

Platts Assessment Methodologies US fuel oil and feedstock/blendstock markets

Question & Answer document

(updated Jan 24th, 2006)

Platts is planning to modify its assessment methodologies and reflect market values at the close of the market for its US fuel oil, feedstock and blendstock assessments. The new methodology is commonly referred to as a market-on-close assessment process. Platts has prepared a document containing the most commonly raised questions and their corresponding answers.

As part of the related communication process, Platts held a web forum on January 10, 2006. The contents of the forum are available for re-play at the following web-link:

https://platts.on.raindance.com/confmgr/view_stored_doc.jsp?docId=9112604892620206839520854340&docType=recording.

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Rationale of amended assessment methodology:

1. *Why the need to move to a "market-on-close" price assessment process?*

Flat price values can change significantly during the day due to high market volatility. Prices can and have actually changed in excess of \$1.00/bbl in a matter of minutes for many markets from crude oils to products. In recognition of this volatility, Platts believes its assessment systems must employ a time stamp as prices are clearly a function of time. The market-on-close (MOC) process and the time reflected in the assessment should be in line with market practices. A volume-weighted assessment approach, which some users prefer, would clearly result in an index that would be out of step and not reflective of the actual market price prevailing at the close of the day. This would be the case on those days with high volatility. The need to raise standards of price discovery has effectively led towards making assessment processes more transparent and more time sensitive.

2. *What are the benefits of a MOC approach in comparison to an all-day trade-weighted average?*

The MOC assessments clearly reflect closing values for the commodities assessed. MOC assessments line up precisely with the market price prevailing at the close of the working day. In practice, the assessment converges with the market price. Those market participants that require published assessments to reflect a tradable and realistic market value would welcome such a system. Furthermore, the MOC-method meets entirely the transparency requirements for Platts price reporting and seems to meet the internal requirements of those companies that prefer pricing to be established in a transparent environment. In the MOC assessment approach, participants identify their positions clearly to the market throughout the assessment window. The evolution of bids/offers keeps a market observer in tune with exactly how the market is trending, and eventually where a commodity is traded and valued.

3. Will bids and offers be named in the window?

Yes, Platts will display transparently the names of the buyers and sellers participating in the market processes. The Platts assessment window is a reaction to an increasing need for transparency in volatile markets. To increase transparency, Platts requires trading positions to be fully executable and therefore identifiable.

4. Can I take part even if I am not a Platts subscriber?

Yes, while it is useful to have access to Platts market indicator pages such as PGA400, Platts processes are completely open and take into consideration bids and offers from anyone credible in the marketplace. The objective of Platts' editorial team is to assess the market accurately and in such a process no credible market participant is excluded. The process is inclusive of anyone wishing to participate. Firm bids or offers submitted to the editor are then considered in the assessment process.

5. How does the Platts role differ from the role of a broker?

Platts is a publisher of information in the commodities market and publishes information it obtains from credible sources. The information contains critical market data leading to further action by buyers and sellers. The action may include further engagement with a counterparty leading to a direct bilateral transaction or indirectly via a broker. Platts' editorial team does not seek to find buyers or sellers with the purpose or intention for parties to engage in trade but with the purpose of obtaining data to be able to publish accurate assessments. Based on Platts' experience in other markets, brokers routinely play a role in the price discovery process. The information obtained from the market is displayed primarily on PGA400 which should be viewed as a bulletin board.

6. What are your next steps and when will be the implementation date?

Following a Q&A period with the industry, Platts will announce an implementation date with ample notice. At that stage, a detailed specifications-guide will be available on the Platts web-site which summarizes all related market-on-close assessment parameters for Americas oil markets.

Operational details:

7. When does Platts plan to introduce the MOC approach to the US fuel oil markets and for the other refined products?

Platts will look at each market segment individually in order to identify the most accurate and transparent assessment approach. The time for implementation for fuel oil and related markets will be sometime in the first half of 2006. Platts will make a declarative statement before the proposed implementation. At this stage, the focus is solely on US residual fuel oil and blendstock/feedstock markets. Platts is analyzing the possibility of implementing an MOC process for other products sometime later in 2006.

8. What type of product specification will Platts use to determine its assessments?

The related assessment specifications have been published on www.platts.com after an extensive dialogue with the industry. At this stage, the only visible change will be an adjustment to the underlying assessment time-parameters. Moving forward, the relevant spot price assessments will reflect market values at 3:15 p.m. local New York time. Platts welcomes comments and input on specifications and logistics regarding these markets and when necessary will make independent decisions based on the facts it has gathered.

9. Will Platts use transactions of "non-standard" products specifications in arriving at its assessments?

Platts will consider in its assessment process non-standard trading positions and transactions. These non-standard data inputs will then be measured against the normal and typical parameters leading to a normalized assessment.

10. What is normalization?

Normalization is an editorial based process to determine the importance and appropriateness of data seen in the marketplace. Transactions for better than typical grades will be considered to have an implicit premium to the normal market, while those transactions for inferior grades will be considered to have an implied discount. These premiums or discounts will be factored in the assessment process.

11. What will be the assessment time frame be that Platts intends to utilize for its assessments?

The assessment cut-off will be 3:15 p.m. local New York time. Initial trading positions will have to be shown by 2:30 p.m. local New York time. Additional details related to individual assessment time-parameters will be available in the above mentioned specifications document.

12. What does the Platts assessment imply? Is it a snapshot of the spot value of a product at a particular time or does it represent the spot price of a product for that day concerned?

Platts' market-on-close assessment approach identifies the price level at which a particular commodity trades or could trade at a specific point in time. Platts and many market participants agree that prices move during the day and therefore the published assessment needs a timestamp to be accurate.

13. How many days forward (from the date of publication) does this assessment reflect?

As determined in the related US refined products specifications guide (see www.platts.com > oil > methodologies & specifications) and in the specifications summary listed below.

14. What cargo size would Platts use to arrive at its assessment?

As determined in the related US refined products specifications guide (see www.platts.com > oil > methodologies & specifications) and in the specifications summary below.

15. Would flat price or floating price deals take precedence in arriving at the assessment?

Both types of deals would be considered for assessment purposes as long as related trading positions have been communicated clearly and openly to the entire market place.

Communication with Platts editors:

16. How do I communicate my trading positions? What if I am not available?

YahooIM is the easiest way to pass on trading positions, but the phone can be utilized as well. You can communicate trading positions in advance, and you can nominate a broker as well.

17. Where can I see those trading positions?

PGA400 (eff. Jan 17th), is the Platts heard-in-the-market page for US refined products and PGA427 is the Platts heard-in-the-market page for feedstock/blendstock trading positions. The Platts Global Alert system is viewable through many other electronic carriers including Reuters and Bloomberg. The Platts information is also accessible via the internet.

18. Which clock is used to determine the time by Platts?

Platts uses standard local times and in the US its assessment will be established at 3:15 p.m. Eastern Standard Time. Platts clocks are synchronized to an atomic clock. For those wishing to have a close approximation to the time standards used please use the following web link: <http://nist.time.gov/timezone.cgi?Eastern/d/-5/java>

19. How is a dispute over timing of submitted bids/offers handled?

Should any dispute arise regarding time, Platts will make its decisions and emit opinions based on the demonstrable record as timed in its electronic systems. Timing of submitted bids/offers is determined on the basis of when the information reaches the Platts editor. Every trading position that reaches a Platts editor will be acknowledged with a short response, e.g. "ok", "k". In those cases when the market participant does not receive a confirmation from Platts it should resend or call in the information via phone.

20. Do I need to communicate my firm bid/offer directly or can I use a broker to communicate my bid/offer to Platts?

Trading positions can be communicated directly or through an intermediary such as a broker as long as the bids and offers are transparent and fully executable. Bids and offers submitted through an intermediary will be subject to the same editorial standards as trading positions submitted directly.

21. Am I obliged to report a trade to Platts for the bid/offer I submitted to Platts?

Yes, concluded transactions need to be communicated in real-time in order to avoid double-booking of a previously communicated trading position. Bids/offers are viewed as firm until they are either withdrawn or until a deal has taken place.

22. Can I report to Platts trades performed outside of the Platts window and will Platts use them for assessment purposes?

Platts will consider all trades and market positions for assessment purposes as long as they have been communicated openly and transparent to the entire market place and meet Platts assessment specifications.

Trading within a market-on-close assessment environment:

23. If I participate, will my positions make up the assessment range?

Platts' role in the market is to report and assess markets. If bids and offers are fully executable and considered typical, then the bid and offer will be considered in the assessment process. Assessing is editorial in nature and relies on extensive analysis and normalization processes.

24. Will deals done earlier in the day be disregarded?

Not at all. A deal reflects the value of product at the time the trade is done. However, such value can move. If a price moves, the value prevailing at 3:15 p.m. EST will be used in the assessment process.

25. What if nothing trades in the assessment window? Does the last deal of the day make up the Platts value?

Only if the price of that deal is still representative at 3:15 p.m. local New York time.

26. Can I trade in the Platts window if I have not registered my trading position with the Platts editor?

Market makers (those that have registered) are posting firm bids and offers open for any credible and creditworthy counterparty. Those bids/offers are open to any market participant including those that have registered or those that are just monitoring markets.

27. If I trade, can I still trade again in the assessment window?

Yes. Once a deal is concluded, the market maker has the right to repeat the last shown number.

28. During the 2-5 minute “freeze” zone, how does trade take place without participants being able to raise bids or lower offers?

Fuel oil cargo markets will be assessed with a 2-5 minute freeze-zone at the end of the assessment period in order to accommodate operational requirements for physical cargo trade. During that period, deals can only take place at previously communicated price levels.

29. What and whose terms and conditions govern the trade performed via the Platts window?

Terms and conditions have to be clearly stated during the initial positioning. If no terms are stated, then standard terms apply (see assessment specifications guide at www.platts.com). If there is a dispute, Platts will survey the market, determine what constitutes normal and typical standards and will emit an opinion regarding the protocols applicable to the bids, offers and transactions considered in the assessment process.

30. Does the size of a cargo and time of lifting/delivery of the cargo affect the assessment?

Yes, cargo sizes and delivery terms will be normalized for assessment purposes in order to be comparable on the same basis.

31. What is the intended volume sized for residual fuel trades? How will Platts deal with the large ships currently being offered in the market?

Applicable volume sizes have been published in the related US refined products specifications guide (see www.platts.com > oil > methodologies & specifications).

32. Can I select who I sell or buy the cargo to/from?

No, trading positions have to be non-exclusive in order to be considered for assessment purposes.

33. Can a company in the window decide not to buy or sell to me?

Yes, but only for credit reasons which have to be communicated to Platts prior to the start of the assessment process. In the event that two market participants have expressed interest after the same market making bid or offer, the standard practice of first come first served should be used. At all times, the time standard used by Platts and any relevant information recorded in its systems will be used to determine who should be at the top of the queue. In the event that two companies express the intention to transact exactly at the same time as recorded by Platts, the market maker will have the right to choose its counterparty.

34. Must a potential buyer/seller inform Platts of their intention?

In order to be considered for assessment purposes, potential buyers/sellers need to communicate their trading positions to the Platts editor.

35. Can the potential buyer/seller after informing Platts decide not to do the trade?

Once a principal decides to hit a bid or an offer that has been communicated via Platts, a trade has to be concluded.

36. Can I withdraw my bid/offer, are there any conditions?

Trading positions which have previously been communicated to Platts, can be withdrawn any time prior to any interest being expressed to buy from or sell into the position.

37. Is there a commission charged for the trade done via the Platts window?

No, Platts does not charge commissions for transactions that take place during the respective assessment window.

Performance and verification:

38. *What happens if I do not stand firm on my bid/offer?*

A principal who does not perform on a declarative bid or offer would be demonstrating that the information provided was not real or credible. Bids and offers would be excluded from the related assessment process until corrective action has been taken by such principal.

39. *How will Platts treat market participants who do not perform as per previously communicated market positions?*

Principals who do not perform on clearly communicated bids or offers may be considered unreliable from an editorial point of view. Platts may determine that the relevant companies need to be excluded from the assessment process to protect the integrity of the assessment. Obviously, an assessment system aims to be inclusive of all credible information, and if a participant then upgrades its corporate governance processes there would be no need for the exclusion.

40. *How can I communicate my trading positions to the Platts editor?*

Bids, offers and transactions can be communicated by phone and by electronic processes. Routinely, traders use Yahoo instant messaging as the preferred submission method to Platts editor. Platts views communication with the marketplace as a two-way process, and editors will accept any reliable means of communication.

41. *Is there a real need to document a paper trail for price discovery? Is providing complete details after the trade is done not enough?*

Platts reporters may determine that additional information or documentary support regarding a transaction may be needed. Market participants may also raise issues that would deserve further fact cross-checking and hence Platts would then request supporting documents. The documents required may include the contract underpinning the transaction, transportation and quality testing documents. The paper trail would provide timely clarity to the circumstances surrounding a specific transaction. Platts as a matter of course may request supporting documents needed to substantiate transactions or performance on a transaction.

42. *Will Platts publish the names of the companies bidding, offering and those who did the trade/s?*

Yes, apart from publishing company names in real-time, Platts will also publish transaction summaries at the end of the various assessment windows.

43. *Where will Platts publish this information?*

In regard to US fuel oil and feedstock/blendstock markets, this information will be available on PGA 400 and PGA427 respectively.

44. *If I dispute an assessment where should I go to first?*

Should differences of opinion arise, comments would be initially addressed by the editor who is responsible for a particular market sector. However, market participants should feel free to escalate their concerns to the local Markets Manager, followed by the Director Americas Oil Markets and subsequently by the Global Director Market Reporting.

Current assessment specifications at a glance:

Subscriber note: Following a period of extensive dialogue with the industry, Platts is now normalizing its spot price assessment process to the following specifications for **US Gulf Coast residual fuel oil** effective November 10th, 2005:

- 3%S: 3%S max, 10.2 min API, 150-250 SSF, 450 max vanadium, 0.1 max ash, 150 F min flash point, 60 F max pour;
- 3.5%S fuel oil: Typically 3.5%S with material with up to 4.5%S max considered in the assessment process, 10.2 min API, 150-300 SSF, 80 max al+si, 300 max vanadium, 18 max CCR;
- 1%S, 8 min API, 225 max SSF, 140 F min flash, 0.15 max ash, 1% max water and sediment. Separately, Platts is considering discontinuing this assessment effective July 1st, 2006;
- 1%S, 6 min API, 25-225 SSF, 0.4 max nitrogen, 100 max calcium, 200 max vanadium, 120 max al+si, 150 F min flash point, 0.8 max asphaltenes, 0.1 max ash;

Trading positions with other quality specifications will be normalized for assessment purposes to be comparable with the updated Platts-specification basis. For questions and/or comments contact Suzanne_LaFavers@platts.com, David_Marino@platts.com and Gerald_Bueshel@platts.com.

Subscriber note: Following a period of extensive dialogue with the industry, Platts is now normalizing its spot price assessment process to the following specifications for **US Atlantic Coast residual fuel oil** effective November 10th, 2005:

- 0.3%S HP: 10.5 api min-24.9 api max, 300 ssf viscosity max, 110 F pour, 149,000 BTUs, 175 min flash;
- 0.3%S LP: 10.5 api min-24.9 api max, 1,000 ssu viscosity max (at 100 degrees F), 60 F pour max, 150 min flash;
- 1%S: 10.1api min, 300 ssf viscosity max, 0.5% nitrogen max, 150ppm vanadium max, 8 max asphaltenes, 151,500 BTUs;
- 0.7%S: 10api min, 300 ssf viscosity max, 0.5% nitrogen max, 150ppm vanadium max, 8 max asphaltenes, 151,500 BTUs;
- 2.2%S & 3%S: 10api min, 300 ssf viscosity max, 300ppm vanadium max, 100 max aluminum and silicon;

Trading positions with other quality specifications will be normalized for assessment purposes to be comparable with the updated Platts-specification basis. In addition, Platts will modify its assessment time-frame for US Atlantic Coast residual fuel oil cargo assessments from the current 5-15 days to 5-20 days ahead of publication date. For questions and comments contact Evi_Kavouras@platts.com, David_Marino@platts.com and Gerald_Bueshel@platts.com.

Subscriber note: Following a period of extensive dialogue with the industry, Platts is now planning normalizing its spot price assessment process to the following specifications for **US feedstock/blendstock markets** effective Jan 17, 2006:

- STRAIGHT RUN: Ships or barges, 7-21 days out, on a delivered basis, New Orleans to Corpus Christi for the USGC, NY-NJ-Philadelphia for the USAC.
Low sulfur, 0.5%S max, 27API, 100 to 500ssf; 70% recovery at 550C; 10 ppm, vanadium, nickel and sodium.
High sulfur: 3%S max, 18 API, 55% recovery at 550C, 150ppm vanadium, 150 to 250ssf.

- VGO: Delivered pricing, cargoes 7-21 days out; barges, 7-14 days; location basis delivered anywhere from New Orleans to Corpus Christi.
1% sulfur max, 22 API; 170F aniline
Low sulfur, 0.5%S max, 22 API; 170F aniline; 3 ppm vanadium, nickel and sodium;
High sulfur: 3%S max, 18 API, 150F aniline.
- REFORMATE: 50 API, 100 octane, 1 RVP; sulfur, less than 50ppm. FOB pricing, basis Houston area, barges 7-14 days out.
- RAFFINATE: 65 API, 65 octane, sulfur less than 50ppm. FOB pricing, basis Houston area barges 7-14 days out. RVP 5-6. FOB pricing, basis Houston area.
- ETHANOL: Denatured, standard fuel grade, 114 octane. It is assessed on an in-tank or delivered basis in Chicago; and an FOB tank basis in New York Harbor 5-15 days out. For those two markets a typical sale is 1,000 – 3,000bbl. On the USWC the market is assessed in for rail-car delivered volumes, about 800 bbl. Timing for the two individual assessments are 7-14 and 14-21 days out.
- MTBE: 115 octane, 8 RVP, 18.2% oxygen. It is assessed in NY and Houston, on an FOB basis. Barges 2-15 days out, Houston or NY Harbor, FOB basis, although other delivered deals to Houston or to Philadelphia are factored into the assessment.
- ALKYLATE: 68 API, 5.5 RVP, 92- 93 octane. The assessment is FOB tank in the Houston area, 7-14 days out although other USGC locations are factored into the assessment.
- NAPHTHA: Assessed on a delivered basis, barges 7-14 days out, cargoes 7-21 days. Full Range and Heavy are based on 40 Naphthenes plus Aromatics (N+A) and adjusted per current market information for higher or lower N+A. Sulfur less than 300ppm.
Full range 58 API, 130F initial boiling point.
Heavy 56 API, 180F IBP.

Trading positions with other specifications will be normalized for assessment purposes to be comparable with the updated Platts-specification basis. For questions and/or comments contact Robert_Sharpe@platts.com, Suzanne_LaFavers@platts.com and Gerald_Bueshel@platts.com.