

IN THE MATTER OF

SUI NORTHERN GAS PIPELINES LIMITED
MOTION FOR REVIEW OF FINAL REVENUE
REQUIREMENT (FRR), FY 2005-06

UNDER

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

DECISION

November 21, 2006

Before:

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



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1. BACKGROUND

1.1. Sui Northern Gas Pipelines Limited (the petitioner) is a public limited company, incorporated in Pakistan and listed on the stock exchanges at Karachi, Lahore and Islamabad. It is engaged in construction and operation of gas transmission and distribution pipelines and sale of natural gas.

1.2. The petitioner had filed a petition under Section 8(1) of the Oil and Gas Regulatory Authority Ordinance, 2002 (the Ordinance) for determination of estimated revenue requirement for FY 2005-06 (said year) on November 30, 2004. Subsequently, the petitioner amended it on March 04, 2005 and again on April 13, 2005. The Authority determined petitioner's estimated revenue requirement for the said year, vide its decision dated May 20, 2005. On August 14, 2006, the petitioner filed a petition under Section 8(2) of the Ordinance for determination of its Final Revenue Requirement (FRR) for the completed year. The Authority determined the FRR vide its detailed order dated September 18, 2006. Aggrieved by this determination, the petitioner has submitted the instant review motion (the petition) dated October 13, 2006, under Section 13 of the Ordinance read with Rule 16 of the Natural Gas Tariff Rules 2002 (NGT Rules), seeking decrease in prescribed price of Rs. 1.41/MMBTU.

1.3. A statement giving comparison of cost of service submitted by the petitioner and the determination of FRR FY 2005-06, is given below:

Table 1 : Comparison of Cost of Service per the petition for FY 2005-06 with FRR

Particulars	Rs. Per MMBTU			
	FY 2003-04	FY 2004-05	FY 2005-06	
	FRR	FRR	FRR	The Petition
Units sold (BBTU)	426,636	505,543	539,099	539,099
Cost of gas	123.35	140.82	170.67	170.63
Transmission and distribution cost	12.44	10.37	11.59	11.86
Depreciation	7.75	7.21	6.98	7.54
Return on net average operating fixed assets	11.31	10.70	10.66	10.63
Other operating income	(4.37)	(4.18)	(3.55)	(3.54)
Cost of service / prescribed price	150.49	164.93	196.35	197.12
Revenue available at existing prescribed	150.49	164.93	198.53	198.53
(Shortfall)/ Surplus in revenue	-	-	2.18	1.41



1.4. The Authority issued a notice of hearing on November 01, 2006, to the petitioner and the Federal Government.

1.5. The Authority held the hearing at OGRA office, Islamabad on November 15, 2006.

2. AUTHORITY'S JURISDICTION AND DETERMINATION PROCESS

2.1. The petitioner has 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. The review can be carried out if the issues brought forward by the petitioner meet at least one of the two pre-conditions given in the said Section 13, and would materially alter the decision under review.

3. PROCEEDINGS

3.1. The petitioner was represented at the hearing by a team of senior executives led by its Managing Director, Mr. Abdul Rasheed Lone, who were given full opportunity to present the petition. The petitioner made submissions in detail with the help of multi-media presentation and answered questions put by the Authority and its officers. In his opening statement the MD clarified that in this petition the review was being sought not on grounds of change in circumstances or discovery of new evidence, but basically to correct certain errors and omissions in the determination.



4. PETITIONER'S GROUNDS FOR REVIEW

4.1. Operating Fixed Assets - Distribution Development

4.1.1. The petitioner has stated that the deferred credit additions for the said year, amounting to Rs. 210 million already include such cost of new towns and villages as was over & above the GoP criteria, amounting to Rs. 137 million, which had again been added by the Authority, resulting in duplication.

4.2. Depreciation of Meters

4.2.1. The petitioner has regretted the mistake of not obtaining approval of the Authority before changing the rate of depreciation on meters from 6% to 10% and has informed that a separate application in this regard has been submitted to the Authority.

4.2.2. The petitioner stated that the Authority had not added back the impact of disallowance of depreciation amounting to Rs. 304 million in fixed assets. However, it withdrew this statement after rechecking the computations.

4.3. Statutory Auditor's Certificate

4.3.1. The petitioner has informed that a letter conveying the Authority's decision has been sent to the statutory auditors asking them to resolve the matter to the satisfaction of the Authority.

4.4. Operating Income - Amortization of Deferred Credit

4.4.1. The petitioner has stated that since the value of deferred credit needs to be reduced, as discussed in para 4.1 above, the consequential increase of Rs. 4 million in amortization of deferred credit also needs to be set aside.

4.5. Cost of Gas

4.5.1. The petitioner has explained that the input and output taxes are adjusted for sale and purchase of gas in Pakistan, and therefore, the amount of sales tax paid gets excluded from cost of gas. Such adjustment however is not allowed by the Government of Azad Jammu & Kashmir (AJK) and the same can also not be claimed from Government of Pakistan. Therefore, either the amount of unadjusted sales tax for gas supply in AJK be allowed as cost of gas or the gas sale price in AJK be revised with retrospective effect, to enable recovery of this genuine cost.

4.6. Gas Internally Consumed (GIC)

4.6.1. The petitioner has explained that three different figures of GIC were given in three different statements because different statements required different presentation. Total GIC volume for the said year is shown in the cost of gas statement whereas in UFG statement it is net of the gas volume blown off due to ruptures in transmission and distribution system. Further, the GIC volume charged to the profit and loss account has been computed after deducting the GIC capitalized and charged to recoverable jobs. The petitioner has requested for allowing GIC at the three levels per the respective statements.

4.7. Unaccounted for Gas (UFG)

4.7.1. The company has stated that by taking lower GIC for calculating the UFG, the volumes of 117 MMCF & 24 MMCF in respect of GIC capitalized & recoverable have been ignored, resulting in increased UFG cut of Rs. 19 million. The petitioner has requested for reduction of UFG cut by Rs. 19 million.

4.8. Stores and Spares Written off

4.8.1. The petitioner has stated that the requisite details have been separately submitted to the Authority and has requested to allow the expense under this head, as originally requested.

5. DECISION

5.1. The Authority has considered the submissions made by the petitioner, summarized in para 4 above, and is of the view that the petitioner has not put forward any new argument or evidence in support of its contentions in regard to the points relating to sales tax charged in AJK, and stores and spares written-off.

5.2. The Authority agrees with the petitioner's contention about the errors of adding Rs. 133 million twice under the head "deferred credit", corresponding incorrect adjustment of Rs. 4 million in amortization of deferred credit, non-adjustment of capitalized & recoverable GIC volume of 141 MMCF and consequential over-statement of UFG cut by Rs. 19 million & Rs. 23 million in the cost of gas sold. Adjustments in this regard will be carried forward and made at the time of determination of FRR for FY 2006-07, because immediate adjustment will not materially alter the decision.

5.3. The Authority observes that the details on stores & spares written off provided by the petitioner are incomplete & need to be supported with statistical evidence. The Authority will decide this issue separately after obtaining necessary information and clarifications from the petitioner.

5.4. The Authority observes that the existing rates of depreciation of meters are being applied for over 15 years as part of the existing tariff regime. Therefore,



any changes in these rates be proposed by the petitioner with reference to new tariff regime, which is currently under consideration.

5.5. In view of the foregoing, the Authority refuses leave for review to this motion under Rule 16(2) of Natural Gas Tariff Rules, 2002, subject to para 5.2 above.

(M.H. Asif)
Member (Finance)

(Jawaid Inam)
Member Gas) /
Vice Chairman

(Munir Ahmad)
Chairman

Dated: November 21, 2006