No. OGRA-10-3(5)-2007-08-FRR

IN THE MATTER OF

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

UNDER

OIL AND GAS REGULATORY AUTHORITY ORDINANCE, 2002 AND NATURAL GAS TARIFF RULES, 2002

DECISION

September 19, 2008

Before:

Mr. Rashid Farooq, Member Oil / Acting Chairman
Mr. M.H. Asif, Member Finance
Syed Hadi Hasnain, Member Gas

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<u>ANNEXURES</u>

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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 and sale of natural gas and sale of gas condensate (as a by-product).

1.2. The petitioner filed a petition (the petition) on August 14, 2007 under Section 8(2) of the Oil & Gas Regulatory Authority Ordinance, 2002 (the Ordinance) and Rule 4(3) of the Natural Gas Tariff Rules, 2002 (NGT Rules), for determination of its Final Revenue Requirement (FRR) for FY 2007-08 (the said year) on the basis of the accounts, as initialed by its statutory auditors. The Authority admitted the petition on August 25, 2008.

1.3. The Authority, vide its order dated January 03, 2008, had determined the petitioner's Revised Estimated Revenue Requirement (RERR) for the said year under Section 8(2) of the Ordinance at Rs. 128,503 million for estimated sale volume of 568,680 BBTU, and prescribed prices for various categories of consumers on provisional basis, as shown in relevant columns of ***Annexure-B.***

1.4. The petitioner has submitted the present petition for determination of its FRR for the said year after incorporating the effect of actual changes in the wellhead gas prices, sale mix and other relevant factors. The petitioner has worked out its FRR for the said year at Rs. 127,085 million for actual sale volume of 559,954 BBTU. Based on the provisional prescribed prices and actual sale mix, the petitioner has computed a shortfall of Rs. 3,343 million for the said year.

1.5. The Authority issued notice of hearing on August 27, 2008 to the petitioner and the following interveners and related parties:

a) Federal Government.
b) Mehmood Elahi Engineers, Faisalabad.
c) M/s Sikandar-e-Azam & Sons, Shiekhupura.

1.6. The hearing was held at OGRA office, Islamabad on September 18, 2008.

2. Salient Features of the Petition

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

Table 1: Comparison of Cost of Service with Previous Year & RERR

Rs. per MMBTU

Particulars	FY 2006-07	FY 2007-08	
	FRR	RERR	The Petition
Units sold (BBTU)	**541,569**	**568,680**	**559,954**
Cost of gas sold	183.11	191.84	194.84
Transmission and distribution cost	10.55	14.06	11.97
Depreciation	7.41	8.70	8.02
Return on net average operating fixed assets	11.13	11.36	12.12
Other operating income	(4.33)	(4.13)	(4.60)
Cost of service / prescribed price	**207.87**	**221.84**	**222.35**
Current average prescribed price	207.87	221.84	216.38
Increase requested in the average prescribed price	**-**	**-**	**5.97**

2.2. The petitioner has made the following submissions:

2.2.1. The annual return has been claimed at the rate of 17.5% of the value of its average net operating fixed assets (net of deferred credit) before corporate income taxes, and interest, mark-up and other charges on debt, as guaranteed by the Government of Pakistan under the covenants of the loan agreement between the petitioner and the World Bank.

2.2.2. Gross addition in fixed assets during the said year has been claimed at Rs. 13,654 million and net addition, after accounting for deletion and depreciation, at Rs. 8,885 million, increasing the net operating fixed assets from Rs. 44,562 million in FY 2006-07 to Rs. 53,447 million. After adjustment of deferred credit, the average value of operating fixed assets has been claimed at Rs. 38,789 million and the required return at Rs. 6,788 million.

2.2.3. The net operating revenues have been claimed at Rs. 123,742 million in the petition, as against Rs. 128,503 million in the RERR, as detailed below:

Table 2: Comparison of Operating Revenues per RERR with the petition

Rs. in million

Particulars	FY 2006-07	FY 2007-08		Inc. / (Dec.) over RERR	
	FRR	RERR	The Petition		
Sales at current tariff	112,329	126,156	121,164	(4,993)	-3.95%
Rental & services charges	828	860	916	56	7%
Surcharge & interest on arrears	673	700	703	3	0.4%
Amortization of deferred credit	591	637	790	153	24%
Income on Lillah Town.	-	-	10	10	--
Other income	253	150	159	9	6%
Net operating revenues	**114,674**	**128,503**	**123,742**	**(4262)**	**-3.31%**

2.2.4. The net operating expenses have been claimed at Rs. 120,297 million in the petition as compared to Rs. 122,040 million in RERR, as detailed below:

Table 3: Comparison of Operating Expenses per RERR with the petition

Rs. in million

Particulars	FY 2006-07	FY 2007-08		Increase / (decrease) over RERR	
	FRR	RERR	The Petition		%
Cost of gas	99,166	109,095	109,103	8	0.01%
Disallowance on account of UFG	(2,086)	(119)	(2,611)	(2,492)	2094%
Transmission & distribution cost	5,621	5,676	6,106	430	7.58%
Gas internally consumed	1,956	2,104	2,243	139	6.61%
Depreciation	4,011	4,948	4,489	(459)	-9%
Workers profit participation fund	224	336	240	(96)	-28.65%
Donations	-	-	101	101	
Exchange loss on purchase	-	-	625	625	
Net Operating Expenses	**108,892**	**122,040**	**120,297**	**(1,743)**	**-1.43%**

2.2.5. The Unaccounted for Gas (UFG) has been claimed at 7.95% (51,690 MMSCF) as against the upper & lower target of 6% & 5.10%, respectively, fixed by the Authority.

2.2.6. The net result of the petitioner's above mentioned claims is that there is a shortfall of Rs. 3,343 million after allowing 17.5% return on average net operating assets, which translates to an increase of Rs. 5.97 per MMBTU in the existing average prescribed price, as tabulated below:

Table 4: Comparison of Average Increase in Prescribed Price per RERR with the petition

Rs. in million

	Particulars	FY 2007-08	
		RERR	The Petition
A	Net operating revenues	128,503	123,742
B	Less: Net operating expenses including WPPF	122,040	120,297
C	Surplus / (Shortfall) (A – B)	6,463	3,445
D	Return required @ 17.5% on net fixed assets in operation.	6,463	6,788
E	Total shortfall in the revenue requirement (C - D)	-	(3,343)
	Sales volume (BBTU)	568,680	559,954
F	**Increase requested in the existing average prescribed price (Rs / MMBTU) (E ÷ F *1000)**	**-**	**5.97**

3. Proceedings

3.1. The petitioner was represented at the hearing by a team of senior executives led by its Chief Financial Officer, Mr. Amer Tufail, who were given full opportunity to present the petition. They made submissions in detail with the help of multimedia presentation. They also answered the questions raised by Chairman, Members and officers of the Authority.

3.2. Mr. Jawad Gillani, representing Mehmood Elahi Engineers, Sui Gas Contractors Punjab & Sarhad, Faisalabad and M/s Sikandar-e-Azam & Sons, Sheikhupura, were present in the hearing.

3.3. They strongly opposed the inclusion of gas theft as part of admissible expenditure under the current pricing mechanism since it represented inefficiency of the petitioner. It was also stated that gas theft was only possible in collusion with the petitioner's staff.

3.4. Meter reading mechanism must be streamlined and done on a real time basis instead of current practice of sending provisional bills for extended period of time.

3.5. The rampant practice of meter reversing need to be stopped on urgent basis to bring down the UFG.

3.6. Illegal line extensions must be stopped on urgent basis to avoid line losses and theft.

3.7. The petitioner is using low quality / improper fittings resulting in gas losses after some time.

4. Determination

4.1. After detailed scrutiny of the petition, and clarifications given before, during and after the hearing by the petitioner, the Authority determines as follows:

5. Return to Licensee

5.1. The Authority is obligated under Section 7(1) of the Ordinance, to determine or approve tariff for regulated activities whose licenses provide for such determination or such approval, or where authorized by this Ordinance, subject to policy guidelines. ***License Condition No. 5.2*** of license granted to the petitioner, clearly states that ***the Authority shall determine*** total revenue requirement of the licensee to ensure that it achieves 17.5% return on its average net fixed assets in operation for each financial year, subject to the efficiency related benchmarks adjustments. The Authority, accordingly, has been determining the revenue requirement of the petitioner, providing the said return on net operating assets in accordance with the said provision of the Ordinance as well as the petitioner's license.

6. Operating Fixed Assets

6.1. Summary

6.1.1. Gross addition in fixed assets during the said year has been claimed at Rs. 13,654 million and net addition, after accounting for deletion and depreciation, at Rs. 8,885 million, increasing the net operating fixed assets from Rs. 44,562 million in FY 2006-07 to Rs. 53,447 million. After adjustment of deferred credit, the average value of operating fixed assets has been claimed at Rs. 38,789 million and the required return at Rs. 6,788 million, as tabulated below:-

Table 5: Computation of Return on Operating Fixed Assets per Petition

Rs. in million

Description	The Petition
Net operating fixed assets at beginning	44,562
Net operating fixed assets at closing	53,447
Subtotal	98,009
Average net assets (A)	**49,005**
Deferred credit at beginning	8,916
Deferred credit at closing	11,514
Subtotal	**20,430**
Average deferred credit (B)	**10,215**
Average net fixed assets (A-B)	**38,789**
Return required on net operating assests	17.5%
Amount of return requested by the petitioner	**6,788**

6.1.2. Comparative analysis of additions in fixed assets with the RERR and the previous year is as follows:

Table 6: Summarized Schedule of Additions Compared with RERR & Previous Year

Rs. in million

Particulars	FY 2006-07	FY 2007-08		Inc. /(Dec.) over RERR	
	FRR	RERR	The Petition		%
Land	-	-	141	141	100%
Transmission (Incl. compression)	3,228	1,779	6,616	4,837	272%
Distribution Development	6,223	5,000	6,547	1,547	31%
Plant & Machinery etc.	494	467	-	(467)	-100%
UFG Assets	-	415	-	(415)	-100%
Intangible Assets			57	57	100%
MIS Project	33	-	-	-	-
Land Acquisition Advance			293		100%
Net addition in asset base	**9,978**	**7,661**	**13,654**	**5,993**	**78%**

6.1.3. The petitioner has provided further breakdown of the major items of additions as detailed below:

Table 7: Detailed Schedule of Additions per petition

			Rs.in million
Sr No.	**Assets Description**		**The Petition**
A	**Transmission**		
	1	P-IX (Advance Action Plan)	908
	2	P- IX	4,148
	3	P-VII	38
	4	Southern Distt (Punjab)	303
	5	Southern Distt (NWFP)	284
	6	Other Projects	354
	7	Normal Assets Projects Including (P-IX)	413
	8	Incremental cost booked to previsiously capitalized items (civil works etc.	57
	9	**Sub-total:-**	**6,505**
A1	**Compression**		
	10	Compression system and equipment	**111**
	11	**Sub-total:-**	**111**
	12	**Grand Total (9+11)**	**6,616**
B	**Distribution Development**		
	13	Distribution system	4,329
	14	C.P.System	61
	15	Sales Meter station	376
	16	Regulating System	1,280
	17	**Sub-total:-**	**6,046**
B1	**Normal Capital Expenditure**		
	18	Office equipment / F&F/ P&M / Tools / Computers /	390
	19	Civil Works	65
	20	Construction equipment	47
	21	**Sub-total:-**	**501**
	22	**Grand Total (17+21)**	**6,547**
C	**23**	**Land**	**141**
D	**24**	**Intangible assets**	**57**
F	**25**	**Land Acquisiton Advance**	**293**
		Grand Total:- (12+22+23+24+25)	**13,654**

Transmission (including compression)

6.1.4. The petitioner has submitted that unprecedented hike in transmission capitalization during the said year is primarily owing to early completion of Project-IX as well as some left over works of Project-VII.

6.1.5. The Authority observes that although the P-VIII & partial P-IX have been completed by the petitioner, resulting in increased capitalization on account of transmission (i.e; Rs. 6,616 million), the gas internally consumed, however, has increased from 12,366 MMCF to 13,408 MMCF.

6.1.6. The Authority notes that the primary justification for P-VIII was to lay larger diameter pipeline, thereby reducing the compression requirement and resultantly GIC, which in not the case for current petition.

6.1.7. The Authority therefore, provisionally allows Rs. 6,616 million capitalization on account of transmission, subject to the provision of detailed justification / presentation to be made by the petitioner, focusing on reasons for not attaining the P-VIII over all objectives.

Distribution Development

6.1.8. The petitioner has stated that it had sought Rs. 6,320 million in distribution development from the Authority at the time of DERR FY 2007-08. The Authority, however, tentatively allowed Rs. 5,000 million based on prevalent capitalization trend. The petitioner has highlighted that it has been able to achieve 6,547 million capitalization under this head, primarily due to increase in international steel prices and completion of left over works pertaining to previous year as well as its hectic efforts towards meeting the distribution development targets.

6.1.9. The Authority after due diligence and detailed examination of the submissions made by the petitioner, allows Rs. 6,547 million on account of distribution development for the said year, as sought by the petitioner.

Other Assets

6.1.10. The Authority observes that the petitioner has claimed Rs. 293 million “Land Acquisition Advance” as addition to fixed assets, and the same is allowed, in accordance with the previous practice.

6.1.11. The Authority observes that the petitioner has booked fee for ORACLE e-business suite license amounting to Rs. 57 million under the head “Intangible Assets” for FY 2006-07 and the said year. The Authority notes that the petitioner has not submitted the desired critical information in respect of IT project expenditure to date, despite repeated directions, reminders and follow-up meetings. In the absence of specific requisite information, the Authority pends decision on this item.

6.1.12. Depreciation expense claimed by the petitioner comes down by Rs. 19 million to Rs. 4,470 million as a consequence of intangible assets disallowed by the Authority during the said year.

6.1.13. In view of the above, the Authority determines the addition in fixed assets at Rs. 13,597 million. After adjustment of depreciation per para 6.1.12 above & deletion in fixed assets amounting to Rs. 280 million, the closing net operating fixed assets for the said year are determined at Rs. 53,409 million.

7. Operating Revenues

7.1. Sales Volume

7.1.1. The sales volume has decreased by 1.54% to 559,934 BBTU for the said year, as against 568,674 BBTU per RERR. Category-wise comparison with previous years has been provided by the petitioner as under:

Table 8: Comparison of Category-wise Sales Volume per petition with RERR & Previous Year

volume in BBTU

Category	FY 2006-07	FY 2007-08		Inc./ (Dec.) over RERR	
	FRR	RERR	The Petiiton		
Power	187,850	198,179	181,063	(17,116)	(9)%
Cement	10,897	12,882	9,110	(3,772)	(29)%
Fertilizer	41,833	45,924	44,304	(1,620)	(4)%
General Industries	119,294	118,633	121,777	3,144	3%
CNG	41,897	54,599	52,485	(2,114)	(4)%
Commercial	21,224	22,224	22,067	(157)	(1)%
Domestic	118,575	116,237	129,127	12,890	11%
Sub-Total	**541,569**	**568,680**	**559,933**	**(8,747)**	**(1.54)%**
Sale to Lillah Town	-	-	21	-	-
Total	**541,569**	**568,680**	**559,954**	**(8,726)**	**(1.53)%**

7.2. Sales Revenue at Existing Prescribed Prices.

7.2.1. Sales revenue at existing prescribed prices has decreased to Rs. 121,163 million for the said year, as compared to Rs. 126,160 million per RERR. Category-wise comparison with RERR and previous year is given below:

Table 9: Comparison of Category-wise Sales Revenue per petition with RERR & Previous Year

Rs. in million

Category	FY 2006-07	FY 2007-08		Inc. / (Dec.) over RERR	
	FRR	RERR	The Petition		%
Power	44,623	51,228	46,463	(4,765)	-9%
Cement	2,966	3,799	2,692	38	1%
Fertilizer	4,671	5,505	4,839	(383)	-7%
General Industries	27,807	29,091	29,799	(13,591)	-47%
CNG	9,953	14,013	14,015	9,953	71%
Commercial	5,609	6,158	6,099	126	2%
Domestic	16,701	16,366	17,256	203	1%
Total	**112,329**	**126,160**	**121,163**	**(4,997)**	**-4%**

7.2.2. The Authority observes that decrease in sale volume and change in sale mix compared to RERR has resulted in lesser sales revenue.

7.2.3. ***The Authority determines the sales revenue at Rs. 121,163 million for the said year.***

7.3. Other Operating Income

i. *Summary*

7.3.1. The petitioner has claimed other operating income at Rs. 2,569 million for the said year as against Rs. 2,347 million per RERR. Item-wise comparison is as under:

Table 10: Comparison of Other Operating Income per petition with RERR & Previous Years

Rs. in million

Particulars	FY 2006-07	FY 2007-08		Inc. / (Dec.) over RERR	
	FRR	RERR	The Petition		
Rental & services charges	828	860	916	56	7%
Surcharge & interest on arrears	673	700	703	3	0%
Amortization of deferred credit	591	637	790	153	24%
Other income	253	150	159	9	6%
Total:	**2,345**	**2,347**	**2,569**	**222**	**9%**

7.3.2. ***The Authority determines other operating income at Rs. 2,569 million for the said year.***

7.4. Lillah Town CNG Project

7.4.1. The petitioner has claimed a net gain of Rs. 10.26 million on account of Lillah Town CNG project for the said year, as under:

Table 11: Lillah Town CNG Project

Description	FY 2007-08
	Rs. in million
Gas supplied through SMS (BBTU)	21.08
Sale Revenue	2.81
Cost of gas sold	4.10
Gross Loss	(1.29)
Operating cost	4.16
Net Loss	(5.45)
Add: Net Adjustment for FY 2005-06 & 2006-07	15.71
Net gain on Lillah Town	**10.26**

7.4.2. The petitioner has elaborated that it has added back the capital expenditure amounting to Rs. 31 million (which was earlier allowed by the Authority as revenue expenditure in FRR FY 2005-06) in accordance with Federal Government's policy guideline dated January 12, 2008. However, after deducting deprecation, return on assets and net operating loss, for FY 2005-06 & FY 2006-07, the petitioner has worked out net positive adjustment of Rs. 15.71 million on this account.

7.4.3. The petitioner has adjusted the said gain of Rs. 15.71 million against the net loss of Rs. 5.45 million for the said year, resulting in net overall gain of Rs. 10.26 million on account of Lillah Town.

7.4.4. ***In view of above, the Authority determines income on Lillah town at Rs. 10.26 million and includes the same as part of revenue requirement for the said year.***

8. Operating Expenses

8.1. Cost of Gas

8.1.1. The cost of gas per petition is Rs. 109,103 million for the said year compared to Rs. 109,095 million per RERR, higher by Rs. 8 million (0.01%).

8.1.2. The Authority had determined input cost of gas on the basis of combined weighted average cost of gas purchased by the petitioner and SSGCL at Rs. 181.04 per MMBTU as part of RERR in accordance with the agreement for equalization of cost of gas dated 22nd September, 2003, between these two companies. On the basis of their actual audited results, weighted average of input cost of gas for the said year works out to Rs. 179.99 per MMBTU, as under:

Table 12: Weighted Average Cost of Input Gas

Company	MMCF	BBTU	Rs in million	Rs./ MMBTU
SSGCL	409,779	392,476	83,857	213.66
SNGPL	664,206	620,551	98,474	158.69
Total	**1,073,985**	**1,013,027**	**182,331**	**179.99**

8.1.3. The above decrease in weighted average cost of gas, compared to RERR, is due to relatively smaller proportion of off-takes from various fields enjoying under the respective contracts and relatively higher well-head prices. Further, the working is now based on payments actually made by the petitioner and SSGCL for purchase of gas in accordance with well-head gas prices as notified by OGRA.

8.1.4. ***In view of the above, the Authority, determines cost of gas sold for the said year at Rs. 109,103 million.***

8.2. Unaccounted for Gas (UFG)

8.2.1. The petitioner has claimed UFG at 7.95% (51,690 MMSCF) for the said year, as follows:

Table 13: Comparison of UFG for Gas per petition with RERR & Previous Year

Volumes in MMCF

Particulars	FY 2006-07	FY 2007-08	
	FRR	RERR	The Petition
Gas Purchases	625,199	630,035	650,052
Gas Sales	576,629	597,827	598,361
UFG	48,570	32,208	51,690
UFG %	**7.77%**	**5.11%**	**7.95%**

8.2.2. The Authority, in its RERR for the said year, had fixed the UFG upper & lower targets at 6% & 5.10% respectively, with the condition that the petitioner would be entitled to retain the savings in the event of actual performance being better than the lower target, fully bear UFG above the upper target from its own profits and 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. The petitioner has submitted that it has not been able to achieve the targeted UFG level for the said year, and has, therefore, deducted Rs. 2,611 million from its revenue requirement on account of UFG in excess of the targeted level.

8.2.4. The Authority observes that the petitioner has wrongly calculated the UFG disallowance at Rs. 2,611 million and the correct amount is Rs. 2,711 million, since it has treated provisional billing of 597 MMCF as part of gas sale, against the Authority's earlier determination / decisions. Accordingly, the Authority adopts UFG volume at 52,287 MMCF (i.e. 8.04%), as against 51,690 MMCF(i.e. 7.95%) claimed by the petitioner subject to adjustment on the basis of UFG audit. Detailed calculation is as under:

Table 14: UFG Calculation

		MMCF
Particular	**Per the Petition**	**Provisionally determined by OGRA**
Gas received in transmission system	664,942	664,942
Line pack (impact)	(144)	(144)
Less Gas carried for third party (PPL+POL)	(720)	(720)
Less : Sabotage (gas lost)	(618)	(618)
Net Gas available in the system	663,460	663,460
Gas Internally Consumed		
(i) Gas used in Transmission (plus gas lost	12,680	12,680
(ii) Free Gas Facility+ cogeneration	582	582
(iii) coating plant	146	146
	13,408	13,408
Gas available for sales	650,052	650,052
Gas Sold		
Billed	598,961	598,961
Uncollected volumes - Sticky meter	(283)	(283)
Uncollected volumes - Estimated	(913)	(913)
Provisional Billing	597	-
Net Gas Sold	598,362	597,765
UFG VOLUME	**51,690**	**52,287**
% age UFG	**7.95**	**8.04**

8.2.5. ***Accordingly the Authority provisionally disallows UFG above UFG bench mark for the said year per its earlier decision mentioned above, which will reduce the operating expenditure by Rs. 2,711 million for the said year.***

8.3. Transmission and Distribution Cost

i. Summary

8.3.1. The transmission and distribution cost is higher by 7.3% i.e. from Rs. 7,780 million per RERR to Rs. 8,349 million per the petition, as compared below:

Table 15: Comparison of T & D Cost with RERR and Previous Year

Rs. in million

Particulars	FY 2006-07	FY 2007-08		Increase / (Decrease) Over RERR	
	FRR	RERR	FRR	Rs.	%
Human Resource Cost	3,905	4,046	4,079	33	.80 %
Gas Internally Consumed	1,956	2,104	2,243	139	7 %
Stores and Spares Consumed	313	284	282	(2)	(1) %
Repair and Maintenance	381	228	501	273	120 %
Fuel and Power	136	158	129	(29)	(18) %
Stationery, Telegram and Postage	62	48	68	20	42 %
Dispatch of gas bills	21	27	49	22	83 %
Rent, Rate, Electricity and Telephone	162	118	130	12	10 %
Traveling	114	81	114	33	41 %
Transport expenses	270	273	310	37	13 %
Insurance	141	154	108	(46)	(30) %
Legal and Professional Services	30	31	41	10	33 %
Stores & Spare Parts Written Off	-	-	12	12	-
Consultation for ISO 14001 & OHSAS 1800	-	2	4	2	84 %
Provision for doubtful debts	147	180	305	125	70 %
Gas bills collection charges	212	227	223	(5)	(2) %
Gathering charges of gas bills collection da	22	24	26	2	8 %
OGRA fee	77	111	77	(34)	(31) %
Advertisement	60	49	71	22	46 %
Bank Charges	12	21	13	(8)	(39) %
Uniforms & protective clothing's	8	14	11	(3)	(23) %
Staff training and recruiting	5	14	6	(8)	(59) %
Security expenses	110	162	189	27	17 %
SNG training insititute	2	6	5	(1)	(19) %
Sponsorship of chairs at University	1	5	3	(2)	(37) %
Inter state gas system	82	93	93	0	%
Optimisaton Study of SNGPL Transmission & Compression	-	30	8	(22)	(72) %
Budget for UFG control related activities		33	-	(33)	(100) %
Others					
Construction equipment operating co	9	10	13	3	33 %
Laundry charges	1	4	1	(3)	(78) %
Subscriptions	1	1	2	0	41 %
Newspapers, books & periodicals	1	2	2	(1)	(32) %
Loans to deceased employees written	-	-	0	0	-
Board meetings & directors' expenses	1	5	1	(3)	(72) %
Stock exchange fee	2	0.4	0	(0)	(48) %
Revenue stamps & filing fee	0	1	0	(0)	(88) %
Entertainment expenses	2	5	3	(2)	(43) %
Cost of gas blown off due to sabotage	41	-	104	104	-
Outside services employed - govt./	2	15	7	(8)	(53) %
Annual sports	-	-	11	11	-
Sundries	10	17	15	(3)	(16) %
	8,301	**8,583**	**9,256**	**673**	8 %
Less: Allocated to Fixed Capital expenditu	(736)	(803)	(907)	(104)	13 %
Net Expenditure	**7,565**	**7,780**	**8,349**	**570**	**7.3%**

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

ii. *Human Resource Cost*

8.3.3. The petitioner has claimed an increase of 0.79% on account of HR cost for the said year from Rs. 4,046 million provided in RERR to Rs. 4,079 million per the petition.

8.3.4. The petitioner has reported actual HR cost of Rs. 4,070 million and has computed the benchmark HR cost at Rs. 4,088 million. Accordingly, it has retained 50% of the savings amounting to Rs. 9 million, resulting in total claimed cost of Rs. 4,079 million, as stated above.

8.3.5. The Authority had fixed a benchmark for HR cost (including all costs for permanent, contractual and casual / temporary employees) taking the actual HR cost of FY 2004-05 as base figure and indexed to: (i) increase in number of consumers with 60% weightage, (ii) increase in network with 20% weightage, (iii) gas sales volume with 20% weightage and (iv) allowed inflation adjustment to the extent of 50% of CPI subject to the condition that only 50% of the amount over/under the benchmark will be adjusted in the revenue requirement.

8.3.6. The Authority observes that the petitioner has wrongly calculated the HR benchmark cost and the same works out to Rs. 4,078 million for the said year **(Annexure -D),** as against Rs. 4,088 million computed by the petitioner. The 50% saving therefore computes to Rs. 4 million as against Rs. 9 million claimed by the petitioner.

8.3.7. ***In view of above, the Authority determines the HR cost at Rs, 4,074 million for the said year.***

iii. *Provision for Doubtful Debts.*

8.3.8. The petitioner has claimed the provision for doubtful debts for the said year at Rs. 305 million as against Rs. 180 million provided in RERR, showing an increase of 70%. Historical comparison of provision for doubtful debt is as under

Table 16: Comparison of Provision for Doubtful Debts with RERR and Previous Year

Rs. in million

Particulars	FY 2006-07	FY 2007-08		Inc / (Dec) Over RERR	
	FRR	RERR	The Petition	Rs.	%
Provision for doubtful debts	147	180	305	125	70 %

8.3.9. The Authority notes that the sale revenue & sale volume for the said year has pretty much remained at the level of RERR.

8.3.10. The Authority observes that the petitioner had been repeatedly directed by the Authority through its various earlier determinations to make concerted efforts to curtail this ever increasing expenditure on this account in order not to pass this avoidable cost to consumers. This phenomenal increase in provision points to continued lack of action to evolve effective mechanism to ensure timely recovery of bills. This cannot be allowed to continue.

8.3.11. ***In view of above, the Authority restricts the provision for doubtful debts at the level of RERR and allows it at Rs. 180 million for the said year.***

iv. Remaining Items of Transmission & Distribution Cost

8.3.12. The items of transmission and distribution cost, except those dealt with in para's 8.3.3 to 8.3.11 above, are claimed by the petitioner at Rs. 4,872 million as against Rs. 4,357 million provided in RERR , showing increase of 12%. The comparative analysis is given below:

Table 17: Remaining Items of Transmission & Distribution Cost

Rs. in million

Particulars	FY 2006-07	FY 2007-08		Increase / (Decrease) Over RERR	
	FRR	RERR	The Petition	Rs.	%
Gas Internally Consumed	1,956	2,104	2,243	139	7 %
Stores and Spares Consumed	313	284	282	(2)	(1) %
Repair and Maintenance	381	228	501	273	120 %
Fuel and Power	136	158	129	(29)	(18) %
Stationery, Telegram and Postage	62	48	68	20	42 %
Dispatch of gas bills	21	27	49	22	83 %
Rent, Rate, Electricity and Telephone	162	118	130	12	10 %
Traveling	114	81	114	33	41 %
Transport expenses	270	273	310	37	13 %
Insurance	141	154	108	(46)	(30) %
Legal and Professional Services	30	31	41	10	33 %
Stores & Spare Parts Written Off	-	-	12	12	-
Consultation for ISO 14001 & OHSAS 18000	-	2	4	2	84 %
Gas bills collection charges	212	227	223	(5)	(2) %
Gathering charges of gas bills collection data	22	24	26	2	8 %
OGRA fee	77	111	77	(34)	(31) %
Advertisement	60	49	71	22	46 %
Bank Charges	12	21	13	(8)	(39) %
Uniforms & protective clothing's	8	14	11	(3)	(23) %
Staff training and recruiting	5	14	6	(8)	(59) %
Security expenses	110	162	189	27	17 %
SNG training insititute	2	6	5	(1)	(19) %
Sponsorship of chairs at University	1	5		(5)	(100) %
Inter state gas system	82	93	3	(90)	(97) %
Optimisaton Study of SNGPL Transmission & Compression Infrastructure	-	30	93	63	211 %
Budget for UFG control related activities		33	8	(25)	(75) %
other expenses	70	60	158	97	161 %
Total	**4,249**	**4,357**	**4,872**	**515**	**12%**

8.3.13. The petitioner has attributed increase in repair & maintenance expense mainly to "contractual payments" made to labor hired for ditching purposes amounting to Rs. 233 million, which was erroneously underprovided at Rs. 33 million in DERR for the said year. Enhanced asset addition activity has also been cited as one of the reasons for increase under this head. The petitioner has also stated that actual expenditure pertaining to contractual payments was Rs. 208 million, per FRR FY 2006-07, which was duly approved by the Authority.

8.3.14. The petitioner, after several years, has revised the rates of dispatch of gas bills, resulting in increase of Rs. 22 million under this head.

8.3.15. The petitioner has elaborated that increase in other items of T&D cost is mainly owing to existing inflation in the country. The petitioner has further explained that expansion in T&D network as well as constructive endeavors to improve the quality of service has contributed towards increase in costs of the petitioner.

8.3.16. ***In view of above justifications advanced by the petitioner, the Authority accepts the remaining items of T&D cost at Rs. 4,872 million.***

8.3.17. ***In view of the above, the Authority determines total transmission & distribution cost for the said year at Rs. 8,219 million, against Rs. 8,349 million claimed by the petitioner.***

8.4. Donations / Sponsorship of Chairs at Universities

8.4.1. In the DERR FY 2007-08, an amount of Rs. 5 million was included for "Sponsorship of Chairs at Universities" out of which the petitioner has actually spent Rs. 3.16 million. However, it has claimed an other amount of Rs. 101 million donated to Lahore University of Management Sciences (LUMS), as part of revenue requirement for the said year.

8.4.2. The Authority observes that this substantial additional payment to LUMS is without justification. This university is in private sector and already has many sources of funding. This donation at the cost of the consumers is out of place.

8.4.3. ***In view of above, the Authority disallows inclusion of donations of Rs. 101 million as part of revenue requirement for the said year.***

8.5. Workers Profit Participation Fund (WPPF)

8.5.1. The petitioner has claimed WPPF at Rs. 241 million for the said year. However, due to adjustments in the components of revenue requirement as discussed in paras 6 to 8.4 above, WPPF is recalculated and allowed at Rs. 240 million.

9. Decision

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

9.1.1. ***allow addition in fixed assets at Rs. 13,597 million and reduce depreciation expense by Rs. 19 million;***

9.1.2. ***allow closing balance of fixed assets at Rs. 53,409 million;***

9.1.3. ***determines the UFG disallowance at Rs. 2,711 million.***

9.1.4. ***decrease the T&D cost to Rs. 8,219 million as against Rs. 8,349 million claimed by the petitioner;***

9.1.5. ***disallow Rs.101 million claimed under the head "Donations".***

9.1.6. ***reduce WPPF to Rs. 240 million as against Rs. 241 million claimed by the petitioner;***

9.2. ***In exercise of its powers under Section 8(2) of the Ordinance, the Authority determines the FRR for the said year at Rs. 126,731 million as against petitioner's claim of Rs. 127,085 million, as tabulated below:***

Table 18: Components of FRR for FY 2007-08 as Determined by the Authority

Rs. in million

Final Revenue Requirement FY 2006-07	Claimed by the Petitioner	Determined by the Authority
Cost of gas	109,103	109,103
Disallowance on account of UFG	(2,611)	(2,711)
Transmission & distribution cost	6,106	5,976
Gas internally consumed	2,243	2,243
Depreciation	4,489	4,470
Workers participation fund	241	240
Donations	101	-
Exchange loss on purchase	625	625
Net Operating Expenses	**120,297**	**119,946**
Add: Return on Net Fixed Assets	6788	6785
Total Revenue Requirement	**127,085**	**126,731**

9.3. ***The petitioner's actual net operating income is Rs. 123,742 million, which is short of revenue requirement of Rs 126,731 million for the said year by Rs. 2,989 million. In order to adjust this shortfall, the Authority hereby revises the average prescribed price upwards by Rs. 5.34 per, out of which Rs. 2.31 /MMBTU (Rs. 1,291 million) will be recouped from GDS. However the remaining increase of Rs. 3.03 /MMBTU (Rs. 1,699 million) will be adjusted in RERR FY 2008-09. Revised prescribed prices for each category of retail consumers for FY 2007-08 are attached and marked Annexure-C.***

(Syed Hadi Hasnain)
Member Gas) /

(M.H. Asif)
Member (Finance)

(Rashid Farooq)
Member (Oil) / Acting Chairman

Islamabad, September 19, 2008

A. Revenue Requirement for FY 2007- 08

Million Rs.

	Particulars	The Petition for FRR 2007-08	Addition/ (Deduciton) by OGRA	Determined by OGRA
	Gas sales volume -MMCF	597,913	-	597,913
	BBTU	559,954	-	559,954
	Calorific Value	937	-	937
"A"	**Net Operating revenues**			
	Net sales at current prescribed price	**121,164**	-	**121,164**
	Rental & service charges	916	-	916
	Surcharge and interest on arrears	703	-	703
	Amortization of deferred credit	790	-	790
	Income on Lillah Town	10	-	10
	Other operating income	159	-	159
	Total income "A"	**123,742**		**123,742**
"B"	**Less Expenses**			-
	Cost of gas sold	109,103	-	109,103
	UFG (disallowance) / alloawance	(2,611)	(100)	(2,711)
	Transmission and distribution cost	6,106	(130)	5,976
	Gas internally consumed	2,243	-	2,243
	Depreciation	4,489	(19)	4,470
	W.P.P.F.	241	(1)	240
	Donations	101	(101)	-
	Exchange loss on purchase	625	-	625
	Total expenses "B"	**120,297**		**119,946**
"C"	**Operating profit / (loss)(A - B)**	**3,445**	(351)	**3,796**
	Return required on net assets:			
	Net assets at beginning	44,562	-	44,562
	Net assets at ending	53,447	(38)	53,409
				-
	Average fixed net assets (I)	**49,005**	-	**48,986**
	Deferred credit at beginning	8,916	-	8,916
	Deferred credit at ending	11,514	-	11,514
				-
	Average net deferred credit (II)	**10,215**		**10,215**
"D"	**Average operating assets (I-II)**	**38,789**		**38,771**
	Return required on net assets	17.5%		17.5%
"E"	Amount of return required	6,788	(3)	6,785
"F"	Excess / (shortfall) over return required	**(3,343)**	**(354)**	**(2,989)**
	Increase / (Decrease) in average prescribed price (Rs. / MMBTU)	**5.97**	**(0.63)**	**5.34**
	Total Revenue Requirement	**127,085**	**(354)**	**126,731**
	Average Prescribed Price (Rs. / MMBTU)	**222.35**	**(0.63)**	**221.72**

B. Prescribed Prices per RERR FY 2007-08

		Notified Prescribed Prices	
		w.e.f July 01, 2007	w.e.f January 01, 2008
	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**	**283.05**
	Ice Factories:		
	All off-takes at flat rate of	**268.23**	**283.05**
	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**	**251.55**
	Captive Power :		
	All off-takes at flat rate of	**238.38**	**251.55**
	CNG Stations:		
	All off-takes at flat rate of	**247.99**	**284.18**
	Cement Factories:		
	All off-takes at flat rate of	**285.70**	**327.39**
	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**	**251.55**
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**	**251.55**
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**	**251.55**
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**	**251.55**
	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**	**251.55**
(b)	*WAPDA's Natural Gas Turbine Power Station, Nishatabad, Faisalabad.*		
	Commodity Charge		
	All off-takes at flat rate of	**238.38**	**251.55**
	Fixed charge (Rupees per month).	**390,000**	**390,000**
(c)	*Liberty Power Limited.*		
	All off-takes at flat rate of	**388.69**	**443.06**

C. Prescribed Prices Determined by the Authority for FY 2007-08

			Prescribed Prices	
			w.e.f July 01, 2007	**w.e.f January 01, 2008**
(i)		**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).	**81.41**	**81.41**
		Second slab (over 50 upto 100 cubic metres per month).	**85.10**	**85.10**
		Third slab (over 100 upto 200 cubic metres per month).	**152.43**	**152.43**
		Fourth slab (over 200 upto 300 cubic metres per month).	**242.04**	**242.04**
		Fifth slab (over 300 cubic metres per month).	**313.95**	**313.95**
		For hostels and residential colonies to whom gas is supplied through bulk meters.		
		All off-takes at flat rate of	**152.43**	**152.43**
(ii)		**Commercial Consumers:**		
		All establishments registered as commercial units with local authorities or dealing in consumer items for direct commercial sale like cafes, milk shops, tea stalls, canteens, barber shops, laundries, tandours, places of entertainment like cinemas, clubs, theaters and private offices, clinics, maternity homes, etc.		
		All off-takes at flat rate of	**271.26**	**286.08**
(iii)		**Ice Factories:**		
		All off-takes at flat rate of	**271.26**	**286.08**
(iv)		**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	**241.41**	**254.58**
(v)		**Captive Power :**		
		All off-takes at flat rate of	**241.41**	**254.58**
(vi)		**CNG Stations:**		
		All off-takes at flat rate of	**251.02**	**287.21**
(vii)		**Cement Factories:**		
		All off-takes at flat rate of	**288.73**	**330.42**
viii)		**Fertilizer Factories:**		
(1)		**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	**241.41**	**254.58**
(2)		**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	**241.41**	**254.58**
(3)		**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	**241.41**	**254.58**
(4)		**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	**241.41**	**254.58**
(ix)		**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	**241.41**	**254.58**
	(b)	*WAPDA's Natural Gas Turbine Power Station, Nishatabad, Faisalabad.*		
		Commodity Charge		
		All off-takes at flat rate of	**241.41**	**254.58**
		Fixed charge (Rupees per month).	**390,000**	**390,000**
	(c)	*Liberty Power Limited.*		
		All off-takes at flat rate of	**443.06**	**613.48**

D. Computation of Benchmark H.R. Cost for FY 2007-08

Description	Base Year FY 2004-05 (Actual)	FY 2007-08 (Actual)
Total HR cost incl. IAS-19 (actual / projected by the licensee)	3,348	4,070
Less:		
IAS-19	258	(47)
HR cost excl. IAS-19 provision (actual / projected by the licensee)	3,090	4,118
BASIS OF BENCHMARK		
Total No. of consumers (actual / projected by the licensee)	2,482,170	3,155,921
Sale Volume (MMCF)	537,086	597,913
T & D Network (km)	48,313	66,967
CPI (actual / projected by OGRA)	9.28%	12.00%
Per unit cost factor (consumer base) (Rs.) (Base Year)	1,245	1,245
Per unit cost factor (T & D Network) (Rs.) (Base Year)	63.96	63.96
Per unit cost factor (Sale volume base) (Rs.) (Base Year)	5.75	5.75
Increase based on 50% CPI (Rs. in Million)	-	223.98
Increase on account of increase in consumers (60% weightage) (Rs. mil)	1,854	2,357
Increase on account of increase in T & D Network (20% weightage) (Rs. mil)	618	857
Increae on account of sale volume (20% weightage) (Rs. mil)	618	688
Benchmark HR Cost	3,090	4,126
Add: IAS -19 Provision	258	(47)
Total benchmark H.R. Cost(including T & D Network)	**3,348**	**4,078**
Excess/(saving) to the Licensee (50%) (Rs. in mil)	-	(8)
Total HR Cost allowed (after adjustment of 50% excess saving)	**3,348**	**4,074**
Per consumer cost (Rs.)	**1,348.82**	**1,292.33**
Per sale volume unit cost (Rs.)	**6,233.64**	**6,821.21**