

MODIFICATION 0419

Avoidance or correction of shipper errors in purchasing and selling entry capacity

DEVELOPMENT WORKGROUP REPORT

Background to proposal

Powergen raised modification Proposal 0419 to facilitate development of validation processes for checking shipper capacity bids and also to propose the implementation of manifest error provisions into the Network Code in respect of within-day capacity transactions. The proposal was referred to the Capacity and Energy Workstream and was debated in a workgroup that met on 20 September. The proposal has been split into two distinct parts for consideration in this report. Firstly, the provision of bid validation functionality within the RGTA system. Secondly the issue of manifest error provisions in respect of the within-day capacity allocation processes.

Analysis of whether the proposal would facilitate achievement of the relevant objectives

Implementation of shipper bid validation would reduce the potential for bids to be accidentally entered to the RGTA system. This would reduce risk for shippers and may facilitate greater competition in the capacity markets, as shippers would have greater confidence that bid parameters correctly reflect their intentions.

Supporters of a manifest error provision argued that such measures would facilitate competition by removing some risk of errors and would also improve the efficiency of the capacity market.

Implications for the operation of the System

There are unlikely to be any implications for the operation of the System. The proposal for manifest error provisions affects the daily capacity auction processes.

Development, capital and operating cost implications for Transco

The implementation of capacity bid validation would require some changes to RGTA systems. If manifest error provisions were to be implemented then these would require additional system changes and new procedures within Transco to facilitate a rapid processing of any requests for a transaction to be nullified.

Transco intends to introduce some bid validation with the installation of the MISEC auction functionality. Further bid validation will incur development cost but minimal operational costs.

The introduction of manifest error provisions would incur system development costs and in addition would lead to operational costs maintaining procedures and training so that staff are able to respond to manifest error claims in a timely manner. In addition, operational costs would be incurred for each operation of the manifest error procedure.

Recovery of costs

Costs of system development would be met from allowed revenues for such purposes. It may be appropriate to introduce a charge for the operation of any manifest error provision.

Consequences of implementing the proposal on the level of contractual risk to Transco

Transco believes that the implementation of shipper bid validation functionality would reduce the likelihood that shippers will post bids in error and subsequently contest invoice amounts.

Transco believes that the implementation of manifest error provisions would significantly alter the nature of Transco's role in the capacity allocation process. Transco is concerned that as a counter-party to all capacity allocations it may have conflicting responsibilities if it is required to act as arbiter of manifest error occurrences.

Development implications for computer systems of Transco and other Users

The provision of bid validation has been previously considered and some limited functionality will be provided from mid November. Further bid validation will be developed as defined by this workgroup with an anticipated delivery date of late February 2001. Bid validation will require the introduction of some new input fields on the RGTA system but will not require the change of any hardware systems.

Implementation of manifest error provisions would require a mechanism for shippers to notify Transco that a bid is in error. This could be provided for by a mechanism outside the RGTA system but might be better achieved by introduction of a specific facility within RGTA.

The RGTA system would require modification so that a single bid could be rapidly excluded from the processed bid stack and the auction results revised appropriately. It would be essential to provide a rapid resolution of any manifest error claim to minimise the effects of a spurious allocation on capacity and other markets.

At present, bid removal requires direct intervention by the RGTA computer system manager to overwrite database tables. This cannot be achieved quickly as the processes are manual and significant effort is required to create duplicate tables to preserve an audit trail of changes made to database tables. Therefore, some

significant system development might be required to provide shift operators with a robust mechanism for management of manifest errors.

Implications of implementation of the proposal for Users

The implementation of bid validation would assist Users by enhancing the process for input of capacity bids. Some minor changes to shipper administrative procedures would be required. Users would have a choice whether to input validation parameters.

Implementation of manifest error provisions would provide a facility for users to request the unwinding of a within-day capacity trade that has been entered into in error. Users would have to establish mechanisms to submit to Transco a request for the application of the provisions within the timescale allowed.

Consequences of implementation of the proposal on the level of contractual risk for Users

Introduction of bid validation functionality would reduce the potential for bids to be incorrectly entered into the RGTA system. This would reduce the likelihood that shippers are allocated capacity at a price or volume that was not intended. Thus the level of commercial risk would be reduced.

Implementation of manifest error provisions would permit an opportunity for a shipper to appeal against a capacity allocation if such an allocation is the result of a bid being accepted that was posted in circumstances of manifest error. This would permit a capacity allocation to be unwound so that the shipper would not be liable for any capacity charges or would not be obliged to make capacity surrender pursuant to the bid.

Summary of workgroup discussions

The proposal was discussed in a workgroup meeting held at Tottenham Court Road on 20 September. A summary of the discussion in that Workgroup is presented below.

Bid validation functionality requested:

Transco agreed to proceed with development of bid validation functionality in parallel with discussion of this modification proposal. Transco does not believe that the provision of this functionality would form part of the Network Code but would assist shippers in the use of the RGTA capacity auction system. There is a lead-time of approximately five months for delivery of new functionality and so early agreement on specification is desirable. Discussion of the proposal in the workgroup meeting was taken to form the detailed systems specification.

Maximum price of bid

Transco agreed to provide this functionality.

Minimum volume and minimum price criteria.

Transco questioned whether these limits were really useful to shippers. Powergen responded that a minimum volume limit might prevent a bid being submitted that is for a quantity that the shipper may find unacceptably small. The minimum price limit would be applicable for capacity release offers to avoid the shipper selling capacity back to Transco at too low a price. Transco agreed to provide these limits.

Display of last traded price and validation on percentage deviation from this price

Transco identified that the architecture of the RGTA system would not support a 'real time' update on screen of this value. The system has been built to accept bids into a database and to publish results following a batch processing. Screens are not updated automatically although by requesting a 'refreshed' view of the database shippers can see auction results.

Powergen pointed out that this item had been requested so that a shipper entering bids might observe the 'market price' for capacity and thereby be able to place bids close to the market. Transco was asked how many trades (within day allocations) are done in a day. It was observed that on average there are 2-3 per hour and that capacity is not a very active market. Powergen stated that the system had never really been tested in anger. Such a situation could be a constraint where shippers may be actively posting and re-posting. In this situation a shipper might be keen to ensure that its bid is competitive.

Transco pointed out that the last trade could have been made some hours before a constraint occurs and therefore might be largely irrelevant. It was observed that the value of the last accepted bid might be less relevant than the state of the current bid stack. A number of shippers stated that they would not be interested in the price of the last trade tracked in this way. Powergen agreed that it would be prepared to remove this requirement from the proposal. Transco confirmed that the requirement for last traded value and the validations based on deviation from this value would not be included in the system specification.

Amber and Red limits

At a previous RGTA workstream a shipper had requested that the validation process provide two levels of testing. An 'Amber' limit would generate a warning message and a 'Red' limit would prevent the bid being committed. The meeting discussed the risks of having warning messages that might be frequently accepted and agreed that it would be preferable to have only a single level of validation. Transco asked whether this single level should prohibit the operator from committing the bid. The meeting responded that this would be too inflexible and that the validation should generate a warning message that must be acknowledged before the bid could be completed.

Transco was asked whether system limits could be set so that only certain operators would be allowed to change validation limits. This would give two

system security levels, supervisor and trader, with only the supervisor able to modify the values on the validation screens. Transco agreed that this request would be added to the requirement specification.

Transco pointed out that the validation tests will only be applied to bids being entered to the screen and cannot be applied retrospectively to bids already held in the database. I.e. if validation limits are changed the system will not test bids that are already held in the database against the revised criteria.

Summary of functionality specification

(In addition to Maximum volume and Maximum value of bid (delivery with MISEC))

Maximum Price of bid, (p/kWh)

Minimum Volume of bid, (kWh)

Minimum Price of bid, (p/kWh)

Shippers using a 'supervisor' security level will set validation Limits and it will not be possible for 'traders' to amend the limits.

There will be only one level of validation and this will provoke a warning message that must be acknowledged before the bid can be committed to the database.

No default validation parameters will exist

Shipper validation parameters will not be checked against system limits (e.g. minimum bid volume of 100,000kWh or reserve prices)

Manifest Error Provisions

Transco asked whether manifest error provisions are required for the capacity auctions in view of the bid validation functionality that has been agreed. The reply was made that manifest errors have occurred on the OCM despite the validation measures in place, which indicated that such provisions were required. Shippers stated that during the period prior to within-day bid acceptance there is competition and shippers post and amend their bids. Shippers continue to compete until the auction is processed. Each shipper faces the risk that with an uncertain time for processing a bid could be incorrectly posted and the shipper might not have sufficient time to validate that the bid matches its intention before the auction is processed. The shipper might then face substantial charges for capacity or overrun as a result of an incorrectly posted bid. These risks in competing for capacity may inhibit the operation of the market.

Transco stated its opinion that the RGTA capacity system is an auction tool and is not a trading system like the OCM. Powergen contests this view and considers that the within day process on the RGTA system is a 'capacity flexibility mechanism'.

Transco argued that the manifest error provisions provided for the OCM would not be appropriate in the context of the capacity allocation regime. The capacity allocation is a batch auction process and the outcome of the auction is dependent on the contents of the whole bid stack. The proposer argued that individual transactions could be voided within the daily process without impacting on other parties if the capacity allocation process is considered as a series of discrete bilateral trades. If a single trade is declared void the capacity could then be allocated to another bid. Transco stressed that bids are not considered independently and in the case of bids with equal price there may be scaling of allocations so that other shippers may be affected. If a bid has been affected by scaling then the 'unallocated' part of the bid is discarded. In the case where the scaling would give an allocation that is less than the shipper's stated minimum quantity then the whole bid is ignored in that auction run. Therefore, the removal of a bid after processing could significantly affect other bidders.

The presence of manifest error provision and an ability to withdraw from a capacity transaction might lead to concerns regarding 'gaming' of the capacity market. However, the application of an administration charge might offset any potential gains. A charge of £5,000 was suggested although the treatment of any revenues was not decided. Charges might be retained by Transco as an 'excluded' service or be considered as transportation revenue.

It was agreed that manifest error could only be claimed against an allocation that had actually been made and would not apply where a shipper had failed to obtain capacity in an auction. For example, in the case of capacity purchases manifest error might only apply if the volume accepted was too large or the price too high. In the case of capacity surrender, manifest error might only apply if the volume was too large or the price too low.

Manifest Error Guidelines

The practicalities of unwinding a capacity allocation in a short time after processing implies that Transco might be the only party able to perform this role. It was noted that Transco would be extremely uncomfortable acting as an arbitrator in deciding whether to void capacity allocations. Transco is a counter-party to every transaction and has a financial interest through the incentive mechanism. The Transco incentive mechanism is aligned with the interests of MSEC holders and so Transco would be acting on behalf of all MSEC holders. Transco stated that it would require very prescriptive Manifest Error Guidelines if it were placed in the position of being the arbiter of manifest error and would be very uneasy about being expected to apply discretion.

The proposer described some criteria that might be applied to identify a manifest error. A volume limit could be set as [25%] of the 1 in 20 peak day flow at an ASEP. It was noted that this would not necessarily be appropriate at monopoly ASEPs and that Barrow is not the only example. An alternative volume limit could be [2] times the shipper's maximum ATLink nominated quantity at the ASEP in the last [12] months. Transco expressed grave concerns over the complexity of attempting to maintain availability of such data. A price limit for bids could be set

at [20%] above the highest bid price accepted in the day or in the previous [6] days. A price limit for offers could be set at [20%] below the lowest offer price on the day or in the previous [6] days.

It was agreed that if this proposal were to progress towards implementation then a clear definition of the manifest error guidelines would be required.

Alternative solution

The proposal does not intend that manifest error provisions should be applicable for MSEC and daily interruptible capacity processes. The features that distinguish these processes as different from the within day processes are a fixed closure to the bidding window and a batch processing of bids. The meeting agreed that these characteristics define these processes as auctions.

Transco argued that it was the intent of the within day capacity release to operate at fixed times through the day and the RGTA system had been built to support this batch processing. However, whilst the intent may have been to process at fixed times the Network Code does not oblige Transco to do this. In fact the practice has been for within day allocations to be run at times close to a whole hour but the exact time of processing has been variable.

Transco asked whether specific gate closure times would remove the problem. The concept could perhaps be extended so that after gate closure a 5 or 10 minutes “cooling off” could be allowed when bids could be withdrawn but not otherwise amended. For example the bid window could be closed on the hour, bid withdrawal could be made until five minutes past the hour and the auction process could be completed by twenty minutes past the hour.

This alternative is not contemplated within the proposal and Transco has raised a modification proposal to establish a pre-determined gate closure for the within-day capacity release.

Other matters to be considered for production of a modification report

Transco believes that a draft modification report can now be prepared. Matters to be considered in representations are; whether manifest error provisions are appropriate in the context of the daily capacity allocation processes and if they are then what the rules for determination of a manifest error should be. In addition, the level of administration charge and the treatment of revenues generated.

Transco does not support the proposal to introduce manifest error provisions to the daily capacity processes but recognises that the proposal is based on a valid concern. Transco will seek to offer an alternative solution.

Comments on potential implementation timetable

The proposal requested an implementation date of 1 December 2000. It is unlikely that the changes implied by this proposal could be implemented to meet this date.

1. The specification for bid validation functionality was discussed in the workgroup meeting and Transco agreed to progress system design against this specification. The provisional date for availability of the functionality that was agreed is late February 2001. Transco will inform the industry if an earlier implementation becomes possible.
2. The provision of manifest error provisions would require some system development to permit timely removal of a single bid from a bid stack that has been processed. Additional audit routines would be required within the system to ensure that the status of each bid could be tracked through the initial and the revised processing of the bid stack. If manifest error provisions are implemented then an initial assessment of system impact implies that a period of 5 months would be required between agreement of functionality and installation of tested code.

Comments on requirements for legal drafting

The bid validation functionality would not be provided as an obligation within the Network Code so no drafting is required for this aspect.

The implementation of Manifest Error provisions would require legal drafting. The alternative solution of implementing a fixed processing time for within-day capacity auctions would require a separate modification proposal.