ALTERNATIVE LAW COLLECTIVE

Alliance for Climate Justice & Clean Energy

ALC LAW LLP
Inc. No.0191501

To: Senior Registrar OGRA
37-Mauve Area, Service Road
South Sector, G 10/4 Islamabad

Subject: Comments on SNGPL's Review petition regarding Estimated Revenue Requirement 2024-25

1. The undersigned, members of the Alternative Law Collective and the Alliance for Climate Justice and Clean Energy, are committed to the just and equitable transformation of Pakistan's energy and gas landscape. We are deeply concerned by the escalating issues of rising circular debt, unaccounted-for gas (UFG), the unchecked expansion of pipeline networks, and other unsustainable practices of the Sui Northern Gas Pipeline (hereinafter referred to as SNGPL). Accordingly, we submit these comments to contest SNGPL's untenable demand to increase the average prescribed price by 64.16 Rupees for the Financial Year 2024-25, as requested in its Review Petition.
2. At the outset, we underscore that OGRA, as the Regulator, must operate independently, free from undue influence, in accordance with the spirit and intent of the law. In support of this position, we reference the judgment dated December 21, 2012, by the Honorable Supreme Court of Pakistan in Constitutional Petitions No. 33 and 34 of 2005 and HRC No. 5332/2006 & CMA No. 4567 of 2012, filed by three individuals against the Federation of Pakistan, OGRA, and others.
    - "OGRA, it may be reiterated, has been envisaged as an independent body which is supposed to protect the public interest. Its failure to protect the ordinary consumers from oligopolistic and monopolistic activities cannot be condoned." (Consumers' interest is of prime importance.)
3. In its review petition, SNGPL identifies several key grounds for its request to increase the average prescribed price, including:

I. *Revised RLNG supplies ßased on the Finalized Annual Delivery Program (ADP) with PSO.*
II. *Discontinuation of Gas Supplies to Captive Power Plants from Jan-25 onward.*
III. *Addition in operating expenses.*
IV. *Submission made in the Motion for Review against DERR FY 2024-25*

4. To make sense of these grounds, SNGPL projects a revenue shortfall for the Financial Year 2024-25 at 50,582 million rupees, including 489 million related to LPG air mix plants. Additionally, the petitioner has requested a service charge of 304.27 rupees per MMBTU for RLNG. Another factor influencing the proposed cost increase per MMBTU is the government's plan to phase out gas provision to captive power plants by January 2025, a move intended to integrate them into the national grid. The following sections evaluate these assumptions, presenting questions for the Petitioner's clarification and for the Regulator's consideration.

Revised RLNG supplies based on Annual Delivery Program: a call for reassessment

5. In the Review petition, the petitioner projects that 49,180 BBTU of RLNG will be diverted to System Gas—a significant drop from the initial 80,155 BBTU stated in the Estimated Revenue Requirement Petition for FY 2024-25 (ERRP 2024-25). Despite this substantial reduction in RLNG volume, the decrease in service charges per MMBTU is marginal, dropping only from 325.08 to 304.27 rupees. This raises transparency concerns, as the service charge reduction does not appear proportional to the reduced RLNG volume.
6. The RLNG value chain displays inconsistencies, particularly in the recorded volume received by and delivered from the gas system. Page 00000036 of the ERRP 2024-25, which outlines the UFG breakdown, indicates points where RLNG volume in the system is lost, raising critical questions. Initial reductions are expected due to SSGC's retention and internal combustion requirements. However, further along the transmission path, unexplained discrepancies arise, particularly a gap exceeding 17,000 MMBTU between gas in transmission and gas available for sale. The petition provides no clear account for this gap, while an

additional 7.48% loss occurs at the delivery stage, resulting in substantial financial loss.

Several key points require the Regulator’s scrutiny:

I. **Methodology and Instruments for Measuring RLNG Losses**: The petitioner has not clarified the methodology or instruments used to track RLNG losses. Considering that RLNG and indigenous gas share the same infrastructure, it becomes challenging to attribute specific losses to each type. The petition offers no detail on this methodology.

II. **Service Charges on Lost RLNG**: It is unclear whether the service charges of 304.27 Rs per MMBTU account for RLNG lost in transmission. Given the high cost of RLNG (13.7440 USD per MMBTU) and associated service charges, the rationale for diverting RLNG to the domestic sector warrants reevaluation, considering the financial, environmental, and sustainability impacts.

III. **Progress on UFG Reduction**: Since the determination of estimated revenue requirement petition (DERR 2024-25), two to three months have passed. We urge the petitioner to disclose any progress on UFG reduction. With significant funds allocated annually for rehabilitation and UFG reduction, future approvals for such funds should be performance-based and tied to verifiable, tangible results.

We call on the Regulator to conduct a thorough reassessment of RLNG diversion to the domestic sector, considering financial sustainability, accountability, and GHG emission concerns.

7. Furthermore, in Para 80 of the Motion for the Review of Determination of Estimated Revenue Requirement Petition 2024-25, the petitioner makes a contradictory request in the following terms:
    - To determine the UFG Disallowance at SNGPL's cost of indigenous gas excluding the impact of RLNG Diversion.

    This request is quite paradoxical. On the one hand, the petitioner wants the average prescribed price to be inclusive of RLNG costs, on the other hand, it does not want the impact of RLNG to be included in the UFG disallowance calculations. The petitioner cannot have it both ways.

8. In one of its decision on October, 1, 2021, regarding the "DETERMINATION OF UFG IN RESPECT OF PROVISIONAL RLNG PRICE" the Authority expressed its intention to calculate the RLNG UFG losses on actual basis as opposed to basing them on the average of last year. Given the grave impact of RLNG import on the the foreign reserves of Pakistan, there is an urgent need to take appropriate measures to reduce the ratio of losses. Simply passing these losses onto consumers is neither equitable nor rational, particularly when there has been limited visible action by the Public Utility to reduce these losses to a more acceptable level. This prompts an essential question to the Regulator: how the RLNG volume designated for diversion to the domestic sector is determined, and under what criteria? Without comprehensive analysis, such diversions will only yield more liabilities which is currently the case.
9. The import of RLNG has become a critical issue for Pakistan. It is concerning that indigenous wellheads are being shut down without a full assessment of the impact on local gas fields just to to make way for RLNG supply. The current system holds more gas than can be effectively utilized, with power plants already falling short of their committed off-take limits. This situation calls for a thorough re-evaluation of the push for long-term RLNG contracts, along with a strategic reconfiguration of the energy supply approach.

Discontinuation of supply of gas to Captive Power Plants: a flawed assumption

10. Discontinuation of supply of gas to Captive Power Plants (CPPs) has been foregrounded as another significant ground for revision in the prescribed charges. Even though, the same is a policy decision of the Federal government which has been adopted at the behest of IMF, the Regulator must not abdicate its responsibility to think and decide in the favour of consumers. In this respect, we flag the following points for the Regulator to consider and ask from the Petitioner.
    I. where does the volume specified to the use of Captive Power Plants will be shifted and what impact will this have on different consumers under the cross-subsidization network?

II. The IMF and government's assessment to redirect gas from Captive Power Plants (CPPs) to RLNG-based power plants lacks clarity and depth, raising significant concerns. Neither the Petroleum Division nor the Petitioner or power plants have provided any information regarding their capacity or readiness to manage this increased load. Without detailed energy planning, merit order analysis, and supporting operational details, this assumption appears flawed. Such a shift in allocation, if pursued without these essential evaluations, could have a severe impact on the stability and sustainability of the gas sector. We strongly urge a thorough review of these factors to ensure responsible management and avoid adverse outcomes for the sector's health.

III. The matter is further complicated by the acknowledgement of the petitioner that a long winding round of litigation will follow the decision of discontinuation of gas to the CPPs. In the absence of ultimate settlement of the issue by the Hon'ble Courts, such assumption cannot be a solid ground for revision in the petition.

<u>Distribution Development schemes: a misguided approach</u>

11. In its Motion for Review against OGRA's Determination of Estimated Revenue Requirement (DERR 2024-25), the petitioner has requested a revision in the Regulator's decision regarding funding for the expansion of its infrastructure. Specifically, it seeks approval to bypass Public Sector Development Program (PSDP) funds and instead secure 13 billion rupees through tariff adjustments to finance the laying of 5,700 km of new gas pipelines.
12. This request is highly problematic from both efficiency and consumer interest perspectives. Given the dwindling gas reserves and the unsustainable diversion of costly RLNG to the domestic sector, the proposal to extend an already leaky and methane-emitting infrastructure raises serious concerns. Approval of this expansion would lock in a reliance on outdated and inefficient infrastructure at a time when alternative, cleaner solutions are critically needed.
13. At this juncture, it is pertinent to reference the National Electricity Plan 2023-27, which directs the National Energy Efficiency and Conservation Authority (NEECA) to prioritize demand-side management and introduce measures for energy efficiency and conservation. Given that the domestic sector consumes more gas

than any other sector in the country, while also paying the lowest rates, and considering the high infrastructure costs, no other sector is more deserving of focused conservation measures. We urge the Regulator to consider a phased and equitable electrification of the domestic sector in collaboration with NEECA rather than directing costly RLNG towards this sector or expanding infrastructure to accommodate it.

14. We urge the Regulator to dismiss this request outright and impose a strict moratorium on further expansion of gas infrastructure that jeopardizes both financial prudence and environmental commitments.

LPG Air Mix plants: a compendium of loss

15. Through its review petition, the Petitioner requests an additional 489 million rupees for LPG air mix plants, claiming that the 55 million rupees approved in the DERR 2024-25 for operating expenses is insufficient. It seeks an additional 43 million rupees to cover operational costs and an additional 489 million rupees to recover returns and costs for these LPG air mix plants. We find these demands deeply problematic for the following reasons:
    I. **Lack of Cost-Benefit Analysis:** The petitioner has not provided a cost-benefit analysis justifying why LPG air mix plants should be funded through the revenue requirement determination process, raising questions about the financial prudence of this venture.
    II. **Inefficiency and Cross-Subsidization Burden:** Similar to issues with gas and RLNG, diverting LPG to the pipeline is likely to suffer high losses and service charges, which will impose additional burdens on limited consumer categories under the cross-subsidization model. This approach is therefore untenable and could exacerbate existing inefficiencies.
    III. **Self-Defeating Investment Strategy:** While investments in domestic LPG production might be understandable in the context of expensive RLNG, investing in LPG air mix plants to achieve pipeline quality for distribution purposes seems counterproductive and adds to the financial strain.
    IV. **Lack of Policy or Legal Basis:** It remains unclear under which policy or legal framework the costs of LPG air mix plants are being included in the

revenue requirement. This lack of clarity further undermines the justification for such funding requests.

16. We respectfully urge the Regulator to address these critical points and respond to these specific concerns in detail. Our previous comments on similar matters in the DERR 2024-25 went unaddressed, which has caused significant disappointment. As stakeholders and end-users of SNGPL's services, we deserve comprehensive responses from your esteemed office.

Syed Ghazanfur Adv High Court Lahore	Asad Farooq Professor at	Muhammad AbdurRafe Lawyer and Policy Analyst	Syed Zain Moulvi Policy Analyst and Consultant

Asad Buzdar Research Fellow at Policy Research Institute for Equitable Development (PRIED)	Kamran Khosa Lead campaigner Member ACJCE	Rimsha Rehan Research Fellow PRIED