

OTC and Multi-day trading

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Quantifying the issues that DSWG wish to see resolved

- ◆ Some End Users only able to come off the system if it is for more than one day.
- ◆ The cost of taking multi-day residual balancing actions must be smeared across all the days that the action was used for to ensure correct cost targeting.
- ◆ OTC offers to the Residual Balancer must be facilitated.
- ◆ OTC and Multi-day offers to be facilitated following the publication of a Gas Balancing Alert only?

Issues to note.

- ◆ No undue discrimination obligations requires this option to be made available to all potential parties – May lead to some existing daily bids moving to a multi-day market reducing liquidity of daily market.
- ◆ May lead to reduced depth/liquidity in OCM as Residual Balancer moves into other markets.
- ◆ Need to “register” and pay for the OTC Residual Balancer trades and feed into Cashout derivation, Bal Neutrality, EBCC credit processes and shipper/NG incentive calculations. Note. different payment timescales between OTC and OCM (30 days vs 42 days) and interest payment.

Issues to note.

- ◆ Residual Balancer acts on behalf of shippers.
- ◆ Need to understand whether current shipper EBCC rules impact on Residual Balancer's ability to transact OTC and if so the timeframe / route to change such rules.
- ◆ Cashout prices currently reported on the day by OCM in future actual cashout prices on UKLink and EBI invoice may be different due to affect of Residual Balancer OTC trades.
- ◆ UNC mod(s) required to allow residual balancing actions to be taken outside OCM, Multi-day and price reporting.
- ◆ Transco NTS Safety Case change required to incorporate OTC trading.

Facilitation of the OCM Offers to NG Only

- ◆ If required, ensuring that only NG takes the trade offered could be facilitated by;
 - ◆ restricting access to the Physical and or Locational OCM markets so that only NG could accept offers.
 - ◆ Multi-day trading could also be facilitated by expanding Locational / Physical market.
- ◆ Currently in discussion with OCM Operator to assess feasibility / cost / timescale of above.

Facilitating more than one Gas Day Offers

- ◆ Assessment of a multi-day trade against a single day trade question to be resolved:
 - ◆ Price assessment - efficient and economic
 - ◆ Examples: same volume for each day (3 day offer = 3*vol in total compared to single day trade. Total cost of trade = price*volume)
 - ◆ 1 day offer 49p/th – 3 day offer 45p/th
 - ◆ 1 day offer 90p/th – 3 day offer 30p/th
 - ◆ 1 day trade 90p/th – 3 day trade 70p/th low demand forecast tomorrow OTC D+1 & D+2 trading at 40 p/th.
 - ◆ 1 day trade 90p/th – 3 day trade 70p/th high demand forecast tomorrow OTC D+1 & 2 trading at 65p/th.

Note: Given the system position at time of assessment such assessment needs to be quick, simple and auditable.

Facilitating more than one Gas Day Offers

- ◆ Cost smear into subsequent Gas Days.

Proposal:

- ◆ Costs smeared into Balancing Neutrality equally on all days unless partial volume taken on day one in which case day one cost smear will reflect reduced volume.
- ◆ Payment for OTC trades made from Balancing Neutrality in timeframe consistent with current OTC contracts. Note: mis-match between this and current OCM timeframe.

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- ◆ Cashout affects assuming a “NG buy” action:

Proposal:

- ◆ Always feeds into SMP buy calculation on day one
- ◆ Will feed into SMP buy in subsequent days if system is short to the extent that other “buy” actions are taken that day.
- ◆ If no “buy” action on subsequent day then multi-day bid will not feed into SMP buy for that day.
- ◆ Any subsequent sell off of multi-day bid related gas would feed into cashout prices and Neutrality for the day when the sell action is taken.

This proposal appears to send correct signals to the market regarding system requirements.

UNC Proposals currently being developed by NG

1. Mod 0044 ECQ methodology to be an UNC ancillary document.
2. Gas Balancing Alert placed into UNC.
3. OTC trades by Residual Balancer to be considered as an “Eligible Balancing Action” in UNC.
4. Residual Balancer to be able to take Multi-day trades and feed into cashout, Balancing Neutrality, EBCC credit processes and EBI invoice.
5. Feed all, reported to NG, OTC market trades by all parties (NG and shippers) into SAP by D+5. NG would, following a GBA, then consider all markets that are prepared to report their prices as potential sources of residual balancing actions.

Note: Need to understand any EBCC issues and whether such OTC trades should be restricted to “buy” actions only to resolve such issues.

Potential take up of these proposals

- ◆ To assess potential workload/staffing requirement to facilitate over the phone OTC and Multi-day offers NG would like to understand the potential number of sites that are unable to offer single day OCM offers but would be prepared to offer either single day OTC or Multi-day OTC offers, and, whether such offers would be available only during normal OTC brokered market hours or on a 24/7 basis.
- ◆ To mitigate risk of a flight to a 5 day market should the facility to offer multi-day trades be restricted only to those sites that can demonstrate the requirement? Would such a restriction be considered to be “due” discrimination?

