

OGRA-6(2)-1(2)/2019-(Review)

IN THE MATTER OF

SUI NORTHERN GAS PIPELINES LIMITED (SNGPL)

**MOTIONS FOR REVIEW AGAINST AUTHORITY'S DETERMINATION OF
REVIEW OF ESTIMATED REVENUE REQUIREMENT FOR FY 2018-19**

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

DECISION

May 31, 2019

Before: -

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

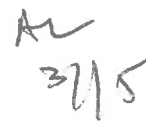


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1. Background

- 1.1. Sui Northern Gas Pipelines Limited (SNGPL) is a public limited company incorporated in Pakistan and is listed on Pakistan Stock Exchange. It is engaged in the business of construction and operation of gas transmission and distribution pipelines, sale of natural gas and compressed natural gas, and sale of gas condensate (as a by-product). SNGPL is also engaged in the business of Re-gasified liquefied natural gas (RLNG), in accordance with the decisions of the Federal Government (FG).
- 1.2. The Authority, under Section 8(2) of the OGRA Ordinance, 2002 (the Ordinance) determined the Review of Estimated Revenue Requirement of SNGPL for FY 2018-19 (the said year) vide order dated February 27, 2019 at Rs. 280,347 million and shortfall at Rs. 50,790 million translating into an increase of Rs. 119.68 per MMBTU in the average prescribed price.
- 1.3. Being aggrieved by the above determination, SNGPL (the petitioner) filed motion for review on March 25, 2019 (the Petition) under Section 13 of OGRA Ordinance, 2002 read with Rule 16 of Natural Gas Tariff Rules, 2002 (the NGT Rules) on the following items:
 - a) **CAPITAL EXPENDITURES**
 1. **AUGMENTATION/BIFURCATION OF GAS NETWORK IN LAHORE CITY**
 2. **UPGRADATION OF SMSs**
 3. **CONSTRUCTION OF REGIONAL DISTRIBUTION OFFICE BUILDING AT SAHIWAL**
 4. **ENHANCEMENT OF QUOTA OF 200,000 NEW DOMESTIC CONNECTIONS**
 - b) **PRESSURE FACTOR**
 - c) **COST OF SUPPLY OF RLNG BUSINESS**
- 1.4. The Authority notes that in the decision of DRERR 2018-19, the Petitioner was advised to bring the above projects at Sr. 1 & 2 separately being mega in nature and needed detailed deliberations/presentation and may be considered by the Authority keeping in view cost benefit analysis and its effect on the UFG etc. In this regard a meeting was held at OGRA Office on 26.04.2019 wherein SNGPL gave a detailed presentation/briefing on the said Projects along with Construction of Regional Office Sahiwal. However, these



projects have to be considered by the Authority as a part of the Motion for Review against the decision of the Authority in DRERR 2018-19 (the petition).

2. Authority's Jurisdiction and Determination Process

2.1. The petitioners have referred/invoked the jurisdiction of the Authority under Section 13 of the Ordinance read with 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. It is clear from the above, that the issues brought forwarded/contended by the petitioner must necessarily be evaluated with reference to the provisions of aforesaid Section 13 of the Ordinance.

3. Proceedings

- 3.1. The Authority issued notice of hearing on May 13, 2018 to the petitioner and hearing was accordingly held on May 16, 2019 at OGRA office, Islamabad.
- 3.2. The petitioner was represented at the hearing by a team of senior officers and legal counsel led by Managing Director. The petitioner was given full opportunity to present their submissions. The petitioner as well as its legal counsel made submissions with the help of multi-media presentations and contended the merits of the case in detail.
- 3.3. The Authority heard the petitioner's submissions. Accordingly, the discussion and decision in respect of issues contended by the petitioner is made in the following manner.

4. Augmentation / Bifurcation of Gas Network in Lahore City

4.1. Lahore being the Metropolitan city of Pakistan is being supplied gas through three SMS's i.e. SMS B-3 located at Shahdara, SMS-II & SMS III located at Defence road near Mohlanwal, having capacities of 175 MMCFD, 170 MMCFD and 190 MMCFD respectively. Beside Lahore City, SMS II & SMS III are also supplying gas to Kasur City and its adjoining / surrounding areas through 16" dia supply main. On the average each SMS is supplying gas to around 333,000 consumers and has an average gas



network of around 5,000 KM. In the recent winters peak gas load recorded through these SMS's were 300 MMCFD in total. In order to address the operational constraints, low pressure / no gas issues and rapid expansion / development plans in Lahore city as highlighted / detailed above, an augmentation / bifurcation plan of gas supply to Lahore city has been prepared by considering the operation of gas distribution network at optimum conditions by providing multiple feed points to gas distribution network in Lahore city through detailed site survey and comprehensive analysis/simulation study. As per plan, following infrastructure/remedial measures are required to be undertaken as described below:

- i. 24" \emptyset x 48 KM transmission spur has been proposed from Phool Nagar V/A to Nabi Bakshwala where 2 No SMSs namely SMS Kasur and SMS Ferozpur road shall be constructed.
- ii. 16" \emptyset x 27 KM transmission spur has been proposed from upstream of SMS Kasur/ SMS Ferozpur road to Barki where proposed SMS Barki of capacity 40 MMCFD shall be constructed and subsequently, laying of 16" \emptyset x 2.5 KM supply main would be required from proposed SMS Barki upto BRB in order to connect 16" \emptyset existing supply main near BRB with this proposed SMS Barki.
- iii. 8" \emptyset x 16 KM transmission spur has been proposed from upstream of SMS Barki to Dial where proposed SMS Dial of capacity 10 MMCFD shall be constructed and subsequently, laying of 10" \emptyset x 10 KM supply main would be required from proposed SMS Dial up to DaroghaWala Chowk in order to connect 16" \emptyset existing supply main with this proposed SMS Dial.
- iv. SMS II & SMS III located at Defence Road near Molanhanwal which are presently engulfed in thick population and have become a safety hazard for its surrounding localities, shall be shifted 17.50 Km upstream of its existing location near Manga offtake. Capacity of SMS II & SMS III to be constructed at this new location near Manga offtake shall be 150 MMCFD each.
- v. 16" \emptyset and 18" \emptyset x 17.50 KM existing transmission lines from newly proposed location of SMS II & III at Manga offtake to current location of SMS II & III near Mohlanwal shall be declared as High-Pressure supply mains which shall be operated at 270 Psig each downstream of this newly proposed SMS II & III at Manga Offtake.
- vi. Existing SMS II & III shall be converted into distribution regulating station comprising 4 legs having separate regulation and measurement facilities for each injecting into existing 16" \emptyset , 18" \emptyset , 24" \emptyset and 24" \emptyset supply mains for facilitating their optimal operation as per their dynamics and requirement.



4.2. The Company has planned to execute the above-mentioned augmentation / bifurcation plan of the Lahore City in two phases. Details of the phases along with cost estimates are as follow: -

Phase-I			Phase-II		
Sr. No.	Description	Cost (Rs. Million)	Sr. No.	Description	Cost (Rs. Million)
Transmission Lines			Transmission Lines		
1	24" x 48 Km from Phoolnager to Ferozpur Road	2332.0	1	8" x 16 Km from Barki to Dial	306.0
2	16" x 27 Km from Ferozpur road to Barki	797.0	2	16" x 6.5 Km from Manga Mandi to Sunder	222.0
SMS'S			SMS'S		
1	Kasur Capacity 20 MMCFD	90.0	1	Ferozpur road Capacity 30 MMCFD	100
2	Barki Capacity 40 MMCFD	145.0	2	Dial Capacity 10 MMCFD	75
			3	SMS II & III Capacity 150 MMCFD Each	800
Supply Mains			Regulating and Metering Station		
1	16" x 2.5 Km from SMS Barki to BRB	60	1	Regulation & Metering Station at Old SMS (4 legs)	510.0
Total Cost (Rs. Million)			Supply Mains		
		3,424	1	10" x 10 Km from SMS Dial to G.T. Road	136
Grand Total (Rs. Million) = 5787			Land		
			1	10 Acre Land for Office Block, Residential Block & New SMS II & III station	60.0
			Office & Residential Block		
			1	Construction of Office & Residential Block	154
			Total Cost (Rs. Million)		
					2,363
Tentative Completion Period			Tentative Completion Period		
1	2 Years		1	2 Years	

4.3. Phase-II shall be started after the completion of Phase-I. It is hereby certified by the management that all procedural codal, legal, and financial prerequisites shall be fulfilled for completion of the project.



- 4.4. *The Authority keeping in view the briefing and anticipated supplies of RLNG supplies in future, to reduce the UFG in the light of KMI Implementation plan, to cater the low gas pressure issues at tail end due to segregation of Distribution network, ease of operation and to improve gas measurements allows Phase-I of the project in principle. The actual cost will be considered by the Authority at the time of respective FRR.*

5. Up-Gradation of SMSs

- 5.1. The petitioner has informed that presently about 400 SMSs are installed on SNGPL Transmission system for supply of gas to distribution network. These SMSs have installed in accordance with the expansion of SNGPL Transmission and Distribution System. However, due to LNG supplies, now there is operational requirement to modify certain SMSs as current capacity of these SMSs are not sufficient to meet the load requirements.
- 5.2. In view of the above, 63 No SMSs have been identified which require upgradation/relocation on immediate basis. However, upgradation and relocation of 63 SMSs is a huge task which involve budgetary requirements of billions of rupees. Therefore, in the first phase 15 No. SMSs have been prioritized to be upgraded/relocated during the FY 2018-19 with a budgetary requirement of Rs.1,349 million.
- 5.3. The Board of Directors (BOD) at its 510 the meeting held on 20.07.2018 has accorded the approval for Rs. 1,349 million for upgradation of 15 SMSs in FY 2018-19 in addition to already approved Rs. 40 million, subject to OGRA's specific approval.
- 5.4. *In the light of justifications provide by the Petitioner, to relocate ,enhance the capacity of undersized SMS's, for improvement in measurement accuracies and to match the increase in transmission capacity with the distribution system, the Authority allows the upgradation of 15 SMSs initially in principle. The Company to bring the remaining SMSs for consideration of the Authority after the upgradation of the above along with its results. The actual cost will be considered by the Authority at the time of respective FRR. However as explained by the Petitioner this augmentation of SMS's is being done to cater for additional RLNG, so the cost will be ring fenced as per FG Policy.*



6. Construction of Regional Distribution Office Building at Sahiwal

6.1. The Petitioner has informed that construction of new Regional Distribution Office Sahiwal was submitted to Finance and Procurement Committee, the Finance and Procurement Committee at its 294th meeting held on 08.06.2018 conceptually agreed with the plan for construction of Regional Distribution Office building at Sahiwal and recommended the same to the Board of Directors subject to the following caveats:

1. Proper justification/ rationale of the construction cost of Rs. 5,400 per square foot.
2. Revisit per floor as the construction cost for floor 4-7 is the same.
3. Architect needs to be present in person before the Board to give 3-D presentation.
4. Revisit Parking Plan to increase the capacity for car parking.
5. Segregate the cost of grey structure and finished structure.

6.2. The Management response to above caveats is summarized below:

Sr. No.	ACTIONABLE POINTS	MANAGEMENT'S RESPONSE
1	Proper justification/ rationale of the construction cost of Rs. 5,400 per square foot.	
2	Revisit per floor as the construction cost for floor 4-7 is the same.	Initial estimate was prepared as rough cost estimate based on average rate per square foot for floors from 4 th to 7 th . However, the initial rough cost estimate has been superseded by detailed cost estimate. The detail cost estimate is based on calculation of quantities of all items instead of average rate per square foot. The average rate of four floors (4 th to 7 th) is no more applicable and also has not been considered in detailed cost estimate amounting to Rs. 563 Million (Five hundred and sixty-three million rupees) which is now under consideration.
3	Architect needs to be present in person before the Board to give 3-D presentation.	3-D presentation is ready and Architect would be available to deliver the same before the Board of Directors.
4	Revisit Parking Plan to increase the capacity for car parking.	Parking plan is designed as per standards; however, we have revisited the plan and parking for 3 cars can be added to the previous capacity.
5	Segregate the cost of grey structure and finished structure.	The detail regarding rate has been with segregation among different items and the impact of working at different floor levels has been considered in the rates of respective items.



- 6.3. Accordingly, the BOD of the Company in its 511th Meeting decided that, after due deliberation and subject to adherence of all bye laws and fulfilment of all codal, legal, procedural and financial pre-requisites the BOD accorded approval for construction of Regional Distribution Office Building at Sahiwal subject to provision of additional land as observed in the minutes above.
- 6.4. In view of the foregoing, The Petitioner requested an amount of Rs. 238 Million in addition to already approved amount of Rs. 325 Million for the construction of Regional Distribution Office building at Sahiwal.
- 6.5. *It may be mentioned here that initially the Petitioner requested Rs. 200 million for construction of Regional Office at Sahiwal through ERR FY 2015-16. However, later on in ERR of FY 2016-17 the petitioner informed that approximately a cost of 400 million would be required to complete the project. It is worth mentioning here that the Authority had already allowed Rs. 325 million in previous DERRs. The Petitioner has also informed during the hearing on May 16, 2019 that the land for project has been provided by the transmission department and will not be booked to the project.*
- 6.6. *The Authority observed that the impact of cost for construction of Regional Office Building is much higher than the rent paid by the Company, therefore, the Authority is of the view that the company may construct the Regional office building from its profit, however, the amount incurred on the project will not be made part of rate of return.*

7. Pressure Factor

- 7.1. The Petitioner has requested the Authority to review Para 6.3.2 and 6.3.3 of its determination on Review of Estimated Revenue Requirement (RERR) for FY 2018-19 dated 27.02.2019 and allow pressure factor applied by the Company as is.

Para 6.3.2

The Authority, therefore, once again directs the Petitioner to pass on reversal / adjustment to the affected consumers due to application of pressure factor above 8 inches of water column across the board for the period from July, 2018 to February, 2019. The Petitioner is also directed to strictly follow Clause-11 of the Standard Domestic Contract and stop application of Pressure Factor above 8 inches of W.C. in the domestic consumers' gas bills in future.

Para-6.3.3



In case of non-compliance, the volume booked by the Petitioner by application of the said pressure factor, which is not in compliance with Clause-11 of the Contract, shall be reversed in the respective FRR.

- 7.2. The Authority, vide its Decision on Final Revenue Requirement for FY 2017-18 dated 15-1-2019, directed the Petitioner to examine the application of correct pressure factor in the domestic consumers' gas bills and make any adjustment on this account to ensure the compliance of provision of Clause-11 of the Standard Domestic Contract. Further, the compliance of said clause may be ensured.
- 7.3. Thereafter, the Authority, vide its decision in respect of RERR (2018-19) dated 27.02.2019, once again directed the Petitioner to pass on reversal/ adjustment to the affected consumers due to application of pressure factor above 8 inches of water column across the board for the period from July, 2018 to February, 2019. The Petitioner was further directed to strictly follow Clause-11 of the Standard Domestic Contract and stop application of Pressure Factor above 8 inches of W.C. in the domestic consumers' gas bills in future. The Authority also stated in DRERR (2018-19) that in case of non-compliance, the volume booked by the Petitioner by application of the said pressure factor, which was not in compliance with Clause-11 of the Contract, shall be reversed in the respective FRR.
- 7.4. Now the Petitioner, in its Motion for Review against the Determination of RERR (2018-19), has once again raised points regarding application of pressure factor on the domestic consumers.
- 7.5. Regarding the Petitioner's stance that in case of longer lengths of house lines for big/ multi-storey buildings/ farm houses due to demand-supply gaps, domestic regulators will not cater the load of connected appliances and it will require higher delivery pressure and application of pressure factor, it is mentioned that these are operational issues which may be addressed by the Petitioner itself. Moreover, the Domestic Regulators are required to be designed by Petitioner as per the applicable requirements. The application of pressure cannot be done beyond 8 inches of water column under the existing contract clause.
- 7.6. The Authority observes that main argument of SNGPL is that under regulation 1.14 of the Natural Gas Distribution (Technical Standards) Regulations, 2004 company is entitled to apply pressure factor from 8 to 55 inches of water columns. In order to prove



this statement as correct the Counsel for SNGPL made arguments. Since the main issue revolves around regulation 1.14 therefore, the same is reproduced below:

1.14. Pressure Control Guidelines

*Under normal operation, pressure on the outlet side of the regulating station or a customer service regulation **should not exceed** the following limits:-*

- (a) Sales Meter Station
300psig (Supply Line Max. Pressure)
- (b) City gate, Town Border Station or DRS
150 psig (Feeder Main Max. Pressure)
- (c) Residential Customer
8" w.c. , but no more than 2 psig
- (d) Commercial Customer
As per contract, normally 8" w.c. to 5 psig
- (e) Institutional and Industrial Customer
As per contract, normally between 2-20 psig

- 7.7. From the perusal of above regulation it may be evident that it requires that pressure **should not exceed** the limits given, however, it does not bar the application of lower limit.
- 7.8. Counsel for SNGPL emphasized the word "limits" only and ignored the word "should not exceed" and all his arguments focus the only objective to apply pressure factor from 8" to 55" of water column.
- 7.9. Again if we read the sub-regulation c, d and e above, it may be evident that limits were provided in regulation d and e only and not in C. Which leads one to the conclusion that intent was to give two separate figures of pressure factors for domestic customer considering their requirement first one is 8 inches w.c. and the other is 2 psig. However, it does not mean that between 8 inches w.c to 2 psig, as misinterpreted by the counsel for SNGPL.
- 7.10. The case becomes crystal clear on perusal of contract for domestic consumer which provide under class 11 that natural gas shall be supplied at a **pressure not exceeding 8 inches w.c.** It simply means that Company opted for 8 inches of water column pressure which it is bound to follow as contractual obligation. Now it cannot change it unilaterally.
- 7.11. However, the Petitioner may take necessary measures for the resolution of this issue and may consider for revised/ supplementary domestic contract to cater for such consumers only after confirming the load/ pressure requirements keeping in view the operational requirements/ bottlenecks of its distribution network and other factors.



- 7.12. Regarding Petitioner's contention w.r.t. "Natural Gas Distribution (Technical Standards) Regulation, 2004", it is mentioned that Distribution Standards describe operational and pressure control guidelines applicable to all the licensees while "Domestic Gas Contract" is a specific bilateral contract between the domestic gas consumer and the Gas Company (SNGPL in the instant case). Distribution Standards describe the overall pressure limits while the specific pressure at which gas has to be delivered to the domestic consumer has been defined in the Clause 11 of the Standard Domestic Gas Contract. In view thereof, the instant plea of the Petitioner vis-à-vis supply of gas to domestic consumer beyond 8 inches w.c. on account of "Natural Gas Distribution (Technical Standards) Regulation, 2004" is not tenable.
- 7.13. It is also pertinent to mention here that keeping in view the sensitivity of the issue, Director General of Gas, Petroleum Division, Ministry of Energy, vide its letter dated No. NG (1)-16 (1)/19-GM dated 4th March, 2019, also took up the matter with the Managing Director, SNGPL stating therein, in addition to others, that the Competent Authority has desired about the steps taken by the Petitioner for adjustment/ reimbursement of extra amounts charged under the head of Pressure Factor.
- 7.14. The Authority observes that the Petitioner is neither complying with the directions of the Authority nor the Government of Pakistan and has not implemented the decision (s) till today in this regard.
- 7.15. *In case of non-compliance with the aforesaid directions, the Authority shall be constrained to take necessary action against the licensee as per its previous decisions and any other legal course of action as per the applicable Rules/ OGRA Ordinance, as deemed appropriate by the Authority, to safeguard the interest of the consumers.*

8. Enhancement of quota of 200,000 New domestic Connections

- 8.1. The petitioner informed that in view the huge pendency of applications and current pace of new connections installation, the Petitioner requested additional allocation of 300,000 connections in RERR 2018-19. However, the Authority allowed only 100,000 additional connections. It is worth mentioning here that since 01.07.2018 till date SNGPL have installed 319,813 new connections, as such only 80,187 new connections can be provided during the remaining four (4) months of FY 2018-19 while more than 250,000 applicants have already paid their demand notices and are waiting for connections.



- 8.2. Reducing/limiting the quota of new domestic gas connections will create massive hue and cry especially those who have already paid their demand notices. Therefore, it is requested that keeping in view the pendency of applications, demand notices already paid and the connections already installed in the current financial year, quota of new domestic connections for FY 2018-19 may be reviewed
- 8.3. *The Authority is of the view that, it is the responsibility of the Petitioner to stagger the connections allowed by the Authority over a whole period of one year according to pendency in respective regions. However, keeping in view the huge pendency and verbal request of the Petitioner in the hearing on 16.05.2019 to at least allow 50,000 connections. The Authority considered the request of the Petitioner and allows in principle 50,000 new domestic connections including 10% connections on urgent fee basis for the remaining period of this fiscal year subject to actualization in the respective FRR.*

Motion for Review Against DRERR 2018-19 SNGPL

All Figures in Rs. Millions

Sr. No.	Description	Amount Projected	Recommendations
1	Augmentation / Bifurcation of Gas Network in Lahore City Phase-I	3,424	Approved in Principle
2	Up-Gradation of 15 No. SMSs	1,349	Approved in Principle
3	Construction of Regional Distribution Office Building at Sahiwal	0	Approved but will not be made part of Rate of Return.
4	Enhancement of in RERR 2018-19 Quota of 200,000 New domestic Connections	0	connections in principle 50,000
5	Application of Pressure Factor by the Petitioner above 8 inches of W.C. (across the board)	0	Authority has the same stance as taken in DRERR 2018-19
	Total	4,773	

9. Cost of Supply of RLNG Business

- 9.1.1. The petitioner has submitted that in the impugned decision, the cost of supply of RLNG business/ Transportation charges has been determined at the gross

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throughput/capacity of 1200 MMCFD instead of actual average input of 814 MMCFD. The petitioner has pleaded that due to non-finalization of LNG procurement agreement by PLL with LNG suppliers and less firm demand from power sector, the average throughput shall not be at 100% capacity. Accordingly, the charges may be determined at the average actual trend. The petitioner has also explained that currently it is utilizing the terminal capacity at maximum optimal level which in the coming financial year shall further ramped up to be around the gross capacity.

- 9.1.2. The Authority observes that this issue has already been discussed. There is no new evidence or change in circumstances. Further, the petitioner has stated that it is utilizing the capacity at optimal level which is likely to achieve around the gross capacity at average during the said year. The Authority therefore maintains its earlier decision. Further, the actual data for the said year at this point in time is not available. The Authority shall therefore consider this issue at the time of FRR for the said year based on the prudence and ground realities.

10. Conclusion/decision

- 10.1.1. In view of the foregoing, the review against the Authority determinations of motion for review of final revenue requirement for said year is hereby disposed of. The financial impact of adjustments decided above shall form part of upcoming determination(s).

(Dr. Abdullah Malik)

Member (Oil)

(Noorul Haque)

Member (Finance)

(Uzma Adil Khan)

Chairperson

Islamabad, May 31, 2019.