Council Regulation (EU) 2022/2576: LNG price assessment

Press briefing
ACER, Teams session
Tuesday, 24 January 2023
2. Data reporting: who, what, when?
3. Methodology: how and why?
4. Q&A
New ACER task:

- To create an objective price **assessment tool** of the EU’s LNG imports by collecting real-time information on all daily transactions
- and over time a benchmark.
- The Regulation grants ACER the necessary powers to collect the transaction data.

Timelines:

- Entry into force: 30 Dec 2022
- Price assessment Go-live: 13 Jan 2023
- Further development of the activity: Q1-2023
- LNG benchmark go-live: 31 Mar 2023
• ‘LNG market participant’ means any natural or legal person, irrespective of that person’s place of incorporation or domicile, who engages in LNG trading

• ‘LNG trading’ means bids, offers or transactions for the purchase or sale of LNG:
  (a) that specify delivery in the Union, or
  (b) that result in delivery in the Union, or
  (c) in which one counterparty re-gasifies the LNG at a terminal in the Union;

LNG market participants should be subject to the obligations and prohibitions that apply to market participants according to REMIT. Therefore, LNG market participants shall be registered in the European Register of Market Participants (CEREMP).

https://www.acer-remit.eu/portal/european-register
Data reporting: what?

• Regulation 2022/2576 prescribes the collection of LNG market data referring to records of bids, offers or transactions for the purchase or sale of LNG:
  (a) that specify delivery in the Union, or
  (b) that result in delivery in the Union, or
  (c) in which one counterparty re-gasifies the LNG at a terminal in the Union

• In scope:
  • Spot transactions
  • Bids and offers
  • Transactions executed under portfolio agreements

• Out of scope:
  • Details of portfolio framework contracts
  • In-tank transactions, bids and offers at re-gasification terminals
  • Small scale LNG transactions where the physical delivery involves specialised vessels with a capacity less than 75,000 cubic meters of LNG
  • LNG truck loading and unloading
  • Cargo swaps, such as for the optimisation of regasification capacities
  • Intragroup transactions
  • Transactions at virtual storages
Data reporting: what and when?

• Document: *Guidance on reporting LNG market data*
Overview methodology

1. TYPE OF INPUT
Spot transactions and spot orders (short-term)
  Gathered each day via TERMINAL

2. DATA CONTENT
  - Prices and quantities
  - Cargoes’ delivery points and dates
  - Type of contract and trading terms

3. TWO ASSESSMENTS
  - North West Europe spot price + South Europe spot price
  - Only Spot, Delivery Ex-Ship (DES) cargoes considered
  → Approach: Weighted average price per volume

4. DATA NORMALISATION
  - Location: Selected LNG terminals may be used as reference for each market area
  - Dates: cargoes arriving in the second half-month ahead from transaction
  - Low liquidity: Rolling window of 5 days
• The daily ACER LNG price assessment is the determination of the prevailing market price for a product at a point in time (value of LNG delivered to EU)

• Aim to comply with IOSCO (International Organisation of Securities Commissions) principles for financial benchmarks, which stipulate: “A methodology should aim to achieve price assessments which are reliable indicators of market values, free from distortion and representative of the particular market to which they relate.”

• The most important EU LNG price assessment is for the spot DES (Delivery Ex Ship) market. It is the best indicator of overall market conditions (value of LNG delivered at its final location):
  • A reference price can only serve the purpose if it is built based on comparable inputs
  • A reference price can only be compared to other reference prices if it builds on solid, robust, meaningful grounds
  • Necessary conditions for potential uptake by market participants

• Methodology beta 1.0 published here: LNG Price Assessment | www.acer.europa.eu
Methodology: Data hierarchy

1. The daily LNG price assessment only takes into account **spot transactions**
2. In case less than the defined number of spot transactions (5) → reported spot bids and offers
3. If no sufficient LNG market data → **last valid daily price** indication repeated

Additionally:

- Weighted average price
- Transactions that appear to be **outliers are disregarded**
- If more than 50% of the data collected in the 5 rolling window is provided by a single submitter, the price assessment will refer to the last valid price indication
1. Delivery location:
   - Selected LNG terminals may be used as locational references (large regasification capacities, attracting spot-type cargoes, closer access to liquid gas trading hubs)
   - Prices of cargoes delivered to other terminals within the market area may be adjusted to deliveries to locational references (shipping times and shipping rate assumptions).

2. Delivery dates:
   - LNG price assessments primarily reflect the prices of spot DES LNG cargoes arriving up until the second half-month ahead of the transaction date
   - Prices of the cargoes reported with a delivery date soon after the second half-month are normalised as if the delivery were occurring in the second half-month ahead from the transaction date
3. Rolling window of days
   - Transactions of the last five working days (MON-FRI)
   - The methodology considers the rolling time series of daily values
   - Higher relevance assigned to recent transactions
     - In case of no transactions on publication day, flag this occurrence in the daily assessment

4. Outright prices and indexed prices
   - LNG transactions can result in an outright fixed price or in an indexed price formula.
   - For daily price assessments, ACER will make use of the prices reported by market participants
Example of a daily publication

- 2 price assessments
- Price spread against key EU gas hubs

Additional transparency indicators

Comments
What is next?

- LNG price assessment
  - Improve the Methodology
  - Improve the Guidance on reporting LNG market data: Improve data quality
  - Prepare for the Benchmark roll-out on 31 March 2023
  - Enhance the assessment process

- Market Correction Mechanism
  - Use LNG price assessment as one of the inputs

- LNG benchmark
  - Compare LNG price assessment with TTF front-month
Thank you!

Questions?
ACER's activities so far

• Preparatory phase (after the first Regulation draft was available):
  • Started preparing elements for collecting relevant LNG trade data
    • Guidance on reporting LNG data
    • IT solutions
    • Registration of LNG market participants (process and tool)
    • Data management principles
  • Design of the beta methodology to provide a useful price assessment
  • Establish a daily process to collect data, analyse it and publish a price assessment

• Go-live: day-after adoption
  • Data collection: Analysing real data, assessing internally, optimising the process..
  • Price assessment: according to schedule defined in the Regulation (13 January)
Data reporting: what and when?

- 22 fields
  - Business details (market participant IDs, timestamps, prices, quantities,..)
  - Reference data (FX, unit conversion factors used, indexes used)
  - Contact information for follow-ups in case of data quality issues

- When?
  - As close to real-time as technologically possible
  - No life-cycle event reporting
  - Correction is possible during the day, until 16:00
Identification of LNG market participants

- Market participants register with NRAs
- Market participants indicate they report LNG
- ACER approves TERMINAL user accounts
- Registration guidance
Data reporting: why?

- For the purpose of the LNG price assessment, ACER shall systematically collect and process LNG market data on transactions
Data reporting: how?

- Reporting guidance:
  - Guidance for reporting LNG market data (consulted in Nov, published on 20 Dec)
  - Webinar for LNG market participants on WED, 11 January
  - Excel template available on ACER website

- Special IT tool: TERMINAL
  - Data reporting
  - Publication of price assessments
  - Help for LNG market participants
Data reporting: how?

- New tool called TERMINAL
- Features:
  - Data reporting
  - Price assessment publication
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Data reporting: how?

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Conclusion: How ACER did it?

- New LNG price assessment/benchmark Expert group established
- No new resources so far, all work made with existing resources and budget
- 5 new FTEs allocated, selection procedure ongoing