The McGraw-Hill Companies

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June 23, 2008

Federal Trade Commission
Office of the Secretary
Room H-135
600 Pennsylvania Avenue, NW
Washington, DC 20580

Re: Prohibitions on Market Manipulation and False Information in Subtitle B of the Energy Independence and Security Act of 2007, Market Manipulation Rulemaking, P082900

Platts, the energy information division of The McGraw-Hill Companies, Inc., submits these comments for the Commission's consideration in its Advance Notice of Proposed Rulemaking (ANPR) on implementation of Section 811 of the Energy Independence and Security Act of 2007.

With nearly a century of experience as a global leader in price discovery, Platts serves customers in the oil, natural gas, electricity, nuclear, coal, petrochemical and metals industries across more than 150 countries from 15 major offices worldwide. Founded in 1888, The McGraw-Hill Companies is a leading global information services provider meeting needs in the financial services, education and business information markets through leading brands such as Standard & Poor's, McGraw-Hill Education, BusinessWeek and J.D. Power and Associates.

This proceeding recognizes the important role played by independent publishers such as Platts in the crude oil, gasoline and petroleum distillate markets. As one of the leading independent publishers for such markets, Platts endeavors to employ methodologies and data-gathering practices designed to yield representative market values that capture proper price relationships across the spectrum of crude oil and oil products.

Given its role, Platts intends to participate in further stages of this rulemaking and, in particular, stands ready to provide information and insight as the Commission continues its deliberations in this proceeding.

Over the last five years, Platts has undertaken collaborative, industry-wide efforts to raise the standard of price discovery in all of the physical energy markets it covers, including

US natural gas after the collapse of the energy merchant sector caused market disruptions earlier in this decade. Platts has paid particular attention to the global oil markets during this period and its efforts have led to unprecedented advances in transparency and precision of data, as well as in an increasing sophistication of methodology that underpins physical oil benchmarks used worldwide.

While the physical characteristics of each commodity market play a role in the exact assessment method used, Platts employs some common principles of price discovery across all of the markets it follows. It uses structured and consistent methodologies; thorough data verification processes; transparency toward the market in terms of methodology and data; techniques that enable internal transparency to companies' risk control and compliance departments; and regular compliance review of market editors.

Platts' global oil benchmarks are based on the principle that price is a function of time. Particularly given the intraday volatility in today's oil markets, specifying the time at which marginal market activity determines the price is critical. For its oil price assessments, Platts establishes its assessments on the basis of a Market-on-Close methodology, explained in more detail in Attachment A (Platts Oil Pricing and Market-on-Close Methodology Explained, which, like other Platts background papers, can be found at http://www.platts.com/Resources/whitepapers/index.xml).

Unlike futures markets, where trading is anonymous, the Platts Market-on-Close process offers complete transparency on who and what is trading. Moreover, the companies making all bids and offers are identified in real-time, their indications to buy or sell are considered firm, and the process enables all market participants to view or, indeed, participate in the price discovery process. The highly structured assessment period at the end of the day is actually a culmination of market observation that begins at the outset of the trading day and is governed by strict guidelines designed to weed out irrelevant market data and guard against distortions in the end-of-day assessment. Platts' assessment processes are designed to yield price assessments reflective of the market regardless of market liquidity.

Confidence in price discovery processes is vital for market participants, regulators and the public alike, and Platts continuously encourages all market participants to recognize the collective good of participating in price formation. The best antidote to any concerns about potential market manipulation reflected in Section 811 of the EISA is a robust process in which market participants actively engage in the price discovery process. Platts believes that regulators should establish policies that are supportive of such voluntary participation in price formation, and be cautious of actions that might diminish that participation.

Platts recognizes that in addition to its benchmark spot price assessments in the wholesale petroleum markets, price signals are needed farther downstream. Platts offers a view of downstream activity in the rack market through a service that combines the Platts spot price assessment with all elements of the cost of delivering product from the basis point of that assessment, such as the US Gulf Coast, to individual rack market locations. This

service covers all major rack products (three grades of gasoline, high and low sulfur diesel, and home heating oil) in almost 200 locations. The service, Platts Spot To Rack, is described in more detail in Attachment B.

Finally, Platts believes that fundamental supply and demand data such as refinery or pipeline outages, inventory and import/export volumes, and timely consumption data are critical to a well functioning market. Platts provides this information to the market in its news coverage. While Platts does not now take a position on the Commission's authority to require companies to report such fundamental data to government entities, it strongly endorses any efforts to make more data available on an equal basis to all market participants.

Platts looks forward to offering more specific comment as the rulemaking progresses.

Thank you for your consideration of these comments.

Respectfully submitted,

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Attachment A

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BACKGROUNDER

Platts Oil Pricing and Market-on-Close Methodology Explained

Platts Oil Pricing and MOC

What is Platts' role in oil pricing?

Platts is a publisher of specialized information on energy and other commodity markets, and enables those markets to function with greater transparency and efficiency. Platts observes market activity and assesses the value of commodities based on strict and publicly available methodologies. With nearly a century of experience and more than 250 experienced market editors positioned in locations in North America, Europe, the Middle East and Asia, Platts has earned a reputation as the industry's most reliable source of pricing benchmarks, market news and analytical information. The prices published by Platts are respected by the market and referenced globally as benchmarks for contract settlement in both physical and financial markets, including crude oil, refined products, petrochemicals and related derivatives.

As a publisher owned by The McGraw-Hill Companies, Platts conducts its editorial and market assessment activities with complete independence and impartiality. Platts has no financial interest in the price of the commodities on which it reports. Platts price-assessment systems have been developed over many decades, are fully open to public view and are overseen by a compliance group independent of the editorial staff.

Platts takes very seriously its efforts to maintain the integrity of its pricing methods and to publish price data that reflect market values. Occasionally, Platts methodology decisions create a degree of discomfort in the industry. Introduction of full transparency in oil markets, including the identification of buyers and sellers alongside all of the details of transactions, has proven to be one of the decisions that has generated and continues to generate discomfort, particularly in the United States.

How are Platts' oil prices used?

Platts daily spot price assessments are used in a variety of ways: (1) for the settlement of floating price deals; (2) under long-term contracts; (3) on a spot basis; (4) for the settlement of derivatives contracts such as swaps; and (5) by futures exchanges.

Platts assessments also are used to monitor trader performance, to quantify financially the value of oils transferred from the upstream production departments to the refinery side of the business and then for the transfer to the traders supplying the marketplace. The assessments also are used in decision-making by refiners, for instance in deciding whether to maximize jet fuel production or to minimize diesel fuel, or whether to shut down a refinery altogether. Platts assessments also are used in long-term financing deals to provide the basis to determine profitability and cost in multi-year projects, including drilling and pipeline projects.

The extent of the usage of Platts prices in spot and term deals, and in derivatives settlements, is very large and a multiple of the world's daily crude oil and refined product output.

Where the physical oil is sold Platts-related, almost invariably the related swaps are also priced out against Platts assessments of the underlying spot market. This is because of the need for convergence between the physical market value and the value at which the swap is settled. Without this linkage, a hedger faces basis risk. If a commodity is sold on a basis other than Platts, the related derivative instrument would typically use that basis rather than a Platts assessment. For instance, in the coal market, where an index other than Platts is used in the physical pricing, swaps are settled against that index rather than Platts' coal assessments.

What is Platts' role in relation to the pricing of crude oil?

Because of the switch to market-related pricing in the mid 1980s, crude oil pricing has been focused around three key benchmark grades: Dubai for oil moving from the Middle East into Asia; North Sea Brent crude oil for a wide swath of oil from Europe or bound for Europe; and West Texas Intermediate (WTI), for deliveries into and within the Americas.

We understand that Platts' Dated Brent assessment is the most widely used international oil pricing benchmark. Crude oil produced in Canada, Africa, the North Sea, the Middle East, Russia, central Asia and oils delivered to China, Japan and Korea, all reference the Platts Dated Brent assessment. According to industry estimates, Platts' Dated Brent assessment prices 55% to 60% of the crude oil produced worldwide.

Platts recognizes the important role it plays in the marketplace and has continued to evolve and fine-tune its assessment methodologies to reflect changes in the marketplace. Over the years, Platts has made high-profile changes to its assessment methodologies for the key global benchmark crudes, including allowing alternative delivery of other crudes as production volumes of the core benchmarks have declined. For instance, Platts in 2001 introduced Oman and in 2006 added Upper Zakum as alternative delivery grades for Dubai. Separately, Platts in 2002 allowed Forties and Oseberg as alternative delivery grades for Brent. The need for alternative delivery grades resulted from declining production of the core benchmark grades.

Platts aims for its methodologies to reflect changes in fundamentals such as crude production or regulatory changes governing product qualities. Its methodologies tend to be emulated or adopted by other publishers, with recent examples being adoption of "window" processes in Europe by other publishers and adoption of Platts' wider definition of Dated Brent by at least one competitor on the exact date of launch announced earlier this year by Platts.

In the Americas, Platts' physical crude oil assessments are still widely used by the industry, but the "flat" price formation is originated by the New York Mercantile Exchange (NYMEX). The highly liquid sweet crude futures contract traded on NYMEX provides a visible real-time reference price for the market. In the spot market, therefore, negotiations for physical oils will typically use NYMEX as a reference point, with bids/offers and deals expressed as a differential to the futures price. Using these differentials, Platts makes daily and in some cases intra-day assessments of the price for various physical grades of crude oil, which may be referenced in other spot, term or derivatives deals.

For example, Platts' American benchmarks are in turn used to price crude oils from Canada and South America, although some are also based on Dated Brent. The multi-faceted complexities of the physical market result in a diversity of pricing mechanisms, as individual buyers and sellers are free to make decisions about the mechanisms they individually employ. Therefore, while NYMEX acts as a barometer of market value, and negotiations for physical oil may reference the futures value, Platts plays a distinct and complementary role to that of the exchange.

What is the Platts Market-on-Close (MOC) assessment process?

Platts' Market on Close (MOC) is a price-discovery system designed to yield a price assessment reflective of market values at the close of the typical trading day. Systems of similar nature are very common, with variants seen in the futures markets where the energy and financial exchanges publish daily settlement prices reflective of activity at the close of markets. The MOC process is a very structured system for information gathering that allows transparent and fully verifiable market information to form the basis of the daily price assessment.

MOC is a time-tested method for deriving price benchmarks that reflect market value and Platts has provided these benchmarks to global oil markets across Asia, Europe, the Middle East and Africa for more than a decade.

The MOC pricing system recognizes as a core principle that price is a function of time and MOC enables Platts to have full clarity on the price at the close of business. Because price is a function of time, market assessments reflect values at a defined point in time, allowing both outright and spread values to be properly reflected.

MOC guidelines are designed to avoid distortion of the final assessments by eliminating inputs that are not verifiable, and by disregarding one-offs or unrepeatable transactions, or those that may distort the true market level. Transactions between related parties are, for instance, not considered in the assessment process.

Secondary checks are carried out periodically, in which Platts will request documentation for deals done, which may include contract documentation, and other supporting materials such as loading and inspection documents; if this is not forthcoming, it raises questions about that company's reliability as a data source, and can result in Platts disregarding that data.

The reliability of data is essential to any valid market pricing methodology and Platts does not hesitate to remove market participants from the MOC price formation process when the veracity of data is in doubt.

MOC maintains a robust and structured system that uses only suitable data in the assessment process. Rather than taking price information on trust, companies' information will only be considered if the bids and offers are made public, and in real time with full transparency. That means companies are named and all the details of their positions are fully available to the view of the entire market. The bids are firm and open to the market at large.

Market participants are expected to perform on any stated position in the MOC process. Time cut-offs for the entry of new bids and offers are applied so that market participants cannot bid or offer late in the process in a way that would not be logistically executable. There are also strict standards defining the increment levels for each bid or offer to ensure orderly price formation, to avoid a scenario in which a market might be "gapped" higher or lower. This system works well across markets, whether they are liquid or illiquid, whether they are commoditized or non-commoditized.

How does MOC actually work in real life?

The MOC process is designed so that the published price reflects the market value. Below is a sample of how this process works:

- In a real-life example, a gasoline seller might believe the market value of gasoline to be high and a buyer might believe it to be low. Let's call the seller X and the buyer Y.
- Platts seeks to gauge the true value of gasoline.
- In the MOC process, X might offer to sell at 154.25 cents per gallon (cts/gal) and Y might bid to buy at 152.75 cts/gal.
- X and Y communicate their bids/offers to a Platts market editor, usually via an Instant Messaging system, and the Platts market reporter inputs this into the internal Editorial Workstation tool which then delivers this market information back to the market at large in real time through the Platts Global Alert electronic service.

- Platts at this stage can assess market value is between 152.75-154.25 cts/gal.
- X and Y can change the price at which they are bidding and offering by small reasonable increments, and each of these price changes is published on the real-time screen as a price alert headline.
- As offers and bids become sharper, as in any negotiation, the strength of each party will determine who acts first, both knowing that other market participants could intervene with a bid or offer.
- X may gradually move its offer down to 153.00 cts/gal while Y does not budge, and X may eventually sell at 152.75 cts/gal.
- This process gives a very detailed information trail to Platts, and the assessment derived from it is not an opinion that X is right or that Y is right, but a reflection of the fact that either party would be expected to complete a transaction if its counter-party or another market participant met a bid or an offer.
- It is possible that both parties may not trade at all but only remain bidding 152.75 cts/gal and offering at 153.00 cts/gal, in which case the assessment will consider the bid and offer in its assessment process and an assessment will be made based on the factual market data.
- It is important to note that Platts has very strict systems and disregards market gapping activity in its assessments. If for instance, a market participant were to want to overpay or undersell, by lifting high and unreasonable offers or selling into low and unreasonable bids, such activity will be disregarded. In these cases, the transactions are ignored and the assessment would take into account the last relevant bid and offer, with an editorial assessment made of value, but the last trade would not be considered to be of value.

What is the Platts 'Window'?

In the oil market, Platts takes into account market information gathered throughout the normal trading day. Platts considers in its assessment process market information including bids, offers and transactions. Bids and offers must be submitted early, ranging from 10 to 60 minutes prior to the close, to ensure that the bids and offers are widely seen and are properly analyzed for logistical and performance issues. Last-minute bids/offers that cannot be logistically executed are excluded from the assessment process.

The period when new bids and offers are no longer accepted is what the industry calls the Platts window.

Some observers think erroneously that Platts only assesses the market in the "window". Some also think that Platts only processes new bids and offers in the window. In fact, the opposite is the case. The "window" represents the period of time when new bids and offers are no longer accepted in the assessment process. Bids, offers and transactions may be reported at any time and are reported before the window. The "window" is just a part of the larger "assessment process" that Platts uses to track markets through the day. Platts surveys the market throughout the trading day, including during the last half hour of trading activity, to arrive at its price assessment. Full details of the editorial processes relating to Platts Market on Close assessment are available on the Platts website www.platts.com.

Platts time stamps the assessment because prices and the value relationships among commodities change constantly with time. If Platts were to assess different commodities at different points in the day, the result would be skewed relationships between commodities. This is also the problem with trade-weighted averages, as these can be skewed if trade in different commodities is spread unevenly over the day. This results in erroneous data such as inverted product values, incorrect product-to-crude spreads and stale-price arbitrage.

If time factors are not evaluated properly, the actual price relationship between commodities may be distorted by publishing old and new prices side by side. The MOC process enables Platts and its subscribers to properly see the ranking of one commodity relative to another by aligning prices at a specified point in time.

Does Platts set requirements for participation in the MOC window process?

Market inputs from reputable companies with solid performance records and the proven ability to handle logistics are recognized as valid entries for the MOC assessment process. Submission of trading positions can take place via phone, via squawk box, via instant messenger services such as Yahoo IM, or through electronic trading platforms. All trading positions are firm and fully executable between non-affiliated counterparties, unless a bid or offer is withdrawn prior to being challenged by another principal.

For nearly a decade, traders who are Platts Global Alert customers have viewed the progression of market activity via transaction-monitoring pages such as PGA003, PGA005 and PGA190. At the end of trading activity, Platts' market editors analyze the information gathered to derive a time-specific assessment of market value. These assessments are delivered back to the market in a variety of Platts products.

Does the Market-on-Close method work in illiquid markets?

The Platts MOC system works well across markets, whether they are liquid or illiquid, whether they are commoditized or non-commoditized. In complex physical markets such as oil, Platts aligns the divergent and segmented market dimensions to those defined in the Platts assessment. This process is called normalization. Specification parameters are defined in Platts' specification guides, editorial guideline documents and subscriber notes, which are published on www.platts.com and in the individual Platts publications.

Physical markets are extremely complex and require an in-depth understanding of logistics, shipping, pipeline schedules, trade financing, payment processes, blending economics and all the support required before and after the trade. Platts excels in this area and is routinely asked to provide seminars in pricing areas. A transaction or the price seen in a transaction needs to be carefully evaluated to understand its relevance, as prices are affected by qualities, volumes, location, by technical "optionalities" in the contractual terms and/or by non-apparent restrictions. Platts is able to observe direct market activity or the effect of commonly traded commodities on illiquid commodities via spread differentials or via blending and shipping economics.

Platts has editorial protocols that filter out bids or offers that could result in price obscurity or illogical market behavior. The rules of incrementability and repeatability allow evaluation of whether bids/offers are typical and repeatable market values, or outliers designed to mask or obfuscate the market level.

Platts has heard from traders that MOC does not work well in highly liquid markets because there is too much data, or that MOC does not work well in illiquid markets because there is not enough data. Platts believes that having more rather than less market data is a good thing and MOC has the added benefit of tending to concentrate liquidity into time frames at the close of the day. Markets in general naturally tend toward concentration mechanisms such as malls or market days or times of day to ensure that buyers and sellers can easily meet. MOC or windows are the modern-day equivalent of market days in an agrarian society. Sophisticated financial markets, including energy exchanges, also concentrate activity around the time of settlement. Some exchanges have settlement systems where they employ the equivalent of window processes lasting generally from one minute to 30 minutes.

Platts' pricing methods are sometimes criticized by industry participants. Why?

Platts has pioneered transparent price-reporting standards in commodities markets around the world, at times with the support of the industry and at other times without industry support. In the global oil markets, Platts has long held the view that a transparent and time-sensitive assessment process yields the most reliable results. Transparent disclosure of market information to support the robustness of a market assessment is not always welcomed, however. That said, Platts' aim is always to publish prices that reflect true market value, rather than numbers that satisfy the most people. Platts' leadership in markets is not about relying on consensus but committing to publish the right result.

The transparency that Platts brings to markets reflects how seriously we take our role as a publisher of price assessments. Transparency does not just happen; it is the product of structured and analytical processes. Typically, companies recognize that transparency is in their long-term interest, even if in the short-term there are groups of companies, and traders, who resist it.

Platts is not alone in providing information and transparency to markets. Large news agencies as well as specialist price reporting services exist that compete with Platts in delivering timely and high-quality market information to subscribers. Brokers also play a role in disseminating such information as they bring buyers and sellers together, although brokers rely on deal commission for revenue rather than subscriptions. These competitors also provide price assessments.

Alternative oil pricing methodologies range from reflecting an informed opinion of market value, to pseudo-scientific approaches such as reflecting the range of deals over a day, the average of deals over a day, the bid/offer spread at the close of business, or the last deal done. All these methodologies, some of which have been tried by Platts in the past, have weaknesses. Averages and high-low ranges can be distorted by outlier deals, a bid/offer spread can be distorted by market participants withdrawing to the side of the ring, last deal done can be impacted by gapping and is vulnerable to stale-price arbitrage, and an informed opinion lacking a clearly-stated methodology is simply too subjective to qualify as a valid approach to pricing.

How different is an all-day trade-weighted assessment from a Platts MOC assessment?

An MOC assessment is based on the fundamental principle that price is a function of time. This principle is critical in today's markets where intra-day volatility is at unprecedented levels. In the crude oil and refined product markets, for example, prices can and do change by in excess of $1.00/barrel in a matter of minutes. By aligning prices for individual commodities at the market close, Platts' assessments reflect their outright value as well as the price relationships between commodities.

A trade-weighted average assessment may result in an index that is out of step and not reflective of the actual market price prevailing at the close of the day. This would especially be the case on days with high volatility. Trade-weighted averages may also be distorted by the pattern of trading liquidity over the day. To appropriately reflect end-of-day prices, Platts MOC assessments take place in a "window" period of time toward the end of each trading day. These assessments incorporate data gathered during this window time period, as well as market activity that takes place over the entire trading day.

A key weakness in all trade-weighted average assessments is that they will lag the market price. They always reflect a price that "was" rather than the price that "is." To use an analogy, a person purchasing shares of stock would be very unhappy with an information provider who could only supply the price that was or the average price traded rather than the actual price of the shares.

Does the last bid, offer or transaction represent the assessment?

The assessment under an MOC process is the representative market value prevailing at the close of the market. The system is highly structured with price editors monitoring all market activity and publishing only those bids and offers that are representative and in line with market practices and published guidelines. In a market, the value is determined by the activity of market participants via a bidding and offering process where the bid and the offer narrow and eventually converge. Hence the published market assessment is in the space between the bid and the offer, but careful monitoring of market processes will determine exactly where in the space. Last-minute transactions, whether they are acts of market gapping or occur when traders hit or lift bids/offers without narrowing the bid/offer range, are routinely excluded from the assessment process.

How does Platts maintain the integrity of the MOC process?

Platts' only currency is the quality of the information it publishes and it spares no effort in designing and applying rigorous procedures for participation by market principals in price formation. Platts has proven extremely adept at detecting anomalous market behaviors and acting swiftly to ensure these do not undermine the integrity of its assessments. As a responsible publisher, Platts will only publish information it believes to be reflective of the market. Platts maintains and exercises the right to exclude companies from the price assessment process when they do not adhere to Platts editorial protocols and guidelines laid out in Platts' price assessment methodologies.

How does Platts communicate assessment methodology modifications?

Platts continually engages in constructive dialogue with market participants as it develops its price assessment methodologies and adapts them to changing market dynamics. We consult extensively with the industry in open methodology forums held in locations around the world, as well as through one-on-one discussions with senior executives at energy companies, traders, brokers, governmental bodies and financial institutions. The forums are open to industry participants, competing information publishers, regulators, exchanges and anyone who has an interest in the price of energy. The methodology proposals are also published in the various channels of information, such as printed publications, that Platts delivers to its customers. Our methodologies are published and downloadable on our website www.platts.com. We also issue notes to subscribers on methodology changes through our website, the Platts Global Alert electronic service and our print publications.

Where can I find additional information on the approach Platts uses in assessing oil prices?

http://www.platts.com/Oil/Resources/

http://www.platts.com/Oil/Resources/Methodology%20&%20Specifications/index.xml

http://www.platts.com/Oil/Resources/Market%20Issues/

http://www.platts.com/Oil/Resources/Market%20Issues/usgd_QA_102406.pdf?S=n

http://www.platts.com/Oil/Resources/Presentations/

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For almost a century, the energy industry has looked to Platts for its expertise in oil, natural gas, electricity, nuclear energy, coal, petrochemicals, metals, and energy shipping.

Today, from its 14 global offices, Platts is the industry leader in news, analysis, benchmark pricing, risk management, analytical tools, and energy conferencing for the markets it serves.

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Attachment B

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Platts Spot To Rack

Rationale, methods and frequently asked questions

November 2006

The McGraw Hill Companies

PLATTS SPOT TO RACK (PSTR)

A new pricing paradigm for rack transactions

CHANGING RACK PRICE DYNAMICS

Over the last few years pricing dynamics at the rack have changed dramatically. Traditionally, rack suppliers posted their prices for major products at the beginning of each day based on their assessment of each local market, and generally maintained these posted prices for a full day or longer. Despite these fixed prices for a day or more, suppliers' risks were generally acceptable because of relative stability in the spot market.

Buyers could plan on stable rack prices over a day or more and could manage their price exposure and supply costs accordingly. Term contracts at the rack were generally priced based on some index tied to the rack price postings of individual companies such as a daily low or some assessment of the posted prices by a rack price reporting company like OPIS.

Market price volatility and other changing market dynamics over recent years have placed that traditional system under enormous strain. Spot market prices often have been highly volatile, with major changes over the course of a single day. This has exposed suppliers to escalating basis risks between these volatile spot prices and the more rigid posted prices. In response, suppliers have moved toward more frequent changes in rack postings in an attempt to minimize their basis risk. Still, managing market volatility through frequent changes in postings has proven to be less than satisfactory.

Tight supplies also have disrupted traditional rack pricing. As suppliers have increasingly experienced periods of tight supplies there have been increasing instances of "price inversion" whereby posted prices for unbranded fuel have exceeded those for branded as suppliers sought to limit demand on their system or capture extra margins from unbranded buyers. This inversion has been the source of major margin shifts for independent dealers and suppliers who are typically tied to unbranded price and rely on price competition in the absence of well-established brands.

Politics also have played a part. Public and political pressure on major oil companies at times led them to control rapidly escalating rack prices and resulted in incidences where some rack postings fell short of current spot market pricing despite the added costs of supplying racks.

The challenges faced in pricing term contracts at the rack are also mounting. With price inversion, posted prices driven by the supply and other considerations of individual posters, what posting-based price index can be counted upon to truly represent market conditions at the time of a transaction?

In short, the changing market dynamics all along the supply chain are exposing both buyers and sellers at the rack to increasing price risk. A new pricing paradigm is needed, and Platts has the solution

A MOVE TO SPOT-BASED PRICING AT THE RACK?

One industry response to the increasing financial risks of reliance on posting-based rack pricing has been to move rack transaction pricing to a spot-linked basis. Increasingly, major rack players are doing business at the rack based on Platts' spot price assessments plus a differential negotiated with the buyer. This differential in principal reflects the additional supply costs to get product from key traded centers to individual rack locations, plus market factors associated with the local rack market. By tying rack pricing to openly traded and highly transparent spot markets, both buyer and seller can be assured that they are doing business at a true market price, not one muddied by the supply or political position of individual suppliers or the vagaries of some corporate "pricing committee." Additionally, suppliers can do business along their entire supply chain from crude production through the rack on the consistent pricing basis provided by Platts' pricing expertise at all levels.

For those players capable of assessing the relevant costs and thus being confident that they are getting a fair deal, such spot-linked deals are increasingly common. The challenge for many players however is the complexity and burden of staying on top of actual supply costs. Unless a buyer is able to independently evaluate actual supply costs, how can they be assured that a differential to Platts proposed by a supplier is reflective of actual costs rather than a means to higher supplier margins?

What is needed in rack pricing is a new benchmark that is both reflective of real trading transactions and an accurate independent assessment of the costs of supply to the rack. Platts now provides such a benchmark – the Platts Spot to Rack index.

WHAT IS PLATTS SPOT TO RACK?

Platts Spot to Rack combines Platts' market-leading spot price assessments with up-to-the-minute comprehensive evaluations of the costs of moving key products from spot market centers to individual rack locations. Developed in conjunction with Energy Management Institute (EMI), the Platts Spot To Rack provides rack players with the most accurate estimate available of true rack-level supply costs.

At the core of PSTR are Platts' daily assessments of market prices for specific products in all major US market centers. Platts has

long been recognized as the leading authority on spot market price assessments, and with billions of dollars a day in oil transactions tied to Platts' spot price assessments, Platts is overwhelmingly the benchmark of choice for spot market pricing.

Teaming with EMI, Platts has developed supply cost models for approximately 290 rack markets in the US. For each of these markets Platts/EMI has identified the major supply hubs from which bulk product flows and estimated all elements of the cost of delivering product from these supply centers to each rack market location. These cost estimates include pipeline tariffs, barge and tanker costs as appropriate, terminal fees, cost of money during transit, and any other relevant cost elements for specific supply links. Platts/EMI keep these cost estimates current on a day-to-day basis using a team of analysts who are constantly reviewing and updating all cost elements.

Platts Publishes the PSTRs on a daily basis for all major rack products (3 grades of gasoline, high and low sulfur diesel, and home heating oil) for approximately 300 rack markets in the US. Additionally, Platts plans to begin publishing intraday PSTR indications to keep players on top of changing market conditions during the day.

PSTR FAQS

Q What does PSTR stand for?

A Platts Spot To Rack

Q What is Platts Spot to Rack?

A PSTR is Platts' spot-linked rack benchmark price. At its core are Platts' industry-leading spot market price assessments. To these prices Platts adds all relevant costs to move products from the relevant spot market center to approximately 290 individual rack market locations. The resulting rack price benchmarks are published daily.

Q What products do PSTRs cover?

A PSTRs are provided for all major products supplied through the rack system, i.e. three grades of gasoline, two grades of diesel, and home heating oil. In certain areas where No. 2 oil is not a relevant product, Platts is not publishing a No. 2 PSTR.

Q Do PSTRs change with seasonal product spec changes?

A Yes. PSTRs represent the product specifications in force on the day they are quoted.

Q What costs do PSTRs include?

A PSTRs include physical transport costs such as pipeline tariffs, barge cost, tanker costs, or rail costs, terminal charges, the cost of money during transit, and any other costs relevant for individual markets. These costs are determined by Energy Management Institute (EMI, a company that has entered into a joint venture with Platts to provide this data as part of the PSTR process. EMI will track these costs on a daily basis. Its calculations of these costs will be subject to daily revision, and will be added to Platts' spot assessments to provide the final PSTR for each city. EMI and its principals have more than 100 years combined in tracking the industry.

Q How up-to-date are PSTR cost numbers?

A Platts/EMI employs a team of analysts to monitor changes in all cost elements on a daily basis through careful tracking of pipeline tariff changes, changes in terminal costs, and other cost elements. The cost of money is adjusted daily based on changes in interest rates and the latest Platts oil product spot prices.

Q How can I access PSTRs?

A PSTRs are available in a variety of formats and configurations. As a printed product PSTRs are available for electronic delivery via email or the Internet in packages covering PADD I (63 locations), PADD II (133 locations, PADD III (59 locations) and PADDS IV & V excluding Alaska and Hawaii (34 locations). Raw data feeds covering these same PADD subsets are also available as well as a Lower 48 package covering all 5 PADDS (289 locations). Smaller packages are available as raw data feeds for 14.smaller subsets of the Lower 48 Market.

Q Can I buy PSTRs for one or a few rack locations?

A Platts is looking at several different ways to sell PSTRs in smaller packages. At this writing, it is not yet available in smaller packages.

Q Will there be historic data available?

A Not initially. Since PSTRs are newly constructed from detailed and current supply cost elements, no history will be immediately available. If demands warrants, Platts/EMI may be able to construct historic PSTR equivalents from the available historic Platts spot prices and historic cost factors for some rack locations.

Q For markets where there are multiple sources of product, will multiple PSTRs be constructed?

A No. For such markets, Platts/EMI has determined the source that they consider dominant in setting value at each such rack and based the PSTR on that source. Depending on market interest and dynamics Platts/EMI may consider publishing multiple PSTR for a few locations.

Q Will additional rack locations be covered in the future?

A Yes. Platts/EMI plan to expand coverage to about 320 rack locations over the next few months. This expanded coverage will be included in the base product.

Q ***Can I trust PSTRs to be representative of the market?***

A Platts and EMI bring a wealth of expertise and knowledge to the development of PSTR. Platts is the dominant and most trusted supplier of US spot product price assessments with literally billions of dollars a day in transactions priced according to its benchmark spot prices. EMI and its principals together have more than 100 years of experience in tracking petroleum markets. Their expertise is represented in numerous training courses for industry executives and in its highly successful FutureRack products. As a team Platts and EMI bring unprecedented expertise and market knowledge across the full oil value chain from crude production through to the rack level.

Q ***When will PSTRs be available?***

A PSTR was available to customers beginning October 9, 2006. Complimentary access during a suitable trial period will be available.

Q ***Can PSTRs be included in my existing Platts Dispatch data feed?***

A Yes. PSTR data format and coding is consistent with that of all Platts Dispatch products and can be ingested by customer systems with only an additional code dictionary required.

Q ***Will intraday price PSTRs be available?***

A Platts is in the process of extending its intraday spot indications to intraday PSTR indications. This extension to the PSTR products is expected to be offered to customers within a few months.

Q ***As a rack seller, what are the advantages of my using PSTRs versus rack posting or posting-based rack assessments?***

A Since PSTRs are based on transparent and highly liquid spot markets you can be assured that any transactions you do based on PSTRs are truly reflective of current market conditions, not the actions of individual company pricing committees. This will minimize basis risk for those companies that have Platts prices in their supply chain, anywhere from the sale of crude to the purchase of products. PSTRs will also assist you in selling the concept of spot-based pricing at the rack since Platts/EMI will provide neutral unbiased estimates of appropriate supply-cost differentials to key spot prices,

Q ***As a buyer at the rack what benefits do PSTRs offer?***

A You can be assured that any deals you do based on PSTR pricing will truly be reflective of current market conditions and your suppliers' costs, not the decisions of some amorphous pricing committee. If suppliers cannot reduce their basis risk through reliance on spot-market-based pricing throughout the value chain, they will seek to protect their margins by posting higher spot to rack differentials in an attempt to get buyers to cover the overall cost of the spot to posting price risk. By agreeing with suppliers to do rack deals on PSTR, buyers should ultimately share in the reduced margin risk. By relying on Platts to assess the relevant cost differentials, the buyer can at the same time share in the benefits of reduced basis risk while being assured of a fair deal from suppliers.

SPECIFIC CITIES, SPECIFIC ISSUES

Atlanta: Atlanta and three other locations in Georgia – Athens, Griffin and Rome – are using Platts' Atlanta gasoline assessments as the basis for the gasoline PSTR. These cities are in four of the counties part of the 45-county area that requires the low sulfur gasoline. The Atlanta assessment is not a reformulated fuel. Rather, it is a special low-sulfur gasoline. The Platts' Atlanta assessment is a Colonial pipeline assessment, with delivery at the pipeline's starting point in Pasadena, Texas. There is no specific Atlanta diesel assessment.

Barge rates: EMI monitors barge rates on a regular basis. EMI, through the resources of its staff, over the years has established a significant base of sources within the barge community and is able to closely monitor changes in rates. Barge rates do not move on a daily basis, like the price of petroleum products. But they do move enough that it is vitally important for them to be monitored consistently. EMI has the expertise and capability to do that.

California diesel: California diesel PSTRs are for CARB diesel, which has tighter specifications than ULSD in the rest of the country, and ULS (EPA) diesel, which meets the federal ULSD specifications elsewhere.

Denver: Since there is no direction connection between the Group 3 market (the Denver PSTR basis) and the city itself, the PSTR is calculated by taking the Magellan pipeline tariff from Group 3 up to El Dorado, Kansas – the portion that had been part of the Williams system – and add the Magellan rate rate from El Dorado out to Aurora, CO, for a portion that had been part of the Chase pipeline. Platts and EMI believes that this rationale accurately reflects Group III economics in Denver.

Ethanol transportation costs: Platts it not calculating an ethanol transportation cost for places such as Boston or Richmond. Based on its knowledge of the market, the rail car price for ethanol in Richmond, for example, will not be significantly different than the rail car price in New York. Further, any difference would be applied only against just 10% of the final cost of the product. While rail rates are transparent and must be filed with the federal government, there is no uniform origination point as there is with petroleum products. Ethanol can be loaded on to a unit train in any number of places, as opposed to a uniform loading point for something like the Colonial Pipeline. As a result, Platts believes that lack of uniform origination points increases the potential for inaccuracy.

Florida: Florida locations are based on Platts' Gulf Coast pipeline assessment. Although the Gulf Coast is a significant supplier to Florida, and fuels are transported via water, Platts chose to use the pipeline assessment because of its liquidity and transparency. Platts' Gulf Coast waterborne assessment is a relatively fixed differential to the pipeline assessment, and Platts has strived to use the most liquid benchmarks in all constructions of PSTR. That enables one of the advantages of PSTR – to be benchmarked against Platts through the entire supply chain – to be in place for Florida values.

Interest rates: EMI will use a daily federal funds rate to calculate the time value of money. It will be applied against day-earlier Platts' assessments of key benchmarks.

Las Vegas gasoline: During the winter, Platts' publishes an assessment for the so-called LVBOB. It runs from approximately early September through mid-March. The precise beginning and ending dates are depending upon pipeline cycles. The LVBOB, in the PSTR, is blended with 10% Southern California ethanol to produce the final product. (Please also see the entry under ethanol transportation costs). During the remainder of the year, conventional Los Angeles gasoline is the basis for the Las Vegas PSTR.

Las Vegas diesel: The basis for Las Vegas diesel is the ULS (EPA) diesel assessment for southern California.

Long Island: Although the western end of Long Island sits on New York harbor, a spur from the Buckeye Pipeline crosses the harbor into Long Island City. Therefore, Buckeye is being used as the basis for Long Island.

Philadelphia: Most of the Philadelphia market is supplied by Philadelphia-based refineries. Since Platts does not assess Philadelphia, it has chosen to use Buckeye Pipeline as the basis. While Laurel Pipeline's eastern terminus is closer to Philadelphia, Philadelphia is an RFG area, and Platts' Laurel's assessment are for conventional gasoline. Although gasoline is not moved from Buckeye to Philadelphia, Buckeye material down the line must compete with material coming from Laurel, since the two lines serve many proximate areas, and ultimately come together. Therefore, Philadelphia spot prices must be in line with Laurel prices, which in turn must be competitive with Buckeye. Given that, Platts chose to use Buckeye rather than New York harbor as the basis for Philadelphia's PSTR.

Phoenix/Tucson diesel: The basis for Phoenix and Tucson diesel is the ULS (EPA) diesel assessment for southern California.

Phoenix/Tucson gasoline: Platts will base Phoenix gasoline assessments on the Phoenix CBG assessment during the summer, and on the so-called AZBOB assessment during the winter. The precise date of switchover is floating, due to shifts in pipeline cycles, but it will be near April 1 and October 1, respectively. When AZBOB is the basis, it will be blended with 10% ethanol, based on the Platts' Southern California ethanol assessment. The basis for the Tucson PSTR is conventional gasoline produced in Los Angeles.

St. Louis/Jefferson City: Platts is assuming RFG consumption in St. Louis. However, because Platts does not assess RBOB in St. Louis, we use a 90-10 blend of Group 3 conventional gasoline plus 10% ethanol. The ethanol basis is the spot St. Louis ethanol rack price, supplied to Platts by DTN Energy as part of a long-term cooperative agreement between the two companies.