

May 2002

**The Development of British
Electricity Trading and Transmission
Arrangements (BETTA)**

Ofgem/DTI

Report on consultation and next steps

Summary

In December 2001 Ofgem¹ published a consultation paper² setting out its vision of a model that would enable all consumers in Great Britain (GB) to benefit from competitive wholesale markets. The set of proposed reforms outlined in that paper is termed British Electricity Trading and Transmission Arrangements (BETTA). The paper contained further detail on the reform proposals, and indicated that legal advice was that primary legislation would be required to implement them. This joint Ofgem/DTI document reports on that consultation, gives conclusions where appropriate, provides information on key matters associated with progressing BETTA and puts forward further issues for consultation.

What is BETTA?

The objective of BETTA is to introduce wholesale electricity trading and transmission arrangements for GB which enable competitive markets to develop further. There are a number of principal building blocks:

- ◆ the introduction of a single Code covering trading, balancing and settlement arrangements across GB, using arrangements applying in England & Wales as a basis for consultation;
- ◆ the introduction of a single Code covering contractual arrangements for connection to and use of the transmission system, using arrangements applying in England & Wales as a basis for consultation;
- ◆ the introduction of GB charging methodologies for connection to and use of the transmission system, using arrangements applying in England & Wales as a basis for consultation;
- ◆ the introduction of balancing arrangements that are administered independently by a GB system operator that is separate from generation and/or supply interests;

¹ Ofgem is governed by the Gas and Electricity Markets Authority and its powers are provided under the Gas Act 1986, the Electricity Act 1989 and the Utilities Act 2000. The Authority determines strategy and decides upon major policy issues. It is made up of executive and non-executive members and may regulate its own procedures and has adopted Rules of Procedure. Everything that Ofgem does is done in the name of the Authority.

² The Development of British Electricity Trading and Transmission Arrangements (BETTA) : A consultation paper, Ofgem, December 2001.

- ◆ removal of current commercial arrangements on use of the Scotland-England interconnector, by subsuming interconnector assets into the transmission businesses of the licensees that own those assets, and providing access to and use of those assets on the same terms as the rest of the transmission system; and
- ◆ the introduction of a single document governing technical matters associated with connection to and use of the transmission system in GB, embodied in a GB Grid Code.

Legislation

The Government has recently announced that it intends to bring forward legislation to implement BETTA when Parliamentary time allows³. The BETTA project is presently planning for an implementation date of April 2004, which will depend upon legislation being introduced in the 2002/03 Parliamentary session. The legislation would have the narrow intention of introducing BETTA and would provide powers solely to achieve that. Work on the Bill, for the purposes of this document provisionally entitled the BETTA Bill, will be led by DTI with support from Ofgem.

What BETTA means for market participants

Market participants under BETTA will be able to trade on commercial terms with counter parties anywhere in GB in relation to the purchase and sale of GB wholesale electricity. They will have equal access to the balancing mechanism and other balancing arrangements, where they will be able to offer services to the GB system operator to assist it in balancing the system, and will be subject to a single set of GB energy imbalance cashout arrangements, based upon those currently operating under the England & Wales Balancing and Settlement Code (BSC). They will be subject to the same transmission access, charging and losses arrangements, with differences in charges reflecting factors such as location and any differences in standards of service. In all cases where England & Wales arrangements are used as the basis for application across GB under BETTA, it will be necessary to consult upon, and take into account relevant GB issues. There will be no special arrangements in relation to trade across the Scotland-England interconnector, as those assets will be treated like any other transmission assets within the total system.

³ See Hansard, 15th April 2002 Official Report Column 748W

Conclusions on December consultation document

Twenty six responses were received to the December consultation document, none of which were confidential. Of those that commented upon the vision of BETTA set out in that document, nearly all supported it. A few respondents questioned the vision itself or expressed reservations about particular elements of the proposals. All of the responses are available on the BETTA section of the Ofgem website⁴.

Ofgem/DTI note the support for the BETTA proposals, and believe that this underlines both the need for the proposals and the requirement to move towards their implementation as soon as possible. More specifically, Ofgem/DTI conclude that the development of effective competition across GB is contingent upon the creation of a GB system operator that is independent of generation and supply interests and that it is appropriate to allocate certain transmission related functions (including, at a minimum, GB system balancing) to the GB system operator. Ofgem/DTI also conclude that it is appropriate to introduce GB balancing and settlement rules and a single set of contractual and charging arrangements across GB for access to and use of the transmission system.

The scope of transmission differs between Scotland and England & Wales in that the definition of a high voltage line includes a 132 kV system in Scotland, which is not the case in England & Wales. Ofgem/DTI do not intend to adjust or conform the definitions of high voltage lines as part of the BETTA process.

Delivery of BETTA

The BETTA project plan is being developed on the basis of a BETTA Bill being enacted at the end of the 2002/03 parliamentary session. The three principal areas of delivery in the BETTA project are; legal documents, system development and transition arrangements.

Consultation on the key legal documents required for BETTA will deal initially with the policies that should be embodied in those documents and then with the detailed arrangements to be contained in the documents. These consultation exercises are planned to be completed by November 2002, at which point consultation on draft legal texts of the key elements of the BETTA legal framework will begin. The current intention is to have these documents finalised by June 2003, and for them to be given legal effect,

⁴ http://www.ofgem.gov.uk/projects/betta_index.htm.

through designation by the Secretary of State, in September 2003. Various provisions would progressively come into effect by Go-live in April 2004.

System developments are expected to be of a lesser magnitude than those required for the New Electricity Trading Arrangements (NETA), although the greater volumes of participants, metering systems, BM Units etc. expected under BETTA will need to be accommodated, and new systems may be needed for the GB system operator and possibly the transmission owners. As much of this work as possible should be undertaken by existing and any new transmission-related licence holders and central service providers, with the BETTA project primarily playing a planning and co-ordinating role.

In parallel, work will proceed on the process to effect transition from the current arrangements in England & Wales and in Scotland to BETTA. This has two stages, planning and execution. The planning stage involves consideration of transition issues and how these can best be handled. The conclusions from this stage will be need to be embodied in legal documents, such as an Implementation Scheme, the proposed framework design for which will be included in the above consultation process. The execution stage involves transition itself, using the powers conferred by the BETTA legislation.

Next steps

Ofgem/DTI conclude that it is appropriate to take BETTA forward using the processes set out in the December consultation document, namely a combination of consultation papers, expert groups and seminars. As a first step, a seminar to be held in June will discuss further issues, in particular the detailed division of responsibilities between the system operator and transmission owners. It is expected that a number of expert groups will need to be constituted. These will not be consultation groups, but will provide expert support to the BETTA project team on specific technical issues, and their membership will reflect the expertise required, given the issues being discussed.

A number of consultation papers will be issued over the next few months. These will cover topics such as:

- ◆ *the allocation of functions between system operation and transmission ownership;*
- ◆ *transmission access and charging;*

- ◆ *system security and quality of supply standards;*
- ◆ *appointment processes* - a GB system operator cannot be appointed until the relevant legislation has been passed, as until then no legal basis exists for such appointment. Before then, however, Ofgem/DTI intend to consult upon the processes and criteria under which such an appointment might be made;
- ◆ *cost recovery* - consideration of whether, and if so how, it might be appropriate to allow the recovery of costs incurred as a part of BETTA implementation; and
- ◆ *price controls and incentives* - the December consultation document indicated that creating a GB system operator requires the separation of present price controls and incentive arrangements between the system operator and the transmission owners. In addition the absorption of the Scotland-England interconnector circuits into the regulated transmission asset bases of Scottish Power UK plc (Scottish Power) and the National Grid Company plc (NGC) will need to be addressed.

In this May document, the DTI is inviting comments upon the draft Regulatory Impact Assessment, which is a part of the legislative process.

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Four Appendices are also included as a separate document.

1. Introduction

1.1 Ofgem¹/DTI believe that the present administered market arrangements in Scotland now require reform. The issues involved and potential solutions have been outlined and discussed in a series of consultation papers⁵ and in December Ofgem published a further paper⁶ setting out the case for British Electricity Trading and Transmission Arrangements (BETTA) and inviting responses on a number of issues.

1.2 The purpose of this present document is as follows:

- ◆ to report on the recent announcement by the Government of its support for introducing legislation to implement BETTA when Parliamentary time allows⁷;
- ◆ to publish for consultation the DTI's draft Regulatory Impact Assessment (RIA), which has been used to inform the Government's consideration of the need for legislation;
- ◆ to report on the responses received to the December consultation document, to set out Ofgem/DTI's conclusions and to report on key issues identified by respondents;
- ◆ to state the vision of BETTA and what it means for market participants;
- ◆ to set out the process to be followed to implement BETTA, including the way forward to address the key issues identified; and
- ◆ to set out next steps in moving forward the development and implementation of BETTA.

1.3 This consultation paper has been prepared jointly by Ofgem and DTI and subsequent consultation papers relating to BETTA will in general also be joint Ofgem/DTI consultation papers.

⁵ Since the paper "Scottish Trading Arrangements", December 1998, other relevant papers include "Review of Scottish Trading Arrangements: A consultation document", October 1999, "Initial proposals and issues for consideration on the reform of the Scottish Trading Arrangements", May 2000 and "Interim Proposals for the Reform of Scottish Trading Arrangements", August 2000.

⁶ The Development of British Electricity Trading and Transmission Arrangements (BETTA) : A consultation paper, Ofgem, December 2001.

⁷ See Hansard, 15th April 2002 Official Report Column 748W

Background and rationale

- 1.4 Ofgem/DTI believe that the BETTA reforms will: enable consumers across GB to have more equitable access to the benefits of competition in GB-wide wholesale electricity trading; provide more efficient signals for the use of current and future production and consumption decisions; and stimulate further the development of supply competition in both Scotland and England & Wales.
- 1.5 The case for reform was considered in the December consultation document, and in previous Ofgem documents. This is discussed further in the light of respondents' comments in Appendix 2. In addition, as BETTA requires primary legislation, a RIA is being prepared by the DTI. The final RIA will be published with the BETTA Bill. The DTI is using the opportunity of this document to consult on a draft RIA, which is attached as Appendix 3.
- 1.6 The BETTA project will introduce common market based arrangements for the wholesale trading of electricity across GB based on, where appropriate, the present arrangements in England & Wales. The principal components of the BETTA reforms are described later in this document.

Related proposals and consultations

Smaller generators

- 1.7 The impact of the New Electricity Trading Arrangements (NETA) on smaller generators was reviewed in a report⁸ published by Ofgem in August 2001. In response, the DTI published a consultation paper⁹ that asked for views on a number of proposals designed to provide assistance to smaller generators. As a result of the review and subsequent work on the treatment of smaller generators, two BSC modifications to assist smaller generators have been raised by BSC parties. Both have been approved by the Authority¹⁰. To the extent that any further changes are introduced to the present arrangements in England & Wales and it is considered that such arrangements are also appropriate for application across GB, then they will be reflected in the arrangements implemented by the

⁸ Report to the DTI on the Initial Impact of NETA on Smaller Generators - Ofgem August 2001.

⁹ Government response to Ofgem's Reports The New Electricity Trading Arrangements – Review of the First Three Months and Report to the DTI on the Review of the Initial Impact of NETA on Smaller Generators - DTI November 2001.

¹⁰ BSC modifications P7 and P67.

BETTA project. Further measures are detailed in the DTI's paper on NETA and smaller generators published on 4 April 2002¹¹.

Transmission access and losses

- 1.8 Ofgem has published revised proposals for the treatment of transmission access and losses under NETA¹² in England & Wales. The proposals address concerns that the current arrangements for access to and charging for NGC's high voltage electricity transmission system are not in customers' long-term interests. The new proposals are intended to promote greater choice and innovation in the services that NGC offers users (by enabling the development of, for example, interruptible use of system rights) and should, over time, lead to a more efficient level of transmission investment by encouraging efficient locational decisions and better use of existing assets.
- 1.9 The proposals set out, at a high level, Ofgem's current preferences for new transmission access and losses arrangements in England & Wales in order to facilitate industry discussions. The details of the reforms will be for industry and other interested parties to take forward and develop and Ofgem notes that detailed discussions have begun. Reform will be through a variety of means, including using the Connection and Use of System Code (CUSC) and BSC governance arrangements. It is noted, for example, that the Transmission Access Standing Group was established by the CUSC Panel on 22 March 2002 to consider such issues. As regards losses, it is also noted that changes to the present arrangements in England & Wales have recently been put forward within the context of two modification proposals to the BSC¹³.
- 1.10 The proposed reforms are initially being developed only in the context of England & Wales. However, the proposals are important for BETTA as full consultation will take place as to whether it is appropriate for there to be common GB transmission access and losses arrangements. In Section 5 consideration is given to the most appropriate means of co-ordinating the introduction of such reforms in England & Wales in light of developments with the BETTA project.

¹¹ Government Response to the Consultation on NETA and Smaller Generators of 1 November 2001. 4 April 2002.

¹² Transmission Access and Losses Under NETA, Revised Proposals, Ofgem, February 2002.

¹³ BSC Modification Proposal P75 "Introduction of Zonal Transmission Losses" and BSC Modification Proposal 82 "Introduction of Zonal Transmission Losses on an Average Basis".

- 1.11 Ofgem has noted that if new arrangements for transmission access are introduced in England and Wales, the responsibilities placed on the SO part of NGC's Transmission Business would cover a larger range of functions than at present, and that Ofgem intends to consult on the scope, form and duration of an appropriate price control¹⁴. The NGC SO incentive scheme has been reviewed and substantially rolled-over to cover the period to 31 March 2003. However Ofgem's aim is to introduce a revised incentive scheme consistent (where appropriate) with developments in relation to Transco's proposed SO incentive scheme¹⁵. The impact of any such arrangements on the form of regulation applicable to the GB system operator and/or transmission owners under BETTA will need to be considered further.

Administered arrangements in Scotland

- 1.12 A number of steps have been taken to improve the present administered arrangements in Scotland as interim steps prior to the introduction of BETTA. These are outlined below:

◆ *administered wholesale and imbalance price arrangements;*

In January 2002 Ofgem set out proposals for extending the present Scottish wholesale price cap and imbalance pricing arrangements from 1 April 2002 until 31 March 2004¹⁶.

◆ *generator connection policy; and*

Since Vesting Scottish Hydro Electric Transmission Ltd (SHETL) has employed a "deep" connection charging regime, whereby new generator connectees are charged for the infrastructure upgrades associated with their connection that are required to comply with planning standards.

Based upon issues discussed in its August 2002 document, Ofgem has recently proposed¹⁷ new connection and charging arrangements for SHETL transmission system. Under Ofgem's proposals new generators will only be charged for the cost of connecting to the transmission

¹⁴ NGC system operator incentive scheme from April 2002: Final proposals, Ofgem, February 2002.

¹⁵ See - Transco's Price Controls and the NTS SO Incentives 2002-7, explanatory notes to accompany the Section 23 notice of proposed changes to Transco's Gas Transmission Licence. Ofgem, April 2002.

¹⁶ Scottish administered pricing arrangements from 1 April 2002 Ofgem proposals document, Ofgem, January 2002.

network, with any costs associated with system upgrade as a result of the new connection being passed to all new generators on the SHETL network through transmission use of system charges.

◆ *interconnector access and charging arrangements*

On 1 March 2002 Ofgem published a document setting out next steps in relation to interconnector access criteria to apply from April 2002 until 31 March 2004¹⁸. A decision to defer making final proposals was made in the light of concerns expressed by respondents' to Ofgem's December consultation document on interconnector access¹⁹, specifically that the proposed criteria were incomplete. In particular, the document noted a potential link between access to the interconnector for BNFL's Chapelcross plant and system security on SP Transmission Ltd's network in the southwest of Scotland.

In light of this Ofgem concluded that it was not appropriate to approve the proposed criteria at this time. Ofgem directed SP Transmission Ltd to review its existing criteria to ensure that these adequately addressed system security issues. It requested that SP Transmission Ltd come forward with revised interconnector access criteria no later than 30 June 2002 with a view to introducing revised access arrangements from 1 October 2002.

In January 2002 Ofgem also published a document setting out its decision in respect of a reservation request for pre-upgrade²⁰ interconnector capacity from SP Transmission Ltd²¹.

Outline of this document

- 1.13 The remainder of this document is structured as follows: Section 2 provides some additional detail relating to the recent announcement by Government of the intention to bring forward legislation to support BETTA implementation.

¹⁷ Connection and charging policy for new generation by Scottish Hydro Electric Transmission Limited: A final proposal document, Ofgem, March 2002.

¹⁸ Scotland-England Interconnector: Access Criteria to 31 March 2004, Summary of responses and next steps Ofgem, March 2002.

¹⁹ Scotland-England Interconnector: Access & Charging Principles to 31 March 2002 and Access Principles to 31 March 2004. – Ofgem December 2001.

²⁰ The interconnector capacity at Vesting is referred to as pre-upgrade capacity. The additional interconnector capacity constructed since Vesting is referred to as upgrade capacity.

Section 3 provides more detail on key elements of BETTA, and highlights some of the main implications for market participants in Scotland and in England & Wales. Section 4 summarises the issues raised in the December consultation document, the responses received and the initial conclusions of Ofgem and DTI. Section 5 provides an overview of the arrangements proposed to take forward BETTA implementation and identifies a number of the key issues that will need to be resolved. Section 6 identifies the proposed next steps of the project over the next few months.

- 1.14 Four Appendices are also included in this document. Appendix 1 lists the respondents to the December consultation document. Appendix 2 contains a more detailed discussion of the issues, responses and conclusions arising from the December consultation document. This Appendix itself contains a number of annexes covering each of the main issues raised in the December consultation document. Appendix 3 contains a copy of the DTI's draft RIA for consultation, and details of how to submit comments on this are provided below. Appendix 4 contains a summary of the way forward.

Views invited

- 1.15 Parties are free to raise comments on any of the matters covered in this paper. However in particular, Ofgem/DTI is seeking comments on the way forward for developing BETTA outlined in Section 6 and Appendix 4 of this paper. Responses will be made available in the Ofgem library and on the Ofgem website (www.ofgem.gov.uk) unless marked as confidential. Where possible, any confidential material should be placed in appendices. Electronic replies are preferred, if possible in MS-Word document format.
- 1.16 Responses should be sent by Friday 28th June 2002 to:

David Haldearn
Director – Scotland and Europe
Office of Gas and Electricity Markets (Ofgem)
9 Millbank
London
SW1P 3GE

²¹ Decision by the Authority on an application for a reservation of pre-upgrade capacity on the Scotland-

Fax: 020 7901 7479

Email: Rowan.MacAuslan@ofgem.gov.uk

- 1.17 If you wish to discuss any aspect of this document, please contact Graham Jones, telephone 020 7901 7468, email: graham.jones@ofgem.gov.uk who will be pleased to help.

- 1.18 Please copy responses to:

Nicola Pitts
Head of Energy Trading and Markets
Room 2117
DTI
1 Victoria Street
London, SW1H 0ET

Telephone: 0207 215 0237

Email: nicola.pitts@dti.gsi.gov.uk.

who would also be pleased to discuss any aspects of this document:

- 1.19 Separately, DTI is inviting comments on the draft RIA set out in Appendix 3 of this paper. Responses on the DTI draft RIA should be sent, also by 28th June 2002, to:

Richard Penn
Senior Economist
Energy Policy
Room 186, DTI
1 Victoria Street
London
SW1H 0ET

Email: richard.penn@dti.gsi.gov.uk

- 1.20 If you wish to discuss any aspect of the DTI's draft RIA, please contact Richard Penn, telephone 0207 215 2683, email as above, who will be pleased to help.

2. Legislation

Support for legislation

- 2.1 On 15 April the Government announced that it intends to bring forward legislation to provide the legal foundation for BETTA when Parliamentary time allows. Ofgem/DTI are taking forward the further development and implementation of BETTA in the light of this announcement. If legislation is introduced in the 2002/03 parliamentary session, this should facilitate an implementation date for BETTA of April 2004.

Scope of legislation

- 2.2 A number of respondents to the December consultation document expressed the view that the legal powers taken under any new legislation should be no wider than those necessary to deliver BETTA. DTI/Ofgem accept this basic proposition and intend that the nature and provisions of the Bill are directed narrowly at addressing only those legislative changes which are required to the existing legal framework to implement and deliver BETTA.
- 2.3 At this stage, given that the detailed legal structure of the arrangements to implement BETTA are under development, it is not possible to be specific about the precise nature or extent of the legislation required to deliver BETTA which is being progressed by the DTI. However, broadly speaking, the provisions presently contemplated will have to address the following issues in order to give effect to BETTA:
- ◆ amendment to the Electricity Act 1989 so that both the activities of system operation and transmission ownership are licensable and any consequential changes that may be necessary;
 - ◆ the power to licence a GB system operator and the owners of transmission assets;
 - ◆ the need to change existing industry documents and where necessary the introduction of new documents, including a GB BSC, GB CUSC and GB Grid Code;
 - ◆ the transfer of certain necessary assets, where appropriate, to the system operator; and

- ◆ transitional arrangements required to implement BETTA.

Note on terminology

- 2.4 In the December consultation document, Ofgem made reference to the creation of a single GB System Operator under BETTA which, it was envisaged would be separate from those with generation and/or supply affiliations and which would, as a minimum, carry out GB balancing. It was proposed that the activity of System Operation would be carried out as a distinct licensed activity. It was also envisaged that the activity of Transmission Ownership would be carried out under licence by one or more Transmission Owners. Views were invited on whether or not it was appropriate to permit the activities of both System Operation and Transmission Ownership to be carried out by a single entity or by affiliated entities.
- 2.5 In practice, the form of the revised transmission-related prohibition(s) that will prevail in the Act following the implementation of BETTA, and consequently the definition of the activities that will be controlled under licence, is a matter for BETTA legislation.
- 2.6 Consequently it is not yet clear what terms it would be appropriate to define separately following the introduction of BETTA and so the terms system operator, system operation, transmission owner and transmission ownership are not subsequently capitalised in this document. Despite this change in the way these parties and activities are referred to, it does not mean that the concepts embodied in them are invalid.
- 2.7 For the purposes of this document, the system operator is the party that carries out a number of transmission-related functions (including as a minimum GB balancing). Functions are allocated to this party principally because it operates across GB and is independent from generation and supply interests. The functions allocated to the system operator acting in that capacity are collectively referred to as "system operation".
- 2.8 The transmission owners are the parties that will own the transmission assets in GB following the introduction of BETTA. The functions allocated to transmission owners as a consequence of the fact that they own transmission assets are jointly referred to as the activity of "transmission ownership".

- 2.9 In order to avoid a mixture of capitalised and un-capitalised terms in this document, when referring back to the December consultation document or views of respondents on such issues, the lower case has been used throughout.

3. What is BETTA?

Objective of BETTA

- 3.1 The principal objective of BETTA is to put in place a set of arrangements that will facilitate the development of competition in the wholesale trading of electricity for GB. To achieve this, the key features of BETTA are:
- ◆ the introduction of a single Code covering trading, balancing and settlement arrangements across GB, using arrangements applying in England and Wales as a basis for consultation;
 - ◆ the introduction of a single Code covering contractual arrangements for connection to and use of the transmission system using arrangements applying in England & Wales as a basis for consultation;
 - ◆ the introduction of GB charging methodologies for connection to and use of the transmission system, using arrangements applying in England & Wales as a basis for consultation;
 - ◆ the introduction of independent balancing arrangements, through the creation of a single GB system operator that is separate from generation and supply interests;
 - ◆ the removal of current commercial arrangements on use of the Scotland-England interconnector, by subsuming interconnector assets into the transmission businesses of the licensees that own those assets, and providing access to and use of those assets on the same terms as the rest of the transmission system; and
 - ◆ the introduction of a single document governing technical matters associated with connection to and use of the transmission system, embodied in a GB Grid Code.
- 3.2 In using England & Wales arrangements as a template for GB arrangements, Ofgem/DTI will be consulting fully upon the appropriate application of those arrangements across GB.

What BETTA means for market participants

- 3.3 It is anticipated that the principal impact of BETTA will be to improve competition in the wholesale trading of electricity across GB. The consequences of introducing BETTA for consumers in Scotland will be that their suppliers will have access to a much larger, more liquid and competitive wholesale energy market from which they may purchase electricity on behalf of their customers. Generators in Scotland will have the opportunity to compete in the GB market for wholesale electricity, in particular they will be able to compete to sell energy to suppliers of customers in England & Wales without having to negotiate a path through the complex contractual arrangements currently prevailing on the Scotland-England interconnector.
- 3.4 For market participants in England & Wales (which includes the principal market participants in Scotland), the nature of the trading arrangements may not change significantly as these will be based upon the now relatively familiar NETA trading rules. However, whilst there may be little change in functionality, there will be a significant change in scope as electricity trading moves to a GB marketplace. Consumers of energy in England & Wales are expected to benefit from additional competition from Scottish generation, whereas England & Wales' generators will have more direct access to those supplying energy to Scottish consumers, again without having to negotiate access to and trade across the Scotland-England interconnector.
- 3.5 Overall, it is expected that the increased scope for competition and the deeper markets created will be to the benefit of GB electricity consumers as a whole.
- 3.6 From a more practical perspective, the consequences of the introduction of BETTA are expected to include:
- ◆ the same energy imbalance cashout prices used to settle imbalances for the production and consumption of electricity across GB;
 - ◆ the development of GB traded energy products, with power exchange and over-the-counter energy trades taking place with reference to a GB, rather than England & Wales, national balancing point;
 - ◆ a single GB balancing mechanism, operated by a system operator independent from market affiliations. This will be accompanied by

arrangements for the purchase and sale of ancillary services and for other balancing products required by the system operator across GB;

- ◆ a charging methodology for the recovery of transmission costs from users of the GB transmission systems, using arrangements applying in England and Wales as a basis for consultation; and
- ◆ a single entity, the system operator, independent from market affiliations, additionally responsible for contracting for connection and use of system with users of the GB transmission systems.

3.7 The impact of BETTA on market participants is discussed in more detail in the draft RIA contained in Appendix 3.

Other related issues

3.8 Ofgem/DTI recognise that BETTA is being taken forward in parallel with a number of other issues that, whilst related, fall outside the direct scope of the BETTA reforms. In addition to the issues identified in Section 1, these include:

- ◆ potential developments in renewable energy and the possible impact that this may have on requirements for new investment in the transmission system²²; and
- ◆ any implications that BETTA has for the treatment of the restructuring contracts in Scotland.

Arrangements are being put in place to ensure appropriate co-ordination with these other initiatives.

²² It is noted that a group (the "GB Transmission Issues Working Group") has been established by the DTI to address these issues. This group comprises amongst others, representatives of central government, the devolved administrations and existing transmission licensees.

4. Key Conclusions from December consultation

Case for reform

December consultation document

- 4.1 The December consultation document set out the rationale for Ofgem's proposed reform of the wholesale electricity market in GB through the creation of BETTA.
- 4.2 In the December consultation document Ofgem explained how it believed that the BETTA reforms will enable consumers across GB to have more equitable access to the benefits of competition in GB-wide wholesale electricity trading, provide more efficient signals for the use of current and future generating plant, and stimulate further the development of supply competition in both Scotland and England & Wales.
- 4.3 In practical terms, Ofgem indicated that a model based on the NETA and CUSC arrangements in England & Wales could also result in lower implementation costs relative to other possible market-based reforms, in terms of: system costs resulting from the possible use of existing systems; the accumulated experience of market participants in England & Wales; and the development time in establishing the detail of the trading rules and associated arrangements.

Key messages and conclusions

- 4.4 Twenty six responses were received to the December consultation document. Of those that commented on the vision of BETTA set out in that document, nearly all supported it. A few respondents questioned the vision itself, and others expressed reservations about particular elements of the proposals.
- 4.5 Based upon the responses to the consultation document, and in particular, the widespread support for the proposals, Ofgem/DTI believe that this underlines both the need for the proposals and the requirement to move towards their implementation as soon as possible.

Allocation of functions between the system operator and transmission owners

December consultation document

- 4.6 The December consultation document explained that the implementation of BETTA would require the creation of a single GB system operator and suggested that it was appropriate for certain transmission related functions to be carried out by a party that was not affiliated with the market activities of generation and/or supply. It was proposed that as a minimum such functions should include the procurement and call-off of balancing services.
- 4.7 The December consultation document also noted that it was not proposed to require a divestment of transmission assets²³ as part of BETTA. Given the intent to place responsibility for GB balancing with a system operator separate from generation and/or supply interests, it was explained that this meant that responsibility for carrying out existing transmission functions would necessarily be split.
- 4.8 The December consultation document set down some of the issues associated with, and invited views on, the criteria for deciding whether system operation and other transmission related functions should be allocated to the system operator or to transmission owners and the appropriate allocation of a number of such transmission functions in light of the criteria suggested.
- 4.9 Three illustrative models were described. They proposed different divisions of responsibility for transmission functions between the system operator and the transmission owners. A further model, developed by working groups established after the August 2000 consultation paper, was also discussed.

Key messages and conclusions

System operation and market activities

- 4.10 Within the twenty six responses received there was widespread agreement that system operation should be carried out separate from competitive market activities such as supply and/or generation. One respondent did not necessarily

²³ It is anticipated that BETTA would result in the requirement for certain staff and assets to transfer from existing transmission licensees to the GB system operator. However, it is intended that the vast majority of assets forming part of the transmission system would not transfer.

agree and stated, amongst other things, that there were existing precedents for ensuring that functions with conflicts of interest can coexist within the same corporate entity.

- 4.11 Ofgem/DTI continue to believe that promoting competition in generation and supply requires that there is access to the transmission system which is, and which is perceived to be, independent and non-discriminatory. In accordance with the views of the substantial majority of respondents to the December consultation document, Ofgem/DTI agree that this requires that certain functions are undertaken by a party or parties that do not have affiliated²⁴ interests in market-related activities. Ofgem/DTI believe that one such function is the purchase and call-off of balancing services. Given that it is proposed that the GB system operator will be responsible for operating the balancing mechanism (i.e. it will at a minimum be responsible for the procurement and call-off of some balancing services) it is concluded that the GB system operator should be separate from affiliations with generation or supply.

System operation and transmission activities

- 4.12 Six respondents indicated that they believed that the activity of system operation should not be in the same group ownership as transmission ownership, principally because otherwise, there may be scope for the system operator to favour affiliated transmission owners. One respondent indicated that although it did not believe that there was any significant opportunity for a system operator to favour affiliated generation it believed that there were opportunities for a system operator to favour an affiliated transmission owner.
- 4.13 One respondent believed that the integrated system operator and transmission owner structure in England & Wales should be retained and that this system operator activity should be extended to Scotland to create the GB system operator activity. It believed that costs and inefficiencies could be introduced across the interface between the system operator and transmission owner, and that this should be avoided (at least) in England & Wales.
- 4.14 Ofgem/DTI recognise the possibility for the GB system operator to discriminate between non-affiliated and affiliated transmission owners and that separation of the GB system operator from all transmission owners would be a remedy to this

²⁴ In this document, "affiliated" means within the same corporate group, or within the same company.

problem. Ofgem/DTI accept also that the integrated management of transmission functions in England & Wales, free of market-related affiliations, has been associated with significant savings in the costs of managing transmission. Ofgem/DTI believe that these benefits should be retained providing they are not outweighed by inefficiencies due to any perverse incentives on the GB system operator to favour affiliated transmission owners.

- 4.15 Ofgem/DTI believe that appropriate incentives and licence conditions on transmission owners and the GB system operator and the application of competition law will be capable of regulating effectively the ability of the GB system operator to favour any affiliated transmission owner. Accordingly, Ofgem/DTI believe that any inefficiencies arising from any perverse incentives for the GB system operator to discriminate in favour of an affiliated transmission owner should be substantially lower than the efficiencies of integrated management that would be lost with the separation of the GB system operator and transmission owner functions. On balance, Ofgem/DTI therefore do not believe that it is necessary to require the GB system operator to be separate from transmission owners, and that the potential for gaining efficiencies from the integrated management of system operation and transmission ownership should be possible under the BETTA arrangements.

Criteria for the allocation of functions

- 4.16 Of those who commented on this issue, the majority expressed broad agreement with the criteria proposed in the December consultation document, although a number of additional or, in some cases rephrased, criteria were suggested by respondents.
- 4.17 Taking into account the comments received, Ofgem/DTI now propose that the criteria to be used in determining the allocation of functions between the GB system operator and transmission owners should be such that the allocation ensures that:
- (1a) functions that directly affect market participants, and which cannot be easily codified and effectively monitored to ensure that no bias is being exercised, be separated from those with market affiliations;

- (1b) access to confidential data, which may reveal the intentions of participants in market-based activities, should be available only to those that do not have affiliated interests in those same market-based activities;
- (2a) it is practical, efficient and economic to undertake the various functions of the system operator separately from the functions of the separate transmission owners;
- (2b) appropriate incentives can be given to each of the system operator and transmission owners to undertake their separate activities in an efficient, co-ordinated and economic manner;
- (3) the one-off costs of effecting the changes should be as low as possible, taking into account both central costs and participants' costs;
- (4) security of supply must not be jeopardized;
- (5) there is the ability to ensure effective asset management, including safety and environmental issues to meet both shorter and longer term obligations; and
- (6) functions continue to be carried out by those parties who are currently responsible for them unless there is a requirement to reallocate responsibility in order to meet the objectives of BETTA.

4.18 Insofar as prioritisation of criteria is concerned, Ofgem/DTI believe that all criteria need to be taken into account but that a degree of trade-off will be needed to formulate a practical solution. Particular weight will need to be given to 1a and 1b, given the context of the BETTA objectives, but other than this, the numbering of the criteria outlined above should not be taken to imply any hierarchy or priority.

Models for allocation of functions between the system operator and transmission owners

4.19 A wide spectrum of views was received from respondents in commenting on their view of the most appropriate model for the allocation of functions between the system operator and transmission owners.

4.20 Given the responses to the December consultation document, the development of the criteria discussed above and the process undertaken to date, Ofgem/DTI

believe that it is now appropriate to conclude initially on the allocation of certain transmission related functions.

- 4.21 Ofgem/DTI believe that responsibility for purchase and call-off of balancing services in all timescales, and responsibility for directing the real-time operational configuration of the operational transmission system should lie with the GB system operator.
- 4.22 The responsibility for directing the configuration of the operational transmission system should, in this context, also include a formal role in co-ordinating the scheduling for construction and maintenance outages and a formal role in understanding and agreeing outage changes, including the need to cancel or shorten outages. Changes need to take into account issues such as system security, balancing services costs and factors that arise from asset risk management. It is for further consideration exactly what role and incentives transmission owners should have in determining the timing of maintenance and construction outages. This could range from their proposing an initial outage schedule to the GB system operator for approval to having the GB system operator more directly involved in co-ordination and work scheduling. In any event, it is envisaged that the transmission owners would be responsible for identifying asset maintenance requirements in the first instance. Transmission owners would continue to own their existing transmission assets, and new transmission assets within their areas, and would also be responsible for carrying out maintenance on those assets and optimising associated costs.
- 4.23 Subject to changes arising consequent to developments to NGC's SO incentive scheme in England & Wales and/or transmission access, which is discussed further below, Ofgem/DTI believe that it is also appropriate for transmission owners to be responsible for planning and delivering new capital expenditure requirements on their transmission systems. Given that it is proposed to make transmission owners responsible for carrying out transmission maintenance, it is envisaged that by also giving them responsibility for planning and delivery of new investments, this will help to ensure that they can be provided with appropriate incentives to make efficient decisions on when to make new investments and when to undertake maintenance or refurbishment, ensuring a coordinated approach to transmission asset management is maintained. It is anticipated that whilst the underlying responsibility for the new investment planning process would sit with the transmission owners, the GB system

operator would have a role in the development of a co-ordinated GB transmission investment plan from the plans of the individual transmission owners. Furthermore, Ofgem/DTI believe that it is necessary to ensure that the planning process adopted provides sufficient assurance that new connections to the transmission system will be managed in an independent, non-discriminatory manner, in particular in the case of connections to the systems of transmission owners with generation and/or supply affiliates. Ofgem/DTI therefore believe that consideration should be given to involving the GB system operator in the new connections planning process in order to help to ensure such independence and non-discrimination.

- 4.24 It was noted above that if new arrangements for transmission access are introduced, the responsibilities placed on the SO part of NGC's Transmission Business would cover a larger range of functions than at present, and that Ofgem intends to consult on the scope, form and duration of an appropriate price control. It is anticipated that consideration will be given to the current proposals for the SO and TO activities of Transco during the consultation process. Ofgem/DTI believe that subject to the outcome of this consultation process, it will be necessary ensure that the detail of the incentive arrangements and responsibilities applying to the system operator and transmission owners under BETTA, particularly in relation to transmission system investment planning, are consistent with any developments in this area. It is noted for example that it is proposed that under the Transco arrangements, the SO is responsible for making the decisions to release incremental capacity volumes at particular locations in response to its investment signals and for arranging with the TO for the delivery of additional investment.
- 4.25 Ofgem/DTI believe that it is appropriate for the GB system operator to be the party responsible for contracting with users of the transmission system for connection to and use of the system²⁵. It is therefore envisaged that transmission owners would be unlikely to need contractual relationships with those connecting to and using the transmission system. Revenues for connection and use of system would be collected by the GB system operator in accordance with a transmission charging methodology proposed by the GB system operator.

²⁵ It is recognised however that given that transmission owners will continue to own transmission assets, this will mean that the contractual provision of services differs from the physical provision of services. Once the detail of the legal framework and associated responsibilities is known, it may prove necessary to have some limited form of contractual relationship between the transmission owners and users.

Transmission owners would derive a revenue from the GB system operator through the system operator – transmission owner interface arrangements.

- 4.26 Ofgem/DTI recognise that based on these initial conclusions it will be necessary to develop the detailed allocation of functions between the GB system operator and the transmission owners, and that in doing so it will be necessary to consider further the practicalities and costs associated with such allocations. It is intended that further consultation documents will address the issues of more detailed allocations of transmission functions, the detail of the legal interface between the GB system operator and transmission owners and the form of incentive regulation to be applied to each. In progressing this work, it is proposed that the criteria identified above would be used in allocating the responsibility for more detailed functions to the GB system operator or to the transmission owners.
- 4.27 Whilst it is recognised that working up further detail of the arrangements may reveal that the initial conclusions need to be revisited in order to achieve a more appropriate balance between meeting the various criteria²⁶, Ofgem/DTI believe that it is appropriate to make certain decisions at this stage in the process, and it is unlikely that it will be necessary to revisit Ofgem/DTI's initial conclusions on the high-level allocation of responsibilities which are set down above.

BSC

December consultation document

- 4.28 The December consultation document noted that one of the key components of BETTA is the introduction of arrangements for the wholesale trading of electricity across GB, based on the present NETA arrangements in England & Wales, subject to consultation on any changes that might be required to apply them across GB. To achieve this, it is necessary to introduce a unified set of trading arrangements for balancing generation and supply across GB and for settling imbalances. It was envisaged that the way in which this will be achieved is through the introduction of a new BSC, based on that in place in England & Wales, to apply across the whole of GB.

²⁶ In particular for example, Ofgem/DTI believe that some complexities are likely to arise from the fact that it is proposed that the GB system operator be responsible for contracting for connection and use of system, whilst the transmission owners are responsible for maintenance and new investment planning.

Key messages and conclusions

- 4.29 The majority of respondents to the December consultation document supported the introduction of a GB BSC. A number of issues were raised, including for example the fact that some respondents were concerned that NETA was not yet proved as a model, or that NETA was not yet fully developed, or that there were specific aspects of NETA that would require special consideration in Scotland. Concerns were also expressed that interim developments to the BSC in England & Wales, before the implementation of BETTA, would not be assessed against objectives that took into account the eventual application of the arrangements embodied in the BSC across GB and that Scottish companies do not have a voice on industry panels governing England & Wales documents.
- 4.30 Ofgem/DTI are of the view that the NETA trading arrangements are working well and, as borne out by the majority of respondents, consider that NETA is the appropriate model to use for the introduction of GB-wide trading arrangements.
- 4.31 The issue of interim developments to documents that are to be applied on a GB-wide basis is dealt with in section 5.
- 4.32 Several respondents noted that 132kV assets are classified as transmission assets in Scotland and distribution assets in England & Wales, and that this would have implications for: metering requirements; treatment of losses; transmission charging and the treatment of small generators, particularly cascade hydro. They considered that this would not be beneficial for small generators connected at 132kV in Scotland as they would be denied access to certain embedded benefits and equivalence with small generators connected at 132kV in England & Wales. One respondent thought that a change of boundary would cause significant costs and that it was necessary to retain the planning of this 132kV network with the transmission system generally.
- 4.33 Ofgem/DTI does not intend to change the current legislative definition of high voltage lines and thereby the scope of transmission in England & Wales and in Scotland. The position of small generators in the BSC and with respect to transmission charges is determined by a number of things including: the transmission charging methodology; plant size; licence exemption and certain BSC definitions (e.g. GSP Group, Balancing Mechanism Unit and Trading Unit) and metering requirements. Any perceived inequities that result may be

addressed, if it is considered appropriate to do so, by changes to relevant documents, such as the BSC.

- 4.34 In developing a GB BSC there will be full consultation on any issues arising from the application of the England & Wales BSC across GB, and on possible differences between a GB BSC and the England & Wales version that might have to be considered as a consequence. This will provide an opportunity to identify whether there are any circumstances in Scotland or in England & Wales that warrant special consideration and if so what such circumstances are and their appropriate treatment under a GB BSC.
- 4.35 Most respondents supported the use of existing England & Wales BSC systems with minimum change. They noted that major generators and suppliers in Scotland have already invested in NETA compliant systems but that there are some players who have not, and that this will need to be factored in when setting implementation timescales. Most thought that the impact of extending central systems would not appear to be great but that there may be a significant volume of detailed work that would benefit from the establishment of an expert group.

CUSC

December consultation document

- 4.36 The December consultation document noted that one of the key features of BETTA is the implementation of a single set of contractual arrangements for access to the transmission system, based substantially on the CUSC in place in England & Wales at the time of the introduction of BETTA. In using England & Wales arrangements as a basis for GB arrangements, Ofgem will be consulting upon the application of those arrangements across GB.
- 4.37 An important component of this is the implementation of a single set of charging arrangements for connection to and use of the GB transmission system, based upon the transmission charging arrangements in place in England & Wales, taking into account any issues arising in the consultation on the application of those arrangements across GB. A change in the treatment of existing interconnector assets between Scotland and England & Wales was also proposed in the December consultation document. Under a single GB market, the

Scotland-England interconnector would become part of the transmission system assets.

Key messages and conclusions

- 4.38 There was widespread support for extending the England & Wales CUSC to GB with the attendant benefit of a single set of charging and access arrangements, although it is noted that further consultation will be needed on the detailed form of the GB arrangements and on charging in particular. Respondents noted the dependency of the form of CUSC on the form of the split between system operator and transmission owner activities. One respondent commented that the adoption of a harmonised approach to contractual arrangements could bring with it a degree of inflexibility and that due consideration should be given to whether sufficient flexibility could be provided to accommodate the diverse conditions that will be encountered across GB.
- 4.39 Respondents identified the need for a document governing the relationship between the system operator and transmission owners. Separately some respondents commented on the need for a document governing the interfaces between transmission owners also. The need to have the ability to change these documents consequent upon changes to the GB CUSC was also identified.
- 4.40 A number of respondents' commented on the need for clarity over the proposals for taking forward GB charging arrangements. This issue is discussed further in Section 5 below.
- 4.41 Ofgem/DTI note the support for a single CUSC to apply across GB and agree that this should be the basis for further work. Proposals for the arrangements that should be embodied in the CUSC to apply across GB will be brought forward for full consultation in due course.
- 4.42 Ofgem/DTI also recognise the need to provide clarity over the proposals to take forward the development of the charging arrangements for connection and use of the transmission systems under BETTA, given current proposals for reform to these arrangements in England & Wales. This issue is discussed further in section 5.

System security and quality of supply standards

December consultation document

- 4.43 The December consultation document noted that the three transmission systems in GB are currently planned and operated to comply with different system security and quality of supply standards. The document gave a brief summary of the applicable standards, and raised a number of issues in relation to the appropriate application of the standards following the introduction of BETTA. It also considered briefly the issues associated with implementing a single GB Grid Code and non-connected island systems.

Key messages and conclusions

- 4.44 Respondents expressed a range of views with respect to conforming security and quality of supply standards as part of BETTA. Whilst some were in favour of conformance and some thought that the costs of conformance would be negligible, others argued that the present arrangements, which differed between Scotland and England & Wales, had served the different communities well and that the costs involved in conformance would not provide commensurate benefits.
- 4.45 Given that one objective of BETTA is to introduce a set of GB arrangements it might be preferable for these arrangements to include a harmonised set of security and quality of supply standards. Nevertheless it would be appropriate that any conformed standard would take geographical, climatic and economic factors into account, and it is not intended that in moving to a conformed standard, significant additional new investment in transmission would be required. Ofgem/DTI believe that further work is required to determine the most appropriate way forward on this issue.
- 4.46 There was general support for a single Grid Code with some views on how this should be developed. All three Grid Codes have a similar structure and several respondents thought it appropriate to use the Balancing Code sections of the England & Wales Grid Code with selections from all codes to form the remainder.
- 4.47 Few respondents had a view on the arrangements that should be adopted in the Shetland Isles. Ofgem/DTI will consider their treatment further in due course.

5. BETTA implementation and resolution of key issues

BETTA implementation

5.1 There are three principal areas of delivery in the BETTA project, relating to:

- ◆ legal documents;
- ◆ system development; and
- ◆ the process for transition.

Legal documents

5.2 The key legal documents include the new transmission licences, the GB BSC, the GB CUSC, the GB Grid Code, the document governing the interface between the system operator and transmission owners and, should one be considered necessary, the document governing the interface between transmission owners.

5.3 There are three main stages in the development of and consultation on the key legal documents required for BETTA;

- ◆ *Policy and detailed arrangements:* the first stage is consultation on the policy and detailed arrangements ('requirements') to be embodied in the key legal documents. This stage began in December 2001 (with the consultation document published then) and is due to continue over the remainder of 2002. Planned consultations include consultation on the detailed arrangements to be embodied in the GB BSC, GB CUSC and GB Grid Code and consultation on the detailed allocation of functions between the system operator and transmission owners and associated regulatory arrangements during August and September 2002 ;
- ◆ *Draft documents:* the second stage is consultation on the draft text of GB documents, culminating in documents that are ready for designation by the Secretary of State. This stage is due to commence in November 2002 and be completed by June 2003;
- ◆ *Modifying GB documents:* the third stage is undertaking any further changes that are required to such documents during the period between

their designation (when they are given legal force) and BETTA Go-live, should the need arise.

- 5.4 It is recognised that the introduction of BETTA may have consequential impacts upon existing core industry documents, e.g. the Master Registration Agreement (MRA) and the Distribution Codes, which will also need to be addressed. Documents falling into this category and the process for taking forward consequential changes to them will be identified and communicated in due course.
- 5.5 Ofgem/DTI considers that there is advantage in taking steps, soon after commencement of the resulting Act and in advance of BETTA Go-live, that clarify the legal environment and provide an appropriate legal framework within which progress in certain areas towards Go-live can be made. It is currently proposed that this would take place in or around September 2003. Under NETA, the equivalent steps were known as "Go-active".
- 5.6 The steps to be taken include the designation of key documents and amendments to licences, which will have the effect of giving the BETTA proposals legal force. This will be the first time that participants in the new GB wholesale electricity market have legal certainty about the arrangements that will apply. In addition a legal framework will be established within which any necessary testing and trialling of computer systems can take place, data can be transferred from the arrangements applying in England & Wales, new data relating to Scottish parties can be registered, data can be validated and finally cut over can occur ready for Go-live.

System development

- 5.7 Required system developments under BETTA are expected to fall into two broad categories. The first is changes to systems required to accommodate the increase in scope implied by BETTA. The second is the development of support systems that will be required by the new GB system operator and the transmission owners. It is intended to rely as much as possible on existing and any new licence holders and central service providers to deliver systems developments, with the BETTA project primarily playing a planning and co-ordinating role. This approach, however, is dependent upon the ability to identify such licence holders and central service providers relatively early, so that they can begin planning for such system developments.

- 5.8 Those who need to develop or amend systems to support BETTA or to enable their trading in the new environment will have their first overall view of the proposed arrangements at the time of the “requirements” consultation in the autumn of 2002. More detail will be available when the first legal drafts of the new documents are issued for consultation in or around November and December 2002. Further information will be provided through this consultation process, culminating in a complete set of revised documents for designation by the end of June 2003. Such a process of increasing detail and scope of requirements is typical of the systems development environment, and it is therefore assumed that this will provide participants with sufficient time to do whatever needs to be done. However, this assumption will need to be tested, in particular with those providing the revised or new central systems.

Transition

- 5.9 In parallel, work will proceed on the process for transitioning from the current set of arrangements in England & Wales and Scotland to BETTA. Existing arrangements will need to remain operational whilst detailed preparation is underway to move to BETTA going live. The cross over between the existing arrangements and BETTA must be robust. This transition process has two stages, planning and execution. The planning stage involves consideration of transition issues and how these can best be handled; this will include consultation on proposed framework design of key documents, such as an Implementation Scheme and a Transition Plan, that are required to give effect to the transition process. Once those documents are designated and given legal effect, currently planned to take place in September 2003, the execution stage commences. This involves transition itself, using the legal powers derived from such documents.
- 5.10 The key elements of the transition process are currently expected to include the following:
- the set up of the GB BSC and CUSC Panels, GB BSCCo and the GB system operator;
 - the transfer of registrations of data from England & Wales arrangements and new registrations in relation to Scottish parties;
 - enabling trialling;

- enabling access to metering for settlement and operational purposes; and
- enabling bulk data take-on where appropriate (e.g. Scottish meter registrations).

5.11 There will be many other aspects of transition that will need to be considered and Ofgem/DTI plan to set up an expert group from the industry to help with the identification of all the transitional issues that will need to be resolved.

Key issues

5.12 The following sets down a number of key issues and Ofgem/DTI's current thinking on how they should be progressed.

Allocation of functions to system operation and transmission ownership

5.13 Work here will focus on the exact allocation of functions between system operation and transmission ownership. It is intended to issue a number of consultation documents as proposals for the more detailed allocation of responsibilities becomes defined. It is proposed that work on developing the detailed allocation of functions between the system operator and transmission owners will commence immediately. It is currently envisaged that consultation will cover three areas: balancing, dealing with the allocation of functions between system operation and transmission ownership to support the discharge of functions and responsibilities covered in Balancing Codes 1, 2, and 3 of the Grid Code; operational planning, dealing with transmission outage planning and maintenance; and transmission investment planning, dealing with new investment. In each case, it is proposed to set out in more detail the steps involved in the process and the alternative options available for allocation within the bounds of the conclusions set down in this document. Consultation will then provide an analysis of the different options against the criteria identified in Section 4. It is currently anticipated that initial consultation on these issues will be published towards the end of August 2002.

5.14 In parallel, it is proposed that Ofgem will progress the development of the proposed forms of regulation of the parties responsible for carrying out the functions of system operation and transmission ownership. It is proposed that an initial consultation on these issues will be produced towards the end of September 2002.

System security and quality of supply standards

- 5.15 There was no general consensus amongst respondents on whether standards should be conformed across GB, although a number of parties queried whether the costs of conformance were worthwhile. Ofgem/DTI will look further at the issues involved and consult again at a later date.

Appointment of GB system operator

- 5.16 A GB system operator cannot be appointed until the relevant legislation has been passed, as until then no legal basis exists for such appointment. Before then, in preparation for the decision, Ofgem/DTI wish to consult upon the process by which the decision will be reached and the criteria that will be used for deciding upon who might be best placed to fulfil such a role.

Cost recovery

- 5.17 Ofgem/DTI recognise that in implementing BETTA, the transmission companies (and the GB system operator once appointed) will incur costs for the provision of central services critical to the operation of the market. Consideration will be given to allowing the recovery of efficiently incurred costs. Ofgem/DTI will be consulting on cost recovery principles and processes in due course.

Assets and staff transfer

- 5.18 It is not anticipated that BETTA legislation will directly mandate the transfer of transmission system assets other than in certain discrete respects. There is likely to be the need for transfers of assets, computer software and hardware, staff and data in the area of system operation. The detail of the transfer will be dependent upon the finalisation of the functions to be undertaken by the system operator and the transmission owners. Although it will be necessary to prepare a legal transfer scheme much of the detail of this work will have to await progress on the detailed allocation of functions between the system operator and transmission owners.

Price controls and incentives

- 5.19 The December consultation document indicated that BETTA would involve the separation of present price controls and incentive arrangements between the system operator and the transmission owners. Ofgem indicated that the intention

would be not to reopen existing arrangements, except to the extent that any separation of functions makes this necessary. As it is proposed that the Scotland-England interconnector assets will be absorbed into the regulated transmission asset bases of Scottish Power and NGC, issues of value, allowable revenues, incentive arrangements and the treatment of existing interconnector agreements also need to be addressed.

Parallel consultation processes and representation of Scottish interests

- 5.20 The process and timetable for developing and consulting upon key legal documents, including the GB BSC, GB CUSC and GB Grid Code, was outlined above.
- 5.21 Based on that process and timetable, Ofgem / DTI will be producing consultation papers in August and September 2002 which identify what changes need to be made to the England & Wales versions of the BSC, CUSC and Grid Code to apply them across GB. Subsequently, in November 2002, Ofgem/DTI will begin a process of consulting on the text of the draft GB documents, based upon the live versions of the equivalent England & Wales documents that exist at that time.
- 5.22 The England & Wales versions of these documents contain procedures for their modification or amendment, and it is recognised that the versions of them that exist at BETTA Go-live could contain a number of modifications or amendments compared to the versions consulted upon earlier. Concerns have also been raised by some respondents to the December consultation document over the ability for Scottish interests to be adequately represented in modification or amendment processes for documents that only apply in England & Wales. Those respondents thought that Scottish interests needed to be included in the consideration of such modifications or amendments, where the documents in question would be used as the basis to develop GB documents and that further Scottish representation may be necessary. This concern has also been raised specifically in relation to any modification/amendment proposals brought forward to revise transmission charging arrangements in England & Wales. An appropriate process will need to be followed for consulting upon whether such amendments or modifications should be reflected in the equivalent GB documents.

5.23 Several options exist:

- ◆ First, in applying the relevant objectives, bodies responsible for progressing modifications to England & Wales documents may think it appropriate to bear in mind the broader context of proposed changes resulting from BETTA. Whilst the bodies' decisions must be limited to England & Wales considerations, they may note the perceived impact on the BETTA project to the Authority. It should be noted that the England & Wales BSC, CUSC and Grid Code change processes are open and transparent. Details of proposed modifications to the BSC and proposed amendments to the CUSC and Grid Code are published on the ELEXON and NGC websites respectively²⁷ and various reports on the modification proposals are also published on those websites at key stages during the modification process. Any interested party is free to make representations on modifications and amendments, including parties in Scotland that are interested in such changes in the light of BETTA reforms, and such parties can raise, if they choose, considerations based solely upon Scottish matters. When formulating their advice to the Authority on a particular modification or amendment, the relevant governance bodies would be obliged to include such representations in the associated reports on consultation. In applying the relevant/applicable objectives, the relevant body may think it appropriate to draw to the Authority's attention the broader context of proposed changes resulting from BETTA. However, the Panel's recommendation must be limited to England & Wales considerations.
- ◆ Second, when the Authority is considering whether or not to direct that modifications are made to the BSC or that amendments are made to the CUSC or Grid Code, not only will the Authority have regard to the document's applicable objectives, but the Authority will also have regard to its statutory duties. This will include, where and when appropriate, consideration of the effect that a modification proposal might have, were it to be applied in arrangements that took effect across GB. The Authority may take account of future GB issues in making decisions on modifications in respect of England and Wales. It is important to note that the weight that the Authority must give to GB considerations will

²⁷ See <http://www.elexon.co.uk/>, and http://www.nationalgrid.com/uk/activities/mn_electricity.html.

depend principally upon the prospect for a GB market being established, which will reflect the progress of legislation. The weight the Authority will give to GB considerations will also depend on other factors that will vary with each individual modification proposal.

- ◆ Third, Ofgem may, as part of the BETTA project, consult upon the issues raised by proposed modifications if the modifications were reflected in GB arrangements.
- ◆ Finally, it may be considered appropriate to constitute the Panels that govern the GB documents soon after Royal Assent for the purposes of considering approved modifications/amendments that have occurred to England & Wales documents and consulting upon and recommending to Ofgem whether or not such modifications/amendments should be included within the GB documents.

5.24 The above options are not mutually exclusive and a combination of them could be adopted, depending upon factors such as the significance of the modification, its importance were it to be applied across GB and its timing. Consideration of its inclusion in GB documents could occur in a number of timescales:

- ◆ in the period between now and the time at which templates of England & Wales documents are used to develop draft GB documents for consultation (i.e. around October 2002 for a November 2002 consultation);
- ◆ in the period between October 2002 and June 2003, so that a decision can be made on whether or not to include it in the documents that are designated in September 2003; or
- ◆ in the period between June 2003 and Go-live, so that a decision can be made on whether or not to include it in the documents for BETTA Go-live.

5.25 However, it is clear that material changes in the England and Wales Codes between now and the creation of a GB market need proper consideration and consultation as to their effect, in relation to their potential application to the GB market. Codes that work appropriately and effectively in a GB (rather than England and Wales) context are vital for the success of the project. In relation to the GB Codes, this will be a key consideration when examining responses to the consultation exercises and in taking into account representations that have been

made on modifications and amendments. Robust consultation on GB issues will be a key factor in decisions taken by the Secretary of State when designating the GB Codes.

Transmission charging

- 5.26 If a modification proposal is raised²⁸ against the BSC and/or an amendment proposal is raised against the CUSC which is designed to introduce revised arrangements for transmission access and losses charging in England & Wales then it will be necessary for Ofgem/DTI to consider the impact on BETTA as part of the parallel consultation process set down above. Prior to the BETTA project consulting upon the charging arrangements to be applied across GB, Ofgem will review the timetables published by the BSC and CUSC panels respectively, to identify the process that those panels intend to follow to consider these specific modifications and their planned dates for providing to the Authority their recommendations on these modifications. At that time Ofgem / DTI will consider the implications that these timescales have for developing GB transmission charging arrangements and the process and timetable that the BETTA project should follow in developing those arrangements.

²⁸ It is noted that in this context, BSC Modification Proposals P75 "Introduction of Zonal Transmission Losses" and P82 "Introduction of Zonal Transmission Losses on an Average Basis" have in fact been raised, and that the Transmission Access Standing Group was established by the CUSC Panel on 22 March 2002 to consider such issues.

6. Next steps

- 6.1 Ofgem/DTI conclude that it is appropriate to take BETTA forward on the basis of the processes set out in the December consultation document, namely consultation augmented by expert groups and seminars. As a first step, a seminar to be held in June will be used to discuss further various issues, in particular the detailed allocation of responsibilities between the system operator and transmission owners and transmission access in the context of BETTA. Details of the venue and the agenda for this seminar will be announced shortly.
- 6.2 Expert Groups will also be formed. These expert groups will not be consultation groups, but will provide technical expert support to the BETTA project team on specific issues. Accordingly their membership will reflect the issues being addressed and therefore the expertise required.
- 6.3 As outlined in Section 5, a number of consultation papers will be issued in the next few months. A summary of the current planned timetable of consultations is provided below. In order to reduce the administrative burden for respondents, where possible Ofgem/DTI will seek to consult upon a number of matters in a single consultation document.

Consultation	Date
Transmission charging Costs and cost recovery Conformance of standards Setting price controls for the system operator and transmission owners The processes by which central service providers can be identified and appointed.	Summer 2002
Further detail on the allocation of activities between the system operator and transmission owners Incentive regulation of the system operator and transmission owners	During August and September 2002
GB BSC GB CUSC GB Grid Code	During August and September 2002
First draft of key legal documents	November and December 2002

Second draft of key legal documents	February and March 2003
Publish legal documents intended for designation	June 2003
Designation (subject to BETTA Bill becoming BETTA Act)	September 2003

- 6.4 In parallel with the above development of policy documents, DTI will be working further on drafting instructions for the Bill consistent with its introduction into Parliament in the 2002/03 session, should it be decided that Parliamentary time is available then. In Autumn 2002 Ofgem will also be consulting on NGC's SO incentives for the period 2003 to 2006.
- 6.5 Ofgem/DTI will also be working on the detail underlying implementation and transition to the new arrangements. In due course Ofgem/DTI will consult on the form and content of the various documents that are considered appropriate to govern such processes.
- 6.6 As soon as the central service providers and those who will develop the new system operation and transmission owner systems are identified, the BETTA project will work closely with them to ensure that they have the information that they need to progress their developments in a timely manner.