February 28, 2003

Case No. OGRA -6(2)-2(3)/2002

DETERMINATION OF ESTIMATED REVENUE REQUIREMENT FINANCIAL YEAR 2002-03

PETITIONER
SUI SOUTHERN GAS COMPANY LIMITED

Filing of Petition:	September 27, 2002
Revised Petition:	October 30, 2002
Admission for hearing:	November 19, 2002
Publication of notice for intervention and participation:	December 12, 2002
Publication of notice for public hearing:	January 07, 2003
Public hearing held:	February 6, 2003
Final hearing:	February 20, 2003

INTERVENERS

Jamshoro Power Company Limited
Enerman Group on behalf of Pakistan Pure Terephthalic Acid (PTA) Limited
Consumer Rights Commission of Pakistan
Mushtaq &Co. (Pvt.) limited

OIL AND GAS REGULATORY AUTHORITY

Chairman	Mr. Munir Ahmad
Member (Gas) / Vice Chairman	Mr. Jawaid Inam
Member (Finance)	Mr. Mahboob Elahi
Member (Oil)	Mr. Rashid Farooq

1 Sui Southern Gas Company Limited, is a public limited company incorporated in Pakistan which is listed on the Karachi, Lahore and Islamabad Stock Exchanges. The company is engaged in the business of construction and operation of gas transmission and distribution pipelines, sale of natural gas, manufacture and sale of gas meters and sale of gas condensate as a by-product.

2 Sui Southern Gas Company Limited (the Petitioner), under section 8 (1) of the Oil and Gas Regulatory Authority Ordinance, 2002 filed a Petition for determination of estimated revenue requirement for FY 2002-03 before the Authority on September 27, 2002 seeking increase in prescribed prices by Rs. 26.02 per MCF to meet a net estimated shortfall of Rs. 6,712.086 million in its revenue requirement for financial year 2002-03.

3 The Petitioner filed revised petition (the Petition) on October 30, 2002 based on 3 months actuals and increase in consumer's prices, seeking an increase in prescribed prices by Rs. 19.71 per MCF to meet a net shortfall of Rs. 4,948.872 million in its estimated revenue requirement for financial year 2002-03, which has been attributed to the increase in the cost of gas and transmission and distribution cost as may be seen from the following comparative cost of service per MCF:

			Rs. per MCF	
	Particulars	**FY 2001-02 Actuals**	**FY 2002-03 Estimates**	**Increase / (Decrease)**
	Cost of gas sold	94.72	114.48	19.76
	Transmission and distribution cost	10.85	14.34	3.49
	Contribution to W.P.P.F	0.49	0.56	0.07
	Depreciation	8.48	7.61	(0.87)
	Return @17% on net fixed assets in operation	11.00	10.48	(0.52)
		125.54	147.47	21.93
	Less: Operating income	3.96	4.59	0.63
A	**Cost of service (Prescribed Price)**	**121.58**	**142.88**	**21.30**
	Margin available out of existing GDS to meet revenue requirement:			
	Consumer price	137.43	142.33	4.90
	Gas Development Surcharge	15.85	19.16	3.31
B	**Margin available**	**121.58**	**123.17**	**1.59**

C	**Increase in Prescribed Price-Revenue requirement (A-B)**	**-**		**19.71**		**19.71**

The Petitioner has offered late payment surcharge (Rs. 222.391 million) and profit from meter manufacturing profits (Rs. 36.670 million) as operating income in accordance with the decision of the Authority for FY 2001-02.

4 To determine whether a prima facie case for consideration was made out, the Authority sought further information from the Petitioner. The Authority held the pre-admission hearing on November 19, 2002 and decided that a prima facie case for evaluation exists. The Petition therefore was admitted for consideration without requiring attendance of the Petitioner.

5 Notice inviting comments on the Petition from all the consumers, general public, interested and affected parties was published on December 12, 2002 in Dawn (English) and Jang (Urdu) national dailies The Authority received six communications relating to the Petition, which were relevant to the subject matter. Five of these communicators applied to intervene in the proceedings as parties, namely:

i. Jamshoro Power Company Limited

ii. Pakistan Pure Terephthalic Acid (PTA) Limited

iii. Consumer Rights Commission of Pakistan

iv. Mushtaq &Co. (Pvt.) limited

v. Federal 'B' Area Association of Trade and Industry

6 The intervention requests of first four persons were accepted by the Authority. The request of Federal 'B' Area Association of Trade and Industry was decided to be considered after providing an opportunity to the party of hearing because the intervention request apparently did not conform to the provisions of Natural Gas Tariff Rules, 2002. Having examined the Petition and the above said communications, the Authority decided to hold a public hearing in the proceedings.

Notice intimating the time and place of the public hearing was published in newspapers on January 7, 2003.

7 The public hearing commenced on February 6, 2003 and concluded on the same day. During the public hearing, the Petitioner argued its Petition and the interveners contested the Petitioner's request for increase in the Prescribed Prices. The Petition and interventions are discussed as follows:

8 SALIENT FEATURES OF THE PETITION

The Petitioner has submitted that:

8.1 Under the provisions of the Asian Development Bank loan Agreement the Petitioner has claimed an annual return of not less than 17% for the FY 2002-03 on the value of its average net operating fixed assets (net of deferred credit), before corporate income taxes, interest and other charges on debt. Accordingly, the revenue requirement of the Petitioner, which is notified as the prescribed price for various categories of consumers of the Petitioner, is worked out including the cost of gas at wellhead, transmission & distribution cost and depreciation.

8.2 The net operating assets are projected to increase from Rs. 16,323.659 million during the FY 2001-02 to Rs. 17,532.402 million for the financial year 2002-03. After the adjustment of deferred credits, the net operating fixed assets are projected at Rs. 15,476.661 million for the FY 2002-03. Based on the average net operating assets, the required return at 17% is computed at Rs. 2,631.032 million.

8.3 Net operating revenues are projected at Rs. 32,074 million for the FY 2002-03, as detailed below:

Particulars	**Rs. in millions**

Net Sales at current Prescribed Prices	30,923
Meter Rentals	420
Late payment surcharge	222
Meter manufacturing business profits	37
Amortization of deferred credit	126
Sale of Gas Condensate	161
Gas transportation charges	90
Other income	95
Net operating revenues	32,074

8.4 Net operating expenses are projected at Rs. 34,144 million for the FY 2002-03, as detailed below:

8.5

Particulars	Rs. in millions
Cost of Gas	28,741
Transmission and Distribution cost	3,600
Depreciation	1,911
Other charges	140
Net operating expenses	34,392

8.6 Unaccounted for Gas (UFG) is projected at 7 % (18,897 MMSCF).

8.7 The shortfall in the revenue requirement has been calculated at Rs. 4,949 million, which stipulates an increase of Rs. 19.71 per MCF in the prescribed prices as detailed below:

	Particulars	Rs. in millions
(i)	Net operating revenues (current)	32,074
(ii)	Net operating expenses	34,392
(iii)	Current surplus / (deficit)	(2,318)

(iv)	Return required @ 17% on net fixed assets in operation	2,631
(v)	Total Shortfall in the revenue requirement (iv) – (iii)	4,949
(vi)	Sales Volume (MMCF)	**251,055**
(vii)	***Increase requested in prescribed prices (Rs/MCF) to meet the total shortfall in revenue requirement (v) / (vi)***	***19.71***

9 SUBMISSIONS OF INTERVENERS AND RESPONSES OF THE PETITIONER THERETO

JAMSHORO POWER COMPANY LIMITED

The intervener has shown its concerns on the following issues:

9.1.1 The base and rate of return agreed in ADB loan covenants is not logical. Firstly 17% rate of return is too high in view of present economic scenario. Secondly the base of return has been taken as "net cost of fixed assets" which is too high as compared to generally accepted base of equity. In the projection required return on net fixed assets has been worked out as Rs. 2,631 million. Had it been worked out on equity base, the required amount of return would be Rs 1,736 million which is 34% lower than the return worked out on the basis of assets.

RESPONSE

The gas utility business is capital intensive and investors around the world are assured certain return on an appropriate basis to cover their investment. This 17% return is exclusive of financial charges and interest income. The Natural Gas Tariff Rules, 2002 also state that the tariff should be determined in a manner that takes into account the covenants contained in agreements with international institutional lenders. This includes 17% return on net operating assets to be earned by the Petitioner as per ADB loan agreement.

9.1.2 In the projection the proposed increase in the revenue has been worked out by grossing the net profit, which also includes depreciation of Rs. 1,911 Million. In its view, the depreciation has been allowed twicely in the working of net profit as per revenue requirement computation. As per ADB loan covenants, 17% rate of return is to be allowed on the basis of average net operating fixed assets where as the depreciation amount on said assets has also been included in the revenue requirement determination.

RESPONSE

This increase of revenue is worked on Written Down Value (W.D.V). The working for FY 2002-03 is as under:

OPERATING NET FIXED ASSETS	**Amount Rs. in million**
Operating Net Fixed Assets (July 1st, 2002)	16,324
Operating Net Fixed Assets (June 30th, 2003)	17,532
Average (A)	**16,928**
DEFERRED CREDIT	
Opening Consumer Contribution (July 1st, 2002)	1,425
Closing Consumer Contribution (June 30th, 2003)	1,477
Average (B)	**1,451**
Asset Base (A-B)	**15,477**
Return @ 17% on asset base	2,631

Depreciation has not been charged twice and has been worked out as per applicable International Accounting Standards.

9.1.3 Core investment plan worth Rs. 3,823 million has been projected during FY 2002-03 as against Rs 2,611 million for FY 2002-03. Projected cash flow indicates that the entire investment is being met from increase in gas price, which is against the set norms of investment plan in public sector utilities.

RESPONSE

A gas utility company like Petitioner has to consistently invest substantial amounts in the expansion of its transmission and distribution system and to provide gas to new customers /areas. Similar practices are being followed by utilities in different parts of the world. The investment is being financed through borrowings and internal cash generation.

9.1.4 In addition to the heavy investment plan worth Rs 3.8 billion an amount of Rs 1.2 billion has been proposed as dividends pay off during the year. The percentage of dividend pay out for issued & paid up Capital works out at 17.5%. Further investment of Rs 3.8 billion and payment of dividend of Rs 1.2 billion in a year by an organization having capital base of Rs. 10.2 billion does not make sense and shows that interest of consumers is badly neglected. In view of massive investment program, the Petitioner should defer declaration of dividends till such time funds are available from existing tariff.

RESPONSE

The payment of dividend is not relevant in determining revenue requirement based on return on assets. The payment relates to previous year unpaid dividends which have been paid in current financial year.

9.1.5 Debt Service ratio of 2.24 is too high as compared to 1.5 times as covenanted in ADB loans. This shows higher cash inflow has been projected through increase in gas price.

RESPONSE

This speaks of the company's efficiency and is not a consequence of increase in gas price.

9.1.6 Up-tilI December 2001 Petitioner has been raising gas bills on volumetric basis (i.e. the sale price for JPCL was Rs. 158.88/MCF). With effect from January, 2002, Petitioner changed their billing mechanism from quantity to quality base. The applicable rates for power projects were Rs. 166. 18 per Rs/MMBTU. The increase in Prescribed Prices of Rs. 19.71 per MCF requested by the Petitioner is contrary to the existing BTU billing system and is also misleading, because adjusted to the existing billing system to JPCL, the increase would be Rs. 21.83 per MCF instead of Rs. 19.71 per MCF. Currently, Petitioner is billing to JPCL on average 1,052 BTU/MCF Gas Calorific Value (GCV) as against 950 BTU/MCF provided in applicable rates to the projects.

RESPONSE

The billing and payment of gas supplies is based on MMBTU. To maintain the consistency in the working, the calculation of price increase has been kept in MCF. In future, computations based on BTU basis will also be provided in addition to MCF.

The tariff increase, if any to be determined by OGRA/ GOP, will be applicable across the board and will not affect any consumer in a specific manner.

9.1.7 The Petitioner has been increasing gas price continuously in the recent past as elaborated below:

Effective Date	Rate	%age Increase	Reason
17.03.01	Rs. 157.88/ MCF	-	Provision of gas price from Rs/ MCF.
01.01.02	Rs. 166.18/ MCF	10.74	Initial rate was Rs. 157.89/MCF based on 950 BTUs/CFT. Actual billing was made on 1,052 BTUs/CFT, Hence at the time of conversion from MCF to BTU, the equivalent price comes out Rs. 174.83/MCF with 10.74% increase.
25.10.02	Rs. 168.88/ MCF	1.62	In order to compensate the effect of decrease in (GCV in few weather season, the rate/MMBTU was increased from Rs. *166.18* to Rs. 168.88

RESPONSE

Petitioner does not determine price to be charged to the customers. The petition pertains to Petitioner's revenue requirement in accordance with Natural Gas Tariff Rules, 2002.

The existing gas fields are depleting and consequently new gas fields have to be connected to the system to meet the growing demands. Resultantly the cost of gas has been continuously increasing. The increase in revenue requirement is primarily attributed to increase in cost of gas, on which the Petitioner has no control.

As per normal regulatory process of price setting of utilities, the Petitioner has to present the tariff schedule, which it proposes to be made applicable.

9.1.8 The careful scrutiny of the petition reveals that they have not included any such proposed sale price-tariff schedule, making it impossible for the affected parties to analyze the impact of proposed change.

RESPONSE

The Petition is not supposed to be accompanied with sale price schedule, since the Petitioner does not determine sale prices to be charged to the customers. The petition pertains to Petitioner's revenue requirement in accordance with Natural Gas Tariff Rules, 2002.

9.1.9 With the proposed increase in gas price, the difference of gas and furnace oil generation will further be narrowed. In this way, the people of Pakistan will be deprived of the cheaper source of indigenous fuel generation. The effect of increase will ultimately be passed on to the power consumers, which is estimated to be around 31 paisa per Unit.

RESPONSE

Petitioner has no control on determination of sale prices to be charged to the customers. The petition pertains to Petitioner's revenue requirement in accordance with Natural Gas Tariff Rules, 2002. The comparison of gas prices with other alternative fuels proves that gas is still a cheaper source for Power Generation.

9.1.10 Gas to WAPDA/JPCL power projects is supplied by SSGC from its contracted gas fields at Badin. In the projections, average wellhead price from Badin shows 6.5% decrease in FY 2002-03 as compared to last year.

RESPONSE

9.1.11 Wellhead prices are determined by OGRA in accordance with the agreements signed by the Producers with the Government. The Petitioner receives gas from a number of gas fields the prices of which varies from Rs. 26 per MMBTU to Rs. 181 per MMBTU. Average cost of gas of the Petitioner has increased from Rs. 94.72 per MCFT in FY 2001-02 to Rs. 114.48 per MCFT in FY 2002-03 i.e an increase of 21%. The revenue requirements are worked out on an overall basis and not on any specific field.

9.1.12 The Petitioner should re-approach the ADB to change the base of return from net assets to equity (issued and paid up capital). Also, the required rate of return should be lowered from 17% to 8-12%. Petitioner is already achieving the said rate of return from its existing tariff.

RESPONSE

The revised basis for offering rate of return to the Petitioner is already under consideration of the Federal Government & OGRA. Several studies are being instituted in this regard. Till such time a new regime is introduced, the existing regime of 17% return on average net operating fixed assets will remain enforced in accordance with prevailing ADB loan covenants

9.1.13 The Petitioner should defer its core investment program and do it in phases, manageable within available funds from existing tariff and after doing cost and benefits analysis.

RESPONSE

Petitioner has to consistently invest substantial amount in the expansion of transmission & Distribution system and to provide gas to new areas/ customers, which cannot be met from the existing tariff since that hardly covers even the cost of gas. All the projects are carefully evaluated and are approved by the independent Board of Directors.

9.1.14 The Petitioner should carry out time and motion studies to control its operation and maintenance expenses and keep them in affordable limit.

RESPONSE

The company's T&D cost as a %age of sales has increased by only 01%, whereas sales volume and value has increased by 7% and 11% respectively. The company's operations are complex and highly technical, and the nature of business is such that network needs continuous maintenance. Each and every expenditure is carefully evaluated by professional management team which is subject to review and approval by the independent Board of Directors.

9.2 PAKISTAN PURE TEREPHTHALIC ACID (PTA) LIMITED

The intervener has shown its concern on the following issues:

9.2.1 The gas tariff/pricing rules have not yet been approved and notified. In the absence of notified gas Natural Gas Tariff Rules, 2002, it is not possible to ascertain whether the Petition conforms to legal requirements, technical and financial standards under the applicable laws.

RESPONSE

Natural Gas Tariff Rules, 2002 have been notified on November 14, 2002 and the Petition conforms to the requirement of Natural Gas Tariff Rules, 2002.

9.2.2 Increase in the Prescribed Prices requested, if allowed, would completely erode the Gas Development Surcharge (GDS) and would consequently prompt the Federal Government to increase the sales prices to make up for the shortfall in GDS..

Also the GOP takes if calculated on the information contained in the Petition for FY 2002-03 stands around 50% of the total revenue collections, even in the absence GDS.

GOP has levied multiple taxation on gas consumers, which has resulted in enhanced cost of production, as the producers have to pay sales tax and a number of other levies i.e. royalties, income tax, excise duties and GDS which ultimately form part of cost of production and consumer prices.

Government has been charging GDS under Natural Gas (Development Surcharge) Ordinance, 1967 and Natural Gas (Development Surcharge) Rules, 1967. However, the Ordinance and rules do not elaborate the purposes of the surcharge. GOP should announce a clear policy regarding charging of GDS and justify any increase sought by it.

RESPONSE

Determination of GDS and Sales prices is purely the domain of Federal Government.

9.2.3 Cost plus mechanism leads toward inefficiencies in utility operations and there is no incentive or penalty to reduce the expenses. There could have been legitimate cost increase in the Petitioner's system but still there is room for improvement in operational efficiencies under prudent utility practices. Had higher operational efficiencies been achieved, the reduction in GDS could have been avoided and there could be a case in lowering of gas prices if GOP decides to pass on such savings to the consumers.

RESPONSE

The Petitioner has always tried its best to achieve maximum level of efficiency however there is always room for further improvement. It may be noted that 80% of the total revenue requirement is owed to the cost of gas alone. Thus the Petitioner's request for increase in revenue requirement on its own account (i.e. controllable costs) is only nominal.

9.2.4 Petitioner should not be allowed increase in Prescribed Prices beyond Rs. 5.5 per MCF as it could have generated savings in its expenses or increase in its revenue to the tune of Rs. 3,571 million following prudent utility practices.

RESPONSE

This amount does not cover even the increase in cost of gas which has already been notified by the Authority. Also the return to the Petitioner has been calculated in accordance with the ADB loan agreement, under which the Petitioner is entitled to a rate of return of not less than 17% on the average net fixed operating assets.

9.2.5 Petitioner has history of high UFG which is primarily owed to theft of gas and leakages in the system. The Petitioner has been able to gradually reduce the UFG, but still 7% UFG is too high. The UFG levels should be brought down to a range of 4-5% within a couple of years.

RESPONSE

The Petitioner has been following the directions issued by Authority in its earlier determinations in this respect and is endeavoring to reduce UFG below 6% in next two years. This year the target has been set at 7% as compared to last year UFG at 7.6%.

9.2.6 Petitioner is allowed to earn 17% return on average net operating fixed assets. This computes to a return on equity of 20-22% which is too high especially keeping in view the government plans to bring the inflation below 5% in the last few years. 15-18% return on equity for a utility like Petitioner should be considered adequate in the prevailing low inflation environment.

RESPONSE

The revised basis for offering rate of return to the Petitioner is already under consideration of the Federal Government & OGRA and several studies are being instituted in this regard. Till such time a new regime is introduced, the existing regime of 17% return on average net operating fixed assets will remain enforced in accordance with prevailing ADB loan covenants

9.2.7 Although receivables do not form part of tariff calculation under the current formula, but it does affect the overall finances. Overall receivables should be a function of billing cycle and the receivables should not be more than 45 days of gross turnover.

RESPONSE

The Petitioner is putting all its efforts to collect long outstanding gas arrears Dedicated recovery cells have been established and chronic defaulter cases have been outsourced which were overdue by 18 months and exceeded Rs. 5,000/-. The disconnected account receivable cases have also been outsourced. Petitioner is planning to introduce optional payment plans which would induce the consumers to make prompt payments.

9.2.8 Petitioner has consistently been maintaining large inventories. The high levels of stores and spares consumption should be reduced as it is unnecessary burden on revenue requirement and ultimately on the consumers. A significant value of stores and spares are lost due to obsolence and adds to the financial expenses of the Petitioner. The Petitioner should be directed to maintain inventories of not more than 6 month purchases.

RESPONSE

The Petitioner is a utility company and has to maintain certain minimum inventory levels for all times to meet any sort of eventuality. Some spares, fittings are treated as insurance items. Spares of plants are also being maintained to ensure smooth running of operations.

9.2.9 O&M cost has been projected to increase by 33% from last year as against the inflation rate of 5%. It is presumed that the high O&M cost is due to large manpower employed. The manpower utilization should be optimized by redeploying people after proper training. Petitioner should be asked to budget increase in O&M expenditures in line with prevailing inflation rate.

RESPONSE

The T&D cost has increased by Rs. 887 million, however as a percentage to sales it has increased only 01% whereas sales have increased in volume by 07% and in value by 11%. The major increases in T&D costs are sought on account of Rs. 218 million for reconfiguration of two compressors engines, Rs. 270 million for salaries, wages and terminal benefits which includes union charter of Rs. 125 million and phased impact of revised compensatory package of Rs. 60 million, Rs. 59 million for legal and professional expenses, Rs. 74 million for stores and spares and Rs. 85 million in other heads.

9.2.10 Recent incidence at Sui has contributed towards increase in O&M costs. Petitioner should make these spendings out of a separate account which should be funded by GOP as law and order is the responsibility of GOP and any additional expenditure should not be born by the legitimate consumer.

RESPONSE

This is a policy issue to be dealt with by the Federal Government.

9.2.11 Petitioner should comply with the directions issued by OGRA in its previous determination.

RESPONSE

Petitioner is complying with OGRA directives.

9.3 CONSUMER RIGHTS COMMISSION OF PAKISTAN (CRCP)

Consumer Rights Commission of Pakistan (CRCP) is of the view that the Oil and Gas Regulatory Authority (OGRA) should dismiss the petition of Sui Southern Gas Company for determination of estimated revenue requirement on the following points:

9.3.1 Petition is lacking in sufficient analysis and relevant details and the data given in the petition is confusing and anomalous, which does not provide the clear picture of accounts of company. For example, the Authority directed the Petitioner in its determination dated August 6, 2002 to submit detailed justifications for any addition to the asset base starting from FY 2002-03. While the Petition shows increase in assets base but does not accompany detailed justification for such increase. This shows irresponsible behavior of the Petitioner towards the decision of the Authority.

RESPONSE

The petition filed by Petitioner for determination of revenue requirement for FY 2002-03 is complete in all respects and it contains all material financial, technical and other information. The Petitioner has separately submitted detailed justifications to the Authority of every addition to the asset base.

9.3.2 Operating expenditures have direct bearing on total revenue requirement. The T&D expenditure has been projected to increase by Rs. 706.388 million during FY 2002-03 as compared to last year. In the absence of justifications and rationale of such increase, it appears that the increase is result of increase in non-productive expenses. It is submitted that detailed justifications and rationale for such increase be provided to the Authority. The Authority is requested to direct the Petitioner to reduce Transmission and Distribution expenses to an acceptable level.

RESPONSE

A gas utility company like Petitioner has to consistently invest substantial amounts in the expansion of its transmission and distribution system and to provide gas to new customers /areas. This consistent investment increases the operational / maintenance cost beside the maintenance cost of the existing network due to ever increasing age of pipeline system. The Petitioner has however provided to the Authority justifications and rationale for any increase in the T&D expenditures.

9.3.3 Entitlement of 17% return on average net fixed assets in accordance with the requirements of ADB loan covenant is the worst form of concession that the Petitioner is enjoying whether it performs well or bad. 17% return should not be a ground for increase in revenue requirement and the Authority should initiate consultation to rationalize this requirement.

RESPONSE

Natural Gas Tariff Rules, 2002 states that the tariff should be determined in a manner that takes into account covenants contained in agreements, relating to regulated activities, with international institutional lenders" (Rule 17(1)(e)). Accordingly, the position taken by CRCP is contrary to the legal requirement stipulated in the Natural Gas Tariff Rules, 2002.

The gas utility business is capital intensive and the investors around the world are assured a certain return on an appropriate basis to cover their investment. The capital expenditure plan of Petitioner is required in order to expand the gas distribution/ transmission system and to realize its full potential. Petitioner ensures that amount spend on fixed assets are genuinely required.

9.3.4 Petitioner has failed to comply with the directions of the Authority in respect of undertaking revision in the compensatory package for the executives, which consists of salaries and wages and other benefits based on productivity gains, prevailing market conditions, rightsizing, control on overtime expenditure and abuse of medical facility. The amount of salaries has been projected to increase during FY 2002-03. On the other hand, inflation rate had sharply declined in the last two decades and the government is planning to further bring down the rate. The productivity and efficiency of the Petitioner has not improved. The Authority should impose heavy fines on the Petitioner under section 6, subsection (2), clause (p) of the OGRA Ordinance.

RESPONSE

Wages of subordinate staff are revised every 2 years through Settlement under Industrial Relations Ordinance between the CBA and the Management. The last agreement was signed in November 2001. The next agreement will cover January 2002 to December 2003. The impact of the same for a period of 1 year has also been included in the cost on estimated basis.

Salaries of executives have been revised under the Revised Compensation Package for executives, based on market survey. As the existing salaries were substantially lower, it was difficult for the Company to hire/ retain quality people, a necessity to be able to provide quality service.

The overall increase after considering the above factors comes to 12%.

9.3.5 Late payment surcharge and income from meter manufacturing should not be excluded from operating revenue because it is related with the gas sales, which is a regulated activity. .

RESPONSE

Both late payment surcharge and income from meter manufacturing business has been taken as operating income in the Petition in accordance with the decision of the Authority.

9.4 <u>MUSHTAQ & CO. (PVT.) LIMITED</u>

The intervener was not present on the day during the public hearing when the case was called. The Authority, however, decided to place their written submission on record for final decision. The intervener request has been duly considered. The issues raised by the intervener and the written response of the Petitioner are summarized as under

9.4.1 Hearing has been fixed at Islamabad, although the parties i.e., the buyer/ consumer and the seller, affected/ concerned belongs to South of Pakistan. To make the proceedings transparent and to meet the ends of equity and justice, in all fairness the proceedings must be held in Karachi where bulk of the consumers and sales resides/ takes place.

RESPONSE

Under the Natural Gas Tariff Rules, 2002, the Authority is empowered to hold public hearing at its principal place of business.

9.4.2 Federal Government has been collecting enormous amount as GDS but the party is not aware as to where the surcharge is utilized. If GDS is abolished then there is no need to raise the tariff. The party is also not aware as to how much money is collected by the Federal Government from the operators of gas wells from whom Petitioner buys under the pretext of levies, cesses, surcharges and other taxes. Also projected increase in GDS from domestic consumers of Karachi is about 400%.

RESPONSE

Petitioner is not in a position to comment on this, as GDS is GOP prerogative. However, the elimination of GDS would not be helpful in reducing domestic prices as over all average domestic selling price is lower than cost of gas which results in gross loss. Domestic customers are in-fact subsidized as elaborated below:

(Rs. per MCF)

	FY 2001-02	FY 2002-03
Avg. Domestic Selling Price	84.27	88.60
Cost of Gas	94.72	114.48
Cost of Services *	26.84	28.40
	121.50	142.88
Loss	(37.29)	(54.28)

As it is evident from above figures that currently most of domestic customers even do not pay cost of gas, where as customers having consumption near 3rd slab or above will be paying just cost of gas and cost of service.

9.4.3 There is reduction in Supplies from Sui by 35%. Is it because of depleted supplies or has it been ordered by the Federal Government to curtail supplies to SSGC and divert it to SNGPL. If so how much and at what rate supplies were made to SNGPL in 2001-02 and will be made in 2002-03. Supplies from Sui were 44% of the total purchase in 2001-02 whereas it will be only 27% in 2002-03.

RESPONSE

In order to inject additional gas supply from new fields (in Sindh) into system, it became necessary for GOP to reallocate natural gas to optimize total transmission capacity of both utilities under changed scenario. Under GOP directives Petitioner is to receive supplies from new fields in Sindh (Miano & Bhit), and supplies from Sui and Pirkoh have been diverted northward. This arrangement, however should not affect the customers as the sale prices across the country will be the same for all the customers.

In FY 2002-03 cost of supplies from Miano will be 300% higher than Sui. The cost of supplies from Bhit will be 275% higher than Sui whereas the supplies from Kadanwari are the costliest which is 400% higher than Sui.

9.4.4 This reduction in supplies from Sui and enhancing supplies from other fields increases the purchase cost by Rs. 7 Billion.

RESPONSE

Intervener has raised a valid point. Increase in cost of gas i.e. well head prices however pertain to the Federal Government, and the Petitioner has no control on it.

9.4.5 Supplies from different fields have different Calorific values. The company is selling its gas on the basis of Calorific value whereas it buys on the basis of volume.

RESPONSE

The Petitioner sells and purchases natural gas on the basis of calorific value. To maintain the consistency in the working, the calculation of price increase has been kept in MCF. In future, computations based on BTU basis will also be provided in addition to MCF.

9.4.6 Rs. 2 Billion worth of gas is lost annually. What is the international benchmark

RESPONSE

International Bench Marks for Unaccounted for Gas are not set in terms of value or volume of gas lost, but it is always represented in terms of percentage of gas handled. Current International Bench Mark for line loss is different in different countries, as the same is dependent on weather conditions, temperature and pressure etc. Keeping in view the conditions of Pakistan, the Authority has set target of reducing the UFG level for Petitioner to 6% in 3 years time starting from FY 2002-03. The Petitioner has been vigorously working to achieve this target and it has already set its UFG target for FY 2002-03 at 7%.

9.4.7 Why the Purification Plant worth Rs. 2.5 Billion has been transferred to PPL at book value and what benefit will accrue to the Petitioner due to this transfer?

RESPONSE

Transfer of Purification Plant to PPL on book value was made as per ECC decision, which is in line with GOP's policy of segregation of up-stream, mid-stream and down-stream gas industry businesses.

9.4.8 Why every year debts worth Rs. 22 Crore become doubtful whereas the loan from ADB is only Rs. 40 Crore?

RESPONSE

Petitioner has customer base of 1.6 million and estimated sale value of Rs. 41 billions for FY 2002-03. Like every business it is necessary to mention fair value of book debts in books of accounts, therefore, provision for doubtful debt is provided in accounts.

Petitioner makes best effort to realize the outstanding dues and has a policy of disconnection as a matter of last resort. Rs. 212 million has been estimated as doubtful debt, which is 0.52% of sale value.

Petitioner has also hired private Recovery Firms to recover such dues, which will hopefully improve the current collection situation.

There is no co-relation between provision for doubtful debt and ADB loan.

9.5 FEDERAL 'B' AREA ASSOCIATION OF TRADE & INDUSTRY

9.5.1 Federal 'B' Area Trade & Industry made an intervention request on the Petition. It is provided in the Natural Gas Tariff Rules, 2002 (Rule 7(2)) that an intervener must state how he is substantially and specifically affected by any determination on the proceedings. Moreover, the intervention request shall state the contention of the person making the same, the relief sought and brief particulars of the evidence such person intends to produce during the course of proceedings.

9.5.2 In the light of rules mentioned above, a brief analysis of the petition filed by the intervener discloses that most of its paragraphs pertain to allegations against the Petitioner's past and present officers. The assertion and accusations made in the request do not fall within the jurisdiction of the Authority for which the party may seek appropriate remedy from relevant forum. Also the observations raised by the intervener relate to prior periods and not the period under review. Since no one was present to plead the case, therefore, the intervention request has been disposed off in terms of above.

10 DETERMINATION OF THE AUTHORITY

10.1 The Authority, after taking into consideration the points raised by the interveners, the clarifications provided by the Petitioner and scrutiny of the Petition has considered the following points:

11 RATE OF RETURN

11.1 The Petitioner is calculating its revenue requirement on the basis of 17% return on average net fixed operating assets in accordance with covenants agreed with the Asian Development Bank.

11.2 Jamshoro Power Company Limited is of the view that 17% return is too high in view of the present economic situation. If same % return is calculated on equity, it is much lower than the existing basis of calculation. The Petitioner should re-approach ADB to change the base from asset to equity and also to lower the rate between 8-12%.

11.3 Pakistan PTA Limited is of the view that the 17% return, converted to equity base calculates at 20-22 %, which is too high keeping in view the government plans to bring down inflation below 5%. 15-18% return on equity would be adequate in prevailing inflation environment.

11.4 CRCP is of the view, that entitlement of fixed return should not be a ground for increase in revenue requirement and the Authority should initiate consultation to rationalize this requirement.

11.5 Under Section 6(2)(t) of the OGRA Ordinance, the Authority in consultation with the Federal Government and the Licensees, is required to determine a reasonable rate of return, for each Licensee, for its regulated activity, keeping in view all the circumstances.

11.6 This statutory duty is to be discharged by the Authority in accordance with the requirements laid down in the OGRA Ordinance, namely, the determination has to keep in view all the circumstances and the Authority must consult the Federal Government and the Licensees, prior to making such a determination.

11.7 A study funded by PPIAF (Public Private Infrastructure Advisory Facility) and executed by World Bank pertaining to determination of a reasonable rate of return for the gas companies is commencing in March 2003. After completion of the above study, the Authority, based on the recommendations therein, will carry out requisite consultation sessions with the Federal Government and the Licensees, in order to determine a reasonable rate of return.

11.8 In the meantime, the Authority has been given directions, under section 47 of Oil and Gas Regulatory Authority Ordinance, 2002, by the Federal Government that till such time an appropriate rate of return is determined by the OGRA, in consultation with the Federal Government and the licensees, it shall determine the revenue requirement of the existing gas companies on the basis of the covenants stipulated in the loan agreements of SSGCL with the ADB.

11.9 The Authority has also noted the observation of the interveners that the present rate of return on assets is allowed to the Petitioner before corporate income tax, interest and other charges on debt. If the same return is allowed on equity, these elements will have to be accounted for before the return and the results would not be the same as interveners have presumed. In terms of

Rule 17(1)(e) of the Natural Gas Tariff Rules, 2002, the Authority is obligated to take into account the covenants contained in agreement relating to regulated activities, with international institutional lenders. Therefore, the Authority adopts the covenanted rate of return for computing the revenue requirement for FY 2002-03.

12 OPERATING FIXED ASSETS

12.1 The Petitioner has projected the net operating assets at Rs. 17,532.402 million in the FY 2002-03 as follows:

Particulars	**Amount Rs. in million**
• Net assets at the beginning of the FY 2002-03	16,323.659
• Net assets at the close of the FY 2002-03	17,532.402
• Net average operating assets during the FY 2002-03	**16,928.031**

12.2 A comparison of **additions** projected for FY 2002-03 with last year is provided below:

Rs. in million

Particulars	**2001-2002**	**2002-2003**	**Difference** *Increase / (Decrease)*	**Percentage** *Increase / (Decrease) %*
Land	41.483	31.699	(9.784)	(24)
Building	30.632	36.287	5.655	18
Purification Plant	52.379	-	(52.379)	(100)
Transmission Line	322.365	1,344.609	1,022.244	317
Compressors	7.804	529.956	522.152	6,691
Plant and Mach.	24.923	111.948	87.025	349
Gas distribution sys.	1,508.793	1,476.352	(32.441)	(2)
Furniture and Fixture	31.716	104.807	73.091	230
Telecom. System	-	12.517	12.517	100
Tools	10.320	25.149	14.829	144

Vehicles	68.315	80.040	11.725	17
Construction equipment and vehicles	-	42.500	42.500	100
Total additions	**2,098.730**	**3,795.864**	1,697.134	81
Deletions	**(218.557)**	**(2,643.193)**	(2,424.636)	1,109
Net addition in assets base	**1,880.173**	**1,152.671**	(727.502)	(39)

12.3 Deletions for FY 2002-03 includes sale of Sui Purification Plant and its allied assets as on July 1, 2002 to Pakistan Petroleum Limited on the basis of book value of assets for Rs. 663.478 million as certified by their auditors.

12.4 The Petitioner has claimed addition of Rs 3,795,864 million in the assets base for the FY 2002-03 as detailed below:

Sr. No.	CAPITAL ASSET DESCRIPTION	Amount Rs. in Million
(A)	**Land**	
1	Land acquisition for ROW	16.861
	Normal Expansion	
2	Plot at DHA Karachi for Zonal office	3.111
3	Land for Malir Zone Office	10.000
4	Plot for Noshehro Feroze Zonal Office	0.900
5	Plot for CP Stations for GDS Network	0.400
6	Plot for TEG Installations	0.147
7	Miscellaneous	0.280
	Sub total	**31.699**
(B)	**Buildings**	**36.287**
(C)	**Gas Transmission Pipeline**	
	GIREP PROJECT	
1	Installation of Spurline from Bhit Gas Field to IRBP at Bajara	801.254
2	FJFC SPUR loopline for Bin Qasim P.Plant	46.266
3	Sawan Gas Integration	58.997
	Other Approved Projects	

4	Interlink pipeline Khadeji to FJFC	307.231
5	Replacement of 16” ILBP Rohri	80.335
6	18” dia Pig launcher and receiver	8.000
7	Construction/Upgradation of 5 Check Meter Stations at POD’s	14.000
8	Relaying of 16” dia pipeline above ground	15.746
9	Construction of 2 new SMS & upgrading of 17 nos. existing SMS	11.000
10	Gas flow measurement arrangement on QP-CEP at Shikarpur	1.800
	SUB TOTAL	**1,344.629**
(D)	**Compressors**	
1	Relocation of compressor facilities at Hyederabad	518.456
2	Revamping of control system of Dadu compressor	11.500
	SUB TOTAL	**529.956**
(E)	**Plant & Machinery**	**111.948**
(F)	**Gas Distribution System (GDS) & related facilities & equipments**	
1	Augmentation of 20” ACPL Loopline	35.630
2	24" Dia (ACPL) Distribution Main	37.677
3	Supply second source of Gas to Nooriabad Ind. Estate	138.175
4	Encroachment on HP Landhi Supply Main and Karachi Main	36.000
5	GDS-Normal & Rehabilitation	1,228.880
	SUB TOTAL	**1,476.362**
(G)	**Telecommunication System**	**12.517**
(H)	**Tools & Equipment**	**25.149**
(I)	**Vehicles**	**80.040**
(J)	**Construction Equipment & Vehicles**	**42.500**
(K)	**Furniture equipment, including computers & allied equipment.**	**104.807**
	TOTAL ADDITIONS PROJECTED DURING FY 2002-03	**3,795.894**

12.5 In pursuance of the direction of the Authority, which was given in its previous determination of 6th August, 2002, the Petitioner has provided detailed justification for each item of addition in fixed assets. This was internally evaluated and considered by the Authority. Thereafter a final meeting of the Authority was held with the Petitioner on February 20, 2003. During the said meeting the Petitioner conceded that the following assets may not be commissioned by close of financial year 2002-03:

PARTICULARS		**Amount Rs. in million**
Land		0.547
Buildings		11.470
Plant And Machinery		32.839
Gas Transmission Pipelines (GIREP)		
-	Construction and up gradation of Check meters	14.000
-	Relaying of 16" dia pipeline above ground	15.746
-	Construction of 2 new SMS and up gradation of 17 existing SMS	11.000
-	Gas flow measurement arrangements at QP-CEP at Shikarpur	1.800
Compressor (revamping of Dadu Compressor)		11.500
Gas Distribution System		
-	Supply of second source of gas to Hyderabad	138.175
-	Encroachment on HP Landhi supply Main and	36.000

	Karachi Main	
Construction Equipment and Materials		42.500
Furniture equipment including computers		26.202
GRAND TOTAL		**341.779**

12.6 **Accordingly assets costing Rs. 341.779 are excluded from the projected assets base for FY 2002-03 for the purposes of calculating 17% return.**

12.7 On further scrutiny of the cost estimates, it transpired that cost contingencies have been built into the projected addition and also that actualization is generally lower than the estimates, the Authority decides to make ad-hoc deduction @ 20% in the cost of assets likely to be commissioned by June 30, 2003. **Consequently the net addition in the fixed assets for the FY 2002-03 is allowed at Rs. 2,763.292 as against the claim of the Petitioner amounting to R. 3,795.894 million.**

12.8 **Depreciation has also been reduced in account of non-commissioned assets and savings on account of contingencies, as explained above, amounting to Rs. 30.978 million.**

13 OPERATING REVENUES

a. SALE VOLUMES

13.1 Sales volumes have been projected to increase by 7% from 234,553 MMCF for the FY 2001-02 to 251,055 MMCF for the FY 2002-03.

13.2 The Category wise comparison of sales from last year is provided below:

Volumes in MMCF

CATEGORY	FY 2001-02	FY 2002-03
Power	79,442	91,645

Cement	3,334	709
Fertilizer – feedstock	15,103	15,214
General industries	78,370	83,216
Commercial	6,582	6,833
Domestic	51,722	53,438
TOTAL	**234,553**	**251,055**

13.3 Major increase in sales volumes is projected in Power and General Industries sector. The Petitioner has submitted that the increase in General Industrial, Commercial and Domestic sector sales volumes is due to increase in number of customers in the respective categories.

13.4 The Authority provisionally accepts the sales volumes projected at 251,055 MMCF for FY 2002-03 which will be subject to actualization.

a. SALES REVENUE

13.5 Sales revenue (net of sales tax) for the FY 2002-03 has been projected by the Petitioner at Rs. 35,732.477 million as against Rs. 32,235.028 million for the FY 2001-02.

13.6 The Category wise comparison of sales from last year is provided below:

Rs. in million

CATEGORY	FY 2001-02	FY 2002-03
Power	12,918.205	15,382.997
Cement	608.810	141.470
Fertilizer – feedstock	543.716	563.219
General industries	12,557.897	13,629.608
Commercial	1,247.549	1,280.707
Domestic	4,358.851	4,734.476
TOTAL	**32,235.028**	**35,732.477**

13.7 The projected increase in sales revenue is due to both increase in sale volumes and increase in sale prices as notified by OGRA to date.

13.8 The Authority provisionally accepts the sales projected at Rs. 35,732.477 million for the FY 2002-03 which will be subject to actualization.

b. METER RENTALS

13.9 The Petitioner has projected the revenue on account of meter rentals to increase by 3% from Rs. 407.705 (FY 2001-02) to Rs. 419.538 million (FY 2002-03). A comparison of meter rental revenue is as follows:

Rs. In million

	FY 2002-03	FY 2001-02	FY 2000-01
Meter rentals	419.538	407.705	399.460

13.10 The Authority provisionally accepts projected revenue from meter rentals at Rs. 419.538 million for the FY 2002-03 which will be subject to actualization.

c. LATE PAYMENT SURCHARGE

13.11 The Petitioner has projected late payment surcharge to increase by 4.6% from Rs. 212.698 (FY 2001-02) to Rs. 222.391 million (FY 2002-03). A comparison of late payment surcharge is as follows:

Rs. in Million

	FY 2002-03	FY 2001-02	FY 2000-01
Late payment surcharge	222.391	212.698	201.347

13.12 Category wise detail of late payment surcharge submitted by the Petitioner is as follows:

Rs. In million

CATEGORY	FY 2001-02	FY 2002-03	Increase / (decrease)

			% age
Domestic consumers	170.180	180.391	6
Commercial consumers	19.253	18.000	(6.5)
Industrial consumers	25.046	24.000	(0.18)
TOTAL	**214.479**	**222.391**	**3.7**

CATEGORY	Rs. in Million FY 2002-03	BASIS OF CALCULATION
Domestic consumers	180.391	As per policy it is calculated @10% only once on the outstanding amount.
Commercial consumers	18.000	Calculated @ 2% p.m. of estimated debtors of Rs. 75 million per month
Industrial consumers	24.000	Calculated @ 2% p.m. of estimated debtors of Rs. 100 million per month
TOTAL	**222.391**	

13.13 It is further noted that interest income on WAPDA and KESC gas bill arrears has not been recognized in the Petition for the FY 2002-03. However, as per directions of the Authority's in its determination dated January 20, 2003, the Petitioner is to make proper disclosure of interest income on gas sales arrears against WAPDA and KESC, and other similar transactions, in accordance with the International Accounting Standards in its annual accounts. **The Petitioner is also directed to approach Federal Government for a policy decision for non-recognition of such income as it creates discrimination among the consumers in addition to violation of the Gas Sales Agreements.**

13.14 **The Authority provisionally accepts late payment surcharge projected at Rs. 222.391 million for the FY 2002-03 which will be subject to actualization.**

d. AMORTIZATION OF DEFERRED CREDIT

13.15 The Petitioner has projected deferred credit amortization for the FY 2002-03 at Rs. 125.518 million as follows:

Amount Rs. In millio

Description	FY 2002-03	FY 2001-02
Balance as at July 01	1,425.280	1,413.275
Additions during the year	177.698	133.397
	1602.978	1,546.672
Amortization for the year	(125.518)	(121.392)
Unamortized balance as at June 30	1,477.460	1,425.280

13.16 The Petitioner has explained in its submission that deferred credit for projects in progress is not claimed until the time when these are capitalized.

13.17 The Authority provisionally accepts amortization of deferred credit projected at Rs. 125.518 million for the FY 2002-03 which will be subject to actualization.

e. GAS TRANSPORTATION CHARGES

13.18 The transportation charges have been projected to increase by 88% from Rs. 48.000 million (FY 2001-02) to Rs. 90.354 million for FY 2002-03.

13.19 The transportation charges for FY 2002-03 consist of two components i.e. Rs. 42.668 million claimed for 40 KM Segment of Paishbogi to Pirkoh pipeline, and Rs. 47.686 million claimed for Bhit gas pipeline as detailed below:

Transportation charges on 40KM Paishbogi to Pirkoh segment

Amount Rs. In million

CATEGORY	FY 2001-02	FY 2002-03
Operating cost	11.799	12.188
Depreciation	18.708	17.269
Return	17.493	13.211
TOTAL	**48.000**	**42.688**

13.20 The Petitioner owns 40KM pipeline segment from Paishbogi to Pirkoh which was used to transport Pirkoh gas to Sui filed. The segment became redundant for the Petitioner due to swapping of Pirkoh gas to SNGPL. OGDCL is using this segment for the transportation of Loti gas for which a tariff is being charged by the Petitioner. However, the gas transportation agreement between OGDCL and the Petitioner for this segment of pipeline is still under negotiation and has not yet been finalized.

13.21 The Authority provisionally allows Rs. 42.688 million as transportation income which will be subject to the Authority's approval of transportation agreement and actualization of the amount.

Transportation charges on Bhit gas Pipeline

Amount Rs. In million

CATEGORY	FY 2001-02	FY 2002-03
Operating cost	-	4.626
Depreciation	-	24.872
Return	-	18.188
TOTAL	**-**	**47.686**

13.22 The Petitioner has built the pipeline facility from Bhit field to its main transmission line (Indus Right Bank Pipeline) for gas to be purchased by the Petitioner from Bhit field. The Petitioner is to recover the cost of such pipeline facility from Kirther Joint Venture (KJV) (comprising of Lasmo, OGDCL and Kirther Pakistan B.V) as monthly facility charge, in accordance with the **letter from Ministry of Petroleum and Natural Resources (DG (Gas)) dated June 27, 2000.**

13.23 The Authority provisionally accepts Rs. 47.686 million as transportation income which will be subject to actualization of the amount.

13.24 The Petitioner is transporting Hassan Gas for SNGPL for which no transportation charges have been claimed by the Petitioner. The Petitioner is directed to conclude transportation agreement with SNGPL and seek Authority's approval before the close of FY 2002-03.

f. SALE OF GAS CONDENSATE

13.25 The Petitioner has projected the revenue from sale of gas condensate to increase by 1% from Rs. 159.707 million (FY 2001-02) to Rs. 161.114 million (FY 2002-03). A comparison of revenue from sale of gas condensate is as follows:

Rs. in million

	FY 2002-03	FY 2001-02	FY 2000-01
Sale of gas condensate	161.114	159.707	144.947

13.26 Production of gas condensate has been projected at 325 barrels per day for summer months and 400 barrels per day for winter months.

13.27 The Authority provisionally accepts the revenue from sale of gas condensate projected at Rs. 161.114 million for the FY 2002-03 which will be subject to actualization.

g. OTHER INCOME

13.28 The Petitioner has projected other income to decrease by 30% from Rs. 466.857 million (FY 2001-02) to Rs. 325.188 million (FY 2002-03) as compared below:

DESCRIPTION	Nature	FY 2002-03	FY 2001-02
Rentals and service charges recovered	Operating	-	5.419
Profit of sale of Assets	Operating	-	8.676
Recoveries from customers	Operating	15.000	16.328
Sale of tender docs.	Operating	1.000	0.979
Recovery of bad debts	Operating	75.000	-
Liquidated damages recovered	Operating	-	10.180
Others	Operating	5.000	64.874
SUBTOTAL		**96.000**	**106.456**
Interest on term deposit	Non-operating	180.000	271.737
Interest on DPN of KESC	Non-operating	42.188	79.688
Interest on staff loans	Non-operating	3.000	4.546
Dividend income	Non-operating	4.000	4.430
SUBTOTAL		229.188	360.401
TOTAL		**325.188**	**466.857**

13.29 The Petitioner was asked to provide further breakup of “others” included in other income above which is as follows:

Rs. in million

CATEGORY	FY 2001-02	FY 2002-03

Recovery from SNGPL	45.463	-
Suppliers registration fee	0.096	-
Sundry income	19.316	5.000
TOTAL	**64.875**	**5.000**

13.30 During the FY 2002-03 the Petitioner sold Sui Purification Plant, with its related assets, inventory and tax liability, on July 1, 2002 to Pakistan Petroleum Limited on the basis of book value of assets for a consideration of Rs. 931.745 million as certified by their auditors. The breakup of the consideration is given below:

Particulars	**Rs. In Million**
Purification plant and Allied assets	663.478
Stores and Spares	265.211
Additional tax liability to be born by SSGCL on gain on sale of transfer	3.056
TOTAL	**931.745**

After deducting, from the sales proceeds, the written down value of Purification Plant and related assets, the balance Rs. 3.056 million is treated as operating income of the Petitioner and included in revenue requirement determination for FY 2002-03.

The Authority accepts on provisional basis total other income at Rs. 328.244 million instead of claim of the Petitioner at Rs. 325.188 million which will be subject to actualization.

h. PROFIT FROM METER MANUFACTURING

13.31 The Petitioner has projected profit from meter manufacturing business to decrease by 12% from Rs. 41.600 million (FY 2001-02) to Rs. 36.670 million (FY 2002-03) as compared below:

Rs. in million

	FY 2002-03	**FY 2001-02**	**FY 2000-01**
Profit from meter manufacturing business	36.670	41.600	64.350

13.32 A comparison of average profit in Rs. per meter manufactured is provided below:

Rs. in million

Description	**FY 2002-03**	**FY 2001-02**	**FY 2000-01**
No of meters produced / Assembled	260,000	289,850	292,750
Profit form meter manufacturing (Rs. In thousand)	36,670	41,600	64,350
Average Profit per meter (Rs. In thousand)	0.14	0.14	0.22

13.33 **The Authority provisionally accepts the projected profit from meter manufacturing business for FY 2002-03 at Rs. 36.670 million which will be subject to actualization.**

14 OPERATING EXPENSES

a. COST OF GAS

14.1 The Petitioner has projected the average cost of gas to increase by 21% from Rs. 94.72 per MCF (FY 2001-02) to Rs. 114.48 per MCF (FY 2002-03) which is the single significant reason for projected shortfall in the revenue requirement. The increase is attributable to the following factors:

- Reduction in low priced volumes of gas Ex-Sui.
- Injection of expensive gas from new fields.
- Increase in wellhead prices including Sui.

14.2 The detail of field wise purchase of gas in comparison with last year is given below:

	2002-03			2001-02		
Name of Field	Purchases Volumes in MMCF	Average Rate	Value Rs. in million	Purchases Volumes in MMCF	Average Rate	Value Rs. in million
Sui (including purification charges)	73,821	36.08	2,663.552	113,687	26.27	2,986.488
Kandhkot	36	25.42	0.915	146	19.35	2.826
Hasan	-	-	-	2,834	85.21	241.491
Loti	-	-	-	383	76.07	29.136
Pirkoh	-	-	-	5	79.60	0.398
Daru	3,439	90.47	311.120	3,014	91.18	274.817
Badin	73,341	125.86	9,230.594	75,471	134.07	10,118.660
Kadanwari	22,533	181.15	4,081.903	21,184	184.23	3,902.661
Miano Gas	36,504	139.92	5,107.570	8,964	140.85	1,262.609
Zamzama	29,748	101.05	3,006.125	33,530	106.08	3,556.871
Bhit	32,750	134.99	4,421.063	-	-	-
Qadirpur	27	95.11	2.568	112	89.66	10.042

Sari Hundi	332	101.61	33.734	53	101.98	5.405
Mari	53	22.72	1.204	222	16.61	3.688
TOTAL PURCHASES	**272,584**	**105.88**	**28,860.348**	**259,605**	**86.27**	**22,395.095**

14.3 The cost of gas for the FY 2002-03 is compared as below:

	2002-03		2001-02	
Name of Field	Volumes in MMCF	Value Rs. in million	Volumes in MMCF	Value Rs. in million
Opening stock of gas in pipelines as of July 01	872	73.979	861	64.274
Add: Purchases	272,584	28,860.340	259,605	22,395.095
	273,456	28,931.319	260,466	22,459.369
Less:				
Gas internally Consumed	2,632	113.881	5,757	168.848
Closing stick of gas in pipeline as of June 30	872	79.252	872	73.979
GAS AVAILABLE FOR SALE	269,952	28,741.186	253,837	22,216.542
Less: Unaccounted for gas	18,897	-	18,284	-
COST OF GAS SOLD	251,055	28,741.186	234,553	22,216.542
Average Cost of Sold gas per MCF (Rs. per MCF)		**114..48**		**94.72**
Increase in cost per MCF over FY 2001-02		**19.76**		

14.4 Article 4.4 of the Gas Purchase Agreement executed between GOP and Pakistan Petroleum Limited states that PPL shall w.e.f. July 01, 2002, add purification charge to the notified well-head gas price for gas supplied from Sui. The purification charge is to be calculated as fixed percentage of the operating cost of Sui gas purification plant as appearing in the audited accounts of SSGCL and SNGPL for the year ended June 30, 2002 as provided in the above said agreement.

14.5 As per note 29 of audited account of SSGCL for the year ended June 30, 2002 the operating cost component of gas purification cost is shown at Rs. 884.442 million which comes at Rs. 3.34 per MCF of gas purified. However the Petitioner has claimed the purification charges for the FY 2002-03 @ Rs. 5.09 per MCF (on basis of DG (Gas) letter) which included depreciation and financial charges. **This results in excessive claim of Rs 1.75 per MCF, which works out to Rs. 129.187 million and the same is disallowed by the Authority.**

14.6 The Authority provisionally allows Rs. 28,611.999 million as cost of gas which will be subject to actualization. Moreover, the Authority directs the Petitioner that cost of gas computations should only be based on the wellhead prices as notified by the Authority, in accordance with section 8(2) of the Oil and Gas Regulatory Authority Ordinance, 2002.

b. *<u>GAS INTERNALLY CONSUMED</u>*

14.7 The Petitioner has projected the value of gas internally consumed to decrease from Rs. 168.848 million (FY 2001-02) to Rs. 113.881million (FY 2002-03). A comparison is as follows:

Rs. in million

	FY 2002-03	**FY 2001-02**	**FY 2000-01**
Volumes in MMCF	2,362.000	5,756.763	5,611.860
	113,881	168,848	145,816

Value Rs. in thousand			
Average Cost (Rs. per MMCF)	48.21	29.33	25.98

14.8 The above analysis shows that the average unit cost of gas internally consumed has been projected to rise by 64 % in FY 2002-03, even though there is reduction in terms of volumes by 59% during the year.

14.9 Apart from other areas of internal consumption i.e. compressor, LHF, and Domestic/others, gas is also internally consumed in the boiler fuel plant which is a part of purification plant. As the Petitioner sold its purification plant on July 01, 2002 to PPL, therefore gas is no more consumed in the boiler fuel, which resulted in decrease in projected volumes of internal consumption for FY 2002-03.

14.10 The reason for increase in average unit cost per MMCF of gas internally consumed is that the Petitioner's purchases from Sui gas field having low wellhead price, have decreased and gas is being injected into the system from new fields which are relatively higher priced.

14.11 The Petitioner is hereby directed to ensure that gas internally consumed is metered at all points / locations by the end of FY 2003-04, and appropriate measurement devices be installed in this respect.

14.12 The Authority provisionally accepts gas internal consumption projections for FY 2002-03 at Rs. 113.881 million which will be subject to actualization.

15 TRANSMISSION & DISTRIBUTION COST

15.1 The Petitioner has projected transmission and distribution cost to increase from 2,712.762 million (FY 2001-02) to Rs. 3,600.082 (FY 2002-03) which represents an increase of 33% over the previous financial year as compared below:

DETERMINATION OF ESTIMATED REVENUE REQUIREMENT FINANCIAL YEAR 2002-03

Rs. in Million

PARTICULARS	2002-03	2001-02	Difference Amount	Difference %age
Salaries and Wages	2,614.718	2,344.535	270.183	12%
Gas Internally Consumed	113.881	79.487	34.394	43%
Store and Spares consumed	242.785	168.603	74.182	44%
Materials used on consumers installation	18.052	24.901	(6.849)	(28%)
Electricity	47.291	47.813	(0.522)	(1%)
Rent, rates and taxes	19.483	19.702	(0.219)	(1%)
Cost of services provided by PPL	-	36.809	(36.809)	(100%)
Traveling	40.736	28.985	11.751	41%
Insurance and royalty	43.520	36.437	7.083	19%
Postage and revenue stamps	35.064	29.984	5.080	17%
Repairs and Maintenance	524.766	181.495	343.271	189%
Legal and Professional charges	110.244	50.823	59.421	117%
License and tariff application fee to OGRA	34.600	10.309	24.291	236%
Security expenses	58.650	37.575	21.075	56%
Gas bills collection charges	24.000	25.934	(1.934)	(7%)
Provision fro doubtful debt	212.000	219.750	(7.750)	(4%)
Others	96.248	61.612	34.636	56%
	4,236.038	3,404.754	831.284	24%
Less : Recoveries / allocations	635.956	691.992	(56.036)	(8%)
TOTAL	**3,600.082**	**2,712.762**	**887.320**	**33%**

15.2 Various components of operating cost are discussed in the following paragraphs:

a. SALARIES AND WAGES

15.3 The Petitioner has projected salaries and wages to increase from Rs. 2,344.550 million for the FY 2001-02 to Rs. 2,614.718 million for FY 2002-03, as compared below:

Amount Rs. In million

	FY 2002-03	FY 2001-02	FY 2000-01
Salaries and wages	2,614.718	2,344.535	2,072.947

15.4 Details of salaries and wages expenses are as follows:

Particulars	2001-2002	2002-03	Difference Increase/ (Decrease)	
			Amount	Percentage
SALARIES				
Basic Salaries	369.196	446.964	77.768	21%
Salaries Temporary Staff	92.082	89.982	(2.100)	(2%)
Conveyance Allowance	3.620	4.201	0.581	16%
House Allowance	167.634	197.342	29.708	18%
Other Allowances	32.828	47.224	14.396	44%
Leave Encashment	1.432	2.550	1.118	78%
Provident Fund	27.080	33.523	6.443	24%
Gratuity	82.200	35.911	(46.289)	(56%)
Pension	(39.334)	54.619	93.953	239%
	736.738	912.316	175.578	24%
WAGES ALLOWANCES				
Basic	198.737	211.661	12.924	7%
Cash Allowances	246.466	237.449	(9.017)	(4%)
House Allowances	155.856	164.552	8.696	6%
Conveyance Allowance	36.329	36.551	0.222	1%
Wages Temporary staff	3.802	0.536	(3.266)	(86%)
Bonus				
- Agreement Bonus	93.857	88.898	(4.959)	(5%)
- Standing Order 10-C Bonus	83.484	79.073	(4.411)	(5%)
Leave Encashment	86.984	92.757	5.773	7%
Provident Fund	17.950	18.702	0.752	4%

Gratuity	80.205	18.702	(61.503)	(77%)
Pension	(46.007)	21.865	67.872	148%
	957.663	970.746	13.083	1%
STAFF WELFARE EXPENSES				
Leave Fare Assistance (Staff)	14.948	16.315	1.367	9%
Welfare Insurance	12.991	11.159	(1.832)	(14%)
E.O.B.I (Staff)	9.076	9.500	0.424	5%
Uniforms & Clothing	6.183	6.800	0.617	10%
Apprentice Training	4.134	13.800	9.666	234%
Other Welfare including canteen subsidy, tea & light refresh	48.499	42.686	(5.813)	(12%)
	95.831	100.260	4.429	5%
OVER TIME	133.769	88.759	(45.010)	(34%)
MEDICAL EXPENSES	213.171	172.183	(40.988)	(19%)
CONTINGENCIES -UNION CHARTER	77.400	202.670	125.270	162%
EMPLOYEE BENEFITS PROVIDED UNDER IAS-19				
Leave Encashment	20.739	20.000	(0.739)	(4%)
Gas Facility Retired Executive	8.044	9.569	1.525	19%
Medical Retired Executive	101.180	138.215	37.035	37%
	129.963	167.784	37.821	29%
Total	**2,344.535**	**2,614.718**	**270.183**	**12%**

15.5 The Petitioner has claimed Rs. 202.670 million on account of CBA Agreement which has not yet been concluded. The Authority in its determination dated August 6, 2002 and January 20, 2003 disallowed the provision on account of CBA agreement with a direction that any amount due on this account shall be adjusted in the revenue requirement for the financial year subsequent to the one in which the agreement has been actually concluded in line with the guiding principles laid down by the Authority. **In view of the above, the Authority disallows provision of Rs. 202.670 for CBA agreement.**

15.6 Included in salaries and wages is an amount of Rs 89.982 million payable to 492 management and engineering trainees and 121 trainees on stipend in compliance with the various decisions of the Supreme Court of Pakistan and Federal Service Tribunal. The aforestated persons, were initially employed in 1994-95 on six months probations. However, their services were terminated by the Petitioner after four years. The Petitioner has stated that it has posted 38 persons while 575 employees are awaiting posting. Keeping in view the decisions of apex courts, the Authority allows the payout on this account.

15.7 It has been stated as per demand No. 25 of the Memorandum of Settlement (MOS) dated May 11, 1993 (agreed by the Petitioner with Sui Southern Gas Workers Union) that:

a) In the full and final settlement of this demand and in suppersession /substitution of all the existing agreements system, rates and practice in the respective units of the company, it has been decided/agreed that the **Settlement Bonus** will be paid equivalent to 5 (five) months basic pay of each worker of the company w.e.f. January 1, 1992.

b) In the full and final settlement of this demand, it has been agreed that the existing agreements/ practices in vogue with regards to payment of **Good Attendance Bonus** to the workers of Unit 'A' only will continue.

The MOS also states that all the existing terms and conditions of service in practice, agreed or implied, shall remain in force to the extent modified by this agreement.

15.8 The Petitioner has claimed payment of Rs. 88.898 million as **Agreement Bonus** and Rs. 5.399 million on account of **Good Attendance Bonus** for FY 2002-03 on basis of above referred clauses of Memorandum of Settlement. However, it was noticed that the continuity clause had lapsed on 31st December 2001 since the negotiations for settlement period 1st January 2002 through 31st December 2003 are still under process. Even otherwise the Authority has already given guiding principles to the Petitioner for concluding the CBA Agreement vide its earlier determinations dated August 6, 2002 and

January 20, 2003. Also that bonus to the workers is a distinct item, which merits specific settlement, keeping in view the financial health, profitability relatable to the workforce, industrial practices, other payouts of similar nature, productivity and efficiency, industrial peace and other factors. The legal advisers of the Petitioner have also pointed out that the payments made by the Petitioner till the signing of CBA's current charter of demands are provisional and would be adjusted according to agreement signed by the parties.

15.9 In view of the foregoing, the claim of the Petitioner to reimburse Rs. 88.898 million paid as Agreement Bonus and Rs. 5.399 million paid as Good Attendance Bonus in the current fiscal year is disallowed, with the direction that the whole issue of CBA Agreement including bonus to the unionized staff is revisited in accordance with the relevant labour and corporate laws and the guiding principles enunciated earlier by the Authority.

15.10 It has been observed that the Petitioner has not created separate funds to meet its obligations as per International Accounting Standard -19 (i.e. Employee Benefits), resulting in increased revenue requirement. The Authority hereby direct the Petitioner to create separate funds for meeting its obligations under IAS19.

b. REPAIR AND MAINTENANCE

15.11 The Petitioner has projected repair and maintenance expenses to increase from Rs. 181.495 million (FY 2001-02) to Rs. 524.766 million (FY 2002-03) as compared below:

Amount Rs. In million

	FY 2002-03	FY 2001-02	FY 2000-01
Repair and Maintenance	524.766	181.495	225.487

15.12 The detailed break up of repair and maintenance expenditure is provided below:

Amount Rs. In million

Particulars	**FY 2001-02**	**FY 2002-03**
Compressors	(16.308)	191.765
Transmission pipelines	19.648	60.907
Gas distribution system	118.761	172.249
Plant and Equipment	5.834	12.154
Motor Vehicles	22.526	32.189
Building	14.323	29.999
Computer and allied equipment	7.004	9.734
Others	9.707	15.769
Total	**181.495**	**524.766**

15.13 The projected increase in repair and maintenance expenditures is mainly attributed to expenditure on overhauling of two compressor units, repair of transmission pipelines and maintenance of Gas Distribution System. The Petitioner has projected to achieve following targets during FY 2002-2003:

Underground Leak Survey (Kms)	2,370
Underground Leak Rectification (Kms)	2,010
Overhead Leak Survey (Nos.)	184,600
Overhead Leak Rectification (Nos.)	174,600
Repositioning of Meters (Nos.)	20,000

Recoating of Distribution Pipeline (Kms) 58

Recoating of Transmission Pipeline (Kms) 28

15.14 As the physical targets seem to be on the higher side, therefore based on the past history and justifications provided by the Petitioner**, the Authority provisionally allows Rs. 450 million as against the Petitioner's claim of Rs. 524.766 million as repair and maintenance expenditure which will be subject to actualization.**

c. TRAVELLING

15.15 The Petitioner has projected travelling expenses to increase from Rs. 28.985 million (FY 2001-02) to Rs.40.736 million (FY 2002-03) as compared:

Amount Rs. In million

	FY 2002-03	FY 2001-02	FY 2000-01
Travelling	40.736	28.985	31.147

15.16 The Petitioner has submitted that such increase is due to increase in domestic fares in recent months, foreign travelling, and increased repair and maintenance activity of T&D system of the Petitioner.

15.17 The Authority provisionally allows only Rs. 32 million as traveling expenditure for the FY 2002-03, based on past trends, which will be subject to actualization.

d. LEGAL AND PROFESSIONAL

15.18 The Petitioner has projected legal and professional expenses to increase from Rs. 50.823 million (FY 2001-02) to Rs. 110.244 million (FY 2002-03)as compared below:

Amount Rs. In million

	FY 2002-03	FY 2001-02	FY 2000-01
	110.244	50.823	

Legal and professional			43.016

15.19 The break up of increase of Rs. 59.421 million as compared to last year is provided below:

Rs. in million

PARTICULARS	FY 2002-03
Business process re-engineering	7.000
Software developments	9.700
Microsoft license fee	6.050
Climate survey	3.500
Vetting of GSA agreements	5.050
Geological information system projects	4.000
Collection agents commission	14.500
Others	9.621
TOTAL	**59.421**

15.20 **The Authority, in view of the past trends, provisionally allows Rs. 90 million as legal and professional expenditure for FY 2002-03, which will be subject to actualization.**

e. SECURITY EXPENSES

15.21 The Petitioner has projected security expenses to increase from Rs. 37.575 million (FY 2001-02) to Rs. 58.650 million (FY 2002-03) as compared below:

Amount Rs. In million

	FY 2002-03	FY 2001-02	FY 2000-01
	58.650	37.575	

Security expenses			27.090

15.22 The Petitioner was asked to provide justification for such major increase in this expense. The Petitioner has stated that the increase is due to beefing up of security along T & D system vulnerable points and replacement of casual caretaker staff with the staff provided by Police Foundation who charge higher rates.

15.23 The Authority provisionally allows Rs. 45 million as security expenditure for FY 2002-03, based on past trends, which will be subject to actualization.

f. PROVISION FOR DOUBTFUL DEBTS.

15.24 The Petitioner has projected Provision for doubtful debts to decrease from Rs. 219.750 million (FY 2001-02) to Rs. 212.000 million (FY 2002-03). Out of provision of Rs. 219.750 million for the FY 2001-02 requested by the Petitioner, the Authority had only allowed Rs. 141.632 million as provision for doubtful debts. A comparison of provision for doubtful debts is provided below:

Rs in million

Description	FY 2002-03	FY 2001-02 as per OGRA Determination	FY 2000-01
Amount of trade debts (gross)	8,306.227	7,943.154	8,286.371
Provision for doubtful debts	**212.000**	**141.632**	**131.503**
Sales including GDS, LPS, Sales tax and Meter rentals	41,734.278	37,681.505	29,837.894
Debtors as number of days sales	**72**	**75**	**99**
Trade debts as percentage of Sales	19.90	21.08	27.77

Provision as %age of Sales	0.50	0.38	0.44
Provision as %age of Total trade debts	**2.55**	**1.78**	**1.59**

15.25 Further break up of the provision for FY 2002-03 provided by the Petitioner is as follows:

	Rs. in million
Provision for doubtful debts made for disconnected customers	168.000
Provision for doubtful debts on customers on disconnection list outstanding for more than 360 days	44.000
TOTAL	212.000

15.26 The Authority in its determination dated January 20, 2003 had disallowed Rs. 78.118 million as provision for doubtful debts against active customers, with the direction to make provision for doubtful debts only in respect of consumers actually disconnected rather than in respect of active consumers. **In view of the above Rs. 44 million, as provision for doubtful debts against active customers is disallowed by the Authority.**

15.27 The Authority reiterates its earlier directions given in the determination dated January 20, 2003 directing the Petitioner to make concerted efforts to evolve a more efficient recovery system to ensure timely recovery of its bills and to make concerted efforts to recover the outstanding arrears from its defaulters.

15.28 The Petitioner has explained that the following steps have been taken to comply with the directions of the Authority:

	July-Dec 2002	July-Dec 2001
Customers disconnected	22,872	14,214
Customers reconnected	12,878	9,271
Notices issued	22,751	26,015

In addition dedicated recovery cells have been established and chronic defaulter cases have been assigned to collection agents for recovery of outstanding bills that are overdue by 18 months & amounts exceeding Rs. 5,000/-, and the cases for disconnected customers.

Petitioner has planned to introduce optional payment plans which would induce the consumers to pay bills on terms beneficial for them.

15.29 The Authority provisionally allows the provision for doubtful debts at Rs. 168 million for the FY 2002-03, subject to recovery of Rs. 75 million from previous doubtful debts, compliance with the directions of the Authority given in its determinations dated January 20, 2003, and actualization.

g. GAS INTERNALLY CONSUMED (included in T&D cost)

15.30 The Petitioner has projected internal gas consumption expense to increase from Rs. 79.487 million (FY 2001-02) to Rs. 113.881 million (FY 2002-03) as compared below:

Amount Rs. In million

	FY 2002-03	FY 2001-02	FY 2000-01
Gas internally consumed	113.881	79.487	75.400

15.31 The Petitioner has stated that the increase in the value of gas internally consumed in spite of decrease in volumes is based on reduced purchases from Sui gas field (having low wellhead price) and expensive gas being injected into the system from new fields.

15.32 The Authority provisionally accepts gas internal consumption projections for FY 2002-03 at Rs. 113.881 million which will be subject to actualization.

h. STORES AND SPARES CONSUMED

15.33 The Petitioner has projected stores and spares consumption to increase from Rs. 168.603 million (FY 2001-02) to Rs. 242.785 million (FY 2002-03) as compared below:

Amount Rs. In million

	FY 2002-03	FY 2001-02	FY 2000-01
Stores and spares	242.785	168.603	139.737

15.34 Based on past trends, Rs. 204 million is provisionally allowed by the Authority as stores and spares consumed for FY 2002-03 which will be subject to actualization.

i. INSURANCE AND ROYALTY

15.35 The Petitioner has projected insurance and royalty expense to increase from Rs. 36.437 million (FY 2001-02) to Rs. 43.520 million (FY 2002-03) as compared below:

Amount Rs. In million

	FY 2002-03	FY 2001-02	FY 2000-01
Insurance and royalty	43.520	36.437	34.685

15.36 Based on past trends, Rs. 38.260 million is provisionally allowed by the Authority as insurance and royalty expenditure for FY 2002-03, which will be subject to actualization.

j. UNACCOUNTED FOR GAS (UFG)

a. The Petitioner has projected to decrease UFG from 7.60% (19,283 Mcft) for FY 2001-02 to 7.00% (18,897 Mcft) for FY 2002-03 as per details below:

Volumes in MMCF

DESCRIPTION	FY 2002-03	FY 2001-02
Gas Purchases net of internal consumption	269,952	253,837
Gas Sales	251,055	234,553
UFG	18,897	19,283
UFG % (%age of Purchases)	7.00%	7.60%

b. The Authority accepts the UFG projected at 7% during FY 2002-03 and also refers to its earlier directions given in its determination dated August 6, 2002 and January 20, 2003 to progressively reduce the UFG to below 6%, within three years, commencing financial year 2002-03.

k. CONTINGENCIES RESERVES / DEFERRAL ACCOUNT

a. The determination is made on a provisional basis for which the Petitioner has submitted estimated revenues and expenditure. Since the `ascertainment of the actual cost at this stage is difficult, the Authority has provisionally made a contingency reserve to capture various elements of cost which would become firm at the close of year.

b. This mechanism also enables correct reflection of cost to the present consumer for the services received in the current financial year as otherwise the future consumer would be additionally burdened with the cost chargeable to current consumer. Thus, correct pricing signals can be given through this mechanism.

c. This contingency reserve is an adjusting account which shall be squared off at the time of final determination under section 8(2) of the Oil and Gas Regulatory Authority Ordinance, 2002.

d. In its determination of the revenue requirement for the FY 2001-02 dated 6th August, 2002, the Authority had disallowed a provision of Rs. 90 million which the Petitioner had claimed on account of incremental impact of CBA agreement which was still under negotiation and directed that CBA agreement should be negotiated by the Petitioner keeping in view the guiding principles which were laid in the determination. Any amount due for the FY 2001-02 on account of CBA agreement was required to be adjusted in the revenue requirement for the financial year in which the agreement has been actually concluded. The Petitioner in its petition for the financial year 2002-03 has again made a provision of Rs. 292.670 million including Rs. 90 million for the previous financial year and has also made provisional payment on account of agreement bonuses which have also been disallowed on the same grounds as discussed in para 15.5 and 15.9 above. The Petitioner during the final meeting assured that the CBA Agreement shall be concluded before 30th June, 2003 keeping in view the guiding principles as laid down by the Authority and operational circumstances faced by the Petitioner in order to ensure un-interrupted supply of gas to its customers. Similarly the Authority has made reduction in the asset base projected for FY 2002-03 and disallowed various expenditures like repair and maintenance, legal & professional charges e.t.c subject to actualization. In order to capture the un-ascertained expenditure including the above items the Authority allows an ad-hoc provision of Rs. 400 million in the revenue requirement of the Petitioner for FY 2002-03.

l. DECISION

15.37 In view of the reasons given and analysis made above, under Section 8(1) of the Ordinance, the Authority determines the total revenue requirement of the Petitioner at Rs. 35,478.162 million. At the current notified prices the shortfall in revenue requirement for FY 2002-03 is estimated at Rs. 4,465.379 million as against Rs. 4,948.872 million claimed by the Petitioner. In order to meet the above estimated shortfall in its revenue requirement the Authority allows an increase in the average prescribed price of the Petitioner on provisional basis w.e.f. 1st July, 2002 at the rate of Rs. 17.79 / Mcft (Rs. 18.34 / MMBTU) as against Rs. 19.71 / Mcft (Rs. 20.32 / MMBTU) as requested by the Petitioner **(worksheet at Annexure-A**). The revised prescribed price for each category of retail consumers for FY 2002-03 is determined on provisional basis as per **Annexure-B.**

16 DIRECTIONS

16.1 The Authority hereby reiterates its earlier direction given to the Petitioner to:

i) make provision for doubtful debts only in respect of consumers actually disconnected in accordance with duly approved policy rather than in respect of active consumers.

ii) ensure prudency in its capital expenditure and provide detailed justification of various additions to the asset base.

iii) progressively reduce the UFG to below 6%, within three years, commencing financial year 2002-03.

iv) conclude agreement with CBA including bonus to workers on the basis of the principles enunciated in the determination dated August 6, 2002 of this Authority read with para 15.8 of this determination.

v) relate the productivity gains and prevailing market conditions while undertaking revision in the compensatory package for the executives.

vi) make concerted efforts to evolve a more efficient recovery system to ensure timely recovery of its bills and to make concerted efforts to recover the outstanding arrears from its defaulters.

vii) undertake intelligent pigging (a relatively new and expensive technology) in future after fully exhausting all available conventional methods for assessment of pipeline integrity and also take into consideration the cost benefits associated with intelligent pigging vis a vis other methods

viii) make proper disclosure of interest income on gas sales arrears against WAPDA and KESC, and other similar transactions, in accordance with the International Accounting Standards in its annual Regulatory Accounts in the future years and seek directions of the Federal Government as stated in para 13.13 above.

ix) capitalize borrowing cost in accordance with the relevant International Accounting Standards. In future, deduct from the borrowing costs any interest income earned on such funds, which are not fully utilized for expenditure on capital assets and are temporarily invested, in determining the amount of borrowing costs eligible for capitalization as required by para 15 and 16 of International Accounting Standard 23. The expense incurred on floatation of TFC and other loan raising expenses should also be capitalized in accordance with International Accounting Standards.

16.2 In addition the Petitioner is further directed to create separate funds to meet its obligations under International Accounting Standard-19.

The Authority has earlier issued short order on February 27, 2003 which has been duly incorporated in this detailed determination.

(Mahboob Elahi) Member (Finance)	(Rashid Farooq) Member (Oil)
(Jawaid Inam) Vice Chairman	(Munir Ahmad) Chairman

Islamabad

Dated: February 28, 2003