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Michael Wagner,
The Office of Gas and Electricity Markets,
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9 October 2018

Dear Michael,

Open letter on the Five Year Review of the Capacity Market Rules and NGET's incentives (the "Review")

Drax Group is a UK-based energy company with businesses spanning generation and retail. Alongside our biomass and coal generation 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. We also have plans to repower our remaining coal units by converting them into combined cycle gas turbines (CCGTs), with both the OCGTs and CCGTs requiring support under the capacity market for us to take a final investment decision.

Our retail businesses, Haven Power and Opus Energy, are actively engaged in helping business customers 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 the opportunity to respond to this open letter and provide our feedback on the issues under consideration in Appendix A. We also note, in light of this review, that Ofgem only plans to consider urgent changes to the Rules for the 2018/19 change process. We would like to raise an urgent new proposal for assessment, which we have set out in Appendix B.

If you have any questions or wish to discuss our response, then please feel free to get in touch.

Yours sincerely,

Submitted by email

Claire Sedgwick
Commercial Team

Appendix A: Open letter response

Ofgem have asked for views on whether the Capacity Market Rules (“the **Rules**”) meet their objectives and whether there are less burdensome ways of ensuring they continue to do so. Our response is set out below.

Annual Rules change process

We believe there could be a more efficient way to assess and implement changes to the Rules while also giving industry greater responsibility in assessing the value of amendments.

The original notion of the policy principles being set out in the Regulations and owned by Government, and detailed processes being set out in the Rulebook and owned by Ofgem, remains appropriate. However, in practice, the line is somewhat blurred leading to confusion and, in some cases, no single body taking responsibility for issues within the Capacity Market framework.

This could be resolved by making two changes: (i) moving elements of process contained in the Regulations to the Rulebook; and (ii) identifying those areas in the Rulebook that relate to systems administered by the EMR Delivery Body and EMR Settlements Body and moving them into subsidiary documents that enable an industry change process without the need for a formal Rulebook change. This would streamline the change process by avoiding the need for parliamentary time for relatively minor issues and ensuring system based problems can be resolved efficiently.

There are an increasingly large number of rule change proposals put forward by market participants and it takes significant time for Ofgem to assess which of those to take to formal consultation, and further significant time to consult and consider consultation responses. The process in 2018 took 10 months to complete and ended shortly before the start of prequalification, which made it difficult for projects planning participation in upcoming auctions to understand what Rules will apply to that particular auction. Two common barriers to Rule change proposals seem to be the lack of flexibility (a) to change related Regulations, and (b) to change the Delivery Body IT systems to implement changes. We would welcome a shorter, more efficient process and would welcome giving industry greater responsibility, perhaps through creating expert groups/panels which meet regularly to discuss improvements.

Whether the objectives of the Rules could be achieved with less burden on participants.

The three objectives of the Capacity Market Rules (security of supply, cost effectiveness and avoiding unintended consequences) remain appropriate however since their inception, the Rules have become increasingly complex and this can act as a barrier to entry. We agree that the Rules need significant simplification and reduction of regulatory burden from requirements in the Rules.

The appropriateness of the secondary trading arrangements to ensure that participants have the right incentives and opportunities to engage in the secondary trading market.

We believe that secondary trading has not yet reached its full potential and that further improvements could be made and would welcome participating in a workstream to further develop that market. We note Energy UK is working on this topic and we support their initiative.



The appropriateness of NGET's incentives for exercising its functions in delivering the Capacity Market to ensure that they remain fit for purpose.

In terms of the annual processes, the responsibilities of each party appear to be clear. However, the approach taken to apply the rules by the administrative and delivery bodies can sometimes be rather draconian, failing to apply common sense and allowing for genuine administrative error.

There also appears to be a lack of resource employed by the administrative and delivery bodies, making it difficult to access relevant expertise and resolve issues in a timely manner. These bodies should be incentivised to support market participants more effectively.



Appendix B: New rule change proposal

Please find attached the Proposal for a Capacity Market Rules Change together with suggested revised drafting.