Case No. OGRA-6(2)-2(2)/2017-Review

IN THE MATTER OF

**SUI SOUTHERN GAS COMPANY LIMITED
MOTION FOR REVIEW FOR DETERMINATION OF
ESTIMATED REVENUE
REQUIREMENT, FY 2017-18**

UNDER

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

DECISION

ON

APRIL 24, 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 Southern Gas Company Limited (the petitioner) is a public limited company, incorporated in Pakistan, and is listed on Pakistan Stock Exchanges Limited. The petitioner is operating in the provinces of Sindh and Balochistan under the license granted by Oil & Gas Regulatory Authority. It is engaged in construction and operation of gas transmission and distribution pipelines, sale of Natural Gas, Liquefied Petroleum Gas (LPG) Air-Mix, LPG, Gas Condensate, Natural Gas Liquids (NGL) and manufacture and sale of gas meters. The petitioner is also engaged in the business of Re-Gasified Liquefied Natural Gas (RLNG) in accordance with the decision of the Federal Government (FG/GoP).

1.2. The petitioner had filed a petition on March 6, 2017 under Section 8(1) of the Oil and Gas Regulatory Authority Ordinance, 2002 (the Ordinance) and Rule 4(3) of the Natural Gas Tariff Rules, 2002 (NGT Rules), for determination of its Estimated Revenue Requirement (ERR) for FY 2017-18 (the said year). The Authority, vide its decision September 20, 2017 determined a shortfall of Rs. 35,454 million (the amounts have been rounded off to the nearest million here and elsewhere in this document) and allowed an increase of Rs. 96.34 per MMBTU in the average prescribed price w.e.f July 01, 2017.

1.3. Being aggrieved by this determination, the petitioner has submitted a motion for review on October 19, 2017 under Rule 16 of the NGT Rules seeking average increase in prescribed price of Rs. 6.38 per MMBTU over and above the current average prescribed price w.e.f July 01, 2017. The petitioner has submitted its amended motion for review on November 28, 2017 seeking average increase in prescribed price of Rs. 26.19 per MMBTU over and above the current average prescribed price w.e.f July 01, 2017.

1.4. The petitioner has again submitted its amended motion for review (the petition) on January 09, 2018, requesting to consider the amended petition and approve a revised shortfall of Rs. 9,794 million, seeking average increase in prescribed price of Rs. 26.62 per MMBTU over and above the current average prescribed price w.e.f July 01, 2017.

1.5. The petitioner has submitted the following comparative statement of cost of service:

Table 1 : Comparison of Cost of Service for FY 2017-18 as per the petition

		Rs. / MMBTU
Particulars	**FY 2017-18**	
	DERR	**The Petition**
Units sold (BBTU)	**368,017**	**368,017**
Cost of gas sold	382.66	382.91
UFG adjustment	(26.42)	(6.77)
Transmission and distribution cost including Others	45.87	57.18
Depreciation	18.53	19.08
Return on net average operating fixed assets	31.13	32.05
Other operating income	(48.45)	(56.04)
Subsidy for LPG Air-Mix Project	1.42	2.96
Cost of service / prescribed price	404.75	431.36
Current average prescribed price	404.75	404.75
Increase requested in average prescribed price	**0.00**	**26.62**

1.6. The Authority issued a notice of pre-admission hearing on March 06, 2018 to the petitioner and the Federal Government (FG/GoP).

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, which ought to be read together to reach correct interpretation of legal framework. 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 pre-admission hearing was held on March 06, 2018 at OGRA office, Islamabad. The petitioner's team was led by Syed Fasih-ud-Din Fawad, Acting Chief Financial Officer. 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.

3.2. The petitioner has sought review of the Authority's decision on the following items:-

UFG Study Report

(i) Retrospective application of proposed benchmark

Transmission and Distribution Cost

(i) Provision for doubtful debts
(ii) Professional Charges
(iii) Other Charges
(iv) Repair & Maintenance

Assets

(i) Gas Distribution System
(ii) Building & Civil Works
(iii) Plant and Machinery
(iv) Tools and Equipments
(v) Vehicles
(vi) Computer Software
(vii) Computer & allied equipments
(viii) Office equipments/furniture/security equipment
(ix) Compressors
(x) LPG Air Mix Projects

4. DISCUSSION & DECISION

4.1. Unaccounted for Gas (UFG) Study Report

i. Retrospective application of proposed 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 Ordinance and NGT 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.

a. **UFG Computation Formula**

4.1.4. 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]

b. **Technical Component**

4.1.5. Technical Component has been proposed as 5%.

c. **Local Conditions Factor**

4.1.6. 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. The Consultants have endorsed the argument of Gas Companies that certain operating conditions in Pakistan lead to gas losses beyond the control of the Gas Utility Companies.

d. **Performance Factor**

4.1.7. Lastly, the formula has recommended introduction of a Performance Factor by proposing certain KMIs 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%.

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

4.1.8. In its determinations on the Estimated Revenue Requirements of the petitioner for the said year, the Authority has worked out the UFG Benchmark applicable to the company 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%.

f. **Treatment to Past Years**

4.1.9. The UFG Benchmark Study was required to also finalize the benchmarks set by the Authority for the petitioner 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 02.12.2010 on the RERR for FY 2010-11
ii. Decision dated 24.05.2011 on the ERR for FY 2011-12
iii. Decision dated 18.05.2012 on the ERR for FY 2012-13
iv. Decision dated 01.06.2013 on the ERR for FY 2013-14
v. Decision dated 21.12.2016 on the MFR FRR for FY 2013-14
vi. Decision dated 03.07.2014 on the ERR for FY 2014-15
vii. Decision dated 06.10.2016 on the ERR for FY 2016-17

g. **Prayer by the Petitioner**

4.1.10. 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 ERRs for the gas utility companies, has recommended two types of allowances for the gas utility companies. It is therefore the submission of the petitioner 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.

4.1.11. 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 %.

h. **Decision of the Authority**

4.1.12. *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.*

4.1.13. *It is mentioned that the Authority, based on above mentioned UFG Study Report, had determined following formula, in DERR dated 20-09-2017, for calculation of UFG:*

UFG Allowance = Gas Received × (a × Rate1 + Rate2 × β)

- *In the above said formula, there is a multiplying factor i.e. alpha (a) of Rate1 which will remain at 1.0 for next five years and the same will be reviewed after 05-year period. Quantification of sub-heads* *of UFG components for Rate1 will be monitored throughout 5 years.*

- *Rate1 = Technical Component (Inherent gas loss in the system)*
- *Rate2 = Local Challenging conditions component (Pakistan specific)*
- *β = Performance factor (Key Monitoring Indicators)*

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 (β) 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.

4.1.14. *The Authority worked out the UFG Benchmark applicable to SSGCL 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.*

4.1.15. *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 FRRs 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, FRRs of these two years also do not co-relate to UFG Study. Hence SSGCL's contention is totally against the facts.*

4.1.16. *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 FG. 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.*

4.1.17. *The Authority notes that from FY 2012-13 onwards it had provisionally allowed certain 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 of UFG Benchmark of 4.5% was ever conceived in the respective FRRs. 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 over and above the fixed bench*

mark of 4.5%. Accordingly, the Authority has concluded and finalized the FRRs from FY 2012-13 to FY 2016-17.

4.1.18. ***The Authority further observes that there is no new evidence for review, hence, it maintains its earlier stance in the matter.***

4.2. Transmission & Distribution Cost

i. Professional Charges

4.2.1. The petitioner has claimed Rs. 15 million on account of consultancy charges for establishment of risk management framework for the said year. The petitioner has argued that the Authority, at the time of DERR for the said year, has disallowed projection on this account based on plea that it could not materialize the said project in FY 2016-17.

4.2.2. The petitioner has submitted that HR committee of Board of Directors has recommended establishing Risk Management Department in the light of Public Sector Companies (Corporate Governance) Rules, 2013, amended in 2017. Accordingly, the petitioner is in process of engaging suitable resources for the department. The petitioner has further argued that in order to formalize the risk management framework and training of risk management staff, it is considering engaging an external consultant.

4.2.3. The Authority appreciates the petitioner's initiative for establishment of risk management department from its existing workforce. However, the appointment of consultant at such a huge cost of Rs. 15 million for establishing management framework and staff training is not logical, in view of the fact that the department has already started working with its in-house expertise. However, in case the petitioner desires to engage external consultant, it has to bear in its mind that the consultant has expert knowledge of local operating conditions, in order to add value to this exercise. Furthermore, Public Procurement Rules, 2004 have to be followed in letter and spirit. ***The Authority, therefore, pends the above said claims to be decided at the time of FRR for the said year, after ensuring the above two conditions have been met.***

ii. Provision for Doubtful debts

4.2.4. The petitioner has submitted that at the time of DERR for the said year, it had requested to allow Rs. 1,833 million based on disconnected consumers. The Authority, however, inadvertently allowed the same at Rs. 626 million on provisional basis. The petitioner has now requested to allow Rs. 1,428 million based on Authority's benchmark in place for disconnected consumers only.

4.2.5. The Authority agrees to the stance of the petitioner. ***The Authority, however, decides to allow any financial adjustment on this account at the time of FRR based on actual numbers in the light of its benchmark in place.***

iii. Other Charges

4.2.6. The petitioner has claimed an amount of Rs. 157 million relating to FY 2015-16 and FY 2016-17 under the head of "other charges" on account of Sports and CSR related activities. The breakup of same is as under:

Table 2: Breakup of Sports Expenses and CSR Related Activities.

Rs. In Million

Description	FY 2015-16	FY 2016-17	Total
Sports Expenses	59	63	122
Health	7	6	13
Environment	4	3	7
Noble Cause & Community Development	1	5	7
Treatment of Hazy Cornea	8	-	8
			157

4.2.7. The petitioner has submitted that it has been spending in different areas of CSR including health, environment, noble cause for the development of community with more emphasis to less privileged areas.

4.2.8. The petitioner has further argued that sports are the most neglected area in the country, which needs continuous support of the corporate sector. The petitioner has further informed that three members of its cricket team were part of National team in the final of ICC champions trophy 2017, won by Pakistan in England. In addition, its cycling, football and hockey teams are also doing considerably well at national level.

4.2.9. The Authority observes that CSR activities are carried out by corporate sector under Code of Corporate Governance issued by Securities and

Exchange Commission of Pakistan (SECP). SECP necessitates formulation of CSR policies by their respective Board of Directors and issues guidelines from time to time.

4.2.10. The Authority has been consistently of the view that CSR contributions, though laudable, should be made by the petitioner out of its own profits. Inclusion of the CSR contributions, however, as part of gas price tariff defies the very logic of such social projects which are undertaken for community development by the petitioner, being its corporate social responsibility.

4.2.11. Regarding sports charges, the Authority notes that the petitioner has not contested this expense in its petitions for motion for review of FRR of FY 2016-17 and FY 2015-16. On the contrary, in the instant petition for the said year, surprisingly no projections in respect of Sports charges have been claimed.

4.2.12. ***Notwithstanding the above, the Authority, in principle, decides to allow sports charges. The financial impact of which shall be allowed at the time of FRR based on the actual expenditure for the said year subject to the reasonability and justification.***

iv. Repair &Maintenance

4.2.13. The petitioner has stated that the Authority disallowed an amount of Rs. 540 million in DERR under the head of "Repair & Maintenance" keeping in view the operational requirement and capitalization trend.

4.2.14. The petitioner has submitted that the Authority provisionally allowed an amount of Rs. 1,510 million for the said year, that is even 4% less than the amount actually incurred in FY 2016-17. The petitioner has argued that in FY 2016-17, an increase of 14% over FY 2015-16 was reported. However, the Authority in DERR for the said year had allowed only an increase of 5% over the allowed amount in FY 2015-16. The petitioner has, therefore, requested the Authority to allow the entire amount of Rs. 2,050 million under the above head.

4.2.15. The Authority agrees to the petitioner's contention and decides to provisionally allow an additional amount of Rs. 217 million (actual of FY 2016-17 i.e. Rs. 1,570 million plus 10% inflation impact) in this head. ***Hence total amount provisionally allowed in this head works out to be Rs. 1,727 million for the said year.***

4.3. Operating Fixed Assets

4.3.1. The petitioner has requested to allow an additional amount of Rs. 10,136 million, detail of which is as under:

Table 3: Addition to the Assets as per the Petition in Comparison with DERR

Rs. In Million

Particulars	FY 2017-18			Inc./Dec. over DERR	
	ERR	DERR	The Petition	Rs.	%
Land	277	277	277	0	0
Buildings	746	479	746	267	56
Roads, pavements and related infrastructure	151	62	62	0	0
Gas Transmission Pipelines	12,200	3,497	3,497	0	0
Plant and Machinery	458	272	458	186	68
Gas Distribution System	7,019	4,582	6,623	2,041	45
Computers and allied equipments	247	120	297	177	148
Office Equipment, Furniture and Security Equipment	136	55	123	68	124
Computer Software	143	35	58	23	66
LPG Air Mix Projects	15	15	6,095	6,080	40,533
Telecommunication Systems	96	96	96	0	0
Appliances, Loose Tools and Equipments	222	37	71	34	92
Vehicles	605	444	605	161	36
Compressors	2,701	356	1,456	1,100	309
Gross Assets	*25,014*	*10,327*	*20,463*	*10,136*	*98*

i. Buildings & Civil Works (excluding RLNG); Plant & Machinery; and Computers & Allied Equipments

4.3.2. The petitioner has claimed an additional amount of Rs. 630 million against the heads of Buildings & Civil Works; Plant & Machinery; and Computers & allied equipments.

4.3.3. The petitioner has stated that the Authority in the DERR for the said year neither provided any reasonable justification for disallowance against these heads nor made any comments with respect to any specific category or asset which in the opinion of the Authority was imprudent or lacked justification.

4.3.4. The Authority notes that its provisional determination against these heads was based on historical trend analysis. The petitioner's projections have historically remained on higher side vis-a-vis actual capitalization against these heads. Moreover, the petitioner has not provided any justification against the Authority's observation derived from historical trend analysis.

4.3.5. Since the petitioner has neither provided any new evidence/ justification nor has responded to the observations noted by the Authority in DERR in this regard, therefore, ***the Authority maintains its earlier decision on the matter.***

ii. Office Equipment, Furniture and Security Equipment

4.3.6. The petitioner has claimed an additional amount of Rs. 68 million under this head. The petitioner has stated that actual capitalization in FY 2016-17 under this head was Rs. 123 million which is much higher than the provisionally allowed amount of Rs. 55 million in this head. The petitioner has requested the Authority to allow an amount of Rs. 123 million on the basis of capitalization during last financial year under this head.

4.3.7. ***The Authority, in view of the justification furnished by the petitioner allows an additional amount of Rs. 68 million under this head.***

iii. Gas Distribution System:

4.3.8. The petitioner has claimed an additional amount of Rs. 2,041 million in the head of New Towns and Villages – Gas Distribution System. The petitioner has stated that the additional gas development schemes in new towns and villages amounting Rs. 2,041 million, envisaged under its development/gasification programme, were under the process of documentation & engineering survey at the time of ERR submission. The petitioner has requested the Authority to approve additional amount of Rs. 2,041 million under this head.

4.3.9. As per the petitioner, the Gas Development Schemes amounting Rs. 2,041 million, projected for the said year, pertain to Gas Producing Districts (which are exempted from moratorium) and where the schemes do not fall under Gas Producing Districts, the FG has exempted the said schemes from Moratorium.

4.3.10. The Authority notes that the petitioner has projected to lay 641 Km distribution network with estimated cost of Rs. 2,041 million i.e. @ per Km cost of Rs. 3.18 million. Historical trend analysis shows that average per km cost of laying distribution network during the last five years was Rs. 2.71 million/Km. ***The Authority, therefore, allows an amount of Rs. 1,914 million for laying the projected 641 Km distribution network in New Towns and Villages @ per km cost of Rs. 2.98 million (average of last five years plus 10% inflation impact) for the said year.***

iv. Computer Software:

4.3.11. The petitioner has claimed an additional amount of Rs. 23 million under this head. The petitioner has reviewed its requirement under this head and has stated that after rationalizing each item, the estimated requirement works out to be Rs. 58 million instead of Rs. 142 million. The petitioner has provided reasons/justifications for acquiring various software which include Remedy Software, IDM Technology, GRC Technology Licenses, CC& B Upgrade, High Resolution Satellite Data etc. The petitioner has requested the Authority to allow revised/rationalized amount of Rs. 58 million under this head.

4.3.12. ***The Authority, in view of the justification furnished by the petitioner allows an additional amount of Rs. 23 million under this head for the said year.***

v. LPG Air Mix Projects:

4.3.13. The petitioner has claimed an additional amount of Rs. 6,080 million for installation of LPG Air Mix Plants at various locations.

4.3.14. The petitioner has stated that Ministry of Energy has directed it to install 30 LPG Air Mix Plants during said year in its franchise areas. Total estimated cost of these LPG Air Mix Plants is approximately Rs. 14 billion. Economic Coordination Committee (ECC) has approved MoE's summary for installation of 30 LPG Air Mix Plants in Sindh and Baluchistan. As per the petitioner, out of these 30 locations, 27 Nos locations have been surveyed while the survey of remaining is in process.

4.3.15. The petitioner has further added that during the said year, it had initiated 1st phase of installing plants at 10 locations with an estimated capital expenditure of Rs. 5,174 million and these 10 projects are expected to be commissioned and capitalized during the said year. Apart from above, the petitioner is installing LPG Air Mix plants at Awaran and Bella with estimated capital expenditure of Rs. 906 million.

4.3.16. The Authority notes that the petitioner has not yet obtained requisite licenses for the said LPG Air Mix Projects except that of the Awaran and Bela LPG Air Mix Plant for which the Authority has issued the Licenses for Construction of the plants. ***In view of the above, the Authority allows an amount of Rs. 906 million for Awaran and Bela LPG Air Mix Plant at this stage.***

vi. Appliances, Loose Tools and Equipments:

4.3.17. The petitioner has claimed an additional amount of Rs. 34 million under this head. The petitioner has stated that the Authority based on historical trend allowed an amount of Rs. 37 million as against the claim of Rs. 222 million. In this regard, the petitioner has pointed out that actual capitalization under this head in FY 2016-17 was Rs. 71 million, therefore it has requested the Authority to allow an amount of Rs. 71 million i.e. at the level of FY 2016-17.

4.3.18. ***The Authority, based on the justification furnished by the petitioner, allows an additional amount of Rs. 34 million and determines the provisional expenditure against this head at Rs. 71 million for the said year.***

vii. Vehicles:

4.3.19. The petitioner has claimed an additional amount of Rs. 161 million under this head. The petitioner has stated that against its claim of Rs. 605 million, the Authority based on historical trend allowed Rs. 444 million. The petitioner has pointed out that actual capitalization under this head in FY

2016-17 was Rs. 631 million. Therefore, the petitioner has requested the Authority to allow an entire amount of Rs. 605 million under this head, which is less than the actual capitalization of Rs. 631 million in FY 2016-17.

4.3.20. The Authority notes that actual capitalization of Rs. 631 million in FY 2016-17, also includes Rs. 275 million pertaining to RLNG Vehicles. However, expenditure under the head of "vehicle" relating to natural gas in FY 2016-17 was actually Rs. 356 million, therefore, the petitioner's stance is incorrect. ***In view of the same, the Authority maintains its earlier stance on the matter.***

viii. Compressors:

4.3.21. The petitioner has claimed an additional amount of Rs. 1,100 million under this head. The petitioner has stated that the Authority in its DERR for the said year disallowed Rs. 1,100 million for HQ-Sibi Compressor since the petitioner had yet to decide whether to revamp or install new compressor. Based on technical and financial studies, the petitioner is of the view that the option for revamping the existing compressors would be dropped and installation of 01 new compressor unit of 200 MMSCFD flow capacity would be executed. Since the increasing gas demands, peak gas consumption trends of Quetta city and en-routed areas, Balochistan High Court's Order to make the required gas volumes available for the city as well as the contractual obligations with Habibullah Coastal Power Plant make it imperative to enhance the capacity of its pipeline. Therefore, the petitioner has requested the Authority to allow Rs. 1,100 million pertaining to installation of 01 New Compressor at HQ-Sibi of 200 MMSCFD Flow Capacity in addition to already allowed amount of Rs. 356 million.

4.3.22. ***The Authority, based on the justification furnished by the petitioner, allows an additional amount of Rs. 1,100 million under this head.***

Table 4: Addition to the Assets Determined by the Authority

Rs. In Million

Asset Description	The Petition	Variance/ Additional Claim	Addition in Capitalization Allowed by the Authority
Land	277	-	-
Building	746	267	-
Roads, Pavements and related infrastructure	62	-	-
Gas Transmission Pipelines	3,497	-	-
Plant and Machinery	458	186	-
Gas Distribution System	6,623	2,041	1,914
Computers and allied equipments	297	177	-
Office Equipment, Furniture and Security Equipment	123	68	68
Computer Software	58	23	23
LPG Air Mix Projects	6,095	6,080	906
Telecommunication Systems	96	-	-
Appliances, Loose Tools and Equipments	71	34	34
Vehicles	605	161	-
Compressors	1,456	1,100	1,100
Total	**20,463**	**10,136**	**4,045**

4.4. *In view of the foregoing, the petition is hereby disposed of. However, financial impact adjustments as decided in preceding paras shall be allowed at the time of FRR based on the actual expenditures/capitalization for the said year.*

Dr. Abdullah Malik,
Member (Oil)

Noorul Haque,
Member (Finance)

Uzma Adil Khan,
(Chairperson)

Islamabad, April 24, 2018

REGISTRAR
Oil & Gas Regulatory Authority
Islamabad

A: List of Abbreviations

Annexure-A

BBTU	Billion British Thermal Unit
BCFD	Billion Cubic Feet Daily
CSR	Corporate Social Responsibility
DERR	Determination of Estimated Revenue Requirement
ECC	Economic Coordination Committee
FG	Federal Government
FRR	Final Revenue Requirement
ICC	International Cricket Council
KPMG	Klynveld Peat MarwicK Goerdeler
KMI	Key Monitoring Indicator
GIC	Gas Internally Consumed
GOP	Government of Pakistan
LPG	Liquified Petroleum Gas
LNG	Liquified Natural Gas
MoE	Ministry of Energy
MMBTU	Million Metric British Thermal Unit
MMCFD	Million Standard Cubic Feet per Day.
NGL	Natural Gas Liquids
NGT	Natural Gas Tariff Rules
OGRA	Oil and Gas Regulatory Authority
RLNG	Re-Gasified Liquefied Natural Gas
SNGPL	Sui Northern Gas Pipeline Limited
SSGCL	Sui Southern Gas Company Limited
SECP	Security and Exchange Commission of Pakistan
T&D Cost	Transmission and Distribution Cost
UFG	Un-accounted for Gas

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B: List of Documents Referred in the Order **Annexure-B**

1. Review Petition of SSGCL against Decision of the Authority DERR FY 2017-18
2. OGRA Ordinance, 2002
3. Natural Gas Tariff Rules 2002
4. UFG Study Report
5. Decision dated 02.12.2010 on ERR for FY 2010-11
6. Decision dated 24.05.2011 on RERR for FY 2011-12
7. Decision dated 18.05.2012 on ERR for FY 2012-13
8. Decision dated 01.06.2013 on ERR for FY 2013-14
9. Decision dated 21.12.2016 on MFR for FRR FY 2013-14
10. Decision dated 03.07.2014 on ERR for FY 2014-15
11. Decision dated 06.10.2016 on ERR for FY 2016-17
12. Public Sector Companies (Corporate Governance) Rules, 2013, amended in 2017
13. License granted to SSGCL for transmission, distribution and sale of Natural Gas
14. Decision of Economic Coordination Committee on LPG Air Mix Plants conveyed by MP&NR vide letter dated 11.11.2016.

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