

FOCUS ON LONG TERM GAS SALES CONTRACTS: THE CORNERSTONE OF GAS DEVELOPMENT PROJECTS

**Israel Energy and Business
Convention 2017**



Long term gas contracts are the basis of any gas development



The Special Characteristics of the Sale and Purchase of Pipeline Natural Gas

- ❑ **Long term contracts** – 15 – 20 years

- ❑ Buyer has **Take or Pay obligation** – minimum quantity obligation

- ❑ Gas Supplier has **ongoing obligation** to deliver **predetermined quantities**

- ❑ Gas Buyer has **ongoing obligation** to take **predetermined quantities**

- ❑ The characteristics of pipeline natural gas mean that:
 - ❑ Gas is delivered **online** and Supplier controls **the swing of the gas quantities**

 - ❑ Gas is delivered in accordance with hourly/daily nominations, measurements, quality

The Special Characteristics of long term gas contracts

- ❑ The **long duration** of the contract means that:
 - ❑ all eventualities must be taken into account: wars, accidents, changes in market demand, insolvency of buyer or seller, changes in law, changes in ownership.
 - ❑ The price must be indexed
- ❑ The **Take or Pay obligation** means that:
 - ❑ This is an annual obligation
 - ❑ There is a mechanism for **making up** the take or pay quantity
 - ❑ Certain deductions are allowed from the Take or Pay Quantity, eg, force majeure quantities
- ❑ The **delivery obligation is ongoing**, so that:
 - ❑ Any penalty for breach of delivery obligation must be liquidated damages

All the above leads to a relationship contract

The special characteristics mean elevated risks for Buyer and for Seller

Buyer's Risks:

take or pay quantities are too high

changes in indexed price

changes in market price

breach of delivery obligations

Seller's financial capability

changes in Buyer's market

regulatory changes

Seller's Risks:

delivery obligation quantities are too high

changes in indexed price

changes in market price

breach of take or pay obligation

Buyer's financial capability

changes in Seller's market

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GSPAs: Allocation of Risks between Buyer and Seller

Example of gas price formula

$$CP_s = 5.71 * (53.3% * Pt/Pt0 + 46.7% * Pt/Pt0 * Ns0/Ns)$$

כאשר:

CP = מחיר חודשי ממודד ב \$ ל – MMBTU

Pt = תעריף רכיב ייצור הידוע ביום האחרון לחודש חישוב המחיר

Pt0 = תעריף רכיב ייצור בסיס = 0.3463 ש"ח לקילו וואט שעה

Ns = ממוצע חודשי של שער חליפין שקל-דולר נכון לחודש חישוב המחיר

Ns0 = שער בסיס דולר = 3.65 ₪ לדולר

Thank you
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