

# UNC Workgroup 0500 Minutes EU Capacity Regulations – Capacity Allocation Mechanisms with Congestion Management Procedures

**Tuesday 03 June 2014**

**ENA, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF**

## Attendees

Bob Fletcher (Chair)	(BF)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Andrew Pearce*	(AP)	BP Gas
Anna Shrigley	(AS)	ENI UK
Antony Miller	(AM)	Centrica Storage
Charles Ruffell	(CR)	RWEst
Danielle Stoves	(DS)	Interconnector UK
David McCrone	(DM)	Ofgem
Erika Melen	(EM)	Scotia Gas Networks
Francisco Goncalves*	(FG)	Gazprom
Graham Jack	(GJ)	Centrica
Isabelle-Agnes Magne*	(IM)	GDF Suez
Jeff Chandler	(JC)	SSE
Julie Cox	(JCx)	Energy UK
Kevin Brown	(KB)	Petronas
Kirsten Elliott-Smith	(KES)	Cornwall Energy
Lesley Ramsey	(LR)	National Grid NTS
Malcolm Montgomery	(MM)	National Grid NTS
Matt Hatch	(MH)	National Grid NTS
Nick Wye	(NW)	Waters Wye Associates
Ric Lea	(RL)	Gazprom
Richard Fairholme*	(RF)	E.ON UK
Richard Miller	(RM)	Ofgem

\*via teleconference

Copies of all papers are available at: [www.gasgovernance.co.uk/0500/030614](http://www.gasgovernance.co.uk/0500/030614)

The Workgroup Report is due to be presented at the UNC Modification Panel by 20 November 2014.

## 1.0 Outline of Modification

MM introduced the modification and explained its purpose and intent.

## 2.0 Initial Discussion

MM gave a presentation on the primary processes; secondary processes will be covered in a further meeting.

### *Auction Processes Overview*

A high level overview of the auction processes and the roles/actions of the various parties were illustrated. The interconnector auctions and the related capacity products were detailed, together with an auction calendar relating to standard capacity products.

GJ commented that the terminology used should be consistent and clear to avoid confusion, and that he would prefer not to see 'Interconnector capacity'.

JCx raised a number of questions. Referring to Within Day Capacity, JCx queried the 'effective from/validity period'. MM explained that currently it was one hour, and under CAM it would be 3.5 hours from the end of the auction window. JCx questioned if the other side of the bundled product was being validated. DS confirmed it was. JCx asked was a party told who to nominate to and could you choose to interact with these parties? MM confirmed that for single sides noms it would be the initiating TSO and for each IP it would be clearly indicated who that was. It was noted that there might be different roles at different IPs and shippers will need to be aware of the role each TSO has.

It was questioned what might happen if buying a bundled product half way through a day, and if a TSO questioned an apparent mismatch. DS gave a brief explanation.

It was questioned that there were no implied flow rate checks - will that be a change, ie will PRISMA enforce implied flow rates? MM explained that PRISMA would handle the capacity auctions; it will not handle nominations (noms). PRISMA is just an auction/allocation platform and it is 'blind' to what the TSOs are inputting. TSOs will validate the noms. MM explained the noms processing/matching. DS pointed out that there were still issues under discussion; particular reference was made to the harmonisation of noms from daily to hourly and how this should be treated/validated, and also what to do about Within Day matching – this was a new issue, MM suggested this was best answered in the Balancing/Nominations Workgroup. MH confirmed that the Moffat and BBL discussions were progressing. RM asked how would alignment (UNC and IUK) be communicated? MM believed there might be a joint communication issued; the Workgroup will be kept updated. MH suggested that a joint capacity nominations session might be arranged, perhaps for the next meeting.

### *Joint Booking Platform*

PRISMA is a joint booking platform, and it is thought that all of National Grid NTS' adjacent TSOs will be a part. Under CAM TSOs must offer capacity via the joint web based booking platform, PRISMA. Relevant User data will be exchanged between National Grid NTS and PRISMA for the purposes of completing the processes detailed under Modification 0500, and it was noted that Users would need to complete registration on PRISMA before using PRISMA functionalities.

Interactions between the PRISMA processes and National Grid's processes were illustrated and explained. Shippers will need to interact directly with PRISMA. PRISMA will update results into Gemini, and the place for a User to check its aggregate capacity will always be Gemini. A history will build up over time in PRISMA. The capabilities and functionality of PRISMA was briefly discussed. Bundled surrenders should be withdrawn from both TSOs simultaneously. There was no dedicated functionality to withdraw a surrender on PRISMA; National Grid NTS, not PRISMA, would do validations (and in the case of a bundled surrender then both TSOs will do validations). Questions regarding technical response times were asked; would there be a time lag? MM explained the NTS response times, however other TSOs may need time to approve.

### **Action 0601: PRISMA and TSO technical response times – Check and clarify.**

MH added that, as Gemini is being developed, National Grid NTS intended to bring screenshots to future meetings so that the Workgroup can become more familiar with the format/information.

### *Available Firm Capacity*

It was confirmed that no Firm Day Ahead Use-it-or-lose-it (aka Restriction of Renomination Rights) was proposed under this modification (current arrangements were to be retained).

The treatment of available firm capacity through PRISMA was illustrated. MM will provide scenarios where capacity can become unbundled. It was questioned what would happen if as part of these processes a party was left with unwanted unbundled capacity, ie the residue of a bundled product; how would this be treated and how could it be handed back by the party? Should it be a rule that all or none should be sold? MM understood the concerns raised regarding having to continue paying for something no longer wanted yet being unable to surrender it, and referred to a secondary market. It was suggested that a different treatment of allocation would solve this; MM noted this but reiterated that it was not possible to do this under CMP. Shippers suggested there should be a rule that clarifies what happens to any residual elements. It appeared that no EU party/body was proposing to put forward a change to address this unintended consequence. Several shippers expressed a view that it did not seem right, or make sense, that a party had to buy it as a bundled product and the product then did not remain intact when surrendered. MH observed the objective was to bundle, and this can only be broken up in certain circumstances.

### **Action 0602: Provide scenarios/worked examples where capacity can become unbundled (for next meeting).**

Some issues might be resolved with the Licence changes. Other technical mismatched elements have to be treated differently to be compliant with CAM.

MM explained that in the event that technical capacity has sold out to more than 80/90% for a relevant gas year then all remaining unsold technical capacity would be set aside for shorter-term auctions.

Looking at the uneven sold profile over Year Y, MM observed that for entry there is no annual product and this needs to be derived from the quarterly auctions.

Looking at CAM cross border bundling – unsold capacity, MM explained there was an additional rule when unbundled capacity could be sold (bundle what we can, remaining unbundled will be split into what can be offered unconditionally and what can be offered up to one year ahead). MH said that this helps address the technical mismatch between the TSOs, e.g. Moffat.

JCx asked if the incremental proposal addresses any of these issues? MH was not sure but noted this for discussion with Colin Hamilton.

Restriction in sale of unbundled capacity (>Y+1) was illustrated and explained.

Available Interruptible Capacity was to be treated in line with existing UNC provisions. There were no CAM rules regarding this; apart from as a minimum it must be offered Day Ahead if Firm capacity has sold out. It is all unbundled and so remained capable of simple treatment.

### *Ascending Clock Auctions*

GJ pointed out that bid volume rule needed to be captured in the modification in the event of a First Time Undersell. MM noted this for consideration.

MM gave an overview. This allows Users to place volume bids for capacity in bidding rounds at pre-defined prices, commencing with the reserve price. The price increases in each round (by the Large Price Step (LPS)) until the demand for capacity has reduced such that the bids can be allocated in full, but if a First Time Undersell happens (when aggregate demand is first less than the offered capacity) then further bidding rounds will be undertaken with the price equal to the previous round's price plus the Small Price Step (SPS). A SPS is one fifth of a LPS (as currently used in PRISMA).

Users can submit more than 1 bid per round. The total volume of bids in any round from the same User must be less than or equal to the capacity offered in the auction. Bids can be modified or withdrawn up to the close of the relevant bid window. Once the bidding round closes, no changes can be made.

An example of the Auction Invitation Form was illustrated. Ascending Clock Bid Windows were explained (08:00 – 17:00 with the gap of an hour between), together with the algorithms used. In a First Time Undersell the price decreases by one LPS and then increases by SPSs to eventually pinpoint an appropriate market price. When asked MM believed that in theory there was no limit to the number of auction rounds, but if a new auction was ready to start then the old one would shut with no allocations being made. There was no limit to the number of SPSs within a LPS, but these must fit within the parameters of the LPS; National Grid NTS had proposed 5 steps as used in PRISMA.

Auction in Progress example screens were displayed, and MM briefly explained the information contained. It was noted that PRISMA operates to Central European Time. Following various questions, MM agreed to check that it would recognise what had been bid before by a party, at the time of bid submission rather than at the end of the bid window.

**Action 0603: *PRISMA Auctions* - Check that the PRISMA system would recognise what had been bid before by a party at the time of bid submission.**

MM explained that PRISMA would use multi-currencies. National Grid NTS pricing will be in pence per kWh (per hour or day). JCx asked if there were provisions for manifest errors. Reference was also made to currency hedging risks over the long term. MM explained that the Shipper takes the currency risk; even if the bid is in euros it will be converted to sterling after the bid window. MM agreed to check details of the multi-currency principles applying and what, if anything, could change between bid windows that might present risk - Shippers were concerned there was opportunity for mismatches in the gaps between.

**Action 0604: *PRISMA Auctions* - Check and clarify the principles applying to multi-currency functionality within PRISMA and what, if anything, could change between bid windows that might present risk.**

An example of the workings of an Ascending Clock Auction was demonstrated in greater detail, together with the concluding invoicing. The exact rules for dividing up the auction premium had yet to be agreed, but it would be made clear which TSO a Shipper was paying.

An auction bid window appeared to generally progress over one to two days before reaching its end.

#### *Uniform Price Auctions*

MM gave an overview. There is a single bidding round in which Users bid a price as well as a quantity. Users can submit up to 10 bids (this was the current PRISMA specification,

and MH added that this figure had been agreed in CAM Stakeholder Workshops). Multiple bids from the same User are treated as separate. The total volume of bids from the same User must be less than or equal to the capacity offered in the auction. Bids can be modified or withdrawn up to the close of the relevant bid window, but once the bidding round closes no changes can be made. Only Daily or Within-Daily Capacity is offered.

The Daily Auction Bid Windows were illustrated. The timings of the bid windows were being confirmed with PRISMA. Within Day specification was currently being developed by PRISMA and MM was acting as an advisor for this. MM believes there is a facility to post bids in advance; in any one renominations cycle you should know what capacity there is. Questions were asked regarding capacity validation within day; was there a timing issue? DS said she would consider this.

**Action 0605: DS to provide more detail around within day nomination/capacity validation done by IUK.**

It was confirmed that 'Regulatory Capacity Tariff' meant the reserve price.

The Uniform Price Auction Invitations (bundled and unbundled) and algorithms were illustrated. A Uniform Price Example was demonstrated in greater detail, together with the concluding invoicing. This was a cleared price auction, and not 'pay as bid' as in GB. Lowest price bids may not be allocated, or may be allocated in part only.

*Post Auction*

MM explained how post auction reporting would be carried out and where information would be published/could be accessed. Examples of the various information screens were displayed, together with a list of what information could be obtained from PRISMA. Results would also be viewable on Gemini.

MH explained how the post auction processing would be carried out by National Grid NTS, and the order of reallocation.

***Supporting Presentation***

Attention was then drawn to the additional more detailed information (simulated Ascending Clock auction and simulated Uniform Price auction) provided in the supporting slides.

MM explained how the competing auctions would work. MM confirmed that the ascending clock auction is 'blind' to prices - it is looking at quantities. The NTS charging team were starting to look at this from a charging perspective. There is no technical requirement for the Reserve price and LPS to be the same at 2 points in a competing auction.

The progression of the example auction rounds was explained and briefly discussed. This was an existing PRISMA process that National Grid NTS is proposing to adopt.

Referring to the concept of internal competition, JC pointed out this had not previously been covered and it would be useful to know how the rules in PRISMA are set to operate to aid comprehension and clarify Shippers' understanding. MM confirmed that PRISMA have Shipper training available.

JCx commented that most of the discussion had been on how these processes might work and how they might link to everything else, rather than what was in the modification itself, but this clarity of understanding on the periphery items was required to form a sound judgement regarding the modification.

**Action 0606: PRISMA Processes - National Grid NTS to provide more clarification, and additional worked examples on competition.**

**Next Steps**

An appropriate timeline for progression of the modification was discussed. MH will consider when draft legal text can be provided for the Workgroup's review.

It was acknowledged that the modification itself was relatively clear but Shippers' peripheral understanding needed expansion. The modification was standalone and not dependent on any other party. Implementation risk was in the peripheral understanding and effects of, e.g. another TSO not being ready, IT systems and training, and this would need to be managed.

The secondary processes will be reviewed at the next meeting.

**3.0 Any Other Business**

None.

**4.0 Diary Planning**

Workgroup meetings will take place as follows:

<b>Time/Date</b>	<b>Venue</b>	<b>Programme</b>
10:00 Friday 11 July 2014	Rooms 3 and 4, ENA, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF	<ul style="list-style-type: none"> <li>Review of secondary processes</li> </ul>
10:00 Tuesday 12 August 2014	Rooms 3 and 4, ENA, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF	To be confirmed
10:00 Tuesday 16 September 2014	31 Homer Road, Solihull B91 3LT	To be confirmed
10:00 Wednesday 08 October 2014	Rooms 3 and 4, ENA, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF	To be confirmed
10:00 Tuesday 21 October 2014	Rooms 3 and 4, ENA, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF	To be confirmed
10:00 Wednesday 05 November 2014	Rooms 3 and 4, ENA, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF	To be confirmed

### Action Table

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0601	03/06/14	2.0	<i>PRISMA and TSO technical response times</i> – Check and clarify.	National Grid NTS (MM)	<b>Pending</b>
0602	03/06/14	2.0	Provide scenarios/worked examples where capacity can become unbundled (for next meeting).	National Grid NTS (MM)	<b>By 02 July 2014</b> <b>Pending</b>
0603	03/06/14	2.0	<i>PRISMA Auctions</i> - Check that the PRISMA system would recognise what had been bid before by a party at the time of bid submission.	National Grid NTS (MM)	<b>Pending</b>
0604	03/06/14	2.0	<i>PRISMA Auctions</i> - Check and clarify the principles applying to multi-currency functionality within PRISMA and what, if anything, could change between bid windows that might present risk.	National Grid NTS (MM)	<b>Pending</b>
0605	03/06/14	2.0	DS to provide more detail around within day nomination/capacity validation done by IUK.	IUK (DS)	<b>Pending</b>
0606	03/06/14	2.0	<i>PRISMA Processes</i> - National Grid NTS to provide more clarification, and additional worked examples on competition.	National Grid NTS (MM)	<b>Pending</b>