

# 0555R – Review of the Market Operator (OCM) Provision – Workgroup 1



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# Agenda

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1. Aim & Scope: 555R Workgroups
2. Background
  - Ofgem Letter
  - Areas to consider
3. Process flow: WG1
4. Summary of stakeholder feedback to date
  - Key issues identified
5. Risk statements & assessment
6. Proposed Workgroup Schedule

## Aims: 555R Workgroups

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- To understand your views on the current provision of the Market Operator role
- To understand if the current arrangements are still fit for purpose
- To understand your views on the risks outlined in the Ofgem letter
- Workgroup 555R is **not** proposing any changes to the current arrangements at this time

## Scope: 555R Workgroups

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### In scope;

- services detailed in Annex D1 of UNC TPD
- content of GT Licence Standard Special condition A11

### Out of scope;

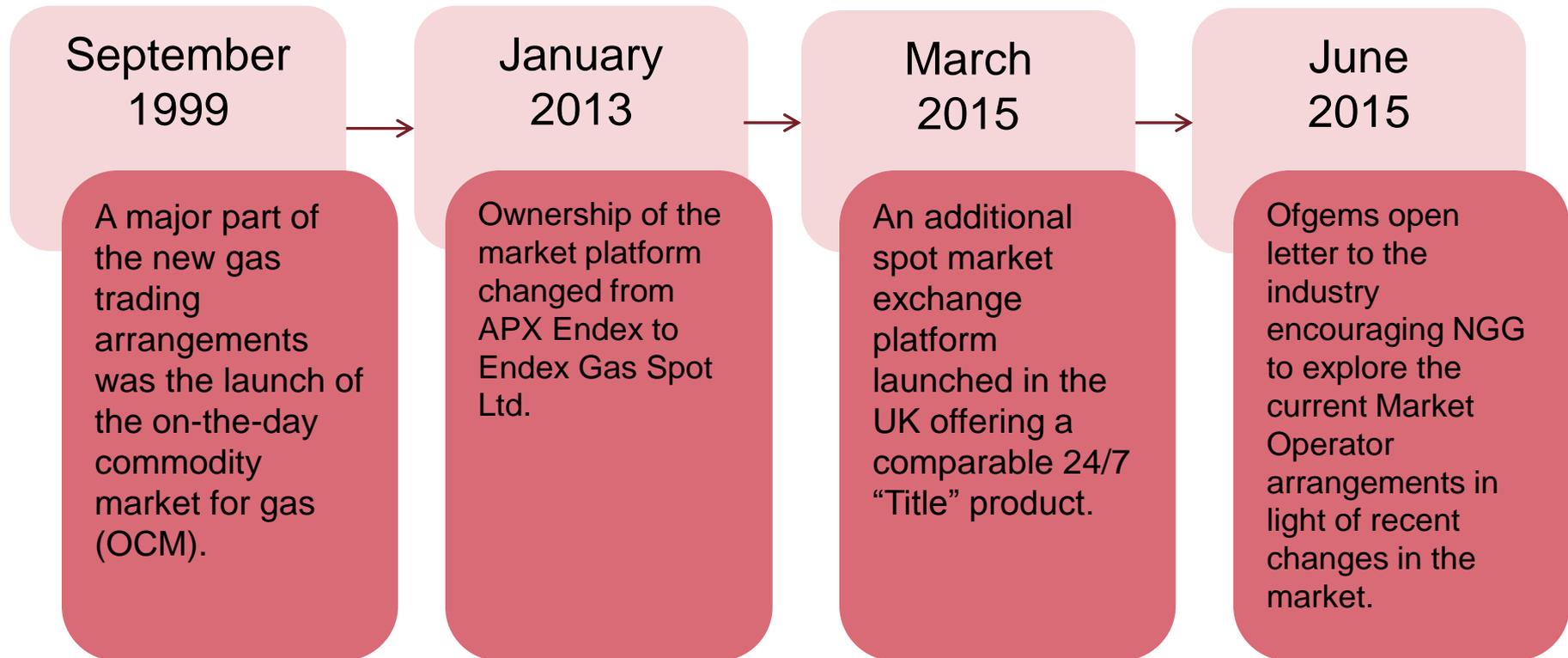
- System Clearing and credit processes in relation to Energy Balancing Neutrality and OCM detailed in UNC Section F

# Background



# Background

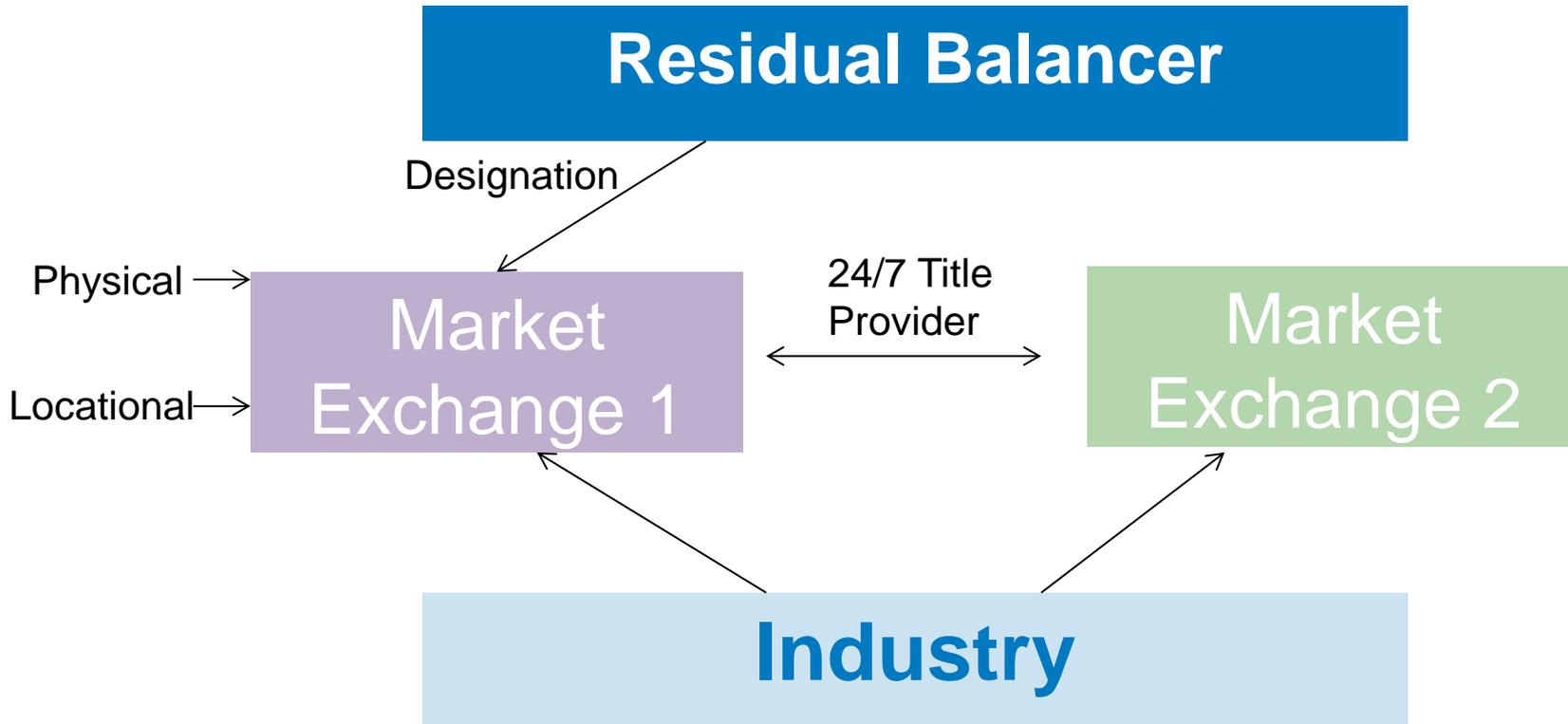
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**High level role:** The OCM must be an independently operated, screen based platform, which shippers can use to fine tune their own gas balance, which National Grid use in its role as Residual Balancer and the trades on the OCM are used to set the cash-out prices for the regime. The OCM provides three distinct products; Title, Physical and Locational.

# Current Market Situation

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## Ofgem Letter



## Ofgem's Letter (June 15)

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- Should the current arrangements be revised in light of new entrants to the GB 24/7 spot market?
- What changes might be made to facilitate more competition in the market / net benefits for consumers?
- Implications of multiple trading exchanges on system operation and balancing, considering;
  - Maintaining a successful liquid market
  - Maintaining a robust market reflective system clearing contract price (cashout)
  - Maintaining a cost reflective setup which continues to provide real time transparent market information, including cashout, without resulting in additional barriers to entry for market participants

## Other considerations

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- Understand the industry's perceptions of risk surrounding the facilitation of multiple 24/7 exchange markets offering Within Day Title products where:
  - The Residual Balancer is restricted to one venue – current set up
  - The Residual Balancer has freedom to utilise more than one venue
- Review of the content and appropriateness of the current Gas Transporter Licence OCM Operator Designation criteria – Has been in place since its introduction in 1999

Are we missing anything?

## Areas to consider



## Areas to consider

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Any changes / options need to be mindful of:

- UNC
- Market Operator Contract
- Gas Transmission Licence
- European Utilities Contract Regulations
- European Balancing Code
- Any Others?

## Areas to consider

Obligations	Details	Actions
Uniform Network Code – Transportation Principal Document Section D.2	<ul style="list-style-type: none"> <li>D2.1 references NTS appointing a <b>person</b> who has established a <b>market</b> for balancing. This person will provide and operate <b>an</b> electronic trading system</li> </ul>	Actively change
Market Operator Contract	<ul style="list-style-type: none"> <li>Any changes made to the current arrangements may require a change to the market operator contract currently in place</li> </ul>	Actively change
NGG Gas Transporters Licence: Standard Special Condition A11 (as modified by Special Condition 8B)	<ul style="list-style-type: none"> <li>22A: NGG appoints an <b>independent market operator</b> to provide an <b>electronic trading system</b></li> <li>22B: NGG to use all reasonable endeavours to appoint a person having <b>financial resources, skilled and experienced personnel</b> and <b>systems adequate</b> to ensure the market is conducted in an orderly and proper manner according to clear and fair rules with a <b>clearing function</b></li> </ul>	Actively change

## Areas to consider (2)

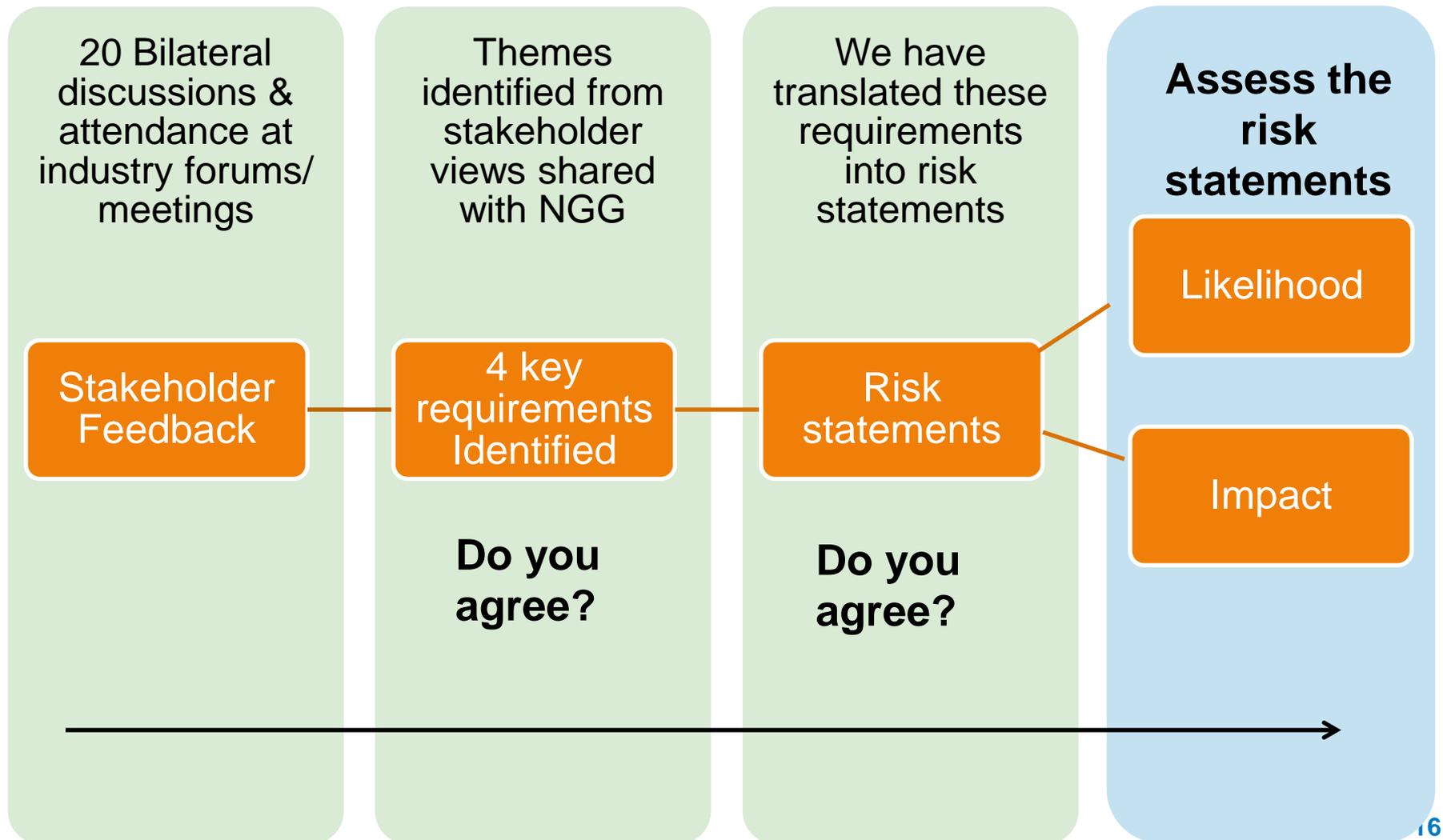
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Obligations	Details	Actions
The European utilities contracts directive (2004/17/EC)	<ul style="list-style-type: none"><li>Contracts over £345,028 should be subject to retender every 5 years</li><li>This applies to certain utility companies operating in the Energy, Water, and Transport sectors</li></ul>	Comply with
EU Balancing Code	<ul style="list-style-type: none"><li>Article 10: Trading Platform: Criteria detailed in the code is met by <b>at least one</b> trading platform</li><li>Allows multiple operators and platforms but does not enforce it</li></ul>	Comply with

## Process Flow: WG1



## Process Flow: WG1



## Stakeholder Feedback



# Stakeholder Engagement to date

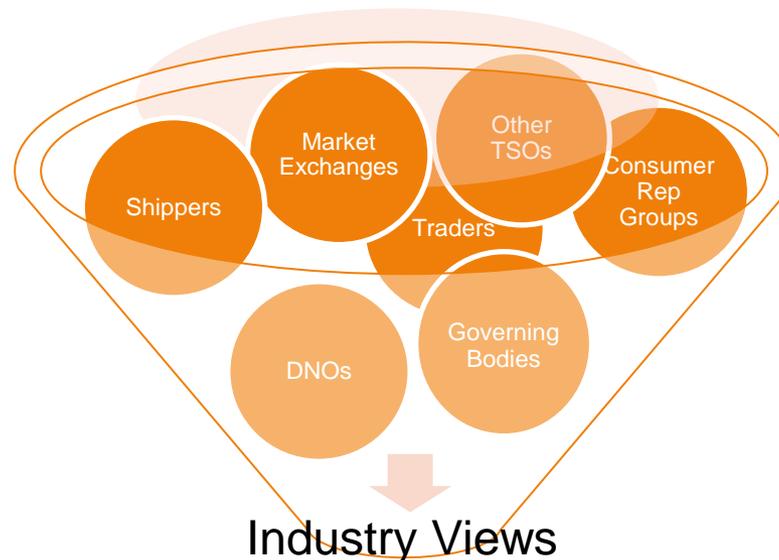
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June 2015



October 2015

- Email sent out by the Joint Office and the gas Operational forum on behalf of NGG asking interested parties to get in touch
- Bilateral meetings - 20 stakeholders (Regulatory & Operational)
- Industry Forums / Meetings (Multiple stakeholders)



## Stakeholder Feedback to date

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“The OCM works well – we don’t think any changes to the market are required”

“You need to consider the complexity and cost of the change vs the benefits to consumers”

“The increase in competition could lead to a reduction in trading costs”

“Multiple markets will lead to excess costs to customers who will have to pay to access both markets”

“Access to Multiple markets is unlikely to encourage more trades therefore it will just lead to a split in liquidity”

“Currently the OCM is working well, however we would be worried if liquidity started to move”

“NG should be able to access liquidity in other markets (economic & efficient)”

“Real time cash out prices are very important to shippers and the functionality of the market, we wouldn’t want this to change”

## Key Issues identified

Issue	Ofgem Letter	Stakeholder Views
Market Liquidity	“A market with multiple established exchanges could have negative impacts on residual balancing if liquidity was spilt whilst NGG remained restricted to trading on one platform”.	<p>“ NGG should be able to access liquidity on other markets (economic and efficient)”.</p> <p>“The OCM is working well, however we would be worried if liquidity started to move”.</p> <p>“ Multiple exchange operators could increase the amount of liquidity in the market”.</p>
Real time cash out prices	“Changes to the arrangements for residual balancing could add complexity and cost e.g. the calculation of cash-out charges”.	“Real time cash-out prices are very important to shippers and the functionality of the market”.
Trading costs	“Increased competition between exchanges could have additional benefits for consumers, by further minimising fees”.	“Multiple markets will lead to excess costs to customers who will have to pay to access both markets”.
Certainty on the exchange that the Residual Balancer is using		“NGG having access to multiple markets will lead to uncertainty to the industry regarding which platform the residual balancer is using to balance”.

## Risk Definitions

Likelihood		Definition
5	Almost Certain	90% or greater chance of occurrence
4	Likely	65% up to 90% chance of occurrence
3	Moderate	35% up to 65% chance of occurrence
2	Unlikely	10% up to 35% chance of occurrence
1	Rare	<10% chance of occurrence

Impact		Financial Definitions (Time Period: A Month)
5	Severe	Over £5 Million
4	Major	£1 Million - £5 Million
3	Significant	£500,000 - £1 Million
2	Minor	£100,000 - £500,000
1	Insignificant	Less than £100,000

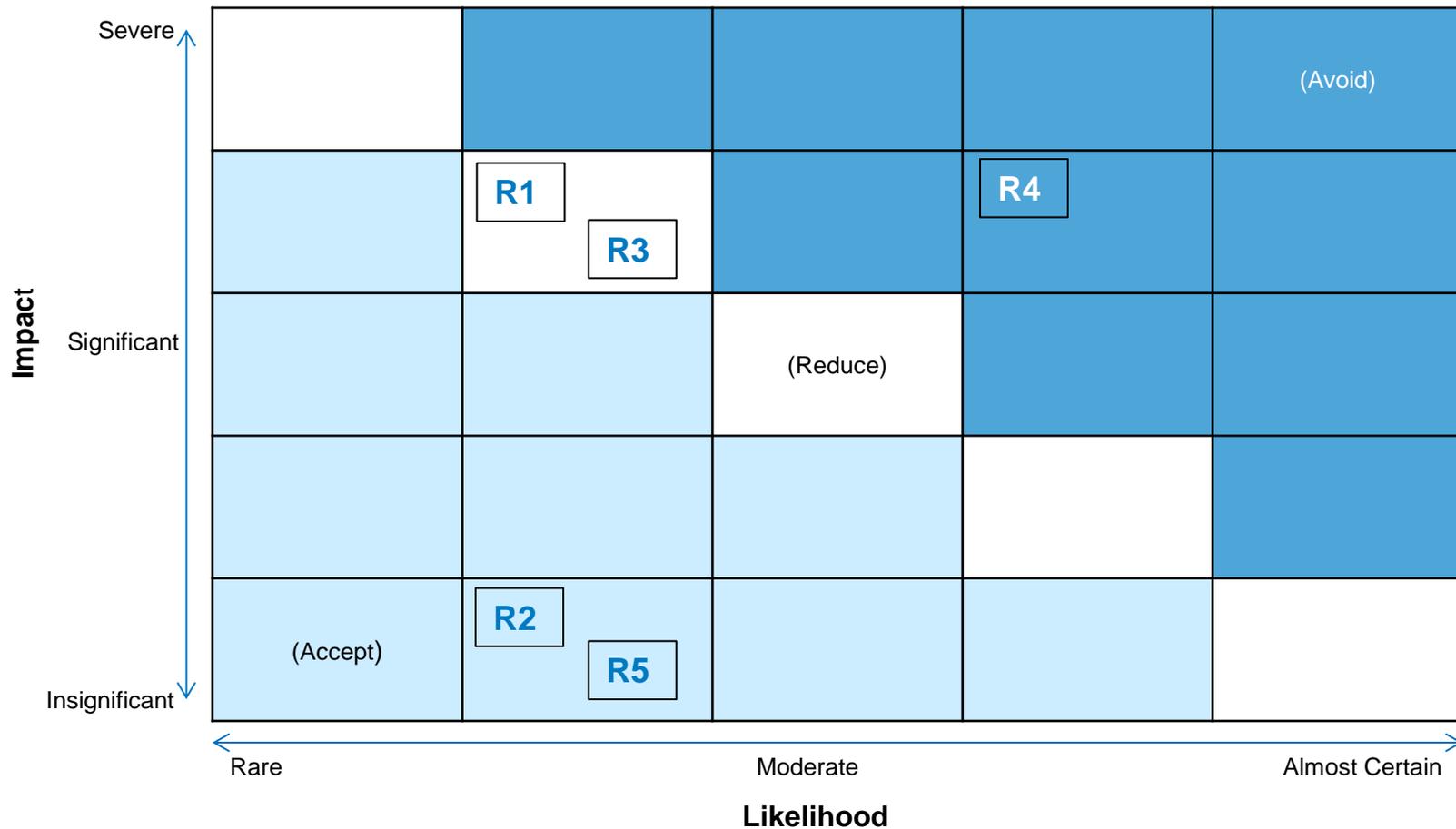
## Risk statement assessments

Issue	Risk statement There is a risk that.....	Impact	Likelihood	Total Risk score
<b>Market Liquidity</b>	(R1) Liquidity splits between the two balancing exchanges leading to insufficient liquidity for NG to take economic residual balancing actions	<b>4</b>	<b>2</b>	<b>8</b>
	(R2) Liquidity splits between the two balancing exchanges leading to insufficient liquidity for other market participants who only have access to one market exchange to balance their position	<b>1</b>	<b>2</b>	<b>2</b>
	(R3) Liquidity splits between the two balancing exchanges which results in cashout prices not being market reflective	<b>4</b>	<b>2</b>	<b>8</b>

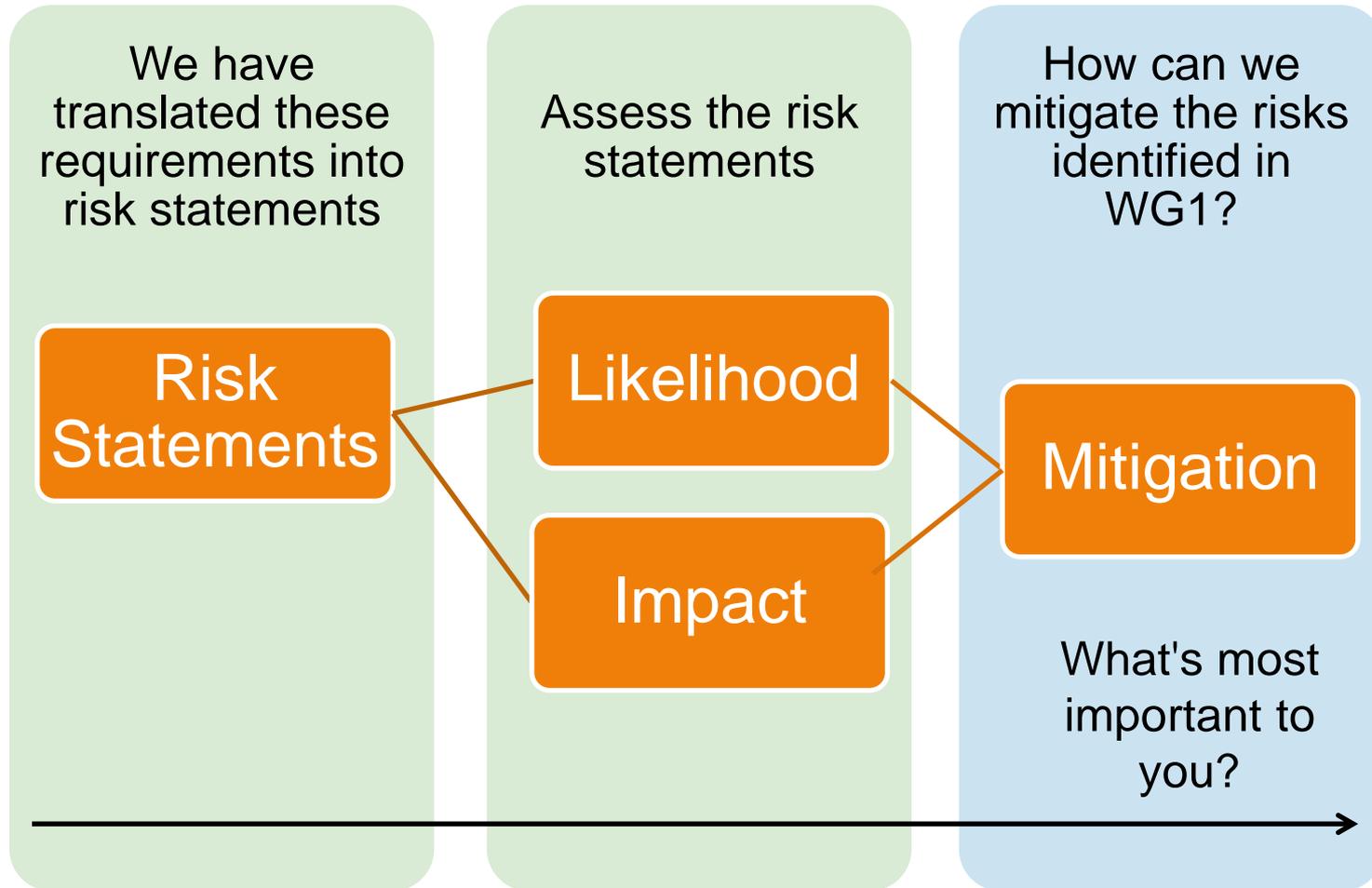
## Risk statement assessments (2)

Issue	Risk statement There is a risk that.....	Impact	Likelihood	Total Risk score
<b>Real time cash out prices</b>	(R4) A change to the market structure adversely impacts the frequency within which clearing prices are published, leading to increased risk margins being built into market offers, in turn leading to higher market clearing volatility	<b>4</b>	<b>4</b>	<b>16</b>
<b>Trading costs</b>	(R5) Liquidity splits forcing market participants to sign up to more than one market to maintain access to the same level of liquidity	<b>1</b>	<b>2</b>	<b>2</b>

# Risk scores mapping



## WG2 process flow



**Anything else?**

# Proposed Workgroup Schedules

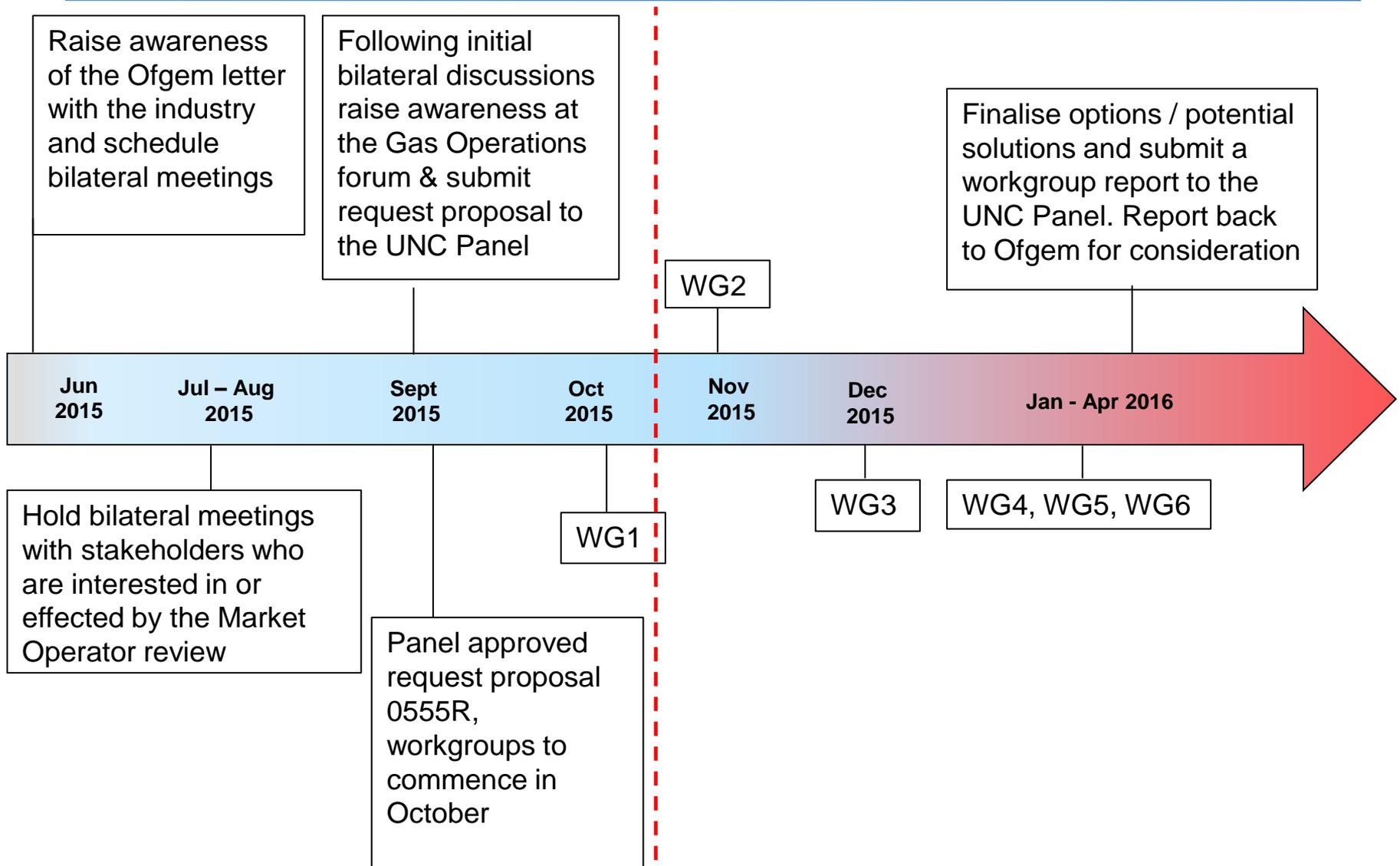


# Scheduling of Issues and development areas

## Proposed Workgroup agenda schedule

<b>WG1</b> <b>30<sup>th</sup> Oct</b> <b>10am</b>	Information Gathering <ul style="list-style-type: none"> <li>- Background of the OCM,</li> <li>- Ofgem Letter,</li> <li>- Stakeholder feedback,</li> <li>- Industry requirements of a balancing exchange market,</li> <li>- Identifying the Criteria for assessment of potential options (Risk assessments)</li> <li>- Agree meeting schedule</li> </ul>
<b>WG2</b> <b>27<sup>th</sup> Nov</b>	Basic requirements and options analysis <ul style="list-style-type: none"> <li>- Agreement on risk statements – are they material?</li> <li>- Identification of risk mitigation options / solutions</li> <li>- Prioritise risk mitigation options (what's important to you?)</li> </ul>
<b>WG3</b> <b>21<sup>st</sup> Dec??</b>	Finalising options/ solutions <ul style="list-style-type: none"> <li>- Confirm mitigation options / solutions</li> <li>- Assess risk appetite (how much do we need to reduce Likelihood and impact)</li> <li>- Agreement of preferred options / solutions</li> <li>- Finalise assessment of implementation costs of preferred solutions</li> </ul>
<b>WG4</b> <b>26<sup>th</sup> Jan??</b>	Draft and agreement of Workgroup report
<b>WG5</b> <b>24<sup>th</sup> Feb</b>	Draft and agreement of Workgroup report
<b>WG6</b> <b>30<sup>th</sup> Mar</b>	Draft and agreement of Workgroup report

# Timeline / Next steps



# Your feedback is important to us

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- Your feedback is always welcome
- We would like to capture your contact details today so that we can keep you informed of developments
  - We may also try and contact you for your feedback and comments about today and our approach
  - If you would prefer not to be included then please do let us know
- You can also contact me to tell us how we are doing, particularly on topics discussed today:

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- Feedback can also be provided online if you prefer

<http://www2.nationalgrid.com/uk/services/transmission-customer-commitment/contact-us/>