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Market regulation and petroleum sales contracts: Focus on Individual Gas Supply Agreements

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Content



- I. Sale of gas
- II. Sale of other petroleum products

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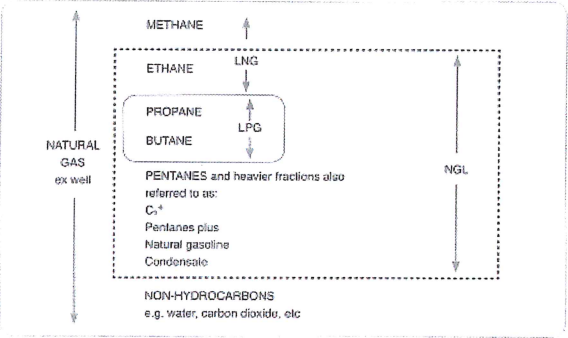
Part I – Sale of gas

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1. The products

- The constituents of natural gas

Terminology And Constituents
Of Natural Gas

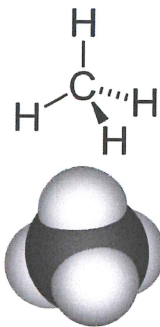


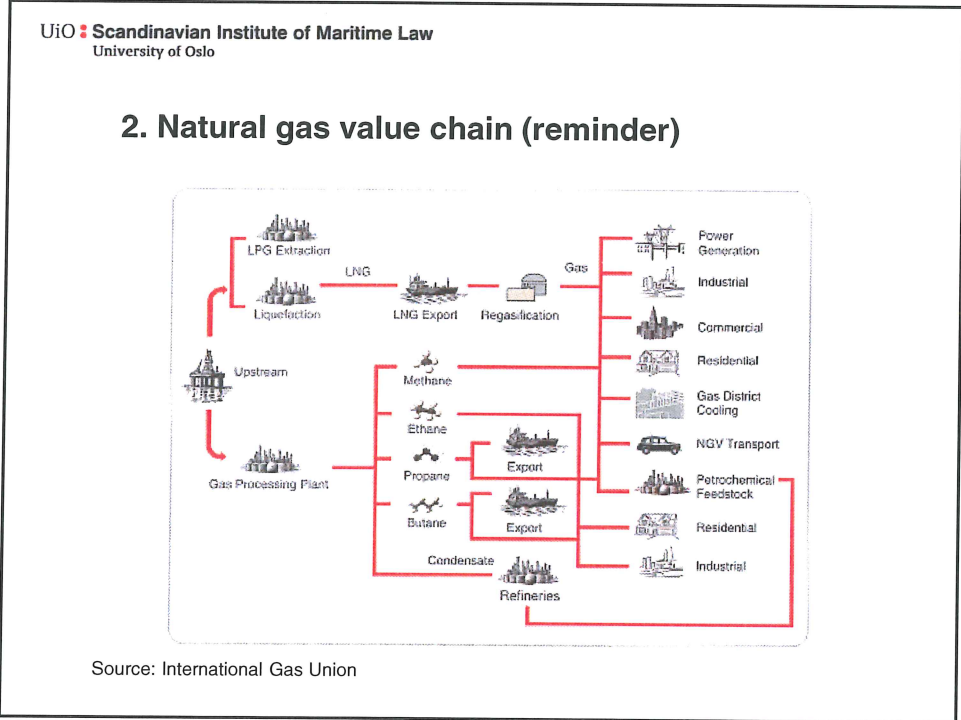
LNG = liquefied natural gas
LPG = liquefied petroleum gas
NGL = natural gas liquids

Source: International Gas Union

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- Rich gas vs. dry gas
- Implications of gas quality
 - Gas sales agreements
 - Transportation agreements





3. Parties to gas sales agreements

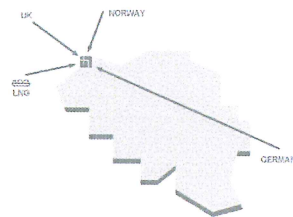
- Current situation:
 - Individual gas sales = All licensees on the NCS are now responsible for selling their gas individually. See previous lecture and removal of GFU.
 - The particular case of Statoil
 - Effects of unbundling rules (EU requirement): effective separation of supply and production activities from network operation

- Gas traders
 - Pure traders
 - Often trading arms of the “old” energy companies

4. Trading places

- A more regional market than oil (global)
- Bilateral
- Spot markets and future markets

- The rule of trading hubs
 - usually located at the meeting point of the transportation systems.
 - delivery points where buyers and sellers are able to transfer title to gas
 - Not a commodity exchange
 - Ex: Zeebrugge <http://www.huberator.com/>
 - Trading at gas hubs:
 - Need for transparency, liquidity
 - Standard trading conditions
 - Ex: EFET Standards



- **Different products at hubs**

Standardized products:

- Day-ahead
- Weekend
- Month ahead
- Quarterly ahead (for 2-3 years)
- Gas years
- Winter
- Summer

5. Gas sales supply agreements – contractual terms

- Gas quality (see above)
- Delivery points
- Long-term vs. short term
 - LT supply contracts have been the norm, but ST contracts have been growing
 - European Commission has been increasingly scrutinizing LT gas supply agreements
 - Effects of the interaction with gas hubs
- Risk sharing
- Volumes/quantities:
 - Complex nomination systems
 - Flexibility
 - Take-or-pay
 - Deliver-or-pay

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- Pricing, and price indexation (see next slides)
 - Pricing methods: effects of liberalisation, in particular on wholesale markets, use of market mechanisms.
 - Pricing formulas
 - Gas-to-gas vs. oil-indexation
 - Price review mechanisms
- Renegotiation clauses
- Force majeure
- Others: point of delivery, sanctions, termination, etc.

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A closer look at pricing, and price indexation

(i) Price formula

- Base price
 - Stipulated at a specified date
- Escalation/indexation
 - Competing energy carriers
 - Heavy oil
 - Light oil
 - Coal
- Recalculation of payable price
 - Monthly or quarterly



(ii) Price review – typical material conditions

«if relevant changed circumstances in the country of the buyer, outside the parties' control, have entailed substantial changes in the value of gas, compared to what follows from the prevailing price formula»

It should be possible to «economically market the processed gas»

(Translated from Are Brautaset in Norsk gassavsetning p 254 and 261 (1998))

(iii) Price review – what can be changed

- «an adjustment of the price provisions ... reflecting such changes»
- Base price
- The elements of indexation
- The relative weighting of elements
- Could the arbitration panel change the whole mechanism of indexation?

(contractual terms ctd)

- **Towards standardisation**
 - Role of association such as European Federation of Energy Traders (EFET)

- **Dispute resolution**
 - Applicable law
 - Use of experts
 - International arbitration procedure
 - International Chamber of Commerce
 - Swedish Chamber of Commerce
 - Ad hoc arbitration



**Part II – Sale of other petroleum products:
oil, condensates, other gases**

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The products and its market

- A global market

REFINING PROCESS

The diagram illustrates the refining process starting from a distillation tower. Products are extracted at different levels: LPG, Naphtha, Kerosene, Jet, Gasoil, Fuel oil, Lubricating oil, and Asphalt. Further processing leads to Petrochemical from LPG Plant, Raw Material, Petrochemical Plant, Gasoline, High speed diesel, Low speed diesel, and Power plant/ Factories. Crude storage is shown at the bottom.

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The crude oil sales agreements

- Crude oil characteristics
- The refined product markets
 - Key refined products: gasoline, diesel and jet kerosene
- Price differentiation
- Contractual provisions
- Internal pricing (norm price)
- Trading

Products Made from a Barrel of Crude Oil

Typical Products Made from a 42-Gallon Barrel of Refined Crude Oil

Product	Percentage
Gasoline	47%
Diesel Fuel & Heating Oil	23%
Other Products	18%
Jet Fuel	10%
Liquefied Petroleum	4%
Asphalt	3%

Source: U.S. Department of Energy.

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