

# **Price Regulation of Piped-Gas 2005/6**

**Presented November 2007**

## **Background**

Two legal documents, currently govern pricing in the gas industry in South Africa, namely:

- Section 1 of the *Gas Act 2001 (Act No. 48 of 2001)* (“the Act”) and
- Clause 1 of Schedule One of the *Agreement Concerning the Mozambican Gas Pipeline between the Government of the RSA and Sasol Limited* (“Schedule One of the Agreement”).

In terms of the Act, the National Energy Regulator of South Africa (“NERSA”) is specifically required to regulate gas prices and approve maximum gas prices for all classes of gas consumers.

In terms of Schedule One of the Agreement, the following provisions are included regarding the prices that Sasol Gas Limited (“Sasol”) may charge its gas customers: a price capping mechanism; maximum prices; discounts to small customers, and minimum prices.

The above differ in terms of the Category of User and are subject to Market Value Pricing.

## **Purpose of this brochure**

This brochure provides:

1. Definitions for the different Categories of Gas Users;
2. The explanation of how Market Value Pricing is calculated;
3. An explanation of the Price Cap mechanism and how it applies;
4. An explanation of Maximum Prices and how they apply;
5. An explanation of Discounts to Small Customers and how they apply, and
6. An explanation of Minimum Prices and how they apply.

NERSA’s findings on price regulation of piped-gas for the 2005/06 financial year are presented and advice is given on how you can use this information. This should allow gas customers and other interested parties to make informed business decisions.

For your convenience, each section clearly highlights the relevant category of gas customer to whom it applies.

# 1. Categories of Gas Customers

To interpret and apply the information provided in this brochure, it is important that you accurately establish the category of which you are part:

## ***Brownfields Customers***

Customers (other than Sasol and its subsidiaries) who received piped gas from Sasol before 26 March 2004, including customers who expanded their facilities and thereby increased their gas consumption. (Those customers who converted their facilities from other energy carriers to piped gas after 26 March 2004 are excluded).

## ***Distributors***

Customers who distribute bulk gas supplies via pipelines with a general operating pressure of more than 2 (two) bar gauge and less than 15 (fifteen) bar gauge, to points of ultimate consumption or to reticulation systems or to both.

## ***Greenfields Customers***

Customers (other than Sasol and its subsidiaries) who, after 26 September 2001, constructed a facility on a new site<sup>1</sup> which site received piped gas from Sasol for the first time on or after 26 March 2004.

## ***Reticulators***

Customers who distribute bulk gas supplies via pipelines with a general operating pressure of less than 2 (two) bar gauge, to points of ultimate consumption.

## ***Small Customers***

Customers who use less than 40 000 gigajoules of gas per annum per site<sup>2</sup>.

(The section below section applies to all categories of gas customers)

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<sup>1</sup> "Site" means a separate area of land with its buildings owned or rented by a gas consumer

<sup>2</sup> See 1 above

## 2. Market Value Pricing

### 2.1 Background

In terms of Schedule One of the Agreement, the determination of gas prices by Sasol must be based on the Market Value Pricing principle.

### 2.2 Basis for monitoring and compliance assessment

Market Value Pricing is determined by:

1. Comparing the gas price with the **cost of alternative fuel** (for example LPG, electricity or any other alternative) delivered to the customer's premises or the anticipated place of use; and
2. Comparing the difference between the **operating costs** for gas and all the alternative fuels; and
3. Comparing the difference between the Net Present Value ("NPV") of the **capital costs** of the customer's continued use of the alternative fuel and the NPV of the capital costs involved in switching to gas, as would be reflected in the customer's accounts.

Individual gas customers may request Sasol to supply the relevant information regarding the cost of the alternative fuel, as well as the operating costs and the capital costs of the alternative fuel as used by Sasol in calculating the gas price for each customer Sasol charged them.

### 2.3 How can you use this information?

As a new gas customer you can use this information to negotiate gas prices with Sasol from an informed position.

As an existing gas customer you can use this information to compare the price you have paid in the past with, *inter alia*, the published maximum gas price as presented in this brochure.

(The section below applies to all categories of gas customers)

### 3. The Price Cap Mechanism

#### 3.1 Background

Clause 8 of Schedule One of the Agreement provides for a price cap on the average gas price that Sasol may charge any customer using up to ten (10) million gigajoules of gas per annum. The mechanism places a limit on Sasol's revenues from gas sales compared to a benchmark.

The benchmark, known as the European Benchmark Price ("EBP"), is established using pricing data from the following countries: Netherlands, Spain, Belgium, Italy, France and Germany. The Sasol Volume Weighted Average Gas Price ("SVWAGP") for customers may not exceed the EBP.

#### 3.2 Basis for monitoring and compliance assessment

NERSA has determined and approved the SVWAGP and the EBP for the year 2005/06 as follows:

SVWAGP and EBP for 2005/06		
Year	SVWAGP (Rand per gigajoule)	EBP (Rand per gigajoule)
30 April 2005 to 31 March 2006	32.13	51.83

#### 3.3 How you can use this information

Two outcomes are possible from the above-mentioned determination of the SVWAGP and the EBP at the end of each year, namely:

- **Average SVWAGP > average EBP**  
If the average SVWAGP for a particular year is above the average EBP for the same year then, as a Sasol gas customer, you are entitled to a refund on the over-recovery in proportion to the amount paid by you for gas during that year.
- **Average SVWAGP < average EBP**  
If the average SVWAGP for a particular year is below the average EBP for the same year then, as a Sasol gas customer, you are not entitled to any refund in terms of over-recovery during that year

Given that the average SVWAGP is below the average EBP for the year 2005/06, Sasol's gas customers are not entitled to a refund from Sasol for the year. All gas customers should note this, but no further action is required in this regard.

(The section below applies to all categories of gas customers using less than 10 million gigajoules of gas per annum)

## 4. Maximum Gas Prices

### 4.1 Background

In terms of Clause 11 of Schedule One of the Agreement, maximum prices will only become applicable to Sasol's Brownfields Customers from 26 March 2009 until the end of the Special Regulatory Dispensation Period, which is due to end on 25 March 2014 at the latest.

Clauses 9 and 10 of Schedule One of the Agreement stipulate that Sasol must negotiate the price of gas with Distributors, Reticulators and Greenfields Customers on an individual basis, subject to a maximum price level, based on a reference price.

### 4.2 Basis for monitoring and compliance assessment for distributors and reticulators

NERSA used the following reference prices to determine the maximum gas prices that Sasol may charge distributors and reticulators for 2005 and 2006 respectively:

<b>Reference prices for distributors and reticulators for 2005 and 2006</b>	
<b>Effective Date</b>	<b>Resellers' Reference Price (Rand per gigajoule)</b>
January 2005	<b>38.30</b>
January 2006	<b>45.65</b>

Based on these reference prices, NERSA determined and approved the following maximum prices that Sasol may charge distributors and reticulators for 2005 and 2006 respectively (see tables following):

<b>Maximum gas prices for distributors and reticulators for 2005</b>		
<b>Volume Category (gigajoules per annum)</b>	<b>Resellers' Reference Price</b>	<b>Maximum Gas Price (Rand per gigajoule)</b>
0 – 500 000	Resellers' Reference Price x 1.5	57.45
500 001 – 1 000 000	Resellers' Reference Price x 1.25	47.88
1 000 001 – 2 000 000	Resellers' Reference Price x 1.10	42.13
2 000 001 – 3 000 000	Resellers' Reference Price	38.30
3 000 001 – 4 000 000	Resellers' Reference Price x 0.9	34.47
4 000 001 – 5 000 000	Resellers' Reference Price x 0.88	33.70
5 000 001 – 10 000 000	Resellers' Reference Price x 0.83	31.79
>10 000 000	Not applicable	Not applicable

(The section below applies to Distributors, Reticulators and Greenfields Customers using less than 10 million gigajoules of gas per annum)

<b>Maximum gas prices for distributors and reticulators for 2006</b>		
<b>Volume Category (gigajoules per annum)</b>	<b>Resellers' Reference Price</b>	<b>Maximum Gas Price (Rand per gigajoule)</b>
0 – 500 000	Resellers' Reference Price x 1.5	68.48
500 001 – 1 000 000	Resellers' Reference Price x 1.25	57.06
1 000 001 – 2 000 000	Resellers' Reference Price x 1.10	50.22
2 000 001 – 3 000 000	Resellers' Reference Price	45.65
3 000 001 – 4 000 000	Resellers' Reference Price x 0.9	41.09
4 000 001 – 5 000 000	Resellers' Reference Price x 0.88	40.17
5 000 001 – 10 000 000	Resellers' Reference Price x 0.83	37.89
>10 000 000	Not applicable	Not applicable

#### **4.3 Basis for monitoring and compliance assessment for Greenfields Customers**

NERSA used the following reference prices to determine the maximum prices that Sasol may charge its Greenfields Customers for 2005 and 2006 respectively:

<b>Reference prices for Greenfields Customers<sup>3</sup> for 2005 and 2006</b>	
<b>Effective Date</b>	<b>Greenfields Reference Price (GRF) (Rand per gigajoule)</b>
January 2005	<b>29.80</b>
January 2006	<b>30.35</b>

Based on these reference prices, NERSA determined and approved the following maximum prices that Sasol may charge its Greenfields Customers for 2005 and 2006 respectively (see tables following):

<b>Maximum gas prices for Greenfields Customers for 2005</b>		
<b>Volume Category (gigajoules per annum)</b>	<b>Greenfields Reference Price</b>	<b>Maximum Gas Price (Rand per gigajoule)</b>
3 – 5 million	Greenfields' Reference Price	29.80
5 – 8 million	Greenfields' Reference Price less 5%	28.31
More than 8 million	Customer may choose between securing own gas supply or Greenfields Reference Price less 7,5%	27.57

<sup>3</sup> Note that a new price adjustment formula was agreed to between Sasol and its largest customer, from 10 of July 2002 and this formula was used (in accordance with the agreement).

<b>Maximum gas prices for Greenfields Customers for 2006</b>		
<b>Volume Category (gigajoules per annum)</b>	<b>Greenfields Reference Price</b>	<b>Maximum Gas Price (Rand per gigajoule)</b>
3 – 5 million	Greenfields' Reference Price	30.35
5 – 8 million	Greenfields' Reference Price less 5%	29.31
More than 8 million	Customer may choose between securing own gas supply or Greenfields Reference Price less 7,5%	28.52

#### **4.4 How can you use this information?**

If, in your view, you have been charged more by Sasol than the maximum prices for 2005 and 2006 indicated above, you should make enquiries with Sasol and inform NERSA. Contact details are provided on the reverse of this brochure.

Please note that complaints regarding the conduct of licensees must be lodged with NERSA in the prescribed manner. Complaint forms are available from NERSA on request and can also be downloaded from the NERSA website: [www.nersa.org.za](http://www.nersa.org.za)

Although prohibited from investigating disputes regarding breaches of contract between licensees and eligible customers, NERSA may, if all parties agree, act as a mediator or arbitrator in any matter concerning the trading of gas or rendering of gas services.

## 5. Discounts to Small Customers

### 5.1 Background

In terms of Clause 12 of Schedule One of the Agreement, Sasol must, from 26 March 2004, negotiate the price of gas with Small Customers on an individual basis, subject to certain discounts based on the relevant customer's prevailing Market Value Price at the time.

### 5.2 Basis for monitoring and compliance assessment

The following are discounts for small customers as prescribed by Schedule One of the Mozambique Pipeline Agreement that Sasol must provide to all Small Customers, based on their individual prevailing Market Value Price, as follows:

<b>Discounts to Small Customers on their prevailing Market Value Price</b>	
<b>Volume Category (gigajoules per annum)</b>	<b>Discount (%)</b>
0 – 5 000	12
5000 – 15 000	6
15 000 – 40 000	4.5

### 5.3 How can you use this information?

If, in your view, you have not received the appropriate discount from Sasol on your prevailing Market Value Price, first contact Sasol and thereafter inform NERSA. Contact details are provided on the reverse of this brochure.

Please note that complaints about the conduct of licensees must be lodged with NERSA in the prescribed manner. Complaint forms are available from NERSA on request and can also be downloaded from the NERSA website: [www.nersa.org.za](http://www.nersa.org.za)

Although prohibited from investigating disputes regarding breaches of contract between licensees and eligible customers, NERSA may, if all parties agree, act as a mediator or arbitrator in any matter concerning the trading of gas or rendering of gas services.

(The section below applies only to Small Customers)

## 6. Minimum Gas Prices

### 6.1 Background

In terms of Clause 14.4 of the Schedule One of the Agreement, no gas user purchasing gas shall, from 26 March 2004, pay less than the Landed Price at Secunda<sup>4</sup>, **plus** the cost of delivery from Secunda to that user. This is to prevent cross subsidisation and price discrimination.

### 6.2 Basis for monitoring and compliance assessment

NERSA has determined and approved the following minimum gas prices for the financial years July 2004 to June 2005 and July 2005 to June 2006, respectively:

<b>Minimum gas price per financial year</b>	
<b>Financial year</b>	<b>Minimum gas price (Rand per gigajoule)</b>
July 2004 to June 2005	12.95
July 2005 to June 2006	14.15

### 6.4 How can you use this information?

If you are aware of any user being charged less than the minimum gas price for the financial years indicated above, you should inform NERSA. Contact details are provided on the reverse of this brochure.

Please note that complaints about the conduct of licensees must be lodged with NERSA in the prescribed manner. Complaint forms are available from NERSA on request and can also be downloaded from the NERSA website: [www.nersa.org.za](http://www.nersa.org.za)

Although prohibited from investigating disputes regarding breaches of contract between licensees and eligible customers, NERSA may, if all parties agree, act as a mediator or arbitrator in any matter concerning the trading of gas or rendering of gas services.

(The section below section applies to all categories of gas customers)

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<sup>4</sup> "Landed Price at Secunda" means the average price per gigajoule of the 120 million gigajoules per annum of gas for The Project delivered to Secunda. "The Project" means the project as contemplated in the preamble to Schedule One of the Agreement.

## **7. Contact details**

Should you have any questions regarding the information provided in this document on general gas pricing principles, aggregate gas prices or the regulation thereof by NERSA, please do not hesitate to contact:

### **The Customer Services Department**

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