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FAO Graham Knowles
Wholesale Market Performance
Ofgem
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18th December 2013

Dear Graham,

Wholesale power market liquidity: statutory consultation on the ‘Secure and Promote’ licence condition

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 welcome this opportunity to provide feedback on the proposed licence modifications. The comments set out in this response relate to three specific areas: requests for trading agreements; requests to trade; and reporting.

Requests for trading agreements (Schedule A)

The window in which obligated parties must respond to requests for trading agreements should be better defined in terms of when the window begins and how it is suspended. We suggest that “Request” is defined as:

“a request for a Trading Agreement, to include all information, documents and supporting data listed on the licensee’s website as required by condition 11(2).”

The stipulated time period should start on receipt of a complete request, reducing the risk that obligated parties are deemed to have breached the licence condition due to an Eligible Supplier failing to deliver the required information. In addition, for clarity, the licence condition should express that the 20 working day window is “suspended” until the obligated party is in receipt of the required information, such that it may “recommence” upon receipt.

With regards to credit terms and collateral arrangements, we do not believe that the licence condition matches the intent of the policy document. The “consideration and discussion” wording, as set out in 9(iv) of the licence condition, suggests that obligated parties are required to negotiate credit terms. Obligated parties will have established credit arrangements that aim to minimise exposure to risk. As such, part 9(iv) should be limited to “reflect the outcome of the credit assessment”.

Requests to trade (Schedule A)

The licence condition fails to consider the treatment of requests to trade whilst an Eligible Supplier is in breach of its credit arrangements or other contractual terms. As such, the licence condition should be clear that obligated parties are not expected to consider a request to trade as being a “qualifying request to trade” if, for legitimate credit, risk or other contractual reasons, trading with the Eligible Supplier has been suspended.

We suggest that the definition of “qualifying request to trade” should mean:

“a request from an Eligible Supplier who is not in breach of any credit or contractual obligations to the licensee at the time the request is made.”

Reporting (Schedule C)

We consider the five working day window, in which an obligated party must deliver relevant information to the authority, to be overly onerous. The amount of time obligated parties have to respond should be proportionate to the amount or extent of the data they are required to deliver. This would be better reflected by stating relevant information should be delivered “within a reasonable period following receipt of a request.”

Finally, we suggest that the wording “signed by a Director of the licensee” contained in the table in Schedule C be amended to “approved by a Director of the licensee”. Obligated parties should be allowed to establish a suitable, formal delegation of authority by a director, thus allowing submitted reports to be signed by an appointed signatory.

Please feel free to contact me should you wish to discuss any of the views expressed in this response.

Yours sincerely,

By email

Stuart Cotten
Market Development and Compliance Manager
Regulation and Policy