



(آئل اینڈ گیس ریگولیٹری اتھارٹی) OIL & GAS REGULATORY AUTHORITY
"SAY NO TO CORRUPTION"

OGRA-10-11(8)/2015

October 7, 2016

Managing Director,
Pakistan State Oil Limited,
PSO House, Khayaban-e-Iqbal,
Clifton, Karachi.

Subject: Determination of Re-gasified Liquefied Natural Gas (RLNG) for the period
February, 2015 and June, 2016

Dear Sir,

السید

Reference PSO's petitions on the subject whereby RLNG final price was requested to be reviewed pursuant to the ECC decision dated June 14, 2016.

2. In view of above, the decision of the Authority on the subject is enclosed herewith.

Regards

Yours truly,

Abdul Basit Qureshi

Abdul Basit Qureshi
Registrar

C.c:

1. Managing Director, SSGCL, St-4-B, Block 14, Sir Shah Suleman Road, Gulshan-e-Iqbal, Karachi.
2. Managing Director, SNGPL, 21-Kashmir Road, Gas House, Lahore.



1. BACKGROUND

- 1.1. In order to mitigate the energy shortfall, the Economic Coordination Committee (ECC) of the Cabinet approved legal framework to carryout RLNG pricing on monthly basis and advised OGRA to determine the same under Petroleum Products (Petroleum Levy) Ordinance, 1961 (PL Ordinance), on monthly basis in line with other Petroleum Products.
- 1.2. Accordingly, OGRA determined RLNG price on provisional basis on October 07, 2015. Being aggrieved by OGRA's decision, the petitioners' (PSO, SNGPL & SSGCL) filed motion for review. OGRA, while disposing off the petitioners' motion for review determined RLNG price on actual basis for the period April 2015 to February 2016 on March 18, 2016. The breakup of the same is as under;

US\$/MMBTU										
Sr #	Particulars	Apr-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Dec-15	Jan-16	Feb-16
	No of Cargos	1	2	3	1	2	1	2	1	2
	Quantity Received (MMBTu)	3,270,270	6,540,823	9,053,938	3,139,390	6,304,920	6,023,900	6,451,980	3,313,030	6,331,320
i	LNG Price (DES)	7.9459	7.9603	8.3217	7.6142	7.7768	7.1283	7.4841	8.0103	7.2111
ii	PSO's other imports related actual costs	0.0562	0.0567	0.0353	0.0227	0.0227	0.0223	0.0223	0.0224	0.0224
iii	PSO margin	0.1986	0.1990	0.2080	0.1904	0.1944	0.1782	0.1871	0.2003	0.1803
iv	Terminal Charges	0.6600	0.6600	0.6600	0.6600	0.6600	0.6600	0.6600	0.6600	0.6600
v	Retainage	0.0596	0.0597	0.0624	0.0571	0.0583	0.0535	0.0561	0.0601	0.0541
vi	Transmission losses	0.0397	0.0398	0.0416	0.0381	0.0389	0.0356	0.0374	0.0401	0.0361
	RLNG Price without GST	8.9600	8.9755	9.3290	8.5824	8.7511	8.0779	8.4470	8.9931	8.1639
Note:										
1 The above prices have been computed on the basis of data provided by M/s PSO including some provisional invoices. The parties shall scrutinize the same on the basis of evidences before making payments as per their mutual agreements.										
2 Any adjustment upon audited figures/actuals of provisional expenses (Currency exchange gain/loss, PQA etc), may be carried forward in future prices.										

- 1.2.1. In the above price, Terminal charges were taken at the levellized tariff of 0.66 US \$ per MMBTU in accordance with the decision of the Cabinet dated April 18, 2014. Transmission losses were determined @ 0.5%, Distribution losses were subsequently applied as per OGRA benchmark i.e 4%. Retainage was allowed @ 0.75%. Further, Cess imposed by Sindh Government on LNG import was not allowed in RLNG price on the premise that no such cess is applicable in case of import of other petroleum products.
- 1.2.2. The Authority was facing deficiency of quorum since April 15, 2016. Accordingly, RLNG prices on actual as well as on provisional basis were not further issued. M/s PSO, in the meanwhile, submitted the data for computation of RLNG price on provisional/actual basis. It has now submitted the actual prices upto June, 2016, which are being considered as part of this determination by the Authority.
- 1.3. The ECC of the Cabinet vide its decision dated June 06, 2015 had approved RLNG pricing components/mechanism and also constituted a committee comprising of; Secretary Finance Division, Secretary MP&NR, Secretary Water & Power, Secretary Law Justice & Human Rights, to review the RLNG pricing and submit the report within three months.



The committee submitted its report and on the basis thereof MP&NR submitted a summary for approval of ECC of the Cabinet. The ECC of the Cabinet considered the summary in its meeting held on June 14, 2016 and approved the recommendations of the Committee, as under:

- i. LNG DES Price to be taken as per contract(s).
- ii. Port charges will also be taken at actual including amount reimbursed to supplier as per relevant agreement. There was a consensus that all relevant cost may be allowed to PQA to sustain its operation along-with a reasonable profit margin.
- iii. PSO was advised to take up the matter with Sindh Govt for non-applicability of Sindh Infrastructure Cess in line with other "Petroleum Products". The MP&NR was also advised to facilitate PSO accordingly. It was also agreed that pending the ultimate settlement of this issue, the said Cess will also be included in RLNG Price.
- iv. PSO margin will be determined at 2.50%.
- v. All charges under LSA including but not limited to capacity charges and utilization charges as well as Retainage are to be included at actual. SSGCL & PSO will share all relevant details with OGRA.
- vi. SSGCL's margin for LSA Management to be determined @ 0.025/MMBTU to be treated as non-operating income.
- vii. Transmission Losses to be determined and charged at actual subject to a maximum of 0.5% (to be shared by gas companies based on length of Transmission line involved).
- viii. Distribution losses to be determined and charged at actual. The said loss for the customers located on high pressure transmission lines as well as those customers who are willing to lay their dedicated line from SMS/TBS at their own cost shall also be determined and charged at actual. However, for other customers on distribution lines, an actual average UFG for the last financial year will be taken in determination.

1.4. The Authority observes that decision of the ECC of the Cabinet on the review of RLNG pricing components impacts the RLNG price in the following manner:

- (i) **Terminal Charges:** All charges as per LSA signed between ENGRO Elengy Terminal Limited (EETL) and SSGCL under LSA including but not limited to; capacity charges, utilization charges and flexibility charges as well as Retainage have to be included at actual. Accordingly, terminal charges shall not be uniform on monthly basis, rather it shall vary keeping in view the LNG supplies.

- (ii) **T&D losses:** UFG losses at actual shall form part of RLNG price.



- (iii) **Sindh Govt. Cess:** PSO had paid the cess upto September 2015. ECC has now allowed the reimbursement of actual payment made by PSO which shall form part of RLNG price.
- (iv) **SSGCL Margin for LSA Management** has been allowed @ \$ 0.025/MMBTU as non-operating income.

1.4.1. In view of above, M/s PSO has forwarded differential claim along with justification for the period March, 2015 to February, 2016 and also requested for RLNG price determination on actual basis for the period March, 2016 to June, 2016. In view of the decision of ECC and after considering the submission made by PSO, the Authority observes as under;

- (i) "LNG DES price" and "PSO import related cost" has been included on the basis of actual payments made and identified by auditors. Accordingly, adjustment on this account has been included.
- (ii) Sindh Government Cess is based on the actual payment to Govt. of Sindh upto September, 2015.
- (iii) PSO margin also observes a minor change owing to DES price adjustment.
- (iv) Terminal charges include Capacity charges, Utilization charges and Flexibility charges. SSGCL has also included surveyor charges pursuant to Clause 18 and 26 of LSA which after ECC approval becomes admissible. The Authority observes that capacity charges for year-1 i.e. March, 2015 to February, 2016 have been claimed at 95% availability factor as per LSA. However, in year-2 the capacity charges have been claimed at varied percentages ranges from 86.97% to 100%. The matter was discussed and deliberated in detail with the concerned, who explained that Annual LNG Delivery Schedule and Daily Profile Factor has not yet been finalized / agreed between SSGCL & EETL for year-2. LSA however, stipulates to maintain flexibility profile at 95% on an annualized basis. The Authority further observes that flexibility charges appearing in March, 2016 are disputed between SSGCL & EETL owing to different interpretations of LSA by SSGCL & EETL. Condition of applicability of flexibility charges may arise, when ever re-gasification of RLNG exceeds the agreed quantities. Since M/s EETL and SSGCL has not yet agreed annual program, therefore, the Authority decides to allow terminal tariff as per its claim. However, final adjustment in respect of terminal tariff viz; capacity, utilization and flexibility charges shall be made at year end considering the audited figures. The Authority, however, directs the companies to effectively manage LNG supply as planned per LSA, in order to ensure optimum utilization in larger national interest.

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- (v) M/s SSGCL has also claimed Stand By Letter of Credit and other charges @ US\$ 0.01266 per MMTBU. The Authority observes that SSGCL margin for LSA management US\$ 0.025 per MMBTU as non-operating income has also been allowed on this account. Accordingly, no additional expense can be allowed in RLNG price on this account.
- (vi) T&D losses and retainage has also been claimed as per ECC decision. Accordingly, in transmission network there has been gain @ 0.39% and 0.12% applicable for FY 2014-15 & FY 2015-16 respectively. In case of T&D losses (combined), ECC has approved for inclusion of the same as per actual results, accordingly it has been included at 10.57% and 10.97% for FY 2014-15 & FY 2015-16 respectively. Regarding retainage, it has been maintained @ 0.75% till the audited figures are made available as per the terms of LSA and scrutinized as well.
- (vii) SNGPL and SSGCL has also included cost of supply in accordance with the ECC decision which provides that all the cost related to RLNG shall be ringfenced and charged to RLNG consumer. Accordingly, the incremental cost of supply related to RLNG segment has been included in RLNG price. In case of SSGCL, claim w.r.t to EETPL pipeline has not been allowed by the Authority considering Clause 8.10 of LSA, which explicitly states that the pipeline has been transferred to SSGCL at no cost basis. In view of the same, the said pipeline does not qualify for the return.
- (viii) In view of above, RLNG price has been computed and enclosed herewith at Annex-I & Annex-II.


1.5. The Authority also observes that RLNG pricing is carried out under Petroleum Development (Petroleum Levy) Ordinance 1961 (PDL Ordinance) and policy guideline of the Federal Government, which lists down the pricing components and parameters forming RLNG price. The Authority, under the PDL Ordinance exercises the delegated powers conferred by the Federal Government. Accordingly, OGRA role practically involves computation of RLNG price wherein aggregate of pricing components as decided by FG forms RLNG price, in line with the petroleum products pricing. The optimum legal recourse to this activity is that RLNG pricing may also be carried out under OGRA Ordinance.


1.6. The Authority also agrees with petitioner's contention wherein it has been submitted that cost of supply, retainage and T&D losses cannot be determined on monthly basis. Under the existing framework, these are determined on yearly basis. The actual figures computed on yearly basis has been applied on monthly basis. Further, in respect of T&D losses, the prudent recourse is to adjust the same volumetrically on account of RLNG. The ECC decision however makes it RLNG pricing component. Further, it has been observed that

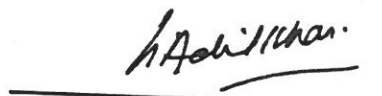


there is difference in LNG volume received and RLNG volume delivered. This requires reconciliation of volumes on perpetual basis since RLNG is ring-fenced activity under different set of framework; the same therefore can't be mingled with normal business.


- 1.7. The Authority further observed that month wise RLNG prices determined by OGRA, as per Federal Government's decisions, are applicable only for consumers of gas companies. This price has no application for private parties procuring LNG itself or through PSO under the mutual considerations. Further, access to SNGPL & SSGCL's T&D network by such private RLNG shippers is also a commercial activity under TPA, mutually agreed between the parties. The transportation charges earned by gas utilities on this account shall form part of Revenue Requirement determined under Section 8 of the OGRA Ordinance, 2002 for the same financial year.



Noorul Haque
Member (Finance)


Aamir Naseem
Member (Gas)


Uzma Adil Khan
Chairperson

Islamabad, October 07, 2016


REGISTRAR
Oil & Gas Regulatory Authority
Islamabad


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Computation of Revised LNG/RLNG Price

Annex I

US\$/MMBTU

Sr. #	Particulars	Apr-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Dec-15	Jan-16	Feb-16
	No of Caroes	1	2	3	1	2	2	2	1	2
	Quantity Received (MMBTU)	3,270,270	6,540,623	9,053,938	3,139,390	6,304,920	6,023,900	6,451,980	3,313,030	6,331,320
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iii	PSO margin	0.1986	0.1990	0.2080	0.1904	0.1944	0.1782	0.1871	0.2003	0.1803
iv	Terminal Charges	0.6600	0.6600	0.6600	0.6600	0.6600	0.6600	0.6600	0.6600	0.6600
v	Retainage	0.0596	0.0597	0.0624	0.0571	0.0583	0.0535	0.0561	0.0601	0.0541
vi	Transmission losses	0.0397	0.0398	0.0416	0.0381	0.0389	0.0356	0.0374	0.0401	0.0361
A	RLNG Price (without GST) determined by OGRA	8.9600	8.9755	9.3290	8.5824	8.7511	8.0779	8.4470	8.9931	8.1639

Adjustment on account of RLNG Price Pursuant to Decision of the ECC of the Cabinet Dated 27.6.2016

PSO Related Adjustments

DES Adjustment

Incidentals Adjustment

Sindh Government Cess

PSO Margin (actual)

PSO Margin (previous)

(0.13778)	(0.12717)	(0.03573)							
(0.00381)	(0.00894)	0.00725	0.01651	0.01691	0.01775	0.01684	0.01660	0.01821	
0.07256	0.07255	0.0907	0.07974	0.08471					
0.19520	0.19583	0.20715	0.19036	0.19442	0.17821	0.18710	0.20026	0.18028	
(0.19860)	(0.19900)	(0.20800)	(0.19036)	(0.19440)	(0.17820)	(0.18710)	(0.20026)	(0.18028)	
(0.07243)	(0.06674)	0.06132	0.09624	0.10164	0.01776	0.01684	0.01659	0.01821	

B. Net PSO Related Adjustments

Terminal Charges

Terminal Charges per LSA (actual)

Terminal Charges (previous)

LSA independent Surveyor Charges

1.8837	1.6372	1.4163	1.8990	1.2640	0.9758	1.3675	1.6818	1.4053	
(0.6600)	(0.6600)	(0.6600)	(0.6600)	(0.6600)	(0.6600)	(0.6600)	(0.6600)	(0.6600)	
0.00073	0.00073	0.00073	0.00073	0.00073	0.00073	0.00073	0.00073	0.00073	
1.2244	0.9779	0.7570	1.2397	0.6047	0.3165	0.7082	1.0225	0.7460	

C. Net Terminal Charges

D. SSGCL Margin for LSA Management

0.0250	0.0250	0.0250	0.0250	0.0250	0.0250	0.0250	0.0250	0.0250	
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Cost of supply SNGPL

Cost of Supply SSGCL

		0.2241	0.2190	0.2183	0.2163	0.2176	0.2174	0.2179	
		0.0467	0.0456	0.0455	0.0451	0.0454	0.0453	0.0454	

E. Total Cost of Supply (incremental Ring fence

		0.2708	0.2646	0.2638	0.2614	0.2629	0.2627	0.2633	
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F. Retainage

Retainage (adjusted)- 0.75%

Retainage (previous) -0.75%

0.0586	0.0587	0.0621	0.0571	0.0583	0.0535	0.0561	0.0601	0.0541	
(0.0596)	(0.0597)	(0.0624)	(0.0571)	(0.0583)	(0.0535)	(0.0561)	(0.0601)	(0.0541)	
(0.001)	(0.001)	(0.000)		0.000	(0.000)	0.000	(0.000)		

UFG (Transmission)

Transmission Charges (actual)- gain

Transmission Charges (previous) Loss 0.5%

(0.0305)	(0.0305)	(0.0099)	(0.0091)	(0.0093)	(0.0086)	(0.0090)	(0.0096)	(0.0087)	
(0.0397)	(0.0398)	(0.0416)	(0.0381)	(0.0389)	(0.0356)	(0.0374)	(0.0401)	(0.0361)	
(0.0702)	(0.0703)	(0.0515)	(0.0472)	(0)	(0)	(0)	(0)	(0.0447)	

G. Net Transmission Losses

H. TOTAL RLNG Price (without GST) on Transmission (A:G)

10.0658	9.8404	10.3914	10.1608	9.6981	8.6544	9.4136	10.2702	9.1717	
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I. UFG T&D loss (Actual)

0.8253	0.8280	0.9090	0.8353	0.8531	0.7820	0.8210	0.8787	0.7911	
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J. TOTAL RLNG Price (without GST) on Distribution (G+H-G)

10.9216	10.6989	11.3103	11.0052	10.5605	9.4449	10.2436	11.1586	9.9714	
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Computation of Revised LNG/RLNG Price

Annex II

		US\$/MMBTU			
Sr. #	Particulars	US\$/MMBTU			
		Mar-16	Apr-16	May-16	Jun-16
	No of Cargos	5	4	4	4
	Quantity Received (MMBtu)	15,427,370	12,808,124	12,958,507	12,581,020
i	LNG Price (DES)	4.8474	4.8798	5.3768	6.0069
ii	PSO's other imports related actual costs	0.0435	0.0430	0.0427	0.0435
iii	PSO margin	0.1212	0.1220	0.1344	0.1502
iv	Terminal Charges	0.7368	0.5914	0.5898	0.6234
v	Retainage	0.0364	0.0366	0.0403	0.0451
vi	SSGCL Margin for LSA Management	0.0250	0.0250	0.0250	0.0250
	Cost of Supply SNGPL	0.2178	0.2177	0.2176	0.2178
	Cost of SSGCL	0.0454	0.0454	0.0454	0.0454
vii	Total Cost of Supply (incremental Ring fenced)	0.2632	0.2630	0.2630	0.2632
viii	Transmission gain	(0.0058)	(0.0059)	(0.0065)	(0.0072)
A	RLNG Price (without GST) on transmission network (i-viii)	6.0676	5.9550	6.4656	7.1500
B	UFG T&D loss (Actual) @ 10.97%	0.5318	0.5353	0.5898	0.6590
C	TOTAL RLNG Price (without GST) on Distribution network (A+B-viii)	6.6052	6.4961	7.0619	7.8162

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