



20<sup>th</sup> November, 2015

Mr. Khaqan Abbasi,  
Minister of Petroleum,  
Islamabad

Sub: Allegation of Violation of PPRA Rules on Award of Unsolicited LNG Procurement  
Contract to a Commercial Group of Qatar

Dear Sir,

Transparency International Pakistan refers to its letter dated 24<sup>th</sup> 2015, on the complaint that PSO in violation of PPRA Rules, has awarded an unsolicited US \$ 22 billion LNG Procurement Contract to a Commercial Group of Qatar, and no reply has been given to TIP as yet.

Transparency International Pakistan has received a complaint on the allegation of violation of rules of PPRA in the deal with Qatar, and other issues have been raised.

The complainant has made the following allegations;

1. It was reported in the press on 28.10.2015 that the Minister of Petroleum has announced in a Seminar that the long terms 15 year deal with Qatar Company has been finalized.
2. It has also been reported in press that the deal with Qatar will be at 14.25% of Brent.
3. According to NYMEX Henry Hub pricing for natural gas futures contracts the Natural Gas spot prices on 18 November 2015 in USA were quoted at US \$2.11/mmbtu.
4. The Consultants from UK appointed by GoP on LNG import has advised the Ministry not to award LNG Contract for more than 5 years.
5. That Australia is significantly adding to global liquefied natural gas (LNG) supply capacity. Two new facilities started LNG exports within the last 12 months, and 5 more projects are under construction, scheduled to come online by 2018. With this growth, Australia is expected to overtake Qatar and Malaysia to become the world's largest LNG exporter, with 11.4 billion cubic feet per day (Bcf/d) of liquefaction capacity by 2019.
6. The Minister of Petroleum has made the announcements in the Seminar held on 27<sup>th</sup> October 2015 that

*“The government has to enter into a long term contract for purchase of LNG, as there are few suppliers and bulk of the sale in LNG market is made on long term basis”. He also added that mostly price of LNG moves in tandem with Oil prices and is calculated as percentage of Brent Crude Oil.*

*He said that deal with Qatar was made because it supplies 30 % of the world's LNG and has close geographical proximity to Pakistan. He also said that Iran Pakistan gas pipeline will add 700 MMCFD gas in our network but the pipeline is not scheduled to be completed before the end of 2017.*





The gathering was also informed that OGRA has fixed a price of \$ 8.64 / MMBTU for LNG for end consumers which will initially include Power, Fertilizer and CNG sectors.

7. According to officials, the USAID consultant has recommended sealing short term LNG import deal for two to five years to benefit from a price cut in the global market. The consultant had also forecast the possibility of a further reduction in the LNG price in the global market to as low as \$6 per MMBTU in coming years due to shale gas production by US and Australia.

*QED Forecast 2015 . Is LNG becoming a true commodity? Many industry players expect total global LNG trade to overtake total global pipeline gas trade by 2030. With short term or spot trade now making up 25% of total LNG supply (double that of a few years ago), we can start to see a trajectory for LNG that is akin to trade in the more liquid oil markets. High prices for LNG has in part led to the relatively slow uptake of LNG in new markets. This is rapidly changing with many new countries considering developing LNG import terminals to alleviate gas shortages or to replace more costly oil imports for power generation. With the drop in crude oil prices and diversification away from oil-indexation, LNG is becoming more affordable. The abundance of LNG supply over the next decade will lead to higher volumes of short term trading and an increase in the momentum of change from oil-indexed prices to gas market indexation.*

8. Mr. Arshad Abbasi of SPDI has said that the energy cost component of tariff, for the month of September is self-explanatory and almost killed the propose of LNG, when the cost generation beside low efficiencies is touching the figure of only 7.95 per Unit (KWh), which can never be achieved by using LNG for power generation.

	GWh in Sept 2014	Rs/KWh	GWh in Sept 2015	Rs/KWh
<b>HSD</b>	320	20.6018	106.89	13.2478
<b>RFO</b>	2779.77	15.7363	2297.87	7.9585
<b>Gas ( local)</b>	1876.14	4.8855	2737.42	5.4872

9. NEPRA vide reference No. NEPRA/UTRLNG-01/4824-4826 dated **14 April 2015** has determined the tariff for 220 MW power plant on RLNG at US \$ 12 /MMBTU as 10.5541 Cents /KWh.
10. NEPRA/TRF-271/NPGCL-2014/5617-5619 dated **April 14, 2015**, electricity cost with High Sulpher Furnace Oil ( taken without GSDT at Rs 38,000 per ton) is 10.4400 Cents /KWh. This may be noted that in this tariff Capital Cost of Nandipur is 100% higher than market value.

The Ministry of Petroleum in view of the complaint is requested to clarify following issues;

- A. Why LNG is used for Power Plants when the Electricity generated with Furnace Oil is costing Rs 7.96/KWh against Electricity with RLNG is costing Rs 11.20/KWh, i.e, over 30% costlier.



Why price of LNG from Qatar is being set at 14% on Brent, when India and China have executed agreements for LNG at 9% on Brent, as stated by Mr. Arshad Abbasi of SPDI.

Why short term deal of less than 5 year as advised by GoP Consultants appointed for this purpose is not considered by Minister.

Why tenders are not invited, as Qatar Gas is not State of Qatar, and PPRA is applicable in deal with Qatar Gas.

What will the Cost increase of RLNG due to 1100 KM Gas Pipeline Contract awarded to Russia at US \$ 2.4 Billion. This is important as due to investment by Engro of US \$ 130 million in LNG Terminal at PQA, cost increase approved by SSGCL is US \$ 0.66/MMBTU on non competitive basis, and will this cost be added to the cost of RLNG?

Why OGDC was not allowed to process/award Contracts for enhancing production of domestic energy sources such as gas, crude oil from following Gas/Oil wells, which were scheduled to be completed in 2013 and 2014, which would have produced Gas over 200 MMSCF

1. Uch-II Development Project completion date November, 2013
2. KPD-TAY Project completion date February, 2014
3. NASHPA / MELA Project completion date June, 2014.

Transparency International Pakistan is striving for across the board application of Rule of Law, which is the only way to stop corruption.

With Regards,

  
Sohail Muzaffar  
Chairman

Copies forwarded for the information with request to take action under their mandate to:

1. Secretary to Prime Minister, Islamabad.
1. Chairman, NAB, Islamabad.
2. Chairman, Prime Minister's Inspection Commission, Islamabad.
3. Registrar, Supreme Court of Pakistan, Islamabad.
4. Managing Director, PPRA, Islamabad.
5. DG, NAB, Karachi