

Our Ref: CHD/PB



National Grid

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The National Grid
Company plc
National Grid House
Kirby Corner Road
Coventry
CV4 8JY

Tel No: 02476 423015
Fax No: 02476 423105

Mr D Haldearn
Director - Scotland and Europe
Office of Gas and Electricity Markets
9 Millbank
LONDON
SW1P 3GE

Dear David

BETTA - Consultation Report & Next Steps

Following publication of the latest Ofgem/DTI report on BETTA¹, we have a number of comments on some of the key issues yet to be resolved in the development of BETTA. Although we recognise that Ofgem are actively seeking to resolve these issues through expert groups, seminars and consultation, we believe it appropriate to put forward our views in response to this report. In particular, we have some specific comments on the allocation of activities between the Transmission Owner (TOs) and the GB System Operator (GB SO), notably in the area of investment planning; on the timely designation of the GB SO; and on the recovery of implementation costs. We also offer our comments on the proposed way forward for developing BETTA.

In general, we have reserved comments on such issues as price controls and incentives, transmission charging, security standards and detailed issues associated with the allocation of activities until such time that Ofgem consult on these particular issues.

Allocation of Functions Between GB SO and TO - Investment Planning

We consider the criteria identified in the report for allocating functions between the GB SO and TO to be generally appropriate. We agree that the customer interface should be allocated to the GB SO, in line with criteria (1 a) and (1 b), which seek to identify functions that should be independent of affiliated market interests. This should provide

¹ The Development of British Electricity Trading and Transmission Arrangements (BETTA), Ofgem/DTI, Report on consultation and next steps, May 2002.



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market participants and new entrants with the confidence that they will be treated in a confidential and non-discriminatory manner by an independent party when seeking access to the transmission system, thereby facilitating the development of competitive market in Scotland.

However, we believe that this is incompatible with the proposal to allocate the majority of investment planning activities to the TOS. The fundamental basis for any transmission investment is to provide the SO with a system that can be operated securely and economically and it is our view that the SO must be involved in the planning activity if such investment is to be properly and efficiently targeted.

We note that Ofgem are considering some involvement of the GB SO in planning new connections and possibly some involvement in investment planning in relation to Deep SO incentives. However, without a more significant role in investment planning, specifically in the areas of new connections and system reinforcements, we believe that to meet the BETTA objectives the following issues will arise:-

- The GB SO would have limited scope to provide its customers (both existing users and new entrants) with secure, non-discriminatory grid access in accordance with their needs, and in line with the appropriate timescales, if it does not have a significant role in planning the network necessary to deliver such access.
- The GB SO's scope for operating the system securely and efficiently will be limited if it cannot direct the necessary system reinforcements required to deliver a system that can be operated in this way.
- The GB SO would not be able to direct incremental system reinforcements to minimise constraints costs.

Also, in accordance with criteria (1 b), the GB SO will need to respect the confidentiality of the detailed commercial/technical data provided as part of the application/planning process and not disclose such information to TOs with affiliated market interests. The scope for TOs to target efficiently investment on their networks to meet the needs of the market (and the GB SO) will therefore be limited by the lack of detailed information they receive, by way of being unable to have direct customer contact.

Ultimately, investment is driven by the needs of customers in terms of their access requirements and by the needs of the GB SO in undertaking secure and economic system operation. It is our view, that to be consistent with the objectives of BETTA, that the party with the customer interface, the duty for delivering non-discriminatory grid access to customers, and the duty for secure and efficient system operation (i.e. the GB SO), must have a significant role in investment planning.

This approach would also be consistent with the definition of the Transmission System Operator proposed in the latest draft amendments to Article 2 (6) of EU Directive 96/92/EC:-

“transmission system operator” shall mean a natural or legal person responsible for operating, ensuring the maintenance of and, if necessary, developing the transmission system in a given area and, where applicable, its

interconnectors with other systems, and for ensuring the long-term availability of the system to meet reasonable demands for the transmission of electricity.

Furthermore, to the extent that the GB SO is assigned statutory duties with respect to developing, operating (and maintaining) an efficient, economic and co-ordinated transmission system and facilitating competition, the GB SO would have limited scope for discharging such obligations without a significant role in planning new connection and infrastructure reinforcements. Whilst we consider it appropriate that such obligations should sit with the GB SO, we believe that the role of the GB SO should be defined in such a way that it can discharge these obligations. Ultimately, it is essential that statutory obligations are aligned with the allocation of activities between the GB SO and the TOs when drafting the BETTA legislation.

Allocation of Functions Between GB SO and TO - Other Issues

Whilst there are a number of more technical issues to be resolved in the allocation of activities between GB SO and TO (e.g. operational switching and outage planning), we are content to see these issues further identified by Ofgem prior to the appointment of the GB SO through their combined use of expert groups, consultations and seminars. Many of the comments made in our response to the December consultation remain valid, and it would be inappropriate to repeat these here.

It is becoming apparent that resolution of many of the key issues, such as the design of incentive schemes, amending price controls, the question of cost recovery and the transfer of assets and staff is dependent on the allocation of activities between TO and SO. We therefore believe that the principles to be applied to the allocation of activities needs to be determined to enable work on other key issues to proceed.

Appointment of GB SO

We agree that the timetable for April 2004 delivery of Ofgem is based on a number of key assumptions, including that the GB system operator and the GB BSCCo can be identified early enough for them to begin relevant work and that the proposed implementation timescales are valid. We would add that progress to a successful delivery will be dependent on the following:-

- Identifying the GB SO as soon as possible, such that the responsible body can take ownership of the process and progress the detailed design of interfaces, processes and systems necessary for delivery by April 2004.

In this context, it is important to note that the integration of operational systems and processes from the three existing GB control centres will be a technically challenging project, and is likely to lie on the critical path for delivering BETTA by April 2004.

In our view, the feasibility of the April 2004 implementation date will be at risk if there is no clear indication by early October 2002 as to who will undertake the GB SO role.

- The principles of allocation of responsibilities to the GB SO should be sufficiently clear by October 2002 to allow the GB SO to initiate development of IT systems necessary to integrate operational systems of the three control centres and

extend/develop the existing operational NETA systems to facilitate BETTA Go-Live for April 2004.

- The validity of the proposed implementation timescales will require careful review by the GB SO designate in light of the activities and responsibilities assigned to it, in order to confirm that the April 2004 implementation date is achievable.

In our view, any slippage in the BETTA process is likely to impact on the feasibility of the April 2004 target.

Cost Recovery

National Grid are currently stepping up resources dedicated to the BETTA project, and resource requirements are likely to ramp up steeply in the coming months to assist Ofgem in developing the detailed blueprint design for BETTA. The same is likely to be true of the Scottish Transmission Companies. Also, once the GB SO is identified, significant resources and investment will be required to deliver the systems, contractual agreements, Codes and processes necessary for an April 2004 delivery. It is important that Ofgem provide the necessary assurance that all efficiently incurred development costs will be recoverable, both before and after the official appointment of the GB SO.

Next Steps/Way Forward

We agree that the expert groups provide a suitable platform for the three transmission companies to feed in their necessary expertise to assist Ofgem in developing the BETTA design.

We agree that the following key issues will need to be resolved by Autumn 2002 if the necessary legal documents, systems and transition plans are to be established in line with the overall timetable:-

- An initial allocation of activities between TO and GB SO
- Transmission Charging
- System Security and Quality of Supply Standards
- Price Controls and Incentives
- Implementation Cost Recovery

We also agree that the timetable for delivery of BETTA by April 2004 is dependent on the GB SO and the GB BSC Co being identified early enough for them to mobilise their teams and undertake the necessary work.

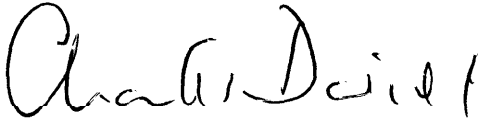
It would be helpful for the detail behind the initial Ofgem BETTA plan to be made available and we would be happy to provide input to this planning process if required.

We would recommend that the focus of the initial project plan should be on detailed milestones and activities for the rest of 2002 covering the Start-Up and Design Phases and also setting out high level targets for 2003 and 2004 up to 'Go Live'. The plan for the Development phase and Implementation phase should be defined in detail at the end of the Design phase which we understand to be towards the end of 2002.

It is important that the 'requirements' consultations are followed by final decisions on the key issues during the Autumn of 2002 to enable work on systems development, legal documentation and transition plans to proceed according to the BETTA timetable.

I trust you find these comments useful. Please feel free to call myself or a member of my team should you wish to discuss these comments further.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Charles Davies'. The script is cursive and fluid, with the first name 'Charles' and last name 'Davies' clearly distinguishable.

Charles Davies
Director of Commercial Policy