Electricity & Market Arrangements

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Response to: Capacity Market Consultation on proposals to improve security of supply and align with net zero (Phase 2) and call for evidence on Ten-year Review
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About Uniper

Düsseldorf-based Uniper is an international energy company with activities in more than 40 countries. The company and its roughly 7,000 employees make an important contribution to supply security in Europe, particularly in its core markets of Germany, the United Kingdom, Sweden, and the Netherlands.

Uniper's operations encompass 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 total capacity of more than 7 billion cubic meters.

Uniper intends to be completely carbon-neutral by 2040. Uniper aims for its installed power generating capacity to be more than 80% zero-carbon by 2030. To achieve this, the company is transforming its power plants and facilities and investing in flexible, dispatchable power generating units. Uniper is already one of Europe's largest operators of hydropower plants and is helping further expand solar and wind power, which are essential for a more sustainable and secure future. The company is progressively expanding its gas portfolio to include green gases like hydrogen and biomethane and aims to convert to these gases over the long term.

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, a fast-cycle gas storage facility and two high pressure gas pipelines. We also have significant long-term regasification capacity at the Grain LNG terminal in Kent, to convert LNG back to natural gas.

Consultation Response

In summary:

- The Capacity Market (CM) has proven to be effective in attracting investment towards maintaining a secure power supply;
- To give longer term clarity for investors, government should urgently bring forward emissions thresholds for new build and confirm the transition route to the CM for low carbon plant at the end of a 15 year dispatchable power agreement (DPA).

Our more detailed answers on the issues raised in the consultation follow below, and include areas in which the operation of the CM can be improved to reduce bureaucracy and complexity and help minimise participant error.

Part A: Consultation on proposals to improve security of supply and align with net zero

Question 1: Do you agree with the proposed changes to the timelines for ESC Volume re-allocation activities and the Volume Re-allocation window? Are there any unintended consequences of these changes?

Yes. The changes are appropriate to align with realistic delivery of accurate data.

Question 2: Do you have any comments on supporting changes to other settlement activities that may be required following the changes to Regulation 41(2)? Do you have any comments on the correction to Regulation references in Rule 10.5?

Regulations should be corrected so that the process works as intended.

Question 3: Do you agree with the proposed temporary rule change to operational requirements for Existing Generating CMUs which are mothballed? Does this proposal create any unintended consequences?

This is the third temporary extension to allow mothballed plant to prequalify using operational data which is more than 24 months old. Presumably in practice this would now become operational data from plant which hasn't run for an even longer time period, and which represents a growing risk to security of supply. If the rule is extended then the plant in question should post collateral until it has completed its SPDs to prove that it is still capable of operating at historic levels. Government should bring forward policy to ensure that there are enough operational CMUs to end this temporary rule change.

Question 4: Do you agree with the proposed amendment to Regulation 50 so that it aligns with the policy intent and CM Rules, in that failure to meet EPTs are to be treated in the same ways as failure to meet SPDs across suspension of payments? Does the proposed amendment have any unintended consequences?

Yes, we agree with proposed amendment.

Question 5: Do you agree with the proposed amendment to add further detail to Regulation 16 (2) to clarify that that a CMU can only be prequalified where no CfD has been awarded in respect of it, even if the CfD is for a later delivery period, unless the

CfD in question has expired or been terminated? Does the proposed amendment have any unintended consequences?

Yes, we welcome the amendment to provide additional clarity in the regulation.

Question 6: Do you agree with the proposals that we have put forward to help address barriers faced by storage CMUs in managing battery degradation? Specifically:

•The introduction of a definition of Permitted Augmentation under Rule 4.4.4; and

Yes. It is important that storage CMUs act, and are allowed to act, to maintain contracted delivery capacity.

•Enabling the level of EPT requirement to be appropriately reduced when secondary trading occurs.

Yes, this proposal is consistent with treatment of other CM technologies which secondary trade.

Question 7: Do you foresee any unintended consequences which could arise from the proposals set out in question 6?

No.

Question 8: Do you believe that other supporting changes are required to accommodate the proposals set out in question 6, for example changes to testing arrangements?

None of which we are aware.

Question 9: Noting the considerations outlined in section 6.1 of the consultation, do you have any further comments or concerns regarding the retention of the EPT framework for storage CMUs? Are there any further required changes which have not been identified or considered?

No.

Question 10: Do you have any further views on the proposed 3-year or 9-year agreement proposals?

We disagree with the proposal to introduce 3-year agreements for New Build and Unproven DSR capacity with a Capex threshold of £0/kW. DSR already benefits from additional flexibility in the rules compared with other types of capacity provider and we do not believe that the disparity should be extended in this way. Long-term agreements were introduced to support investments in projects with large capex requirements. The award of multi-year agreements to low capex CMUs distorts the market, potentially delaying required refurbishment and capex investment, and unnecessarily reducing liquidity in future year ahead capacity auctions.

We agree with the proposal for 9-year agreements. This should be made available not only for plant that meet the 100gCO2/kWh emission intensity, but also for new and refurbishing plant that meet the yearly emission limits of 350kgCO2/kW. This may bring forward some cheaper peaking plant projects that wouldn't be eligible for a 15-year

agreement, ensuring security of supply is met at the lowest possible cost for consumers.

Question 11: Do you agree with the proposed introduction of Declared Long Stops, both 12- and 24-month options, to accommodate low carbon projects with long build times in the CM?

No. The future electricity system will benefit from assets such as pumped hydro which have long build times, but the capacity market is not an appropriate mechanism to support such projects. The inclusion of projects in the T-4 auction which will have a later delivery year has two consequences, both of which undermine the good working of the capacity market. Firstly the auction fails to secure capacity for the target year, preventing investment in new projects which would deliver capacity in the target year. Secondly, if that capacity shortfall is moved into the T-1 auction for the same target year there is no guarantee that eligible capacity will be available to take part in the auction, leading to high clearing prices or potentially failure to secure sufficient capacity. None of these outcomes provide value for money for consumers.

Question 12: Does the option to declare a (12-month) Long Stop Date provide developers with any benefits versus relying on the existing Long Stop Date process?

[See response to Q11]

Question 13: Does a Declared Additional (24-month) Long Stop Date, Rule 6.7.7 (if applicable) and the existing 120 working days from a Notice of Intention to Terminate provide sufficient time for slippage, and if not, what would be an appropriate amount of time which would need to be considered?

[See response to Q11]

Question 14: Do you foresee any unintended consequences which could arise from the introduction of the declared long stop dates?

[See response to Q11]

Question 15: Do you agree with the proposed eligibility criteria for CMU's seeking to utilise the Declared Additional (24-month) Long Stop?

[See response to Q11]

Question 16: Do you agree with the proposed operational conditions for a Declared Additional (24-month) Long Stop?

[See response to Q11]

Question 17: Do you have views on the relationship between a CMU utilising the Declared Additional (24-month) Long-Stop and its role as Price Maker versus Price Taker in the CM auction(s)?

If the Declared Additional (24-month) Long-Stop were introduced, these CMUs should also be classified as Price Makers to ensure consistency with other projects seeking a 15-year agreement.

Question 18: Are there any further required changes for the implementation of a Declared Additional (24 month) Long-Stop which have not been identified?

[See response to Q11]

Question 19: Do you agree with the proposal for partial redaction of addresses on the CM registers for domestic DSR CMU components?

Yes.

Question 20: Do you agree with our proposed changes to component reallocation? If so, what percentage do you propose would be appropriate to set as the new limit?

Yes. The proposed changes are proportional and pragmatic to enable DSR participation in the CM.

Question 21: Do you agree with the above proposed changes to the Extended Years Criteria? Are there any unintended consequences of these changes?

Yes.

Question 22: What are your views on the creation of new GTCs for DSR and which new classes should be created? Please provide evidence to support your response.

It is likely that different DSR technology types will have a wide variety of different availability profiles and there is no guarantee that defining new GTCs will accurately reflect the degree of variation that exists. There is already significant flexibility in the CM rules for DSR, including the opportunity to reduce capacity close to the time of confirming entry to the auction which should allow providers to manage their positions. The best information is available to the DSR provider who can decide what risk to take. Retaining the status quo would leave risk with the party best placed to carry the risk, the DSR, and avoid requiring the ESO to undertake further complicated analysis for possibly limited gain.

Question 23: Do you have any comments or concerns regarding our proposal to publish the fossil fuel emissions data (as stated above), disclosed in the Fossil Fuel Emissions Declaration on the Capacity Market Register?

The primary variable in the fossil fuel emissions declaration is the design efficiency of the Capacity Market Unit (CMU). Publishing individual CMU design efficiencies would result in the disclosure of commercially sensitive information to competitors. Moreover, design efficiency represents the best-case scenario at nominal load and does not encompass emissions during start-up, shut-down, or part-load operation. To provide a more comprehensive picture of real-world emissions and protect commercially sensitive data, a better approach might be to combine UK Emissions Trading Scheme (ETS) emissions data with Balancing Market Reporting Service generation data to calculate an annual carbon intensity metric. This approach would strike a balance between transparency and safeguarding competitive interests, while also offering a more accurate representation of emissions.

Part B: Ten-year Review call for evidence

To avoid repetition we have not answered each specific question raised in Part B, but have set out our views on a number of issues below.

Achievement of and ongoing suitability of the CM Objectives

In broad terms the CM has been successful in delivering against its intended objectives and is an important part of the current market structure. It has maintained security of supply and has generally incentivised sufficient investment in new capacity in a cost effective way. There have been some unintended consequences, such as the installation of diesel reciprocating engines in the early years, but none that have significantly undermined the objectives.

The objectives remain relevant and do not need to be revised. The CM has provided market participants with certainty and thus enabled investment and ensured security of supply – this certainty is important; the industry needs a clear vision of how the CM will interact with REMA and wider decarbonisation policies.

The primary purpose of the CM to ensure security of supply continues to be essential, alongside those policy instruments which are intended to drive decarbonisation such as the UK ETS. However, the CM should not create barriers to decarbonisation and should complement those policies. To this end the CM should limit emissions according to the method outlined in the Capacity Market 2023 Consultation[1] and the proposed limit introduced before the next prequalification window. Any unabated new build projects that are successful in obtaining a 15 year agreement in the next auction will have a CM agreement until 2042, and 6.1 GW of unabated new build capacity already has a CM agreement beyond 2035, which undermines the government aspiration to have a decarbonised power sector by 2035.

The role of interconnectors

Government should revisit the role of interconnectors in the CM. Security of supply for GB consumers would be better met by direct participation of overseas generators in the CM. Flows across interconnectors are determined by market prices and interconnector owners have limited (if any) influence over flows during a system stress event despite having committed to meet the terms of a CM agreement.

Cost effectiveness

Cost effectiveness of the CM is not solely reflected in the auction clearing price. Wholesale prices, Balancing Mechanism costs and ancillary service costs are likely to be reduced when plant margins are higher. Overall customer cost results from the combined impact of all of these individual elements and it would be over simplistic to assume that a minimal cost in the CM price alone represents overall maximum value for customers. To that end, targets for CM auctions should be set so as to avoid cost shocks being experienced in other market mechanisms as a result of procuring insufficient capacity.

[1] Capacity Market 2023 consultation Strengthening security of supply and alignment with net zero (capacity-market-2023-consultation.pdf (publishing.service.gov.uk))paragraph 3.2.2

CM administration and governance

There are several areas of the administrative and governance processes with room for improvement.

The prequalification process is overly bureaucratic and complex, with applications failing for seemingly small and inconsequential errors. Parties with existing plant applying to bid for annual agreements are forced to submit the same information year after year, which represents a significant resource burden for industry and delivery body alike. The much delayed delivery portal may or may not address some elements of this issue. The delivery body appear unable to improve and streamline the process.

In the past the rule change process has been less effective than it could have been. It is hoped that the creation of CMAG and its interaction with Ofgem will improve this situation and we have started to see the first results from this new process. The government should closely monitor the enduring progress and performance of this arrangement to ensure that rule changes are introduced in a timely manner to maintain the effective working of the CM.

In order for participants to better understand their obligations, we would ask that a consolidated version of the Capacity Market Regulations is published. This has been requested a number of times by industry participants, but up to now has not been seen as a priority. A significant number of changes have been made to the Regulations over the past decade and a consolidated document, simpler to those already provided each year for the CM Rules, would help reduce the significant effort and scope for error associated with referring to multiple sets of amending regulation documents.

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