Mark Copley
Associate Partner, Wholesale Markets
The Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

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

Uniper UK Limited

Registered in
England and Wales
Company No 2796628

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

Response to: Statutory consultation on changes to the Capacity Market Rules 2014 (the "Rules") pursuant to Regulation 79 of the Capacity Market Regulations 2014 (the "Regulations")

5 May 2017

Uniper is an experienced international energy company focused on power generation, energy trading, transportation, and storage, as well as a provider of specialist power engineering services and training to industry through our Engineering Academy. In the UK we own seven power stations comprising over 6GW of flexible installed capacity, as well as Holford gas storage site. As such Uniper is the fifth largest generator in the UK. Our employees, our experience and our assets make us a well-established business that makes an important, tangible contribution to Britain's security of supply and contributes to a cost-effective transition to a low carbon society.

We welcome the opportunity to respond to Ofgem's consultation on potential changes to the Capacity Market Rules. We address each question in turn below, but would wish to highlight the following key points:

Connection Capacity; we welcome Ofgem's proposal to allow providers a free choice of connection capacity. In our view the details of proposed amendments, however, require further consideration. The proposed penalties would be disproportionate and undermine technical neutrality of the Capacity market, in that they only target existing capacity with agreements from the T-4 auction. It should also be possible to come up with proposals that better incentivize and reward existing plant operators that undertake upgrades to increase capacity between the T-4 and T-1 auctions. Further consultation on these proposals ahead of next year's auctions would allow these points to be considered.

Storage de-rate factors; we note the decision not to set different de-rate factors for batteries and hydro based storage technologies and that National Grid and BEIS will be carrying out further analysis on appropriate de-rating for batteries over the summer. We believe that that it would be highly beneficial to complete such changes in time to enable the appropriate factors to apply to the forthcoming auctions, and mitigate the risk of economically inefficient outcomes from this year's auction.

CQ1: Do you agree with the introduction of a financial penalty under Rule 6.8.4 for failing to meet the refurbishment milestones?

To enable as much competition as possible in an auction it is right not to exclude a generating CMU from participating in a T-1 Auction for a Delivery Year for which it has at any time previously held an agreement but no longer does, due to that agreement being reduced in length by the agreement holder,.

We agree, however, that there should be consequences where a Refurbishing CMU chooses not to continue with a refurbishment project, or to reduce project scope in order to reduce the length of its agreement, to take advantage of higher anticipated clearing prices in future T-1 auctions.

We therefore agree that, in principle, it would be right to give further consideration to the introduction of a financial penalty under these circumstances. We look forward to reviewing Ofgem's proposal on the level of financial penalty that should apply.

CQ2: Should the SO be required to update the information included in a CMN and if so what should such updates include? Please clarify why participants need this information in a CMN and cannot access it readily elsewhere?

At this stage and as there has not yet been experience of a full delivery year, we do not believe there is a need for the SO to provide additional information in a CMN. As the proposer and Ofgem highlight, there are a number of data items that market participants can already access that can help inform them of the likelihood of a stress event in response to a CMN being issued.

There may be a case for the SO to make additional information available to the market regarding system margin in different timescales, however the Rules are not the appropriate place to consider these changes.

CQ3: Do you think there are amendments that could be made to Schedule 4 which reduce the likelihood of future Rules changes being required if balancing service products are altered, which do not undermine the wider functioning of the Rules?

Without knowing how balancing services may be amended going forward it is difficult to second guess what further changes to the Rules could be proposed to reduce the likelihood of further changes being required. We agree that it may be better to review interactions between any changes to balancing services and the Rules once any changes to balancing services are better understood.

We do not see merit in the proposed requirement for applicants to provide copies of Relevant Balancing Services contracts held at prequalification for a T-4 auction when the Relevant Balancing Services are generally procured in shorter time periods, and contract terms will not generally extend into the delivery year. The value of requiring applicants to provide this additional information at prequalification is therefore questionable.

CQ4: Do you agree that this is an appropriate solution to the issue identified with the storage output formula under Rule 8.6.2?

The proposed 6 week historic period seems sensible and as noted is consistent with DSR requirements. For storage specifically it may be appropriate to consider an

adjustment where the 6 week period crosses clock change periods to capture representative equivalent values – particularly across the evening peak.

CQ5: Do you agree this approach allows DSR providers of frequency response the ability to participate effectively during the testing regime?

Yes.

CQ6: Do you agree that no change is required to the calculation of output during Satisfactory Performance Days and Stress Event periods once all frequency response services are included under Schedule 4?

Yes.

CQ7: Do you agree that the current metering arrangements are suitable for DSR providers of frequency response services?

We do not think metering arrangements for DSR providers should be lessened. It is important that DSR metering arrangements are robust to give confidence to market participants. It is also essential that DSR has metering that enables values to be accurately measured to ensure consumers are paying for actual services delivered and are getting value for money.

CQ8: Do you agree with our conclusions with regard to our preferred testing format?

We welcome Ofgem's proposal to allow providers the free choice of connection capacity and we look forward to reviewing Ofgem's drafting proposals.

We agree that the preferred testing format could be an efficient way for providers to demonstrate the specified connection capacity and for any shortfalls to be taken in to account in T-1 timescales.

CQ9: Do you think our proposed approach to setting incentives (threshold and penalty) will effectively reduce instances of overstating capacity?

It has been sometime since the analysis on potential unlocked capacity was carried out. We do not agree that capacity is necessarily overstated by providers. If providers overstate their capacity and cannot deliver they are penalised. Providers are therefore incentivised to offer the maximum they can deliver, taking in to account commercial and operational risk, as well as wider market rules, such as TEC, which providers are best placed to manage, which ensures an efficient market. Nevertheless market participants have consistently argued that the rules around the basis for defining connection capacity should be reviewed.

We agree that it is appropriate to revise down a provider's capacity obligation to reflect its tested capacity. This reduction in revenue should be sufficient penalty to a provider overstating its connection capacity – in the same way that this is accepted for new build, refurbishing and DSR CMUs.

We believe that the proposed penalty disproportionately targets existing capacity where the risk of under-delivery is the lowest. It would be punishing those providers who could be best relied on to secure demand. If this type of penalty is introduced for

existing providers equivalent penalties should be introduced for under delivery of other categories of provider to ensure consistent treatment and effective competition.

Implementation of the proposal is not clear. Changes to rules and regulations should not re-open existing agreements, where the connection capacity has been determined on a different basis. It should only apply to agreements awarded in future capacity auctions following implementation.

We note the rejection of Uniper's proposal (CP187) to enable additional capacity from an existing CMU to be offered in to the T-1 auction. We believe that proposed amendments should consider how existing capacity providers can commercialise capacity enhancements delivered between T-4 and auction delivery period. The lack of any ability to do this removes important investment incentives, reduces competition within capacity auctions and is therefore detrimental to consumer interests. Whilst Ofgem states that it is considering whether CMU's that test above their nominated connection capacity should have the ability to qualify that capacity for secondary trading it is not clear from the proposal how this could work and we would welcome further consultation on these points.