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Graham Knowles
Wholesale Markets
Ofgem
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Dear Graham,

Pricing Benchmarks in gas and electricity markets – a call for evidence

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.

Please see below Drax's comments on the questions posed in the call for evidence document:

Question 1: Do you agree with our assessment of the issues?

Yes, although the issues are not unique to power and gas markets and are reflected across a number of commodity, instrument and derivative markets. The requirements to manage these issues are simple; the provision of reliable, robust and authoritative benchmarks.

Question 2: What is your company's policy on providing information to price reporters or other price benchmarking services?

Careful evaluation is required when considering the provision of pricing data. In the particular, data ownership and copyright is a pressing concern. The OTC brokers have carefully worded terms as to the ownership of actual trade data and Drax treats such legal terms with respect. LEBA have developed their own range of benchmarks, principally adopting the actual trades which take place across their member brokerages.

Drax does not pass broker trade data to any other reporting agencies. Drax will, if contacted by price reporters, provide its view of where it saw the market levels and, in doing so, clearly identifies this data as Drax's view and offers no warranty as to the reliability of the data provision.

Question 3: In what ways do you use benchmark prices provided by price reporting agencies or other price benchmarking services?

In addition to the typical marked to market processes, benchmark data is used as fall-back pricing mechanisms within structured contracts.

Question 4: Do you use a single price provider only, or a combination or variety of prices?

A combination of benchmarks are utilised with, Argus, Platts, Heren and LEBA dominating.

Question 5: What are your views on the terms of the IPRO code of conduct and the various published methodologies of the price reporting services with particular reference to gas and electricity markets?

The IPRO code is sound practice. There are other variants of such conduct codes and such conduct is already established within the existing power and gas benchmarks. Both power and gas markets have benefited from a range of benchmarks for some time. Adopting various benchmarks into commercial structures is a matter of personal choice for market counterparties. The robustness of each benchmark or combination of benchmarks will be reflected in the counterparty's appetite.

Question 6: In the context of GB gas and electricity markets, do you consider the current arrangements whereby price reporting agencies operate under a self-regulatory regime are fit for purpose?

It is important to note that the current trading arrangements within the UK power and gas markets have been established individually by market participants. Supported and protected by UK and European law, trading counterparties determine by mutual consent their appetite to enter into trading activities which are related to benchmarks. Under such a premise, the current regime is very much fit for purpose.

However, the development of CfD FiTs within the renewable electricity sector will begin to question the suitability of the current regime. Since the CfD FiTs will ultimately be paid for by consumers under the supplier obligation levy, then end consumers will require greater levels of protection than is currently afforded (to ensure the robustness of pricing benchmarks). The changing rules requiring trade disclosures provide a very timely opportunity for this data to be compiled into a single, reliable and robust authoritative benchmark.

Question 7: Are there any other issues that you wish to raise in the context of this call for evidence?

No

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
Regulatory Analyst
Regulation and Policy