

PROJECT NOTE

Determination of Gas Pricing for Poor Households in Egypt

1. Objective of Gas Pricing Study

In order to enhance energy access, including to the poor, the Government of Egypt (GoE) aims to build 6 million residential gas connections over the next 10 years. Switching from LPG to natural gas has micro- and macroeconomic benefits and residential customers, gas distributors and the GoE benefit.

There are between 2-3 million poor and low income households that live near existing gas infrastructure in urban and semi-urban areas in Lower Egypt that are not connected and continue to use more expensive LPG to meet their domestic energy needs.

There are two major reasons why poor households are not being connected to gas network, despite the overall economic, social and health benefits, including

- the poor (and low income households) cannot afford gas connection fees; and
- gas retail tariffs are heavily subsidized and discourage network development to residential customers.

In August 2005, the GoE has requested Bank assistance to address those two issues in the context of a gas sector reform effort.

A typical poor household comprises of six people, with the man as the single income earner, and a monthly average income of up to LE700 (\$120). Current gas connection costs are LE2,500 (\$430). LE1,000 (\$170) is financed by EGPC/EGAS and LE1,500 (\$260) is collected from residential customers irrespective of household income. Poor households are unable to afford connection costs and thorough economic analysis and financing are required to ensure gas connections of poor households.

A working paper on “Connecting Poor Households to Natural Gas: An Economic Analysis and Financing Options” has been submitted to the GoE for discussions. As part of the analysis assumptions have been made about the economic price of gas into the domestic Egyptian market and the costs of supplying residential customers. To determine the actual costs of domestic gas is paramount to continued energy sector reform and enhanced access by the poor.

Since current gas retail tariffs are heavily subsidized network development is jeopardized. Review of the current tariff levels is in the center of the energy sector reform debate in Egypt and this gas pricing study will form the sound basis for gas pricing reform in Egypt, and determine gas pricing for poor households.

2. Steering Committee

To supervise the selection of a qualified consultant and to implement the study, the GoE has decided to establish a 'Steering Committee' comprising of representatives from the Ministry of Petroleum (MoP), Ministry of Finance (MoF), and the World Bank.

The Consultant will work closely with the Committee to carry out the study and will present its findings after completion of Task 1 (Economic Analysis) and Task 2 (Calculation of Economic Costs) to the Committee.

All draft and final reports, including supporting documentation, will be submitted to the Steering Committee. The MoP will coordinate and organize the meetings of the Committee.

The Steering Committee for the gas pricing study also supervises the work on developing financing solutions for gas connections to the poor under the GPOBA work program.

3. Scope of Work

A notification was published on 17 August 2005 on the World Bank external internet site, UNDB Online websites and dgMarkets. The notification sets out the scope of work, including two tasks:

- Task 1: develop most appropriate methodology for determining economic costs for supplying natural gas into the domestic Egyptian market,
- Task 2: calculate the costs at certain offtake points from the gas network.
- Task 3: calculate costs to provide gas to the poorest households.

Six Consultant have been invited to submit a detailed proposal to carry out the work. The deadline for the submission is November 23, 2005. A more detailed description of the requirements under each task is set out below.

4. Confidentiality Agreement

All data and information provided by the MoP is strictly confidential. The Consultant will sign a confidentiality agreement with the GoE on the study and shall not be entitled under any circumstances to release or use any data or information acquired during the process of the study.

5. Reports and Time Schedule

The study will be completed within 4 months after awarding the Consultant contract and it is envisaged that a final report, including supporting documentation and mathematical models, will be submitted to the Steering Committee by the end of April 2006. A more detailed time schedule is set out below.

- *Evaluation, Contract Negotiations and Contract Award*

It is envisaged that the contract will be awarded to the winning bid by early December 2005.

- *Project Kick-Off*

The project kick-off is envisaged to be in mid December. For the kick-off, the Consultant will travel to Cairo and meet with the Steering Committee and other relevant stakeholders.

It is expected that prior to the visit, the Consultant will research and analyze all relevant data and information that are publicly available and familiarize itself with the Egyptian gas market. During kick-off visit it is expected that the Consultant prepares a preliminary assessment of the various options to carry out the economic analysis under Task 1 and the associated modeling requirements and discusses those options with the Committee. Prior to the visit, the Consultant will send an outline of data and information requirements to the MoP. The MoP will provide relevant data and information that are necessary for the Consultant to carry out Task 1 and facilitate meetings with relevant stakeholders. The Consultant will prepare a draft confidentiality agreement and send it to the Committee prior to the kick-off visit.

- *Preparation of Economic Analysis and Presentation to Committee*

It is anticipated that Task 1 will be finalized within 6 weeks of the study kick-off and the Consultant will submit an ‘Analytical Report’ on Task 1 to the Committee 4 weeks after the visit to Cairo.

The Committee will review the Analytical Report and provide written feedback to the Consultant within 2 weeks after the submission. The Consultant is then expected to travel to Cairo to present the proposed method for calculating economic costs for supplying gas into the domestic market and an outline of the associated modeling approach under Task 2 to the Committee.

Prior to carrying out Task 2, the Committee will endorse the methodology and proposed modeling approach.

- *Calculation of Economic Costs and Submission of Report*

It is envisaged that preliminary results for Task 2 will be available 6 weeks after finishing of Task 1. The Consultant will submit a draft report on the ‘Economic Costs of Natural Gas in the Domestic Market in Egypt’ to the Committee. The Committee will review the draft report and provide written feedback to the Consultant within 2 weeks. The Consultant will present its findings to the Committee and submit a final report within 2 weeks after submitting the draft report, together with hard and soft copies of the supporting documents, calculations and mathematical models.

The final report on the ‘Economic Costs of Natural Gas in the Domestic Market in Egypt’ will include the economic analysis under Task 1 and the cost calculations under Task 2.

6. Summary of Deliverables

Timing	Deliverable
Task 1	
Contract signature + 3 weeks	Kick off
Kick off + 4 weeks	Analytical Report
Kick off + 6 weeks	Written feedback on report from Steering Committee and Presentation to Steering Committee
Task 2	
Finalization Task 1 + 6 weeks	Draft report ‘Economic Costs of Natural Gas’
Finalization Task 1 + 8 weeks	Written feedback on report by Steering Committee and Presentation to Steering Committee
Finalization Task 1 + 10 weeks	Submission of Final Report

7. Budget

All budget will be used to pay for the consultant's work and the supervisory budget for Bank staff will be covered through country budget.