European Commission
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Argus Media Ltd (Argus) welcomes the opportunity to comment on the European Commission's consultation document on transparency and integrity of wholesale markets in electricity and gas.

Argus is one of the leading global price reporting agencies (PRAs) for physical energy markets. Through our independent reporting of prevailing spot market prices in Europe and globally, Argus — along with other PRAs — has for many decades worked to bring greater transparency to physical energy markets. One primary objective of PRAs is to help level the playing field between market participants by providing subscription access, on standard terms, to daily price information. So Argus is committed to, and is an active proponent of, market transparency.

On a daily basis, Argus identifies and reports prevailing spot prices in physical energy wholesale markets, including those in the EU. Our independent price assessments for Europe's wholesale electricity and gas markets are extensively applied by market participants for portfolio mark-to-market purposes. We also publish widely used independent market price assessments for crude, refined oil products, coal, biofuels, biomass, emissions allowances and freight. Our price series are employed by companies for third party and internal pricing purposes, by governments as independent price references for taxation purposes, and increasingly by market participants as underlying indexes for OTC commodity derivatives. Please see Appendices 1-2 for further details on the role of Argus and other PRAs.

Argus' perspective on this consultation is guided by three overarching principles:

- Effective markets are served by competition and transparency
- Regulation is important to prevent, detect and sanction market abuse as well as to protect consumers. But regulation needs to be carefully designed so as to avoid unintended consequences that would harm effective markets and competition
- Fundamental rights under European law underpin the role of a free press in receiving and imparting information. The competitive provision of this information is crucial to the operation of energy markets in the interest of European consumers.

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In addition, three core principles underpin the intersection between energy markets and the PRAs that report on them:

- PRAs operate in a competitive environment to provide price transparency in physical energy markets as well as in “over-the-counter” (OTC) energy derivatives. These agencies promote effective competition and a level playing field between market participants by providing a fully independent price discovery mechanism
- By providing unbiased, arms-length assessments of prevailing market prices, together with information on market activity, PRAs are a crucial check on the markets and help ensure that consumers are protected and markets are free from market misconduct
- The flow of market information to PRAs is essential to the functioning of energy markets. Without this free flow of information, energy markets would become more opaque, less efficient and more susceptible to abuses

Argus response to consultation questions

1. Are there particular developments in relation to oversight of energy markets at a national, European or global level that we have not properly considered?

An important aspect of energy market oversight not covered in section 2 of the consultation document is policy developments outside the European Union. Argus believes that these can provide important context for the development of public policy in the EU, particularly in view of the international nature of energy markets.

In this context, Argus believes that it is important for the Commission to be particularly cognisant of evolving regulation in the US, where differences between commodity and financial markets are explicitly recognised in the financial legislation. The US exempts trade in physical energy commodities — including forward contracts — from its rules on derivatives markets. These contracts are specifically excluded from new US OTC law (Dodd-Frank Wall Street Reform and Consumer Protection Act), which is limited to swaps and explicitly excludes all commodity forwards. This distinction has yet to be made in Europe.

2. Do you agree that the current Regulatory Framework should be updated to include clear rules governing energy market oversight? Please justify your reply. 3. Do you agree that this update should ensure integrated/coordinated oversight between financial and commodity markets and across borders. 4. Do you agree that the overlap of physical, and financial (derivative) markets, and the cross border nature of the market currently leads to sub-optimal oversight of energy markets?

Argus’ response to this Commission consultation assumes throughout that where reference is made in the consultation document to “energy markets”, it is intended specifically to refer to the wholesale markets for electricity and natural gas (and where relevant to carbon allowances) — the subject of the current consultation.

Argus strongly believes that if the Commission intends to extend any rules or measures on market integrity and transparency to the markets for other energy commodities, such as oil or coal, further consultation must be undertaken because of significant differences between these markets and those for electricity and gas. The Commission appears to share this view, based on the observations made in section 4.3 of the consultation document.

Argus strongly endorses the importance of effective regulatory oversight to prevent, detect and sanction market abuse; to promote orderly markets; and to maintain public confidence in the markets.

Argus is principally concerned to ensure that any changes to the regulatory framework for electricity and gas are crafted to better enable regulators to fulfil their market oversight mandates, while at the same time not causing unintended and/or avoidable damage to markets, particularly to market liquidity and to the transparency brought by existing price discovery channels. Some important issues on this aspect are identified in section 4 of the consultation paper.

Argus therefore believes that the Commission should formulate any regulatory framework amendments that are designed specifically to provide for mandatory centralised collection of market transaction data, such that:

Data held centrally should only be available for the following purposes in order to ensure the confidentiality and integrity of that data:

(i) All data held should be available to regulators in order to help them analyse, identify and prevent market abuse, consistent with the function of such regulators.

(ii) All data held should be available to regulators to the extent necessary for other market oversight and monitoring purposes, consistent with the functions of such regulators.

(iii) Regulators should be entitled to publish aggregated position data (ie long, short, net long, net short) by broadly-defined types of market participant.

Argus notes that energy markets are different from securities markets. Incumbents in energy markets trade around their physical asset base. The infrastructure of a market, such as power stations and transmission lines, determines market strategies. Pricing is a reflection of the use of these assets as much as the average price of spot transactions. Therefore any centralised collection of market transaction data is of limited value in the identification of a company’s market position.

In terms of consultation questions 3 and 4, there is clearly a gap in existing regulatory oversight as far as cross-border trade in electricity and gas is concerned. But Argus also notes that for Europe’s wholesale electricity and natural gas markets there is in fact little overlap of physical and financial derivative markets. The majority of trade in the electricity and gas markets is either spot (prompt) physical, or forward. This underscores the need to take account of the specificities of the electricity and natural gas markets when updating the regulatory framework.

5. Do you agree that definitions of market misconduct for gas and electricity markets should be consistent across EU? If not, why not?

6. Do you agree that market misconduct should follow the MAD definitions? If not, why not?

Argus notes that the Commission (DG Markt) is currently consulting on possible revisions to the MAD and is also conducting a review of the MiFID. Given that the Commission's final proposals on any amendments to these two pieces of legislation will not be published until after the current DG Energy consultation has closed, Argus notes that its and other stakeholders' comments on the current consultation are, of necessity, based on the current definitions. If the Commission were to propose subsequent amendments to the MAD definitions of "market misconduct", or to relevant MiFID definitions, respondents to the current consultation could need to reconsider their positions.

Given the widespread use of physically-settled forward contracts in many EU wholesale electricity and gas markets, to the extent to which MAD definitions of market misconduct may make direct or indirect reference to MiFID provisions and definitions, Argus strongly believes that it is important for the markets to have clarity over the dividing line between what is and what is not a derivative under MiFID. In this context, Argus endorses the explicit exclusion of physically-settled spot commodity contracts from the MiFID definition of "derivative" (see Article 38 of Regulation EC 1287-2006). Spot commodity contracts are short-term contracts in relation to the supply of a physical commodity. Such contracts are neither derivatives nor financial instruments.

Similarly, Argus notes that the DG Markt has recently closed a consultation on derivatives and market infrastructures. We understand that DG Energy and DG Markt are co-ordinating their respective proposals and intend to ensure that these do not conflict or unnecessarily overlap. Yet the ambiguity of the MiFID definition of physically-settled forward markets potentially leaves both DG Markt and DG Energy demanding oversight of the same markets. And neither the DG Markt nor the DG Energy proposals examine whether this overlap is problematic and if so what mitigating measures are envisaged.

Argus therefore encourages DG Energy and DG Markt to continue to co-ordinate their work, in order to ensure that there are no unintended consequences of their respective legislative proposals specifically for the wholesale electricity and gas markets.

7. Do you agree that specific account of the specificities of the physical energy markets should be taken of energy markets through guidance rather than in legislation? If not, why not?

Argus repeats the earlier qualification that its response assumes that where reference is made in the consultation document to "energy markets", it is intended specifically to refer to the wholesale markets for electricity and gas (and where relevant to carbon allowances) — the subject of the current consultation.

It is not clear which specificities would be taken into account, and what the legal standing of "guidance" would be for market participants and other stakeholders. It is also not clear which body would supply the guidance — the Commission, ACER, or another organisation?

Is it envisaged, for example, that legislation governing the regulatory framework for financial markets be extended to electricity and gas by means of “guidance” from ACER, which would then translate financial market concepts into the energy market? If so, Argus has concerns that such an approach would create considerable legal and financial uncertainty, which could in turn severely damage liquidity in the market.

Argus therefore believes that the Commission needs to clarify these issues further before stakeholders can make full judgments and provide informed answers to question 7.

8. Do you agree that regular market monitoring is an essential function to detect market misconduct?

Argus believes that market monitoring — the analysis of market data and information — is an important tool for regulators in fulfilling their market oversight mandates including the detection of potential market misconduct.

As discussed above, Argus believes that in the context of market monitoring the Commission should formulate any regulatory framework amendments that are designed specifically to provide for mandatory centralised collection of market transaction data, such that:

Data held centrally should only be available for the following purposes in order to ensure the confidentiality and integrity of that data:

(i) All data held should be available to regulators in order to help them analyse, identify and prevent market abuse, consistent with the function of such regulators.

(ii) All data held should be available to regulators to the extent necessary for other market oversight and monitoring purposes, consistent with the functions of such regulators.

(iii) Regulators should be entitled to publish aggregated position data (ie long, short, net long, net short) by broadly-defined types of market participant.

In the context of energy markets, including European electricity and gas markets, Argus believes that the Commission should not underestimate the extremely high degree of market complexity, nor the challenge of interpreting raw trade data. For example, transactional data on spot and forward market deals would give regulators a misleading representation of overall physical energy market positions, because such transactional data sheds no light on participants’ positions in long-term contracts, physical inventory or physical production.

Argus further believes that it is important to define “regular”, to ensure that any market monitoring system is proportionate, adapted in scale and scope to the regulatory task, not over-engineered, and does not duplicate information already easily available from existing sources.

9. If yes, given the characteristics of wholesale energy markets, do you agree that market monitoring is best organised on EU level?

10. If yes, do you believe that ACER should be given the role of an EU level monitoring body for wholesale energy markets?

11. Do you agree that the EU level monitoring body for energy markets should have a coordinating role to ensure effective application of EU level rules for energy markets? If not, why not?

12. In your view, would enforcement of market misconduct rules be best organised on national level or EU level?

a. If on national level, would national energy regulators or national financial regulators be better placed to enforce compliance?

b. If on European level, which institution would be best placed to enforce compliance?

Argus repeats the earlier qualification that its response assumes that where reference is made in the consultation document to “energy markets”, it is intended specifically to refer to the wholesale markets for electricity and gas (and where relevant to carbon allowances) — the subject of the current consultation.

In the context of creating single European markets for electricity and gas, Argus answers “yes” to questions 9-11. Argus has no view on question 12.

13. Do you agree that the market monitoring body for energy markets should also be able to monitor EUA transaction?

14. Would monitoring of traded carbon markets be best organised on national or on EU level?

15. If on EU level, do you believe that ACER could be an appropriate monitoring body?

As discussed above, Argus believes that the Commission should formulate any regulatory framework amendments dealing with market monitoring and including the provision for mandatory centralised collection of market transaction data such that:

Data held centrally should only be available for the following purposes in order to ensure the confidentiality and integrity of that data:

(i) All data held should be available to regulators in order to help them analyse, identify and prevent market abuse, consistent with the function of such regulators.

(ii) All data held should be available to regulators to the extent necessary for other market oversight and monitoring purposes, consistent with the functions of such regulators.

(iii) Regulators should be entitled to publish aggregated position data (ie long, short, net long, net short) by broadly-defined types of market participant.

16. Do you agree that it is not appropriate, at least at present, to consider coal, oil and other commodities along with wholesale gas and electricity markets? If not, why not?

Yes, Argus agrees that the Commission's regulatory amendments should be restricted to wholesale electricity and gas markets.

There is already a high degree of transparency in physical coal and oil markets in the EU, and globally. For example, in the Amsterdam-Rotterdam-Antwerp barge market — a key benchmark for wholesale gasoline markets around Europe — up to 95% of gasoline deals across the trading day are reported on a real time basis on the web by Argus. This information includes the identities of buyers and sellers, quality of product, volume and timing of delivery. Argus therefore considers that there is no urgent requirement to include these energy commodities in a specific transparency and market integrity regime.

In addition, as the Commission's consultation correctly points out, oil and coal markets are to a significant degree global. This means that any regime implemented at a European level for these commodities would not achieve the desired policy objective. Rather, it would fail to capture the significant volume of relevant trading falling outside European jurisdiction; would likely push trading from European locations to non-European jurisdictions, thereby reducing rather than increasing market transparency for European oil and coal markets; and could significantly reduce market liquidity by pushing smaller market participants out of the spot market altogether because of increased costs. This reduction in liquidity could reduce the high existing degree of market transparency identified by price reporting agencies.

Therefore, Argus strongly believes that if the Commission intends to extend any rules or measures on market integrity and transparency to the markets for other energy commodities, such as oil or coal, further consultation must be undertaken because of significant differences between these markets and those for electricity and gas. The Commission appears to share this view, based on the observations made in section 4.3 of the consultation document.

17. Do you agree that it is appropriate to apply exemptions and de minimis levels? If not, why not?

Yes, Argus supports the desire to reduce as far as possible the burdens on smaller market participants, without compromising the integrity of market structures.

18. Do you agree that market data relating energy market transactions should be reported centrally? If not, why not?

Argus repeats the earlier qualification that its response assumes that where reference is made in the consultation document to "energy markets", it is intended specifically to refer to the wholesale markets for electricity and natural gas.

Argus believes that the public policy justification for the mandatory central reporting of transactional data is to assist regulators in fulfilling their market oversight functions to prevent, detect and sanction market abuse and to promote orderly markets. Argus therefore endorses the consultation's statement that "centrally collected and managed transactional data would facilitate energy regulators and securities authorities in carrying out their role effectively."

Flowing from this public policy justification is the need for centralised market transaction data to be subject to clear and explicit safeguards that ensure the confidentiality and integrity of the data. In particular, data held centrally should only be available for the following purposes:

(i) All data held should be available to regulators in order to help them analyse, identify and prevent market abuse, consistent with the function of such regulators.

(ii) All data held should be available to regulators to the extent necessary for other market oversight and monitoring purposes, consistent with the functions of such regulators.

(iii) Regulators should be entitled to publish aggregated position data (ie long, short, net long, net short) by broadly-defined types of market participant.

Argus is particularly concerned about the unintended and harmful consequences that would arise were the remit of a central repository for transactional data to be extended to price discovery.

No market failure has occurred in power and gas markets requiring the extension of central repository functionality to any publication of prices. Multiple providers, operating in a competitive environment, already provide effective price discovery for Europe's electricity and gas markets. Independent third-party providers such as price reporting agencies (PRAs) already provide robust and widely-used price discovery services that are accessible to market participants, regulators and other stakeholders.

There already exist high levels of market transparency in electricity and gas markets in Europe for the purposes of price discovery. Every trading day, on average, Argus publishes 4,000 transactions and identifies 400 separate prices in Europe's physical and forward gas and electricity markets.

The service provided by PRAs promotes effective competition and a level playing field between participants in the energy markets, whatever their size, by providing a fully independent price discovery mechanism. Independent data provided by PRAs is available on standard terms to all market participants, whatever their size. It is also available to regulators, government agencies and other competent bodies.

Any extension of the remit of a central repository to price discovery risks unintended consequences, including severely damaging the existing price discovery function including for illiquid or infrequently traded contracts such as longer-dated forwards. Accurate price discovery along the full length of the forward curve is vital for orderly electricity and gas markets — underpinning accurate mark-to-market, risk measurement and exposure management. It is also crucial to the provision of forward price signals needed to guide investment in infrastructure. This is particularly important at this time as the energy industry enters a new investment cycle aimed at securing Europe's long-term energy supplies while also moving to a low carbon economy.

Any extension of the remit of a central repository to price discovery may lead some electricity or gas market participants to cease their existing voluntary interaction with

PRAs, fearing legal repercussions of any unintended mismatch between information provided to the central repository and information provided to PRAs. Companies may treat the repository's reporting requirements as a maximum limit on their interaction with PRAs, stepping away from their existing interaction in providing transactional and non-transactional information.

A vital service provided by PRAs to the European gas and electricity markets is the accurate identification of prices along the full length of the forward curves. PRA assessments of prevailing forward curve prices are used by European gas and electricity market participants as reliable independent values for portfolio mark-to-market purposes. These prices therefore underpin accurate measurement and management of portfolio exposure, value-at-risk, counterparty exposure and margining.

Forward curves include longer-dated forward contracts, which are often illiquid or infrequently traded. In such cases, accurate identification of prevailing market prices depends on a full range of market information — bids, offers, completed transactions and other market indicators. But the data available to a central transaction repository for price discovery purposes would by definition be limited to completed transactions. So any disengagement of market participants from PRAs, however unintended, arising from an extension of the remit of a central transaction repository to include price discovery, would significantly weaken the accurate identification of prices along the full length of the electricity and gas forward curves. This is a vital price discovery function, underpinning effective measurement and management of risk, which could not by replicated by a centralised transaction repository.

Argus believes that the Commission should take care that it does not explicitly or implicitly sanction the use of transactional data for price discovery from a centralised transaction repository. The market, and individual members of the market, should be free to choose the most appropriate pricing points and pricing vehicles as this freedom of choice will allow for innovation and diversification. Any indirect official sanction of the use of official transactional data carries with it the risk that market structures will be not be sufficiently flexible to allow for the full evolution of an open competitive single European market. Pricing from transactional data is a perfectly acceptable price reference, but it does carry the implicit risk that large companies that are incumbents and that trade extensively will make a greater contribution to the establishment of the market price than smaller companies. Smaller companies can only compete on equal terms with larger companies in the setting of a market price at the margin. For this reason, the Commission should not explicitly or implicitly sanction the use of transactional data for anything other than market oversight, and should encourage the widest possible freedom in the choice of price indexation.

Argus believes that the Commission must take care not to damage existing market liquidity when formulating requirements for market participant reporting to a central transaction repository. Large integrated utilities, operating in multiple markets, may be able to reduce operating costs under a central regime for reporting energy market transactions, particularly if the burden of reporting is transferred to brokers and other multilateral trading platforms. But the costs of reporting transaction details may deter smaller market participants from entering the market, reducing market liquidity. Concerns over burdens on smaller participants, and the dangers of damaging market liquidity, extend to the obligation to use central counterparties with compulsory margining of trades.

This potential issue would be most acute in the emerging wholesale trading markets in eastern and southeastern Europe, where liquidity is highly dependent on a smaller number of market participants. In turn, lower liquidity could reduce companies' willingness and/or ability to hedge market exposure. This could increase the overall levels of risk and drive up costs to consumers by producing more volatile wholesale prices and wider bid-offer spreads.

The Commission should also be mindful of the potential negative impact on companies' readiness to trade and hedge price risk if they perceive any threat to anonymity of counterparties in data held in a central transaction repository.

19. Do you agree the body with an oversight role requires full access to fundamental data relating to carbon?

Argus believes that data on fundamentals (pre-trade transparency) are critical for all energy commodity markets, not just for carbon. Fundamentals data are key to market participants in taking informed decisions and to regulators, other market observers and stakeholders in understanding price movements. Argus encourages the Commission to continue its work across all energy markets to increase the timeliness, robustness and extent of market fundamentals data availability.

In conclusion, Argus thanks the Commission for the current opportunity to contribute to the development of this important work by DG Energy. We would like to take the opportunity to re-confirm our ongoing availability to assist the Commission further, as these proposals take shape, in order to ensure the transparency and integrity of Europe's wholesale electricity and gas markets, while avoiding any unintended consequences including damage to existing market transparency or liquidity.

Yours faithfully

Adrian Binks
Chairman and Chief Executive
Argus Media Ltd

Appendix 1 Argus — an energy price reporting agency

Argus Media is a leading global price reporting agency (PRA)[see glossary]. The company is an independent provider of price information, market data and business intelligence for the global oil, natural gas, electricity, emissions and coal industries.

Founded in 1970, Argus is a privately-held UK limited company, owned by its employees and by the family of its founder. There are no external shareholders. Argus has over 350 employees and contract staff worldwide, with offices in London, Singapore, Beijing, Tokyo, Dubai, Kiev, Moscow, Washington, Houston, New York, Calgary, Portland and Astana. The company produces over 120 publications and services on the energy markets.

Argus provides three major areas of service

- Price discovery[see glossary] and price reporting on daily spot markets[see glossary] in physical energy markets
- Informed news, analysis and comment, provided both online and in business intelligence reports
- Databases and research services on the energy markets

Almost everywhere that an active spot market exists in an energy commodity throughout the world, Argus produces price assessments[see glossary]. Most physical energy markets would be opaque without the work of the PRAs to provide such price transparency. PRAs have a widely accepted role in making physical energy markets more transparent. Argus has 40 years experience of developing and applying a variety of methodologies to identify prices that best reflect market value.

Argus' clients include every major international energy company, smaller energy companies and traders, utilities, industrial end-users, governments and financial institutions.

Argus' market coverage is extensive. The company has reported on the major physical oil markets since its foundation. Its coverage has broadened over the years to include natural gas and power, coal, LPG, LNG, NGLs, biofuels, biomass, emissions and freight.

Markets covered by Argus

	Europe/Africa	Americas	Former Soviet Union	Asia/ Middle East
Electricity	X	X	-	-
Natural gas	X	X	-	-
Crude oil	X	X	X	X
Oil products	X	X	X	X
Natural gas liquids	X	X	X	X
Asphalt	X	X	X	X
Petroleum coke	X	X	X	X
Coal	X	X	X	X
Emissions	X	X	-	X
Freight	X	X	X	X

How Argus assesses energy prices

Argus' primary daily activity is the identification of prevailing prices in physical energy spot markets around the world. Many of the company's independent price assessments are then widely used as benchmarks[see glossary] in other spot physical trade and in term contracts[see glossary], and as the underlying index[see glossary] for over-the-counter (OTC) commodity derivatives.

Argus journalists report the energy markets on a daily basis, assessing spot trade during that day and using this information for price discovery. The company's well-trained market reporters identify spot prices, including benchmarks and differential prices[see glossary] for each market covered. The precise methodological approach for identifying prices varies according to the market, reflecting the uniqueness of each physical energy commodity and each geographic market. The methodologies employed by Argus are detailed and transparent. They are freely and publicly available online at www.argusmedia.com/methodology.

On a daily basis, Argus gathers information from a wide range of sources representing all segments of the energy markets. Argus receives its information from multiple sources, including transactional data supplied from the back offices[see glossary] of energy companies, as well as from market surveys conducted over the telephone, by instant message and by email. The information flow from companies to Argus is voluntary but robust. Argus' internal procedures ensure that information received is verified and any discrepancies are highlighted and reconciled.

The publication of robust and reliable price assessments is a full-time enterprise that is provided by PRAs. This is a complex task as daily physical trade in energy markets can be highly diverse. For example in oil markets, even an apparently "standard" refined product category such as diesel is complicated by variations in quality, quantity, location and timing that all have an effect on price. PRAs take these diverse inputs and produce normalised reference price assessments for clearly labelled product categories. The technical parameters for these normalised reference prices have to be constantly adjusted as the market evolves. As an illustration, Argus has recently changed various technical specifications of its price benchmarks for the European gasoline market, in light of the new requirements for a gasoline that reflects bio-ethanol blending mandates that have been introduced on a European basis.

Argus adds transparency to what would otherwise be a collection of bilateral deals with companies aware only of the transactions in which they were involved. By disseminating information, PRAs level the playing field between market participants. This allows smaller market participants, which might otherwise have difficulty in obtaining robust daily price information representing the full marketplace, to compete.

In markets such as electricity, natural gas and EU emissions allowances, Argus provides price benchmarks based on the OTC markets that attract greater liquidity than the more visible exchanges. For example, OTC traded volumes in the UK natural gas market at NBP, the second most liquid natural gas hub in the world, are two to three times larger than those traded on the Ice Futures exchange.

In less actively traded markets, such as physical coal, Argus brings price transparency by combining the prices for individual deals with a market survey to create a robust index that enjoys the confidence of market participants, investors, exchanges and regulators. As with oil, Argus works with market participants to define an accepted set of standard specifications for physical coal, based on energy content, sulphur content, residual moisture and ash, and so on.

In the interests of transparency, where possible, Argus publishes in real time the physical energy market data that it provides, including counterparty names. For example, in Europe, the Argus Gasoline Bulletin Board reports trade in the European gasoline barge market in Rotterdam. The corresponding Argus European gasoline price is also used as the underlying index in the European gasoline swaps market.

How Argus prices are used

Argus prices are used extensively where a reliable daily price reference for spot physical energy markets is required. They are used in price formulas for term supply contracts, as a tax reference price by governments, for portfolio mark-to-market purposes, as the underlying index for OTC energy derivatives, for refinery scheduling purposes, as well as for wide range of analysis purposes including capital investment planning.

In Europe, principal uses of Argus price assessments include:

- Petroleum products — Argus European gasoline Rotterdam barge assessment is the principal gasoline price reference for Europe's wholesale gasoline markets. It is the underlying index for an active European gasoline swaps market

- LPG — Argus provides the main benchmark price in Europe

- Natural gas — Argus is a leading provider of natural gas price assessments used for gas contract pricing in the UK and northwest Europe

- Electricity — Argus provides UK and mainland European mark-to-market values

- Coal — Argus is the leading provider of price indexation for physical and derivative markets in Europe (API2)

This position is constantly evolving as PRAs continue to compete and innovate in the provision of price benchmarking services.

Argus operates in a competitive market

Argus is one of a number of PRAs that provide energy market price transparency. Argus, Platts and Icis (including Icis-Heren) are the three global providers of benchmark prices across the energy sector. Global news agencies such as Thomson Reuters and Bloomberg also compete in this space. There are many other sector or regional specialists, including OMR (Germany, Austria and Switzerland), APPI (Asia), Rim (Asia) and Opis (US).

Competition between commercial providers ensures that PRA standards are maintained and costs of service provision remain reasonable. Market participants demand exacting standards, given the total value of the physical commodity that may be contractually referenced to a PRA price assessment. PRAs have no inherent conflict of interest because their assessment methodologies and revenues reflect both sides of the market — buyers and sellers. Competition ensures that PRAs continue to innovate in the provision of price benchmarking services that are reliable and relevant to the market. Market participants have a choice of benchmarks to use.

Argus operates to consistently high standards. All its market reporting staff are professionally trained and operate to a strict ethics code. Each market report is managed by a senior editor, responsible for the report, whom market reporters must satisfy as to procedural and methodological compliance. In addition, the company's global compliance officer is responsible for carrying out regular audits of market reporting teams to verify that all reporting staff comply with the published methodology for the markets they cover.

Appendix 2 Glossary of terms

Assessment • The value or price of a commodity in the spot market, such as Argus provides for various types of crude, refined product, LPGs, power, gas, coal and emissions traded in major market centres. Such assessments may serve as an index that term contracts refer to for pricing purposes.

Back office • The portion of a company that handles verification of trades and accounting functions related to trades.

Benchmark • A highly liquid and commoditised product that serves as the starting point for discussions of spot values for related products. A differential price is added to the benchmark to account for factors such as differing qualities or locations.

Differential price • In oil markets, the value of crude or oil product, expressed as a premium or a discount to the price of the benchmark. The differential is meant to take account of quality, timing or location factors that are different when compared with the benchmark. Assessing the value of these differentials each day is one of the most important ways that Argus contributes to overall market transparency, allowing for price signals that encourage the flow of oil between regions of surplus to regions of deficit.

Index • In a contract, the price that two parties agree to use as the basis for valuing the product being traded.

Price discovery • Independently identifying the price of a commodity through obtaining a wide spread of information from as many participants as possible in a market that is otherwise opaque, and then publishing this price so that it may be used by the whole of the market.

Price reporting agency (PRA) • A company that specialises in independently identifying the market valuation of a commodity, as priced in the over-the-counter spot market where visibility and transparency are often more problematic. Some of the major price reporting agencies are Argus, Platts, Icis, Oil Price Information Service (Opis).

Spot market • a market in which a commodity is traded for immediate delivery and at the prevailing market price, ie the spot price, in order to dispose of a surplus or cover a shortfall. In practice the delivery period considered "immediate" depends on the commodity, and can vary from hours in electricity and gas markets to several weeks in oil markets. This market allows industry to quickly reallocate volumes that are not committed to term contracts or to internal use.

Term contract • In energy markets, a long-running arrangement for sale or purchase of energy. Such arrangements typically run from a few months to several years. Usually sold by the supply and trading department and representing a large, set volume per day or per month. In oil markets, most of these contracts are linked to independent spot market price assessments such as those provided by Argus. Also known as a term deal or evergreen contract.