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FAO Hannah Nixon  
Project Transmit  
Ofgem  
9 Millbank  
London  
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24<sup>th</sup> June 2011

Dear Hannah,

**Project Transmit: approach to electricity transmission charging work**

Drax Power Limited ("Drax") is the operating subsidiary of Drax Group plc and the owner and operator of Drax Power Station in North Yorkshire. Drax Power Limited also owns an electricity supply business, Haven Power Limited ("Haven"), which supplies some 33,500 business customers and provides an alternative route to market for some of Drax's power output. Drax welcomes the opportunity to respond to Ofgem's latest thoughts on approaches to potential electricity transmission charging reform.

Since the introduction of NETA in 2001, the direction of GB and European energy policy has evolved considerably. In the last twelve months, significant market reform has been signalled in GB and Europe covering a broad spectrum of issues, including GB trading arrangements and market (investment) signals, European Network Codes, market integrity and transparency, and more detailed proposals for the integration of European energy markets. Drax agrees that, in light of such reform, it is timely to review the appropriateness of the existing GB transmission charging principles.

Following the implementation of the Code Governance Review conclusions, relevant parties are able to raise code modifications to amend the Charging Methodologies, which now fall under the scope of the CUSC. Industry participants have previously discussed the potential for change in a number of industry forums, questioning the way in which charges are currently calculated, the principles behind these calculations and the appropriateness of such principles going forward.

Drax believes that a holistic review of transmission charging principles, and potential alternatives, would be best handled via a coordinated, structured and transparent process. As such, a Significant Code Review may provide a suitable platform to develop the industry's thoughts on whether the current regime is capable of delivering investment and promoting a competitive electricity market in line with UK and European policy.

However, it is extremely important to ensure that any reform to transmission charging provides the stability required to better inform investment decisions over the next decade and beyond. To deliver such stability, the transmission charging regime should only be modified when decision makers are in a position to understand the impact of existing policy work-streams, in particular the Government's Electricity Market Reform package and the European market integration model. It would be an obstacle to investment if the principles upon which transmission charging is based were to be subject to numerous changes over the next decade.

Drax considers the integration of European electricity markets to be a positive move for market liquidity. Liquidity is an essential element of a robust and competitive market. As such, it is essential that Project Transmit does not undermine the ability of the GB market to progress towards integration with other European electricity markets in an efficient and coordinated manner.

On this basis, it is imperative that the industry understands the detail behind Government's Electricity Market Reform proposals, the principles of the European Network Codes and the broad direction of European market integration prior to modifying the GB transmission charging principles. This will ensure that an enduring transmission charging regime can be implemented that will provide stability and certainty for new and existing investors.

Finally, Project Transmit must take a holistic approach to transmission charging principles. It would seem inappropriate for the Authority to make a decision on BSC Modification P229 (zonal transmission losses) prior to Ofgem completing Project Transmit. Doing so could be perceived as pre-empting a decision on, amongst other considerations, locational charging principles. It would be an unfortunate scenario should the implementation of BSC Modification P229 need to be modified or reversed due to Project Transmit resulting in a contradictory set of conclusions. As such, Project Transmit should consider the allocation of transmission losses as part of its remit.

If you would like to discuss any of the views expressed in this response, please feel free to contact me.

Yours sincerely,

By email

Stuart Cotten  
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Regulation and Policy