



Public Consultation Document Response to 90/13 Ofgem

Pricing benchmarks in gas and electricity markets – a call for evidence

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1 Executive summary

We are pleased to submit this document as our response to the Ofgem , Pricing benchmarks in gas and electricity markets – a call for evidence reference 90/13, which RVS endorses.

RVS's perspective is that transaction reporting should be globally consistent across all kinds of financial transactions whether in the energy markets or in the capital markets. To enhance the ability of local regulators across the EU and beyond, we believe that the infrastructure to support this endeavour should be as consistent as possible across the various markets.

The validation and analysis of key transactions was the reason RVS was created. This perspective and background leads us to make the following informed observations.

Since its inception in 2009, RVS has been actively engaged with the financial services industry to create a multitude of transparent benchmarks on a daily basis for use in risk, capital, P&L and other calculations on a centre by centre basis "following the sun". The RVS philosophy is based upon principles of accuracy, transparency and independence. These principles have been endorsed by a wide range of stakeholders including market practitioners, self-regulatory organisations and authorities.

Further description of our services can be found in Appendix 1.

2. Consultation Responses and Questions

1.1. Ofgem would like to hear the views of interested parties in relation to any of the issues set out in this document.

1.2. We would especially welcome responses to the specific questions which we have set out at the beginning of each chapter heading and which are replicated below.

1.3. Responses should be received by 31 July and should be sent to:

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1.4. Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website www.ofgem.gov.uk. Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.5. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Respondents are asked to put any confidential material in the appendices to their responses.

1.6. Any questions on this document should, in the first instance, be directed to Graham Knowles at the address above.

CHAPTER: Two

Question1: Do you agree with our assessment of the issues?

We broadly agree with your assessments.

CHAPTER: Three

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

As a benchmark creator RVS, does not currently provide information to other services.

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

As a benchmark creator, RVS does not consume benchmark data.

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

As a benchmark creator, RVS does not consume benchmark data.

Question 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?

For all players in any marketplace the need exists to reduce the possibility of reporting error or intentional / unintentional manipulation of prices. With or without the IPRO Code of conduct, these possibilities will exist and should be at the forefront of both regulator and gas and electricity market participant's management's minds.

Published methodologies of the PRAs seem to be acceptable to some of the gas and electricity market participants. Is this a question of something is better than nothing, and if that's all we've got and two counterparties are happy to use it, then why not? Both physical and derivative transactions have been struck against index numbers calculated by PRAs.

Question 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?

We recognise there is difficulty in applying benchmarking best practice to non-centralised or multi-venue/multi-platform markets, although this can largely be overcome by the deployment of modern technology able to accept data inputs from multiple sources and in multiple formats.

In general, we believe that benchmarks upon which there is large public direct or indirect dependency should not be created under the current methodology and process. Our belief is that such benchmarks should be created under robust and transparent governance and, should transaction-evidence be available to that process, that controls be implemented to ensure that all, rather than a sub-set of, REMIT transactions are included in their analysis and calculation.

In the context of benchmarks designed more for wholesale market and regulatory purposes, we believe the same principles apply.

Additionally, we suggest that methodology is agreed for the generation of credible cross-market indices, such as the use of robust gas and electricity benchmarks for the production of Spark Spreads.

It is likely that the creation of more diverse, robust benchmarks from available market data will allow an increase in liquidity of existing markets and the development of new, liquid CfD products better suited to solving some of the various fossil, nuclear and renewables price-differential issues surrounding FIT.

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

Methods used for calculating indices in the financial world are changing dramatically as global regulators strive to find a new model less easy to manipulate.

The drivers forcing these changes are common knowledge; the recent allegations of the manipulation of indices such as Libor and ISDAfix and, more recently, large fines for the alleged manipulation of electricity prices in the US. There are many pieces of new legislation in the process of being implemented around the world to tackle many different issues both in financial services and in energy markets. REMIT has recently been adopted in the UK to stop insider dealing and market abuse within the power and gas markets both domestically and across Europe.

A significant change is under way in the financial services industry with the recognition by both Firms and Regulators of the importance of the use of transaction-evidence in the creation of indices. There is now, in compliance with IOSCO's Principles, a move to augment or replace the current quotation-based indices with improved governance creating transaction-evidence based indices, which is now seen as "best practice".

This consultation gives ofgem an ideal opportunity to start a process of change within the UK power and gas markets towards robust, transaction-evidenced indices which will both stand the test of time and which will be trusted by all market participants and the retail sector in general.

Appendix 1 - RVS QED Benchmarks

Key characteristics

RVS has created a global financial industry benchmarking service for independently and transparently creating indices in all required asset classes and product-types – the advanced technology-platform is designed to be the single source for indices for all time zones and centres. The service has been incubated in Australia prior to a global roll out in which began in 2012. RVS technology has also been selected as the software to be utilised in the production of the reformed LIBOR benchmarks.

Rate Validation Services' Benchmark Creation technology has the following key characteristics to ensure complete accuracy and transparency:

1. All indices are based upon actual transaction or evidential data (whenever available):
 - Market participants push the economic elements of confirmed transaction records directly to the RVS system (i.e. fully automated thereby removing opportunities for manipulation or 'selective' submission) in real-time.
 - RVS has the ability to pull price data from participants' systems, minimising the workload involved in the submission of those data.
 - Each index is created using industry-agreed Governance which is subject to the oversight and approval of an independent, stakeholder-representative panel, an Oversight Committee.
 - The Oversight Committee will comprise industry experts, academics, regulators and other eminent individuals and varying with the characteristics of the indices concerned.
 - The RVS system and service is independently audited on a regular basis to ensure that the construction of all indices is in accordance with the Governance. The audit is made available to regulators and market participants to ensure complete transparency.
2. If transactions are not available for the particular market segment on any given day, previous transactions as well as indicative price quotes are included in accordance with the Governance. Analysis of the likely accuracy of individual indices is available where appropriate.
3. Market-liquidity metrics are available for individual indices for analysis by both Submitters and regulators where appropriate.
4. Indices may be constructed from differing submission panels or any other data-sources according to the characteristics and requirements of different markets and as specified in the Governance of those specific indices.
5. All submitted or acquired data remain confidential to and in the ownership of the data-provider. Publication is limited to the data derived from the acquired data and is specified in the formal Governance.
6. Frequent indices may be created in order to support, for example, Central Clearing valuations.
7. All data is retained indefinitely in order to facilitate both investigations and back-testing.

In summary, the RVS system provides the ability to create robust, transparently-governed benchmarks and indices together with support for all common data-transfer protocols ensuring the most efficient integration of the system with existing market technologies.

2 Document control

If you have any queries regarding the information in this document, please contact:

Contact	Bob Newstead Global Head of Product Rate Validation Services Pty. Ltd. 1 Royal Exchange Avenue, London EC3V 3LT, UK Email: bob.newstead@rvsqed.com
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2.1 Distribution

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