

**IN THE MATTER OF**

**SUI NORTHERN GAS PIPELINES LIMITED  
FINAL REVENUE REQUIREMENT, FY 2006-07**

**UNDER**

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

**DECISION**

**September 07, 2007**

**Before:**

**Munir Ahmad, Chairman  
Rashid Farooq, Member Oil / Vice Chairman  
M.H. Asif, Member Finance  
Hadi Hasnain, Member Gas**

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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.
- 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 2006-07 (the said year) on the basis of the accounts, as initialed by its statutory auditors. The Authority admitted the petition on August 24, 2007.
- 1.3. The Authority, vide its order dated November 21, 2006, had determined the petitioner's Second Revised Estimated Revenue Requirement (RERR2) for the said year under Section 8(2) of the Ordinance at Rs. 116,550 million for estimated sale volume of 545,289 BBTU, and prescribed prices for various categories of consumers, on provisional basis, 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. 115,347 million for actual sale volume of 541,579 BBTU. Based on the provisional prescribed prices and actual sale mix, the petitioner has computed a shortfall of Rs. 672 million for the said year. The FRR would affect the prescribed prices for the said year impacting in turn the Gas Development Surcharge receivable by the Federal Government, and not the consumer prices.
- 1.5. The Authority issued notice of conference on August 24, 2007 to the petitioner and the following interveners and related parties:
  - a) Federal Government.
  - b) Chairman, All Pakistan Textile Processing Mills Association, Faisalabad.
- 1.6. The hearing was held at OGRA office, Islamabad on September 06, 2007.

## 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, ERR & RERR2**

Particulars	Rs. Per MMBTU		
	FY 2005-06	FY 2006-07	
	FRR	RERR 2	The Petition
<b>Units sold (BBTU)</b>	<b>539,099</b>	<b>545,289</b>	<b>541,579</b>
Cost of gas	170.67	180.47	183.11
Transmission and distribution cost	11.59	13.78	10.67
Depreciation	6.98	7.82	8.21
Deferral account	-	0.57	-
Return on net average operating fixed assets	10.66	11.11	10.99
Other operating income	(3.55)	(3.81)	(4.33)
<b>Cost of service / prescribed price</b>	<b>196.35</b>	<b>209.93</b>	<b>208.65</b>
Revenue available at existing prescribed	196.35	209.93	207.41
<b>(Shortfall) / Surplus in revenue</b>	<b>-</b>	<b>-</b>	<b>(1.24)</b>

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. 9,978 million and net addition, after accounting for deletion and depreciation, at Rs. 5,098 million, increasing the net operating fixed assets from Rs. 38,580 million in FY 2005-06 to Rs. 43,678 million. After adjustment of deferred credits, the average value of operating fixed assets has been claimed at Rs. 34,009 million and the required return at Rs. 5,952 million.
- 2.2.3. The net operating revenues have been claimed at Rs. 114,675 million in the petition, as against Rs. 114,486 million in the RERR2, as detailed below:

**Table 2: Comparison of Operating Revenues per RERR2 with the petition**

Particulars	Rs. in million		
	FY 2005-06	FY 2006-07	
	FRR	RERR 2	The petition
Sales at current tariff	107,027	112,411	112,330
Rental & services charges	745	800	828
Surcharge & interest on arrears	534	650	673
Amortization of deferred credit	477	550	591
Other operating income	157	75	253
<b>Net operating revenues</b>	<b>108,940</b>	<b>114,486</b>	<b>114,675</b>

2.2.4. The net operating expenses have been claimed at Rs. 109,395 million in the petition as compared to Rs. 110,494 million in RERR2, as detailed below:

**Table 3: Comparison of Operating Expenses per RERR2 with the petition**

Particulars	Rs. in million		
	FY 2005-06	FY 2006-07	
	FRR	RERR 2	The Petition
Cost of gas sold	92,009	98,408	99,168
Transmission & distribution cost	4,455	5,290	3,570
Gas internally consumed (GIC)	1,559	1,906	1,956
Depreciation	3,761	4,265	4,447
Workers' participation fund	236	316	243
Adjustments			12
Deferral account	-	309	-
<b>Net Operating Expenses</b>	<b>102,020</b>	<b>110,494</b>	<b>109,395</b>

2.2.5. The Unaccounted for Gas (UFG) has been claimed at 7.77% (48,570 MMSCF) as against the upper & lower target of 6% & 5.40%, 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. 673 million after allowing 17.5% return on average net operating assets, which translates to an increase of Rs. 1.24 per MMBTU in the existing average prescribed price, as tabulated below:

**Table 4 Comparison of Average Increase in Prescribed Price per RERR2 with the petition**

		<i>Rs. in million</i>	
	Particulars	FY 2006-07	
		RERR2	The Petition
A	Net operating revenues	116,550	114,675
B	Less: Net operating expenses including WPPF	110,494	109,395
C	Surplus / (shortfall) (A – B)	6,056	5,280
D	Return required @ 17.5% on net fixed assets in operation.	6,056	5,952
E	Total surplus / (shortfall) in the revenue requirement (C - D)	-	(672)
F	Sales volume (BBTU)	545,289	541,579
G	<b>Rs / MMBTU Increase requested in the existing average prescribed price to meet the total shortfall in revenue</b>	-	<b>1.24</b>

### 3. Proceedings

- 3.1. The petitioner was represented at the hearing by a team of senior executives led by its Acting Managing Director, Mr. Abrar Ahmed, who were given full opportunity to present the petition. They made submissions in detail with the help of multimedia presentation. The intervener was not present, however, his written comments were received.

### 4. Determination

- 4.1. After detailed scrutiny of the petition, the detailed information subsequently provided and clarifications given during the hearing by the petitioner, the Authority determines as follows:

### 5. Return to Licensee

- 5.1. The petitioner has requested for determination of its revenue requirement for the said year allowing return on average net operating fixed assets at the rate of 17.5% in accordance with the covenants agreed with the World Bank and guaranteed by the Government of Pakistan. 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 per the covenants stipulated in the loan agreement with the World Bank. The Authority has since developed 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. Gross addition in fixed assets during the said year has been claimed at Rs. 9,978 million and net addition, after accounting for deletion and depreciation, at Rs. 5,098 million, increasing the net operating fixed assets from Rs. 38,580 million in FY 2005-06 to Rs. 43,678 million. After adjustment of deferred credits, the average value of operating fixed assets has been claimed at Rs. 34,009 million and the required return at Rs. 5,952 million, as tabulated below:-

**Table 5: Computation of Return on Operating Fixed Assets per petition**

	<i>Rs. in million</i>
<b>Description</b>	<b>The Petition</b>
Net operating fixed assets at beginning	38,580
Net operating fixed assets at closing	43,678
Subtotal	82,258
Average net assets (A)	<b>41,129</b>
Deferred credit at beginning	5,323
Deferred credit at closing	8,916
Subtotal	14,239
Average deferred credit (B)	<b>7,120</b>
Average net fixed assets (A-B)	<b>34,009</b>
Return required on net operating assets	17.5%
<b>Amount of return requested by the petitioner</b>	<b>5,952</b>

6.1.2. Comparative analysis of additions in fixed assets with the RERR2 and the previous year is as follows:





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

Particulars	<i>Rs in million</i>				
	FY 2005-06	FY 2006-07		Inc. / (Dec.) over RERR2	
	FRR	RERR2	The Petition		
Transmission	1,331	1,787	3,228	1,441	81%
Distribution Development	4,041	6,000	6,223	223	4%
Plant & Machinery etc.	214	420	494	74	18%
MIS Project	5	-	33	33	100%
<b>Net addition in asset base</b>	<b>5,591</b>	<b>8,207</b>	<b>9,978</b>	<b>1,771</b>	<b>22%</b>

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**

S.No.	Asset Description	<i>Rs. in million</i>
<b>A</b>	<b><u>Transmission</u></b>	
1	Transmission system	2507
	Subtotal	<b>2,507</b>
	<b><u>Compression</u></b>	
2	PVIII	304
3	PVII	218
	Subtotal	<b>522</b>
4	Rehabilitation of Compressor Packages / installation of compressor units (at AC6 and ACIX)	199
	Subtotal	<b>199</b>
	<b>Total Transmission</b>	<b>3,228</b>
<b>B</b>	<b><u>Distribution Development</u></b>	
5	Distribution Development	6,016
6	Sales Meter's station / regulatory stations	120
7	Regulating Stations	40
8	CP System	47
	<b>Total Distribution Development</b>	<b>6,223</b>
<b>C</b>	<b><u>Other Assets</u></b>	
9	Plant machinery, transport, furniture, electrical appliances, computers,	333
10	Construction equipment	79
11	Land	82
	<b>Total Other Assets</b>	<b>494</b>
<b>D</b>	<b><u>MIS - Phase II ERP Implementation</u></b>	
12	MIS	33
	<b>Total MIS Project</b>	<b>33</b>
	<b>Grand Total</b>	<b>9,978</b>

- 6.1.4. The Authority observes that the petitioner has again changed the rate of depreciation on meters from 6% to 10%, inspite of the decision of the Authority per FRR FY 2005-06, that the depreciation rate on meters cannot be changed in isolation since tariff regime is a package which can only be altered in totality. Therefore, the depreciation on meters is reworked at 6% and accordingly reduced by Rs. 436 million.
- 6.1.5. ***In view of the above, the depreciation expense is allowed at Rs. 4,011 million compared with Rs. 4,447 million claimed by the petitioner.***
- 6.1.6. The Authority notes that the petitioner has wrongly calculated the closing balance of accumulated depreciation and has not taken into account the disallowance of Rs. 305 million made in FRR 2005-06, relating to excess depreciation charged on meters. Further, it has not accounted for Rs. 143 million in respect of capitalization of depreciation expense, thereby reducing the closing balance of fixed assets by Rs. 448 million.
- 6.1.7. ***In view of above, the Authority provisionally determines the additions in fixed assets claimed by the petitioner at Rs. 9,978 million. After adjustment of depreciation per para 6.1.4 and 6.1.6 above, the closing net operating fixed assets for the said year are determined at Rs. 44,562 million, subject to adjustments, if any, based on findings of cost and procurement audit to be instituted by the Authority.***

## **7. Operating Revenues**

### **7.1. Sales Volume**

- 7.1.1. The sales volume has decreased by 1% to 541,580 BBTU, as against 545,289 BBTU per RERR2 2006-07. 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 RERR2 & Previous Year**

Category	volume in BBTU			
	FY 2005-06	FY 2006-07		Inc./ (Dec.) over RERR 2
	FRR	RERR 2	The Petiiton	
Power	207,837	180,372	187,850	7,478 4%
Cement	9,222	10,934	10,897	(37) (.34)%
Fertilizer	43,622	43,410	41,833	(1,577) (4)%
General Industries	151,358	177,813	161,191	(16,622) (9)%
Commercial	19,891	20,949	21,224	275 1%
Domestic	107,169	111,811	118,585	6,774 6%
<b>Total</b>	<b>539,099</b>	<b>545,289</b>	<b>541,580</b>	<b>(3,709) (1)%</b>

- 7.1.2. The Authority in its DERR for FY 2006-07 dated May 20, 2006 had directed the petitioner to ensure ring-fencing of all expenditures relating to Lillah Town CNG project, including all cost allocations (e.g. Head Office expenses etc.) and the same shall not be made part of revenue requirement.
- 7.1.3. The Authority observes that the petitioner has not excluded the volume of sales to Lillah Town CNG Project from the total sales volume claimed for the said year, inspite of the above-stated direction of the Authority.
- 7.1.4. In view of above, the Authority excludes 10.31 BBTU from the domestic sector sales volume and determines the same at 118,575 BBTU for the said year.
- 7.1.5. **Based on above, the Authority determines the total sales volume for the said year at 541,570 BBTU as detailed below:-**

**Table 9: Sales Volume Determined by OGRA**

Category	volume in BBTU	
	FY 2006-07	Determined by OGRA
	The Petiiton	
Power	187,850	187,850
Cement	10,897	10,897
Fertilizer	41,833	41,833
General Industries	161,191	161,191
Commercial	21,224	21,224
Domestic	118,585	118,575
<b>Total</b>	<b>541,580</b>	<b>541,570</b>

## 7.2. Sales Revenue

7.2.1. Sales revenue at existing prescribed prices per petition is Rs. 112,330 million. Category-wise comparison with RERR2 FY 2006-07 and previous year is given below:

**Table 10: Comparison of Category-wise Sales Revenue per petition with RERR2 & Previous Year**

Category	Rs. in million				
	FY 2005-06	FY 2006-07		Inc. / (Dec.) over RERR 2	
	FRR	RERR 2	The Petition		%
Power	46,687	43,116	44,623	1,507	3%
Cement	2,338	2,928	2,966	38	1%
Fertilizer	4,761	5,054	4,672	(382)	(8)%
General Industries	33,628	41,398	37,759	(3,639)	(9)%
Commercial	4,969	5,483	5,609	127	2%
Domestic	13,468	16,498	16,701	204	1%
<b>Total</b>	<b>105,852</b>	<b>114,475</b>	<b>112,330</b>	<b>(2,145)</b>	<b>-2%</b>

7.2.2. The Government had decreased the sale prices w.e.f 1<sup>st</sup> February, 2007 which has resulted in lesser sales revenue as compared to RERR2.

7.2.3. The sales revenue from domestic sector has also been adjusted as a consequence of decrease in sales volume relating to Lillah Town, as stated in Para 7.1.4 above.

7.2.4. **Based on the above, the Authority determines the sales revenue at Rs. 112,329 million for the said year, as detailed below:-**

**Table 11: Sales Revenue Determined by OGRA**

Category	Rs. in million	
	FY 2006-07	
	The Petition	Determined by OGRA
Power	44,623	44,623
Cement	2,966	2,966
Fertilizer	4,672	4,672
General Industries	37,759	37,759
Commercial	5,609	5,609
Domestic	16,701	16,700
<b>Total</b>	<b>112,330</b>	<b>112,329</b>

### 7.3. Other Operating Income

#### i. Summary

7.3.1. The petitioner has claimed other operating income at Rs. 2,345 million for the said year as against Rs. 2,075 million per RERR2 FY 2006-07. Item-wise comparison is as under:

**Table 12: Comparison of Other Operating Income per petition with RERR & Previous Years**

Category	Rs. in million				
	FY 2005-06	FY 2006-07		Inc. / (Dec.) over RERR 2	
	FRR	RERR 2	The Petition		%
Rental & services charges	745	800	828	28	4%
Surcharge & Interest on arrears	534	650	673	23	4%
Amortization of deferred credit	477	550	591	41	7%
Other operating income	157	75	253	178	237%
<b>Total</b>	<b>1,913</b>	<b>2,075</b>	<b>2,345</b>	<b>270</b>	<b>13%</b>

7.3.2. **The Authority accepts the other operating income at Rs. 2,345 million for the said year.**

## 8. Operating Expenses

### 8.1. Cost of Gas

8.1.1. The cost of gas per petition is Rs. 99,168 million compared to Rs. 98,408 million per RERR2 FY 2006-07, higher by Rs. 760 million (0.772%).

8.1.2. The Authority allowed input cost of gas on the basis of combined weighted average cost of gas purchased by the petitioner and SSGCL at Rs. 170.38 per MMBTU in RERR2 in accordance with the Agreement for Equalization of Cost of Gas dated 22<sup>nd</sup> September, 2003, between the petitioner and SSGCL. On the basis of the actual audited results, weighted average of input cost of gas for the said year works out at Rs. 168.92 per MMBTU as under:

**Table 13: Weighted Average Cost of Input Gas**

Company	MMCF	BBTU	Rs in million	Rs./MMBTU
SSGCL	386,701	374,715	73,439	195.99
SNGPL	637,850	596,763	90,658	151.92
<b>Total</b>	<b>1,024,551</b>	<b>971,478</b>	<b>164,098</b>	<b>168.92</b>

8.1.3. The above decrease in weighted average cost of gas, compared to RERR2 FY 2006-07, is due to decreased off-takes from various fields and payments made by the petitioner to the producers for purchase of gas on the basis of actual notified wellhead gas prices for the said year.

8.1.4. The Authority observes that as discussed and decided per paras 7.1.4 and 7.2.2 above, the cost of gas sold to Lillah Town CNG Project amounting to Rs. 1.773 million, is also excluded from the total cost of gas claimed by the petitioner for the said year.

8.1.5. ***The Authority, in view of the above, determines the cost of gas sold at Rs. 99,166 million, after excluding the cost of gas sold to Lillah Town per para 8.1.4 above.***

## 8.2. Unaccounted for Gas (UFG)

8.2.1. The petitioner has claimed the Unaccounted for Gas (UFG) at 7.77% (48,570 MMSCF) for the said year, as follows:

**Table 14: Comparison of Unaccounted for Gas per petition with RERR2 & Previous Year**

Particulars	Volumes in MMCF		
	FY 2005-06 FRR	FY 2006-07	
		RERR 2	The Petition
Gas Purchases	613,968	617,901	625,199
Gas Sales	573,388	584,516	576,629
UFG	40,580	33,385	48,570
<b>UFG %</b>	<b>6.61%</b>	<b>5.40%</b>	<b>7.77%</b>

8.2.2. The Authority, in its RERR for the said year, had fixed the UFG upper & lower targets at 6% & 5.40% respectively, with the conditions 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 and upper target be adjusted in the revenue requirement to the extent of 50% and 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. 2,044 million from its revenue requirement on account of UFG over and above the targeted UFG level.

**Table 15: UFG Calculation**

<b>Particulars</b>	<b>The Petition</b>	<b>Tentatively Determined by OGRA</b>
	MMCF	MMCF
Net Purchases	638,608	638,608
Taken Out (+) Put Into (-)	(10)	(10)
Available for Sale	638,598	638,598
Gas Blown Off Due to Rupture in Transmission Sytem	(206)	(206)
Gas Blown Off Due to Rupture in Distribution Sytem	(52)	(52)
Gas Carried for PPL	(138)	(138)
Gas Carried for POL	(637)	(637)
Gas Internally Consumed (GIC)		
Metered	12,366	12,366
Unmetered	-	-
Total GIC	12,366	12,366
<b>Available for External Sale</b>	<b>625,199</b>	<b>625,199</b>
<b>Sales</b>		
<b>Metered:</b>		
Actual Billed	577,481	577,481
Minimum Billing	-	-
Sticky / Stopped	341	341
Estimated	511	511
Gas Sold But Not Billed	-	-
<b>Sub Total</b>	<b>576,629</b>	<b>576,629</b>
<b>Unmetered:</b>		
Accrued Sales -Not Yet Billed	-	-
<b>Total Sales</b>	<b>576,629</b>	<b>576,629</b>
<b>UFG in MMCF</b>	<b>48,570</b>	<b>48,570</b>
<b>UFG in Percentage</b>	<b>7.77%</b>	<b>7.77%</b>

- 8.2.4. The Authority observes that the petitioner has wrongly calculated the UFG disallowance at Rs. 2,044 million and the correct amount is Rs. 2,053 million.

- 8.2.5. The Authority adopts the UFG level of 48,570 MMCF i.e; 7.77% tentatively, subject to adjustment on the basis of UFG audit which may be commissioned by

the Authority. **Accordingly, the Authority provisionally disallows UFG above the UFG benchmark for the said year per its earlier decision mentioned above, which will reduce the operating expenditure by Rs. 2,053 million.**

8.2.6. The Authority notes that the percentage of UFG computed by the external auditors appointed by OGRA for FY 2004-05 is 6.91%, as against the UFG level of 6.86% tentatively adopted by the Authority in its decision dated October 26, 2005 for FY 2004-05, which was subject to adjustment on the basis of UFG audit.

8.2.7. **In view of above, the Authority deducts Rs. 33 Million from the revenue requirement for the said year, on account of UFG adjustment relating to FY 2004-05.**

### 8.3. Transmission and Distribution Cost

#### *i. Summary*

8.3.1. The transmission and distribution cost is higher by 5% i.e. from Rs. 7,196 million per RERR2 FY 2006-07 to Rs. 7,573 million per the petition, as compared below:



**Table 16: Comparison of T & D Cost with RERR2**

Particulars	Rs. in million				
	FY 2005-06	FY 2006-07		Increase / (Decrease) over RERR 2 06-07	
	FRR	RERR 2	The Petition	Rs.	%
Human Resource Cost	3,558	3,755	3,905	150	4 %
Stores and Spares consumed	229	257	313	56	22 %
Fuel and Power	122	157	136	(22)	(14) %
Repair and Maintenance	386	384	381	(2)	(1) %
Rent, Rate, electricity and Telephone	97	111	162	51	46 %
Insurance	135	157	141	(16)	(10) %
Traveling	71	68	114	46	68 %
Stationery, telegram and postage	42	44	62	18	42 %
Dispatch of gas bills	21	24	21	(4)	(15) %
Transport expenses	253	248	270	22	9 %
Legal and Professional services	24	29	30	1	2 %
Security expenses	183	145	110	(35)	(24) %
Gathering charges of gas bills collection data	20	23	22	(1)	(5) %
Provision for doubtful debts	174	200	147	(53)	(26) %
Loan from deceased employee written off	-	-	0.067	0.067	
Gas bills collection charges	195	191	212	21	11 %
OGRA fee	70	99	77	(22)	(22) %
Other expenses	238	273	249	(23)	(9) %
<b>Subtotal Expenses</b>	<b>5,818</b>	<b>6,165</b>	<b>6,353</b>	<b>188</b>	<b>3 %</b>
Allocated to fixed capital expenditures	(726)	(875)	(736)	139	(16) %
<b>Net T&amp;D Expenses before Gas Internally Consumed</b>	<b>5,092</b>	<b>5,290</b>	<b>5,617</b>	<b>327</b>	<b>6 %</b>
Add: Gas internally consumed	1,559	1,906	1,956	50	3 %
<b>Total T&amp;D Expenditure</b>	<b>6,651</b>	<b>7,196</b>	<b>7,573</b>	<b>377</b>	<b>5 %</b>

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 4% on account of HR cost for the said year from Rs. 3,755 million per RERR2 FY 2006-07 to Rs. 3,905 million per the petition.

8.3.4. The Authority notes that it 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 increase in number of consumers with 60% weightage, increase in network with 20% weightage, gas

sales volume with 20% weightage and allowed inflation adjustment to the extent of 50% of CPI subject to the condition that if the actual HR cost is higher than the benchmark HR cost, 50% of the amount will be adjusted in the revenue requirement and the balance 50% shall be absorbed by the petitioner from its own profits.

8.3.5. The Authority notes that Rs. 4.294 million claimed by the petitioner on account of annual sports is part of HR cost and not “other expenses”.

8.3.6. The Authority, therefore, determines actual HR cost at Rs. 3,992 million as compared to Rs. 3,888 million claimed by the petitioner. Accordingly the saving on account of benchmark HR cost is computed at Rs. 27 million from the benchmark HR cost for the said year of Rs. 3,919 million.

8.3.7. ***In view of the above, the Authority adds Rs. 13 million to the HR cost claimed by the petitioner, equally sharing the excess cost between the consumers and the petitioner; and provisionally determines it at Rs. 3,905 million for the said year***

### ***iii. Gas Internally Consumed***

8.3.8. The petitioner has claimed cost of the gas internally consumed (GIC) for the said year at Rs. 1,956 million as against Rs. 1,906 million per RERR2 FY 2006-07, showing an increase of 3%. Historical comparison of GIC is provided below:

**Table 17: Comparison of Gas Internally Consumed with RERR2 & Previous Year**

Particulars	Rs. in million				
	FY 2005-06	FY 2006-07		Inc. / (Dec.) over RERR 2 2006-07	
		FRR	RERR 2	The Petition	
Compression	1,443	1,786	1,836	50	3 %
Transmission	-	7	-	(7)	(100) %
Free gas facility	102	92	103	12	13 %
Others (incl H.O.)	13	21	17	(4)	(21) %
	<b>1,559</b>	<b>1,906</b>	<b>1,956</b>	<b>50</b>	<b>3 %</b>

8.3.9. It has been noted that the ratio of GIC to gas purchased has increased during the said year as under:

**Table 18 Ratio of GIC to Gas Purchased**

FY	GIC	Volumes in MMCF	
		Gas purchased	Ratio of GIC to Gas Purchased
2003-04	9,712	494,766	1.96
2004-05	10,558	586,737	1.80
2005-06	10,449	624,779	1.67
2006-07	12,362	637,822	1.94

8.3.10. The petitioner has explained that the GIC has increased mainly due to supply of gas to captive power in and around Lahore region and additional compression requirement on the network due to increased supply of gas to the northern areas.

8.3.11. ***In view of the above discussion, the Authority determines the cost of GIC at Rs. 1,956 million.***

***iv. Other Expenses***

8.3.12. The petitioner has claimed Rs. 249 million during the said year on account of other expenses, which is compared below with previous year:

**Table 19 Comparison of Other Expenses with RERR2 & Previous Year**

Particulars	Rs. in million				
	FY 2005-06	FY 2006-07		Increase / (Decrease) over RERR 2 2006-07	
	FRR	RERR2	The Petition	Rs.	%
Other Expenses	238	273	249	(24)	(8.78) %

8.3.13. The Authority notes that the petitioner has claimed Rs. 4.294 million for annual sports expense as part of other expenses.

8.3.14. The petitioner, subsequently, informed that the said expense had been clubbed under "Medical & Welfare" in the previous years.



8.3.15. The Authority notes that annual sports expense of Rs. 4.294 million is an essential part of staff welfare & development and hence allows the same as part of HR cost. Actual HR cost has accordingly being adjusted per para 8.3.6 above.

8.3.16. ***In view of above, the Authority determines other expenses at Rs. 245 million for the said year:***

***v. Remaining Items of Transmission & Distribution Cost***

8.3.17. The items of transmission and distribution cost, except those dealt with in paras .3.3 to 8.3.16 above, are claimed by the petitioner at Rs. 2,199 million as against Rs. 2,138 million per RERR2 2006-07, showing increase of 3%. The comparative analysis is given below:

Table 20: Remaining Items of Transmission & Distribution Expenses

Particulars	FY 2006-07		Rs. in million	
	RERR 2	The Petition	Increase / (Decrease) over RERR 2 06-07	
			Rs.	
Stores and Spares consumed	257	313	56	22 %
Fuel and Power	157	136	(22)	(14) %
Repair and Maintenance	384	381	(2)	(1) %
Rent, Rate, electricity and Telephone	111	162	51	46 %
Insurance	157	141	(16)	(10) %
Traveling	68	114	46	68 %
Stationery, telegram and postage	44	62	18	42 %
Dispatch of gas bills	24	21	(4)	(15) %
Transport expenses	248	270	22	9 %
Legal and Professional services	29	30	1	2 %
Security expenses	145	110	(35)	(24) %
Gathering charges of gas bills collection data	23	22	(1)	(5) %
Provision for doubtful debts	200	147	(53)	(26) %
Loan from deceased employee written off	-	0.067	0.067	
Gas bills collection charges	191	212	21	11 %
OGRA fee	99	77	(22)	(22) %
<b>Subtotal Expenses</b>	<b>2,138</b>	<b>2,199</b>	<b>61</b>	<b>3 %</b>

8.3.18. The petitioner has submitted that the increase in rent, rates, electricity and telephone is due to payments to Pakistan Railways on account of maintenance charges for railway crossings, now being made in addition to the lease charges.

8.3.19. The petitioner has explained that it has revised the TA/HA rates after five years, which has resulted in sudden increase of the traveling expense. Further, it has elaborated that the increase in other items of T&D Cost is owing to ongoing expansion in its T&D network and increased activities for UFG control.

8.3.20. **The Authority accepts the remaining items of T&D cost at Rs. 2,199 million.**

**vi. Transmission & Distribution Cost Determined by Authority**

8.3.21. In view of the above, the Authority determines transmission & distribution cost for the said year at Rs. 7,569 million against Rs. 7,573 million claimed by the petitioner, as follows:

**Table 21: Summary of T&D Cost Determined by the Authority**

Particulars	Rs. in million	
	Requested by the Petitioner	Determined by OGRA
Human resource cost	3,905	3,905
Stores and spares consumed	313	313
Fuel and power	136	136
Repair and maintenance	381	381
Rent, rate, electricity and telephone	162	162
Insurance	141	141
Traveling	114	114
Stationery, telegram and postage	62	62
Dispatch of gas bills	21	21
Transport expenses	270	270
Legal and professional services	30	30
Security expenses	110	110
Gathering charges of gas bills collection data	22	22
Stores and spares written off -scrapping of meters	-	-
Provision for doubtful debts	147	147
Provision for doubtful receivables	-	-
Loan from deceased employee written off	0.067	0
Gas bills collection charges	212	212
OGRA fee	77	77
Prior Years Adjustment of Annual Sports Expense		-
<b>Subtotal Expenses</b>	<b>6,353</b>	<b>6,349</b>
Allocated to fixed capital expenditures	(736)	(736)
<b>Net T&amp;D Expenses before Gas Internally Consumed</b>	<b>5,617</b>	<b>5,613</b>
Add: Gas internally consumed	1,956	1,956
<b>Total T&amp;D Expenditure</b>	<b>7,573</b>	<b>7,569</b>

#### 8.4. Workers Profit Participation Fund (WPPF)

8.4.1. The petitioner has claimed WPPF at Rs. 243 million. However, due to adjustments in the components of revenue requirements as discussed in paras 6 to 8.3 above, WPPF is recalculated and allowed at Rs. 224 million.

### 9. Prior Year Reclaimed Items

9.1. The petitioner has re-claimed net amount of Rs. 12 million, that were disallowed in FRR 2005-06, as detailed below:

**Table 22: Detail of Prior Year Reclaimed Items per the Petition**

Particulars	Rs. in million
Cost of gas	(23)
UFG disallowance	19
Amortization of deferred credits	4
Return on fixed assets due to decrease in deferred credits	12
<b>Total</b>	<b>12</b>

9.2. The Authority observes that the above mentioned reclaimed items relate to the errors of adding Rs. 133 million twice under the head “deferred credit”, corresponding incorrect adjustment of Rs. 4 million in amortization of deferred credit, non-adjustment of capitalized & recoverable GIC volume of 141 MMCF and consequential over-statement of UFG disallowance by Rs. 19 million & cost of gas sold by Rs. 23 million. The Authority therefore, had decided per its Order on motion for review of FRR FY 2005-06, that the same would be adjusted at the time of FRR 2006-07.

9.3. ***The Authority, in view of the above, allows a net amount of Rs. 12 million in respect of reclaimed items for the said year.***

## 10. Decision

10.1. ***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 and decides:***

10.1.1. ***to allow addition in fixed assets at Rs. 9,978 million and to reduce depreciation expense by Rs. 436 million;***

10.1.2. ***to allow closing balance of fixed assets at Rs. 44,562 million;***

10.1.3. ***to allow sales volume at 541,569 BBTU;***

10.1.4. ***to allow sales revenue at current prescribed price at Rs. 112,329;***

10.1.5. ***to determine cost of gas at Rs. 99,166 million;***

- 10.1.6. **to restrict the UFG per the benchmark and make a downward adjustment of Rs. 2,053 million in the operating expenses;**
- 10.1.7. **to reduce the operating expenses by Rs. 33 million on account of UFG adjustment for FY 2004-05;**
- 10.1.8. **to decrease the T&D expenses to Rs. 7,569 million as against Rs. 7,573 million claimed by the petitioner;**
- 10.1.9. **to allow a net amount of Rs. 12 million on account of reclaimed items;**
- 10.1.10. **to reduce WPPF to Rs. 24 million as against Rs. 243 million claimed by the petitioner;**
- 10.2. **In exercise of its powers under Section 8(2) of the Ordinance, the Authority determines the final revenue requirement for the said year at Rs. 114,920 million as against petitioner's claim of Rs. 115,347 million, (thus, reducing it by Rs. 27 million), as tabulated below:**

**Table 23 Components of FRR for FY 2006-07 as Determined by the Authority**

Final Revenue Requirement FY 2006-07	Claimed by the Petitioner	Rs. in million
		Determined by the Authority
Cost of gas	99,168	99,166
Disallowance on account of UFG	(2,044)	(2,053)
Transmission & distribution cost	5,617	5,613
Gas internally consumed	1,956	1,956
Depreciation	4,447	4,011
CNG Station Lillah Town (Operating Cost)	(4)	(4)
Prior Year Reclaimed Items	12	12
UFG additional disallowance for FY 2004-05		(33)
Workers participation fund	243	224
Return on net operating fixed assets	5,952	6,029
<b>Total Final Revenue Requirement</b>	<b>115,347</b>	<b>114,920</b>

- 10.3. **The petitioner's actual net operating income is Rs. 114,674, and thus there is a shortfall of Rs. 247 million. In order to adjust it, the Authority hereby revises the average prescribed price upwards by Rs.0.46 per MMBTU (Annexure-A). Revised prescribed prices for each category of retail consumers for FY 2006-07 are attached and marked Annexure-B.**





## 11. Public Concerns

11.1. The Authority has recorded concerns of the intervener per its written comments (attached as Appendix), 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.

\_\_\_\_\_  
(Hadi Hasnain)

Member Gas) /

\_\_\_\_\_  
(M.H. Asif)

Member (Finance)

(Rashid Farooq)

Member (Oil) /  
Vice Chairman

\_\_\_\_\_  
(Munir Ahmad)

Chairman

Islamabad,  
September 7, 2007



**A. Revenue Requirement for FY 2006-07**

				<i>Rs. in million</i>
<b>Particulars</b>	<b>RERR 2 FY 2006-07</b>	<b>The Petition</b>	<b>Additions / (deductions) by OGRA</b>	<b>Determined by OGRA</b>
<b>Gas sales volume -MMCF</b>	584,516	576,659	(10.98)	576,648
<b>BBTU</b>	545,289	541,579	(10.31)	541,569
<b>Calorific Value</b>	935	939		939
<b>Net Operating revenues</b>				
Net sales at current prescribed price	114,475	112,330	(1.005)	112,329
Rental & service charges	800	828		828
Surcharge and interest on arrears	650	673	-	673
Amortization of deferred credit	550	591		591
Other operating income	75	253	-	253
<b>Total income "A"</b>	<b>116,550</b>	<b>114,675</b>	<b>(1)</b>	<b>114,674</b>
<b>Less Expenses</b>				
Cost of gas sold	98,408	99,168	(1.773)	99,166
UFG (disallowance) / allowance	-	(2,044)	(9)	(2,053)
UFG additional disallowance for FY 2004-05	-	-	(33)	(33)
Transmission and distribution cost	5,290	5,617	(4.29)	5,613
Gas internally consumed	1,906	1,956		1,956
Depreciation	4,265	4,447	(436)	4,011
Defferal account/price adjustment account	309	-		-
Lillah Town Cost	-			
Exchange loss on purchase of gas from E&P companies	-			
W.P.P.F.	316	243	(19)	224
Less: Lillah Town Operating Cost	-	(4)		(4)
Prior Year Reclaimed Items	-	12	-	12
<b>Total expenses "B"</b>	<b>110,494</b>	<b>109,395</b>	<b>(468)</b>	<b>108,892</b>
<b>Operating profit / (loss)(A - B)</b>	<b>6,056</b>	<b>5,280</b>	<b>467</b>	<b>5,782</b>
<b>Return required on net assets:</b>				
Net assets at beginning	38,580	38,580	-	38,580
Net assets at ending	42,522	43,678	884	44,562
<b>Average fixed net assets (I)</b>	<b>40,551</b>	<b>41,129</b>		<b>41,571</b>
Deferred credit at beginning	5,468	5,323		5,323
Deferred credit at ending	6,418	8,916		8,916
<b>Average net deferred credit (II)</b>	<b>5,943</b>	<b>7,120</b>		<b>7,120</b>
<b>Average operating assets (I-II)</b>	<b>34,608</b>	<b>34,009</b>		<b>34,451</b>
Return required on net assets	17.5%	17.5%		17.5%
Amount of return required	6,056	5,952		6,029
Excess / (shortfall) over return required	(0)	(672)		(247)
<b>Increase / (Decrease) in average prescribed price (Rs. / MMBTU)</b>	<b>0.00</b>	<b>1.24</b>		<b>0.46</b>
<b>Total Revenue Requirement</b>	<b>116,550</b>	<b>115,347</b>	<b>(427)</b>	<b>114,920</b>



**B. Prescribed Prices Determined by OGRA**

		Rupees per MMBTU					
		Estimated	Final	Estimated	Final	Estimated	Final
		w.e.f	w.e.f	w.e.f	w.e.f	w.e.f	w.e.f
		01.07.2006	01.07.2006	01.01.2007	01.01.2007	01.02.2007	01.02.2007
<b>(i)</b>	<b><u>Domestic Consumers:</u></b>						
	<i>For domestic consumers, including residential colonies, mosques, churches, temples, madrassas, other religious places and hostels attached thereto, Government and semi-Government offices, hospitals, Government guest houses, Armed Forces messes and langars, universities, colleges, schools, private educational institutions, orphanages and other charitable institutions.</i>						
	First slab (upto 50 cubic metres per month).	85.03	85.03	85.03	85.03	78.38	78.38
	Second slab (over 50 upto 100 cubic metres per month)	89.03	89.03	89.03	89.03	82.07	82.07
	Third slab (over 100 upto 200 cubic metres per month)	162.07	162.07	162.07	162.07	149.40	149.40
	Fourth slab (over 200 upto 300 cubic metres per month)	259.29	259.29	259.29	259.29	239.01	239.01
	Fifth Slab (All over 300 cubic metres per month)	337.30	337.30	337.30	337.30	310.92	310.92
	<i>For hostels and residential colonies to whom gas is supplied through bulk meters.</i>						
	All off-takes at flat rate of	162.07	162.07	162.07	162.07	149.40	149.40
<b>(ii)</b>	<b><u>Commercial Consumers:</u></b>						
	<i>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.</i>						
	All off-takes at flat rate of	256.08	256.08	267.34	267.34	268.23	268.23
<b>(iii)</b>	<b><u>Ice Factories:</u></b>						
	All off-takes at flat rate of	256.08	256.08	267.34	267.34	268.23	268.23
<b>(iv)</b>	<b><u>Industrial Consumers:</u></b>						
	<i>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.</i>						
	All off-takes at flat rate of	227.59	227.59	237.59	237.59	238.38	238.38
<b>(v)</b>	<b><u>Captive Power:</u></b>						
	All off-takes at flat rate of	227.59	227.59	237.59	237.59	238.38	238.38
<b>(vi)</b>	<b><u>CNG Stations:</u></b>						
	All off-takes at flat rate of	227.59	227.59	237.59	237.59	247.99	247.99
<b>(vii)</b>	<b><u>Cement Factories:</u></b>						
	All off-takes at flat rate of	262.20	262.20	273.73	273.73	285.70	285.70



viii)	<b>Fertilizer Factories:</b>								
(1)	<b><u>Pak American Fertilizer Limited, Daudkhel.</u></b>								
(a)	<b>For gas used as feed stock for fertilizer</b>								
	<i>Commodity charge.</i>								
	<i>All off-takes at flat rate of</i>	<b>36.77</b>	<b>36.77</b>	<b>36.77</b>	<b>36.77</b>	<b>36.77</b>	<b>36.77</b>	<b>36.77</b>	<b>36.77</b>
(b)	<b>For gas used as fuel for generating steam and electricity and for usage in housing colonies.</b>								
	<i>Commodity charge.</i>								
	<i>All off-takes at flat rate of</i>	<b>227.59</b>	<b>227.59</b>	<b>237.59</b>	<b>237.59</b>	<b>238.38</b>	<b>238.38</b>	<b>238.38</b>	<b>238.38</b>
(2)	<b><u>Pak Arab Fertilizer Limited, Multan.</u></b>								
(a)	<b>For gas used as feed stock for fertilizer</b>								
	<i>Commodity charge.</i>								
	<i>All off-takes at flat rate of</i>	<b>91.52</b>	<b>91.52</b>	<b>91.52</b>	<b>91.52</b>	<b>91.52</b>	<b>91.52</b>	<b>91.52</b>	<b>91.52</b>
(b)	<b>For gas used as fuel for generating steam and electricity and for usage in housing colonies.</b>								
	<i>Commodity charge.</i>								
	<i>All off-takes at flat rate of</i>	<b>227.59</b>	<b>227.59</b>	<b>237.59</b>	<b>237.59</b>	<b>238.38</b>	<b>238.38</b>	<b>238.38</b>	<b>238.38</b>
(3)	<b><u>Dawood Hercules Chemicals Limited, Chichoki Malian, Sheikhpura District.</u></b>								
(a)	<b>For gas used as feed stock for fertilizer</b>								
	<i>Commodity charge.</i>								
	<i>All off-takes at flat rate of</i>	<b>91.52</b>	<b>91.52</b>	<b>91.52</b>	<b>91.52</b>	<b>91.52</b>	<b>91.52</b>	<b>91.52</b>	<b>91.52</b>
(b)	<b>For gas used as fuel for generating steam and electricity and for usage in housing colonies.</b>								
	<i>Commodity charge.</i>								
	<i>All off-takes at flat rate of</i>	<b>227.59</b>	<b>227.59</b>	<b>237.59</b>	<b>237.59</b>	<b>238.38</b>	<b>238.38</b>	<b>238.38</b>	<b>238.38</b>
(4)	<b><u>Pak-China Fertilizer Limited/Hazara Phosphate Plant Limited, Haripur.</u></b>								
(a)	<b>For gas used as feed stock for fertilizer</b>								
	<i>Commodity charge.</i>								
	<i>All off-takes at flat rate of</i>	<b>97.11</b>	<b>97.11</b>	<b>97.11</b>	<b>97.11</b>	<b>97.11</b>	<b>97.11</b>	<b>97.11</b>	<b>97.11</b>
(b)	<b>For gas used as fuel for generating steam and electricity and for usage in housing colonies.</b>								
	<i>Commodity charge.</i>								
	<i>All off-takes at flat rate of</i>	<b>227.59</b>	<b>227.59</b>	<b>237.59</b>	<b>237.59</b>	<b>238.38</b>	<b>238.38</b>	<b>238.38</b>	<b>238.38</b>



(ix)	<b>Power Stations:</b>								
	(a) WAPDA's Power Stations and other electricity utility companies excluding WAPDA's Natural Gas Turbine Power Station, Nishatabad, Faisalabad.								
	<i>All off-takes at flat rate of</i>		<b>227.59</b>	<b>227.59</b>	<b>237.59</b>	<b>237.59</b>	<b>238.38</b>	<b>238.38</b>	
	(b) WAPDA's Natural Gas Turbine Power Station, Nishatabad, Faisalabad.								
	Commodity Charge								
	<i>All off-takes at flat rate of</i>		<b>227.59</b>	<b>227.59</b>	<b>237.59</b>	<b>237.59</b>	<b>238.38</b>	<b>238.38</b>	
	Fixed charge (Rupees per month)		<b>390,000</b>	<b>390,000</b>					
	(c) Liberty Power Limited.								
	<i>All off-takes at flat rate of</i>		<b>303.25</b>	<b>303.25</b>	<b>316.58</b>	<b>316.58</b>	<b>330.43</b>	<b>409.07</b>	