

## **An Introduction to Oil and Gas Regulatory Authority**

SYED JAWAD NASEEM

### **TYPES OF REGULATION**

Regulation means to govern in accordance with the rules. There are four major types of regulations pertaining to industrial and commercial activities:

#### **General Regulation**

Regulation enforced through existing government departments and agencies.

#### **Technical Regulation**

Regulation enforced through creating specialist agencies.

#### **Economic Regulation**

Regulation enforced through regulatory authorities typically before privatisation of public utilities.

#### **Regulation by Contract**

Regulation enforced through conditions fixed under the contracts between government and other agencies.

### **WHAT IS REGULATOR**

Regulator is a supervisory body entrusted with the responsibilities of:

- (1) Promotion of quality service at affordable price.
- (2) Safeguarding public and national interest.
- (3) Acting as an intermediary among consumers and the Government.
- (4) Quasi-Judicial independent body that Balances the interest of all stakeholders.
- (5) Promotion of competition.

Syed Jawad Naseem is Executive Director, (Finance and Coordination) at the Oil and Gas Regulatory Authority, Islamabad.

### PETROLEUM SECTOR

The petroleum sector can be categorised in the following main areas of activity:

- (1) **Upstream Sector** engaged in exploration and production activities including surveys, drilling of wells, construction of gathering systems and other installations in the field. This sector is being regulated by MPNR.
- (2) **Midstream Sector** comprises the importation, transportation, refining, storage and marketing of oil and oil products.
- (3) **Downstream Sector** comprises transmission, distribution, sale of natural gas and transportation of petroleum by pipelines. Transmission and Distribution companies do not operate in a Competitive environment and are termed as “Natural Monopolies”. Regulatory Authorities are typically being setup to regulate natural monopolies all over the world.

### NEED FOR REGULATION IN PETROLEUM SECTOR

- Effective and efficient regulation of midstream and downstream petroleum industry.
- Transmission and Distribution companies (SNGPL/SSGCL) do not operate in a competitive environment since it typically does not suit different companies to lay down duplicate channels in the same vicinity.
- Consumers do not have the freedom of choice in selecting a supplier and hence become “Captive Consumers”.
- Monitoring of financial and operational activities to ensure performance and service standards.
- Enhanced private investment in petroleum sector.
- Proposed privatisation of the public utilities.

### ESTABLISHMENT OF NGRA

NGRA was established in August 2000 with the following key objectives:

- First step towards future privatisation of gas utilities.
- Protection of consumer and national interest.
- Enhancement of investor’s confidence.
- Improvement of efficiency, reliability, and safety of natural gas transportation and distribution services in Pakistan.
- Promotion of effective and economic capital investments.
- Creation of a competitive environment.

### **FORMULATION OF OGRA**

OGRA was established through promulgation of OGRA Ordinance, 2002 on March 28, 2002. OGRA Ordinance 2002, which provides for:

- regulation of midstream oil and gas sector,
- enhancement of private sector investment, and
- protection of consumers interest.

### **REGULATED ACTIVITIES**

- Construction or operation of natural gas pipelines, testing facility, storage facility and natural gas installation.
- Construction or operation of pipelines, testing facility, storage facility and installation relating to LPG/ LNG.
- Construction or operation of oil refinery, oil pipelines, testing facility, storage facility, blending facility and oil related installation.
- Transmission, distribution and sale of natural gas.
- Transmission, filling, marketing and distribution of LPG / LNG.
- Marketing and storage of refined oil products.

### **KEY POWERS AND FUNCTIONS**

- Grant licenses for regulated activities.
- Ensure provision of open access, common carrier and common operator.
- Promote effective competition.
- Enforce performance, service, and safety standards.
- Safeguard public and national interest.
- Determine and regulate tariff taking into account rate of return, prudent operation and maintenance cost, depreciation, government levies and cost of natural gas.
- Determine a reasonable rate of return.
- Determine gas well-head prices.
- Ensure prudence, cost effectiveness and economic efficiency in capital expenditure programme.

### **PERFORMANCE**

#### **(1) SNGPL Estimated Revenue Requirement for FY 2001-02**

SNGPL had sought for an increase in its Prescribed Price by Rs 8.61 per MCF for the Financial Year 2001-02. After holding public hearing, the Authority determined an increase of Rs 7.13 per MCF over its Prescribed Prices.

**(2) SNGPL Final Revenue Requirement for FY 2001-02**

On the basis of annual accounts, SNGPL sought a further increase in Prescribed Prices by Rs 0.6222 per MCF. The Authority reduced Prescribed Prices by Rs 0.09 per MCF, over its provisional order.

**(3) SSGCL Estimated Revenue Requirement for FY 2001-02**

SSGCL sought an increase in its Prescribed Prices by Rs 5.11 per MCF for financial year 2001-02. After holding public hearing, the Authority decreased the Prescribed Prices by 0.32 per MCF.

**(4) Determination of Provisional Well Head Price of Mari Gas**

Mari Gas Company Limited (MGCL) sought for an increase in its well head gas price from Rs 23.97 per MMBTU to Rs 27.95 per MMBTU.

After detailed scrutiny, the Authority determined well head price for notification at Rs 23.97 per MMBTU w.e.f 1st July, 2002.

**5. Determination of Final Well Head Price-MGCL**

On the basis of auditor's initialed accounts MGCL determined a surplus of Rs 103.767 Million, which is payable by the company to President of Pakistan. OGRA determined the surplus at Rs 104.268 Million on basis of comprehensive analysis.

**(6) Licensing Rules**

Natural Gas Licensing Rules 2002 were approved by the Federal Government and notified by the Authority on 26th February, 2002 in the official gazette.

Applications for grant of licenses, filed by SSGCL, SNGPL and MGCL are currently under process.

**(7) Tariff Rules**

Natural Gas Tariff Rules were approved and notified by the Federal Government on November 15, 2002.

**(8) Natural Gas Wellhead Price Rules**

The Authority is empowered to determine the wellhead gas prices for the producers of natural gas in accordance with the relevant agreements or contracts. Natural Gas Wellhead Price Rules have been submitted to the Federal Government for approval and notification.

**(9) Wellhead Gas Prices**

OGRA has determined and notified wellhead prices for 27 fields including Mari gas field for the period July 2002 - Dec 2002

**(10) Benchmarks**

The Authority is in the process of formulating efficiency benchmarks for the gas utilities in respect of technical and financial operation including UFG.

**REGULATORY STRATEGY**

In the near term, OGRA will:

- Introduce incentive oriented tariff regime, also taking into account upcoming privatisation, where companies are rewarded/penalised on the basis of their performance.
- Enforcing financial discipline through uniform system of accounts.
- Build consumer confidence through public participation.
- Specify and review standards for the equipment and materials to ensure safe operations.
- Minimise regulatory risk by promoting predictability and transparency.
- Effective monitoring of structural reforms.
- Promote technical and operational efficiency to minimise increase in operating costs, by introducing benchmarks.
- Rationalisation of tariffs and removal of subsidies.
- Introducing competition and effective utilisation of capacities through Open Access/Common Carrier.
- Develop and ensure strict compliance of rules regarding:
  - Economic expansion plans.
  - Policy for expansion of gas networks to new areas and towns for socio-economic reasons in accordance with the Federal Government policy guidelines.

**FUTURE ROADMAP**

- Review of fixed rate of return regime in respect gas utilities.
- Develop standards and benchmark to improve efficiency, control expenditure and reduce losses.
- Develop service standards aimed at safeguarding the public interests.

- Balance the divergent interests of three main stakeholders viz. the consumers, the investor and the Federal Government.
- Cater for regulations of transmission and distribution functions separately
- Promote investors' confidence for upcoming unbundling/privatisation of gas companies.
- Promote competition and provide open access and common carriage facilities.
- Extension of gas network to new towns/localities.
- Prescribing procedures and standards for investment programmes of the gas utilities and oversee their capital expenditures to ensure prudence.
- Development of Rules/Regulations for Oil refining, blending, marketing, oil pipelines, and pricing of petroleum products.