

14 March 2019

Grendon Thompson  
Ofgem  
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London  
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Dear Grendon,

### **Consultation on the evaluation process for the 2019-20 ESO regulatory and incentives framework**

Drax Group plc (Drax) owns and operates a portfolio of flexible, low carbon and renewable electricity generation assets – providing enough power for the equivalent of more than 8.3 million homes across the UK. The assets include Drax Power Station, based at Selby, North Yorkshire, which is the country's single largest source of renewable electricity. Drax also owns two retail businesses, Haven Power and Opus Energy, which are actively engaged in helping businesses with their energy needs, improving efficiency and switching to renewable products. Together they supply renewable electricity and gas to over 350,000 business premises.

We welcome this opportunity to provide comments on the evaluation process for the 2019-20 ESO regulatory and incentives framework.

Drax acknowledges that there are synergies across the principles set out in the framework. We agree that this can create difficulties in separating out evidence for the purposes of evaluation under a single principle and potentially undermine the ESO to holistically consider the optimum consumer value. We therefore welcome Ofgem's proposals to group some of the principles together under 'role areas'. Such change should allow for a more comprehensive evaluation and alleviates our concern that the ESO could be rewarded disproportionately through multiple incentive payments for the same deliverables.

Whilst the consultation states "*the principles will no longer have an explicit weighting and incentive range associated with them*", we are mindful that under the proposals, Role 3 and 4 which include 3 principles have the same incentive range ( $\pm$  £10m) as Role 1 which only includes 2 principles. We do not expect the ESO to place more importance on some principles compared to others as a result of this rearrangement. If Ofgem or the ESO Performance Panel observe such behaviour from the ESO, we would expect action to be taken and this to be considered when deriving incentive values.

We would like to take the opportunity of this response to express our support to the feedback provided by Ofgem and the Performance Panel to the ESO's Forward Plan. We agree that several of the proposed

#### **Drax Group plc.**

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Performance Metrics and deliverables in the Forward Plan are not ambitious enough nor do they provide the expected level of detail.

We also echo Ofgem's expectation that the plan should include more explicit information on how and where the ESO expects to drive long-term consumer benefits. One of the areas where we expect the ESO to describe more concretely its plan to deliver long-term consumer benefits is the management of the increasing costs associated with balancing and operating the system in a secure manner. We have urged the ESO to take necessary steps to develop a comprehensive procurement approach in this area, finding the balance between shorter-term and longer-term procurement of balancing and ancillary services. This should assist the ESO to hedge against price volatility and provide a clear signal for the industry to make the necessary investments, delivering long-term consumers benefits.

Not taking a long-term view (>5 years) to address the increasing system needs (e.g. reactive power, inertia), is a risk ultimately borne by end consumers. We expect that, when assessing ESO's performance, the Panel will duly consider this, and, more broadly, that Ofgem will ensure that the regulatory framework is implemented in such a way so that the ESO is sufficiently incentivised to act in the interest of consumers.

We remain at the ESO's and Ofgem's disposal to provide evidence on how consumer benefits could be delivered if supported by a longer-term vision that enable the transition to a flexible, low-carbon energy system.

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

Yours sincerely,

*Submitted via email*

**Paul Youngman**  
**Regulation Manager**