



Platts-ICE relationship

Platts and ICE have agreed to integrate market data generated by trading in ICE's over-the-counter (OTC) markets into Platts forward curve data products for North America.

The products provide risk managers, planners, traders and analysts with daily assessments of pricing in the forward markets.

The agreement is in response to rising industry demand for independent, market-based forward curve price assessments based on the fullest range of market data available.

Platts, with nearly a century of experience reporting energy and price information, has been producing forward curve price assessments in a variety of energy markets since 2001.

ICE, the leading electronic OTC energy marketplace, offers trading and risk management in hundreds of products, resulting in a rich set of data to enhance.

Frequently Asked Questions

Section 1: The Platts-ICE relationship and the Platts-ICE forward curves

Question: What is the purpose of the relationship?

Answer: The purpose of the licensing relationship between Platts and Intercontinental Exchange (ICE) is to combine the data-gathering power of each company, with Platts' expertise and avowed methodology systems to enhance the rapidly growing forward curve product offerings in North American natural gas and electricity.

Trading in forward natural gas and electricity is liquid on the ICE platform and continues to grow. Platts' core competence around the benchmarking function resides in its editorial expertise, ability to assess markets and widely-accepted methodology systems. Platts has been producing daily assessments of forward natural gas and electricity curves since March 2001 for electricity and since June 2003 for natural gas.

The relationship allows Platts to incorporate into its assessment processes ICE platform trading activity in gas and electricity markets, in order to produce daily forward curves for natural gas and electricity, now to be known as the Platts-ICE Forward Curves.

Question: What data and other information are the Platts-ICE forward curves for natural gas and electricity based on?

Answer: In addition to transactions done, and bids/offers communicated via the ICE trading platform, Platts reporters gather information on forward markets through the non-commercial departments (back offices) of companies, as well as directly from traders and brokers active in the market.

Question: Is ICE the dominant source of data, and what role will it play in determining the forward curve assessments?

Answer: ICE transactions play a valuable but not dominant role in editors' analysis of price term structure and outright valuations of the daily forward market and thus the determination of Platts Market-on-Close (MOC) assessments. The assessments are generated solely by Platts and reflect the editors' independent analysis.

The three sources of forward price information used by Platts editors are complementary. Several locations and time periods, particularly those that are fully commoditized, are very active on the ICE platform. Other areas are less liquid and tend to trade on a bilateral basis otherwise known as Over-the-Counter.

Transactional information Platts receives from companies through their back offices and from conversations with market participants are additional sources of information available to editors for comparison and to use for assessing the more liquid hubs.

Transactional information from company back offices and direct from individual market participants includes deals, bids and offers made other than on ICE and includes transactional data from less liquid hubs. For the least liquid locations and time periods, where on occasion there is little or no trading activity on any given day, spread trades on ICE and bid and offer information from market participants provide editors with additional supporting price information on which to base assessments.

Question: Does Platts-ICE publish a forward assessment on a day when there is no trade at all?

Answer: Yes, Platts publishes assessments aimed to reflect the market transactable value of those forward instruments. Platts strongly believes that part of the value of its forward curves is to use the expertise of its editors to provide an independent assessment of the value of illiquid markets every day. Companies holding forward positions need to value those positions daily, and the forward curves provide an independent, third-party assessment of values for both liquid and less-liquid markets.

Question: What is the minimum number of indications on which Platts is prepared to base a value for a forward assessment for a traded hub?

Answer: Platts is committed to publishing assessments for forward instruments even in the complete absence of trade. Platts does not set absolute numerical boundaries on the number of indications that can facilitate an assessment on any given day. Platts assessments can be inferential in nature. Therefore, if a given hub is typically traded on a 'spread' basis to another, perhaps more liquid hub, we would expect to be able to determine reliable spread indications from several cross-checkable sources.

Platts will assess all discrete and spread information from multiple sources and make an assessment reflective of market value. Platts will adhere to its general methodological principles of accuracy, transparency and repeatability in assessment systems, as well as standards of internal compliance. Platts continuously reviews markets, liquidity and trading partners to ensure it is assessing in line with market information needs.

Question: Is Platts changing its methodologies now that it plans to incorporate data from ICE?

Answer: Platts methodologies will remain unchanged. Methodology systems used to assess forward markets will remain the preserve of the Platts editorial group. Platts will continue to follow the same standards, documentation, and compliance principles as laid out in the relevant Platts methodology guides which are openly communicated as documents of record to the marketplace. ICE will simply provide a portion of the data gathered by Platts editorial experts, who will generate forward assessments for the gas and electricity markets.

Question: How much expertise do Platts editors have in assessing forward markets?

Answer: Platts editors have been assessing forward markets for decades. Platts staff have many years of combined experience in reporting and analyzing forward gas and electricity markets. In addition, Platts has a thorough training process for all new Platts editors. The program focuses on the principles of price reporting and market analysis, as well as dedicated training for specific market coverage. Documentation, record-keeping and compliance processes are strictly maintained.

Question: Will the use of the data affect Platts' editorial independence?

Answer: Absolutely not. Platts retains total editorial control and editorial independence over its forward gas and electricity curves, including the methodology for creating the forward assessments, and the data elements that are used in the creation of any individual assessment on any day.

Question: Will the Platts-ICE relationship have any effect on Platts' daily and near-term electricity assessments and daily and bid-week natural gas indexes/benchmark?

Answer: None. The licensing arrangement does not include the use of any ICE data for Platts' daily electricity indexes, daily gas indexes, or the monthly bid-week gas indexes. Those indexes are based on large amounts of transactional data collected directly from the back offices of more than 80 companies, transactions reported directly by the parties regardless of whether they were transacted on ICE, through voice brokers, or directly between counterparties. The Platts-ICE relationship is limited to assessments for forward instruments.

Section 2: Forward curves and methodology

Question: What is the purpose of the forward natural gas and electricity curves, and what are they used for?

Answer: The purpose of the forward curves is to bring more price transparency to forward markets and provide an independent assessment of forward values for all relevant locations and periods, including those where there is minimal or no trading activity on any given day. The assessments offer companies an accurate, independent and reliable view of forward values, by aggregating multiple data sources to produce a single cross-checked series of forward curves by an open and validated methodology.

Forward assessments within Platts Forward Curve products may be used as a tool for independent evaluation, for validating mark-to-market processes, or for other portfolio risk management processes. Forward curves are used in value-at-risk, stress testing or risk disaggregation. Platts forward curves provide another source of information for mark-to-market and for evaluating and verifying internally generated values for marking forward positions.

Question: What is included in the forward curve for natural gas?

Answer: Platts' natural gas forward curve comprises daily assessments and associated ranges for gas forwards. As of October 2007, daily assessments are published for 20 locations for 11 time periods extending out through calendar year 2010.

Question: What does the high/low range in the published assessment represent?

Answer: The Platts assessments represent the transactable value of the commodity, and Platts straddles the value with a high/low range around the mean value. The assessment represents the prevailing value at that point in the forward curve at the exact timestamp, namely 14.30:00 Eastern Prevailing Time (EPT)(see 2). Platts' general principles include repeatability, incrementability and other generally-applied methodological standards, in order to determine the assessment.

Question: How does the natural gas forward curve differ from Platts' widely used daily and monthly bid-week natural gas indexes?

Answer: They are different. The widely used indexes represent the value of the underlying commodities. The forward gas assessments represent the value in a further forward time frame primarily for derivatives. The indexes and the forward assessments also differ in construction and data usages by the market.

The forward curve methodology is a Market-on-Close methodology based on values in the financial basis-swap market at various North American locations at EPT. This corresponds to the close of open outcry floor trading of the New York Mercantile Exchange (NYMEX) Henry Hub gas futures contract. The Market-on-Close methodology establishes the value at the exact close of the market rather than averaging values of trades done throughout the day.

Forward markets are traded as a basis differential to the corresponding (NYMEX) Henry Hub futures contract — i.e., the closing price of that month's futures contract for a specified month, or the average of the months that comprise a seasonal strip of futures contracts. Depending on the location, the differential price may be a plus or minus to Henry Hub. Prices are reported in US cents/MMBtu (million British Thermal Units). In addition to a Market-on-Close assessment, Platts also publishes a range and a full-value equivalent price (the corresponding NYMEX Henry Hub gas futures contract price plus or minus the basis differential). Historical data for many hubs over a period of years is also available.

Question: How is the Market-on-Close methodology used to determine gas forward assessments?

Answer: Platts determines the gas forwards exactly at 14:30 EPT, which coincides with the close of open outcry futures trading. The Market-on-Close assessments utilize values in the gas forwards (financial basis-swap) market at various North American locations at the specified time. Platts editors track data and reflect the closing values rather than an average of trade. The MOC approach allows assessments and values to be in line with prevailing values across markets at 14:30 EPT.

Term structures and spread differentials are observed and reflected in the assessments. As a result, spreads can be easily measured versus important marketplaces such as the NYMEX Henry Hub settlement prices.

Question: What are the data sources used in the natural gas forward curve methodology?

Answer: Platts editors use several primary sources of transactional and bid and offer information. These sources include information received directly from market principals, information provided by the companies' back office and by ICE.

Question: Will the transactions executed on the ICE platform automatically affect Platts assessments for forward gas and electricity?

Answer: Forward gas and electricity transactions done on ICE are considered by editors in creating the assessments along with other transactional and bid/offer information that Platts collects directly from companies and in direct contact with traders and brokers.

Like all other indications used by Platts reporters in forming assessments, ICE indications will be subjected to common and rigorous standards of scrutiny and cross-checking and receive no special dispensation in Platts' assessment systems based on their origin alone. In addition to transactional, bid and offer information, editors also consider differentials to other trading locations, ensuring that assessments across the curve are in agreement and normalized to the Market-on-Close timestamp.

Question: What is included in the forward curve for electricity?

Answer: The Platts-ICE forward curve for electricity comprises daily Market-on-Close assessments of the value of standard over-the-counter forward electricity packages. Platts assessments reflect the transactable value at 14:30 EPT. Alignment between Platts' MOC timestamp and the close for open-outcry trading for the NYMEX Henry Hub gas contract allows Platts daily forward power assessments to be compared with NYMEX gas settlement prices.

As of October 2007, the curve includes daily assessments of electricity forwards at 17 locations for time periods extending out at least three calendar years in Eastern and Central markets and at least four calendar years in Western markets.

Just as the forward gas assessments differ markedly from the daily and Bid-week (sse 1) ; gas indexes, the forward electricity assessments differ fundamentally from the daily electricity indexes in methodology and how they are used by the market. The methodology is a market-on-close assessment that establishes values at the close of gas futures trading (forward electricity prices are closely tied to the prices of gas futures and gas forwards) and is subject to the strict scrutiny of the editors to ensure the data meets Platts standards.

Question: What is the methodology used for electricity forward assessments?

Answer: Methodologies used in natural gas and electricity forwards are consistent and are geared to generate market assessment that reflect transactable values at 14:30 EPT. The assessments are formulated by editors based on forward transactions (including spread trades), differentials to other trading locations, differentials between time periods, physical bid/ask spreads, derivatives trading and other market information, including market fundamentals. Bids and offers made and transactions done are assessed in relation to price formation in time, and normalized to fully reflect the 14.30:00 timestamp.

Again, assessments across the curve should be in line with standard market principles. For example, the average for two months reported individually should be the price reported for the two-month package.

Daily forward assessments are for both standard on-peak and off-peak forward products.

Question: How are the standard packages defined?

Answer: Standard on-peak packages in Eastern and Central markets are 5 days times 16 hour packages, which include power delivered during on-peak hours on weekdays and exclude weekends and holidays defined by the North American Electric Reliability Council (NERC).

Standard on-peak forward packages in Western markets are 6 days times 16 hour packages, which include power delivered during the 16 on-peak hours each day Monday through Saturday and exclude Sundays and NERC holidays.

Standard off-peak packages vary among markets. In the New England, New York, Ontario, PJM (see 3); and MISO (see 3); markets, the standard off-peak package is a 5 days times 8 hour package, which includes power delivered during the eight off-peak hours each day Monday through Friday and excludes weekends.

In the ERCOT (see 3);, Into Entergy, Into Southern and Into TVA (see 3) markets, the standard off-peak package is a 5 days times 8 hours plus a 2 days 24 hours package, known as a wrap, which includes power for delivery during the eight off-peak hours each weekday, plus all 24 hours (around-the-clock) on weekends.

In Western markets, the standard off-peak package is a 6x8 plus a 1x24 package, also known as a wrap, which includes power for delivery during the eight off-peak hours Monday through Saturday plus all 24 hours (around the clock) on Sunday.

Question: Whom can I call for further information on editorial questions regarding the methodology used to create the Platts-ICE Forward Curves?

Answer: You can contact either of two senior Platts editors who oversee the forward curves for natural gas and electricity: Brian Jordan, 202-383-2181; brian_jordan@platts.com; or Mike Wilczek, 202-383-2246; mike_wilczek@platts.com.

1. Bid-week is the industry-defined trading period used as the basis for deriving month-ahead gas indexes.
2. EPT is Eastern Time, automatically adjusted for Standard Time or Daylight Savings Time.
3. PJM is Pennsylvania, New Jersey, Maryland; MISO is Midwest Independent Transmission System Operator; ERCOT is Electric Reliability Council of Texas; TVA is Tennessee Valley Authority.