

Case No. OGRA-6(2)-2(1)/2004(Review)

IN THE MATTER OF

SUI SOUTHERN GAS COMPANY LIMITED

INTERIM ORDER

**REVIEW MOTION AGAINST DETERMINATION OF
ESTIMATED REVENUE REQUIREMENT, FY 2004-05**

UNDER

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

December 27, 2004

Before:

**Munir Ahmad, Chairman
Jawaid Inam, Vice Chairman/Member (Gas)
Rashid Farooq, Member (Oil)
M. H. Asif, Member (Finance)**

INTERIM ORDER

Sui Southern Gas Company Limited (the petitioner) has submitted a review motion (the review motion) on June 17, 2004 under Rule 16(4) of the Natural Gas Tariff Rules, 2002 (NGT Rules, 2002) for increase in prescribed prices notified by the Authority to give effect to its determination of estimated revenue requirement of the petitioner for FY 2004-05 under Section 8(1) of the Oil and Gas Regulatory Authority Ordinance, 2002 (the Ordinance) vide order No. OGRA 6(2)-2(2)/2003, dated May 19, 2004. The proceedings of the review motion are pending before the Authority.

2. The petitioner has also submitted on December 14, 2004, a review petition for FY 2004-05 under Section 8(2) of the Ordinance and Rule 4(3) of NGT Rules, 2002 (the review petition). The said petition has not been admitted by the Authority being premature because this Section stipulates incorporation of actual changes in the well-head prices after issue of notifications by the Authority, which event is yet to take place. The petitioner has been advised to resubmit the said petition after complying with the requirement of Section 8(2) of the Ordinance, in due course.

3. However, in response to the queries, the petitioner vide its letter No. RA/26/05 dated December 21, 2004 has informed that the projected average cost of gas for both utilities for the period January-June, 2005 is about Rs.132.81 per MMBTU as against Rs.122.33 per MMBTU provided in the estimated revenue requirement of the petitioner for FY 2004-05 and requested for an urgent decision to avoid liquidity problems. Since this fact has already been brought before the Authority by SNGPL wherein it requested for an immediate interim relief w.e.f. January 1, 2005 on the basis of increased weighted average cost of gas and the Authority vide its interim order No. OGRA-6(2)-1(1)/2004(Review),

dated 23-12-2004, allowed a provisional increase in the prescribed price of the Company pending final decision on the review petition of the Company, therefore, the Authority keeping in view the importance of matter and its effect on the petitioner's revenue requirement for FY 2004-05 entertains its above referred letter as a request for interim relief in its motion for review of estimated revenue requirement for FY 2004-05 which is already pending before the Authority.

4. The petitioner has emphasized that the projected increase in well-head prices w.e.f. January 1, 2005 on account of sharp increase in the international prices of crude / fuel oil would result in serious liquidity problems for it and for that reason has sought urgent disposal. It has claimed that an increase in prescribed prices by an average amount of Rs. 13.37 / MMBTU is needed w.e.f. January 1, 2005, to cater for total shortfall of Rs. 2,115 million covering increase in cost of gas as well as other relevant factors.

5. The Authority, in view of the foregoing, has decided to consider the request of the petitioner for increase in the prescribed prices on urgent basis to the extent it is directly related to increase in the cost of gas and consequently inescapable, under rule 5(7) of the NGT Rules, 2002 which reads as under:

“The Authority may, while admitting a petition, allow the immediate application of the whole or a part of the tariff proposed by the petitioner, while the proceedings are pending before the Authority, subject to an order for refund for the protection of consumers or an order for satisfactory security to be provided for such refund.”

6. The petitioner has worked out the estimated increase in the cost of gas on the basis of various Gas Price Agreements of gas producers with the Government of Pakistan under which the well-head prices are to be notified in

due course. The other assumptions used by the petitioner for calculating increase in cost of gas are as follows:

- (i) Well-head gas prices for the period July 1, 2004 to December 31, 2004 as intimated by the Ministry of Petroleum & NR to the petitioner.
- (ii) Actual US \$ exchange rate used for payment to the producers for the period July to September, 2004 and average exchange rate assumed at Rs. 60 for the period October 2004 to June 2005.
- (iii) The prices of crude/fuel oil during the period June, 2004 to November, 2004 will form the basis for notification of the well-head prices for the period January 1, 2005 to June 2005 under the Gas Pricing Agreements. Average C & F price of crude oil for the base period is estimated at US \$ 36.64 per barrel and of High Sulphur Fuel Oil at US \$ 179.01 per ton.

7. The Authority has scrutinized the computation of cost of gas submitted by the petitioner and observes that computations adopted by Sui Northern Gas Pipelines Limited (SNGPL) (the other licensee which meets the cost of gas jointly with the petitioner on overall average basis) in its application to amend its review motion are more realistic and adopts the same in this interim order.

8. The Authority has reworked the shortfall in revenue requirement at Rs. 1,986 million for entire FY 2004-05, based on the increase to be granted on account of cost of gas (**Annexure-II**). Since this shortfall cannot be recovered retroactively through increase in the gas prices the only viable option is to recover it in the remaining six months i.e. January - June, 2005.

9. The Authority has observed that if the above shortfall in the revenue requirement is to be met through increase in its prescribed prices, it would be prudent to make the upward adjustment earlier rather than later, as is

reflected by the table given below showing the impact on the prescribed prices which may have to be passed on to the consumers in the sale prices for different periods:

Period	Shortfall in revenue requirement	Volume	Increase
	(Rupees million)	(BBTU)	(Rs./MMBTU)
With effect from Jan. 1, 2005	1,986	158,246	12.55
With effect from Feb. 1, 2005	1,986	129,688	15.31
With effect from March 1, 2005	1,986	104,160	19.07

10. The Authority, therefore, in exercise of its powers conferred under Rule 5 (7) of the NGT Rules, 2002, allows an increase of Rs. 12.55 per MMBTU in the average prescribed price of the petitioner **on provisional basis** w.e.f. January 1, 2005 in order to enable it to recover the shortfall in its revenue requirements for FY 2004-05 on account of increase in the cost of gas. **This will have lowest impact on the consumers as against recovery from any later date.** The revised schedule of prescribed prices of the petitioner w.e.f. January 1, 2005 is at **Annexure-III**. Increase has been allowed at 7.75% in the case of domestic tariff to keep it uniform with SNGPL and at 8.47% in remaining categories of consumers except feedstock supply to the fertilizer consumer who is governed by separate policy in respect of its gas prices. A comparison of the revised prescribed prices and the current sale prices is at **Annexure-IV**. The revised prescribed prices allowed by the Authority **on provisional basis** are subject to the following condition:

“The price for each category of retail consumers may be re-adjusted upon receipt of Federal Government advice under Section 8 (3) of the Ordinance in respect of the sale price of gas for each category of retail consumers provided that the overall increase in the average Prescribed Price remains unchanged so that the Petitioner is able to achieve its total revenue requirements in accordance with Section 8 (6) (f) of the Ordinance.”

11. Under Section 8 (3) of the Ordinance, the Federal Government is required to advise the Authority within 40 days of advice from the Authority of revision of prescribed prices, of the minimum charges and the sale price for each category of retail consumers for notification in the official Gazette by the Authority. Further, under Section 8 (4) of the Ordinance, If the Federal Government fails to advise within 40 days and the prescribed price for any category of retail consumers determined by the Authority is higher than the most recently notified sale price for that category of retail consumers, the Authority shall notify in the official Gazette the prescribed price as determined by the Authority to be the sale price for the said category of retail consumers.

12. On the basis of the revised prescribed prices as determined by the Authority at **Annexure-III**, the Federal Government may take necessary action under Section 8 (3) of the Ordinance.

13. This interim order shall be merged with the final order of the Authority on the review motion of the petitioner on the estimated revenue requirement for FY 2004-05.

(M. H. Asif)
Member (Finance)

(Rashid Farooq)
Member (Oil)

(Jawaid Inam)
Member (Gas)/
Vice Chairman

(Munir Ahmad)
Chairman

Islamabad,
the 27th December, 2004.

Sui Southern Gas Company Limited
 Weighted Average Cost Of Gas Purchases
 For Uniform Rate HSFO and Crude oil basis 2005

ANNEXURE-I

Total gas purchases by:	Jul - Dec 04				Jan - Jun 05				FY 2004-05			
	MMCF	MMMBTU	Rs million	Rs / MMBTU	MMCF	MMMBTU	Rs million	Rs / MMBTU	MMCF	MMMBTU	Rs million	Rs / MMBTU
SSGCL	180,931	176,866	24,685	139.5676	178,171	173,653	26,290	151.3954	359,102	350,519	50,975	145.4273
SNGPL	268,402	252,257	28,406	112.6693	275,301	258,749	31,139	120.3426	543,703	511,006	59,545	116.5251
TOTAL	449,333	429,123	53,091	123.1204	453,472	432,402	57,429	132.8134	902,805	861,525	110,520	128.2842

Gas purchases attributable to the co.'s. based on weighted average of purchase rate x actual offtakes by the companies

	SSGCL		SNGPL		SSGCL		SNGPL		SSGCL		SNGPL	
	RUPEES				RUPEES				RUPEES			
Gas purchases	24,685	28,406	26,290	31,139	50,975	59,545						
Weighted Average cost of gas	21,882	31,209	23,063	34,365	44,966	65,554						
Excess / (shortfall)	2,803	(2,803)	3,227	(3,227)	6,009	(6,009)						

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SUI SOUTHERN GAS COMPANY LIMITED
WORKING FOR TARIFF ADJUSTMENT REQUIRED

Rs Million

S.No.	DESCRIPTION	Revised Estimates 2004-05	Ref. No.	S.No.
1	1. Gas sales volume (MMCF)	332,596		1
2	(MMMBTU)	323,037		2
3	2. <u>A: Net operating revenue</u>			3
4	Gross Sales - net of general sales tax	52,122.629		4
5	Less: Gas Development surcharge - at existing	2,237.402		5
6	Net Sales	49,885.228		6
7	Meter rentals	453.874		7
8	Amortization of deferred credit	177.889		8
9	Sale of Gas Condensate	266.085		9
10	Late payment Surcharge	243.325		10
11	Meter manufacturing plant profit	40.671		11
12	Other income	748.081		12
13	Sub total	1,929.924		13
14	Total operating income "A"	51,815.151		14
15	B: <u>Less operating expenses</u>			15
16	Cost of gas	44,322.913		16
17	Transmission and distribution costs	4,096.409		17
18	Financial charges	584.543		18
19	Depreciation	2,326.394		19
20	Other charges excluding W.P.P.F	1.000		20
21	Total operating expenses "B"	51,332.259		21
22	C: Profit / (Loss) before WPPF (A-B)	482.892		22
23	D: Less: Workers Profit Participation Fund	24.145		23
24	E: <u>Add: Non-admissible expenditure</u>	458.748		24
25	Add: Financial charges	584.543		25
26	Less: Non operating income	96.840		26
27	Net non-admissible expenditure	487.703		27
28	F: Operating profit / (Loss) (C - D + E)	946.451		28
29	3. <u>Return required on Net Assets:</u>			29
30	Net assets at beginning	16,664.581		30
31	Net assets at ending	22,008.725		31
32		38,673.306		32
33	Average Net Fixed Assets (i)	19,336.653		33
34				34
35	Deferred credit at beginning	1,711.395		35
36	Deferred credit at ending	2,186.500		36
37		3,897.894		37
38	Average Deferred credit (ii)	1,948.947		38
39				39
40	a) Average Net fixed assets after deferred credit (i-ii)	17,387.706		40
41	b) Return required on Net Assets	17%		41
42	c) Amount of return required (a * b)	2,955.910		42
43	4. Shortfall over return required (2F - 3c)	2,009.459		43
44	5. Gross-up for W.P.P.F @ 5%	2,115.220		44
45	6. Increase in Prescribed Price - Rs per MCF	6.36		45
46	7. Increase in Prescribed Price - Rs per MMBTU	6.55		46

ANNEXURE-II

**COMPUTATION OF ESTIMATED REVENUE REQUIREMENT OF SUI
SOUTHERN GAS COMPANY LIMITED FOR THE FINANCIAL YEAR 2004-05**

Rs. in Millions

Particulars	Revenue Requirement calculated by OGRA	REVISED
Average BTU per SCFT	971	971
Gas sales volume -MMCF	333,351	332,596
BBTU	323,698	323,037
A: Net operating revenues		
Gross sales net of general sales tax	49,181,097	52,122,629
Less: Gas Development Surcharge- Existing	2,814,260	2,237,402
-Deferral		
Revenue requirement adjustment		
Net sales at current Prescribed Price	49,679,495	49,885,227
Meter rentals	455,788	455,788
Late payment surcharge	241,000	241
Amortization of Deferred Credit	193,000	193,000
Meter manufacturing profit	62,000	62,000
Sale of gas condensate	144,143	144,143
Gas Transportation charges	508,411	508,411
Other Operating Income	201,824	201,824
Total Income "A"	51,485,661	51,691,393
"B" Less Expenses		
Cost of gas	42,332,760	44,566,704
Cut on UFG above 6%	(211,737)	(222,605)
Transmission and Distribution cost	3,361,117	3,361,117
Gas Internally Consumed	246,365	215,101
Depreciation	2,295,213	2,295,213
Other charges (W.P.P.F)	105,000	105,000
Deferral Account	650,000	650,000
Total Expenses "B"	48,778,718	50,970,530
"C" Operating profit (A-B)	2,706,943	720,863
Return required on Net operating fixed Assets:-		
Net operating fixed assets at beginning	17,846,226	17,846,226
Net operating fixed assets at ending	18,037,225	18,037,225
Average net assets (I)	17,941,725	17,941,725
Deferred credit at beginning	1,817,154	1,817,154
Deferred credit at ending	2,219,906	2,219,906
Average net Deferred credit (II)	4,037,060	4,037,060
"F" Average (I-II)	2,018,530	2,018,530
"G" 17% return required	2,706,943	2,706,943
"H" Excess over return required	(0.000)	1,986,080
Projected gas sale volume for the period January - June, 2005 BBTU		158,246
Increase (decrease) in prescribed price (Rs. / MMBTU)	(0.00)	12.55
Estimated Revenue Requirement	51,485,661	53,677,473




ANNEXURE-III**SCHEDULE OF REVISED PRESCRIBED PRICES W.E.F 1ST JANUARY, 2005**

Category	Notified Prescribed Prices w.e.f. 01.07.2004	Revised Prescribed Prices w.e.f. 01.01.2005
	Rupees per MMBTU	
Domestic		
1st Slab	73.95	79.68
2nd Slab	111.42	120.05
3rd Slab	178.25	192.06
4th Slab	231.88	249.85
Commercial	193.82	210.24
General Industry	173.72	188.44
CNG	173.72	188.44
Captive Power	173.72	188.44
Pak Steel	173.72	188.44
Cement	173.72	188.44
Power	173.72	188.44
FFC-Jordan Fertilizer Company Limited		
Feed stock	36.77	36.77
Fuel	173.72	188.44

Note:-

To maintain uniformity in the domestic sector their prices have been increased by 7.75% to be consistent with SNGPL's prices. The other consumers except fertilizer feed stock have increased by 8.47% across the board.

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ANNEXURE-IV

COMPARISON BETWEEN EXISTING SALE PRICES AND REVISED PRESCRIBED PRICES.

Category	Existing Sale Prices w.e.f 01.07.2004	Revised Prescribed Prices w.e.f. 01.01.2005
	Rupees per MMBTU	
Domestic		
1st Slab	73.95	79.68
2nd Slab	111.42	120.05
3rd Slab	178.25	192.06
4th Slab	231.88	249.85
Commercial	204.88	210.24
General Industry	182.09	188.44
CNG	182.09	188.44
Captive Power	182.09	188.44
Pak Steel	182.09	188.44
Cement	209.78	188.44
Power	182.09	188.44
FFC-Jordan Fertilizer Company Limited		
Feed stock	36.77	36.77
Fuel	182.09	188.44

