By email: futureelectricitysecurity@energysecurity.gov.uk

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

Uniper

Registered in
England and Wales
Company No 2796628

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

Response to: Capacity Market consultation on proposals to maintain security of supply and enable flexible capacity to decarbonise

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About Uniper

Düsseldorf-based Uniper is a European energy company with global reach and activities in more than 40 countries. With approximately 8,000 employees, the company makes an important contribution to security of supply in Europe, particularly in its core markets of Germany, the UK, 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 the early 2030s. 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 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:

- We agree that three-year refurbishment agreements can support security of supply, but would like to see more analysis of the market impacts of the proposed £50/kW capex threshold.
- For pathway A to be effective, it will be critical to align DPA and CM timelines, and government should set out more information on how this will work.

Our views in full:

1. **Do you support the proposal of changing the CM to reduce capacity risks by facilitating investment to extend the lifetime of CMUs? Can you tell us what you would do differently if the proposal is implemented?**

We agree the need to ensure security of supply during the transition to a net zero power system. In principle, we believe that three-year agreements that facilitate the lifetime extension of CMUs are beneficial: if their absence means that assets close we will see capacity gaps in the 2030s and risks to security of supply, which will potentially impact liquidity in the market. three-year refurbishment agreements can support stability in the market framework, which is essential for ongoing investment and operation of flexible generation assets.

However, we have concerns that the market impact of the proposal to lower the capex threshold to £50/kW has not been properly tested; we believe it could have negative impacts on the liquidity of the CM auctions. We'd like to see more analysis of how this proposal fits with existing market design and what it could mean for procurement in the T-1 and T-4 auctions.

We would also like to see the outcome of the current auction cycle, which will see the introduction of the proposal of a £135/kW capex threshold with a 77 month window, before making further changes. Constant change does not support market stability, and we should ensure we understand impact of previous market changes before making more.

2. **Do you agree that lowering the capex threshold in this way would achieve the desired outcome? Please provide detail with your answer.**

We certainly agree that reducing the capex threshold is likely to increase the number of CMUs applying for three-year agreements. We would like to see analysis of how it would fit with existing market design and what impact it could have on procurement in auctions, as well as more detailed information about prequalification criteria that might be needed to prevent gaming.

3. **Do you agree with the proposed reference cost level underpinning the new capex threshold? Do you have any evidence that this specific cost level would overcome existing barriers? If you disagree, please provide evidence for an alternative reference cost level.**

We believe the existing £135/kW threshold will support lifetime extension for security of supply without offering refurbishment agreements for what might otherwise be undertaken as part of routine maintenance.

4. **In your opinion, would this proposal result in a gaming risk; and would the proposed Independent Technical Expert certification be sufficient to mitigate the risk? If not, what other safeguards do you think should be put in place?**

Yes. As is needed for the existing three-year refurbishment agreements, mitigation of this risk would require the Independent Technical Expert to identify which capex relates to extending the plant's life and is therefore applicable against the threshold. It is likely that the Independent Technical Expert will require increased resource to assess a potentially much higher number of bids for three-year refurbishment agreements.

5. **Do you have any views on how the proposed Independent Technical Expert certification should be implemented in a way that is proportionate and reasonable?**

We do not have a particular view on this but given the need for this to be robust we are concerned about the impact on already overstretched Technical Expert resources.

6. **Are there any potential unintended consequences or risks that you think the government should consider?**

The government should assess the potential impact of this proposal on liquidity in the CM.

7. **What impact does a proposal for plants in England to demonstrate compliance with upcoming DR requirements have on plant participation in prequalification in 2025 and the early 2026 T-4 auction?**

As the CM is UK based and DR in England is different to DR in other UK nations, this proposal could create market distortion unless the devolved nations implement identical regulations. Placing DR requirements only on plants in England will create an unfair playing field, potentially creating a market for unabated plant smaller than 300MW outside of England which could obtain multi-year CM agreements without a clear decarbonisation plan.

There is a possibility that some plant that are not required to meet CCR under the terms of their existing planning consent may chose not to participate in the CM, reducing auction liquidity.

There is also the possibility that some plant may not be able to prequalify, as the DR requirements only consider CCS and hydrogen as decarbonisation routes. For some plant, neither of these options may be practical or cost effective. The DR regulation needs to acknowledge that there are other decarbonisation routes / fuels available, e.g. HVO.

8. **Do you foresee any difficulties in prospective plants being able to comply with the proposed requirements under Option A? If so, please say what they are.**

No.

9. **Do you foresee any difficulties in prospective plants being able to comply with the proposed requirements under Option B? If so, please say what they are.**

No.

10. **Do you foresee any difficulties in prospective plants being able to comply with the proposed requirements under Option C? If so, please say what they are.**

No.

11. **Which option do you prefer? Please explain why.**

Our preference is for option B. Option B achieves the right balance between providing assurance of DR compliance, allowing the applicant time to obtain the relevant permit, and ensuring sufficient time for NESO to consider any need to adjust auction targets.

The deadline for applicants to provide this evidence needs to be aligned with NESO and delivery body auction timelines. We suggest that 20 working days prior to the T-4 auction opening round taking place may be more appropriate than 10 working days, giving NESO and the delivery body time to revise and announce the contracted capacity in line with their obligations. This is because under current rules the Delivery Body has to provide final auction parameters 15 working days before an auction starts.

12. **If Option B or C are implemented, what are your views on whether they should be a permanent measure which applies to all future CM applicants?**

If implemented the measures should be made permanent as this is compatible with the path to net zero.

13. **Please indicate whether you would consider using pathway A and provide details to support your answer.**

Yes, we agree with the principle underlying pathway A and would consider using pathway A, although we believe further consideration is needed of the process timings.

Depending on the layout and configuration of a generating plant, it may be desirable or necessary to decarbonise units or modules one at a time, possibly spread over more than one delivery year. The managed exit agreement should be sufficiently flexible to accommodate a staged exit of capacity from the CM and staged entry to the DPA.

14. **Do you agree with the managed exit process timings for pathway A, as set out in Figure 1?**

There are too many unknown interacting factors to categorically agree or disagree with the timings set out in Figure 1.

There is no established, repeatable process to obtain a DPA, so the timing of a capacity provider being able to provide evidence of being a party to a DPA is unknown. Other factors which may be part of the DPA, such as milestones, longstop dates and payment conditions may also need to be aligned with CM exit requirements.

The 19 months' notice period in Figure 1 would give NESO the opportunity to buy in two T-1 and T-4 auction rounds to address any security of supply concerns. Given it is likely that only a handful of CMUs will go through this process in a given year and that the "loss" of capacity is only due to the additional auxiliary load of the CCS plant rather than the entire CCGT capacity whose agreement is being terminated, the shortfall will be in the few 100s of MW. This level of capacity shortfall is normally covered in the T-1 auction. For these reasons government should consider allowing capacity providers to notify their intention to exit 20 working days prior to the T-4 auction opening round

taking place during the Capacity Provider's ultimate delivery year prior to planned exit, giving 7-8 months' notice.

15. **Do you agree with the proposed eligibility criteria set out in Table 1? Do you see any barriers to providing evidence of being party to a DPA at the required time? Please provide details to support your answer, including sharing your views on the nature of the evidence we suggest providing.**

Yes, we agree with the proposed eligibility criteria. We do not see any barriers to providing evidence of being party to a DPA at the required time, as long as the DPA timings are aligned with CM exit requirements.

16. **Can you identify any unforeseen consequences in the CM that could arise from a managed exit via pathway A? Please give details with your answer.**

It is possible that the existence of a managed exit pathway could fuel speculative behaviour and aggressive bidding of new build unabated gas projects in the CM, on the basis of assumptions about the likelihood or ease of securing a DPA. This could result in projects going into administration and being mothballed, which could risk security of supply. We note that speculative bidding behaviour can happen for any number of reasons in any competitive market, and that this risk can be managed through clear information about the process for securing and the availability of DPA contracts.

17. **If you were a multi-year agreement holder for an unabated gas CMU that you planned to convert to power CCUS, how would you prefer to manage the outages associated with the conversion process? Please provide details of your answer with reference to the options stated in the proposed generation outage management section and any supporting information, including the conversion type, capacity size, and generation outage period.**

We would prefer to manage outages in line with option 1, towards the end of the CM window. We would consider the option to secondary trade but we do not foresee adequate liquidity in the market to deliver the several hundred-MW capacity relevant to a large thermal generator.

18. **Are there any additional barriers, whether under the CM or not, which would prevent you from using pathway A?**

The uncertainty of ultimate outcome, timeline for obtaining a DPA and availability of CO2 infrastructure make it difficult to secure internal approvals and external financing.

19. **What are your views on whether a decision to refuse a notice of intent to use a managed exit should be a Delivery Body reviewable decision under Regulation 68 of the Electricity Capacity Regulations 2014?**

More clarity is needed on the context in which this would be applicable. If government has awarded a DPA, after extensive scrutiny, on what grounds could the Delivery Body refuse an exit from the CM?

20. **What wider changes to the CM and other policy would you expect to be needed to enable unabated gas CMUs to decarbonise?**

Government clarity on the volume, application process and timing of DPAs would help industry to put forward decarbonisation plans for unabated gas CMUs.

21. Do you agree with the consideration of impacts set out in this consultation? Are there any additional impacts of the policies we are consulting on which the government has not considered? Please provide supporting evidence where possible.

Government has identified the main impacts of the proposals set out in this consultation.