

25 January 2018

Steve McMahon
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Dear Steve,

Consultation on a potential RIIO-ED1 Mid-Period Review

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 potential RIIO-ED1 Mid-Period Review. 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,

Submitted via email

Joshua Logan
Regulatory Analyst

Appendix 1: Drax response to the consultation questions

Chapter 1 - Background

Question 1: Do you have any comments on the scope of the ED-MPR?

We agree with the scope of the Electricity Distribution (ED) Mid Period Review (MPR) as set out in the RIIO-ED1 Strategy Decision. Any changes to existing outputs should be justified by clear changes in government policy. New outputs should only be introduced if they are required to meet the needs of consumers or network users, moreover, if an output is eliminated and no longer needs to be delivered, then the associated funding should be removed.

Question 2: Do you have any comments on the preliminary information on company performance provided in this document?

The information provided is sufficient and provides an illustrative description of company performance. It highlights that network companies are performing well against their outputs and incentive schemes, indicating the associated increase to their Return on Regulatory Equity (RoRE), it's apparent that very few penalties have been imposed on the Network Companies.

Connecting new customers to the network in an efficient and timely manner is a fundamental part of a Distribution Network Operator's (DNO's) role, the status of this output is currently amber with "Mixed performance across DNOs". We would welcome further analysis of this and information regarding the steps been taken by Ofgem and the Network Companies to improve performance against this output.

Chapter 2 - External factors potentially affecting RIIO-ED1

Question 1: Do you agree with the initial view we set out in this section against each individual issue?

At this stage there is still uncertainty around how the role of DNOs will evolve, any proposed transition from DNO to DSO must deliver solutions with whole system benefits. DSOs shouldn't foreclose the market for ancillary services and should encourage competition between market participants. It's not evident that material changes to the outputs are required at this point in time, we would therefore consider issue 6 to be out of the scope of a potential RIIO-ED1 MPR.

There has been changes to government policy since the price control was put in place, the Scottish Government announced plans to phase out petrol and diesel cars by 2032 and expand the charging network for EVs. The Automated and Electric Vehicles Bill will require the installation of more charging points. DNOs should be facilitating this change and will require the relevant funds to do so, should Ofgem believe this output needs to be reviewed when there is more clarity around potential changes, we would support this. If this isn't addressed as part of a MPR, we would welcome suggestions on how Ofgem propose to tackle this issue.

It's not clear what changes in outputs are required to implement the European Clean Energy Package, as such, issue 2 is out of the scope of a MPR.

DNOs should work continuously with the relevant stakeholders to ensure network resilience against flooding. Issue 3 may require DNOs to revise their current flood protection programme, although we do not believe there has been a material change in outputs. As such, we believe Issue 3 is out of the scope of a MPR.

DNOs should already be taking the appropriate actions to protect their networks from cyber security threats and the implementation of the EU Network and Information Systems Directive should not place substantive new requirements on the DNOs, anyhow, DNOs should not require extra funding to avoid breaking the law. Issue 4 will not require material changes to existing outputs and is not within the scope of a MPR.

Although industry is currently reviewing the arrangements around black start, it is not clear that Issue 5 highlights a departure from the status-quo, there will be no change to outputs and therefore we consider this to be out of the scope of a MPR.

Smart meter installations are carried out by suppliers, there is a service level agreement (SLA) in place with DNOs should the installation require attention, however, there is a DCUSA modification that seeks to release the DNOs from this obligation. Issue 7 is therefore out of the scope of a MPR.

Question 2: Have you identified any other issues not covered in this section that should be considered within the scope of the ED-MPR process?

No.

Question 3: What are your views on a discrete extension of the ED-MPR scope as described in paragraph 2.30 (rail electrification)?

The cancellation of rail electrification projects (Midland Main Line Phase 2 (Kettering to Nottingham and Sheffield), Cardiff-Swansea and Oxenholme-Windermere) are a direct result of government policy. Although rail electrification is not one of the six primary outputs identified by RIIO-ED1, the MPR is designed "to cover external factors affecting the operation of the RIIO-ED1 price control", there have been material changes to discrete projects with clearly defined deliverables and as such we would agree that there should be a small extension to the MPR scope. Customers should be entitled to a refund where costs have not materialised due to a change in government policy.

Chapter 3 - Additional issues considered

Question 1: What are your views on a potential significant extension of scope to capture financial and incentive performance and design?

Whilst we appreciate the challenges Ofgem will face if they were to extend the scope of the MPR to capture financial and incentive performance design, we believe Ofgem must act in accordance with their principal objective which is to protect the interests of existing and future consumers. If Ofgem have identified a potential benefit to consumers that can be achieved through changes to the financial and incentive performance design framework, then this should be addressed, be it through a MPR or any other means.

Question 2: Do you have any views on the other issues raised in this section?

No.