





# 0555:

## Review of the Market Operator (OCM) Provision

- 01 Request
- 02 Report

This Request proposal aims to understand and develop stakeholder views on the issues highlighted in the open letter published by Ofgem on 12<sup>th</sup> June 2015 on the Market Operator (OCM – On-the-day Commodity Market) arrangements as detailed in UNC TPD Section D – Operational Balancing and Trading Arrangements, including Annex D1. The workgroup report will allow NG to report back to Ofgem with a balanced summary of industry views and to suggest any next steps or associated modifications.

	The Proposer recommends that this Request should be assessed by a Workgroup
	High Impact: NTS, Market operator, Shipper and Traders
	Medium Impact: None
	Low Impact: Distribution Networks

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## About this document:

This document is a Request proposal made under UNC General Terms – Modification Rules section 11, which will be presented by the Proposer to the Panel on 17<sup>th</sup> September 2015.

The Panel will consider the Proposer's recommendation, and agree whether this Request should be referred to a Workgroup for assessment.

The Proposer recommends the following timetable:

Initial Panel consideration of the Request	17 September 2015
Workgroup Assessment phase complete by	31 March 2016
Panel consideration of Workgroup Report by	21 April 2016

 **Any questions?**

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# 1 Request

## Why is the Request being made?

On 12<sup>th</sup> June 2015 Ofgem published an open letter<sup>1</sup> encouraging National Grid NTS (NG NTS) to explore the gas Market Operator (OCM) arrangements (as set out in Annex D1 of the UNC and Standard Special Condition A11 paragraph 22 of its Gas Transporter Licence) in consultation with any interested parties within the industry. In the lead up to raising this proposal NG NTS have carried out initial stakeholder engagement with a number of parties that have expressed an interest in the review. Having completed this initial engagement NG NTS would now like to bring the outputs from this process together and report to UNC Panel on proposals for future market operator arrangements based on industry discussions to date.

## Scope

This Request Proposal is primarily focussed on further understanding industry views on the current provision of the Market Operator (OCM) role and to make recommendations for further review / change in the arrangements. In summary the scope of the Request is to:

- Understand User and TSO requirements of a gas trading exchange, now and into the medium term future (5 to 10 years)
- Understand industry views on the current arrangements of the OCM, including a review of UNC TPD Annex D1.
- Explore industry views on the issues highlighted in the Ofgem open letter, these being:
  - Should the current arrangements be revised in light of recent new entrants to the GB market 24/7 prompt market?
  - What changes might be made to facilitate more competition that would have net benefits for consumers?
  - Implications of multiple trading exchanges on system operation and balancing, considering;
    - Maintaining the successful liquid market which has been in place since 1999 and therefore suitable access for the Residual Balancer to take efficient actions.
    - Maintaining a robust market reflective System Clearing contract (cash-out) price.
    - Maintaining a cost efficient setup up which continues to provide real time transparent market information, without resulting in additional barriers to entry for market participants.
- Review of the content and appropriateness of the current Gas Transporter Licence OCM Operator Designation criteria which have been in place since the introduction of the OCM in 1999.
- Understand the industry's perception of risk surrounding the facilitation of multiple 24/7 exchange markets offering Within Day Title products where:
  - The TSO is restricted to one venue – the current setup

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<sup>1</sup> <https://www.ofgem.gov.uk/publications-and-updates/letter-national-grid-gas-market-operator-arrangements>

- The TSO has freedom to utilise more than one venue.
- The scope of this request is limited to the services detailed in Annex D1 of the UNC TPD document and the content of Gas Transporter Licence Standard Special Condition A11
- For the avoidance of doubt this review will not cover the clearing and credit processes in relation to Energy Balancing Neutrality and the OCM as detailed in UNC section F.

## Impacts & Costs

The output from the workgroup will include an assessment of the impact and costs of any proposed change.

## Recommendation

The proposer recommends that this Request is referred to a dedicated Market Operator Workgroup for assessment.

## Additional Information

The operator of the OCM is required to provide a wide range of services, through the UNC arrangements, under its contract with NG NTS there are a number of other tasks which support the GB balancing arrangements. This includes providing physical and locational products, the real time calculation of system clearing prices and implementing arrangements associated with the Significant Code Review outcome.

Article 10 of the European network code on balancing does not specify requirements on the number of providers of market operator arrangements.

# 2 Impacts and Costs

## Consideration of Wider Industry Impacts

No impacts on wider industry developments have been identified at this time, however it should be noted that should there be any recommendation for change, the timelines for that change needs to take account of the scale of industry system change currently being undertaken in relation to EU codes and NEXUS implementation.

## Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	<ul style="list-style-type: none"> <li>• Yes – multiple access requirements and aggregation of data</li> </ul>
Operational Processes	<ul style="list-style-type: none"> <li>• Yes – accessing multiple exchanges</li> </ul>
User Pays implications	<ul style="list-style-type: none"> <li>• Potential - to be considered during workgroup assessment</li> </ul>

Impact on Users	
Area of Users' business	Potential impact

Impact on Users	
Administrative and operational	<ul style="list-style-type: none"> <li>• Yes</li> </ul>
Development, capital and operating costs	<ul style="list-style-type: none"> <li>• Potential</li> </ul>
Contractual risks	<ul style="list-style-type: none"> <li>• None identified</li> </ul>
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> <li>• None identified</li> </ul>

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"> <li>• Yes – Market Rules and Market Operator appointment contract</li> </ul>
Development, capital and operating costs	<ul style="list-style-type: none"> <li>• Yes</li> </ul>
Recovery of costs	<ul style="list-style-type: none"> <li>• None identified</li> </ul>
Price regulation	<ul style="list-style-type: none"> <li>• None identified</li> </ul>
Contractual risks	<ul style="list-style-type: none"> <li>• Yes</li> </ul>
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> <li>• Yes</li> </ul>
Standards of service	<ul style="list-style-type: none"> <li>• None identified</li> </ul>

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	<ul style="list-style-type: none"> <li>• None identified</li> </ul>
UNC Committees	<ul style="list-style-type: none"> <li>• None identified</li> </ul>
General administration	<ul style="list-style-type: none"> <li>• None identified</li> </ul>

Impact on Code	
Code section	Potential impact
	<ul style="list-style-type: none"> <li>• Section D and F</li> </ul>
	<ul style="list-style-type: none"> <li>•</li> </ul>

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	<ul style="list-style-type: none"> <li>• None identified</li> </ul>
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	<ul style="list-style-type: none"> <li>• None identified</li> </ul>
Storage Connection Agreement (TPD R1.3.1)	<ul style="list-style-type: none"> <li>• None identified</li> </ul>

Impact on UNC Related Documents and Other Referenced Documents	
UK Link Manual (TPD U1.4)	<ul style="list-style-type: none"> <li>None identified</li> </ul>
Network Code Operations Reporting Manual (TPD V12)	<ul style="list-style-type: none"> <li>Potential</li> </ul>
Network Code Validation Rules (TPD V12)	<ul style="list-style-type: none"> <li>None identified</li> </ul>
ECQ Methodology (TPD V12)	<ul style="list-style-type: none"> <li>None identified</li> </ul>
Measurement Error Notification Guidelines (TPD V12)	<ul style="list-style-type: none"> <li>None identified</li> </ul>
Energy Balancing Credit Rules (TPD X2.1)	<ul style="list-style-type: none"> <li>None identified</li> </ul>
Uniform Network Code Standards of Service (Various)	<ul style="list-style-type: none"> <li>None identified</li> </ul>

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	<ul style="list-style-type: none"> <li>None identified</li> </ul>
Gas Transporter Licence	<ul style="list-style-type: none"> <li>Yes</li> </ul>

Other Impacts	
Item impacted	Potential impact
Security of Supply	<ul style="list-style-type: none"> <li>Potential</li> </ul>
Operation of the Total System	<ul style="list-style-type: none"> <li>Potential</li> </ul>
Industry fragmentation	<ul style="list-style-type: none"> <li>Potential</li> </ul>
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	<ul style="list-style-type: none"> <li>Yes</li> </ul>

### 3 Terms of Reference

#### Background

Since its introduction in 1999 the OCM has been a very successful and internationally recognised market and we are keen to maintain this success and indeed build upon it. The operator of the OCM provides a key role in the operation of the GB Energy Balancing regime and provides a number of markets and services to the Industry. Operating the OCM is more complex than providing solely a "Title" market, however this is the area which is likely to be subject to the greatest level of competition from other providers.

On 12<sup>th</sup> June 2015 Ofgem published an open letter encouraging NG NTS to explore the gas Market Operator (OCM) arrangements in consultation with any interested parties within the industry. Since this time NG NTS has carried out a period of stakeholder engagement with interested parties on a bi-lateral basis, both from a regulatory and operational perspective and would now like to bring the

outputs from this process together and discuss with a wider audience prior to reporting back to Ofgem with our findings from the industry engagement carried out.

## Topics for Discussion [and suggested workgroup schedule]

### Workgroup 1 – information gathering

- Background to the establishment of the OCM and key milestones
- Understanding of issues identified in the open Ofgem letter
- Summary of feedback from stakeholders to date
- Identification of the first cut of fundamental industry requirements of a balancing exchange market
- Identification of the criteria for assessment of potential options against the current state

### Workgroup 2 – agreeing the basic requirements and options analysis

- Assessment of issues highlighted in Ofgem letter – how material are the risks? Agreement on the fundamental requirements of a balancing exchange market
- Agreement on criteria to assess potential options as having benefits against the current state
- Identification of preferred options / solutions (if any)

### Workgroup 3 – option development and initial assessment

- Development of preferred options / solutions (if any)
- Initial assessment of potential impacts of the identified solutions

### Workgroup 4 – finalising options and solutions

- Agreement of preferred options / solutions
- Finalise assessment of implementation costs of any solutions

### Workgroup 5/6 - reporting

- Completion of the Workgroup report

## Outputs

Produce a Workgroup Report for submission to the Modification Panel, containing the assessment and recommendations of the Workgroup, including one or more draft modification proposal(s) where appropriate.

## Composition of Workgroup

The Workgroup is open to any party that wishes to attend or participate.

A Workgroup meeting will be quorate provided at least one Transporter and three User representatives are present.

## 4 Recommendation

The Proposer invites the Panel to:

- DETERMINE that Request 0555 progresses to a dedicated Market Operator Workgroup, with a report submitted no later than April 2016.