



OIL AND GAS REGULATORY AUTHORITY
REQUEST FOR
EXPRESSION OF INTEREST

SELECTION OF CONSULTANT(S) FOR DETERMINING RATE OF RETURN FOR GAS UTILITIES

Oil & Gas Regulatory Authority (OGRA) intends to carry out a study for determination of Rate of Return (ROR) for the natural Gas Sector, to be earned by companies undertaking the regulated activities of Transmission, Distribution & Sale and Integrated Companies in Pakistan. The study shall suggest the mechanism for determining the rate of return, assess its financial and economic impact on gas company, gas prices and country's integrated energy strategy. Study shall include recommendation along with detailed elaborations of market indices and methodologies. The consultant(s) shall complete the assignment within 90 days of commencement of the study.

2. OGRA invites reputable international/national consultant(s)/firms having minimum of ten years experience in tariff evaluation, financial analysis or capital market advisory services with special focus on profitability of the companies in energy sector of Pakistan. Interested consultant(s) must provide information indicating that they have financial expertise to undertake the assignment. Expression of Interest shall also include detailed technical resume of key members highlighting the experience relevant to the subject assignment, as mentioned under the head of Evaluation Criteria of TOR.

3. Consultant(s) in the business of oil & gas sector may have the expertise to complement their respective areas of expertise, strengthening the technical responsiveness of their proposals and make available the bigger pools of experts.

4. OGRA invites Electronic Expression of Interest (EOI) from the Consultant Firms/ Consultant, registered with Income Tax and Sales Tax Department for the services of (description of consulting service). Method of selection (Least Cost) will be used. Electronic Expression of Interest documents containing detailed requirements, terms and conditions is available for the registered bidders on EPADS at (www.eprocure.gov.pk).

5. Bidders should submit the Electronic expression of Interest, prepared in accordance with the instructions in the EOI documents, must be submitted through EPADS on or before March 24, 2025, 11:00 AM. Manual bids, shall not be accepted. The electronic expression of interest (EOI) will be opened on the same day by using EPADS (opening time at least 30 minutes after bid closing time). The bids will be evaluated based on single stage-two envelope procedure under PPRA rules 36(b).

6. OGRA reserves the right in its sole discretion to accept or reject any and / or all the bids under section 33 of PPRA rules, 2004.

7. Scope of Work/Term of Reference (TOR) and evaluation criteria can be obtained from the OGRA website www.ogra.org.pk or PPRA website www.ppra.org.pk.

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Terms of Reference (TOR) for Study on Determining Rate of Return for Gas Transmission & Distribution Companies in Natural Gas Sector of Pakistan

1. Introduction

- i. Oil and Gas Regulatory Authority (OGRA) was established in 2002 by the Federal Government to foster competition, increase private investment and ownership in the midstream and downstream petroleum industry, protecting the public interest while respecting the individual rights and provide effective and efficient regulations and for matters connected therewith.
- ii. OGRA, in pursuance of Section 7 and 8 of the OGRA Ordinance, 2002 determines tariffs for regulated activities whose licenses provide for such determination. The regulated activities include transmission, distribution and sale of natural gas / RLNG to its consumers to ensure fair pricing, keeping in view the costs of alternate fuels while minimizing economic distortions with the intent to ensure operational efficiency and protecting the users from monopolistic or oligopolistic pricing.
- iii. Presently, OGRA determines the revenue requirement/ prescribed prices/tariff in respect of retail consumers of gas utilities viz; SNGPL & SSGCL under cost transfer pricing mechanism in accordance with prevalent tariff regime. Under this regime, revenue requirement / prescribed price is an aggregate of (i) well head gas price (ii) Transmission & Distribution costs and (iii) Return on average operating assets. Currently, return on assets is market based computed on the basis of Weighted Average Cost of Capital (WACC). The existing market-based rate of return for transmission & distribution companies was reviewed in 2017 and implemented effective FY 2018-19 after consultation with Federal Government and stakeholders i.e. Sui companies, as provided under Section 6(2)(t) of the OGRA Ordinance 2002. The WACC is calculated on a pre-tax basis, incorporating the cost of equity and the cost of debt, along with a defined capital structure. Key components for determining WACC include the risk-free rate, market return, market risk premium, beta and cost of debt, among others.

2. Objective of the Study

Gas sector is moving towards liberalization and number of companies have been granted licenses by OGRA to undertake the regulated activities of Transmission, Distribution & Sale of natural gas/RLNG. In order to encourage effective competition in gas sector and to ensure level playing field for existing public sector companies operating under regulated regime; whereas, similar private sector gas companies operating currently under deregulated price regime as per the policy of Federal Government, it is therefore necessitated to conduct study to examine different rate of return models for companies operating under regulated regime and implement the most suitable and reasonable model that could further promote competition and bring efficiency and better service for consumer.

The primary objective of this study is to review, analyze and recommend a revised mechanism to determine reasonable rate of return separately for Transmission, Distribution & Sales as well as Integrated companies operating in Pakistan, keeping in view the relevant provisions of OGRA Ordinance, 2002 and Rules made thereunder, while considering latest gas sector dynamics including demand/supply, price volatility, market liberalization and benchmarking in this regard undertaken world over.

3. Scope of Work

The consultant is required to undertake the following tasks:

- i. Review of Current Rate of Return Regime:**
 - Examine the existing framework and basis for determining the rate of return for Gas Transmission, Distribution & Sales and Integrated companies in Pakistan.
 - Analyze the current return model applicable in gas and electricity sector of Pakistan and globally for similar nature of businesses.
 - Provide detailed assessment of the principles, methodologies and outcomes of various frameworks used globally in similar operating conditions.
- ii. Evaluation of Rate of Return Mechanism:**
 - Evaluate current and alternate rate of return models for determining the rate of return and assess its effectiveness in balancing stakeholder interests.
 - Evaluate the impact of volatility in interest rates and capital market on various rate of return models as well as prescribed price.
 - Evaluate the adequacy of the existing capital structure in determining a fair and reasonable return.
 - Evaluate and assess market risks in case of each regulated activity viz: Transmission, Distribution & Sale and Integrated business model and provide comparison with international data.
 - Evaluate and advise Rate of Return in terms of Rupee per unit of gas sold by transmission, distribution, sales or integrated business as may be in practice internationally.
- iii. Propose Rate of Return:**
 - Propose separate rate of return for Transmission, Distribution & Sale and Integrated Companies keeping in view the best internationally implemented return models.
 - Propose possible alternate rate of return models like floating, return on equity, return on assets, price cap/revenue cap models etc.
 - Identify and evaluate the data sources to be used for calculating the rate of return, including market data, historical financial data, and risk assessments.
 - Develop a detailed mechanism for computing the proposed rate of return.
 - Suggest appropriate mechanism to absorb unexpected/high volatility in capital market indicators.
 - Recommend alternative methods or data sources that could improve accuracy and fairness in the return calculation.
- iv. Development of a Financial Model:**
 - Prepare a financial model that simulates the impact of alternative rate of return models on the financial performance of Gas Transmission, Distribution & Sale and Integrated companies.
 - Assess the financial impact of different rate of return models on Gas Transmission, Distribution & Sales and Integrated companies returns, consumer tariffs and the overall energy sector.
 - Evaluate the implications of alternative models on stakeholders, including industries, consumers, and the Government.

4. Deliverables

The consultant has to provide the following deliverables:

1. Draft Report as per the scope of work specifically indicating detailed methodology for revised rate of return as well as suggesting separate rate of return for each regulated activity viz; Transmission, Distribution & Sale and Integrated companies, keeping in view the local business dynamics and the international framework as well as benchmarking, including an Impact Assessment on energy price.
 2. Final Report incorporating feedback from OGRA as well as stakeholders and Consultant view/recommendation on the same.
 3. Financial model as per Sr. no. iv of Scope of Work.
5. **Procedure of open competitive bidding:** -The bids will be evaluated on Single stage-two envelope procedure under PPRA rules 36(b).

Evaluation Criteria

Sr. #	Description	Points Assigned	Criteria Description
1	Profile of Consultant and the team:		
a.	Organizational structure of the firm: Number of Partners (subject to evidence to be enclosed)	10	No. of the Partners: Above 20= 10 points. Partners 10-19= 7.25 points. Partners less than 10 = 5 point.
b.	Permanent Manpower Strength (subject to evidence to be enclosed)	10	Strength above 250 = 10 Points. Between 150-249= 8 points. Between 100-149 = 5 points. Less than 100 = 3 points
c.	Relevant expertise and experience of the team members in energy sector (subject to evidence to be enclosed)	10	Experience above 10 Yrs = 10 Points, Between 5-9= 7 points. Between 1-4= 5 points.
	Sub-total marks	30	
2	Relevant experience of natural gas sector studies / consultancies:		
a.	Total work experience of the firm in undertaking studies on natural gas sector of Pakistan (share name of studies as well as clients)	15	Firm experience > 10 years = 15 Marks. Firm experience > 5 years = 7.5 Marks. Firm experience > 2 years = 3 Marks. Firm experience > 0 years = 0 Marks.
b.	Specific experience of the firm is undertaking studies in respect of determination of rate of return for energy sector.	15	Firm experience > 05 years = 15 Marks. Firm experience > 03 years = 9 Marks. Firm experience > 02 years = 6 Marks. Firm experience > 0 years = 0 Marks.
	Sub-total marks	30	
3	International Affiliations:		
	Affiliation or partnership with internationally recognized firms or associations.	20	Firms with global affiliation or partnership to receive maximum score. Firm with no international affiliation shall get nil score.
4	Methodology and Approach:		
a.	Comprehensive approach for completion of assignment	10	Detail about team formation for carrying out the study vis-à-vis activities performance envisaged including report outlining the methodology, approach, and work plan for the assignment, including timeline and key milestones.
b.	Complete methodology assignment considering Resource, work/jobs and timelines	10	Quality and clarity of the proposed methodology and approach to the study. Methodology for collection of data= 3, Data analytic techniques for local & international data = 4, Use of advance software for devise of financial model = 3 Points
	Sub-total marks	20	
	TOTAL	100	

Note: the bids will be evaluated based on Single stage -two envelope procedure under PPRA rule 36(b)