



Philippa Pickford
Associate Partner, Wholesale Markets
The Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

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

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Dear Philippa,

Electricity Market Reform: Open letter and consultation on changes to the Capacity Market Rules

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. Two of these units have been converted to renewable biomass and a third unit is expected to convert in 2016. At that point, Drax will be a predominantly renewable generator, having completed the largest single site decarbonisation project in the EU.

We welcome this opportunity to comment on Ofgem's priority areas for potential changes to the Capacity Market (CM) Rules. A full response to the consultation questions can be found in Annex 1. However, we take this opportunity to make the following comments:

- We agree with Ofgem's priority to simplify prequalification. We believe the simplification of the opt-out arrangements would be useful, particularly for CMUs that are opted-out over multiple years. Repeating the same data, declaration and certificate submissions on an annual basis is an unnecessary burden.
- We agree it is timely to implement a fix that ensures units that opt-out of T-4 auctions remain eligible to participate in the corresponding T-1 auctions. We note DECC's FAQ confirming their original policy intent on this topic, plus Ofgem's subsequent statement on their intent to correct the issue. Both were welcome and helped to reduce uncertainty on the matter over the intervening period.
- We note the comment on page three of the consultation suggesting a potential move away from the annual cycle of rule changes. We would be concerned if Ofgem were to move to a less frequent rule change process. We would appreciate further information on the alternative approaches under consideration.

Please do not hesitate to contact me, should you wish to discuss any aspect of our response.

Yours sincerely,

By email

Stuart Cotten
Market Development and Compliance Manager

Drax Power Limited – Annex 1: Response to the consultation questions

Electricity Market Reform: Open letter and consultation on changes to the Capacity Market Rules – 19 November 2015

Q1 - Do you agree with our priorities? Are there other priorities which we should consider for this round of Rule changes?

We agree with the priorities outlined in the open letter, in particular the simplification of prequalification. On this theme, a change is required to the information requirements associated with opting-out CMUs. The current process is onerous, particularly where the CMU is likely to be opted-out over multiple years (e.g. due to mothballing or ineligibility). Repeating the same data submissions, declarations and certificates is an unnecessary burden.

Q2 - Do you think there are issues with the current methodology for calculating connection capacity, as described in Annex 1? Are there other issues we have not considered?

Whilst the current options for determining connection capacity have their limitations, we do not believe significant changes are required. Our concern with modifying or replacing existing options is that there are a variety of circumstances for which the rules currently cater. There is currently enough flexibility to enable participation across the GB network with only a small number of instances where issues have occurred. As such, we caution against extensive change in this area that may lead to unintended consequences.

Q3 - Do you believe that any of the options presented in Annex 1 would improve the calculation of connection capacity? Are there other options we have not considered?

Option A

We disagree that CMUs should be tested to their connection capacity. Capacity obligations require CMUs to deliver energy at their de-rated capacity during a stress event, therefore prequalification, performance and, potentially, termination should be based upon contracted capacity.

We note that DECC's recent proposals on secondary trading require CMUs to prove their capability to deliver above their de-rated capacity obligation should they wish to acquire further capacity obligations during a given delivery year. Failure to prove such capability may result in termination of the CMUs capacity agreement. As such, the secondary trading arrangements will provide an incentive to prove capability.

Furthermore, TEC is not a perfect proxy for determining the capability of individual units. A generator may reduce TEC due to issues concerning a single unit. Arbitrarily apportioning TEC across all units located on a site may deliver a distorted representation of individual CMU capability.

Option B

We believe that this is the most pragmatic solution. We are concerned that Ofgem is no longer considering this option due to a potential requirement to amend the Regulations. We believe Ofgem should work with DECC to seek the required amendments to the Regulations to support this change.

Option C

As noted above for Option A, arbitrarily apportioning TEC across all units on a site may not provide an accurate representation of a CMUs capability. As such, it should not be mandatory to use TEC to "test" connection capacity.

Option D

We agree that the listed parameters would not provide a more reliable means than those already in place.

Option E

We agree that this would be difficult in practice and cannot be meaningfully evaluated without further detail on how the calculation would be performed. The process for resolving disputes must also be determined.

Option F

We disagree that the options should be reduced. Capacity providers may wish to take different options based upon their confidence in delivering the capacity during a stress event. A *greater* range of options, as set out in Option B, would be the preferred approach.

Q3a - Do you agree that the sum of unit CECs should always be used when apportioning TEC?

Yes, although as noted above, arbitrarily apportioning TEC across all units located on a site may deliver a distorted representation of individual CMU capability.

Q3b - Do you think that not being able to choose a lower connection capacity is a problem? What are your views on the options considered?

We agree that not being able to choose a lower connection capacity could be a problem. An inability to take an agreement with a lower connection capacity may lead to generators removing CMUs from the auction rather than making a commitment at a higher level that they cannot meet.

Option H

We note that this option is based on current performance, rather than future expectation. As such, it does not take account of performance deterioration over time.

Option I

This option would take account of performance deterioration over time – a limitation of Option H. To address the concerns set out in the consultation document, thought could be given to requiring a justification for choosing a lower figure. Alternatively, the generator could agree to surrender the option of setting a higher figure for future auctions.

Q3c - Do you think there is an issue with taking the lowest figure in a connection agreement? Do you believe that a choice of figures should be allowed?

We believe that the winter figure should be used in this case. However, we support Option B, which would allow CMUs to choose from a range of figures on an equal basis. All parties should have the option to choose a lower figure.

Q4 - Do you believe that the benefits of allowing DSR CMUs to add, remove and reallocate outweigh the costs of increased testing and prequalification? Does volume reallocation already provide sufficient flexibility for DSR CMUs?

No comment.

Q5 - Do you agree that Emergency Manual Disconnection, as covered in section OC6.7 of the Grid Code, should be included in the definition of System Stress Event, Capacity Market Warning and Involuntary Load Reduction?

This appears reasonable.

Q6 - Do you agree with the proposals in Annex 2?

FAQ1

We agree it is timely to implement a fix that ensures CMUs that opt-out of T-4 auctions remain eligible to participate in the corresponding T-1 auction. We note DECC's FAQ confirming their original policy intent on this topic, plus Ofgem's subsequent statement on their intent to correct the issue. Both were welcome and helped to reduce uncertainty on the matter over the intervening period.

FAQ2

We agree that clarity on decimal place usage would be helpful.

FAQ3

No comment.

Other Proposal 1

We agree with the proposal on planning permission being in place for the duration of the capacity agreement.

Other Proposal 2

Whilst we understand the intent, we are concerned over the proposal to label market participants as having "defaulted" simply for failing to secure a capacity agreement.

The term "defaulted" suggests that the potential capacity provider failed to comply with the CM Rules and Regulations. This may be appropriate in the case of a generator submitting false information with the intent to mislead, but not where the generator failed to secure a contract due to a low clearing price, as suggested in the first sentence.

There is also potential for the term to be misconstrued beyond the Capacity Market process, leading to reputational implications for generators.