



Maxine Frerk
Ofgem
9 Millbank
London
SW1P 3GE

Drax Power Limited
Drax Power Station
Selby
North Yorkshire
YO8 8PH

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T+44 (0)1757 618381
www.drax.com

Dear Maxine,

Initial proposals on setting revenue, outputs and incentives for National Grid Electricity Transmission plc's roles in Electricity Market Reform

Drax Power Limited ("Drax") is the operating subsidiary of Drax Group plc and the owner and operator of Drax Power Station in North Yorkshire. The 4,000MW station consists of six separate units which together produce around 7-8% of UK generation, mainly fuelled by coal. However, largely in response to the policies implemented by Government to meet its climate change objectives, Drax is currently embarking on an ambitious project to convert at least half of this capacity to 100% biomass with two units already converted. In 2009, Drax acquired an electricity supply business, Haven Power Limited ("Haven"). Haven supplies an increasing number of small and medium (SME) sized business customers and larger Industrial and Commercial (I&C) customers. This provides additional competition and choice in those sectors, as well as an alternative arm's length route to market for some of Drax's power output, Renewable Obligation Certificates (ROCs) and Levy Exemption Certificates (LECs).

We welcome this opportunity to comment on the Open Letter. This response represents the views of both Drax and Haven.

Drax agrees that, broadly speaking, the governance changes introduced under the Code Governance Review (CGR) and CGR2 have been reasonably effective in improving the code governance arrangements. Open Governance and Proposer Ownership of the modification process are welcome changes and have made Code Governance more transparent and effective. Further, the SCR, in principle, took positive steps towards improving code governance, although could have been used more effectively through increasing the pace of change, making the Directions more specific, and initiating SCRs for issues with cross code impacts. Electricity industry settlement arrangements (P272) being a prime example of an issue that required leadership from the regulator.

Drax believes that the current code governance arrangements deliver incremental and discrete changes very well. Where there are broader changes to be made, such as those impacting multiple codes, licences, etc., Ofgem needs to work with the Code Administrators to effectively coordinate change. For example, via the CACoP and SCR processes.

Due to smaller industry participants, such as independent suppliers, having fewer resources to commit to Code Governance, it is imperative that any changes raised are as clear and precise as possible. This will allow smaller parties to better identify high impact changes and so devote scarce resources effectively. We believe that there are positive examples of Code Administrators, e.g. Elexon, performing well in assisting such parties through their critical friend role.

Drax believes that there is room for further reform to the industry code governance arrangements. Provisions to ensure Panel members act impartially, similar to those provisions found under the BSC and CUSC, are appropriate and should apply to all industry codes. Further, introducing independent workgroup chair persons is also appropriate as this could help support smaller party representation and participation. In addition, the identification of consumer impacts is a sensible idea and could be implemented through the inclusion of a section in modification reports, although it will require greater involvement from consumer organisations with relevant expertise. The above should deliver modification reports with better quality data and analysis, which will support market participants to assess the impacts of change and assist Ofgem in their decision making processes.

In terms of providing Ofgem with powers to draft SCR Modification proposals, we consider that Ofgem already has the ability to do so and could deliver such drafting as part of their final SCR Determination. It is only the raising of modifications that Ofgem is not empowered to perform. As an *independent* National Regulatory Authority, we believe the existing balance is correct. Nevertheless, Code Administrators and wider industry have the skills and knowledge of drafting Code changes and it would therefore be beneficial for Ofgem to collaborate with others when working towards any future changes.

The introduction of a pre-governance modification process is, in principle, a reasonable notion. However, there are already forums performing this role under a number of code processes including, but not limited to, the CUSC, Grid Code, and BSC. It would be inefficient to force those Code Administrators to host additional forums when the existing processes are not broken. Drax considers an introduction of a 'modification window' to be an unnecessary change. It will reduce the flexibility for industry parties to raise modifications and will frustrate the process. It could be particularly problematic where urgent changes need to be progressed. The prioritisation and planning of changes is adequately performed by the Panels of the respective codes.

We believe there is a further important point to raise in relation to CACoP. Whilst the CACoP process is to be led by the Code Administrators, it is important that Ofgem also commits to fully engage in this process. Early guidance on potential issues, impacts or interactions on its processes, and/or the ability of the regulator to make decisions on such change in an efficient manner (e.g. early identification of insufficient analysis), is critical to ensuring this remains an effective process.

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

Yours sincerely,

Submitted by email

Joseph Underwood
Regulation and Policy