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Front Page

CCP asks govt to revisit Qatar LNG deal

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ISLAMABAD: The Competition Commission of Pakistan (CCP) has recommended the government to revisit some of the features of the sales and purchase agreement (SPA) with Qatar for liquefied natural gas (LNG) and renegotiate to lower the price review period so that the disparity between contract and competitive prices could be lessened.

This has been specified in

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CCP asks govt to revisit Qatar LNG deal

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the draft sector study on LNG released for public comments by the CCP here Thursday.

"In the face of global oil market volatility, some of the features of the standard SPAs like "Take or Pay" and "Contract Price Review" need to be revisited. These features are seen to be "restrictive" and potentially "divergent" from market forces of demand and supply. If the price review period could be negotiated to a lower term, this disparity between contract and competitive prices could be lessened as it would be closer to prevalent market prices," the CCP said in its detailed study on the LNG sector in Pakistan from the lens of competition.

The CCP has strongly recommended alternate pricing arrangements of the LNG, renegotiating contract price review period and revisiting of some of the features of the standard SPA like "Take or Pay" and "Contract Price Review" having 15 years long term SPA between Pakistan and Qatar.

The CCP has recommended that the PSO and Qatargas have a 15 years long term SPA under the G2G agreement between Pakistan and Qatar. The PLL and Eni also have a long-term SPA for 15 years. In both the SPAs, the contract price review is after 10 years. However where the long-term LNG agreements ensure supply security, at the same time the global LNG market (natural gas trade) has seen a supply glut therefore meaning falling natural gas prices in the trading hubs. Contrary to the globally traded natural gas prices, Pakistan's LNG SPAs are indexed to Brent price which has been on the rebound of late meaning higher LNG DES Price to be paid by the LNG importer. In the face of global oil market volatility some of the features of the standard SPAs like "Take or Pay" and "Contract Price Review" need to be revisited. These features are seen to be "restrictive" and potentially "divergent" from market forces of demand and supply. If the price review period could be negotiated to a lower term then this disparity between contract and competitive prices could be lessened as it would be closer to prevalent market prices.

The CCP has also recommended that Pakistan's long-term SPA and the medium-term contracts (term tender) have a constant slope and a linear pricing model. However due to rising crude oil prices, LNG price will also rise therefore alternate pricing arrangements need to be considered. One of them is known as the "traditional" S-Curve model. One of the variations of the S-Curve model basically consists of three sections. Moving along the X-axis, (Lower to higher Brent/crude prices) the first section consists of a line with a given gradient which protects the seller against very low Brent prices. This line is connected to a linear section with a steeper gradient, at a "kink" point. Finally this linear section is connected at another "kink" point to a line with a relatively flatter slope/gradient. This final line segment protects the buyer against extremely high Brent prices.

The commission has recommended that based on the international best practices in the sector, it is recommended to improve the pricing models adopted in the Sales and Purchase Agreements (SPA) through alternate pricing arrangements - the S-Curve Model, introduction of price ceiling and floor in the contract price which will safeguard the interest of both the seller and the procurer of LNG.

Introducing spot market and natural gas hubs in the pricing model, and to renegotiate contract price review period as in both the long-term SPA, the price review is after 10 years. This will result in a more competitive and affordable price of LNG secured in the upstream LNG market.

In the midstream LNG/RLNG market, competitive tolling tariff and port charges will result in a lower price of RLNG. The study also urges the gas transmission and distribution companies, SSGCL and SNGPL for improvement in their network for efficient RLNG handling. In the wake of depleting indigenous gas resources and the continuously rising energy import bill, the study also recommends greater focus of the government on renewable energy resources to meet the growing energy demand and energy sustainability.

The CCP has recommended competitive pricing through the introduction of LNG spot market and natural gas hubs in long-term contract pricing. Over time, the LNG market has started to evolve towards competitive regimes. The emergence of spots as well as established hubs like the Henry Hub and NBP has thrown the spanner in the works. The JKM, although not a hub, does represent a potential option as far as pricing is concerned vis-à-vis Asian LNG spot market contracts. Falling Asian spot market prices strengthen the case for indices like the JKM. Therefore, within long-term contracts there can be greater "flexibility" even if a move to alternative pricing is not possible. One facet of the KOGAS-Northwest Shelf arbitration centres around the buyer demanding greater "flexibility" in the contract. "Through greater flexibility we could move to more competitive outcomes. Given the greater market fluidity, flexibility is the need of the hour." Due to declining spot market prices and rising buyer power, global LNG agreements are changing. The recent agreement between Jera and Total is an example of this shift. The Japanese Company Jera agreed to buy six LNG cargoes. Four of them were priced according to a traditional oil indexed pricing formula, whereas two were based on spot prices.

For consumers to make informed decisions, transparency in the market is a prerequisite. Even though confidentiality is important, at the same time it should not come in the way of effective transparency. One of the competition issues highlighted in the study is lack of transparency in the LNG SPA especially (but not limited to) in the case of PSO and Qatargas deal. Important information such as the 'contract price review', whether the slope is rising or constant and if there are any price ceilings or caps on the contract price negotiated. Such information may be publicly available such that the end consumers of RLNG make better choices and buying decisions, it recommended.

In the sector study, the CCP has further recommended that higher port charges result in higher price of LNG and therefore higher price of RLNG is ultimately paid by the end consumer. It is, therefore, recommended that the port charges should be competitive and comparable to other regional players procuring LNG.

It is, therefore, recommended that OGRA may make certain amendments to the OGRA Ordinance such that there is no ambiguity on the status of LNG and RLNG and to redefine 'natural gas' in addition to 'petroleum' definition.

The CCP has recommended that the Sindh provincial government under the Sindh Development and Maintenance of Infrastructure Cess Act, 2017 levies cess on goods entering and exiting the province. The cess is exempted on petroleum products; however, it is not exempted of LNG. Where RLNG is included in the petroleum products, LNG is not. It must be mentioned that with the requested amendments made to the OGRA Ordinance (petroleum definition) the status of LNG will be elucidated. In addition to this, it is discriminatory to exempt petroleum products from Sindh cess but to levy it on LNG since the intended use of some of these petroleum products is the same as that of LNG after re-gasification. The provincial government therefore may make exemption of LNG from Sindh Infrastructure Cess.

Keeping in view the energy issues faced by the economy, depleting indigenous gas resources and the continuous increase in the gas demand, it is recommended that the federal government may revise the indigenous gas prices on annual basis as a gradual price revision on annual basis will be less hurtful to consumers in comparison to a sharp increase after several years, the CCP recommended.

The CCP has further recommended that new infrastructure, development and upgrading of the existing pipeline infrastructure is significant to make the LNG sector more competitive. Only a competitive LNG market will give signals for investment and ensure gas supply security in the future.

To secure energy needs, it is recommended that the government may focus on the renewable energy sources and tap the renewable energy potential, the CCP sector study added.

FOUNDED BY QUAID-I-AZAM MOHAMMAD ALI JINNAH
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Govt should renegotiate LNG deal: CCP

By Kalbe Ali

ISLAMABAD: The Competition Commission of Pakistan's (CCP) study on the liquefied natural gas (LNG) sector has concluded that the current system and agreement is pushing the end consumers of Regasified-LNG (RLNG) to a competitive disadvantage.

The CCP has suggested that the government should renegotiate the LNG deal and see if the price review period could be bargained to a lower term to lessen and end the disparity between contract and competitive prices, bringing them closer to prevalent market prices.

The draft study of the LNG sector shows various barriers to competition at all levels of the LNG value chain in the upstream market due to negotiated LNG contract price and the pricing model adopted by PSO and Pakistan LNG Ltd (PLL).

While the study has also stated that the charges were high at the midstream too which included re-gasification at the Engro Elengy Terminal Ltd (EETL), and Pakistan Gasport Consortium Ltd (PGPC) terminal, where the toll tariff was \$0.479/mmBtu and \$0.4177/mmBtu respectively, \$250,000 per day.

Port Qasim charges were \$600,000 per vessel and handling of RLNG by SSGC results in higher network losses.

In the downstream, due to the difference in cost structure that is natural gas versus RLNG price ring-fenced pricing resulting in higher cost of production for the end consumers as against the natural gas.

The CCP has suggested that there was a need for 'Contract Price Review' of the 15-year agreement between Pakistan and Qatar.

"Contrary to the globally traded natural gas prices, Pakistan's LNG sale purchase agreement (SPA) is indexed to Brent price which has been on the rebound of late, meaning higher LNG price to be paid by the LNG importer.

The CCP has said, "In the face of global oil market volatility, some of the features of the standard SPAs like 'Take or Pay' and 'Contract Price Review' need to be revisited. These features are seen to be 'restrictive' and potentially 'divergent' from market forces of demand and supply."

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Govt under pressure

CCP declares LNG deal with Qatar 'non-transparent'

Says agreement has been struck at rates that are higher than India's

SHAHBAZ RANA
ISLAMABAD

Pakistan's anti-trust watchdog has declared the liquefied natural gas (LNG) deal with Qatar as "non-transparent", saying the agreement has been struck at rates that are higher than India's, putting the government under pressure which has, of late, maintained silence on the issue.

In its detailed 'Competition Assessment Study of LNG', the Competition Commission of Pakistan (CCP) recommended the government to renegotiate the price with Qatar and also make the government-to-government deal public.

The findings of the study, which are open for comments from the public and stakeholders, could put the Pakistan Tehreek-e-Insaf (PTI) government under pressure to fulfill its promise of sharing the deal with parliament.

"There is a lack of transparency in the long term government-to-government agreement between Pakistan State Oil (PSO) and Qatargas as to when the terms of contract may be renegotiated," stated the report.

There was also a lack of transparency about what the price review clause is (an integral part of a long-term contract between a seller and a buyer) and when the pricing can be renegotiated.

The CCP study noted that the LNG Sale Purchase Agreement (SPA) is available on the official website of PSO, however, for the most part, the document is blocked for public viewing and therefore inaccessible for the common man.

PSO and Qatargas signed a 15-year LNG SPA in 2016 as a result of which LNG will be imported till 2031 at the contract price of 13.36% of Brent crude price.

The report found that the prices were higher in Pakistan compared to other similar agreements signed by Pakistan and even by regional countries.

"India renegotiated its long-term LNG agreement with Qatar in 2016 and the LNG price was set at 12.66% of Brent crude," the CCP pointed out. India and Qatar reduced the price and removed the floor and cap on the prices. "Lack of transparency in long-term LNG contract creates mistrust among LNG end-consumers who are paying for the expensive RLNG," added the CCP. "Consumers consequently cannot make informed decisions. In the face of rising price of Brent in the international market, the price of RLNG will continue to rise."

> PSO and Qatargas have signed a long-term 15-year LNG SPA in 2016 as a result of which LNG will be imported till 2031 at a contract price of 13.36% of Brent crude

PSO and Qatargas signed the 15-year agreement under which Qatargas is supplying 3.75MTPA of LNG to Pakistan at 13.37% of Brent. PSO has also executed an SPA with Gunvor (medium term contract) to supply 0.75MTPA of LNG for 5 years. The Pakistan LNG Limited (PLL) has executed an SPA with Eni for supply of LNG for 15 years (long-term contract) to supply one cargo per month (0.75MTPA) to Pakistan at 11.6247% of Brent.

The study also noted that the Port Qasim charges of the LNG imported from Qatar were also higher. The Port Qasim Authority (PQA) charges LNG cargoes which are handled at the port for using port. The Port Qasim charges $600,000 per LNG vessel that is received at the port. These port charges are shared by both the supplier and procurer of LNG. In case of the Qatar LNG deal, $320,000 are paid by Qatargas (the exporter) and $280,000 are paid by PSO. But in case of the 5 year Term Tender with Gunvor, $500,000 are borne by Gunvor (supplier) and $100,000 by PSO.

"It is therefore recommended that the port charges should be competitive and comparable to other regional players procuring LNG," added the study.

The CCP study underlined that contrary to the globally traded natural gas prices, Pakistan's LNG SPA's are indexed to Brent price. In the face of global oil market volatility some of the features of the standard SPAs like "Take or Pay" and "Contract Price Review" need to be revisited, suggested the anti-trust watchdog.

It added these features are seen to be "restrictive" and potentially "divergent" from market forces of demand and supply. If the price review period could be negotiated to a lower term then this disparity between contract and competitive prices could be lessened as it would be closer to prevalent market prices, said the CCP.

"It is pivotal to negotiate pricing arrangements in particular "DES price'- to be paid by the importer periodically in order to procure the most competitive deal," according to the watchdog.

The study showed various barriers to competition at all levels of the LNG value chain including midstream due to the regasification at the Engro Elengy Terminal Limited (EETL) and Pakistan Gasport Consortium Limited (PGPC) terminal at the high tolling tariff of $0.479 per mmbtu and $0.4177 per mmbtu respectively.

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FAIR TRADE

CCP calls for review of LNG contract prices

By our correspondent

ISLAMABAD: Anti-trust watchdog Competition Commission of Pakistan (CCP) on Thursday called for revising of the sales-purchase agreements vis-à-vis liquefied natural gas (LNG) in order to allow pricing review of the two long-term fuel import deals.

The CCP said state-run Pakistan State Oil (PSO) and Qatargas have a 15-year long term sales-purchase agreement (SPA) under the government-to-government agreement between Pakistan and Qatar. Likewise, Pakistan LNG Limited (PLL) and Italian energy firm ENI also have a long-term SPA for 15 years. In both the SPAs, the contract price review is after 10 years.

The commission said the long-term LNG agreements ensure supply security, but it shooed away price advantage especially when global LNG market has seen a supply glut, leading to fall in natural gas prices in the trading hubs.

CCP said the country's LNG SPAs are indexed to Brent prices, which are on the recovery mode and that entails higher LNG delivered ex-ship (DES) price for the importer. This is "contrary to the globally-traded natural gas prices".

"In the face of global oil market volatility, some of the features of the standard SPAs like 'take or pay' and 'contract price review' need to be revisited," it added. "These features are seen to be restrictive and potentially divergent from market forces of demand and supply."

The commission said disparity between contract and competitive prices could be lessened if prices are reviewed. DES pricing arrangements need to be periodically negotiated "to procure the most competitive deal".

CCP said the 'slopes' should be re-negotiated to obtain a relatively competitive price as the Brent price is on the upward trend.

"If the slope in the DES price is set at 16.7 percent, LNG price is equal to that of crude oil on an energy equivalent basis. A slope less than 16.7 percent implies that LNG is sold at a discount to oil, and slopes greater than 16.7 percent imply that LNG will sell at a premium price to oil," the commission said.

"Pakistan's two long-term contracts have slopes set at 13.37 percent (PSO and Qatargas) and at 11.62 percent (PLL and Eni for year 1 and 2)."

CCP said LNG importing countries are already renegotiating the DES price to a lower slope due to upward trend global Brent prices.

"With the present rising Brent prices, a price ceiling may help lower prices for LNG buyers like Pakistan and in turn lead to greater consumer (buyers/importers) welfare as compared to a constant slope model currently employed."

> **Disparity between contract and competitive prices could be lessened if pricing arrangement is reviewed**

The LNG received at Port Qasim is re-gasified at the Engro Elengy Terminal Limited and Pakistan Gasport Consortium Limited terminals at the tolling tariff of $0.479/million metric British thermal unit (mmbtu) and $ 0.4177/mmbtu, respectively, approximately $250,000/per day.

"For efficient utilisation of both these terminals it is recommended that their capacity must maximally be utilised," the CCP said.

"As under the 15-year contracts negotiated with the terminals the tolling tariff is fixed at the above mentioned rates."

Additionally, the Port Qasim Authority charges $600,000/LNG vessel. The port charges are factored in re-gasified liquefied natural gas prices for end-consumers. PSO pays $280,000, while Qatargas pays $320,000 out of the total port charges. Likewise, PLL pays $100,000 and Eni pays $500,000 as port charges.

PSO procures six cargoes each month – five under the long-term SPA and one under the term tender with Gunvor adding up to 600 million metric cubic feet/day of gas. PLL procures 2-3 cargoes under both long term contract for 15 years with ENI and a term tender with Gunvor.

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Ambiguous import agreement makes LNG expensive for Pakistan: CCP

By Abrar Hamza

KARACHI: The Competition Commission of Pakistan (CCP) has said that lack of transparency is making the long-term G2G Agreement between Pakistan State Oil (PSO) and Qatar Gas for Liquefied Natural Gas (LNG) import an expensive deal for Pakistan.

In 2016, when the long-term G2G agreement was signed, the price of crude oil was low in the international market, however, since 2017, oil prices are on the rebound. The CCP said that India had renegotiated its long-term LNG agreement with Qatar in 2016, and the LNG price was set at 12.66 % of Brent Crude.

The CCP, in its study on the LNG sector in Pakistan, stated that lack of transparency in long-term LNG contract created mistrust among the LNG end consumers who are paying for the expensive RLNG. "Consumers consequently cannot make informed decisions. In the face of rising price of brent in the international market the price of RLNG will continue to rise", it warned.

PSO and Qatar Gas have signed a long term LNG Sale Purchase Agreement (SPA) for 15 years in 2016 as a result of which LNG will be imported till 2031 at the contract price of 13.36% of Brent price. However, according to the CCP, there is lack of transparency in the long term G2G agreement between PSO and Qatar Gas regarding the terms of the contract renegotiation, price review clause (an integral part of a long term contract between a seller and a buyer), and renegotiation of pricing.

The CCP recommends that in the face of global oil market volatility, some of the features of the standard SPAs like "Take or Pay" and "Contract Price Review" need to be revisited.

Also, the competition assessment of the LNG sector shows various barriers to competition at all levels of the LNG value chain: In the upstream market due to the LNG contract price negotiated and the pricing model adopted by PSO and PLL.

In the midstream, due to the regasification at the Engro Elengy Terminal Limited (EETL) and Pakistan Gasport Consortium Limited (PGPC) terminal at the high tolling tariff of \$0.479/mmbtu and \$0.4177/mmbtu, respectively (approx. \$250,000/per day), the Port Qasim charges of \$600,000/per vessel, and the handling of RLNG by SSGC resulting in higher network losses of SSGC.

In the downstream, due to the difference in cost structure i.e natural gas versus RLNG price (ring fenced pricing) resulting in higher cost of production for the end consumers of RLNG, as against the natural gas, hence pushing the end consumers of RLNG at a competitive disadvantage.

Additionally, the competition assessment of the regulatory framework highlights the vagueness created around the classification of LNG and RLNG by the Federal Government according to which RLNG is included in the list of petroleum products whereas the status of LNG is unclear, resulting in the non-exemption of LNG from Sindh Infrastructure Cess (SIC) as against its exemption on petroleum products resulting in higher price of RLNG.

The study proposes recommendations which may lead to a more competitive, well-functioning, and efficient LNG market resulting in a better price paid by the end consumer but also relieve the federal government from the ever mounting balance of payment deficit.

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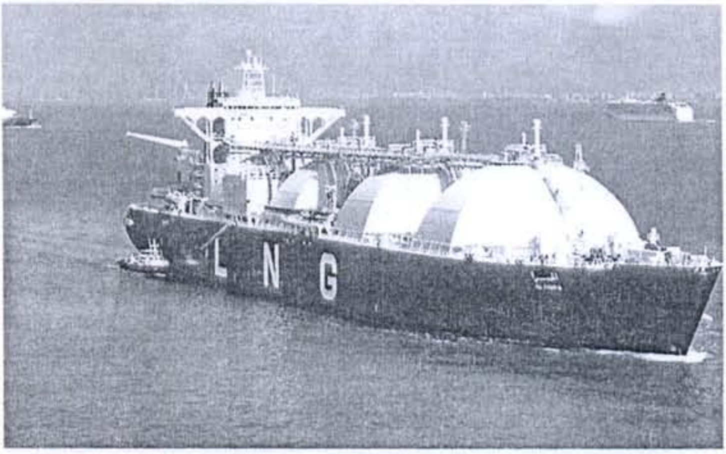
CCP finds competition barriers at all levels of LNG value chain



KARACHI: The Competition Commission of Pakistan (CCP) has found various barriers to competition at all levels of the liquefied natural gas (LNG) value chain, hence pushing the end consumers of RLNG at a competitive disadvantage.

The competition assessment of the LNG sector conducted by CCP finds competition barriers in the upstream market due to the LNG contract price negotiated and the pricing model adopted by Pakistan State Oil (PSO) and Pakistan LNG Limited (PLL).

The regasification at the Engro Elengy Terminal Limited (EETL) and Pakistan Gasport Consortium Limited (PGPC) terminal at the high tolling tariff of $0.479/mmbtu and $0.4177/mmbtu respectively (approximately $250,000/day), Port Qasim charges of $600,000/vessel, and the handling of RLNG by Sui Southern Gas Company (SSGC) resulted in higher network losses of SSGC, it said.

In the downstream due to the difference in cost structure i.e natural gas versus RLNG price (ring fenced pricing) resulted in higher cost of production for the end consumers of RLNG as against the natural gas.

Additionally the competition assessment of the regulatory framework highlights vagueness created around the classification of LNG and RLNG by the federal government according to which RLNG is included in the list of petroleum products whereas the status of LNG is unclear, resulting in the non-exemption of LNG from Sindh Infrastructure Cess (SIC) as against its exemption on petroleum products resulting in higher price of RLNG.

Based on the international best practices in the sector, it is recommended to improve the pricing models adopted in the Sale Purchase Agreements (SPA) through alternate pricing arrangements- the S-Curve Model, introduction of price ceiling and floor in the contract price, which will safeguard the interest of both the seller and the procurer of LNG.

CCP has advocated introducing spot market and natural gas hubs in the pricing model, and to renegotiate contract price review period, as in both the long-term Sale Purchase Agreement (SPA) the price review is after 10 years. This will result in a more competitive and affordable price of LNG secured in the upstream LNG market.

The commission points out that in the midstream LNG/RLNG market, competitive tolling tariff and port charges will result in a lower price of RLNG. The study also urges the gas transmission and distribution companies, SSGC and Sui Northern Gas Pipelines (SNGPL) for improvement in their network for efficient RLNG handling.

In the wake of depleting indigenous gas resources and the continuously rising energy import bill, the study also recommends greater focus of the government on renewable energy resources to meet the growing energy demand and energy sustainability.

TRUTH MATTERS
The Statesman

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CCP seeks comments from stakeholders, general public on LNG sector study

ISLAMABAD: The Competition Commission of Pakistan (CCP) has conducted a detailed study on the Liquefied Natural Gas (LNG) sector in Pakistan from the lens of competition.

The study, 'Competition Assessment of the LNG sector in Pakistan' is completed under the CCP's mandate to carry out market studies to assess competition vulnerabilities and to promote competition in all spheres of commercial economic activity.

The competition assessment of the LNG sector shows various barriers to competition at all levels of the LNG value chain: In the upstream market due to the LNG contract price negotiated and the pricing model adopted by PSO and PLL, said a CCP statement.

In the midstream due to the regasification at the Engro Elengy Terminal Limited (EETL) and Pakistan Gasport Consortium Limited (PGPC) terminal at the high tolling tariff of $0.479 per mmbtu and $ 0.4177 per mmbtu respectively (approx. $250,000 per day), the Port Qasim charges of $600,000 per vessel, and the handling of RLNG by SSGC resulting in higher network losses of SSGC.

In the downstream due to the difference in cost structure i.e natural gas versus RLNG price (ring fenced pricing) resulting in higher cost of production for the end consumers of RLNG as against the natural gas. Hence pushing the end consumers of RLNG at a competitive disadvantage.

Additionally the competition assessment of the regulatory framework highlights the vagueness created around the classification of LNG and RLNG by the Federal Government according to which RLNG is included in the list of petroleum products whereas the status of LNG is unclear, resulting in the non-exemption of LNG from Sindh Infrastructure Cess (SIC) as against its exemption on petroleum products resulting in higher price of RLNG.

The study proposes recommendations which will not only lead to a more competitive, well-functioning, and efficient LNG market resulting in a better price paid by the end consumer but also relieve the federal government from the ever mounting balance of payment deficit.

Based on the international best practices in the sector it is recommended to improve the pricing models adopted in the Sale Purchase Agreements (SPA) through alternate pricing arrangements- the S-Curve Model, introduction of price ceiling and floor in the contract price which will safeguard the interest of both the seller and the procurer of LNG.

Introducing spot market and natural gas hubs in the pricing model, and to renegotiate contract price review period as in both the long term Sale Purchase Agreement (SPA) the price review is after 10 years. This will result in a more competitive and affordable price of LNG secured in the upstream LNG market.

In the midstream LNG/RLNG market, competitive tolling tariff and port charges will result in a lower price of RLNG. The study also urges the gas transmission and distribution companies, SSGCL and SNGPL for improvement in their network for efficient RLNG handling.

In the wake of depleting indigenous gas resources and the continuously rising energy import bill, the study also recommends greater focus of the government on renewable energy resources to meet the growing energy demand and energy sustainability. - APP

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CCP seeks comments on LNG sector study

Staff Reporter

Islamabad

The Competition Commission of Pakistan (CCP) has conducted a detailed study on the Liquefied Natural Gas (LNG) sector in Pakistan from the lens of competition. The study, 'Competition Assessment of the LNG sector in Pakistan' is completed under the CCP's mandate to carry out market studies to assess competition vulnerabilities and to promote competition in all spheres of commercial economic activity.

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Additionally the competition assessment of the regulatory framework highlights the vagueness created around the classification of LNG and RLNG by the Federal Government according to which RLNG is included in the list of petroleum products whereas the status of LNG is unclear, resulting in the non-exemption of LNG from Sindh Infrastructure Cess (SIC) as against its exemption on petroleum products resulting in higher price of RLNG.