

Case No. OGRA-6(2)-2(1)/2020-Review

IN THE MATTER OF

**SUI SOUTHERN GAS COMPANY LIMITED
MOTION FOR REVIEW FOR FINAL REVENUE
REQUIREMENT, FY 2017-18**

UNDER

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

DECISION

ON

January 26, 2021

Before:

Mr. Noorul Haque, Vice Chairman/Member (Finance)

Mr. Muhammad Arif, Member (Gas)

Mr. Zain ul Abideen Qureshi, Member (Oil)



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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 Ltd. 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.
- 1.2. The petitioner had filed a petition on May 08, 2019 under Section 8(2) 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 Final Revenue Requirement (FRR) for FY 2017-18 (the said year) on the basis of the accounts as initialed by its statutory auditors. The Authority, vide its decision April 23, 2020 determined a shortfall of Rs. 31,707 million and allowed an increase of Rs. 87.21/MMBTU in the average prescribed price w.e.f July 01, 2017.
- 1.3. Being aggrieved by this determination, the petitioner has submitted a motion for review (the petition) on May 22, 2020 under Rule 16 of NGT Rules, seeking increase in current prescribed price of Rs. 477.89/MMBTU to Rs. 499.40/MMBTU (increase of Rs. 21.51 per MMBTU) w.e.f. July 01, 2017.
- 1.4. The petitioner has submitted the following comparative statement of cost of service:

Table 1 : Comparison of Cost of Service for FY 2017-18 per the petition with FRR

Particulars	Rs. / MMBTU	
	FY 2017-18	
	FRR	The Petition
Units sold (MMBTU)	363,575	363,575
Cost of gas sold	453.66	453.66
UFG adjustment	(47.22)	(40.89)
Transmission and distribution cost including Others	59.05	73.63
Depreciation	15.35	15.58
Return on net average operating fixed assets	25.11	25.47
Other operating income	(19.36)	(19.36)
Financial impact of SHC order	(10.10)	(10.10)
Subsidy for LPG Air-Mix Project	1.41	1.41
Cost of service / prescribed price	477.89	499.40
Current average prescribed price	477.89	477.89
Increase requested in average prescribed price	-	21.51

2. Authority's Jurisdiction and Determination Process.

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







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

- 2.2. The issues brought forward by the petitioners must necessarily be evaluated with reference to the afore-said Section 13 of the Ordinance and meet at least one of the two pre-conditions given therein referring to change in circumstances and new admissible evidence for admission of the motion. Further, the Authority may refuse leave for review if it considers that the review would not materially alter the impugned decision.
- 2.3. After evaluation of the concerned Departments and fulfillment of the requirements, the petition was presented before the Authority under Rule 5 of the Natural Gas Tariff Rules, 2002 for admission of the same which was admitted by the Authority on November 11, 2020.

3. Proceedings of the Hearing:

- 3.1. Accordingly, a Notice of Hearing was issued to the petitioner on November 12, 2020 for hearing to be held at Karachi on November 23, 2020. However, due to 2nd wave of massive outbreak of Covid-19 and consistent increase in positivity percentage throughout the country, the National Command & Control Centre (NCOCC) announced a policy to avoid public gatherings. Accordingly, the Authority decided to change the venue / mode of the Hearing and issued notice of the Hearing to the petitioner on November 17, 2020.
- 3.2. Accordingly, the Authority conducted Virtual Hearing on November 23, 2020 from OGRA Office, Islamabad. The following participants attended the hearing on behalf of the petitioner:

Petitioner (SSGCL):

- i) *Mr. Amin Rajput, Managing Director*
- ii) *Mr. Saeed Larik, Acting Deputy Managing Director*
- iii) *Mr. Muhammad Wasim, Deputy Managing Director (Ops)*
- iv) *Mr. Imran Farooqi, Deputy Managing Director (Corporate Services)*
- v) *Mr. Fasihuddin Fawad, Chief Financial Officer*
- vi) *Syed Adnan Sagheer, Acting Sr. General Manager (Transmission)*
- vii) *Mr. Shehryar Kazmi, Acting Sr. General Manager (Customer Services)*
- viii) *Mr. Asad Mustafa, Deputy General Manager (RA)*



3.2. The petitioner has sought review of the Authority's decision on the following items:-

A. Operating Fixed Assets:

- (i) Gas Distribution Systems – New Towns & Villages
- (ii) Zargun QPL/SMS up-gradation-Dhabeji/ Leftover projects
- (iii) Notional Assets (IAS-20 disclosure requirement)

B. UFG

- (iv) UFG on transmission and Distribution of RLNG
- (v) GIC on transportation of RLNG
- (vi) (Increase)/Decrease – Gas in pipeline / (prior year adjustment of line pack for 42" RLNG pipeline)
- (vii) RLNG impact on UFG
- (viii) KMI's achievement
- (ix) Loss due to sabotage activity / rupture

C. Transmission & Distribution (T&D) Cost:

- (x) HR Benchmark cost
- (xi) Impairment of Capital WIP
- (xii) Repair & Maintenance
- (xiii) Others
- (xiv) HCPC Arbitration Award
- (xv) Provision for Doubtful Debts
- (xvi) Others/Auditor's fee

D. Misc:

- (xvii) Assets Balance Correction

4. Operating Fixed Assets

i. Gas Transmission Pipelines

4.1. The petitioner has claimed an amount of Rs. 97 million under this head. Segment wise detail of capitalization claimed by the petitioner is as under:



Table 2: Additions to Transmission Network

		<i>Rs. in Million</i>		
Sr. No.	Description Of Segment	FY 2017-18		
		FRR	DFRR	The Petition
1	12" x 64 KMs Zarghun to QPL	65	0	65
2	SMS Up-gradation - Dhabeji Full Bore Ball Valve	32	0	32
	Other leftover			
3	a) Permanent metering setup installation for POGC line valve assembly	1	0	1
	b) Additional Gas from Naimat POD			
	c) Piping set-up at JJVL			
	d) 24" x 33 Km Loopline from Tando Adam to Masu on ILBP system			
	e) Work at Barrage Colony Sukkur			
	f) Full bore ball left over project ILBP			
Total		97	0	97

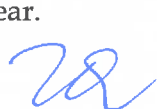
4.2. The petitioner has claimed an amount of Rs. 65 million against the head of 12" x 64 KMs Zarghun to QPL project. In this regard, the petitioner has stated that the Authority had allowed Rs. 1,349 million in DERR FY 2011-12 for the said pipeline project which was commissioned in FY 2013-14 with capitalization of Rs. 1,093 million up to June 2018 (inclusive of current year capitalization of Rs. 65 million), thus total capitalization of Rs. 1,093 million against this project is within the amount provisionally allowed by the Authority.

4.3. Cost breakup of the amount claimed by the petitioner for the said year is as under:

Table 3: Cost Breakup of 12" x 64 KMs Zarghun to QPL project

Description of Item	Rs Million
Valves & Fittings	6
Pipeline Construction	47
Depreciation of Construction Equipments	9
Interest on borrowing	2
Total	65

4.4. In response to an observation regarding the claimed amount of Rs. 9 million against 'Depreciation of Construction Equipments' and Rs. 2 million against 'Interest on borrowing' for 12" dia x 64 KMs Zarghun to QPL project, the petitioner has explained that depreciation on capitalization related to projects is not included in the total depreciation charged to Profit & Loss account under T&D cost, which is also reflected in the financial accounts of the petitioner for the said year. The petitioner has added that depreciation on projects is being charged as per International Accounting Standards (IAS) 16; interest on borrowings is charged in accordance with IAS 23 and interest capitalized during the year is subtracted/excluded from the Finance cost, which is reflected in the financial accounts of the said year.







- 4.5. The petitioner has further added that since the commissioning of 64 Km Zarghun pipeline in FY 2013-14, pending leftover jobs have been capitalized upto FY 2017-18. With respect to execution of leftover works amounting Rs. 65 million after four years of the commissioning of the said pipeline, the petitioner has stated that the said amount has been capitalized as a leftover job due to following inter departmental procedural delays identified during reconciliation:
- “The project remaining cost was not capitalized through ‘Assets Module’ due to ‘ERP system’ error, therefore, the said amount was manually capitalized in projects schedule in FY 2015-16. However, the said cost was appearing in assets register through manual JV. Hence, when ‘ERP system’ error was rectified, the project remaining cost was routed through ‘Assets Module’ in FY 2017-18. Subsequent to the routing of the said cost through assets module, reversal of manual JV has been made.”
- 4.6. *The Authority, keeping in view the above stated position/clarification furnished by the petitioner, allows capitalization amounting to Rs. 65 million against ‘12" x 64 Km Zarghun Quetta Pipeline’ for the said year.*
- 4.7. The petitioner has claimed an amount of Rs. 32 million against the head of Sales Meter Station (SMS) Up-gradation - Dhabeji Full Bore Ball Valve. In this regard, the petitioner has stated that they had projected upgradation of 20 years old SMS at Larkana, Nawabshah and Dhabeji, in ERR FY 2013-14, which was allowed by the Authority. The petitioner has further stated that although the up-gradation of SMS was required in FY 2017-18, however, this was not envisaged at ERR stage. The petitioner has explained that up-gradation of the said SMS will meet future load demands with better measuring accuracy to reduce UFG and it will also provide quality gas to customers for future period.
- 4.8. The petitioner has explained that life of the old equipment, which was installed in the year 1959, was 30 years as per manufacturer, however, the petitioner managed to use the equipment by extensive maintenance during the said period.
- 4.9. *Keeping in view the justifications provided by the petitioner and its operational requirement, the Authority allows the capitalization amounting to Rs. 32 million against ‘SMS Up-gradation - Dhabeji Full Bore Ball Valve’ for the said year.*
- 4.10. The petitioner has projected an amount of Rs. 1 million in the head of leftover activities against different projects including Permanent metering setup installation for POGC line valve assembly; Additional Gas from Naimat POD; Piping Setup at JJVL; 24" dia x 33 KMs Loopline from Tando Adam to Masu; Work at Barrage Colony Sukkur and Full Bore Ball.

The petitioner has added that three of the above mentioned projects i.e. Metering setup installation for POGC line valve assembly; Additional Gas from Naimat POD; and Piping Setup at JJVL were capitalized in FY 2016-17 and accordingly had been claimed and allowed by the Authority in the DFRR FY 2016-17 dated 26 Oct 2017.

4.11. *The Authority, keeping in view the above stated position and operational requirement of the company, allows an amount of Rs. 1 million for leftover activities against the above-mentioned projects.*

4.12. *In view of the discussion at the preceding paras, the Authority allows capitalization amounting Rs. 97 million in the head of Gas Transmission Pipelines.*

Table 4: Additions to Transmission Network as Determined by the Authority

<i>Rs. in Million</i>						
	Particulars	FRR	DFRR	The Petition	Variance/ Additional Claim	Addition in Capitalization Allowed by the Authority
FY 2017-18						
1	12" x 64 KMs Zarghun to QPL	65	0	65	65	65
2	SMS Up-gradation - Dhabeji Full Bore Ball Valve	32	0	32	32	32
Other leftover						
Permanent metering setup installation for POGC line valve assembly						
Additional Gas from Naimat POD						
3	Piping set-up at JJVL	1	0	1	1	1
24" x 33 Km Loopline from Tando Adam to Masu on ILBP system						
Work at Barrage Colony Sukkur						
Full bore ball left over project ILBP						
Total		97	0	97	97	97

ii. **Gas Distribution System**

4.13. The petitioner has claimed an amount of Rs. 134 million in addition to Rs. 371 million already allowed by the Authority under the head of New Towns and Villages. The petitioner has also claimed an amount of Rs. 72 million against 'Notional Assets'.

Table 5: Additions to Gas Distribution System

<i>Rs. in Million</i>					
FY 2017-18					
Sr. No.	Description Of Segment	FRR	DFRR	The Petition	Inc/Dec. over DFRR
1	New Towns	505	371	505	134
2	Notional Assets (IAS 20 disclosure requirement)	72	0	72	72
Total		577	371	577	206

4.14. As regards the claim of an additional amount of Rs. 134 million against the head of New Towns and Villages, the petitioner has stated that assets worth Rs. 134 million were disallowed by the Authority in DFRR FY 2017-18 while the same were financed through grants from Federal / Provincial Government (i.e. Rs. 110 million on account of conversion







of loan from Government of Sindh (GoS) and grant of Rs. 24 million received from Federal Government) and were part of the said year's Deferred Credit. The petitioner has explained that addition in deferred credit during the said year is Rs. 2,313 million, out of which Rs. 2,179 million pertain to the adjustment in Deferred Credit for the period prior to FY 2016-17 while Rs. 134 million relates to FY 2017-18. The petitioner has informed that prior year adjustment upto FY 2016-17 has been reflected due to the conversion of soft term loan into grant by GoS, as a consequence of Authority's directions/determinations for FYs 2012-13 to FY 2015-16.

4.15. The petitioner has explained that assets developed, over the years, through Federal/Provincial Government's grants have been accumulated in Deferred Credit. Moreover, the average of opening and closing balances is used to work-out the "Average net fixed assets after deferred credit", to arrive at the asset base for return purposes. Thus, it is evident that the said amount of grant has already been deducted from the calculation of ROA (as part of deferred credit) therefore its **rejection** / deduction from the rate base resulted in additional **disallowance** under this head. The petitioner has submitted that they include the assets capitalized through grants in the asset base but when they calculate the Return on Assets, they exclude the Deferred Credit from the Asset Base, hence they do not claim Return on such assets.

4.16. The petitioner has clarified that depreciation has been claimed on assets capitalized through grants, in the revenue requirement however, a corresponding entry in terms of income through amortization of Deferred Credit is also offered in the Revenue Requirement of the petitioner, therefore its effects are being mitigated by corresponding/reverse effects in Revenue Requirement.

4.17. *In view of the discussion in the preceding paras, the Authority allows an additional amount of Rs. 134 million against the head of New Towns and Villages for the said year.*

4.18. The petitioner has claimed an amount of Rs. 72 million against the head of Notional assets. The petitioner has stated that Notional Assets IAS 20 disclosure requirement actually relates to the differential of interest rate of soft term loan granted by Provincial Government for Gas Development Schemes and the rate of commercial loan prevalent in the market.

4.19. The petitioner has added that since the entries represent notional assets recorded to meet the disclosure requirements as per the referred IAS, no return on assets has been claimed on amounts so capitalized under this head, therefore, **rejection** of Rs. 72 million in notional

assets in DFRR has resulted in double jeopardy. The petitioner has added that the amount against each scheme had already been received in the respective previous years by the company, however, as a consequence of the decision of GoS, only their classification from loan to grant will be changed.

4.20. *The Authority, keeping in view the above noted justification furnished by the petitioner, allows an amount of Rs. 72 million against this head.*

4.21. *In view of the discussion at the preceding paras, the Authority allows an additional amount of Rs. 206 million against the head of Gas Distribution System.*

Table 6: Additions to Gas Distribution system as Determined by the Authority

						Rs. in Million
	Particulars	FRR	DFRR	The Petition	Variance/ Additional Claim	Addition in Capitalization Allowed by the Authority
FY 2017-18						
1	New Towns & villages	505	371	505	134	134
2	Notional Assets (IAS 20 disclosure requirement)	72	0	72	72	72
	Total	577	371	577	206	206

5. UFG on Transmission and Distribution of RLNG

5.1. The petitioner has claimed a volume of 994 MMCF under the head of UFG on transmission and distribution of RLNG. The petitioner has stated that SNGPL has not been making any payments to SSGC on account of re-gasification charges, cost of supply, LSA margin etc. Besides these, an amount of more than Rs. 12 billion under the head / agreement of Equalization of Cost of Gas has been held by SNGPL. The Petitioner has clarified that these entries are recorded in the books of accounts at year end for closing the books of accounts. The petitioner further stated that it is not necessary that the related payments be due/affected in the same period.

5.2. The Authority notes that the decision of the ECC of the Cabinet conveyed by Ministry of Energy vide letter No. NG(II)-16(I)/15-RLNG-IPP-Vol-II dated 23-06-2015 inter alia stipulates that,

"In case of ring fencing, any makeup volume due to BTU equivalence may be treated as "deemed delivery/sales" in the UFG computation less UFG of transmission/distribution as allowed by the OGRA being an operational constraint."

5.3. Furthermore, Ministry of Energy vide letter No. NG(II)-16(4)/17-RLNG-Misc. vol-1 dated 23 October, 2017 had stated that,



"In pursuance of the decision of the ECC vide Case No. ECC-126/15/2015 dated 03.09.2015 this Division hereby allocates 5 BCF of RLNG to M/s SSGCL out of the RLNG stock held with SSGCL. M/s SSGCL shall enter into an Agreement with M/s SNGPL pursuant to above RLNG allocated volumes with the condition that either SSGCL will make payments to SNGPL for the RLNG so sold in its franchise area or it will return these molecules when dedicated pipeline is available."

5.4. The Authority notices that the petitioner had sold RLNG volume of 6,487 MMCF, during FY 2017-18, out of the stock held with it. Since the petitioner has to make payment to SNGPL for a volume of 6,487 MMCF against sale of RLNG heldstock in pursuance of above stated ECC decision and the Authority has already allowed this volume as 'deemed sale' in FRR, therefore, there is no reason to allow any additional volume against 'UFG on transmission and distribution of RLNG'. In accordance with the above noted decision of ECC dated 23-06-2015 read with MOE's letter dated 23-10-2017, the petitioner may claim only such volumes of deemed sales in the UFG computations, for which it makes payment to SNGPL or is liable to pay to SNGPL. *The Authority, therefore, does not allow any additional volume against this head at this stage.* The Authority however, notes that it is in the process of initiating an independent UFG Audit of the gas companies, which will cover the entire indigenous and RLNG supply chain and will address the issues related to the handling of RLNG as well.

iii. Gas Internally Consumed (GIC) on transportation of RLNG

5.5. The petitioner has claimed a volume of 1,741 MMCF against the head of GIC on transportation of RLNG.

5.6. The petitioner has stated that 1,741 MMCF of GIC pertains to RLNG transportation business which has been claimed in the UFG computations as part of deemed sale. The petitioner has further stated that the gas was internally consumed at compressor stations used for swapping indigenous gas in place of RLNG. The petitioner further added that all these volumes are metered consumptions and these volumes cannot be treated as UFG.

5.7. The Authority notes that as per the relevant provisions of OGRA Gas TPA Rules, 2018 and Gas Transportation Agreement between the parties, the petitioner is entitled to claim such volumes from SNGPL (the transporter), therefore it may not claim such volumes in UFG calculation of indigenous gas.

5.8. In this regard, clause 7.2 of GTA between the petitioner and SNGPL dated 30.06.2016 states that:

"SSGC's obligation to transport SN-RLNG to SNGPL under Phase II shall be subject to reduction due to Pipeline Losses and one-time adjustment for LP if applicable".



Clause 1.1 of the GTA defines:

"Pipeline Losses means the following losses incurred in relation to transportation obligations of SSGC, which may be verified by a mutually agreed third party auditor: (a) system use gas ("SUG") which shall be the quantity of gas actually used by SSGC for gas compression and the operation and maintenance of its portion of the RLNG Pipeline; (b) transportation loss ("TL") as determined by OGRA and allocated to SSGC on a pro-rated basis based on the length of its transmission network;"

Moreover, Rule 12 (2) of OGRA Gas TPA Rules, 2018 stipulates as under: "Line pack, system use gas and transportation losses:- A shipper shall provide gas for adjustment on account of system use gas and transportation loss as agreed in the access arrangement and in accordance with the latest determination thereof by the Authority for the transporter."

Rule 2(z) of OGRA Gas TPA Rules, 2018 states that:

"system use gas" or "SUG" means the quantity of gas used by the transporter for the operation of and maintenance attributable to, the gas pipeline transportation system related to the access arrangement, as approved by the Authority."

5.9. *In accordance with the provisions of OGRA Gas TPA Rules, 2018 and GTA, the petitioner is entitled to claim the required volume of gas from the shipper i.e. SNGPL. Therefore, the Authority does not allow any volume against this head.*

iv. **Inc/Dec Gas in pipeline/ (prior year adjustment of line pack for 42" RLNG pipeline)**

5.10. The petitioner has claimed volumes of 374 MMCF and 399 MMCF against the head of Line Pack (LP). The petitioner has stated that LP is simply the difference between the opening and closing balance of gas in pipeline. The petitioner has further added that in any situation (its claim in terms of monetary value from the shipper or its adjustment in kind from the volumes held) these volumes are physically available in the pipeline for sale. The Petitioner has further stated that increase in inventory in pipeline cannot be treated as UFG. The petitioner has stated that claiming these volumes from SNGPL is a separate matter and does not require any adjustment from the SSGC UFG statement.

5.11. The Authority notes that as per clause 7.2 of GTA between the petitioner and SNGPL:

"SSGC's obligation to transport SN-RLNG to SNGPL under Phase II shall be subject to reduction due Pipeline Losses and one-time adjustment for LP, if applicable".

Moreover, Rule 12 of OGRA Gas (TPA) Rules, 2018 stipulates as under: "Line pack, system use gas and transportation losses:- In case of a dedicated pipeline, the shipper shall provide the required volume of gas for the line pack and which shall be recoverable by the shipper, in kind or monetary terms, as agreed in the access arrangement."

5.12. In accordance with the provisions of OGRA Gas (TPA) Rules, 2018 and GTA, the petitioner is required to claim the required volume of gas from the shipper i.e. SNGPL without claiming such volumes in UFG sheet of indigenous gas. *Therefore, the Authority does not allow any volume against this head.*



v. RLNG Impact on UFG

5.13. The petitioner has claimed an amount of Rs. 12,010 million against the head of impact of RLNG on its UFG.

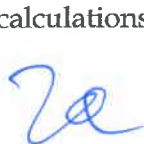
5.14. The petitioner has stated that in respect of its claim the Authority has been raising concerns over the technical issues involved and has been asking to conduct technical study despite the fact that no technical study has been conducted while allowing actual UFG as a part of RLNG prices chargeable to RLNG consumers primarily on SNGPL network. The petitioner further added that in view of above they understand that the stance of the Authority is unjustified/discriminatory. The petitioner further informed that notwithstanding to its stance on the issue of non-implementation of Policy Guidelines on RLNG volume handling by OGRA and the fact that the matter is under active consideration at Federal Government level; it has claimed UFG on volume handling basis relying on mandatory implementation of ECC / Cabinet Policy Guideline No. ECC-37/09/2018 dated: 11 May 2018. The petitioner has further added that since the said matter is still under consideration at ECC / FG level, it will revert back based on the ECC upcoming decision(s).

5.15. The Authority reiterates that under the above noted relevant provisions of OGRA Gas TPA Rules, 2018 and GTA, pipeline losses due to handling of RLNG, if any, are to be claimed by the petitioner from the shipper. As regards the implementation of Policy Guidelines on the issue, a detailed decision on this matter has already been issued in FRR FY 2016-17 dated 24-12-2018.

5.16. *In view of the above, the Authority, therefore, maintains its earlier decision on the matter.*

vi. KMI's achievement

5.17. The petitioner has claimed 98% achievement against the head of KMI implementation plan. The petitioner has stated that the 98% KMI achievement claim of the company was based on thorough workings supported with complete logical documentation. The petitioner has further informed that the KMI achievement was also audited and certified by M/S Deloitte Yousuf Adil, Chartered Accountants under the directives of the Authority. The petitioner has requested the Authority to provide complete details of basis of its determination under this head and allow 98% KMI achievement as claimed by it in UFG calculations.



5.18. The Authority notes that it had worked out allowance for local operating conditions in the UFG Sheet, based on the performance of the company as per KMIs and auditor's report in this regard. *The Authority, therefore, maintains its earlier decision on the matter.*

vii. Loss due to sabotage activity / rupture

5.19. The petitioner has claimed a volume of 26 MMCF as loss due to sabotage activity / rupture.

5.20. The petitioner has submitted that allowance under the said head has always been considered by the Authority under UFG calculations, being an uncontrollable factor. The petitioner has further stated that in view of the Authority's contention, it referred the UFG study report dated: 7 July 2017 approved and implemented by the Authority vide its decision on ERR FY 2018-19 dated 21 June 2018 and found that there has been no provisioning available against Loss due to sabotage activity / rupture under the head "Local operating conditions components - Reference- Rate 2". The petitioner has further added that the allowance for local operating conditions covers primarily "claimed volumes in respect of Gas Theft by non-consumers" and Law and Order affected areas". The Petitioner has further stated that the basis used to work out the component of 2.6% (allowance for local operating conditions) does not include gas losses due to line ruptures. The petitioner has stated that prior to the implementation of ECC decision dated 20 November 2014 when OGRA was not allowing the volumes under the heads of theft by non-consumers as well as law and order affected areas, loss due to sabotage activities was an allowable component under UFG calculations. The petitioner has further stated that the current decision is thus a major shift from the consistent practice of the Authority to the sole disadvantage of the petitioner. The petitioner further emphasized that the Authority has not only been allowing the claims under this head since inception, but even after the issuance of UFG study report dated 7 July 2017, had allowed the said claim of the company. The petitioner has referred the determination for FRR FY 2016-17 dated 26 October 2017, wherein the Authority allowed a claim of 31 MMCF under the head of Loss due to sabotage activity / ruptures.

5.21. The Authority observes that as per UFG study for determining UFG Benchmark it had already given 'Allowance for local operating conditions' which also covers the law and order conditions. The said study was effective from FY 2017-18, therefore, reference to FY 2016-17 determination is not relevant. Since the petitioner has not presented any new

evidence/justification; *therefore, the Authority maintains its earlier stance on the matter and does not allow any additional volume against this head.*

5.22. *In view of the discussion at the preceding paras, the Authority disallows any additional volume claimed against the head of UFG.*

6. TRANSMISSION AND DISTRIBUTION (T&D) COST

viii. HR Benchmark cost

- 6.1. The petitioner has claimed Rs. 13,473 million in respect of HR benchmark cost as against Authority's determination of Rs. 12,805 million (including Rs. 309 million in respect of HR RLNG activity) for the said year.
- 6.2. The petitioner has submitted that it had computed HR cost based on treatment allowed to SNGPL per determination of MFR FRR for FY 2015-16 dated 15th June 2017, wherein gross HR cost was adopted for the purpose of computation of surplus/saving. The petitioner has further argued that the same treatment has already been allowed to SNGPL in FRR for FY 2016-17 and FY 2017-18. Therefore, it was requested to additionally allow Rs. 668 million so that discrimination between the two Sui Companies be ended.
- 6.3. The Authority notes that the mechanism of surplus/saving based on gross HR was given till FY 2017-18. *Accordingly, the Authority, while accepting the petitioner's contention, decides to allow HR cost at Rs. 13,473 million (including Rs. 309 million allocated to RLNG segment) for the said year.* The Authority, however, clarifies that the HR benchmark was provisional since FY 2018-19, therefore, the concept of saving/surplus based on net/gross HR cost has been abolished by it while disposing SNGPL FRR for FY 2018-19. Accordingly, such adjustment shall also not be considered for the petitioner. The petitioner needs to review its policies so that impact with dwindling gas supplies be reduced.

ix. Impairment of Capital WIP

- 6.4. The petitioner has claimed Rs. 127 million being disallowed by the Authority on account of impairment of capital work in progress for the said year. The petitioner has explained that impairment of capital work in progress is booked based upon impairment testing carried out by the external auditor. Such amounts were allowed in the past by the Authority. The petitioner has further explained major portion have already been

capitalized as the development work has been completed on those schemes pertains resulting in reversal in forthcoming FRR.

6.5. The Authority agrees that the said impairment was being allowed by the Authority in the past, but the consistent increase in recording of impairment in respect of capital WIP indicates towards company's inefficiency in respect of completion of projects. The petitioner also remained failed to justify the non-execution of the schemes. *In view of the same, the Authority maintains its earlier decision, and directs the petitioner to execute the projects timely so that no/minimal burden owing to impairment of capital W.I.P be avoided.*

x. Repair and Maintenance

6.6. The petitioner has claimed an amount of Rs. 105 million in addition to Rs. 1,567 million allowed by the Authority in DFRR 2017-18 against the head of Repair and Maintenance.

6.7. The petitioner has stated that the rejection has been made by the Authority based on some misunderstanding / calculation error. The petitioner has further stated that it has been claiming the amounts under this head (clubbed under repair & maintenance / software maintenance) in consonance with the initialed / annual accounts. The petitioner has further stated that the correct figure for FY 2017-18 under the said head as per the initialed accounts is Rs. 1,672 million.

6.8. The Authority had allowed Rs. 1,567 million in DFRR based on the figures reported by Auditors under this head. Subsequent to the instant petition, the petitioner was advised to provide clarification regarding the amount claimed by it vis-à-vis the figures reported by Auditor under this head. In response thereto, the petitioner clarified that the amount claimed against the head of Repair & Maintenance also includes the revenue expenditure related to Software Maintenance. The Auditor has reported an amount of Rs 105 million against Software maintenance in addition to Rs 1,567 million against the head of Repair & Maintenance. *Keeping in view the petitioner's clarification, the Authority, allows an additional amount of Rs 105 million against this head for the said year.*

xi. Remaining Items

6.9. *The Authority accepts the petitioner's claim on account of remaining items and allows T&D costs as per the table below;*



Table 8: T&D Cost Allowed by the Authority

Particulars	Rs. In Million	
	FY 2017-18	
	The Petition	As allowed
Salaries, wages, and benefits at benchmark	13,165	13,165
Repairs & maintenance	1,672	1,672
Impairment WIP	127	-
Remaining T&D Cost	2,748	2,748
Sub-total Cost	17,712	17,585
Less: Recoveries / Allocations	2,035	2,035
Net T&D Cost before GIC	15,677	15,550

xii. Other Charges - Legal Charges on account of HCPC

6.10. The petitioner has claimed Rs. 4,167 million on account of legal charges in respect of HCPC arbitration as per the table below;

Table 9: Breakup of HCPC Legal Expenses as Arbitral Award

Description	Rs .in Million
Reversal of LPS(already offered)	3,243
Interest on LD	353
Legal Expenses as per Arbitral	571
	4,167

6.11. The petitioner has submitted that above expenses were pending by the Authority till the conclusion of the matter between WAPDA / CPPA-G and HCPC relating to the waiver of LD charges in the light of the decision of the ECC of the Cabinet vide its case no. ECC-06/02/2018 dated: 7 Feb 2018. The petitioner has clarified that Rs. 4,167 million has no relevance with ECC decision and the same were not compensated/waived as per the above referred decision.

6.12. The Authority notes that the petitioner had offered LPS income on account of HCPC to the tune of Rs. 2,931 million in determinations of FY 2008-09 to FY 2016-17 as against its claim of Rs. 3,243 million. In view of the same as well as the clarification provided by the petitioner *the Authority decides to allow Rs. 3,855 million (i.e. Rs. 2,931 million + Rs. 924 million) on account of legal charges booked under the head of "other charges" for the said year.*

2a *NRP*

[Signature]


7. Decision of the Authority

7.1. *In view of the foregoing, the petition for the said year is hereby disposed of. After making the above adjustments, the Authority hereby determines final revenue requirement of the petitioner at Rs. 185,867 million as against Rs. 188,607 million requested by the petitioner (Annexure-A).*

7.2. *In view of the foregoing, the petition for the said year is hereby disposed of.*



Mr. Zain ul Abideen
Qureshi,
Member (Oil)



Noorul Haque,
Vice Chairman/Member
(Finance)



Mr. Muhammad Arif,
Member (Gas)

Islamabad, January 26, 2021

Motion for Review Against Determination of
Final Revenue Requirement of SSGCL Financial Year 2017-18

A: Tariff Determination Motion for Review on DFRR for FY 2017-18

Rs. in Million

Particulars	The Petition	The Adjustment	Determined by the Authority
Gas sales volume -MMCF	355,337		355,337
BBTU	363,575		363,575
"A" Net Operating Revenues			
Net sales at current prescribed price	173,748	-	173,748
Meter rentals	756	-	756
Amortization of deferred credit	552	-	552
Sale of LPG	2,412	-	2,412
Sale of NGL	437	-	437
Late payment surcharge	1,096	-	1,096
Meter manufacturing profit	(58)	-	(58)
Other operating income	1,843	-	1,843
Total Operating Revenue "A"	180,787	-	180,787
"B" Less: Operating Expenses			
Cost of gas	164,938	-	164,938
UFG Adjustment	(14,866)	(2,301)	(17,167)
Transmission and distribution cost	15,677	(126)	15,550
Gas internally consumed	271	-	271
Staggering of accumulated losses	(3,672)	-	(3,672)
Depreciation	5,666	-	5,666
Other charges	9,453	(313)	9,139
Change in accounting policy IAS-19 by IASB	1,368	-	1,368
Total Operating Expenses "B"	178,834	(2,740)	176,093
"C" Operating profit (A-B)	1,953	2,740	4,694
Return required on net operating fixed assets:			
Net operating fixed assets at beginning	59,875	-	59,875
Net operating fixed assets at ending	61,763	-	61,763
	121,639	-	121,639
Average net assets (I)	60,819	-	60,819
Net LPG air mix project asset at beginning	799	-	799
Net LPG air mix project asset at ending	745	-	745
	1,545	-	1,545
Average net assets (II)	772	-	772
Deferred credit at beginning - Assets related to Natural Gas Activity	4,709	-	4,709
Deferred credit at ending - Assets related to Natural Gas Activity	6,436	-	6,436
	11,144	-	11,144
Average net deferred credit (IV)	5,572	-	5,572
"D" Average (I-II-III-IV)	54,475	-	54,475
"E" return required	9,261	-	9,261
"F" Shortfall / (Surplus) in return required (E-C) (Gas Operations)	7,308	(2,740)	4,567
"G" Additional revenue requirement for Air-Mix LPG Projects	512	-	512
Total Shortfall / (Surplus) H=(F+G)	7,820	(2,740)	5,080
Increase in average prescribed price effective (Rs. /MMBTU) w.e.f July 01,	21.51	(7.54)	13.97
Total revenue requirement (B+E+G)	188,607	(2,740)	185,867
Average Prescribed Price (Rs. per MMBTU)	499.40	(7.54)	491.86