

16 February 2018

Forward Work Programme 2018-19
Ofgem
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Dear Sir / Madam,

Forward Work Programme 2018-19 - Consultation

Drax Group is a UK-based energy company with businesses spanning generation and retail. In recent years we have transformed Drax Power Station into the UK's single largest source of renewable power by upgrading its generation units to use compressed wood pellets in place of coal. Alongside our biomass and coal units, our acquisition of open cycle gas turbine (OCGT) development sites is intended to allow us to play an important role in supporting a flexible power system that can reliably support wind and solar power generation.

Our retail businesses, Haven Power and Opus Energy, are actively engaged in helping businesses with their energy needs, improving efficiency and switching to renewable products. Haven Power is the UK's 5th largest non-domestic electricity supplier by volume. Opus Energy is the UK's 6th largest non-domestic gas and electricity supplier by meter count with over 300,000 supply points.

We welcome this opportunity to provide comments on the Draft Forward Work Programme 2018-19. The reformatting of the Forward Work Programme is a positive move - it's more concise and easier to follow than previous versions. However, we believe there are topics, and useful items, missing from the document.

Timetable

We appreciate it's not necessary or efficient for Ofgem to be bound by a comprehensive timetable but would appreciate more detail regarding the timing of activities. An indication of which quarter industry can expect certain activities to take place would be sufficient, providing industry with the necessary time to prepare.

Any substantive changes to the timetable should be communicated in a timely manner and a brief review published at the end of the year to highlight progress made against the planned activities. Such a review could act as a signal of work outstanding for the subsequent year while highlighting the delivered benefits to consumers and industry.

Drax Group plc.

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System Operation Market Reform

We believe Ofgem must work collaboratively with industry to develop a complete market solution suitable for the evolving electricity sector. We share Ofgem's view that substantial market reform is required to meet the future needs of consumers.

An area that requires urgent attention is the procurement of flexibility and system support services. The current ancillary services market and System Operator (SO) Incentives regime do not work in the best interests of consumers. Rather than incentivising the SO to hedge the cost of system support services via a long-term market, the current arrangements simply enable the SO to transfer the risk to consumers by procuring requirements in relatively short-term markets and simply allocating the cost of reactionary actions to consumers. This does not help Ofgem advance its fourth priority work area - Identifying opportunities and managing long-term risk on behalf of consumers. The current approach also prevents the development of long-term investment signals in ancillary services markets, thereby stifling innovation.

We believe that a comprehensive long-term procurement strategy must be developed that mitigates short-term risk and covers the following key areas of flexibility:

- Energy balancing: ensuring electricity supply meets demand at a particular point in time
- Constraint management: ensuring efficient flows of energy across the system
- Ancillary services: ensuring the network is secure and able to meet the needs of consumers
- System recovery: the ability to recover areas of the network should they de-energise

To deliver an effective market solution, we believe the following key objectives need to be driven by Ofgem:

- Facilitate the complete legal and operational separation of the Transmission Owner and System Operator. Following separation, to maintain market integrity, the TO should be prohibited from providing flexibility services to the SO.
- Reform the current market structure to allow the SO to procure flexibility services through both short and long-term contracts. This will improve the current framework and allow developers to make investment decisions based on tangible long-term price signals, in turn reducing the risk to the end consumer.
- Ensure any new market solution promotes open markets, is technology neutral and levels the playing field between distribution and transmission generation.

It is essential that any solution takes an integrated approach that will allow system stability support services to be incorporated into other specific mechanisms, allowing generators to compete for a mixture of long and short-term contracts over a level playing field.

Interconnector Policy

Drax welcomes the review of the cap and floor regime that underpins investment strategy of new interconnectors, however we feel that the review should extend beyond the cap and floor regime and cover the entire GB interconnection policy. Under current arrangements, the charges and support that are available to interconnectors and to domestic generation differ across a number of areas. There is evidence to suggest that these differences give rise to market distortions and as a result cause a detrimental impact on other

market participants as well as end consumers. We believe it would be of great value to the industry for Ofgem to commit to undertaking this review to consider how the policy that underpins future interconnection development can be reformed to provide greater value to the GB consumer.

Non-Domestic Retail – Third Party Intermediaries

Both Haven and Opus have actively participated in and supported the work Ofgem has previously undertaken in the Third Party Intermediary (TPI) arena. We are disappointed that this work has been put on hold, with no progress seen for many months. There are a number of industry developments, either in place or on the horizon, that offer scope for the proliferation of TPIS and their range of services. As a result, there is an increased chance of poor service being provided and consumers failing to understand the basis on which TPIS work and charge for their services.

As such, it is more important than ever to ensure consumers are protected from questionable sales practices and non-transparent pricing. We believe there has been a longstanding need for a TPI Code of Practice, independent of suppliers, to ensure consumers choosing to use TPI services are afforded the same level of service, transparency and recourse as those dealing directly with Suppliers. It is pivotal to enabling a better functioning retail market and we would like to see it return to Ofgem's Retail priorities.

Electric Vehicles

We welcome Ofgem signalling future work on Electric Vehicle (EV) infrastructure. As we move towards a low-carbon future with the rapid uptake of EVs, there needs to be a large-scale roll-out of EV charging points. Currently, there is a lack of clarity and transparency around the connection of EV charging infrastructure and the responsibilities of distribution networks and other industry parties. We would welcome further clarity and detail on the proposed programme of work Ofgem will conduct throughout the year. As well as the responsibilities of Industry parties the following areas would benefit from Ofgem leadership and further industry engagement:

- How to maximise the benefits and availability of EVs to consumers.
- Clear strategy for the regulation of EVs and EV charging.
- Interoperability and minimum standards for connection.
- Consumer incentives including the discharging of EV batteries to the grid.

Brexit

Finally, one of the key activities signalled for 2018-19 is "Brexit preparedness". We support the belief that any change to GB regulation as a result of Brexit should be communicated to industry as soon as possible. Any regulatory changes should aim to minimise distortions between GB and EU markets and minimise disruption to cross-border trading. As Brexit develops and the implications for the GB energy industry become clear, there needs to be processes in place to enable the industry to understand and prepare for any necessary regulatory change.

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

Yours faithfully,

Submitted via email



Joshua Logan
Regulatory Analyst