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Our Reference:

Your Reference:

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Dear David,

## **The Balancing and Settlement Code under BETTA – Ofgem Conclusions**

Whilst Ofgem have issued their conclusions document about the BSC under BETTA and are not generally seeking further views, there are a number of issues we believe are still unresolved or require further clarification.

### **Treatment of small generators**

The small generators paper proposes that the CUSC be amended such that small transmission connected generators would not have to be a BSC Party. In addition, it suggested that since the exemptible generator can choose to declare its status as either Production or Consumption, such generators will be able to accrue e.g. BSUoS benefits. We welcome Ofgem's recognition of this issue. However, whilst the ability to choose the P/C status is already a feature of the existing BSC, we are unaware of any trading benefits that would accrue to the generator from choosing to declare its status as Consumption.

We therefore believe that to receive BSUoS benefits, a change would need to be made to the BSC to allow the generator to create a Trading Unit along with a larger Supplier Trading Unit. This would allow the generator to be exporting whilst the overall Trading Unit was off-taking and so allow a BSUoS benefit to the generator. In our previous response on the BSC, we provided drafting that would allow the creation of Trading Units with these exemptible transmission connected generation. We have again included as an extract, the BSC changes for Trading Units as an appendix to this response. Given Ofgem's apparent intention that these trading benefits should accrue to these transmission connected exemptible generators, we would urge that these changes are adopted to put effect to Ofgem's intention.

We also believe that these changes should be made to the designated GB BSC, rather than through the E&W BSC modification process because it is a BETTA issue. In particular, the position of trading benefits is particularly relevant to 132kV generators, which is an issue unique to Scotland.

## **BM Unit Representation (Cascade Hydro)**

We note that Elexon have published their report on non-standard BM Units on their website, and assume that it has been presented to Ofgem. We would like to reiterate our stance, expressed through the consultation, that if cascade hydros cannot operate in groups, then we will not be able to fulfil our statutory obligations for environmental and water management and at the same time provide flexibility to the GBSO. The issue is not simply one of managing a commercial risk through the Bid/Offer structure. Our statutory obligations could result in criminal prosecution. The existing hydros operate and provide flexibility under the existing Scottish Grid and provide flexible competition into the existing E&W market across the Interconnector. Should we be forced to restrict this flexibility under BETTA, then this can only result in a deterioration of our existing trading position and of competition in the market.

As a core participant in Scotland, the correct registration of these BMUs will have a significant impact on the design and build of systems, registration and testing & trialling to be undertaken before Go-live. In addition, given NGC's requirements for changes to the Grid Code and CUSC, and perhaps even changes to the BSC itself to put this in place, we would urge Ofgem to formalise their conclusions on these non-standard BM Units as soon as possible. For the avoidance of doubt, if SSE has to cater for more BMUs than indicated in the Elexon report, we will not be able to deliver BETTA compliance by 1<sup>st</sup> April 2005.

## **Shetland**

Whilst we do not disagree with Ofgem's conclusion that the Shetland Isles should be included within the scope of the GB BSC arrangements, given our questions in the previous consultation, we are still not clear how operationally and financially this will be carried out.

Ofgem have commented in 4.6, that the GBSO "would have sufficient information from BM Unit registrants and about the configuration of the GB transmission system to be able to make proper allowance for the lack of connection between the mainland and the Shetland Islands." There was no intention to suggest that the GBSO would not be able to operate the system, through a lack of information or full view of the GB system. Rather, the question is how the costs of minimising the operation of the whole system, including Shetland, can best be carried out; how the DNO will be involved in that; and which participants in GB will pay the costs of balancing Shetland.

As we have stated previously, we believe that the GBSO could carry out its obligations to maintain frequency through balancing the system on Shetland by sub-contracting the operational aspects locally to the DNO, but with the contractual structure put in place by the GBSO with local generation. In this way the total cost (both on the mainland and the islands) of frequency control and balancing on Shetland remains with the GBSO to be recovered across GB, but operationally the control takes place at a local level. However, if the DNO were to take any responsibility from the GBSO for balancing the islands, then the DNO would need to be able to recover costs associated with providing this service through the distribution price control. We have written separately to Steve Smith and David Gray on this latter issue.

## **Moyle Interconnector**

From the previous consultation, we welcomed the fact that Ofgem were “taking steps to bring the necessary parties together for discussions” on continuing arrangements for trading across the Moyle. We put ourselves forward that we would be pleased to take part in any planned workshops/discussions. We are therefore disappointed that we have yet to see any movement or be involved in any discussions. We would therefore request again that we are included in any discussions and would ask Ofgem to raise the issue with Ofreg, SONI and Moyle Interconnector Limited.

## **BSCCo**

Whilst we are content that BSCCo should become the GB BSCCo, as expressed previously we were disappointed that Ofgem have changed their mind and that the GB BSCCo would no longer necessarily undertake the role of Scottish Settlements for the SAS run-off. Whilst it is helpful that a Work Package has now been raised for Elexon to assess options for SAS run-off, our concern is that this process will not be concluded in time for an efficient continuation of settlement of the Scottish market through to the end of run-off.

## **Cost Recovery**

As noted above, the Work Package that Elexon are working on should assist in coming to a conclusion on the most efficient charge out mechanisms for SAS and E&W run-off costs, outstanding Scottish 1998 Capex costs and other liabilities associated with the introduction of BETTA and the transfer of the enduring settlement function to GB BSCCo. The outcome of Elexon’s work should allow the shareholder companies to put forward their proposals for the SAS run-off, which will include the most efficient mechanism(s) for charging out recoverable costs.

The issue of the application of TUPE (and associated liabilities), to the close down of the Scottish settlement operation has been raised again during discussions with Ofgem in March this year. We believe that a) these liabilities could only be considered as an efficiently incurred recoverable cost under BETTA, and b) that they could only be considered as a cost recoverable from the GB market as the liabilities only arise through the introduction of the BETTA arrangements through primary legislation. We would appreciate Ofgem’s views on this as a matter of urgency, such that arrangements can be put in place for an efficient continuation of settlement of the Scottish market through to the end of run-off.

## **Settlement Metering**

The Elexon report and recommendations on Scottish metering dispensations was published in December 2003. Given the early efforts that were gone into producing the report by that date, it is disappointing that we have still to see Ofgem’s consultation on Ofgem’s view.

## **E&W BSC Modifications**

We are content that no GB issues arise from the inclusion of modifications P141, P133 and P127 into the GB BSC.

Yours sincerely

Rob McDonald  
Director of Regulation

## **Appendix – Trading Unit changes for transmission connected exemptible generation**

Ofgem have proposed that small generators would not need to be parties to the BSC, in the same way that the CUSC does not oblige Non-Embedded Customers to join the BSC. This is a welcome conclusion and removes some of the administrative burden from small generators, even though it places the existing obligations onto the Supplier. However we do not believe the existing BSC rules allow these transmission connected exemptible generators to receive the envisaged benefits, e.g. BSUoS benefits, through simply being able to declare their status as Consumption. Instead, we believe that as a minimum, the generator needs to be able to create the equivalent of a Class 4 Trading Unit, and that changes to the BSC would be required to do this. We have previously proposed changes that would do this and these follow.

Presently in the BSC, Exempt Export BM Units in GSP Groups are able to form Class 4 Trading Units with other Trading Units in the same GSP Group. This allows them to participate in the Balancing Mechanism (BM) and net off e.g. BSUoS. However, the formation of these Trading Units would not be allowed for Scottish 132kV connected Exempt Export BM Units, as they are not registered in a GSP Group.

Therefore, the first step would be to associate the Exempt Export BM Unit with a particular GSP Group. This can be achieved by adding a GSP Group identifier to the 132kV generator MSID. Indeed this is already in place in the Scottish areas, and in E&W, embedded licence exempt generators (ELEGs) can already register themselves in CMRS rather than SMRS, taking with them an associated GSP Group identifier. The association would be made by its physical location, and could be made through its associated Import meter (i.e. a back-door supply registered in SMRS), or through a mapping statement (e.g. that used for zonal losses). The export meters would then be registered in SMRS against its associated Supplier's GSP Group.

The second would be to change the BSC to recognise the association. This would mean a change to section K 4.7.2.

“Subject to paragraph 4.7.3:

(a) each Supplier BM Unit shall automatically belong to the Base Trading Unit for the relevant GSP Group; and

(b) each Exempt Export BM Unit (which is not a Supplier BM Unit) in, *or associated with*, a GSP Group shall automatically belong to the Base Trading Unit for that GSP Group.”

The aggregation rules would be written such that through Settlement, the Trading Unit would provide the netting-off of BSUoS for the generator as intended.