

No decision on unbundling of SSGC, SNGPL

ISLAMABAD: The Cabinet Committee on Energy (CCoE) on Thursday deferred a final decision relating to unbundling of gas utilities — Sui Northern Gas Pipelines Ltd (SNGPL) and Sui Southern Gas Company Ltd (SSGCL) — and instead decided to constitute a sub-committee to examine the proposal at length and see if domestic consultants could come up with a way forward.

The meeting of the CCoE was presided over by Minister for Planning Asad Umar and attended by Minister for Energy Omar Ayub Khan, Minister for Information and Broadcasting Shibli Faraz, Adviser to the Prime Minister on Finance Abdul Hafeez Shaikh and Special Assistant to the Petroleum Nadeem Babar as well as official of various divisions.

The meeting discussed a proposal of Petroleum Division on reforms and restructuring of the gas transmission and distribution system. Informed sources said the committee desired that before looking for international transaction/financial adviser, it should be examined if local expertise was not available.

It “directed the Petroleum Division to prepare a comprehensive strategy for regulatory and policy reform of gas sector,” an official statement read. The meeting also directed that short term measures for efficiency enhancement and loss reduction should immediately be implemented.

CCoE forms sub-committee to examine the proposal

The meeting generally agreed that for the longer term, road map to a competitive gas market was required where private sector should perform an active role. It decided to set up a sub-committee, for which names would be finalised later, for regular monitoring of the overall progress on reform agenda and implementation of decisions.

In its summary to the CCOE, the Petroleum Division had sought approval of five major initiatives as part of its reform agenda committed with the lending agencies under the IMF programme. An independent consultant KPMG, a financial sustainability group comprising senior officials of gas companies, World Bank and Petroleum Division and the Oil & Gas Regulatory Authority (Ogra) had opposed the proposal on various grounds.

The Petroleum Division had proposed immediate appointment of a transaction adviser/financial adviser through a competitive process to work out unbundling of SNGPL and SSGCL into five companies or more companies.

It also sought a direction to the two gas utilities to equally share the cost of transaction adviser and the regulator should allow this cost recovery from consumer end tariff as part of revenue requirement of gas utilities, else the government should explore financing from lending agencies.

As part of the unbundling, the summary proposed creation of a National Gas Transmission Company (NGTC) to take over transmission system of both Sui utilities to operate as a common carrier for existing and newly formed gas distribution companies like National Transmission & Desptach Company in the power sector.

It expected the third party access by private firms to the NGTC gas network instead of itself engaging in sales and purchase of gas but only transport gas and charge wheeling costs to all suppliers and purchasers of local gas or imported liquefied natural gas (LNG).

It proposed that the distribution network of both would then be divided into multiple gas distribution companies within the area of their jurisdictions for operation of smaller business units or distribution companies.

"The companies would be established on technical and economical basis including population, network density, gas demand, workload and management/supervision and efficiency for the sustainability of newly formed gas distribution companies," the Petroleum Division had recommended.

The Petroleum Division had also sought approval in principle for "a mechanism of weighted average sale price equalisation or any other suitable mechanism (that) would be developed for gas sale pricing and the same would be implemented simultaneously".

The summary has been opposed by the regulator and advised that "mechanism/approach of unbundling should first be decided in consultation with all the stakeholders/ provincial governments including approval of the Council of Common Interests (CCI) before the appointment of any consultant since terms of reference of such consultant shall depend on the mutually agreed mechanism".

It said the experience showed no fresh party other than existing made any progress despite having licences due to port and pipeline constraints.

It also opposed the bifurcation of two existing companies into five or multiple entities before the completion of advisory task by the transaction adviser, specifically the feasibility of proposed reforms in the first place. It also advised that TORs of transaction adviser should stem from concerted consultations among stakeholders including federal and provincial governments duly approved by the CCI.