UK Government

Consultation

Capacity Market: consultation on changes for Prequalification 2027

Closing date: 27 October 2026

Department for Energy Security and Net Zero (2026)

Contents

Executive Summary

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

The proposals in this consultation aim to reform the Capacity Market to ensure continued security of supply, align the scheme with the government's decarbonisation goals, and improve the functionality of the scheme. Following this consultation, the government aims to introduce changes ahead of Prequalification 2027 for the auctions in 2028, subject to parliamentary time.

The consultation complements other government initiatives, and follow recent government publications such as:

- In January 2026, the government published a government response to the 2025 Capacity Market consultation on proposals regarding locational changes of Capacity Market Units (CMUs)[1].
- In April 2026, the government published the Reformed National Pricing (RNP) delivery plan. This document details the proposed levers that might influence the siting and investment decisions made by generators, constraints management and balancing and settlement reforms, and covers how these policies will be further refined and delivered[2].
- In May 2026, the government published four documents relating to the Capacity Market:
    - A government response to the 2025 Capacity Market consultation on proposed changes for Prequalification 2026[3];
    - A government response to the 2025 Capacity Market consultation on proposals to integrate low carbon technologies and enhance delivery assurance ahead of Prequalification 2026[4];
    - A summary of responses to the 2025 Capacity Market call for evidence on Hydrogen to Power and Interconnectors[5]; and
    - A technical note related to interconnectors[6].

[1] DESNZ, Capacity Market: Consultation outcome on proposals regarding locational changes of Capacity Market Units, January 2026
[2] DESNZ, Reformed National Pricing (RNP): delivery plan, April 2026
[3] DESNZ, Capacity Market: Consultation on changes for Prequalification 2026 , May 2026
[4] DESNZ, Capacity Market: Consultation on proposals to integrate low carbon technologies and enhance delivery assurance ahead of Prequalification 2026 , May 2026
[5] DESNZ, Capacity Market: Call for evidence response on Hydrogen to Power and Interconnectors - government response, May 2026
[6] DESNZ, Updated technical adjustment methodology for de-rating interconnectors in the Capacity Market, May 2026

General information

Why we are consulting

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

Consultation details

Issued: 2 September 2026

Respond by: 27 October 2026

Enquiries to:

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Consultation reference: Capacity Market: proposals on changes for Prequalification 2027

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

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

How to respond

Respondents are strongly encouraged to make use of the online platform wherever possible when submitting responses as this is the government's preferred method. Alternatively, responses in writing or via email will also be accepted.

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

Respond online at: https://energygovuk.citizenspace.com/energy-security/cm-changes-for-prequalification-2027

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

Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome.

Confidentiality and data protection

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

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

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

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

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

Quality assurance

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

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

Introduction

The Capacity Market (CM) is the UK Government's main tool for ensuring continued security of electricity supply. The CM provides incentives for all forms of capacity, including generation, storage, consumer-led flexibility (also known as Demand Side Response (DSR)) and interconnection to be on the system to deliver when needed. Agreements secured under CM auctions provide revenue streams which support investment in electricity capacity which in turn ensures security of supply.

Since its inception the CM has been continuously evolved, to keep pace with wider policy and market changes. Achieving clean power by 2030 will mean an increasingly renewables-led system as a foundation for a decarbonised grid. A diverse portfolio of flexible technologies will be essential to balance supply and demand across varying timescales. The CM plays an important role in supporting flexible capacity to maintain a secure electricity supply.

To maintain the CM's primary objective of ensuring security of supply, there is a need to ensure that capacity secured through the scheme is reliable and able to deliver. The proposals in this consultation seek to improve assurance that auction-secured capacity can and will deliver when required. Further proposals intend to improve the accessibility of CM Rules and build on previous CM changes on consumer-led flexibility (CLF). Taken together, these proposals maintain electricity security of supply at the lowest cost to consumers.

Following this consultation, the government aims to introduce changes ahead of Prequalification 2027 for the auctions in 2028, subject to parliamentary time.

The consultation includes proposals to address the following:

- **Review of delivery assurance framework** – Proposals include strengthening the CM's testing regime through reforms to the Satisfactory Performance Day (SPD) process so that it tests for enhanced availability and responsiveness. Other proposals aim to strengthen assurance of underlying processes to ensure appropriate requirements are in place around the provision of supporting data.
- **Consumer-led flexibility (CLF)** – The consultation considers improvements to the de-rating methodology applied to DSR Capacity Market Units (CMUs) to more accurately value their security of supply contribution. Proposals also seek to introduce restrictions on the Secondary Trading of Unproven DSR CMU capacity ahead of the Delivery Year. Proposals also invite feedback on the introduction of mitigations for DSR providers whose agreements face termination where third parties fail to establish data flows, where this is outside the DSR provider's control.
- **Further improvements to Capacity Market administration** – Proposals include a package of changes that aim to ensure operational efficiency and clarity in the CM Rules. Among these changes are proposals that aim to ensure consistent and fair treatment for Refurbishing CMUs, while others aim to ensure that there are clear consequences set out if Rules are not followed. To improve transparency, the proposals also include mandatory disclosure of Ultimate Holding Companies (UHC). Proposals also include a more proportionate penalty for CMUs terminated for Market Manipulation or Prohibited Activities, enabling sanctions better to reflect the nature and severity of the breach while maintaining confidence in the integrity of the Capacity Market. The

remaining proposals in this package aim to update and ensure accessibility of the CM Rules by proposing policy clarifications, amendments and revocations, to ensure the Rules remain clear, concise and unambiguous.

Consultation proposals

Improving Delivery Assurance

Background

In the coming years an increasing proportion of large generation – including the majority of the nuclear fleet – will reach the end of its operational life. The accelerated rollout of renewables will also see gas-fired generation transition to primarily running to provide security of supply, and so these assets will become increasingly reliant on CM revenue to support investment in continued operation.

This shift underscores the enduring importance of the CM in ensuring there is sufficient support for flexible capacity to complement the growing amount of renewables on the system and, crucially, the need to ensure that procured capacity can and will deliver when required – particularly as the risks the electricity system is exposed to evolve over the coming years.

The CM delivery assurance framework is a set of controls designed to ensure that CM participants do not participate in the scheme speculatively and that participants who are successful in securing Capacity Agreements fulfil their obligations to be able to supply electricity at times of system stress.

Delivery assurance is therefore focused on assessing compliance pre-obligation and assuring delivery within the Obligation Period. Pre-obligation is about ensuring capacity participates in Capacity Auctions and secures agreements with a real intent to deliver and, where new build assets secure agreements, providers are appropriately incentivised to avoid delays. Within the Obligation Period, the focus is on capacity verification and testing.

The government recently consulted on a number of proposals to improve delivery assurance in the pre-Obligation Period. This included proposals to standardise Termination Fees and Credit Cover[7] and to ensure efficient bidding in Capacity Auctions[8].

The focus now shifts to bolstering delivery assurance within the Obligation Period. This includes proposals to make testing requirements more analogous to a System Stress Event (SSE) and, in instances where capacity is found to be unable to deliver on its obligation, expanding the tools and powers of Administrative Parties to enforce the Rules and Regulations.

Satisfactory Performance Days

Satisfactory Performance Days (SPD) are the primary means by which capacity in the CM is tested. The process is designed to provide assurance that capacity can deliver when required, particularly during the Winter months, by requiring Capacity Committed CMUs to demonstrate

[7] DESNZ, Capacity Market: Consultation on proposals to integrate low carbon technologies and enhance delivery assurance ahead of Prequalification 2026, December 2025
[8] DESNZ, Capacity Market: Consultation on changes for Prequalification 2026, October 2025

performance at a level equal to or greater than their Capacity Obligation for at least one Settlement Period on three separate days (one of which must occur between 1 January and 30 April). If a Capacity Committed CMU fails to satisfy these requirements, payments to that CMU are suspended and it must demonstrate three additional SPDs between 1 May and 31 July or face termination.

Capacity Committed CMUs ultimately have a very high degree of flexibility in determining when their SPDs are carried out and there are limited repercussions, beyond foregone Capacity Payments, in delaying testing to the Summer. The existing framework therefore only provides assurance that a Capacity Committed CMU can be available at any time of the day, and non-delivery controls (e.g., remedial SPDs, suspension of payments, and termination) only come into effect after the end of the Winter period when security of supply risks are generally less acute. Moreover, the SPD process serves only as a measure of availability. This means that while it can offer a sense of when and how likely it is that a CMU will be available, it does not function as a test of a CMU's ability to respond to an instruction, and therefore does not provide assurance of a CMU's ability to respond to a Capacity Market Notice.

SPDs are automated, meaning that data does not typically need to be manually submitted, which significantly streamlines the process and largely eliminates any associated administrative burden for Capacity Providers. Data collected via the existing process also provides valuable insight into CMU performance; it shows that many Capacity Providers regularly and significantly exceed their SPD requirements and do so during peak demand periods.

However, the data also shows that some CMUs pass their tests in the middle of the night or in other low demand periods (e.g., public holidays) – scenarios where stress events are unlikely to occur. This offers little assurance that those CMUs can deliver if required. In this context, SPDs do not function as a good proxy for an SSE.

As such, it is the government's view that testing requirements should be brought more in line with the conditions under which an SSE is likely to occur. This would provide greater assurance that committed capacity can deliver in similarly challenging circumstances.

Proposals

Demonstrating availability and responsiveness

The government proposes that the SPD process be reformed so that it tests for enhanced availability and responsiveness. This proposal will not be applied to agreements already in force, and so this process will only apply to agreements secured following the introduction of any such amendments to the Rules. Those with existing agreements will continue to be subject to the current SPD regime.

Capacity Committed CMUs would be required to pass three SPDs in peak demand windows during the Winter period and demonstrate the ability to respond to a Delivery Body instruction at least once. Specific requirements would include:

- Capacity Committed CMUs must demonstrate performance at a level equal to or greater than their Capacity Obligation three times during the Winter period (1 October – 30 April) during a peak demand window; and
- Capacity Committed CMUs must also demonstrate the ability to respond to a Delivery Body instruction at least once during the Core Winter Period (1 December – the last day of February). Both performance and responsiveness can be demonstrated at the same time such that CMUs can still satisfy testing requirements across three Settlement Periods. Where responsiveness is not demonstrated, CMUs will be subject to a randomised instruction issued by the Delivery Body between 1 March and 30 April

The government proposes that the availability portion of the reformed SPD process be organised around the existing Winter period definition which would afford CMUs six months to satisfy availability requirements. The government also proposes creating a new definition within the CM Rules for “Peak Demand Window” which would initially be set between 4pm and 7pm on a Working Day and within which Capacity Committed CMUs would have to demonstrate performance. Recent SPD data shows that the vast majority of CMUs already demonstrate performance in peak demand periods. The objective of this change is therefore to require CMUs that typically pass their SPDs in low demand periods to demonstrate their ability to perform at times more consistent with the profile of a stress event.

The second portion of the SPD process would then be organised around the Core Winter Period definition and require all CMUs to demonstrate an ability to respond to a Delivery Body instruction at least once in this window. The Core Winter Period definition is preferred for this portion of the process so that responsiveness is assessed and encouraged in a period that is both early in the Delivery Year and where security of supply risks are typically most pronounced. This would seek to verify the ability to respond to a Delivery Body instruction by looking at examples of responsiveness already demonstrated by a CMU, verified through cross-referencing metering data with that of a Relevant Balancing Service (RBS) or the Balancing Mechanism (BM). Where such data is not available for a given CMU by the end of February, it would be notified that it is subject to a randomised instruction to be issued by the Delivery Body between 1 March and 30 April. CMUs would receive a day-ahead notification that this is due to take place.

A CMU would only be considered to have satisfied testing requirements if both criteria of demonstrating performance in three peak demand windows and demonstrating their ability to respond to a Delivery Body instruction have been met by 30 April of the relevant Winter period. Both performance and responsiveness can be demonstrated at the same time such that CMUs can still satisfy testing requirements across three Settlement Periods.

For Capacity Committed CMUs that are required to demonstrate extended performance, they will still only be required to do so as described in Rule 13.4A.3, during at least one SPD.

The government also proposes amending the CM Rules to extend exceptions for interconnectors set out in rules 13.4.1A and 8.5.1(ba):

- Rule 13.4.1A enables an Interconnector CMU to complete an SPD by demonstrating "a Net Output at a level greater than zero" in a Settlement Period. The government proposes that this rule remains applicable under any new SPD framework
- Rule 8.5.1(ba) has the effect of relieving an Interconnector CMU of its obligation to respond to a Capacity Market Notice if otherwise instructed by the System Operator. The government proposes that a rule to this effect be introduced to Chapter 13 to mitigate non-compliance risks where an interconnector is subject to a Delivery Body instruction to respond while also under System Operator instruction to do otherwise

The government considers it proportionate to extend these provisions in order to allow interconnectors to remain commercially and operationally viable in the CM.

Summer testing

The government intends to change Rule 13.4.1 to remove broad access to summer testing (1 May – 31 July) for Capacity Committed CMUs that failed to meet their SPD requirements in the Winter period. This is designed to maximise delivery assurance earlier in the Delivery Year and to reserve remedial testing for a much more limited set of circumstances.

Limited remedials would instead take place between 1 – 31 May, exclusively for CMUs that:

- were subject to a randomised instruction issued by the Delivery Body and were unable to respond due to being under instruction from a Distribution System Operator (DSO) which affects their ability to meet their obligation such as Active Network Management
- were subject to an unplanned outage at the network level; or
- were subject to an unplanned outage at the asset level

For a CMU that is unable to respond due to being under instruction from a DSO, or were subject to an unplanned outage at the network level, they will not be subject to Capacity Payment suspension. However, a CMU that is unable to respond as they were subject to an unplanned outage at the asset level, will have their Capacity Payments suspended in accordance with the Regulations.

The government intends to require CMUs who utilise the limited remedials to submit a declaration that is backed by either evidence from Regulation on Wholesale Energy Markets Integrity and Transparency (REMIT) data or acknowledgment from the DSO, including the time frames. If this is not submitted, a Termination Notice will be issued for failure to meet SPDs.

Beyond these limited exceptions, failure to complete three SPDs in peak demand windows in the Winter period and to demonstrate responsiveness (either through actions in an RBS or BM within the Core Winter Period, or as a result of responding to a Delivery Body instruction) will result in termination.

Secondary trading

In the context of SPD reform and specifically in relation to demonstrating availability in the Winter period, it is the government's intent to retain existing provisions and restrictions on transfers and testing. It is the government's view that it remains in consumers' interest to allow Capacity Providers to maintain the overall level of committed capacity where a judgement has been made that it cannot meet part or all of its Auction Acquired Capacity Obligation.

The government intends to add two additional restrictions in relation to testing a CMU’s responsiveness:

- where a CMU has not yet been demonstrated responsiveness, any trades it is party to must run to the end of the Delivery Year
- where a CMU has been notified that it is to be subject to a randomised instruction issued by the Delivery Body, it cannot transfer its Capacity Obligation between notification and testing

Data requirements

Rule 14.4.2 requires the Delivery Body to share with the Settlement Body any information it needs to calculate Adjusted Load Following Capacity Obligation (ALFCO) at a component level. As per Schedule 2 and paragraph 3.1.2 of said Schedule, this requires the Delivery Body to share, for each component and for each data point, the energy consumed or generation not provided for each Balancing Service under C9 of the NESO licence.

Accounting for DSR within these proposed changes, where there is large number of CMUs with tens of thousands of components, potentially with multiple balancing services applying to multiple data points, it is likely to place a disproportionate burden on the Delivery Body in collecting and processing the associated volumes of data. As such, the government intends to add provisions to section 14.4 of the Rules to allow the Delivery Body to provide the information to the Settlement Body at an aggregated CMU level for DSR CMUs.

Question 1a: Do you agree with the policy objective of making SPDs more analogous to System Stress Event conditions? (Yes/No/Neutral/No view)

Question 1b: Please provide a rationale and evidence to support your response. (Free text)

Question 2a: Do you agree with the proposed timing, restrictions, and evidence thresholds associated with Summer testing? (Yes/No/Neutral/No view)

Question 2b: Please provide a rationale and evidence to support your response. (Free text)

Question 3a: Do you agree with the proposed provisions and restrictions on Secondary Transfers within these proposals? (Yes/No/Neutral/No view)

Question 3b: Please provide a rationale and evidence to support your response. (Free text)

Question 4a: Do you agree with the proposed change to section 14.4 of the Rules? (Yes/No/Neutral/No view)

Question 4b: Please provide a rationale and evidence to support your response. (Free text)

Secondary Trading Restrictions

Secondary Trading (ST) in the CM provides a means for Capacity Providers to partly or wholly transfer their Capacity Obligations for a defined period. Those periods may cover part of a Delivery Year, after which obligations return to the agreement holder, or span a full Delivery Year. Rules relating to ST are outlined in Chapter 9 of the CM Rules.

ST provides value to the CM by securing replacement capacity to minimise the risk of capacity shortfalls materialising during periods of system stress. For example, if a generating plant needs to come offline mid-Delivery Year to undergo maintenance, the ST recipient is in place and obligated to provide that capacity. From a Capacity Provider perspective, the ST framework provides means to avoid penalties or termination relating to their obligation across such periods.

The ST framework is intended to serve as a safeguard to capacity shortfalls and was not intended to incentivise and create a secondary market where Capacity Agreements initially secured at auction are readily traded as contractual or financial instruments. Capacity Agreements and revenues owing to those agreements are intended to support sufficient capacity being built and maintained to meet demand.

In order to trade away an agreement, the vast majority of CMUs are required to have evidenced their operational status prior to being permitted to secondary trade (Rule 9.2.5). For example, for New Build and Refurbishing Generating CMUs, the Substantial Completion Milestone (SCM) – demonstrating 90% of de-rated operational capacity – must have been met by the Prequalification Results Day for the T-1 Auction relating to the Delivery Year for which the ST is occurring. Restrictions are also applied to Prospective Interconnector CMUs.

Whilst Unproven Demand Side Response (UDSR) CMUs holding multi-year agreements must also evidence capacity by completing a DSR Test prior to being able to secondary trade, UDSR CMUs holding single-year agreements are an exception to the Rules. Under the current Rules, those UDSR CMUs are permitted to secondary trade following the conclusion of the T-1 Auctions to which their Delivery Year relates (irrespective of whether the agreement was secured in the T-4 or T-1 Auction for the relevant Delivery Year).

Recent ST data has demonstrated significant growth in the amount of UDSR ST before it has demonstrated its capacity, i.e., completing a DSR Test. A majority of secondary trades from UDSR CMUs have taken place in August, shortly before the DSR Test deadline. The government acknowledges that UDSR does not have access to the Long Stop Date as is available to Prospective Generating CMUs and, as such, Termination Events for failure to demonstrate capacity arrive sooner than other categories of CMU. The extent to which UDSR CMUs have been using the ST framework has, however, prompted a review of this position. The 2025/26 Delivery Year saw over 70% (>900MW) of UDSR capacity traded away prior to

Delivery Year start. Capacity was traded to New Build CMUs, Proven DSR CMUs, and Existing Generating CMUs.

Of those recipients, the government understands that trades to New Build CMUs, i.e., those which hold a Capacity Agreement for later Delivery Years than the one to which they would be receiving a trade, may be able to receive a trade due to early commissioning, for example. These sorts of trades have represented only a small proportion of the total capacity in receipt of UDSR STs.

Data has similarly identified Proven DSR as frequent recipients of ST, with a mix of trading from within company CMU portfolios and trading to those outside of company portfolios. This type of trade (to Proven DSR CMUs) represents a significant portion of overall trading from UDSR CMUs. Trades to the external companies are understood to be driven by termination avoidance or to diminish credit cover drawdown under Regulation 61, whereas those trading internally to Proven DSR CMUs are presently understood to be part of CMU portfolio management and allocation of procured capacity into final CMU configurations, e.g., a 10MW CMU acquired at auction might be better managed in practice than two 5MW CMUs from an operational perspective.

Secondary trades from UDSR to Existing Generating CMUs comprise the other significant portion of trades from UDSR in recent Delivery Years. Analysis of historic trading indicates that some Existing Generating CMUs are recurrent recipients of UDSR CMU secondary traded capacity in successive Delivery Years. This pattern presents concerns that UDSR capacity bidding into auctions is not reflective of UDSR capacity that is intended to translate into Proven DSR; generating capacity receiving those trades could have reasonably entered the T-1 or T-4 Auction cycles but is not doing so.

Proposals

The government proposes that, for the period between auctions concluding and the start of the Delivery Year, UDSR CMUs holding single year agreements which have not been issued a DSR Test Certificate will not be permitted to secondary trade to existing generating assets which had been recipient of a UDSR secondary trade in the Delivery Year immediately preceding that to which the potential trade relates. This proposal is intended to ensure that UDSR capacity entering auctions, whether at T-4 or T-1, carries genuine intent to deliver on that capacity secured and reduces speculation. This proposal will not be applied to existing agreements, and so these rules will only apply to agreements secured following the introduction of any such amendments to the Rules.

Revenues sought from the CM are intended to address financial shortfalls which would otherwise see new build capacity fail to materialise or see existing capacity be withdrawn from the system. It is the government’s view that the existing generating assets which are recurrent recipients of UDSR CMU secondary trades should either enter into the main auction process and compete on the basis of their willingness-to-accept price level or elect to withdraw from the CM fully. The government intends to address within the Rules means to identify and confirm those existing generating assets to account for opportunity that the same asset may enter using a different CMU ID, e.g., through assessing connection agreements, locational data or declarations confirming the asset's non-receipt of an ST in the previous year or otherwise, and apply necessary restrictions to meet the proposal's intent.

This proposal seeks to balance and recognise the divergence in the operational realities faced by UDSR CMUs whilst, at the same time, limiting the opportunities that the existing frameworks have provided, allowing Existing Generating CMUs to bypass the competitive auction process.

Alternative or supplementary proposals on the transition of UDSR CMUs into Proven DSR CMUs have been considered by government. The government does not currently intend to introduce additional checks monitoring the progress of UDSR CMUs as part of this consultation. The government is aware of existing frameworks and policies deployed in other capacity mechanisms globally which monitor progress in DSR CMU equivalents coming fruition. They include introducing progress updates on client capacity procurement from DSR CMUs, requiring or permitting incremental component testing, or increasing Credit Cover requirements as Delivery Years approach. The government is not minded to introduce similar such policy at present. This position will be kept under review, however, and the government invites feedback in response to this consultation offering suggestions which would introduce enforceable delivery assurance appropriate to UDSR CMUs which would not introduce unnecessary burdens.

Question 5a: Do you agree that existing generating assets which have been recipient of a secondary trade from an UDSR CMU in the preceding Delivery Year should be forbidden from accepting further UDSR secondary trades prior to those UDSR CMUs having been issued a DSR Test Certificate? (Yes/No/Neutral/No view)

Question 5b: Please provide a rationale and evidence to support your response. (Free text)

Question 6: Do you think the proposed changes are likely to have any unintended consequences? If so, please explain. (Free text)

Question 7: Do you agree that additional measures extending beyond those proposed are not needed at this current time? (Yes/No/Neutral/No view)

Question 8: If you believe additional measures are required, please provide detail and evidence to support your response. (Free text)

Improving data set-up

There are currently no formal requirements for CMUs to complete their data set up activities ahead of the start of the Delivery Year. Whilst Capacity Providers are required to meet a range of metering and testing obligations, there is no clear requirement that the information and arrangements needed for settlement and performance monitoring are established before payments commence. This can reduce visibility for Administrative Parties regarding a CMU's readiness to deliver and can delay the identification of issues until after the Delivery Year has begun.

Proposals

To strengthen delivery assurance and encourage early data set up, the government proposes amendments to Rule 14.5 (and associated provisions where necessary) which would pause Capacity Payments until the Approved Metering Solution process and Metered Data setup is complete. This would provide greater confidence at the beginning of the Delivery Year that capacity which has been procured is available and can be relied upon from the commencement of its agreement.

For the purpose of these proposals, data set-up would be considered complete when the Settlement Body has received and, where applicable, approved all information, data, and arrangements necessary to monitor, settle, and assess the performance of the CMU.

Depending on the CMU types and the requirements identified by the Settlement Body, this may include:

- completion of any required Metering Assessment
- completion of any required Metering Test and receipt of a Metering Test Certificate
- completion of any required DSR Test and receipt of a DSR Test Certificate
- submission and approval of an Approved Metering Solution (Metering Configuration)
- provision of Metered Data where required by the Settlement Body to demonstrate settlement and Delivery Assurance readiness

Under this proposal, Capacity Payments may be withheld, in accordance with Regulation 37, until the relevant data set-up requirements have been completed. Existing termination provisions relating to Metering Assessments, Metering Tests and DSR Tests would continue to apply where relevant.

The government recognises that not all requirements will be applicable to all CMUs at all times. Requirements could apply where the Settlement Body identifies data gaps and notifies Capacity Providers through existing Delivery Assurance notification processes, enabling a proportionate and risk-based approach without the need for prescribed exceptions.

Question 9a: Do you agree with the proposal to mandate data set up ahead of the Delivery Year? (Yes/No/Neutral/No view)

Question 9b: Please provide a rationale and evidence to support your response. (Free text)

Question 10: Do you think the proposed changes are likely to have any unintended consequences? If so, please explain. (Free text)

Consumer-led flexibility

Background

Consumer-led flexibility (CLF) involves voluntary actions taken freely and directly by consumers to shift their electricity use. CLF enables consumers to reduce their electricity costs by adjusting their usage to periods of lower demand on the grid which, in turn, reduces overall system costs. CLF represents a fast-growing and effective means to improve the efficient operation of the electricity system to the benefit of all consumers.

The government set a target of enabling between 10-12GW of CLF by 2030 as part of its Clean Power 2030 Action Plan[9] and further detailed Path Building Actions to meet those in the July 2025 Clean flexibility roadmap[10]. An update to the roadmap was published in July 2026[11].

CLF capacity cuts across different settings and response types. Larger scale assets – typically those in commercial and industrial settings – may bid directly into various electricity markets, whereas smaller scale assets – including those in domestic settings such as Electric Vehicle (EV) charging points or smart heat pumps – can be collated alongside other small scale assets into aggregated units to form Virtual Power Plants.

Within the CM, CLF is delivered via “Demand Side Response” (DSR) mechanisms. Recent T-1 (2026/27) and T-4 (2029/30) Capacity Auctions awarded 638MW and 2.57 GW of De-rated Capacity to DSR Capacity Market Units (CMUs)[12]. This equates to 8.9% of total auction acquired capacity in the T-1 for Delivery Years 2026/27 and 6.4% in the T-4 for Delivery Years 2029/30.

DSR de-rating methodology

De-rating Factors are percentage adjustments applied to the nameplate capacity of each technology class participating in the CM. This De-rated Capacity reflects the amount of that capacity which can be considered as a firm capacity contribution to security of supply.

The current approach sees DSR CMUs de-rated using historic performance data from the Non-Balancing Mechanism Short-Term Operating Reserve (Non-BM STOR) per Rule 2.3. The STOR service was operated by NESO until April 2026[13] when it was retired and replaced by a new Slow Reserve service. As a result, the methodology can no longer capture performance data from future Winter periods to determine the “Average Availability of Non-BSC Balancing Services (AABS)” under Rule 2.3.5(b).

The government consulted on an interim approach to DSR de-rating in October 2025[14] and subsequently adopted the proposal. The interim measure has the effect of using the three most

[9] DESNZ, Clean Power 2030 Action Plan, December 2024
[10] DESNZ, Clean flexibility roadmap, July 2025
[11] DESNZ, Clean flexibility roadmap, July 2026
[12] NESO Electricity Market Reform Delivery Body, Auction Results Reports, March 2026
[13] NESO, Short term operating reserve (STOR) | National Energy System Operator
[14] DESNZ, Consultation on changes for Prequalification 2026, November 2025

recent complete Core Winter Periods of the AABS to fix DSR's De-rating Factor until a new approach is implemented. The government, as part of its consultation response issued in May 2026[15], committed to revisiting the process for de-rating DSR more broadly.

The government previously sought stakeholder views on improving the DSR De-rating Factor methodology in December 2024. That Call for Evidence[16] invited input on alternate methodologies for de-rating DSR as well as alternative data sources to replace Non-BM STOR. A variety of suggestions were put forward during this process; however, no clear consensus was reached on a suitable replacement data source or methodology.

The government considers that reliance on a single De-rating Factor for DSR is not reflective of its varying characteristics. DSR is an atypical technology within the CM, as DSR CMUs may comprise components whose primary purpose is not to provide capacity to the electricity network. Further, DSR is not a homogenous technology. It comprises diverse components across industrial, commercial, public sector and domestic settings. These different forms of DSR may exhibit varying availability and performance characteristics during SSEs. A single De-rating Factor is therefore unlikely to accurately reflect the contribution of all DSR components and the CMUs they form. In the absence of a robust and representative dataset that captures this diversity, a single De-rating Factor risks simultaneously over- or under-valuing the contribution individual DSR CMUs and components make to security of supply within the CM. This in turn impacts security of supply via over- or under-procurement of capacity in auctions.

Proposals

The government considers a new approach to DSR de-rating is required. Rather than seeking to identify a direct replacement for the Non-BM STOR dataset, the government is seeking views on alternative proposals which better reflect the characteristics of DSR in a CM context. Following the previous Call for Evidence and subsequent policy development, the following two options are proposed:

- a duration-based approach, which would de-rate DSR capacity by the nominated response duration relative to that duration's Equivalent Firm Capacity; or
- a technology-based approach, which would categorise and de-rate DSR components based on the method by which capacity is delivered

Once consultation feedback has been taken into consideration, the government intends for one of these methodologies to be implemented in time for Prequalification in 2027 or 2028, depending on operational and implementation considerations. In the interim period, DSR's De-rating Factor will be determined as per provisions introduced consequent to the October 2025 Capacity Market consultation[17,18].

[15] DESNZ, Capacity Market: proposed changes for Prequalification 2026 - government response, May 2026
[16] DESNZ, Capacity Market: Call for evidence on consumer-led flexibility, December 2024
[17] DESNZ, Capacity Market: Consultation on changes for Prequalification 2026, October 2025
[18] Existing Rules 2.3.8 through 2.3.10A permit the Delivery Body to consult interested parties on de-rating approaches should it determine, a new methodology would be more effective in meeting the TCWAA or AABS.

Depending on the approach taken forwards, the government proposes to update Rules used to inform the average availability applied to DSR CMUs and their components. In place of the existing AABS, the government intends an update such that data will draw on a more appropriate source – to be determined by Delivery Body consultation under Rule 2.3.8 – which uses historic market data derived from a High Demand Settlement Period over the three most recent Core Winter Periods. This is intended to match the current three-year precedent for DSR CMUs and is in recognition of the technology's growing uptake. Rules to that effect are intended to be incorporated into Chapter 2.3 where taken forward.

The government does not intend to amend scope for the Delivery Body to consult on de-rating methodologies as already exists under Rules 2.3.8 to 2.3.10A and further changes to the de-rating approach may be subject to any Delivery Body consultation.

Duration-based de-rating methodology

Under a duration-based approach, DSR CMUs would be de-rated according to the length of time for which they are able to meet their Capacity Obligation. During Prequalification, Capacity Providers would nominate their CMU's duration, with longer durations receiving higher De-rating Factors[19]. The nominated duration would determine the De-rating Factor, as is the case for those applied to Storage Generating Technology Classes (GTCs[20]). As with Storage GTCs, the duration-based De-rating Factors for DSR would be derived from an Equivalent Firm Capacity (EFC), adjusted by a technical availability weighting[21], per Schedule 3B. The government wishes to clarify that for DSR CMUs de-rated under a duration-based approach that it would be the CMU in its aggregate form which would be subject to de-rating and testing. This differs from Storage GTCs, for which the duration is considered at component level.

To provide assurance that CMUs can meet their nominated duration, an Extended Performance Test (EPT) would be introduced for DSR CMUs. This EPT would require the CMU to demonstrate that it can sustain delivery of its stated capacity continuously over the nominated duration relative to its baseline. EPTs would be required to take place during Satisfactory Performance Days (SPD) testing requirements per Rule 13.4A.2. To minimise impacts on Proven DSR CMUs, the government proposes that those DSR CMUs with Proven DSR CMU status, i.e., those which have successfully demonstrated both their capacity (in a DSR Test) and duration (in an EPT), would not need to repeat an EPT for three years. This reduces the need for repeat testing and is consistent with precedent in CM Rules.

The government acknowledges that EPTs may introduce additional costs and operational impacts for DSR Capacity Providers and their underlying customers, including where testing results in foregone economic activity or changes to consumption patterns. However, the option to nominate the duration sought for a CMU gives DSR Capacity Providers the opportunity to

[19] De-rating factors are subject to modelling outputs and are set relative to the CM's Reliability Standard and Loss of Load Expectation. Historically, this has seen capacity providing a longer duration of response receiving a higher De-rating Factor.
[20] NESO, Electricity Capacity Report (ECR)
[21] NESO, Storage de-rating factors methodology review, 2024

configure and optimise a CMU's capacity and response duration based on the components available to them. The government considers that DSR Capacity Providers are best placed to assemble CMUs that can meet CM requirements based on the underlying assets available to them and should have confidence in managing capacity delivery. This approach is intended to reward providers that can develop and manage CMUs capable of sustained, demonstrable delivery.

This approach more explicitly assesses capacity by directly linking De-rating Factors to demonstrated sustained performance, rather than inferring reliability from historical or proxy data. It aligns DSR more closely with technologies where duration is a key determinant of reliability, including behavioural elements and deriving more explicitly from those providing it the opportunity cost for that capacity, and is well adapted to circumstance where SSEs extend over longer periods of time as the grid decarbonises further.

Technology-based de-rating methodology

Under a technology-based approach, DSR CMUs would be de-rated according to the underlying technology used to provide capacity. Provisions implemented consequent to the October 2025 CM Consultation require DSR providers to specify the underlying method by which a component will deliver its capacity. Those categories will be used to de-rate DSR components at a more granular level for the technology approach, with each category informing the method to derive a technology-specific De-rating Factor.

Categories would initially comprise:

- Demand Turn-down, which would be de-rated according to a suitable proxy data source for the category's availability, to be determined via a Delivery Body consultation, as has precedent in Rule 2.3.5(b). Potential data sources include – but are not limited to – the Balancing Mechanism and the Demand Flexibility Service
- BTM Storage, which would be de-rated according to the existing Storage GTC De-rating Factors, similar to existing provision within Rule 2.3.4(e); and
- BTM Generation, which would be de-rated according to the existing De-rating Factor for Open-Cycle Gas Turbines (OCGT), reciprocating engines, and oil-fired steam generators. This is currently considered to be the closest match to the technical specifications of diesel generators - the most common component found in this category

The government considers that this approach would better reflect the security of supply value of the different forms and characteristics of DSR compared to the current methodology, by avoiding reliance on a single average value.

However, this approach places greater emphasis on accurately reporting the categorisation of components, creating a risk that assets which are miscategorised could obtain incorrect De-rating Factors. It may also introduce additional administrative requirements in evidencing the composition of CMUs and for Administrative Parties in monitoring and validating categorisation.

To mitigate these risks, the government would consider measures to support consistent classification of technologies and ensure appropriate oversight of categorisation. The approach provides scope for future refinement as more data becomes available, including the potential to introduce additional categories or adjust De-rating Factor data sources over time to more accurate ones.

Following feedback from the 2024 Capacity Market Call for Evidence[22], the government would ensure CMUs can comprise a mix of components to ensure flexibility for DSR Capacity Providers. This will prevent 'stranded components' which do not surpass the 1MW CM participation threshold alone and would not be able to be aggregated with sufficient additional components to meet the requirement.

Question 11a: Do you support the introduction of a duration-based approach to de-rating DSR CMUs? (Yes/No/Neutral/No view)

Question 11b: Please provide a rationale and evidence to support your response. (Free text)

Question 12: Do you think the proposals are likely to have any unintended consequences? If so, please provide details (Free text)

Question 13a: Do you agree that Extended Performance Tests for DSR CMUs should be conducted during a Satisfactory Performance Day within the Core Winter Period, in line with the current approach for Storage CMUs? (Yes/No/Neutral/No view)

Question 13b: Please provide a rationale and evidence to support your response. (Free text)

Question 14a: Do you support the introduction of a technology-based approach to de-rating DSR CMUs? (Yes/No/Neutral/No view)

Question 14b: Please provide a rationale and evidence to support your response. (Free text)

Question 15: Do you think the proposals are likely to have any unintended consequences? If so, please provide details (Free text)

Question 16a: Do you agree with the proposed categories for the technology-based approach (Demand Turn-down, Behind-the-Meter Storage, and Behind-the-Meter Generation)? (Yes/No/Neutral/No view)

Question 16b: Please provide a rationale and evidence to support your response. If you disagree or believe additional or alternative categories should be used, please provide supporting detail for them. (Free text)

[22] DESNZ, Capacity Market: Consumer-led Flexibility, December 2024

Question 17a: Do you agree that, subject to further consultation by the Delivery Body, the AABS should be updated and replaced with more appropriate historic market data derived from a High Demand Settlement Period over the three most recent Core Winter Periods? (Yes/No/Neutral/No view)

Question 17b: Please provide a rationale and evidence to support your response. (Free text)

Question 18: If you do not agree with either of the proposed approaches, please explain what alternative approach you would prefer with supporting detail. (Free text)

Question 19: Please share any other comments on the proposed approaches to DSR de-rating, including any implementation considerations. (Free text)

DSR Assurance and Monitoring

At present, all CMUs are required to implement an Approved Metering Solution (Rule 8.3.3) and complete a desk-based Metering Assessment setting out their metering arrangements (Rule 8.3.3(b)). Where required, units must then undergo a Metering Test (Rules 13.3.1-13.3.6), delivered by the Settlement Body via appointed Metering Agents, which assesses compliance and either results in the issuing of a Metering Test Certificate, if successful, or requires rectification where requirements are not met.

As part of this process, the Settlement Body must collect, process and verify full component-level metering and Meter Point Administration Number (MPAN) data for each unit, including large, aggregated portfolios, and maintain the CM Metering Register recording all metering configurations and outcomes (Rule 7.4A). A proportion of sites may subsequently be subject to Site Audits, with the Settlement Body conducting targeted audits on specific units (Rule 3.5.3), with non-compliance potentially leading to certificate invalidation, repayment of Capacity Payments and further enforcement action (Rules 13.3.5-13.3.6).

In practice, this results in a largely uniform, component-level assurance model in which significant data processing and verification must take place before any sampling or risk-based testing is applied. This has created an increasing challenge in applying metering assurance proportionately to aggregated DSR components, where CM participation increasingly takes the form of portfolios made up of large numbers[23] of small, distributed assets, which often have very low de-rated capacities (sometimes sub-1kW).

For DSR portfolios, metering assurance effort and administrative cost scale with the number of individual assets assessed rather than the level of risk posed to security of supply by the CMU as a whole, with multiple Metering Tests required for a single CMU in comparison to larger Generating CMUs where only one Metering Test is required. This can result in high compliance

[23] The largest DSR CMUs in recent delivery years have been recorded containing over 40,000 individual components.

costs per MW of acquired capacity, alongside increased operational burdens on Administrative Parties and assurance activity that is not always targeted at the assets whose failure would have the greatest system impact.

The current model does not align regulatory burden with system risk and so, as increasing quantities of aggregated DSR are expected to enter the CM, these costs and burdens will continue to increase disproportionately compared to the capacity acquired.

Proposals

The government intends to address disproportionate workloads created by CMUs composed of thousands, or tens of thousands of small capacity components. As such, the government proposes introducing a capacity threshold for mandatory Metering Tests at an individual component level, alongside a sampling framework to be applied to components below that threshold. This will move metering testing from component-level to portfolio-level for DSR providers with large numbers of small capacity components.

The government proposes to set the threshold for the current metering testing regime at 30kW of nameplate capacity. Components at or above this threshold would continue to be subject to the existing metering assurance regime, including Metering Assessments and, where applicable, Metering Tests and Site Audits.

Components below the 30kW threshold would no longer be subject to routine metering testing at an individual asset level. These components would continue to be required to maintain an Approved Metering Solution (per Rule 8.3.3), complete Metering Assessments, and submit full metering statements including MPAN and component-level data (per Schedule 6). However, full Metering Tests would only be conducted on a sampled or as needed basis.

The government proposes that for these sub-threshold components, metering assurance would shift from the current testing model to a portfolio-based approach in which a minimum of 2% of components within a DSR provider's portfolio falling below the threshold, which would otherwise require a Metering Test, would be spot checked with a full Metering Test. For those sampled components, existing processes would be followed in line with existing rules, such as follow-up site auditing where necessary.

The 30kW threshold aligns with the government's previously set threshold for Capacity Market Register reporting[24]. It also ensures domestic DSR components are not, as standard, subject to the same tests as larger commercial or industrial units, or MW and GW level generating plants, which have a greater impact on security of supply through their higher levels of capacity.

Sampling would be applied using a structured, risk-based approach. The Settlement Body would segment portfolios by capacity and apply random sampling to a total of at least 2% of the DSR provider's components which fall below the threshold. This is intended to ensure fairness and transparency across participants. The Settlement Body may exceed the minimum percentage if portfolio risk is deemed sufficiently high. This could be due to including factors

[24] DESNZ, Capacity Market: Consultation response on changes for Prequalification 2026, May 2026

such as poor delivery performance history, significant change to CMU composition (such as via component reallocation) and metering data inconsistencies.

The baseline sampling rate has been chosen to balance maintaining delivery assurance whilst reducing administrative burdens on the Settlement Body, other Administrative Parties and Capacity Providers with large, aggregated portfolios. It ensures that DSR providers with significant numbers of assets will have a proportion of those assets checked, maintaining confidence that portfolios continue to meet CM Rules requirements.

In addition, the Settlement Body will still be able to intervene outside of routine sampling where indicators of increased delivery risk arise, such as under-delivery, metering irregularities or discrepancies in submitted data. The Settlement Body would also undertake periodic portfolio-level cross-checks to identify any systemic issues across large aggregations of components. Where non-compliance is identified, existing enforcement mechanisms would continue to apply, including requirements for rectification, additional testing and financial consequences where appropriate.

Sub-threshold components would therefore remain subject to ongoing oversight, but through targeted, risk-based assurance rather than automatic full testing. This approach is consistent with the existing design of the CM, in which delivery risk for DSR is managed at CMU level, with obligations and performance assessed on a CMU or portfolio basis rather than at individual site level.

Question 20a: Do you agree with the proposal to introduce a capacity threshold, below which only sampled components would be required to undergo existing Metering Test processes? (Yes/No/Neutral/No view)

Question 20b: Please provide a rationale and evidence to support your response. (Free text)

Question 21a: Do you agree that the proposed capacity threshold for sampling be set at 30kW? (Yes/No/Neutral/No view)

Question 21b: If you disagree with the proposed threshold, please provide supporting detail of your disagreement or provide an alternative suggested threshold with rationale. (Free text)

Question 22a: Do you agree with the proposed minimum sampling percentage of 2%? (Yes/No/Neutral/No view)

Question 22b: Please provide a rationale and evidence to support your response. If you disagree with the proposal, please explain why and a proposed alternative minimum percentage or approach. (Free text)

Question 23: Do you think the proposals are likely to have any unintended consequences? If so, please provide details. (Free text)

D0357 Data Flows – Half-Hourly Data Aggregator (HHDA) DSR Issue

Background

Data flows are an established part of the Balancing and Settlement Code (BSC) framework and, for CM purposes, are required to assess DSR performance and enable half-hourly metered data to flow into EMR Settlement systems for CM performance assessment. This involves a multi-step process between Capacity Providers, suppliers, and Half-Hourly Data Aggregators (HHDAs), including the submission and acceptance of D0354 instructions and the subsequent generation of D0357 data flows[25].

Failures in this process can arise where D0354 instructions are submitted late, are rejected, not resolved in time, or where the timing of settlement runs delays the production of D0357 data. As HHDAs are not required by the BSC to submit historic data outside scheduled settlement runs, delays can result in DSR CMUs being unable to build the required metered baseline or evidence a DSR Test by required deadlines.

Responsibility for establishing and maintaining these data flows is shared across multiple parties. Capacity Providers are responsible for initiating requests, suppliers for submitting instructions, and HHDAs for accepting and producing data flows. The Settlement Body is responsible only for receiving and validating data once it has been provided and does not control the initiation or timing of data flows.

While existing BSC arrangements provide routes to address supplier or data service provider failures, these processes operate within the settlement framework and do not directly resolve the timing constraints or evidential gaps faced within the CM.

Recent CM terminations data indicates that these issues are occurring across multiple CMUs, and stakeholders have suggested that impacts may increase as DSR participation grows.

Context

These proposals address recurring issues in the CM where DSR CMUs are unable to demonstrate delivery due to failures in D0357 data flows, rather than any underlying inability to deliver capacity. These failures can arise from supplier or HHDA errors which are outside the control of the Capacity Provider, resulting in otherwise capable CMUs being unable to evidence delivery.

Evidence from recent Delivery Years shows that a number of Unproven DSR (UDSR) CMUs have received Termination Notices due to data flow issues, with a significant proportion subsequently appealing successfully. This indicates that, in many cases, the barrier to

[25] The "D" numbers are standard BSC data flow identifiers used to label specific information exchanges between market participants and the settlement body. In this case, D0354 is the instruction that triggers the process, while D0357 is the half-hourly metered data flow produced by the HHDA and used for settlement and CM performance assessment.

compliance relates to the timing, availability, and validation of metered data, rather than delivery capability.

The Settlement Body has identified data flow issues as a recurring challenge for Capacity Providers and has introduced mitigations within its remit, including improved guidance, clearer signposting of supplier obligations, and increased transparency on data receipt. However, for CM purposes, these measures do not change dependencies on third parties or settlement timing constraints.

Proposals

The government is proposing to introduce a limited and conditional relief mechanism applicable to the aforementioned data flow issues only and will not be applicable to broader delivery failures. This would allow an UDSR CMU to avoid termination where failure to complete a DSR Test by the required deadline was due to factors outside the Capacity Provider's control, rather than a lack of delivery capability.

This approach is intended to mirror Rule 6.7.7, which provides for the Long Stop Date to be extended rather than facing a Termination Notice, where the SCM is delayed solely by a transmission or distribution connection delay outside the Capacity Provider's control. This provides precedent within the CM for a targeted form of termination mitigation where non-compliance arises from a clearly evidenced third-party failure, rather than any failure by the Capacity Provider to deliver. In the same way, the government considers that any relief for D0357 data flow issues should be exceptional and evidence-based, so that delivery discipline is preserved while avoiding disproportionate termination where the sole cause of failure lies outside the Capacity Provider's control.

Under this proposal, where a DSR CMU fails to provide a DSR Test Certificate by the required deadline due to the outlined data flow issues, evidence would be submitted to the Delivery Body to permit a limited, conditional extension to complete the test and provide a DSR Test Certificate. This would apply only where the Capacity Provider can demonstrate both that the DSR CMU was otherwise capable of delivering the DSR Test, and that the barrier to compliance related to evidencing or settlement data availability rather than underlying performance capability.

To qualify for relief, the Capacity Provider would need to evidence that the sole reason for failure was a third-party dependency and/or a settlement calendar timing constraint, rather than their own actions or asset availability. Examples could include a D0354 instruction not being submitted or accepted in time, a D0356[26] rejection not being resolved before the relevant deadline, or a D0357 data flow not being produced until a later settlement run.

The government considers two proposals. The first approach (Option 1) would be based on a declaration from the Capacity Provider supported by a documentary evidence trail. Under this approach, the Capacity Provider would be required to declare that it made a timely request to

[26] D0356 – a standard electricity settlement rejection data flow used under the Balancing and Settlement Code (BSC) to notify that a submitted data flow has failed validation or been rejected.

its supplier to establish Supplier Settlement flows, including by having provided accurate MPAN and effective date information and allowing for settlement calendar constraints. It would also need to maintain evidence sufficient for independent review, such as dated correspondence or ticket records showing follow-up, any supplier confirmation of D0354 submission timing and content, and any HHDA acceptance or rejection responses.

The government's preferred approach (Option 2) would require more robust and independently verified evidence to be submitted. Examples of information would include written confirmation from the supplier and/or HHDA, as appropriate, describing the specific failure and timing, including where available D0354 submission details and D0355[27] acceptance or D0356 rejection information, and confirming that the failure was not caused by the Capacity Provider's information quality or actions. It would also require evidence capable of independent checking, such as correspondence or ticket references, HHDA onboarding records or rejection messages, and confirmation from the Settlement Body of whether D0357 data was received and successfully loaded once flows became active. This option would also require an Independent Technical Expert (ITE) report as appropriate. Like option 1, a Capacity Provider declaration would be required in addition to the above requirements but would not be sufficient on its own.

These proposals are intended to apply specifically to D0357 data flow issues and not to broader delays or failures elsewhere in the CM framework. Where an extension is granted, we are proposing that this be limited to three months on the basis that this should provide sufficient time for the supplier and HHDA to resolve the data flow. These proposals also include means for the Delivery Body to request further information and evidence as deemed necessary for the resolution of this issue.

The proposals are intended to apply to all forms of Capacity Agreement affected by these issues, including agreements secured prior to the introduction of these rules, but will not reopen terminations that have already been determined.

Question 24a: Do you agree that access to a relief mechanism modelled on Rule 6.7.7 is appropriate to address the impact of D0357 data flow issues on DSR CMUs in the CM? (Yes/No/Neutral/No view)

Question 24b: Please provide a rationale and evidence to support your response. If you disagree, please share any alternative suggestions or further thoughts. (Free text)

Question 25a: Do you support access Option 1 (documented audit trail), Option 2 (ITE-supported verification), an alternative option to provide a termination relief mechanism, or no termination relief mechanism? (Option 1/Option 2/Alternative option/No view)

[27] D0355 is the standard industry confirmation data flow used to confirm that an MPAN has been accepted for EMR reporting under the electricity settlement arrangements.

Question 25b: Please provide a rationale and evidence to support your response. (Free text)

Question 26: If granted, do you support the extension being limited to a maximum of 3 months for the resolution of the issues? If you disagree, please share an alternative proposed timeline and rationale. (Free text)

Question 27: Do you think the proposals are likely to have any unintended consequences? If so, please provide details. (Free text)

Further administrative and operational improvements to the Capacity Market

Updating definitions to reflect Energy Act 2023 and adding clarifications to other Rules

Background

The CM Rules underpin the scheme and provide the detail for implementing the operating framework, which is set out in The Electricity Capacity Regulations 2014 ("the Regulations") and The Electricity Capacity (Supplier Payment etc.) Regulations 2014 ("the Supplier Regulations").

The government regularly reviews and amends the CM Rules to ensure that they are accurate and to reflect changes in the wider energy landscape. Maintaining clear, up-to-date and unambiguous rules is essential to support scheme participation while minimising unnecessary confusion.

These amendments form a targeted set of technical updates to modernise and future-proof the CM Rules. They do not materially alter the obligations of Capacity Providers or Administrative Parties.

Context

The government has identified the need to correct minor typographical mistakes and introduce clarificatory amendments within existing documentation. These amendments are considered technical housekeeping and are intended solely to enhance the accuracy and clarity of the Rules. The corrections do not materially affect the obligations for Capacity Providers.

A specific drafting error in Rule 13.4A.7 has created an unintended ambiguity in relation to the start date for Extended Performance Test (EPT) payments. As currently drafted, the Rule provides that where EPT is met on or before 1 July, payments begin on the day the requirement is met. However, Rule 13.4A.7(a) refers to a period running until 31 July, which leaves uncertainty as to the payment start date where EPT is met between 1 and 31 July.

The Rules also contain definitions and institutional references that should be updated to reflect the Energy Act 2023 and current market arrangements. This includes replacing outdated references to National Grid Electricity System Operator with references to NESO.

The purpose of these amendments is to ensure that the CM Rules remain accurate, internally consistent and to introduce greater clarity into the operational framework.

Proposals

The government proposes the following amendments:

- **Rule 13.4A.7:** Clarify the payment start date where the EPT is met between 1 July and 31 July
- **Schedule 4 terminology:** Update references to reflect current institutional arrangements, including replacing National Grid Electricity System Operator with NESO

These changes are intended to improve clarity and ensure the Rules are internally consistent and aligned with current legislation and market structures. They do not alter how the scheme operates in practice.

Question 28a: Do you agree with the proposal to amend Rule 13.4A.7(b)(ii) to refer to 31 July rather than 1 July to clarify payment start dates? (Yes/No/Neutral/No view)

Question 28b: Please provide a rationale and evidence to support your response. (Free text)

Question 29a: Do you agree that references to National Grid Electricity System Operator should be updated to NESO where appropriate? (Yes/No/Neutral/No view)

Question 29b: Please provide a rationale and evidence to support your response. (Free text)

Question 30: Do you think the proposals are likely to have any unintended consequences? If so, please provide details. (Free text)

Aligning the wording of the Capacity Market Register publication

Context

In October 2025, the government consulted on options to ensure efficient bidding in Capacity Market auctions, which were implemented ahead of Prequalification opening in 2026.[28] As a result of this package, granular data on the identities of CMUs and their aggregate de-rated prequalified capacity will not be available until after Auction Results Day. Instead, a single consolidated figure is provided before each auction, which represents the total volume of excess capacity relative to the procurement target for the respective auctions. This figure

[28] DESNZ, Capacity Market: Consultation on changes for Prequalification 2026, October 2025

reflects the combined conditionally prequalified and fully prequalified capacity rounded to the nearest 3GW.

However, an inconsistency has been identified between the newly amended Rules and the existing Regulation 31(1)(a).

Background

Regulation 31(1)(a) states that the Delivery Body must maintain a Capacity Market Register containing details of "each CMU that is the subject of an application to prequalify for a capacity auction"[29].

Given the full Capacity Market Register containing the identities and aggregate de-rated capacities of prequalified units will now not be available until after Auction Results Day, Regulation 31(1)(a) should be updated to reflect this change. The amendment will make clear that at the time of publication of the Capacity Market Register, no CMU will currently be subject to an Application to Prequalify but instead will have been subject to one.

Proposal

The government proposes amending the grammatical tense of Regulation 31(1)(a) to reflect the new sequencing of events and that Capacity Market Registers must include details of CMUs that were previously subject to an Application to Prequalify for the relevant auction.

Question 31a: Do you agree with the proposed change to the wording of the Regulation 31, to align with the Rules? (Yes/No/Neutral/No view)

Question 31b: Please provide a rationale and evidence to support your response. (Free text)

Question 32: Do you think the proposal is likely to have unintended consequences? If so, please provide details. (Free text)

Clarifying transfers, sales, and disposals of Generating Units

Background

The Capacity Market Rules define a Generating Unit as any equipment that produces electricity, including equipment that produces electricity from storage. Rule 9.2.10 of the CM Rules states that a Generating Unit in a Generating CMU may not be transferred, sold or disposed of in whole or material part unless this is done with all other Generating Units in the Generating CMU. Where applicable, Capacity Providers may also transfer the CMU's Capacity Agreement together with the Generating CMU under Rule 9.2.4(b)(i), which governs the transfer of Capacity Agreements from the legal owner of a Generating CMU to a person

[29] UK Statutory Instruments, The Electricity Capacity Regulations 2014

acquiring all such units. For a list of the acceptable routes of transferring a Capacity Agreement, please see table 1 below.

Table 1: Transferring a Capacity Agreement/CMU

Type of trade/transfer	Description	What CMU type can use this route at present?	Relevant Rules
Secondary Trading	The process of trading part or the whole of a Capacity Obligation to a different CMU for up to one Delivery Year at a time.	Generating CMUs that have met Substantial Completion Milestone and DSR CMUs	Rule 3.13, 9.2.4(a), 9.2.5(a)-(ba), 9.2.6
Transfer of all Capacity Agreements following acquisition	The process of the ownership of a physical unit changing hands is a contractual process outside of the scope of the CM. However, the transfer of the Capacity Agreement from one party to another is governed by CM processes. All Capacity Agreement Notices (CANs) are transferred to the new owner.	Generating and Interconnector CMUs	Rules 9.2.4(b)-(d), 9.2.5(c), 9.2.7 and 9.2.8

The transfer, sale or disposal process refers to the change in ownership or legal holding of a Generating Unit within a Generating CMU. Under Rule 9.2.10A(a), this is permitted where the Capacity Agreement was awarded following an Application by a Despatch Controller, provided that Despatch Control over the whole Generating CMU remains with the Capacity Provider and the Capacity Provider submits the required transfer declarations to the Delivery Body as soon as reasonably practicable after the transaction is completed.

If a Capacity Provider makes a sale, transfer or disposal of a CMU without complying with the process set out in Rule 9.2.10A(a), the Capacity Agreement of the CMU would be terminated under Rule 6.10.1(n), in accordance with Rule 9.2.10A(b).

Regulation 15 sets out the General Eligibility Criteria that a CMU must satisfy in order to prequalify for participation in a Capacity Auction. One of these criteria is the Minimum Capacity Threshold. Under Regulation 15(4), a Generating CMU or Interconnector CMU must have a Connection Capacity of at least 1MW, while a Demand Side Response CMU must have DSR capacity of at least 1MW. Accordingly, a CMU that does not meet this threshold is not eligible to be Prequalified for a Capacity Auction. The threshold acts as a basic entry requirement for participation in the Capacity Market. It ensures that only units above a minimum scale can enter the auction process.

If a Connection Capacity of a Capacity Committed CMU falls below this 1MW Minimum Capacity Threshold at any point during the Capacity Agreement period, the Capacity Provider must notify the Delivery Body, which must then terminate it under Rule 6.10.1(d)(ii).

Context

The government is aware of the need for clarity regarding the ability of eligible Capacity Providers to transfer, sell, or otherwise dispose of Generating Units in a Generating CMU under Rule 9.2.10A, and how this interacts with the Minimum Capacity Threshold set out in the Regulations.

Whilst it is explicit that a Secondary Trade must ensure all Capacity Obligations remain above the Minimum Capacity Threshold, this is not carried forward as explicitly following the valid transfer, sale or disposal of a Generating Unit comprised in a Generating CMU under Rule 9.2.10A. This clarity is required as 9.2.10A represents the only avenue to partially alter a Capacity Obligation through a transfer, aside from Secondary Trading under 9.2.4(a).

This threshold was chosen to achieve the correct balance between maximising liquidity of the Capacity Auctions while minimising administrative cost to Administrative Parties who would have to process a greater number of Applications and documents if smaller units were allowed to participate.

Ensuring that Administrative Parties have sufficient oversight of the sale, transfers and disposals of CMUs is vital for ensuring security of electricity supply, particularly in cases of disposal which may result in a loss of capacity on the system. The government therefore considers it important to ensure that the interactions between the Rules regarding disposals and Regulations regarding Minimum Capacity Thresholds are clear and easy to understand for all participants.

As such, the government is proposing to clarify the Rules regarding transfers, sales, and disposals of a Generating Unit in Generating CMUs and the Minimum Capacity Threshold in the Capacity Market Regulations.

Proposals

The proposed amendment would clarify that a Capacity Provider may not transfer, sell or otherwise dispose of Generating Units within a Generating CMU where doing so would reduce the remaining CMU's capacity below the 1MW Minimum Capacity Threshold.

This is intended to ensure that the transfer provisions in Rule 9.2.10A do not operate in a way that would allow a CMU to continue where it no longer meets the Minimum Capacity Threshold for participation in the Capacity Market.

In cases where Rule 9.2.10A(a) is contravened and an improper sale, transfer or disposal of a Generating Unit occurs, which also brings the CMU's capacity below the 1MW Minimum Capacity Threshold, the government is proposing to clarify that the Termination Event under Rule 6.10.1(d)(ii) for failing to meet the General Eligibility Criteria takes precedence over the

Termination Event under Rule 6.10.1(n) for making a transfer, sale or disposal of a Generating Unit contrary to Rule 9.2.10 without complying with the conditions in 9.2.10A(a).

This will mirror the current drafting of Rule 6.10.1B, which sets out concurrent Termination Notices in respect of provision of a Fossil Fuel Emissions Declaration.

The government reminds stakeholders that subject to relevant CM Rules and Regulations, Capacity Providers are able to aggregate units and components below 1MW into a single CMU in order to meet the Minimum Capacity Threshold and take part in the scheme.

Question 33a: Do you agree with the proposed changes to the transfer process? (Yes/No/Neutral/No view)

Question 33b: Please provide a rationale and evidence to support your response. (Free text)

Question 34: Do you think the proposals are likely to have unintended consequences? If so, please provide details. (Free text)

Question 35: Please share any additional thoughts on this proposal. (Free text)

Identification of the Ultimate Holding Company for Applicants and Capacity Providers

Background

The proposals in this section apply to both Applicants as well as all existing Capacity Providers.

To prequalify for a Capacity Auction or to become an Eligible Secondary Trading Entrant, Applicants must provide information about their corporate relationships. This includes whether the Applicant is the owner of the CMU to which the Application relates, its Despatch Controller, or, if applicable, the DSR Provider. In all cases, it is also required to give the name of its direct Holding Company.

The government is considering how to increase the transparency regarding corporate structures that underpin Applicants into the CM whilst minimising any increased administrative burden.

Context

Transparency is essential to protect the integrity of the CM. This information is essential in determining eligibility where Group-level considerations must be met. A Group means, for any person, another person who is the direct or indirect Holding Company of that person and any Subsidiary of that Holding Company. The information also provides valuable insights into how the CM operates and which entities are currently competing in Capacity Auctions.

The government is aware that the Rules do not best capture the need to keep up-to-date information regarding the corporate structures of its Capacity Providers. The Rules also do not mandate the capture of Group-level information despite there being exclusions to Prequalification at a Group-level following certain events described in the Rules[30]. The current Rules make it difficult for Administrative Parties to apply Group-level exclusions. They present a challenge for the government to understand the true market concentration in Capacity Auctions.

An Ultimate Holding Company (UHC) is the Company that has “parent undertaking” of an Applicant company or Capacity Provider company, any Parent Companies, and is not of itself a Subsidiary of any other Company, as per definitions in the Companies Act 2006[31]. In other words, the holding company at the top of a corporate Group which controls one or more subsidiary companies and is not itself controlled by any other company. Transparency of the UHC is a common feature where financial obligations, eligibility restrictions, or Group-level behaviours are relevant[32].
The government is therefore considering introducing a requirement for Applicants and existing Capacity Providers to identify their UHC. The government is also considering requirements to keep this information up to date in a way that ensures the continued functioning of the scheme whilst minimising any additional administrative burden.

Definition of Subsidiary Company A is a subsidiary of Company B (its holding company) where Company B holds a majority of voting rights in Company A or is a member of Company A with the right to appoint or remove a majority of its board. The same applies where Company B is a member of Company A and controls a majority of voting rights through an agreement with other members. These relationships also extend indirectly: if Company B is a subsidiary of Company C, and Company A is itself a subsidiary of Company B, then Company A is also a subsidiary of Company C. This definition is set out in section 1159 of the Companies Act 2006. This could apply for indefinite intermediary holding companies until Company C, the company that is not a subsidiary of any other company is reached (Ultimate Holding Company). All companies that can trace their corporate structure to this Ultimate Holding Company, are considered to be in the same Group.

Proposals

[30] For example, Rule 3.3.3(f) prohibits a New Build CMU from Prequalifying if the Applicant or member of the Applicant’s Group previously was awarded a Capacity Agreement for this CMU and the CMU was terminated for certain Termination Events.
[31] UK Public General Acts, Companies Act 2006 Section 1159
[32] An example is Condition B8 of the Transmission Licence Standard Conditions where the licensee will procure an undertaking from any company that is an ultimate controller of the licensee.

The government is seeking views on amending the existing rules that currently apply to Applicants which require the disclosure of the immediate parent company of the Applicant, if one exists.

The government proposes that Applicants provide details of their UHC in their application, rather than providing information of their immediate parent company.

Where the Applicant is a subsidiary of a joint venture that has an equal split ownership, the Applicant must declare all relevant companies. Otherwise, the predominant owner should be declared.

For the avoidance of doubt, this requirement will also apply where the UHC resides outside of the United Kingdom.

As the name of a company can change frequently, it is a less stable identifier of the whole-Group structure. This is why the government proposes that the declaration of the UHC must also include the Company Registration Number (CRN). The CRN to be provided is proposed to be:

- UK Company – Company Number as per Companies House
- non-UK Company with a Legal Entity Identifier (LEI) – the unique LEI Number
- non-UK Company without an LEI – Registration number from the relevant national company registry, plus the name of that registry

The proposal is intended to better align with the rest of the CM Rules where there is a requirement to understand the underlying Group which a CMU sits in. An example would be the application of a Group-level ban of entering a New Build CMU under Rule 3.3.3(f). This proposal also provides more transparency and better reflects the purpose of providing the Parent Company and having this published in the Capacity Market Register. The government does not believe that there would be any material change in the administrative burden between declaring the Parent Company of the Applicant or by declaring its UHC.

In order to ensure consistency for all CMUs, Capacity Providers who have already won agreements must provide a declaration to the Delivery Body of their UHC within 10 Working Days of the start of the 2027/2028 Delivery Year. The government believes that this does not reflect a material change to Capacity Providers nor does it represent an unfair administrative burden.

The government also proposes a new Exhibit which must be provided to the Delivery Body within 20 Working Days of when the UHC for a CMU has changed. This is to ensure that information remains up to date to better protect the integrity of the scheme. If a Capacity Provider fails to provide an Exhibit updating their UHC, then this would result in a Termination Event. The size of the associated Termination Fee would be TF7 (£13,000 per MW). This aligns with similar fees for failure to disclose information.

The government considers that these proposals provide greater transparency, ensure that Administrative Parties have the correct information to execute their roles within the scheme whilst not materially increasing the administrative workload of Applicants and Capacity Providers. These proposals also align with the existing Group-wide provisions in the Rules.

Question 36a: Do you agree with the proposal to amend the existing requirement so that Applicants must declare their UHC rather than their immediate Holding Company at Prequalification? (Yes/No/Neutral/No view)

Question 36b: Please provide a rationale and evidence to support your response. (Free text)

Question 37a: Do you agree with the proposal that the declaration of a UHC should provide the name of the company and the relevant Company Registration Number? (Yes/No/Neutral/No view)

Question 37b: Please provide a rationale and evidence to support your response. (Free text)

Question 38: Are there any circumstances in which identifying the UHC may be unclear or difficult for an Applicant? If so, please provide details and any suggestions for how the Rules could address these scenarios. (Free text)

Question 39a: Do you agree with the proposal to require existing Capacity Providers who have already been awarded agreements to provide a declaration of their UHC to the Delivery Body? (Yes/No/Neutral/No view)

Question 39b: Please provide a rationale and evidence to support your response. (Free text)

Question 40a: Do you agree that a deadline of 10 Working Days from the start of the 2027/2028 Delivery Year is a reasonable and proportionate timeframe for existing Capacity Providers to submit this declaration? (Yes/No/Neutral/No view)

Question 40b: If you disagree with the proposed deadline, please suggest an alternative timeframe and provide your rationale. (Free text)

Question 41a: Do you agree with the proposal to require Capacity Providers to submit an updated Exhibit to the Delivery Body within 20 Working Days of a change in their UHC? (Yes/No/Neutral/No view)

Question 41b: Please provide a rationale and evidence to support your response. (Free text)

Question 42: If you consider that a different notification period would be more appropriate, please suggest an alternative and provide your rationale. (Free text)

Question 43a: Do you agree that a failure to provide an Exhibit updating the UHC should constitute a Termination Event? (Yes/No/Neutral/No view)

Question 43b: Please provide a rationale and evidence to support your response. If you disagree, please explain what alternative consequence, if any, you consider would be appropriate and proportionate to ensure compliance with the obligation. (Free text)

Question 44a: Do you agree that a Termination Fee of TF7 (£13,000 per MW) is a proportionate fee level for this Termination Event, given its alignment with similar fees for failure to disclose information? (Yes/No/Neutral/No view)

Question 44b: Please provide a rationale and evidence to support your response. If you disagree with the proposed Termination Fee level, please suggest an alternative fee category or level and provide evidence to support your position. (Free text)

Question 45: Do you think the proposals are likely to have any unintended consequences? If so, please provide details. (Free text)

Question 46: Are there any further measures, beyond those proposed, that the government should consider to improve the transparency of corporate structures underpinning Capacity Market participation? If so, please provide details. (Free text)

Introducing discretionary disqualification following a Termination for Prohibited Activities

Background

This section is applicable to all Applicants as well as all existing Capacity Providers.

The Rules prohibit Market Manipulation or other unreasonable business methods (“Prohibited Activities”) by all Applicant-related Parties. The full list of these methods can be found in CM Rules 5.12 and 5.13 but generally relate to practices that would artificially increase the clearing price or artificially impact the assets that were successful or unsuccessful in their bids.

The CM Rules specify a list of events that, if they occur, will result in the termination of the Capacity Agreement for the relevant CMU. One of these events is a direction from the Secretary of State or the Authority following actual or suspected engagement in one or more of the Prohibited Activities by an Applicant-related Party or any member of the Applicant’s Group.

Once the Capacity Agreement is terminated, the CMU becomes a Defaulting CMU. This means it is banned from prequalifying into any auction for the first Delivery Year of the terminated agreement and the two Delivery Years that follow.

Regulation 67 of the Electricity Capacity Regulations 2014 makes it clear that the Authority can enforce the scheme as if its requirements were relevant requirements on a regulated person under the Electricity Act 1989.

Context

There must be a clear deterrent from any Prohibited Activities to protect consumer interests, as outlined in CM legislation. Currently, all agreements won through Prohibited Activities are terminated. Currently, once a Termination Notice is issued to a CMU, that CMU also becomes a Defaulting CMU. This means it cannot enter any auctions for the relevant Delivery Year, as well as the two subsequent Delivery Years. This is an automatic consequence and not subject to any discretion.

These deterrents need to be proportionate to the breach that has occurred. For example, there could be a breach of the Prohibited Activities laid out in the Rules, but the breach is minor, does not alter the clearing price of the auction or materially affect who wins an agreement. In this example, it may be detrimental to consumer interests and disproportionate to automatically apply a ban.

Considerations around supply available for future Capacity Auctions and whether other actions have already been taken by the Authority (such as levying financial penalties) should also be taken into account.

Separately, the government is aware that investigations relating to Prohibited Activities may take time. This creates a potential challenge where the disqualification penalty is diluted as auctions for relevant Delivery Years have already taken place.

Whilst the Regulations provide the Authority with enforcement powers as if scheme participants were regulated persons, the government believes that the relevant regulations should be clarified so that their application is more straightforward and easier to understand for all participants. The government believes that this should be clarified so that all participants understand what provisions may apply to them. For the avoidance of doubt, there is no policy change associated with this proposed amendment.

The proposals below seek to improve the challenges identified above to ensure a fair and robust approach to Prohibited Activities.

Proposals

The government is seeking views on amending the existing rules that currently apply the Defaulting CMU definition to all CMUs that are issued a Final Termination Notice following engagement in Prohibited Activities.

The government proposes to amend the definition of a Defaulting CMU. The amended definition would:

- specify that the Defaulting CMU definition would apply where a CMU has been terminated due to an actual or suspected engagement in one or more of the Prohibited Activities; and

- where the Secretary of State or the Authority have confirmed to the Delivery Body that the CMU should be treated as a Defaulting CMU

The government proposes that the Secretary of State or the Authority make such a determination at the same time as the direction to terminate the relevant Capacity Agreement is made under CM Rule 6.10.2(a)(ii).

This proposal is intended to ensure that any action taken by the Secretary of State or the Authority is proportionate and can consider wider impact to consumers. The government does not believe that this proposal will materially impact the deterrent effect of the legislation regarding Prohibited Activities and Market Manipulation.

The government also proposes amending the Rules around Defaulting CMUs to specify that the point to which the CMU becomes disqualified from submitting an Application is tied to the date to which the relevant Final Termination Notice is issued, rather than the first Delivery Year of the relevant Capacity Agreement. The government is aware that, in many cases, the determination of whether a CMU was engaged in Prohibited Activity will take time and multiple Capacity Auctions may take place in this period. This effectively weakens the impact of any decision that a CMU should become a Defaulting CMU.

Currently, a CMU that becomes a Defaulting CMU cannot apply for any Capacity Auctions relating to Delivery Years t, t-1, or t-2, where “t” is defined as the first Delivery Year of the CMU. The government proposes that two new relevant dates are introduced instead:

- the Delivery Year associated with the first T-4 (four-year ahead) Capacity Auction held after the termination for Prohibited Activities is issued by the Delivery Body; and
- the Delivery Year associated with the first T-1 (one-year ahead) Capacity Auction held after the termination for Prohibited Activities is issued by the Delivery Body

Example

An Existing Generating CMU wins an agreement in the T-4 Capacity Auction for Delivery Year commencing in 2030/2031. This auction was held in March 2027.
In January 2030, The Delivery Body issues a Termination Notice under 6.10.2(a)(ii) and indicates that the CMU will be made a Defaulting CMU.

Under the current Rules, the T-4 Capacity Auctions for the 2031/32 and 2032/33 Delivery Years have already taken place and the CMU has also won an agreement from these auctions. Therefore, the Defaulting CMU classification would only prohibit the CMU from entering the T-1 Auction for the 2030/2031 Delivery Year as it has already secured agreements for the other relevant Delivery Years.
Under the proposal in this consultation, “t” would be set for T-4 Capacity Auctions as the Delivery Year commencing in 2033/34 as this would be the first relevant T-4 Capacity Auction after the termination is issued. For T-1 Auctions, “t” would be set as the Delivery Year commencing in 2030/2031 as this would be the first relevant T-1 Auction after the termination is issued.

Whilst the CMU may still have won agreements for the 2031/32 and 2032/33 Delivery Years through T-4 Auctions, the Defaulting CMU definition would ensure any ban was effective for multiple Delivery Years.

The government also proposes amending the wording of Regulation 67 of the Electricity Capacity Regulations 2014. The government proposes a new subsection which states that, for the avoidance of doubt, the enforcement provisions that apply will be Sections 25 to 28 of the Electricity Act 1989 inclusive in relation to any contravention of a requirement.

The government proposes to also make this clarification in Regulation 77 of the Electricity Capacity Regulations 2014 in regard to how the Authority may make Capacity Market Rules about the operation and administration of the capacity market.

The government considers that these proposals strike a balance that best protect consumers and ensure a proportionate penalty if a CMU is terminated for Prohibited Activities by not automatically applying a Defaulting CMU determination and, where such a determination is made, it has not been diluted through the time required for such decisions to be made.

Question 47a: Do you think that the Authority or the Secretary of State should have discretion to not apply the Defaulting CMU definition to a CMU that has been terminated following engagement in Prohibited Activities? (Yes/No/Neutral/No view)

Question 47b: Please provide a rationale and evidence to support your response. If you disagree, please provide more information, especially as to whether you think the Defaulting CMU definition should always apply, never be applied, or be applied in a different way to as described in the proposal. (Free text)

Question 48a: Do you think that the Defaulting CMU definition should be amended so the first Delivery Year to which any exclusion from applying to enter a Capacity Auction would be set as the Delivery Years associated with the first T-4 and T-1 Auction after a Final Termination Notice is issued? (Yes/No/Neutral/No view)

Question 48b: Please provide a rationale and evidence to support your response. If you disagree, please provide more information, especially as to whether you believe the existing definition is sufficient or whether you think there is an alternate definition that would be more suitable. (Free text)

Question 49a: Do agree that greater clarity as to which Sections of the Electricity Act 1989 apply to Applicants and Capacity Providers would be beneficial, in regard to the enforcement of the scheme by the Authority? (Yes/No/Neutral/No view)

Question 49b: Please provide a rationale and evidence to support your response. (Free text)

Refurbishing Capacity Market Units (CMUs) not entering a Pre-Refurbishment CMU into auction

Background

Under the CM Rules, a Refurbishing CMU is an Existing CMU which is a Prospective CMU for the purposes of the Capacity Auction. This reflects that it is undergoing improvements due to be completed before the start of the first relevant Delivery Year.

In practice, the Rules distinguish between a Pre-Refurbishment CMU, representing Existing CMU prior to refurbishment, and a Refurbishing CMU, which reflects the unit as it will exist following the completion of refurbishment and is treated as a Prospective CMU for auction participation.

Once a Capacity Agreement is awarded, Refurbishing CMUs must meet a number of “pre-build milestones” to provide assurance that said Prospective CMU will be delivered on time. These milestones require Capacity Providers to demonstrate progress at key stages between the auction and the start of delivery, and include:

- Financial Commitment Milestones (FCM), demonstrating that the project has taken a final investment decision and has spent 10% of its stated Total Project Spend as Capital Expenditure
- Substantial Completion Milestone (SCM), demonstrating that the CMU is operational, typically requiring evidence that all Generating Units can deliver, in aggregate, 90% of its Capacity Obligation after applying the De-rating Factor, and that all metering requirements have been satisfied, including completion of a Metering Assessment and, where required, a Metering Test Certificate
- Minimum Completion Requirement (MCR), setting the minimum level of completion a CMU must achieve by a specified deadline to avoid termination of its Capacity Agreement. This is achieved by demonstrating that the CMU has been built and is operational, typically requiring evidence that all Generating Units have been commissioned and can deliver, in aggregate, 50% of its Capacity Obligation

Together, these milestones are designed to ensure that Capacity Providers remain on track to deliver their projects, with clear consequences where sufficient progress is not demonstrated.

Context

Under Rule 3.8.2(b), at Prequalification, a Mandatory CMU is either required to submit an Application or submit an Opt-out Notification under Rule 3.11. The Rules allow participants to opt-out where the unit is expected to be non-operational (including due to decommissioning), temporarily unavailable or operational.

At Confirmation of Entry, Rule 5.5.15 requires Refurbishing CMUs to state whether the Pre-Refurbishment CMU will enter the auction. Whilst this provision allows an Applicant for a Refurbishing CMU not to enter its Pre-Refurbishment CMU, it does not distinguish between Mandatory and non-Mandatory CMUs.

The government considers Mandatory CMUs should participate in Capacity Auctions unless a valid opt-out has been submitted at Prequalification or the CMU already holds a Capacity Agreement.

In addition, following the award of a Capacity Agreement, the treatment of failure to meet pre-build milestones by Refurbishing CMUs is not consistently defined across the Rules.

Rule 6.8.4 provides that where a Refurbishing CMU fails to meet its pre-build milestones, the duration of the Capacity Agreement is reduced to one year. If applicable, the De-rated Capacity Obligation is re-set to the De-rated Capacity of the Pre-Refurbishment CMU. This mechanism is intended to preserve existing capacity where the anticipated refurbishment does not proceed.

However, there is a lack of clarity as to how this rule applies where there is no valid Pre-Refurbishment CMU that was entered into the Auction with the relevant Refurbishing CMU. The provision is currently drafted in such a way to only account for Refurbishing CMUs that competed in the Auction with an associated Pre-Refurbishment CMU.
Similarly, Rule 3.3.3(f) does not specify an explicit outcome where Refurbishing CMUs fail to meet pre-build milestones.

The government therefore considers providing greater clarity in these areas would remove ambiguity around mandatory participation and establish clear and consistent outcomes where Refurbishing or Pre-Refurbishment CMUs fail to meet their obligations.

Proposals

The government is seeking views on amending the CM Rules that detail the treatment of Refurbishing CMUs.

The government proposes to amend Rule 5.5.15 so that only Refurbishing CMUs relating to non-Mandatory CMUs are required to state whether they will compete alongside their associated Pre-Refurbishment Component. Where the Pre-Refurbishment CMU is a Mandatory CMU and the Applicant did not submit an Opt-out Notification during the Prequalification Window, the Applicant will no longer be permitted to exit the Pre-Refurbishment CMU at the Confirmation of Entry stage.

This would ensure consistency in the treatment of Mandatory CMUs across the entire pre-auction process. The proposal would also preserve the policy intent of aligning Mandatory CMU to the security of supply objectives of the scheme.

The government also proposes to clarify the CM Rules where a Refurbishing CMU has secured a Capacity Agreement but had no Pre-Refurbishment CMU associated with the CMU in the relevant Auction. Where a Refurbishing CMU has secured an Capacity Agreement and fails to meet the required pre-build milestones, the government proposes that participants would not be able to revert to a one-year agreement with its Pre-Refurbishment CMU, as per Rule 6.8.1(aa) for failing to reach its FCM or as per Rule 6.8.1(b) for failing to reach or SCM by the Long Stop Date. Instead, the CMU would be treated in line with the treatment of New Build CMUs.

Under this approach:

- failure to meet FCM would result in termination of the Capacity Agreement under Rule 6.10.1(b)
- failure to meet SCM would require the CMU to post additional Credit Cover; and
- where SCM is not met by the start of the Delivery Year, it will have until the Long Stop Date to do so or be required to meet the MCR by the Long Stop Date. Failure to do so will result in a Notice of Intent to Terminate, and if still not met, a Termination Notice under 6.10.1(c)

Rule 3.3.3(d) addresses situations where a Refurbishing CMU has its Capacity Agreement reduced under Rule 6.8.4(a), Rule 8.3.6(b) or 8.3.6(c), but does not cover the situation where the Capacity Agreement is terminated. The government therefore proposes that, where a Refurbishing CMU's Capacity Agreement is terminated, Rule 3.3.3(f) will be amended so that it applies. This means the CMU cannot be entered in the next two Prequalification Windows as a Refurbishing CMU by the Applicant or any member of the Applicant's Group. This aligns with the existing delivery assurance provisions for New Build CMUs and will only apply where the Refurbishing CMU's Capacity Agreement is terminated and not where the CMU reverts to its Pre-Refurbishment CMU. The CMU may continue to be entered as an Existing CMU.

The government is confident that these proposals provide greater clarity to Applicants, both during the Prequalification process and if a CMU is awarded an agreement. These proposals ensure alignment and consistency of provisions relating to Mandatory CMUs and remove ambiguity where a Refurbishing CMU fails a pre-build milestone and is not associated with a Pre-Refurbishment CMU.

For a full list of how Refurbishing CMUs are treated at different stages of the CM cycle and under different scenarios, please see Table 2 below.

Table 2: List of treatment of Refurbishing CMUs across different process stages, setting out the outcomes and applicable Rule.

Process stage	Scenario	Outcome	Rule
Pre-auction (Confirmation of Entry)	Refurbishing CMU must confirm if its Pre-Refurbishment CMU will enter into the Auction. Pre-Refurbishment is a Mandatory CMU	Applicants must enter their Pre-Refurbishment Mandatory CMU unless an Opt-out Notification was submitted at Prequalification	Amendment to Rule 5.5.15

Agreement management (General)	Refurbishing CMU fails to meet pre-build milestones. No Pre-Refurbishment CMU was entered into the auction	Participant cannot rely on Rule 6.8.4 to revert to a one-year agreement for their Pre-Refurbishment CMU.	New application of existing framework
Agreement management (General)	Refurbishing CMU fails to meet pre-build milestones. Pre-Refurbishment CMU was entered into the auction	Participant can rely on Rule 6.8.4 to revert to a one-year agreement for their Pre-Refurbishment CMU.	Existing framework
Agreement management	Refurbishing CMU without an associated Pre-Refurbishment CMU fails to meet FCM	Capacity Agreement terminated. Termination Fee applied, 2-year re-entry as a Refurbishing CMU restriction triggered.	Rule 6.10.1(b) and existing re-entry restriction provisions, in line with treatment of New Build CMUs
Agreement management	Refurbishing CMU without an associated Pre-Refurbishment CMU fails to meet MCR	Capacity Agreement terminated, Termination Fee applied, 2-year re-entry as a Refurbishing CMU restriction triggered.	Rule 6.10.1(c), in line with treatment of New Build CMUs
Agreement management	Refurbishing CMU fails to meet SCM by start of First Delivery Year	Requirement to post additional Credit Cover	Existing SCM/Credit Cover provisions
Agreement management	Refurbishing CMU fails to meet SCM by Long Stop Date, but MCR achieved by Long Stop Date	Capacity Agreement takes effect from Long Stop Date, but only for operational (de-rated) capacity	Rule 6.8.5, in line with treatment of New Build CMUs

Termination Event	Refurbishing CMU has been terminated	Cannot enter as Refurbishing CMU in next two Prequalification Windows (but may enter as Existing CMU)	Rule 3.3.3(f), in line with treatment of New Build CMUs

Question 50a: Do you agree with the proposal to amend Rule 5.5.15 to require all Mandatory CMUs to enter their Pre-Refurbishment CMU at Confirmation of Entry stage, unless a valid Opt-out Notification has been submitted at Prequalification? (Yes/No/Neutral/No view)

Question 50b: Please provide a rationale and evidence to support your response. (Free text)

Question 51a: Do you agree with the proposal that, where a Refurbishing CMU fails to meet its required pre-build milestones and no Pre-Refurbishment CMU has been entered, the CMU would not be able to revert to its Pre-Refurbishment CMU and should instead default to termination? (Yes/No/Neutral/No view)

Question 51b: Please provide a rationale and evidence to support your response. (Free text)

Question 52: Do you think the proposals are likely to have any unintended consequences? If so, please provide details. (Free text)

Question 53a: Do you agree with the proposal that, if a Refurbishing CMU is terminated, Rule 3.3.3(f) applies and the CMU cannot be entered into two future Prequalification Windows as a Refurbishing CMU by the Applicant or a member of the Applicant's Group? (Yes/No/Neutral/No view)

Question 53b: Please provide a rationale and evidence to support your response. (Free text)

Question 54: Do you think the proposals are likely to have any unintended consequences? If so, please provide details. (Free text)

Question 55: Are there any further issues the government should consider in relation to the treatment of Refurbishing CMUs? (Free text)

Reduction Notice Policy Regarding Refurbishing CMUs

Background

The Regulations and Rules establish clear processes for notifying and reviewing decisions that materially affect CMUs.

Regulation 68 of the Principal Regulations provides a mechanism for reconsideration of decisions taken under the Capacity Market framework. It enables affected persons to request a review of certain decisions made by the Delivery Body[33], helping to ensure that decisions are robust, proportionate, and capable of being revisited where appropriate.

These provisions are intended to ensure that material decisions affecting CMUs are transparent and subject to appropriate review mechanisms, supporting fairness and consistency across the CM.

Context

Under the CM Rules, where a Refurbishing CMU fails to meet its FCM or SCM, its Capacity Agreement may be reduced to a one-year agreement if it has an associated Pre-Refurbishment CMU.

Where a Capacity Agreement is reduced to a one-year agreement under Rule 6.8.4, the Rules do not specify that the Delivery Body must issue a Reduction Notice. As a result, the CP does not have access to a defined route to seek reconsideration or appeal that decision.

This creates an inconsistency with the wider CM framework, under which comparable adverse decisions are typically accompanied by formal notifications and review mechanisms such as disputes or appeals. As a result, this is an area in which a significant change to a Capacity Agreement may occur without an established internal route for dispute or appeal.

The reduction of a multi-year Capacity Agreement to a one-year agreement, or termination of the agreement, represents a significant change in a CMU's agreement position.
The government therefore considers there should be a clear notification and dispute mechanism to ensure consistency, clarity and fairness in the treatment of such decisions, in turn providing more certainty to market participants.

Proposals

The government is seeking views on amending the CM Rules to introduce a consistent approach to Reduction Notices for eligible Refurbishing CMUs.

The government proposes to amend the Rules in respect of "Reduction Notices" to include scenarios where a reduction in the duration of a Capacity Agreement under Rule 6.8.4 is accompanied by a formal Reduction Notice.

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[33] The list of existing reviewable decisions can be found here: [Regulation 68 of The Electricity Capacity Regulations 2014]

This notice would:

- clearly state the decision and the effective date of the reduction
- specify the relevant Rule provisions and the reasons for the decision; and
- explicitly trigger, or signpost, the Capacity Provider's rights to make representations under Regulation 33A

These changes are intended to ensure that all significant reductions of Capacity Agreements are subject to consistent and transparent processes and that Capacity Providers have access to a clear and proportionate route for review. These changes also aim to ensure that the treatment of Refurbishing CMUs is aligned with the broader treatment of other CMUs within the CM Rules and Regulations, whereby under Regulation 69 an affected CMU may request the Delivery Body to review a reviewable decision or, where a formal Reduction Notice is issued, Regulation 33A enables the SoS to direct the Delivery Body to withdraw the notice or extend the deadline by which the CP must meet the relevant requirements.

The government considers that this approach will improve clarity, support consistency and enhance procedural fairness and transparency within the CM.

Question 56a: Do you agree with the proposal to amend Rule 6.8.4 so that any reduction in Capacity Agreement duration is accompanied by a formal Reduction Notice? (Yes/No/Neutral/No view)

Question 56b: Please provide a rationale and evidence to support your response. (Free text)

Question 57: Do you think the proposal is likely to have any unintended consequences? If so, please provide details (Free text)

Strengthening compliance incentives

Background

All Applicants, Bidders or Capacity Providers taking part in the scheme ("scheme participants") must comply with all relevant Rules and Regulations which apply to their Application or to their Capacity Committed CMU if successful at an auction.

Many CM Rules require scheme participants to provide Administrative Parties with information or allow these Parties to access further information or physical CMU sites. Other Rules compel scheme participants to either carry out a certain action or prohibits them from doing so.

The government is concerned that some Rules that do not contain associated incentives to ensure that all provisions are being complied with. The government therefore considers that targeted changes are needed to strengthen compliance, clarify obligations, all whilst avoiding unnecessary administrative burden.

Context

Several Rules in the scheme require action to be taken by scheme participants but contain no direct disincentive if a party fails to carry out the action. The lack of clear disincentives for failing to comply with certain Rules risks diluting the integrity of the scheme. For scheme participants, this creates uncertainty over which actions must be taken. For Administrative Parties, not appropriately incentivising required behaviours could lead to less information being provided, which may weaken delivery assurance.

The proposals below seek to ensure that compliance with the Rules is consistently incentivised and that there are clear incentives to comply with all of the Rules. They do not add any new requirements into the Rules but rather seek to clarify outcomes if existing Rules are not complied with and introduce proportionate enforcement. This is intended to improve predictability for both scheme participants and Administrative Parties.

Proposals

The government is seeking views on enhancing the CM Rules to incentivise compliance. This is intended to ensure that obligations set out in the Rules are supported by clearer and more transparent enforcement mechanisms.

The government considers it important that all rules clearly set out how compliance is incentivised, including any consequences for not adhering to them. The government also believes that any enforcement should be proportionate to the nature and impact of the non-compliance.

In some cases, it may be appropriate to provide an opportunity to rectify an omission before stronger action is taken, for example where the issue concerns the late provision of information. In other cases, where a matter has a direct bearing on delivery assurance, eligibility or the integrity of the auction outcomes, enforcement should be aligned with wider frameworks such as Termination Events, which will introduce penalties for non-compliance. The government is also committed to ensuring the Rules remain operable for Administrative Parties and understandable for scheme participants.

The government is not minded to apply a single approach uniformly and instead invites views on if the different incentives set out below are appropriate and, if not, how they should be recalibrated.

Rule 6.3.10

Rule 6.3.10 states that if the Delivery Body receives a request from a Capacity Provider for the issuance of a Capacity Agreement Notice (CAN) and the Delivery Body does not agree that a CAN should have been issued following the provisional success of the Capacity Provider's CMU in the Capacity Auction, the Capacity Provider and the Delivery Body must discuss the alleged failure by the Delivery Body to establish whether a CAN should be issued.

At present, there is no recourse for how this should be rectified if no agreement can be reached between the two parties. The government considers the timely and accurate issuance of CANs as a vital aspect of the scheme, because they set out the terms of the Capacity Agreement of the Capacity Provider for a Capacity Committed CMU.

As such, the government is proposing to reintroduce a provision to give Capacity Providers the option to refer the determination to the Authority for dispute resolution, in accordance with Part 10 of the Regulations.[34] The government proposes that Capacity Providers be given a 20 Working Day window in which to refer the determination to the Authority, after which it will be deemed to have been withdrawn.

Rule 8.2.1(b)

Rule 8.2.1(b) states that Capacity Providers must promptly notify the Delivery Body if it reasonably expects its CMU to fail to meet the General Eligibility Criteria at any time prior to the expiry of the Capacity Agreement.

The General Eligibility Criteria are set out in Regulation 15 of the Regulations, and in summary are that:

- the CMU is in Great Britain or the offshore area
- in the case of a Generating CMU or an Interconnector CMU, that the Connection Capacity of the CMU is equal to or greater than 1MW
- in the case of a Demand Side Response CMU, that the DSR capacity of the CMU is equal to or greater than 1MW
- the CMU is not one which would not prequalify under Regulation 16 (i.e., in receipt of low carbon support schemes) or under Regulation 17 (the New Entrants Reserve (NER) 300 and Carbon Capture and Storage (CCS) grant schemes).

The General Eligibility Criteria are vital to ensuring that a CMU can support security of electricity supply in times of system stress and help to minimise costs to consumers by avoiding double subsidies.

The government therefore considers it crucial that the Delivery Body be made aware as soon as possible if a Capacity Provider reasonably expects its CMU to fail to meet the General Eligibility Criteria at any time prior to the expiry of the Capacity Agreement.

The government is concerned that the current framework does not adequately deter cases where a Capacity Provider takes an action within its control that causes a CMU to cease to satisfy the General Eligibility Criteria before the end of the Capacity Agreement. In such cases, capacity may be withdrawn from the Capacity Market at a point when replacement capacity may not be able to be reprocured, increasing security of supply risks and potentially imposing additional costs on consumers.

The government is therefore considering introducing a new Termination Event where a Capacity Provider or its Group takes, or commits to take, a decision or action within its

[34] This provision was included as Rule 6.3.11 in the original Capacity Market Rules in 2014 but was later omitted by The Capacity Market (Amendment) (No.2) Rules 2014. Please see The Capacity Market Rules 2014 and The Capacity Market (Amendment) (No. 2) Rules 2014.

reasonable control, that causes, or is reasonably likely to cause, the CMU to cease satisfying the General Eligibility Criteria before the expiry of the Capacity Agreement.

Where the CMU has been taken out of Great Britain or where an application for the CMU has been made for a Low Carbon Exclusion scheme outside of the voluntary termination process for Generating CMUs set out in Rule 6.10.4, this should always be considered as an action within the reasonable control of the Capacity Provider. The government believes such actions should be subject to stronger disincentives such as a higher Termination Fee, in line with similar events, such as no longer securing Transmission Entry Capacity for a Delivery Year.

The government is minded that the level of the Termination Fee should reflect whether the failure to meet the General Eligibility Criteria resulted from an action within the Capacity Provider's reasonable control. The government is proposing to introduce a new Termination Event for occasions where the loss of eligibility has resulted from a Capacity Provider or Group-controlled decision and link this to a TF8 Termination Fee.

The government is proposing to maintain a Termination Event for occasions in which a Capacity Provider fails to meet the General Eligibility Criteria through an action which is outside of their reasonable control as a TF7, in line with the current Rule 6.10.1(d) Termination Event.

The government is aware of the need for clarity regarding how this proposal interacts with the failing to meet the 1MW Minimum Capacity Threshold, which may occur outside of a Capacity Provider's reasonable control. In instances where a CMU falls below the Minimum Capacity Threshold because of an issue caused solely by the System Operator, Transmission Licensee, the relevant Distribution Network Operator or their subcontractor, the Capacity Provider would be expected to provide an Independent Technical Expert (ITE) Report and Directors Declaration stating that the failure to meet the General Eligibility Criteria was not due to a decision taken by the Capacity Provider and was outside of their control.

The government is proposing that the ITE Report and declarations must be submitted within 20 Working Days of the relevant Termination Notice being issued. If these documents are not submitted within the timeframe specified, the TF8 Termination Event will apply to the CMU rather than the TF7.

This government believes this proposal remains proportionate for Capacity Providers where failure to meet the General Eligibility Criteria has arisen from an issue outside of their control, whilst also strengthening deterrence for occasions where the failure to meet the General Eligibility Criteria stems from a Capacity Provider decision which was within its reasonable control.

Voluntary terminations for Generating CMUs transferring to Contracts for Difference would remain open to Capacity Providers, subject to Rule 6.10.4 and Regulations 33A and 34 and would continue to carry no associated Termination Fee.

Rule 8.3.4A

Rule 8.3.4A states that a Capacity Provider must notify the Delivery Body of a change in the Primary Fuel Type of a Generating CMU. Once notified, the Delivery Body must amend the Capacity Market Register to record this change under Rule 7.5.1(ra).

The Primary Fuel Type of a Generating CMU is the primary fuel which is used to generate electricity, and in a case where a Generating CMU comprises Generating Units which will use different primary fuels, it is the fuel which will be used by the majority of the Generating Units on a MW basis. A list of Primary Fuel Types for Fossil Fuel Components in the CM can be found in Schedule 9 of the Rules.

The government considers it important that the Capacity Market Register holds an accurate and up-to-date view of the Primary Fuel Type of assets currently in the scheme. As such, the government is proposing introducing a Notice of Intention to Terminate period of 20 Working Days, to reflect the government's belief that this is an easily rectifiable breach of the Rules. If not rectified in this period, the government is proposing to introduce a Termination Event for failing to notify the Delivery Body of a change in the Primary Fuel Type of a Generating CMU. It is also proposing to attach a TF7 (£13,000/MW) Termination Fee to this event. The government considers this a sufficient incentive to promptly notify the Delivery Body of changes to fuel type relative to other Termination Fee options which carry a higher £/MW penalty.

Rules 12.3 and 12.5

Chapter 12 governs the provision of information to, and monitoring of, Capacity Providers by Administrative Parties. In summary, Rule 12.3 provides that a Capacity Provider must permit the Delivery Body or representatives to inspect relevant documents to gather information and discuss obligations.

Rule 12.5 states that upon request, a scheme participant must provide information and assistance that an Administrative Party reasonably requires in order to enable it to discharge monitoring obligations.

These processes provide assurances that Capacity Providers will be ready for the start of their Delivery Year in accordance with their agreement. Despite the importance of these provisions to delivery assurance, there is currently no direct consequence should a Capacity Provider refuse entry to their site to the Delivery Body or refuse to provide further information to an Administrative Party.

The government is proposing to introduce a new Termination Event linked to failing to comply with Rules 12.3 and 12.5. The government is proposing that this event will be preceded by a Notice of Intention to Terminate, which will be issued by the Delivery Body. Should a Capacity Provider rectify the issue within the period specified in the Notice, no Termination Notice will be issued. This would mean that the Agreement will no longer be terminated, and no Termination Fee will be owed. Capacity Providers would retain the ability to appeal such a Termination Notice if it was issued following the Notice of Intention to Terminate period.

The government is proposing that the Notice of Intention to Terminate be issued if a Capacity Provider has not responded to a request from the Delivery Body under Rule 12.3.1 and agreed to allow inspection of books and records, arranged a meeting, or agreed to allow a visit to their offices within 20 Working Days of the first Delivery Body request.

The government is also proposing that the Notice of Intention to Terminate be issued if a Capacity Provider has not responded to a request from an Administrative Party under Rule 12.5.1 for such information and assistance as reasonably required in order to enable it to discharge the monitoring obligations within 20 Working Days of the first request being sent.

The government is proposing that the Notice of Intention to Terminate period be 20 Working Days to reflect the government's belief that these are easily rectifiable breaches of the Rules and to allow units that secured agreements in T-1 Auctions to rectify breaches prior to the beginning of the Delivery Year. The government also proposes that a TF7 (£13,000/MW) Termination Fee be attached to the Termination Event if the situation is not resolved in that period.

For a full list of rules that the government are considering adding direct consequences to, please see Table 3 below.

Table 3: List of rules that currently do not have a direct consequence linked to them, alongside an explanation of the Rule and the government's minded-to solution.

Rule	Explanation	Minded-to solution
6.3.10	If the Delivery Body receives a request from a Capacity Provider for the issuance of a Capacity Agreement Notice and the Delivery Body does not agree that a Capacity Agreement Notice should have been issued, the Capacity Provider and the Delivery Body must discuss the alleged failure by the Delivery Body to establish whether a Capacity Agreement Notice should be issued. There is no recourse for how this should be rectified if no agreement can be reached between the two parties.	*Reintroduce Ofgem as Dispute Mediator*

8.2.1(b)	Carries no explicit penalty for not notifying or for knowing you'll fail to meet the General Eligibility Criteria prior to the expiry of the Capacity Agreement	*Termination Event that carries a TF8 fee for failure to meet the General Eligibility Criteria where it results from a decision or action within the Capacity Provider's reasonable control, or where a Capacity Provider fails to provide the required ITE Report and Directors Declaration within 20 Working Days of the Termination Notice being issued. Maintain current TF7 Termination Fee for instances where capacity drops below the Minimum Capacity Threshold and the Capacity Provider evidences it was not a caused by an event within their reasonable control by submitting an ITE Report and Director Declaration within 20 Working Days of the Termination Notice being issued.*
8.3.4A	Carries no penalty for not notifying a change in Primary Fuel Type.	*Introduce a Notice Period followed by Terminated Agreement*
12.3	Carries no penalty for not allowing inspection of relevant documents.	*Introduce a Notice Period followed by Terminated Agreement*
12.5.1	Carries no penalty for not providing additional monitoring information upon request.	*Introduce a Notice Period followed by Terminated Agreement*

The government is also aware that Rule 12.2.1 does not currently have a direct consequence linked to it but is minded not to amend this at present. Rule 12.2.1 states that the Capacity Provider of any Prospective CMU must submit a progress report to the Delivery Body no less frequently than every six months until the SCM is achieved, the Capacity Agreement is terminated, or a Non-completion Notice is issued. At present, around a third of the CMUs subject to this reporting requirement are non-compliant with the Rules.

The government set out plans earlier this year to take measures to improve submission rates by working with the Delivery Body to issue guidance and a template clarifying the information required in progress reports.[35] [36] The government will monitor the impact of the guidance and

[35] DESNZ, Consultation on changes for Prequalification 2026, October 2025
[36] DESNZ, Capacity Market: proposed changes for Prequalification 2026 - government response, May 2026

template and consult on further measures at a later date if the issue is not addressed sufficiently.

Question 58a: Do you agree with the proposal to reintroduce Ofgem as a dispute mediator if the Delivery Body and a Capacity Provider cannot agree if a CAN has been issued under Rule 6.3.10? (Yes/No/Neutral/No view)

Question 58b: Please provide a rationale and evidence to support your response. (Free text)

Question 59a: Do you agree with the proposal to introduce a Termination Event that carries a TF8 fee for failure to meet the General Eligibility Criteria where it results from a decision or action within the Capacity Provider or Group's reasonable control, or where a Capacity Provider fails to provide the required ITE Report and Directors Declaration within 20 Working Days of the Termination Notice being issued? (Yes/No/Neutral/No view)

Question 59b: Please provide a rationale and evidence to support your response. (Free text)

Question 60a: Do you agree with the proposal to maintain the current TF7 Termination Fee for instances where capacity drops below the Minimum Capacity Threshold and the Capacity Provider evidences it was not caused by an event within their reasonable control? (Yes/No/Neutral/No view)

Question 60b: Please provide a rationale and evidence to support your response. (Free text)

Question 61a: Do you agree with the proposal to require an ITE Report and Director Declaration within 20 Working Days as evidence that capacity dropping below the Minimum Capacity Threshold was not caused by an event within their reasonable control? (Yes/No/Neutral/No view)

Question 61b: Please provide a rationale and evidence to support your response. (Free text)

Question 62a: Are there any other circumstances, other than an issue caused solely by the System Operator, Transmission Licensee, the relevant Distribution Network Operator or their subcontractor, which could be outside of a Capacity Provider's reasonable control and could lead to a CMU failing to meet the General Eligibility Criteria, which should also carry the lower TF7 Termination Event? (Yes/No/No view)

Question 62b: Please provide a rationale and evidence to support your response. (Free text)

Question 63a: Do you agree with the proposal to introduce a Termination Event for failing to notify the Delivery Body if a CMU's Primary Fuel Type is changed? (Yes/No/Neutral/No view)

Question 63b: Please provide a rationale and evidence to support your response. (Free text)

Question 64a: Do you agree with the proposal to add a Notice of Intention to Terminate and a Termination Event for a failure to allow for the inspection of relevant documents under Rule 12.3 and not providing additional monitoring information under Rule 12.5? (Yes/No/Neutral/No view)

Question 64b: Please provide a rationale and evidence to support your response. (Free text)

Question 65: Do you disagree with the proposed Termination Fee rates for any of the new Termination Events set out above? If so, please explain why and set out your preferred Termination Fee rates with reasons. (Free text)

Question 66: Do you think the proposals are likely to have any unintended consequences? If so, please provide details. (Free text)

Question 67: Are there any other Rules that currently are not directly linked to a consequence, which you think the government should consider linking? If so, please provide a reference to these Rules and what consequence you would consider appropriate. (Free text)

Cumulative Policy Impacts

Context

The government is mindful that this package of policy proposals could have an aggregate effect and welcomes views on whether the implementation of proposals with different objectives – such as bolstering delivery assurance (see Improving Delivery Assurance, and Strengthening Compliance Incentives sections) or more accurately capturing the value of certain types of CMU (see Consumer-led Flexibility section) – could have a compound impact on particular CM participants or technology classes if implemented together.

The government therefore welcomes views on how to bring forward meaningful and proportionate CM reform through this package while maintaining a technology-neutral playing field for all participants.

Question 68: Do you think all proposals in this package can be implemented together while delivering on the objective set out above? (Yes/No/Neutral/No view)

Question 69: Please provide a rationale and evidence to support your response. (Free text)

Consultation questions

Question 1a: Do you agree with the policy objective of making SPDs more analogous to System Stress Event conditions? (Yes/No/Neutral/No view)

Question 1b: Please provide a rationale and evidence to support your response. (Free text)

Question 2a: Do you agree with the proposed timing, restrictions, and evidence thresholds associated with Summer testing? (Yes/No/Neutral/No view)

Question 2b: Please provide a rationale and evidence to support your response. (Free text)

Question 3a: Do you agree with the proposed provisions and restrictions on Secondary Transfers within these proposals? (Yes/No/Neutral/No view)

Question 3b: Please provide a rationale and evidence to support your response. (Free text)

Question 4a: Do you agree with the proposed change to section 14.4 of the Rules? (Yes/No/Neutral/No view)

Question 4b: Please provide a rationale and evidence to support your response. (Free text)

Question 5a: Do you agree that existing generating assets which have been recipient of a secondary trade from an UDSR CMU in the preceding Delivery Year should be forbidden from accepting further UDSR secondary trades prior to those UDSR CMUs holding a DSR Test Certificate? (Yes/No/Neutral/No view)

Question 5b: Please provide a rationale and evidence to support your response. (Free text)

Question 6: Do you think the proposed changes are likely to have any unintended consequences? If so, please explain. (Free text)

Question 7: Do you agree that additional measures extending beyond those proposed are not needed at this current time? (Yes/No/Neutral/No view)

Question 8: If you believe additional measures are required, please provide detail and evidence to support your response. (Free text)

Question 9a: Do you agree with the proposal to mandate data set up ahead of the Delivery Year? (Yes/No/Neutral/No view)

Question 9b: Please provide a rationale and evidence to support your response. (Free text)

Question 10: Do you think the proposed changes are likely to have any unintended consequences? If so, please explain. (Free text)

Question 11a: Do you support the introduction of a duration-based approach to de-rating DSR CMUs? (Yes/No/Neutral/No view)

Question 11b: Please provide a rationale and evidence to support your response. (Free text)

Question 12: Do you think the proposals are likely to have any unintended consequences? If so, please provide details (Free text)

Question 13a: Do you agree that Extended Performance Tests for DSR CMUs should be conducted during a Satisfactory Performance Day within the Core Winter Period, in line with the current approach for Storage CMUs? (Yes/No/Neutral/No view)

Question 13b: Please provide a rationale and evidence to support your response. (Free text)

Question 14a: Do you support the introduction of a technology-based approach to de-rating DSR CMUs? (Yes/No/Neutral/No view)

Question 14b: Please provide a rationale and evidence to support your response. (Free text)

Question 15: Do you think the proposals are likely to have any unintended consequences? If so, please provide details (Free text)

Question 16a: Do you agree with the proposed categories for the technology-based approach (Demand Turn-down, Behind-the-Meter Storage, and Behind-the-Meter Generation)? (Yes/No/Neutral/No view)

Question 16b: Please provide a rationale and evidence to support your response. If you disagree or believe additional or alternative categories should be used, please provide supporting detail for them. (Free text)

Question 17a: Do you agree that, subject to further consultation by the Delivery Body, the AABS should be updated and replaced with more appropriate historic market data derived from a High Demand Settlement Period over the three most recent Core Winter Periods? (Yes/No/Neutral/No view)

Question 17b: Please provide a rationale and evidence to support your response. (Free text)

Question 18: If you do not agree with either of the proposed approaches, please explain what alternative approach you would prefer with supporting detail. (Free text)

Question 19: Please share any other comments on the proposed approaches to DSR de-rating, including any implementation considerations. (Free text)

Question 20a: Do you agree with the proposal to introduce a capacity threshold, below which only sampled components would be required to undergo existing Metering Test processes? (Yes/No/Neutral No view)

Question 20b: Please provide a rationale and evidence to support your response. (Free text)

Question 21a: Do you agree that the proposed capacity threshold for sampling be set at 30kW? (Yes/No/Neutral/No view)

Question 21b: If you disagree with the proposed threshold, please provide supporting detail of your disagreement or provide an alternative suggested threshold with rationale. (Free text)

Question 22a: Do you agree with the proposed minimum sampling percentage of 2%? (Yes/No/Neutral/No view)

Question 22b: Please provide a rationale and evidence to support your response. If you disagree with the proposal, please explain why and a proposed alternative minimum percentage or approach. (Free text)

Question 23: Do you think the proposals are likely to have any unintended consequences? If so, please provide details. (Free text)

Question 24a: Do you agree that access to a relief mechanism modelled on Rule 6.7.7 is appropriate to address the impact of D0357 data flow issues on DSR CMUs in the CM? (Yes/No/Neutral/No view)

Question 24b: Please provide a rationale and evidence to support your response. If you disagree, please share any alternative suggestions or further thoughts. (Free text)

Question 25a: Do you support access Option 1 (documented audit trail), Option 2 (ITE-supported verification), an alternative option to provide a termination relief mechanism, or no termination relief mechanism? (Option 1/Option 1/ Alternative Option/ No view)

Question 25b: Please provide a rationale and evidence to support your response. (Free text)

Question 26: If granted, do you support the extension being limited to a maximum of 3 months for the resolution of the issues? If you disagree, please share an alternative proposed timeline and rationale. (Free text)

Question 27: Do you think the proposals are likely to have any unintended consequences? If so, please provide details. (Free text)

Question 28a: Do you agree with the proposal to amend Rule 13.4A.7(b)(ii) to refer to 31 July rather than 1 July to clarify payment start dates? (Yes/No/Neutral/No view)

Question 28b: Please provide a rationale and evidence to support your response. (Free text)

Question 29a: Do you agree that references to National Grid Electricity System Operator should be updated to NESO where appropriate? (Yes/No/Neutral/No view)

Question 29b: Please provide a rationale and evidence to support your response. (Free text)

Question 30: Do you think the proposals are likely to have any unintended consequences? If so, please provide details. (Free text)

Question 31a: Do you agree with the proposed change to the wording of the Regulation 31, to align with the Rules? (Yes/No/Neutral/No view)

Question 31b: Please provide a rationale and evidence to support your response. (Free text)

Question 32: Do you think the proposal is likely to have unintended consequences? If so, please provide details. (Free text)

Question 33a: Do you agree with the proposed changes to the transfer process? (Yes/No/Neutral/No view)

Question 33b: Please provide a rationale and evidence to support your response. (Free text)

Question 34: Do you think the proposals are likely to have unintended consequences? If so, please provide details. (Free text)

Question 35: Please share any additional thoughts on this proposal. (Free text)

Question 36a: Do you agree with the proposal to amend the existing requirement so that Applicants must declare their UHC rather than their immediate Holding Company at Prequalification? (Yes/No/Neutral/No view)

Question 36b: Please provide a rationale and evidence to support your response. (Free text)

Question 37a: Do you agree with the proposal that the declaration of a UHC should provide the name of the company and the relevant Company Registration Number? (Yes/No/Neutral/No view)

Question 37b: Please provide a rationale and evidence to support your response. (Free text)

Question 38: Are there any circumstances in which identifying the UHC may be unclear or difficult for an Applicant? If so, please provide details and any suggestions for how the Rules could address these scenarios. (Free text)

Question 39a: Do you agree with the proposal to require existing Capacity Providers who have already been awarded agreements to provide a declaration of their UHC to the Delivery Body? (Yes/No/Neutral/No view)

Question 39b: Please provide a rationale and evidence to support your response. (Free text)

Question 40a: Do you agree that a deadline of 10 Working Days from the start of the 2027/2028 Delivery Year is a reasonable and proportionate timeframe for existing Capacity Providers to submit this declaration? (Yes/No/Neutral/No view)

Question 40b: If you disagree with the proposed deadline, please suggest an alternative timeframe and provide your rationale. (Free text)

Question 41a: Do you agree with the proposal to require Capacity Providers to submit an updated Exhibit to the Delivery Body within 20 Working Days of a change in their UHC? (Yes/No/Neutral/No view)

Question 41b: Please provide a rationale and evidence to support your response. (Free text)

Question 42: If you consider that a different notification period would be more appropriate, please suggest an alternative and provide your rationale. (Free text)

Question 43a: Do you agree that a failure to provide an Exhibit updating the UHC should constitute a Termination Event? (Yes/No/Neutral/No view)

Question 43b: Please provide a rationale and evidence to support your response. If you disagree, please explain what alternative consequence, if any, you consider would be appropriate and proportionate to ensure compliance with the obligation. (Free text)

Question 44a: Do you agree that a Termination Fee of TF7 (£13,000 per MW) is a proportionate fee level for this Termination Event, given its alignment with similar fees for failure to disclose information? (Yes/No/Neutral/No view)

Question 44b: Please provide a rationale and evidence to support your response. If you disagree with the proposed Termination Fee level, please suggest an alternative fee category or level and provide evidence to support your position. (Free text)

Question 45: Do you think the proposals are likely to have any unintended consequences? If so, please provide details. (Free text)

Question 46: Are there any further measures, beyond those proposed, that the government should consider to improve the transparency of corporate structures underpinning Capacity Market participation? If so, please provide details. (Free text)

Question 47a: Do you think that the Authority or the Secretary of State should have discretion to not apply the Defaulting CMU definition to a CMU that has been terminated following engagement in Prohibited Activities? (Yes/No/Neutral/No view)

Question 47b: Please provide a rationale and evidence to support your response. If you disagree, please provide more information, especially as to whether you think the Defaulting CMU definition should always apply, never be applied, or be applied in a different way to as described in the proposal. (Free text)

Question 48a: Do you think that the Defaulting CMU definition should be amended so the first Delivery Year to which any exclusion from applying to enter a Capacity Auction would be set as the Delivery Years associated with the first T-4 and T-1 Auction after a Final Termination Notice is issued? (Yes/No/Neutral/No view)

Question 48b: Please provide a rationale and evidence to support your response. If you disagree, please provide more information, especially as to whether you believe the existing definition is sufficient or whether you think there is an alternate definition that would be more suitable. (Free text)

Question 49a: Do agree that greater clarity as to which Sections of the Electricity Act 1989 apply to Applicants and Capacity Providers would be beneficial, in regard to the enforcement of the scheme by the Authority? (Yes/No/Neutral/No view)

Question 49b: Please provide a rationale and evidence to support your response. (Free text)

Question 50a: Do you agree with the proposal to amend Rule 5.5.15 to require all Mandatory CMUs to enter their Pre-Refurbishment CMU at Confirmation of Entry stage, unless a valid Opt-out Notification has been submitted at Prequalification? (Yes/No/Neutral/No view)

Question 50b: Please provide a rationale and evidence to support your response. (Free text)

Question 51a: Do you agree with the proposal that, where a Refurbishing CMU fails to meet its required pre-build milestones and no Pre-Refurbishment CMU has been entered, the CMU would not be able to revert to its Pre-Refurbishment CMU and should instead default to termination? (Yes/No/Neutral/No view)

Question 51b: Please provide a rationale and evidence to support your response. (Free text)

Question 52: Do you think the proposals are likely to have any unintended consequences? If so, please provide details. (Free text)

Question 53a: Do you agree with the proposal that, if a Refurbishing CMU is terminated, Rule 3.3.3(f) applies and the CMU cannot be entered into two future Prequalification Windows as a Refurbishing CMU by the Applicant or a member of the Applicant's Group? (Yes/No/Neutral/No view)

Question 53b: Please provide a rationale and evidence to support your response. (Free text)

Question 54: Do you think the proposals are likely to have any unintended consequences? If so, please provide details. (Free text)

Question 55: Are there any further issues the government should consider in relation to the treatment of Refurbishing CMUs? (Free text)

Question 56a: Do you agree with the proposal to amend Rule 6.8.4 so that any reduction in Capacity Agreement duration is accompanied by a formal Reduction Notice? (Yes/No/Neutral/No view)

Question 56b: Please provide a rationale and evidence to support your response. (Free text)

Question 57: Do you think the proposal is likely to have any unintended consequences? If so, please provide details (Free text)

Question 58a: Do you agree with the proposal to reintroduce Ofgem as a dispute mediator if the Delivery Body and a Capacity Provider cannot agree if a CAN has been issued under Rule 6.3.10? (Yes/No/Neutral/No view)

Question 58b: Please provide a rationale and evidence to support your response. (Free text)

Question 59a: Do you agree with the proposal to introduce a Termination Event that carries a TF8 fee for failure to meet the General Eligibility Criteria where it results from a decision or action within the Capacity Provider or Group's reasonable control, or where a Capacity Provider fails to provide the required ITE Report and Directors Declaration within 20 Working Days of the Termination Notice being issued? (Yes/No/Neutral/No view)

Question 59b: Please provide a rationale and evidence to support your response. (Free text)

Question 60a: Do you agree with the proposal to maintain the current TF7 Termination Fee for instances where capacity drops below the Minimum Capacity Threshold and the Capacity Provider evidences it was not caused by an event within their reasonable control? (Yes/No/Neutral/No view)

Question 60b: Please provide a rationale and evidence to support your response. (Free text)

Question 61a: Do you agree with the proposal to require an ITE Report and Director Declaration within 20 Working Days as evidence that capacity dropping below the Minimum Capacity Threshold was not caused by an event within their reasonable control? (Yes/No/Neutral/No view)

Question 61b: Please provide a rationale and evidence to support your response. (Free text)

Question 62a: Are there any other circumstances, other than an issue caused solely by the System Operator, Transmission Licensee, the relevant Distribution Network Operator or their subcontractor, which could be outside of a Capacity Provider's reasonable control and could lead to a CMU failing to meet the General Eligibility Criteria, which should also carry the lower TF7 Termination Event? (Yes/No/No view)

Question 62b: Please provide a rationale and evidence to support your response. (Free text)

Question 63a: Do you agree with the proposal to introduce a Termination Event for failing to notify the Delivery Body if a CMU's Primary Fuel Type is changed? (Yes/No/Neutral/No view)

Question 63b: Please provide a rationale and evidence to support your response. (Free text)

Question 64a: Do you agree with the proposal to add a Notice of Intention to Terminate and a Termination Event for a failure to allow for the inspection of relevant documents under Rule 12.3 and not providing additional monitoring information under Rule 12.5? (Yes/No/Neutral/No view)

Question 64b: Please provide a rationale and evidence to support your response. (Free text)

Question 65: Do you disagree with the proposed Termination Fee rates for any of the new Termination Events set out above? If so, please explain why and set out your preferred Termination Fee rates with reasons. (Free text)

Question 66: Do you think the proposals are likely to have any unintended consequences? If so, please provide details. (Free text)

Question 67: Are there any other Rules that currently are not directly linked to a consequence, which you think the government should consider linking? If so, please provide a reference to these Rules and what consequence you would consider appropriate. (Free text)

Question 68: Do you think all proposals in this package can be implemented together while delivering on the objective set out above? (Yes/No/Neutral/No view)

Question 69: Please provide a rationale and evidence to support your response. (Free text)

Next steps

This consultation will remain open to written responses for 8 weeks from 2 September 2026, closing on 27 October 2026. The government will analyse all responses to inform further policy development. A response is expected in spring 2027, outlining the proposals the government intends to implement. These proposals will be informed by the range of responses the government receives by further stakeholder engagement and by additional analysis.

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

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

Glossary

Abbreviation / Term	Definition
Adjusted Load Following Capacity Obligation (ALFCO)	The Capacity Obligation of a CMU which has been adjusted proportionally to the level of service provided, accounting for activities as set out in Rule 8.5.2.
Administrative Parties	In the Regulations, it means the Secretary of State, the Authority, the Delivery Body and the Settlement Body
Applicant	The person that has submitted or is entitled to submit an Application with respect to a Capacity Market Unit, as determined in accordance with Rule 3.2.
Approved Metering Solution	A Metering Configuration Solution (including CM Aggregation Rules) approved by the CM Settlement Body which is an arrangement of Metering Equipment for a Generating Unit that is not a BM Unit, a DSR CMU Component that is not a BM Unit or a CMU that is a partial BM Unit. Metering Configuration Solution in respect of a Generating Unit or DSR CMU Component where such Metering Configuration Solution is comprised of a BM Unit that is registered in the Central Meter Registration Service in accordance with the BSC and CM Aggregation Rules are in place.
Auction Results Day	Unless instructed to the contrary pursuant to the Regulations, the Delivery Body must publish the results of the Capacity Auction to Bidders, the Auction Monitor and the other Administrative Parties within 8 Working Days of the Capacity Auction concluding.
Average Availability of Non-BSC Balancing Services	The average proportion of time that balancing services procured outside the Balancing Mechanism are available to deliver when required over a given period.
Authority	The Gas and Electricity Markets Authority (Ofgem)
Balancing and Settlement Code (BSC)	The code for governance of electricity balancing and settlement in Great Britain which is maintained in accordance with the conditions of licences granted under section 6(1) of the Electricity Act 1989

Balancing Mechanism (BM)	NESO's primary tool to balance supply and demand on GB's network. In the Electricity National Control Centre (ENCC), NESO uses the BM to buy and procure the right amount of electricity required to balance the system. This is done minute by minute, second by second, to balance supply and demand in real time.
Behind-the-meter (BTM) Generation	An electricity generating asset which is located on the consumer's side of the boundary meter, typically used to meet on-site demand but may also provide export of electricity in front of the meter, i.e., to the grid.
Behind-the-meter (BTM) Storage	An energy storage system located on the consumer's side of the boundary meter, allowing electricity to be stored and used directly on-site without passing through the meter.
Bidder	A person bidding in a capacity auction for a capacity obligation in respect of a CMU.
Capacity	An amount of electrical generating capacity or CLF capacity, usually expressed in megawatts (MW) unless stated otherwise.
Capacity Agreement	The rights and obligations accruing to a Capacity Provider under the Regulations and the Rules in relation to a CMU for one or more delivery years.
Capacity Agreement Notice (CAN)	A notice issued by the Delivery Body to a capacity provider under Capacity Market Rules, containing data about a Capacity Agreement.
Capacity Auction	An auction held under Part 4 of the Regulations, as a result of which successful Bidders are awarded Capacity Agreements.
Capacity Committed CMU	Capacity committed CMU, in relation to a Delivery Year, means a CMU that is identified in the capacity market register as being subject to a capacity obligation for that Delivery Year.
Capacity Market Notice	A notice issued in accordance with Rule 8.4.6, when either the System Operator gives a Demand Reduction Instruction and/or an Emergency Disconnection Instruction to one or more Distribution Network Operators, an Inadequate System Margin is anticipated to occur in a Settlement Period falling at least 4 hours after the expiry of the Settlement Period or an Automatic Low Frequency Demand Disconnection takes place, for which a Capacity Market Notice is not already in force.

Capacity Market Register (CMR)	The register the Delivery Body must maintain, in accordance with Regulation 31, containing details of, for each CMU applying to prequalify for a capacity auction, the prequalified decision and the de-rated capacity of the CMU, and the details of each Capacity Agreement.
Capacity Market Rules/ CM Rules (“the Rules”)	The Capacity Market Rules provide the technical detail for implementing the operating framework set out in the Regulations.
Capacity Market Unit (CMU)	A unit of electricity generation capacity or DSR capacity that can be put forward in a capacity auction. It is the product that forms the capacity to be procured through the CM.
Capacity Market Unit Transferor and Capacity Market Unit Transferee	A Capacity Provider may transfer a Capacity Agreement by transferring all or part of its Capacity Obligation in respect of a Capacity Committed CMU (the “CMU Transferor”) for all or a specified number of calendar days in a Delivery Year to an Acceptable Transferee in respect of another CMU (the “CMU Transferee”).
Capacity Obligation	An obligation awarded pursuant to a capacity auction, applying for one or more delivery years, to provide a determined amount of capacity when required to do so, in accordance with Capacity Market Rules.
Capacity Payment	A payment to a Capacity Provider under the Regulations for its commitment to meet a Capacity Obligation during a Delivery Year.
Capacity Provider	A person who holds a Capacity Agreement or a transferred part in respect of a Capacity Agreement.
Commercial Units	Units of electricity generation capacity or demand reduction that are operated and traded on a commercial basis within electricity markets.
Companies Act 2006	The primary legislation governing the incorporation, operation and regulation of companies in the United Kingdom, including provisions relating to company structure, ownership, and directors’ duties.
Connection Capacity	With respect to a Generating CMU or a Generating Unit, the capacity of that Generating CMU or Generating Unit. With respect to an Interconnector CMU, the capacity of that Interconnector CMU.

Consumer-led Flexibility (CLF)	Also referred to commonly as Demand Side Response (DSR), CLF is a method of adjusting electricity demand relative to an established baseline. This can be achieved by either reducing demand by switching off assets or by starting up on-site generators to provide electricity in place of drawing it from the distribution network or transmission network.
Core Winter Period	A period beginning with 1 December in any year and ending with the last day of the following February.
Credit Cover	Financial security (usually a deposit or guarantee) that Applicants must provide to participate in Capacity Auctions. It ensures compliance and is subject to release or drawdown under specific conditions (e.g., Rule 5.5.16(b), Regulation 59).
Defaulting CMU	In relation to a Capacity Auction in respect of Delivery Year "t", a Defaulting Interconnector CMU or a CMU that includes a Generating Unit or DSR CMU Component that has previously formed part of any CMU: (a) that was disqualified from Bidding under Rule 5.4 in any prior Capacity Auction relating to Delivery Years t, t-1 or t-2 (b) in respect of which a Capacity Agreement relating to Delivery Years t, t-1 or t-2 has been terminated due to an actual or suspected engagement in one or more of the Prohibited Activities; or (c) that participated in a Capacity Auction relating to Delivery Years t, t-1 or t-2 but has not been awarded a Capacity Agreement for those corresponding Delivery Years, and for which there has been actual engagement in one or more of the Prohibited Activities
Delivery Body	The National Energy System Operator (NESO).
Delivery Year	In relation to a Capacity Auction, this means the year for which a one-year Capacity Obligation is awarded, or the first year of the period for which a multi-year Capacity Obligation is awarded. Delivery years run 1 October to 30 September of each calendar year.
De-rated Capacity	The capacity that a CMU is likely to be technically available to provide at times of peak demand, which is specific to the CMU's technology type and individual characteristics.

De-rating Factor	A factor that is applied to a CMU’s capacity to derive its De-rated Capacity.
Demand Flexibility Service (DFS)	A scheme in Great Britain operated by NESO under which electricity consumers are incentivised, typically through their suppliers or aggregators, to reduce or shift their electricity use at times when the electricity system requires support.
Demand Side Response (DSR)	Also known as consumer led flexibility (CLF). DSR is a method of reducing electricity demand. This can be achieved by either reducing demand by switching off assets or by starting up on-site generators to provide electricity in place of drawing it from the distribution network or transmission network. CMUs can be Proven or Unproven DSR CMUs, with specific testing and metering requirements.
Demand Side Response (DSR) component	A DSR CMU Component is an individual site or unit within a DSR CMU. Each must be metered and tested, and changes to components are governed by Rule 8.3.4.
Demand Side Respond (DSR) Test	A test of a DSR CMU carried out in accordance with Rule 13.2, or a Joint DSR Test in accordance with Rule 13.2B.
Demand Turn-down	A reduction in electricity consumption by a consumer or asset in response to a signal or instruction, typically to support the balance of supply and demand on the electricity system.
Despatch Control	For a Generating CMU, control exercised by a person over whether or not the Generating Unit(s) comprised in that Generating CMU generate(s) in a Settlement Period, provided that person does not cease to have Despatch Control by contracting with another person for the service of operating the Generating Unit(s); contracting with another person to supply electricity in a Settlement Period; in the case of a CMRS CMU, agreeing that another person may be the BM Responsible Party under the BSC; or entering into a Balancing Services Contract with the System Operator
Despatch Controller	For a Generating CMU, the person exercising Despatch Control with respect to each Generating Unit comprised in that Generating CMU.

Dispute Mediator	In the case of the Capacity Market, Ofgem, acting as an independent and impartial third party within the Capacity Market, facilitates communication between disputing parties to support the resolution of disputes arising under the Capacity Market framework, without imposing a binding decision.
Distribution System Operator (DSO)	An entity that operates and manages the local electricity distribution network and undertakes system operation functions, including actively managing electricity flows and coordinating distributed energy resources on that network.
Eligible Secondary Trading Entrant	A Secondary Trading Entrant which has Prequalified in accordance with Rule 4.9.
Energy Act 2023	UK legislation outlining sustainable energy policy, including improving energy efficiency, supporting renewables, and requiring reporting on progress towards energy and emissions objectives.
Exhibit	A prescribed template document or declaration required under the Capacity Market Rules to provide information or confirm compliance.
Existing Generating CMU	A CMU which provides electricity, is capable of being controlled independently from any other generating unit, the net output of the generating unit is measured by one or more half hourly meters in accordance with Capacity Market Rules; and the generating unit has a connection capacity not less than the minimum capacity threshold.

Extended Performance Test (EPT)	For a Capacity Committed CMU in a Storage Generating Technology Class that is Duration Limited (or a Capacity Committed CMU that is an Unproven DSR CMU to which Rule 13.4A.3A applies), a performance of capacity at a level equal to or greater than its Adjusted Connection Capacity for the number of consecutive Settlement Periods that is equivalent in duration to the specified minimum duration for that Storage Generating Technology Class. For a Capacity Committed CMU in a Storage Generating Technology Class that is not Duration Limited (or a Capacity Committed CMU that is an Unproven DSR CMU to which Rule 13.4A.3B applies), a performance of capacity at a level equal to or greater than its Adjusted Connection Capacity for the number of consecutive Settlement Periods that is equivalent in duration to the specified minimum duration for the shortest-duration Storage Generating Technology Class that is not Duration Limited.
Financial Commitment Milestone (FCM)	For a Prospective CMU, the provision to the Delivery Body of: (a) a report by an Independent Technical Expert meeting the Required Technical Standard confirming the Capital Expenditure and financial commitment requirements specified in Rule 6.6; and (b) a Funding Declaration.
Final Termination Notice	A notice confirming that a Capacity Agreement has been terminated after a Termination Notice has been issued and the relevant notice period under the Capacity Market Rules has expired.
Fossil Fuel Component	Any Generating Unit or DSR CMU Component (where that component comprises of a Generating Unit) which produces electricity using at least one Fossil Fuel.
Fossil Fuel Emissions Declaration	A declaration in the form set out in Exhibit ZA, which complies with the requirements in Rule 3.15.
General Eligibility Criteria (GEC)	The conditions set out in Regulation 15 of the Electricity Capacity Regulations 2014 that a Capacity Market Unit must meet in order to be eligible for Prequalification to participate in a capacity auction.

Generating CMU	An existing generating unit which meets the conditions as set out in Regulation 4, a prospective generating unit which, when commissioned, will meet the conditions as set out in Regulation 4, in the Regulations, a combination of two or more existing generating units which meet the conditions as set out in Regulation 4, or a combination of two or more prospective generating units which, when all of the generating units have been commissioned, will meet the conditions as set out in Regulation 4.
Generating Technology Classes (GTC)	A class of Generating Unit, defined by the technology used to generate electricity, for which the Secretary of State requires the Delivery Body to publish a De-rating Factor.
Generating Unit	Any equipment in which electrical conductors are used or supported or of which they form part which produces electricity, including such equipment which produces electricity from storage
Group	For any person, another person who is the direct or indirect Holding Company of that person and any Subsidiary of that Holding Company
Hydrogen to Power (H2P)	The conversion of hydrogen to produce low carbon electricity.
Independent Technical Expert (ITE)	A person who: (a) is independent of the relevant Capacity Provider (b) is engaged by the relevant Capacity Provider at its expense to prepare the technical assessment, report, certificate or commentary required by 25 Rules 6.6, 6.7, 6.7B, 6.10, 8.3 or 12.2 to the Required Technical Standard; and (c) If the person is engaged in respect of a Prospective Generating CMU, an experienced technical expert with international experience and expertise in the construction and operation of Generating Units; engaged in respect of a Prospective Interconnector CMU, an experienced technical expert with international experience and expertise in the construction and operation of Electricity Interconnectors; and engaged in respect of an Unproven DSR CMU, an experienced technical expert with experience and expertise in Demand Side Response

Interconnector CMU	An existing interconnector which has a capacity not less than the minimum capacity threshold and its net output is measured by one or more half hourly meters in accordance with capacity market rules.
Long Stop Date	For any Refurbishing CMU or New Build CMU, the date falling 12 months after the start of the CMU's first scheduled Delivery Year, except where a T-1 Agreement has been awarded in respect of the CMU or where, in any case, a Capacity Agreement has a duration of one Delivery Year it will be the start of the first Delivery Year.
Mandatory CMU	An Existing Interconnector CMU, or an Existing Generating CMU each Generating Unit of which is owned by a licensed generator unless all such Generating Units are Exemptible Generating Plant or are excluded capacity by virtue of Regulations 16 and 17.
Market Manipulation	Providing information or bidding in a Capacity Auction, or sharing information publicly, in a way that creates or is likely to create false or misleading signals about supply, demand, or prices; artificially influences the Clearing Price; or involves deceptive or misleading practices.
Meter Point Administration Number (MPAN)	A Meter Point Administration Number (MPAN) is a 13-digit reference used to identify every electricity connection point in the country.
Metering Agents	A suitable qualified representative approved by the EMR Settlement Body to carry out metering tests or related assurance activities to verify that a Capacity Market Unit’s metering arrangements comply with the Capacity Market Rules.
Metering Test	A test conducted by the CM Settlement Body to determine whether or not the metering arrangements for each Generating Unit or DSR CMU Component comprised in a CMU, or the Electricity Interconnector comprised in an Interconnector CMU, constitutes an Approved Metering Solution.
Metering Test Certificate	In relation to a CMU, a certificate issued by the CM Settlement Body pursuant to Rule 13.3.6(a) or Rule 13.3.6B(a)
Minimum Capacity Threshold	The connection capacity of a CMU which should be equal to or greater than 1MW.

Minimum Completion Requirement (MCR)	An Agreement Management milestone setting the minimum level of completion a CMU must achieve by a specified deadline to avoid termination of its Capacity Agreement. This is achieved by demonstrating that the CMU has been built and is operational, typically requiring evidence that all Generating Units have been commissioned and can deliver, in aggregate, 50% of its Capacity Obligation.
National Energy System Operator (NESO)	NESO is an independent public corporation responsible for planning Great Britain's electricity, gas, and hydrogen networks, as well as operating the electricity system. In the GB electricity system, NESO performs several important functions, from second-by-second balancing of electricity supply and demand, to developing markets and advising on network investments.
National Grid	A British multinational electricity and gas utility company. In Great Britain, it owns and operates electricity and natural gas transmission networks.
New Build CMU	A Prospective CMU other than a Refurbishing CMU.
New Entrants Reserve	A pool of emission allowances set aside within an Emissions Trading Scheme for allocation to new installations or installations that increase capacity, subject to meeting the relevant eligibility criteria.
Notice of Intention to Terminate	A formal warning issued by the Delivery Body to a Capacity Provider indicating that the Capacity Agreement is likely to be terminated.
Obligation Period	The period during which a Capacity Provider is required to fulfil its Capacity Obligation, typically by making capacity available or delivering demand reduction when required during the Delivery Year, including during System Stress Events.
Ofgem	The Office of Gas and Electricity Markets, the regulator overseeing the Capacity Market. It may review rules and enforce compliance.
Open-Cycle Gas Turbine (OCGT)	A combustion turbine plant fired by liquid fuel to turn a generator rotor which produces electricity.
Opt-out Notification	A notification under Rule 3.11 submitted by the owner of a Mandatory CMU.

Peak Demand Period	A period during which electricity demand on the system is at or near its highest level, typically when consumption by users across the grid is significantly higher than average.
Pre-Refurbishment CMU	In relation to a Refurbishing CMU, the Existing CMU that would remain in the absence of any improvement works being carried out
Prequalification	The process set out in the Capacity Market Rules for the Delivery Body to confirm whether a CMU may bid in a capacity auction. A CMU must meet the requirements specified in the Regulations and the Capacity Market Rules to be prequalified.
Prequalification Results Day	For any Capacity Auction, the Working Day on which the Delivery Body notifies each Applicant of the matters set out in Rule 4.5.1 in accordance with that Rule
Prequalification Window	For any Capacity Auction, the period specified in the Auction Guidelines within which applications for Prequalification are to be made.
Primary Fuel Type	The primary fuel for a Generating CMU. In a case where a Generating CMU comprises Generating Units which will use different primary fuels, means the fuel which will be used by the majority of the Generating Units on a MW basis.
Prohibited Activities	The activities prohibited pursuant to Rules 5.12 and 5.13, such as engaging in Market Manipulation or other unreasonable business methods.
Prospective CMU	A generating CMU which consists of one or more prospective generating units
Proven DSR	A demand side response CMU in respect of which a DSR test has been carried out.
Reduction Notice	A written notice issued by the Delivery Body to a Capacity Provider, the Authority, the CM Settlement Body and the Secretary of State stating that said Capacity Provider has failed to meet the requirement specified in the notice and as a result, the duration of the Capacity Agreement of the relevant CMU will be reduced with effect from 60 Working Days after the date the Reduction Notice is given.

Reform National Pricing	The package of reforms arising from the Review of Electricity Market Arrangements (REMA) which retains a single national wholesale electricity price across Great Britain, while introducing changes to market design, system operation and investment incentives.
Refurbishing CMU	An Existing CMU which is the subject of an Application as a Prospective CMU by virtue of an improvements programme that will be completed prior to the commencement of the first relevant Delivery Year.
Relevant Balancing Service	A specific subset of ancillary and flexibility services procured by the National Energy System Operator (NESO) to balance the GB transmission system.
Satisfactory Performance Days (SPDs)	Subject to Rules 13.4.1A, 13.4.1B, 13.4.1ZZA and the modifications in Chapter 9, a Capacity Committed CMU must demonstrate to the Delivery Body in accordance with Rule 13.4.2 capacity at a level equal to or greater than its Capacity Obligation or aggregate Capacity Obligations for at least one Settlement Period (which Settlement Periods may fall within a System Stress Event), on three separate days (each a "Satisfactory Performance Day") during the Winter of the relevant Delivery Year, of which at least one Satisfactory Performance Day must occur during the period from 1 January to 30 April (both dates inclusive) for that Delivery Year.
Secondary Trading	Trading by capacity providers in respect of the Capacity Obligations they hold. Takes the form of obligation trading or volume reallocation.
Secondary Trading Entrant	A Secondary Trading Entrant is an entity that applies to participate in the Capacity Market only for the purpose of secondary trading, rather than bidding in primary Capacity Auctions. These entrants must follow a specific application process outlined in Rule 3.13, and their prequalification decisions are notified under Rule 4.9.
Settlement Body	The CM Settlement Body is the designated entity responsible for administering payments (e.g., Capacity Payments, Termination Fees), receiving and managing Credit Cover and overseeing metering data and performance compliance. It plays a central role in financial and operational settlement under the Capacity Market framework.

Settlement Period	A period of 30 minutes beginning on an hour or half-hour.
Short-term Operating Reserve (STOR)	A service which service providers can provide to National Grid to deliver either a specific level of power from their generators or a reduction of demand. The service is limited to the timings that are agreed in the contract and can be provided by Balancing Mechanism service providers and non-BM service providers.
Site Audit	A visit of the Metering Site by the CM Settlement Body during any Delivery Year to determine whether the metering configuration for any Generating Unit, DSR CMU Component or Electricity Interconnector; meter data in relation to a Generating Unit, DSR CMU Component or Electricity Interconnector; or the metering configuration and meter data in relation to a Generating Unit, a DSR CMU Component or an Electricity Interconnector, is compliant with the Rules.
Slow Reserve	A contracted balancing service in Great Britain's electricity system under which providers deliver additional generation or reduce demand, when instructed by the System Operator, to manage system imbalances over slower response timescales than fast or quick reserve services.
Substantial Completion Milestones (SCM)	As per 6.7.2 or 6.7.3, before payments can begin in the Delivery Year, the CMU must demonstrate it is Operational with generating capacity or Net Output, adjusted for its De-rating Factor, equal to at least 90 percent of its Capacity Obligation. It must also complete the Metering Assessment under Rule 8.3.3(ba) and hold a valid Metering Test Certificate under Rule 8.3.3(d).
Supplier Regulations	The Electricity Capacity (Supplier Payment etc.) Regulations 2014, which set out how electricity suppliers fund Capacity Market payments.
System Operator	NGET or any successor Transmission Licensee with a Transmission Licence pursuant to which Section C of the Transmission Licence standard conditions has effect.
System Stress Event	A System Stress Event occurs when demand for electricity outstrips supply; it is defined in Rule 8.4.1 of the Rules.

Termination Event	An event specified in the Capacity Market Rules that arises where a Capacity Provider fails to meet, or breaches, its obligations and which may lead to the termination of a Capacity Agreement.
Termination Fee	A Termination Fee is a financial penalty imposed when a Capacity Agreement is terminated due to non-compliance or failure to meet obligations. The Delivery Body must notify the CM Settlement Body if a Termination Fee is payable (see Rule 14.4.3(f)).
Termination Notice	A written notice issued by the Delivery Body to the Capacity Provider, the Secretary of State, the CM Settlement Body and the Authority stating that the Capacity Agreement of a relevant CMU will terminate in 60 Working Days and specifying which of the grounds in Rule 6.10.1(a) to (s) or Rule 6.10.2(a)(ii) applies.
The Electricity Capacity Regulations ("the Regulations")	This refers to the Electricity Capacity Regulations 2014, S.I. 2014/2043, the principal regulations underpinning the CM.
T-1 Auction	This is the Capacity Auction held one year ahead of the Delivery Year, which 'tops up' any capacity secured in the relevant T-4 auction.
T-4 Auction	This is the Capacity Auction held 4 years ahead of the Delivery Year, which secures the large majority of capacity needed in the relevant Delivery Year.
Ultimate Holding Company	The holding company at the top of a corporate group which controls one or more subsidiary companies and is not itself controlled by any other company.
Unproven DSR	A demand side response CMU other than a proven demand side response CMU.
Winter	The period from 1 October to the following 30 April.
Working Day	Any day other than a Saturday or Sunday or a day which is a bank holiday or public holiday in England and Wales.

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