

DECRYPTING THE EGYPTIAN GAS LEGAL FRAMEWORK

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The natural gas activities in Egypt witnessed significant improvements starting in 2015. The government worked on several pillars to take advantage of these developments, including the legal aspect.

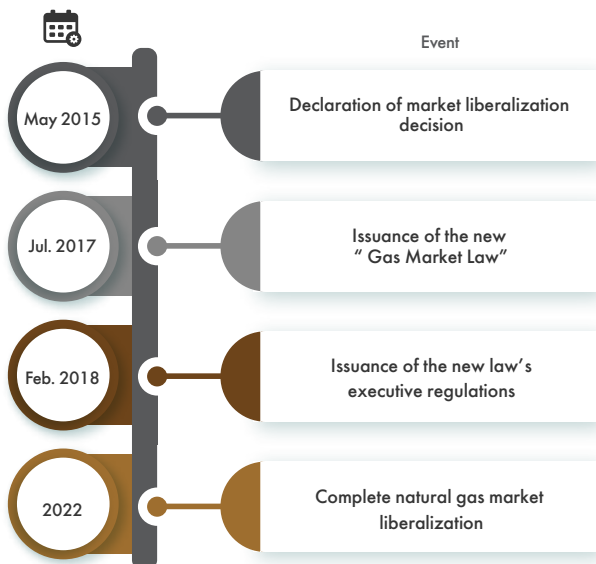
In Egypt, the supply chain in the natural gas market operates under the direction and supervision of the Ministry of Petroleum and Mineral Resources (MoP). The Egyptian natural gas market was first managed by the Egyptian General Petroleum Corporation (EGPC) before moving under the supervision of the Egyptian Natural Gas Holding Company (EGAS), according to the US Energy Information Administration's (EIA) Country Analysis Brief: Egypt in 2018. Prior to 2017, the natural gas activities in Egypt were covered by law No. 217 for 1980. Under this law, EGAS was responsible for all operations relating to exporting, transportation, and domestic supply of natural gas to different sectors. Post-2017, the situation changed with the approval of the new Gas Market Law No. 196 for 2017.

I. NATURAL GAS MARKET LEGAL FRAMEWORK

1. NEW GAS LAW

Before 2015, the decreasing supply and the growing demand of natural gas forced Egypt to spend billions to close the supply-demand gap. As a result, the government decided to liberalize the natural gas market to relieve the budget. In May 2015, the government announced the decision to allow private companies to use the state-owned national gas grid to import, transfer, and distribute natural gas to the local market.

MARKET LIBERALIZATION TIMELINE



The new Gas Market Law includes 53 articles, which are divided into five sections. Most importantly, the second section refers to the establishment of an independent

regulatory body, called the Gas Regulatory Authority (GasReg). The role of GasReg is to regulate, follow up and control all activities related to the natural gas market in Egypt.

The issuance of this law encourages private companies to enter the game of importing and distributing natural gas to the local market, as reported in the GasReg website.

THE NEW GAS MARKET LAW MAIN PROVISIONS

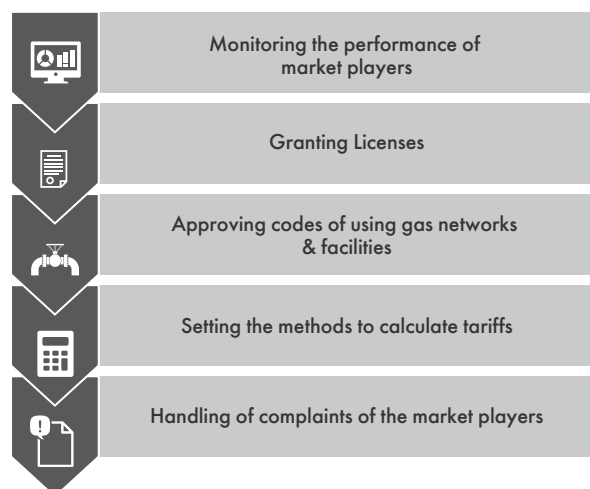


2. GASREG

GasReg is an independent authority established by the effect of the new law to maintain several objectives, including attracting new investments. In addition, the GasReg governs the market's mechanism for the importing, re-gasification, transportation, distribution, storage of natural gas, as well as setting its own financial resources and revenue streams, according to the authority's website.

The authority further introduces fair competition to the market by allowing "Third Party Access" to natural gas infrastructure. This is in addition to increasing the quality of services along with protecting the consumers' rights, according to the GasReg website.

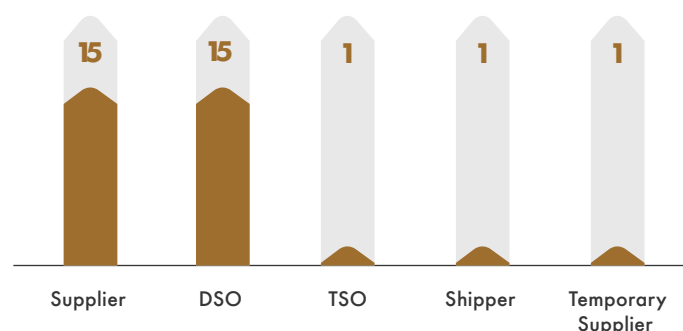
GASREG MAIN ROLES



If the application is incomplete, the applicant has 10 working days to complete the needed information. Otherwise, the application will be rejected if not completed in the determined period. In case of fraud information, the license will be immediately rejected or cancelled even after approval.

EGAS, the Egyptian Natural Gas Co. (GASCO), and 13 other companies, are the main applicants for the gas supplier license. GASCO, in addition to the 13 other companies, including Trans Gas, Town Gas and National Gas Co. (NATGAS) are also applicants for gas DSO licenses. EGAS is the shipper license applicant and GASCO is the TSO license applicant. However, Regas is the only temporary gas supplier license, according to the GasReg website.

NUMBER OF GAS LICENSEES PER TYPE

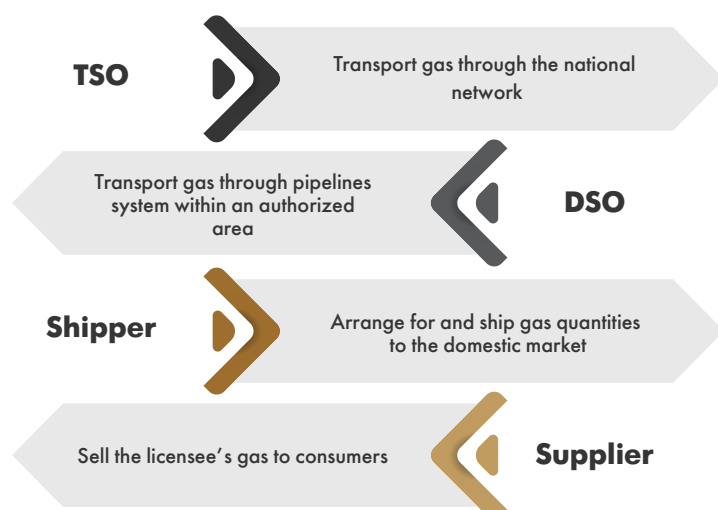


II. LICENSED ACTIVITIES

Since GasReg follows up with the process of issuing licenses as an initial step, it verifies the technical and the financial capabilities for the legal entity by asking for the license. Afterwards, the authority issues licenses for legal entities, called "licensees", in order to operate any of the gas market activities and identify the licensees' rights and obligations.

Licensed gas market activities are either for operating gas networks and facilities or for commercial activities such as gas shipping and supplying gas. There are four types of licenses issued by GasReg; which are the Transmission System Operator (TSO), the Distribution System Operator (DSO), the Shipper and Supplier licenses. TSO and DSO are those for managing gas networks. The Shipper and Supplier licenses are those concerned with commercial activities, according to the GasReg website.

LICENSES TYPES



2. LICENSE ISSUANCE FEES FOR 2021

The fees of the license are paid by the licensees to GasReg so as to have the permission to operate their activities domestically. License fees are calculated by a certain methodology. Such calculations are set on an annual basis, through multiplying the issuance fee by approved (licensed) gas quantities. When GasReg approves the application, the applicant has to pay the license fees within seven working days, according to the GasReg website.

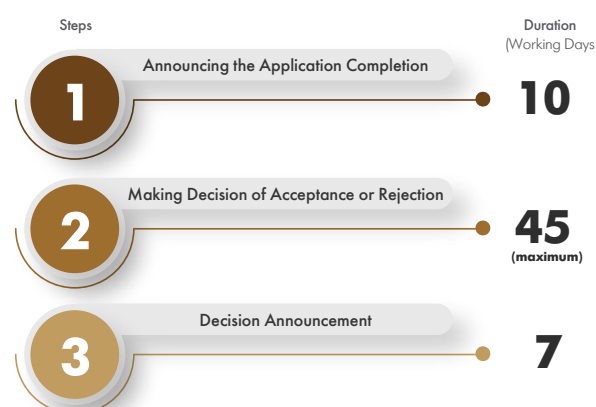
LICENSEES ISSUANCE FEES BY ACTIVITY FOR 2021

Activity	License Issuance Fees (cent/MMBtu)	Rate of Change (%) (YoY)
Transmission	0.0566	29
Shipping	0.0297	24
Distribution	0.0210	31
Supplying	0.0077	28

1. PROCEDURES & REQUIREMENTS

The application of the license can be submitted in the form of a hard or soft copy in a standard form with all required supporting documents.

PROCESS OF GETTING A LICENSE



3. TARIFFS

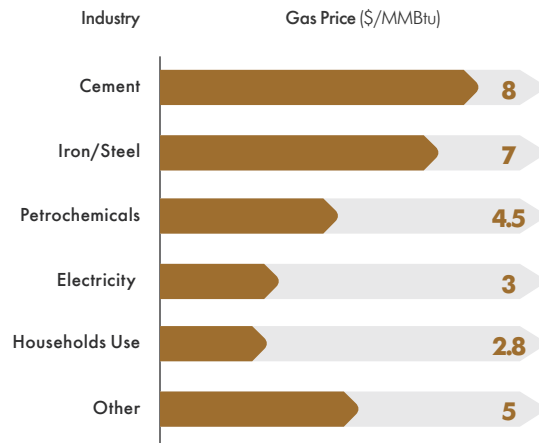
The network operators are responsible for calculating tariffs, according to GasReg methodology, to be imposed on the gas network users. After that, GasReg reviews the calculations and provides the respective approval upon successful applications.

Concerning the transmission activities through the national gas grid, GasReg set a tariff of 38.6 cents per Million British Thermal Unit (MMBtu) for 2021, in comparison to 37.52 cent/MMBtu in 2020. The tariff was determined in order to integrate the Egyptian market with the global gas markets. While for the distribution activities, the tariffs value is defined in accordance to the current applied active agreements, stated in the GasReg website

4. GAS PRICING TO DOWNSTREAM SECTOR FOR 2021

There are two gas pricing mechanisms. Both mechanisms are considered as long-term contracts between EGAS, DSOs, and consumers. Gas prices, that are set by a formula, are issued for the final products, according to the GasReg website.

GAS PRICES SET BY MINISTERIAL DECREES



III. FUNDAMENTAL LEGAL ASPECTS FOR LNG

Egypt is considered one of the two countries in North Africa – together with Algeria – that possess exceptional liquefied natural gas (LNG) infrastructure, including two liquefaction facilities.

LNG FACILITIES

Facility	Operator	Operating Year	Capacity (bcf/y)	LNG Destinations
Idku	ELNG	2001	353	Europe, Asia Pacific & US
Damietta	SEGAS	2004	264.8	Spain & Europe

After being an importer of LNG, Egypt succeeded in achieving self-sufficiency and became a pioneer in exporting LNG, especially to the European market in late 2018, according to EGAS annual reports. This success was supported by ownership of the exceptional LNG infrastructure as well as boosting natural gas discoveries. The future is also being nourished by promising deals in the LNG market.

EGYPT'S LNG EXPORTS DEVELOPMENT

FY	Exports (bcf)	Cargoes
2013/14	86	24
2014/15	0	0
2019/20	120	33

1. REGULATORY FRAMEWORK APPLIED TO LNG

The Egyptian LNG market is regulated by Gas Market Activity Law No. 196 of 2017 amended by law no. 13 of 2019, and also the Prime minister executive decree no. 239 of 2018. The laws define the LNG industry and activities related to storage and pipelines, in addition to all procedures regarding LNG restoration, according to GasReg's website.

The government has a key role in regulating the LNG market through establishing the necessary rules and providing incentives to develop the market across the value chain.

From another side, the Suez Canal Authority (SCA) regulates the LNG Navigation by setting decrees and periodicals amendments. These decrees encourage more LNG vessel owners and operators to transit the Canal by granting toll discounts to the LNG tankers mainly operating between the American Gulf, the Arabian Gulf, India and Eastern ports, according to the SCA's website.

2. LNG SALE & PURCHASE AGREEMENTS (SPAS)

LNG supply contracts usually take the form of long-term Sale & Purchase Agreements (SPAs), which can be renewed or extended. Yet, before concluding these contracts, some major aspects, such as the integrated business structure, should be taken into consideration. The owner of the LNG export facilities is the natural gas producer whose LNG revenue is obtained from a SPA signed with an integrated venture company, which is usually a joint venture (JV) company.

The price index is one of the important indicators that determine the terms of payment under the SPAs. This pricing mechanism differs significantly among the traded gas markets. Yet, there are other terms and conditions at the forefront of discussion while negotiating these types of agreements. Such terms and conditions include transport and unloading, level of commitment, volume of goods, freight transfers, transfer of ownership and risks, and raw materials for gas, explained by Mohamed Agamy, Managing Partner at Links & Gain Co.

A. FLUCTUATIONS IN PRICES & REVIEW PRINCIPLES UNDER SPAS

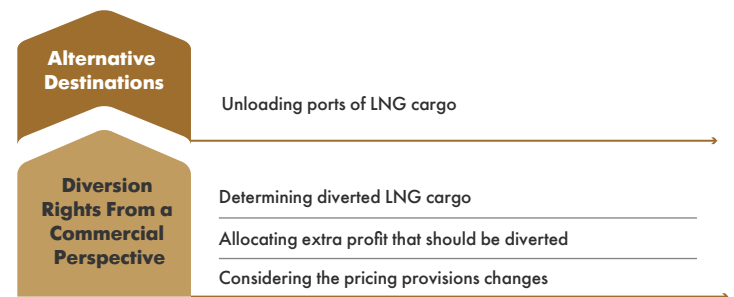
Commonly, the SPA contract's price should have an index to manage the price of LNG cargoes. However, prices are set out in agreements at a given point of time, regardless of the fluctuations that may occur in the future. Hence, price reviews should be included in the SPAs.

The date of the price adjustment should be considered as it may take effect from either the date of starting the price review process or from the date the amendment was approved.

There are also different forms of principles drawn from different conventions. For instance, the parties should not have control over setting a specific price. Also, the change must be based on technical evidence to avoid potential conflicts, according to Agamy.

B. DIVERSION RIGHTS IN SPAS – TERMS OF NEGOTIATIONS

DIVERSION TERMS & CONDITIONS UNDER THE SPA



C. TERMINATION PROVISIONS

If the seller fails to deliver the LNG cargoes. The buyer has the right to terminate and purchase an LNG replacement, as well as to claim the seller's liability obligation.

Under some circumstances, the buyer's termination rights may not be sufficient so other remedies from the sellers side should be set such as insurance and a maximum percentage determination of liabilities that may exceed the total contract value, explained by Agamy.

In line with the developments taking place in the Egyptian natural gas market, the MoP, during the past few years, was able to take bold steps in liberalizing the market. The restructuring of the legal framework and directive regulations assessed the ministry and the whole economy to harvest the benefits of the continuing success in the natural gas activities, and further attract more investments in the different market segments.

Furthermore, the introduction of the new Gas Market Law targets altering the structure of the market itself over the coming years. As the law paved the way for the private sector to engage in the gas transmission and relevant processes, the local distribution companies (LDCs) will operate the networks in a competitive environment that will generate the best service quality for citizens.