

**The process for identifying the GB
system operator**

**Key conclusions and invitation for
applications.**

DTI/Ofgem

Conclusions document

August 2002

Summary

In May 2002 DTI/Ofgem¹ issued a consultation paper², in which they indicated that they believed that the present administered arrangements in Scotland now required reform. In the May consultation document it was noted that a number of options for implementing such reform had been considered and discussed in a series of consultation papers³. DTI/Ofgem concluded that introducing a wholesale electricity market across Great Britain (GB), using the existing trading and transmission arrangements in place in England & Wales as a basis for consultation, was the best way forward⁴. The British Electricity Trading and Transmission Arrangements (BETTA) project, a joint DTI/Ofgem initiative, has been established to bring this about.

An important aspect of BETTA is the creation of a single GB system operator, and in June 2002, DTI/Ofgem issued a consultation document⁵ setting down a proposed process for identifying the GB system operator. This conclusions document:

- ◆ summarises the responses to the June 2002 consultation;
- ◆ concludes, taking into account the issues raised in response to the June 2002 consultation, on the process to be followed, associated timescales and the assessment criteria to be used in order to evaluate applications from parties interested in becoming the GB system operator;

¹ Ofgem is the Office of Gas and Electricity Markets. Ofgem is governed by the Gas and Electricity Markets Authority ("the Authority") and its powers are provided under the Gas Act 1986, the Electricity Act 1989 and the Utilities Act 2000. Matters of strategy and major policy issues are reserved to the Authority for decision. Everything that Ofgem does is done in the name of the Authority. The Authority was created under the Utilities Act 2000. It has had transferred to it the functions and powers of the Director General of Gas Supply and the Director General of Electricity Supply that existed pursuant to, inter alia, the Gas Act 1986 and the Electricity Act 1989. It is made up of executive and non-executive members and may regulate its own procedures and has adopted Rules of Procedure.

² The Development of British Electricity Trading and Transmission Arrangements (BETTA), Ofgem/DTI Report on consultation and next steps. May 2002. Hereinafter referred to as the "May 2002 consultation".

³ 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 Scottish Trading Arrangements", May 2000 and "Interim Proposals for the Reform of Scottish Trading Arrangements", August 2000.

⁴ This conclusion was set out in "The Development of British Electricity Trading and Transmission Arrangements (BETTA) : A consultation paper" Ofgem, December 2001.

⁵ Consultation to consider proposed process for identifying the GB System Operator, DTI/Ofgem, June 2002. Hereinafter referred to as the "June 2002 consultation".

- ◆ explains the nature of the GB system operator role insofar as it has been developed to date;
- ◆ invites applications from parties wishing to be considered for the GB system operator role; and
- ◆ requests appropriate supporting information from those parties explaining how they would meet the criteria for selection.

Whilst there remains a significant amount of work to be carried out to finalise the details of the role of the GB system operator, DTI/Ofgem believe that the role is sufficiently well defined to progress the identification process at this time. DTI/Ofgem consider there to be a number of significant benefits associated with identifying the GB system operator at an early stage in the development of BETTA and that these benefits outweigh any disadvantages associated with the uncertainty arising from lack of definition. DTI/Ofgem believe that the benefits of early identification are as follows:

- it will allow a more robust development of the BETTA arrangements based upon the input of expertise from the initial GB system operator⁶; and
- it will provide for an earlier implementation of BETTA by providing additional time for the initial GB system operator to become familiar with the detailed legal framework surrounding many of its business activities and for it to develop the systems and processes needed to support commencement of trading under BETTA.

⁶ It is noted that the GB system operator will not be formally appointed (i.e. licensed to carry out the relevant activities) until after commencement of the BETTA legislation which is currently anticipated in Autumn 2003. As is described in this document, it is anticipated that Ofgem will make public the identity of the party it recommends (in its role as a Panel member) to the Secretary of State for the role of GB system operator. It is also intended that the Secretary of State will subsequently identify the party that she intends to appoint as GB system operator in a "minded to" statement whilst the BETTA Bill is being considered by Parliament. It is possible that the party identified by Ofgem may differ from that identified in the "minded to" statement made by the Secretary of State. Furthermore, the Party formally appointed may differ from the party(ies) identified by Ofgem and by the Secretary of State in her "minded to" statement (if, for example, the party initially identified is subsequently found to be unfit for the position). For the purposes of this document, the party(ies) identified both by Ofgem and by the Secretary of State in her "minded to" statement are referred to as the "initial GB system operator". It is recognised that to the extent that the initial GB system operator differs from the party formally appointed to the role, some of the arguments made for early identification are invalidated, and that furthermore, this may even result in additional costs and/or delays in the introduction of BETTA. Despite this, DTI/Ofgem continue to believe that the potential disadvantages are outweighed by the benefits that will be derived in the event that such differences do not arise.

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1. Introduction

- 1.1. In May 2002 DTI/Ofgem⁷ issued a consultation paper⁸, in which they indicated that they believed that the present administered arrangements in Scotland now required reform. In the May consultation document it was noted that a number of options for implementing such reform had now been considered and discussed in a series of consultation papers⁹. DTI/Ofgem concluded that introducing a wholesale electricity market across Great Britain (GB), using the existing trading and transmission arrangements in place in England & Wales as a basis for consultation, was the best way forward¹⁰. The British Electricity Trading and Transmission Arrangements (BETTA) project, a joint DTI/Ofgem initiative, has been established to bring this about.
- 1.2. The objective of BETTA is to introduce wholesale electricity trading and transmission arrangements for GB which enable competitive markets to develop further and DTI/Ofgem envisage that the BETTA reforms will: enable customers across GB to have more equitable access to the benefits of competition in GB-wide wholesale electricity trading; provide more efficient signals for use of current and future production and consumption decisions; and stimulate further the development of supply competition in both Scotland and England & Wales. 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;

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⁸ The Development of British Electricity Trading and Transmission Arrangements (BETTA), Ofgem/DTI Report on consultation and next steps. May 2002. Hereinafter referred to as the "May consultation".

⁹ 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.

¹⁰ This conclusion was set out in "The Development of British Electricity Trading and Transmission Arrangements (BETTA) : A consultation paper" Ofgem, December 2001.

- ◆ 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;
- ◆ removal of current arrangements on use of the Anglo-Scottish 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.

1.3. Overall, the creation of a single GB system operator, the identification of whom is the subject of this conclusions document, will, as an integral part of BETTA, support the introduction of more efficient signals for the longer-term development of the GB electricity transmission system and the associated patterns of generation and demand. These improved economic signals in the context of an effective competitive market will deliver benefits to consumers across GB.

1.4. The Government has recently announced that it intends to bring forward legislation to implement BETTA when Parliamentary time allows¹¹. 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.

¹¹ See Hansard, 15th April 2002 Official Report Column 748W.

Objective of this document

- 1.5. Currently, SP Transmission Ltd, Scottish Hydro-Electric Transmission Ltd and the National Grid Company plc (NGC) have licences to transmit electricity in the South of Scotland, North of Scotland and England (excluding the Scilly Isles) and Wales respectively. Under the current legislative framework and industry structure these permit those companies to undertake both the system operator and transmission owner roles in their respective geographic areas.
- 1.6. The BETTA reforms require significant amendment to the present arrangements, in at least three ways:
- creation of a new single GB system operator responsible for a number of transmission related activities, including, amongst other things, responsibility for the purchase and call off of balancing services in all timescales, and responsibility for directing real time operational configuration of the transmission system;
 - separation of the duties and roles of the GB system operator from those of the three transmission owners who will retain responsibility for a number of other transmission-related activities, including, amongst other things, ownership and maintenance of transmission assets; and
 - creation of a new document or documents defining the relationships between the GB system operator and the transmission owners.
- 1.7. A key task in the introduction of BETTA is the creation of a regulatory framework that enables a single licensed system operator. It is anticipated that changes to the Electricity Act that will be proposed in the BETTA Bill and provisions in the BETTA Bill itself, once enacted, will facilitate the creation of the necessary legislative and regulatory framework. In June 2002, DTI/Ofgem issued a consultation document¹² setting down a proposed process for identifying the GB system operator.
- 1.8. Further to the publication of the June 2002 consultation and the receipt of the responses to it, this conclusions document is the third step in the process to

¹² Consultation to consider proposed process for identifying the GB System Operator, DTI/Ofgem,

determine which party should be responsible for carrying out the activities of the GB system operator. The purpose of this document is to:

- ◆ summarise the responses to the June 2002 consultation;
- ◆ conclude, taking into account the issues raised in response to the June 2002 consultation, on the process to be followed, associated timescales and the assessment criteria to be used in order to evaluate applications from parties interested in becoming the GB system operator;
- ◆ explain the nature of the GB system operator role insofar as it has been developed to date;
- ◆ invite applications from parties wishing to be considered for the GB system operator role; and
- ◆ request appropriate supporting information from those parties explaining how they would meet the criteria for selection.

Outline of this document

- 1.9. The remainder of this document is structured as follows. Section 2 of this document provides additional background to BETTA and summarises the issues raised in the June 2002 consultation paper. Section 3 summarises the responses and conclusions arising from the June 2002 consultation paper. Section 4 provides additional information as to the expected activities of the GB system operator, including its enduring role and on related issues such as the development of certain legal documentation necessary for the implementation of BETTA. Section 5 describes the process by which the Panel members will identify the party that they will recommend as the GB system operator to the Secretary of State, provides additional information on the proposed process and sets down the associated timetable. Section 6 sets down some additional information on the basis of assessment that will be undertaken by the Panel.
- 1.10. Appendix 1 provides a detailed list of the information that applicants should include in their submission and a matrix that identifies how this information will

be used in the assessment of applications from parties for the role of the GB system operator. Appendix 2 contains a list of the names of the eleven respondents to the June 2002 consultation. Appendix 3 includes a registration form for Parties considering applying for the role of GB system operator.

Applications and associated information

- 1.11. DTI/Ofgem invite interested parties to submit applications to perform the role of GB system operator together with associated supporting information. Electronic replies are preferred, if possible in MS-Word document format. **Please note that applications must be received by 12.00 noon, Friday 27th September 2002**, and late applications will not be considered. Applicants are strongly advised to submit their applications in advance of this deadline and to check, again in advance, with the person named below that the application has been received.

- 1.12. Applications should be sent to:

Catherine McWalter

Room 2115

Department of Trade and Industry

1 Victoria Street

London

SW1H 0ET

E-mail: catherine.mcwalter@dti.gsi.gov.uk

- 1.13. Applications should be marked "GBSO Identification – Confidential". Please include 5 copies of any part of your application that is not in electronic format). Applications will not be opened until after the deadline for receipt has passed.
- 1.14. All applications and supporting information will be treated as confidential. Please note that during the detailed assessment phase it is the intention to share information contained in these applications with relevant experts within Ofgem and DTI and other agencies. For example the information dealing with

company accounts may be sent to the Office of Government Commerce and that on directorships may be checked with Companies House. Information may also be shared with other domestic and overseas agencies. Please note that DTI/Ofgem will ensure that all appropriate reasonable precautions will be taken to preserve confidentiality.

- 1.15. **DTI/Ofgem recommend that parties contemplating making an application complete and return, by E-Mail, the non-binding form in Appendix 3, to allow DTI/Ofgem to maintain a register of interested parties by 14th August 2002.** This register will then be used as a direct mailing list for any relevant DTI/Ofgem consultation documents that clarify or contain proposals on various aspects either directly or indirectly related to BETTA. In addition, as discussed later in this document, those companies that have registered will be invited to an applicants' conference and will be given the opportunity to meet relevant officials to discuss issues relating to a possible application. Those who decide not to register may still submit an application.
- 1.16. If you wish to discuss any aspect of this document, please contact Catherine McWalter who will be pleased to help. Telephone: 020 7215 0442 E-mail: catherine.mcwalter@dti.gsi.gov.uk.
- 1.17. A list of industry documents that may be relevant to the submission of any application is also available from Catherine McWalter.

2. Background

- 2.1. In December 2001 Ofgem published a consultation paper¹³ setting out its vision of and inviting comments on a model that would enable all consumers in GB to benefit from competitive wholesale markets.
- 2.2. In April 2002 the Government announced its intention to bring forward legislation to implement BETTA when Parliamentary time allows¹⁴. Furthermore, in May 2002, DTI/Ofgem published a consultation paper¹⁵ which gave conclusions, where appropriate, in light of responses to issues raised in the December 2001 consultation paper and provided additional information on key matters associated with progressing BETTA. A number of further issues were also put forward for consultation.
- 2.3. In the May 2002 consultation, DTI/Ofgem indicated that two of the principal building blocks of BETTA were:
 - ◆ the introduction of a common set of trading, balancing and settlement arrangements across GB, based on those applying in England & Wales at the time of implementation; and
 - ◆ the introduction of balancing arrangements that are administered independently by a GB system operator that is separate from generation and/or supply interests.
- 2.4. The May 2002 consultation also identified certain other transmission functions that should be allocated to the GB system operator or to the transmission owners. It also identified a number of criteria that would be used in order to determine the allocation of responsibility for more detailed activities to the GB system operator and to transmission owners.
- 2.5. Furthermore, the May 2002 consultation document indicated that current thinking was that the activities of the GB system operator would be governed by the terms of a new or amended transmission licence, and that the proposed legislation to introduce BETTA would, amongst other things, give

¹³ See footnote 4.

¹⁴ See footnote 11.

¹⁵ See footnote 8.

powers to amend existing and, if required, award new transmission licences in order to give effect to the BETTA reforms.

- 2.6. Finally, the May 2002 consultation stated that whilst a GB system operator could not be licensed prior to any relevant legislation being passed, before then, DTI/Ofgem wished to consult upon both the process and the criteria that will be used to decide upon who might be best placed to fulfil the role.
- 2.7. Against this background, in June 2002 the DTI and Ofgem published a joint consultation paper¹⁶ setting out the proposed process to identify the GB system operator. Specifically, the June 2002 consultation set down and invited views on proposals for:
- i) the way forward;
 - ii) a preliminary timetable; and
 - iii) a proposed list of criteria against which any party wishing to become the GB system operator would be assessed.
- 2.8. The criteria in the June 2002 consultation document were as follows:
- i) *The party should have the necessary expertise, resources and ability to carry out efficiently and effectively the enduring role envisaged for the GB system operator.*
 - ii) *The party should not have affiliates¹⁷ who will be undertaking the activity of generation, supply or energy trading other than for balancing services¹⁸ under BETTA;*
 - iii) *The party should be willing to carry out the role of GB system operator designate, against the background of the proposed process for identification. It is suggested that this will include being willing and able, and having the necessary resources, to participate actively in, and in certain cases lead, the BETTA development process to support the delivery of the changes required for BETTA. It is proposed that part of*

¹⁶ See footnote 12.

¹⁷ In this context, "affiliated" means within the same corporate group, or within the same company.

¹⁸ Note that in accordance with the May 2002 consultation paper, it is proposed that the GB system operator will procure balancing services, some of which will include the purchase or sale of electrical energy. See for example Special Condition AA4 of the England & Wales Transmission Licence.

this will require the party to work closely with Ofgem, DTI, existing transmission licensees and other industry participants in the development process; and

- iv) Finally, it is also proposed that in identifying the GB system operator, the practical and cost (in terms of costs that will ultimately be borne by the electricity consumer) issues associated with the selection should be taken into account.*

- 2.9. The June 2002 consultation further proposed to establish a small assessment panel, on which Ofgem would be invited to participate as a member, to assess the information provided against the agreed criteria and relevant statutory obligations, with the objective of advising the Secretary of State on the party they believe should, or could, take on the role of GB system operator. It also proposed that within this process Ofgem would make public its recommendation to the Secretary of State.
- 2.10. Finally, the June 2002 consultation also proposed that the Secretary of State would take into account all information relevant at the time in making a decision on which party she is minded to nominate as initial GB system operator.
- 2.11. Given the central role that the GB system operator will undertake in the GB electricity market following the introduction of BETTA, the June 2002 consultation also proposed that the party identified as (initial) GB system operator should play a substantial role in the development and implementation of the IT systems, processes and procedures required to support the operation of a GB transmission system and to undertake the other activities assigned to the GB system operator. For example, the initial GB system operator would be expected to lead developments and co-ordinate the input of, and communication with, other industry participants in areas such as the development, implementation, testing and commissioning of computer systems required by the GB system operator to operate under BETTA.
- 2.12. In addition to developing the systems it will need to operate as GB system operator, DTI and Ofgem would also like to draw upon the expertise of the initial GB system operator in developing the legal framework which is expected to underpin the BETTA arrangements.

- 2.13. The benefits of early identification of the initial GB system operator under this approach are two-fold, in that it will:
- allow a more robust development of the BETTA arrangements based upon the input of expertise from the initial GB system operator; and
 - provide for an earlier implementation of BETTA by providing additional time for the initial GB system operator to become familiar with the detailed legal framework surrounding many of its business activities and for it to develop the systems and processes needed to support commencement of trading under BETTA.
- 2.14. In addition to providing information relating to the expected ongoing role of the GB system operator, in order to enable potential applicants to understand better the important role envisaged for the BETTA implementation process, this document sets down further proposals on the involvement that is anticipated that the initial GB system operator would have in the development and implementation of BETTA.

3. Responses and conclusions

Respondents' views

- 3.1. Eleven respondents commented on the proposals outlined in the June 2002 consultation. These views are summarised below.

Timetable and process

- 3.2. The majority of respondents supported the proposed process to determine which party should be responsible for carrying out the activities of the GB system operator. There was also broad support for the timetable outlined in the June 2002 consultation and recognition of its importance within the process of implementing GB trading arrangements by April 2004. However, a few respondents stated that the timetable was challenging and that a significant amount of work needs to be done at this early stage to facilitate meeting this target implementation date.
- 3.3. Three respondents questioned the decision to pursue a “deep” model for the GB system operator within the timetable currently envisaged. One respondent went further and raised concerns over the proposed process, timetable and criteria for the selection of the GB system operator, the responsibilities of the GB system operator and the lack of agreed arrangements for compensating the three existing transmission owners for the transfer of relevant business assets in connection with the establishment of the GB system operator.

Selection criteria

- 3.4. The majority of respondents were generally supportive of each of the four proposed selection criteria to determine which party should be responsible for carrying out the activities of the GB system operator.
- 3.5. One respondent expressed the view that, under criterion one, it is important that the statutory and licence obligations placed on the GB system operator are aligned with the roles and responsibilities assigned to the GB system operator. It also stated that any misalignment in activities relative to these obligations would compromise the ability of any applicant to fully comply with this criterion.

- 3.6. A number of respondents stated that criterion two appropriately requires that the selected party should not have any affiliates undertaking generation, supply or energy trading. However, a small number of respondents expressed concern that if the proposed merger of NGC and Lattice were allowed to proceed then this would mean that NGC would not have the necessary independence in relation to criterion two.
- 3.7. One respondent indicated that if, for example NGC were to be considered for the role of GB system operator and the merger with Lattice went ahead, then under such circumstances, in carrying out the role of GB system operator it would have a natural bias to favour gas-fired generation to the benefit of its associated gas transportation business. It suggested that in order to avoid such potential conflicts of interest, the GB system operator should not have affiliates that are involved in the production, transport, distribution or supply of any fuel used in electricity generation.
- 3.8. Another respondent expressed strong opposition to criterion two, and stated that it was neither appropriate nor necessary to exclude transmission licensees with affiliated generation from bidding to be the GB system operator.
- 3.9. One respondent suggested that the term “energy trading” in criterion two is ambiguous and suggested that the criterion should be clarified to state “the trading of electricity”.
- 3.10. Another respondent observed that the restriction on affiliates seems an unnecessary final step and argued that the growth in distribution generation might ultimately make it appropriate to consider a system operator function within distribution businesses. The respondent also believed that the condition that forbade ownership of generation had been dropped from the Distribution licence as it was decided that general competition law would be a better method of ensuring competition. It concluded that this observation would seem to apply equally to the GB system operator.
- 3.11. Two respondents stated that if exclusion criteria were included then they believed that a further criterion would be that it was inappropriate for the system operator to be affiliated with any party with transmission ownership and that any affiliated SO/TO may discriminate against the non-affiliated

transmission owners. It was contended that it is unreasonable to preclude potential bidders with generation and supply affiliates because of a perception of bias without similarly excluding bidders affiliated to a particular transmission owner.

- 3.12. The same two respondents expressed strong views that the proposed process for the appointment of the GB system operator put forward by DTI/Ofgem was not sufficiently developed. These respondents also questioned whether it was possible to apply the proposed criteria in a fair, objective and transparent way and noted that each applicant's ability to meet the proposed criteria will be dependent on the, as yet unresolved, detail on the allocation of functions between the transmission owners and the GB system operator. One of these respondents also expressed concern as to the level of ambiguity surrounding the criterion which requires each applicant's ability to demonstrate that it has sufficient expertise, resources and ability to carry out effectively and efficiently the enduring role for the GB system operator.
- 3.13. Another respondent contended that the ability of each applicant to demonstrate a proven track record should be of major importance when assessing any applications for this important role. It proposed that the level of ambiguity surrounding criterion one would be addressed by an extension to the criterion obliging each applicant to demonstrate through its past achievements its ability to operate a transmission system and its ability to facilitate competition.
- 3.14. The same respondent contended that the assessment process should be based on identifying the party best able to undertake the role of GB system operator rather than focusing on the precise cost forecasts as proposed under criterion four.
- 3.15. Another respondent stated that one area that ought to be included in any selection criterion is the need to agree to protect the GB system operator's core skills and processes should the system operator already possess or choose to develop an international business.

The Panel

- 3.16. Five respondents explicitly expressed the need for clarification on the selection process, membership and relevant expertise of each member of the selection panel. A number of respondents also stressed that the appointment of Panel members that had no direct or indirect conflict of interest, nor bias, was an essential element in creating a robust and transparent process.
- 3.17. One respondent noted that the identification process of the Panel should contain some means by which industry views can be taken into account.
- 3.18. Three respondents commented that further clarification on how the Secretary of State will act on the separate advice given by the Panel and Ofgem would be welcome and suggested that such advice be made publicly available.
- 3.19. Another respondent expressed strong views that there remained a substantial lack of clarity as to the proposed selection process.

GB system operator activities

- 3.20. Six respondents identified the need for clear understanding and agreement as to the role of the new GB system operator and the revised role of the transmission owners with whom the GB system operator will work. Three respondents believed that the precise allocation of responsibilities needs to be clear before any appointment is made to ensure that the best party is chosen.
- 3.21. The same three respondents commented that one of the key elements in this process will be the transition from the existing England & Wales arrangements to GB wide arrangements. Two of these respondents expressed serious concerns over the timing of applications for the role of GB system operator and questioned whether the process can realistically seek to identify suitable candidates for the role when the nature and scope of the governance arrangements have not been clearly identified. One respondent also noted that the “thickness” of the GB system operator exacerbates this problem.
- 3.22. One respondent expressed the view that the proposed operational arrangement between the GB system operator and the respective transmission owners would need to form part of the BETTA Bill. It also argued

that it would be unacceptable if the operational agreement was capable of being changed without the consent of each of the transmission owners and the GB system operator.

Price controls

- 3.23. A number of respondents raised issues relating to the recovery of BETTA implementation costs and the impact on price controls. One noted that the cost baseline for the GB system operator will be derived from the existing price controls of the three transmission owners and that forecasting the costs of BETTA will not be possible with any degree of accuracy until the allocation of responsibilities becomes clear. It suggested that assessing individual bids for the role of GB system operator in terms of cost expectations might be of limited value at this stage in the process.
- 3.24. Another respondent contended that the proposed process and timetable are at risk and falls short of legitimate expectations of both potential bidders and the three existing transmission owners.
- 3.25. One respondent stressed that the benefits of early implementation of BETTA, linked with the appointment of a GB system operator, heavily outweigh any benefit that can be obtained from implementing complex incentive arrangements as part of any future price controls.
- 3.26. Another respondent noted that the nature of the ongoing revenue for the GB system operator and the incentivisation of this activity to avoid cross subsidisation will be the cornerstone of the success of the BETTA project.

Cost recovery

- 3.27. One respondent commented that it is unlikely that any applicant would wish to commit significant financial and intellectual resources prior to official designation and creation of an agreed cost recovery mechanism.

DTI/Ofgem views and conclusions

Timetable and process

- 3.28. DTI/Ofgem recognise that there is still much work to do to set down the full detail of the role of the GB system operator and other details of BETTA. This work includes, amongst other things developing:
- the detail of the transmission licence and associated conditions that will apply to the GB system operator, including the detailed form of the revenue restriction (and hence the incentives) on the GB system operator;
 - the detail of the industry documentation to support BETTA, including the GB BSC, GB CUSC and the interface arrangements between the GB system operator and the transmission owners.
- 3.29. Although much of the detailed work described above, which is ongoing, still needs to be further progressed, DTI/Ofgem are firmly of the view that it is appropriate to continue with the process of identification of the GB system operator at this time. The May 2002 consultation set down conclusions on the high-level allocation of responsibilities between the GB system operator and transmission owners, and the basic underlying activities that the system operator will need to undertake are known. It is also known that the GB BSC and GB CUSC arrangements will use the existing England & Wales Codes as a starting point for consultation. As a consequence, the basis of the industry framework in which the GB system operator is likely to operate is known. Overall, DTI/Ofgem believe that there is sufficient information on the role of the GB system operator, and consequently on the characteristics that will be required by the party carrying out this activity, that the selection criteria for identification can be set.
- 3.30. Not only do DTI/Ofgem believe that the high-level role of the GB system operator is sufficiently clear at this time for the identification process to continue, they also believe that it would be positively disadvantageous to wait until all the full detail of the arrangements had been developed before identifying the responsible party. Given the importance and complexity of the central industry role envisaged for the GB system operator, DTI/Ofgem believe that it is highly desirable that the party that is identified to carry out the role be

involved in the detailed development of the role, and in the implementation of the arrangements to support it. This will allow the development of the arrangements to benefit from the expertise of the GB system operator and will ensure that the GB system operator is familiar with the detail of the contractual and technical framework in which it will be required to operate.

- 3.31. Furthermore, given the nature of the BETTA arrangements, it is likely to be necessary for the GB system operator to undertake preparatory work prior to the commencement of its operations under BETTA in developing systems, training personnel etc., and early identification would allow these issues to be progressed in a timely manner.
- 3.32. Given that the full details of the role of the GB system operator are not yet defined, DTI/Ofgem are not expecting that applicants will submit detailed costs and business plans for consideration by the Panel. Whilst DTI/Ofgem would like information on likely costs to be submitted, it is proposed that the revenues of the GB system operator would be limited through conditions of its transmission licence. Once BETTA is introduced, it is to be expected that the detailed role of the GB system operator will continue to develop in the light of experience of the new arrangements. The ability to respond to change and to participate in the continuing development of the industry is also considered to be an important part of the role of the GB system operator.
- 3.33. DTI/Ofgem note that the issue of compensation of the three transmission owners has been raised, and agree that consideration will be need to be given as to whether and if so, what, compensation may be appropriate. Whilst this is an important issue, DTI/Ofgem believe that the issue of compensation for existing transmission owners does not directly affect the process for identification of the GB system operator. Hence this should not affect the timetable for appointment of GB system operator.
- 3.34. Consistent with the broad support for the timetable outlined in the June 2002 consultation and recognition of its importance within the process of implementing GB trading arrangements by April 2004, DTI/Ofgem believe that the underlying timetable proposed in the June consultation continues to be appropriate for taking forward the identification process. Planning at this stage continues to proceed on the assumption of Parliamentary time for legislation

being made available in the 2002/3 session and with the intention of implementing BETTA by April 2004. The underlying timetable to be used is therefore as follows:

- | | |
|----------|--|
| Step (1) | DTI/Ofgem consult on proposed process for identifying relevant party or parties and criteria to be applied as part of that process – June 2002; Now completed. |
| Step (2) | Responses received – 12 July 2002; Now completed. |
| Step (3) | Subject to outcome of consultation, DTI/Ofgem publishes conclusions document on process and criteria and invites applications from those wishing to be considered as relevant parties – beginning of August 2002; Now completed with the publication of this document. |
| Step (4) | Applications and associated information received – 27 th September 2002. |
| Step (5) | Panel considers applications. Ofgem intends to make public its advice on its preferred applicant, probably during October 2002. |
| Step (6) | Secretary of State makes a statement, identifying the party she is minded to nominate as GB system operator when the Bill is in Parliament. Timescale depends on timetable for BETTA Bill. It is hoped that the party identified as GB system operator will commence preparatory work at an early stage. |
| Step (7) | Licensing of the GB system operator role to take place after the BETTA Bill receives Royal Assent. Timescale depends on timetable for BETTA Bill. |

3.35. It should be noted that the dates associated with future steps still may change depending on a number of factors, including, for example, the number of applications received and the impact that this will have on the time taken to assess them.

Selection criteria

- 3.36. DTI/Ofgem agree that it is important that the statutory and licence obligations placed on the GB system operator are aligned with the roles and responsibilities of the GB system operator. DTI/Ofgem believe that it will be important to ensure that such an alignment is achieved in developing further the detail of the licence obligations and legislative framework that will apply to the GB system operator. However, whilst more definition in some areas would be desirable, given the benefits of early identification, DTI/Ofgem believe that it is sufficient to understand what the broad statutory and licence obligations on the GB system operator will be in order to identify the required competencies and attributes of the GB system operator.
- 3.37. DTI/Ofgem continue to believe that independence of the GB system operator from generation and supply affiliates is an important criterion, and that the extent to which applicants meet this criterion will be taken into account in judging their relative merits. This issue was raised in both the December and May consultation documents and has received widespread support throughout the industry. The issue of distribution licensees also having generation and/or supply interests is considered to be outside the scope of the BETTA reforms.
- 3.38. DTI/Ofgem believe that issues arising from affiliation between the GB system operator and transmission owners are likely to be outweighed by the efficiency savings associated with joint ownership and operation of transmission. Therefore, DTI/Ofgem continue to believe that it is appropriate to permit the GB system operator to have affiliations with one or more transmission owners.
- 3.39. Insofar as the interaction with gas transportation is concerned, DTI/Ofgem note that the proposed merger between NGC and Lattice was cleared by the Secretary of State on 2nd July 2002. In May 2002, Ofgem issued a consultation paper¹⁹ which gave details of the proposed merger of National Grid Group plc and Lattice Group plc and requested comments on any regulatory and competition issues relating to electricity and gas arising from the proposed transaction. The respondent to the June consultation paper (on identification of

¹⁹ Proposed merger of National Grid Group plc and Lattice Group plc to create National Grid Transco plc. A consultation paper. Ofgem May 2002.

the GB system operator) that suggested that it would be inappropriate for the GB system operator to be permitted to have affiliates that are involved in the production, transport, distribution or supply of any fuel used in electricity generation also raised similar issues in response to the May 2002 merger consultation. In July 2002, Ofgem published initial proposals²⁰ which discussed, and invited further comments upon, the regulatory issues that arise from the merger of NGC Group and Lattice Group. Furthermore, in this document, Ofgem indicated that although a number of licence modifications would be made, amongst other things, to bring NGC's and Transco's licences into line, it considered that in an England & Wales context, the existing financial ringfencing provisions were sufficient. DTI/Ofgem believe that the regulatory issues arising in England & Wales are not substantially different to those which would arise in a GB context were the GB system operator to have an affiliate with a gas transportation licence and, consistent with this conclusion, do not believe that it is necessary to prohibit the GB system operator from having affiliates that are involved in the production, transport, distribution or supply of any fuel used in electricity generation, nor do DTI/Ofgem believe that it is necessary to augment criterion ii) to explicitly take account of these activities.

- 3.40. It is however proposed that applicants be required to submit details to the Panel of any affiliated businesses or related activities that may be considered likely to raise potential conflict of interest concerns, and that the Panel would take this information into account in assessing the ability of the applicant to meet criterion 2, and furthermore that criterion 2 be amended to reflect this.
- 3.41. DTI/Ofgem agree that the term "energy trading" in criterion 2 is ambiguous and suggested that it should be amended to refer to "the trading of electricity".
- 3.42. DTI/Ofgem believe that the judgement as to whether each of the applicants meets the criteria will be a matter for consideration by the Panel. It is anticipated that the ability to demonstrate a proven track record would be an important factor that would be taken into account when making such a judgement. However, DTI/Ofgem do not believe that reliance on past

²⁰ Regulatory issues arising from the merger of National Grid Group and Lattice Group plc to create National Grid Transco plc. Initial proposals, July 2002. Ofgem.

experience need necessarily be the only way in which the Panel would form a judgement as to whether a particular party could meet the criteria, and as a consequence do not propose to amend the criteria in this regard.

- 3.43. DTI/Ofgem do not believe that the role of the Panel is to review detailed cost forecasts and/or business plans submitted by applicants. Indeed, it is not expected that very detailed information on these matters would be submitted. In assessing the merits of any application against criterion iv), it is intended that the Panel would take a view of the general approach to implementation and operation proposed by each applicant and would consider the potential impact on practicality and cost. It is noted that that it is intended that the revenues of the GB system operator would be restricted by licence condition. DTI/Ofgem believe that it is appropriate for the Panel to judge the general approach proposed so as to assess the ability of the applicant to implement and carry out the duties of the GB system operator in an efficient and effective manner in accordance with licence duties and incentives. As a consequence, business plans and detailed cost forecasts are not relevant in this context.

Proposed Criteria

- 3.44. Based upon the above discussion criterion 2 has been revised, and the criteria to be used are therefore as follows:

- i) The party should have the necessary expertise, resources and ability to carry out efficiently and effectively the enduring role envisaged for the GB system operator.

It is also proposed that the party will need to set out its proposed management and governance arrangements and staff competencies that will provide it with the ability to meet this criterion. The factors proposed to be taken into account in assessing the relative ability of a party to meet this criterion include the party's ability to meet the statutory and licence obligations placed on the GB system operator, including, for example:

- complying with duties relating to the development and maintenance of an efficient, co-ordinated and economical system of electricity transmission, and the facilitation of competition in the supply and generation of electricity;

- complying with general standard licence conditions applying to existing transmission licensees;
- having in force a GB Balancing and Settlement Code;
- determining and conforming to a GB Use of System Charging Methodology and Connection Charging Methodology;
- complying with non-discrimination obligations (for example in the provision of Use of System);
- complying with requirements to offer terms (for example for use of the system);
- establishing arrangements for connection and use of system, and preparing a GB connection and use of system code (“CUSC”); and
- complying with relevant Security Arrangements.

Furthermore, it is also expected to take into account the Party’s ability to respond efficiently and effectively to the relevant regulatory incentive arrangements placed upon it. It is envisaged that these will include, amongst other things:

- incentive arrangements to manage efficiently and effectively GB balancing costs;
- the ability to meet relevant security and quality of supply standards;
- procuring and using balancing services; and
- demonstrating that the party has sufficient resources and financial facilities to carry out the GB system operation activity and to comply with its obligations under the licence and under the Act.

- ii) Other than for balancing services²¹ under BETTA, the party should not itself, nor should it have affiliates²² who will, be undertaking the activity

²¹ Note that in accordance with the May 2002 consultation paper, it is proposed that the GB system operator will procure balancing services, some of which will include the purchase or sale of electrical

of generation or supply in GB, or be trading GB electricity, or be carrying out any other relevant activity which may conflict with the party carrying out the activities of the GB system operator in an independent and non-discriminatory manner;

- iii) The party should be willing to carry out the role of GB system operator designate, against the background of the proposed process for identification. It is suggested that this will include being willing and able, and having the necessary resources, to participate actively in, and in certain cases lead, the BETTA development process to support the delivery of the changes required for BETTA. It is proposed that part of this will require the party to work closely with Ofgem, DTI, existing transmission licensees and other industry participants in the development process.

Ofgem/DTI are currently working towards a BETTA implementation date of April 2004, and it is proposed that the Party's ability to help to achieve this date will also be taken into account in assessing the party's relative ability to meet this criterion; and

- iv) Finally, it is also proposed that in identifying the GB system operator, the practical and cost (in terms of costs that will ultimately be borne by the electricity consumer) issues associated with the selection should be taken into account.

The Panel

- 3.45. Because the responsibility for deciding upon whom is to fulfil the role of GB system operator rests with the Secretary of State, it is appropriate for the Secretary of State to determine the composition of the Panel which would be best placed to advise this decision making process. As set down in the June consultation, it is proposed that Ofgem would be a member of Panel. DTI/Ofgem believe that it is appropriate that the way in which industry views should be taken into account is through consultation on the process and criteria, and that it is not necessary for the industry to be explicitly represented on the Panel. Indeed, it is likely that if any section of the industry were explicitly

energy. See for example Special Condition AA4 of the England & Wales Transmission Licence.

²² In this context, "affiliated" means within the same corporate group, or within the same company.

represented on the Panel then this may in itself raise concerns over bias, and that a properly balanced representation would be likely to be difficult to formulate and may result in an inappropriately large panel being formed.

3.46. In conclusion it is proposed that the Panel will comprise:

- Neil Hirst, Director, Energy Policy, Department of Trade and Industry;
- Richard Ramsay, Managing Director, Regulation and Financial Affairs, representing Ofgem; and
- Nick Baldwin, Independent Member, DTI Energy Board.

3.47. The Panel will be supported by a secretariat to be established by DTI. An outline of the way in which the Panel will be expected to conduct its business is given in Section 5.

3.48. The objective of the Panel members will be to assess the information provided in the applications against the agreed criteria and any relevant statutory obligations²³, and to advise the Secretary of State which party (or parties if not unanimous) they believe should take on the role of GB system operator.

GB system operator activities

3.49. As discussed above (under timetable) DTI/Ofgem do not believe that the issues affected by the detailed allocation of functions between the GB system operator and transmission owners need influence the applicant chosen to carry out the GB system operator activity. As a consequence, DTI/Ofgem believe that it is unnecessary to resolve the full detail of the allocation of functions between the GB system operator and the transmission owners prior to identification of the GB system operator. Conclusions on the high-level allocation of functions were set down in the May consultation, and DTI/Ofgem believes that in conjunction with the additional information set down in this paper, there is sufficient information for applicants to assess the fundamental nature of the GB system operator role, and the broad nature of the regulatory and legislative framework in which it will be required to operate. DTI/Ofgem

²³ The additional information required under each selection criteria is discussed in more detail in Section 7.

are not, for example, expecting that applicants will submit detailed costs and business plans for consideration by the Panel. Once BETTA is introduced, it is to be expected that the detailed role of the GB system operator will continue to develop in the light of experience of the new arrangements. The ability to respond to change and to participate in the continuing development of the industry is considered to be a fundamental part of the role of the GB system operator.

Price controls

- 3.50. DTI/Ofgem agree that assessing individual bids for the role of GB system operator in terms of cost expectations will be of limited value at this stage in the process, and it is noted that it is not expected that parties will submit very detailed cost estimates in their applications.
- 3.51. DTI/Ofgem also agree that the benefits of early implementation of BETTA, linked with the appointment of a GB system operator, heavily outweigh any benefit that can be obtained from implementing complex incentive arrangements as part of any future price controls. It is not intended that any delay to BETTA implementation will arise from considerations over the form of the price control of the GB system operator.

Cost Recovery

- 3.52. DTI/Ofgem recognise the importance of the issue of cost recovery for the initial GB system operator (announced in the Secretary of State's minded-to statement). Following the successful completion of the Second Reading of the BETTA Bill in the House of Commons, DTI proposes to issue a guarantee to the initial GB system operator. At that time the Government would need to be satisfied that the implementation work was urgent and in the public interest and confident that the Bill will reach Royal Assent, and subject to meeting these tests would indemnify reasonable costs incurred in undertaking implementation work ahead of the formal licensing of the GB system operator. Before this point, any costs incurred will be done so at the risk of the initial GB system operator.

4. Activities of the GB system operator

4.1. This section provides further information on:

- the expected enduring role of the GB system operator;
- the role of the initial GB system operator in the development and implementation of BETTA; and
- those aspects of the role of the GB system operator that are considered least well defined at this stage in the development process.

Background

4.2. The June 2002 consultation stated that given that the detailed legal structure of the arrangements to implement BETTA was under development, it was not possible to be specific about the precise nature or extent of the legislation required to deliver BETTA. This matter is being progressed by the DTI. It did however indicate that, broadly speaking, the legislative provisions then contemplated would have to address the following issues in order to give effect to BETTA:

- ◆ amendment to the Electricity Act 1989 where appropriate so that both the activities of system operation and transmission ownership are governed by licence, so that those licensed to undertake system operation activities can be licensed in respect of the same area in which another transmission licensee can be authorised to undertake transmission ownership activities, and any consequential changes that may be necessary can be made;
- ◆ 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 assets necessary for system operation, where appropriate, to the system operator; and
- ◆ transitional arrangements required to implement BETTA.

- 4.3. Whilst these matters continue to be progressed, the above issues continue to reflect those which any legislative provisions would have to address. It is therefore contemplated that the system operator will be required to hold a transmission licence and that a number of conditions would apply in relation to the activity of system operation. It is therefore proposed that the framework in which the GB system operator will operate will be implemented through the use of primary legislation and will subsequently be amended in accordance with the ongoing provisions of the relevant documents.
- 4.4. The main elements of the framework in which the GB system operator will be required to carry out its activities include:
- ◆ 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;
 - ◆ arrangements which subsume existing Anglo-Scottish 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;
 - ◆ a single document governing technical matters associated with connection to and use of the transmission system, embodied in a GB Grid Code; and
 - ◆ a document (or documents) setting down the relationship between the system operator and transmission owners.

Enduring Role for the GB system operator

4.5. Against this framework, it is proposed in the May 2002 consultation document that the principal activities of the GB system operator will, amongst other things, include:

- ◆ responsibility for purchase and call-off of GB balancing services in all timescales;
- ◆ responsibility for directing the real-time operational configuration of the operational transmission system within GB;
- ◆ a formal role in co-ordinating the scheduling, construction and maintenance outages on the GB transmission network and a formal role in understanding and agreeing outage changes, including the need to cancel or shorten outages;
- ◆ the GB system operator may have some incentive arrangements and responsibilities applying in relation to transmission system investment planning. For the purposes of submission of applications, it should be assumed that transmission investment planning expertise will be needed by the GB system operator (see also the discussion below on this area);
- ◆ potentially some role in the new connections planning process in order to help to ensure independence and non-discrimination. Again, for the purposes of submission of applications, it should be assumed that new connections planning expertise will be needed by the GB system operator;
- ◆ responsibility for contracting with users of the GB transmission network for connection to and use of the system²⁴. This would include collection of revenues for connection to and use of the GB transmission network. Certain of these revenues would be distributed to transmission owners; and

²⁴ 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.

- ◆ responsibility for proposing, and subsequently administering, transmission charging methodologies for connection to and use of the GB transmission network.
- 4.6. The scope and nature of the licence conditions that would apply to the system operator are subject to further consideration and consultation as part of the BETTA process and DTI/Ofgem anticipate issuing a consultation document on the transmission licences in October 2002. It is currently contemplated that the transmission licence conditions for the GB system operator may duplicate the majority of the standard and special conditions within the current transmission licence in England & Wales, with a number of changes to reflect, amongst other things that:
- ◆ the person nominated to undertake the system operation activity will be licensed to undertake it throughout GB;
 - ◆ certain activities will, as discussed in the May 2002 consultation paper, be carried out by the transmission owners;
 - ◆ there will be a requirement to administer a new code setting down the relationship between the system operator and transmission owners;
 - ◆ transitional provisions relating to the implementation of BETTA will be introduced; and
 - ◆ certain conditions in the England & Wales transmission licence will be no longer of relevance to the GB system operator. These may include, for example, Supplementary Standard Licence Conditions C4 and C6.
- 4.7. It is anticipated that the special licence conditions that would apply to the GB system operator would include a restriction on the revenues of the GB system operator in carrying out its licensed activities. It is intended that the form of this revenue restriction would be such that it provided financial incentives for the GB system operator to carry out its activities in an efficient manner, in particular in relation to the procurement and call-off of balancing services.
- 4.8. There are a number of factors that may dictate the form of the financial incentives that may apply. In formulating the revenue restrictions that may apply, it is anticipated that the following factors would, amongst others, be taken into account:

- the form of the existing balancing services revenue restriction applying in England & Wales;
- the fact that the GB system operator activities would apply on a GB basis;
- the nature of the relationship between the system operator and transmission owners; and
- developments in the incentive arrangements applying in England & Wales²⁵.

Development and Implementation of BETTA

- 4.9. As noted earlier, it is expected that the party identified as the initial GB system operator will play an important part in the development and implementation of BETTA. Present thinking is that there are at least three substantial task areas to which resources will need to be devoted, although potential applicants should note that this list is not intended to be comprehensive.

Development of industry documents

Background

- 4.10. The key legal documents associated with the delivery of BETTA and most notably the creation of a GB system operator 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 any document governing the interface between transmission owners.
- 4.11. It is anticipated that the GB system operator will be the 'owner' of the GB BSC, GB CUSC and GB Grid Code in the sense that it will have transmission licence conditions requiring it to have in place such documents and transmission licence conditions that set out procedures by which such documents can be modified. In relation to the GB BSC and the GB CUSC, it is anticipated that the GB system operator will be subject to a requirement, as a condition of its transmission licence, to sign up to Framework Agreements

²⁵ See footnote 15.

that give contractual effect to the GB CUSC and GB BSC. It is also anticipated that the initial GB system operator will assist DTI/Ofgem in developing the detail of any new document or documents defining the relationship between the GB system operator and the transmission owners.

4.12. The GB CUSC and GB Grid Code in particular will govern, amongst other things, the interface between the GB system operator and both users of the transmission system and providers of balancing services. Pursuant to the GB CUSC, the GB system operator will have in place:

- ◆ bilateral connection agreements with parties connecting to the GB transmission system and in certain instances parties embedded in distribution systems;
- ◆ bilateral use of interconnector agreements with parties connecting via an interconnector to the GB transmission system; and
- ◆ bilateral agreements for the provision of certain balancing services.

Expected input from the initial GB system operator

4.13. DTI/Ofgem expect the initial GB system operator to lead and resource any outstanding work on the development and drafting of a GB CUSC and GB Grid Code. It is perhaps worth noting that it is anticipated that the legal steps required to give effect to these GB documents will be taken by the Secretary of State using powers provided through a BETTA Bill and therefore DTI/Ofgem would intend to consult on the development and drafting of these documents at key points in the process, and any of the initial GB system operator's work in this regard would be subject to oversight and direction by DTI/Ofgem.

4.14. The initial GB system operator will also be required to put in place bilateral agreements that are required to be in place prior to BETTA Go-Live. Such agreements may include:

- ◆ connection agreements: this will require the initial GB system operator to enter into connection agreements with transmission system connectees in GB;

- ◆ use of interconnector agreements: currently there are two use of interconnector agreements in relation to the GB transmission system (excluding the Anglo-Scottish interconnector). The first is in relation to the interconnector with France and the second is in relation to the Moyle interconnector with Northern Ireland. In relation to the interconnector with France, this may require novation of the existing agreements (including the underlying protocol governing the French Interconnector). In the case of the interconnector with Scotland, not only will this require novation, but potentially also the negotiation of further changes to the agreement to reflect the fact that there will be a new GB-wide BSC; and
- ◆ agreements for the provision of balancing services which certain generators are obliged to provide, specifically the agreements governing the mandatory provision of reactive power and frequency response: this will require novation of existing mandatory contracts for the provision of reactive power and frequency response in England & Wales and the entering into of new contracts for the same in Scotland.

4.15. It should be noted that electricity licence holders will not be subject to obligations to enter into these agreements with the GB system operator until the legal framework for BETTA implementation is introduced (currently anticipated to be September 2003). However the initial GB system operator may consider it prudent to take steps to prepare for implementation prior to September 2003, subject to the willing involvement of counterparties to the relevant contracts.

4.16. In addition to the above, the initial GB system operator may choose to negotiate further balancing service contracts in Scotland and/or England & Wales, i.e. non-mandatory balancing services, the terms for provision of which are subject to commercial negotiation.

4.17. Furthermore, it is anticipated that the initial GB system operator will also respond to DTI/Ofgem consultation papers on matters in which it might have an interest, for example, consultations on drafts of the Transmission Licence and the BSC.

- 4.18. DTI/Ofgem recognise that the production of a number of other documents²⁶ will rely specifically on the initial GB system operator to produce under licence obligations which will not be in effect until after Royal Assent. However, it is anticipated that the initial GB system operator will begin preparatory work in developing the detail of these documents.

Development of systems and processes

Background

- 4.19. A considerable number of systems and processes will be required to enable operation of the GB transmission system. DTI/Ofgem envisage that whilst the detail of these mechanism are not known at this stage it will be necessary for the initial GB system operator to develop and implement the systems and processes necessary to support such operation.

Expected input from the initial GB system operator

- 4.20. The systems and processes necessary to effect GB system operation are the responsibility of the GB system operator. It is intended that further to its identification, the initial GB system operator will produce an implementation plan, ideally such that the development and implementation of the required systems and processes may be completed in time for a planned BETTA Go-Live date of April 2004. That timetable has also been developed to proceed in parallel with the development of legal documents. At the start of the systems development process, around the end of the present calendar year, DTI/Ofgem will publish first draft legal text of the various legal documents that will underpin BETTA, and those documents can be used to determine relevant aspects of user requirement specifications and other system development documents. As system development proceeds, it can be informed of any changes to those first draft documents that arise from consultation or other reasons, and development can be redirected accordingly. By mid 2003, it is intended that the documents will be in a form ready for designation, so that development can be concluded and a period of about nine months is available for implementation, trialling, testing, any entry/registration and then cutover. It is noted that issues arising from systems development may have a bearing on

²⁶ To include, for example, a charging methodology, charging statement, procurement guidelines,

the development of the detail of the contractual framework for the GB system operator.

- 4.21. From identification, the initial GB system operator will be expected to lead this development process, taking whatever decisions are necessary in relation to the work required and the appointment of contractors and/or consultants to provide systems and assist in the development and implementation process. The initial GB system operator will also be expected to take the lead in any industry-wide groups established to assist other participants to augment or develop their own systems to make them compatible with those of the system operator.

Transmission Charging

- 4.22. Another aspect of the development of BETTA in which it is anticipated that the initial GB system operator will be required is in the development of transmission charging methodologies for connection to and use of the GB transmission network. It is intended the arrangements applying in England & Wales will be used as the basis for consultation when considering the appropriate methodology to apply on a GB basis under BETTA. It is noted that the arrangements currently applying in England & Wales are the subject of development²⁷ and may be amended prior to the introduction of BETTA. Any such developments will need to be taken into account in the BETTA consultation process.

Aspects of the role of the GB system operator least well defined

- 4.23. It is recognised that there are a number of uncertainties over the role of the GB system operator that applicants will face. A number of the main uncertainties are discussed below.

balancing principles etc.

²⁷ See for example Transmission access and losses under NETA – revised proposals, Ofgem February 2002.

Revenues and Incentives for the GB system operator

- 4.24. The formal granting of any new licence or changes to existing licenses for the transmission owners and the GB system operator is likely to take place during summer/autumn 2003 after the commencement of the anticipated BETTA legislation. Prior to this, consultations would have been carried out on the form of regulation to be applied to the GB system operator and associated revenues.
- 4.25. In the meantime, (in particular in the period up to and after the Secretary of State identifies the GB system operator) the allowable revenues and detailed form of regulation for the GB system operator will remain uncertain. In order to place the GB system operator in a position in which the risks it faces would be expected to be similar to those it would face in a periodic regulatory review of its revenues, it is intended that further to the licensing of the GB system operator, Ofgem will propose a change to the revenue restriction special condition(s) of the licence prior to the commencement of BETTA. The intent of this would be that it would provide the GB system operator with the opportunity to decide whether or not to accept the proposed licence change or alternatively whether the matter should be referred to the Competition Commission. To this extent it is intended that the process for determining the remuneration of the GB system operator for initial operation of under BETTA will mirror the arrangements that are expected to apply on an enduring basis and which currently apply to existing transmission licensees.
- 4.26. DTI/Ofgem recognise there is also a need to consider the exact mechanics of the default arrangement to apply in terms of cost recovery in the interim period to the extent that the proposed change to licence conditions referred to above results in a reference to the Competition Commission.

Asset transfer

- 4.27. As part of the changes envisaged for BETTA it is intended that the BETTA Bill will make provision for certain assets of existing transmission licensees to be transferred to the GB system operator. The intention is that certain existing assets that may be required for system operation would be available for use by the GB system operator. There is, for example, likely to be the need for

transfer of assets, computer software and hardware and data in the area of system operation. Certain staff may also transfer by operation of law.

- 4.28. Although it is likely to be necessary to provide for a mechanism for the transfer of assets and an appropriate appeals mechanism in the Bill, at this stage the details of how this part of legislation may operate is uncertain, and as a consequence the process for identifying which assets of existing licensees will be available is uncertain.
- 4.29. DTI/Ofgem recognise and accept that in order to meet the selection criteria applicants will have to make broad assumptions on the level of the asset/staff transfer that will be required. DTI/Ofgem request that each submission include a list of assumptions that the applicant has made. The Panel will explicitly take this uncertainty into account when considering applications, and further discussion of these issues will take place at the applicants' conference (see Section 5).

Recovery of development costs

- 4.30. DTI/Ofgem recognise the importance of the issue of cost recovery for the initial GB system operator (announced in the Secretary of State's minded-to statement). Following the successful completion of the Second Reading of the BETTA Bill in the House of Commons, DTI proposes to issue a guarantee to the initial GB system operator. At that time the Government would need to be satisfied that the implementation work was urgent and in the public interest and confident that the Bill will reach Royal Assent, and subject to meeting these tests would indemnify reasonable costs incurred in undertaking implementation work ahead of the formal licensing of the GB system operator. Before this point, any costs incurred will be done so at the risk of the initial GB system operator.

Detailed allocation of functions

- 4.31. Whilst there remains a significant amount of work to be undertaken to specify fully the detailed role of the GB system operator there are ongoing discussions between Ofgem and the three transmission owners to understand the practicalities associated with the allocation of detailed responsibilities between the GB system operator and transmission owners. These discussions have

been taking place in the “SO-TO expert group” (STEG). Ofgem/DTI expect to consult on the detail of these discussions in October 2002. For information regarding the matters being discussed at those meetings please refer to the minutes available on the Ofgem website, www.ofgem.gov.uk. In addition, DTI/Ofgem will be prepared to update applicants on the current position with regard to the development process and offer the opportunity for discussion. It is important to note however that the details of these issues should not affect the Panel's assessment, and need not be covered in detail in any application.

- 4.32. In addition to the detailed allocation of functions discussed above, one high-level activity that was considered in the May 2002 consultation but in which the exact role of the GB system operator remains relatively uncertain is the area of transmission investment planning. Whilst the conclusions set down in the May 2002 consultation document remain unchanged and continue to form the basis for taking forward consideration of further detail under BETTA, it is possible that the GB system operator will have at some role in transmission system investment planning. For the purposes of submitting their applications, parties should assume that the GB system operator will need to be capable of carrying out the activity of transmission system investment planning on the GB transmission system of both connections and general infrastructure, and the information provided should give details of their expertise and experience in this area.

Contractual framework

- 4.33. It is recognised that the contractual framework in which the GB system operator will operate remains to be defined. Perhaps the area of most uncertainty is the form of the relationship between the GB system operator and transmission owners, although such uncertainties also extend to the exact form of the GB BSC, GB CUSC, GB Grid Code and other documents. For the purposes of submitting their applications, parties should assume that arrangements will be broadly based on those currently applying in England & Wales.
- 4.34. As far as the arrangements between the GB system operator and transmission owners are concerned, whilst applicants' views on the main issues that they believe may arise under such arrangements would be

welcomed, given the uncertainties, as a matter of practicality, it is not intended that Panel considerations will focus strongly in this area.

5. GB system operator identification process

- 5.1. The criteria that will apply to the identification of the GB system operator are set out in Section 3, and the key milestones in the process are set out in Section 1. To enable potential applicants to focus any application, this section provides more detail on the principal steps in the identification process. Steps 1 to 3 have already been completed and the discussion starts at step 4²⁸ of the identification process.

Step 4 – Preparation and submission of applications

- 5.2. This conclusions document represents the formal invitation to those wishing to be considered for the role of GB system operator to submit applications in accordance with the procedures set out herein.
- 5.3. A detailed list of the information that applicants will be required to submit and a matrix relating this information back to the assessment of applications against the four proposed criteria is at Appendix 1.

Preparation of applications

- 5.4. As noted in Section 1, all parties that might wish to make an application to become the GB system operator are invited to register a non-binding interest as soon as possible (ideally prior to the 14th August).
- 5.5. Parties that register, and only those parties, will be invited to an applicants' conference, the location and date of which will be publicised in due course (expected to be in August 2002). At that conference, presentations will be made and/or information will be provided that cover the rationale and background to BETTA, its key elements, the enduring role of the GB system operator, a discussion of the work being progressed in the STEG, the sorts of duties and responsibilities that accompany the GB system operator role, the involvement expected from the initial GB system operator in the period from when identified to Go Live, the basis for the assessment of applications, the

²⁸ As described in Section 1, steps 1 to 3 have now been completed.

assessment criteria and how they will be applied, and progress generally on the project. The presentation will also deal with the process by which closure on the identification of the GB system operator is reached. Questions will be invited.

- 5.6. Applicants will also have the opportunity, if they so wish, for an individual and private meeting with the Panel secretariat and experts from the BETTA team. Such meetings will be held in August 2002 (exact dates to be advised), and those registering an interest are asked to request such a meeting, if they wish for one by indicating on the form in Appendix 3 by Wednesday 14 August 2002. Applicants will be asked to submit lists of issues to be discussed and/or questions to be answered before the meeting to allow preparation of responses, although discussion at these meetings will not necessarily be confined to topics previously submitted.
- 5.7. For the avoidance of doubt, it is not anticipated that applicants will have access to Panel members during this step, only to the Panel secretariat and relevant experts. The opportunity to hold oral hearings, as discussed later, will give Panel members the opportunity to meet key staff from applicants if Panel members feel that this would be appropriate.
- 5.8. The proceedings of the applicants' conference will be made public, including a summary of questions and answers. The proceedings of the individual meetings will not be made public, unless there is a pressing need to do so, for example an applicant identifying an important ambiguity in the request for information, clarification of which is necessary for all applicants.
- 5.9. Following the applicants' conference and any subsequent meetings with the Panel secretariat, any further queries from applicants should be by way of written submissions, the answers to which will be circulated to all others on the applicants register unless there is a compelling reason, associated with commercial confidentiality, not to do so.
- 5.10. Applicants who wish to remain anonymous to other applicants may register and choose not to attend the applicants' conference, or to send a third party whose representation is not disclosed. In addition, parties who have not

registered an interest may submit an application. DTI/Ofgem do not intend to make information supporting applications publicly available.

Step 5 – Assessment of applications

Initial review of submissions

- 5.11. The initial review of submissions will look primarily at completeness rather than substance. The review will determine whether or not the submissions meet the information requirements set out in this paper, and where there are gaps or omissions the company concerned will be contacted to rectify the matter. Bearing in mind the points made earlier about late submissions, this review process is not intended as a means of allowing late submissions, and the secretariat will not seek additional information if in its view the application is significantly short of what is required.
- 5.12. The second step in the initial review is to go through each application in detail and identify any ambiguities or otherwise potentially confusing elements of the application. In such cases, clarification may be sought from the relevant applicant.
- 5.13. The final step in the initial review is to revise the workplan for the detailed review that follows, in the light of the number and content of the applications received.

Detailed assessment

- 5.14. The detailed assessment phase will begin with each application being broken down into a series of key elements, related to the use of external experts to assess those elements including within Ofgem and DTI and other agencies. For example the information dealing with company accounts may be sent to the Office of Government Commerce and that on directorships may be checked with Companies House. Other domestic and overseas agencies may also be consulted. In addition, the Panel secretariat will itself review each bid and identify any matters not already covered in the planned assessment process that need to be resolved. Other sources of publicly available information may also be used by the Panel. DTI/Ofgem will ensure that all appropriate reasonable precautions will be taken to preserve confidentiality.

- 5.15. The Panel secretariat will construct an Assessment Matrix assessing its application against each of the criteria. The outcome from this stage will be a preliminary assessment by the secretariat, together with supporting material.

Initial panel discussion

- 5.16. When the Assessment Matrix is complete, the analysis and assessments upon which it is based will be presented to and discussed with the Panel. At this stage the secretariat will not attempt to produce an overall ranking of applicants, rather it will seek to share its findings with the Panel and determine what additional work is required for the Panel members to move towards a decision. Issues to be discussed here will include how each applicant has been assessed against each criterion, whether or not the information is sufficient to allow a proper assessment to be made, and key questions at this stage in the minds of the Panel and the secretariat.
- 5.17. The outcome of this stage will be a list of matters to be progressed by the secretariat to meet the points expressed by the Panel following its first review of the material to hand.

Further assessment

- 5.18. The secretariat will work on resolution of the issues raised by the Panel, which may involve a combination of:
- further assessment and analysis of the material already submitted;
 - further assessment of any relevant publicly available information on the applicant;
 - discussions with relevant applicants; and
 - discussions with other experts.
- 5.19. It is possible that during this stage, the Panel may wish to feed back further thinking on the role of the GB system operator to applicants and to seek their views on the issues raised in order to take them into account in the assessment process. The output from this stage will be a comprehensive report on each applicant, which will be submitted to the Panel by the secretariat.

Panel meeting

- 5.20. Once the reports have been received and reviewed by the Panel, it will meet to consider each application. The discussion will include the key points from the assessment, how well each applicant has met each criterion and what points distinguish applicants from each other. At the end of this discussion the Panel will consider a ranking of the applicants.
- 5.21. Based upon the discussions the Panel will, at this stage, decide whether or not to proceed with the oral hearings for one or more of the applicants.
- 5.22. In addition, if the Panel determines that any further information, other than that to be obtained from an oral hearing, is required, it will instruct the secretariat to seek that information.

Oral hearings

- 5.23. The oral hearings, if required, will be held in early October. Applicants will be advised of the dates of these hearings in due course. Applicants are requested to confirm in their applications that they would be available to attend such a meeting during this time period should this prove necessary.
- 5.24. Prior to the hearing, the secretariat will contact each company called for a hearing, advise it of any key questions or issues that the Panel intend to address at the hearing and agree with it a suitable time and duration for the hearing. The Panel may request a presentation on one or more specific issues at this hearing.

Reporting

- 5.25. Following the conclusion of all the oral hearings, the Panel will go on to consider the matters raised at the hearings, review the rankings of applicants in the light of the oral hearings and come to a final view or views on the appropriate rankings of the applicants. The report of the Panel members will be sent to the Secretary of State and will not be published. The report to the Secretary of State will comprise a recommendation from each of the individual Panel members and a summary of the views and main issues raised and other comments from the Panel members.

- 5.26. It is proposed that Ofgem will publish its recommendation to the Secretary of State together with a short, high level report giving the reasons for its recommendation.

Step 6 – Announcement by Secretary of State

- 5.27. The announcement by the Secretary of State of whom she is minded to nominate as the GB system operator would then take place some time after the BETTA Bill is hoped to enter Parliament, i.e. some time after November 2002. The announcement would be accompanied by a short summary of the reasons for her selection. It is hoped that the initial GB system operator will commence preparatory work for BETTA at an early stage.

Step 7 – Licensing of GB system operator

- 5.28. Licensing of the GB system operator would take place after the BETTA Bill receives Royal Assent.

6. Assessment of information

- 6.1. This section sets down some additional information on the basis of assessment that will be undertaken by the Panel. Appendix 1 provides a detailed list of the information that applicants will be required to submit and a matrix relating this information back to the assessment of applications that will be used to inform the selection of a party for the role of the GB system operator.

Basis of assessment

- 6.2. DTI/Ofgem are seeking applications from parties who believe that they can undertake the role of GB system operator. DTI/Ofgem are aware that the range of knowledge and experience of GB system operation held by potential applicants may vary widely; some may be very familiar with significant elements of the GB system given their present roles within it, others may have extensive experience of other systems, but little or none of those in GB. Whilst GB experience will be a factor in the assessment process, DTI/Ofgem want to ensure that applicants that do not have such experience have the opportunity for their experience in other jurisdictions to be taken into account. Accordingly, the Panel will pay attention to such experience in their assessment of applications.

- 6.3. It is further noted that:

- no data rooms will be established by the three existing transmission licensees, and applicants will not at this stage be expected to undertake any due diligence or other work in relation to assets and asset transfer;
- detailed cost analyses and implementation plans do not need to form part of the application;
- applicants should pay considerable attention to responding in detail to the information requested on present experience and performance;
- it is accepted that any plans submitted with the application in terms of how the applicant expects to undertake the role can only be high level at this stage; and

- it is stressed that applicants are not expected to submit detailed business plans/costs for implementation and operation of the GB system operator role.

Appendix 1

Criterion i

Outline of information to be provided	Panel Assessment Factors	Expansion of/additional information required
1. A description of how the party intends to carry out the enduring role of envisaged for the GB system operator.	Has the party demonstrated an understanding of the proposed role?	Detailed description of the responsibilities of the GB system operator arising from statutory duties, licence conditions.
	<p>Will the party be able to carry out the enduring role in an efficient and effective manner?</p> <p>Does the party have the necessary expertise, resources and ability to carry out efficiently and effectively the enduring role?</p>	<p>Detailed description of how the party intends to carry out each of the responsibilities identified above.</p> <p>This should include a description of the legal constitution of the applicant (legal form, jurisdiction under which it is formed), the laws and regulations to which it is subject and whether there is any rule of law or regulation to which the party is subject which would require the consent of any government or regulatory body or other party for the party to take on the role of GB system operator.</p> <p>It should also include proposed management and organisational arrangements and staff competencies that will allow it to discharge each of its responsibilities. It should also include an organisational flow diagram.</p>
2. A description of past experience in carrying out functions equivalent or similar to those of the GB	Has the party demonstrated its ability to undertake similar activities in the past?	<p>This should include a detailed description of:</p> <ul style="list-style-type: none"> any roles previously carried out by the applicant which are

Outline of information to be provided	Panel Assessment Factors	Expansion of/additional information required
system operator.		<p>comparable to the role envisaged for the GBSO;</p> <ul style="list-style-type: none"> • how these roles were carried out; • the differences between these role and the role envisaged for the GBSO duties; and • how these differences will be reflected in the approach proposed to be taken by the applicant.
3. A description of the organisational and financial arrangements applying to the GB system operator.	<p>Is the applicant's proposed financial structure suitable?</p> <p>Has the party demonstrated its ability to carry out appropriate financial management in the past?</p>	<p>Details of how the applicant proposes to structure the SO function, and details of any parent company support and/or guarantees and/or other financing arrangements. If relevant, this should also include a description of the structure of the Group of companies in which the proposed GB system operator will sit.</p> <p>Submission of relevant available accounts, annual reports, share information for the last three years, including balance sheets, P&L, ownership (if not quoted company), any special features of corporate governance etc.</p>
4. A description of how the party intends to respond efficiently and effectively to the relevant regulatory incentive arrangements placed upon it, and to give details of relevant experience.	<p>Will the party be able to respond efficiently and effectively to the regulatory incentives placed upon it?</p> <p>Has the party demonstrated its ability to do this in the past?</p>	<p>In addition to details of how it intends to respond to the regulatory incentives expected to be placed on the GB system operator, Party to provide details of relevant regulatory experience, including details of previous experience in responding efficiently and effectively to regulatory arrangements of a similar nature envisaged for those of the GB system operator.</p> <p>Party to explain how its resources and financial facilities are sufficient to carry out the GB system operation activity and to comply with its</p>

Outline of information to be provided	Panel Assessment Factors	Expansion of/additional information required
		obligations under licence and under the Act.
5. Details of major change and development projects that the proposed system operator has been involved in over the last five years.	Will the party be able to carry out the role of GB system operator in the future to the extent that the role changes over time?	Information on the size, scope, planning and financial impact (costs and revenues) of major development projects in the last five years. Detail outcomes and lessons learned. Conclusions from the above points of available resources, major development project experience, processes (including safety) etc. This should also explain how the views and requirements of affected third parties were taken into account in the developments.
6. Details of any enforcement action or other similar action taken against the applicant or its affiliates or against the management of the applicant or its affiliates.	Is the applicant a fit and proper person to hold a GBSO licence?	Applicant to provide detail on the basis of the action, the parties involved, duration, outcome, and financial/resource implications of all enforcement actions taken against the applicant. Examples of relevant enforcement action include, for example: licence enforcement; health and safety; competition law; company law; misfeasance; etc.

Criterion ii

Outline of information to be provided	Panel Assessment Factors	Expansion of/additional information required
1. Statement of any activities undertaken or likely to be undertaken at the time of BETTA	Does the party have associated activities that may give rise to	In addition to the statement, party to provide details of corporate structure, staff responsibilities and asset ownership of affiliates. Applicant to provide a statement on the nature of the affiliate business,

<p>implementation by the party or affiliates²⁹ which fall into the following categories:</p> <ul style="list-style-type: none"> • generation, or supply in GB • trading GB electricity, • any other relevant activity, which may conflict with the party carrying out the activities of the GB system operator in an independent and non-discriminatory manner, for example whether any other party may be in a position to exercise material influence over the party; <p>If none, confirmation is required.</p>	<p>conflicts of interest?</p> <p>How material is any affiliation? Are there any measures that can be taken to reduce the potential conflict of interest?</p>	<p>and to identify in detail any conflicts of interest that may arise.</p> <p>Where relevant in this context, party to provide Information on turnover, number of customers, quantity of electricity traded, installed capacity of generation, location of activities, profits, future plans in relation to these activities, etc. Similar relevant information in relation to other relevant activities which may give rise to a conflict of interest.</p> <p>Details of possible solutions to avoid conflicts of interest, and implications thereof.</p> <p>Details of any previous experience in managing potential conflict of interest and an assessment of how effective the measures have been.</p>
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Criterion iii

Outline of information to be provided	Panel Assessment Factors	Expansion of/additional information required
1. Statement that the party is willing to carry out the role of the GB system operator against the proposed process for identification. This should include	Is the party prepared willing to carry out the role of GB system operator against the background of the process proposed.	This should include an overview of the resources (from a budgetary and staffing perspective) that have been earmarked for the development/implementation activity.

²⁹ In this context, “affiliated” means within the same corporate group, or within the same company.

a statement in relation to the development activities envisaged for the initial GB system operator.		
2. A description of what the party believes is involved in each of the development roles envisaged for the GB system operator.	Has the party demonstrated an understanding of the proposed role?	Detailed description of development activities.
3. Statement of how the party would take forward the developments to support the delivery of the changes required to support BETTA.	<p>Will the party have the necessary resources to participate actively in and, in certain cases lead the BETTA development processes?</p> <p>Has the party demonstrated its ability to deliver similar changes in the past?</p> <p>Will the party be able to support an implementation of April 2004, and if not what implementation date can the party support?</p>	<p>Detailed description of how the party would take forward each of the development areas identified in Section 4 of this paper. This should highlight how the party proposes to work closely with Ofgem, DTI and existing transmission licensees and other industry participants in each of the development processes.</p> <p>Description of the resources (including expertise of staff) available to take forward these issues.</p> <p>Detailed description of previous experience in carrying out the similar activities. Again this should provide details in relation to each of the individual responsibilities of the GB system operator. This information should include a description of previous experience in taking forward developments in conjunction with other parties.</p> <p>Plans for implementation, including costs, timescales, associated assumptions, risks and issues. (It is recognised that these may not be very detailed at this stage.)</p>

Criterion iv

Outline of information to be provided	Panel Assessment Factors	Expansion of/additional information required
<ol style="list-style-type: none"> 1. The party should include a section in its submission which sets down a high level estimate of the broad costs associated with its role in the development, implementation and subsequent operation under BETTA. (Note that it is not intended that these cost submissions will be binding on participants.) 2. The party should submit a description of the main issues, risks, assumptions associated with its plans for development and operation under BETTA. 	<p>What are the potential implementation cost implications and practicalities associated with appointing the party?</p> <p>How certain are the costs of implementation? How do the costs balance against the associated risks and issues?</p>	<p>Applicants to provide more detail on the costs associated with both assisting the BETTA developments being led by DTI/Ofgem and in implementing the systems, facilities, contracts etc. required by the applicant so that it can carry out the GBSO role.</p> <p>This should also include a list of assumptions that the applicant have made in submitting the estimates, the risks and issues associated with its plans and a justification of the costs.</p>

Appendix 2

Respondents

- 2.1 Following is a list of non-confidential respondents to the June 2002 consultation. Copies of these responses are available from the Ofgem library www.ofgem.gov.uk.

1.	Confederation of UK Coal Producers
2.	Powergen
3.	United Utilities
4.	Centrica
5.	Innogy
6.	Energywatch
7.	British Energy
8.	Scottish Power
9.	Scottish & Southern Energy
10.	The Marketplace Company Limited
11.	National Grid

No confidential responses were received.

Appendix 3

Registration form for Parties considering applying for the role of GB System Operator

Company name:

Contact Details (please include contact name(s), e-mail address(es), postal address and telephone number(s)):

Would you like the fact that you are considering applying to be kept confidential to DTI/Ofgem (note information in all subsequent applications will be kept confidential as is discussed in the consultation document)?

Would you like a meeting with the Panel secretariat and experts from the BETTA team in the August (exact date to be advised)?

Please return this form by 14th August 2002 e-mail to Catherine McWalter.

E-mail: catherine.mcwalter@dti.gsi.gov.uk.

Telephone: 020 7215 0442

If forms are received after 14th August 2002, it may not be possible to arrange a meeting with the Panel secretariat and experts from the BETTA team and the party may miss the opportunity to attend the applicants' conference.