

Case No. OGRA-6(2)-1(TT)/2024

IN THE MATTER OF
SUI NORTHERN GAS PIPELINES LIMITED
DETERMINATION OF TRANSPORTATION TARIFF OF TRANSMISSION AND
DISTRIBUTION SYSTEM, FY 2024-25

UNDER

OGRA GAS (THIRD PARTY ACCESS) RULES, 2018 AND
PAKISTAN GAS NETWORK CODE

DECISION

December 9, 2024

Before:

Mr. Masroor Khan, Chairman

Mr. Zain-ul-Abideen Qureshi, Member (Oil)

Mr. Mohammad Naeem Ghouri, Member (Finance)



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Plot No. 37 & 39, Mauve Area, G-10/4, Islamabad

پلاٹ نمبر 37 & 39، ماؤ ايريا، جی ٹین فور، اسلام آباد



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1. Background

- 1.1. Sui Northern Gas Pipelines Limited (the petitioner) is OGRA's licensee for the regulated activities of construction and operation of gas transmission and distribution pipelines and sale of natural gas. The petitioner is also engaged in transportation and sale of RLNG in the light of Federal Government's policy guidelines.
- 1.2. The petitioner has filed the petition on July 03, 2024 (the petition) for determination of provisional transportation tariff for FY 2024-25 (the said year) under OGRA Gas Third Party Access Rules, 2018 (TPA Rules) read with Pakistan Gas Network Code (PGNC). The petitioner has submitted that tariff working for both Transmission and Distribution system is based on Rule 2(1)(cc), Rule 3(3), Schedule-I of TPA Rules and worked examples as provided in Article 25.6(a) and 25.6(b) of PGNC.
- 1.3. The petitioner, based on Authority's decision of Estimated Revenue Requirement (ERR) for the said year, has worked out the transportation tariff in respect of transmission and distribution network. Accordingly, operating costs, depreciation and return on asset has been segregated into fixed and variable cost as required in transportation tariff methodology. Moreover, throughput volumes have been aligned with the volumes of DERR for the said year.
- 1.4. The petitioner's submission is summarized below:

Table 1: Transportation Tariff of Transmission & Distribution Network per the Petition

Description	TRANSMISSION	DISTRIBUTION
Actual Throughput Transmission & Distribution Volume in MMCFD	1,854	1,016
Fixed components:	Rs. in million	
i) Operating cost	8,208	22,215
ii) Depreciation component of the transportation cost	5,038	20,429
iii) Return on Assets	10,584	27,262
Total Fixed Cost	23,829	69,906
Variable components:	Rs. in million	
i) Stores and spares consumed	594	568
ii) Repair and maintenance cost	308	1,378
iii) Fuel and power	340	368
Total Variable Cost	1,242	2,314
	Rs./MCF	Rs./MCF
Average capacity charge	35.21	188.59
Average utilization charge	1.84	6.24
Total	37.04	194.83

- 1.5. The Authority, published notices for public hearings on September 03, 2024 in the leading newspapers, for seeking comments/interventions. Subsequently, the Authority received intervention requests from Mr. Ghiyas Abdullah Paracha, Chief Executive Officer, Universal Gas Distribution Company Limited (UGDCL) and was accepted by it.

2. Salient Features of the Petition

- 2.1. The salient features of the petition are as under:

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- 2.1.1. Aggregate throughput capacity of transmission & distribution network has been calculated based on the volumes of indigenous & RLNG after adjustment on account of gas internally consumed and UFG gas losses. Accordingly, capacity of transmission & distribution network system has been claimed at 1854 MMCFD & 1016 MMCFD respectively.
- 2.1.2. Apportioned relevant T&D costs components of Rs. 33,979 million have been segregated into transmission & distribution activity. Depreciation amounting to Rs. 25,468 million has also been claimed as per the Authority determination for the said year.
- 2.1.3. Net fixed assets of natural gas and RLNG segments have also been separated in terms of regulated activities viz; transmission & distribution, as per determination. Accordingly, rate of return has been claimed at 25.92% of net operating fixed assets.

3. Proceedings and Public Interventions

- 3.1. Public hearings for the latest petition were held on September 20, 27 & October 02, 2024 at Karachi, Lahore and Peshawar respectively. The petitioner and the following interveners/participants attended the hearing:

Intervenors / Participants:

- 1) Mr. Ghayas Abdullah Paracha, Chairman, All Pakistan CNG Association & CEO UGDC
- 2) Abdul Sami Khan, Chairman CNG Dealers Association of Pakistan, and Chairman Pakistan Petroleum Dealers Association
- 3) Malik Khuda Baksh, Chairman, CNG Owners Association
- 4) Mr. Fazal Moqem Khan, Chairman, President Sarhad Chamber of Commerce & Industry
- 5) Mr. Amin Rajput, DMD, SSGCL
- 6) Mr. Menhaj Khan Mehsod, All Pakistan CNG Association
- 7) Mr. Ghalib Khan, Member (Legal), All Pakistan CNG Association
- 8) Mr. Saeed Khan, Pakistan Petroleum Dealers Association
- 9) Mr. Nisar Ahmed, UGDCL
- 10) Mr. Shoaib Khan, Taif CNG, Peshawar
- 11) Iftikhar Ahmed, Chairman, Cooperative Association
- 12) Muhammad Farooq, Chairman, Pakistan Restaurants & Hotel Association.

- 3.2. The petitioner made submissions in detail with the help of a multimedia presentation explaining the basis of its petition and offered reasons on the key issues and queries referred in public hearing as well as the advertisement. The main points of the petitioner are summarized below:

- 3.2.1. It was stated that transportation tariff for transmission and distribution is based on Authority determinations while using actual throughput volumes, in line with TPA Rules and Pakistan Gas Network Code.
- 3.2.2. It was submitted that operating costs have been segregated into Transmission and Distribution activities, as per OGRA earlier determinations, while excluding sales components.
- 3.2.3. It was explained that surplus pipeline capacity is regularly updated/announced on petitioner website for facilitation of prospective shippers.
- 3.2.4. The petitioner clarified that increase is due to calculation of the transportation tariff on throughput capacity as per provisions of Pakistan Gas Network Code and TPA Rules, 2018.

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- 3.2.5. It was clarified that only those operating cost components which are directly attributable to their gas transportation activities have been included in computation while excluding other irrelevant components i.e. selling components.
- 3.2.6. It was stated that postal stamp tariff for gas transportation is currently being used upto consumers destination without any distance and geographical location differences, in line with TPA rules. As a way forward, it was suggested and proposed that distance-based transportation tariff upto consumers should be introduced to move toward fair charging of tariff.
- 3.3. The substantive points made by the interveners and participants during public hearing are summarized below:
- 3.3.1. The intervenors appreciated the market liberalization initiative taken by OGRA under TPA regime as the same have opened new business avenues for potential shippers.
- 3.3.2. It was suggested that composite (uniform postal rate tariff) be introduced for both Suis' shippers for better future planning by the industry.
- 3.3.3. It was demanded that alternative consumer should be approached for sale of surplus RLNG volume available in the system owing to low off takes from power sector.
- 3.3.4. It was requested to end UFG disallowance disparity for both transmission and distribution as natural gas consumption volumes in Transmission are more than Distribution. It was also emphasized to curtail UFG loss further by sui companies to bring efficiency in Natural Gas Transmission & Distribution activities. It was demanded not to pass on UFG impact to shipper.
- 3.3.5. It was also demanded that transportation tariff should be same for private sector and public sector consumers. This would bring level playing field for all stakeholders and encourage private shipper.
- 3.3.6. It was urged that private sector should be facilitated for provision of gas to KPK. It was also apprised that investment in textile sector is diminishing due to gas loadshedding.
- 3.3.7. It was requested to provide details of operating expenses used for computation of transportation tariff. Further, it was requested to provide financial impact of throughput volumes and its impact on consumers.
- 3.3.8. It was apprised by the petitioner that any increase in transportation tariff will bring increase in SNGPL's operating income. The same shall be eventually offered under their Revenue Requirement to offsetting price revision.
- 3.3.9. It was demanded that the petitioner should allow only those operating cost components which are directly attributable to their gas transportation activities while excluding other irrelevant components i.e. selling components.
- 3.3.10. It was demanded that the petitioner be advised to provide pipeline spare capacity as actual current utilized capacity of pipeline is not readily available on its website.

4. Authority's Jurisdiction & Determination Process

- 4.1. The Authority examined, in depth, the petition in light of relevant legal provisions. The process was followed in true letter and spirit. Public notices were issued and all stakeholders were provided full opportunity to intervene/comment upon issues, in writing and at public hearing.

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- 4.2. The Authority gives full consideration to observations and comments of all stakeholders while determining transportation tariff in respect of transmission & distribution activity.
- 4.3. The overall function of transportation tariff determination as well as its scheme is explicitly provided in the legal framework as defined in TPA Rules read with PGNC & the subsequent amendment issued from time to time and the petitioner's license for regulated activities. Therefore, all legal instruments including tariff regime for regulated natural gas sector are to be read together to understand the mechanism established to carry out the function. Transportation tariff for services consist of fixed (capacity) and variable (throughput) charges according to type of service to be provided by the transporter.
- 4.4. The Authority shall determine the transportation tariff in respect of transmission network and distribution network while allowing prudent, relevant and fairly allocated costs of service. The costs as allowed by the Authority as part of DERR for the said year shall become part of the instant determination. Accordingly, the petitioner, in the light of decision in respect of DERR for the said year, submitted the tariff application, segregated on the basis of fair allocation in respect of transmission & distribution activity. Such tariff shall be calculated at a postal stamp uniform rate, on annual basis in accordance with TPA Rules and PGNC.
- 4.5. Accordingly, the Authority, in the light of mechanism stipulated in TPA Rules and PGNC, shall set the transportation tariff based on fair allocation in such manner which shall be coherent with the prevalent circumstances and shall strike a balance among divergent interests of various stakeholders and provide level playing field to all stakeholders.

5. Capacity for Transportation & Distribution network

- 5.1. The capacity calculations submitted by the petitioner regarding actual Throughput Volume net-off GIC & UFG is as follows;

Description	Units	Reference	Indigenous	RLNG	Total
Transmission					
Net Gas Received in Transmission System	MMCF		367,358	317,433	684,791
Gas Used in operations of Transmission System (GIC etc)	MMCF		(1,395)	(2,847)	(4,242)
Loss in Transmission System	MMCF		(1,967)	(1,728)	(3,695)
Total Throughput Volume in Transmission System	MMCF	A	363,996	312,858	676,854
No. of Days	Days	B			365
Per day throughput volume in Transmission	MMCFD	C=A/B			1,854
Distribution					
Gas passed to Dist. System and sold to PFC consumers		D	-99,388	-174,004	(273,392)
Distribution Input	MMCF	E =A+D	264,608	138,854	403,462
GIC (in Distribution System)	MMCF		(533)	-	(533)
UFG in Distribution System	MMCF		(25,311)	(6,933)	(32,244)
RLNG Swap/diversion of LNG or vice versa	MMCF				-
Total Throughput Volume in Distribution System	MMCF	F	238,764	131,921	370,685
No. of Days	Days	G			365
Per day throughput volume in Distribution	MMCFD	H=F/G			1,016

- 5.2. The Authority notes that the petitioner submitted revision in calculation of transportation tariff on throughput volume wherein the petitioner informed that the existing transportation assets have been developed at the cost of the indigenous gas consumers and the transportation income derived from any third-party entrant is regarded as operating income, intended to be utilized for reducing prices for indigenous gas consumers. As such, the petitioner has no loss/ profitability in computation of transportation charges.

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*Determination of Transportation Tariff for FY 2024-25
Based on Rule 2(1)(cc), Rule 3(3), Schedule-I of TPA Rules 2018 &
Article 25.6(a) and 25.6 (b) of Pakistan Gas Network Code*



- 5.3. The Authority notes that the petitioner has excluded third-party volume handled in its distribution network for calculation of per day throughput volume in distribution system. The Authority does not agree with stance of the petitioner as the volume is being transported as per access agreement with third-party and pipeline capacity is being utilized in this arrangement.
- 5.4. Accordingly, the throughput volume in respect of transmission and distribution as calculated by the Authority is provided below:

Description	Units	Reference	Indigenous	RLNG	Total
Transmission					
Net Gas Received in Transmission System	MMCF		367,358	317,433	684,791
Gas Used in operations of Transmission System (GIC etc)	MMCF		(1,395)	(2,847)	(4,242)
Loss in Transmission System	MMCF		(1,967)	(1,728)	(3,695)
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Gas passed to Dist. System and sold to PFC consumers		D	(99,388)	(174,004)	(273,392)
Distribution Input	MMCF	E=A+D	264,608	138,854	403,462
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UFG in Distribution System	MMCF		(25,311)	(6,933)	(32,244)
RLNG Swap/diversion of LNG or vice versa	MMCF				-
Total Throughput Volume in Distribution System	MMCF	F	238,764	131,921	370,685
No. of Days	Days	G			365
Per day throughput volume in Distribution	MMCFD	H=F/G			1,016

5.5. In view thereof, the Authority decides to take capacity of transmission system @ 1,854 MMCFD and capacity of Distribution system @ 1,016 MMCFD for calculation of Transportation tariff provisionally, subject to revision based on throughput volume at DERR of the respective year.

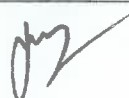
6. Fixed Assets

6.1. The petitioner in respect of average total fixed assets of Rs. 146,007 million after adjustment of deferred credit (i.e. comprising of both natural gas and RLNG segments) has confirmed that assets have been segregated into transmission at Rs. 40,832 million & distribution networks at Rs. 105,176 million respectively. Accordingly, the petitioner claimed its depreciation & ROA under transportation tariff, as tabulated below;

Table 2: Assets Claimed per the Petition

Description	Rupees in million		
	Transmission	Distribution	Total
Opening Assets	57,026	127,744	184,771
Closing Assets	53,457	123,170	176,627
Avg Assets	55,242	125,457	180,699
Deferred Credit Opening	14,422	20,738	35,160
Deferred Credit Closing	14,398	19,825	34,223
Avg Deferred Credit	14,410	20,281	34,691
Average Net Operating Fixed Assets	40,832	105,176	146,007
ROA @ 25.92%	10,584	27,262	37,845
Depreciation	5,038	20,429	25,468


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6.2. *In view of above, the Authority accepts the same and adopts the asset's balance as claimed by the petitioner.*

7. Transmission & Distribution (T&D) Costs

7.1. The petitioner, based on DERR, has requested to include Rs. 8,208 million and Rs. 22,215 million as fixed costs in terms of transmission and distribution activities respectively. The petitioner has also claimed Rs. 1,242 million & Rs. 2,314 million as variable costs component against transmission & distribution activities respectively. Break up of T&D costs is summarized below:

Table 3: T&D Costs Claimed per the Petition

Description	Rs. in million		
	Total FY 2024-25	Transmission Function	Distribution Function
Stores and Spares consumed	1,162	594	568
Repair and Maintenance	1,686	308	1,378
Fuel & Power	708	340	368
Total Variable cost	3,556	1,242	2,314
Net HR Cost	24,108	5,414	18,694
Stationery, telegrams and postage	350	30	320
Rent, rates, royalty, electricity and telephones	829	277	552
Travelling expenses	200	76	124
Transport Expenses	1,526	384	1,142
Insurance	315	95	221
ISO certification	14	4	10
Advertisement & publicity	265	15	250
Protective clothing & Supplies	101	10	91
Security expenses	2,250	1,904	346
Outsourcing of Call Centre	33	-	33
UFG Control Activities	1,031	-	1,031
Gross Operating Cost	31,023	8,208	22,815
Less Allocation to CWIP	(600)	-	(600)
Total Fixed Cost	30,423	8,208	22,215

7.2. *In view of the above, the Authority, based on the fair allocation undertaken by the petitioner, decides to include operating costs in term of transmission and distribution activity and allows as per the table above.*

8. Determination


8.1. The Authority, based on the decisions made in preceding paras above, determines the transportation tariff in respect of transmission & distribution activity separately as per the table below;


Determination of Transportation Tariff for FY 2024-25
Based on Rule 2(1)(cc), Rule 3(3), Schedule-I of TPA Rules 2018 &
Article 25.6(a) and 25.6 (b) of Pakistan Gas Network Code



Table 4: Transportation Tariff Allowed

Description	TRANSMISSION	DISTRIBUTION
Actual Throughput Transmission & Distribution Volume in MMCFD	1,854	1,016
Fixed components:	Rs. in million	
i) Operating cost	8,208	22,215
ii) Depreciation component of the transportation cost	5,038	20,429
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Total Fixed Cost	23,829	69,906
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Mohammad Naeem Ghouri
 Member (Finance)


Zain-ul-Abideen Qureshi
 Member (Oil)



Masroor Khan
 (Chairman)

Islamabad, December 9, 2024, 11:43 AM


Senior Registrar
 Oil & Gas Regulatory Authority
 Islamabad