



# European Spot Gas Markets – Methodology Consultation

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**Link to current methodology:**

<https://www.icis.com/compliance/documents/european-spot-gas-markets-methodology-esgm-4-june-2018/>

## Executive Summary

ICIS runs a process for rolling consultation on all of its pricing methodologies. This consultation paper is part of this process and covers all of the ICIS primary price points included in the publication *European Spot Gas Markets*.

The formalisation of the market consultation process is one of the undertakings made by ICIS under the Independent Price Reporting Organisations (IPRO) code. ICIS has developed this code with other Price Reporting Organisations to enshrine best practice within the industry and is externally audited to prove compliance with this code.

Each consultation will contain a section asking general questions about the suitability of ICIS methodology for the markets concerned. In addition, if ICIS is aware of any particular issues with existing methodology or changes in market requirements, it may include a section containing specific questions or proposals for feedback.

This consultation contains a section addressing specific market issues.

Please send responses in writing, preferably in electronic format to the following address: [consultation@icis.com](mailto:consultation@icis.com)

Please specify whether your response is confidential or not. Opinions offered in confidential responses may be referenced but will not be attributed in any way.

The consultation will close on 24 August 2018 and ICIS will publish all responses unless noted as confidential, plus a summary of findings and any resultant decisions by 31 August 2018. ICIS will give further notice if the decisions entail a material change to existing methodology.

# Summary of Questions

## Specific market questions

1. On 1 September 2018, Turkish natural gas market reforms are scheduled to end the current monthly balancing arrangement whereby shippers at the UDN manage their imbalances on an ex-post basis.

Given ESGM and TEHD contain ex-post prices for the UDN market there is a rationale for ICIS to remain aligned with this Turkish gas market development.

If and when these changes are made ICIS believes it needs to end the daily price assessment of the Turkish Day-7 Ex-Post contracts.

Assuming the last day of the current balancing regime is 31 August 2018, ICIS would continue to publish an ex-post price to at least 7 September 2018.

For the sake of clarity, no change is proposed for the Turkish Day-ahead gas assessment.

Do you agree with the proposed change? Please give reasons for supporting or opposing this proposal.

## Background

It is recognised that a broad spectrum of parties, including producers, generators, refiners, processors, distributors, traders, manufacturers and other private and public organisations with interests in international commodity markets refer to and rely upon the integrity and independence of the price assessment reporting process undertaken by ICIS and other Independent Price Reporting Organisations (IPROs). It is therefore important that IPROs are able to publish price assessments that are trusted to represent fair market value.

At the G20 Leaders' Cannes Summit in 2011 it was declared that "IOSCO, in collaboration with the IEF, the IEA and OPEC, would prepare recommendations to improve the functioning" of Price Reporting Organisations. After that, ICIS worked with IOSCO to develop a set of standards or principles which ICIS and the other IPROs agreed to introduce under an audited self-regulatory regime. Not only does this provide confidence to our customers but also demonstrates to regulators and Finance Ministers that the business models and practices of IPROs meet necessary standards.

In the early discussions it was recognised that IPROs are journalistic publishers and media organisations who prepare and report, on a commercial basis, price assessments in relation to commodities and/or commodity derivatives. There is a recognised and understood tension between the wish of the IPROs to demonstrate compliance with a set of standards and the needs of the organisations to remain journalistically independent and to maintain confidentiality.

Following a series of in depth consultations with market participants, IOSCO decided that direct regulation of the IPROs was not appropriate but instead recommended a form of self-regulation with enforcement through an audit regime against a set of agreed 'principles'.

In October 2012, IOSCO published these high level principles (Principles for Oil Price Reporting Agencies - IOSCO FR06/12), which the IPROs have now adopted within their IPRO Code. This code clearly sets out the standards and measures to be taken by an IPRO that ensure the quality and integrity of the price assessment process.

The IPRO Code demonstrates that an IPRO signatory has committed to meeting the high standards, including principles of good governance, required and promoted by the Code and its other signatories. It can therefore be regarded as a measure of best practice among IPROs.

One of the areas that the principles and standards effects is the development of methodologies. ICIS has always consulted with market participants before enacting material changes to its methodologies but this will now follow a formal consultation process.

While this process will take a little longer to complete than procedures we have previously followed, it should ensure that all market participants wanting to comment have a chance to do so.

**All of the methodology consultations can be found on [www.icis.com](http://www.icis.com).**

# Methodology Process Description

## General Consultations

Where possible ICIS will publish on its website advanced notice of a consultation on its methodologies. All new methodologies will be given an expiry date. This date will be set at the time of the creation of the methodology and will act as a backstop date by which ICIS will conduct its next review of the methodology. This will ensure ICIS will consult on its methodologies regularly and give market participants an indication of when the methodology will be reviewed next.

When conducting a general review of its methodologies, ICIS will ask broad general questions to ascertain how well the methodology is performing in fulfilling its overall purpose, which is to provide a reliable measure of physical market value.

## Specific Changes

ICIS may consult on specific changes to the methodologies from time to time. Where possible ICIS will provide customers with advance notice of these consultations via its website and publications.

These changes may be to address an issue identified by ICIS in market structure, market behaviour, an existing methodology or in reaction to feedback from customers or market participants on any of these.

ICIS is committed to conducting a fair and open consultation process. It will therefore only decide on a particular methodology change after the consultation process has concluded. Market participants should not assume that because a change is proposed in a consultation that ICIS is minded to make the change. We would therefore encourage all market participants to engage in the consultation process.

## Consultation Timescales

In each consultation document, ICIS will set out its timetable for the consultation. Timescales on consultations may vary from market to market and location to location. In line with international best practice the general consultation period will last no fewer than 28 days. This should ensure all counterparties have sufficient time to respond.

After the consultation window closes ICIS will promptly publish all non-confidential consultation responses it has received and will begin to review all responses. As part of this process it will create a summary of responses and views provided during the consultation process. Points made in those responses market confidential will be referenced in the summary, but not attributed to companies or individuals.

As previously stated, ICIS will always seek to fulfil its objective of creating methodologies which result in price assessments which represent market value. ICIS will consider market responses with this primary objective in mind.

Once ICIS has made a decision about whether to change a methodology it will publish its decision along with its summary of market responses.

In certain situations, changing the methodology may result in a material change to the systems or processes of ICIS and/or market participants. ICIS will always seek to provide the necessary advance notice of such changes to minimise the impact on customers' systems. ICIS will therefore provide, either with the decision or shortly thereafter, notices to such effect, which detail the planned date for the change and the nature of the change.

As soon as is practicable following the publication of the decision, ICIS will publish the new version of the methodology. Where this is not implemented immediately, ICIS will provide details of the date from which the change will apply. The new methodology will also contain an expiry date. This is the date by which ICIS will provide a new general consultation. This will ensure the methodology will be reviewed regularly and give the market greater certainty about when consultations are likely to occur.

**Unless otherwise stated all documentation will be published on [www.icis.com](http://www.icis.com).**

## Important Planned Dates for this Consultation

<b>27 July</b>	<b>Publish the consultation.</b>
<b>24 August</b>	<b>Close the consultation.</b>
<b>27 August (latest)</b>	<b>Publish the public responses.</b>
<b>31 August</b>	<b>Publish the summary of all responses and our decision.</b>

## Section 1 – Specific Market Questions

This section includes a specific question on the ICIS methodology for *European Spot Gas Markets*. These questions concern the addition of a merger of two gas price hubs and a change in the forward foreign exchange methodology.

Q1. On 1 September 2018, Turkish natural gas market reforms are scheduled to end the current monthly balancing arrangement whereby shippers at the UDN manage their imbalances on an ex-post basis.

Given ESGM and TEHD contain ex-post prices for the UDN market there is a rationale for ICIS to remain aligned with this Turkish gas market development.

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Do you agree with the proposed change? Please give reasons for supporting or opposing this proposal.

# Methodology Development and Standards

The standards below reflect ICIS internal standards, the IPRO Code and the IOSCO principles as they relate to the creation or development of price methodologies.

## Standards

We will do all we can to ensure that our methodologies promote the integrity and transparency of the price reporting process

We will publish the methodologies used to produce our price assessments on our website free of charge. The methodologies shall aim to achieve price assessments that are representative of market value.

We will provide our rationale for adopting a particular methodology, including any price adjustment techniques and a justification of why the time period or window within which market data is accepted is a reliable indicator of physical market values.

Where possible we will specify with particularity the criteria that define the physical commodity that is the subject of a particular methodology.

At a minimum, a methodology published by ICIS should describe criteria and procedures that are used to develop an assessment, including:

- (i) how we use the specific volume, concluded and reported transactions, bids, offers and any other market information (collectively “market data”) in our assessment and/or assessment time periods
- (ii) why a specific reference unit is used (e.g., barrels of oil)
- (iii) how we collect such market data
- (iv) the guidelines that control the exercise of judgment by market reporters and
- (v) any other information, such as assumptions, models and/or extrapolation from collected data that are considered in making an assessment.

A methodology published by ICIS will describe the relative importance that generally will be assigned to each criterion used in forming the price assessment (i.e., type of market data used, type of criterion used to guide judgment). This is not intended to restrict the specific application of the relevant methodology but is to ensure the quality and integrity of the price assessment.

We will state in our methodology whether a minimum amount of transaction data (i.e. completed transactions) is required for a price assessment to be published, and if so, what the threshold is. If no such threshold exists, the reason why a minimum threshold is not established will be explained, including procedures where there is no transaction data. We will also outline criteria that address the assessment periods where the gathered data falls below any transaction data threshold or the requisite ICIS quality standards, including any alternative methods of assessment (e.g., theoretical estimation models).

We will state in our methodology our criteria and procedures that address assessment periods where one or more market participants provide market data that constitutes a significant proportion of the total data upon which the price assessment is based. We will define in our criteria and procedures what constitutes a “significant proportion” for each price assessment.

Where consistent with our methodologies and approach to ensuring quality and integrity of price assessments, we will utilize market data giving priority to 1. Concluded and reported transactions; 2. Bids and offers; 3. Other market information. If concluded transactions are not given priority the reasons will be explained.

We will, where possible, adopt practices, reflected in our methodologies, designed to ensure that price assessment processes are consistently applied by ICIS price reporting staff.

We will operate non-discriminatory participation and data collection processes and where possible this will be reflected in our methodologies.

We have clear policies and processes for collecting, evaluating and utilising data for purposes of our price assessments, including published criteria for timeliness of market data gathered by or submitted to us and the means for such gathering or submission (i.e., electronically, via telephone, etc.).

We will employ sufficient measures designed to ensure market data collected by or submitted to ICIS and considered in a price assessment is bona fide, meaning that the parties providing the market data have executed, or are prepared to execute, transactions generating such market data and the concluded or potential transactions are at arms-length from each other. Particular attention will be made in this regard to inter-affiliate transactions.

We will in our methodology, specify the criteria that define which entities may provide market data for use in our assessment process, and which representatives or functions of those entities may, in the view of ICIS, provide market data for that entity. We will have in place, quality control measures to evaluate the identity of individuals providing data on behalf of such entities.

If we have rules governing which market participants may be admitted to the constituency of persons inputting trade or other data into our price assessment processes, then we will publish in the methodology such rules and the factors and criteria which we regard as being most relevant to such admittance.

We will encourage market participants that provide any market data to provide all of their market data that falls within ICIS' criteria for that assessment.

We will seek, so far as it is and is reasonable, that data provided is representative of the market participants' actual concluded transactions. Where appropriate we will encourage market participants to submit transaction data from back office functions and seek corroborating data from other sources when transaction data is received.

We will employ a system of appropriate measures so that, to the extent possible, market participants who provide market data comply with ICIS' quality and integrity standards for market data.

Criteria for inclusion or exclusion of transaction data in the process of determining a price assessment will be set out in our methodology.