage technologies – Changes will be made to allow self-nomination of connection capacity to a minimum of 50% of the capacity calculated under Rule 3.5.2 or 3.5.5, and to require CMUs to report the full connection capacity calculated under Rule 3.5.2 or 3.5.5 and the energy capacity of the unit.

Determining appropriate means for non-fossil fuel generation to access low carbon Capacity Market mechanisms – Changes will be made to implement the Renewables Obligation-based interim sustainability approach. This will be for CM low carbon eligibility supported by enhanced criteria for woody biomass, strengthened assurance standards and annual reporting requirements.

Further improvements to Capacity Market administration and delivery assurance – A number of changes will be made such as; to clearly define "waste" in the CM Rules, to set the De-rating Factor for any Secondary Trading Transferee at that provided in the Auction Guidelines for the T-1 auctions for the Delivery Year the trade relates to, to suspend Capacity Payments for CMUs subject to an Insolvency Termination Event, to require that a Capacity Provider must provide the accurate submission of information to the Settlement Body within 10 working days of providing completed Metering Assessments, to align the approximate Auction Timeline and Guidance more closely with the operational timetable, to allow the Delivery Body to extend the Prequalification Window by up to 5 working days in the event of severe IT issues,

to re-define Long Stop Date to clarify that any one-year agreement for a Prospective CMU is subject to a Long Stop Date that is the start of the Delivery Year, to amend the Supplier Payment Regulations to align with the Market Half-Hourly Settlement (MHHS) Timetable and to introduce a Termination Fee of level TF8 for Termination Events covered in Rules 6.10.1(o) and 6.10.1(q).

3. Multiple Price Capacity Market

Consultation position

The government is cognisant of the following challenges facing the CM and is considering ways in which to balance them. The CM Price Cap has not been updated since the scheme began in 2014 and has therefore not kept pace with inflation. Securing investment in new dispatchable enduring generation has also become increasingly challenging, as investors face greater uncertainty about whether these assets can be commercially viable. Dispatchable enduring technologies play a critical role because they can provide sustained output during prolonged periods of system tightness, supporting security of supply.

The intention of the MPCM was to address these challenges by allowing eligible New Build plants to receive payments above the current £75/kW/yr cap. The proposals focused on introducing a second, higher price cap for eligible new build dispatchable enduring capacity, while retaining the existing cap for all other participants. The consultation proposed that this could be delivered through a reformed T-4 auction design, including an annual decision on whether to set a minimum volume sub-target for eligible capacity.

Eligibility was proposed to be limited to technologies able to generate over extended periods without storage constraints. This includes biomass, Combined Cycle Gas Turbines (CCGT), Combined Heat and Power Plants (CHP), Energy from Waste (EfW), hydro, nuclear, Open Cycle Gas Turbine (OCGT) and reciprocating engines, as well as most Hydrogen to Power and power Carbon Capture, Usage and Storage (CCUS) plants once they begin to enter the CM auctions. Any new unabated gas plants are required to meet decarbonisation-readiness legislation.

Summary of responses

Security of supply and cost-effectiveness

For question 1, the government asked stakeholders whether they believed the MPCM would be effective in achieving the CM's security of supply objective, 40% of respondents agreed that the MPCM would help to achieve the CM's security of supply objective, 9% were unsure and 51% disagreed. Question 2 asked stakeholders who disagreed to provide their reasoning.

For question 3, the government asked stakeholders whether they believed the MPCM would be effective in achieving the CM's cost effectiveness objective, 38% of respondents agreed the MPCM would be effective in achieving cost effective reform of the CM, 12% were neutral and 50% disagreed. Question 4 asked stakeholders who disagreed to provide their reasoning.

Similar themes emerged amongst those who disagreed that the MPCM would be effective in achieving the CM security of supply in question 2 and cost objectives in question 4. A few respondents stated that they expected the design of the MPCM to keep consumer costs under control while achieving the CM's security of supply objective, many stated that they expected

the MPCM to increase consumer costs without providing additional security of supply benefits. Some respondents suggested it could result in long-term increased consumer costs by unnecessarily securing additional new high-cost capacity, above the current price cap with long-term agreements while displacing lower cost units. The majority of respondents noted that the proposed reform diverges from the principle of technology neutrality which is core to the original design of the CM. They also shared concerns that this would distort the market and prevent it from cost-effectively procuring the optimum technology mix.

An important point that some respondents flagged was concern that excluding existing capacity from the higher price cap could drive early retirements, potentially causing security of supply risks and increasing costs. A few respondents stated that they do not believe that the MPCM would enhance security of supply because new build dispatchable enduring capacity already participates in the CM under the existing price cap so does not require access to higher clearing prices.

The majority of respondents proposed alternative reforms which they believe would better achieve the CM's objectives, including reviewing CM parameters, implementing a uniform price cap increase or introducing an out of the market mechanism for gas.

Eligibility

For question 5, the government asked stakeholders whether they agreed with the proposed category for eligibility for the MPCM, 33% agreed that the proposed category of eligibility was appropriate, 7% were neutral and 59% disagreed. Question 6 invited stakeholders who disagreed to provide their reasoning.

Some respondents cited a lack of evidence to support the need to target new build dispatchable enduring capacity, noting that other forms of capacity could potentially maintain security of supply at lower costs. The majority of respondents suggested a wider category for eligibility that includes shorter duration technologies. They cited the need to maintain competition in the CM and avoid displacement of lower cost, lower carbon options. Some responses suggested that instead of focusing on specific capacity types, a technology neutral duration requirement should be required to qualify for the higher price cap under the MPCM. A few respondents shared concerns about the environmental impact of the MPCM and the risk of locking in 15-year agreements for fossil fuel generators, with some querying how this would be consistent with achieving Clean Power by 2030. A few asked for clarity on interactions with the Strategic Spatial Energy Plan and Decarbonisation Readiness policies, including whether there would be sufficient incentives for decarbonisation.

Auction design options

For question 7, the government asked stakeholders if they agreed with the minded-to position to implement auction design option 6 (a single auction with two price caps and optional sub-target for eligible capacity), 33% agreed with the minded-to position, 61% did not agree, and 5% did not express a clear view. Question 8 asked stakeholders who disagreed to provide their reasoning and to set out their favoured approach.

For question 8, some thought the minded-to approach would distort competition and some stated concerns that there could be a negative impact on existing capacity, specifically resulting in the displacement of existing gas plants by new gas plants which was perceived as inefficient and an unintended consequence. A few respondents felt there was insufficient detail across the options to form a clear view and fully assess potential risks. A few explicitly pointed to elements of option 6 where there was insufficient detail provided in order for them to give informed feedback. A few respondents thought that option 5, a single auction with two caps but no option for a sub-target was preferable to option 6 as it was less distortive and allowed for a more market-led outcome. A few respondents felt that the proposed changes would increase the complexity of the CM, and a few recommended the existing auction design should be retained with a review of de-rating factors.

Price cap

For question 9, the government invited stakeholders to share their views on how to set the MPCM price cap. Some thought that the government should not implement a second, higher price cap but instead consider increasing the existing price cap, either in line with inflation and/or revised new build costs, citing fair and improved competition between capacity providers as key reasons.

The majority of respondents shared views on how to set a new, higher price cap. The majority suggested that the higher price cap should be based on the costs of new dispatchable enduring capacity, which has increased due to factors including tight global supply chains and less certain market revenues. Additionally, a few suggested specific levels for the second price cap, ranging from £80-200/kW. Of those, half suggested a cap between £120-150/kW. Some respondents stated that the price cap needed to be set high enough to incentivise new build and give market confidence. A few respondents suggested that the price cap should be set high enough to allow competition to determine the clearing price. A few respondents also specifically suggested that the government should review the Net Cost of New Entry (CONE)[1] value. A few stressed the importance of transparency in setting the price cap and a few highlighted the importance of regular review of any new price cap.

MPCM Sub-target

For question 10, the government sought stakeholder views on how to set the MPCM sub-target. Most respondents stressed that the sub-target needed to be set according to system need. This should be based on an assessment of predicted future capacity adequacy, considering predicted changes in the existing fleet, new capacity due to come online and expected changes in demand.

Some respondents stated that the sub-target should only be set if it would improve security of supply in a cost-effective way. A few said this should include explicit consideration of whether a sub-target would result in existing dispatchable enduring capacity being displaced by more expensive new build capacity and a few said this should include consideration of whether there

[1] Net CONE is defined as the cost of a new entrant after accounting for wholesale and ancillary market revenues. It is used to anchor the auction demand curve and forms the basis of the current £75/kW/yr auction price cap.

should be sufficient competition across the auction to ensure value for money. A few respondents said that the process of setting the sub-target should explicitly consider the impact on the government's decarbonisation goals, including investment in low-carbon technologies and how any new build unabated gas would decarbonise. A few respondents stressed the importance of aligning with the Strategic Spatial Energy Plan (SSEP) and, given SSEP delays, suggested delaying the MPCM. A few respondents said the sub-target should consider construction feasibility.

A few respondents suggested that setting a sub-target would play an important role in signalling a requirement for new dispatchable enduring capacity. A few suggested that sight of the sub-target is needed well in advance to inform investment decisions. Finally, some respondents emphasised the importance of transparency in setting the sub-target to ensure accountability and to avoid undermining market confidence. A few wanted the sub-target to be based on independent analysis, and a few noted that the sub-target setting process should be subject to regular review.

Additional changes that could support the implementation of the MPCM

For question 11, the government asked stakeholders what practical changes beyond those set out in the consultation would be needed to implement the proposed design. The questions received 38 responses in total, 2 of which did not provide any information directly relevant to the question.

The most common suggestion, made by a few respondents, was that CMUs applying for the higher price cap should have to provide evidence that it was required, either by way of a director's declaration or by meeting a higher capex threshold. A few respondents felt that additional restrictions should be applied; specifically having to exit the auction if the price falls below £75, limits on Balancing Market revenues, limits on emissions/run times and mandatory credible decarbonisation pathways. Finally, a few respondents also flagged that clarity on the definition of dispatchable enduring capacity is needed, with a few suggesting this should be in the form of a legal definition.

Government response

Following consideration of the issues raised in the consultation, the government has decided 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.

4. Ensuring efficient bidding in the CM auctions

Consultation position

Currently, information released before the auctions allows participants to estimate auction liquidity, while information reported between auction rounds provides insight into how excess supply diminishes over time. This creates a risk that participants with strong market insight could use such information to estimate when their portfolio or individual assets could be pivotal in clearing an auction. Such behaviour can be considered strategic and can distort auction outcomes and result in higher costs for consumers.

Since 2023, T-4 auctions have typically seen a reduction in liquidity and auctions have cleared at comparatively higher prices compared to the early years of the CM.[2] While individual auctions will vary in liquidity, in light of this overall trend, the government considered it appropriate to review the current level of information disclosed across all auctions to reduce opportunities for strategic behaviour (particularly in low-liquidity scenarios) and ensure the CM delivers value for money for consumers. The government put forward two proposals in the consultation:

- Raising the threshold for reporting excess capacity during auctions from 1 GW to 3 GW
- Delaying publication of the identities and aggregate derated capacities of prequalified units until after the conclusion of the auctions.

These proposals were intended to support investment and broad participation by continuing to keep the auction process straightforward and accessible, while also reducing opportunities for strategic bidding.

Summary of responses

Question 12 asked stakeholders whether they agreed or disagreed with the proposal to increase the excess capacity rounding threshold (ECRT) for all auctions. Question 13 asked those who opposed the proposal to outline any potential unintended consequences. However, in some instances, respondents who indicated agreement with the proposal in Question 12 also went on to provide explanations as to why they agreed.

For question 12, 45% of respondents agreed with increasing the ECRT to 3 GW. Some respondents explained that the higher threshold would make it harder for participants to determine precisely how pivotal their assets are at different stages of the auction. They mentioned that this reduced visibility would limit the extent to which such information could be used to influence auction outcomes. In their view, heightened uncertainty on the level of excess capacity remaining in each round would reduce participants' confidence in adjusting their bids strategically and therefore support more efficient auction outcomes. A few

[2] Ofgem (2024), 'Ofgem, Final Annual Report on the operation of the Capacity Market in 2023/24

respondents who supported the proposal advised that the government consider introducing a sealed-bid auction format, arguing that this would be a more effective way to limit opportunities for strategic bidding over changing the current information policy.

Among the 55% of respondents who disagreed with the proposal in question 12, several explained in response to question 13 that the change could reduce the transparency available to participants during the auctions and, as a result, weaken price discovery. They stressed that transparency is particularly important for smaller and less experienced participants who rely more heavily on such auction information to shape their exit-bid strategies. Respondents suggested that reducing the precision of this information could disproportionately disadvantage smaller participants who often have fewer resources or less market insight while potentially giving larger, more established participants a competitive edge. Respondents explained that such an imbalance could diminish competitive tension within the auctions, ultimately reducing investment and driving up consumer costs. A few respondents also argued that changes to information disclosure are unnecessary, noting that concerns about strategic bidding would be better addressed through targeted scrutiny and stricter enforcement of existing CM rules.

Question 14 asked stakeholders whether they agreed or disagreed with the proposal to delay publishing the identities and aggregate derated capacities of all prequalified assets until after the auctions. Question 15 invited those who disagreed to put forward any potential unintended consequences. For question 14, 23% of respondents agreed with the proposal, while 76% disagreed and 1% were unsure.

As with the feedback to question 13, a majority of the respondents to question 15 raised concerns that implementing this change could make it harder for smaller and newer participants to assess market conditions effectively. They noted that having less visibility of prequalification data may reduce these participants' confidence when preparing bids or even deciding whether to enter the auctions. Several respondents argued that withholding this information could disproportionately benefit larger players. They suggested this imbalance could allow larger participants to exert greater influence over auction dynamics, potentially leading to less efficient outcomes and higher costs for consumers. Some of the respondents also explained that early access to information on prequalified capacity plays a critical role in supporting informed investment decisions and effective project planning. Respondents stated that understanding the likely level of auction liquidity in advance is particularly important for developers of new-build projects to determine the viability of proceeding with planned investments.

Government response

Increase the Excess Capacity Rounding Threshold from 1GW to 3GW

The government intends to proceed with increasing the reporting threshold for excess capacity to 3GW across all auctions. Consultation feedback on this proposal was broadly balanced, and no new evidence was provided to suggest that the change would generate unintended consequences or negatively affect the operation of the scheme.

The government acknowledges the concerns raised across both proposals about the potential impact on smaller and less experienced participants. However, the government believes that increasing the ECRT to 3GW will not exclude or disadvantage participants based on their size or market maturity. All participants will continue to have access to sufficient and timely market information, enabling them to make informed decisions and submit bids that are fair, accurate, and reflective of their true willingness to accept. The government considers this change to be a necessary and proportionate measure to ensure the CM continues to deliver value for money.

Delay publication of information about Prequalified capacity ahead of CM auctions

In view of the substantial number of respondents who opposed the proposed delay in publishing the identities and aggregate derated capacities of prequalified assets, the government recognises that timely access to this information is important for prospective participants when planning projects and making informed investment decisions. Although this feedback does not justify withdrawing the proposal, the government considers the concerns raised sufficient to identify and implement a middle-ground approach.

Therefore, the government will proceed with the proposal as set out in the consultation. However, until the final auction results are published, a single consolidated figure, updated periodically, will be provided, representing the total volume of excess capacity relative to the procurement target for both auctions. This figure will reflect the combined conditionally prequalified and fully prequalified capacity rounded to the nearest 3GW. The government will work closely with delivery partners to ensure consistency in the information shared across documents to align with this proposal, such as the Autumn Demand Curve Adjustment Report, and to remove any detailed Prequalification or opt-out data and replace with the single consolidated figure.

The government considers that this approach provides the right balance between ensuring transparency to participants and protecting the integrity of the auctions. Publishing a rounded excess capacity figure will continue to give participants sufficient insight of the overall auction liquidity to support their planning and investment decisions. At the same time, limiting the precision of this information will help to reduce the risk that it could enable, or be used to inform, strategic bidding behaviours.

5. Consumer-led flexibility

5.1 Streamlining component notification requirements for small assets

Consultation position

In recent years the CM has seen increasing participation from large numbers of aggregated, small capacity, Demand Side Response (DSR) components such as Electric Vehicle (EV) chargers and heat pumps. This growth has significantly expanded the volume of components that must be individually listed by the Delivery Body on CM Registers and Capacity Agreement Notices (CANs), creating an administrative burden that is disproportionate to the transparency benefits provided for these very small assets.

The government consulted on introducing a minimum nameplate capacity threshold of 20kW for Delivery Body reporting. Components below this threshold would no longer appear as individual entries on CM Registers or within CANs. Instead, these assets would be aggregated into a single line entry representing their aggregated capacity. This change would only affect Delivery Body responsibilities relating to publication and notification requirements. It does not alter eligibility criteria, performance monitoring, or submissions required from Capacity Providers.

Summary of responses

Question 16 asked if respondents agreed with the proposal to reduce reporting requirements for individual components where their nameplate capacity is below a set value, receiving support from 84% of respondents, with 13% disagreeing. Supporters considered that existing reporting requirements for DSR portfolios comprising of large numbers of small components were overly onerous and administratively burdensome, both for CM participants and the Delivery Body. Many respondents noted that the individual publication of thousands of near-identical components provided limited additional transparency while creating significant operational challenges. Others noted that recent CM Registers had become unwieldy due to the number of entries for small capacity DSR components. Some respondents sought clarification on how components would be assessed as “identical” for the purposes of collation and how this approach would be implemented in practice. The most common objection to the proposal was concern that reducing reporting requirements could weaken scrutiny of DSR components and that the proposal could be perceived as providing less regulatory oversight compared to other CM technologies.

Question 18 asked respondents if they agreed with the proposed threshold of 20kW, with 66% of all respondents in agreeing and 31% disagreeing with the threshold. Those in agreement believed 20kW to provide a fair balance of reducing administrative burdens whilst maintaining visibility of assets. The majority of those in disagreement suggested that the threshold should

be set higher, as this would enable capture the full variety of aggregated components that are and could be entered into the CM, such as commercial EV chargers.

Government response

In line with the strong support received, the government intends to proceed with streamlining reporting obligations for low-capacity DSR components. The government considers this an appropriate adjustment to reduce the administrative burden on the Delivery Body, while maintaining the necessary transparency and delivery assurance within the CM framework.

The government considers that the proposal does not reduce scrutiny of DSR or confer preferential treatment. The measure is not technology-specific and is aimed at addressing the operational challenges created by large, duplicative component portfolios, which have grown substantially as the domestic flexibility sector has matured.

Following feedback, the government will adopt a revised reporting threshold of less than 30kW, rather than 20kW as proposed in the consultation. This reflects information shared by respondents that a slightly higher threshold is necessary to accommodate potentially significant numbers of small components such as commercial EV chargers which would fall outside of the 20kW threshold, while preserving the intent of the policy. The government considers that this amendment supports efficient Delivery Body processes without diminishing accountability or auditability.

The government will therefore take forward the proposal with this revision. Collation of identical components with a nameplate capacity of 30kW or below into a single line entry will be permitted in Capacity Agreement Notices and the CM Register, supporting a more operationally efficient reporting regime.

The government will review the Rules to identify further opportunities to streamline and simplify administrative requirements for both Capacity Providers and Delivery Partners where they support and maintain CM integrity.

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

Consultation position

Demand Side Response (DSR) has been treated under a singular, umbrella category within the CM since its inception. As the quantity of DSR components and variety of DSR technologies has expanded over time, this umbrella categorisation has limited the quality of data captured at Prequalification. This in turn has resulted in a lack of standardisation of DSR categorisation and hinders the development of accurate de-rating factors which accurately reflect the diversity of DSR participating in the CM. The consultation proposed requiring DSR technology categories and customer type (domestic/non-domestic) to be recorded in Business

Models at Prequalification under Rule 3.9.3(a)(i). The same information would be required in Business Plans under Rule 3.10.1 (where components are known at the time of Application). Both would include options to provide additional detail in a free-text field.

Technology categories would comprise of:

- behind-the-meter generation;
- behind-the-meter storage; and
- demand turn-down.

The same categorisation would be required for Proven DSR at the point of Application, with Unproven DSR required to confirm its categories when notifying components under Rule 8.3.3A. Additionally, the information would also be required during the component reallocation process for new components under Rule 8.3.4.

Summary of responses

Question 22 asked respondents if they agreed with the proposal to introduce DSR categories as part of the Business Model and Business Plan, receiving support from 78% of respondents. Question 24 asked respondents if they agreed with the proposal to categorise according to technology type, with 78% of respondents agreeing. Question 25 asked respondents if they agreed with the proposal to record the purpose of the electricity supply (domestic/non-domestic) with 93% in agreement. Supporters of the proposals agreed that capturing the different categories of DSR components would enhance transparency and provide valuable information to inform future policy development, with several respondents noting that the information required is already routinely held by Capacity Providers. A small number sought clarification on how technology types should be defined and how categories would adapt as new forms of flexibility emerge. Several respondents also cautioned how the information could be used in relation to future de-rating factors and stressed the need to limit administrative burdens on DSR providers.

Question 22 saw 17% of respondents disagree with the proposal to introduce DSR categories, with 21% disagreeing with the proposal to categorise by the technology type set out in question 24. Opponents of the measures raised concerns regarding potential administrative impacts as well as concerns about how the data could be used for de-rating, with several respondents suggesting that de-rating individual components by their underlying technology alone would be overly simplistic and fail to reflect the complexity of DSR CMUs.

Government response

Given the support received, the government intends to proceed with the proposal as consulted. DSR applicants will be required to include technology type and customer type within their Business Plans and Business Models from the next applicable Application round. Additionally, DSR providers will need to include this information for components either at prequalification (for Proven DSR CMUs), when notifying components (for Unproven DSR CMUs), and when completing component reallocations.

Improving visibility of the technology types and customer groups that make up DSR portfolios is valuable in supporting potential future changes to the de-rating methodology and to improve the monitoring of DSR participation in the CM.

The government recognises requests for greater clarity on technology definitions and will work with the Delivery Body to provide guidance to support consistent categorisation. As the flexibility sector continues to diversify, classifications will be kept under review to ensure they remain relevant. Additionally, the existence of a free text box alongside the stated categories will enable the capture of any component where the technology category is not clear or provided for.

The government recognises concern regarding administrative burdens and will seek to remove barriers these where they do not compromise the scheme's integrity. In response to section 5.6 of this consultation on de-rating DSR, many respondents agreed that the existing Non-BM STOR data is a poor proxy for DSR. This proposal supports efforts to establish an improved, evidence-based approach to any future changes to the de-rating methodology for DSR.

5.3 Strengthening multi-year DSR evidence at application

Consultation position

The government introduced CM changes as part of its 2023 Phase 2 consultation[3] which permitted DSR CMUs to access longer-term CM agreements. The multi-year agreement lengths now available to DSR CMUs range from up to three years (with zero £/kW CapEx thresholds) through to fifteen years. Unlike New Build and Refurbishing Generating CMUs, existing Rules do not require multi-year DSR CMUs to meet construction or financial commitment milestones or meet the Extended Years Criteria (Rules 8.3.6A & 8.3.6B).

The consultation included proposals seeking to strengthen assurance and confidence in the long-term capacity of those DSR CMUs such that they would meet value-for-money expectations. The government proposed that new Rules were introduced to the effect that DSR CMUs and their constituent components would face similar requirements to those of Prospective Generating CMUs. The proposal required an Independent Technical Expert (ITE) report, to be shared with the Delivery Body, confirming that:

- with routine maintenance, the CMU would be expected to remain capable of operation for at least the length of the Capacity Agreement beginning with the first Delivery Year for which it is awarded; and
- where the Capacity Agreement exceeds 3 years, CapEx claims relating to the DSR CMU and its constituent components, whether new build or refurbishing, had not been

[3] DESNZ (2023), Capacity Market 2023: Phase 2 proposals and 10 year review

used or been available to use to provide capacity, whether demand turndown or export, to the GB electricity system in the 3 years preceding the Application

Summary of responses

A majority of respondents to Question 27 (58%) supported the proposal to require an ITE report to confirm the expected longevity of DSR components and their non-use to provide capacity on the grid within the 3 years preceding the Application. A total of 36% of respondents disagreed with the proposal, with the remainder of responses offering a neutral position.

Several of those who expanded on their reasoning for supporting the proposal pointed to aligning requirements between different technologies participating in the CM. Further responses raised the need to ensure the reliability of the DSR components' long-term capabilities procured with CM support.

Several respondents voiced their support for the principles of the proposal, though they added caveats. Caveats included: that any ITE requirements only incur reasonable and proportionate costs against pragmatic evidence thresholds; that any requirements are not applied retrospectively; that an assessment is made on the ITE resource capacity relative to competing requests; and broader commentary questioning the value that could be derived from the ITE process.

Of those in disagreement, concerns were shared over the cost and additional administration involved in commissioning those reports. Several respondents suggested that there is little value added in ITEs providing reports, with some suggesting that a Director's Declaration meeting the same intent as that required of the ITE – coupled with existing, evergreen delivery assurance requirements of DSR CMUs – would provide the same degree of assurance and confidence without compromising the proposal's ambition. Some commentary suggested that a broader review of CM Rules for multi-year DSR was required to enhance its potential.

Question 28 invited views on additional or alternative measures which would ensure the delivery assurance and value-for-money proposals were met. Several respondents pointed to the role of Satisfactory Performance Days (SPDs) in providing delivery assurance, with some promoting enhancement of SPDs to meet policy intent. Of those enhancements, respondents suggested that SPDs could be more closely aligned to periods of peak demand or be called at short notice, so they better replicate periods of system stress. A further suggestion was to mandate multi-year DSR CMUs achieve their SPDs in each Delivery Year. A few responses called for a review of the Rules applied to multi-year DSR, commenting that testing requirements applied to DSR CMUs containing a storage component triggers disproportionate testing need and that previously introduced Rules to address storage masquerading as DSR had been overly restrictive.

Government response

The government continues to consider that appropriate assurance is required to confirm that components contained within DSR CMUs whose agreements extend for multiple delivery years are new and will sustain for the duration of that agreement. The government therefore intends to implement the proposals with the below adjustments to the original proposal following feedback from respondents.

Where a DSR CMU is a Three Year Zero Capex Threshold CMU and incurs no capital expenditure, only a Director's Declaration confirming the new status and longevity of components will be required. The Director's Declaration is to be required at the same stage at which an Independent Technical Expert report is due. Rule 8.3.6(a)(ii) is to be omitted which will remove the requirement for an Independent Technical Expert report. The government considers this approach to provide necessary means for enforcement and assurance without introducing unnecessary burden on Capacity Providers.

Where a DSR CMU incurs a CapEx spend equal to or exceeding the Three Year Minimum £/kW Threshold, an Independent Technical Expert report will be required to confirm the appropriate spend and subsequent requirements of that report including the lodging of component serial numbers. This proposal maintains consistency with other generating technologies whose evidence of Total Project Spend under Rule 8.3.6 must be accounted for and independently verified.

The government welcomes wider views and alternative measures shared by respondents and will consider those as part of future policy development.

5.4 Completion of DSR Testing following component reallocation

Consultation position

The government updated CM Rules surrounding reallocation of components within a CMU as part of its Phase 2 consultation changes.[4] The updated Rules now permit up to 40 components or 20% of the DSR CMU portfolio size (whichever is greater) to be reallocated. Within the existing Rules, there is no requirement to re-confirm a CMU's capacity after it has passed its DSR Test and then subsequently reallocated components in that CMU.

The government introduced a proposal to more closely align the start of the DSR Test process to the time of component reallocations. The intent behind the proposal was to improve delivery assurance from DSR CMUs which reallocate components which would reduce risks associated with untested CMU configurations. The proposal would require the steps towards completing a DSR Test, e.g. submission of metering details or Metering Test Certificates, to begin within 2

[4] DESNZ (2024), Capacity Market 2023: Phase 2 proposals and 10 year review

working days of component reallocations. A fixed end date was not set owing to reliance on other parties in completing the DSR Test process. Allowances would be made for where DSR Tests are not permitted to take place such as during the Prequalification Assessment Window.

Summary of responses

Question 29 asked whether respondents supported the proposal to require a DSR Test following component reallocation. 53% of respondents supported the proposal, with 40% opposing and 7% with an undeclared or neutral position.

Several respondents offered further comments in support of the proposal highlighting support for the principle underlying the proposal's intent of improving delivery assurance. A few respondents qualified their support for the proposal by suggesting the period between reallocating components and starting processes towards completing a DSR Test was lengthened to 5 or 10-working-days to better reflect operational processes required. Further comments suggested a threshold invoking the need to re-test a CMU whose components had been reallocated, with threshold suggestions ranging from 5% to 25% of components being reallocated. A few respondents raised points on providing sufficient time to capture baseline data ahead of completing a DSR Test, and one response queried on where any penalties would apply for failure to complete a DSR Test within a Delivery Year following a trigger to test again.

Questions 30 and 31 invited comments on potential unintended consequences of the proposal and whether alternative measures to meet the policy intent could be adopted instead. A regular theme in comments stated the period in which to begin the processes was too short and would be impractical from an operational perspective, echoing the feedback received in the caveated supportive responses. Other responses queried the additional administrative burdens this would place upon providers and contended that the current process is sufficient.

Some respondents also highlighted the potential for the implementation of the proposal to weaken delivery assurance. Reasons stated that requiring additional DSR Tests would disincentivise active DSR component management. It was suggested that, where SPD tests for a Delivery Year were already complete, Capacity Providers would seek to avoid incurring the costs involved in undertaking those additional tests. Further to that, it was noted that where a Capacity Provider has become aware that their CMU would no longer be able to meet its Capacity Obligation, they have a choice between incurring costs to recruit replacement capacity and cost or electing to not replace that capacity in the hope that no stress event occurs between that time and the end of the Delivery Year.

Government response

The government acknowledges the role that active component portfolio management plays in continuing to meet Capacity Obligations and the operations underpinning those obligations; as such, this proposal will not be taken forward.

Whilst opting not to progress this proposal to implementation, the government expects that Capacity Providers will provide timely updates on components assigned to their DSR CMUs, whether those are component additions or removals. Capacity Providers are reminded that they must have the right to exclusive contractual control of components within their DSR CMU per Regulation 5(3)(a) and 5(4) of The Electricity Capacity Regulations 2014.

The government will continue to review where delivery assurance measures are required to ensure the CM continues to provide confidence in meeting its security of supply objective and that it delivers value-for-money in doing so.

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

Consultation position

Rule 8.3.2(c) allows Unproven DSR to reduce its Capacity Obligations to the capacity demonstrated as part of its DSR Test. DSR is only required to evidence 1 MW capacity following completion of its DSR Tests, irrespective of its original total Capacity Obligation. There is no limit to this reduction beyond the minimum 1MW capacity demonstration which presents risk of capacity shortfalls relative to system needs.

The government consulted on bringing in a floor threshold of capacity demonstration relative to the original total Capacity Obligation secured at an auction. The floor proposed was set at a minimum 50% of the Capacity Obligation which would need to be maintained even in the event of component reallocations. A 50% level would match that of the Minimum Completion Milestone (Rule 6.8.3(a)) already applied to Generating Technology Classes, i.e. that generation which is not DSR. Failure to meet the 50% threshold would see DSR CMUs terminated under Rule 6.10.1(i).

Summary of responses

Question 32 asked respondents whether they agreed with the proposal to require DSR CMUs to evidence a minimum of 50% capacity relative to its Auction Acquired Capacity, with 72% of respondents supporting the proposal and 28% disagreeing. Several of those in agreement provided additional comments in support of the proposal highlighting its consistency with generating technologies acquiring Capacity Obligations at an auction. A few respondents suggested that the 50% minimum threshold was too low. Opinions on the appropriate threshold level ranged from using the 50% threshold as a starting point which increases incrementally

over time through to those suggesting that capacity obligations should be met in full, i.e. a minimum threshold of 100% of the Capacity Obligation. Respondents also suggested that implementation of the proposal would see more realistic bids entered during auctions and would strengthen overall CM confidence in meeting its security of supply objective.

Those who disagreed pointed to the existing deterrent of a loss of credit cover and TF1 termination fee for Unproven DSR which fails to provide a DSR Test Certificate and the proportionality of introducing this proposal in close succession to that policy's implementation. Further comments indicated that the minimum threshold requirement, coupled with implementation of a termination fee, could see reduced participation in the CM from DSR providers and result in higher scheme costs. One response noted that the introduction of terminations for CMUs demonstrating less than 50% of its Capacity Obligation could see viable capacity being removed from the market. That point was supported by a separate response which highlighted complexities in forecasting the amount of DSR capacity which could then be procured prior to those agreements commencing.

Government response

In line with support received, the government intends to proceed with the proposal as outlined in the consultation. The government considers this an appropriate measure to bolster confidence that capacity entering the auction process will be available to meet the CM's security of supply objective. Rules changes will only apply to those agreements secured in auctions following the Rule's introduction; it will not apply retrospectively.

The government recognises feedback proposing an increase to the threshold proposed in the consultation. While the government recognises feedback suggesting a threshold of higher than 50%, the 50% threshold meets the levels set for other generating technologies in the CM and therefore ensures consistent expectations for capacity participating in the scheme.

The government considers the alternative delivery assurance measures raised in responses to be complementary to the threshold proposal and notes that similar measures apply to other generating technologies. It is appropriate for the government to ensure that the CM continues to meet core objectives on security of supply and value-for-money expectations. The government must consider the combination of measures to provide balanced incentives and disincentives to invite viable and realistic bids in auctions. The government will continue to review the existing frameworks and will, where necessary, consult on changes to meet those ends.

5.6 De-rating methodology for DSR

Consultation position

The consultation proposed extending the current DSR de-rating methodology because Non-Balancing-Mechanism Short-Term Operating Reserve (Non-BM STOR) data, which

previously underpinned the methodology, is being retired and replaced by NESO's Slow Reserve service[5]. To maintain continuity during this transition, the consultation proposal suggested using the three most recent complete Core Winter Periods of Non-BM STOR as the basis for the calculation of DSR de-rating factors. The proposal noted this is to be an interim measure until a new methodology can be developed.

Summary of responses

Question 34 asked respondents whether they agreed with the proposal to extend the current de-rating methodology as outlined above, with 88% of respondents agreeing this is a reasonable and practical interim solution. Although supportive, respondents frequently clarified that their endorsement applied only to the temporary period while a more robust long-term approach is developed.

Many respondents expressed concern that Non-BM STOR data is not an ideal proxy for true DSR performance and may not reflect differences between asset types accurately. There was also a clear desire for future methodologies to achieve greater granularity, distinguishing between different forms of DSR, so that de-rating factors can better reflect real system behaviour.

Respondents also highlighted the importance of clarity and predictability for long-term planning and encouraged swift development of the enduring de-rating methodology. No significant changes to the interim proposal were requested.

Government response

Given the strong overall support, the government intends to proceed with extending the current DSR de-rating methodology until a longer-term proposal has been developed.

The government recognises the concerns raised about proxy data used in the current methodology and agrees that the long-term solution must be more data-driven and granular. The government will engage stakeholders and consult ahead of making any changes in respect of this longer-term solution.

5.7 Use of Permitted On-Site Generating Units (POSGUs) and Fossil Fuel Declarations in DSR

Consultation position

Capacity Providers are required to declare the use of POSGUs under the existing Rules, with the Delivery Body similarly facing requirements to report on the primary fuel type of those POSGUs. Instances have been identified where POSGUs are not declared as part of CMU configurations, which introduces challenges to the transparency of capacity participating in the

[5] NESO: Slow Reserve

CM and would enable fossil-fuel based Generating Units to enter the CM as DSR. False declarations under Rule 6.10.1(o) in relation to the presence of POSGUs would lead to termination but – at the time of this consultation's publication – did not result in a financial penalty, blunting the disincentive to declare POSGUs appropriately.

The government introduced proposals that would require POSGUs to be declared at the point of Application for DSR CMUs. Any false declaration relating to a POSGU's presence in a DSR CMU would result in termination and incur a TF4 Termination Fee (£15,000MW at the time of publication).

Summary of responses

Question 36 invited responses to the intent to require greater clarity on the declaration of POSGUs such that appropriate enforcement could follow. 88% of respondents supported that principle. Those qualifying support for the proposal highlighted the increased transparency, oversight, and ability to monitor the use of POSGUs (particularly those required to meet emissions declarations). Some respondents provided caveated support for the proposal, stating, for example, that it should only apply to future agreements and should not introduce disproportionate burdens on Capacity Providers.

Question 37 sought agreement with the intent to introduce a TF4 termination fee, whilst Question 38 requested that, where in disagreement with the introduction of the TF4 termination, for respondents to offer reasoning for that and alternatives. Question 37 saw 73% of respondents supported the introduction of the TF4 termination fee. A number of those providing further information in Question 38 stated their agreement with the proposal's principle whilst caveating support. Those caveats included: the proportionality of the coincidence of termination fee costs alongside the lost CM revenues; where there is valid use of emitting POSGUs (such as backup generators at hospitals); where the Capacity Provider themself is not at fault due to the non-declaration of POSGUs from their contracted customers; or non-culpability where a site contains a POSGU which doesn't form part of the DSR CMU itself. Respondents were, however, aligned on support for terminations where a genuine and deliberate false declaration is made. Views were shared that, where a Capacity Provider can evidence that it has made efforts to confirm all POSGUs in the DSR CMU are accurately declared, that proportionate allowances should be made to absolve Capacity Providers of culpability and forgo terminations.

Further feedback stated that Unproven DSR CMUs will not know the exact makeup of its component portfolio and that adjustments should be made to capture that uncertainty, for example, by requiring a later stage declaration of POSGUs, e.g. ahead of DSR Tests, for Unproven DSR CMUs. Similarly, where component reallocations follow original notifications of components, respondents stated that no requirement exists for a Fossil Fuel Emissions Declaration to be updated following its initial submission.

A broader comment stated that, whilst it is important to have assurances on capacity entering into auctions, that priority should be placed on appropriate testing and delivery assurance measures.

Government response

The government intends to proceed with the introduction of termination fees for the non-declaration of POSGUs. However, as highlighted as part of consultation responses, there is cause to adjust the timings by which those declarations should have been made.

With regards Proven DSR CMUs, it is expected that POSGUs will have been identified prior to their inclusion in a CMU. Proven DSR CMUs will be required to declare POSGUs at the point of Application to the CM. This is in line with the original proposal. For Unproven DSR CMUs, POSGUs will need to be declared at the point of notifying DSR CMU Components (Rule 8.3.3A). The government considers this to be the most appropriate stage by which POSGUs should be known and declared per processes required to achieve Proven DSR CMU status.

Termination fees will be set at the TF8 level, in line with updates in the government response published in parallel to this consultation response. This level of termination meets that of other false declarations. Detail of terminations per Rule 6.10.1(o) is contained in Section 8.9 of this response.

The government recognises feedback on the steps taken to confirm the presence of POSGUs within a CMU and takes on good faith that Capacity Providers will seek to adhere to CM Rules. However, the introduction of derogations from termination and permitting relative flexibility in the imposition and extent of terminations would increase ambiguity and complexity whilst equally challenging the integrity of the scheme. The government therefore will not seek to introduce partial terminations applied to any POSGU capacity within a CMU where it has not been declared.

The above will only apply to agreements secured following the introduction of these changes; they will not be retrospectively applied.

6. Self-nomination of connection capacity for battery storage

Consultation position

To ensure confidence that Battery Energy Storage Systems (BESS) Capacity Providers can deliver against their Capacity Obligations, despite the difficulty to predict degradation, storage CMUs are required to undergo extended performance testing (EPT) at their adjusted connection capacity and storage duration class.

To mitigate the risk of failing EPT in the later years of multi-year agreements, many new build BESS providers request to self-nominate a connection capacity that is lower than the connection capacity of the unit. This is done at the beginning of their Capacity Agreement and applies for the entirety of their agreement.

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

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

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

Summary of responses

Self-nomination for BESS

Questions 39 and 40 asked whether respondents agreed with the proposal to allow self-nomination of connection capacity for Storage – Battery CMUs and to explain why if respondents disagreed. Most respondents stated they were supportive of allowing self-nomination for battery CMUs. A further 15% of respondents were supportive, with caveats. The majority of caveats suggested that self-nomination should be extended to the rest of the storage GTC (e.g. pumped hydro), BESS units already in the CM, or all GTCs. In the rest of the positive responses, further reforms were encouraged beyond the scope of this consultation such as broader EPT changes and a reform to the approach for BESS de-rating.

Only 10% of respondents responded negatively to these questions; 3% of those without caveats called for the immediate removal of all BESS from the CM. The other negative respondents stated that they would only support the change if it was also applied retroactively, or to all GTCs.

Floor on Self-nominated Capacity

Question 41 asked whether respondents agreed with the inclusion of a floor on the self-nominated SCC of 50% full connection capacity. Question 42 asked respondents that disagreed with the proposal to explain any unforeseen issues with the proposal and invited suggestions for an appropriate floor. Responses to these questions were evenly divided with 47% of respondents responding positively and 47% responding negatively. The final 6% gave neutral or unsure positions.

The majority of those who agreed with the floor agreed without any caveats. They felt the threshold was reasonable given the technical characteristics and expected degradation profiles of BESS assets. The measure was seen as a pragmatic way to balance operational realism

with the need to maintain consistency and confidence in the CM framework. Points were raised around the proposal encouraging capacity providers to keep their assets from degrading rapidly, as well as discouraging widespread under-declaration of connection capacity by market participants.

Those who disagreed with the proposal suggested that the change would be restrictive to flexibility and increase costs to consumers by removing capacity from the auctions. Other negative respondents felt there was no reason for a floor as providers had no incentive to report lower capacities than possible. Further complications for co-located sites, where the connection capacity may vastly exceed the asset capacity were raised.

Unintended consequences or further concerns

Question 43 asked if respondents foresaw any unintended consequences to these proposals. Most respondents did not answer this question. Of those who did answer, 59% responded positively, citing no unintended consequences, and 41% had no caveats. The remaining 18% highlighted the need to ensure that legal drafting does not inadvertently preclude other CMU types that use 'historic output' as a method of determining connection capacity. There were also concerns that the change may prompt other generating CMUs that are a different GTC/non-battery storage to seek self-nomination.

The negative responses re-iterated issues highlighted in question 42 over the capacity floor, e.g. reducing flexibility or difficulties for co-location, and that not having a floor would potentially introduce fewer unintended consequences. As with the positive respondents, the potential risk that allowing self-nomination of connection capacity solely for battery storage CMUs may create a perception of unfairness among other CM participants was highlighted.

Question 44 asked whether respondents had any further comments or concerns regarding battery Storage CMUs participating in the CM or any further required changes the government should consider. The most common suggestion was around the inclusion of battery degradation in the CM, either instead of the proposed change, or as a future change. Reforms to the EPT framework, to either bring them in line with SPDs or include degradation were also suggested. Other respondents requested revisiting previously agreed Capacity Agreements for BESS, either as a one-off window or granting the ability to revise connection capacity prior to the T-1 yearly. There were also requests to be able to change duration class during a multi-year agreement.

Government response

Given most respondents were supportive of the introduction of self-nominated connection capacity for BESS, from prequalification 2026, the government intends to allow all BESS CMUs to self-nominate their connection capacity in the CM Rules. This capacity will be self-nominated at prequalification for new agreements moving forwards, and then de-rated with respect to storage duration to calculate the Capacity Obligation of the CMU. This will apply for the entirety of a Capacity Agreement obtained in either the T-1 or T-4 auction.

As stated in the consultation, it is vital that transparency of assets is maintained for future adequacy modelling. No objections were raised as part of the responses to providing full capacity information at prequalification. Therefore, the introduction of self-nomination will be accompanied by a requirement to report the full connection capacity as calculated in Rule 3.5.2/3.5.5. In addition, concerns were raised that the reporting above does not give sight of asset duration. Therefore, the stored energy capacity (in MWh) of the CMU will also be reported.

While the government recognises the impact of introducing a floor in self-nomination on business flexibility, the introduction of this self-nomination is for degradation reasons. It is seen as vital that self-nomination is kept to a minimum level to mitigate for BESS unique degradation only. Therefore, the government will introduce a 50% floor on self-nomination of connection capacity for BESS CMUs. This will be in reference to the full generating unit connection capacity as calculated in Rule 3.5.2/3.5.5.

In addition to being more consistent with treatment of other capacity in the CM, which is required to enter at connection level, the 50% limit will also ease concerns over challenges for NESO's EMR Modelling team from self-nomination. This, alongside the requirements for reporting and publication of the site/asset capacity, will ensure that uncertainties presented by allowing self-nomination can be minimised.

While the 50% limit will be introduced alongside the self-nomination change, the government is committed to ensuring that any unintended consequences are addressed. Therefore, the limit will be kept under review, using the asset data reported at prequalification, following its introduction and can be readdressed if found to be significantly obstructing specific asset configurations.

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

Consultation position

The government sought views on introducing appropriate sustainability criteria for biogenic sources to evidence against, which could enable them to access low carbon benefits in the CM[6]. This addresses the commitment made in the 2024 CM Phase 2 policy update to review appropriate methodologies for calculating how biomass and other technologies with emissions

[6] DESNZ (2024), 'Capacity Market: Policy Update 2023 Phase 2 Consultation'

from non-fossil fuel sources can meet and evidence against the CM-defined low carbon emissions threshold (100gCO2e/kWh).[7]

For non-fossil fuel generation whose emissions are from biogenic sources, government has determined that an appropriate Monitoring, Reporting and Verification (MRV) method is required, to incorporate sustainability criteria and Life Cycle Assessments (LCA), rather than measuring by stack emissions alone. To address this, the consultation proposed an interim solution to implement a CM-specific version of the established Renewables Obligation (RO) sustainability criteria which (for woody biomass generators only) aligns with the recent enhanced Contracts for Difference (CfD) Criteria,[8] this commits to:

- increase the proportion of woody biomass that must come from sustainable sources from 70% to 100%
- significantly cut the allowable supply chain emissions to a level in line with the stricter regulations of the EU's RED III[9] (from 55.6 gCO2e/MJ to 36.6 gCO2e/MJ)
- the exclusion of material sourced from primary forests and old growth forests from receiving support payments

This is followed by a longer-term intention to align with ongoing policy development on biomass generation more broadly, by aligning with the forthcoming Common Biomass Sustainability Framework in due course.

An RO-style sustainability audit reporting process was proposed to demonstrate compliance with sustainability and emissions criteria, with a new biomass specific low-carbon declaration required at Prequalification and an auditing role for Independent Emissions Verifiers, following 12 months of continuous operations.

The government proposed that Energy from Waste (EfW) generators would not be able to access low carbon benefits within the CM, despite some biogenic content found in their feedstocks. This is due to their primary function as part of the waste management system, and the impracticalities around setting a CM-specific threshold for biogenic waste to be considered low carbon.

Summary of responses

Most respondents to questions 45 and 46 (71%) agreed with adopting a version of the established RO sustainability criteria as an interim solution. Respondents considered the approach pragmatic, familiar and workable while the longer-term rules are finalised. Most respondents emphasised that using a well-understood standard would provide clarity during the transition. Among those who disagreed (24%), some asked the government to time-limit the interim approach and set a specific sunset linked to the development of the Common

[7] For the purposes of conversion, 1 kWh is equivalent to 3.6 Megajoules, https://www.iea.org/data-and-statistics/data-tools/unit-converter
[8] UK Parliament (2025), 'Written Statement by the Secretary of State for Energy Security and Net Zero',
[9] For the purposes of conversion, 1kWh is equivalent to 3.6 Megajoules, https://www.iea.org/data-and-statistics/data-tools/unit-converter

Biomass Sustainability Framework. A few respondents set out principled objections to treating biomass as low-carbon, citing lifecycle assessment and sequestration uncertainties.

On the longer-term proposal to align with the upcoming Common Biomass Sustainability Framework in questions 47 and 48, most respondents (75%) supported this, welcoming the prospect of consistency across schemes and increased certainty for participants. Some respondents expressed reservations about endorsing alignment before the framework's detail is published, and criticised delays in the framework's development.

Most respondents (77%) also agreed with proposals in questions 49 and 50, that applying the enhanced sustainability criteria associated with the proposed low-carbon dispatchable Contracts for Difference (CfD) to all CM-eligible woody biomass generators is a reasonable interim step, given these criteria are established, alongside the widely used RO requirements. Some respondents questioned the proportionality of applying this approach to smaller generators, arguing that criteria designed for large-scale plants may impose disproportionate burdens and proposed scaled or proportionate thresholds. A few suggested continuing with current RO/CfD criteria until the broader common framework is in place.

Most (78%) respondents to questions 51 and 52 considered an annual reporting process, mirroring the RO Annual Sustainability Audit Report, to be an appropriate and proportionate level of assurance for CM participation. Respondents appreciated having a familiar, workable template that minimises interpretation risks. Those not in favour (22%), requested clearer guidance on how audit and reporting timelines would interact with CM milestones, and wanted further detail on how potential penalties and termination rules would apply where RO and CM requirements differ. Among those offering alternative suggestions to the proposals, a few respondents proposed using accredited ISAE 3000 verifiers rather than relying on Independent Emissions Verifiers as currently defined in the CM Rules.

There was unanimous (100%) agreement on questions 53 and 54, that EfW is primarily a function of the waste management system and faces different decarbonisation challenges than other generating technologies. Respondents noted that decarbonisation of EfW emissions depends heavily on waste composition and upstream measures such as recycling and residual waste minimisation, rather than on switching generating fuels. While agreeing, some respondents highlighted landfill gas as both a waste liability and an energy resource, suggesting that policy should maximise methane capture and destruction which, in some contexts, should be treated as low-carbon.

Most (91%) agreed with the proposal in questions 5556, not to include EfW as low-carbon within the CM. Respondents supported the proposals rationale of the challenges in reliably measuring biogenic content, setting a minimum threshold, and verifying biogenic content for a scheme where payments are based on capacity rather than metered generation. Others pointed to existing sampling, certification and auditing practices and to technology developments, arguing that an MRV approach might be adapted rather than ruled out.

Government response

The government will implement the Renewables Obligation–based interim sustainability approach for CM low carbon eligibility and adopt the enhanced criteria for woody biomass, strengthened assurance standards and annual reporting requirements. This provides continuity and clarity for participants while wider sustainability policy develops outside the CM.

To give effect to the interim approach, CM Rules will set out the requirements that apply at prequalification, including sustainability declarations and a new exhibit specific to biomass. Reporting will mirror existing backward-looking emissions reporting, with the same agreement reductions and termination consequences for non-compliance. The annual sustainability audit report will be due 2 months after the end of each Delivery Year and must demonstrate 12 months of compliance. Following feedback in the consultation responses, and in line with reporting in the recent low-carbon dispatchable CfD, this will be assessed to the ISAE 3000 standard at reasonable assurance.

Most consultation responses supported future alignment with the Common Biomass Sustainability Framework, and the government intends to align with the framework when detail is available to support consistency across schemes. Any approach to CM alignment will be confirmed following the publication of the framework. While some respondents requested that a sunset date be applied to the interim arrangements, this will not be included in the CM Rules because the timing of any transition depends on policy development outside the CM's scope.

The government will apply the enhanced sustainability criteria to all CM-eligible woody biomass of 1 MW and above to promote consistent standards across schemes. In line with the heads of terms of recent low-carbon dispatchable CfDs, woody biomass will be required to be evidenced as 100% sustainable, along with stricter requirements for supply-chain emissions to be reduced and the exclusion of material sourced from old-growth forests.

No changes will be made to consider Energy from Waste (EfW) as being eligible for low-carbon CM benefits. Consultation responses agreed that EfW decarbonisation is better addressed through waste system policy rather than CM sustainability requirements.

8. Further improvements to CM administration and delivery assurance

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

Consultation position

All Generating CMUs must declare their Generating Technology Class (GTC) as part of their Application. It is through this GTC that De-rating Factors are accorded for each CMU for a relevant auction, with only the classes specified in Schedule 3 of the Rules permitted. Energy from Waste (EfW) is one such permitted technology. While Schedule 3 of the Rules gives examples of the types of plants that can participate as EfW, there is currently no definition for what constitutes waste.

To provide greater clarity to industry and to the Delivery Body regarding what is permitted within the EfW GTC, the government proposed to define the meaning of 'waste' within the Rules. The government proposed adopting the definition of 'waste' as defined in the Waste and Emissions Trading Act 2003 (the Act),[10] which is domestic legislation that is applicable across Great Britain. This update to the definition would confirm that only genuine waste is permitted to be used within EfW facilities and aligns with defining other terms that require further definitions, such as for wind turbines and photovoltaic solar cells.

Summary of responses

Definition of 'waste'

Question 57 asked if respondents agreed with the proposal to introduce a definition of 'waste' into the CM Rules and received 19 responses. Most respondents agreed, with a few highlighting that this change would introduce clarity for Capacity Providers. One respondent disagreed.

Question 58 asked if respondents agreed with the proposal to use the definition of "waste" found in Article 3(1) of Directive 2008/98/EC of the European Parliament and of the Council on waste (the Waste Directive), as modified by Article 5 and Article 6 of the Directive. Most respondents agreed with the proposal, with a few stating that it was consistent with wider frameworks. No respondents disagreed, but one response stated the need for alignment with wider legal frameworks.

Question 59 asked for suggestions for alternate definitions for "waste" in the CM. No suggestions were provided. Question 60 asked if there were any other GTCs that should be

[10] Waste and Emissions Trading Act 2003

further clarified. The government received a few suggestions, including requests to add additional hydropower and Demand Side Response (DSR) GTCs and a Hydrogen Electrolyser GTC.

Unintended consequences

Question 61 asked if the proposal to add a definition for “waste” would have any unintended consequences. Most respondents stated that there would be no unintended consequences from introducing this definition. A few respondents raised concerns regarding interactions with wider regulations, and one stated that it may introduce an unnecessary administrative burden into the scheme.

Government response

In line with the majority of respondents, the government will introduce the definition of ‘waste’ found in Article 3(1) of the Waste Directive, as modified by Article 5 and Article 6 of the Directive, into the CM Rules. No alternative suggestions were offered, nor has the government identified any since the consultation was published.

The government welcomes feedback from respondents, who believe that introducing this definition will align the scheme with wider regulatory frameworks and add clarity. The government also notes feedback from one respondent that stated that this definition is not necessary and that it would determine what fuel units run on. The government is committed to ensuring the CM Rules are clear for all Capacity Providers and the Delivery Body and continues to believe that this change will provide clarity for all parties. It will also ensure that only genuine EfW facilities participate in the CM.

The government will not take forward any additional definitions or changes to GTCs suggested by respondents at this time. The government will continue to review the scheme to ensure that all generating technologies that can contribute to security of supply are provisioned for. Under Rule 2.4.1(a) of the CM Rules, the Secretary of State is required to consult interested parties to determine whether any new generating technologies can contribute to security of supply by 1 October each year. The government encourages participants to continue to engage with our Annual Technology Review of the scheme.

8.2 Clarifying Rule 2.3.3 with regards to De-rating Factors and Secondary Trading Consultation position

Consultation position

Capacity Providers may transfer active Capacity Obligations through Secondary Trading of Capacity Agreements, subject to Chapter 9 of the CM Rules, to mitigate the risk of penalties if they are unable to meet their Capacity Obligation. Rule 2.3.3 governs how De-rating Factors apply to CMUs that acquire Capacity Obligations through Secondary Trading. It states that the De-rating Factors published in the Auction Guidelines for a Delivery Year should be applied to any CMU that acquires a Capacity Obligation through Secondary Trading for that Delivery Year.

At present, there is no defined position on how the Delivery Body should de-rate an Acceptable Transferee in a GTC that is not defined for the Delivery Year covered by the relevant Auction Guidelines. To provide certainty for Acceptable Transferees, the government proposed amending Rule 2.3.3(b) to state that the De-rating Factor for any Transferee will be the De-rating Factors provided in the Auction Guidelines for the T-1 auction for the Delivery Year to which the trade relates.

Summary of responses

Amending Rule 2.3.3(b)

Question 62 asked if respondents agreed with the proposal to amend Rule 2.3.3(b) and received 23 responses. Most respondents were in favour of the amendment. Some respondents provided comments and alternative solutions to the government's proposal. A few respondents suggested that the current system was still fit-for-purpose and therefore should not change. The responses suggested that the proposed amendment would only be appropriate when the Generating Technology Class and De-rating Factor for a given Delivery Year was not included in the guidelines for the T-4 and only in the T-1. Some respondents also suggested that this could create an incentive for Capacity Providers to undertake Secondary Trading to obtain a more lucrative agreement with a higher De-rating Factor for their GTC in a given Delivery Year.

Question 63 asked whether respondents agreed that the De-rating Factor for the Transferee CMUs should be set at the same level as the T-1 Auction for the Delivery Year relevant to the trade, while Question 64 asked those who disagreed to provide alternative solutions. Question 63 received 23 responses, with most respondents in favour of the proposal. Some respondents disagreed and 12 responded to question 64 with alternative solutions. A few respondents stated that the current process should not change, while a few others suggested that this process would only be appropriate where the GTC for a Delivery Year is not explicitly defined in the T-4 and is instead only defined in the T-1 guidelines.

Unintended consequences

Question 65 asked respondents to identify any potential unintended consequences and received 17 responses. Some respondents suggested that this change could incentivise gaming, whereby Capacity Providers seek more favourable agreements if the De-rating Factor for the same GTC increases from the T-4 to the T-1 auction. A few respondents also stated that it could increase the risk of terminations if a provider is no longer able to trade out a like-for-like Capacity Agreement. Some respondents indicated that they did not foresee any unintended consequences arising from the proposed change.

Government response

In line with the majority of responses to the proposed changes, the government will proceed with the clarification to Rule 2.3.3, stating that the De-rating Factor for any Transferee will be the De-rating Factor provided in the Auction Guidelines for the T-1 auction for the Delivery Year to which the trade relates. The responses indicated that stakeholders generally welcomed the measure, as it reduces uncertainty.

The government notes feedback from some respondents who stated that the proposed change could lead to a gaming risk by incentivising Secondary Trading to obtain more lucrative Capacity Agreements. Despite these concerns, the government believes this risk is low. For established GTCs, changes in De-rating Factors tend to be relatively small from one Delivery Year to the next. Due to this limited variation, the potential gains from pursuing Secondary Trades based solely on changes in De-rating Factors are likely to be minimal. As a result, the government considers that the proposed clarification is unlikely to create significant gaming opportunities or lead to substantial shifts in market behaviour.

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

If a Capacity Provider triggers a Termination Event under Rule 6.10.1, the Capacity Agreement may be terminated. Rule 6.10.1(a) applies where a Capacity Provider or joint owner of a CMU becomes insolvent. In such cases, if the Delivery Body becomes aware of the insolvency, it will then issue a Termination Notice. The CMU is terminated 60 working days after the Notice, unless an extension is granted.

Currently, CMUs that trigger an Insolvency Termination Event may continue to receive Capacity Payments between the issue of the Termination Notice and the final Termination date. Although Rule 6.10.3A requires these payments to be repaid, insolvent providers are unlikely to do so. This results in poor value for money for consumers. The government proposed amending the Rules to provide for the suspension of payments to a Capacity Provider that becomes subject to an Insolvency Termination Event and is issued a Termination Notice under Rule 6.10.1(a). This amendment aims to improve value for money within the

scheme, recognising that Capacity Providers in insolvency are unlikely to be able to repay payments should termination be finalised.

Summary of responses

Suspending payments for units under an Insolvency Termination Event

Question 66 asked if respondents agreed that Capacity Payments to Capacity Providers should be suspended at the point of the Termination Notice being issued for an Insolvency Event and received 30 responses. The majority of respondents supported the proposal to suspend Capacity Payments once an insolvency-related Termination Notice has been issued. A few respondents highlighted that the approach protects consumers and maintains the credibility of the CM by ensuring payments do not continue where a CMU is no longer capable of delivering its obligations. A few respondents also noted that suspending payments immediately upon insolvency strengthens the integrity of the scheme and supports value for money.

One respondent did not agree with the proposal and suggested increasing monitoring of insolvency events to ensure related terminations are issued as early as possible. The respondent flagged concerns that there could be a period between a Capacity Provider becoming insolvent and notifying the Delivery Body during which time a System Stress Event could occur. In such a case, the Capacity Provider's capacity would be assumed to be available. The respondent requested that responsibility for the process be shifted to the Delivery Body rather than the Settlement Body.

Unintended consequences

Question 67 asked respondents to identify any unintended consequences arising from the proposals to suspend Capacity Payments to Capacity Providers whose units are under an Insolvency Termination Event and received 19 responses. The majority of respondents did not foresee any unintended consequences. One respondent noted that there would be a need for a clear and efficient appeals process so that viable restructuring or asset transfer plans can proceed without excessive administrative delay.

Government response

In line with the majority view expressed by respondents, the government will proceed with the proposal to suspend payments to a Capacity Provider that becomes subject to an Insolvency Termination Event and is issued with a Termination Notice under Rule 6.10.1(a).

The government recognises concerns raised by respondents regarding the timing of Insolvency notifications and the potential risks during a System Stress Event. The government considers that these risks are mitigated by existing CM Rules but will amend Rule 8.3.5 to make this clearer for all participants.

Rule 8.3.5 requires Administrative Parties to notify other Administrative Parties promptly once they become aware that a Capacity Provider has become Insolvent. The government expects this exchange of information to happen as soon as reasonably practicable. Therefore, the government will amend Rule 8.3.5 to make it explicit that this exchange of information must occur within two working days of the first Administrative Party being notified.

The government also reiterates that Capacity Providers are expected to notify the Delivery Body at the earliest opportunity if a Termination Event has occurred, including an Insolvency Termination Event. This is critical for ensuring that Insolvency Termination Events are identified and acted upon quickly, thereby reducing the risk of capacity being incorrectly treated as available during periods of system stress.

To ensure fairness, the government will implement an amendment to Regulation 51 of the Principal regulations to calculate how much monthly credit will be withheld. This will be based as a fraction of the number of days within the month that the CMU was under the Insolvency Termination Notice: $A = x * \frac{y}{z}$ where A is the adjusted capacity payment, x is the full capacity payment, y is the number of days in the month up to and excluding the date of the Insolvency Termination notice, and z is the total number of days in the month that the Insolvency Termination notice was issued. A similar formula will be used to repay withheld credit if an Insolvency Termination Notice is withdrawn.

The government will continue to keep the effectiveness of monitoring, notification, and communication arrangements under review to ensure the CM operates efficiently and maintains the scheme's integrity.

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

Consultation position

The government proposed an amendment to Rule 8.3.3(f)(i) to clarify that a Capacity Provider must provide an accurate submission of information to the Settlement Body within 10 working days of submitting a completed Metering Assessment to the Settlement Body. This proposal aligns with the intent to ensure the timely submission of metering information following a completed Metering Assessment.

Summary of responses

Clarifying Rule 8.3.3(f)(i)

Question 68 asked whether respondents agreed with the proposal to clarify the timeline for the submission of information to the Settlement Body. Question 69 asked whether there were any unintended consequences of making such a change.

Question 68 received 23 responses. Most respondents agreed with the proposal to clarify the timeline of submitting information to the Settlement Body under Rule 8.3.3(f)(i). Some of these respondents noted that the change would provide greater clarity and consistency for Capacity Providers. Some other respondents noted that the rules had undergone multiple iterations and that this change would be beneficial.

Unintended consequences

Most respondents did not note any unintended consequences. A few respondents commented that they were not always in control of when data collectors pass information and this could lead to penalties for circumstances outside of their control.

Government Response

In line with the views of most respondents, the government will implement this proposal as described in the consultation to clarify that a Capacity Provider must submit accurate information to the Settlement Body within 10 working days of submitting a completed Metering Assessment to the Settlement Body. This will provide greater clarity to all participants about what information needs to be submitted to the Settlement Body and what the triggers are for submitting such information.

The government notes the comments from some respondents about the issues regarding the flow of data from the Capacity Provider to the Settlement Body. The government will consider what further steps can be taken to ensure the flow of correct and timely data between scheme participants and Administrative Parties.

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

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

The government proposed to amend the approximate Capacity Auction Timetable and Guidelines in Rule 2.2.2 to align more closely with the scheme's operational timetable in the Rules. The government also proposed to extend the indicative timetable to 31 weeks between Prequalification opening and the first bidding round and to amend the events included within the indicative timeline to make them easier to use for Applicants and delivery partners.

Summary of responses

Amending Rule 2.2.2

Question 70 asked if respondents agreed with the government's proposal to amend the approximate timetable in Rule 2.2.2 to more closely align with the scheme's operational timetable and received 23 responses. Most respondents were supportive, with one response not agreeing.

Adding or removing activities to the indicative timetable

Question 71 asked if any activities should be added to or removed from the indicative timetable in Rule 2.2.2 and received 18 responses. The majority of these responses did not consider there to be other activities that should be included or removed from the proposed timetable set out in the consultation. Some responses shared suggestions for amendments. Of those who agreed that the proposed timeline was appropriate and did not require any additional changes, a few commented that the milestones set out captured an appropriate level of detail and noted that additional milestones may overly constrain timetables.

Of those who provided further detail on this question, all were broadly supportive of the proposal but proposed the addition of further information within the timetable. Some respondents noted that it would be helpful if deadlines for Credit Cover were included, with another response highlighting that while Credit Cover timelines may not be explicitly covered it remains important that these timescales were not compressed to provide the appropriate time necessary for business processes such as Director signatures. A few responses also proposed the addition of more detailed timelines for disputes. One response suggested that it would be helpful to include timelines for both pre- and post-auction activities, notably for metering deadlines.

A few responses also noted that the timelines within Rule 2.2.2 may need to reflect wider policy proposals within the consultation, notably the proposal on delaying the publication of information about the Prequalified capacity ahead of the auctions (questions 13 and 14 of the consultation).

Unintended consequences

Question 72 asked respondents if there were any unintended consequences of the proposed change to the indicative timetable. Of the 16 responses, most were not aware of any unintended consequences of the proposed changes to Rule 2.2.2 and some highlighted potential concerns. Of those who noted potential unintended consequences, some highlighted concerns on the overall timelines for the auctions due to the limited time available for delivery between the auction being held and the start of the Delivery Year. Some of these responses were supportive of moving auctions to earlier in the delivery cycle, to winter or autumn, and one asked that the government consider auctions on a five-year ahead (T-5) timeline. A few responses also asked that the final timetable updates be clearly communicated to participants to ensure that they remained confident of participation requirements and highlighted the importance of capturing other policies included in the consultation, similar to the respondents to Question 71.

Government response

In line with the majority support for the proposed amendments to Rule 2.2.2, the government intends to introduce the proposal to more closely align the approximate timetable with operational activities.

The government welcomes feedback on potential additions to the proposed timetable and note that further information on the timelines for disputes ahead of the auction could support auction participants. Therefore, these suggested timelines will be included within the amendments. The government will not pursue the suggestion to add the timeline for Credit Cover requirements into Rule 2.2.2 because it believes this is already set out clearly elsewhere in the CM Rules and Principal Regulations.

The government also welcomes views shared on expanding the timetable in Rule 2.2.2 to also capture wider, post-auction activities such as metering. Given the focus of Rule 2.2.2 on the Capacity Auction Timetable and Guidelines, the government proposes to not implement such additions at this stage as this level of detail may be best suited to existing auction guidance shared by delivery partners.

In light of feedback regarding ensuring key milestones are captured while maintaining flexibility, the government believes that the position set out above strikes an appropriate level of detail to be helpful to those engaged in the auction process but by maintaining Rule 2.2.2 as an approximate timetable this should ensure that processes retain the ability to adapt, which may be captured in the more detailed operational plans published by delivery partners. The government will work closely with delivery partners to ensure that updated timetables are made clear to participants, with appropriate engagement at the relevant stages in the annual cycle.

The government will separately consider feedback shared on the delivery challenges associated with the time available between the auction, when agreements are secured, and the start of the Delivery Year.

8.6 Extension to Prequalification Window following IT issue

Currently, once the formal Auction Guidelines are set for a CM Auction, the length of the relevant Prequalification Window may not be changed or extended. This presents a risk that, if there were a severe IT issue that rendered it impossible to conduct Prequalification fairly, there would be limited options to provide a targeted extension. The government recognised the need to formalise a process to ensure Prequalification could be conducted fairly.

The government proposed adding new Rules that allows the Delivery Body to extend the deadline to submit a Prequalification Application if there is a severe IT issue that impacts applicants' ability to submit Applications. The extension would be instigated at the discretion of the Delivery Body and only where the issue is severe enough to render the Prequalification process impossible for all Applicants.

The government proposed that the extensions be for a fixed amount of time, with the proposed length being 5 Working Days. Such an extension would be considered if the severe IT issue occurred within the last 2 weeks of the Prequalification Window and had severely impacted all Applicants for a period of 24 consecutive hours or longer.

The government also proposed an option to extend the end of the window by a further 5 working days if the severe IT issue remained unresolved during the initial extension. Due to the effect of a longer extension, the government proposed that a decision to grant an extension beyond the initial 5 working days would only be taken by the Secretary of State. The government would continue to have existing powers through Regulation 26(3)(b)(i) of the Regulations for the Secretary of State to postpone a Capacity Auction if required to under exceptional circumstances.

Summary of responses

Extending the Prequalification Window following an IT issue

Question 73 asked if respondents agreed that a new Rule was required to allow the Delivery Body to extend Prequalification if there is a severe IT issue. Of the 31 responses, most respondents agreed with the proposal that the Delivery Body should be able to extend the Prequalification Window if there is a severe IT issue.

Of those who agreed with the proposal, most respondents agreed that it was needed to ensure that applicants wouldn't be disadvantaged by a severe IT issue. Some respondents commented that there needs to be clear guidance before Prequalification that sets out when such a delay could be implemented. Some respondents who agreed also commented that there were other processes, including Prequalification Disputes, that had time-bound windows and would need the flexibility if there were a severe IT issue. A few respondents noted that there was a brief outage of the EMR Portal during the submission window for Prequalification disputes in 2025. A few respondents also noted that there could be issues that only affect a sub-section of Applicants and this should be considered.

Instigation of the extension

Question 74 asked if respondents agreed that this extension should be instigated by the Delivery Body. Of the 27 responses, most respondents agreed with the proposal that the initial extension should be provided by the Delivery Body. Some of these respondents considered that the Delivery Body taking the decision would lead to quick decisions if an extension was required. Some respondents also noted that the Delivery Body would likely be in the best position to understand the issue. Some respondents who agreed caveated that guidance would be needed up front so applicants understood under which circumstances an extension may be granted. A few respondents commented that the Secretary of State should make all decisions on extensions rather than the Delivery Body.

Length of extension

Question 75 asked if respondents agreed that any extension should be fixed for a certain amount of time. Of the 27 responses, most respondents agreed that a fixed timeline would give industry more certainty. Some respondents who agreed noted the benefits of having a predictable process. Some respondents agreed that this represented a good starting point but that more flexibility would be required if there were a longer outage. A few respondents who disagreed commented that the extension should always last at least as long as the outage itself for Prequalification to be fair. A few respondents said that fixing the extension to 5 working days could allow a further delay to happen in that period and so any extension should only be the minimum amount required to restore fairness.

Question 76 asked respondents for their views on whether an option was required for a further extension beyond 5 working days and who should take such a decision. Of the 23 responses, most respondents agreed that an option was required to allow for a further extension. Most respondents agreed that there needed to be flexibility to extend deadlines if the issue was not resolved by the end of the initial 5 working day period. Some respondents made it clear that this should only happen in extraordinary situations. The majority of responses agreed that the Secretary of State should take decisions on any further extensions. Some respondents commented that longer extensions are more impactful and that Secretary of State decisions may be more streamlined as downstream processes would need to be considered. A few respondents said that the Delivery Body was closer to the issues and could continue to take decisions on further extensions. A few respondents wanted more flexibility than was accommodated in the proposal.

Timing of IT issue leading to extension

Question 77 asked respondents if they agreed that the extension should only be considered if the severe IT issue occurred in the last 2 weeks of the Prequalification Window and where the issue persisted for more than 24 consecutive hours. Of the 23 responses, most respondents with the proposal. Some of these respondents commented that this was a fair limit on when an extension was required and that issues early in the Prequalification Window are less impactful, as most Prequalification submissions do not occur until the last 2 weeks of the Prequalification Window. Some respondents noted that the proposal would not allow for an extension if an issue happened on the last day of the window and this could cause an issue for applicants that have not yet submitted. A few respondents also commented that an issue that persists for more than 2 weeks early in the window could have an impact, especially if the issue lasted for a period of multiple days or weeks.

Unintended consequences

Question 78 asked respondents to identify any unintended consequences arising from the proposals to allow for extensions to the Prequalification Window. Of the 20 responses, most respondents did not foresee any unintended consequences. Some respondents commented that clear guidance would be required to ensure all participants understand the circumstances in which an extension might be granted. Of those who said there may be unintended consequences, a few respondents noted that an extension to Prequalification would impact the timelines up until the Capacity Auctions. This may put pressure on other milestones up to and

including the auctions. A few respondents cautioned that this process should only be used in exceptional circumstances as a last resort and not become a process that is relied upon.

Government Response

The government intends to proceed with adding a new rule to allow the Delivery Body to extend the deadline to submit a Prequalification Application if there is a severe IT issue that impacts all applicants' ability to submit an Application. Some respondents highlighted that it would be unfair if the amendment did not cover cases of failures that impact a portion of Applicants. The government is proposing to give the Delivery Body powers so that they may extend the deadline if there is a severe issue that affects all Applicants. Guidance will be published before the next Prequalification Round providing further clarity as to the circumstances that may result in an extension occurring. Where there is an issue that does not meet this threshold, the Delivery Body will provide advice and support in the usual manner to resolve problems encountered by individual Applicants.

For question 73 and question 74, in line with the majority of responses, the government will take forward the approach that the Delivery Body will be responsible for granting the initial extension. Some respondents asked for clarity regarding when an extension would be appropriate. The government acknowledges that some respondents felt that Secretary of State was best placed to take a decision. However, the government recognises that the Delivery Body will have a clear understanding of the issues and can take a decision as to whether an extension is appropriate in a more streamlined manner. Any extension will be accompanied by the immediate publication of updated Auction Guidelines.

For question 75, some respondents commented that there was a risk that a 5-working-day extension may be too long and could allow a further issue to occur within the extension period. The government also notes the majority of respondents agreed that a fixed time provided more certainty for Applicants. The government will therefore take forward the approach that the Delivery Body may extend the deadline for a period of up to and including 5 working days to enable additional flexibility of approach. Some respondents commented that the extension should be for as long as the issue was occurring. The government is determined to ensure a fair Prequalification process, however an extension beyond 5 working days would have a more acute impact on downstream processes.

For question 76, the majority of respondents agreed that there should be an option for a further extension if the issue cannot be resolved in an initial 5-working-day period. In line with most responses, the government will proceed with providing powers for Secretary of State to extend Prequalification by an additional 5 workings days if the issue is still not resolved. Guidance will be published indicating that the Secretary of State may use powers under Regulation 26(3)(b) of the Electricity Capacity Regulations 2014 to postpone the CM Auction process if the issue persists after this second extension. The government will provide guidance that, so long as parameters are not adjusted, Prequalification can resume with a new deadline and a new date for the Capacity Auctions.

For question 77, many respondents agreed that setting a limitation on when an extension could be offered was fair to ensure minor and resolvable issues do not cause an outsized impact on the auction process. Some respondents commented that the proposal did not cover issues that could occur on the final day of the Prequalification Window. Whilst the government would strongly advise that Applications are submitted early in the process to account for any issues that could occur, including those that only impact the specific Applicant, there are occasions where a major issue could happen on the last day. To provide greater flexibility, the legislative change will give the Delivery Body flexibility to extend the Prequalification Window if there is a severe IT issue that makes it impossible or unfair for Applicants to participate. The government will amend the proposal to account for any substantive issue occurring on the final day or for any delays that occur for an extended length of time earlier in the window.

For question 78, some respondents flagged the impact on the wider auction timelines. The government considers that a brief extension for 5 working days or less will have a limited impact. Longer extensions will be undertaken solely by the Secretary of State and will result in the postponement of the existing timeline, with an updated set of auction dates provided once the Secretary of State has confidence that the auctions can run uninterrupted. The government is aware that some respondents noted that delays can occur in other processes, including the Prequalification Disputes Window. The timelines for disputes are fixed under Regulation 69 of the Electricity Capacity Regulations 2014. The government will consider if further flexibility is required for this process or other time-bound processes in the CM.

8.7 Long Stop Dates and terminated one-year Capacity Agreements

The Long Stop Date is the final milestone by which Prospective CMUs must demonstrate operational capacity in line with 50% of their Capacity Obligation. For agreements awarded in a T-4 auction, the Long Stop Date is set at 12 months after the start of the first Delivery Year, irrespective of agreement length. However, a CMU awarded a one-year agreement in a T-1 Auction has a Long Stop date at the start of the Delivery Year, whereas a CMU awarded a one-year agreement in a T-4 Auction has a Long Stop Date 12 months after the Delivery Year commences. In practice, this means that a one-year T-4 CMU may reach the end of its agreement before a Notice of Intent to Terminate for failure to meet the Minimum Completion Requirement is issued.

While Rule 6.5.1 provides that rights and obligations accrued prior to expiry or Termination survive beyond the agreement term, the government is aware of the inconsistency between Long Stop Dates for otherwise comparable one-year agreements. To provide equality between one-year agreements won in T-1 and T-4 Auctions, the government proposed to amend the definition of the Long Stop Date to clarify that any one-year agreement for a Prospective CMU will be subject to a Long Stop Date that is the start of the first Delivery Year. This amendment

is also intended to make clear that such an agreement cannot expire before the CMU has either become operational or been issued with a Notice of Intent to Terminate or a Termination Notice.

Summary of responses

Amending Long Stop Date definition

Question 79 asked respondents if they agreed with the proposal to amend the definition of Long Stop Date to clarify that one-year Capacity Agreements for a New Build CMU or Refurbishing CMU in a T-4 auction will have a Long Stop Date of the start of the first scheduled Delivery Year, aligning to the process for T-1 Auctions. This question received 27 responses. The majority of respondents supported the proposal. A few respondents said the change provides consistency and reduces uncertainty for refurbished and new build projects. A few also agreed that the proposal provided additional clarity.

A few respondents disagreed, expressing concerns that the change could reduce the volume of new build capacity entering the auctions and that it may unfairly penalise projects that follow the same build timetable as other New Build CMUs but hold a shorter agreement.

Unintended consequences

Question 80 asked respondents to identify any unintended consequences from the proposal to amend the definition of Long Stop Date and received 21 responses. The majority of respondents felt that the proposal provides greater clarity and ensures consistent arrangements for one-year agreements. Supporters also noted that the proposal bolstered delivery assurance and removes unnecessary complexity from the process.

A few respondents did identify unintended consequences, noting the need to clarify how the rule would apply to parties holding multi-year agreements that do not meet the respective capex thresholds. Some highlighted that developers should be able to manage the risk of non-delivery or failure to meet Long Stop Date.

Government response

In line with the majority view expressed by respondents, the government intends to implement this change by way of an amendment to the definition of “Long Stop Date” to ensure that the Long Stop Date for any one-year agreement is set as the start of the Delivery Year, regardless of whether the agreement was awarded through a T-1 or T-4 Auction. This amendment ensures consistent treatment of otherwise comparable one-year agreements and aligns the application of the Long Stop Date across auction types.

The government believes that this change provides greater clarity for Capacity Providers, particularly New Build and Refurbishing CMUs, by removing the current disparity between one-year agreements awarded in T-1 and T-4 Auctions.

CMUs that have entered into multi-year Capacity Agreements, but which fail to meet relevant Capital Expenditure requirements and see their agreements subsequently reduced to one-year Agreements will also have Long Stop Dates that are set at the start of the Delivery Year.

In response to concerns that the proposal could reduce auction liquidity or deter New Build participation, the government notes that the importance of value for money for consumers. Capacity Providers entering into one-year agreements are expected to be in a position to deliver the capacity they are obligated to provide at the start of the Delivery Year. The amendment reflects the principle that such risks should be appropriately managed by developers when bidding for shorter term agreements.

The government believes that this amendment provides clarity on delivery expectations and ensures that agreements do not expire before a CMU has either become operational or been subject to a Notice of Intent to Terminate or a Termination Notice. This supports the integrity of the CM and reinforces confidence that contracted capacity will be available when required.

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

Consultation position

In April 2021, Ofgem published its final decision to introduce Market-wide Half-Hourly Settlement (MHHS), which will enable the transition to market-wide half-hourly settlement of domestic and smaller non-domestic consumers' electricity usage. Moving to MHHS will result in a shortened and more efficient timeframe for the Balancing and Settlement Code (BSC) settlement process. The MHHS programme will implement a reduced Settlement Timetable and change the total duration for final settlement reconciliation from 14 months to 4 months.

These changes will impact the CM settlement timeline and the settlement data that triggers CM annual and monthly reconciliation. To ensure that the CM continues to function and adheres to the Supplier Payment Regulations, the government proposed administrative changes that will amend the Supplier Payment Regulations to allow the settlement body to align with the MHHS Settlement Timetable.

Summary of responses

Aligning Supplier Payment Regulations with the MHHS workstream

Questions 81 and 82 asked respondents whether they agreed with the proposals to amend the Electricity Capacity (Supplier Payment etc.) Regulations 2014 to align to changes following the Ofgem-led Market-wide Half-Hourly Settlement (MHHS) workstream and to remove references

to the now outdated processes regarding the standstill period. These questions received 17 and 18 responses respectively. Most respondents agreed with the proposed amendments, with only one respondent disagreeing with the proposals.

Unintended consequences

Question 83 invited comments on whether any unintended consequences would be introduced by the proposal and received 15 responses. Most respondents did not identify any unintended consequences. A few respondents highlighted specific considerations related to implementation, including the need to future-proof legal drafting and to consider potential impacts that may arise during metering migration.

Additional amendments

Question 84 asked whether there would be any additional Regulations or CM Rules that the government should consider changing to ensure that the CM is adhering to legislation and continues to function and received 12 responses. A few proposed a wider review, including reviewing Rule 4.4.4, aligning Satisfactory Performance Day (SPDs) testing with DSR tests, and removing or moving Substantial Completion Milestones (SCMs) for 3-year Refurbished units. One respondent also noted that operational timelines may require subsequent changes.

Government response

In line with the majority of responses to the proposals, the government will proceed with the proposed amendment of the Electricity Capacity (Supplier Payment etc.) Regulations 2014 to allow the settlement body to align with the Ofgem-led Market-wide Half-Hourly Settlement (MHHS) workstream.

The government is aware that the new Settlement Timetable will not be enforced until July 2027. Amendments to the Regulations will ensure continued adherence to the current Settlement Timetable while facilitating an orderly transition to the new timetable. The government will provide the following alternative timetable for the Settlement Body to adhere to alongside the existing timetable in Regulation 18. The Settlement Body must use the most applicable reconciliation timetable to ensure that the existing process continues until there is a final cut over to the timetable under MHHS:

- At least 3 monthly reconciliation runs commenced no later than 7, 30, and 84 working days at the end of a given month M.
- At least 3 annual reconciliation runs commenced no later than 7, 30, and 84 working days after then end of year X.
- At least 3 half-hourly reconciliation runs for each settlement period to be commenced within T+5 working days after the end of the relevant settlement period.

This preserves the current settlement timetable whilst ensuring alignment with the MHHS post-settlement reconciliation timetable.

8.9 Amendments to selected Termination Events

Consultation position

If a Capacity Provider is subject to a Termination Event described in Rule 6.10.1, it will receive a Termination Notice and, subject to any appeal, will have its Capacity Agreement terminated. Many of the events set out in Rule 6.10.1 carry associated Termination Fees, which are designed to ensure that Agreements are only awarded and held by entities capable of delivering against their Capacity Obligations. Some Termination Events do not carry Termination Fees at present.

The government proposed adding a Termination Fee to the following two Termination Events:

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

The proposed level of this fee is TF4 under Regulation 32(2) of the Principal Regulations. This fee level has been chosen to be proportionate to other Termination Events such as failing to meet the Financial Commitment Milestone or failing to meet the requirements for Satisfactory Performance Days / Extended Performance Tests, which are equivalent losses in capacity. It is intended to strengthen incentives on Applicants and Capacity Providers to ensure that relevant information provided to scheme Delivery Partners is true and correct.

Summary of responses

Introducing Termination Fees for Termination Events 6.10.1(o) and 6.10.1(q)

Question 85 asked if respondents agreed with the proposal to introduce a TF4 Termination Fee rate for Termination Events 6.10.1(o) and 6.10.1(q) and received 24 responses. The majority agreed with the proposal, with a few respondents stating that the TF4 Termination Fee rate was commensurate with other similar Termination Events. A few respondents believed that these Termination Events should incur the repayment of Capacity Payments.

Some respondents disagreed with the proposal, and the government received two suggestions for alternative fee levels. One respondent stated a preference for Termination Events 6.10.1(o) and 6.10.1(q) to carry a TF1 rate, while another respondent said a TF3 rate was more appropriate.

Unintended consequences

Question 86 asked if any respondents thought that the proposal would have unintended consequences and received 17 responses. A few respondents flagged potential unintended consequences. The most frequently identified concern was that the proposal would punish Capacity Providers for honest mistakes. A few stakeholders requested that the Termination

Events distinguish between genuine errors and deliberate or negligent acts, while two respondents also stated that the change would increase risks in the scheme, potentially putting upward pressure on bids and decreasing auction liquidity. Two stakeholders said that the change would be prohibitive for smaller Capacity Providers and Refurbishing CMUs.

Government response

In line with the majority of respondents, the government will proceed with the proposal to add a Termination Fee to the Termination Events covered under Rules 6.10.1(o) and 6.10.1(q). The Termination Fee level proposed in the consultation, TF4, has since been grandfathered following the government response to the "Proposals to integrate low carbon technologies and enhance delivery assurance ahead of Prequalification 2026" consultation. As a result, the government will now link the Termination Events covered under Rules 6.10.1(o) and 6.10.1(q) to the updated fee rate of TF8, which represents TF4 uprated by 30%.

This change aims to ensure that Applicants and Capacity Providers provide true and correct relevant information to Delivery Partners. Detail on the introduction of new Termination Fees, uprating approximately in line with inflation since 2016, is contained in the government response published in parallel to this consultation.

The government has not decided to take forward either of the two suggestions for alternative fee levels provided by respondents. The government believes that the TF8 Termination Fee level remains the most appropriate, as it is the level at which Termination Events with equivalent losses of capacity, such as failing to meet the Financial Commitment Milestone, Satisfactory Performance Days and Extended Performance Tests, are set.

The government notes the two responses that argued for lower fees but continues to believe that a strong incentive is necessary to ensure that all participants provide true and correct information to Delivery Partners in order to maintain the scheme's integrity.

The government understands concerns flagged by some stakeholders that the proposal could carry an unintended consequence of punishing Capacity Providers that make genuine errors in their Application. However, participants have opportunities to ensure that the Termination Events triggered under Rules 6.10.1(o) and 6.10.1(q) do not occur, and to correct genuine, non-material errors. Regulation 69(5A) of the Principal Regulations allows for the Delivery Body to consider information or evidence that can rectify an error or omission in an Application if it is non-material.

The government believes that it is important that all relevant information provided in an Application is true and correct. The government therefore believes it is proportionate to attach the TF8 Termination Fee to Termination Events in Rules 6.10.1(o) and 6.10.1 (q), to ensure that providing true and correct material information is adequately incentivised.

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

Consultation position

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

Rule 12.2 requires prospective Capacity Providers with a T-4 CM agreement to provide the Delivery Body, no less than every 6 months, a progress report outlining its progress against the milestones set out in their initial Construction Plan submitted in the prequalification process. This process provides assurances that Capacity Providers will be ready for the start of their Delivery Year in accordance with their agreement and identifies industry-wide issues that the government should seek to address to reduce the risk of delivery barriers. The information provided in the reports also provides crucial intelligence to the Delivery Body, System Operator and the government, who are responsible for the safety and reliability of the electricity system. Currently, around a third of the CMUs subject to this reporting requirement are non-compliant with the Rules. To improve submission rates, the government intends to provide clearer guidance on the information that must be included in progress reports. The Delivery Body will publish updated guidance to clarify existing obligations and outline process changes. This is intended to ensure reporting is comprehensive across all technology types without being unduly burdensome. The government will also begin closer monitoring of outstanding reports and will engage directly with Capacity Providers that fail to submit reports on time. Construction reports can currently be submitted in any format, so long as the requirements of Rule 12.2.1 are met. Introducing a standard template would help to ensure that Capacity Providers know exactly what to provide and can provide it in the most efficient way. If progress report submission rates do not improve, the government intends to consider further options to address this, which could include future Rules changes to allow for penalties to be issued or mandatory Independent Technical Expert reports to be submitted.

Summary of responses

Question 87 asked respondents if further clarifying the information needed in the progress reports and engagement with Capacity Providers who fail to submit them is an appropriate way of resolving this issue. Most respondents (93%) agreed with the proposal. Of the negative responses, one noted that, while they felt monitoring was important, they did not think guidance without consequence would be likely to change behaviour. Of the twenty-six positive responses, a few responses noted the importance of sufficient monitoring to give confidence in capacity being on track to ensure security of supply and avoid adverse impacts on auctions. A few other responses also noted that, under current frameworks, the introduction of guidance may not provide sufficient incentives or confidence which may limit impact.

Question 88 asked respondents if a standardised construction progress report would improve the quality of reports submitted and make it simpler for Capacity Providers to submit reports by the relevant deadlines. Of the 28 responses to this question, 26 agreed with the proposal. Of the supportive responses who provided qualifying statements, some indicated a preference for

standardised reporting to maintain sufficient flexibility to capture the range of potential factors that might need to be reported across Capacity Providers and in a way that would be useful for delivery partners and DESNZ to monitor. Other feedback noted that standardisation would enable more equitably assessments and should improve quality and efficiency of reporting.

Question 89 asked the respondents for views on the suitability and effectiveness of a penalty regime or the introduction of mandatory Independent Technical Expert (ITE) reports on compliance with this Rule. It also asked them to consider what an alternative option would look like. Of twenty-five responses to this question, a majority of respondents disagreed with the proposal. Key concerns included the risk of added cost and administrative burden on Capacity Providers of these options, with some respondents highlighting potential knock-on impacts of additional costs including putting people off participating in the scheme or factoring in this added cost into behaviours such as through auction bids. Some respondents noted that they were unsure that these measures would provide much additional assurance, particularly regarding the use of ITEs. A few respondents emphasised that DESNZ should wait to observe whether the impacts of the other proposals on improved guidance and templates would improve response rates before considering further measures such as penalties.

Some responses raised concerns with the mandatory ITE proposal in particular, including that this could put pressure on ITE resources and create a bottleneck for routine reporting as well as questions around whether ITE reports would give sufficient confidence in delivery, particularly considering the cost and administrative burden this places on Capacity Providers. Of the supportive responses, the overall view was support for ensuring that capacity providers supply the necessary information to give delivery assurance but highlighted some of the concerns set out above and suggested alternative options. One response also felt that penalties for non-compliance outside of the termination regime may be difficult to administer.

Government response

The government recognises that Capacity Providers would benefit from additional clarity regarding the information required in construction reports and aims to provide this. It notes the overwhelmingly positive response to the suggestion of a standardised construction progress report template. The government also notes the four responses that raised concerns that under current frameworks the introduction of guidance may not provide sufficient incentives which may limit impact. The government also considered the fifteen responses disagreeing with proposals to introduce penalties or mandatory ITE reporting and the concerns of cost to Capacity Providers and this being factored into auction bids increasing clearing prices.

On balance, the government has decided not to take forward the implementation of ITE reports or penalties recognising the burden this may place on Capacity Providers. In line with the majority of responses, the government will take measures to clarify the information required in the reports by working with the Delivery Body to issue guidance and a template providing Capacity Providers with further direction when completing construction reports. Should the implementation of guidance not sufficiently address the issue, the government will consult on the further measures considered.

9. Next steps

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

Ensuring efficient bidding in the CM auctions:

- Increasing the excess capacity rounding threshold to 3GW for all CM auctions. This will not require a CM rule change.
- Delay the publication of information about prequalified capacity ahead of CM auctions. The identities of units and their aggregate derated capacities will no longer be published on the CM Register until after the auctions have concluded. Instead, a single rounded excess capacity figure will be released and periodically updated ahead of the auctions. This figure will represent the total of both conditionally prequalified and fully prequalified capacity, rounded to the nearest 3 GW. This will require amendments to rules 5.5.10, 7.4.1 and 7.4.2.

Consumer-led Flexibility:

- Streamlining component notification requirements for small assets by only requiring components that are 30kW or greater to be listed on CM Registers and Capacity Agreement Notices.
- Improving the granularity of DSR data capture in Business Models / Business Plans and when notifying DSR components.
- Strengthening multi-year DSR evidence at Application.
- Revising Rule 8.3.2 to require DSR CMUs to demonstrate 50% of their Capacity Obligation during DSR Tests.
- Extending the current DSR de-rating methodology until a longer-term update is determined and consulted on.
- Requiring the declaration of Permitted On-Site Generation Units (POSGUs) at Application.

Self-nomination of connection capacity for battery storage:

- Self-nomination of connection capacity will be allowed in the CM Rules by addition of a new Rule under 3.5.
- This self-nomination will be to a minimum of 50% of the capacity calculated under Rule 3.5.2 or 3.5.5.
- Alongside the self-nominated connection capacity, battery CMUs must report the full connection capacity as calculated under Rule 3.5.2 or 3.5.5, as well as the energy capacity (in MWh) of the unit.

Determining appropriate means for non-fossil fuel generation to access low carbon Capacity Market mechanisms:

- Adoption of an interim Renewables Obligation–based sustainability approach for determining low-carbon eligibility in the CM, including strengthened woody biomass criteria, enhanced assurance, and annual reporting.
- New CM Rules requirements at Prequalification, including sustainability declarations and a biomass-specific exhibit.
- Annual sustainability audit reporting introduced, due 2 months after each Delivery Year, demonstrating 12 months of compliance.
- Audit reporting must meet ISAE 3000 (reasonable assurance level), aligning with the low-carbon dispatchable CfD regime.
- Future alignment with the Common Biomass Sustainability Framework when available, providing consistency across schemes. No sunset date will be added for the interim approach.

Further improvements to Capacity Market administration and delivery assurance:

- 'Waste' will be clearly defined in the CM Rules to improve the clarity for participants and administrators.
- The De-rating Factor for any Secondary Trading Transferee will be set to the De-rating Factors provided in the Auction Guidelines for the T-1 auctions for the Delivery Year that the trade relates to.
- Capacity Payments will be immediately suspended for any CMU that is subject to an Insolvency Termination Event.
- Rule 8.3.3(f)(i) will be amended to clarify that a Capacity Provider must submit accurate information to the Settlement Body within 10 working days of providing a completed Metering Assessment.
- The approximate Capacity Auction Timetable and Guidelines in Rule 2.2.2 will be updated to align more closely to the scheme's operational timetable within the Rules and reduce confusion and uncertainty.
- The Delivery Body will have powers to extend the Prequalification Window by up to 5 working days due to a severe IT issue that renders the submission process unfair for Applicants. The Secretary of State may provide an additional 5 working day extension if the issue persists.
- The definition of Long Stop Date will be amended to make it clear that any one-year agreement for a Prospective CMU is subject to a Long Stop Date that is the start of the first Delivery Year.
- The Supplier Payment Regulations will be amended to enable future alignment with the MHHS Settlement Timetable, if and when required. These amendments do not change the existing settlement timetable and are intended to facilitate a smooth transition at a later date.

- A TF8 rate Termination Fee will be introduced for the Termination Events set out in CM Rules 6.10.1(o) and 6.10.1(q).

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, the Electricity Capacity (Supplier Payment etc.) Regulations 2014 and The Electricity Capacity Regulations 2014.

10. List of respondents to the consultation

The consultation received 65 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
CUB Ltd
The Battery Storage Coalition
Enel X
Joulen
Gresham House
University College London, Institute for Sustainable Resources
Siemens Energy
RWE
Elexon

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

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