

IN THE MATTER OF

**SUI SOUTHERN GAS COMPANY LIMITED
MOTION FOR REVIEW ON REVISED ESTIMATED
REVENUE REQUIREMENT (RERR), FY 2008-09**

UNDER

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

DECISION

March 4, 2009

Before:

**Rashid Farooq, Member (Oil) / Acting Chairman
Syed Hadi Hasnain, Member (Gas)**

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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 construction and operation of gas transmission & distribution pipelines, sale of natural gas and gas condensate (as by-product), and manufacture and sale of gas meters.
- 1.2. The petitioner has submitted a review motion (the petition) on December 17, 2008 under Rule 16 of the Natural Gas Tariff Rules, 2002 (NGT Rules) for review of the Authority's order dated November 20, 2008 (impugned decision), determining Revised Estimated Revenue Requirement (RERR) of the petitioner for FY 2008-09 (the said year) at Rs. 117,872 million, in case no. OGRA-6(2)-2(2)/2008-Review.
- 1.3. The petitioner has requested for increase of Rs. 811 million in its RERR of FY 2008-09, through average increase in the prescribed prices of Rs. 4.16 per MMBTU w.e.f January 01, 2009. The petitioner has submitted the following comparative statement of cost of service:

Table 1 : Comparison of Cost of Service Per the Petition with RERR 2008-09

Particulars	FY 2008-09		Inc./(Dec.) from RERR	
	RERR	The Petition		%
Units sold (BBTU) (Jul. 2008 - Jun. 2009)	381,207	381,207		
(Jan. 2009 - Jun. 2009)		195,262		
Cost of gas sold	277.18	277.18	-	-
UFG adjustment per target	(4.12)	(4.12)	-	-
Transmission and distribution cost	13.41	15.54	2.13	15.87
Depreciation	7.27	7.27	-	-
Return on net average operating fixed assets	15.41	15.41	-	-
Other operating income	(20.99)	(20.99)	-	-
Subsidy for LPG Air-Mix Project	0.06	0.06	-	-
Cost of service / prescribed price	288.22	290.35	2.13	0.74
Total Increase required in the average prescribed price w.e.f Jan. 01, 2009		4.16		

- 1.4. The Authority issued notice of hearing on January 06, 2009, in pursuance of Rule 6 of NGT Rules, 2002 to the petitioner, interveners and the Federal Government.

2. AUTHORITY'S JURISDICTION AND DETERMINATION PROCESS

2.1. The petitioner has invoked the jurisdiction of the Authority under Rule 16 of the NGT Rules, and Section 13 of the Ordinance. 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 issues brought forward by the petitioner must necessarily be evaluated with reference to the afore-said Section 13 of the Ordinance and meet at least one of the two pre-conditions given therein referring to change in circumstances and new admissible evidence for admission of the motion. Further, the Authority may refuse leave for review if it considers that the review would not materially alter the decision under review.

3. PROCEEDINGS

3.1. A hearing was held on January 22, 2009, at Islamabad, which was participated by the following:

Petitioner:

- i. Petitioner's team lead by Mr. Azim Iqbal Siddiqui, Managing Director

Intervener:

- i. Mr. Noor Alam, Additional Secretary (Resource), Finance Department, Government of Sindh.

3.2. Written submissions were received from S.I.T.E Association of Industry, which are appended to this order.

3.3. The petitioner was given full opportunity to present its motion for review. The petitioner made submissions in detail with the help of multi-media presentation, in which it sought review of the Authority's decision on the items discussed in the succeeding paragraphs.

4. INTERSTATE GAS SYSTEMS PVT. LTD. (ISGSL)

4.1. Petitioner's Grounds for Review

- 4.1.1. The petitioner has claimed that the Authority had reduced its revenue requirement by Rs. 471 million in Estimated Revenue Requirement (ERR) FY 2008-09 and further by Rs. 126 million in RERR FY 2008-09 on account of ISGSL.
- 4.1.2. The petitioner is of the view that Rs. 471 million had been adjusted from the return of the company at the time of ERR FY 2008-09, dated May 20, 2008, therefore, the same amount is required to be reinstated in the revenue requirement of the petitioner. It has further contended that instead of allowing the revenue expenditure of ISGSL per the Federal Government policy guideline, the Authority erroneously deducted Rs. 126 million from the transmission and distribution cost in RERR FY 2008-09.
- 4.1.3. The petitioner submitted that it has taken up the matter with ISGSL regarding reconciliation of actual revenue expenditure reimbursed till FY 2007-08 and will provide the details at the time of true up for FY 2008-09 for the satisfaction of the Authority.
- 4.1.4. The petitioner has requested to allow the earlier deductions of Rs. 471 million and Rs. 126 million, and has also claimed Rs. 107 million as its 51% share in expenditure of ISGSL for the said year.

4.2. Discussion and Decision

- 4.2.1. The Authority has reviewed the matter in detail and is of the firm opinion that, at the time of RERR FY 2008-09, the petitioner's share of Rs. 345 million had been correctly added back into the net Transmission & Distribution (T & D) expenditure of Rs. 4,537 million (per ERR FY 2008-09) vis-à-vis the petitioner's erroneous treatment of claiming adjustment against gross T & D expenditure.
- 4.2.2. On scrutiny of the data, the Authority observes that Rs. 471 million has been disallowed at the time of DERR FY 2008-09, out of which Rs. 310 million pertained to estimated revenue expenditure for FY 2007-08. ISGSL has now submitted that actual expenditure during FY 2007-08 amounts to Rs. 87 million, against which Rs. 97 million has already been allowed to the

petitioner at the time of FRR FY 2007-08. The Authority, therefore, notes that adjustment / addition of Rs. 213 million (Rs. 310M – Rs. 97M) is required to be allowed in the revenue requirement of the petitioner.

- 4.2.3. ***In view of above, the Authority accepts the adjustment of Rs. 213 million on account of ISGSL in the revenue requirement of the petitioner. However, adjustment on this account will be made at the time of determination of Final Revenue Requirement (FRR) FY 2008-09.***

5. WORKERS PROFIT PARTICIPATION FUND (WPPF)

5.1. Petitioner's Ground for Review

- 5.1.1. The petitioner has claimed a shortfall of Rs. 125 million on account of WPPF. The petitioner is of the view that due to decrease in weighted average cost of gas (WACOG) in RERR by the Authority, the inadmissible UFG reduced by Rs. 277 million, which resulted in increase in profit before tax. Resultantly, WPPF would have increased by Rs. 15 million. However, it was inadvertently reduced to Rs. 32 million.

5.2. Discussion and Decision

- 5.2.1. ***The Authority observes that WPPF is to be recomputed based on actual profit earned by the petitioner and, therefore, adjustments if any, on this account will be made at the time of determination of FRR for FY 2008-09.***

6. DETERMINATION

- 6.1. In view of the justifications submitted and arguments advanced by the petitioner in support of its review motion, scrutiny by the Authority and detailed reasons recorded in earlier paragraphs, the Authority decides to provisionally allow Rs. 213 million on account of ISGSL. The adjustment on these accounts will, however, be made at the time of determination of FRR for FY 2008-09.

(Rashid Farooq)
Member (Oil) /
Acting Chairman

(Syed Hadi Hasnain)
Member (Gas)

Dated: March 4, 2009