Case No. OGRA-6(2)-1(5)/2019-RERR

IN THE MATTER OF
SUI NORTHERN GAS PIPELINES LIMITED
REVIEW OF ESTIMATED REVENUE
REQUIREMENT, FY 2019-20

UNDER

SECTION 8(2) OF OIL AND GAS REGULATORY AUTHORITY
ORDINANCE, 2002 AND
NATURAL GAS TARIFF RULES, 2002

DECISION

December 10, 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 (the petitioner) is a public limited company, incorporated in Pakistan, and listed on the stock exchanges at Karachi, Lahore and Islamabad. The petitioner is operating in the provinces of Punjab, Khyber Pakhtunkhwa (KPK) and Azad Jammu & Kashmir (AJ&K) under the license granted by Oil & Gas Regulatory Authority. It is engaged in the business of construction and operation of gas transmission and distribution pipelines, sale of natural gas and sale of gas condensate (as a by-product).

1.2. The Authority, under Section 8(1) of the OGRA Ordinance, 2002 (the Ordinance) determined the Estimated Revenue Requirement (DERR) 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 w.e.f. July 01, 2019.

1.3. The petitioner being aggrieved with the Authority determination dated May 17, 2019 had submitted Motion for Review on DERR FY 2019-20 on June 14, 2019 and the same was accordingly disposed of by the Authority on October 03, 2019.

2. The Petition

2.1. The petitioner submitted this review petition on October 15, 2019 (the Petition), under Section 8(2) of the Ordinance, projecting a shortfall of Rs. 42,296 million, translating into an average increase of Rs.115.54 per MMBTU in its prescribed price for its natural gas business, w.e.f. July 01, 2019. The petitioner has further included Rs. 28,725 million being previous year shortfall, thereby requesting revenue requirement at Rs. 315,176 million (Rs. 194.01/MMBTU) for the said year. The petitioner has also claimed certain items of its Motion for Review (MFR) against DERR for the said year along with financial impact of those items allowed

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by the Authority in its decision of MFR against DERR for the said year dated October 03, 2019.

2.2. Besides above, the petitioner has claimed RLNG cost of service (transportation charges) at Rs. 92.60 per MMBTU and cost of RLNG diverted towards domestic sector at Rs. 71,992 million. The petitioner has also claimed Rs. 165 million revenue shortfall in respect of LPG business.

2.3. The details of the items claimed in the instant petition are as under:

i. Cost of gas sold has been computed at Rs. 205,648 million taking into account the latest actual/estimated oil prices in the international market, impact of rupee US$ exchange rate, revised projection of gas purchase volume based on actual gas availability for the months of July and August, 2019 and latest indications.

ii. Capital and operating expenditure allowed by the Authority in the decision of MFR against DERR for the said year.

iii. Operating expenses amounting to Rs. 1,401 million in respect of KMI implementation plan.

iv. Principally allowed assets

v. Establishment of Regional office at Karak.

vi. Establishment of Customer Service Center (CSC) at Jahangira, Mardan region.

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

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3. Proceedings

3.1. A notice inviting interventions / comments from consumers, general public and other interested / affected persons, intimating time and place of the public hearing was published in two daily combined and one local newspapers on November 09, 2019. A public hearing was held on November 19, 2019 at Lahore, which was participated by the petitioner and interveners.

Petitioner:

i. Petitioner's team led by Mr. Amer Tufail, Dy. Managing Director

3.2. The Authority received applications to intervene in the proceedings from the following persons / entities:

Interveners/Participants

i. Mr. Muhammad Aslam Chaudhry, Lahore,
ii. All Pakistan CNG Association,
iii. Syed Murtaza Ali Pirzada, Consumer/Advocate,
iv. Sheikh Muhammad Ayub, All Pakistan Textile Processing Mills Association,
v. Mr. Mehboob Elahi, Consumer,
vi. Mr. Aleem Akhtar, Consumer.

3.3. The petitioner made submissions in detail with the help of multimedia presentation explaining the basis of its petition. The substantive points made by the interveners, representatives of general public, and participants during hearings are summarized below:

3.3.1. The issue of hefty salary drawn by the petitioner was raised by the interveners. It was demanded that salary structure of the petitioner's employees be disclosed to the consumers. Moreover, it was highlighted that petitioner does

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not provide technical and economic feasibility of capital asset projects as required in law. Therefore, the petition is illegal and cannot be entertained.

3.3.2. It was demanded that new connections as per the directions of FG should not be part of asset base of the company and be funded by FG itself.

3.3.3. It was also demanded that Regional offices of Karak be established considering the number of consumers and volume handled by it. Moreover, economic viability and technical feasibility of capital expenditure be provided so that financial burden to be borne by consumers is known.

3.3.4. It was also demanded that entire information relating to RLNG including cost of purchases, overheads and capacity allocation be available for RLNG consumers so as to ascertain the actual cost of service.

3.3.5. It was pointed out that aging of defaulted consumers' available on company's official website shows that the company does not timely disconnect the connections resulting in huge receivables. Such practice clearly depicts petitioner's inefficiency and connivance with the commercial & industrial consumers, which the adversely impacting the other consumers.

3.3.6. It was demanded that consumers be also informed about public hearing through electronic media.

3.3.7. It was highlighted that RLNG is natural gas and hence be dealt under one set of law.

3.4. The petitioner responded to the comments, observations and objections of the intervener's participants. It was informed that replies to queries of Mr. Aslam Chaudhary have already been responded. Regarding aging of receivables, it was informed that timely disconnection was not possible in many cases as those were sub-judice in the courts.

3.5. Regarding query relating to advertisement through electronic media, Registrar, OGRA clarified that the Authority may opt one or more mode of publication under Rule 6 of NGT Rules. Accordingly, OGRA published the notice of hearing in two national and one local newspapers. It was further highlighted by

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SED(C&MA) that news strips were also aired by many news channels reporting the conduct of public hearings by OGRA on the given dates. Moreover, the notice of the instant hearing was also available on OGRA's official website. Hence, relevant provisions regarding publication of notice was entirely complied by OGRA.

4. Authority's Jurisdiction, Determination Process

4.1. The Authority examined, in depth, all applications and petitions in light of relevant legal provisions. The instant petition has been filed under section 8(2) of the Ordinance. The instant petition is primarily focused on review of cost of gas / WACOG of the petitioner based on actual changes in the wellhead gas prices and relevant factors. The wellhead gas prices for the said year are based on the actual prices of crude oil and HSFO during the period December, 2018 to November, 2019. The trend in rupee vs US$ rates in recent months is to be taken into account, along-with actual prices in the previous months, while determining cost of gas to ensure that the determination is rational and fair to all stakeholders.

4.2. The operating revenues, operating expenses and changes in asset base are scrutinized by the Authority in depth. Appropriate benchmarks are set in critical areas of operation to ensure that the cost of petitioner's inefficiencies and imprudence are not passed on to the consumers.

4.3. The process is followed in the letter and spirit of law. Public notices are issued and all stakeholders are provided full opportunity to intervene / comment upon issues pertaining to determination of revenue requirement, in writing and at public hearings. The Authority gives full consideration to observations, and comments of all stakeholders while determining revenue requirement as well as prescribed prices.

4.4. The overall function of tariff determination / revenue requirement as well as its scheme and evaluation criteria, is explicitly provided in the legal framework as defined in the OGRA Ordinance, NGT Rules and the respective licenses for

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regulated activities. Therefore, all the legal instruments are to be read together to understand the mechanism established to carry out the function prescribed under the Ordinance.

4.5. ***The instant determination of the Authority is based on the prevalent tariff regime. In view of the same, the Authority allows 17.43% return on the average net operating fixed assets while treating various income and expenditure heads decided in new tariff regime.***

5. RLNG Related Issues

5.1. The petitioner has stated that the Authority has determined RLNG cost of supply (transportation charges) for the said year on the basis of total capacity of RLNG (i.e. 1200 MMCFD) with direction to complete the process of allocating spare capacity to the potential shippers on fast track basis. The petitioner has informed that applications from potential shippers are pending due to the reason either licenses are yet to be issued or they do not have upstream infrastructure and necessary agreements / arrangements in place with the suppliers. The petitioner has also argued that full utilization of RLNG is not in its control as power sector has not given firm demand. The petitioner has, therefore, requested to allow idle capacity to it on similar basis as in case of RLNG terminals, as it is discriminatory on part of OGRA.

5.2. The petitioner has again agitated the rate of transportation tariff payable to SSGC, impact of less UFG determined in RLNG prices from July - 2018 to February 2019 and impact of diversion of RLNG to domestic consumer in winter season. The petitioner has informed that it has been following up GoP on the said issue as per the direction of the Authority.

5.3. Regarding applicability of actual capacity utilized by the petitioner for the purpose of transportation rate, the Authority is of the considered view that all agreements between the petitioner and RLNG bulk consumers have been signed on take and pay clause and therefore, the petitioner's view point of double

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jeopardy owing to lower capacity utilization and cost of diverted volumes is against the fact. The petitioner must finalize the agreements and related issues with the shippers holding valid licenses at the earliest so as to resolve the idle capacity issue, albeit this activity is part of project due diligence and viability, which should have accordingly been executed by it with the commission of pipeline. ***In view of the same, the Authority maintains its earlier decision.***

5.4. The Authority further notes that all the above issues have already been discussed and decided by the Authority as part of the decision of MFR against DERR FY 2019-20 issued on October 03, 2019. ***In view of above, the Authority maintains its earlier decision and directs the petitioner to resolve the matter relating to policy issues with FG for immediate redressal.*** Further, the petitioner must submit its application for actual periods through PSO/PLL under the PL Ordinance, 1961 so that all outstanding issues would be resolved at the earliest.

5.5. The Authority further notes with serious concern that majority of company's instant petition mainly comprises of RLNG related issues despite very fact that petition has been filed under Section 8(2) of the Ordinance for determination of natural gas revenue requirement. The Authority is of the firm view that it has been determining RLNG price under PL Ordnance, 1961 in accordance with the policy guidelines issued by Government of Pakistan, which clearly list down costs components/parameters, the aggregate of the sum form RLNG price. Moreover, load management in respect of natural gas or RLNG is being decided by FG considering its sectoral priorities and socio economic agendas, and accordingly the petitioner complies the same. Therefore, any financial impact of such decisions has to be taken up by the petitioner with appropriate competent forum instead of contending the same with OGRA. The Authority has already highlighted that FG must devise a mechanism to deal cost recoveries arising owing to diversions or matters relating waiver of LPS through its own budgetary arrangements or otherwise as it deemed appropriate in accordance with law.

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Accordingly, the petitioner must take up all these issues with FG for immediate redressal.

6. Principally allowed Assets

6.1. The petitioner requested to the Authority to discontinue the practice of allowing the assets principally and include the allowed assets in the rate base. The practice of allowing assets principally defeats the very purpose of scheme of tariff regime wherein the advance tariff is allowed to the petitioner to finance its projects. The petitioner further submitted that in view of the liquidity position, the petitioner has to arrange the funds through borrowing to complete the projects allowed by OGRA principally, resulting in constantly increase of finance cost of the petitioner.

6.2. The petitioner highlighted that the Authority approved in- principle in decisions of ERR and Motion for Review of FY 2019-20 Rs. 365 million for Compression Overhauling Project, Rs. 627 million for KMI Implementation Plan (KMI No. 14 &15), Rs. 40 million for Enhancement in the Budget of 10" diameter Daudkhel - Mianwali Transmission Line Rs. 31.34 million for Replacement of Larger Dia. lines in Peshawar and Lahore Regions and Rs. 588 million for System Augmentation (Rawalpindi/ Islamabad) to receive additional Gases from Adhi-Sukho.

6.3. In view of the above, the petitioner has requested to the Authority to either allow the above assets in rate-base or allow the finance cost to be incurred to complete these projects.

6.4. It is highlighted that the fixed assets allowed by the Authority in-principle in DERR for FY 2019-20, were due to the pending expense with the petitioner under the respective heads in the previous years, therefore, the Authority did not allow any upfront amount in DERR for FY 2019-20. However, the Authority decided that any capital expenditure under the above heads may be brought for capitalization at the time of respective FRR by the petitioner. Further the Authority always approved the projects keeping in view the capacity of the

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petitioner to undertake the projects along-with prudency, feasibility and tangible benefits to end consumers.

6.5. *The Authority finds no new evidence, therefore, Authority maintains its stance taken in DERR and Motion for Review for FY 2019-20 in this respect. However, the Authority decided that the above heads may be brought for capitalization at the time of respective FRR by the petitioner.*

6.6. The details of assets allowed by the Authority is as under;

Table 1: Assets Allowed by the Authority

No.	DESCRIPTION	ERR FY 2019-20	DERR FY 2019-20	Motion for Review FY 2019-20	Allowed in Motion for Review FY 2019-20	Petition Mid-Year Review FY 2019-20	Rs. Million Determined by the Authority Mid-Year Review FY 2019-20
1	Compression Overhauling Project (Multi year project with no progress in the last 2 years)	365	approved in-principle	365	As per DERR	365	Rs. 365 million were approved by the Authority In-principle in DERR FY 2019-20
2	KMI Implementation Plan	627	approved in-principle	627	470	627	Rs. 470 million were allowed by the Authority in its decision on Motion of Review FY 2019-20
3	Enhancement in the Budget of 10" diameter Daudkhel - Mianwali Transmission Line (leftover works)	40	approved in-principle	40	As per DERR	40	Rs. 40 million were approved by the Authority In-principle in DERR 2019-20
4	System Augmentation (Rawalpindi/ Islamabad) to receive additional Gases from Adhi-Sukho	588	294	294	As per DERR	588	Rs. 294 million were allowed in DERR FY 2019-20
5	Re-appropriation of Budget of Rs. 65 million and approval of 31.34 million (Replacement of Larger Dia. lines in Peshawar and Lahore Regions.			31.34	31.34	31.34	Rs. 31.340 million were allowed by the Authority in its decision on Motion for Review FY 2019-20
6	Establishment of CC Centre at Topi Mardan Region			1.67	1.67	1.67	Rs. 1.67 million were allowed by the Authority in its decision on Motion for Review FY 2019-20
7	Establishment of CSC Centre`s at (i) Kot Radha Kishan,Lahore Region (CSC) (ii) Timergara, Mardan Region (CSC) (iii) Bhakar , Multan Region (CSC) (vi) Jahangira, Mardan Region (CSC)			40.8	-	40.8	-
8	Establishment of Regional Office at Karak					152.44	-
	Total million (Rs.)	1620	294	1399.8	503	1846.3	*503.10

* Sum of Sr. No.2, 5 and 6

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6.7. *In view of the assets allowed by the Authority in above paras, depreciation expense is provisionally computed at Rs. 21,815 million. Accordingly, closing assets for the said year are determined at Rs. 149,587 million on provisional basis.*

7. Establishment of Regional office at Karak

7.1. The petitioner has requested the Authority to grant approval for the establishment of Regional Office at Karak at a capital & operating cost of Rs. 152.4 million & 229 million during the said year. Keeping in view the urgency and national importance of the subject matter, the Authority is requested to kindly allow the above project during the said year. The CAPEX and OPEX of this project are being included in the instant petition.

7.2. It is mentioned here that presently a CSC is in operation at Karak to facilitate the gas consumers. It is also highlighted that the petitioner earlier submitted a plan before the Authority for creation of new Regions in the year 2015 in which D.I Khan was proposed as Region and Karak was proposed as a sub-region, now the petitioner has changed the status of Karak from sub-Region to a Region without any tangible reasons. Moreover, it does not meet the consumer base criteria. *Therefore, the Authority disallows capital expenditure of Rs. 152 million projected by the petitioner for creation of new Region at Karak.* In the meantime, the existing CSC in Karak be enabled to facilitate the Consumers.

7.3. *The Authority, as per the decision in para 7.2, decides to disallow the related operating costs amounting to Rs. 229 million for the said year.*

8. Creation of New CSCs

8.1. The petitioner has projected the creation of following CSCs in different regions amounting to Rs. 40.8 million as a capital cost;

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Table 2: Breakup of Customer Service Center

Sr. No.	Name of Proposed Customer Service Center	Present Consumer Base	Capital Cost
1	Kot Radha Kishan, Lahore Region	7,259	10.12
2	Timergara, Mardan Region	9,415	10.26
3	Jahangira, Mardan Region	12,715	10.26
4	Bhakar, Multan Region	7,111	10.16
	Total Cost (Rs. million)		**40.80**

The petitioner has also claimed Rs. 60 million against the CSCs' being an operating cost for the said year.

8.2. The Authority considered the request of the petitioner based on the Company's earlier consumer-based criteria and ***disallows Rs. 40.8 million projected by the petitioner for up-gradation/creation of CSC's at Kot Radha Kishan, Timergara Bhakar and Jahangira due to non-fulfillment of the consumer base criteria.*** However, the existing CCs will continue to facilitate the gas consumers till the fulfillment of minimum consumer base required for CSCs as proposed by the petitioner.

8.3. ***The Authority, as per the decision in para 8.2, decides to disallow the related operating costs amounting to Rs. 60 million for the said year.***

9. Operating Expenditures

9.1. Cost of Gas

9.1.1. The petitioner has projected cost of gas Rs. 205,648 million for the said year on the basis of following parameters:

(i) Actual gas purchases for July 2019 and August 2019, and estimates for September, 2019 to June, 2020.

(ii) US$ exchange rate for payment of monthly invoices of gas producers has been assumed at Rs. 155 for period July-December, 2019 and Rs. 160 for the period January-June, 2020.

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9.1.2. On the basis of above parameters, the petitioner has estimated the average C&F prices of crude oil and HSFO for July to December 2019 at US$ 55.00 per Barrel and US$ 400 per M. Ton respectively. For January to June 2020, average C&F prices of crude oil and HSFO has been estimated at US$ 60.00 per Barrel and US$ 400 per M. Ton respectively.

9.1.3. 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 in it under the Ordinance.

9.1.4. The Authority notes that the actual average C&F prices of crude oil and HSFO for the period June to November, 2019 are now available. Therefore, the Authority based actual available data, revised parameters for the purpose of computation of cost of gas at petitioner's system is as below:

Table 3: Revised Parameters for WACOG

Wellhead Gas Prices effective period	Period of Avg. Prices of Oil	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	December, 2018 to May, 2019	66.3859	397.3691	158.39
January to June 2020	June to November, 2019	64.2887	341.5794	159

9.1.5. *In view of above, the Authority, therefore, provisionally determines the cost of gas at Rs. 207,989 million for said year.*

9.1.6. *Accordingly, GIC, based on revised parameters as per para in 9.1.4, has been provisionally determined at Rs. 1,216 million as against the petitioner's claim of Rs. 1,202 million for the said year.*

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9.2. Unaccounted for Gas (UFG)

9.2.1. The petitioner has claimed UFG adjustment at Rs. 750 million in RERR for the said year. The Authority based on the benchmark in place determines the UFG as follows:

Table 4: UFG Calculation Sheet

MMCF

Particulars	Natural Gas *(Normal Business)*		*RLNG Business*	
Gas Purchases	**As per Petition**	**Determined by the Authority**	**Per Petition**	**Determined by the Authority**
Gross Metered gas purchased	454,067	454,067	329,400	329,400
Energy Equilance - RLNG	(16,470)	(16,470)	16,470	16,470
Retainage Allowed			(2,471)	(2,471)
Net Gas Purchased		**437,597**		
Less RLNG Volume for Sale	-	-		
Less RLNG Carried for Third Party	-	-	-	-
Gas Available for Sale	437,597	437,597	343,399	343,399
Gas Internally Consumed (Metered)	3,587	3,587	6,917	3,447
Transmission	2,874	2,874	6,917	3,447
Distribution	713	713	-	-
Net Gas Available for Sale	434,010	434,010	336,482	339,952
Gas Sold (Billed)	384,949	384,949	327,526	327,526
Total Sales	384,949	384,949	327,526	327,526
UFG Volume	49,060	49,060	8,956	12,426
UFG %	11.21%	11.21%	2.61%	
Working disallowance for SNGPL				
Metered gas purchased		437,597		
UFG Benchmark (Percentage)		5%		
Local Conditions Allowance Percentage (Provisional)		1.30%		
Allowed UFG Percentage		6.30%		
Allowed UFG Volume (Provisional)		27,569		
Disallowance (MMCF) (Provisional)		21,491		

9.2.2. *In view of above and the decision in para 9.1.4, the UFG adjustment is provisionally computed at Rs. 11,286 million at national WACOG of Rs.525.15/MMCF.*

9.3. Revenue Budget for KMI Implementation Plan

9.3.1. The petitioner has requested the Authority to allow an operating expense of amounting to Rs. 1,401 million in rate base in respect of KMI implementation plan.

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9.3.2. It may be mentioned here that the Authority in its decision for Motion for Review allowed a capital expenditure of Rs. 470 million in respect KMI no. 14 & 15 as against Rs. 670 million requested by the petitioner. The expenditure was allowed on the condition that the expense allowed in respect of the said KMIs will not overlap with the routine UFG control activities.

9.3.3. ***The petitioner was requested vide letter No. OGRA-9(530)/2019 dated 11.11.2019 to provide the details of revenue budget of Rs. 1,401 million claimed for implementation of KMI plan. However, in response the petitioner does not provide any tangible details/justifications for the said budget upto satisfaction of the Authority hence the revenue budget of Rs. 1,401 million is disallowed by the Authority.***

9.4. Transmission & Distribution Cost

9.4.1. The petitioner has requested to allow T&D items allowed by the Authority in its motion for review of DERR for the said year. Regarding Rs. 35 million relating to outsourcing of call centers for call management, the petitioner has now shared the details of KPIs and monitoring indicators as per the directions of the Authority. It has been informed that contract for call center shall be expiring in February, 2020. The petitioner has again requested to release the budget to continue its services for the valued customers.

9.4.2. The Authority notes that the petitioner has now shared its draft KPI with it. Accordingly, measureable KPI has been advised to incorporate in the agreement with the service provider. ***In view of above, Rs. 27 million has been allowed on provisional basis on account of outsourcing of call centers enabling the petitioner to ensure quality service to its customers.***

9.4.3. ***In view of above, T&D items additionally allowed as part of instant determination are as under;***

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Table 5: Details of T&D items additionally allowed by the Authority

Description	Rs in million
Fuel & Power	45
Rent Rate Electricity & Telephone	25
Outsourcing of call centre complaints	27
Facilities Provided by Other Companies	10
Total T & D Expense	**107**

10. Determination

10.1. The Authority, after taking into consideration points raised by interveners, clarifications provided by petitioner, scrutiny of petition and available record, provisionally determines the shortfall in estimated revenue requirement for said year at Rs. 30,007 million (**Annexure-I**). Accordingly, the revenue requirement is determined at Rs. 274,162 million (Rs. 706.91/MMBTU). The Authority decides to recover it in the remaining six months, i.e. January - June, 2020, since sale prices cannot be increased retroactively.

10.2. The Authority observes that ECC of the Cabinet in its meeting dated May 17, 2018 had decided to stagger shortfall of the petitioner's previous years over a period of four (04) to five (05) years henceforth. Accordingly, the Authority since FY 2018-19 has been including previous year shortfall in its respective determinations. However, owing to insufficient revision by the FG in the past, the petitioner remained unable to meet the shortfall in the revenue requirements as determined by the Authority. Accordingly, this backlog on account of insufficient revision in gas sale prices is persistently piling up. The Authority, therefore, in the instant determination, has determined the prescribed price based on the revenue requirement for the said year only, without including the previous year shortfall based on the premise that said shortfall was not adequately revised by the FG while advising the sale prices in FY 2019-20. In case of inclusion of previous year shortfall of Rs. 28,725 million, the revenue requirement comes to Rs. 302,887 million (Rs. 785.38/MMBTU).

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10.3. 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.

10.4. 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.

10.5. 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;

10.5.1. 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. Rest of slabs of domestic consumers have been suggested at Rs. 1,273/MMBTU & Rs. 1,679/MMBTU (i.e. an increase of 15% over the existing prices). 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.

10.6. The price of liberty power and new fertilizer feed stock has been determined as per FG policies. Similarly, in case of old fertilizer feed stock, rationalization in

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phased out manner has been suggested, thereby equating the tariff rate with the cost of service for the said year. Moreover, the slab rates of roti tandoor have also been aligned to cost of service of the petitioner, being highly subsidized. All rest of consumer categories including **CNG, Commercial, Industrial, captive, Power and Cement, special commercial (last slab) etc.;** absorbs the remaining shortfall of the determined revenue requirement for the said year across the board based on the existing prices.

10.7. 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."*

10.8. 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.

10.9. 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) and Liberty Power Limited, will be affected. That will also result in different retail prices being charged by the petitioner and SSGCL for some categories of retail consumers violating the prevalent GoP policy of maintaining uniform prices for retail consumers throughout Pakistan.

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10.10. 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.

11. Public Critique, Views, Concerns, Suggestions

11.1. 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 GoP 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 10, 2019.

REGISTRAR
Oil & Gas Regulatory Authority
Islamabad

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Annexure - I

1.Computation of Revised Estimated Revenue Requirement FY 2019-20

Million Rs.

	Particulars	The Petition	Adjustment	Determined by the Authority
	Gas sales volume -MMCF	384,949		384,949
	BBTU	366,060		366,060
	July to December, 2019	179,199		179,199
	January - June, 2020	**186,861**		**186,861**
"A"	**Net Operating revenues**			-
				-
	Net sales at current prescribed price	228,763		228,763
	Rental & service charges	2,391	-	2,391
	Late Payment Surcharge and interest on arrears	6,445		6,445
	Amortization of deferred credit	3,512		3,512
	Other operating income	3,044	-	3,044
	Total income "A"	**244,155**		**244,155**
"B"	**Less Expenses**			
	Cost of gas sold	205,648	2,341	207,989
	UFG Adjustment	(750)	(10,536)	(11,286)
	Transmission and distribution cost	24,968	(8)	24,960
	KMI Implementation Plan	1,401	(1,401)	-
	Operating cost of Regional Office - Karak	229	(229)	-
	Operating cost of CC and CSCs	60	(60)	-
	Gas internally consumed	1,202	14	1,216
	Scanning & electronic archiving of sales record	89	-	89
	Depreciation	22,464	(649)	21,815
	Late Payment Surcharge (Payable) & cost of short-term borrowing	5,992	-	5,992
	Corporate Social Responsibility (CSR)	472	-	472
	Shorfall in LPG Airmix Business	165	(165)	-
	Workers Profit Participation Fund	729	-	729
	Total expenses "B"	**262,668**	**(10,693)**	**251,975**
"C"	**Operating profit / (loss)(A - B)**	**(18,513)**	**10,693**	**(7,820)**
	Return required on net assets:			
	Net assets at begining	150,014		150,014
	Net assets at ending	167,899	(18,312)	149,587
		317,913	***(18,312)***	299,601
	Average fixed net assets (I)	**158,957**	**(9,156)**	**149,801**
	Deferred credit at begining	22,595		22,595
	Deferred credit at ending	22,423		22,423
		45,018		45,018
	Average net deferred credit (II)	**22,509**		**22,509**
"D"	**Average operating assets (I-II)**	**136,448**	**(9,156)**	**127,292**
	Return required on net assets	17.43%		17.43%
"E"	Amount of return required (D*17.43%)	23,783	(1,596)	22,187
"F"	(Excess) / shortfall FY 2019-20 - **(E-C)**	**42,296**	**(12,288)**	**30,007**
	Average Ince/(Dec) in Prescribed Price FY 2019-20 - (Rs/MMBTU) w.e.f 01.07.2019	***115.54***	***(33.57)***	***81.97***
"G"	**Total Revenue requirement FY 2019-20 - (E+B)**	**286,451**	**(12,288)**	**274,162**
	Average Prescribed Price (PP) FY 2019-20 w.e.f 01.07.2019 (Rs/MMBTU)	**740.48**	**(33.57)**	**706.91**

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Annex-II

2.Provisional Prescribed Price for FY 2019-20

	Particulars	Average Prescribed Price for FY 2019-20	w.e.f. July 01, 2019	w.e.f. January 01, 2020
			Rs./MMBTU	
(I)	**Domestic Consumers:**			
	a) Standalone meters			
	b) Mosques, churches, temples, madrassas, other Religious Places and Hostels			
	Upto 0.5 hm^3 per month	706.91	121.00	353.46
	Upto 1 hm3 per month	706.91	300.00	353.46
	Upto 2 hm3 per month	706.91	553.00	530.18
	Upto 3 hm3 per month	706.91	738.00	706.91
	Upto 4 hm3 per month	706.91	1,107.00	1,273.05
	Above 4 hm3 per month	706.91	1,460.00	1,679.00
	c) Government and semi-Government offices, Hospitals, clinics, maternity homes, Government Guest Houses, Armed Forces messes, Langars, Universities, Colleges, Schools and Private Educational Institutions, Orphanages and other Charitable Institutions along-with Hostels and Residential Colonies to whom gas is supplied through bulk meters including Captive Power.			
	All off-takes at flat rate of	706.91	780.00	1,026.10
(II)	**Special Commercial Consumers (Roti Tandoors)**			
	Upto 0.5 hm^3 per month	706.91	110.00	353.46
	Upto 1 hm3 per month	706.91	110.00	353.46
	Upto 2 hm3 per month	706.91	220.00	706.91
	Upto 3 hm3 per month	706.91	220.00	706.91
	Above 3 hm3 per month	706.91	700.00	920.86
(III)	**Commercial :** All establishments registered as commercial units with local authorities or dealing in consumer items for direct commercial sale like cafes, bakeries, milk shops, tea stalls, canteens, barber shops, laundries, hotels including hotel industry, malls, places of entertainment like cinemas, clubs, theaters and private offices, corporate firms, etc.			
	All off-takes at flat rate of	706.91	1283.00	1,687.80
(IV)	**Ice Factories:**			
	All off-takes at flat rate of	706.91	1283.00	1,687.80
(V)	**General Industrial:** All consumers engaged in the processing of industrial raw material into value added finished products irrespective of the volume of gas consumed but excluding such industries for which a separate rate has been prescribed.			
	All off-takes at flat rate of	706.91	1021.00	1,343.14
(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	706.91	786.00	1,033.99
(VII)	**Captive Power :** Captive Power plant/unit means an industrila undertaking/unit carrying out the activity of power production (with or without co-generation) for			
	All off-takes at flat rate of	706.91	1021.00	1,343.14
(VIII)	**CNG Stations:**			
	All off-takes at flat rate of	706.91	1283.00	1,687.80
(IX)	**Cement Factories:**			
	All off-takes at flat rate of	706.91	1277.00	1,679.91

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	Particulars	Average Prescribed Price for FY 2019-20	w.e.f. July 01, 2019	w.e.f. January 01, 2020
			Rs./MMBTU	
(X)	**Fertilizer Factories:**			
(i)	*Pak American Fertilizer Company Limited, Daudkhel.*			
(a)	For gas used as feed stock for fertilizer			
	All off-takes at flat rate of	706.91	300.00	706.91
(b)	For gas used as fuel for generation of electricity, steam and for usage of housing			
	All off-takes at flat rate of	706.91	1021.00	1,343.14
(ii)	*Pak Arab Fertilizer Limited, Multan.*			
(a)	For gas used as feed stock for fertilizer			
	All off-takes at flat rate of	706.91	300.00	706.91
(b)	For gas used as fuel for generation of electricity, steam and for usage of housing			
	All off-takes at flate rate of	706.91	1021.00	1,343.14
(iii)	*Dawood Hercules Chemicals Limited, Chichoki Malian, Sheikhupura District.*			
(a)	For gas used as feed stock for fertilizer.			
	All off-takes at flate rate of	706.91	300.00	706.91
(b)	For gas used as fuel for generation of electricity, steam and for usage of housing			
	All off-takes at flate rate of	706.91	1021.00	1,343.14
(vi)	*Pak-China Fertilizer Limited/Hazara Phosphate Plant Limited, Haripur.*			
(a)	For gas used as feed stock for fertilizer.			
	All off-takes at flate rate of	706.91	300.00	706.91
(b)	For gas used as fuel for generation of electricity, steam and for usage of housing			
	All off-takes at flate rate of	706.91	1021.00	1,343.14
(v)	*ENGRO Fertilizer Company Limited*			
(a)	For gas used as feed stock for fertilizer			
	All off-takes at flate rate of	706.91	108.50	111.30
(b)	For gas used as fuel for generation of electricity, steam and for usage of housing			
	All off-takes at flate rate of	706.91	1021.00	1,343.14
(XI)	**Power Stations:**			
(a)	WAPDA's Power Stations and other electricity utility companies excluding WAPDA's Natural Gas Turbine Power Station, Nishatabad, Faisalabad. All off-takes at flate rate of	706.91	824.00	1,083.98
(b)	WAPDA's Natural Gas Turbine Power Station, Nishatabad, Faisalabad.			
	All off-takes at flate rate of	706.91	824.00	1,083.98
(XII)	**Liberty Power Limited's Gas Turbine Power Plant (Phase1) at Daharki:** All off-takes at flate rate of	706.91	1295.88	1,295.88
(XIII)	**Independent Power Producers:** All off-takes at flate rate of	706.91	824.00	1,083.98

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Annex-III

4. List of Abbreviations

Words	Abbreviations
BBTU	Billion British Thermal Unit
CAPEX	Capital Expenditure
C&F Price	Carriage and Freight Price
CSC	Customer Services Centre
CSR	Corporate Social Responsibility
DERR	Determination of Estimated Revenue Requirement
FG	Federal Government
FRR	Final Revenue Requirement
GOP	Government of Pakistan
GI	Galvanized Iron
GPA	Gas Purchase Agreement
GIDC	Gas Infrastructure Development Cess
GIC	Gas Internally Consumed
HSFO	High Sulfur Fuel Oil
KMI	Key Management Infrastructure
KPI	Key Performance Indicator
LPG	Liquefied Petroleum Gas
LPS	Late Payment Surcharge
LNG	Liquefied Natural Gas
MFR	Motion for Review
MMBTU	Million Metric British Thermal Unit
MMCFD	Million Standard Cubic Feet per Day.
MPNR	Ministry of Petroleum & Natural Resources
NGRA	Natural Gas Regulatory Authority
NGT Rules	Natural Gas Tariff Rules
OGRA	Oil and Gas Regulatory Authority
OPEX	Operational Expenditure
PL	Petroleum Levy
PPL	Pakistan Petroleum Limited
RLNG	Re-gasified Liquefied Natural Gas
SNGPL	Sui Northern Gas Pipeline Limited
SSGCL	Sui Southern Gas Company Limited
T&D Cost	Transmission and Distribution Cost
UFG	Un-accounted for Gas
WACOG	Weighted Average Cost of Gas
WPPF	Workers Profit Participation Fund

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