

COMMODITISING A STORAGE ASSET

Matrix Global is instigating a new energy market paradigm to transform how energy customers can transact for storage that results in better risk management, enhanced transparency and reduced credit exposure

> THE COMPANY behind the world's first futures contract on crude oil storage capacity has ambitions to globalise the concept that transforms how energy customers can transact for storage.

The concept of making storage capacity a tradable commodity through an online auction process is the brainchild of Matrix Global, a company comprising preeminent experts from the energy industry with extensive experience in trading, logistics and commodity financing.

The company's first initiative in 2015, was the successful launch of the first futures contract on crude oil storage capacity at the Louisiana Offshore Oil Port, the largest import facility in the US, along with leading derivatives marketplace CME Group.

The initiative allows qualified entities to purchase storage during a once-a-month online auction. Qualified participants have the right, but not the obligation, to store one month of LOOP sour crude at the LOOP Clovelly facility. Each month, LOOP auctions storage capacity for commingled LOOP sour crude using the matrix auction programme. Monthly capacity is available for any one month can be up to 7.2 million barrels.

Through the auction programme, LOOP has sold more than 400 million barrels of storage capacity. Additionally, exchange-traded futures and physical forward agreements have increased demand by opening the market to new participants.

Since then, the concept has been expanded to include storing one month of WTI CME deliverable grade crude at the AMID facility in Cushing, Oklahoma. Since November 2019, the Cushing auction has sold 8.3 million of storage capacity.

In an interview with *Tank Storage*, Richard Redoglia, CEO of Matrix Global Holdings and Matrix Auctions, says: 'On Tuesday, March 17, to take advantage of the dual supply demand shock that has caused spreads to move into major contango, Matrix will be offering a total of 11.85 million barrels from May to June of 2021 in Cushing.'

'This highlights the adaptability the Matrix programme gives storage owners. Having

the flexibility to act in real time to market conditions, without having to go through time consuming negotiations, levels the playing field.'

Redoglia explains how changing market dynamics means the industry needs to embrace new business concepts.

'In the late 1980s there were four active future and derivative contracts that were utilised by the upstream and downstream sectors, now there are over 4,000. Radical changes have taken place in global energy markets and have challenged conventional trading models.'

'The way legacy storage assets are having to price their capacity is changing. Persistent backwardation and a collapse in forward volatility is making it necessary to look for new innovative ways of marketing storage capacity.'

'Our success with LOOP and Cushing provides the innovation that the market needs. Traditional storage customers have readily adopted the electronic storage auction programme and have been active participants in auctions.'

'Our auction methodologies increase participation, reduce credit exposure and improve liquidity and provide certainty to the asset owner that their capacity has a market value and gives the participant access to capacity when needed.'

The benefits of the auction process include increased participation of non-core players, a significant reduction in credit and legal costs as well as more optionality for operators by being able to manage the facility in a more robust manner.

Redoglia says that the portfolio theory to storage pricing considers storage as a portfolio and offers the option to diversify in order to maximise returns. A percentage of capacity is sold to term customers and a percentage is sold through the auction model that allows storage asset holders to participate in the volatility of the market.

A new version of the Matrix Auction Programme allows the offering of storage capacity in increments determined by the facility. Multiple potential buyers can bid on individual tanks, and the best bid will win the capacity.

Additionally, Matrix Global is looking to collaborate with terminal management and staff on the development of a bi-lateral contract programme for specified facility as well as looking at providing access to the Matrix Auction Platform to operators and their clients.

'We understand our methodology is a challenge to the conventional way of doing business in the storage sector. Nothing is a total panacea for changing market structure.'

'Our view, though, is that we are another arrow in the quiver for storage facility owners to help meet the challenges that they are facing and will continue to face in the future. The current market movements, which have seen Brent spreads moved to historically wide levels of contango, proves the value of our methodology.'

For more information

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