OIL AND GAS REGULATORY AUTHORITY

Request for

EXPRESSION OF INTEREST

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

1. Oil & Gas Regulatory Authority (OGRA) intends to conduct audit of IFEM for FY 2010-11 and first half of FY 2011-12. Audit Firm(s) shall complete the assignment within 90-days of the award of audit.
2. OGRA invites reputable audit firms registered with ICAP having minimum of **five years** experience of specialized audits in energy sector prefrebaly with prior experience of Inland Freight Equalization Margin (IFEM) audit .
3. Interested audit firm must provide detailed CV(s) of member (s) of core team highlighting relevant experince.
4. Audit firms may have option to associate to complement their respective areas of expertise, strengthening the technical reponsiveness of their proposals and make available bigger pool of experts.
5. The bidders should submit a single package containing two separate sealed envelopes in accordance with Rule 36 (b) of PPRA Rules 2004. One envelope should contain the Technical Proposals and the other envelope should contain the Financial Proposal. The envelopes should be marked as "TECHNICAL PROPOSAL" and "FINANCIAL PROPOSAL".
6. The Technical Proposals will be opened in the first instance for evaluation on May 25, 2012 at 11.00 am, in the presence of the bidders, or their authorized representatives, who may like to present Bids to the undersigned. The financial proposals of the bidders whose technical proposals are accepted will be opened in the presence of the bidder on a date and time to be communicated to them in advance.
7. OGRA reserves the right in its sole discretion to accept or reject any and / or all the bids without justifying any reason thereof before accepting any bid.
8.Scope of work/TOR and evaluation criteria can be obtained from the OGRA website www.ogra.org.pk and PPRA website www.ppra.org.pk.
9. Existing IFEM auditors are not eligible to apply.

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IFEM AUDIT 2010-11 & FIRST HALF OF FY 2011-12

SCOPE OF WORK

IFEM Audit of Oil Marketing Companies (OMCs)

The audit with respect to OMCs will cover Pakistan State Oil Company Limited, Shell Pakistan Limited, Chevron Pakistan Limited – Pakistan Branch, Total Parco Pakistan Limited, Pak Arab Refinery Limited (Pearl Parco), Attock Petroleum Limited, Admore Gas (Private) Limited, Askar Oil Services (Private) Limited, Hascol Petroleum Limited, Overseas Oil Trading Company (Private) Limited, Byco Petroleum Pakistan Limited and Bakri Trading Company Pakistan (Private) Limited.

The scope of this audit will cover one year starting from July 2010 to June 2011 and July 2011 to December 2011.

Reports prepared by the auditor for the purposes of this audit will be for the entire financial year i.e. July 2010 – June 2011 and July 2011 to December 2011.

The scope for the audit of the statements of surplus/deficit in the freight pool for the above said period would be as follows:

- To ensure that the surplus/deficit in the freight pool is determined on the net volume of equalized products purchased during the period from various supply sources. This treatment should be in line with the mechanism followed by the OMCs for inter-company settlement of differential between the notified IFEM and respective noted costs which is also based on the net volume purchased by the OMCs.

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

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

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

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

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

i. Ex-ARL exports

PRODUCT	COST
MOGAS	Sihala to Mahmoodkot road freight cost.
HSD	Kemari to Machike pipeline freight and Machike to Sihala road freight.

ii. Ex-PARCO exports

PRODUCT	COST
MOGAS	Kemari to Mehmoodkot road freight cost + PARCO PDC
HSD	Kemari to Mehmoodkot pipeline freight + PARCO PDC

iii. Ex-Kemari exports

PRODUCT	COST
MOGAS	None.
HSD	None.

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

A brief description of the statements to be prepared by the OMCs for the purpose of the audit is given below:

a) OMCs' Cost Data

Each OMC will prepare and provide the following:

- A statement of surplus/deficit in the freight pool duly signed by the authorized representatives of each OMC showing product-wise IFEM recoveries, transportation costs incurred (as defined in Clause 1.12, 1.13 and 1.14 of the FPSM Operating Manual) and the surplus/deficit generated in their freight pool pertaining to primary transportation costs during the year under review. Further in this respect, OMCs will also provide the following:

    - Source and destination wise data for quantities moved (from installations and depots) and cost incurred thereon for each product along with the mode of transportation used; and

    - Quantitative statement of product wise exports made from specific sources.

- In respect of the statement of surplus/deficit in the freight pool relating to primary transportation costs, the auditors will perform the following procedures on a test basis (note 1):

  - Checking that the net volume of equalized products purchased by the Company during the period with the quantities reported in the monthly inter company freight settlement reports and matching the quantities mentioned in these reports with the invoices of refineries.

  - Re-computing the primary transportation costs on volume purchased by applying the average transportation cost per litre of product moved during the period on the net volume purchased. The average transportation cost per litre is calculated with reference to quantities moved during the period. These are determined through calculation based on percentage of net purchases to total quantity of product transferred to an installation (including net purchases), where any, and total product quantity moved out. In the absence of any transfers from other installations, the quantity moved out is taken as the actual quantity moved out from the installation. The adequacy of the average transportation cost rate will be checked by checking the quantities moved with the available product movement records and the product transfer documents duly acknowledged by the recipients and the cartage contractors. The costs of the product moved by road will be checked with the payments of cartage bills raised by the cartage contractors based on the approved transfer documents and applying the Oil and Gas Regulatory Authority (OGRA) notified road transportation rates. The destination mentioned on each transfer document will be taken as the place at which the products covered by this advice were delivered and the distances to these destinations were traced on a test basis with the approved RTDs.

  - Ensuring that export volumes and the related transportation cost is not included in the net volume purchased and the primary transportation cost respectively. In case the product is exported from a non approved location the transportation costs related to such exports will be deducted from the transportation costs charged to the freight pool on the basis of the average transportation costs from all the modes incurred on the product.

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

  - Checking the supply envelope integrity i.e. checking that the product has been moved to a destination from an approved source. In case product has been moved from an incorrect source to a destination, without approval from OGRA, the differential cost of this movement will be borne by the respective OMC and will not be charged to the freight pool. The approved source destination combination movement (product-wise) within the country is given in Table 1. In the event of exceptions identified in the sample size the auditors will increase the sample size to arrive at the best estimate of the total error in the population based on an extrapolation of the sample results.

  - Checking that correct mode of transportation has been used in moving the product from source to destination. In case an expensive mode of transportation has been used, without approval from OGRA, the differential cost will be borne by the respective OMC and will not be charged to the freight pool e.g. if a movement has been made from Kemari to Shikarpur via road, the respective OMC will be entitled to claim pipeline freight from the freight pool and the differential of road and pipeline freight will be borne by the OMC. In the event of exceptions identified in the sample size, the auditors will increase the sample size to arrive at the best estimate of the total error in the population based on an extrapolation of the sample results.

- The Auditor shall also use the “Actual Transportation Cost Certificate” being submitted by OMCs for checking the supply source integrity.

Note 1:

For the purpose of testing the supply envelope integrity and mode of transportation used, testing will be performed based on samples determined, however doubled, in respect of the following depots:

- Shikarpur
- Quetta
- Chak Pirana
- Taru Jabba
- Machike
- Juglot

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

Product: **High Speed Diesel (HSD)**
Mode: **Road, Rail and Pipeline**

Destination	Source	Mode
CTL	SIH	Road
JGT	SIH	Road
TJB	SIH via Road, MHK via Road or Rail	Road/Road/Rail
SIH	ARL via Road, MCH via Road	Pipeline/Road
CPI	SIH via Road, MHK via Rail, MCH via Road	Road/Rail/Road
MCH	MHK via Pipeline	Pipeline
FBD	MHK via Pipeline	Pipeline
MHK	MCR, Pipeline or from KMR via WOP	Pipeline
VHR	MHK	Road
SKP	KMR via WOP	Pipeline
QTA	SKP	Road
KMR	Kemari local supplies from Pipeline and Byco via Road	Pipeline/Road

Product: **Motor Gasoline (MOGAS)**
Mode: **Road**

Destination	Source	Mode
CTL	SIH	Road
JGT	SIH	Road
TJB	SIH	Road
SIH	SIH	Road
CPI	SIH	Road
MCH	SIH or MHK	Road
FBD	MHK	Road
MHK	MHK	Road
VHR	MHK	Road
SKP	MHK	Road
QTA	MHK	Road
KMR	KMR	Road

Product: **High Octane Blending Component (HOBC)**
Mode: **Road**

Destination	Source	Mode
CTL	-	-
JGT	-	-
TJB	-	-
SIH	MHK	Road

CPI	-	-
MCH	MHK	Road
FBD	MHK	Road
MHK	-	-
VHR	MHK	-
SKP	-	-
QTA	-	-
KMR	MHK	Road

Product: Super Kerosene Oil (SKO)
Mode: Road and Pipeline

Destination	Source	Mode
CTL	SIH	Road
JGT	SIH	Road
TJB	SIH or MCH via Road	Road
SIH	SIH or MCH via Road	Road
CPI	SIH	Road
MCH	MHK via Pipeline	Pipeline
FBD	MHK	Road
MHK	MHK	Road
VHR	MHK	Road
SKP	KMR	Road
QTA	KMR	Road
KMR	KMR	Road

Product: Light Diesel Oil (LDO)
Mode: Road (as per product availability)

Destination	Source	Mode
CTL	SIH, MHK, KMR	Road
JGT	SIH, MHK, KMR	Road
TJB	SIH, MHK, KMR	Road
SIH	SIH, MHK, KMR	Road
CPI	SIH, MHK, KMR	Road
MCH	SIH, MHK, KMR	Road
FBD	MHK, SIH, KMR	Road
MHK	MHK, KMR	Road
VHR	MHK, KMR	Road
SKP	MHK, KMR	Road
QTA	MHK, KMR	Road
KMR	MHK, KMR	Road

b) Refinery Freight (IFEM)

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

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

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

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

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

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

c) IFEM recoveries

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

i) OMCs IFEM
ii) Refinery IFEM

d) Computation of Surplus/Deficit

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

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

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

<u>IFEM Audit of Refineries</u>

IFEM for all refineries is nil except for Pak Arab Refinery Limited (PARCO) and Attock Refinery Limited (ARL). The auditors will be required to carry out verification for these two refineries only. The scope of work of the two refineries is outlined below:

1) PARCO

The refinery will prepare the statement of surplus/deficit in the price differential in accordance with the approved mechanism specified in the Ministry of Petroleum and Natural Resources letter No. PL-3(471)/2001 dated June 29, 2001 and letter No. PL-3(434)/2011 dated May 31,2011. The refinery freight for PARCO is based on the price differential claim of regulated products i.e. MS, HOBC, SKO, LDO, HSD, PARCO's PDC is calculated as the difference between its entitled price (Import Price Parity as defined in the Implementation Agreement (IA) signed with the Government of Pakistan) and the ex-refinery price announced periodically by the Oil and Gas Regulatory Authority (OGRA) for the identical period, on sales of regulated products (defined in clause 1.13 of FPSM).

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

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

- Matching the volume mentioned in the inter company freight settlement report with the volume shown on the invoices of the refinery.

- Checking the computation of the IFEM on the volume sold by applying the notified rates to these volumes.

- Checking the computation of the entitled price based on the formula mentioned in Annexure VIII of the Petroleum Policy 1994 and as provided in the IA between the Government of Pakistan and Emirate of Abu Dhabi using the interpretation of certain parameters mentioned in Annexure VIII.

2) ARL

The refinery will prepare the statement of surplus/deficit in the freight pool in accordance with the approved mechanism provided in the Ministry of Petroleum and Natural Resources letter No. PL-3(471)/2001 dated June 29, 2001. ARL is entitled to claim transportation expenses incurred on conveyance of crude petroleum from the southern region to its refinery, for processing of regulated products (as defined in clause 1.13 of FPSM). The surplus/deficit is calculated as the difference between recoverable IFEM and actual transportation cost.

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

- Checking the volume of equalized products sold by the refinery during the year with the product uplift reports prepared by the refinery and also match the quantities mentioned in these reports with the invoices raised by the refinery.

- Matching the volume mentioned in the uplift reports with the volume shown on the invoices of the refinery.

- Checking the computation of the IFEM on the net volume sold by applying notified rates to these volumes.

- In respect of the crude moved by road, check the quantities moved from the suppliers' invoices and delivery advices duly acknowledged by the recipients and the cartage contractors. The costs of crude moved by road will be checked with the payments of the cartage bills raised by the cartage contractors based on the approved delivery advices and applying the agreed road freight rates and after accounting for the deductions admissible under the agreements with the contractors.

- In respect of movement by pipeline, check the quantities moved with the delivery advices duly acknowledged by the recipients. The costs of the crude moved by the pipeline will be checked with the bills of pipeline operator for pipeline freight which included the charges for the minimum quantity billed under the take or pay clause of their agreement with the pipeline operator.

- The recovery of freight cost from the suppliers in accordance with the Ministry of Petroleum and Natural Resources letter No. DGO-D.S (16)/98 dated February 22, 2000 will be checked with the payments received based on the notified rates of transportation.

- The closing inventory of crude oil and finished products will be checked with the inventory records of the refinery. The cost attributable to the closing inventory of finished products will be recomputed by applying the average freight cost per litre of crude purchased during the year to the estimated volume of crude oil required to produce this inventory based on the average yield ratio.

- Ensuring that the cost of unregulated products is excluded from the total transportation cost calculated on the basis of average yield ratios as per directives of

Ministry of Petroleum and Natural Resources, contained in their letters No.PL-3(471)/2001 dated March 20, 2002 and No.PL-3(457)/2007 dated July 20, 2007.

- The average yield ratio of crude oil to the regulated products will be recomputed based on the refinery provided data of volume consumed of crude oil and the volume of the regulated products produced therefrom during the year ended.

Deliverables

The auditors shall be required to submit the following:

1) A report to OGRA on the surplus/deficit in the freight pool for the period July 1, 2010 to June 30, 2011 and July 2011 to December 2011 as reflected in the statement of surplus/deficit in the freight pool prepared by each OMC.

2) A report to OGRA on the surplus/deficit in the refinery IFEM for the period July 1, 2010 to June 30, 2011 and July 2011 to December 2011 as reflected in the statement of surplus/deficit in the refinery IFEM prepared by each OMC.

3) A report to OGRA on surplus/deficit in the price differential for the period July 1, 2010 to June 30, 2011 and July 2011 to December 2011 as reflected in the statement of surplus/deficit in the price differential prepared by the refinery.

4) A report to OGRA on the surplus/deficit generated in their freight pool pertaining to crude transportation costs for the period July 1, 2010 to June 30, 2011 and July 2011 to December 2011 as reflected in their statement of surplus/deficit in the freight pool prepared by the refinery.

5) A consolidated statement of surplus/deficit in the freight pool to OGRA for transportation costs, recoveries under the FPSM scheme and the net surplus or deficit in the freight pool for the period July 1, 2010 to June 30, 2011 and July 2011 to December 2011.

6) A consolidated statement of surplus/deficit in the refinery IFEM to OGRA outlining refinery costs, recoveries under the FPSM scheme and the net surplus or deficit in the refinery IFEM for the period July 1, 2010 to June 30, 2011 and July 2011 to December 2011.

7) A report to OGRA highlighting OMC wise movements that violate supply source integrity and approved mode of transportation by comparing Actual Transportation Certificates with approved product movement plans and the impact of such movements on freight pool.

8) A report to OGRA detailing exports made by OMCs and the associated transportation cost recovered from the export customer.

Duration of audit

The auditors will furnish the draft reports along with the draft statements within 90 working days from the commencement of audit of each OMC/refinery. The audit for each OMC/refinery will commence once information referred in paragraphs above required by the auditors has been prepared by the OMCs/refineries and has been furnished by the respective OMCs/refineries for the purpose of audit.

<u>SELECTION OF AUDIT FIRM (S) FOR CONDUCTING AUDIT OF INLAND FREIGHT EQUALIZATIO MARGIN (IFEM)</u>

TECHNICAL EVALUATION CRITERIA

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

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