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Dear Sujitra,

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.

We welcome this opportunity to comment on Ofgem's initial proposals on setting revenue, outputs and incentives for National Grid Electricity Transmission plc's roles in Electricity Market Reform. We focus our response on the incentives for demand forecasting accuracy.

Drax believes that the financial incentive on demand forecasting for both the T-1 and T-4 auction is appropriate. If National Grid happens to procure too much capacity then the cost to consumers will increase. In contrast, if National Grid procures too little then there may be a risk to security of supply, resulting in an inappropriate level of system stress events. Therefore a financial incentive is appropriate, as there is the potential to encourage efficiency in capacity procurement, a reduction in risk to electricity supplies and thus savings to end consumers.

The 2% and 4% neutral points in the T-1 and T-4 auctions respectively appears suitable and reflects the importance of an accurate demand forecast. Drax believes that the targets are demanding, but realistic, and represent an appropriately challenging target for National Grid to meet. Further, an incentive of \pm £1m and \pm £2m for the T-1 and T-4 auctions respectively appears a sensible option and is both an appropriate and proportionate incentive and risk, particularly in keeping with the total funding National Grid receives in its roles as the EMR Delivery Body.

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