



# OIL & GAS REGULATORY AUTHORITY (OGRA)

## PRE-QUALIFICATION NOTICE

### SELECTION OF FIRMS FOR CARRYING OUT INLAND FREIGHT EQUALIZATION MARGIN (IFEM) AUDIT OF OIL MARKETING COMPANIES AND REFINERIES

Oil & Gas Regulatory Authority (OGRA) intends to appoint firm(s) for carrying out a comprehensive Inland Freight Equalization Margin (IFEM) audit of oil marketing companies and refineries for the period **April 01, 2006 to December 31, 2006**, confirming that the IFEM mechanism followed by OMCs and refineries is in compliance with Federal Government guidelines.

Detailed Terms of Reference (TOR) including the scope of services may be obtained from the address given below or downloaded from OGRA's website ([www.ogra.org.pk](http://www.ogra.org.pk))

The audit is required to be completed within twelve weeks from signing of contract.

OGRA invites reputable accounting firms for prequalification, having minimum ten years experience of carrying out audit of large petroleum sector companies. Interested firms must provide following information per evaluation criteria for technical score assessment;

S. No	Description of information	% age Score
1.	General audit experience in petroleum sector.	25
2.	Specific experience: IFEM audit	20
3.	Assignments undertaken as lead firm	15
4.	Work-plan and methodology.	15
5.	CV / list of core members of the team along with qualification and experience.	15
6.	Establishment in Karachi / Lahore / Islamabad / Peshawar.	10
	<b>TOTAL</b>	<b>100</b>

The firm may associate technical experts to enhance their capacity to meet the specialized nature of the assignment.

The firm shall provide technical and financial bids sealed in two separate envelopes for the assignment along with information for pre-qualification. Financial bids for firms having minimum technical score of 70% will be opened and assignment shall be awarded on the basis of the lowest cost without any conditionality. Conditional bid shall be treated as non-responsive. Unopened financial bids will be returned to the bidders.

Interested firm may obtain further information at the address given below from **0900 to 1730 hours.**

Application along with requisite information must be delivered to the address below by no later than **May 10, 2007.**

**Executive Director (Finance)**  
**OIL & GAS REGULATORY AUTHORITY**

**Tariq Chamber, Block No. 2, Civic Center, G-6, Islamabad**  
**Phone: 051-9221715**

## **Terms of Reference (TOR)**

### **BACKGROUND**

Inland Freight Equalization Margin (IFEM) is an integral part of Ex-depot sale price of regulated fuel products. This mechanism is used to maintain the equalized prices at the 29 Depot Locations across the country regardless of the distance and mode of transport used and applicable transportation cost. IFEM is computed and managed by OCAC under Self Management System per MPNR's letter No. PL-3(127)/2006, dated March 22, 2006, communicated to OGRA (**Annex-I**).

2. Following are the three main components of IFEM

- **Oil Marketing Companies (OMC) IFEM.**

Each OMC develops a Product Movement Plan (PMP) and presents it to the IFEM Sub-Committee of the Oil Companies Advisory Committee (OCAC). The PMP matches sources and quantities of supply with demand in various regions. PMP is based on the following principles

- 29 specified depot locations.
- Most economical mode of transportation.
- Within parameters of refinery product availability.

Noted Cost for each OMC is arrived at based on the PMP for 29 depots/locations and special area wise volumes and applying the most economic means of transportation for each product through the three available means, namely Pipeline, Rail and Road. Product-wise OMC specific noted cost is calculated by applying location-wise freight rate on PMP volumes. Product-wise industry noted cost is calculated based on weighted average of OMC specific noted costs, which is also called OMC IFEM.

- **PARCO Petroleum Differential Claim (PDC) / Jet A-1 Freight**

As specified in the "Implementation Agreement" (IA) PARCO is entitled to an Import Parity Price (IPP) based on the average of three day Arab Gulf mean of high & low prices as quoted in Platts, for the respective supply period plus applicable Pipeline or Rail Freight to arrive at the PARCO price. PARCO is allowed to charge OMCs at OGRA announced ex-refinery prices on its sales during the fortnight. The difference between the PARCO Price and OGRA announced Ex-Refinery Price called PARCO Price Differential, which is reimbursed to PARCO through the Refinery IFEM mechanism. Per liter incidence is calculated on actual volumes supplied by PARCO during the fortnight and necessary adjustments made in the following fortnight.

PARCO is also entitled to claim freight on Jet A-1 as per Government of Pakistan decree. Jet A-1 freight is reimbursed on actual volumes sold to OMCs at a cartage rate approved by OCAC on the basis of the formula approved by the Ministry of Petroleum. The impact of this freight is loaded on to the IFEM of regulated products.

- **Attock Refinery Limited (ARL) Southern Crude Freight.**

The Ministry of Petroleum has allowed reimbursement of freight cost to ARL on transportation of Southern Crude (earlier through Development Surcharge Freight) now through IFEM mechanism. Actual transportation cost incurred by ARL on transportation of Southern Crude is provided to the IFEM Sub-Committee of OCAC and the Per liter incidence is periodically calculated, which is then incorporated in the IFEM component.

### 3. ROLE OF OGRA

Oil and Gas Regulatory Authority (OGRA) had been mandated by the Federal Government vide Cabinet's decision No. 41/03/2006, dated March 02, 2006, to fix prices of petroleum products namely MS 87 RON, HOBC, Kerosene Oil, Light Diesel Oil, JP - 1 and JP- 4, w.e.f. April 01, 2006, in accordance with the prescribed formula. Under the policy guidelines forwarded by Ministry of Petroleum and NR, IFEM is to be recommended by the OCAC under the self management system. In order to check & ensure the authenticity & transparency of IFEM system, OGRA has decided to arrange six monthly independent audits that will address all its critical aspects and functionalities.

### 4. Objective/Scope of the Audit

I. Review and examine existing IFEM mechanism followed by OMCs and refineries with the view to identify the grey areas, where OMCs/refineries are not in compliance with Federal Government guidelines, inter alia covering demand of the regions for specific products and its movement from the 29 depots/locations, as well as supply to the special areas (AJK, Northern areas and Balochistan).

II. Verify & confirm that volumes transported by each OMC against the PMP volumes, reflects the demand of the area (also including special areas) fed from the depots/locations on the basis of petrol pump and vehicle population and other categories of consumers including supply through agencies, for each OMCs.

- III. Verify the authenticity of actual amounts claimed verses the projected Noted Cost as IFEM during the period 1<sup>st</sup> April 06, to December 31, 2006.
- IV. Compute the actual IFEM on a fortnightly basis during the audit period. Ascertain whether the adjustments reflect actual difference between the projected and actual cost of IFEM.
- V. To ensure that transportation is being carried out on most economical mode of transportation.
- VI. To ensure that the net volume purchased by the oil marketing companies does not include any volumes that has been exported subsequently by the OMCs.
- VII. Verify that OMC's off-take is in accordance with the refinery production per agreed capacity levels as reflected in IFEM computations.
- VIII. Provide details of pipelines capacity utilization on a fortnightly basis for the audit period.
- IX. Verify that the transportation costs are being computed per approved rates by MPNR.
- X. Verify the inventory at various depots / locations and also in special areas, and reconcile with the sale from each depot/location.
- XI. Identify the amount of freight cost claimed in respect of petroleum agencies by each OMC from each depot/location.
- XII. Document and verify the PD claim of PARCO and ARL claimed through IFEM mechanism.

5. **Timeline:**

The Audit is to be completed within twelve weeks of start of assignment.

6. Reports and Time Schedule is attached as (**Annex - II**).

No: PL-3(127)/2006

Government of Pakistan  
Ministry of Petroleum & Natural Resources

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Islamabad, the 22<sup>nd</sup> March 2006

The Chairman

~~Oil and Gas Regulatory Authority~~

Islamabad.

Subject: - TRANSFER OF PETROLEUM PRODUCTS PRICING FUNCTION TO OIL AND GAS REGULATORY AUTHORITY (OGRA)

Dear Sir,

The Federal Government has decided to transfer pricing functions of Petroleum Products to OGRA w.e.f. 1<sup>st</sup> April 2006. In this regard a gazette notification dated 15.3.2006 has since been issued.

2. The ex-depot sale prices of the petroleum products i.e. MS 87- RON, HOBC, Kerosene Oil, Light Diesel Oil, JP-1 and JP-4 prices are to be notified on fortnightly basis, to take effect from 1<sup>st</sup> and 16<sup>th</sup> of each month by the OGRA instead of OCAC.

3. The formula for determination of ex-depot sale prices is given below:

i) The copies of the formula for fixation of ex-refinery prices duly approved by ECC on 23.12.2000, viz-a-viz the then formula and the subsequent modifications made in this formula from time to time given below:

- a) Copy of Import Parity Pricing formula approved by the ECC on 23.12.2000 formula - Annexure-I.
- b) Copy of amendments made in 2001 in the above formula - Annexure-II.
- c) Copy of amendments (Tariff Protraction) made in 2002 in the above formula - Annexure-III.

ii) The Excise/Customs duty on petroleum products as per CBR notifications.

iii) Petroleum Development Levy as notified by the Ministry of Petroleum and Natural Resources. Copy of prevailing PDL notification is at - Annexure- IV

IV) Inland Freight Equalization Margin (IFEM) as recommended by the OCAC under the self management system based on the following elements:-

- a) Actual transport cost on the movement of petroleum products up to 29 storage depots as per movement plan.
- b) PARCO's IFEM component will be adjusted fortnightly, based on the differential of the Import parity pricing of NRL, PRL and ARL (as per item "1" above) and that of PARCO's formula specified in its Implementation Agreement. Likewise ARL's IFEM will be adjusted as the differential for the crude transportation costs, as approved time to time - Annexure-II.

V) The Distribution Margin and Dealer Commission will be determined as per formula dated 7.3.2006 - Annexure-V.

VI) GST @ 15% of depot price including all above elements - Annexure-V.

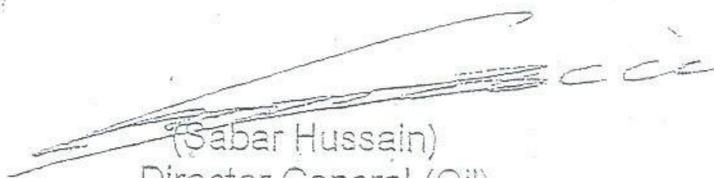
4. JP-1 pricing mechanism, till further amended, shall be followed as per formula enclosed - Annexure-VI.

5. The maximum ex-depot sale price of petroleum products mentioned at para-2 above will be uniform up to 29 storage depots of OMC's across the country - Annexure-VII.

6. The price differential claim due to GOP decision, if any based on audit certificates will be payable by GOP only to those refineries/OMC's operating under the GOP approved pricing formula.

7. Copy of price notification issued by OCAC effective March 2006 is enclosed - Annexure-VIII.

8. It may be mentioned that the Federal Government has approved a policy guideline to OGRA to consult Ministry of Petroleum & Natural Resources prior to the notification of petroleum products prices.

  
(Sabar Hussain)  
Director General (Oil)

Cc forwarded to:

Secretary Cabinet Division, Islamabad.

## Annex - II

### REPORTS & TIME SCHEDULE

S.NO	Report	Time/completion Schedule from the date of contract signing
1.	Comprehensive report documenting the IFEM mechanism, also identifying gray areas in existing IFEM system that are not in conformity with the policy framework, with the view to introduce efficiencies.	Within four weeks of start of assignment.
2.	Report on product-wise IFEM recoveries of each OMC and transportation costs incurred which should show, amongst other things, the surplus/deficit generated in their freight pool pertaining to transportation costs during the audit period.	Within six weeks of start of assignment.
3.	Report on product-wise IFEM recoveries and refinery freight incurred which should show, amongst other things, the surplus/deficit generated in their freight pool pertaining to refinery freight during the audit period.	Within eight weeks of start of assignment.
4.	Report on PARCO PDC & JP1 recoveries thereof through FPSM mechanism which should show, amongst other things, the surplus/deficit in their books of accounts during the audit periods.	Within nine weeks of start of assignment.
5.	Report on ARL IFEM recoveries and transportation costs incurred which should show, amongst other things, the surplus/deficit generated in their freight pool pertaining to crude transportation costs during the audit period.	Within ten weeks of start of assignment.
6	Submit a consolidated report to OGRA for refinery cost, transportation costs and recoveries under the FPSM scheme and the net surplus or deficit in the freight pool for the audit period	Within twelve weeks of start of assignment.