

November 2019

Market Parity Price (MPP) FAQ

What is a Market Parity Price (MPP)?

A Market Parity Price is a daily, calculated price that reflects the value of a specific crude oil grade on an outright price basis at the market close. However, unlike a normal outright spot price assessment, an MPP takes into account the gross product worth (GPW) of the grade and subtracts the associated costs of refining and transportation, while also factoring in an adjustment differential designed to bring the gross refining value of a crude grade into alignment with broader market fundamentals. This adjustment differential is calculated by looking at the difference between the modeled price of a basket of similar crude grades and the daily assessed price.

Why has Platts launched MPPs?

MPPs are a different way for Platts to look at price for crude grades that lack the same sort of spot market liquidity that underpins a daily assessment. Platts is always looking for new ways to develop its coverage across relevant sectors. MPPs provide additional insight into these less liquid crude grades, many of which play important roles both inside and outside of a given region.

By providing a model to determine value for crude grades with either limited or irregular spot market activity, MPPs will complement existing methodology and provide greater insight into the broader regional and global crude markets. The publication of MPPs reinforces Platts' commitment to providing greater market understanding, real time news and analysis and more insightful and relevant information to its subscribers.

How does Platts choose grades for the MPP?

Not all crude grades are large enough or liquid enough to assess based on indications and trades heard in the spot market or demonstrated through the Platts Market on Close assessment process. Many crude grades are either too small or are heavily termed out to buyers, meaning that spot market information is either irregular or heavily limited.

The grades that Platts has selected publish as MPPs lack the market transparency necessary for traditional assessment due to smaller production volumes, absent or irregular spot market activity, lack of diversity in ownership, or any combination of the above. An MPP model allows Platts to offer a more complete assessment suite for different regions and further expands on the amount of pricing information available for subscribers.

Platts launched MPPs in August 2018 with six new West African crude grades which had not previously been possible to assess based upon Platts' existing West African crude methodology. In October 2019, Platts introduced an MPP for Mexico's Maya crude, which has allowed Platts to provide a market price for a significant crude grade which trades primarily through longer-term contracts.

Is this a Platts price assessment?

MPPs are calculated prices based upon a model rather than a daily spot price assessment. These calculated prices reflect Platts' understanding of the refining value of individual crude grades, including costs associated with transport and processing, in addition to related market economics. At its heart, MPPs are based around a GPW for a relevant refinery, with an additional adjustment differential built in to bring this value into alignment with the spot market assessments for similar, more liquid crude grades.

What inputs go into the model?

Platts Analytics has analyzed the refined product yields for each MPP crude grade in a relevant regional refinery, including input costs like power usage, chemical and catalyst costs, capital and staffing. Each crude grade has been split into yields for propane, butane, naphtha, gasoline, jet, diesel, heating oil and residual fuel oil.

However, because the spot market price of a crude grade is usually impacted by factors beyond refining value versus refining cost, Platts has built in an adjustment differential to bring the MPP calculation back into alignment with the broader spot market. Platts calculates this adjustment differential by taking a basket of liquid, daily assessments and averaging the difference between a modeled price and the assessed value.

As an example, the grades used for the light, sweet West African market adjustment input include Nigeria's Qua Iboe, Azerbaijan's Azeri Light and the North Sea's Ekofisk and Gullfaks, all delivered into Rotterdam. The grades used in the adjustment to calculate Mexico's Maya include other regional sour Castilla, Oriente, Vasconia, Napo and Western Canadian Select.

How does Platts review and monitor these prices?

Platts will seek to include updated assays as soon as they come available and review the model on a regular basis. Platts' editorial teams and analytics teams collaborate

closely to ensure any necessary changes to the model are made in a timely manner.

Will other grades be considered?

Platts will monitor the current list of MPPs and will consider other grades for inclusion in the model where appropriate. Platts welcomes any feedback from the market around the inclusion of additional crude grades in the future.

Where are the new MPP numbers published?

These assessments are published on Platts Global Alert, in Platts Crude Oil Marketwire and in Platts Latin American

Wire, and in the Platts pricing database.

Please send any further comments and feedback to oilgroup@spglobal.com and pricegroup@spglobal.com.

For written comments, please provide a clear indication if comments are not intended for publication by Platts for public viewing.

Platts will consider all comments received and will make comments not marked as confidential available upon request.

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