



Making a positive difference  
for energy consumers

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Dear Helen

## **Gas Market Operator arrangements**

Given the launch of an additional gas spot market exchange platform in March 2015, I am writing to you to set out our initial thoughts on the potential implications this development could have for system operation and balancing. We also consider that it would be useful to better understand whether there is potential for further competition in the provision of the gas market operator arrangements.

We would like to understand views of market participants on whether these arrangements should be revised, and whether changes to facilitate further competition could have net benefits for consumers. Hence I am writing to encourage you to explore these issues, and any other topics related to the market operator arrangements, through consultation with interested parties. We will also place a copy of this letter on our website so interested parties are aware of our views.

### **Background**

Under Standard Special Condition A11 (as modified by Special Condition 8B), NGG appoints an independent market operator to provide an electronic trading system. The Uniform Network Code (UNC) sets out requirements for this trading system.

Standard Special Condition A11 requires NGG to use all reasonable endeavours to appoint a person having financial resources, skilled and experienced personnel, and systems adequate to ensure that the market is conducted in an orderly and proper manner. This requirement is treated as satisfied if NGG appoint a person recognised by the Financial Conduct Authority as an investment exchange or a person designated by the Authority.

The operator of the OCM is required to provide a wide range of services, through the UNC arrangements, its contract with NGG and other tasks to support the GB balancing arrangements. This includes providing physical and locational products, the real time calculation of market indices and reporting to NGG.

The On-the-day Commodity Market (OCM) is currently operated by ICE Endex. It was previously operated by APX Commodities Limited (as the legal successor company to EnMo Ltd – the original operator of the OCM). In 2013, following corporate reorganisation of APX-ENDEX, the role of OCM operator passed to ENDEX Gas Spot Ltd. We designated this entity

on 25 January 2013, subject to certain conditions<sup>1</sup>. Intercontinental Exchange (ICE) became the majority shareholder of ENDEX, and the OCM operating company is now named ICE Endex Gas Spot Ltd.

### **Arrangements for operation of the OCM**

To date, NGG has discharged its obligations under Standard Special Condition A11 by contracting with a single provider for the OCM. Competition between potential providers of the OCM has been through this procurement process, and the competitive pressure that this can create. The current arrangements are designed with the presumption that there is a single entity providing market operator services. As residual balancer, NGG are largely restricted to trading on the OCM, except in times of system distress. In addition, the services provided by the appointed market operator differ from those provided by other parties. Hence technical arrangements for exchange operators and clearing houses also differ. The European network code on balancing does not specify requirements on the number of providers of market operator arrangements.

Having a single market operator has potential benefits in terms of efficiency and transparency. However, this could result in some barriers to dynamic competition between trading platforms. We are aware of additional exchanges looking to launch 24/7 exchange-based gas markets in GB. One has recently entered the market, offering a spot-traded NBP title product. This could be comparable to the title product which forms a part of the OCM provision. However, we recognise that the OCM service provided by the market operator is significantly more complex than purely title trading.

In providing within-day and day ahead trading through the OCM, ICE Endex currently faces competition from other trading venues, including OTC brokers in addition to exchange platforms. Increased competition between exchanges could have additional benefits for consumers, by further minimising fees and promoting efficiency and quality of service. This could extend to competition in operating the OCM, though care would need to be taken to ensure competing providers were operating on a level playing field (for example, subject to equivalent requirements under the UNC). A market with multiple established exchanges could also have negative impacts on residual balancing if liquidity was split whilst NGG remained restricted to trading on one platform. However, changes to the arrangements for residual balancing could add complexity and cost, for example in the calculation of cash-out charges and duplication of services provision.

We consider that it may be beneficial to review the market operator arrangements to ensure they remain fit for purpose, including the consideration of the implications of multiple trading exchanges on system operation and balancing. Consideration should be given to whether changes to facilitate further competition could have net benefits for consumers, taking into account potential costs of changes to the arrangements.

### **We consider this issue should be explored further**

We encourage National Grid and other interested parties to explore these issues further, and any other topics related to the market operator arrangements. We will place a copy of this letter on our website so interested parties are aware of our views. We would welcome any comments, and are happy to meet with any interested parties; please contact Tom Farmer ([thomas.farmer@ofgem.gov.uk](mailto:thomas.farmer@ofgem.gov.uk) or 020 7901 1862) in the first instance.

Yours sincerely

**Frances Warburton**  
**Partner, Wholesale Markets**

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<sup>1</sup> <https://www.ofgem.gov.uk/publications-and-updates/designation-endex-gas-spot-gas-balancing-market-operator>