The voice of the energy industry

Energy UK Explains: Capacity Market Auction Results

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Key points

- The Capacity Market is the UK's primary mechanism for ensuring security of electricity supply. Annual auctions procure sufficient reliable capacity to meet future peak demand at the lowest cost to consumers.
- Providers who win Capacity Agreements in these auctions receive fixed, recurring payments in return for being available during system stress events. Predictable revenues provide financial certainty to support investment in reliable and flexible capacity.
- This year's auctions cleared at significantly lower prices than in recent years. The T-1 auction for delivery in 2026/27 resulted in a clearing price of £5/kW/yr, followed by the T-4 auction for delivery in 2029/30 at £27.10/kW/yr – a 75% and 55% decrease, respectively, compared with last year's clearing prices.
- Lower clearing prices were driven by stronger competition, reflecting a larger surplus of capacity relative to the auction targets. For example, 44GW entered the T-4 auction against a target of 39.4GW, compared with 45GW prequalifying against a 44GW target last year.
- Both auctions comfortably met their targets, ensuring sufficient reliable capacity for Great Britain in the relevant delivery years and supporting system resilience and security of supply during peak demand periods.
- Lower targets combined with lower clearing prices will reduce overall costs to consumers.
- However, some investment signals remain weak. In the T-4 auction, only a limited volume of refurbishing capacity secured three-year agreements, and no new-build capacity secured agreements, indicating a need for further action to incentivise investment for future delivery years.
- Policy focus should therefore be on maintaining the benefits of strong competition and lower prices while introducing reforms that support the investment needed to maintain adequate capacity in the future.

What is the Capacity Market and why is it important?

- The Capacity Market is the UK's primary mechanism for ensuring there is enough reliable electricity available to meet peak demand – the times when electricity use is highest - at least cost to consumers. It was introduced under the Electricity Market Reform (EMR) to safeguard security of supply as the energy system evolves.[1]
- In the Capacity Market, a range of providers, including electricity generators, storage, demand-side response providers, and interconnectors compete in annual auctions to secure Capacity Market Agreements with the National Energy System Operator (NESO), which acts as the Delivery Body and administers the scheme.
- Successful participants receive a fixed payment in return for committing to be available during periods of system stress, such as unforeseen generation shortfalls or increases in demand during extreme weather conditions.[2] [3] This ensures a steady, predictable revenue stream to de-risk investment. If they fail to deliver when called upon, they face financial penalties.

How do the Capacity Market Auctions work?

- Two Capacity Market Auctions are held each year: the T-4 auction, which secures capacity four years ahead of delivery, and the T-1 auction, held one year ahead to fine-tune volumes in light of updated demand forecasts and changes in available capacity.
- Each year, the Government, based on advice from NESO and informed by future demand and reliability forecasts, sets the volume of capacity required for future delivery years.
- The auctions then run as a descending clock, opening at the price cap (£75/kW) and reducing in £5/kW increments at each round. Participants either remain in the auction or exit at the minimum price they are willing to provide their capacity for, until supply falls to the target volume set by the Government. At that point, the auction clears.
- All participants that remain in the auction at the point it clears secure a Capacity Market Agreement at the clearing price – that is, the final price determined by the auction.

[1] DECC (2016), Energy Policy Overview
[2] LCCC (2023), What is a Stress Event? 60 Seconds with Low Carbon Contracts Company
[3] NESO (2020), What are margins?

What happens during the contract?

- The Capacity Market Agreement confirms the delivery obligation and the fixed price Capacity Providers will be paid, set by the auction clearing price.
- Capacity Providers are paid monthly by EMR Settlement (EMRS) – the settlement service provider - for generating or reducing demand during periods of system stress.
- Capacity Market payments are funded through a compulsory levy on electricity suppliers, whose share is initially based on a forecast of their demand during winter peak periods: 4-7pm on weekdays, November to February. Charges to supplies are later adjusted once actual demand data becomes available.

What are the benefits of the Capacity Market?

- The Capacity Market provides stable, recurring payments to Capacity Providers, reducing their exposure to volatile wholesale prices and providing investors with the financial certainty needed to commit capital to new generation and flexible assets.
- By securing reliable capacity of electricity ahead of delivery, it reduces the risk of shortages during peak demand periods and helps maintain security of supply, particularly as the system becomes more reliant on intermittent renewables.[4]
- The auction price is set by the last unit of capacity needed to meet the target, meaning consumers pay just enough to secure the required level of reliable capacity, based on competitive bids from providers.

What are this year's Capacity Market Auction results?

- This year's Capacity Market auctions resulted in significantly lower prices than in recent years. The T-1 auction for delivery in 2026/27 resulted in a clearing price of £5/kW/yr, followed by the T-4 auction for delivery in 2029/30 at £27.10/kW/yr – a 75% and 55% decrease, respectively, compared with last year's clearing prices.[5] [6]
- Lower clearing prices were driven by a larger surplus of capacity relative to the auction target, increasing competition among participants. For example, 44GW entered the T-4 auction against a target of 39.4GW, compared with 45GW prequalifying against a 44GW target last year.

[4] NESO (2025), Resource Adequacy in the 2030s
[5] NESO (2026), Provisional Auction Report: T-1 Delivery Year 2026/27; Energy UK analysis
[6] NESO (2026), Provisional Auction Report: T-4 Delivery Year 2029/30; Energy UK analysis

- At the T-1 Auction, nuclear represented the largest share of capacity clearing in the auction, at around 51%. This reflects additional units entering the T-1 auction after earlier T-4 agreements expired, as well as recent lifetime extensions that did not extend far enough to enable participation in the T-4 auction.
- At the T-4 auction, gas accounted for 59% (23.5GW) of total procured capacity, largely from existing and refurbishing plant. Despite a significant increase in refurbishing capacity entering the auction, only 1.6GW secured three-year agreements (with the remaining 10.8GW clearing on one-year agreements), while no new-build gas secured agreements. This likely reflects clearing prices insufficient to support refurbishment or new investment.

Why are the results important?

- Both T-1 and T-4 auctions comfortably met their targets, ensuring sufficient reliable capacity for Great Britain for their respective delivery years, which will support system resilience and security of supply during periods of peak electricity demand.
- Lower capacity targets compared with last year's auctions, combined with lower clearing prices, will result in lower overall costs to consumers than previous auctions.

What happens next?

- The next T-4 auction (for delivery in 2030/31) and T-1 auction (for delivery in 2027/28) are expected to take place in March 2027, with the auction parameters and launch process likely to begin later in 2026.
- While this year's auctions delivered positive outcomes for consumers, with greater competition driving lower prices, the limited refurbishing capacity securing three-year agreements in the T-4 auction, and the absence of new-build capacity, could indicate a need for further action to incentivise investment and ensure sufficient capacity in future delivery years.
- Policy focus should therefore be on maintaining the momentum of lower prices while introducing reforms to support necessary investment.

About Energy UK

Energy UK is the trade association for the energy industry, representing companies investing billions of pounds to secure our country's current and future energy needs. From growing start-ups to major electricity generators, grid and infrastructure developers and energy suppliers, our members are driving change across power, heat, transport and flexibility.

We champion initiatives such as our Vulnerability Commitment, which pushes suppliers to go beyond regulation to support customers with additional needs, and TIDE, the industry's drive for greater inclusion and diversity. Through our Young Energy Professionals Forum, with more than 3,000 members representing 350 organisations, we support the development of future leaders.