

Case No. OGRA-6(5)/FOC/2017

License No. OIL-01/2018

**IN THE MATTER OF**

**FRONTIER OIL COMPANY-1 (FOC-1)**

**LICENCE TO UNDERTAKE REGULATED ACTIVITY OF  
CONSTRUCTION OF NEW OIL PIPELINE**

**UNDER**

**OIL AND GAS REGULATORY AUTHORITY ORDINANCE, 2002**

**AND**

**PAKISTAN OIL (REFINING, BLENDING, TRANSPORTATION,  
STORAGE AND MARKETING) RULES, 2016**

**DECISION**

**JUNE 8, 2018**

**Ms. Uzma Adil Khan, Chairperson**

**Mr. Noorul Haque, Member (Finance)**

**Dr. Abdullah Malik, Member (Oil)**



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## DECISION

### **A BRIEF FACTS:**

1. The Frontier Oil Company-1 (FOC-1) (the applicant) applied before the Authority on April 26, 2017 under Rule 24 of the Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016 **[onward referred as Oil Rules, 2016]** and Oil and Gas Regulatory Authority Ordinance, 2002 for the grant of licence to carry out the regulated activity of 'Construction of New Oil Pipelines' from Machike (Sheikhupura) to Tarujabba. The intended route of Oil Pipeline is from Machike – Hiranminar (Sheikhupura) – Chakri / Thallian (along M2) – Tarujabba (along M2/M1). Oil Terminal at Thallian (Chakri) is also intended to be connected with Attock Refinery Limited (**ARL**) (Rawalpindi) through a branch/connected oil pipeline.
2. The applicant has stated that the total length of the intended Oil Pipeline will be 460 KMs (18"/20" in diameter) including branch pipeline. After submission of the said application, the matter was thoroughly examined / evaluated from different aspects and presented before the Authority for consideration and conduct of Public Hearing.
3. Thereafter, the Authority considered the matter and admitted the same under Sub Rule 1(2) of Schedule IV of Oil Rules, 2016 and decided to invite all stakeholders, interveners and interested / affected persons and parties to furnish their comments / interventions / views, if any, on the application filed by the applicant through Public Notice in the national press on 23-03-2018 within 14 days of said publication.
4. In response thereto, the following interventions were filed in writing with the Authority:-
  - i). Inter State Gas Systems Limited (ISGSL)
  - ii) Khyber Pakhtunkhwa Oil & Gas Development Company (KPOGCL)

### **B PUBLIC HEARING PROCEEDINGS:**

5. The Authority provided ample opportunity of hearing to the interested/affected persons/parties and general public through Public Hearing Notices published in the leading National Press on 23-03-2018. Accordingly, Public Hearings

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were held at Lahore and Peshawar on 09-04-2018 and 11-04-2018 respectively, which were attended by the following:-

**Public Hearing at Lahore on 09-04-2018**

**a) Representatives of the Applicant (FOC-1)**

- i) Brig. Zubair Abbass, Frontier Works Organization (FWO)
- ii) Mr. Salman Qasrani, Dy. Director General, FWO
- iii) Maj. Abdul Majid, Dy. General Manager (Oil)
- iv) Mr. Asad Rizvi, Financial Analyst, FWO
- v) Syed Kamran Ali, Advisor, FWO
- vi) Mr. Asad Ullah Khalid, Financial Analyst, FWO

**b) Interveners**

- i) Mr. Mohammad Anas Farook, Chief Financial Officer, ISGS
- ii) Mr. Aurangzeb Mehmood, Company Secretary, ISGS
- iii) Mr. Muhammad Farooq Qamar, Dy. General Manager (T), ISGS

**c) Representatives of General Public**

- i) Dr. S.N. A Zaidi, Chief Operations & New Business, Hascol Petroleum Limited
- ii) Mr. Shah M. Saad Hussain, Hascol Petroleum Limited
- iii) Mr. Shameem Raza Naqvi, Chief of JV & NP, Hascol Petroleum Limited
- iv) Mr. Shoaib Siddiqui, Chief Executive Officer, Petrodencial Engg. Consultant
- v) Mr. Shahrukh Mateen, OGDCL
- vi) Mr. Junaid Ahmad, Business Development Manager, EVTL
- vii) Syed Shahid Ali, Manager, Engro Corporation
- viii) Mr. Umair Ahmed, Business Administrator, ECCRP
- ix) Mr. Muhammad Afzaal Ahmad, Business Development Executive, CPECC
- x) Mr. Koi Lei, Acting Chief Rep. of CPECC (Pak)

**Public Hearing at Peshawar on 11-04-2018**

**a) Representatives of the Applicant (FOC-1)**

- i) Mr. Salman Qasrani, Dy. Director General, Frontier Works Organization
- ii) Maj. Abdul Majid, Dy. General Manager (Oil)
- iii) Syed Kamran Ali, Advisor, FOC-1
- iv) Mr. Asad Rizvi, Financial Analyst, Frontier Works Organization

**b) Interveners**



- i) Mr. Raziuddin Razi, Chief Executive Officer, KPOGCL
- ii) Mr. Owais Shakeel Khan, Chief Engineer, Govt. of KPK
- iii) Mr. Mohammad Anas Farook, Chief Financial Officer, ISGS
- iv) Mr. Aurangzeb Mehmood, Chief Manager (Legal), ISGS
- v) Mr. Muhammad Farooq Qamar, Dy. General Manager (T), ISGS

**c) Representatives of General Public**

- i) Dr. S.N. A Zaidi, Chief Operations & New Business, Hascol Petroleum Limited
- ii) Mr. Shameem Raza Naqvi, Chief of JV & NP, Hascol Petroleum Limited
- iii) Mr. Shah M. Saad Hussain, HASCOL/VITOL
- iv) Mr. Sohail Ahmed Butt, CEO Engro/Energy Energeties
- v) Mr. Sadaqat Said, Sr. General Manager, RMD/DRL, KPOGCL
- vi) Mr. Munir Temuri, AGM (TS, P&D), Attock Petroleum Limited
- vii) Mr. Jahanzeb Aslam, Sr. Engineer (P&D), Attock Petroleum Limited
- viii) Mr. Muhammad Abdullah Khawar, Associate Engro
- ix) Mr. Muhammad Afzaal Ahmad, Business Development Executive, CPECC
- x) Mr. Shoaib Siddiqui, Chief Executive Officer, PEC
- xi) Mr. Koi Lei, Acting Chief Rep. of CPECC (Pak)
- xii) Mr. Muhammad Mudassar, Nashpa Field, OGDCL
- xiii) Mr. Tahseen, Engineer, KPOGCL
- xiv) Mr. Saood Awaid, Engineer, KPOGCL
- xv) Syed Nawaz Shah, Trainee, KPOCL
- xvi) Mr. Mushtaq Ali, Engineer. C&ES, KPOGCL
- xvii) Ms. Iram Shehzad, Internee Manager, KPOGCL
- xviii) Ms. Rabia Noureen, Trainee Manager, KPOGCL
- xix) Ms. Maham Mujahid, Trainee Energy Manager, KPOGCL
- xx) Mr. Sayed Kamal, Trainee Management, KPOGCL
- xxi) Mr. Rafi Ullah, Trainee Manager, KPOGCL
- xxii) Mr. Sheraz Khan, Energy Management Trainee, KPOGCL
- xxiii) Mr. Zafar Ullah Khan, Electrical Engineer, KPOGCL
- xxiv) Mr. Muhamamd Naeem Khan, Manager Finance, KPOGCL
- xxv) Mr. Nasir Akbar, Asstt. Engineer, KPOGCL
- xxvi) Mr. Saddam Hussain Mohammad, Junior Engineer, KPOGCL
- xxvii) Mr. Amar Jalil, Assistant Engineer, KPOGCL
- xxviii) Mr. Abdul Hafeez, Joint Venture Officer, OGDCL
- xxix) Syed Sajjad Ali Shah, Geologist, KPOGCL
- xxx) Mr. Ziafat Ali, Engineer, KPOGCL
- xxxi) Mr. Shahzad Ahmed, KPOGCL
- xxxii) Mr. Heshan Khan, Engineer, KPOGCL
- xxxiii) Mr. Saddam Husain, Junior Engineer, KPOGCL
- xxxiv) Mr. Sheraz Iqbal, Trainee Engineer, KPOGCL
- xxxv) Mr. Amir Iftikhar, Trainee Engineer, KPOGCL
- xxxvi) Mr. Shahzad Sahibzada, Trainee Engineer, KPOGCL
- xxxvii) Mr. Tariq Aslam, Trainee Engineer, KPOGCL
- xxxviii) Mr. Muhammad Junaid, Trainee Engineer, KPOGCL
- xxxix) Mr. Adil Haider Khan, Trainee Engineer, KPOGCL



- xi) Mr. Qazi Yousaf Latif, Trainee Engineer, KPOGCL
- xli) Mr. Nasir Iqbal, Trainee Engineer, KPOGCL
- xlii) Mr. Abdul Majid Khan, Trainee Engineer, KPOGCL
- xliii) Mr. Zeeshan, Trainee Engineer, KPOGCL
- xliv) Mr. Shahzad Mehmood, Trainee Engineer, KPOGCL
- xlvi) Mr. Fawad Ali, Trainee Engineer, KPOGCL
- xlvi) Mr. Muhammad Salaudhin, Trainee Engineer, KPOGCL
- xlvi) Mr. Yaseen Ahmed, Trainee Engineer, KPOGCL

6. During the hearings at Lahore and Peshawar on 9<sup>th</sup> and 11<sup>th</sup> of April, 2018 respectively, on behalf of FOC-1, Mr. Salman Qaisrani, gave detailed presentation on the instant project, however, on behalf of ISGSL (Intervener), Mr. Farooq Qamar and Mr. Aurangzeb Mehmood presented their stance.

**The main intervention points of ISGSL and response of FOC-1 are tabulated as below**

**(Not limited to this extent, the detail of interventions / response are also provided in further paras of the decision)**

Intervention by ISGS	Response of FOC
1. FOC project is not approved by Federal Govt. and this project has been awarded to ISGSL by the Federal Govt. / ECC.	1. FOC rebutted that they have held several meetings and exchanged correspondence / concept papers with the Federal Govt. and all other stakeholders from year 2015 to 2017. Further, OGRA is the Regulatory Authority to grant Licence for Construction of New Oil Pipeline and Govt., approval is not mandatory (detail can be seen at para-26-28, 31-32 etc.)
2. FOC is a new entity, so how it has relevance with the FWO	2. Frontier Oil Company (FOC) is a 100% owned subsidiary of FWO and incorporated in 2016 under Company's Ordinance, 1984 (now 2017). FWO is the leading infrastructure organization having foot prints across entire Pakistan and venturing abroad in Afghanistan, UAE and Sri Lanka etc. FWO is the construction arm of Pakistan Army equipped with over 5000 pieces of state of art machinery and more than 50000 professionals. FWO is a leading part of

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	CPEC and being rewarded best infrastructure company in 2016 and fastest growing company in 2017. Detail may be seen para-22, 23 and 25 etc.
3. The route proposed by FOC in April, 2017 has been changed in March, 2018	3. FOC-1 has never opted for change of route. It was only to fulfill requirements of Rule-25(a) that FOC-1 pipeline route was shortened to start from Machike rather than Mehmood Kot as MFM pipeline capacity enhancement was underway by PARCO
4. Technical / Financial studies / analysis are self made by the FOC. No internationally reputed firm has carried out the study. As KPMG is not a technical consultant, hence report is not reliable.	4. Feasibility study has been submitted which suffice the requirements of the Rules. It may be noted that no financial support, guarantees and tax exemptions have been sought in the proposal. Detail may be seen at para-26,31,32
5. Demand growth of petroleum has not been analyzed by FOC	5. Demand growth of petroleum products used in the financial model and feasibility is based on Pakistan Oil Report 2016 – 17. Further in order to cater for projected / emergency strategic needs of petroleum products, to minimize oil transportation risks through road, this oil transport pipeline project thus saving Inland Freight Equalization Margin (IFEM) to the tune of 60% (tentatively). Details may be seen at para-24,25,26,27 and 32 etc.
6. FOC has no proven record to carry out oil pipeline projects / business.	6. FOC has best technical / financial experts of the oil sector record of which is with OGRA.
7. The account maintenance certificate is provided by FWO not by FOC	7. Account maintenance certificate – (FOC-1 is a 100% owned subsidiary of FWO. Necessary documentation already submitted with OGRA under relevant Rules)
8. OGRA has not followed the procedure laid down in Oil Rules, 2016.	8. OGRA has followed the procedure prescribed under applicable laws and took almost one year to evaluate / examine this petition / application. Details may be seen at para-31 etc.

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9. Project of ISGSL is alongwith GT Road, it is easier to get ROW compare to FOC ROW along M1 & M2.	9. It is comparatively more convenient to acquire and maintain temporary or permanent ROW along M-2 and M-1 in comparison with GT Road. Further FOC-1 is acquiring ROW privately on its own without any financial support from outside.
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### **C ARGUMENTS OF THE INTERVENER (ISGSL):**

Summary of written arguments and presentation made by ISGSL is as under:

7. In the very first contention, ISGSL contended that Rule 25 of the Oil Rules, 2016 entitles the Authority to grant a licence for Construction and Operation of a new oil pipeline subject to such terms and conditions as may be specified therein if it is satisfied that pipeline route and configuration meet the requirements of policy guidelines issued by the Federal Govt. Under the Ordinance and the applicant has obtained the NOC from concerned departments.
8. FOC-1 has not taken approval / policy guidelines from the Federal Govt. as required under the Rules. On the contrary, the Machike-Taru Jabba Oil Pipeline Project (assigned to ISGS) has been thoroughly deliberated in the Ministry of Energy (Petroleum Division). Based on the deliberations, a summary for the Economic Coordination Committee (ECC) was prepared and circulated to concerned Ministries / Divisions including the Authority vide letter dated 23-08-2017 seeking views/comments thereon. In para 8(a) of the said Summary, it was proposed to assign the project to ISGS, being 100% GOP owned company as well as be the owner of the project. The Project ownership will be transferred to ISGSL after 15 years or earlier as per the BOOT Agreement. ECC in meeting held on 01-11-2018 considered the summary and approved the assignment of the Project to ISGSL as Project Owner.
9. The oil pipeline route proposed by FOC-1 was never approved by the Federal Govt. Moreover, the same route was fully considered / reviewed by the ISGSL's consultant and found to be lengthy and unfeasible. The proposed route was also not connecting the existing oil depots located in the main

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cities/load centers. Hence the same was not recommended by the Consultant for implementation, and accordingly rejected by their competent authority.

10. ISGSL is of the considered view that FOC-1's application does not satisfy the requirements of the Rules. The Machike-Taru Jabba Oil Pipeline project is a Federal Govt. project assigned to ISGS, therefore, FOC-1 has no mandate to undertake the implementation of the said project.
11. As per Documents provided by FOC-1, the terms of reference of the task force required that the task force would "examine the concessions and other related approvals required from the Government". No such approvals from Govt. of Pakistan formed part of the application. FWO was required to submit certain proposals after which MP&NR may have referred the case to the competent authority for a decision. FWO project was not forwarded to any competent authority, hence indicating that no principle approval has been obtained for the project.
12. ISGSL also contended that Feasibility study and financial analysis supporting the application is of initially conceived pipeline project alongwith construction of jetty at the port. Now that the entire project structure and route has changed, the feasibility and financial analysis has not been revised. Thus the documentation supporting the application for license does not provide reasonable grounds and basis of the new project for which an application is being sought.
13. Demand growth of petroleum products used for financial analysis was questioned by MD PARCO and other participant of the Task Force with the direction to revisit the same. No evidence to this effect forms part of the documents provided to ISGSL.
14. FOC-1 has recently been established by FWO for the specific purpose of this project. The company holds no proven record of any relevant experience, exposure, audited statement or any other document that may prove its capability to execute the project. FWO, being the parent company, is a well-known name in business of construction, however it also doesn't hold any experience in the field of construction and operation of an oil pipeline project.

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Therefore, awarding the licence of such a critical infrastructure project to an inexperienced contractor might not be in the best interest of the country.

15. In-house feasibility study is prepared by FWO/FOC-1, which has never been involved in oil pipeline business, may not be credible. Further, the attached financial analysis does not provide the technical details including the basis and assumption. The same was not even provided to KPMG who has partially analyzed the financial analysis with numerous expectations.
16. The accounts maintenance certificate of MCB provided alongwith the application is of FWO HQ not of FOC-1.
17. HASCOL has undertaken to provide throughput guarantee of 3 million MT per annum of petroleum products in compliance with Rule 25(f) of OGRA Rules., whereas, as per the latest OCAC report, the share of HASCOL is only 755,271 MT per annum which is lower than what HASCOL has committed. Such inconsistencies pose serious doubts about the credibility of data and assumption underlying the feasibility study.
18. With respect to technical structure and details, the project documentation accompanying the application are entirely irrelevant, as these relate to a different project and does not support the project for which FOC-1 is seeking a license. Similarly the financial analysis accompanying the application is completely irrelevant, yet the preliminary review reveals the following observations:
  - a) *Project financial viability – KPMG findings*
  - b) *In appropriate debt to equity ratio used for the project*
  - c) *Sensitivity analysis considering requested exemptions/concession*
  - d) *Basic assumptions missing in the financial analysis*
19. ISGSL has also contended that Registrar OGRA has not followed the procedure laid down under Rule 24 read with Schedule IV of the Oil Rules whereby Registrar is obligated to examine the contents of the application in order to satisfy himself as to the conformity thereof with the provisions of these Rules. The Registrar has ignored the requirements of the Rules, and arbitrarily proceeded with the acceptance of the application and not fulfilled the requirements of clause (a) of sub-rule (2) of Rule 1 of Schedule IV and

violated clause (b) of rule 25 of these rules. The Registrar was under statutory obligations to ask the applicant to provide necessary policy guidelines of the Federal Govt. to the Authority as required by the Rules and until that time should not have accepted the application. The Registrar was therefore under the obligation to return the application to the applicant with the direction to amend and resubmit the application in accordance with the provisions of the these Rules. However, Registrar arbitrarily and in sheer disregard to the requirement of the Rules, chose not to return the application and therefore breached the trust of the stakeholders.

20. ISGSL contended that their project has been approved by ECC and being Government entity they have right to establish the pipeline on the subject route. Further, all feasibility, financial and technical studies have been made by FOC-1 itself which a conflict of interest. Hence these should have been made by an international/independent consultant. KPMG is not a technical consultant; therefore their reports are not admissible. ISGSL also contended that acquiring ROW in their project alongwith GT Road / NH is much easier and less costly, however obtaining ROW alongwith M1 and M2 is much costly.
21. In the view of above, ISGSL requested the Authority to:
- i) Review its decision to accept / admit the FOC-1's application for the regulated activity of construction of new oil pipeline from Machike to Taru Jabba and pass on the appropriate orders, in compliance with these rules to reject the FOC-1's application being baseless, not supported by necessary documentation, fundamentally deficient in complying with the requirements of these Rules, for want of necessary policy guidelines, proposed route of the oil pipeline not approved by the Federal Govt. etc.
  - ii) In case the Authority rejects ISGSL's above grounds/prayer, and decides to proceed with the public hearings, in that case ISGSL reserves all its rights under the law.

**D REPLY / PRESENTAION OF THE APPLICANT (FOC-1):**



22. Mr. Salman Qaisarani while representing FOC-1 stated that FOC-1 is a subsidiary of FWO which is the leading infrastructure organization having foot prints across entire Pakistan and venturing abroad in Afghanistan, UAE and Sri Lanka etc. FWO is the construction arm of Pakistan Army equipped with 5000 pieces of state of art machinery and more than 50,000 professionals. FWO is a leading part of China Pakistan Economic Corridor and being rewarded best infrastructure company in 2016 and fastest growing company in 2017.
23. FOC-1 is a 100% owned subsidiary of FWO and incorporated in 2016 under Company's Ordinance, 1984 (now 2017). He presented that in order to cater for projected / emergency strategic needs of petroleum products, to minimize oil transportation risks through road, this oil transport pipeline project has been envisaged thus saving IFEM to the tune of 60% (tentatively).
24. Pakistan is a longitudinal market for petroleum products – ports located in south and bulk consumption in north. MOGAS transported through road for upcountry oil depots, major causes of shortages and environmental hazards. Further diesel is being transported from Mehmood Kot towards central and northern parts of the country on road transportation. Upper Punjab is worst hit for petroleum products shortages as there is no development after Sihala and Taru Jabba (Taru Jabba is not connected through pipeline yet).
25. Mr. Salman Qaisarani rebutted the contention of ISGSL while stating that an idea to build the oil pipeline was started in 2014-15 to reduce the risk and mitigate the public and private loss through road transportation. He much emphasized that the FOC-1's project is 100% self financed, no sovereign guarantee, liability on Govt. or tax relaxation has been required for completion of this project. This project has its strategical importance it will save 60% cost for transportation of petroleum. Due to Bahawalpur incident, all sector players were concerned to explore protective oil supply chain and this pipeline is the first attempt towards covering this particular area for transportation of oil.

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26. In response to contention of ISGSL regarding approval of this project, FOC-1 contested that they have been pursuing Machike-Thallian-TaruJabba white oil pipeline since year 2015 with the active participation of OGRA, MP&NR, Oil Marketing Companies (OMCs), and Oil Companies Advisory Committee (OCAC). However, ISGSL has never been a part of these necessary deliberations held during the development of the Project. Following facts highlight the intervener's ignorance:

- i) FWO presented a Concept note regarding "Oil Infrastructure Development Project (including Machike-Thallian-TaruJabba White Oil Pipeline Project)" to Minister P&NR on 11.11.2015.
- ii) OCAC vide letter No. FWO/302 dt 03.12.2015 recommended constitution of Task Force.
- iii) FWO presented the "Oil Infrastructure Development Project (including Machike-Thallian-Taru Jabba White Oil Pipeline Project)" in the Ministry of P&NR in February 2016. Subsequently, a Task Force was constituted vide MPNR's letter No. PI-2(5)/2015-FWO dated 22.02.2016 with its TORs including Machike-Thallian-Taru Jabba pipeline economic viability and throughput requirements at nos. 5 & 6 respectively
- iv) After various meetings of the Task Force, the draft minutes were issued on 10.04.2017 for approval. Honorable Minister for P&NR directed to convene a meeting with oil industry including PARCO, PAPCO, PSO and OCAC for further deliberation in the matter.
- v) A meeting was held on 25.05.2017 under the Chairmanship of Federal Minister for P&NR with OGRA, OCAC, PSO and PARCO / PAPCO to discuss FWO Oil Infrastructure projects. The decision taken at the meeting are reproduced below:
  - a) *"Ministry agrees in principle to the proposal of FWO for construction of pipeline infrastructure and storages and new oil jetty Port Qasim.*



b) *Ministry of P&NR will take initiative for construction of an oil pipeline from Machike to Taru Jabba in three different segments by floating separate open competitive tenders as mentioned in para 8 above."*

vi) With reference to approved MOM of the meeting dated 25.05.2017 chaired by Minister for P&NR, para-7 indicates that Machike-Taru Jabba via Sihala oil pipeline was deliberated in that meeting for the first time. The ECC Summary for this pipeline was circulated on 23.08.2017. ISGSL failed to substantiate its contention of "thoroughly deliberated in Ministry of Energy (Petroleum Division). Additionally the ECC Approval for Machike-Taru Jabba via Sihala pipeline is based on provision of Throughput Guarantee by GOP to the contractor, which will only serve to escalate the Circular Debt. Moreover, the ECC decision does not fulfill following conditions stated under Rule 25 of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016: "(b) Pipeline route and configuration meet the requirements of policy guidelines, if any, issued by the Federal Government under the Ordinance ....." "(f) An undertaking has been obtained by the applicant from the USER of the pipeline to the effect that the pipeline shall be operated on commercial basis and throughput guarantee."

27. Further it is a commercial project and any person / company under the OGRA Ordinance and Oil Rules, 2016 can submit their application for grant of Licence and OGRA under its laws is empowered to grant a Licence for the Construction or Operation of new pipeline subject to terms and conditions as may be specified therein. Therefore the contention of ISGSL that they are a State Company and can only undertake petroleum projects is misleading.

28. With regard to contention of ISGSL upon application of FOC-1 before OGRA, representative of FOC-1 made chronological response as under:

- 26<sup>th</sup> April 2017: Submitted application/license fees for grant of license for construction and operation of new oil pipelines

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- 12<sup>th</sup> May 2017: Letter received from OGRA (Letter No. OGRA OIL-19-2(155)/2017-PL) regarding submission of additional documents
  - 18<sup>th</sup> May 2017: Letter written to OGRA (Letter No. 444/BOT/WOP/17/02/) and additional document submitted
  - 26<sup>th</sup> July 2017: Letter received from OGRA (Letter No. OGRA-6(5)-FOC/2017) for submission of Certified copies of the Memorandum and Article of association and certified map from Survey of Pakistan
  - 3<sup>rd</sup> August 2017: Letter received from OGRA (Letter no. OGRA-6(5)-FOC/2017) regarding submission of audited reports which can clarify the requisite availability of funds and feasibility report of the project
  - 8<sup>th</sup> August 2017: Letter written to OGRA (Letter no. 444/BOT/WOP/17/1) and clarified that all documents are already submitted in OGRA
  - 9<sup>th</sup> August 2017: Letter written to OGRA (Letter no. 444/BOT/WOP/17/1) and submitted revised audited reports and feasibility of the project
  - 28<sup>th</sup> August 2017: Letter written to OGRA for submission of approved project map by Survey of Pakistan
29. The representative of FOC-1 stated that targeted connectivity of locations are ARL facility to PSO Morgah Depot., PSO Sihala Depot., SPL Chaklala Depot., TPML Depot and APL Terminal. The 68,000 Metric Ton oil storage facility has been developed at Thalian. FOC-1 rebutted that the ISGSL contention regarding ROW and said that the permanent ROW (mainly on Motorway M1 & M2) is available for most of the pipeline length, thereby allowing construction with minimum cost on fast track basis (ROW acquisition charges included in the project capex).
30. FOC-1 also stated that pipeline will be constructed in a single segment on BOO basis with no sovereign guarantee. Proposed pipeline infrastructure will have state of the art SCADA, Cathodic protection system running on solar for minimum 30 years pipeline life. Online control system will ensure minimum pipeline losses. Further this project is supported by Attock group of companies, Engro Pakistan, M/s Hascol Pakistan, M/s Vitol, M/s KPOGCL and OGDCL. No throughput guarantee is required from GoP. This project is based on throughput guarantee by potential OMCs.





31. The contention with regard to non-compliance with the procedure laid down under rule 24 of these Rules, FOC-1 has refuted it as baseless, incorrect and without any justification and stated that the first part related to non-fulfillment of requirements of clause (a) of sub-rule (2) of Rule 1, which is vehemently denied and further it is an allegation targeted towards "Registrar of Honorable Authority". Applicant does not want to respond to such extraneous comments made by ISGSL on the integrity of the Authority. The second part related to violation of clause (b) of rule 25 of the Rules which is baseless on the following grounds:

- a) No policy guidelines have been issued by Federal Government under the Ordinance (OGRA Ordinance 2002) regarding pipeline route and configuration other than "Pakistan Oil Rules 2016"
- b) FWO / FOC-1 project has been deliberated by the Task Force for one and a half year with active participation of OGRA, MP&NR, OMCs, OCAC and subsequently agreement to the proposal was granted in the meeting dated 25.05.2017 Chaired by Minister for P&NR.
- c) FWO / FOC-1 fulfills / commits to fulfill all the current and upcoming requirements imposed by Authority under license conditions.

32. The applicant/FOC-1 further rebutted the contentions of ISGSL and clarified during the Public Hearings that:

- a) FOC-1 has never opted for change of route. It was only to fulfill requirements of Rule-25(1)(a) that FOC-1 pipeline route was shortened to start from Machike rather than Mehmood Kot as MFM pipeline capacity enhancement was underway by PARCO.
- b) Objection raised in the first meeting of the Task Force meeting was taken care of and detailed working of volumes was presented to CEO OCAC, who agreed to the volumes as

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presented by FWO and same were presented and agreed in 2nd meeting of Task Force as reflected in clause-d of MOM.

- c) As per MOM of 2nd meeting of Task Force it was clearly specified that FWO may construct parallel pipeline from Mehmoodkot / Faisalabad via Thallian to Taru-Jabba on its own ROW and PARCO has no objection to parallel pipeline. In addition, the principle approval was granted on 25.05.2017.
- d) No policy guidelines have been issued by Federal Government under the Ordinance other than "Pakistan Oil Rules 2016"
- e) As per Articles and Memorandum of Association of FOC-1, the Affidavit dt 21.04.2017 has been issued by the Designated Authority
- f) FOC-1 has already submitted feasibility and financial model for revised project structure
- g) Demand growth of petroleum products used in the financial model and feasibility is based on Pakistan Oil Report 2016 – 17
- h) With regard to non-experience of FWO/FOC-1 in oil pipeline projects it was stated that FWO is a known name in managing multi-dimensional mega projects worth Billion of rupees and is a pioneer of Public-Private partnership in Pakistan. FWO has adequate in-house capabilities and resources for managing mega-projects. However, for this specific project, many world-renowned EPC contractors have shown their interest, including CPECC. However, FWO will finalize top-of-the-line EPC contractor through International Competitive Bidding process
- i) Feasibility study has been submitted which suffice the requirements of the Rules. It may be noted that no financial support, guarantees and tax exemptions have been sought in the proposal.

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- j) Account maintenance certificate – (FOC-1 is a 100% owned subsidiary of FWO. Necessary documentation already submitted)
- k) Undertaking regarding throughput guarantee provided by HASCOL – (HASCOL is one of the fastest growing OMC with a growth rate of around 40% per annum. With recent collaboration agreement with M/s Vitol, HASCOL is confident to meet the throughput target)
- l) Documentary evidence for holding ROW – (All relevant NOCs will be obtained as per requirements of OGRA. The relevant clause of Concession Agreement for M-2 project has been submitted). *It is comparatively more convenient to acquire and maintain temporary or permanent ROW along M-2 and M-1 in comparison with GT Road*
- m) Details with regard to the Discrepancies in technical structure  
 FOC-1 also rebutted the following contentions with regard to technical structure and other issues of the instant project:
  - i) Targeted connectivity of locations are:
    - Machike
    - ARL to PSO-Morgah Depot, Sehala Depot, SPL Depot Chaklala, TPML Depot, APL Terminal
    - Thallian □Taru-Jabba
  - ii) The sales envelop of Chakpirana is mostly covered through supplies from Machike. It is due to this reason that no marketing company except PSO has developed its storage facility at Chakpirana. We have already requested for a 3rd Party Audit of volumes claimed at Chakpirana
  - iii) Feasibility report submitted suffice the requirements of the rules and investment level decisions as no Sovereign guarantees, tax/duty exemptions and ROW acquisitions etc have been sought in the proposal. Further, Route map provided has been prepared by Survey of Pakistan on the route identified by FOC-1 as per requirements of Authority

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iv) All relevant documents will be provided in the FEED and are not a submission requirement at this stage, under the Rules. The basic contours of pipeline route have already been provided and its acquisition is much easier than any other competitive route. Moreover, HSE arrangements to be adopted have been submitted as per requirement

v) All relevant information required by the Authority have been provided. The information as highlighted by ISGSL pertains to Detailed Design which is not required at this stage, hence M/s ISGSL are ignorant of the fact that the remarks made by KPMG are not relevant to current proposal.

FOC-1 also responded with regard to the Discrepancies in financial analysis that M/s ISGS are ignorant of the fact that the remarks made by KPMG are not relevant to current proposal.

33. As already mentioned in previous paras that the Authority conducted Public Hearings in Peshawar and Lahore in which different experts of petroleum industry / OMC's representatives participated. During the Hearing at Peshawar and Lahore Dr. Syed Nazir Abbass Zaidi, CEO Hascol presented that they are ready to fulfill their commitment with FOC and of course oil transportation through pipeline is secure and cheapest mode of transportation.
34. During the Hearing at Peshawar, the other intervener Mr. Razi ulddin on behalf of KPOGCL stated that KPK is end beneficiary of this project so it should be made on fast track basis as transportation of oil through pipeline is one of the most safest and fastest mode. Since FOC is not claiming for sovereign guarantee, throughput guarantee and financial assistance from Govt., hence this project has advantage over the others. They also recommended that the studies / surveys conducted by the applicant can be relied and no international studies or consultations are required for the said project as domestic experts are well aware about the domestic needs and conditions.

#### **E OBSERVATIONS AND DECISION OF THE AUTHORITY:**

35. The Authority, has carried out detailed in-house scrutiny of the application on the basis of supporting documents, heard the arguments of the applicant and

the interveners during Public Hearings at Lahore and Peshawar at length as well as on the basis of all available information. The Authority has also revisited the documents in the light of interveners observations/ queries. This is a first Oil Pipeline project in which a company has come with strong potential for construction of oil pipeline without seeking any financial or sovereign liability, tax exemption or throughput guarantee from Govt., which strengthen the commitment to complete the said pipeline project.

36. The Authority also observed that getting ROW is one of the main challenge and it seems an easier task to get ROW along M1 and M2 which have less complication as compared to the congested / populated road ways. Further, in the proposed area no pipeline exists where the applicant proposes to construct the new pipeline nor there is any existing pipeline which does not have the spare capacity to transport the crude oil or petroleum products. The Authority also observed that it is not mandatory under Rule 25(b) of the Oil Rules, 2016 that OGRA must demand policy guidelines for consideration of new oil pipeline, if any issued by the Federal Govt. under the Ordinance.
37. In sequel to above, Authority has arrived at the conclusion that the applicant fulfills the legal / codal requirements and is entitled to the requisite license. The Authority, in exercise of its powers conferred under Sections 22(1), 23(3)(a) and 23(6) of the Oil and Gas Regulatory Authority Ordinance, 2002 read with Part-IV (Transportation), Part-IX (Licence Conditions), Schedule-IV and other enabling provisions of the Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, hereby grants a license subject to terms and conditions mentioned in the License Document to the applicant in the name and style of **M/s Frontier Oil Company-1** to carry out the regulated activity of 'Construction of New Oil Pipelines' from Machike (Sheikhupura) to Tarujabba. The intended route of Oil Pipeline is from Machike – Hiranminar (Sheikhupura) – Chakri / Thallian (along M2) – Tarujabba (along M2/M1). Oil Terminal at Thallian (Chakri) is also intended to be connected with Attock Refinery Limited (**ARL**) (Rawalpindi) through a branch/connected oil pipeline for a period of three [03] years with effect from **[June 8, 2018]**.

38. The terms and conditions imposed on the licensee are contained in the **License Document** consisting of Eight [08] pages, which is issued to the licensee today along with this decision.

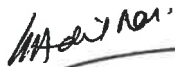
June 8, 2018



(Dr. Abdullah Malik)  
Member (Oil)



(Noorul Haque)  
Member (Finance)



(Uzma Adil Khan)  
Chairperson

  
**REGISTRAR**  
Oil & Gas Regulatory Authority  
Islamabad