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Dear Geoff,

Consultation on a potential RIIO-T1 and GD1 mid-period review

Drax Power Limited ("Drax") is the operating subsidiary of Drax Group plc and the owner and operator of Drax Power Station in North Yorkshire. The 4,000MW station consists of six separate units, which together produce around 7-8% of UK generation. Two of these units have been converted to renewable biomass and a third unit is expected to convert in 2016. At that point, Drax will be a predominantly renewable generator, having completed the largest single site decarbonisation project in the EU.

Thank you for the opportunity to respond to the abovementioned consultation. Our response is focussed on the electricity sector. We are supportive of Ofgem's proposal to initiate a mid-period review of the RIIO-T1 price control. We agree a review is justified considering the significant market developments that have taken place since the price control was determined. We expect that the changes witnessed will continue and intensify in future years. Specifically, the changing generation mix will increase the challenges facing the System Operator (SO) in delivering a secure electricity system.

When considering the RIIO T-1 Outputs, these Outputs appear to be very Transmission Owner (TO) focussed. The Outputs do not appear to be particularly relevant to the SO function. In light of the increasing importance of electricity system operation in ensuring security of supply (and the increasing cost associated with this), we believe that the development of SO outputs would be helpful in increasing efficiency and value for money for the benefit of the end consumer.

However of greater importance we believe is the need to ensure a greater degree of business independence within National Grid, in particular between the SO business and the TO and Interconnector businesses. We believe there is an overriding need to ensure National Grid considers the procurement of all electricity technology solutions (be it generation, DSR, interconnection etc.) fairly to ensure the electricity system operates at lowest cost.

In particular, due to National Grid's ownership of interconnector businesses, its commercial incentives may unfairly skew the procurement of system services in favour of interconnection to the detriment of other technologies. A similar argument can be made with regards to the TO function, where network infrastructure investments (such as storage, capacitors and synchronous compensators) could be unfairly favoured. This could result in the development of a less efficient electricity system. We believe that the only way to achieve the efficient procurement and operation of the electricity system is to eliminate the incentive for National Grid to favour services which it has a commercial stake in. As noted above, we believe the risk is primarily focussed on National Grid's TO and interconnection businesses.

For the reasons given above we consider that an Independent System Operator (ISO) model should be developed by Ofgem and DECC. Specifically, the SO role should be undertaken by a separate legal entity, independent of National Grid (specifically the TO and Interconnector businesses) and regulated by Ofgem. The ISO model would be similar to that proposed in the Governing Power report published by Power

Exchange¹. Consideration should also be given to placing the EMR Delivery Body, the Code Administrator function and the electricity settlement function within an ISO based on the outcome of a cost benefit analysis.

A reorganisation as described above will better prevent distortions of competition caused by the inherent commercial conflicts of interest within National Grid. These competition benefits will be outweigh any loss of synergies that currently exist within National Grid.

Should you have any questions or wish to discuss this response, please feel free to contact me (email: cem.suleyman@drax.com; telephone: 01757 612 338).

Yours sincerely,

Submitted by email

Cem Suleyman
Regulation and Policy

¹ Governing Power: Improving the administration of the energy industry in Great Britain, Richard Howard, Power Exchange (November 2015)