

Case No. OGRA-6(2)-2(4)/2006-Review

IN THE MATTER OF

**SUI SOUTHERN GAS COMPANY LIMITED
SECOND REVIEW OF ERR, FY 2006-07**

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)



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 (ERR) of the petitioner for FY 2006-07 (the said year) at Rs. 87,713 million vide its Order dated May 20, 2006, under Section 8(1) of the Oil & Gas Regulatory Authority Ordinance, 2002 (the Ordinance). The petitioner had submitted a review motion (the review motion) on June 16, 2006 under Rule 16 of the Natural Gas Tariff Rules, 2002 (NGT Rules, 2002) for determination of its revised ERR for the said year at Rs. 88,743 million (the amounts have been rounded off to the nearest million here and elsewhere in this document) and estimated operating revenue at Rs. 87,098 million. The petitioner had claimed a shortfall of Rs. 1,645 million, which translated to an average increase of Rs. 4.56/ MMBTU in the then prescribed prices effective July 01, 2006. The Authority had determined the revised ERR of the petitioner for the said year at Rs. 79,643 million, vide its Order No. OGRA-6(2)-2(1)/2006- (Review), dated September, 27, 2006, thereby reducing the average prescribed price of the petitioner by Rs. 22.37 /MMBTU for the said year.

- 1.3. In pursuance of the Authority's directives per para 10.1.2 of its Order dated May 20, 2005, the petitioner has now submitted this second review petition (the petition) on November 10, 2006, under Section 8(2) of the Ordinance, incorporating the change in the Weighted Average Cost of Gas (WACOG) and gas purchase volume during the said year thereby projecting shortfall of Rs. 473 million. The petitioner has submitted that WACOG is projected to decrease to Rs. 170.38/MMBTU as against Rs. 171.38/MMBTU projected while determining the review motion for FY 2006-07, owing to decrease in average crude oil/High



Sulphur Fuel Oil (HSFO) prices in the international market during June-November 2006, which is used as basis for determining the wellhead prices of gas producers in terms of Gas Pricing Agreements (GPAs) between the Government of Pakistan and various gas producers. Based on gas purchase and sale volume at 3 months actual and 9 months estimates, and delay in projected gas supply from Bobi and Bhit-II fields, the petitioner has now projected decrease in purchase and sale volume of gas compared with DERR for the said year, resulting in reduction in cost of gas and sale revenues. The petitioner has projected that reduction in sale revenue would be greater than decline in cost of gas and therefore there would be projected shortfall in ERR for the said year of Rs. 473 million.

1.4. The petitioner, vide its letter dated November 10, 2006, has sought relief, through increase in average prescribed prices by Rs. 2.63/MMBTU, effective January 01, 2007, to recover the estimated shortfall.

1.5. The Authority admitted the petition for increase in prescribed prices.

2. PROCEEDINGS

2.1. The Authority held a conference on November 20, 2006.

2.2. The petitioner was represented at the conference by its General Manager (Regulatory Affairs) who was given full opportunity to present the petition. The petitioner made submissions and answered questions put by the Authority and its officers.

2.3. The petitioner submitted that the said increase is due to reduction in the anticipated gas supply from the producers, resulting in decrease in projected sales volume and thus sales revenue. Also, reduction in cost of gas to the tune of Re. 1.00/MMBTU has been recorded owing to decline in the international crude/fuel oil prices and first 3 months actual gas supplies.



2.4. The petitioner has worked out the estimated decrease in the cost of gas using the following basis and assumptions:

- (i) Wellhead gas prices for the period July 1, 2006 to December 31, 2006 as already notified by OGRA.
- (ii) US \$ exchange rate assumed at Rs. 60.25 from January 01, 2007 to June 30, 2007.
- (iii) Prices of crude oil and HSFO during the period June, 2006 to November, 2006, to form the basis for the well head prices for the period January 01, 2007 to June 30, 2007 under the existing GPAs.
- (iv) Crude oil and HSFO prices for the period June 2006 to October 2006 have been taken at actual. For November 2006, crude oil and HSFO prices have been assumed at US \$ 57.45 per barrel and US \$ 270.41 per ton, respectively.
- (v) On the above basis, average C & F price of crude oil for the base period for January 2007 to June 2007 has been estimated at US \$ 64.59 per barrel and of HSFO at US \$ 301.59 per ton.

3. DETERMINATION

3.1. The Authority has scrutinized the revised projection of sale and purchase volume and computation of cost of gas submitted by the petitioner and found the same to be a reasonable estimate on the basis of information currently available.

3.2. The Authority, therefore, provisionally accepts the revised estimated revenue requirement at Rs. 77,260 million and the shortfall at Rs. 473 million, claimed by the petitioner as a result of the above said estimated decreased sale volume and decrease in cost of gas, and consequently, in exercise of its powers under Section 8(2) of the OGRA Ordinance and Rule 4 (3) of the NGT Rules, 2002, allows an increase of Rs. 2.63/MMBTU (**Annexure-I**) in the average prescribed price of the petitioner **on provisional basis** w.e.f. January 01, 2007. The revised schedule of prescribed prices of the petitioner w.e.f. January 01, 2007 is at **Annexure-II**. A comparison of the revised provisional prescribed prices and the current sale



prices is at **Annexure-III**. The revised prescribed prices allowed by the Authority **on provisional basis** are subject to condition:

The price for each category of retail consumers may be re-adjusted upon receipt of Federal Government advice under Section 8 (3) of the Ordinance in respect of the sale price of gas for each category of retail consumers provided that the overall increase in the average prescribed price remains unchanged so that the Petitioner is able to achieve its total revenue requirements in accordance with Section 8 (6) (f) of the Ordinance.

- 3.3. Under Section 8 (3) of the Ordinance, the Federal Government is required to advise the Authority within 40 days of advice from the Authority of revision of prescribed prices, of the minimum charges and the sale price for each category of retail consumers for notification in the Official Gazette by the Authority. Further, under Section 8 (4) of the Ordinance, if the Federal Government fails to so advise within 40 days and the prescribed price for any category of retail consumers determined by the Authority is higher than the most recently notified sale price for that category of retail consumers, the Authority shall notify in the Official Gazette the prescribed price as determined by the Authority to be the sale price for the said category of retail consumers.
- 3.4. On the basis of the revised prescribed prices as determined by the Authority at **Annexure-II**, the Federal Government may take necessary action under Section 8 (3) of the Ordinance.

(M. H. Asif)
Member (Finance)

(Jawaid Inam)
Member (Gas)/
Vice Chairman

(Munir Ahmad)
Chairman

Islamabad,
November 21, 2006



Annexure-I				
DETERMINATION OF REVISED ESTIMATED REVENUE REQUIREMENT (RERR-II) OF SUI SOUTHERN GAS COMPANY LIMITED ON ITS PETITION FOR REVIEW OF DERR FY 2006-07				
<i>Rs. in million</i>				
Particulars	First Review	The Petition	Determined	
	Order dated September 27, 2006	dated November 10, 2006	by OGRA on November 21, 2006	
Gas sales volume -MMCF	377,042	366,469	366,469	
BBTU	360,741	350,287	350,287	
"A" Net Operating Revenues				
Gross sales net of general sales tax	83,441	80,610	80,610	
Less: Gas development surcharge- existing	8,360	8,226	8,226	
Net sales at current prescribed price	75,081	72,384	72,384	
Meter rentals	491	491	491	
Late payment surcharge	301	301	301	
Amortization of deferred credit	187	187	187	
Sale of gas condensate	398	400	400	
Meter manufacturing profit	62	62	62	
Gas transportation charges	517	517	517	
Income from JJVL	2,465	2,304	2,304	
Other operating income	140	140	140	
Total Operating Revenue "A"	79,643	76,787	76,787	
"B" Less: Operating Expenses				
Cost of gas	68,039	65,597	65,597	
Cut of UFG (in excess of OGRA benchmark)	(255)	(196)	(196)	
Transmission and distribution cost	4,553	4,537	4,537	
Gas internally consumed	173	156	156	
Depreciation	2,388	2,388	2,388	
Other charges including (W.P.P.F)	158	190	190	
Deferral account	360	360	360	
Total Operating Expenses "B"	75,415	73,032	73,032	
"C" Operating profit (A-B)	4,228	3,755	3,755	
Return required on net operating fixed assets:				
Net operating fixed assets at beginning	22,963	22,963	22,963	
Net operating fixed assets at ending	30,937	30,938	30,938	
	53,900	53,901	53,901	
Average net assets (I)	26,950	26,951	26,951	
Deferred credit at beginning	2,000	2,000	2,000	
Deferred credit at ending	2,160	2,160	2,160	
	4,159	4,159	4,159	
Average net deferred credit (II)	2,080	2,080	2,080	
"D" Average (I-II)	24,871	24,871	24,871	
"E" 17% return required	4,228	4,228	4,228	
"F" (Shortfall)/excess in return required (C-E)	0.00	(473)	(473)	
"G" Projected gas sale (BBTU) from January-2007 June-2007.		179,641	179,641	
Increase (decrease) in average prescribed price effective 1st January, 2007 (Rs. / MMBTU) (F/G)x1000	0.00	2.63	2.63	
Total estimated revenue requirement (B+E)	79,643	77,260	77,260	



							<u>Annexure-II</u>	
PRESCRIBED PRICES OF EACH CATEGORY OF CONSUMER AS DETERMINED BY THE OIL AND GAS REGULATORY AUTHORITY								
						Notified Prescribed Prices w.e.f. 01.07.06	Revised Prescribed Prices w.e.f. 01.01.07	
<u>CATEGORY</u>						RUPEE PER MMBTU		
(i)	<u>Domestic Consumers</u>							
	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 50 cubic metres per month).</i>					76.63	85.03	
	<i>Second slab (over 50 upto 100 cubic metres per month).</i>					80.24	89.03	
	<i>Third slab (over 100 upto 200 cubic metres per month).</i>					146.06	162.07	
	<i>Fourth slab (over 200 upto 300 cubic metres per month).</i>					233.68	259.29	
	<i>Fifth slab (over 300 cubic metres per month).</i>					303.99	337.30	
	<i>For hostels and residential colonies to whom gas is supplied through bulk meters.</i>							
	<i>All off-takes at flat rate of</i>					146.06	162.07	
(ii)	<u>Commercial Consumers</u>							
	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>					263.30	263.08	
(iii)	<u>Ice Factories</u>							
	<i>All off-takes at flat rate of</i>					263.30	263.08	
(iv)	<u>Industrial Consumers</u>							
	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>					238.42	238.22	



(v)	<u>Captive Power</u>				
	<i>All off-takes at flat rate of</i>			238.42	238.22
(vi)	<u>CNG Stations</u>				
	<i>All off-takes at flat rate of</i>			238.42	238.22
(vii)	<u>Cement Factories</u>				
	<i>All off-takes at flat rate of</i>			238.42	273.73
viii)	<u>Pakistan Steel</u>				
	<i>All off-takes at flat rate of</i>			238.42	238.22
(ix)	<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 fertilizer factories.			238.42	238.22
(x)	<u>Power Stations</u>				
	<i>All off-takes at flat rate of</i>			238.42	238.22



Annexure-III

**COMPARISON OF EXISTING CONSUMER GAS PRICES AND
PRESCRIBED PRICE FOR EACH CATEGORY OF CONSUMER AS
DETERMINED BY THE OIL AND GAS REGULATORY AUTHORITY W.E.F.
01.01.07**

				Existing consumer gas prices w.e.f. 01.07.06	Revised Prescribed Prices w.e.f. 01.01.07	Differential / Gas Development Surcharge)
CATEGORY				RUPEE 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, colleges, schools, private educational institutions, orphanages and other charitable institutions.					
	<i>First slab (upto 50 cubic metres per month).</i>			85.03	85.03	-
	<i>Second slab (over 50 upto 100 cubic metres per month)</i>			89.03	89.03	-
	<i>Third slab (over 100 upto 200 cubic metres per month)</i>			162.07	162.07	-
	<i>Fourth slab (over 200 upto 300 cubic metres per month)</i>			259.29	259.29	-
	<i>Fifth slab (over 300 cubic metres per month).</i>			337.30	337.30	-
	<i>For hostels and residential colonies to whom gas is supplied through bulk meters.</i>					
	<i>All off-takes at flat rate of</i>			162.07	162.07	-
(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>			298.03	263.08	34.95
(iii)	Ice Factories					
	<i>All off-takes at flat rate of</i>			298.03	263.08	34.95
(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>			264.87	238.22	26.65



(v)	<u>Captive Power</u>					
	<i>All off-takes at flat rate of</i>				264.87	238.22 26.65
(vi)	<u>CNG Stations</u>					
	<i>All off-takes at flat rate of</i>				264.87	238.22 26.65
(vii)	<u>Cement Factories</u>					
	<i>All off-takes at flat rate of</i>				305.15	273.73 31.42
viii)	<u>Pakistan Steel</u>					
	<i>All off-takes at flat rate of</i>				264.87	238.22 26.65
(ix)	<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				264.87	238.22 26.65
(x)	<u>Power Stations</u>					
	<i>All off-takes at flat rate of</i>				264.87	238.22 26.65