



Philippa Pickford  
Associate Partner, Wholesale Markets  
The Office of Gas and Electricity Markets  
9 Millbank  
London  
SW1P 3GE

Drax Power Limited  
Drax Power Station  
Selby  
North Yorkshire  
YO8 8PH

27 May 2016

Dear Philippa,

**Statutory consultation on changes to the Capacity Market Rules (the “Rules”) pursuant to Regulation 79 of the Capacity Market Regulations 2014 (the “Regulations”)**

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 currently enhanced co-firing, with plans to fully convert in 2016. At that point, Drax will be a predominantly renewable generator, having completed the largest single site decarbonisation project in the EU.

We welcome this opportunity to comment on the proposed amendments to the Capacity Market (CM) Rules. Our answers to a selection of questions raised as part of the consultation can be found below. In addition, we have provided further comments on a number of the rule changes detailed in the consultation.

**Consultation questions**

*Question 1 - CP136: Do you agree that de-rating from CEC rather than TEC is a more appropriate way to measure the De-rated Capacity of Interconnector CMUs? Do you agree with the suggestion to cap Interconnector de-rated capacity at TEC, or should the requirement for interconnectors to hold sufficient TEC be removed altogether?*

For the purposes of the Capacity Market, interconnectors are treated as generation. As such, interconnectors should be required to hold TEC on the same basis as transmission connected generation.

*Question 4 - CP108: Do you think there is a need to align Capacity Market Warnings with other existing system warnings? If so, how would you suggest this is done? Are there any associated risks?*

Predictability and visibility of potential or actual stress events is an important factor of a fully functioning Capacity Market. Ideally, all capacity related warnings across the suite of market arrangements would interact and provide an early warning of potential stress events, allowing market participants sufficient time to react.

Whilst we support the coordination of Capacity Market Warnings with other existing system warnings, the main requirement is that warnings of any nature are easily accessible and visible to all market participants. At the very least, information on how to access such notices should be communicated to all market participants.

*Question 6 - CP115: Do you agree there is an issue with Rule 10.4.1 (c)(ii)? If so, would our suggested addition to this Rule fix the problem? If not, how should it be amended?*

We support the proposed amendment to rule 10.4.1. The transferor should be permitted to reallocate any level of over-delivery to the transferee, regardless of whether this leaves transferee’s position balanced.

*Question 9 - connection capacity: Do you agree with our analysis and conclusions in relation to connection capacity?*

Yes, we agree that capacity providers should have a free choice of connection capacity. However, we also agree that this should not be implemented ahead of the 2016 prequalification window, in order to allow time to fully develop the proposal and enable further meetings with stakeholders prior to a final decision.

Question 10 - connection capacity: *Would the satisfactory performance requirements remain appropriate if we test up to connection capacity? In particular, would it be appropriate to demonstrate satisfactory performance on three separate days, and for CMUs to lose all capacity payments if this is not met?*

We continue to hold the view that it is not appropriate to test up to connection capacity when the delivery obligation is in relation to de-rated capacity.

Question 11 - connection capacity: *Would market rules around exceeding TEC result in genuine capacity being excluded under this approach? Does the ability to purchase short term TEC help address this? If not, is this a significant enough issue for concern?*

A CMU must hold an appropriate level of TEC to participate in the Capacity Market auction. We do not believe the perceived issue is significant. As such, we do not believe any change is required in this regard.

Question 12 - connection capacity: *Do you consider that there is a significant risk of capacity withholding if generators are given a free choice of connection capacity? Would any additional measures be needed to help mitigate this risk (e.g. minimum capacity thresholds or supporting justifications for going below certain thresholds)?*

Generators are incentivised to participate at their maximum capacity, in order to maximise Capacity Market revenue. There are appropriate mechanisms in place (e.g. REMIT) to investigate and penalise participants that attempt to manipulate the market.

### **Comments on proposed rule changes**

OF1 (proposed amendment): We do not support the labelling of generators as having “defaulted” where there is only a “suspicion” of prohibited activity. The process should work on the basis of market participants being viewed as innocent until proven guilty.

OF3 (proposed amendment): We support Ofgem’s commitment to re-enable those units that opt-out of the T-4 auction, and signal they will remain operational, to remain eligible for the T-1 auction. DECC has previously signalled that this is the policy intent. As such, this should be corrected at the earliest opportunity.

OF7 (proposed amendment): We believe some clarification is required on this amendment. If a capacity provider prequalifies and bids for a three year refurbishment contract, but only receives a one year pre-refurbishment contract due to a low clearing price, can they reuse the Capex from this application for a new three year refurbishment application in a future auction?

CP109 & CP147 (proposed amendment): The proposed rule change would result in an obligation to complete the metering assessment eight months prior to delivery year. This would appear to clash with the T-1 auction scheduled for late January 2017 in relation to the 2017/18 delivery year. This may also be the case for future T-1 auctions, should the schedule be replicated for subsequent delivery years.

CP112 (proposed amendment): The wording “...each Generating Unit of which is owned by a licensed generator unless **all such Generating Units** are [exempted]...” could be interpreted/applied in two ways, i.e. (a) to all Generating Units belonging to the CMU or (b) to all Generating Units belonging to the licensed generator. We believe the correct interpretation is (a), although this requires clarifying.

CP127 & CP132 (proposed rejection): The arrangements for secondary trading must be finalised as a matter of priority. This is a critical part of the Capacity Market – it is the primary mechanism via which capacity providers mitigate their risk of delivery failure. When finalised, the secondary trading arrangements should allow trading any point after the T-4 auction.

CP151 (proposed rejection): We agree with Ofgem’s analysis. In addition, we believe a capacity provider should be required to prove the CMU is capable of delivering energy from all generating units concurrently.

Please do not hesitate to contact me, should you wish to discuss any aspect of our response.

Yours sincerely,

*By email*

Stuart Cotten  
Head of Regulation and Compliance