

Third Party Access Rules Draft 2017

Public Consultation by Oil and Gas Regulatory Authority

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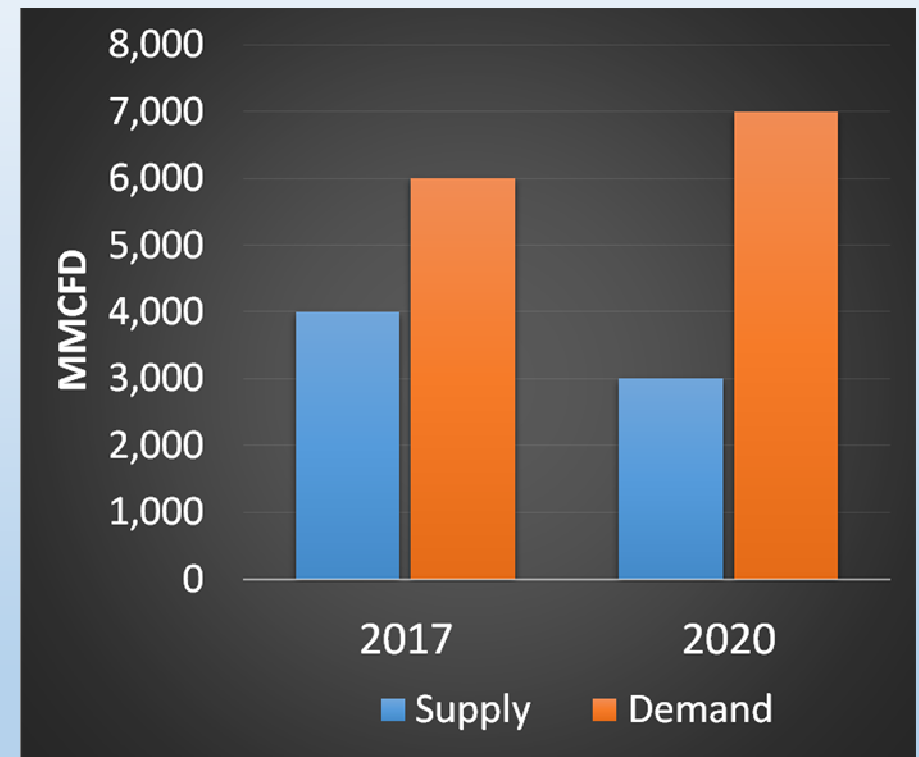


Presentation Outline

- ☐ Indigenous gas: supply and demand
- ☐ Sourcing natural gas
- ☐ Gas supply market: present and future
- ☐ Access to Transportation (TPA)
- ☐ Benefits of TPA
- ☐ Key TPA Documents
- ☐ TPA Rules 2012: features, suspension and key issues
- ☐ TPA Rules – Draft 2017
- ☐ TPA Rules 2017
 - High-end principles
 - OGRA's role
 - Transporter's role
 - Shipper's role
 - Network Code

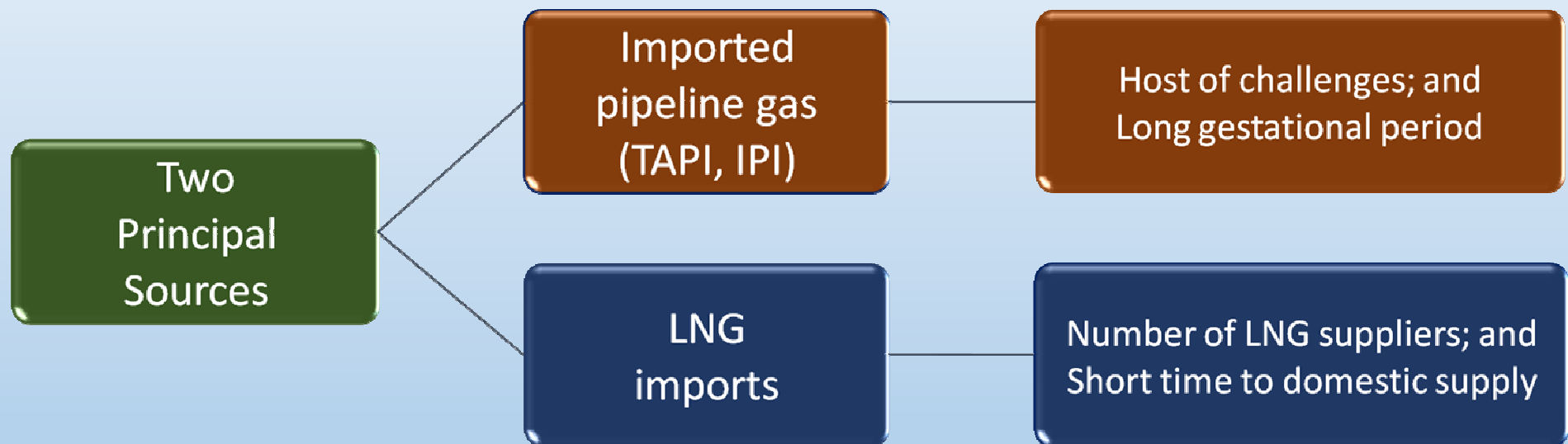
Indigenous Gas: supply and demand

- Domestic production is not keeping pace with the increasing demand
- Sizeable shortfall exists between gas demand and domestic production
- Growth in domestic production is unlikely to fill the shortfall
- Gas shortfall –
 - is currently around 3,000 mmcf
 - can reach 4,000 mmcf by 2020
 - will still be around 3,000 by 2020, where rate of depletion and production is same

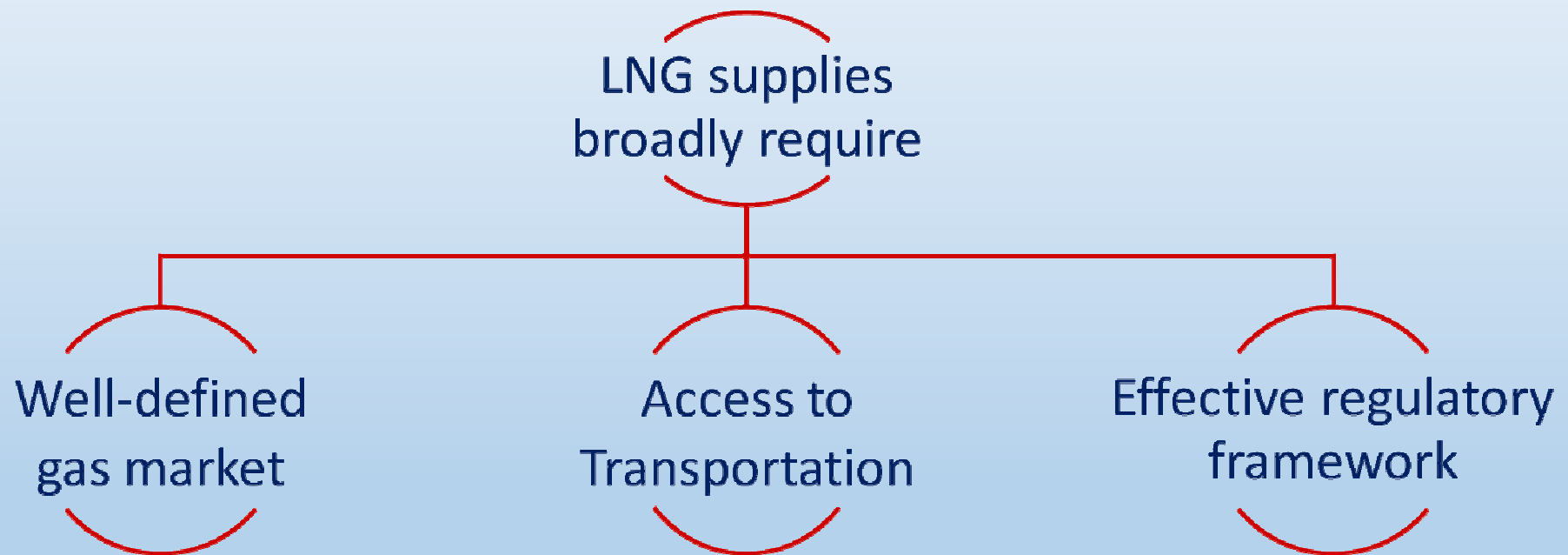


- Pakistan Economic Survey, 2016-17;
- MPNR Monitoring & Evaluation Reports, 2015-17; and
- Petroleum Institute of Pakistan's Energy Outlook Report, 2015.

Sourcing natural gas – 1



Sourcing natural gas – 2



Gas supply market: Present

Domestic gas cost is around \$3.7/mmbtu
On weighted-average cost of gas

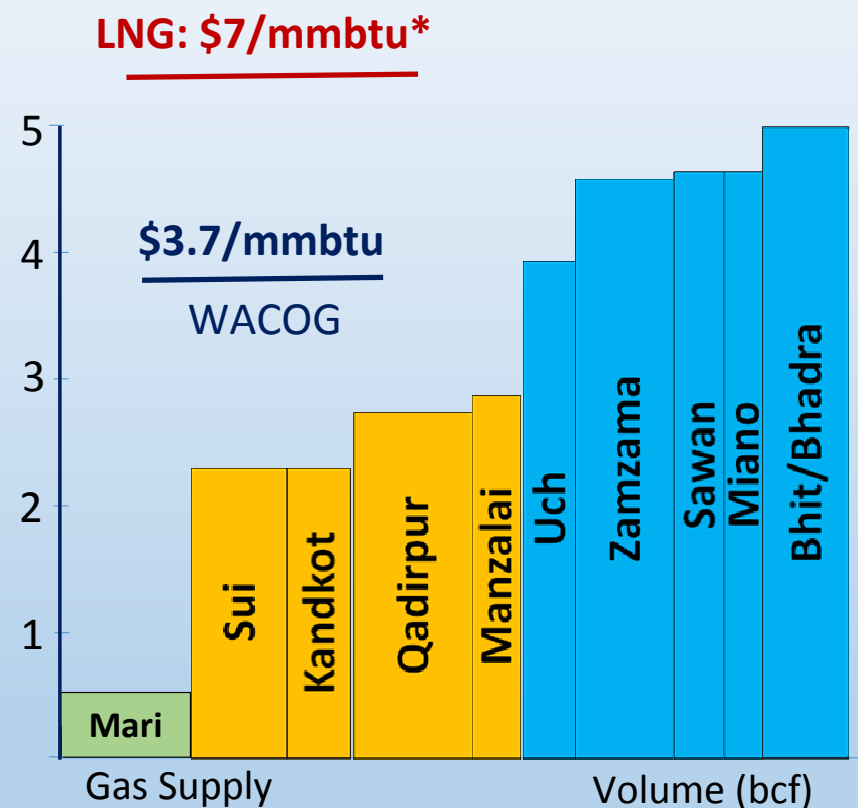
Tariff for residential consumers: < \$3/mmbtu
Tariff for commercial/industrial: > \$3/mmbtu

Delivered cost of imported LNG is variable
Presently around \$7/mmbtu

2 LNG regasification terminals are operative in 2017
1.2 bcf/d of LNG capacity

More LNG regasification terminals are planned in 2019
Over 1 bcf/d of LNG capacity

Imported LNG volumes
Expected to be around 2 bcf/d in a short time

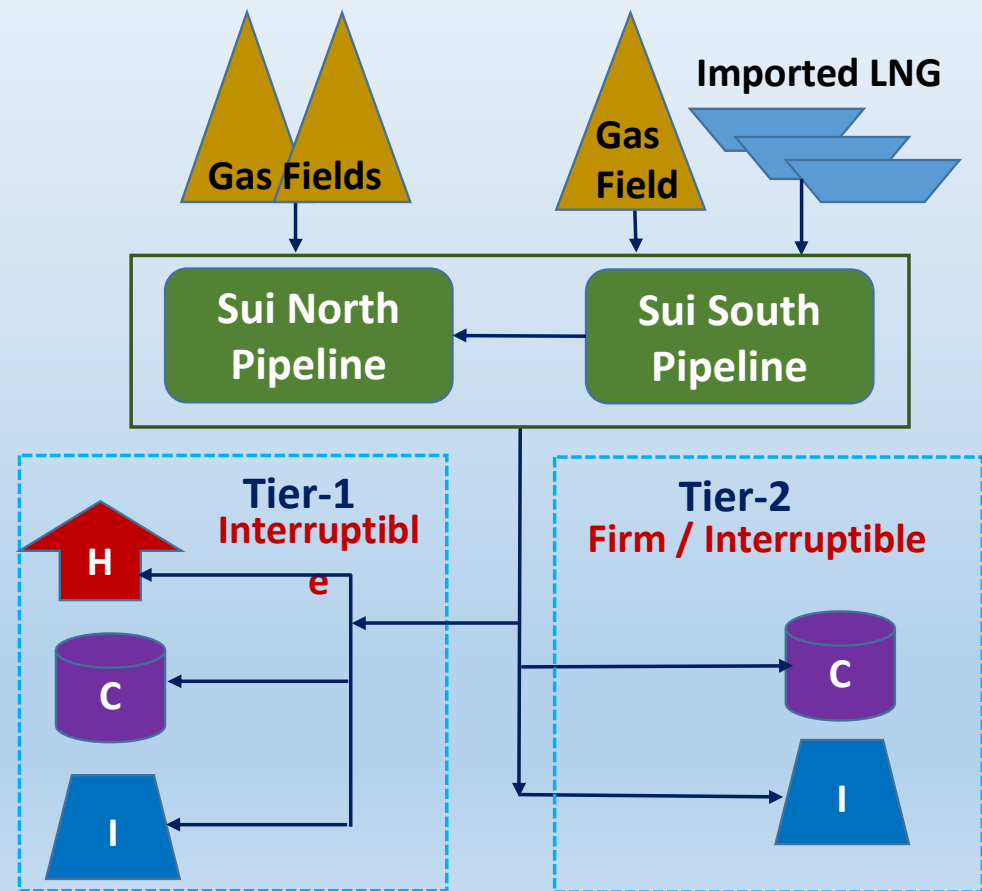


* LNG price used by OGRA in determination of regasified LNG price for Oct-2017.

Gas supply market: Future

Two Tier Market

- **Tier-1:** interruptible gas supplies to existing consumers will continue on regulated prices
- **Tier-2:** ring-fenced supplies of imported LNG on negotiated price to willing consumers
- **Initially,** commercial/industrial consumers will use imported LNG
- **Supply** to Tier-2 market will be on firm/interruptible basis
- **Private sector** can import, sale and purchase of imported LNG
- **Access** to transportation system to supply re-gasified LNG



H: Houses; C: Commercial; I: Industrial

Access to Transportation

Third Party Access (TPA)

Non-discriminatory access

To pipeline networks

For transportation of gas

Against transportation charges

To supply gas to customers/users

On regulated basis



Benefits of regulated TPA

Increased supplies of gas

- Multiple suppliers can provide more gas
- Transporters will be paid for un-used capacity

Improved access to network

- Pipeline users get clarity and certainty
- Creation of Level playing field
- Level playing field is available to all pipeline users through standard Network Code

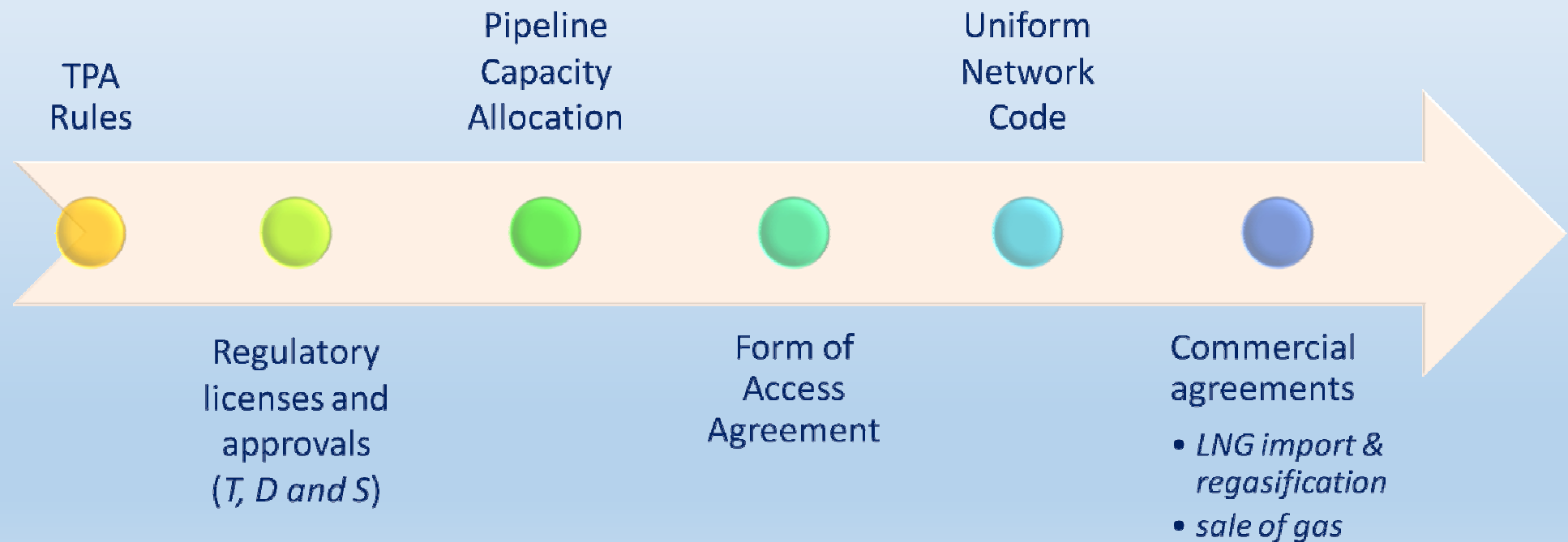
More competition and suppliers

- Consumers can choose from multiple sellers
- Large consumers can ship for self-use
- Transporter's monopoly will be contained

Openness and transparency

- Disclosures ensure transparency
- Openness in capacity allocation to shippers
- Openness in gas allocation to consumers

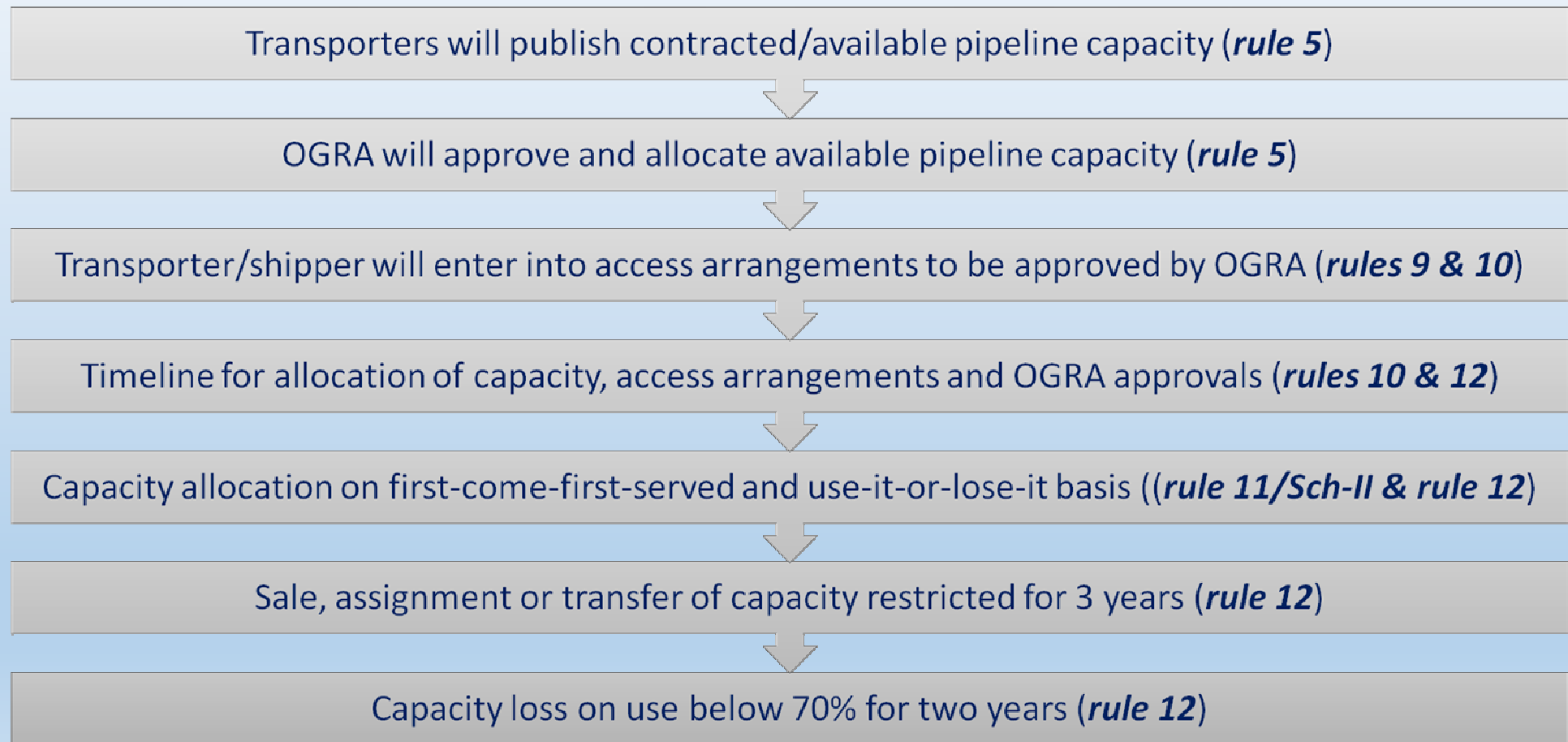
Key TPA documents



TPA Rules 2012: Salient Features – 1

- Issued on: 5 April 2012
- Legislative Basis: Rule-making power u/s.41 of OGRA Ordinance, 2002 w.r.t.
“(p) open access, common carrier and common operator”
- Object: Regulate third-party access; gas transportation services; and pipeline operations
- Applicable on: All transmission and distribution systems, present and future
- Subjects covered: Largely contractual arrangements and a few principles
- Suspended: April 2015

TPA Rules 2012: Salient Features – 2



TPA Rules 2012: Salient Features – 3

Transportation tariff will be approved by OGRA (*rule 15*)



Shipper's nominations shall be made on weekly basis (*rule 14*)



Gas intakes and offtakes shall be balanced on daily basis and settled on monthly basis (*rule 16*)



Gas imbalance compensation shall be in kind (*rule 16*)



Transporter shall deliver gas to shipper net of LP, SUG and TL (*rule 17*)



No load management for shippers (*rule 22*)



Performance guarantee by shipper to OGRA for USD 5 million (*para 5, Sch.II*)

TPA Rules 2012: Suspension

Disclosure: Contracted/available capacity will be published by transporters

Oversight: Available capacity will be approved by OGRA

Process Flow: Strict timelines for negotiating access arrangements

Principle: Capacity will be allocated on first-come-first-served basis

Scrutiny: Access arrangements will be approved by OGRA

Transfer: Sale and assignment of capacity restricted for 3 years

Standardization: Publication of standard terms for gas transportation

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TPA Rules 2012: Issues

High-end TPA
principles not
sufficiently covered

More of a contractual
or transactional
document

Geared more towards
LNG supply
arrangements

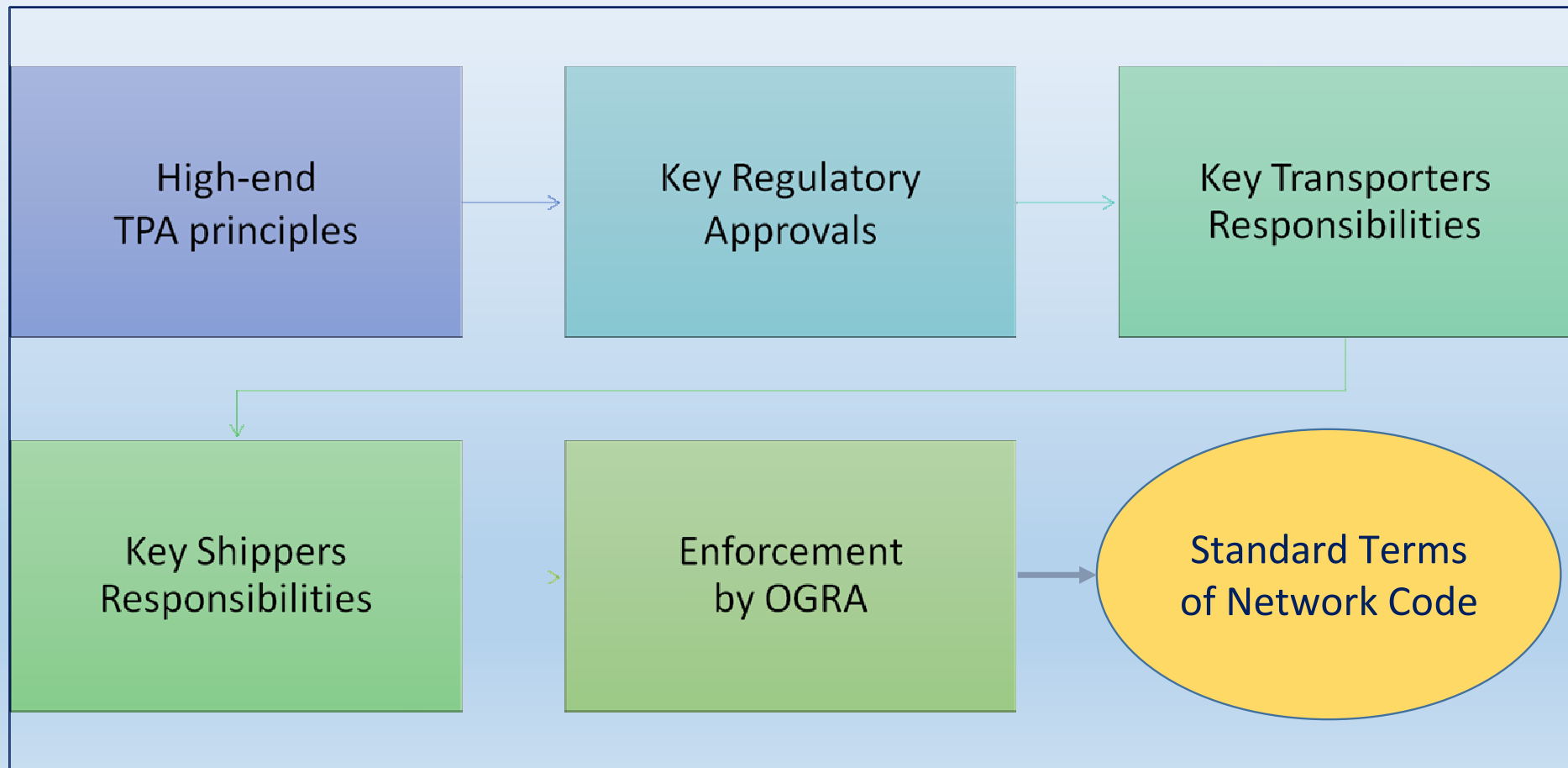
Impracticalities in
timelines

Balancing and
Nominations do not
follow best practice

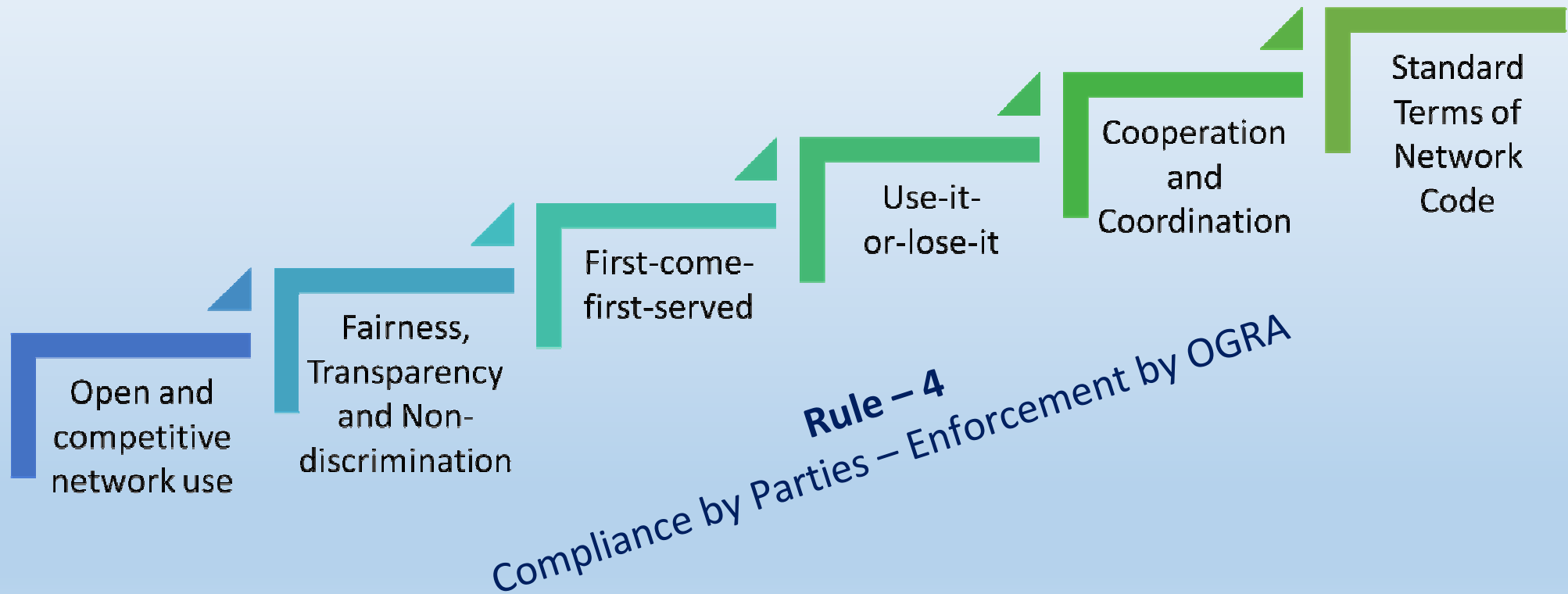
Multiple-tiers of
approvals required

Difficult to frequently
change TPA Rules to
respond to Market
needs

TPA Rules – Draft 2017



TPA Rules 2017: High-end principles



TPA Rules 2017: OGRA's role



License transporters: No gas transportation without license from OGRA (*rule-3*)

Capacity transparency: Approve capacity allocation methodology of transporters (*rule-4*)

Gas quality specifications: Issue standard range of gas specifications (*rule-6*)

Network code: Approve uniform set of terms for use of pipeline network (*rule-11*)

Access arrangements: Approve access arrangements (*rule-3*)

Address complaints: to resolve disputes against parties to access arrangements (*rule-15*)

TPA Rules 2017: transporter's role – 1

Capacity determination

Use OGRA-approved allocation methodology (*rule-4*)

Disclosures

Publish capacity on website and report to OGRA by 20th of each month (*rule-4*)

Facilitation

Offer available capacity to shippers (*rule-4*)

Capacity Allocation

First-come-first-served basis (*rule-4*)

Transparency

Report each allocation on monthly basis (within 7 days in NWC) (*rule-4*)

Fairness

Account for energy equivalence volume at exit point (*rule-8*)

TPA Rules 2017: transporter's role – 2

No Anti-competition

Remove obstacles to competition in transport services (*rule-4*)

No load management

None transmission; if unavoidable, compensate the shippers (*rule-10*)

No Hoarding

Apply use-it-or-lose-it principle if less than 70% use in 2 years (1 year in NWC) (*rule-4*)

Balancing

Daily on transmission; Fortnightly to weekly to shorter on distribution (gradual) (*rule-8*)

Cooperation

All transporters to facilitate access (*rule-4*)

Curtailement

Only where unavoidable (*rule-10*)

Financial Neutrality

No undue gain from balancing role (*rule-8*)

System Expansion

Where it is economical or let shipper pay for it (*rule-4*)

TPA Rules 2017: shipper's role – 1

Forecast Capacity Use

Notify gas deliveries at entry points
and off-takes at exit points
(rule-5)

Notify nominations on timely and
accurate basis
(rule-5)

Notify future capacity needs to
transporter

Due System Balancing

Balance deliveries and off-takes daily
at entry points and exit points
(rule-8)

Balance within agreed tolerance
limits or face penalties
(rule-8)

Cure imbalances it has caused on
transportation system
(rule-8)

TPA Rules 2017: shipper's role – 2

Gas Delivery & Charges

Gas delivery according to prescribed specifications (*rule-6*)

Pay tariff and penalties
(*rules-8 & 13*)

Be liable for line pack, system use gas and transportation loss
(*rule-12*)

Use Capacity Efficiently

No assignment or transfer of capacity without OGRA approval
(*rule-13*)

Unutilized capacity can be assigned for 6 months per year (*rule-13*)

If utilization is below 70% in 2 years (1 year in NWC), unutilized capacity will be cancelled (*rule-14*)

TPA Rules 2017: Network Code

- Uniform contractual terms
- Based upon old GTA
- Non-discriminatory, open and transparent
- Balances rights of transporters and shippers
- Terms include:

Capacity

Balancing and Shrinkage

Entry and Exit Points

Nominations and Re-nominations

Title, Risk and Delivery of Gas

Gas Specifications

Measurement and Testing

Emergencies

Operations and Maintenance

System Planning

Customer Point Admin.

Gas Theft

Tariff, Billing and Payment

Credit and Security

Modification Process

Dispute Resolution

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