



31 July 2013

Mr. Graham Knowles
Wholesale Markets
Ofgem
9 Millbank
London
SW1P 3GE

Dear Mr. Knowles,

On behalf of Platts, a division of McGraw Hill Financial Inc., I thank you for the opportunity to respond to the Call for Evidence on Pricing Benchmarks in Gas and Electricity Markets. Platts provides news, fundamental data, pricing information and other analysis across commodity markets globally, including the UK wholesale gas and electricity markets.

Platts fully agrees on the need for transparency in pricing, the importance that pricing plays in well functioning physical energy markets, and the need for market confidence in the integrity of price benchmarks. The Ofgem call for evidence reflects a clear understanding of the physical markets and Platts appreciates the common-sense approach reflected in Ofgem's assessment of the issues. Most importantly, Platts commends the recognition that physical commodity price assessments differ considerably from financial benchmarks such as LIBOR and that greater regulatory scrutiny could have the unintended consequence of reducing parties' willingness to provide pricing data. Platts' price assessment processes across all markets and geographies depend on voluntary participation, and as Ofgem aptly notes, in the face of undue regulatory burdens, parties may conclude that "the simplest way to mitigate this risk may be to withdraw cooperation and decline to provide" data. Platts urges Ofgem to keep this consideration uppermost in mind as it considers next steps.

As Ofgem notes, its call for evidence comes at a time of significant regulatory interest in energy markets globally. In October 2012, Committee 7 of the International Organization of Securities Commissions (IOSCO) published its Principles for Oil Price Reporting Agencies, in response to a request by the G20 leaders. Platts, as a leading oil PRA, was an active participant in the proceedings that culminated in IOSCO's report and fully endorses IOSCO's goal of "promoting the quality and integrity of oil price assessments." This month, IOSCO published its Principles for Financial Benchmarks, which stated IOSCO's expectation that "the oil PRAs should continue to comply with and implement the PRA Principles." Platts confirms its commitment to align its operations with the oil PRA principles in all commodity markets in which it publishes price assessments and has under way a company-wide initiative to implement the principles.

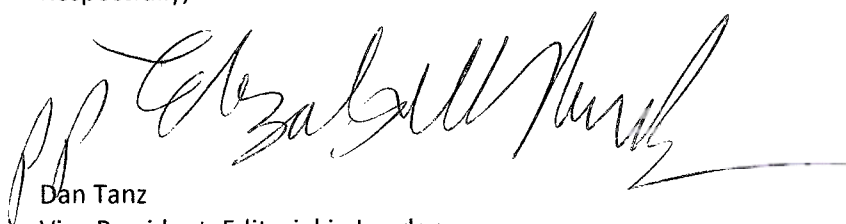
Thus, while Platts continues to support the draft Independent Price Reporting Organisations Code, the principles established by IOSCO's Committee 7 are what will guide Platts' price reporting.

The IOSCO principles directly address some of the concerns noted in Ofgem's call for evidence. For example, while Platts long has had a training regime for both new and experienced staff, it has added editorial resources devoted exclusively to developing additional training programs. Likewise, Platts' publicly available methodologies already provide significant detail on how assessments are formed, but Platts is nevertheless in the process of updating the presentation format of its methodologies to make its procedures even more clear, precise and understandable. Additionally, the market commentaries that Platts publishes each day to explain its price assessments will be enhanced.

In addition to the IOSCO principles, the EU is in the process of implementing its Regulation on Wholesale Energy Market Integrity and Transparency (REMIT). Market participants will need to register and then to begin reporting, probably in 2014, all of their wholesale gas and electricity transactions to the Agency for the Cooperation of Energy Regulators (ACER), which will provide more transparency to market overseers. Given such developments, Platts submits that 2014 may be a pivotal year in market oversight. Rather than add another regulatory workstream to the multiple endeavours already under way, Platts urges Ofgem to carefully monitor progress and allow current efforts to unfold. If Ofgem concludes that some additional mechanism would be appropriate, Platts would urge Ofgem to engage in a broader discussion with the PRAs and market participants to consider ways to ensure the price assessment process has access to the highest-quality data possible.

Platts stands ready to fully engage with Ofgem and market participants as it considers these important issues.

Respectfully,

A handwritten signature in black ink, appearing to read 'Dan Tanz', with a long horizontal line extending to the right.

Dan Tanz
Vice President, Editorial in London
Enclosure

Q1: Do you agree with our assessment of the issues?

Yes. Platts believes Ofgem has provided a very useful and well reasoned synopsis of the current state of price reporting in UK gas and electricity markets. In particular, Ofgem has made two key observations: current issues with financial benchmarks such as LIBOR should not be intertwined with the very different physical commodity prices that Platts and other publishers report; and threats to the voluntary reporting process posed by burdensome regulation could lead to “a breakdown in the quality of the price assessment process,” the exact opposite result of what is sought by market overseers.

Platts, as a global provider of pricing in physical commodity markets including oil, natural gas, electricity, coal, petrochemicals, metals and agriculture, has been an active participant in regulatory proceedings worldwide on how to attain the highest possible quality for benchmark prices. It shares Ofgem’s goal of ensuring such prices are fit for purpose.

As a price publisher, Platts has a view on the key principles needed to reach that goal. Those principles include independence of the benchmark provider from industry influence; voluntary participation in contribution of data to assessment processes; clear, public methodologies on what data is needed and how assessments are derived; well defined governance policies in place at price reporting organizations; and regulatory policies that recognize a “one size fits all” approach for commodity and financial markets is not appropriate and are carefully balanced to avoid market disruption.

Platts has a long history of providing pricing and market intelligence in the UK energy markets. It has provided prices for the day-ahead UK gas market at the National Balancing Point (NBP) since August 1996 and has published prices for the day-ahead UK power market since April 1999. Platts also is an established price reporting organization in other gas and electricity markets globally, including a leading role in US natural gas pricing since the 1980s and, more recently, an innovator in pricing gas globally through regional LNG prices.

In addition to providing pricing, Platts also offers the market key information that contributes to price formation, such as fundamental supply-demand conditions, through its real-time news service European Power Alert, its daily publications European Gas Daily and European Power Daily, and its PowerVision energy analytics service. Platts believes strongly that the availability of fundamental market information, such as under the EU’s Regulation on Wholesale Energy Market Integrity and Transparency (REMIT) requirements, is vital to an informed understanding of physical energy markets.

At the core of Ofgem’s call for evidence is the question of whether the market deserves to have confidence in the integrity of pricing benchmarks. Platts believes the answer is “yes” and appreciates the opportunity to offer its views.

As Ofgem notes, there have been several recent regulatory reviews of benchmark pricing. Platts has been an active participant and would like to briefly recount some of its key conclusions and actions. In October 2012, Committee 7 of the International Organization of Securities Commissions (IOSCO)

published its Principles for Oil Price Reporting Agencies, in response to a request by the G20 leaders. IOSCO noted that “[a]lthough the PRA principles were developed in the context of PRAs and oil derivatives markets, PRAs are encouraged to implement the principles more generally to any commodity derivatives contract that references a PRA assessed price without regard to the nature of the underlying.”

On July 17, IOSCO published its Principles for Financial Benchmarks, which apply to a broader array of benchmark pricing. Significantly, the Principles for Financial Benchmarks explicitly note that “[i]n order to respect the circumstances under which these two sets of principles have been adopted, as well as the ongoing evaluation process of the PRA Principles, IOSCO expects that the oil PRAs should continue to comply with and implement the PRA Principles.”

As noted in a July 17 press statement (see Annex A), Platts has reaffirmed its commitment to aligning with the IOSCO principles for oil PRAs “and to applying those principles to its price reporting in the other commodity markets in which it publishes price assessments that underlie financial derivatives contracts.” Platts already has well under way a company-wide initiative to ensure its alignment with those principles, including an external assurance audit for oil benchmark prices by a major accounting firm by October 2013, and will complete the process of applying the principles to all markets it covers – including UK gas and electricity – by 2014.

In addition to the external audits, which will be made public, IOSCO has recommended that market authorities consider whether to prohibit trading in any commodity derivatives contract that references a PRA-assessed price unless that assessment follows the IOSCO principles for oil PRAs. That is a powerful incentive for price reporting organizations to align with the IOSCO principles.

Platts wishes to emphasize its belief that a benchmark provider should observe the highest standards of corporate governance and controls. Platts’ price assessment methods and practices, developed over several decades, are fully open to public view and are monitored by a compliance department independent of the editorial staff. Platts takes seriously its commitment to maintain the integrity of its pricing methods and to publish price assessments that reflect market values. Platts accepts the value of clear audit trails as well as review of processes by an external auditor. As shown by its cooperation with Ofgem already in this undertaking, Platts also believes in engagement with regulators to explain its processes, share its insights on market activity and provide information already published into the public domain.

As Ofgem considers its next steps, Platts recommends that the IOSCO principles for oil PRAs be allowed to prove their value before any other regulatory initiatives are implemented. The issuance of separate but overlapping principles by other market overseers would be counterproductive at this stage, particularly given that IOSCO itself has specified that the oil PRA principles – as extended to other commodities – should be the principal framework for commodity benchmark pricing.

Platts also observes that some reviews of pricing benchmarks have failed to distinguish between physical commodity benchmarks and financial benchmarks such as LIBOR. Platts is very heartened by, and concurs with, Ofgem’s recognition of “fundamental differences” between the two benchmarking

processes. In fact, Platts submits there is no similarity between the two. Critical distinctions are the quality of the source data, the independence of PRAs from the industries that contribute data, the constant testing of submitted data to ascertain reliability, the right to exclude data contributions that do not meet methodology standards, the competition among the independent PRAs and the transparency of their methodologies.

A key element in price assessment is the collection of data from market participants. While practices differ across various markets that Platts assesses globally, a common principle is that participation in the process is voluntary. Ofgem correctly notes that for companies looking to reduce their regulatory risk, “irrespective of whether the risk is real,” the simplest tactic “may be to withdraw cooperation and decline to provide” data. “This in turn can lead to a breakdown in the quality of the price assessment process, with negative consequences for the market and for consumers.”

Based on its experience in a number of markets using varied data collection techniques, Platts wholeheartedly agrees with Ofgem’s legitimate concern. Indeed, a common theme that Platts has sounded in regulatory proceedings is that ill-considered regulation of commodity benchmarks, which rely on voluntary participation, runs the serious risk of unintended consequences. The potential that market participants could withdraw from assessment processes is not an idle concern; it is a real one. If Ofgem were to consider the need for any additional action, Platts urges caution in taking any steps that could provide market participants a disincentive from contributing data needed to formulate assessments. Platts views levels of activity in UK gas and electricity markets as sufficient to support solid pricing benchmarks, but as Ofgem noted, “good information is essential for a well functioning market” and the potential to disrupt that voluntary flow of information must always be kept in mind.

Ofgem noted allegations that price reporters are poorly trained and that PRAs fail to follow their published methodologies, particularly regarding the sourcing of information. That does not reflect the experience of Platts, which takes seriously its obligation as a PRA to earn the confidence of the market. Platts has long had a training regime for both new and experienced staff under which reporters are not permitted to assess markets until they have completed training. Currently, Platts is in the process of implementing IOSCO principles for oil PRAs that directly address the need for training, experience and review of price assessors. Platts has added editorial staff resources devoted exclusively to developing additional training programs, including individualized learning roadmaps for each market reporter that will enable staff to develop their careers and also will aid managers in succession planning. Enhanced testing and training programs also will enable managers to validate consistency and continuity in the high quality of assessments.

Likewise, the IOSCO principles for oil PRAs outline in detail the expectations for methodology content and the practices PRAs employ to follow methodologies. As it implements the principles, Platts is reformatting its methodologies to make its procedures even more clear, precise and understandable. Platts also is sharpening its market commentaries to explain more fully how it reaches each day’s price assessments. The commentaries will cover market fundamentals such as supply and demand conditions that underlie price movements and also will document how assessments were formed. The revamped format, already introduced for North Sea oil commentaries, has won very positive feedback from market

participants for the additional clarity it brings. While Platts is confident it consistently follows its own methodologies, the combination of an external assurance audit and more detail in its daily published market commentaries will further strengthen safeguards.

In summary, Platts urges Ofgem to recognize the benefits to be obtained as PRAs align with the IOSCO oil PRA principles and to allow that process to play out. IOSCO has established an 18-month review process beginning with the October 2012 publication of the PRA principles and will be evaluating the degree to which PRAs have implemented those principles.

Q2: What is your company's policy on providing information to price reporters or other price benchmarking services?

This question does not apply to price reporting organizations such as Platts.

Q3: In what ways do you use benchmark prices provided by price reporting agencies or other price benchmarking services?

This question does not apply to price reporting organizations such as Platts.

Q4: Do you use a single price provider only, or a combination or variety of prices?

This question does not apply to price reporting organizations such as Platts.

Q5: 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?

Platts has joined with Argus and ICIS to produce a draft code of conduct for independent price reporting organisations (see <http://www.platts.com/regulatory-engagement>). While work on the code continues, Platts stresses its commitment to fully align with the IOSCO principles for oil PRAs for all commodities that Platts covers. Thus, if there are any differences between the IPRO code and the IOSCO principles, Platts refers Ofgem to the IOSCO principles as the guide to Platts' commitments.

Platts' methodologies are published on platts.com, and Platts is always open to feedback on its price assessment processes. If any changes in methodology are considered, Platts has implemented principles requiring full consultation with the market and advance notice before any changes are made.

Q6: 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?

Platts believes the current model of independent, competitive price reporting organisations serves the market well. Of course, there is always room for improvement, and Platts is open to ideas on how to maximise the market's confidence in gas and electricity price reporting. Platts is committed to transparency in its coverage of markets and firmly believes in the free flow of information. It stands ready to confer with market overseers and participants on possible improvements at any time.

PRAs already are subject to checks and balances. The IOSCO principles to which Platts will align for all of its market pricing set out clear standards for PRAs. IOSCO recommends that market authorities consider whether to prohibit trading in any commodity derivatives contract that references the PRA's prices unless the assessment follows the IOSCO principles. Any finding that an assessment does not meet the principles could shake market confidence in a PRA, creating a strong incentive to align with the IOSCO principles. PRAs do not create "benchmarks"; rather, that status is bestowed by the marketplace. As Ofgem notes, multiple price publishers compete in the UK wholesale gas and electricity markets, and they must earn the market's confidence to be relevant.

If Ofgem concludes it needs to act, Platts believes there are steps it could take without altering the fundamental self-regulatory approach to price reporting. For example, Ofgem could encourage market participants to provide data to PRAs if they don't already and to increase the quality of data by including the names of counterparties and time stamps showing clearly when transactions were done.

Some additional regulatory oversight already is in place. Under REMIT, once the European Commission adopts Implementing Acts later this year, market participants will need to register and then to begin reporting, probably in 2014, all of their wholesale gas and electricity transactions to the Agency for the Cooperation of Energy Regulators (ACER). That reporting will enable ACER to see who the market players are, to determine the size of the traded physical markets and to perform analyses that would backstop the dependability of the published price assessments. As the National Regulatory Authority for Great Britain, Ofgem will be able to access those transactions, which constitute some of the market data used by Platts for its assessments of the UK gas and electricity spot markets. Ofgem could use the ACER data or collect additional data itself to measure the scope of the traded UK gas and electricity markets and the representativeness of the data used by PRAs for assessments. It also could require market participants to report to Ofgem whether they participate in PRAs' assessment processes.

If Ofgem concludes that the current PRA model needs some amendment, Platts encourages it to consider such incremental changes that continue to rely on a voluntary participation model. The alternative, as Ofgem itself has recognized, could be market disruption that leads to "a breakdown in the quality of the price assessment process."

Q7: Are there any other issues that you wish to raise in the context of this call for evidence?

Platts appreciates the opportunity to discuss these issues with Ofgem and market participants, and submits that if Ofgem wishes to further consider these matters, it might convene a roundtable of PRAs, market participants, market overseers and others to discuss next steps.

Platts, as a price publisher in a number of commodity markets and a number of regions globally, fully concurs with Ofgem's recognition that "there is ongoing work in a number of areas that may have a significant bearing on what, if any, action we might take." That work includes Platts' implementation of the IOSCO principles for oil PRAs across all commodities by 2014, European nations' adoption of new data reporting requirements and other elements of REMIT, possible legislative proposals by the European Commission and other initiatives. Platts submits that 2014 may be a pivotal year as Ofgem and other market regulators ensure that price benchmarks under their purview deserve the market's full confidence. Rather than add another regulatory process to the multiple endeavours already under way, Platts urges Ofgem to carefully monitor progress and allow current efforts to unfold. Platts is always available to meet with Ofgem to discuss that progress and answer any questions that may arise.

Annex A

Platts Reaffirms Commitment to IOSCO Principles for Oil Price Reporting and Implementation of Principles for Non-Oil Commodities

London · July 17, 2013

Platts, the global commodities information provider, today reaffirmed its commitment to aligning its operations to the IOSCO Principles for Oil Price Reporting Agencies (PRA) and to applying those principles to its price reporting in the other commodity markets in which it publishes price assessments that underlie financial derivatives contracts. The announcement followed IOSCO's publication today of its "Principles for Financial Benchmarks," which stated that it "expects the oil PRAs to continue to implement and comply with the PRA principles."

"Platts supports initiatives by legislators and regulators to assure confidence in price benchmarks in the oil markets and other physical commodities markets that we cover. Our broad implementation of the IOSCO PRA Principles for oil and other commodities is evidence of this support," said Larry Neal, Platts president.

IOSCO issued its "Principles for Oil Price Reporting Agencies" in October 2012, stating that the principles "are intended to enhance the quality and integrity of oil price assessments which will enhance the reliability of any oil derivatives contract that references such assessments." The Financial Benchmarks principles IOSCO published today affirm the October 2012 principles for oil price reporting and provide additional principles for benchmarks used in financial markets.

Neal added that, by expanding its implementation of the PRA principles for oil to other commodities, Platts has followed the guidance IOSCO provided when it published the PRA principles in 2012. "Although the PRA principles were developed in the context of PRAs and oil derivatives markets, PRAs are encouraged to implement the principles more generally to any commodity derivatives contract that references a PRA assessed price without regard to the nature of the underlying," IOSCO stated.

Over the past several years, Platts has worked diligently to enhance its policies and procedures and strengthen its governance structure. Since the IOSCO PRA Principles were issued last year, Platts launched a company-wide initiative to ensure its alignment with those principles for assessments used for oil derivative contracts by October 2013, including engaging an external auditor to conduct an Assurance Review.

"Platts is well on track to have the Assurance Review by an external audit firm completed by October for oil price assessments as called for by the PRA Principles and for assessments in other commodities by 2014," said Neal. "We are confident that the review will demonstrate that our price assessment processes are underpinned by very robust governance and control systems."

IOSCO – the International Organization of Securities Commissions – is an association of organizations that regulate the world's securities and futures markets. After a two-year study, it issued its Principles

for Oil Price Reporting Agencies to enhance the reliability of oil price assessments that are referenced in derivatives contracts subject to regulation by IOSCO members. Its Principles for Financial Benchmarks are the result of work by a Board Level Task Force formed in September 2012 to develop global policy guidance and principles for benchmark-related activities of particular relevance to market regulators.

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About Platts: Founded in 1909, Platts is a leading global provider of energy, petrochemicals, metals and agriculture information and a premier source of benchmark prices for the physical and futures markets. Platts' news, pricing, analytics, commentary and conferences help customers make better-informed trading and business decisions and help the markets operate with greater transparency and efficiency. Customers in more than 150 countries benefit from Platts' coverage of the biofuels, carbon emissions, coal, electricity, oil, natural gas, metals, nuclear power, petrochemical, shipping and sugar markets. A division of McGraw Hill Financial (NYSE: MHFI), Platts is headquartered in New York with approximately 900 employees in more than 15 offices worldwide. Additional information is available at <http://www.platts.com>.

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