

Energy UK response to Capacity Market: call for evidence on proposals to maintain security of supply and enable flexible capacity to decarbonise

Call for Evidence

December 2024

About Energy UK

Energy UK is the trade association for the energy industry with over 100 members - from established FTSE 100 companies right through to new, growing suppliers, generators, and service providers across energy, transport, heat, and technology. Our members deliver nearly 80% of the UK's power generation and over 95% of the energy supply for 28 million UK homes as well as businesses.

The sector invests £13bn annually and delivers nearly £30bn in gross value - on top of the nearly £100bn in economic activity through its supply chain and interaction with other sectors. The energy industry is key to delivering growth and plans to invest £100bn over the course of this decade in new energy sources. The energy sector supports 700,000 jobs in every corner of the country.

Energy UK plays a key role in ensuring we attract and retain a diverse workforce. In addition to our Young Energy Professionals Forum, which has over 2,000 members representing over 350 organisations, we are a founding member of TIDE, an industry-wide taskforce to tackle Inclusion and Diversity across energy.

Additional decarbonisation pathways for CMUs

Question 1: Would you consider using pathway B, C and/or D to decarbonise a plant and what factors would influence your decision?

Energy UK welcomes the consideration of Pathways B, C and D in this call for evidence. The indication of greater optionality further down the line is reassuring. While all Pathways broadly appear to be sensible alternatives to Pathway A, more information is needed for Energy UK to take a definitive view on these options.

At the time of writing this submission, DESNZ's response to the Hydrogen to Power consultation had not yet been published. Further consideration from Energy UK following this publication will be required to understand whether a Pathway B, analogous to Pathway A, for power CCUS would be appropriate.

It is important to note that, particularly for Pathways C and D, commercial considerations will be key. For example, the current clearing price from the original CM agreement may not be sufficient to fully cover expenses related to outages and conversions. There is also a need to align regulatory

approaches, such as CO₂ network codes, with the stress event and Satisfactory Performance Day (SPD) requirements in the Capacity Market (CM). Misalignment could create operational and financial challenges.

Furthermore, Energy UK feels as if the parameters within Pathways C and D would be best left as open and flexible as possible at this early stage, so that there is a potential to incorporate all conversion and capacity types – allowing the market to determine a favoured pathway and direction of travel.

Members would also like greater clarification as to whether a unit exiting a CCUS DPA (or another mechanism), would be treated as new or existing capacity if it re-enters the CM. We would further welcome more clarity as to whether a unit would have the option to exit a DPA (or another mechanism) to re-enter the CM or would be expected to participate in the CM if a DPA (or another mechanism) falls through. What qualifications, if any, would a market participant need to provide in relation to the above?

Question 2: Please provide information and evidence on the conversion type and capacity size which you believe would be suitable for each pathway, as well as the outage period required and how you would intend to manage it.

Question 3: What are your views on managing the risk of delays in decarbonisation under pathway B, C and D?

Energy UK recommends the following solutions to manage the risks to delays in decarbonisation under Pathways B, C and D:

- Any current regulatory arrangements or draft/final contracts should include provisions for Pathways C and D, particularly for those assets that may fall outside of the main framework.
- An early view from Government on how emissions will be calculated as part of this process, for example gas with CCUS or gas retrofitted with hydrogen, so that a project can sufficiently assess their options in the future.
- Measures from Government should be put in place to manage any potential delays associated with moving from a current to a refurbishing CM agreement.
- As noted in Energy UK's previous responses to consultations on the CM, we believe that Rule 4.4.4 should be amended, with some members believing it should be scrapped. If amended, members suggest a wider, technology-neutral approach, which considers its interaction with supporting retrofitting carbon capture or converting to hydrogen firing while remaining part of the CM scheme.

Managing and assessing risks will need to be done on project-by-project basis. All assets will face slightly different challenges, and there are significant drawbacks associated with taking a siloed approach. This is especially important for first-of-a-kind technologies where there are cross-sector risks and interdependencies across the value chain.

Lastly, as noted in Energy UK's response to DESNZ's related Open Consultation on the CM, a transparent and consistent approach for all technologies, and their associated managed exits from the CM, will help maintain investor confidence.

Question 4: Are there any additional risks and issues with pathway B, C and D which you can identify?

Energy UK would like to highlight the potential for issues to arise with multiple CM participants trying to decarbonise and exit the CM at the same time. Risks include pressures on supply chains, with foreseen unmanaged and increased demand for works, leading to bottlenecks in the system and ultimately causing delays.

Also mentioned in our response to the associated Open Consultation's questions on the Government's proposal for Pathway A, are concerns with the management of volumes of capacity temporarily leaving and re-entering the CM, and the potential impact this will have on security of supply. Further clarity is required from Government to ensure that this capacity will be appropriately managed and accounted for as assets look to decarbonise.

Question 5: Are there other pathways which we have not identified which would be required to support the decarbonisation of CMUs?

Given the lack of detail currently provided for each Pathway, it is difficult to say with any certainty whether an additional or alternative pathway would need to be considered.

Broadly speaking, Energy UK would like to see greater clarity for alternative CCUS and low-carbon technology contracts, outside of the Government's Dispatchable Power Agreements.

Additionally, some members believe that a further 'Pathway E' should be considered to account for interactions with the Government's new LDES procurement mechanism, among others.

The development of longer-term views of future capacity requirements and supply

Question 6: Would you find the visibility of more granular longer-term capacity targets beneficial to your business? Are there any risks to providing this information? Please indicate yes/no and provide details to support your answer.

Energy UK is supportive of the Government's proposal to provide a view for longer-term capacity targets out to T-8 delivery years. This would provide greater clarity for industry when taking extended planning and investment decisions, and aligns with the general direction of travel for longer-term planning being seen in other policy areas, such as CfDs. Energy UK believes this proposal would provide greater assurance and strengthen security of supply.

However, the information provided is only as good as the policy in place at the time. These outlooks will only be beneficial to industry if robust energy market decisions are made with plenty of time to support well-informed commercial decisions. This includes transparency on long-term Government strategies for unabated gas and conversion, as well as wider decisions on power decarbonisation.

As long as longer-term capacity targets are based on sensible and grounded assumptions, Energy UK does not foresee any major risks associated with providing greater visibility of more granular longer-term capacity targets.

Question 7: Would it be beneficial for an assessment of the potential supply stack out to the T-8 delivery year to be made public, and are there any risks or unintended consequences of publishing such information?

Yes, Energy UK believes that the proposal for an assessment of the potential supply stack out to the T-8 delivery year to be made public would be beneficial to industry. Similar to our answer provided for Question 6, this would provide greater clarity and assurance for longer-term decision making.

Members do not consider that there is a credible risk of gaming associated with this proposal, given that assets will not make robust or significant decisions based solely on these forecasts. There is, however, a potential risk of over-procurement. It is important to reiterate here that information is only beneficial to industry if it has a significant degree of accuracy. The methodology must be credible and backed up with clear assumptions and sensitivities published by the National Energy System Operator (NESO), including those relating to grid connection availability.

We note that NESO has already trialled this assessment format, and that the modelling was insufficiently scrutinised. If this proposal is implemented, it is essential that scrutiny is level with T-4 assessment.