

OGRA-6(2)-1(1)/2020-Review

IN THE MATTER OF

SUI NORTHERN GAS PIPELINES LIMITED (SNGPL)

**MOTION FOR REVIEW AGAINST AUTHORITY'S DETERMINATION OF
FINAL REVENUE REQUIREMENT FOR
FY 2018-19**

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

DECISION

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 Northern Gas Pipelines Limited (SNGPL)/(the petitioner) is a public limited company incorporated in Pakistan, and is listed on Pakistan Stock Exchange. It is engaged in the business of construction and operation of gas transmission and distribution pipelines, sale of natural gas and compressed natural gas, and sale of gas condensate (as a by-product). The petitioner is also engaged in the business of Re-gasified liquefied natural gas (RLNG), in accordance with the decisions of the Federal Government (FG/GoP).
- 1.2. The Authority, under Section 8(2) of the OGRA Ordinance, 2002 (the Ordinance) had determined the Final Revenue Requirement (FRR) of petition for FY 2018-19 (the said year) vide order dated July 07, 2020 at Rs. 351,236 million (the amounts have been rounded off to the nearest million here and elsewhere in this document) including shortfall of Rs. 122,177 million translating into an overall increase of Rs. 420.07 per MMBTU w.e.f July 01, 2018.

2. The Petition

- 2.1. Being aggrieved by this determination, the petitioner vide its letter August 05, 2020 filed motion for review under Section 13 of Ordinance, 2002 read with Rule 16 of Natural Gas Tariff Rules, 2002 (NGT Rules) Rules seeking increase in current prescribed price of Rs. 449.79/MMBTU to Rs. 612.67/MMBTU (increase of Rs. 162.88/MMBTU w.e.f July 01, 2018). The petitioner has challenged various capital and revenue cost components as under;
 - a) *Capital Assets allowed by the Authority & Revalidation of Budgets*
 - b) *Cost of Supply of RLNG & RLNG diversion toward domestic sector*
 - c) *Calculation of UFG disallowance at WACOG instead of Cost of Gas*
 - d) *Late Payment Surcharge (LPS) on Gas Creditors*
 - e) *Other Operating Income*
 - f) *Transmission & Distribution Costs including HR & others*
 - g) *Provision for Doubtful Debts/Effect of adoption of IFRS-9*
 - h) *LPG Air-Mix Cost*



3. Authority's Jurisdiction and Determination Process

- 3.1. The petitioners have 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."

- 3.2. It is clear from the above, that the issues brought forwarded/contended by the petitioners in the motion for review must necessarily be evaluated with reference to the provisions of 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 & decision of the motion. Further, the Authority may refuse leave for review if it considers that the review would not materially alter the decision under review.
- 3.3. 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.

4. Proceedings

- 4.1. Accordingly, a Notice of Hearing was issued to the petitioner on November 12, 2020 for hearing to be held on November 26, 2020 at Lahore. 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 (NCOC) 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.



4.2. Accordingly, the Authority conducted Virtual Hearing on November 26, 2020 from OGRA Office, Islamabad. The following participants attended the hearing on behalf of the petitioner:

Petitioner (SNGPL):

- i) Mr. Aamir Tufail, Managing Director
- ii) Mr. Faisal Iqbal, Chief Financial Officer
- iii) Syed Jawad Naseem, Sr. General Manager (BD)
- iv) Mr. Azam Khan, Sr. General Manager (HR)
- v) Mr. Waseem Ahmed, Sr. General Manager (CSS)
- vi) Mr. Khalid Aftab, Sr. General Manager (Transmission)
- vii) Mr. Kamran Akram, General Manager (RA)
- viii) Mr. Rqheel Farooq, General Manager (Finance)
- ix) Mr. Qaiser Masood, General Manager (UFG)

4.3. The Authority heard the petitioner's submission. Accordingly, the discussion and decision in respect of issues contended by the petitioner is made in the following manner:

5. Discussion & Decision in Respect of Submissions By The Petitioner

5.1. Summary - Operating Fixed Assets

5.1.1 The petitioner in the instant petition has submitted that out of total additions/capitalization (Assets) i.e. Rs. 22,995 million, the Authority pended capitalization worth Rs. 9,379 million as per following details:

Table 1: Addition to Fixed Assets per the petition

| Sr. No | Amount | Brief Description | Rs. In Million |
|--------------|--------------|--|----------------|
| 1 | 8,823 | Revalidation of Budgets: Assets pended as the same were constructed/acquired against the budgets allowed by the Authority in previous years (carry forward budgets). | |
| 2 | 158 | LPG Air Mix Projects: Assets related to these projects pended due to the decision of ECC dt:26-03-2020. | |
| 3 | 206 | CP System and Replacement of Old Meters: Capitalization over and above the amount allowed in DERR FY 2018-19 was not allowed. | |
| 4 | 167 | Freehold Land: The amount was not allowed as justification/details submitted by the Company were not tangible. | |
| 5 | 25 | Advances for Land: Net addition against advances for Land, against Ring fenced projects was not allowed. | |
| Total | 9,379 | | |



5.1.2 The petitioner has requested the Authority to consider, revalidate and allow the balance expenditure/ capitalization in respect of various operating fixed assets in the light of justification submitted.

5.2. Freehold Land

5.2.1 The petitioner has requested for consideration of the following balance capitalization in respect of freehold land:

Table 2: Capitalization of Freehold Land

Rs. In Million

| S. No | Details of Capitalization | FY 2018-19 | | | Total | DFRR | Motion for Review FRR 2018-19 |
|------------------------------|---------------------------|------------|--------------|--------|------------|------------|----------------------------------|
| | | DERR/DRERR | The Petition | | | FY 2018-19 | |
| | | Total | (Indigenous) | (RLNG) | | | |
| 1 | Normal (A) | 4 | 461 | 0 | 461 | 149 | 312 |
| 2 | Advance for Land | | -286 | | -286 | -286 | |
| 3 | Land Freehold (B) | | | 33 | 33 | 33 | |
| 4 | Advance for Land (LNG) | | | 25 | 25 | | 25 |
| Total Free Hold (A+B) | | | | | 494 | 181 | 312 |

5.2.2 The petitioner at the time of FRR petition claimed capitalization of Rs. 167 million against miscellaneous budget representing land for Right of Way (ROW) of miscellaneous transmission lines, however, the same was not allowed by the Authority since detailed justification was not provided by the petitioner. The petitioner has stated that land acquisition process is inherently lengthy / tedious process and land acquisition issues continue even after construction of a pipeline is completed. The petitioner also added that due to long process and often unnecessary formalities of various Government Departments, beyond the control of the petitioner, land acquisition cases drag on for years and result in delay in capitalization. In addition, the petitioner has also provided detailed break-up of the capitalized amount. *Keeping in view the justification provided by the petitioner, the Authority allows the capitalized amount of Rs. 167 million in respect of Misc. Budget representing land for ROW.*

5.2.3 The petitioner in its FRR petition claimed capitalization of Rs. 145 million against LPG Air Mix plant in Chitral and Drosh, however, the same was not allowed by the Authority in light of ECC decision dated 26.03.2020. The petitioner has stated that decision of the ECC has been mis-construed by the Authority, further adding that ECC decision was issued on



09-04-2020 whereas work at Drosh and Chitral projects had already been started before the ECC decision.

5.2.4 The Authority observes that decision of the ECC of the Cabinet is very clear and self-explanatory advising to shelve installation of LPG Air Mix plants (approved earlier by the ECC), on which work has not been started yet excluding two already commissioned LPG Air mix plants at Awaran and Bella and a plant near completion at Gilgit. The Authority also notes that since the said decision was also conveyed to the petitioner by Ministry of Energy (Petroleum Division), therefore, OGRA advised the petitioner on July 30, 2020 to take up the matter with the FG, for clarification, if required. *In view of the foregoing, the Authority maintains its earlier decision in this respect.*

5.2.5 The petitioner has stated that net addition of Rs. 25 million in advances for Land (Ring fenced RLNG related) has not been allowed. The petitioner has therefore requested the Authority to consider this actual expenditure of Rs. 25 million. The petitioner in support of its stance has provided detailed break-up in respect of addition of Rs. 25 million and further added that during FY 2018-19, advances for Land (ROW) has been paid for the pipeline and construction has been done against the budget of Infrastructure Development Project (IDP) for LNG-II. *In view of the justification provided by the petitioner, the Authority allows the capitalization amounting to Rs. 25 million in this respect for RLNG System; however, the petitioner is not entitled to return on the capitalized amount as the same shall be treated under ring-fenced mechanism.*

5.3. Building On Freehold Land

5.3.1 The Authority at the time of FRR observed that the petitioner had capitalized Rs. 5 million in FY 2018-19, whereas the rest of the amount of Rs. 109 million pertains to previous year's budget. Accordingly, Rs. 5 million was allowed for capitalization against building on freehold land in respect of the said year.

5.3.2 The petitioner has stated that un-like pipeline construction, civil construction works are carried through hiring of outside contractors which is a lengthy process under the prevailing procedure of PPRA. It has further been added that efforts are being made to complete the work in minimum given time frame. The petitioner has also provided the itemized capitalization details in support of its stance.



5.3.3 *The Authority observes that reason provided by the petitioner regarding delay in capitalization are tangible for consideration of the request and accordingly allows the remaining amount of Rs. 109 million in this respect.*

5.4. Transmission (Normal and 100 % Cost Recovery Basis)

5.4.1 The petitioner has requested for reconsideration of the following disallowed capitalization in respect of Transmission:

Table 3: Capitalization of Transmission System

| Sr.No. | Normal / Special Transmission Projects/ 100 % Cost Recovery Basis | D. O. C | DIA | COMMISSIONING LENGTH (KM) | DERR 2018-19 | Rs. In Million | | |
|--------|--|-----------|-----|---------------------------|--------------|--|--------------|-------------------------------|
| | | | | | | Capitalization claimed by SNGPL in TRR 2018-19/ previous | DFRR 2018-19 | Motion for Review FRR 2018-19 |
| i | Additions - Special Project - A 12" Dia 48.21 Km Mardan-Swat Transmission coop Line | 16-Feb-19 | 12 | 48 | | 511 | 511 | 0 |
| ii | Additions - 100% Cost Recovery Project - A 8" Dia 32.50 Km Matani To Regi Lalma Transmission Line | 28-Jan-19 | 8 | 33 | | 414 | 414 | 0 |
| iii | DDP Budget: Construction of SMS under normal Budget | | | | 259 | 86 | 0 | 86 |
| iv | Rehabilitation of Transmission System (Modification/upgrations of SMSs etc.) | | | | 86 | 153 | 10 | 143 |
| v | Cathodic Protection | | | | 95 | 179 | 95 | 84 |
| vi | Additions - Other Special Project Sms Nilore | | | | | 59 | 59 | 0 |
| vii | Additions : Special Project (100% Cost Recovery) Sms Regi Lalma | 31-Jan-19 | | | - | 34 | 34 | 0 |
| viii | DDP- Cost Sharing Budget Sms Strategic Army Base Hospital At Rawalpindi 5 Mmcd (Rwp. Reg.) (100 % Cost Recovery Basis) | 14-Nov-18 | | | | 32 | 32 | 0 |
| ix | Adjustments against Misc. Transmission Lines | | | | | 93 | 93 | 0 |
| | Total | | | | | 1,560 | 1247 | 313 |

5.4.2 The petitioner claimed capitalization of Rs. 86 million against construction of SMSs at the time of FRR for FY 2018-19. However, the said capitalization was not against the budget of F.Y. 2018-19. The Authority, therefore, did not allow any capitalization for construction of SMS in DFRR for FY 2018-19. The petitioner has highlighted reasons, such as acquisition of NOCs, operational constraints, non-availability of the material etc. that has caused delay in capitalization. Moreover, the itemized capitalization details with reasoning for delay has been provided by the petitioner for reconsideration of its request. *Keeping in view the justification provided, the Authority revalidates the remaining amount and allows capitalization of Rs. 86 million against construction of SMS for the said year as requested by petitioner.*

5.4.3 An amount of Rs. 153 million was claimed by the petitioner against rehabilitation of Transmission System at the time of FRR. Since the petitioner had been able to capitalize an amount of only Rs. 10 million against the budget of the said year, therefore, capitalization of Rs. 10 million was allowed by the Authority for rehabilitation of

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transmission system. The petitioner has stated that tender process, non-availability of material, operational constraints etc. has resulted in delay in capitalization of previous year amount. Moreover, itemized capitalization details with reasoning for delay has been provided by the petitioner for consideration of its request. *Keeping in view the justification provided, the Authority revalidates the remaining amount and allows capitalization of Rs. 143 million against rehabilitation of transmission system for FY 2018-19 as requested by petitioner.*

5.4.4 The petitioner achieved capitalization of Rs. 179 million w.r.t. Cathodic Protection against the budget of Rs. 95 million allowed by the Authority in DERR FY 2018-19. Keeping in view the progress of the petitioner during FY 2018-19, Authority restricted the capitalized amount to Rs. 95 million that was allowed at the time DERR FY 2018-19 against Cathodic Protection. The petitioner has referred to the DERR FY 2018-19 mentioning that the Authority allowed Rs. 95 million under the head and any over and above expense were to be considered by the Authority at the time of respective FRR. Moreover, the itemized capitalization details with reasoning / justification has been provided by the petitioner. *Keeping in view the justification provided by the petitioner, the Authority allows the remaining capitalization amounting to Rs. 84 million against CP system.*

5.4.5 At the time of FRR 2018-19, capitalization amount of Rs. 93 million for adjustment against various transmission lines had been claimed by the petitioner for the projects completed in previous years on 100 % cost sharing basis. Keeping in view the justification provided by the petitioner and operational requirement, the Authority allowed the amount of Rs. 93 million on 100 % cost recovery basis. However, the petitioner has now mentioned that in FRR petition, heading against this adjustment had been erroneously written as "100% Cost Sharing Basis", whereas these assets were executed through Company's own sources. The Authority has accordingly been requested to make necessary rectifications in the relevant para of the FRR decision and eliminate the words of "100% Cost Sharing Basis". *In view of the justification provided by the company, the Authority considers the said head under normal budget of the company.*

5.5. Distribution System Mains

5.5.1 The petitioner in its petition has requested for reconsideration of the following disallowed capitalization in respect of Distribution System:

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Table 4: Capitalization of Distribution System Mains

| S. No | Details of Capitalization | DERR/ DRERR | Claimed by the Petitioner (As per Petition) | | | DFRR 2018-19 | Motion for Review FRR 2018-19 |
|-----------|---|----------------|--|------------------|--------|-----------------|---|
| | | | FY 2018- 19 | (Indigen ous) | (RLNG) | | |
| i | Laying of Distribution Mains (New Town) | 12266 | 7469 | | 7469 | 1048 | 6421 |
| ii | Combing Mains | | 724 | | 724 | 724 | - |
| iii | System Augmentation/H.O | | 919 | | 919 | 15 | 904 |
| iv | Laying of Distribution Mains on Cost Sharing Basis | 3506 | 940 | 189 | 1128 | 1128 | - |
| v | System Rehabilitation and UFG Control Activities | 1547 | 1064 | | 1064 | 1064 | - |
| vi | New Connection (Domestic) including 10% additional Urgent Fee Connections | | 2501 | | 2501 | 2501 | - |
| vii | Industrial/Commercial Connections (Ring Fenced) | | | 147 | 147 | 147 | - |
| viii | G.I.Pipe and Fittings | | - | | | | - |
| Sub Total | | 17319 | 13618 | 336 | 13954 | 6628 | 7326 |

- 5.5.2 The petitioner at the time of FRR for the said year informed that it has laid 5254 KMs distribution lines at cost of Rs. 7,469 million. However, the petitioner had only capitalized Rs. 1,048 million against the budget for the said year and rest of the amount pertained to previous year's budgets, therefore, the Authority allowed the capitalized amount of Rs 1,048 million against laying of Distribution Lines for New towns and villages.
- 5.5.3 In respect of Distribution lines for system augmentation and head office reserves, the petitioner in its FRR petition for the said year informed that it had laid 208 Kms distribution lines at a cost of Rs. 919 million under the head system augmentation/ head office reserves. However, the petitioner capitalized Rs. 15 million against the budget of the said year and rest of the amount pertained to previous years, therefore, the Authority allowed the capitalized amount of Rs 15 million against laying of Distribution Lines for system augmentation/ head office reserves in its determination.
- 5.5.4 The petitioner has added that over a period of time, it has enhanced its capacity related to development activities of Transmission and Distribution Network and have completed previous years pending jobs along with newly approved jobs but still number of jobs have been carried over to next year. The petitioner has stated in respect of carrying forward the pending work that non-availability of requisite material like line pipe, fittings, coating material etc. in required quantities are the major reasons in non-completion of jobs during same fiscal year. The petitioner has further added that acquisition of NOC from government agencies, like Railway, NHA, Irrigation, TMA etc. for laying of pipeline also



result in delay of jobs. It has also been highlighted that certain jobs are stopped by locals due to political or other disputes at site and these jobs remain pending for long time unless dispute is resolved.

- 5.5.5 The petitioner also mentioned that laying and commissioning of network in any locality is not carried out simultaneously rather it is a step wise procedure. Petitioner stated that gas commissioning of network involves multiple steps including crossings, tie-ins, installation of service tees of different sizes, testing of network and rectification. All these activities are time consuming for which significant time is required. Therefore, it is not essential that after completion of laying works in any locality, 100 % commissioning is achieved in the same financial year, especially, if the network is laid at the end of financial year. The petitioner has accordingly requested the Authority to allow/approve the capitalization against the assets constructed/procured against carry forward / previous year budgets.
- 5.5.6 The Authority observes that the reasoning provided by the petitioner that has resulted in delayed capitalization is tangible for consideration of its request. *Keeping in view the justification provided, the Authority revalidates the remaining amount and allows capitalization of Rs. 6,421 million against Distribution Mains and Rs. 904 million in respect of System Augmentation / H.O.*

5.6. Measuring and Regulating

- 5.6.1 The petitioner has requested for reconsideration of the following disallowed capitalization in respect of Measuring and Regulating:

Table 5: Capitalization of Measuring and Regulating

| S. No | Details of Capitalization | Rs. In Million | | | | | |
|-------|---|----------------|---|------------|-------------|-------------|-----------------------|
| | | DERR/DRER | Claimed by the Petitioner (As per Petition) | | | DERR | Motion for Review FRR |
| | | R | (Indigenous) | (RLNG) | Total | 2018-19 | 2018-19 |
| i | New Connection (Domestic) including 10% additional Urgent Fee Connections | 4666 | 2352 | | 2352 | 2352 | - |
| ii | Industrial/Commercial Connections (Ring Fenced) | 468 | | 117 | 117 | 117 | - |
| iii | Construction of TBS/DRs | 591 | 504 | 22 | 525 | 385 | 141 |
| iv | Replacement of old Meters | 2126 | 2248 | | 2248 | 2126 | 122 |
| | Total | | 5103 | 139 | 5242 | 4980 | 263 |

- 5.6.2 The petitioner at the time of FRR claimed capitalization of Rs. 469 million under the head "Construction of TBSs/DRSs" out of which Rs. 328 million pertained to capitalization against the budget of FY 2018-19 and the remaining amount pertained to previous years. The Authority keeping in view the progress made by the petitioner during FY 2018-19 allowed Rs. 328 million for construction of TBS / DRS.



- 5.6.3 The petitioner has stated that TBS installation is essentially required for commissioning of newly laid network and most of the material involved in TBS is imported, resultantly, TBS installation at times is delayed along with distribution network commissioning. The petitioner also added that non availability of site material, site disputes, stay from the Courts, delay in commissioning of main line etc. resulted in delay in installation of TBS. Moreover, the petitioner has provided the detailed breakup of capitalization along with reasoning for delay in support of its stance. *Keeping in view the justification provided, the Authority revalidates the remaining amount and allows capitalization of Rs. 141 million against Construction of TBS/DRS.*
- 5.6.4 The petitioner at the time of FRR petition claimed capitalization of Rs. 2,248 million in respect of replacement of old meters against allowed amount of Rs. 2,126 million by the Authority as per DERR for the said year. Accordingly, the Authority restricted the capitalization at the level of allowed budget of DERR for the said year i.e. Rs. 2,126 million against replacement of old meters.
- 5.6.5 The petitioner has stated that in ERR for the said year, it had petitioned budget of Rs. 3,035 million for replacement of 772,840 number of old meters, however, the Authority allowed replacement of same number of meters but the claimed amount was reduced/rationalized to Rs. 2,126 million, based on past actual expenditure and trend analysis. It has further been stated by the petitioner that as per Authority's decision where number of meters to be replaced had not been reduced, the petitioner, with approval of its Board of Directors, had initiated the proposed replacement plan and succeeded to replace 677,713 number of old meters (against allowed numbers of 772,840) during the said year, with an expenditure of Rs. 2,248 million.
- 5.6.6 Accordingly, the petitioner has requested the Authority to allow the disallowed amount of Rs. 122 million, since the replaced number of old meters are well within the allowed numbers and the expenditure exceeded the approved amount only owing to inflationary impact on the cost of material procured (mainly meters) during this period as well as on other allied expenditure. *Keeping in view the justification provided by the petitioner, the Authority allows the remaining capitalization amounting of Rs. 122 million in respect of replacement of old meters.*



5.7. Plant, Machinery, Equipment and Other Assets

- 5.7.1 The petitioner at the time of FRR petition claimed total capitalization of Rs. 1,368 million that included Rs. 1,295 million against regular expenditure and Rs. 73 million represents capitalization under LNG Projects under different heads of plant, machinery, equipment and other assets. The Authority in determination of FRR the said year did not allow the assets capitalized against the budgets of previous years.
- 5.7.2 The petitioner in respect of disallowed capitalizations against previous years budget has stated that procurement of the Construction Equipment, Plant & Machinery and other items takes a long period of time and sometimes it has to undergo multiple re-float of the tenders owing to lesser number of bidders, non fulfilment of other technical requirement or high bids etc., resultantly increasing the procurement lead time substantially that results in delayed capitalization.
- 5.7.3 The petitioner has requested for reconsideration of the following disallowed capitalization in respect of Plant, Machinery, Equipment and Other assets:

Table 6: Capitalization of Plant, Machinery, Equipment and Other Assets

Rs. In Million

| S. No. | Description | DERR/DRERR | Claimed by the Petitioner (As Per Petition) | | | DFRR | Motion for Review FRR 2018- 19 |
|--------------|---|-------------|--|-----------|-------------|------------|--------------------------------------|
| | | FY 2018-19 | (Indigenous) | (RLNG) | Total | FY 2018-19 | |
| i | Telecom Equipment | 42 | 56 | | 56 | 1 | 55 |
| ii | Plant & Machinery | 405 | 277 | 3 | 279 | 15 | 264 |
| iii | Tools & Equipment | 26 | 13 | 15 | 28 | 17 | 11 |
| iv | Motor Vehicles | 193 | 271 | 1 | 271 | 12 | 260 |
| V | Construction Equipment | 238 | 205 | 52 | 257 | 57 | 201 |
| vi | Furniture & Fixture | 75 | 48 | 1 | 49 | 1 | 48 |
| vii | Office Equipment/ Security Equipment | 28 | 19 | | 19 | 2 | 17 |
| viii | Computer Hardware | 346 | 243 | 1 | 244 | 114 | 130 |
| ix | Intangible / Computer software | | 162 | 1 | 163 | 116 | 47 |
| Total | | 1353 | 1295 | 73 | 1368 | 335 | 1032 |

- 5.7.4 In respect of Telecom Equipment, the petitioner at the time of FRR petition claimed capitalization of Rs. 56 million that included Rs. 33 million against special project for replacement of existing digital microwave. Since the petitioner capitalized Rs. 1 million against budget of the said year. Therefore, the Authority allowed the capitalization of Rs. 1 million for telecom equipment. The petitioner in respect of special project added that it was approved by the Authority in FY 2010-11 and the amount represents minor adjustment upon completion of the project and special management sanction for this special project was granted in FY 2017-18 instead of FY 2010-11, that has resulted in delay.

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In addition, the petitioner has also mentioned that non responsive tendering process, re-floatation of tenders and delayed delivery/ commissioning/ testing time has resulted in delay for capitalization. The itemized capitalization detail has also been provided by the petitioner in support of its stance. *Keeping in view the justification provided by the petitioner, the Authority revalidates the remaining amount and allows capitalization of Rs. 55 million for telecom equipment.*

- 5.7.5 The petitioner in FRR petition claimed capitalization of Rs. 279 million against Plant and Machinery that included Rs. 277 million against indigenous system and Rs. 2.5 million against RLNG system. The Authority keeping in view the capitalization against the budget of said year allowed capitalization of Rs. 13 million for indigenous system. The petitioner has added that non-responsiveness of bidders, re-floatation of tenders and delayed delivery/ commissioning time resulted in delay in capitalization of previous years. Moreover, the petitioner has also provided the itemized capitalization details in support of its stance. The justifications provided by the petitioner are tangible for consideration of its request. *Keeping in view the justification provided by the petitioner, the Authority revalidates the remaining amount and allows capitalization of Rs. 264 million in respect of plant and machinery.*
- 5.7.6 The petitioner at the time of the said year claimed capitalization of Rs. 28 million against tools and equipment that included capitalization of Rs. 13 million against indigenous system and Rs. 15 Million for RLNG supply. Keeping in view the capitalization achieved against the budget of said year, the Authority allowed capitalization of Rs. 2.52 million in respect of tools and equipment for indigenous system. The petitioner has highlighted reasons such as non-responsive tendering process and re-floatation of tenders as reasons that has resulted in delay in capitalization for previous year's budget. Moreover, itemized capitalization details have also been provided by the petitioner in support its stance. *Keeping in view the justification provided by the petitioner, the Authority revalidates the remaining capitalized amount of Rs. 11 million in respect of budget pertaining to previous years.*
- 5.7.7 The petitioner at the time of FRR claimed capitalization of Rs. 271 million in respect of Motor vehicles for indigenous system which included capitalization of Rs. 13 million against Special Project (LPG Air Mix Plant at Gilgit). Keeping in view the progress made by the petitioner in respect of Budget for said year, the Authority allowed capitalization of Rs. 11 million for indigenous system. The petitioner has added that to avail the economy



of scale, procurement process against the total budget sanctioned for the year is initiated at once, however, capitalization was delayed owing to more delivery time involved/taken by supplier. As regards capitalization against budget of LPG Air Mix Plant Gilgit, the petitioner has added that lead time taken by the supplier resulted in delay. Moreover, itemized capitalization details have also been provided by the petitioner in support of its stance. Keeping in view the justification provided by the petitioner and in light of the decision of ECC dated 26-03-2020 (Case No.ECC-98/12/2020) to shelve installation of LPG Air Mix plants (approved earlier by the ECC), on which work has not been started yet excluding two already commissioned LPG Air mix plants at Awaran and Bella and a plant near completion at Gilgit, *the Authority revalidates the remaining amount of Rs. 260 million in respect of Motor Vehicles that includes Rs. 13 million in respect of capitalization against LPG Air Mix Plant at Gilgit.*

5.7.8 The capitalization of Rs. 257 million was claimed by the petitioner at the time of FRR 2018-19 against construction equipment that included Rs. 205 million against indigenous system and Rs. 52 million against RLNG supply. Keeping in view the capitalization against the budget of said year, the Authority allowed capitalized amount of Rs. 4.39 million for indigenous system. The petitioner has highlighted that delay in delivery time required/taken by supplier resulted in delay in capitalization. Moreover, itemized capitalization details have also been provided by the petitioner in support of its stance and for consideration of disallowed capitalization. *Keeping in view the justification provided by the petitioner, the Authority revalidates the remaining amount and allows capitalization of Rs. 201 million in respect of construction equipment.*

5.7.9 The petitioner claimed capitalization of Rs. 49 million for furniture and fixture in its FRR petition 2018-19 that included Rs. 48 million capitalization against indigenous system and Rs. 1 million against RLNG supply. The Authority based on the progress of the company during the said year, did not allow any amount for indigenous system. The petitioner has stated that it purchases furniture of a standard design for its operational use and for this purpose, it is very much necessary to engage the right suppliers and to ensure healthy competition. It has further been added that pre-qualification of suppliers and procurement process caused delay in capitalization. Moreover, itemized capitalization details have also been provided by the petitioner in support of its stance. *Keeping in view the justification provided by the petitioner, the Authority revalidates the remaining amount and allows capitalization of Rs. 48 million in respect of furniture and fixtures.*



- 5.7.10 The capitalization claimed by the petitioner against office equipment at the time of FRR for the said year was Rs. 19 million. The Authority allowed capitalization of Rs. 2 million keeping in view the capitalization achieved against the budget of F.Y. 2018-19. The petitioner has added that non responsive tendering process, re-floatation of tenders and delayed delivery/ commissioning time resulted in the delay of capitalization of previous years. Moreover, itemized capitalization details have also been provided by the petitioner in support of its stance. *In view of the reasons provided by the petitioner, the Authority revalidates the remaining amount and allows capitalization of Rs. 17 million against office equipment.*
- 5.7.11 The petitioner at the time of FRR for the said year claimed capitalization of an amount of Rs. 244 million in respect of Computer hardware/ software that included Rs. 243 million for indigenous system and Rs. 1 million against RLNG system. The Authority keeping in view the capitalization achieved in respect of budget for the said year, allowed capitalized amount of Rs. 113 million. The petitioner has stated that due to lengthy procurement time period, being imported items and testing/training procedures after delivery of equipment, has resulted in delay in capitalization in respect of previous years. Moreover, the petitioner has provided the itemized capitalization details for consideration of disallowed capitalization. *In view of the reasons/ justification submitted by the petitioner, the Authority revalidates the remaining amount and allows capitalization of Rs. 130 million in respect of computer hardware.*
- 5.7.12 The petitioner at the time of FRR claimed capitalization of Rs. 163 million for computer software/ intangible assets that includes Rs. 162 million capitalization against indigenous system and Rs. 1 million for RLNG system. Keeping in view the progress of the petitioner in respect of budget for the said year, the Authority allowed capitalization of Rs. 115 Million for indigenous system and Rs. 1 million against RLNG system. The petitioner has highlighted reasons such as lengthy procurement time period, being imported items and testing/training procedures after delivery of equipment, in support of its stance. Moreover, the petitioner has also provided itemized capitalization details for consideration of disallowed capitalization. *In view of the reasons submitted, the Authority revalidates the remaining amount and allows capitalization of Rs. 47 million in respect of computer software.*



5.7.13 *In view of the above, the Authority revalidates the remaining capitalization amounting to Rs. 1,032 million in respect of Plant, Machinery, Equipment and other assets.*

5.8. Summary of the Assets Revalidated

5.8.1 The detailed summary of the Assets revalidated / allowed by the Authority in its determination of Motion of Review for the said year are as under:

Table 7: Assets allowed/Re-validated by the Authority

| Sr. No. | Particulars | DERR 2018-19 | Petition FY 2018-19 | | | Determined FY 2018-19 | | | Amount Revalidated |
|---------|---|-----------------|---------------------|------------|--------------|-----------------------|------------|--------------|-----------------------|
| | | | Normal | RLNG | Total | Normal | RLNG | Total | |
| 1 | Freehold land | 4 | 461 | 33 | 494 | 149 | 33 | 181 | 167 |
| 2 | Building on Free Hold land | 185 | 114 | | 114 | 5 | | 5 | 109 |
| 3 | Transmission Mains | 4326 | 1560 | 191 | 1751 | 1247 | 191 | 1438 | 313 |
| 4 | Compression | 423 | 324 | 10 | 334 | 324 | 10 | 334 | - |
| 5 | Distribution Mains | 17414 | 13618 | 336 | 13954 | 6292 | 336 | 6628 | 7326 |
| 6 | Measuring and Regulating | 7438 | 5103 | 139 | 5242 | 4841 | 139 | 4980 | 263 |
| | Sub Total | 29790 | 21181 | 708 | 21889 | 12858 | 708 | 13566 | 8177 |
| 7 | Telecommunication Equipment | 42 | 56 | | 56 | 1 | | 1 | 55 |
| 8 | Plant & Machinery | 405 | 277 | 3 | 279 | 13 | 3 | 15 | 264 |
| 9 | Tools & Equipment | 26 | 13 | 15 | 28 | 3 | 15 | 17 | 11 |
| 10 | Motor Vehicles | 193 | 271 | 1 | 271 | 11 | 1 | 12 | 260 |
| 11 | Construction Equipment | 238 | 205 | 52 | 257 | 4 | 52 | 57 | 201 |
| 12 | Furniture & Fixture | 75 | 48 | 1 | 49 | 0 | 1 | 1 | 48 |
| 13 | Office Equipment | 28 | 19 | | 19 | 2 | | 2 | 17 |
| 14 | Computer Hardware | 346 | 243 | 1 | 244 | 113 | 1 | 114 | 130 |
| 15 | Computer System Software / Intangible Assets | | 162 | 1 | 163 | 115 | 1 | 116 | 47 |
| | Sub Total | 1353 | 1295 | 73 | 1368 | 262 | 73 | 335 | 1032 |
| 16 | Advance for Land | | -286 | 25 | -261 | -286 | 0 | -286 | 25 |
| | Grand Total | 31143 | 22189 | 806 | 22995 | 12835 | 781 | 13615 | 9235 |

5.8.2 *In view of the above, the Authority decides to allow additional depreciation amount Rs. 355 million, based on validated capital expenditure for the said year. Accordingly, advance for land allowed for RLNG has been incorporated in RLNG cost of service which ROA has been computed to Rs. 8,269 million for the said year; however no financial impact on its depreciation and the same is kept at FRR level Rs. 4,105 million.*

6. UNACCOUNTED FOR GAS

6.1. Performance Against KMIs

6.1.1 The petitioner has informed that the Authority while calculating the UFG disallowance has incorporated allowance of 1.92% against "Local Conditions Component" of UFG benchmark and considering the above referred figure total score against KMIs works out

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to be 73.99% as against 99.922% claimed by the petitioner. The petitioner has requested the Authority for provision of KMI-wise detailed breakup of evaluation for calculating 1.92% (value of β).

- 6.1.2 It has also been mentioned by the petitioner that KMI wise complete details were provided vide letter Ref No. RA-TAR-18-19(F)-008 dated 03.03.2020 containing 93,535 pages in 77 Nos. box files and huge data in soft form at the time of filing of determination of FRR 2018-19 along with the subsequent information as required by OGRA in respect of various KMI. The petitioner further pleaded that most of KMIs are numeric in nature and assigned targets against all these KMIs have been achieved during the said year and deduction of score against these KMIs is highly unjustified. Moreover, the petitioner has given reference of extensive audit of all KMIs conducted by EY Ford Rhodes, Chartered Accountants and the audit report dated 14.04.2020 on the same that was submitted to the Authority at the time of FRR petition.
- 6.1.3 In view of the above, the Authority has been requested to review its decision pertaining to evaluation of KMIs of the said year by considering progress of the petitioner objectively and allow the score claimed by it without any subjectivity.
- 6.1.4 The Authority observes that it had carried out in-depth assessment and evaluation of KMIs based on the information provided by the petitioner and Audit report dated 14.04.2020. *It has also been observed that submissions made in instant petition are based on petitioner's own interpretations and no new tangible justification/ evidence has been provided for review at this stage and assessment made at the time of DFRR for the said year is fair and appropriate.*

6.2. Loss Due to Sabotage Activity/Ruptures

- 6.2.1 The petitioner has submitted that the Authority disallowed a volume of 73 MMCF and 281 MMCF against sabotage activity/ ruptures in Transmission and Distribution Systems respectively by mentioning that the same has already been included in "Allowance for local operating conditions" as per recommendations of the UFG Study Report.
- 6.2.2 The petitioner added that as per UFG Study Report, volume against sabotage activity/ ruptures is not a part of Local Operating Conditions component. The reference of the Authority's decision against determination of FRR for FY 2017-18 has also been given mentioning therein volume claimed by the petitioner against sabotage activity/ ruptures that has been allowed.



- 6.2.3 The petitioner has stated that gas lost in such activities cannot be foreseen and is not covered in the UFG benchmark study as a component of local operating conditions. Moreover, if the Authority does not allow this cost then the petitioner has to approach an insurance company for a comprehensive insurance cover against gas lost in sabotage activities and ruptures and its cost will be enormous and will likely be much higher than the actual cost of gas lost in ruptures. The Authority has been requested to allow the volume claimed i.e. 73 MMCF and 281 MMCF against sabotage activity/ ruptures in Transmission and Distribution Systems respectively.
- 6.2.4 *The Authority observes that submissions made in instant petition are repetitive and based on petitioner's own interpretations. No new tangible justification / evidence has been provided for review at this stage, therefore, the Authority maintains its earlier decision in this respect.*

6.3. Pressure Factor Adjustment in UFG

- 6.3.1 The petitioner has stated that a volume of 4,066 MMCF due to pressure factor adjustment has been excluded/ reversed from sales volume and further added that the request for amendment in clause 11 of Contract for Supply of Gas to the Domestic Consumer in line with SRO dated 09.08.2004 may be expedited.
- 6.3.2 The Authority observes that issue of application of pressure factor on domestic consumer has already been extensively analyzed and deliberated by the Authority in its various correspondence/ decisions, taken from time to time.
- 6.3.3 Moreover, the petitioner has also confirmed that the subject case is sub-judice before the Apex Court; therefore, the petitioner vide OGRA letter dated 25.11.2020 was informed that the instant request cannot be processed further by OGRA.

7. RLNG Cost of Service

- 7.1. The petitioner claimed Rs. 24,462 million (i.e. Rs. 63.71/MMBTU) computed at actual throughput capacity 1052 MMCFD as against Rs. 24,460 million (i.e. Rs. 54.83/MMBTU at 1200 MMCFD) for the said year.
- 7.2. The petitioner reiterated that the Authority determined its RLNG cost of supply on gross throughput basis/total installed capacity of RLNG (i.e. 1200 MMCFD) resulting in short recovery of Rs. 3,406 million. The petitioner stated that such



treatment appears to be not in line with the principle laid down in point No. 3 and 4 of schedule-I of TPA Rules, 2018; as well as Point 03 of Schedule-I allows the petitioner/transporter to collect its relevant and fairly allocated costs. Moreover, point 4 of schedule-I requires actualization of the tariff in view of actual accounts for the financial year. The petitioner has further stated that sale of RLNG to its own retail consumers does not come under the purview of TPA Rules, 2018.

- 7.3. The petitioner has also submitted that costly RLNG is being supplied to domestic sector at highly subsidized resulting in piling up un-recovered shortfall. Government and OGRA are required to devise a rational RLNG pricing mechanism where burden of higher RLNG price should be shifted on all those sectors including domestic which are the ultimate users of this gas. Such pricing will create demand for RLNG from general industry and consequently the network will be utilized optimally.
- 7.4. The petitioner has emphasized that at the time of investment in RLNG infrastructure no condition precedent was made by the Authority regarding 100% utilization of the infrastructure. Furthermore, during last three years, no such disallowance was made.
- 7.5. The petitioner further argued that pipeline transportation tariffs all over the world are never designed on 100% capacity utilization rather they are calculated on certain benchmarks and guidelines developed by the regulators. However, in the instant case it is being penalized without first establishing any benchmark or guideline. Determination of Natural Gas Pipeline Tariff Regulations, 2008 developed by Indian Petroleum and Natural Gas Regulatory Board are the relevant example where the rental has been worked out on the capacities ranging from 60% to 90% for first and 4th years respectively.
- 7.6. The petitioner further argued that OGRA while calculating average rate of cost of supply at Rs. 54.83/MMBTU has divided the total cost on the theoretical throughput of 1200 MMCFD including System Use Gas (SUG) without considering the fact that per unit transportation cost or cost of supply is never calculated on gross throughput rather it is calculated by dividing the cost on this account on the actual throughput.
- 7.7. Based on the above, the petitioner requested to compute the transportation tariff on actual throughput instead of gross throughput while adjusting SUG.



- 7.8. The Authority notes that all the submissions made by the petitioner has already been extensively discussed, deliberated in all its previous decisions. Regarding company's contention for RLNG as sale activity, the Authority notes that the RLNG has been injected into the system for dedicated consumers as per the FG's allocation considering enhanced additional capacity. All agreements between the petitioner and RLNG bulk consumers have been signed on take and pay basis, while the LNG supply arrangements, the terminal & pipeline capacity are aligned with each other. Further, the appetite for energy in respect of various sectors exists. The entire supply chain scenario infact urges for optimum capacity utilization from source to end consumer. Therefore, under these circumstances computation of RLNG cost of service at throughput volumes defies very logic of entire scheme of FG, introduced to manage energy constraints.
- 7.9. The Authority further notes that third party access regime has been implemented to move towards liberalization of the gas industry so as to foster competition, reduction in tariff while improving energy supply situation through additional volumes injection by potential shippers. In the light of same, it is prudent to calculate the tariff on total capacity system that shall lead to maximum utilization capacity to bring efficiency into the system.
- 7.10. *In view of above, the Authority maintains its earlier decision & directs the petitioner to encourage potential shippers and to remove the bottlenecks, if any, for allocation of spare capacities for this emerging market.*
- 7.11. *In view of above, RLNG cost of service / transportation cost is re-worked at Rs. 24,462 million (i.e. 53.70/MMBTU) after adjusting the actual volumes on account of SUG at designed capacity of the system for the said year as per the table below;*

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Table 8: SNGPL's RLNG Cost of Service

| Particulars | The Petition | As computed |
|--|--------------------|----------------|
| Quantitative Data | BBTU | |
| RLNG input Volume | 399,723 | 471,262 |
| Retainage / gas used in FSRU | (1,533) | (1,533) |
| GIC - SNGPL network | (3,465) | (3,465) |
| UFG | (10,763) | (10,763) |
| Net RLNG handled/sold | 383,962 | 455,501 |
| Cost Components | <i>Million Rs.</i> | |
| Amortization of Deferred Credit | (792) | (792) |
| Depreciation | 4,105 | 4,105 |
| Return on Assets | 8,269 | 8,269 |
| Gas Internally Consumed SNGPL | 4,824 | 4,824 |
| Transportation charges payable to SSGC | 7,274 | 7,274 |
| Incremental HR cost | 782 | 782 |
| Total | 24,462 | 24,462 |
| Rs/ MMBTU | 63.71 | 53.70 |

8. Calculation of UFG disallowance at WACOG instead of Cost of Gas of SNGPL

- 8.1. The petitioner highlighted that the Authority calculated the UFG disallowance at National WACOG of Rs. 481.21/MCF instead of Company's WACOG of Rs. 394.78/MCF resulting in additional disallowance of Rs. 1,922 million.
- 8.2. The petitioner referred that the ECC of the cabinet in its meeting held on 17.05.2018 has already dismantled the WACOG, wherein it is stated that the weighted average cost of gas equalization shall be held in abeyance till such time the committee submits its recommendations to the ECC. In view of the above, determination of UFG disallowance at national WACOG of both SUIs, is unjustified and lacks legal cover.
- 8.3. The petitioner has further submitted that since cost of gas of SSGC is higher than it, therefore, computing the UFG disallowance at WACOG instead of SSGC's cost of gas will only enable the SSGC to get more benefit and deprive the company of its legal right of being penalized only to the extent of its own costs. The petitioner has strongly objected to such treatment as currently national WACOG is not in field and valuation of UFG disallowance on the abandoned cost not only violates accounting principles but also not supported by any of the legal provisions.
- 8.4. The petitioner has further argued that such treatment would also invite objections from government auditors as the cost being used it for valuation of Company's stocks



in pipeline and GIC is different and is based on company's own cost only. In view of the above, the Authority is requested to kindly review its decision and to recalculate the penalty in respect of UFG disallowance on SNGPL's cost of gas only.

- 8.5. The Authority observes that abeyance of national WACOG by ECC does not debar OGRA to compute UFG adjustment on account of invalid claims, on national WACOG. Imposition of efficiency benchmark viz UFG, is the sole jurisdiction of the Authority and has rightly been exercised by it while adjusting invalid claims. Therefore, the petitioner's stance for computing UFG adjustment at national WACOG has been incorrectly linked to ECC decision and holds no logic.
- 8.6. *In view of the above, the Authority maintains its stance and decides to compute UFG adjustment at national WACOG.*

9. Late Payment Surcharge on Gas Creditors

- 9.1. The petitioner has claimed Rs. 17,877 million under the head of LPS payable to gas creditors as the same was pended by the Authority with the advice to take up the matter with FG for an amicable settlement of circular debt.
- 9.2. The petitioner has submitted that LPS has accrued in line with legally binding contracts signed with the gas producers and same have been approved by OGRA. Any deviation from these contracts will be considered as a breach of the contract and may result into arbitration and/or litigation and would land the company in a difficult position to defend. Moreover, cumulative impact of payment is impractical due to non-availability of sufficient cushion in the pricing. Recording of expense on accrual basis is a fundamental principle and any deviation from this concept may attract qualifications from the auditors. In view of the same, the petitioner has requested the Authority to allow the expense on accrual basis as diversion from the same principle by the Authority neither has any logic nor is supported by any provision of law.
- 9.3. The Authority is of the firm view that that the petitioner's receivables and payables (principal & LPS) from state owned companies is the matter of "circular debt" which shall be settled soon by FG. The Authority further notes that it had not disallowed the expenditure on this account, and however, pended the same to be included as part of price subject to the ultimate settlement based on revision in prices and circular debt position.



- 9.4. *In view of the above, the Authority maintains its earlier decision and decides to include the impact on actual payment basis on account of LPS payable to gas creditors.*
10. **RLNG Diversion toward domestic Sector at Average Sale Price of System Gas**
- 10.1. The petitioner highlighted that the Authority has used weighted average sale price of domestic and commercial consumers for RLNG volume diversion towards domestic consumers, which is not supported by the ECC decision in case ECC-37/09/2018 dated 11-05-2018 on the matter and the Authority's earlier stance.
- 10.2. The Authority notes that ECC, vide its above referred decision, set out broad principle for utilization of RLNG volumes and their cost recovery. Moreover, the Authority, per para 7.5.5 of FRR FY 2018-19, earlier observed that the transaction on account of RLNG diversion shall be finalized based on audit of the entire supply chain. The process for said audit has already been initiated.
- 10.3. *In view of the above, the Authority, in consultation with all stakeholders, is in the process of reviewing the adjustment on this account, which shall accordingly be considered as part of forthcoming determinations.*
11. **Transmission and Distribution Expenses**
- i. **HR Benchmark Cost**
- 11.1. The petitioner has requested to allow Rs. 18,842 million under this head as against Authority's earlier determination of Rs. 15,036 million for the said year.
- 11.2. The petitioner stated that Authority in its decision against ERR for the said year has extended the existing HR benchmark on provisional basis as the man power assessment study submitted by the Company was under evaluation by OGRA, which may form basis for the new HR benchmark formula to be determined by the Authority.
- 11.3. The petitioner stated that in the light of previous established decisions since FRR 2015-16, the HR benchmark cost allowed by the Authority is on net basis i.e. net of allocation to capitalized costs. Accordingly, the allocation to capitalization of other overheads of Rs. 382 million only (other than HR cost) should have been deducted from operating cost instead of erroneous deduction of Rs. 3,540 million which consequently understated the T&D cost allowed by the Authority by Rs. 3,024 million.



- 11.4. Regarding the allowance of HR cost on net basis (net of allocation to capitalization), the petitioner argued that the Authority in its Motion for Review on FRR 2015-16 dated June 15, 2017, after detailed deliberation, admitted the treatment of difference in respect revenue expenditures and capitalized cost. The petitioner further argued that cumulative effect of club membership/subscriptions (Rs. 5 million), Tea/Coffee (Rs. 21 million), long service award (Rs. 11 million) and hajj expense (Rs. 46 million) is Rs. 83 million only i.e. 0.44% of total HR cost.
- 11.5. The petitioner has further highlighted that the Authority, in the past while finalizing the respective FRRs', had allowed additional funds to meet CBA demands and/or employees' increments and the same were allowed till appropriate provision of funds was made available by OGRA. Accordingly, bearing this disallowance from profits of the Company or employees is unwarranted.
- 11.6. The Authority, after considering the submissions/arguments advanced by the petitioner, observes as under;
- The petitioner filed the petition for FRR for the said year on March 03, 2020 instead of August 15, 2019, after lapse of around 7 months. Accordingly, the petition was disposed off by the Authority, despite Covid-19 pandemic, in July, 2020 during reasonable time period. HR benchmark was provisional since FY 2018-19 hence was subject to revision. Therefore, the Company must have acted in a cautious manner while doling out salaries and perks. Incurrence of unjustified cost by the petitioner does not debar the Authority to act in a prudent manner. Regarding erroneous exclusion of HR capitalized cost Rs. 3,540 million from T&D costs, the same is accepted and hence allowed.
 - The Authority repeatedly advised the petitioner to rationalize its HR cost and review its HR policies in view of petitioner being public sector company recovering all its cost through consumer. Various directives and advices to curtail the exorbitant expense have also been issued from time to time. The petitioner, however, did not paid heed to the serious observations rather kept on adding additional cost. Overspending by the company in the past based on incentive provided by the Authority taking into the account the operating parameters, as discussed in FRR for the said year & DERR for FY 2020-21,



leaves no justification/rational for allowance of 50% sharing of saving or surplus, now onwards. Hence this attitude of the petition compelled the Authority to proceed with the reduction in the HR cost.

- c) The Authority, considering FG's agenda and initiatives for curtailment of commodities prices especially in the energy sector, the interveners' objection in this regard and earlier directions of the Authority directed the petitioner to review the pay scales, HR policies including perks to bring them to a rationalized and prudent level. However, in view of the reluctance of petitioner to review its scales & policies, the Authority finds no convincing arguments for continuation of current wide salary scales, HR policies including club membership, tea/coffee, long service award, best option car entitlement, medical (parents) etc, to be recovered by the consumers. Hence, in case the petitioner intends to continue with its policies, the same be funded through company's own profits.

11.7. In view of above, the Authority decides to maintain its earlier decision and decides to allow Rs. 15,036 million for the said year.

ii. Repairs & Maintenance

11.8. The petitioner at the time of FRR for the said year claimed capitalization of Rs. 1,353 million under various sub-heads of "Repair & Maintenance". However, the Authority observed that sub-head Distribution and Other (Incl H.O. & Service Department) exceeded the limit allowed by the Authority in DERR for the respective year and were restricted at the level of DERR in the absence of any cogent reasons to substantiate the claim. The total expenditure determined under Repair & Maintenance by the Authority was Rs. 1,150 million.

11.9. The main reasons now highlighted by the petitioner for variance in two subheads i.e. Distribution and others are as under:

- i. In respect of Distribution, the petitioner has stated that 13% increase is mainly due to revision in labour rates which consequently increase the expenditure under this head as compared to DERR. It has further been stated that the actual expenditure of instant year was even lesser than the expenditure allowed by OGRA in its previous determination (FRR FY 2017-18) which has been achieved



despite steep rise in the inflation. The petitioner has highlighted that Authority's decision to restrict amount of expenditure, even lesser than the earlier allowed figure, is unjustified especially when the Authority itself mentioned in its ERR decision that actual expenditure will be considered at the time of FRR.

- ii. In respect of H.O. (Others), the petitioner has added that the 29% increase is mainly due to devaluation of Pak Rupee as compared to US Dollar. The Dollar based payments include Oracle license renewal fee, IBM lotus licenses, CC&B ERP service and storage, other IT related licenses etc, which consequently increase the overall expenditure under this head as compared to DERR.

11.10. In view of the above submissions, the Authority has been requested to allow the actual expense under this head.

11.11. *The Authority observes that the reasons given by the petitioner are tangible for consideration of its request, the Authority therefore determines the expenditure under "Repair & Maintenance" at Rs. 1,353 million for the said year.*

iii. **Fuel & Power**

11.12. The petitioner has submitted that the Authority has allowed Rs. 398 million as against its claim of Rs. 428 million under the above head.

11.13. The petitioner has explained that expenditure under the sub-head "distribution" was restricted at the level of DERR for the said year by the Authority, based on the premise that electricity rates had not gone up to the extent claimed by it. The company has argued that an increase of 23% over FY 2017-18 has been claimed by it, while actual increase in electricity rates had been witnessed at approximately 26%.

11.14. The Authority notes that it had already allowed a reasonable increase over preceding year. It has always encouraged economic use of fuel and power with clear directions to maintain proper checks. The petitioner has, however, failed to curtail the cost within the allowed budgetary provision.

11.15. *In view of the above, the Authority maintains its earlier decision and allows "fuel & power" expense at Rs. 398 million for the said year.*



iv. **Rent Rates, Electricity & Taxes:**

- 11.16. The petitioner has submitted that the Authority has allowed Rs. 500 million as against its claim of Rs. 703 million under the above head for the said year.
- 11.17. The petitioner has submitted that increase has been reported owing to revision in rental agreements along-with establishment of new offices at Duniapur, Bhakkar and Hassanabdal and sub-area office at Rawalpindi. Moreover, payment of store office / dope yard Peshawar was outstanding since last 3 years due to court case. The same has now been sorted out resulting in payment to the tune of Rs. 14 million.
- 11.18. The Authority notes that natural gas supplies have been decreasing and establishment of new offices and expansion of the existing areas defies no logic. *The Authority, however, considering the payment of dope yard, decides to allow additional Rs. 14 million for the said year.* The Authority, however, reiterates its directions for negotiations of rental at reasonable rates so that minimal impact be passed onto natural gas consumers.
- 11.19. The petitioner has further requested to allow Rs. 156 million under electricity expense as against Rs. 135 million allowed under FRR for the said year. The petitioner submitted that additional expenditure incurred by it is in line with increase electricity tariff.
- 11.20. The Authority is of the firm view that only prudent and economical usage should become part of price and necessary measures are to be taken by the petitioner to restrict the cost within the allowable budgetary limits. *In view of the justification advanced by the petitioner, the Authority decides to keep electricity expenses at Rs. 135 million for the said year.*
- 11.21. The petitioner submitted that the Authority disallowed Rs. 155 million claimed under the head of Pakistan Railways line crossing based on the premise that this amount is an accrual adjustment, no expense as such has been paid yet. The petitioner has informed that Rs. 50 million were actually paid during the said year. *In view of the same, the Authority decides to allow Rs. 50 million under this head for the said year.*
- 11.22. *In view of above, rent, rates & taxes is fixed at Rs. 564 million for the said year.*



v. Travelling Expenses

11.23. The petitioner has pointed out that Rs. 194 million has neither incorporated nor specifically discussed under travelling expenses. It is, therefore, assumed that the claim has erroneously deleted from the allowed heads table.

11.24. The Authority agrees to the erroneous exclusion of Rs. 194 million from price and *decides to include the same under the above head for the said year.*

vi. Transport Expenses

11.25. The petitioner has requested to allow Rs. 1,008 million under this head as against Rs. 942 million allowed under FRR for the said year. The petitioner has submitted that the average petrol and diesel prices during the said year were increased by 22% and 27% respectively as compared to the preceding year. Therefore, increase reported by it at 24%, based on average increase in petrol/diesel, is justified as compared to amount allowed in DERR.

11.26. The Authority notes that petitioner has not provided any new justification on this account. *Accordingly, the same is maintained at the level of FRR for the said year i.e. Rs. 942 million with the direction to adopt austerity measures.*

vii. Legal and Professional services:

11.27. The petitioner has requested to allow Rs. 292 million under this head as against Rs. 184 million allowed under FRR for the said year. Under the head "Legal", the petitioner explained that litigations against the company has increased significantly in various matters. Litigation pattern had increased at a high rate. In view of the same, the petitioner has requested to allow actual expenses of Rs. 210 million for the said year.

11.28. Since no new & plausible justification has been advanced by the petitioner, *therefore, the Authority maintains its earlier decision.*

11.29. Under the head "Professional", the petitioner has highlighted that the Authority disallowed Rs. 30 million stated in its decision that no prior approval has been obtained by the petitioner despite spending significant amount on account of



technical audit of the company. The petitioner has informed that the audit was conducted after obtaining approval from OGRA. Therefore, it has been requested to allow the same.

11.30. In view of the prior approval from OGRA, the Authority decides to allow additional Rs. 11 million under the head of professional for the said year.

viii. Effects of adoption of IFRS-9- Expected Credit Loss(ECL)/Provision for Doubtful debts

11.31. The petitioner has requested to allow Rs. 337 million against IFRS-9 ECL for FY 2017-18 in the said motion. The petitioner has argued that it is statutorily obligated to comply with the requirements of the IFRS and OGRA historically has been allowing provision under IAS-19.

11.32. The Authority notes that the issue of provisioning against all trade debts has already been exhaustively discussed and decided by it in FRR for the said year. No new justification has now been provided by it. In view of the same, the Authority decides to continue its prevalent policy in respect of provision against disconnected consumers only. *In view of the above, the Authority does not allow Rs. 337 million on account of IFRS-9 relating to FY 2017-18.* The Authority, however, notes that Rs. 418 million relating to provision of doubtful debts in respect of live consumers was erroneously allowed for the said year. The same is disallowed and hence excluded from the computation of revenue requirement of the said year. Accordingly, provision for doubtful debts against disconnected consumers is allowed at Rs. 1,088 million (i.e. 1,506 - 418) for the said year.

ix. Remaining T&D Expenses:

11.33. The Authority, after analysing the justification advanced by the petitioner, notes that no new material arguments / evidence has been provided regarding expenses under the sub-heads of "Other expenses/construction equipment", "Sport Cell", "Annual Sports/Cricket Expenses", "Advertisement & publicity", "Staff training & recruiting expenses", "Cost of Gas Blown off due to sabotage activity", "Facilities provided by other companies", "BOD Meeting & Expenses" & "Other expenses/Construction Equipment", the Authority has already decided to provide prudent and legitimate



costs. Therefore, any additional expense incurred on these accounts during the year shall be borne by Company's own profit.

11.34. In view of the above, the Authority decides the T&D expenses as under:


Table 9: Summary of Transmission and Distribution Expenses

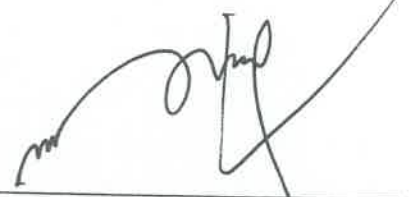
| Particulars | MFRR FY 2018-19 | | |
|---|-----------------|----------------|---------------|
| | Demanded | Adjustment | Allowed |
| Human Resource Cost | 18,842 | (3,806) | 15,036 |
| Repair and Maintenance | 1,353 | - | 1,353 |
| Fuel and Power | 429 | (31) | 398 |
| Rent, Rate, Electricity and Telephone | 703 | (139) | 563 |
| Traveling | 194 | - | 194 |
| Transport expenses | 1,008 | (66) | 942 |
| Stores and Spares Consumed | 719 | - | 719 |
| Legal and Professional Services | 292 | (97) | 195 |
| Provision for doubtful debts | 1,506 | (418) | 1,088 |
| Other T&D Expenses | 4,136 | (299) | 3,838 |
| Subtotal Expenses | 29,182 | (4,856) | 24,326 |
| Allocated to fixed capital expenditures | (3,540) | 3,274 | (266) |
| T&D Expenses | 25,642 | (1,581) | 24,060 |
| Gas Internally Consumed | 529 | - | 529 |
| Total T&D Expenses | 26,171 | (1,581) | 24,589 |

12. Conclusion / Decision

12.1 In view of the foregoing, the motion for review for said year is hereby disposed of. *The petitioner's actual net operating income is Rs. 188,613 million and thus there is a shortfall of Rs. 167,091 million (including Rs. 122,177 million pertaining to precious years), for the said year (Annex. A). The average prescribed price comes to Rs. 881.40/MMBTU.*

12.2 *The Authority decides to carry forward the entire shortfall for the said year. The prescribed prices for each category of retail consumers for the said year are accordingly stand adjusted to the extent of notified gas sale prices as advised by the Federal Government during the said year.*


(Mr. Zain-ul-Abideen Qureshi)
Member (Oil)


(Mr. Muhammad Arif)
Member (Gas)


(Mr. Noorul Haque)
Chairman

Islamabad, January 26, 2021.


REGISTRAR
Oil & Gas Regulatory Authority
Islamabad



A. Motion for Review Final Revenue Requirement for FY 2018-19

| Particulars | | FRR FY 2018-19 | The Petition | Adjustment | As Allowed |
|-------------|--|-------------------|------------------|-----------------|------------------|
| | Gas sales volume -MMCF | 406,518 | 402,452 | 4,066 | 406,518 |
| | BBTU | 387,131 | 387,131 | - | 387,131 |
| | Calorific Value | 963 | 963 | - | 963 |
| "A" | Net Operating revenues | | | - | |
| | Net sales at current prescribed price | 174,127 | 174,127 | - | 174,127 |
| | Rental & service charges | 2,022 | 2,022 | - | 2,022 |
| | Late Payment Surcharge and interest on arrears | 1,625 | 9,393 | - | 9,393 |
| | Amortization of deferred credit | 9,393 | 1,625 | - | 1,625 |
| | Other operating income | 1,447 | 1,447 | - | 1,447 |
| | Total income "A" | 188,613 | 188,613 | - | 188,613 |
| "B" | Less Expenses | | | - | |
| | Cost of gas | 184,670 | 181,683 | 2,987 | 184,670 |
| | UFG Adjustment | (10,698) | (8,643) | (2,055) | (10,698) |
| | Transmission & distribution | 21,261 | 26,159 | (1,570) | 24,589 |
| | Depreciation | 13,582 | 13,937 | - | 13,937 |
| | Late Payment Surcharge (Payable) & cost of short term borrowing | 487 | 17,987 | (17,500) | 487 |
| | Effect of adoption of IFRS-9 for FY 2017-18 and impact of IAS 19 (Reorganization of Actuarial Gains) for FY 2018-19. | (649) | (312) | (337) | (649) |
| | Other Operating Expenses (Exchange Loss) and Mark-up cost | 2,415 | 2,792 | (377) | 2,415 |
| | WPPF | 515 | 587 | (72) | 515 |
| | Total expenses "B" | 211,582 | 234,189 | (18,923) | 215,266 |
| "C" | Operating profit / (loss)(A - B) | (22,969) | (45,576) | 18,923 | (26,653) |
| | Return required on net assets: | | | - | |
| | Net assets at beginning | 125,017 | 125,017 | - | 125,017 |
| | Net assets at ending | 118,307 | 127,306 | - | 127,306 |
| | | 243,324 | 252,323 | - | 252,323 |
| | Average fixed net assets (I) | 121,662 | 126,161 | - | 126,161 |
| | Deferred credit at beginning | 22,507 | 22,507 | - | 22,507 |
| | Deferred credit at ending | 20,270 | 20,270 | - | 20,270 |
| | | 42,777 | 42,777 | - | 42,777 |
| | Average net deferred credit (II) | 21,388 | 21,388 | - | 21,388 |
| "D" | Average operating assets (I-II) | 100,274 | 104,773 | - | 104,773 |
| | Return required on net assets | 17.43% | 17.43% | - | 17.43% |
| "E" | Amount of return required | 17,478 | 18,262 | - | 18,262 |
| "F" | Excess / (shortfall) FY 2018-19 | (40,447) | (63,838) | 18,923 | (44,915) |
| "I" | Average Inc/(Dec) in Prescribed Price FY 2018-19 (Rs/MMBTU) | 104.48 | 164.90 | (48.88) | 116.02 |
| "J" | Total Revenue requirement FY 2018-19 - Million Rs. | 229,060 | 252,451 | (18,923) | 233,528 |
| "K" | Average Prescribed Price (PP) FY 2018-19(Rs/MMBTU) | 554.27 | 614.69 | (48.88) | 565.81 |
| "L" | Previous Years' accumulated Revenue Shortfall | (122,177) | (122,177) | - | (122,177) |
| "M" | Average (Inc)/Dec in Prescribed Price owing to previous years Revenue Shortfall (Rs/MMBTU) | 315.60 | 315.60 | - | 315.60 |
| "N" | Total Revenue Shortfall (F+L) including previous years shortfall | (162,623) | (186,015) | 18,923 | (167,091) |
| "O" | Total Increase / (Decrease) in prescribed prices FY 2018-19 including previous years' revenue shortfall | 420.07 | 480.50 | (49) | 431.61 |
| "P" | Average prescribed prices FY 2018-19 including previous years' revenue shortfall | 869.86 | 930.28 | (49) | 881.40 |

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