

FAQs – Swing Contract Valuation

In this fact sheet, we present the answers to some of the questions we are frequently asked about swing contract optimisation and valuation.

Q Why choose Lacima’s software solution for swing?

A By employing Lacima’s swing solution, you benefit from the ability to manage the widest range of gas and power swing contracts with more accuracy and faster than competing software. We have worked with some of Europe’s largest gas companies and understand the complexities of the European gas markets.

Q What types of contracts can the solution handle?

A The solution provides you with the ability to value and optimise the widest range of gas and power swing contracts, from a single contract to a whole portfolio, and from a simple take-or-pay contract to fully indexed contracts with carry-forward, make-up and depletion as well as inter-year constraints or optionalities.

Q What can you tell me about the pro’s and cons of lattice based approaches versus Least Squares Monte Carlo (LSMC) for swing contract valuation?

A Our conversations with market participants show that there is increasing analysis of portfolio wide optimisation using either LSMC simulation or Stochastic Dynamic Programming techniques, with varying levels of approximation to manage the computational demands. We have implemented both and performed a significant number of tests of the two methods and have found that using Stochastic Dynamic Programming, via lattice techniques, enables results to be obtained with less computation power and with far more robust and accurate results than LSMC, which typically requires a large amount of user intervention.

Even considering both commercial solutions, and in house implementations, it is not unusual to find people wasting many hours to run and re-run LSMC valuations, and it is difficult to point to many successful implementations for anything other than the simplest problems.

Q My trading system captures my swing deals but struggles with even basic swing contract valuations and I am forced to analyse complex swing portfolios offline in a spreadsheet. This ad-hoc approach is exposing us to risk. Can I still employ Lacima's swing solution for valuations and risk calculations without replacing my current trading system?

A Yes, the inability of ETRM systems to handle complex swing portfolios is a common problem faced by many of our clients. Lacima's swing solution has been designed to integrate seamlessly with any ETRM system with automatic uploads that include market curves, historical data, valuations and previous runs. Therefore, you can benefit from the functionality that we offer without costly replacements of any existing systems.

Q I would like information about the models and valuation methodologies used to value my swing portfolios and wish to avoid receiving a 'blackbox' software solution which produces values I don't understand (and which my software provider can't or won't explain). Does Lacima provide more transparency on these matters?

A Yes, by employing Lacima's software solution for swing, you benefit from receiving full transparency on our models, algorithms and valuation methodologies. You won't be faced with being unable to provide the auditors with the answers they need to sign-off on your valuation approach.

Q My ETRM system provider doesn't seem to have sufficient in-house quantitative expertise to answer my questions. Can Lacima hold detailed conversations with me about energy specific models and how they can be applied to my complex swing portfolios?

A Yes, Lacima has the largest and most qualified team of quantitative experts in the energy risk and valuation software sector, who develop, implement and support the software, and are easily accessible to all clients.



About Lacima

Lacima is a specialist provider of software and advisory services dedicated to valuation, optimisation and risk management for global energy markets. We help you to maximise your profit potential and make more informed decisions by providing tools that yield more accurate valuations, hedging analysis and risk exposure analysis for portfolios of financial contracts and physical assets.

Clients of our software and services include structuring, valuation and risk teams in vertically integrated energy companies, energy retailers, financial institutions and large energy consumers in Europe, North America and Australasia.

Our software solutions have been developed and implemented by peer-recognised experts in energy analytics, offering an unparalleled level of expertise and personalised support.

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