No. OGRA-6(2)-1(5)/2006

IN THE MATTER OF

SUI NORTHERN GAS PIPELINES LIMITED ESTIMATED REVENUE REQUIREMENT, FY 2007-08

UNDER

SECTION 8 (1) OF THE OIL AND GAS REGULATORY AUTHORITY ORDINANCE, 2002 AND RULE 4 (2) OF NATURAL GAS TARIFF RULES, 2002

DECISION

May 21, 2007

Before:

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

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1. Background

1.1. Sui Northern Gas Pipelines Limited (the petitioner) is a public limited company, incorporated in Pakistan, and listed on the stock exchanges at Karachi, Lahore and Islamabad. It is engaged in construction and operation of gas transmission and distribution pipelines, sale of natural gas, and sale of gas condensate (as a by-product).

1.2. The petitioner filed a petition (first petition) on November 30, 2006, under Section 8(1) of the Oil & Gas Regulatory Authority Ordinance, 2002 (the Ordinance) and Rule 4(2) of the Natural Gas Tariff Rules, 2002 (NGT Rules), for determination of its estimated revenue requirement for FY 2007-08 (said year) at Rs. 120,783 million (the amounts have been rounded off to the nearest million here and elsewhere in this document), and estimated operating income at Rs. 121,128 million. The estimated surplus of Rs. 346 million translates into an average decrease of Re. 0.62 per MMBTU in the current prescribed prices owing mainly to projected increase in sales volume and reduction in cost of gas on account of decreased wellhead prices. However, the petitioner requested to maintain the prescribed prices at the current level as it was in the process of obtaining the Authority's approval for some new projects, which if accepted, would increase the asset capitalization, thereby offsetting the estimated surplus of Rs. 346 million.

1.3. The petitioner submitted amended petition (the petition) on March 12, 2007, incorporating the effect of revised prescribed prices and sale prices effective February 01, 2007, which were notified by the Authority on March 02, 2007, claiming that the revised surplus was Rs. 8 million and requesting for decrease of Re. 0.01 per MMBTU only in its average prescribed prices.

1.4. The petitioner has submitted the following statement of cost of service per MMBTU:

Table 1: Comparison of Projected Cost of Service with Previous Years

			Rs. per MMBTU
Particulars	**FY 2005-06**	**FY 2006-07**	**FY 2007-08**
	FRR	**Review II**	**The petition**
Units sold (BBTU)	**539,099**	**545,289**	**559,016**
Cost of gas sold	170.67	180.47	180.49
Transmission and distribution cost	11.59	13.78	14.55
Depreciation	6.98	7.82	9.12
Deferral account	-	0.57	-
Return on net average operating fixed assets	10.66	11.11	11.90
Other operating income	(3.55)	(3.81)	(4.08)
Cost of service / prescribed price	**196.35**	**209.93**	**211.98**
Current average prescribed price	196.35	209.93	211.99
Decrease requested in the average prescribed price	**-**	**-**	**(0.01)**

1.5. The Authority admitted the petitions for consideration, as a *prima facie* case for evaluation existed.

1.6. A notice inviting interventions / comments on the first petition from the consumers, general public and other interested / affected persons was published in daily newspapers, namely: The News (combined), Nawa-e-Waqt (combined) & Mashriq Peshawar on February 12, 2007 and Jang (combined) on February 13, 2007. The Authority received two applications to intervene in the proceedings from the following persons / entities:

i) Mehmood Ellahi Engineers, Faisalabad
ii) Unity Steel Re-rolling Mills, Lahore

The Authority accepted the above applications for intervention.

1.7. A notice for public hearing was published in the daily newspapers, namely: The News (combined), Daily Jang (combined) Nawa-e-Waqat and Mashriq (Peshawer) on March 31, 2007, intimating date, time and place of the public hearing, also informing about the amended petition dated March 12, 2007 mentioned above, and inviting again, interventions / comments from the consumers, general public and other interested / affected persons. No additional request to intervene in the proceedings, or comments, was received .

2. Salient Features of the Petition

2.1. The petitioner has made the following submissions:

2.1.1. The petitioner has claimed annual return at the rate of 17.5% of the net fixed assets, before corporate income taxes, and interest, mark-up and other charges on debt, in accordance with the requirement of World Bank loan covenants and license condition No. 5.2.

2.1.2. The petitioner has projected a gross addition of Rs. 10,035 million in the fixed assets and net addition, ex-depreciation, of Rs. 4,937 million, resulting in projected increase in net operating fixed assets from Rs. 42,522 million in FY 2006-07 to Rs. 47,459 million during the said year. The petitioner has further claimed that, after adjustment of deferred credits, the net average operating fixed assets eligible for return work out to Rs. 38,012 million, and the required return to Rs. 6,652 million.

2.1.3. The petitioner has projected the net operating revenues at Rs. 120,790 million, as detailed below (and compared with previous years):

Table 2: Comparison of Projected Operating Revenues with Previous Years

				Rs. in million	
Particulars	**FY 2005-06**	**FY 2006-07**	**FY 2007-08**	**Inc. / (Dec.) over Last Year**	
	FRR	**Review II**	**The Petition**		
Sales at current tariff	105,852	114,475	118,508	4,033	4%
Rental & services charges	745	800	860	60	8%
Surcharge & interest on arrears	534	650	700	50	8%
Amortization of deferred credit	477	550	637	87	16%
Other operating income	157	75	85	10	13%
Net operating revenues	**107,765**	**116,550**	**120,790**	**4,240**	**4%**

2.1.4. The petitioner has projected the net operating expenses at Rs. 114,130 million, as detailed below (and compared with previous years):

Table 3: Comparison of Projected Operating Expenses with Previous Years

				Rs. in million	
Particulars	**FY 2005-06**	**FY 2006-07**	**FY 2007-08**	**Inc. / (Dec.) over Last Year**	
	FRR	**Review II**	**The Petition**		
Cost of gas sold	92,009	98,408	100,898	2,490	3%
Transmission & distribution cost	4,455	5,290	5,826	536	10%
Gas internally consumed (GIC)	1,559	1,906	1,957	51	3%
Depreciation	3,761	4,265	5,098	833	20%
Workers' profit participation fund	236	316	352	36	11%
Deferral account	-	309	-	(309)	(100%)
Net Operating Expenses	**102,020**	**110,494**	**114,130**	**3,636**	**3%**

2.1.5. The petitioner has projected Weighted Average Cost of Gas (WACOG) for the said year at Rs. 170.36 per MMBTU, as against Rs. 170.38 per MMBTU per Review-II, FY 2006-07. The petitioner has explained that cost of gas is linked with international prices of crude / fuel oil prices per Gas Pricing Agreements (GPAs) executed between the producers and Government of Pakistan.

2.1.6. The petitioner has projected Unaccounted For Gas (UFG) at 5.11% (32,208 MMSCF) higher than the target of 5.10%, fixed earlier by OGRA for the said year.

2.1.7. The surplus in the projected revenue requirement after achieving 17.5% return on average net operating fixed assets is estimated at Rs. 8 million, requiring decrease of Re. 0.01 per MMBTU in the existing average prescribed price, as detailed below:

Table 4: Computation of Requested Average Increase / Decrease in Prescribed Price

	Rs. in million
Particulars	**FY 2007-08 The Petition**
Net operating revenues	120,790
Less: Net operating expenses including WPPF	114,130
(Surplus) / Shortfall A-B	(6,660)
Return required @ 17.5% on net fixed assets in operation	6,652
Total (surplus) / shortfall in the revenue requirement (C - D)	(8)
Sales volume (BBTU)	559,016
Decrease in the existing average prescribed price (Rs / MMBTU)	**0.01**

3. Hearing

3.1. A public hearing was held on April 18, 2007, at OGRA offices, Islamabad which was participated by the following:

a) Petitioner's team led by Mr. Abdul Rasheed Lone, Managing Director

b) Mr. Mehmood Elahi, Mehmood Elahi Engineers, SNGPL Contractor

3.2. The petitioner made submissions in detail with the help of multimedia presentation explaining the basis of its petition. The petitioner also responded to the comments, observations, objections, questions, and suggestions of the participants.

3.3. The substantive points made by the intervener are summarized below:

3.3.1. The increases in the capital expenditure including transmission and distribution cost, salaries and wages, repair and maintenance, gas bill collection charges and gas internally consumed were termed as exorbitant, wasteful, inefficient, luxury-oriented and unjustified, deserving close scrutiny by the Authority. It was demanded that the petitioner should adopt better management practices to eradicate the prevailing corruption in the company, and that would reduce the revenue requirement benefitting the consumers and the Federal Government.

3.3.2. The advertisements, merely on consumer gas bills, are not a sufficient mean of providing information / guidance to the consumers. The company should publish brochures, booklets, safety tips and launch an extensive advertisement campaign to educate the consumers at large regarding conservation of energy and steps taken by the petitioner to facilitate the consumers.

3.3.3. The petitioner has been delaying the provision of gas connections, unreasonably even after receiving all the charges in advance, resulting in extreme agony for consumers.

3.3.4. Pressure drop is a common occurrence during winter season, due to which people face extreme hardship. The petitioner should be directed to overcome this problem immediately and effectively.

3.3.5. Special gas price package should be introduced for the domestic and industrial sector, to provide relief to consumers.

3.3.6. The intervener strongly criticized the petitioner for non-availability of certain information required by the Authority in response to various queries raised during the hearing. The intervener also commented that the petitioner did not seem to be well prepared for the public hearing.

3.3.7. The petitioner has failed to pre-qualify the internal pipeline contractors and is holding their security deposits for a long time, which illustrates its typical unfair attitude and practices.

3.4. The Authority has carefully considered all the submissions and arguments of the parties made in writing and at the public hearing, and proceeds to make its determination as follows:

4. Authority's Jurisdiction And Determination Process

4.1. Section 8(1) of the OGRA Ordinance, 2002 empowers the Authority to determine an estimate of the total revenue requirement of its licensees for a financial year, before its commencement, in accordance with the Natural Gas Tariff Rules, 2002, and on that basis, advise the Federal Government, the prescribed price of natural gas for each category of retail consumers.

4.2. All applications and petitions are examined in the light of relevant rules. Public notices are issued and all the stakeholders are provided full opportunity to intervene / comment upon the issues pertaining to determination of revenue requirement in writing and at public hearings.

4.3. Wellhead prices of gas are computed in accordance with the GPAs of the gas producers with the Federal Government on the basis of international crude / fuel oil prices. The wellhead cost of gas is the main component of the revenue requirement and is a pass through item under the current mechanism of determining prescribed prices. The operating revenues, operating expenses and changes in asset base are scrutinized in depth. Appropriate benchmarks are also set in critical areas of operation to ensure that the costs of inefficiencies and imprudence are not passed on to the consumers.

4.4. The Authority is obligated to abide by the sector specific policies of the Federal Government while determining the prescribed prices for each category of consumers, which include the subsidy given to the domestic and fertilizer-feedstock consumers.

5. Return to Licensee

5.1. The Federal Government has issued an Order on October 11, 2002 under Section 47 of the Ordinance, that till such time that an appropriate rate of return is determined by OGRA in consultation with the Federal Government and the licensees, the Authority shall determine the revenue requirement of the petitioner, providing 17.5% return on net operating assets. The Authority has developed and proposed a new tariff regime for regulated natural gas sector of Pakistan, which is currently under review by the Federal Government. Pending its finalization and approval, the Authority is obliged to follow the above basis of 17.5% of the average net operating fixed assets, which is also provided in the petitioner's License Condition No. 5.2.

6. Operating Fixed Assets

6.1. Summary

6.1.1. The petitioner has projected a gross addition of Rs. 10,035 million in the fixed assets and ex-depreciation addition of Rs. 4,937 million, resulting in projected increase in net operating fixed assets from Rs. 42,522 million in FY 2006-07 to Rs. 47,459 million during the said year. After adjustment of deferred credits, the net average operating fixed assets eligible for return are projected at Rs. 38,012 million, and the required return at Rs. 6,652, as under:

Table 5: Computation of Projected Return on Operating Fixed Assets

	Rs. in million
Description	**The Petition**
Net operating fixed assets at beginning	42,522
Net operating fixed assets at closing	47,459
Subtotal	89,981
Average net assets (A)	**44,991**
Deferred credit at beginning	6,418
Deferred credit at closing	7,539
Subtotal	13,957
Average deferred credit (B)	**6,979**
Average net fixed assets (A-B)	**38,012**
Return required on net operating assests	17.5%
Amount of return requested by the petitioner	**6,652**

6.1.2. The details of projected deferred credits for the said year are compared with Review-II FY 2006-07 as under:

Table 6: Comparison of Projected Deferred Credits with Review-II FY 2006-07

		Rs. in million
Particulars	**FY 2006-07**	**FY 2007-08**
	Review-II	**The Petition**
Balance as at July 01	5,468	6,475
Additions during the year	1,500	1,700
Subtotal	6,968	8,175
Amortization for the year	(550)	(637)
Un-amortized balance as at June 30	**6,418**	**7,539**

6.1.3. The Authority notes that the petitioner has incorrectly taken the opening balance of deferred credit at Rs. 6,475 million instead of Rs. 6,418 million, determined per Review-II FY 2006-07, without any justification.

6.1.4. ***The Authority provisionally allows estimated deferred credits opening balance at Rs. 6,418 million and closing balance at Rs. 7,481 million for the said year.***

6.1.5. Comparative analysis of projected additions in fixed assets with the previous years is as follows:

Table 7: Summarized Schedule of Projected Additions Compared with Previous Years

Rs in million

Particulars	FY 2005-06	FY 2006-07	FY 2007-08	Inc. / (Dec.) over Review II	
	FRR	Review II	The Petition		
Transmission	1,300	1,788	2,184	396	22%
Distribution Development	4,041	6,000	6,320	320	5%
Plant & Machinery etc.	214	420	646	226	54%
UFG Assets	-	-	885	885	100%
MIS Project	5	-	-	-	
Net addition in asset base	**5,560**	**8,207**	**10,035**	**1,828**	**22%**

6.1.6. The petitioner has provided further breakdown of the major items of additions as at **Annexure-E,** which are discussed below:

6.2. Transmission

6.2.1. The petitioner has projected addition of Rs. 2,184 million to transmission network during the said year for specific projects. **After due examination of the detailed justifications, the following additions are allowed, on provisional basis:**

Table 8: Additions to Transmission Network Provisionally Allowed as Requested

	Rs.in million
Particulars	**Amount**
Compression	
Overhauling / maintenance / rehabilitation of compressor packages	959
P-IX (Advance Action)	
40 KM 24" Dia Gurguri - Kohat	751
Construction Equipment	69
Total	**1,779**

6.2.2. The balance amount of Rs. 405 million pertains to the ***95 KM, 8" dia Manjowal – Endpoint pipeline.*** The petitioner, initially, submitted that this pipeline had already been approved by the Authority whereas no such approval could be traced. Later, the petitioner informed that the request for approval of the said pipeline was under preparation and had not actually been submitted before the Authority. This pipeline will enhance the transmission capacity of the petitioner by more than 25 MMCFD and for a project of this size, prior approval is required under Rule 20 (xviii) of the Natural Gas Licensing Rules, 2002.

6.2.3. ***The Authority, in view of the above position, decides to defer consideration of the addition of Rs. 405 million until proper application in accordance with the above stated rule is submitted by the petitioner.***

6.3. Distribution Development

6.3.1. The petitioner has projected expenditure on account of distribution network including new towns & villages at Rs. 6,320 million for the said year, as detailed below:

Table 9: Detail of Additions to Distribution Development

	Rs.in million
Particulars	**Amount**
Laying of Distribution Mains	4,664
Installation of New Connections	1,234
Replacement of undersized meters	263
System Rehabilitation	150
CP Station	150
Regulatory Stations	111
Installation of EVCs	28
Sales Meter Stations Construction / Modification / Purchase of Land	300
Capital Work in Progress	(580)
Total	**6,320**

6.3.2. During the last three years, the comparative actual / projected capitalization is as under:

Table 10: Comparative Distribution and Development Capitalization for Previous Years

Rs. in million

Particulars	FY 2004-05			FY 2005-06			FY 2006-07		FY 2007-08
	ERR		FRR	ERR		FRR	ERR		ERR
	Demanded	Allowed		Demanded	Allowed		Demanded	Allowed	
Distribution Development	4,000	3,000	2,890	5,500	4,500	4,041	8,000	6,000	6,320

6.3.3. The Authority observes that historically the actual capitalization under this head has been considerably less than demanded. In FY 2006-07, the petitioner, against the provisionally allowed amount of Rs. 6,000 million, has been able to capitalize Rs. 3,291 million only in the first nine months (per un-audited 3rd quarter accounts), which indicates that the petitioner would, once again, not be able to achieve the target.

6.3.4. ***In view of the above, the Authority, tentatively allows an amount of Rs. 5,000 million subject to actualization at the close of the said year, provided that the Authority will include only those assets in the rate base in respect of supply of gas to new towns and villages, that meet the GoP criteria and the remaining components will have to be funded by the GoP.***

6.4. Other Assets

6.4.1. The petitioner has projected expenditure on account of "other assets" for the said year at Rs. 646 million, breakup of which is as follows:

Table 11: Detail of Additions to Other Assets

Particulars	Amount
Civil Construction	59
Plant, Machinery and Equipment	359
Furniture & Fixtures	23
Computer Equipment	22
Transport	194
Capital Work in Progress	(11)
Total	**646**

6.4.2. The Authority observes that the petitioner has greatly raised the projected expenditure on plant & machinery. Historical analysis of the amount capitalized is given below:

Table 12: Expenditure on Distribution Development

Rs. in million

Particulars	FY 2004-05		FY 2005-06		FY 2006-07	FY 2007-08
	DERR	FRR	DERR	FRR	DERR	ERR
Plant & Machinery	110	59	153	56	198	359

6.4.3. It is evident that the petitioner has historically, capitalized much too smaller amounts on this account compared to Rs. 359 million, projected for the said year, without providing any explanation / justification.

6.4.4. ***The Authority, in view of the above, restricts the addition to plant & machinery to Rs. 180 million (50% of the projected amount).***

6.4.5. ***The Authority, tentatively allows total "other assets" at Rs. 467 million.***

6.5. UFG Assets

6.5.1. The petitioner has projected an expenditure of Rs. 885 million on account of UFG reduction project for the said year. The said project was initially envisaged to be completed in two years, as under:

Table 13: UFG Reduction Plan

Rs. in million

Block	Indent No.	Description	Cost to be Capitalized		
			2007-08	2008-09	Total
Block 1	A1	Demand Actuator System	198	-	198
	A2	Installation of TBSs	133	-	133
Sub Total			**331**	**-**	**331**
Block 2	A3	Installation of satellite security at 418 stations	41	-	41
		Masonary work for industrial CMSs	20	-	20
	A4	Installation of EVCs at 1800 industrial premises	94	15	109
		Laptops (20 Nos.)	3	-	3
	A5	Replacement of undersized industrial & commercial meters	170	-	170
		Meters with ID	140	-	140
		Spares for meters	24	-	24
		Regulators / control valves	30	-	30
		Spares for regulators	10	-	10
	A6	Construction of control room	2	-	2
Sub Total			**534**	**15**	**549**
O&M Cost		Cost of transportation	20	-	20
Total			**885**	**15**	**900**

6.5.2. The petitioner has informed that the initial pace of reduction in UFG from 12.27% in 1999 to 6.65% in 2004 was rapid and the same has declined to 6.59% in 2006. The declining trend of UFG from 1999 to 2004 was 1.124% per annum which has reduced to 0.03% per annum during 2004 to 2006. This trend, inspite of best efforts indicates that the UFG reduction potential in the existing transmission and distribution network was close to saturation, and, therefore, the UFG related activities needed to be diversified.

6.5.3. The petitioner, after detailed discussions and due deliberation with the executives of OGRA, has submitted a revised three years' plan for execution of the said project, as below:

Table 14: Revised UFG Reduction Plan

Rs. in million

Block	Indent No.	Description	Cost to be Capitalized 2007-08	2008-09	2009-10	Total
Block 1	A1	Demand Actuator System	33	83	83	198
	A2	Installation of TBSs	47	43	43	133
Sub Total			**80**	**126**	**126**	**331**
Block 2	A3	Installation of satellite security system	25	16	-	41
	A4	Installation of EVCs at 1800 industrial premises	109	-	-	109
		Laptops (20 Nos.)	3	-	-	3
	A5	Replacement of undersized industrial & commercial meters	106	64	-	170
		Meters with ID	79	61	-	140
		Regulatory / control valves	15	15	-	30
Sub Total			**336**	**157**	**-**	**493**
Total			**415**	**283**	**126**	**824**

6.5.4. The petitioner has stated that the revision in the said project has been envisaged on experimental basis to control gas losses and the same cannot be further phased out.

6.5.5. ***The Authority, accepts Rs. 415 million projected on account of UFG reduction plan.***

6.6. Fixed Assets Determined by the Authority

6.6.1. The value of additions in assets claimed by the petitioner and provisionally allowed by the Authority for the said year is as under:

Table 15: Summary of Asset Additions Determined by OGRA

Rs. in million

Particulars	Requested by Petitioner FY 2007-08	Allowed By OGRA FY 2007-08
Transmission System	2,184	1,779
UFG Assets	885	415
Distribution Development	6,320	5,000
Other Assets	646	467
Net addition in asset base	**10,035**	**7,660**

6.6.2. The Authority observes that the petitioner has taken the opening balance for the said year of gross operating assets & accumulated depreciation at Rs. 82,765 million & Rs. 40,243 million as against Rs. 81,530 million & Rs. 39,008 million, respectively, determined per Review-II FY 2006-07 and consequently depreciation expense on opening assets has been computed at Rs. 4,763 million as against Rs. 4,692 million. ***The opening balance of accumulated depreciation and the depreciation expense on opening assets are, therefore, provisionally estimated at Rs. 39,008 million and Rs. 4,692 million respectively.***

6.6.3. Depreciation expense claimed by the petitioner comes down by Rs. 150 million to Rs. 4,948 million as a consequence of adjustment in depreciation expense on opening balance of assets and reduction in additions to fixed assets for the said year, as discussed above.

6.6.4. ***In view of the above, the Authority provisionally determines the closing net operating fixed assets (net of deferred credits) for the said year at Rs.*** 37,754 ***million duly taking into account the adjustment referred in para 6.2 to 6.5 above.***

6.6.5. The Authority intends to conduct independent audit of additions to operating fixed assets for the said year to ascertain their prudence and cost effectiveness, and to confirm transparency of procurement procedures of the petitioner and compliance with Public Procurement Rules, 2004.

7. Operating Revenues

7.1. Sales Volume

7.1.1. The petitioner has projected increase in consumers from 2,874,870 per Review-II FY 2006-07 to 3,104,070 during the said year, as follows:

Table 16: **Comparison of Projected Number of Consumers with Previous Years**

					# of consumers	
Category	**FY 2004-05**	**FY 2005-06**	**FY 2006-07**	**FY 2007-08**	**Growth over Review-II**	
	FRR	**FRR**	**Review-II**	**The Petition**		
Domestic	2,437,541	2,641,273	2,822,541	3,047,541	225,000	8%
Commercial	41,358	43,919	48,358	52,058	3,700	8%
Industrial	3,271	3,773	3,971	4,471	500	13%
Total	**2,482,170**	**2,688,965**	**2,874,870**	**3,104,070**	**229,200**	**8%**

7.1.2. The sales volume for the said year has been projected at 559,016 BBTU, as against 545,289 BBTU per Review-II 2006-07, higher by 3%. Category-wise comparison with previous years has been provided by the petitioner as under:

Table 17: **Comparison of Sales Volume with Previous Years**

						Volume in BBTU	
Category	**FY 2003-04**	**FY 2004-05**	**FY 2005-06**	**FY 2006-07**	**FY 2007-08**	**Inc./ (Dec.) over Review II 06-07**	
	FRR	**FRR**	**FRR**	**Review-II**	**The Petition**		
Power	157,273	190,348	207,837	180,372	177,511	(2,861)	(2) %
Cement	3,775	8,086	9,222	10,933	8,523	(2,410)	(22) %
Fertilizer	42,420	41,639	43,622	43,411	45,815	2,404	6%
General Industries	110,490	138,536	151,358	177,814	178,120	306	0.17%
Commercial	16,330	18,528	19,891	20,948	22,224	1,276	6%
Domestic	96,348	108,405	107,169	111,811	126,824	15,013	13%
Total	**426,636**	**505,543**	**539,099**	**545,289**	**559,016**	**13,727**	**3%**

7.1.3. The Authority observes that the petitioner has projected domestic sector sales to Lillah Town at 14 MMCF (i.e. 13 BBTU), despite its earlier direction per para 9.3.62 of DERR FY 2006-07 to ring-fence all expenditure relating to CNG project, including all cost allocations (e.g. Head Office expenses etc.) and not make it part of revenue requirement.

7.1.4. ***The Authority, in view of the above, provisionally determines the estimate of total sales volume for the said year at 559,003 BBTU.***

7.1.5. The petitioner has projected 22% decrease in sales to cement sector owing to additional consumption by priority sectors i.e. domestic, commercial and fertilizer feed stock.

7.1.6. The Authority observes that the projected increase in sales volume of domestic consumers is highly unrealistic keeping in view the trend in previous years. Actual consumption in FY 2005-06 was 107,169 BBTU and for FY 2006-07, it is projected per Review II at 111,811 BBTU. The petitioner has projected it to jump by 13% to 126,824 BBTU in FY 2007-08, without any justification. The actual sales volume for the first six months of FY 2006-07 is reported to be 102,400 BBTU.

7.1.7. ***In view of the above, the Authority determines projected domestic sector sales at 110,727 BBTU (324 MMCFD) and increases the sales volume for cement, power and general industrial sector correspondingly, as given below:***

Table 18: Sales Volume Determined by the Authority for FY 2007-08

			Volume in BBTU
Category	**The Petition**	**Increase / (Decrease)**	**Determined by OGRA**
Power	177,511	6,844	184,355
Cement	8,523	2,395	10,919
Fertilizer	45,815		45,815
General Industries	178,120	6,844	184,964
Commercial	22,224		22,224
Domestic	126,824	(16,097)	110,727
Total	**559,016**		**559,003**

7.2. Sales Revenue

7.2.1. The petitioner has projected sales revenue at existing prescribed prices to increase by 4% from Rs. 114,475 million per Review-II FY 2006-07 to Rs. 118,508 million for the said year. Category-wise comparison of sales revenue is given below:

Table 19: Comparison of Projected Sales Revenue with Previous Years

				Rs. in million	
Category	**FY 2005-06 FRR**	**FY 2006-07 Review-II**	**FY 2007-08 The Petition**	**Increase / (Decrease) over Review-II**	
Power	46,687	43,116	43,893	777	2%
Cement	2,338	2,928	2,435	(493)	(17%)
Fertilizer	4,761	5,054	5,527	473	9%
General Industries	33,628	41,398	42,989	1,591	4%
Commercial	4,969	5,483	5,961	478	9%
Domestic	13,468	16,498	17,703	1,205	7%
Total	**105,852**	**114,475**	**118,508**	**4,033**	**4%**

7.2.2. ***Based on the readjusted sales volume as provided in para 7.1.7 above, the Authority determines the estimated sales revenue at Rs. 120,207 million for the said year as under***:

Table 20: Sales Revenue Determined by the Authority for the FY 2007-08

			Rs. in million
Category	**The Petition**	**Increase / (Decrease)**	**Determined by OGRA**
Power	43,893	1,632	45,525
Cement	2,435	684	3,119
Fertilizer	5,527	-	5,527
General Industries	42,989	1,631	44,620
Commercial	5,961	-	5,961
Domestic	17,703	(2,248)	15,455
Total	**118,508**	**1,699**	**120,207**

7.3. Other Operating Income

i. Summary

7.3.1. The petitioner has projected other operating income at Rs. 2,282 million during the said year as against Rs. 2,075 million per Review-II FY 2006-07 showing an increase of 10%. Comparison with previous years is given below:

Table 21: Comparison of Projected Other Operating Income with Previous Years

						Rs. in million
CATEGORY	**FY 2004-05 FRR**	**FY 2005-06 FRR**	**FY 2006-07 Review-II**	**FY 2007-08 The Petition**	**Increase / (Decrease) over Review-II 06-07**	
Rental & Services Charges	699	745	800	860	60	8%
Surcharge & Interest on Arrears	647	534	650	700	50	8%
Amortization of Deffered Credit	398	477	550	637	87	16%
Other Income	211	157	75	85	10	13%
Total	**1,954**	**1,913**	**2,075**	**2,282**	**207**	**10%**

ii. Other Income

7.3.2. The petitioner has projected other income to increase by 13% from Rs. 75 million per Review-II FY 2006-07 to Rs. 85 million during the said year. Comparison of other income with the last three completed years and Review II FY 2006-07 is given below:

Table 22: Historical Figures of Other Income

							Rs. in million
Category	**FY 2003-04 DTRR**	**FY 2004-05 FRR**	**FY 2005-06 FRR**	**FY 2006-07 Review-II**	**FY 2007-08 The Petition**	**Inc./ (Dec.) over Review-II**	
Other income	338	211	157	75	85	10	13%
Total	**338**	**211**	**157**	**75**	**85**	**10**	**13%**

7.3.3. The Authority notes that the petitioner has been earning an average of Rs. 235 million during the last three completed years in this respect and the projection for the said year is on the lower side.

7.3.4. ***The Authority, in view of the above, provisionally determines other income at Rs. 150 million for the said year.***

7.3.5. ***The Authority observers that the remaining items under other operating income have been reasonably projected.***

7.3.6. ***In view of the above, the Authority provisionally determines other operating income at Rs. 2,347 million.***

8. Operating Expenses

8.1. Cost of Gas

8.1.1. The petitioner initially projected cost of gas for the said year to increase from Rs. 98,408 million per Review-II FY 2006-07 to Rs. 100,898 million based on estimated prices of Crude Oil (crude) and High Sulphur Fuel Oil (HSFO). Comparative analysis of cost of gas is given below:

Table 23: Comparison of Cost of Gas with Previous Years

Category	FRR FY 2005-06		Review II FY 2006-07		The Petition	
	BBTU	Rs. in million	BBTU	Rs. in million	BBTU	Rs. in million
Cost of Gas	576,741	92,009	575,136	98,408	589,058	100,898

8.1.2. The wellhead gas prices on the basis of which cost of gas is determined are notified semi annually on 1st July and 1st January, and are indexed with the international prices of crude and HSFO per GPAs between the Federal Government and the producers. The international average prices of crude and HSFO during the immediately preceding period of December to May are used as the basis for calculating the wellhead gas prices for the period July to December, and similarly oil prices during the immediately preceding period of June to November are used to calculate the wellhead gas prices for the period January to June.

8.1.3. The petitioner computed the WACOG at Rs. 170.36 for the said year estimating international prices of HSFO and crude and US $ / PKR exchange rate as under:

Table 24: Estimate for Determination of WACOG per Petition

Applicable for wellhead gas price for the period	Average C&F oil prices for the period	Average C&F price of Crude Oil (US $ per BBL)	Average C&F price of HSFO (US $/ M.Ton)	Exchange Rate (Rs /US $)
Jul 07 to Dec 07	December 06 to May 07	60.04	285.45	60.70
Jan 08 to Jun 08	June 07 to November 07	62.74	298.17	61.16

8.1.4. The petitioner, during the public hearing, presented the revised WACOG estimate for the said year of Rs. 176.02 per MMBTU, which is higher by Rs. 5.66 per MMBTU, than the initial estimate, basing the same on increasing oil prices in the international market during March, 2007 and April, 2007.

8.1.5. Revised WACOG of Rs. 176.02 per MMBTU has been worked out by the petitioner on the basis of following base period prices:

Table 25: Basis for Determination of Revised WACOG

Applicable for wellhead gas price for the period	Average C&F oil prices for the period.	Average C&F price of Crude Oil (US $ per BBL)	Average C&F price of HSFO (US $/M.Ton)	Exchange Rate (Rs /US $)
Jul 07 to Dec 07	December 06 to May 07	60.0829	297.2020	61.00
Jan 08 to Jun 08	June 07 to November 07	65.4919	329.2063	61.50

8.1.6. ***The Authority is of the view that revised latest computation of WACOG provided by the petitioner is closer to reality and provisionally adopts the same for determining estimated revenue requirement for the said year. Detailed computation of WACOG is at Annexure-D.***

8.1.7. The Authority observes that the zamzama transportation charge amounting to Rs. 505 million claimed by the petitioner, is in excess of the corresponding income of Rs. 373 million projected by SSGCL in its petition for estimated revenue requirement for FY 2007-08, which is also under consideration of the Authority. ***In view of the fact that the zamzama transportation charge is computed and***

recovered by SSGCL from the petitioner, the Authority adopts the same at Rs. 373 million for the said year.

8.1.8. ***The Authority reduces the cost of gas by Rs.2.46 million as a consequence to adjustment in domestic sale volume to Lillah Town, as discussed in para 7.1.3 above.***

8.1.9. ***Based on the above, the cost of gas is provisionally determined at Rs. 104,108 million. As in the case of previous year, the petitioner is directed to submit a review petition to the Authority, latest by October 15, 2007 for review of its cost of gas on the basis of actual and anticipated changes in international prices of crude and fuel oil during the period June to November, 2007.***

8.2. Unaccounted for Gas (UFG)

8.2.1. The petitioner has projected the UFG at 5.11% (32,208 MMSCF) for the said year as follows:

Table 26: Comparison of Unaccounted for Gas with Previous Year

		Volumes in MMCF
Particulars	**FY 2006-07 Review-II**	**FY 2007-08 The Petition**
Gas Purchases	698,610	630,035
Gas Sales	661,015	597,827
UFG	37,595	32,208
UFG %	**5.38%**	**5.11%**

8.2.2. The Authority, after giving due weight to all relevant factors including the contentions of the two utilities, had fixed the UFG benchmark per its order on motion for review of DERR FY 2005-06 dated October 12, 2005, on a long term basis. For the said year, the upper and lower targets of UFG had been fixed at 6% & 5.10%, respectively, with the condition that the petitioner would be entitled to retain the savings in the event of performance being better than the lower target, fully bear UFG above the upper target from its own profits whereas UFG between the lower & upper target be adjusted in the revenue requirement to the extent of 50% & the balance 50% be absorbed by the petitioner from its own profit.

8.2.3. In view of the above decision of the Authority, the petitioner has worked out the UFG at 5.11% as under:

Table 27: Unaccounted for Gas Losses (UFG)

	Volumes in MMCF
	FY 2007-08
Particulars	**The Petition**
GAS PURCHASES	
Gas purchases	642,113
Less: Gas Internally Consumed	(12,079)
Total (A)	**630,034**
GAS SALES	
Gas Sales	597,827
Add: Gas carried for third party	-
Total (B)	**597,827**
UFG volume (C=A-B)	**32,208**
UFG percentage (C/A*100)	**5.11%**

8.2.4. ***The Authority observes that the UFG projected by the petitioner is slightly higher than the fixed lower target of UFG per the benchmark, and therefore provisionally deducts Rs. 5 million from the revenue requirement of the petitioner, being 50% share, as mentioned in para 8.2.2 above.***

8.2.5. The Authority notes that the petitioner had projected UFG for FY 2006-07 at 5.38%. The nine-monthly accounts, however, shows UFG at 8.41%, which is much higher. In view of this position, the petitioner is advised to intensify its efforts and achieve the UFG targets set by the Authority.

8.3. Transmission and Distribution Cost

i. Summary

8.3.1. The petitioner has projected increase in transmission and distribution cost (including gas internally consumed) by 8% from Rs. 7,196 million per Review II FY 2006-07 to Rs. 7,783 million for the said year, as detailed below:

Table 28: Comparison of Projected T & D Cost with Previous Years

					Rs. in million
Particulars	**FY 2005-06**	**FY 2006-07**	**FY 2007-08**	**Increase / (Decrease) over REVIEW II 06-07**	
	FRR	**Review-II**	**The Petition**	**Rs.**	**%**
Human Resource Cost	3,558	3,755	4,191	436	12 %
Stores and Spares consumed	229	257	284	27	11 %
Fuel and Power	122	157	158	1	%
Repair and Maintenance	386	384	228	(156)	(41) %
Rent, Rate, electricity and Telephone	97	111	121	9	9 %
Insurance	135	157	154	(4)	(2) %
Traveling	71	68	81	14	20 %
Stationery, telegram and postage	42	44	48	4	9 %
Dispatch of gas bills	21	24	27	3	11 %
Transport expenses	253	248	273	25	10 %
Legal and Professional services	24	29	31	2	8 %
Security expenses	183	145	162	17	12 %
Gathering charges of gas bills collection data	20	23	24	1	5 %
Stores and spares written off -scrapping of meters	-	-	-	-	
Provision for doubtful debts	174	200	180	(20)	(10) %
Gas bills collection charges	195	191	227	36	19 %
OGRA fee	70	99	111	12	12 %
Other expenses	238	272	330	58	21 %
Subtotal Expenses	**5,818**	**6,165**	**6,630**	**465**	**8 %**
Allocated to fixed capital expenditures	(726)	(875)	(803)	72	(8) %
Net T&D Expenses before Gas Internally Consumed	**5,092**	**5,290**	**5,827**	**537**	**10 %**
Add: Gas internally consumed	1,559	1,906	1,957	51	3 %
Total T&D Expenditure	**6,651**	**7,196**	**7,783**	**588**	**8 %**

8.3.2. Various components of operating cost are discussed in the following paras.

ii. Human Resource Cost

8.3.3. The petitioner has projected the Human Resource (HR) cost to increase from Rs. 3,755 million per Review II FY 2006-07 to Rs. 4,191 million per the benchmark (including IAS-19) for the said year showing an increase of 12%.

8.3.4. The Authority, with a view to minimize micromanagement of HR cost of both the utility companies, had introduced, on an experimental basis, for a period of 3 years i.e. FY 2005-06 & FY 2006-07 and FY 2007-08, the benchmark HR cost per its order on motion for review of DERR FY 2005-06 dated October 12, 2005, in order to protect the interest of consumers and, at the same time, incentivize the petitioner to strive for optimization of its human resource. It was decided that the petitioner would be allowed to retain 50% of the saving if the actual HR cost was lower than the benchmark cost and, conversely, made to bear 50% of the expenditure in excess of the benchmark.

8.3.5. The Authority observes that the petitioner has estimated the total T&D network at 62,299 Km, after incorporating the projected addition of 5,100 Km, for the said year. However based on discussion in paras 6.2.3 and 6.3.4 above, ***the Authority provisionally determines the total T&D network at*** 61,368 ***Km including addition of 4,169 km for the said year.***

8.3.6. The Authority observes that the petitioner has taken CPI at 10% for the purpose of computation of HR benchmark cost for the said year. The Authority however, has provisionally adopted CPI at 8% as indicated by the Federal Bureau of Statistics for the period July-March, FY 2006-07 and repeated declarations by the relevant authorities that the CPI would be kept down through appropriate measures.

8.3.7. ***The Authority also notes that the estimated HR cost is in excess of the benchmark set by it and, therefore, provisionally re-computes and determines the same for the said year at Rs.*** 4,046 ***million per Annexure-F.***

8.3.8. ***The petitioner is directed to provide, at the time of final revenue requirement, a certificate by its statutory auditors to the effect that HR cost used for comparison with HR benchmark includes regular, contractual and casual staff / labour.***

iii. Gas Internally Consumed

8.3.9. Comparison of volume of Gas Internally Consumed (GIC) as percentage of gas purchases, with previous years is as under:

Table 29: Gas Internally Consumed as a %age of Gas Purchases with Previous Years

				Volumes in MMCF	
FY	Gas Internally Consumed			Gas Purchased	%age of Gas Purchased
	Compression	Other	Total		
2003-04	9,093	619	9,712	494,766	1.96
2004-05	9,950	776	10,726	548,595	1.96
2005-06 FRR	9,777	681	10,458	624,779	1.67
2006-07 (Review-II)	11,214	753	11,967	630,598	1.90
2007-08 (Projected)	11,318	760	12,078	642,113	1.88

8.3.10. ***In view of the consistent pattern of GIC volume, the Authority provisionally accepts GIC at 12,078 MMCF.***

8.3.11. The petitioner has projected cost of the GIC for the said year at Rs. 1,957 million as against Rs. 1,906 million per Review II FY 2006-07, increasing by 3%. Historical comparison of GIC is as under:

Table 30: Comparison of Projected Gas Internally Consumed with Previous Years.

				Rs. in million	
Particulars	FY 2005-06 FRR	FY 2006-07 Review-II	FY 2007-08 The Petition	Inc. / (Dec.) over Review II	
Compression	1,466	1,786	1,833	47	3%
Transmission	-	7	7	0	3%
Free gas facility	104	92	94	2	3%
Others (incl H.O.)	14	21	22	1	3%
	1,583	**1,906**	**1,957**	**51**	**3%**

8.3.12. The Authority observes that the WACOG has been increased to Rs. 176.02 per MMBTU from originally projected WACOG of Rs. 170.36 per MMBTU as mentioned per para 8.1.6 above.

8.3.13. In view of the above, the Authority recalculates the GIC at Rs. 2,019 million and provisionally adopts the same for the said year.

iv. Stores and Spares Consumed

8.3.14. The petitioner has projected stores and spares consumed for the said year at Rs. 284 million as against Rs. 257 million per Review II FY 2006-07. Historical comparison of stores and spares consumed is given below:

Table 31: Comparison of Projected Stores and Spares Consumed with Previous Years

				Rs. in million	
	FY 2005-06	**FY 2006-07**	**FY 2007-08**	**Inc. / (Dec.) over Review II**	
Particulars	**FRR**	**Review II**	**The Petition**		
Compression	82	113	130	17	15 %
Transmission	50	67	72	5	7 %
Distribution	66	53	56	3	6 %
Others (incl H.O.)	1	5	6	1	21 %
Freight & handling	30	20	21	1	5 %
Total	**229**	**257**	**284**	**27**	**11 %**

8.3.15. The petitioner has argued that the increase is mainly due to anticipated rise in the prices of spare parts used for routine maintenance of the transmission and distribution system. It has also stated that the compressor packages, procured during 1970s and their ancillary equipment including filtration, vibration and fire protection system have become very old and need frequent repair / replacement of parts. Similarly, the generating sets and DGC system, installed at compressor stations in 1980s, have become old and need frequent repair.

8.3.16. The petitioner has further stated that the operation of compressors will increase because the gas presently being sold to power sector, upstream of Multan, has to be transmitted to Lahore, Faisalabad, Gujranwala and Islamabad regions due to increase in sale to domestic and industrial sectors in these regions.

8.3.17. ***In view of above, the Authority provisionally accepts the value of stores and spares consumed for the said year at Rs. 284 million.***

v. Rent, Rate, Electricity and Telephone

8.3.18. The petitioner has requested for Rs. 121 million on account of Rent, Rate, Electricity and Telephone for the said year as compared to Rs. 111 million per Review II FY 2006-07. Historical comparison of Rent, Rate, Electricity and Telephone is given below:

Table 32: Comparison of Rent, Rate, Electricity and Telephone with Previous Years

					Rs. in million
Particulars	**FY 2005-06 FRR**	**FY 2006-07 Review II**	**FY 2007-08 The Petition**	**Inc. / (Dec.) over Review II**	
Rent	26	32	36	4	14 %
Royalty	4	7	10	3	39 %
Telephone	17	20	21	1	5 %
Electricity	29	32	35	3	8 %
Railways	14	15	13	(2)	(13) %
Others	7	5	6	1	13 %
Total	**97**	**111**	**121**	**9**	**9 %**

8.3.19. The petitioner has stated that the increase is mainly due to the increase in rent, hiring of alternate / additional premises for sub-area offices, consumer service centers, etc. on market rates.

8.3.20. The Authority observes that initially Pakistan Railways demanded maintenance charges for 397 crossings for which budgetary provisions were made accordingly in the FYs 2005-06 and 2006-07. Later, the Pakistan Railways reduced the number of crossings to 350. Therefore, the amount already allowed in earlier years (i.e. Rs. 3 million) has to be adjusted based on the reduced number of crossings.

8.3.21. ***Based on the above, the Authority provisionally allows the rent, rate, electricity and telephone at Rs. 118 million for the said year.***

vi. Traveling

8.3.22. The petitioner has projected traveling expense for the said year at Rs. 81 million as against Rs. 68 million per Review II FY 2006-07. Historical comparison of traveling expense is given below:

Table 33: Comparison of Projected Traveling Expense with Previous Years

					Rs. in million
	FY 2005-06	**FY 2006-07**	**FY 2007-08**	**Inc. / (Dec.) over Review II**	
Particulars	**FRR**	**Review-II**	**The Petition**		
Compression	4	5	6	1	23 %
Transmission	20	19	24	5	29 %
Distribution	20	19	22	2	11 %
Others (incl H.O. & service depts.)	26	25	30	5	20 %
Total	**71**	**68**	**81**	**14**	**20 %**

8.3.23. The petitioner has elaborated that the projected increase is mainly due to upward revision in TA / HA rates.

8.3.24. ***The Authority, in view of the above, allows the said expense at Rs. 81 million for the said year.***

vii. Dispatch of Gas Bills

8.3.25. The petitioner has projected the expense on account of dispatch of gas bills at Rs. 27 million for the said year as against Rs. 24 million per Review II FY 2006-07, showing an increase of 11% as under:

Table 34: Comparison of Projected Dispatch of Gas Bills with Previous Years

					Rs. in million
	FY 2005-06	**FY 2006-07**	**FY 2007-08**	**Inc. / (Dec.) over Review II**	
Particulars	**FRR**	**Review II**	**The Petition**		
Dispatch of Gas Bills	21	24	27	3	11%

8.3.26. The petitioner has attributed the increase in number of consumers / bills to be dispatched.

8.3.27. ***The Authority provisionally accepts the estimated expenditure on dispatch of gas bills at Rs. 27 million for the said year.***

viii. Transport Expense

8.3.28. The petitioner has projected transport expenses at Rs. 273 million for the said year as against Rs. 248 million per Review II FY 2006-07, showing an increase of 10% as under:

Table 35: Detailed Comparison of Projected Transport Expenses with Previous Years

				Rs. in million	
Particulars	**FY 2005-06** **FRR**	**FY 2006-07** **Review II**	**FY 2007-08** **The Petition**	**Inc. / (Dec.) over Review II**	
Compression	7	8	8	1	6 %
Transmission	50	54	57	3	6 %
Distribution	117	80	85	5	6 %
Others (incl H.O. & service depts.)	79	106	123	16	15 %
Total	**253**	**248**	**273**	**25**	**10 %**

8.3.29. The petitioner has argued that the projected increase is mainly due to higher provision for hiring of vehicles to meet operational requirements / maintenance activities as well as the considerable increase in maintenance cost of existing vehicles fleet.

8.3.30. ***The Authority, provisionally accepts the transport expense at Rs. 273 million for the said year.***

ix. Security Expense

8.3.31. The petitioner has projected 12% increase amounting to Rs. 17 million, from Rs. 145 million per Review II FY 2006-07 to Rs. 162 million in the said year.

Table 36: Detailed Comparison of Security Expense with Previous Years

				Rs. in million	
Particulars	**FY 2005-06** **FRR**	**FY 2006-07** **Review II**	**FY 2007-08** **The Petition**	**Inc. / (Dec.) over Review II**	
Security Expense	183	145	162	17	12 %

8.3.32. The petitioner has clarified that the increase is mainly due to involvement of Pak Army and Police Foundation for pipeline security. The monthly charge of security guards hired by the petitioner has also been increased.

8.3.33. ***In view of the above, the Authority provisionally allows a sum of Rs. 162 million for security expenses.***

x. *Gas Bills Collection Charges*

8.3.34. The petitioner has requested Rs. 227 million for gas bills collection charges for the said year as against Rs. 191 million per Review II FY 2006-07, showing an increase of 19% as under:

Table 37: Comparison of Gas Bills Collection Charges with Previous Years

				Rs. in million	
	FY 2005-06	**FY 2006-07**	**FY 2007-08**	**Inc. / (Dec.) over Review II**	
Particulars	**FRR**	**Review II**	**The Petition**		
Gas Bill Collection Charges	195	191	227	36	19%

8.3.35. The petitioner has argued that the increase is due to the upward revision in rates by banks, post offices and National Database and Registration Authority (NADRA) for collection of bills and increase in number of bills to be collected.

8.3.36. ***In view of the above, the Authority tentatively determines the projected expense at Rs. 227 million on account of gas bill collection charges for the said year.***

xi. *Advertisement*

8.3.37. The petitioner has projected Rs. 48.9 million against Rs. 44.4 million per Review II FY 2006-07, showing an increase of 10%.

8.3.38. The petitioner has attributed the increase under this head to increased activity on account of procurement of goods and services for store and public relations departments in order to comply with the Public Procurement Regulatory Authority requirement.

8.3.39. ***The Authority provisionally allows the requested amount of Rs. 48.9 million subject to the condition that only such expenditure will be allowed at the time of Determination of Total Revenues for FY 2007-08, as is classifiable as "operating expenditure".***

xii. Training Section

8.3.40. The petitioner has estimated an expense of Rs. 8.294 million as against Rs. 4.758 per Review II FY 2006-07, showing an increase of 74% for the said year.

8.3.41. The petitioner has elaborated that the increase in expense has mainly been projected due to enhanced training programmes and hiring of premises by SNGTI. Further, the budget for FY 2006-07 was understated as it was based on five months activities of FY 2005-06.

8.3.42. The Authority is of the view that the expense has been over projected by the petitioner, and commensurate with increased number of training programmes at SNGTI, allows a 20% increase in the estimated expense for FY 2006-07.

8.3.43. ***The Authority tentatively allows an expense of Rs. 5.71 million for the said year under the head training section.***

xiii. Operating Cost of Supply of CNG to Lillah Town

8.3.44. The petitioner has projected an expense of Rs. 13 million for the said year.

8.3.45. The Authority observes that it has already exhaustively discussed and decided this issue in its DERR FY 2006-07 dated May 20, 2006. The Authority maintains its earlier decision of not treating expenditure on Lillah Town as part of revenue requirement and the direction to ring fence all the operating expenditure.

8.3.46. ***In view of the above, the Authority disallows the expense of Rs. 13 million under this head.***

xiv. Budget for UFG Control Related Activities

8.3.47. The petitioner has projected Rs. 50.01 million for the said year on account of budget for UFG control related activities.

8.3.48. The Authority observes that the petitioner has claimed an expense of Rs. 16.90 million under this head on account of additional human resource requirement.

8.3.49. The Authority is of the view that it has already implemented a benchmark for HR costs per its order on motion for review of DERR FY 2005-06 dated October 12, 2005, and all costs relating to HR are covered by it.

8.3.50. ***The Authority, therefore, disallows Rs. 16.90 million on account of additional human resource requirementas part of revenue requirement for the said year.***

8.3.51. ***In view of the above, the Authority provisionally determines UFG control related costs at Rs. 33.11 million for the said year.***

xv. Inter State Gas Systems (Pvt.) Ltd. (ISGSL)

8.3.52. The petitioner has projected Rs. 93 million on account of reimbursement of 49% share in expenditure of ISGSL for the said year. In the course of hearing, however, the petitioner informed that ISGSL Board of Directors had approved budget estimate for the said year amounting to Rs. 610 million, out of which it was obligated to pay 49% share amounting to Rs. 299 million, and sought inclusion of this amount in revenue requirement.

8.3.53. The Authority observes that SSGCL, being 51% shareholder in ISGSL, has only claimed Rs. 96 million. The petitioner's claim of Rs. 299 million on this account, therefore, cannot be entertained.

8.3.54. The Authority had provisionally accepted the expenditure of Rs. 92.5 million for FY 2006-07 per RERRI for FY 2006-07 dated September 26, 2006, subject to the following conditions:

(i) *The petitioner will revise the service agreement with ISGSL by December 31, 2006 to clearly spell out the petitioner's rights and obligations as well as the respective roles / responsibilities of the Board of Director's of the petitioner and ISGSL in the matter of approving expenditure of ISGSL ensuring its reasonability and prudence. The classification of funds provided by the petitioner to ISGSL i.e. equity, loan or grant per applicable rules / regulations should be clearly identified in the revised agreement;*

(ii) *Since the Federal Government is the major stakeholder in the gas import project providing not only the policy guidelines but also directly supervising the project and leading all negotiations, the Service Agreement should also be approved by the Federal Government.*

8.3.55. The Authority observes that the petitioner has not complied with the above directions as it has not submitted the revised service agreement with ISGSL, duly approved by the Federal Government.

8.3.56. The Autho rity fully recognizes that activities undertaken by ISGSL are in national interest owing to emerging energy shortage scenario in years to come, and therefore, has been facilitating funding of ISGSL's expenditure.

8.3.57. The Authority observes that ISGSL is, admittedly, "project development vehicle" for gas import options and expenditure on conducting technical feasibilities and hiring technical, financial and other resources is, clearly, "Project Development Expenditure (PDE)"- **not operating expenditure**. The treatment of PDE as operating expenditure is not allowable under International Accounting Standards.

8.3.58. Notwithstanding the position stated above, the Authority observes that the Ministry of Petroleum & Natural Resources vide its letter no. 6(12)/06-D-III, dated 5th September 2006, has categorically advised that the funding of the ISGSL expenditure be contributed by both the gas utility companies out of their operating revenues. ***Accordingly, the Authority tentatively admits Rs. 93 million, being 49% share, in the revenue requirement of the petitioner subject to the***

condition that it will comply with the directions referred in para 8.3.53 above. The Authority further decides to seek specific policy guidelines of the Federal Government on this issue under Section 21 of the Ordinance.

xvi. Optimization Study

8.3.59. The petitioner during the public hearing requested the Authority to allow an additional expenditure of Rs. 30 million to conduct a study on the optimization of its transmission system, which was not claimed due to over sight at the time of submission of the petition.

8.3.60. The petitioner informed that the said study is intended to review its transmission system capacity in order to increase the existing system capacity coupled with operational flexibility in most economical and optimized way by adopting different feasible options and international best practices.

8.3.61. ***In view of the above, the Authority accepts the request for allowing the expense of Rs. 30 million on account of optimization study.***

xvii. Remaining Items of Transmission & Distribution Cost

8.3.62. The items of transmission and distribution cost, except those dealt with in para's .3.3 to .3.61, are projected by the petitioner at Rs. 1,051 million as against Rs. 1,205 million per Review II FY 2006-07. The comparative analysis is given below:

Table 38: Remaining Items of Transmission and Distribution Expenses

				Rs. in million	
Particulars	**FY 2005-06**	**FY 2006-07**	**FY 2007-08**	**Inc. / (Dec.) over Review-II**	
	FRR	**Review-II**	**The Petition**		
Fuel and power	122	157	158	1	0.64%
Repair & Maintenance	386	384	228	(156)	(41%)
Insurance	135	157	154	(3)	(2%)
Stationery, telegram and postage	42	44	48	4	9%
Legal and Professional Services	24	29	31	2	7%
Gathering charges of gas bills collection data	20	23	24	1	4%
Provision for doubtful debts	174	200	180	(20)	(10%)
OGRA fee	70	99	111	12	12%
Other expenses	148	112	117	5	%
Total	**1,121**	**1,205**	**1,051**	**(154)**	**(13%)**

8.3.63. *The Authority observes that the remaining items of T&D expense, as shown above, have reasonably been projected by the petitioner, and, therefore accepts the same at Rs 1,051 million.*

xviii. Transmission & Distribution Cost Determined by Authority

8.3.64. **In view of the examination in para 8.3.1 to 8.3.63 above, the Authority provisionally determines operating cost for the said year at Rs. 7,695 million against Rs. 7,783 million claimed by the petitioner, as follows:**

Table 39: Summary of T&D Cost Determined by the Authority

		Rs. in million
Particulars	**Requested by the Petitioner**	**Determined by OGRA**
Human resource cost	4,191	4,046
Stores and spares consumed	284	284
Fuel and power	158	158
Repair and maintenance	228	228
Rent, rate, electricity and telephone	121	118
Insurance	154	154
Traveling	81	81
Stationery, telegram and postage	48	48
Dispatch of gas bills	27	27
Transport expenses	273	273
Legal and professional services	31	31
Security expenses	162	162
Gathering charges of gas bills collection data	24	24
Provision for doubtful debts	180	180
Gas bills collection charges	227	227
OGRA fee	111	111
Optimization Study	-	30*
Other expenses	330	297
Subtotal Expenses	**6,630**	**6,479**
Allocated to fixed capital expenditures	(803)	(803)
Net T&D Expenses before Gas Internally Consumed	**5,827**	**5,676**
Add: Gas internally consumed	1,957	2,019
Total T&D Expenditure	**7,783**	**7,695**

* Refer para 8.3.61 above

8.4. Workers Profit Participation Fund (WPPF)

8.4.1. The petitioner has projected W.P.P.F at Rs. 352 million. However, due to adjustments in the components of revenue requirements as discussed in paras 8.1 to 8.3 above, W.P.P.F is recalculated and provisionally allowed at Rs. 342 million.

9. Decision

9.1. **In view of the justifications submitted and arguments advanced by the petitioner in support of its petition, comments offered by the participants, scrutiny by the Authority and detailed reasons recorded by the Authority in earlier paras, the Authority recapitulates and decides:**

9.1.1. **to reduce estimated addition in fixed assets by Rs. 2,374 million and depreciation charge by Rs. 150 million thereby reducing the net average operating fixed assets to Rs. 36,929 million as against Rs. 38,012 million claimed by the petitioner for the said year. Consequently, the return required by the petitioner on its assets is reduced from Rs. 6,652 million to Rs. 6,463 million;**

9.1.2. **to allow sales volume at 559,003 BBTU as against 559,016 BBTU claimed by the petitioner;**

9.1.3. **to recognize sales revenue at Rs. 120,207 million as against Rs. 118,508 million claimed by the petitioner;**

9.1.4. **to adopt cost of gas at Rs. 104,108 million as computed by the petitioner;**

9.1.5. **to restrict UFG at 5.10% in the operating expenses per the benchmark and make a downward adjustment of Rs. 5 million in the operating expenditure;**

9.1.6. **to allow the T&D expenses at Rs. 5,676 million as against Rs. 5,826 million claimed by the petitioner;**

9.1.7. **to allow the GIC at Rs. 2,019 million as against Rs. million 1,957 claimed by the petitioner;**

9.1.8. **to readjust WPPF to Rs. 342 million as against Rs. 352 million claimed by the petitioner; and**

9.2. **In exercise of its powers under the Ordinance and NGT Rules, the estimated revenue requirement for the said year is determined at Rs. 123,550 million as tabulated below :**

Table 40: Components of ERR for FY 2007-08 as Determined by the Authority

		Rs. in million
Estimated Revenue Requirement FY 2006-07	**Claimed by the Petitioner**	**Determined by the Authority**
Cost of gas	100,898	104,108
UFG adjustment per targets	-	(5)
Transmission & distribution cost	5,826	5,676
Gas internally consumed	1,957	2,019
Deferral account	-	-
Depreciation	5,098	4,948
Workers participation fund	352	342
Return on net operating fixed assets	6,652	6,463
Total Revenue Requirement	**120,783**	**123,550**

9.3. **The provisionally allowed expenses are subject to adjustments on the basis of review under section 8(2) of the Ordinance, and later after scrutiny of auditors initialed accounts of the petitioner for the said year, provided these expenses are substantiated with appropriate justification and analysis in the form acceptable to the Authority.**

9.4. **The petitioner's net operating income is estimated at Rs. 122,554 million as against revenue requirement of Rs. 123,550 million and thus there is a shortfall of Rs. 996 million in its estimated revenue requirement for the said year. In order to cater for this shortfall, the Authority hereby makes upward adjustment of Rs. 1.78 per MMBTU on provisional basis in the petitioners' average prescribed price for the said year (Annexure-A).**

9.5. **The Authority considers it important and essential to impress upon the petitioner that this provisional determination of estimated revenue requirement for the said year pre-supposes that the petitioner would, in any case, faithfully and with responsibility conduct its affairs in full compliance of the requirement of Rule17(1)(h) & Ru le 17(1)(j) of the NGT Rules, as reproduced below:**

Rule 17(1)(h)

"*tariffs should generally be determined taking into account a rate of return as provided in the license,* ***prudent*** *operation and maintenance costs, depreciation, government levies and, if applicable, financial charges and cost of natural gas;"*

Rule 17(1)(j)

"only such capital expenditure should be included in the rate base as is ***prudent, cost effective*** *and* ***economically efficient****;"*

9.6. **Provisional prescribed prices for each category of consumers for the said year, effective from July 1, 2007, are attached as Annexure-B. Increase of Rs. 1.78 per MMBTU in the petitioner's average prescribed prices has been adjusted in those categories of consumers where prescribed price was less than the sale price. Comparison between existing sales prices and revised prescribed prices is attached at Annexure-C. The prescribed prices allowed by the Authority on provisional basis shall be subject to adjustment upon receipt of Federal Government advice under Section 8(3) of the Ordinance, in respect of the sale price of gas for each category of retail consumers provided that the overall increase in the average prescribed price**

remains unchanged so that the petitioner is able to achieve its total revenue requirements in accordance with Section 8(6)(f) of the Ordinance.

10. Directions

10.1. **In addition to the directions issued by the Authority in its previous determinations, the petitioner is further directed to:-**

10.1.1. **Submit a review petition to the Authority, latest by October 15, 2007 for review of its cost of gas on the basis of actual and anticipated changes in international prices of crude and fuel oil during the period June to November, 2007.**

10.1.2. **Provide at the time of final revenue requirement, certificate by its statutory auditors to the effect that HR cost used for comparison with HR benchmark includes all regular, contractual and casual staff / labour.**

11. Public Concerns

11.1. The Authority notes that the contractor's pre-qualification issue raised by the intervener does not fall under the scope of petition for determination of revenue requirements and is irrelevant for the purposes of these proceedings.

11.2. The Authority has recorded concerns of the interveners and participants in para 3.3, which include matters relating to policy and do not fall under the purview of OGRA but affect the consumers. Specific attention of the Federal Government is drawn to these issues for consideration and necessary action.

(M.H. Asif)
Member (Finance)

(Rashid Farooq)
Member (Oil)/
Vice Chairman

(Munir Ahmad)
Chairman

Islamabad,
May 21, 2007

A. Computation of Estimated Revenue Requirement for FY 2007-08

Rs. in million

Particulars	FY 2007-08 The Petition	Adjustment	Determined by OGRA
Gas sales volume -MMCF	597,827	(14)	597,813
BBTU	559,016	(13)	559,003
Calorific Value	935		935
Net Operating revenues			
Net sales at current prescribed price	118,508	1,699	120,207
Rental & service charges	860		860
Surcharge and interest on arrears	700		700
Amortization of deferred credit	637		637
Other operating income	85	65	150
Total income "A"	**120,790**		**122,554**
Less Expenses			
Cost of gas sold	100,898	3,210	104,108*
UFG adjustment per targets		(5)	(5)
Transmission and distribution cost	5,826	(150)	5,676
Gas internally consumed	1,957	62	2,019
Depreciation	5,098	(150)	4,948
(W.P.P.F)	352	(10)	342
Total expenses "B"	**114,130**		**117,088**
Excess of Revenue over Expenses (A - B)	**6,660**		**5,467**
Return required on net assets:			
Net assets at beginning	42,522		42,522
Net assets at ending	47,459	(2,224)	45,235
	89,981	(2,224)	87,757
Average fixed net assets (I)	**44,991**		**43,879**
Deferred credit at beginning	6,418		6,418
Deferred credit at ending	7,539	(57)	7,481
	13,957	(57)	13,899
Average net deferred credit (II)	**6,979**		**6,950**
Average operating assets (I-II)	**38,012**		**36,929**
Return required on net assets	17.5%		17.5%
Amount of return required	6,652		6,463
Excess / (shortfall) over return required	**8**		**(996)**
Decrease / (Increase) in average prescribed price (Rs. / MMBTU)	**0.01**		**(1.78)**
Total estimated revenue requirement	**120,783**		**123,550**

* The cost of gas has been revised upward to Rs. 104,108 million, as sought by the petitioner in the public hearing held on April 18, 2007, owing to upward trend in international prices of crude & fuel oil.

B. Provisional Prescribed Prices for FY 2007-08 w.e.f. July 1, 2007

	Notified Prescribed Prices w.e.f February 01, 2007	Revised Prescribed Prices w.e.f July 01, 2007
Domestic Consumers:	Rupees per MMBTU	
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, universties, colleges, schools, private educational institutions, orphanages and other charitable institutions.		
First slab (upto 50 cubic metres per month).	**78.38**	**78.38**
Second slab (over 50 upto 100 cubic metres per month).	**82.07**	**82.07**
Third slab (over 100 upto 200 cubic metres per month).	**149.40**	**149.40**
Fourth slab (over 200 upto 300 cubic metres per month).	**239.01**	**239.01**
Fifth slab (over 300 cubic metres per month).	**310.92**	**310.92**
For hostels and residential colonies to whom gas is supplied through bulk meters.		
All off-takes at flat rate of	**149.40**	**149.40**
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, theaters and private offices, clinics, maternity homes, etc.		
All off-takes at flat rate of	**268.23**	**268.23**
Ice Factories:		
All off-takes at flat rate of	**268.23**	**268.23**
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	**238.38**	**238.38**
Captive Power :		
All off-takes at flat rate of	**238.38**	**238.38**
CNG Stations:		
All off-takes at flat rate of	**247.99**	**247.99**
Cement Factories:		
All off-takes at flat rate of	**285.70**	**285.70**

	Fertilizer Factories:		
Pak American Fertilizer Limited, Daudkhel.			
(a)	**For gas used as feed stock for fertilizer**		
	Commodity charge.		
	All off-takes at flat rate of	**36.77**	**36.77**
(b)	**For gas used as fuel for generating steam and electricity and for usage in housing colonies.**		
	Commodity charge.		
	All off-takes at flat rate of	**238.38**	**238.38**
Pak Arab Fertilizer Limited, Multan.			
(a)	**For gas used as feed stock for fertilizer**		
	Commodity charge.		
	All off-takes at flat rate of	**91.52**	**91.52**
(b)	**For gas used as fuel for generating steam and electricity and for usage in housing colonies.**		
	Commodity charge.		
	All off-takes at flat rate of	**238.38**	**238.38**
Dawood Hercules Chemicals Limited, Chichoki Malian, Sheikhupura District:			
(a)	**For gas used as feed stock for fertilizer**		
	Commodity charge.		
	All off-takes at flat rate of	**91.52**	**91.52**
(b)	**For gas used as fuel for generating steam and electricity and for usage in housing colonies.**		
	Commodity charge.		
	All off-takes at flat rate of	**238.38**	**238.38**
Pak-China Fertilizer Limited/Hazara Phosphate Plant Limited, Haripur.			
(a)	**For gas used as feed stock for fertilizer**		
	Commodity charge.		
	All off-takes at flat rate of	**97.11**	**97.11**
(b)	**For gas used as fuel for generating steam and electricity and for usage in housing colonies.**		
	Commodity charge.		
	All off-takes at flat rate of	**238.38**	**238.38**

	Power Stations:		
(a)	*WAPDA's Power Stations and other electricity utility companies excluding WAPDA's Natural Gas Turbine Power Station, Nishatabad, Faisalabad.*		
	All off-takes at flat rate of	**238.38**	**238.38**
(b)	*WAPDA's Natural Gas Turbine Power Station, Nishatabad, Faisalabad.*		
	Commodity Charge		
	All off-takes at flat rate of	**238.38**	**238.38**
	Fixed charge (Rupees per month).	**390,000**	**390,000**
(c)	*Liberty Power Limited.*		
	All off-takes at flat rate of	**330.43**	**388.69**

C. Comparison between Existing Sale Prices and Revised Prescribed Prices

Category	Sale Prices w.e.f. 01.02.07	Revised Prescribed Prices w.e.f. 01.07.07	Differential (Gas Development Surcharge)
Domestic			
1st slab	78.38	78.38	-
2nd Slab	82.07	82.07	-
3rd Slab	149.40	149.40	-
4th Slab	239.01	239.01	-
5 th Slab	310.92	310.92	-
Commercial	268.23	268.23	-
General Industry	238.38	238.38	-
CNG Station	264.87	247.99	16.88
Cement	305.15	285.70	19.45
Power	238.38	238.38	-
Liberty Power	445.98	388.69	57.29
Fertilizer			
Pak Arab Fertilizer Limited			
Feed stock	91.52	91.52	-
Fuel	238.38	238.38	-
Dawood Hercules Chemicals Limted			
Feed stock	91.52	91.52	-
Fuel	238.38	238.38	-
Pak American			
Feed stock(New)	36.77	36.77	-
Fuel	238.38	238.38	-
Pak China Fertilizer Limited			
Feed stock	97.11	97.11	-
Fuel	238.38	238.38	-
Hazara Phospate Plant, Haripur			
Feed Stock	97.11	97.11	-
Fuel	238.38	238.38	-

D. Computation of Weighted Average Cost of Gas

FIELD	SNGPL		SSGCL		TOTAL		
	BBTU	Total Rs. in million	BBTU	Total Rs. in million	BBTU	Cost per MMBTU	Total Rs. in million
Sui	131,939	12,756	39,882	3,856	171,821	96.68	16,612
Dhodak	21,440	3,863			21,440	180.19	3,863
Dakhni	11,150	1,006			11,150	90.19	1,006
Loti	3,089	262			3,089	84.73	262
Sadkal	851	232			851	272.37	232
M. Kaswal	-	-			-		-
Qadirpur	144,513	24,521			144,513	169.67	24,521
Qadirpur LPL	13,951	2,092			13,951	149.94	2,092
Pirkoh	8,261	700			8,261	84.74	700
Adhi	11,964	1,068			11,964	89.25	1,068
Ratna	842	201			842		201
Bhangali	-	-			-		-
Dhurnal	442	7			442	15.92	7
Meyal	1,441	114			1,441	79.29	114
Dhulian	887	70			887	79.28	70
Pindori	9,407	2,014			9,407	214.09	2,014
Pariwali	8,779	1,879			8,779	214.04	1,879
Turkwal	-	-			-		-
Hasan	6,185	883	51	7	6,236	142.73	890
Sawan	89,836	17,900	41,181	8,213	131,017	199.31	26,113
Zamzama	49,347	9,568	38,047	7,386	87,394	194.00	16,954
Chanda	4,747	787			4,747	165.82	787
Rehmat / Mubarak	10,355	1,598			10,355	154.37	1,598
Badar	2,186	302			2,186	138.11	302
Kandkot	12,225	1,182	161	16	12,386	96.68	1,198
Manzalai	-	-			-		-
HASEEB	6,761	931			6,761	137.67	931
Gurguri / Ratana II	27,228	4,515			27,228	165.81	4,515
Badin			75,281	14,682	75,281	195.03	14,682
Daru			805	64	805	79.28	64
Kadanwari			15,892	7,110	15,892	447.41	7,110
Miano			51,206	10,206	51,206	199.32	10,206
Bhit			94,857	20,288	94,857	213.88	20,288
Mari			215	8	215	36.42	8
Ghotki Town - SNGPL			206	33	206	162.07	33
Rustam Town - SNGPL			36	6	36	162.07	6
Sari / Hundi			674	178	674	263.80	178
Mazarani			2,975	319	2,975	107.19	319
Khipro Block - Naimat Basal / Siraj			10,591	1,634	10,591	154.33	1,634
Radho	15,350	2,115			15,350	137.78	2,115
Chachak	8,020	1,105			8,020	137.78	1,105
Sinjhoro			5,172	818	5,172	158.15	818
Bhit II			6,071	1,321	6,071	217.59	1,321
Bobi			3,528	551	3,528	156.32	551
Zamzama II			32,121	6,297	32,121	196.04	6,297
Zargoon			285	49	285	172.85	49
Mirpukhas Block - Kausar			24,711	3,814	24,711	154.33	3,814
Total Purchases	**601,196**	**91,670**	**443,948**	**86,856**	**1,045,144**	**170.82**	**178,527**
Add: CED		3,060		2,260		5.09	5,320
	601,196	**94,730**	**443,948**	**89,116**	**1,045,144**	**175.91**	**183,846**
Purification Charges		108		16		0.12	125
Total Input Cost of Gas	**601,196**	**94,839**	**443,948**	**89,133**	**1,045,144**	**176.02**	**183,971**

E. Detail of Additions to Fixed Assets per the Petition

		Rs. in million
S.No.	**Asset Description**	**The Petition**
A	**Transmission**	
1	95-KM 8" Dia Manjowal - End Point	405
	Subtotal	**405**
	Compression	
2	Overhauling / Maintenance / Rehabilitation of compressor packages	959
	Subtotal	**959**
	P-IX (Advance Action)	
3	40-KM 24" Dia Gurguri - Kohat	751
4	Construction Equipment	69
	Subtotal	**820**
	Total Transmission	**2,184**
B	**UFG Assets**	
5	UFG Assets	885
	Total UFG Assets	**885**
C	**Distribution Development**	
6	Distribution Development	6,320
	Total Distribution Development	**6,320**
D	**Other Assets**	
7	Plant, machinery, transport, furniture, electrical appliances, computers, C.P.system, loose tools, civil works, etc.	646
	Total Other Assets	**646**
	Grand Total	**10,035**

F. Computation of HR Cost Benchmark

Rs. in million

Description	Base Year FY 2004-05 (Actual)	FY 2007-08 (Projected)
Total HR cost incl. IAS-19 (actual / projected by the licensee)	3,291	4,025
Less:		
IAS-19	258	183
HR cost excl. IAS-19 provision (actual / projected by the licen	3,033	3,842
BASIS OF BENCHMARK		
Total No. of consumers (actual / projected by the licensee)	2,482,170	3,122,015
Sale Volume (MMCF)	537,086	597,827
T & D Network (km)	48,313	61,368
CPI (actual / projected by OGRA)	9.28%	8%
Per unit cost factor (consumer base) (Rs.) (Base Year)	1,222	1,222
Per unit cost factor (T & D Network) (Rs.) (Base Year)	62.78	62.78
Per unit cost factor (Sale volume base) (Rs.) (Base Year)	5.65	5.65
Increase based on 50% CPI (Rs. in Million)	-	150.20
Increase on account of increase in consumers (60% weightage	1,820	2,289
Increase on account of increase in T & D Network (20% weigh	607	771
Increae on account of sale volume (20% weightage) (Rs. mil)	607	675
Benchmark HR Cost	3,033	3,885
Add: IAS -19 Provision	258	183
Total benchmark H.R. Cost(including T & D Network)	**3,291**	**4,068**
Excess/(saving) to the Licensee (50%) (Rs. in mil)	-	(21)
Total HR Cost allowed (after adjustment of 50% excess sav	**3,291**	**4,046**