

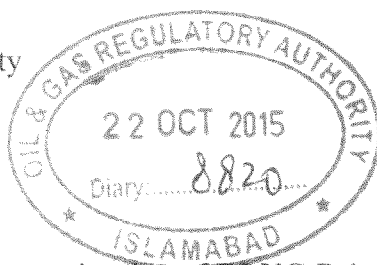
Pakistan State Oil Company Limited

PSO House, Khayaban-e-Iqbal, Clifton, Karachi-75600, Pakistan.
UAN: 111-111-PSO (776), Website: www.psopk.com



The Registrar
Oil & Gas Regulatory Authority
Islamabad

October 19, 2015
Ref: OGRA/LNG/191015



Dear Sir,

Determination of RLNG Price

This is with reference to the OGRA's decision of October 7, 2015 in respect of determination of RLNG price. We appreciate the fact that OGRA has determined a provisional price for RLNG in connection with LNG cargoes supplied by PSO to SNGPL during the period April 2015 to September 2015, which will enable PSO to partly recover its outstanding receivables on account of LNG and provide an initial reference point for the entire LNG supply chain. However PSO would like to register its reservations on certain aspects of the determination and would request that these be considered by OGRA and the provisional price be revised accordingly. Our comments are set out below:

1. Holding of public hearings to finalize PSO margin

As you are aware, pursuant to the relevant ECC decision, PSO's margin will be **subject to review by an inter Ministerial Committee after 3 months**. This was also reiterated by MoP&NR in the meeting dated August 21, 2015 held at OGRA's offices.

Moreover, as has been acknowledged by OGRA in the price determination decision of October 7, 2015, RLNG pricing is to be carried out under the Petroleum Products (Petroleum Levy) Ordinance, 1961 (**PL Ordinance**), "which does not obligate for public hearing".

Accordingly, it is submitted that PSO's margin should be determined as per the ECC decision and in line with the PL Ordinance without any public hearing.

2. Reduction of margin from 4.0% to 1.82% of DES price

It is stated in OGRA document that PSO had advanced some general arguments in support of its margin of 4%. We however feel that the same is not correct as we had submitted very genuine and valid arguments in support of the said margin. Our earlier submissions in this regard are being reproduced here for your ease of reference.

- **Margin on other POL products:** The effective margin on main POL products such as HSD and PMG is currently close to 6% as shown below:

Description	PMG	HSD
PSO Margin (Rs./ Litre)	2.35	2.35
Margin Equivalent in USD/MMBTU	0.69	0.62
Margin as a percentage of cost	5.88%	5.80%



- **Margin on DES price vs. Margin on full cost of supply:** The allowed margin on petroleum products is calculated on full cost of supply whereas the margin on LNG is allowed on DES price only. Therefore in comparison to other POL products, the effective margin on LNG would be around 3.7% if PSO's proposed margin is accepted (Refer **Annexure A**).

Moreover the following factors should also be considered when determining the PSO margin on LNG:

- **Financial Risk due to "Take or Pay" Clause:**

In the LNG market, supply contracts are typically structured on 'take or pay' basis. Accordingly, under the current supply arrangements and the proposed arrangement with Qatargas, PSO is or will be liable to make payments to the relevant supplier for 'take or pay' volumes irrespective of whether PSO receives payment from its own LNG customer or whether or not an LNG customer is able to take delivery (e.g. on account of a force majeure event occurring in the downstream supply chain). It may be noted that in the case of the proposed supply arrangement with Qatargas this potential exposure would extend over the fifteen year term of the supply agreement.

- **Financial Risk of Capacity Charges payment:**

Under the Tripartite Agreement initiated by PSO and the Gas Companies in respect of the proposed RLNG based Government Power Projects, SNGPL may order upto 4.5 mtpa of LNG for a term of upto 30 years and PSO is required to supply these volumes by arranging LNG through various sources including term agreements and spot procurements through tendering. In case PSO fails to procure and supply the required volumes, it would be exposed to significant liabilities to SNGPL as it would have to indemnify SNGPL for capacity payments payable by SNGPL to the CPPA.

- **Additional exposure on the Power Sector:**

PSO is already experiencing severe liquidity crisis on account of the circular debt resulting from delayed payments by the Power Sector. Since LNG is also being procured for onward supply mainly to the Power Sector, PSO is exposed to additional financial risk. Such financial risk cannot be taken unless a reasonable return is assured to mitigate such risk.

▪ **Return to Shareholders:**

Another important point to note is that OGRA has simply allowed the margin as the sum of estimated cost on taxes and the estimated operating cost on LNG without incorporating any adequate return.

PSO being a commercial entity is also responsible to provide adequate return to its shareholders as they normally expect a reasonable return on new ventures initiated by the Company. Therefore PSO needs to pass on reasonable return on the LNG venture to its shareholders in line with the return on other business lines of the Company.

In view of the above, PSO strongly suggests that a margin of at least 4 % should be allowed on LNG to keep this business viable.

3. Exclusion of Infrastructure Cess from RLNG Price

We feel that that the exclusion of Infrastructure Cess from the provisional price of RLNG is unjustified. PSO has already paid the same as levied by the Government of Sindh during the custom clearance of LNG cargoes from the unloading port and has provided OGRA with supporting documents in this regard.

Whilst, based on OGRA's observation, PSO has taken up the matter with the relevant authorities for exemption of Infrastructure Cess on LNG through MoP&NR, until such time as an exemption is granted, OGRA is requested to include Infrastructure Cess as part of the price of RLNG so that PSO may recover the amount that is being paid on this account.

4. Exclusion of 4 FoB cargoes from RLNG pricing

We would like to reiterate that OGRA's stance, that the four FOB cargoes sourced from Qatargas were not endorsed by the Federal Government, is not correct. These cargoes were imported with the consent of the Federal Government as indicated by MoP&NR in their letter dated September 7, 2015 addressed to OGRA, para 5 of which states:

"In view of the foregoing, it is evident that the procurement of above cargoes carries the consent of the Federal Government at the level of ECC. Accordingly, OGRA is advised to include above cargoes, mentioned at serial (ii), (iv), (v) and (vi) in the RLNG price on provisional basis till such time the SPA is presented before ECC of the cabinet for approval."

We therefore request that the RLNG price relating to the said FOB cargoes be determined by OGRA in order for PSO to be able to recover its cost incurred on these cargoes. The component wise breakup of the same has already been provided to you in our earlier correspondences (Sample attached as **Annexure B**).





49

5. SOP for RLNG price determination

You would appreciate that the relevant ECC decision states that OGRA will determine the price of RLNG and PSO will notify the RLNG price. In this regard, we suggest that a detailed SOP be devised wherein the roles of all stakeholders including OGRA, PSO and Gas Companies are clearly defined along with identification of the requisite data to be provided by each stakeholder and relevant timelines. This was also discussed in the meeting dated August 21, 2015 held at OGRA's offices.

In view of the foregoing, OGRA is requested to address the concerns of PSO and issue the revised provisional price.

Best Regards,

For and on behalf of

Pakistan State Oil Company Limited

A handwritten signature in black ink, appearing to read 'Iftikhar', is written over a circular stamp or seal.

Iftikhar Ahmed

DGM

Supply & Distribution Finance

cc:

- Chairman OGRA, Islamabad
- SPS to Secretary MoP&NR, Islamabad
- Director General (Gas), MoP&NR, Islamabad
- Director General (LGs) MoP&NR, Islamabad
- MD PSO
- DMD Finance, PSO
- GM CP, PSO
- GM GR, PSO

	FOB CARGOES			
	CARGO 1	CARGO 2	CARGO 3	CARGO 4
DES PRICE (Rs.)	2,641,274,165	2,647,951,401	2,660,680,968	2,581,687,854
PSO MARGIN @ 4% (Rs.)	105,650,967	105,918,056	106,427,239	103,267,514
PSO OTHER IMPORT RELATED COSTS (Rs.)	39,255,911	38,338,749	38,222,451	40,098,686
TOTAL PRICE OF LNG (Rs.)	2,786,181,042	2,792,208,206	2,805,330,658	2,725,054,055
MARGIN as %age of TOTAL LNG COST	3.79%	3.79%	3.79%	3.79%

	DES CARGOES				
	CARGO 5	CARGO 6	CARGO 7	CARGO 8	CARGO 9
DES PRICE (Rs.)	2,436,738,439	2,668,165,035	2,492,774,923	3,026,288,813	2,275,203,778
PSO MARGIN @ 4% (Rs.)	97,469,538	106,726,601	99,710,997	121,051,553	91,008,151
PSO OTHER IMPORT RELATED COSTS (Rs.)	30,524,943	30,693,131	28,839,118	35,764,073	27,023,611
TOTAL PRICE OF LNG (Rs.)	2,564,732,920	2,805,584,767	2,621,325,038	3,183,104,439	2,393,235,540
MARGIN as %age of TOTAL LNG COST	3.80%	3.80%	3.80%	3.80%	3.80%

Annexure B

Price Components of FoB LNG Cargoes

FOB
FSRU Freight
Discharge Port Charges
Load Port Charges
Exchange (gain)/loss Adjustment

LNG DES Price

PSO other import related costs:

Bank Charges
Insurance Premium
Wharfage
Loading Port Surveyor Charges
Discharge Port Surveyor Inspection Charges
Fender Charges
Stamp duty on Agreement
Berthing Charges
Infrastructure Cess
Excise Duty





OIL & GAS REGULATORY AUTHORITY (OGRA) ⁵²

SAY NO TO CORRUPTION

OGRA-10-11(8)/2015-PSO

November 02, 2015

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

Subject: **DETERMINATION OF RE-GASIFIED LIQUEFIED NATURAL GAS (RLNG) PRICE**

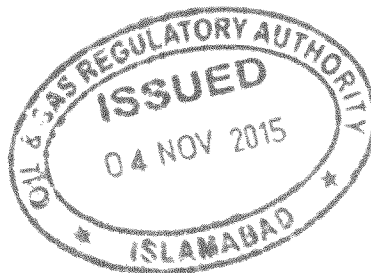
Dear Sir,

Please refer to your letter No. OGRA/LNG/191015 dated 19-10-2015 on the above subject.

2. The perusal of your above mentioned letter shows that you have filed a petition for review of Authority's determination dated 07-10-2015, however, your letter does not state any rule/law, under which review of the Authority's decision is solicited.

3. You are, therefore, advised to file a petition under Section 13 of OGRA Ordinance, 2002 for review of aforementioned Authority's decision dated 07-10-2015 alongwith processing charges of Rs.100,000/- through pay order/bank draft in favor of OGRA, for proceeding further.

Regards



Abdul Basit Qureshi
(Abdul Basit Qureshi)
Registrar

o/c