

IN THE MATTER OF

SUI SOUTHERN GAS COMPANY LIMITED
DETERMINATION OF FINAL REVENUE
REQUIREMENT, FY 2004-05

UNDER

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

SHORT ORDER

September 22, 2005

Before:

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



SHORT ORDER

1. Sui Southern Gas Company Limited (the petitioner) filed on August 17 2005, a petition for determination of its final revenue requirement for FY 2004-05 (the petition), under Section 8(2) of the Oil and Gas Regulatory Authority Ordinance, 2002 (the Ordinance) read with rule 4(3) of the Natural Gas Tariff Rules, 2002 (NGT Rules). The Authority admitted the petition on August 19, 2005 and the notices for hearing to the petitioner and other parties to original proceedings were issued on September 05, 2005. The hearing was held on September 19, 2005.
2. The Authority had determined the estimated revenue requirement of the petitioner for FY 2004-05 (the said year) under Section 8(1) of the Ordinance, vide its order No. OGRA-6(2)-2(2)/2003 dated May 19, 2004 and on its basis the prescribed and sale prices for various categories of consumers were notified on June 30, 2004. The petitioner, later submitted a review motion under Rule 16 of NGT Rules, for increase in prescribed prices of various categories of consumers and after due scrutiny, the Authority determined the revised estimated revenue requirement of the petitioner for the said year at Rs. 53,677.473 million vide its Interim Order No. OGRA-6(2)-2(1)/2004(Review) dated December 27, 2004, taking into account the increase in weighted average input cost of gas. Accordingly, prescribed prices and sale prices for all categories of consumers were notified vide the Authority's Readjustment Order No. OGRA-6(2)-2(1)/2004(Review), dated February 02, 2005.
3. Subsequently, the petitioner filed amendments to its motion for review, vide application No. RA/26/05 dated January 04, 2005 and March 16, 2005, seeking additional increase in average prescribed prices of Rs. 6.55 / MMBTU and Rs. 1.08 / MMBTU, respectively on an annualized basis.



4. The Authority, vide its Order No. OGRA-6(2)-2(1)/2004(Review), dated May 03, 2005, confirmed its interim order dated December 27, 2004, in conjunction with readjustment order dated February 02, 2005, and decided that it would not be appropriate to make further changes in the prescribed prices towards the close of the financial year, keeping in view that the revised prescribed prices had already been notified on February 02, 2005.
5. The petitioner has now claimed a shortfall of Rs. 993.830 million, after incorporating the effect of actual changes in wellhead gas prices, operating expenses, sales volume, sales revenue, asset base and has requested for final determination accordingly.
6. After detailed scrutiny of the petition, detailed information subsequently provided and clarifications given during the hearing by the petitioner, the Authority determines as follows:
 - 6.1. The opening and closing balances of the net operating fixed assets are determined at Rs. 16,664.581 million and Rs. 19,177.988 million, respectively. Addition in fixed assets is determined at Rs. 4,609.72 million as against petitioner's claim of Rs. 4,755.89 million (**Annexure-I**), on account of the following:
 - 6.1.1. Reduction of Rs. 138.06 million on account of addition in vehicles, from Rs. 234.16 million claimed by the petitioner to Rs. 96.10 million, which were originally projected by the petitioner. Additional amount of Rs. 30.945 million has been allowed on account of replacement of vehicles deferred in FY 2003-04.
 - 6.1.2. Provisional reduction of Rs. 8.112 million on account of expenditure incurred on pre-paid meters, subject to adjustment after provision of requisite information and explanation by the petitioner and its



scrutiny.

6.1.3. Consequently, the petitioner is entitled to Rs. 2,748.884 million being 17% return on average net operating fixed assets as against petitioner's claim of Rs. 2,758.927 million.

6.2. The operating revenues are determined at Rs. 54,999.705 million, as claimed by the petitioner.

6.3. Operating expenses are determined at Rs 52,376.299 million as against Rs. 53,217.321 million claimed by the petitioner. Reduction of Rs. 841.022 million in the operating expenses, is on account of following:

6.3.1. Reduction of Rs. 694.178 million (**Annexure-II**) being Unaccounted for Gas (UFG) in excess of 6% benchmarks fixed for the said year under para 27.2 of the Authority's order No. OGRA-6(2)-2(2)/2003 dated May 19, 2004, subject to adjustment on the basis of UFG audit to be commissioned by the Authority.

6.3.2. Reduction of Rs. 36.331 million on account of gas internally consumed.

6.3.3. Reduction of Rs. 28.017 million on account of depreciation as a consequence of adjustment in assets value.

6.3.4. Reduction of Rs. 2.848 million on account of advertisement expenses not related to operations.

6.3.5. Reduction of Rs. 16.372 million on account of other expenses, being not classifiable as operating expenditure.

6.3.6. Reduction of Rs. 4.171 million on account of Corporate Social Responsibility (CSR).



- 6.3.7. Disallowance of Rs. 16.511 million on account of sports expenses.
- 6.3.8. Consequential reduction in Workers' Profit Participation Fund (WPPF) by Rs. 42.594 million.
- 6.4. UFG audit for FY 2003-04 was completed in pursuance of Authority's Decision No. OGRA-6(2)-1(2)/2003, dated June 30, 2003. The petitioner has disputed the conclusion of this audit report. The petitioner's objections are being examined and a decision will be taken shortly. Adjustment on this account shall be made accordingly in a future determination.
- 6.5. Rs. 148.40 million on account of purchase of computer equipment, and software is tentatively allowed, owing to inadequate / insufficient information provided by the petitioner, subject to adjustment on the basis of detailed scrutiny to be carried out by the Authority.
- 6.6. After the above adjustments, return available to the petitioner is Rs. 2,623.406 million, resulting in a shortfall in the revenue requirement of Rs. 142.765 million, as against Rs. 993.830 claimed by the petitioner. This translates into an increase of Rs. 0.43 per MMBTU in the average prescribed price for the FY 2004-05 (detail in **Annexure-III**).
7. In exercise of the powers under Section 8 (2) of the Ordinance, the Authority hereby determines the final revenue requirement of the petitioner at Rs. 55,142.470 million and the prescribed prices for each category of retail consumers for the said year as at **Annexure-IV**.



8. Detailed order will be issued later.

(M.H. Asif)
Member (Finance)

(Jawaid Inam)
Member (Gas) /
Vice Chairman

(Munir Ahmad)
Chairman

Islamabad
September 22, 2005



Annexure-I

ADDITION TO FIXED ASSETS FOR FY 2004-05

<i>Rs. in Million</i>			
S/N	DESCRIPTION	The Petition	Determined by OGRA
1	Land	31.67	31.67
2	Buildings	59.42	59.42
3	Transmission	2,229.58	2,229.58
4	Compression	17.57	17.57
5	Gas Distribution System	1,796.22	1,788.11
6	Plant & Machinery	108.80	108.80
7	Furniture & Equipment	199.79	199.79
8	Tools & Equipment	29.34	29.34
9	Vehicles	234.16	96.10
10	Telecom Equipment	3.47	3.47
11	Construction Equipment	45.87	45.87
TOTAL		4,755.89	4,609.72



Annexure-II

Un Accounted for Gas (UFG) for FY 2004-05			
		As on 30-06-2005	
		The Petition	*Tentative Determined by OGRA
		MMCF	MMCF
Gas Purchases		367,587	367,587
Line Pack Difference		(34)	(34)
Gas Available for Sale		367,553	367,553
Less: Gas Internally Consumed			
Metered		1,469	1,469
<u>Un Metered/ Estimated:</u>			
Blown off		122	0
Blown off Compression Operation		7	0
Blown off		13	0
Third Party Damage		132	0
	<i>Sub Total</i>	274	0
Total Gas Internally Consumed		1,743	1,469
Available for External sales	(A)	365,810	366,084
Sales			
Actual Billed		337,444	337,444
Gas Sold to JJVC		1,121	1,121
Provisional Billing (Net)		67	67
Gas Theft (Settled cases)		62	62
	<i>Sub Total</i>	338,694	338,694
Un-metered			
Accrued Sales-Not yet Billed		65	
Total Sales	(B)	338,759	338,694
Unaccounted for Gas (UFG) ((A-B)	(C)	27,051	27,390
UFG% (C/A*100)		7.39	7.48
* Subject to adjustments on the basis of UFG Audit to be conducted by the Authority.			



SUI SOUTHERN GAS COMPANY LIMITED				Annexure-III
Comparison of tariff computations of petitioner for DTRR 2004-05				
Particulars	FY 2004-05			
	The Petition	Adjustments	Determined by OGRA	
Gas sales volume -MMCF	337,638		337,638	
BBTU	329,359		329,359	
"A" Net Operating Revenues				
Gross sales net of general sales tax	54,375.578		54,375.578	
Less: Gas development surcharge- existing	1,887.563		1,887.563	
Net sales at current prescribed price	52,488.015		52,488.015	
Meter rentals	455.058		455.058	
Late payment surcharge	263.221		263.221	
Amortization of deferred credit	150.862		150.862	
Sale of gas condensate	350.016		350.016	
Meter manufacturing profit	48.215		48.215	
Gas transportation charges	526.756		526.756	
Other operating income	145.263		145.263	
	54,427.406		54,427.406	
Income from JJVL	572.299		572.299	
Total Operating Revenue "A"	54,999.705		54,999.705	
"B" Less: Operating Expenses				
Cost of gas	46,812.706		46,812.706	
Cut of UFG	-	(694.178)	(694.178)	
Transmission and distribution cost	3,786.088	(19.220)	3,766.868	
Gas internally consumed	230.430	(36.331)	194.099	
Depreciation	2,182.021	(28.017)	2,154.004	
Other charges including (W.P.P.F)	182.427	(63.276)	119.151	
Gas rupture disallowed by OGRA last year, re-claimed	11.600		11.600	
Over time disallowed by OGRA, re-claimed	12.049		12.049	
Total Operating Expenses "B"	53,217.321	(841.022)	52,376.299	
"C" Operating profit (A-B)	1,782.384	841.022	2,623.406	
Return required on net operating fixed assets:				
Net operating fixed assets at beginning	16,664.581	-	16,664.581	
Net operating fixed assets at ending	19,296.139	(118.151)	19,177.988	
	35,960.720		35,842.569	
Average net assets (I)	17,980.360		17,921.285	
Deferred credit at beginning	1,711.395		1,711.395	
Deferred credit at ending	1,791.364		1,791.364	
	3,502.759		3,502.759	
Average net deferred credit (II)	1,751.380		1,751.380	
"D" Average Operating Assets(I-II)	16,228.981		16,169.905	
"E" 17% return required	2,758.927	(10.043)	2,748.884	
17% Return Short Provided due to Excess Deferred Credit during FY 2003-04	17.287		17.287	
Shortfall over return required	993.830	(851.065)	142.765	
Increase (decrease) in prescribed price (Rs. / MCFT)	2.94		0.42	
Increase (decrease) in prescribed price (Rs. / MMBTU)	3.02		0.43	
Revenue requirement	55,993.535	(851.065)	55,142.470	
Average prescribed price (Rs. / MMBTU)	159.36		159.80	



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

					Rupees per MMBTU			
					Provisional	Final	Provisional	Final
					w.e.f. 01.07.2004		w.e.f. 02.02.2005	
CATEGORY								
(i)	Domestic Consumers:							
	<i>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, colleges, schools, private educational institutions, orphanages and other charitable institutions.</i>							
	<i>First slab (upto 100 cubic metres per month).</i>				73.95	73.95	73.95	73.95
	<i>Second slab (over 100 upto 200 cubic metres per month)</i>				111.42	111.42	120.61	120.61
	<i>Third slab (over 200 upto 300 cubic metres per month)</i>				178.25	178.25	192.96	192.96
	<i>Fourth slab (over 300 cubic metres per month).</i>				231.88	231.88	251.01	251.01
	<i>For hostels and residential colonies to whom gas is supplied through bulk meters.</i>							
	<i>All off-takes at flat rate of</i>				111.42	111.42	120.61	120.61
(ii)	Commercial Consumers:							
	<i>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 and theatres, private office, clinics, maternity homes etc.</i>							
	<i>All off-takes at flat rate of</i>				193.82	194.38	212.79	213.35
(iii)	Industrial Consumers:							
	<i>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.</i>							
	<i>All off-takes at flat rate of</i>				173.72	174.28	192.69	193.25
(iv)	Ice Factories:							
	<i>All off-takes at flat rate of</i>				193.82	194.38	212.79	213.35
(v)	CNG Stations:							
	<i>All off-takes at flat rate of</i>				173.72	174.28	192.69	193.25



(vi)	Cement Factories:						
(a)	Javedan Cement						
	<i>All off-takes at flat rate of</i>			173.72	174.28	192.69	193.25
(b)	Attock Cement Pakistan Limited.						
	<i>All off-takes at flat rate of</i>			173.72	174.28	192.69	193.25
(c)	Pakland Cement / Shabaz Cement						
	<i>All off-takes at flat rate of</i>			173.72	174.28	192.69	193.25
(d)	Associated Cement, Rohri						
	<i>All off-takes at flat rate of</i>			173.72	174.28	192.69	193.25
(e)	Zeal Pak Cement						
	<i>All off-takes at flat rate of</i>			173.72	174.28	192.69	193.25
(f)	Thatta Cement						
	<i>All off-takes at flat rate of</i>			173.72	174.28	192.69	193.25
(vii)	Pakistan Steel						
	<i>All off-takes at flat rate of</i>			173.72	174.28	192.69	193.25
(viii)	FEC Jordan Fertilizer Company						
(i)	For gas used as feed stock for Fertilizer.			36.77	36.77	36.77	36.77
(ii)	For gas used as fuel for generating steam and electricity and for usage in housing colonies for fertilizer factories.			173.72	174.28	192.69	193.25
(ix)	Power Stations:						
(a)	K.E.S.C						
	<i>All off-takes at flat rate of</i>			173.72	174.28	192.69	193.25
(b)	WAPDA, Kotri & Jamshoro						
	<i>All off-takes at flat rate of</i>			173.72	174.28	192.69	193.25
(c)	WAPDA, Sukkur & Quetta						
	<i>All off-takes at flat rate of</i>			173.72	174.28	192.69	193.25
(d)	Habibullah Coastal Power (Pvt) Ltd.						
	<i>All off-takes at flat rate of</i>			173.72	174.28	192.69	193.25
Average BTU per SCFT per the Petition				975			