



Ruben Pereira
Ofgem
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Emailed to: ElectricityNetworkCharging@ofgem.gov.uk

19th January 2022

Dear Ruben,

CMP308 – Minded-to decision and impact assessment

Drax Group plc (Drax) owns and operates a portfolio of flexible, low carbon and renewable electricity generation assets – providing enough power for the equivalent of more than 8.3 million homes across the UK. The assets include Drax Power Station, based at Selby, North Yorkshire, which is the country's single largest source of renewable electricity. Drax also owns two retail businesses, Drax Energy Solutions (formerly trading as Haven Power) and Opus Energy, which together supply renewable electricity and gas to over 300,000 business premises.

In summary:

- We support the implementation of CMP308 and believe it better facilitates the Applicable CUSC Objectives.
- We believe the CMP308 modelling is comprehensive and reasonably quantifies the benefits of CMP308.
- Prudent operators will have been factoring CMP308 into their commercial and operational decisions for some time, and so we support an April 2023 implementation.

Our responses to the specific questions posed in the consultation are appended. If you would like to discuss any aspect of this response, please let us know.

Yours sincerely,

Joshua Logan

Industry Governance Officer
Drax Group plc



Appendix 1: Responses to consultation questions

1. Do you agree with our assessment that CMP308 better facilitates the Applicable CUSC Objectives?

Yes, we agree that CMP308 would better facilitate Applicable CUSC Objectives (a), (b) and (e).

Applicable Objective (a)

Currently BSUoS is paid by large GB generators, but not by small distributed generators in GB or the majority of generators in interconnected markets. CMP308 will address this market distortion and ensure more effective competition in the electricity markets.

Applicable Objective (b)

As concluded by the BSUoS Task Force, BSUoS charges do not provide a useful cost-reflective signal to generators which can lead to inefficient dispatch. We agree with Ofgem that removing an inefficient and non-cost reflective charge better facilitates cost-reflectivity overall.

Applicable Objective (e)

Recovering BSUoS costs directly from final demand will improve efficiency in the CUSC arrangements as generators will no longer need to pass BSUoS costs through the wholesale, balancing and ancillary services markets, before it is ultimately recovered from consumers.

2. Do you agree that charging BSUoS charges only to Final Demand reduces distortions between Large Generators and other forms of generation? Please explain why.

Yes. Large generators located in Great Britain (GB) compete with small GB generators and interconnected generators in various electricity markets. Large GB generators are at a competitive disadvantage as a result of facing BSUoS costs when others don't. Recovering costs from final demand will remove this market distortion.

3. Do you have any views on the impact of this proposal on Behind The Meter Generation and its competitiveness?

No, although we note that the removal of market distortions (in general) is likely to lead to more economically efficient outcomes.

4. Do you have any views on our reasoning on this proposal's effect on price signals or generation dispatch?

We agree with Ofgem's assessment that BSUoS charges can impact generation dispatch decisions and result in inefficient dispatch which inflates costs for end consumers.

We also agree that BSUoS can send a perverse market signal to generators. In periods of high BSUoS charges, generators could be incentivised to generate less which could lead to higher balancing costs and exacerbate system operation challenges.

CMP308 would have a positive impact on price signals and result in the more efficient dispatch of GB generation.



5. Do you have any views on our reasoning on this proposal's effect on competition between different generator types?

No, we agree with Ofgem's assessment.

6. Do you have views on our assessment of the decarbonisation impacts of this proposal, both in respect of emissions from the GB energy system and of overall emissions?

We agree that CMP308 should lead to a reduction in overall emissions. There will likely be a small increase in localised GB emissions, since there will be times when marginal GB generation runs instead of interconnected generation as a direct result of CMP308. However, this is likely to displace more carbon intensive interconnected generation, therefore leading to an overall reduction in global carbon emissions.

We also agree that removing BSUoS from GB generation will have a positive effect on the investment case for renewable generation in GB, since it will remove a volatile charge which is distorting the market.

7. Do you have views on whether and the extent to which the changes proposed in this modification have already been incorporated into supplier decisions?

Moving BSUoS costs onto final demand has been signalled for some time, and the implementation of CMP308 from April 2023 should not come as a surprise to any energy supplier. Since the BSUoS Task Force concluded in September 2020 that BSUoS costs should only be paid by final demand, prudent operators could and should have been factoring the associated level of BSUoS risk into their pricing decisions.

8. Do you have views on the impact of this proposal on existing supply contracts, including the possibility of costs or delayed benefits to consumers stemming from windfall gains to industry parties, or double payments?

CMP308 will only impact existing fixed supply contracts with an end date beyond April 2023. As referenced in our response to question 7, prudent suppliers should have been factoring this change into their pricing decisions since September 2020.

Generators will also have been factoring in the impact of CMP308 into wholesale market transactions for power sales beyond April 2023. As such, and given the highly competitive nature of the wholesale market, we do not foresee a risk of generators receiving windfall gains.

9. Do you have views on this proposal's impacts on generator and supplier risks, including on exposure to volatile charges?

Generators currently pass BSUoS costs through the wholesale market, balancing market and ancillary services markets, and it is factored into CfD and capacity market bidding. Generators will typically seek to include a risk premium into their pricing to reflect the volatile and difficult to forecast nature of BSUoS costs. CMP308 will remove the BSUoS risk from generators, in turn removing the need for any associated risk premia.

Suppliers recover BSUoS charges through either fixed or pass-through contracts with customers. Pass-through contracts, by their nature, have no BSUoS risk premia built in. Whereas Fixed contracts do include risk premia to reflect the uncertainty in BSUoS charges. CMP308 will increase the BSUoS



risk faced by suppliers. However, this exposure would be materially mitigated if Ofgem approve CMP361, which proposes to fix BSUoS charges. We believe the *9-month notice and 6-month fixed* proposal under CMP361 is optimal and would significantly reduce suppliers exposure to BSUoS risk, thereby enabling Suppliers to reduce (if not remove) the risk premia from fixed supply contracts.

10. Do you have views on the interactions between this proposal and other changes in the sector, including other BSUoS charging reform proposals?

As highlighted in our response to Question 9, CMP308 will increase the BSUoS risk faced by suppliers. To mitigate the impact of this, it is important that BSUoS charges are fixed with a notice period from April 2023. Ofgem have now received the final modification report for CMP361 which seeks to fix BSUoS. We would urge Ofgem to make a decision on this modification as soon as possible.

11. Do you have views on the modelled assessment of consumer and energy system benefits? Please provide quantitative analysis and any further information.

We do not have any detailed observations on the methodology used for the analysis, although, we support the conclusions suggesting net GB consumer benefits of £320m.

We agree that wholesale costs should fall as a result of BSUoS being removed from the cost stack of GB generators.

12. Is our assessment of non-monetised costs and benefits reasonable? Are there any other factors we should consider?

We believe Ofgem's assessment is reasonable. In particular, we agree that whilst difficult to quantify, generator BSUoS risk premia will be a significant amount in aggregate across the sector.

13. Do you consider the consumer and system benefits identified in our consultants' modelling to represent a reasonable view of the potential effects of this modification?

Yes, the modelling represents a reasonable view on the benefits of this modification.

14. Do you consider that Ofgem has duly considered all relevant consumer and system benefits? Are there any areas which could benefit from further analysis?

The modelling and assessment conducted by Ofgem has been comprehensive. We do not believe any further justification is required.

15. Our modelling assumes that CfD adjustment payments designed to compensate contract holders for the BSUoS charges they face will no longer be paid in the event generation is not liable for BSUoS charges. Do you agree with this assumption, and do you have views on our assessment of the risks associated with existing CfD contracts?

We agree with the assumption, but wish to highlight that CfDs have different contractual terms depending on when they were signed, and LCCC should have regard to the individual terms of the CfDs when determining the method of implementation.

16. Do you have views on the impacts of this proposal on end consumers, including large users and vulnerable users?



We agree with the modelling that CMP308 will not have a uniform effect on all consumers. The impact will be largely driven by the customer type and usage pattern.

Overall, we agree that CMP308 will deliver significant benefits to end consumers.

17. Do you agree with our assessment that reduced costs to generators are likely to feed through into lower wholesale prices?

Yes - given the competitive nature of the wholesale market, any removal of costs from a generator's cost stack will be reflected in their pricing decisions. This should lead to lower wholesale market prices.

18. Do you agree with our assessment that this policy will not have any significant material impacts on vulnerable users?

Yes, we do not believe this proposal will have a material impact on vulnerable users.

19. Do you agree with our assessment that this modification is unlikely to lead to any significant impacts on essential services or supply chains?

Yes.

20. We would note that increases in demand costs will need to be incorporated into the Price Cap methodology. Do you have any views on this area?

It would be appropriate that the relevant allowance in the Price Cap for BSUoS charges reflects the impact of CMP308 (and CMP361).

21. Do you agree with our proposed implementation date of 1 April 2023? Please provide your reasoning.

Yes, this change has been signalled since the conclusion of the BSUoS Task Force in September 2020. Prudent suppliers should have been factoring the potential impact of CMP308 into their pricing decisions. Generators will have also been accounting for the impact of CMP308 in any transactions for power delivery beyond April 2023.

We agree with Ofgem that an April 2023 implementation is suitable and wouldn't lead to significant windfall gains or losses across the sector.

22. Do you have any other information which is relevant to this consultation?

N/A