The CfD Team
Clean Power Strategy & Deployment Directorate
Department for Business, Energy and Industrial Strategy
3rd Floor Spur
1 Victoria Street
London
SW1H 0ET

Email: BEISContractsforDifference@beis.gov.uk

Uniper UK Limited
Compton House
2300 The Crescent
Birmingham Business Park
Birmingham B37 7YE
www.uniper.energy

Registered in
England and Wales
Company No 2796628

Registered Office:
Compton House
2300 The Crescent
Birmingham Business Park
Birmingham B37 7YE

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Response to: Contracts for Difference for Low Carbon Electricity Generation consultation on proposed amendments to the scheme

Uniper

Uniper is a leading international energy company with around 11,500 employees and activities in more than 40 countries. With about 34 GW of installed generation capacity, Uniper is among the largest global power generators. Its main activities include power generation in Europe and Russia as well as global energy trading, including a diversified gas portfolio that makes Uniper one of Europe's leading gas companies. The company is headquartered in Düsseldorf, being the third-largest listed German utility. Under its new strategy, Uniper aims to become climate neutral in its European power generation by 2035.

We have addressed questions on the CfD proposals that are relevant to us. In summary:

- We support onshore wind and solar PV being included in a pot 1 auction as part of an allocation round that will be run for all eligible technologies.
- We support the proposed change to the treatment of negative pricing periods, which could incentivise generators to invest in alternative technologies to ensure surplus electricity is utilised, such as battery storage or hydrogen production from electrolysis.
- Ensuring consistency between technologies and across markets, such as the Capacity Market (CM), is important to ensure a competitive market framework for all technologies to compete in the energy market.

Pot structure

6. The government welcomes views on whether the proposed options are an effective means of bringing forward a greater diversity of low carbon electricity generation.

We support the proposal that onshore wind and solar PV is included in a pot 1 auction and that an allocation round will be run in 2021 for eligible technologies.

Where support is required for renewable technologies it should be clear that it is being provided through explicit subsidy, like the CfD and not indirectly through alternative mechanisms, which create a market distortion; such as proposals from some parties to to dampen locational signals, in the network charging arrangements to support onshore wind.

Extending delivery years

14. Should the government amend the Contracts for Difference (Allocation) Regulations 2014 in order to extend the delivery years specified in those regulations to the 31st March 2030?

In the context of the net zero target and to provide longer term investor certainty and confidence, extending the delivery years is a sensible approach.

16. The government welcomes views on strengthening the powers to fail SCPs on the basis that the Applicant has not demonstrated compliance with a past SCP.

Failing SCPs on the basis that the applicant has not demonstrated compliance with a past SCP appears to be unreasonable and excessively onerous. Instead, an individual, case by case assessment should be made.

19. The government welcomes views on any impact of reducing the threshold limit for the submission of a Supply Chain Plan to capture offshore wind extension projects (which were not envisaged when the policy was first drafted) and to reflect that projects below 300MW will also have a material impact on supply chains and if so, what the limit should be.

We support the aim of reducing the threshold to capture offshore wind extension projects. If there is no reduction it could distort competition between extension projects and ‘true’ new projects in allocation rounds.

Non-delivery disincentive

24. The government welcomes views on extending the exclusion period for sites excluded under the Non-Delivery Disincentive, including on whether 36 months is a suitable period, or a longer period is needed.

To ensure consistency across the energy market the exclusion period should be brought into line with, or be equivalent to, the exclusion period in the Capacity Market (CM).

Failure to deliver in the CM results in a 24 month exclusion period, however the CM auction is run every year, whereas the CfD auctions are every two years; therefore a 36 month exclusion period is equivalent.

26. The government welcomes views on the advantages and disadvantages of introducing a new requirement for a bid bond where applicants provide a deposit, either by cash payment, bank guarantee or letter of credit.

Speculative bidding hinders the effective procurement of renewable energy, therefore we agree with the introduction of bid bonds in order to deter this practice and ensure only committed bidders enter the market.

There are equivalent requirements in the Capacity Market for applicant credit cover. Consistency between the CfD regime and comparable obligations in the Capacity Market, so that all equivalent market participants are subject to similar costs, regulations and rules ensures fair competition between low carbon technologies.

To limit the impact of developers speculating on declining capex costs, timeframes between bidding and project delivery should be kept to a minimum.

27. The government welcomes views on whether a bid bond would be practical for smaller projects. If difficulties are foreseen, what are they, what mitigation might apply and in respect of what size of project?

The bid bond should be applied uniformly irrespective of size. The rate per MW appropriately differentiates between projects of different size.

28. The government welcomes views on what a suitable level for a bid bond would be: would £10,000 per MW be effective and practical?

We agree with this level. Setting bid bonds at £10,000 per MW is in line with the Capacity Market, which ensures there is consistency across the energy market, without being prohibitively high. Setting the limit uniformly at just £10,000 in total would be too low to disincentivise speculative bidding, particularly for larger projects.

Technical changes to future rounds

The government welcomes views on:
30. Whether you agree the government should introduce the flexibility to apply any capacity cap, maxima and minima as either a soft or hard constraint, set on a round by round basis?

It is more appropriate to set the cap on a budget basis in order to increase competition and to procure MWh for the lowest cost. This approach is in line with the government's aim to bring more renewables online at a cost that is fair for consumers and represents value for money. There should be one clearing price per delivery year rather than each auction, because each auction could cover multiple delivery years.

35. What, if anything, could be changed in the CfD scheme to facilitate the co-location of storage with CfD projects?

As we move to a system more dependent on renewables, there will be increasing reliance on products like demand side response and other flexibility technologies. Co-location of storage, or hydrogen production by electrolysis, provides one potential solution to the problem of intermittency.

As identified in the consultation, the existing arrangements already provide for appropriate treatment of co-located projects; where a separate Balancing Mechanism Unit is not necessary if the generator can demonstrate to the LCCC's satisfaction that the meter ensures that their storage technology only stores electricity generated by the CfD project and does not store electricity imported from any other source. To avoid the potential risk of assets receiving multiple different forms of support, it may also be necessary to introduce arrangements to be able to trace storage assets. This is to ensure that assets do not receive double payments or are counted twice in different markets, such as the Capacity Market, if they are in receipt of support through a CfD.

Negative pricing

36. Do you have any views on the proposal to extend the negative pricing rule? Please include in your response any specific evidence in relation to the incidence and impact of negative pricing.

We support the proposed change to the treatment of negative pricing periods which could incentivise generators to invest in alternative technologies to ensure surplus electricity is utilised, such as battery storage or hydrogen production from electrolysis.

Phasing

39. The government welcomes views on the benefits, such as successful delivery of projects or reduced costs for consumers, that would result from extending the Milestone Delivery Date for: (i) the project commitments route only, or also (ii) the 10% spend route.

Ensuring consistency between technologies and across markets, such as the Capacity Market (CM), is important to ensure a competitive market framework for all technologies to compete in the energy market.

Currently, the Milestone Delivery Date ("MDD") is defined in the CfD as being 'the date occurring twelve (12) months after the Agreement Date'. However, in the CM 'A Capacity Provider of a Prospective CMU will be considered to have met its Financial Commitment Milestone obligation if, by no later than 16 months after the Auction Results Day for the Capacity Auction in respect of which the Capacity Agreement was awarded'. Given this discrepancy, we would support bringing the MDD into line with the CM, to ensure consistency in the rules.

We do not support a change to the 10% spend route as this is already in line with the CM rules.