

# UNC Workgroup 0555R Minutes

## Review of the Market Operator (OCM) Provision

### Friday 27 November 2015

### 31 Homer Road, Solihull B91 3LT

#### Attendees

Les Jenkins (Chair)	(LJ)	Joint Office
Mike Berrisford (Secretary)	(MB)	Joint Office
Adam Lane	(AL)	Centrica
Antoine DeVilliers	(AD)	PEGAS
Charles Ruffell	(CR)	(RWEST)
Christian Moger*	(CM)	ICE Endex
Darren Lond	(DL)	National Grid NTS
Debra Hawkin	(DH)	TPA Solutions
Egbert-Jan Schutte-Hiemstra	(EJS)	ICE Endex
Francisco Gonçalves*	(FG)	Gazprom
Graham Jack	(GJ)	Centrica
Jeff Chandler*	(JC)	SSE
Julie Cox	(JCx)	Energy UK
Laura Langbridge	(LL)	National Grid NTS
Lucy Manning	(LM)	Gazprom
Nigel Sisman	(NS)	Sisman Energy Consulting
Raveena Virk	(RV)	National Grid NTS
Richard Fairholme	(RF)	E.ON UK
Sirko Beidatsch	(SB)	PEGAS
Sohail Shakoor	(SS)	ScottishPower
Steve Nunnington	(SN)	Xoserve
Terry Burke	(TB)	Statoil
Thomas Farmer	(TF)	Ofgem
Wouter de Klein	(WK)	ICE Endex

\* via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/0555/271115>

The Workgroup Report is due to be presented at the UNC Modification Panel by 21 April 2016.

#### 1.0 Review of Minutes

The minutes of the previous meeting were approved.

#### 2.0 Workgroup Discussion

Commencing proceedings, LJ explained that the main focus of the meeting was to continue with the assessment of the risks from the initial scene setting meeting that took place on 30 October.

During a brief discussion, LJ highlighted that the Workgroup should focus on understanding where we are now in terms of the current regime (i.e. does it remain 'fit for purpose') and not look to try to propose any regime changes at this time – in short, the

Workgroup needs to focus on current principles, potential risks and how best to mitigate these.

Whilst some parties voiced concerns on the relatively tight targeting of discussions, others noted that the subject relates more to how emerging market competitors potentially impact upon the current OCM regime.

When asked, TF clarified that Ofgem is expecting the Workgroup to provide an assessment / view around costs, benefits and risks and their associated mitigations culminating in a recommendation on whether or not the current regime remains 'fit for purpose' in its current form – in short, would a move to a revised (open competitive market) OCM model prove beneficial or not.

## **2.1. Consideration of the Revised Risk Assessment**

LL provided an overview of the National Grid NTS presentation entitled '0555R – Review of the Market Operator (OCM) Provision – Workgroup 2' presentation.

During a discussion on what actually constitutes an appropriate definition for liquidity, it was suggested that in the context of 0555R, this relates to National Grid NTS's ability to access gas on the market.

It was acknowledged that liquidity can be difficult to measure, especially when it is really 'in the heads' of the Traders and therefore not simply a platform related product.

Whilst some parties felt that there is also a need to bear in mind what products, over what time frames are being included, LL suggested that it is 'title liquidity' that should form the main focus of the Workgroup deliberations, whilst recognising the importance of both the physical and locational markets

Moving on, LL explained that the 'Historic OCM v's alternative exchange volume by month' graph had now been updated to reflect the month to date information available for November. DL explained how National Grid NTS's utilisation of the OCM has developed over the years to the current position where they (NG NTS) will largely leave the market to sort itself out (with minimum intervention), which as a result means when the Residual Balancer does intervene they trade on the out of hours market. In response to a question from GJ around what NG NTS wants / needs from the OCM alongside a liquid market, DL also noted that National Grid NTS also considers the provision of robust cash-out prices as an important tool in the market to maintain the correct incentives around shipper balancing.

When asked whether or not National Grid NTS could provide some statistics around its business hours compared to out of hours volumes, DL responded by indicating that that level of information detail is not available to National Grid NTS.

In considering the 'NG Residual Balancing trades as a % of OCM market volume' data, DL reminded those present that National Grid NTS is only involved in a single sided trade transaction and not double sided (i.e. not involved in both ends of the trade). Some felt that based on this information the graph exaggerated the Residual Balancers trades as a total % of market share, potentially selling National Grid NTS's role short. It was also noted that National Grid NTS is the only European TSO that allows users the ability to 'flex and balance' the system, which in itself is a remarkable achievement.

LL explained that since the last meeting, National Grid NTS had redefined the risk definitions and reordered them in order of the perceived risk magnitude(s) and reset the time period as one year. LL then explained that the risk statement assessments are based on a 'whole world' view and once again are presented in risk magnitude order, whilst DL pointed out that the scores had been established following discussion with market participants, including some operational personnel.

The next phase of discussions centred around the real time cash-out prices risk (slide 8), with views differing over the value of providing real time information being revisited. Responding to the points being raised about a potential delay to information, LJ suggested that the Workgroup would need to make an assumption around what (timing of information) delay would be deemed as detrimental to the (OCM) service provision and then make assessments based against these assumptions. It was recognised that there would be value in obtaining additional industry views (operational stakeholders) on what the potential impacts would be, should any additional delays in the provision of information result.

It was suggested that in accepting that a move to a multi market could introduce delays in the provision of key information, it is how the associated impacts are assessed that is the real key to the issue. Some operational parties believe that the cost of volatility would increase with a subsequent knock-on effect on customer costs.

Staying on the issue of the timing of information provision, LJ clarified that whilst a lag might be coped with during proceedings on a 'normal day', on 'difficult days' or under emergency conditions real time information provision becomes crucial. However, DL suggested that if real time information is required on difficult days, then in reality it is also needed for normal days, on the grounds that 'the market' does not know what tomorrow might bring.

LJ suggested that splitting R3b into two elements and thereafter assessing against the two criteria might be beneficial on the grounds that whilst cash-out prices in real time has a risk to Shippers, cash-out prices in anything greater than real time has an even bigger risk to Shippers – ICE Endex and PEGAS were requested to provide a view on what it costs to aggregate outputs from the market in order to establish cash-out prices (including any potential price change related influences that might also have an impact).

When asked whether or not National Grid NTS could provide examples of their one-off and ongoing maintenance costs in order to identify whether a move to a multi market model is a viable option, DL advised that whilst he would be able to provide the information (in the form of a Rough Order of Magnitude (ROM)), the core issues for the Workgroup still boil down to making a decision on the risk scores.

**New Action 0555 1101: National Grid NTS (DL/LL) to provide a view on how much it would cost them to aggregate outputs from multiple market exchange platforms, calculate and publish cash-out prices in near real time. If possible, to look at a range of scenarios to understand the cost implications of different time delays.**

**New Action 0555 1102: ICE Endex (EJS) & PEGAS (SB) to provide their view(s) on what it costs to aggregate outputs from multiple exchanges and publish cash-out prices in near real time, ensuring all assumptions are stated and presented to the Workgroup.**

## **2.2. Consideration of potential risk mitigation options / solutions (including prioritisation and PEGAS outline on mitigation actions)**

In providing a brief overview of the (abridged<sup>1</sup>) PEGAS 'Opening OCM for competition' presentation, SB opened by stating that PEGAS is not here to chastise the OCM, but rather seeks to focus on improvements in competition to the benefit of customers. LJ explained that the full version of the presentation had been withheld

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<sup>1</sup> A copy of the full (21 page) version of the presentation was published 'for information purposes only' immediately following cessation of the meeting.

until after the meeting because some of the material was outside of the scope of 0555R.

Focusing on the 'How to reduce market liquidity risk? 1/3' slide, some parties pointed out that the OCM is purely a balancing tool and suggested that looking to fracture liquidity down even further would not necessarily improve prices in the longer term. Furthermore, it was felt that utilising two potentially different platforms (OCM and Trayport) would not be a viable cost model.

Some parties then questioned whether or the proposed increase in liquidity and activity in Exchange trading of balancing products during business and non-business hours (especially Within-Day products) would actually translate into the OCM. Responding, SB suggested that pricing would have a significant bearing on competitive aspects.

Concerns were also voiced around the true viability of the liquidity (cost) statement on the grounds that the smaller Shipper participants' costs to access multiple markets may prove prohibitive.

Discussions then centered around whether there would be any true benefit to National Grid NTS in having two potentially competing platforms at its disposal, especially when this could potentially trigger some additional cash-out price related risks and introduce unwelcome complexity. Some also felt that the costs of moving to a two platform model would be prohibitive. SB believed that real benefits are acquired by the market players. It was recognised that care would be needed when comparing the two platforms to ensure that a true like-for-like comparison of costs and benefits, risks and mitigations are made (i.e. apples to apples, rather than apples to oranges) as this related to ICE's current provision of the Locational and Physical Markets alongside the Title market.

Moving on to consider the 'How to reduce market liquidity risk? 3/3' slide, discussions focused on whether there is truly a need for real time data provision, as it is felt that no one has actually quantified what timings are appropriate for the market. Responding, EJS advised that ICE are constantly asked to provide immediate access to information such as cash-out prices etc. by its customers. LL added that the TSO's cash-out information publication timings (hourly) are assessed from a cost v's benefits perspective (i.e. covered by National Grid NTS' risk categorisation). In the end it was felt by the majority of those present that, should moving to a two platform based model introduce delays (when compared to current OCM information provisions) in the publication of information, such a move then potentially becomes unacceptable.

The general feeling amongst those present was that there is no real (OCM) benefit in moving to two platforms and that it is essential that we ensure that should a second player (PEGAS) come into the market place, they need to take on exactly the same obligations as ICE Endex currently does, only then could a true comparison and assessment be completed.

In attempting to summarise the discussions, LJ suggested that the consensus feeling was that, whilst happy with the principle of opening up (OCM) competition (i.e. a multi market approach model), it should not be at the expense of additional cost and complexities. It was also suggested that a move to a multi market model would require Ofgem to re-consider National Grid NTS' obligations.

### **2.3. Agreement of Preferred Mitigation Actions (and potential routes to deliver them)**

In reviewing the 'Assumptions and Mitigations' slide 9, LJ suggested that PEGAS' projections relating to projected cost savings (in moving to a multi market model) when any market players would be expected to participate on a level playing field,

and regardless of PEGAS's 'Welcome Package' incentives for users, appear unsustainable in the longer term. Some parties also believe that PEGAS's current multi day market service is not suitable for translation into the UK Gas Market.

When asked, TF advised that Ofgem would expect the Workgroup to also consider the impacts associated with the locational and physical balancing products and not simply focus on the title balancing products.

Discussion moved towards looking at possible solutions with 3 core scenarios suggested, as follows:

- Scenario 1 – do nothing;
- Scenario 2 – Maintain a single market operator model, but introduce a fixed term retendering/benchmarking process;
- Scenario 3a – introduce a multi-market model, where all exchanges provide all three markets (Locational, Physical & Title), assumption made that National Grid or a service provider would calculate cash-out prices, and
- Scenario 3b - introduce a multi Title market model, with one sole provider of the Locational and Physical markets, assumption made that National Grid or a service provider would calculate cash-out prices.

Some parties voiced concerns around the current 'evergreen' agreement between National Grid NTS and ICE Endex and how National Grid NTS would potentially cope should ICE exercise the 6 month 'get out' clause (i.e. could another party successfully set into the breach with minimal impact to the market). EJS gave assurance that ICE would not invoke the 6 month clause (as it both recognises the role the market plays in the UK regime, and the potential knock on reputational impact on ICE that such a move would make), whilst also pointing out that the real 'switch over' time would be anticipated to be greater than 6 months, based on ICE's original provisions – the Workgroup agreed that it would be beneficial to capture this as a risk.

When asked, DL confirmed that should ICE withdraw their services National Grid NTS would require a locational product and also confirmed that the presentation had been compiled around addressing risks against a single market in terms of assessing potential benefits.

LJ suggested that perhaps the current risk assessment style of approach is making decision making difficult, and that a change in focus might be more helpful in completing the review. Others also suggested that Ofgem's letter was inadvertently driving the industry towards a circular discussion and seeking their (Ofgem's) guidance before proceeding further might be beneficial. TF indicated that identifying some reasonable scenarios in terms of the related costs, benefits and risks would be a suitable way forward.

It was then agreed to defer consideration of the remainder of the presentation in favour of a step change in the approach to be developed further over the coming weeks.

In summing up discussions, LJ suggested that there are three key questions that require answering by the Workgroup (and industry), namely:

- Question 1 – is it appropriate to stay with a single OCM provider?;
- Question 2 – should the industry advocate introduction of multiple OCM providers (i.e. open up the market to competition supported by consistent obligations)?, and

- Question 3 – should the obligated OCM activities be separated and independently sourced/funded (tendered periodically)? - this would allow multiple trading platforms to compete on a level basis elsewhere.

**New Action 0555 1103: National Grid NTS (DL/LL) to provide an outline draft of a potential report built around the three questions, with costs, benefits and risks identified for each.**

## 2.4. Review Progress Against the Scope of the Request

In light of discussions undertaken on items 2.1, 2.2 and 2.3 above, it was agreed to defer consideration of this item.

## 3.0 Review of Actions

**0555 1001:** PEGAS (AD/SB) to provide a presentation outlining how the equivalent German OCM Model works.

**Update:** It was agreed that this had been covered under item 2.2 above. **Closed**

**0555 1002:** National Grid NTS (LL/DL) & ICE Endex (EJS) to look to providing more meaningful market liquidity related evidence, including a clear definition of liquidity, potential volumes involved and a summary of residual balancing requirements.

**Update:** It was agreed that this had been covered under item 2.1 above. **Closed**

**0555 1003:** TPA Solutions (DH) to provide evidence in support of the concerns relating to National Grid having a need to 'go long' in the market.

**Update:** It was agreed that matters had moved on and the action could be closed. **Closed**

**0555 1004:** National Grid NTS (LL/DL) to provide a breakdown of their scoring, including any assumptions made.

**Update:** It was agreed that this had been covered under item 2.1 above. **Closed**

**0555 1005:** National Grid NTS (LL/DL) to update the risk assessment.

**Update:** It was agreed that this had been covered under item 2.1 above. **Closed**

## 4.0 Next Steps

The next meeting will consider the following areas:

- Consideration of the National Grid NTS draft (outline) report,
- Agreement of preferred mitigation actions (and potential routes to deliver them)
- Review progress against the Scope of the Request

Meeting papers and action updates should be provided to the Joint Office by 06 January 2016 in preparation for the next meeting.

## 5.0 Any Other Business

None.

## 6.0 Diary Planning

Further details of planned meetings are available at: [www.gasgovernance.co.uk/Diary](http://www.gasgovernance.co.uk/Diary)

The December Workgroup meeting has been cancelled in light of anticipated reduced attendance due to the Christmas break, as a result the January Workgroup meeting has been moved forward, the scheduled 2016 meeting dates are reflected below.

Workgroup meetings will take place as follows:

Time/Date	Venue	Workgroup Programme
10:00 Tuesday 15 January 2016	31 Homer Road, Solihull B91 3LT	Agenda items to be discussed: <ul style="list-style-type: none"> <li>Consideration of the National Grid NTS report framework, Agreement of preferred mitigation actions (and potential routes to deliver them)</li> <li>Review progress against the Scope of the Request</li> </ul>
10:00 Wednesday 24 February 2016	31 Homer Road, Solihull B91 3LT	<i>Detail planned agenda items.</i> <ul style="list-style-type: none"> <li><i>To be confirmed</i></li> </ul>
10:00 Wednesday 30 March 2016	31 Homer Road, Solihull B91 3LT	<i>Detail planned agenda items.</i> <ul style="list-style-type: none"> <li><i>To be confirmed</i></li> </ul>

### Action Table

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0555 1001	30/10/15	4.4	To provide a presentation outlining how the equivalent German OCM Model works.	PEGAS (AD/SB)	Update provided. <b>Closed</b>
0555 1002	30/10/15	4.6	To look to providing more meaningful market liquidity related evidence, including a clear definition of liquidity, potential volumes involved and a summary of residual balancing requirements.	National Grid NTS (LL/DL) & ICE (EJS)	Update provided. <b>Closed</b>
0555 1003	30/10/15	4.6	To provide evidence in support of the concerns relating to National Grid having a need to 'go long' in the market.	TPA Solutions (DH)	Update provided. <b>Closed</b>
0555 1004	30/10/15	4.6	To provide a breakdown of their scoring, including any assumptions made.	National Grid NTS (LL/DL)	Update provided. <b>Closed</b>
0555 1005	30/10/15	4.6	To update the risk assessment.	National Grid NTS (LL/DL)	Update provided. <b>Closed</b>

### Action Table

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0555 1101	27/11/15	2.1	To provide a view on how much it would cost them to aggregate outputs from multiple market exchange platforms, calculate and publish cash-out prices in near real time. If possible, to look at a range of scenarios to understand the cost implications of different time delays.	National Grid NTS (DL/LL)	<b>Pending</b>
0555 1102	27/11/15	2.1	To provide their view(s) on what it costs to aggregate outputs from multiple exchanges and publish cash-out prices in near real time, ensuring all assumptions are stated and presented to the Workgroup.	ICE (EJS) & PEGAS (SB)	<b>Pending</b>
0555 1103	27/11/15	2.3	To provide an outline draft of a potential report built around the three questions, with costs, benefits and risks identified for each.	National Grid NTs (DL/LL)	<b>Pending</b>