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Dear Andrew,

Enabling the competitive deployment of storage in a flexible energy system: changes to the electricity distribution licence

Drax Group is a UK-based energy company with businesses in both 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 units, we are considering the option to repower up to two of our existing coal fired units using gas, and build a battery storage facility of up to 200MW. In addition to this, 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.

We welcome this opportunity to provide comments on modifications to the electricity distribution licence in regards to the competitive deployment of storage.

Whilst supportive of the consultation, we would like to raise the following points;

- It is critical to market integrity that DNOs should be prohibited from both owning and operating storage assets as this could foreclose market development to the detriment of consumers. Only in exceptional circumstances should assets be exempt from this condition.
- Where exceptions are made that allow DNOs to own and operate storage assets, additional measures and mandatory legal separation are required to ensure minimum distortion to the market and ongoing separation compliance.
- A comprehensive and periodic review process must be implemented in order to reaffirm past exemptions in order to maintain a competitive and fair market.

Detailed answers to the questions raised in the consultation document can be found in Appendix 1. Please feel free to contact me, should you wish to discuss any aspect of this response.

Yours sincerely,

Submitted by email

Andrew McKenna
Senior Regulatory Analyst

Appendix 1: Drax Group response to the consultation questions

Question 1: Do you agree that the proposed new condition will ensure legal unbundling of DNOs from the operation of storage that benefits from an exemption to hold a generation licence?

Whilst Drax consider it to be a positive step that Article 26 of the European Directive 2009/72/EC of the European Parliament and of the Council will apply to all sizes of generation or storage, we do not believe that the proposed new condition will ensure legal unbundling of DNOs. Despite being a different legal entity, any decisions on the dispatch of storage units may still be made by an entity operating under the same corporate group as the DNO entity. Clearly the perception may be that the DNO's commercial interest in the storage asset could distort despatch behaviour. A potential method of ensuring that DNOs are unable to commercially benefit from decisions made by the System Operator or influence the deployment of storage assets would be to prohibit DNOs from owning storage capacity. Exemptions should only be granted under exceptional circumstances and after rigorous market testing and consultation with industry.

Further to this, with the increasing amounts of distributed generation (including storage), the clear delineation between the role of Transmission and Distribution System Operator becomes increasingly blurred in future and so the same conflict of interest risk exists – as such, it is difficult to reconcile why the restrictions on DNO ownership of Generation should be any different to that of TOs.

Question 2: Do you agree that the same principles of unbundling should apply to IDNOs? Do you have any views on the application of the specific new condition proposed here applying to IDNOs?

As IDNOs are effectively an extension of the DNO framework, Drax believe that they should abide by the same governing principles as standard practice. If, however, an IDNO believed that this presented them with an additional barrier that led to a commercial disadvantage, they could apply for an 'exemption', although this should be done on a case by case basis.

Question 3: Do you agree that DNOs should be able to directly own and operate small-scale storage for the purposes of providing uninterruptible power supplies (UPS) at substations?

Drax believe that in limited circumstances, the most appropriate solution may be for UPS to be owned by DNOs as they are often deemed as safety critical pieces of equipment and there may be no other solution. It is important however, that such small-scale storage is solely providing critical support in the event of system outage and not connected to the system.

In addition to this, any UPS should be procured through a competitive tendered process which should be fully transparent to all market participants. In the event of failure of securing sufficient and adequate UPS, the DNO should then apply for an exemption – this process should be full transparent to all market participants.

Do you agree that DNOs should be able to directly own and operate small-scale storage for the time-limited purposes of emergency restoration and maintenance?

Yes – As emergency response and maintenance fleets are used to improve the reliability and security of the system, an appropriate size of fleet should be encouraged - this should be fully transparent and only implemented if a solution cannot be provided through a competitive tender process.

Do you think DNOs should be able to directly own and operate storage for any other specific applications?

No – in ordinary circumstances, Drax believe that the DNO should not own and operate storage for any other specific application as it may distort the market.

Question 4: Do you have any views on the treatment of existing islanded system generation currently owned by DNOs?

Drax believe that there should be a fully transparent process to ensure that DNOs have robustly sought market based solutions through the competitive market before requesting an exemption to own/operate storage.

Do you have any views on the treatment of future use of DNO owned and operated generation of storage in similar island situations?

The proposed approach may present an uneven playing field between those who have generation assets already present on island systems and those who have to apply should there be stringent conditions that have to be met in order to be successful in application. In the circumstances that led to DNOs owning and operating storage on islanded systems, Drax believe it is necessary for a robust and transparent market tender to take place.

Guidance document

Question 1: What are your views on the three high-level criteria proposed as the basis for assessing applications for consent?

In principle, Drax agrees with the three core criteria that have been outlined in the consultation document. However, we believe that there is the potential for the first of these criteria to be undermined due to the ambiguous nature of what constitutes an efficient solution.

Whilst Drax support the principle of sourcing the most cost efficient solution to the market, it should be made clear in the consultation that this 'cost efficiency' applies to the end consumer as opposed to the DNO.

Question 2: Do you have any other views on the scope or content of the proposed guidance document?

Drax believes that paragraph 3.7 of the consultation is not sufficiently clear. DNOs applying for an exception other than those outlined in paragraph 3.6 should be made available to the public and all exceptions should be named and defined in legal guidance.

Further to this, it is believed that the requirements of separation set out in paragraphs 3.4 & 3.5 of the consultation do not go far enough to ensure sufficient separation or provide sufficient monitoring of compliance between the owner and operator.

We believe separation should be assured, by the regulator or other independent 3rd party rather than the proposed 'self-assessment' method identified in paragraphs 3.4.

Question 3: Do you have any views on the process that should apply to the assessment of applications?

Drax would expect Ofgem to periodically review granted exemptions, this will ensure decisions were appropriate and will help inform future decisions on exemptions.

Reporting and monitoring

Question 1: Do you have any views on reporting requirements for DNOs that own/operate storage assets?

Question 2: Are there any particular types of data that, if published, could facilitate entry of competitive parties?

Is there any other information or data that you think DNOs hold about the deployment of storage on their networks that they could usefully make public?

Even if legal separation is put in place between the DNO entities, there still remains a potential for a conflict of interests on the ownership/operation of the assets. Drax believes that in any instance where a DNO both owns and operates storage, a report should be produced on the costs and commercial rationale behind the decisions made in relation to the assets. This breakdown should be made available to the market and regulator.

Drax believes that reporting requirements on the generation profile of the assets, costs of installation/operating and the impacts (or lack of impact) on local customer behaviours should all be made available to facilitate the

entry of competitive parties. Ofgem should keep this under review and any ensure any new or additional data deemed to increase competition in the market be made available.