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# NATURAL GAS PRICING

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# Natural Gas Pricing

- Natural Gas Pricing is the determination of monetary value of NG in a given market
- OBJECTIVE Section 6, pg 6 (E)
- Economic Efficiency – Elimination of financial hardship for utility, deterioration of services and investment resources waste
- Financial viability of investment – Sustainability of the sector
- Social Equity: Reduction in unit cost of energy for different users

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- Methodology
- “The value of gas is determined by comparing the cost of the economy of not having the gas with the cost of having it.” Pg 114 Para 2 Line 3

Two way Approach Pg 10 – 4.7 Section 6

- Cost Plus – Not preferred, due to non reflective of the market indexes and long term sustainability
- Market value – Realistic and preferred

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## Transfer Price Methods

- Market related net back
- Ceiling by indexing to base fuel and discounting-depart from competitive pricing
- Fixed percentage method – Computed at a percentage of either CIF or retail price of base fuel
  - Prices for non-energy and field recovery operations application should take into account the the economic value of the gas in the particular application

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- Base Price Build up where indexing to base fuel is not used – End Consumer price – Sect J Pg 7 sec7
- Cost of Production\Transportation\Distribution\Marketing Services
- Price of alternative fuels
- Rate of return required by sponsors (P,T,D +MS)
- Thermal efficiencies
- Indexes and Adjustments
- Taxes

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- What should be the basis to determine the maximum proportion accrue to each sector to ensure sustainability?
- Cost of Investment+Operation?
- Should the proportion be varied as the capital recovery progresses?
- Should return on investment be sustained after capital recovery for the purpose of determining proportion of share or only operation cost?

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- What is the basis of transportation tariff?
- Investment/Base load.
- Is transportation tariff reduce by increasing the base load in accordance to above equation is subject to negotiation?
- Thank you