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Response to: BEIS Proposals for Capacity Market (CM) Emissions Limits

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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 have addressed each of the questions in turn below. Our views in summary:

- In order to retain the maximum provision and competition for capacity, the emissions limits for existing capacity should be applied from 1 July 2025.
- These capacity agreements should be valid for the full delivery year, including from 1 July to 30 September 2025, subject to a running hours restriction as necessary to meet the emissions limit.
- The emissions limits should be applied to interconnectors participating in the CM to ensure cross border capacity competes on an equivalent basis.

Question 1: Should the emissions limits for existing generation be implemented as of 1 October 2024 or 1 July 2025? What would be the potential impact of the two options on existing generation capacity?

In order to retain the maximum provision and competition for capacity, the emissions limits for existing capacity should be applied from 1 July 2025. Setting the earlier emissions implementation date removes optionality for security of supply for the 2024-25 delivery year.

The 1 October 2024 implementation date brings the established coal phase out policy date forward by one year and removes the Secretary of State's emergency power to suspend the emissions limits, where there might be a short fall in electricity generation, no earlier than six months before 1 October 2025. In principle implementation of a regulation should not change established policy.

The emissions limits may also capture some OCGT and reciprocating engine/DSR capacity, unless it already has an agreement with a duration beyond the implementation date.

The consultation does not state how the emissions limits will be applied to interconnector CM units. This will need to be clarified to ensure cross border capacity competes on an equivalent basis with capacity in GB.

Question 2: If you believe the 1 July 2025 date to be preferable, which sub-option do you prefer?

We do not support sub option 1. This removes the ability for existing capacity providers to continue to be eligible for payments after 1 July 2025 and up to 30 September 2025, although they could continue to meet the emissions limits and meet CM obligations by applying a running hours restriction for that period.

We propose a variation of option 2 is used. Our proposal applies the emissions limits from 1 July 2025, whilst maintaining the validity of capacity agreements and associated payments for the period between 1 July and 30 September 2025. This would be by providing for and ensuring that relevant capacity providers meet the 350kg CO2/installed kW allowance by committing to a limit on its annual running hours for the three month period between 1 July and 30 September 2025.

This option is recognised by BEIS on page 10 of its consultation document, which states:

"*Existing fossil-fuelled generation will be able to take advantage of the 350kg CO2/installed kW allowance in Article 22(4)(b) of the Electricity Regulation. This means that generators exceeding the emissions limit of 550g CO2/kWh, may be able to continue participating in the CM beyond 1 July 2025 provided they commit to limiting the number of annual running hours.*"

Question 3: Do you agree that refurbishing CMUs that will exceed the emissions limits should only be eligible for 1-year agreements? If not, please explain with reasons.

Although we agree with the objective of removing capacity payments from existing capacity for the chosen emissions limits implementation date, where it will not meet those emissions limits, we do not think it is strictly necessary to limit such refurbishing

CMU's to one year agreements. This may provide for up to a three and two year agreement respectively for such capacity, depending on the emissions limit implementation date, in the forthcoming T-3 and T-4 auctions, providing it is successful in the respective auctions before the emissions limits apply.

It is not clear from the consultation how refurbishing CMU applicants will be prevented from utilising the 350kg CO2/installed kW allowance running hours restriction. If an agreement holder can meet its obligations under a CM agreement whilst operating to a running hours restriction then it should be able to hold a multi-year agreement for delivery years following the implementation date.

How an applicant can confirm its Fossil Fuel Emissions Declaration and associated enforcement provisions applied before the associated guidance is implemented in the CM also needs to be clarified.

Question 4: What termination fee level should apply to the termination event where a false declaration has been made, or where capacity fails to meet the relevant emissions limits?

We agree that capacity providers should be deterred from non-compliance with declared emissions limits and that the statements made in the Fossil Fuel Emissions Declaration should be achieved. However, the European Regulation (EU) 2019/943) clearly states the assessment against the emission limit is based upon the design efficiency and not actual performance. We do not believe it is necessary to go beyond this requirement. It is in an operator's interest to maintain its plant to ensure it performs at its optimum efficiency, complies with guarantees provided by the equipment manufacturer, ensures economic operation and other legislative requirements are met, such as environmental permits.

Basing the emission limit compliance upon actual performance over time requires the introduction of a verification and reporting process. It is not clear how verification and enforcement of the emissions limits will work in practice and this may result in an additional regulatory burden. We believe the deterrent of the termination event and fee on its own is sufficient.

It would be appropriate to review the emission limit assessment for new build or refurbished units following commissioning to ensure the Fossil Fuel Emissions Declaration provided at the outset is still valid. It may also be appropriate to review the emissions performance if a unit undergoes a significant upgrade that would result in a change in performance.

It is also not clear how the limit on annual hours for plant subject to the 350kg CO2 annual allowance will be monitored and enforced, further detail is needed. The UK Environmental Regulatory authorities (EA, SEPA,NRW,NIE) already regulate plant that is restricted in operational hours due to environmental performance. Consideration should be given to using this information as part of the monitoring process.

We note from the consultation that this will be the subject of further consultation in 2020 following publication of the ACER guidance; the compliance regime should monitor strictly against the design criteria.

In considering the emissions limits compliance regime it may also be necessary to consider interactions with DSR component reallocation, secondary trading and volume reallocation.

We recognise the need for a strong deterrent to false declarations and continued compliance with emissions limits. However two aspects should be taken in to account;

i) that some capacity is already exposed to the costs of its emissions elsewhere, through carbon pricing, and
ii) that compliance monitoring for CM purposes does not add to the regulatory burden of emissions reporting.

The termination fee for exceeding the emissions limits should not be penal and could perhaps be set at the TF1 value, £5,000/MW. Consideration should also be given to the future exclusion of an applicant if it is exempt from the EU ETS or other future alternatives.

An appropriate level for the termination event established by Rule 6.10.1(o), where information provided by the applicant is untrue, could perhaps be double the emissions limits fee at the TF3 level, £10,000/MW.

Question 5: In the event of termination, should payments be repaid from the beginning of the capacity agreement, or from the date that the CMU fails to meet the emissions limits?

The payments should be from the date that the CMU fails to meet the emissions limits. Prior to this point the capacity provider would have been compliant and it is right that those payments should be retained by the capacity provider.

Clarification is required on how monitoring of compliance will be achieved against running hours to be able to confirm the date a CMU fails to meet the emissions limits.