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Response to: BEIS Proposals for technical amendments to the Capacity Market

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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 welcome this consultation and have addressed each of the questions in turn below. Our views in summary:

- We agree with the proposed replacement T-3 auction for the 2022/23 Delivery Year. This is important to procure sufficient capacity to secure supply for that period.
- The four-week period between the T-3 and the T-4 auctions is adequate as long as the parameter changes for the T-4 auction are limited to corrections to the Demand Curve to reflect multi-year agreements awarded in the T-3 auction.
- To allow credit cover and other delivery milestones to be facilitated, once the legal framework for the T-3 auction is in place, there should be a set eight-week period prior to the start of the auction.
- Participation of wind and solar capacity not receiving a subsidy should be allowed and be subject to equivalent obligations as for other types of technology and capacity.
- As long as interconnectors are participating instead of cross border capacity providers, we agree with removing the historic floor to the interconnector de-rating methodology.



1. Do you agree with the proposal to run a T-3 auction for delivery year 2022/23?

We agree with the proposed replacement T-3 auction for the 2022/23 Delivery Year. This is necessary and important to procure sufficient capacity to secure supply for that period.

2. Do you agree that the amendments to the usual T-4 auction design/process proposed above are appropriate for this T-3 auction?

We do, although we would ask, if it is technically possible, that the previous prequalification submissions from the cancelled T-4 auction be rolled over and enable a simple reconfirmation of the T-4 prequalification submission where there have been no changes. Prequalification is a resource intensive process, reducing this given the number of auction processes expected this year would be a helpful step.

If new prequalification submissions are required, it would be helpful if the reference period for the required historic half hour performance data could be clarified.

3. Are there any further issues that the Government should consider in implementing the T-3 auction?

The auction timeline needs to allow sufficient time for participants to assess any impact of T-3 outcomes on the future market outlook for assets participating in the subsequent T-4 auction and obtain necessary internal approvals ahead of the T-4 auction. Otherwise, we may see inefficient outcomes as participation is based on scenarios of potential T-3 auction results rather than actuals. The four-week period proposed is adequate as long as the parameter changes are minimal.

In this unique situation we ask that the parameter changes for the T-4 auction are limited to corrections to the Demand Curve, to reflect multi-year agreements awarded in the T-3 auction.

Changes to the opt-out and price taker rules covering the T-4 auction should also be introduced to avoid any risk that existing capacity providers are obligated to offer assets that are unsuccessful in the T-3 into the T-4 at uneconomic prices. We propose an opt out window for existing plant in the T-4 auction that were unsuccessful in the T-3 auction.

Once the required changes to the Regulations and Rules for the T-3 auction are in place the programme for the T-3 and T-4 auctions should be fixed. To allow credit cover and other delivery milestones to be facilitated as well as allowing for internal approvals, there should be a set eight-week period prior to the start of the T-3 auction.

To avoid the need to bring further regulatory changes in the event that State Aid clearance has not been granted prior to the start of the T-3 auction, we propose that similar contingency measures as for the replacement top-up T-1 auction are put in place, such as awarding conditional agreements pending state aid approval.

4a. Do you agree with the addition of generating technology classes for these renewable technologies to Schedule 3 of the CM rules?

Yes. Participation of wind and solar capacity not receiving a subsidy should be allowed. It should be subject to equivalent obligations as for other types of technology and capacity provider.



4b. Are you in agreement that the Equivalent Firm Capacity methodology should be applicable to wind and solar technologies, if and when it is deemed appropriate by the Delivery Body? If not why not and what alternatives would you propose, if any?

The use of the incremental Equivalent Firm Capacity methodology is appropriate and certainly seems to be most appropriate for new build. This should also be applied to existing plant to ensure consistent treatment.

National Grid's analysis indicates the sensitivity of aggregate derating factors to changes in capacity mix on the system. In line with the approach to determining interconnector de-rating factors, we would expect the final calculation to reflect expected market developments. It is particularly important to set out further detail of the proposed treatment of any new build renewable capacity if it is proposed that such capacity will be eligible for long term agreements.

4c. Are you aware of any additional Low-Carbon Supports or funding programs that need to be accounted for or monitored to ensure that wind and solar technologies participating in the CM are not receiving State aid from other sources?

An additional item for inclusion should be renewable energy generation relief available in Scotland¹, which provides scalable relief from business rates to qualifying projects.

4d. Do you agree that the existing approach of separately de-rating the component technologies included in a hybrid CMU containing renewable technologies is appropriate to use until reliable data on their observed performance is available? If not, what alternative methodology would you propose?

Separately de-rating the component technologies is the correct approach. Hybrid CMUs should be treated consistently with individual technologies submitted as separate CMUs. Doing otherwise will potentially introduce new market distortions. Future hybrid CMUs can compete in the same way as hybrid OCGT/coal CMUs have competed in previous auctions, through aggregated de-rate factors.

4e. Do you have any evidence of the impact the addition of technologies noted in 4a will have on your business, or are you aware of any impacts we have not considered above?

The relationship between the volume of renewable technologies purchased and both the appropriate de-rating factors and the required Target Capacity needs to be considered, and a mechanism for adjustments put in place. If multi-year contracts are available for these technologies, it may be appropriate for the Secretary of State and Delivery Body to revise the de-rating factors depending on the volume of renewable technology successful in an auction.

5a. Do you agree that the historical 'floor' should be removed from the legal interconnector de-rating methodology? What are your views on how historical data should be used in future to inform the setting of interconnector de-ratings?

As long as interconnectors are participating instead of cross border capacity providers, we agree with removing the historic floor to the interconnector de-rating methodology.

¹ <https://www.mygov.scot/business-rates-relief/renewable-energy-generation-relief/>



In the case of existing interconnectors, we would propose that the forward-looking assessment should be optimised against actual historic technical availability, which should place a cap on maximum de-rate factors in evaluating modelled scenarios.

5b. Do you have any further comments or suggestions on the proposed interconnector de-rating methodology?

The modelling approach is limited by the extent of the input assumptions for future market behaviour. As with any optimisation model, we believe there is a risk that the model could overestimate the flexibility of the system and its ability to use the full potential of interconnectors. An adjustment factor should be applied to the model results to mitigate the modelling limitations. These factors could be based on a country specific back-cast analysis of National Grid's model.

6. Do you agree with these proposed corrections and additions?

Yes.