



(آئل اینڈ گیس ریگولیٹری اتھارٹی) OIL & GAS REGULATORY AUTHORITY  
"SAY NO TO CORRUPTION"

OGRA-6(2)-1(2)/2016-Review  
OGRA-6(2)-1(APTMA)/2016-Review

IN THE MATTER OF

SUI NORTHERN GAS PIPELINES LIMITED (SNGPL)

MOTION FOR REVIEW AGAINST AUTHORITY'S DETERMINATION OF  
ESTIMATED REVENUE REQUIREMENT FOR  
FY 2016-17

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

DECISION


December 21, 2016

Before:-

Ms. Uzma Adil Khan, Chairperson  
Mr. Aamir Nasim, Member (Gas)  
Mr. Noorul Haque, Member (Finance)

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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 2016-17 (the said year) vide order dated October 6, 2016 at Rs. 225,661 million and shortfall at Rs. 24,245 million translating into an increase of Rs. 57.89 per MMBTU in the average prescribed price.
- 1.3. Being aggrieved by this determination, SNGPL and All Pakistan Textiles Mills Association, Khyber Pakhtunkhwa Region (APTMA), filed two separate motions for review on November 1, 2016 and October 31, 2016, respectively under Section 13 of OGRA Ordinance, 2002 read with Rule 16 of Natural Gas Tariff Rules, 2002. SNGPL has challenged various capital and revenue cost components as under;

### a) Capital Expenditures

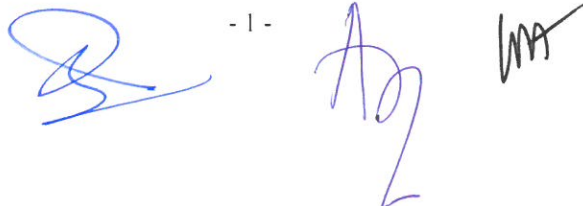
#### 1. Distribution Development

- 1.1. Laying of Distribution Mains- New schemes
- 1.2. Laying of Distribution Mains- anticipated approval from GOP
- 1.3. Combing, Augmentation, Head Office Reserves
- 1.4. System Rehabilitation & UFG Control Activities

#### 2. Measuring and Regulating Assets

- 2.1. Construction of SMSs
- 2.2. Measuring & Regulating Regular Assets

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**3. Plant, Machinery & Equipment and other Assets**

- 3.1. Plant and Machinery
- 3.2. Tools and Equipment
- 3.3. Construction Equipment
- 3.4. Motor Vehicles
- 3.5. Office Equipment
- 3.6. Computer Hardware and I.T

**4. Civil Consturction**

**5. Illegal Network in Oil and Gas Producing Areas**

**6. Creation of New Regions**

**7. Number of consumers**

**b) Operating Revenues & Expenses**

**8. Late Payment Surcharge and Interest on Arrears**

**9. Transportation of RLNG**

**10. Transmission and Distribution Cost**

- 10.1. Human Resource (HR) Cost
- 10.2. Stores and Spares Consumed
- 10.3. Repair & Maintenance
- 10.4. Stationery, Telegram and Postage
- 10.5. Rent, Rate, Electricity and Telephone
- 10.6. Traveling Expenses
- 10.7. Transport Expenses
- 10.8. Insurance
- 10.9. Legal and Professional Charges
- 10.10. Provision for Doubtful Debts
- 10.11. Gas Bills Collection Charges
- 10.12. Gathering charges of gas bills collection data
- 10.13. Advertisement
- 10.14. Bank Charges
- 10.15. Uniform & Protective clothing's
- 10.16. Staff Training and Recruiting Expenses
- 10.17. Security Expenses
- 10.18. SNG Training Institute Expenses
- 10.19. Contribution of ISGSL Expenses
- 10.20. Outsourcing of call centers for complaint management
- 10.21. Other Expenses
- 10.22. New Regions (Operating & HR cost)

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1.4. APTMA has contended in respect of following components;

1. Return to the petitioner
2. Operating Fixed Assets
3. Gas sale volume and cost of gas sold
4. Revenue Shortfall pertaining to FY 2015-16
5. Cross subsidy in the provisional prescribed prices
6. Direction issued by OGRA and the issues framed by interveners

1.5. SNGPL & APTMA shall collectively be referred as "Petitioners" in this determination where required.

## 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 petitioners 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 November 30, 2016 to the petitioners and FG. Accordingly, pre-admission hearings were held on December 8, 2016 at OGRA office, Islamabad, where the petitioners were given full opportunity to present their motions for review. The petitioners made submissions with the help of multi-media presentations and contended the merits of the case in detail as well.
- 3.2. SNGPL team was led by Deputy Managing Director (Services), Mr. Amer Tufail, while APTMA was represented by Syed Akhlaq Ahmad.
- 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. Discussion & Decision in respect of submissions by SNGPL.

#### 4.1. Late Payment Surcharge and Interest on Arears (LPS)

- 4.1.1. SNGPL submitted that the Authority, under the law, has the jurisdiction to determine revenue requirement of a licensee only with reference to "regulated activities" as enunciated under Section 8 (1) and 8 (2) of the Ordinance, which in the instant case are distribution and transmission of natural gas.
- 4.1.2. SNGPL further submitted that surcharge and interest is being charged by the Company from its consumers for not paying their bills on the due date. The company charges this expense to compensate for the interest it has to pay to the wellhead gas suppliers, on account of payments delayed by it due to late receipt of money from its consumers. Further, SNGPL has referred the definition of Net Operating Income in view of Black's law dictionary claiming interest as financial revenues and not an operating income.
- 4.1.3. In view of the above, SNGPL has requested that surcharge and interest on late payment be categorized as non-operating income, especially in case of WAPDA



and IPPs, which the Authority has been categorizing as non-operating income and was a settled issue since its decision in FY 2001-02. Alternatively SNGPL has requested that finance cost in respect of GDS payable, working capital and interest on short term borrowings be allowed as per OGRA decisions dated October 26, 2016.

- 4.1.4. The Authority observes that petitioner has since long been pleading that delayed /non-payment by the consumers results in the delay to the payment of gas producers and also requires to borrow additional funds for bridge financing to offset shortfall in cash flows. The expenses on this account however are not allowed in the revenue requirement. The petitioner has been contending that if the expense on this account is not part of tariff regime, equitably the income from the same source cannot be treated as operating income.
- 4.1.5. The Authority observes that during DERR for the said year and the latest determinations issued in October 2016, this issue has been deliberated at length and an equitable and fair principle has been set at the touchstone of rationality. Now SNGPL appears to budge from its stance presumably, nothing else, but only on pecuniary basis in terms of net gain/loss to its account.
- 4.1.6. The Authority observes that establishing principles is much substantive over the virtual gain or the losses in monetary terms. The Authority has therefore preferred to set a principle in line with petitioner demand which is sustainable and balanced.
- 4.1.7. *In view of above, the Authority finds no reason to review its decision under this head. Accordingly, it maintains its earlier decision for the said year.*

## 4.2. **Transportation of RLNG**

- 4.2.1. SNGPL has submitted that the Authority has included Rs. 12,351 million as part of operating income on account of transportation of RLNG. This amount is based on return on assets, depreciation and GIC as claimed by SNGPL in its petition for ERR. Whereas, in determination, the Authority has allowed additions to RLNG



assets of Rs. 22,172 million against projected amount of Rs. 41,891 million subject to actualization for LNG Phase-II. In case of LNG Phase-I, the Authority has disallowed the projected amount of Rs. 4,386 million. However, the Authority committed to consider the same at the time of FRR keeping in view the actual expense incurred in this regards.

4.2.2. The Authority has considered SNGPL's plea regarding capitalization on different accounts keeping in view latest progress of on-going works. Accordingly, the income under this head has been re-computed at Rs. 9,858 million. However, it is observed that under the ring fenced mechanism, the above adjustment shall not impact natural gas consumers. Accordingly, the same shall be adjusted at the time of FRR for said year, based on the actual capitalization of RLNG assets and other related cost.

### 4.3. Distribution Development

#### 4.3.1 Laying of Distribution Mains- New schemes

4.3.1.1 SNGPL has submitted that the cost of material available in respect of GOP schemes has already been drawn from assignment account in line with the procedure for operation of Assignment Account; therefore, the schemes are to be sanctioned/ completed in this fiscal year. Hence, the Authority has been requested to review the allocation of Rs. 935 million against the requirement of Rs. 2,373 million. SNGPL further requested to allow Rs. 2,996 million (for new schemes).

4.3.1.2 The Authority, in DERR FY 2016-17, allowed Rs. 935 million in respect of new schemes keeping in view the funding arrangements available with SNGPL. However, considering the request of SNGPL and MP&NR's letters issued from time to time regarding relaxation of moratorium imposed by the Government of Pakistan (GoP) on new development schemes, the Authority, approves in principle, new distribution development schemes as projected by SNGPL subject to actualization at the time of FRR for the said year.





#### 4.3.2 Laying of Distribution Mains- Anticipated approval from GOP

4.3.2.1 SNGPL informed that an amount of Rs. 7,000 million was proposed in anticipation on account of new schemes to be approved by GoP keeping in view the past experience regarding approval of a large number of schemes before completion of tenure of the political government and so far seven (07) new schemes costing over Rs 1.0 billion have been approved by GoP in the current fiscal year. Cost estimates for various schemes in a large number of constituencies have been submitted to MP&NR and their approval is in process. In view of the above, SNGPL has requested for review of the Nil determination against Rs. 7,000 million proposed for anticipated schemes.

4.3.2.2 The Authority, in DERR FY 2016-17, disallowed Rs. 7,000 million in respect of above schemes as no details were provided. Keeping in view the relaxation on moratorium issued by FG and the request of SNGPL, the Authority approves in principle, the anticipated development schemes of Rs. 7000 million. The actual expenditure in this regard will be considered at the time of FRR by the Authority.

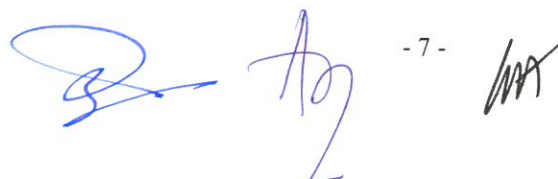
#### 4.3.3 Laying of Distribution Mains at Cost Sharing Basis

4.3.3.1 SNGPL has requested to allow an additional amount of Rs. 244 million for provision of gas to new Benazir Bhutto International Airport, Islamabad on 100 % cost sharing basis.

4.3.3.2 The Authority allows Rs. 244 million as per the request of SNGPL. However, since the lines are being laid on 100 % cost sharing basis, therefore these will not be entitled to rate of return.

#### 4.3.4 Combing Mains, Head Office Reserves

4.3.4.1 SNGPL informed that an amount of Rs. 352 million was requested in ERR for FY 2016-17 against the "Combing Mains" head and Rs. 363 million against the "H/O Reserves for Network Extension Meeting Cost criteria" head respectively. The Authority in DERR for said year approved only Rs. 185 million against "Combing Mains" head, whereas, the approved budget against "Combing Mains" head for FY 2015-16 was Rs. 318 million. Similarly, The Authority has

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approved Rs.190 million against "H/O Reserve for Network Extension Meeting Cost Criteria" head. SNGPL has stated that presently most of the Regions are processing Combing Mains cases with a pendency of around 5 years. Keeping in view the huge pendency of the combing cases and long waiting period, the budget approved by the Authority is insufficient. In order to reduce pendency and waiting period, it has been proposed to increase the budget against "Combing Mains" head to Rs. 352 million as requested by SNGPL in petition for ERR FY 2016-17. Similarly, in order to meet outstanding requirements of network extensions for removal of anomalies and extensions in existing town/villages meeting cost criteria, additional budget against the head "H/O Reserve for Network Extension Meeting Cost Criteria" is required. The existing towns and villages which are on gas still have plenty of pockets without gas which creates anomalies, attracts public grievances and are required to be addressed through above budget head. Keeping in view the above, the Authority has been requested to allow remaining amount of Rs. 167 million for Combing Mains and Rs. 173 million in respect of Head Office Reserves. SNGPL informed that Rs. 1,504 million is required for laying 800 kilometers distribution lines to reduce the pendency for the last 5 years.

#### 4.3.5 System Augmentation

4.3.5.1 SNGPL stated that the Authority allowed only Rs. 265 million against the proposed budget of Rs. 506 million. SNGPL submitted that its distribution network operates at low gas pressures, due to which capacity of distribution system becomes low, therefore, in order to enhance the capacity, it has to undertake system augmentations. Therefore, SNGPL submitted that an amount of Rs. 506 million (including already approved amount of Rs. 265 million) is required to execute the desired activities covered under system augmentations, which are imperative for enhancing the capacity of distribution network. SNGPL submitted that total Rs. 685 million is for System Augmentation including Rs. 179 million for laying of transmission spur line in Sambrial Town Sialkot. SNGPL further submitted that its Board of Directors has already



accorded approval for construction of 8" dia x 11.8 Kms transmission spur line from Daska valve assembly up to Sambrial and SMS having 5 MMCFD capacity at a total cost of Rs. 179 million.

4.3.5.2 SNGPL has requested to allow the amount as stated below in the following heads:-




(Rs. in million)						
S.	Head	Amount submitted in ERR FY 2016-17	Allowed by the Authority in DERR FY 2016-17	Additional Amount requested in Motion for Review on ERR FY 2016-17	Total Amount requested in Motion for Review on ERR FY 2016-17	Allowed in principle by the Authority
1	Combing Mains	352	185	1,504	1,856	1,856
2	Head Office Reserves	363	190	-	363	-
3	System Augmentation including Rs. 179 Million for Sambrial Transmission Line	506	265	179	685	444
Total		1,221	640	1,683	2,904	2,300

4.3.5.3 The Authority, keeping in view the justifications given by SNGPL, considered the request and approves in principal an amount of Rs. 2,300 million in total including Rs. 1,856 million under the head Combing Mains and Rs. 444 million under System Augmentation to rectify low pressure problems in Sialkot area. However, the Authority maintains its earlier decision of ERR FY 2016-17 in respect of Head Office Reserves and other System Augmentation. The expenditure, if any in this regard, may be considered at the time of FRR.

#### 4.3.6 System Rehabilitation and UFG Control Activities

4.3.6.1 SNGPL submitted that System Rehabilitation comprises of activities involving replacement of corroded lines thereby reducing UFG. It has so far processed jobs amounting to Rs. 453 million pertaining to 8 regions. The job numbers pertaining to remaining regions have been prepared and are awaiting approval as requisite budget is not available. The Authority has, therefore, been requested

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to allow the balance budget in this regard so that the pending job numbers may be processed and the targets can be achieved.

4.3.6.2 It is mentioned that keeping in view the prudent expenditure and trend analysis, the Authority allowed in DERR FY 2016-17 Rs. 1,223 million under the head i.e. Rs. 548 million for system rehabilitation and Rs. 675 million for UFG control activities subject to actualization at the time of FRR.

4.3.6.3 The decision of the Authority as taken in DERR 2016-17 is justified and need not to be reviewed. However, any additional prudent expenditure will be considered at the time of FRR.

#### 4.4. Measuring and Regulating Assets

##### 4.4.1 Construction of SMSs

4.4.1.1 SNGPL submitted that it requires SMS's in new developing areas as well as in already existing areas on operational basis. The Authority has, therefore, requested to approve the remaining amount under the head.

4.4.1.2 The Authority observes that on the basis of trend analysis of capitalization, SNGPL was allowed Rs. 175 million under the head for the said year. The decision of the Authority as taken in DERR 2016-17 is justified. However, any expenditure incurred by SNGPL over and above the allowed amount i.e. Rs. 175 million may be considered at the time of FRR. The Authority further notes that the number of SMS's has not been reduced but only the amount has been rationalized.

##### 4.4.2 Measuring & Regulating Regular Assets

4.4.2.1 SNGPL submitted that the equipment is essentially required for day to day Operations like up-gradation of existing CP System at Transmission Section, installation of Remote Monitoring Units at various locations, Soil Resistivity Meters, Flow Computers, Online Gas Chromatograph, Compact unit for Hydrostatic Testing, Misc. Metering Equipment, Ultrasonic Thickness Testers,



and Gas Leak Detection etc. In view of the above, the Authority has been requested to allow Rs 420 million under the head.

4.4.2.2 The Authority observes that on the basis of trend analysis of capitalization on an average since FY 2012-13 to 2014-15, the petitioner was allowed Rs. 179 million under the head. The decision of the Authority as taken in DERR 2016-17 is justified and needs not to be reviewed.

#### 4.5. Plant, Machinery & Equipment and other Assets

##### 4.5.1 Plant and Machinery

4.5.1.1 SNGPL submitted that according to directives of the Federal Government, Distribution network has been expanded to far flung rural areas and resultantly Development activities like laying of gas mains and provision of new connections have increased substantially. To cater for above activities and to redress emergencies and complaints at local level, it is essential to equip remote offices with said equipment. SNGPL mentioned that it had enhanced its UFG Control activities at Regional and Sub Regional offices. Detection and rectifications of underground leakages on Distribution Network have increased in number of towns and cities during the last two years. In order to perform this activity in an appropriate manner, SNGPL requires upgrading maintenance teams to provide services efficiently at consumers' door step and to comply with the performance standards set by OGRA.

4.5.1.2 The Authority allowed, in DERR FY 2016-17, Rs. 68 million on the basis of trend analysis which showed that SNGPL has been able to capitalize about 72 % on an average since FY 2012-13 to FY 2014-15. The decision of the Authority is, therefore, reasonable and needs not to be reviewed.

##### 4.5.2 Tools and Equipment

4.5.2.1 SNGPL submitted that the amount is required for the procurement of electrical appliances, Fire Fighting equipment and Electrical Equipments/Loose Tools and Sundry equipments used in daily operational/field activities. Detailed

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justifications are as under:

(i) **Fire Fighting Equipment**

4.5.2.2 SNGPL stated that in order to implement HSE policy for the safety of consumers as well as its employees during work, PPEs and Fire Fighting Equipments are essentially required. Moreover new Regions, Sub Regions, Customer Service Centers & Complaint Centers have been established by the company and to fully equip these new offices and enhance the fire fighting capability of existing offices, the amount covered in this head should not be reduced.




(ii) **Loose Tools**

4.5.2.3 SNGPL submitted that to improve workmanship of its field staff for installation of gas connection and to rectify the consumer's complaints, replenishment of deteriorated and defective tools is very much required. Keeping in view the enhanced development, operational, maintenance and UFG control activities, it has been requested that proposed amount should be allowed.

(iii) **Electric appliances and fittings**

4.5.2.4 SNGPL requested that in wake of the current acute load shedding situation in the country, Gen sets of various capacities are essentially required at all Areas and sub offices to keep the normal operations going. SNGPL further pleaded that the reasons highlighted by the Authority for reducing 50% of the amount does not hold any water as no detail was required by the Authority during the scrutiny of the petition. SNGPL has been of the view that a reduction of 50% in these essential items would seriously hamper performance indicators set for key result areas. The Authority has been requested to allow tools and equipment amounting to Rs. 156 million.

4.5.2.5 The Authority allowed, in DERR FY 2016-17, Rs. 41 million on the basis of trend analysis by adding inflation for the last two years keeping in view the fact that SNGPL has been able to capitalize only Rs. 34 million on an average from FY 2012-13 to FY 2014-15. The decision of the Authority is, therefore, reasonable and needs not to be reviewed.

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#### 4.5.3 Construction Equipment

4.5.3.1 SNGPL submitted that the equipment is essentially required for operational, maintenance, modification tasks, pneumatic operation, welding activities, tool for proper beveling of cutting ends of pipes during repair, construction modification jobs including welding plants, air compressors, gas cutting sets, road cutting machines, beveling machines, fork lifters etc. It has also been submitted that the construction equipment allowed for RLNG projects activity will be specifically used in RLNG projects. The Authority has therefore been requested to approve the amount of Rs. 182 million under the head.

4.5.3.2 The decision of the Authority taken in DERR 2016-17 is justified and needs not to be reviewed. Moreover, SNGPL was advised to provide the Authority a detailed list of construction equipment and machinery for distribution which has not been furnished yet. Also the construction equipment has also separately been allowed in RLNG projects activity, however, any prudent expense over and above the allowed amount may be considered by the Authority at the time of FRR.

#### 4.5.4 Motor Vehicles

4.5.4.1 SNGPL submitted that the amount is required on account has been allocated and non allocated vehicles for operations during the said year. The Authority has been requested to approve the said amount of Rs 300 million under the head.

4.5.4.2 The Authority allowed, in DERR FY 2016-17, Rs. 229 million on the basis of trend analysis which showed that SNGPL has been able to capitalize about 76% on an average in the last three years. The decision of the Authority is, therefore, reasonable and needs not to be reviewed, however, any expense over and above the allowed amount may be considered by the Authority at the time of respective FRR *subject to justified actualization*.

#### 4.5.5 Office Equipment

4.5.5.1 SNGPL has submitted that approval for reinstatement of Rs. 30 million has been



requested for procurement of fax/photocopier/security equipment etc for various offices and for replacement of obsolete equipment.

4.5.5.2 SNGPL has further submitted that the reduction of office equipment budget in the previous years has hindered it from acquiring the required equipment. SNGPL claimed that it is now almost fully IT enabled and it is impossible to perform job functions without the use of computers, laptops and printers. On the other hand, computers and related equipment has a very short operating life. They need to be updated /replaced in a considerable short period of time. Keeping in view the current requirement of expansion as well as replacement of office equipment, the Company recommends that requested amount may be approved. With the establishment of new regions and sub-regions i.e. Lahore west, Sialkot, Mardan, Swabi etc and with the induction of new staff and executives, furniture requirement is essential for smooth operations. In view of the above, the Authority has been requested to allow Rs. 47 million under this head.

4.5.5.3 The Authority observes that SNGPL has been able to capitalize only Rs. 17 million on an average since the last four years from FY 2012-13 till FY 2015-16. Therefore, the Authority allowed Rs. 17 million under the head. Therefore, the decision of the Authority taken in DERR 2016-17 is justified and need not be reviewed at this stage, however expenditure over and above, if any, may be considered at the time of FRR

#### 4.5.6 Computer Hardware and I.T

4.5.6.1 SNGPL has submitted that I.T/MIS includes only those items which are essential to meet the operational requirements and to remain at par with the latest tolls and technologies. This also helps in maintaining and improving IT services to over 2,000 users and 5.3 million consumers. The proposed budget mainly comprises two parts.

(Amount in Rupees)

Additional Budget (A)	Replacement Budget (B)	Total Budget (A+B)
121,350,000	186,875,000	308,225,000





- 4.5.6.2 An amount of Rs. 187 million is required to replace the IT equipment like personal Computers, laptops, printers, hand Held Units, Switches, routers etc. which have completed their useful life and are due for scrapping.
- 4.5.6.3 Additional amount of Rs. 121.3 million has been proposed to meet the new requirements raised due to increased consumer base and setup of new regions/ locations. In order to meet the enterprise security and network enhancement requirements, it is essential to adopt specialized solutions for current infrastructure. Moreover, as the data center environments are moving from physical servers to virtue cloud based servers, SNGPL is in dire need to adopt virtualization technology for data centers.
- 4.5.6.4 SNGPL has requested that the amount of Rs. 308 million under the head may be allowed to continue the processing of indents that have already been initiated as per proposed budget.
- 4.5.6.5 The Authority keeping in view the previous trend, allowed Rs. 154 million under the head in DERR 2016-17. The decision of the Authority is justified and needs not to be reviewed.

4.6. **Civil Construction**

- 4.6.1 SNGPL has submitted that construction of Regional Office Sahiwal was proposed at an area of 8 Kanals located at Repeater Station N-4, Sahiwal. The Consultant M/s. New Vision, Islamabad advised that 8 Kanals are insufficient to cater the requirement of Regional Office. An amount of Rs. 400 million was initially requested for construction at repeater station N-4, Sahiwal which is required to be revised. An amount of Rs. 100 million was sanctioned in Civil Construction pool budget 2015-16 and Rs 100 million is requested in pool budget 2016-17. The remaining amount of Rs. 250 million may be provided in for FY 2017-18. Therefore, SNGPL has requested that an additional amount of Rs. 100 million may kindly be allowed in said year.
- 4.6.2 The Authority keeping in view the justifications advanced by the petitioner in ERR allowed Rs. 200 million for normal civil construction activities and Sahiwal Region Building in DERR 2016-17. The decision of the Authority is justified and



needs not to be reviewed, however, the actual expense in this regard may be considered at the time of FRR by the Authority.

#### 4.7. **Illegal Network in Oil and Gas Producing Areas**

4.7.1 SNGPL has submitted that the matter has been taken up with DG (Gas) office regarding funding of the project through GIDC or royalty of the province to curb this menace. The Authority has been requested to approve the project so that the same may be undertaken after receipt of approval of the Federal Government and funding arrangement in this regard.




4.7.2 SNGPL, vide its letter dated July 29, 2016, informed that the matter had been taken up with DG (Gas) office regarding funding of the project through GIDC or royalty of the province to curb this menace along-with the request to seek approval of the ECC. The Authority, therefore, allows in principle the project subject to the arrangement of funding through the Provincial or the Federal Government.

#### 4.8 **Creation of New Regions**

4.8.1 SNGPL has submitted that it confirms, after revisiting having revisited the criteria for establishment of offices of different levels in Distribution department of the Company. SNGPL has submitted that basis / criteria is not only based upon Number of Consumers but also on Geographical Spread, Proactive Control of Un-accounted for Gas, Liaison with Civil Administrative Authorities, Future Potential & Network growth, Political and Strategic Importance of the area. SNGPL provided the following criteria for establishment of New Regions, Sub-Regions, CSCs & CCs:

- i. Consumer density
- ii. Geographical Spread
- iii. Proactive Control of Un-accounted for Gas
- iv. Liaison with Civil Administrative Authorities
- v. Future Potential & Network growth
- vi. Political & Strategic Importance of the area

4.8.2 The Authority has been requested to approve the amount of Rs. 602 million under the head.

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4.8.3 The Authority keeping in view the criteria for establishment of new regions allowed an amount of Rs. 83 million for creation of new regions in (Phase-I, II & III) for said year. SNGPL was also advised to revisit its internal criteria and come up with comprehensive revised assessment criteria, based on all the relevant factors separately for establishment of Regions, Sub-regions and CSC's. SNGPL has recently submitted the revised Terms of Establishment (ToE) for new regions which is under deliberations, therefore the Authority pends the matter till receipt of further requisite information from SNGPL and finalization of the revised ToE.

#### 4.9 Number of consumers

4.9.1 SNGPL submitted that it has undertaken various development projects during the last years. The development project under taken by it has resulted into significant of the number of application of gas connections. In view of the above facts, it may not be possible for it to fulfill the above license condition unless annual target of SNGPL for domestic connections are increased to dispose of pending applications. Moreover, SNGPL highlighted that it has observed overwhelming response of the applicants desirous to avail this facility. The number of applications received on fast track scheme is substantially higher than the 10% quota allocated by OGRA. The quota being confined to 10% is exhausted earlier and results in carry forward of applications in the next fiscal year. This phenomenon is defeating the spirit of fast track scheme which was initiated to facilitate the customers to obtain gas connections on urgent basis. It is further stated that during FY 2013-14, OGRA had approved quota of gas connections to be provided under fast track basis against payment of urgent fee amounting to Rs. 25,000/-. Since then, there has been no change in the amount of urgent fee. Due to this nominal fee, a huge influx of applicants of fast track scheme has been observed thus the spirit of the scheme is defeated. In this connection the Authority has been requested for:

- Enhancement of annual target of domestic connections from 300,000 to 500,000.
- Enhancement of urgent fee quota of connections from 10% to 20% of the annual target of gas connections.
- Enhancement of amount of urgent fee from Rs. 25,000 to Rs. 50,000.

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4.9.2 The Authority keeping in view the justifications tendered by SNGPL reviews its decision and approves in principle the enhancement of domestic connections from 300,000 to 500,000. However, the Authority does not agree with the request of SNGPL to enhance the urgent fee quota of connections from 10% to 20% and enhancement of urgent fee from Rs. 25,000 to Rs. 50,000.

#### 4.10 New Regions (HR & Operating Cost)

4.10.1 SNGPL has requested to allow new regions (HR & Operating cost) in line with its demand for new regions expounded above. The Authority observes that at the time of DERR for the said year, it has considered creation of new region at Mardan and sub-region at Rawalpindi city and accordingly allowed the operating cost in principle. The requested amount in this regard however was decided to be considered at the time of FRR for the said year.

4.10.2 The Authority notes with grave concern that SNGPL has not functionalized the above allowed establishments/regions and rather gave an impression that same is due to paucity of funds and allowance for operating cost to be decided by OGRA. Factually this is not the case. In this regard, Honorable Parliamentarians have also expressed their concerns on the delay in the functioning of new regions already allowed by OGRA. The Authority categorically directs SNGPL to functionalize the new allowed Region at Mardan and sub-region at Rawalpindi without further delay. The operating cost in this regard shall be considered at the time of FRR for the said year at the scale of economy and prudent approach.

#### 4.11 Transmission and Distribution Cost- *Human Resource Cost*

4.11.1 SNGPL has repeated its demands and requested to allow the estimated amount of Rs. 18,559 million for the said year as against Rs. 13,800 million determined in DERR.

4.11.2 SNGPL, with respect to comprehensive manpower study based on working norms as advised by the Authority, has submitted that same will require



considerable time. It has been therefore requested that till such time HR cost be allowed in full, without any deduction.

- 4.11.3 SNGPL appreciated the in-house study conducted by the Authority while devising HR benchmark in FY 2014-15, however, SNGPL has again referred SSGCL's base rates for transmission & distribution network, number of consumers and sales volume; and requested to allow the same for it as well, in order to provide a level playing field for both utilities as is done in other efficiency benchmarks particularly the UFG benchmark.
- 4.11.4 SNGPL has further submitted that number of activities pertaining to UFG control, establishment of new regions, corrosion control etc; are in pipeline to be completed during the said year for which reasonable cushion needs to be available in HR Benchmark.
- 4.11.5 The Authority observes that SNGPL is not taking the HR benchmark as a serious activity to be managed for cost optimization rather it has been attempting to circumvent the same. HR cost benchmark emanates from the very basic purpose to protect the consumer interest and incentivize SNGPL to strive for cost optimization through implementation of best HR policies, shedding of dead wood, adjustments within the ranks and grant of perks without discrimination across all employees etc;. Accordingly, the benchmark was designed on broader perspectives and involvement in SNGPL micromanagement policies was deliberately avoided.
- 4.11.6 The Authority also observes that HR benchmark has been designed in systematic manner and operates on the peculiar basis thereby providing reasonable allowance w.r.t factors contributing to increase in HR cost. Conceptually, HR cost of any concern has a direct proportion with the core activities and annual Consumer Price Index. On the same pattern, HR cost benchmark was designed for gas utilities quite responsive to the operating factors (T&D network operated, number of consumers served and sales volume handled) and also compensation for annual inflation. Thus it provides inbuilt cushion to induct more employees keeping in view the enhanced activities, without compromising the reasonable



emoluments for existing employees at the same time. In aggregate, the HR cost benchmark provides reasonable additional funding to offset the legitimate demand of all employees including CBA, if the same is allocated fairly in indiscriminative manner.

- 4.11.7 The Authority further observes that HR benchmark in place also considers the inherent limitations including separate organizational structure on the basis of geographical spread of each gas utility since inception. It also considers the allowance for the uncontrollable factors particularly significant influx of reinstated employees on the verdict of Honorable Apex Court and FG decisions which substantially affected SSGCL. SSGCL, in order to comply with the decisions of august forums, had to accommodate a large number of employees. Accordingly, SSGCL has not been penalized on this score though there is no manpower justification and rationalization thereof. Besides this, SNGPL's HR cost was adjusted in FY 2010-11 to bring it in line with the per employee cost prevailing in SSGCL.
- 4.11.8 The Authority observes that SNGPL is religiously stressing to allow the SSGCL HR cost base rate which itself has no rationale. Thus SNGPL emphasis on false assumptions without realizing the ground realities is perfunctory and incomprehensible on the professional spectrum. All these consideration / inclination by the management suspects for its inadequate efforts for HR cost optimization. The Authority therefore in view of above constraints is of the considered view that HR benchmark must be analyzed on standalone basis. Apple to apple comparison in respect of base rates of two different organizational setups may not be realistic keeping in view ground facts.
- 4.11.9 The Authority further observes that SNGPL has been time and again advised to conduct manpower study to analyze real need of the company keeping in view working norms and latest technical horizon, job accountabilities and vibrant approaches practiced in this sector. SNGPL however has shown a bit hesitation to carry out such study which may provide solid reason for review of HR cost benchmark. The Authority therefore directs SNGPL to initiate a comprehensive



manpower assessment study on immediate basis. The ToRs in this regard must also be consulted with the Authority within fifteen days of issuance of this determination.

4.11.10 The Authority further advises SNGPL that available funds must be allocated fairly among all cadres of executives and subordinate. This shall off set the legitimate demand of CBA on annual basis.

4.11.11 The Authority observes that HR benchmark formula introduced in FY 2011-12 was initially applicable till FY 2014-15. The Authority has extended the same in its decision for FRR for FY 2015-16. The Authority, however, understands that base year cost in the HR benchmark, although operates on rolling basis, *may not be providing reasonable reference at this point of time owing to excess limit of actual cost. This may create funds constraints to meet the legitimate cost more specifically the CBA demand. Therefore, the Authority decides to adopt the actual cost for FY 2014-15 as base year cost w.e.f FY 2015-16 and indexes the same to the parameters of the benchmark currently in place. Accordingly, the HR benchmark cost for FY 2015-16 provides additional funds of Rs. 56 million and for the said year it works out to Rs. 13,918 million. The petitioner is further advised to manage its all HR related costs, particularly the CBA cost, within limits allowed based on revised base year cost. Further, the petitioner is stressed to strive for cost optimization by adopting best HR practices in order to fulfill very intent of HR cost benchmarking.*

#### 4.12 Provision for Doubtful Debts

4.12.1 SNGPL has submitted that the Authority in its determination has allowed 25% of the petitioner's claim as a benchmark in respect of commercial and industrial consumers and has not taken into account the operating environment and nature of SNGPL as a Public Sector Utility (PSU). The Authority has also suggested to write off the debts for the purpose of inclusion as an operating expense.

4.12.2 SNGPL further submitted that being a PSU, the process of writing off the debts is not only cumbersome but entails other consequences as well. A consultative process may be initiated to resolve the matter.



4.12.3 In view of above, SNGPL has requested to approve the policy for provision for doubtful debt for industrial and commercial consumers as listed below so that impact of disallowance on this account could be addressed and adequate return to shareholders as envisaged in the license could be provided:




- Disconnected consumers within three month Nil
- Disconnected consumers up to 1 year: 25%
- Disconnected Consumers up to 2 years: 50%
- Disconnected consumers over 2 years: 100%

4.12.4 The Authority observes that it has made detailed discussions and deliberation on the issue and has accordingly suggested benchmark which takes into account the ground realities and also provides leeway to consider SNGPL's claim over and above the floor of 25%, provided the same is substantiated with cogent reasons. This strikes a balance whereby SNGPL is provided cushion owing to uncontrollable factors and on the other hand cost of management inefficiencies are not passed on to the gas consumers. In the wake of this factum, the Authority, observes that there is as such no grounds, plausible justification or new evidence to review the expenses under this head. The Authority therefore decides to maintain its earlier decision for the said year.

#### 4.13 **Transmission and Distribution Cost - All other Cost components**

4.13.1 The Authority observes that SNGPL has contended to review almost each expense of T&D cost decided by the Authority in DERR for the said year.

4.13.2 The Authority further observes that SNGPL, under some cost heads, has requested for review owing to certain factors and also at a belated stage forwarded some documents pertaining to "Uniform & Protective clothing", "Security expenses" and "Outsourcing of call centers and complaint Management". The same, however, have not been properly substantiated on the basis of plausible evidence. The Authority however considers that the expenses pertaining to safety, security and customer service improvement are essentially required and unavoidable in all circumstances. Accordingly, the reasonable

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- expenses on this account shall be considered at the time of FRR for the said year.
- 4.13.3 Regarding the SNGPL contention on account of “legal & professional charges”, the Authority observes that no new evidence or plausible justification has been advanced. Accordingly, the Authority maintains its earlier decision with the direction to utilize in-house expertise to control the ever rising expenses under this head.
- 4.13.4 The Authority notes with concern that SNGPL has submitted motion for review without observing the detailed deliberation and extensive discussion made in respect of each cost component at the time of DERR for the said year. Further, SNGPL has not advanced any plausible justification, new evidence or compelling reasons owing to change in circumstances etc; which should have fulfilled the conditions of review as enshrined in the law. SNGPL’s claim is therefore rather flimsy and holds no justification for review.
- 4.13.5 In view of above, the Authority finds no reason to review SNGPL’s claim under all other heads, accordingly it maintains its earlier decision for the said year.
- 4.13.6 Apart from the above, the Authority observes that actual expenses exceeding the determined figure may be considered, only and only, if the same are tested as prudent, economically efficient, cost effective and unavoidable. This provides the petitioner rather a liberty to carry out the core business related activities particularly related to repair and maintenance and store, spares and supplies consumed etc; which should directly be contributive to its performance.

## 5. Discussion & Decision in respect of submissions made by APTMA

### 5.1. Return to SNGPL

- 5.1.1. APTMA contended that SNGPL has been allowed as 17.5% return determined thirteen years ago when license was issued. It is not fair to continue the same as the factors considered for calculating Weighted Average Cost of Capital such as Cost of Debt, Debt and Equity Ratios, Risk Free Rate and Beta values may have changed overtime.

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- 5.1.2. APTMA also highlighted that current cost of borrowing is much cheaper than the past period. Therefore, using past periods high cost of debt for the mega investments planned in the present period is not justified. Further, lower rate of return of 17% has been allowed to SSGCL for the same period. The license conditions and the Ordinance mandate OGRA to review and prescribe the rate of return in consultation with the Federal Government. Accordingly, APTMA submitted to revise this rate downwards to 17% or below.
- 5.1.3. The Authority observes that APTMA contention appears to be logical since the review of entire tariff regime particularly the rate of return is continuous process in efficient regulatory practices carried out world over. Accordingly, the Authority had devised a complete tariff regime much earlier; the same however could not attain the approval of the Federal Government. The Planning Commission in its agenda had also been in the phase to review the tariff regime necessitated for gas sector reform, the same however has not culminated to finality. Further, extended litigation by gas companies in respect of revenue requirements determined by the Authority also hampered to execute this exercise. While the existing rate of return of 17%/17.5% before interest and taxes may not be tremendously on higher side, the Authority however in principle agree that rate of return needs to be revised on reasonable basis on the latest market indicators.
- 5.1.4. Currently FG has planned gas sector reforms with the technical assistance of World Bank. The aspect of tariff regulation is also part of the same. The World Bank in this regard has also deliberated different methodologies for determining the rate of return. In view of ongoing deliberation, it is expected that revised return shall shortly be prescribed abreast with the FG reform agenda. However, for the said year, the existing tariff regime shall continue.
- 5.2. **Operating fixed Assets**
- 5.2.1. APTMA contended that Authority's assessment in respect of the fixed assets balances for FY 2015-16 is overstated. LNG assets additions of Rs. 30,239 million in FY 2015-16, which do not qualify to earn rate of return, have been included in



the opening balance. Again, LNG assets additions for transmission determined at Rs. 22,172 million for FY 2016-17, which do not qualify to earn a rate of return have been included in the closing balance for said year.

5.2.2. The Authority observes that LNG related expenses more specifically Gas Internally Consumed, Return on Assets and Depreciation, in accordance with the decision of the FG, are ring fenced. This very fact along with ring fence methodologies has been extensively deliberated in DERR for the said year in relevant paras. There is no LNG assets and associated cost included in the Revenue Requirement. The petitioner observation is based on perfunctory premise and has therefore no point to further deliberate.

**5.3. Gas Sales Volume and Cost of Gas Sold**

5.3.1. APTMA submitted that gas sales volume determined by the Authority at 418,840 BBTU is understated since sales target has been fixed on the basis of projected UFG rather benchmark of 4.5%. This resulted to understate the sales volume and cost of gas sold as slightly overstated, thereby impairing the consumer's interest.

5.3.2. The Authority observes that APTMA contention is based on misconception and lack of understanding the very basics of tariff computation mechanism. UFG is a difference between metered gas volumes purchased and metered gas volume sold. UFG, therefore, cannot be included as the part of sale volume. If it is included in sales, it shall not present true picture and exaggerate the sales and at the time of FRR, actual sales volume shall significantly deviate. The determination therefore adopts realistic basis rather than the hypothetical figures which portrays incorrect information. The adjustment for UFG volumes above the benchmark is reflected as disallowance of its cost. The same if added in sales also shall have a double impact.

5.3.3. In view of above, the Authority observes no point to review its decision in respect of DERR. Accordingly, the Authority maintains its earlier decision.

**5.4. Revenue shortfall pertaining to FY 2015-16**

5.4.1. APTMA has submitted that Revenue shortfall pertaining to FY 2015-16 as

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determined by Authority at Rs. 44,743 million is totally unjustified. The Authority has very graciously rewarded SNGPL without giving any details, analysis and justification for the subject decision. APTMA stated that as a result of this decision fundamental regulatory principles such as fairness, justice and transparency have not been adhered to. Rewarding SNGPL for non-compliance to the FY 2015-16 DERR directions and inefficient operations is not justified.




5.4.2. The Authority observes that APTMA has misconceived the revenue shortfall pertaining to FY 2015-16 and wrongly attributed the same towards SNGPL's inefficiency and change in sale mix. This is in fact un-recouped part of shortfall in revenue requirement which has appeared owing to insufficient increase in gas sale prices by the FG. This amount is a determined figure accumulating since FY 2013-14 and has already been extensively deliberated in earlier relevant determinations; therefore no further elaboration has been made being uncalled for. Had the APTMA perused the complete determinations, there would have been no assertion on this ground.

5.4.3. In view of above, there is no substantial ground under this head impacting the revenue requirement, the Authority, therefore, maintains its earlier decisions.

#### 5.5. **Cross Subsidy included in the Provisional Prescribed Prices**

5.5.1. APTMA has submitted that at annexure B in the impugned determination, the provisional prescribed prices for each customer class are in excess of the average cost of service which is not justified. OGRA is mandated to propose gas rates on the basis of the average cost of service and putting burden on any class of customers in excess of the cost of service should be avoided to reap the benefits of good regulation.

5.5.2. The Authority observes that APTMA has raised a query without going through the detailed elaboration made in the determination. The customer wise prescribed prices have been adjusted on the basis of existing sale prices fixed by the FG. The same are always re-adjustable upon the FG advice. This practice is carried out

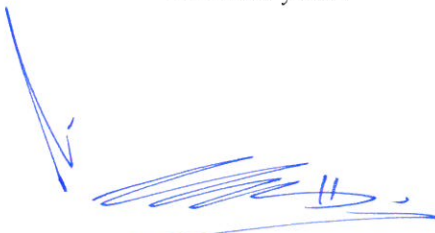
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since OGRA's inception and there is as such no lacuna in this mechanism under the provisions of law. APTMA's contention on this score is therefore baseless.


**5.6. Directions issued by OGRA & the Issues framed by Interveners**

- 5.6.1. APTMA submitted that the directions issued by OGRA with regards to performance improvement are qualitative without specifying quantitative performance targets. Also, no direction has been issued to SNGPL to ensure compliance to the provisions of article 158 of the Constitution. Further, the determination has been summarized without response to intervener's comments and critiques.
- 5.6.2. The Authority observes that APTMA's contention is baseless and contrary to the facts. The comments of the interveners are given due weightage and responded in the determination with proper space while policy related issues are highlighted for the consideration of the Federal Government.
- 5.6.3. In view of the foregoing, the motions for review for said year are hereby disposed off. The financial impact of adjustments decided above shall form part of FRR for the said year.



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(Noorul Haque)  
Member (Finance)



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(Aamir Naseem)  
Member (Gas)



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(Uzma Adil Khan)  
Chairperson

Islamabad, December 21, 2016.