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OIL & GAS REGULATORY AUTHORITY

OGRA-6(2)-1(1)/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 2015-16

UNDER

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

DECISION

APRIL 14, 2016

Before:-

Saeed Ahmad Khan, Chairman  
Aamir Nasim, Member (Gas)  
Noorul Haque, Member (Finance)

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## 1. BACKGROUND

- 1.1. Sui Northern Gas Pipelines Limited (the petitioner) 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 & distribution pipelines, sale of natural gas and compressed natural gas, and sale of gas condensate (as a by-product).
- 1.2. The Authority, vide its decision dated December 18, 2015 had determined the Estimated Revenue Requirement of the petitioner for FY 2015-16 (the said year) at Rs. 231,073 million and shortfall at Rs. 46,794 million translating into increase of Rs. 107.81 per MMBTU in the average prescribed price.
- 1.3. Being aggrieved by this determination, the petitioner filed motion for review on January 18, 2016, wherein it has challenged various capital and revenue cost components as under;

### (a) Addition in Assets

- i) *Transmission*
- ii) *Distribution Development*
- a) *Laying of Distribution Mains*
- b) *System Rehabilitation*
- iii) *Measuring and Regulating Assets*
- a) *Installation of new connections*
- b) *Measuring & Regulating Regular Assets*
- iv) *Plant, Machinery & Equipment and other Assets*
- a) *Plant and Machinery*
- b) *Tools and Equipment*
- c) *Office Equipment*
- d) *Computer Hardware and I.T*
- v) *Addition in Fixed Assets C/F F.Y. 2014-15*
- a) *Phase-I (LNG Project)*

  
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(b) Transmission and Distribution Cost

- i. Human Resource (HR) Cost
- ii. Repair & Maintenance
- iii. Stationary, Telegram and Postage
- iv. Travelling Expense
- v. Legal and Professional Charges
- vi. Advertisement
- vii. Uniform & Protective Clothing's
- viii. Security Expenses
- ix. Provision for doubtful debts
- x. Outstanding of call centers for Complaint Management
- xi. Contribution of ISGSL expenses
- xii. Other Expenses





1.4. The Authority issued notice of pre-admission hearing on February 02, 2016 to the petitioner and the Federal Government.

2. **AUTHORITY'S JURISDICTION AND DETERMINATION PROCESS**

2.1. The petitioner has invoked the jurisdiction of the Authority under Rule 16 of the NGT Rules, and Section 13 of the Ordinance. Section 13 provides the grounds on which a review petition can be filed, and is reproduced below:-

*"13. Review of Authority decision.- The Authority may review, rescind, change, alter or vary any decision, or may rehear an application before deciding it in the event of a change in circumstances or the discovery of evidence which, in the opinion of the Authority, could not have reasonably been discovered at the time of the decision, or (in the case of a rehearing) at the time of the original hearing if consideration of the change in circumstances or of the new evidence would materially alter the decision."*

2.2. The issues brought forward by the petitioner must necessarily be evaluated with reference to the afore-said Section 13 of the Ordinance and meet at least one of the two pre-conditions given therein referring to

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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 February 11, 2016 at Lahore, where the petitioner's team was led by Mr. Amer Tufail, Managing Director. The petitioner was given full opportunity to present its motion for review. The petitioner made submissions with the help of multi-media presentation and contended the merits of the case in detail as well.

### 4. DISCUSSION AND DECISION

#### 4.1. Transmission

4.1.1. The petitioner has submitted that it is carrying out large scale LNG infrastructure development project for the augmentation of transmission system, which has been duly approved by the Authority. The project is being carried out in two phases, phase-I is near completion while the work on phase-II has already been commenced. The total cost of both phases of the project amounts to approximately Rs.76 billion. The Authority, however, continues to change its stance on the provision of return on LNG assets as it had earlier allowed the inclusion of the return on the project assets in the rate base in RERR 2011-12 and DERR 2014-15, but in DERR 2015-16, it has excluded project assets of Phase-I and II from the rate base stating that these may be financed through GIDC. It has been requested that Phase-I and II of the LNG infrastructure development project may be allowed in the rate base of the petitioner.



4.1.2. The Authority observes that petitioner contention regarding change in Authority stance on account of return on LNG assets is incorrect and beyond facts keeping in view Federal Government decisions in terms of self-explanatory letters by MP&NR and Ministry of Finance. MP&NR on June 22, 2015, informed that *"GOP shall provide required financing for undertaking LNG Infrastructure Project (Phase-II) from GIDC to both the Gas Companies as per provisions of GIDC Act, 2015."* Subsequently, MP&NR, vide its letter dated 11<sup>th</sup> September, 2015, conveyed the approval of the Economic Coordination Committee (ECC) of the Cabinet regarding bank borrowing to the extent of Rs. 101 Billion to the Gas Companies and stated that the Ministry of Finance will provide GOP guarantee in favour of Gas Companies to arrange financing for LNG Project (Phase-II) from commercial banks. Thereafter MPNR February 10, 2016 informed that ECC of the Cabinet while considering a summary submitted by this Ministry on the subject vide case No. ECC-6/2/2016 dated 28.01.2016 approved the proposals contained in Para-7 of the said summary as under: -

- i) ECC of the Cabinet reaffirms its earlier decision made vide case No.ECC-124/15/2015 dated 03.09.2015 whereby gas companies were allowed to arrange funding amounting to Rs. 101 billion from commercial banks instead of GIDC based on GoP guarantee.
- ii) OGRA is advised that subject projects will be included in the asset base of gas companies subject to condition that RLNG pricing will be ring fenced and all directly attributable costs will be charged/ recovered from RLNG consumers without affecting the consumers relying on domestically produced gas.
- iii) Financial cost incurred in creation of RLNG infrastructure of national importance should be allowed as admissible expense in the revenue requirement of the utility companies.

4.1.3. The Authority, in view of above, in principle agrees to allow the LNG projects in the rate base under ring fence mechanism in the light of ECC decision dated February 10,2016. Accordingly, the petitioner is directed to include the same in rate base in FRR for the said year.

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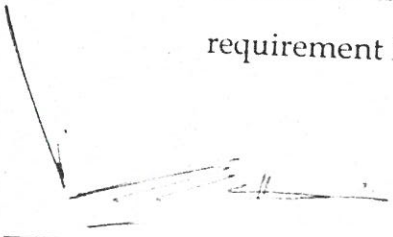


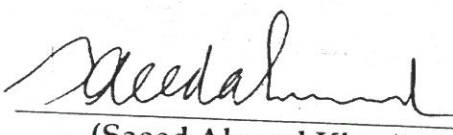
#### 4.2. All other Capital & Revenue Items


4.2.1. The Authority evaluated the petition at length and reviewed each cost component contended therein. Authority notes that review on capital and revenue items has been claimed without addressing the observations recorded by the Authority in DERR FY 2015-16, based on which the decisions were taken. The Authority, in the impugned determination, has made exhaustive discussion and deliberated the issues in detail. Had the same been pursued at the touchstone of ground realities and petitioner's own financial capacity, there would have been no need to file the petition. The review petition is therefore rather flimsy in terms of subject claims and contains no concrete evidence for review. Further no plausible justification has been advanced to review the components under the subject heads.

4.2.2. *In view of fact that no new evidence /information has been provided by the petitioner, the Authority, except para.4.1.3 above, maintains its earlier decision and rejects the petitioner's claim on Capital and Revenue items for the said year.*

4.3. In view of the foregoing, the petition for review of estimated revenue requirement FY 2015-16 is hereby disposed of.

  
(Noorul Haque)  
Member (Finance)

  
(Saeed Ahmad Khan)  
Chairman

  
(Aamir Naseem)  
Member (Gas)

Islamabad, April 14, 2016

  
**REGISTRAR**  
Oil & Gas Regulatory Authority  
Islamabad