آئل اینڈ گیس
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Oil & Gas
Regulatory Authority

OGRA-6(2)-1(3)/2019-Review

IN THE MATTER OF

SUI NORTHERN GAS PIPELINES LIMITED (SNGPL)

MOTIONS FOR REVIEW AGAINST AUTHORITY'S DETERMINATION OF ESTIMATED REVENUE REQUIREMENT FOR FY 2019-20

UNDER
OIL AND GAS REGULATORY AUTHORITY ORDINANCE, 2002ANDNATURAL GAS TARIFF RULES, 2002

DECISION

OCTOBER 3, 2019

Before: -

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

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1. Background

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

1.2. The Authority, under Section 8(1) of the OGRA Ordinance, 2002 (the Ordinance) determined the Estimated Revenue Requirement of SNGPL for FY 2019-20 (the said year) vide order dated May 17, 2019 at Rs. 293,305 million and shortfall at Rs. 89,177 million translating into an increase of Rs. 236.81 per MMBTU in the average prescribed price.

1.3. Being aggrieved by the above determination, SNGPL (the petitioner) filed motion for review on June 14, 2019 (the Petition) under Section 13 of the Ordinance read with Rule 16 of Natural Gas Tariff Rules, 2002 (the NGT Rules) on the following items:

a) Cost of Supply of RLNG and determination of transportation tariff payable to SSGC
b) Revenue Shortfall on Account of Diversion of RLNG towards Domestic Sector
c) Impact of Less UFG Determined in LNG Prices from July-2018 to February-2019
d) Various items in respect of Transmission & Distribution Costs
e) Staggering of Previous Year's Cumulative Shortfall
f) Principally allowed assets and revalidation of budget
g) KMI Implementation Plan
h) Various items in respect of Capital Assets
i) LPG Air-Mix Cost
j) Establishment of Complaint Centre at Topi, Mardan Region
k) Transmission & Distribution (T&D) Costs

2. Authority's Jurisdiction and Determination Process

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

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

2.2. It is clear from the above, that the issues brought forwarded/contended by the petitioner must necessarily be evaluated with reference to the provisions of aforesaid Section 13 of the Ordinance.

3. Proceedings

3.1. The Authority issued notice of hearing on August 09, 2019 to the petitioner and hearing was accordingly held on August 21, 2019 at OGRA office, Islamabad.

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

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

4. RLNG Cost of Service

4.1. Cost of Supply of RLNG and determination of transportation tariff payable to SSGC

4.1.1. The petitioner has stated that the Authority has determined RLNG cost of supply for the said year on the basis of total capacity of RLNG (i.e. 1200 MMCFD) instead of actual RLNG sold in its system. The petitioner has submitted that full utilization of RLNG is not in its control as power sector has not given firm demand. Moreover, due to fluctuation of currency rate RLNG is becoming out of reach of general industry.

4.1.2. In view of the above, the petitioner has requested to determine RLNG cost of supply for the said year on the basis of actual RLNG sold in its system. The petitioner has further requested to include impact of difference in RLNG cost of supply determined in RERR Vs DERR for FY 2018-19. Accordingly, the petitioner has claimed Rs. 763 million as part of RLNG cost of service and also includes the left over impact of difference for the said year computation.

4.1.3. The Authority notes that after promulgation of TPA Rules, 2012, amended 2018, various private shippers have been approaching the petitioner for allocation of spare capacity available with it. TPA provides ample cushion for firm & interruptible supplies contracts. Pakistan is already suffering from energy shortages and the petitioner must adopt a proactive approach in larger national interest. OGRA's intent to introduce computation of transportation income / cost of service based on pipeline capacity is to bring an in-build efficiency benchmark to keep the market compatible and level playing field to all potential shippers.

4.1.4. *In view of above, the Authority maintains its earlier decision & directs the petitioner to complete the process of allocating spare capacity to potential shippers. Moreover, any difference as contended by the petitioner in respect of cost of service, relating to FY 2018-19 shall be considered at the time of FRR FY 2018-19 and the same shall be recovered / adjusted while determining actual RLNG prices for these periods.*

4.2. Determination of Rate of Transportation Tariff Payable to SSGC

4.2.1. The petitioner has stated that transportation charges invoiced by SSGCL in respect of RLNG volumes/pipelines are based on net volumes delivered at Sawan, resulting in higher transportation tariffs.

4.2.2. *The Authority notes that the petitioner during the hearing has informed that tariff* impact *only arises owing to the late / delayed submission SSGCL accounts with OGRA and the same shall be addressed upon finalization of FRRs by OGRA. The Authority further notes that actual prices in respect of monthly RLNG prices are yet to be finalized, wherein actual cost of service of both Sui companies based on respective FRRs shall be determined and recovered from RLNG consumers.*

4.3. Revenue Shortfall on Account of Diversion of RLNG towards Domestic Sector

4.3.1. The petitioner has requested the Authority to allow impact of diversion of RLNG to domestic consumer in winter season. The petitioner has submitted that the Authority in DERR for the said year has advised it to deliberate the matter with Ministry of Energy (Petroleum Division) in accordance with the decision of the ECC of the cabinet dated May 11, 2018.

4.3.2. The petitioner has argued that the above decision contradicts with the earlier decision regarding Gas Swapping Deferral Account, wherein, the Authority had allowed the diversion of indigenous gas to RLNG consumers in FRR for FY 2017-18.The petitioner has requested the Authority to determine the cost of diversion/sale of RLNG in domestic sector as system gas on the same principle as was chalked out by the Authority in its decision in respect of FRR FY 2017-18.

4.3.3. The Authority observes that since last couple of years, the petitioner is diverting the RLNG in the system gas in order to meet the demand of its consumers particularly the domestic consumers. The recovery of actual cost of service from such consumers however is far less. Resultantly, the unmet revenue shortfall is persistently piling up resulting to cash flow issues for the petitioner. The Authority observes that this diversion of RLNG in system gas keeping in view network expansion and increase in number of consumer may be a regular phenomenon. Therefore, the same matter requires detailed deliberation by the petitioner with all stakeholders. The Authority further notes that the petitioner has already submitted its proposal with MOE. ***In view of the same, the Authority decides to pend the decision till such time the GoP issues a policy guideline which ensures consistent supply of gas on sustainable basis.***

4.4. **Impact of Less UFG Determined in LNG Prices from Jul-2018 to Feb-2019**

4.4.1. The petitioner has stated that in FRR FY 2017-18 dated January 15, 2019, the Authority has determined the UFG at 0.38% of Transmission and 10.93% for overall Company. However, actual impact of revised UFG percentages shall needs to be incorporated in RLNG prices. The petitioner has requested to determine and incorporate impact on account of UFG in the RLNG prices for the said year by creating an appropriate heading in the monthly RLNG price determination.

4.4.2. ***The Authority observes that difference if any shall be addressed upon finalization of RLNG prices by OGRA. Moreover, the petitioner must timely submit application for actual RLNG prices with OGRA, so as to minimize the differences as contended by it.***

5. Staggering of Previous Year's Cumulative Shortfall

5.1. The petitioner stated that previous year short i.e. Rs. 143,623 million in not in line with the ECC decision, and Authority overstepping its jurisdiction as staggering the amount of shortfall over & above the approved amount by ECC in DERR FY 2019-20. FG (as per ECC decision) allowed OGRA to stagger the previous shortfall over a period 4 to 5 years, but OGRA restrict itself to the extent / limit amount upto the date of ECC decision.

5.2. Petitioner also submitted that in DERR FY 2019-20, no such deliberation was made by the FG with SNGPL regarding gas sale price as observed by the Authority and also pointed out that no advice has been received by OGRA in DERR 2018-19 from FG within mandatory period (i.e. 40 days), but Authority notified the prescribed price as the sale price, which ultimately increase further shortfall. In view of the above, the Authority is requested to kindly review its decision and restrict the staggering of previous years' shortfall up to the date of May 17, 2018 and allow the remaining shortfall fully while in future it may kindly be ensured that sales price remain equal to or higher than OGRA determined prescribed price.

5.3. ***The Authority observes that OGRA can include shortfall as determined by it while exercising its powers granted under the law, hence no overstepping of its jurisdiction has been done. Moreover, the Authority understands that after the sale price advice received from FG, the petitioner's stance also remains invalid. In view of the same, the Authority maintains its earlier decision.***

6. Fixed Assets

6.1. Principally Allowed Assets

6.1.1. OGRA has started undue practice of allowing budgets on principle basis without allowing it in the rate base. In this regard, it is submitted that this practice defeats the very purpose of scheme of tariff regime wherein the advance tariff is allowed to the Company to finance its projects. Keeping in view the liquidity position, the Company is forced to arrange the funds through borrowing resulting in constant increase of finance cost of the Company.

6.1.2. It may be noted that the finance cost for long term assets is not being allowed as a pass-through cost which is also against the policy guidelines on RLNG assets issued by the GOP which OGRA is bound to follow as per the Supreme Court decision.

6.1.3. Following projects have been allowed in principle but the same are not included in the rate base.

(Rs. in millions)

Sr.	Project	Amount Claimed	Amount Allowed in principle
a)	Compression Overhauling Project:	365	365
b)	Enhancement in the Budget of 10" dia. Daudkhel-Mianwali Transmission Line	40	40
c)	CP System	339	152
	Total	**744**	**557**

6.1.4. It is highlighted that the works amounting to Rs. 557 million as mentioned in the above table were allowed by the Authority in DERR for the said year in-principle, keeping in view the pending expense by the petitioner in the previous years, the Authority did not allow any upfront amount in DERR for the said year. However, the Authority decided that any expense under the above heads may be brought for capitalization at the time of respective FRR by the Petitioner.

6.1.5. ***As there is no new evidence, therefore, the Authority maintains its original stance in this respect.***

6.2. **Building on Free Hold Land**

6.2.1. The petitioner pleaded that due to the curtailment of the budget from Rs. 252 million to Rs. 130 million in DERR for the said year, Company will not be in a position to carry out its maintenance activities, details of which have already been submitted to the authority. The Authority is requested to allow the disallowed amounts.

6.2.2. ***It is mention that Rs. 130 million was allowed to the petitioner keeping in view the past actualization trend and prudency of the work, required for day to day operations by the petitioner as the Authority has already allowed prudent expense therefore, the Authority keeps its original stance in place. However, any prudent expense will be considered at the time of respective FRR.***

6.3. **Construction of New SMSs**

6.3.1. The petitioner has projected Construction/Up-gradation of 10-15 No. SMSs likely be undertaken by the Company in the said year. In view of the above, the Authority is requested to kindly allow Rs. 600 million as requested by the Company in it petition of ERR for the said year.

6.3.2. It is mentioned that the Authority in its DERR decision for FY 2019-20 allowed Rs. 200 million as upfront amount to the petitioner under the subject head against Rs. 600 million, keeping in view the past trend as well as the contention of the Petitioner, subject to actualization at the time of respective FRR.

6.3.3. *There is no new evidence, hence the Authority maintains its original decision.*

6.4. Distribution Development

i) Laying of Distribution Mains (New Town & Villages/Cost Sharing Basis/Augmentation/Head office Reserves and Combing Mains)

6.4.1. The petitioner pleaded that allowed budget is insufficient therefore, the Company will have to arrange the funds through borrowing which will result in increased cost of finance for the Company. In view of the above, the Authority is requested to allow the full amount i.e. Rs. 25,460 million as requested in ERR for the said year including Rs. 2,600 million on cost sharing basis. Moreover, the compensation on account of UFG related and other adverse impacts on profitability of the Company may also be allowed.

6.4.2. It is mentioned that the petitioner projected Rs. 20,000 million for laying of 8,000 Kms pipelines for new Towns and Villages and Rs. 2,195 million for 1,126 Kms in respect of System Augmentation (131 Kms), Combing Mains (710 Kms) and Head Office Reserves (285 Kms) in ERR for the said year.

6.4.3. *The Authority keeping in view of the above, allowed, laying of 8000 Kms distribution network to the petitioner in DERR for the said year in principle, with upfront amount of Rs. 5,383 million based on the past trend and Rs. 2,600 million on cost sharing basis. The Authority also allowed Rs. 2,195 million for 1,126 Kms pipelines in respect of System Augmentation (131 Kms), Combing Mains (710 Kms) and Head Office Reserves (285 Kms). The Authority also advised the petitioner to bring any over and above prudent expense under this head for Capitalization at the time of respective FRR. It is further clarified that the Authority has not reduced the network length for the current fiscal year.*

6.5. **KMI Implementation Plan KMI No. 14&15**

6.5.1. The petitioner has requested the Authority to allow Rs. 627 million as capital Expenditure with respect to KMI implementation Plan in FY 2019-20. The Petitioner explained that it is the fact of the matter that capital budget for execution of activities to be carried out under KMI No. 14 and 15 has not been demanded from OGRA under any other head. The Capital Budget has been claimed to execute the KMI No. 14 and 15 as below: -

<u>KMI No. 14</u>

Survey of 20% of total underground distribution network on annual basis for detection of leakages using leak detection equipment. Reduce present level of leak rate from 2.2 & 4.9 underground leaks/km in case of SNGPL and SSGC respectively gradually in 5 years.

<u>KMI No. 15</u>

Inspection and survey of twenty (20) % total domestic consumers annually for rectification of detected aboveground leak connections.

6.5.2. In view of the above, the Authority is requested to kindly allow the amount claimed under the head of KMI implementation plan and include the same in the rate base of the Company for FY 2019-20.

6.5.3. Keeping in view the justification tendered by the petitioner and as explained during the hearing on RERR for FY 2019-20 held on 21.08.2019 the Authority allows Rs. 470 million as Capital Budget for the remaining quarters of the current fiscal year, subject to actualization at the time of FRR.

6.5.4. Further to the above, the petitioner has projected Rs. 788 million in respect of System Rehabilitation and UFG Control Activities Rs. 343 million for G.I Pipes &Fittings, Rs. 1,513 million for Service lines (Domestic Connections) and Rs. 294 million for System Augmentation as per the table given below: -

(Rs. in Million)

Sr.#	Description	ERR	DERR	RERR	DRERR
1	Laying of Distribution Mains 8000 Km including System Augmentation, Head Office Reserves and Combing Mains.	22,860	7,578	15,282	-
2	System Rehabilitation	1,910	1,122	788	-
*3	G.I Pipe and Fittings	343	0	343	-
4	KMI Implementation Plan (No. 14 and 15)	627	0	627	470
5	Service Lines Domestic (400,000)	4,539	3,026	1,513	-
6	System Augmentation (Rawalpindi-Islamabad to receive additional Gases from Adhi-Sukho Gas Field)	588	294	294	-
	Total	30,867	12,020	18,847	470

* *The Authority is of the considered opinion that this direct cost continues to be recovered/borne by the beneficiary/consumer. Therefore, the Authority disallows the claimed amount under the head as per its earlier decisions.*

6.5.5. ***The Authority allows Rs. 470 million in total under the head distribution development as capital expenditure.***

6.6. Re-appropriation of Budget

6.6.1. The petitioner has informed that its Board of Directors in its 528th meeting held on May 28, 2019 had approved the pilot project for replacement of larger diameter distribution lines in Lahore and Peshawar regions at a total cost of Rs. 96.34 million and accorded the approval of the same, subject to following conditions.

(i) Re-appropriation of unutilized budget Rs. 65 million of FY 2018-19 pertaining to "Installation of TBSs on Operational Grounds" in the light of direction by the Authority in a similar case vide OGRA`s letter No. OGRA-9-(435)/2016-RERR 2016-17 dated 10.03.2017, extract of which is as under:

Quote:

".....since the re-appropriation will remain within the approved budget by OGRA and it would not have any effect on the already determined tariff. SNGPL may proceed for obtaining approvals from the Finance Committee who need to examine the reasons and logic presented by

*the Management. The budget to reallocate/expended shall be considered by OGRA at the time of FRR subject to actualization…"***Unquote**

(ii) Approval of balance amount of Rs. 31.34 million (Rs 96.34 million – Rs. 65 million).

However, the petitioner has also requested to grant an immediate relief under Rule 5 (7) of Natural Gas Tariff Rules, 2002 and allow the principle approval so that the work can be started while the same may be revalidated and included in the rate base at the time of deciding their pending Motion for Review for FY 2019-20.

6.6.2. ***The Authority considered the above project and in view of technical /operational constraints revalidates Rs. 65 million and allows rest of the amount i.e. Rs. 31.34 million in-principle subject to actualization at the time of respective FRR. However, such re-appropriation in different heads should be avoided as far as possible and the expenses may be prudently forecasted at the time of ERR.***

6.7. **Measuring and Regulating Assets:**

6.7.1. The petitioner requested that, due to current dollar-rupee parity, the estimated cost of different type of gas meters has increased. In view of the above, the Authority is requested to allow the total amount of Rs. 2,539 million under this head as projected in ERR FY 2019-20.

6.7.2. ***It may be mentioned here that there is no much difference in the dollar-rupee parity during the time period of DERR decision and filing of RERR petition by the petitioner. Keeping in view the above the Authority does not consider the request of the petitioner under this head at this stage. Any actual variation will be considered at the time of FRR stage.***

6.8. **Installation of New Connections**

6.8.1. The Authority has allowed 400,000 number of domestic gas connection (including 10% urgent fee connections) against the requested 600,000 numbers of connections.

6.8.2. The petitioner has informed that the Board of Directors has approved 300,000 numbers of domestic connections during FY 2019-20 while the balance 300,000 connections shall be installed by the Company subject to provision of compensation by OGRA on account of related UFG and other adverse impact on profitability of the Company. However, the Authority has not considered the request of provisioning of any compensation on account of UFG and other adverse impact on profitability of the Company.

6.8.3. In view of the above, the petitioner has requested to the Authority to allow compensation on account of related UFG and other adverse impact on profitability of the Company.

6.8.4. ***Reallocation of 300,000 new connections is the Company's BOD decision. The expense of which will be rationalized at the time of respective FRR stage. After implementation of UFG Study no additional UFG expense is admissible to the Company and it shall make its expansion plans prudently.***

6.8.5. ***The Authority has considered the request of SNGPL made vide letter No. RA-TAR-19-20(P)-026 dated July 02, 2019 and approves the allocation of 300,000 new connections (including 10% urgent fee connections) for FY 2019-20. The Company may allocate the connections based on the pendency ratio of respective regions in a fair, transparent and equitable manner to ensure compliance of August Supreme Court Order. The Company must ensure connection on turn merit basis keeping in view all fairness and justice. Henceforth, the allocation may be provided at the time of ERR of each respective year for consideration by the Authority.***

6.9. **Plant, Machinery, Equipment and other Regular Assets**

6.9.1. The petitioner has requested to the Authority to allow the following assets pertaining to Plant Machinery and other assets in RERR FY 2019-20.

(Rs. in Million)

Sr.	Description	ERR	DERR	RERR	DRERR
1	Plant & Machinery	566	358	208	-
2	Construction Equipment	404	187	217	-
3	Motor Vehicles	300	177	123	-
4	Furniture & Fixture	40	33	7	-
5	Office Equipment	41	15	26	-
6	Computer Hardware	381	190	191	-
7	Computer System Software	102	79	23	-
	Total:-	1,834	1,039	795	-

6.9.2. ***It may be noted that Authority have already allowed a reasonable amount under the above heads to the petitioner keeping in view the prudency of the works in its decision of DERR for the said year. There is no new evidence hence the Authority keeps its original decision in place.***

6.10. **Electronic Archiving of Sales Record & Digitizing the System for Dispatch of Agendas to the Directors**

6.10.1. The petitioner during the hearing on Motion for Review against DERR FY 2019-20 held on 21.08.2019 informed that its B.O.D during meeting No. 513thand 519thheld on 31.08.2018 and 25.02.2019 had approved Rs.70 million for electronic archiving of sales record and Rs. 9 million for digitizing the system for dispatch of agendas of the directors as special projects. The Company has requested the Authority to consider the above amount in RERR Petition.

6.10.2. *Keeping in view the operational requirements of the petitioner, the Authority allows 50 % capital cost for Electronic Archiving of Sales Record Project i.e. Rs. 35 million and Rs.4.5 million for Digitizing the System for Dispatch of Agendas to the*

Directors. The Authority allows in total Rs. 39.5 million under this Project subject to actualization at the time of respective FRR.

6.11. **LPG Air Mix Plant at Gilgit**

6.11.1. The petitioner has informed that the LPG Air Mix project was approved by OGRA amounting Rs. 1,262 million. The plant was expected to commission in FY 2018-19 but due to some land related issues faced by the Govt. of Gilgit Baltistan with the local community, the project got delayed. Now the above issues have been resolved and as per plan LPG Air mix plant and some segment of distribution network, involving cost of Rs. 908 million will be commissioned during FY 2019-20.

6.11.2. The petitioner has further informed that Gilgit Baltistan is not a plain area rather it is a hilly area surrounded by mountains and rivers, therefore, expansion of pipeline up-to this area is extremely difficult and is not viable. The nearest pipeline network available is at Mansehra city which is about 350 K.M away and as such extension of pipeline is neither feasible financially nor operationally.

6.11.3. ECC of the Cabinet has approved this project to avoid de-forestation and counter the climate changes in the area and to meet the energy requirements of the local community. It was further approved by the ECC that the piped LPG air mix to be sold to the community at the price applicable for highest domestic slab. Being cognizant of the ECC approval and above-mentioned justifications OGRA has already approved this project by issuing the construction license after payment of license processing fee by the Company.

6.11.4. Keeping in view the above, the Authority is requested to approve Rs. 908 million in this year out of already principally approved budget of Rs. 1,262 million, while remaining amount of Rs. 354 million may kindly be revalidated for FY 2020-21 and beyond. It is further requested that Rs. 908 Million may kindly be taken in the rate base and revenue requirement of indigenous gas for FY 2019-20.

6.11.5. ***The Authority considers the request of the petitioner and allows 50% of the capital cost i.e. Rs. 454 million in rate base in RERR of FY 2019-20 subject to actualization at the time of respective FRR.***

6.12. **Creation of New CSCs and CC**

6.12.1. The petitioner has projected the creation of following customer Service Centers and Complaint Centers in its different Regions amounting to Rs. 32.0 million as per the following detail.

(i) Topi, Mardan Region (CC)
(ii) KOT RadhaKishan, Lahore Region (CSC)
(iii) Timergara, Mardan Region (CSC)
(iv) Bhakar , Multan Region(CSC)

6.12.2. ***The Authority considered the request of the petitioner, based on the earlier criteria and approves the creation of complaint center at Topi in Mardan region at a total capital cost of Rs. 1.67 million, whereas, the Authority disallows the up-gradation/ creation of new CSCs at Kot Radha Kisha, Timergara and Bhakar due to non-fulfillment of the criteria. The cost allowed by the Authority will be subject to actualization at the time of FRR.***

6.13. **Revalidation of Assets approved by the Authority in the Previous Years**

6.13.1. ***The Company is advised to bring the leftover budget pertaining to the year i.e. of FY 2019-20 at the stage of ERR for FY 2020-21 for revalidation by the Authority and in subsequent ERR's, keeping in view the Company's overall capacity to undertake the development works in a particular financial year. The concept of seeking one-time revalidation /re-approval of the Authority for old/incomplete assets amounting to around Rs. 75 billion is not tenable/prudent.***

7. Transmission & Distribution Cost:

7.1. Human Resource Cost

7.1.1. The petitioner has requested to allow CBA agreement amount (i.e. Rs. 7,153 million) over and above HR benchmark cost allowed of Rs. 16,922 million.

7.1.2. The petitioner has submitted that CBA agreement is pending since July, 2017 and new agreement is also due from July, 2019. The petitioner has argued that there is no cushion available for CBA with the benchmark amount.

7.1.3. The petitioner has further informed that it is in process of recruiting 274 executives and 900 subordinates. Therefore, effectively no increase to meet annual increment increases (at least 20%) to compensate for inflation and cost for living.

7.1.4. In view of the above, the Authority has also been requested that the HR benchmark be revised keeping in view the Company's stance regarding other equal benchmarks and HR benchmark study already submitted by the Company. Moreover, it is highlighted that if free gas facility is being considered as a part of HR Cost in the revised HR benchmark then same may first be added in the base rate as well.

7.1.5. The Authority notes that the petitioner has not been utilizing its HR resources effectively and judiciously and hence hiring new staff. The Authority is of the firm view that considering dwindling gas supplies the petitioner must strive hard to keep HR cost at reasonable level. The petitioner must chalk out a comprehensive plan for effective utilization of the existing manpower. Placement of the right person for the right job with pre-determined KPIs and the continuous monitoring shall definitely reap out better results for the petitioner.

7.1.6. Regarding petitioner's stance for uniform base rate, the Authority notes that the matter had already been exhaustively discussed in para 10.1.5 of FRR FY 2017-18 dated January 15, 2019. HR benchmarking since inception has started on the basis of respective actual HR cost and organizational strength which witness different executive to sub-ordinate ratio and geographical operating conditions. Moreover, per employee cost of the petitioner company is higher than the other sister utility.

Therefore, mere repetition with any new and valid justification does not qualify *the HR claim admissible under relevant rules/law.*

7.1.7. An average increase of 18% per annum has been witnessed during the last three years for executive cadre only. Regarding subordinate grades, the Authority further notes that 22% average increase, without finalization of CBA for the period FY 2017-19, had already been allowed. Such gigantic increases allowed by the petitioner to its employees in the past three years are unmatchable and far greater than the CPI prevalent in those years and hence unsustainable for the company.

7.1.8. Regarding meeting CBA demands amounting to Rs. 7.153 billion from FY 2017 to FY 2020, the Authority is of the considered opinion that the petitioner has always been allowed reasonable cost as part of HR benchmark to meet its legitimate cost in respect of all employees including subordinates.

7.1.9. The Authority further observes that since FY 2015-16 onwards, an amount over Rs. 7 billion had been allowed to the petitioner over and above the HR benchmark cost, being the capitalized cost, over which the petitioner had also earned the return to the tune of over Rs. 1 billion.

7.1.10. In view of above, the Authority is of the considered opinion that the HR benchmark allowed by the Authority provides sufficient cushion to the petitioner for meeting its legitimate needs of its all employees. The Authority has remained very vigilant and conscious while determining HR cost. ***In view of the same, the Authority maintains its earlier decision, any revision, if required, shall be considered at the time of Benchmark Review.***

7.2. **Stores and Spares**

7.2.1. The petitioner has submitted that new 42" dia pipeline has been commissioned, resulting in increase in respect of related costs. The petitioner has argued that while disallowing the petitioned amount on this account relating to RLNG, the same was not booked by the Authority for RLNG business.

7.2.2. *The Authority notes that the petitioner was asked time and again for provision of segregation of costs claimed under T&D costs into natural gas and LRNG, however, the petitioner has not provided the requisite information. Accordingly, the Authority maintains its earlier decision and provisionally allows Rs. 892 million under the sub-head of "Stores & Spares" for the said year.*

7.3. **Repair and Maintenance**

7.3.1. The petitioner has requested to allow Rs. 2,195 million under the sub-head "Repair & Maintenance". The petitioner has requested the Authority to allow upfront charges as claimed under the sub-head of "distribution", so that the Company may not have to arrange financing for incurring such expense.

7.3.2. The petitioner has further requested the Authority to allow Rs. 606 million in respect of "Other". The petitioner has argued that payments are being made in foreign currency. Therefore, current scenario of devaluation may impact its activities. The petitioner has therefore requested to allow entire expenditure claimed under the above head.

7.3.3. *The Authority has considered all the justification advanced by it at the time of DERR for the said year. The Authority notes that the petitioner has not provided any new submission to substantiate its claim. In view of the same, the Authority maintains its earlier decision and determines expenses under the head "Repair & Maintenance" at Rs. 1,580 million for the said year.*

7.4. **Stationery, Telegram and Postage**

7.4.1. The petitioner has submitted that out of its total claim of Rs. 262 million, the Authority allowed Rs. 204 million. The petitioner has argued that owing to increased consumer base and devaluation of rupee, the amount allowed by the Authority shall be insufficient to meet its expenses. Therefore, the Authority is requested to allow entire amount. i.e. Rs. 262 million.

7.4.2. ***The Authority notes that no new justification has been put forward by the petitioner. Earlier decision was made considering all the submissions advanced by it. In view of the same, the Authority maintains its earlier decision.***

7.5. **Rent, Rates, Royalty, Electricity and Telephones:**

7.5.1. The petitioner has requested to additionally allow Rs. 393 million over and above the expenditure allowed at the time of DERR for the said year. Breakup of the same is as under:

(Rs. In millions)

Sr. #	Description	Amount
1.	Rent	81
2.	Internet Charges	16
3.	Telephone	17
4.	Office Electricity	10
5.	NHA	206
6.	Vehicles Rates & Taxes	12
7.	Additional (office electricity)	50
		393

7.5.2. The Authority notes that no new justification has been provided by the petitioner i.e. the pre-requisite for filing the motion for review. In view of the same, the Authority maintains its earlier decision. Regarding additional demand in respect of office electricity, the petitioner has submitted that owing to tariff revisions and relatively reduced load shedding compared to previous period, it is anticipated that the said expense shall increase during the year. Moreover, actual expenditure during FY 2018-19 has remained at Rs.156 million.

7.5.3. The ***Authority agrees to petitioner's contention and decided to allow 50% of projected claim and fixed it at Rs. 25 million. In view of above, the Authority determines the amount under this head at Rs. 541 million for the said year.***

7.6. **Traveling Expense**

7.6.1. The petitioner has requested Rs.252 million under the head of "traveling expense". The petitioner has submitted that the allowed budget of Rs. 163 million for the said year is even lower than the actual expense incurred for FY 2017-18 i.e. Rs. 171 million. The petitioner has submitted that TA/HA and conveyance rates of subordinate staff were revised. Therefore, budget was increased i.e. 14% than the projected expenditure FY 2018-19 which is reasonable keeping in view the rising trend of inflation. In view of same, the Company has requested that the disallowed amount of Rs.89 million may be allowed for operations of the Company.

7.6.2. The Authority observes that said increase has already been exhaustively discussed in its DERR for the said year and accordingly restricted to level of RERR for FY 2018-19. ***Since no new justification has been provided by the petitioner, the Authority maintains its earlier decision. The Authority further re-iterates its directions in respect of adoption of austerity measures as well as new IT techniques.***

7.7. **Transport Expense**

7.7.1. The petitioner has argued that the amount allowed by OGRA is even lesser than actual of FY 2017-18 i.e. Rs. 897 million. Therefore, the allowed amount is insufficient to cater the operational expenses keeping in view the increasing trend of fuel prices.

7.7.2. ***The Authority notes that the petitioner has failed to provide any new justification. Accordingly, the Authority maintains its earlier decision.***

7.8. **Insurance**

7.8.1. The petitioner has requested the Authority to allow Rs. 423 million as against the earlier decision of Rs. 235 million under the above head. The petitioner has argued that it requires an amount of Rs. 313 million on account of premiums for other policies which are essentially required to safeguard its assets.

7.8.2. The Authority observes that at the time of DERR for the said year increase is mainly due to extension in network, incidentals thereto and increase in vehicle insurance relating to RLNG activity. Therefore, the same should be booked under RLNG business. The Authority further observes that segregation of natural gas and RLNG expenses shall automatically align the expenditure at the year end.

7.8.3. *In view of above, the Authority maintains its earlier decision and determines "insurance" at Rs. 235 million for the said year, and further directs the petitioner to separately book RLNG related cost.*

7.9. **Fuel and Power**

7.9.1. The petitioner has requested to allow Rs. 45 million under the head "fuel & power" in accordance with the Authority direction to change co-generation.

7.9.2. *The Authority accordingly accepts the same and fixed "fuel & power" at Rs. 401 million.*

7.10. **Legal & Professional Charges**

7.10.1. The petitioner has requested to allow Rs. 325 million under the above head. The petitioner has submitted that Company needs to exert efforts for recoveries against defaulters and gas thieves through suits filed. Further Company's rights are needed to be protected against arbitration clauses of agreements invoked by IPP's etc. Large business units which move courts against curtailment, shut downs, GIDC tariff issues etc. also require engagement of senior lawyers to plead Company's cases. Regarding professional charges, the petitioner explained that it intends to hire consultancy firms for potential assessment test in case of executives, promotion test for sub-ordinates, skill gap analysis etc. In view of the above, the disallowed amount of Rs.122 million may kindly be approved.

7.10.2. *The Authority notes that no new justification has been advanced by the petitioner. The Authority allowed one-time increase at the time of FRR FY 2017-18 owing to international litigation cases. Such increase cannot form basis for future increases.*

In view of the same, the Authority decides to maintain its earlier decision and determines legal and professional charges at Rs. 203 million for the said year.

7.11. **Advertisement**

7.11.1. The petitioner has submitted that an amount of Rs. 228 million was petitioned against which Authority allowed Rs.198 million thus disallowing Rs.30 million. The petitioner emphasized that Government is continuous focusing on anti-gas theft campaign as well as conservation of natural gas, the volume of advertisement will increase during FY 2019-20. In view of the above, further approval of Rs.30 million is requested for this expenditure.

7.11.2. The Authority notes that petitioner has not provided any new justification in order to substantiate its motion for review. ***In view of the same, the Authority maintains its earlier decision and directs petitioner to utilize technology e.g. SMS, WhatsApp, Mobile App for consumer awareness.***

7.12. **Uniform and Protecting Clothing's**

7.12.1. The petitioner has requested Rs. 109 million for the said year under the head of "Uniform and Protective Clothing's" to its employees as per standards set by it. The petitioner argued that OGRA has applied unnecessary cut on this account which makes procurement on this account impossible. Accordingly, it has been requested to allow such operational expenses in a respectable manner.

7.12.2. ***The Authority notes that the petitioner has not provided any new justification. Accordingly, it maintains its earlier decision and allows Rs. 43 million for the said year.***

7.13. **Staff Training and Recruiting Expenses**

7.13.1. The petitioner has requested to allow training at Rs. 98 million as against Authority's earlier determination of Rs. 12 million. The petitioner has argued that manpower assessment study should not be linked with expenses to be incurred on

"Staff Recruitment". It intends to initiate recruitment (open merit & disabled quota) in different categories of Subordinate Cadre. Regarding director training, the petitioner has argued that foreign training is required to equip its directors with best practices and industry knowledge.

7.13.2. The Authority at the time of DERR FY 2019-20 had considered all the submissions made by it. Additional staff recruitment with dwindling gas supplies raises questions over existing manpower strength and their effective utilization. Moreover, BOD's foreign training, if necessarily required, be also met from Company's own profit. The Authority is of the firm view that such expenditure be incurred judiciously and prudently with the fact that natural gas supplies are continuously declining.

7.13.3. ***In view of above, the Authority maintains its earlier decision. The financial impact, if any, will be allowed at the time of FRR subject to the actualization at year end.***

7.14. **Security Expenses**

7.14.1. The petitioner has contended that OGRA has advised the Company to reduce the expenses on this account advising that law and order position of the country has improved and restricted security expenses at Rs. 1,000 million for the said year.

7.14.2. The petitioner has argued that such assertions by OGRA contradict with the ground realities wherein Company has to engage comprehensive security for its offices as well as its installations in its areas of operations in view of imminent security threats. Therefore, the petitioner cannot show any slackness in ensuring safety of its employees and properties for which not only security guards are engaged for its offices but security agencies including Pakistan Rangers are engaged in Northern and Southern zones of the country. It is pertinent to mention that the Security Plan and deployment of Security Personnel desired by the Authority has already been submitted. In view of the above, the disallowed amount of Rs. 793 million may be allowed being essentially required.

7.14.3. The Authority has always appreciated the security measures and also emphasized on the fool proof security for the protection of life. The law and order situation of the Country has improved. The sub-head has already been discussed and finalized in DERR for the said year. ***In view of the same, the Authority maintains its earlier decision subject to the actualization at the end year considering the rationality and prudence of such expenditures.***

7.15. **Outsourcing of Call Centers for Call Management**

7.15.1. The amount of Rs. 35 million petitioned to Authority has been totally disallowed, despite the fact that expenses on this account has been consistently allowed by OGRA in the past. Sudden disallowance by OGRA on this account may invite handful of intervener's complaints on account of customer service. Accordingly, expenses on account of this center be allowed enabling the petitioner to serve its consumers. The petitioner has further informed that that Key Performing Indicators and Monitoring indicators to evaluate the effectiveness of call center as desired by the Authority has already been submitted. The approval for amount of Rs.35 million is requested on this account being essentially required.

7.15.2. The perusal of the KPIs' submitted by the petitioner reveals the facts behind the dismal performance of outsourced call centers. No result oriented / performance measuring indicators are being agreed with the service provider by the petitioner. This is a public sector company, responsible for such agreements which are the in the favor of company and its consumers. Any disadvantageous agreement or decision by the company's management shall not be borne by natural gas consumers. ***In view of the same, the Authority maintains its earlier decision and pends the expenditure on this account for the said year and directs the petitioner to submit more targeted and result oriented KPIs, so as to improve its redressal of online complaints.***

7.16. **Sports Cell Expense/Annual Sports/Cricket**

7.16.1. The petitioner has claimed Rs. 224 million on account of sports cell/annual sports. The petitioner has submitted that the Company has always participated actively in support events. Our cricket team is highest performer for the last decade in domestic cricket. Similarly the Company is encouraging the support of Hockey, Badminton, Tennis and Football. Due to paucity of funds, the salary of players and officials has not been increased for the last two years. Moreover, our teams were not able to participate in different top events in Pakistan. The petitioner has submitted that it desires to maintain / improve its public image being a responsible corporate citizen.

7.16.2. The Authority notes that no new justification has been provided by the petitioner. Natural gas consumers can' be burdened from the such expenditure, being non-core activities. ***In view of the same, the Authority maintains is earlier decision and fixes it at the level of Rs. 48 million. The Authority further reiterates its directions in respect of undertaking sports activities in across all regions.***

7.17. **Facilities Provided by Other Companies**

7.17.1. The petitioner has submitted that an amount of Rs.17 million has been pended by the Authority subject to the details of the project. The petitioner has submitted that it is required to facilitate the Company employees and their eligible dependents posted at Sui Gas field through Service Agreement with M/s PPL where no alternative source of such service exists. The presence of Company's technical staff at well head is necessary for monitoring purposes.

7.17.2. ***In view of above, the Authority accepts the petitioner's claim and restricts the expenditure to Rs. 10 million i.e. at the level of FRR FY 2017-18.***

7.18. **Board Meetings and Director's Expenses**

7.18.1. An amount of Rs. 82 million was petitioned against which Authority allowed Rs.29 million thus disallowing Rs.53 million. The petitioner has argued that allowed budget is even lesser than the actual expenditure of FY 2017-18 amounting to Rs.75

million. Keeping in view the actual number of meetings held by BOD and its sub committees in FY 2018-19 and expected meeting to be held during FY 2019-20, Rule 19(2) of the Public Sector Companies (Corporate Governance) Rules 2013 provides that director's remuneration packages shall encourage value creation and consequently directors shall align their interests with those of the Company. On the basis of above justifications, approval of disallowed amount of Rs.53 million is requested on this account.

7.18.2. *No new justification has been advanced by the petitioner. Accordingly, the Authority maintains its earlier decision and fixes it at Rs. 29 million for the said year.*

7.19. **Others Expenses**

7.19.1. The petitioner has requested to allow entire amount of Rs. 317 million as against the earlier determination of Rs. 179 million per DERR for the said year.

7.19.2. The petitioner has stated that Rs. 60 million is required under head "Construction Equipment Operating Cost". Amount has been estimated keeping in view the actual trend of inflation/increase in fuel prices. Under the head of "Recovery Contractors", an increase of 16% in rate of commission and decrease in aging of defaulter from 18 to 12 months has been envisaged during the said year. The petitioner further submitted that an amount of Rs. 21 million has also been envisaged for HSE week, sundries, NADRA verifications outside services etc. Accordingly, it has been requested to allow previously petitioned amount i.e. Rs. 317 million.

7.19.3. The Authority notes that it had considered all the submissions advanced by the petitioner at the time of DERR and issued a well cognizant decision keeping in view the paradigm shift and new business dynamics. The Authority is of the firm view that there is dire need to slash expenses so as to keep the price of natural gas within reasonable limits. *Accordingly, the Authority maintains its earlier decision and fixes it at Rs. 179 million with the direction to incur the expenses judiciously maintaining a consistent and prudent approach.*

8. Conclusion/decision

8.1. In view of the foregoing, the motion for review against the Authority determinations of estimated revenue requirement for said year is hereby disposed off. The financial impact of adjustments decided above shall form part of upcoming determination(s).

(Dr. Abdullah Malik)
Member (Oil)

(Noorul Haque)
Member (Finance)

(Uzma Adil Khan)
Chairperson

Islamabad, October 03, 2019