

Case No. OGRA-6(1)-SSGC-SAE/NG/2022

License No. NG 38/2024

IN THE MATTER OF

SSGC ALTERNATE ENERGY (PVT) LIMITED
REQUEST TO UNDERTAKE REGULATED ACTIVITY RELATED TO
SALE OF NATURAL GAS / RLNG
UNDER

OIL AND GAS REGULATORY AUTHORITY ORDINANCE, 2002,
NATURAL GAS REGULATORY AUTHORITY (LICENCING)
RULES, 2002

DECISION

JANUARY 23, 2024

Mr. Masroor Khan, Chairman

Mr. Zain Ul Abideen, Member (Oil)

Mr. Mohammad Naeem Ghouri, Member (Finance)



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AUTHORITY'S DECISION

1. BRIEF FACTS:

M/s SSGC Alternate Energy (Pvt.) Limited, (SSGC-AE) Karachi (the applicant) applied under OGRA Natural Gas (Licensing) Rules, 2002 on 09-06-2023 for grant of license to undertake regulated activity of Sale of Natural Gas/RLNG. The applicant submitted that their scope of activities is to procure indigenous Natural Gas from the Unallocated Gas Fields and its sale to the customers at CMSs in accordance with the Terms and Conditions of the Gas Sale Agreement between the applicant and its prospective customers. Natural Gas molecules so procured will be transported to the customers under the regime of Pakistan Gas Network Code for use of Gas Pipeline Transportation System, 2018 read in conjunction with OGRA Gas (Third Party Access) Rules, 2018, through the Transmission and /or Distribution Networks already laid by the two natural gas utility companies i.e. SSGCL and SNGPL.

2. ADMISSION OF THE APPLICATION:

After a thorough deliberation by concerned Depts. of OGRA, the application was presented before the Authority for consideration of the same which was admitted by the Authority under Rule 5 of Natural Gas (Licensing) Rules, 2002 on 11-10-2023. Further, the Authority solicited comments / interventions and suggestions from all the stakeholders, interveners, interested / affected persons/parties through Public Hearing Notice published in the leading newspapers on 13-10-2023. In response thereto, the Authority received no intervention requests in the instant case.

In order to proceed further in the matter, the Authority decided to hold a Public Hearing which was conducted on 31-10-2023 at Marriot Hotel Karachi, accordingly.

3. PUBLIC HEARING PROCEEDINGS:

Participants of Public Hearing at Karachi on 31-10-2023

a) Representatives of the applicant (SSGC-AE)

- i) Mr. Imran Maniar MD SSGCL (On Zoom from USA)
- ii) Mr. Amin Rajpoot, Acting MD, SSGCL & Director SSGC-AE
- iii) Syed Muhammad Saeed Rizvi, CEO SSGC-AE
- iv) Syed Mohammad Jeelani, Consultant
- v) Mr. Khalid Saleem, Consultant Legal
- vi) Mr. Sulman A Siddiqui, DGM-I Corporate Communications
- vii) Mr. Asad Mustafa, GM (RA), SSGCL
- viii) Mr. Fazal Mehmood Malik, Company Secretary
- ix) Mr. Mateen Sadiq, Co Secretary, SSGCL
- x) Mr. Muhammad Ali Shah DCE- R & D
- xi) Mr Taqveem Tahir, LTM
- xii) Mr Farhan Munsaf, DM (CCD), SSGCL



b) **Representative of the General Public/Intervenor (Physical/Zoom Application)**

- i) Mr. Zubair Motiwala, Former Chairman, KCCI
- ii) Mr. Ghiyas Abdullah Paracha, CEO UGDCL
- iii) Mr. M Jawed Bilwani, Patron In Chief PHMA
- iv) Mr. Tanveer Barry, Vice President, KCCI
- v) Mr. Muhammad Arif Bilwani, Consumer
- vi) Mr. Nizar Ahmed, Industrial Consumer

c) **PRESENTATION BY THE APPLICANT (SSGC-AE):**

Initially, the Senior Registrar OGRA presented a brief of the instant project and sought permission of the Authority to invite the applicant to give their presentation. Firstly, Mr. Amin Rajpoot, Director-AE and Mr. Imran Maniar, MD SSGCL paid their words of thanks to the Authority for extending them an opportunity of hearing to present their case and presented a holistic brief of the instant project. After opening remarks by Director-AE & MD SSGCL, Syed Muhammad Saeed Rizvi, CEO SSGC-AE gave detailed presentation and their business model as under:

• **INTRODUCTION:**

SSGC Alternate Energy (Private) Limited ("SSGC-AE") is incorporated under the Section 16 of the Companies Act, 2017, as a wholly owned subsidiary of Sui Southern Gas Company Limited ("SSGCL") which is a leading integrated gas utility company in Pakistan. SSGC-AE enjoys rich and unparalleled heritage of technical as well as operational expertise of its parent company i.e. SSGCL.


• **CURRENT SCENARIO:**

- a) Indigenous gas reserves in the country continue to decline at an alarming rate thus creating an ever-growing gap between supply and demand.
- b) A number of gas fields remain unutilized due to economic reasons.
- c) Hyper-volatility in energy markets post COVID-19, continuing Eurasian Conflict and the Middle East crisis, have necessitated to consider import substitution to avoid any mid-term or long-term energy crisis.
- d) Restrictions relating to the expenditure of foreign exchange reserves hamper the country's ability to rely on imported fuels.
- e) Utilization of dormant indigenous Natural Gas fields and other alternate sources such as Biogas & Bio-methane are of paramount importance.

• **OBJECTIVES OF SSGC-AE:**

- a) The core areas of the applicant's business model include sale and purchase of natural gas at negotiated price from such fields of the E&P companies that are dormant / un-utilized due to economic scenario or where the applicable policy of Federal Government permits sales to 3rd parties.
- b) Promote the production of Bio-Gas and Bio-methane in the local market leading to Purchase & Sales of the same for industrial consumption.

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- c) Production, Transportation and Sales of Nitrogen.
- d) Production, Transportation and Sales of Hydrogen.
- e) Power generation from renewable sources such as Solar, Wind and Tidal.
- f) Generation and sales of electricity through utilization of industrial waste heat.
- g) Purchase, Transport and Sales of synthetic gas through the deployment of coal-to-gas (C2G) process plants.
- h) Transportation and sales of treated Industrial waste water to prospective Industrial consumers.

- **STRENGTHS OF SSGC-AE:**

- a) Flexibility of engaging in business on B2B and B2C commercial terms which are not possible under the prevailing regulatory regime.
- b) As a subsidiary of SSGCL, SSGC-AE has ready access to the legacy of excellence and the collective strength of a diversified business.
- c) By engaging into diversified business portfolios, SSGC-AE will be able to financially support its parent company in turn supporting the shareholders of SSGC (GoP, being the largest).
- d) Lean and agile organizational structure enabling quick and efficient decision making, which is resulting in rapid response to market dynamics.
- e) Synergizing the strengths and expertise of various energy related businesses possessed by the SUI Companies.

- **BENEFITS OF GRANTING A LICENSE TO SSGC-AE:**

- a) Catalyzing investment in the Petroleum industry through proactive approach.
- b) Implementing innovative business models.
- c) Support the government's goal of diversifying Pakistan's energy mix and reducing its reliance on imported expensive fuels (oil & gas).
- d) Enable savings in Foreign Exchange Expenditure thus improving country's Energy security.
- e) Increased tax revenue for the Government of Pakistan.
- f) SSGC-AE can be a valuable partner for the Government in its efforts to achieve financial sustainability and economic growth.

- **PRAYER:**

At the end the presentation, the CEO, SSGC-AE prayed to the Hon'ble Authority to grant them the requisite License in the best interest of public at large, in order to mitigate the energy crises in Pakistan.



4. **QUESTIONS BY THE HON'BLE AUTHORITY MEMBERS:**

Member (Oil)

Hon'ble Member (Oil) stated that the Authority highly appreciates the efforts undertaken by any party who brings molecules in any form to mitigate energy crises and strengthen energy security in Pakistan. Further, SSGC-AE team may reply that if they have already a valid License for Sale of Natural Gas, then what was the need to establish a subsidiary company for the same activity? Whether it will be the pipeline gas or bowzers will be used for transportation?

Hon'ble Chairman

Hon'ble Chairman stated that as SSGC-AE team, while giving presentation, stated that the valid License holding by SSGCL is economically not viable in the current framework, therefore SSGCL is unable to proceed further without establishment of a new entity, please elaborate?

Reply of CEO, SSGC-AE

While responding to the both queries of Hon'ble Authority, CEO SSGC-AE stated that since the natural resources in our country are rapidly depleting, therefore it is the dire need of the day to utilize maximum available resources. In this regard, since last 15 to 20 years there is a huge volume at approximately 200 to 250 mmcf/d gas which cannot be injected in the pipelines due to existing regulatory framework, therefore SSGCL management thoroughly examined the current scenario and decided to make the unutilized gas commercially viable which is being flared from the different dormant / unallocated gas fields and will be sold through pipelines to the prospective consumers.

He further elaborated that in the existing prescribed pricing framework, it is economically not viable for them to perform such activity, therefore a new subsidiary company has been established under SECP applicable laws/rules. He further clarified that it will be pipeline gas and will not be transported through bowzers.

Hon'ble Member (Finance)

Hon'ble Member (Finance) stated that the basis which are adopted in the instant business model are that the fields from where the gas is to be acquired, are either depleted fields or their reserves are not economically viable where the processing facility can be deployed and gas can be brought in pipeline system, question is that all the fields of E&P companies come under any PCA and PCA comes under the framework of any Government Policy. As far as low reserves fields are concerned, Govt. has also announced marginal fields pricing policy, then how SSGC-AE evaluated that they will negotiate on third party price deviating from the terms and conditions of PCA framework? Further, Govt. of Pakistan has the first right to acquire that gas and whether Govt. of Pakistan is willing to forego that right?

Reply of CEO, SSGC-AE

CEO SSGC-AE responded that the fields from where the gas has to be acquired could not be completely explored yet and the impurities are as much in quantity that if you try to purify them as per OGRA's specifications, then 6\$/MMBTU prescribed price

cannot be achieved. Secondly, they have thoroughly discussed the instant issue in view of different Govt. policies with their legal advisors and have reached at the conclusion that their business model is applicable/practicable. Furthermore, as the Authority is seeking clarification from the Govt. with respect to applicable tariff, they are also actively pursuing the matter with concerned quarters in the Federal Govt., accordingly.

In response to CEO, SSGC-AE Member Finance directed that first of all, the licensee shall ensure that any gas already allocated by GoP to SSGC, under the applicable Petroleum Policy/Rules shall not be diverted to SSGC-AE for sale of such gas under this license, and secondly the licensee shall arrange the required investment in case of development/construction of pipelines by the transporter(s) to connect the existing pipeline network to the potential gas fields and ensure that the investments, capitalization and other expenditures incurred by the Licensee do not become part of SSGC revenue requirement.

SED (Gas)

SED (Gas) OGRA asked the question that which party will bear the cost of pipelines?

Reply of CEO, SSGC-AE

The CEO responded that SSGC-AE will bear the cost this pipeline, wherever required.

5. ARGUMENTS OF THE PARTICIPANTS:

Mr. Ghayas Abdullah Paracha, CEO UGDCL

The CEO UGDCL with the words of thanks to the Authority, apprised that they had a meeting with SNGPL in 2014 and presented a business model to take LNG from the private sector and to supply the same. SNGPL copied their model and started the same activity itself on seven days billing and they felt proud that a company having more than 12 thousand employees throughout Pakistan has copied/adopted their proposed model. Secondly, they appreciate the activity to be undertaken by the applicant (SSGC-AE) and submitted that in this way the market will be open for the private sector and the gas will come in the market, however he strongly contended that the name of the company SSGC-AE is against the norms of open competition because the general consumer who will have the option to purchase gas from Pakistan's second largest utility company will never prefer any other private company in comparison to SSGCL, therefore the name of the company should be Alternate Energy (Pvt.) Ltd instead of SSGC-AE.

Secondly, if the directors and management of newly established company (SSGC-AE) will be the same as SSGCL to whom the consumer can approach in case of any complaint/dispute.

At the end, he emphasized the need that the monopoly of the SNGPL and SSGCL in Transmission, Distribution and Sale may be curtailed through un-bundling. The Shipper, Transporter and LNG terminal Operator should be the different entities for level playing field.



Reply of MD, SSGCL

While responding to CEO, UGDCL, MD SSGCL stated that being 100% subsidiary, any entity can use the name of its holding Company as there is no bar in law for such practice. Secondly, 23% of the shares of SSGC-AE are open for General Public, so any interested party / person can come forward to purchase its shares with the right to complain their grievances through our two Members of BoDs who are specifically designated for this purpose. Thirdly, Respected Paracha Sb also raised objections regarding the pricing mechanism, in this connection it is quite clear that both these companies are indulge in business volume of approximately 400 billion, so SSGCL is so concerned with respect to its reputation in the market and it is affirmed that there will be no issue in future regarding price mechanism as it will be transparent and positive.

Mr. Zubair Motiwala, Former Chairman, KCCI

The Former Chairman, KCCI commented that as a consumer, this is a historical day for us to get the gas on cheaper rates as model of the SSGC-AE is to bring gas from the different dormant / unallocated fields and to work on different projects of alternate energy resources like production, transportation and sale of Bio-Gas, Bio-methane, Nitrogen and Hydrogen. Power generation from renewable sources such as Solar, Wind and Tidal, Generation & sales of electricity through utilization of industrial waste heat and purchase, transport and sales of synthetic gas through deployment of coal-to-gas (C2G) process plants in future to ensure the energy security in Pakistan.

He further emphasized that to get the gas from different dormant fields and to sale the same to prospective consumers should be open for private sector and not only for the both utility companies for fair play in the open market. He added that all the dormant fields are under the domain of the Provincial Governments, so the question arises what was the reason behind these fields remaining dormant since 15-18 years when the infrastructure was so cheaper than today. Whether the quality of gas or distance from the fields or Royalty of the provinces became hurdle since long? and through this activity whether SSGC would be able to provide cheaper gas to its consumers?

He further stated that being subsidiary of SSGCL, what will be the business model of SSGC-AE in terms of passing the gas from SSGCL's mainstream pipeline? whether SSGCL will pay the shipper cost or SSGC-AE will be liable to pay the same? What type of agreements between these two companies will be executed? What is the form of seed money or who will be financing SSGC-AE?

At the end, he concluded that in view of the above observations, OGRA should form a committee including SSGCL and all the major stakeholders to find way-out for undertaking business activity acceptable / feasible to all the consumers.

Member (Finance)

Hon'ble Member (Finance) OGRA replied that as we all are well aware that the energy reservoirs in our country are depleting rapidly, therefore if any party brings molecules in the market, we should appreciate them. With regard to ownership of Provincial Government, it may be noted that the gas fields ownership lies with the state and the

respective Provinces get the royalties from the Federal Government. Secondly, Motiwala Sb query regarding production of gas, it is clarified that E & P companies will produce the gas and sale the same on the reasonable/competitive rates, economically viable to the company after getting license from OGRA.

Reply of CEO, SSGC-AE

The CEO responded that the pricing mechanism shall be equal for open market / general consumers, therefore level playing field must be provided to the E & P companies. We further assure that the tariff shall be transparent with positive approach expecting from the consumers. Secondly, there are two main issues, first issue relates to the pricing and the other is the availability of material, the consumers should compromise on the price however, if we close this door to bring gas molecules in the market due to price mechanism then how the industries / system will be in running position in future.

Mr. Jawed Bilwani, Patron In Chief PHMA

Patron In Chief PHMA, during his turn stated that Karachi contributes 54% of Pakistani exports, so in this perspective, the initiative undertaken by SSGCL is appreciable. As the other two respectable participants commented today, the process should be transparent and the level playing field should be provided to all the stakeholders, this process should be performance based and not based on politics, in order to get fruitful results in future by the new established entity.

Mr. Muhammad Arif Bilwani, Consumer

While commenting on the current petition, he stated that SSGC-AE is a 100% wholly owned subsidiary of SSGCL. Its seed money has been paid by SSGCL who is the only shareholder of SSGC-AE, therefore they can use the name of SSGC in the market and no other party can use SSGCL's name.

He further submitted that SSGC-AE shown approx. 13 fields from where they will procure the low BTU gas with less quantity as comparison to PPL's single filed i.e. Kandkot field from where a sufficient quantity can be procured / sold instead at making huge investment in low quantity gas producing.

Mr. Nizar Ahmed, Industrial Consumer

While referring to the OGRA's Mission Statement Mr. Nizar Ahmed submitted that the core purpose of the establishment of Oil and Gas Sector Regulator was to Safeguard public interest, foster competition through efficient and effective regulation in the midstream and downstream petroleum sector. Under the umbrella of its Mission Statement, grant of this license to Pakistan's 2nd largest utility company who already has the license for the same activity would not justify for the other competitors.


At the end, he concluded that instead of granting licenses to both the utility companies for their subsidiary companies, OGRA may encourage the private sector to come forward, in order to mitigate the energy crises in the country.

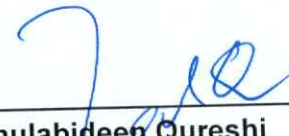


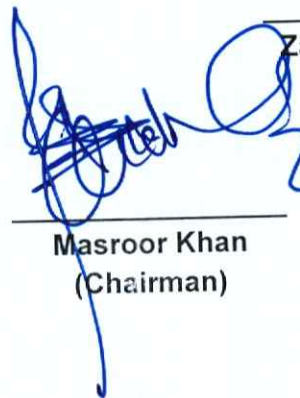
6. **OBSERVATIONS / DECISION OF THE AUTHORITY:**

The Authority, after scrutiny of the application, hearing the arguments of the Applicant and the participants at length as well as on the basis of the available information, has arrived at the conclusion that the Applicant fulfills all the legal requirements as required under NGLR, 2002. Therefore, the Authority, in exercise of its powers conferred under Sections 22(1), 23(1)(d) and 23(6) of the Oil and Gas Regulatory Authority Ordinance, 2002 read with Rule 3(3) of Natural Gas (Licensing) Rules, 2002, hereby decides to issue License Decision subject to the terms and conditions mentioned in the License Document to the applicant in the name and style of **M/s SSGC Alternate Energy (Pvt.) Limited, (SSGC-AE) Karachi [the licensee]** to carry out the regulated activity of Sale of Natural Gas / RLNG to the consumers for a period of Ten [10] years.

January 23, 2024


Mohammad Naeem Ghouri
Member (Finance)


Zainulabideen Qureshi
Member (Oil)


Masroor Khan
(Chairman)