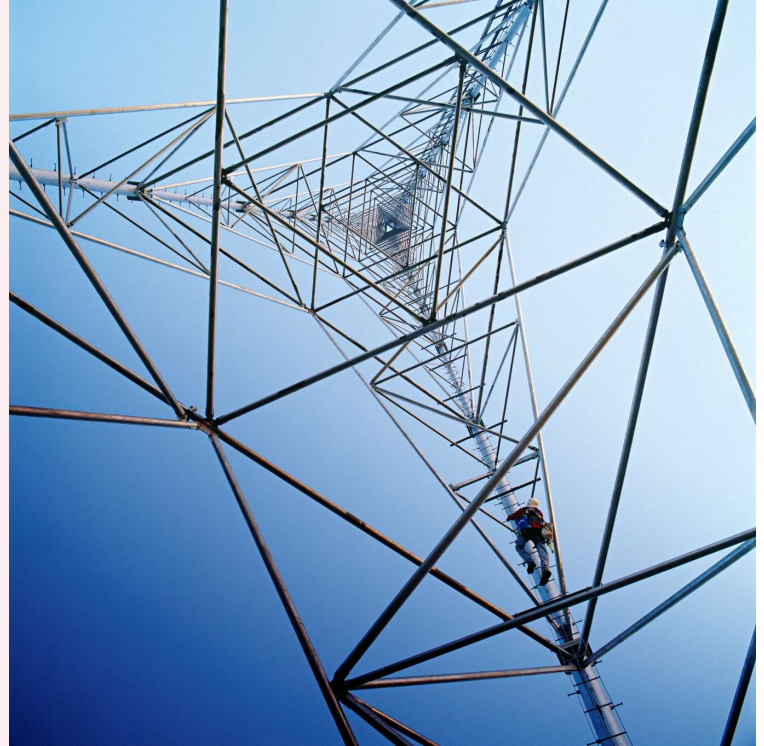


Germany Introduces its First Capacity Market

The StromVKG: An Overview

23 July 2026



Germany has reached a major milestone in the reform of its electricity market. The German Parliament (*Bundestag*) has adopted the Electricity Supply Security and Capacity Act (*Strom-Versorgungssicherheits-und-Kapazitätengesetz*, "**StromVKG**"), introducing Germany's first comprehensive statutory capacity market. The Act entered into force on 22 July 2026, following its publication in the Federal Gazette. Although formal state aid approval by the European Commission remains outstanding, such approval is generally expected without significant obstacles, given that the StromVKG is based on the political agreement reached between the Federal Government and the European Commission earlier this year.

Structurally, the StromVKG creates a pay-as-bid auction system in which generators, storage operators and demand-side flexibility providers compete for capacity contracts by committing to being available during scarcity events. Remuneration is therefore not granted for actual electricity generated or load reduced during a scarcity event, but for making firm capacity available, i.e., ensuring that the asset remains available to generate electricity or reduce load. Accordingly, awards result in annual capacity payments financed by a levy on market participants.

Against this backdrop, the Federal Network Agency (*Bundesnetzagentur*, "BNetzA") published the auction notice for the first long-term capacity auction on 21 July 2026. The first auction closes on 8 September 2026, leaving prospective participants with less than two months to prepare and submit their bids.

Importantly, the StromVKG is intended as a transitional, first-phase instrument. It applies only to the availability period between 1 November 2031 and 31 October 2032. A more comprehensive capacity market is planned to follow for the availability periods from 2032 onwards, with the underlying legislation expected in 2027.

BACKGROUND

Germany's electricity system faces a structural adequacy problem. The phase-out of coal and nuclear capacity, combined with the growing share of variable renewables, creates periods of low wind and solar output ("*Dunkelflaute*") during which dispatchable backup capacity is essential for

system security. The existing energy-only market has been assessed as insufficient to trigger the necessary new investment or to retain existing assets.

The StromVKG addresses this market insufficiency through a capacity mechanism: Market participants receive a guaranteed annual payment for holding capacity available, irrespective of whether they are actually dispatched. This revenue certainty is designed to underpin new investment decisions and retain existing plants.

The mechanism is technology-neutral and open to a wide range of asset classes, from gas-fired power plants and hydrogen-ready peaking plants to battery storage, pumped-storage power stations and demand-response aggregators.

THREE AUCTION TRACKS

The StromVKG establishes three separate auction tracks, each with different eligibility conditions, bid dates and obligation durations.

Long-Term Capacity Auctions (*Ausschreibungen für Langzeitkapazitäten*)

The first track is reserved for generation plants that can sustain uninterrupted output for at least ten consecutive hours at 80% of their installed capacity.

Facilities are eligible with their full capacity if they are new-built, or, in case of capacity increase, with the installed capacity that has been added after 31 December 2025. Contracts provide for a fixed fifteen years tenor. Two auction rounds are scheduled:

- Bid Date: 8 September 2026; Volume: 4.5 GW
- Bid Date: 29 December 2026; Volume: 4.5 GW (plus any unawarded volume from round 1)

If residual volume of at least 100 MW remains after both rounds, a third catch-up round runs alongside the Generation Capacity Auction (see below) in May 2027.

Generation Capacity Auction (*Ausschreibung für Erzeugungskapazitäten*)

A single, one-off auction open to all generation plants – including those that do not meet the ten-hour long-duration threshold. Contracts are, again, fixed at fifteen years.

- Bid date: 18 May 2027
- Volume: 2 GW

Capacity Auctions (*Ausschreibungen für Kapazitäten*)

Two broader rounds open to all generation assets and adjustable loads (*regelbare Lasten*). Bidders may choose a commitment period of one, seven or fifteen years.

- Bid dates: 1 December 2027 and 1 October 2029.

The volume is determined by the BNetzA through a security-of-supply methodology. The 2027 round is expected to cover 75% of the assessed need and the 2029 round is expected to cover 100%.

HOW THE AUCTIONS WORK

All auctions are conducted electronically on the BNetzA platform and are announced at least seven weeks before each bid date.

Pay-as-bid pricing

There is no uniform clearing price. Each successful bidder receives its own accepted bid price (*Gebotswert*, in EUR/MW of reduced capacity per year). Bids are ranked in ascending price order; awards are made down the ranking until the auction volume is filled. The bid at which the volume is reached sets the award boundary – no higher bid receives a contract.

Price cap (*Höchstwert*)

For long-term and generation capacity auctions, the maximum permissible bid is EUR 244,000/MW/year. This ceiling was raised from the original government proposal of EUR 173,000/MW during the parliamentary legislative procedure.

For capacity auctions, the BNetzA sets separate caps by obligation-period length, published with each auction notice.

Southern Germany regional bonus (*Netzbonus Süd*)

In long-term capacity auctions, bids from power plants located in the southern transmission zone (*netztechnischer Süden*) have EUR 16,000/MW/year deducted from their bid price for ranking purposes only. The actual payment is made at the original, unadjusted bid price.

This mechanism operates alongside a regional volume cap introduced during the parliamentary legislative procedure. The BNetzA first determines a threshold bid price at which northern plants would fill one-third of the auction volume. Up to that threshold, all bids – north and south alike – compete without the EUR 16,000/MW/year adjustment. Beyond that threshold, the adjustment is applied to southern plants, giving them a ranking advantage for the remaining volume.

The bonus is designed to channel new capacity investment into the southern transmission zone, where grid congestion is most acute. An

assessment of whether this mechanism achieves an adequate regional distribution will be conducted after the first auction round.

Reduced capacity (*reduzierte Leistung*)

All bids are expressed in reduced capacity instead of the actual nameplate capacity to ensure that different technologies can compete on a comparable basis. To achieve this, each technology's installed capacity is adjusted by a technology-specific de-rating factor reflecting its expected availability during periods of system stress. Thereby, different technologies become comparable and all bidders are placed on equal footing regardless of their technology. Factors for long-term capacity auctions are already set out in the StromVKG; factors for the other tracks are published by BNetzA at least six weeks before each bid date.

Award publication

The auction results are published on the BNetzA website:

- within eight weeks of the bid date for long-term capacity auctions,
- within fifteen weeks of the bid date for generation capacity auctions and
- within twelve weeks of the bid date for capacity auctions.

PARTICIPATION REQUIREMENTS

A layered set of eligibility conditions applies across all three auction tracks:

Minimum capacity

Each bid must represent at least 1 MW of reduced capacity. Multiple assets may be aggregated into a pool (*Anlagenpool*). Assets individually below 1 MW must be grouped into a "small-plant pool" (*Kleinanlagenpool*), which may participate in capacity auctions but not in the long-term or generation capacity tracks.

Grid connection

The asset must have a grid connection or at least a binding commitment from the network operator equal to the nominal bid volume (or higher) to be in place by 1 November 2031.

Emissions limit

Assets emitting more than 550 g CO₂ per kWh of electricity generated from fossil fuels are not eligible – consistent with Article 22(4) of EU regulation on the internal market for electricity (regulation (EU) 2019/943). A breach during the obligation period causes the award to lapse automatically, with repayment of capacity payments already made.

No double-support

Capacity payments under the StromVKG may not be combined with remuneration under the Renewable Energy Act (*Erneuerbare-Energien-Gesetz*, "**EEG**"), the Combined Heat and Power Act (*Kraft-Wärme-Kopplungsgesetz*, "**KWK**G") or any other programme covering the same eligible costs. Participation in another EU Member State's capacity mechanism is expressly permitted.

Bidder integrity

Undertakings classified as "firms in difficulty" under the EU State Aid Guidelines, or subject to outstanding EU Commission recovery orders, may not participate.

ADDITIONAL REQUIREMENTS FOR LONG-TERM AND GENERATION CAPACITY AUCTIONS

The two tracks for new-built facilities or capacity-expanding generation facilities impose additional site and technical conditions.

Site eligibility

Bids are only admissible for sites where either:

- no generation plant was in operation as at 30 June 2026; or
- the existing plant did not use gaseous fuels as its primary energy source in the five years before the bid date, was held in the capacity reserve or declared system-critical, or will run in parallel with the new plant without exceeding the site's total grid connection capacity; or
- the capacity of the existing plant will be expanded by the bid volume relative to its 31 December 2025 level.

15-year contract: minimum investment threshold

Successful bidders must invest at least EUR 431,000/MW of reduced capacity in the asset between the award date and the finalisation of pre-qualification (anticipated 31 October 2031). For seven-year contracts in capacity auctions, the threshold is EUR 201,000/MW.

15-year contract: hydrogen readiness

Gas-fired power plants must be designed to allow conversion to 100% hydrogen operation by modifying components or operations and must submit a conversion concept with the bid.

15-year contract: component origin

Where the asset qualifies as an end-product listed in Annex 2, its key specific components must originate from the EU or from a country with which the EU has a free trade or customs union agreement.

15-year contract: inertia provision

Large plants (≥ 10 MW) and plants connected to the high- or extra-high-voltage grid must be able to provide instantaneous reserve, i.e. support grid stability in the event of sudden frequency fluctuations.

15-year contract: climate neutrality pledge.

Bidders must commit in writing that the relevant plant will operate on a climate-neutral basis from 2045 onwards.

PRE-QUALIFICATION

Capacity Auctions (2027/2029)

Bidders must obtain pre-qualification from the competent TSO before bidding. The StromVKG distinguishes between full pre-qualification, which confirms compliance with all eligibility requirements and remains valid for future auction rounds, and provisional pre-qualification, where certain evidence is not yet available (e.g. projects under construction). In the first auction (1 December 2027), even existing plants need only to submit declarations without supporting evidence at the pre-qualification stage, making that process provisional by default. Applications are submitted via the TSOs' joint platform and must be filed between seven and five months before the bid date. The TSO must decide no later than three months before the auction.

Long-Term Capacity and Generation Capacity Auctions (2026/2027)

There is no separate provisional pre-qualification process for these two auction tracks prior to handing in the bid. Instead, the required information is submitted with the bid, and a successful award automatically grants provisional pre-qualification. Full pre-qualification must then be completed by 31 October 2031 (certain operational data can be submitted by 31 January 2032), together with the provision of the required realisation security.

FINANCIAL SECURITIES

Participation requires three types of financial securities:

Bid security (*Gebotssicherheit*)

15% of the applicable price cap multiplied by the bid volume in MW, due by the bid date.

Realisation security (*Realisierungssicherheit*)

Equal to the non-realisation penalty (see below), required for obligation periods exceeding one year, due within twenty working days of the award notification.

Performance and penalty security

Equal to the bid price multiplied by the awarded reduced capacity. For obligation periods of one year: due within twenty working days of the award notification. For multi-year obligation periods: due upon submission of the application for completion of provisional pre-qualification.

Securities may be provided as an on-demand bank guarantee from an EU/EEA-licensed institution, or as a cash deposit into a blocked escrow account.

OBLIGATIONS OF AWARD-HOLDERS

Availability obligation

During the delivery period (November 2031 – October 2032), each awarded asset must remain available during all "high-price quarter-hours" (*Hochpreisviertelstunden*) – 15-minute intervals in which the day-ahead spot price for electricity exceeds the activation price calculated daily by the TSOs. The TSOs publish the activation price daily by 10:00 a.m. and identify qualifying intervals for the following day by 2:00 p.m., both on the joint TSO internet platform. Availability is monitored against the reduced capacity committed on a monthly basis.

Availability shortfalls and surpluses

Underperformance in a given month triggers an equalisation payment from the award-holder; over-performance earns a premium. Both are calculated relative to the contracted reduced capacity and settled through a TSO-operated clearing mechanism.

Price-spike claw-back

To prevent windfall profits during extreme price events, award-holders must return to the system the difference between the spot price and an exercise price for every high-price quarter-hour in which the spot price exceeds that threshold. This applies to all obligation periods of one year or more.

Annual function test (*Funktionsnachweis*)

Within ten working days after each obligation year, the award-holder must nominate a test window – ten continuous hours for non-energy-limited technologies, or the maximum delivery duration (corresponding to the bid's maximum yield duration (*Höchsterbringungsdauer*)) for storage and demand response – during which demonstrated output is measured. Failure to nominate in time triggers an irrebuttable (*unwiderlegliche*) presumption of zero delivered reduced capacity for that obligation year.

NON-REALISATION PENALTIES

Award-holders that fail to bring their assets into operation by 31 October 2031 face the following penalties, calculated on a sliding scale based on the length of delay:

- Obligation Period: 15 years; Maximum Penalty: $1.5 \times \text{bid price} \times \text{reduced capacity}$
- Obligation Period: 7 years; Maximum Penalty: $1.0 \times \text{bid price} \times \text{reduced capacity}$

Penalties accrue incrementally from one-twelfth of the maximum for delays of up to two months, rising to the full amount for delays of more than 14 months. Where the award lapses during the obligation period due to a breach of ongoing eligibility conditions (for example exceeding the CO₂ threshold), capacity payments already made must be repaid with interest.

FUNDING

Capacity payments will be financed by a levy on electricity market participants to be introduced by a separate capacity market act planned for 2027. The levy will be collected from 2031 onwards and must, in accordance with EU State aid rules, be apportioned on a cause-related basis. A state aid approval reservation clause means that the scheme may not be implemented until the European Commission has issued a formal compatibility decision. However, as the StromVKG follows the political agreement reached between the German government and the EU Commission at the beginning of 2026, EU state aid approval is expected to be granted without any material obstacles.

Estimated total capacity payments for 2031 range from EUR 1 to EUR 3 billion, reflecting the simultaneous remuneration of long-duration and one-year obligation cohorts in that year. From 2032 onwards, annual costs are projected at EUR 0.9 to EUR 2.3 billion, subject to substantial uncertainty.



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