March 12, 2003
Case No. OGRA-6(2)-1(1)/2003

DETERMINATION OF ESTIMATED REVENUE REQUIREMENT

FINANCIAL YEAR 2002-03

PETITIONER

SUI NORTHERN GAS PIPELINES LIMITED

Filing of Petition:	December 30, 2002
Admission for hearing:	January 6, 2003
Publication of notice for intervention and participation:	January 9, 2003
Publication of notice for public hearing:	February 2, 2003
Public hearing held:	February 18, 2003

INTERVENERS

All Pakistan Textile Mills Associations

Northern Power Generation Company Limited

Consumer Rights Commission of Pakistan

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

Background

1 Sui Northern Gas Pipelines Limited, (Petitioner) is a public limited company incorporated in Pakistan under the Companies Ordinance, 1984 and listed on the Karachi, Lahore and Islamabad stock exchanges. The Petitioner is engaged in the business of construction and operation of transmission and distribution pipelines and transmission, distribution and sale of natural gas.

2 The Petitioner, under section 8 of the Oil and Gas Regulatory Authority Ordinance, 2002 filed a Petition (the Petition) before the Authority on December 30, 2002 seeking, inter alia, increase in its prescribed prices by Rs. 5.66 per MCF (Rs. 5.96 per MMBTU) in each category of consumers, to meet a net shortfall of Rs. 1,997 million in its estimated revenue requirement for the financial year 2002-03, due to the following factors:

a. Increase in Wellhead gas prices and operating cost during 2002-03

b. Increase in net operating fixed assets, eligible for 17.5% covenanted rate of return.

3 To determine whether a prima facie case for consideration was made out, the Authority held a pre-admission hearing on January 6, 2003 and decided that a prima facie case for evaluation exists therefore, the Petition was admitted and the Petitioner was allowed to plead its case.

4 Notice inviting comments on the Petition from all the consumers, general public, interested and affected persons was published on January 9, 2003 in the national press. The Authority received four communications relating to the Petition, which were relevant to the subject matter. Three of these communicators applied to intervene in the proceedings as parties, namely:

a. All Pakistan Textiles Mills Association

b. Northern Power Generation Company Limited

c. Consumer Rights Commission of Pakistan

5 Their intervention requests were accepted by the Authority. Having

examined the Petition and the above said communications, the Authority decided to hold a public hearing in the proceedings. Notice intimating the time and place of the public hearing and extension of date for filling comments / interventions was published in newspapers on February 2, 2003. The public hearing commenced on February 18, 2003 and concluded on the same day. Evidence in the proceedings was also closed on February 18, 2003.

6 In the public hearing, the Petitioner presented and argued its case for an increase in the prescribed prices w.e.f. July 1, 2002. 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.

7 SALIENT FEATURES OF THE PETITION

7.1 The Petitioner has made the following submissions in support of the Petition:

7.2 Under the provisions of the IBRD Loan Agreement, the Petitioner is eligible to an annual return of not less than 17.5% 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 should cater for the cost of gas at wellhead, operating cost (T&D), depreciation and the prescribed rate of return, which is to be notified as the prescribed price for the Petitioner, as provided in the following table:

Rupees per MCF

Particulars	2001-02 Actuals	2002-03 Estimates	Increase /(Decrease)
Cost of Gas Operating Cost (T&D) Depreciation *(net of amortization)* W.P. Fund & Welfare Fund Return @ 17.5% of net fixed operating assets	88.68 12.21 7.57 0.58 12.34	91.48 13.15 7.48 0.59 12.49	2.80 0.94 (0.09) 0.01 0.15
 Less: Operating Income	121.38 4.06	125.19 3.27	3.81 (0.79)
A. Total cost of supply	**117.32**	**121.92**	**4.60**
Margin available out of existing GDS to meet revenue requirement:			
Average Consumer Price Gas Development Surcharge	130.47 13.15	133.67 17.41	3.20 4.26
B. Margin available	**117.32**	**116.26**	**1.06**
C. Increase in Prescribed Prices-Revenue requirement (A-B)	**-**	**5.66**	**5.66**

7.3 The net operating fixed assets are projected to increase from Rs. 23,743 million to Rs. 26,568 million.

7.4 Based on the average net operating fixed assets, required return at 17.5% is computed at Rs. 4,402 million.

7.5 The net operating revenues are projected at Rs. 42,477 million, breakup of which is as follows:

Particulars	Rupees in million
Sales at current tariff	40,990
Other operating income	
Rental and Service charges	610
Surcharge and Interest on arrears	525
Amortization of deferred credit	334
Gain on sale of Purification/ SJS Assets	18
	1,487
Net operating revenues	**42,477**

7.6 Unaccounted for Gas (UFG) is projected at 7.02 % (26,645 MMSCF) as against 7.98% (27,914 MMSCF) in the previous year.

7.7 Net operating expenses have been projected at Rs. 40,072 million, breakup of which is as follows:

Particulars	Rupees in million
Cost of gas sold	32,256
Operating cost (T&D)	4,635
Depreciation	2,972
Worker participation fund	166
Workers Welfare Fund	43
Net operating expenses	**40,072**

7.8 Total revenue requirement net of other operating income has been projected at Rs. 42,987 million.

7.9 Shortfall in the revenue requirement has been calculated at Rs. 1,997 million, which stipulates an increase of Rs. 5.66 per MCF (Rs. 5.96 per MMBTU) in Prescribed Price w.e.f. July 1, 2002 as detailed below:

Particulars	Rupees in million
Sales at prescribed price	40,990
Estimated revenue requirement	42,987
Estimated shortfall in revenue requirement	1,997

8 WRITTEN SUBMISSION OF INTERVENERS AND RESPONSE OF THE PETITIONER THERETO

8.1 All Pakistan Textile Mills Association

8.2 All Pakistan Textile Mills Association has submitted and argued that:

8.3 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. If increase in tariff is allowed to the Petitioner, it will seriously jeopardize the viability of textile Industry's production and exports.

8.4 Although Petitioner may have assured OGRA that the request for higher prices to meet the total estimated revenue requirement will not effect the consumers as the proposed revision could be adjusted from gas development surcharge, the industry fears that sooner or later the proposed upward tariff revision will be passed on to / recovered from the consumers.

Response

Tariff has been requested on the basis of rate of return as provided in the World Bank loan covenants and is applied after approval of the competent authority. No increase in the sales prices is envisaged retroactively.

8.5 As per Profit and Loss Accounts of the Petitioner for the year 2002-03, a profit of Rs 5.315 billion would be earned giving it a return of 21.13% on its net fixed assets as against the requirement of 17.5% return. This very high return would be earned if the Petitioner continues "business as usual" as per its past operating practices i.e. its sales increase only by 15% against last six years average of 20% increase per annum. It continues to have very high line losses of around 8% (as against 2% internationally accepted losses); it continues to have high operating expense of 10.76% (as against less than 5% international standards operating expenses for Gas Transmission and Distribution Companies). It continues to maintain very high financial charges (on excessive loans) inspite of surplus funds and reserves of Rs 3 billion.

8.6 The Petitioner is implementing a development program (to be completed by June 2004) which is expected to increase its sales revenue by around 50% in the next 1-1/2 years. This increase in sales revenue would be primarily from its most profitable customer segment i.e. IPPs. Once this development program is completed by mid 2004, the Petitioner's sales revenue is expected to increase to Rs. 63.008 billion and even if other operating factors continue to remain below acceptable efficiency standards the Petitioner would earn a net profit before interest/tax of Rs 7.827 billion which would give a return of 31.12% on its net operating assets.

8.7 The Petitioner has very high line losses of 8.87% (2001) and 7.78% (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. 0.44 billion per annum. As such, if Petitioner reduces its line losses to 5% the increase in profit of the Petitioner would be Rs. 1.3 billion per annum. If the management of the 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 17.5%. 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 17.5% return and also allow reduction in its tariff as a consequence of incremental profit (in excess of 17.5%).

Response

The revenue requirement has been worked out strictly in accordance with the loan agreement. Due to hectic efforts made by the management, gas losses are continuously declining. Gas losses for the year ended 2002 were 7.98% as compared to 8.87% for the year ended 2001. The line losses are projected @ 7.02% for the financial year 2002-03. The Petitioner further submitted that the acceptable international standard for line losses is 6% as against 2% stated by the Intervener. The transmission and distribution expenses are in line with the international practices particularly keeping in view the number of domestic consumers served by the Petitioner. The financial charges have no relevance with the revenue requirement since the rate of return is before the financial charges and corporate taxes.

8.8 Projected profit and loss account of the Petitioner for the year 2004-05 shows a profit before taxation of Rs. 7.8 billion which will give it a return of 31% on its net fixed operating assets even if no improvement is made in its existing operations as against the requirement of 17.5% 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:

PROFIT IMPROVEMENT BY REDUCTION IN LINE LOSSES

(Line losses In 2001 were 8.9% In 2002 7.98%)

% REDUCTION IN LINE LOSSES	ADDITIONAL PROFIT *Rs. in million*	RETURN ON NET OPERATING ASSETS
1%	436.091	22.86%
2%	872.182	24.60%
3%	1,308.273	26.33%
4%	1,744.364	28.06%

8.9 As a result of reduction in line losses (and resultant increase in profits), the gas tariff of the Petitioner should be reduced rather than increased.

Response

The point raised by the intervener is hypothetical and has no relevance to the Petition.

8.10 Though details of the Petitioner's operation costs have not been provided, nevertheless a review of the summary profit and loss account of the Petitioner for the year 2001-02 shows its transmission and distribution costs at Rs. 4 billion (10.5% of Sales) which are very high considering the simple nature of the Petitioner's operations. The transmission and distribution costs of the Petitioner should be compared with the rate of transmission and distribution costs of other companies around the world (which is around 5%), so that a realistic cost standard can be established and given as a target to the Petitioner's management.

Response

Transmission and Distribution costs as referred in the Petition are very reasonable and justified compared to the heavy infrastructure of gas transmission and distribution system spread over in three transmission headquarters and eight regional distribution offices. The system consists of about 34,000 km of distribution lines and 5,405 km of transmission lines, which is serving more than 2 million consumers including power plants and fertilizer factories.

8.11 As per the audited annual accounts of the Petitioner, it was maintaining reserves and unappropriated profit of over Rs 2.6 billion as on 30 June 2002. While such high reserves available with the Petitioner, there is absolutely no justification for requesting for a further increase in its profits.

Response

The figure of profit before tax of Rs 2.76 billion as on 30th June 2002, as mentioned in the intervention is reduced to Rs 1.2 billion after appropriations and distribution of dividend. Besides the unappropriated / accumulated profit does not form part of tariff mechanism of the Petitioner.

8.12 According to the Petitioner, the government has allowed it an assured return (profit) of 17.5% on its net fixed assets in operation (ROA without financial charges and Tax). This undue privilege allowed to the Petitioner is a sure way of promoting operational inefficiency and wastage, as under this formula, irrespective of the Petitioner's mismanagement, it is assured a high return of 17.5% 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 (profit) 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 operation.

Response

Despite the assured return on fixed assets to which the Petitioner is entitled under World Bank loan convents, past history of the Petitioner clearly indicates that it has been operating its transmission and distribution system efficiently, economically and effectively to maintain uninterrupted gas supply to consumers. Assets are added judiciously because Petitioner has to justify to the Authority the prudency of all capital expenditures.

8.13 Notwithstanding the governments assurance to the Petitioner for 17.5% 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

Performance standards are under finalization by the OGRA and will be complied with after approval. The Petitioner is already working on reducing its losses to the target of 6% as set by the Authority.

8.14 Under the privatization policy of the government, the 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 it is privatized, OGRA should make it mandatory in the privatization terms and conditions that the private management will not be able to unilaterally increase the gas tariff without formal approval of the government. 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 privatization of the Petitioner has no relevance to the present Petition.

8.15 **Northern Power Generation Company Limited**

8.16 Northern Power Generation Company Limited has submitted and argued that:

8.17 Since January 2002, the Petitioner has been issuing invoices to their power house on the basis of calorific value (BTU) of the gas supplied, whereas the contents of advertisement indicate that the proposed increase in gas tariff and gas billing shall be on Rs./MCF basis rather than Rs./MMBTU. In case, the MMBTU based billing is to continue there would be immediate need to revise the Petitioner’s advertisement before proceeding further.

Response

Gas is consumed in volume i.e. MCF/HM3 and for tariff purposes volume is converted into BTU, which does not remain constant. BTU is the heating value adjustment factor and it is ever changing. Conversion of volumes (MCF/HM3) into BTU is based on data available on calorific value. The Petition in MCF has been rightly applied for ease of reference and understanding.

8.18 Despite the fact the Petitioner is providing gas to all of its power houses from the same system but invoices to their various power houses are being issued by the Petitioner on different calorific values.

Response

The Petitioner clarified that gas supplied to customers in the south is coming from various sources. This is particularly so with reference to power houses under the control of Northern Power Generation Company Limited, to whom gas is supplied from Sui, Pirkoh, Qadirpur and Dhodhak fields and BTU of all these sources is continually varying in heating value.

8.19 Availability of sufficient gas for its power houses from the Petitioner's system has always been a problem area. Especially during winter period when due to reduced hydropower energy, reliance on thermal energy increases, the supply of gas is reduced, therefore, they have to switch to costly furnace oil based generation. This causes increased pricing for end user. Therefore, in national interest the Petitioner may be directed to supply gas for generation purposes on priority basis.

Response

Gas supplies made to WAPDA are on the basis of gas available from sources. In case of shortage, reduction in gas supply is generally applied to all major commercial and industrial consumers. However, Gas Infrastructure Development Plan is in progress and after its completion hopefully more gas will be supplied to power plants without interruption.

8.20 A good proportion of NPGCL generation is used for domestic and agricultural purposes, which is being supplied at subsidized rates. On the other hand, the price of gas for production of fertilizers (i.e. agricultural purposes) is far less than the price of gas for power generation. In the national interest, the Petitioner may be directed to provide gas for power generation purposes at the rate they are providing gas to the fertilizers factories.

Response

Tariff is applied to WAPDA and other consumers as per prices notified by the Government of Pakistan. Provision of gas to fertilizer plants for use as feed stock at lower rate is the government policy. Whereas, supply of gas to fertilizer plants for power generation is at the same rate as that of WAPDA's power plants.

8.21 Despite the fact that supply of gas from the Petitioner is based on "availability" , however, the Petitioner is charging "fixed charges" to their Gas Turbine Power Station Faisalabad @ 975,000/- per month (i.e. Rs 11.7 million annually). It may be appreciated that "fixed charges" are normally levied on guaranteed supply, but in case of GTPS Faisalabad this principle is being ignored. The Petitioner may be directed to withdraw these charges of Rs 975,000/- per month as fixed charges to GTPS Faisalabad.

Response

Fixed charges are collected by SNGPL in accordance with its agreement with the intervener. The Petitioner, however is willing to review the existing contracts including payment of fixed charges, payment of late payment surcharge by the intervener and take or pay issues.

8.22 It is further mentioned here that the Petitioner's present demand for increase in gas tariff by Rs. 5.66 per MCF will put an additional burden of about Rs. 200 million per annum on WAPDA, due to gas consumption for power generation which will cause increased pricing for end consumer of electricity.

8.23 In addition to the above, NPGCL also provided an analysis in which they have calculated that there should be a decrease of Rs. 7.67 per MCF instead of increase of Rs. 5. 66 per MCF, as requested by the Petitioner.

Response

The increased revenue requirements being asked for by the Petitioner are mainly required to meet the increase in the cost of gas and prescribed rate of return. The intervener has made incorrect assumptions which remain unsubstantiated.

8.24 **Consumers Right Commission of Pakistan**

8.25 The intervener was not present on the day during the public hearing when the case was called. The Authority, however decided to place their written submission on record for final decision. The intervener request has been fully considered.

8.26 Consumers Right Commission of Pakistan has submitted that:

8.27 The Petitioner has failed to comply with the directions of the Authority. The Authority directed the Petitioner, in its determination of prescribed price for FY 2001-02, that the Collective Bargaining Agent (CBA) agreement should be based on the principles of increase in productivity and efficiency, prevailing domestic inflation rate, control on overtime expenditure, control on abuse of medical facility and rightsizing of manpower. Whereas, the Petition shows that the Petitioner has shown indifferent attitude towards the directions of the Authority. The productivity and efficiency of the Petitioner has not improved. Consumers are facing acute shortage of gas and load shedding. The operating cost of the Petitioner has increased from Rs. 4,281 million (2001-02) to Rs. 4,635 million (2002-03) while the inflation rate has substantially decreased in recent years. The Petition shows that Rs. 442 million (2002-03) are allocated for medical & welfare of employees, which were Rs. 420 million in 2001-02. Furthermore, the increase in salaries, wages and benefits from Rs. 2,515 million (2001-02) to Rs. 2,554 million

(2002-03) shows that the Petitioner did not act according to the directions of the Authority.

Response

The agreement with CBA is under finalization giving due weight to the guidelines. These are complicated discussion, which require time. The increase in operating costs had been fully explained to OGRA on February 07, 2003.

Moreover many costs are of a fixed nature. The increase in medical expenses is mainly due to the increase in ages of employees, cost of medicines, hospitalization and operations costs. Increase per employee is about 7.7%, which is quite controlled in view of massive increases in cost of medical aid/facilities.

The figure of Rs. 442 million in respect of medical and welfare must be analyzed in view of impact of IAS – 19 which the Petitioner is bound to provide as per actuarial valuations. Actual payments in this regard are only Rs. 172.825 million which has been provided on account of incremental impact of IAS – 19.

The increase in salary and wages is mainly due to annual increments.

8.28 The Petition is lacking in sufficient analysis and relevant details and the data given in the Petition is confusing and anomalous. It is very difficult to get the clear picture of the Petitioner's accounts from the Petition.

Response

This is a general statement. The application is comprehensive and fully understandable.

8.29 The entitlement of 17.5% return on average net fixed assets should not be the sole ground for increase in revenue requirements and the Authority should initiate consultation to rationalize this requirement.

Response

The return on net average fixed assets is guaranteed by the Government of Pakistan. The Authority has introduced and is also in the process of introducing new operational standards for compliance.

9 DETERMINATION OF THE AUTHORITY

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

10 RATE OF RETURN

10.1 The Petitioner is calculating its revenue requirement on the basis of 17.5% return on average net fixed operating assets in accordance with covenants agreed with the International Bank for Reconstruction and Development (IBRD).

10.2 All Pakistan Textile Mills Association is of the view, that the Petitioner’s rate of return (profit) 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 operation.

10.3 Consumers Right Commission of Pakistan is of the view, that entitlement of fixed return should not be a ground for increase in revenue requirement and the Authority should initiate consultation to rationalize this requirement.

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

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

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

10.7 In the meantime, the Federal Government has issued Policy guidelines by 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 the OGRA, in consultation with the Federal Government and the licensees, it shall determine the revenue requirement of the existing gas companies on the basis of the covenants stipulated in the loan agreements of SNGPL with the IBRD.

10.8 The Authority has also noted the observation of the interveners that the present rate of return on assets is allowed to the Petitioner before corporate income tax, interest and other charges on debt. If the same return is allowed on equity, these elements will have to be accounted for before the return and the results would not be the same as interveners have presumed. In terms of Rule 17(1)(e) of the Natural Gas Tariff Rules, 2002, the Authority is obligated to take into account the covenants contained in agreement relating to regulated activities, with international institutional lenders. Therefore, the Authority adopts the covenanted rate of return for computing the revenue requirement for FY 2002-03.

11 OPERATING FIXED ASSETS

11.1 The Petitioner has projected the net operating fixed assets at Rs. 26,568 million in the financial year 2002-03 as follows:

Rupees in million

Particulars	FY 2002-03	FY 2001-02
Fixed assets at cost	54,535	49,151
Less: Accumulated depreciation	24,300	21,978
	30,235	27,173
Leased assets	0	103
	30,235	27,276
Less: Deferred credit for completed jobs		
Total as per balance sheet	3,967	3,981
Less: Work in progress	300	448
	3,667	3,533
Net fixed assets in operation for rate base	**26,568**	**23,743**

11.2 The Petitioner is projecting an addition of Rs. 6,053 million in the fixed assets and deletion of Rs. 809 million, which is as follows:

Particulars	*Rs. in million*
Fixed operating assets at cost as at July 1, 2002	49,151
Leased assets transferred	140
	49,291
Less: Sale of purification / SJS assets	809
	48,482
Additions:	
Gas infrastructure development project	3,588
Distribution development	2,100
Plant & machinery, transport, furniture etc	300
Transmission SCADA	65

	6,053
Fixed operating assets at cost projected at June 30, 2003	54,535

11.3 Deletion for financial year 2002-03 comprises of assets of Sui Purification plant and related assets as on July 1, 2002, sold to Pakistan Petroleum Limited on the basis of their written down value as certified by the Petitioner auditors in accordance with the decision of the Federal Government.

11.4 The Petitioner is projecting an addition of Rs. 3,588 million in Transmission System under Gas Infrastructure Development Project and Rs. 65 million in Transmission SCADA, detail of which is as under:

Particulars	**Length** *Miles*	**Diameter** *Inches*	**Amount** *Rupees in millions*
Pipeline MP112 (Shaidani Sharif)	9.44	36	248
Pipeline MP173 (Janowala)-A6 (Shujabad)	11.19	36	286
Pipeline C10 (Nowshera)- Peshawar	21.05	16	165
Pipeline Qadirpur - Bhong	27.50	36	587
Pipeline AV22 (Sikandarabad) - KAPCO	25.87	24	299
Pipeline AV31(Sidhani) - Rouch	4.00	16	43
Pipeline MP27.5 (Goth Shams) -Bhong	16.20	36	349
Pipeline AV39 (Gojra)-AC8 (Faisalabad)	16.35	36	351
Pipeline AC8 (Rabwah)-CC1 (Danga)	14.52	30	245
Pipeline CC1 (Soan)-CC3 (Dhurnal)	12.48	30	213
	158.6		**2,786**
Guddu Crossing	1.12	36	119
River Crossing at Shershah	1.30	36	259
River Crossing at Attock	0.43	24	64
Construction Equipment			200
Borrowing Cost			160
Projected Commissioning of Transmission Network			3,588

11.5 In compliance with the directives of the Government of Pakistan received by the Petitioner vide letter No. NG(I)-16(I)/GM/2000 dated July 7, 2000, the Petitioner identified to carry a total of 525 MMSCFD gas from Sui and newly discovered fields in the South and planned to displace furnace oil through supply of gas to power stations namely KAPCO, WAPDA (Muzafargarh), WAPDA (Multan) and ROUCH, Abdul Hakim.

11.6 It was stated that at present the requirement of the above mentioned power plants is being met through imported furnace oil containing significant amount of sulphur. This is causing a heavy burden on country's foreign exchange resources apart from polluting the environment.

11.7 The total consumption of furnace oil in the year 2000 was 8.261 million tons out of which 6.226 million tons was consumed by the power sector and the remaining 2.035 million tons by other industries. The local oil refineries produced 2.022 million tons during that period. Total furnace oil import during 2000 was to the tune of US$ 900 million.

11.8 Combustion of natural gas particularly in gas turbines at KAPCO and ROUCH power plants, presently using low sulphur and high sulphur furnace oil respectively, would increase power generation efficiency of these plants beside reducing their operating and maintenance cost. After completion of the project, supply of 525 MMSCFD of indigenous natural gas would enable displacement of about 4.47 million tons of imported furnace oil per year effecting yearly saving of about US$500 million.

11.9 The Gas Infrastructure Development Project envisages expansion of Petitioner's transmission system between Sui and Multan by laying 353 miles of transmission lines, installation of SCADA system and installing additional 25,000 HP of compression units. The project is estimated to cost Rs. 12.5 billion with foreign exchange component of Rs. 3.4 billion for which the Petitioner has firmed up financing per project implementation schedule. The system capacity of the Petitioner would increase from 980 MMCFD to 1,380 MMCFD after completion of the project. The project was approved in principle by the Cabinet on August 9, 2000. The work on this project commenced in May 2001 and is expected to be completed in February 2004.

11.10 Petitioner claimed addition of Rs. 2,100 million in distribution development. The Petitioner is projecting to lay 1,100 Km of distribution mains of different diameters, 130 new industrial connections, 2500 new commercial connections and 100,000 new domestic connections.

11.11 Work is under progress to connect ten new towns, out of which four towns, Renala Khurd (Punjab), Kaohi Barmol (NWFP), Topi (NWFP) and Batkhela(NWFP), are expected to be commissioned during the financial year 2002-03.

11.12 Supply of gas to all these towns meets the criteria fixed as a policy by the Federal government.

11.13 In addition to these, the Petitioner is also projecting to construct Sale Meter Stations (SMS), Town Boarder Stations (TBS), District Regulating Stations (DRS) and replacement of under sized meters amounting to Rs. 400 million.

Rupees in million

Description	**Physical Targets**	**Amount**
Distribution mains ranging from 1nch dia to 16 inches dia pipeline	1,100 KM	1,010
New Connections		
Industrial	130 Nos.	46
Commercial	2,500 Nos.	38
Domestic	100,000 Nos.	600
Construction of SMSs, TBSs, DRSs and replacement of under sized meters		400
Capital expenditures during financial year 2002-03		2,094
Add: Work in progress as on July 1, 2002		448
		2,542
Less: Estimated work in progress as on June 30, 2003		(442)
Projected Commissioning of Distribution Network		2,100

11.14 The Petitioner is projecting an increase of Rs. 300 million in Plant and Machinery and Equipment etc. Out of the total increase, Rs. 183.8 million pertains to new additions and Rs. 116.2 million relates to replacement of old plant and machinery etc.

11.15 On scrutiny of the cost estimates, it transpired that cost contingencies have been built into the projected addition and also that actualization is generally lower than the estimates, the Authority decides to make ad-hoc deduction @ 20% in the cost of assets likely to be commissioned by June 30, 2003. **Consequently the net addition in the fixed assets for the FY 2002-03 is provisionally allowed at Rs. 4,842.4 million, subject to actualization, as against the claim of the Petitioner amounting to Rs. 6,053 million.**

11.16 **Depreciation has also been reduced due to savings on account of contingencies, as explained above, amounting to Rs. 42.403 million.**

12 OPERATING INCOME

12.1 Sales volume

12.2 Sales volume have been projected to increase by 9.5% from 321,957 MMSCF for the financial year 2001-02 to 352,590 MMSCF for the financial 2002-03.

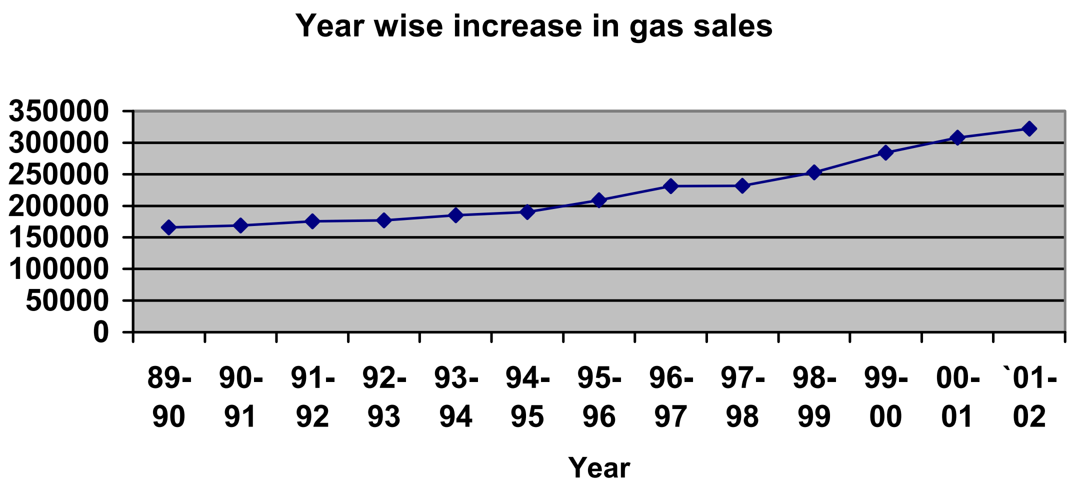
12.3 The category wise comparison of sales volume from last year is provided below:

Volume in MMSCF

CATEGORY	FY 2001-02	FY 2002-03	%Increase
Power	84,118	99,280	18%
Cement	3,729	6,935	86%
Fertilizer – feedstock	40,753	46,355	14%
General industries	85,345	85,775	0.5%
Commercial	15,548	16,425	5.65%
Domestic	92,464	97,820	5.8%
TOTAL	**321,957**	**352,590**	**9.5%**

12.4 The main reason for increase in the sales volumes is on account of higher sales projection to power, fertilizer, cement sectors and normal growth in industrial, commercial and domestic consumers.

12.5 Since 1989-90, gas sales by the Petitioner have cumulatively increased by 94%. This is evident from graph below:



12.6 **The Authority provisionally accepts the sales volumes projected at 352,590 MMSCF for FY 2002-03 which will be subject to actualization.**

12.7 **Sales Revenue**

12.8 Gross sales revenue for the financial year 2002-03 has been projected by the Petitioner at Rs. 47,131 million as against Rs. 42,005 million for the financial year 2001-02, which shows an increase of 12% over the last year.

12.9 This increase is due to more projected sales to power and industrial sectors, which contributes 28% and 26% respectively in volumes, but in terms of sales revenue contributes 34% and 32% respectively, as indicated below:

	2002-03				***2001-02***			
Category	**Sales Volume** ***MMSCF***		**Sales Revenue** ***Rupees in million***		**Sales Volume** ***MMSCF***		**Sales Revenue** ***Rupees in million***	
Power	99,280	28%	15,899	34%	84,118	26%	13,397	32%
Fertilizer	46,355	13%	3,728	8%	40,753	13%	3,114	7%
Industries	92,710	26%	15,074	32%	89,074	28%	14,216	34%
Commercial	16,425	5%	2,951	6%	15,548	4%	2,894	7%
Domestic	97,820	28%	9,479	20%	92,464	29%	8,384	20%
	352,590	**100%**	**47,131**	**100%**	**321,957**	**100%**	**42,005**	**100%**

12.10 Sales at current tariff i.e. net of gas development surcharge, is projected to increase by 8% from Rs. 37,921 million in financial year 2001-02 to Rs. 40,990 million in financial year 2002-03.

12.11 **The Authority provisionally accepts the sales projected at Rs. 47,131 million for the financial year 2002-03 which will be subject to actualization.**

12.12 **Rental and Service Charges**

12.13 The Petitioner has projected the revenue on account of meter rentals to increase by 4.3% from Rs. 585.019 million (financial year 2001-02) to Rs. 610. million (financial year 2002-03) as compared below:

Rupees in million

FY 2002-03	FY 2001-02	FY 2000-01
610.000	585.019	589.680

12.14 This projected increase is due to 102,630 new connections, the Petitioner is planning to provide, under distribution development program.

12.15 **The Authority provisionally accepts projected revenue from meter rentals at Rs. 610 million for the financial year 2002-03 which will be subject to actualization.**

12.16 **Surcharge and interest on arrears of gas sales**

12.17 The Petitioner has projected surcharge and interest on arrears of gas sales to increase by 10.4% i.e. from Rs. 475.570 million (financial year 2001-02) to Rs. 525 million (financial year 2002-03) as compared below:

Rupees in million

FY 2002-03	FY 2001-02	FY 2000-01
525.000	475.570	110.493

12.18 Category wise detail of late payment surcharge for last year and projection for current year with 10% escalation factor submitted by the Petitioner is as follows:

Rupees in million

Actual for 2001-02	Industrial	Commercial	Bulk Domestic	Domestic	Total
Interest Surcharge	89.767 -	40.554 -	140.361 -	- 204.888	270.682 204.888
	89.767	40.554	140.361	204.888	475.570
Escalation by 10%	8.977	4.055	14.036	20.488	47.557
	98.744	44.609	154.397	225.377	523.127

Say Rs. 525 million

12.19 It is further noted that interest income on WAPDA gas bill arrears has not been recognized in the Petition for the financial year 2002-03. The Authority maintains its earlier directions given vide para 8.17 of its decision dated October 24, 2002 and further directs **the Petitioner 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. With this direction the Authority provisionally accepts the Surcharge and interest on arrears of gas sales at Rs. 525 million subject to actualization.**

12.20 **Amortization of deferred credit**

12.21 The Petitioner has projected deferred credit amortization for the financial year 2002-03 at Rs. 334 Million as follows:

Rupees in million

FY 2002-03	FY 2001-02	FY 2000-01
334	320	278

Rupees in million

Description	FY 2002-03	FY 2001-02
Balance as at July 01 Receipts during the year	3,981 320	3,820 474
 Amortization for the year	4,301 (334)	4,294 (313)
Unamortized balance as at June 30	3,967	3,981

12.22 Deferred credit comprise of recoveries from customers on supply of gas and government grants. These are amortized at the rate 6% per year and credited to the income of the Petitioner for that year. However, for the first year recoveries are amortized at 3%.

12.23 **The Authority provisionally accepts amortization of deferred credit projected at Rs. 334 million for the financial year 2002-03 which will be subject to actualization.**

12.24 **Operating Expenditures**

12.25 **Cost of gas**

12.26 The Petitioner has projected the cost of gas to increase by 12.98% from Rs.28,550 Million (financial year 2001-02) to Rs. 32,257 million (financial year 2002-03) as follows:

		2002-03			2001-02		
Name of the Field		**Volume MMSCF**	**Rs./MCF**	**Rs. in million**	**Volume MMSCF**	**Rs./MCF Average**	**Rs. in million**
	Opening stock	1,896	81.22	154	1,782	73.51	131
Add:	**Purchases:**						
	Sui	154,395	34.43	5,318	138,894	26.03	3,615
	Loti	10,220	71.03	726	13,363	70.72	945
	Pirkoh	28,105	71.03	1,996	30,621	74.79	2,290
	Dhurnal	1,095	43.72	48	494	40.49	20
	Dakhni	6,205	98.60	612	5,170	98.07	507
	Adhi	6,570	101.26	665	6,457	101.90	658
	Bhangli	365	144.92	53	477	142.56	68
	Missakiswal	365	46.63	17	382	47.12	18
	Ratana	1,460	221.73	324	529	228.73	121
	Sadkal	2,555	137.97	353	5,286	138.48	732
	Dhodak	14,600	150.23	2,193	13,655	154.96	2,116
	Qadirpur	134,320	124.39	16,711	128,416	124.81	16,027
	Pariwali	8,030	169.52	1,361	3,335	165.82	553
	Pindowri	8,030	185.78	1,492	5,657	180.66	1,022
	Turkwal	730	160.21	117	544	180.14	98
	Dhullian	1,460	99.44	145	1,507	93.56	141
	Meyal	5,840	99.44	581	2,370	94.94	225
	Hasan	2,190	77.91	171	0	0	0

	386,535	85.06	32,882	357,157	81.63	29,155
	388,431	85.04	33,036	358,939	81.59	29,286
Less: **Gas internally consumed**	7,300	84.93	619	7,172	81.15	582
Closing Stock	1,896	84.39	160	1,896	81.22	154
Gas available for sale	379,235	85.06	32,257	349,871	81.60	28,550
Less: Un accounted for gas (UFG)	26,645		-	27,914		
GAS SOLD	352,590	91.48	32,257	321,957	88.68	28,550

12.27 The main reason for increase in cost of gas is the increase in wellhead price of Sui gas field, which contributes 40% of the total purchases, by Rs. 8.40 per MCF.

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

12.29 The Petitioner has claimed purification charges at Rs. 5.09 per MCF on the basis of DG (Gas) letter, which included depreciation and financial charges. However, the above mentioned agreement only provides for operating cost, which comes to Rs. 3.34 per MCF as disclosed in the SSGCL's audited accounts for financial year 2001-02 as per GPA. **This results in excessive claim of Rs 1.75 per MCF, which works out to Rs. 238.893 million and the same is disallowed by the Authority.**

12.30 **Furthermore, cost of gas for revenue requirement has been worked out by the Petitioner on the basis of July 1, 2002 notified wellhead prices without assuming any escalation in prices effective January 1, 2003.**

12.31 **The Authority provisionally allows Rs. 32,017.108 million as cost of gas which will be subject to actualization. Moreover, the Authority directs the Petitioner that cost of gas computations should only be**

based on the wellhead prices as notified by the Authority, in accordance with section 8(2) of the Oil and Gas Regulatory Authority Ordinance, 2002.

12.32 **Operating (Transmission and Distribution) cost**

12.33 The Petitioner has projected transmission and distribution cost to increase from Rs. 3,931.747 million (FY 2001-02) to Rs. 4,635 (FY 2002-03) which represents an increase of 18% over the previous financial year as compared below:

Rupees in million

Particulars	**2002-03**	**2001-02**	**Increase / (Decrease)**	%
Salaries and wages	2,554	2,424	130	5
Medical and welfare	442	376	66	18
Stores and spares	183	167	16	10
Fuel and power	118	101	17	17
Repair and maintenance	354	180	174	94
Rent, rate, telephone and Electricity	64	53	11	21
Insurance	117	100	17	17
Traveling	54	45	9	20
Stationery, telegram and postage	36	30	6	20
Dispatch of gas bills	35	32	3	9
Transport expenses	138	117	21	18
Professional services	19	15	4	27
Gathering charges of billing data	34	33	1	3
Stores and spare written off	8	38	(30)	(79)

Provision for doubtful debts Gas bills collection charges Other expenses	200 39 94	140 38 94	60 1 0	43 3 0
	4,489	3,983	506	13
Less: Allocated to fixed capital expenditures	673	654	19	3
	3,816	3,329	487	15
Add: Gas internally consumed Add: Annual license fee	619 50	588 14	31 36	5 257
	4,485	3,931	554	14
Add: prior year adjustment of CBA agreement provision	150	0	0	0
Total	4,635	3931	704	18

12.34 Various components of operating cost are discussed in the following paragraphs.

12.35 **Salaries and wages**

12.36 The Petitioner has projected salaries and wages for financial year 2002-03 at Rs. 2,554.395 million, which is an increase of 5% from last year.

12.37 Details of salaries and wages expenses are as follows:

Rupees in million

Particulars	**2002-03**	**2001-02**	**Increase / (Decrease)**	%
Salaries	435	353	82	23
Wages	1,245	1,230	15	1
10 C Bonus	100	107	(7)	(7)
Agreement bonus	125	150	(25)	(17)
Overtime	136	158	(22)	(14)
Casual labour	40	35	5	14
Gratuity	51	47	4	9
Pension	111	107	4	4
EOBI	16	13	3	23
LFA	41	37	4	11
Housing and accommodation	2	1	1	100
Insurance	24	17	7	41
Estimated impact of CBA	150	0	150	100

Others	1	1	0	0
	2,477	2,258	219	10
Incremental impact of IAS 19	77	166	(89)	(54)
Total	2,554	2,424	130	5

12.38 The Petitioner has claimed Rs. 125 million as agreement bonus and Rs. 300 million on account of CBA agreement which has not yet been concluded. The Authority in its determination dated August 8, 2002 and October 24, 2002 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. 425 million for CBA agreement and agreement bonus.**

12.39 **Medical and welfare**

12.40 The Petitioner has projected medical and welfare for financial year 2002-03 at Rs. 442 million, which is an increase of 18% from last year.

12.41 Details of medical and welfare expenses are as follows:

Rupees in million

Particulars	**2002-03**	**2001-02**	**Increase / (Decrease)**	%
Executives	25	23	2	9
Subordinates	130	118	12	10
Annual sports and staff welfare	18	14	4	29
	173	155	18	12
Incremental impact of IAS 19	270	221	49	22
Total	442	376	66	18

12.42 As per the Petitioner, the increase in medical expenses is mainly due to the increase in ages of employees, cost of medicines, hospitalization and operations cost and provision under IAS-19.

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

12.44 **The Authority provisionally accepts medical and welfare expense projected at Rs. 442 million for the financial year 2002-03 which will be subject to actualization, with the direction to create separate fund from financial year 2003-04.**

12.45 **Stores and spare consumed**

12.46 The Petitioner has projected repair and maintenance expense to increase from Rs. 167 million (FY 2001-02) to Rs. 183 million (FY 2002-03) as compared below:

Rupees in million

FY 2002-03	FY 2001-02	FY 2000-01
183	167	132

12.47 As per the Petitioner, the increase is due to enhanced maintenance works planned by the transmission department during the year.

12.48 **The Authority provisionally accepts stores and spare expense projected at Rs. 183 million for the financial year 2002-03 which will be subject to actualization.**

12.49 **Fuel and power**

12.50 The Petitioner has projected fuel and power expense to increase from Rs. 101million (FY 2001-02) to Rs. 118 million (FY 2002-03).

12.51 **The Authority provisionally accepts fuel and power expense projected at Rs. 118 million for the financial year 2002-03 which will be subject to**

actualization.

12.52 **Repair and Maintenance expense**

12.53 The Petitioner has projected repair and maintenance to increase from Rs. 180 million to Rs. 354 million as compared below:

Rupees in million

FY 2002-03	FY 2001-02	FY 2000-01
354	180	188

The breakup of repair and maintenance is given below:

Rupees in million

Particulars	FY 2002-03	FY 2001-02
Transmission	135.525	64.957
Distribution	164.678	82.205
Compression	9.474	10.213
Others	44.160	22.657
Total	353.837	180.032

12.54 As per the Petitioner total increase of Rs. 174 million is attributed to the following:

Particulars	Rupees in Million
Recoating works of transmission department	55
Leak rectification of distribution network	61
Up gradation of measurement facilities	35
Integrity assessment and system rehabilitation	18
Others (normal escalations in costs)	5
	174

12.55 The Petitioner has projected to achieve following targets during FY 2002-03:

Leak rectification and system rehabilitation of Distribution network

	2002-03	2001-02

	Target	Actual
Above ground leak rectification No of premises checked	497,600	308,860
Underground leak rectification Network surveyed (KM)	3,816	3,000

Up gradation of measurement facilities, schedule replacements and Misc. job

	2002-03 Target	2001-02 Actual
Schedule meter replacement of industrial meters and overhauling of large capacity / orifice meters	2,200	1,466
Schedule meter replacement of commercial meters installed upto the year 1995	6,000	5,037
Modification / replacement of under sized meter in bulk supply domestic, commercial and industrial category	264	61
Material removal & uplifting of redundant service line material	4,000	362
Upgrading of meter station, painting, plinth repairs	1,200	179
Survey for detection of underground passes, gas pilferage, unauthorized connections etc.	Continuous work	3,234

Compression department's repair and maintenance targets

	2002-03 Target	2001-02 Actual
Overhauling of compression engine Saturn engines Centaur engines	 6 2	 4 2
Power Plants 6 SETCWGT Dorman engines 12 SETCWGT Dorman engines Smaller Plants	 3 2 3	 2 2 2

12.56 **Since the Petitioner is making efforts to reduce UFG the Authority provisionally accepts repair and maintenance expense projected at Rs. 354 million for the financial year 2002-03 which will be subject to actualization.**

12.57 **Rent, rate, telephone and electricity expense**

12.58 The Petitioner has projected rent, rate, telephone and electricity expenses to increase from Rs. 53 million (FY 2001-02) to Rs. 64 million (FY 2002-03) as compared below:

Rupees in million

FY 2002-03	FY 2001-02	FY 2000-01
64	53	59

12.59 As per the Petitioner, the projected increase is due to enhanced provision for electricity due to tariff increase and increase in rents.

12.60 **The Authority provisionally accepts rent, rate, telephone and electricity expense projected at Rs. 64 million for the financial year 2002-03 which will be subject to actualization.**

12.61 **Insurance expense**

12.62 The Petitioner has projected insurance expenses to increase from Rs. 100 million (FY 2001-02) to Rs. 117 million (FY 2002-03) as compared below:

Rupees in million

FY 2002-03	FY 2001-02	FY 2000-01
117	100	97

12.63 As per the Petitioner, increase in insurance cost is due to increase in asset base.

12.64 **The Authority provisionally accepts insurance expense projected at Rs. 117 million for the financial year 2002-03 which will be subject to**

actualization.

12.65 **Traveling expense**

12.66 The Petitioner has projected traveling expenses to increase from Rs. 45 million (FY 2001-02) to Rs. 54 million (FY 2002-03) as compared below:

Rupees in million

FY 2002-03	FY 2001-02	FY 2000-01
54	45	46

12.67 As per the Petitioner, increase in traveling cost is mainly due to higher maintenance activities planned in financial year 2002-03.

12.68 **The Authority provisionally accepts traveling expense projected at Rs. 54 million for the financial year 2002-03 which will be subject to actualization.**

12.69 **Stationery, telegram and postage expense**

12.70 The Petitioner has projected stationery, telegram and postage expenses to increase from Rs. 30 million (FY 2001-02) to Rs. 36 million (FY 2002-03) as compared below:

Rupees in million

FY 2002-03	FY 2001-02	FY 2000-01
36	30	28

12.71 As per the Petitioner, increase in stationery cost is mainly due to increase computer stationery owing to recent computerization as well as normal escalation in cost.

12.72 **The Authority provisionally accepts stationery expense projected at Rs. 36 million for the financial year 2002-03 which will be subject to actualization.**

12.73 **Dispatch of bills expense**

12.74 The Petitioner has projected dispatch of bill expenses to increase from Rs. 32 million (FY 2001-02) to Rs. 35 million (FY 2002-03) as compared below:

Rupees in million

FY 2002-03	FY 2001-02	FY 2000-01
35	32	28

12.75 As per the Petitioner, increase is due to increase in customer base.

12.76 **The Authority provisionally accepts gas bill dispatch expense projected at Rs. 35 million for the financial year 2002-03 which will be subject to actualization.**

12.77 **Transport expense**

12.78 The Petitioner has projected transport expenses to increase from Rs. 117 million (FY 2001-02) to Rs. 138 million (FY 2002-03) as compared below:

Rupees in million

FY 2002-03	FY 2001-02	FY 2000-01
138	117	98

12.79 As per the Petitioner, the increase in transport expense is due to enhanced maintenance activities especially in transmission department.

12.80 **The Authority provisionally accepts transport expense projected at Rs. 138 million for the financial year 2002-03 which will be subject to actualization.**

12.81 **Professional services expense**

12.82 The Petitioner has projected professional service expense to increase from Rs. 15 million (FY 2001-02) to Rs. 19 million (FY 2002-03) as compared below:

Rupees in million

FY 2002-03	FY 2001-02	FY 2000-01
19	15	18

12.83 **The Authority provisionally accepts professional service expense projected at Rs. 19 million for the financial year 2002-03 which will be subject to actualization.**

12.84 **Gathering charges of billing data**

12.85 The Petitioner has projected gathering charges of billing data to increase from Rs. 33 million (FY 2001-02) to Rs. 34 million (FY 2002-03) as compared below:

Rupees in million

FY 2002-03	FY 2001-02	FY 2000-01
34	33	59

12.86 As per the Petitioner, this increase is due to increase in the number of bills to be collected in FY 2002-03.

12.87 **The Authority provisionally accepts gathering charges for billing data projected at Rs. 34 million for the financial year 2002-03 which will be subject to actualization.**

12.88 **Provision for stores and spare written off**

12.89 The Petitioner has projected a provision for stores and spare written off at Rs. 8 million.

12.90 It is noted that any write offs in the stores and spares is not justified, as it was Petitioner's imprudent inventory management that creates obsolete stock. Any impact of obsolete stocks should be borne by the Petitioner rather than passed on to the consumers.

12.91 **Based on the above, the Authority disallows the write off in stores and spare amounting to Rs. 8 million.**

12.92 **Provision for doubtful debt**

12.93 The Petitioner has projected provision for doubtful debt to increase from Rs. 140 million (FY 2001-02) to Rs. 200 million (FY 2002-03) as compared below:

Rupees in million

FY 2002-03	FY 2001-02	FY 2000-01
200	140	251

12.94 As per Authority's decision dated August 8, 2002, it was determined that the provision for doubtful debts beyond 1.5% of the total trade debts will be disallowed. Based on the above decision provision is recalculated on the basis of trade debts amounting to Rs.10,330 million at Rs.154.95. **In view thereof an amount of Rs. 45.05 million is disallowed on account of provision for doubtful debt.**

12.95 **The Authority provisionally allows Rs. 154.95 million as provision for doubtful debt which will be subject to actualization in accordance with the policy approved by the competent forum.**

12.96 **Gas bills collection charges**

12.97 The Petitioner has projected gas bills collection charges to increase from Rs. 38 million (FY 2001-02) to Rs. 39 million (FY 2002-03) as compared below:

Rupees in million

FY 2002-03	FY 2001-02	FY 2000-01
39	38	36

12.98 As per the Petitioner, the increase is due to increase in consumer base.

12.99 **The Authority provisionally allows Rs. 39 million as Gas bills collection charges which will be subject to actualization.**

13 **Gas Internally Consumed**

13.1 The Petitioner has projected gas internally consumed to increase from

Rs. 586.979 million (FY 2001-02) to Rs. 618.814 million (FY 2002-03) as compared below:

Rupees in million

Particulars	FY 2002-03	FY 2001-02
Transmission	13.797	10.952
Compression	541.910	517.019
Free gas facility	56.931	52.748
Others	6.176	6.260
Total	618.814	586.979

13.2 As per the Petitioner, the increase is about 5% which mainly represents increase in cost of gas and more compressor running hours projected in FY 2002-03.

13.3 **The Authority provisionally allows Rs. 618.814 million as Gas internally consumed which will be subject to actualization.**

14 **Unaccounted for gas losses (UFG)**

14.1 The Petitioner has projected to decrease UFG from 7.98% (27,381 MMSCF) for FY 2001-02 to 7.02% (26,645 MMSCF) for FY 2002-03.

DESCRIPTION	FY 2002-03	FY 2001-02
Gas Purchases net of internal consumption	379,235	349,871
Gas Sales	352,590	321,957
UFG	26,645	27,914
UFG % (%age of Purchases)	7.02%	7.98%

14.2 The Petitioner is implementing its plan for reduction of UFG to the level directed by the Authority, by rectification of leakages, replacement of old meters in a phased manner, surprise visits to the consumer premises in order to check gas theft, upgrading of measurement facilities and enhanced maintenance of gas network..

14.3 **The Authority accepts the UFG projected at 7.02% during FY 2002-03**

and also refers to its earlier directions given in its determination dated August 8, 2002 and October 24, 2002 to progressively reduce the UFG to below 6%, within three years, commencing financial year 2002-03.

15 **Contingency Reserve / Deferral Account**

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

15.2 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 consumers. Thus, correct pricing signals can be given through this mechanism.

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

15.4 In its determination of revenue requirement for the financial year 2001-02, the Authority had disallowed a provision of Rs. 150 million, which the Petitioner had claimed as an incremental impact on account of CBA Agreement with the Petitioner, which was still under negotiation. The Petitioner was directed that the CBA Agreement should be negotiated by the Petitioner keeping in view the guiding principles which were laid down under the said determination. Any amount due for financial year 2001-02 on account of CBA Agreement was required to be adjusted in the revenue requirement for the financial year in which the agreement would be actually concluded. The present Petition also contains a provision of Rs. 425 million including Rs. 150 million for the previous financial year which has been disallowed on the same ground as discussed in para 12.38 above. The

Petitioner during public hearing informed that the CBA Agreement was being negotiated and expected to be concluded before 30th June, 2003 on the basis of guiding principles as laid down by the Authority as well as operational circumstances faced by the Petitioner in order to ensure un-interrupted supply of gas to its customers. Similarly the Authority has made a reduction in the asset base projected for the financial year 2002-03 and has also disallowed various expenses like provision of doubtful debts and purification charges included in cost of gas etc. subject to actualization. In order to capture the unascertained expenditure including the above items in accordance with the World Bank loan covenants, the Authority allows an adhoc provision of Rs. 450 million in the estimated revenue requirement of the Petitioner for the financial year 2002-03.

16 Decision

16.1 In view of the reasons given and analysis made above, under Section 8(1) of the Ordinance, the Authority determines the total revenue requirement of the Petitioner at Rs. 42,568.666 million. At the current notified prices the shortfall in revenue requirements for financial year 2002-03 is estimated at Rs. 1,578.666 million as against Rs. 1,997.269 million claimed by the Petitioner. In order to meet the above estimated shortfall in its revenue requirement the Authority allows an increase in the average prescribed price of the Petitioner on provisional basis w.e.f. July 1, 2002 at the rate of Rs. 4.48 per Mcft (Rs. 4.71 per MMBTU) as against Rs. 5.66 per Mcft (Rs. 5.96 per MMBTU) requested by the Petitioner (**worksheet at Annexure-A**). The revised prescribed price for each category of retail consumers for financial year 2002-03 is determined on provisional basis as per **Annexure-B**.

17 Directions

17.1 The Authority hereby reiterates its earlier directions given to the Petitioner to:

a. ensure prudency in its capital expenditure and starting from FY 2002-03 provide detailed justification of various additions to the rate base.

b. lay transmission lines or distribution spurs to a new town / area prior to laying distribution network

c. progressively reduce UFG to below 6%, within three years, starting financial year 2002-03.

d. conclude agreement with CBA on the basis of principles enunciated in the determination dated August 8, 2002 of this Authority.

e. make concerted efforts to build a more efficient recovery system and put in place an effective disconnection mechanism so as to ensure timely recovery of its bills.

f. takeup the recovery of WAPDA's interest on gas bill arrears at appropriate forum.

17.2 In addition the Petitioner is further directed to:

a. seek directions of the Federal Government on the issue of non-recognition of late payment surcharge from WAPDA as income as stated in para 12.19 above.

b. compute cost of gas on the basis of wellhead prices notified by the Authority.

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

The Authority has earlier issued short order on February 26, 2003 which has been duly incorporated in this detailed determination.

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

Islamabad
March 12, 2003