

DISPATCHABLE POWER AGREEMENT BUSINESS MODEL SUMMARY AND CONSULTATION

UKPIA RESPONSE

1. Do you agree that the proposed Availability Payment component of the DPA Contract incentivises efficient decarbonisation and best in class carbon capture technology selection? If not, what changes do you think are necessary to facilitate this?

We agree that the proposed Availability Payment component of the DPA Contract incentivises efficient decarbonisation.

2. Do you agree that the proposed Availability Payment and Variable Payment in the DPA Contract will ensure that a power CCUS Facility reacts to electricity market price signals and provide dispatchable output without incentivising it to generate at all times thereby displacing lower cost and lower carbon generation sources such as renewables and nuclear? If not, what amendments do you consider necessary to achieve this objective?

We agree that the proposed Availability Payment and Variable Payment in the DPA Contract will broadly ensure that the CCUS Facility reacts to the correct signals.

The basis appears for these appears to be based on benchmarks negotiated at the time that the contract is established. These benchmarks can materially change over the lifetime of the project (for example relating to the recent significant rises in natural gas price). We would ask that the impacts of such changes be considered in the establishment of the contracts, and that a suitable mechanism is introduced to allow them to be taken into account if they materially affect the economics of a CCUS generation facility.

3. The objective of the Variable Payment is to incentivise a power CCUS Facility to dispatch ahead of an unabated reference Plant. Do you agree that the proposed Variable Payment mechanism achieve this? If not, what further amendments do you consider necessary to achieve this objective? Please provide your reasoning.

We agree that the proposed Variable Payment broadly achieve the incentivisation that would normally be expected.

In addition to our comments in response to Q2 above, we note that the OC (Other extra costs) are also established at the time of signing the DPA but are linked to inflation; in addition to clarifying whether inflation references the CPI or the RPI * it is possible that increases in costs may not be in line with these, broader, metrics. We would therefore ask that consideration is given to this, and a suitable method to negotiate changes (subject to appropriate checks) included in the DPA.

* <https://www.ons.gov.uk/economy/inflationandpriceindices>

4. Are there any additional hurdles to a power CCUS Facility retaining the flexibility to respond to market conditions and consumer needs over the term of the DPA Contract considering foreseeable evolution of the power generation composition and demand profile over this time?

UKPIA cannot comment on this question in detail.

5. Do you agree that the standard terms and those project specific terms in the Front End Agreement of the DPA Contract are capable of equally incentivising investment in new build, re-powering and retrofit Projects alike? Alternatively, are there particular provisions which you consider require modification to facilitate investment in a particular type of Project (please explain why this is the case in your response)?

UKPIA cannot comment on this question in detail.

6. Do you consider risk is appropriately allocated to enable investment in Projects and value for money for consumers? If not, please indicate the aspects of the contract where you believe risk is not appropriately allocated and why.

We agree that the risk is appropriately allocated to enable investment in Projects and value for money for consumers.

7. Power CCUS projects will be part of a wider CCUS network. A T&S Prolonged Unavailability Event would have a significant impact on any project connected to the network, including those projects holding DPA Contracts. We need to consider how to best manage this interface risk. We have set out an initial minded to position on the termination right where there is a T&S Prolonged Unavailability Event, which seeks to balance the risk held by investors in the power CCUS project and investors in transport and storage and the wider network. Do you consider that there is a fair allocation of risk between the different interests in relation to Termination for T&S Prolonged Unavailability Events? If not, please provide your rationale.

We note and welcome the broad alignment between the management of T&S Prolonged Unavailability Risk in the Industrial Carbon Capture (ICC) and DPA Business Models.

We consider that the proposals offer a fair allocation of risk in this regard and ask that this consistency is retained as progress is made in these agreements.

8. We have proposed testing requirements specified in annex 2 “Testing Requirements” of the draft DPA Contract to provide clarity on what is expected from Generators during the Performance Tests detailed in the DPA. We have sought to align these requirements with industry standards and expectations. Does the proposed Testing Requirements strike the right balance between robustly assessing the performance of a Facility and not being overly onerous on a Generator? If not, what amendments do you think are necessary to determine performance of the Facility against?

UKPIA is unable to comment on this question.

9. Do you consider the proposal to enable the publication of certain contractual information by the DPA Counterparty to be proportionate and reasonable in light of our policy objective? If not, please provide your reasoning and which elements should be published in the alternative.

We note that the Confidentiality section of the consultation provides information on the publication of specific data.

UKPIA considers the proposal to be proportionate and reasonable provided that the information is consistent with that already provided by generators under existing Contracts for Difference (CfD) Regulations and is subject to the constraints of releasing commercially sensitive information into the public domain.

10. As outlined, do you agree that the inclusion of a gain share mechanism in the DPA Contract is a proportionate measure to mitigate the risk of overcompensation and to facilitate compliance with subsidy control principles? If you believe the inclusion of a gain share mechanism is a disproportionate measure to achieving our objectives, or could significantly inhibit investment in the DPA, please provide your rationale.

We note the intent of the gain share mechanism to avoid overcompensating projects and have no objections, subject to a suitable IRR being used (commensurate with appropriate commercial rates of interest)

11. The proposed gain share schedule would provide for two types of gain share, 'Project gain share' and 'sale gain share', in each case where such profits exceed a certain defined threshold. At what level of Equity Internal Rate of Return (Equity IRR) do you consider that gains should be shared under the gain share mechanism? Please provide context and evidence in your response.

As outlined in our response to Q10, the IRR selected should be equivalent to commercial interest rates for similar development. However, UKPIA cannot provide specific information on these and notes that these can change significantly over the course of the DPA Business Model being in operation.

12. At what level of Equity IRR for a power CCUS Project do you consider that the risk of overcompensation under the DPA is low enough that the gainshare mechanism outlined here should not be required in order to mitigate that risk? Please provide context and evidence in your response.

UKPIA is unable to comment on this question.