Drax Power Limited

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FAO Mark Holden
Future Electricity Networks Team
Department of Energy and Climate Change
Area C, 4th Floor
3 Whitehall Place
London
SW1A 2HD

7th April 2010

Dear Mark,

**Improving Grid Access: Technical consultation on the model for improving grid access (dated 3rd March 2010)**

Drax Power Limited ("Drax") is the operating subsidiary of Drax Group plc, and the owner and operator of Drax Power Station in North Yorkshire. Drax Power Station is the largest, cleanest and most efficient coal-fired power station in the UK. At current output levels its coal and alternative fuel burn approaches some 10 million tonnes per annum, and its six 660MW units supply some 7% of the country's electricity needs.

As the newest of the country's existing coal-fired power stations, Drax intends to be operating at high load factors for many years to come, provided that the regulatory framework encourages and sustains the necessary investments in environmental abatement equipment and plant upgrades. Drax Power Station is fully compliant with the 2008 requirements of the Large Combustion Plant Directive (LCPD), although large investments will be required to ensure that the plant is compliant with future European environmental legislation.

Over the last six years, Drax has developed the capability to co-fire, that is, blend and burn, renewable biomass materials with coal. Drax has achieved throughputs of biomass material of around 4% by heat, and by mid 2010 will have the capability to increase that to 12.5% by heat, with a consequent reduction in its emissions of carbon dioxide ($CO_2$) of over two and a half million tonnes each year. In addition, Drax is implementing a turbine upgrade project that will reduce emissions by a further one million tonnes of $CO_2$ per year.

Drax welcomes DECC's latest consultation regarding the implementation of an enduring Socialised Connect and Manage grid access regime. A response to the questions outlined in the consultation document can be found in Appendix 1.

We look forward to viewing DECC's findings as a result of this consultation. In the meantime, if you would like to discuss any of the views expressed in this response, please feel free to contact me.

Yours sincerely,

By email

Stuart Cotten

Regulation
Drax Power Limited

**Appendix 1: Drax Response to Consultation Questions**

***Question 1: Do you agree that the proposed model for reforming grid access would best meet the Government's objectives for this reform? We would particularly welcome comments on:***

- ***The definition of 'enabling works';***
- ***The process for derogation from the SQSS;***
- ***The extension of user commitment;***
- ***The transition arrangements.***

Drax believes that the proposed Connect and Manage Socialised model is the most pragmatic solution for grid access reform and would best meet the Government's intervention objectives. The Connect and Manage model has been designed to provide investors with guaranteed access rights and connection dates in timescales that reflect plant development timescales. With the ability of new plant to connect ahead of wider transmission work being completed, generators that are currently held back by the connections of others should be able to connect earlier. The advancement of plant connections shall be done in a non-discriminatory manner, which helps to maintain effective competition whilst avoiding a detrimental effect on security of supply. The chosen model also involves the least disruption to existing generators and investors that are in the process of building new plant.

It is important to ensure that the chosen enduring regime provides a stable environment that encourages investor engagement during a time when the Government is calling for unprecedented investment. Drax does *not* support complex charging methodologies that are determined ex post or proposals that target the costs of new entry solely on new entrants. Rather, Drax supports simple, stable charging methodologies that provide greater certainty to investors and lower the barriers to new entry; the Connect and Manage Socialised model fulfils this criteria.

Given the volume of generation that will disconnect over the next decade, such as LCPD opted-out plant, IED opted-out plant and an ageing nuclear fleet, it will be essential that the new enduring network connection arrangements allow necessary backup generation to connect in order to avoid a potential generation gap during the next decade. The proposed model does not discriminate between different types of generation technology, allowing renewable investment to connect in timescales that help the Government achieve its environmental objectives, whilst simultaneously allowing backup generation to connect to ensure security of supply is maintained.

On this basis, Drax believes that the proposed model would best meet the objectives of DECC's grid access intervention.

<u>Definition of 'enabling works'</u>

Drax supports the proposed definition of 'enabling works'. The definition has the correct balance between providing investors with a set 'backstop' of required works, whilst equipping them with the ability to negotiate a smaller subset of works with National Grid, should the network allow. Equally, investors will be able to request a greater set of wider works, should specific technology require a greater degree of such works completing prior to connection. Retaining 'customer choice' arrangements provides investors with greater flexibility when determining their connection needs.

<u>Process for derogation from the SQSS</u>

The new process outlined by DECC, where Transmission Owners are able to derogate boundaries themselves, should help speed up connections; essentially, this change should make the derogation process more efficient whilst ensuring that the System Operator is able to fulfil the aims of a Connect and Manage regime.

Drax supports the proposal to obligate the System Operator to use all reasonable endeavours to complete wider works within a reasonable timeframe. DECC stated in their previous consultation that *"ultimately the problem of grid access can only be solved by enabling further investment in new infrastructure"*; Drax agrees with this view and believes that managing wider works effectively will ensure constraint costs remain manageable over the longer-term, which will be to the benefit of consumers.

It will be important for the System Operator to remain accountable for its actions with regards to derogations, timeliness of investment and constraint management. Drax supports a move to ensure that the System Operator publishes details of derogations and outstanding wider works, in order to ensure that the process is transparent and open to scrutiny. There should also be an obligation on Ofgem to monitor the use of derogations and the timeliness of wider work investment; this should help to provide confidence to potential investors that the System Operator is managing derogations diligently.

Extension of user commitment

Drax believes that there is merit in lengthening the notice to closure that generators provide; the current minimum five day notice period is inadequate. During the industry Transmission Access Review modification process, a range of views were put forward from across the industry. National Grid put forward the case for greater information on users' intentions to close plant connected to the GB transmission network in order to help Transmission Owners plan network investment more effectively; on the other hand, generators demonstrated the need to be able to react to changes in market conditions and legislative circumstances. Issues on both sides of the equation must be considered.

Drax believes that an increase over the current five day minimum notice period would have a positive effect on (a) information disclosure for future investors and (b) investment planning for National Grid. The current notice to closure provisions provide absolutely no signal to National Grid with regards to the requirement for wider works for new generation investment; however, the GB wholesale electricity market currently has very limited liquidity greater than three years forward (a further defect of the current market arrangements), which means locking investors into commitment periods that are longer than the visible market curve could have unintended financial consequences for investors.

Drax agrees that the extension to the notice period should be proportionate and should not prevent generators making reasonable investment and closure decisions; all generators should be able to react to market price signals and new legislation (at both UK and European level). Furthermore, Drax agrees that the notice period should be mandatory; there is no need to 'incentivise' users to provide greater notice of closure.

Whilst Drax agrees with DECC's decision to extend the notice period, we do not agree with the length of the proposed commitment period. The two year commitment period (which equates to a one year five day minimum notice period) is too short to be meaningful and generators are able to provide greater notice to closure. On this basis Drax continues to support a three or four year user commitment period (i.e. a two year five day or three year five day minimum notice period respectively), believing that this would not be an unreasonable obligation on generators. Such a move would provide greater certainty of investment decisions to Transmission Owners, whilst, importantly, providing the market with a better signal of required generation investment in future years. This signal would help to ensure that existing investors and new entrants were aware of any potential future generation gap, providing the impetus to invest before such a gap compromises UK supply security.

Transition arrangements

Drax supports the proposal to offer those projects that have already applied for a connection, or have already accepted a connection offer, to have the option to retain their current connection offer or to move to a new enduring Connect and Manage agreement. This provides greater certainty for such projects.

***Question 2: Do the proposed licence and code amendments deliver the policy aim?***

Drax supports the "hard-coding" of the key principles that the enduring regime aims to introduce. It is important that DECC provides Ofgem, National Grid and industry parties with the necessary guidance to ensure that the principles behind the chosen solution are, in fact, *enduring* and not subject to ongoing erosion by the industry code modification process. Investors require a stable environment in which to invest with manageable levels of regulatory risk.

Drax supports DECC's approach with regards to the suggested licence and code modifications and believe that they are conducive to the achievement of DECC's policy aims. However, it would be helpful,

in the meantime, if DECC were to request that the Authority reject the code modifications that formed part of the industry Transmission Access Review process that still reside with the Authority for determination. This would provide greater regulatory certainty for investors with regards to CAP161-166 and CAP168.

***Question 3: Do you think there are any other changes to industry codes and licences or any other actions needed to implement the model?***

As mentioned earlier in this response, Drax agrees with DECC's opinion that *"ultimately the problem of grid access can only be solved by enabling further investment in new infrastructure"*. As such, Drax continues to support the principle of enabling strategic investment by Transmission Owners, such as those works identified by the ENSG and the GB SQSS work-streams. We hope that DECC and Ofgem shall continue to support these work-streams alongside the grid access intervention.