



Drax Power Limited

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04 February 2019

Andrew Self
Ofgem
10 South Colonnade,
London,
E14 4PU
TCR@ofgem.gov.uk

Dear Andrew,

Drax Response to the Targeted Charging Review minded to decision

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 together supply renewable electricity and gas to over 350,000 business premises.

We welcome the opportunity to respond to the Targeted Charging Review (TCR) minded to decision and our detailed answers are provided in Appendix 1. We are supportive of the proposal to levy residual charges on demand and believe that this change should contribute to an enduring charging regime that is predictable, proportionate and fair. We also agree with Ofgem that there will need to be consideration of the appropriate scheduling of changes across the different elements of charging not least to ensure alignment with the outcome of the Access and Forward Charging SCR.

We would welcome further consideration of the full implications of introducing changes to alter the Transmission Generation Residual. Our view is that this could have negative impacts on competition and further distort the market in favour of EU generators and interconnectors. We would also welcome further consideration of how compliance with EC838/2010 is maintained in the future.

We trust that you find our views useful. If you have any questions please don't hesitate to get in touch.

Yours sincerely,

Submitted by email

Paul Youngman
Regulation Manager

Drax Group plc.

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Appendix 1: Drax response to Ofgem Minded to decision on the Targeted Charging Review

Question 1. Do you agree that residual charges should be levied on final demand only?

Yes, we agree that residual charges should be levied on final demand. The case made by Ofgem in the minded to decision is sound and based on clear principles that provide clarity as to both system and consumer benefits.

Question 2. Do you agree with how we have assessed the impacts of the changes we have considered against the principles? If you disagree with our assessment, please provide evidence for your reasoning.

Yes, we agree with how Ofgem have assessed the impact of demand residual charging against the principles of

- Fairness
- Proportionality
- Reducing harmful distortions

For future developments, particularly related to changes to embedded benefits charging and proposed changes to negative Transmission Generation Residual, it is important that the same principles are applied consistently. It is important that changes have a clear supporting cost benefit analysis that takes into account security of supply and the relative competitiveness of generation in the UK and Europe. Similarly, the BSUoS task force needs a clear set of principles. In addition, there needs to be a broad cross section of industry and consumer representatives to scope out and undertake the analysis and impact assessment necessary to develop and propose future changes.

Question 3. For each user, residual charges are currently based on the costs of the voltage level of the network to which a user is connected and the higher voltage levels of the network, but not from lower voltage levels below the user's connection.

At this stage, we are not proposing changes to this aspect of the current arrangements. Are there other approaches that would better meet our TCR principles reducing harmful distortions, fairness and proportionality and practical considerations?

We agree with Ofgem that the current method of apportionment is in step with the principles adopted in the TCR. If there were proposals to change the current arrangements, then we would expect this to be accompanied with evidence as to how a change would improve fairness and reduce harmful distortions. It is not clear that there is any justification at this time to change the charging basis from the current arrangements

Question 4. As explained in paragraphs 4.41, 4.43, 4.46, 4.49, 4.80, we think we should prioritise equality within charging segments and equity across all segments.

Do you agree that it is fair for all users in the same segment to pay the same charge, and the manner in which we have set the segments? If not, do you know of another approach with available data which would address this issue?

Please provide evidence to support your answer.

We agree with the approach taken and believe it is fair for all users in the same segment to pay the same charge. The principle appears to be fairly aligned the only proviso we have is with respect to EHV connections. We note that there is concern that these customers could be disproportionately impacted compared to the current arrangements. We would welcome further work on this specific issue to ensure that the proportionality and fairness is reflected in any transition to the arrangements.

Question 5. Do you agree that similar customers with and without on-site generation should pay the same residual charges? Should both types of users face the same residual charge for their Line Loss Factor Class (LLFC)?

Yes. The residual charge is designed to recover the costs of the network that are not reflected in forward looking charges and should therefore be recovered from all customers. Whether a customer has behind the meter generation or not should be immaterial to the level of residual charges that the customer pays.

Question 6. Do you know of any reasons why the expected consumer benefits from our leading options might not materialise?

We broadly agree with the analysis of benefits to the consumer from the two leading options. We recognise that earlier implementation of charging residual charges solely on demand optimises consumer and system benefits.

Question 7. Do you agree that our leading options will be more practical to implement than other options?

Yes. Our preference is for charging to be based on LLFC's as this is a method that is already utilised to segment customers. There may be some necessity to ensure consistency in application across all distribution networks in the future so there are clear expectations as to customer charges.

Question 8. Do you agree with the approaches set out for banding (either LLFC or demanding for agreed capacity)? If not please provide evidence as why different approaches to banding would better facilitate the TCR principles.

Our preference for LLFC is based on the measure being a known existing industry standard that should enable all parties the ability to forecast relevant charges and changes in a consistent way. The capacity method would necessitate the development of new standards and assignment of customers into capacity bandings. Many customers capacity may need to be deemed and this could lead to inconsistency of application and pricing by suppliers.

Question 9. Do you agree that LLFCs are a sensible way to segment residual charges? If not, are there other existing classifications that should be considered in more detail?

We think LLFC's are a sensible way to segment residual charges as this is a well-established method of classification. Going forward changes to LLFC's will need to be closely monitored and assessed

as changes to the LLFC values may impact on the charges recovered. We are also mindful that some industry participants have questioned whether LLFC's are appropriate at EHV level where there is inherently less diverse customer base. This may lead to these customers having a disproportionate allocation of charges which would not be aligned with the TCR principles.

Question 10. Do you agree with the conclusions we have drawn from our assessment of the following?

- a) distributional modelling**
- b) the distributional impacts of the options**
- c) our wider system modelling**
- d) how we have interpreted the wider system modelling?**

Please be specific which assessment you agree/disagree with.

d) We are not convinced that the wider system modelling has been appropriately interpreted by Ofgem and would appreciate more consideration and analysis before industry progresses with the TGR elements. The analysis is rightly and clearly caveated and for instance makes no reference to ongoing longer-term compliance with a TGR of £0. It is not evident that the full range of impacts from the changes to the TGR and BSUoS reforms has been included within the Ofgem decision document. Specifically, the analysis points to detrimental impacts on both distribution and transmission generation relative to interconnectors that the analysis concludes will lead to higher capacity market costs. It is not clear where this has been factored into Ofgem thinking in reaching its minded to decision. We would welcome further specific work in this area to ensure that the projected outcomes are consistent with the TCR principles.

Question 11. Do you agree with our proposed approach to the reform of the remaining non-locational Embedded Benefits?

We agree with the principle that there is a level playing field for generators and other connections. We are concerned that the conclusions reached in the minded to decision and analysis are not as fully developed as the residual demand charging parts of the report.

Ofgem's direction to the ESO to address its new interpretation on compliance to European Regulation EC838/2010 may lead to a further distortion of competition which may undermine the benefits of changes to the demand residual. We would welcome Ofgem considering this aspect of charging further including the current distortions between transmission generation and interconnectors. We are mindful that the provisions of EC838/2010 were introduced to limit cross border distortions. We feel that there has not been enough consideration of the wider impacts of the proposed changes to ensure that it is the interests of both current and future consumers.

Question 12. Do you agree with our proposal not to address any other remaining Embedded Benefits at this stage?

Which of the embedded benefits do you think should be removed as outlined in xx?

Please state your reasoning and provide evidence to support your answer.

Yes. The remainder of remaining non-locational Embedded Benefits do not need to be addressed through the Targeted Charging Reform.

Question 13. Are there any reasons we have not included that mean that the remaining Embedded Benefits should be maintained?

No comment

Question 14. Do you agree with our proposed approach to transitional arrangements for reforms to:

- a) transmission and distribution residual charges**
- b) non-locational Embedded Benefits?**

Please provide evidence to indicate why different arrangements would be more appropriate.

The broad changes to transmission and distribution residual charges have been signalled throughout the SCR and bring greater customer and system benefit the earlier they are introduced. We see no impediment to charging the TNUOS residual fully on demand as soon as practicable given the need for parties to alter systems and charging arrangements.

Additional alterations such as negative Transmission Generation charges will need to continue to comply with legislation and will need a thorough examination and supporting analysis comparable to the analysis completed for demand residual charging. We would expect any subsequent changes to be transitioned over a longer time horizon in line with the Access and forward charging review.

Question 15. Do you agree with our minded to decision set out? If not please state your reasoning and provide evidence to support your answer.

We are supportive of the network residual being recovered from final demand. Ofgem will need to be mindful of the interactions with the Access SCR and the wider implications for UK based generation including assurance of a level playing field in the Capacity Market.

Question 16. For our preferred option do you think there are practical consideration or difficulties that we have not taken account of? Please provide evidence to support your answer.

No comment