

21 October 2019

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**Non-confidential**

Dear Grendon,

**Mid-year call for evidence on Electricity System Operator (ESO) performance**

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 ESO's performance and make the following observations:

- ESO performance has been satisfactory, but there is room for improvement across all four roles if the ESO is to go beyond business-as-usual.
- The delivery of the new platform for ancillary services (PAS) is a positive development, which has the potential to improve the ESO's system management toolkit and provide faster access to the market.
- There can be improvements made to the ESO's transparency and reporting, particularly in relation to system needs, balancing actions and the granularity of BSUoS costs.
- The developments as part of the Network Options Assessment (NOA) process are welcome. There is scope for widening NOA to explicitly include wider system operability issues (e.g. inertia/RoCoF, dynamic voltage control, short-circuit, fault ride through capability, etc.).
- The Network Development Pathfinders are also welcome. However, the pace of development needs to be accelerated and the framework for assessing different options available to the ESO needs to be re-designed to allow 'market' and 'network' solutions to compete on an equal footing.
- A more comprehensive approach to developing system requirements and products will be key to unlocking whole system benefits. Where possible, different service requirements should be bundled into a unified product or aligned with Capacity Market auction timescales to create clearer signals for investment in resources that can address a range of system needs.
- Delays to SNAPS deliverables and Project TERRE can negatively impact stakeholder and investor confidence.

- The Charging Futures Forum (CFF) is organised and informative. We encourage the ESO to build on this good work.
- Codes administration must improve to enable timely and robust regulatory change as the market evolves.

Our detailed response to the call for evidence is appended. We would be happy to discuss any aspect of our response with you further if it would be helpful.

Yours sincerely,

*Submitted via email*

**Matt Young**  
**Group Head of Regulation**

## Appendix - Detailed response

### **Role 1: Managing system balance and operability**

There is room for improvement in the ESO's performance when assessing against Role 1. We believe there is merit in a long-term forecast of how future service requirements are likely to evolve. Sharing this information will enable better informed investment decisions and the development of markets that will minimise costs for end consumers.

There is still a lack of transparency regarding balancing actions and why certain operational decisions are taken. For example, there can often be plant running out of merit order because of actions taken by the ESO, yet the reason why is opaque to the market. Disclosing the identity of assets the ESO has transacted with through 7A trades would be a "quick win" and we would support further development in this area.

In 2018/19 there were improvements to the reporting of Balancing Services Use of System (BSUoS) costs through the Monthly Balancing Services Summary (MBSS) and daily reporting. However, we think these publications can be further improved and made more useful for market participants. We would welcome a review of these publications utilising feedback from industry. For example, there could be appetite for more granular historic cost reporting, which would better illustrate the cost of certain services and system requirements.

We are disappointed that the shortfall in monies recovered for *black start* in 2018/19 are being recovered through the Reconciliation Final (RF) runs without industry being made aware of this or any of the reports being updated. The impact of this is not insignificant and we would have expected better communication by the ESO to BSUoS payers on this RF adjustment.

### **Role 2: Facilitating competitive markets**

We welcome the publication of Requests for Information (RFI's) for the voltage and stability pathfinders and the ESO's efforts to commercially manage system challenges, but improvements can be made. The progression of pathfinders can be slow and they seek to solve specific issues in isolation. We note the reactive Pathfinder in Mersey was for a very small geographic area and the one for Pennine has been delayed by six months. The ESO should consider enabling parties to provide multiple system support offerings as part of the same package in order to create clearer investment signals and deliver whole system benefits. The constraint management pathfinder is on the horizon and we would appreciate a swift progression with no delays.

The various Product Roadmaps continue to be significantly delayed, such as, the daily frequency response auctions. We have no clear understanding of the future design of the reactive, reserve and faster acting frequency response products.

The ESO has a clear aim to facilitate competitive markets and we support the reform of balancing services, wider access to the Balancing Mechanism (BM), and Project TERRE. We reiterate the importance of delivering these initiatives and SNAPS workstreams in a timely manner for market participants to benefit from the strategy and would welcome firm timescales and more effective communication. These are essential prerequisites for market confidence and investor certainty. For example, the delay to project TERRE - assuming a derogation is granted - impacts the confidence to invest in the relevant systems to go-live.

The Charging Futures Forum is well organised and informative; we encourage the ESO to continue their work in this area and consult with stakeholders on potential improvements. On the other hand, Code

administration is below expectations, this is evident in the 2019 Code Administrators' Performance Survey Findings<sup>1</sup>.

- The ESO needs to act independently and fairly: Prioritisation appears to favour National Grid TO and ESO modifications.
- The production of legal text can take longer than we would expect, delaying the end-to-end process.
- Resource limitations mean that lower priority modifications are progressed very slowly with many months between workgroup meetings.

### **Role 3: Facilitating whole system outcomes**

We believe that the ESO could adopt a more holistic approach regarding the development of its system requirements and products, placing more focus on the interactions between the ancillary services markets and other markets. For example, the ESO could consider aligning the procurement of certain ancillary services with the Capacity Market timescales. If stackable long-term ancillary services contracts were tendered and awarded ahead of the Capacity Market auction, then this would enable the right type of capacity to be procured in the right locations. This would promote more efficient investment decisions, as opposed to considering available capacity and system stability in isolation.

The ESO should place more emphasis on whole system outcomes when considering interactions between system support products. In some circumstances service requirements can be met more economically if these service requirements are bundled together into a unified product. We suggest that the ESO considers the interactions between the proposed future products and, where economically and technically possible, service requirements are integrated into a single product. This would reduce whole system costs and demonstrate how the ESO is reducing costs for end consumers.

The Open Networks Project has developed several “Future Worlds”. Some of these worlds represent a considerable deviation from the current market framework, for example, the DSO acting as an aggregator of Distributed Energy Resources and offering services to the ESO. The Open Networks Project appears disjointed from other ESO workstreams such as wider access to the BM. It’s also not clear how the “Future Worlds” interact with current market structures and ongoing work. We would welcome clarity from the ESO and the ENA to ensure that ongoing projects are compatible and facilitate efficient whole system outcomes.

### **Role 4: Supporting competition in networks**

As we highlighted in the previous call for evidence on ESO performance, we support the NOA process in principle. However, we urge the ESO to develop a framework that enables market and network solutions to compete on a more level playing field. Under the current regime, networks can amortise their costs and recover them in a regulated fashion over a period of 30-40 years, whereas market solutions need to price all the relevant costs and risks into a shorter contractual period (e.g. approx. 7 years).

Additionally, it’s not clear when contracting opportunities are open to non-network companies or how these are assessed through a competitive procurement process. The ESO could improve its communication and engagement with market participants, supporting them to participate in the NOA process. All parties should have the same level of information and be involved at the same time in potential commercial opportunities.

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<sup>1</sup> [https://www.ofgem.gov.uk/publications-and-updates/code-administrators-performance-survey-findings-2019?utm\\_medium=email&utm\\_source=dotMailer&utm\\_campaign=Daily-Alert\\_11-10-2019&utm\\_content=Code+Administrators%26%23039%3b+Performance+Survey+Findings+-+2019&dm\\_i=1QCB,6J453,QCWY2H,PY4OK,1](https://www.ofgem.gov.uk/publications-and-updates/code-administrators-performance-survey-findings-2019?utm_medium=email&utm_source=dotMailer&utm_campaign=Daily-Alert_11-10-2019&utm_content=Code+Administrators%26%23039%3b+Performance+Survey+Findings+-+2019&dm_i=1QCB,6J453,QCWY2H,PY4OK,1)