OGRA-6(2)-1(2)/2017-Review

IN THE MATTER OF

SUI NORTHERN GAS PIPELINES LIMITED

MOTION FOR REVIEW AGAINST AUTHORITY'S DETERMINATION OF ESTIMATED REVENUE REQUIREMENT FOR FY 2017-18

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

DECISION

March 12, 2018

Before:-

Ms. Uzma Adil Khan, Chairperson
Mr. Noorul Haque, Member (Finance)
Dr. Abdullah Malik, Member (Oil)

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1. Background:

1.1. Sui Northern Gas Pipelines Limited (SNGPL) is a public limited company incorporated in Pakistan, and is listed on Pakistan Stock Exchange. It is engaged in the business of construction and operation of gas transmission and distribution pipelines, sale of natural gas and compressed natural gas, and sale of gas condensate (as a by-product). SNGPL is also engaged in the business of Re-gasified liquefied natural gas (RLNG), in accordance with the decisions of the Federal Government (FG).

1.2. The Authority, under Section 8(1) of the OGRA Ordinance, 2002 (the Ordinance) had determined the Estimated Revenue Requirement of SNGPL for FY 2017-18 (the said year) vide order dated September 20, 2017 at Rs. 211,940 million and shortfall at Rs. 26,784 million translating into an increase of Rs. 60.65 per MMBTU in the average prescribed price.

1.3. Being aggrieved by this determination, SNGPL filed motion for review on October 18, 2017 under Section 13 of OGRA Ordinance, 2002 read with Rule 16 of Natural Gas Tariff Rules, 2002 (NGT Rules). SNGPL challenged various capital expenses, UFG and revenue cost components as under;

a) **UFG Benchmark**

1. UFG Benchmark
2. Illegal Network Regularization KPK

b) **Capital Expenditures**

1. Laying Under Cost recovery Basis
2. Green Offices Initiative
3. Complaint Center at Bhakkar, Multan
4. Complaint Center at Duniyapur, Multan
5. New Gas Connections
6. Construction Equipment

7. Creation of New Regions/Sub Regions / Customer Service Centers/ Complaint Centers.

c) **Operating Revenues & Expenses**

1. **Cost of Gas**
2. **Transportation of RLNG**
3. **Late Payment Surcharge (LPS) Payable**
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    5.13. **Outsourcing of call centers for complaint management**
    5.14. **Other Expenses**
    5.15. **Sports Cell Expense**
    5.16. **Late Payment Surcharge-Payable**

1.4. On November 28, 2017 the petitioner has withdrawn its contented items i.e. Creation of new Regions and Construction Equipment from capital expenditures, all items of Transmission and Distribution expenses as well as late payment surcharge and interest on arrears (LPS income).

2. Authority's Jurisdiction and Determination Process:

2.1. The petitioners have invoked the jurisdiction of the Authority under Section 13 of the Ordinance and 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. It is clear from the above, that the issues brought forwarded/contended by the petitioner in the motion for review must necessarily be evaluated with reference to the provisions of 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 & decision 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. The Authority issued notice of pre-admission hearing on December 18, 2017 to the petitioner. Accordingly, pre-admission hearing was held on December 21, 2017 at OGRA office, Islamabad.

3.2. The petitioner was represented at the hearing by a team of senior executives led by Managing Director, Mr. Amjad Latif. The petitioner was given full opportunity to present their motion for review. The petitioner as well as its legal counsel made submissions with the help of multi-media presentations and contended the merits of the case in detail.

3.3. The Authority heard the petitioner's submissions. Accordingly the discussion and decision in respect of issues contended by the petitioners is made in the following manner.

4. Un Accounted for Gas (UFG Benchmark)

4.1.1. The petitioner has raised serious reservations regarding UFG study conducted by OGRA as under.

4.1.2. Consultation with the licensee, i.e. the Gas Utility Companies, and independent experts is mandatory for setting up UFG Benchmark in the tariff determination process undertaken by the Authority. This is due to the clear provisions of Sections 7 & 8 of the Oil & Gas Regulatory Authority Ordinance, 2002 (the Ordinance) and the Natural Gas Tariff Rules, 2002 (the Tariff Rules), read with the licence granted to the petitioner, condition 21.1 whereof states:

> The Licensee shall take all possible steps to keep the UFG within acceptable limits. The Authority for this purpose *in consultation with Licensee and experts, shall fix target of UFG for each financial year*. The Authority may fix UFG target separately for each regulated activity.

4.1.3. No formal consultative process took place hence the Authority set UFG Benchmarks provisionally for Financial Years 2010-11, 2011-12, 2012-13, 2013-14, 2014-15, 2015-16 and 2016-17.

4.2. UFG Computation Formula

4.2.1. The UFG Benchmark Study recommends a formula to determine the acceptable UFG Benchmark for the gas utility companies as follows:

> UFG Allowance = Gas Volume Available for Sale x [Technical Component + Local Challenges Component x Performance Factor]

4.3. Technical Component

4.3.1. Technical Component has been proposed as 5%.

4.4. Local Conditions Factor

4.4.1. Additionally, the formula requires additional allowances on account of specific local conditions within which these two Gas Utility Companies operate. This Local Conditions Factor has been capped at 2.6% for the gas utility companies.

While the petitioner has serious reservations regarding the capping of this volume.

4.5. **Performance Factor**

4.5.1. Lastly, the formula has recommended introduction of a Performance Factor by proposing certain KMI's that the gas utility companies should have to achieve if they wish to receive a higher UFG allowance from the Authority. The maximum additional benchmark that the gas utility companies can consequently be given under this Performance Factor is 1%. The petitioner has serious reservations on this issue.

4.6. **Inclusion of theft volume (non-consumer volume) as accounted for gas**

4.6.1. "Theft by consumers or non consumers once detected can be accounted for and may not be considered as UFG"

4.6.2. Based on the above, statement of the Consultant, OGRA is bound to exclude the 100% non-consumer volumes from the actual UFG determined by it for previous and subsequent years and allow all non consumer volumes, calculated in accordance with OGRA Procedures, as deemed sales.

4.7. **Treatment of UFG Benchmark Report by the Authority**

4.7.1. In its determinations on the Estimated Revenue Requirements for SNGPL for Financial Year 2017-18, the Authority has worked out the UFG Benchmark applicable to SNGPL at 6.3%. This figure has been reached by allowing the Technical Component of 5%, and provisionally allowing 50% of the Local Conditions Factor (termed Rate 2), i.e. 1.3%. The Authority has determined that this provisional allowance for the Local Conditions Factor will be actualized in line with the achievement of proposed KMIs at the FRR stage. Without prejudice to the objections raised subsequently on this provisional allowance, it is submitted that adopting the recommendations of the Consultant reflects the Authority's agreement with the fact that a minimum Technical Component of 5%

will have to be allowed to the Gas Utility Companies, along with a Local Conditions Factor of (max) 2.6%.Therefore, it is the submission of SNGPL that this 2.6% technical component has to be allowed by the Authority which (without prejudice) may be revised subsequently.

4.8. Treatment to Past Years

4.8.1. The UFG Benchmark Study was required to also finalize the benchmarks set by the Authority for SNGPL in the last seven financial years (2010-11, 2011-12,2012-13, 2013-14, 2014-15, 2015-16 and 2016-17). This is so because the Authority, while setting the applicable UFG Benchmarks for the said years itself stated that those determinations were provisional and were subject to review once a UFG study was received by the Authority. Reference in this regard may be made to the following extracts from the noted determinations of the Authority hereunder for reference:

i. Decision dated 18.05.2010 on the ERR for FY 2010-11
ii. Decision dated 02.12.2010 on the ERR for FY 2010-11
iii. Decision dated 24.05.2011 on the ERR for FY 2011-12
iv. Decision dated 18.05.2012 on the ERR for FY 2012-13
v. Decision dated 01.06.2013 on the ERR for FY 2013-14
vi. Decision dated 05.11.2015 on the FRR for FY 2012-13
vii. Decision dated 18.12.2015 on the ERR for FY 2015-16
viii. Decision dated 06.10.2016 on the ERR for FY 2016-17

4.9. Prayer by the Petitioner

4.9.1. It is clear from the various determinations made by the Authority over time to time (referred to above), that the UFG Benchmarks set for the said seven financial years were provisional and subject to review once the UFG Benchmark Study was finalized and approved. The Study, which now stands endorsed through determinations dated 20.09.2017 made by the Authority on the ERR's for the gas utility companies, has recommended two types of allowances for the gas utility companies. It is therefore the submission of SNGPL that the Authority is now mandated by law to now apply the factors which first find mention and endorsement in the UFG Benchmark Study, to the earlier financial years.

4.9.2. Provisional UFG Benchmarks set at 4.5% for FYs 2010-11, 2011-12, 2012-13, 2013-14, 2014-15, 2015-16 and 2016-17 be finalized at 7.6 %, with additional allowances, if any, for any residuals left from the actual volumes calculated by SNGPL on account of theft by non-consumers and law & order situation in accordance with OGRA Procedures.

4.9.3. SNGPL had envisaged UFG Reduction Plan, which was based on field experience and working environment prevailing in Pakistan. Successful execution of the said plan which has resulted in significant reduction in UFG losses needs to be continued. The KMIs proposed by consultant are neither practicable nor can produce desired results, considering the fact that consultant is not taking its responsibility for any loss sustained as a result of implementing his KMIs. The company having vast experience in the field of natural gas sector should be authorized to select the UFG control activities to achieve the desired UFG Reduction as advised by OGRA.

4.9.4. Any other remedy under the above narrated submissions to which the Company is entitled, may also be granted.

Decision of the Authority

4.9.5. *UFG benchmarks were fixed by the Authority from FY 2005-06 till FY 2011-2012. Subsequently, the UFG benchmarks were determined by the Authority to be fixed at 4.5 % on yearly basis. The Authority undertook a UFG study for determining UFG Benchmarks of the gas companies through a consultant of international repute vis M/s KPMG Taseer Hadi & Co. Chartered Accountants (KPMG). After a thorough consultative process in stages, at all provincial Federal Capitals M/s KPMG submitted the final draft report on 11-7-2017. The Authority accepted the final UFG Study Report and forwarded it to both the gas companies on 30-8-2017 for implementation and compliance.*

4.9.6. *It is mentioned that Rate 2 is the allowance for local challenging conditions as compared to the world at large particularly with reference to issues in law & order affected areas and uneconomic expansions resulting in theft, leakages, data*

/ meter errors and non-recovery of gas bills. Allowance for these challenging conditions has been worked out at 2.6%. Further in order to ensure that appropriate and serious efforts are directed towards reducing UFG over the agreed term of five (5) years, the allowance with respect to local challenging conditions component (2.6%) is linked to the achievement of certain Key Monitoring Indicators (KMIs) designed to rectify the problem areas contributing towards UFG. The performance of gas companies towards achievement of KMIs is thus a factor to establish the allowance on account of Rate 2. The better the performance the higher the benefit, upto a maximum of 2.6%. Therefore the contention of maximum 1% allowance is either misconceived or points towards lack of efforts planned to be deployed by the company for reducing the overall UFG to retain the advantage of variable allowance.

4.9.7. *The Authority worked out the UFG Benchmark applicable to SNGPL for the said year at 6.3 % including UFG Benchmark of 5%,provisionally allowing 50 % of the Local Conditions Allowance i.e. 1.3% in the light of the recommendations of the UFG study. The Consultant has also proposed a roadmap with specimen Key Monitoring Indicators (KMIs) and their linkage with the UFG Allowance. KMI has been prepared in consultation with all stakeholders. The twofold mandate of Authority demands it to protect the public interest by respecting their rights and secondly requires it to enable a controlled and regulated environment for the utilities to perform in an efficient and prudent manner. Accordingly Rate 2 shall be actualized based on petitioner's actual performance at the time of FRR.*

4.9.8. *With respect to applicability of UFG benchmark on FY 2010-11 and FY 2011-12 it is again clarified that UFG benchmarks were fixed by the Authority from FY 2005-06 till FY 2011-2012 based on which the FRR's till FY 2011-12 stands settled and finalized. Therefore FY 2010-11 and FY 2011-12 are not relevant for the UFG study; hence the same have not been considered therein nor are the findings of UFG study applicable for these periods. Moreover, FRR's of these two years also do not co-relate to UFG Study. Hence SNGPL contention is totally against the facts.*

4.9.9. *From FY 2012-13 onwards, UFG benchmark of 4.5 % was fixed by the Authority* *plus certain allowances over and above the bench mark were allowed on provisional basis to the Company as per the Policy guidelines of the Federal Government. It is highlighted here that revenue requirements are determined for each financial year after holding thorough consultation sessions through public hearings where every stakeholder, including gas companies, were provided ample opportunity to comment upon all the components forming part of revenue requirement. UFG is one such component which is also open for comments and consultation. Therefore, the contention that no consultation took place while finalizing UFG for FY 2012-13 onwards is baseless.*

4.9.10. *The Authority notes that from FY 2012-13 onwards it had provisionally allowed volumes in the light of policy guidelines, to be reconciled with the results of UFG study. It is hence very clear that variation to the extent of provisionally allowed volumes viz: law and order and non-consumer was to be reconciled and no reference with respect to revision UFG Benchmark of 4.5% was ever conceived. It is to be noted that the benchmark has now been implemented on fixed and variable factors wherein the variable factor is based on KMIs, therefore, in accordance with the KPMG's study/ recommendation, it will not be practicable to assess the performance of the sui companies on KMIs with retrospective effect. It has also been observed that the Authority has already provisionally allowed a fair and reasonable allowance to cater for the local conditions in the past five years to the tune of 2.494 % on an average over and above the fixed bench mark of 4.5%. Accordingly, the Authority has concluded and finalized the FRR from FY 2012-13 to FY 2016-17. It is observed that there is no new evidence for review, hence, the Authority maintains its earlier stance in the matter.*

4.9.11. *As regards the non-consumer's scenario is concerned, the Ministry of Law and Justice through ministry of Energy's letter No. NG(II)-14(52)/11-GA-Vol-I-pt dated 02-01-2018 has clearly opined that the "Gas Theft Control and Recovery Act, 2016" has an overriding effect and section 31 of the Act ibid says that provisions of this Act shall have effect notwithstanding with anything to the contrary contained in any other law for the time being in force. Therefore, as regards responsibility for the recovery of gas stolen, the provisions of the Act* *shall prevail and the provisions of OGRA Ordinance, 2002 to the extent inconsistence cease to have effect. Further, as per Section 11 of the Gas Theft Control and Recovery Act, 2016 additional amounts on account of the value of gas stolen or pilfered as deemed commensurate with the amount of the monetary benefits accrued to the offender.*

4.10. **KMI Implementation Plan**

4.10.1. It is mentioned that the KMI's proposed by the Consultant (M/s KPMG), in consultation with the sui companies, have been approved by the Authority as part of the UFG Report. In response thereof, the petitioner has submitted certain reservations in this regard due to operational constraints which have been dealt with separately and the Authority's approval has been conveyed.

4.11. **Illegal Network Regularization in KPK**

4.11.1. The petitioner has explained that the Authority in its decision on the subject has stated that feasibility carried out by SNGPL of the said project is not realistic /factual. The project seems to be within criteria and can be executed without further delay. The Authority directed the petitioner to carry out the development activities in the said area prudently and execute the project accordingly, in a phased manner and evaluation of the same may be carried out segment wise on quarterly basis and be provided to the Authority.

4.11.2. SNGPL submitted that the above project has been prepared after detailed survey of the area in consultation with the local/elders of the area and district administration. Cost estimates and feasibility of the project has been calculated in the light of formula approved by the ECC.

4.11.3. SNGPL contended that the comments of OGRA desiring comparison of population of Karak with that of Islamabad are not rational because feasibility is based on the population/number of houses for which the distribution network is being proposed instead of considering the population of the whole district of

Karak. Moreover, it is pertinent to mention that the funding of the project has not yet been approved / released by Provincial or Federal Government.

4.11.4. In view of the above, the Petitioner has requested the Authority to allow the above project at the projected cost of Rs. 6,700 million and include the amount in the rate base. The project will be initiated once the amount from Provincial/Federal Government is released.

Decision of the Authority

4.11.5. *The petitioner submitted a plan to regularize illegal network in Oil and Gas Producing areas of KPK at an estimated cost of Rs. 6,667 million through its ERR/RERR of FY 2016-17. The petitioner pleaded its case by arguing that regularization of illegal network shall be helpful to curb the losses in District Karak, on account of Law & Order situation.*

4.11.6. *The Authority has already deliberated this aspect and observed in DERR FY 2017-18 that development in this area is part of UFG control plan leading to major UFG savings hence should have been prioritized by the company. It has been observed that the arguments raised by SNGPL are only theoretical and subjective without focusing on the benefits that can be gathered through implementation of such development schemes. The Authority is of firm opinion that these schemes are within the Federal Government approved criteria provided realistic assumptions and factual numbers are adopted by SNGPL to carry out the feasibilities. The contention of the petitioner are again misleading to further linger-on the project for which explicit directions of the Authority are already on record. The Authority had taken a conscious and fair decision in this regards in the light of feedback from the affected persons of the said area who are willing to cooperate with the gas company to install legalized network to ensure effective recoveries. Further the case for arranging funding from Federal or Provincial Government is not relevant as the project falls within the criteria based on reliable data. However, the company seems to be reluctant to execute the project despite having no adverse financial implications.*

4.11.7. *It is further observed that the Council of Common Interest (CCI) has recently* *decided that "the expenditure involved in provision of gas to localities within 5-Km radius, of gas producing fields would be borne by distribution companies". The company is therefore, advised to revisit the project cost/criteria in terms of applying realistic and factual data for implementation in the current fiscal year in a phased manner and submit implementation report in line with the earlier decision of the Authority taken in DERR FY 2017-18.*

4.12. **Green Offices Initiative**

4.12.1. The petitioner has requested to grant approval of Green Office Initiative in RERR FY 17-18. The petitioner has argued that an amount of Rs. 161.0 million for green office initiative for its Lahore and Islamabad Offices. The Petitioner has further explained that it intends to start "GREEN OFFICE INITIATIVE "which will focus on utilizing the solar energy for electricity production resulting in considerable saving and reduction of load on grid. Reduction in emission of carbon dioxide and green house will be a significant impact of this initiative.

4.12.2. In this regard, Lahore and Islamabad regional offices are selected for installation of 500 KW Solar Panel System. SNGPL at the moment is getting electricity from Grid (LESCO & IESCO) and using diesel generator during load shedding. SNGPL is spending annually about Rs. 16 million at Lahore Office and 7.6 million at Islamabad Office on electricity. With installation of 500 KW on grid solar system at Lahore and Islamabad Offices, each system will generate 810,800 units of electricity annually amounting to Rs. 10.5 million, roof and parking sheds will be utilized for installation of solar panels.

4.12.3. The Petitioner has informed that Board of Directors (BOD) in its 489th meeting held on 26.05.2017 has approved Establishment of Green Offices at Lahore and Islamabad regional offices with the budgetary approval of Rs.161 million.

Decision of the Authority

4.12.4. *The Authority considered that view point of the Petitioner and in the light of above justification, the Authority allows 50 % as upfront amount i.e. Rs. 82 million due to less time in the current financial year and as per the Company's*

statement in the presentation on 21-12-2017 it will take one and a half years to complete the whole project. The amount allowed by the Authority shall be subject to actualization at the time of FRR.

4.13. **Laying Under Cost Recovery Basis**

4.13.1. The petitioner has requested to include the project of laying under cost recovery basis in RERR FY 17-18 and has informed that BOD in its 498th meeting held on 11-11-2017 has accorded approval for allowing additional budget of Rs. 1200 million in addition to already approved budget of Rs. 299 million under the head "Laying under 100% cost Recovery" for FY 2017-18 enabling the company to undertake the work under this head.

Decision of the Authority

4.13.2. *Keeping in view, the justification tendered by the petitioner, the Authority allows an amount of Rs. 1200 million for laying of pipelines on 100% cost recovery basis. However, the amount will not be included in the rate base of the petitioner.*

4.14. **New Gas Connections**

4.14.1. The petitioner has requested to review the projected allocation of new gas connections on the basis of population and has argued as under.

4.14.2. The petitioner through its Review Petition against decision of the Authority with respect to DERR 2017-18 has informed that, the Board of Directors (BOD), in its 493rd meeting held on 14.07.2017, considered the Agenda and accorded approval for submission of the review petition to OGRA for an additional requirement of Rs. 9,683 million for an additional 700,000 domestic connections under the head "New Gas Connections" for FY 2017-18.

4.14.3. The petitioner further submitted that presently most of the regions are processing new connection applications pertaining to 2013 and 2014 and that there are almost 2.2 million applications pending for new connections. In order to reduce pendency of new connections and long waiting period, it is proposed to enhance targets of new domestic connection to 1,000,000 (including already approved 300,000 Nos. of new domestic connections)

4.14.4. Subsequently the petitioner, vide its letter RA-TAR-17-18(P) 073 dated 21-02-2018, submitted that its Board of Directors (BOD), in its 493rd meeting held on 14.07.2017, considered the Agenda and accorded approval for submission of the review petition to OGRA for an additional requirement of Rs. 9,683 million for an additional 700,000 domestic connections under the head "New Gas Connections" for FY 2017-18, subject to the condition that gas connections over and above the number of gas connections allowed by Board in FY 2016-17 shall be installed in case OGRA recognizes and allows change in bulk to retail ratio as part of UFG bench mark.

4.14.5. The Authority is requested to enhance targets of new domestic connections from 300,000 to 1,000,000 (including 90,909 urgent fee gas connections) and allow additional amount of Rs. 9,683 million for the same. Furthermore, OGRA has allocated region-wise number of gas connections on the basis of population. In this context, it is informed that historically in SNGPL's system, gas connections have been allocated on the basis of pendency of application in a particular region.

Decision of the Authority

4.14.6. *The Authority allowed the petitioner an amount of Rs. 4,222 million for 301,125 new connections including 25 industrial, 1,100 commercial and 300,000 domestic connections in DERR FY 2017-18.*

4.14.7. *The Authority notes that the petitioner initially requested the Authority to enhance the new gas connections on the plea to reduce the huge pendency and long waiting periods with respect to provision of new gas connections in most of the Regions. However, subsequently the petitioner has completely changed its stance and linked the enhancement of new gas connections with the allowance/recognition of change in bulk to retail ratio as part of UFG benchmark instead of the huge pendency. This shift of stance is undesirable and appears to be an effort to divert the matter in a wrong direction.*

4.14.8. *The Authority observes that UFG benchmark has already been finalized and implemented based on findings of a thorough study. In the light of the same allowance on account of UFG has been settled now. Therefore, the condition/ caveat imposed by the SNGPL Board is uncalled for. Even otherwise, the company should improve its workmanship alongwith other performance and technical parameters to ensure that the future expansion of system is less prone to leakages, measurement errors, theft, etc that could effect the bulk to retail ratio. The Authority observes that company should be responsible to take prudent decisions while carrying out the regulated activities without any compromise on efficiency parameters.*

4.14.9. *In view of above, SNGPL may install additional connections over and above the three lakh connections already allowed in DERR 2017-18 in a fair, equitable and non-discriminatory manner keeping in view its capacity to undertake and complete the said jobs as well as availability of gas. Further only fully commissioned assets shall form part of the rate base. The petitioner is also directed to strictly comply with the decision of the Supreme Court of Pakistan dated 1st March, 2018, in Human Rights Case No. 6465-G of 2017, relating to provision of new gas connection on turn-merit basis.*

4.14.10. *The Authority reiterates here that additional connections must be provided uniformly across its area of operation based on a transparent set criteria for all regions. Actual expenditure in this respect shall be assessed accordingly for allowance at the time of FRR.*

4.15. **New Gas Schemes under GOP Directives**

4.15.1. The petitioner has requested to approve new gas schemes under GOP directives and has submitted that the BOD in its 498th and 502nd meetings held on 11-11-2017 and 02-02-2018 respectively accorded approval for additional budget of Rs. 8 billion and 7 billion for FY 2017-18 for the Schemes approved under GOP directives subject to completion of all codal, procedural, legal and financial pre-requisites.

Decision of the Authority

4.15.2. *On the basis of the request of the Petitioner filed under Section 13 of OGRA Ordinance, 2002 on 13 and 27-11-2017, the Authority has already acceded to the request of the Petitioner by allowing, in-principle, an amount of Rs. 8 billion on account of additional budget required for FY 2017-18 against the schemes approved under Government of Pakistan Directives in pursuance of Rule 5(7) of the NGTR, 2002 vide letter No. 6(2)1(2)/2017- Review dated 11-12-2017 subject to actualization in respective FRR.*

4.15.3. *The Authority also considered the request of the petitioner and approval of its board in respect of additional budget of Rs. 7 billion against the schemes approved under Government of Pakistan Directives during the FY 2017-18. The Authority accords approval, in principle, subject to actualization in the respective FRR. It will also be subject to capitalization at the time of respective FRR and will not be included in the rate base of the Company, until and unless these assets are fully commissioned. Any loan will not be treated as a grant for the cost/consumer criteria. The Petitioner shall also see the gas availability for the new schemes.*

4.15.4. *The petitioner, however, shall also ensure compliance with the decision of the Apex Court in CP-20 and the decision of Apex Court in Civil Appeals No. 1428 to 1436 of 2016 dated August 18, 2016 and subsequent relaxation by the GOP in different cases. Furthermore, the Petitioner's BOD should be apprised of the fact that there will be a huge increase in the capital work in progress and if the Petitioner is unable to expeditiously capitalize the above projects, consequentially, the current ratio of the petitioner shall also be adversely affected along with the fact that the working capital of the company will be tied up.*

4.16. Infrastructure Development Works for supply of 200 MMCFD RLNG to Punjab Power Plant (PTPL) Near Trimmu Barrage, District Jhang.

4.16.1. The petitioner has informed that Government of Pakistan (GOP) has allocated 200MMCFD LNG to a power plant to be installed near Trimmu Barrage, District

Jhang. This power Plant under the name Punjab Power Plant is being set up by Government of the Punjab through its Company, Punjab Thermal Power (Pvt.) Limited (PTPL).

4.16.2. Punjab Thermal Power (Pvt.) Limited (PTPL) has desired SNGPL to undertake all gas infrastructure development works required to supply 200 MMCFD RLNG to M/S PTPL's Punjab Power Plant on 100% cost sharing basis.

4.16.3. Accordingly, after conducting necessary surveys of pipeline route SNGPL has prepared a budgeted estimate of Rs. 3,981 million. All the recovered cost of the project from PTPL shall be subject to adjustments at actual at completion of the project without any profit margin for SNGPL. Being 100% cost recovery project, the related capitalization will not be entitled to rate of return as per existing tariff regime.

4.16.4. Cost of metering component gadgets to be installed in the metering station of the power plant is not included in the estimates submitted to PTPL and shall be borne by SNGPL which is in line with earlier Power Plant GSAs and Company's policy in vogue. Metering arrangement which includes but not limited to orifice meters, flow computers, gas chromatographs etc. shall be arranged by the Company at its own cost. Estimated cost of these arrangements is around Rs. 55 million which will be entitled for rate of return to SNGPL.

Decision of the Authority

4.16.5. *The Authority has already accorded approval for the said project under Rule 20 (XVIII) of NGRA Licensing Rules (2002) vide letter No. OGRA-9(457)/2017 dated 30-11-2017 as below.*

a) 24" dia. x 93 Km pipeline infrastructure development works at a cost of Rs. 3,981 million required to supply gas to M/s PTPL's Punjab Power Plant on 100% cost sharing basis for which the Company will not be entitled to claim any rate of return on this amount.

b) Installation of metering gadgets for the said Power Plant at a total estimated cost of Rs. 55 million from the Company's own resources and will be the part of Revenue Requirement.

4.17. Complaint Centres at Bhakkar and Duniyapur in Multan Region

4.17.1. The Company has proposed Complaint Centers at Bhakkar and Duniyapur in Multan Region at an estimated cost of Rs. 5.366 million for each Complaint Centre. It is further stated that Bhakkar and Duniyapur fulfil the Company's criteria to have up-to 5,000 consumers for establishment of Complaint Centers.

4.17.2. In view of the above, the Authority is requested to grant approval for the establishment of Complaint Centres at Bhakkar and Duniyapur, Multan in FY 2017-18.

Decision of the Authority

4.17.3. ***The petitioner has withdrawn its request with respect to the establishment of new Regions/Sub-regions/CSC/CC from the instant petition vide letter No. RA-TAR-17-18(P)-062 dated 24-11-2017 except the complaint offices in Bhakkar and Duniyapur in Multan Region. The Authority, keeping in view the public interest at large allows the establishment of Complaint Centers in Bhakkar and Duniyapur in Multan Region, in principle, and the expenditure incurred in this connection will be considered by the Authority at the time of FRR of the respective year.***

4.18. Transportation of RLNG

4.18.1. The petitioner has submitted that the earlier working of 'Transportation Charges/ Cost of Service', at the time of DERR, was based on the assumption that RLNG supply into SNGPL system will increase from 600 MMCFD to 1200 MMCFD w.e.f. July 1, 2017. However, due to delay in commissioning of the second terminal, the RLNG supply is likely to increase to 1200 MMCFD from 1st of December, 2017. The petitioner has accordingly revised RLNG sales volume, keeping in view of updated actual figures upto February 2018. Consequently, this has changed per unit 'Transportation Charge' for the said year.

4.18.2. The petitioner has submitted the working of Transportation charges whereby it has factored the volumetric and financial impact of GIC & UFG and has computed the

RLNG transportation cost in its final working at Rs.93.63 per MMBTU for FY 2017-18.

4.18.3. The Authority observes that review under this head has been made on plausible grounds since change in circumstances has primarily led to revision in projected RLNG sales volume in the computation of Transportation charge.

4.18.4. The Authority further notes that in the working of Transportation charges, the petitioner has included "shortfall in revenue requirement for FY 2016-17" amounting to Rs. 4,035 million and has pleaded that the same has been included owing to short recovery of RLNG price owing to different reasons. The Authority observes that "Transportation charge" is the cost of transporting/transmitting the RLNG from southern to northern part of the company. Inclusion of adjustments on account of other RLNG components under this head has no logic and rationale. Accordingly, the same is not allowed.

4.18.5. ***In view of above, the transportation charges provisionally determined at Rs. 25,381 million translating into Rs. 80.79 per MMBTU, for the said year.***

4.18.6. ***The Authority observes that above transportation shall be revised in the final revenue requirement for the said year once the actual figure is available.***

4.19. Cost of Gas

4.19.1. The petitioner has submitted that it has received debit notes amounting to Rs. 13,216 million for gas charges for the different fields due to revision of gas prices by OGRA. Hence, the cost of gas shall increase *viz-a-viz* it has been determined vide DERR 2017-18. Accordingly, the petitioner has requested to allow the increased impact of cost of gas.

4.19.2. The Authority notes that due to revision in well-head gas price parameters by the Federal Government of three fields (i) Mamikhel (ii) Maramzai and (iii) Makori east, the cost of gas has increased.

4.19.3. ***The Authority, in view of above, accepts the petitioner's claim owing to revision in well-head gas prices. The Authority however observes that the matter of the adjustment of impact of revision in wellhead gas prices will be considered at the***

time of FRR for the said year on the basis of actual payment.

5. **Conclusion:**

5.5.1. The Authority observes that In view of the foregoing, the motion for review for said year is hereby disposed off. The financial impact of adjustments decided above shall form part of FRR for the said year.

(Dr. Abdullah Malik)

Member (Oil)

(Noorul Haque)

Member (Finance)

(Uzma Adil Khan)

Chairperson

Islamabad, March 12, 2018.

6. List of Abbreviations

BOD	Board Of Directors
CCI	Council of Common Interest
DFRR	Decision Of Final Revenue Requirement
ECC	Economic Coordination Committee
ERR	Estimated Revenue Requirement
FG	Federal Government
FIR	First Information Report
FRR	Final Revenue Requirement
GIDC	Gas Infrastructure Development Cess
GOP	Government of Pakistan
GSA	Gas Sales Agreement
IAS-19	International Accounting Standard-19
IESCO	Islamabad Electric Supply Company
IUPA	Inward Uniform Price Adjustment
KMI	Key Monitoring Indicators
KPK	Khyber Pakhtunkhwa
LESCO	Lahore Electric Supply Company
LNG	Liquefied Natural Gas
NGT Rules	Natural Gas Tariff Rules, 2002
NGTR	Natural Gas Tariff Rules
OGRA	Oil and Gas Regulatory Authority
Ordinance	OGRA Ordinance, 2002
PTPL	Punjab Thermal Power(Pvt.) Limited
RLNG	Re-Gasified Liquefied Natural Gas
SNGPL	Sui Northern Gas Pipelines Limited
SSGC	Sui Southern Gas Company
UFG	Unaccounted For Gas
WPPF	Worker Profit Participation Fund

7. **List of Documents Referred in the Order**

1. Review Petition of SNGPL against Decision of the Authority DERR FY 2017-18
2. OGRA Ordinance, 2002
3. Natural Gas Tariff Rules (NGTR) 2002
4. UFG Study Report
5. Decisions of the Authority from FY 2010-11 to FY 2016-17
6. Decision of Council of Common Interest (CCI) dated 15-12-2017
7. Decision of Supreme Court of Pakistan case No. 6465-G of 2017 dated 3-3-2018
8. Decisions of Supreme Court in CP-20, Civil Appeals 1428 to 1436 of 2016
9. 493rd, 498th and 502nd meeting of Board of Directors SNGPL