HMRC - OT05402 - PRT: Valuation Of Non-Arm's Gas - Valuation Of Light Gases From 1 January 1994 - Take Or Pay

See OT05435 re Take or Pay Arrangements generally.

A lower take or pay limit provides the buyer with greater flexibility and consequently should lead to a higher price being paid to the seller. The LB Oil & Gas’s approach to valuing this element of a gas contract is to apply the, already determined, value of swing to the ‘effective swing’ which is a product of the interaction of the take or pay limit and the contractual swing factor. The ‘effective swing’ or ‘peak flexibility’ is derived from the result of dividing the swing factor by the take or pay level, or maximum daily capacity by the minimum take.

In the case of the Bacton delivery shown in the example above, the ‘effective swing’ is 150\90 = 1.66, resulting in an ‘effective swing’ factor of 66% above the Take or Pay level shown (i.e. reduce the result of the computation by a standard figure of 1, representing the whole of the basic supply of gas against which the swing is being measured). Therefore the value of the swing and Take or Pay elements in the contract is 0.197p\therm (i.e. the predetermined value of 10% swing) multiplied by a factor of 6.6, resulting in a figure of 1.3002p\therm.

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