



Drax
Drax Power Station
Selby
North Yorkshire
YO8 8PH

01757 618381
www.drax.com

31 January 2018

Steven Becker
Ofgem
9 Millbank
London
SW1P 3GE

Dear Steven,

Electricity System Operator : Informal Consultation on ESO Licence Drafting

Drax Group is a UK-based energy company with businesses spanning generation and retail. In recent years we have transformed Drax Power Station into the UK's single largest source of renewable power by upgrading its generation units to use compressed wood pellets in place of coal. Alongside our biomass and coal units, our acquisition of open cycle gas turbine (OCGT) development sites is intended to allow us to play an important role in supporting a flexible power system that can reliably support wind and solar power generation.

Our retail businesses, Haven Power and Opus Energy, are actively engaged in helping businesses with their energy needs, improving efficiency and switching to renewable products. Haven Power is the UK's 5th largest non-domestic electricity supplier by volume. Opus Energy is the UK's 6th largest non-domestic gas and electricity supplier by meter count with over 300,000 supply points.

We welcome this opportunity to provide comments on the Electricity System Operator (ESO) licence drafting. Our preference is for separate ownership of the System Operator and networks as the optimum solution to deliver long term consumer benefits, and remove any real or perceived conflicts of interest. We generally agree with the changes proposed by Ofgem noting that they can be strengthened in areas to ensure that the ESO can "stand alone" as a separate business. This could enable the ESO to provide System Operator capabilities across transmission and distribution networks in the future. In our view the design of the licence conditions should facilitate this aspiration for a whole system approach to System Operation.

Our response to the specific consultation questions can be found in Appendix 1.

Please feel free to contact me, should you wish to discuss any aspect of our response.

Yours sincerely,

Drax Group plc.

Registered Office: Drax Power Station, Selby, North Yorkshire, YO8 8PH
Registered in England and Wales Number: 04883589



Submitted via email

Paul Youngman
Regulation Manager

Appendix 1: Drax response to the consultation questions

General Questions

Question 1. Do you agree that the licence changes we are proposing are sufficient for ensuring effective separation between the ESO and all other National Grid Group transmission and competitive businesses?

In the absence of full separation, we welcome the proposal to create a more independent System Operator (SO) function within National Grid. The licence condition changes appear to facilitate a greater degree of autonomy for the SO function, but there remain areas of concern that need to be addressed to prevent real or perceived conflicts of interest.

We continue to believe that full separation is the optimum solution for consumers over the longer term. The objective of the licence changes should be to enable the System Operator business to “stand alone” if full separation were later mandated. We do not feel the current proposals would fully enable this. For instance, the current proposals envisage a continued sharing of staff and operating a “One SO” model, even though the Gas SO will not be equivalently separated, or independent of Transmission Ownership. This clearly is not separation of business interests, and calls into question the ongoing commitment to these necessary reforms.

2. Do you agree with the Guiding Principles that we have set out? Are there any further principles that we should consider?

We agree with Ofgem that RII0-T1 should not be reopened and the principle that National Grid’s Transmission Owner (TO) interactions with National Grid SO should be more aligned with those of the Scottish Transmission Owners.

To achieve separation effectively we feel that the principle for “minimal change for separation” should be reconsidered. In its place should be the Guiding Principle that the SO could “stand alone” as a business after the changed licence conditions are in place. As well as changes to this guiding principle, and in the absence of full separation, additional licence conditions are suggested to alleviate real or perceived conflicts of interest. As National Grid will continue to operate both TO and SO functions at the same location, it may also be necessary to have additional provisions to promote cultural and behavioural changes. These could include and cover:

- Timely and transparent publication of network requirements/condition
- Provisions for the SO to report regularly to industry on separation and compliance activities
- Measurement of the equality of support provided to industry code processes
- Restriction of the “One SO” model and dual fuel staff
- Identification of areas where information is ring fenced and obligations to implement plans to separate rather than ring fence information

Standard Licence Conditions

3. Do you think that our proposals for Independent Directors will provide sufficient separation?

Yes, we welcome the proposals for Independent Directors.

Special Licence Conditions

4. Do you think that the ESO should have a licence condition which restricts the activities it can undertake? If so, what activities should be restricted?

Yes. The System Operator activities should be limited to technical and commercial actions necessary to plan and operate electricity networks.

5. Do you think allowing NGET to acquire OFTO business is beyond the scope of the separation project and therefore should not be considered at this stage?

Yes, this should not be considered at this stage, and Ofgem should replicate the current licence condition in future licences.

6. Do you think a modified version of Special Conditions 2B and 2H are necessary for NGET?

Yes. We agree with the modifications of SC2B and SC2H and application to National Grid Electricity Transmission as the Transmission Owner. We note that the obligations have been removed from the SO licence without corresponding drafting of SC2O. Our expectation is that similar provisions will be needed to retain the confidentiality and integrity of information.

7. Do you think that Special Condition 2C should apply to NGET in its current form?

Yes.

8. Do you think that allowing NGET to acquire OFTO business is beyond the scope of the separation project?

Yes, it is beyond the scope of the separation project and the existing licence conditions should remain.

9. Do you think Special Condition 2I should apply to NGET and/or the ESO?

Yes. We recommend that there should be provisions in the SO licence to ensure the independence of the CEO and their direct responsibility for business conduct.

10. Do you think an amended version of Special Condition 2O, as described in this document, will provide sufficient safeguards regarding the separation of the ESO from other National Grid Group plc companies?

As noted in response to question six, an amended version of SC2O is required. We would expect this to include the business separation requirements, and the intent of provisions removed in SC2B and SC2H to retain the integrity and confidentiality of information provided to the ESO. As highlighted in response to question two, we would also like to see the inclusion of additional provisions to enhance transparency and reporting. The SO licence should enable it to “stand alone” and should therefore not seek to unnecessarily retain the “one SO” model and sharing of “Dual fuel” staff. In our view licences should not be designed to reflect particular business models rather, businesses should evolve to ensure compliance with their licences.

11. Do you think an amended version of Special Condition 2O for NGET is required for business separation requirements and compliance obligations?

Yes, as outlined in the consultation document.

12. Do you think that Special Condition 3D should be included in NGET’s licence only?

Yes, and the existing potential reward amounts should be reviewed downward to reflect the separation of the businesses. There is a risk that stakeholders may confuse relevant TO and SO incentives. Ofgem will need to be mindful not to increase the overall incentive package available to National Grid through TO and SO incentive schemes.

13. Do you agree with our proposal to keep Special Condition 3F in NGET licence only? This includes updating the EDR guidance so that the reward is calculated solely on TO activities.

Yes.

14. Do you agree with our proposal for amending Special Condition 3H (Network Innovation Allowance), to assign 0.5% of NGET revenue to the NGET licence and the remaining 0.2% of NGET revenue to the NGESO licence?

No this should be addressed and clarified before progressing. It does not feel appropriate, or sustainable, to cross reference revenues between the licences in this way.

15. Do you think both the NGESO and NGET should participate in the Network Innovation Competition going forward? How should the licence drafting of Special Condition 3I be amended to effect this?

As highlighted in question 14 this issue needs clarification from Ofgem. It is not clear that the System Operator role should participate in a Network Innovation competition. It may be more appropriate for SO innovation to be articulated in the yearly business plans and funded/delivered as part of the enduring SO incentive arrangements.