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Response to: UK Emissions Trading Scheme: Future Markets Policy

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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 decarbonization 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. Our views in summary:

- Most of the risks you identify would be mitigated if the UK and EU ETS markets were linked.
- The UK ETS would benefit from the introduction of a quantity-based SAM to stabilise market prices.
- The ARP should be removed and replaced with a reverse CCM, which would be more market-based and increase market certainty.

Our views in full:

1. Do you agree with the key risks we have identified? (Yes/No). Please provide any supporting evidence in your response.

Yes.

We note that the risks you identify would be mitigated if the UK and EU markets were to be linked, increasing liquidity and decreasing the risk and impact of market shocks. To ensure that linkage could happen in future, it is important that any new mechanisms in the UK ETS are not incompatible with the EU ETS.

2. Are there any alternative risks to those listed above that the Authority should consider? (Yes/No). Please provide any supporting evidence in your response.

No

3. Do you believe that the UK ETS would benefit from the introduction of a supply adjustment mechanism to address demand shift with long-term impacts risk? (Yes/ No). Please explain the reasons for your response.

Yes.

A SAM is a flexible tool as it can protect against allowance prices falling below a certain level by restricting supply, whilst also creating a reserve of allowances that can be used to adjust the market when supply is too tight. In the current, tight, UK market, the SAM should be created from unallocated allowances and/or borrowed from future allowances.

4. If so, do you have a preference for a) a quantity-triggered supply adjustment mechanism or b) a price-triggered supply adjustment mechanism, as the best means of addressing this risk? Please give your reasons for your preference and response.

A quantity-based SAM is preferable, as it is more predictable and market-based. In addition, a quantity-based SAM is similar to the EU ETS Market Stability Reserve (MSR), which would make it easier to link the two regimes in the future.



5. Do you agree with the Authority's minded-to position on the introduction of a quantity- triggered SAM? (Yes/ No). Please give your reasons for your response.

Yes. A quantity-based SAM will protect against allowance prices falling below a certain level by restricting supply, whilst also creating a reserve of allowances that can be used to adjust the market when supply is too tight. It will also be a predictable market-based instrument.

6. Do you agree with the proposed approach for calculating the UK ETS TNAC? (Yes/ No) Please give your reasons for your response.

Yes.

7. If you disagree with the proposed approach, please suggest an alternative approach and your rationale for this?

N/A

8. What is your view on what level of surplus constitutes a) an optimum level of surplus in the scheme, that would allow for effective functioning of the market and b) how could this be assessed including in terms of methodology? Please give your reasons and evidence you may have for your response.

We cannot answer this question, which will require modelling. It is clear that the level of surplus must be measured as a percentage of future demand. What this percentage might be is the key question. It is likely that it will have to be kept under review as the UK ETS cap reduces

9. Do you have a view on what level a) the upper quantity trigger threshold and b) the lower quantity trigger threshold should be in a UK ETS SAM? (Yes/ No). Please give your reasons and any evidence to support your response.

No, although again these thresholds will need to be related to future demand.

10. How reactive should the upper and lower thresholds be, for example should each threshold have a sliding scale of supply adjustment? Please give your reasons and any evidence to support your response.

This will depend on how the thresholds are calculated, and the degree of confidence government has in its modelling.

11. Has the Authority identified all types of triggers that should be considered; or are there any other types of trigger thresholds that should be considered? Please give your reasons for your response.

Yes.

12. Do you agree that relative trigger thresholds would be more appropriate than absolute static thresholds? (Yes/ No). Please give your reasons for your response.

Yes. Thresholds need to be relative to future demand to ensure that they stabilise the market and adapt as the supply of allowances decreases over time.



13. If you agree, what is your preference – relative trigger threshold values a) as a proportion of the annual UK ETS cap or b) relative to annual auction volume.

Our preference is for relative trigger threshold values to be relative to auction volumes, as free allocation doesn't need to be hedged. We do not agree that the thresholds should be reviewed annually; there would be greater market certainty if they were reviewed less frequently, such as every two years, using 3-year aggregated auction volumes.

14. What is your view on what the appropriate level of auction volume adjustment should be? Please give your reasons and any evidence for your response.

The UK ETS should follow the EU example, where the adjustment is a proportion of TNAC – i.e. a relative measure, not a fixed amount.

15. Do you have a preference for this adjustment to be a percentage of annual auction volume, or other fixed amount, a combination of both or any other metric? Please give your reasons for your response.

We prefer the adjustment to be relative, though not necessarily to the annual auction volume. As for the trigger threshold, this could be set less frequently, using aggregated data.

16. Do you agree with the proposed TNAC publication timing of post compliance in spring? (Yes/ No). If not, please explain your reasons.

Yes.

17. What is your view on auction supply adjustment timings if the SAM is activated? Please give details of your preferred timings and rationale for this.

It is important that the SAM and the annual adjustment mechanism do not both try to fix the same issue at the same time. So the April surrender of annual emission allowances should be followed within a month or two with the standard market adjustment, with SAM activation following this reconciliation if required.

18. Should auction volume require adjustment due to SAM activation, do you agree that the Authority should endeavour to preserve approximate equal auction volume distribution in the time period affected by this adjustment? (Yes/ No). Please give your reasons for your response.

Yes.

19. In your view, when, in terms of scheme year, should any quantity-triggered SAM be implemented into the UK ETS, meaning the SAM would begin operating the following year post compliance period? Please explain your reasons for your response.

Any time other than immediately before the April surrender will work without destabilising the market.

20. Do you have any views on the interactions between any quantity-triggered SAM and the ARP and CCM? Please give your reasons and any evidence for your response.

Yes, ARP should be replaced with a reverse CCM to protect against downward price shocks. The SAM and CCM mechanisms should work well together – they do in the EU ETS. The CCM deals with sudden price increases, so as long as certificates released under the CCM are accounted for in the SAM there should not be any double-triggering of the two mechanisms. This is also true of a reverse CCM and the SAM.

21. Do you agree with the Authority's assessment of each of the options considered? (Yes/No). Please provide any evidence in support of your answer.

Yes.

22. Are there any alternative options to those listed above that could be implemented by the Authority to address the risk of a sudden, sustained and significant price decrease in the UK ETS market? If so, please describe how the mechanism functions.

No. Of the options considered, we prefer a reverse CCM

23. Do you agree with the Authority's minded to position to retain the ARP? (Yes/No). Please provide any evidence in support of your answer.

No. The ARP should be withdrawn. It creates uncertainty as it is a price arbitrarily determined by government that can be changed at short notice, if the political decision is made to do so.

24. Do you think that an alternative policy option, such as any of the options previously discussed in this chapter, should be implemented in conjunction with the ARP? (Yes/No). If so, please elaborate.

No. The ARP should be withdrawn and replaced with a reverse CCM.

A reverse CCM would protect against sudden price falls, whilst an SAM would stabilise the market and help prevent more gradual price decreases.

25. Do you think the ARP trigger level should be changed? (Yes/No). What level do you think the ARP should be set at? Please provide a rationale for your answer.

We do not think there should be an ARP at all.

26. Do you think the ARP trigger level should remain static or should it evolve over time? If you think it should evolve, how do you think the Authority should design this evolution? Please provide a rationale for your answer.

An evolving ARP trigger level would improve the way the ARP functions, bringing it more in line with a reverse CCM. The evolution should be linked to the market, such as a price based on a rolling historical average minimum price. This would decrease the arbitrariness of the ARP.



27. Do you think the Authority should alter the way an ARP trigger affects auction supply? If so, please explain how you think this should be changed.

No.

28. Are there any other ways the Authority could alter an ARP to make it more effective? If so, please explain these alterations.

The ARP would be more effective if it was linked to the market rather than arbitrarily determined by government.

29. Do you agree with the Authority's assessment of each of the options considered? (Yes/No). Please provide any evidence in support of your answer.

Yes.

30. Are there any alternative options to those listed above that could be implemented by the Authority to address the risk of a sudden, sustained and significant price increase? If so, please describe how the mechanism functions.

No.

31. Do you believe the CCM should be retained with no adjustments? (Yes/No). Please provide any supporting evidence in your response.

Yes. The CCM is working well.

32. Do you believe the current CCM thresholds should remain? (Yes/No). Please provide any supporting evidence.

Yes.

33. If no, should the CCM thresholds be made more reactive by changing the multiplier, trigger period and/or reference period? Please provide any supporting evidence.

No, we think the CCM is working well

34. Do you believe the CCM trigger methodology should be based on historical comparisons or a fixed price? Please provide any supporting evidence.

The methodology should be based on historical comparisons. This will allow it to move with the market. A fixed price is arbitrary and liable to be wrong.

35. Are there alternative methods we should consider when setting the CCM trigger price? Please provide any supporting evidence.

No.



36. Do you believe that the CCM should retain discretion in its decision-making process? (Yes/No). Please provide any supporting evidence.

Yes. The discretion that the CCM has is working well, and allows government only to intervene if there is something suspicious affecting the market, so we support that the CCM should retain it. Having said that, a discretionary power does not offer predictability, so we would welcome some industry guidance on how it will be used.

37. If no, do you believe the CCM should have a fully or partially automated response following a trigger? If so, please describe how this could function.

N/A

38. Are there any other design changes not listed above that would improve the effectiveness of the CCM?

No.

39. Do you have any views on the approach to reserve allowances in the UK ETS or anything you would like the Authority to consider when making decisions on its size and structure?

The authority needs to consider the need for the reserve to be responsive to the market circumstances, rather than fixed. Flexibility needs to be designed in from the outset.