

Grendon Thompson
Office of Gas and Electricity Markets
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Dear Grendon,

Call for evidence on ESO performance over the 2018-19 regulatory period

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 390,000 business premises.

We welcome Ofgem's Call for evidence on the ESO performance over the 2018-19 regulatory period. We consider this an opportunity to inform the Authority's assessment and to provide constructive feedback to the ESO.

Overall, we believe that there is scope for the ESO to improve its performance in the four Roles set out in the ESO Regulatory & Incentives Framework. To this end, we welcome the commitments the ESO has made through its Forward Programme 2019-2021 and its 'RIIO2 Ambition' publication. We regard these as positive steps towards addressing current areas for improvement and meeting the performance levels expected by the industry and GB consumers. We have responded separately to the ESO consultations setting out its plans for the coming years, highlighting the need for ambitious deliverables which go beyond 'business as usual' requirements and transform the processes and behaviour of the organisation. Below we set out certain areas which we believe that the ESO should prioritise in this process.

Role 1: Managing System Balance and Operability

We believe that there is scope for the ESO to provide more clarity on how long-term future service requirements are likely to evolve. Sharing data and forecasts of how the system needs may develop in the coming years, will enable informed investment decisions that minimise overall costs for consumers.

Drax Group plc.

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We also hold the view that the ESO could also increase the transparency around operational decisions and control room actions. For example, this could involve disclosing the identity of assets the ESO has transacted with to provide 7A trade volumes.

We have witnessed an improvement in historic reporting of the Balancing Use of System (BSUoS) costs through the Monthly Balancing Services Summary (MBSS) and with the provision of daily BSUoS cost reporting. Whilst these are positive developments, we believe that further improvements are possible. The most detailed reporting is currently presented on a monthly basis. We would welcome more granular historic cost reporting (e.g. on a half hourly basis) to better quantify the value of the various system requirements, engaging with stakeholders to agree the detailed data requirements and optimal presentation.

Role 2: Facilitating Competitive Markets

Through a series of publications, the ESO has made clear that it aims to facilitate competitive markets, as part of its balancing services reform. Whilst we support this initiative in principle, we have noticed significant implementation delays in this process. Going forward, we recommend that the ESO:

- speeds up the pace of its two major frequency response initiatives to allow market participants to better understand how future commercial opportunities for frequency response will develop;
- provides clarity of the future of reserve services as soon as possible and engages with stakeholders at the earliest opportunity to ensure products are fit for purpose;
- begins meaningful engagement with stakeholders as soon as possible to develop a long-term approach for the competitive procurement of reactive services to replace the current mandatory commercial arrangements; and
- commits to engagement with stakeholders on its plans for the competitive procurement of inertia and stability services as soon as possible.

We appreciate that the complexity involved in delivering change in this space is high. However, we hold the view that the ESO should commit to firm timescales and communicate change more effectively to market participants, as these are essential prerequisites for market confidence and investor certainty.

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. This would involve 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 approach would promote more efficient investment decisions, as opposed to considering system adequacy and system stability in isolation, which increases whole system costs.

We also expect the ESO to place more emphasis on whole system outcomes when examining interactions between different system support products. We hold the view that in some circumstances service requirements can be met more economically if these service requirements are bundled together into a unified product. We therefore suggest that the ESO aligns its Product Roadmaps to ensure that, where economically and technically possible, service requirements are integrated into a single product.

Role 4: Supporting Competition in Networks

We welcome the opportunity the Network Options Assessment (NOA) process provides to non-network companies to meet the requirements of the national transmission system. However, in our view the ESO could improve its communication and engagement with market participants, supporting them to participate in the NOA process. Currently there is confusion as to the roles and responsibilities of the ESO and the Transmission Owner (TO), as well as to how non-network companies can ensure that their services are assessed through a competitive procurement process. We suggest that the ESO ensures that the roles and responsibilities of the ESO and the TO in the NOA process are transparent and that there is better communication to non-network companies of when contracting opportunities will be open to them.

We would be happy to discuss any aspect of our response, should this be considered helpful.

Yours sincerely,

Marcelo Torres

Regulation Manager
Drax Group plc.