



Bartosz Slota (Office of Gas and Electricity Markets)
& Kevin Anaafi-Brown (Department for Energy
Security and Net Zero)
(by email)

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Market Arrangements for Multi-Purpose Interconnectors (MPIs)

14 July, 2023

Dear Bartosz/Kevin,

Thank you for the opportunity to respond to the above consultation.

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

Uniper is not presently involved in offshore wind projects in the UK and therefore we are not in a position to respond as a developer to many of the questions raised in the consultation document. However, as an electricity generator and trader operating in the markets which will interact with the proposed arrangements, we wish to make a number of higher level comments.

Cross border trade has become less efficient since the United Kingdom (UK) left the European Union (EU), due to the removal of the close market coupling arrangements



that existed previously. Ideally, these would be reinstated, but we understand that there are presently some concerns about this being fully possible under the EU Exit Trading and Cooperation Agreement. In general terms, our preference is for implicit trading arrangements to be put in place to facilitate cross border trade wherever possible, to ensure that interconnector capacity is allocated efficiently to cross border energy trades. This for us is the key design decision in the MPI work and is more important than whether a Home Market (HM) or Offshore Bidding Zone (OBZ) approach is adopted.

In terms of the choice between the HM and OBZ options, we can understand why OBZ may be seen as preferable if it allows a centralised algorithm to maximise the efficient utilisation all networks which make up the relevant integrated markets, including the MPI assets. In the consultation, an example is given as to why the OBZ would be preferable which is based on the uncertainty of the offshore windfarm's output, in particular between day ahead and real time timescales. We are not clear this is a strong rationale for opting for the OBZ model in itself, as this uncertainty will need to be managed whatever approach is adopted. The method chosen can only optimise based on the best information of the windfarms output at that time. The OBZ does not necessarily increase the chances of that information being more accurate.

The OBZ option does put the risk on the offshore wind farm operators, particularly if they are always exposed to the lower of the two prices of the markets at each end of the interconnector concerned. It is not clear why this is assumed to be the implication of adopting the OBZ approach though. The offshore windfarm is in effect exporting its power to the higher priced market, as this the direction that the interconnector that it is using to export its power will be flowing. If the offshore windfarm were indeed a zone of its own exporting across the interconnector to a connected market, its price would converge with that of the market it is exporting to. The choice appears to have been made to maximise the congestion rent accruing to the MPI owner, although we accept that this may also have been for administrative expediency.

Nevertheless, this issue can be remedied by the MPI owner providing recompense from its congestion revenue to make up for any difference in prices. We would note however, that this would represent a different administrative approach, which could result in the same outcome for the generator as exposing it to the higher market price.

In terms of the arrangements for contracts for differences (CfDs) for affected windfarms, it would make sense either to use congestion revenues to recompense the operators for under payment when they are exposed to the non GB price, or to settle the CfD on the price it is exposed to (i.e. GB or non GB as applicable) and then use congestion revenue to recompense the over payments made by the CfD counterparty when the CfD is settled against the lower non GB price. Either would achieve the same outcome in effect.

I hope the above comments prove helpful. Please contact me in the first instance should you wish to discuss any of the above points in more detail.

Yours sincerely

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