



Making a positive difference  
for energy consumers

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Dear Nicola

## **Review of the Gas Market Operator (On-the-day Commodity Market (OCM)) arrangements**

Following our open letter in 2015 inviting National Grid Gas plc (NGG) to assess the existing market arrangements of the OCM<sup>1</sup>, the Review Group led by NGG published its report<sup>2</sup> in March 2016. The Review Group's report found that introducing a fixed term retendering / benchmarking exercise of the market provision has the most merit of the options it considered.

### **Background**

Under the existing OCM market arrangements, a significant proportion of spot gas contracts for immediate delivery are traded via the Gas OCM facilitated by a trading exchange, ICE Exend. Other gas trading options are available to traders, but the OCM has historically been the only marketplace that is widely available outside hours (defined as 17:00-8:00). In 2015, an additional gas spot market exchange entered the marketplace offering a service for 'title' product trading (a trading service for gas before the physical delivery of gas). The majority of exchange-based within-day trading activity and liquidity continue to concentrate on the ICE Exend exchange.

NGG's role as a Residual Balancer is to ensure system balance by monitoring supply and demand for gas in the gas network. Alternative exchanges can offer trading services for the within day and day ahead trading market, but as residual balancer, NGG are largely restricted to trading on the OCM, except in times of system distress. The trading platform posts close to real time cash out prices to market participants intended to incentivise shippers to balance their trading positions, and therefore limit the need for NGG to intervene. Real time gas prices and concentrated gas volume on the OCM exchange act to minimise the impact of any intervention by NGG on the market participants, and consumers.

We invited NGG and other interested parties to look at the existing OCM market arrangements. In collaboration with stakeholders, a Review Group assessed how well the existing market arrangements function. A number of industry workshops informed this assessment<sup>3</sup> and the analysis into this was published in March 2016. The Review Group's

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<sup>1</sup> [A link to the letter](#) from Ofgem to NGG regarding the OCM arrangements.

<sup>2</sup> [0555R: Review of the Market Operator \(OCM\) Provision](#).

<sup>3</sup> Links to the meeting agendas, minutes and other documentation is available on the [Joint Office of Gas Transporters](#).

report found that introducing a fixed term retendering / benchmarking exercise of the market provision has the most merit of the options it considered. The report also said that further work to determine the magnitude of the benefits should be done.

**We welcome this analysis**, and agree that a further assessment to determine the magnitude of the benefits would be useful. We think it would be useful to understand how introducing retendering / benchmarking may work in practice, including what the contract would look like, and how frequently retendering / benchmarking should take place.

In addition, and mindful of potential future developments in technology, products and services, we think there is value in conducting further reviews where these developments change the feasibility and desirability of the options for OCM arrangements.

We are happy to meet with interested parties to discuss. We will place a copy of this letter on our website so interested parties are aware of our views. For comments or other enquiries, please contact (david.hall@ofgem.gov.uk or 0207 901 0532).

Yours sincerely

Emma Kelso

Partner, Wholesale Markets