


OGRA-6(2)-1(1)/2021-Review

October 26, 2021


The Managing Director,
Sui Northern Gas Pipelines Limited,
21-Kashmir Road,
LAHORE.

SUBJECT: SNGPL – Motion for Review u/r 16 of Natural Gas Tariff Rules, 2002 against Authority's determination of Final Revenue Requirement for F.Y. 2019-20 dated May 25, 2021

Dear Sir, 

Please find enclosed herewith certified copy of decision of the Authority dated February 23, 2022 on the titled matter.

Best regards,


(Dr. Abdul Basit Qureshi)
Registrar
(For & on behalf of the Authority)

Copy alongwith copy of decision to:

1. The Secretary, Cabinet Division,
Government of Pakistan,
Islamabad.
2. The Secretary,
Ministry of Petroleum (Energy Division),
Government of Pakistan,
Islamabad.



OGRA-6(2)-1(2)/2021-Review

IN THE MATTER OF

SUI NORTHERN GAS PIPELINES LIMITED (SNGPL)

**MOTION FOR REVIEW AGAINST AUTHORITY'S DETERMINATION OF
FINAL REVENUE REQUIREMENT FOR
FY 2019-20**

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

DECISION

February 23, 2022

Before: -

**Mr. Masroor Khan, Chairman
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. The petitioner is operating in the provinces of Punjab, Khyber Pakhtunkhwa (KPK) and Azad Jammu & Kashmir (AJ&K) under the license granted by Oil & Gas Regulatory Authority (OGRA). However, petitioner's exclusive right to operate in the franchised areas had ended on 30th June, 2010.
- 1.2. The petitioner is engaged in the business of construction and operation of gas transmission and distribution pipelines, sale of natural gas and sale of gas condensate, LPG and NGL (as by-product). The petitioner is also engaged in the business of Re-gasified liquefied natural gas (RLNG), in accordance with the decision of the Federal Government (FG/GoP).
- 1.3. The Authority, under Section 8(2) of the OGRA Ordinance, 2002 (the Ordinance) had determined the Final Revenue Requirement (FRR) of petition for FY 2019-20 (the said year) vide order dated May 26, 2021 at Rs. 246,814 million including shortfall of Rs. 48,448 million translating into an overall increase of Rs. 139.31 per MMBTU w.e.f July 01, 2019.
- 1.4. Being aggrieved by this determination, the petitioner filed motion for review on June 21, 2021 under Section 13 of Ordinance read with Rule 16 of Natural Gas Tariff Rules, 2002 (NGT Rules) wherein it has challenged various capital and revenue cost components. The petitioner has claimed average prescribed price at Rs. 782.26/MMBtu w.e.f. July 01, 2019 against the Authority's earlier determination of Rs. 669.13/MMBtu for the said year.

2. Authority's Jurisdiction and Determination Process

- 2.1. 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."

- 2.2. It is clear from the above, that the issues brought forwarded/contended by the petitioner 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 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. Proceedings

- 3.1. The Authority issued notice of hearing on October 06, 2021 to the petitioner and FG. Accordingly, hearing was held on November 04, 2021 at OGRA office, Islamabad. The petitioner was given full opportunity to present its motion for review. The petitioner led by

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Mr. Ali Hamdani, Managing Director, made submission with the help of multi-media presentation and contended the merits of the case in detail as well.

Petitioner (SNGPL):

- i) Mr. Ali J. Hamdani, Managing Director
- ii) Mr. Faisal Iqbal, Chief Financial Officer
- iii) Mr. Qaiser Masood, Senior General Manager (Distribution)
- iv) Mr. Liaqat Ali Nehra, Incharge Regulatory Affairs
- v) Mr. Abaid Masood, Executive Officer, Regulatory Affairs

- 3.2. The Authority heard the petitioner's submission. Accordingly, the discussion and decision in respect of issues contended by the petitioner during hearing as well as petition is made in the following manner:

4. Discussion & Decision of the Authority

i) Performance as per KMIs

- 4.1. The petitioner has informed that Authority, while calculating UFG disallowance, has incorporated allowance of 1.98% against "Local Conditions Component" of UFG Benchmark and considering the referred figure, the total score against KMIs works out to be 76.15%, as against claimed percentage of 99.907%.
- 4.2. It has also been mentioned by the petitioner that at the time of filing of FRR 2019-20 petition, data against all 30 KMIs up to the level of consumer/case wise data was submitted to OGRA through 52 Box Files containing 20,995 Pages and 2 GB Data in softcopy format. The petitioner submitted that Authority neither pointed out any shortcoming in the submitted data nor raised any objection at the time of FRR hearing. The petitioner while giving reference of Audit Report of KMIs by M/s Yousaf Adil Chartered Accountants, submitted at the time of FRR petition has requested for provision of working regarding assessment of individual KMIs by OGRA.
- 4.3. *In view of the above, the Authority has been requested to review its decision pertaining to evaluation of KMIs by considering progress of the petitioner objectively and allow the score claimed by it without any subjectivity.*
- 4.4. The Authority observes that activities as outlined in KMIs are to be executed to increase network visibility, carryout rehabilitation, curtail theft and improve recoveries. Moreover, companies have also been incentivized to demonstrate progression through research & development and upgradation of the systems. The overall objective through effective implementation of KMIs is not only reduction in company-wide average UFG but aim is to specifically identify the problem areas and focus objectively on the root cause and undertake suitable actions to eradicate such issues. However, it has been observed on analyzing the claimed achievement of petitioner that its focus is only towards achieving numerical numbers of required jobs while corresponding benefits in quantifiable terms could not be ascertained as evident from the results of activities carried out in 10 high UFG prone areas as well as relevant segmentation activities where UFG % is still very high despite execution of jobs claimed to be 100% achieved. This fact leads to the position that effective implementation of KMIs to achieve the desired results is still to be pursued by the petitioner.

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- 4.5. Furthermore, evaluation by the Authority has been fair and rational as in KMIs regarding inspections and replacement activities, the progress of the company has been evaluated in terms of No. of jobs completed and accordingly the valuation has been done. It is also highlighted that in case of theft cases and recovery efforts, mere filing of criminal suits does not qualify for 100 % achievement of KMI rather logical conclusion of such cases is important to be demonstrated to confirm upon the vigorous efforts of the petitioner to act against such illegal cases and take remedial steps to avoid any reoccurrence. It has also been noted that the justification provided by the petitioner in respect of implementation of various KMIs are repetitive in nature, which further elaborates that the petitioner is not objectively focusing on the reporting of progress against each KMI. It is noted that the outcome of achievement of KMIs should be result oriented and reflected through yardsticks such as decrease in losses / UFG, cost savings, etc. giving historical comparison as well. In the current scenario it is not out of place to observe that all such activities that are not result oriented are hollow victories without any demonstration of real significance or value and the same cannot be claimed as 100% achievement/ progress.
- 4.6. The Authority notes that it has always appreciated efforts of the petitioner to introduce and implement efficient system based on research & development activities. During the said year, vigilance on network has been upgraded through introduction of new technologies in already existing SCADA and connected systems implemented since long. It has however been observed that petitioner's consumer awareness campaign requires further efforts for introduction of energy efficient devices, identification of houseline leakages, energy conservation drive etc. The petitioner is therefore directed to also emphasize and increase its consumer education activities that would benefit the company as well as public at large.
- 4.7. *In view of the above, since no new tangible justification / evidence has been provided by the petitioner for review at this stage, therefore, assessment made at the time of FRR for the said year is fair and appropriate.*
- 4.8. *The Authority further notes that SSGCL FRR petition for FY 2019-20 has now been received. Accordingly, UFG adjustment, being an invalid claim, is re-worked at revised national WACOG Rs. 11,364 million for the said year.*

ii) Loss Due to Sabotage Activity/Rupture/Unmetered

- 4.9. The petitioner has submitted that Authority has disallowed volume of 418 MMCF for Distribution network and 33 MMCF Transmission network against sabotage activity/ruptures by mentioning that the said volume is already covered under the "Allowance for Local Operating Conditions" as per the UFG Benchmark Study Report. The petitioner further stated that the said allowance was worked out by consultants' M/s KPMG and accepted by OGRA, considering only two factors i.e. Loss in High UFG (Oil & Gas Producing) Areas of KPK Province and Gas Theft by Non-Consumers.
- 4.10. The petitioner further submitted that historically, the Authority has been allowing the volume under this head and the same was also accepted in Determination of FRR FY 2017-18, despite the fact that UFG Benchmark Study was also applicable for FY 2017-18. The petitioner added that the current stance of Authority is contradictory to its earlier decisions and established regulatory practices on the matter.
- 4.11. Moreover, it has also been apprised that on the advice of the Authority, petitioner has discontinued its "loss of profit insurance policy" in case of ruptures and now in case

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volume on account of ruptures is also not allowed it shall result into further loss to the petitioner since it has lost its right of recovery from the insurance company due to discontinuation of the insurance policy. The petitioner has accordingly requested the Authority to consider and allow the volume of 451 MMCF against sabotage activity/ruptures.

- 4.12. *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.*
- 4.13. *The Authority after considering erroneous exclusion of Rs. 214 million and Rs. 161 million pertaining to FY 2019-20 & FY 2018-19 respectively on account of sabotage activities, the same is allowed as part of the "others" under T&D expenses for the said year.*
- 4.14. *In view of the above, the Authority maintain its earlier decision as per the following UFG computation sheet below:*

UFG CALCULATION SHEET (FY 2019-20)					
Gas Purchases		As per Petition		As Calculated	
		Indigenous gas (UFG)	RLNG Supplied to Transmission and Distribution consumers	Indigenous gas (UFG)	RLNG Supplied to Transmission and Distribution consumers
Transmission System		Volume (MMCF)		Volume (MMCF)	
(Gas Received) in Transmission: Indigenous	A1	391,802		391,802	
Gas Received in Transmission: RLNG			305,526		305,526
Taken out (+) Taken in (-) or (Line Pack)	B	39	702	39	702
Net Gas Received in Trans. System	C=A1+B	391,841	306,229	391,841	306,229
Gas used in operation of Tran. Sys. RLNG			(2,806)		(2,806)
Gas used in operation of Tran. Sys. (Indigenous gas)	D	(1,432)		(1,399)	
(i) Compression		(1,178)		(1,178)	
(ii) Residential Colonies		(74)		(74)	
(iii) Coating Plant		(109)		(109)	
(iii) Ruptures/Sabotage		(38)			
(iv) Other usage Depressurization purging etc		(38)			
Gas Available in Transmission System	E=C+D	390,409	303,423	390,442	303,423
Energy Equivalence Volume related to PFC consumers	F	(8,671)	8,671	8,671	8,671
Gas passed to Dist. System and sold to PFC consumers	G	60,493	177,828	60,493	177,828
RLNG Stock Additional sale of LNG or vice versa	H	(22,121)	22,121	22,121	22,121
Gas passed to Distribution system through SMS	I	339,443	110,608	339,443	110,608
Loss in Transmission System	J=E+F-G+H-I	3,923	1,536	3,956	1,536
% Loss or Gain in Transmission System	K=J/C*100	1.00	0.50	-	-
Distribution System					
Gas Received in Dist. System (Through SMS)	A2	339,443	110,608	339,443	110,608
Gas carried for PPL	B	(139)		139	
Gas carried/consumed for Pak Arab	B1	(6,438)		6,438	
Gas carried for POL	C	(130)		130	
Energy Equivalence Volume - Distribution	D	(5,396)	5,396	5,396	5,396
Gas Internally consumed in Distribution System (GIC)	E	(1,074)		656	
(i) Free Gas Facility		(479)		479	
(ii) Co-Generation & Co-offices		(144)		144	
(iii) Sabotage		(418)			
(iv) Purging		(34)		34	
(Gas available for Sale in Dist. System)	F=A2+B+B1+C+D+E	326,266	116,004	326,683	116,004
Gas Sold					
Billed	G	313,558	87,107	313,558	87,107
Unrecovered Pilferage Volume reversed	H	-	12,130	-	12,130
Less: Pressure factor adjustment	I	-	2,982	-	2,982
RLNG Swap/diversion of LNG or vice versa	J	-	16,063	-	16,063
Gas sold but not Billed previous					
Gas sold but not Billed current					
Gas Delivered (Net Gas Sold)	K=G+H+I+J	282,383	103,170	282,383	103,170
Loss in Distribution System	L	43,883	12,834	44,300	12,834
% age Loss in Distribution System	M=L/A2*100	12.93	11.60	-	-
Total UFG Volume (Transmission + Distribution)	N=J+L	47,805	14,371	48,256	14,371
Total % age UFG (Transmission + Distribution)	O=N/A1*100	12.20	4.70	-	-
Working disallowance for SNGPL					
Gas Received (Gas available for Sale in Dist. System)		391,802		391,802	
UFG Benchmark (Percentage)	5%			5%	
Local Conditions Allowance Percentage (Maximum)	2.6%			1.980%	
Allowed UFG Percentage	7.6%			6.98%	
Allowed UFG Volume (MMCF)				27,348	
UFG Invalid Claim (MMCF)				20,908	

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iii) Expected Credit Loss (ECL) IFRS-9/ Provision for Doubtful Debts

- 4.15. The petitioner has requested to allow ECL IFRS-9 at Rs. 1,853 million as against the earlier determination of Rs. 1,264 million for the said year. 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 IFRS-9. The petitioner has highlighted that IAS-19 is the relevant example in the matter, as such expense has historically been allowed by the Authority and legality of the same has never been questioned.
- 4.16. The Authority, based on the submissions made in the petition and the arguments advanced during the hearings, observes and decides as under;
- The petitioner is misinterpreting its decision in respect of ECL allowance. The petitioner has not been barred by OGRA to comply SECP regulations, while preparing its accounts. Implementation of accounting standards by a statutory regulator does not necessarily require sector regulator to include its impact for its licensees, operating under cost plus regime. IFRS-9 is an additional disclosure requirement relating to credit risk and expected credit loss allowances. Such provisioning shall unnecessarily burden the natural gas consumers.
 - Gradually, regulatory evolution takes place based on the changes occurred during the transformation of business dynamics. Dwindling gas supplies, new entrants in the gas market after promulgation of TPA Rules, end of exclusivity of franchise rights, international competitiveness of local industries are the factors re-shaping the gas market and transportation business. The Authority is of the firm view that determination of annual revenue requirement of the petitioner is being carried out by it on standalone basis considering the criteria set out in legal framework and the circumstances prevalent at that point in time. Any determination made in the past for any cost/revenue component does not guarantee any future decision.
 - IFRS-9 aligns the measurement of financial assets with the business model, contractual cash flow and future economic scenarios. Banks and financial institutions may have to take a “forward-looking provision” for the portion of the loan that is likely to default, as soon as it is originated. However, the consumers of the Sui Companies are predominantly the same, whereas customers of Banks and financial institutions tend to change depending upon the products offered by them. Therefore, the measure of risk, currently enjoying by sui company’s monopolistic status, is quite low/minimal.
- 4.17. *In view of the above as well as the decisions made in previous determinations, the Authority decides to maintain its earlier decision. The petitioner may present the said issue with its Board for an appropriate review and necessary directions in the light of its business model and risk.*

iv) Transmission and Distribution Expenses & Other Cost Components

- 4.18. The petitioner has requested to allow additional amount under the head of T&D expenses, based on actual expenses incurred during the said year.
- 4.19. The Authority, after considering the justification advanced by the petitioner, notes that no new material argument and/or evidence has been provided in order to substantiate company’s stance. The Authority has already considered these arguments while deciding

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FRR petition for the said year. Therefore, any additional allowance for already decided items based on generic justifications holds no logic.

- 4.20. Regarding loss due to sabotage activities, Rs. 375 million is allowed, in the light of decision per para 4.13 above. Moreover, regarding impact of IAS-19 (re-measurement of defined benefit plan – OCI) (Rs. 2,681 million), the Authority notes that the petitioner, during the hearing of Motion for FRR held on November 04, 2021, argued that allowance of actuarial gain/loss at 25% of its total claim by OGRA does not hold any logic. It should either be allowed at 100% or no amount be provided by the Authority on this account as part of its determination. **The Authority, while taking serious notice of petitioner's argument, decided to adjust already allowed amount of Rs. 894 million from the price computation.** Earlier decision made by the Authority was taken on lenient grounds, considering the change in discount rate and other relevant factors. The Authority is of the firm view that the petitioner is operating under cost plus regime, therefore, any allowance while offsetting the future liability in terms of terminal benefits should not be considered by it.
- 4.21. Regarding petitioner's additional claim on account of computation of UFG adjustment (Rs. 1,910 million) on company's respective WACOG and LPS on gas creditors (Rs. 32,254 million), the Authority notes that no new justification has been advanced by the petitioner. **In view of the same, the Authority maintains its earlier decision and decides not to allow any additional impact on these accounts.** Regarding impact of IAS-19 (re-measurement of defined benefit plan- Other Comprehensive Income), the Authority notes with grave concern that the petitioner agitated 25% allowance (i.e. Rs. 894 million) and termed it as irrational. The Authority notes that the same allowance has already been given on grounds as at the time of FRR for the said year.
- 4.22. Regarding net T&D costs, allocation to RLNG is being made in the light of para 6.8.
- 4.23. **In view of above, the Authority allows T&D costs at Rs. 14,437 million for the said year.**

Table: T&D cost as allowed by Authority

(Rs. in million)

S.N.	Description	As Allowed
1	HR Cost	16,597
2	Rent Rate, Electricity & Taxes	553
3	Legal and Professional service	196
4	Advertisement & publicity	198
5	Security expenses	1,018
6	Provision for doubtful debts / ECL	1,243
7	Other Expenses	492
8	Remaining T&D	6,097
9	Gross T&D Costs	26,394
10	Less Allocation to CWIP	(320)
11	Less Allocation to RLNG	(11,637)
12	Net T&D Costs	14,437

v) **Worker Profit Participation Fund (WPPF) & Punjab Worker Welfare Fund (PWWF)**

- 4.24. The petitioner has claimed Rs. 311 million against WPPF & Rs. 121 million against PWWF under these head of account as per the audited profit for the said year.



- 4.25. The petitioner, in their submission, has stated that the Companies Profit Worker's Participation Act, 1968 has been adopted by Punjab Government in December, 2020, therefore the same is applicable on companies operating in Punjab. Accordingly, the petitioner has requested WPPF @ 5% on annual audited profit for the said year.
- 4.26. Regarding PWWF, the petitioner has stated that Punjab Worker Welfare Fund (PWWF) Act, 2019 was promulgated in December 13, 2019 and implemented since then in Punjab. Accordingly, the petitioner has revised its claim at Rs. 121 million on account of PWWF (apportioned at 2% of profit) as reported per its annual audited accounts of the said year.
- 4.27. The petitioner has argued that both the contributions be allowed, being a mandatory obligation under the PWWF Act, 2019 and WPPF Ordinance, 2020 as an operating expense in the light of tariff regime applicable for natural gas sector of Pakistan. The petitioner has, however, informed that the matter of applicability of both laws simultaneously on the petitioner being a trans-provincial company, is sub-judice in Supreme Court. However, the company, based on its external legal opinion, has argued that in case of non-payment to funds, it may face imposition of additional 15% as interest on delayed payment to the respective funds, in case the apex Court decides in the favour of labour.
- 4.28. The Authority observes that the petitioner has charged Rs. 432 million in its annual audited accounts for the said year. ***The Authority, based on the company's contention, decides to allow Rs. 311 million (WPPF) and Rs. 121 million (PWWF) on provisional basis subject to adjustment, if required, on the final outcome of honourable Court's verdict. Regarding adjustment on WPPF for FY 2018-19, the company's request for Rs. 72 million is accepted as per audited account of FY 2018-19 subject to adjustment as referred above.***

5. RLNG Cost of Service

- 5.1. The petitioner was allowed Rs. 24,264 million (i.e. Rs. 57.06/MMBTU) on account of RLNG cost of supply in FRR for the said year. Being aggrieved with the Authority's decision, the petitioner initially demanded RLNG cost of supply at Rs. 89.38/ MMBTU, which later revised at Rs. 102.73/MMBTU for the said year.
- 5.2. The petitioner has argued that sale of RLNG to its own retail consumers does not come under the purview of Third Party Access Rules, 2018 (TPA Rules) and therefore, OGRA's decision to compute RLNG cost of service as transmission/distribution activity does not hold any legal support. The petitioner has argued that determining RLNG cost of supply on total installed capacity of RLNG (i.e. 1200 MMCFD) based on the TPA Rules is resulting in less recovery of Rs. 6,895 million, being a ring-fenced activity since these costs can't be charged to any other segment of consumers. The petitioner has also submitted that pipeline was financed through commercial banks' loans and such disallowance will badly affect the repayment of loans and become an impediment in future financing of such mega projects.
- 5.3. The petitioner has also argued that such treatment is not in line with the spirit of License condition 5.2 which requires OGRA to place a benchmark for curtailment of inefficient costs, if any. Moreover, OGRA's treatment for computation of cost of service on TPA

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- Rules, 2018 basis is also contradictory with point No. 3 and 4 of Schedule-I of TPA Rules which allows the transporter to collect its relevant and fairly allocated costs, although this is not the case for SNGPL, being its sale activity.
- 5.4. In addition to the above, the petitioner has submitted that utilization of pipeline is dependent on demand of RLNG from the end consumers and uninterrupted supply from the upstream transporter (i.e. SSGC) as its sister utility has been retaining about 100 to 150 MMCFD RLNG procured by it. OGRA's decision dated November, 2018 is also relevant and restricts the petitioner to recover its cost of service as well as UFG on RLNG sale at SSGCL system. The petitioner has further submitted that RLNG equivalent to 39,550 MMBTU has been diverted/sold to system gas consumers at highly subsidized system gas price as per FG's directions owing to depletion of indigenous gas sources along with increase in number of domestic consumers and severe winter season. Accordingly, these retained as well as diverted volumes shall be adjusted from RLNG sold volumes for full recovery of RLNG cost of service.
- 5.5. The petitioner has also referred to Federal Cabinet's decision dated February, 2016 wherein it was decided that RLNG pricing will be ring-fenced and all directly attributable costs will be charged/recovered from RLNG consumers without burdening the natural gas consumers. The petitioner has therefore, requested to charge allocated costs based on actual sales volume of RLNG and natural gas as part of cost of service in its FRR petition. The petitioner has also claimed an adjustment to the tune of Rs. 9 million on account of re-allocation to RLNG asset, being relevant to this activity.
- 5.6. The petitioner has also requested the Authority to include markup cost of Rs. 2,495 million in cost of supply of RLNG as the same was incurred on running finance to pay off the overdue balances of PSO and PLL.
- 5.7. In view of above, the petitioner has requested to allow Rs. 102.73/MMBTU on account of RLNG cost of service for the said year.
- 5.8. The Authority has examined the contentions of the petitioner and observes that ownership of RLNG molecule rests with company and it is selling gas directly to its own consumers, therefore, the applicability of TPA Rules for computation of RLNG cost of service does not seem relevant. Moreover, regarding company's request for charging allocated costs, the Authority notes that increasing share of RLNG supply into the system necessitates charging fairly allocated and relevant costs as well as revenues to each business segment separately viz: indigenous as well as RLNG for computation of fair cost of supply in each case. Therefore, recording /charging majority costs to indigenous system needs revision so as to effectuate recovery of costs through relevant consumers.
- 5.9. The Authority also observes that with respect to RLNG sales to designated power plant, the petitioner had recognized around Rs. 24,641 million in its RLNG sales revenues on account of Take or Pay (ToP) from M/s Quaid-e-Azam Thermal Power Limited (QATPL) and National Power Parks Management Company Limited (NPPMCL) (Government Power Producers). However, the said matter is sub-judice since FY 2017-18. Recently, London Court of International Arbitration (LCIA) decided against the petitioner and awarded a decision of Rs. 10,384 million with interest in favour of NPPMCL. Regarding litigation with M/s QATPL, matter is pending with LCIA and decision is awaited. The Authority notes this position with serious concern and observes that the public sector entities are engaged in international litigation costing huge expenditures. Moreover, gas supplies are governed under mutually agreed terms and conditions as per gas supply



contracts between the parties, therefore the parties must ensure compliance of such agreed terms and avoid any breach thereof, since the same shall eventually result in spending imprudent costs of litigation.

- 5.10. *In view of above, the Authority decides to charge all directly attributable costs (CAPEX, OPEX) to RLNG cost of service and equitably include all operating incomes arising from RLNG business segment while computing the RLNG cost of service. Accordingly, RLNG cost of service is determined at Rs. 69.12/MMBTU as per table below on provisional basis subject to adjustment based on the volumes ascertained by the audit, already initiated by OGRA, as per table below:*

Particulars	As Allowed
Quantitative Data	MMBTU
RLNG Input	350,788
Retainage / gas used in FSRU	(1,548)
GIC	(2,954)
UFG	(12,669)
RLNG sold as System gas	(39,551)
Retained by SSGC	(29,231)
Net RLNG handled/Sold	264,835
Particulars	Rs. in Million
Amortization of Deferred Credit	(656)
Take or pay basis	(4,421)
Late Payment Surcharge	(3,653)
Depreciation	3,858
Return on Assets	7,631
Transportation charges payable to SSGC	9,959
T&D Costs	11,637
WPPF/PWWF	439
Total	24,794
	Rs./MMBTU
RLNG Cost of Service for FY 2019-20	93.62
Adjustment on Account of FY 2018-19	(24.50)
RLNG Cost Of Service after adjustment	69.12

- 5.11. In addition to the above, the Authority observes that final settlement on take or pay as discussed in para 6.9 above is dependent on final verdict of Court, therefore impact of the same that shall be considered by the Authority purely on merits of the case and touchstone prudence.

6. Conclusion / Decision

- 6.1. 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. 198,366 million against Total Revenue Requirement of Rs. 236,121 million and thus there is a shortfall of Rs. 37,755 million for the said year (Annex. A). The average prescribed price comes to Rs. 638.38/MMBTU. 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. The Authority decides to carry forward the entire shortfall for the said year.*

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- 6.2. *All other directions/decisions issued at DERR/RERR for the said year, unless specifically revised/amended, shall remain in full force and effect.*

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

(Masroor Khan)
Chairman

(Muhammad Arif)
Member (Gas)



Motion for Review Final Revenue Requirement FY 2019-20

Annex-A

Million Rs.

Particulars	FRR	The Petition MFRR	Adjustment	Determined by the Authority
Gas sales volume -MMCF	358,789	358,789	-	358,789
BBTU	347,771	347,771	-	347,771
"A" Net Operating revenues				
Net sales at current prescribed price	184,257	184,257	-	184,257
Rental & service charges	2,140	2,140	-	2,140
Amortization of deferred credit	2,369	2,369	-	2,369
Late Payment Surcharge	7,614	7,614	-	7,614
Other operating income	1,986	1,986	-	1,986
Total income "A"	198,366	198,366	-	198,366
"B" Less Expenses				
Cost of gas sold	196,826	196,826	-	196,826
UFG Adjustment	(11,323)	(9,413)	(1,951)	(11,364)
UFG Adjustment FY 2018-19 as per revised WACOG	(419)	-	(419)	(419)
Transmission and distribution cost	24,850	26,275	(11,838)	14,437
Cost of Gas lost in ruptures - FY 2018-19		161	-	161
Gas internally consumed	543	543	-	543
Impact of IAS-19-Recognition of Actuarial Losses/Gain FY 2019-20	894	3,574	(3,574)	-
Depreciation	15,255	15,255	-	15,255
Late Payment Surcharge (Payable) & cost of short-term borrowing	271	32,525	(32,254)	271
Markup on Running Finance	749	749	-	749
Provision for Exchange Loss	13	13	-	13
Punjab Workers Welfare Fund (PWFF)	267	121	-	121
Previous Years Adjustment WPPF FY 2017-18 & FY 2018-19	(256)	72	-	72
Workers Profit Participation Fund FY 2019-20	-	311	-	311
Adjustment of LPG Air Mix Assets FY 2018-19	(13)	(13)	-	(13)
Total expenses "B"	227,656	266,999	(50,036)	216,962
"C" Operating profit / (loss) (A - B)	(29,290)	(68,633)	50,036	(18,596)
Return required on net assets:				
Net assets at beginning	127,160	127,160	-	127,160
Net assets at ending	133,354	133,354	-	133,354
	260,514	260,514	-	260,514
Average fixed net assets (I)	130,257	130,257	-	130,257
Deferred credit at beginning	20,270	20,270	-	20,270
Deferred credit at ending	20,415	20,415	-	20,415
	40,685	40,685	-	40,685
Average net deferred credit (II)	20,343	20,343	-	20,343
"D" Average operating assets (I-II)	109,915	109,915	-	109,915
Return required on net assets	17.43%	17.43%	-	17.43%
"E" Amount of return required (D*17.43%)	19,158	19,158	-	19,158
"F" (Excess) / shortfall FY 2019-20 - (E-C)	48,448	87,791	(50,036)	37,755
Average Ince/(Dec) in Prescribed Price FY 2019-20 - (Rs/MMBTU)	139.31	252.44	(144)	108.56
"G" Total Revenue requirement FY 2019-20 - (E+B) -Million Rs.	246,814	286,157	(50,036)	236,121
Average Prescribed Price (PP) FY 2019-20 w.e.f 01.07.2019 (Rs/MMBTU)	669.13	782.26	(144)	638.38

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