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Office of Gas and Electricity Markets  
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2 August 2013

Dear James,

**Proposed Income Adjusting Events submitted by National Grid Electricity Transmission in relation to the 2011-13 Electricity System Operator Incentive Scheme**

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 also owns an electricity supply business, Haven Power Limited ("Haven"), which supplies electricity to a range of business customers and provides an alternative route to market for some of Drax's power output.

We provide comments below on the issues raised in Ofgem's Open Letter dated 5 July 2013. Our comments are specifically focussed on what Ofgem should consider in making its decision on the notified Income Adjusting Events (IAEs) and, if Ofgem decides to allow National Grid to recover some of the relevant costs, how these costs should be recovered from market participants.

**Points for Ofgem to consider when making its decision**

Asymmetric notified IAEs

While National Grid is incentivised to notify Ofgem of potential IAEs which have a negative commercial impact on its business, there is no such incentive to notify Ofgem of potential IAEs which may have a positive commercial impact on its business i.e. IAEs which reduce National Grid's costs. Ideally, 'positive' and 'negative' IAEs should be considered together when making a decision. Ofgem should therefore consider whether there are potentially any events which may have defrayed National Grid's costs, thus offsetting the effects of the IAEs National Grid has notified.

The +/- £50m cap and collar

National Grid is already protected from significant losses (and gains) under the balancing services incentive scheme with a £50m cap (and collar) in place. The benefits provided to National Grid by this cap should be considered by Ofgem when deciding on whether to (a) adjust National Grid's income and (b) if so, by how much.

Moral Hazard

If Ofgem decides to accept, at least to some degree, the IAEs National Grid has notified, it must also consider the impact this decision may have on incentivising National Grid to control its costs. Allowing National Grid to continually recoup costs considered 'force majeure' may reduce the incentives on National Grid to act in an efficient manner, and thus may constitute moral hazard.

### Independent Audit of notified IAEs

Ofgem should consider commissioning an independent analysis of National Grid's notified IAEs to help confirm whether the events are genuinely 'force majeure'.

### **Recovering costs**

If Ofgem allows National Grid to recover all or some of the relevant costs, these should be recovered via future BSUoS charges and not be reflected in revised past BSUoS charges ex post. Recovering these costs in future BSUoS charges will allow generators and suppliers to more efficiently recover these costs from end consumers and minimise effects on competition.

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

Yours sincerely,

By email

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