آئل اینڈ گیس
ریگولیٹری اتھارٹی

Oil & Gas
Regulatory Authority

GUARDING PUBLIC INTEREST

Case No. OGRA-6(2)-2(4)/2019-RERR

IN THE MATTER OF

SUI SOUTHERN GAS COMPANY LIMITED REVIEW PETITION FOR ESTIMATED REVENUE REQUIREMENT, FY 2019-20

UNDER

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

DECISION ON

December 11, 2019

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

CERTIFIED TRUE COPY

TABLE OF CONTENTS

SECTIONS PAGE NO.

CERTIFIED TRUE COPY

ANNEXURES:

CERTIFIED TRUE COPY

1. Background

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

1.2 The petitioner had filed a petition on November 30, 2018 under Section 8(1) of the Oil and Gas Regulatory Authority Ordinance, 2002 (the Ordinance) and Rule 4(3) of the Natural Gas Tariff Rules, 2002 (NGT Rules), for determination of its Estimated Revenue Requirement (ERR) for FY 2019-20 (the said year). The Authority, vide its decision May 17, 2019 determined a shortfall of Rs. 56,986 million, including last year FY 2018-19 revenue shortfall Rs. 24,933 million (or Rs. 69.87/MMBTU) (the amounts have been rounded off to the nearest million here and elsewhere in this document) and allowed an increase of Rs. 159.68 per MMBTU in the average prescribed price w.e.f July 01, 2019.

1.3 Being aggrieved by this determination, the petitioner has submitted a motion for review on June 15, 2019 under Rule 16 of the NGT Rules seeking average increase in prescribed price of Rs. 36.07 per MMBTU over and above the current average prescribed price w.e.f July 01, 2019.

2. Petition

2.1 The petitioner has also submitted its review petition on October 16, 2019, under Section 8(2) of the Ordinance, incorporating in the ERR the effect of changes in the projected cost of gas for the said year taking into account the latest actual oil prices in the international market, devaluation of rupee against US$, revised projection of gas purchase volume based on actual gas availability (purchases) and latest indications. The petitioner has claimed average increase in prescribed price of Rs. 62.52/MMBTU w.e.f July 01, 2019. The petitioner has included the items in principal allowed by the Authority in Motion for review on DERR FY 2019-20 dated October 03, 2019.

CERTIFIED TRUE COPY

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

Table 1 : Comparison of Cost of Service for RERR for FY 2019-20 as per the petition

Rs. In Million

Particular	FY 2019-20	
	DERR	**The Petition**
SALES VOLUME PROJECTIONS (BBTU)	356,872	362,668
Cost of gas sold	236,551	248,782
Transmission and distribution cost	18,853	23,327
Depreciation	5,506	5,826
UFG adjustment	(19,278)	(750)
UFG adjustments on RLNG volume handled basis (ring fenced)	-	(9,665)
Staggering of Financial Impact on account of SHC Order	(3,672)	(3,672)
Return on net average operating fixed assets	6,693	7,326
Shortfall related to Prior year	24,933	24,933
Other operating income	(7,529)	(7,525)
Subsidy for LPG Air-Mix Project	1,190	1,190
Cost of service/prescribed price Rs./MMBTU	737.65	799.00
Current average prescribed price Rs./MMBTU	577.97	736.48
Increase requested in average prescribed price Rs./MMBTU	**159.68**	**62.52**

2.3 The petitioner has envisaged the increase based on following claims for said year:

- **A. UFG Disallowances**
- **B. Capital Assets**
- **C. Operating Revenue**
  - i) Sales Revenue at Existing Prescribed Prices
  - ii) Others Operating Revenue
- **D. Cost of Gas**
- **E. Operating Expenses Under UFG Reduction Strategy for FY 2019-20.**
  - iii) HR Benchmark as per DMFR 2019-20
  - iv) Gas consumed internally
  - v) Store, spares and supplies
  - vi) Repair & Maintenance

2.1. The Authority admitted the petition for consideration, as a prima facie case for evaluation existed and it was otherwise in order.

2.2. A notice of pubic hearing inviting interventions/comments on the petition from the consumers, general public and other interested/affected persons, was published in the two daily combined newspapers, and one local Urdu newspapers on November 09, 2019.

2.3. The Authority received two (2) applications to intervene in the proceedings from the following persons / entities:

i. Mr. Zubair Motiwala, All Pakistan Textile Mills Association (APTMA),

ii. Mr. Ghyias Abdul Paracha, CNG Association

2.4. The Authority accepted all the above mentioned applications for intervention.

3. Proceedings

3.2. Public hearing was held on November 20, 2019 at Karachi. The following interveners/participants attended the public hearing:

Petitioner:

i) The petitioner's team led by Mr. Amin Rajpoot, Deputy Managing Director/CFO,

Interveners/ Participants:

ii) Mr. Zubair Motiwala, All Pakistan Textile Mills Association (APTMA),

iii) Mr. Ghyias Abdul Paracha, CNG Association

iv) Mr. Malik Khuda Baksh, Chairman, CNG Stations Owners Association of Pakistan,

v) Mr. Abdul Sami Khan, Chairman PPDA & CNG Association,

vi) Mr M. Tariq Mansoor Advocate, Member Human Rights Commission of Pakistan, (Notified Member District Consumer Protection Council, East, Govt. of Sindh)

vii) Mr. Syed Raza Abbas, Secretary Information of Sindh Petroleum and CNG Dealers Association,

3.3. During the hearing, the petitioner made following submissions with help of multimedia presentation, answered questions of members & officers of the Authority as well as of the interveners and participants:

3.3.1. The petitioner briefly explained cost centers/elements which are directly contributing for the increased tariff are cost of gas, sales revenue, previous year shortfall and additional resources requires for UFG Reduction Strategy FY 2019-20 under various head of T&D expenses and fixed assets.

3.3.2. The petitioner, in its review petition, requested the upfront adjustment of HR cost and other T&D expenses approved in principal in DMFR FY 2019-20 for its timely recovery; otherwise it would lead to revenue shortfall under these heads against its

CERTIFIED TRUE COPY

revenue requirement or resulting the accumulation of GDS.

3.3.3. Further, the petitioner, as inquired by the interveners, provided the detail of UFG Reduction Strategy FY 2019-20 plan; which detail is also provided in its petition.

3.4. ***The substantive points made by the interveners during the hearing are summarized as under;***

3.4.1. It was highlighted that RERR scope is limited to the extent of actual changes in wellhead gas prices/cost of gas.

3.4.2. It was highlighted that dollar prices of crude oil and HSFO are volatile and therefore, petitioner's estimates seem to be on higher side, requesting the Authority to cross check the same. Moreover, dollar parity has been taken by the petitioner at an exaggerated level whereas in the recent month, some gain/appreciation in Pak. rupee parity against US$ has been observed owing to improvement in country balance of payments.

3.4.3. Textile is one of the largest gas consumer group with record earnings of foreign exchange for the country; the intervener highlighted that only the textile sector' export shows increase of 20%; whereas the cost has been climbing up quite sharply owing to the fact that energy cost is main input cost after raw material. Consequently, higher cost shall affect/reduce textile sector exports.

3.4.4. The intervener vehemently opposed cross subsidy being allowed to general consumers and loading its impact on textile sector which would eventually diminish its competitiveness in the international market. Further, regional UFG losses i.e. Baluchistan UFG losses, should be borne by the consumer residing in these regions and it should not be loaded on textile sector as they are not responsible for those losses.

3.4.5. It was highlighted that SSGCL's should be directed to make profile of each industrial consumers based on their past record and through using latest technology for gas consumption with the view to control gas theft and pilferages by industrial sector.

3.4.6. It was highlighted that FG can only give policy guideline under section 7 and 21 of the Ordinance in respect of policy related issues. All regulatory matters fall exclusively under the jurisdiction of OGRA. It was also objected that policy guideline from FG in respect of petitioner is in direct conflict of interest, being 75% shareholder of the company.

3.4.7. It was highlighted that a hefty increase made in CNG prices has drastically

CERTIFIED TRUE COPY

reduced its consumption/sales in the country; whereas the Federal Government assured the CNG price parity will be maintained with petrol prices (50:50) to maintain economically viable for general consumers.

3.4.8. It was highlighted that CNG sector is being pressed with higher prices whereas this sector is contributing through reduced carbon emission and tax revenue to F.G; and registered their concern that any further increase in CNG price will make this product uncompetitive; therefore CNG sector should be charged equitable and fair prices; it has been requested to allow industrial tariff to CNG sector to make it economically viable for CNG consumers.

3.4.9. It was highlighted that every year the petitioner approaches OGRA for unnecessary increase in assets and operational cost for upward revision in tariff which badly effects its consumers; therefore such increase in expenditures and assets should be linked to reduction in UFG or operational efficiency; otherwise penalty should be directly imposed against SSGCL's management on account of inefficiency and non-achievement of targets. Further, it is proposed that OGRA should increase its staff strength to physical check or verify SSGCL's installation against the assets claims by the petitioner.

3.4.10. It is proposed that cross subsidy to fertilizer sector should be abolished, and subsidy through budgetary allocation be provided by the FG.

3.4.11. It was submitted that Sindh produces 70% of the gas of the country whereas Sindh CNG sector consumes 2.8% of own gas production; therefore, demanded ending of gas load shedding for CNG station located in Sindh; any abrupt and unscheduled discontinuation of gas supply is badly effecting their business therefore proper mechanism for load management should be implemented.

3.4.12. In order to bring down gas theft losses and pilferage in Karachi, better UFG management need on war footing; achieve through reduction in SSGCL staff and through induction of improved technology.

3.4.13. It was proposed that LPG air mix income or subsidy be abolished in the calculation of natural gas tariff.

3.4.14. It was highlighted Karachi UFG losses is quite high owing to mushroom growth of high rise building against which mechanism should be evolved to bring these gas losses to acceptable level.

3.4.15. It was requested to follow 14 days time in practice for public hearing notice to file intervention.

CERTIFIED TRUE COPY

3.4.16. It was highlighted that SSGCL's involved in irregular procurement, defective agreement made with power generation company and non-recovery of LPS from HCPC.

3.5. The petitioner also responded to the comments, observation and objections of the interveners/participants during public hearing. Further, the Authority also responded on intervener's objections on the spot and directed interveners to send detail of their interventions relevant to SSGCL's DERR FY 2019-20 to address the same in the order. Regarding the query on time observance for public hearing notice, it was clarified that no specific time is mentioned in the said rules regarding RERR for grant of time in case of publication of notice. Moreover, it was also highlighted that the schedule of SSGCL's public hearing news were aired by many news channels for public awareness and same available on OGRA official website.

4. Authority's Jurisdiction, Determination Process

4.1. The Authority is obligated to determine total revenue requirement /prescribed prices of the petitioner in accordance with Section 8(1) and 8(2) of the Ordinance and relevant License conditions of its integrated License. Section 8(1) of the Ordinance empowers the Authority to determine an estimate of the total revenue requirement of its licensees for a financial year and on that basis, advises the FG, the prescribed price of natural gas for each category of retail consumers.

4.2. GoP, pursuant to Section 8(3) of the Ordinance, is legally empowered to advise the Authority for notification in the official gazette, the minimum charges and sale price for each category of retail consumers. The Federal Government further decides the Gas Development Surcharge and the subsidy to be enjoyed/extra amount to be paid with respect to average cost of service, by various categories of consumers. Accordingly, it requires that macro-economic indicators as well as the cost of alternate and substitute source of supply be considered by the FG as well while fixing the sale prices. The Authority, in principle, is of the view that all the category of consumers must at least pay the average cost of service, keeping in view the existing cost of alternative or substitute source of energy. Accordingly, in the instant determination prescribed prices have been set keeping in view the provisions of Section 7 of the Ordinance. This shall provide a level playing field for all concerned.

CERTIFIED TRUE COPY

4.3. The Authority examines all applications and petitions in the light of relevant rules. Public notices are issued and all the stakeholders are provided full opportunity to intervene / comment upon the issues pertaining to determination of revenue requirement, in writing and at public hearings, which are duly taken into account. The operating revenues, operating expenses and changes in asset base are scrutinized in depth, keeping in view the justification and provision of the law. Accordingly, the decision is always based on the logic and rationale striking a balance among the divergent interests of stakeholders. Further, GoP's attention is specifically drawn to the pleas relating to policy matters for consideration, before deciding the retail prices for various categories of consumers. The Authority further, wherever necessary, issues directions to the petitioner to streamline/resolve the matters under the regulatory and legal framework.

4.4. The decisions issued by the Authority have always been strictly in accordance with the relevant provisions of Law. All the statutory requirements are firmly complied with before issuing any Order. The Authority, throughout the determinations since inception, ensures transparency in the process while balancing the interest of all stakeholders, including general public, gas utilities, industrial consumers, etc. The checks and balances implemented by the Authority to improve the quality of service to consumers and to bring efficiency in the overall management of the company have proved to be beneficial for the whole nation in measurable terms.

5. Operating Fixed Assets

5.1. The petitioner, in pursuance of its Strategy for UFG Reduction, has claimed additional capitalization amounting to Rs. 5,685 million during the said year, the detail of which is as under:

CERTIFIED TRUE COPY

Table 2: Summary of Requested Addition in Fixed Assets

SSGCL's Mid-Year Review FY 2019-20						Rs Million	
Asset Description	ERR Petition	DERR	Additional Amount principally Allowed in DMFR	Total Amount Allowed in DERR and DMFR (principally)	The Petition	Variance/ Additional Claim as per the petition	Actual Variance/ Additional Claim
	(Projected Amount)	(Allowed Amount)			(Claimed Amount)		
		A	B	C	D	D-A	D-C
Land	1	1	0	1	1	0	0
Building	281	140	0	140	168	28	28
Gas Transmission Pipelines	1,516	1,345	0	1,345	1,345	0	0
Compressors	2,079	777	0	777	777	0	0
Plant and Machinery	774	336	0	336	523	187	187
Gas Distribution System	8,498	5,994	246	6,240	11,047	5,053	4,807
Furniture, Equipments including computer and allied equipments	349	237	0	237	281	44	44
Computer Software	140	9	60	69	89	80	20
LPG Air Mix Projects	5,228	1,893	0	1,893	1,893	0	0
Telecommunication Systems	194	100	0	100	100	0	0
Appliances, Loose Tools and Equipments	1,204	306	28	334	459	153	125
Vehicles	1,107	177	102	279	753	576	474
Construction Equipment and Vehicles	385	27	56	83	83	56	0
Total	21,758	11,342	492	11,834	17,519	6,177	5,685

5.2. The petitioner has stated that keeping in view the rising trend of UFG in its entire franchise, since last few years, it has become a major concern for the Management, Board and the Ministry of Energy, as well as the Prime Minister's Office. To overcome the problem and curb the increasing UFG, a five-year plan was prepared and shared with CCoE, ECC and the Prime Minister's Office. The proposal for reduction in UFG in five years' period was not accepted and SSGCL and SNGPL were directed to bring down the UFG to the OGRA allowed benchmark in two years, i.e. F.Y.s 2019-20 and 2020-21. Accordingly, targets for physical activities were prepared at divisional and departmental levels and shared with the UFG Committee of the Board and the Ministry. Though, the targets of UFG reduction are very stringent, the petitioner's management is committed to achieve these targets at maximum level. In order to achieve these stringent targets, the management has formulated a comprehensive strategy at Divisional, Departmental, Regional, Zonal and Sub Zonal level.

5.3. The petitioner has stated that a "Strategy for UFG Reduction" has been developed and presented to BoD for modalities/implementation and as such additional amounts/budgetary requirements were estimated in the form of "UFG Reduction Strategy Budget FY 2019-20". The petitioner has added that the same is being claimed from the Authority in the form of revenue requirement in the said petition alongwith other regular items of Mid-Year Review Petition.

a. Gas Distribution System:

5.4. The petitioner has claimed an amount of Rs. 4,807 million against the head of Gas Distribution System which is in addition to Rs. 5,994 million and Rs. 246 million already allowed in DERR and DMFR. The detail of amount claimed against various sub-heads of Gas Distribution System is as under:

Table 3: Summary of Requested Addition in Gas Distribution System

Particulars			*Rs Million*
	DERR	The Petition	Related KMI
Network Segmentation		280	KMI 3
Meters Replacement	1,745	2,905	KMI 6
Measuring Modules		313	KMI 29
EVCs / TOCs	169	503	KMI 6,9
V3 Compatible index		800	KMI 8, 11, 12
CP Stations (Transformer Rectifiers)		6	KMI 16
Total Gas Distribution Network	1,914	4,807	

5.5. The Authority notes that the Petitioner's "strategy for UFG Reduction" consists of these activities which are already covered under the KMI Implementation Plan for UFG Benchmark. The Authority, based on the Petitioner's capacity to carry out such activities as well as the historical trend has already allowed certain amounts against these activities in its DERR FY 2019-20. However, the Petitioner has envisaged huge amounts against the same activities which are already covered under KMI Implementation Plan. The Authority appreciates and encourages the petitioner to execute the UFG Reduction Plans, however, the Authority adds that it would be imprudent to allow such huge expenditure at this stage.

5.6. The Authority, therefore, does not allow any additional amount under Gas Distribution System at this stage. Any separate UFG reduction plan, needs to be submitted for consideration and approval as a separate project.

b. Other Assets:

5.7. The Petitioner has claimed an additional amount of Rs. 878 million against the different heads of fixed Assets i.e. Rs. 28 million against the sub-head of Buildings, Rs.

187 million against Plant and Machinery, Rs. 44 million against Furniture, equipment including computer and allied equipment, Rs. 20 million against Computer software, Rs. 125 million against Appliances, Loose Tools and Equipment and Rs. 474 million against the sub-head of Vehicles.

5.8. ***The Authority notes that the petitioner has not provided any tangible justification/need assessment of items claimed against these heads, therefore, the Authority does not allow any additional amount against these heads at this stage.***

c. Other T&D Cost for UFG Reduction Strategy Budget FY 2019-20

5.9. The petitioner has requested operating expenses amounting to Rs. 527 million against UFG reduction Strategy Budget in the instant petition as summarize below:

Table 4: Other T&D Cost

	Rs. in Million
Store, Spare and supplies	191
Rent, rate and taxes	1
postage & Bill delivery through Contractor	12
Legal and Professional Charges	99
Security Expenses	221
Others	3
Total	**527**

5.10. ***Since the Authority has decided to disallow capital requirement of the UFG Reduction Strategy project as per para 5.8; the operating expenses of the same amounting to Rs. 527 million are also disallowed.***

6. Operating Revenues

a. Sales Revenue at Existing Prescribed Prices

6.1. The petitioner has projected an increase in sales revenue by 29% amounting to Rs. 267,098 million based on revision in sale prices as against Rs. 206,261 million determined at the time of DERR of FY 2019-20.

6.2. ***The Authority determines the estimated sales revenue at Rs. 267,542 million based on revised prescribed notification issued on October 28, 2019 for the said year.***

6.3. The petitioner has projected other operating income at Rs. 7,525 million in the instant petition i.e. Rs. 4 million reduction as compared with DERR for FY 2019-20.

CERTIFIED TRUE COPY

6.4. Since no concrete justification has been offered by the petitioner for decrease in other operating revenue i.e. 4 million; therefore, ***the Authority has decided to kept other operating income at the level of DERR for FY 2019-20.***

6.5. ***Accordingly, Total operating revenue is provisionally determined at Rs. 275,071 million.***

7. Cost of Gas

7.1. The petitioner has projected an increase in cost of gas from Rs. 236,551 million per the DERR to Rs. 248,782 million for the said year based on available actual two months gas volume purchases i.e. July and August 2019, based on the following assumptions as tabulated below:

Table 5: Assumption for Cost of Gas

Wellhead Gas Prices effective period	Avg. C&F Price of Crude Oil(US$/BBL	Avg. C&F Price of HSFO(US$/M.Ton	Exchange Rate (Rs./US$)
July to December 2019	66.39	397.37	158.39
January to June 2020	66.24	389.05	164.96

7.2. Base on the above, the petitioner claimed increase in SSGCL' weighted average cost of gas from Rs. 618.40/MMBTU against determined figures of Rs. 576.58/MMBTU at DERR of FY 2019-20

7.3. The Authority observes that well-head prices of gas for all fields in Pakistan are computed in accordance with GPAs and/or provisional pricing parameters, available on record, and are notified in exercise of powers vested to it under the Ordinance.

7.4. The Authority notes that the actual average C&F prices of crude oil and HSFO for the period June to November, 2019 has witnessed a small variation. Therefore, the Authority adopts actual C&F price of crude oil & HSFO upto November 30, 2019 as tabulated below:

Table 6: Revised Parameters for WACOG

Wellhead Gas Prices effective period	Avg. C&F Price of Crude Oil(US$/BBL	Avg. C&F Price of HSFO(US$/M.Ton	Exchange Rate (Rs./US$)
July to December 2019	66.39	397.37	158.39
January to June 2020	64.29	341.5794	159.00

CERTIFIED TRUE COPY

7.5. ***In view of the above, the Authority determines total cost of gas (using actual purchased volume of July-August, 2019) at Rs. 242,083 million as against Rs. 248,782 million projected by the petitioner for the said year.***

8. Transmission & Distribution Cost

i. Human Resource Cost

8.1. The petitioner has submitted that the Authority had allowed HR cost at Rs. 15,520 million in the determination of Motion for review on DERR FY 2019-20. The financial impact of which would be allowed at the time of upcoming revenue requirement/FRR. The petitioner has pleaded to include the impact of additional Rs. 1,364 million in the said petition with the view to include it in the revenue requirement.

8.2. ***The Authority had restored petitioner's HR benchmark in DMFR FY 19-20; however, impact was pended till next revenue requirement determination. In view of the aforementioned, the Authority hereby allows inclusion of impact in the instant determination.***

ii. Store, Spares and Supplies

8.3. The petitioner has stated that the Authority allowed Rs. 798 million against the demanded amount of Rs. 1,297 million in DERR of FY 2019-20. The company has rationalized its budget under this head to Rs. 1,061 million with an additional amount Rs. 263 million against various operational activities. The petitioner has envisaged an additional requirement for UFG Reduction Strategy Budget FY 2019-20 with an increase of Rs. 191 million. Based on the above, the petitioner has requested the Authority to allow the entire rationalized amount of Rs.1,252 million.

8.4. ***The Authority notes that justifications for increase in the expenses have already been considered at the time of DFMR FY 19-20 and had decided that revision would be subject to actualization at the time of FRR. The Authority maintains it's earlier decision to review the expenses at the time of FRR.***

CERTIFIED TRUE COPY

iii. Repair and Maintenance (KMI Nos. 1-14, 17-24 & 29)

8.5. The Petitioner has claimed an amount of Rs. 1,909 million which is in addition to Rs. 1,633 million already allowed in DERR FY 2019-20. The petitioner has stated that additional amount of Rs 1,909 million claimed against this head comprises of Rs 675 million already allowed, conceptually, by the Authority and Rs 1,234 million for 'Strategy for UFG Reduction. Out of the total claim of Rs 1,234 million against this head, the petitioner has projected an amount of Rs 151 million for Underground Leaks & Survey Repairs; Rs. 669 million for Overhead Leaks Survey & Repairs; Rs 25 million for R&M-Distribution Mains and Rs 32 million for R&M-Motor Vehicles etc.

8.6. The petitioner has stated that in order to make the exercise result oriented the survey will be carried out in the high UFG prone segmented areas. The petitioner has further stated that Portable and Mobile Gas Leak detection equipment, along with survey software for recording and monitoring the survey data in GIS, has been projected for the said year. Furthermore, bulk meters will be installed at Flat Sites for reconciliation and rectification of leakages in intermediate and common house lines.

8.7. The Authority observed that it had allowed an amount of Rs. 1,633 million in DERR FY 2019-20 against the head of Repair and Maintenance. The Authority notes that the Petitioner is factually incorrect, as the Authority had not conceptually allowed any amount in its DMFR dated 3 October, 2019 under this head. The Authority in the DMFR had, however, noted that 'the petitioner may claim the actualized figures at FRR stage'.

8.8. ***The Authority, therefore, does not allow any additional amount under the head of Repair and Maintenance at this stage, Moreover, any separate UFG reduction plan, needs to be submitted for consideration and approval as a separate project.***

iv. Gas Internally Consumed (GIC)

8.9. The petitioner has claimed an amount of Rs. 412 million which is in addition to Rs. 406 million already allowed in this head. The petitioner has stated that since the Authority in the DMFR allowed Rs. 382 million but had not allowed its financial impact in Revenue Requirement of the Company, therefore the petitioner has claimed Rs 412 million for GIC in the instant petition which comprises of Rs. 30 million on account of increase in cost of gas and Rs. 382 million, as already allowed conceptually by the Authority but not included in Revenue Requirement.

CERTIFIED TRUE COPY

8.10. The Authority observed that it had allowed an amount of Rs. 406 million in DERR FY 2019-20 against the head of GIC. The Authority also notes that it had not allowed any additional amount conceptually in its DMFR. The Authority had, however, noted that 'the petitioner may claim the actualized figures at FRR stage'.

8.11. *The Authority, therefore, maintains its earlier stance on the matter and does not allow any additional volume against this head at this stage. However, based on SSGCL's revised weighted average cost of gas i.e. Rs. 602.84 GIC has been determined at Rs. 424 million for the said year.*

v. Unaccounted for Gas (UFG)

8.12. The petitioner has calculated UFG for the said year at 12.38% (54,100 MMCF). *The Authority based on its working of Gas Internally Consumed (GIC), at paras 9.9 to 9.11 above determines UFG at 12.79% for the said year as under:*

Table 7: Unaccounted for Gas

MMCF

Particulars	The Petition 2019-20	Determined by the Authority
Gas Purchases:		
Gross Purchases	408,332	408,332
RLNG held stock	28,586	0
Total	436,918	408,332
Less: Gas Internally Consumed-metered	2,969	709
Available for Sale	**433,949**	**407,623**
Gas Sales:		
Gas Sales	379,826	355,363
Add: Gas Shrinkage at LHF - Condensate	23	23
Total	**379,849**	**355,386**
UFG Volume	54,100	52,237
UFG Projected	**12.38%**	**12.79%**
UFG Benchmark (Benchmark)	5.00%	5.00%
Provisional allowance for local operating conditions	1.30%	1.30%
Allowable UFG Volume @ 6.30% Benchmark	27,526	25,725
Disallowed Volume (MMCF)	26,574	26,512
WACOG (Rs./MMCF)		525.15
UFG Adjustment (Rs. in million)		13,923

8.13. The petitioner has calculated UFG at 12.38% (54,100 mmcf). The Authority notes that the petitioner has claimed 28,586 mmcf against " RLNG held stock to SSGCL/ Purchases " and 24,463 mmcf against "RLNG held stock to SSGCL/Sales ", however, it has not provided any justification or rationale / working for the said volume,

CERTIFIED TRUE COPY

therefore, the Authority does not allow any volume under the head of RLNG held stock to SSGCL, at this stage.

8.14. ***Revised UFG adjustment on the basis of revised WACOG is provisionally computed at Rs. 13,923 million for the said year.***

9. Previous Year Revenue Shortfall

9.1. The petitioner has included Rs. 24,933 million shortfalls pertaining to FY 2018-19.

9.2. Due to revision of sale prices by the Federal Government effective July 01, 2019, the petitioner net sales revenue has been determined at Rs. 267,542 million as per para 6.2 i.e. Rs. 737.71/mmbtu as against Rs. 737.65/mmbtu prescribed price (including previous year shortfall) determined by the Authority in DERR for FY 2019-20.

9.3. ***In view of the above, The Authority accordingly, accepts the same and includes Rs. 24,933 million in the instant determination on account of sufficient increase in revenues of the petitioner.***

10. Financial Impact of Hon'ble Sindh High Court (SHC)Judgment

10.1. The petitioner has offered Rs. 3,672 million, being financial adjustment arising out of the decision of honorable SHC in the light of decision of the Federal Cabinet and SECP clarification.

10.2. ***In view of above, the Authority accepts the same & adjusts Rs. 3,672 million by reducing revenue requirement for the said year.***

11. Determination

11.1. The Authority, after taking into consideration points raised by interveners, clarifications provided by petitioner, scrutiny of petition and available record, provisionally determines deficit in estimated revenue requirement for said year at Rs. 7,812 million (**Annexure-I**). The Authority decides to adjust the same in the remaining six months, i.e. January - June, 2020, since sale prices cannot be increased retroactively.

11.2. The Authority notes that it has been including prior year shortfall Rs. 24,933 million, as referred in Para 9.1, in pursuance of the ECC decision dated May 17, 2018 since DERR-FY 2019-20. The Authority is, however, of the considered view that the sales prices effective January 01, 2020 be adjusted in such manner that total revenue requirement of Rs. 282,883 million (including previous year shortfall) determined by OGRA be met.

CERTIFIED TRUE COPY

11.3. The Authority, as a matter of principle under legal domain, is of the view that all the classes of consumers should at least pay the average cost of service or the average prescribed price except wherever FG policy guidelines have been provided, which shall be implemented accordingly.

11.4. The Authority is, however, of the considered view that the sales prices effective January 01, 2020 be adjusted in such manner by FG that the revenue requirement as determined by it be fully met. Regarding inclusion of previous year shortfall, the FG may review its earlier decision of the ECC dated May 17, 2018 so that appropriate order be given in the prevailing circumstances, where insufficient revision has been advised to OGRA from time to time.

11.5. The Authority, in view of indigenous gas constraints, enhanced proportion of RLNG, price of alternative fuels i.e.; LPG and the relevant provisions under the legal framework decides the prescribed prices under each category of consumer per **Annexure-II.** The rationale of the same is briefly provided as under;

11.6. First two domestic slabs, are currently highly subsidized when compared with actual cost of service of indigenous natural gas or the cost of RLNG which is diverted in winter, and the cost of alternative fuel i.e. LPG. Therefore, the same has been decided to be rationalized keeping in view the actual cost of service. Accordingly, in respect of existing first two slabs (upto 1HM3), the prescribed price has been determined at 50% of average cost of service. The next slab (upto 2 HM^3), prescribed price has been determined at 75% of average prescribed price. The existing fourth slab is, upto 3 $HM^{3,}$ has been aligned equal to average cost of service. The intent of such rationalization is to send appropriate price signals considering the scarcity of the natural resource as required under Section 7 of the OGRA Ordinance. Rest of slabs of domestic consumers slabs have been reduced to Rs. 1,092/MMBTU & Rs. 1,440/. The slight reduction is due to rationalization of highly subsidized domestic slab rates and the resultant enhanced recovery of the revenue requirement.

11.7. The slab rates of roti tandoor have also been rationalized on the lines adopted for domestic consumers being highly subsidized. The fertilizer feedstock has also been fixed at the level of average cost of service/prescribe price of the petitioner. The intent of the rationalization is to minimize economic distortions and send appropriate price signals considering the scarcity of the natural resource as required under section 7 of the OGRA Ordinance. This enhanced recovery from roti tandoor and fertilizer category of consumers has resulted in reduction in prescribed prices of the remaining consumer categories including **CNG, Commercial, Industrial, captive, Power and Cement, special commercial (last slab) etc.**

11.8. The revised provisional prescribed prices are subject to the condition that these *"may be re-adjusted upon receipt of Federal Government advice under Section 8 (3) of the Ordinance in respect of the sale price of gas for each category of retail consumers provided that the overall increase in the average prescribed price remains unchanged so that the petitioner is able to achieve its total revenue requirements in accordance with Section 8 (6) (f) of the Ordinance."*

11.9. Under Section 8 (3) of the Ordinance, the FG is required to advise the Authority, within 40 days of advice from the Authority of revision of prescribed prices, the minimum charges and the sale price for each category of retail consumers, for notification in the Official Gazette by the Authority.

11.10. Further, under Section 8 (4) of the Ordinance, if the FG fails to so advise within the said 40 days and the prescribed price for any category of retail consumers determined by the Authority is higher than the most recently notified sale price for that category of retail consumers, the Authority shall be obligated to notify in the Official Gazette the prescribed price as determined by the Authority to be the sale price for the said category of retail consumers. In such an unlikely, and undesirable, eventuality, all the categories, except fertilizer feedstock (new) will be affected. That will also result in different retail prices being charged by the petitioner and SNGPL for some categories of retail consumers violating the prevalent Federal Government policy of maintaining uniform prices for retail consumers throughout Pakistan.

11.11. In view of above legal position, FG may take necessary action under Section 8 (3) of the Ordinance and advise the Authority the revised sale price for each category of retail consumers of natural gas for notification in the Official Gazette within the stipulated time period.

CERTIFIED TRUE COPY

12. Public Critique, Views, Concerns, Suggestions

12.1. The Authority has recorded concerns of interveners and participants in Para 3 above, which include matters relating to policy and do not fall under the purview of Authority but affect the consumers. Specific attention of Federal Government is drawn to these issues for consideration and necessary action.

Dr. Abdullah Malik
Member (Oil)

Noorul Haque
Member (Finance)

Uzma Adil Khan
Chairperson

Islamabad, December 11, 2019

REGISTRAR
Oil & Gas Regulatory Authority
Islamabad

CERTIFIED TRUE COPY

I. Computation of Revised Estimated Revenue Requirement for FY 2019-20

Rs. in Million

		Particulars	The Petition	The Adjustment	Determined by the Authority
Gas sales volume -MMCF			355,363	-	355,363
		BBTU	362,668		362,668
		July to December, 2019	176,283		176,283
		January to June, 2020	186,385		186,385
	"A"	Net Operating Revenues			
		Net sales at current prescribed price	267,098	444	267,542
		Meter rentals	820	-	820
		Amortization of deferred credit	473	-	473
		Sale of LPG	1,066	-	1,066
		Sale of condensate	20	-	20
		Sale of NGL	177	-	177
		Late payment surcharge	3,292	-	3,292
		Meter manufacturing profit	7	4	11
		Other operating income	1,669	-	1,669
		Total Operating Revenue "A"	274,623	448	275,071
	"B"	Less: Operating Expenses			
		Cost of gas	248,782	(6,699)	242,083
		UFG Adjustment	(750)	(13,173)	(13,923)
		UFG adjustments on RLNG volume handled basis (ring fenced)	(9,665)	9,665	-
		Staggering of Financial Impact on account of SHC Order	(3,672)	-	(3,672)
		Transmission and distribution cost	20,964	(2,699)	18,264
		Gas internally consumed	817	(393)	424
		Depreciation	5,826	(482)	5,344
		Other charges including WPPF	1,546	-	1,546
		Total Operating Expenses "B"	263,848	(13,781)	250,066
	"C"	Operating profit (A-B)	10,776	14,229	25,005
Return required on net operating fixed assets:					
Net operating fixed assets at beginning			43,243	(0)	43,243
Net operating fixed assets at ending			54,145	(7,530)	46,615
			97,388	(7,530)	89,858
Average net assets (I)			48,694	(3,765)	44,929
Net LPG air mix project asset at beginning			655	(141)	514
Net LPG air mix project asset at ending			2,756	(128)	2,628
			3,411	(269)	3,142
Average net assets (II)			1,706	(134.71)	1,571
Deferred credit at beginning - Assets related to Natural Gas Activity			4,799	-	4,799
Deferred credit at ending - Assets related to Natural Gas Activity			5,118	-	5,118
			9,917	-	9,917
Average net deferred credit (III)			4,959	-	4,959
"D" Average (I-II-III)			42,030	(3,630)	38,400
"E" return required			7,326	(633)	6,693
"F" Shortfall / (Surplus) in return required (E-C) (Gas Operations)			(3,450)	(14,862)	(18,312)
"G"		Additional revenue requirement for Air-Mix LPG Projects	1,190	-	1,190
Total Shortfall / (Surplus) H=(F+G)			(2,260)	(14,862)	(17,121)
H		Increase in average prescribed price effective (Rs. / MMBTU) w.e.f January 01, 2020	(6.23)	(40.98)	(47.21)
I		Shortfall related to Prior Year FY 2018-19	24,933	-	24,933
Total Shortfall / (Surplus) J=(H+I) (including FY 2018-19)			22,673	(14,861.63)	7,812
Increase in average prescribed price effective (Rs. / MMBTU) w.e.f January 01, 2020			62.52	(40.98)	21.54
Total estimated revenue requirement (B+E+G+I) (including FY 2018-19 shortfall)			297,297	(14,414)	282,883
Average Prescribed Price upto 01-7-2019 (Rs. per MMBTU)			799.00	(39.75)	759.24

CERTIFIED TRUE COPY

II. Provisional Prescribed Prices for FY 2019-20-

	Particulars	Average Prescribed Price	w.e.f July 01, 2019	w.e.f January 01, 2020
		Rs./MMBTU		
(i)	Domestic Consumers:			
	Upto 50 cubic metres per month	759.24	121.00	379.62
	Upto 100 cubic metres per month	759.24	300.00	379.62
	Upto 200 cubic metres per month	759.24	553.00	569.43
	Upto 300 cubic metres per month	759.24	738.00	759.24
	Upto 400 cubic metres per month	759.24	1,107.00	1,091.87
	Above 400 cubic metres per month	759.24	1,460.00	1,440.05
	The billing mechnism will be revised so that the benefit of one previous /slab is available to domestic consumer (residential use.)			
(ii)	Special Commercial Consumers (Roti Tandoors)			
	Upto 50 M^3 per Month	759.24	110.00	379.62
	Upto 100 M^3 per Month	759.24	110.00	379.62
	Upto 200 M^3 per Month	759.24	220.00	569.43
	Upto 300 M^3 per Month	759.24	220.00	759.24
	Over 300 M^3 per Month	759.24	700.00	759.24
(iii)	Commercial :			
	All off-takes at flat rate of	759.24	1,254.89	1,237.74
(iv)	Ice Factories:			
	All off-takes at flat rate of	759.24	1,254.89	1,237.74
(v)	Industrial:			
	All off-takes at flat rate of	759.24	998.79	985.14
(vi)	**Registered manufacturers or exporters of five zero-rated sectors and their captive power namely: Textile (including jute), carpets, leather, sports and surgical goods**			
	All off-takes at flat rate of	759.24	768.31	757.80
(vii)	Captive Power :			
	All off-takes at flat rate of	759.24	998.79	985.14
(viii)	CNG Stations:			
	All off-takes at flat rate of	759.24	1,254.89	1,237.74
(ix)	Cement Factories:			
	All off-takes at flat rate of	759.24	1,248.49	1,231.43
(x)	Fauji Fertilizer Bin Qasim Limited			
	(i) For gas used as feed-stock for Fertilizer	759.24	300.00	759.24
	(ii) For gas used as fuel for generating steam and electricity and for usage in housing colonies for fertilizer factories	759.24	998.79	985.14
(xi)	Power Stations			
	All off-takes at flat rate of	759.24	805.44	794.43
(xii)	Pakistan Steel			
	All off-takes at flat rate of	759.24	998.79	985.14
(xiii)	Independent Power Producers			
	All off-takes at flat rate of	759.24	805.44	794.43

CERTIFIED TRUE COPY

III. List for Abbreviations

APCNGA	All Pakistan CNG Association
APTMA	All Pakistan Textile Mills Association
BAQTI	Bin Qasim Association of Trade and Industry
BBTU	Billion British Thermal Unit
BCFD	Billion Cubic Feet Daily
BOD	Board of Directors
C&F	Cost and Freight
CC	Cement Concrete
CEO	Chief Executive Officer
CNG	Compressed Natural Gas
CP Station	Cathodic Protection Station
CP System	Cathodic Protection System,
CP	Constitutional Petition
CC&B	Customer Care and Billing
CMS	Customer Meter Station
DDC	Direct Departmental Cost
DERR	Determination of Estimated Revenue Requirement
DMFR	Determination of Motion for Review
EETPL	Engro Energy Terminal Pvt. Ltd.
ENI	Ente Nazionale Idrocarburi
ERR	Estimated Revenue Requirement
EVC	Electronic Volume Corrector
ECC	Economic Coordination Committee
FBATI	Federal Bureau Association of Trade & Industry
FG	Federal Government
FRR	Final Revenue Requirement
GIC	Gas Internally Consumed
GDP	Gas Domestic Product
GDS	Gas Development Surcharge
GOP	Government of Pakistan
GIDC	Gas Infrastructure Development Cess
GPA	Gas Pricing Agreement
GPD	Gas Producing Districts
HCPC	Habibullah Coastal Power Company
HSFO	High Sulphur Furnace Oil
HQ	Head Quarter
IAS	International Accounting Standard
ISGSL	Inter State Gas System Limited
JJVL	Jamshoro Joint Venture Limited
KCCI	Karachi Chamber of Commerce & Industry
KE	Karachi Electric
KMI	Key Monitoring Indicators
LATI	Landhi Association of Trade & Industry
LPG	Liquified Petroleum Gas
LPS	Late Payment Surcharge
LNG	Liquified Natural Gas
MOE (PD)	Ministry of Energy (Planning Division)

CERTIFIED TRUE COPY

MGFIP	Mehar Gas Field Integration Project
MMBTU	Million Metric British Thermal Unit
MMCFD	Million Standard Cubic Feet per Day.
MMP	Meter Manufacturing Profit
MP&NR	Ministry of Petroleum and Natural Resource
MR	Market Return
MRP	Market Risk Premium
NGPD	Non Gas Producing Districts
NGRA	Natural Gas Regulatory Authority
NKATI	North Karachi Association of Trade & Industry
NHA	National Highway Authority
NTV	New Towns and Villages
OGDCL	Oil and Gas Development Company Ltd.
OGRA	Oil and Gas Regulatory Authority
OMV	Österr Mineralöl Verwaltung
PPL	Pakistan Petroleum Limited
PRS	Pressure Regulating Station
POD	Point of Delivery
PSO	Pakistan State Oil
QPL	Quetta Pipe Line
RF	Risk Free
RLNG	Re-Gasified Liquefied Natural Gas
RS	Regulating Station
ROW	Right of Way
SECP	Securities & Exchange Commission of Pakistan
SHC	Sindh High Court
SITE	Sindh Industrial Trading Estate
SMS	Sale Meter Station
SNGPL	Sui Northern Gas Pipeline Limited
SSGCL	Sui Southern Gas Company Limited
SCADA	Supervisory Control And Data Acquisition
TBS	Town Border Station
T&D Cost	Transmission and Distribution Cost
TRS	Town Regulating Station
UFG	Un-accounted for Gas
WACOG	Weighted Average Cost of Gas
WAPDA	Water And Power Development Authority
WPPF	Workers Profit Participation Fund

CERTIFIED TRUE COPY