

**Terms of Reference for a Market Operator
for the Colombian Gas Market**

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1. Introduction

The energy regulator for Colombia, the *Comisión de Regulación de Energía y Gas* (CREG) has commissioned a series of studies on the Colombian gas market during the course of 2010 and 2011.¹ These studies have identified the need for a Market Operator (MO) for the Colombian gas market.

Via this Request for Proposal (RFP), the relevant authorities are soliciting expressions of interest from parties that may be interested in becoming the MO for the Colombian gas market. We set out some background to the Colombian gas market and the general investment environment in Colombia below, before describing the appointment process and the details of the role of the MO, as well as pre-qualification and evaluation criteria.

2. The Colombian Gas Market

Natural gas production in Colombia averages approximately 1000 GBTU per day. Two fields produce roughly 90% of this gas: Guajira on the Caribbean coast and the Cusiana fields in the interior.

In contrast, demand for natural gas comes from approximately 37 companies and geographically diverse areas. 15 purchasers buy gas from the Guajira field (with delivery at Ballena), 24 from the Cusiana fields and 10 from La Creciente.

There are two major Transmission System Operators (TSOs) in Colombia – the coastal TSO, Promigas, has a network of 590 kilometers long with a capacity of 545 Mmcf/d (million cubic feet per day). The second TSO, TGI, has two interconnected pipelines systems: the 580km long, 260MMcf/d capacity Ballena -- Barrancabermeja pipeline, and the 1700km, 392 MMcf/d capacity Cusiana -- Bogotá -- Vasconia -- Cali -- Neiva pipeline.

Most gas in the primary market is currently sold by producers under either firm or interruptible contracts. The majority are take-or-pay contracts, with the minimum percentage of "take" varying from 25% to 70% for the gas-fired power plants, and with 100% levels of "take" not being unusual. Producers may also offer a gas purchase option contract which specifies a quantity and an exercise price or a "conditional firm" contract under which the seller offers firm gas with deliveries conditional on the electricity spot market price.

There are currently no organized secondary markets for gas or transport capacity in Colombia, nor any organized sources of information for secondary market transactions. Major gas purchasers have indicated a need to create these missing markets: specifically, a secondary gas market, a short-term gas market, and a short-term transport capacity market.

¹ www.market-analysis.co.uk/reportsubmissions.html.

The work of the consultants retained in CREG in 2011 recommended that gas contracts will be standardized to allow fast, low-cost bilateral trades to take place. The standardized contracts will have:

- Identical basic terms and conditions
- A menu of standard contract durations and start dates - for example a within-day gas product, a day-ahead product, week-ahead, month-ahead, quarter-ahead and possibly longer-term contracts;
- Partially standardized delivery points, so that all secondary gas contracts would specify delivery at one of four or five locations.

Contracts for a given standard duration and start date would therefore only need to specify the counter parties, the price, the quantity and one of the standardized delivery points.

In addition, there will be several types of standardized contracts:

- Firm
- Interruptible
- Conditional Firm
- Option contracts

These contract types differ mainly in the circumstances under which gas delivery can be interrupted, and the penalties paid for doing so.

3. The Colombian Economy and Investment Environment

Colombia's economy has been strong and continually improving over the past decade. Average GDP growth has been 4% per year since 2000. Even during the global financial crisis, when GDPs in Latin America fell by an average 2.7%, Colombia's growth remained positive (2.5% in 2008 and 0.4% in 2009).² In 2008, Colombia had the 5th highest GDP in Latin and South America—243 billion USD.³

In 2007, average annual Foreign Direct Investment (FDI) through 2011 was expected to be 6.3 billion USD per year. This placed Colombia as the 40th country in the world in terms of investment dollars, and 5th among Latin American countries, behind only Brazil (27.5), Mexico (22.7), Chile (10.9), and Argentina (6.5).⁴ Actual FDI surpassed this expectation, reaching nine billion USD in 2007, 10.6 billion in 2008, and maintaining performance above expectation even in 2009, at 7.2 billion USD.⁵

² Invest in Colombia December 2010 Investment Booklet. Data from Departamento Administrativo Nacional de Estadística (DANE)

³ Country Report – Colombia. January 2010. Economist Intelligence Unit.

⁴ World investment prospects to 2011: Foreign direct investment and the challenge of political risk. 2007. Economist Intelligence Unit. Table 3.

⁵ Foreign Direct Investment in Latin America and the Caribbean. 2010. Economic Commission for Latin America and the Caribbean (ECLAC).

The United States has traditionally been the primary investor in Colombia, accounting for 26.1% of FDI from 1994-2009.⁶ Recently, Colombia has attracted more investment from other foreign markets. Canada accounted for only 2.6% of Colombia's FDI in that same time period, but in 2010, the dollar amount of investment was more than double that in 2009. Ireland and Denmark also more than doubled their 2009 investment levels.⁷

The Colombian Peso (COP) has been stable relative to the USD since 2009, while inflation has fallen to 2-4%.⁸ Colombia's stability was recognized by major credit rating agencies, who increased the government debt rating to investment grade in 2011 (S&P rated BB+ as of March 16,⁹ Moody's rated Baa3 as of May 31,¹⁰ and Fitch rated BBB- as of June 22¹¹).

The World Bank Doing Business report ranks Colombia 39th in the world in ease of doing business, ahead of Chile (43), Argentina (115), Brazil (127) and Spain (49). Colombia consistently improved its legislation, and has reformed bankruptcy and business entry regulation, ranking as the 23rd most improved business environment since 2007. Colombia now ranks 5th in the world in terms of investor protection.¹²

4. The Duties of the Market Operator

4.1 General requirements

The MO will be based in Colombia. The MO should establish an office in Colombia. The MO must also be established as a Corporation under Colombian law, with the main objective as providing public home services (legal form: S.A. E.S.P.). As an S.A. E.S.P. corporation, the MO would be subject to the supervision and sanctions of the *Superintendencia de Servicios Públicos Domiciliarios*. Likewise, the MO would be subject to relevant regulations issued by the CREG.

The MO will establish a website that will make information available in both the Spanish and English languages.

The duties of the MO are described below.

4.2 Collecting and publishing market data

One of the key tasks of the MO will be to collect, retain and publish in an aggregate form pricing and volume data for primary and secondary trading in the Colombian gas

⁶ See footnote 1

⁷ Report on Foreign Direct Investment in Colombia. May 2011. ProExport Colombia. Data from Banco de la Republica Balance of Payments.

⁸ See footnote 2

⁹ Colombia's Foreign Debt Rating Raised to Investment Grade by S&P on Growth. Bloomberg. By Boris Korby and Helen Murphy - Mar 16, 2011

¹⁰ Colombia's Credit Rating Raised to Investment Grade by Moody's; Peso Gains. Bloomberg. By Andrea Jaramillo and Bill Koenig - May 31, 2011

¹¹ Colombia Peso Drops From One-Week High on Concern U.S. Growth is Slowing. Bloomberg. By Andrea Jaramillo - Jun 22, 2011

¹² World Bank Doing Business 2011.

market and the secondary gas transport market. This will aid market transparency and promote trading and competition.

Producers and primary buyers will provide copies of all existing primary contracts to the MO, and should be obliged to make available copies of new primary contracts entered into as well as informing the MO when primary contracts expire.

On a daily basis the market participants (MPs) would report to the MO for each secondary trade:

- the volume of each trade;
- the product that was traded (that is the contract, being for example, day-ahead, week-ahead, month ahead, quarter or year ahead);
- the price for the trade;
- the delivery point for the trade (there will be between 4-5 possible delivery points);
- the counter-party to the trade;

The working assumption is that the gas day starts at 00:00. Traders will report all trades executed between 00:00 and 12:00 to the MO by 14:00 on the gas day. The trades would be reported electronically in a format that the MO will define and that the MO can easily aggregate. The MO would then publish the (unverified) first round of trading results by 15:00 on the gas day on its website. Specifically the MO would publish:

- The aggregate volume traded for each product at each delivery point;
- The average price of the product at each trading point;

Similarly, traders should report all trades for the previous gas day D-1 by 08:00 on day D. The MO would then publish this (unverified) data by 09:00.

The MO will also publish, on a daily basis, the prices and capacity of gas transport capacity via the 'use-it-or-lose-it' (UIOLI) process, discussed below, as well as the route of the capacity sold.

The MO must develop an electronic system whereby the data above can be communicated from market parties (MPs) to the MO. The MO's system must allow:

- The checking of the submitted data, for example that volumes and prices reported by the counter-parties match;
- The analysis of the data so as to produce the aggregate data within the required timeframe.

For the avoidance of doubt, the MO will not identify individual transactions in the published data.

The MO will check the data submitted by MPs to ensure that the data is consistent. In particular, the MO should check that the price, location and volume data reported by one counterparty to a trade matches the data submitted by the other counterparty to the same trade. Where there is a mis-match, for example each counterparty has reported a different price, then the MO should contact both counterparties to resolve the issue within 24 hours of the initial report. The MO should also query reports that seem to be erroneous, for example where the reported price is significantly different (for example more than 20% different) from the prices for comparable trades that took place within 12 hours of the trade that appears to be erroneous. Where there is a mis-match in volume or location, the MO should also report the issue to the relevant pipeline that is operating the delivery point for the trade. If the MO is not able to rectify the issue with the counterparties, then the MO should remove this trade from its report of the average price and volume data, as well as noting the counterparties involved. Frequent trade mismatches by the same counterparties should be reported to the CREG.

If the checking and verification of trades leads to a change in the aggregate volumes and prices, the MO should publish the corrected prices within 24 hours of the original publication time.

Every quarter the MO will publish, on its website, a report summarizing the main statistics of the market including daily and aggregated volumes traded, average prices over the period, number of trades per day and in aggregate over the period, and any other relevant information regarding its activities over the previous quarter.

The MO will ensure that historical data on aggregated average daily price data and aggregated daily data on traded volumes are available for download from its website in a common format that is compatible with Microsoft Excel.

The MO must keep a record of all data reported to it for the full period of its contract. The data must be suitably backed-up off-site.

The MO must ensure that all data and records are retained in a usable form for any subsequent MO.

More generally, the MO's system should be able to accommodate additional trading points at short notice and without additional cost.

4.3 Establishing and managing a trading platform

The MO is also charged with facilitating trading within the Colombian gas market, making it easier for buyers and sellers to find one another and conduct transactions at minimum cost.

To further this objective, the MO will establish an electronic trading platform/bulletin board (the Over The Counter or OTC trading platform) where traders can make

continuous bids and offers for the standardized gas products. Traders will be able to see the identity of the party offering to sell or bidding to buy gas, the volumes involved, the delivery point, the duration and the price bid or offered.

The MO will establish a separate platform to facilitate the sale and trading of transport capacity (the capacity trading platform). The TSOs will post information on their available primary capacity on the capacity trading platform and offers to sell primary transport capacity at regulated prices on the capacity trading platform. Holders of capacity will also advertise secondary capacity on the capacity trading platform, and MPs seeking capacity will post bids to buy on the capacity trading platform. Bids and offers will specify the transport route, the requested price, the duration of the capacity contract and the amount of capacity.

The MO should also publish on its bulletin board any planned or unplanned unavailability of transport capacity. The TSOs should report unplanned unavailability of transport capacity to the MO within 30 minutes from the occurrence of the event resulting in the unplanned unavailability. Planned unavailability, as well as the cause, duration and a plan for minimizing the effect of the unavailability on the system, should be reported to the MO not less than five days before the outage occurs.

The OTC trading platform and the capacity trading platforms (the platforms) will be available to registered users via the MO's website. Participants would need to register with the MO for an account to access the platforms. The registration process should be free and as simple as possible. The MO should propose its own criteria for platform access, but in essence applicants must prove that they are authorized to represent the firm they claim to represent, that the firm has a registered office and is registered to pay taxes etc. The MO will be responsible for administering accounts.

Correctly completed applications for access to the platforms must be processed within twenty working days in the first six months of operation of the platforms, and then in five working days thereafter. The MO should resolve errors in the applications with applicants in a timely manner.

Any hardware that is required to access the OTC trading platform should be provided by the MO (for example an identification key). The OTC trading platform should be accessible from a standard PC with suitable software installed.

Note that the MO will not be required to clear trades. There is no clearing function involved for the MO. However, at some future point the CREG may mandate the establishment of a cleared gas exchange. The MO would be free to compete to become the operator of a cleared exchange.

The MO should be available to deal with problems with the trading platform 365 days a week 24 hours a day.

The use of the OTC trading platform by MPs would be mandatory for all secondary trading of gas and transport capacity. No off-platform bilateral deals are permitted.

It is expected that the use of the OTC trading platform would be free of charge, and that the MO's costs would not be recovered directly from OTC platform users.

4.4 Market Monitoring

The MO shall monitor trading activity in the standard gas contracts to detect trading based on inside information as well as market manipulation. The objective of the MO will be to detect the distortion of competitive market outcomes while avoiding unnecessary interference with competitive price signals. The MO will use the data on trades that it has collected as described above to assist in this task. In addition, the pipeline operators will supply to the MO data on:

- Capacity held by each MP;
- Flow nominations made by each MP;

Gas producers will also supply to the MO, on a daily basis, gas volumes produced.

The gas producers will also supply planned maintenance schedules to the MO as soon as they become available, and report unplanned production outages to the MO within 30 minutes counted from the occurrence of the event resulting in the unplanned outage. In this role, the MO would be expected to co-ordinate with the *Consejo Nacional de Operación de Gas Natural* (CNO-Gas), which is the body responsible for, among other things, aim of defining procedures, definitions and basic parameters for i) co-ordinating and planning maintenance to the gas supply and transport infrastructure.

The MO will use this data to monitor market operations and analyze market parameters such as production capacity, gas production margins (being the difference between supply capacity and demand), production outages, demand, wholesale gas prices, gas transport constraints, and transport utilization.

The MO should aim to detect attempts to exercise market power or attempts to manipulate market outcomes by MPs or Transmission Owners (TOs). The MO should be prepared to identify all types of anti-competitive behaviour by market parties, including, but not limited to;

- Instances of physical withholding associated with trading activity, where for example, a MP establishes a long (selling) position in the market for a future date, and subsequently withholds production capacity during the delivery period of the gas thereby raising the value of its long position.
- Attempts to 'corner' the market, by for example buying up more gas than is physically available for a given delivery period with the objective of re-selling this gas at an artificially high price;
- The submission of artificially high or low bids or offers that are made in an attempt to create a false impression of excess or shortage and are subsequently withdrawn from the market;

- Unexplained or suspicious price differences between physical trading points, where for example there is unused pipeline capacity between trading points despite large price differences.

The MO will also be responsible for ensuring that the use-it-or-lose-it (UIOLI) mechanisms in place for pipeline capacity are being observed and are effective in ensuring efficient utilisation of transport capacity.

If the MO discovers suspected market abuse, they will report this to the competent authorities. For the avoidance of doubt the MO would not have any legal competence for formal competition or market abuse investigations nor would it have powers to sanction behaviour of the MPs.

The MO will report all such instances of suspected market power abuse or market manipulation to the competent authorities in a timely fashion.

In its quarterly report the MO will advise the CREG on the nature and extent of, and any impediments to, competition in and the economic efficiency of the Colombian gas market.

The MO may also be required to co-operate with the electricity market operator in investigating possible market manipulation crossing both the power and gas markets. The MO will also make the market information available to the Colombian surveillance agencies (*Superintendencia de Industria y Comercio* and *Superintendencia de Servicios Públicos Domiciliarios*) in a suitable form as required.

4.5 Managing the short-term UIOLI processes

The MO will also be managing the ‘use-it-or-lose-it’ (UIOLI) processes. There are separate UIOLI processes for a) gas commodity b) unused pipeline capacity.

Gas that is available under primary contracts with producers, but that has not been nominated a given period of time before the start of the gas day, will be auctioned by the MO via its website. The MO will organise a separate auction for gas at each delivery point between 17:00 and 18:00 on D-1, and the auction will be of a single-round sealed bid type. Bidders will be required to submit their bids between 17:00 and 18:00. Anyone qualified to participate on the platform (registered users) would be allowed to participate in the UIOLI auction.

At 18:30 D-1 the MO would notify the relevant producers of the volumes of gas sold under the UIOLI auction, and the primary buyers whose gas had been sold. The MO would also notify the parties that have bought gas in the UIOLI process that they were successful, and who their counterparties are – that is, which primary buyers they are actually buying gas from and how much by 18:30 D-1. Since there is a single price for each UIOLI product at each location nothing differentiates the UIOLI product sold by each primary buyer at each location. Accordingly the MO can match buyers and sellers using any process. For example the MO could rank primary buyers and UIOLI buyers by volumes of UIOLI gas bought and sold, and match counterparties in the order of the list.

The MO will be responsible for organising the UIOLI transactions, and passing on payments from the buyer of the UIOLI gas to the seller (that is the party that has the long-term contract with the producer) less a handling fee that the MO will be allowed to retain. The size of the handling fee is not yet set and may vary over time, but it will be similar to the maximum spread allowed for the market maker which will likely be in the order of \$0.1-0.2/MMbtu. The MO's handling fee for the UIOLI gas auctions will be one its three sources of revenues. Gas contracts with the same delivery points will be auctioned as the same product, regardless of different identities of the primary buyers.

Since it is possible for shippers to re-nominate gas supply four times during the gas day the MO would also organise four within-day UIOLI auctions for gas that has become available as a result of downward nominations for primary gas contracts (note that upward nominations would not be possible, since any gas not nominated would already have been sold in the UIOLI gas auction). The within-day UIOLI auctions would be as described above, except for the timing. The timing of the within day UIOLI auctions should be agreed in discussions with the *Consejo Nacional de Operación de Gas Natural* (CNO-Gas).

Similarly, the MO will be responsible for organising a daily sale of unused pipeline capacity released via the capacity release process. Capacity made available via the UIOLI process should be offered via the MO's website to registered users via a single sealed-bid auction process. At 16:30 the pipelines would inform the MO of unnominated primary transport capacity. They would specify the primary shipper, the route, the average daily capacity, and the variable (or commodity) charges associated with the capacity. Between 17:00 and 18:00 the MO would auction the UIOLI capacity products. Capacity products would be differentiated by route (pipeline segments) and variable costs (commodity charges) – that is capacity products with a different route and/or different variable costs would be auctioned as separate products. The MO would also differentiate UIOLI capacity held by power stations, since these capacity products subject to different rules once sold. The MO would aggregate any products that had the same route and same variable cost, but again differentiating capacity held by power stations. Participants would bid for each product, or a fraction of each product in a sealed bid auction. Participants would bid for the capacity, and there would be no reserve price.

By 18:30 D-1 the MO would confirm the results of the UIOLI capacity auction to winning bidders and the pipelines via e-mail. Buyers of UIOLI capacity would then have until 18:50 to submit a nomination schedule for their UIOLI capacity.

As for the gas commodity auctions, the MO would be responsible for holding four within-day UIOLI auctions for transport capacity to deal with capacity made available by re-nominations. The timing of the within day UIOLI auctions should be agreed in discussions with CNO-Gas.

The MO will retain the capacity fees raised by the UIOLI auctions. The new holder of the capacity will be responsible for making the relevant commodity payments directly to the relevant pipeline operator.

4.6 Managing the annual gas auctions

Every year, starting October 2012, one-year upstream gas contracts will be auctioned. Details of these auctions are described in a series of reports by CREG's consultants that can be found at www.market-analysis.co.uk/reportsubmissions.html. The MO will be responsible for organising and executing these auctions.

4.7 Managing the Long-Term UIOLI Process

The annual auctions above could lead to a situation in which some parties have transport capacity but no gas, and vice versa. Therefore there will be a so-called long-term (LT) UIOLI process, which will require holders of long-term primary transport capacity contracts who do not succeed in purchasing longer-term gas contracts in the upstream auctions to offer their excess capacity to successful gas contract purchasers.

The MO will be responsible for administrating the LT UIOLI process. Specifically, three months following each annual upstream auction the MO will compare the contracted amounts of gas for each purchaser from each field (including any gas contracted in previous auctions, or otherwise) with their contracted capacity for the following calendar year from that field (i.e. delivery point). Any positive difference between the amount of contracted capacity and the amount of contracted gas will then be offered in a clock auction with the reservation price for each contract set at the capacity charge specified in the relevant primary contract. Successful purchasers will subsequently sign one-year secondary contracts directly with the primary contract holders at the auction-determined capacity price, and with the same commodity charge specified in each relevant primary gas contract.

4.8 Suggested changes to market rules

The market monitor will also be responsible for proposing changes to the market rules to the CREG. Proposed rule changes should have the objective of facilitating the efficiently functioning of the market and enabling the MO to carry out its duties more economically and effectively.

In this role, the MO would be expected to co-ordinate any recommendations with CNO-Gas. CNO-Gas, among other duties, is responsible under Article 21 of the decree 2100, for issuing Agreements and Operating Protocols with the aim of defining procedures, definitions and basic parameters for i) the operation of the national transport system; ii) programming of maintenance to the gas supply and transport infrastructure and iii) coordination of the agents in the national transport system in a gas supply emergency.

4.9 Key Performance Indicators for the MO

The Key Performance Indicators (KPIs) for the MO would include:

- The availability of the trading platform – that is, the percentage of time that the platform is available for trading. Note that suspension of the platform due to for example a gas emergency would not count toward unavailability;
- The percentage of time that the MO meets the daily deadline for publishing aggregated information on prices and trading volumes;

- The percentage of time that the MO meets the daily deadline for publishing final (post-verification) aggregated information on prices and trading volumes;
- The average time taken to process applications for membership to use the trading platforms, specifically the percentage of applications that are approved within the timeframe discussed above.

Every 3 months, the MO will calculate the KPIs above based on the previous 12 months of operation. The CREG will have the right to audit the MO's calculations of the KPIs. The MO will publish the KPIs in its quarterly reports on its website.

5. Governance and remuneration of the MO

As described above, the MO would be formed as a Corporation S.A. E.S.P. under Colombian law. The MO will have a regulatory contract, the exact legal form of which is to be decided but will be decided before the bidders are asked to submit final tenders.

The MO would hold the contract for a period of four years. At the end of four years, the contract can be terminated and a public tender organized for the appointment of an MO for the following four years. The current MO would be allowed to participate in this process.

The contract conditions will specify the conditions under which the MO's contract can be terminated before the end of the four year term. However, these conditions are likely to include gross negligence, fraud, tax evasion, a criminal conviction of the MO's managers in connection with their duties at the MO etc.

The MO will be paid:

- A one-off set up fee, which should cover costs incurred until the start of full operations, up to but not including go-live of the trading platforms and the first publication of transaction data;
- An annual fixed fee, which is intended to cover the MOs fixed annual costs from the go-live date of the trading platforms and the first publication of transaction data; ;
- A variable fee, which will vary per unit of gas traded on the OTC trading platform.

These fees will be determined as part of this competitive appointment process (see section 10). Together these fees are referred to as the MO's required revenue.

As described above, the MO will generate some of its required revenue from the UILOI processes described above. However, the bulk of the revenue will be paid by users of the gas system via fee. The fees will be collected from system users by either the gas pipelines or gas producers, who will pass the fees onto the MO. The pipelines or gas producers will guarantee the payments. That is, the pipelines or producers will make up any difference between the MO's required revenues and the amounts paid by system users.

The MO will be paid 50% of the one-off set-up fee within 3 months of the award of the MO role, and the remaining 50% paid when the trading platforms become operational. The MO will be paid the annual fee in 12 equal monthly installments, with the first payment received one month after the trading platforms become operational and the first transaction data is published. The variable fee will be paid every month one month after the traded volumes on which the fee is calculated occurred.

For every week that the MO is late in delivering the functionality outlined in section X, the MO would lose $1/26^{\text{th}}$ of its annual fixed income.

Note that the CREG will be able to define an income adjusting event, whereby the MO's revenues can be adjusted upwards only to reflect an unforeseen task or event.

6. Allocation of Risks for the MO role

The key financial risks for the MO are that:

- The actual annual fixed costs of the MO will exceed the annual fixed fee. On the other hand, if actual costs are less than the annual fixed fee then the MO will be able to retain the difference;
- Trading volumes, and the volume of data that must be processed and stored, will develop faster than anticipated, so that the MO needs to spend more money than anticipated on IT infrastructure.

However, we also highlight that if the MO has estimated its costs accurately, the MO is largely insulated against volume risks since the MO will be paid a fixed annual fee that is independent of trading volumes. This risk-assessment is indicative only. Bidders alone are responsible for assessing the risks that they face.

7. Key Dates

Bidders should be aware of the following key dates:

- The first upstream gas auction should be held in October 2012;
- In January 2013 the LT UIOLI capacity auctions should be held;
- The first deliveries under the standardised contracts will take place on 1 December 2013. Therefore the commodity and capacity trading platforms should be operational before 1 November 2013 so as to allow forward trading to commence at least one month before delivery.

8. Process for Appointment of the MO

The process for appointing the MO is as follows:

1. Publication of the Draft RFP (this document) [date]
2. Declarations of interest from interested parties by [date]
3. Submission of clarification questions by [date].
4. The CREG will hold an MO RFP conference in Bogota, Colombia [consideration could be given to holding this in Europe perhaps London or Brussels, so as to encourage attendance by EU applicants], giving background information on the secondary market study's main recommendations, recent or proposed changes in relevant law and other relevant features of the Colombian gas market. Interested parties will be able to attend in person or via video /web links. The conference will be held in the week of [date].
5. Deadline for submission of pre-qualification information (see section 9) by [date]. Information can be submitted in Spanish or English. Bidders at this stage can also propose comments on this draft RFP, for example comments on the role as described, including timing of data publication, and suggest and changes or modifications.
6. CREG to announce pre-qualified bidders by [date].
7. CREG to send final RFP to qualified bidders by [date]
8. Deadline for submission of the information required for the bid (see section 9) by [date]. Bids can be submitted in Spanish or English.
9. In person presentation of each bidder's proposal, Q&A session to be held in Bogota, Colombia in the week of [date]. Presentations can be held in Spanish or English. The presentation should include a demonstration of the trading platforms that the bidder is currently operating.

10. CREG to select preferred bidder, [possible publication of the results /scoring] by [date].
11. CREG to publish the results /scoring of the pre-qualified bidder and details of the winning bid.

9. First round selection criteria

The CREG will select a group of bidders to go through to the final round on the basis of the following criteria:

- Experience in managing large volumes of contractual data in electricity and gas markets;
- Experience in managing and executing complex auctions;
- Experience in monitoring markets for signs of market abuse and exercise of market power;
- Absence of conflict of interest. The applicant should be independent from gas producers, pipelines and gas buyers active in the Colombian gas market.

Note that bidders can take the form of a ‘consortium’, although the consortium should be structured as a lead bidder and sub-contractors. The role, experience and absence of conflict of interest of each of the parties in the consortium should be clearly specified.

Interested parties should provide the following data for the first round selection process:

- Description of previous experience of operating gas and/or electricity trading platforms and/or processing trading information and market monitoring [maximum 100 points]
- Description of the applicant organization (max 2 pages) including corporate structure, ownership structure, governance structure, and annual turnover [maximum 100 points].
- Description of experience in executing auction processes, including the any specialist software used [maximum 100 points].
- Description of any ownership by the applicant in gas producers, pipelines and gas buyers active in the Colombian gas market [maximum 100 points].
- Description of any ownership of the applicant by gas producers, pipelines and gas buyers active in the Colombian gas market. To ensure independent performance of its duties, candidates should also demonstrate their independence from the Colombian government, and for example declare any direct or indirect ownership interests of the Colombian government in their organization. [maximum 100 points].

It is important that the gas MO is carrying out its duties solely with the interests of the gas market in mind. Therefore candidates should demonstrate that they are not involved in the Colombian electricity market including any role in dispatching generators in the Colombian electricity market.

The CREG will invite the three applicants with the highest scores to submit an offer to be the MO.

10. Selection Criteria

The CREG will select the MO based on the following criteria:

1. Previous experience/organization experience of key personnel
2. Time required and planning to establish the MO function.
3. Financial capacity
4. Evidence that the firm is of good standing
5. Reliability and Availability
6. Fees

More details are provided below.

10.1 Experience

Bidders should provide a description of previous experience of operating gas and/or electricity trading platforms and/or processing trading information and market monitoring, as well as experience in managing auction processes. This can be taken from the pre-qualification documents but applicants can also add more details at this stage.

Maximum 100 points

10.2 Planning and implementation

Bidders should submit a proposed organization structure for the MO (an organogram), including the expected number of staff for each year of operation. The CVs of the initial manager of the MO should be put forward, with a commitment that that person will remain in place for at least two years with payment of a penalty unless leaving under force majeure circumstances. The bidder should provide a description of key staff and their CVs. Bidders should give details of the Spanish and English language skills of the key staff.

Bidders should submit a detailed implementation plan, describing the process and planning of how they would go about establishing the MO function in Colombia. Bidders should also describe any major sub-contractors they plan to use, for example IT service providers. Bidders should specify the length of time between contract award date and the 'go live' date for the MO function, and respecting the key dates in section 0 of this RFP.

Bidders should note that financial penalties will be applicable if the winning bidder does not commence operation after the specified period of time.

Bidders should describe how they would develop the OTC trading platform and the capacity trading platform, including the software used, and whether this software has been used for similar purposes elsewhere. Bidders should also describe security features to prevent unauthorized account access and the process for obtaining an account.

Bidders should describe the system and format through which MPs will submit information on concluded trades to the MO, as well as any features that will facilitate account management for MPs.

Bidders should describe the systems that they will set up to monitor the market and detect trades that may involve market manipulation.

The bidder should provide details of how it proposes to secure data, both from accidental loss and from unauthorized attempts by third-parties to access the data. Bidders should describe a general data management plan, including how they would store, retrieve and manipulate data as required, and what systems would be used to achieve this.

The bidder should provide details of its proposed auction arrangements for the auction of gas commodity and gas transport capacity under the UIOLI arrangements.

Maximum 100 points

10.3 Financial capacity

Bidders should submit their available accounts, annual reports, share information for the last three years, including balance sheets, P&L, credit rating of the parent form underwriting debt, if available, ownership (if not a quoted company), shareholder structure and any special features of corporate governance, government ownership etc.

The bidder should describe how they will provide initial funding for the MO function, and details of any parent company support and/or guarantees and/or other financing arrangements. In particular, bidders should describe what financial arrangements would be put in place to deal with a situation in which the MO experiences costs in excess of its annual revenues.

Maximum 50 points

10.4 Evidence of good standing

Bidders should provide details of any enforcement action or other similar action taken against the applicant or its affiliates or against the management of the applicant or its affiliates in the last 10 years. Bidders should provide details on the basis of the action, the parties involved, duration, outcome, and financial/resource implications of all enforcement actions taken against the applicant. Examples of relevant enforcement action include, for example: contract enforcement; health and safety; competition law; company law; misfeasance; etc.

Maximum 50 points

10.5 Reliability and Availability

Bidders should specify the maximum number of hours a year that the platforms will be unavailable due to unplanned outages. For every hour the platforms are unavailable in excess of the target for unplanned outages the MO's income will be reduced by 1/365 of the fixed annual fee. For every hour availability is more than the target for unplanned outages the MO's income will be increased by 1/500 of the fixed annual fee.

Bidders should specify the number of planned maintenance windows (during which the platform will be unavailable) and the length of these windows. Note that for every hour maintenance exceeds the pre-specified window the MO's income will be reduced by 1/365 of the fixed annual fee. For every hour maintenance is completed earlier than the pre-specified window the MO's income will be increased by 1/500 of the fixed annual fee.

Maximum 50 points

10.6 Fees

Bidders should specify the following:

- A fee for the initial set-up of the MO operation, from contract award to go live date/start of operations;
- An annual fee, to cover the fixed annual operating costs of the exchange from the go live date;
 - Bidders should detail which part of this fee is associated with executing the annual gas auctions.
- A proposed variable fee, which would be charged per GWh of gas traded on the OTC trading platform. Bidders should bear in mind that the volume of trading and therefore the volume of data that would need to be handled by the MO is uncertain, since there is no reliable history of secondary market trading. Hence the variable fee should account for increased hardware and software needs as data handling requirements increase;

Bidders should provide support for the fees described above in the form of a business plan, detailing how the bidder has arrived at the costs derived above, including key assumptions such as staff, IT and office costs.

All prices should be quoted in 2012 Colombian pesos (COP). All fees will be inflated annually from 2012 using the Consumer price index published by the Colombian statistical agency (*Departamento Administrativo Nacional de Estadística*).

Maximum 200 points

10.7 Summary of scoring

The Table below summarizes the scoring system. The maximum score is 650. The bidder with the highest score will be invited to participate in detailed negotiations with the relevant authorities.

| Criteria | Maximum Score |
|--|------------------------------|
| Previous experience/organization experience of key personnel | 100 |
| Time required and planning to establish the MO function | 100 |
| Financial capacity | 50 |
| Evidence that the firm is of good standing | 50 |
| Reliability and Availability | 50 |
| Fees | 200 |
| | TOTAL ____ out of 550 |

11. Details of how to apply

Pre-qualification data should be sent in Spanish or English language by email or hard copy to the following addresses:

[TBC]