



**Ofgem Proposed Corporate Strategy 2004/07  
January 2004**

**A Response by Drax Power Limited**

**Drax Power Limited**

1. Drax Power Limited is the owner of Drax Power Station, the largest, cleanest and most efficient coal-fired power plant in the UK. Drax Power Station has six 660MW units, each fitted with flue gas desulphurisation (FGD) equipment removing 90% of the sulphur dioxide emissions, and Drax emits less carbon dioxide per unit of electricity produced than any other coal-fired station. At current output levels, Drax supplies some 8% of England and Wales' electricity needs.
2. Drax Power is pleased to have the opportunity to comment on Ofgem's proposed corporate strategy 2004/07, and would like to offer views on the following themes:
  - Creating and sustaining competition;
  - Helping protect security of Britain's energy supplies; and
  - Helping protect the environment.

**Creating and Sustaining Competition**

3. There are a number of drivers impacting on the generation sector, of which vertical integration is one. Drax Power's concern is that there is the potential for a separation of the wholesale market giving a captive generation market for the vertically integrated companies. Such market separation has the potential to enable the vertically integrated companies to individually or collectively foreclose competition from the independent, non-vertically integrated companies who are unable to sell at the wholesale level without having to deal with integrated participants.
4. It is Drax Power's view that vertical integration potentially threatens to create or strengthen market dominance as a result of which effective competition will be significantly impeded. This concern, and the potential for lessening competition, highlights the importance of monitoring the wholesale market, and indeed

emerging markets such as the ROCs market. Drax Power urges Ofgem to endeavour to put in place a robust monitoring programme to act as a deterrent to dominant behaviour.

5. Above all, it is important that Ofgem delivers its and Government's objectives with the minimum disruption and distortion to the competitive market.

### **Helping Protect Security of Britain's Energy Supplies**

6. As the strategy paper highlights there is a reliance on competitive markets to deliver security of supply. Mention is also made of Ofgem's role to contribute to the policy debate through the provision of information and analysis to show how competitive markets will deliver security of supply.
7. Of the various factors impacting on the generation sector, the forthcoming European legislation, that is, the ETS and LCPD, will have a significant impact upon coal-fired generation. The amount of capacity removed from the system as a result of the legislation will depend on the implementation/allocation plans, which in turn hold implications for energy security. It is important to ensure that distortions do not arise through, for example, a lack of carbon credits or gas in the generation sector.
8. An all encompassing approach is necessary to understand the various drivers in the market and the potential outcomes to ensure that energy security is maintained. There is a need for a coherent, integrated approach across regulatory bodies and Government departments to ensure that all available market information is assimilated and used to assess whether the market-based mechanisms are working and will deliver energy security in the short, medium and long term.

### **Helping Protect the Environment**

9. The need to encourage future environmental policy in a form compatible with competitive energy markets is key. Drax Power strongly believes that environmental objectives should be given greater emphasis within overall energy policy.
10. Under NETA there are no environmental drivers; price to the customer is the only measure of success. Economics and the current market mechanisms have dictated that there is no reward for clean generation.
11. Drax Power advocates that the competitive market should, as far as possible, be free of subsidies and support mechanisms that may serve to distort competition. There is, however, a need to ensure that the competitive market has a place within a framework of policy instruments, such as environmental regulations and

security of supply considerations, which will enable the competitive market to deliver energy policy objectives in the most cost effective manner.

12. Further, environmental achievements should not become the burden of one particular industry or sector. On emissions, all aspects should be fully explored within the electricity industry, for example, through conservation measures, and outside the industry, for example, transport. In that way the least cost solutions can be delivered.

### **Concluding Remarks**

13. Drax Power offers the following concluding remarks:

- Robust monitoring of the competitive market, and emerging markets such as ROCs and emissions, is essential if competition is to be effective and undistorted.
- There is a need for a policy framework that will combine energy policy with environment policy and deliver policy objectives in a least cost manner.
- Delivering a cohesive framework will necessitate integrated working across regulatory bodies and Government departments.