

TERMS OF REFERENCE/SCOPE OF WORK

(I) BRIEF HISTORY

- i) Oil and Gas Regulatory Authority (OGRA) was established in 2002 by the Federal Government to foster competition, increase private investment and ownership in the midstream and down stream petroleum industry , protecting the public interest while respecting the individual rights and provide effective and efficient regulations and for matters connected therewith.
- ii) Presently, OGRA determines the revenue requirement of the gas utilities in accordance with the loan covenants between gas utilities and World Bank/Asian Development Bank. Under this regime, prescribed price which is retained by gas utilities is an aggregate of (i) well head gas price (ii) Transmission & Distribution cost and (iii) Profit margin (presently 17 or 17.5 % return on assets before financial charges and taxes). Financial charges, taxes and non operating expenses are being picked by the T&D companies while non operating incomes does not form part of tariff computation. The operating and investment costs are simply netted out from revenues, to determine ROA (Return on Assets).
- iii) In 2005, OGRA had engaged the services of M/s ECA consulting, UK for review of existing tariff regime and propose new one keeping in view the local operating conditions and international practices. The proposed tariff regime designed by M/s ECA operates on market based rate of return wherein Kibor for one year average plus 8% rate of return was suggested in Year 2005 to be earned by the gas utilities on their regulated fixed assets. This rate of return was equal to required rate of return for gas utilities computed through CAPM model.
- iv) The proposed tariff regime could not be implemented; resultantly the tariff regime based on guaranteed rate of return is still applicable. Since FY 2005-10, numbers of developments have taken place in market financial dynamics and financial health of companies, therefore fresh proposal for the determination of reasonable rate of return for gas utilities is required.

(II) OBJECTIVES

- i) To assist OGRA for determining and fixing rate of return to be earned by gas utilities on their fixed assets.

(III) TASKS

- i) To carry out review of prescribed rate of return of Kibor+8% and, in view of time lag and change in operating conditions including high interest rate, suggest reasonable rate of return for gas utilities, applicable for longer period of time. The suggested rate of return should cater for geographic and operating environment and must be responsive to the balancing of interest of different stakeholders. The assumptions of proposed rate of return should also be elaborated in detail.
- ii) To advise the treatment of various operating/non operating items of the income and expenditure.

- iii) To assess the financial health of SNGPL and SSGCL, including their future system modernization and expansion requirements in order to suggest appropriate rate of return.
- iv) To carry out comparison of prescribed prices under the newly developed tariff regime viz a viz existing tariff regime.

(IV) DELIVERABLES:

- i) Present course of action and methodology for determining the rate of return before the commencement of the study.
- ii) Submit draft report to the Authority on the 23<sup>rd</sup> day of the commencement of the assignment, suggesting rate of return along with detailed elaboration.
- iii) Send final report along with detailed assumptions to the Authority by 30<sup>th</sup> day.
- iv) Consultant(s) will be obligated to assist the Authority in presenting their recommendations to various forums.

(V) QUALIFICATION OF THE CONSULTANT:

- i) Consultant(s) shall have minimum 10 years experience in financial / capital market advisory services with special focus on profitability of the natural gas utilities in Pakistan.

(VI) TERM/DURATION OF ASSIGNMENT:

- i) The study shall be completed within **30 days** of commencement of the same.

(VII) PROPRIETY RIGHTS

- i) All documents prepared by the consultant(s) shall become and remain the sole property of the Authority. Consultant(s) shall not, during the term of the contract or after expiration, disclose any propriety or confidential information relating to the services, or the Authority's business or operations.

(VIII) LOCATION:

- i) All relevant correspondence and meetings will be convened in the office of Oil and Gas Regulatory Authority, currently located at Plot No. 54-B, Fazl-e-Haq Road, Blue Area, Islamabad, Pakistan.

(IX) COUNTER PARTS:

Syed Jawad Naseem, Senior Executive Director (Finance), OGRA will be the counter part who will provide day-to-day coordination for the project.

## TECHNICAL EVALUATION CRITERIA

<b>A</b>	<b>Clause</b>	<b>Description</b>	<b>Points</b>
1	<b>Work Protocol</b>	A Comprehensive approach and methodology that will be adopted to determine “Rate of Return” in line with international practices while accounting for local operating conditions.	20
2	<b>Manpower</b>	CV’s of the Key Personnel, giving Name, background, qualification, employment records and detailed professional experience of each expert relevant to financial/capital market evaluation.	30
3	<b>Relevant Experience</b>	Total Work experience and competency of the Consultant(s) (including experience of experts engaged) in tariff evaluation, financial analysis or capital market advisory services.	25
		Total overall work experience of the Consultant(s) in energy sector.	25
		<b>Total</b>	<b>100</b>

**NOTE: Minimum requirements for pre-qualification shall be 60 points.**