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Dear David,

BETTA Go-live and Contingency Planning

Thank you for the opportunity to comment on the above proposals. E.ON UK believes that the proposals would be sufficient to address any imbalances caused in England & Wales, but that a small change to the arrangements in Scotland is also necessary.

We appreciate that these proposals are being made to cover a very unlikely event and welcome Ofgem's commitment to push ahead with the introduction of BETTA in the vast majority of circumstances. We continue to believe that intervention in the market arrangements should be minimised even when significant events occur. However, we accept that, should it be necessary to delay the implementation of BETTA subsequent to the Secretary of State's direction of the go-live date, a degree of action will need to be taken to ensure that participants are not exposed to unacceptable levels of risk.

We feel that enough liquidity exists in the England and Wales market to allow participants to trade out any imbalances caused by such an event relatively quickly. We therefore agree that the three days notice proposed should be sufficient for parties to correct their positions. However, given that BETTA go-live is planned to be just after Easter, it would be preferable to ensure that this is three working days. Indeed, how exactly such a decision would be communicated needs to be considered further.

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For example, to give a full three working days notice the decision would have to be communicated by 24 March. It would also be helpful if communications regarding any such delay were communicated over the BMRA to ensure that operational staff working over the Easter weekend are notified of all relevant information. Additionally, we agree that a single cash-out price set at a level equivalent to the Market Index Price under the BSC should ensure that participants are not penalised for any England and Wales imbalances that they are unable to correct in the short term.

We do not agree however that the different nature of the market arrangements in Scotland means that no changes are required there. Any imbalance in England and Wales which is a direct result of such a delay to BETTA is likely to be accompanied by an equal and opposite imbalance in Scotland. For example, imagine a company purchases 300MWh of contracts to meet its GB demand which consists of 250MWh in England and Wales and 50MWh in Scotland. If BETTA is delayed the 300MWh will be allocated to the 250MWh of England and Wales demand only, meaning that the supplier will have to either sell the residual 50MWh in the market or be exposed to imbalance prices. In Scotland, there will be 50MWh of demand which will have to be met through the Scottish trading arrangements. It is likely that the price at which this demand is met will be at, or linked to, the Scottish wholesale price, either under a purchase contract with one of the Scottish companies or through the top up arrangements.

The problem with this is that the Scottish wholesale price is scaled to the month-ahead price for the month concerned. This may be significantly different from the price at which power trades are carried out after such a delay, as the market would have been operating under very different circumstances. For instance, in the above example, imagine that the month-ahead price averaged around £20/MWh and, as a result of trading caused by the delay, the price falls to £15/MWh. The supplier would be able to sell its surplus power in England and Wales for £15/MWh, but would have to purchase the additional power required to meet its Scottish demand at around £20/MWh, resulting in a loss of £5/MWh. Of course, it is possible that the party concerned could gain, depending on how prices move. However, the uncertainty represents a risk for participants.

This risk could be removed by linking Scottish wholesale price to a shorter term measure such as the Market Index Price in the BSC or another shorter term index such as the Spectron day ahead index. This would more closely reflect the price at which the equivalent imbalance was traded in England and Wales. Given that the scaling in the Scottish wholesale price occurs on a monthly basis, it would seem sensible to continue to use the relevant shorter term data for the entire month affected (presumably April '05). Thereafter, assuming a continued delay to BETTA, it could revert back to its original derivation.

I hope that the above comments prove helpful. Should you wish to discuss this issue further, please do not hesitate to contact me on the above number.

Yours sincerely

Paul Jones
Trading Arrangements
