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Dear Colleague

BETTA Go-live and contingency planning

Background

In August/September 2004, the legal framework for the British Electricity Trading and Transmission Arrangements (BETTA) was introduced. Certain aspects of this legal framework are now in effect, and other aspects will take effect on and from the BETTA go-live date. It is for the Secretary of State to take the decision as to when BETTA should go live. The currently anticipated BETTA go-live date is 1 April 2005 and it is also anticipated that the Secretary of State will formally indicate this as the BETTA go-live date in a direction in early March 2005.

Whilst progress to date suggests that the BETTA is still on track for implementation on 1st April 2005, it is anticipated that this will be known with substantial additional certainty at the time the Secretary of State makes the decision as to the BETTA go-live date. It is expected that this decision will be taken in light of advice from a number of sources, including from the transmission licensees, Elexon and the Authority.

Contingency issues

Against the background of the expected process described above, Ofgem/DTI have been giving further consideration as to how various events that may arise at any time prior to the BETTA go-live date should be dealt with. In particular, Ofgem/DTI have considered what might happen if, the Secretary of State, upon the advice of the transmission licensees, ELEXON and the Authority, decides in early March that the BETTA go-live date should be 1 April 2005 and subsequently certain events occur which might make it necessary subsequently to defer the go-live date.

It is emphasised that Ofgem/DTI believe that the likelihood of these circumstances occurring is very low indeed. It would only happen if the Secretary of State believed that it was not reasonably practicable for BETTA to go live on 1 April. However, despite this, Ofgem/DTI also believe that it is prudent to plan for such eventualities. Consideration of this issue may be split into two separate questions. First, what might happen to require any such deferral and second, what would be the consequences of any such deferral.

Events that may require deferral

Insofar as the first of these questions is concerned, Ofgem/DTI note that contingency arrangements are in place to accommodate a variety of events under the existing trading arrangements in Scotland and in England and Wales, and that this is also the case under BETTA. For example, Section G of the Balancing and Settlement Code sets out changes to the market rules in a number of different scenarios. Similarly the transmission licensees have in place plans to deal with the loss of certain transmission-related facilities which are critical to the operation of the transmission system, furthermore other arrangements exist to deal with matters such as a supplier failure etc.

In general, Ofgem/DTI are of the view that in most cases if, following a decision that BETTA shall take effect on and from a particular date, events of the type discussed above occur, it would be likely to be most appropriate that BETTA still takes effect on and from that date and to address the consequences of such events under the enduring BETTA arrangements rather than to delay BETTA, address the consequences of the events under the existing pre BETTA arrangements and then subsequently to implement BETTA at a later date. This is because deferral of the BETTA go-live date may introduce additional disruption because continuation of the pre BETTA arrangements would be unexpected.

Despite this, it is still possible that the circumstances of a particular event may mean that it is necessary for the Secretary of State subsequently to decide to defer the BETTA go-live date and consequently, despite the very low probability, Ofgem/DTI believe that it is prudent to consider what would be the consequences of this on the wholesale market.

Consequences of deferral

Insofar as the consequences of any such a deferral are concerned, Ofgem/DTI are particularly interested in receiving views as to the impact of a deferral of the BETTA go-live date from 1 April 2005 on the wholesale market arrangements in Scotland and in England and Wales. Generally, Ofgem/DTI are of the view that if sufficient notice were given of the deferral, then the practical impact on the operation of the markets would be relatively limited. Market participants would, for example, have time to adjust their commercial positions in light of the new information. Therefore, whilst recognising that any deferral would be highly undesirable, (for example, Ofgem/DTI understand that there may in certain circumstances be a disruptive effect on some of the settlement processes that would have to be subsequently corrected), Ofgem/DTI believe that it should be possible for the existing wholesale market arrangements to continue to function, without intervention, in a reasonable manner without undue commercial impact on participants.

If, however, an event occurs that does mean that it is necessary for the BETTA go-live date to be deferred to a date later than 1 April 2005 at short notice, Ofgem/DTI are of the view that, given the ex-ante contract notification arrangements in place in England and Wales (and proposed for the GB wholesale market under BETTA) it may be necessary for some intervention to take place. This is because, in the run-up to the BETTA go-live date, it may reasonably be expected that parties across GB expecting to trade under the GB arrangements would have struck and notified bilateral contracts to reflect their anticipated GB market position. A deferral of the BETTA go-live date to a date later than 1st April 2005 at short notice may not give participants an adequate opportunity to trade out of their prior GB position and to re-notify contract positions appropriate for previously unanticipated extended operation under the separate market arrangement. This would be expected to affect BSC parties in general, i.e. including those with imports and exports in England and Wales as well as in Scotland.

Ofgem/DTI have, with the help of Elexon, considered a number of potential solutions to this issue which are aimed at minimising the adverse consequences of this very unlikely scenario

on the wholesale market arrangements. The two most viable solutions to this issue are considered by Ofgem/DTI to be:

- i) allowing BSC parties to revise their notified contract positions on an ex-post basis for some period of time (i.e. to adopt arrangements akin to those that may be used in the event of an ECVA failure); and
- ii) invoking the arrangements within Section G of the BSC to adopt a single imbalance price for some period of time (the proposal is that the provisions of BSC Section G 4.2.1 to 4.2.3 would be capable of being brought into effect, and consequently also the provisions of BSC Section T1.6.)¹.

Of these two solutions, Ofgem/DTI favour the second. This is because Ofgem/DTI believe that the second option would best make those who were in energy imbalance as a consequence of the short-notified deferral relatively financially neutral to the deferral. In the case of the former, whether or not new contracts could be struck would be likely to most depend upon the prevailing energy imbalance prices, and not upon considerations of submitting contractual positions consistent with the BSC parties' physical positions in England and Wales.

Under the single imbalance price option, whilst parties would still be in imbalance, these imbalances would be settled at a "market price" and consequently the financial consequences of the imbalances would be likely to be minimised.

It is once again noted that Ofgem/DTI believe that the likelihood of these arrangements being used is very low and that they are only being contemplated for reasons of prudence. They would only be necessary if:

- i) the Secretary of State had previously designated that BETTA would have effect from a particular date
- ii) despite the fact that in most instances it may be possible to rely upon the enduring contingency provisions, an event occurs that means the Secretary of State believes it is no longer reasonably practical for BETTA to go live on the specified date
- iii) the notification to defer the BETTA go-live date is given at short notice, and
- iv) the event triggering the need for deferral does not itself invoke other contingency provisions that mean that the adoption of a single imbalance price is inappropriate.

Finally, Ofgem/DTI are of the view that given the different nature of the wholesale electricity market arrangements in Scotland, it would not be necessary for any similar intervention to be made even if the notice of the deferral were given at short notice.

Timetable and views invited

Views are invited on the issues raised in this letter. However, Ofgem/DTI would particularly welcome views on:

- i) whether it is appropriate to make provisions to amend the BSC in the event that a short-notice deferral of any decision to go-live at a particular date were made

¹ Ofgem/DTI note that additional BSC changes would be needed in order to permit these provisions to be invoked in these circumstances.

- ii) if so, whether the “single imbalance price” option identified above would be the most appropriate way forward
- iii) if so, then what would be the minimum notice period, longer than which it would be unnecessary to adopt the single imbalance price option (Ofgem/DTI’s initial view on this matter is around three days)
- iv) for what duration any single imbalance price option should have effect (Ofgem/DTI’s initial view on this matter is again around three days), and
- v) whether or not equivalent intervention in the Scottish market arrangements is necessary.

Responses will be published on the Ofgem website and held electronically in Ofgem’s Research and Information Centre, unless there is good reason why it must remain confidential. Respondents are asked to put any confidential material in appendices, such that the main body of the response can still be published. All responses will be copied to the DTI.

Responses, marked “BETTA Contingency Arrangements”, should be sent by 25 February 2005. Ofgem would prefer responses to be sent by email to; BETTA.consultationresponse@ofgem.gov.uk, but responses can also be posted to:

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