



## Spark LNG Freight Market Consultation: New 2 Stroke Premium assessment and clarification on impact of expansion of EU ETS to maritime shipping on Spark Freight prices

Date: 17 Jul 2023

This market consultation addresses 2 key areas:

1. The proposal to add new weekly spot Spark30-174-premium and Spark25-174-premium assessments, as a differentials to the spot 160 TFDE spot rates. This is in preparation for, but does not directly impact, the change of the Vessel Type and Boil Off rate specifications for the Spark30/Spark25 benchmarks on 1st January 2024 - see previous consultation results on this change [here](#).
2. The proposed treatment of carbon costs with Spark Freight rates following the expansion of the EU ETS to include maritime shipping.

### 1. Weekly Spark-174-premium assessment

Ahead of the specification change to the Spark25S and Spark30S price assessments from 160 TFDE (160) to 174 2 Stroke (174) effective from 1st January 2024, as detailed in our consultations sent out last year ([here](#) and [here](#) with results [here](#)), we are proposing to introduce weekly assessed 174 2 Stroke spot premiums to 160 TFDEs assessments for Spark30 and Spark25. These will be assessed via direct submissions from leading shipbrokers.

This change will enable assessed outright 174 spot rates to be available in advance of the specification change by implication. Market feedback has indicated that this would help with adoption of the 174 2 Stroke rates and ensure a smooth transition.

The assessment of the premium will also continue after the specification change, thereby allowing 160 TFDE assessed spot rates to also be available after 1st January 2024 by implication.

**Spark-174-premium:** The proposed additions to the methodology would include the below:

Prior to 1st January 2024:

- Spark25S-174-premium = Spark25S-174 - Spark25S
- Spark30S-174-premium = Spark30S-174 - Spark30S

where:

Spark25S-174 and Spark30S-174 are spot LNG freight rates aligned to the methodology for the existing Spark25S and Spark30S 160 TFDE rates, except for the following specifications:

- Vessel Type: 174,000 m<sup>3</sup> 2 Stroke with no onboard liquefaction capabilities
- Boil Off Rate: 0.085% of cargo tanks at 98.5% capacity



After 1st January 2024 (when the Spark25S and Spark30S will change specifications to become Vessel Type of 174,000 m<sup>3</sup> 2 Stroke with no onboard liquefaction capabilities):

- Spark25S-174-premium = Spark25S - Spark25S-160
- Spark30S-174-premium = Spark30S - Spark30S-160

where:

Spark25S-160 and Spark30S-160 are spot LNG freight rates aligned to the methodology for the existing Spark25S and Spark30S 174 2 Stroke rates, except for the following specifications:

- Vessel Type: 160,000 m<sup>3</sup> TFDE
- Boil Off Rate: 0.1% of cargo tanks at 98.5% capacity

The above changes would ensure that both 160 and 174 outrights are available before and after the specification change via the Spark LNG Freight spot rates and the Spark-174-premium.

The proposed timeline and frequency for the new assessments are for **weekly assessments, every Tuesday, with an indicative start date of 1st Aug 2023.**

## 2. Expansion of the EU ETS to include maritime shipping

With the expansion of the EU ETS to include LNG shipping commencing in 2024, we would like to initiate further conversations with market participants on the impact on LNG freight rates, and in particular **whether the additional regulatory carbon costs associated with the Spark30S route (Sabine Pass to Gate) would be included in the round trip calculations or not.**

Although we have been consistently engaging with the market on this topic, as we approach this market shift, we want to ensure we are aligned with the market on the approach to carbon costs.

Outlined below is our current approach and rationale, but we welcome discussion and feedback on this.

### Impact on Spark30S and Spark25S:

The Spark Round Trip rates are designed to measure theoretical 'owner earnings'. This is reflected in our current methodology in how the full ballast fuel costs are deducted from the full charterer payment in order to account for the owner's ballasting costs.

For your reference, the full Spark methodology can be found [here](#), with the relevant excerpt below:

- Charterer Payment = Hire Cost + Ballast Bonus + Positioning Fee
- Spark Rate = (Charterer Payment - Ballast Fuel Costs) / Duration



Despite our understanding that the statutory responsibility to surrender emission allowances will fall on the shipowner or ship manager, our expectation from contractual frameworks (e.g. BIMCO Emission Trading Scheme Allowances [Clause for Time Charter Parties](#), 2022) will be that the costs in full will be passed on to the charterer. Therefore, we anticipate no impact on owner earnings, and consequently that these costs can be omitted from the round trip calculations.

### **Impact on Spark Routes (unit freight conversions):**

Given the Spark \$/MMBtu conversions “represent the total cost to charterer in \$/MMBtu of LNG transported”, we propose that the additional carbon costs for acquiring and surrendering the required emission allowances, should be incorporated, at the regulated levels, into the \$/MMBtu calculation for any route which includes a port call within the EU/EEA.

### **Impact on the Spark NFFAs:**

Given the carbon costs will not be captured in the Spark25S and Spark30S LNG freight spot assessments, the associated ICE listed LNG Freight futures contracts (specifications here) will complement the ICE EUA futures contracts to enable hedging of freight and carbon costs. As such we propose to change the Spark Neutral FFAs methodology and name.

From:

- Neutral FFA rates are based on new European Emissions Trading regulations (applicable from 2024) and on the assumption that 100% of the applicable carbon emissions from round trip voyages from fuel consumption is offset via EUAs (see full methodology below)

To:

- Carbon Compliant FFA (CCFFA) \$/day rates combine SparkFFA prices and ICE EUA prices, using the carbon costs corresponding to the amount of emission allowances which are required to be surrendered for the forward period based on the phase in schedule between 2024 and 2026 to include shipping in the EU ETS. The carbon price will be the ICE EUA December contract for the relevant contract year (to reflect the most liquid contract during the year).

### **Key areas we are requesting feedback on:**

- Do you agree with the proposal to launch a weekly Spark-174-premium assessment?
- Do you agree with the proposal that regulatory carbon costs should not be included Spark30S and Spark25S as these represent owner earnings and these costs are expected to be passed on to the charterer in full?
- Do you agree with the proposal that carbon costs should be included in the Spark Routes (unit freight cost) calculations as these represent the total cost to the charterer?



We welcome your feedback on the above topics.