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Response to: Hydrogen production and industrial carbon capture business models – Consultation on revenue support regulations relating to directions to a counterparty, publication of information and eligibility

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Düsseldorf-based Uniper is an international energy company with activities in more than 40 countries. With around 7,000 employees, it makes an important contribution to security of supply in Europe. Uniper's core businesses are power generation in Europe, global energy trading, and a broad gas portfolio.

Uniper procures gas – including liquefied natural gas (LNG) – and other energy sources on global markets. The company owns and operates gas storage facilities with a capacity of more than 7 billion cubic meters. Uniper plans for its 22.5 GW of installed power-generating capacity in Europe to be carbon-neutral by 2035.

The company already ranks among Europe's largest operators of hydroelectric plants and intends to further expand solar and wind energy, which are essential for a more sustainable and autonomous future.

Uniper is a reliable partner for communities, municipal utilities, and industrial enterprises for planning and implementing innovative, lower-carbon solutions on their decarbonisation journey. Uniper is a hydrogen pioneer, is active worldwide along the entire hydrogen value chain, and is conducting projects to make hydrogen a mainstay of the energy supply.

In the UK, Uniper owns and operates a flexible generation portfolio of seven power stations and a fast-cycle gas storage facility.

Consultation Response

We have set out below our answers to the consultation questions, and highlight here:

- For transparency, government should mandate the publication of the strike price and reference price and of the funding paid to projects.

- However, publishing the split of costs within the strike price or the strike price deduction for CCS-enabled projects in the event of CO_2 T&S outage, would commercially disadvantage early-mover projects, without informing future competition.

Our views in full

1. Do you agree with the proposals relating to the Secretary of State's power to direct a counterparty to offer to contract?

Yes. We would appreciate more information on the conditions under which the Secretary of State might revoke a direction to offer to contract.

2. Is there any information not listed in Table 1 you think should be published in a contract register?

No.

3. Is there any information in the contracts you think should not be published?

Yes. The split of costs within the strike price should not be published, nor the strike price deduction for CCS-enabled projects in the event of CO2 T&S outage. This information will be commercially sensitive, will not inform future competition, and could prejudice the ability of projects to negotiate supply contracts.

It is particularly unclear why government is proposing to mandate the publication of input fuel costs only for CCS-enabled projects, which would leave them more commercially exposed than electrolytic projects. Like electrolytic projects, CCS-enabled projects will negotiate their input fuel costs through direct contracts with fuel providers: publishing their negotiated costs could damage future negotiations.

The strike price deduction for CCS-enabled projects is likely only to apply to early projects, as subsequent projects will be able to make informed risk assessments about T&S operation, based on real performance, and factor that into their strike price bids. Publishing this information could commercially disadvantage early-mover projects, without informing future competition.

Government should mandate the publication of the strike price and reference price and of the funding paid to projects, to inform future projects. You should also should provide guidance recommending the publication of more detailed information within this. This would encourage information sharing to benefit the market, whilst leaving operators free to withhold any information whose publication would damage their commercial interests.

4. Do you agree with the proposal for including a requirement in regulations on the counterparty to promptly notify the Secretary of State at the point that it considers that it may become unable to carry out its functions (in addition to the formal 3-months' notice period in the Bill)?

Yes.

5. Do you agree with the proposal that new hydrogen production capacity added to an existing production facility would be eligible for support?

Yes. This is consistent with other market mechanisms, such as the Capacity Market.

6. Do you agree with the proposals for the type of entities that can be party to a LCHA?

Yes.

7. Do you agree with the advantages and disadvantages set out under option 1? Are there any other considerations for option 1 that we should take into account?

We agree. It is not clear why hydrogen derivatives and carriers would not be considered eligible. In addition to the advantages and disadvantages set out in the consultation document, government should note the complexity of option 1.

8. If we proceed with option 1, do you agree with the list of proposed feedstocks?

We agree the proposed list, but do not agree that you should proceed with option 1.

9. Do you agree with the advantages and disadvantages set out under option 2? Are there any other considerations for option 2 that we should take into account?

We agree. Again, option 2 complex – it is also prescriptive and could require frequent amendment to the regulations. The disadvantages for this route are considerable.

10. If we proceed with option 2, do you agree with the proposed pathways set out in Table 2?

We agree the pathways, but do not agree that you should proceed with option 2.

11. If we proceed with option 1 or option 2, do you agree with the proposal to only mandate installation of CCS for fossil fuel feedstocks?

Yes, although the installation of CCS on biogenic feedstocks should be incentivised, to drive CO2 removals.

12. Do you agree with the advantages and disadvantages set out under option 3? Are there any other considerations for option 3 that we should take into account?

We do not agree that it is very challenging for the regulations to refer to the live standard. It is straightforward, has some advantages, and the disadvantage can be managed through the lead time between announcement and application of a new standard. Parliament will not consider the regulations very often: when it does, government can provide the current standard. Referring to the standard would leave technology and feedstock options entirely open, require less frequent revisions of the regulations, and reduce the carbon intensity of new projects over time in line with the standard. There would be no need to make provision for grandfathering in the regulations as they are only about entering into contracts: updating the standard would therefore not affect existing contracts.

The main downside of option 3 would be the potential for the standard to change between investment decision and contract signature, which would add uncertainty for investors. This could be managed by having regular but not frequent reviews of the standard, and a long lead time, e.g. at least 24 months, between a new standard being announced and being introduced.

13. Which of the proposed options to define eligible low carbon hydrogen production pathways do you prefer: i) Set out eligible feedstocks, ii) Set out eligible production pathways, iii) Refer to a fixed version of the standard or iv) Refer to the live standard

The regulations should refer to the live standard.

14. Are there any other approaches to define eligible low carbon hydrogen production pathways which would achieve our policy aims whilst also meeting the Bill definition of a "low carbon hydrogen producer"?

No.

15. Do you have any other comments on the proposals for the hydrogen eligibility regulations?

No.

16. Do you agree with the proposal to take a technology neutral approach, and not place restrictions within regulations on the types of technologies that may be used by a carbon capture entity to capture carbon dioxide?

Yes.

17. Do you agree with the approach to not limit within regulations the class of person that may be eligible for a revenue support contract?

Yes.

18. We have proposed to exclude from eligibility entities that capture carbon dioxide which have been produced from a power generation facility that is solely connected to the transmission or distribution network (exempting CHP and EfW facilities). Do you agree with this proposed approach?

Yes. However, a generator that is connected to a private wire could still operate as a normal power station and sell the majority of its output to the transmission or distribution network. Therefore, the eligibility requirement should be tightened to require eligible plant to supply at least 70% of their electricity output to industrial facilities, consistent with the eligibility requirements for CHPs.

19. In drafting the regulations, we propose to define a generating station, a combined heat and power generating station and an energy from waste with CHP station, based upon similar definitions laid out in the Contracts for Difference regulations. Do you have any comments on this approach?

No.

20. Do you agree with the approach to exclude from eligibility a carbon capture entity which is, without already being party to a revenue support contract, capturing carbon dioxide with a view to its permanent geological storage through an existing or operational CCUS plant?

Yes.

21. Do you have any other comments on the proposals for the industrial carbon capture eligibility regulations?

No.