

# Determination of Re-gasified Liquefied Natural Gas (RLNG) Provisional Price

*in respect of Pakistan LNG Limited (PLL)*




UNDER

Petroleum Products (Petroleum Levy) Ordinance, 1961  
And  
Petroleum Products (Petroleum Levy) Rules, 1967

January 3, 2018

By the Authority:

Ms. Uzma Adil Khan, Chairperson  
Mr. Noorul Haque, Member (Finance)  
Dr. Abdullah Malik, Member (Oil)

  
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# TABLE OF CONTENTS

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1. Background.....	1
1.1. Pakistan LNG Limited (PLL).....	1
1.2. Submissions by PLL.....	1
1.3. RLNG Pricing Framework.....	2
2. The Authority's Jurisdiction under the Legal Framework.....	3
3. RLNG Provisional Price Requested by PLL.....	3
4. Discussion & Determination of RLNG Provisional Price.....	4
(i) Delivery Ex Ship (DES) Price.....	4
(ii) Retainage.....	5
(iii) Other Import Related Costs.....	5
(iv) PLL Margin:.....	6
(v) PLTL Terminal Charges.....	6
(vi) PLTL Margin for LSAManagement.....	6
(vii) Cost of Service/Transportation Charges.....	6
(viii) Transmission and Transmission & Distribution (T &D) losses.....	7
5. RLNG Price Determination.....	7

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## 1. Background

### 1.1. Pakistan LNG Limited (PLL)

- 1.1.1 Pakistan LNG Limited (PLL) is a corporate entity and wholly owned subsidiary of Government Holding (Pvt) Limited (GHPL) [a fully owned Government concern working under the auspices of Ministry of Energy]. In order to overcome energy shortfall in the Country, PLL, as per Federal Government (FG) mandate, is engaged in procurement of LNG from the international market and delivering the same to Sui Northern Gas Pipeline Limited (SNGPL) and retail consumers. PLL has obtained a license on October 31, 2017 for sale of natural gas /RLNG from the Oil & Gas Regulatory Authority (OGRA) under Natural Gas Licensing Rules 2002.
- 1.1.2 In November 2017, PLL imported its first Cargo and delivered the same for re-gasification to Pakistan Gas Port Consortium Limited (PGPCL) terminal - Port Qasim Karachi through Pakistan LNG Terminal Limited (PLTL) under Terminal Use and Regasification Agreement (TURA) for onward transmission to SNGPL under the terms of Gas Sales Purchase Agreement (GSPA). The RLNG seller (i.e; PLL) and the Buyer (i.e; SNGPL) both are public sector entities.

### 1.2. Submissions by PLL

- 1.2.1 PLL has referred the decision of ECC of the Cabinet Dated November 6, 2015 vide case No. ECC -146/19/2015 whereby PLL has been mandated in the following manner;
- "..... that a subsidiary company under the name of Pakistan LNG Limited, may be formed under M/s Government Holding (Pvt) Limited (GHPL) which is looking after the working interest of Government in the E&P sector. The company may be mandated to immediately start the process for import of LNG on said basis to overcome shortfall in the gas supply position. The company will make the arrangements for procurement of LNG through open competitive bidding process or Government to Government arrangements under applicable rules including PPRA Rules....."*
- 1.2.2 PLL has also referred Ministry of Energy (Policy wing) letter dated October 6, 2017 which provides that *".....it is clarified that since entire RLNG from second terminal (M/s PLTL) is to be supplied to SNGPL by M/s PLL, therefore OGRA would be required to determine the price of RLNG purchased by SNGPL as per policy guidelines."*
- 1.2.3 PLL vide its letter dated 30th October, 2017 has submitted RLNG provisional price for the month of November and December 2017 along with supporting documents/data and stated that import of LNG is expected to commence soon after the commercial operation of PGPCL regasification terminal. PLL has also recently updated that after first commissioning cargo procured in November 2017, the LNG supply chain technical issues. Accordingly, has been plagued with the supply of RLNG commenced in second half of December 2017. PLL has therefore requested to determine consolidated price for the November and December procurement to charge a uniform price.

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- 1.2.4 M/s PLL has submitted that the policy guideline regarding RLNG pricing which inter-alia lists down the RLNG pricing components and parameters thereof are already in field. Therefore, the RLNG price in respect of PLL may also be determined on the same lines.
- 1.2.5 PLL has submitted that the Cargos being imported currently are to be sold entirely to SNGPL, a public sector entity. Therefore as per policy guidelines of the Federal Government dated July 27, 2015 and June 27, 2016, RLNG price has to be determined by OGRA.
- 1.2.6 PLL has computed the RLNG prices for November and December, 2017 by including its margin @ 2.5% of Delivery Ex-Ship (DES).
- 1.2.7 PLL has requested that the RLNG price be determined on provisional basis since the final prices of LNG/RLNG will only be available after receipt of invoices from all concerned quarters.

### 1.3. RLNG Pricing Framework

1.3.1 Federal Government under Petroleum Product (Petroleum Levy) Ordinance, 1961 and Petroleum Products (Petroleum Levy) Rules, 1967 delegated OGRA to determine RLNG price on monthly basis as in case of other petroleum products. FG has, in case No. ECC-87/11/2015 dated June 6, 2015 & ECC-72/12/2016 dated June 14, 2016, decided the RLNG pricing components and parameters thereof which form RLNG price to be charged from SNGPL consumer on its network. Accordingly, OGRA, in case of LNG procurement by PSO for public utilities, has been determining the RLNG consumer prices since April, 2015. The RLNG pricing components inter-alia provides as under;

- i) *LNG Delivered Ex Ship Price including any take or pay volumes, losses on account of net sale proceeds and relevant adjustments due to exchange rate.*
- ii) *PSO's other imports related actual costs,*
- iii) *PSO's Margin @ 2.5% of LNG DES Price.*
- iv) *Terminal Charges under LNG Service Agreement (LSA),*
- v) *SSGCL margin @ US \$ 0.025 per MMBTU.*
- vi) *SSGCL/SNGPL cost of service (to be determined by OGRA),*
- vii) *Transmission Loss to be determined and charged at actual subject to a maximum of 0.5. Distribution loss to be determined and charged @ average UFG for the last financial year.*

1.3.1 Ministry of Energy (Petroleum Division) vide its letter dated December 29, 2017 referred the above Federal Government decisions and advised OGRA that RLNG pricing in respect of M/s PLL's LNG consignment (s) may be carried out in line with existing policy guidelines already conveyed in respect of "Determination of Sale price of RLNG".

1.3.1 M/s PLL has submitted that as per draft GSPA between PLL & SNGPL, PLL has to provisionally bill SNGPL every for 7 days as per provisional price determined by OGRA. The same shall be finalized after the receipt of actual data. Further, the price so determined by OGRA, as per framework provided by the Federal Government, shall only apply in case of public sector gas utilities. The sale of RLNG to third parties shall be based on their mutually agreed terms.



## 2. The Authority's Jurisdiction under the Legal Framework

- 2.1. Re-gasified Liquefied Natural Gas (RLNG) price is determined under Petroleum Product (Petroleum Levy) Ordinance 1961 (PL Ordinance), Petroleum Product (Petroleum Levy) Rules 1967 and in accordance with the policy guideline of the Federal Government. In pursuance of SRO 405(I)/2015 on May 07, 2015 issued by Federal Government (FG), RLNG has been included in the first schedule as petroleum product and name of both gas utilities i.e. SNGPL & SSGCL have been inserted as petroleum companies.
- 2.2. Further, FG by exercising its powers conferred by Section 8 of PL Ordinance read with clause (r) of Section 6 and Clause (b) of sub-section (2) of Section 21 of the OGRA Ordinance delegated the RLNG pricing function to OGRA. The FG has also decided that RLNG price shall be determined by OGRA.
- 2.3. RLNG pricing components as provided at para. 1.3.1 above, comprise seven items out of which five components i.e; (i) *LNG DES price*, (ii) *import related actual cost*, (iii) *terminal charges*(iv)*LNG importer margin @ 2.5%* and (v) *LSA margin @ US \$ 0.025 per MMBTU* have been determined by the Federal Government. Therefore, in this regard, the scrutiny of actual cost, payments & supply terms etc; under the mutual agreements rests with the concerned parties.
- 2.4. The cost components comprising (i) Cost of Service / Transportation cost and (ii) Transmission & Distribution losses are determined through the process of determination of revenue requirement in respect of gas companies and the same are included in RLNG price under the ring-fenced mechanism in accordance with the decision of the FG.

## 3. RLNG Provisional Price Requested by PLL

- 3.1.1. PLL had submitted the data for RLNG price on provisional basis in October 2017. PLL however has submitted the revised data after the commissioning of terminal, as under: -

Sr. #	Particulars	Nov-17		Dec-17		Jan-18	
		Transmission	Distribution	Transmission	Distribution	Transmission	Distribution
<b>Quantitative Data (MMBtu)</b>							
i	No of Cargos	1		2		3	
ii	Quantity Received (MMBtu)	3322040		6362210		9600000	
iii	Retainage @0.666%	22,125	22,125	42,372	42,372	63,936	63,936
iv	Quantity Delivered at Terminal	3,299,915	3,299,915	6,319,838	6,319,838	9,536,064	9,536,064
v	Transmission losses @ 0.19%, T&D losses @ 8.07%	6,270	266,303	12,008	510,011	18,119	769,560
vi	%age	0.8547%	8.6823%	0.8547%	8.6823%	0.8547%	8.6823%
US \$ /MMBtu							
i	LNG Price (DES)	6.4366	6.4366	6.8507	6.8507	9.0593	9.0593
ii	PLL's other imports related actual costs	0.1214	0.1214	0.1802	0.1802	0.1461	0.1461
iii	PLL margin	0.1609	0.1609	0.1713	0.1713	0.2265	0.2265
iv	Terminal Charges	0.4177	0.4177	0.4177	0.4177	0.4177	0.4177
	<b>RLNG Cost</b>	<b>7.1366</b>	<b>7.1366</b>	<b>7.6199</b>	<b>7.6199</b>	<b>9.8496</b>	<b>9.8496</b>
v	Volume on account of (Retainage, T/T&D losses) adjusted for	0.0615	0.6785	0.0657	0.72448	0.0849	0.9365
vi	LSA Management Fee	0.0250	0.0250	0.0250	0.0250	0.0250	0.0250
vii	Cost of supply	0.6550	0.6550	0.6550	0.6550	0.6732	0.6732
	<b>Total RLNG Price without GST</b>	<b>7.8781</b>	<b>8.4951</b>	<b>8.3656</b>	<b>9.0243</b>	<b>10.6327</b>	<b>11.4843</b>



3.1.2. PLL has submitted that actual supply of RLNG from the terminal has started in December 2017. Accordingly, procurement in respect of November 2017 may be clubbed in December, 2017 price.

#### 4. Discussion & Determination of RLNG Provisional Price

##### (i) Delivery Ex Ship (DES) Price

4.1.1. M/s PLL has quoted DES price for the months of November and December 2017 and January 2018 per MMBTU, calculated as under.

Particulars	Nov-17	Dec-17	Jan-18
Brice_m3 August, 2017	51.8909		
Brice_m2 September, 2017	55.4790	55.4790	
Brice_m1 October, 2017	57.6295	57.6295	57.6295
Brice_m1 November, 2017		62.8232	62.8232
Brice_m1 December, 2017			64.0920
Brent_m	54.9998	58.6439	61.5149
CPm=11.6247% of Brent_m (Nov & Dec)	6.3936	6.8172	
CPm= 14.66% of Brent_m (Jan 2018)			9.0221
Port Charges (in excess of US \$ 500,000)	0.04300	0.03350	0.03710
<b>Total DES</b>	<b>6.4366</b>	<b>6.8507</b>	<b>9.0592</b>

4.1.2. The slope applied in respect of above months has been worked out as under;

	Nov-17	Dec-17	Jan-18
No. of Cargos	1	2	3
Cargo 1	11.6247%	11.6247%	16.2500%
Cargo 2		11.6247%	11.6247%
Cargo 3			16.1250%
<b>Wtd. Average</b>	<b>11.6247%</b>	<b>11.6247%</b>	<b>14.6666%</b>

4.1.3. PLL has submitted that cargoes from Gunvor and ENI@ 11.6247 % slope have been secured through tendering process on term basis for a period of five years and fifteen years respectively. PLL has submitted that other cargoes have been procured on spot basis, through tendering process complying with PPRA Rules. PLL has submitted that mode of procurement is in accordance with the mandate highlighted at para. 1.2.1 above.

4.1.4. PLL has factored port charges in respect of November and December 2017 January 2018, on estimated basis. PLL has explained that port charges are on the basis of estimated amount over and above US \$ 500,000 per cargo paid by LNG suppliers.



- 4.1.5. The Authority observes that PLL's procurement is based on long term and spot basis as per the mandate given by the Federal Government and as per mutual agreement between the parties under the GSPA.
- 4.1.6. The Authority observes that computation made by PLL reconciles with the available data in respect of Brent. The working of slope is based on the long term as well as spot procurement.
- 4.1.7. *In view of above, the Authority accepts the DES price as worked out by PLL. Accordingly, the DES price for the month of December 2017 and January 2018 works out to US \$ 6.7086 and US \$ 9.0592 respectively.*

(ii) Retainage

- 4.1.8. PLL in the revised working has computed claimed Retainage at 0.666% computed as per Operation & Service Agreement (OSA) signed between PGPCL and PLTL and TURA.
- 4.1.9. The Authority observes that Guaranteed Retainage as per Operation & Service agreement signed between PLTL and PGPCL for 600 MMCFD gas provisionally works out to 0.666%.
- 4.1.10. *The Authority in view of above, provisionally allows the Retainage at 0.666%.*

(iii) Other Import Related Costs

- 4.1.11. PLL has provisionally taken the import related cost on estimated basis and submitted that actual data shall be provided after receipt of invoices form all relevant parties.
- 4.1.12. PLL has also requested to incorporate the "Sindh Infrastructure Development Cess (Cess)" as a component of "Other Import Related Actual Cost" while determining the provisional prices since it is anticipated that said Cess shall be applicable to PLL's imports @ 1.15% of the value.
- 4.1.13. PLL has submitted that Cess is imposed by Sindh Government in respect of goods entering in the province. PLL has further referred the Sindh Government letter dated September 22, 2017 whereby exemption from Cess in respect of LNG has been regretted.
- 4.1.14. *In view of above, the Authority accepts the petitioner plea and includes the Cess in the RLNG price as price. Other import related cost been taken as allowed provisionally to PSO. The break up as under;*

	US \$/MMBTU		
	Nov-17	Dec-17	Jan-18
Other Import related cost	0.0436	0.0435	0.0419
CESS	0.0750	0.0800	0.1058
Total	0.1186	0.1235	0.1477
Average Total	0.1218		0.1477

- 4.1.15. *The Authority observes that any adjustment in this account in RLNG price shall be made at the time of provision of actual data. Further, the Authority advises PLL to take up the matter of Cess with Sindh Government through*

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*Ministry of Energy in accordance with the decision of ECC of the Cabinet dated November 6, 2015.*

(iv) PLL Margin:

- 4.1.16. PLL computed margin @ 2.50% of DES price as per application submitted with OGRA.
- 4.1.17. The Authority observes that in case of PSO margin @ 2.5% of DES price has been decided by the Federal Government which adequately covers the relevant expenses.
- 4.1.18. *In view of above, the Authority provisionally determines the PLL margin @ 2.5% as decided by the Federal Government as in case of PSO.*

(v) PLTL Terminal Charges

- 4.1.19. The PLL has provisionally claimed the terminal charges at US \$ 0.4177 per MMBTU. The review of the working submitted by PLL provides that said charges are based on the capacity charges @ US \$ 245,220 per day and utilization charges @ US \$ 0.009 per MMBTU. The average works out to US \$ 0.4177 per MMBTU. Said charges are based on 96% availability factor.
- 4.1.20. The Authority observes that as per Operation & Service Agreement (OSA) signed between PGPCL and PLTL and TURA, the terminal charges have to be paid as per terms of the agreement.
- 4.1.21. *In view of above, the Authority provisionally determines the terminal charges at US \$ 0.4177 per MMBTU for November & December 2017 for PLTL.*

(vi) PLTL Margin for LSA Management

- 4.1.22. PLL has submitted that "SSGC's margin for LSA management" has been used for the purpose of this calculation i.e. US \$ 0.025 per MMBTU. Actual figure for PLTL shall be determined by OGRA, under separate arrangement, when actual amount and invoice is provided.
- 4.1.23. The Authority observes that "SSGCL's margin for LSA Management" at US \$ 0.025 per MMBUT has been allowed by the Federal Government to streamline the re-gasification activity. In the Re-gasification activity, PLTL role apparently seems to be facilitator in line with the same activity carried out by SSGCL. The margin to SSGCL was allowed on the premise that it is undertaking the financial risk exposure, managing the smooth transmission of RLNG from terminal to SNGPL system etc;. The same in respect of PLTL also applies in accordance with the Federal Government decision.
- 4.1.24. *In view of above, the Authority allows PLTL margin @ US \$ 0.025 per MMBTU as allowed by the Federal Government.*

(vii) Cost of Service/Transportation Charges

- 4.1.25. PLL has taken the cost of supply as per motion for review 2016-17 i.e. Rs 85.76 per MMBTU.

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- 4.1.26. The Authority observes that it had determined the DERR for FY 2017-18 whereby Transportation cost works out to Rs. 53.21 per MMBTU. The said determination was assuming the RLNG supply from PGPCL's terminal effective from July 2017 which actually has been made in December 2017. The same therefore is not relevant at this point in time.
- 4.1.27. *The Authority therefore provisionally adopts the Transportation cost of FRR FY 2016-17 @ Rs.Rs.72.41 per MMBTU. The same shall be reviewed once the determination of Revenue Requirement for FY 2017-18 on the motion for review filed by SNGPL is issued.*

(viii) Transmission and Transmission & Distribution (T &D) losses

- 4.1.28. PLL has taken the 0.17% for transmission and 9.21% for transmission and distribution losses. However as per applicable decision of the Authority pertaining to FY 2016-17, Distribution losses(including 0.19% transmission) per SNGPL are 8.07% and the Transmission Losses as per SNGPL are 0.19%. *Accordingly, the same is adopted for RLNG supply in respect of SNGPL.*

5. RLNG Price Determination

- 5.1.1. *In view of above discussion and determination in para. 4 above, the Authority accepts the RLNG provisional price is as under;*

Sr. #	Particulars	Dec-17		Jan-18	
		Transmission	Distribution	Transmission	Distribution
	<b>Quantitative Data (MMBtu)</b>				
i	No of Cargos	3		3	
ii	Quantity Received (MMBtu)	9684250		9600000	
iii	Retainage @0.666%	64,497	64,497	63,936	63,936
iv	Quantity Delivered at Terminal	9,619,753	9,619,753	9,536,064	9,536,064
v	Transmission losses @ 0.19% / Distribution losses (including Transmission) @ 8.07%	18,278	776,314	18,119	769,560
vi	%age	0.8547%	8.6823%	0.8547%	8.6823%
		<b>US \$ /MMBTU</b>			
i	LNG Price (DES)	6.7086	6.7086	9.0592	9.0592
ii	PLL's other imports related actual costs	0.1218	0.1218	0.1477	0.1477
iii	PLL margin	0.1677	0.1677	0.2265	0.2265
iv	Terminal Charges	0.4177	0.4177	0.4177	0.4177
	<b>RLNG Cost</b>	<b>7.4158</b>	<b>7.4158</b>	<b>9.8511</b>	<b>9.8511</b>
v	Volume on account of (Retainage, T/T&D losses) adjusted for recovery	0.06393	0.70508	0.08492	0.93662
vi	LSA Management Fee	0.0250	0.0250	0.0250	0.0250
vii	Cost of Supply SSGCL	0.2426	0.2426	0.2316	0.2316
viii	Cost of Supply of SNGPL	0.4436	0.4436	0.4235	0.4235
	<b>Total RLNG Price without GST</b>	<b>8.1909</b>	<b>8.8321</b>	<b>10.6161</b>	<b>11.4678</b>

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5.1.2. M/s PLL is advised to submit the actual data in respect of above months within two month of issuance of the instant provisional price for subsequent adjustment, if any.

Dr. Abdullah Malik  
(Member Oil)

Noorul Haque  
(Member Finance)

Uzma Adil Khan  
(Chairperson)

The Islamabad,  
January 3, 2018

**REGISTRAR**  
Oil & Gas Regulatory Authority  
Islamabad



## Abbreviations

BTU	British Thermal Units
DES	Delivery Ex Ship
ECC	Economic Coordination Committee
EETPL	Engro Elengy Terminal Private Limited
E & P	Exploration and Production
FG	Federal Government
GHPL	Government holding (Pvt.) Limited
GSPA	Gas Sales Purchase Agreement (GSPA)
LNG	Liquid Natural Gas
LSA	LNG Service Agreement
MBTU	Million British Thermal Units
MMBTU	Million British Thermal Units
OGRA	Oil and Gas Regulatory Authority
OSA	Operation & Service Agreement
PGPCL	Pakistan Gas Port Consortium Limited
PL	Petroleum Levy
PLL	Pakistan LNG Limited
PLTL	Pakistan LNG Terminal Limited
PPRA	Pakistan Procurement Regulatory Authority
PSO	Pakistan State Oil
RLNG	Re-Gasified Liquid Natural Gas
SNGPL	Sui Northern Gas Pipeline Limited
SSGCL	Sui Southern Gas Pipeline Limited
T	Transmission
T & D	Transmission and Distribution
TURA	Terminal Use and Regasification Agreement
UFG	Unaccounted-for gas
US \$	United State Dollar

