Transco, Shippers and Other Interested Parties

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Dear Colleague,

Modification Proposal 0432 'Definite Gate Closure Times for Daily System Entry Capacity Bids'

Ofgem has considered the issues raised in Modification Proposal 0432 *'Definite Gate Closure Times for Daily System Entry Capacity'*. Ofgem has decided to direct Transco to implement the modification because we believe that this proposal will better facilitate the relevant objectives of Transco's Network Code.

In this letter, we explain the background to the modification proposal and give the reasons for making our decision.

Background to the proposal

In September 1999, Transco conducted the first auctions for the sale of entry capacity to its National Transmission System (NTS). The auctions provided for the allocation of monthly system entry capacity to successful bidders for a total period of six months from 1 October 1999 to 31 March 2000. The second series of auctions was held in March 2000 for the six month period of 1 April 2000 to 30 September 2000 and a third series was held in August 2000. In addition to releasing monthly system entry capacity, Transco also releases capacity both on a day-ahead and within day basis. The within-day capacity market was established in June 2000.

Following concerns that the occurrence of bidding errors by shippers may increase following the introduction of the within-day capacity market, the RGTA Workstream commenced a discussion to develop a range of mechanisms to minimise potential bidding errors. In the light of these discussions, Transco has recently initiated the development of capacity bid validation screens for shippers.

In addition, two modification proposals have been raised on the issue of shipper bidding errors, namely Modification proposal 0419 '*Avoidance of Shipper errors in Purchasing and Selling entry capacity*' and Modification Proposal *0432 'Definite Gate Closure times for Daily System Entry Capacity Bids'*.

Modification proposal 0419 proposes that manifest error provisions, similar to those operated by EnMo on the On the Day Commodity market (OCM) could be applied to Transco's daily capacity products in order to enhance efficient operations relating to the provision of Daily System Entry Capacity. It is proposed that the provisions would allow shippers to request that a trade would be unwound within [10] minutes of a bid or offer being accepted by Transco. Shippers would be required to pay a non- returnable 'administration fee' for each request in order to have the trade voided. Powergen also suggested that Transco would

have responsibility for determining whether to accept the request and would establish 'Manifest Error Guidelines' describing typical circumstances under which it would, at its discretion, void a trade within a specified time period of the shipper request.

In addition, Modification proposal 0419 suggests that Transco be required, as a Network Code obligation, to develop its system to provide capacity bid validation screens for shippers to decrease the likelihood of shipper bidding errors.

Modification proposal 0419 was put forward by Powergen and will be addressed in a separate modification decision letter.

Following Workstream discussions Transco also raised Modification proposal 0432 *'Definite Gate Closure Times for Daily System Entry Capacity Bids'* to introduce specific gate closure times for within-day capacity releases. The purpose of the modification proposal is to reduce the potential for bidding errors by providing for fixed and certain gate closure times for capacity bids prior to the allocation process. Transco has suggested that by providing shippers with a fixed gate closure time the modification should provide greater certainty for participants in the daily capacity market.

In particular, Transco suggests that the bid windows would be closed on the hour thereby providing a clear time period in which shippers can plan and review their bids for capacity knowing that there is no risk of gate closure until the relevant hour has expired. Under the proposal shippers would be able to amend or withdraw bids up until this time with certainty that bids would not be taken and allocated until the hour has expired. Any bids submitted after the gate closure would be considered at the subsequent allocation after gate closure at the following hour bar.

It is noted that Transco has raised Modification proposal 0432 as a stand-alone proposal. Its implementation is not contingent upon the acceptance or rejection of Modification proposal 0419.

The proposal

Modification proposal 0432 proposes that the Network Code rules, pertaining to the provision of Daily System Entry Capacity, should be amended so that Users will know the gate closure time before which bids must be submitted if they were to be considered in a subsequent allocation process for Daily System Entry Capacity. The proposal suggests that gate closure times could occur on the hour. The subsequent allocation process would then only take into account bids that had been submitted before that time and that had not been wholly satisfied by previous allocations. Any bids submitted after gate closure would be considered at the subsequent allocation following gate closure at the next hour bar.

Respondents' views

Of the responses received, the majority supported the proposal and believed it would provide shippers with more certainty in the daily system entry capacity regime hence reducing the risk of bidding error.

Two respondents commented that this proposed modification would ease the burden that the daily auctions have on shipper resources by reducing the requirement for constant monitoring of capacity screens.

One respondent suggested that the proposed modification would increase transparency in the allocation of entry capacity.

Another respondent suggested that the modification proposal must be considered as complementary rather than as a replacement for Modification proposal 0419. The respondent indicated that that the manifest error provisions described in modification 0419 remain essential to preventing distortions within the entry capacity market.

One respondent stressed that it is incumbent upon Transco to ensure that its IT systems could cope with possible increased bidding near to gate closure and that the systems could accommodate all valid bids.

One respondent opposed the proposal. The respondent did not consider that introducing a definite gate closure time would enhance shippers' ability to post accurate bids for entry capacity, or improve the efficiency of capacity allocation processes. The respondent also suggested that the modification should not be implemented as a substitute for manifest error provisions.

Ofgem's view

Ofgem shares the industry's concerns regarding the lack of provisions for dealing with manifest or system errors either by Transco or shippers. Indeed in our decision letters on modification 402 '*Referral of Entry Capacity disputes to the Energy Balancing Credit Committee'* and modification 0413 '*Compensation payments following Transco's failure to meet entry capacity contractual commitments'* we stressed that it was important that mechanisms should be put in place to prevent the occurrence of manifest errors.

In this regard Ofgem has been supportive of the industry discussions that have occurred in recent months on the topic of manifest errors. Ofgem will be shortly releasing its decisions on the modification proposals that have been generated by these discussions, namely, modification proposal 0419 as well as modification proposals 0436 *'Correction of Transco errors on the RGTA capacity system*' and O437 *'Remedies for Transco's failure to honour its entry capacity commitments'*. Further, Ofgem also welcomes Transco's plans to implement capacity validation screens for shippers entering data onto the RGTA capacity system.

Ofgem recognises that shippers face some uncertainties within the daily entry capacity regime as to when Transco will commence an allocation of capacity bids at any particular point in time on or before the gas day. Ofgem believes that these uncertainties can potentially contribute to bidding errors. Accordingly therefore Ofgem believes that the introduction of a definite gate closure time should reduce these uncertainties and provide shippers with a better opportunity to plan and review their bids for capacity for the relevant hour thus reducing the potential for bidding errors to occur.

Ofgem is aware that there are industry concerns that Transco's IT systems may be unable to accommodate a possible increase in bid submissions just before each hour. However we would expect Transco to give consideration to the implications of a definite gate closure and to the effects of this proposal on its current IT system, in order to accommodate any extra demands upon its existing systems.

Ofgem's decision

Ofgem believes that this proposal better facilitates the efficient and economic operation of the NTS and the securing of effective competition by relevant shippers and suppliers by reducing the potential occurrence of capacity bidding errors.

Further, Ofgem believes that this modification should facilitate the securing of effective competition between relevant shippers and relevant suppliers by allowing participants a defined time period in which to prepare, submit and review their bids.

Accordingly therefore, Ofgem has decided to consent to this modification, as we believe that it better facilitates the achievement of the relevant objectives as outlined under Standard Condition 7 of Transco's Public Gas Transporter's licence.

If you have any further queries in relation to the issues raised in this letter, please feel free to contact me on the above number.

Yours sincerely,

Mark Feather
Head of RGTA