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Response to: BEIS Proposals for technical amendments to the Capacity Market

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Uniper

Uniper is an international energy company with around 12,000 employees and operations in 40 countries. In the UK, Uniper operates a flexible and diverse generation portfolio, sufficient to power around six million homes. With our seven-strong fleet of power stations and our flexible, fast-cycle gas storage facility, we support the energy transition and make a tangible contribution to Britain's energy supply security.

Uniper also offers a broad range of commercial activities through its Engineering Services division, while the well-established Uniper Engineering Academy delivers high-quality technical training and government-accredited apprenticeship programmes for the utility, manufacturing and heavy industry sectors, at its purpose-built facilities near Nottingham.

We welcome this consultation and have addressed each of the questions in turn below. Our views in summary:

- We agree with the proposed replacement top-up T-1 auction to take place in summer 2019.
- Resuming recovery of Supplier Charges to the Electricity Settlements Company (ESC) during the standstill period is essential to both give confidence to investors and to ensure that deferred capacity payments can be made in full once State Aid approval is granted.
- It is right to enforce existing agreement obligations during the standstill period; this principle should include delivery milestones.
- Existing market arrangements should continue as far as possible; implementing changes carries with it the risk of introducing market distortions and hindering resumption of normal market operation once State Aid approval is granted.



1. Do you agree that the amendments to the usual T-1 auction design/process proposed above are appropriate for this replacement T-1 auction?

It is important to take an approach that requires minimal change, which applies the existing market arrangements as close as possible to business as usual. This is to ensure consistent treatment of agreement holders and resumption of normal market operation as quickly as possible upon State Aid approval being granted.

We question whether it is strictly necessary to delay award of an agreement following the top-up T-1 auction until State Aid approval is granted. Payments have been suspended for agreements from previous auctions and for agreements for the 2018/19 delivery year. To be consistent we consider agreements from the top-up T-1 auction should be awarded as normal as payments would by default be suspended. In the case that State Aid approval is granted only after the start of the delivery year, our proposed approach would ensure that agreements under the 2019/20 top-up auction are treated in the same way as existing agreements for the 2019/20 delivery year. Under the current proposal, agreements and the corresponding obligations would not be in place. Awarding agreements with payments suspended would make the T-1 agreement trigger and the other adjustments outlined in the consultation unnecessary; the existing Regulations and Rules would apply in so far as they do to other capacity agreements in the standstill period.

2. In particular, will the requirement for participants to hold TEC for the T-1 auction delivery year in line with existing rules cause any unintended consequences?

Conversely, removing this requirement would introduce a market distortion. Holders of an existing agreement requiring TEC need to retain sufficient TEC otherwise it triggers a termination event.

3. Are there any further issues that the Government should consider in implementing the replacement T-1 auction?

Timely notice of the timetable for the top-up T-1 auction and its associated prequalification process would be welcome to allow for sufficient business preparation.

4. Do you have any comments on the proposed arrangements for making deferred payments to capacity providers for missed capacity during the standstill period, and for making deductions to reflect termination fees or penalties as necessary?

We support the proposed steps to provide confidence in the plan to make deferred capacity payments to agreement holders. Implementing the additional step of the Secretary of State determining that capacity payments should be resumed would undermine that confidence. As payments were suspended immediately following the European court judgement, we expect capacity providers to be paid in full as quickly as possible after State Aid is granted. If a domestic legal step is necessary, there should be an automatic trigger linked to, and dependent upon, the European Commission State Aid approval decision.

We think it would be helpful for the ESC to provide a 'Statement of Account' to both suppliers and Capacity Providers during the standstill period. This is so that participants will know what liabilities they have and the value of deferred capacity payments to be paid at the end of the standstill period, taking in to account any penalties or termination fees accrued.



5. Are there any obligations that arise during the standstill period that should be postponed? If so, what are they? To what extent should they be postponed? What is your justification for postponing them?

It is important for the resumption of normal market operation that capacity agreements and associated milestones continue to be enforced. Agreements for future delivery years should continue unchanged with the expectation of receiving capacity payments following State Aid approval, as BEIS anticipates.

New Build capacity agreements already have significant flexibility to achieving their Financial Completion and Substantial Completion milestones. We do not agree with delaying the various delivery milestones outlined unless a capacity provider incurs a delay as a direct consequence of the standstill period. This should be evidenced, with reference to an independent technical expert if required. If proven the start of the capacity obligation should be deferred to the subsequent delivery year. These decisions need to be visible to the market so that it is clear what capacity will be delivered when. Replacement capacity can then be procured in the subsequent T-1 auction for that delivery year.

We agree with deferring the Mock Stress Event (MSE). The time could be usefully used by the CM delivery partners to rectify the systems and process issues that were identified in the 2018 MSE.

6. Do you have any comments on the proposed arrangements for the administration of agreements, termination fees and appeals during the standstill period?

We do not agree with increasing the duration of Termination Notices and any subsequent extension of that notice period. There is already a lack of transparency to the market on the status of the potential termination of capacity agreements. Increasing the Termination Notice periods only exacerbates this concern, which could potentially cross multiple delivery years.

We also do not agree with waiving the sterilisation of terminated CMUs during the standstill period as this significantly reduces the consequences of termination, allowing terminated capacity options to be more easily prequalified for subsequent auctions.

7. Do you agree there is a strong case for re-starting the collection of the Supplier Charges? If so, what is your preferred option?

Yes, resuming recovery of the Supplier Charge is essential to both give confidence to investors and to ensure that deferred capacity payments can be made in full once State Aid approval is granted. Our preferred route is through the ESC as this uses existing CM systems and processes. This will allow for orderly processing of deferred payments to Capacity Providers and timely resumption of normal market operation at the end of the standstill period.

8. Do you have any comments on the possible technical changes to the regulations or rules that would be required to clarify the operation of the collection of the Supplier Charge during the standstill period or make payments in respect of the proposed T-1 agreements?

Existing market arrangements should continue as far as possible.



9. Are there any changes desirable to the supplier credit cover, mutualisation and enforcement provisions that apply during the standstill period?

The ESC should be enabled to continue to apply the existing supplier credit cover, mutualisation arrangements and enforcement provisions. The ESC must be able to collect and hold supplier payments to allow full and timely payment to capacity providers upon the grant of State Aid approval. Some consideration will be needed to ensure that the supplier payment arrangements can recover missed payments for the months prior to recommencement when money was not recovered from suppliers during the standstill period.