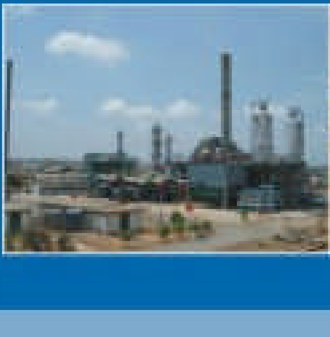
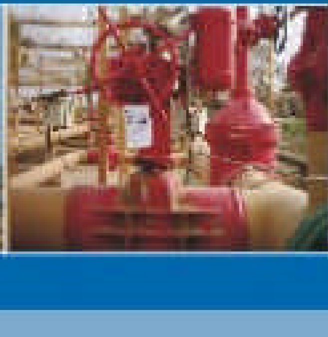
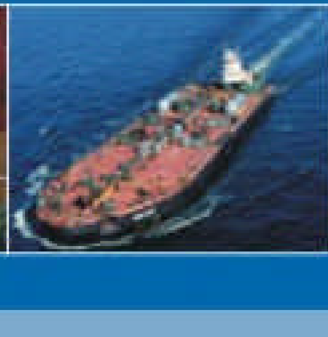
Annual Report 2005-06


Oil & Gas Regulatory Authority

Mission Statement

Safeguard public interest through efficient and effective regulation in the midstream and downstream petroleum sector

The Authority

M.H. Asif
Member Finance

Rashid Farooq
Member Oil

Munir Ahmad
Chairman

Jawaid Inam
Member Gas/Vice Chairman

Senior Officers of the Authority

Left to Right (Front): Ahsan Maqbool (Executive Director), Sarfraz Ali Sheikh (Senior Executive Director), Brig (R) Tariq Mahmud (Secretary/Senior Executive Director), Javed Nazir (Senior Executive Director), Syed Jawad Naseem (Executive Director)

Left to Right (Back): Shahzad Iqbal (Joint Executive Director), Muhammad Yasin (Joint Executive Director), Sarmad Aslam (Joint Executive Director), Shahid Nauman Afzal (Joint Executive Director)

Oil and Gas Regulatory Authority's Employees

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ABBREVIATIONS AND ACRONYMS

AJK	Azad Jammu & Kashmir
API	American Petroleum Institute
ARL	Attock Refinery Limited
BBL	Barrel
BBTU	Billion British Thermal Unit
BTU	British Thermal Unit
CBR	Central Board of Revenue
CCRB	Cabinet Committee on Regulatory Bodies
CNG	Compressed Natural Gas
CPGCL	Central Power Generation Company Limited
CPI	Consumer Price Index
CRPR	Complaint Resolution Procedure Regulations
DCO	District Coordination Officer
DPL	Dewan Petroleum Limited
ECA	Economic Consultant Associates
ECC	Economic Coordination Committee
ECPL	Engro Chemical Pakistan Limited
ERR	Estimated Revenue Requirement
EVTL	Engro Vopak Terminal Limited
FATA	Federal Administered Tribal Areas
FFCL	Fauji Fertilizer Company Limited
Fig	Figure
FJFC	Fauji Jordan Fertilizer Company
FKPCL	Fauji Kabirwala Power Company Limited
FRR	Final Revenue Requirement
FY	Fiscal Year/Financial Year
GDS	Gas Development Surcharge
GENCO	Generation Company
GIREP	Gas Infrastructure Rehabilitation and Expansion Project
GoP	Government of Pakistan
GSA	Gas Sale Agreement
GST	General Sales Tax
HDIP	Hydrocarbon Development Institute of Pakistan
HOBC	High Octane Blending Component
HQ	Head Quarter
HR	Human Resource
HSD	High Speed Diesel
ICMAP	Institute of Cost and Management Accountants of Pakistan
IFEM	Inland Freight Equalization Margin
IRBP	Indus Right Bank Pipeline
IT	Information Technology
JP	Jet Propellant
KERO	Kerosene Oil
KM	Kilometer
LAN	Local Area Networks

LDO	Light Diesel Oil
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas
LUMS	Lahore University of Management Sciences
MGCL	Mari Gas Company Ltd.
MIS	Management Information System
MMBTU	Million British Thermal Unit
MMcf	Million Cubic Feet
MMcfd	Million Cubic Feet Per Day
MMscfd	Million Standard Cubic Feet Per Day
MP&NR	Ministry of Petroleum & Natural Resources
MS	Motor Spirit
MT	Metric Tones
NFPA	National Fire Protection Association
NGRA	Natural Gas Regulatory Authority
NOC	No Objection Certificate
NSC	National Security Council
NWFP	North West Frontier Province
OCAC	Oil Companies Advisory Committee
OGDCL	Oil and Gas Development Company Limited
OGRA	Oil and Gas Regulatory Authority
OMCs	Oil Marketing Companies
OPI	Orient Petroleum Inc.
PARCO	Pak-Arab Refinery Company
PEL	Petroleum Exploration (Pvt) Limited
PIMS	Pakistan Institute of Management Sciences
PDL	Petroleum Development Levy
PPL	Pakistan Petroleum Ltd
PSO	Pakistan State Oil
QPCEP	Quetta Pipeline Capacity Expansion Project
RR	Revenue Requirement
Rs	Rupees
SNGPL	Sui Northern Gas Pipelines Ltd
Sr. No.	Serial Number
SSGCL	Sui Southern Gas Company Ltd
TOR	Terms of Reference
TRR	Total Revenue Requirement
UFG	Unaccounted for Gas
UK	United Kingdom
USA	United States of America
USOA	Uniform System of Accounts
US$	US Dollar
WACOG	Weighted Average Cost of Gas
WAPDA	Water and Power Development Authority

Report
on
Conduct
of
OGRA
Affairs

1. CHAIRMAN'S REVIEW

I have great pleasure in presenting 5th Annual Report of the Oil and Gas Regulatory Authority (OGRA) in pursuance of Section 20 (1) (a) of the OGRA Ordinance, 2002. OGRA has entered into the 5th year after its inception under the OGRA Ordinance March 2002 to regulate midstream and downstream oil and gas sector. OGRA's objective to foster competition with increased private investment and ownership in the midstream and downstream petroleum industry, and protect the public interest by providing effective and efficient regulations is getting broader and deeper with each passing year. Through the delegation of powers and formulation of new rules and regulations, OGRA is playing an important and effective role in implementing comprehensive reforms in the oil and gas sector.

OGRA has made significant progress during the FY 2005-06 towards achieving the objectives of its establishment. It was an eventful and successful year for OGRA. The main feature of the year was the transfer of regulatory functions of the midstream and downstream oil sector along with petroleum products' pricing functions to OGRA on March 15, 2006. Under the pricing function, OGRA notifies ex-depot sale prices of the petroleum products on fortnightly basis i.e.1st and 16th of each month. The Federal Government has also provided policy guidelines including the process of consultation with Federal Government.

Another important aspect of OGRA activities was the drafting of the Liquefied Natural Gas (LNG) Licensing Rules and submitting the same to the Federal Government for approval and notification in accordance with the OGRA Ordinance in response to the announcement of the LNG policy by the Federal Government for attracting investment to meet the fast-growing demand of natural gas in the country.

Besides that, OGRA remained fully engaged in the grant of licences for transmission and sale of natural gas, construction of Compressed Natural Gas (CNG) stations, production and marketing of Liquefied Petroleum Gas (LPG), determination of revenue requirements of gas utilities, expeditious resolution of complaints against the oil and gas companies, enforcement of service standards and drafting of new rules and regulations etc.

One of the main functions of the Authority is the determination of revenue requirements of natural gas utilities which are entitled to a minimum return of 17% by Sui Southern Gas Company Limited (SSGCL) and 17.5% by Sui Northern Gas Pipeline Limited (SNGPL) on their operating assets before tax and financial charges. During the year under review, the Authority decided thirteen cases relating to revenue requirement of the two gas utilities. These decisions were made after holding public hearings and in-depth scrutiny of the capital and operating expenditure based on prudence, optimization, improved service to customers and safeguarding public interest. Consequently, the Authority determined the prescribed prices (retainable by the gas companies) for each category of consumers effective 1st July, 2005 and 1st January, 2006. Based on these determinations and in accordance with the provisions of OGRA Ordinance, the

Federal Government advised the sale prices of natural gas for each category of consumers which were duly notified by the Authority. The differential between the prescribed prices and sale prices is paid by the gas companies as Gas Development Surcharge (GDS) to the government. The Authority also issued natural gas well-head price notifications for forty-six gas fields, effective 1st of July, 2005 and 1st of January, 2006.

Unaccounted for Gas (UFG) / line losses of the SNGPL and SSGCL have been a major concern for the Authority in view of the decision of the National Security Council dated 11-10-2000, that the Regulatory Authorities should look into the inefficiencies and losses of public utilities in the energy sector before allowing an increase in tariff. OGRA has achieved the objective of controlling the line losses through fixation of targets for both the gas companies which would gradually decrease to 4% by the year 2011 as against 8.5% in the year 2001-02. The companies have been incentivised that if they improve upon the targets, they can retain the total benefit to improve their profits; conversely they will have to bear the shortfall through their own profits. The consumers' prices for each year take into account only the line losses which have been targeted for the said financial year. I am glad to report that this action of the Authority has really generated interest in the gas companies to take effective measures to improve their operational efficiency which is evident from the fact that during the year under report the actual line losses have come down to around 6.5% as against the target of 5.75%. During the last 3 years, reduction in the line losses have alone saved the consumers from an additional burden of Rs.2.8 billion.

The consumers' complaints against the oil and gas companies are dealt in accordance with the Complaint Resolution Procedure Regulations (CRPR), 2003. Expeditious resolution of public complaints in a transparent and fair manner is providing much needed relief to the public. A Cell dedicated for complaint redressal has been created in OGRA which receives public complaints and process the same to provide quick and effective relief to the consumers. During FY 2005-06 OGRA received 1010 complaints, out of which 695 were resolved. Majority of complaints are resolved within ninety days of their receipt in OGRA.

OGRA has so far issued ten licences in natural gas sector. The Authority approved a number of Gas Sales Agreements between producers and licensees and Gas Sale/Supply Agreements between licensees and major retail consumers. OGRA granted approval of SNGPL/SSGCL's projects related to expansion in the transmission and distribution networks for the benefit of consumers. The Authority revised the standard Gas Sale Contract for domestic consumers to make it uniform and consumer friendly while protecting the basic rights of the gas companies. The Authority also revised and approved the Gas Theft Control Policies which have been enforced from July 2005.

During the FY 2005-06, the Authority issued 2165 licences for construction of CNG stations while 254 marketing licences were granted after receiving satisfactory inspection report from third party inspectors. Pakistan ranks 3rd in the world with 965 established CNG stations in different parts of the country as on 30th

June, 2006. More than 1,000,000 vehicles have so far been converted to CNG. About 40,000 people are directly and indirectly employed in the CNG sector. An investment of about Rs. 32 billion has so far been made and in future further investment of Rs. 27 billion is expected in this sector.

During the year, OGRA issued fifteen (15) licences for marketing of LPG while thirty-one (31) licences have been issued for construction of LPG storage and filling facilities at various locations. As of June 30, 2006 there were 9 LPG producing companies with a production capacity of approx 1,600 Metric Tones (MT) per day and 47 LPG marketing companies operating in the country, while 65 licences for the construction of storage and filling facilities had been issued. An investment of about Rs. 9.0 billion has so far been made in this sector.

Employees of OGRA deserve appreciation for their exceptional spirit of cooperation and professionalism in the discharge of their responsibilities that helped the organization meet challenges with success.

Due to its relentless pursuit of quality and efficiency in the regulatory sphere, OGRA has earned a respectable repute of being an impartial and effective regulator. I earnestly hope that OGRA, in keeping with the spirit of OGRA Ordinance, will continue to strive for financial and operational efficiencies in the downstream petroleum sector through effective and meaningful regulation in the larger public interest.

(Munir Ahmad)
November 21, 2006

Profile of the Authority

2. PROFILE OF THE AUTHORITY

2.1 Composition

The Authority, established under the Oil and Gas Regulatory Authority Ordinance, 2002, comprises a Chairman, Member (Gas)/Vice Chairman, Member (Oil) and Member (Finance). They have been selected by the Federal Government through open competition and appointed on tenure basis. The qualifications and other terms & conditions of their appointments as provided in the Ordinance are:

a) The Chairman shall be an eminent professional of known integrity and competence with a minimum of twenty years of related experience in law, business, engineering, finance, accounting, economics or petroleum technology.

b) The Member Oil shall be a person who holds an appropriate degree in the relevant field and is an experienced, eminent professional of known integrity and competence with a minimum of twenty years of related experience in the field of oil, including the transportation thereof.

c) The Member Gas shall be a person who holds an appropriate degree in the relevant field and is an experienced, eminent professional of known integrity and competence with a minimum of twenty years of related experience in the field of natural gas, including the transmission and distribution thereof.

d) The Member Finance shall be a person who holds an appropriate degree in the relevant field and is an experienced, eminent professional of known integrity and competence with a minimum of twenty years of related experience in the field of corporate finance or accounting.

e) The Chairman shall be appointed by the Federal Government for an initial term of four years and shall be eligible for re-appointment for a similar term.

f) The Member Oil and Member Gas shall be appointed by the Federal Government for initial term of three years and shall be eligible for re-appointment for term of four years.

g) The Member Finance shall be appointed by the Federal Government for an initial term of two years and shall be eligible for re-appointment for a term of four years.

h) The Chairman and the other Members shall retire on attaining the age of sixty-five years.

2.1.1 Chairman

Mr. Munir Ahmad

Mr. Munir Ahmad is the pioneer Chairman of OGRA. He has forty years extensive experience of dealing with the economic, operational and regulatory matters of the petroleum sector. He holds a Master's Degree in Petroleum Geology and has attended a number of professional courses on gas tariffs, regulation, privatization etc. at home and abroad. Before joining OGRA he held the position of Director General (Gas), Ministry of Petroleum and Natural Resources, GoP for seventeen years. He had been a Director on the Board of several petroleum sector companies for over twenty years. He also held the position of Managing Director, Sui Southern Gas Company Limited in 1989 and Sui Northern Gas Pipelines Limited in 1999. After completion of his first term of four years as Chairman OGRA, he has been re-appointed by the Federal Government for the second tenure of four years effective September 7, 2004.

2.1.2 Vice Chairman/Member (Gas)

Mr. Jawaid Inam

Mr. Jawaid Inam currently holds this position. He obtained a Bachelor's Degree in Fuel Science and Technology from the University of Leeds, UK and started his professional career as a Research Engineer at British Gas, UK. He joined SNGPL in 1966 and held important engineering and management positions including the Managing Director. He has received training at reputable universities such as Oxford, Chicago, Florida, Oklahoma and Texas in the fields of Engineering, Management and Utility Regulation. Mr. Inam has also been designated as Vice Chairman to perform the duties of the Chairman during the later's absence. After completing first tenure of three years, he has been re-appointed in September, 2003 for a second tenure. He would retire on December 19, 2006 after attaining the age of 65 years.

2.1.3 Member (Oil)

Mr. Rashid Farooq

Mr. Rashid Farooq was appointed as Member (Oil) on October 09, 2002. He holds Bachelor's Degree in Chemical Engineering from University of the Punjab and Master's Degree in Energy Engineering from University of Surrey, the UK. He has thirty-two years of experience in regulatory and policy matters in the downstream and upstream petroleum sectors; Mr. Rashid Farooq worked in the Ministry of Petroleum for twenty-eight years and remained on the Board of Directors of Attock Refinery, Pakistan Refinery, Pak Arab Refinery, Pak Arab Pipeline Company, National Tanker Company, Pirkoh Gas Company and National Petrocarbon. He attended various international seminars, conferences and training programmes in the downstream oil sector, Petroleum Management and Environment and obtained post graduate certificates in Petroleum Management from University of Pittsburgh, the USA, Canadian Petroleum Institute, Canada, Business Management from the University of Surrey, the UK and Environment Impact Assessment from Asian Institute of Technology, Bangkok. He represented Ministry of Petroleum and Natural Resources in various countries at meetings on bilateral economic cooperation in the petroleum sector. He was Director General (Oil) in the Ministry of Petroleum before joining OGRA. After completing first tenure of three years, he has been re-appointed in October 2005 for a second term of 4 years.

2.1.4 Member (Finance)

Mr. M.H. Asif

Mr. M H. Asif was appointed as Member (Finance) on March 29, 2004 for an initial term of two years. On its expiry he has been re-appointed for the second term extending up to 11 February, 2009. He is Fellow Member of the Institute of Cost and Management Accountants of Pakistan (ICMAP) and also holds Masters Degree in Economics and Bachelors Degree in Commerce. He has to his credit over forty-three years exposure in leadership positions in the fields of finance, management, marketing, planning, human resource development and professional education. He has been associated with gas sector, GoP and public sector autonomous bodies. He has also been a member of the management team of the ICMAP for a long time, in various honorary positions including President. Currently, he is Chairman of its Research and Technical Committee. He served for two years as Technical Advisor to the Public Sector Committee of the International Federation of Accountants, developing International Accounting Standards for public sector entities. He has received training abroad on various aspects of regulation of utilities, market-based free economy operations in gas and oil industry and accounting profession.

2.2 Powers and Functions

The salient features of the Powers and Functions of the Authority as embodied in the Ordinance are as under:

- **Exclusive** power to grant, amend or revoke licences for regulated activities and enforce compliance of licence conditions to promote efficiency, cost effectiveness, best practices, high safety and service standards etc. The regulated activities are:

  - **Natural Gas**
    - Construction or operation of pipelines or storage facilities or other installations
    - Transmission
    - Distribution
    - Sale

  - **OIL**
    - Construction or operation of refinery, pipelines, storage facilities, blending facilities and installations
    - Marketing and storage of refined oil products

  - **Liquefied Petroleum Gas (LPG)**
    - Construction or operation of pipelines, production or processing facilities, storage facilities and installations
    - Transporting , filling, marketing and distribution

  - **Compressed Natural Gas (CNG)**
    - Construction or operation of installations including testing or storage facilities
    - Transporting, filling, marketing and distribution

  - **Liquefied Natural Gas (LNG)**
    - Construction or operation of installation including testing or storage facilities
    - Transporting, filling, marketing and distribution

- **Exclusive** power to employ officers, staff, experts, consultants, advisors and other employees on such terms and conditions as it may deem fit

- **Exclusive** powers to decide upon all matters in its jurisdiction

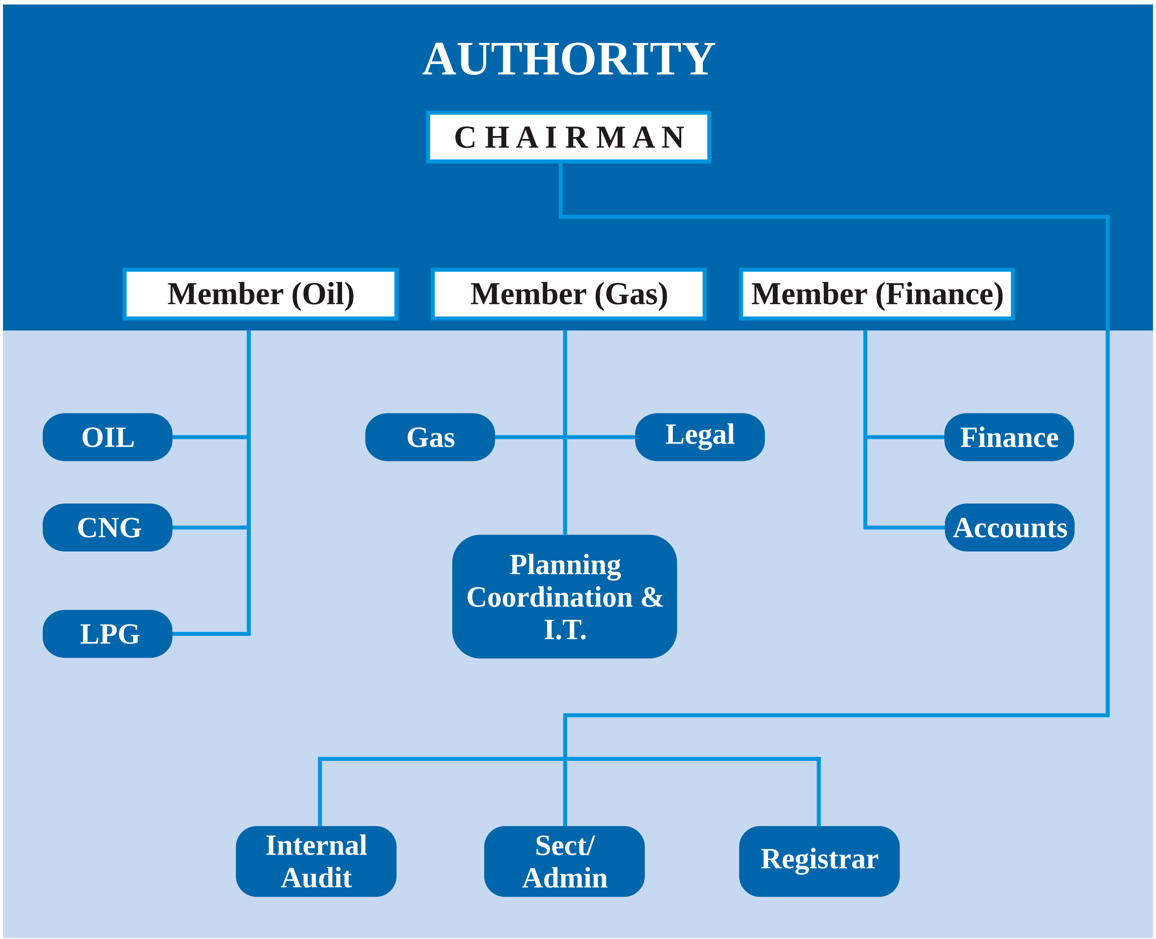
- Develop and enforce performance and service standards
- Determine in consultation with the Federal Government and the licensees, a reasonable rate of return to the natural gas licensees
- Prescribe procedures and standards for investment programmes of the gas utilities and oversee their capital expenditure to ensure prudence
- Determine annually the revenue requirement of gas utilities covering the cost of gas, transmission and distribution cost and the prescribed rate of return
- Resolution of complaints and disputes between a person and a licensee or between licensees.
- Enforce standards and specifications for refined oil products as notified by the Federal Government
- Implement such policy guidelines of the Federal Government as are not inconsistent with the provisions of the OGRA Ordinance

2.3 Organization Structure

2.3.1 Organogram

The Authority is organized as reflected in **Table 2.1**.

Table 2.1 Organization Structure



2.3.2 Human Resource

OGRA is a lean organization with a flat structure where emphasis is on quality, efficiency and goal-orientation. The departments are essentially small teams of highly motivated professionals with bare minimum support staff. The working environment of OGRA provides optimal challenge to the employees whereas a sense of responsibility is induced in them which provide full freedom of action. OGRA provides a climate where people are encouraged to fully participate in decision making process. The employees' status as on June 30th, 2006 is at **Table 2.2**.

Table 2.2 Employees Status

Engineers	28
Accountants / Financial Analysts / Economists / IT Auditors	17
Lawyers	03
Administrative Executives	11
Executive Secretaries	09
Support Staff	79
Total	**147**

The officers and staff are recruited strictly on "as required" basis on the terms and conditions as stipulated in the OGRA Service Regulations notified under the OGRA Ordinance. The appointments are made on merit through a transparent and competitive process keeping in view the regional quotas. Recruiting and selecting the right people is of paramount importance to the continued success of OGRA.

Secretary OGRA in a meeting

2.3.3 Capacity Building

For any organization, especially in an increasingly competitive marketplace, the quality of people is the key factor that separates the good from the best. The basis of the capacity building approach is "embracing and supporting each individual's capacity to learn and capability to incrementally grow within the organization". It includes human resource, organizational, institutional & legal framework development.

World Bank funded capacity building project for OGRA focuses on human resource and institutional development with an understanding that the both must be addressed together in order to achieve meaningful change. Out of the World Bank's US$ 2 million funding, US$ 1.5 million have been allocated for institutional development studies and US $ 0.5 million reserved for employee's professional training. In addition to this funding, OGRA also spends a large amount on the professional grooming of officials from its own fund reserved for training.

OGRA, being a dynamic organization, believes in "enhancing capacity to create future". It encourages training of the employees not only to equip them with the latest skills & knowledge but also to expose them to the international best regulatory practices and techniques. During the year under review, 19 officers have attended international training programs and 41 officers participated in local/online/in-house training programs. Personnel sent on foreign training programs provide post training/visit report on their return followed by a presentation so that other officers could also benefit from their learning experience.

OGRA has also initiated the following two institutional building studies:

i) Development and Enforcement of Technical and Performance Standards relating to LPG.

ii) Development of additional Rules/Regulations pertaining to various Powers And Functions of OGRA.

2. 3. 4 I.T. Orientation

OGRA has established two Local Area Computer Networks (LANs) at its two office buildings in such a way that each computer has the access to World Wide Web and link to Electronic Communication System. The Authority is aiming to minimize the paper usage and achieving efficiency through intensive use of Information Technology. The computer resource sharing concept has improved efficiency and reduced cost of equipment. Internal communication, normally, is done electronically reducing paper load and promoting speed.

OGRA maintains web portal 'www.ogra.org.pk' which has been designed using latest and secure web development tools. It is user friendly and being updated regularly. Anyone can access it and browse OGRA Ordinance, rules and regulations made there under and its decisions, notifications, tender notices, job announcements, press releases, list of licensees etc. OGRA's website ranks among the most popular in the country as during the past one year over 300,000 visits were recorded.

Network Technician working on the server

The Process

3. THE PROCESS

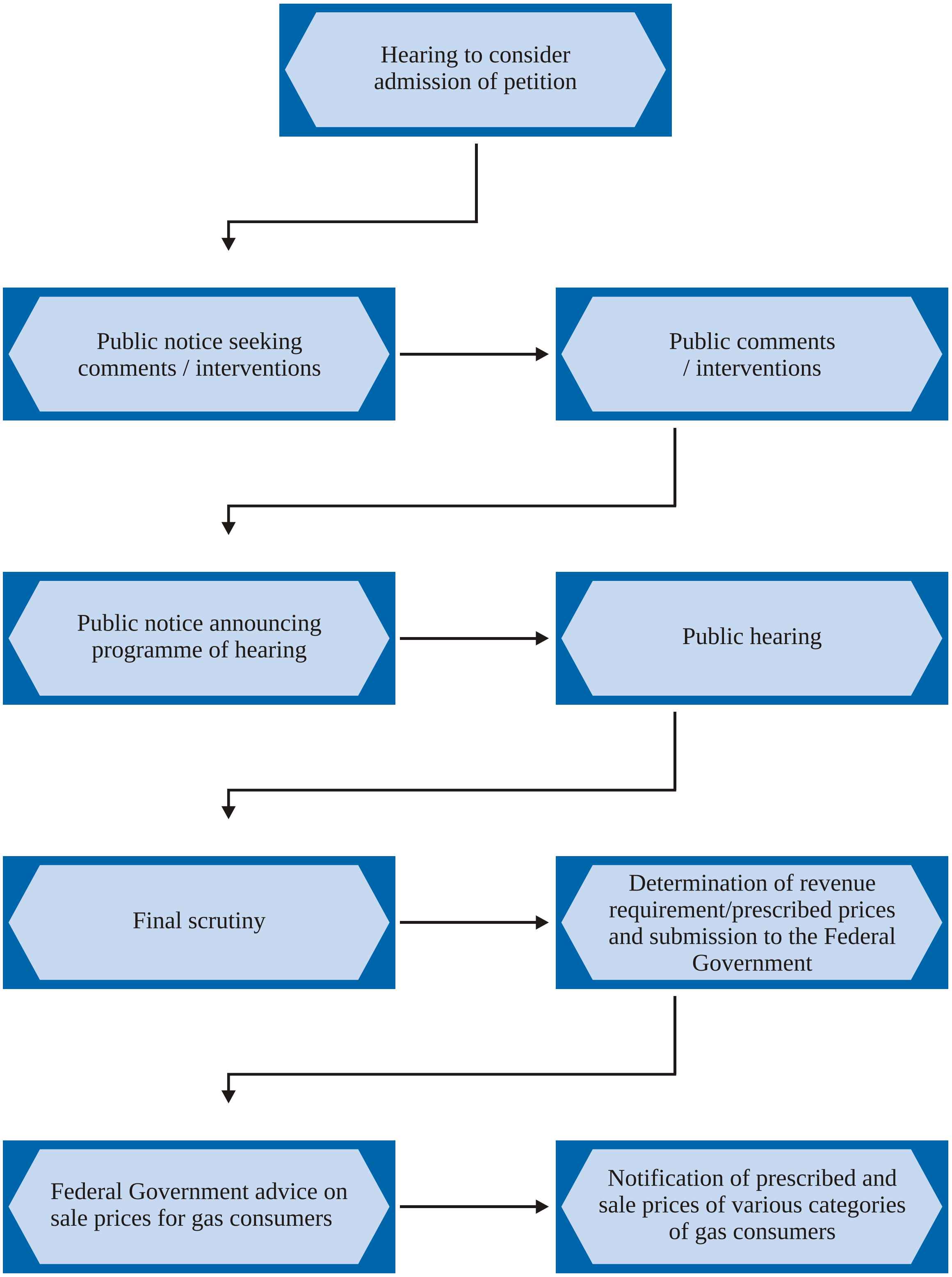
3.1 The Authority's Decision Making Process

The Regulatory Framework consists of a quasi-judicial Authority for the issuance of licences, tariff setting and maintaining standards of quality of services, therefore, the Authority is vested under the Ordinance and Rules with the power of delivering decisions. The Authority exercises the power of original jurisdiction in the petitions filed for grant of licences for various types of regulated activities, and setting of tariff which include determination of estimated and total revenue requirement of natural gas transmission and distribution licensing companies. In addition to natural gas the Authority has been empowered to grant licences for Oil, CNG, LPG and LNG related activities. The Authority is also vested with the appellate power and power to review its decisions under the ordinance and rules.

Left to Right - Member (Gas)/Vice Chairman, Chairman, Member (Oil), Member (Finance) in hearing

All petitions are examined in the light of relevant rules, which inter-alia involved interactive process of consultation with all stakeholders including consumers through public hearings. This provide the general public an opportunity to vent their feelings on the quality of service provided to them and the utility company to put across its view point regarding its constraint to operate on the basis of commercial considerations. This enables the Authority to have a wider range of information on the basis of which it can formulate its decision.

Table 3.1: The Process of Determination of Revenue Requirement, Notification of Consumer Gas Prices



Performance

4. PERFORMANCE

4.1 Development of Rules & Regulations

4.1.1 Formulation of Rules and Regulations

Section 41 and 42 of the OGRA Ordinance 2002 require the Authority to formulate rules and regulations respectively, to carry out its various functions as provided in the Ordinance. The rules are to be approved and notified by the Federal Government, whereas the regulations are to be approved and notified by the Authority itself. One of the fundamental instruments i.e. the Natural Gas Licensing Rules, were framed under the former NGRA Ordinance and notified in February 2002. These rules were later protected under the provision of OGRA Ordinance. Since its inception in March, 2002, the Authority has put in place a comprehensive regulatory framework as described below:

4.1.1.1 Rules

Table 4.1: Rules Notified/Adopted

Sr. No.	Rules	Notification Date
(i)	Natural Gas (Licensing) Rules, 2002.	February 26, 2002
(ii)	Natural Gas (Tariff) Rules, 2002.	November 23, 2002
(iii)	Compressed Natural Gas (Production and Marketing) Rules, 1992*.	March 15, 2003
(iv)	Liquefied Petroleum Gas (Production and Distribution) Rules, 2001*.	March 15, 2003
(v)	Pakistan Petroleum (Refining, Blending & Marketing) Rules, 1971*.	September 30, 1971
(vi)	Budget Committee Rules, 2004.	December 30, 2004

Note*: Rules No. (iii) , (iv) and (v) notified by the Ministry of Petroleum and Natural Resources, are adopted under section 44(3) of the Ordinance.

4.1.1.2 Regulations/Standards

Table 4.2: Regulations/Standards Notified

Sr. No.	Rules	Notification Date
(i)	Complaint Resolution Procedure (Natural Gas, CNG and LPG) Regulations, 2003.	September 3, 2003
(ii)	Performance and Service Standards for Gas Utilities.	September 3, 2003
(iii)	Natural Gas Uniform Accounting Regulations, 2003.	February 17, 2004
(iv)	Natural Gas Transmission (Technical Standards) Regulations, 2004.	August 5, 2004
(v)	Natural Gas Distribution (Technical Standards) Regulations, 2004.	August 5, 2004
(vi)	OGRA Financial Regulations, 2005.	January 11, 2005
(vii)	OGRA Service Regulations, 2005.	January 31, 2005

4.1.1.3 Rules/Regulations under Preparation

- Gas Theft Rules.
- Monitoring and Enforcement of licences, rules and decisions of the Authority (Enforcement Rules).
- Fines & Recovery Rules.
- Promotion of Fair Competition Rules.
- Revised CNG (Production and Marketing) Rules, 1992.
- Revised LPG (Production & Distribution) Rules, 2001.
- Regulations for resolving disputes amongst the licensees, consumers and licensees.

4.1.1.4 Rules Drafted

- The Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Licensing Rules, 2005.
- Liquefied Natural Gas (LNG) Licensing Rules: - The Rules have been submitted to the Federal Government for approval and notification.

4.2 Natural Gas Sector

4.2.1 Licences

OGRA, under the Natural Gas (Licensing) Rules, 2002, has so far issued ten licences to the companies as illustrated at **Table 4.3**.

Table 4.3: Status of Licences issued by OGRA

Company	Type of Licence	Date of Issue
SNGPL	Transmission, Distribution, and Sale of Natural Gas in the Punjab, NWFP, AJK, FATA and Small Part of Sindh.	September 3, 2003
SSGCL	Transmission, Distribution, and Sale of Natural Gas in Sindh and Balochistan	September 3, 2003
MGCL	Sale of Natural Gas to Fauji Fertilizer Company Limited (FFCL), Engro Chemical Pakistan Limited (ECPL) and Central Power Generation Company Limited (CPGCL)	August 11, 2004
PPL	Sale of Natural Gas to CPGCL(WAPDA).	November 23, 2004
OGDCL	Sale of Natural Gas to Fauji Kabirwala Power Company Limited, Uch Power and Altern Energy. (3)	December 30, 2004
FFCL[a]	Transmission of Natural Gas.	April 7, 2005
ECPL	Transmission of Natural Gas	April 7, 2005
CPGCL[b]	Transmission of Natural Gas.	April 14, 2005

a: Includes FFC-I, FFC-II, and unit acquired from Pak-Saudi Fertilizer
b: GENCO-II, WAPDA, Guddu Thermal Power Station, Kashmore

4.2.2 Well-Head Gas Prices

Section 6(2)(w) of OGRA Ordinance, 2002 empowers the Authority to determine the well-head gas prices for the producers of natural gas in accordance with the relevant agreements or contracts, and notify the same in the official gazette. The Authority issued well-head gas price notifications during the FY 2005-06 accordingly for 46 gas fields **see Appendix.**

4.2.2.1 Weighted Average Cost of Gas (WACOG)

The gas prices differs for different gas fields therefore, the cost of input gas into SSGCL and SNGPL systems also differs substantially causing a significant impact on the prescribed prices. Since the Federal Government, as a policy, has kept the consumer prices of gas uniform all over the country, it has issued the policy guidelines under Section 21 of OGRA Ordinance 2002 on June 18, 2003 that the cost of gas of SSGCL and SNGPL should be worked out on overall average basis to keep this major input cost uniform for both the utilities. On the basis of the said policy guideline the two companies have signed an agreement with the approval of OGRA for necessary adjustments of the cost of gas paid to the producers vs the weighted average cost of gas. For the FY 2005-06 the WACOG worked out to Rs.159.20/MMBTU which was allowed by the Authority in the Revenue Requirement of both the companies.

4.2.2.2 Fixed & Variable Charges

SNGPL & SSGCL also filed petitions on January 24, 2006 and February 04, 2006 respectively, under condition 45.2 of their licences granted by the Authority, for: (i) approval of fixed and variable charges, being recovered by them from retail consumers, with proposals to rationalize some of them, and (ii) approval of revised meter rentals for industrial consumers on capacity-range basis.

The fixed and variable charges submitted by both the utilities revealed following major discrepancies:

a. Different rates charged by both the utilities in case of similar activity.

b. Some charges are being recovered by one utility and not by the other.

c. Similar charges are being booked under different nomenclature (heads).

The Authority examined the descriptions/charges keeping in view the principles of non-discrimination, fairness, equity and responsibility in relation to the service being provided. The Authority also decided to achieve uniformity in description and charges throughout the country, and reduction in number of such charges. The proposal submitted jointly by SNGPL and SSGCL was exhaustively discussed during various consultation sessions/meetings held with both the utilities in order to standardize and rationalize various fixed and variable charges proposed by them. Subsequently, the Authority approved w.e.f. July 01, 2006, revised fixed and variable charges and notified the same in official gazette.

4.2.3 Determination of Revenue Requirement (RR) of Gas Utilities and Gas Tariff

Representative of SSGCL is presenting his case before OGRA against OGRA's Tariff determination of FY 2006-07 at Marriott, Karachi

The revenue requirement and the prescribed price for each category of retail consumers in respect of each licensee carrying out the activities of transmission, distribution or sale of natural gas is determined by the Authority under section 8 of the OGRA Ordinance, 2002. The RR is the sum of money which would enable a licensee to efficiently conduct its business and earn a reasonable return on its investment. The revenue requirement per the existing tariff regime comprises the following major components:

(i) Cost of gas paid to the gas producers (Well-Head prices). Weighted Average Cost

(ii) Transmission and distribution cost including depreciation.

(iii) Prescribed return per Government's policy decision, which currently is, 17.5% in case of SNGPL and 17% in case of SSGCL of the value of their net operating fixed assets.

The cost of gas which constitutes major part of the RR of the gas utilities is determined in accordance with the parameters contained in the gas pricing agreements between the Federal Government and the gas producers. Therefore, any change in cost of gas is practically a pass through amount. The scrutiny by the Authority consequently is more focused on examining the operating revenues, operating cost and assets base.

The gas utility companies are required to submit to the Authority their Estimated Revenue Requirement (ERR) for each financial year by December 1 of the preceding year, under the OGRA Ordinance, 2002 and Natural Gas Tariff Rules, 2002. These petitions are scrutinized, processed and decided in accordance with the rules after due notice in the national press giving full opportunity to comment and being heard to all the stakeholders including the petitioner and general public. Later, during the financial year, the gas utility companies file review petitions for adjustment in revenue requirement to cater for changes in cost of gas, and other relevant factors viz. sales volume and sale mix. Determination of Total Revenue Requirement (TRR) is carried out at the end of the financial year on the basis of auditor's initialed accounts.

The companies may also file motion for review against any decision of the Authority, within thirty days, per the grounds elucidated in the relevant provisions of law.

The Authority has also directed SSGCL & SNGPL to submit review petitions to the Authority for revision in cost of gas on the basis of actual and anticipated changes in international prices of crude and fuel oil in October every year.

The Authority has decided the following thirteen petitions of SNGPL and SSGCL.

SNGPL

- Review of ERR for FY 2005-06*.
- FRR for FY 2004-05*.
- Review of ERR for FY 2005-06.
- ERR for FY 2006-07.
- FRR for FY 2005-06.
- Review of ERR for FY 2006-07.

SSGCL

- Review of ERR for FY 2005-06*
- FRR for FY 2004-05*.
- Review of ERR for FY 2005-06.
- Review of FRR for FY 2004-05.
- ERR for FY 2006-07.
- FRR for FY 2005-06.
- Review of ERR for FY 2006-07.

*Details of these four decisions have already been provided in the OGRA's Annual Report for FY 2004-05 due to time lag.

The process of determination of revenue requirements is transparent and ensures effective participation of consumers and general public in order to balance the divergent interests of all the stakeholders including the Government.

OGRA has taken a conscious decision to attach primary importance to protecting consumers' interest while remaining within the Government's policy framework and providing incentives to entities to perform optimally.

4.2.3.1 Benchmarks

National Security Council (NSC) decided in the year 2000 that the regulatory authorities shall look into the inefficiencies and line losses of public utilities in the energy sector before allowing increase in the tariff. In compliance with the above decision, OGRA has undertaken various steps to implement yardstick regulations, for the first time in Pakistan, through the introduction of effective benchmarks. The enforcement of efficiency based incentive oriented operating targets for UFG/line losses and Human Resource (HR) cost has induced indirect competition and avoid passing on inefficiencies of the utilities to the consumers.

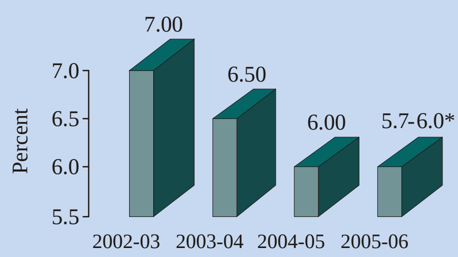
The operation of a benchmark makes regulatory intervention more predictable and obviates the need to scrutinize micro details, which also facilitate the licensees to introduce prudent management policies making the utilities more efficient.

4.2.3.2 Reduction in Unaccounted for Gas (UFG) and Benchmark

UFG levels of SNGPL and SSGCL have been a major concern for the Authority as 1% of UFG of both the companies means a loss or gain of over 1.00 billion rupees per year. Prior to establishment of OGRA in 2002, the level of UFG in SNGPL and SSGCL hovered over 8% of the gas purchased from producers, net of internal consumption. OGRA in consultation with the utilities devised a three year incentive based schedule from year 2003-04 to reduce the UFG to 6.00 %. The UFG targets set by OGRA are showing declining trend as depicted in **Fig 4.1**.

The targets were fixed with the condition that if the companies failed to bring down UFG to the desired level then volumes over and above the targets will be disallowed and will not form part of operational expenses, hence the companies will have to bear these losses from their profits. If, however, a company in any financial year brought UFG lower than fixed target it can retain the savings over and above its guaranteed return.

Fig 4.1: UFG Targets



*Lower and upper target

The performance of the two companies before and after the application of UFG targets is at **Table 4.4**. The UFG targets trend has also been illustrated in **Fig 4.2** and **4.3** for SNGPL and SSGCL respectively. (Upper limit has been taken in case of range values.)

Table 4.4: Historical Perspective: Percentage to Total Purchase Net of Internal Consumption

Financial Year	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
SNGPL-Actual	8.87%	7.98%	8.19%	6.75%	6.86%	6.59%	5.38%**
Allowed	8.87%	7.98%	8.19%	6.50%*	6.00%*	5.70-6.00%*	5.40-6.00%*
SSGCL-Actual	8.36%	7.60%	7.56%	7.09%	7.48%	6.61%	6.00%**
Allowed	8.36%	7.60%	7.56%	6.50%*	6.00%*	5.70-6.00%*	5.40-6.00%*

* Benchmark set by OGRA ** Estimates of the Licensees

Fig 4.2: Historical Perspective: Percent to Total Purchase Net of Internal Consumption-SNGPL

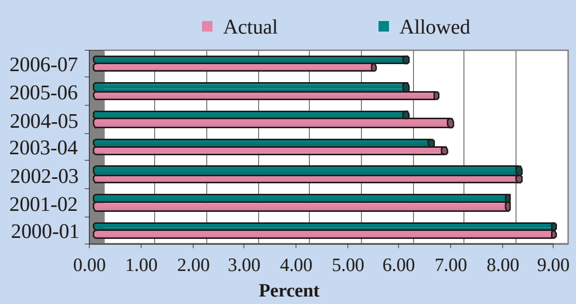
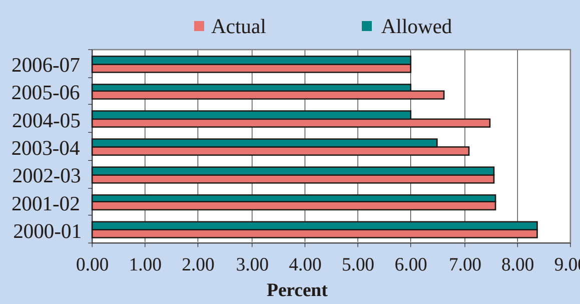


Fig 4.3: Historical Perspective: Percent to Total Purchase Net of Internal Consumption-SSGCL

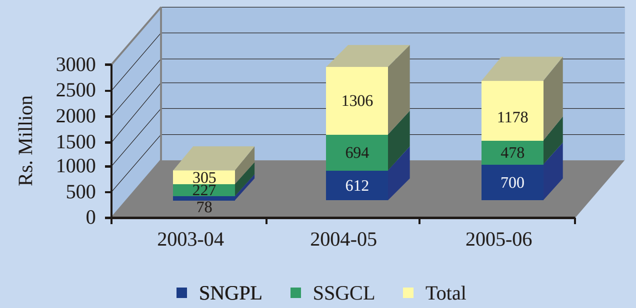


It was observed that even though the two companies have yet to fully achieve the targets set by OGRA, however, significant reduction has resulted, besides the burden has not been passed over to the consumers where the companies have failed to meet the targets. The shortfall in their revenue requirement was met from their profits. As a consequence of enforcement of the above mentioned targets, during the period 2003-2005, an additional burden of Rs.1.6 billion on gas consumers was avoided as the companies absorbed it from their own profits. The disallowances on account of UFG benchmark has benefited consumers to the tune of Rs. 1.14/ MMBTU (total Rs. 2,789 million) (during FY 2003-04 to FY 2005-06) and this is motivating the gas utilities to initiate effective measures for improving operational efficiency, in order to achieve the said targets and to retain the benefits. **see Table 4.5 and Fig 4.4**

Table 4.5: Savings on Account of UFG

	2003-04		2004-05		2005-06	
	Rs. Million	Rs. / MMBTU	Rs. Million	Rs. / MMBTU	Rs. Million	Rs. / MMBTU
SNGPL	78	0.18	612	1.21	700	1.30
SSGCL	227	0.73	694	2.11	478	1.41
Total Savings (Rs. Million)	305	–	1,306	–	1,178	2,789

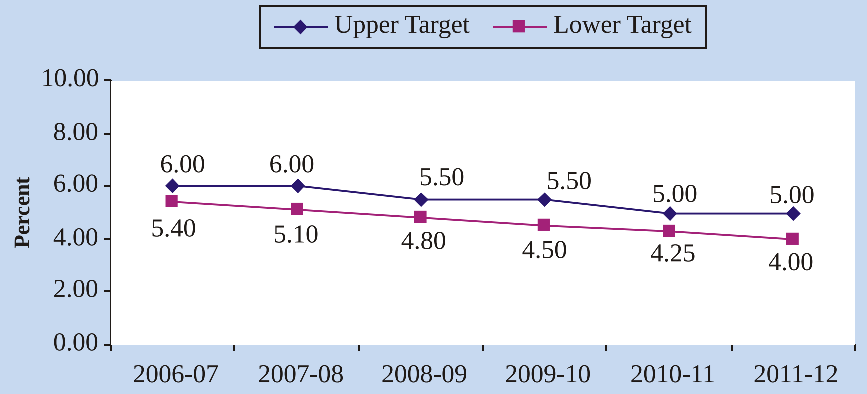
Fig 4.4: Benefit to Consumers on Account of UFG Targets



In the light of the research study conducted by OGRA on UFG levels of 32 gas distribution companies' world wide and keeping in view of the local conditions and constraints, OGRA has set appropriate UFG benchmarks for gas utility companies operating in Pakistan with a view to further improve their efficiency. To encourage them for striving to meet the set target of UFG level incentives have been given to these companies in the shape of retaining the saving in case where the UFG achieved is lower than the benchmark set by OGRA. Consequently, SNGPL and SSGCL have been advised to reduce UFG levels to 4.00 % by financial year 2011-12. **see Fig 4.5**.

It would be observed that OGRA now has introduced a new concept of upper and a lower limit of UFG. If the UFG is between these limits then 50% of the revenue loss has to be borne by the company. In case, it is above the upper level then company will have to bear the entire revenue loss. Finally, if UFG target is below the lower limit then the company can reap the benefit by retaining 100 % of the profit over and above its guaranteed return on assets.

Fig 4.5: UFG Projected Targets



4.2.3.3 Technical Audit

In order to assess the integrity of the utilities' existing transmission and distribution infrastructure, it has been made binding on them to conduct a technical audit of their operations for the first time within three years of issuance of the licence or within such period as may be approved by the Authority and subsequently, audits shall be arranged by the licensee not later than every ten years of the first audit or such period which may be specified by the Authority. In compliance of the concerned licence condition, the criteria for the pre-qualification of technical auditors and Terms of References (TORs) have been developed by the companies, which were submitted by them in writing to the Authority for its approval. The Authority, after reviewing the pre-qualification criteria and TORs, has approved them and the same has been communicated to the companies for proceeding further in the matter.

4.2.3.4 UFG Audit

UFG means, the difference between the total volume of gas purchased by the licensee during the financial year and volume of gas metered as having been supplied by the licensee to its consumers excluding there from metered natural gas used for self consumption by the companies. In order to arrest this loss in real term, it was needed that UFG audit be conducted. Thus, OGRA conducted a UFG audit of the two companies for FY 2003-04 through a consortium of two chartered accountant firms to assess the credibility and authenticity of UFG reported by the companies. Now OGRA again hired the services of a consortium of two chartered accountant firms for conducting UFG audit for FY 2004-05. The objective of the study was to verify and reconcile natural gas (volumes/BTUs) purchased from different sources and transferred from each delivery point to various categories of consumers.

4.2.3.5 Review of Estimated Revenue Requirement (ERR) of SSGCL & SNGPL for FY 2005-06

In pursuance of the Authority's directives, the gas utilities had submitted review petitions after incorporating anticipated change in the estimated (earlier) WACOG during the period January-June 2006. The Authority provisionally allowed the requested increases of Rs. 26.90 per MMBTU for SNGPL and Rs. 23.15 per MMBTU for SSGCL w.e.f January 01, 2006 in order to enable the utilities to recover the shortfall in the remaining six months of FY 2005-06, since the sale prices could not be adjusted retrospectively.

4.2.3.6 Motion for Review of Final Revenue Requirement (FRR) of SSGCL for FY 2004-05

The Authority refused leave to the motion for review of FRR of SSGCL for FY 2004-05 vide decision dated April 10, 2006 since no new argument or evidence in support of review of Authority's earlier decision in respect of FRR for FY 2004-05 was brought by SSGCL.

4.2.3.7 Estimated Revenue Requirement of SSGCL and SNGPL for FY 2006-07

Tables 4.6 and 4.7 show comparison of OGRA's determination with SSGCL and SNGPL request in respect of various components of estimated revenue requirement of both the companies for FY 2006-07 respectively.

Table 4.6: SSGCL Request vis-à-vis OGRA Determination for FY 2006-07

Rs. Million

Particulars	SSGCL Request	OGRA Determination	Difference
Sales Volume (BBTU)	360,741	360,741	-
Cost of Gas	76,378	76,378	-
Transmission & Distribution Cost and Others	5,383	4,948	(435)
UFG Disallowance	(229)	(229)	-
Depreciation	2,466	2,388	(78)
Return on Net Operating Fixed Assets	4,337	4,228	(109)
Total Revenue Requirement	**88,334**	**87,713**	**(621)**
Total Revenue Available	**76,964**	**76,964**	-
Shortfall	**11,371**	**10,749**	**(622)**
Average Prescribed Price (Rs./MMBTU)	**232.22**	**230.50**	**(1.72)**

Since the determination had to be made on provisional basis as it was being made in advance and the licensees had submitted estimated revenues and expenditure, the Authority established a deferral account amounting to Rs.360 million and Rs. 309 million in the revenue requirement of the SSGCL and SNGPL respectively to capture variations to the justified extent while actualizing at the close of the year.

Table 4.7: SNGPL Request vis-à-vis OGRA Determination for FY 2006-07

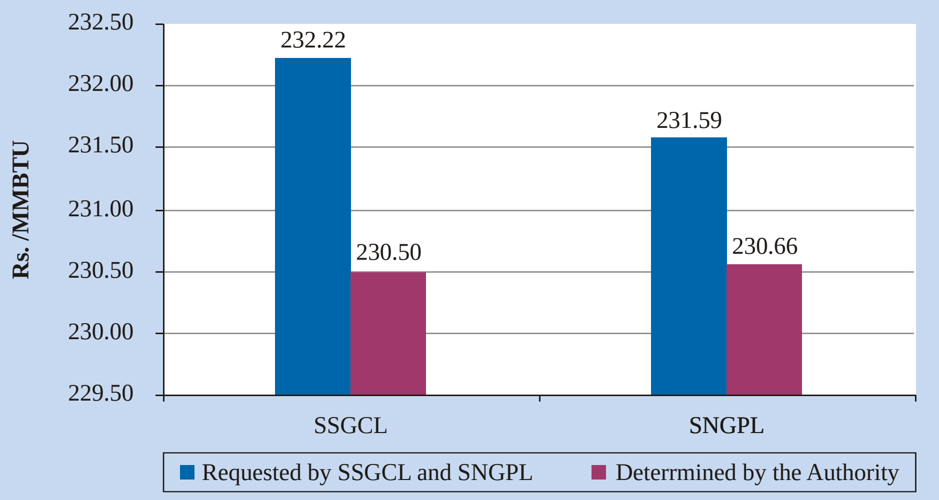
Rs. Million

Particulars	SNGPL Request	OGRA Determination	Difference
Sales Volume (BBTU)	618,369	618,369	-
Cost of Gas	126,205	126,205	-
Transmission & Distribution Cost and Others	8,300	8,182	(118)
UFG Disallowance	-	-	-
Depreciation	4,387	4,265	(122)
Return on Net Operating Fixed Assets	6,391	6,056	(335)
Total Revenue Requirement	**145,283**	**144,708**	**(575)**
Total Revenue Available	**135,277**	**135,337**	**60**
Shortfall	**10,006**	**9,372**	**(634)**
Average Prescribed Price (Rs./MMBTU)	**231.59**	**230.66**	**(0.93)**

The Authority determined the increase in the average prescribed price of SSGCL at Rs.29.80 per MMBTU as against increase of Rs.31.52 per MMBTU requested by SSGCL to meet its revenue requirement for FY 2006-07 which shows decrease of Rs.1.72 per MMBTU in average prescribed prices.

The Authority determined the increase in the average prescribed price of SNGPL at Rs. 15.16 per MMBTU as against the increase of Rs. 16.18 per MMBTU requested by SNGPL to meet its revenue requirement for FY 2006-07 which shows decrease of Rs. 0.93 per MMBTU in average prescribed prices. **see Fig 4.6**.

Fig 4.6: Average Prescribed Price of SSGCL & SNGPL for FY 2006-07



4.2.3.8 Final Revenue Requirement of SNGPL and SSGCL for FY 2005-06

Tables 4.8 and 4.9 show comparison of OGRA's determination with SNGPL and SSGCL request in respect of various components of final revenue requirement of both the companies for FY 2005-06 respectively.

Table 4.8: SNGPL Request vis-à-vis OGRA Determination for FY 2005-06

Rs. Million

Particulars	SNGPL Request	OGRA Determination	Difference
Sales Volume (BBTU)	539,099	539,099	-
Cost of Gas	91,986	92,009	23
Transmission & Distribution Cost and Others	7,063	6,950	(113)
UFG Disallowance	(681)	(700)	(19)
Depreciation	4,066	3,761	(305)
Return on Net Operating Fixed Assets	5,734	5,746	12
Total Revenue Requirement	**108,168**	**107,765**	**(403)**
Total Revenue Available	**108,933**	**108,940**	**7**
Excess	**765**	**1,174**	**409**
Average Prescribed Price (Rs./MMBTU)	**197.11**	**196.35**	**(0.76)**

Table 4.9: SSGCL Request vis-à-vis OGRA Determination for FY 2005-06

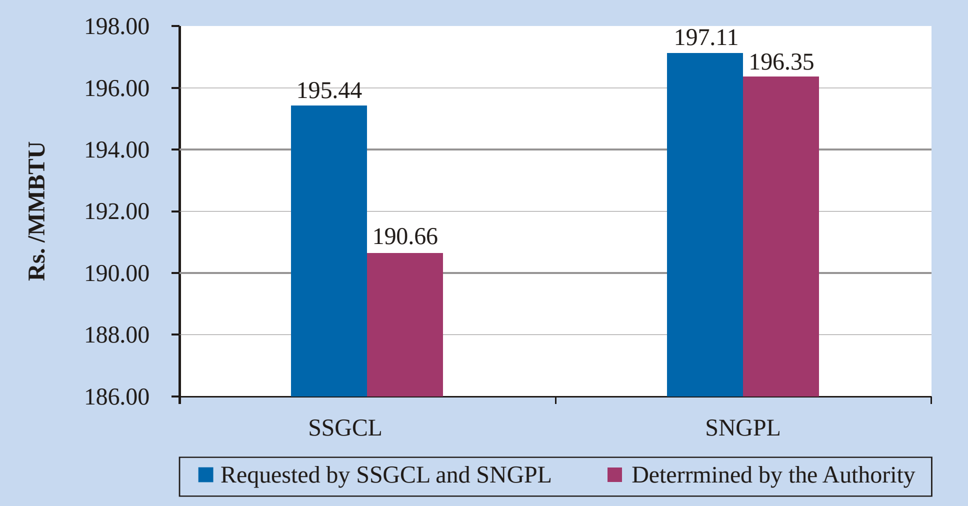
Rs. Million

Particulars	SSGCL Request	OGRA Determination	Difference
Sales Volume (BBTU)	338,105	338,126	21
Cost of Gas	59,594	59,647	53
Transmission & Distribution Cost and Others	4,781	4,545	(236)
UFG Disallowance	-	(478)	(478)
Depreciation	2,193	2,139	(54)
Return on Net Operating Fixed Assets	3,177	3,168	(9)
Total Revenue Requirement	**69,745**	**69,021**	**(724)**
Total Revenue Available	**67,425**	**68,317**	**892**
Shortfall	**2,320**	**704**	**(1616)**
Average Prescribed Price (Rs./MMBTU)	**195.44**	**190.66**	**(4.78)**

The Authority decreased the average prescribed price of SNGPL by Rs. 2.18 per MMBTU as against decrease of Rs. 1.42 per MMBTU requested by SNGPL to meet its revenue requirement for FY 2005-06 which shows decrease of Rs. 0.76 per MMBTU in average prescribed prices.

The Authority determined the increase in the average prescribed price of SSGCL at Rs. 2.08 per MMBTU as against increase of Rs. 6.86 per MMBTU requested by SSGCL to meet its revenue requirement for FY 2005-06 which shows decrease of Rs. 4.78 per MMBTU in average prescribed prices, graphical representation is given in **Fig 4.7**.

Fig 4.7: Average Prescribed Price of SSGCL and SNGPL for FY 2005-06



4.2.3.9 First Review of Estimated Revenue Requirement of SNGPL and SSGCL for FY 2006-07

Managing Director, SNGPL, Mr. Rashid Lone is presenting arguments before the Authority on SNGPL's petition against Authority's Tariff determination for FY 2006-07 (Estimated) at OGRA office in the Conference

Tables 4.10 and 4.11 show comparison of OGRA's determination with SNGPL and SSGCL request in respect of various components of motion for review of estimated revenue requirement of both the companies for FY 2006-07 respectively.

Table 4.10: SNGPL Request vis-à-vis OGRA Determination for FY 2006-07

Rs. Million

Particulars	SNGPL Request	OGRA Determination	Difference
Sales Volume (BBTU)	618,369	618,369	-
Cost of Gas	126,205	112,739	(13,466)
Transmission & Distribution Cost and Others	8,423	8,080	(343)
UFG disallowance	-	-	-
Depreciation	4,273	4,265	(8)
Return on net operating fixed assets	6,075	6,056	(19)
Total Revenue Requirement	**144,976**	**131,140**	**(13,836)**
Total Revenue Available	**135,337**	**147,343**	**12,006**
Excess/(Shortfall)	**(9,640)**	**16,203**	**25,843**
Average Prescribed Price (Rs./MMBTU)	**231.10**	**204.90**	**26.20**

Table 4.11: SSGCL Request vis-à-vis OGRA Determination for FY 2006-07

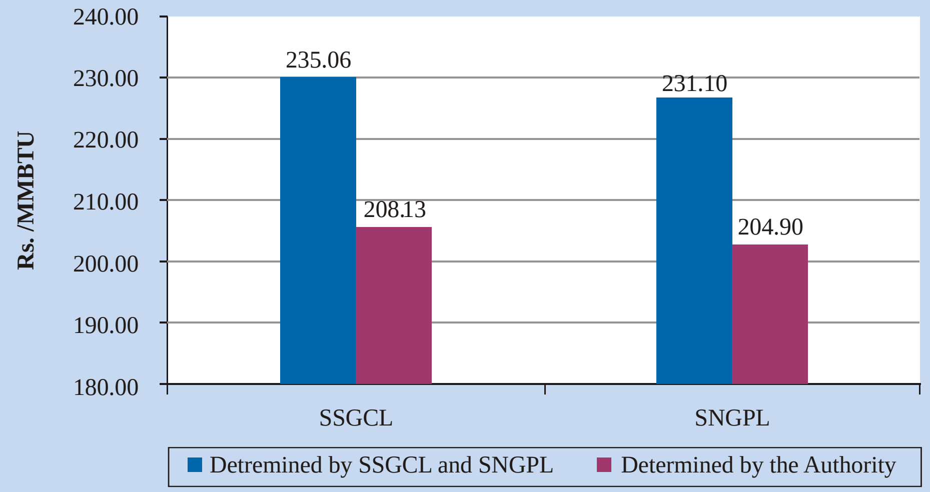
Rs. Million

Particulars	SSGCL Request	OGRA Determination	Difference
Sales Volume (BBTU)	360,741	360,741	-
Cost of Gas	76,378	68,039	(8,339)
Transmission & Distribution Cost and Others	5,749	5,244	(505)
UFG Disallowance	-	(255)	(255)
Depreciation	2,388	2,388	-
Return on Net Operating Fixed Assets	4,228	4,228	-
Total Revenue Requirement	**88,743**	**79,643**	**(9,099)**
Total Revenue Available	**87,098**	**87,712**	**614**
Excess/(Shortfall)	**(1,645)**	**8,069**	**9,715**
Average Prescribed Price (Rs./MMBTU)	**235.06**	**208.13**	**26.93**

The Authority decreased the average prescribed price of SNGPL by Rs. 26.20 per MMBTU as against increase of Rs. 15.59 per MMBTU requested by SNGPL to meet its revenue requirement for FY 2006-07.

The Authority decreased the average prescribed price of SSGCL by Rs. 22.37 per MMBTU as against increase of Rs. 4.56 per MMBTU requested by SSGCL to meet its revenue requirement for FY 2006-07 which shows decrease of Rs. 26.93 per MMBTU in average prescribed prices, graphical representation is given in **Fig 4.8**.

Fig 4.8: Average Prescribed Price of SSGCL and SNGPL for FY 2006-2007



Left - Managing Director, SSGCL, Mr. Munawar Baseer Ahmed with his team, in the conference on SSGCL's petition against Authority's Tariff determination for FY 2006-07 (Estimated) at Marriot, Karachi

4.2.3.10 Second Review of Estimated Revenue Requirement of SNGPL & SSGCL for FY 2006-07

Tables 4.12 & 4.13 show comparison of OGRA's determination with SNGPL and SSGCL request in respect of various components of second review of estimated revenue requirement of both the companies for FY 2006-07 respectively.

Table 4.12: SNGPL Request vis-à-vis OGRA Determination for FY 2006-07

Rs. Million

Particulars	SNGPL Request	OGRA Determination	Difference
Sales Volume (BBTU)	545,289	545,289	-
Cost of Gas	98,408	98,408	-
Transmission & Distribution Cost and Others	7,821	7,821	-
UFG disallowance	-	-	-
Depreciation	4,265	4,265	-
Return on net operating fixed assets	6,056	6,056	-
Total Revenue Requirement	**116,549**	**116,549**	-
Total Revenue Available	**114,336**	**114,486**	**150**
Excess/(Shortfall)	**2,214**	**2,064**	**(150)**
Average Prescribed Price (Rs./MMBTU)	**209.93**	**209.93**	-

Table 4.13: SSGCL Request vis-à-vis OGRA Determination for FY 2006-07

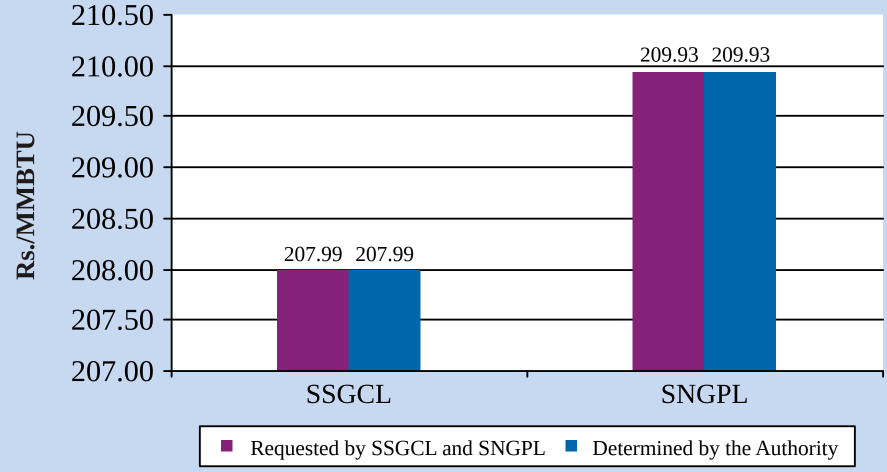
Rs. Million

Particulars	SSGCL Request	OGRA Determination	Difference
Sales Volume (BBTU)	350,287	350,287	-
Cost of Gas	65,597	65,597	-
Transmission & Distribution Cost and Others	5,243	5,243	-
UFG disallowance	(196)	(196)	-
Depreciation	2,388	2,388	-
Return on net operating fixed assets	4,228	4,228	-
Total Revenue Requirement	**77,260**	**77,260**	-
Total Revenue Available	**76,787**	**76,787**	-
Excess/Shortfall	**473**	**473**	-
Average Prescribed Price (Rs./MMBTU)	**207.99**	**207.99**	-

The Authority increased the average prescribed price of SNGPL by Rs. 7.43 per MMBTU as against increase of Rs. 7.97 per MMBTU requested by SNGPL to meet its revenue requirement for FY 2006-07.

The Authority increased the average prescribed price of SSGCL by Rs. 2.63 per MMBTU as requested by SSGCL to meet its revenue requirement for FY 2006-07. **see Fig 4.9**

Fig 4.9: **Average Prescribed Price of SSGCL & SNGPL for FY 2006-07**



4.2.4 Human Resource Cost

The Authority observed that the HR cost has increased sharply during the last ten years. In order to incentivize the petitioner to strive for optimization of its human resource and with a view to minimize micromanagement of HR cost of both the utility companies, the Authority has introduced on an experimental basis for a period of 3 years, i.e. 2005-06, 2006-07 and 2007-08 the benchmark of HR cost. The benchmark has been set by indexing the following to the HR cost base FY 2004-05:

- 50% of notified consumer price index (CPI)
- 60% of incremental number of gas consumers
- 20% of incremental transmission & distribution network
- 20% of the incremental sales volume

Savings or excess in HR cost will be shared equally between the companies and consumers. During the first year of its introduction i.e. 2005-06 the performance of both the companies remained very close the benchmark as presented below in **Table 4.14** .

Table 4.14: Human Resource Cost

Rs. Million

Company	Base Year 2004-05	Benchmark Cost 2005-06	Actual Cost 2005-06	Increase/(Decrease) over Benchmark
SNGPL	3,291	3,553	3,563	10
SSGCL	2,861	3,096	2,945	(151)

4.2.5 Summary of Revenue Requirements

The determinations of the Authority are based on the principle of allowing only prudent and justified operating & capital expenditure and with a view to increase operational efficiency combined with better quality service to consumers. These measures have resulted in actual cost reduction of about Rs. 3.7 billion in three years (FY 2003-04 to FY 2005-06), benefit of which has been passed on to the consumers and Government. **Tables 4.15 and 4.16** show SNGPL and SSGCL's item-wise behavior of per- MMBTU cost of major elements of the revenue requirements. The trend of three major elements of revenue requirements have also been depicted in **Fig 4.10 and 4.11**.

Table 4.15: Summary of Revenue Requirement-Hisotircal Comparison SNGPL

Rs./MMBTU

PARTICULARS	2003-04 ACTUAL	2004-05 ACTUAL	2005-06 ACTUAL	2006-07 ESTIMATED
Volume (BBTU)	426,636	505,543	539,099	545,289
Cost of Gas	123.35	140.82	170.67	180.47
T&D Cost and Depreciation	20.19	17.59	18.51	22.16
Return on Assets	11.32	10.70	10.66	11.11
Other Income	(4.37)	(4.18)	(3.55)	(3.81)
Average Prescribed Price	150.49	164.93	196.35	209.93
Average Sale Price	150.66	167.56	200.14	237.42
Gas Development Surcharge	0.17	2.64	3.79	27.48

Table 4.16: Summary of Revenue Requirement-Hisotircal Comparison SSGCL

Rs./MMBTU

PARTICULARS	2003-04 ACTUAL	2004-05 ACTUAL	2005-06 ACTUAL	2006-07 ESTIMATED
Volume (BBTU)	310,628	329,359	338,126	350,287
Cost of Gas	124.63	142.13	176.40	187.27
T&D Cost and Depreciation	16.40	16.89	18.21	21.22
Return on Assets	8.23	8.40	9.37	12.07
Other Income	(5.64)	(7.63)	(13.47)	(12.57)
Average Prescribed Price	143.62	159.80	190.66	207.99
Average Sale Price	152.45	165.10	196.83	230.13
Gas Development Surcharge	8.83	5.30	6.17	22.14

Fig 4.10: Major Elements of Revenue Requirement-Historical Comparison-SNGPL

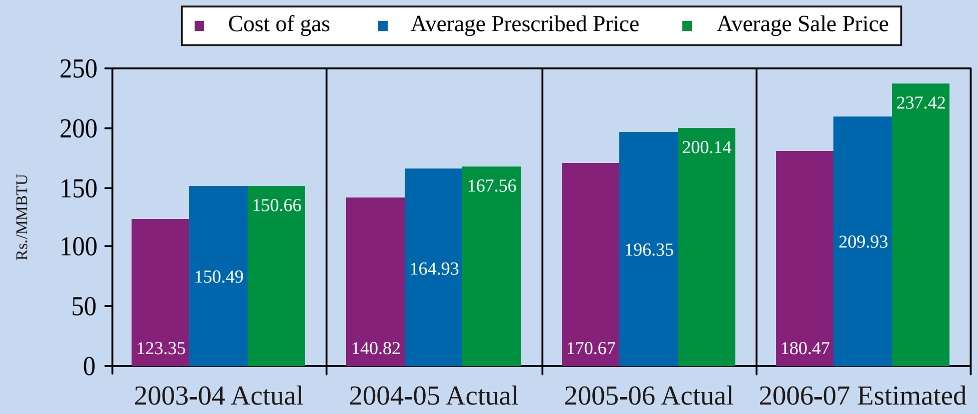
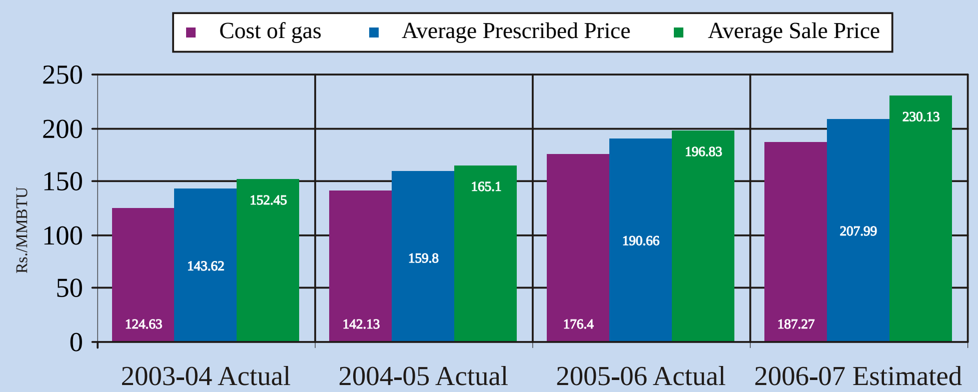


Fig 4.11: Major Elements of Revenue Requirement-Historical Comparison-SSGCL



4.2.6 Cost of Gas

The cost of gas is a major part of the total prescribed price of the two utilities. Since the cost of gas i.e. the well-head prices of producers is indexed to the international price of crude oil/fuel oil, it has been rapidly growing in the past four years due to sharp increase in the world oil prices **see Table 4.17**. It has therefore necessitated increase in the prescribed prices of the utilities.

Table 4.17: International Crude Oil Prices (C & F)

Well-head Gas Price effective Period	2002-03	2003-04	2004-05	2005-06	2006-07 (Projected)
July-December ($/BBL)	22.22	28.35	32.35	43.98	60.85
January-June ($/BBL)	26.11	28.17	38.06	56.19	69.02
Average ($/BBL)	24.17	28.26	35.19	50.08	64.94
Increase ($/BBL) Year to Year	-	4.09	6.93	14.89	14.86
Increase % Year to Year	-	17%	25%	42%	30%
Cumulated Increase %	-	17%	46%	107%	169%

The international prices of crude oil have gone up during last 4 years i.e. from US$ 24.17/BBL in FY 2002-03 to US$ 50.08/BBL in FY 2005-06, and projected to increase to US$ 64.94/BBL in 2006-07 as shown in **Fig 4.12**.

Fig 4.12: International Crude Oil Prices (C&F)

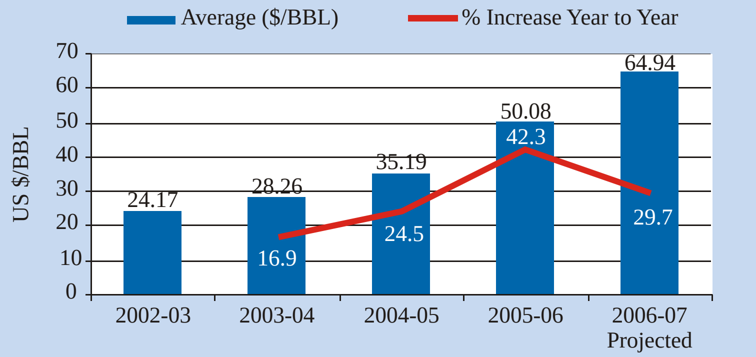


Table 4.18 shows the total revenue requirement demanded by both the utilities and saving to consumers owing to OGRA's intervention. These savings have also been shown in **Fig 4.13 and 4.14**.

Table 4.18: Summary of Cost Reductions Benefiting the Consumers

Rs. Million

	FY 2003-04 Actual		FY 2004-05 Actual		FY 2005-06 Actual		FY 2006-07 Estimates	
	SNGPL	SSGCL	SNGPL	SSGCL	SNGPL	SSGCL	SNGPL	SSGCL
Demanded	66,464	46,857	82,555	53,930	108,168	69,745	144,976	88,743
Allowed	66,069	46,365	81,088	53,677	107,765	69,021	131,140	79,643
Saving	395	492	1,467	253	403	724	13,836	9,099
Total Savings	**887**		**1,720**		**1,127**		**22,935**	
Savings (Rs./MMBTU)	**1.20**		**2.15**		**1.28**		**23.42**	

Fig 4.13: SNGPL and SSGCL Savings

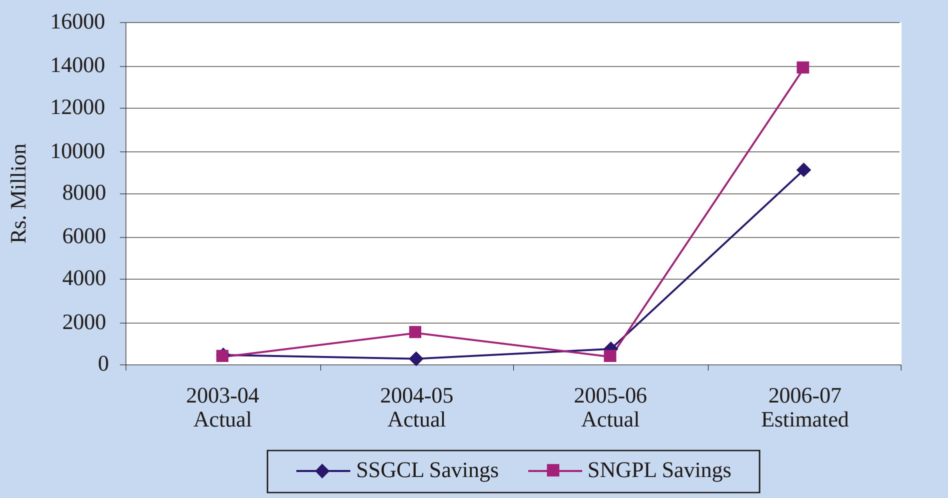
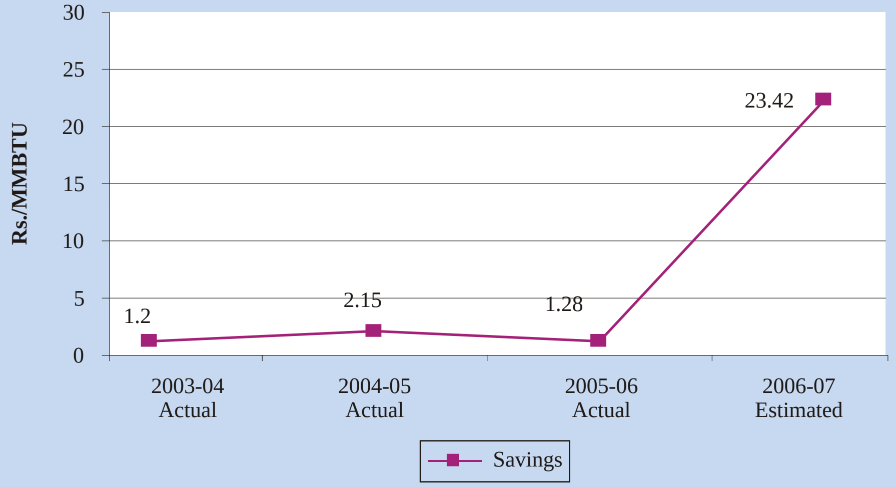


Fig 4.14: Total Savings



4.2.7 Notification of Prescribed and Sale Prices (Natural Gas Sector)

Under the OGRA Ordinance, 2002, the Authority is required to notify the prescribed prices for each category of consumers for natural gas of both the gas companies in order to enable each licensee to achieve the revenue requirement as determined by the Authority. During the year under review, the Authority issued 2 notifications of prescribed prices in respect of FY 2005-06 and FY 2006-07, on the basis of estimated revenue requirements of SNGPL and SSGCL.

Pursuant to the provision of the OGRA Ordinance, the Federal Government advised the sale prices for various categories of consumers, after adjustment of Gas Development Surcharge in the prescribed prices determined by the Authority. The Authority notified these sale prices on June 30, 2005 which remained effective from July 01, 2005 till December 31, 2005. The sale prices were then revised effective from January 01, 2006 till June 30, 2006. The Authority also notified the sale prices on 30th June 2006, effective July 1, 2006.

4.2.8 Uniform System of Accounts

Pursuant to Section 6(2)(c) of the OGRA Ordinance, 2002, OGRA had notified (Uniform Accounting) Regulations, 2003, on February 17, 2004, which were to be made effective from July 1, 2005, under which the utilities are obligated to file separate accounts on quarterly, semi annually and annual basis for transmission, distribution and sale activities thereby resulting in effective ring fencing of their operations. The separation of accounts will enable OGRA to analyze the cost of each regulated activity separately. Besides it also ensure effective comparability of SSGCL and SNGPL owing to uniformity of accounting policies. Ring fencing of transmission, distribution, sale functions and other non-regulated activities has also been achieved through introduction of Uniform System of Accounts (USOA).

Both the utilities have sought extensions for implementation of USOA due to technical glitches and MIS related issues. The Authority had granted extension to SSGCL and SNGPL till October, 2006 and March, 2007 respectively.

4.2.9 Tariff Regulatory Regime

Pursuant to section 6(2)(t) of the OGRA Ordinance, the Authority is required to determine, in consultation with the Federal Government and licensees for natural gas, a reasonable rate of return which may be earned by such licensee for undertaking regulated activity keeping in view all the circumstances. Accordingly the Authority conducted a comprehensive study through Economic Consulting Associates (ECA) of U.K in the year 2004-05. Based on the findings of the study and keeping in view the specific environment and operational conditions of the Pakistani gas industry the Authority developed a new package of tariff regime which is currently under consultation process in the Federal Government. The regime will be announced after it has the consent of major stakeholders viz the Federal Government, and the Gas Utilities.

4.2.10 Approval of Agreements

In pursuance of NGRA (Licensing) Rules, 2002 a licensee is obligated to

- Refrain from entering into or amending any contract material to a regulated activity with a producer of natural gas unless it has been approved by the Authority.

- Refrain from entering into or amending any supply contract of a quantity greater than 10 MMscfd of natural gas unless it is approved by the Authority.

The following agreements of two gas utilities were received and approved by the Authority after necessary process:

i) Gas Sale Agreements (GSA) between Producers and Licensees

a. Gas Sales and Purchase Agreement in respect of Zamzama gas field Phase-II between BHP and SSGCL.
b. Head of Terms for Gas Sales & Purchase Agreement for Khipro & Mirpurkhas Blocks between OPI and SSGCL.
c. Amendment to GSA for Block 2768-3 (Former Block 22) between PEL and SNGPL.
d. Chachar GSA between Tullow Pakistan (Development) Limited and SNGPL.
e. Kandhkot GSA between PPL and SNGPL.
f. Addendum to Adhi GSA between OGDCL and SNGPL.
g. Gas Sale and Purchase Agreements for Mipurkhas and Khipro Blocks Fields between OPI and SSGCL.

ii) Gas Sale/Supply Agreements between Licensees and Retail Consumers

a. Gas Sale/Purchase Agreement between SNGPL and Pak American Fertilizers Limited.
b. Side Letter Gas Purchase and Sale Agreement between WAPDA and MGCL.
c. Head of Terms between SSGCL and Tuwairqi Steel Mills Ltd. for Gas Supply to Steel Mills Manufacturing Complex at Bin Qasim.
d. Amended Contract for Gas Supply of 14 MMcfd for Industrial usage and 6 MMcfd for Captive Power between SNGPL and DG Khan Cement Company for DG Khan Cement.
e. Gas supply contract between SNGPL and Packages Limited for supply of Gas to Packages Limited Chah Road, Singhwala, Kot Radha Kishan Road, Distt. Kasur.

4.2.11 Approval for Expansion in Transmission and Distribution Networks

Both SNGPL and SSGCL carried out their transmission and distribution activities during the year under review as per their envisaged plans. Besides embarking on the new projects for the transmission network, SNGPL concentrated on implementing components of Project-VIII and finished the leftover works of Project-VII, whereas, SSGCL implemented work on components of Gas Infrastructure Rehabilitation and Expansion Project-II (GIREP-II). Both the companies also performed rehabilitation work on compressors installed on their system. As far as distribution is concerned, SNGPL and SSGCL expanded their distribution network, thereby increased their customer base.

Brief details of the infrastructure projects of SNGPL and SSGCL have been described below:

Projects of SNGPL

4.2.11.1 16" Diameter x 62.5 km Loopline from Hattar to Abbottabad / Mansehra

SNGPL submitted, in December 2005, a request to the Authority for seeking approval of construction of this loopline at an estimated cost of Rs. 702 million. The project has been intended to rectify low pressure problem prevailing in peak winter season in Abbottabad/Mansehra region. The project will be completed in two phases; under Phase-I, 37 km has been laid at cost of Rs. 702 million while in Phase-II, laying of 25.5 km will be implemented in the FY 2006-07. At the completion of the project, the capacity of the segment would increase from the existing 34 MMcfd to 94 MMcfd. On the basis of the detailed evaluation, the Authority provisionally allowed

Excavation and Trenching for Laying Main Line

the cost of this project in the estimated revenue requirement for FY 2006-07 subject to actualization at the close of the financial year.

4.2.11.2 Transmission Line from Salsabil Gas Field to Tie-in Point at Mangrotha

M/s Dewan Petroleum Limited (DPL) has discovered a gas reserve at Safadkoh block in the district of Dera Ghazi Khan and offered to SNGPL15-20 MMcfd dehydrated gas under Phase-I for the period from November 01, 2006 to October 01, 2007 and, thereafter under Phase-II the supply would be in the range of 50-60 MMcfd for plateau period of 8 years. The estimated cost of the project is Rs. 144 million. In order to inject the offered gas into its system SNGPL has planned to lay 12"dia x 18.2 km transmission line from Salsabil field to the tie-in point at Mangrotha on 16" dia Dhodak-Kot Addu transmission line. SNGPL under Rule 20(xviii) of Natural Gas Licensing Rules, 2002, has sought approval of the Authority. The project is being evaluated by the Authority and the approval will be granted once the company provides gas allocation letter.

4.2.11.3 Supply of Natural Gas to Lilla Town through Mother-Daughter CNG System

In compliance of the directive of the President of Pakistan to supply gas to any city through CNG System, SNGPL after study selected Lilla town for supplying 0.5 MMcfd gas, where about 3,000 inhabitant exist. The plan was to supply gas from existing Compressor Station CCI-Haranpur (Mother Station) and transport CNG through high pressure bowzer to the Daughter System-decanting point with storage facility located at Lilla Town. SNGPL sought licence from OGRA for establishment of Mother-Daughter CNG Station and transportation of CNG from CNG Mother Station at Lilla. The Authority, after detailed analysis and examination of this new Mother-Daughter System concept, issued No Objection Certificate (NOC) in November 2005, in principle, subject to fulfillment of certain regulatory requirements. Being a pilot project, OGRA sought policy guidelines from the Federal Government as under:

i. Whether consumers on CNG based gas supply system shall be charged the same price as in the case of natural gas consumers, if so, who will provide subsidy to the company and what would be its mechanism? and

ii. If a third party i.e. any investor/operator other than SNGPL/SSGCL wants to set up similar project, what would be the criteria to undertake the same and the mechanism of subsidizing the consumers if they are to be charged the same price as for other natural gas consumers?

The Federal Government has announced the following decision on the above issues:

i. Price of LNG/CNG/LPG to be fixed at or viable level lower than cylinder gas.

ii. No subsidy to be given on supply of LNG/CNG/LPG through local pipeline network.

In view of the above decision of the Federal Government the Authority did not allow the assets of Lilla town in the assets base for the purpose of rate of return. However, to compensate the company for its investment the capital cost was allowed as one time cost in the company's operating cost for 2005-06. The project will now be operated by the company independently.

Projects of SSGCL

4.2.11.4 Loopline from Bhit/Bajara to Karachi Terminal

SSGCL included this loopline as project under planning/conceptual stage in GIREP-II. The originally proposed pipeline diameter was 30”, however, later on the diameter was revised as 24” upon deliberation by OGRA, keeping in view supply/demand scenario. As such, the estimated cost of this project was downwardly revised from Rs. 5,175 million to Rs. 4,724 million. SSGCL submitted this project formally in February 2005 for approval of the Authority. The loopline has been designed to absorb 240 MMcfd gas additionally available from Zamzama (150 MMcfd) and Bhit (90 MMcfd). The project entails laying of 200 km of 24” diameter pipeline from Bajara to Karachi Terminal, thereby strengthening IRBP System which presently has 18” diameter and 20” diameter pipelines running from North to the South. The evaluation of the project established its prudence. Therefore, the Authority formally granted the approval of this project in December 2005.

Mechanized Excavation for Main Pipe Laying

4.2.11.5 Quetta Pipeline Capacity Expansion Project-III

In compliance of the direction of the Authority to undertake appropriate measures on priority basis to overcome the low pressure problem during winter season in the Quetta region, SSGCL conceived Quetta Pipeline Capacity Expansion Project-III (QPCEP-III). The objective of the project is to enhance the capacity of Quetta Pipeline System to 152 MMcfd from 90 MMcfd and taking the flow to 242 MMcfd by the year 2014-15. The company filed an application in April 2006 for approval of QPCEP-II at **Table 4.19**.

Welding Works on Main Laying

Table 4.19: Projects of SSGCL

Sr. No.	Project Components	Phase	Capacity
1	18" Diameter x 18 km from Abe-e-gum to Mach	I	97 MMcfd
2	18" Diameter x 15 km Mach to Kolpur Loopline and 18" Diameter x 31 km Dingra to Sibi and Revamping of Sibi Compressor	II	107 MMcfd
3	18" Diameter x 53 km Dhadar to Abe-e-gum	III	142 MMcfd
4	18" Diameter x 35 km Loop Shikarpur Regulator to Jaccobabad	IV	159 MMcfd
5	18" Diameter x 160 km Loop from Jacobabad to Sibi	V (Part I)	191 MMcfd
6	Additional Compressor at Sibi (Future Proposal)	V (Part II)	242 MMcfd

The project component at serial no. 3 and 4 above are in the planning stage whereas project components at serial no. 5 and 6 have been depicted as future proposals. The Authority formally approved Phase-I, Phase-II and Phase-III with the direction to SSGCL that the company should make every effort to complete Phase-II and Phase-III of QPCEP-III on priority basis so that low pressure problems confronted by the consumers of Quetta and adjoining areas in the past could be avoided in the forthcoming winter season and benefits of augmented gas supply be passed on to them.

4.2.11.6 Loopline from Masu to HQ3 (Hyderabad)

On the basis of the Federal Government decision to authorize Tando Adam Valve Assembly as delivery point for Khipro Block and Masu Valve Assembly as the delivery point for Mirpurkhas gas field, SSGCL submitted to the Authority its 24” diameter x 14 km loopline project from Masu to HQ3 (Hyderabad) at an estimated cost of Rs. 333 million. The Authority, after analyzing the details of the project, granted its No Objection in December 2005 for undertaking this project.

Cross Country Transmission Line being Coated

4.2.11.7 Pipeline from Zarghoon to Quetta

SSGCL submitted its 12” diameter x 64 Km Zarghoon-Quetta Pipeline Project as a project component of GIREP-II at an estimated cost of Rs. 763 million. The approval of the same was pended by the Authority because the delivery point of the field was required to be determined by the Federal Government. Now the cost of the said line has been revised by the company to Rs. 900 million. The Zarghoon gas field has been developed by Mari Gas Company Limited (MGCL) and the tapped gas is required to be connected to SSGCL network for onward transmission thereof to the target consumers. This pipeline will provide additional gas volume of 20 MMcfd to Quetta region which in turn would help to cover the shortfall in the winter season. The Federal Government issued its decision of delivery point in September, 2006 as the field gate subject to the condition that the producer will contribute US$ 4 million in the pipeline cost.

4.2.11.8 Loopline of Sanghar-Hyderabad-Karachi Pipeline from HQ2 to Masu and from Downstream of FJFC Offtake to Malir

This loopline is Phase-III of the Sanghar-Hyderabad-Karachi Pipeline and has been envisaged to cater for 90 MMcfd of Sawan gas and 30 MMcfd gas from OGDCL's Sanjhoro gas field located in Sanghar area. SSGCL signed gas sales agreement with the producer in the year 2001 for 170 MMcfd gas in case ofSawan Gas Field. The ECC of the Cabinet in its meeting in 2001 decided, inter alia, that out of 170 MMcfd of gas available under Phase-I of Sawan Gas Field, 120 MMcfd be supplied to SSGCL and 50 MMcfd be delivered to SNGPL. As such, as per amendment No. 1 to GSA for Sawan Gas Field, 90 MMcfd gas of SSGCL was reallocated to SNGPL by the Federal Government till December 31, 2006. Now, this loopline has been planned in anticipation of absorbing this 90 MMcfd gas with effect from January 01, 2007. Since some ambiguity existed regarding allocation of gas from the Sawan Gas Field, the matter was referred to the Federal Government for clarification. The Federal Government has clarified that after January 01, 2007 as per the amended GSA of Sawan Phase-I, SSGCL would resume its allocated quota of 120 MMcfd and SNGPL would be entitled for the remaining 50 MMcfd from Sawan Phase-I. Consequently SSGCL has been advised to revise the project accordingly.

Lowering of Newly Constructed Transmission Pipelines

4.2.11.9 Additions to Fixed Assets

The revenue requirement petitions of gas utility companies include, inter alia, capital investments as additions to fixed assets. OGRA allows only such capital investments which fully meet the criteria of efficiency, economy and prudence. Based on this principle, additions to fixed assets allowed by the Authority from FY 2004-05 to FY 2006-07 for both the companies. **see Fig 4.15 & 4.16**

Fig 4.15: Additions to Fixed Assets of SNGPL

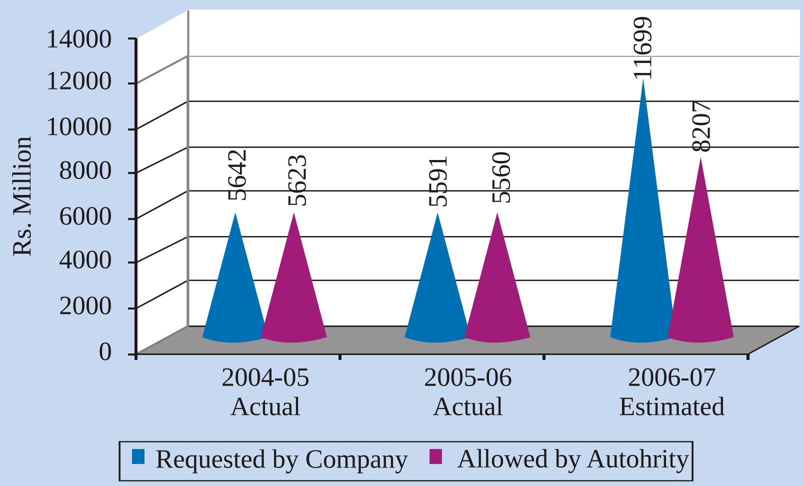
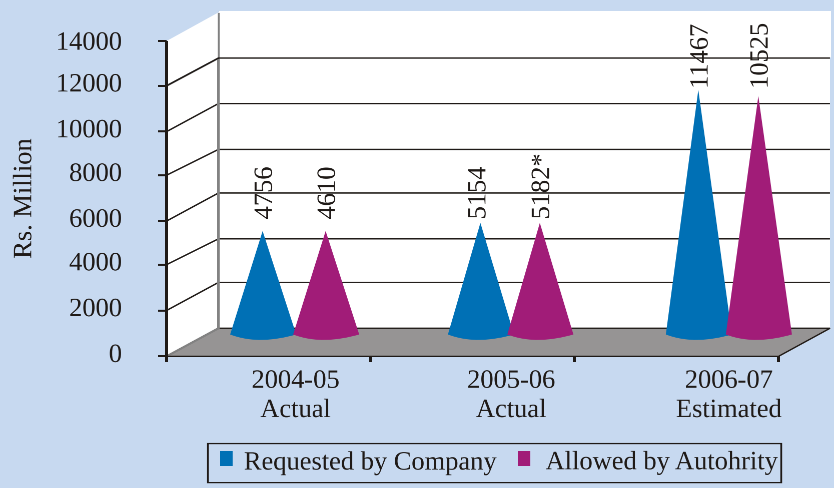


Fig 4.16: Additions to Fixed Assets of SSGCL



** SSGCL did not claim Rs. 27 million in respect of Assets relating to meter manufacturing business declaring it non-regulated activity. However, the Authority turned the company's stance down and included all pertinent revenues and expenses in the calculation of tariff for the year in accordance with the principles of the current tariff regime.*

4.2.12 Compliance of Licence Conditions

4.2.12.1 Complaint Resolution Procedure

In compliance of Licence Condition 22 both the companies have submitted the Complaint Resolution Procedure devised by them. The Authority, after detailed examination, prescribed specific formats for providing information in respect of handling of complaints. Also, it was found that the procedures devised by both the companies were not comprehensive. The companies are being advised accordingly.

4.2.12.2 Consumer Service Manual

SNGPL and SSGCL have submitted Consumer Service Manual in compliance of Licence Condition 23. The Authority, after in depth scrutiny, found SNGPL's manual comprehensive, however, the company was advised to incorporate changes in line with the amended standard contracts and theft policy approved by the Authority. Similarly, SSGCL was advised to revise the manual in the light of Gas Theft Policy, Standard Contracts and Performance and Service Standards. SSGCL has submitted the revised Consumer Service Manual in June, 2006 which is under review of the Authority.

4.2.12.3 Performance Audit

The Authority has notified the service and performance standards and it has been made binding through licence condition 24 on SNGPL and SSGCL to submit report on service and performance standards for each financial year. Both the companies have submitted their annual reports on performance and service standards for the years ending 30th June 2004 and 30th June 2005. The Authority deems necessary to get the report audited by an audit cum engineering firm. The Terms of References for carrying out the audit have been developed by the Authority and are being reviewed for finalization.

4.2.12.4 Disconnection and Reconnection Policies

Licence Condition No. 42 binds the companies to submit the Authority their detailed policy and procedure of disconnection and restoration of supply of natural gas in respect of consumers serviced by them. Both the companies have submitted their policies, which are being examined by the Authority.

4.2.12.5 Procedure for Dealing with Gas Theft Cases

Under Licence Condition 20 of the Licences issued to SNGPL and SSGCL, the licensees were under obligation to submit to the Authority their existing procedures for dealing with gas theft cases. In compliance of the above Licence Condition, both the companies submitted their existing procedures. After reviewing these, it was observed that they were not equitable and had elements of discrimination. Further, it was also found that there were wide divergences in the procedures of both the companies and each had opportunities to exercise discretion in dealing with gas theft cases and assessing volume of gas stolen under section 27 of the ordinance it is the Authority’s responsibility to determine the value of gas stolen, therefore the Authority felt that it was imperative to put into practice equitable procedures for dealing with theft of gas cases, which should be uniform throughout the country. Consequently, the Authority formulated a uniform procedure for dealing with gas theft cases. The procedures prescribed by the Authority describe means of recording evidence of suspected sites, fair and logical assessment of value stolen. The policy issued by OGRA centres around the following issues:

- Modes of theft
- Basis of suspicion
- Detection against direct tapping/unauthorized pressure enhancement
- Removal of meter for inspection. The procedure entails involvement of consumer or his representative at site and prescribes time limits for its transportation as well as inspection at the central meeting workshop.
- Assessment of value of gas stolen and recovery (procedure prescribed in detail).
- Tampering of meters not detected at site but later detected/proved at the Company's meter shop/laboratory
- Procedure for recovery of gas theft charges from non-consumers.

The said policy was finally approved in August 2005 for implementation with immediate effect.

4.2.12.6 Gas Supply Contract for Domestic Consumers

Licence Condition 39 binds the companies to develop a comprehensive and equitable contract (domestic, commercial and industrial) to be inked between the company and the consumers for supplying natural gas. The two companies submitted the existing contracts to the Authority for examination. After lengthy consultations with the companies, the Authority revised the domestic gas supply contract making it equitable and uniform and approved the same in August 2005 for implementation. The revised contract provides more protection to the consumers against the monopolistic approach adopted in the previous contracts. Moreover it also provides full protection to the company for recovery of its dues from the consumers.

4.2.12.7 Pre-Qualification of Houseline Contractors

A consumer is usually ignorant of recommended standards of material and service and, therefore, cannot ensure safety of installation, thereby exposing himself/herself to potential risk of life and property loss due to possible gas leakage. The Licence Condition 41 obligates the companies to ensure standards of good workmanship for safe supply of natural gas to the consumer's premises. The installation of house lines and appliances by qualified, certified and accredited workmen will not only help in mitigating potential risks considerably, but also refrain untrained labour to freely maneuver with the company's assets. OGRA has directed SNGPL to ensure compliance of the Licence Condition 41 by accreditation/certification of trained manpower to perform job of installation of houseline and appliances at the consumers' premises. SNGPL has started the process of selection of qualified contractors for high and low pressure lines.

4.3 Liquefied Petroleum Gas (LPG)

4.3.1 Regulation

The regulation of LPG activities was transferred to OGRA from Ministry of Petroleum and Natural Resources (MP&NR) on March 15, 2003, empowering OGRA to exercise regulatory functions under the LPG (Production and Distribution) Rules 2001.

The regulatory functions of OGRA are as under:

- Grant of licence for construction of LPG production, storage and filling plants.
- Grant of marketing licence for sale and distribution of LPG.
- Appointment of third party inspectors to verify conformity of LPG works in accordance with the laid down standards for the new licensees.
- Regular periodic inspection of existing LPG facilities to ensure their conformity with the laid down standards.
- Monitor supply of mandatory quota of LPG to Northern Areas, FATA, Hilly areas, AJK and Balochistan.
- Monitor and determine reasonability of prices.
- Action against unauthorized activities like decanting etc.
- Redressal of consumer complaints and resolution of disputes between or among the licensees.

4.3.2 LPG Licences and Operating Rules

OGRA is responsible for issuing licences to establish LPG production, storage, filling, or distribution facilities under the LPG (Production and Distribution) Rules 2001. The licence is granted in two tiers for an overall period of 15 years. A provisional licence for construction of the facility is granted for one year for the construction of the LPG facilities. Once the installation is completed to the satisfaction of the Authority after third party inspection, the licence is extended for the remaining period for commercial operation.

In addition, LPG licensee is required to locate, construct, maintain and operate his work connected with storage, filling and transportation of LPG in accordance with a licence granted by the Chief Inspector of Explosive under the Petroleum Rules 1937, and is also required to comply with the Gas Cylinder Rules 1940 so as not to endanger the public health and safety.

4.3.3 Licensing Procedure

Any person can apply for grant of a licence to the Authority on the prescribed Form available free of cost from OGRA as well as on its website (www.ogra.org.pk) along with the requisite fee of Rs. 100,000/- and other related documents, as required under the rules, application is evaluated on the basis of the following:

- Complete application on the prescribed proforma in triplicate.
- Pay Order/Bank Draft of Rs. 100,000/- in favour of Oil & Gas Regulatory Authority, as Licence fee.
- Proof of registration of the company/firm (company incorporation certificate).
- Memorandum and Article of Association or Partnership deed/Sole proprietorship.
- Attested copies of ID cards of all Directors/Partners.
- Location of the tentative/proposed site.
- Financial Competence Certificate issued by a Bank (original and stamped), as per rule 2(j) of LPG (Production & Distribution) Rules, 2001.
- Last three year's Audited Reports.
- Minimum Work Program (Number of storage tanks and capacity of storage tanks, Bottling facility capacity, Quantity of LPG to be distributed per day or per month, identification of areas where distribution/marketing of LPG is planned.

Licence for construction of LPG production, storage and filling plants is granted under Rule 8(1) of the LPG (Production and Distribution) Rules 2001. A licence is initially granted for a period of one year for construction of plants and during this period, the licensee has to acquire NOCs from the concerned departments like DCO, Environmental Protection Agency, Explosive Department, etc before starting construction of LPG facilities in accordance with the standards, as prescribed in the LPG (Production & Distribution) Rules, 2001. The licensee after completing construction of LPG works requests to the Authority for appointment of third party inspectors to verify conformity of his works in light of standards listed in the LPG Rules, 2001. Production or Marketing licence as the case may be, is issued for a period of 15 years based on satisfactory completion of LPG works under the Rules.

A view of the LPG tank farm area with 3 x 1500 MT and 2 x 1000 MT tanks ready

OGRA has simplified the procedure for grant of LPG licence and normally a licence for LPG is granted within four weeks. However it can be processed even in a shorter period provided the requisite documents are complete. Investors are further provided comfort through establishment of a one window facility where prompt guidance and information is provided to the applicants.

4.3.4 Investment in the LPG Sector

OGRA played an effective role in attracting investment in the LPG supply and distribution infrastructure. As of June 30, 2006, there were nine (09) LPG producing companies and forty-seven (47) LPG marketing companies operating in the country while sixty-five (65) licences for the construction of storage and filling facilities have been issued. An investment of approx. Rs. 9.0 billion has so far been made in the sector. With the expected introduction of LPG in the automotive sector, the cumulative investment is expected to increase substantially in future.

LPG cargo being off-loaded to the mass storage

During the year, OGRA issued fifteen (15) licences for marketing of LPG while thirty-one (31) licences have been issued for construction of LPG storage and filling facilities at various locations. M/s Progas has constructed a LPG terminal having capacity of 6500 metric tons at Port Qasim which is the second LPG terminal facility after Engro Vopak Terminal Limited (EVTL). This additional facility will enhance LPG supplies in the country through imports.

A view of the Jetty from one of the Mooring Dolphins

4.3.5 Regulatory Enforcement

One of the objectives of OGRA is to ensure safe, reliable and efficient service to consumer for which the Authority has taken various steps to strengthen its regulatory mechanism. During the year, the Authority took following steps on regulatory enforcement:

- Appointed ENAR Petrotech as a 3rd party inspector in the LPG sector keeping in view their vast experience and exposure in design, construction, commissioning and inspection of oil and gas infrastructure facilities. This has strengthened the regulatory monitoring and enforcement of LPG safety standards and ensured level playing field for the competitors in the LPG sector.
- Prohibited bulk sale of LPG among LPG marketing companies (with the exception of only sharing imported LPG) which was one of the factors in the increase of LPG consumer price.
- Action against the illegal LPG decanting initiated through the Provincial Governments and public awareness campaign launched in the print media to check and report such malpractices.
- Guidelines on minimum safety requirements for the LPG distributors were developed and advised to all Provincial Governments for enforcement through the respective DCO.
- All LPG marketing companies were directed to ensure compliance of the laid down LPG standards at their distributor premises.

- All LPG marketing companies were monitored regarding compliance on supply of mandatory quota of 20% LPG to AJK, FATA, Northern/Hilly Areas.

- A total number of thirty-five (35) 3rd party inspections were carried for LPG marketing and production facilities.

- LPG consumer prices of all LPG companies were monitored and displayed at their distributor premises for convenience of consumers.

- In order to provide convenience to domestic consumer, the companies were allowed to introduce small LPG cylinders.

- LPG supplies were monitored to ensure uninterrupted supplies to consumer.

- A total number of eighty-eight (88) complaints on decanting and excessive prices were received and appropriate actions were taken to address the complaints.

4.3.6 Use of LPG in Automotive Sector

The Federal Government has in principle approved the use of LPG in motor vehicles, subject to OGRA providing a regulatory framework ensuring comprehensive safety standards. The regulatory framework was accordingly developed by OGRA and approved by the Federal Government in July 2006. The salient features of regulatory framework are as under:

- Only licensed marketing companies shall be allowed to setup LPG auto refueling stations. A separate licence for each station shall be required. The LPG auto refueling stations shall meet international safety/technical standards (National Fire Protection Association, USA, NFPA-58).

- The auto refueling stations shall be located in a plot size of not less than 10,000 sq.ft located on roads/highways with minimum 60 feet width (compatible with standards for existing petrol pumps).

- Only brand new equipments duly authorized by OGRA in accordance with the LPG Policy shall be installed at the refueling stations. Similarly, conversion kits and cylinders duly approved by OGRA as per the LPG Policy shall be installed and each licensee shall certify the same.

- A provisional licence shall be granted initially for one year and subject to satisfactory completion of the works to be verified by third party inspectors, an operational licence shall be granted for a maximum period of 15 years.

- An initial processing fee of Rs.100,000/- for each licence with an annual regulatory fee of Rs.50,000/- will be levied to ensure effective monitoring and enforcement of safety standards.

- All other conditions of LPG Rules 2001, which will be amended appropriately to incorporate the above requirements, shall be applicable to the licensees of auto refueling stations. Each licensee shall ensure that only specified cylinders installed in vehicles are refilled at the auto refueling stations. No domestic cylinder shall be filled from the said stations.

- OGRA shall monitor the safety standards and other operational requirements to ensure public safety on regular basis.

Necessary amendments are now being made to the LPG (Production & Distribution) Rules, 2001, in consultation with the Law and Justice Division to give effect to the regulatory framework.

4.4 Compressed Natural Gas (CNG)

CNG Dispenser

CNG Storage Cylinders Manifold

4.4.1 Regulation

Government of Pakistan introduced CNG as an alternative fuel in the country in 1992. CNG (Production & Marketing) Rules, 1992 inter alia covering Safety Code of Practice, were notified for the construction and operation of CNG re-fuelling stations. The regulation of CNG sector was transferred to OGRA on March 15, 2003. OGRA has facilitated the process for grant of licence through simplification of procedure and provision of one window facility for the investors. The regulatory functions of OGRA are as under:

- Grant of licence for construction of CNG station which inter-alia requires the licensee to obtain various NOCs from District Administration and Explosive Department etc. and construct/ install CNG Station in accordance with the laid down standards.
- Grant of marketing licence after conducting third party inspection on adherence to safety code of practice.
- Regular periodic inspections to ensure conformity with the laid down standards.
- Redressal of consumer complaints.

4.4.2 Licensing Procedure

CNG licence is granted in two phases:

(a) Licence for construction of CNG station.
(b) Licence for marketing of CNG.

Following procedure is adopted for grant of these licences:

Any person can apply for grant of licence to the Authority on the prescribed Form available free of cost from OGRA as well as on OGRA website along with the requisite fee of Rs. 25, 000/-. The licence for construction of CNG station is granted under Rule-6 of the CNG (Production & Marketing) Rules, 1992 initially for a period of two years during which the licensee has to acquire NOCs from the concerned departments like District Coordination Officer and Explosive Department etc. before starting construction of the CNG station. The licensee is required to meet the requisite safety and technical standards as prescribed in the CNG Rules, 1992 for construction of CNG station and installation of equipment.

The licensee, after completing construction of CNG station, requests the Authority for appointment of third party inspectors to verify conformity of the CNG works in the light of Standard Code of Practice of CNG (Production & Marketing) Rules, 1992. The Authority appoints third party inspector, which is currently Hydrocarbon Development Institute of Pakistan (HDIP). The marketing licence is issued for a period of 15 years after satisfactory report of the third party inspectors.

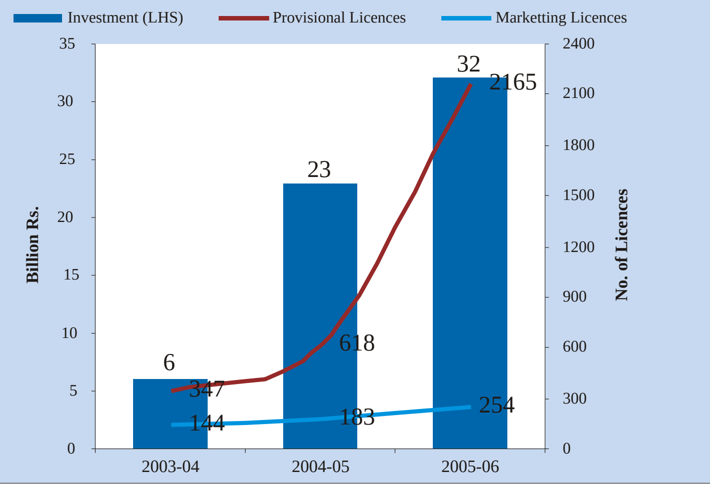
OGRA has simplified the procedure for grant of CNG licence and a CNG licence is granted within four weeks. The licence is granted even within a week if the requisite documents are complete. Investors are provided further comfort through establishment of a one window facility where prompt guidance and information is provided to the applicant. A total number of almost 6000 visitors were entertained and provided with CNG related information at one window facility.

OGRA has focused attention on conducting effective third party inspections and standardization of CNG equipment to facilitate the investors to adhere to the requirements of Safety Code of Practice. The new CNG rules have also been drafted to effectively regulate the sector in the light of the latest technological developments to ensure safe, reliable and competitive service to consumers. In order to ensure public safety, OGRA has imposed ban on grant of licence for setting up CNG stations in residential areas.

4.4.3 Investment in CNG Sector

The CNG sector has shown tremendous growth in the past four years resulting addition of 595 operative CNG stations thus bringing cumulative investment of more than Rs. 32. billion. As of 30th June, 2006, 965 CNG stations were operating in the country while about 600 were at various stages of completion, which will further bring an investment of Rs. 7.5 billion. During the FY 2005-2006, the Authority has issued 2165 licences for construction of CNG stations while 254 stations were completed and granted marketing licence after receiving satisfactory inspection report from third party inspectors **see Fig 4.17**. The grant of 2165 licences for construction of CNG stations means a further investment of about Rs 27.0 billion in the pipeline during the next two years.

Fig 4.17: Investment in CNG Stations



Pakistan has taken a lead role in developing the CNG infrastructure due to investor friendly policy and regulatory framework, and at present stands third in the international ranking after Argentina and Brazil in terms of vehicle conversion of CNG. As of 30th June, 2006, about 1 million CNG vehicles were operating in the country. **Fig 4.18** and **4.19** reflect the continuous and rapid increase in the number of CNG stations and CNG vehicles respectively. In 2004-05, the total number of CNG stations was 709 which increased to 965 in 2005-06 thus showing growth rate of 36% and similarly CNG vehicles swelled to 1,000,000 with growth rate of 25% in the same period. The growth rate line of the CNG stations is showing decreasing trend while that of vehicles is fluctuating during the period 1995-2005.

Fig 4.18: Number and Growth of CNG Stations

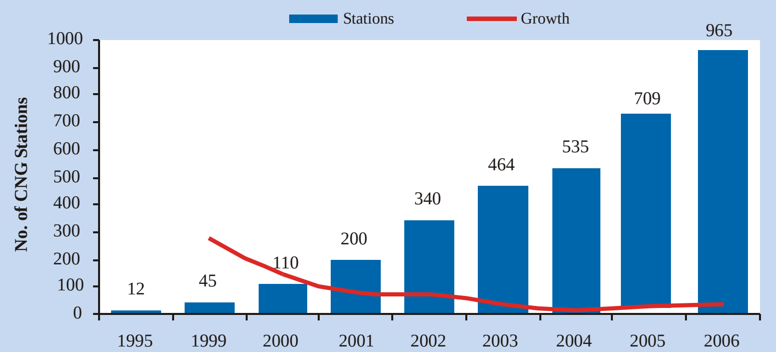
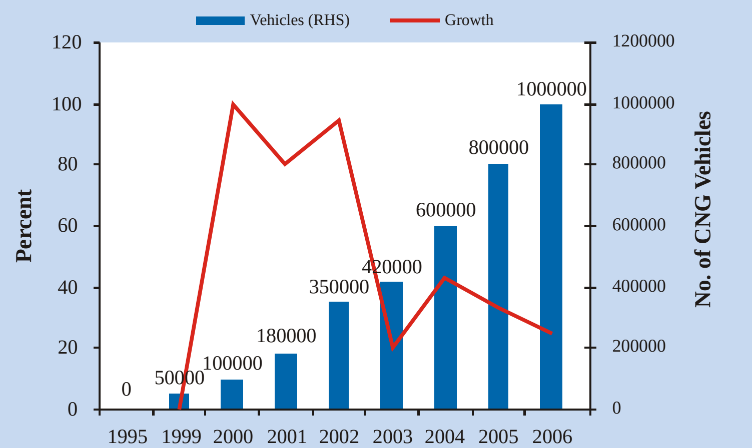


Fig 4.19: Number and Growth of CNG Vehicles



4.4.4 Regulatory Enforcement

a) The system of annual safety inspection of the CNG stations, through 3rd party inspectors streamlined and strictly monitored for rectification of safety deficiencies.

b) Fines were imposed under the CNG rules 1992, on the licensees involved in repeated safety violations, in addition to disconnection of gas supplies.

c) Regulatory monitoring of standards for new brands of CNG cylinders and conversion kits ensured as per requirement of applicable rules.

d) Public awareness campaign launched through print media on use of approved brands of CNG conversion kits and cylinders to ensure public safety.
e) Surprise inspections to check measurement and safety violations on specific complaints.

4.4.5 Local Manufacturing of CNG Equipments

The Authority has encouraged the local manufacturing of CNG equipments including CNG compressors, dispensers, priority panels and CNG conversion kits by allowing the local industry to manufacture and compete with the imported brands. The Authority during the year has approved four different brands of CNG conversion kits for local manufacturing, after meeting the stringent regulatory criteria to meet the applicable standards and operating procedures thereby opening a new avenue not only for local investors but also saving foreign exchange for the country.

4.4.6 Compensation to the Affecttee

OGRA is responsible for safeguarding the interest of consumers. While fulfilling its obligation, an unfortunate incident took place at M/s Green Fuel CNG Station, PSO outlet Multan, resulting in the death of one person. The Authority taking notice of the incident took prompt action and directed the operator of the CNG station for compensation according to the terms and conditions of marketing licence. The bereaved family was compensated for Rs. 200, 000/-

CNG Compressor

Oil Refinery

4.5 Mid and Downstream Oil Sector

4.5.1 Regulation

The Federal Government on the advice of OGRA enforced the provisions of sub-section (3) of section 23; and (a) and (b) of sub-section (3) of section 44 of OGRA Ordinance 2002 with effect from 15th March 2006, empowering the Authority to regulate mid and downstream oil sector in the country under the existing Pakistan Petroleum (Refining, Blending and Marketing) Rules 1971.

4.5.2 Powers and Functions

Powers and Functions transferred under the OGRA Ordinance and Pakistan Petroleum (Refining, Blending and Marketing) Rules 1971 mainly pertain to following areas:

i) Grant of licences to:

- Construct or operate any refinery;
- Construct or operate any pipeline for oil;
- Construct or operate any oil testing facility; oil storage facility (other than storage associated with a refinery); oil blending facility;
- Construct or operate any installation relating to oil;

- Undertake storage of oil; or
- Undertake marketing of refined oil products.

ii) In consultation with the licensees specify and review the standards for the equipment and the materials to be used in undertaking regulated activity.

iii) Promote effective competition and efficiency in the activities within the jurisdiction of the Authority.

iv) Resolve complaints and other claims against licensees for contravention of the provisions of OGRA Ordinance, rules or regulations.

v) Enforce standards and specifications for refined oil products as specified by the Federal Government.

Night view of Oil Refinery

4.5.3 OGRA Activities in the Oil Sector

The details of the activities carried out by the Authority to regulate the mid and downstream oil sector are as under:

4.5.3.1 Formulation of New Draft Rules

The Authority developed the new draft rules viz Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules 2006 for regulating the oil sector which were circulated to all stakeholders for their views/comments. The draft rules were reviewed and revised based on the comments received from the oil industry and the MP&NR. The final draft rules have been sent to the Federal Government for their approval and notification under the OGRA Ordinance.

4.5.3.2 Preparation of Technical Standards

The Authority is also in process of preparing draft technical standards for oil refineries, oil pipelines, oil storage/terminals and the same will be finalized in consultation with the licensees after the new rules viz. Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules 2006 are notified.

4.5.3.3 Complaint Resolution Procedure Regulations

The Authority has finalized Complaint Resolution Procedure in respect of oil sector and an amendment to the existing Complaint Resolution Procedure Regulations 2003 is being issued to give effect to the requisite provisions for the oil sector.

4.5.3.4 Appointment of Consultant to Evaluate the Bidding Proposal for Coastal Oil Refinery Project

In pursuance of the decision of the ECC, the Authority has given its proposal to the MP&NR to jointly appoint ENAR Petrotech as consultant to evaluate the proposal of coastal refinery project planned at Hub Chowki District Lasbella, Baluchistan.

4.5.3.5 New Licences for Oil Refineries

M/s Trans Asia (Pvt) Ltd (a company incorporated under the Laws of Pakistan) has applied for licence under the OGRA Ordinance for construction and operation of a refinery near Karachi having capacity of 100,000 barrels per day based on complete relocation of second hand refinery presently installed in Italy. The Authority has examined the proposal in the light of the Ordinance and policy guidelines given in Import Policy Order 2006 and decided to issue a provisional licence for construction of the refinery. The MP&NR has been requested to furnish their observation from the policy perspective, if any, on the terms & conditions of the proposed licence before the same is issued to the above company.

4.5.3.6 New Licences for Oil Marketing Companies

Two applications were received for grant of licence for establishment of new oil marketing companies. The Federal Government has since issued the new criteria for setting up of new oil marketing company which inter alia envisages minimum upfront equity of Rs.3 billion along with investment programme of more than Rs. 6 billion over a period of three years for the creation of requisite infrastructure. Since the applicants were not aware of the new criteria announced by the Government, they have been advised about the same so as to review their proposals.

4.5.3.7 Instructions to Existing New Oil Marketing Companies

In order to ensure that the new licensed oil marketing companies construct their oil terminals and oil storage in accordance with the latest API standards, they have been advised to follow the latest API codes for construction of their oil terminals and oil storages which would be subject to third party inspection by OGRA.

Crude Oil/Oil Products Tank Farm

4.5.3.8 New Licences for Lube Oil Blending/Reclamation Plants

Four applicants requested for registration of Lube Oil Blending/Reclamation Plants in accordance with the provision of rule 16 of the Pakistan Petroleum (Refining, Blending and Marketing) Rules 1971 requesting 3rd party inspection to certify the conformity of their plant with mandatory technical requirement given in the rules. HDIP, the 3rd party inspector for conducting such inspections has been authorized to conduct the requisite inspection so as to consider the request of the applicants for registration of their plants under the rules.

4.5.3.9 Quality Control Procedure

The Authority has started work on standardizing the quality control procedures for monitoring and checking quality of petroleum products at blending/reclamation plants, oil terminals, storages and retail outlets. The Authority is in process of obtaining standard operating procedures being followed by all companies for quality control so as to devise a uniform regulatory policy to ensure production and supply of products to consumers according to specification. The Authority as part of quality control measures has directed six lube oil blending reclamation plants to stop their commercial production due to non compliance of maintaining the mandatory requirement of requisite equipment in their laboratory.

4.5.4 Oil Pricing

The Federal Government mandated OGRA on March 02, 2006, to fix prices of petroleum products namely MS 87 RON, HOBC, Kerosene Oil, Light Diesel Oil, JP - 1 and JP- 4, w.e.f. April 01, 2006, in accordance with the prescribed formula, under section 6(2) (r) and section 21(2) (b) of OGRA Ordinance 2002.

The Federal Government has also issued policy guidelines to the Authority in respect of formulae for computing the said prices, and has, interalia advised that the ex-refinery and ex-depot prices will be notified after consultation with the MP&NR.

The consumer prices are to be notified on fortnightly basis, effective from 1st and 16th of each month.

Briefly, under the said pricing formula the ex-depot sale prices are to be computed as under:

- Ex-refinery import parity price, computed per formula approved by ECC on Dec 23, 2000 (vis-à-vis the then formula) and the subsequent modifications made from time to time.
- Excise duty on petroleum products as per CBR notifications.
- Petroleum Development Levy as notified by MP&NR.
- Inland Freight Equalization Margin (IFEM) as recommended by Oil Companies Advisory Committee (OCAC) under self-management system.
- The 3.5% Distribution Margin and Dealer Commission at 4% will be determined per formula decided by the Federal Government.
- General Sales Tax (GST) @ 15% of depot price on the amount included all above elements.

The Federal Government decides to increase/decrease/maintain the consumer prices by making adjustment in Petroleum Development Levy (PDL) through its notification issued under Petroleum Products (Petroleum Development Levy) Ordinance, 1961 (XXV of 1961).

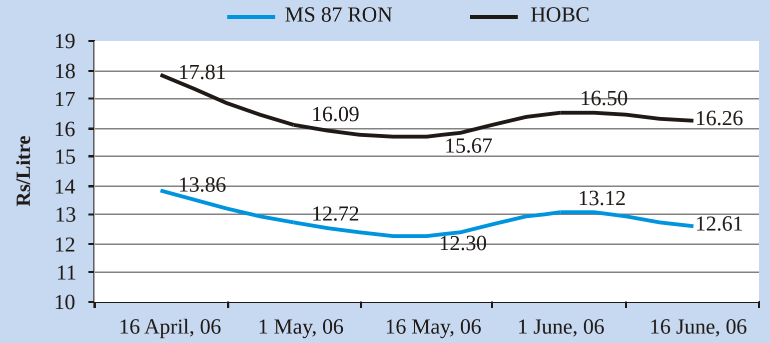
PDL is an integral part of ex-depot prices of petroleum products. Federal Government advises PDL on fortnightly basis to OGRA. Federal Government uses PDL component to increase/decrease or maintain the petroleum product prices.

Table 4.20: Petroleum Development Levy Notified by the Federal Government on Petroleum Products

(Rs / Liter)

Products	16 April, 06	1 May, 06	16 May, 06	1 June, 06	16 June, 06
MS 87 RON	13.86	12.72	12.30	13.12	12.61
HOBC	17.81	16.09	15.67	16.50	16.26
KERO	0	0	0	0	0
LDO	0	0	0	0	0
JP1	0	0	0	0	0
JP4	3.00	3.00	3.00	3.00	3.00

Fig 4.20: PDL on Petroleum Products



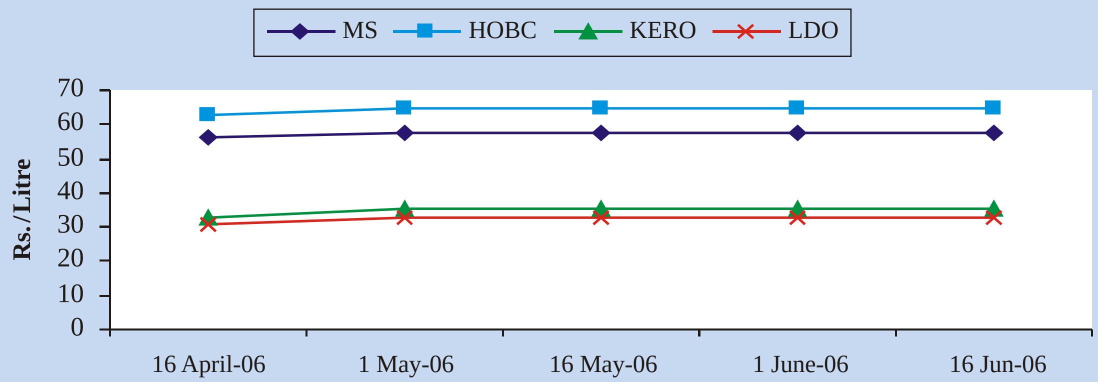
IFEM mechanism is used to equalize freight cost of regulated fuel products throughout the country despite disparity in transportation costs. Settlements between OMC's & Refineries under IFEM mechanism being carried out through auditors on a quarterly basis. OMC's pass refinery freight to refineries through fortnightly billing on uplifted products. OGRA has now directed OMC's/PARCO/ARL to furnish certificates of actual transportation cost for current months by the end of subsequent month, duly verified by their respective Chief Executives. OGRA has also decided that independent IFEM audit will also be conducted as and when required.

Table 4.21: Maximum Ex-Depot Sale Price of Petroleum Products Notified by OGRA

(Rs / Liter)

Effective from Fortnight	MS	HOBC	KERO	LDO
Sunday, April 16, 2006	56.29	62.77	32.87	30.97
Monday, May 01, 2006	57.70	64.88	35.23	32.57
Tuesday, May 16, 2006	57.70	64.88	35.23	32.57
Thursday, June 01, 2006	57.70	64.88	35.23	32.57
Friday, June 16, 2006	57.70	64.88	35.23	32.57

Fig 4.21: Max Ex-Depot Sale Price of Petroleum Products



Complaints Resolution

5. COMPLAINTS RESOLUTION

5.1 Complaint Resolution Procedure (Natural Gas, CNG, LPG & Oil)

Promulgation of OGRA Ordinance and consequent emergence of regulatory regime entrusted OGRA to safeguard the consumers' interest by resolving their disputes and unattended complaints. OGRA is determined in its resolve that consumer care should be an integral part of licensees operations. In exercise of the powers conferred by section 42 of the OGRA Ordinance 2002, OGRA notified Complaint Resolution Procedure Regulations, 2003 (CRPR, 2003) in the Gazette of Pakistan on September 3, 2003.

For filing complaints with OGRA, consumers have been provided a prescribed format which was published in the newspapers and can also be accessed through OGRA website www.ogra.org.pk. They can also lodge complaints on plain papers. The complaints can be lodged through postal and electronic mail or in person. Consequently, OGRA started receiving complaints from the consumers for redressal of their grievances. All these services are currently being provided to the consumers free of cost through one window facility at the doorstep without involving legal hiccups. Hearings are held only for complex cases.

The Federal Ombudsman (Wafaqi Muhtasib) with effect from March 15, 2005 transferred its responsibility of handling complaints related to natural gas to OGRA. As a result of this, the inflow of complaints increased considerably. Mostly, the complaints being received by OGRA pertain to the following subjects/areas:

- Delay in provision of gas connection.
- Excessive billing.
- Low pressure of gas.
- Removal of gas meters.
- Undue delay in providing service.
- Safety practices.
- Quantity and quality of natural Gas, Oil, LPG or CNG being supplied.
- Discriminatory practices of the licensee or dealer.

As soon as OGRA receives complaints from consumers, it immediately forwards them to the respective company and advises it for taking remedial action/response under intimation to the Authority within stipulated time. A large number of complaints, which were lying unattended earlier, have been disposed of by the companies. In case any complaint is not resolved through correspondence, a hearing is conducted by the Authority's designated officer wherein the affected parties and the companies are called to express their view points. Thereafter, designated officer issues his decision. In case, any aggrieved party is not satisfied with a decision of the designated officer it can appeal against the decision to the Authority.

5.1.1 High Gas Bills Inquiry

A meeting of the Cabinet Committee on Regulatory Bodies (CCRB) was held in Islamabad in March 2006, wherein the Prime Minister directed that redressal of public complaints should be the major concern of the regulatory bodies. The CCRB directed OGRA to probe into inflated bills of gas issued by SNGPL in the current month and submit a report within one week.

Accordingly, OGRA solicited complaints from the consumers through advertisement in prominent dailies inviting them to file their complaints through mail, fax, e-mail or in person at OGRA Office, Islamabad. A report in this respect was submitted to the Honorable Prime Minister on March 29, 2006. During this exercise more than 2,700 complaints were received. After analysis of the complaints, these were segregated into different categories so that SNGPL can take action according to the information provided to them. Categories were as follows:

a. Winter Vs Winter Variation in gas consumption less than 10%

b. Winter Vs Winter Variation in gas consumption greater than 10%

c. Winter Vs Summer comparison of cases less than 7:1 and greater than 7:1

These complaints were forwarded in phases to SNGPL and the company was advised to thoroughly investigate complaints in which variation in gas consumption exceeds 10% and allow rebate wherever applicable. Resultantly, SNGPL allowed rebate to 71 numbers of complainants due to suspected accumulation of meter reading.

5.2 Complaints in the Oil Sector

Eighteen complaints were received in the oil sector out of which seventeen pertained to illegal manufacturing of lubricating oil. The Authority took necessary action as required under the Rules interalia reporting the issue to the respective DCOs of the Provincial Governments or Central Board of Revenue (CBR) for taking action under the law.

The detail of Complaints and Appeals handled by OGRA during 2005-06 are given in **Table 5.1, Fig 5.1 & 5.2**.

Table 5.1 Summary of Complaints & Appeals Handled by OGRA (FY 2005-06)

Status of Complaints	Natural Gas	LPG	CNG	OIL	Total
Complaints Received	904	64	24	18	1010
Complaints Resolved	608	54	16	17	695
Complaints under Process*	296	10	08	01	315
Appeals to the Authority against Decisions of Designated Officer	24	-	-	-	24
Appeals Decided by the Authority	17	-	-	-	17
Appeals to High Court against Decisions of the Authority	02	-	-	-	02

*The applications were pending due to non receipt of report/information from the agencies and counter comments of the consumers.

Fig 5.1: Composition of Complaints Received

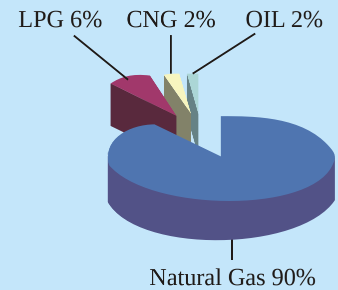
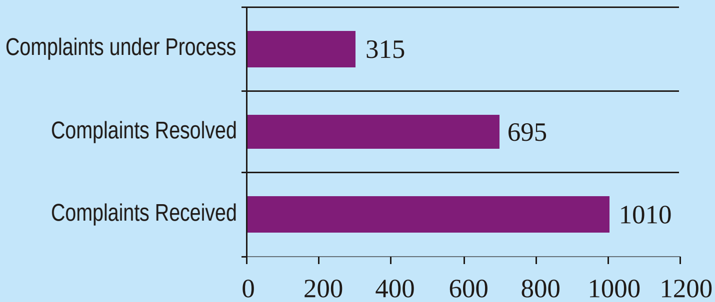


Fig 5.2: Status of Complaints



5.3 Appeals

During FY 2005-06, Authority heard 24 appeals against decision of designated officer. Thus, the Authority has laid the foundation to safeguard the interests of consumers and hopes that the public will take full benefit of this mechanism to get their grievances resolved in a timely and transparent manner

Anticipated Developments Next Year

6. ANTICIPATED DEVELOPMENTS NEXT YEAR

6.1 Licences

The consumption of CNG as an alternate fuel in automotive sector is expected to continue robust growth during FY 2006-07 as it has been showing in terms of increased number of CNG converted vehicles and CNG stations for the last many years. The Authority expects to grant about 600 new provisional licences for construction of CNG stations and 200 marketing licences for commercial operations. During FY 2006-07 the total numbers of operational CNG stations are expected to reach to almost 1200.

A regulatory framework developed by OGRA for use of LPG in automotive sector has been approved by the Federal Government in July 2006. It is expected that necessary amendments will be made in the LPG (Production & Distribution) Rules, 2001 to give effect to the regulatory framework. This policy decision of the Government is likely to attract substantial investment in setting up of LPG refueling/filling stations. OGRA expects to grant about 25 provisional licences for construction of LPG facilities including automotive fueling stations all over the country during FY 2006-07.

Applications for grant of licence for the following activities are expected:

i) Licence for Gas Storage for Lilla Town project by SNGPL
ii) Licence for production, transportation and distribution of LNG under OGRA LNG Licensing Rules.
iii) Licence for transmission of natural gas to Fatima Fertilizer Company Limited
iv) Licence for oil refineries
v) Licence for establishing Oil Marketing Company (OMC).
vi) Licence for Lube Oil Blending/Reclamation Plants

6.2 Revenue Requirement

Determination of the revenue requirement of natural gas utilities is one of the fundamental functions of the Authority. The Authority has recently completed the review of estimated revenue requirement of SNGPL and SSGCL for the FY 2006-07. The Authority has also completed the determination of final revenue requirement of both the gas companies for the FY 2005-06. The Authority is expected to determine the following revenue requirements by June 30, 2007:

(i) Determination of Estimated Revenue Requirements of SNGPL and SSGCL for FY 2007-08 after holding public hearing and consultation with all the stakeholders.

(ii) Determination of final revenue requirement of SNGPL and SSGCL for FY 2006-07 based on the actual audited results.

6.3 Rules/Regulations

The Authority has laid a comprehensive regulatory framework regarding regulatory activities of Natural Gas, Oil, CNG and LPG sectors. The Authority expects to carry on work on the revision of some of the old rules/regulations as well as formulation of new ones as required under the law. Work on the following rules/regulations is expected to be undertaken during FY 2006-07.

6.3.1 Rules

(i) Notification of amendment in the LPG (Production & Distribution) Rules 2001 by the Federal Government.

(ii) Notification of Pakistan Oil (Refining, Blending, Marketing and Transportation) Rules, 2005 by the Federal Government.

(iii) Notification of LNG Licencing Rules by the Federal Government.

(iv) Submission of Gas Theft Rules to the Federal Government for approval.

(v) Submission of draft Rules on Monitoring and Enforcement of licences, rules and decisions of the Authority (Enforcement Rules) to the stakeholders including the Federal Government for consultation.

(vi) Notification of Fines and Recovery Rules by the Federal Government.

(vii) Submission of draft Fair Competition Rules for consultation with the stakeholders.

(viii) Submission of draft Revised CNG (Production & Marketing) Rules for consultation with the stakeholders.

(ix) Submission of Revised LPG (Production & Distribution) Rules for consultation with the stakeholders.

6.3.2 Regulations

(i) Notification of Technical Standards for LNG installations/facilities.

(ii) Circulation of draft of Technical Standards in respect of downstream oil sector (refining, blending storage and pipelines etc.) for consultation with the stakeholders.

(iii) Circulation of draft of Regulation on Resolution of Disputes between licensees and between any person and a licensee for consultation with the stakeholders.

6.4 Institutional Development Studies/ Capacity Building

OGRA believes in acquiring the assistance and transfer of latest technology for the formulation of its rules and regulations and technical standards for various regulated activities. In this regard, two studies have been identified which are likely to be awarded to consultants during 2006-07 as under:

(i) Development of Technical and Performance Standards in respect of LPG.

(ii) Study on Human Resource Development in respect of OGRA by independent consultant.

OGRA also believes in human resource development through imparting training to its officers in all relevant disciplines at home and abroad. In this regard, about 65 officers are expected to be attending various technical, management, legal and financial courses in foreign countries as well as within Pakistan in the leading institutions like LUMS, Pakistan Institute of Management Sciences (PIMS) etc.

6.5 Redressal of Public Complaints

One of the fundamental responsibilities of a public utility regulator is provision of cost free and expeditious method of redressing public complaints against the service providers. With the increase in the number of consumers and increase in the demand of public for provision of Natural Gas, Oil, CNG or LPG services for their use, the Authority expects that the public complaints would continue to be received by the Authority. In this regard, it is expected that about 1200-1500 complaints will be received and processed during the FY 2006-07. All these complaints will be processed in accordance with OGRA's CRPRs, 2003.

6.6 Notification of Gas Prices and Well-Head Gas Prices

The process of determination and notification of well-head prices of gas under Section 6 (2)(w) and the prescribed prices of gas companies under section 8 (1) of OGRA Ordinance will continue. In this regard OGRA will issue the following notifications:

(i) Well-head gas prices for producers in respect of about 46 gas fields

(ii) Gas Sale Prices for consumers.

(iii) Prescribed Prices for gas companies

Appendix

Field-wise Well-Head Gas Prices

Sr. No.	Field Name	Units	Price Effective	Price Effective
1	Adhi	Rs.per MMBTU	87.81	88.18
2	Bhangali	Rs.per MMBTU	123.37	123.75
3	Bhit	$ per MMBTU	3.0137	3.3261
4	Dakhani	Rs.per MMBTU	87.82	88.09
5	Daru	Rs.per MMBTU	77.20	77.44
6	Dhodak	Rs.per MMBTU	175.46	176.00
7	Dhurnal	Rs.per MMBTU	15.48	15.57
8	Hassan	$ per MMBTU	2.3511	2.3415
9	Kadanwari	$ per MMBTU	4.7790	6.5392
10	Kandkot	Rs.per MMBTU	64.74	77.84
11	Loti	Rs.per MMBTU	82.51	82.76
12	Mazarani	$ per MMBTU	1.75	1.75
13	Meyal / Dhulian	Rs.per MMBTU	77.04	77.01
14	Miano	$ per MMBTU	2.8059	3.0968
15	Missakiswal	Rs.per MMBTU	15.82	15.87
16	Nandpur Panjpir	Rs.per MMBTU	222.24	222.93
17	Pariwali	$ per MMBTU	2.9115	3.3262
18	Pindori	$ per MMBTU	2.9115	3.3262
19	Pirkoh	Rs.per MMBTU	82.51	82.76
20	Qadirpur	Rs.per MMBTU	168.88	233.94
21	Sadkal	Rs.per MMBTU	189.07	241.18
22	Sara / Suri	Rs.per MCFT	86.71	86.98
23	Sari Hundi	Rs.per MMBTU	170.08	231.80
24	Sawan	$ per MMBTU	2.7107	3.0968
25	Sui	Rs.per MMBTU	64.74	77.84
26	Turkwal	$ per MMBTU	2.9115	3.2239
27	UCH	$ per MMBTU	3.9223	3.9223
28	Zamzama SNGPL	$ per MMBTU	2.6232	2.9141
29	Zamzama SSGCL	$ per MMBTU	2.6207	2.9116
30	Zamzama Wapda/Guddu	$ per MMBTU	2.6637	2.9546
31	Badin Non-Golarchi Non-Associated	Rs.per MMBTU	171.92	232.28
32	Ratana	Rs.per MMBTU	231.61	232.12
33	Mari	Rs.per MMBTU	28.91	-
34	Rehmat	$ per MMBTU	2.5211	2.5215

Sr. No.	Field Name	Units	Price Effective	Price Effective
35	Manzalai	$ per MMBTU	2.6578	2.6582
36	Chanda Khipro Block	$ per MMBTU	2.7078	2.7082
37	Niamat Basal-1	$ per MMBTU	2.5211	2.5215
38	Siraj South-1	$ per MMBTU	2.5211	2.5215
	From 11-01-2005 to 30-06-05			
	Mirpurkhas Block			
39	Kauser Deep-1 & Usman-1	$ per MMBTU	2.5211	2.5215
	From 19-05-2005 to 30-06-2005			
40	Umer	$ per MMBTU	2.5211	2.5215
41	Ali -1	$ per MMBTU	2.2311	2.2315
42	Bilal North 1	$ per MMBTU	-	2.2315
43	Bilal - 1 (effective Jan 15, 2006)	$ per MMBTU		2.2315
44	Badin Deep fields	$ per MMBTU	2.7108	3.0016
45	Head of Agreement	$ per MMBTU	2.7108	3.0016
46	Badar	$ per MMBTU	-	2.2715

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