

Capacity Market changes for Prequalification 2026

Author: Olly Frankland

ofrankland@regen.co.uk

Electricity Storage Network

The **Electricity Storage Network (ESN)** is the industry group and voice for grid-scale electricity storage in GB. The ESN has 100 members who have a mission to promote the use of energy storage and flexibility to support the net-zero transition. The ESN membership includes clean energy developers, owners, investors, optimisers, and academic institutions. This includes representation from publicly listed specialist funds focusing on storage and independent developers that have raised several billion pounds to invest in this new technology.

This response is based on input from our members involved in developing grid-scale electricity storage projects in GB, as well as feedback received via our Markets and Revenues working group.

About Regen

Regen manages the ESN. Regen provides independent, evidence-led insight and advice supporting our mission to transform the UK's energy system for a net zero future. We focus on analysing the systemic challenges of decarbonising power, heat and transport. We know that a transformation of this scale will require engaging the whole of society in a just transition.

Regen is also a membership organisation, managing the Regen members' network and the Electricity Storage Network (ESN). We have over 200 members who share our mission, including clean energy developers, businesses, local authorities, community energy groups, academic institutions, and research organisations.

Continuing engagement

Electricity Storage Network Lead – Olly Frankland

T: 07465 201596

E: ofrankland@regen.co.uk

Summary and recommendations

Regen and the Electricity Storage Network have responded to the following recent consultations/calls for input on the Capacity Market (CM):

- [Electricity Storage Network response to ESO de-rating methodology consultation](#) – May 2024
- [Electricity Storage Network response to second REMA consultation](#) – May 2024
- [Regen & ESN response to Ofgem 10-year review of the Capacity Market](#) – February 2024
- [Regen & ESN response to capacity market consultation \(phase 2\)](#) – December 2023
- [Regen & ESN response to capacity market consultation \(phase 1\)](#) – March 2023

This provides background information on our wider thinking regarding the CM and the reform process. The Capacity Market remains a crucial revenue opportunity for battery storage and other LDES technologies. Short duration storage doesn't benefit from any other revenue support, and research presented by Modo Energy shows that storage has accounted for only £200m of roughly £8bn spent on Capacity Market support to date¹. The CM remains critical to deploying storage assets, and this week we will also be responding to the government's consultation on its proposal regarding locational changes.

The proposed price-related reforms, including higher price caps for selected technologies, are unlikely to improve security of supply and risk undermining the technology-neutral foundation of the Capacity Market. There is no evidence that only the proposed technologies can meet system needs or that they cannot be delivered under the current cap. A higher cap could increase consumer costs, distort competition and divert investment from cleaner, more cost-effective solutions.

Instead of pre-selecting technologies, the government should define system needs through clear, performance-based requirements, such as duration and stress-event deliverability, and strengthen delivery incentives and non-delivery penalties to ensure reliability while preserving competition and value for money. ESN recommends avoiding technology-specific price tiers, eligibility categories and capacity sub-targets, all of which risk raising costs without delivering additional benefit.

Any introduction of higher CM payments must be accompanied by strict emissions and running-hour limits to prevent supporting unabated high-carbon plants and to align with Clean Power 2030 targets.

We strongly support the proposal to allow battery storage projects to permanently retain the flexibility to self-nominate connection capacity. This proposal is supported by members and evidenced via polls from our markets and revenues working group. The government should refrain from imposing a floor on self-derating for batteries, as this could undermine cost

efficiency and innovation, would offer no security-of-supply benefit and could create unnecessary barriers to entry.

Key recommendations:

Recommendation: The government should define system needs through clear performance requirements, such as the duration for which capacity must be maintained during stress periods and the required performance, building on the existing derating framework.

Recommendation: Keep the CM technology-neutral so that all capable technologies can compete on equal terms.

Recommendation: If introduced, the government should apply strict emissions and running-hour limits to any plant receiving higher Capacity Market payments to avoid unfairly supporting high-carbon generation.

Recommendation: Avoid creating capacity sub-targets, as they distort competition and risk sidelining cheaper technologies that could deliver the same service more efficiently.

Recommendation: The government to permanently allow battery storage CMUs to self-nominate connection capacity via a CM rule 3.5 change.

Recommendation: Do not introduce a floor on self-derating. Retain full flexibility so battery projects can optimise duration, cost and reliability in line with system needs.

Responses to questions

Question 1: Do you agree that the proposed price-related reforms will be effective in achieving the CM's security of supply objective?

No.

Question 2: If you disagree, please provide reasons for your disagreement and evidence to support your views.

ESN does not agree that the proposed price-related reforms, including a higher price cap for certain capacity types, will improve security of supply. The reforms risk weakening the technology-neutral foundations of the Capacity Market. The CM has worked because it allows technologies to compete on equal terms, letting the market choose the most cost-effective solutions. Introducing a higher price tier for selected technologies moves away from this principle. If the system requires capacity with specific duration or stress-event performance, this should be defined as a performance requirement rather than tied to particular technologies. Existing derating factors already reflect duration limits. Many flexible, low-carbon

technologies can provide multi-hour dispatchable support, so limiting access to a higher cap risks distorting competition and excluding better-value options for consumers at critical time.

There is also no evidence that a higher price cap will improve security of supply, but a clear risk that it will increase consumer costs. Great Britain has never experienced a CM stress event, and NESO already takes expensive actions through the Balancing Mechanism and interconnector trades to avoid calling one. Adding further cost through the CM will not change this behaviour or deliver additional security. The consultation provides no analysis showing that projects capable of meeting the system need cannot be delivered at the current price cap. Without such evidence, raising the cap risks becoming an unnecessary subsidy that does not strengthen security of supply.

If the government is concerned about availability during stress events, a clearer system requirement and stronger delivery incentives would be more effective than technology-specific price caps. Setting out a performance or duration requirement, strengthening penalties, and allowing all capable technologies to compete equally would improve reliability at lower cost. Improving the CM's performance framework, rather than raising price caps for selected technologies, is the more proportionate response.

The reforms also risk supporting high-carbon thermal plants without adequate safeguards. Technologies most likely to benefit include unabated fossil plant with significant emissions, yet no limits are proposed on running hours or emissions intensity, and the decarbonisation-readiness requirements fall short of what is needed to align with Clean Power 2030. Providing higher CM revenues without firm safeguards risks locking in high-carbon generation and weakening investment signals for low-carbon firm power. Any higher payments must be tied to enforceable emissions limits.

Strict environmental criteria are essential. Any plant entering a sub-group should be required to demonstrate clear alignment with net zero by meeting firm annual emissions limits on a tCO₂/MW basis. This would ensure that carbon-intensive technologies such as CCGTs and OCGTs either invest in decarbonisation or operate under tightly restricted running hours if they wish to access a higher price cap. Without such limits, the government risks supporting capacity that is incompatible with its net-zero commitments.

Recommendation: The government should define system needs through clear performance requirements, such as the duration for which capacity must be maintained during stress periods and the required performance, building on the existing derating framework.

Recommendation: Keep the CM technology-neutral so that all capable technologies can compete on equal terms.

Recommendation: If introduced, the government should apply strict emissions and running-hour limits to any plant receiving higher Capacity Market payments to avoid unfairly supporting high-carbon generation.

Question 3: Do you agree that targeting access to higher prices than currently allowed will be effective in achieving the CM's cost-effectiveness objective?

No. See answer to Question 2.

Question 4: If you disagree, please provide evidence for your response.

The CM is also just one element of the wider electricity system, and supporting this type of new-build generation through a higher price cap is likely to drive up costs elsewhere, including in the wholesale market and the Balancing Mechanism.

Question 5: Do you agree with the proposed category of eligible capacity?

No. See answer to Question 2.

Question 6: If you disagree, please provide evidence to support your position.

The proposed category would undermine the CM's technology-neutral design, which allows the market to identify the most cost-effective capacity. Creating a higher price cap for a narrow set of technologies favours certain plants rather than the performance actually needed for security of supply. If the system requires duration, sustained output or availability during stress events, this should be set through clear performance standards. Many technologies, including low-carbon options, can meet multi-hour and dispatchable needs, so restricting eligibility risks excluding cleaner or cheaper solutions.

The consultation also provides no evidence that only these technologies can meet the need or that they cannot be delivered at the current price cap. Without transparent modelling, limiting eligibility is unjustified and may raise consumer costs in the wholesale market, the Balancing Mechanism and the CM without demonstrating system benefits.

If reliability is the concern, strengthening performance requirements, delivery incentives and penalties would be more effective and maintain competition.

The proposed category also risks locking in high-carbon plants, as many eligible technologies have high emissions and no limits are proposed on operating hours or emissions intensity. Current decarbonisation-readiness measures are not sufficient to align with Clean Power 2030.

Question 7: Do you agree with the minded-to position to implement option 6 as the design of the multiple-price Capacity Market?

No.

Question 8: If you disagree, please explain which approach you would favour and why.

We support an approach based on clear performance requirements, such as duration or stress-event deliverability, rather than pre-selecting eligible technologies. The CM should remain technology neutral so that any solution capable of meeting the requirement can compete. Delivery incentives and penalties should be strengthened to ensure contracted capacity performs when needed, and any change to the price cap should be backed by transparent evidence and open to stakeholder scrutiny.

Such a framework would improve reliability, protect consumers and avoid locking in unnecessary costs or high-carbon plant without proper safeguards.

Question 9: What would be an appropriate level for the new, higher price cap, to make eligible new-build dispatchable enduring projects commercially viable? Please provide evidence to support your position.

No answer provided.

Question 10: What factors and considerations should be taken into account when deciding whether and at what volume to set a sub-target for eligible capacity?

There should be no capacity sub-target. Reserving capacity for a specific technology group distorts the market, introduces favouritism and undermines confidence among providers that can deliver the same service at lower cost. If a sub-target repeatedly draws volume away from the main auction, cheaper technologies risk being displaced by more expensive ones.

Recommendation: Avoid creating capacity sub-targets, as they distort competition and risk sidelining cheaper technologies that could deliver the same service more efficiently.

Question 11: What, if any, practical changes beyond those set out in the consultation do you consider would be needed or merited to implement the proposed design?

No answer provided.

Question 12: Do you agree with the proposed increase to the excess capacity rounding threshold for all CM auctions?

No answer provided.

Question 13: If you disagree, are there any likely unintended consequences associated with this change?

No answer provided.

Question 14: Do you agree with the proposed delay in publication of the identity and aggregate de-rated capacity of prequalified CMUs for all CM auctions?

No answer provided.

Question 15: If you disagree, are there any likely unintended consequences associated with this change?

No answer provided.

Question 39: Do you agree with the proposal to allow self-nomination of connection capacity for CMUs of the fuel type “Storage – Battery”?

Yes, we strongly support the proposal to permanently allow battery storage CMUs to self-nominate connection capacity. The ESN provided evidence to DESNZ from polls in our markets and revenues working group, that there is strong support for this change within the sector. This led to the changes to the NESO guidance document in July 2025, and we very much welcome this follow on proposal for a formal rule change.

Recommendation: The government to permanently allow battery storage CMUs to self-nominate connection capacity via a CM rule 3.5 change.

Question 40: If you disagree with the proposal in Question 38, please state why and provide evidence where possible.

No answer provided.

Question 41: Do you agree with the inclusion of a floor on the self-nominated SCC of 50% full connection capacity, which Storage Capacity Providers must adhere to?

No.

Question 42: If you disagree with the proposal in Question 40, do you foresee issues with the concept of the floor or the level to which it is set? If not 50%, what would be an appropriate level? Please provide evidence where possible.

Participants should continue to have flexibility in nominating their connection capacity. Imposing a floor offers no security-of-supply benefit and would create unnecessary barriers to entry. Introducing a floor on self-derating for batteries could also undermine cost efficiency and innovation. Fixing a limit now could block future designs that offer greater flexibility at lower cost. Developers may create systems that typically run as 2-hour assets but can extend to 4–12 hours during stress events. This requires freedom to adjust declared duration and the corresponding self-derating factor. A floor could restrict innovation, and maintaining flexibility

supports efficient investment to ensure the CM secures the most reliable, cost-effective mix. It is also unclear how a floor would apply to co-located sites.

Recommendation: Do not introduce a floor on self-derating. Retain full flexibility so battery projects can optimise duration, cost and reliability in line with system needs.

Question 43: Do you foresee any unintended consequences or risks which could arise from the proposals set out in Questions 38 and 40?

No answer provided.

Question 44: Noting the considerations outlined in this section of the consultation, do you have any further comments or concerns regarding Battery Storage CMUs participating in the CM? Are there any further required changes which have not been identified or considered?

No answer provided.