SUI NORTHERN GAS PIPELINES LIMITED
GAS HOUSE, 21 KASHMIR ROAD, P.O. BOX 56, LAHORE (PAKISTAN)

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Ref: RA-LNG-035-15 **Date:** November 11, 2015

Registrar
Oil and Gas Regulatory Authority,
54, ZTE Plaza, Fazal -e- Haq Road,
Near PIA Building, Blue Area,
Islamabad

Thru: TCS/Fax

Dear Sir,

**REVIEW PETITION FOR
DETERMINATION OF RE-GASIFIED LIQUEFIED NATURAL GAS (RLNG) PRICE**

Kindly refer to your letter No. OGRA-10-11(8)/2015-SNGPL dated November 02, 2015 on the above cited subject. The Company is filing a petition under section 13 of Oil and Gas Regulatory Authority (OGRA) Ordinance 2002 against the above referred decision dated October 07, 2015. section 13 of the OGRA Ordinance 2002 states that:

Quote:
"The Authority may review, rescind, change, alter or vary any decision, or may rehear an application before deciding it in the event of a change in circumstances or the discovery of evidence which, in the opinion of the Authority, could not have reasonably been discovered at the time of the decision, or (in the case of a rehearing) at the time of the original hearing if consideration of the change in circumstances or of the new evidence would materially alter the decision."
Unquote

In this regard, following observations need to be addressed:

Administrative Margin
The Company is taking additional financial risk by transporting RLNG, which as compared to local gases is way more expensive. The Company is exposed to upstream take or pay risk in respect of supply of gas from Qatar Gas and / or PSO, due to non recognition of the force majeure events of the gas companies.

OGRA is aware of the present financial crunch being faced by the Company owing to non-issuance of FRR of previous year. In order for the Company to bridge the financial gap, the Company will have to arrange finances, cost of which is non-operating as per the present tariff regime.

In view of the above additional significant costs as well as risks involved in relation to the import and sale of LNG having no nexus to the previous revenue requirement mechanism, it is requested that Administrative Margin to the tune of U.S.$ 0.5 / MMBTU be allowed to the Company, which may kindly be treated as non operating income. These costs and exposures are beyond the reasonable control of the Company and may kindly be entertained as such by the Regulator.

Cost of Service
The Company agrees that the disallowance of cost of service in LNG prices may not financially affect the Company. However, it is of the view that as per the Generally Accepted Accounting

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Principles (GAAP), cost should be allocated to areas for which it was incurred. As already indicated in our letter No. RA-LNG-028-15 dated September 03, 2015, that Transmission & Distribution costs were as per Actual Accounts for FY 2014-15 in respect of Punjab and was allocated to LNG consumers on the basis of Punjab volumes. The same has also been decided by ECC in its decision no NG(II)-12(62)/12 LNG-Interim dated September 29, 2012 (copy enclosed) in which it is clearly stated that the cost of RLNG will not be passed on to other consumers. Notwithstanding the above, the Company amended its FRR petition for FY 2014-15 based on this OGRA decision. However, as already indicated in our above referred letter, cost of gas internally consumed was as per actual booking for LNG consumers based on LNG costs. We are of the view that this GIC costs should have been made part of the LNG prices. These are, however, also been claimed in the Revenue Requirement now since the Company cannot afford to go out of pocket.

Unaccounted for Gas Volume
The Authority in its price determination has only accounted for UFG cost of transmission based consumers. Price has not been notified keeping in view the retail consumers such as CNG and others. It is once again requested that separate price of LNG consumers on retail network be notified and UFG cost may please be allowed at actual UFG %, since the same had already been agreed by OGRA pursuant to the ***OGRA Natural Gas (Regulated Third Party Access) Rules, 2012.*** Also, sale of RLNG to retail consumers is going to be a ring fenced transaction while the cost of UFG for the same has to be borned by the respective consumer to which such supply is being made as per policy.

In view of the above, OGRA may kindly issue RLNG price for CNG sector while including UFG for the same on actual basis. The same will have no bearing on CNG consumers which are being provided natural gas.

Bank draft No. 01248039-3011 drawn on Habib Metropolitan Bank Ltd. Islamabad Branch (10), Islamabad of Rs. 100,000/- being payment of processing charges for the above mentioned petition is enclosed.

Thanking you.

Yours Sincerely
Sui Northern Gas Pipelines Ltd

KAMRAN AKRAM
Chief Accountant (RA)
for Managing Director

Encl: As above

Cc: Managing Director – Sui Southern Gas Company Limited
Cc: Managing Director – Pakistan State Oil

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Secret
Copy No. __

No. NG(II)-12(62)/12 LNG-Interim
Government of Pakistan
Ministry of Petroleum and Natural Resources
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Summary for the ECC of the Cabinet

Subject: IMPORT OF LIQUEFIED NATURAL GAS (LNG)

The ECC of the Cabinet considered a summary submitted by Ministry of Petroleum and Natural Resources (MPNR) in its meeting held on 07.08.2012 and while approving, in principle, the short-term and long-term import of LNG, constituted a Committee under Advisor to the Prime Minister on Petroleum & Natural Resources.

2. The Committee was entrusted with the responsibility to work out the modalities and to examine the instruments related to import for implementation of the project and to submit its recommendations to the next meeting of the ECC. The issue of sovereign guarantee was to be considered by the Finance Division (Case No. ECC-95/10/2012 dated 07.08.2012) (Annex-1).

3. Meeting of the above stated Committee was convened by the Advisor to the Prime Minister on Petroleum & Natural Resources on 04.09.2012. The recommendations of the said Committee were further examined by the Committee constituted by the Prime Minister with the Finance Minister in Chair (Annex-2) during its meeting held on 19.09.2012.

4. After due deliberations, the following modalities were finalized for consideration of the ECC:

i. LNG will be imported, in a phased manner, under the following project structures:

By SSGC

a. Long term LNG import under integrated project structure for 400 MMCFD and RLNG delivery at SSGC receiving point through open competitive bidding following PPRA Rules and level playing field to all the parties may it be new entrants or to whom construction licenses have been issued. The bid will be evaluated based on the gas price at SSGC delivery point. The contract will be for 10 years with 5 years price review clause.

b. Second round of long term LNG import under integrated project structure for 400 MMCFD, similar to 1(a) above, will be advertised within four (4) weeks of receipt of bids for the first Long term LNG project following the above procedure.

By Special Purpose Vehicle (SPV) (A subsidiary company of SNGPL/SSGC where GoP may also hold share)

c. Fast track LNG import on tolling basis for 200 MMCFD. Under this arrangement, LNG will be procured by SPV from international sources through any of the three approaches allowed under section 3.2 of the LNG Policy, 2011 i.e. direct negotiations, competitive bidding or spot purchases to be done by SPV depending on its commercial needs. To handle LNG/RLNG delivery to SSGC's receiving point, the SPV will invite proposals for setting up of terminal for tolling from interested parties including existing terminal holders, if needed in case SPV's own terminal (formerly Progras) is not feasible.

ii. Government will also take an equity share in SPV for which the funds from Gas Infrastructure Development Cess (GIDC) will be used. Independent Directors from the Private sector will also be included in the Board of Directors of SPV, on behalf of GoP.

iii. Gas utility companies will open revolving standby letter of credit up to 3 months' value of RLNG/LNG to guarantee gas off takes, which shall be backed by GOP's sovereign guarantee for all projects mentioned at (i) above. The LNG users mainly the power sector will establish letter of credit for 3 months' LNG value to back up the gas utility companies' Letter of Credits. Support from multilateral agencies will also be solicited to back up the GOP sovereign guarantee. This will require some modification in LNG Policy 201, which are given at Annex-3.

What are its implications? If IPPs don't open LC for 3 month period what will be impact on utility?

iv. International consultant will assist in the entire process for import of LNG/RLNG for both the tolling and integrated projects to ensure transparency and best international practices.

v. RLNG will be supplied to public and/or private sector bulk consumers meeting energy efficiency criteria, to be approved by Cabinet/ECC, under firm contracts with take or pay clause against revolving confirm letter of credits.

I suppose there will be no import unless all parties open LC's

vi. Gas utilities will transport RLNG to the consumers only through transmission and high-pressure distribution network duly isolated from their spaghetti gas distribution networks.

vii. Gas pricing for RLNG buyers (mainly power sector) will be determined on weighted average selling price of the respective sectors. The cost of RLNG will not be passed on to other consumers.

Does it mean we will have separate price for each sector?

viii. Cost of RLNG will be factored in weighted average cost of gas of the two utility companies as per existing arrangement. However, the RLNG volumes and price will not be considered for UFG benchmarking/disallowance calculations.

ix. Any financing cost for LNG/RLNG purchase will be allowed as admissible expenditure under the revenue requirements to the Gas utilities.

x. Suitable amendments will be made in OGRA rules to facilitate import of LNG.

In contradiction with para (vii) above, where ~~weighted~~ selling price of respective sectors is only to be adjusted

5. The above modalities were sent to the Committee members for their confirmation in response to which Finance Division (Annex-4) and Planning Commission (Annex-5) have made some observations which along with replies of this Ministry have been juxtaposed at Annex-6.

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6. The recommendations of committee constituted by the Prime Minister, as enunciated at para-4 above are submitted for consideration and approval of the ECC of the Cabinet.

7. The Advisor to the Prime Minister on Petroleum and Natural Resources has approved submission of the summary to the ECC of the Cabinet.

Waqar Masood Khan
Secretary

Islamabad, the September 29, 2012