

UNC Workgroup Report	At what stage is this document in the process?
-----------------------------	--

<h1 style="color: green; margin: 0;">UNC 0745:</h1> <h2 style="color: green; margin: 0;">Mandatory Setting of Auction Bid Parameters</h2>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center; border: 1px solid green; border-radius: 5px;">01</td> <td style="border: 1px solid green; border-radius: 5px; padding: 2px;">Modification</td> </tr> <tr> <td style="text-align: center; border: 1px solid blue; border-radius: 5px;">02</td> <td style="border: 1px solid blue; border-radius: 5px; padding: 2px;">Workgroup Report</td> </tr> <tr> <td style="text-align: center; border: 1px solid purple; border-radius: 5px;">03</td> <td style="border: 1px solid purple; border-radius: 5px; padding: 2px;">Draft Modification Report</td> </tr> <tr> <td style="text-align: center; border: 1px solid orange; border-radius: 5px;">04</td> <td style="border: 1px solid orange; border-radius: 5px; padding: 2px;">Final Modification Report</td> </tr> </table>	01	Modification	02	Workgroup Report	03	Draft Modification Report	04	Final Modification Report
01	Modification								
02	Workgroup Report								
03	Draft Modification Report								
04	Final Modification Report								

Purpose of Modification:
 This Modification proposes to mandate the setting of certain bid parameters prior to Users being able to place bids in an Auction.

- | | |
|---|--|
|  | <p>The Workgroup recommends that this modification should be subject to self-governance</p> <p>The Panel will consider this Workgroup Report on 18 February 2021. The Panel will consider the recommendations and determine the appropriate next steps.</p> |
|  | <p>High Impact:</p> |
|  | <p>Medium Impact:</p> |
|  | <p>Low Impact:</p> <p>Shippers; DNs; National Grid</p> |

Contents		?	Any questions?
1	Summary	3	Contact: Joint Office of Gas Transporters
2	Governance	3	 enquiries@gasgovernance.co.uk
3	Why Change?	4	 0121 288 2107
4	Code Specific Matters	4	Proposer: Malcolm Montgomery
5	Solution	4	 Malcolm.montgomery@nationalgrid.com
6	Impacts & Other Considerations	5	 01926 653991
7	Relevant Objectives	10	Transporter: Malcolm Montgomery
8	Implementation	11	 Malcolm.montgomery@nationalgrid.com
9	Legal Text	11	 01926 653991
10	Recommendations	11	Systems Provider: Xoserve
			 UKLink@xoserve.com
Timetable			
Modification timetable:			
Initial consideration by Workgroup	03 December 2020		
Workgroup Report presented to Panel	18 February 2021		
Draft Modification Report issued for consultation	19 February 2021		
Consultation Close-out for representations	11 March 2021		
Final Modification Report available for Panel	15 March 2021 (at short notice)		
Modification Panel decision	18 March 2021		

1 Summary

What

This Modification proposal seeks to mandate that Users set certain bid parameters, before placing bids in short term entry or exit auctions on the Gemini system. All auctions with a daily capacity product are in scope, including both firm and interruptible / off-peak. Interconnection Points are excluded, as the bid parameters would be required to be input into Gemini only, and not PRISMA.

Why

Users occasionally place bids that have some form of error within them in terms of the volume or price. Mandating the setting of 'price' and 'volume parameters (value = volume x price), will remove the chances of the higher order of magnitude mistakes being made. This will help prevent Users from placing bids containing errors. It will also protect the wider industry from the effort, complexity and confusion that may arise should bids placed in error be successfully disputed.

How

An additional rule shall be added into the relevant auction rules section(s) in the UNC Transportation Principal Document (TPD) Section B. The Gemini system shall be changed so that the setting of the 'price' and 'volume bid parameters by Users shall become mandatory prior to auction participation.

2 Governance

Justification for Self-Governance

The Proposer requested that this Proposal should follow Self-Governance arrangements, on the basis that this Modification would create an additional safeguard for Users participating in the acquisition of capacity. This safeguard would reduce the likelihood and scale of errors occurring; however, such errors are not currently considered to be of such a scale and frequency that the impact of this Modification should be considered as having a material effect on competition in the market.

All Users participating in the relevant auctions will be treated the same, with each party having to set their own bid parameters. This is a relatively small one-off administrative task that does not inhibit parties in any material sense from participating in the capacity auction processes.

However, at UNC panel in November 2020, UNC panel members voted that this should follow Authority Direction as it was felt this was potentially material and that there may have been double counting leading to a contribution to the under-recovery of NGG allowed revenue as articulated under UNC Urgent Modification 0748. Ofgem requested that Workgroup should discuss and suggested that evidence is needed to justify why Authority Direction is required.

Workgroup, following discussions, believe that this Modification should follow self-governance procedures. National Grid confirmed the following points regarding the 'double counting' issue. Firstly it is National Grid Gas' firm view that there is no double counting and the concern is a red herring. There are two categories of errors - these can be referred to as corrected errors and non-corrected errors - and the impact of these can be considered in further detail. The vast majority of errors will be non-corrected, these shall be where a shipper has committed to a higher price or volume than they actually intended, resulting in a higher revenue contribution to *either* National Grid Gas' allowed revenue or to capacity neutrality. The net result is a slightly higher revenue than would otherwise be the case with no error, but everything is counted once. National Grid

Gas has also reported on one corrected error to the September Operational Forum, this resulted in neutrality revenue that was briefly collected earlier in 2020 being returned later in the year via an adjustment in the August invoice. Such an occurrence is extremely rare compared to the uncorrected errors. The net result of a corrected error on revenue is zero, as the view is that the revenue was erroneously collected in the first place.

These errors which occur on an unpredictable basis, bear no relation to the systematic under recovery of TO revenue identified by UNC Modification 0748. There is also no assumption when charges are being set that National Grid Gas will receive any revenue through errors; the existence of uncorrected errors may, if anything, increase the chance of a slight over-recovery of National Grid Gas' allowed revenue. However, they certainly do not and did not contribute to the under-recovery of allowed revenue seen in the period since 01 October 2020.

Requested Next Steps

This Modification should:

- be considered a non-material change and subject to self-governance
- proceed to consultation on the basis that Workgroup Participants have concluded their impact assessment.

3 Why Change?

1. Gemini has existing functionality to help Users prevent bidding errors. However, Users inform us that errors nonetheless do occur from time to time. Gemini would automatically process all bids entered provided the bid data meets system limits, but it should be noted that these limits are wide and are not designed to function as a safety net for Users. National Grid does not have responsibility to monitor and question bids. It is the responsibility of bidding parties to make sure they have appropriate checks and balances in place to mitigate against the risk of errors occurring in any bids submitted.

If bids are entered incorrectly, then this can have multiple impacts upon other parties:

- The amount of capacity allocated across multiple auction parties may be impacted.
- The revenue generated and fed into neutrality calculations may also be impacted.
- Overrun charges may be impacted for other participants.

Furthermore, in the event that an ex-post correction is made to a bid, then these areas may need to be adjusted. It is therefore important that the risk of erroneous bids being placed should be minimised, and this modification seeks to add a further layer of protection to that end, by making it a rule that a shipper must set bid parameters on the Gemini system as a pre-condition to placing bids.

2. Because this proposal would create a condition that must be met before bids can be placed, then for transparency, it should be added to the auction rules within UNC.
3. Should the change not be implemented then shippers would be free to continue placing bids without having set bid parameters. The risk of erroneous bids occurring would remain at the current level.

4 Code Specific Matters

Reference Documents

n/a

Knowledge/Skills

n/a

5 Solution

A rule will be added to UNC stating that Shippers would be unable to place bids in certain auctions unless they have set bid parameters for Bid Price and Bid Volume, where Bid Value (£) = Bid Price x Bid Volume.

The relevant auctions types are:

- Day ahead firm entry capacity
- Within day firm entry capacity
- Day Ahead interruptible capacity
- Day ahead firm exit (flat) capacity
- Within day firm exit (flat) capacity
- Day ahead off-peak capacity

Note: IP auctions are not included.

It is worth noting that this functionality already exists in the system for Users to use on a voluntary basis. Following acceptance and implementation of this Modification proposal then this voluntary User-activated functionality would be switched to mandatory and bid parameters would be required for each individual auction type.

If an attempt is made by a User to place a bid in a particular auction without bid parameters having been set or that exceeds the parameter set, then a system message will be displayed informing the User why they cannot proceed. In order to proceed with such a bid then the User can adjust the parameter(s) so that the bid sits within it, or they may also make use of an override function confirming they wish to continue with a bid that sits outside of the normal parameters they have set.

6 Impacts & Other Considerations

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

No.

Consumer Impacts

The Proposer's view is that there is no direct impact upon Consumers. This Proposal would provide risk assurance benefit to Users, which may in turn lead to lower long-term costs for consumers.

Consumer Impact Assessment	
Criteria	Extent of Impact
Which Consumer groups are affected?	<ul style="list-style-type: none"> • Domestic Consumers • Small non-domestic Consumers • Large non-domestic Consumers • Very Large Consumers
What costs or benefits will pass through to them?	<p>There is an assumption that reducing the frequency of uncorrected capacity bid errors, will remove a distortive effect on the market, leading to more efficient market outcomes.</p> <p>Reducing the frequency of corrected bid errors will reduce administrative costs which can be passed on to consumers.</p>
When will these costs/benefits impact upon consumers?	Immediately upon implementation
Are there any other Consumer Impacts?	None Identified.
General Market Assumptions as at December 2016 (to underpin the Costs analysis)	
<i>Number of Domestic consumers</i>	<i>21 million</i>
<i>Number of non-domestic consumers <73,200 kWh/annum</i>	<i>500,000</i>
<i>Number of consumers between 73,200 and 732,000 kWh/annum</i>	<i>250,000</i>
<i>Number of very large consumers >732,000 kWh/annum</i>	<i>26,000</i>

Cross Code Impacts

None.

EU Code Impacts

None.

Central Systems Impacts

A ROM has been produced by the CDSP. From the ROM XRN 5247 (which can be found here: <https://www.gasgovernance.co.uk/0745/070121>) the indicative costs for preventing bids unless the necessary parameters have been set are £24-35,000. Option A is the part of this Rom that is applicable to Modification 0745.

Workgroup Impact Assessment

Initial discussions at Workgroup commenced in November 2020.

The Proposer highlighted to Workgroup that this Modification would better facilitate relevant objectives (d) and (f) in that the potential erroneous errors that have occurred for Users when bidding in capacity auctions could be reduced if bid parameters were a mandatory requirement. The Proposer advised that it was a small functional update in Gemini and ROM XRN5247 provides confirmation of costs and timescales.

Concern had been raised as to whether the Modification could have a double counting impact as part of the under recovery as a result of Modification 0678A – Amendments to Gas Transmission Charging Regime (Postage Stamp), Workgroup participants discussed this and National Grid confirmed that it would not.

On 07 January 2021 Workgroup Participants noted that the Modification is requiring Users to set out what a valid bid is and system changes will ensure a non-valid bid to be rejected. This is done by setting what is effectively a cap on their future bids in terms of both price and volume so that any future bids will be compared against this cap and rejected if they exceed the parameters set.

Rough Order of Magnitude (ROM) Assessment

The Proposer provided an update on the Rough Order of Magnitude (ROM) discussions he had had with Xoserve and advised the costing for this small change to Gemini would be in the region of £24,000 - £35,000 with an anticipated timeframe of implementation in October 2021.

Change Costs (implementation):

Option A – An enduring solution will cost at least £24,000, but probably not more than £35,000 to implement.

Change Costs (on-going):

Option A is not expected to increase ongoing running costs.

Timescales:

The high level estimate to develop and deliver this change is approximately 8 - 12 weeks.

Workgroup additional Assessment

At UNC Modification Panel meeting January 2021, Panel determined to send Modification 0745 back to Workgroup for the Workgroup to answer two questions:

1. Consider suitability for Self-governance.
2. Provide the number of instances where Auction errors have occurred, the value redistributed and how this might impact consumers.

Consideration of Self-Governance

Xxx

At Workgroup on 04 February 2021...

Brief review of Modification 0745 v4.0 04 February 2021

National Grid has added the ability for an override function for practical reasons consider the auctions affected are daily auctions. This appeared to be acceptable to Workgroup. Workgroup briefly reviewed the changes to Legal Text which give rise to the override function. Workgroup was satisfied that these changes meet the intent of the Solution.

Auction Errors data

At Workgroup on 04 February 2021, National Grid as Proposer provided the following narrative with the following table:

Table 1: Summary of known Gemini bid errors for calendar year 2020

Issue	no. of instances	Σ Bid Value	Σ Intended Value	Difference
bid price	6	3,014,964	19,517	2,995,447
location	3	36,397	36,397	-
total	9	3,051,361	55,914	2,995,447

- Bid value in £
- These figures only include User errors that could have been prevented by auction bid parameters being in place.
- Intended Value includes some reasonable assumption around intended bid price.

It should be noted that National Grid is blind to shipper intention with respect to bids placed, and cannot generally say with any certainty whether a bid error has occurred. These figures are therefore based on instances where shippers have informed National Grid that an error has occurred and so should only be considered as a lower bound on the extent of the issue. They also only include auction bid errors that could have been prevented by the parameters considered by UNC modification proposal 0745 being in place, and so do not include all shippers' errors National Grid become aware of e.g. relating to transfers or PRISMA. National Grid also does not monitor for errors or keep records on errors, and therefore for reasons of both practicality and confidence in the data, National Grid has provided data for only the most recent calendar year.

Over the course of 2020 then there were 9 separate occasions where National Grid has been informed that auction bids have been placed incorrectly. 6 of these related to price, and 3 to location; the 9 errors are attributable to 8 different parties. The combined total of the error i.e. the difference between the bid placed and the (assumed) intended bid is £3.0m. These instances were spread across the year – 1 in March, 1 in August, 4 in October and 3 in November. National Grid believes that a mandatory setting of a bid parameter for price would have prevented the majority if not all of the 6 price errors and while location errors are not directly addressed by the modification proposal, National Grid believes it may continue to be possible to set different parameters per location (voluntarily) to help avoid these sorts of errors too. This latter point will be confirmed (or otherwise) during further system development discussions later in the year and communicated to shippers. Overall, National Grid is of the view that errors can and do occur for a variety of reasons, may occur at any time, and the value of the error is inherently unpredictable in its nature.

Generally, any additional revenue from notified bid errors simply contributes further towards National Grid's allowed revenue for the given year. So additional revenue from the shipper who made the error would result in less revenue collected from other shippers. There is no direct impact upon consumers in these cases, although there may be indirect impacts arising from any market inefficiencies caused by the error.

Some of the additional revenue feeds from the entry auctions (within day firm and day ahead interruptible), from overruns or from any non-obligated capacity go into neutrality and into the constraint management (CM) incentive. This additional CM incentive revenue can result in National Grid's allowed revenue being slightly increased in year Y+2 following the error. This slight increase is paid by shippers but ultimately borne by consumers. This CM incentive is subject to review under RIIO-T2 so the details are uncertain at this time.

Ofgem confirmed at Workgroup that overruns will be coming out of RIIO-T2, this incentive is subject to review, in relation to the changes in the Charging regime implemented from 01 October 2020.

A Workgroup Participant noted that under the RIIO-1 arrangement, a 44.36% sharing factor is in place therefore 44.36% of approx. £3million will be counted towards Allowed revenue so that in Y+2, capacity prices will be slightly lower.

The Modification would help reduce the amount and frequency of revenue from errors, this will have a positive impact overall.

A Workgroup Participant asked for further clarification in regards to the materiality of the error and how this would impact materiality for Self-governance consideration. Parties are required to pay when they have made errors. This Modification will not correct any previous errors and past errors are not necessarily an indicator of future errors. In the context of the amount of Allowed Revenue, it appears that this error magnitude is likely to be insignificant.

On 04 February 2021 Workgroup Participants agreed the following:

Panel requested data from National Grid to determine the historical materiality of known bid errors. National Grid provided data which showed that for the year 2020, as a minimum, this was £3million. Therefore, had this Modification been implemented at the start of 2020, these errors would have been avoided. Therefore, the Workgroup agreed that implementation of the Modification ought to have an efficiency benefit for the market. This does not appear to be material in terms of competition but rather improves the efficiency of the arrangements. This Modification should therefore be subject to Self Governance.

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.	None
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.	Positive
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.	None

The Proposer's view is given below:

Relevant Objective d)

This Proposal will minimise the risk of errors occurring in the process for running capacity auctions. Bids placed in error may inhibit the market from operating in accordance with the true intentions of market operatives. The results may therefore distort the market in some fashion, and the effective competition between shippers is negatively affected.

Relevant objective f)

In the event that a bid error needs to be corrected after the bid window shuts, then there will be disruptive error correction processes that place a large administrative burden on the system operator and may affect wider industry through mechanisms such as neutrality. Reducing the risk of bid errors occurring in the first place will also help ensure that the auction processes, all the way through to invoicing, run smoothly and uninterrupted.

Workgroup Participants had nothing further to add.

8 Implementation

The implementation timescale will be confirmed if and when the modification proposal is approved. Indicative dates following discussion with Xoserve are that implementation will be in 2021, likely to be October.

9 Legal Text

Text Commentary

Legal Text has been provided by National Grid and will be published alongside this report at:

<https://www.gasgovernance.co.uk/0745>

The legal Text changes are minimal and are generally considered to be self-explanatory. Some Legal Text Commentary has been provided regarding new paragraph TPD B 1.21.1

It should be noted that the phrase 'type of auction' refers to the different methods of sale used on the Gemini system to sell capacity e.g. WDDSEC auction, DISEC auction etc.

The maximum eligible quantities defined in 1.21.1(a) and (b) also recognise that the system may allow a User to override any parameter they have set, at the time of placing a bid. Where a User makes use of such an option, then for the purposes of UNC the maximum eligible quantity(s) shall temporarily be adjusted up to the amount specified in the override bid. After this one bid has been placed then the maximum eligible quantities shall revert back to the original value(s) set by the User.

The Proposer clarified that there would be an added instruction at the beginning which would say to insert paragraphs into TPD Section B. With this addition, the Workgroup Participants considered the Legal Text at its meeting on 07 January 2021 and are satisfied that it meets the intent of the Solution.

Text

Legal Text is published alongside this report.

10 Recommendations

Workgroup's Recommendation to Panel

The Workgroup asks Panel to agree that:

- This self-governance modification should proceed to consultation.