آئل اینڈ گیس
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Oil & Gas
Regulatory Authority

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

IN THE MATTER OF

SUI NORTHERN GAS PIPELINES LIMITED
ESTIMATED REVENUE REQUIREMENT, FY 2020-21

UNDER

SECTION 8 (1) OF THE OIL AND GAS REGULATORY AUTHORITY ORDINANCE, 2002 AND
RULE 4 (2) OF NATURAL GAS TARIFF RULES, 2002

DECISION

July 13, 2020

Before:

Ms. Uzma Adil Khan, Chairperson
Mr. Noorul Haque, Member (Finance)/Vice Chairman
Mr. Muhammad Arif, Member (Gas)

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ANNEXURE

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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 Pakistan Stock Exchange. The petitioner is operating in the provinces of Khyber Pakhtunkhwa (KPK), Punjab and Azad Jammu & Kashmir (AJ&K) under the license granted by the Oil & Gas Regulatory Authority. It is engaged in the business of construction and operation of gas pipelines, transmission, distribution, and sale of natural gas and sale of gas condensate (as a by-product). The petitioner is also engaged in the business of Re-gasified Liquefied Natural Gas (RLNG) and transportation & sale of the same for the private parties on a commercial basis, in accordance with the decisions of the Federal Government (FG).

1.2 The petitioner filed the petition on December 31, 2019, for determination of estimated revenue requirement for FY 2020-21 (the said year) under Section 8(1) of the Oil & Gas Regulatory Authority Ordinance, 2002 (the Ordinance) and Rule 4(2) of the Natural Gas Tariff Rules, 2002 (NGT Rules).

1.3 The petitioner vides its letter dated February 12, 2020, submitted the amended petition wherein it has sought the approval in respect of certain capital projects, i.e. biometric machines, compressor package refurbishment, IT equipment, and construction of regional distribution building at Sahiwal. As per the decision of the FG, the petitioner has ring-fenced the operating fixed assets and operating costs related to the RLNG business. Accordingly, the petitioner, for the said year, has claimed a cumulative shortfall of Rs. 216,698 million *(the amounts have been rounded off to the nearest million here and elsewhere in this document)*, for the normal business of natural gas, Rs. 41,730 million transportation charges in respect of RLNG supplies and Rs. 905 million revenue shortfall in respect of LPG business. Also, the petitioner has separately claimed the impact of Rs. 73,890 million on account of diversion of RLNG to the domestic sector and requested to include the same in the natural gas or RLNG prices for the said year.

1.4 The Authority observes that the supply of RLNG is a ring-fenced activity as per the decision of the FG. Accordingly, tariff adjustment shall be restricted to the extent of determination relating to the revenue requirement of gas companies on account of the supply of indigenous gas to its consumers. However, cost of service for

RLNG activity is determined through this Order and shall be recovered through RLNG price from its consumer in accordance with policy guidelines of FG.

1.5 The petitioner vide its letter dated April 13, 2020, submitted the amended petition wherein it revised its cost of gas owing to an unprecedented reduction in oil prices. The petitioner has further informed that rationalization in operating cost was being done keeping in view the financial crunch in the country and GoP directions for austerity drives. Accordingly, the petitioner, for the said year, has claimed a cumulative shortfall of Rs. 198,972 million for the normal business of natural gas, Rs. 40,845 million transportation charges in respect of RLNG supplies.

1.6 The petitioner vides its letter dated May 02, 2020, submitted another amended petition (the petition) wherein it revised its estimates for distribution development and the related costs. Accordingly, the petitioner, for the said year, has claimed a cumulative shortfall of Rs. 201,253 million for the normal business of natural gas, Rs. 40,878 million transportation charges in respect of RLNG supplies.

1.7 The petitioner's submission is summarized in the following statement of cost of service per MMBTU

Table1: Projected Cost of Service per Petition

	Rs./MMBTU
PARTICULARS	**FY 2020-21**
	The Petition
Volume (BBTU)	323,070
Cost of gas	504.68
UFG Adjustment	(2.32)
Operating Cost	87.19
Depriciation	73.16
Late Payment Surcharge & short term borrowing	65.61
Return on Assets	74.18
Additional Revenue Requirement for LPG Air Mix Proje	2.80
Other Operating Income	(55.55)
Shortfall upto FY 2017-18 - as per accounts	378.18
Shortfall FY 2018-19 as per RERR dtd 27.02.2019	66.38
Shortfall FY 2019-20 as per RERR dtd 11.12.2019	92.88
Average Prescribed Price	**1,287.19**
Current Average Prescribed Price	664.25
Increase in Average Prescribed Price	**622.94**

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

1.9 A notice inviting interventions/comments on the petition from the consumers, the general public, and other interested/affected persons was published on March 13, 2020, and May 23, 2020, in daily local newspapers. The interventions received on the instant petition are placed as **Appendix**. The Authority further decided to hold a public hearing on June 24, 2020. The Authority received interventions/comments in the proceedings from the following persons/entities:

1. All Pakistan Textiles Processing Mills Association
2. All Pakistan CNG Association
3. Mr. Muhammad Aslam Chaudhry, Lahore
4. Mr. Hammad Khan, Chairman Real Owners CNG Association,
5. Mr. Zubair Khan, President CBA SNGPL
6. Council of All Pakistan Textiles Association
7. Pakistan Textile Exporters Association
8. Mr. Mehboob Elahi, Consultant Energy & Regulatory Affairs
9. Mr. Ghalab Khan Mehmend

1.10 The Authority accepted the above-mentioned applications for intervention.

2. Salient Features of the Petition

2.1. Following submissions have been made in the petition

2.1.1. The petitioner has claimed annual return at the rate of 17.43% of the net fixed assets in operation in accordance with the new tariff regime implemented effective July 2018.

2.1.2. The petitioner, on account of natural gas normal business, has projected a gross addition of Rs. 44,059 million in the fixed assets, resulting in a projected increase in the net operating fixed assets from Rs. 149,587 million per RERR FY 2019-20 to Rs. 170,010 million during the said year. Accordingly, the petitioner has claimed that after adjustment of deferred credits, the net average operating fixed assets eligible for return works out to Rs. 137,488 million, and the required return to Rs. 23,964 million for the said year.

2.1.3. The petitioner, in respect of LPG Air Mix Plants and RLNG, has projected addition to fixed assets at Rs. 1,834 million and Rs. 2,222 million respectively for the said year.

2.1.4. The petitioner has projected the net operating revenues at Rs. 232,544 million, detailed below and compared with previous years:

Table2: Comparison of Projected Operating Revenues with Previous Years:

Rs. In Million

Description	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	Incr/Decr over	
	FRR	Actual*	RERR	The Petition	RERR	
*Net sales at current prescribed price	281,734	378,445	258,770	214,599	(44,171)	-17%
Meter rental and service charges	2,175	2,022	2,391	2,166	(225)	-9%
Late payment surcharge and interest on arrears	5,859	9,393	6,445	10,332	3,887	60%
Amorization of deffered credit	3,746	1,625	3,512	3,725	213	6%
Other operating income	1,356	1,447	3,044	1,722	(1,322)	-43%
Diversion of domestic gas impact	4,145	-	-	-	-	0%
Net Operating Revenues	**299,015**	**392,932**	**274,162**	**232,544**	**(41,618)**	-15%

* per FRR Petiton containing previous year shortfall

2.1.5. The petitioner has projected the net operating expenses at Rs. 408,928 million, as detailed below (and compared with previous years):

Table3: Comparison of Projected Operating Expenses with Previous Years

Rs. In Million

Description	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	Incr/Decr over	
	FRR	Actual	RERR	The Petition	RERR	
Cost of gas	155,780	189,882	207,989	163,047	(44,942)	-22%
UFG adjustment	(6,356)	(750)	(11,286)	(750)	10,536	-93%
Transmision & Distribution	22,489	28,274	26,737	26,077	(660)	-2%
Gas internally consumed	910	1,253	1,216	1,305	89	7%
Depreciation	12,568	13,937	21,815	23,636	1,821	8%
Late Payment Surcharge (Payable) & cost of short-term borrowing	5,992	20,417	5,992	21,196	15,204	254%
Previous year shortfall	92,496	122,177	-	173,630	-	-
WPPF	729	734	729	788	59	8%
Total operating cost	**284,608**	**375,923**	**253,191**	**408,928**	**155,737**	**62%**

2.1.6. The petitioner has projected SNGPL's Weighted Average Cost of Gas (WACOG) for the said year at Rs. 504.68 per MMBTU. The cost of gas is linked with international prices of crude oil (Crude) and High Sulphur Fuel Oil (HSFO) per Gas Pricing Agreements (GPAs) executed between the producers and GoP.

2.1.7. The petitioner has projected UFG at 10.19%. The petitioner has, however, restricted its UFG adjustment to Rs. 750 million per Rule 20(1) of NGT Rules for the said year.

2.1.8. The petitioner has claimed previous years' revenue shortfall up to FY 2019-20 at Rs. 173,630 million. Accordingly, the petitioner, because of above, has projected an average increase in prescribed price at Rs. 622.94 per MMBTU, as detailed below:

Table 4: Computation of the requested increase in Average Prescribed Price

	Description	Rs. In Million
A	Net Operating revenues	232,544
B	Net Operating expenses	236,203
C	Shortfall (B-A)	3,659
D	Return required @ 17.43% on net operating assets	23,964
E	Shortfall in revenue requirement for FY 2020-21 (D+C)	27,623
F	Previous year shortfall	173,630
G	**Commulative Shortfall in revenue requirement (E+F)**	**201,253**
H	Sales Volume (BBTU)	323,070
I	**Average Increase in Prescribed Price (Rs/MMBTU) (G/H*1000)**	**622.94**

3. Proceedings

3.1. A public hearing was held at Islamabad on June 24, 2020, which was participated by the following;

Petitioner

i. The team led by Mr. Amir Tufail, Managing Director

Intervener/Participants

i. Mr. Ghiyas Abdullah Paracha (APCNGA),
ii. Mr. Shahid Sattar (Ex-Member (Energy Planning Commission),
iii. Mr. Hammad Khan, Chairman Real Owners CNG Association,
iv. Eng. Alam Zaib Khan

3.2. The petitioner made submissions in detail with the help of a multimedia presentation explaining the basis of its petition. The petitioner also responded to the comments, observations, objections, questions, and suggestions of the participants.

3.3. The substantive points made by the interveners during the hearing as well as in writing, pertaining to the instant petition and policy matters, are summarized below;

3.3.1. It was highlighted that gas sale volume is continuously decreasing. It reflects negative performance of the petitioner's management. In the light of decline in sale volume, addition in revenue requirement is absolutely uneconomical, imprudent and unjustified.

3.3.2. It was vehemently criticized that increase in HR cost has been demanded despite decrease in gas sales volume. In order to avoid increase in gas prices, HR cost and operational expanses should be capped at the 2017 level. Increase in gas prices has been sought only to bad governance and poor performance of the petitioner's management. The same, therefore, must not be allowed.

3.3.3. Massive assets capitalization is causing increase in gas prices whereas per Rule 17(J) of NGT Rules, only prudent, cost effective and economical efficient are liable to be added in rate base.

3.3.4. It was highlighted that the petitioner gave incomplete and misleading information under the head "capital expenditures", so the matter is of serious concern and defective for consumers.

3.3.5. Moreover, it was highlighted that petitioner does not provide technical and economic feasibility of capital assets projects as required in law. Therefore, the petition is illegal and cannot be entertained.

3.3.6. It was criticized that capital expenditure of Rs. 563 million for the construction of Sahiwal office, Rs. 2,534 million for the extension of transmission network, and Rs. 32,940 million for extending distribution network, has been included in the petition respectively, without evidence of feasibility report to prove cost effectiveness and economic efficiency of capital expenditure. Uneconomical capital expenditure will cause undue increase in gas price.

3.3.7. It was demanded that salary structure of the petitioner's employees be disclosed to the consumers.

3.3.8. Impact of CBA agreement 2020-21 has been projected at Rs. 4.6 billion. It was criticized that even the subordinate staff of the petitioner' is highly paid viz a viz other utility organization of Pakistan. At present, assistants, operators, drivers, welders, fitters, electricians etc. are being paid hefty salary package to the extent of Rs. 3 Lac per month. This salary package is equal to grade 18 of Government officers. Said CBA impact if allowed by OGRA shall increase the monthly wages of subordinate staff manifolds. This exceptionally high cost of salaries and wages is recovered from poor consumers through gas sale prices. It was accordingly opposed to allow the same.

3.3.9. The interveners highlighted that the strength of Sr. General Mangers / General Mangers has reached to tune of about 50 and chiefs to the figure of about 110. Deputy Chiefs are countless. The perks and benefits to the petitioner's officers have increased. Chauffeur driven cars of chiefs has been recently upgraded from Cultus to Toyota. For this purpose, about 100 new cars had been purchased. Recently three vehicles Fortuner branded each of Rs. 65 Lac has been purchased for the senior Management in addition to Honda Cars 1800cc already their use.

3.3.10. It was demanded that exorbitant increase in HR cost need independent inquiry / investigation in order to find reasons of increase in HR cost. It was opposed that further increase in HR cost is unjustified and adversely affecting the gas consumers. The same therefore should not be approved.

3.3.11. It was also criticized that the directors of the company do not bother about increase in HR cost since it is recovered from poor consumers without affecting their profits. The Directors are drawing Rs. 1 lac per meeting for attendance.

3.3.12. Free gas facility amounting to Rs. 272 million for the said year has estimated by the petitioner. It is unjustified keeping in view the performance of the petitioner, therefore, the same should not be allowed.

3.3.13. It was highlighted that owing to bad governance and poor financial management regarding Rs. 19,786 million payables as late payment surcharge has been included in the petition. It should not be approved without investigation and deciding reason of heavy surcharge as payable.

3.3.14. Amount of Rs. 300 million included in the petition under the head Legal expenses, is not justified with the evidence of fact. Achievement of legal department are required to be disclosed to find justification of the amount.

3.3.15. CNG Association demanded that indigenous gas prices for CNG sector be determined after consultation with stakeholders. There is clear rules & regulation for determination the CNG prices.

3.3.16. It was highlighted that only CNG sector is suffering, while other sectors are continuously using local and mix imported gas. The main reason for increase in CNG prices is dollar rate, electricity and petroleum prices. UFG & line losses be stopped to reduce the CNG tariff.

3.3.17. Continuity of gas supply and consumers interest are not jeopardized as mandated under OGRA laws and rules, in respect of circular debts, mismatch of sale prices with prescribed prices, sale of expensive RLNG, and dent in revenue required on account of UFG benchmark of both Sui Companies.

3.3.18. It was demanded that gas companies rate of return be reduced to 15% in accordance with MoE letter no. DGO(AC)-5(26)-19-20 Vol II, dated March 10, 2020. Gas companies should show their responsibility to reduce return on assets, the cost of gas and UFG to save the country and the consumers from extra financial burden in this crisis situation.

3.3.19. A proper rendition of RLNG accounts is made for revenue requirement of both companies as stipulated under ring fencing practices.

3.3.20. Cost of corporate governance and legal expenditure are strictly aligned with tangible results as these cost are ultimately borne by the consumers.

3.3.21. Regulatory accounts have not been provided to separately ascertain the cost of transmission and distribution as per the laws / regulations. Separate cost sheets for transmission and distribution per MMBtu / MSCF are made part of determinations.

3.3.22. The petitioner's petition's format needs to be improved, as most of the schedules are not legible and the write-up is disjointed as compared to SSGCL. Authority prescribes the uniform format.

3.3.23. OGRA tariff of natural gas is to be reduced by re-determination of gas prices according to gas pricing formula. The cross subsidy costs built into the existing tariff for CNG should be removed which will reduce gas tariff for CNG sector and support reasonable parity with petroleum prices. OGRA must ensure that the tariff determined by OGRA after hearing must be safe guarded and no any other expense / other sector's subsidy be additionally added to this tariff by the Government.

A. Responses Upon Interventions

3.4. The Oil and Gas Regulatory Authority performs its quasi judicial role being regulator in accordance with the Ordinance and the Rules, regulations. The Authority always performed its functions to expedite, to foster competition, increase private investment and ownership in the midstream and downstream petroleum industry and protect the public interest while respecting individual rights and provide effective and efficient regulations and for matters connected. The revenue requirement is the primary and statutory function of the Authority, which is performed as per the objectives of applicable statutes.

3.5. FG is empowered to issue policy guidelines as per section 21 of the Ordinance. The Authority determines the revenue requirement/tariff as per section 7 of OGRA Ordinance and the Natural gas Tariff Rules 2002, while keeping in view the comprehensive evaluation, analysis of data and all legal and factual propositions. As per section 8(2) OGRA Ordinance the Authority determines prescribed prices for the licensee for natural gas. However, sale prices for each category of retail consumers for natural gas are the domain of federal government.

3.6. This ERR of the petitioner was filed on 31st December, subsequently petitioner filed revised petition on February 12, April 15, and May 2, 2020. The said year i.e. 2020 is not a normal year when massive Covid-19 pandemic out break covered the whole world and world economy faced heavy crisis. Since Government announced ban on public gatherings, therefore it was a challenge to conduct public hearing. The Authority by adopting the SOP's of the FG conducted public hearings of the petitioner for DERR FY 20-21 in Islamabad and invited all the General public, interested, affected persons and stakeholders to attend in person or through virtual representation. The Authority also invited comments, suggestions and interventions for this DERR thrice from March to June. It is also pertinent to mention here that the Authority is empowered, not hold the hearing as provided under Section 9 of the Ordinance read with Rule 10(3) & (13) of NGTR, 2002 more particularly in these pandemic situation. But it was decided to hold public hearing to provide a fair, equal and transparent opportunity to general public and all stake holders to raise their comments, suggestions and interventions before the petitioner and the Authority.

4. Authority's Jurisdiction and Determination Process

4.1. The Authority is obligated to determine the total revenue requirement of the licensee under Section 8(1) of the Ordinance for a particular year after going through the due process of law. This primarily involves scrutiny of the petition, in-depth analysis of the estimates, the examination of operating and capital items, issuances of the notices to receive the valuable input/comments of all stakeholders, the opportunity of a public hearing and then determination of the total revenue requirement as per mandate under the legal framework. The Authority further notes that it has been able to curtail the petitioner's uneconomical costs to a greater extent through the introduction of efficiency benchmark and effective scrutiny and diligence. The Authority also fully supports the current Government initiative for austerity measures, which is already being implemented by it through its effective regulation. Accordingly, the Authority decision surely strikes a balance among the divergent interests of all stakeholders. The total revenue requirement of the licensee determined by OGRA under Section 8(1) or 8(2) of the Ordinance is sent to Federal Government to seek the advice regarding revision in sale price in respect of various categories of natural gas consumers.

4.2. Section 8(3) of the Ordinance empowers the FG to fix the consumer sale prices and advise OGRA the revision in gas sale prices and minimum charges in respect of natural gas retail consumers for notification in the official gazette. Accordingly, FG, keeping in view economic indicators, policy considerations in terms of uniform pricing across the country, Gas Development Surcharge and the inter category subsidies, etc. advises the gas sales prices and minimum charges for each retail category to OGRA. The same is notified in the official gazette. The Authority however observes that during past, FG under Section 8(3) of the Ordinance had advised insufficient revisions to OGRA, resulting in accumulation of previous year revenue shortfall in the total revenue requirement. The said matter, through Authority's decision of Review of Estimated Revenue Requirement (RERR) for FY 2019-20, was referred to FG to review its earlier decision of ECC of the Cabinet dated May 17, 2018, for the staggering of shortfall of the petitioner. The Authority however reiterates its view that all the categories of consumers must at least pay the average cost of service, keeping in view the existing cost of alternative or substitute sources of energy. Resultantly, there shall be no situation of unmet revenue requirement. This shall provide a level playing field for all concerned and avoid the situation of revenue shortfall faced to the licensee.

4.3. ***The Authority, as per the existing legal framework and tariff regime in place determine the revenue requirement of the petitioner, providing stipulated return on net operating assets while including various income & expenditure heads as part of the prescribed price.***

5. Operating Fixed Assets

5.1 Summary of Additions during the year

5.1.1. The petitioner, on account of natural gas normal business, has projected a gross addition of Rs. 48,115 million in the fixed assets, resulting in a projected increase in the net operating fixed assets from Rs. 149,587 million per RERR FY 2019-20 to Rs. 170,010 million during the said year. Accordingly, the petitioner has claimed that after adjustment of deferred credits, the net average operating fixed assets eligible for return works out to Rs. 137,488 million, and the required return to Rs. 23,964 million for the said year.

5.1.2. Summary of addition to assets as claimed by the petitioner is as under;

Table 5: Summary of Addition to Assets per the Petition

Rs. in Million

Sr.	Particulars	Petition FY 2020-21		
		RLNG	Normal	Total
1	Building on Free Hold land		904	904
2	Transmission Mains	1,203	2,534	3,737
3	Compression	-	2,140	2,140
4	Distribution Mains	579	30,324	30,903
5	Measuring and Regulating	440	6,005	6,445
	Sub Total	**2,222**	**41,906**	**44,128**
6	Telecommunication Equipment		29	29
7	Plant & Machinery		945	945
8	Tools & Equipment		27	27
9	Construction Equipment		317	317
10	Motor Vehicles		200	200
11	Furniture & Fixture		31	31
12	Office Equipment		76	76
13	Computer Hardware		411	411
14	Computer System Software / Intangible Assets		117	117
	Sub Total:	**-**	**2,153**	**2,153**
	Grand Total:	**2,222**	**44,059**	**46,281**
15	LPG Air Mix		1,834	1,834
	Total:	**2,222**	**45,893**	**48,115**

5.2 Buildings on freehold land

5.2.1 The petitioner has requested for Rs. 904 million under the head which includes the following: -

Table 6: Addition to Buildings on Freehold Land:

Rs. in Million

Sr. #	Description	The Petition
1	Regular Capital Expenditure	341
2	Regional Office Sahiwal	563
	Total:	**904**

(a) Building on Freehold Land (Regular Capex)

5.2.2 The petitioner has requested for Rs. 341 Million under the head which includes the following:

i. Rs. 4 Million for construction of emergency exit at Main Office building H.Q (T) Fsd. in any unforeseen emergency.

ii. Rs. 89 Million for Construction of Residences, Stores, radio & battery room, boundary wall for additional transmission land, etc. at Transmission Sub-Office, Kohat, KPK to monitor / efficient use of company resources to handle emergency w.r.t. all the major gas fields located in KPK and transmission lines in that area. It has further been added that the major gas fields are located in KPK and operations associated with these fields are being managed by their Metering staff deputed at Transmission sub-office Kohat. Apart from this, around 600 KMs of the Transmission pipeline network is also being looked after from the above station. The staff (Executives/Subordinate) are required to be deployed at the station to perform round the clock duties to efficiently respond during any emergent situations. The current accommodation facilities for Executives/Subordinates are insufficient to cope with the above purposes and hence essentially required. All the construction works are the part of the approved Master Plan of Transmission sub-office Kohat and its execution is essentially required to make it fully operational and to facilitate the deployed staff.

iii. Rs. 18 Million for construction of Customer Service Center at Regional Distribution Office Abbottabad including the construction of new car parking due to the widening of Jab Nullah. The petitioner stated that existing CSC is just in a single room which is insufficient to accommodate the visitors/customers with improper waiting arrangements and washrooms. The new CSC would be constructed to improve the efficiency of the office to provide a better environment for customers due to the widening of Jab Nullah. Moreover, Customer services include one window operation for the consumers and total Consumers of the region are 184000 approx.

iv. Rs. 13 Million for construction of industrial Facilitation Center and upgradation of existing Customer Service Center at Regional Distribution Office Gujranwala. The company has stated that existing CSC is very old with insufficient space for office and washrooms and requires complete upgradation along with construction of new Industrial facilitation Centre for huge traffic of industrial customers being a major industrial city. In addition, the petitioner has provided the following information:

Total Domestic Consumers Appox	550,000
Total Industrial Consumers Appox	400
Total Exective deputed in CSC	1
facilitation Center	1
Total SN Staff in CSC	14
Total Casual Staff in CSC	18 including Fitters who are engaged with teams.

v. Rs. 38 Million for laying of upgraded / sewerage line, laying of tuff tiles, etc. at Main Building Regional Office Faisalabad.

vi. Rs. 130 Million for construction of Domestic Meter Inspection Shop (DMIS) at Faisalabad since the company is facing a shortage of space for Inspection and Flow Proving activity of Domestic Meter Inspection Shop.

vii. Rs. 49 Million for construction / civil work related to sheds, powerhouse, etc.

5.2.3 The past trend of actualization shows that the petitioner had been able to capitalize Rs. 112 million on an average under the head.

Decision:

5.2.4 *Keeping in view the justifications tendered by the petitioner and capitalization trend in the previous years, the Authority allows an amount of Rs. 52 Million as per following details:*

i. Rs. 2 Million for Construction of Emergency exit at Main Office building H.Q (T) Fsd.

ii. The reasoning provided by the petitioner for the construction of Residences, stores, etc. at Transmission Sub-office in Kohat is not prudent for consideration of the projected amount of Rs. 89 Million, therefore, the Authority does not allow any amount for the same. However, the petitioner is advised to utilize its resources efficiently for the handling of an emergency.

iii. The petitioner has projected Rs. 18 Million for Construction of Customer Service Center at Regional Distribution Office Abbottabad including the construction of new car parking, however, the keeping in view the justification provided by the petitioner the Authority allows Rs. 9 Million for Customer Service Center at Regional Distribution Office Abbottabad subject actualization at the time of FRR.

iv. The company has projected Rs. 13 Million for construction of industrial Facilitation Center and upgradation of existing Customer Service Center at Regional Distribution Office Gujranwala, however, keeping view the justification provided by the petitioner, The Authority allows Rs. 6 Million for construction of industrial Facilitation Center and upgradation of existing Customer Service Center at Regional

Distribution Office Gujranwala subject to actualization at the time of FRR.

v. *Keeping view, the justification provided by the company, Rs. 15 Million has been allowed by the Authority for Laying of Upgraded / sewerage line, laying of tuff tiles, etc. at Regional Office Faisalabad*

vi. *Rs. 130 Million has been projected for the construction of Domestic Meter Inspection Shop (DMIS) at Faisalabad. It has been mentioned that the company is facing a shortage of space for Inspection and Flow Proving activity of the Domestic Meter Inspection Shop. However, it has been observed that in the presence already existing metering workshop at Faisalabad, the requirement of Domestic Meter Inspection Shop (DMIS) is not justified. In view of the foregoing, the Authority does not allow the projected amount of Rs. 130 Million for construction of DMIS.*

vii. *In view of the request of the company, Rs. 20 Million has been allowed by the Authority for other operational requirements i.e. construction / Civil work related to sheds, powerhouse, etc.*

(b) Construction of Regional Office Sahiwal:

5.2.5 The petitioner has projected Rs. 563 Million for construction of Regional Office Sahiwal to accommodate all the functions of a Regional Office stating that adequate office space is required, which is not available at the existing office premises. The company has further added that being a Public Interest Project with enhanced facilities to customer along with efficient operations of the Company, the Board of Directors in its 530th meeting held on 26.06.2019 has advised to request the Authority again for approval of the construction of regional office building at Sahiwal.

5.2.6 It is mentioned that the Authority in decision taken in Motion for Review against DRERR FY 2018-19 decided as follows at Para 6.6.

Para 6.6:

The Authority observed that the impact of cost for construction of Regional office Building is much higher than the rent paid by the Company, therefore, the Authority is of the view that the company may construct the Regional Office building from its profit, however, the amount incurred on the project will not be made part of rate of return.

5.2.7 The Authority, further observes that the petitioner has not provided any new submission, justification and analysis to substantiate its stance on construction of Regional Office at Sahiwal.

Decision:

5.2.8 In view of the above and the submission made by the company, the Authority disallows the cost of Rs. 563 Million for construction of Regional Office Sahiwal and further advises the Petitioner to review other options e.g leasing, renting etc.

5.2.9 The table below summarizes the Authority`s Decision:

Table 7: Addition to Buildings on Freehold Land Determined by the Authority:

Rs. In Million

[illegible]	Description	[illegible]	[illegible]
1	Regular Capital Expenditure	341	52
2	Regional Office Sahiwal	563	-
	Total:	**904**	**52**

5.3 Transmission Mains:

5.3.1 The petitioner has projected an amount of Rs. 3,737 million for Transmission Mains, the breakup of which is as under: -

Table 8: Addition to Transmission Mains:

Rs. In Million

[illegible]	Description	[illegible]
1	Construction of new SMS's	400
2	Rehabilitation of Transmission System/ Upgradation of SMS's	179
3	Cathodic Protection System (CP System)	424
4	Chardda-Khazana-Tangi Transmission Network System Augmentation	1,531
5	Infrastructure Development work of Rashakai Special Economic Zone (SEZ)	1,203
	Total:	**3,737**

(a) Construction of new SMS's

5.3.2 The petitioner has projected Rs. 400 million for construction of new SMS's and Modification/ upgradation of SMS's proposed for commissioning of gas supply to schemes against ongoing / new projects. Accordingly, the Company in FY 2020-21, will likely undertake construction/ upgradation of 10 Nos. Sales Meter Stations.

5.3.3 The petitioner has projected the budget of Rs. 400 million that would be required for approximately 10 Nos. new SMS's.

Decision:

5.3.4 *Keeping in view the past trend, the Authority allows Rs. 215 million under this head subject to actualization at the time of FRR.*

(b) Rehabilitation of Transmission System/Upgradation of SMS's:

i. **Rehabilitation of Transmission Pipeline**

5.3.5 The petitioner has informed that amount is mainly required to carry out different maintenance activities at the existing Transmission Network for better protections. The amount of Rs. 70 Million has been requested to cater maintenance jobs such as sleeving, modifications, upgradations, etc. and to undertake rehabilitation of the Transmission System in the event of an emergency. The rest of the amount of Rs. 75 Million has been projected for the works that include the construction of retaining walls in flood areas, lowering, and fillings, etc. The petitioner has projected a total amount of Rs. 145 million.

ii. **Up-gradation of SMS's**

5.3.6 The petitioner has informed that Upgradation of SMSs is entirely a separate/dedicated project of larger scope for complete upgradation of SMSs, to resolve the capacity constraints, in view of injection of RLNG supplies in the system and has also given reference of Management approval and subsequent principle budget approval of OGRA for Rs. 1349/- million for upgradation of 15 nos. SMSs in Phase-I. The petitioner has further added that the projected budget of Rs. 14 Million shall encompass operationally required minor modifications; such as replacement of obsolete Big Joe regulators with latest pressure control valves having better pressure controlling mechanism to avoid over pressurizing of the distribution network which will help in reducing the UFG losses of the company, likewise, replacement of less accurate flow measuring equipment with more precise AGA compliant equipment which will help in reducing the losses of Transmission System. As regards the requisite budget of Rs. 20 Million, it has been mentioned that it is required for the procurement of material and fitting/equipment for the modification of SMSs, to remove the bottlenecks at SMSs, augmentation/modification of SMSs, which arise during the year for system optimization/rehabilitation as per routine annual requirement/practice.

5.3.7 The petitioner has requested a total of Rs. 179 Million under the above heads.

Decision:

5.3.8 ***Keeping in view, the operational requirements of the Transmission network and justification provided by the petitioner, the Authority allows Rs. 110 Million for Rehabilitation of Transmission Network that includes Rs. 35 Million to cater maintenance jobs such as sleeving, modifications, upgradations, etc. and to undertake rehabilitation of Transmission System in the event of emergency and Rs. 75 Million for the works that include the construction of retaining walls in flood areas, lowering, and fillings, etc. Moreover, the Authority also allows Rs. 34 Million for Up-gradation of SMS's subject to actualization at the time of FRR. The total amount allowed for Rehabilitation of Transmission System/Upgradation of SMS' is Rs. 144 Million subject to actualization at the time of FRR.***

(c) Cathodic Protection System (CP System)

5.3.9 The petitioner has projected an amount of Rs 424 Million against this head. The amount has been projected for replacement of old network and system rehabilitation of the system for implementation of KMI-16.

5.3.10 It is apprised that that Cathodic protection is 24/7 maintenance and mitigation process of underground pipelines against corrosion and that the overall percentage protection of its distribution network is already low and that new lines are also being laid and connected with the existing network whereas, old coating is deteriorating.

5.3.11 The petitioner has informed that the per-unit cost of Construction / Renovation is variable and depends on many factors. However, it has substantially increased from last year due to increased material costs. The high currency exchange rate i.e. USD to PKR is directly affecting the material cost & budget requirements have increased accordingly. The average per-unit cost of construction of the new CP station is Rs. 2.5 - 2.7 Million.

Decision:

5.3.12 ***Keeping in view the above, the operational requirements, and the past trends, the Authority allows Rs. 216 million under this head subject to actualization at the time of FRR.***

(d) Charsada-Khazana-Tangi Transmission Network System Augmentation:

5.3.13 The petitioner has added that the Board of directors at its 543rd meeting held on 02.12.2019 has approved the project of Charsadda-Khazana-Tangi Transmission network system augmentation to counter low-pressure problems in Mardan and Peshawar regions. Moreover, the petitioner has further been added that the Company vides its letter No. RA-TAR-20-21 (P)-002 dated December 26, 2019, requested the Authority to grant principle approval of phase I of the said project at a capital cost of 1,530.642 million, and the same has also been made part of this petition.

5.3.14 The company has planned to undertake the following system augmentation loop lines in Phase-I of the Project:

1. 10" dia x 27.75 KM Charsadda Offtake (Gulabad)- Charsadda transmission loop line.
2. 10" dia x 20.80 KM Charsadda - Khazana transmission loop line.

5.3.15 The company has added that after completion of phase 1, the capacity of the existing Charsadda - Khazana segment shall be enhanced to 25 MMCFD making it coherent with the anticipated peak load requirement on this segment and shall also improve partial relief low pressure / no gas suffering consumers on these consumers on these segments.

5.3.16 The Company has accordingly projected Rs. 1531 Million for the phase-1 of the said project.

Decision

5.3.17 ***In view of the submission made by the company and considering the operational requirement i.e. to facilitate the end consumers and to improve the low-pressure problem in the vicinity, the Authority allows the projected amount of 1531 Million for Phase-I in principle subject to actualization at the time of FRR for the respective year.***

(e) Infrastructure Development work of Rashakai Special Economic Zone (SEZ):

5.3.18 The petitioner has projected Rs. 1,257 million for infrastructure Development work of Rashakai special economic zone (SEZ).

5.3.19 The petitioner has informed that the GOP is developing special economic zones (SEZ) to boost industrialization in the country. Govt. of KPK has identified Rashakai SEZ and developing this through KPK Economic Zones Development and Management Company (KPEZDMC) and is a part of CPEC.

5.3.20 KPEZDMC has identified gas requirement of 30 MMSCFD for this SEZ and GOP directed SNGPL to prepare plans for the supply of 30 MMSCFD Rashakai SEZ.

5.3.21 All infrastructure development works required to supply 30 MMSCFD gas / RLNG to Rashakai SEZ shall be undertaken on 100 % cost recovery basis from GOP except metering gadgets cost which shall be borne by SNGPL and will be entitled rate of return i.e. to undertake 16"dia x 29.2 KM pipeline infrastructure development works at a budget of **<u>1,203 Million</u>** (100 % cost recovery) and to procure and install metering gadgets for above referred SEC at Rs. 54 Million (Company resources).

5.3.22 The Authority in pursuance of Rule 20 (XVIII) of Natural Gas Licensing Rules 2002 while considering the request of the company and approved the instant project vide letter OGRA-9(537)/2019 dated 08th June 2020 for laying of the following pipeline and subject to the following conditions: -

a) 16" dia x 29.2 KM Pipeline Infrastructure Development Works at a budgeted cost of Rs. 1,203 Million for the supply of 30 MMCFD gas / RLNG to Rashakai SEZ undertaken on a 100% cost recovery basis from GOP and the company will not be entitled to the rate of return on this amount.

b) Installation of metering gadgets for the above referred SEZ at the total budgeted cost of Rs. 54 Million will be from the Company's resources and is being evaluated in the ERR 2020-21.

c) SNGPL shall be responsible to undertake the operation and maintenance activity of the said pipeline built on a 100 % cost recovery basis.