



# Statement letter to National Grid and Ofgem

14 September 2015





## Summary

With reference to the letter dated 12 June 2015 from Ofgem to National Grid, available under: [https://www.ofgem.gov.uk/sites/default/files/docs/2015/06/150612\\_marketoperator\\_openletterto\\_ngg\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/06/150612_marketoperator_openletterto_ngg_0.pdf) we wish to present some views on the system design and balancing for the UK gas market.

We are delighted to hear that both the National Grid and Ofgem are evaluating the addition of a second spot exchange for National Grid balancing purposes and view this as a constructive step in the development of the UK gas market. With our launch of the UK gas market in March 2015, we feel PEGAS can offer a stable and secure balancing platform for the National Grid.

We have a 24/7 gas spot market and futures market accessed via the industry standard trading system of Trayport. In addition, our UK market member base is growing and on writing this letter, 25 members are admitted for NBP trading with many more committed to join in the near future.

We hope that we can positively assist you in your discussions and that you may find the below helpful.

## The Continental European experience

The question of a Market Area Manager (MAM) accessing two exchange trading platforms has been explored by the European hubs in the recent past. Indeed, after a market consultation process in Q2/2015 initiated by the German MAM, NCG, BNetzA as German regulator approved to add ICE Endex as a second exchange balancing platform for NCG's balancing activities in the adjacent market area TTF. This is indeed foreseen by the EU Network Code on Gas Balancing of Transmission Networks (Article 22, chapter 3).

From reading the answers to the market consultation, it is interesting to note that the trading participants themselves highlighted a number of key advantages to a second trading platform, leading then to a positive decision from BNetzA. We feel that these advantages equally apply to the UK Gas market and are as follows:

- The liquidity available for the TSO/MAM would increase; having the option of additional prices from a second exchange trading platform can ensure maximum liquidity and availability for all balancing activities of the TSO/MAM.
- An open market can result in reduced costs due to competition between exchanges. This could ultimately lead to reduce costs for shippers.
- Accessing a second exchange for a TSO is in line with the EU legislation; PEGAS formally fulfils the requirements outlined by the EU Network Code Balancing Art. 10, Chapter 1.



With regards to other European hubs, PEGAS operates in a number of gas market areas; the Dutch market (TTF), the German market (GASPOOL and NCG), the French market (PEG Nord and TRS), the Belgian market (ZEE and ZTP) and the Italian market (PSV). PEGAS provides a stable, market approved and secure balancing platform for the German MAM, the French TSO's and for more than 160 shippers.

## What PEGAS can offer to facilitate trading

Following from the above, we would like to present our offer to the UK Gas industry. We feel, should we have the privilege to act as a second balancing exchange within your market, we can bring value to both the National Grid and the shippers themselves. Kindly find our offer below:

- A secure and stable 24/7 UK balancing market (OCM) via the PEGAS trading platform Trayport® ETSSM;
- Timely trading data; The timely delivery of trading data to the National Grid for calculation/determination of marginal buy/sell prices as well as the weighted average price per delivery day according EU NC Balancing;
- Single sided nomination service; our sister company European Commodities Clearing (ECC) will provide seamless clearing, nomination and delivery services on behalf of the market participants (single sided nomination);
- Flexibility to facilitate trading; PEGAS can easily list Physical contracts and Location spread as well as Hourly contracts should the National Grid and the UK gas industry require it. From our experience, the German MAM and the French TSOs find these contracts beneficial;
- Market approved order and trade alert services; we offer these alerts to make our participants aware when new orders are posted or traded on PEGAS. This service is popular for traders trading during non-core business hours (i.e. overnight);
- Trading agent service for PEGAS participants who avail of trading agents (e.g. Egssis, GMSL). We have partnered with these service providers and thus offer these agents access to PEGAS to trade on behalf of those PEGAS member, which have no shift teams in the night hours or on UK bank holidays operating.
- Location-spread trading to ZEE Beach for all spot products (incl. Within-Day);
- Client friendly trading options; to help encourage new, small or middle-sized trading participants, we offer very small trading thresholds (a minimum lot size of 1,000 therm/day and minimum price fluctuation of 0.001 pence/therm);



- Low costs of trading; PEGAS offers all new clients zero membership fees in the first year after becoming a PEGAS member. PEGAS also offers zero trading and clearing/delivery fees for NBP trades until the end of September 2016. Thereafter, we intend to offer competitive pricing with a membership fee of 5.800 GBP/pa, trading fees of 0.0015 pence/therm and clearing/delivery fees of 0.0025 pence/therm without any distinction of pricing for trading inside business or non-business hours.

Should a second exchange be allowed to operate within the OCM market and compete with the incumbent exchange ICE Endex, we are convinced that there are positive benefits for the National Grid, the market participants and finally also the end customers.

Should you require any further information about the PEGAS NBP offering please do not hesitate to contact us. We would also be happy to partake in any industry discussions / consultation processes if this would be of assistance.

## About the EEX Group

EEX Group provides the central market platform for energy, energy related and commodity products and enables access to a network of over 400 trading participants. The offering of the group comprises contracts for Energy, Environmentals, Freight, Metals and Agriculturals listed at the European Energy Exchange, EPEX SPOT (incl. APX-Belpex), Powernext, Cleartrade Exchange and Gaspoint Nordic. Clearing and settlement of transactions concluded or registered on the exchanges is provided by the central clearing house European Commodity Clearing. EEX is part of Deutsche Börse Group. For more information: [www.eex.com](http://www.eex.com)

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