

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0419
"Avoidance or correction of shipper errors in purchasing and selling entry capacity"
Version 1.0

Date: 14 August 2000

Implementation Date: 1 December 2000

Urgency: Non-urgent

Justification:

Recent levels of activity in placing bids or offers on the 'capacity flexibility mechanism' introduced on 1 June 2000 and the uncertainty over the time at which Transco will accept such bids/offers has significantly increased the probability that shippers will make errors when entering data onto the RGTA system.

This proposal advocates the need for validation processes for the sale of both monthly and daily capacity and manifest error 'correction' procedures for shipper daily capacity transaction mistakes.

Consequences of not making this change:

The lack of adequate procedures for dealing with manifest errors in trading capacity on the RGTA system was identified under modification proposal 402 "Referral of entry capacity disputes to the Energy Balancing Credit Committee". Although Ofgem rejected this proposal, they recognised the need for the introduction of systems to deal with these errors.

There have been a number of days on which shippers have made bids to buy capacity on the RGTA system in error. Such mistakes have cost shippers substantial sums of money and have on occasions distorted the market for entry capacity. Without satisfactory processes and procedures to help avoid shipper errors in the first place or correct them when they occur, the credibility of the RGTA capacity regime could be seriously undermined.

Validation process and manifest error provisions are features of other trading systems such as the EnMO operated on-the-day commodity market (OCM). This proposal envisages bringing the RGTA system into line with industry best practice for such screen based trading systems.

Area of Network Code concerned:

Section B, System Use and Capacity.

Nature of Proposal:

The error management arrangements described below are intended to make a clear distinction between monthly 'blind' auction processes where bids are processed at a fixed time and the daily processes characterised by dynamic competitive re-pricing

and variable bid/offer acceptance times. The former process is a more controlled environment in which the 'unwinding' of transactions is more difficult because of the impact such 'correction' procedures may have on any auction result. Consequently, this modification proposal does not propose manifest error 'correction' procedures for monthly auctions.

The daily 'capacity flexibility' processes however, are more akin to other screen-based commodity trading systems in which individual trades between counter-parties provide for the possibility of amendment in exceptional circumstances. Transco may choose to process many trades sequentially but this cannot be described as an 'auction' mechanism. It is simply a collection of individual transactions processed at the same time. 'Unwinding' one trade does not impact on other shippers as Transco can simply go to the market again to make up any resulting shortfall.

Shipper Error Avoidance

This proposal requires Transco to develop its system to provide optional volume and price warning limits when shippers enter data onto the RGTA system. System validation with values of parameters set by shippers should as a minimum include:

- Upper and lower bid/offer price limits.
- Upper and lower bid/offer volume limits.
- Upper and lower % tolerance limits from the last trade price*.
(Last trade price being the lowest price transaction when Transco sequentially accept a series of bids/offers)
- A display of the price of the last trade*.

* Applies to daily capacity products only and would be similar to the 'last trade' displayed on EnMO OCM screens.

It is intended that detailed proposals would be developed within the relevant Network Code Workstream.

Shipper Manifest Error Correction

(Applies to daily capacity only)

It is proposed that manifest error provisions similar to those operated by EnMO on the OCM, would be applied by Transco. These would provide for shippers to request a trade to be 'unwound' within [10] minutes of a bid or offer being accepted by Transco. In making such a request the shipper in question would have to pay a non-returnable 'administration' fee of [£5,000] for each request to have a trade voided.

Transco would establish "Manifest Error Guidelines" describing typical circumstance under which Transco would declare a shipper trade void. Subject to these guidelines Transco would at its discretion void a trade within [10] minutes of a shipper submitting a manifest error request. For the purposes of Transco's Price Control, non-returnable 'administration' fees would be treated as normal transportation revenue.

[] Suggested values.

Scope of this Modification Proposal

For avoidance of doubt this proposal is intended to only cover errors made by shippers. Given that Transco is both the operator and a user of the RGTA system other alternative 'manifest error' arrangements are considered more appropriate for Transco. These are outlined under modification proposal 413 "Compensation payments following Transco's failure to meet entry capacity commitments." Modification proposal 413 provides for shipper compensation should Transco unilaterally 'unwind' a transaction as a result of Transco 'manifest error'.

Proposer's Representative

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Position: Gas Trading Arrangements Manager

Company: PowerGen UK plc

Proposer

Peter Bolitho, PowerGen UK plc

Signature:

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