



Leonardo Costa
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Ofgem
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Dear Leonardo,

Funding arrangements for new balancing services: Initial Proposals

Drax Power Limited (“Drax”) is the operating subsidiary of Drax Group plc and the owner and operator of Drax Power Station in North Yorkshire. In March 2009, Drax acquired an electricity supply business, Haven Power Limited (“Haven”); Haven supplies small and medium (SME) sized business customers and larger Industrial and Commercial (I&C) customers; this provides an alternative route to market for some of Drax’s power output.

We have two main high level comments on Ofgem’s initial proposals. These are:

1. Ofgem should focus on the absolute cap on the volume of services that National Grid can procure. The cap needs to be as low as possible to minimise the potential for market distortion, particularly as there are no additionality measures in place for the SBR product. National Grid should provide robust justification to Ofgem on its proposed cap level.
2. Overall, the principle that Ofgem apply a ‘targeted efficiency check’ approach to the funding arrangements seems sensible. If the process is robust, it has the potential to keep National Grid ‘honest’ in terms of minimising the intervention (thereby market distortion) whilst delivering security of supply. In particular, in the event that National Grid procures SBR plant, as part of the funding arrangements Ofgem should require National Grid to justify why it believes the SBR plant it has procured is genuinely additional. If the justification is not sufficiently robust, then funding of these services should not be allowed.

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

Yours sincerely,

By email
Cem Suleyman

Regulation and Policy
Drax Power Limited