آئل اینڈ گیس
ریگولیٹری اتھارٹی

Oil & Gas
Regulatory Authority

GUARDING PUBLIC INTEREST

CASE NO. OGRA-6(2)-1(4)/2023-ERR

IN THE MATTER OF

SUI NORTHERN GAS PIPELINES LIMITED
ESTIMATED REVENUE REQUIREMENT, FY 2024-25

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 20, 2024

BEFORE:

MR. MASROOR KHAN, CHAIRMAN
MR. ZAIN-UL-ABIDEEN QURESHI, MEMBER (OIL)
MR. MOHAMMAD NAEEM GHOURI, MEMBER (FINANCE)

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Plot No. 37 & 39, Mauve Area, G-10/4, Islamabad
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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 Pakistan Stock Exchange Ltd. in Pakistan. The petitioner is operating in the provinces of Punjab, Khyber Pakhtunkhwa (KPK) and Azad Jammu & Kashmir (AJ&K) under the license granted by Oil & Gas Regulatory Authority (OGRA).

1.2 The petitioner is engaged in the business of construction and operation of gas transmission and distribution pipelines and sale of natural gas. Moreover, in pursuance of Federal Government (FG/GoP) decision, the petitioner is engaged in transportation and sale of RLNG.

1.3 The petitioner initially filed the petition on January 17, 2024, for determination of Estimated Revenue Requirement (ERR) for FY 2024-25 (the said year) 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). The petitioner, later on, submitted revised petition dated February 19, 2024 (the petition), incorporating the impact of revised gas sale prices effective February 01, 2024.

1.4 The petitioner has claimed average prescribed price of Rs. 2,276.66/MMBTU for the said year based on projected revenue requirement of Rs. 904,914 million, claiming a shortfall of Rs. 189,179 million, thereby requesting an increase of Rs. 475.95/MMBTU effective July 01, 2024 over existing price for the said year. The petitioner has projected RLNG equivalent to 80,155 BBTU to be diverted and sold to domestic consumers as per the policy guidelines of FG as well as system gas demand of fertilizer sector namely; M/s Agritech Ltd. and M/s Fatimfert Ltd. during the said year. Accordingly, total cost of Rs. 297,913 million has been demanded in the against diverted RLNG volume for the said year. The petitioner has stated that RLNG diversion cost has been included in the revenue requirement of indigenous gas consumers in line with the summary approved by ECC in its meeting held on 30-10-2023 vide case No. ECC-319/41/2023 dated 23.10.2023 (ratified by Federal Cabinet vide case No. 182/31/2023 dated 30.10.2023).

1.5 Furthermore, the petitioner has also claimed previous years' cumulative shortfall of Rs. 862,612 million upto RERR FY 2023-24 in the instant petition, requesting the Authority to allow an additional increase in prescribed price by Rs. 2,170.24/MMBTU for the said year, and has accordingly demanded an aggregate average prescribed price at Rs. 4,446.89/MMBTU for the said year.

1.6 Besides above, the petitioner has also claimed RLNG cost of service at Rs. 76,835 million i.e. Rs. 325.08/MMBTU for the said year.

1.7 The petitioner statement of cost of service per MMBTU is summarized below:

Table 1: Projected Cost of Service per Petition

PARTICULARS	The Petition			
	Transmission	Distribution	Selling	Transmission, Distribution and Sales
	Rs. in Million			
Sales Volume BBTU)				397,474
Cost of Indigneous gas	-	-	404,498	404,498
Cost of RLNG			297,913	297,913
Operating Cost	12,906	14,095	9,633	36,634
Late Payment Surcharge (Payable) & Finance cost for Working capital			125,322	125,322
Depriciation	3,416	19,616	1,097	24,129
Return on Assets (@27.12%)	4,110	30,102	371	34,582
Subsidy for LPG Air-Mix Projects		535	-	535
UFG Adjustment			(750)	(750)
Other Operating Income	(709)	(3,703)	(13,538)	(17,950)
Total Revenue Requirement	19,724	60,645	824,546	904,914
Sales Revenue at Current Prescribed Price			715,734	715,734
Shortfall in Revenue Requirement for FY 2024-25				189,179
Increase in Revenue Requirement w.e.f. July 01, 2024 (Rs./MMBTU)				475.95
Average Prescribed Price (Rs./ MMBTU) for FY 2024-25				2,276.66
Previous year Revenue Shortfall (Rs./MMBTU)				2,170.24
Aggregate Average Prescribed Price (Rs./ MMBTU) w.e.f July 01, 2024 including previous year shortfall				4,446.89

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1.8 The Authority admitted the petition under Rule 5 of NGT Rules, as a prima facie case for evaluation and consideration by the Authority.

1.9 Accordingly, a Public Hearing Notice was published in the leading newspapers on March 03, 2024 under Rule 7 of NGT Rules inviting interventions/ comments on the petition from the consumers, stakeholders and the general public as well as intimating schedule of Public Hearings to be held on March 25, 2024 and March 27, 2024 at Lahore and Peshawar, respectively. In response thereto, the Authority received intervention requests from:

- i) Mr. Muhammad Ayub, APTPMA
- ii) Mr. Syed Abrar Ali, APTMA Sr, Economist
- iii) Mr. Asim Riaz APTMA Energy Advisor
- iv) Mr. Imran Elahi, RRCSBA
- v) Mr. Muhammad Farooq, President RRCSBA
- vi) Mr. Muhammad Mumtaz Ahmed, Chairman Rawalpindi Restaurant caters Sweets and Bakers Association
- vii) Mr. Muhammad Yousaf Inam Pakistan LNG Limited Head of Sale & BD
- viii) Mr. Awais Ali Butt, Pakistan LNG Sales and BD
- ix) Mr. Faris Paracha, Senior Engineer Operations
- x) Mr. Ahmed Rasheed, LNG Procurement Pakistan LNG
- xi) Mr. Imran Shafiq, Advocate Supreme Court
- xii) Mr. Afaq Ali Khan, Member Executive Committee, SCCI
- xiii) Mr. Pervaiz Khan Khattak, Joint Business Forum, FPCCI
- xiv) Mr. Fazal Moqeem, Chairman, AP CNG Association
- xv) Mrs. Nazish Muzaffar, Corporate Affairs
- xvi) Mr. Raza Hameed Arshad, Haidry CNG Association
- xvii) Mr. Muhammad Ilyas, Hattar Industrial Estate
- xviii) Mr. Sajjad, KPK Textile Association

2. Salient Features of the Petition

2.1. Following submissions have been made in the petition:

2.1.1. The petitioner has claimed annual return at the rate of 27.12% of the net regulated fixed assets, incorporating financial impact of super tax in WACC, in pursuance of Finance Act 2023-24.

2.1.2. The petitioner has claimed depreciation expense at Rs. 24,129 million for the said year.

2.1.3. The petitioner has projected subsidy of Rs. 535 million against LPG Air Mix project.

2.1.4. The petitioner has projected the operating revenues at Rs. 733,684 million as per the following table:

Table 2: Comparison of Projected Operating Revenues with Previous Years

Rs. in Million

Description	FY 2021-22	FY 2022-23		FY 2023-24	FY 2024-25	Inc./Dec. over RERR	
	FRR	RERR	Actual	RERR	The Petition		
Net sales at current prescribed price	174,714	179,297	236,006	434,724	715,734	281,010	65%
Meter rental and service charges	4,116	4,320	4,124	4,416	4,101	(315)	-7%
Late payment surcharge and interest on arrears	4,795	7,549	6,998	7,549	7,387	(162)	-2%
Amortization of deferred credit	1,753	3,089	1,944	3,154	3,194	40	1%
Transportation Income	818	760	526	760	1,217	457	60%
Other operating income	1,196	2,050	451	2,050	2,050	-	0%
Net Operating Revenues	187,392	197,065	250,050	452,653	733,684	281,031	62%

2.1.5. The petitioner has projected the net operating expenses at Rs. 887,746 million, as detailed below and compared with previous years:

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Table 3: Comparison of Projected Operating Expenses with Previous Years

Description	FY 2021-22	FY 2022-23		FY 2023-24	FY 2024-25	Inc./Dec. over	
	FRR	RERR	Actual	RERR	The Petition	RERR	
						Rs. in Million	
Cost of gas	205,051	264,020	470,685	564,474	702,411	137,937	24%
UFG Adjustment	(2,498)	(9,821)	-	(14,771)	(750)	14,021	-95%
Transmision & Distribution	18,659	16,118	32,045	21,706	36,634	14,928	69%
Depreciation	13,833	18,342	14,156	19,036	24,129	5,093	27%
Late Payment Surcharge & Cost of Short Term borrowing	1,176	1,060	94,947	838	125,322	124,484	14855%
Total operating cost including cost of gas	**236,221**	**289,719**	**611,833**	**591,283**	**887,746**	**296,463**	**50%**

2.1.6. The petitioner has projected its Average Cost of Gas, including RLNG diversion cost, at Rs. 1,694.63/MMCF for the said year, based on estimation of international oil prices and US$/Rupee parity. The cost of gas is linked with international prices of crude oil (Crude) and High Sulphur Fuel Oil (HSFO) as per Gas Pricing Agreements (GPAs) executed between the producers and GoP. RLNG cost has been claimed at US$ 12.19/MMBTU (i.e. Rs. 3,717/MMBTU by taking average exchange rate at Rs. 305) for the said year.

2.1.7. The petitioner has projected UFG at 7.25%. The petitioner has, however, restricted its UFG adjustment to Rs. 750 million, claiming as per Rule 20(1) of NGT Rules for the said year.

2.1.8. The petitioner has also included financial impact of previous years' revenue shortfall upto RERR FY 2023-24 at Rs. 862,612 million (i.e. Rs. 2,170.24 per MMBTU) as part of instant petition; thereby projecting an increase in average prescribed price by Rs. 2,646.19 per MMBTU, as detailed below:

Table 4: Computation of the requested increase in Average Prescribed Price

	Description	FY 2024-25 The Petition
		Rs. in Million
A	Net Operating revenues	733,684
	Less Total Operating expenses excluding ROA	887,746
	Less subsidy for LPG Airmix Project	535
B	Total Expenses	888,281
C	Surplus/(Shortfall) **(B-A)**	154,597
D	Return required @ 27.12% on net operating assets	34,582
E	**Total Surplus/(Shortfall) in revenue requirement for FY 2024-25 (D-C)**	**189,180**
F	Sales Volume (BBTU)	397,474
G	**Average Increase in Existing Prescribed Price for the said year (Rs. /MMBTU) (E/F*1000)**	**475.95**
H	Previous year Revenue shortfall upto RERR- FY 2022-23	862,612
I	Previous year Revenue shortfall (Rs./MMBTU)	2,170.24
J	**Average Increase in Prescribed Price w.e.f July 01, 2024 (Rs./MMBTU)**	**2,646.19**

3. Proceedings

3.1. Public hearings were held at Lahore and Peshawar on March 25, 2024 and March 27, 2024 respectively, participated by the following;

<u>Public Hearings at Lahore on March 25 & & Peshawar on 27, 2024</u>

i) The petitioner's team led by Mr. Amir Tufail, Managing Director, SNGPL.

3.2. The petitioner has made submissions in detail with the help of a multimedia presentation explaining the basis of its petition. The petitioner has also responded key issues framed by the Authority in both public hearings. The petitioner also responded to the comments,

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observations, objections and questions of the participants as well as the Authority. The main points of the petitioner are summarized below:

3.2.1 It was informed by the petitioner that 80,155 BBTU RLNG volume has been projected to supply to Domestic in the light of decision of FG. Domestic RLNG diverted molecules have been kept at the level FY 2022-23. Regarding additional diversion to RLNG molecules, it was informed that system gas shall be supplied to fertilizers plants namely; M/s FatimaFert and M/s AgriTech based on ECC decision dated March 15, 2023. The petitioner has argued that erratic consumption of power sector may also cause further diversion of RLNG to domestic sector. Regarding projections of international oil prices and Rupee Dollar parity, it was informed that best available data has been used for the estimations of future prices. Likewise, fair and equitable amount has been projected under operating T&D costs.

3.2.2 The petitioner stated that finance cost of Rs. 2,305 million has been projected based on the running finance facility. However, no additional loan has been projected for working capital requirement for current year.

3.2.3 The petitioner has informed that LPS expenses of Rs. 123,017 million has been claimed on past accumulated balance of gas creditor as on November 2023 @ 20.60% average T-bill rate, as it was assumed that existing outstanding circular debt including subsidies and RLNG diversion to domestic sector would continue.

3.2.4 It was further requested by the petitioner to allow ROA @ 27.12%, after incorporating impact of super tax as part of WACC along-with adjustment of related base data.

3.2.5 It was reiterated that operating parameters of HR benchmark are redundant owing to dwindling local gas supplies and ban on new connections, therefore, requested to allow 100% CPI allowance.

3.2.6 Finance cost at Rs. 25,361 million, projected under RLNG cost of service, is based on Rs. 110 billion financing for actual payments to LNG/RLNG suppliers. Disallowance or reduction may result in potential disruption of the LNG supply chain. Additional loan amounting to Rs. 40 billion is also being arranged in line with the direction of FG for payment to PSO, which will further increase the finance cost.

3.3 The substantive points made by the interveners during the public hearing held in Lahore and Peshawar are summarized below:

3.3.1 It was pointed out by APTPMA representative that utilities' cost has already exceeded 40% as part of cost of production thus leaving the industry uncompetitive in the region. Textile industry is moving towards closure in the country due to high tariff rates. The increase in tariff would lead to hue and cry and rampant unemployment in the market.

3.3.2 It was further objected that the petitioner has projected and claimed aggregate average prescribed price at Rs. 4,446.89/MMBTU effective from July 1, 2024, including previous year revenue shortfall which is very high.

3.3.3 It was highlighted that RLNG diversion volume of 80,155 BBTU to the domestic sector in FY 2024-25, costing Rs. 297,913 million under cost of gas basket would lead to huge increase in average prescribed price; therefore, it was demanded to review basis of gas price computation.

3.3.4 It was objected as to why gas has been provided to small villages and new schemes in the wake of huge depletion of gas reserve in the country.

3.3.5 It was argued that domestic sector's natural gas pricing after RLNG diversion volume is still highly subsidized as RLNG cost is claimed at $12.19/MMBTU. The availability of subsidy to domestic consumers under gas pricing acts as a barrier to move toward alternative energy resources, such as RLNG, LPG, and electricity prices being significantly higher compared to protected consumers. It was proposed to eliminate the protected consumer category, opting for a flat-rate or two-slab tariff system to address load shedding and untargeted subsidies caused by affluent consumers falling into the protected category during winters.

3.3.6 It was highlighted that UFG disallowance %age is still higher while SNGPL is operating in the country for more than 50 years and still claiming UFG @7.25%. It was emphasized

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that UFG should be less than 5%. It was proposed that UFG disallowance should be reduced further and suggested that UFG disallowance should be the same for System Gas and RLNG. It is unfair to load UFG disallowance on general consumers.

3.3.7 It was also stated that domestic consumption in Sui's rose over 4% from 310 BCF in FY 2022 to 323 BCF (885 MMCFD) in FY 2023, amid a moratorium and sharp decline of 9-10% in gas production. It was suggested that more subsidy should be provided to commercial sector and reduced for domestic consumers. Supplying gas to export-oriented industries and associated captive power plants, at OGRA-prescribed prices is paramount for maximizing economic benefits, enhancing exports, and increasing foreign reserves.

3.3.8 It was demanded that HR costs should be aligned with performance indicators such as Unaccounted-for Gas (UFG) and KMI to ensure financial discipline. It was stated that financial constraints necessitate a critical review of staffing levels, advocating for transparency in salary disclosure and alignment of HR costs with performance metrics like UFG and KMI, while also comparing benchmarks internationally for improved accuracy and efficiency.

3.3.9 It was highlighted that sui companies are demanding to replenish security deposit based on latest three months billing average. It was claimed that around 7,000 connections have been closed and 11,000 shops have been closed in the Punjab region due to high tariff for commercial consumers.

3.3.10 It was argued that the petitioner could not substantiate its claim under the petition submitted to OGRA. It was pointed out that unnecessary cost enhancement is being claimed by SNGPL on account of HR cost and other cost component is not fair while UFG claim is also unnecessary.

3.3.11 It was highlighted that gas decline has been observed as local fields are depleting and RLNG volume has been increased in the supply basket. It is appreciated that RLNG full price is being incorporated in cost of gas for revenue requirement determination.

3.3.12 It was stated that issuance of new licensees by OGRA is exponentially well and found satisfactory. Moreover, FG should review their subsidy mechanism as industry is paying higher tariff.

3.3.13 It was argued that instead of high consumption consumers, small industries should be promoted and encouraged while increase in tariff would badly affects their performance and growth. Through reduced tariff, small industries and manufacturing industry should be encouraged, as this should be the economic model for future.

3.3.14 It was demanded that KPK gas consumers should not bear the high tariff demanded by the petitioner as KPK is a gas producing province and producing excess gas than its requirement. KPK should not be penalized at expense of Punjab consumers. KPK is producing 650 MMCFD and only 200 MMCFD is being supplied to KPK, therefore KPK should not be burdened by RLNG diversion cost as constitution also gives it first right of use on local gas resources. It was informed that due to high gas prices, industries are closing down in KPK and further increase would be detrimental towards collapse of industry.

3.3.15 It was pointed out that CNG sector is declining rapidly in KPK. It was highlighted that power sector should adhere to their commitments of RLNG offtakes and volume should not be diverted to domestic consumers. In the current scenario, any further increase in CNG prices is not acceptable; since CNG is the alternative of Petrol, LPG and other competitive fuels therefore its price should be competitive. It was also demanded to provide gas to KPK industry from new discovered gas field in KPK.

3.3.16 It was demanded that burden of LPG airmix project subsidy should not be charged to natural gas consumers.

3.3.17 It was also demanded that UFG losses should be curtailed further; while Gas theft should be controlled by taking serious efforts by the company.

3.3.18 It was argued that KPK operational cost has increased substantially due to geographical location and far from port and raw material supplies.

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3.3.19 It was highlighted that there is conflict of interest on part of Federal Government as any increase in gas tariff beneficial to FG, being a major shareholder of SNGPL. OGRA should be allowed to operate independently. It was also demanded to review the current mechanism of Rate of Return.

3.3.20 It was requested to ban expansion is network based on political decision and expansion in pipe line would lead to further UFG therefore ban on expansion of network be imposed. It was proposed to abolish the mechanism of subsidy which is a major factor of misuse by consumers. It was urged to encourage private companies for gas exploration in the country.

3.3.21 It was requested to resolve low gas pressure in KPK on top priority and any further increase in gas tariff should not be allowed. It was also urged to resolve the excessive billing issues of KPK domestic consumers and gas consumers complaints should be addressed on high priority by gas companies.

4. Authority's Jurisdiction and Determination Process

4.1. The Authority is obligated to determine the total revenue requirement of the licensee under Section 8(1) of the Ordinance for a particular year after going through the due process of law. This primarily involves scrutiny of the petition, in-depth analysis of the estimates, the examination of operating and capital items, issuances of the notices to receive the valuable input/comments of all stakeholders, the opportunity of a public hearing and then determination of the total revenue requirement as per mandate under the legal framework. The Authority further notes that it has been able to curtail the petitioner's uneconomical costs to a greater extent through the introduction of efficiency benchmark and effective scrutiny and diligence. Accordingly, the Authority decision surely strikes a balance among the divergent interests of all stakeholders. Total revenue requirement of the licensee determined by OGRA under Section 8(1) or 8(2) of the Ordinance is sent to FG to seek the advice regarding revision in sale price in respect of various categories of natural gas consumers.

4.2. Section 8(3) of the Ordinance empowers the FG to fix the consumer sale prices so as to ensure that revenue requirement determined by OGRA is fully met and advise OGRA the revision in gas sale prices and minimum charges in respect of natural gas retail consumers for notification in the official gazette.

4.3. The Authority, however, observes that during past, FG under Section 8(3) of the Ordinance had advised insufficient revisions to OGRA, resulting in accumulation of previous years' revenue shortfall in the total revenue requirement. The Authority, in the instant determination as well as previous decisions, has already referred matter of previous years' shortfall to FG for an appropriate policy decision.

4.4. The Authority reiterates its view that all the categories of consumers must at least pay the average cost of service, keeping in view the existing cost of alternative or substitute sources of energy. Resultantly, there shall be no situation of unmet revenue requirement. This shall provide a level playing field for all concerned and avoid the situation of revenue shortfall.

4.5. The petitioner has requested for re-setting of WACC at 27.12% for the said year as per clause 1.2.13 of Tariff regime for natural gas sector in Pakistan. The petitioner has claimed Weighted Average Cost of Capital (WACC) at 27.12% after incorporating annual Super Tax @ 10% for the said year. The petitioner has argued that super tax is corporate tax in nature and is statutory obligation of the petitioner, hence the same be allowed as part of revenue requirement. The petitioner has affirmed that they are falling under 10% super tax slab category for the said year, therefore the same shall be required to be paid at the year end.

4.6. The Authority agrees to the petitioner's contention on account of levy of super tax, however, the impact of super tax cannot be ascertained at beginning of financial year. ***In the light thereof, the Authority decides to principally allow the financial impact on account of super tax, subject to the provision of documentary evidence, submitted with FBR at the time of FRR for the said year. The Authority taking in accounts changes in base data recalculates WACC at 25.92% for the said year, as tabulated below:***

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Particulars	Formula	Revised working
Risk Free Rate: Rf (Last 10 year Average of 20 year's PIB)	A	12.26
Market Return (15 year average PSX-KSE 100 index)	B	19.69
Market Risk Premium	C=B-A	7.43
Market Risk Premium (Capped 11%, Floor 7%)	D	7.43
Beta Equity-Distribution	E	1.30
Cost of Equity (Re)	Re=Rf + beta x MRP	21.92
6 monthly Avg of last 12 months Kibor	F	21.80
Cost of Debt	Rd=F+2%	23.80
Tax rate (t)		0.29
WACC Pre Tax	**{Re/(1-t) x 30%} + {Rd x 70%}**	**25.92**
Note:		
i) Last 10 year Average of 20 year's PIB: Data Available from 01.1.2014 to 31.12.2023.		
ii) 15 year average PSX-KSE 100 index: Fromfrom 01.7.2009 to 31.12.2023.		
iii) 6 Monthly average of Kibor for the months of Jan-23 to Dec-23		

4.7. ***Various income & expenditure heads have been included as part of the prescribed price in the light of latest tariff regime in field.***

5. Operating Fixed Assets

5.1. Summary of the additions in assets claimed by the petitioner in ERR FY 2024-25 is as follows;

Table 5: Summary of Asset Additions Claimed in ERR FY 2024-25

Sr. No.	Particulars	Petition ERR FY 2024-25(Rs. in Million)											
		Distribution			Transmission			Sales			Total		
		Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total
1	Land freehold	–	–	–	–	–	–	–	–	–	–	–	–
2	Building on Freehold land	108	–	108	183	–	183	9	–	9	300	–	300
3	Transmission Mains	–	–	–	2565	–	2565	–	–	–	2565	–	2565
4	Compression	–	–	–	631	–	631	–	–	–	631	–	631
5	Distribution Mains	32630	2814	35444	–	–	–	–	–	–	32630	2814	35444
6	Measuring and Regulating	11425	621	12046	–	–	–	–	–	–	11425	621	12046
	Sub Total	**44163**	**3435**	**47598**	**3379**	–	**3379**	**9**	–	**9**	**47551**	**3435**	**50986**
7	Telecommunication Equipment	0.0	–	–	110	–	110	–	–	–	110	–	110
8	Plant & Machinery	1035	–	1035	767	–	767	118	–	118	1920	–	1920
9	Tools & Equipment	42	–	42	3	–	3	–	–	–	45	–	45
10	Construction Equipment	1097	–	1097	70	–	70	–	–	–	1168	–	1168
11	Motor Vehicles	500	–	500	–	–	–	–	–	–	500	–	500
12	Furniture & Fixture	22	–	22	24	–	24	5	–	5	50	–	50
13	Office Equipment	57	–	57	–	–	–	5	–	5	62	–	62
14	Computer Hardware	53	–	53	–	–	–	1015	–	1015	1068	–	1068
15	Computer System Software / Intangible Assets	138	–	138	–	–	–	708	–	708	845	–	845
	Sub Total	**2943**	–	**2943**	**974**	–	**974**	**1851**	–	**1851**	**5768**	–	**5768**
	Grand Total	**47106**	**3435**	**50541**	**4353**	–	**4353**	**1860**	–	**1860**	**53319**	**3435**	**56754**

5.2. Building on Freehold Land:

5.2.1 The petitioner has projected Rs. 300 million under the head out of which, Rs. 108 million has been projected against distribution activities, Rs. 183 million against transmission activities and Rs. 9 million against sales activities.

5.2.2 The amounts have been projected to meet companywide operational requirement which includes construction of security huts, boundary walls, storage rooms and other necessary constructions.

5.2.3 ***Keeping in view the justifications provided by the petitioner and the ability of the petitioner to execute such jobs during previous years, the Authority allows Rs. 165 million in respect of regular capital expenditure relating to building on freehold land as per following detail;***

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Table 6 : Summary of Asset Addition Claimed vs Determined under Building on Freehold Land

BUILDING ON FREEHOLD LAND (Rs. In Millions)																									
No.	Description	Petition												Determined											
		Distribution			Transmission			Sales			Total			Distribution			Transmission			Sales			Total		
		Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total
1	Regular Capital Expenditure	108	-	108	183	-	183	9	-	9	300	-	300	59	-	59	101	-	101	5	-	5	165	-	165
	Total	108	-	108	183	-	183	9	-	9	300	-	300	59	-	59	101	-	101	5	-	5	165	-	165

5.3. Transmission Mains:

5.3.1 The petitioner has projected Rs. 2,565 million under the head as per following sub-head;

i. **Cathodic Protection:**

5.3.2 The petitioner has projected Rs. 770 million for installation of 36 Nos. of Cathodic Protection (CP) stations and renovation/ relocation of ground beds at 156 Nos. of CP stations. The petitioner has explained that currently a total of 1,955 CP stations have been installed i.e., 1,774 on its distribution and 181 on transmission network, whereas per unit cost of construction of new CP station has been projected to be Rs. 4.8 million while that of renovation at Rs. 3.8 million.

5.3.3 The Authority notes that the petitioner has been able to renovate around 100 Nos. CP station and install around 41 Nos new CP station during the last three years. The Authority further observes that cathodic protection is an essential operational requirement requiring 24/7 maintenance & mitigation process of underground pipeline against corrosion.

5.3.4 ***The Authority, therefore, keeping in view the submissions of the petitioner and ability of petitioner to execute such projects over the years, allows installation of 36 Nos. of CP stations along with renovation of 100 Nos. of CP stations at a cost of Rs. 552 million in respect of CP system for the said year.***

ii. **Rehabilitation of Transmission System:**

5.3.5 The petitioner has projected Rs. 837 million under the head to carryout rehabilitation jobs such as lowering of lines, construction of retaining walls, civil protective works for protection etc., along with rehabilitation work like change of filters/ parts on SMSs during the said year.

5.3.6 ***In view of submissions of the petitioner and keeping in view the actual performance of petitioner in previous years on this account, the Authority allows Rs. 253 million on account of rehabilitation of transmission system for the said year.***

iii. **Construction of SMS for New Towns/ Modification/ Upgradation of SMS:**

5.3.7 The petitioner has projected Rs. 958 million under the head for the said year. The petitioner has stated that Rs. 600 million is required for construction of SMS for New towns at seven locations, detail of which has been provided. It is pertinent to mention that gasification of new towns at these locations is being executed against in process/ previously approved cases. Similarly, the petitioner has stated that Rs. 358 million is required for modification/ upgradation of 3 Nos. of SMSs to ensure accurate measurement alongwith meeting its operational requirements including shifting of one SMS from populated area to city gates to reduce the risks.

5.3.8 ***In view of the foregoing, the Authority allows the projected amount in principle under the head.***

5.3.9 The summary of capitalization allowed by the Authority under the head is as under;

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Table 7: Summary of Asset Addition Claimed vs Determined under Transmission Mains

TRANSMISSION MAINS (Rs. In Millions)							
No.	Description	Transmission Business Head					
		Petition			Determined		
		Normal	RLNG	Total	Normal	RLNG	Total
1	Cathodic Protection System (CP System)	770	–	770	552	–	552
2	Rehabilitation of Transmission System	837	–	837	253	–	253
3	Construction of SMS for New Towns/ Modification/ Upgradation of SMS	958	–	958	In Principle	–	In Principle
	Total	2565	–	2565	804	–	804

5.4. Compression:

5.4.1 The petitioner in respect of transmission activities has projected an amount of Rs. 631 million for the said year as per following sub-heads.

i. Compression Equipment Regular Capital Expenditure:

5.4.2 The petitioner has projected Rs. 64 million in respect of compression equipment under regular expenditure. The petitioner has submitted that major expenditure involves procurement of screw type instrument air compressors at AC-6 and PLC based control panel with VFD and EMC filters for DGC system installed at compressor station AC1-X & CC-1 which are required for reliable and safe operation.

5.4.3 ***Keeping in view the justification provided by the petitioner and operational requirement, the Authority allows regular capital expenditure of Rs. 64 million in respect of compression equipment.***

ii. Compression Overhaul Project FY 2021-26:

5.4.4 The Petitioner has projected Rs. 567 million for the fourth year of compression overhaul project which is to be executed during FY 2021-22 to FY 2025-26. The project has been approved by the Authority in principle at the time of DERR FY 2022-23.

5.4.5 The Authority notes that compressor overhaul projects are significant to maintain system balance especially under the prevailing situation of gas demand & supply gap throughout the country where the gap is being met by supplies of RLNG from southern sources.

5.4.6 ***Keeping in view the justification provided by the petitioner, the Authority approves the fourth year of compressor overhaul project (2021-26) in principle and any expenditure in this respect shall be considered for capitalization at the time of FRR provided the same is as per ERR petition.***

5.4.7 The summary of capitalization allowed by the Authority under the head is as under;

Table 8: Summary of Asset Addition Claimed vs Determined under Compression

COMPRESSION EQUIPMENT (Rs. In Millions)							
No.	Description	Transmission Business Head					
		Petition			Determined		
		Normal	RLNG	Total	Normal	RLNG	Total
1	Compression Overhauling Project (FY 2021-26) (4th Year)	567	–	567	In Principle	–	In Principle
2	Regular Capital Expenditure	64	–	64	64	–	64
	Total	631	–	631	64	–	64

5.5. Distribution Development:

5.5.1 The petitioner has projected Rs. 35,444 million in respect of distribution development as per following sub-heads;

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i. **Laying of Distribution Mains:**

5.5.2 The petitioner has projected Rs. 23,610 million for laying of 6,541 KMs of distribution lines as per details given below;

Table 9: Breakdown of Distribution Mains Claimed

Breakup of Distribution Lines				
Head	KMs	Cost (Rs. In Million)		
		Normal	RLNG	Total
New Towns & Villages	5700	13000	0	13,000
Combing Mains	300	1310	0	1,310
Cost Recovery Jobs	291	600	2400	3,000
Augmentaion/ HO	250	6300	0	6,300
Total	6,541	21,210	2,400	23,610

5.5.3 The petitioner has projected a budget of Rs. 13,000 million for 5,700 KMs to be laid against anticipated schemes during the said year. It is observed that the moratorium in place on execution of development schemes has been uplifted. MOE (PD) vide its letter No. NG(D)-16(91)/23-SAP dated 19-05-2023 conveyed that Cabinet Committee on Energy (CCoE) considered the summary dated 29-03-2023 submitted by the petroleum division vide Case No. CCE 07/01/2023 dated 28-04-2023 which was also ratified by the Federal Cabinet vide Case No. 76/18/2023 dated 10-05-2023. Para-6 of the summary was approved which inter-alia proposed that "sui companies to complete all ongoing/ approved schemes where funds are available".

5.5.4 Considering above, the Authority is of the view that approval for such schemes has been granted where funds are available. Therefore, the Authority is of the opinion that the petitioner's request for approval of Rs. 13,000 million is not justified.

5.5.5 ***The Authority, accordingly allows the petitioner to lay 5,700 KMs of lines as being projected from the available funds under PSDP, which will not be included in the rate base, further, no new expenditure is allowed.***

5.5.6 Moreover, the petitioner in respect of combing mains and system augmentation/ HO reserves has stated that the budget is essentially required for removal of anomalies and rectification of low-pressure issues to meet the operational requirement. The petitioner has further added that budget against cost recovery is required for supply of gas to private housing societies, cases pertaining to armed forces / judiciary / government institutions and industrial / commercial consumers.

5.5.7 ***The Authority, keeping in view the per km cost of capitalization over the past years and with no cut on kilometres of lines claimed by the petitioner allows Rs. 1,904 million against 250 kms to be laid against augmentation. However, in view of moratorium on new connections no amount is allowed in respect of combing mains.***

5.5.8 ***Further, in respect of distribution mains relating to cost recovery jobs, the Authority allows Rs. 600 million for indigenous system and Rs. 2,400 million for RLNG, as projected by the petitioner. Moreover, the petitioner shall not be entitled to rate of return on the said capitalization.***

ii. **System Rehabilitation:**

5.5.9 The petitioner has projected Rs. 10,450 million for replacement of 2,470 kms of gas mains in respect of system rehabilitation. It has been submitted that where network integrity is not manageable through rectification and cathodic protection, only that is being projected for replacement. The petitioner has further stated that gas leakages are one of the important UFG contributing factors and the budget is essentially required to control gas leakages through replacement of leaking underground network. The petitioner has also highlighted that the budget has been projected keeping in view the increase in material cost, higher cost incurred on network replacement and increase in length of network to be replaced. The Authority while noting the importance of replacement of leaking network to control UFG also notes that the petitioner has been able to rehabilitate at an average of around 1,231 Km gas mains during last three years.

5.5.10 ***The Authority, keeping in view the necessity of network replacement to maintain integrity of the network, capacity of petitioner for executing such jobs, per km cost over the years and***

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accounting for impact of inflation allows replacement of 1231 Km of gas mains at per Km cost of Rs. 2.63 million which equals Rs. 3,239 million under the head.

iii. **Service Lines for New Connections:**

5.5.11 The petitioner has projected Rs. 414 million for installation of 2,800 commercial & 250 industrial connections under RLNG ring fenced mechanism.

5.5.12 It has been submitted that cost under the head includes the expenditures related to joining of pipeline with main distribution line till the regulator. It includes cost of material e.g. pipe, regulator, service-T etc. The petitioner has clarified that the cost recovered from consumer on account of service line cost is not incorporated in rate of return calculation.

5.5.13 ***In view of the foregoing, the Authority allows Rs. 414 million in respect of service lines for new industrial/ commercial connections and this amount is ring fenced as per the policy of the GoP regarding RLNG/ ECC decision and no return will be allowed on cost recovered from consumers.***

iv. **UFG Control Activities:**

5.5.14 The petitioner has projected Rs. 970 million for identification and rectification of underground leakages. The projected amount includes Rs. 675 million for leakage rectification of 50,000 km of underground gas mains and Rs. 295 million for underground leakage identification of 50,000 km of gas mains through laser leak detection equipment.

5.5.15 The Authority observes that identification/ rectification of underground leakages is an important activity to control gas losses and is an essential operational responsibility of the petitioner. Moreover, the Authority further notes that the petitioner has been able to rectify around 33,000 Kms of gas mains and surveyed 36,500 Km of gas mains during last three years against leakages which shows that the targets projected during the said year are exaggerated when compared with actualization trend.

5.5.16 ***In view of the operational requirement, past performance of the petitioner and average per km cost of Rs 0.004 million for underground leakage identification and Rs. 0.016 million for underground leakage rectification over the years, the Authority allows Rs. 679 million under the head of UFG control activities for the said year.***

v. The summary of capitalization allowed by the Authority under the head is as follows;

Table 10: Summary of Asset Addition Claimed vs Determined under Distribution Mains

DISTRIBUTION DEVELOPMENT (Rs. In Millions)								
No.	Description	Distribution Business Head						
		Petition			Determined			
		Normal	RLNG	Total	Normal	RLNG	Total
1	Laying of Distribution Mains (New Towns & Villages)	13000	–	13000	–	–	
2	Laying of Distribution Mains (Combing Mains)	1310	–	1310	–	–	–
3	Laying of Distribution Mains (Cost Sharing Basis)	600	2400	3000	600	2400	3000
4	Laying of Distribution Mains (Augmentation/ H.O)	6300	–	6300	1904	–	1904
5	System Rehabilitation	10450	–	10450	3239	–	3239
6	Service Lines Industerial/commercial (Ring Fenced)	–	414	414	–	414	414
7	Underground Leakage Rectification	675	–	675	679	–	679
8	Underground Leakage Identification (Laser Leak)	295	–	295		–	
	Total	32630	2814	35444	6422	2814	9236

**Underlined figures are not included in ROA calculation.*

5.6. Measuring & Regulating:

5.6.1 The petitioner has projected Rs. 13,004 million under Measuring & Regulating as per following sub-heads;

i. **Installation of New Connections:**

5.6.2 The petitioner has projected Rs. 621 million for installation of 2,800 commercial and 250 industrial connections on RLNG under ring-fenced mechanism.

5.6.3 It has been submitted that cost under the head includes cost of meter and other related material to join the service line with house line.

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5.6.4 ***The Authority, keeping in view the per unit cost over the years and accounting for inflationary Impact on the same, allows the projection of the petitioner and this amount shall be ring-fenced as per the policy of GOP regarding RLNG/ ECC decision.***

ii. **Construction of TBSs and DRSs:**

5.6.5 The petitioner has projected Rs. 2,095 million for construction/ modification of TBSs/ DRSs in respect of 500 jobs. The petitioner has submitted that TBSs/ DRSs of smaller dia/ capacity are installed to operate the network at optimum pressures so that gas supply at tail ends of gas distribution network is available to the consumers. TBSs having higher capacity, supply gas to a large locality/ area and must be operated at higher pressures to feed tail end consumers, which may result in more leakages and ultimately gas losses increase. Therefore, installation of smaller dia/capacity TBSs/DRSs are essentially required for even distribution of gas in all areas to avoid low pressure issues.

5.6.6 The Authority notes that installation of TBS is essential for addressing low pressure problems, better control of leakage and a positive impact on UFG volume. The same is significant in view of prevailing energy crises in the country.

5.6.7 ***Keeping in view the operational requirement, the Authority allows in principle the construction/ modification of TBS/ DRS and actual expense incurred will be considered at the time of FRR for the said year provided the same is within the amount per ERR petition.***

iii. **Replacement of Old Meters:**

5.6.8 The petitioner has projected Rs. 9,330 million for replacement of 809,975 defective/undersized/ old meters (Industrial/ Commercial/ Domestic). The petitioner plans to replace 800,000 domestic, 6,700 commercial and 3,275 industrial meters including 2,500 electronic volume correctors (EVCs) during the said year as per following details;

Table 11: Breakdown of Gas Meters to be Replaced

Breakdown of Meters to be Replaced			
Category	**Criteria**	**Meter Type**	**Quantity**
Domestic	Defective & Schedule Replacement	G-4	240,000
		G-1.6	560,000
Sub-Total			800,000
Commercial	Defective/ Undersize	Class-250	5000
		Class-400	1500
		Class-900 & 1M/ 0.6M Rotary Gas Meters	200
Sub-Total			6700
Industrial	Defective/ Undersize	102 M Rotary Meter	5
		56 M Rotary Meter	40
		38 M Rotary Meter	50
		23 M Rotary Meter	100
		16 M Rotary Meter	70
		11 M Rotary Meter	80
		7 M Rotary Meter	100
		5 M Rotary Meter	150
		3 M Rotary Meter	180
		EVCs for Replacement Cycle	500
		EVC with Built-in Modems for replacement Cycle	2000
Sub-Total			3275
Total			809,975

5.6.9 It has been submitted that meters are replaced due to various reasons which inter-alia include operational issues, suspected and tampered meters, consumer requests and scheduled replacement etc.

5.6.10 The Authority observes that the per unit cost projected by the petitioner during the said year is on the higher side when compared with cost actually incurred in previous years. The petitioner in this respect has clarified that per unit cost has been projected due to increase in cost of meters and EVCs and increase in cost of meter replacement overheads.

5.6.11 The Authority notes that under the provisions of OGRA Natural Gas Measurement (Technical Standards) Regulations, 2019, accuracy of gas meter is to be periodically checked at least once in 15 years in case of domestic consumers, at least once in 5 years in case of commercial consumers and once in two years in case of industrial consumers. Moreover, the activity is essential for ensuring

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measurement accuracy and detection of gas theft cases through replacement of suspected, tampered, defective and scheduled replacement of meters.

5.6.12 ***In view of the above and considering the importance of UFG, the Authority based on per unit cost of replacement of meters over the years allows Rs. 3,450 million in respect of replacement of old meters for the said year. Furthermore, the Authority expects that this exercise of replacement of meters shall lead to correct billing and there shall be reduction in UFG.***

5.6.13 The summary of capitalization allowed by the Authority under the head is as follows;

Table 12 : Summary of Asset Addition Claimed vs Determined under Measuring & Regulating

MEASURING & REGULATING (Rs. In Millions)							
No.	Description	Distribution Business Head					
		Petition			Determined		
		Normal	RLNG	Total	Normal	RLNG	Total
1	Industrial/ Commercial Connections CMS (Ring Fenced) (3,050)	–	621	621	–	621	621
2	Construction of TBSs/DRSs (500)	2095	–	2095	In Principle	–	In Principle
3	Replacement of Old Meters (809,975)	9330	–	9330	3450	–	3450
	Total	11425	621	12046	3450	621	4071

5.7. Plant & Machinery, Equipment and Other Assets:

5.7.1 The petitioner in respect of plant & machinery, equipment & other assets has projected Rs. 5,768 million that includes Rs. 2,943 million for distribution, Rs. 974 million for transmission and Rs. 1,851 million relating to sales activities respectively, as per following sub-heads;

i. Telecommunication Equipment:

5.7.2 The petitioner has projected Rs. 110 million for purchase of telecommunication equipment. The projected amount mainly includes procurement of data radio links, video conferencing systems, network expansion package etc. to meet operational requirement. The Authority observes that advanced and reliable telecommunication system is essential for effective control and security of transmission and distribution system.

5.7.3 It has been noted that the projected amount has increased considerably as compared with projection at the time of previous year's ERR. Further, average capitalization during the past three fiscal years is around Rs. 36 million.

5.7.4 ***Keeping in view the above and operational requirement for day-to-day activities, the Authority allows 50% of the projected amount i.e., Rs. 55 million in respect of regular expenditure of telecommunication equipment as projected by the petitioner.***

ii. Plant & Machinery:

5.7.5 The petitioner has projected Rs. 1,920 million in respect of plant and machinery that includes Rs. 1035 million for distribution, Rs. 767 million for transmission and Rs. 118 million relating to sales activities respectively.

5.7.6 The projected amount relates to purchase of various equipment including inter-alia Firefighting equipment, electrical equipment, metering equipment and CP equipment which are necessary for safe and reliable operations.

5.7.7 ***The Authority keeping in view the need assessment of the equipment required for day-to-day activities and ability of the petitioner to execute such jobs, allows regular budget of Rs. 960 million in respect of plant and machinery for the said year.***

iii. Tools and Equipment:

5.7.8 The petitioner has projected Rs. 44.8 million for procurement of different tools and equipment such as drill machines, grinders, welder's equipment, fitter's equipment etc. to meet operational requirement. The projected amount includes Rs. 42.3 million against distribution activities and Rs. 2.5 million against transmission activities.

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5.7.9 ***The Authority, keeping in view the operational requirement allows Rs. 44.8 million under the head as projected by the petitioner for the said year.***

iv. **Construction Equipment:**

5.7.10 The petitioner has projected Rs. 1,168 million under the head for procurement of different construction equipment such as excavators, crane trucks, drilling and stoppling machines, welding plants etc. to meet operational requirement. Out of the total amount, the petitioner has projected Rs. 1,097 million against distribution activities and Rs. 70 million against transmission activities respectively.

5.7.11 It has been noted that projection by the petitioner has almost doubled from its projection at ERR FY 2023-24. The petitioner has submitted that out of the total projected amount almost 78% (around Rs. 907 million) is required for replacement of existing equipment which has outlived its useful life, as around 55% budget has been allowed against the projection of petitioner during last five years. It has been further submitted that it normally takes 1-2 years for complete procurement cycle as items are imported, owing to which capitalization remains delayed.

5.7.12 ***Accordingly, the Authority, keeping in view the submissions of the petitioner in respect of operational equipment needing replacement, allows 50% of the claimed amount i.e., Rs. 584 million under the head for the said year.***

v. **Motor Vehicles:**

5.7.13 The petitioner has projected Rs. 500 million under the head which pertains to distribution activities.

5.7.14 The petitioner has submitted that an amount of Rs. 9.6 billion is required to replace various necessary operational vehicles which have completed their useful life as of June-2023 as during last 5 years almost 50% budget has been allowed by the Authority owing to which number of vehicles, needing replacement, has increased.

5.7.15 ***Accordingly, keeping in view the stance of the petitioner in respect of operational vehicles to be replaced, the Authority allows the projected amount i.e., Rs. 500 to the extent of operational vehicles only. However, the Authority advises to increase the replacement period to eight (8) years.***

vi. **Furniture and Fixture:**

5.7.16 The petitioner has projected Rs. 50 million under the head, out of which Rs. 22 million pertains to distribution activities, 24 million for transmission activities and Rs. 5 million for sales activities respectively. The petitioner has submitted that the projections have been made to meet companywide operational requirements.

5.7.17 It has been submitted that the total requirement under the head amounts to Rs. 134 million however, the petition has been restricted to Rs. 50 million. ***Accordingly, the Authority keeping in view the operational requirement allows Rs. 50 million in respect of regular budget of furniture and fixture for the said year as projected by the petitioner.***

vii. **Office / Security equipment:**

5.7.18 The petitioner has projected Rs. 62 million under the head out of which Rs. 57 million is in respect of distribution activity and Rs. 5 million for transmission activity.

5.7.19 The petitioner has submitted that the projected amount is required for procurement of office equipment which includes photocopy machines, scanners, shredders and projectors etc. alongwith security equipment including surveillance cameras, security cameras and security lighting etc., to meet companywide operational requirements.

5.7.20 ***In view of foregoing, the Authority keeping in view the operational requirement allows Rs. 62 million in respect of regular budget for the said year.***

viii. **Computer Hardware:**

5.7.21 The petitioner has projected Rs. 1,068 million under the head out of which Rs. 52.5 million is in respect of distribution business activity for a project to digitize petitioner's processes, the same is

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discussed below in detail. Further, Rs. 1,015 million has been projected for sales activity. The petitioner has projected the amount for meeting companywide requirement which includes purchase of PCs, UPSs, Laptops, Printers, Scanners etc. and companywide operational requirement for procurement of hand-held units and networking equipment etc.

5.7.22 ***In view of foregoing, the Authority keeping in view the operational requirement and based on capitalization over the years, allows Rs. 282 million in respect of regular budget of computer hardware for the said year.***

ix. **Computer Software:**

5.7.23 The petitioner has projected Rs. 845 million under the head out of which Rs. 198 million is in respect of regular capital expenditure, whereas Rs. 100 million has been projected for Software based Performance Evaluation System, Rs. 23 million for digitization of petitioner's processes and Rs. 525 million for upgradation of Customer Care & Billing (CC&B) software. The special projects are discussed in detail below. Major amount projected under regular budget relates to Microsoft licenses and ERP Module licenses etc.

5.7.24 ***Keeping in view the operational requirement and past trends, the Authority allows Rs. 146 million in respect of regular expenditure under computer software/ intangible assets for the said year.***

x. **Digitization of Company's Processes:**

5.7.25 The petitioner has projected Rs. 75 million for digitization of its processes which includes Rs. 52.5 million under the head of computer hardware and Rs. 22.75 million under computer software. It has been submitted that petitioner's IT/MIS department initiated a pilot project to acquire digitization software for workflow automation. The project began with an open tender for 50 user licenses, targeting five low-complexity business processes. The main objective of digitization and workflow automation is to streamline and optimize business processes, enabling each department or section to complete their tasks efficiently and accurately.

5.7.26 It has been submitted that the software has been successfully implemented and all departments are using it. More than 200,000+ documents have been digitized and stored departmentally. Over 300+ employees have been trained to use the system.

5.7.27 It is expected that due to implantation of the digitization, paper consumption will reduce, lowering the carbon footprint. Substantial cost reductions in paper, printing, storage, and postage resulting in estimated 50% reduction in procurement costs and reduced electricity usage. It will also provide faster access to information, streamlined workflows, real-time collaboration, and reduced errors alongwith improved data security, regulatory compliance, and faster turnaround times. It will help in making data-driven decisions, enhance compliance and accountability. In conclusion, digitization and workflow automation initiative which has already achieved significant results, saving time, costs, and resources will further benefit from efficiencies gained through additional user licenses and continued automation. Therefore, in order to ensure a seamless transition and facilitate access for regional teams, the petitioner has proposed that the proposed budget is required for procuring additional licenses for regional rollout in a phased manner. It has been submitted that IT/MIS has already acquired 50 user licenses and will procure an additional 500 licenses. These licenses will enable users at both the Head Office and regional offices to access and utilize the software, enabling them to efficiently execute their tasks and contribute to the project's overall success.

5.7.28 ***In view of the justifications provided by the petitioner and keeping in view the benefits of digital data and reduction in paper usage, the Authority allows the project in principle with the direction to highlight expected savings in its future revenue petitions achieved due to this project.***

xi. **Performance Management System:**

5.7.29 The petitioner has projected Rs. 100 million for implementation of a software-based performance management system. It has been submitted that petitioner's IT/MIS department had configured the Digital Performance Appraisal System, which has been in use on trial basis. Appraisals of Executives of 15 departments have been conducted across the Company successfully.

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5.7.30 It has been submitted that implementation of the performance management system will help in reduced paper consumption and a lower carbon footprint. Further, processing of appraisal manually will be no longer required and it will save the printing and dispatch cost of KPI and Appraisals. It will also provide faster access to information, streamlined workflows, real-time collaboration, and reduced errors. It will help in timely completion of KPIs and Appraisals alongwith improved data security, regulatory compliance, and faster turnaround times. Also, digital data will be available to HR department for analysis.

5.7.31 In view thereof, HR department has requested full scale implementation of performance management system. Moreover, HRR & NC has given directions in its 171st meeting held on 13.06.2023 that Management is to ensure that the Annual Performance Appraisal for 22/23 be carried out for all the executives by using the performance appraisal system throughout the Company without further delay. In order to ensure implementation and rollout across the company, IT/MIS need to acquire licenses for all the Executives.

5.7.32 Breakdown of total budget requirement of Rs. 100 million approximately has also been provided;

Table 13: Breakdown of budget proposed for Performance Management System

Sr. No.	Description	Onetime Cost (in millions)	Recurring Cost (in millions)
1	Oracle Self Service HR module Licenses for 1500 users including 1-year support	25	15
2	Oracle Performance Management System for 1500 users including 1-year support	60	
3	Professional Services & Training	15	
	Total	**100**	**15**

5.7.33 ***The Authority keeping in view the justifications provided by the petitioner allows the project in principle.***

xii. **Customer Care & Billing (CC&B) Upgradation:**

5.7.34 The petitioner has projected Rs. 525 million for upgradation of Customer Care & Billing (CC&B) system. It has been submitted that the petitioner is using Oracles' CC&B system version 2.6 since 2018. The system is being used to bill more than 7 million Consumers, Various Departments such as BD, Distribution, Billing, UFG, Customer Services, Metering and Accounts, etc. are using this system for their day-to-day operations. CC&B system has contributed significantly towards timely decision making and facilitated in UFG reduction. The system has improved customer services and brought in transparency and accuracy by providing several MIS reports. It has considerably improved the system's accuracy, bill delivery, revenue realization. Process visibility across the board while ensuring customer satisfaction and employees productivity.

5.7.35 Oracle has released a few newer versions over the years with latest being CC&B version 2.9. Oracle has published end of Support for CC&B version 2.6 and Oracle will no longer release patches and Updates for the version used by the petitioner. New release will bring significant enhancements and some of the benefits are listed below:

- Significant improvement in performance of Billing batch Jobs
- Improve the business process efficiencies by new features
- Enhance the IT support Services
- Manage the rapid business changing requirements
- Improve interoperability with surrounding systems
- More user-friendly framework
- Adhere to the latest industry data security standards

5.7.36 As customer care and Billing System is critical for the petitioner, it has been requested that the system needs to be upgraded to a supported version. It has been apprised that the original Cost of

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CC&B was done on propriety basis by Oracle and the cost was approximately USD 1.6 Million and this Upgrade is estimated at Rs. 525 million.

5.7.37 ***Keeping in view the importance of CC&B and the justifications provided by the petitioner, the Authority allows Rs. 300 million under the head.***

5.7.38 The details of additions in plant, machinery & equipment and other assets allowed by the Authority are tabulated below;

Table 14: Summary of Asset Addition Claimed vs Determined under Plant, Machinery& Others

DETAILS OF PLANT, MACHINERY, EQUIPMENT AND OTHER ASSETS (Rs. In Millions)																									
No.	Description	Petition												Determined											
		Distribution			Transmission			Sales			Total			Distribution			Transmission			Sales			Total		
		Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total
1	Telecommunication Equipment	–	–	–	110	–	110	–	–	–	110	–	110	–	–	–	55	–	55	–	–	–	55	–	55
2	Plant & Machinery	1035	–	1035	767	–	767	118	–	118	1920	–	1920	517	–	517	384	–	384	59	–	59	960	–	960
3	Tools & Equipment	42	–	42	3	–	3	–	–	–	45	–	45	42	–	42	3	–	3	–	–	–	45	–	45
4	Construction Equipment	1097	–	1097	70	–	70	–	–	–	1168	–	1168	549	–	549	35	–	35	–	–	–	584	–	584
5	Motor Vehicles	500	–	500	–	–	–	–	–	–	500	–	500	500	–	500	–	–	–	–	–	–	500	–	500
6	Furniture & Fixture	22	–	22	24	–	24	5	–	5	50	–	50	22	–	22	24	–	24	5	–	5	50	–	50
7	Office Equipment	57	–	57	–	–	–	5	–	5	62	–	62	57	–	57	–	–	–	5	–	5	62	–	62
8	Computer Hardware	53	–	53	–	–	–	1015	–	1015	1068	–	1068	–	–	–	–	–	–	282	–	282	282	–	282
9	Computer System Software / Intangible Assets)	138	–	138	–	–	–	708	–	708	845	–	845	11	–	11	–	–	–	435	–	435	446	–	446
	Total	2943	–	2943	974	–	974	1851	–	1851	5768	–	5768	1698	–	1698	500	–	500	786	–	786	2985	–	2985

5.8. Summary of asset additions allowed by the Authority is as under;

Table 15: Summary of Asset Addition Claimed vs Determined by the Authority:

Asset Additions Claimed vs Determined ERR FY 2024-25 (Rs. in Million)							
Sr. No.	Particulars	Petition			Determined		
		Total			Total		
		Normal	RLNG	Total	Normal	RLNG	Total
1	Land freehold	—	—	—	—	—	—
2	Building on Freehold land	300	—	300	165	—	165
3	Transmission Mains	2565	—	2565	804	—	804
4	Compression	631	—	631	64	—	64
5	Distribution Mains	32630	2814	35444	6422	2814	9236
6	Measuring and Regulating	11425	621	12046	3450	621	4071
	Sub Total	**47551**	**3435**	**50986**	**10905**	**3435**	**14340**
7	Telecommunication Equipment	110	—	110	55	—	55
8	Plant & Machinery	1920	—	1920	960	—	960
9	Tools & Equipment	45	—	45	45	—	45
10	Construction Equipment	1168	—	1168	584	—	584
11	Motor Vehicles	500	—	500	500	—	500
12	Furniture & Fixture	50	—	50	50	—	50
13	Office Equipment	62	—	62	62	—	62
14	Computer Hardware	1068	—	1068	282	—	282
15	Computer System Software / Intangible Assets	845	—	845	446	—	446
	Sub Total	**5768**	—	**5768**	**2985**	—	**2985**
	Grand Total	**53319**	**3435**	**56754**	**13889**	**3435**	**17324**

5.9. Revalidation of Carry Forward Budgets:

5.9.1 The petitioner has submitted following budget to the Authority for revalidation during the said year;

Table 16: Summary of Budget brought for Revalidation

Sr. No.	Description	Amount (Rs. Million)
1	Special Projects	44,348
2.	Distribution Development	36,032
3.	Regular Capital Expenditure	2,635
	Total	83,015

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5.9.2 The petitioner has stated in compliance with the direction of the Authority, the above budget is being submitted to the Authority for revalidation in FY 2024-25, details of which have also been provided. It has been submitted that the figures are estimated and have been prepared by accounting for the capitalization actualized upto FY 2022-23 and capitalization projected for FY 2023-24 based on targets as well as physical progress communicated by different executing departments. Owing to this reason, the provided figures may vary upon actualization of capitalization after financial closure of FY 2023-24.

5.9.3 The petitioner has detailed various reason for delay in execution of the projects, which inter-alia include non-availability of requisite material, delay in grant of NOC's from various Government departments and procurement times etc.

5.9.4 It has been submitted that budgets submitted for revalidation have already been sanctioned for execution of the works, but owing to multiple issues involved, as stated above, the projects could not be completed within the year of sanctioning and the same have been requested to be rolled over as per norm. It has been submitted that all the projects/ amount brought for revalidation is expected to be commissioned till June, 2025.

5.9.5 The Authority is of the opinion that capitalization of Rs. 83,015 million till June, 2025 seems highly ambitious and may not be achievable. ***In view thereof, and in the light of earlier decisions of the Authority in the matter, the Authority is of the view that the actualized amount shall be analyzed and considered at the time of respective FRR petition, provided the same is within estimated amount. Moreover, the company is strongly advised to project realistic targets based on petitioner's capacity only, at the stage of ERR.***

5.9.6 ***Further, it is observed that the revalidation amount in respect of Distribution Development includes Rs. 18,311 million for Laying in New Towns & Villages for which the petitioner is directed to complete the same from the available funds under PSDP.***

5.10. Depreciation and ROA

5.10.1 Keeping in view of above, the Authority decides to allow depreciation Rs. 22,701 million for the said year. Consequently, ROA is also computed Rs. 28,049 million based on net average operating assets for the said year in the light of decision made in preceding paras.

5.10.2 Regarding LPG air mix subsidy of Rs. 535 million as claimed by the petitioner, the Authority notes that the petitioner has projected operating costs on higher side. In the light thereof, the Authority decides to allow 50% (i.e. Rs. 55 million) operating costs and determines subsidy on account of air-mix LPG project at Rs. 451 million for the said year.

6. Operating Revenues

i. Sales Volume

6.1. The petitioner has projected sale volume for the said year at 397,474 BBTU, including estimated diversion of 80,155 BBTU RLNG volumes, thereby projecting an increase by 12% in the sales volume over RERR FY 2023-24. Category-wise comparison with previous years has been provided as under:

Table 17: Comparison of Projected Gas Sales Volume with Previous Years

BBTU

Category	FY 2021-22	FY 2022-23		FY 2023-24	FY 2024-25	Incr/Decr over RERR	
	FRR	RERR	Actual	RERR	The Petition		
Gen. industry (Captive)	24,094	9,456	4,175	11,485	42,177	30,692	267%
Gen. Industry (Process)	8,957	20,935	23,935	9,673	22,180	12,507	129%
Commercial	11,235	14,782	8,949	6,438	11,090	4,652	72%
Fertiizer (Fuel & Feed)	29,361	33,428	35,580	38,018	56,660	18,642	49%
Sp. Commercial	3,087	2,912	3,301	3,193	3,454	261	8%
Domestic	204,039	167,454	208,394	222,825	206,982	(15,843)	-7%
Bulk Domestic	12,703	13,540	12,201	13,170	12,726	(444)	-3%
CNG	18,408	14,450	23,026	16,449	15,852	(597)	-4%
Power including IPPs	20,931	33,362	25,260	31,364	26,053	(5,311)	-17%
Cement	63	6	63	1,213	302	(912)	-75%
Grand Total	332,876	310,325	344,884	353,829	397,474	43,645	12%

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6.2. The petitioner has submitted that gas sales volumes to all categories of consumers have been envisaged for the said year, based on gas load management plan issued by FG. Moreover, projections against most of the consumers have been kept at the level of latest actuals available for FY 2022-23.

6.3. Regarding gigantic increase of 129% and 267% under the General Industry of Process and Captive respectively over RERR FY 2023-24, the petitioner has informed that during December, 2022 to March, 2023, industry was supplied 100% RLNG, whereas in rest of the months, blended supply of 50:50 was provided to export oriented sector only in Punjab. Furthermore, blended supply in the ratio of 50:50 has been projected for whole Industry, as the same was being dispensed at the time of submission of instant petition. Accordingly, the petitioner while anticipating economic revival in the country and change in blending mix, total consumption has been assumed as 64,357 BBTU during said year, as compared to actual consumption of 28,110 BBTU in FY 2022-23. The petitioner has emphasized that in case of non-provision of blended supply to industrial sector or blended supply with lesser ratio of system gas shall make natural gas a costly fuel and consumer may switch to alternate fuel. Resultantly, reduced industrial consumption of RLNG shall be a challenge in presence of firm take or pay upstream G2G RLNG purchase agreement of 1,000 MMCFD. The situation becomes even worse when highest RLNG consuming sector i.e. power do not consume gas as per their intimated demand which result in to increase of diversion as well as the saturation of system pack which will leads to financial implications of Demurrage etc.

6.4. Regarding increase of commercial category i.e. 72% over RERR FY 2023-24, the petitioner has informed that projections have been made on sectoral load of 41 MMCFD, as sector has been touching the said level. However, decreased projections during FY 2023-24 was projected based on GoP guidelines to shift the commercial sector in Punjab to RLNG, which did not materialize later on.

6.5. The petitioner has informed that 49% increase in fertilizer sector has been projected mainly due to 26,179 BBTU of system gas supply to M/s Agritech and M/s Fatimafert in the light of ECC decision. The petitioner has submitted that RLNG is being supplied to these plants on subsidized rate.

6.6. The Authority notes that the petitioner has been supplying RLNG to both these fertilizer plants during FY 2023-24 at the subsidized rate as fixed by FG. The Authority further notes that despite various requests, the petitioner has not yet been able to provide any evidence of gas allocation by FG for the said year, even it has no valid GSA signed due to reluctance of fertilizer plants w.r.t difference of opinion on applicable tariff. ***In the light thereof, the Authority decides to pend the inclusion of these volumes from the calculation of revenue requirement till the provision of desired information from the petitioner and directs the petitioner to take up the matter with FG for gas allocation including tariff issues and submit the same at the time of RERR, if required, for the said year.*** The Authority is of the considered view that any shortfall / surplus arising from the activities of system gas or RLNG, be charged to the respective business segment under the applicable tariff and be recovered from the relevant segment of consumers in all fairness.

6.7. Regarding 17% decrease in power sector over RERR FY 2023-24, the petitioner has submitted that the projection of indigenous gas is based on contractual loads of dedicated supplies to power plants and hence have been kept at the level of FY 2022-23.

6.8. Regarding 75% decline over RERR FY 2023-24 in cement sector, the petitioner has submitted that volume shown in cement sector are the volumes which are available after meeting system gas requirement of all other sectors. These volumes shall be offered to cement plants situated in KPK for their captive power requirement. In case, cement sector does not utilize this volume, there is every possibility of these nominal volumes in other system gas consuming sectors like domestic, commercial, CNG & industry in KPK. The petitioner has explained that sale to cement sector has only been projected during two summer months of May & June, 2025, where the surplus system gas is available.

6.9. Regarding decrease of 7% in domestic sector over RERR FY 2023-24, the petitioner has submitted that total projections including RLNG have been made at the level of actuals of FY 2022-23. The petitioner has further submitted that total average consumption during FY 2023-24 has been reduced due to the increased tariff, usage of alternate fuels and moratorium on system gas connections. Regarding increased RLNG diversion to domestic consumers, the petitioner has argued that owing to reduced take or pay with power sector from 66% to 33%, the company left with no option to divert more RLNG molecules to domestic so as to handle demurrage charges on international contracts as well as saturation of system pack. The petitioner has further informed that increase in RLNG diversion

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to domestic sector is mainly due to the shifting of RLNG based fertilizer plants i.e. Fatimafert & Agritech Ltd. to system gas. These plants were earlier supplied RLNG. Accordingly, around 80,155 BBTU of RLNG molecules have been projected to be delivered to domestic consumers during the said year.

6.10. The Authority is cognizant of the company's operational issues, G to G commitments, system constraints and the prevalent domestic demand after moratorium of ban on domestic gas connections and gradual increase in gas tariff by the FG. Moreover, reduced offtakes from power sector consumers have disrupted the entire RLNG supply management, resulting in more diversion to domestic consumers, as consistently been argued by the petitioner. The Authority is of the considered view that long-term policy in terms of sectoral demands and its contribution to GDP and other economics needs to be reviewed holistically by Ministry of Energy, considering G to G international contractual obligations, blending proportion as contested by industrial consumers and the diversion impact on rest of the sector in case of reduced offtakes by RLNG dedicated consumers. ***Accordingly, matter of extensive review of entire supply chain of system gas as well as RLNG including sectoral priorities & allocation is referred to Ministry of Energy, being the policy maker, where both divisions i.e. power and petroleum coordinate with concerned Ministries for better estimations of demand supply.***

6.11. ***In view of the decision made per para 6.6, the Authority decides to allow RLNG diversion at 53,976 BBTU and determines sales volume against domestic consumers at 206,982 BBTU.*** The Authority, considering the operational constraints including system line pack, further directs the petitioner to take up the matter with relevant Ministries/NTDC/CPPA for better forecasting, thereby importing RLNG volumes close to actual demand while rationalizing the Annual Delivery Plans and to this effect necessary amendment in GSAs may also be made. The Authority also directs the petitioner to divert the system gas to RLNG Power Plants when there is comparatively higher demand (in summer) to save overburdening on the indigenous gas consumer.

6.12. ***In view of the above, gas sale volumes are re-computed at 371,296 BBTU for the said year as tabulated below:***

Table 18: Projected Gas Sales Volumes As Allowed

Category	BBTU	
	FY 2024-25	
	The Petition	Allowed
Gen. Industry (Captive)	42,177	42,177
Gen. Industry (Process)	22,180	22,180
Commercial	11,090	11,090
Fertiizer (Fuel & Feed)	56,660	30,481
Sp. Commercial	3,454	3,454
Domestic	206,982	206,982
Bulk Domestic	12,726	12,726
CNG	15,852	15,852
Power including IPPs	26,053	26,053
Cement	302	302
Grand Total	397,474	371,296

ii. Sales Revenue at Existing Prescribed Prices

6.13. The petitioner has projected revenue at Rs. 715,734 million as against Rs. 434,724 million allowed per RERR FY 2023-24, thereby projecting an increase by 65% in the sales revenue for the said year. Category-wise comparison of sales revenue is given below:

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Table 19: Comparison of Projected Sales Revenue with Previous Years

Rs. in Million

Category	FY 2021-22	FY 2022-23		FY 2023-24	FY 2024-25	Incr/Decr over RERR	
	FRR	RERR	Actual	RERR	Petition		
Gen. Industry (Captive)	20,679	11,207	4,558	20,275	115,986	95,711	472%
Fertilizer (Fuel & Feed)	5,746	10,164	14,770	16,942	90,486	73,544	434%
Gen. Industry (Process)	9,396	24,912	23,950	16,621	47,685	31,064	187%
Commercial	16,889	21,085	15,464	22,059	45,633	23,574	107%
Domestic	63,603	56,838	88,702	227,095	265,646	38,551	17%
Bulk Domestic	10,055	10,643	14,616	24,120	36,905	12,785	53%
CNG	25,237	19,810	35,988	45,878	59,446	13,568	30%
Power including IPPs	23,027	32,258	37,870	57,420	52,620	(4,800)	-8%
Cement	82	8	87	4,315	1,327	(2,988)	-69%
Grand Total:	174,714	186,924	236,006	434,724	715,734	281,009	65%

6.14. ***In view of the decision made per para 6.12, the Authority re-calculates gas sales revenues at Rs. 673,927 million, as tabulated below:***

Table 20: Projected Sales Revenues As Allowed

(Rs. in million)

Category	FY 2024-25	
	Petition	Allowed
Gen. Industry (Captive)	115,986	115,986
Fertilizer (Fuel & Feed)	90,486	48,678
Gen. Industry (Process)	47,685	47,685
Commercial	45,633	45,633
Domestic	265,646	265,646
Bulk Domestic	36,905	36,905
CNG	59,446	59,446
Power including IPPs	52,620	52,620
Cement	1,327	1,327
Grand Total:	715,734	673,927

iii. Other Operating Income

6.15. The petitioner has projected "other operating income" at Rs. 17,950 million during the said year as against Rs. 17,929 million per RERR for FY 2023-24, showing minimal increase of 0.11% for the said year. Comparison of projected other operating income with previous years is given below:

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

Rs. in Million

Description	FY 2021-22	FY 2022-23		FY 2023-24	FY 2024-25	Incr/(Decr) over RERR	
	FRR	RERR	Actual	RERR	The Petition		
Meter rental and service charges	4,116	4,320	4,124	4,416	4,101	(315)	-7%
Late payment surcharge and interest on arrears	4,795	7,549	6,998	7,549	7,387	(162)	-2%
Amorization of deffered credit	1,753	3,089	1,944	3,154	3,194	40	1%
Transportation income	818	760	526	760	1,217	457	60%
Other operating income	1,196	2,050	451	2,050	2,050	-	0%
Net Operating Revenues	12,678	17,768	14,043	17,929	17,950	21	0.11%

6.16. The petitioner has stated that meter rental & service charges amounting to Rs. 4,101 million has been projected at the level of actuals for FY 2022-23 owing to moratorium on new gas connections. The petitioner has submitted that it had projected high revenues at the time of RERR FY 2023-24 based on the contention that FG may remove the ban on connections. Regarding LPS income, it has been projected at Rs. 7,387 million, based on actual income for FY 2022-23. In respect of

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transportation income, the petitioner stated that it has been projected based on capacity allocation at the charges decided in latest determination by OGRA. Other operating income has been projected at the level of RERR FY 2023-24.

6.17. ***In view of the above, the Authority, considering the justifications advanced by the petitioner, accepts the other operating incomes at Rs. 17,950 million for the said year.***

6.18. ***Keeping in view the above, total operating revenues are allowed at Rs. 691,877 million for the said year.***

7. Operating Expenses

i. Cost of Gas Sold

7.1 The petitioner has projected aggregate cost of gas at Rs. 702,411 million, comprising of local gas cost and RLNG purchases as part of Revenue Requirement for the said year. The claim is tabulated below:

Table 22: Breakup of Cost of Gas Per the Petition

Particulars	Volume in MMBTU	Rs. in million	Rs./MMBTU
Cost of Indigneous Gas	317,319	404,498	1,274.74
Cost of RLNG to be diverted to indigneous gas consumers	80,155	297,913	3,716.71
Total Cost of Gas as claimed by the Petitioner	397,474	702,411	1,767.19

7.2 The petitioner has claimed indigenous cost of gas, calculated on the basis of following assumptions/parameters as tabulated below:

Table 23: Assumptions for the Petitioner's WACOG

Applicable for Wellhead Gas Price	Average oil price for the period	Average C&F price		Exchange Rate
		Crude Oil	HSFO	
		US$/BBL	US$/M.TON	Rs. / US$
July to December, 2024	December 2023 to May 2024	80.00	374.50	300.00
January to June, 2025	June 2024 to November, 2024	85.00	397.90	310.00
Average		82.50	386.20	305.00

7.3 The well-head gas prices on the basis of which, cost of gas is determined are indexed to the international prices of crude oil or HSFO per GPAs between the GoP and the producers and are notified semi-annually, effective on 1st July and 1st January. 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 estimated well-head gas prices for the period July to December, and similarly estimated oil prices during the immediately preceding period of June to November are used to calculate the projected well-head gas prices for the period January to June.

7.4 The Authority has reworked the parameters for computation of average cost of gas for the said year based on latest trend observed in the average prices of HSFO and Crude. Wellhead gas prices effective July to December, 2024 have been calculated on the basis of actual average prices of HSFO and Crude during the period December 01, 2023 to April 30, 2024. The same has been adopted for next six months i.e. January-June-2025, based on international price estimation. However, any adjustment based on actual international prices shall be reviewed / considered at the time of RERR for the said year. Regarding Rupee Dollar parity, the Authority observes that the Pakistani Rupee is currently showing stable trend owing to improved economic indicators. Therefore, keeping in view the trend of international oil prices and prevalent US$ currency exchange rate, revised parameters for computation of cost of gas at the petitioner system are as below:

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Table 24: Revised Parameters for WACOG

Applicable for Wellhead Gas Price	Average oil price for the period	Average C&F price		Exchange Rate
		Crude Oil	HSFO	
		US$/BBL	US$/M.TON	Rs. / US$
July to December, 2024	December 2023 to May 2024	84.7157	447.4244	278.00
January to June, 2025	June 2024 to November, 2024	84.2581	443.9882	280.00
Average		84.4869	445.7063	279.00

7.5 ***In view of the above, the Authority re-calculates system gas at Rs. 373,524 million for the said year.***

7.6 The petitioner is, however, directed to submit a review petition to the Authority, for review of its estimated revenue requirements as required under Section 8(2) of the Ordinance, keeping in view the actual and anticipated changes in international prices of crude and HSFO and the trend of Rupee-Dollar exchange rate at instant determination's volume in respect of sales & purchases.

7.7 Regarding cost of RLNG diverted volume 80,155 BBTU, the petitioner has projected its cost at Rs. 297,913 million under cost of gas sold. ***The Authority, per the decision made in para 6.11, decides to re-compute RLNG cost at Rs. 183,546 million (at Rs. 279/Dollar against 53,976 BBTU) for the said year.***

7.8 ***In view of the above, the Authority decides to allow total cost of gas at Rs. 557,070 million (Rs. 1,430.00/MMCF) for the said year.***

ii. Unaccounted for Gas (UFG):

7.9 The petitioner has projected and requested UFG at 7.25% (26,633 MMCF) for the said year. The relevant components of UFG are discussed under following subhead:

A. Gas Internally Consumed (GIC) Indigenous System:

7.10 The petitioner has claimed GIC for the said year as per following detail;

Table 25: Breakdown of GIC Claim

Gas Internally Consumed					
Particulars	MMCF	GCV	MMBTU	Avg. Cost Price	Million Rs.
Transmission System					
Compressors	1,830	938	1,717,408	1182	2,029.00
Coating Plant	124	938	116,761	1182	138
Residential Colonies	84	938	79,074	1182	93
Sub Total	2,039		1,913,243		2,261.00
Distribution System					
Free Gas Facility	425	938	398,906	1182	471
Co-Generation	108	938	100,920	1182	119
Sub Total	533		499,827		591
GIC Indigenous	2,572		2,413,070		2,851.00
				GIC as per Petition	2,029.00

7.11 The petitioner has allocated 124 MMCF on account of 'Coating plant', 84 MMCF for 'Residential Colonies' and 425 MMCF from 'Free gas facilities' to the capitalization for the said year. The Authority in respect of compression and based on the historical trend calculates GIC for indigenous system at 1,186 MMCF against claimed volume of 1,830 MMCF which is subject to actualization at the time of respective FRR. ***In view of the computation as per above table, the Authority allows GIC against compression at Rs. 1,696 million (Rs. 1,430.00 /MMCF) for the said year. The gas consumed on account of free gas facility, residential colonies, co-generation and coating plant has to be booked under the relevant head i.e., HR cost & fuel and power.***

B. Gas Internally Consumed (GIC) RLNG System:

7.12 The petitioner in respect of RLNG system has included 1,594 MMCF as GIC at SSGC system to compute the net RLNG received in Transmission system of the petitioner. The petitioner submitted that RLNG is received at FSRU and enters into petitioner system after passing through the SSGC system, accordingly GIC @ 0.5% for SSGC system has been assumed to compute the net gas received

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in Transmission system of the petitioner. The Authority based on the trend of GIC as compared with volume of gas received at SNGPL allows GIC @ 0.42% i.e., 1,332 MMCF.

7.13 The Authority in respect of compression on petitioner's network, based on the historical trend calculates GIC at 2,847 MMCF against claimed volume of 3,172 MMCF in case of RLNG system which is subject to actualization at the time of respective FRR.

C. RLNG Retained by SSGCL for K-Electric:

7.14 The petitioner has also projected 27,375 MMCF @ 75 MMCFD on account of volume to be retained by SSGC for its sale to K-Electric in FY 2024-25. The petitioner added that volume being retained by SSGC is as per advice of GOP enabling K-electric to produce electricity to mitigate the electricity load shedding in Karachi. Keeping in view the operational requirement and justification provided by the petitioner, the same is being allowed on provisional basis subject to actualization at the time of FRR.

D. RLNG Diversion Volume:

7.15 The petitioner has projected a volume of 76,338 MMCF RLNG to be diverted to indigenous gas consumers. The same has been accounted in RLNG section of the UFG sheet by the petitioner. However, the Authority is of the view that after the decision of the ECC of the Cabinet in its meeting held on 23-10-2023 vide Case No. ECC-319/41/2013 dated 23-10-2023 ratified by the Federal Cabinet vide Case No. 182/31/2023 dated 30-10-2023 wherein, it has been decided that the petitioner would be allowed the diversion cost in its Revenue Requirement, the diversion volume is to be treated as another wellhead for the system gas. In view thereof, the diversion volume is accounted for in the indigenous gas section of the UFG sheet alongwith other consequential changes. ***However, the Authority considers only 65% volume to be diverted, based on previous years trend and advises the petitioner to provide due justification for diverted volume to domestic consumers in line with policy guidelines at the time of FRR.***

7.16 Moreover, the company is advised to also take up the matter of RLNG diversion with MoE/ FG, being a policy issue, for better forecasting and minimal effect on indigenous consumers.

E. UFG Benchmark:

7.17 The Authority observes that at the time of DERR of FY 2022-23, the UFG benchmark was implemented for five (05) years with effect from FY 2017-18, based on the study conducted by M/s KPMG Taseer Hadi & Co. Chartered Accountants (KPMG) during 2016-17. The Authority was of the view that, in respect of law & order affected areas that are prone to theft, leakages, data / meter errors, non-recovery of gas bills etc., the petitioner claimed to have made significant progress in carrying out the system rehabilitation works, which had been contributing significantly in UFG of the company due to which the ground realities in respect of uncontrollable factors are encouraging and situation is comparatively favorable and supportive for the petitioner.

7.18 Further, as the natural gas market proceeded towards liberalization and thereby made headway for segregation of regulated activities of transmission, distribution and sales. Accordingly, the Authority provisionally applied separate UFG benchmarks for transmission and distribution system at 0.36 % & 6.25 % respectively in FY 2022-23 onwards, subject to certain conditions. ***The Authority decides to continue the same benchmark provisionally for the said year till the time it may be modified by the Authority on the basis of a fresh UFG study on benchmark for the petitioner. However, the Authority directs that the activities performed by the petitioner under KMIs shall continue to achieve progressive reduction in UFG.***

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Table 26: UFG Sheet

UFG CALCULATION SHEET					
		ERR FY 2024-25			
		As per petition		As Calculated	
Gas Purchases		Indigenous gas (UFG)	RLNG to be Supplied to Transmission and Distribution consumers	Indigenous gas (UFG)	RLNG to be Supplied to Transmission and Distribution consumers
Transmission System					
(Gas Received) in Transmission Indigenous	A	367,358		367,358	
RLNG received at FSRU	B		348,756		348,756
Retainage	C		(2,616)		(2,616)
Retained by SSGC	D		(27,375)		(27,375)
GIC at SSGC System	E		(1,594)		(1,332)
Net Gas Received in Trans. System of SNGPL	F=A+B+C+D+E	**367,358**	**317,172**	**367,358**	**317,433**
Gas used in operation of Tran. Sys	G	(2,039)	(3,172)	(1,395)	(2,847)
(i) Compression		(1,830)	(3,172)	(1,186)	(2,847)
(ii) Residential Colonies		(84)	-	(84)	-
(ii) Coating Plant		(124)	-	(124)	-
Gas Available in Transmission System	H=F+G	365,319	314,000	365,963	314,586
Gas sale on Transmission System (PFC)	I	99,388	174,004	99,388	174,004
Gas passed to Distribution system through SMS	J	264,609	138,854	264,609	138,854
Loss in Tansmission System	K=H-I-J	1,322	1,142	1,967	1,728
% Loss or Gain in Transmission Sytem	L=K/F*100	0.36%	0.36%	0.54%	0.54%
UFG Allowed (%)				0.36%	
Allowed UFG Volume (MMCF)				1322.49	
Invalid Claim (MMCF)				644.17	
Distribution System					
Gas Received in Dist. System (Through SMS)	J	264,609	138,854	264,609	138,854
Diversion Volume	Div			50,058	(50,058)
Total Volume Received in Distribution System	TDist	264,609	138,854	314,667	88,796
Gas internally consumed in Distribution System (GIC)	M	(533)	-	(533)	-
(i) Free Gas Facility		(425)	-	(425)	-
(ii) Co-Generation		(108)	-	(108)	-
(Gas available for Sale in Dist. Sytem)	N=J+M	**264,076**	138,854	**314,134**	88,796
Gas Sold					
Gas Delivered (Net Gas Sold)	O	238,765	127,436	288,823	81,863
Loss in Distribution System	P=N-O	25,311	11,418	25,311	6,933
%age Loss in Distribution Sytem	Q=P/TDist*100	9.57%	8.22%	8.04%	7.81%
Allowed UFG (%)				6.25%	
Allowed UFG (MMCF)				19666.67	
Invalid Claim (MMCF)				5644.29	
Total UFG Volume (Transmission + Distribution)	R=P+K	26,633	12,560	27,278	8,661
Total Volume Available in System	S=F+Div	367,358	317,172	417,416	267,375
Total % age UFG (Transmission + Distribution)	T=R/S*1000	7.25%	3.96%	6.53%	3.24%
Total Allowed UFG (MMCF)				20989.15	
Total Invalid Claim (MMCF)				6288.46	

7.19 ***In view of the computation as per above table, the Authority allows UFG adjustment at Rs. 8,992 million (Rs. 1,430.00 /MCF at respective average cost of gas) for the said year.***

8. Transmission and Distribution Cost (T&D)

8.1 The petitioner has claimed Rs. 56,509 million against T&D cost for the said year. The petitioner has allocated T&D cost to natural gas segments at Rs. 33,965 million and RLNG segment at Rs. 22,653 million based on proportionate sales volume projected for the said year. Moreover, the petitioner apportioned/allocated Rs. 110 million T&D cost to LPG air-mix project for FY 2024-25 being separate business segment. Comparison of T&D with previous years is placed as under:

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Table 27: Comparison of Projected T & D Cost with Previous Years

Rs. in million

Sr. #	Description	RERR FY 2023-24	Transmission	Distribution	Selling	The Petition FY 2024-25	Diff	%age
1	Net HR Cost	23,100	9,133	16,791	8,847	34,771	11,671	51%
2	Stores, Spares and Supplies Consumed	1,056	837	761	39	1,637	581	55%
4	Repairs & Maintenance	1,486	424	1,627	272	2,323	837	56%
5	Fuel & Power	643	503	544	-	1,047	404	63%
6	Stationery, Telegram and Postage	324	30	63	258	350	26	8%
7	Dispatch of gas bills	370	-	-	400	400	30	8%
8	Rent, Rates, Electricity and Taxes	769	431	528	331	1,290	521	68%
9	Travelling	190	76	67	57	200	10	5%
10	Transport	1,387	629	1,491	381	2,500	1,113	80%
11	Insurance	300	95	145	76	315	15	5%
12	Legal and professional charges	210	124	193	99	416	206	98%
13	Consultancy for ISO 14001: 2004 & OHSAS 18000: 1999	13	4	6	3	14	1	8%
14	Provision for doubtful debts	972			1,000	1,000	28	3%
15	Gas Bills Collection Charges	660			650	650	(10)	-2%
16	Gathering charges on Bills Collection data	65			60	60	(5)	-8%
17	OGRA Fee	460			639	639	179	39%
18	Advertisement	239	15	23	228	265	26	11%
19	Security expenses	2,249	2,822	337	176	3,335	1,086	48%
20	UFG Control Activities	934		1,949		1,949	1,015	109%
21	Bank charges	12	3	5	2	10	(2)	-17%
22	Protective supplies/ Clothing	92	13	112	10	135	43	47%
23	Staff training	25	21	32	17	70	45	179%
24	Recruitment expenses	-	8	12	6	25	25	
26	Sponsorship of chairs at Universities	-	2	4	2	8	8	
28	Outsourcing of Call Centre for Complaints Management	33			44	44	11	33%
29	Recovery through contractors - (Disconnected Consumers)	-			80	80	80	
30	Sports Related expenses	68	100	153	80	333	265	390%
31	Corporate Social Responsibility	10	6	9	5	20	10	100%
32	Facilities Provided by other companies	24	8	12	6	25	1	4%
35	Board meetings & directors' expenses	71	21	33	17	71	-	0%
36	Stores and Spares written off	-				-	-	
37	BANNU WEST WELL-1 AND WALI WELL-1	-	2,654			2,654	2,654	
38	Quality Assurance Program	-	36	64		100	100	
39	Expenses on uplifting of lines	-				-	-	
40	Construction equipment operating cost	193	98	295	7	400	207	107%
41	Others	75	19	43	18	80	5	7%
42	Total Operating expenses before CWIP	36,030	18,111	25,297	13,809	57,218	21,188	59%
	Less: Allocated to Fixed Capital expenditure	(500)				(600)	(100)	
	Allocation to Gilgit Air Plant Mix					(110)	(110)	
	TOTAL OPERATING COST					56,508		
	Allocation T&D Cost-RLNG					(22,653)		
	Total T&D cost Indigenous					33,965		

8.2 Various components of operating cost are discussed in the following paras:

i. Human Resource (HR) Cost

8.3 The petitioner has claimed net HR cost at Rs. 34,771 million including IAS-19 cost at Rs. 1,300 million for the said year as against Rs. 23,100 million allowed at RERR FY 2023-24 showing an increase of 51%. The petitioner has demanded provision for Rs. 4,295 million against pending CBA for the period 2023-25 as part of current year price. Breakup of HR cost demanded by the petitioner is placed below:

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Table 28: Breakup Projected T & D Cost with Previous Years

Rs. in million

Description	Based on Actual as demanded by FY 2022-23	RERR FY 2023-24	The Petition FY 2024-25	Inc/(dec) over FRR FY 2022-23	%age
Executives: Salaries & allowances	6,014		5,896	(118)	-2%
other perks and benefits	1,076		1,351	275	26%
Total Salaries	7,090	-	7,247	157	2%
Medical expenses	562	-	590	28	5%
Total Executive cost	**7,552**	-	**7,837**	285	4%
Subordinates: Wages & allowances				-	
Wages	16,879		16,902	23	0%
Badli/casual labour	1,582		2,463	881	56%
other perks and benefits	5,643		5,783	140	2%
Total Wages & allowances	**24,104**	-	**25,148**	1,044	4%
Medical & Welfare	1,278		1,600	322	25%
Total Subordinate cost	**24,795**	-	**25,580**	785	3%
Impact of CPI	-		1,000	1,000	
Impact of Vacancies			659	659	
CBA Agreement FY 2023-25			4,295	4,295	
IAS-19 cost	1,235		1,300		5%
Total Executive and Subordinate cost	**33,583**		**40,671**	7,088	21%
Allocation to CWIP	**(5,852)**		(5,900)	(48)	1%
Net HR Cost	**27,731**	**23,100**	**34,771**	7,040	25%

8.4 The petitioner has demanded major amount of Rs. 2,463 million against "Badli/casual labour" as against Rs. 1,582 million incurred during FY 2022-23, thereby claiming 56% increase. The petitioner stated that primary reason for increase is setting/fixation of "minimum wages by FG" for daily wages/badly which led to huge financial impact projected for the said year.

8.5 The petitioner has stated that it allows an average minimum 7% increase annually to its executives for annual performance increments; while subordinate staff is allowed 3.75% increase each year. Presently, the petitioner is short of required manpower by 4,316 employees (647 Executives & 3,669 Subordinates). This shortage will further increase over period of time due to retirement/ resignations. The petitioner has argued that the Authority has not allowed any additional cost for recruitment despite its repeated requests from past many years. The Authority has been again requested to allow additional HR cost for hiring of new staff to overcome shortage of manpower. The petitioner has provided detailed financial impact of Rs. 659 million required annually for hiring against vacancies (i.e. 242 Executive and 1196 Subordinate staff) to be fulfilled this year.

8.6 The petitioner added that measures has been taken for curtailment of cost on account of tea /coffee from executives through contribution. The petitioner has further stated that cost curtailment measures like monitoring of transport fleet with trackers contribution against Group Life Insurance (GLI) from employees, capping of maximum pay to executive have been taken. Moreover, introduction of punishment and reward policy is under active consideration of the management and the Board for approval. This will further strengthen the efforts against UFG losses and change of performance evaluation criteria, etc.

8.7 The Authority observes that the petitioner, during public hearing, denied the earlier observations of the Authority on HR Cost regarding pay-scale disparities, low salaries in initial grades, maximum increase in executive cadre and overall HR policies and benefits. The Authority hereby places it on record that the analysis, given in Authority's earlier determinations, more specifically in January 10, 2024 as part of the presentation given to petitioner's BOD, were supported by the actual data and information as given by the petitioner and its sister utility. The Authority has scrutinized the same in depth, conducted fundamental comparative analysis and applied management techniques to assess the rationality of petitioners' policies before reaching such conclusions. The Authority's analysis is supported by petitioner's own authentic and reliable figures and data, however, denial by the petitioner raises doubts on the information earlier provided by itself. The petitioner has always failed to tangibly prove the Authority's analysis wrong rather opted to raise unjustified arguments in a highly inappropriate manner during the course of public hearing. The Authority appreciates a professional discussion however such baseless abhorrent assertions cannot be tolerated and should be avoided.

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8.8 The Authority notes that the petitioner has inbuilt mechanism to allow minimum 7% annual performance increment to executives every year along with additional CPI impact. Since the above 7%-10% annual increase in Basic Salary entails to corresponding increase in allied allowances and perks, the same appears reasonable enough revision annually in Executive salaries. Keeping in view the above, separate demand for additional Rs. 1,000 million for executive CPI allowance is not fair and hence not tenable to be accepted. The Authority further notes that the petitioner has made inflated projection under Badli/Casual labour cost for the said year which needs to be rationalized, keeping in view the past trend. The Authority directs the petitioner to project sub-head cost of HR in fair and prudent manner for future.

8.9 The Authority notes with concern that huge amount was allowed in the past through the prevailing HR benchmark mechanism with clear directive of the Authority "to fulfill HR requirement first" to ensure smooth operations of NG and RLNG segments with adequate working staff. The Authority observes that besides catering for 9%-10% annual increase in HR cost through allowed benchmark funds, sufficient funds were available in the past for hiring new manpower to meet the operational needs; however, the petitioner did not spend cautiously and ignored its manpower requirement, indicating inefficient policies.

8.10 The Authority observes that matter of revision in HR benchmark formula has been finalized per RERR FY 2023-24 after detailed deliberation with both sui companies, taking into account the inflation as well as operational issues as faced by them. The Authority, however, notes that the CPI is currently showing downward trend in comparison to last year owing to improved economic indicators. The Authority observes that recent CPI published in the Federal Bureau of Statistics for the month of April, 2024 is 17%. Accordingly, based on recent indicators, CPI is adopted at 15% for the said year.

8.11 ***Accordingly, the Authority finds no valid reasons to review its HR benchmark formula parameters and allows HR cost at Rs. Rs. 24,108 million including IAS-19 Rs. 1,300 million. The petitioner is further directed to manage its operational and administrative matters including finalization of CBA on top priority.***

ii. **Repair & Maintenance Expenses**

8.12 The petitioner has projected Repair & Maintenance expenses for the said year at Rs. 2,324 million. The petitioner has attributed the increase mainly due to inflation and revision in minimum wage rate. The petitioner has explained that the amount projected is required for inter-alia recoating of transmission pipelines, Service Level Agreement (SLA) for mandatory annual maintenance of SCADA system, for repair and maintenance activities linked with end users i.e., leakage complaints, ruptures etc, and for various SLAs against data centres, digitization and pipeline integrity management etc. The Authority observes that the petitioner has been advancing similar justification since many years, however, year wise actualization does not commensurate with the projections made in respect of transmission, distribution and others (H.O. & service departments).

8.13 As per trend analysis and the justifications advanced by the petitioner, the Authority allows Rs. 15 million in respect of Compression, Rs. 51 million in respect of Transmission, Rs. 880 million in respect of Distribution and Rs. 740 million in respect of Others (incl H.O, Service depts, computer software & hardware repairs and maintenance).

8.14 ***In view of the above, the Authority determines the expenses under the head "Repair & Maintenance" at Rs. 1,686 million for the said year as tabulated below.***

				(Rs. In Million)
Description	**Actual FY 2022-23**	**DERR/ RERR FY 2023-24**	**Petition FY 2024-25**	**Allowed FY 2024-25**
Compression	16	14	22	15
Transmission	58	42	120	51
Distribution	806	818	1,090	880
Others (incl H.O. & service depts.)	778	612	1,092	740
Total	1,658	1,486	2,324	1,686

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iii. Stores, Spares and Supplies Consumed

8.15 The petitioner has claimed Rs. 1,637 million under the head "Stores, Spares & supplies consumed" as against Rs. 1,056 million allowed at RERR FY 2023-24, thereby projecting an increase of 55% for said year. Historical comparison is given below:

Table 29: Comparison of Projected Stores, Spares and Supplies Consumed with Previous Years

							(Rs. In million)	
	FY 2021-22	FY 2022-23		FY 2023-24		FY 2024-25	(Inc/Dec) over RERR 2023-24	
Particulars	FRR	RERR	Actual	RERR	Actual July to Dec 2023	The Petition		
Compression	107	253	200	220		340	120	55%
Transmission	199	220	255	300		460	160	53%
Distribution	351	320	558	449		718	269	60%
Others (incl H.O.)	(7)	5	14	7		18	11	157%
Freight & handling	35	82	50	80		101	21	26%
Total	686	880	1,077	1,056	706	1,637	581	55%

8.16 The petitioner has submitted that it is following average inventory method. Till FY 2021-22, the cost of stores & spares remains around Rs. 700 million owing to stock procured in prior years. However, the prices have increased by 100% in FY 2021-22 owing to surge in dollar price against Rupee. In FY 2022-23, old stocks available were at cheaper rates [avg prices], which have been consumed fully necessitating the replacement of spares of similar nature to uphold certain level of stocks for both operational needs and potential emergent situations. The petitioner stated that the Authority has approved a budget of Rs. 1,056 million for RERR FY 2023-24, which appears to be unrealistic, given that it is even lower than the actual expenses incurred during FY 2022-23.

8.17 The Authority observes that the petitioner has always been allowed reasonable increases under the above head, being critical and necessary for running smooth operations. However, the petitioner has been found ambitious while projecting expenses under this head. The Authority notes that 55% increase on account of stores and spares seems to be on higher side owing to limited activity envisaged for the said year. Moreover, the Authority observes that Rupee Dollar parity seems stable in the light of recent economic indicators.

8.18 ***In the light thereof, the Authority decides to allow Rs. 1,162 million under "stores, spares & supplies consumed" i.e. 10% over RERR for FY 2023-24 for the said year, subject to the actualization at year end as tabulated below:***

				Rs. in Million
	Transmission	Distribution	Selling	Total
Demanded	837	761	39	1,637
Allowed	594	540	28	1,162

iv. Rent, Rate, Electricity, and Taxes

8.19 The petitioner has claimed Rs. 1,290 million under the head "Rent, Rate, Electricity and Taxes" as against Rs. 768 million allowed in RERR FY 2023-24, thereby projecting 68% increase for the said year. Historical comparison is given below:

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Table 30: Comparison of Projected Rent, Rate, Electricity and Taxes with Previous Years

(Rs. In million)

Particulars	FY 2021-22	FY 2022-23		FY 2023-24		FY 2024-25	(Inc/Dec) over RERR 2023-24	
	FRR	RERR	Actual	RERR	Actual July to Dec 2023	The Petition		
Rent	316	330	330	356		411	55	15%
Royalty/ Internet services	43	52	50	55		94	39	71%
Telephone	31	46	36	51		50	(1)	-2%
Electricity	219	215	309	258		450	192	74%
Pakistan Railway (line crossing charges)	2	-	50	-		229	229	#DIV/0!
Water Conservancy	5	6	8	9		13	4	44%
Vehicles rates and taxes	29	23	17	23		25	2	9%
Others	-	1	12	16		18	2	13%
Total	645	673	811	768	415	1,290	522	68%

8.20 Under the sub-head "Rent", the petitioner has submitted that efforts were made to reduce rental expenses in the previous year and it has successfully negotiated lower rent for the Head Office premises for a 3-year period. However, the increase in hiring requirements for new premises and annual rent hikes pose challenges. The reasons for an anticipated increase in rental expenditures include annual increase, change of premises, operational requirement and establishment of new offices and prevailing inflation pressure in the country. Considering the above factors, the petitioner has demanded an average increase of 10%-15% over the previous year's expenditure.

8.21 The Authority notes with concern that generic justification has been advanced by the petitioner despite the Authority's clear directions in past to curtail this avoidable cost. ***Therefore, the Authority considering the past trend and its detailed directions already in field, decides to allow 8% increase over RERR FY 2023-24 & allows Rs. 384 million for the said year. The Authority reiterates its directions to comply with guidelines of Punjab Rented Premises Act, 2009 while hiring the premises.***

8.22 Under the sub-head "Electricity", the petitioner has projected Rs. 450 million as compared to Rs. 258 million allowed as per RERR for FY 2023-24. The petitioner has submitted that over the past two financial years, there has been a significant upward trend in electricity tariffs, escalating from Rs. 22 to Rs. 44 per unit (Avg. Rs. 40 per unit to Rs. 60 per unit including impact of taxes and Fuel price adjustment). Recently NEPRA has further increased the unit price by Rs. 7 per unit.

8.23 The Authority agrees that NEPRA is revising the tariff on regular basis. However, 71% increase for one year is not justified. The Authority notes that projection basis may vary from past and it is not necessary that similar pattern of electricity tariff increase for future may continue based on which huge projection has been made unnecessarily. Further, the Authority notes that substantial amount of CAPEX was allowed during FY 2017-18 and FY 2023-24 to tap cheap source of solar energy. Thus, demanding such amount is not tenable and justified.

8.24 ***In view of above, the Authority decides to allow Rs. 284 million i.e. 10% increase over RERR FY 2023-24 subject to actualization at year end.***

8.25 Regarding Pakistan Railways (PR) line crossing charges, huge amount of Rs. 229 million has been projected for the said year. The petitioner has submitted that Rs. 68 million and Rs. 78 million relates to outstanding payments of NHA/PR pertaining to FY 2022-23 and FY for 2023-24 respectively, which has to be paid soon. An amount of Rs. 83 million has been estimated for the said year. The petitioner is mandated by law to settle the balances and making timely payments to avoid the risk of any legal proceedings in this matter.

8.26 The Authority notes that actual spending under this head remained around Rs. 50 million; while the petitioner has projected Rs. 83 million for the said year, claiming an increase of 64% over past trend. The Authority notes that historically the petitioner has been allowed such charges on actual basis at the time of FRR; therefore, accumulation of past outstanding balances appears unreasonable. ***In the light thereof, the Authority decides to pend the entire amount subject to the actualization at year end.***

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8.27 ***The Authority, observes that the remaining expenses under various heads have either been within the allowed limits except "Royalty/Internet expenses and water conservancy" being excessive and without material justification; therefore, the same is kept at level of RERR FY 2023-24 for the said year.***

8.28 ***In view of above, the Authority decides to allow "rent, rate, electricity & taxes" at Rs. 829 million for the said year as tabulated below:***

				Rs. in Million
	Transmission	Distribution	Selling	Total
Demanded	431	528	331	1,290
Allowed	277	339	213	829

v. Fuel & Power

8.29 The petitioner has claimed Rs. 1,046 million on account of "Fuel & Power" for the said year, thereby, projecting an increase of 63% over RERR FY 2023-24. Historical comparison is given below:

Table 31: Comparison of Projected Fuel & Power with Previous Years

								(Rs. In million)
	FY 2021-22	FY 2022-23		FY 2023-24		FY 2024-25	(Inc/Dec) over RERR 2023-24	
Particulars	FRR	RERR	Actual	RERR	Actual July to Dec 2023	The Petition		
Compression	18	30	34	48		44	(4)	-9%
Transmission	162	186	206	296		384	88	30%
Distribution	253	296	326	283		492	209	74%
Others (Incl. Co-Generation)	79	55	85	17		126	109	641%
Total	511	567	651	644	332	1,046	402	63%

8.30 The petitioner has reiterated the same stance as mentioned in Para 8.24 above under the head of electricity and the same has been opted for fuel and power and based on the similar premises projected amount under this head.

8.31 The Authority notes that the petitioner is merely relying on their own judgement based on past increase made in fuel charges and petroleum products and assuming that similar pattern of price escalation will be followed in price increases in future. The Authority notes with concern that 63% increase over last year RERR is not fair and justified based on the generic arguments. Moreover, the actual expenditure during first six months of FY 2023-24 is also Rs. 332 million which shows the historical trend of the expense.

8.32 ***Accordingly, the Authority decides to fix Fuel & Power expenses at Rs. 708 million i.e. 10% increase over RERR for FY 2023-24 for the said year, subject to the actualization at year end, as tabulated below:***

				Rs. in Million
	Transmission	Distribution	Selling	Total
Demanded	503	544	-	1,047
Allowed	340	368	-	708

vi. Transport Expenses

8.33 The petitioner has claimed transport expenses for the said year at Rs. 2,500 million as against Rs. 1,387 million provided in RERR for FY 2023-24 projecting an increase of 80% for the said year. Historical comparison of transport expense is as under:

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Table 32: Comparison of Projected Transport Expenses with Previous Years

(Rs. In million)

Particulars	FY 2021-22 FRR	FY 2022-23 RERR	FY 2022-23 Actual	FY 2023-24 RERR	FY 2023-24 Actual July to Dec 2023	FY 2024-25 The Petition	(Inc/Dec) over RERR 2023-24	
Compression	22	22	33	28		40	12	44%
Transmission	224	224	340	282		414	132	47%
Distribution	573	573	739	614		1,365	751	122%
Others (incl HO & service depts.)	339	336	559	464		681	217	47%
Total	1,159	1,156	1,671	1,387	999	2,500	1,113	80%

8.34 The petitioner submitted that there is unprecedent increase in fuel prices in past few years. In FY 2022-23 there was 70% surge in fuel rates i.e. Avg. rate Rs. 245 per liter, as compared to Rs. 145 per liter in FY 2021-22. The projected budget is based on the current consumption @ Rs. 300 per liter. In addition to the above, it may be noted that the transport contractors are pressing hard for revision in vehicle hiring rates due to hyperinflation. The petitioner's vehicle hiring rates have not been revised since FY 2016, therefore the contractors are not willing to work with it on current rates. Therefore, an amount of Rs. 100 million has been projected for expected revision in hiring charges.

8.35 The Authority agrees with the petitioner contention, however, 80% increase over one year is not fair, justified and seems to be on higher side. ***In the light thereof, the Authority decides to allow transport expense at Rs. 1,526 million (i.e. 10% over RERR FY 2023-24) for the said year as tabulated below:***

Rs. in Million

	Transmission	Distribution	Selling	Total
Demanded	629	1,491	381	2,499
Allowed	384	910	232	1,526

vii. Legal and Professional Charges

8.36 The petitioner has claimed Rs. 416 million on account of "Legal and Professional Charges" for the said year as against Rs. 210 million provided in RERR for FY 2023-24 projecting an increase of 98%. Historical comparison is given below:

Table 33: Comparison of Projected Legal & Professional Charges with Previous Years

(Rs. In million)

Particulars	FY 2021-22 FRR	FY 2022-23 RERR	FY 2022-23 Actual	FY 2023-24 RERR	FY 2023-24 Actual July to Dec 2023	FY 2024-25 The Petition	(Inc/Dec) over RERR 2023-24	
Legal Expenses	145	182	205	145		262	117	81%
Professional Charges	19	56	47	27		52	25	93%
Tax	13	16	16	13		24	11	85%
Audit	12	11	13	12		13	1	8%
Apprenticeship/Scholarship	9	12	5	9		12	3	33%
LCIA (Arbitration)	-		320	-		50	50	-
Others	3	3	2	4		3	(1)	-25%
Total	201	280	608	210	183	416	206	98%

8.37 Regarding sub-head of "Legal", the petitioner has submitted that during the current financial year it has to defend many high-profile cases, which include Board Matters, Tariff/Policy Matters and Expert Adjudication (Liberty Power), being matters sensitive in nature, were referred to eminent law firms engaged on special fee. The petitioner has provided the following historical breakup of legal expense, as tabulated below:

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Table 34: Breakup of Legal Expense of Previous Years

Breakup of Legal Expenes											
		FY JUL-23 TO NOV 23		FY 2022-23		FY 2021-22		FY 2020-21		FY 2019-20	
Sr. No	Types of litigation	No of Cases	Fee/Expenses (Amount in Rs)	No of Cases	Fee/Expenses (Amount in Rs)	No of Cases	Fee/Expenses (Amount in Rs)	No of Cases	Fee/Expenses (Amount in Rs)	No of Cases	Fee/Expenses (Amount in Rs)
1	Recovery suit	7,387	59,858,307	10,097	86,717,773	7,178	71,337,569	8,714	71,337,569	7,064	58,881,671
2	Declaratory suit	965	10,748,125	3,452	42,672,665	2,629	30,759,656	2,885	31,948,116	2,576	30,763,884
3	Special cases	64	35,952,989	88	34,795,795	164	83,794,191	103	72,986,450	101	75,512,324
4	Other Litigations (Crimianl)	198	2,406,500	852	10,221,500	436	30,759,656	584	6,003,200	326	3,285,000
	Total	8,614	108,965,921	14,489	174,407,733	10,407	216,651,072	12,286	182,275,335	10,067	168,442,879

8.38 Keeping in view the above status, the petitioner has stated that, as a consequence, the allowed budget for legal expenses has already been exhausted as of date. Further, one-time Arbitration with GPP's i.e., NPPMCL & QATPL is likely to commence soon. Regarding professional charges, the petitioner has stated that an amount of Rs. 24 million has been projected for conducting potential assessment test for executive argued that on repeated requests of inhouse panel advocates regarding upward revision of existing schedule of professional fee being on lower side, the same is likely to be placed before the competent authority for enhancement of Professional fee and Misc. expenses, which will have a financial impact to the tune of Rs. 50 million. The petitioner has informed that dispute of GPP's invoices is pending, which is likely to be invoked / contested during the said year, for which an additional budget of Rs. 50 million is requested under LCIA Head.

8.39 The Authority notes with concern that the petitioner has made huge projection of Rs. 262 million under legal expenses for the said year, with an increase of 81% over last year RERR that indicates lack of fairness and legitimacy on part of public limited company in the existing scenario. The Authority observes that as per above breakup of legal expenses, huge spending is made by the petitioner despite clear directions from the Authority to remain within the allowable limit. In the past, the Authority restricted legal expense subject to reduction of number of complaints against SNGPL, improvement in customer support services, curtailment of UFG losses, avoid unnecessary litigation etc. The Authority reiterates that legal spending must be maintained at reduced level and avoid unnecessary litigation. The Authority notes that Rs. 24 million has been projected for conducting potential assessment test for executives. The Authority observes that around 150 promotions have been made by the petitioner recently and claiming the amount on this account does not hold logic and disallowed for the said year. ***In view of the same, The Authority fixes the expenditure at RERR level i.e. Rs. 27 million for the said year.***

8.40 ***In view of above, the Authority decides to fix Legal expense at Rs. 182 million i.e. at the level of RERR FY 2022-23, for the said year.***

8.41 ***Regarding the petitioner's claim of Rs. 50 million on account of LCIA, the Authority is of the view that the said expenditure appears to be at pre-mature stage, since the company has not yet filed any review with London Court. In the light thereof, the same is excluded from the revenue requirement calculation for the said year.*** The Authority also reiterates its directions that all matters be amicably resolved by the concerned local public sector companies and avoid engagement in international arbitration costing huge expenses so as to lessen the imprudent gas price burden on end consumers.

8.42 ***In view of the above, the Authority determines the expenses under the head "Legal and Professional Charges" at Rs. 251 million for the said year, as tabulated below:***

				Rs. in Million
	Transmission	Distribution	Selling	Total
Demanded	107	159	81	347
Allowed	77	115	59	251

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viii. Provision for doubtful debts

8.43 The petitioner has projected Rs. 1,000 million under this head "Provision for doubtful debts" for the said year as against Rs. 972 million allowed under RERR FY 2023-24. Historical comparison is given below:

Table 35: Comparison of Provision of doubtful debts with Previous Years

										(Rs. In million)	
					FY 2021-22	FY 2022-23		Y 2023-2	FY 2024-25	(Inc/Dec) over RERR 2023-24	
Particulars	FRR 2017-18	July - Dec. 2019	FRR FY 2019-20	FRR FY 2020-21	FRR	RERR	Actual	RERR	The Petition		
Provision of doubtful debts	1,584	636	1,243	1,413	1,154	-	1,677	972	1,000	28	3%
Total	1,584	636	1,243	1,413	1,154	-	1,677	972	1,000	28	3%

8.44 The Authority notes that there is benchmark already in place which provides necessary provision against domestic, commercial and industrial consumers to the petitioner to cater for the impact of disconnection. The Authority further notes that based on recent revision is consumer gas prices, this would eventually lead to increase in disconnected consumers and outstanding amount. ***In the light thereof, the Authority, slightly re-works provision against doubtful debts at Rs. 971 million for the said year.***

ix. UFG Control Activities

8.45 The petitioner has projected an operational expense of Rs. 1,949 million on account of UFG Control Activities that cover different Leakage Control, Theft Control and Measurement Error Control Programs etc. The Authority notes that the activities for UFG Control are essential to increase network visibility, carry out rehabilitation, curtail theft and improve recoveries and cannot be ignored.

8.46 ***In view of the foregoing while keeping in view operational requirement and trend analysis, the Authority allows Rs. 1,031 million under this head against the amount projected by the petitioner.***

x. Protective Supplies & Clothing

8.47 The petitioner has claimed Rs. 135 million under this head for the said year as against Rs. 92 million per the RERR FY 2023-24, projecting an increase of 47% for the said year. Historical comparison is given below:

Table 36: Comparison of Projected Protective supplies & Clothing with Previous Years

Protective supplies/Clothing							(Rs. In million)	
	FY 2021-22	FY 2022-23		FY 2023-24		FY 2024-25	(Inc/Dec) over RERR 2023-24	
Particulars	FRR	RERR	Actual	RERR	Actual July to Dec 2023	The Petition		
Protective supplies/ Clothing	54	77	75	92	46	135	43	47%
Total	54	77	75	92	46	135	43	47%

8.48 The petitioner has submitted that the requisition for protective clothing for the FY 2023-24 is currently in progress. The petitioner stated that it has informed at various occasions that the provided budget is insufficient to meet the overall requirement of PPEs. The additional allowance provided by the Authority only covers the inflationary impact of prices of the PPEs.

8.49 ***The Authority, considering the operational requirement as well as petitioner's capacity to manage the said expense in past, decides to allow protective supplies and clothing at Rs. 101 million (i.e. 10% increase over RERR FY 2023-24), as per table below:***

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				Rs. in Million
	Transmission	Distribution	Selling	Total
Demanded	13	112	10	135
Allowed	**10**	**84**	**8**	**101**

xi. Staff Training and Recruiting Expenses

8.50 The petitioner has claimed Rs. 95 million under this head for the said year as against Rs. 25 million allowed per RERR FY 2023-24, projecting an increase of 280%. Historical comparison is given below:

Table 37: Comparison of Projected Staff training and recruiting expenses with Previous Years

							(Rs. In million)	
	FY 2021-22	FY 2022-23		FY 2023-24		FY 2024-25	(Inc/Dec) over RERR 2023-24	
Particulars	FRR	RERR	Actual	RERR	Actual July to Dec 2023	The Petition		
Staff recruiting expenses	-		1	-		25	25	-
Staff Training, SNGTI/EDP	42	23	**45**	**25**	**28**	**70**	45	180%
Total	42	23	46	25	28	95	70	280%

8.51 The petitioner stated that an amount of Rs. 25 million has been allowed by the Authority in FY 2023-24 as against petition of Rs. 90 million. The actual cost had been Rs. 42 million and Rs. 56 million for FY 2021-22 and FY 2020-21 respectively. During FY 2022-23 an amount of Rs. 45 million was incurred against Rs. 35 million allowances. Historically, the Authority always appreciated and never disallowed expenses under this head. For the said year, projected cost of training has been rationalized. As per direction of the Authority, petitioner has already taken initiative for full fledge in house trainings. Majority of the trainings are conducted in house while some external trainers are also invited for special trainings necessary for staff grooming.

8.52 The Authority appreciates the petitioner effort for curtailment of cost under this head while providing inhouse trainings to technical staff and ***decides to allow Rs. 35 million (i.e. 50% of the claimed amount) against "Staff Training" for the said year.***

8.53 Regarding recruitment expenses, the Authority observes that in the past the petitioner projected around Rs. 25-30 million annually at DERR/RERR level against recruitment expense, however at year end the petitioner failed to materialize the amount as evident from the above table. The Authority notes that since the petitioner's year-end actualization does not commensurate with initial estimates, ***such upfront amount cannot be allowed at this point in time and shall be reviewed at the time of FRR for the said year based on touchstone of prudence and rationale.***

8.54 ***In view of the above, the Authority determines the expenses under the head "Training and Recruitment expenses" at Rs. 35 million for the said year, as tabulated below:***

				Rs. in Million
	Transmission	Distribution	Selling	Total
Demanded	28	44	23	95
Allowed	11	16	8	35

xii. Sports related activities

8.55 The petitioner has projected Rs. 333 million under the head as against Rs. 68 million per the RERR FY 2023-24 projecting an increase of 390%. Historical comparison is given below:

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Table 38: Comparison of Projected Sports Activities Expenses with Previous Years

(Rs. In million)

Particulars	FY 2021-22 FRR	FY 2022-23 RERR	FY 2022-23 Actual	FY 2023-24 RERR	FY 2023-24 Actual July to Dec 2023	FY 2024-25 The Petition	(Inc/Dec) over RERR 2023-24	
Sports related activities and Annual Sports	43	43	44	68	55	333	265	390%
Total	43	43	44	68	55	333	265	390%

8.56 The petitioner stated that Hockey, Kabaddi and Football teams had been temporarily suspended since July 2023 due to non-availability of sufficient budget. The petitioner Cricket team operations were suspended on the directions of Prime Minister office from July 2019. However, Cricket operations have been restored in FY 2023-24 on the instructions received from Ministry of Inter Provincial Coordination in October, 2022. In view of above, petitioner Sports Cell proposed a budget of Rs. 333 million for said year (with an increase of 25% as compared to the proposed budget of Rs. 265 million for FY 2023-24). The petitioner submitted that this is essential requirement to fulfill the operational needs and to ensure smooth functioning of sports activities in order to comply directions of Prime Minister Office.

8.57 The Authority notes with concern that the petitioner is projecting huge amount under this head despite the fact that these are petitioner's non-core activities. Since the petitioner is operating under cost plus regime, therefore, unnecessary burdening of the consumer on account of non-core activities is not justifiable. The Authority notes that it had allowed sufficient 50% increase against the petitioned amount claimed in RERR FY 2023-24. The Authority reiterates its stance that the petitioner's enhanced sports related budget should be funded from its own profit and claiming such huge spending under revenue requirement does not hold logic.

8.58 ***In view of above, the Authority decides to restrict the expenditure at Rs. 68 million to cater sports related activities during the said year as tabulated below:***

Rs. in Million

	Transmission	Distribution	Selling	Total
Demanded	100	153	80	333
Allowed	20	31	16	68

xiii. **Security Expenses**

8.59 The petitioner has claimed Rs. 3,335 million under this head for the said year as against Rs. 2,249 million projecting an increase of 48% over RERR FY 2023-24. Historical comparison is given below:

Table 39: Comparison of Projected Security Expenses with Previous Years

(Rs. In million)

Particulars	FY 2021-22 FRR	FY 2022-23 RERR	FY 2022-23 Actual	FY 2023-24 RERR	FY 2023-24 Actual July to Dec 2023	FY 2024-25 The Petition	(Inc/Dec) over RERR 2023-24	
Security forces	1,202	1,353	1,533	1,686		1,863	177	10%
Security guards	388	500	395	564		1,472	908	161%
Total	1,591	1,853	1,928	2,250	1,048	3,335	1,085	48%

8.60 The petitioner has stated that the existing security agreements cost Rs. 2,249 million and increase has been envisaged owing to annual revision of security agreements. Moreover, GoP has also revised minimum wage rate during FY 2023-24. The petitioner has stated that in addition to the above, Rs. 480 million has been projected for expected agreement with Shahbaz Rangers, for deputation at Sawan Qadirpur AC-IX, which is yet to be finalized. The petitioner has submitted that presently private security guards are deputed at this site which pose a major security risk in case of any unforeseen circumstances such as terrorist activity etc., as 80% of indigenous gas resources are extracted from the same site.

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8.61 The Authority notes that the petitioner has envisaged 10-15% increase on account of revision in contract amount in order to cater for POL prices and etc. Moreover, minimum wage rate of Rs. 40,000 per month has been estimated. The Authority observes that minimum monthly wage rate is currently at Rs. 32,000 per month, therefore, estimating 48% increase seems on higher side.

8.62 The Authority further notes that expenses relating to Shahbaz Rangers had already been allowed during RERR FY 2020-21, therefore, claiming the same expenditure on similar account defies logic. ***In the light thereof, the Authority decides to allow the same in principle, subject to the actualization at the time of FRR, provided the expenditure does not exceed the petitioned amount.***

8.63 ***In view of the above as well as already allowed adequate increase of Rs. 400 million at the time of RERR FY 2023-24, the Authority allows security expenses at Rs. 2,250 million i.e. RERR for FY 2023-24 for the said year, as tabulated below:***

				Rs. in Million
	Transmission	Distribution	Selling	Total
Demanded	2,822	337	176	3,335
Allowed	1,904	227	119	2,250

xiv. Bannu West Well-1 And Wali Well-1

8.64 The petitioner has projected Rs. 2,654 million under the head of Bannu West Well-I & Wali Well-I for the said year, as per table below;

Table 40 : Breakup of Bannu West Well-I and Wali Well I

Description	Rs. in million
Security Expenses	2,481
Casual Labour	55
Transport Expenses	52
Construction Equipment Operating Cost	37
Store and Spares Consumed	17
Other Operating Expenses	12
Total	**2,654**

8.65 The petitioner has stated that the Bannu West Well project holds a unique status due to its specialized nature. The expenses associated with this project exceed the limits of the allocated budget. The allowed budgets in the relevant heads are not sufficient to meet the operational requirement of this special project as the given budgets are either fixed at certain level or only include impact of inflation. Therefore, managing the expenditure of any special project within the allowed limits of the respective heads is not possible.

8.66 Construction activities for the 18" diameter Bannu West Well-1 are presently underway, amidst challenging conditions as the transmission network traverses through areas affected by law-and-order issues, presenting an extremely dire situation. Major part of the budget pertains to security expenses. It is also pertinent to mention here that the Company has already lost its young executive in a terrorist attack last year. Therefore, post-commissioning, both the operation and maintenance (O&M) tasks and emergency response activities necessitate robust security arrangements, requiring the involvement of Frontier Corps, Army, Police, etc. Therefore, full cost for this project be considered so as to ensure successful implementation and sustained operation of this critical infrastructure.

8.67 ***Considering the security situation prevalent in the country and safety of infrastructure, the Authority decides to allow the said expense at Rs. 2,481 million excluding HR cost, since the same shall only be allowed per HR Benchmark computation per Para 8.11 above.***

xv. Outsourcing of Call Centre for Complaints Management

8.68 The petitioner has projected Rs. 45 million under the head as against Rs. 33 million allowed per the RERR FY 2023-24 projecting an increase of 36%. Historical trend is tabulated below:

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Table 41: Comparison of Projected Outsourcing of Call Centre for Complaints Management Expense with previous years

							(Rs. In million)	
	FY 2021-22	FY 2022-23		FY 2023-24		FY 2024-25	(Inc/Dec) over RERR 2023-24	
Particulars	FRR	RERR	Actual	RERR	Actual July to Dec 2023	The Petition		
Outsourcing of Call Centre for Complaints Management	24	33	22	33	9	45	12	36%
Total	24	33	22	33	9	45	12	36%

8.69 The petitioner has stated that the outsourcing agreement for the call center is set to conclude with the expiration of its current two-year term. New agreement is expected to be negotiated on high rates due to increase in minimum wage rate during last 2 years. This along with prevailing inflation in the country has mainly contributed to 36% increase under this head.

8.70 The Authority notes with concern that based on similar proposition the petitioner was allowed last year cost against outsourcing of call centers for complaints. Now the petitioner is again attributing CPI and increase under minimum wages rate for increased cost, which is not fair and legitimate. Moreover, as per record provided by the petitioner, half year expense for FY 2023-24 is Rs. 9 million.

8.71 ***Keeping in view the above, the Authority decides to allow Rs. 33 million i.e. RERR for FY 2024-25 for the said year. The Authority further directs the petitioner to negotiate reasonable minimum rates with call center firms to reduce burden on natural gas consumers.*** The breakup is tabulated below:

				Rs. in Million
	Transmission	Distribution	Selling	Total
Demanded	-	-	44	44
Allowed	-	-	33	33

xvi. Recovery through Contractors - Disconnected Consumers

8.72 The petitioner has projected Rs. 80 million under the above head. Historical trend is tabulated below:

Table 42: Comparison of Projected Recovery through Contractors Expense with previous years

							(Rs. In million)	
	FY 2021-22	FY 2022-23		FY 2023-24		FY 2024-25	(Inc/Dec) over RERR 2023-24	
Particulars	FRR	RERR	Actual	RERR	Actual July to Dec 2023	The Petition		
Recovery through Contractors	25	-	26	-	13	80	80	-
Total	25	-	26	-	13	80	80	-

8.73 The petitioner stated that to enhance recovery efforts, initially the disconnected defaulted consumers, aging 18 months and above, were outsourced and contractors get 2% of assigned targets. Consequently, the aging criteria were revised, and now consumers disconnected for 12 months and above, are outsourced to recovery contractors. This shift is expected to result in increased expenses in this area.

8.74 The Authority notes that the petitioner is claiming huge amount in parallel with budget allowed in provision for doubtful debt & litigation expenses on account of defaulting gas consumers. The Authority is of the considered view that the petitioner should make concerted efforts to recover defaulted amount from gas consumers with continuous follow up.

8.75 ***Keeping in view the actual expenditure during FY 2021-22, FY 2022-23 & July-December, 2023, the Authority decides to allow the said expense Rs. 26 million for the said year.***

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xvii. Construction Equipment Operating Cost

8.76 The petitioner has projected Rs. 400 million under the head as against Rs. 193 million allowed per the RERR FY 2023-24 projecting an increase of 107%. Historical trend is tabulated below:

Table 43: Comparison of Projected Construction Equipment Operating Cost with Previous Years

							(Rs. In million)	
	FY 2021-22	FY 2022-23		FY 2023-24		FY 2024-25		
Particulars	FRR	RERR	Actual	RERR	Actual July to Dec 2023	The Petition	(Inc/Dec) over	
Construction equipment operating cost	209	161	338	193	213	400	207	107%

8.77 The petitioner has attributed the increase under this head to the unprecedent increase in fuel prices in past few years.

8.78 The Authority notes that the petitioner projection of fuel prices is rather overstated and subjective resulting to over estimation for next year. ***Keeping in view the above, the Authority decides to allow Rs. 212 million (i.e. over 10% last year RERR) under the head of "Construction Equipment operating cost" for the said year, as tabulated below:***

				Rs. in Million
	Transmission	Distribution	Selling	Total
Demanded	98	295	7	400
Allowed	52	156	4	212

xviii. Remaining T&D Expenses not discussed above

8.79 The Authority observes that the remaining expenses Rs. 3,108 million for the said year not discussed above have been reasonably projected, as advanced by the petitioner, as under:

Table 44: Summary of Remaining T&D Expenses

		Rs. in Million		
Sr. #	Description	RERR FY 2023-24	The Petition FY 2024-25	(Inc/ Dec) over RERR 2023-24
1	Stationery, Telegram and Postage	324	350	8%
2	Dispatch of gas bills	370	400	8%
3	Travelling	190	200	5%
4	Insurance	300	315	5%
5	Consultancy for ISO 14001: 2004 & OHSAS 18000: 1999	13	14	8%
6	Gas Bills Collection Charges	660	650	-2%
7	Gathering charges on Bills Collection data	65	60	-8%
8	OGRA Fee	460	639	39%
9	Advertisement	239	265	11%
10	Bank charges	12	10	-17%
11	Corporate Social Responsibility	10	20	-10%
12	Sponsorship of chairs at Universities	-	8	
13	Facilities Provided by other companies	24	25	8%
14	Board meetings & directors' expenses	71	71	4%
15	Others	75	80	5%
16	**Total Operating expenses**	**2,813**	**3,108**	**10%**

xix. Transmission & Distribution Cost Determined by the Authority

8.80 In view of above discussion, the Authority decides T&D expenses as under;

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Table 45: Transmission & Distribution Cost Allowed by the Authority

(Rs. in million)

Sr. #	Description	The Petition FY 2024-25	As determined
1	Net HR Cost	34,771	24,108
2	Stores, Spares and Supplies Consumed	1,637	1,162
3	Repairs & Maintenance	2,323	1,686
4	Fuel & Power	1,047	708
5	Rent, Rates, Electricity and Taxes	1,290	829
6	Transport	2,500	1,526
7	Legal and professional charges	416	251
8	Provision for doubtful debts	1,000	971
9	Security expenses	3,335	2,250
10	UFG Control Activities	1,949	1,031
11	Protective supplies/ Clothing	135	101
12	Staff training & Recruitment	95	35
13	Outsourcing of Call Centre for Complaints Management	44	33
14	Recovery through contractors - (Disconnected Consumers)	80	26
15	Sport Cell Expence/ Annual Sports	333	68
16	BANNU WEST WELL-1 AND WALI WELL-1	2,654	2,481
17	Construction equipment operating cost	400	212
18	Quality Assurance Programme	100	-
19	Remaining other T&D Heads	3,108	3,108
20	Total Operating expenses before CWIP	**57,218**	**40,586**
	Less: Allocated to Fixed Capital expenditure	(600)	(600)
	Allocation to Gilgit Air Plant Mix	(110)	(55)
	TOTAL OPERATING COST	**56,508**	**39,931**
	Less allocation T&D Cost-RLNG	**(22,653)**	(16,008)
	Net T&D cost Indigenous	**33,965**	23,923

9. Late Payment Surcharge in respect of gas supplier

9.1.1 The petitioner has claimed Rs. 123,017 million on account of LPS in respect of gas suppliers for the said year.

9.1.2 The Authority observes that matter in respect of LPS payable has been exhaustively discussed & decided in its previous various determinations. The Authority is of the considered view that payables along with LPS in respect of state-owned entities is a matter of 'circular debt' and burden of payment cannot be shifted to general consumers till the final settlement by GoP. ***In view of the same, the Authority decides to pend the entire LPS payment Rs. 123,017 million for the said year, and reiterates its directions to take up the matter with the Ministry of Energy for early and amicable settlement.***

9.1 Finance Cost of Working Capital

9.1.3 The petitioner has projected Rs. 2,305 million against financing cost of working capital for the said year owing to inadequate revision of consumers selling price in the past. The petitioner stated that past accumulated outstanding balance are still hampering their operational working capital requirements.

9.1.4 The Authority observes that timely natural gas prices revision was made by FG during last couple of years whilst improving the cash flow issues of suis. Therefore, the petitioner's demand for financing cost against short term arrangements seems pre-mature. ***In the light thereof, the Authority decides to pend the cost for the said year, subject to the actualization at year end.***

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9.2 Worker Profit Participation Fund (WPPF)

9.1.5 The petitioner claimed 640 million against WPPF for the said year.

9.1.6 ***In view of the decisions in preceding paras, WPPF is recalculated at Rs. 455 million subject to the actualization at year end.***

9.3 Cumulative revenue shortfall pertaining to previous years

9.1.7 The petitioner has claimed Rs. 862,612 million on account of cumulative revenue shortfall pertaining to previous years upto RERR for FY 2023-24. The petitioner has submitted that inadequate revision/increase in gas prices is resulting in accumulation of un-recouped shortfall, and has requested to incorporate the same as part of instant decision.

9.1.8 The Authority notes that decision for MFRR FY 2021-22 has now been issued recently and based on RERR-FY 2022-23, re-adjusted cumulative previous years' shortfall is tabulated below;

Description	Rs. in million
Shortfall upto F Y 2018-19	167,091
Shortfall of F Y 2019-20	37,755
Shortfall of F Y 2020-21	38,939
Shortfall of F Y 2021-22 (As per MFRR F Y 2021-22)	70,098
Shortfall of F Y 2022-23 (As per RERR F Y 2022-23)	109,180
Shortfall of F Y 2023-24 (As per RERR F Y 2023-24)	157,522
Sub-total	**580,585**

9.1.9 ***The Authority has not included the same as part of instant revenue requirement and directs the petitioner to take up the matter with FG to devise appropriate policy for recoupment of previous years' shortfall in the light of its earlier determinations on this matter.***

10 RLNG Cost of Service

10.1 The petitioner has claimed RLNG cost of service at Rs. 76,835 million i.e. Rs. 325.08/MMBTU for the said year on projected RLNG sales volume of 236,357 MMBTU. The computation of RLNG cost of service is made as under:

Table 46: RLNG's Cost of Service FY 2024-25 as Claimed by the petitioner

Particulars	The Petition
Quantitative Data:	***BBT U***
RLNG Input (net off LNG retained by PLL for KE)	**366,194**
Retainage / gas used in FSRU @ 0.75%	(2,746)
Retained by SSGC	(28,744)
GIC - SSGCL network @ 0.5%	(1,674)
GIC - SNGPL network @ 1%	(3,330)
UFG @ 4%	(13,188)
RLNG (Diverted to)/ taken from System Gas	(80,155)
Net RLNG sold	**236,357**
Cost Components	***Million Rs.***
Amortization of Deferred Credit	(743)
LPS Income	(12,500)
Rental and Service Charges	(24)
Depreciation	2,826
Return on Assets	10,160
HR and other relevant costs allocated to RLNG	22,653
Gas Internally Consumed SNGPL	12,378
Gas Internally Consumed SSGC	6,220
Transportation charges payable to SSGC	10,279
Finance cost of working capital	25,361
WPPF	225
Total Rs. in Million	**76,835**
Rs/ MMBTU	**325.08**

10.2 The petitioner has claimed financing cost of working capital at Rs. 25,361 million for the said year. The petitioner has stated that it is entitled to claim financing cost on the past accumulated receivable from FG on account of RLNG cost receivable and partial receivable from subsidized sector i.e. zero rated/export and fertilizer sector. The breakup of finance cost is tabulated below:

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Table 47: SNGPL's borrowing & finance cost of RLNG business

(Rs. in million)

Business	Loan Amount	Breakup of Loan amount	Markup Rate	Estimated Markup Rs. in million
RLNG	110,000.0	3,000	22.99%	690
		9,000	22.45%	2,021
		64,000	23.14%	14,810
		4,000	23.17%	927
		13,500	23.18%	3,129
		4,000	23.19%	928
		8,000	22.65%	1,812
		4,500	23.24%	1,046
Total	110,000	110,000	23.06%	25,361

10.3 The Authority notes that finance cost was allowed to the petitioner to address the chronic issue of circular debt in power sector, diversion/sale of expensive RLNG to domestic consumers and sale of RLNG at subsidized rate to export and fertilizer sector. The Authority is of the considered view that after initiation of blended gas supply (natural gas & RLNG) to industrial sector (export & non-export) and inclusion of cost of RLNG molecule on full cost recovery basis in revenue requirement determinations, phenomenon of delayed subsidy disbursement and partial recovery of diverted molecules has ended. Regarding power sector receivables, the petitioner has itself informed that take/pay from power sector has now been reduced to 33%, thus enabling the company to ensure timely and full recovery from respective sector.

10.4 ***In view of above, the Authority allows Rs. 6,340 million (i.e. 25% of total claim) for the said year. The petitioner is directed to furnish a certificate from an independent Auditor that finance cost on short term borrowing has been incurred to manage its LNG suppliers viz PSO/PLL to address the issue of circular debit in power sector only.***

10.5 The Authority notes that the petitioner, in the past, had claimed volumetric adjustment of GIC as part of monthly RLNG pricing so as to account for the GIC volumes in most relevant price in order to avoid retroactive adjustment at the time of FRR. In view of the same, the Authority decides to exclude entire cost of GIC from the calculation of RLNG cost of service of both the Sui Companies and advises the petitioner to claim the same as part of monthly RLNG pricing under Section 43(B) of the Ordinance with OGRA.

10.6 The Authority, based on historical trend and past practice in field, accepts LPS income, amortization and meter rental income under RLNG cost of service; while SSGCL transportation cost has been revised/adjusted based on latest determination per SSGCL's ERR for the said year. Further, based on the decision taken in para 6.11 above, the Authority decides to allow RLNG diversion volume (i.e. 53,976 BBTU) under RLNG cost of service.

10.7 In view of above, RLNG cost of service is re-calculated as under:

Table 48: RLNG Cost of Service As Allowed

Particulars	As Determined
Quantitative Data:	***BBTU***
RLNG Input (net off LNG retained by PLL for KE)	**366,194**
Retainage / gas used in FSRU @ 0.75%	(2,746)
Retained by SSGC	(28,744)
GIC - SSGCL network @ 0.5%	(1,399)
GIC - SNGPL network @ 1%	(2,989)
UFG @ 4%	(9,094)
RLNG (Diverted to)/taken from System Gas	(53,976)
Net RLNG sold	**267,246**
Cost Components	***Million Rs.***
Amortization of Deferred Credit	(743)
LPS Income	(12,500)
Rental and Service Charges	(24)
Depreciation	2,766
Return on Assets	9,407
HR and other relevant costs allocated to RLNG	16,008
Transportation charges payable to SSGC	15,302
Finance cost of working capital	6,340
WPPF	142
Total Rs. in Million	**36,698**
Rs/ MMBTU	**137.32**

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11 Determination

11.1 ***In exercise of its powers under Section 8(1) of the Ordinance, the Authority determines the ERR for the said year at Rs. 607,403 million as against petitioner's claim of Rs. 904,914 million, as tabulated below:***

Table 49: Components of ERR for FY 2024-25 As Allowed

Million Rs.

Particulars	Claimed by the peitioner	As allowed
Cost of gas sold	702,411	557,070
UFG (disallownce) / allowance	(750)	(8,992)
Transmission and distribution cost	36,270	23,923
Gas internally consumed	2,029	1,696
Depreciation	24,129	22,701
Late Payment Surcharge (Payable)	123,017	-
Workers Profit Participation Fund	640	455
Return on assets	34,582	28,049
Additional revenue requirement for LPG Air-Mix Projects	535	451
Other operating income	(17,950)	(17,950)
Total Revenue Requirement (excluding Previous year shortfall)	**904,914**	**607,403**

11.2 The 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.

11.3 The Authority considers it important and essential to impress upon the petitioner that this 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) & Rule 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;"***

11.4 In view of above, the petitioner's total operating income is estimated at Rs. 691,877 million as against the revenue requirement of Rs. 607,403 million and thus there is a surplus of Rs. 66,524 million in its estimated revenue requirement for the said year. In order to adjust this surplus, the Authority hereby makes downward revision Rs. 179.17/MMBTU in the prescribed price, thereby determining the average prescribed price at Rs. 1,635.90/MMBTU for the said year (**Annexure-A**). Provisional prescribed prices against each category of consumers for the said year, effective for FY 2024-25, are attached as **Annexure-B** in comparison with existing sale price.

11.5 The revised provisional prescribed prices are subject to re-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."

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12 Public Critique, Views, Concerns, Suggestions

12.1 The Authority has recorded critique, views, concerns, and suggestions of the interveners and participants given in chapter 3 above. The Authority, keeping in view the vehemently requests by the interveners, considers it important to draw specific attention of the FG regarding policy issues as included in chapter 3 above for due consideration.

13 General Directions

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

i) *submit a review petition to the Authority for review of its estimated revenue requirements as required under Section 8(2) of the Ordinance, keeping in view the actual and anticipated changes in international prices of crude and HSFO during the period May to November 2024 and the trend of Rupee-Dollar exchange rate.*

ii) *Regarding international arbitration, the petitioner to ensure compliance of all agreed terms and avoid any breach thereof, since the same shall eventually result in spending of imprudent costs of litigation and shall be considered by the Authority at the time of FRR purely on merits and touchstone prudence.*

iii) *implement OGRA Gas (Third Party Access) Rules, 2018 by finalizing the long outstanding agreements/applications already pending with the petitioner.*

iv) *Board of Directors is requested to take effective measures to reduce cost of service by effectively monitoring of all input costs.*

v) *rationalize HR cost keeping in view of changing business dynamics and increase proportion of RLNG. Moreover, all operational and administrative matters, additional hiring of manpower and CBA shall be assigned first priority in utilizing the additional amounts through OGRA's allowed funds.*

vi) *expedite the recovery from ever-increasing defaulting consumers and curtail ever-increasing expenses under the provision for doubtful debt, litigation cases and cost relating thereto.*

vii) *the Authority reiterates its directions to claim the expense in related sub-heads, thereby avoiding creation of unnecessary accounts.*

viii) *All the relevant contentions of the intervener as summarized in chapter 3 of this order be carefully noted and complied/addressed in letter & spirit under the ambit of the regulatory framework.*

Mohammad Naeem Ghouri,
Member (Finance)

Zain-ul Abideen Qureshi
(Member Oil)

Masroor Khan
(Chairman)

The Islamabad, May 20, 2024

Senior Registrar
Oil & Gas Regulatory Authority
Islamabad

A. Computation of Estimated Revenue Requirement for FY 2024-25

Rs. in million

		RERR FY 2023-24	The Petition FY 2024-25	Adjustment	As determined
	Gas sales volume -MMCF	371,112	414,491	(27,299)	387,192
	BBTU	353,829	397,474	(26,178)	371,296
"A"	Net Operating revenues				
	Net sales at current prescribed price	434,724	715,734	(41,807)	673,927
	Rental & service charges	4,416	4,101	-	4,101
	Late Payment Surcharge and interest on arrears	7,549	7,387	-	7,387
	Amortization of deferred credit	3,154	3,194	-	3,194
	Transportation Income	760	1,217	-	1,217
	Other operating income	2,050	2,050	-	2,050
	Total income "A"	452,653	733,684	(41,807)	691,877
"B"	Less Expenses				
	Cost of Indigneous gas	332,558	404,498	(30,974)	373,524
	Cost of RLNG	231,916	297,913	(114,367)	183,546
	UFG Adjustments	(14,771)	(750)	(8,242)	(8,992)
	T& D cost, net of capital allocation	18,814	33,965	(10,042)	23,923
	Gas internally consumed	1,661	2,029	(333)	1,696
	Depreciation	19,036	24,129	(1,428)	22,701
	Late Payment Surcharge (Payable)		123,017	(123,017)	-
	Finance cost for Working capital	838	2,305	(2,305)	-
	WPPF	640	640	(185)	455
	Total expenses "B"	590,692	887,746	(290,894)	596,852
"C"	Operating profit / (loss)(A - B)	(138,038)	(154,062)	249,087	95,024
	Return required on net assets:				
	Net assets at begining	114,293	129,373	-	129,373
	Net assets at ending	106,135	158,564	(38,603)	119,961
		220,428	287,937	(38,603)	249,334
	Average fixed net assets (I)	110,214	143,969	(19,302)	124,667
	Deferred credit at begining	20,155	17,200	-	17,200
	Deferred credit at ending	17,200	15,706	-	15,706
		37,355	32,906	-	32,906
	Average net deferred credit (II)	18,678	16,453	-	16,453
"D"	Average operating assets (I-II)	91,536	127,516	(19,302)	108,214
	Return required on net assets	20.64%	27.12%	(0.012)	25.92%
"E"	Amount of return required	18,893	34,582	(6,533)	28,049
"F"	Excess / (Shortfall) FY 2024-25 - gas operations (C-E)	(156,931)	(188,645)	255,620	66,975
"G"	Additional revenue requirement for LPG Air-Mix Projects	591	535	(84)	451
"H"	Excess /(Shortfall) FY 2024-25 without previous years shortfall (E-G)	(157,522)	(189,180)	255,704	66,524
	Average Inc/(Dec) in Prescribed Price FY 2024-25 (Rs. /MMBTU)	445.19	475.95	(655.12)	(179.17)
"I"	Total Revenue requirement FY 2024-25 net off revenues	592,246	904,914	(297,511)	607,403
	Average Prescribed Price (PP) FY 2024-25 (Rs./MMBTU)	1,673.82	2,276.66	(641)	1,635.90

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B. Existing Category-wise Sale Price & Provisional Prescribed Prices for FY 2024-25

Rs./ MMBTU

	Particulars	Existing Sale Price	Average Prescribed Price FY 2024-25
(i)	**Domestic Consumers:**		
	a) Standalone meters		
	b) Mosques, churches, temples, madrassas, other Religious Places and Hostels attached thereto;		
*	**Protected:**		
	Upto 0.25 hm3 per month	200.00	1,635.90
	Upto 0.50 hm3 per month	250.00	1,635.90
	Upto 0.60 hm3 per month	300.00	1,635.90
	Upto 0.90 hm3 per month	350.00	1,635.90
**	**Non-Protected:**		
	Upto 0.25 hm3 per month	500.00	1,635.90
	Upto 0.6 hm3 per month	850.00	1,635.90
	Upto 1 hm3 per month	1,250.00	1,635.90
	Upto 1.5 hm3 per month	1,450.00	1,635.90
	Upto 2 hm3 per month	1,900.00	1,635.90
	Upto 3 hm3 per month	3,300.00	1,635.90
	Upto 4 hm3 per month	3,800.00	1,635.90
	above 4hm3 per month	4,200.00	1,635.90
	As per past practice, there will be one preceding slab benefit available to domestic consumers as per FG advice.		
	c) Government and semi-Government offices, Hospitals, clinics, maternity homes, Government Guest Houses, Armed Forces messes, Langars, Universities, Colleges, Schools and Private Educational Institutions, Orphanages and other Charitable Institutions along-with Hostels and Residential Colonies to whom gas is supplied through bulk meters including captive power.		
	The tariff for captive gas use int his category will be charged as per captive power catergory i.e. Rs. 2,750 per MMBTU w.e.f. 01-7-2024		
	All off-takes at flat rate of	2,900.00	1,635.90
(ii)	**Special Commercial Consumers (Roti Tandoors)**		
	Upto 0.5 hm3 per month	110.00	1,635.90
	Upto 1 hm3 per month	110.00	1,635.90
	Upto 2 hm3 per month	220.00	1,635.90
	Upto 3 hm3 per month	220.00	1,635.90
	Over 3 hm3 per month	700.00	1,635.90
(iii)	**Commercial :**		
	All establishments registered as commercial units with local authorities or dealing in consumer items for direct commercial sale like cafes, bakeries, milk shops, tea stalls, canteens, barber shops, laundries, hotels, malls, places of entertainment like cinemas, clubs, theaters and private offices, corporate firms, etc.		
	All off-takes at flat rate of	3,900.00	1,635.90
(iv)	**Ice Factories:**		
	All off-takes at flat rate of	3,900.00	1,635.90
(v)	**General Industrial (Process):**		
	All consumers engaged in the processing of industrial raw material into value added finished products irrespective of the volume of gas consumed but excluding such industries for which a separate rate has been prescribed.		
	All off-takes at flat rate of	2,150.00	1,635.90
(viii)	**General Industrial (Captive):**		
	All off-takes at flat rate of	2,750.00	1,635.90
(ix)	**CNG**		
	All off-takes at flat rate of	3,750.00	1,635.90
(x)	**Cement Factories:**		
	All off-takes at flat rate of	4,400.00	1,635.90
(xi)	**Fertilizer Companies:**		
	(i) For gas used as feed-stock for Fertilizer		
	All off-takes at flat rate of	1,597.00	1,635.90
	(ii) For gas used as fuel for generating steam and electricity and for usage in housing colonies for fertilizer factories		
	All off-takes at flat rate of	1,597.00	1,635.90
(xii)	**Power Stations:**		
	(a) WAPDA's and KE Power Stations)		
	All off-takes at flat rate of	1,050.00	1,635.90
(xiii)	**Independent Power Producers**		
	All off-takes at flat rate of	1,050.00	1,635.90

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