OIL AND GAS REGULATORY AUTHORITY

Request for Expression of Interest

SELECTION OF AUDIT FIRM FOR AUDIT OF THE INLAND FREIGHT EQUALIZATION MARGIN (IFEM)

1. Oil & Gas Regulatory Authority (OGRA) intends to conduct audit of IFEM for the period January 2012 to June 2020. Audit Firm(s) shall complete the assignment within 180 days of the award of the contract.
2. OGRA invites reputable audit firms registered with ICAP having minimum of **five years**' experience of specialized audit in Energy Sector preferably with prior experience of Inland Freight Equalization Margin (IFEM) audit.
3. Interested audit firm must provide detailed CV(s) of member(s) of core team highlighting relevant experience.
4. Audit firm may have option to associate to complement their respective areas of expertise, strengthening the technical responsiveness of their proposals and make available bigger pool of expert.
5. The bidders should submit a single package containing two separate sealed envelopes in accordance with Rule 36 (b) of PPRA Rule 2004. One envelope should contain the technical proposals and the other envelope should contain the financial proposal. The envelopes should be marked as "TECHNICAL PROPOSAL" and "FINANCIAL PROPOSAL" and should reach the office of undersigned **within twenty (20) days of the publication of this advertisement**.
6. The technical proposal will be opened in the first instance for evaluation, in the presence of the bidders, or their authorized representatives, who may like to present Bids to the undersigned. The financial proposal of the bidder whose technical proposals are accepted will be opened in the presence of the bidders. Date and time for opening of technical and financial proposals will be communicated to the bidders in advance.
7. OGRA reserves the right in its sole discretion to accept or reject any and / or all the bids without justifying any reason thereof before accepting any bid.
8. Scope of work/TOR and evolution criteria can be obtained from the OGRA website www.ogra.org.pk and PPRA website www.ppra.ogra.pk.
9. Existing IFEM auditors are not eligible to apply.

[**Head Finance – Oil Pricing**]
Oil & Gas Regulatory Authority
Plot No. 54-B, Fazal-e-Haq Road,
Blue Are, Islamabad
Ph: 051-9244090, Fax: 051-9244351

Inland Freight Equalization Margin (IFEM) Audit January 2012-June 2020

SCOPE OF WORK

A. IFEM Audit of Oil Marketing Companies (OMCs)

1. The audit with respect to OMCs will cover the following:

Sr.#	Name of the OMC	All OMCs IFEM Audit Period Reference
1.	Pakistan State Oil Company Limited	January 1, 2012 - June 30,2020
2.	Shell Pakistan Limited	January 1, 2012 - June 30,2020
3.	Chevron Pakistan Limited/Total Parco Marketing Limited	January 1, 2012 - June 30,2017
4.	Total Parco Pakistan Limited	January 1, 2012 - June 30,2020
5	Pak Arab Refinery Limited (Pearl Parco)	January 1, 2012 - June 30,2020
6	Attock Petroleum Limited	January 1, 2012 - June 30,2020
7.	Admore Gas (Pvt) Ltd / PUMA Energy (Private) Limited	January 1, 2012 - June 30,2020
8	Hascol Petroleum Limited	January 1, 2012 - June 30,2020
9	Byco Petroleum Pakistan Limited	January 1, 2012 - June 30,2020
10	Bakri Trading Company Pakistan (Pvt) Limited/ BE Energy (Private) Limited	January 1, 2012 - June 30,2020
11	Zoom Petroleum Limited	January 1, 2012 - June 30,2020
12	Askar Oil Services (Private) Limited	January 1, 2012 - June 30,2020
13	Overseas Oil Trading Company Limited	January 1, 2012 - June 30,2017
14	Gas and Oil Pakistan Limited	July 1 2015- June 30, 2020
15	Quality 1 Petroleum Private Limited	July 1 2016- June 30, 2020
16	Exceed Petroleum Private Limited	July 1 2016- June 30, 2020
17	Zoom Marketing Oils Private Limited	July 1 2016- June 30, 2020
18	Outreach/OTO Pakistan Private Limited	July 1 2017- June 30 2020
19	OILCO Petroleum Private Limited	July 1 2017- June 30 2020
20	Horizon Oil Company Private Limited	July 1 2017 – June 30, 2020
21	The Fueler Private Limited	July 1 2018 – June 30, 2020
22	Kepler Petroleum Private Limited	July 1 2019 – June 30, 2020
23	Al-Noor Petroleum Private Limited	July 1 2019 – June 30, 2020
24	JINN Petroleum Private Limited	July 1 2019 – June 30, 2020
25	Flow Petroleum Private Limited	July 1 2019 – June 30, 2020
26	Euro Oil Private Limited	July 1 2019 – June 30, 2020
27	Taj Gasoline Private Limited	July 1 2019 – June 30, 2020
28	LaGuardia Petroleum Private Limited	July 1 2019 – June 30, 2020
29	Fast Oil Private Limited	July 1 2019 – June 30, 2020
30	My Petroleum Private Limited	July 1 2019 – June 30, 2020
31	Hi-Tec Lubricants Limited	July 1 2019 – June 30, 2020
32	Oil Industries Pakistan Private Limited	July 1 2019 – June 30, 2020

2. The scope of this audit will cover the period starting from **January 2012 to June 2020**in respect of each OMC listed above along with their respective period, keeping in view the license conditions with

respect to admissibility of the IFEM.Reports prepared by the auditor for the purposes of this audit will be for the entire each financial year (i.e. July to June).The scope for the audit of the statements of surplus/deficit in the freight pool for the above said period would be as follows:

i. To ensure that the surplus/deficit in the freight pool is determined on the net volume of products purchased, in equalized units, during the period from various supply sources. This treatment should be in line with the mechanism followed by the OMCs for Inter-company Freight Settlement (ICFS)(of differential between the onotified IFEM and respective noted costs which is also based on the net volume purchased by the OMCs.

ii. To ensure that the IFEM recovery used in the statement of surplus/deficit in the freight pool would be based on the net volume purchased by the OMCs and not on the IFEM actually collected on the sale/subsequent sale of the inventory.

iii. To ensure that the primary transportation cost is determined by applying an average transportation cost per litre of product moved during the period on the net volume purchased. The cost actually incurred on the subsequent movement of closing inventory is not to be considered as it is not ascertainable and the difference between the estimated and actual cost is not likely to be material.

iv. To ensure that the extra margin recovered by OMCs on accounts of local purchases of Motor Gasoline (Mogas) & High Speed Diesel (HSD) (other than PSO) has been passed back to the consumer through IFEM.

v. To ensure that the net volume purchased by the OMCs does not include any volume that has been exported subsequently by the OMCs. As a result, the noted costs applicable to export volumes (based on their supply source) would be excluded from the noted cost used to determine the surplus/deficit in the freight pool. Further, the auditors would ensure that the actual transportation costs right from the supply source incurred on the aforementioned export volumes are also excluded from the transportation cost used todetermine the surplus/deficit in the freight pool.

vi. In a deficit supply envelope (south, mid or north), it is mandatory for the OMCs to meet the local demand of the supply envelope by first utilizing the product available locally. The remaining deficit volume would then be moved from the next nearest source.

vii. To ensure that all primary freight payments (road movements) have been made after verification of applicable Physical Reporting record/data on depots, in case of non-compliance freight cost shall be disallowed.

viii. To ensure that all freight payments (road movements) have been made after verification of Tracker Reports, in case of non-compliance such freight cost shall be disallowed.**Tracker requirement was implemented as under:**
   - **AJK & Northern Areas (Special Area Sales) effective August 1, 2012**
   - **CKP, SIH/CKL, SKP, DLP, SNG effective June 1, 2016**
   - **TJB, SRNG, FAQ effective July 1, 2016**
   - **MCH, HBD, SWL effective August 1, 2016**
   - **FBD/GAT, KND, KJM effective September 1, 2016**
   - **M Kot, VHR, SSH effective October 1, 2016**
   - **Remaining depots effective November 1, 2016**
   - **Special Area Sales for Balochistan effective February 1, 2017**

ix. To review the adjustments/deduction made by OGRA during the year in the monthly IFEM meeting (as communicated in Minutes of Meetings)or as per OGRA's directives / letters and report the same in statement of surplus/deficitfreight; especially as summarized under:

- **FY 2011-12 (2nd half)**
  - BPPL & HPL failed to uplift ARL's HSD allocation and made cross movements and disallowed movements (i.e. 202 kl & 418 kl respectively). Further, OGRA disallowed recovery HPL Mogas movement of 584 KL in Sihala fed areas-Ref IFEM Minutes January 26-27, 2012.

- PSO, SPL & APL sihala/Juglot depots inspection and deduction made-Ref IFEM Minutes April 23-24, 2012.
- Imposition of Penalty on non-installation of Tracker device on tank lorries by OMC-Ref IFEM Minutes April 23-24, 2012.

FY 2012-13

- OMC IFEM Audit FY 2007-08 adjustment passed- IFEM Minutes February 18-19, 2013, March 25, 2013, April 25-26, 2013 & May 28, 2013.

FY 2013-14

- Admore IFEM noted cost adjustment for recovery of 28.28 million IFEM audit FY 2007-08-IFEM Minutes September 25, 2013
- SPL's shaiwal and Shershah depots inspection and penalized on inoperative depots – IFEM Minutes January 27, 2014 to April 23-24, 2014.

FY 2014-15

- Admore's IFEM Audit FY 2007-08 Adjustment-IFEM Minutes June 25-26, 2014
- BPPL disallowances made against unapproved movements to various depots &HascolMogas movement 261 KL in Sihala – Reference IFEM minutes June 25-26, 2014.
- PSO deduction of special freight areas cost of AJK &Juglot due to employing non-tracker fitted tank lorries- Reference IFEM minutes August 25-26, 2014 & September 26, 2014.
- OMC tracker report non-compliance deduction-IFEM Minutes September 26, 2014.
- OMC's primary and secondary special freight withheld costs of AJK/GB w.e.f October 2014 to August 2015 A will be adjusted at the time of audit. -IFEM Minutes August 25-26, 2015.

FY 2015-16

- OMC's primary and secondary special freight withheld costs of AJK/GB w.e.f October 2014 to August 2015 A will be adjusted at the time of audit. -IFEM Minutes August 25-26, 2015.
- BPPL's crude transportation claim recovery- June 2016 BPPL's IFEM computation.

FY 2016-17

- Non-submission of tracker report on supplies to Machike and Chakpirana depots, 10% noted cost of Askar Oil and 5% ZPPL noted cost were deducted/adjusted-IFEM Minutes July 26-27, 2016.
- APL's Machike to Vehari and GO's Gatti to Vehari physical reporting disallowed--IFEM Minutes July 26-27, 2016.
- SPL, TPML &TPPL recovery allowed PDC claim MT CS Amethyst- IFEM Minutes May 23-24, 2017.
- GO's adjustment passed for recovery from March 2015 to April 2017-IFEM Minutes May 23-24, 2017

FY 2017-18

- SPL, TPML &TPPL recovery allowed PDC claim MT CS Amethyst- IFEM Minutes July 24-25, 2017 and November 23-24, 2017.
- GO's adjustment passed for recovery from March 2015 to April 2017-IFEM Minutes July 24-25, 2017.
- SPL allowed recovery of SWL & SSH depot-IFEM Minutes September 21-22, 2017, October 25, 2017, November 23-24, 2017 and December 22, 2017
- PSO, SPL & APL dealer and freight margin abuse of special freight areas and its recovery through IFEM adjustment-IFEM Minutes November 23-24, 2017 & December 22, 2017.
- TPPL's over recovery of amount against MT CS Amethyst-IFEM Minutes January 24-25, 2018.

FY 2018-19

- PSO and SPL allowed Regulatory Duty recovery- IFEM Minutes June 25, 2018.
- SPL' SSH and SWL depot allowed remaining recovery-IFEM Minutes July 19-20, 2018.

- Deduction 69 million from Puma Energy due to excess recovery-IFEM Minutes October 26, 2018.
- IFEM Audits reports FY 2008-09 & FY 2009-10, OMC surplus amount recovered from freight pool by OMC-IFEM Minutes December 26, 2018 & January 23-24, 2018.
- Deduction of account of outstanding OGRA annual fee-IFEM Minutes-December 26, 2018.

FY 2019-20

- As decided in the minutes of the meeting during the year.

3. In the scenario where export of regulated fuel is made from a deficit supply envelope it is mandatory that first the local demand of supply envelope is met from the fuel available locally. After meeting the local demand, the remaining local fuel can then be used for exports. In case regulated fuel has to be moved from the next nearest source to meet the export customer demand the transportation cost involved in moving the regulated fuel from the next nearest source to the deficit supply envelope will be borne by the export customer and in no way it will be charged to the freight pool. This policy is adapted so that the Pakistani customer should pay the most optimized transportation cost for making product available in deficit area. In case exports are being made from a deficit area, the entire transportation cost of making export fuel available in deficit area will be borne by the export customers and in no way will be borne by the Pakistani customer. In this regard, the following transportation costs are to be recovered from the export customer and the freight pool is not to be burdened:

i) Ex-ARL Exports

Product	Cost
MOGAS	Keamari to Sihala road freight cost.
HSD	Keamari to Machike pipeline freight and Machike to Sihala road freight.

ii) Ex-PARCO Exports

Product	Cost
MOGAS	Keamari to Mehmoodkot road freight cost + PARCO Refinery Freight
HSD	Keamari to Mehmoodkot pipeline freight cost + PARCO Refinery Freight

iii) Ex-Keamari Exports

Product	Cost
MOGAS	None
HSD	None

In order to meet this objective, exports will only be made from supply sources specified by Oil and Gas Regulatory Authority (OGRA).

4. A brief description of the statements to be prepared by the OMCs for the purpose of the auditis given below:

a) OMCs' Cost Data

Each OMC will prepare and provide the following:

i. A statement of surplus/deficit in the freight pool duly signed by the authorized representatives of each OMC showing net purchases, product-wise IFEM recoveries, transportation costs incurred (as defined in Clause 1.12, 1.13 and 1.14 of the Freight Pool Self-Management Operating Manual) and the surplus/deficit generated in their freight pool pertaining to primary transportation costs during the period under review.

ii. Source and destination wise data for quantities moved (from installations and depots) and cost incurred thereon for each product along with the mode of transportation used; and
iii. Statement of Extra Margin earned and passed back through IFEM and the surplus/deficit generated therein, said surplus/deficit should be included in the surplus/deficit in freight pool.Auditor to ensure that statement of Extra Margin should not include any short recovery of Margin as the same is required to surrender under IFEM.
iv. Extra Margin for the purpose of understanding is explained as the additional margin, if any, earned by an OMC other than PSO, computed as the difference between PSO's weighted average cost and ex-Refinery price of a specified product.
v. Quantitative statement of product wise exports made from specific sources.
vi. **Adjustments/reductions/deductions/disallowances on various accounts made during each period shall be adjusted downward against the primary transportation; with the disclosure separately**.
vii. Format for provision of above-mentioned data will be discussed and agreed with the Auditor in an on-boarding session / pre audit commencement meeting held between the Auditor and the respective OMC.

5. <u>Auditor's Test Procedure:</u>

In respect of the statement of surplus/deficit in the freight pool relating to primary transportation costs, the auditors will perform the following procedures on a test basis:

i. Checking the net volume of equalized products purchased by the Company during the period with the quantities reported in the monthly intercompany freight settlement reports and matching the quantities mentioned in these reports with the invoices of refineries.
ii. Re-computing the primary transportation costs on volume purchased by applying the average transportation cost per liter of product moved during the period on the net volume purchased. The average transportation cost per liter is calculated with reference to quantities moved during the period. These are determined through calculation based on percentage of net purchases to total quantity of product transferred to an installation (including net purchases), where any, and total product quantity moved out. In the absence of any transfers from other installations, the quantity moved out is taken as the actual quantity moved out from the installation. The adequacy of the average transportation cost rate will bechecked by checking the quantities moved with the available product movement records and the product transfer documents duly acknowledged by the recipients and the cartage contractors. The costs of the product moved by road will be checked with the payments of cartage bills raised by the cartage contractors based on the approved transfer documents and applying the Oil and Gas Regulatory Authority (OGRA) notified road transportation rates. The destination mentioned on each transfer document will be taken as the place at which theproducts covered by this advice were delivered and the distances to these destinations were traced on a test basis with the approved RTDs.
iii. Ensuring that export volumes and the related transportation cost is not included in the net volume purchased and the primary transportation cost respectively. In case the product is exported from anunapproved location the transportation costs related to such exports will be deducted from the transportation costs charged to the freight pool on the basis of the average transportation costs fromall the modes incurred on the product.
iv. Re-computing the IFEM and noted costs relating to the Company by applying thenotified rates to the net volumes purchased from refineries and imports.
v. Checking the supply envelope integrity i.e. checking that the product has been moved to a destination from an approved source. In case product has been moved from an incorrect source to a destination, without approval from OGRA, the respective OMC will be allowed the minimum approved cost for the destination while the incremental cost of this movement will be borne by the respective OMC and will not be charged to the freight pool. The approved source destination combination movement (product-wise) within the country is given in Table 1; costs related to movements not covered in Table 1, which are allowed in the OMC's PMP OR for which specific approval by OGRA is available with the respective OMC should also be allowed. In the event of exceptions identified in the sample size the auditors will increase the sample size to arrive at the best estimate of the total error in the population based on an extrapolation of the sample results.

vi. Checking that correct mode of transportation has been used in moving theproduct from source to destination. In case an expensive mode of transportationhas been used, without approval from OGRA, the total cost will be borne bythe respective OMC and will not be charged to the freight pool.

vii. The Auditor shall also use the “Actual Transportation Cost Certificate” beingsubmitted byOMCs for checking the supply source integrity.

viii. The Auditor shall evaluate for the reimbursement of differential freight costs in case product is moved from unapproved / alternate source.

Note 1:

For the purpose of testing the supply envelope integrity and mode of transportationused, testing will be performed based on samples, keeping in view of the risk vs. assurance (control and measures), however doubled, inrespect of the following depots:

- Shikarpur
- Quetta
- ChakPirana
- Taru Jabba
- Machike
- Sahiwal
- Vehari
- Juglot
- Daulatpur

Table 1: Product-wise table of approved source-destination combination (attached)

b) Refinery Freight (IFEM)

Each OMC shall prepare and provide a statement of surplus/deficit in the refinery IFEM duly signed by the authorized representatives of each OMC, showing product-wise IFEM recoveries, refinery freight incurred and the surplus/deficit generated in their freight pool pertaining to refinery freight during the year under review.

In respect of the statement of surplus/deficit in the refinery IFEM, the auditors will perform the following procedures:

i. Checking the net volume of equalized products purchased by the OMC during the period with the quantities reported in the monthly intercompany freight settlement reports and matching on a test basis the quantities mentioned in these reports with the invoices of the refineries.

ii. Ensuring that the net volume purchased does not include volumes exported by the OMC, if any.

iii. Checking the costs incurred by the OMC on account of IFEM relating to the refineries with the invoices raised by the refineries.

iv. Re-computing the IFEM and noted costs relating to refineries by applying the notified rates to the net volumes purchased from the refineries.

c) IFEM recoveries

Each OMC will prepare a statement of recoveries in accordance with clause 4.4 (summation of computation under sub clause 2 and 4 of clause 4.4) of the FPSM manual de-classified into:

i) OMCs IFEM

ii) Refinery IFEM

d) Computation of Surplus/Deficit

i) Surplus/Deficit in the Freight Pool of each OMC will be the difference between the OMC's noted cost relating to OMC's freight cost and attributable transportation cost by applying on average transportation rate to net volume purchased.

ii) Surplus/Deficit of Refinery IFEM of each OMC will be the difference between the OMC's noted cost relating to refinery freight and the refinery freight paid.

iii) Overall surplus/deficit shall be the sum of totals of d (i) and d (ii) above.

IFEM Audit of Refineries

1. The Audit with respect to Refineries will cover the following:
    1. Pak Arab Refinery Limited (PARCO)
    2. Attock Refinery Limited (ARL)
    3. National Refinery Limited (NRL)
    4. Pakistan Refinery Limited (PRL)
    5. BYCO Pakistan Private Limited (BPPL)

2. The scope of work will differ for refineries and is outlined below:

1) PARCO

3. The Refinery Freight of PARCO is based on its various claims from Freight Pool as specified in the Ministry of Petroleum and Natural Resources Letter No. PL-3(471)/2001 dated June 29, 2001, PL-3(434)/2011 Vol XII dated May 31, 2011 and letter No. PL-3(434)/2011 dated September17, 2011. The Refinery Freight of PARCO which is notified by OGRA contains the recovery of following claims of PARCO from Freight Pool:

A. PARCO'S PRICE DIFFERENTIAL CLAIM (PDC) OF REGULATED PRODUCTS RECOVERED FROM FREIGHT POOL

4. The refinery will prepare the statement of surplus/deficit in the recovery of Price Differential Claim in accordance with the approved mechanism specified in the Ministry of Petroleum and Natural Resources Letter No. PL-3(471)/2001 dated June 29, 2001 and letter No. PL-3(434)/2011 dated May 31,2011. PARCO's PDC is calculated (HSD &Kerosene Oil only) as the difference between its entitled price (Import Price Parity as defined in the Implementation Agreement (IA) signed between the Government of Pakistan (GOP) and Emirates of Abu Dhabi (EAD) and the Ex-Refinery price announced periodically by the Oil and Gas Regulatory Authority (OGRA) forthe identical period, on sales of regulated products. In respect of the statement of surplus/deficit in the price differential, the auditors will perform the following procedures:

i) Checking the volume of equalized products sold by the refinery during the period with the volume reported in the monthly intercompany freight settlement reports compiled from the product upliftment data received independently from the refinery and OMCs.

ii) Matching the volume mentioned in the intercompany freight settlement report with the volume shown on the invoices of the refinery.

iii) Checking the computation of the entitled price based on the formula mentioned in Annexure VIII of the Petroleum Policy 1994 and as provided in the IA between the GOP and EAD.

iv) Checking the computation of the Inland Freight Equalization Margin (IFEM)recovered by applying the rates of PDC recovery,as notified by OGRA,on the volumes sold.

v) As per the ECC decision dated September 04, 2012, HSD ex-refinery price has been deregulated w.e.f September 17, 2012, resultantly, PARCO's PDC claim on HSD was excluded from PARCO claim w.e.f. September 17, 2012.

vi) Auditor to provide Surplus/(deficit) position of PARCO's IPP Claim for the period.

B. PARCO'S BACKLOG PRICE DIFFERENTIAL CLAIM (PDC) RECOVERED FROM FREIGHTPOOL

5. The refinery will prepare the statement of recovery of Backlog Price Differential Claim of around Rs 8 billion in accordance with the approved mechanism specified in the Ministry of Petroleum and Natural Resources Letter No. PL-3(434)/2011 dated September 17, 2011.

6. In respect of the statement of backlog price differential claim, the auditors will perform the following procedures:

i) Checking the volume of freight pool products sold by the refinery during the period with the volume reported in the monthly intercompany freight settlement reports compiled from the product upliftment data received independently from the refinery and OMCs.

ii) Matching the volume mentioned in the intercompany freight settlement report with the volume shown on the invoices of the refinery.

iii) Checking that amount recovered by PARCO from other refineries has been adjusted against PARCO's claim.

iv) Checking the computation of the Inland Freight Equalization Margin (IFEM) recovered by applying the rates of Backlog PDC recovery, as notified by OGRA, on the volumes sold.

v) As per ECC decision for recovery of PDC backlog, claim over 4 years, PARCO entire PDC backlog claim reimbursed to PARCO in March 2016.

vi) Auditor to determine/check any over/under recovery of PDC backlog claim to PARCO will be adjusted against PARCO's other claims from Freight Pool claim.

C. PARCO'S CRUDE OIL TRANSPORTATION COST RECOVERED FROM FREIGHT POOL

7. The refinery will prepare the statement of surplus/deficit in the recovery of PARCO's Crude Oil transportation cost claim from Karachi to MehmoodKot (KMK)on proportionate basis on certain products in accordance with the approved mechanism specified in the Ministry of Petroleum & Natural Resources Ref. letter No. PL-3 (434)/2011 dated September 17, 2011 andRef No. PL-3 (457)/2014-50 dated March27, 2014. Crude Oil Transportation Cost claim on proportionate basis for any given month is calculated for various MCR products by applying their proportionate share in MCR production to transportation cost incurred by MCR in moving the Crude oil by KMK Pipeline.In respect of the statement of surplus/deficit in the Crude Oil Transportation Cost claim, the auditors will perform the following procedures:

i) Checking the crude oil quantity transported through pipeline from Karachi to MehmoodKot and receipt at Mid Country Refinery on a monthly basis.

ii) Checking the prevailing pipeline tariff from Karachi to MehmoodKot (KMK).

iii) Checking the production of various products by Mid Country Refinery (MCR) on monthly basis.

iv) Checking the computation of Crude Oil Transportation cost claim on proportionate production slate basis.

v) Checking the volume of equalized products sold by the refinery during the period with the volume reported in the monthly intercompany freight settlement reports compiled from the product upliftment data received independently from the refinery and OMCs.

vi) Matching the volume mentioned in the intercompany freight settlement report with the volume shown on the invoices of the refinery.

vii) Checking that amount recovered by PARCO from other refineries HSD price differential surplus has been adjusted against PARCO's claim.

viii) Checking the computation of the Inland Freight Equalization Margin (IFEM) recovered on equalized products by applying the rates of Crude Oil Transportation Claim recovery, as notified by OGRA the volumes sold.

ix) Checking that surplus amount of PARCO MS 92-90 RON differential adjusted against PARCO's claim of Mogas.

x) Auditor to provide Surplus/(deficit) position of PARCO's Crude Oil Transportation claim for the period.

xi) Checking that amount recovered by PARCO from other refineries again regulatory duty surplus has been adjusted against PARCO's claim.

D. PARCO'S DHDS PRICE DIFFERENTIAL CLAIM RECOVERED FROM FREIGHT POOL (applicable till January 31, 2017)

8. The refinery will prepare the statement of surplus/deficit in the recovery of Price Differential claim of 0.05% Sulphur and 0.5% Sulphur HSD/Gasoil in accordance with the approved mechanism specified in the Ministry of Petroleum and Natural Resources Letter No. PL-3(434)/2011 dated September17,2011 and PL-3(457)/2013-PL dated February 28, 2013. The DHDS Claim is calculated as the product of 0.05% Sulphur HSD produced by MCR and difference of entitled price of 0.05%Sulphur HSD with 0.5%Sulphur HSD. In respect of the statement of surplus/deficit in the DHDS claim, the auditors will perform the following procedures:

- Verification of the production of 0.05% Sulphur HSD by Refinery on a monthly basis, through HDIP test reports.
- Verification of the monthly average FOB price of 0.05% Sulphur HSD and its comparison with the monthly average FOB price of 0.5% Sulphur HSD as published in PlattsOilgram Arab Gulf Market or as specified in Ministry of Petroleum and Natural Resources Letter No. PL-3(457)/2013-PL dated February 28, 2013.
- Checking the computation of DHDS Price Differential Claim based on the Price Differential between the 0.50% Sulphur HSD and 0.05% Sulphur HSD.
- NBP's monthly average selling rate for USD will be used for the computation of total DHDS Price Differential.
- Checking the volume of 0.05% Sulphur HSD sold by the refinery during the period with the volume reported in the monthly intercompany freight settlement reports compiled from the product upliftment data received independently from the refinery and OMCs.
- Matching the volume mentioned in the intercompany freight settlement report with the volume shown on the invoices of the refinery.
- Checking that amount recovered by PARCO through rate decided in IFEM mechanism or from other refineries against HSD price differential has been adjusted against PARCO's claim.
- Checking the computation of the Inland Freight Equalization Margin (IFEM) recovered on HSD by applying the rates of DHDS Recovery, as notified by OGRA, on the volumes sold.

HSD pricing effective February 1, 2017 was shifted to 0.05% Sulphur HSD, accordingly, DHDS Price Differential is applicable till January 31, 2017.

2) ARL

A. ARL'S CRUDE FREIGHT

9. The refinery will prepare the statement of surplus/deficit in the freight pool in accordance with the approved mechanism provided in the Ministry of Petroleum and Natural Resources Letter No. PL-

3(471)/2001 dated June 29, 2001. ARL is entitled to claim transportation expenses incurred on conveyance of crude petroleum from the southern region to its refinery, for processing of regulated products (as defined in clause 1.13 of FPSM). The surplus/deficit is calculated as the difference between recoverable IFEM and actual transportation cost.

10. In respect of the statement of surplus/deficit in the freight pool, the auditors will perform the following procedures on a test basis:

i) Checking the volume of equalized products sold by the refinery during the year with the product uplift reports prepared by the refinery and also match the quantities mentioned in these reports with the invoices raised by the refinery.
ii) Matching the volume mentioned in the uplift reports with the volume shown on the invoices of the refinery.
iii) Checking the computation of the IFEM on the net volume sold by applying notified rates to these volumes.
iv) In respect of the crude moved by road, check the quantities moved from the suppliers'invoices and delivery advices duly acknowledged by the recipients and the cartage contractors. The costs of crude moved by road will be checked with the payments of the cartage bills raised by the cartage contractors based on the approved delivery advices and applying the agreed road freight rates and after accounting for the deductions admissible under the agreements with the contractors.
v) In respect of movement by pipeline, check the quantities moved with the delivery advices duly acknowledged by the recipients. The costs of the crude moved by the pipeline will be checked with the bills of pipeline operator for pipeline freight which included the charges for the minimum quantity billed under the take or pay clause of their agreement with the pipeline operator.
vi) The recovery of freight cost from the suppliers in accordance with the Ministry of Petroleum and Natural Resources Letter No. DGO-D.S (16)/98 dated February 22, 2000 will be checked with the payments received based on the notified rates of transportation.
vii) The closing inventory of crude oil and finished products will be checked with the inventory records of the refinery. The cost attributable to the closing inventory of finished products will be recomputed by applying the average freight cost per liter of crude purchased during the year to the estimated volume of crude oil required to produce this inventory based on the average yield ratio.
viii) Ensuring that the cost of unregulated products is excluded from the total transportation cost calculated - on the basis of average yield ratios as per directives of Ministry of Petroleum and Natural Resources, contained in their letters No.PL- 3(471)/2001 dated March 20, 2002 and No.PL-3(457)/2007 dated July 20, 2007.
ix) The average yield ratio of crude oil to the regulated products will be recomputed based on the refinery provided data of volume consumed of crude oil and the volume of the regulated products produced therefrom during the year ended.
x) Checking the ARL recovered any amount from other refineries or ownHSD Price Differential/ARL's RON adjustments/other refineries RON adjustment with the amount allocated by OGRA.

B. ARL'S DHDS PRICE DIFFERENTIAL CLAIM RECOVERED FROM FREIGHT POOL (applicable from December 1, 2016 till January 31, 2017)

11. The refinery will prepare the statement of surplus/deficit in the recovery of Price Differential claim of 0.05% Sulphur and 0.5% Sulphur HSD/Gasoil in accordance with the approved mechanism specified in the Ministry of Petroleum and Natural Resources Letter No. PL-3(434)/2011 dated September17,2011 and PL-3(457)/2013-PL dated February 28, 2013. The DHDS Claim is calculated as the product 0.05% Sulphur HSD produced by ARL and difference of entitled price of 0.05%Sulphur HSD with 0.5%Sulphur HSD. In respect of the statement of surplus/deficit in the DHDS claim, the auditors will perform the following procedures:

i. Verification of the production of 0.05% Sulphur HSD by Refinery on a monthly basis, through test reports (as per ARL claim, ARL started HSD 0.05% sulphur production from July 04, 2016).
ii. Verification of the monthly average FOB price of 0.05% Sulphur HSD and its comparison with the monthly average FOB price of 0.5% Sulphur HSD as published in PlattsOilgram Arab Gulf Market or as specified in Ministry of Petroleum and Natural Resources Letter No. PL-3(457)/2013-PL dated February 28, 2013.

iii. Checking the computation of DHDS Price Differential Claim based on the Price Differential between the 0.50% Sulphur HSD and 0.05% Sulphur HSD.
iv. **SBP's** monthly average selling rate for USD will be used for the computation of total DHDS Price Differential.
v. Checking the volume of 0.05% Sulphur HSD sold by the refinery during the period with the volume reported in the monthly intercompany freight settlement reports compiled from the product upliftment data received independently from the refinery and OMCs.
vi. Matching the volume mentioned in the intercompany freight settlement report with the volume shown on the invoices of the refinery.
vii. Checking that amount recovered by ARL against ARL own HSD price differential payable or received from other refineries as adjusted/decided by OGRA.
viii. Checking the computation of the Inland Freight Equalization Margin (IFEM) recovered on HSD by applying the rates of DHDS Recovery, as notified by OGRA if any, on the volumes sold.

HSD pricing effective February 1, 2017 was shifted to 0.05% Sulphur HSD, accordingly, DHDS Price Differential is applicable till January 31, 2017.

3) HSD Price Differential

12. MP&NR vide its letter ref: PL-3(457)/2013- PL dated 28 February, 2013 had advised that Refineries which are not producing HSD 0.05% Sulphur will have to deposit the surplus differential between PSO's Import price less ocean losses (which was fixed as Ex-Refinery price) and IPP price as per the formula specified in above letter, to IFEM to pass on the benefit to the consumer.

13. During FY 2017 following Refineries were not producing HSD 0.05% Sulphur:
- BYCO Oil Pakistan Limited (BOPL) / BYCO Petroleum Pakistan Limited (BPPL)
- Pakistan Refinery Limited (PRL)

14. The refineries will prepare the statement of surplus in accordance with the approved mechanism provided by the Ministry of Petroleum and Natural Resources through the above-mentioned letter. In respect of the statement of surplus/deficit, the auditors will perform the following procedures on a test basis:

i. Checking the volume of HSD sold by the refinery during the year with the product uplift reports prepared by the refinery and also match the quantities mentioned in these reports with the invoices raised by the refinery.
ii. Matching the volume mentioned in the uplift reports with the volume shown on the invoices of the refinery.
iii. Checking the computation of IPP Price as per specified formula.
iv. Checking the computation of surplus on the net volume soldand ensuring that in case of deficit the Refineries claim shall be treated as NIL.
v. Checking that the extra refinery margin recovered by other Refineries on account of Sale of High Speed Diesel (HSD) has been passed back to the consumer through IFEM.
vi. Checking the payments made against HSD Price Differential with the amount allocated by OGRA against any refineries claims/OMC noted cost.

4) Mogas RON Differential Surplus (effective December 1, 2016)

15. MPNR vide its letter ref: PL-9(544)/2015 dated September 05, 2016, had advised mechanism of pricing for Refineries producing Mogas below 92 RON and advised to pass on the differential to the consumer.Mogas pricing based on 92 RON was initiated effective December 1, 2016, accordingly surplus was generated from the same date.

16. The refineries will prepare statement of surplus in accordance with the approved mechanism provided by the Ministry of Petroleum and Natural Resources through the above-mentioned letter. In respect of the statement of surplus the auditors will perform the following procedures on a test basis:

i. Verification of the RON of Mogas produced by Refinery on a monthly basis, through test reports.
ii. Checking the volume of Mogas sold by the refinery during the year with the product uplift reports prepared by the refinery and also match the quantities mentioned in these reports with the invoices raised by the refinery.
iii. Matching the volume mentioned in the uplift reports with the volume shown on the invoices of the refinery.
iv. Checking the computation of Mogas 92 RON differential as per specified formula.
v. Checking the computation of surplus on the net volume sold.
vi. Checking the adjustments/payments made against Mogas RON Differential with the amount allocated by OGRA against any other refineries recoverable claims from freight pool or /OMC noted cost/ OMC transportation claim of the year.

5)Refineries Regulatory Duty adjustment (Effective from July 8th, 2015)

17. ECC vide its decision dated July 08, 2015 approved MOE (PD) summary on Regulatory Duty on crude oil and petroleum products (MS & HSD); wherein refineries regulatory duty will be adjusted based under pricing mechanism. Accordingly, the refineries will prepare statement of surplus in accordance with the approved mechanism provided by the Ministry of Petroleum and Natural Resources through the above-mentioned ECC summary. In respect of the statement of surplus the auditors will perform the following procedures on a test basis:

i. The Auditor to check monthly import of crude oil volume by refineries and actual payment of custom/regulatory duty paid during the month i.e. through confirming from monthly laycan issued etc.
ii. The Auditor to confirm crude oil consumed in refineries and monthly yields of all petroleum products. Further, the Auditor to cross check regulated petroleum products supplies/production, as declared in PRM Minutes, during the year.
iii. To determined regulated product percentage to the same to determine the portion of regulatory / custom duty on crude oil to be adjusted from regulatory / custom duty recovered on regulated products.
iv. To check the amount of Custom/Regulatory duty recovered during the month from Oil Marketing Companies based on notified PSO custom duty; through multiplying the volume sold for each regulated product of refineries.
v. To determine product wise calculation of under / over recovery of regulatory duty for the month against the regulatory duty paid on crude oil and recovered on regulated products.
vi. To check the net position of under/over recovery of custom/Regulatory duty required to be adjustable under pricing mechanism/IFEM from refineries during the period.
vii. To check its adjustment made by OGRA under IFEM freight pool mechanism to any refineries claims as well as adjustment in OMC/PSO noted cost or as decided by the Authority during the year.

Deliverables

The auditors shall be required to submit the followingreports to OGRA consolidated and for each financial year:

1) A report on the surplus/deficit in the freight pool including detailed disclosure of adjustments (recoveries or reimbursements) made by OGRA for the audit period as reflected in the statement of surplus/deficit in the freight pool prepared by each OMC.

2) A report on the surplus/deficit in the refinery IFEM including disclosure of adjustments (recoveries or reimbursements) made by OGRA for the audit period as reflected in the statement of surplus/deficit in the Refinery IFEM prepared by each OMC.
3) A report on the OMC extra margin earned by OMC on HSD and Mogas and it adjustment /offsetting against the freight pool and net surplus/deficit as reflected in their statement of extra margin earned by OMCs.
4) A report to OCAC on surplus in refineries regulatory duty, recoverable from refineries, and its adjustment/offsetting under pricing mechanism/freight pool against OMC or refineries claim as decided by OGRA for the audit period.
5) A report on surplus/deficit in the price differential for the audit period as reflected in the statement of surplus/deficit in the price differential prepared by the refinery.
6) A report to OCAC on the surplus/deficit generated in their freight pool pertaining to crude transportation costs for the audit period as reflected in their statement of surplus/deficit in the freight pool prepared by the refinery.
7) A report to OCAC on the surplus generated and payments made with respect to HSD Price Differential and net surplus/deficit as reflected in their statement of HSD Price Differential by the refinery.
8) A report to OCAC on the surplus generated and adjustments / payments made with respect to Mogas RON Differential and net surplus/deficit as reflected in their statement of Mogas RON Differential by the refinery. Further a report on PSO and SPL recoveries against regulatory claims allowed during the year 2018-19.
9) A consolidated statement of surplus/deficit in the freight pool to OCAC for transportation costs, recoveries under the FPSM scheme and the net surplus or deficit in the freight pool for the audit period.
10) A consolidated statement of surplus/deficit in the refinery IFEM to OCAC outlining refinery costs, recoveries under the FPSM scheme and the net surplus or deficit in the refinery IFEM for the audit period.
11) A consolidated statement of surplus generated and payments made/to be made with respect to HSD Price Differential and net surplus/deficit for the audit period.
12) A consolidated statement of surplus generated and adjustments / payments made with respect to Mogas RON Differential by PARCO as well as ARL added in 2016-17 and net surplus/deficit for the audit period.
13) report on PARCO's PDC backlog recovery allowed during the year for the audit period as reflected in the statement as per ECC decision [2015-16].
14) A report on the surplus/deficit generated in their freight pool pertaining to PARCO's DHDS claim for the audit period as reflected in their statement of surplus/deficit in the freight pool prepared by the refinery.
15) A report detailing on BPPL's crude transportation claim for period comprising August 16, 2011 to June 2012 only and recovery allowed to BPPL during the instance audit period.
16) A report detailing on the surplus/deficit recovery to OMC against MT Amethyst price differential claim of Mogas i.e. PSO recovery status from September 10, 2012-to November 21, 2012 from freight pool.
17) A statement of surplus/deficit generated on account of recovery allowed to SPL, TPML & TPPL against mogas price differential claim i.e MT CS Amethyst, and net surplus/deficit for the audit period.
18) The report on deductions/disallowances/ adjustment passed by OGRA with reference to Para 2(xi) for t disclosure.
19) A report highlighting OMC wise movements that violate supply source integrity and approved mode of transportation by comparing Actual Transportation Certificates with approved product movement plans and the impact of such movements on freight pool.
20) A report detailing exports made by OMCs and the associated transportation cost recovered from the export customer.
21) A report on violation of OMC tank lorries as per applicable SOP on physical reporting of tank lorries and the impact of such movement on freight pool.
22) A report on violation/non-compliance of OMC tracker installation on tank lorries for products supplies for primary transportation, as applicable, and the impact of such movement on freight pool.
23) A statement of surplus / deficit generates on account of IFEM Audit adjustment/recovery against surplus FY 2008-09 and FY 2009-10.

Duration of Audit

The auditors will furnish the draft reports along with the draft statements within 180 working days from the commencement of audit of each OMC/refinery. The audit for each OMC/refinery will commence once information referred in paragraphs above required by the auditors has been prepared by the OMCs/refineries and has been furnished by the respective OMCs/refineries for the purpose of audit.

Table 1: Product-wise table of approved source-destination combination

HSD

Destination	Source	Mode
CTL	SIH	Road
JGT	SIH	Road
TJB	SIH & MCH via Road, MHK via Road or Rail	Road / Rail/ Pipeline
SRNG*	MHK	Road
FAQ	MCH via Road, SIH	Road / Pipeline
SIH	ARL via Pipeline or Road, MCH via Road	Road / Pipeline
CPI	MHK via Rail, MCH via Road	Road / Rail/ Pipeline
MCH	MHK via Pipeline , KMR via Pipeline	Pipeline
GAT/FBD	MHK via Pipeline, KMR via Pipeline	Pipeline /Road
HBD*	MCH via Road	Road/ Pipeline
KND*	GAT	Road/ Pipeline
KJM	MHK	Road
SWL	GAT,MHK	Road/Pipeline
MHK	MCR via Pipeline, KMR via Pipeline	Pipeline
SSH	MHK	Road
VHR	MHK	Road
SKP	KMR via Pipeline	Pipeline
SNG*	KMR via pipeline SKP, Ex-SKP via road	Road/Pipeline
DLP*	KMR,BYCO	Road
QTA	KMR via pipeline SKP, Ex-SKP via road	Road/Pipeline
KZD*	KMR	Road
KMR	KeamariRoad and Byco via Road	Road
ZOT/PQ	BYCO	Road

* Included in IFEM effective February 26, 2014 only for OMCs having Depot at the location

Note:

i. Daulatpur, Khuzdar, Sanghi, Habibab, Kundian and SeraiNaurang depots were included in IFEM effective February 26, 2014 for PSO only.

ii. FAQ, KJM, SWL, SSH were included in IFEM effective November 11, 2011 for PSO only. CPL's Sahiwal depot was included in February 2012 whereas SPL Kotlajam depot only was included in IFEM effective June 1, 2012.SPL SWL & SSH were included in IFEM effective August 20, 2014

iii. Other OMCs having Physical as well as Operational Depot were added as per OGRA's permission subject to ECC decision in this regard.

PMG

Destination	Source	Mode
CTL	SIH	Road
JGT	SIH	Road
TJB	KMR,BYCO,SIH, MHK	Road
FAQ	SIH, MHK	Road
SRNG*	KMR,BYCO, MHK, SIH, ARL, MCK	Road
SIH	KMR,BYCO, MHK, SIH, ARL, MCK	Road
CPI	KMR,BYCO, MHK	Road
MCH	KMR,BYCO, MHK	Road
GAT/FBD	KMR,BYCO, MHK	Road
HBD*	KMR,BYCO, MHK	Road
KND*	KMR,BYCO, MCR	Road
KJM	KMR,BYCO, MHK	Road
SWL	KMR,BYCO, MHK	Road
MHK	KMR,BYCO	Road
SSH	KMR,BYCO, MHK	Road
VHR	KMR,BYCO	Road
SKP	KMR,BYCO	Road
SNG*	KMR,BYCO	Road
DLP*	KMR,BYCO	Road
QTA	KMR,BYCO	Road
KZD*	KMR,BYCO	Road
KMR	KMR,BYCO,ENAR	Road

* Included in IFEM effective March 18, 2014 only for OMCs having Depot at the location

Note:

i. Daulatpur, Khuzdar, Sanghi, Habibab, Kundian and SeraiNaurang depots were included in IFEM effective February 26, 2014 for PSO only.
ii. FAQ, KJM, SWL, SSH were included in IFEM effective November 11, 2011 for PSO only. CPL's Sahiwal depot was included in February 2012 whereas SPL Kotlajam depot only was included in IFEM effective June 1, 2012.SPL SWL & SSH were included in IFEM effective August 20, 2014
iii. Other OMCs having Physical as well as Operational Depot were added as per OGRA's permission.

SKO

Destination	Source	Mode
CTL	SIH	Road
JGT	SIH	Road
TJB	SIH, MHK	Road
FAQ	SIH	Road

SIH	ARL	Road
CPI	SIH, MHK	Road
MCH	MHK	road
GAT / FBD	MHK	Road
HBD*	MHK	Road
KND*	MHK	Road
KJM	MHK	Road
SWL	MHK	Road
MHK	MCR	Road
SSH	MHK	Road
VHR	MHK	Road
SKP	KMR	Road
SNG*	KMR	Road
QTA	KMR	Road
KMR	KMR, BYCO	Road

* Included in IFEM effective March 18, 2014 only for OMCs having Depot at the location

Note:

i. Daulatpur, Khuzdar, Sanghi, Habibab, Kundian and SeraiNaurang depots were included in IFEM effective February 26, 2014 for PSO only.
ii. SPL SWL & SSH were included in IFEM effective August 20, 201
iii. Other OMCs having Physical as well as Operational Depot were added as per OGRA's permission.

LDO

Destination	Source	Mode
SIH	ARL	Road
CPI	KMR,SIH,MHK	Road
FBD	MHK	Road
MCH	KMR,MHK	Road
KJM	MHK	Road
SWL	MHK	Road
MHK	MCR	Road
SSH	MHK	Road
SKP	KMR	Road
KMR	KMR	Road

Note:

i. Daulatpur, Khuzdar, Sanghi, Habibab, Kundian and SeraiNaurang depots were included in IFEM effective February 26, 2014 for PSO only.
ii. SPL SWL & SSH were included in IFEM effective August 20, 2014.
iii. Other OMCs having Physical as well as Operational Depot were added as per OGRA's permission.

SELECTION OF AUDIT FIRM (S) FOR CONDUCTING AUDIT OF INLAND FREIGHT EQUALIZATION MARGIN (IFEM)

TECHNICAL EVALUATION CRITERIA

	Clause	Description	Points
1	Work Protocol	a. Organizational structure of the firm b. Ratio of key staff holding permanent position. c. Comprehensive approach for completion of assignment. d. Complete methodology highlighting critical milestone's **Sub-Total Marks**	05 05 15 15 **40**
2	Relevant Experience of Organization	a. Total work experience of the firm in undertaking audits. b. Total work experience and competency of the organization undertaking jobs relating to audit in oil sector, c. Specific experience of the firm in undertaking IFEM audit. **Sub-Total Mark**	15 15 10 **40**
3	Team	Detailed CVs of the team members, giving names, qualification, employment record, professional experience, while highlighting respective roles within the team. **<u>Relevant Experience:</u>** Experience relating to IFEM audit. **<u>General Experience:</u>** Total Overall work experience of the Consultant(s) (including experience of experts engaged) in oil sector. **Sub-total marks**	 10 10 **20**
		Total	**100**

<u>NOTE</u>: Minimum requirements for pre-qualification shall be 60 points.