Case No. OGRA-6(2)-2(1)/2017-Review

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IN THE MATTER OF

SUI SOUTHERN GAS COMPANY LIMITED MOTION FOR REVIEW FOR FINAL REVENUE REQUIREMENT, FY 2016-17

UNDER

OIL AND GAS REGULATORY AUTHORITY ORDINANCE, 2002 AND NATURAL GAS TARIFF RULES, 2002

DECISION

ON

MAY 10, 2018

Before:
Ms. Uzma Adil Khan, Chairperson
Mr. Noorul Haque, Member (Finance)
Dr. Abdullah Malik, Member (Oil)

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1. BACKGROUND.

1.1. Sui Southern Gas Company Limited (the petitioner) is a public limited company, incorporated in Pakistan, and is listed on Pakistan Stock Exchanges Ltd. The petitioner is operating in the provinces of Sindh and Balochistan under the license granted by Oil & Gas Regulatory Authority. It is engaged in construction and operation of gas transmission and distribution pipelines, sale of Natural Gas, Liquefied Petroleum Gas (LPG), Air-Mix LPG, Gas Condensate, Natural Gas Liquids (NGL) and manufacture and sale of gas meters. The petitioner is also engaged in the business of Re-gasified Liquefied Natural Gas (RLNG) in accordance with the decision of the Federal Government (FG/GoP).

1.2. The petitioner had filed a petition on August 26, 2017 under Section 8(2) of the Oil and Gas Regulatory Authority Ordinance, 2002 (the Ordinance) and Rule 4(3) of the Natural Gas Tariff Rules, 2002 (NGT Rules), for determination of its Final Revenue Requirement (FRR) for FY 2016-17 (the said year) on the basis of the accounts as initialed by its statutory auditors. The Authority, vide its decision October 26, 2017 determined a shortfall of Rs. 11,502 million and allowed an increase of Rs. 31.25 per MMBTU in the average prescribed price w.e.f July 01, 2016.The above said increase also includes Rs. 18,360 million being recovery arising out of the decision of honorable Sindh High Court dated November 25, 2016 in respect of revenue requirements for the periods FY 2010-11 to FY 2014-15. The financial impact of Rs. 36,719 million has been staggered in two equal installments in FY 2015-16 and FY 2016-17 in the light of permission granted by Securities and Exchange Commission of Pakistan.

1.3. Being aggrieved by this determination, the petitioner has submitted a motion for review on November 24, 2017 under Rule 16 of NGT Rules, seeking average increase in prescribed price of Rs. 74.86 per MMBTU (i.e. Rs. 27,554 million) over and above the current average prescribed price w.e.f July 01, 2016.

1.4. The petitioner, during the hearing held on March 06, 2018 amended its petition, and submitted the revised motion for review (the petition) on March 07, 2018 on account of meter manufacturing profit and new towns and villages. The petition has sought average increase in prescribed price of Rs. 75.92 per MMBTU (i.e. Rs. 27,941 million) over and above the current average prescribed price w.e.f July 01,

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2016.

1.5. The petitioner has submitted the following comparative statement of cost of service:

Table 1 : Comparison of Cost of Service for FY 2016-17 per the petition with FRR

		Rs. / MMBTU
Particulars	**FY 2016-17**	
	FRR	**The Petition**
Units sold (BBTU)	368,049	368,049
Cost of gas sold	390.80	390.80
UFG adjustment	(35.26)	(15.79)
Prior Year Adjustment on account of UFG	-	48.39
Prior Year Adjustment on account of change in GCV due to RLNG mix	-	3.99
Transmission and distribution cost including Others	46.28	49.24
Shortfall of previous years	1.69	2.67
Depreciation	15.84	15.89
Return on net average operating fixed assets	32.71	32.77
Other operating income	(34.31)	(34.28)
Financial impact of SHC order	(49.88)	(49.88)
Subsidy for LPG Air-Mix Project	1.25	1.25
Cost of service / prescribed price	369.13	445.05
Current average prescribed price	369.13	369.13
Increase requested in average prescribed price	-	75.92

2. AUTHORITY'S JURISDICTION AND DETERMINATION PROCESS.

2.1. The petitioner has invoked the jurisdiction of the Authority under Section 13 of the Ordinance and Rule 16 of the NGT Rules. Section 13 provides the grounds on which a review petition can be filed, and is reproduced below:-

> *"**13.Review of Authority decision.-** The Authority may review, rescind, change, alter or vary any decision, or may rehear an application before deciding it in the event of a change in circumstances or the discovery of evidence which, in the opinion of the Authority, could not have reasonably been discovered at the time of the decision, or (in the case of a rehearing) at the time of the original hearing if consideration of the change in circumstances or of the new evidence would materially alter the decision."*

2.2. The issues brought forward by the petitioners must necessarily be evaluated with reference to the afore-said Section 13 of the Ordinance and meet at least one of the two pre-conditions given therein referring to ***change in circumstances*** and ***new admissible evidence*** for admission of the motion. Further, the Authority may refuse leave for review if it considers that the review would not materially alter the impugned decision.

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3. PROCEEDINGS.

3.1. The Authority issued notice of hearing on February 28, 2018 to the petitioner. Accordingly, the hearing was held on March 06, 2018 at Islamabad, where the petitioner's team, led by Mr. Amin Rajpoot, Acting Managing Director, was given full opportunity to present its motion for review and the merits of the case with the help of multi-media presentation.

3.2. The petitioner has sought review of the Authority's decision on the following items:-

A. Operating Fixed Assets:

(i) Gas Distribution Systems – New Towns & Villages

B. UFG

(ii) Retrospective application of proposed UFG benchmark

(iii) Pilfered volume in law & order areas

(iv) Pilfered volume - theft by non-consumers

(v) RLNG impact on UFG – swapping indigenous gas to SNGPL & supplying RLNG to Karachi consumers through distribution network

C. Transmission & Distribution (T&D) Cost:

(vi) Recoveries/Allocations – 17 km pipeline contribution cost related to RLNG

(vii) Revenue expenditure relating to RLNG – Gas internally consumed

(viii) Provision for Doubtful Debts

4. DISCUSSION & DECISION

A. **Operating Fixed Assets**:

i. **Gas Distribution Systems – New Town & Villages**

4.1. The petitioner has claimed an additional amount of Rs. 264 million under the head of New Towns and Villages – Gas Distribution System.

4.2. The petitioner has stated that during the processing of FRR the said year, capitalization of an amount of Rs. 583 million was mistakenly communicated to the Authority under the head of New Towns and Villages whereas actual capitalization (taken for return purposes) in this head was Rs. 555 million and not

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Rs. 583 million. On this fault of the company, the differential amount of Rs. 28 million was deducted twice from the rate base, resulting into excess disallowance of Rs. 28 million. The petitioner has clarified that in the FRR petition, it had claimed Rs. 555 million against the head of New Towns and Villages and Rs. 27 million against "Notional Assets (IAS 20 disclosure Requirement)", which actually relates to the Gas Development Schemes being differential of interest rate of soft term loan granted by Provincial Govt. for Gas Development Schemes and the rate of commercial loan prevalent in the market.

4.3. The Authority notes that the petitioner vide its FRR petition had claimed an amount of Rs. 555 million against the head of New Towns & Villages and Rs. 27 million against the head of "Notional Assets – IAS 20 disclosure requirement". However, in a later communication during the evaluation of the said petition, the company mistakenly communicated an expenditure of Rs. 583 million against the head of "New Towns and Villages" and did not mention any claim against the head of "Notional Assets – IAS 20 disclosure requirement.

4.4. ***The Authority, in view of the justification furnished by the petitioner, as noted at para 4.2 above, allows an amount of Rs. 27 million against Notional Assets (IAS 20 disclosure requirement) under this head.***

4.5. The petitioner has added that gas development schemes amounting Rs. 44 million were capitalized as leftover jobs of previously commissioned & capitalized schemes and these schemes were earlier approved by the Authority, therefore they request the Authority to allow an amount of Rs. 44 million for the already completed, capitalized and allowed schemes. ***In view of the justification furnished by the petitioner, the Authority allows an amount of Rs. 44 million for already commissioned and capitalized schemes.***

4.6. The petitioner has stated that Gas Development Schemes worth Rs. 382 million were not allowed by the Authority in its FRR determination on the basis that the same do not meet per customer cost criteria and loan may not be considered as grant or resources as the same is required to be returned by the Company to the lender. In this regard, Sindh Government while approving the request of petitioner has converted loan of Rs. 3 billion into grant for the schemes which do not qualify per customer cost criteria of Rs. 54,000/- subject to verification of

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schemes, reconciliation of accounts and necessary amendments to the terms of related loan agreements.

4.7. The petitioner has requested the Authority to allow Rs. 192 million in this regard. *In view of the above noted justification furnished by the petitioner, the Authority allows an amount of Rs. 192 million for the said schemes.*

4.8. *In view of the discussion in the preceding paragraphs, the Authority allows an additional amount of Rs 263 million (Rs. 27 Million + Rs. 44 million + Rs. 192 million) under the head of "Gas Distribution System – New Towns and Villages" for the said year. The Authority, however, advises the petitioner to ensure that gas development scheme comply with the policy of FG on the matter and decision of the Apex Court in CP-20.*

ii. New Towns and Villages Schemes Reclaimed– Shortfall related to prior years

4.9. The petitioner has added that since FY 2012-13 to FY 2016-17, the Authority had disallowed Rs. 1,571 million under the head of New Towns and Villages. After getting approval of the Sindh Government for conversion of the loan amount into grant, they have requested the Authority to allow all the schemes which were previously disallowed by the Authority on the ground that these do not qualify per customer cost criteria.

4.10. The petitioner has requested to allow an amount of Rs.360 million pertaining to FYs 2012-13 to 2015-16. *The Authority in view of the above, allows an amount of Rs. 360 million related to prior years schemes. The petitioner is, however, advised to comply with the policy of FG on the matter and decision of the Apex Court in CP-20.*

B. <u>Un Accounted for Gas (UFG Benchmark)</u>

i. Retrospective application of proposed UFG benchmark

4.11. The petitioner has raised following reservations regarding UFG study conducted by OGRA:

4.11.1. Consultation with the licensee, i.e. the Gas Utility Companies, and independent experts is mandatory for setting up UFG Benchmark in the tariff determination process undertaken by the Authority. This is due to the clear

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provisions of Sections 7 & 8 of the Ordinance and the NGT Tariff Rules, read with the licence granted to the petitioner, condition 21.1 whereof states:

> ***"The petitioner shall take all possible steps to keep the UFG within acceptable limits. The Authority for this purpose in consultation with Licensee and experts, shall fix target of UFG for each financial year. The Authority may fix UFG target separately for each regulated activity".***

4.11.2. No formal consultative process took place hence, the Authority set UFG Benchmarks provisionally for Financial Years 2010-11, 2011-12, 2012-13, 2013-14, 2014-15, 2015-16 and 2016-17.

a. **UFG Computation Formula**

4.11.3. The UFG Benchmark Study recommends a formula to determine the acceptable UFG Benchmark for the gas utility companies as follows:

UFG Allowance = Gas Volume Available for Sale x [Technical Component + Local Challenges Component x Performance Factor]

b. **Technical Component**

4.11.4. Technical Component has been proposed as 5%.

c. **Local Conditions Factor**

4.11.5. Additionally, the formula requires additional allowances on account of specific local conditions within which these two Gas Utility Companies operate. This Local Conditions Factor has been capped at 2.6% for the gas utility companies. The Consultants have endorsed the argument of Gas Companies that certain operating conditions in Pakistan lead to gas losses beyond the control of the Gas Utility Companies.

d. **Performance Factor**

4.11.6. Lastly, the formula has recommended introduction of a Performance Factor by proposing certain KMIs that the gas utility companies should have to achieve if they wish to receive a higher UFG allowance from the Authority. The maximum additional benchmark that the gas utility companies can consequently be given under this Performance Factor is 1%.

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e. **Treatment to Past Years**

4.11.7. The UFG Benchmark Study was required to also finalize the benchmarks set by the Authority for company in the last seven financial years (2010-11, 2011-12,2012-13, 2013-14, 2014-15, 2015-16 and 2016-17). This is so because the Authority, while setting the applicable UFG Benchmarks for the said years itself stated that those determinations were provisional and were subject to review once a UFG study was received by the Authority. Reference in this regard may be made to the following extracts from the noted determinations of the Authority hereunder for reference:

i. Decision dated 02.12.2010 on the RERR for FY 2010-11
ii. Decision dated 24.05.2011 on the ERR for FY 2011-12
iii. Decision dated 18.05.2012 on the ERR for FY 2012-13
iv. Decision dated 01.06.2013 on the ERR for FY 2013-14
v. Decision dated 21.12.2016 on the MFR FRR for FY 2013-14
vi. Decision dated 03.07.2014 on the ERR for FY 2014-15
vii. Decision dated 06.10.2016 on the ERR for FY 2016-17

f. **Prayer by the Petitioner**

4.11.8. It is clear from the various determinations made by the Authority over time to time (referred to above), that the UFG Benchmarks set for the said seven financial years were provisional and subject to review once the UFG Benchmark Study was finalized and approved. The Study, which now stands endorsed through determinations dated 20.09.2017 made by the Authority on the ERRs for the gas utility companies,. has recommended two types of allowances for the gas utility companies. It is therefore the submission of petitioner that the Authority is now mandated by law to apply the factors which first find mention and endorsement in the UFG Benchmark Study, to the earlier financial years. Provisional UFG Benchmarks set at 4.5% for FYs 2010-11, 2011-12, 2012-13, 2013-14, 2014-15, 2015-16 and 2016-17 be finalized at 7.6 %.

Decision of the Authority

4.12. ***UFG benchmarks were fixed by the Authority from FY 2005-06 till FY 2011-2012. Subsequently, the UFG benchmarks were determined by the Authority to be fixed at 4.5 % on yearly basis. The Authority undertook a UFG study for determining UFG Benchmarks of the gas companies through a consultant of international repute vis M/s KPMG Taseer Hadi & Co. Chartered Accountants (KPMG). After***

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a thorough consultative process in stages, at all Provincial /Federal Capitals M/s KPMG submitted the final draft report on 11-7-2017. The Authority accepted the final UFG Study Report and forwarded it to both the gas companies on 30-8-2017 for implementation and compliance.

4.13. *It is mentioned that the Authority, based on above mentioned UFG Study Report, had determined following formula, in DERR dated 20-09-2017, for calculation of UFG:*

UFG Allowance = Gas Received × (a × Rate1 + Rate2 × β)

- *In the above said formula, there is a multiplying factor i.e. alpha (a) of Rate1 which will remain at 1.0 for next five years and the same will be reviewed after 05-year period. Quantification of sub-heads of UFG components for Rate1 will be monitored throughout 5 years.*
- *Rate1 = Technical Component (Inherent gas loss in the system)*
- *Rate2 = Local Challenging conditions component (Pakistan specific)*
- *β = Performance factor (Key Monitoring Indicators)*

Rate 2, in the above mentioned formula, is the allowance for local challenging conditions as compared to the world at large particularly with reference to issues in law & order affected areas and uneconomic expansions resulting in theft, leakages, data / meter errors and non-recovery of gas bills. Allowance for these challenging conditions has been worked out at 2.6%. Further in order to ensure that appropriate and serious efforts are directed towards reducing UFG over the agreed term of five (5) years, the allowance with respect to local challenging conditions component (2.6%) is linked to the achievement of certain Key Monitoring Indicators (KMIs) designed to rectify the problem areas contributing towards UFG. The performance of gas companies towards achievement of KMIs is thus a factor (β) to establish the allowance on account of Rate 2. The better the performance the higher the benefit, upto a maximum of 2.6%. Therefore, the contention of maximum 1% allowance is either misconceived or points towards lack of efforts planned to be deployed by the company for reducing the overall UFG to retain the advantage of variable allowance.

4.14. *The Consultant has also proposed a roadmap with specimen Key Monitoring Indicators (KMIs) and their linkage with the UFG Allowance. KMI has been*

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prepared in consultation with all stakeholders. The twofold mandate of Authority demands it to protect the public interest by respecting their rights and secondly requires it to enable a controlled and regulated environment for the utilities to perform in an efficient and prudent manner. Accordingly, Rate 2 shall be actualized based on petitioner's actual performance at the time of respective FRR.

4.15. *With respect to applicability of UFG benchmark on FY 2010-11 and FY 2011-12 it is again clarified that UFG benchmarks were fixed by the Authority from FY 2005-06 till FY 2011-2012 based on which the FRR till FY 2011-12 stand settled and finalized. Therefore, FY 2010-11 and FY 2011-12 are not relevant for the UFG study; hence the same have not been considered therein nor are the findings of UFG study applicable for these periods. Moreover, FRRs of these two years also do not co-relate to UFG Study. Hence SSGCL's contention is totally against the facts.*

4.16. *From FY 2012-13 onwards, UFG benchmark of 4.5 % was fixed by the Authority plus certain allowances over and above the bench mark were allowed on provisional basis to the Company as per the Policy guidelines of the FG. It is highlighted here that revenue requirements are determined for each financial year after holding thorough consultation sessions through public hearings where every stakeholder, including gas companies, are provided ample opportunity to comment upon all the components forming part of revenue requirement. UFG is one such component which is also open for comments and consultation. Therefore, the contention that no consultation took place while finalizing UFG for FY 2012-13 onwards is baseless.*

4.17. *The Authority notes that from FY 2012-13 onwards it had provisionally allowed certain volumes in the light of policy guidelines, to be reconciled with the results of UFG study. It is hence very clear that variation to the extent of provisionally allowed volumes viz: law and order and non-consumer was to be reconciled and no reference with respect to revision in UFG Benchmark of 4.5% was ever conceived in the respective FRRs. It is to be noted that the benchmark has now been implemented on fixed and variable factors wherein the variable factor is based on KMIs, therefore, in accordance with the KPMG's study/ recommendation, it will not be practicable to assess the performance of the Sui companies on KMIs with retrospective effect. It has also been observed that the*

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Authority has already provisionally allowed a fair and reasonable allowance to cater for the local conditions in the past five years over and above the fixed bench mark of 4.5%. Accordingly, the Authority has concluded and finalized the FRR from FY 2012-13 to FY 2016-17.

4.18. ***The Authority observes that there is no new evidence for review, hence, it maintains its earlier stance in the matter.***

ii. Unaccounted for Gas – RLNG Impact on UFG:

4.19. The petitioner has stated that on the directions of the FG they have undertaken the project of laying transmission pipeline to transport 1.2 bcf of RLNG to the Northern part of the Country. Till completion of the pipeline, company in the larger public interest and on the directives of the FG agreed to supply gas to SNGPL through swapping arrangement of indigenous gas against RLNG. By virtue of swapping arrangement, the RLNG is consumed by the company's customers in Karachi. It is pertinent to mention that volume handled by the company in its distribution system increased by 40% after the induction of RLNG into SSGCL system. Swapping of gas as discussed above resulted into utilization of entire high BTU RLNG in Karachi network which unlike indigenous gas is a lighter gas with low specific gravity.

4.20. The difference in energy (BTU), specific gravity, line pressures and temperature factors of RLNG volumes physically handled by petitioner in its distribution network have affected the system adversely and overall retail UFG volumes of Karachi have been increased from 12 % to 14% and then to 18% when RLNG supplies increased from 200 to 400 MMCFD and then to 600 MMCFD respectively.

4.21. The pricing of the RLNG is governed under ECC decision dated: 14 June 2016 under ring fence methodology which amongst other things allowed distribution losses to be determined and charged at actual to RLNG consumers. The extract of the decision of the ECC is given below:

> "Transmission loss to be determined and charged at actual subject to a maximum of 0.5% (to be shared by gas companies based on length of transmission line involved"

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"Distribution loss to be determined and allowed at actual. The said loss for the customers located on high pressure transmission lines as well as those customers who are willing to lay their dedicated line from SMS/TBS at their own cost shall also be determined and charged at actual, However, for other customers on distribution lines, an actual average UFG for the last financial year will be taken in determination".

4.22. The pricing model adopted by ECC was based on the fact that the Companies should not be worse off due to RLNG handling and the ECC decision rightly so provided methodology of charging distribution losses of RLNG supply chain which at this stage includes distribution systems of both the utility companies due to swapping arrangements and it will continue till commissioning of 42' diameter transmission line.

4.23. The petitioner has contended before the Authority that it should be allowed to make UFG calculations based on volume handled which to their understanding is in line with the provision of NGT Rules, 2002. To support the argument, the petitioner relied upon the following definition of UFG as provided in the Natural Gas Tariff Rules 2002 for calculating the UFG of a system:

"unaccounted for natural gas" means, in respect of a financial year, the difference between the total volume of metered gas received by a licensee during that financial year and the volume of natural gas metered as having been delivered by the licensee to its consumers excluding there from metered natural gas used for self-consumption by the licensee for the purposes of its regulated activity; and such other quantity as may be allowed by the Authority for use by the licensee in the operation and maintenance of its regulated activity.

This means that no volume can be arbitrarily taken out of the network as it disturbs the energy balance.

4.24. The petitioner has added that as an outcome of RLNG usage in Karachi the UFG disallowance has been calculated on a higher side due to the fact that the GCV of RLNG is higher than the GCV of indigenous gas and commingling of RLNG with indigenous gas impacted the overall GCV to go upward. The financial impact of this deviation in GCV works out to be Rs 1,470 million which has been claimed in this petition. It is pertinent to mention here that as an outcome of additional energy available in SSGC system additional revenues in terms of Sales have been generated and offered in the revenue requirement.

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4.25. The petitioner has requested the Authority to consider and allow UFG by calculating the same based on volume handled basis. The petitioner is of the view that the treatment requested is in consonance with the ECC decision wherein distribution losses occurred in the RLNG supply system/ chain are required to be allowed. In addition, they would like to bring into the knowledge of the Authority that the RLNG impact on SSGC's UFG is to be built in as a component of RLNG pricing which in turn shall come to the OGRA for allowance in the RLNG pricing till commissioning of 42" dia dedicated transmission pipeline.

4.26. The petitioner has stated that in the light of the facts explained above relating to the unique phenomena of swapping volumes of indigenous gas for RLNG, the resulting UFG distribution losses suffered by it have not been foreseen and, therefore, not explicitly covered in pricing mechanism and UFG calculation. In view of the same, the petitioner has requested to allow the same on the basis of RLNG volumes handled. The petitioner has further argued that the Authority, under the ECC decision, is obligated to provide due relief/ compensation to the company on account of distribution losses occurred due to handling of RLNG.

4.27. The Authority notes that under Third Party Access Regime and prevalent policy of the FG on the matter, the volume and prices of RLNG sold to consumers are to be ring fenced and considered separately for UFG benchmarking/disallowance purpose.

4.28. In view of the above noted policy of FG, all the UFG benchmarking/disallowance related issues arising out of the handling of RLNG are to be ring fenced and charged from RLNG consumers since RLNG prices are also ring fenced. ***Therefore, the Authority is of the considered view that the issues raised by the petitioner need to be addressed in Gas Transportation Agreement between the shipper and the transporter for onward treatment in RLNG Price accordingly.***

4.29. As regards the petitioner's request of treating RLNG as "Gas Handled" by the company for UFG Calculation purposes, the Authority notes that under the swapping arrangement the petitioner is distributing RLNG to its consumers instead of indigenous gas, whereas it is transporting / swapping an equivalent volume of indigenous gas to SNGPL under Third Party Access Arrangement. In this case, one volume (i.e. RLNG) is being consumed/handled and other volume (i.e. indigenous gas) is being transported/swapped to SNGPL under GTA for

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which the petitioner may claim transportation charges under respective GTA. Moreover, under the existing Third Party Access Regime the third party volume is to be ring fenced for UFG benchmarking purposes.

4.30. *In view of the above, the Authority maintains its earlier decision that technical issues related to the use of RLNG are to be taken by the transporter with the shipper under the relevant access arrangement/Gas Transportation Agreement and settle the same accordingly.*

4.31. Regarding contention at para 4.24 relating higher GCV, the Authority notes that the petitioner has been facing additional UFG disallowance owing to higher GCV due to comingling of RLNG into the system. On the other hand, additional revenues have already been offered in gas pricing, thereby benefiting the natural gas consumers.

4.32. The Authority, however, notes that the petitioner has computed its claim based on GCV of FY 2012-13 instead of average MMCF rate of the indigenous gas of FY 2014-15 and FY 2015-16 as per its WACOG sheet. *In view of the same, the Authority re-computes UFG adjustment at Rs. 728 million pertaining to FY 2014-15 and FY 2015-16 as against the petitioner's claim of Rs. 1,470 million. Moreover, the adjustment on similar account for FY 2016-17 is computed at Rs. 692 million and accordingly is determined at Rs. 12,288 million.*

C. Transmission and Distribution Cost

i. Recoveries / Allocations – 17 km pipeline Contribution Cost Related to RLNG

4.33. The petitioner, during FRR petitions of FY 2015-16 and FY 2016-17, offered Rs. 136 million relating to pipeline contribution for 17 km pipeline related to RLNG under the head of recoveries/allocations. The petitioner has explained that these recoveries are being made as part of terminal tariff from RLNG price and hence be excluded from revenue requirement of natural gas sector in the true letter and spirit of policy guideline of FG. The petitioner has informed that the same have been mistakenly included in T&D cost of natural gas. In view of the same, the petitioner has requested to reclaim the same.

4.34. *The Authority, in view of above, accedes to the petitioner's contention and excludes Rs. 136 million as part of revenue requirement for the said year.*

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ii. **Revenue expenditure relating to RLNG – Gas Internally Consumed**

4.35. The petitioner has submitted that GIC pertaining to RLNG has been included in the petition of FRR for the said year, however, cost component has not been accordingly claimed under the head of "Transmission & Distribution Cost", thereby understating the expenditures. Now the same has been corrected and included in the T&D cost. The petitioner further argued that the Authority had already included Rs. 290 million on account of GIC – RLNG as part of transportation income, therefore, its cost component, being ring fenced activity, be allowed.

4.36. The Authority notes that it has already allowed GIC relating to RLNG 1482 mmcf including 862 mmcf as per para 9.2.11 of the FRR for the said year. *The Authority, in view of the above, accepts the petitioner's contention and allows Rs. 290 million being GIC – RLNG for the said year. The Authority, however, clarifies that said inclusion does not burden the natural gas consumers, as the equivalent income has already been included under the head of transportation income.*

iii. **Provision for Doubtful Debts**

4.37. The petitioner has submitted that provision for doubtful debts has inadvertently been computed at Rs. 791 million. The petitioner has, therefore, claimed Rs. 1,082 million being provisioning based on disconnected consumers.

4.38. The Authority notes that the provision for doubtful debts has been allowed at Rs. 791 million strictly in accordance with its benchmark in place, based on the information provided by it. The Authority, however, notes that the petitioner has now submitted revised information during the instant petition. The petitioner has clarified that short provisioning in respect of industry and commercial consumers have been claimed during the petition of FRR for the said year.

4.39. *In view of the latest information provided by the petitioner, the Authority allows Rs. 969 million on account of provision for doubtful debts for the said year.*

4.40. *In view of the foregoing, the petition for the said year is hereby disposed of. After making the above adjustments, the Authority hereby determines final revenue requirement of the petitioner at Rs. 151,043 million as against Rs. 176,417 million requested by the petitioner (Annexure-A).*

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4.41. ***In view of the foregoing, the petition for the said year is hereby disposed of.***

Dr. Abdullah Malik,
Member (Oil)

Noorul Haque,
Member (Finance)

Uzma Adil Khan,
(Chairperson)

Islamabad, May 10, 2018

REGISTRAR
Oil & Gas Regulatory Authority
Islamabad

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A: Final Revenue Requirement for FY 2016-17

Annexure-A

Rs. in Million

	Particulars	The Petition	The Adjustment	Determined by the Authority
Gas sales volume -MMCF		362,313		362,313
	BBTU	368,049		368,049
"A"	Net Operating Revenues			
	Net sales at current prescribed price	135,858		135,858
	Meter rentals	735	-	735
	Amortization of deferred credit	401	-	401
	Sale of LPG	2,533	-	2,533
	Sale of condensate	53	-	53
	Sale of NGL	423	-	423
	Late payment surcharge	3,187	-	3,187
	Meter manufacturing plant	(2)	-	(2)
	RLNG Transportation Income	4,146	-	4,146
	Other operating income	1,142	-	1,142
	Total Operating Revenue "A"	148,476	-	148,477
"B"	Less: Operating Expenses			
	Cost of gas	143,834	-	143,834
	UFG Adjustment	(5,812)	(6,476)	(12,288)
	Prior years adjustment in line with retrospective effect of UFG study report upto 2015-16	17,809	(17,809)	-
	Prior years impact on UFG disallowance due to change in GCV due to RLNG mix	1,470	(742)	728
	Transmission and distribution cost	15,218	-	15,218
	Financial impact on account of SHC order	(18,359)	-	(18,359)
	Gas internally consumed	208	-	208
	Depreciation	5,848		5,848
	Other charges excluding WPPF	2,698	(347)	2,350
	Total Operating Expenses "B"	162,914	(25,374)	137,540
"C"	Operating profit (A-B)	(14,438)	25,375	10,937

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Rs. in Million

Particulars		The Petition	The Adjustment	Determined by the Authority
Return required on net operating fixed assets:				
Net operating fixed assets at beginning		61,947	-	61,947
Net operating fixed assets at ending		93,486	-	93,486
		155,433	-	155,433
Average net assets (I)		77,716	-	77,716
Net LPG air mix project asset at beginning		862	-	862
Net LPG air mix project asset at ending		799	-	799
		1,661	-	1,661
Average net assets (II)		830	-	830
Net EETPL asset at beginning		1,081	-	1,081
Net EETPL asset at ending		1,053	-	1,053
		2,134	-	2,134
Average net assets (II)		1,067	-	1,067
Deferred credit at beginning - Assets related to Natural Gas Activity		5,034	-	5,034
Deferred credit at ending - Assets related to Natural Gas Activity		4,709	-	4,709
		9,742	-	9,742
Average net deferred credit (IV)		4,871	-	4,871
"D" Average (I-II-III-IV)		70,948	-	70,948
"E" 17% return required		12,061	-	12,061
"F" Shortfall / (Surplus) in return required (E-C) (Gas Operations)		26,499	(25,375)	1,124
"G"	**Additional revenue requirement for Air-Mix LPG Projects**	461	-	461
Total Shortfall / (Surplus) H=(F+G)		26,959	(25,375)	1,585
Inc./(Decr.) in average prescribed price effective (Rs./MMBTU) w.e.f July 01, 2016		73.25	(68.94)	4.31
Shortfall related to prior years (I)		982	-	982
Total Shortfall in Revenue Requirement J=(H+I)		27,941	(25,375)	2,566
Inc./(Decr.) in average prescribed price effective (Rs./MMBTU) w.e.f July 01, 2016		75.92	(68.94)	6.97
Final revenue requirement (B+E+G+I)		176,417	(25,374)	151,043
Average Prescribed Price (Rs. per MMBTU)		445.05	(68.94)	376.10

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B: List of Abbreviations

Annexure-B

BBTU	Billion British Thermal Unit
BCFD	Billion Cubic Feet Daily
DERR	Determination of Estimated Revenue Requirement
ECC	Economic Coordination Committee
FG	Federal Government
FRR	Final Revenue Requirement
GIC	Gas Internally Consumed
GOP	Government of Pakistan
LPG	Liquified Petroleum Gas
LNG	Liquified Natural Gas
MMBTU	Million Metric British Thermal Unit
MMCFD	Million Standard Cubic Feet per Day.
MMP	Meter Manufacturing Profit
MOE	Ministry of Energy
MP&NR	Ministry of Petroleum and Natural Resource
NGL	Natural Gas Liquids
NGT	Natural Gas Tariff Rules
OGRA	Oil and Gas Regulatory Authority
RLNG	Re-Gasified Liquefied Natural Gas
SNGPL	Sui Northern Gas Pipeline Limited
SSGCL	Sui Southern Gas Company Limited
T&D Cost	Transmission and Distribution Cost
UFG	Un-accounted for Gas
WPPF	Workers Profit Participation Fund

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C: List of Documents Referred in the Order

Annexure-C

1. Review Petition of SSGCL against Decision of the Authority FRR FY 2016-17.
2. OGRA Ordinance, 2002
3. Natural Gas Tariff Rules (NGTR) 2002
4. UFG Study Report
5. Decision of FRR for FY 2016-17
7. Third Party Access Arrangement
8. Decision dated 02.12.2010 on the ERR for FY 2010-11
9. Decision dated 24.05.2011 on the RERR for FY 2011-12
10. Decision dated 18.05.2012 on the ERR for FY 2012-13
11. Decision dated 01.06.2013 on the ERR for FY 2013-14
12. Decision dated 21.12.2016 on the MFR for FY 2013-14
13. Decision dated 03.07.2014 on the ERR for FY 2014-15
14. Decision dated 06.10.2016 on the ERR for FY 2016-17
15. Government of Sindh's letter dated 18.12.2017 w.r.t conversion of loan into grant for SSGCL.
16. Decision of Economic Coordination Committee (ECC) dated 15.07.2008 w.r.t per consumer cost criteria.
17. Decision of Economic Coordination Committee (ECC) w.r.t "Allocation, Pricing of RLNG and associated matters" conveyed by MP&NR vide its letter dated 23.06.2015.
18. Decision of Economic Coordination Committee (ECC) w.r.t "Determination of Sale price of RLNG" conveyed by MP&NR vide letter dated 27.06.2016.

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