



Spark Commodities Pte Ltd

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## **Spark Commodities' response to the Australian Competition & Consumer Commission review of the LNG netback price series**

**Date: 16 July 2021**

Dear Mr/Ms,

Spark Commodities Pte Ltd (Spark) welcomes the opportunity to provide feedback on some of the issues raised in the "ACCC review of the LNG netback price series - Issues paper" published March 18, 2021, as well as the draft decision published July 1, 2021. In particular, Spark would like to offer feedback on the LNG freight rate issues identified by the ACCC. Spark would further like to offer some views on how the LNG market, with a specific focus on LNG freight costs, has developed since the netback series was launched.

With the above in mind, this document provides information on Spark's LNG freight benchmarks which have been steadily gaining adoption across the LNG market. The purpose of the document is to provide information in respect of the issues identified in the ACCC's review.

### **Executive Summary:**

- Spark LNG freight forward curves are available not only in \$/day for the benchmark Atlantic and Pacific routes as used in the ICE listed futures, but also in \$/MMBtu for a range of global shipping routes, including Gladstone to Tokyo and other Australia to North East Asia routes.
- Spark LNG freight forward curves are assessed every business day out to 2023 and this will be extended to 2024 on 1st October 2021. They are formed from direct submissions by leading brokers.
- Spark's LNG freight rates incorporate the ballast bonus and positioning fees being charged in the market at any given time on top of the headline \$/day rate that vessels are being chartered at. Using freight rates that do not include these critical additional costs can make a material difference to netback pricing.
- The Spark platform provides a range of transparency measures to increase trust and understanding in the rates. These include breaking down the rates into the component elements (hire, fuel, canal and ports costs), transparent methodology and calculations, data sources including port and canal costs from Spark's partnership with GAC, and the min-max range of broker submissions for the underlying \$/day rates.
- As the ACCC identified in the March issues paper, there are several alternative data sources that can be used to calculate the LNG netback price series. It is Spark's view that the most appropriate solution would be to use an LNG freight rate assessment that is already used as the basis for exchange listed LNG freight futures (such as Spark's 25S and 30S prices), which can be converted into \$/MMBtu for the relevant routes and is available via API for convenience. Spark will also make the Spark platform available to competent authorities for added transparency and usage.



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## Introduction to Spark :

As the ACCC are aware, Spark is the price reporting agency (PRA) that publishes the global benchmark LNG freight rates used in the **ICE listed Spark25S and Spark30S LNG freight futures contracts**<sup>1</sup>.

Spark has a strong shareholder structure and is owned by Kpler and the EEX, part of the Deutsche Boerse.

## Who uses Spark's LNG freight rates?

As well as being used to settle the ICE LNG freight futures contracts, Spark's LNG freight benchmark rates, forward curves and platform are used in the following areas:

- By over **200 leading LNG, gas and power companies and over 1,000 individual users** who are on the Spark LNG freight platform.
- By the **International Energy Agency** in their Quarterly Gas Reports - see latest report [here](#).<sup>2</sup>
- By the **Oxford Institute of Energy Studies** in a recent [study](#) on LNG market volatility.<sup>3</sup>
- Regularly referenced as a benchmark LNG freight reference across media organisations including **Bloomberg, Reuters, TradeWinds** and the **Wall Street Journal**.<sup>4</sup>

## LNG Freight Costs - Feedback on the ACCC's draft decision

As the ACCC are aware, LNG freight costs are a vital component in calculating an LNG netback price series and it is important to use the best possible data to estimate those costs. Spark LNG freight rates incorporate the ballast bonus and positioning fees that are being charged in the market at any given time (in addition to the headline \$/day charter rate). Using freight rates that do not include these critical additional costs can make a material difference to netback pricing.

Spark LNG freight forward curves are assessed every business day out to 2023 and this will be extended to 2024 on 1st October 2021. They are formed from direct submissions by leading brokers every business day and therefore provide continuity and reliability.

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<sup>1</sup> ICE Spark listing press release:

<https://ir.theice.com/press/news-details/2021/ICE-to-Launch-LNG-Freight-Futures-Based-on-Spark-Commodities-Assessment-in-Key-Milestone-for-Global-Natural-Gas-Markets/default.aspx>, Spark website: <https://www.sparkcommodities.com/>, ICE listed futures: <https://www.theice.com/products/?filter=Spark%20lng>

<sup>2</sup> Latest IEA Quarterly Gas Report: <https://www.iea.org/reports/gas-market-report-q2-2021>

<sup>3</sup> OIES: LNG Winter 2020/2021 – a unique set of circumstances or a predictable inevitability?:

<https://www.oxfordenergy.org/wpcms/wp-content/uploads/2021/04/Insight-88-LNG-Winter-2020-2021.pdf>

<sup>4</sup> Some examples of Spark in the press:

<https://www.bloomberg.com/news/articles/2021-01-11/winter-lng-boom-means-the-most-expensive-cargo-ships-in-history> ;  
<https://www.wsj.com/articles/cold-snap-sparks-record-rise-in-natural-gas-prices-in-asia-11610360735>  
<https://www.reuters.com/article/global-lng-idUSL1N2JJ2CE>



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## What Spark LNG freight rates are available for the LNG netback price series?

The listing of the Spark LNG freight rates on ICE has brought two major shifts within the LNG market

1. LNG freight rates are now hedgeable along with the underlying commodity, meaning all the risk components of a spot netback price can be risk managed, if the right indexes are used.
2. The market now has visibility on LNG freight rates on a forward basis, with Spark's tradeable FFA curves being published daily out to 2023, which will be extended to 2024 on 1st October 2021.

Spark publish 2 types of freight rates:

- \$/day benchmark freight rates. These are the Spark25 Pacific and Spark30 Atlantic daily roundtrip hire rates that are used within the ICE contracts.
- \$/MMBtu freight rates. These are Spark's 'Route' rates and forward curves which are derived \$/MMBtu rates calculated from Spark's hedgeable \$/day rates, defined fuel assumptions and the latest GAC port and canal costs.

## Spark's \$/MMBtu Routes for use in netbacks

Spark's \$/MMBtu routes were designed specifically to be used in netback and netforward pricing. The flexible and transparent methodology allows us to quickly add routes on customer demand. We currently have the below relevant routes, but we can add more, as required:

- **GLNG to Futtsu** (ie Gladstone to Tokyo)
- **GLNG to Tianjin**
- **NWS to Futtsu**
- **NWS to Tianjin**

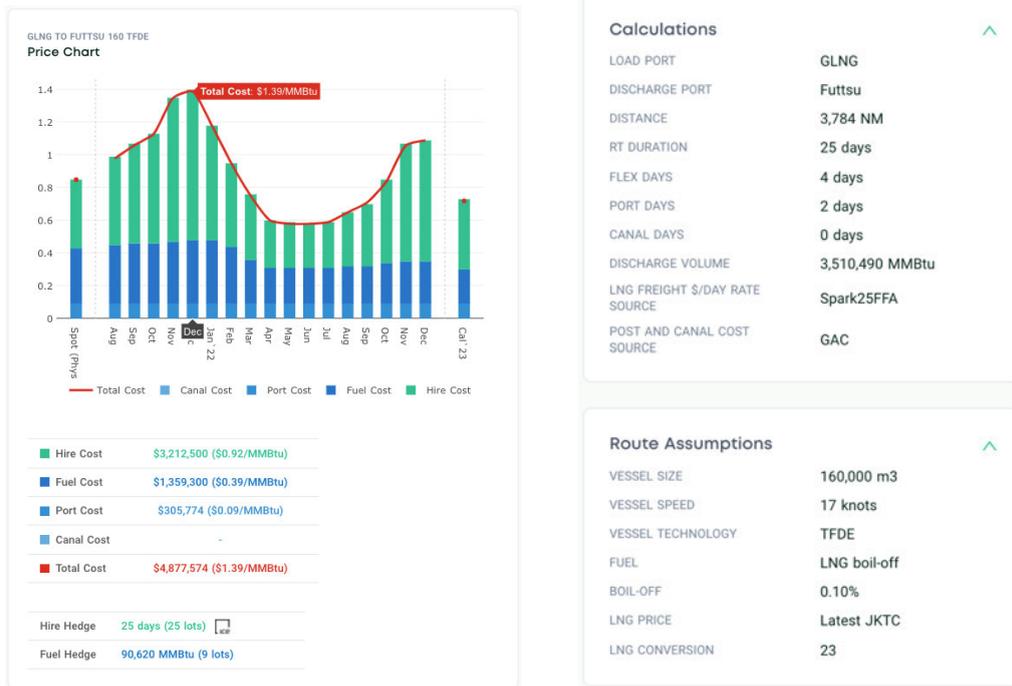
The following transparency measures for these forward curves are available via the Spark platform:

- A break-down of the component elements of the freight rates: port costs, canal costs (if applicable), fuel costs & hire costs.
- The hedge volumes, in lots, required to hedge the fuel and hire of the route on the derivatives markets.
- Full documentation of the calculations and sources of data inputs in the Spark Routes methodology, as well as worked examples showing the full calculations.
- A detailed breakdown of all the assumptions for the chosen route, including: distance, port days, vessel size, vessel speed, boil-off rates, discharge volume and others.
- The underlying \$/day forward curves are also available to view via the Spark platform, as well as the methodology behind those curves. They are formed via submissions from the 8 leading LNG FFA brokers, and min/max ranges of the submissions are provided for additional transparency.



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Other elements that make the Spark \$/MMBtu forward curves suitable for netbacks:

- They are directly derived from the assessments of the \$/day tradeable, listed futures freight rates. This ensures that this component of the netbacks are tradeable and therefore linked to genuine market activity. In addition, if any firms have economic exposure to the LNG price netback series they will be able to hedge this component via the ICE contracts.
- Spark LNG freight rates incorporate not only the headline rate that a vessel is charged out at, but also the additional costs that are being charged to position the vessel prior to the voyage (positioning costs) and the cost to reposition the vessel after the voyage (the ballast bonus). Although these additional cost elements are opaque and difficult to find information on, especially for forward periods, Spark's direct submissions from leading ship brokers allow for these to be incorporated. In our view, using LNG freight rates that do not incorporate these additional cost elements can and will make a material difference to a netback price.

Spark would like to thank the ACCC for considering these comments as part of your review process. If you have questions or queries about any of the content provided above, please do not hesitate to get in touch with us.

Spark encourages stakeholders to register to the Spark platform to access the Spark forward rates, methodologies and additional transparency measures detailed in this response, in order to evaluate for themselves the suitability of the forward freight rates for the LNG price netback series.

Registrations can be made here: <https://app.sparkcommodities.com/signup/>

Contact details: [REDACTED]