

UNC Modification	At what stage is this document in the process?
<h1 data-bbox="134 322 655 414">UNC 0832:</h1> <h2 data-bbox="129 450 1145 663">Introducing additional flexibility to change the NTS large price step for Ascending Clock Auctions at IPs</h2>	<div data-bbox="1187 309 1449 629"> <div data-bbox="1187 309 1449 383">01 Modification</div> <div data-bbox="1187 389 1449 463">02 Workgroup Report</div> <div data-bbox="1187 470 1449 544">03 Draft Modification Report</div> <div data-bbox="1187 551 1449 624">04 Final Modification Report</div> </div>
<p data-bbox="129 707 507 745">Purpose of Modification:</p> <p data-bbox="129 763 1406 882">This Modification Proposal seeks to improve Ascending Clock Auctions for IP Capacity by providing additional flexibility to change the percentage of the Reserve Price used to determine the NTS large price step when it is deemed appropriate to do so.</p>	
<p data-bbox="129 981 308 1019">Next Steps:</p> <p data-bbox="129 1037 979 1072">The Proposer recommends that this Modification should be:</p> <ul data-bbox="153 1090 600 1182" style="list-style-type: none"> • subject to Self-Governance • assessed by a Workgroup <p data-bbox="129 1200 1442 1276">This Modification will be presented by the Proposer to the Panel on 17 November 2022. The Panel will consider the Proposer’s recommendation and determine the appropriate route.</p>	
<p data-bbox="129 1321 399 1359">Impacted Parties:</p> <p data-bbox="129 1377 970 1413">Low: Interconnector Ltd, BBL, GNI, National Grid, Shippers</p>	
<p data-bbox="129 1458 389 1496">Impacted Codes:</p> <p data-bbox="129 1514 209 1550">None</p>	

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Timetable		
Modification timetable:		
Pre-Modification Discussed	01 November 2022	
New Modification to be considered by Panel	17 November 2022	
First Workgroup Meeting	06 December 2022	
Workgroup Report presented to Panel	19 January 2023	
Draft Modification Report issued for consultation	20 January 2023	
Consultation Close-out for representations	10 February 2023	
Final Modification Report available for Panel	14 February 2023	
Modification Panel decision (<i>at short notice</i>)	16 February 2023	
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1 Summary

What

Annual Yearly, Annual Quarterly and Rolling Monthly Auctions for Interconnection Point (IP) Capacity are held as Ascending Clock Auctions. In these auctions IP Capacity is offered to and bid for by Users in a series of bidding rounds, with prices increasing by the large price step each round until the aggregate amount of IP Capacity bid for does not exceed the capacity available.

The Uniform Network Code (UNC) currently restricts the setting of the National Transmission Service (NTS) large price step to the greater of 5% of the applicable Reserve Price and 0.0001 p/kWh/Day. This Modification Proposal is to provide additional flexibility to adjust the percentage of the Reserve Price used to determine the NTS large price step in circumstances where the current arrangements are not deemed appropriate. This change is designed to assist the successful close out of auctions in a timely manner and ensure that capacity is allocated when it has been bid for to the benefit of all parties involved.

Why

When demand is in excess of available IP Capacity in Ascending Clock Auctions the Bid Round Price is increased above Reserve Price, with each bid round, in increments equal to the large price step until the aggregate amount of IP Capacity bid for is less than the available capacity. In recent months there has been some instances where the large price step was not large enough to create sufficiently quick price discovery, resulting in auctions running for extended periods of time. If an auction is still unresolved when the next auction covering the same capacity period is scheduled to begin, the auction is discontinued, in this instance all bids are void and no capacity is allocated.

It is important that large price steps are set at appropriate levels in order to promote efficiency in the auction process and to ensure that capacity is allocated, where it has been bid for. In line with this, CAM code states that large price steps should be determined in such a way as to seek to minimise, as far as reasonably possible, the length of the auction process.

The high demand for IP Capacity, particularly for bundled capacity at Bacton (Exit) IP throughout summer 2022 has brought to light an improvement that could be made to UNC. In the Rolling Monthly Auctions for Bundled Capacity (with both Interconnector and BBL) at Bacton Exit IP, held in April (for capacity in May), the situation described above occurred, with the auctions timing out and no capacity being allocated. In response to this, the actions of adjacent Transmission System Operators (TSOs) in adjusting their large price steps ensured that the immediate issue was mitigated and the remainder of the auctions throughout the summer were able to close out in a timely manner. However, we believe that changes are required to UNC in order to ensure future compliance with CAM and to remove the absolute reliance on adjacent TSOs to set the large price step at an appropriate level.

How

The Modification proposes to leave the default large price step as 5% of the reserve price or 0.0001p/kWh/d (whichever is higher) but to amend UNC Transportation Principal Document (TPD) Section Y to introduce the ability, where it is considered beneficial for the auctions to successfully close allocating capacity, to change this percentage ahead of each auction if required, in line with timescales detailed in UNC European Interconnection Document (EID) Section B and highlighted in the solution below.

2 Governance

Justification for Self-Governance

This UNC Modification proposal should be classed as a Self-Governance Modification. It aims to facilitate efficient Ascending Clock Auctions for IP Capacity and ensure that when there is demand for capacity, it can be allocated. It has no effect on existing or future gas consumers, competition between parties, operation of network systems nor will it unduly discriminate between different classes of UNC parties.

Requested Next Steps

This modification should:

- be considered a non-material change and subject to self-governance
- be assessed by a Workgroup

3 Why Change?

Longer term auctions for capacity at Interconnection Points, (Annual Yearly, Annual Quarterly and Rolling Monthly) are held as Ascending Clock Auctions. In these auctions IP Capacity is offered to and bid for by Users in a series of bidding rounds with bid round prices starting at the reserve price and subsequently increasing by the large price step each bid round until the aggregate amount of capacity bid for falls below the capacity that is available. This is referred to as the first time undersell.

In the case of Unbundled Auctions, the large price step for an auction is equal to the NTS large price step which is described in UNC as the greater of 5% of the applicable Reserve Price and 0.0001 p/kWh/Day. In the case of Bundled Auctions, where Firm Capacity is matched with Firm Capacity offered by adjacent TSOs to enable a User to bid for and be allocated capacity at both ends of an Interconnector in a single transaction, the large price step is the sum of the NTS large price step, and a large price step determined by the adjacent TSO.

Following the first time undersell, the auction then progresses to small price step bid rounds. The small price step is equal to 1/5 of the large price step. The Bid Round Price for the first small price step bid round is equal to the Bid Round Price from the last pre-first time undersell bid round plus the small price step. This continues with each subsequent Bid Round Price increasing by the small price step until the aggregate amount of capacity bid for again falls below the capacity that is available. The auction will then close with each bid submitted in that bid round accepted and IP Capacity allocated to the Users that submitted successful bids. Figure 1 below illustrates the auction process.

In the event that an auction (auction A) has not closed by the closure deadline for the following auction (auction B), where auction B is an auction for IP Capacity at the same IP for a capacity period that falls within the capacity period for auction A, Auction A shall be discontinued, and no capacity will be allocated.

For the avoidance of doubt this proposal seeks only to add flexibility to change the NTS large price step when appropriate, no changes are proposed to determination of the small price step which shall remain 1/5 of the large price step.

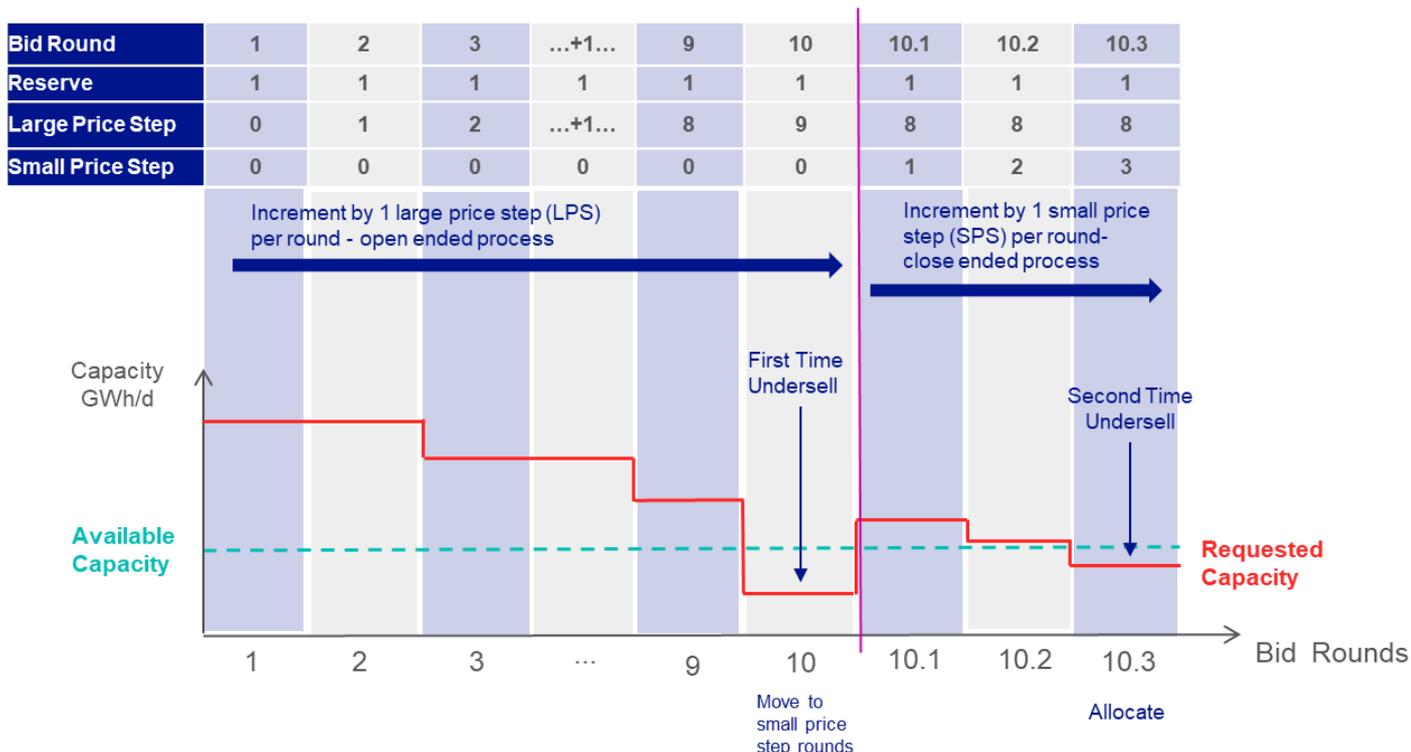


Figure 1: shows the auction process with the Bid Round Price increasing by the large price step each bid round until there is a first time undersell at which point the auction progresses to small price step bid rounds.

Over the course of Summer 2022 there has been high demand for bundled capacity at Bacton (Exit) IP which has resulted in Ascending Clock Auctions going above the Reserve Price and using the large price steps. In some instances, the large price step was not large enough to create sufficiently quick price discovery, resulting in auctions running for extended periods of time. In the case of the April Rolling Monthly auctions for bundled capacity in May, the auctions for capacity bundled with both Interconnector and BBL had not closed by the closure deadline for the following auction and therefore these auctions were discontinued without any capacity being allocated.

In response to this increased demand for capacity, the adjacent TSOs at Bacton (Interconnector and BBL) increased their large price steps significantly for subsequent auctions. They are able to do this ahead of each auction as they do not have the same restrictions regarding the setting of large price steps as National Grid Gas (NGG) are bound by under UNC. The actions of the adjacent TSOs have helped to mitigate the immediate issue of auctions running for extended periods of time and potentially timing out, with similar actions also being taken in respect of the setting of large price steps for the Annual Yearly and Annual Quarterly Auctions to prevent similar issues occurring in these auctions. The actions of adjacent TSOs have been working well over the summer months and our desire not to impede or complicate their processes in respect of the determination of large price steps is reflected in the solution that we are proposing.

Figure 2 shows selected Rolling Monthly Auctions where auctions have run for an extended period of time and demonstrates how the resultant actions of adjacent TSOs to increase the large price step, has led to much quicker price discovery in subsequent auctions. Full information on IP Capacity Auctions is available on [PRISMA's reporting platform](#).

The effect of an increase to the large price step is to reduce the number of bid rounds required for an auction to draw to a conclusion, allowing capacity to be allocated. It does not result in materially higher prices being paid for capacity by Users, although there is potential for a marginal effect on IP Capacity prices to be paid by Users due to the small price step, equal to 1/5 of the large price step, having a larger absolute value.

Auction	Runtime	Start Price (h)	LPS	No Bid Rounds	GB LPS	Euro LPS
Monthly Bundled - BBL						
March	01/04-01/05	0.1580	1.60	6.3	0.7596	0.8139
April	01/05-01/06	0.0771	3.27	44	0.7849	2.4872
May	01/06-01/07	0.1599	239.08	4.1	0.7596	238.3220
June	01/07-01/08	0.1605	240.18	10.1	0.7849	239.4000
July	01/08-01/09	0.1598	319.49	10.1	0.7849	318.7050
August	01/09-01/10	0.1542	318.44	8.1	0.7849	317.6559
Monthly Bundled – INT						
March	01/04-01/05	0.0637	1.8596	0	0.7596	1.0747
April	01/05-01/06	0.0637	1.8849	39	0.7849	1.1000
May	01/06-01/07	0.0637	120.00	2.1	0.7596	119.24
September	01/10-01/11	0.0901	120.05	0.1	0.7849	119.2660

Figure 2: shows auction information from selected Rolling Monthly Bundled Auctions at Bacton over the course of Spring/Summer 2022. The auctions highlighted in blue did not close out in time for the closure deadline for the following auction (in this case, the Rolling Day-Ahead Auctions)

We believe that additional flexibility is required for NGG to be able to change the NTS large price step for future auctions should the need arise, to bring NGG’s arrangements in line with the adjacent TSOs at Bacton and remove the absolute reliance on adjacent TSOs to set the large price steps at an appropriate level. This is especially relevant if there were to be similar issues in future in relation to Unbundled Auctions, where the large price step is formed entirely from the NTS large price step and the adjacent TSOs are therefore unable to adjust it on our behalf. If this circumstance were to arise, under the current arrangements NGG would be powerless to intervene and it is likely an Urgent UNC Modification would be required to enable changes similar to those described within this Proposal.

Capacity auctions are vital in enabling Users to obtain commercial rights to flow gas. If Capacity auctions are terminated, and no capacity is allocated when there is a demand for it, Users are unable to obtain the commercial right to flow gas for the capacity period they desire and will likely need to rely on subsequent auctions covering shorter capacity periods, to ensure capacity is acquired. While this may be acceptable for some Users, others may value the certainty that comes with longer term bookings. It is therefore vital that where there is a demand for capacity that is greater than the capacity available, that large prices steps are set to an appropriate level in order to facilitate a competitive gas market and ensure capacity can be allocated.

Additionally, the revised CAM Regulation (as retained in UK law in accordance with the European Union (Withdrawal) Act 2018 and amended by the Gas (Security of Supply and Network Codes) (Amendment) (EU Exit) Regulations 2019) directs that large price steps should be determined in such a way as to seek to minimise, as far as reasonably possible, the length of the auction process. This Proposal will ensure that NGG has the ability to comply with CAM in future and that there is no conflict between CAM and UNC.

4 Code Specific Matters

Reference Documents

[Transportation Principal Document - Section Y](#)

[European Interconnection Document](#)

[Capacity Allocation Mechanisms](#)

Knowledge/Skills

None

5 Solution

An amendment is proposed to UNC TPD Section Y 2.9.2 a) to maintain the current arrangements, where the NTS large price step for an auction is the greater of 5% of the reserve price or 0.0001p/kWh/d, as the default arrangement, but to also allow the percentage of the reserve price used to determine the NTS large price step to be changed, where it is deemed beneficial, in order for an Ascending Clock Auction to close out in a timely manner and ensure capacity can be allocated when there is a demand for it.

For the avoidance of doubt this does not change the starting reserve price for any auction. This will continue to be set in line with the charging methodology outlined in UNC TPD Section Y.

Additional Information:

Given the actions of adjacent TSOs have mitigated the immediate issues in relation to bundled capacity at Bacton Exit IP, the Proposal leaves the current arrangements in place as the default arrangements. This ensures that under normal circumstances the Proposal will have no impact on the processes used by adjacent TSOs to determine their large price steps and avoid adding any unnecessary complications to the process in respect of the setting of large price steps for Bundled Auctions. However, introducing additional flexibility to change the NTS large price step, by exception, should the need arise, ensures NGG are able to react to any changes in the market that would require an intervention to alter the NTS large price step in future.

If NGG were to deviate from the default arrangements, and change the NTS large price step, several factors would be taken into account when determining the NTS large price step percentage. These may include, but are not restricted to, past auction performance, awareness of appetite for capacity, price spreads between markets and the wider market landscape at the time. NGG would also publish details on how the NTS large price step percentage was determined in any auction where there was deviation from the default, in order to provide clear transparency to market participants.

If NGG were to deviate from the default arrangements, they would publish the updated NTS large price step percentage in line with the timescales detailed in EID Section B 4.3.2 which are:

- (a) in relation to an Annual Yearly Auction, one month before the Auction Date;
- (b) in relation to an Annual Quarterly Auction, two weeks before the Auction Date;
- (c) in relation to a Rolling Monthly Auction, one week before the Auction Date

For the avoidance of doubt, no changes are proposed to these timescales.

6 Impacts & Other Considerations

Does this Modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

None

Consumer Impacts

Impact of the change on Consumer Benefit Areas:

Area	Identified impact
Improved safety and reliability	None
Lower bills than would otherwise be the case This proposal would promote the booking IP Capacity according to the desired profile by reducing the risk of Shippers being unable to obtain capacity for the chosen capacity period due to auctions timing out, with the resulting benefits passed on to end consumers.	Positive
Reduced environmental damage	None
Improved quality of service	None
Benefits for society as a whole	None

Cross Code Impacts

None

EU Code Impacts

None

Central Systems Impacts

The large price step is a manual input into the system therefore no system changes are required.

7 Relevant Objectives

Impact of the modification on the Relevant Objectives:

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None

c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Positive
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	Positive

d) Securing of effective competition between relevant shippers:

The proposed changes in this Modification are expected to facilitate a more efficient capacity booking process at IPs and reduce the risk of Capacity Auctions timing out without capacity being allocated compared to the status quo. Shippers will be able to compete for available Capacity through an auction process that promotes the allocation of capacity where there is demand for it, thereby enhancing effective competition.

g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators:

Article 17 paragraph 11 of CAM NC states that the determination of the large price step shall seek to minimise, as far as reasonably possible, the length of the auction process. The proposed changes in this Modification shall facilitate this by allowing NGG to change the large price step for an auction in order to reduce the length of the auction process, if there is benefit in doing so.

Impact of the modification on the Relevant Charging Methodology Objectives:	
Relevant Objective	Identified impact
a) Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;	None
aa) That, in so far as prices in respect of transportation arrangements are established by auction, either: (i) no reserve price is applied, or (ii) that reserve price is set at a level - (I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and (II) best calculated to promote competition between gas suppliers and between gas shippers;	None
b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;	None
c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers; and	Positive

d) That the charging methodology reflects any alternative arrangements put in place in accordance with a determination made by the Secretary of State under paragraph 2A(a) of Standard Special Condition A27 (Disposal of Assets).	None
e) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	Positive

c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers;

The proposed changes in this Modification are expected to facilitate a more efficient capacity booking process at IPs and reduce the risk of Capacity Auctions timing out without capacity being allocated compared to the status quo. Users will be able to compete for available Capacity through an auction process that promotes the allocation of capacity where there is demand for it, thereby enhancing effective competition.

e) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.

Article 17 paragraph 11 of CAM NC states that the determination of the large price step shall seek to minimise, as far as reasonably possible, the length of the auction process. The proposed changes in this Modification shall facilitate this by allowing NGG to change the large price step for an auction in order to reduce the length of the auction process, if there is benefit in doing so.

8 Implementation

As Self-Governance procedures are proposed, implementation could be sixteen business days after a Modification Panel decision to implement, subject to no Appeal being raised.

9 Legal Text

Text Commentary

Legal text to follow

Text

Legal text to follow

10 Recommendations

Proposer's Recommendation to Panel

Panel is asked to:

- Agree that Self-Governance procedures should apply
- Refer this proposal to a Workgroup for assessment.