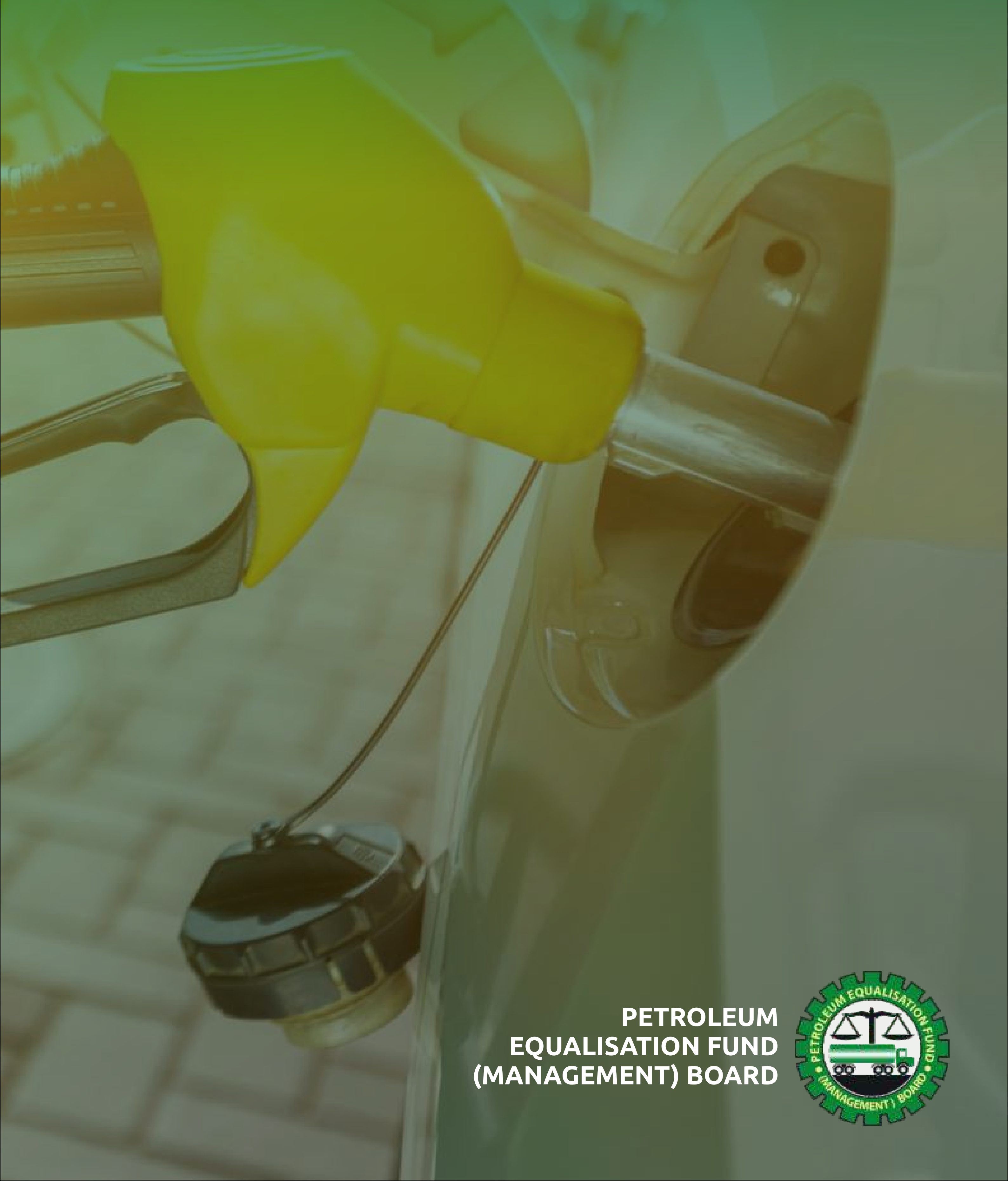
# THE-TRANSPORTATION EQUALISATION SCHEME
## AT A GLANCE



PETROLEUM
EQUALISATION FUND
(MANAGEMENT) BOARD

## INTRODUCTION

Between 1974 and 1975, most petrol service stations nationwide were characterized by long queues due to frequent severe shortages of petroleum products. The problem was compounded by the haphazard way marketers priced the product on the basis of transportation cost incurred by them.

In an effort to solve the problem, the Federal Government set up an inter-ministerial committee comprising the then Ministries of Mines and Power, and Transport, the Nigerian Port Authority, the Nigerian Railway Corporation and the Petroleum Products Marketers to examine the situation and make appropriate recommendations.

The committee observed that the only variable elements in the provision and sale of petroleum products at uniform prices nationwide was the transportation cost, which made prices to differ from one point to another. It therefore, blamed the limited local refining capacity and inadequate distribution facilities for the problem.

In line with the recommendation of the committee, Government introduced the Uniform Pricing System. In cognizance of the inequality in the transportation cost of distributing products throughout the country, the Petroleum Equalisation Fund Management Board was established.
The Fund which was established by Decree No.  Of 1975 (as amended by Decree No. 32 of 1989), was charged with the primary responsibility of reimbursing petroleum-marketing companies for any losses suffered by them, solely and exclusively, as a result of the sale of petroleum products at uniform prices throughout the nation.

## CORPORATE MANDATE OF PEF(M)B

**The corporate mandates of the Boards are:**

- To ensure that the Uniform Pricing Mechanism works effectively throughout the country.

- To apply the laws of the Federal Republic of Nigeria as they affect the Uniform Pricing System, vis-à-vis decree No. 9 of 1975 (as amended by Decree no. 32 of 1989), establishing the Fund and the Board, in ensuring that each marketing company complies with the laws regarding the management of the transportation equalization process.

- To equalize the transportation differentials in the white product marketing.

- Section 1 of the 1975 Act states that there is hereby established a Fund to be known as the Petroleum Equalisation Fund "(hereafter in the act referred to as the Fund)". The Act further states that net surplus revenue/money recovered from oil marketing companies pursuant to the provision of the Act, and such other sums of money as may be determined for that purpose by the Federal Government, shall be paid to the Fund.

- The Act states in S.2 that the fund shall be utilized for the reimbursement of oil marketing companies for any loss sustained by them, SOLELY AND EXCLUSIVELY, as a result of the sale by them, of the petroleum produced at uniform prices throughout the country.

## THE IMPLICATION OF EQUALISATION PROCESS

I.The consumer pays the in-built transportation cost of N2.99 per litre irrespective of where the products are purchased, whether in zone 1 or in zone 9.

ii.Transportation cost is related to distance travelled between the points of lifting the products (Depots) and the points of sale (outlets).

iii.The marketer serves as an agent of the PEF (M)B in collecting the allowance built-into the price structure, and transfers same to the board for equalization or bridging purposes.

## TRANSPORTATION DIFFERENTIAL ZONES

For effective implements ion of the equalisation functions to achieve the uniform pricing of petroleum products, the country was divided into depots districts, and such districts were further sub-divided into zones.

A depot district is the part of the country served by a particular depot. There are presently over 70 NNPC and private owned depots nationwide, where products are loaded and 21 receiving depots.

The depot districts are then sub-divided into 50 kilometres radius each, known as zones. These ones are progressive bands of 50 km radius, with the depot as the entre-point to the maximum of (9 nine zones), that is a total of 450km. the zones are applied to determine the position of all petroleum products dispensing outlets. Each outlet is allocated to a depot, and the distance between them applied in determining the transportation cost of moving the product, which is the only variable factor in uniform pricing. This arrangement is effected by the use of the transportation Differential Zone (TDZ) map.

## EQUALISATION PROCESS

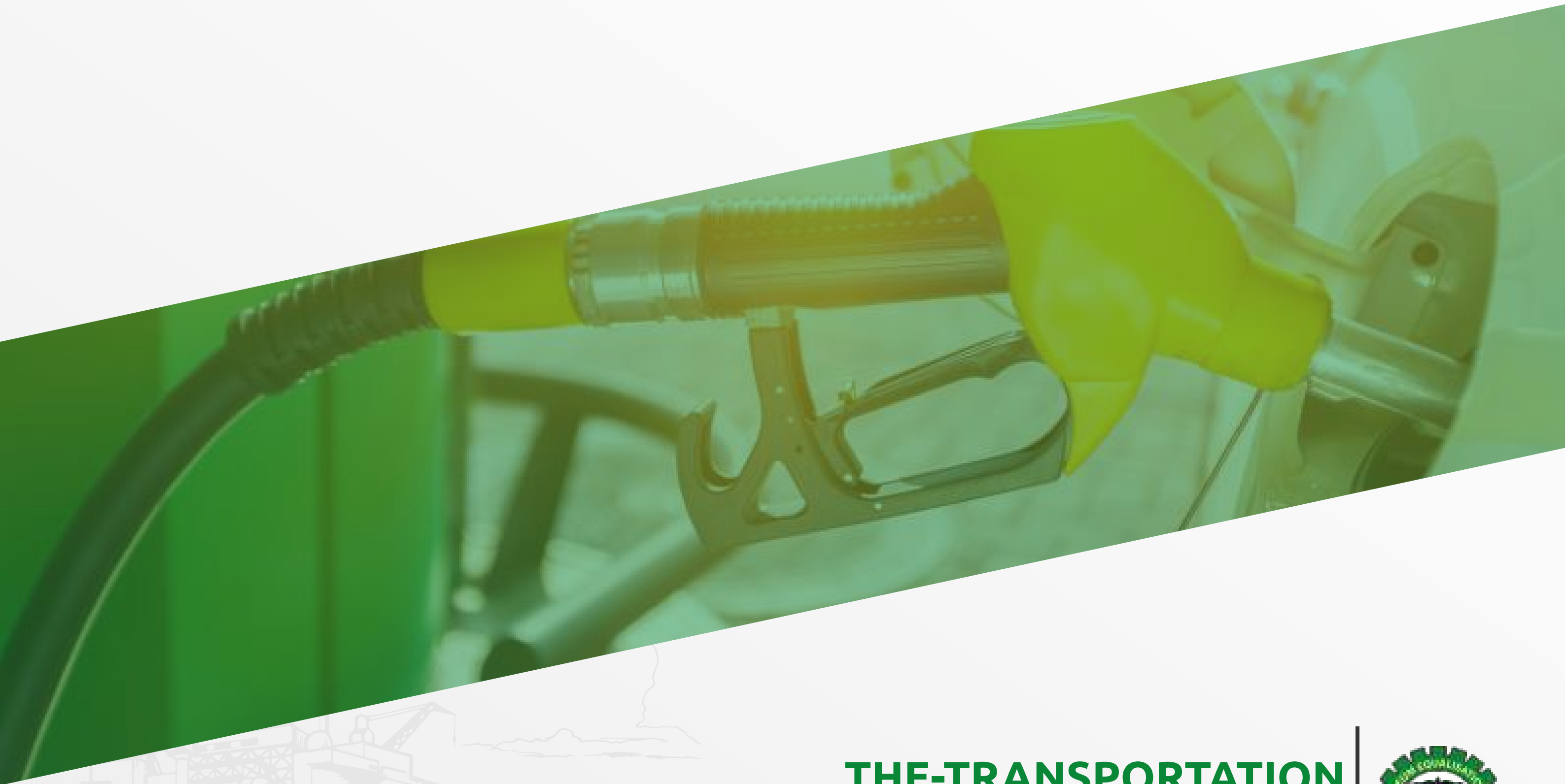
To effect equalisation, all marketers are required to submit returns to the PEF (M) B in relation to products lifted from each depot to the respective zones within the district. The net effect of the returns culminates in either claims from, or contribution to the Fund.

## CONTRIBUTIONS TO THE FUND

For every litre of petroleum transported within zone 1 and 2, the marketer has a Transportation allowance built into the price of the product, which he or she holds in trust on behalf of the consumer, and is required to turn over to the Board.

## CLAIMS FROM THE FUND

For every product transported from zone 3 through to zone 9, the marketer submits claims to the PEF (M)B for the additional transportation cost incurred above the National Transportation Average (NTA). The Board thus, reimburse the marketer for the losses incurred, solely and exclusively, for transporting the products for sale at a uniform price in those zones.



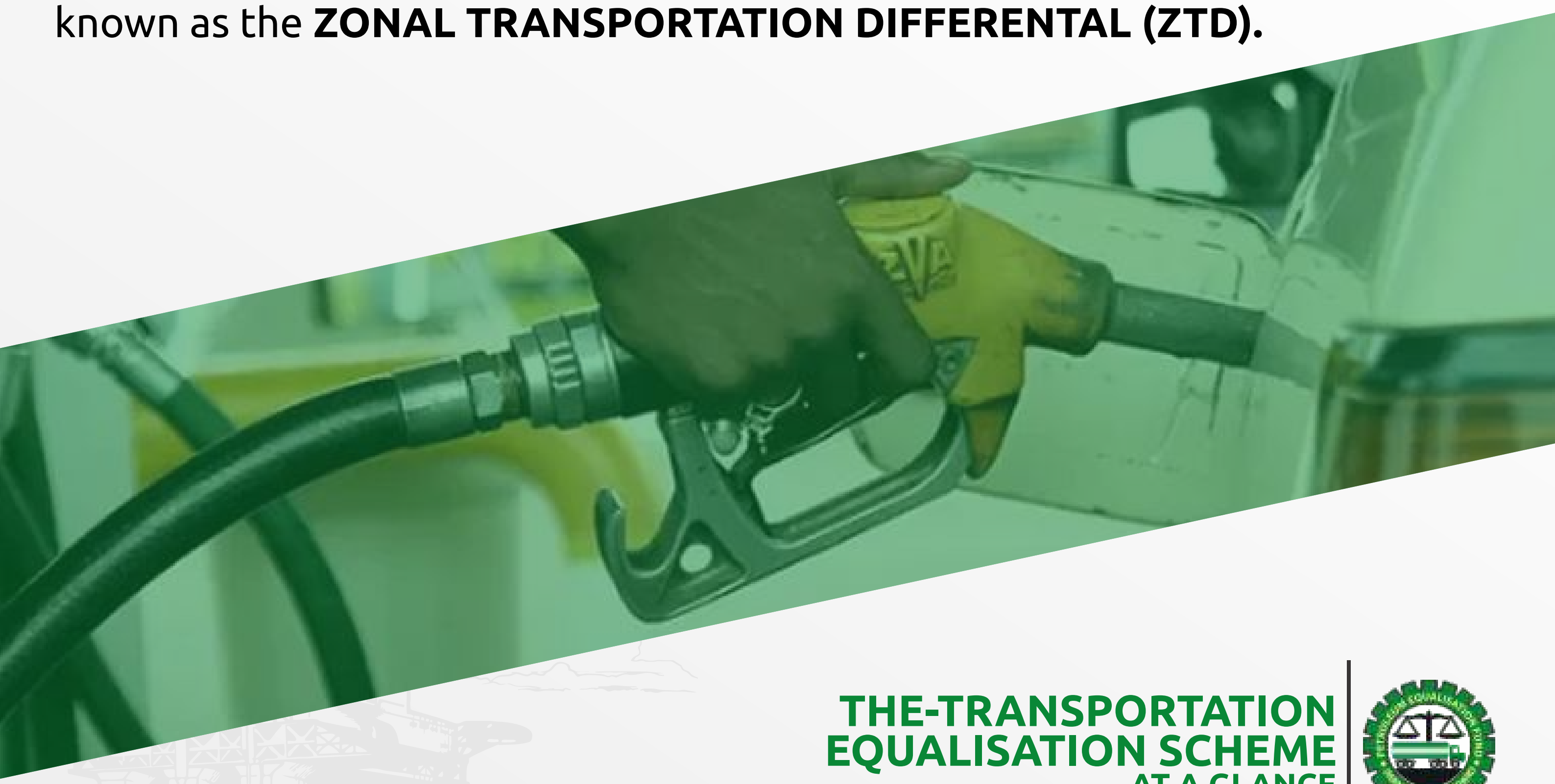
## TECHNICAL MODALITIES FOR EQUALISATION

**The marketer owns petroleum products outlets (filling or service stations) which are allocated respective supply points (Depots)** by the PPMC. For outlets located in any zone, the cost of transportation is given at a rate known as the **ZONAL TRANSPORTATION RATE (ZTR).**

The rate varies greatly according to the location of the outlet/filling or service station. The further the zone where the outlet is located from the Depot, the higher the rate.

Factored into the uniform pump price of petroleum products is an allowance of transportation known as the **NATIONAL TRANSPORTATION AVERAGE** (NTA) allowance.

The NTA is thus only an average and each zone has an actual cost depending on the distance from the depot of loading. In practice, the NTA is only sufficient to transport 1 (one) litre of product to any point within the first two zones (zone 1 and 2) with a limit thus, of 100km. therefore, the cost of transporting a litre of petroleum product beyond these zones (zone 3, 4, 5, 6, 8 and 9): that is over 100 to 450km is higher than the approved rate.
The difference between the actual cost per zone (ZTR) and the NTA is known as the **ZONAL TRANSPORTATION DIFFERENTAL (ZTD).**



## PRODUCTS UNDER EQUALISATION

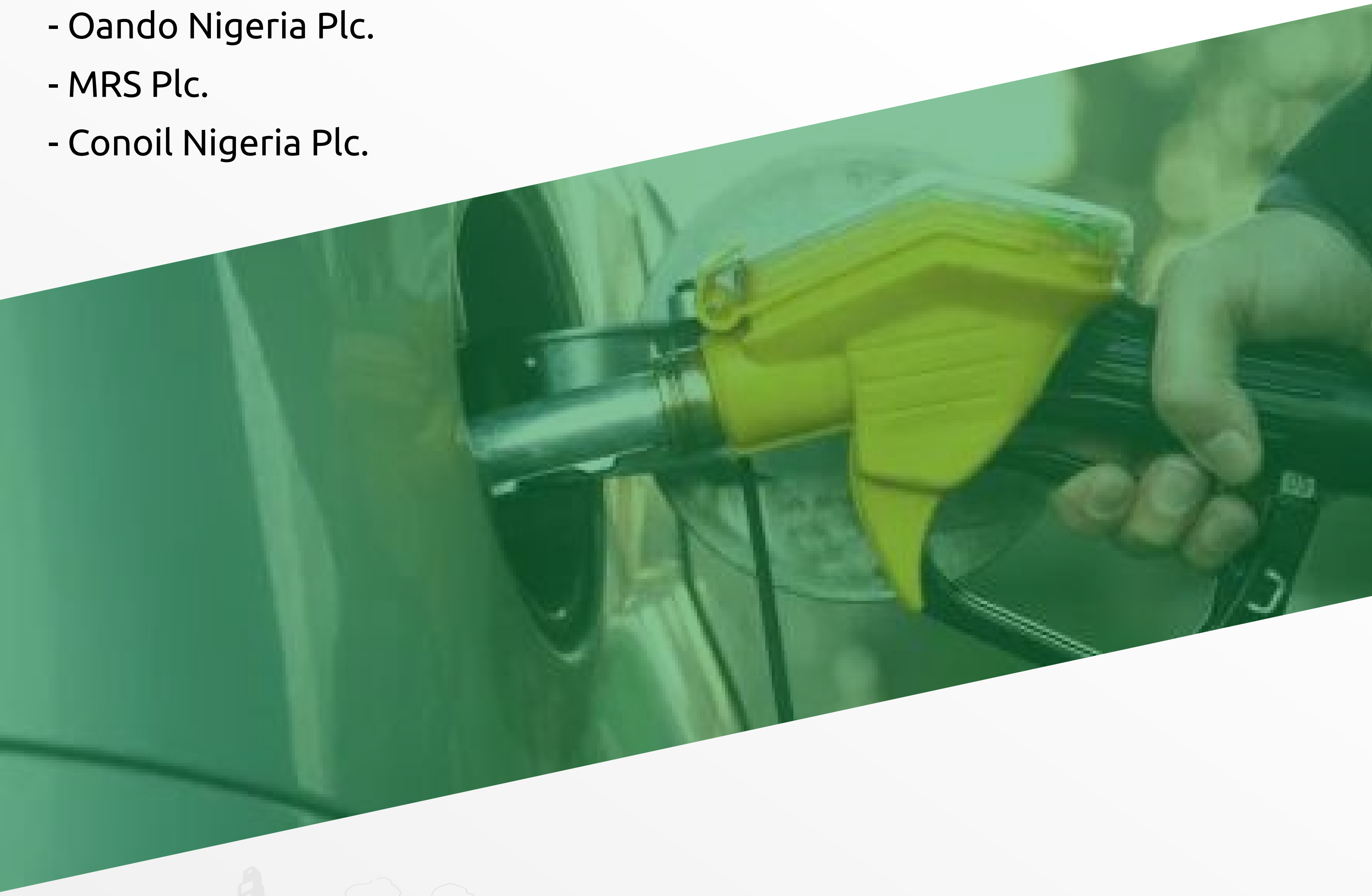
The following Petroleum products are coved under the equalisation scheme:

- Premium Motor Spirit (PMS)
- Dual Purpose kerosene (DPK)

MAJOR MARKETING COMPANIES COVERED BY THE SCHEME

The following 6 (six) major marketing companies are involved in the scheme.

- Mobil Oil Nigeria Plc.
- Forte Oil Plc.
- Total Nigeria Plc.
- Oando Nigeria Plc.
- MRS Plc.
- Conoil Nigeria Plc.



## INCORPORATING OF INDEPENDENT PETROLEUM MARKETERS INTO THE EQUALISATION SCHEME

The Government approved the inclusion of independent Petroleum Marketers in the equalisation process, in order to fully achieve the objectives for establishing the scheme, unlike in the past when there was no independent marketer, they now constitute a large number of the total roll of marketers.

Up till when the importation of petroleum products was partially deregulated in December, 1998, transportation equalisation within the structure of the Transportation Differential Zones (TDZ) system excluded independent Marketers who have outlets far away from the depots were not getting fully reimbursed for their transportation cost.
Conversely, Independent Marketers that have retail outlets near depots were obtaining from NTA, transportation allowance in excess of their actual transportation costs.

# INCORPORATING OF INDEPENDENT PETROLEUM MARKETERS INTO THE EQUALISATION SCHEME

INTER DISTRICT

This scheme was introduced in 2004. The scheme seeks to reimburse marketers who move products from one district depot to another under 450km, but without bridging support.

BRIDGING FUND

Bridging is the movement of products by road haulage from one depot district to another, over a distance of 450km. this movement is an arrangement to complement movement of products through the pipeline during period of breakdown and/or maintenance of the pipeline network or Turn-Around Maintenance of refineries.

Hitherto, bridging was entirely undertaken at full government's expense. However, a BRIDGING ALLOWANCE of N 6:00 per litre has been incorporated into the pump price of petroleum products for the financing of the system, like the NTA, the mandatory bridging allowance per litre is held in trust for PEF (M) B by the marketers, who collect and pay the aggregate amount based on the returns on their lifting for the maintenance of a BRIDGING FUN. This fund provides the source for settling all claims made by the marketers for bridging.

## CONCLUSION

The National Transportation Allowance (NTA) is given to all Marketers at the deport when they lift white petroleum products. On delivery of the product, the marketers make returns to the PEF (M)B, to claim the difference, if the actual transportation cost from the depot to the retail outlet exceeds the NTA. Conversely, if the NTA exceeds the actual transportation cost from the depot to the retail outlet, the marketer pays the difference or makes a contribution to the fund.

The PEF (M) is a scheduled parastatal of the Ministry of Petroleum Resources, which has been undergoing reorganization and restructuring since 1996, to enhance its efficiency and effectiveness.

The introduction of Project Aquila- an automated electronic business operations solution-has greatly enhanced efficiency of the Board's Operations and Service delivery to its stakeholders.

The electronic dispatch and receipt of petroleum products ensures faster and transparent claims processing with a resultant effect of prompt payments and availability of petroleum products across the country.

The management of PEF(M)B is constantly striving to improve its operational efficiency to enable it take its proper position in the industry.
The success recorded so far justify the efforts put in, as the Board joins other participants in the petroleum industry to serve the nation better.

We hope that this effort at helping you to understand what we do, and how we do it has been informative. However, if you still have some questions, please do contact:

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