INTERNATIONAL THE NEWS

Ogra unveils market-based tariff regime for gas utilities

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KARACHI: Oil and Gas Regulatory Authority (Ogra) on Monday unveiled new tariffs regime for gas distribution companies under which their rates of returns were revised up on the basis of market dynamics.

Under the new tariffs regime, fixed rate structure used to calculate rate of return on assets and subsequently profitability, would be replaced with a weighted average cost of capital (WACC). Consequently, the new rate of return calculated for the transmission assets would be 16.28 percent as against 11.83 percent, while it would be 17.43 percent compared with 12.7 percent for distribution.

Brokerage Taurus Securities said higher rate of return is due to use of a pre-tax WACC.

“Till the time the companies are bundled, the return for distribution will prevail and will be passed on to shipper,” the brokerage said in a flash note.

The new tariffs regime also proposed tax not to be treated as a pass-through item as initially proposed.

Arif Habib Limited said Ogra notified determination of market-based returns for the companies from FY2019 onwards.

The WACC is for the next three years (FY2019-FY2021). However, any variation of greater (or less than) of two percent will be adjusted in the prevailing years’ revenue.

Sui Southern Gas Company (SSGC) and Sui Northern Gas Pipelines (SNGPL) were previously preparing financials using fixed return on operating assets formula at 17 percent and 17.5 percent, respectively.

Analysts said new tariffs would be a sigh a relief for investors.

Gas utilities could also counter growing debt financing costs under the new tariffs regime. Debt is set to form a major component of capital structure owing to an expected construction of re-gasified liquefied natural gas (RLNG III) project. Their projects are usually based on 70 percent debt and 30 percent equity. The country has two RLNG terminals with 1.2 billion cubic feet/day capacity.

Assets will continue to be assessed at historic values under the new regime. No changes have been made on account of expenses incurred during operations. Operating expenses exclude financial and debt servicing charges, taxes and dividend payments. However, late payment surcharge to gas suppliers will be treated as operating expenses.

Operating income consists of meter rental and service charges, late payment surcharge, 50 percent of income from meter manufacturing, 50 percent of income from LNG/natural gas liquids and transportation charges.

“This poses further upside for SSGC in particular given its recent focus on providing LPG (liquefied petroleum gas) to areas not accessible by pipelines,” Arif Habib Limited added.