

Case No. OGRA-6(2)-1(3)/2005-FRR

OIL AND GAS REGULATORY AUTHORITY

IN THE MATTER OF

**SUI NORTHERN GAS PIPELINES 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 20, 2005

Before:

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

SHORT ORDER

1. Sui Northern Gas Pipelines Limited (the petitioner) filed on August 14 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. The Authority admitted the petition on August 19, 2005 and the notices for hearing to the petitioner and other parties to the original proceedings were issued on September 05, 2005. The hearing was held on September 15, 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)-1(3)/2003 dated May 20, 2004. The petitioner submitted a review petition under Section 8(2) of the Ordinance and after due scrutiny and hearing, the Authority determined the revised estimated revenue requirement of the petitioner for the said year at Rs. 81,088 million vide its interim order No. OGRA-6(2)-1(1)/2004 (Review) dated December 23, 2004 and notified on this basis, prescribed prices and sale prices for all categories of consumers on February 02, 2005. This was followed by full order No. OGRA-6(2)-1(1)/2004 (Review) dated May 03, 2005, which confirmed the said interim order.
3. The petitioner has now reported a surplus of Rs. 420.042 million after incorporating the effect of actual changes in wellhead gas prices, operating expenses, sales volume, sales revenue and asset base, and has requested for final determination accordingly.

4. After detailed scrutiny of the petition, the detailed information subsequently provided and clarifications given during the hearing by the petitioner, the Authority determines as follows:

4.1 Addition in fixed assets is determined at Rs. 7,492 million (Annexure-I) and depreciation at Rs. 3,644.90 million. The opening and closing balances of the net operating assets are determined at Rs. 33,146.571 million and Rs. 36,975.303 million, respectively. Consequently, the company is entitled to Rs. 5,406.668 million being 17.5% return on average net operating assets.

4.2 Operating revenues are determined at Rs. 86,669.568 million against the petitioner's claim of Rs. 86,512.001 million. The increase in operating revenues by Rs. 157.567 million is on account of:

- 50% of gain on construction contract = Rs. 84.232 million.
- 50% of liquated damages recovered = Rs. 5.872 million.
- Reversal of provision for doubtful receivables-import balances written back = Rs. 10.327 million.
- Return on funds available on account of provisions made under IAS-19 during the period July 2004 to March 2005 = Rs. 54.34 million.
- Miscellaneous income = Rs. 2.796 million.

- 4.3 Operating expenses are determined at Rs. 80,082.482 million as against the petitioner's claim of Rs. 80,754.813 million. Reduction of Rs. 672.329 million in operating expenses is on account of:
- 4.3.1 Reduction of Rs. 612.39 million (Annexure-II) being Unaccounted for Gas (UFG) in excess of 6% benchmark fixed for the said year, under paragraph 26.2 of the Authority's order No. OGRA-6(2)-1(3)/2003 dated May 20, 2004, subject to adjustment on the basis of UFG audit to be commissioned by the Authority.
- 4.3.2 Reduction of Rs. 19.90 million on account of write off-unserviceable meters, not allowed.
- 4.3.3 Reduction of Rs. 1.74 million on account of depreciation.
- 4.3.4 Consequential reduction in other charges including Worker's Profit Participation Fund (WPPF) by Rs. 38.299 million.
- 4.4 UFG audit for FY 2003-04 was completed in pursuance of the Authority 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.
- 4.5 After the above adjustments, return available to the petitioner is Rs. 6,587.086 million which is in excess by Rs. 1,180.418 million over the required return on operating assets. This translates into a reduction of Rs.

2.33 per MMBTU in the average Prescribed Price for the FY 2004-05

(Annexure-III).

5. In exercise of its powers under Section 8 (2) of the Ordinance, the Authority hereby determines the final revenue requirement of the petitioner at Rs. 85,489.15 million and the prescribed prices for each category of retail consumers for FY 2004-05 as at annexure-IV.

6. Detailed order will be issued later:-

(M.H. Asif)
Member (Finance)

(Jawaid Inam)
Member (Gas) /
Vice Chairman

(Munir Ahmad)
Chairman

Islamabad,
September 20, 2005

Annexure-I

Detail of Additions to Fixed Assets

Rs. in million

S.No.	Asset Description	Determined by OGRA
A	<u>Transmission</u>	
	<u>PVIII</u>	
1	15.83 miles of 36" dia (0.562 WT) pipeline AC4-AV15	452
2	17.0 miles of 36" dia (0.500/0.562 WT) pipeline AV22-AC6	481
3	16.19 miles of 36" dia (0.500 WT) pipeline AV29-A8	412
4	5.50 miles of 30" dia (0.438 WT) pipeline MP 16.25-CC3	96
5	13.35 miles of 24" dia (0.438 WT) pipeline A 11-BV3	247
6	22 miles of 16" dia (0.312/0.438 WT) pipeline Mubarak Injection Point	169
7	16 miles of 16" dia pipeline Burhan-Hattar (with uplifted pipe)	99
8	33.55 miles of 16" dia pipeline KandKot Guddu crossing	276
9	33.4 miles of 16" dia pipeline Bhai Pheru-Dawood Hercules	190
10	11.47 miles of 24" dia pipeline BC1-B2 (completed in Fy 2004-05 instead of FY 2005-06)	185
11	Construction Equipment	214
12	SCADA (T)	8
	Subtotal	2,829
	<u>Leg Augmentation Plan</u>	
13	19.50 miles of 16" dia pipeline CV11-CC1	59
14	21.96 miles of 30" dia pipeline A11-CV4a	516
15	18.10 miles of 30" dia pipeline CC1-C4	431
	Subtotal	1,006
	<u>PVII</u>	
16	Prior year adjustments	142
17	Compression (AC4 Filter Separator)-leftover job	6
18	Freehold land (Project VII / VIII)	92
	Subtotal	240
	<u>Other Project</u>	
19	27.11 miles of 10" dia pipeline Sgakardara-Daudkhel	199
	Total Transmission	4,274
B	<u>Distribution Development</u>	
20	Distribution Development	2,775
21	Sales Meter's station / regulatory stations	115
	Total Distribution Development	2,890
C	<u>Other Assets</u>	
22	Plant, machinery, transport, furniture, electrical appliances, computers, C.P.system, loose tools, civil works, etc.	257
23	Distribution office building Peshawar	71
	Total Other Assets	328
	Grand Total	7,492

UFG for FY 2004-05

			As on 30.06.2005	
			Per Petition	**Tentatively determined by OGRA
Purchases			MMCF	MMCF
1	Metered (As per Books)		587,539	587,539
	Gas taken out / put into pipelines		(264)	(264)
	Gas carried for PPL		(144)	(144)
	Gas carried for POL		(659)	(659)
Gas Available in Transmission			586,472	586,472
2	<i>Gas Internally Consumed</i>			
	Metered			
	(i) Actual		10,558	10,558
	Un Metered			
	(i) Estimates		-	-
	Sub Total		10,558	10,558
A	Available for External Sales		575,914	575,914
Sales				
Metered				
	(i) Actual Billed		523,053	523,053
	(ii) Minimum Billing		6,090	6,090
	(iii) Sticky/ Stopped		1,187	1,187
	(iv) Estimated Billing		3,595	3,595
	(v) Accrued Sales- Not Yet Billed			
	(vi) Prior Year Credit Adjustment		(1,990)	-
	Un Metered			
	(i) Accrued Sales - Not Yet Billed		2,693	-
	(ii) Estimated		2,459	2,459
B	Total Sales		537,087	536,384
C	UFG Volumes (A-B)		38,827	39,530
	Percentage UFG (%) (C/A*100)		6.74	6.86

Gas available for external sale (MMCF)	A	575,914
UFG OGRA target MMCF (6.0%)	B=6% of A	34,555
UFG determined by OGRA (MMCF)	C	39,530
Disallowance in MMCF	D=C-B	4,975
Avg. cost of purchases Rs. per MMCF	E	123.09
Disallowance in Rs. million	F=E*D/1000	612.39

** Subject to adjustment on the basis of UFG audit to be commissioned by the Authority

Total Revenue Requirement (Final) for FY 2004-05*Rs. in million*

Particulars	FY 2004-05 FRR Petition	Additions / (deductions) by OGRA	Determined by OGRA
Gas sales volume -MMCF	537,086		537,086
BBTU	505,543		505,543

"A" Net Operating revenues

Net sales at current prescribed price	84,558		84,558
Rental & service charges	699		699
Surcharge and interest on arrears	647		647
Amortization of deferred credit	398		398
Other operating income	211	158	368
Total income "A"	86,512	158	86,670

"B" Less Expenses

Cost of gas sold	71,192		71,192
UFG (disallowance) / allowance	-	(612)	(612)
Transmission and distribution cost	4,343	(20)	4,323
Salaries beyond payscale disallowed in FY 03-04	10	-	10
Gas internally consumed	1,299		1,299
Depreciation	3,647	(2)	3,645
Defferal account/price adjustment account (W.P.P.F)	- 263	 (38)	 225
Total expenses "B"	80,755	(672)	80,082

"C" Operating profit / (loss)(A - B)

	5,757	830	6,587
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Return required on net assets:

Net assets at beginning	32,359	787	33,147
Net assets at ending	36,968	7	36,975
	69,327		70,122
Average fixed net assets (I)	34,664		35,061

Deferred credit at beginning	3,900		3,900
Deferred credit at ending	4,432		4,432
	8,331		8,331
Average net deferred credit (II)	4,166		4,166

"D" Average operating assets (I-II)

	30,498		30,895
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Return required on net assets	17.5%		17.5%
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"E" Amount of return required

	5,337		5,407
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"F" Excess / (shortfall) over return required

	420		1,180
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Increase / (Decrease) in average prescribed price (Rs. / MMBTU)	(0.83)		(2.33)
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Total Revenue Requirement	86,092		85,489
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Prescribed Prices for Each Category of Consumers, Determined by Oil and Gas Regulatory Authority

Rupees per MMBTU

Provisional	Final	Provisional	Final
01.07.2004 to 01.02.2005		02.02.2005 to 30.06.2005	

(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, colleges, schools, private educational institutions, orphanages and other charitable institutions.

<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 (All over 300 cubic metres per month).</i>	231.88	231.88	251.01	251.01

For hostels and residential colonies to whom gas is supplied through bulk meters.

<i>All off-takes at flat rate of</i>	111.42	111.42	120.61	120.61
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(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 homes, etc.

<i>All off-takes at flat rate of</i>	203.54	200.31	221.78	218.55
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(iii) **Ice Factories:**

<i>All off-takes at flat rate of</i>	203.54	200.31	221.78	218.55
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(iv) **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.

<i>All off-takes at flat rate of</i>	181.98	178.75	197.11	193.88
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(v) **Captive Power :**

<i>All off-takes at flat rate of</i>	181.98	178.75	197.11	193.88
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(vi) **CNG Stations:**

<i>All off-takes at flat rate of</i>	181.98	178.75	197.11	193.88
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(vii) **Cement Factories:**

<i>All off-takes at flat rate of</i>	209.78	206.55	227.09	223.86
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(viii) **Fertilizer Factories:**

(1) **Pak American Fertilizer Limited, Daudkhel.**

(a) **For gas used as feed stock for fertilizer**

Commodity charge.

<i>All off-takes at flat rate of</i>	36.77	36.77	36.77	36.77
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(b) **For gas used as fuel for generating steam and electricity and for usage in housing colonies.**

Commodity charge.

<i>All off-takes at flat rate of</i>	181.98	178.75	197.11	193.88
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(2) <u>Pak Arab Fertilizer Limited, Multan.</u>				
(a) For gas used as feed stock for fertilizer				
<i>Commodity charge.</i>				
<i>All off-takes at flat rate of</i>				
	73.99	73.99	73.99	73.99
(b) For gas used as fuel for generating steam and electricity and for usage in housing colonies.				
<i>Commodity charge.</i>				
<i>All off-takes at flat rate of</i>				
	181.98	178.75	197.11	193.88
(3) <u>Dawood Hercules Chemicals Limited, Chichoki Malian, Sheikhpura District:</u>				
(a) For gas used as feed stock for fertilizer				
<i>Commodity charge.</i>				
<i>All off-takes at flat rate of</i>				
	73.99	73.99	73.99	73.99
(b) For gas used as fuel for generating steam and electricity and for usage in housing colonies.				
<i>Commodity charge.</i>				
<i>All off-takes at flat rate of</i>				
	181.98	178.75	197.11	193.88
(4) <u>Pak-China Fertilizer Limited/Hazara Phosphate Plant Limited, Haripur.</u>				
(a) For gas used as feed stock for fertilizer				
<i>Commodity charge.</i>				
<i>All off-takes at flat rate of</i>				
	78.52	78.52	78.52	78.52
(b) For gas used as fuel for generating steam and electricity and for usage in housing colonies.				
<i>Commodity charge.</i>				
<i>All off-takes at flat rate of</i>				
	181.98	178.75	197.11	193.88
(ix) <u>Power Stations:</u>				
(a) WAPDA's Power Stations and other electricity utility companies excluding WAPDA's Natural Gas Turbine Power Station, Nishatabad, Faisalabad.				
<i>All off-takes at flat rate of</i>				
	181.98	178.75	197.11	193.88
(b) WAPDA's Natural Gas Turbine Power Station, Nishatabad, Faisalabad.				
<i>Commodity Charge</i>				
<i>All off-takes at flat rate of</i>				
	181.98	178.75	197.11	193.88
<i>Fixed charge (Rupees per month).</i>				
	390,000	390,000	390,000	390,000
(c) Liberty Power Limited.				
<i>All off-takes at flat rate of</i>				
	222.76	219.53	262.03	258.80