

1st May 2019

Open Networks Project Consultation on Future Worlds Impact Assessment

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. Through our generation assets we are actively contributing to the safe and secure operation of the UK's energy system.

Drax also owns two retail businesses, Haven Power and Opus Energy, which are engaged in helping businesses with their energy needs, improving efficiency and switching to renewable products. Together they supply renewable electricity and gas to over 350,000 UK business premises.

We welcome this opportunity to provide comments on the Open Networks Project (ONP) Consultation and the transparent approach to sharing materials related to the Future Worlds Impact Assessment (IA). We consider this work a valuable input into the industry's exploration of how the system architecture may need to change, reflecting the challenges and opportunities that arise as the energy transition progresses.

We would like to make the following observations:

- The IA illustrates the merits and limitations of the different models, but it does not reveal a single model as optimal.
- We do not regard World A as a viable option and we recommend that it is not considered further. This model raises questions both from an economic and from a technical point of view. It is not clear how it would improve outcomes in relation to managing system-wide needs that benefit from economies of scale and liquidity, such as frequency response. In addition, we note that its implementation would lead to significant divergence from the European standards and regulatory obligations, including EU Electricity Network Codes and Guidelines.
- We agree with the assumption that price driven flexibility would be a feature across all Worlds rather than being a standalone model. We therefore recommend that World C is not studied further as an independent model. Instead, the impacts of price-driven flexibility should be integrated across the remaining Worlds. Further work will need to be performed once Ofgem's access and charging review has been concluded to incorporate any associated changes.
- Whilst we could see World B as a natural evolution from status quo to a more efficient system design, we hold serious concerns about the assumptions used, which stipulate that DSOs' needs would be prioritised. We are concerned the current assumptions used imply that this model has the potential to foreclose competition as the DSO is more likely to act as a gatekeeper to markets rather than a facilitator of markets. As a market participant that offers services to grid operators both on the transmission and on the distribution level, we would oppose a system that prioritises DSOs by design.

We recommend that the assumptions used for World B in relation to prioritisation between system operators are revised, taking into account the following conclusions included in the Council of European Energy Regulators' (CEER) Position Paper on the Future DSO and TSO Relationship¹:

- *"No party should be unnecessarily restricted from taking an action which contributes to whole system efficiency, unless operation of the transmission or distribution system is at considerable risk. There should be processes in place to ensure appropriate justification and transparency around restrictive actions taken by the DSO or TSO".*
- *"Resources should not be unreasonably restricted from accessing a range of revenue streams and valuing their potential where it is most efficient to do so".*
- Defining roles and responsibilities in the provision of flexibility is vital to delivering market certainty and investor confidence needed to meet changing system requirements. This is true for all Worlds, but is particularly prescient for World B. It is, therefore, critical to the viability of World B that procedures, processes, contractual arrangements, lines of communication, technical requirements and routes of recourse are defined, consulted upon, and agreed well in advance of a move towards implementation.
- We welcome the inclusion of conflict of interest examinations in Workstream 1A Product 1 of the 2019 Work Plan. It is vital to ensure that any of conflict of interest examination is conducted independently, involving comprehensive and transparent stakeholder engagement. This work should be accompanied by research to explore the impact of these conflicts on market participation, Competition Law and investor confidence. It should consider the basis for the recent legal separation of National Grid's Electricity System Operator (ESO) from the Transmission Owner (TO) business and examine parallels to DSO and DNO functions and organisations.
- We would welcome further clarification from the ENA as to how stakeholder feedback on the IA will inform the ONP work and what are the next steps. We see merit in further assessment of the impacts and requirements of Worlds B, D and E, in particular with regard to:
 - Legislative and Regulatory change
 - System Operability
 - Neutral Market Facilitation
 - Data Transparency

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

Yours faithfully,

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¹ CEER (2016) Position Paper on the Future DSO and TSO Relationship

https://www.ceer.eu/documents/104400/3731907/C16-DS-26-04_DSO-TSO-relationship_PP_21-Sep-2016.pdf