Gas pipeline: Dispute and valuation

The early termination of a gas supply agreement gave rise to arbitration proceedings under the Rules of Arbitration of the Cairo Regional Centre for International Commercial Arbitration. FTI Consulting was appointed by the claimant, a gas trading company, to provide independent expert witness evidence on the loss suffered as a result of the interruption of its gas supply.

**SITUATION**

The claimant, a gas trader and pipeline operator, signed a gas supply agreement with a North African state-owned supplier of gas. Under the agreement, the claimant could purchase large volumes of gas over a period of approximately 20 years. The gas purchased by the claimant was transported in a purpose-built pipeline for sale to industrial customers in a neighbouring country.

Shortly after the commissioning of the pipeline, the claimant’s gas supply was interrupted in disputed circumstances and the underlying contract was terminated. The claimant sought compensation for the losses caused by the early termination of the agreement, including the lost profits from the resale of gas.

**OUR ROLE**

FTI Consulting performed a lost profits analysis based on a discounted cash flow model, building forecasts of the claimant’s profits had its gas supply not been interrupted based on detailed pricing analyses to account for the complex price adjustment mechanisms included in the claimant’s downstream sales contracts.

FTI Consulting’s lost profits assessment was supported by extensive analyses of the gas markets in the region and our conclusions were benchmarked to contemporaneous analyses and forecasts from third parties, reinforcing the evidence provided to the tribunal.

The FTI Consulting team included damages and a gas market experts, who were able to bring cogent insights on valuation and industry specific issues. The ability to draw together specific expertise is becoming more important, as disputes grow ever more complex.

**OUR IMPACT**

The arbitration tribunal accepted FTI’s cash flow analysis and underlying assumptions almost entirely and awarded more than one billion US dollars in compensation to the claimant. By contrast, the expert acting for the respondent had concluded that the claimant’s profit margin would be squeezed by increased competition in the region, and that the claimant’s loss could not exceed the investment value of the pipeline (a fraction of the lost profits eventually awarded by the tribunal).

“[…] having carefully considered each side’s analysis, the Tribunal is satisfied that the reality of the matter is that [the claimant] is likely to have maintained its margins. It accepts the result of FTI’s evidence.”