2-DAYS "ENERGY SALES & PROCUREMENT"

PRICING & RISKS

CONTENT

During this course the complexity of supply contracts is covered. Special attention is given to pricing and risks. Price components are discussed and attention is given to spot and forward prices. What fundamentals and non-fundamental factors are of relevance? How are prices calculated? What models can be applied? And what is the disadvantage of those?
The goal of the training is to provide insight in flexibility is priced and what the consequences are for suppliers and consumers.

LEVEL & PREREQUISITES

Mercurious guarantees a very interactive, practical and hands-on two days, full of examples, cases and exercises. Participants are required to participate actively and thereby we stimulate the learning curve optimally.
There are no prerequisites to attend. In other words, you don't need any basic knowledge, and still you'll manage to take it into depth. Mercurious is responsible for the guidance and helps you dealing with these challenges.

DAY 1

Price drivers

- Fundamental price drivers
- Non-fundamental price drivers
- Wholesale versus retail
- Theoretical versus practical pricing
- Basis

Forward curves

- Contango & Backwardation
- Convenience yield
- Storage theory & cost of carry
- Seasonality
- Mean reversion around marginal cost level

Hedging strategies with options

- Consumer strategies
  - Setting up a price cap
  - Buying a (vertical) call spread
  - Setting up a consumer collar
- Producer strategies
  - Setting up a price floor
  - Buying a (vertical) put spread
  - Setting up a producer collar

Hedging strategies with swaps

- Swap strategies for consumers
- Swap strategies for producers

DAY 2

Pricing & valuation

- Data & news providers
  - Bloomberg, Thomson Reuters
- Price reporting agencies (PRAs)
  - Platts', ICIS Heren, Argus
- Pricing panels
- Indices
  - Index calculation procedures
  - Definition & description
  - Characteristics
  - Gas & power indices in Europe
  - Application of indices

Flexibility

- What is validity premium (paid by sales department to trading department) incorporated in energy sales contract prices? What is a click option?

→ Exercise: Validity period of a proposal. Decision time relates to price risk (level & volatility).

Optionalities & option pricing

What is incorporated in energy sales contract prices?

Next, how are options priced? What factors influence the option premium? Which factors are of influence?

→ Exercise: Black & Scholes + Binomial valuation model + Monte Carlo Simulations