Case No. OGRA-6(2)-2(1)/2005- (Review)

IN THE MATTER OF

SUI SOUTHERN GAS COMPANY LIMITED MOTION FOR REVIEW OF DERR, FY 2005-06

UNDER

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

DECISION

October 19, 2005

Before:

Munir Ahmad, Chairman
Jawaid Inam, Member (Gas) / Vice Chairman
M.H. Asif, Member (Finance)

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1. BACKGROUND

1.1. Sui Southern Gas Company Limited (the petitioner) is a public limited company incorporated in Pakistan, which is listed on the Karachi, Lahore and Islamabad Stock Exchanges. The company is engaged in the business of construction and operation of gas transmission & distribution pipelines, sale of natural gas and gas condensate as by-product, and manufacture & sale of gas meters.

1.2. The Authority had determined the estimated revenue requirement for FY 2005-06 at Rs. 63,879 million vide its order dated May 20, 2005, under Section 8(1) of the Oil & Gas Regulatory Authority Ordinance, 2002 (the Ordinance). The petitioner submitted a review motion (the review motion) on June 16, 2005 under Rule 16 of the Natural Gas Tariff Rules, 2002 (NGT Rules, 2002) for determination of its revised revenue requirement for FY 2005-06 at Rs. 64,802 million (the amounts have been rounded off to the nearest million here and elsewhere in this document) and estimated operating income at Rs. 63,610 million. The petitioner has claimed a shortfall of Rs. 1,070 million which translates to an average increase of Rs. 3.16/ MMBTU in the current prescribed prices. The petitioner submitted amended petition on July 12, 2005, to cater for additional revenue requirement of Rs. 120.665 million on account of increase in bill collection charges by the collecting banks from Rs. 2 per bill to Rs. 10 per bill. The shortfall thus estimated by the petitioner is Rs. 1,190 million, which translates to an average increase of Rs. 3.51 /MMBTU in the current prescribed prices.

1.3. Comparison of computation of cost of service submitted by the petitioner in support of the review motion with the determination of Estimated Revenue Requirement (DERR) is given in Table I below:

Table 1 : Comparison of Cost of Service per the Review Motion with DERR

Rs. per MMBTU

Particulars	FY 2005-06		Inc./ (Dec.) over DERR
	DERR	The Petition	
Units sold BBTU	**338,945**	**338,945**	**-**
Cost of gas	157.66	158.83	1.17
Unaccounted for Gas	(0.38)	-	0.38
Transmission and distribution cost	11.95	13.16	1.21
Depreciation	8.01	8.01	-
Other operating income	(10.97)	(10.17)	0.80
Other Charges including W.P.P.F.	0.46	0.41	(0.05)
Return on net average operating fixed assets	9.74	9.75	0.01
Deferral account	1.03	1.03	-
Cost of service / prescribed price	**177.50**	**181.02**	**3.52**
Revenue available at existing Prescribed Price	177.50	177.50	-
Shortfall in revenue	**-**	**3.52**	**3.52**

1.4. The Authority issued a notice on July 14, 2005 of conference in term of Rule 6 of NGT Rules, 2002, to the petitioner, interveners and the Federal Government.

1.5. The Authority held the conference at Karachi on August 02, 2005.

2. PROCEEDINGS

2.1. The petitioner was represented by a team led by its Senior General Manager (Management Services), Mr. Hassan Nawab. The petitioner made submissions in detail with the help of multimedia presentation, in the course of which it conveyed that it will no longer pursue the procurement of additional 4x4 double/single cabin pickups amounting to Rs. 21 million. The petitioner however, sought review of the Authority's decision on the remaining items, which are discussed in succeeding paragraphs.

2.2. In the conference, only S.I.T.E. Association of Industry participated as intervener. Its representative made the following points:-

2.2.1. Government of Pakistan should directly bear the one time cost of network expansion to uneconomic / unviable areas as well as all recurring costs relating to provision of gas at highly subsidized rates. Similarly, the Federal Government should bear the cost of various non-operating activities like promotion of sports, CSR program, etc., incurred by the petitioner on its direction. The amounts spent by the petitioner on various welfare programmes cannot be justified on the ground that such expenditure is in line with normal corporate behaviour because the petitioner is operating on cost plus basis.

2.2.2. The financial impact of large number of Temporary Assignees (TAs), who were inducted on political grounds, should not be passed on to the consumers.

2.2.3. The petitioner's salaries & wages should not be linked with inflation as gas consumer's purchasing power does not increase with inflation.

2.2.4. The petitioner is disconnecting gas to various captive power units which have not obtained requisite Federal Government approval, whereas SNGPL is not taking any such action, which is discriminatory. Uniform policy should be adopted throughout the country in this regard.

2.2.5. The petitioner should provide region-wise and consumer category-wise gas theft data to reflect the true extent of the UFG menace, which is missing in its review motion and subsequent presentation.

2.2.6. The petitioner has not upgraded the distribution system which has led to its overloading, resulting in wide-spread pressure drops. The petitioner should not reduce pressure to control UFG since that would further aggravate this problem.

2.2.7. Road cutting issues, which have been mentioned by the petitioner as reason for delay in executing UFG control related works, should have been resolved at an earlier point in time.

2.2.8. The UFG targets were not unilaterally imposed by the Authority and were in fact proposed by the petitioner.

2.2.9. The petitioner should provide UFG data for transmission and distribution separately. UFG benchmark for each activity be introduced separately.

2.2.10. The petitioner should procure quality pipes and other materials in order to control the menace of UFG.

2.2.11. The petitioner should purchase quality gas from the producers to avoid presence of dust and other particles, which has been advanced as a reason for high level of UFG.

2.2.12. The petitioner is not putting up its best efforts to reduce UFG, which is evident from the very fact that it has replaced a small proportion of meters during last five years.

3. OPERATING FIXED ASSETS

3.1. Petitioner's Grounds for Review

3.1.1. The petitioner has requested the Authority to review its decision requiring submission of a separate certificate from statutory auditors in respect of "actual cost incurred on each item of capital expenditure" and compliance with the Public Procurement Rules, 2004 (PPR 2004) in respect of procurement of materials.

3.1.2. The petitioner has argued that statutory auditors' certification for each item of capital expenditure is an imprudent, expensive, extremely laborious and time consuming task, which will delay the submission of initialed accounts and completion of audit. Further the auditors are of the view point that it may not be possible for them to undertake 100% verification.

3.1.3. The petitioner has submitted that if the Authority decides not to withdraw the certification requirement, it should restrict the same to projects exceeding Rs.100 million in case of transmission and threshold for other projects be decided on a case to case basis with a view to ensure verification of 70% of cost of project.

3.1.4. The petitioner has pointed out in the hearing that SNGPL had already taken up the matter of mandatory compliance with the PPR, 2004, with the Law Division, Government of Pakistan, pleading that these Rules did not apply to it and requested the Authority to hold its decision, in this respect, in abeyance until the receipt of Law Division's opinion.

3.2. **Discussion and Decision**

3.2.1. Under Section 6 of OGRA Ordinance, the Authority enjoys wide-ranging powers for regulating the petitioner's activities and can ask for separate specific certification about any aspect of a regulated activity with a view to ensure effective regulation.

3.2.2. The requirement of auditors' certificates about cost of capital assets and compliance of PPR 2004 has been introduced in order to safeguard the interest of the consumers by ensuring that return is allowed on real cost of the assets, discouraging gold plating in any form and imprudent capital expenditure. It will also promote culture of economy and efficiency. The marginal additional cost that may have to be incurred to obtain these certificates is, therefore, well justified.

3.2.3. The petitioner, under clause 11 of its license, is obligated to adopt transparent and competitive procurement policies and procedures in relation to regulated activities. The Authority, vide its letter No. OGRA-1 (1) / 2004- SS&SN dated October 27, 2004, had made observance of PPR 2004 mandatory for both the gas utilities finding them comprehensive and laying down transparent & competitive procurement policies & procedures. The Authority has reviewed this aspect in the light of the petitioner's contention and is of the considered view that observance of PPR 2004 would remain mandatory in pursuance of the Authority's direction mentioned above, irrespective of the opinion of Law Division, Government of Pakistan on the reference regarding their applicability to the petitioner.

3.2.4. The petitioner's contention that the statutory auditor's certification in respect of actual cost incurred on "each item of capital expenditure" is difficult to achieve, has merit in view of the volume of transactions involved and the principle of materiality. However, the argument that it will delay the finalization of accounts is not convincing because such detailed audit can easily be conducted after the finalization of annual accounts and any required adjustments can be made later.

3.2.5. Considering all relevant aspects, the Authority decides that the petitioner is required to provide its statutory auditors' certification on the basis of detailed cost audit confirming the cost that could be reasonably attributed to each asset capitalized during a year, on the basis of reasonable levels of efficiency and cost effectiveness, if it falls within any of the under-mentioned categories:

- Transmission:
    - Construction Machinery
    - Pipelines (new/ replacements)
    - Compressors/turbines
    - SCADA

- Telecommunication

- Distribution:
  - Pipelines (supply mains, extensions etc.) excluding the jobs with total value of less than Rs. 10 million.

3.2.6. For the same reasons as discussed in para 3.2.4 above, the Authority decides that auditors certification confirming procurement of assets and services being transparent, cost effective and in accordance with the PPR 2004, be limited to the following:

- Construction machinery
- Pipelines
- Regulators
- Valve and Fittings
- Coat and Wrap Materials
- Compressors/Turbines
- SCADA
- Service contracts excluding those valued at less than Rs. 50 million.

4. GAIN ON SALE OF FIXED ASSETS

4.1. Petitioner's Grounds for Review

4.1.1. The petitioner has requested that gain on sale of fixed assets for 112 vehicles for FY 2005-06, determined by the Authority at Rs. 50 million be revised downward since Rs. 446,000 per vehicle estimate is too high.

4.1.2. The petitioner had booked gain on account of sale of 115 vehicles amounting to Rs. 17 million for FY 2003-04, at an average gain of Rs. 151,000 per vehicle and projected Rs. 20 million for the same for FY 2004-05.

4.1.3. Keeping in view the historical trend, the petitioner has pleaded that the Authority's decision needs downward revision and its impact be incorporated at the time of finalization of accounts.

4.2. Discussion and Decision

4.2.1. The Authority observes that historically, the petitioner's projections on account of gain on sale of fixed assets have been understated.

4.2.2. The Authority notes that an amount of Rs. 52 million has been booked on account of gain on sale of fixed assets in the FY 2004-05 initialed accounts as against Rs. 20 million projected by the petitioner.

4.2.3. The Authority therefore, maintains its decision to project gain on sale of fixed assets at Rs. 50 million, owing to increased number of vehicles that are to be sold this year as well as ever increasing prices of vehicles. This amount however, is subject to adjustment at the time of Final Revenue Requirement (FRR) 2005-06.

5. INTEREST INCOME (IAS-19 FUNDS)

5.1. Petitioner's Grounds for Review

5.1.1. The petitioner has requested to treat notional income amounting to Rs. 219 million on IAS-19 funds as non-operating income. Further, separate fund for IAS-19 was not created owing to adverse tax implications.

5.1.2. The Authority has already finalized determinations of revenue requirements for FY 2001-02 to FY 2003-04, based on which dividends have been paid to shareholders. Therefore any subsequent adjustment will enhance regulatory risk, jeopardize privatization process and adversely affect its share price.

5.1.3. It is not justified to add back interest on IAS 19 funds for FY 2000-01 because revenue requirements for that year were not determined by OGRA.

5.1.4. Interest has been incorrectly calculated at ending balances instead of average balances.

5.2. Discussion and Decision

5.2.1. The petitioner has been allowed the provision for IAS-19 since FY 2000-01. The Authority advised the petitioner to create separate fund for the purpose, which was not done on the ground of adverse tax implication.

5.2.2. The petitioner has been earning interest income on the funds provided by the competent Price Determining Authority (PDA) as it did not create a separate fund. The funds relate to main-stream activity and interest thereon is consequentially not non-operating income. To hold otherwise would be detrimental to the interest of consumers because financial charges are treated as non-operating expense.

5.2.3. The Authority holds that it is competent to review any decision by its predecessor if there are good grounds to do so which exist in the present case as discussed above.

5.2.4. The Authority, however, agrees with the petitioner's contention that the interest income on these funds be calculated on average balance of the fund instead of the closing balance. Interest income on account of IAS-19 is, therefore, recomputed at Rs. 194 million.

6. COST OF GAS

6.1. Petitioner's Grounds for Review

6.1.1. The petitioner has claimed increase of Rs. 396 million in the cost of gas, from Rs. 53,438 million per DERR to Rs. 53,834 million, based on estimated increase in purchase volume from 361,129 MMBTU to 363,875 MMBTU, for which it has not cited any reason.

6.2. **Discussion and Decision**

6.2.1. The Authority tentatively accepts cost of gas at Rs. 53,834 million, subject to adjustment at the time of review to be filed by the petitioner under section 8(2) of the Ordinance in the month of October, 2005.

7. UNACCOUNTED FOR GAS (UFG)

7.1. **Petitioner's Grounds for Review**

7.1.1. The petitioner has pleaded for review of UFG benchmark of 5.75% set by the Authority for FY 2005-06 and has proposed gradual reduction to 4% by FY 2010-11. It has requested a revised UFG target of 6.7% for FY 2005-06, to be brought down to 5% by FY 2010-11.

7.1.2. The petitioner has argued that the Authority has not conducted any scientific study or technical audit of the pipeline network to ascertain the quantum of UFG and time required to address it, as neither any consultant / expert was appointed to suggest the achievable UFG targets keeping in view the age, condition and load on the network, nor the company was asked to undertake any survey, study, analysis etc, to assess the size of the problem.

7.1.3. The petitioner has stated that it was penalized by Rs. 220 million for not meeting targeted UFG of 6.5% for FY 2003-04 and the difficult target of 6% for FY 2004-05 is likely to inflict a further penalty of Rs. 764 million, which will be a serious blow to its profitability.

7.1.4. The petitioner has contended that the UFG target of 5.75%, set by the Authority for FY 2005-06, is unrealistic and unachievable owing to higher gas prices resulting in increased theft cases, massive switch over to captive power generation from gas, leakage of old/decaying network, delay in rehabilitation due to higher road restoration charges, accumulation of dust due to intelligent pigging, malfunctioning of measuring devices, higher leakage on account of higher pressure required in congested city areas, etc. The petitioner has further contended that reduction of UFG to 4% by FY 2010-11, is not practically possible.

7.1.5. The petitioner has further contended that after carefully analyzing the problem, it has developed a comprehensive plan for the reduction of UFG. The plan has already been submitted to the Authority envisaging the reduction in UFG from 6.7% in FY 2005-06, to 5% in FY 2010-2011 as under:-

Table 2: UFG Reduction Target of the Petitioner

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Financial Year	UFG Target
2005-06	6.70%
2006-07	6.20%
2007-08	5.80%
2008-09	5.40%
2009-10	5.00%

7.1.6. The petitioner has pleaded that its plan of reduction in UFG be approved to enable it to provide better customer service, besides better earnings to its shareholders mainly to GOP, and performing in accordance with the Authority's directives.

7.2. **Discussion and Decision**

7.2.1. The Authority's research reveals as under:-

7.2.1.1. 32 distribution companies operating in USA, reported by US Department of Transport, Office of Pipeline Safety, had suffered UFG in the year 2002 as under:-

Table 3: UFG levels of US distribution companies in the year 2002

Number of Companies	% UFG Reported
9	0 to1
12	> 1 to 2
6	> 2 to 3
3	> 3 to 4

7.2.1.2. The above companies cover medium and large industry players with more than 500,000 consumers and the largest of them has about 4 million consumers.

7.2.1.3. Victorian Energy Network Corporation of Australia has reported that UFG level for an integrated company in Australia is between 1.9% to 3%.

7.2.1.4. UFG in local distribution zones in UK is estimated at 0.7% of their throughput.

7.2.2. It is evident from the above data that the petitioner's contention that the Authority has not conducted any scientific study while fixing UFG target is not tenable.

7.2.3. In view of the above facts, the Authority's proposal for reducing UFG progressively to 4% level is reasonable and provides more than sufficient allowance to cater for peculiar local operating conditions including socio-economic patterns, higher pressure requirements and other related factors.

7.2.4. The argument of aging network is also not sustainable. As far as the Authority is concerned, it has been allowing expenditure on system augmentation and repair & maintenance of gas pipelines as demanded and if the size or quality of this work has not been adequate, the responsibility lies squarely on the petitioner's shoulders.

7.2.5. The Authority observes that after extensive consultation with the petitioner on the introduction of UFG targets, in its determination dated August 08, 2002 for FY 2001-02, it had directed the petitioner to reduce the UFG progressively to less than 6% by the end of FY 2004-05. In pursuance of this direction, UFG target for FY 2003-04 was fixed at 6.5% and for FY 2004-05 at 6%. It was expected that in these three years both the utilities would take all necessary measures to reduce the UFG e.g. controlling theft, leakages and other related factors. However, the record shows that the companies did not attach due priority to this important aspect of their work. The Authority would like to refer to the National Security Council's decision dated 11-10-2000 in case No. NSC-16/7/2000 requiring the regulators to look into the losses and inefficiencies of the public utilities before allowing them the tariff increase. It is obligatory on the part of OGRA to lead the gas utilities to gradually reduce the UFG losses through fixation of incentive oriented reasonable UFG targets.

7.2.6. Keeping in view the contentions of the two utilities about the prevailing environment in the country due to which they feel handicapped in bringing the UFG level down to the international standard of 2-3%, and also the objections of the intervener, the Authority has reviewed the UFG benchmark in its entirety and hereby fixes the same on a long term basis as under:

Table 4: Upper and Lower Targets for UFG

Financial Year	Upper Target	Lower Target
2005-06	6.00%	5.70%
2006-07	6.00%	5.40%
2007-08	6.00%	5.10%
2008-09	5.50%	4.80%
2009-10	5.50%	4.50%
2010-11	5.00%	4.25%
2011-12	5.00%	4.00%

7.2.6.1. The above UFG targets are subject to following conditions:

a) UFG during a financial year above the upper target shall be fully absorbed by the licensee from its own profit without any allowance in the Revenue Requirement.

b) UFG during a financial year above the lower target upto the limit of upper target shall be allowed to be adjusted in the revenue requirements to the extent of 50% and balance 50% shall be absorbed by the licensee from its own profit.

c) If in a financial year, the licensee achieves greater efficiency and brings the UFG down to less than the lower target, it will be entitled to retain the entire benefits below the lower target.

d) The UFG targets shall be reviewed when the input of gas increases by 10% or more compared to the total actual volume in FY 2005-06 with a view to making appropriate adjustments on account of incremental sales.

8. HUMAN RESOURCE (HR) COST

8.1. Petitioner's Grounds for Review

8.1.1. The petitioner has contested that the HR cost determined by the Authority on the basis of benchmark based on HR cost for FY 2003-04, is not reflective of the actual HR cost for that year, as CBA agreement effective 1st January, 2004 is yet to be concluded and only a small notional provision was booked in the accounts.

8.1.2. The petitioner has further contended that the additional impact of CBA agreement due on January 01, 2006, will have to be allowed in addition to the benchmarks.

8.1.3. The petitioner has stated that the impact of casual work force, changing economic situations, inflation factor, has not been taken into account by the Authority.

8.1.4. The petitioner has also argued that the financial impact of factors which are beyond the company's control e.g. induction of TAs through Supreme Court order should be kept outside the scope of the benchmark.

8.1.5. The petitioner has requested that impact of inflation be taken into account at 70% of CPI and the HR benchmark be indexed to number of consumers with 60% weightage, size of transmission & distribution network with 20% weightage and sales volume with 20% weightage.

8.1.6. The petitioner has also pleaded that the Authority, while finalizing ERR 2005-06, did not consider the submissions made by the petitioner in respect of HR benchmark since the same have not been referred to in the order.

8.2. Discussion and Decision

8.2.1. If past is any guide, in a growing system as in Pakistan, consumer base, network size and volume of gas will continue to increase at a steady pace and consequently the HR benchmark will keep going up in monetary terms. It is noted that while the petitioner has over emphasized the negative factors, the positive ones e.g. economy of scale with increasing base and productivity gains through rationalization of human resource, improved processes and technology, training etc. have been completely omitted. The HR benchmark, based on the "actual" cost of a financial year would provide sizeable cushion as through appropriate actions to improve productivity, savings can be made and the petitioner has repeatedly claimed that it had been determinedly moving toward being a more efficient organization.

8.2.2. The periodic agreements with CBA and revision of executive packages are also to be designed in a manner that greater and greater link is established between compensation and productivity and average cost of operation per consumer, per K.M. of pipelines and per unit of gas sold is reduced. The HR benchmark will, on the other hand, continue to increase owing to indexation to number of consumers, length of pipeline and volume of gas. There is no justification for including impact of agreements with CBAs in addition to the said variables. Such addition, if allowed separately, will defeat the very purpose of setting up an HR benchmark.

8.2.3. The Authority however, feels that the petitioner's contention of getting no adjustment at all on account of inflation merits consideration. After in-depth analysis, the Authority agrees to allow "inflation adjustment to the extent of 50% of CPI" on a year to year basis. This would be in addition to indexation to the base year i.e. actual HR cost of FY 2004-05, of increase in "number of consumers with 60% weightage", increase in "network with 20% weightage" and "gas sales volume with 20% weightage". The saving or excess vis-à-vis HR cost benchmark will be shared equally between the petitioner and the consumers through adjustment at the time of determination of final revenue requirement. If the actual HR cost of the petitioner is higher than the benchmark HR cost, 50% of the excess amount will be adjusted in the revenue requirement and balance 50% will be absorbed by the licensee from its own profits. Conversely, if the actual HR cost is less than the benchmark HR cost, 50% of the savings will be retained by the petitioner and the balance 50% will be adjusted in the revenue requirement.

8.2.4. Having reviewed the benchmark as above, the Authority has decided to take actual cost of FY 2004-05 as the base figure and make a reasonable addition for increase on account of impact of pending CBA Agreement for that year, and determines the HR benchmark for FY 2005-06 provisionally at Rs. 3,178 million **(Annexure-I)** subject to adjustment on actual result. Further, the above formula of benchmark fixation will be reviewed after the results of FY 2007-08 become available.

8.2.5. The petitioner's contention that its view point was not taken into account at the time of setting up HR benchmark for DERR 2005-06, is not correct. The Authority introduced the benchmark on experimental basis after due consultation with the petitioner and giving due consideration to views of the petitioner and the Federal Government, the principal stakeholder. Nevertheless, adjustments have now been made after further interaction in light of the relevant factors, as discussed and decided above.

9. BILL COLLECTION CHARGES

9.1. Petitioner's Grounds for Review

9.1.1. The petitioner has submitted that the four major banks namely, Allied Bank Limited, Habib Bank Limited, Muslim Commercial Bank Limited and United Bank Limited, vide their letter dated June 24, 2005, have informed that they have unilaterally decided to increase the gas bill collection charges from present rates of Rs. 2/- per bill, fixed in 1984, to Rs.10/- per bill w.e.f. 1st July, 2005.

9.1.2. Previously, it was indicated in a joint meeting at the Ministry of Finance that these charges should be increased to Rs. 5/- per bill, but the decision was not implemented on account of resistance by the said major banks. The petitioner has requested the State Bank of Pakistan to intervene to defer the implementation of enhanced rates until approval from OGRA.

9.1.3. The petitioner has submitted that due to increase in bill collection charges T&D cost will increase by Rs. 120.665 million (Rs. 0.35 per MMBTU) and the revenue requirement will go up Rs. 3.52 per MMBTU as against Rs. 3.16 per MMBTU per the review motion, and has pleaded for allowing the same.

9.2. Discussion and Decision

9.2.1. The decision on the said increase in bill collection charges will be made separately after holding public hearing taking into account views of all the stakeholders.

10. CORPORATE SOCIAL RESPONSIBILITY (CSR) AND SPORTS ACTIVITIES

10.1. Petitioner's Grounds for Review

10.1.1. The petitioner has pleaded that additional amount of Rs. 21 million be allowed on account of CSR because such expenditure is necessary to enhance corporate image, satisfy environmental obligations pursuant to License Condition 16 (Rs. 3 million) and meet other social responsibilities (Rs. 3 million).

10.1.2. The petitioner has argued that CSR is a recognized international practice and corporate bodies allocate funds towards social uplift in order to discharge their social responsibilities. The Code of Corporate Governance issued by Securities and Exchange Commission of Pakistan also requires listed companies to formulate policies relating to donations, charities, contributions and other payments of similar nature.

10.1.3. The petitioner also claimed that expenditure on sports amounting to Rs. 15 million was incurred pursuant to Prime Minister's directives. Sports promotion is a national objective. Many public sector companies like WAPDA, PIA, PSO, NBP, PTCL etc. have played a significant role in sports promotion.

10.1.4. The petitioner requested the Authority to encourage sports promotion by allowing this expenditure, and set an example for others to emulate

10.2. Discussion and Decision

10.2.1. The points raised in the review motion have already been discussed in the order of determination of ERR 2005-06. No new argument or evidence has been put forth by the petitioner to justify the claim of

Rs. 21 million on this account. The Authority therefore, maintains its earlier decision.

11. DETERMINATION

11.1.1. The Authority decides to set off the overall impact of adjustment on account of other income, cost of gas, revised H. R. cost and revised UFG Benchmark, against the deferral account. The Authority determines the revised revenue requirement of the petitioner for FY 2005-06 at Rs. 63,855 million **(Annexure-II)** with no change in the existing prescribed prices **(Annexure-III).**

(M. H. Asif)
Member (Finance)

(Jawaid Inam)
Member (Gas) /
Vice Chairman

(Munir Ahmad)
Chairman

Islamabad, October 19, 2005

		Annexure-I
SUI SOUTHERN GAS COMPANY LIMITED		
Computation of Projected Benchmark H.R. Cost		
Description	**Base Year FY 2004-05 (Actual)**	**FY 2005-06 (Projected)**
Total HR cost incl. IAS-19, CBA Estimate @ 10% of Wages in base year (actual / projected by the licensee)	2,861	3,280
Less:		
IAS-19	84	141
TAs Cost	184	208
HR cost (actual / projected by the licensee)	2,593	2,931
<u>BASIS OF BENCHMARK</u>		
Total No. of consumers (actual / projected by the licensee)	1,788,689	1,864,754
Sale Volume (MMCF)	337,638	351,267
T & D network (km)	28,692	30,472
CPI (actual / projected by OGRA)	9.28%	9%
Per unit cost factor (T & D Network) (Rs.) (Base Year)	90.38	90.38
Per unit cost factor (consumer base) (Rs.) (Base Year)	1,450	1,450
Per unit cost factor (Sale volume base) (Rs.) (Base Year)	7.68	7.68
Increase based on 50% CPI (Rs. in Million)	-	116.69
Increase on account of increase in T & D Network (20% weightage) (Rs. mil)	518.61	550.79
Increase on account of increase in consumers (60% weightage) (Rs. mil)	1,556	1,622
Increae on account of sale volume (20% weightage) (Rs. mil)	519	540
Benchmark HR Cost	2,593	2,829
Add: IAS -19 Provision	84	141
TAs Cost	184	208
Total benchmark H.R. Cost (including T & D Network) per SSGCL proposal	**2,861**	**3,178**
<u>Step I:</u> Last year's Benchmark Cost increased by 50% of CPI rate		
<u>Step II:</u> Plus (i) Cost attributable to net additional consumers of the		
average per consumer of base year (60% weightage)		
(ii) Cost attributable to additional volume sold at the average		
per unit of base year (20% weightage)		
(iii) Cost attributable to additional T & Network at the average		
per unit of base year (20% weightage)		

Annexure-II

SUI SOUTHERN GAS COMPANY LIMITED

Computations of Revised Estimated Revenue Requirement for FY 2005-06

	Particulars	The Review Petition	Addition/ (Reduction)	Determined by OGRA
Net Operating Revenues				
	Gross sales net of general sales tax	58,989		58,989
Less:	Gas development surcharge- existing	(1,172)		(1,172)
	Net sales at current prescribed price	**60,161**		**60,161**
	Meter rentals	473.297		473.297
	Late payment surcharge	248.171		248.171
	Amortization of deferred credit	197.256		197.256
	Sale of gas condensate	295.650		295.650
	Meter manufacturing profit	32.749		32.749
	Gas transportation charges	505.639		505.639
	Other operating income	29.773	244	274.000
	Income from JJVL	1,666.736		1,667.000
"A"	**Total Operating Revenue**	**63,610**	**244**	**63,855**
Operating Expenses				
	Cost of gas	**53,834**		**53,834**
	Cut of UFG above 5.70%	-	(446)	(446)
	Transmission and distribution cost	4,191	(244)	3,947
	Gas internally consumed	271		271
	Depreciation	2,715		2,715
	Other charges including (W.P.P.F)	139	(43)	96
	Deferral account	350	(213)	137
"B"	**Total Operating Expenses**	**61,499**	**(945)**	**60,554**
"C"	**Operating profit (A-B)**	**2,111**	**1,190**	**3,301**
Return required on net operating fixed assets:				
	Net operating fixed assets at beginning	20,500		20,500
	Net operating fixed assets at ending	22,984	(21)	22,963
		43,484	(21)	43,463
Average net assets (I)		21,742	(10)	21,732
	Deferred credit at beginning	2,220		2,220
	Deferred credit at ending	2,410		2,410
		4,630		4,630
Average net deferred credit (II)		2,315		2,315
"D" Average (I-II)		**19,427**	(10)	**19,417**
"E" 17% return required		**3,303**	(2)	**3,301**
"F" Shortfall over return required (E-C)		**1,191**	**(1,191)**	**0**
"G" Estimated Revenue Requirement (C+E)		**64,802**	**(947)**	**63,855**
"H"Gas sale (BBTU)		**338,945**		**338,945**
Average increase (decrease) in prescribed price (Rs. / MMBTU) [(F/H) x 1000]		**3.51**	**3.51**	**0.00**

Annexure-III

Sui Southern Gas Company Limited

Prescribed Prices for Each Category of Consumers as Determined by Oil and Gas Regulatory Authority

		Notified Prescribed Prices effective 02.02.2005 to 30.06.2005	Prescribed Prices effective 01.07.2005	Difference
	CATEGORY	Rs. per MMBTU		
(i)	**Domestic Consumers**			
	For domestic consumers, including residential colonies, mosques, churches, temples, madrassas, other religious places and hostels attached thereto, Government and semi-Government offices, hospitals, Government guest houses, Armed Forces messes and langars, universities, collecges, schools,private educational institutions, orphanages and other charitable institutions.			
	First slab (upto 100 cubic metres per month).	73.95	73.95	-
	Second slab (over 100 upto 200 cubic metres per month).	120.61	126.20	5.59
	Third slab (over 200 upto 300 cubic metres per month).	192.96	201.91	8.95
	Fourth slab (over 300 cubic metres per month).	251.01	262.65	11.64
	For hostels and residential colonies to whom gas is supplied through bulk meters.			
	All off-takes at flat rate of	120.61	126.20	5.59
(ii)	**Commercial Consumers**			
	All establishments registered as commercial units with local authorities or dealing in consumer items for direct commercial sale like cafes, milk shops, tea stalls, canteens, barber shops, laundries, tandours, places of entertainment like cinemas, clubs, theaters and private offices, clinics, maternity			
	All off-takes at flat rate of	212.79	222.66	9.87
(iii)	**Industrial Consumers**			
	All consumers engaged in the processing of industrial raw material into value added finished products irrespective of the volume of gas consumed including hotel industry but excluding such industries for which a separate rate has been prescribed.			
	All off-takes at flat rate of	192.69	201.62	8.93
(iv)	**Ice Factories**			
	All off-takes at flat rate of	212.79	222.66	9.87

(v)		**<u>CNG Stations</u>**			
		All off-takes at flat rate of	192.69	201.62	8.93
(vi)		**<u>Cement Factories</u>**			
		All off-takes at flat rate of	192.69	201.62	8.93
(vii)		**<u>Pakistan Steel</u>**			
		All off-takes at flat rate of	192.69	201.62	8.93
viii)		**<u>FFC Jordan Fertilizer Company</u>**			
	(i)	For gas used as feed stock for Fertilizer.	36.77	36.77	-
	(ii)	For gas used as fuel for generating steam and electricity and for usage in housing colonies for	192.69	201.62	8.93
(ix)		**<u>Power Stations</u>**			
		All off-takes at flat rate of	192.69	201.62	8.93