Case No. OGRA-6(2)-2(4)/2005-DTRR (Review)

IN THE MATTER OF

SUI SOUTHERN GAS COMPANY LIMITED MOTION FOR REVIEW OF FINAL REVENUE REQUIREMENT (FRR), FY 2004-05

UNDER

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

DECISION

April 10, 2006

Before:

Munir Ahmad, Chairman
Rashid Farooq, Member (Oil)
M.H. Asif, Member (Finance)

TABLE OF CONTENTS

SECTIONS **PAGE NO.**

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 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 2004-05 (said year) on December 19, 2003, which was amended by the petitioner on January 20, 2004. The Authority had determined petitioner's estimated revenue requirement, vide its decision dated June May 19, 2004. After the close of the said year, the petitioner filed, on August 17, 2005, a petition under Section 8(2) of the Ordinance for determination of its final revenue requirement (FRR) for the said year. The Authority determined the total revenue requirement of the petitioner, vide its detailed order dated November 01, 2005. Aggrieved by this determination, the petitioner has submitted a review motion (the petition) dated November 29, 2005, under Rule 16 of the Natural Gas Tariff Rules 2002 (NGT Rules), seeking increase in prescribed price of Rs. 0.35 / MMBTU.

1.3. A statement giving comparison of operating expenditure submitted by the petitioner and the determination of FRR 2004-05, is given below:

Table 1 : Comparison of Operating Expenses per the petition with FRR 2004-05

Rs. in million

PARTICULARS	FY 2004-05		Inc./(Dec.) over FRR	
	FRR	The Petition		Rs./MMBTU
Sale Volume (BBTU)	**329,359**	**329,359**		
Cost of gas	46,813	46,813	-	-
Unaccounted for gas (disallowed by OGRA	(694)	(658)	36	0.11
Transmission and distribution cost	3,808	3,808	-	-
Gas internally consumed	194	230	36	0.11
Depreciation	2,154	2,182	28	0.09
Other charges including W.P.P.F.	119	125	6	0.02
Require Return @ 17%	2,749	2,759	10	0.03
Net operating expenses	**55,143**	**55,259**	**117**	**0.35**

1.4. The Authority issued a notice of pre-admission hearing to the petitioner on February 01, 2006, in term of Rule 6 of NGT Rules, 2002.

1.5. The Authority held the pre-admission hearing at Karachi on February 13, 2006.

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. Further, the Authority may refuse leave for review if it considers that the review would not materially alter the d ecision under review.

3. PROCEEDINGS

3.1. 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 below:

4. PETITIONER'S GROUNDS FOR REVIEW

4.1. ***<u>Motor Vehicles</u>***

4.1.1. The petitioner has requested the Authority to reconsider its decision and allow additional Rs. 138 million in respect of motor vehicles, since it had only questioned the amount of initial estimates and not the prudence of the expenditure incurred on this account. Further, the Authority, under para 5.2.2 and 5.2.3 of its RERR for FY 2004-05 dated May 03, 2005, had stated that it understood the petitioner's needs to expand infrastructure and invest in technology to improve efficiency and it would not stop the petitioner from undertaking such activities that meet the test of prudence and would allow such expenditure at the time of DTRR 2004-05.

4.2. ***<u>Prepaid Meters</u>***

4.2.1. The petitioner has requested to allow the expenditure incurred on prepaid meters amounting to Rs. 8.11 million, since these would improve the level of service to customers and improve the efficiency of the company, by reducing the cost of meter reading, bill processing, printing and delivery, and improve its liquidity position. It has further submitted that cost of meters is part of normal gas distribution system for which Authority's prior approval is not required under the law.

4.3. ***Depreciation***

4.3.1. The petitioner has requested to allow full amount of depreciation of Rs. 2,182 million as claimed by it against Rs. 2,154 million, allowed by the Authority.

4.3.2. The petitioner has also submitted that if, at all, disallowance is to be made on depreciation it should have been to the tune of Rs. 8.77 million instead of Rs. 28 million, in order to enable it to provide depreciation of not less than 6% on gross value by virtue of ADB's loan covenants.

4.4. ***Unaccounted for Gas (UFG) / Gas Internally Consumed (GIC)***

1.1.1. The petitioner has requested that Rs 36 million on this account be allowed. for the following reasons:

1.1.1.1. ***Gas blown off in transmission system*** amounting to Rs. 16 million be allowed, since it is imperative while carrying out repair, maintenance or rehabilitation of transmission pipelines.

1.1.1.2. ***Gas blown off in Compressor startups*** amounting to Rs. 1.00 million be allowed, since it is a basic operational requirement and can not be avoided. There were 122 startups of compressors in the current year. Every startup can not be metered due to high pressure variation.

1.1.1.3. ***Accidental /third party damages*** amounting to Rs. 17 million and purging amounting to Rs. 2 million be allowed, since gas escapes on these accounts are quite common and unavoidable. Accidental/third party damages happen since local government does not provide any utility corridors, resulting in damages inflicted by other civic agencies which are not picked up under the current insurance policy, as these losses are below the voluntary excess of Rs. 2.5 million in each case.

1.1.1.4. ***Accrued Sale / not yet billed*** volume of 65 MMCF be allowed since these are due to customer billing which is staggered, variation between billing months and calendar months and new connections not yet billed. The accrual may be reversed in the following year.

4.5. ***Cost of Gas***

1.1.2. The petitioner has requested that additional amount of Rs. 36 million may be allowed as the Authority had deducted it twice, once from cost of gas, and then from GIC.

5. DECISION

5.1. The petitioner has not brought any new argument or evidence in support of review of Authority's earlier decision except the point that Rs. 36 million were disallowed twice. The Authority has considered the submissions made by the petitioner summarized in para 4 above and is of the view that its decision on FRR 2004-05 dated November 01, 2005, addresses the points viz. reduction of Rs. 138 million on account of motor vehicles and Rs. 36 million on account of UFG / GIC.

5.2. The Authority agrees with the petitioner's point of computational error, whereby Rs. 36 million was doubly deducted from gas internally consumed and cost of gas. Additional Rs. 36 million on this account will be allowed at the time of determination of FRR for FY 2005-06.

5.3. The Authority is in the process of reviewing, separately, the submissions made by the petitioner in respect of prepaid meters and decision in the matter will be made separately and not as part of this petition.

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

(Rashid Farooq)
Member (Oil)

(M.H. Asif)
Member (Finance)

(Munir Ahmad)
Chairman

Dated: April 10, 2006