

**The impact of BETTA on the Settlement
Agreement for Scotland (SAS)**

An Ofgem/DTI conclusions paper

May 2003 34/03

Summary

This document is the conclusions paper that follows the Ofgem/DTI December 2002 consultation on the impact of the British Electricity Trading and Transmission Arrangements (BETTA) reforms on the Settlement Agreement for Scotland (SAS)¹.

Under BETTA it is proposed that a new set of energy balancing and settlement arrangements will apply across GB in the form of a single Balancing and Settlement Code ("the GB BSC"). The rules under the GB BSC will supersede the energy allocation and reconciliation rules under the SAS for trading days following BETTA implementation.

The December 2002 consultation on the impact of BETTA on the SAS established that the SAS rules would have to continue in force for a period of time following the implementation of BETTA (the "SAS run-off period"), in order to facilitate the full reconciliation of energy traded on days prior to BETTA's implementation, and to allow an appropriate period of time for the resolution of any disputes in relation to such trading days.

This paper considers the responses to the December consultation on the impact of BETTA on the SAS and discusses Ofgem/DTI's views on the issues consulted upon. Subject to appropriate SAS modifications being proposed and being approved by the Authority, this paper concludes that for the SAS run-off period:

- ◆ GB BSCCo should administer Scottish Settlements
- ◆ the SAS should exist as a stand-alone document, as opposed to being incorporated into the GB BSC
- ◆ the disputes process under the run-off SAS should be time limited
- ◆ any SAS party may choose to propose a modification that would curtail reconciliation at the third reconciliation point (R3 - eight months after the settlement day concerned), and
- ◆ it is not necessary for BETTA for the termination of the SAS to be provided for, but Ofgem/DTI recognise that any SAS party may choose to

¹ The impact of BETTA on the Settlement Agreement for Scotland (SAS): An Ofgem/DTI consultation, December 2002, Ofgem #81/02.

propose a SAS modification to provide for the termination of the agreement.

This paper also concludes that the standard licence conditions relating to the SAS, and the special licence conditions in the licences of SP Distribution Limited (SPDL) and Scottish Hydro Electric Power Distribution Limited (SHEPDL), should be amended for run-off.

The December 2002 consultation on the impact of BETTA on the SAS invited views on the recovery of 1998 costs and ongoing operating costs for SAS run-off. A separate Ofgem/DTI consultation published in April 2003 invited views on the recovery of costs related to the implementation of BETTA. Responses to the cost recovery issues consulted on in the December 2002 SAS paper will be included in the Ofgem/DTI conclusions paper that will follow the April 2003 consultation on the recovery of costs related to the implementation of BETTA.

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1. Rationale

- 1.1. The rationale for the British Electricity Trading and Transmission Arrangements (BETTA) reforms is set out in a consultation paper of December 2001² (the “December 2001 consultation”) and a report of May 2002³ (the “May 2002 report”). Further, on 30 January 2003 the DTI published a draft of the Electricity (Trading and Transmission) Bill (the E(TT) Bill) together with a Regulatory Impact Assessment (RIA), which explains the purpose and impact as well as the expected costs and benefits of the proposed primary legislation to enable the BETTA reforms.
- 1.2. Amongst other things, the December 2001 consultation proposed that GB wide trading arrangements should be established by introducing a BSC to apply across the whole of GB (the “GB BSC”), using arrangements applying in England and Wales as a basis for consultation, and using the existing England and Wales settlement systems to support a GB BSC. The document sought views on any issues associated with GB balancing and settlement.
- 1.3. The May 2002 report noted that the majority of respondents to the December 2001 consultation supported the introduction of a GB BSC and the use of the England and Wales settlement systems to support a GB BSC. Ofgem/DTI believe that one of the key components of BETTA is the introduction of a single code covering balancing and settlement arrangements across GB, using arrangements applying in England and Wales as a basis for consultation. The introduction of a GB BSC is the subject of a separate consultation⁴ and Ofgem/DTI will publish shortly their conclusions in relation to this consultation, together with the first draft legal text of the GB BSC.
- 1.4. The introduction of a single code covering balancing and settlement arrangements across GB will render the current trading arrangements in Scotland redundant. One of the key processes that supports those trading arrangements is

² The Development of British Electricity Trading and Transmission Arrangements (BETTA): A consultation paper, Ofgem, December 2001 Ofgem #74/01.

³ The Development of British Electricity Trading and Transmission Arrangements (BETTA): Report on consultation and next steps. Ofgem/DTI, May 2002, Ofgem #38/02.

⁴ The Balancing and Settlement Code under BETTA: An Ofgem/DTI consultation on a BSC to apply throughout GB, Ofgem/DTI, December 2002, Ofgem #80/02
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the allocation and reconciliation of energy traded in Scotland under the Settlement Agreement for Scotland (SAS). In December 2002, Ofgem/DTI consulted on the impact of BETTA on the SAS⁵. That consultation is referred to in this document as the “December 2002 SAS consultation”.

- 1.5. The rationale for this document is to consider the responses received to the December 2002 SAS consultation and to put forward Ofgem/DTI’s conclusions in light of those responses.

⁵ The impact of BETTA on the Settlement Agreement for Scotland (SAS): An Ofgem/DTI consultation, December 2002, Ofgem #81/02.
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2. Timetable

- 2.1. This is the second document published by Ofgem/DTI on the impact of BETTA on the SAS. This paper is the conclusions document that follows the December 2002 SAS consultation, setting out responses to that consultation and Ofgem/DTI's conclusions in view of these responses.
- 2.2. This paper notes that a number of SAS modifications may be required in order to provide for the existing arrangements in Scotland to be run-off, in accordance with the views provided by respondents to the December 2002 SAS consultation.
- 2.3. Ofgem/DTI anticipate that SAS parties will progress appropriate modifications according to the existing SAS modifications procedure. Such modifications can only be implemented with the approval of the Authority.
- 2.4. In the event that suitable provision for SAS run-off cannot satisfactorily be progressed using the existing SAS modification procedure, Ofgem/DTI may be required to issue a further consultation establishing the means by which Ofgem/DTI intends to bring about changes that may be required, if this is considered necessary for the purposes of implementing BETTA.

3. Background

- 3.1. The December 2001 consultation paper and the May 2002 report discussed the proposal that under BETTA there will be a single Balancing and Settlement Code for Great Britain (the GB BSC) which will operate in place of the current BSC which applies only in England and Wales and the separate trading arrangements in Scotland, which are based on the Trading Code, bilateral contracts and the Settlement Agreement for Scotland (SAS). The impact of BETTA on the SAS was considered in detail in the December 2002 SAS consultation.
- 3.2. Other consultations were also issued in December 2002 on the GB BSC⁶, the GB Connection and Use of System Code (CUSC)⁷ and the GB Grid Code⁸. A consultation was also published on the regulatory framework for transmission licensees⁹.
- 3.3. On 30 January 2003, the DTI published a draft of the Electricity (Trading and Transmission) Bill (the E(TT) Bill) which has been subject to pre-legislative scrutiny by the Trade and Industry Committee (TIC). This process is complete and TIC has published a report¹⁰.
- 3.4. An Ofgem/DTI consultation on the principles of cost recovery with respect to BETTA has been published¹¹. This consultation has some interaction with the impact of BETTA on the SAS, as it considers matters of cost recovery related to SAS run-off.
- 3.5. Work is ongoing in other areas of the BETTA project, such as the changes required to electricity licences under BETTA, the further allocation of roles between the system operator and transmission owners, the drafting of a System Operator – Transmission Owner (STC) Code to apply between the GB system

⁶ 'The Balancing and Settlement Code under BETTA: An Ofgem/DTI consultation on a BSC to apply throughout GB', Ofgem/DTI, December 2002, Ofgem #80/02

⁷ 'The Connection and Use of System Code under BETTA: Ofgem/DTI Consultation on a CUSC to apply throughout GB', Ofgem/DTI, December 2002, Ofgem #79/02.

⁸ 'The grid code under BETTA: Ofgem/DTI Consultation on the development of a grid code to apply under BETTA', Ofgem/DTI, December 2002, Ofgem #78/02.

⁹ 'Regulatory framework for transmission licensees under BETTA, Volumes 1-4', Ofgem/DTI, December 2002, Ofgem #88/02

¹⁰ 'The British Electricity Trading and Transmission Arrangements: Pre-legislative scrutiny of the draft Electricity (Trading and Transmission) Bill. Fifth report of session 2002-3. Volumes 1 and 2.

¹¹ 'Recovery of costs under BETTA: Ofgem/DTI consultation', Ofgem/DTI, April 2003, Ofgem #23/03
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operator and transmission owners, the development of a GB CUSC, GB BSC and GB Grid Code, cost recovery and small generators.

- 3.6. This document follows the December 2002 SAS consultation. That document established that the SAS will need to remain in force for a period of time following the implementation of new GB settlement arrangements under a GB BSC. This period, referred to as the SAS run-off period, is required in order to facilitate the full reconciliation of energy traded on days prior to the implementation of BETTA, and to allow an appropriate period of time for the resolution of any disputes in relation to such trading days.
- 3.7. The December 2002 SAS consultation sought views from respondents on a number of issues that may need to be addressed in order to facilitate SAS run-off under BETTA, and provide for the replacement of the existing settlement arrangements in Scotland with those contained within a GB BSC.
- 3.8. In the December 2002 SAS consultation, Ofgem/DTI anticipated that, following the publication of the conclusions to this first SAS consultation, a number of modifications could be developed and proposed to the Authority, to make the necessary changes to the SAS to enable run-off. For this reason, the Ofgem/DTI conclusions in this document are designed to indicate the policy position that it is anticipated would be encapsulated in any proposal to modify SAS for run-off. It should be noted, however, that the Authority will consider every proposed modification in light of its statutory duties, and nothing stated in this document is to be interpreted as the Authority fettering its discretion with regard to any modification proposal that may come to it for determination.

4. Summary of responses and Ofgem/DTI's views

4.1. The December 2002 SAS consultation asked for responses on any of the matters covered in the paper, but invited views on the following issues in particular:

- ◆ the appropriate vehicle for the SAS run-off provisions, ie whether this is the continuing existence of SAS as a stand alone document, or the incorporation of certain provisions of the SAS as a supplement to the GB BSC
- ◆ the appropriate body to undertake the role and functions of Scottish Settlements during the SAS run-off period
- ◆ the appropriate duration of the reconciliation process relating to energy initially allocated prior to BETTA go-live
- ◆ a potential amendment to the SAS disputes process to introduce a time limit for raising a dispute and on the appropriate duration of such a time limit
- ◆ an appropriate time limit for resolving disputes under SAS run-off
- ◆ the proposal to recover outstanding 1998 recoverable development costs from parties trading in Scotland prior to BETTA go-live, allocated according to volumes traded during the six months prior to BETTA go-live
- ◆ an appropriate mechanism to enable the body responsible for carrying out the role and functions of Scottish Settlements to recover its operating costs during the run-off period
- ◆ appropriate amendments to the standard electricity licences and to the licences of SP Distribution Limited (SPDL) and Scottish Hydro Electric Power Distribution Limited (SHEPDL) to provide for SAS run-off, and

- ◆ whether the SAS should be terminated at the end of run-off, or whether it is more appropriate for the agreement to remain in force but provide for it to cease to have effect.
- 4.2. Nine parties responded to the December 2002 SAS consultation. The respondents are listed at appendix 1 and all non-confidential responses have been published on the Ofgem website (www.ofgem.gov.uk). The responses to the issues raised in the December 2002 SAS consultation are summarised below, together with the view of Ofgem/DTI in relation to these issues.
- 4.3. In addition to commenting on issues raised in the December 2002 SAS consultation, a number of respondents provided comment on other issues outwith the scope of this consultation. These responses are also summarised below.

Administration of run-off

- 4.4. The role and functions of Scottish Settlements, as defined in Part IV of the SAS, are currently fulfilled by Scottish Electricity Settlements Limited (SESL). The December 2002 SAS consultation noted that it will be necessary for a body to continue to fulfil this role for SAS run-off, and that such a body would be responsible for administering the provisions of the SAS that remain in force for the run-off period, including the allocation of energy under the SAS for trading days prior to BETTA implementation and the administration of a SAS disputes process. Views were invited on whether this role should continue to be fulfilled by SESL, or whether another body could take on this role for SAS run-off, either GB BSCCo or another body capable of fulfilling the role.
- 4.5. Eight respondents commented on administration of SAS run-off.
- 4.6. Seven respondents, including SESL and ELEXON, commented that the most appropriate body to undertake the role and functions of Scottish Settlements during the SAS run-off period is GB BSCCo. Those who gave reasons in support of their view considered that it would appear to be more cost efficient, and to provide greater clarity, to have only one settlement body in place following the implementation of BETTA.

- 4.7. Two of the seven who supported GB BSCCo carrying out Scottish Settlements for SAS run-off considered that SESL staff should be transferred to GB BSCCo to support GB BSCCo in fulfilling this role. A further three considered it appropriate for SESL to provide some form of transitional support to GB BSCCo. Where respondents gave reasons to support their view that GB BSCCo should administer SAS run-off with support from SESL, all commented that this would appear to be the most cost-effective way of ensuring appropriate expertise is in place to perform the role of Scottish Settlements for SAS run-off post BETTA implementation.
- 4.8. One respondent supported the transfer of the role of Scottish Settlements to an enduring body provided this could be achieved without loss of relevant skills from the existing administrator. This respondent did not favour the transfer of administrative responsibility to a body other than SESL, if skilled staff are not also to be transferred to this body. It also expressed the view that the enduring body may be GB BSCCo or another enduring body, in the event that key SESL staff would be more readily retained if the transfer of the role was to an enduring body other than GB BSCCo.

Ofgem/DTI's view

- 4.9. Ofgem/DTI note the broad support from respondents for the GB BSCCo to assume the role and functions of Scottish Settlements for the SAS run-off period. This would appear to be the most cost efficient option and Ofgem/DTI expect that if GB BSCCo is to undertake the role of Scottish Settlements, it will do so in such a way as to ensure that the cost to the market of GB BSCCo assuming this role would be less than the cost of maintaining a separate settlement organisation. Furthermore, Ofgem/DTI accept that the transfer of the role of Scottish Settlements to GB BSCCo is likely to provide a degree of stability in the operation of Scottish Settlements post BETTA that may be hard to secure from SESL, an organisation whose only purpose would inevitably decrease as reconciliation under run-off nears completion.
- 4.10. Ofgem/DTI therefore conclude that it would be preferable to transfer the role of Scottish Settlements to the GB BSCCo for the run-off of SAS and anticipate that a proposed modification to the SAS will be brought forward to effect this.

- 4.11. SESL is currently defined in the SAS as the body performing the role and functions of Scottish Settlements. Ofgem/DTI conclude below that it is appropriate that the SAS continues to exist as a stand-alone document for the SAS run-off period. Therefore, if SAS parties consider it is appropriate for GB BSCCo is to take on the role of Scottish Settlements for SAS run-off, an appropriate SAS modification proposal would have to be raised and approved by the Authority¹², and SESL would have to resign or be removed from its appointment as Scottish Settlements¹³.

Vehicle for SAS run-off

- 4.12. Respondents to the December 2002 SAS consultation were asked to consider if the SAS should be incorporated as a supplement to the GB BSC for run-off, or if it should continue to exist as a stand-alone document, appropriately modified, for the run-off period. The December document noted that incorporating the provisions of the SAS as a supplement to the GB BSC would appear to be consistent to the approach under the New Electricity Trading Arrangements (NETA), when certain provisions of the Pooling and Settlement Agreement (PSA) remained in force via the 'Pool Supplement' to the BSC to facilitate run-off. Alternatively, leaving the SAS as a stand-alone document would minimise the impact on the GB BSC.
- 4.13. Eight parties provided a response on this issue.
- 4.14. Six of the eight respondents supported the option of the SAS continuing as a stand-alone document for run-off. Several reasons were provided in support of this approach. Two respondents considered that retaining the SAS as a stand-alone document is simpler than incorporating the SAS into the GB BSC, particularly since any SAS supplement to the GB BSC would be likely to comprise the majority of the SAS. Another respondent noted that the effort required by both settlement bodies and the market in drafting and reviewing the potential SAS supplement to the GB BSC, would detract from the transition to

¹² It is reasonable to assume that such a modification could only receive approval from the Authority following Royal Assent of the E(TT) Bill, which will provide for the establishment of a GB BSC and therefore the appointment of a GB BSCCo.

¹³ The appointment of Scottish Settlements may be terminated either by resignation or removal, in accordance with clauses 10, 11 and 12 of the SAS.

enduring arrangements. Other reasons provided in support of maintaining the SAS as a stand-alone document were that the SAS and the GB BSC are not as strongly linked as were the PSA and the BSC, that there is little merit in incorporating the SAS into the GB BSC given that the SAS run-off period is likely to be relatively short and that maintaining the SAS as a stand-alone document helps keep SAS run-off costs separate and to a minimum. It was also noted by a number of respondents that maintaining the SAS as a stand-alone document avoids potential issues regarding governance and jurisdiction for SAS run-off.

- 4.15. Two respondents stated a preference for relevant provisions of the SAS to be carried forward as a supplement to the GB BSC. One of these considered that this would be more efficient than maintaining the SAS as a stand-alone document. The other respondent supported incorporating the SAS as a supplement to the GB BSC on the grounds of consistency with PSA run-off under NETA.

Ofgem/DTI's View

- 4.16. Ofgem/DTI support the view of the majority of respondents on this issue, ie that the SAS should continue to exist as a stand-alone document, appropriately modified, for run off.
- 4.17. Ofgem/DTI noted in the December 2002 SAS consultation that incorporating the SAS as a supplement to the GB BSC would appear to be consistent with PSA run-off under NETA. However, Ofgem/DTI concur with the views of several respondents who noted that PSA run-off is not directly comparable to SAS run-off for BETTA. SAS run-off differs in that:
- ◆ under NETA, the geographical extent of the arrangements did not change and governing law and jurisdiction remained the same
 - ◆ the SAS is governed by Scots law with exclusive jurisdiction to Scottish courts. Potentially, therefore, the GB BSC would have a schedule subject to different laws and jurisdictions to the rest of the document
 - ◆ only remnants of the PSA were appended to the BSC, whereas for BETTA very little of the SAS could be excised. Therefore almost the entire agreement would have to form the schedule to the GB BSC, and

- ◆ considerable resource would be required in establishing the links between SAS governance and that of the GB BSC.
- 4.18. None of these issues is insurmountable. However it is likely that significant time and resource would be required to resolve the problems of incorporating the SAS into the GB BSC, with little obvious benefit.
- 4.19. One of the main reasons why the PSA was incorporated into the BSC for Pool run-off, was to enable BSC governance to cover the Pool systems. This was considered necessary as the same systems were being used to support Stage 2 reconciliation under the PSA and Supplier Volume Allocation (SVA) under the BSC. However, the current Scottish settlement systems, the Central Allocation System (CAS), will not endure beyond SAS run-off. Ofgem/DTI anticipate that the existing settlement systems in England and Wales will be extended to cover Scotland for the enduring settlement arrangements under BETTA. There is therefore no requirement for GB BSC governance to cover CAS. CAS can be administered separately by GB BSCCo under SAS governance arrangements, until the end of the run-off period when there will no longer be a requirement either for CAS or SAS.
- 4.20. Ofgem/DTI conclude that for the purposes of run-off, the SAS should continue to exist as a stand-alone document. This conclusion is referred to in the GB BSC consultation document which is to be published shortly. Ofgem/DTI recognise that certain changes may be required to a stand alone SAS to facilitate run-off, and anticipate that an appropriate SAS modification proposals will be brought forward to effect this.

Extent of reconciliation

- 4.21. Views were sought on the appropriate duration of the reconciliation process relating to energy initially allocated prior to BETTA go-live for the purposes of SAS run-off. The calculation and allocation of metered volumes under the SAS is a process that takes a period of 14 months after the trading day in question to complete. Respondents were asked to consider if it is appropriate to curtail reconciliation runs after the third reconciliation (R3), eight months after the settlement day concerned, in order to reduce the cost of run-off to the market, or if reconciliation should continue to the final reconciliation (RF), 14 months after

the settlement day for the SAS run-off period. Eight respondents commented on this issue.

- 4.22. Three respondents were opposed to curtailing reconciliation at R3, and considered that the full 14-month settlement cycle should be completed. All three were concerned that the costs associated with early curtailment, for example potential costs arising as a result of errors in allocation or costs associated with changes to settlement systems and parties' systems, may outweigh any benefits or cost reductions associated with curtailing at R3.
- 4.23. One respondent considered that it is sensible to explore any opportunity of curtailing SAS run-off, such as the option of reducing the reconciliation period. However, this respondent noted that the real net costs of curtailing reconciliation at R3 need to be established before a final decision is reached.
- 4.24. Four respondents supported curtailing reconciliation at R3. It was regarded as the most pragmatic approach, in view of the potential reduction in costs to the market as a result of curtailment at R3.
- 4.25. However, the potential for settlement being based on less accurate data at R3, and the possibility of an increase in disputes as a result, was recognised by respondents in favour of curtailing at R3. One respondent considered that further impact analysis should be carried out to assess the settlement impact of not settling on RF data. Another respondent noted that curtailing reconciliation at R3 would have to be linked to strong agent performance to be monitored by the SAS Performance Assurance and Accreditation Panel, in order to ensure that the R3 data used for settlement was as accurate as possible. One other respondent that supported curtailing reconciliation at R3 considered that no final judgement should be made until further analysis of the costs of curtailing reconciliation are carried out.

Ofgem/DTI's view

- 4.26. Ofgem/DTI note the arguments both for and against curtailing reconciliation at R3 for SAS run-off. SESL has indicated that reducing the reconciliation period would reduce the costs of SAS run-off to the market, and require only a minor SAS modification and no CAS modification. However, Ofgem/DTI consider the

concerns with regard to accuracy of data to be pertinent, particularly in the event that this may increase disputes under the SAS.

- 4.27. Any SAS party may choose to propose a modification to the SAS such that reconciliation is curtailed at R3. Such a modification would be progressed according to the existing SAS modification procedure. This procedure makes provision for the support or concerns of any SAS parties to be raised and considered by the SAS Modification Panel, before the Panel submits its recommendation to the Authority with regard to the proposal. Ofgem/DTI therefore consider that this issue can be further examined and addressed through the bringing forward of an appropriate SAS modification, should any SAS party wish to do so. In the evaluation of any such modification proposal Ofgem would expect to see some analysis to support the costs and benefits associated with curtailment of SAS reconciliation processes at R3.

Disputes

- 4.28. The SAS currently sets no time limit on raising a dispute post-final reconciliation. Views were sought on a proposal to introduce a time limit for raising and resolving disputes under the SAS in order that it may be possible for the provisions of the SAS to cease to have effect following the run-off period, and to avoid any ongoing cost of maintaining a SAS disputes resolution capability.
- 4.29. Eight respondents commented on the disputes process for run-off. All respondents supported the introduction of a time limit on disputes under the SAS.
- 4.30. Five respondents supported SESL's suggestion of introducing a period of two months to raise disputes post RF, with a further period of two months to resolve disputes. Two respondents considered that the disputes process should be consistent with that in the BSC. One respondent noted that the length of the disputes period depends on any decision taken in respect of curtailing reconciliation, and the curtailment of reconciliation should be linked to an extended disputes period.

Ofgem/DTI's view

- 4.31. Ofgem/DTI note the broad support from respondents for time limiting the SAS disputes process. Ofgem/DTI note that introducing a time limit will better facilitate a time limited SAS run-off period under BETTA. Ofgem/DTI also note that views on the introduction of an appropriate time limit for disputes might be affected by whether SAS reconciliation is curtailed at R3.
- 4.32. Ofgem/DTI conclude that a time limit to the disputes period under SAS should be introduced as a part of the changes to ready the SAS for run-off. However, Ofgem/DTI believe that the period of time proposed should take account of other changes that may be proposed for the run-off SAS.
- 4.33. The introduction of a disputes time limit is dependent on an appropriate SAS modification being proposed and subsequently being approved by the Authority.
- 4.34. Any SAS party may choose to propose a modification to the SAS such that the disputes period is time limited. Such a modification proposal would be progressed according to the existing SAS modification procedure. This procedure makes provision for the support or concerns of any SAS parties to be raised and considered by the SAS Modification Panel, before the Panel submits its recommendation to the Authority with regard to the proposal. The modification could only be implemented following approval by the Authority.

Cost recovery

- 4.35. Ofgem/DTI sought views in the December 2002 SAS consultation on the recovery of outstanding 1998 development costs owed to Scottish Power UK plc (SP) and Scottish and Southern Energy plc (SSE) at BETTA go-live, and on the recovery of the ongoing costs of administering Scottish Settlements for run-off. Eight respondents commented on these issues.
- 4.36. Following the publication of the December 2002 SAS consultation, Ofgem/DTI issued a consultation in April 2003 on the recovery of costs related to the implementation of BETTA (the April 2003 cost recovery consultation)¹⁴. That

¹⁴ 'Recovery of costs under BETTA: An Ofgem/DTI consultation', Ofgem/DTI, April 2003, #23/03
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consultation seeks views on a number of issues related to the recovery of the implementation costs incurred as a result of the introduction of GB-wide electricity trading and transmission arrangements. In relation to outstanding 1998 costs and ongoing SAS operating costs, the April 2003 cost recovery consultation proposes that:

- ◆ the unrecovered 1998 development costs owed to SP and SSE at BETTA go-live will continue to be recovered from those parties supplying customers in Scotland, and
- ◆ the operational costs associated with SAS run-off will be recovered as an element of GB BSC charges, from all parties in GB post go-live.

4.37. The eight responses to the cost recovery issues raised in the December 2002 SAS consultation will be included in the Ofgem/DTI conclusions paper that will follow the April 2003 consultation on the recovery of costs related to the implementation of BETTA.

Termination of SAS

4.38. Seven respondents commented on the issue of whether provision should be made for the SAS to terminate at the end of the run-off period, or whether it is more appropriate for the provisions of the agreement simply to cease to have effect post run-off.

4.39. Four respondents considered that the SAS should terminate at the end of run-off. Two of these four respondents noted that this provided clarity and one considered it more efficient than relying on the resignation of all parties.

4.40. One respondent recognised that it is not necessary to provide explicitly for the SAS to terminate, but noted that the SAS could be modified to allow the termination date to be established up front, thus providing certainty with regard to the end of the Scottish trading arrangements under the SAS.

4.41. Two respondents considered that it is not necessary to provide for SAS termination. One considered that as long as all parties resign and the provisions of the SAS are redundant, further action is needless. The other respondent noted that there is no need to terminate the SAS. It can simply be left to whither and

die, with parties choosing to resign once they are no longer obliged by licence to comply with the agreement.

Ofgem/DTI's view

- 4.42. Ofgem/DTI note that it is not necessary for the implementation of BETTA for the SAS to terminate. Ofgem/DTI would not therefore seek to use the powers provided by the E(TT) Act to provide for the termination of the SAS at the end of the run-off period.
- 4.43. However, Ofgem/DTI also recognise that a definite termination date provides clarity with regard to the end of Scottish Settlements, and notes that the SAS provides for its termination by the agreement in writing of all parties and the consent of the Authority¹⁵. Ofgem/DTI also note that a modification to the SAS could establish a termination date in advance of the event.
- 4.44. Insofar as they consider it appropriate, any SAS party may choose to propose such a modification, according to the existing SAS modification procedure. Such a modification could only be implemented with the approval of the Authority.

Licence Implications

- 4.45. It is a standard condition of supply and generation licences to become a party to and comply with the SAS, of transmission and distribution licences to comply with the SAS, and it is a licence obligation on SPDL and SHEPDL¹⁶ to provide the SAS.
- 4.46. The December 2002 SAS consultation noted that it will not be possible to remove these licence obligations at BETTA go-live, as during the run-off period it will be necessary for certain provisions of the SAS to remain in effect and for licensees to be a party to and comply with the SAS. However, Ofgem/DTI consider that it will be necessary to amend the existing licence obligations to take account of the SAS run-off period. Views were sought in the December

¹⁵ Part IX, clause 128.2.

¹⁶ Special condition H (Arrangements relating to supplies to premises within the licensee's distribution services area) and special condition I (the Settlement Agreement for Scotland).

2002 SAS consultation on appropriate amendments to the standard electricity licences and to the licences of SDPL and SHEPDL to provide for SAS run-off. Five respondents commented on this issue.

- 4.47. Four respondents commented that it is reasonable to amend these conditions as necessary, to provide for run-off.
- 4.48. One respondent considered that there is no need to amend the standard licence conditions, as these can simply be removed at the end of run-off. This respondent considered that the special conditions on SPDL and SHEPDL should make clear that there would be no continuing obligation on SPDL and SHEPDL beyond BETTA go-live to have in place separate Scottish trading arrangements. This respondent also noted that in transferring the obligations to operate Scottish arrangements to the GB BSCCo, there will need to be a backing-off agreement with GB BSCCo to ensure fulfilment of SPDL and SHEPDL's licence obligations.

Ofgem/DTI's view

- 4.49. Ofgem/DTI conclude that, for clarity, the standard licence conditions requiring parties to be a party to and/or comply with the SAS should be amended to require compliance for run-off. This is consistent with the treatment of the licence obligations with regard to PSA run-off for NETA and avoids potential confusion to new market entrants. At the end of run-off, the Authority can propose these conditions will be removed from all licences.
- 4.50. Ofgem/DTI also consider that the licences of SPDL and SHEPDL should reflect the fact that the obligations set out in special conditions H and I will be limited to providing supply and settlement arrangements only insofar as this is required for the purposes of run-off.
- 4.51. Ofgem/DTI will publish two consultations shortly which will propose changes to transmission, and separately generation, supply and distribution, licence conditions that are required for the transition to BETTA. The detail of the changes required to the standard licence conditions to comply with and/or be a party to the SAS, and to the special conditions on SPDL and SHEPDL, will be

considered in those consultations. Such changes will be informed by this conclusions document.

- 4.52. As noted above, one respondent considered that in transferring the obligations to operate Scottish arrangements to the GB BSCCo, there will need to be a backing-off agreement with GB BSCCo to ensure fulfilment of SPDL and SHEPDL's licence obligations. Ofgem/DTI are considering whether such an arrangement is required and if so, what the implications of it might be.

Other issues

- 4.53. The following issues were included within the responses of parties to the December 2002 SAS consultation. Ofgem/DTI consider the issues set out below to be outwith the scope of the consultation of the impact of BETTA on the SAS.

Generation Security Standard

- 4.54. One respondent considered that the requirement in the standard electricity supply licence to fulfil a generation security standard¹⁷ should fall away on BETTA go-live.
- 4.55. Ofgem/DTI consider that this issue is not within the scope of the consultation of the impact of BETTA on the SAS. This will be addressed in the forthcoming Ofgem/DTI consultation on changes required to the generation, supply and distribution licences for BETTA.

SESL debt and unrecoverable 1998 costs

- 4.56. One respondent noted that debt incurred by SESL as a result of the difference in the interest rate applied by SP and SSE in relation to their loans to SESL, and the rate at which SESL can recover its costs from the market, should be recovered on a GB basis. This respondent also raised the question of recovery of 1998 development costs which are over and above the recoverable 1998 development costs discussed earlier in this chapter.

¹⁷ Standard supply licence condition 8B.
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- 4.57. This is not within the scope of this consultation. Ofgem is corresponding separately with SP and SSE on this issue.

System Data Provision (SDP)

- 4.58. One respondent noted that under BETTA the England and Wales Central Data Collection (CDC) system may possibly be extended to Scotland, replacing the current Scottish equivalent, SDP. The respondent was concerned that this would require the transfer of appropriate meter technical details and aggregation rules from SDP to CDCA, which carries a risk of error. The respondent proposed that an alternative may be to continue to use key elements of the SDP service within the combined operational procedures for the extended market.
- 4.59. Ofgem/DTI consider this to be a matter for GB BSCCo to consider, when establishing enduring settlement arrangements under the GB BSC. This is not an issue which relates directly to the scope of this consultation on the impact of BETTA on the SAS.

Profiles

- 4.60. One respondent considered it imperative that Scottish profiles continue to be used under GB arrangements.
- 4.61. This issue is not within the scope of this consultation. It is considered in the Ofgem/DTI conclusions paper and consultation on a draft legal text of a BSC to apply throughout GB to be published shortly.

Process for change

- 4.62. One respondent raised concerns about the approach to the creation of all the GB documents and in particular how change will be managed. This respondent also noted that it would object to any significant and costly changes to the SAS and systems being approved from now until the implementation of BETTA.
- 4.63. With regard to change management and the creation of GB documents, Ofgem wrote to the Chairs of the CUSC Panel and the BSC Panel in January 2003 on the consultation process for amendment proposals to the CUSC and modification

proposals to the BSC prior to and during the course of legislation to introduce BETTA. Copies of these letters are available from Ofgem's website¹⁸. The letters state that Ofgem will consult on a GB basis on all amendment and modification proposals to the CUSC and BSC (with the possible exception of urgent amendment and modification proposals) from the time when the E(TT) Bill receives its Second Reading in either the House of Lords or the House of Commons, depending on the House into which the Bill is introduced.

- 4.64. With regard to the question of the approval of significant SAS or system changes in advance of BETTA, Ofgem does not consider it appropriate to comment on potential changes that have not yet been proposed. Any SAS or system changes sent to the Authority for approval in advance of BETTA, will be approved or rejected by the Authority after such proposals have been given appropriate consideration.

¹⁸ http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/1355_betta_cusc_letter.pdf and http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/3224_betta_cusc.pdf.

5. Conclusions

5.1. Chapter four discusses respondents' views on the issues raised in the December 2002 SAS consultation. Ofgem/DTI have taken account of these views in their consideration of the issues related to facilitation of SAS run-off for BETTA.

5.2. Ofgem/DTI's views are set out in more detail in chapter four. In relation to the issues to be addressed, Ofgem/DTI conclude that:

- ◆ GB BSCCo should administer Scottish Settlements for the run-off period, although this is dependent upon an appropriate SAS modification being proposed and that modification being approved by the Authority
- ◆ the SAS should exist as a stand-alone document for the run-off period, as opposed to being incorporated into the GB BSC
- ◆ there was a mixed response with regard to the question of curtailing reconciliation at R3 for run-off, and curtailment is dependent on an appropriate SAS modification being proposed and that modification being approved by the Authority
- ◆ the disputes process under the run-off SAS should be time limited, reflecting the view of the majority of respondents. Ofgem/DTI also note that views on the appropriate length of time for such a limit for disputes might be affected by whether SAS reconciliation is curtailed at R3. The introduction of such a time limit is dependent on an appropriate SAS modification being proposed and that modification being approved by the Authority
- ◆ recovery of 1998 costs and ongoing operating costs for SAS run-off is considered in the April 2003 cost recovery consultation, which sets out proposals in relation to recovery of these costs
- ◆ it is not necessary for BETTA for the termination of the SAS to be provided for, but Ofgem/DTI recognise that any SAS party may choose to propose a SAS modification to provide for the termination of the agreement

- ◆ the standard licence conditions relating to the SAS should be amended to require compliance only for run-off, and
- ◆ the special licence conditions in the licences of SPDL and SHEPDL should be amended to reflect the fact that the obligations on these licensees with regard to Scottish settlements and supply arrangements for Scotland exist only for the purposes of run-off.

Appendix 1 List of Respondents

British Energy

Centrica

ELEXON

Grangemouth CHP

Innogy

Powergen

Scottish Electricity Settlements Limited

Scottish Power

Scottish & Southern Energy