

12 July 2019

Andy Burgess
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Dear Mr Burgess,

Future Charging and Access programme – consultation on supplementary information and analysis to November 2018 minded-to decision on the Targeted Charging Review

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 this opportunity to provide comments on the Future Charging & Access programme. Drax support the additional analysis that has been undertaken and believe there is still significant consumer benefits as a result of the proposed changes in Ofgem's minded-to decision on the Targeted Charging Review (TCR). We support the conclusions of the BSUoS Task Force and agree BSUoS should be treated as a cost recovery charge. Drax believe that BSUoS charges should be a variation of a fixed ex-ante charge on gross demand (excluding storage) which aligns with the conclusion of the BSUoS Task Force and the principles in the TCR minded-to decision. Modifications CMP308 "Removal of BSUoS charges from generation" and CMP281 "Removal of BSUoS charges from energy taken from the National Grid System by storage facilities" are already in flight and seek to address distortions in the wholesale market for electricity, we would welcome Ofgem's insight and direction on the next steps to implement an appropriate cost recovery methodology for BSUoS charges.

Results of the Capacity Market sensitivity analysis

Whilst we remain confident that the Capacity Market is fit for purpose and will be reinstated, we welcome the analysis and agree that it's prudent to test the benefits of the Targeted Charging Review (TCR) reform in a 'no Capacity Market' scenario.

The analysis demonstrates that in the absence of a Capacity Market, the proposed changes through the TCR would still have a significant positive impact on consumers. We note that there is a £0.3bn reduction to the consumer benefit and a £0.81bn reduction to the system benefit, however on balance Drax support the conclusion of the analysis and agree the benefits of the proposed TCR reform are worthwhile and robust in a 'no Capacity Market' scenario.

Taking account of the Balancing Services Charges Task Force findings

We agree with the conclusions of the BSUoS Task Force. Given the potential options identified by the Task Force, it's not feasible to charge any BSUoS components in a meaningful cost-reflective and forward-looking manner - it would not effectively influence user behaviour or reduce whole system costs. The costs within BSUoS should all be treated on a cost-recovery basis. The conclusion of the Task Force, alongside the principles in Ofgem's TCR minded-to decision, should now guide the necessary changes to BSUoS to implement an appropriate cost-recovery methodology.

The November 2018 TCR minded-to decision suggests that residual cost-recovery charges should be placed on demand and that there should be no embedded BSUoS benefit. CUSC modifications CMP308 and CMP281 seek to address market distortions caused by the existing BSUoS charging methodology and collectively propose to place 100% of BSUoS on demand (excluding storage demand). The conclusions of the Task Force and proposed treatment of residual charges in the TCR appear to support the CMP308 and CMP281 proposals.

The issue of BSUoS volatility and consequential applied risk premiums must be addressed to reduce costs for end consumers. We see merit in fixing BSUoS ahead of time and this can be done in multiple ways. Drax raised CMP250 in 2015 which sought to fix the £/MWh value of BSUoS for the charging year with a twelve-month notice period. Another approach would be to mirror the treatment of TNUoS residual charges in the TCR minded-to decision. We would welcome guidance from Ofgem regarding this.

In summary, Drax support BSUoS charges being some variant of a fixed ex-ante charge on gross demand (excluding storage), this aligns with both the conclusions of the BSUoS Task Force and the November 2018 TCR minded-to decision. It would be beneficial if Ofgem provide clarity on the timeline and next steps to implement the required changes to BSUoS. Following this, industry would then be able to raise the appropriate charging modifications to stabilise BSUoS charges and remove the BSUoS embedded benefit. This should take place without delay to avoid further uncertainty, especially given the need for a reasonable implementation lead time and considering that CMP308 is already in train.

Updated carbon values

We welcome the revised analysis using the correct carbon values. The consumer benefits remain the same but estimated system costs under the reforms increase by up to £0.23bn. Overall, we agree there is still significant benefit as a result of the TCR reform.

Clarification of line loss factor classes

When the November 2018 TCR minded-to decision was consulted on, our assumption was that 'line loss factor classes' referred to those line loss factor class groupings in the Distribution Use of System tariff groups. We welcome this clarification from Ofgem and do not wish to amend our response to that November 2018 consultation.

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

Yours sincerely,

Submitted via email

Joshua Logan
Regulatory Analyst