EDF Trading Limited

direct line tel: 020 7061 4362
and fax: 020 7061 5362
e-mail: "nick.frydas@edftrading.com"

Mr. David Halldearn
Director – Scotland and Europe
Ofgem
9 Millbank
London SW1P 3GE

Dear Mr Halldearn

BETTA – Ofgem/DTI Report on Consultation and Next Steps

Further to the comments provided on the December consultation document, which we still believe are pertinent, please find below some considerations on the May report. These are made on behalf of EdF Trading Ltd and EdF (Generation), as signatories to the BSC and CUSC in England and Wales.

We welcome the efforts to create a GB-wide wholesale electricity market, and we recognize the political drive to deliver a GB System, particularly within the wider framework of an integrated European Internal Market. We retain however our reservations about the wisdom of rolling out NETA into Scotland, on the unproven belief that NETA has delivered benefits. We still believe NETA is no more than another way to structure the market, unduly costly and complex and is unlikely to be replicated elsewhere. Furthermore we see that it has removed the incentive to keep plant on or to invest in the future. It is therefore our full expectation that there will have to be another fundamental change in the market arrangements at some stage to correct this situation.

Nevertheless, on the basis that NETA has been implemented in E&W and that a GB system will occur, we offer what we hope are seen as helpful comments to achieve a smooth implementation and a successful outcome. This will in our view depend primarily on five issues namely: the role of System Operation (SO) and its position in the market; the timing of BETTA implementation; the eventual Transmission Access arrangements; the application of common standards and the impact for renewable generation. Cost/Benefit is also an issue and this is referred to when commenting on the draft Regulatory Impact Assessment.

Role of the SO

On a high level first of all, we strongly believe that the SO should be a "for-profits" organisation so that will be incentivised for maximum efficiency. This is not totally clear from the Consultation Documents up to now. However the fact that the GB-SO will not retain any assets, begs the question how exactly can it be incentivised? We note the role that has been suggested for the GBSO and that this is 'deep', to the extent that the Transmission Operator/Owner (TO) is no more than a contractor for building and maintenance. This is we believe highly inappropriate. The SO should be operating the system provided by, up to no more than one week ahead, maybe even one day ahead. This would allow proper management control of the transmission assets by the owners of those assets, as opposed to a separate organisation with its own commercial drivers dictating what should be done. This might be acceptable if GB had only one TO and SO and under the same umbrella company, but when it is envisaged that there will three TOs and an SO affiliated to one of the TOs, then we believe this model is unacceptable. The other TOs in particular would find this situation and untenable and would deliberately drive them towards being taken over by the third TO. If this is the intention then it should be openly stated and that it is the long-term

intention that the Scottish system is to be managed out of Wokingham (as appears to be the case). The alternative to this is to have a 'shallow' SO, that concentrates on maximising the use of the transmission assets. It would provide feedback to the TO, who would then try to respond to the system requirements through appropriate Connection and Use of System Agreements. The SO should not be concern with these contractual matters, it should be confined to short-term issues to maximise efficiency of operation. The 'shallow' approach would provide a correct balance of responsibilities and incentives, both to management and staff. At the end of the day the whole design issue of GB-SO + 3 x TOs seems to us a bit "artificial". Why not requiring from the two incumbent Scottish Utilities to **divest all their transmission assets and form therefore a single GB-ITC** (Integrated Transmission Company) which will be a "for-profits" organisation retaining both the ownership and planning roles together with the responsibility of incentivized system operation?

Timing of BETTA

The introduction of BETTA in April 2004 appears unnecessarily hasty and requires a timetable that will be difficult to achieve, if not impossible. It is hard to understand why this date has been chosen bearing in mind the expiry of the 'Nuclear Agreements' in March 2005 and the ongoing discussions on Transmission Access, which at best will only have a very basic first stage of implementation in April 2003. April 2005 would appear to be a more logical date and it is of concern that the earlier date is driven more from political or even personal need rather than system need.

Transmission Access

The TA debate still has some way to go in E&W. It is possible that a quick fix or an initial implementation phase may be introduced in April 2003, we shall see. Whatever the change that is finally agreed, it is likely to involve an evolutionary change in the E&W arrangements, but it will be revolutionary for the Scottish companies. This in itself could have timing implications of course, but also severe implications for Scottish generation, which may be forced to close. This will have obvious consequences on the local community, particularly if a coal-fired station is concerned. The present sitting of Scottish generation has been considered in the context of the needs of Scotland, whereas in the future it is proposed to consider it in a GB context. The current over-supply of capacity and the introduction of locational price messages on a GB basis must make closure of the Scottish plant a likely outcome. Is it any wonder that such proposals get support from players in E&W? This should be of concern for the long-term future of the GB system.

Common Standards

TA as currently being discussed would lead to investment being driven by Operating Standards, rather than Planning Standards. It would be inconceivable that there would be different standards north and south of Hadrian's Wall. To adopt the E&W standards in Scotland would most likely restrict flows in Scotland (and unnecessarily), whereas the adoption of the Scottish ones in E&W would actually allow more flexibility in E&W. The latter approach would seem more sensible and closer to the standards applicable on most other power systems i.e. the N-l standard.

Renewable Generation

There is an obvious political drive to install more renewable generation and yet there does seem to be some conflict with this policy and the introduction of NETA. This will be further exacerbated with the introduction of NETA into Scotland, as well as the introduction of GB Transmission Access arrangements. NETA is not 'user friendly' to plant with intermittent and unpredictable output and will hit new renewables in Scotland hard. Any new transmission investment that is required for such new plant would likely be charged to them under the new TA regime and this too would discourage entry.

Regulatory Impact Assessment

The insertion of the RIA and the cost/benefit analysis is welcomed. It is though unfortunate that all the benefits are assertions and not based on analysis, and the costs are said to be too difficult to determine. We would always recommend that any cost/benefit study should be properly quantified and backed up by appropriate analysis. Some specific comments on this Section are as follows:

R15 – The 'improved locational signals.. . ' will actually lead to increased costs and the 'economies of scale in transmission system operation' will probably be very small and unlikely to produce a payback for many years, if at all.

R16 – What about increased costs to E&W parties, particularly on the demand side?

R17 – More efficient cost signals for long-term investment will only come about with Deep Entry pricing. This truly cost reflective principle is implicit in the TA arrangements being proposed, but is at odds with Ofgem's apparent desire for shallow entry pricing and the tilting of the playing field for new entrants, as well as the DTI desire for more Renewables.

R19 – The l%-2% estimated reduction in prices is as mentioned a judgement, but without backup analysis it is at best a hoped for benefit.

R21 – How is the figure of 5% arrived at?

R22 – The locational signals will provide mixed blessings to the parties throughout GB, especially as the Scottish generation will be penalised for being in Scotland which, of course, was where they have had to be in accordance with their own procedures and standards. Furthermore, having paid for the access rights, we believe the Scottish companies have been, are and should have been entitled to the interconnector capacity.

R23 – How is the 5% figure arrived at?

R24 – Any reduction in SOs will be phased probably and it is conceivable that there will be a need for at least two locations.

R26 – Will there be any compensation to the parties for the cancellation of the contract? If so, then these costs should be factored in.

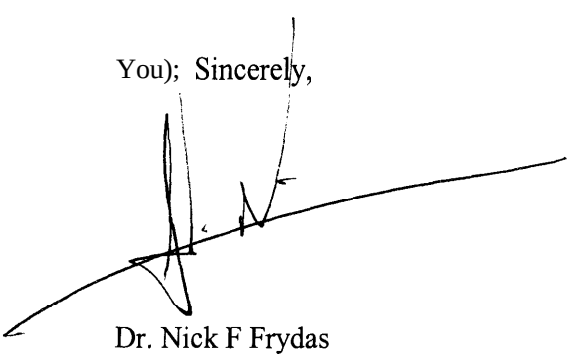
R29 – The price reduction ia an assertion based on estimates which, again, are not backed up.

R34 It is a pity that whilst assertions can be made on the perceived benefits, no estimates can be made of the costs.

R46/47 – No, in fact NETA does the opposite by encouraging part-loading of plant and inefficient operation.

R49-58 – NETA nad BETTA will not benefit Renewables due to the reasons given in the report and the DTI response will, in our view, do little to alleviate the problems. They may also make them worse.

You); Sincerely,



Dr. Nick F Frydas
Manager Transmission Issues

Mr. Steven Drummond
Consultant Regulatory Issues