

آئل اینڈ گیس
ریگولیٹری اتھارٹی
حکومت پاکستان



Oil & Gas
Regulatory Authority
Government of Pakistan

Proposed Tariff Regime for Natural Gas Sector in Pakistan

Stakeholders Consultative Session, Lahore
4th December, 2017



Legal Framework under OGRA Ordinance, 2002

■ Section 7

- The Authority has to determine or approve tariff for regulated activities whose licenses provide for such determination.
- The criteria for determination, approval, modification and revision of tariffs have been prescribed in the Rules and in the terms and conditions of the respective licenses.

■ Section 6(2)(t)

- The Authority in consultation with the Federal Government and licensees for natural gas shall determine a reasonable rate which may be earned by such licensee.

■ Section 21

- The Federal Government may issue policy guidelines to the Authority on matters of policy, not inconsistent with the provisions of the Ordinance or the rules.



Legal Framework under OGRA Ordinance 2002

■ Section 8

- Scheme of pricing for retail consumers of natural gas
 - Revenue Requirement / Prescribed Prices are to be determined by OGRA for licensees engaged in transmission, distribution and sale of natural gas.
 - Sale Price for each category of retail consumer is advised by the Federal Government.



Features of Existing Tariff Regime

- Existing tariff regime operates on cost transfer pricing mechanism, where aggregate of relevant cost in undertaking the regulated activities forms Revenue Requirement / Prescribed Prices of the licensees.
 - Cost of gas
 - Transmission & Distribution cost
 - Return on assets :17.5%-SNGPL and 17%-SSGCL
- Other operating revenues reduce overall Revenue Requirement.



Theme of Tariff Proposal

- ❑ The new tariff regime has been proposed with the view to:
 - Strike a balance between the financial sustainability of licensees and impact on the consumer prices
 - Provide market based rate of return owing to financial market volatility and change in business dynamics.
 - Develop an open and competitive market, effective capacity utilization and efficiency in the economic resources.
 - Encourage private ownership and investment in the sector.
- ❑ The proposed tariff regime can operate in respect of bundled as well as unbundled entities and network structure.
- ❑ It operates on Cost Transfer Pricing Mechanism whereby aggregate of the expenses as well as market based rate of return form the Revenue Requirement.



Salient Features of Proposed Tariff Regime (1)

Revenue Requirement	<ul style="list-style-type: none"> i. Cost of gas ii. Operating expenses iii. Return on Regulated Fixed Assets iv. Transportation charges and any other
Cost of Gas	Cost of gas purchased from indigenous sources across the country shall be pooled to compute “Weighted Average Cost of Gas” to charge a uniform rate as per Federal Government Policy Guidelines.
Operating Expenses	Prudently incurred and rational operating expenditures shall form part of Revenue Requirement
Efficiency Benchmarks	Shall be applicable
Sales Revenue	Shall include directly generated income on account of sale of natural gas.
Other Operating Revenues	Revenues from all sources directly generated or connected with the regulated activity shall reduce the overall Revenue Requirement.



Salient Features of Proposed Tariff Regime (2)

Depreciation	Rate and method approved by the licensee Board of Directors in accordance with SECP regulations.
Expenses attributed to profit of licensee	Workers Profit Participation Fund, 10-C bonus, etc; shall not form part of revenue requirement.
Corporate Tax	Pass Through Item.
Transportation Tariff (Transmission)	Postal stamp rate for Gas Transportation activity in respect of Transmission of gas for Indigenous Natural Gas Consumer & RLNG Consumer.
Transportation Tariff (Distribution)	Transportation tariff at distribution network or existing T&D network shall be aggregate of Transmission and Distribution tariff. For RLNG consumers of respective company or under Third Party Access regime, tariff shall be based on incremental cost concept, in accordance with the decision of the Federal Government.



Salient Features of Proposed Tariff Regime (3)

Return on Assets Built through Govt. grants / Consumer Contribution etc;	Entitled for 3% return.
Fixed Assets in Operation for Rate Base	Fixed assets at historical value shall be calculated as one half of the sum of the value of fixed assets in operation at the beginning and at the end of the fiscal year, less the amount of accumulated depreciation.
Assets Revaluation	Revaluation may be carried out at the time of unbundling. Treatment of gain / loss on the same in the Regulatory Assets Base/Revenue Requirement shall be subject to approval of the Authority



Salient Features of Proposed Tariff Regime (4)

Market based rate of return i.e; Weighted Average Cost of Capital (WACC) on the value of net fixed assets in operation.

$$\text{WACC} = \text{Cost of Equity} * 30\% + \text{Cost of Debt} * 70\%$$

$$\text{Cost of Equity} = \text{Risk free rate} + \beta * \text{Market Risk Premium}$$

Rate of
Return

Risk Free Rate: Return on 10 Year Pakistan Investment Bonds

Market Risk Premium: Difference between 10 year Average Market Return of Pakistan Stock Exchange and Risk Free Rate

Beta is a measure of the company stock's return variability relative to the Market Premium. Average beta of gas transmission and distribution has been based on international experience.

Cost of debt is based on 6 monthly average of last twelve months KIBOR + 2% spread.



Salient Features of Proposed Tariff Regime (5)

$$\text{WACC} = K_e * 30\% + K_d * 70\%$$

$$K_e = RF + MRP * \beta$$

RF = 8.75% (Coupon rate offered in FY 2016-17)

MRP = Market Return (Avg. increase in KSE 100 INDEX-last 10 years) – RF
= 16.42% - 8.75%
= 7.67%

β = Beta Coefficient: Transmission 1.06, Distribution 1.30

K_e = 16.88% for Transmission
= 18.72% for Distribution

$$K_d = \text{KIBOR} + 2\% \\ = 6.14\% + 2\% = 8.14\%$$

$$\text{WACC} = 16.88 * 30\% + 8.14\% * 70\%$$

$$\text{WACC} = 10.76\% \text{ (T)}, 11.31\% \text{ (D)}$$



Tariff Proposal

- Valuable comments and suggestions on the proposed tariff regime are being solicited through these consultation sessions.
- In the light of feedback from all stakeholders the tariff regime proposal shall be finalized.

THANKS