17 October 2000

Our Ref:
Direct Dial: 020 7932 6367

Email: rebecca.purves@ofgem.gov.uk

Dear Colleague,

Re: BETTA Project – Update

In August 2000, Ofgem published a consultation document, "*Interim Proposals for the Reform of Scottish Trading Arrangements: British Electricity Trading and Transmission Arrangements (BETTA)*" setting out a vision of GB Trading and Transmission Arrangements to take effect from 1 April 2002. The consultation period concluded on 22 September 2000 and we received 21 responses, which we are still considering.

This letter is intended to inform you of progress since the publication of the August 2000 document. This is intended to allay the fears of some respondents that the process is not sufficiently open to all interested parties as well as providing a further opportunity for feedback.

Project Organisation
A Steering Group, composed of industry and government, has been convened to oversee progress. A Project Board, composed of Ofgem colleagues, has been convened to ensure internal consistency. Three workstreams have also been set up to focus on issues relating to (i) GB System Operator, (ii) GB Settlement Issues, and (iii) GB transmission access and transmission pricing. Industry representatives have been invited to participate in these workstreams to ensure progress is made.

It is important to note that policy decisions will be made following widespread consultation with all interested parties. Inviting small groups of representatives allows for discussion of ideas that can then be put forward for consultation: It also minimises the risk of proposing policies or processes, which are not, in practice, deliverable.

Issues Identified
Emerging from the workstream meetings, Ofgem has identified a number of important issues that, for your information, are attached herewith. The BETTA project team is in the process of discussing these issues with colleagues working on SO Incentives, SO Price Control and Transmission Access arrangements in order to seek clarification and ensure consistency with England & Wales.

We are also considering the impact of the NETA delay on the BETTA timescales.

Industry Work plans
Ofgem has prepared an internal Project Initiation Document (PID) setting out key milestones in this project. The PID is necessarily focused on Ofgem plans and timescales, since it is an internal planning tool. However, we are keen to understand what work the BETTA project imposes on industry participants. Following expressions of interest within the industry, it is Ofgem's intention to develop industry wide plans. With this in mind, we would request your views on any additional information that you require to complete work plans that can be collated into an industry plan. This provides you with the opportunity to influence the programme of work as well as ensuring that all industry plans are comprehensive and realistic.

Robust plans are essential in order to take forward work on the BETTA project. I would thus urge you to forward any requests for information to rebecca.purves@ofgem.gov.uk by 10 November 2000.

Should you have any questions relating to this letter, please do not hesitate to contact me on the number above or Rebecca Purves on 020 7932 1645.

Yours sincerely

Richard Morse
Deputy Director General, Regulation and Financial Affairs

BETTA: CUSC and TUOS POLICY ISSUES

The following policy issues arise from this workstream:

1. CUSC: Agreements

Main policy issues are how Ofgem will identify contract provisions that need to be consistent across GB and then the governance process to achieve this.

2. CUSC: TUOS

Main policy issues are how can GB charging principles be achieved given 3 TO licences? Who will invoice subsequent charges and relationship between charges and the price controls? How will locational pricing be accommodated? What will be the redistributional effects between customers in Scotland and England & Wales?

3. Losses

Should transmission losses be GB-wide or identified for each transmission licensed area and charged to users within that area? (Note: difference in voltage.)

4. Access

Harmonisation with England & Wales emerging policy across 3 transmission boundaries will require consideration of access rights onto another TO's system, and other inter-boundary issues (eg how is capability decided). How can this be moved to a GB basis giving access rights into another TO's system and monitoring usage of these rights? What are the implications for constraint management and competitive trading and transmission access arrangements? What are the Herfindahl indices for the Scottish transmission zone(s) and what are policy implications of these?

5. Connection

What are the implications of GB trading system for each TO's connection policy. Are changes necessary to the present connection policies and related planning standards? Do the 3 TOs need to operate a very deep reinforcement policy, even if charges are based on a shallow policy? Develop policy for embedded generation connection.

6. Interconnector

How will capability levels across transmission systems be determined on termination of the Use of Interconnector Agreement 1991 and 1994? What are the implications for the 3 signatories of terminating the Use of Interconnector Agreements? What will replace these agreements? Timing and values to use to price control interconnector circuits.

7. Interim Arrangements

Define policy on these to include interconnector prices and access. Identify revision necessary to access and allocation codes.

8. Technical

Identify transmission issues arising because Scotland defines 132 kV circuits as transmission. Should there be standard GB grid and distribution codes - if so how do we implement?

9. Price Controls
Identify policy to modify existing price controls for creation of GB SO, interconnector and cost recovery. Interaction between auctions/access arrangements planning standards, capex and price controls.

BETTA: GB SETTLEMENT POLICY ISSUES

8. GB Settlement Costs
Should enduring settlement charges be GB or 3 TO area based? What are the re-distributional effects of each option? How would this decision affect competition?

9. Recovery of Outstanding £22m of Scottish 1998 Costs
These are costs for developing the SAS and stage 2 settlement. The approved costs are recoverable by SESL over 7 years under a determination by the DGES. The recovery of these outstanding costs has a precedent in England & Wales. This is linked to item 1.

10. Wholesale Electricity Price, Imbalance Prices & Prices for Small Independent Generators Selling to the Hosts
The interim price arrangements until BETTA need developed and agreed with the relevant parties. Note: present arrangements fall on 30 November 2000.

11. GB BSC and Other Costs & Agreements
Identify changes to BSC for BETTA. Initial thinking suggests this may not be too onerous. Identify other industry documents that require change and scope these.

12. IT
Develop project plan to scope and cost GB IT systems, data migration from SESL to Elexon and address subsequent liability issues. Present intention is for Elexon to lead on this project.

13. Self-Supply
Should the licence requirements forbidding self-supply be GB-wide?

BETTA: SO(b) and TRADING POLICY ISSUES

The following policy issues arise from this workstream.

1. What actions are undertaken by central SO(b) and locally by SO(t)s
Working assumption is NGC as SO(b) plus 3 SO(t)s / TOs. Is the present definition of duties and responsibilities sufficiently robust to facilitate competition in each TO area. Further work needed to better define "who does what" plus interaction with incentives and governance. If this is the model what changes are necessary to deliver it?

2. Incentive Scheme for SO(b)
Mechanisms for allocating transmission related costs from SO(b) to SO(t)/TOs. Incentives on SO(t)/TOs and links to price controls. How should initial SO(b) and SO(t) incentives be set? Note policy will need to address the fact that the Scottish TOs are in common ownership with

the only sizeable generators and are dominant in supply in their areas. What exposure should NGC have to Scottish costs?

3. Nested Constraints
A single action may resolve constraints on more than one system. Need to develop rules that ensure right investment and operation signals are provided. How significant are nested constraints across the 3 systems? Will NETA cause more or less?

4. Transmission Losses and Related Incentives
TOs are incentivised on losses through price controls. Actions of SO(b) may affect losses. Need to identify links and impacts.

5. Interconnector Access – Links with constraints and incentives
With current transmission access arrangements and GB NETA but no GB transmission access then, interconnector could give rise to major and inappropriate constraint costs. What actions/safeguards can be put in place. What do the longer term arrangements look like? How are system boundary transmission capabilities to be determined? What is role for BGSA?

6. Exposure to Cross-Border Risks
It may not be possible/desirable to isolate the SO(b) and E&W customers from the non price risks associated with Scottish transmission constraints and Scottish customers from E&W risks. However, the extent to which SO(b) should be exposed to identifiable Scottish non price risks will need to be addressed. This assumes it is correct to expose SO(b) to prices in Scotland through its incentive scheme, but how is this best facilitated?

7. Agreements between Transmission Licensees
What agreements will be required between Transmission Licensees? Should there be an agreement between SO(b) and the 3 SO(t)/TOs, or between NGC and the 2 Scottish companies? Should this be BGSA or a new agreement? Aim is to have initial paper on areas to be covered by agreements ready for discussion shortly.

8. SP & SSE Generation Business Provision of Transmission Services
SP & SSE generation will be major/only providers of certain services to resolve their own Transmission business constraints. Rules will be needed to ensure ScottishPower and Scottish & Southern Energy generation does not gain at the expense of existing and potential third parties, to include NGC as SO(b).

9. Reactive and Other Transmission Services
What services, if any, should SO(t)s in Scotland procure directly from generators and others, and under what arrangements (guidelines, terms, pull- down from central contracts etc)? What safeguards can be put in place given vertical integration?

10. Interaction of Planning Standards / New Connections
Planning is carried out under assumptions about inter-system transfer capabilities, some of which are capped by commercial arrangements. New arrangements will be required to ensure TOs continue to consider other TOs' systems when agreeing new connections. What transparency is necessary to ensure these arrangements are not anti-competitive.

11. 132kV Generation

Hydro generators may wish to create a single BM Unit or a Trading Unit to cover a cascade system. This may be adequate for SO(b) purposes, but SO(t) may require information by genset.

12. Other Agreements and Codes
Other codes and agreements such as BSC and Grid Codes will require substantial amendment. First stage will be to identify the core industry documents and then to scope the changes. Note overlap with corporate restructuring. What is the appropriate governance of change given consensual approach?

13. Procurement and Balancing Guidelines
NGC's Procurement Guidelines will have to be extended for BETTA. Scottish Transmission licensees may also require guidelines.

14. Technical Issues
Review security, planning and operation standards and whether no change is sustainable under a GB system.

Are existing definitions of 'transmission' ok within a GB system.

15. NEA
Develop framework for negotiations under NEA to include identification of loss in value.

16. Other Restructuring Contracts
Consider changes necessary to facilitate competition.