Proposal for a Capacity Market Rule Change

Making a positive difference for energy consumers

Reference number:

Title *(a short title which summarises your CM rule change request)*
Utilising Connection Capacity headroom for Secondary Trading

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Proposal abstract *(a short summary, suitable for published description on our website)*

This proposal seeks to allow Capacity Market Units (CMUs) that experience an increase in their Connection Capacity after Prequalification to utilise this additional "Headroom Capacity" for secondary trading. Under current Rules, such capacity remains stranded i.e. is not recognised within the Capacity Market (CM), reducing liquidity and contributing to unnecessary terminations. The proposed change introduces a mechanism for qualifying this additional capacity as a Secondary Trading Entrant, ensuring that genuine, externally-driven increases in Connection Capacity can be brought into the market. This will improve the efficiency of the Capacity Market, help avoid avoidable terminations, and reduce costs to consumers without requiring system changes.

Description of the issue that the change proposal seeks to address:

Existing contracted CMUs may enter a Delivery Year with a higher Connection Capacity than the amount secured through Capacity Agreements. This can occur for several reasons, including connection queue movements, revised TEC or MEC allocations, phased network works, or other system-driven changes arising after a relevant Capacity Auction. In these circumstances, a CMU may have materially more deliverable capacity than was reflected in its original Prequalification submission.

However, the current CM Rules do not permit this additional Connection Capacity to be used for secondary trading. As a result, this capacity remains stranded and is unable to contribute to system security or market liquidity, despite being technically deliverable. This reduces the pool of potential recipients for secondary traded capacity and increases the likelihood of terminations where otherwise-viable CMUs are unable to replace lost capacity through trades.

These unnecessary terminations flow directly into future Electricity Capacity Reports and artificially inflate target procurement volumes. Where existing, deliverable capacity cannot participate in secondary trading, it must be replaced in future Auctions at additional cost, ultimately increasing consumer expenditure. Evidence presented to CMAG demonstrated that this is a real and material problem. Members identified multiple examples across generation and storage technologies where TEC increases, phased connections, operational improvements, or network-driven changes have created deliverable capacity that cannot currently hold a Capacity Obligation. Storage operators highlighted that conservative Connection Capacity nominations—often driven by degradation concerns—can leave 20–40% spare capability in early Delivery Years. Other participants provided examples of incremental upgrades or post-Auction connection changes creating tens or hundreds of megawatts of stranded capacity across the industry. One Capacity Provider estimated that stranded capacity in their portfolio alone was costing consumers tens of millions of pounds across multiple Delivery Years.

In summary, the issue is that the Rules prevent genuine, externally-driven increases in Connection Capacity from being used within the Capacity Market, resulting in stranded deliverable capacity, lower trading liquidity, avoidable terminations, and higher consumer costs.

Proposed solution to the issue:

The proposal introduces a targeted mechanism that allows verified increases in Connection Capacity to be qualified as an Eligible Secondary Trading Entrant (STE) for the relevant Delivery Year.
Under the proposed approach:

- The additional derated Connection Capacity arising after prequalification is treated as "Headroom Capacity".
- New Builds and Refurbishing CMUs can participate
- A new Secondary Trading Entrant CMU is created with the increased Connection Capacity.
- The CMU transfers its Capacity Obligation to the new STE CMU for that Delivery Year.
- The STE CMU then holds both the transferred obligation and any additional Headroom Capacity, which can be traded in accordance with the existing Secondary Trading Rules.
- Only externally-driven increases in Connection Capacity (e.g., connection agreement changes or apportionment changes under Rule 3.5.5) are in scope.
- Scenarios arising purely from commercial risk decisions or strategic under-declarations (e.g., degradation-based headroom) are explicitly out of scope, consistent with DESNZ policy intent.
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This approach builds on existing processes for STEs, avoids the need to amend previous Prequalification outcomes, and maintains a clear and auditable trail of obligations.

No IT system changes are required, and only limited adjustments to CM Rules are expected—primarily to support the definition and treatment of Headroom Capacity, the operation of Superseded CMUs, and the eligibility of STE CMUs under this route.

List of alternative proposals already submitted which this proposal relates to (if any):

If you know the specific change to the Capacity Market (CM) Rules you wish to make, please select the type of change below and propose specific revised text, indicating the provision number from the CM Rules and highlighting the change (if left blank, the Capacity Market Advisory Group (CMAG)/Ofgem may suggest revised text to achieve the proposed solution above):

☒ **Amendment** ☒ **Addition** ☐ **Revocation** ☐ **Substitution**

Analysis and evidence for the impact of the proposed change on industry and/or consumers, highlighting how the proposal meets the Ofgem/Capacity Market objectives set out in Regulation 78 of The Electricity Capacity Regulations 2014, any risks to consider and any implications for industry codes:

Consumers
The proposal is expected to deliver a positive impact across the Capacity Market in several areas:
Improved Market Efficiency and Liquidity

Allowing genuine increases in Connection Capacity to be used for Secondary Trading will expand the pool of eligible trades and reduce the frequency of failed trades. This improves the functioning of the secondary trading market and allows capacity to be reallocated where it is most needed.

Reduction in Unnecessary Terminations
Terminations often occur because viable CMUs are unable to replace lost obligations through trades, despite having deliverable headroom. Enabling this headroom to participate directly reduces unnecessary terminations and the administrative burden associated with them.

Lower Costs to Consumers
Avoidable terminations inflate future target capacities in the Electricity Capacity Report. By reducing avoidable terminations, the proposal helps prevent over-procurement in subsequent Auctions. Evidence presented to CMAG suggested that stranded capacity could be costing consumers tens of millions of pounds across multiple Delivery Years.

Recognition of Real-World Operational Conditions
Connection upgrades, queue movements, and phased delivery are increasingly common as networks evolve. The proposal ensures that CM Rules reflect the dynamic nature of network access and avoid penalising providers for circumstances beyond their control.

Alignment with the Capacity Market Objectives (Regulation 78)
The proposal supports the statutory objectives by:

- Ensuring security of supply through better utilisation of existing deliverable capacity;
- Improving efficiency of the Capacity Market mechanism;
- Reducing unnecessary costs to consumers;
- Promoting competition by increasing participation in Secondary Trading;
- Supporting proportionate regulation by targeting only genuine, verifiable increases in capacity.

Risks and Mitigations

- Risk of strategic under-declaration: mitigated by limiting the mechanism strictly to externally-driven connection changes.
- Risk of double counting: mitigated by using the established STE process and requiring full transfer of obligations from the Superseded CMU.
- Regulatory boundary risk: handled through close alignment with DESNZ legal advice and consistency with Rule 9.2 Secondary Trading arrangements.

Implications for Industry Codes
No direct impacts on industry codes (e.g., Grid Code, CUSC, DCUSA) are expected. The mechanism relies on the existing connection agreement verification processes already used in prequalification.

Urgency

Select this box if you would like this proposal to be treated as "urgent" (see 1.14 of "The Change Process for the Capacity Market Rules – Guidance" (2022) for details on the requirements of an urgent proposal)? ☐

If selected, please include a justification, including any dates by which the CM Rule Change needs to be made and the consequences of not acting in time (*Note that urgent proposals may be deprioritised or rejected if the Rule Change suggested cannot be implemented before the date(/s) set out in this section)*

Confidentiality

We want to promote transparency in the Capacity Market Rule Change process. Submitting proposals directly to the Capacity Market Advisory Group (CMAG) supports transparency whilst ensuring that proposals benefit from the input of a panel of impartial capacity market experts whose role it is to support the development, scrutiny, and prioritisation of proposals to improve CM Rules.

Proposals submitted directly to Ofgem may be shared with CMAG or published on our website as part of a public consultation before any rule change is enacted, provided the information shared has not been marked as confidential.

To submit your proposal directly to CMAG, e-mail this document to cmag@elexon.co.uk

If you wish to submit confidential information to Ofgem as part of your proposal, there are two routes to do this:

1. **Submit this document directly to CMAG (cmag@elexon.co.uk) excluding the confidential information, then submit a copy of this document plus an additional file containing the confidential information (marked as confidential) to emr_cmrules@ofgem.gov.uk**
2. **Submit this document plus an additional separate file containing the confidential information (marked as confidential) directly to Ofgem at emr_cmrules@ofgem.gov.uk**

Nothing marked confidential will be shared outside of Ofgem without the express permission of the proposer.