June 30, 2003

Case No. OGRA -6(2)-2(1)/2003-04

DETERMINATION OF ESTIMATED REVENUE REQUIREMENT FINANCIAL YEAR 2003-04

PETITIONER
SUI SOUTHERN GAS COMPANY LIMITED

Filing of Petition:	December 14, 2002
Admission for hearing:	January 31, 2003
Revised Petition:	March 26, 2003
Publication of notice for intervention and participation:	March 29, 2003
Publication of notice for public hearing:	April 20, 2003
Public hearing held:	May 9, 2003
Short order under section 8(1):	May 21, 2003

INTERVENERS

- Site Association of Industry
- Jamshoro Power Company Limited
- Mushtaq &Co. (Pvt.) Limited
- All Pakistan Textile Mills Association
- Karachi Stock Exchange (Guarantee) Limited
- Consumer Rights Commission of Pakistan

PARTICIPANTS

- Agha Mujeeb & Co.
- Consumer Rights Forum
- All Pakistan Textile Processing Mills Association
- The Helpline Trust (Consumer Protection Council)
- Karachi Electric Supply Corporation Ltd.

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

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BACKGROUND

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 2003-04 before the Authority on December 14, 2002 seeking increase in Prescribed Prices by Rs. 14.43 per MCF to meet a net estimated shortfall of Rs. 10,902 million in its revenue requirement for FY 2003-04.

3. The Petitioner filed revised Petition (the Petition) on March 26, 2003, taking into consideration OGRA's decision of 28th February 2003 for FY 2002-03 and projected increase in wellhead prices, seeking an increase in its average Prescribed Price by Rs. 19.92 per MCF or Rs. 20.75 per MMBTU to meet a net shortfall of Rs. 6,146 million in its estimated revenue requirement for FY 2003-04. The Petitioner further states that the primary cause of enhanced requirement of Prescribed Price is the increase in purchase cost of gas by 22% over FY 2002-03 on account of injection of expensive gas becoming available from new fields and decrease in volume of gas ex-Sui. The wellhead prices of gas, which are linked with international prices of oil, are notified by the Authority under the OGRA Ordinance, 2002 in accordance with agreements, the producers have signed with the Federal Government.

4. The comparative cost of service per MCF for three years is provided below:

Rs. per MCF

	Particulars	FY 2001-02 Actuals	FY 2002-03 Estimates	FY 2003-04 Estimates	Increase / (Decrease) Over FY 2002-03
	Cost of gas sold	94.72	114.48	139.42	24.94
	Transmission and distribution cost	10.85	14.34	12.87	(1.47)
	Contribution to W.P.P.F	0.49	0.56	0.37	(0.19)
	Depreciation	8.48	7.61	6.74	(0.87)
	Return @17% on net fixed assets in operation	11.00	10.48	8.82	(1.66)
		125.54	147.47	168.22	20.75
	Operating income	(3.96)	(4.59)	(5.31)	0.72
A	**Cost of service (Prescribed Price)**	**121.58**	**142.88**	**162.91**	**20.03**
	Margin available out of existing GDS to				

	meet revenue requirement:					
	Consumer price		137.43	142.33	143.53	1.20
	Less:	Gas Development Surcharge	15.85	(0.55)	0.54	(1.09)
B	**Margin available**		**121.58**	**142.88**	**142.99**	**0.11**
C	**Shortfall in Revenue requirement (A-B)**		**-**	**-**	**19.92**	**19.92**
D	**Sales Volumes -MMCF**		**234,553**	**251,055**	**308,477**	**57,422**

5. To determine whether a prima facie case for consideration was made out, the Authority sought further information from the Petitioner. On the basis of revised information submitted by the Petitioner, the Authority held a pre-admission hearing held on January 31, 2003 in which it decided that a prima facie case for evaluation exists, and admitted the application for consideration. After the determination of revenue requirement for the FY 2002-03 made by OGRA on February 28, 2003 and projected increase in wellhead prices; the Petitioner filed revised Petition on March 26, 2003 and withdrew its original Petition, filed on December 14, 2002.

6. Notice inviting comments on the Petition from all the consumers, general public, interested and affected parties was published on March 29, 2003 in Dawn, Jang and Nawa-i-Waqt national dailies. The Authority received 11 communications relating to the Petition, which were relevant to the subject matter, 6 of these communicators applied to intervene in the proceedings as parties, namely:

   i. Site Association of Industry
   ii. Jamshoro Power Company Limited
   iii. Consumer Rights Commission of Pakistan
   iv. Mushtaq &Co. (Pvt.) Limited
   v. All Pakistan Textile Mills Association
   vi. Karachi Stock Exchange (Guarantee) Limited

7. The Authority accepted the intervention requests of all the interveners. Notice intimating the time and place of the public hearing was published in newspapers on April 20, 2003.

8. The interveners raised objections that the hearing should be held in Karachi instead of Islamabad, as the effected parties are from Sindh region and more particularly from Karachi. Also Section 10 (6) of the Natural Gas Tariff Rules, 2002 and section 10 (6) of the Natural Gas

Regulatory Authority (Licensing) Rules, 2002 empowers the Authority to hold hearing at location other than Islamabad, subject to the condition that notice is given to that effect. The Authority therefore decided to hold hearing in Karachi. The public hearing commenced on May 09, 2003 and ended on the same day. Below is a list of participants / interveners and their representatives that participated actively, through leading evidence or cross-examining at the oral hearing, or by filing argument:

Particulars	Represented by	Designation
INTERVENERS		
Site Association of Industry	M. Zubair Motiwala	Chairman-Gas and Power Committee
Jamshoro Power Company Limited	Abu Adil	Chief Executive
Mushtaq &Co. (Pvt.) Limited	M/ Arif Bilvani	Manager
All Pakistan Textile Mils Association	Mohammad Azim	Manager
PARTICIPANTS		
The Helpline Trust (Consumer Protection Council)	Hamid Maker	Hamid Maker
Karachi Electric Supply Corporation Ltd.	Khalid H Mufti	Khalid H Mufti

9. In the public hearing, the Petitioner presented and argued its case for an increase in the Prescribed Prices w.e.f. July 1, 2003. The interveners were provided full opportunity to controvert the submission of the Petitioner. The Case Officer of the Authority also sought various clarifications from the Petitioner in this regard. The Petitioner was also provided full opportunity to clarify and defend its Petition in respect of the points raised by the interveners as well as the Case Officer of the Authority.

10. Copies of evidence, exhibits arguments and a transcript of the proceedings are available for review at the Registrar's office.

11. The Authority has considered the evidence, submissions and arguments in the proceeding, but has summarized the evidence and the positions of the parties only to the extent necessary to provide context for its findings.

12. The Authority determined the revenue requirement of the Petitioner vide order dated May 21, 2003. The said determination was based on the cost of gas calculated on the basis of Gas Renunciation and Reallocation Agreement between the Petitioner, Sui Northern Gas Pipelines Limited (SNGPL) and the Federal Government, through which cost of gas purchases of the

Petitioner was reduced by Rs. 3,727 million as receivable from SNGPL, subject to actualization.

13. Subsequently the Federal Government issued a Policy Guideline under section 21 of the OGRA Ordinance, 2002 on June 18, 2003, which required that while determining the revenue requirement of the gas companies with effect from financial year 2003-04 the input cost of gas in respect of SSGCL and SNGPL to be worked out on uniform basis so as to ensure the uniform consumer gas prices all over the country. Based on the above, the revenue requirement of the Petitioner was changed as elaborated in para 61 below

14. The Petition and interventions are discussed as follows:

SALIENT FEATURES OF THE PETITION

15. The Petitioner has submitted that:

15.1 Under the provisions of the Asian Development Bank loan Agreement the Petitioner has claimed an annual return of not less than 17% 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 is worked out including the cost of gas at wellhead, transmission & distribution cost and depreciation.

15.2 The net operating fixed assets are projected to increase from Rs. 16,530.779 million (FY 2002-03) to Rs. 18,384.998 million during the FY 2003-04. After the adjustment of deferred credits, the net average operating fixed assets are projected at Rs. 16,003.907 million for the FY 2003-04. Based on the average net operating fixed assets, the required return at 17% is computed at Rs. 2,720.664 million.

15.3 Net operating revenues are projected at Rs. 45,749 million for the FY 2003-04, as detailed below:

Rs. in Million

Particulars	**2002-03 Estimates**	**2003-04 Estimates**
Net Sales At Current Prescribed Prices	30,923	44,109
Meter Rentals	420	433
Late Payment Surcharge	222	229
Meter Manufacturing Business Profits	37	62
Amortization of Deferred Credit	126	130
Sale of Gas Condensate	161	149
Gas Transportation Charges	90	541
Other Income	95	96
Net Operating Revenues	**32,074**	**45,749**

15.4 Net operating expenses are projected at Rs. 49,174 million for the FY 2003-04, as detailed below:

Rs. in Million

Particulars	2002-03 Estimates	2003-04 Estimates
Cost of Gas	28,741	43,009
Transmission and Distribution cost	3,600	3,970
Depreciation	1,911	2,080
Other charges	140	115
Net Operating Expenses	**34,392**	**49,174**

15.5 Unaccounted for Gas (UFG) is projected at 6.5 % (21,437 MMSCF).

15.6 The shortfall in the revenue requirement has been estimated by the Petitioner at Rs. 6,146 million, which stipulates an increase of Rs. 20.75 per MMBTU (Rs. 19.92 per MCF) in the average Prescribed Price as detailed below:

	Particulars		FY 2003-04 Rs. in Millions
(i)	Net operating revenues (current)		45,749
(ii)	Net operating expenses		49,174
(iii)	Current surplus / (deficit)	{(i) – (ii)}	(3,425)
(iv)	Return required @ 17% on net fixed assets in operation		2,721
(v)	Total Shortfall in the revenue requirement	{(iii) – (iv)}	6,146
(vi)	Sales Volume (MMCF) Sales Volume (MMMBTU)		308,477 296,130
(vii)	***Increase requested in the average Prescribed Price to meet the total shortfall in revenue requirement (v) / (vi)***		***(Rs/MCF) 19.92*** ***(Rs/MMBTU) 20.75***

SUBMISSIONS OF INTERVENERS AND RESPONSES OF THE PETITIONER THERETO

SITE Association of Pakistan

16. The intervener has shown its concern on the following issues:

16.1 The SSGCL's Board's Chairman's review of 48th Annual Report of 2002 states that "the Petitioner exercised sufficient controls over expenditure to enable it to partially offset the increase in cost of gas purchased from the producers". It is also a fact that the Petitioner exercised such good controls that Petitioner was able to procure 24% on its share capital.

RESPONSE

Petitioner's return on paid-up capital for the year 2002 was 21.4% and not 24% as quoted by the intervener whereas return on equity was only 16.5%. Further the increase in cost of gas by Rs. 5.77 per MMBTU was compensated by decrease in T&D cost, depreciation return to the Petitioner or change in sales mix.

16.2 It has been repeatedly stated by OGRA that wellhead prices are predetermined and OGRA has no jurisdiction over it. This is a great anomaly, as wellhead price of the gas is a major cost factor in the consolidated sale price of gas. It is imperative that OGRA exercises its control over the gas wellhead prices to curb this menace of ever increasing cost of gas. Even during the financial year 2001-2002, the gas purchase prices increased. Here a pertinent question arises as to whether the GOP has any concrete reason to enhance the wellhead prices, or is it the same old trend to increase the price to seek more revenue?

RESPONSE

Gas is the cheapest and environment friendly fuel. Its demand is ever growing specially in the power sector. In order to encourage foreign investments in gas exploration, GOP has offered concessions to international gas exploration companies. The increase in supply of gas has resulted into substitution of alternate fuels generally for all industries and particularly for WAPDA & KESC and saving of foreign exchange.

16.3 The wellhead prices, which form the major part of natural gas sale prices, do not fall under the jurisdiction of OGRA. OGRA is only regulating the Transmission & Distribution cost which is a smaller component in the overall prices. SITE Association is of the view that OGRA should have a say in wellhead prices in order to effectively regulate the gas companies.

RESPONSE

OGRA has been established to protect the interest of all stakeholders. The Authority scrutinizes the Transmission and Distribution costs of the Petitioner and takes measures to improve its efficiency and service. If the Transmission & Distribution cost is not controlled, it will continue to inflate and become major part of Sale Prices. Also the Authority is in the process of introducing efficiency benchmarks for the Petitioner in order to incentivise it to ensure better performance.

16.4 Another very important aspect is the volumetric increase of gas supply from 1997-1998 to 2001-2002, which was 38.61%, whereas the cost of raw gas increased during the same period of 5 years by 120%.

RESPONSE

The prices of crude oil in the international market were about 10 US$ per barrel in 1998 which soared upto 40 US$ a barrel in 2001-02 and currently it is selling at US$ 22 per barrel. The average cost of gas per MCF from FY 1997-98 to FY 2001-02 has increased by about 59% and not by 120% as stated by the intervener. Total cost of gas has increased due to increase in volume and rate.

16.5 Increase in salaries, wages and benefits is projected at Rs. 630.767 million, which comes to 27.22% higher over the previous year. This is nothing but juggling of figures as no one can give an increase of Rs. 63 crore to staff in one single year. That creates many questions in one's mind as to what was the initial amount in this head 10 years ago and what was the percentage of increase every year ? If this 27.22% is taken as a correct figure, then what would be the amount under this head after 5 years?

RESPONSE

Petitioner's tariff requirement is a combination of cost of gas and cost of services inclusive of return to the Petitioner. Over 85% of the cost of services is cost of gas on which Petitioner does not have any control. Reasons for increase in salaries, wages & benefits during FY 2003-04 over FY 2002-03 are given below:

Rs million

		FY 2002-03	**FY 2003-04**	**Increase / (Decrease)**	
				Amount	%
A	Salaries	*912	1,039	127	14
B	Wages	**1,262	1,437	175	14
C	Staff welfare and others	440	473	33	7
	Total	2,614	2,949	335	13

A) Salaries **Rs million**

Normal increment @ 9%	62
Salaries of Temporary Assignees (TA)	19
Terminal benefits	14
Additional/vacant staff 50 nos.	*32
Total (A)	127

B) Wages **Rs million**

Normal increment @ 5%	25
Overtime	18
Agreement & good attendance bonus	**28
Union charter	**104
Total (B)	175

C) Staff Welfare **Rs. Million**

Medical	26
Others	7
Total (C)	33

Staffing cost of Rs. 2,949 million may further increase in case the TA litigants are restored by the apex courts.

* Rs 16 million for inductees (50 nos) to strengthen Internal Audit, Health Safety Environment and Regulatory Affairs Departments. Rs 16 million full year impact of 37 employees inducted in Finance, Internal Audit, and Commercial & Engineering Departments.

** Rs 297 million allowed by OGRA as unascertained expenditure, have been included in wages for the year 2002-03 for comparison purposes.

The Union Charter is a regular phenomena & every organization enters into such agreement with respective unions. Petitioner executes such agreements every 2 years.

16.6 The Authority should seek clarification as to what exactly Petitioner means by the Gas Internally Consumed? An amount of Rs. 258.908 million is projected under this head, which is quite unusual as compared to last year i.e. 125.79% higher than that of the previous year.

RESPONSE

Gas consumed internally consists of gas used in compressors as fuel for gas compression, gas shrinkage in Badin for liquid handling facility and consumption at headquarters for power generation, etc.

The cost of gas consumed internally increased due to increase in cost of gas resulting from substitution of gas from Sui with the gas of other gas fields in compressors as fuel in order to inject additional gas from Sawan, Mazarani, Bhit and Zamzama. Also the compressors are expected to operate for more number of hours as compared to the previous year.

Comparative table of gas consumed internally for the FY 2002-03 and 2003-04 is appended below:

Category	***2002-03***		***2003-04***	
	MMCF	***Rs million***	***MMCF***	***Rs million***
Compressor	1,976	76.116	2,446	207.341
LHF	191	23.650	220	29.073
Others	471	14.900	512	22.494
Total	**2632**	**114.666**	**3178**	**258.908**

16.7 Provision for doubtful debts is projected at Rs. 212 million. Why should there be doubtful debts? This shows the Petitioner's inability to realize cash from his debtors, what is the reason? The industrial consumers are supplied with gas only if they submit cash/ running bank guarantee equivalent to 3 minimum months billing amount.

RESPONSE

There are always some bad debts in credit sales in any business. Petitioner sells gas on credit and is in retail business therefore, some bad debts would be a normal phenomenon. Bad debt provision of Rs. 212 million relates mainly to domestic customers. It is 0.5% of total sale and about 4% of domestic sale. The increase in provision for doubtful debts is due to increase in number of customers and increase in tariff. The indicator of number of days sale in debtors is improving over last two years and is expected to improve further in FY 2003-04 as a result of new steps taken by the Petitioner.

16.8 Depreciation expense is projected at Rs. 2,080.171 million at the rate of 6% per annum which is only a book entry and is used as cash flow for the company. ADB and Government have permitted such a high rate of depreciation. Also the figure worked out cannot be reconciled. The depreciation expense if calculated at 6% comes to Rs. 1,196 million at the net assets of the company as provided in the Petition. Therefore the depreciation claimed by the Petitioner is at the rate of 13% and not 6% of net assets.

RESPONSE

Depreciation expense is worked out as per International Accounting Standards and ADB covenants at the rate of 6% on straight-line basis. Effectively the depreciation expense claimed is 5% due to fully depreciated assets. Perhaps the Intervener has calculated it on the written down value of assets.

16.9 Consumers had started receiving inflated bills in the year 2000. It was inquired and found out that heating value is the factor and due to depletion of Sui field of high quality gas, it is now replaced by new fields of lower BTU value, therefore the billing amount has increased. The Company did not inform this change. Initially consumers were supplied gas of 982 BTU value, which was later on reduced to 890 BTU. The BTU were then fixed at 950 by SSGC without consulting the customers, which resulted in an increase of 4% to 5% in the gas prices. Also the billing basis was changed from MMCF to MMBTU without taking us into confidence. SSGC should compensate the consumers for the change due to BTU value.

RESPONSE

Until March 2001, Sui field was the major source of gas and BTU from all sources including Sui were greater than 980. When gas from Zamzama got mixed in the stream, it eroded the BTU value. The Government noticed it as it was becoming an issue and agitating the customers. Therefore from Jan 2002 the BTU billing basis was adopted. The billing system is now on equitable basis.

It is not possible for SSGC to compensate for the change in billing basis. It is a complex issue as one customer will have to pay to the other.

16.10 The insistence of Petitioner on maintaining 17% return on their average net fixed assets does not appear to be a rational approach under the present economic circumstances both locally and internationally merely on the pretext that this is required under ADB covenants. In fact this refers to a loan from ADB with 14.5% interest rate plus foreign exchange risk coverage fee plus commitment charges plus GOP guarantee fee which all works out to more than 20%. No private organization would endure such high premium and even the GOP is currently retiring high interest rate loans from cheaper internal / external loans. What stops Petitioner from doing the same? Perhaps because of their monopoly in this field? OGRA is requested to issue directive to Petitioner to take immediate remedial step in this direction instead of according the demanded increase in tariff.

RESPONSE

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. In the case of Petitioner this return is 17% on net fixed assets. Petitioner had a long term agreement with ADB terminating in 2005. With the proceeds of this loan, Petitioner financed its major projects due to which the enhanced demand of gas consumers specially power sector could be met.

The ADB loan is US dollar based loan and Petitioner had taken exchange risk coverage so the average cost is around Rs. 40 to 1 US$. The early redemption will have to be made at prevailing exchange rate which may not be prudent.

16.11 The Authority is requested to please take cognizance of the ground reality that the demand for tariff enhancement is not justifiable. It is owed to the Petitioner's inefficiency, non-willingness of implementing the modern methods to make the Petitioner viable, non-professional attitude, non- business like handling of distribution, etc. An increase of even a fraction of the tariff increase requested by Petitioner would not have a great impact on the intervener, but it would be a net loss to the industries of Pakistan, and any fall in exports would deprive our beloved motherland of much needed foreign exchange apart from creating civic ills like unemployment, law & order situation, and general resentment.

RESPONSE

Petitioner has always tried to operate in an efficient manner and provide the utility service to the entire satisfaction of its customers. From the table below it is evident that cost of gas is projected to increase by Rs 27.3 per MMBTU as against revenue requirement of Rs. 20.75 per MMBTU showing a net decrease of Rs 6.55 per MMBTU in the cost of services as compared to 2002-03.

(Rs/MMBTU)

Particulars	FY 2002-03	FY 2003-04	Variation
Cost of gas	117.94	145.24	27.3
Cost of service	27.93	24.46	(3.47)
	145.87	169.70	23.83
Less: Average sale price (net of GDS)	145.87	148.95	3.08
Shortfall in Petitioner tariff	**-**	***(20.75)***	***(20.75)***

Had there not been an increase in cost of gas, no price increase case would have been submitted by the Petitioner. Instead it would have filed a price decrease case.

It is agreed that cost of utilities is critical for export oriented industry but increase in cost of inputs of one industry should not be an argument to stop genuine increase in revenue requirement of gas Petitioner.

The Petitioner has requested an increase in tariff @ Rs. 20.75 per MMBTU mainly due to increase in cost of gas, which is not under the control of Petitioner.

The following achievements of Petitioner indicate Petitioner's attitude towards the introduction of new techniques in the gas utility.

- Petitioner is a pioneer in computerized billing to its customers in Pakistan
- Petitioner has introduced hand held computers to facilitate accurate billing/meter

reading.

- Installation of electro correctors to accurately measure gas supplied to Industrial consumers.
- Use of intelligent pigging in Petitioner transmission lines for determination of pipeline integrity and identification of pipe damage areas in the system.
- Use of SCADA for remote control valve operations.
- GIS (Geographical Information System) on pipeline network.
- Enterprise wide networking.
- ERP implementation
- Messaging system on micro soft relays.
- Introduction of performance management system to link the annual increments with performance.

16.12 The fertilizer industries are making windfall profits and they are being subsidized by the Government to the tune of 75%. The fertilizer factories do not pass on this benefit of subsidy to the consumers. If the Government wants to promote agriculture sector it should either reduce the sale price of fertilizer or increase the price of agriculture products. Additional revenue of Rs. 1.5 billion is generated if the subsidy is removed from the fertilizer sector. The fertilizer industry is utilizing more than 25% of natural gas and captive power producers cannot get gas connections to run their industries, although the history of fertilizer industry shows that imported fertilizer is cheaper than the locally manufactured fertilizer.

RESPONSE

Fertilizer subsidy is an area where SSGCL can offer no comments, as this is Governments decision. Also the gas to captive power producers is provided as per present policy of the Government.

16.13 At this junction of history where Pakistan needs exports badly in order to combat situation arising because of WTO in the year 2005, it is important to ensure that the viability and feasibility of the industries is not disturbed because of increase in gas sale prices, which is an indigenous fuel and should be used for the betterment of people of Pakistan and not for making money. In view of above, the export oriented industry should be subsidized enabling Pakistan to compete in the international world market.

RESPONSE

The Federal Government determines subsidies offered to different sectors and OGRA has no jurisdiction over it.

16.14 There should be no upward revision in the tariff and the appeal would be to revise the tariff downwards, at least for the textile industry by slashing down the subsidy being given to fertilizers. This would be a step, not only in the right direction but also in the larger national interest, where SITE Association wants to enhance exports and create employment. This can only happen when SITE Association become more competitive in the world market. Gas prices, after so many upward revisions, is the major cost factor of value added textiles.

RESPONSE

Presently consumers in domestic and fertilizer sectors are subsidized by other sectors and it is the prerogative of the GOP to determine consumer price therefore Petitioner would not comment on the passing of subsidy to other sector / sectors.

Jamshoro Power Company Limited (JPCL)

17. The intervener has shown its concern on the following issues:

17.1 The Petitioner has projected about 18% increase in wellhead price, which would be as per provisions of various agreements with the gas field companies. The proposed adjustment / escalation arising from the said agreements may be known to the public, so that the justification/ reasonability be adjudged by OGRA.

RESPONSE

Gas producers have supply agreements with Petitioner. They have gas pricing agreements with GOP. Petitioner has no objection if copies of these agreements are provided by OGRA

17.2 Petitioner has projected about 28% increase in transmission and distribution cost, which in our view is too high in comparison with inflation rate 4% to 5% during the fiscal year 2002-03.

RESPONSE

The T&D cost is estimated to increase by 13% instead of 28% as quoted by the intervener. It includes cost of gas consumed internally and enhanced targets of repair and maintenance etc. In addition to the above, increase in salaries and wages is due to the following:

1. Union Charter
2. New Inductees
3. Annual increments of regular executives & staff (4,858)

4. Temporary Assignees (TA) executives & Staff (610)

The T&D cost in absolute terms will increase by Rs 471 million and in per unit terms will decrease by about 6% (Rs 13.40 per MMBTU from Rs 14.24 per MMBTU). Summarized explanation is as under:

Particulars	FY 2002-03	FY 2003-04	% Increase / (Decrease)
T&D cost (Rs million)	3,098	3,969	28
Provision for unascertained expenses (Rs million)	400	-	(100)
T&D Cost (Rs million)	**3,498**	**3,969**	**13**
Sales volume (MMMBTU)	245,874	296,130	20
T&D Cost (Rs/MMBTU)	**14.24**	**13.40**	**(6)**

Linkage of T&D cost with inflation is not correct because it depends upon;

- Repair & maintenance program
- Aging of pipeline network
- Physical targets involved
- Expansion in area of operation

17.3 The core investment plan worth Rs. 4,239 Million has been projected during FY 2003-04 as against Rs. 2,651 Million of FY 2002-03. This is 60% increase, which looks too ambitious. This proposed investment plan has broadened the assets base, resultantly larger revenue will be required by the Petitioner as covenanted in the loans.

RESPONSE

Core investment programs are drawn keeping in view new discoveries of gas and commitments of gas with the consumers. The gas utility business is capital intensive in its nature and the proposed capital expenditure is required in order to expand the gas distribution/ transmission system to enable the Petitioner to inject gas from new fields into its system.

The core investment program is drawn up keeping in view the expansion in system, capacity increase in view of the enhanced demand, major discoveries of gas fields and availability of additional gas

17.4 The proposed price structure shows following increase to the Power Projects:

S.No.	*Name of Power Station*	*FY 2002-03 (Rs per MMBTU)*	*FY 2003-04 (Rs per MMBTU)*
1.	KESC	167.85	188.60
2.	Habib Ullah Coastal	168.42	189.17
3.	Jamshoro & Kotri Power Plants	169.99	190.74

The above said disparity among the rates to the Power Projects had made JPCL in-competitive towards other Power Projects. It is proposed that this disparity be removed and the same rates may be applied to all Power Projects.

RESPONSE

The figures for KESC, Habib Ullah and Jamshoro quoted by the intervener pertain to Prescribed Price which are retainable by Petitioner and are not the Consumer Price. However, sales price of Rs 168.88 per MMBTU for all consumers in power sector is the same in the provinces of Sindh & Baluchistan and there is no disparity.

17.5 Gas Calorific Value from Badin Gas field has been projected an average 1,048 BTU's per MCF. At present, the same is in the range of 1,020 to 1,030 BTU's per MCF. Therefore, the projection of Petitioner in this regard is not realistic.

RESPONSE

There are about 27 sub-fields of Badin Block due to which the related calorific value keeps on changing and the average calorific value of Badin gas for FY 2001-02 had been 1,048 which has been used as a reference for projections of FY 2002-03 and 2003-04.

In any case the billing to the concerned consumer will be on actual heating value of gas consumed.

17.6 Due to proposed increase in Tariff, there would be surplus cash available with Petitioner. This is clearly evident from projected Debt Service Coverage Ratio of 2.22. Therefore, it is suggested that the surplus cash be utilized in the benefits of gas consumers by reducing the proposed tariff.

RESPONSE

Debt service coverage ratio (DSCR) has no direct relation with the cash availability with the Petitioner. It provides coverage for debt servicing. It also shows the availability of funds for corporate taxes, capital expansion and payment of dividend etc. The proposed tariff increase is aimed at meeting the increase in well head gas prices which are expected to increase as per gas purchase agreements. Petitioner's one month bill of cost of gas and operating expenditures amounts to approximately Rs. 4 billion which needs to be paid within due dates.

17.7 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 in the present economic scenarios would add miseries to the poor nation.

RESPONSE

The well head gas prices are linked with international prices of HSFO / crude oil therefore; gas prices move in line with the oil prices and it is expected that the differential in prices of alternate fuels to gas will continue.

It is worth mentioning that in spite of increase in gas prices, natural gas is and will remain the cheapest source of fuel. The prices of substitute fuels based on general industries tariff for furnace oil & HSD and domestic tariff for kerosene oil & LPG for equivalent heating value of gas are given below:

Alternate fuels	Unit	Equivalent Gas Qty. BTU	Value of alternate fuel Rs.	Equivalent Cost of gas Rs.	Gas price as % of alternate fuel
Furnace Oil	1 liter	39.15	10.79	6.61	61
HSD	1 liter	35.35	21.58	5.97	28
Kerosene	1 liter	32.41	19.02	3.32	17
LPG	1 kg	47.85	16.53	4.90	30

1 MCF gas = 980 MMBTU

17.8 WAPDA/JPCL is a major consumer of Petitioner, hence would be the worst effected if the proposed increase in the gas price is allowed.

RESPONSE

Same as explained at item 17.7 above.

17.9 Petitioner may re-approach the ADB to reduce the required rate of return from 17% to 12-

15%.

RESPONSE

Petitioner had a long term agreement with ADB terminating in FY 2005. With the proceeds of this loan, Petitioner financed its major projects due to which the enhanced demand of gas consumers specially power sector could be met. With the present return of 17% the Petitioner is financing its projects with mixture of loans and internal generation. The Petitioner could not pay cash dividend for continuous five years due to funds requirement for expansion in the system required for injection of additional gas available and rehabilitation of aging system.

17.10 Petitioner may defer its core investment program and do it in phases, manageable within available funds from existing tariff and after doing due cost and benefit analysis.

RESPONSE

The projections submitted along with the tariff Petition are based on Petitioner's commitments with its customers for supply of gas and gas purchase agreements with gas exploration companies. The projects have already been phased out to a reasonable extent to meet the commitments and obligations. The expansion in the transmission/distribution system is required to meet the growing demand for cheaper and environment friendly fuel (gas) including the demand of intervener. Since the use of natural gas reduces the import fuel requirements of the country, therefore, by providing 234,668 MMBTU gas during FY 2003-04 to power & industrial sectors, Petitioner is expected to contribute in saving to the extent of approximately Rs. 1 billion US$.

17.11 In view of massive investment program, Petitioner may defer declaration of dividends till such time funds are available from existing tariff.

RESPONSE

Petitioner is a commercial enterprise and it is shareholders' right to earn dividend on the investment made. On the other hand the distribution of dividend is necessary to attract investment for sustained growth etc.

17.12 Petitioner should manage its transmission and distribution cost with in affordable limits.

RESPONSE

The Petitioner has projected to supply gas to 1,713,781 number of customers by the end of FY 2003-04. The length of transmission and distribution system is expected to increase to 2,784 km and 24,120 km respectively. To maintain such a huge network and ensure round the clock supply of gas to the consumers, the Petitioner has to incur relevant costs under the head of transmission & distribution cost. Petitioner's T&D cost amounts to 7.8% of sales. In our knowledge the acceptable level of operating expenses to sales is to the extent of 17% as against 7.8% presently.

Mushtaq & Co. Private Limited

18. The intervener has shown its concern on the following issues:

18.1 The intervener failed to understand why the Authority is adamant in holding its hearing in Islamabad when all the affected parties are from Sindh and more particularly from Karachi. Under the tariff rules although the Authority is empowered to hold its hearings in Islamabad but that doesn't bar it from holding the hearing at any place other than Islamabad. Precedence is available in case of NEPRA, having same type of mandate to that of OGRA, which held it's hearing, in case of KESC's Petition, in Karachi.

RESPONSE

Section 10 (6) of the Natural gas Tariff Rules, 2002 and section 10 (6) of the Natural Gas Regulatory Authority (Licensing) Rules, 2002 empowers the Authority to hold hearing at location other than Islamabad, subject to the condition that notice is given to that effect notice. The Authority decided to hold hearing in Karachi.

18.2 For the last so many years the Federal Government has been collecting enormous amounts as GDS. The intervener is not aware as to when, how much, for what and where the GDS is utilized. Similarly the Federal Government is collecting other taxes, levies, duties, cesses, royalties and other charges from gas producers and it is not known as to how much all that amounts to. If after levying so many taxes on gas the Federal Government asks the Petitioner to buy gas at certain fixed price, enhanced after every 6 months, then how is it possible for the Petitioner to charge its customers low tariffs?

RESPONSE

The GDS is collected by the Petitioner on behalf of the Federal Government as per rules/ procedures and deposited with GOP. The petitioner has no further comments to offer.

18.3 If all the taxes levied by GOP on the Petitioner, which form 70% of the gas price, are not within the jurisdiction of OGRA, then what is the function of OGRA? In the determination for FY 2002-03, the Petitioner very conveniently avoided the answer to the above question by saying that GDS and fixation of gas prices at wellhead is the prerogative of GOP and domestic consumers are being subsidized.

RESPONSE

OGRA has been established to protect the interests of all stakeholders which includes the customers, the utility companies/shareholders, lenders, etc. and present Petition is a part of this process. OGRA reviews the tariff requirements of the utility companies and in the light of the interventions/ suggestions from interveners/general public decides the quantum of allowable tariff requirement to the utilities. GOP decides to adjust the tariff requirements either through increase in consumer prices or gas development surcharge payable to GOP.

18.4 The intervener never asked for subsidy to domestic customers but rather asked for reduction in the price for industrial consumers so that they remain competitive in the international market. Similarly the Authority itself has not suggested any reduction in price to the Federal Government. The intervener is not aware as to what consultations were carried out between the Authority and the Federal Government while determining the tariff / revenue requirement for the FY 2002-03 and FY 2003-04.

RESPONSE

Sectoral adjustments in consumer tariff are also decided by OGRA/GOP. Therefore, subsidizing one sector by another is also decided at that end. The Petitioner has no further comments to offer

18.5 Which sector of the industry in Pakistan is earning 17% return on net fixed assets? When the Federal Government has itself slashed the rate of return on its own treasury bills to less than 5% and for various national saving schemes to less than 9% how is it justifiable to grant 17% return to the Petitioner?

RESPONSE

Petitioner had a long term agreement with ADB terminating in FY 2005. With the proceeds of this loan, Petitioner financed its major projects due to which the enhanced demand of gas consumers specially power sector could be met.

With the present return of 17% the Petitioner is financing its projects with mixture of loans and internal generation. The Petitioner could not pay cash dividend for continuous five years due to funds requirement for expansion in the system for injection of additional gas available and rehabilitation of aging system. However, it may also be added that the Petitioner has to meet financial charges and dividend from the 17% return.

18.6 In the proceedings of the last Petition i.e. for the year 2002-03 the Petitioner argued that its business is capital intensive and a utility like the Petitioner has to consistently invest substantial amounts in the expansion of its T & D system etc. Now the question arises who should fund these requirements? It is normal practice all over the world that utility companies are subsidized by their respective governments. Even in our country the Federal Government provides loans at subsidized rates for the purchase of locally manufactured machinery vis-a vis it provides refinance on export at subsidized rates. Why is it not possible for the Federal Government to offer loans / credits to the Petitioner which is a utility company and is indirectly helping the industry on the export front and the general masses on the employment front. The Federal Government has recently decided, as reported in DAWN of 9-4-2003, to reduce interest rate charged from WAPDA on government loans. Were consultations of these sorts made by OGRA with the Federal Government before determining the tariff?

RESPONSE

It is reiterated that gas utility business is capital intensive in its nature and needs continuous expansion in its network. Due to heavy requirements of capital, the industry tends to be monopolistic in its nature, therefore, the industry is regulated by the regulatory bodies.

Petitioner earns 17% on its net fixed assets and it meets the financial charges and pays income tax out of its earning. This mechanism is possible only due to Govt. support to gas sector. The Petitioner has no further comments to offer.

18.7 If the GOP can order the Petitioner to provide gas to fertilizer factories at less than 1/3rd of the price of supplies to industrial consumers or at ½ of the cost, only to provide subsidized inputs to farming community why not the same criteria be adopted for the industrial consumers to make their products competitive in the international market? What suggestions have been made by OGRA to GOP?

RESPONSE

GOP determines consumer tariffs and intersectoral subsidies are also decided at that end. Presently, fertilizer and domestic consumers are subsidized .The Petitioner has no further comments to offer

18.8 The bone of contention is the 17% return on net assets because it is a covenant of the loan agreement with ADB which was obtained in the year 1993 and 1995 and is repayable by the end of year 2005. Now this loan carries interest @ 14.5% per annum plus commitment charges, exchange risk coverage fee and government guarantee fee which in all amounts to 20%, a very costly borrowing by all standards. When the GOP itself is retiring its costly debts by borrowing from the local banks at current low interest rates, why the Petitioner is not immediately repaying it's ADB Loan by borrowing from the local market which will not only reduce the annual financial charges of the Petitioner to half visa-vis it will be also free from the clutches of the draconian loan agreement. What suggestions have been made by OGRA to GOP?

RESPONSE

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. In the same manner Petitioner is allowed 17% rate of return on its net fixed assets and the utility has to bear the financial charges out of the said return.

The ADB loan is US dollar based loan on which the Petitioner had taken exchange risk coverage. The early redemption will be made at prevailing exchange rate, which may not be prudent. The Petitioner has no further comments to offer.

18.9 Lot of hue and cry is made by the succeeding government against the power purchase agreements that were made by WAPDA and KESC on the orders of the then government in power but no such objections have been raised by any government; rather every government has very readily offered lucrative concessions to foreign oil and gas firms, on the pretext of development of oil and gas sector, which is evident from the fact that within 4 years i.e. from end of June 1999 to end of June 2002 the cost of gas has almost increased to 3 folds i.e. from Rs. 8.1 billion to Rs. 22.2 billion only a major chunk of which has gone to these gas exploring companies in the form of increase in gas purchase price. What has OGRA done since its inception to contain this tremendous increase in gas purchase price? (The above demand has also been made by the chairman of WAPDA as reported in DAWN of 9-4-2003.)

RESPONSE

The intervener's observations regarding power purchase agreements have no relevance with the gas pricing agreements in vogue.

The well head gas prices are linked with international prices of HSFO / crude oil therefore, gas prices move in line with the oil prices and appreciation in dollar parity rate.

It is worth mentioning that in spite of increase in gas prices, natural gas will remain the cheapest source of fuel. The prices of substitute fuels based on general industries tariff for furnace oil & HSD and domestic tariff for kerosene oil & LPG for equivalent heating value of gas are given below:

Alternate fuels	Unit	Equivalent Gas Qty. BTU	Value of alternate fuel Rs.	Equivalent Cost of gas Rs.	Gas price as % of alternate fuel
Furnace Oil	1 liter	39.15	10.79	6.61	61
HSD	1 liter	35.35	21.58	5.97	28
Kerosene	1 liter	32.41	19.02	3.32	17
LPG	1 kg	47.85	16.53	4.90	30

Since the use of natural gas reduces the import fuel requirements of the country, therefore, by providing 234,668 MMBTU gas during FY 2003-04 to power industrial sectors, Petitioner is expected to contribute in saving in foreign exchange spending by approximately 1 billion US $. Over 85% of tariff requirement of Petitioner consist of cost of gas which is beyond utility's control. The Petitioner has no further comments to offer

18.10 In the previous intervention request objection was raised regarding UFG. It was answered that the Petitioner is striving very hard to reduce it to 7% in FY 2002-03 and to 6.5% in FY 2003-04 and finally to 6% in FY 2004-05 which has been set by OGRA. Now the question arises who will verify that the target has been achieved or not and how it will be verified? What means does OGRA have at its disposal to verify the authenticity of Petitioner's claim? Similarly OGRA has not announced any penalties for not meeting the targets.

RESPONSE

A study by a North American Consultant has revealed that 10-12% level of UFG has been regarded as acceptable, in spite of all high technical standards and efficient performance on their part. Petitioner has always endeavored to control UFG & has been successful in bringing it down to below 8%. Auditors of the Petitioner while auditing the accounts verifies the volumes of gas sales and purchases. Performance standards are being developed by OGRA. Once these standards are established, any gain or loss in UFG will be reflected in Petitioner's profitability.

18.11 In FY 2001-02 the Petitioner made provision for doubtful debts amounting to Rs. 220 million and estimated to make further provision of Rs. 212 million for the year 2002-03 in their previous Petition. Although the debts of the Petitioner are fully secured the Petitioner again intends to make further provision of Rs. 212 million for the year 2003-04. The Petitioner in its new Petition has changed the figure for FY 2002-03 from Rs. 212 million to Rs. 168 million without any plausible reason and has again come up with the figure of Rs. 212 million for the year FY 2003-04 without any reason.

RESPONSE

OGRA while deciding on tariff Petition for FY 2002-03 disallowed Rs 44 million provided for doubtful debts as the same pertained to active consumers instead of disconnected consumers. Therefore, the figure of Rs 212 million has been slashed in the Petition for 2003-04 in the column for FY 2002-03 to Rs 168 million. For the year 2003-04 it is expected that the Petitioner will be able to improve the situation due to various steps already taken.

18.12 For the year ending June 2002 the Petitioner earned 21.4% after tax profit against its paid-up capital, which is much more than the rate of return prevalent at present in the money market. Similarly, for the period ending December 2002 i.e. for six months it earned 9% of its paid-up capital. The reason for the slight reduction in earning is due to the fact that it over-spent a massive amount of Rs. 317 million as against the corresponding period of the last year. Had it not been the case the earnings would have been much higher despite the fact that no increase in sales price has been made. The Petitioner is not controlling its expenses because it has been assured whether it sells or spends or does neither it will receive a guaranteed 17% on its assets.

RESPONSE

Petitioner earns 17% return on its net fixed assets and comparing the profit on paid-up capital in this case is not relevant. Even when the return is calculated on shareholders investment it is the entire shareholder equity on which return is calculated.

During the period ended December 31, 2002, Petitioner spent Rs. 317 million in excess over last year on following accounts:

Particulars	Rs. in Million
Gas consumed internally	25

Stores, spares & supplies consumed	8
Repair & maintenance including compressor	110
Provision for doubtful debts	60
Others including salaries & wages , etc	114
TOTAL	**317**

Petitioner has always tried to operate in an efficient manner and provide the utility service to the entire satisfaction of its customers. Cost of gas is projected to increase by Rs 27.30 per MMBTU as against revenue requirement of Rs 20.75 per MMBTU showing a net decrease of Rs 6.55 per MMBTU in the cost of services as compared to FY 2002-03. The benefit of Rs 6.55 per MMBTU savings in cost of services has been passed on to the consumers by putting up lesser revenue requirement for the period under review.

The operating cost estimates for Petitioner for FY 2003-04 are 7.9% of the net sales while other companies around the globe have at least 17% operating expenditure to sales. The above clearly speaks out regarding the efficiencies of the Petitioner.

18.13 In the year 2002 the Petitioner floated TFCs worth Rs. 1.25 billion which is now proving burdensome, on the resources of the Petitioner as it carries interest rate much higher than what it is prevailing nowadays. The management didn't foresee the changing scenario taking place on the horizon. The undersigned is also not aware whether the management has incorporated prepayment term in the TFC agreement so as to repay them by borrowing at current low interest rates.

RESPONSE

Petitioner raised TFC worth Rs 1.25 billion during FY 2001-02 to finance its projects worth Rs 2.7 billion. Such TFCs were issued in a very transparent manner and reflects the prevailing interest rates at that time. Petitioner financed Rs 1.45 billion from its internal generation. The TFCs under reference does not include a clause for early repayment, therefore, the said TFCs cannot be substituted with cheaper loans. However this does not effect the tariff calculations as financial charges are not part of part of tariff allowed to the Petitioner.

18.14 Gas internally consumed for ex-Sui and ex Badin for the FY 2002-03 and FY 2003-04 are compared below:

	2002-03		***2003-04***	
	Sui	***Badin***	***Sui***	***Badin***
Volumes (MMCF)	2,417	191	1,809	1,307
Purchases (MMCF)	73,821	73,341	40,260	61,475

The figures are not comparable because the reduction in purchase is more than the reduction in internal consumption in case of Sui, and in case of Badin internal consumption has increased tremendously, instead of reduction.

RESPONSE

The Reason for increase in value of internal consumption is that the average cost of gas to Petitioner has increased. In the FY 2002-03, there was no major point of internal consumption in the system, but due to installation of new compression station at Hyderabad in FY 2003-04, and injection of additional gas into the transmission system for Karachi, compressors have to be operated for more number of hours as compared to last year.

With new discoveries of gas in Sindh, gas from Sui and Pirkoh out of Petitioner quota has been allocated to SNGPL and Petitioner has been asked to purchase additional gas from Sawan, Mazarani, Bhit, Zamzama, etc. Consequently, the compressors at Pirkoh previously operating with gas from Sui are being relocated to Hyderabad and will be operative in 2002-03. Therefore, the gas from Sui has been substituted with the gas from Badin.

18.15 The quality of gas to be supplied to Karachi in particular and to Sindh in general will further deteriorate in the year 2003-04 as the Petitioner intends to inject very low quality gas i.e. of 915 BTU from Sawan in a big way and will reduce the good quality of gas from Sui, Badin, Kadanwari and Daru. Similarly, extremely low quality of gas from Zamzama will be further increased thus reducing the overall average calorific value of gas forcing the consumers to consume more gas.

RESPONSE

Petitioner has entered into gas purchase agreements with different producers with specifications of gas quality, where any gas inferior to the quality mentioned in the agreements is not allowed to enter the pipeline. Petitioner is continuously monitoring the calorific value of gas being injected into the system and supplied to consumers. Consumers are being billed on calorific value and not on volume; therefore, the consumers are not adversely hit by minor reduction in average calorific value of gas in the system.

Petitioner is purchasing 100 MMCFD from Zamzama gas field with 810 MMBTU per MCF. Sawan & Mazarani gas fields expected to be injected in the system have been contracted at 950 MMBTU per MCF. Zamzama gas in percentage terms will remain at about 10.9% in FY 2003-04.

All Pakistan Textile Mills Association (APTMA)

19. The intervener has shown its concern on the following issues:

19.1 APTMA, which represents the Textile Sector of Pakistan, and contributes over 64% to Pakistan's exports, 38% to employment and 20% to value added production by manufacturing.

RESPONSE

APTAMA's contribution to the economy is noted. It is reiterated that Petitioner is contributing towards APTAMA's achievements by providing gas as the cheapest fuel as compared to alternate fuels as well as gas prices in the region. Petitioner is providing cheaper input for captive power to APTMA members which results into substantially lower cost of power to them.

19.2 The cost of utilities in the Textile Industry is critical to the viability of Textile industry's production and exports, as it comprises over 31% of the direct cost of production. Any unwarranted increase in the gas charges for the industry would have significant negative repercussion on the Textile Industry and its exports, hence, the importance and seriousness of our Petition against any unwarranted upward revision in the gas charges cannot be underestimated. If increase in (proposed) revenue requirement and resultant tariff increase is allowed to Petitioner, it could seriously jeopardize the viability of Textile Industry's production and exports.

RESPONSE

APTMA is requested to please provide the breakdown of 31% of direct cost termed as utility cost. In our opinion this may include other utilities also. Response on comparative fuel prices has already been given under para 17.7 above.

It is agreed that cost of utilities is critical for the viability of textile industry but increase in cost of inputs of textile industry should not be an argument to stop genuine increase in revenue requirement of Petitioner. Shortfall in revenue requirement is mainly due to increase in cost of gas, which is shown below:

	2002-03	2003-04	Variation
Cost of gas	117.94	145.24	27.3
Cost of service	27.93	24.46	(3.47)
	145.87	169.70	23.83

Less: Average sale price (net of GDS)	145.87	148.95	3.08
Shortfall in Petitioner tariff	-	(20.75)	(20.75)

19.3 Although Petitioner may have assured OGRA that the request for higher revenue requirement (through higher gas tariff) will not affect the consumers as the proposed revision could be adjusted from GDS, the Industry fears that sooner or later the proposed upward tariff revision will be passed on to / recovered from the consumers. Hence the industry opposes Petitioner's request for enhancement in gas tariff.

RESPONSE

During the year under review, gas purchase bill of the Petitioner is expected to increase and the Petitioner will be unable to maintain 17% return on assets. Petitioner has submitted its tariff Petition to OGRA due to increase in cost of gas and government has to decide either to adjust this short fall by increasing consumer prices or by reduction in GDS to enable it to meet its ADB loan covenants and revenue requirement. Increase in consumer prices or to adjust the shortfall against GDS is Government's prerogative and Petitioner has nothing to do with it.

19.4 As per Profit and Loss Accounts of the Petitioner for the FY 2003-04 profit of Rs. 4,430 million would be earned by the Petitioner giving Petitioner, a return of 25.31% on its Net Fixed Operating Assets as against the requirement of 17% return.

RESPONSE

The projected Profit and loss account drawn up by the intervener is not reflective of true picture of the financial projections of Petitioner. The Petitioner would be able to earn profit of Rs. 2,720 million and not Rs. 4,430 million as calculated by the intervener on the assets projected by Petitioner.

19.5 This very high return would be earned if the Petitioner continues 'business as usual' as per its past own estimation i.e. its sales increase by only 15%

RESPONSE

Sales estimates depend upon Petitioner's commitments with its customers for supply of gas and gas purchase agreements. Therefore, the projection of arbitrary increase of 15% is not justified

19.6 The Petitioner continues to have very high line losses (UFG) of around 8% (as against 2% internationally accepted losses).

RESPONSE

2% UFG for integrated gas utility is not understandable. A study by a North American Consultant has revealed that 10-12% level of UFG has been regarded as acceptable. In spite of all high technical standards and efficient performance on their part.

OGRA has fixed 6% UFG level as target in 3 years starting from FY 2002-03 this is also on very low side keeping in view the old and leaking network laid in saline soil.

19.7 It continues to have high operating expenses of 9.51% (as against less than 5% international standard operating expenses for gas transmission and distribution companies);

RESPONSE

Petitioner has estimated T&D cost for FY 2003-04 at 7.8% of sales. In our knowledge the acceptable level of operating expenses to sales is about 17% and not 5%

The T&D cost in absolute terms will increase by Rs 471 million and in per unit terms will decrease by about 6% (Rs 13.40 per MMBTU from Rs 14.24 per MMBTU).

19.8 It continues to maintain very high financial charges on excessive loans in spite of surplus funds and Reserves of Rs. 2 billion.

RESPONSE

Petitioner's one month bill of cost of gas and operating expenditures amounts to approximately 4 billion which needs to be paid on due dates.

Financial charges (although does not impact Petitioner's tariff) directly relate to the investment made for expansion of transmission/distribution which is partly financed through loans and partly through re-investment of Petitioner's revenue reserves.

19.9 The Petitioner has very high line losses of 8.36% (FY 2001) and 7.60% (FY 2002) as against around 2% internationally accepted line losses in the Gas Transmission and Distribution business. A reduction of line losses by 1% would' increase profit of the Petitioner by Rs. 325 million per annum. As such, if Petitioner reduces its line losses to 4%, the increase in profit of the Petitioner would be Rs. 1 billion per annum. If the management of Petitioner concentrates on improving its operational efficiency in just the few areas identified above, which is absolutely feasible within a short period, the Petitioner would earn a return much higher than the fixed assured Rate of Return of I7%. As such there is absolutely no justification for the Petitioner to request for an enhancement in tariff, which would be a direct incremental burden on the consumers. Instead, the Petitioner's management should be given specific targets for improvement in its operational efficiency and reduction in line losses which will enable the Petitioner to earn 17% return and also allow reduction in its tariff as a consequence of incremental profit (in excess of 17%)

RESPONSE

The matter of UFG has been explained in para 18.10 and 19.6 above. The management is trying its utmost to attain operational efficiencies, reduce UFG levels and achieve its set objectives. Being a public listed company, it is managed by independent BOD, regulated by OGRA, and complies with the code of corporate governance. Moreover, there is an existence of internal audit department and accounts are subject to external audit by a firm of professional accountants. This ensures that laws are adhered to in true spirit and the Petitioner operates effectively and efficiently.

The following achievements of Petitioner shows Petitioner's attitude towards the introduction of new techniques in the gas utility.

- Petitioner is a pioneer in computerized billing to its customers in Pakistan
- Petitioner has introduced hand held computers to facilitate accurate billing/meter reading.
- Installation of electro correctors to accurately measure gas supplied to Industrial consumers.
- Use of intelligent pigging in Petitioner transmission lines for determination of pipeline integrity and identification of pipeline damage areas in the system.
- Use of SCADA for remote control valve operations.
- GIS (Geographical Information System) on pipeline network.
- Enterprise wide networking.
- ERP implementation
- Messaging system on micro soft relays.
- Introduction of performance management system in the Petitioner where the annual increment is performance related.

19.10 Projected Profit and Loss Account of Petitioner for the year 2003-04, shows a profit before taxation of Rs. 4.4 billion which will give the Petitioner a Return of 25.31% on its Net Fixed Operating Assets even if no improvement is made in its existing operations as against the requirement of 17% assured return. If very high line losses of around 8% (against international standard of 2%) are controlled the profitability and return of the Petitioner would improve as follows:

% Reduction in line losses	***Additional profit***	***Return on net operating assets***
1%	325,079	27.17%
2%	650,157	29.03%
3%	975,236	30.89%

RESPONSE

The projected Profit and loss account has been drawn up by the intervener and is not reflective of true picture of the financial projections of Petitioner. Well head prices are not under Petitioner's control and these are notified by GOP/OGRA. The projections submitted along with the tariff Petition are based on Petitioner's commitments with its customers for supply of gas and gas purchase agreements with gas exploration companies. The measures taken by management of Petitioner pertaining to improved customer care have been listed in para 16.11 and 19.9 above .

19.11 Though details of the Petitioner's operating costs have not been provided, nevertheless a review of the summary Profit & Loss Account of Petitioner for the year 2001-2002 shows its T&D costs of Rs. 2.7 billion (9.51% of Sales) which are very high considering the simple nature of the Petitioner's operations. The T&D costs of the Petitioner should be compared with the rate of T&D costs of other companies around the world (of around 5%), so that a realistic cost standard can be established and given as a target to the Petitioner's management.

RESPONSE

Petitioner has estimated T&D cost for the FY 2003-04 at 7.8% of sales. The acceptable level of operating expenses to sales is about 17% and not 5%. The T&D cost in absolute terms will increase by Rs 471 million and in per unit terms will decrease by about 6% (Rs 13.40 per MMBTU from Rs 14.24 per MMBTU). Summarized explanation is as under:

	2002-03	**2003-04**	**% Inc/(Dec)**
T&D cost Rs million	3,098	3,969	28

Provision for unascertained expenses	400	-	(100)
T&D Cost Rs million	3,498	3,969	13
Sales volume MMMBTU	245,874	296,130	20
Rs/MMBTU	**14.24**	**13.40**	**(6)**

19.12 As per audited annual accounts, the Petitioner was maintaining reserves & un-appropriated profit of over Rs. 2.3 billion as of 30 June 2002. While such high reserves are available with the Petitioner, there is absolutely no justification for a further increase in its profits.

RESPONSE

Gas industry is capital intensive in its nature which requires heavy investment of funds for the expansion of transmission and distribution networks. Petitioner has maintained the said reserves for reinvestment of funds in the Petitioner instead of borrowing and keeping the financial charges within the tolerable limit.

19.13 According to the Petitioner, the Govt. has allowed Petitioner an assured return (profit) of 17% on its net fixed assets in operation (ROA) without financial charges and taxes. This undue privilege allowed to Petitioner is a sure way of promoting operational inefficiency & wastage as, under this formula, irrespective of the Petitioner's mismanagement it is assured a high return of 17% on its net fixed assets in operation. In fact under this facility the Petitioner's management has a disincentive for improving its performance and efficiency.

The Petitioner's rate of return is fixed and predetermined even if the Petitioner increases its inefficiency and wastages. The profit of the Petitioner is not linked with its operating performance. Moreover, due to this formula of fixed return (profit) on its net fixed assets, the Petitioner's management has an incentive to unnecessarily increase its fixed assets even when not required and irrespective of the contribution of the additional fixed assets on the Petitioner's operations.

Notwithstanding the government's assurance to the Petitioner for 17%, OGRA should give Petitioner's management quantitative targets for operating performance particularly in respect of per unit cost of operations and line losses. By doing so, the performance and profitability of Petitioner will greatly improve thereby eliminating the need for any increase in gas rates at present or in future.

RESPONSE

Petitioner earns 17% return on its average net fixed assets in operation net of average deferred credit as contained in ADB loan covenants agreed by Petitioner and guaranteed by the Federal Government.

Natural Gas Tariff Rules 2002 section 17(1)(e) states that:

> "tariffs should be determined in a manner that takes into account covenants contained in agreements, relating to regulated activities, with international institutional lenders"

Adoption of modern techniques for the promotion of operational efficiency and reduction of wastage has been explained at para 19.9 above. Petitioner is consistently endeavoring to improve its operational efficiency.

Capital budgets of the Petitioner are drawn up after careful evaluation, cost benefit analysis, need assessment etc. Being a public listed company it is managed by independent BOD, regulated by OGRA, and strictly in compliance with the code of corporate governance. The gas utility business is capital intensive in its nature and the proposed capital expenditure is required in order to expand the gas distribution/ transmission system to enable the Petitioner to inject gas from new fields into its system. Petitioner will welcome the initiatives in the proposed direction.

19.14 Under the privatization policy of Federal Government, Petitioner will be privatized shortly. As such, just before privatization, it is unjustified to consider and implement any increase in gas prices. In fact, before Petitioner is privatized, OGRA should make it mandatory in the privatization terms and conditions of the Petitioner that the private management of these companies will not be able to unilaterally increase the gas tariff without formal approval of the govt. This is essential to ensure that, after privatization, the private management does not misuse its monopolistic position to freely increase the gas rates to the detriment of the gas consumers.

RESPONSE

The increase in gas prices does not have any relevance with the privatization, rather present Petition is for compensating the utility for increase in cost of gas. The privatization of any organization does not warrant stoppage of its normal operations. Present Petition is a normal course of business for gas companies in regulated tariff regimes.

OGRA has been established to protect the interests of all stakeholders which include the customers, the utility companies/shareholders, lenders, etc. even after the privatization of utility companies in Pakistan. Therefore, the misuse of monopolistic position by new management after privatization by increasing the gas tariff will not be possible.

19.15 The current profitability and projected profitability of Petitioner and its reserves are already much higher than 17% ROA and therefore do not warrant any further help through increase in gas tariff. Infact, based on project profitability of the Petitioner for the year 2002 and beyond the tariff of the Petitioner should be reduced.

RESPONSE

Accumulation of reserves has no direct relevance with the future earnings/profitability rather these are non-distributed profits earned during previous years but retained in the business for future expansions. Gas industry is capital intensive in its nature, which requires heavy investment of funds for the expansion of transmission and distribution networks. Therefore, the availability of reserves should not be pleaded as an argument for restricting the revenue requirement of Petitioner.

The projected Profit and loss account attached as Annexure-1 to the intervention request is drawn up by the intervener and does not correlate to the Petition and also not reflective of true picture of the financial projections of Petitioner. The projections submitted along with the tariff Petition are based on Petitioner's commitments with its customers for supply of gas and gas purchase agreements with gas exploration companies.

19.16 The T&D costs (9.51% of net sales against international standard of 5%) of the Petitioner should be adequately controlled by giving quantified performance targets to the Petitioner's management. This measure will result in significant decrease in its operating cost and substantial improvement in profitability and cash inflow which would more than provide for any future operating and development funds requirement.

RESPONSE

The intervener's remark that Petitioner's operating cost which is 9.5% of sales exceeds industry's benchmark is not true. Petitioner's T&D cost amounts to 7.8% of sales whereas recent studies by consultant appointed by GOP have revealed that gas companies operating cost is approximately 12% of sales. In per unit terms T&D cost has decreased by about 8% (Rs 13.40 per MMBTU from Rs 14.24 per MMBTU). The Petitioner has undertaken tough measures to restrict UFG levels. OGRA has set a target for Petitioner to bring down its UFG level to 6% from the actual UFG position of 7.6% in FY 2001-02 in a period of 3 years.

19.17 Operating performance and cost standards based on performance and cost standards of gas companies around the world should be given as performance and cost targets to the management of Petitioner. This professional management approach will bring about enormous improvement in operations and reduction in wastage and inefficiency.

RESPONSE

The intervener's remark that Petitioner's operating cost, which is 9.5% of sales, exceeds industry's benchmark is not true. Petitioner's T&D cost amounts to 7.8% of sales whereas recent studies by Consultant appointed by GOP have revealed that gas companies' operating cost is approximately 12% of sales. The T&D in absolute terms have increased by 13% and in per unit terms have decreased by about 8% (Rs. 13.40 per MMBTU from Rs. 14.24 per MMBTU). Performance and service standards are being developed by OGRA. Petitioner will welcome such standards if devised and implemented in gas industry.

19.18 Petitioner will soon be privatized and as such there is no justification or urgency for the present management further enhancement of gas tariff, which would only profit the private management at the cost of Pakistan's Industry and its Exports.

RESPONSE

The revision in tariff based on revenue requirement has no relevance with the privatization of Petitioner. The establishment of regulatory regime through OGRA will ensure that interests of all stakeholders are safeguarded even after the privatization.

19.19 In view of the impending privatization the Petitioner should not be allowed to make any unnecessary heavy fixed investment in fixed assets which will unnecessary increase the amount of fixed assets and the return required thereon.

RESPONSE

The increase in gas prices does not have any relevance with the privatization, rather present Petition is for compensating the utility for increase in cost of gas. The privatization of any organization does not warrant stoppage of its normal operations. Present Petition is a normal course of business for gas companies in regulated tariff regimes.

Karachi Stock Exchange (Guarantee) Limited (KSE)

20. The intervener did not attend the hearing. The Authority allowed their comments to become part of the proceedings. The intervener in its written submissions has shown its concerns on the following issue:

20.1 The investors in the Petitioner have invested their funds on the basis of the publicly declared price formula, which assures 17% return on net operating fixed assets. The average investor in the company has to take the good and bad; as there have been many lean years for the Petitioner when it could not pay out dividends. As a custodian of the interest of the investors at large including the small investors of Petitioner, KSE request OGRA to protect the investors' interest by maintaining the publicly declared pricing formula. The gas prices may be reviewed while ensuring protection of the shareholders. The shareholders have invested with the firm conviction that Petitioner is entitled to a return of not less than 17% of the operating assets. As such any change in this agreed formula will be most inequitable and detrimental to the interest of the shareholders. This is likely to affect their confidence in the equity investments for which the present government is aggressively working and a number of fiscal measures have already been taken.

RESPONSE

Petitioner earns 17% return on its average net fixed assets in operation net of average deferred credit as contained in ADB loan covenants agreed by Petitioner and guaranteed by GOP. The gas utility business is capital intensive and monopolistic in nature therefore is regulated. However the investors around the world are assured a certain appropriate return. Out of 17% return Petitioner has to pay financial charges, corporate taxes & dividend and retain funds for future expansion.

Petitioner with present rate of return could not pay cash dividend for five years continuously due to liquidity crunch on account of heavy investment in its projects & financial charges attached to loans.

The current pricing mechanism is quite transparent. The rate of return of 17% on Petitioner's fixed assets supports the investors as it is reasonably higher than prevailing interest rates and profits available on government securities.

Consumer Rights Commission of Pakistan (CRCP)

21. The intervener did not attend the hearing. The Authority allowed their comments to become part of the proceedings. The intervener in its written submissions has shown its concerns on the following issues:

21.1 Petitioner has been asking for increase in its Prescribed Price during FY 2000-01 (Rs. 5.11 per MCF), FY 2002-03 (Rs. 26.02 per MCF) and FY 2003-04 (Rs. 19.92 per MCF) to meet shortfall in its revenue requirement. The increasing trend in wellhead prices, transmission and distribution costs (T&D Costs) and 17% rate of return on average net fixed assets are pleaded by the Petitioner as major reasons of this shortfall. Now, third consecutive Petition of Petitioner is under consideration of the Authority since its establishment. No attention has been given towards finding any long-term and concrete solution to these problems and increase efficiency of the companies involved in Transmission and Distribution of gas. The short-term arrangement (e.g. tariff determination on annual basis) to solve the issues of revenue determination does not only result in wastage of time but also increases the T&D Costs of the company (equivalent to the Petition fee and expenditures incurred on the company in form of travel and lodging expenses of the participating personnel etc.). Instead of annual exercise, the Petitioner should come up with a long-term strategy, which should be based on extensively examined assumptions and result-oriented proposals. The Authority, on the other hand, should also determine benchmarks regarding the T&D Costs, Unaccounted for Gas (UFG) and improvement in the efficiency of the company. Such determination will build the confidence of the investor in the sector as well as help in developing trust of consumer towards the company.

RESPONSE

Responses on the issues raised by the intervener have already been given in para 16.5, 16.11 18.10 and 19.9 above.

21.2 It appears from the provision of the OGRA Ordinance, 2002 and previous determinations of the Authority that the powers and functions of the Authority are limited and always subject to policy guidelines of Federal Government. For instance, Section 21 (2) (b) of the OGRA Ordinance empowers the Federal Government to issue policy guidelines including but not limited to "pricing of petroleum". Section 8 says that the Authority shall determine an estimate of the total revenue requirement of each licensee for natural gas engaged in transmission, distribution and the sale of natural gas to a retail consumer for natural gas, in accordance with the rules, and on that basis advise the Federal Government to Prescribed Price of natural gas for each category of retail consumer for natural gas. Such provisions and requirements make OGRA merely an advisory body, which can recommend or advise the Federal Government with reference to issues of transmission, distribution and sale of natural gas in Pakistan. CRCP believes that only an autonomous and independent regulator can ensure the protection of interests of all stakeholders. Therefore, it is suggested that the regulator should be more autonomous and independent in its functioning.

RESPONSE

Petitioner has no comments to offer, as these issues relates to OGRA.

21.3 Transmission and Distribution Cost is a major element, which affects the revenue requirement of Petitioner. More than 28% increase in transmission and distribution cost of the company in just one year shows the actual picture of the inefficiency of Petitioner. The Petitioner has failed to control its Transmission and Distribution Cost, which has increased from Rs. 3,097.674 million (FY 2002-03) to Rs. 3,969.702 million (FY 2003-04). The Authority should strictly direct the company to rationalize its transmission and distribution costs so that the costs of inefficiencies may not be passed on to the consumers.

RESPONSE

Response has already been given in para 16.5 above.

21.4 The internal consumption of gas has increased from Rs. 114.666 million (FY 2002-03) to Rs. 258.908 million (FY 2003-04). The increase under this head indicates the inefficient consumption of gas within the system of the company. The burden of this inefficiency ultimately goes to the consumer as a part of transmission and distribution cost. It is suggested that the Authority should determine certain scales of this consumption keeping in view the technical limitations.

RESPONSE

Response has already been given in para 16.6 above.

21.5 The Petitioner has failed to comply with the directions of the Authority with regard to the provision of doubtful debts. The Authority has allowed the provision of doubtful debts at Rs. 168 million in FY 2002-03, subject to recovery of Rs. 75 million from previous doubtful debts. (determination of revenue requirement for Petitioner for FY 2002-03, Page No. 50, para. 15.29). Petition for FY 2003-04 shows an upward trend from Rs. 168 million to Rs. 212 million. This demonstrates the inefficiency of Petitioner to recover these debts. This situation also reflects the level of seriousness of the company towards the directions of the Authority. The Authority should take cognizance of the matter and should direct the company to strictly comply with directions of the Authority.

RESPONSE

Response has already been given in para 16.7 above.

21.6 CRCP submits that quality of service is very important parameter, which should be kept in view while determining the revenue requirement of the company. The company does not command confidence of its subscribers at large due to its poor quality of service. In addition to frequent reports of press, some complaints have been received regarding the issues prevailing in the company services like over billing, wrong metering, delay in issuance of new connection, low pressure of gas and load shedding during winter season, etc. The Authority is requested not to allow any increase in the Prescribed Price unless the company improves its quality of service.

RESPONSE

Petitioner has adequate arrangement to redress customers' complaints including bill payment and timely provision of gas to domestic consumers as under:

1. Customer Service Department manages complaints by receiving on average 800 complaints per day through 119 round the clock computerized helpline. 58 service teams ensure that emergencies are attended within 30 minutes and other complaints within 12-15 hours.
2. Customer facilitation counter-Service with smile- one window to address all problems- Reduce Queuing time.
3. Reasonable installments on bills are allowed on need basis.
4. Bills are dispatched timely giving reasonable time for payment.
5. Bill payment options/ facilities (Advance payment plan, flexible payment plan and equal payment plan etc.)
6. 1,761 Branches of 15 banks including evening banking & 47 ATMS
7. 558 Post offices.
8. The highest level of authority in the company is approachable to the customers.

Future Plans:

1. Payment Kiosks
2. Points of sale terminals
3. Payment through Internet.

New Connections:

There is a simple procedure for providing connections to customers. Applications are submitted through authorized contractors and where no restrictions for NOC etc are involved, a new connection is installed within a period of 8 to 12 weeks. Petitioner is taking steps to further reduce the time.

21.7 The data provided by the Petitioner needs to be verified very carefully because, in Annexure A of previous determination of the Authority for FY 2002-03, it appears that figures calculated by the Petitioner were different from figures as per OGRA's determination. For instance, transmission and distribution cost according to Petitioner calculation was Rs. 3,600.082 million in FY 2002-03 while it was Rs. 3,097.674 million in FY 2002-03 according to determination of the Authority. This is one single example of anomalies in the calculation of data. The Authority should make some arrangement in the future for independent verification of data provided by a Petitioner. This is important because even a slight invoicing error can incur unprecedented amount of money unduly on consumers.

RESPONSE

The comparative figures for FY 2002-03 are based on latest actuals/ estimates and not as per OGRA determination.

21.8 The cost of inefficiencies of Petitioner should not pass on to the consumers.

RESPONSE

Response has been given under para 16.11 18.10 and 19.6 above.

COMMENTS AND OBSERVATIONS

22. Apart from interveners, the participants offered their comments on the Petitioner which are discussed below:

Consumer Rights Forum (CRF)

23. The participant did not attend the hearing. The Authority allowed its comments to become part of the proceedings. The participant in its written submissions has shown its concerns on the following issues:

23.1 CRF objects the increase of prices of natural gas to meet its shortfall in Revenue requirement, because to the best of its knowledge, the majority of the equity shares of Petitioner are owned by the Government of Pakistan and little percentage is with general public. Why the Petitioner is reluctant to offer maximum shares to general public and collect premium on its share face value of Rs 10, which is trading on March 31, 2003 in Karachi stock exchange at Rs 17.50.

RESPONSE

Additional shares are issued whenever the debt equity ratio is assumed to cross the tolerable limit. At present, Petitioner has a safe/acceptable debt equity ratio as contained in the ADB covenants and SBP prudential regulations.

23.2 CRF would also like to know that the purpose of OGRA established by the Government of Pakistan is

- to protect the interest of the other Government organizations
- to protect the interest of the people of Pakistan
- to protect the interest of foreign loan lending bank

- to protect the interest of foreign oil companies operating in Pakistan.

RESPONSE

OGRA has been established to protect the interests of all stakeholders, which includes the customers, the utility companies/shareholders, lenders, etc.

23.3 Why OGRA demands Rs 500 and photocopy's cost from citizens, who raise their voice for basic rights. Other regulatory authorities line PMERA, NEPRA, and PTA are not making such demands.

RESPONSE

Petitioner has no comments to offer. The matter relates to OGRA.

23.4 Why the people of Pakistan are being deprived from benefit of their country natural resources.

RESPONSE

Almost 1,718,781 customers in the provinces of Sindh and Baluchistan (113 towns and 649 villages) are enjoying the benefit of clean and environment friendly fuel through the company's network consisting 2,784 km of transmission and 24,120 km of distribution network. SSGC has plans to supply gas to towns and villages which are economically viable and meeting Federal Government criterion and have not so far been supplied with clean fuel (natural gas).

23.5 The Regulatory Authorities are only justified when business is managed by the private sector and the country is following free market and capitalism.

RESPONSE

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. All over the world the gas utility companies are regulated by regulatory authorities to avoid exploitation of monopolistic environment by the utility companies. Therefore, the concept of regulating gas business through the establishment of OGRA though new in Pakistan is being followed. It is important to state that according to the plan of GOP, even after SSGC's privatization, OGRA will be the Authority responsible to regulate gas business industry.

Agha Mujeeb & Co. Chartered Accountants

24. The participant did not attend the hearing. The Authority allowed its comments to become part of the proceedings. The participant in its written submissions has shown its concerns on the following issues:

24.1 The cost of gas sales have risen by 48% (Rs. 14,010 million) for FY 2003-04 over last year which is very much disproportionate to volume of sales & sales revenue which have risen only 23.91% (Rs, 9,823.278 million) for the year under petition over last year. This 48% increase in cost of gas sales may be partly due to increase in wellhead prices of gas and partly due to numerous other factors which needs further analysis of the existing conditions. Infact, the increase in cost of gas should be in the same proportion as are volume of sales/ sales revenue i.e. 23.91% for the year under petition over last year.

RESPONSE

The increase in cost of gas sold maybe disproportionate to sales revenue due to higher increase in well head rates and induction of new fields which are generally costlier than old fields i.e. PPL, Badin etc. Average cost per MMBTU has risen from 108.77 to Rs 136.27 during FY 2003-04 over FY 2002-03.

24.2 Transmission & Distribution cost have increased by almost 28% for the year under petition over FY 2002-03 which is not very much in disproportionate with the rise in Sales Revenue which is 23.91%. However, some individual heads of account revealed some disproportionate increase over last year figures which needs further analysis in order to arrive at any conclusion. The individual heads of account which need further analysis are:

Head of account	% Increase for FY 2003-04 over FY 2002-03
Salaries, Wages & benefits	27.21
Gas consumed internally	125.79
Provision for doubtful debts	26.19

RESPONSE

The T&D in absolute terms have increased by Rs 472 million and in per unit terms have decreased by about 8% (Rs 13.40 per MMBTU from Rs 14.24 per MMBTU). Salaries & Wages have increased due to

a. Union Charter

b. New Inductees

c. Annual increments of regular executives & staff (4,858)

d. TA executives & Staff (610)

Gas consumed internally increased due to increase in cost of gas resulting from substitution of gas from Sui with Badin gas in compressor use and increased use of compressor to enable Zamzama, Bhit, Miano and Sawan gas transmission to Karachi. Increase in provision for doubtful debts is due to increase in number of consumers and increase in tariff. However, provision for doubtful debt is 0.5% of total gas sales which is a safe position.

24.3 The addition of fixed assets of Rs. 3,957.7 million has resulted in an increase of depreciation of Rs. 199.685 million over FY 2002-2003 which ultimately results in decrease in net profit for FY 2003-2004 and therefore, adversely affects the revenue requirement. Its is suggested that detail study of the addition in fixed assets may please be made and an independent report of some technically qualified person should be demanded from the Petitioner who should asses the technical feasibility of the addition in fixed assets for the year 2003-2004.

RESPONSE

All the additions to fixed assets are projected keeping in view of the need assessment, technical feasibility and cost benefit analysis which are again reviewed by OGRA in detail. A comprehensive analysis of capital expenditures is undertaken by technical experts of OGRA.

24.4 There seems to be an error in the calculation of working for tariff adjustment figure. It should be Rs. 3,505,384 million instead of Rs. 3,118.190 million. If this figure is taken as Rs. 505.284 million, then the shortfall over return required for FY. 2003-2004 would have risen by Rs. 387.146 million.

RESPONSE

There is no calculation error. However, in line 33 there should be C-D+E as explained below and not C-D-E.

		Rs million
Line 22	C	(3,871.946)
Less: Line 23	D	(193.547)
		(3,677.399)
Add: Line 31	E	559.209

Line 33	F	(3,118.190)

24.5 The trade debts have been projected to increase by Rs. 1,433.919 million for FY. 2003-2004 which is almost 26% increase over FY 2002-2003. This increase in trade debts may be partly due to increase in number of customers and partly due to loose internal control over debtors. By maintaining efficient internal control over trade debts, the position of revenue collection may be made much better than shown in the projected Balance Sheet.

RESPONSE

The debtors represent year end sales and increase is mainly due to increase in sales revenue and increase in number of customers. The company is making serious efforts to bring down its outstanding debts and it is worthwhile to mention that controls over debtors have improved over the previous years.

24.6 The Redeemable Capital has been projected to increase in FY 2003-04 by Rs. 2077 million over FY 2002-03 @ 67.68%. It is suggested that purpose & need of raising such capital should be inquired from the Petitioner.

RESPONSE

The redeemable capital of Rs 3,000 million is to be used to finance the expansion in gas transmission and distribution network costing Rs 3,958 million.

24.7 The current maturity of long term loans & redeemable capital under current liabilities need detailed study. As these figures have increased in FY 2003-04 as compared to last year, it means more cash outflow is expected in future period which also affects the revenue requirement for future years.

RESPONSE

The current maturity reflects payments of loans becoming due and has to be paid on the due dates to fulfill the contractual commitments in next period. As per the existing tariff regime the interest on loans or re-payment of loans does not affect the revenue requirement due to its non-inclusion in tariff calculation.

24.8 While going through the schedule of field wise gas purchases, it has been observed that gas consumption from certain gas fields has declined, while consumption from certain gas fields has sharply increased. The gas fields from which gas purchases is high for the FY 2003-2004 over FY 2003-2003 are the following:

Line #	Gas field	%age rise in cost in FY 2003-04 over last year
6	Ex-Miano	15
7	Ex-Zamzama	40
8	Ex-Bhit	175
9	Ex-Sawan	100
10	Ex-Mazarani	100
12	Ex-Sari Hundi	468

RESPONSE

Petitioner's operations are supply constrained and all discoveries are transmitted to the consumers who could not be supplied gas earlier according to their demands.

24.9 It is suggested that comparative cash flow statements may be demanded for the FY 2002-03 & projected cash flow for FY 2003-04 along with Auditors report thereon.

RESPONSE

Cash flow statements have been prepared and sent to respected commentator. It may be stated that as per Natural Gas Tariff Rules, 2002 and international practices in gas industry, the tariff petition does not require audit report. These are best estimates, which are reviewed by regulatory bodies. However, the Authority has powers under the OGRA Ordinance to undertake an independent audit, if required.

The Helpline Trust (Consumer Protection Council)

25. The participant made appeal on social and moral basis. It is suggested that the Petitioner be asked to improve its efficiency and customer service specially towards lower and middle class citizens of the country. The GOP is burdening the customers by levying GST on gas in addition to various other taxes in spite of the fact that gas is an essential item. It is requested that Authority should allow the tariff if proper justification is provided and also the interest of common person is protected.

Karachi Electric Supply Corporation Limited (KESC)

26. The participant presented the following comments during the hearing proceedings :

26.1 KESC is the biggest consumer of the Petitioner. The existing gas supply is 236 MMCFD per month i.e. 70% of its total supply of 308 MMCFD. The cost of existing gas supply to KESC (236 MMCFD) works out to Rs. 1,250 million per month or Rs. 15.0 billion per annum approximately. Petitioner in its tariff petition has now proposed an increase of Rs. 20.75 per MMBTU in existing rates of gas supplied to KESC. This will result in increase in cost by 12.36% or in other words KESC will have to pay an additional amount of Rs. 1,800 million per annum (Rs. 2,070 million with GST).

It is worth-mentioning here that the Government is providing funds to meet the operational shortfall of KESC and for development expenditure. The quantum of funds has been agreed with IMF and there is no possibility to enhance the quantum of funds to pay off the additional cost to the Petitioner.

It is notable that the Ministry of Water and Power has not yet notified the recent increase of Rs. 18/KWH in KESC's tariff due to socio-economic problem, which was allowed by NEPRA on account of additional financial impact on KESC for increase in furnace oil price and non-availability of agreed gas supply by the Petitioner.

In the absence of subsidy from GOP or non-implication of pass through mechanism, KESC will not be in a position to pay the additional cost, resulting in non supply of fuel and ultimately KESC will have to resort to load shedding.

In view of the above facts KESC opposes any increase in fuel price at this stage for the benefit of the electricity consumers of KESC. It is also requested that the gas rates for KESC should be reduced to the level of the rates applicable to Feed Stock. It is proposed that the Gas Development Surcharge now being proposed to be levied as cost of service charge may also be withdrawn.

RESPONSE

The intervener has not made any substantial point pertaining to Petition. However, the Petitioner is supplying maximum quantity of gas to KESC in the overall national and consumer interest as per policy directive of the Federal Government. After the kicking in of Bhit gas into the system, it is expected that the desired level of demand of KESC can be met.

26.2 It is pointed out that the Petitioner has revised the unit of tariff from MCF basis to BTU basis effective from January 2002. Also the Petitioner is getting benefit of supply of gas in bulk to BTU basis effective from January 2002. This revision has resulted in increase of more than 5% in its tariff.

RESPONSE

The billing system from MCF (quantitative) to BTU (qualitative) has been changed as per Federal Government directive.

26.3 The existing rate of gas for Feed Stock (FFC Jordan Fertilizer Co) is Rs. 39.29/MMBTU as against Rs. 167.85/MMBTU for KESC which is 327% more.

RESPONSE

The fertilizer feedstock sector is subsidized by the Federal Government and not in control of the Petitioner.

26.4 The financial position of KESC has badly affected due to exorbitant increase in price of furnace oil. As such it was decided to convert all its power plant on gas with the aim to achieve saving in fuel cost.

RESPONSE

The well head gas prices are linked with international prices of HSFO / crude oil therefore; gas prices move in line with the oil prices and it is expected that the differential in prices of alternate fuels to gas will continue. It is worth mentioning that in spite of increase in gas prices, natural gas is and will remain the cheapest source of fuel. The prices of substitute fuels based on general industries tariff for furnace oil & HSD and domestic tariff for kerosene oil & LPG for equivalent heating value of gas are given below:

Alternate fuels	Unit	Equiv. Gas Qty. BTU	Value of alternate fuel Rs.	Equiv. Cost of gas Rs.	Gas price as % of alternate fuel
Furnace Oil	1 liter	39.15	10.79	6.61	61
HSD	1 liter	35.35	21.58	5.97	28
Kerosene	1 liter	32.41	19.02	3.32	17
LPG	1 kg	47.85	16.53	4.90	30

1 MCF gas = 980 MMBTU

DETERMINATION OF THE AUTHORITY

27. 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:

28. The wellhead prices of gas are determined on basis of contracts and agreements signed by the

gas producers with the Federal Government and revenue requirement of the Petitioner are determined after accounting for the cost of gas which constitutes about 80% of the revenue requirement.

29. The Authority also sets appropriate benchmarks and keeps under review the element of unaccounted for gas (UFG) so that their inefficiencies are not passed on to the consumers. The Authority carries out detailed scrutiny of their operating expenditures and puts in place an effective monitoring mechanism to ensure that the consumers are not burdened on account of imprudent expenditure.

30. The Federal Government is empowered to issue the policy guidelines not inconsistent with the OGRA Ordinance and the Authority is obligated under the law to implement the same.

31. The role of Authority is to be seen in light of the powers granted under the OGRA Ordinance, which requires the Authority to safeguard the interest of all stakeholders.

32. In view of the above, the observations of some of the interveners on the role of the Authority are not valid.

RATE OF RETURN

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

34. SITE Association of Industry, APTMA, Mushtaq & Co. Private Limited, and Jamshoro Power Co. Ltd. (JPCL) are of the view that it is not a rational approach of Petitioner to insist on maintaining 17% return on average net operating fixed assets under the present economic circumstances. The ADB loan, to which 17% return refers, is an expensive loan and should be replaced by the local cheaper loans. Also the guaranteed return is the root cause of promoting inefficiencies in the gas utility, as the management is not left with any incentive of cost savings.

35. The Authority is conducting a study on Development of Tariff Regime for regulated natural gas sector in Pakistan, funded by PPIAF. The study has commenced in April, 2003 and is anticipated to finish in October, 2003. Based on the findings of this study, the Authority shall prescribe, in consultation with all the stakeholders, rate of return that the Petitioner shall earn which would be based on suggested tariff regime.

36. In the meantime, the Federal Government has issued an order under section 47 of Oil and Gas Regulatory Authority Ordinance, 2002, that till such time an appropriate rate of return is determined by OGRA, in consultation with the Federal Government and the licensees, it shall determine the revenue requirement of the Petitioner on the basis of the covenants stipulated in the loan agreement with the ADB.

37. The current regime of return on assets does not include the financial charges and taxes, which is in fact borne by the Petitioner's shareholders out of their profits. It may be noted that expensive loans / TFCs raised by the Petitioner, as objected by various interveners/ participants, have no bearing on the rate of return allowed to the Petitioner, and hence does not affect the revenue requirement determination / Prescribed Prices.

OPERATING FIXED ASSETS

38. The Petitioner has projected the net operating fixed assets (net of deferred credit) at Rs. 16,003.907 million as follows:

Particulars	Amount Rs. in Millions
Net operating fixed assets at beginning of FY 2003-04	16,530.779
Net operating fixed assets at end of FY 2003-04	18,384.998
	34,915.777
Average net operating fixed assets (I)	**17,457.889**
Deferred credit at beginning of FY 2003-04	1,477.460
Deferred credit at end of FY 2003-04	1,430.504
	2,907.964
Average net Deferred credit (II)	**1,453.982**
Average net operating fixed assets net of deferred credit (I-II)	**16,003.907**

38.1 A comparison of **additions** projected for FY 2003-04 with previous year is provided below:

Particulars	2001-2002	Petitioner's submission for FY 2002-2003	2003-2004 Estimates	Difference From previous year	Percentage *Increase / (Decrease) %*
Land	41.483	31.699	30.811	(0.888)	(2.80)
Building	30.632	36.287	56.868	20.581	56.72
Purification Plant	52.379	-	-	-	-
Transmission Line	322.365	1,344.609	1,398.100	53.491	3.98
Compressors	7.804	529.956	212.409	(317.547)	(59.92)
Plant and Machinery	24.923	111.948	149.280	37.332	33.35
Gas distribution system	1,508.793	1,476.352	1,512.023	35.671	2.42
Furniture and Fixture	31.716	104.807	91.675	(13.132)	(12.53)
Telecom System	-	12.517	328.251	315.734	2,522
Tools	10.320	25.149	23.539	(1.61)	(6.40)
Vehicles	68.315	80.040	40.534	(39.506)	(49.36)
Construction equipment and					

vehicles	-	42.500	114.249	71.749	168.82
Total gross additions	**2,098.730**	**3,795.864**	**3,957.739**	**161.875**	**4.26**
Less: Deletions	218.557	2,643.193	-	2,643.193	(100)
Net addition in assets base	**1,880.173**	**1,152.671**	**3,957.739**	**2,805.068**	**243.35**

38.2 The Petitioner has claimed addition of Rs 3,957.739 million in the operating fixed asset for the FY 2003-04 as detailed below:

DESCRIPTION	2002-2003 determined by OGRA	2003-2004 Estimates
Transmission		
Interlink Pipeline Khadeji to FJFC	257.032	42.406
Bhit gas Field	647.500	89.698
Rehabilitation of 16″ ILBP/Intelligent Pigging	-	625.265
12″ and 18″ QPL re-routing in Dingra area 13 Km	-	393.660
20″ IRBP modification for reverse flow to SNGPL	-	175.066
Others	167.900	72.003
	1,072.432	**1,398.098**
Telecom and SCADA	**-**	**316.247**
Compressor		
Relocation of Pirkoh	317.600	200.909
Revamp of Dadu	-	11.500
	317.600	**212.409**
Distribution		
Gas Distribution System-Karachi	603.200	824.980
Gas Distribution System-Sindh	418.000	476.831
Gas Distribution System-Baluchistan	113.000	210.212
	1,134.200	**1,512.023**
Land	**17.900**	**30.811**
Building	**30.400**	**56.868**
Plant & Machinery	**57.300**	**55.300**

Furniture & Equipment		
Furniture & Fixtures	24.996	30.800
I.T. Infrastructure	-	21.300
GIS	6.354	3.000
Computer & Equipment	45.750	48.600
	77.100	**103.700**
Tools & Equipment	**20.600**	**23.500**
Vehicles	**35.800**	**40.534**
Emergency Response	**-**	**94.000**
Construction Equipment	**-**	**114.249**
TOTAL	**2,763.332**	**3,957.739**

38.3 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, except for expenditure on intelligent pigging.

38.4 The Petitioner has projected an expenditure of Rs. 111 million during FY 2003-04 on intelligent pigging of 16" Indus Left Bank Pipeline (ILBP). The Authority in its determination dated January 20, 2003 for the FY 2001-02 directed the Petitioner to undertake intelligent pigging 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.

38.5 Authority is of the view that the pipeline integrity should have been assessed by the following methods prior to opting for intelligent pigging.

- Direct Current Voltage Gradient Survey
- Closed Internal Potential Survey
- Cathodic Protection History including details of recoating carried out over past 47 years.

38.6 As the Petitioner has not been able to fully justify its claims as to exhaustion of all available conventional methods for assessment of pipeline integrity and the cost benefits associated with intelligent pigging vis a vis other methods, the **Authority disallows the projected expenditure on intelligent pigging amounting to Rs. 111 million till such time the proper justification is provided to the satisfaction of the Authority.**

38.7 On further scrutiny of the cost estimates, it transpired that cost contingencies have been built into the projected addition and also history of past four years reveals that the actual capitalization of the assets has been substantially lower than the budgeted capital expenditures as compared below:

38.8 Based on the past performance of the Petitioner in respect of commissioning of operating fixed assets as indicate above, the Authority decides to make an estimated deduction @ 25 % in the cost of assets likely to be commissioned by June 30, 2004. **Consequently the net addition in the operating fixed assets for the FY 2003-04 is allowed at Rs. 2,857.304 million as against the claim of the Petitioner amounting to Rs 3,957.739 million.**

38.9 Depreciation has consequently been reduced on account of projected non-commissioned assets amounting to Rs. 33.013 million.

OPERATING REVENUES

39. SALE VOLUMES

39.1 Sale volumes have been projected to increase by 22.87% from 251,055 MMCF for the FY 2002-03 to 308,477 MMCF for the FY 2003-04.

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

39.3 Major increase in sales volumes has been projected in power and general industries sector.

39.4 The Petitioner projected excessive targets for gas internal consumption for FY 2003-04, which have been reduced by the Authority, as explained in para 48.11 below The consequential impact has been adjusted by increasing the projected sales volumes by 514 MMCF (494 MMMBTU).

39.5 **The Authority provisionally accepts the sales volumes projected at 308,991 MMCF for FY 2003-04, which will be subject to actualization.**

40. SALES REVENUE

40.1 Sales revenue (net of sales tax) at existing Sale Prices notified on October 25, 2002 has been projected by the Petitioner at Rs. 44,274.458 million for the FY 2003-04 as against Rs. 35,732.477 million for the FY 2002-03. The category wise comparison of sales from last year is provided below:

40.2 The projected increase in sales revenue is due to major increase in sale volumes in all categories of consumers.

40.3 Due to reduction in volumes of gas internally consumed as discussed in para 48.11 of this determination, the projected sales revenue from power sector has been increased by Rs. 83.460 million.

40.4 **The Authority provisionally accepts the sales revenue projected at Rs. 44,357.918 million for the FY 2003-04, which will be subject to actualization.**

41. METER RENTALS

41.1 The Petitioner has projected the revenue on account of meter rentals to increase by 3% from Rs. 419.538 (FY 2002-03) to Rs. 432.675 million (FY 2003-04) as compared below:

Rs. In Million

	FY 2003-04 Estimates	FY 2002-03 Estimates	FY 2001-02	FY 2000-01
Meter Rentals	432.675	419.538	407.705	399.460

41.2 The Authority provisionally accepts projected revenue from meter rentals at Rs. 432.675 million for the FY 2003-04, which will be subject to actualization.

42. LATE PAYMENT SURCHARGE

42.1 The Petitioner has projected late payment surcharge to increase by 3%

from Rs. 222.391 million (FY 2002-03) to Rs. 229.129 million (FY 2003-04) as compared below:

42.2 It is further noted that interest income on WAPDA and KESC gas bill arrears has not been recognized in the Petition for the FY 2003-04. However, as per directions of the Authority in its determination dated January 20, 2003, and February 28, 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. **Authority reiterates its earlier direction in its determination dated February 28, 2003, 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, as the matter is still undecided.**

42.3 **The Authority provisionally accepts late payment surcharge projected at Rs. 229.129 million for the FY 2003-04, which will be subject to actualization.**

43. **AMORTIZATION OF DEFERRED CREDIT**

43.1 The Petitioner has projected deferred credit amortization for the FY 2003-04 at Rs. 129.654 million as follows:

Amount Rs. In million

Description	**FY 2003-04 Estimates**	**FY 2002-03 Estimates**	**FY 2001-02**
Balance as at July 01	1,477.460	1,425.280	1,413.275
Additions during the year	82.698	177.698	133.397
	1,560.158	1,602.978	1,546.672
Amortization for the year	(129.654)	(125.518)	(121.392)
Unamortized balance as at June 30	1,430.504	1,477.460	1,425.280

43.2 The Authority provisionally accepts amortization of deferred credit projected at Rs. 129.654 million for the FY 2003-04, which will be subject to actualization.

44. GAS TRANSPORTATION CHARGES

44.1 The gas transportation charges have been projected to increase by 498.87% from Rs. 90.354 million (FY 2002-03) to Rs. 541.104 million for FY 2003-04.

44.2 Such major increase is due to additional transportation income projected from Zamzama and Hassan Gas Pipelines in addition to Peshbogi and Pirkoh pipeline. The transportation charges for FY 2003-04 consist of four components i.e. Rs. 42.807 million claimed for 40 KM Segment of Paishbogi to Pirkoh pipeline, Rs. 95.371 million claimed for Bhit Gas Pipeline, Rs. 344.199 million for Zamzama Reverse Flow and Rs. 58.727 million for Hassan Gas Transportation as detailed below:

Transportation charges on 40KM Paishbogi to Pirkoh segment

Rs. in Million

CATEGORY	FY 2001-02	FY 2002-03 Estimates	FY 2003-04 Estimates
Operating cost	11.799	12.188	12.682
Depreciation	18.708	17.269	18.883
Return	17.493	13.211	11.242
TOTAL	**48.000**	**42.688**	**42.807**

Transportation charges on Bhit gas Pipeline

			Rs in Million
CATEGORY	FY 2001-02	FY 2002-03 Estimates	FY 2003-04 Estimates
Operating cost	-	4.626	9.252
Depreciation	-	24.872	49.744
Return	-	18.188	36.375
TOTAL	**-**	**47.686**	**95.371**

Transportation Charges on Zamzama Reverse Flow

Rs in Million

CATEGORY	FY 2003-04 Estimates
Operating cost	73.791
Depreciation	68.838
Return	201.570
TOTAL	**344.199**

Transportation Charges -Hassan Gas for SNGPL

Rs in Million

CATEGORY	FY 2003-04 Estimates
Operating cost	25.799
Depreciation	6.945
Return	25.983
TOTAL	**58.727**

44.3 The Authority provisionally allows gas transportation income projected by the Petitioner amounting to Rs. 541.104 million for FY 2003-04, which will be subject to the Authority's approval of the agreements and actualization of the amounts. Authority reiterates its earlier direction to conclude transportation agreement with SNGPL, for transporting Hassan Gas for SNGPL, before the close of FY 2002-03.

45. **SALE OF GAS CONDENSATE**

45.1 The Petitioner has projected the revenue from sale of gas condensate to decrease by 7.72% from Rs. 161.114 million (FY 2002-03) to Rs. 148.684 million (FY 2003-04) as compared below:

Rs. in Million

	FY 2003-04 Estimates	FY 2002-03 Estimates	FY 2001-02	FY 2000-01
Sale of gas condensate	148.684	161.114	159.707	144.947

45.2 The Authority provisionally accepts the revenue from sale of gas condensate projected at Rs. 148.684 million for the FY 2003-04, which will be subject to actualization.

46. **OTHER INCOME**

46.1 The Petitioner has projected the total other income to decrease by 22.19% from Rs. 325.188 million (FY 2002-03) to Rs. 253 million (FY 2003-04) as compared below:

46.2 The Authority accepts on provisional basis the net operating income at Rs. 96 million for FY 2003-04, which will be subject to actualization.

47. PROFIT FROM METER MANUFACTURING

47.1 The Petitioner has projected profit from meter manufacturing business to increase by 70% from Rs. 36.670 million (FY 2002-03) to Rs. 62.266 million (FY 2003-04) as compared below:

Rs. in million

	FY 2003-04 Estimates	**FY 2002-03 Estimates**	**FY 2001-02**	**FY 2000-01**
Profit from meter manufacturing business	62.266	36.670	41.600	64.350

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

Description	FY 2003-04 Estimates	FY 2002-03 Estimates	FY 2001-02	FY 2000-01
No of meters produced / Assembled	290,000	260,000	289,850	292,750
Profit form meter manufacturing (Rs. In thousand)	62,266	36,670	41,600	64,350
Average Profit per meter (Rs. In thousand)	0.22	0.14	0.14	0.22

47.3 The Authority provisionally accepts the projected profit from meter manufacturing business for FY 2003-04 at Rs. 62.266 million, which will be subject to actualization.

OPERATING EXPENSES

48. COST OF GAS

48.1 The Petitioner has projected the average cost of gas to increase by 21.79% from Rs. 114.48 per MCF (FY 2002-03) to Rs. 139.42 per MCF (FY 2003-04) which is the primary cause 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 becoming available from new fields
- Increase in wellhead prices including Sui field.

48.2 The detail of field wise purchases of gas in comparison with last year is given below:

48.3 The scrutiny of the documents filed by the Petitioner, and submissions of the Petitioner during the course of hearing reveals that the Petitioner has shown decrease in supply of gas from Sui and Pirkoh in its gas supply projections. The documents in support of the

Petitioner's claim have been called and its transpires that decrease in supply has been projected in accordance with the Gas Renunciation and Reallocation Agreement signed between SSGCL, SNGPL and the Federal Government on 25th November, 2000, whereby the Petitioner has renunciated its right from the allocated quantities of gas from Sui and Pirkoh in lieu of additional quantities becoming available from the newly discovered gas fields in the south including Bhit. Based on the agreement, the cost differential between the projected well head price of Sui & Pirkoh fields and Bhit field for the said volume was estimated at Rs. 3,727 million during FY 2003-04. The cost of gas was consequently reduced by Rs. 3,727 million as receivable from SNGPL, subject to actualization in the short order issued by the Authority on May 21, 2003.

48.4 Meanwhile, the Federal Government issued a Policy Guideline under section 21 of the OGRA Ordinance, 2002 on June 18, 2003 as reproduced below:

> *"In order to ensure the uniform consumer gas prices all over the country, the cost of gas purchased should be worked out for both the gas companies on an overall average basis in such a manner that the input cost of gas for both the companies becomes uniform. The OGRA should work out the revenue requirement of both the gas companies on this basis with effect from financial year 2003-04. The OGRA should also develop the mechanics for inter-company adjustment of input cost of gas through a formal agreement between the two gas companies."*

48.5 In view of the above Policy Guideline, the estimated average input cost of gas in respect of the gas companies viz SSGCL and SNGPL is determined at Rs. 116.15 per MMBTU as tabulated below:

48.6 **Accordingly, the estimated cost of gas sold is now determined at Rs. 36,829.470 million as against Rs. 39,321.964 million, as per determination dated May 21, 2003, subject to actualization**. Since the input cost of gas has been recomputed in accordance with the above mentioned Policy Guideline, the consequential adjustment in gas internally consumed has also been made as elaborated in para 48.11 below.

48.7 The Petitioner is directed to conclude agreement with SNGPL by 31st July, 2003 ensuring prompt gas purchase differential settlement mechanism in accordance with the Policy Guidelines issued by the Federal Government, subject to approval of the Authority.

GAS INTERNALLY CONSUMED

48.8 The Petitioner has projected the value of gas internally consumed to increase from Rs. 113.881 million (FY 2002-03) to Rs. 258.908 million (FY 2003-04) as compared below:

Rs. in million

	FY 2003-04 Estimates	FY 2002-03 Estimates	FY 2001-02	FY 2000-01
Volumes in MMCF	3,178	2,632	5,757	5,612
Value Rs. in Million	258.908	113.881	168.848	145.816
Average Cost (Rs. per MMCF)	81.47	43.27	29.33	25.98

48.9 The above analysis shows that the average unit cost of gas internally consumed has been projected to rise by 88 % in FY 2003-04 as compared to 48 % in FY 2002-03.

48.10 Further details submitted by the Petitioner revealed that the volumes of gas internally consumed in compressor stations has been projected to increase from 1,970 MMCF (1,996 MMMBTU) for FY 2002-03 to 2,446 MMCF (2,471 MMMBTU) for FY 2003-04. Comparative analysis of internal consumption in compression stations w.r.t. purchases is provided hereunder:

Particulars	FY 2002-03 Estimates	FY 2003-04 Estimates	Difference % increase / (decrease)
Purchases from Sui, Badin and Kadanwari fields (volumes in MMCF)	169,695	120,035	(29.26)
Internal consumption in compression stations of gas injected from Sui, Badin and Kadanwari fields (volumes in MMCF)	1,970	2,446	24.16

Internal consumption as % age of Purchases	1.16%	2.04%	75%

Particulars	FY 2002-03 Estimates	FY 2003-04 Estimates	Difference % increase / (decrease)
Purchases from Sui, Badin and Kadanwari fields (volumes in MMMBTU)	171,400	121,906	(28.88)
Internal consumption in compression stations of gas injected from Sui, Badin and Kadanwari fields (volumes in MMMBTU)	1,996	2,471	23.80
Internal consumption as % age of Purchases	1.16%	2.03%	75%

48.11 The above analysis indicates that the projections for the FY 2003-04 are not realistic and appear to be on higher side. Therefore, the Authority made reduction in the compression volumes by 20% i.e. 494 MMMBTU and allowed at 1,977 MMMBTU as against 2,471 MMMBTU claimed by the Petitioner. This resulted in reduction in the value of gas internally consumed by Rs. 39.948 million as per short order dated May 21, 2003. However, taking into account the impact of uniform cost of input gas as per Federal Government Policy Guidelines, the value of gas internally consumed has been increased by Rs. 95.665 million over and above the previously determined value of gas internally consumed. The consequential adjustment has also been made in cost of gas sold and sales revenue.

48.12 Therefore, the Authority provisionally allows internal consumption of gas for FY 2003-04 at Rs. 314.625 million as against Rs. 218.960 million as per determination dated May 21, 2003, subject to actualization.

48.13 Authority reiterates its earlier directions as 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.

49. TRANSMISSION & DISTRIBUTION COST

49.1 The Petitioner has projected transmission and distribution cost (including gas internally consumed) to increase from Rs. 3,497.674 million (FY 2002-03) to Rs. 3,969.700 million (FY 2003-04) which represents an increase of 13% over the previous financial year as compared below:

(Rupees in Million)

Particulars	2001-2002	2002-2003 Estimates	2003-2004 Estimates	Increase/ (Decrease)	
		(Rupees in Million)		*Rs. in Million*	*%age*
Salaries, wages and benefits	2,344.535	2,317.751	2,948.516	630.76	27%
Stores, spares & supplies consumed	168.603	204.000	245.000	41.00	20%
Material & labour used on consumer's installation	24.901	18.052	19.496	1.44	8%
Electricity	47.813	47.291	57.074	9.78	21%
Rent, rates and taxes	19.702	19.483	21.000	1.52	8%
Cost of services provided by' PPL	36.809	-	-	-	0%
Travelling	28.985	32.000	38.011	6.01	19%
Postage & Revenue Stamps	29.984	35.064	41.869	6.81	19%
Insurance & Royalty	36.437	38.260	45.904	7.64	20%
Repairs & Maintenance	181.495	450.000	452.922	2.92	1%
Legal & Professional charges	50.823	90.000	105.000	15.00	17%
License & Tariff Petition fee to OGRA	10.309	34.600	35.000	0.40	1%
Security Expenses	37.575	45.000	62.000	17.00	38%
Gas bills collection charges	25.934	24.000	26.000	2.00	8%
Provision for doubtful debts	219.750	168.000	212.000	44.00	26%
Others	61.612	96.248	101.000	4.75	5%
	3,404.754	3,733.630	4,669.700	936.07	25%
Less:					
Recoveries / Allocations:	691.992	635.956	700.000	64.04	10%
T&D excluding gas internally consumed	2,633.28	2,983.79	3,710.79	727	24%
ADD: Gas Consumed Internally	79.487	113.881	258.908	145.03	127%
SUB TOTAL	**2,712.762**	**3,097.674**	**3,969.700**	**872.03**	**28%**
Add: Contingencies	**-**	400	-		
TOTAL	**2,712.762**	**3,497.674**	**3,969.700**	**472.03**	**13%**

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

50. SALARIES AND WAGES

50.1 The Petitioner has projected salaries and wages to increase from Rs. 2,317.751 million for the FY 2002-03 to Rs. 2,948.516 million for FY 2003-04, as compared below:

Rs. In million

	FY 2003-04 Estimates	FY 2002-03 Estimates	FY 2001-02	FY 2000-01
Salaries and wages	2,948.516	2,317.751	2,344.535	2,072.947

50.2 Details of salaries and wages expenses are as follows:

Particulars	2001-2002	FY 2002-03 Estimates	FY 2003-04 Estimates	Increase/ (Decrease) Rs. in Million	%age
	(Rupees in Million)				
SALARIES					
Basic Salaries	369.196	446.96	487.19	40.23	9%
Salaries Temporary Staff	92.082	89.982	108.788	18.81	21%
Conveyance Allowance	3.620	4.201	4.579	0.38	9%
House Allowance	167.634	197.342	215.135	17.79	9%
Other Allowances	32.828	47.224	51.474	4.25	9%
Leave Encashment	1.432	2.55	2.78	0.23	9%
Provident Fund	27.080	33.523	36.54	3.02	9%
Gratuity	82.200	35.911	40.579	4.67	13%
Pension	(39.334)	54.619	59.535	4.92	9%
Vacant Staff Cost	-	-	32.171	32.17	100%
	736.738	912.316	1,038.772	126.46	14%
WAGES ALLOWANCES					
Basic Salaries	198.737	211.661	268.439	56.78	27%
Cash Allowances	246.466	237.449	299.706	62.26	26%
House Allowances	155.856	164.552	208.078	43.53	26%
Conveyance Allowance	36.329	36.551	46.219	9.67	26%
Wages Temporary staff	3.802	0.536	0.628	0.09	17%
Bonus:					
- Agreement Bonus	93.857	-	117.519	117.52	100%
- Sec 10-C Bonus	83.484	73.674	94.883	21.21	29%
Leave Encashment	86.984	92.757	117.292	24.54	26%
Provident Fund	17.950	18.702	23.649	4.95	26%
Gratuity	80.205	18.702	22.297	3.60	19%
Pension	(46.007)	21.865	27.648	5.78	26%
CBA agreement / Contingencies	0.000	0	104	104.00	100%
	957.663	*876.449*	*1330.358*	453.91	52%
STAFF WELFARE EXPENSES					
Leave Fare Assistance (Staff)	14.948	16.315	17.669	1.35	8%

Welfare Insurance	12.991	11.159	12.085	0.93	8%
E.O.B.I (Staff)	9.076	9.500	10.289	0.79	8%
Uniforms & Clothing	6.183	6.800	7.364	0.56	8%
Apprentice Training	4.134	13.800	14.945	1.15	8%
Other Welfare including canteen subsidy, tea & light refresh	48.499	42.686	50.229	7.54	18%
	95.831	100.260	112.581	12.32	12%
OVER TIME	133.769	88.759	106.511	17.75	20%
MEDICAL EXPENSES	213.171	172.183	198.01	25.83	15%
CONTINGENCIES (UNION CHARTER)	77.400	-	-	-	0%
EMPLOYEE BENEFITS PROVIDED UNDER IAS-19					
Leave Encashment	20.739	20.000	14.500	(5.50)	(28%)
Gas Facility Retired Executive	8.044	9.569	9.569	-	0%
Medical Retired Executive	101.18	138.215	138.215	-	0%
	129.963	167.784	162.284	(5.50)	(3%)
GRAND TOTAL	2,344.535	2,317.751	2,948.516	630.76	27%

50.3 The Petitioner has claimed Rs. 104 million on account of CBA Agreement which has not yet been concluded. The Authority in its determination dated August 6, 2002, January 20, 2003 and February 28, 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 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. 104 million for CBA agreement.**

50.4 The Petitioner has claimed payment of Rs. 117.519 million as **Agreement / Settlement Bonus** and Rs. 5.665 million on account of **Good Attendance Bonus** for FY 2002-03 on basis of Memorandum of Settlement dated May 11, 1993. However, it is observed 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, January 20, 2003 and February 28, 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 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.

50.5 **In view of the foregoing, the claim of the Petitioner amounting to Rs. 117.519 million as Agreement Bonus and Rs. 5.559 million as Good Attendance Bonus 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.

50.6 Except for provision for employee benefits provided under IAS-19 amounting to Rs. 162.284 million, which has been allowed as per Petitioner's projections and medical expenses allowed at an amount equal to last year figure i.e. Rs, 172.183 million and disallowances as discussed in earlier paragraphs, the balance amount of salaries and wages expenditure have been allowed at an amount of **Rs. 2,076.673** million after giving 5% increase over and above the amount allowed by the Authority in its determination dated February 28, 2003 for FY 2002-03.

50.7 The Authority reiterates its earlier directions to create separate funds for meeting its obligations under IAS 19.

51. **PROVISION FOR DOUBTFUL DEBTS.**

51.1 The Petitioner has projected Provision for doubtful debts to increase from Rs. 168 million (FY 2002-03) to Rs. 212 million (FY 2003-04). A comparison of provision for doubtful debts is provided below:

Rs in million

Description	**FY 2003-04 Estimates**	**FY 2002-03 Estimates**	**FY 2001-02**	**FY 2000-01**
Amount of trade debts (gross)	8,122.511	8,306.227	7,943.154	8,286.371
Provision for doubtful debts	**212.000**	**168.000**	**141.632**	**131.503**
Sales including GDS, LPS, Sales tax and Meter rentals	51,577.431	42,492.946	37,681.505	29,837.894
Debtors as number of days sales	**58**	**72**	**75**	**99**
Trade debts as percentage of Sales	15.75	19.55	21.08	27.77
Provision as %age of Sales	0.41	0.40	0.38	0.44

Provision as %age of Total trade debts	**2.61**	**2.02**	**1.78**	**1.59**

51.2 Provision for doubtful debts @ 2.61% of the gross trade debts is too high, keeping in view the prevalent operating environment. A figure of not more than 1.5% appears to be realistic in the prevailing conditions. Therefore, the Authority provisionally allows the provision for doubtful debts at Rs 122 million for the FY 2003-04, subject to recovery of Rs. 70 million from previous doubtful debts, compliance with the directions of the Authority given in its determinations dated January 20, 2003, and actualization of the amount.

51.3 The Authority reiterates its earlier directions given in the determination dated January 20, 2003 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.

52. INTERSTATE GAS COMPANY

52.1 The Petitioner has projected Rs. 13 million expenses on Interstate Gas Systems (Pvt.) Limited for FY 2003-04. According to Director's Review included in Petitioner's quarterly un-audited accounts for the quarter ended March 31, 2003, it is stated that the Interstate Gas Systems (Pvt.) Limited has been pre-qualified to participate in bidding process for an international project of laying onshore pipeline (being a non-regulated activity), in addition to its primary functions of exploring possibilities of import of gas from various countries.

52.2 The Authority provisionally allows Rs. 3 million to cover only activities related to import gas options.

53. REMAINING ITEMS OF TRANSMISSION & DISTRIBUTION EXPENSES

53.1 The items of transmission and distribution costs, except for items discussed from para 49 to 52 above, have been allowed by the Authority at an amount after giving 5% increase over and above the amount allowed by the Authority in is determination dated February 28, 2003 for FY 2002-03.

54. DEFERRAL ACCOUNT

55. 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 established a deferral account to capture various elements of cost which would become firm at the close of year.

56. 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.

57. This deferral account 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.

58. In its determination of the revenue requirement for the FY 2001-02 dated 6th August, 2002, and for FY 2002-03 dated February 28, 2003, the Authority had disallowed provision for 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 or FY 2002-03 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 2003-04 has again made a provision of Rs. 104 million and has also made provision for agreement and good attendance bonuses which have also been disallowed on the same grounds as discussed in para 50.4 above. The Petitioner is hopeful that the CBA Agreement would 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 2003-04 and disallowed various expenditures subject to actualization. **In order to capture the un-ascertained expenditure including the above items the Authority allows establishment of deferral account amounting Rs. 325 million in the revenue requirement of the Petitioner for FY 2003-04.**

59. **n view of the above, the Authority provisionally determines operating cost at Rs. 3,339 million as against Rs. 3,711 million claimed by the Petitioner, subject to directions given in para 49 through 58 supra**.

Rs. in million

Particulars	**2003-2004 Claimed by the Petitioner**	**2003-2004 Determined by OGRA**
Salaries and wages	2,948.516	2411.140
Stores, spares & supplies consumed	245.000	214.200
Material & labour used on consumer's installation	19.496	18.955

Electricity	57.074	49.656
Rent, rates and taxes	21.000	20.457
Travelling	38.011	33.600
Postage & Revenue Stamps	41.869	36.817
Insurance & Royalty	45.904	40.173
Repairs & Maintenance	452.922	452.922
Legal & Professional charges	105.000	94.500
License & Tariff Petition fee to OGRA	35.000	35.000
Provision for doubtful debts	212.000	122.000
Security Expenses	62.000	47.250
Gas bills collection charges	26.000	25.200
Others- Excluding Interstate expenses	101.000	90.928
Deferral account	-	325.000
	4,410.792	4,017.798
Less: Recoveries / Allocations:	700.000	679.092
Net operating expenses	**3,710.792**	**3,338.706**

for FY 2002-03 to 6.50% (21,437 MMCF) for FY 2003-04 as per details below:

Volumes in MMCF

DESCRIPTION	FY 2003-04 Estimates	FY 2002-03 Estimates	FY 2001-02
Gas Purchases net of internal consumption	329,914	269,952	253,837
Gas Sales	308,477	251,055	234,553
UFG	21,437	18,897	19,283
UFG % (%age of Purchases)	6.5%	7.00%	7.60%

60.1 In its determination of August 6, 2002, the Authority had directed the Petitioner to reduce its line losses i.e. Unaccounted for Gas (UFG) to 6% by June 2005. The Petitioner has estimated the UFG @ 6.5% for the FY 2003-04.

60.2 The Petitioner has been allowed an expenditure of Rs. 452.922 million under the head repair and maintenance keeping in view the intensive rehabilitation plan for reduction of UFG levels as evident from the following:

Physical Targets	FY 2002-03 Estimates	FY 2003-04 Estimates
Underground Leak Rectification (Kms)	2,010	2,000
Underground Leak Survey (Kms)	2,370	2,000

Overhead Leak Survey (Nos.)	158,726	160,000
Overhead Leak Rectification (Nos.)	150,156	160,000
Repositioning of Meters (Nos.)	17,380	18,249
Recoating of Distribution Pipeline (Kms)	58	52
Recoating of Transmission Pipeline (Kms)	28	29

60.3 n view of the above, the Authority accepts the 6.5% UFG for the FY 2003-04 same and decides that in order to incentivise the Petitioner to improve its efficiency and to safe guard the interest of consumers, the Petitioner shall be entitled to retain the savings in case where the Petitioner improves upon the UFG target of 6.5% in FY 2003-04. Conversely the Petitioner shall bear from its own profit the consequential impact of not achieving the aforestated target of UFG.

DECISION

61. In exercise of the powers vested in the Authority under the OGRA Ordinance, 2002, the estimated revenue requirement for the FY 2003-04 is now determined at Rs. 43,620 million as against Rs. 46,017 million determined on May 21, 2003, tabulated below:

	Estimated Revenue Requirement- FY 2003-04	**Rs. in Million**
1	Cost of Gas	36,829.470
2	Transmission & Distribution Cost	3,338.706
3	Gas Internally consumed	314.625
5	Depreciation	2,047.158
6	Workers profit participation fund	100.000
7	Return on net operating fixed assets	2,629.933
	Less: Other Operating Income	(1,098.408)
	Transportation Income	(541.104)
	Total estimated revenue requirement	**43,620.380**

62. In view of the above, the surplus in the estimated revenue requirement of the Petitioner for FY 2003-04 at current Prescribed Prices is estimated at Rs. 571.720 million as against shortfall of Rs. 1,825.108 million determined vide order dated May 21, 2003. In order to cater for the surplus in revenue requirement, the Authority hereby decreases the average Prescribed Price of the Petitioner on provisional basis w.e.f. 1st July, 2003 at the rate of Rs. 1.93 / MMBTU (**worksheet at Annexure-A).** The revised Prescribed Price for each category of retail consumers for FY 2003-04, effective from 1st July, 2003, is determined on provisional basis as per **Annexure-B. Since the rationalization of Sale Price for domestic consumers fall within the exclusive jurisdiction of Federal Government, the Prescribed Price in case of domestic consumers has been kept unchanged as the same is already at par with the existing Sale Price. Similarly no change has been made in the case of fertilizer feedstock (new plants) as the same has been frozen for a period of 10 years, which will expire in 2008.**

DIRECTIONS

63. 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, subject to decision at para 60.3 above.

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 50.4 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 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 42.2 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.

x) create separate funds to meet its obligations under International Accounting Standard-19.

62.1 The Petitioner is further directed to conclude agreement with SNGPL by 31st July, 2003 ensuring prompt gas purchase differential settlement mechanism in accordance with the Policy Guidelines issued by the Federal Government, subject to approval of the Authority as elaborated in para 48.7 above.

63.1 This detailed determination incorporate the short order dated May 21, 2003 as changed on June 27, 2003.

(Mahboob Elahi) Member (Finance)	(Rashid Farooq) Member (Oil)	(Jawaid Inam) Member (Gas) / Vice Chairman

(Munir Ahmad)
Chairman

Islamabad
June 30, 2003

SUI SOUTHERN GAS COMPANY LIMITED
Determination of Estimated Revenue Requirement for FY 2003-04

Annexure A
Rs. In Millions

	2003-04			
	Revenue requirement as per Petition	**Adition**	**Deletion**	**Revenue requirement determined by OGRA vide order dated May 21, 2003**
Gas sales volume -MMCF	308,477	514		308,991
MMMBTU *	296,130	494		296,624
A: Net operating revenues				
Gross sales net of general sales tax	44,274.458	83.460		44,357.918
Less: Gas Development Surcharge- Existing	165.818	-		165.818
Net sales at current	44,108.640	83.460		44,192.100
Meter rentals	432.675	-		432.675
Late payment surcharge	229.129	-		229.129
Amortization of Deferred Credit	129.654	-		129.654
Meter manufacturing profit	62.266	-		62.266
Sale of gas condensate	148.684	-		148.684
Gas Transportation charges	541.104	-		541.104
Other Operating Income	96.000	-		96.000
Total Income "A"	45,748.152	83.460	-	45,831.612
"B" Less Expenses				
Cost of gas	43,009.016	57.401	6,236.947	36,829.470
Transmission and Distribution cost	3,710.794	-	372.088	3,338.706
Gas Internally Consumed	258.908	113.118	57.401	314.625
Depreciation	2,080.171	-	33.013	2,047.158
Other charges (W.P.P.F)	***114.761***	-	14.761	***100.000***
Total Expenses "B"	49,173.650	170.519	6,714.210	42,629.959
		-		
"C" Operating profit (A-B)	(3,425.498)	(87.058)	(6,714.210)	3,201.654
Return required on Net Assets:				
Net assets at beginning	16,530.779			16,530.779
Net assets at ending	18,384.998		1,067.423	17,317.575
	34,915.777			33,848.354
Average fixed net assets (I)	**17,457.889**		533.711	**16,924.177**
Deferred credit at beginning	1,477.460			1,477.460
Deferred credit at ending	1,430.504			1,430.504
	2,907.964			2,907.964
Average net Deferred credit (II)	1,453.982			1,453.982
"F" Average (I-II)	**16,003.907**		533.711	**15,470.195**
Return required on Net Assets	17%			17%
"G" Amount of return required	2,720.664		90.731	2,629.933
"H" Excess over return required	6,146.162		6,717.882	(571.720)
Increase (decrease) in prescribed price (Rs. / MCFT)	**19.92**		**21.77**	**(1.85)**
Increase (decrease) in prescribed price (Rs. / MMBTU)	**20.75**		**22.68**	**(1.93)**

Note * **MCF assumed by the petitioner at average 960 BTU per SCF**

Annexure -B

PROVISIONAL PRESCRIBED PRICES OF SUI SOUTHERN GAS COMPANY LIMITED AS DETERMINED BY THE OIL AND GAS REGULATORY AUTHORITY FOR FINANCIAL YEAR 2003-2004.

	Prescribed Prices effective from 01.07.2003 based on average purchase cost of gas per Federal Govt. Policy Guidelines
CATEGORY	Rs. per MMBTU
(i) Domestic Consumers:	
For domestic consumers, including residential colonies, mosques, churches, temples, madrassas, other religious places and hostels attached thereto, Government and semi-Government offices, hospitals, Government guest houses, Armed Forces messes and langars, universities, colleges, schools, private educational institutions, orphanages and other charitable institutions	
First slab (upto 100 cubic metres per month).	67.95
Second slab (over 100 upto 200 cubic metres per month).	102.37
Third slab (over 200 upto 300 cubic metres per month).	163.78
Fourth slab (over 300 cubic metres per month).	213.06
For hostels and residential colonies to whom gas is supplied through bulk meters.	
All off-takes at flat rate of	102.37
(ii) Commercial Consumers:	
All establishments registered as commercial units with local authorities or dealing in consumer items for direct commercial sale like cafes, milk shops, tea stalls, canteens, barber shops, laundries, tandours, places of entertainment like cinemas, clubs and theatres, private office, clinics, maternity homes etc.	
All off-takes at flat rate of	168.75
(iii) Industrial Consumers:	
All consumers engaged in the processing of industrial raw material into value added finished products irrespective of the volume of gas consumed including hotel industry but excluding such industries for which a separate rate has been prescribed.	
All off-takes at flat rate of	166.86

(iv)	**Ice Factories:**	
	All off-takes at flat rate of	168.75
(v)	**CNG Stations:**	
	All off-takes at flat rate of	166.86
(vi)	**Cement Factories:**	
	All off-takes at flat rate of	166.86
(vii)	**Pakistan Steel**	
	All off-takes at flat rate of	166.86
viii)	**FFC Jordan Fertilizer Company**	
	(i) For gas used as feed stock for Fertilizer.	36.77
	(ii) For gas used as fuel for generating steam and electricity and for usage in housing colonies for fertilizer factories.	166.86
(ix)	**Power Stations:**	
	All off-takes at flat rate of	166.86

Note: MCF assumed by the petitioner at average 960 BTU per SCF

Annexure-C Abbreviations used in the determination

Authority	*Oil and Gas Regulatory Authority*
ADB	*Asian Development Bank*
APTMA	*All Pakistan Textile Mills Association*
BTU	*British Thermal Units*
CBA	*Collective Bargaining Agent*
CRCP	*Consumer Rights Commission of Pakistan*
CRF	*Consumer Rights Forum*
DG (Gas)	*Directorate General (Gas)*
FY	*Financial Year*
GDS	*Gas Development Surcharge*
GOP	*Government of Pakistan*
GST	*General Sales Tax*
IAS	*International Accounting Standard*
JPCL	*Jamshoro Power Company Limited*
KESC	*Karachi Electric Supply Corporation Ltd.*
KM	*Kilometers*
KSE	*Karachi Stock Exchange*
MCF	*Thousand Cubic Feet*
MMBTU	*Million British Thermal Units*

MMMBTU	*Billion British Thermal Units*
MMSCF	*Million Standard Cubic Feet*
MMSCFD	*Million Standard Cubic Feet per day*
MP&NR	*Ministry of Petroleum and Natural Resources*
OGRA	*Oil and Gas Regulatory Authority*
OGRA Ordinance	*Oil and Gas Regulatory Authority Ordinance 2002*
PPL	*Pakistan Petroleum Limited*
Registrar	*Registrar of Oil and Gas Regulatory Authority*
ROA	*Return on Assets*
Rs.	*Pakistani Rupee*
SNGPL	*Sui Northern Gas Pipelines Limited*
SSGCL	*Sui Southern Gas Company Limited*
TA	*Temporary Assignee*
T&D	*Transmission and Distribution*
UFG	*Unaccounted for gas*
WPPF	*Workers Profit Participation Fund*
WAPDA	*Water and Power Development Authority*