Case No. OGRA-6(2)-2(2)/2019-Review

IN THE MATTER OF

SUI SOUTHERN GAS COMPANY LIMITED MOTION FOR REVIEW FOR DETERMINATION OF ESTIMATED REVENUE REQUIREMENT, FY 2019-20

UNDER

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

DECISION

ON

October 3, 2019

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 Limited. 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 November 30, 2018 under Section 8(1) 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 Estimated Revenue Requirement (ERR) for FY 2019-20 (the said year). The Authority, vide its decision May 17, 2019 determined a shortfall of Rs. 56,986 million, including last year FY 2018-19 revenue shortfall Rs. 24,933 million (or 69.87/MMBTU) (the amounts have been rounded off to the nearest million here and elsewhere in this document) and allowed an increase of Rs. 159.68 per MMBTU in the average prescribed price w.e.f July 01, 2019.

1.3 Being aggrieved by this determination, the petitioner has submitted a motion for review on June 15, 2019 under Rule 16 of the NGT Rules seeking average increase in prescribed price of Rs. 36.07 per MMBTU over and above the current average prescribed price w.e.f July 01, 2019.

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

Table 2 : Comparison of Cost of Service for FY 2019-20 as per the petition

Rs./MMBTU

Particulars	FY 2019-20	
	DERR	The Petition
Units sold (BBTU)	**356,872**	**356,872**
Cost of gas sold	662.85	660.71
UFG adjustment	(54.02)	(27.19)
Transmission and distribution cost and Depreciation	68.24	78.47
Return on net average operating fixed assets	18.75	19.91
Other operating income	(21.10)	(21.10)
Staggering of Financial Impact	(10.29)	(10.29)
Prior year shortfall	69.87	69.87
Subsidy for LPG Air-Mix	3.34	3.34
Cost of service / prescribed price ***	737.65	773.72
Current average prescribed price	737.65	737.65
Increase requested in average prescribed price		**36.07**

*** Totals may not sum, due to rounding

1.5 The Authority issued a notice of pre-admission hearing, held on August 22, 2019 to the petitioner.

2. AUTHORITY'S JURISDICTION AND DETERMINATION PROCESS

2.1 The petitioner has invoked the jurisdiction of the Authority under Rule 16 of the NGT Rules, and Section 13 of the Ordinance, which ought to be read together to reach correct interpretation of legal framework. 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 petitioner 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 decision under review.

3. PROCEEDINGS

3.1 A pre-admission hearing was held on August 22, 2019 at OGRA office, Islamabad. The petitioner's team was led by Mr. Amin Rajput, Deputy Managing Director, Finance & Accounts/Chief Financial Officer. The petitioner was given full opportunity to present its motion for review. The petitioner made submissions in detail with the help of multi-media presentation.

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

Impact on account of ECC Guidelines

(i) Allowance of UFG on RLNG volume handled, basis - Policy Guidelines No. ECC-37/09/2018 Dated: 11.05.2018

Transmission and Distribution Cost

(i) Human Resource Cost
(ii) Gas Internal Consumption(GIC)
(iii) Repair & Maintenance
(iv) Stores, spares and supplies
(v) Professional Charges

Cost of Gas

Assets

(i) Gas Distribution System
(ii) Computer Software
(iii) Telecommunication
(iv) Tools and Equipment
(v) Vehicles
(vi) Construction Equipment

DISCUSSION & DECISION

4. Allowance of UFG on RLNG Volume Handling Basis in pursuance of the Policy Guidelines dated 11-05-2018

4.1 The petitioner has stated that it had claimed Rs. 8,820 million under the above head by calculating UFG in ERR Petition FY 2019-20 on RLNG volume handling basis, however the Authority did not allow the same in the DERR. The petitioner has again requested the Authority to allow the estimated financial impact of Rs. 8,953 million for FY 2019-20.

4.2 The petitioner has furnished interalia the following arguments in the instant petition:

a. They have already proven the impact of RLNG on UFG through detailed presentations on technical and financial issues of RLNG. Technical justification has already been explained in detail with the help of simulation studies and international references have been provided in the presentations.

b. The dedicated pipeline was commissioned in September 2018 after delay due to acquisition of land beyond their control. Till the time of commissioning of dedicated pipeline RLNG operations remained in full swing based on the swapping mechanism. Even after the commissioning of dedicated pipeline they are still forced to swap gas and consume RLNG in their system to the tune of 200 to 300 MMCFD due to operational reasons like Power Sector/SNGPL's in ability to take the RLNG supplies as per their commitments, and Non commissioning of 30" dia 125 km pipeline project which was envisaged to meet the demand of Karachi by delivering additional flows from Naimat Basal, Kauser, Gambat South and KPD fields to Karachi.

c. The presentation also covered monthly analysis of RLNG impact in retail UFG of Karachi without and with UFG controlling efforts, wherein it was demonstrated that their efforts towards reduction of UFG were nullified by injection of RLNG in their distribution system as a result of swapping arrangement.

d. They have already provided details of the international studies with references, demonstrating the effect of changes in specific gravity due to injection of RLNG in the system. The studies also demonstrate the relationship with the flow rates/volumes and temperatures in the system.

e. Besides references of the studies of international repute, results derived from different calculations available online as well as results derived from Pipeline Studio (TG-Net) software were also provided.

f. The adverse impact of handling RLNG in Karachi has been mitigated by their extraordinary efforts to reduce UFG during the years which inter alia include underground and overhead leak surveys, repairing of pipelines, rehabilitation activities, actions taken against gas theft, and timely replacement of defective meters, etc. Graphic representation of UFG with and without controlling efforts shows that UFG in Retail Sector of Karachi Region without controlling efforts was in the range of 18% to 21% from Quarter 1 of FY 2016-17 to Q 1 of FY 2018-19, whereas, UFG with controlling efforts was 14% and 15% respectively which shows that if they would not had put in additional energies, the UFG figure should have been extensively high.

g. Calculation of UFG disallowance on RLNG volume handling basis is the proposed/approved solution of the issue and not the cause of the problem.

4.3 The Authority notes that it has already conveyed its detailed response against the policy guidelines vide its earlier determination dated December 24, 2018 on SSGCL's Review on Motion for Review of FRR FY 2016-17. However, as regards the arguments furnished by the petitioner in the instant petition, the Authority in sequel to its observations noted in the above said determination adds as under:

a. The petitioner, as per its calculations, has claimed an amount of Rs 8,953 million for the said year. As per the petitioner, despite of commissioning of dedicated RLNG pipeline from Karachi to Sawan, they were forced to continue swapping mechanism in the past and also foresee the continuation of same in the said year. In this regard, the petitioner has presented two operational reasons i.e. (i) Power

Sector/SNGPL's inability to take the RLNG supplies as per their commitments, and (ii) Non commissioning of 30" dia 125 km pipeline project which was envisaged to meet the demand of Karachi by delivering additional flows from Naimat Basal, Kauser, Gambat South and KPD fields to Karachi.

b. The Authority notes that as per the prevalent Third Party Access Regime, the Transporters, Shippers and the consumers of RLNG have various back to back bilateral and trilateral agreements/contracts. Therefore, the issue of inability of any of the party to take supplies should be addressed under the relevant provisions of their respective agreements/contracts.

c. As regards the non-commissioning of 30" dia × 125 km pipeline, the Authority notes that it had allowed the said pipeline segment in its DERR for FY 2017-18 dated 20th September, 2017 and have been allowing the projected amounts against this pipeline in its earlier determinations, however the petitioner has not been able to complete the same.

d. The Authority during the course of hearing on the petition, had asked the petitioner to furnish an example/reference from international gas market in support of their stance, wherein any gas utility company was allowed an extra UFG by its regulator due to use of RLNG instead of indigenous gas, however, the petitioner has not provided the same.

e. The methodology proposed by SSGC for calculation of the said impact of using RLNG instead of indigenous gas has no relevance with the theoretical calculations of the impact of high GCV and low specific gravity on UFG, as provided by the company in its presentations.

f. SNGPL in a letter to the Authority had stated as under:

   i. UFG is contributed by three major factors (i.e. gas leakages, theft and measurement errors) and gas leakages are one of them, but not the ONLY contributing factor. It has been presumed that UFG variance, if any, is only due to leakage loss which is factually not the case. There must be variation in other UFG contributing factors as well.

ii. The method used by SSGC for ascertaining the impact of leakage loss due to RLNG does not seem supported by any scientific study and hence is not reliable. In their opinion, a study should be carried out on a reasonable sample size to determine the impact of leakage loss due to both the gases i.e. System Gas and RLNG, having different specific gravities and GCV.

iii. The issue, if it exists, will be prevalent to specific areas ONLY whereas in other franchise areas of M/s SSGC, in which only the system gas is being used, should not be considered for the application of findings of the study.

iv. The RLNG supplies to SNGPL through swapping arrangement were started during last quarter of FY 2014-15 whereas UFG of M/s SSGC during the prior year i.e. FY 2013-14 was 13.82%, which is contrary to the stance of SSGC that UFG has increased due to RLNG swapping arrangements.

v. In line with earlier decisions of ECC of Cabinet, the RLNG gas supplies are ring fenced, whereas in this case, SSGC has treated the RLNG volume without ring fencing it, while the financial impact of UFG disallowance has been calculated at cost price of system gas.

vi. Additionally, they would also like to highlight that RLNG is being consumed both in SNGPL's and SSGC's network so the decision applicable on SSGC's Motion for Review may please be replicated in case of SNGPL.

g. These guidelines, if implemented, would have far reaching implications for gas distribution/transmission companies which receive indigenous gas of varying specifications from different fields and supply gas of divergent specifications & quality to various regions. The specifications of RLNG will have to be seen in comparison to gases from all indigenous fields. Moreover, these guidelines shall also impact the prospective transporters/shippers in third party access regime.

h. These guidelines, if implemented, shall actually pass on distribution losses of two distribution companies to RLNG consumers which will become considerably high and may not be justifiable.

4.4 The Authority reiterates its stance that with the commissioning and operation of the dedicated pipeline from Karachi to Sawan since September, 2018 the issue of swapping and any impact arising out of the said swapping does not become relevant for the said year i.e. FY 2019-20. Furthermore, keeping in view the observations noted at para 4.3 above and detailed determination on this matter including technical grounds already issued in the Authority's decision on FRR FY 2016-17 dated 24-12-2018, the Authority disallows the claimed amount of Rs 8,953 million against the revenue requirement of RLNG for the said year.

5. Transmission & Distribution Cost

i. Human Resource Cost

5.1 The petitioner has stated that it requested that Authority to allow Rs. 15,492 million as HR Benchmark cost which was restricted to the level of RERR FY 2018-19 i.e Rs. 14,156 which shall be reviewed at the time of FRR on the basis of new HR benchmark study. The petitioner has explained that approximate impact due to finalization of CBA agreement (2016-18) resulted in revision of wages and allowances (basic, house rent allowance, leave encashment, overtime, retirement benefits, etc.) amounting to Rs. 1.3 billion and Rs. 0.5 billion (additional provision has been made for FY 2019-20, hence the overall CBA impact will be around Rs. 1.8 billion for FY 2018-19. For FY 2018-19 Rs. 0.8 billion was provided under this head.

5.2 The petitioner has submitted that the Authority has frozen the HR Cost to the level of FY 2018-19 whereas the fact is that the increase on account of staff salaries, allowances and corresponding impact on retirement benefits along with executives' promotion and increments cannot be stopped. Therefore, the petitioner has requested to allow amount of Rs. 16,434 million under the above head in view of the above explanations.

5.3 In view of the change in circumstances i.e finalization of CBA agreement by the petitioner, the Authority decides to unfreeze the HR benchmark with the view to allow the petitioner to meet legitimate HR cost of its employees. Furthermore, the request of the petitioner to allow additional amounts to cater for the normal promotions and annual increments is not acceded to since the same is subject to the HR benchmark.

5.4 Further, the Authority reiterates that HR benchmark is under its review and shall be finalized in due course of time. The Authority further directs the petitioner to keep the cost at reasonable level keeping in view the overall indigenous gas supplies position. The detail computation of HR Benchmark cost of Rs. 15,520 million including IAS-19 impact is attached at Annexure-A.

5.5 In view of the above, the Authority is of the considered opinion that the HR benchmark allowed by it provides sufficient cushion to the petitioner for meeting legitimate needs of all its employees. The financial impact of adjustments decided above shall form part of upcoming revenue requirement decision.

ii. Gas Internally Consumed (GIC)

5.6 The petitioner has stated that it had projected GIC-metered at 1,332 MMCF (Rs 740 million), however the Authority based on historical trend allowed 709 MMCF (Rs 406 million) under this head.

5.7 The petitioner has added that the Authority has taken an average of previous years in which the GIC phenomena was at lower side due to lesser pressures, however, the actual estimates for FY 2018-19 (1,123 MMCF) depict that the GIC projections for FY 2019-20 are in line with the actual trend of FY 2018-19. Furthermore, the increase is projected due to expected increase in compression hours during FY 2019-20. The petitioner has requested the Authority to allow 1,332 MMCF (Rs 762 million), under this head.

5.8 The Authority notes that as per FRR petition for FY 2017-18, GIC for indigenous gas operations was 713 MMCF, hence the provisionally allowed GIC of 709 MMCF for FY 2019-20 is in line with the last years' actual data. The Authority, therefore, does not allow any additional amount at this stage, however the petitioner may claim the actualized figures at FRR stage.

iii. Repair and Maintenance

5.9 The petitioner has stated that it had projected an amount of Rs 2,683 million under this head in the ERR petition, however the Authority based on the operational requirement and capitalization trend allowed an amount of Rs 1,633 million (actual of FY 2016-17 plus 4% inflation).

5.10 The petitioner has stated that in view of the Authority's determination, they have rationalized the budget for this head to Rs 2,308 million which includes an amount of Rs 1,805 million for UFG control activities. The petitioner has stated that the allowed amount of Rs 1,633 million for FY 2019-20 is even 13% lower than the amount allowed in FY 2018-19.

5.11 The Petitioner has added that the projected increase of Rs 503 million is owing to the increase in maintenance cost of transmission business activities, maintenance activities of buildings/vehicles as well as software development and maintenance. The Petitioner has stated that Software Development and Maintenance Cost (Rs 163 million) included in the above head is another important IT operating expenditure to be spent on technical support from

OEM/Principal (e.g. Oracle, IBM etc.) to maintain business critical applications e.g. Oracle Customer Care and Billings, Oracle e-Business Suite, Oracle Databases, IBM Lotus Notes, Arc GIS, etc.

5.12 The Petitioner has further stated that repair and maintenance plays a vital role in achieving KMIs for UFG Benchmark (BM) determined under local challenging conditions. The expenditure in this head will directly affect KMIs relating to network visibility, leakage rectification, measurement errors which mainly comprise of CMS and their rectifications and eradication of theft. The petitioner has, therefore requested the Authority to allow the rationalized amount of Rs 2,308 million which includes an amount of Rs 1,633 million already allowed under this head.

5.13 The Authority during the course of presentation/hearing on the instant petition had directed the petitioner to provide segregation of normal and KMI related expenditures against this head, however, the petitioner has not furnished the same.

5.14 The Authority, keeping in view the above, does not allow any additional amount against this head at this stage. The petitioner may however carry out the normal UFG Control activities and KMI related activities and claim actualized amount at FRR stage with plausible justification and segregation of these heads.

iv. Store, Spare & Supplies

5.15 The petitioner has stated that the Authority allowed Rs. 798 million against the demanded amount of Rs. 1,297 million. The company has rationalized its budget for this head to Rs. 1,061 million and the company has further reduced an amount of Rs. 235 million or 18.2% from last estimates. The major increase is attributed on account of extensive UFG control activities/KMIs achievement as well as due to expected increase in Pak rupee exchange parity, consumption & prices of chemical products/fuel and lubricants besides general inflation. The petitioner has requested the Authority to allow the entire rationalized amount of Rs.1,061 million.

5.16 The Authority agrees to the petitioner's contention of increase in expense due to expected increase in Pak rupee exchange parity, consumption & prices of chemical products/fuel and lubricants besides general inflation. However, US $ exchange rate is still not stable and stopover cannot be drawn at any point. It seems that the position can be clearer till the time of FRR. Therefore, logically the expense under the head will be considered at the time of FRR.

v. Professional Charges

5.17 The petitioner has submitted that Rs. 99 million was projected in DERR, whereas, Rs. 46 million was allowed based on SSGCL's capacity to execute projects in actual. Now the petitioner has projected Rs. 119 million which includes a major item being HR manpower study/other HR consultancies/ professional charges / related matters amounting to Rs. 36 million. As per OGRA directives the company is obligated to comply the same. Furthermore, since inception of risk management department risk management a project i.e. (i) policies & procedure project is under process, however, in addition, being a newly created department, another two projects have also been envisaged i.e review of ERM framework by consultant, and development of organizational strategy by consultant. The petitioner has requested the Authority to approve Rs. 119 million under the head.

5.18 The petitioner has not submitted any new justification to allow the amount claimed at the time of DERR 2018-19 i.e Rs. 99 million, besides, the petitioner has claimed an increased amount of Rs. 119 million while providing same grounds and justifications which have already been discussed at the time of DERR for the said year. As no new evidence has been provided to review the expense, the Authority therefore, maintains its earlier decision.

vi. Cost of Gas

5.19 Petitioner has submitted that the Authority determined cost of gas considering the exchange parity of US$ to Pak rupees at Rs. 150. However, the recent escalation in Rupee US $ parity has surpassed these estimates. We request the Authority while making the decision on instant MFR petition to take into account the latest parameters prevailing in the market.

5.20 It is observed that as per prevailing circumstances, cost of gas needs to be revised on the basis of exchange parity of US $ to Pak Rupee. The Authority will consider revision in cost of gas at the time of petition of FRR of the said year.

6. Operating Fixed Assets

6.1 The petitioner has requested to allow an additional amount of Rs. 3,603 million, detail of which is as under:

Table 2: Summary of Requested Addition in Fixed Assets

Particulars	FY 2019-20			Inc./Dec. over DERR	
	ERR	DERR	The Petition	Rs.	%
Land	1	1	1	0	0
Buildings	281	140	140	0	0
Gas Transmission Pipelines	2,316	1,345	1,345	0	0
Compressors	2,079	777	777		
Plant and Machinery	774	336	336	0	0
Gas Distribution System	8,498	5,994	8,498	2,504	42
Office Equipment, Furniture and Security Equipment, Computers and allied equipments	349	237	237	0	0
Computer Software	140	9	70	61	678
LPG Air Mix Projects	5,228	1,893	1,893	0	0
Telecommunication Systems	194	100	171	71	71
Appliances, Loose Tools and Equipments - Normal	229	14	226	212	1,514
Appliances, Loose Tools and Equipments - Projects	975	292	292	0	0
Vehicles	1,107	177	750	573	324
Construction Equipment and Vehicles	385	27	209	182	674
Gross Assets	*22,558*	*11,342*	*14,945*	*3,603*	*32*

i. Gas Distribution System:

6.2 The petitioner has claimed an amount of Rs 2,504 million which is in addition to Rs 2,213 million allowed in DERR against the subheads of 'Laying of Distribution Mains' and 'Installation of New Connections', detail of which is as under:

Table 2: Summary of Requested Additions in Gas Distribution System

Particulars	FY 2019-20			Inc./Dec. over DERR	
	ERR	DERR	The Petition	Rs.	%
Laying of Distribution Mains	3,497	1,238	3,497	2,258	182
Installation of New Connections (Meters)	1,221	975	1,221	246	25
Gross Assets	4,718	2,213	4,718	2,504	113

6.3 The petitioner has stated that they had projected an amount of Rs 3,497 million in ERR petition for laying of distribution mains, reinforcement including services in existing areas however the Authority based on historical trend provisionally allowed an amount of Rs 1,238 million (actual of FY 2017-2018 plus 4% per year inflation impact). In the instant petition, the petitioner has again requested the Authority to allow the envisaged amount of Rs. 3,497 million under this head.

6.4 The petitioner has stated that an amount of Rs. 2,752 million including a direct departmental cost (DDC) of Rs. 943 million was estimated for the said head in FY 2018-19 whereas OGRA had determined Rs. 1,711 million cost except DDC of Rs. 943 million (DDC will be considered at the time of FRR) for the same, hence total determination in this head for FY 2018-19 was Rs 2,654 million. Now in FY 2019-20, the envisaged amount of Rs. 3,497 million includes the cost of material, direct departmental cost considering inflationary impact on material labour, fuel and other operating expenses.

6.5 The petitioner is of the view that the Authority's determination should be based on estimated figures of FY 2018-19 instead of actual figures of FY 2017-18, however the petitioner's stance seems irrational and is not supported by facts. The Authority notes that average capitalization against this sub-head during the last five years has remained around Rs 1089 million, therefore, the Authority's determined amount of Rs 1,238 million for the said year is well above the average of last five years.

6.6 Keeping in view the above, the Authority does not allow any additional amount against this head at this stage, however, the petitioner may claim the actualized amount at FRR stage.

6.7 The petitioner has stated that they had projected an amount of Rs 1,221 million for 125,245 Nos. new connections (meters) in ERR petition, however, the Authority based on historical trend allowed an amount of Rs 975 million for 100,000 Nos. new connections (meters) in the DERR FY 2019-20.

6.8 The petitioner has added that they have already processed 108,744 new connections till May 2019. Moreover, approximately 20,000 connections are in process. As it is well in the knowledge of the Authority that the moratorium on high rise buildings has been uplifted by the FG since then applications for new gas connections have increased manifold. In view of the current situation, they are expecting to achieve more than 125,000 new gas connections during the FY 2019-20. Therefore, they request the Authority to allow an additional amount of Rs. 246 million under this head.

6.9 The Authority, based on historical trend and company's average capacity to execute yearly connections, had allowed an amount of Rs. 975 million for installation of 100,000 Nos. new connections(meters) for the said year, nevertheless, keeping in view the above noted justification, the petitioner may install the projected additional meters while strictly following the policy of FG including the moratorium imposed by FG in the year 2011 on the matter while processing the gas connections during the said year.

6.10 The Authority, therefore, allows an additional amount of Rs. 246 million under this head for installation of 125,245 Nos. new connections (meters) during the said year which would be subject to actualization at FRR stage.

ii. **Computer Software**

6.11 The petitioner has claimed an amount of Rs 61 million which is in addition to Rs 9 million allowed in DERR against the said head. The Petitioner has stated that they had projected an amount of Rs 140 million in ERR petition with detailed justification against each item under this head, however, the Authority provisionally allowed Rs 9 million based on historical trend and actual capitalization of FY 2017-18. The petitioner has further rationalized the estimates against this head and has requested the Authority to reconsider and allow the revised and rationalized amount of Rs 70 million including already allowed amount of Rs 9 million based on justifications provided against each item.

6.12 The Authority notes that the petitioner has projected an amount of Rs 60 million for CC & B Upgrade and Task Optimization Licenses, for which the petitioner has stated that in order to upgrade CC&B to version 2.4, one of the pre-requisites from Oracle is to acquire Task Optimization Licenses for CC&B which are required for versions 2.4 and above.

6.13 Keeping in view the justifications and operational requirement of the company the Authority allows an additional amount of Rs 60 million for upgradation of CC&B Software during the said year, which would be subject to actualization at FRR stage.

iii. **Telecommunication System**

6.14 The petitioner has claimed an amount of Rs 71 million which is in addition to Rs 100 million allowed in DERR against this head. The petitioner has stated that they had claimed an amount of Rs 194 million in its ERR petition, however the Authority based on historical trend and actual capitalization of FY 2016-17 provisionally allowed an amount of Rs 100 million.

6.15 The petitioner has added that they have further reviewed and rationalized the estimates under this head to Rs 171 million. The petitioner has requested the

Authority to allow the revised and rationalized amount of Rs 171 million, including Rs 100 million already allowed in DERR, based on justifications furnished against each item.

6.16 The petitioner has further stated that unlike revenue expenses, capital expenditures are not based on past trends but based on requirement of the company for any specific period and only those expenditures which fulfill prudence test are kept in Petitioner's budget and therefore may vary from year to year.

6.17 The Authority notes that projections against various heads have always been on higher side. The petitioner has never been able to fully capitalize the amounts against various heads as per its projections. The Authority has noticed that at most of the times, the company envisaged a project /item in its revenue requirement for many years and the Authority allowed certain amounts against these heads in its determinations but the petitioner could not capitalize against these projects/items in the respective years. Therefore, it becomes imperative for the Authority to assess the historical trend and capacity of the company to capitalize against certain heads.

6.18 The Authority notes that average capitalization against this head during FYs 2012-13 to 2016-17 was Rs 108 million/year. Moreover, capitalization against this head during FY 2017-18 was Rs 35 million.

6.19 Keeping in view the above, the Authority based on historical trend analysis does not allow any additional amount against this head at this stage. The petitioner may, however, capitalize as per its projections and claim the capitalized amount against this head at FRR stage.

iv. Appliances, Loose Tools and Equipments

6.20 The petitioner has claimed an amount of Rs 212 million which is in addition to Rs 306 million allowed in DERR against this head. The petitioner has stated that they had claimed an amount of Rs 1,204 million in its ERR petition, however the

Authority based on historical trend and the actual capitalization of FY 2017-18 provisionally allowed an amount of Rs 306 million (including Rs 292 million for GCV Management & Smart Metering Projects). The Petitioner has requested the Authority to allow an additional amount of Rs 212 million under this head based on justifications provided against each item.

6.21 The Authority notes that the petitioner had claimed an amount of Rs 975 million for different projects under this head in its ERR petition and the Authority had provisionally allowed an amount of Rs 292 million for the said projects in the DERR. Furthermore, the petitioner had projected an amount of Rs 229 million for normal (routine) Appliances, loose tools and equipments, however, the Authority based on historical trend analysis had allowed an amount of Rs 14 million in the DERR.

6.22 The Authority observes that average amount capitalized during last nine years in his head was Rs 23 million/year. Moreover, actual capitalization during FY 2016-17 and FY 2017-18 was Rs 71 million and Rs 13 million in this head. Furthermore, in view of the observation taken by the Authority during presentation/hearing on the instant petition regarding undertaking on major items claimed against the said head, the petitioner has stated that the current inventory of Tools & Equipments does not fulfill the departmental entire requirements.

6.23 The Authority, based on above, provisionally allows an amount of Rs 42 million (average of last two years) which includes an amount of Rs 14 million already allowed against the normal (routine) Appliances, loose tools and equipments at this stage. The above amount would be subject to actualization at FRR stage.

v. **Vehicles**

6.24 The petitioner has stated that they had claimed an amount of Rs 1,107 million in its ERR petition, however the Authority based on historical trend and actual capitalization of FY 2017-18 had provisionally allowed an amount of Rs 177 million. The petitioner has added that, in the instant petition, they have reviewed and rationalized the estimates under this head to Rs 750 million.

6.25 The petitioner has requested the Authority to allow the revised and rationalized amount of Rs 573 million which is in addition to Rs 177 million already allowed in the DERR against this head. In this regard, the petitioner has stated that 1263 No. old vehicles are eligible for replacement since these have completed 5 years' life, however, they have envisaged only 414 numbers vehicles out of 1263 vehicles, for replacement during the said year while the remaining vehicles will be replaced during the course of time.

6.26 The Authority, based on the justification furnished by the petitioner, provisionally allows an amount of Rs 279 million (average of last five years' capitalization in this head) which includes Rs 177 million already allowed in DERR against this head.

6.27 Furthermore, the Authority advises the Board of Directors of the petitioner that they may review the depreciation policy of vehicles, moreover the company-maintained cars are mostly in good working condition hence do not necessarily need replacement after 5 years.

vi. **Construction Equipment and Vehicles**

6.28 The petitioner has claimed an amount of Rs 182 million which is in addition to Rs 27 million allowed in DERR against this head. The petitioner has stated that they had claimed an amount of Rs 385 million in the ERR petition, however the Authority based on historical trend and actual capitalization of FY 2016-17 provisionally allowed an amount of Rs 27 million.

6.29 The petitioner has added that they have further reviewed and rationalized the estimates under this head to Rs 209 million including already allowed amount of Rs 27 million under this head. The Petitioner has requested the Authority to allow the revised and rationalized amount of Rs 209 million, including Rs 27 million already allowed, based on justifications provided against each item.

6.30 The Authority notes that capitalization trend in this regard has remained inconsistent over the previous years, however, during FY 2016-17 and FY 2017-18 the company had actually capitalized Rs 25 million and Rs 140 million respectively. Furthermore, in view of the observation taken by the Authority during presentation/hearing on the instant petition regarding undertaking on rationalization of Construction Equipments keeping in view the equipments procured for RLNG Projects, the petitioner has undertaken that current available inventory does not fulfill the technical and economical requirement hence are not feasible for deployment on current and upcoming pipeline projects.

6.31 The Authority, keeping in view the above, allows an amount of Rs 83 million (average of last two years) which includes an amount of Rs 27 million already allowed against this head.

Table 3: Summary of Addition in Fixed Assets Allowed by the Authority

Particulars	FY 2019-20				
	ERR	DERR	The Petition	Additional Amount Claimed by the Company	Additional Amount Allowed by the Authority
Gas Distribution System	8,498	5,994	8,498	2,504	246
Computer Software	140	9	70	61	60
Telecommunication Systems	194	100	171	71	0
Appliances, Loose Tools and Equipments - Normal	229	14	226	212	28
Appliances, Loose Tools and Equipments - Projects	975	292	292	0	0
Vehicles	1,107	177	750	573	102
Construction Equipment and Vehicles	385	27	209	182	56
Gross Assets	*11,529*	*6,613*	*10,216*	*3,603*	*492*

6.32 In view of the foregoing, the motion for review against the Authority determinations of estimated revenue requirement for said year is hereby disposed off. However, financial impact adjustments as decided in preceding paras shall be allowed at the time of FRR based on the actual expenditures/capitalization for the said year.

Dr. Abdullah Malik,
Member (Oil)

Noorul Haque,
Member (Finance)

Uzma Adil Khan,
(Chairperson)

Islamabad, October 3, 2019

A: Computation of HR Benchmark DERR FY 2019-20 Annexure-A

Particulars	DERR 2018-19	DERR 2019-20
HR BENCHMARK COST PARAMETERS		
Base Cost	12,893	13,918
CPI factor	4.20%	9.41%
T & D network (Km)	51,979	52,790
Number of Consumers (No.)	3,070,048	3,187,865
Sales Volume (MMCF)	791,068	662,233
Unit Rate (Rs,/unit)		
T&D network (Rs./Km)	**255,713**	**267,755**
No. of Consumers (Rs./Consumer)	**4,308**	**4,651**
Sale Volume (Rs./MMCF)	**21,824**	**17,908**
HR Cost Build-up (Million Rs)		
Cost CPI -50%	271	655
T & D network (Km) 25%	3,323	3,534
Number of Consumers (No.) 65%	8,598	9,562
Sales Volume (MMCF)-10%	1,726	1,186
HR Benchmark Cost	**13,918**	**14,936**
IAS 19		**584**
Total	**13,918**	**15,520**

B: List of Abbreviations

Annexure-B

BBTU	Billion British Thermal Unit
BCFD	Billion Cubic Feet Daily
CSR	Corporate Social Responsibility
DERR	Determination of Estimated Revenue Requirement
ECC	Economic Coordination Committee
FG	Federal Government
FRR	Final Revenue Requirement
ICC	International Cricket Council
KPMG	Klynveld Peat MarwicK Goerdeler
KMI	Key Monitoring Indicator
GIC	Gas Internally Consumed
GOP	Government of Pakistan
LPG	Liquified Petroleum Gas
LNG	Liquified Natural Gas
MoE	Ministry of Energy
MMBTU	Million Metric British Thermal Unit
MMCFD	Million Standard Cubic Feet per Day.
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
SECP	Security and Exchange Commission of Pakistan
T&D Cost	Transmission and Distribution Cost
UFG	Un-accounted for Gas