

# Market Design Project : Request for Proposals

## Answers to additional questions raised

July 2007

### 1. GENERAL

- 1.1 *Does the FOA have any objections to the later inclusion of a third party to provide services required by the FOA e.g. to support the proposal or to provide ECV Aggregation Agent services? (Section 8.4).*

All the services required in the RFP should be covered in the proposals and, while the RFP Panel has no objections to the later addition of supplementary third parties after a proposal has been submitted, this must be done prior to the closing date of 10 September. This means that any amendments to a proposal received after that date may not be taken into account by the RFP Panel.

- 1.2 *Once established, what kind of explicit support from FOA members and UK authorities can the new UK exchange expect? What are the terms and duration of the mandate?*

The RFP will result in a recommendation by the FOA to the UK power market. No mandate is involved and no guarantees of volume can or will be given at this stage (see para 1.6 of the RFP)

- 1.3 *With reference to section 2 of the RFP, it is specified that risk based solution for the trading of prompt power is required .....it is not clear what is meant by the term "risk-based". Would you please clarify? Please also see the 4<sup>th</sup> bullet point .. (Section 2.3).*

When calculating exposure, "risk-based" means the calculation based on the exposure of the counterparty position rather than the credit rating of the counterparty, i.e. position risk and not credit risk.

- 1.4 *Would you please clarify your understanding of the terms "named" and "anonymous" trading? (Section 2.3).*

Named trading is where the names of the counterparties are provided (only to the counterparties) after a trade has taken place. "Anonymous" is self-explanatory.

- 1.5 *Your requirement for phase 2 is a power auction which can be developed into a three-way auction for additional commodity types. Please clarify what is meant by "interactive algorithms"? (Section 2.3).*

The algorithms must interact so that pricing for each is reflected in the others. Effectively the auctions must be price linked.

## **2. PHYSICAL DELIVERY SCHEDULES**

- 2.1 *Are direct electronic interfaces required to the 5 TSOs for the physical delivery schedules of prompt power? (Section 3.1.1).*

The RFP refers to the UK, so there is only one TSO.

- 2.2 *Can the delivery schedules, used for the physical delivery schedules (prompt power) be delivered in ETSO ESS standard? (Section 3.1.1).*

ETSO is not relevant at this stage.

## **3. CLEARING**

- 3.1 *The provision of intraday trading with physical settlement 24/7 can be provided. However, with reference to section 9.11, it is not clear if the FOA requires cash settlement. (Section 9.4 (b) & 9.11).*

It is not intended to have a cash-settled 24 hour contract, if that is what is meant by the question.

## **4. LICENSING OF TRADE DATA**

- 4.1 *The “Service Provider” gives the “non-exclusive license of Processed Data and Indices” to the “Custodian”. However, it is not clear from the diagram, why the Custodian and the market participant separately receive these licenses. (Appendix 6).*

Paragraph 7.4 states the reasons why the Custodian receives a non-exclusive license from the Service Provider. Each market participant will need usage rights to the Raw and Processed Data and Indices and it is anticipated that these rights will be addressed in the membership agreement with each participant.

- 4.2 *With respect to the role of the Escrow, are we to understand that the data has to be stored in a separate physical location i.e. not with the Service Provider? (Appendix 6).*

Yes.

- 4.3 *Please clarify what is meant by “Escrow containing all ....software...” (Appendix 6).*

Paragraph 9.8 refers to “software used to collate and publish indices” and “anything else required to enable a replacement service provider to produce and disseminate processed data and indices.”

## **5. PROCESS**

- 5.1 *If a delay to any part of the process is agreed by the FOA, can you please confirm that this will be announced publicly and the delay, available to all participants involved in the process?*

An extension to the 10 September has already been announced publicly and notified to all interested parties.

5.2 *Can it be communicated who responded to the RFP document by 20 June 2007?*

It should be noted that communications made to the RFP by 20 June 2007 are no more than expressions of interest. No disclosure will be made of the name of the details of any respondent submitting a proposal in response to the RFP nor will any information be released as the content of any response.

5.3 *Will there be any opportunity to meet the RFP Panel during the process, either prior to or after the 31<sup>st</sup> July deadline? Will all potential respondees attend any group gathering?*

Individual respondents whose submissions are acceptable are likely to be invited to make presentations to the RFP Panel during their deliberations. These will be individual meetings and there will be no group gathering.

## **6. CONFIDENTIALITY**

6.1 *Can the FOA/PTF please confirm that all documentation will be held in the strictest of confidence, will not be released in any form to others not part of the RFP Panel (without prior written consent by the respondee) and why a MS Word document is needed in addition to a PDF format? (Section 2.9).*

All documentation will be held in strictest confidence. A Word document is required so that the RFP Panel can more easily compare responses whilst conducting their deliberations.

6.2 *Do members of the RFP Panel sign a Confidentiality Agreement in order to protect the commercial sensitivities of each respondee?*

Yes. (See para 2.11 of the RFP).

## **7. VOLUME COMMITMENT AND TRADING**

7.1 *With particular regard to Phase 1, what volume is expected to be traded and given up for clearing between the 60% who support this process?*

None of the market participants supporting this RFP has made any commitment as to traded/cleared volumes and it is unlikely that any such commitment will be made by any market participant until the appropriateness, efficiency and cost of any recommended solution is capable of being and assessed and measured.

7.2 *Can the RFP Panel reveal who are the 60% by volume who support this process and who is not willing? Is this volume currently traded bilaterally or via brokers?*

No.

7.3 *The RFP document states that the solution should be capable of "easily" handling significant growth in volume (Section 3.1.1 (b)). What is the prediction of volume growth here?*

It is suggested that respondents to the RFP look at comparable markets and draw their own assumptions as to potential volume growth.

7.4 *What is meant by alternative trade capture solution? (Section 2.3 Phase 1)*

Proprietary platform as well as existing broker platforms.

7.5 *The document asks that the respondee should be “consistent with existing protocols presently utilized in the power market”. Could you please add some clarification on which protocols are envisaged? (Section 3.1.1 (c)).*

This refers to integration of market solutions into end user systems and its purpose is to encourage respondents to the RFP to avoid imposing an undue resource, systems or cost burden on market participants in implementing any new market mechanism or having to introduce different trading methodologies (unless strictly necessary).

**8. AUCTION**

8.1 *How much less of the 60% support an auction methodology for Phase 2 of day ahead UK power trading and approx what volume levels does this represent?*

We have indicated that the majority of the 60% support an auction methodology, but we can give no indication of volume levels represented by those market participants which do not currently support such a service. Of course, the actual degree of support of any auction solution will depend upon the views of individual companies at the time of the offering and, as with the answer given to para 7.1, when they are able to assess the appropriateness, efficiency and cost of any offering.

**9. FUTURES**

9.1 *What is the desired trading solution with respect to cascading of the Futures market?*

Futures markets and their development are a desired consequence of the RFP, but fall outside its scope. Cascading is too detailed an issue to be dealt with at this stage.

**10. EVALUATION AND SELECTION**

10.1 *Can it please be confirmed who is on the RFP Panel?*

The names of the members of the RFP Panel will not be disclosed. However, Contango Markets and the law firm, Berwin Leighton Paisner, will be active, non-voting observers on the Panel and it will be chaired by Anthony Belchambers, CEO, FOA who will perform the role of a non-voting independent chairman.

10.2 *What are the selection and evaluation timescales?*

The RFP Panel anticipate being in a position to present their findings to the FOA during Q4 2007.

10.3 *When will a decision be announced? Will there be any justification process following the decision with a de-brief schedule?*

A date for the endorsement of the successful service provider has not been finalized, but it will be made public on completion of the Panel's evaluation processes (see the answer given in 10.2 above)

A debriefing letter will be sent to each unsuccessful respondent which indicates the basis of the decision.

## **11. IMPLEMENTATION**

11.1 *What are the implementation timescales for the three phases of "immediate", "early" and "future"?*

These have been left flexible for respondents to determine their most effective timescales, but it should be noted that they are more in the way of setting priorities for the work rather than defining a specific timetable.