

Manifest Errors Procedure related to Entry Overrun Charges

Transmission Workstream

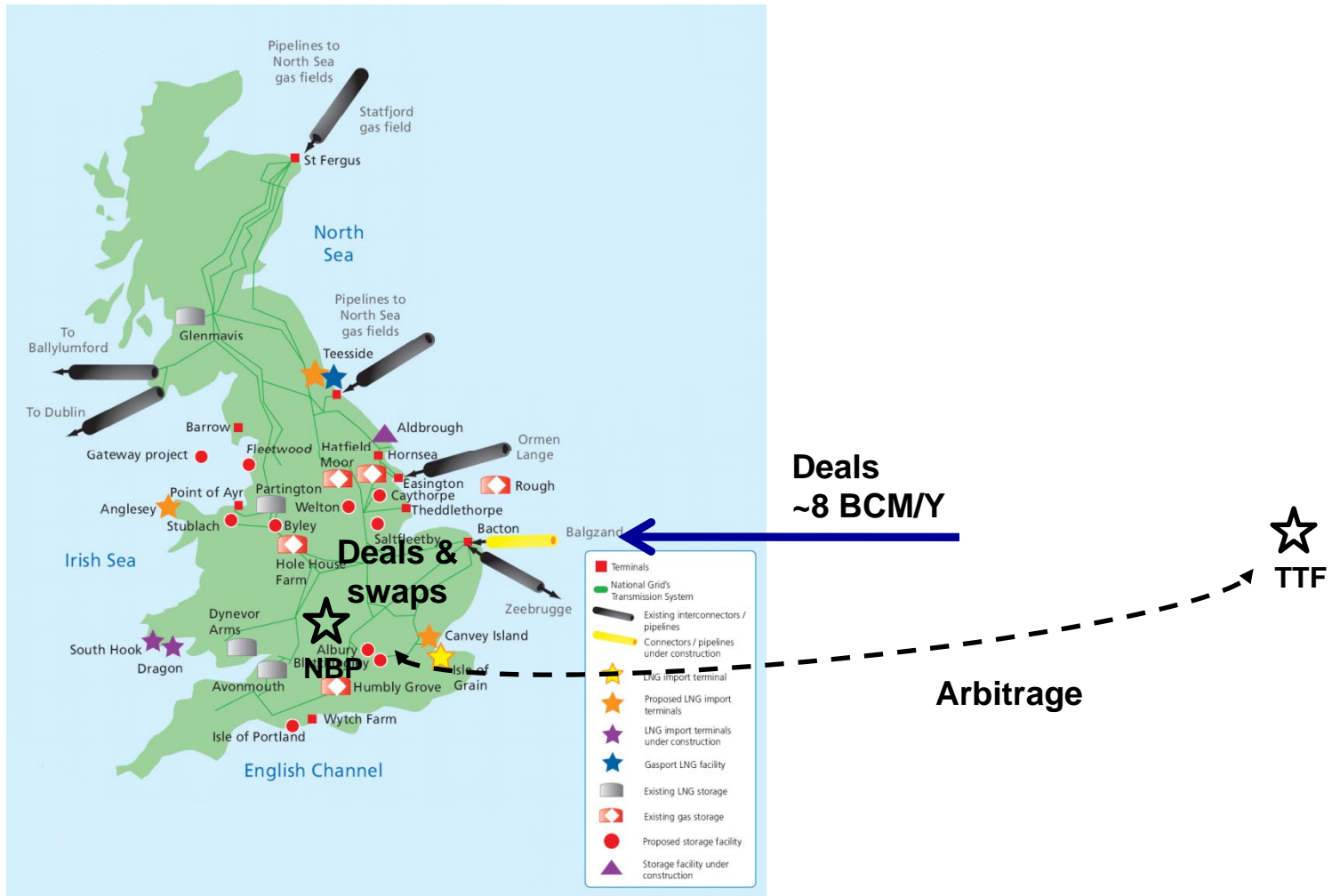
1st July



Introducing GasTerra

- GasTerra is a Netherland based wholesale company buying & selling natural gas
- Most gas is sold inland (32 bcm) or at the borders (42 bcm) and 8 bcm in the UK (via BBL).
- Simple business model related to transport:
 - First make a buy/sell-deal, then acquire needed transport capacity
 - Optimizations (swaps, arbitrages) are performed as well. However, we are a "wholesaler" of gas not a "trader"
 - We want to behave as a prudent shipper. We consider "transport" as a means to sell gas; not as a goal to earn money

Entry Bacton



Manifest Error Occurred

- We had a very significant problem with Overrun Charges in April 2010 at ASEP Bacton (> £ million)
- We book capacity in several auctions. Major part in QSEC and AMSEC. Remainder in WDDSEC and DI.
- Insufficient capacity was booked every day for the whole month April
- Result of a manifest error:
 - Due to new administrative IT-system implemented, intended to improve internal procedures (design flaw)
- Nominations were correct but additional bookings in total were wrong. This stayed unnoticed:
 - No warnings in Gemini that total booked/traded capacity is negative
 - No warning that nomination is (much) larger than booked capacity
 - No signal for sustained/continued flows massively exceeding booked capacity
 - GasTerra discovered problem at the beginning of May and reported it at once to NG and then to Ofgem

Overrun Charges : present rules

- Currently defined in UNC Section B 2.12.3 as follows:

The System Entry Overrun Charge shall be calculated as the amount of the overrun quantity multiplied by whichever is the greatest of:

*(a) $(8 * A)$, where 'A' is the highest bid price in relation to a capacity bid in respect of which NTS Entry Capacity was allocated following an invitation under paragraphs 2.2, 2.3 and 2.4; and*

*(b) $(1.1 * B)$, where 'B' is the relevant average accepted offer price;*

*(c) $(1.1 * C)$, where 'C' is the relevant average accepted forward price;*

*(d) $(1.1 * D)$, where 'D' is the relevant average accepted exercise price; and*

*(e) $(1.1 * E)$, where 'E' is the highest unit price accepted by National Grid NTS*

where (a), (b), (c), (d) and (e) are calculated by reference to information available to National Grid NTS at 02:00 hours on the relevant Day.

- Charges feed into Capacity Neutrality Smear; are shared amongst all Shippers in proportion to firm capacity holdings (Section B 2.13)
- National Grid takes share through capacity neutrality/buyback incentive mechanism (in licence conditions)

Overrun Charges : Intentions?

- "Ticket to ride" principle. This is an important principle
- Key means of incentivising Shippers to book capacity ahead and not to "free-ride"

However:

- 8 x multiplier in (a) gives a disproportionate charge in this case, because it persisted for a whole month.
- Rule is designed to dis-incentivise a shipper that is taking chances, not to punish an genuine mistake
- There was no shortage of capacity (commercial or physical)
- No 'harm' whatsoever was done to National Grid, Shippers or Consumers
- Charge clearly is not cost reflective in this context (reserve price at WDDSEC is zero)
- We made the mistake ourselves; but there is no signal/warning from the system whatsoever either

Options

1. Challenge the basis of Entry Overrun Charges?

- There is a case that the 8x multiplier constitutes a penalty in this context
 - Provision that it is not designed to apply for more than a few days consecutively
 - Solution should apply to April 2010 and any similar future occurrences thereafter (and might for example limit the application of the 8x charges)
- However, we are not seeking to undermine the ‘ticket to ride’ principle
 - Previous Mods seeking to change the 8x multiplier have been rejected
 - Also it is not unreasonable that there should be some appropriate financial consequence for overruns even in these circumstances of genuine error

2. Introduce Manifest Error Arrangements?

- There is no clear process in the UNC for a Shipper to notify National Grid of a manifest error situation, nor any means of resolution and correction
- We believe there should be a mechanism which would allow for notification, handling and resolution of material manifest errors related to overrun charges
- ‘Manifest errors’ concept already exists in electricity: BSC section Q 7
- Without such an arrangement the incentive turns into a penalty, which could be limitless. Now already > £ million; at Easington 2008 prices this overrun could have been > £ 30 million; what if it happened to a smaller shipper?
- In several Code Mod decisions, Ofgem advocated the insertion of such arrangements. No system is infallible and no one is perfect.

Options (continued)

3. Introduce some warnings / signals into Gemini?

- We believe this should be done, but it could take longer to develop
- Good for future but doesn't help to solve the current problem
- We are willing to separately propose a Code Mod if Industry supports this idea
 - potential user pays issues to be considered

Preferred Approach

- Propose a Mod(s) for Manifest Error Arrangement related to overrun charges
 - Discuss the topic today in the Transmission workstream
 - Raise a draft Code Mod, possibly for the July Mod Panel
 - If necessary, discussion at August Transmission workstream, full Mod proposal for August Panel
 - Consultation in early September, Mod Panel decision at September Panel
 - To facilitate Ofgem decision late October and immediate implementation
- We will consider proposing a Mod for warnings in Gemini
 - In due course; after discussion in the workstream

Manifest Error Arrangement

- Scope:
How to deal with overrun charges due to manifest errors made by a shipper, which were discovered too late to remedy in time.
- Direction of thinking:
 - A specific procedure to notify and to process manifest error claims
 - Should address consequences of overruns resulting from manifest errors
 - Should not dilute 'ticket to ride' and incentives to book capacity
 - Set a hurdle for materiality (sufficiently significant issues only)
 - Set an administration fee if procedure is started

Manifest Error Arrangement (continued)

Elements of Manifest Error Arrangement:

- How to make a notification/claim that a manifest error has occurred; time schedule
- Set materiality hurdle and administration fee
- Who is to decide that an instance indeed is a manifest error (independent committee)
- How to decide how much capacity should have been booked and at what price (what principles to use)
- How to implement the results of the deciding committee

Manifest Errors in the BSC in Electricity

Manifest Errors in bid/offer-pair acceptance by the Transmission Co

- Q7.1 – Meaning of Manifest Error
- Q7.2 – Claiming Manifest Error
 - Timing (as soon as reasonably practicable)
 - £ 5000 Admin Fees payable
- Q7.3 – Flagging Manifest Error
 - Notifying the community
- Q 7.4 – Determination of Manifest Error
 - BSC Panel considers claims and evidence and decides if a manifest error has occurred
 - May delegate this authority to Trading Disputes Committee or appoint other Committee
 - Requirement on claiming party to provide evidence, and on Transmission Co to provide any necessary supporting information
- Q 7.5 – Adjustments to the bid offer price
 - Sets out how an adjusted price should be settled upon
 - Essentially Panel looks at what would have happened if the error had not occurred
- Q 7.6 – Error Compensation Amount
 - Where resultant costs incurred are greater than compensated for by adjusted price, then can claim for an additional compensation amount (>£500)

Manifest Errors – Electricity Mod P37

- P 37 Mod enabled correction of manifest errors which occurred during the first few weeks of NETA
- Similar process established, for Panel consideration of material errors made by prudent operators
 - Limited circumstances
 - Subject to admin fee
 - Claimant to establish nature of error
 - Panel to determine if there was an error, and appropriate adjustments
 - Settlement runs made to correct the position
 - Appeals to Ofgem were possible