



Ofgem
9 Milbank
London
SW1P 3GE

31st July 2013

Dear Sir/Madam,

Re: Pricing benchmarks in gas and electricity markets: Call for evidence

Gazprom Marketing & Trading Limited (GM&T), as an active shipper on the GB gas network welcomes the opportunity to respond to Ofgem's call for evidence in pricing benchmarks in gas and electricity markets. The contents of this response are not confidential.

1. Do you agree with our review of the issues?

GM&T broadly agree with Ofgem's identification of the issues. In particular, it is key that there exists enough freedom by traders to participate in price reporting to a degree that they deem appropriate rather than PRA (Price Reporting Agency) activities being overly regulated to the point that price discovery is stifled by reduced reporting by traders. This would in turn reduce liquidity and have a negative impact to market development.

Due to a large proportion of gas and power wholesale trades taking place OTC, it is vital to the efficient and fair operation of the market that PRAs maintain a commercial incentive to report accurate market sentiment in a transparent way, and traders are not disincentivised by excessive bureaucratic obligations to submit trade and price data.

The importance of price benchmarks however extends beyond traded prices for public dissemination; they are essential for companies' internal mark-to-market book valuations and ongoing P&L.

The best practice in risk management emphasises the need for a business to accurately assess the value and the risks of its positions on an ongoing basis and the indices published contribute to providing public and accepted reference prices.

Considering the structural development of liberalised energy markets, the existence of price benchmarking is even more important in nascent markets, where the lack of liquidity is a primary concern and independent third parties publishing reference prices encourages trading.

The processes established to set benchmarks and indices must ensure reliability and accuracy. However, there is an important distinction to be made between energy markets and financial markets, particularly given that one of the key drivers of this call for evidence is the recent LIBOR scandal in the financial sector. In energy markets there are well established independent third parties that perform the assessment in their critical capacity which is not the case on financial markets.



GM&T is of the opinion that attempts to apply catch-all rules to price reporting in both market sectors carries a significant risk of companies refusing to participate in price reporting, eroding the quality of price discovery in the market.

2. What is your company's policy on providing information to price reporters or other price benchmarking services?

GM&T's policy is that reporting should be conducted by internally authorised personnel, who have the appropriate skills and experience, and be in written format only. Where prices are provided we follow the specification requested by a particular PRA.

3. In what ways do you use benchmark prices provided by price reporting agencies or other price benchmarking services?

GM&T generally utilise the prices provided by PRAs as part of the basic analysis for the trading activity, but also in many cases they are part of the pricing of certain structured products and they are used to perform mark-to-market evaluations of open positions in our books.

4. Do you use a single price provider only, or a combination or variety of prices?

GM&T buy and sell a range of physical commodities and financially settled derivatives and as such, like many of our peers, use a range of indices across many different providers, sometimes for the same underlying commodity.

5. What are your views on the terms of the IPRO code of conduct and the various published methodologies of the price reporting services with particular reference to gas and electricity markets?

GM&T sees the IPRO code as a very useful instrument for self-regulation of the PRA business. It is well balanced and introduces most of the controls that market participants and regulators were expecting to be in place to facilitate fair price reporting environment. Contributors commit to transparent and equal data submissions; The IPRO commit on clarity about the methodology of the data and any possible change.

The IPRO code should be intended as a 'live' document, open to changes that may become necessary as the market evolve.

6. In the context of GB gas and electricity markets, do you consider the current arrangements whereby price reporting agencies operate under a self-regulatory regime are fit for purpose?

The principle of PRAs operating under a self-regulatory regime based on voluntary submissions by contributors is supported by GM&T. There is a commercial incentive on the part of PRAs to provide accurate price discovery to the market, as well as to provide a reliable and robust service to its client-base. Over-regulation of PRA's activities, such as mandatory reporting by users or burdensome procedures on contributors, threatens the existence of prices and reduces the integrity and reliability of market price discovery.



7. Are there any other issues that you wish to raise in the context of this call for evidence?

The key issues for GM&T are as follows:

- It is important for liquid price discovery for market participants to be able to contribute to PRAs on a voluntary basis
- The self regulation of PRAs along with the IPRO code of conduct form a robust framework for accurate dissemination of prices to the market, and enhance market development. Increasing external regulation carries a heavy risk of eroding participants' contribution
- Benchmarks in the energy markets are very different to financial benchmarks, and must be treated as such to ensure that changes to one do not hamper the development of the other.

Yours faithfully,

Ric Lea

**Regulatory Affairs
Gazprom Marketing & Trading Limited**