

February 2019

Fintan Slye
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Dear Mr Slye,

ESO Draft Forward Plan April 2019 – March 2021

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 350,000 business premises.

We welcome this opportunity to provide comments on the ESO Draft Forward Plan and make the following observations:

1. The delay in delivering SNAPS and greater transparency of information is disappointing – we urge National Grid to develop an ambitious timeline to make progress this area
2. Where metrics are used to track progress, they lack ambition – we've highlighted areas for improvement in our response
3. It is not clear how the ESO's proposals will benefit industry and end consumers – further information is required on the analysis behind these assertions
4. A one-month consultation period is not long enough given the size and importance of the Forward Plan document

One overarching observation is that it's not clear how the ESO has assessed whether deliverables are "Exceeding baseline" or "Meeting baseline". We believe a large proportion of the deliverables classed as "Exceeding baseline" are business-as-usual activities and, in fact, are only "Meeting baseline". We encourage the ESO to review these classifications throughout the entire plan.

Our detailed response to the consultation can be found in Appendix 1. Please feel free to contact me, should you wish to discuss any aspect of our response.

Drax Group plc.

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Yours sincerely,

Submitted via email

Paul Youngman
Regulation Manager

Appendix 1: Drax response to the consultation

Principle 1: Support market participants to make informed decisions by providing user-friendly, comprehensive and accurate information

Strategy

Industry has long emphasised the requirement for accurate and transparent information on the provision of balancing services, system requirements and constraints on the network. Generally, we agree with the proposed deliverables, in particular, “Insight on balancing decisions taken”, “Insight on constraint boundaries”, “Publish an additional Day-Ahead demand update at 12:00 pm every day” and “Publish four additional wind forecasts to the market”.

We welcome greater insight of balancing decisions and positioning of constraint boundaries, and urge the ESO to go further. To make more informed decisions on how to operate assets, market participants would benefit from long and short-term locational forecasts of system requirements, accompanied by the types of actions the ESO may take in order to maintain system security. This will inform investment decisions and become increasingly important as more non-synchronous generation connects to the system, with the ESO increasingly managing locational inertia and voltage issues. Ultimately, better informed investment decisions should result in more plant connecting in places where they provide a benefit to the network. This reduces whole system costs and benefits the end consumer.

Details of 7A trades, including why they were executed and with whom, would help provide greater clarity on market dynamics. There can often be plant running out of merit order due to actions taken by the ESO, yet the details are opaque and market participants are left guessing. Full details of trades taken by the ESO would promote transparency, leading to efficient operational decisions and investment signals.

Metrics

Metric 1: Information provision scorecard – Publishing forecasts on time is critical, if published late they can be of little use to market participants. Although, we think this is business-as-usual and having a performance metric based on timely publication of information is not ambitious and should not be a measure of performance. Publishing trades as close to real-time as possible would be more ambitious and suitable for a performance metric.

Metric 2: FFR information provision improvement – It’s not clearly articulated why the proposed performance benchmarks are appropriate and demonstrate enough ambition.

Metric 3: Energy forecasting accuracy – The ESO should be striving to improve their forecasting accuracy as part of business-as-usual activities. Using historic data to measure performance in this way could mean that a minor improvement in accuracy is graded as “Exceeds benchmark” performance. Seasonal targets should be ambitious and bespoke. We propose the following Performance Benchmarks:

Exceeds benchmark: 9 out of 12 months meet the target

In line with benchmark: 7 out of 12 months meet the target

Below benchmark: less than 7 months meet the target

Principle 2: Drive overall efficiency and transparency in balancing services, taking into account impacts across time horizons

Strategy

Generally, we agree with the proposed deliverables, but stress that the primary focus must be on maintaining a secure network, especially given the changing dynamic of the system. Through efficient procurement of balancing services, and ensuring adequate levels of flexible generation are at its disposal, the ESO can continue to operate a safe and secure system.

To maximise efficiency, Drax believe a review of ESO procurement and contracting for balancing services is required. The ESO appears to plan and act based on a short time horizon of system needs, which fails to appropriately hedge risk for consumers, who are exposed to the resultant costs associated with volatility. It is not clear that longer term hedging opportunities have been duly considered and would not deliver improved efficiency in balancing. Where viable, contracts should be up to four years ahead with durations up to the length of the price control period. This would increase investor confidence for new build and existing plant investment, ultimately supporting security of supply.

Metrics

Metric 4: Balancing cost management – We welcome this metric, as it's appropriate the ESO be incentivised to balance the system as efficiently as possible without compromising security. However, historic data should not be used to measure performance and could result in easily achievable targets. For example, due to changes in system infrastructure or generation mix, a large reduction in balancing costs could be realised the following year. Performance benchmarks should be reviewed annually, considering any changes to drivers of balancing costs.

Principle 3: Ensure the rules and processes for procuring balancing services maximise competition where possible, and are simple, fair and transparent

Strategy

Drax are disappointed with the pace of progress made to date. Whilst we're supportive of the SNAPS process and proposed deliverables, few substantive actions have been completed and some plans have been significantly delayed. For market participants to benefit from the strategy, product roadmaps and deliverables now need to be clearly defined. Accelerated timescales would be preferable, we note that delivery dates for certain deliverables could be more ambitious, for example, the new reactive power services rollout is not expected till Q3 2020 – 2021. We do not expect any further delays.

We support any increase in transparency of the ESO's needs, particularly reactive power requirements. Although, in order for market participants to clearly understand and respond to requirements, they need to be more locationally granular than currently specified.

Metrics

Metric 5: Provider journey feedback – We agree that a survey is a good way to quantify customer satisfaction. However, we would suggest the following more ambitious metrics:

Exceeds benchmark: Average above 4 out of 5

In line with benchmark: Average between 3-4 out of 5

Below benchmark: Average less than 3 out of 5

Metric 6: Reform of balancing services markets – We are not sure how the week ahead frequency response auction trial will benefit wind farms, as there is still significant uncertainty on their output at the week ahead stage. A day ahead auction would be more appropriate.

Additionally, we are not convinced there are reforms to the Obligatory Reactive Power Service in the pipeline that will benefit embedded plant. If the ESO is referring to Power Potential, then this will only help assets in a very small geographical area and is of no benefit to the vast majority of embedded assets.

Principle 4: Promote competition in the wholesale and capacity markets

Strategy

The ESO plays a major role in promoting competition through facilitating code change and leading various forums / taskforces, specifically in relation to network charges and access arrangements. Drax broadly agrees with the proposed deliverables, but has the following observations:

- We strongly support open governance for industry codes and believe the approach generally works well, provided code administrators are sufficiently resourced
- When formulating regulatory views, the ESO should: be acting independently of the TO; consider the impact on consumers; be a neutral market facilitator; and support changes that enhance market efficiency and competition
- Any ESO led work through the various taskforces should be transparent and progressed in a timely manner, particularly in relation to BSUoS. Drax raised CMP250 back in 2015 and whilst it has since been rejected by Ofgem, we still believe there is industry support for such an approach. Should the taskforce conclude that some or all elements of BSUoS cannot provide a cost reflective signal, then those elements should be recovered in a way that aligns with Ofgem's TCR principles regarding residual charges. Fixing charges ahead of time would be one possible method.
- Codes should be user-friendly, consistent and clearly articulate requirements

We welcome the proposal to improve how the code administrators act as a critical friend. Though the basics shouldn't be forgotten:

- Making sure workgroup members have at least a week's notice of when and where meetings will be held
- Ensuring meeting documents are circulated at least two days before the meeting
- Ensuring the website is up to date with the latest information and all documents in the correct place
- Timely progression of modifications (e.g. minimal time until first workgroup, minimal delays to publishing consultations, etc.)
- Ensuring meetings are productive and fully address agenda items

More ambitious deliverables that would exceed the baseline include:

- Code administrators / ESO to provide analysis where the workgroup identifies it would be beneficial
- Using IT software that allows the workgroup report to be edited by multiple people simultaneously, this would relieve code administrators of an administrative burden and allow easy access to the latest version of reports

- Publishing an Initial Written Assessment when a modification is raised to help panel and prospective workgroup members understand the potential impacts of such modification

Metrics

Metric 7: Code administrator stakeholder satisfaction survey – Whilst supportive of efforts to measure stakeholder satisfaction of code administration services, we believe that the basis for measurement (Ofgem CACoP survey) is a poor metric. This can be illustrated through an example: at present if the stakeholder satisfaction score is particularly low for a given period, then the code administrator need only outturn marginally higher results to deliver a score of ‘Above Target’ for the following period. In reality, the satisfaction level may still be very low.

Bespoke benchmarks should be developed for each period with “Exceeds benchmark” only being awarded where there has been a clear step change and improvement in code administration satisfaction.

Metric 8: Charging Futures survey – Drax welcome the work of Charging Futures and find their webinars and information distribution useful. Although, ambitious bespoke targets should be set for each period rather than just using the initial survey at the beginning of the year to set the benchmark.

Metric 9: Year ahead forecast vs outturn annual BSUoS – Due to its market position and depth of resource, the ESO is best placed to produce a robust BSUoS forecast. It’s appropriate the ESO is incentivised to forecast BSUoS as accurately as possible, but this metric lacks ambition. An Absolute Error Percentage (AEP) of 20% could mean forecasts are as much as £220 million out for the year and the result still being satisfactory against the metric. Market participants make commercial decisions based on the BSUoS forecasts and inaccurate forecasts can lead to unnecessarily high costs being incurred, the resulting risk premia is passed on to consumers. We suggest the following:

Exceeds benchmark: under 8% AEP

In line with benchmark: between 8 -14% AEP

Below benchmark: greater than 14% AEP

Metric 10: Month ahead forecast vs outturn monthly BSUoS – We appreciate that in the shorter term BSUoS is more volatile and month ahead forecasting is challenging, but this metric still lacks ambition. We suggest:

Exceeds benchmark: 8 or more monthly forecasts under 10% AEP

In line with benchmark: 8 or more monthly forecasts between 10-15% AEP

Below benchmark: Less than 8 monthly forecasts under 15% AEP

Principle 5: Coordinate across system boundaries to deliver efficient network planning and development

Strategy

The ESO should be taking the most efficient and economic actions available to secure the system. We fully support the principle, but note the deliverables outlined focus mainly on Distributed Energy Resources (DER). Actively promoting one type of market participant to connect to the system doesn’t exhibit behaviour in line with this principle or deliver maximum value to consumers. Emphasis must be on reducing whole system costs, ensuring markets are liquid and competitive. The ESOs can achieve this through:

- Ensuring a level playing field:

- Between market-based and network led solutions when assessing which options to progress
- Between market participants regardless of technology type, region and network to which participants are connected
- Reducing barriers to market entry for all technologies
- Optimising use of capacity

Metrics

Metric 11: Whole system, unlocking cross-boundary solutions – Measuring the DER MW that have signed contracts to connect to the distribution network in two specific regions does not equate to the value delivered to consumers or demonstrate whole system thinking. Any metric should be able to clearly quantify the benefit to consumers. The value of avoided network investment would be a more tangible measure.

Principle 6: Coordinate effectively to ensure efficient whole system operation and optimal use of resources

Strategy

Overall, Drax are supportive of the vision and proposed deliverables, but believe further clarification is required for certain elements. We reiterate our comments for principle 5 in relation to DER.

Changes to roles and responsibilities need to be clear across both transmission and distribution with well-defined routes to different markets. The ENA Future Worlds consultation presented several possible frameworks, some similar to the status-quo and others that would require major reform. Such changes have a significant impact on network user's investment decisions and financial models. Industry would welcome further clarity on the interactions between the ESO and DSOs, with a particular emphasis on how markets will be structured and operated/ coordinated.

Metrics

Metric 12: System access management – no comment.

Metric 13: Connections agreement management – It's not clear what the purpose of this metric is. We would welcome additional context from the ESO regarding why agreements need updating following TO works and the impact of such changes on generators.

Metric 14: Right first-time connection offers – Connection offers are agreed between the ESO and connecting party. It's not appropriate to have a metric incentivising the ESO to get connection offers right the first time. This is a business-as-usual requirement and we would expect a target of 100% of offers to be correct first time – if not, then this is an issue that should be addressed under the ESO's licence.

Principle 7: Facilitate timely, efficient and competitive network investments

Strategy

We support promoting competition in networks and using independent analysis to determine the most economic and practical solutions. However, NOA projects currently disregard many possible solutions and may not be selecting the optimum approach. Pathfinder projects don't consider service providers with a time horizon greater than twelve months and seem to give preference to DNOs. We urge the ESO to duly consider commercial solutions with a greater than twelve month horizon.

Metrics

Metric 15: NOA consumer benefits – We support the cost-reflective measure of consumer benefit proposed.