

Technical Talk on Commercial Aspects of Malaysia's Gas Sales Agreement



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OIL, GAS AND MINING TECHNICAL DIVISION

THE Oil, Gas and Mining Technical Division (OGMTD) had organised a presentation on 10 April 2010. The talk was presented by En. Mohd. Azlan Salim, a business analyst with Talisman Malaysia Limited. A total of 43 IEM members attended the talk.

The speaker started off in an interesting way by presenting a paragraph that had key concepts and phrases highlighted, thus providing an anchor point for his discussion and a focus point to which he returned to at the end of his presentation.

Launching into his presentation, En. Mohd. Azlan brought up basic financial concepts such as net cash flow to get the audience aligned. He then showed examples of various Production Sharing Contracts (PSC) and how the contracts differed from each other. He described how PSCs is not the only way to do business, concessions being another method.

Mohd. Azlan then described how the revenue from a barrel of oil would be split between royalty, the cost of oil, the contractor's oil profit and the host company's oil profit. From these tranches, he then showed how the revenue was eventually split between the host government, host company and the contractor. It was enlightening to note that the sample contractor company that he presented only enjoyed 10% profit on every barrel produced.

The audience was then introduced to a history lesson on the evolution of PSCs in Malaysia. A recent form of the PSC is the Revenue-over-Cost (RoC) Concept, which favours the contractor in the initial stages of the project, where the economics are generally not favourable to the PSC. In practical terms, the RoC PSC is set up in such a way that the oil cost portion is very large in the early stages of the project, thus increasing the contractors' profit of the barrel revenue.

Next, En. Mohd. Azlan discussed the topic of gas PSCs, and the similarities and differences with oil PSCs. The main difference is that there is no supplemental payment, no export duty and the need to consider the impact of Penalty Quantity (PQ) as stipulated in the Gas Sales Agreement (GSA). It was noted that the PQ was imposed as there was no practical way to 'store' the access gas produced, to be drawn on when the production rate does not meet demand.

The speaker then moved to explaining general economic principals such as net cash flow in greater detail. The audience delved deep into their financial training to analyse the typical cash flow and key indicators discussed, *e.g.* Net Present Value, Discount Profitability Index, Internal Rate of Return and Spider and Tornado Plots, after which the presentation was concluded. ■

IEM ENGINEERING WEEK 2011 19-26 March 2011

The Institution of Engineers, Malaysia (IEM) is pleased to announce that IEM Engineering Week 2011 (EW2011) will commence from 19 March until 26 March 2011.

This will be the fifteenth (15th) consecutive year that IEM is organising the event. The theme for this year's Engineering Week is 'ENGINEERING FOR A BETTER LIVING'. It represents IEM's continuous effort to enhance the image of the engineering profession amongst the community.

A one-week programme has been arranged to promote engineering aggressively and will include all aspects; the challenges, professionalism, exciting working environment and wide career options available to engineers. Society must be made to understand and appreciate the versatility of the engineering profession in providing them with a high standard of living. The target groups for these strategies should be the engineering related industries, IEM members, universities and schools.

The highlight of EW2011 will be the opening ceremony followed by a forum on "Engineering Stars" whereby prominent speakers will share their engineering experience with the public, fellow engineers as well as students. The event is scheduled to be held at the MATRADE Exhibition & Convention Center (MECC), Kuala Lumpur, on 19 March 2011. For details and registration, do visit the IEM website.

Kindly refer to the circular in the Bulletin and announcement in our website for details, contact the IEM Secretariat at 03-7968 4021 or email to mizi@iem.org.my for further information. Organisations willing to be part of EW2011 by organising their own events during that particular week are most welcome.

**The Standing Committee on Welfare and Service Matters
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