

Financial Modeling to Determine Customer Tariff



Perceptive**Analytics**

Data Analytics | Spreadsheet Modeling

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Benefits

The client, an Oil and Gas exploration company based in Algeria, North Africa was able to strike a balance between optimum investment and competitive tariff for the end users from the financial model.

Services

Financial Modeling

Modeling Aspects

Project Viability Assessment

Abstract

The client wanted to spin-off gas division of the company. The company expected that the spin-off would streamline operations and allow it to focus separately on oil and gas divisions with independent management teams.

We helped client assess the financial viability of the spin-off decision. The model presented a comprehensive control of key variables affecting the tariff rate. It calculated key metrics like ROI and IRR for a given tariff rate and also vice-versa enabling the client to set a competitive per gallon price.

Business Challenge

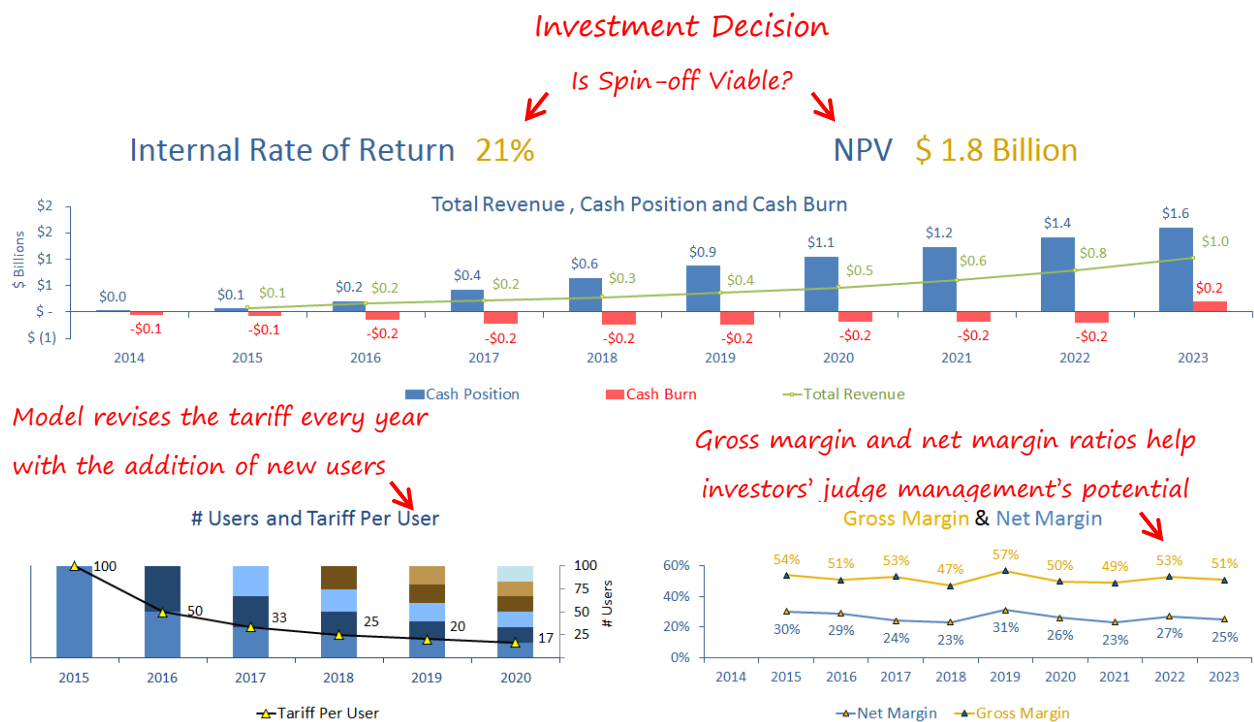
The company decided to spin-off its gas division and focus independently on it. The newly formed entity provides two types of services viz., gas distribution and gas filtration.

A major challenge in gas distribution business is fixing the tariff rate. CAPEX incurred for constructing gas pipelines (gas distribution) and other incidental expenditure has to be recovered in proportion of the volume of gas through different tariff rates. CAPEX incurred for constructing the gas plant (gas filtration) has to be recovered from sale of each standard cubic feet of gas produced.

Our Solution

Perceptive Analytics developed a unique methodology to allocate pipeline laying costs to multiple end users, which considered mutual interest of both the client and its end users. This helped the client offer best tariff rates to end users.

We built a model that separated inputs and assumptions relating to gas distribution and gas filtration businesses. The assumptions relating to the two businesses were further grouped as revenues, costs and capital expenditure giving user the ability to make finer adjustments. The model then calculated the tariff rates.



Impact

With the model calculating the tariff rate for given investments, the client was able to strike a balance between optimum investment and competitive tariff for the end users. It provided a quick summary of costs to be recovered from end users for both types of services. The model laid out in detail total investments needed and timelines for different investments. This helped the management to plan its cash flows in advance and execute the spin-off within a short period of time.

Perceptive Analytics

Perceptive Analytics is a Data Analytics and Financial Modeling services company. We deliver insightful solutions to C-level executives and managers in Fortune 500 companies, Private Equity, Investment Banking and Venture Capital industries and entrepreneurs. Our modeling services are useful for:

- Equity Research
- Enterprise Valuation
- Strategic Planning
- Financial Statements Review and Due Diligence
- Financial Projections and
- Budgeting and Reporting

We serve a diverse range of customers across a wide span of sectors such as Consumer Packaged Goods, Manufacturing, IT, Hotels, BFSI, Retail and Management Consulting. We help organizations of all sizes, from large global companies to start-ups seeking to establish their business.

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