

<b>UNC Workgroup Report</b>	At what stage is this document in the process?
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# UNC 0745:

## Mandatory Setting of Auction Bid Parameters

- 01
Modification
- 02
Workgroup Report
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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 <b>21 January 2021</b>. 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>

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Timetable	
<b>Modification timetable:</b>	
Initial consideration by Workgroup	03 December 2020
Workgroup Report presented to Panel	21 January 2021
Draft Modification Report issued for consultation	21 January 2021
Consultation Close-out for representations	11 February 2021
Final Modification Report available for Panel	15 February 2021 <i>(at short notice)</i>
Modification Panel decision	18 February 2021

 **Any questions?**

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## 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 be self-governance. 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, and 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

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.

## 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.

A ROM has been sought from Xoserve. 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.

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"> <li>• Domestic Consumers</li> <li>• Small non-domestic Consumers</li> <li>• Large non-domestic Consumers</li> <li>• Very Large Consumers</li> </ul>
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.
<b>General Market Assumptions as at December 2016 (to underpin the Costs analysis)</b>	
<i>Number of Domestic consumers</i>	<i>21 million</i>
<i>Number of non-domestic consumers &lt;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 &gt;732,000 kWh/annum</i>	<i>26,000</i>

### Cross Code Impacts

None.

### EU Code Impacts

None.

### Central Systems Impacts

A ROM has been requested and produced by the CDSP. Option A is the part of this Rom that is applicable to Modification 0745. It can be found here: <https://www.gasgovernance.co.uk/0745/070121>

See ROM information below.

### 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.

## 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 Proposers 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

The Legal Text changes are minimal and are considered to be self-explanatory. Therefore, no Text Commentary has been provided, except for one commentary regarding paragraph 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.

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

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

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

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.