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Swindon, 15/03/2013

European Spot Gas Markets – General Methodology Consultation

Dear Louise,

Please see below our response to the questions raised in the above consultation.

Q1. This methodology seeks to provide a reliable measure of physical market value. How well do you think the ICIS methodology achieves this aim?

In general we think the ICIS methodology provides a reliable measure of physical market value in relation to the developed wholesale gas markets of NWE. Our impression is that ICIS's market reporters are, in the main, experienced professionals who have established relationships with market participants and who have a sufficient understanding of the factors driving price formation to make credible assessments of closing bid and offer prices.

As regards the less liquid wholesale gas markets of Southern and Eastern Europe, the extent to which price assessments are accurate and credible is harder to gauge. However, we are confident that the reporters in these markets act in good faith and we welcome the price transparency they provide, albeit we may not always have full confidence in the accuracy of their price assessments.

Q2. Are there alternative methodologies you would like ICIS to consider? If so, please describe these methodologies and their strengths and weaknesses as mechanisms for measuring physical market value. Please explain their strengths and weaknesses relative to current methodology.

No, we are broadly happy with the current methodology.

Price assessments based on alternative methodologies already exist. These sit alongside reporter based price assessments published by ICIS and other market reporting companies, such as Argus, Platts and Bloomberg. In the main these alternative methodologies are based on the volume weighted average price of OTC trades executed on broker platforms within specific time periods (whole days and closing windows) e.g. Tankard and LEBA indices. Spot and futures

price assessments provided by cleared exchanges, such as ICE, Endex and EEX, also provide a benchmark for OTC price assessments.

Clearly, for each product, an index or price assessment can only be one hundred percent accurate if it captures every trade conducted on every platform between every counterparty during the period in question. However, in our opinion the variety of existing methodologies and sources of pricing data are currently sufficient to enable us to efficiently operate our European gas trading business.

Q3. How well do the ICIS prices published in this report serve your business? Are there additional prices you would like to see?

Typically we do not contract to buy or sell gas directly indexed to ICIS price assessments. However, that is not to say that the prices in the ICIS reports do not serve our business.

As regards additional prices, we fully expect that as more European countries start to establish gas trading platforms and take measures to facilitate gas trading at virtual trading points, ICIS will continue to extend its price and market reporting coverage accordingly.

Q4. Is there any other information that you believe would be helpful to ICIS in its review of this methodology? If so, please give details.

No

Q5. Some industry participants have proposed an alternative closing price methodology for the NBP and TTF Day-ahead contracts. It would generate indices from trades done during a five-minute time window. The index would be a volume-weighted average of deals done during this time. Please give your views on whether this would provide a reliable measure of physical market value.

An alternative price methodology such as that described above would, from our perspective, only have merit if it could guarantee to capture more trades than are currently captured by the existing indices using this approach, i.e. LEBA and Tankard. On balance, we do not think this is likely so we do not see any added value in changing the methodology.

To the extent that an index based on volume weighted trades may have benefits for some market participants, or end user customers, ICIS may wish to consider publishing this alongside its current closing price assessments. However, it should only do this if it is confident it can credibly capture the majority of legitimate OTC trades undertaken between counterparties during an assessment window, either directly or indirectly.

Q6. If your response to Q5 is positive, please specify at what point in time you believe the index should capture deals. The current time for the ICIS closing assessment is 16:30 UK time.

Whilst we do not support changing the current price methodology, if an alternative methodology is adopted for assessing TTF and NBP day-ahead prices alongside the existing methodology, the window for closing price assessments should be between 16:20 and 16:30 UK time. This is consistent with the LEBA TTF day-ahead price assessment window.

Q7. If an index, as described in Q5, were developed by ICIS, would your company be willing to directly or indirectly submit deal information to this index? If so, would you deem any existing data-capture system to be the most appropriate channel for the provision of trade data to ICIS? Please specify your preferred method of data provision.

As you may know, EU Regulation 1227/11 (REMIT) requires market participants such as ourselves to provide details of their standard and non-standard energy market transactions to ACER, for market monitoring purposes. We are currently in the process of evaluating how we will comply with these obligations, either directly, or indirectly through brokered/cleared platform providers.

To the extent we are able to devise an efficient method of electronically providing ICIS, or any other price reporting service, with our relevant trade data without the need for separate manual intervention, we would be willing to contribute to any new index. However, at this stage we cannot be precise about what channel or method any such future data provision may take.

Q8. If your response to Q5 is positive, do you think the index should replace the current closing assessment methodology or be published by ICIS as an additional reference point?

Any new index should not replace the current closing assessment methodology but should, to the extent it is felt to be necessary, be published as an additional reference point.

Q9. Do you believe an index, as described above, would provide reliable measure of physical market value for any other European gas contracts?

Rolling such an index out at Zeebrugge (Beach), NCG, Gaspool, PEG-N and the new Austrian Virtual Point could be considered. But the index would probably need to be adapted (e.g. by including minimum volume limits) to reflect the lower levels of day-ahead liquidity at these points compared to at TTF and the NBP.

Q10. If your company believes ICIS should launch a deals-based closing index as described in Q5, within what timeframe would you like to see this change happen?

If ICIS are to launch a new index, we suggest they do not do this before it becomes clear how the majority of market participants intend to meet their transaction reporting obligations under REMIT. As ICIS will be dependent on market par-

ticipants to provide them with transactional data, either directly or indirectly, doing so beforehand risks compromising the extent to which they can capture sufficient trade data to ensure the index is a sufficiently reliable measure of physical market value.

We hope you find our response helpful. Should wish to discuss it in more detail please do not hesitate to contact us.

Yours sincerely,

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