Case No. OGRA-6(2)-1(4)/2024-RERR

IN THE MATTER OF
SUI NORTHERN GAS PIPELINES LIMITED
REVIEW OF ESTIMATED REVENUE REQUIREMENT, FY 2024-25

UNDER

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

DECISION ON

December 17, 2024

Before:
Mr. Masroor Khan, Chairman
Mr. Zain-ul-Abideen Qureshi, Member (Oil)
Mr. Mohammad Naeem Ghouri, Member (Finance)

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1. Background

1.1. Sui Northern Gas Pipelines Limited (the petitioner) is a public limited company, incorporated in Pakistan, and listed on the Pakistan Stock Exchange Limited. 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. However, petitioner's exclusive right to operate in the franchised areas had ended on 30th June, 2010. 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.

1.2. The Authority, under Section 8(1) of the OGRA Ordinance, 2002 (the Ordinance) determined the Estimated Revenue Requirement (DERR) of the petitioner for FY 2024-25 (the said year) vide its Order dated May 20, 2024 at Rs. 607,403 million. Based on the available revenues, the surplus/excess revenues were determined at Rs. 66,524 million, translating into decrease by Rs. 179.17 per MMBTU in the average prescribed price w.e.f. July 01, 2024. Impact of previous years' shortfall amounting to Rs. 580,585 million was not included in the above said price and the matter was referred to FG for an appropriate policy decision. Subsequently, MOE(PD) advice OGRA to revised General Industry (Captive Power) to Rs. 3,000/MMBTU w.e.f. July 01, 2024.

2. The Petition

2.1. The petitioner has submitted its review petition under Section 8(2) of the Ordinance on October 15, 2024 incorporating the effect of changes in the projected cost of gas, latest international oil prices, Rupee US$ parity, revised projection of gas purchases & sales volume. The petitioner submitted its revised review petition dated October 18, 2024 (the petition) whilst disconnecting supplies (both indigenous and RLNG) to Captive Power Plants (CPP's) due to their shifting on the power grid as per directions of Ministry of Energy (Petroleum Division) (MoE (PD)).

2.2. Accordingly, the petitioner has claimed shortfall of Rs. 20,582 million and requested the Authority to increase its average prescribed price by Rs. 64.16/MMBTU for the said year. The petitioner, based on total revenue requirement, demanded an average prescribed price of Rs. 1,810.38/MMBTU for the said year, without previous years' shortfall adjustments. The petitioner anticipated reduction in sale volume by 50,511 BBTU against the volume offered at DERR for the said year which led to reduction in sales revenue by Rs. 113,766 million over DERR. Further, RLNG diversion volume under Natural Gas segments has been projected at 62,628 BBTU while OGRA has determined 53,976 BBTU at DERR for the said year; this would entail to increase RLNG cost by Rs. 24,096 million. The petitioner has not claimed previous years' accumulated shortfall and restricted revenue requirement determination to the extent of Average prescribed price at Rs. 1,810.38/MMBTU for the said year. Moreover, the petitioner has claimed RLNG cost of service at Rs. 70,161 million i.e. Rs. 304.27MMBTU for the said year, being ring-fenced to be recoverable from RLNG consumers.

2.3. The petitioner's submission is summarized in the following table under component wise breakup of increase in average Prescribed Price:

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Table 1: Projected cost of service per the petition

PARTICULARS	FY 2024-25	
	DERR	The Petition
Projected Sales Volume (BBTU)	**371,296**	**320,785**
	(Rs. in million)	
Cost of gas sold	557,070	502,272
T&D Operating Cost including LPG Airmix Project	26,074	36,027
UFG Adjustment	(8,992)	(2,894)
Depreciation	22,701	24,680
Return on Assets	28,049	38,120
Other Operating Income	(17,950)	(17,950)
Subsidy for LPG Airmix Project for the said year	451	489
Cost of service	**607,403**	**580,744**
Sales Revenue at current prescribed price	**607,403**	**560,161**
Shortfall		20,582
Average Prescribed Price FY 2024-25 w.e.f. July 01, 2024 (Rs. in MMBTU)		1,810.38
Current Average Prescribed Price (Rs./MMBTU)		1,635.90

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

2.5. Accordingly, a notice of Public Hearing was published in the leading newspapers on October 26, 2024 inviting interventions / comments on the petition from the consumers, stakeholders and the general public for hearing to be held at SNGPL Head Office, Lahore on November 5, 2024. In response thereto, the Authority received following applications for intervention in the proceedings:

1. All Pakistan Textile Mills Processing Association
2. Rawalpindi Restaurants, Caterers, Sweets and Bakers Association
3. Pakistan LNG Limited
4. Alternate Law Collective

3. Proceedings and Public Interventions

3.1. The petitioner's team led by Mr. Kamran Akram, CFO, SNGPL.

3.2. The following intervenors/participants presented their views/comments

Interveners/Participants:

i) Sheikh Muhammad Ayub, Former Chairman, Pakistan Textile Mills Processing Association
ii) Mr. Muhammad Farooq Chaudhry, President Rawalpindi Restaurants, Caterers, Sweets and Bakers Association
iii) Mr. M. Yousaf Inam, Pakistan LNG Limited (on Zoom)
iv) Mr. Abdul Rafey, Alternate Law Collective (on Zoom)
v) Mr. Mohsin Aftab, All Pakistan Textile Processing Mills Association
vi) Mr. Muhammad Abid Saeed, Dy Manager (Business Development), Fatima Fertilizer
vii) Mr. Mumtaz Ahmed, Chairman Rawalpindi Restaurants, Caterers, Sweets and Bakers Association

3.3. The petitioner has made submissions in detail with the help of a multimedia presentation explaining the basis of its petition. The petitioner also responded to the comments, observations, objections and questions of the participants as well as the Authority. The main points of the petitioner are summarized below:

3.1.1 It was stated that the petition has been filed based on change in circumstance and revision of assumption of crude oil import data, latest HSFO prices rupee dollar

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exchange parity. The petitioner informed that it filed revised petition based on revised RLNG supplies based on the finalized Annual Delivery Plan with PSO for FY 2025 and per directions of Ministry of Energy (Petroleum Division), MOE (PD) to discontinue supplies (both indigenous and RLNG) to Captive Power Plants (CPP's) due to their shifting on the power grid.

3.1.2 It was informed that the available option of shifting the 05 cargoes of current year in the upcoming years has already been availed.

3.1.3 It was informed by the petitioner that 62,628 BBTU RLNG volume has been projected to supply to domestic in the light of decision of FG and based on local gas supplies and RLNG supplies under finalized Annual Delivery Program (ADP) with PSO for year 2025.

3.1.4 It was explained that discontinuation of gas supply to CPP (both indigenous and RLNG) has resulted in increase of RLNG diversion to domestic sector. The exclusion of CPPs would reduce SNGPL's sales, impacting its revenue and leaving around 157 MMCFD of surplus gas (54 MMCFD System Gas & 103 MMCFD RLNG) with no potential buyer. Resultantly, the petitioner shall be constrained to reduce supplies from indigenous sources to absorb this surplus volume, thus a marginal increase in the RLNG diversion volumes to system gas consumers. The projected suspension of indigenous gas supplies in FY 2024-25 is 52,350 MMCF at cost of Rs. 52,437 million.

3.1.5 It was stated that finance cost of Rs. 32,617 million has been projected in RLNG cost of service owing to facing extreme liquidity crunch under RLNG supply chain to keep LNG supply chain afloat.

3.1.6 It was requested to calculate UFG disallowance based on the cost of indigenous gas rather on composite cost of gas (i.e. comprising NG plus RLNG) which entail to heavy penalization and requested to make correction in prior year calculations accordingly.

3.1.7 It was requested to allow 50% of annual CPI in HR Benchmark since effective FY 2021-22 as allowed by the Authority in FY 2023-24 & FY 2024-25 or allow actual cost of FY 2022-23 as the base figure for future years to cover inflation, vacancies and operational needs.

3.1.8 It was requested to allow operating expenses since increase is mainly attributable to inflation, fuel cost and currency depreciation to meet its operations requirements,

3.1.9 It was requested to allow capital expenditure and include in the rate base as capital expenditures are being carried out on the projects of national importance.

3.4. The substantive points made by the interveners during the public hearing held in Lahore are summarized below:

3.2.1 It was highlighted that textile processing comprises of 65% of export whereas utilities' cost has already exceeded 40% as part of cost of production thus leaving the industry uncompetitive in the region. It was urged that gas prices for the export industry should be competitive to compete in the world. Textile export is being reduced drastically and 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.

3.2.2 It was demanded that natural gas consumers be not burdened due to the subsidy relating to air-mix LPG project.

3.2.3 It was also demanded that UFG losses should be curtailed further; while Gas theft should be controlled by making concerted serious efforts by the petitioner.

3.2.4 It was requested to ban expansion is distribution network as expansion in pipe line would lead to further UFG. It was proposed to abolish the mechanism of subsidy which is a major factor of misuse by consumers.

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3.2.5 It was demanded that price differential/subsidy allowed to fertilizer sector in RLNG pricing may be parked in Indigenous Revenue Requirement like RLNG diversion to domestic since it contributes to piling up of Circular debt in RLNG.

3.2.6 It was requested to implement national WACOG to fully recover the RLNG costs since RLNG is the main player in energy mix.

3.2.7 It was emphasized to discontinue cross subsidy to domestic sector so that each category of consumers should pay equal tariff and relevant costs in energy mix are duly recovered.

3.2.8 It was urged to decrease the tariff for commercial sector since the costs have increased manifold due to tariff hike.

3.2.9 It was demanded to discontinue subsidy to special commercial (tandoor) as the tariff is irrational and subsidy may be granted d to commercial sector which is paying high tariff.

3.2.10 It was requested that commercial gas consumers are heavily charged on account of sticky meter; while gas volume information is not shared with the owner at the time of disconnections and later sending exorbitant bills on sticky meter recovery without verification of consumption. It was demanded that detail of meter reading should be provided to the consumers at the time of disconnection of meter.

3.2.11 It was requested to apply the same UFG Benchmark on RLNG and Natural Gas since RLNG and indigenous gas share the same infrastructure.

3.2.12 It was urged that the petitioner's demand for UFG disallowance on indigenous cost of gas must be rejected since average prescribed price per petitions includes the cost of local gas and RLNG diversion cost.

3.2.13 It was urged to share the plan for discontinuation of gas supply to Captive Power Plants and adverse effects on financial health of the petitioner. It was also questioned if any potential consumers were available to buy the excess natural gas/RLNG.

3.2.14 It was requested not to allow the petitioner's new capital projects expansion since the increase in assets impacts price.

3.2.15 It was emphasized to introduce measures for conservation and efficient use of energy especially in domestic sector which is paying lowest tariff for a costly imported gas.

4. Authority's Jurisdiction & Determination Process

4.1. The Authority examined, in depth, all applications and petitions in light of relevant legal provisions. The instant petition has been filed under section 8(2) of the Ordinance. The instant petition is primarily focused on review of cost of gas of the petitioner based on actual changes in the wellhead gas prices and relevant factors. The wellhead gas prices for the said year are based on the actual prices of crude oil and HSFO during the period December, 2023 to October, 2024. The actual trend in Rupee vs US$ rates in recent months is to be taken into account, along-with actual prices in the previous months, while determining cost of gas to ensure that the determination is rational and fair to all stakeholders.

4.2. The operating revenues, operating expenses and changes in asset base are scrutinized keeping in view the justification and provisions of the law. Appropriate benchmarks are set to control inefficiencies. Accordingly, the decision is always based on logic and rationale striking a balance among stakeholders. Further, FG's attention is specifically drawn to the pleas relating to policy matters for consideration, before deciding the retail prices for various categories of consumers. The Authority further, wherever necessary, issues directions to the petitioner to streamline/resolve the matters under the regulatory and legal framework.

4.3. Section 8(3) of the Ordinance empowers the FG to fix the consumer sale prices. Accordingly, FG, keeping in view economic indicators, policy considerations in terms of uniform pricing across the

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country, Gas Development Surcharge and the inter-category subsidies, etc. advises the gas sales prices to OGRA & the same is accordingly notified by it in the official gazette.

4.4. 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 of the petitioner & as well as its sister utility. The Authority, however, 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.

4.5. ***In view of the above, the Authority continues to maintain existing regime including rate of return as per the decisions per DERR for the said year.***

5. Operating Fixed Asset

5.1. A summary of asset addition claimed by the petitioner in its ERR petition, the assets allowed by the Authority at the time of DERR FY 2024-25, reinstatements and additions claimed by the petitioner in its instant petition are summarized below;

Table 2: Breakup of Assets Demanded Vs. Allowed at DERR & Assets Claimed in RERR for the said year

ERR vs DERR - RERR FY 2024-25 (Rs. in Million)																
Sr. No.	Particulars	ERR Petition			Determined			Reinstatement			Additions			Total RERR		
		Total			Total			Total			Total			Total		
		Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total
1	Land freehold	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
2	Building on Freehold land	300	–	300	165	–	165	135	–	135	181	–	181	481	–	481
3	Transmission Mains	1607	–	1607	804	–	804	742	–	742	39074	–	39074	40620	–	40620
4	Compression	631	–	631	64	–	64	567	–	567	3	–	3	634	–	634
5	Distribution Mains	32630	2814	35444	6422	2814	9236	24898	–	24898	1052	–	1052	32372	2814	35186
6	Measuring and Regulating	12383	621	13004	3450	621	4071	8933	–	8933	–	–	–	12383	621	13004
	Sub Total	47551	3435	50986	10905	3435	14340	35275	–	35275	40310	–	40310	86490	3435	89925
7	Telecommunication Equipment	110	–	110	55	–	55	55	–	55		–	–	110	–	110
8	Plant & Machinery	1920	–	1920	960	–	960	960	–	960	390	–	390	2310	–	2310
9	Tools & Equipment	45	–	45	45	–	45	–	–	–	20	–	20	65	–	65
10	Construction Equipment	1168	–	1168	584	–	584	584	–	584		–	–	1168	–	1168
11	Motor Vehicles	500	–	500	500	–	500	–	–	–	43	–	43	543	–	543
12	Furniture & Fixture	50	–	50	50	–	50	–	–	–	37	–	37	87	–	87
13	Office Equipment	62	–	62	62	–	62	–	–	–	24	–	24	86	–	86
14	Computer Hardware	1068	–	1068	282	–	282	786	–	786	41	–	41	1109	–	1109
15	Computer System Software / Intangible Assets	845	–	845	446	–	446	399	–	399	163	–	163	1009	–	1009
	Sub Total	5768	–	5768	2985	–	2985	2784	–	2784	718	–	718	6486	–	6486
	Grand Total	53319	3435	56754	13889	3435	17324	38059	–	38059	41028	–	41028	92976	3435	96411

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5.2. Reinstatement of Assets:

5.2.1. The petitioner while repeating its justifications of ERR has requested for reconsideration of claimed amounts in respect of various assets mentioned in the table above.

5.2.2. The Authority observes that it had analyzed the request of the petitioner keeping in view the operational requirement and the ability of the petitioner to execute such jobs and determined reasonable amounts at that stage. Moreover, the Authority has always urged the petitioner to project capital expenditures that are prudent, cost effective, realistic and economically efficient so as to avoid unnecessary cost impacts.

5.2.3. The Authority observes that the petitioner has merely repeated its earlier stance and has not provided any new evidence/ justification for review of earlier decisions. ***Therefore, the Authority maintains its earlier decisions taken in the DERR FY 2024-25 against each head.***

5.3. Laying of Distribution Mains (New Towns & Villages):

5.3.1. The petitioner has submitted that the Authority has allowed to lay 5,700 kms of lines as being projected from the available funds under PSDP, which will not be included in rate base, further no new expenditure has been allowed. In this respect, it has been submitted that according to the policy, advised by GoP vide Ministry of Petroleum letter no. NG(I)-16(91)/2005-Imp dated 02.06.2005, cost of each and every development scheme is shared by the petitioner (against the cost within criteria) and GoP (against the cost over & above criteria) depending upon per consumer cost of the scheme. All the development schemes are being undertaken accordingly and no scheme can be undertaken by utilizing only GoP funds.

5.3.2. Furthermore, it has been submitted that the amount of Rs. 13 billion projected for FY 2024-25 comprises of Rs.7.3 billion (approx.) as petitioner's share and Rs. 5.7 billion as GoP share, of which only GoP share has been allowed by the Authority however, the petitioner's share can only be available after approval of the Authority.

5.3.3. ***The Authority is of the view that policy guidelines conveyed vide MoE letter No. NG(D)-16(91)/2022-IMP-Pt-I dated 30-12-2022 and letter No. NG(D)-16(91)/23-SAP dated 19-05-2023, in the matter are clear that ongoing schemes may be completed while remaining within the available funds released by the GoP. Accordingly, the Authority while maintaining its decision does not allow any new expenditure to be borne by existing consumers while a moratorium on new gas connections is still in place and directs that priority may be given to such schemes which are more than 50% complete as per Authority's earlier directions in DERR FY 2021-22.***

5.4. Transmission Mains: Gas Supply from 92 Kotpalak-1 Field:

5.4.1. The petitioner sought approval of the Authority as per Rule 20 (xviii) of NGRA (Licensing) Rules, 2002 for construction of transmission lines as tabulated below to receive a peak volume of 45 MMCFD gas from 92 Kot Palak-1 field vide its letter dated 18-03-2024;

Sr. No.	Description	Pipeline Requirement	Capital Cost (Rs. Million)
1.	Construction of 12" dia x 77.0 KM proposed Transmission pipeline from Kot-Palak CPF - D.I. Khan	New Pipeline	9,108
2.	Construction of 12" dia x 103.0 KM proposed Transmission pipeline from D.I. Khan to Manjuwal	System Augmentation	8,350

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3.	Construction of 18" dia x 84.80 KM proposed Transmission pipeline from Daudkhel to Dhullian.	System Augmentation	10,937
4.	Finance Cost during construction period	Total Project	6,324
Total Capital Cost (inclusive of Finance Cost)			**34,719**

5.4.2. The Authority while considering the request of the petitioner and keeping in view the national importance of the project to improve the ongoing demand and supply gap approved the project in principle subject to certain conditions, reiterated below, vide its letter dated 15-05-2024;

i. SNGPL shall ensure adherence to all internal control systems and prudently incur project costs in accordance with best corporate governance practices.
ii. The company shall strictly follow the applicable rules, regulations along with technical & other standards prescribed by the Authority.
iii. The existing depreciated infrastructure, used for this project, shall not be entitled for ROA afresh.
iv. SNGPL shall ensure that all mandatory approvals are in place.
v. SNGPL shall bring these projects in the upcoming revenue requirement petitions.
vi. SNGPL shall ensure that quality of Natural Gas to be supplied after EWT period remains within OGRA approved gas specifications for end consumers while employing all necessary measures including installation of NRU by the relevant E&P company (if required).

5.4.3. The petitioner has claimed Rs. 28,395 million which excludes the finance cost during the period, in the instant petition. It has been informed that the 12" dia. x 77.0 Km pipeline from Kot-Palak CPF-D.I. Khan pipeline project traverses through challenging hard rocky terrain and facing multiple security concerns, for which JST with LEAs for provision of security cover to construction crew is under finalization stage. Furthermore, after joint survey, revenue record of initial 20 Km segment, required for acquisition has been collected by Lands Department however, further survey of ROW was stopped by LEAs, keeping in view the security situation of the area. The petitioner has submitted that it has been planned to complete 60% of the pipe laying project during the said year after availability of line pipe and allied material contingent upon conducive law and order situation in the area and availability of security/clearance of route by LEAs for execution.

5.4.4. ***The Authority notes that principal approval of the project has already been granted the same is reiterated.***

5.5. Transmission Mains: System Augmentation Project for Debottlenecking and Operational Flexibility of Transmission Network:

5.5.1. The petitioner vide its letter dated 16-05-2024 requested the Authority for approval of the project to connect the network of twin cities of Islamabad and Rawalpindi with main transmission network of the petitioner. The project is to be executed in two phases as per details below;

Phase	Line Description	Dia (Inch)	Approximate Length (KM)	Budgeted Cost Estimates (Rs. In Million)	Completion Period
Phase – I	Transmission Spur from CV-25 to 10"/16" Existing Adhi-Rawat pipeline near GT. Road	24	63.5	10,679	1 – 1.5 Years

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Phase – II	Transmission loopline from C4 Choa Saidan Shah to Chakwal (C5)	30	32	6,528	1.5 – 2 Years *(after completion of Phase – I)*
	Transmission loopline from C-2 Kot Momin to CC-1 Haranpur	30	50	10,301	
		Total	145.5	27,507	

5.5.2. The Authority while considering the request of the petitioner and keeping in view operational requirement of the project to continue provision of gas supply to existing consumers in the twin cities approved the Phase-I of the project in principle subject to certain conditions, reiterated below, vide its letter dated 19-11-2024;

i. SNGPL shall ensure adherence to all internal control systems and prudently incur project costs in accordance with best corporate governance practices.
ii. The company shall strictly follow the applicable rules, regulations along with technical & other standards prescribed by the Authority.
iii. The existing depreciated infrastructure, used for this project, shall not be entitled for ROA afresh.
iv. SNGPL shall ensure that all mandatory approvals are in place.
v. SNGPL shall bring these projects in the upcoming revenue requirement petitions.

5.5.3. The petitioner has claimed Rs. 10,679 million pertaining to Phase-I of the project in the instant petition.

5.5.4. ***The Authority notes that principle approval of the project has been granted recently which is reiterated.***

5.6. Gas Supply to Villages Falling within 5-KM Radius of Gas Producing Fields of Punjab and Khyber Pakhtunkhwa (Phase-I):

5.6.1. The petitioner vide its letter No. RA-TAR-24-25(P)-012 dated 27-05-2024 requested the Authority to approve the project of supply of gas to the villages falling within 5-Km radius of gas producing fields amounting to Rs. 1,396.194 million including petitioner's share of Rs. 527.016 million and GoP share of Rs. 869.178 million. The same has been approved by its Board of Directors (BOD) in its 624th meeting held on 17-05-2024.

5.6.2. It has been submitted that the BOD in its 542nd meeting held on 29-11-2019 approved an amount of Rs. 344.358 million for provision of gas to villages falling within 5 km radius of Dhok Hussain well No. 1 of District Kohat and Dakhni Gas field, District Attock also included in Phase-I, which was subsequently also approved by the Authority in principle vide letter No. OGRA-6(2)-1(1)/2020-Review dated 14-01-2020 subject to the condition that the cost over & above criteria will be borne by the respective Federal/ Provincial Government. Accordingly, the remaining amount of Rs. 1,051.836 million has been submitted for consideration and approval of the Authority. It has been informed that Phase-I involves provision of gas to 12 localities in Punjab and 10 localities in Khyber Pakhtunkhwa.

5.6.3. It has been mentioned that while lifting moratorium on new gas development schemes, CCOE/ Federal Cabinet communicated by MoE vide its letter No. NG(D)-16(91)/2022-IMP-Pt-I dated 30-12-2022 decided as under;

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"The gas schemes under the policy of 5-KM radius of gas fields may continue subject to availability of funding from Government, however, companies would consider the viability of such schemes based on depletion profile of producing fields."

5.6.4. In view of above, the petitioner has requested the Authority to accord approval of the remaining budget amounting to Rs. 1,051.836 million.

5.6.5. The Authority notes that, as informed by the petitioner, out of GoP share of Rs. 869.18 million, only Rs. 72 million has been released. Further, out of total planned network in the Phase-I of 317.6 Km, only 7.4 km has been sanctioned of which only 3 Km has been laid.

5.6.6. ***The Authority observes that policy guidelines specifically state that gas schemes under the policy of 5-km radius of gas field may continue subject to availability of funding from Government.***

5.7. Computer System Software: GIS Mapping Project of Gas Infrastructure:

5.7.1. The petitioner has submitted that its BOD approved the project in its 565th meeting held on 31-12-2020 segregated into Phase-1A, Phase-1B and Phase-2. Phase-1A has been approved by the Authority in DERR FY 2021-22 only to the extent of capital expenditure. It was informed at the time that Phase 1 (A) amounting to Rs. 213.72 million (comprising revenue cost of Rs. 104.64 million and capital cost of Rs. 109.08 million) to be completed in 3 years and covers 4-to-24-inch dia network. Phase 1 (B) amounting to Rs. 162.80 million which shall be executed after completion of Phase 1(A) and involves 1-to-3-inch dia network. Phase 2 amounting to Rs. 132.98 million which shall be executed after completion of Phase 1 and involves 1-to-24-inch dia network.

5.7.2. The project involves replacement of conventional paper maps with digitally stored maps. It has been submitted that the project as a whole is being taken up on war footing because of the importance of the project in pipeline planning /management and UFG control activities. The Phase 1A is being completed well ahead of time and the company is also planning to complete the remaining phases (Phase 1B + Phase 2) of the project at its earliest.

5.7.3. The Authority has been requested to grant approval of the complete GIS project and include the amount pertaining to Phase-1B i.e., Rs. 163 million in the instant revenue petition. It has been submitted by the petitioner that out of total cost of Rs. 376.52 million, only Rs. 109.08 million for Phase 1(A) pertains to capital expenditure whereas rest of the amount involves revenue expense under various heads to be capitalized.

5.7.4. ***The Authority observes that capital expense amounting to Rs. 109.08 million pertaining to Phase 1(A) has already been allowed by the Authority. Accordingly, keeping in view the submissions of the petitioner allows the complete GIS project in principle and decides to include the claimed amount i.e., Rs. 163 million in respect of Phase 1(B) in rate base.***

5.8. Capacity Enhancement Through Segmented Development: Strategically Streamlining Operations of the Central Meter Shop, Lahore:

5.8.1. The petitioner has claimed Rs. 641 million in respect of the project under various heads out of which major portion i.e., Rs. 181 million has been claimed in respect of building on freehold land and Rs. 380 million has been claimed under plant and machinery. The petitioner has submitted that in view of directions of Prime Minister's Office regarding meter installation on Town Border Stations (TBSs), for which the current setup is not able to cater additional load of TBS meters, hence schedule/ defective TBS meters will not be replaced in time. In alignment with the initiative of PM Office, petitioners BOD in 626th meeting held on 06-09-2024 accorded approval of the following;

i. Capacity enhancement of Central Meter Shop (CMS) from 4000 to 11000 meters per annum.

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ii. Shifting and relocating the complete inspection and repair of low-pressure commercial meters and the repair of domestic meters to company owned premises measuring approx. 15 kanals where domestic meter inspection shop, Sundar is already situated and sufficient land is available.

iii. Approval of capital budget amounting to Rs. 640.5 million and recurring cost of Rs. 175.5 million per annum.

iv. Approval of new vacancies for requisite executives and staff.

5.8.2. The Authority has been requested to accord approval of the same at proposed capital expense of Rs. 641 million.

5.8.3. It has been submitted that at present CMS has a repairing capacity of 4000 industrial rotary meters per annum which needs to be enhanced to 11,000 meters after the enhancement of TBS operations, further normal life of rotary meters is 15 years.

5.8.4. In this regard, the Authority in its DERR FY 2023-24 has allowed installation of meters on TBSs to enhance the visibility of distribution network for better control on UFG. However, considering the useful life of rotary meters, not all such meters at TBSs would require immediate repair/ maintenance. Further, the flow proving vans available with the petitioner may also be utilized for cost effective and efficient periodic flow proving of rotary meters installed at site. Moreover, considering the ongoing gas demand & supply scenario, the Authority considers the upgradation of CMS to be premature at this stage.

5.8.5. ***In view of above, the Authority does not allow the proposed project at this stage.***

5.9. Establishment of Sub-Regional Office at Nankana City, Sheikhupura Region:

5.9.1. The petitioner has claimed Rs. 49 million in respect of the project under various heads. It has been submitted that the Authority in its earlier decision of DERR FY 2022-23, disallowed the upgradation of Nankana Consumer Service Centre (CSC) to Sub-Regional office. However, it is being highlighted that the CSC fulfils the required criteria. The Authority has been requested to consider the consumer density, geographical spread and considerable distance form current offices of the petitioner for the consumers of this area and approve the upgradation of CSC alongwith associated capital cost of Rs. 49 million and revenue costs.

5.9.2. The petitioner has submitted that Nanakana CSC has a consumer base of 102,611. The Authority observes that the same was provided to be 66,584 at the time of DERR FY 2022-23. Upon clarification that how the consumer base has increased keeping in view that there is moratorium on new connections since December, 2021, the petitioner submitted that earlier consumer base of SMS Shahkot was partially included in the domain of Sub-Area Nankana which has been fully included now due to which total number of consumers has increased to 102,611.

5.9.3. The Authority notes that the petitioners attempt to inflate the consumer base in order to meet the specified criteria seems an erroneous depiction. The petitioner is directed to refrain from engaging in such actions moving forward. ***Accordingly, the Authority, while maintaining its earlier decision reiterates that petitioner adopts proper resource planning for efficiently catering the needs of its consumers.***

5.10. Upgradation of CSC at Bannu & Hangu to Sub Area Offices:

5.10.1. The petitioner has claimed Rs. 49 million in respect of the project under various heads. The petitioner while referring to Authority's determination of RERR FY 2023-24 wherein the upgradation

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of CSC Bannu & Hangu to Sub Area offices was disallowed, has submitted that establishment of dedicated Regional office at Karak along with the upgradation of aforementioned CSCs to sub region is essentially required to ensure petitioner's effective presence in Oil and Gas producing areas for creating deterrence to avoid recurrence of illegal taps & illegal networks/connections and to facilitate the consumers. Further, keeping in view of the geographical spread and considerable distance from petitioner's offices for consumers of this area, the Authority has been requested to approve upgradation of Bannu & Hangu offices as Sub Region along with associated capital cost of Rs. 49 million and revenue costs.

5.10.2. The petitioner has submitted that CC Hangu has a consumer base of around 16,600 and nearest sub-area office from CC Hangu is Kohat, which is located at a distance 40 kms.

5.10.3. Similarly, CSC Bannu has a consumer base of around 43,400. Nearest Regional office is Karak, which is located at a distance of 70 kms and sub-area office of DI Khan is located at a distance of 165 kms. It has been submitted that Bannu is a divisional HQ. Further, with discovery of gas reserves in North Waziristan and Bettani areas, upgradation of CSC Bannu is essentially required.

5.10.4. ***The Authority, keeping in view the consumer base, distance to nearest office, law & order situation, maintaining UFG levels and proximity to new gas discoveries, allows the upgradation of only CSC Bannu in principle.***

5.11. Summary of Asset Additions Allowed:

5.11.1. The asset additions allowed by the Authority to be included in the rate base for RERR FY 2024-25 increase by an amount of Rs. 163 million from the earlier allowed amount of Rs. 17,324 million at the time of DERR FY 2024-25, breakdown of which is as under;

Table 3: Comparative table on Assets Demanded Vs. Determined

Asset Additions Claimed vs Determined RERR FY 2024-25 (Rs. in Million)							
Sr. No.	Particulars	RERR Petition			Determined		
		Total			Total		
		Normal	RLNG	Total	Normal	RLNG	Total
1	Land freehold	–	–	–	–	–	–
2	Building on Freehold land	481	–	481	165	–	165
3	Transmission Mains	40620	–	40620	804	–	804
4	Compression	634	–	634	64	–	64
5	Distribution Mains	32372	2814	35186	6422	2814	9236
6	Measuring and Regulating	12383	621	13004	3450	621	4071
	Sub Total	86490	3435	89925	10905	3435	14340
7	Telecommunication Equipment	110	–	110	55	–	55
8	Plant & Machinery	2310	–	2310	960	–	960
9	Tools & Equipment	65	–	65	45	–	45
10	Construction Equipment	1168	–	1168	584	–	584
11	Motor Vehicles	543	–	543	500	–	500
12	Furniture & Fixture	87	–	87	50	–	50
13	Office Equipment	86	–	86	62	–	62
14	Computer Hardware	1109	–	1109	282	–	282
15	Computer System Software / Intangible Assets	1009	–	1009	609	–	609
	Sub Total	6486	–	6486	3147	–	3147
	Grand Total	92976	3435	96411	14052	3435	17487

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5.12. LPG Air Mix - Gilgit

5.12.1 The petitioner has claimed Rs. 489 million subsidy relating to air-mix LPG project as against Rs. 451 million allowed per DERR for the said year. The petitioner has stated that the Authority has allowed 50% of the operating expenses i.e. Rs. 55 million against its claim of Rs. 110 million.

5.12.2 The petitioner has explained that the LPG air-mix plant was purchased in 2018 but remained uninstalled for an extended period and finally have installed and commissioned in February, 2023. Since its installation, the petitioner is facing numerous challenges concerning maintenance and operational expenses. The petitioner has informed that significant maintenance is required for the plant equipment, necessitating complete overhauling and replacement of various parts. The petitioner has explained that non-local origin of the SNG plant equipment involves high expenses due to imports from foreign suppliers. The petitioner has submitted that it is presently operating with a limited staff and with the increasing demand for SNG connections expected throughout 2024-25. The petitioner is anticipating a surge in operational expenses across various fronts, including human resource fuel, utilities, traveling, office expenses, staff trainings etc. apart from repair and maintenance expenses mentioned above. The petitioner has, therefore, requested the Authority to review the budget requirement and allow a minimum of Rs. 93 million for plant operations.

5.12.3 The petitioner has claimed Rs. 7,942,200 as repair & maintenance revenue expenditure and Rs. 4,231,223 as gas internally consumed in respect of its LPG Air-Mix plant at Gilgit. It has been submitted that its LPG Air-Mix plant at Gilgit has an active consumer base of 369 consumers and 65.5 KMs of network has been laid to supply gas to them.

5.12.4 The petitioner has submitted that major component of its repair & maintenance expenditure pertains to contractual payments against work orders which amounts to Rs. 5 million. The remaining amount has been claimed for procurement of sundry materials, loose tools, metal & hardware and computer repair/ software & hardware maintenance charges etc. ***The Authority, keeping in view the submissions of the petitioner provisionally allow the claimed expenditure of Rs. 7.942 million.***

5.12.5 In respect of GIC, it has been stated that the same is used for heating and vaporizing of LPG in LPG vaporizers for mixing with air to generate LPG Air-Mix gas and for venting and testing purposes. It has been stated that LPG as fuel input for vaporizer is required at a rate of 0.395 MMBtu/hr. Further, the projection has been made for operating the vaporizer for 6 hours per day for 365 days.

5.12.6 The Authority notes that projection has been made keeping in view the maximum operational hours at maximum capacity, which may not be prudent. ***Accordingly, based on the actual GIC provided by the petitioner since commissioning of the instant plant and an allowance for expected increase, the Authority allows 570 MMBtu against claim of 865 MMBtu.***

5.12.7 ***The Authority considering the justification provided by the petitioner, provisionally allows Rs. 488 million relating to subsidy of air mix LPG for the said year.***

5.13. Depreciation and ROA

5.3.1 In view of the above, the Authority decides to provisionally allow depreciation at Rs.22,743 million for the said year. Consequently, ROA, in the light of decision as per paras above is computed at Rs. 28,143 million, based on net average operating assets for the said year.

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6. Operating Revenues

i. Sales Revenues at Existing Prescribed Price

6.1 The petitioner has projected to decrease gas sales volumes at 320,785 BBTU from 371,296 BBTU per DERR for the said year, after incorporating the two-month actual sales volume i.e. July & August, 2024 while adjusting remaining ten months sales based on committed local supplies and revised annual delivery program of RLNG. The petitioner highlighted that it is left with no option but to shut down the indigenous well heads to safeguard the integrity of pipeline structure hence resulting in reduction in sales volume. Historical analysis of gas sales volume is tabulated below:

Table 4: Comparative table on sales volume with DERR for the said year

				(BBTU)			
Category	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25		Incr/Decr over RERR	
	FRR	FRR	RERR	DERR	The petition		
Gen. Industry (Captive)	24,094	11,968	11,485	42,177	9,947	(32,230)	-76%
Gen. Industry (Process)	8,957	23,935	9,673	22,180	15,202	(6,978)	-31%
Commercial	11,235	8,949	6,438	11,090	5,333	(5,757)	-52%
Fertilizer (Fuel & Feed)	29,361	35,580	38,018	30,481	32,838	2,357	8%
Sp. Commercial	3,087	3,301	3,193	3,454	3,584	130	4%
Domestic	204,039	208,394	222,825	206,982	194,594	(12,388)	-6%
Bulk Domestic	12,703	12,201	13,170	12,726	12,253	(473)	-4%
CNG	18,408	23,026	16,449	15,852	18,964	3,112	20%
Power including IPPs	20,931	17,467	31,364	26,053	25,015	(1,038)	-4%
Cement	63	63	1,213	302	3,055	2,753	913%
Grand Total	332,876	344,884	353,829	371,296	320,785	(50,511)	-14%

6.2 The petitioner has projected 6% reduction over DERR against sales volume to domestic sector based on current trend of consumption since gas usage has been rationalized by domestic consumers owing to increase in gas tariff / bill. Regarding 52% and 31% reduction in gas sales volume to commercial & General Industry (Process), the petitioner has informed that due to overall economic condition in the country, projection has been revised downwards over DERR and has been projected based on current consumption level.

6.3 Regarding 76% decrease against General Industry (Captive), the petitioner has stated that gas supplies to Captive Power Plants (CPPs) has been projected to be discontinued from January, 2025 onwards, as per the directions from MoE (PD), since the FG intends to shift these plants to the national power grid. The petitioner has further informed that various meetings have been held with Power Division and it was accordingly decided in the meeting held on September 20, 2024 that the CPPs shall be shifted in a phased manner to the national grid based on load availability. The petitioner has informed that it is ready to proceed for disconnection of 179 CPPs (including 37 already disconnected) under Phase-A, as per table below based on confirmation of DISCOs and directions from MoE. Following working was shared by the petitioner for shifting of CPPs to National Grid:

Table 5: Projected phase wise shifting of CPPs

Average Consumption Impact - Phase Wise Shifting of CPPs					
Phase	Description	No. of CPPs	System Gas *(MMCFD)*	RLNG *(MMCFD)*	Total *(MMCFD)*
A	CPPs which can be **immediately switched** to Power Grid without involving any further infrastructure	179	16.5	31.5	**48**
B	CPPs which require minimum additional infrastructure in **short term** for switching to Power Grid	154	15.5	29.5	**45**
C	CPPs which require additional infrastructure in **medium term** for switching to Power Grid	123	15.1	28.9	**44**
D	CPPs which require additional infrastructure in **long term** for switching to Power Grid	19	5.3	10.2	**15.5**
E	CPPs which are **not connected to grid** and/or operating under wheeling i.e., industrial estates / zones	5	1.4	2.8	**4.2**
Total		**480**	**53.8**	**102.9**	**156.7**

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6.4 The Authority observes that the petitioner is advancing two different stances in respect of disconnection of CPPs. The petitioner, at one side, has projected to eliminate the gas supplies to CPPs effective January, 2025 as part of the instant petition and on other side, in the same petition, is informing that shifting of CPPs will be in phased manner upon receipt of directions from MoE. The Authority notes that the petitioner has not received any written directives from MOE (PD) as yet regarding timelines for serving notices and disconnections to CPPs under Phase B to E.

6.5 The Authority notes that the petitioner has neither received any written directions by the FG to disconnect CPPs nor has submitted any confirmed timeline of shifting for Phase-A as well as remaining phases, which appears to be subject to the fulfilment of various conditions including availability of infrastructure. The Authority further notes that the proposal for 100% disconnection of CPPs seems to be at rudimentary stage for which exclusion of such huge volumes and revenues does not hold logic and rationale. The Authority is cognizant of the gas supply issues to power sector, however, surplus gas supplies including RLNG is also a major challenge for gas sector as a whole. The Authority already in its determination for DERR FY 2023-24 dated May 20, 2024 per its para 6.10 had requested MoE(PD) to devise a long term sustainable policy considering actual sectoral demands.

6.6 ***Keeping in view the above discussion, the Authority allows 325,217 BBTU sales volume, as per petition dated October 15, 2024, in revenue requirement calculations for the said year. In view of above, revised category-wise gas sales volume is allowed on provisional basis as per table below;***

Table 6: Comparative Table on sales volume Allowed

	BBTU	
Category	**FY 2024-25**	
	The Petition	**Allowed**
Gen. Industry (Captive)	9,947	19,713
Gen. Industry (Process)	15,202	15,080
Commercial	5,333	5,288
Fertiizer (Fuel & Feed)	32,838	32,792
Sp. Commercial	3,584	3,557
Domestic	194,594	191,393
Bulk Domestic	12,253	12,153
CNG	18,964	17,200
Power including IPPs	25,015	25,015
Cement	3,055	3,026
Grand Total	**320,785**	**325,217**

ii. Sales Revenues at Current Prescribed Price

6.7 The petitioner has anticipated reduction in sales revenue by Rs. 113,766 million against reduction of sales volume by 50,511 BBTU for the said year. Comparative table on sales revenue is tabulated below:

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Table 7: Comparative table on Sales Revenue

Category	FY 2021-22 FRR	FY 2022-23 FRR	FY 2023-24 RERR	FY 2024-25 DERR	FY 2024-25 The Petition	Incr/Decr over RERR	
				Rs. in Million			
Gen. Industry (Captive)	20,679	4,558	20,275	115,986	29,828	(86,158)	-74%
Fertilizer (Fuel & Feed)	5,746	14,770	16,942	48,678	51,259	2,581	5%
Gen. Industry (Process)	9,396	23,950	16,621	47,685	32,866	(14,819)	-31%
Commercial	16,889	15,464	22,059	45,633	23,305	(22,328)	-49%
Domestic	63,603	88,702	227,095	265,646	252,813	(12,833)	-5%
Bulk Domestic	10,055	14,616	24,120	36,905	35,547	(1,358)	-4%
CNG	25,237	35,988	45,878	59,446	71,073	11,627	20%
Power including IPPs	23,027	37,870	57,420	52,620	50,038	(2,582)	-5%
Cement	82	87	4,315	1,327	13,432	12,105	912%
Grand Total:	174,714	236,006	434,724	673,927	560,161	(113,766)	-17%

6.8 The Authority observes that petitioner has projected its sale revenue on the basis of applicable sale price effective July 01, 2024 instead of entitled prescribed prices as per its notification dated August 26, 2024, thereby reporting an overstated and incorrect prescribed price revenues position. The Authority, therefore, provisionally determines net sales revenue at Rs. 523,380 million based on existing prescribed price for FY 2024-25. ***The Authority, per the decision in paras 6.6 above, provisionally re-calculates gas sale revenues at Rs. 523,380 million for the said year as tabulated below:***

Table 8: Comparative Table on sales revenue Allowed

Category	FY 2024-25 The Petition	FY 2024-25 Allowed
		(Rs. in million)
Gen. Industry (Captive)	29,828	45,238
Gen. Industry (Process)	32,866	27,056
Commercial	20,830	17,211
Fertiizer (Fuel & Feed)	51,259	52,369
Sp. Commercial	2,475	2,452
Domestic	252,813	241,215
Bulk Domestic	35,547	29,411
CNG	71,073	53,824
Power including IPPs	50,038	43,493
Cement	13,432	11,111
Grand Total	**560,161**	**523,380**

iii. Other Operating Income

6.9 The petitioner kept other operating income at the level of DERR for the said year i.e. Rs. 17,950 million. The Authority accepts the same, being reasonable and earlier determined per DERR for the said year.

6.10 ***In view the above, total operating revenues are determined at Rs. 541,330 million on provisional basis for the said year.***

7 Operating Expenditures

i. Cost of Gas

7.1 The petitioner has projected aggregate cost of gas at Rs. 502,272 million including RLNG volumes as against Rs. 557,070 million determined per DERR for the said year. The petitioner has informed that 62,628 BBTU of RLNG volumes has been projected to be sold/diverted to domestic sector at Rs. 207,642 million as against earlier projection of 53,976 BBTU at Rs. 183,546 million for the said year. The petitioner has submitted that actual gas purchased volume for July & August, 2024 have been taken while estimated volumes for remaining ten months' purchases have been estimated based on current sales mix.

7.2 The petitioner has submitted that a reduction in demand of around 10% has been envisaged in cost of gas sold by various categories of consumers viz; CPPs, Power, General Industry (Process) & Commercial, as per the reasons elaborated in paras 6.2 and 6.3 above. This revision in gas demand has resulted in surplus supplies of indigenous as well as RLNG in the system. Accordingly, annual delivery program with M/s Qatar Gas Company has been reviewed by M/s PSO and 5 cargoes have been deferred in upcoming calendar year of 2025. Moreover, suspension of around 52,350 MMCF of indigenous gas supplies has also been envisaged in the light of disconnection of CPPs during the said year.

7.3 The petitioner has adopted cost of gas assumptions as per the table below;

Table 9: Assumptions for 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	83.68	454.15	278.95
January to June, 2025	June 2024 to November, 2024	80.54	437.11	285.34
Average		82.11	445.63	282.15

7.4 The Authority observes that the well-head prices of gas for all fields are computed in accordance with agreements signed between the GoP and various gas producers, available on record and are notified in exercise of the powers vested in Authority under the Ordinance. Moreover, the Authority based on the decision para at 6.6 above adopted purchase volumes at 276,195 MMBTU for the said year as per petition dated October 15, 2024. The Authority observes that latest data of international oil prices have been adopted upto November 30, 2024. Therefore, the Authority based on latest data in respect of Crude/HSFO & US$ exchange rate, recomputes local cost of gas at Rs. 312,046 million at petitioner's system as per table below:

Table 10: Revised Assumptions for Petitioner's WACOG allowed

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	83.68	454.15	278.00
January to June, 2025	June 2024 to November, 2024	79.66	456.14	280.00
Average		81.67	455.15	279.00

7.5 The petitioner has projected RLNG diversion cost at Rs. 207,642 million against projected volume of 62 ,628 BBTU as part of cost of gas sold. The Authority, however limits the diversion volume at 49,327 BBTU. The same cost shall be actualized at year end, based on actual RLNG volumes imported during the year and actual cost of RLNG.

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7.6 The Authority agrees to the computation of RLNG cost component as claimed by the petitioner, with slight adjustment on account of average exchange rate. Accordingly, cost of RLNG is provisionally allowed at Rs. 162,500 million (i.e. Rs. 3,459.09/MMCF) for the said year.

7.7 ***In view of the above, the Authority decides to allow total cost of gas at Rs. 474,546 million (Rs. 1,377.87/MMCF) on provisional basis for the said year.***

7.8 Regarding provisional wellhead prices being used by the petitioner for computation of cost of gas, the Authority directs the petitioner to submit a certificate duly signed by its Managing Director with every petition to certify the fairness and reasonability of assumptions while attesting that field-wise well head prices have been computed and claimed as per the applicable petroleum policy& formulas/mechanism agreed with Federal Government. The Authority further directs the petitioner to submit field-wise variance analysis with last two years in terms of volumes and rates duly reconciled with relevant ACQ's as confirmed by each gas producing companies along with at future petitions.

ii. Unaccounted for Gas (UFG):

7.9 The petitioner has submitted that as per directions of MoE projected supplies to Captive Power Plants (CPPs) from January-2025 onward will be discontinued due to shifting of the same to Power grid. In view of which, the petitioner has no other option but to shut down the indigenous well heads to safeguard the integrity of pipeline infrastructure resulting in decreased indigenous gas purchases & sales and increased diversion volume. The petitioner was asked to provide any policy/ direction of MoE for the same however, it was clarified that the petitioner has been verbally apprised in the matter.

7.10 ***The Authority notes that demand supply is the prerogative of FG and deliberations on discontinuation of gas supplies to CPPs are ongoing. However, in the absence of any clear written directives, the Authority considers the original RERR petition dated October 15, 2024 submitted by the petitioner instead of the revised petition.***

A. Gas Internally Consumed (GIC) Indigenous System:

7.11 The petitioner has claimed GIC as per following detail;

Table 11: GIC Volume Claimed in the Petition:

Gas Internally Consumed - Indigenous					
Particulars	MMCF	GCV	MMBTU	Avg. Cost Price	Rs. In Million
Transmission System					
Compressors	1,298	930	1,206,908	1,059	1,278
Coating Plant	124	930	115,738	1,059	123
Residential Colonies	84	930	78,382	1,059	83
Sub Total	1,506		1,401,028		1,483
Distribution System					
Free Gas Facility	425	930	395,413	1,059	419
Co-Generation	108	930	100,037	1,059	106
Sub Total	533		495,450		525
GIC Indigenous	2,039		1,896,478		2,008
				GIC as per Petition	1,278

7.12 The petitioner has claimed gas used for transportation of gas at 1,278 MMCF in the revised petition. However, the Authority based on the historical rate of internal consumption provisionally calculates GIC for indigenous system at 1,128 MMCF based on the volumes of original petition.

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Accordingly, the Authority based on the above volumes computes GIC at Rs. 1,097 million for the said year.

B. Gas Internally Consumed (GIC) RLNG System:

7.13 The petitioner has claimed a volume of 3,065 MMCF as GIC for RLNG in revised petition. However, the Authority based on the historical rate of internal consumption provisionally calculates GIC 2,537 MMCF in case of RLNG system based on the volumes of original petition. The volumes calculated in respect of GIC are subject to actualization at the time of respective FRR.

7.14 In addition to above, the petitioner in respect of RLNG system has also included 1,534 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% of total purchases less retainage and volume retained by SSGC for its sale to KE, for SSGC system has been assumed to compute the net gas received 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 @ 0.45% i.e., 1,301 MMCF.

C. RLNG Retained by SSGCL for K-Electric:

7.15 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 during the said year. 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. The same is being allowed on provisional basis subject to actualization at the time of FRR.

D. RLNG Diversion Volume:

7.16 The petitioner has projected a volume of 59,785 MMCF of RLNG to be diverted to indigenous gas consumers in the revised petition. It is observed that diversion volume in the original petition was 46,978 MMCF, ***which is allowed by the Authority.***

E. UFG Calculation Sheet:

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Table 12: UFG sheet

UFG CALCULATION SHEET					
		RERR 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	302,053		322,933	
RLNG received at FSRU	B		322,982		329,026
Retainage	C		(2,422)		(2,468)
Retained by SSGC	D		(27,375)		(27,375)
GIC at SSGC System	E		(1,534)		(1,301)
Net Gas Received in Trans. System of SNGPL	F=A+B+C+D+E	302,053	291,651	322,933	297,882
Gas used in operation of Tran. Sys	G	(1,506)	(3,065)	(1,337)	(2,537)
(i) Compression		(1,298)	(3,065)	(1,128)	(2,537)
(ii) Residential Colonies		(84)	-	(84)	-
(ii) Coating Plant		(124)	-	(124)	-
Gas Available in Transmission System	H=F+G	300,547	288,586	321,596	295,345
Gas sale on Transmission System	I	77,686	180,587	77,686	180,566
Gas passed to Distribution system through SMS	J	221,773	106,949	242,432	112,852
Loss in Tansmission System	K=H-I-J	1,087	1,050	1,478	1,927
% Loss or Gain in Transmission Sytem	L=K/F*100	0.36%	0.36%	0.46%	0.65%
UFG Allowed (%)				0.36%	
Allowed UFG Volume (MMCF)	Tallowed			1162.56	
Invalid Claim (MMCF)				315.68	
Distribution System					
Gas Received in Dist. System (Through SMS)	J	221,773	106,949	242,432	112,852
Diversion Volume	Div			46,978	(46,978)
Total Volume Received in Distribution System	TDist	221,773	106,949	289,409	65,875
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=TDist+M	221,240	106,949	288,877	65,875
Gas Sold					
Gas Delivered (Net Gas Sold)	O	200,352	98,667	266,549	57,432
Loss in Distribution System	P=N-O	20,889	8,283	22,327	8,443
%age Loss in Distribution Sytem	Q=P/TDist*100	9.42%	7.74%	7.71%	12.82%
Allowed UFG (%)	(5+1.3)%			6.30%	
Allowed UFG (MMCF)	Dallowed			18232.79	
Invalid Claim (MMCF)				4094.70	
Total UFG Volume (Transmission + Distribution)	R=P+K	21,976	9,333	23,806	10,370
Total %age UFG (Transmission + Distribution)	S=R/F*1000	7.28%	3.20%	7.37%	3.48%
TotalAllowed UFG (MMCF)	T=Tallowed + Dallowed	19,029		19,395	
Total Invalid Claim (MMCF)	U=R-T	2,947		4,410	

7.17 ***In view of the same, UFG adjustment is provisionally re-worked at Rs.6,076 million based on respective WACOG of the petitioner, computed at Rs. 1,377.87/MMCF for the said year.***

8 Transmission & Distribution Cost (T&D)

8.1 The petitioner has projected Rs. 56,948 million against T&D cost while allocating Rs. 34,118 million to natural gas segment and Rs. 22,830 million to RLNG segment for the said year. Comparison of T&D with DERR for the said year is as under:

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Table 13: Comparison of Projected T & D Cost with DERR

							Rs. in million	
Sr. #	Particulars	FRR	RERR	Actual Unaudited	DERR	The Petition	Inc/(Dec) over DERR FY 2024-25	
		FY 2022-23	FY 2023-24		FY 2024-25		Rs. in million	%age
1	Net HR Cost	20,508	23,100	27,962	24,108	34,771	10,663	44%
2	Stores & spares consumed	1,077	1,056	1,242	1,162	1,637	475	41%
3	Repairs & maintenance of system	1,658	1,486	2,006	1,686	2,323	637	38%
4	Stationery, telegrams and postage	324	324	364	350	350	-	0%
5	Rent, rates, royalty, electricity and telephones	811	769	798	829	1,061	232	28%
6	Travelling expenses	157	190	169	200	200	-	0%
7	Transport Expenses	1,300	1,387	1,902	1,526	2,500	974	64%
8	Construction Equipment Opt Cost	250	193		212	400	188	89%
9	Insurance	236	300	288	315	315	-	0%
10	Fuel & Power	651	643	805	708	1,047	339	48%
11	Legal and Professional services	288	210	330	251	366	115	46%
12	Professional charges for tax litigations	-			-	260	260	
13	Outsourcing of Sales Tax & Billing Affairs	-			-	500	500	
14	ISO certification	11	13	11	14	14	-	0%
15	Advertisement & publicity	221	239	225	265	265	-	0%
16	Protective clothing & Supplies	75	92	85	101	101	-	0%
17	Staff Recruiting expenses	-	-	-	-	25	25	0%
18	Staff Training Expenses	35	25	52	35	70	35	99%
19	Security expenses	1,928	2,249	2,225	2,250	3,335	1,085	48%
20	Sponsorship of Chairs for Universities	-		-	8	26	18	225%
21	Outsourcing of Call Centre	22	33	22	33	39	6	18%
22	Sports cell expenses / Annual Sports	44	68	139	68	333	265	390%
23	OGRA Fee	366	460	451	639	639	-	0%
24	Bank Charges	8	12	7	10	10	-	0%
25	Facilities Provided by other companies	20	24	24	25	25	-	0%
26	Board Meeting and directors expenses	56	71	54	71	71	-	0%
27	Corporate Social Responsibility	-	10	113	20	20	-	0%
28	Recovery through contractors - (Disconnected Consumers)	26		22	26	80	54	208%
29	Other expenses	922	75		80	80	-	0%
30	Gas Bills Collection Charges	563	660	559	650	650	-	0%
31	UFG Control Activities	1,126	934	1,359	1,031	1,949	918	89%
32	Gathering charges of collection data	50	65	12	60	60	-	0%
33	Dispatch Of Gas Bills	216	370	364	400	400	-	0%
34	Provision for doubtful debts	1,663	972	(704)	971	971	-	0%
35	Bannu West Well	-		-	2,481	2,654	173	7%
	Gross Operating Cost	**34,612**	**36,030**	**40,886**	**40,586**	**57,548**	16,962	42%
	Allocation to CWIP	(458)	(500)		(600)	(600)		
	Allocation to Gilgit LPG Air Mix Plant				(55)			
	Net Operating Cost	**34,154**	**35,530**		**39,931**	**56,948**		
	Operating Costs- Allocated to RLNG	14,201	16,715		16,008	22,830		
	Operating Costs- Allocated to Indigenous Gas	19,955	18,814		23,923	34,118		

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

ii. Human Resource Cost

8.3 The petitioner has projected an amount of Rs. 34,771 million as against Rs. 24,108 million allowed at the time of DERR for the said year. The petitioner has requested the following under HR cost:

a) To allow amount Rs. 4,295 million to execute pending CBA for two years FY 2023-25.

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b) To allow Rs. 659 million against projected impact of vacancies in phase 1 with a total requirement of approximately Rs. 2.0 billion against the vacant positions of 2,852 number (Executives and Subordinates),

c) To allow Rs. 1 billion for CPI allowance to accommodate Executive staff for the inflationary impact.

d) HR Benchmark allowed for the said year is inadequate to meet the Company's needs and requested to allow 50% CPI from FY 2021-22 or allow actual cost of FY 2022-23 and use the same as base cost for next years' HR Benchmark cost as HR benchmark parameters are not responsive to address financial need to cater HR cost;

8.4 The petitioner has stated that the GOP in the same period has allowed between 20% to 30% increase in salaries to GOP employees. The Authority notes that it allowed 50% CPI impact in RERR FY 2023-24 and DERR for the said year to adequately incorporate the impact of inflation prevailing in the country at that point in time. Regarding the petitioner demand for Rs. 1 billion against CPI allowance for executives, the Authority notes with concern that despite adequate funds allowed by the Authority, the petitioner could not properly manage its HR costs interalia its operational and administrative matters including finalization of CBA on top priority. The Authority notes that the petitioner's claim of CPI allowance for executives in addition to the inbuilt mechanism of allowing minimum 7% annual performance increment to executives every year appears not convincing.

8.5 Regarding petitioner contention to allow Rs. 659 million for hiring in Phase I, the Authority reiterates its stance that the Authority allowed substantial funds in the past through the prevailing HR benchmark mechanism with clear directive of the Authority to meet its hiring requirement at priority so as to ensure smooth operations of NG and RLNG segments with adequate working staff. The Authority observes that the amount allowed through HR benchmark mechanism had sufficient cushion to cater to petitioner's hiring needs to meet its operational requirements. However, the petitioner did not pay any attention to this important aspect indicating inept policies.

8.6 Regarding petitioner's contention to allow 50% CPI from FY 2021-22, the Authority notes that that matter of revision in HR benchmark formula has been finalized after exhaustive deliberations with both Sui Companies. The Authority notes that currently CPI is continuously showing downward trend and has come down to single digit. i.e 7.2% for October, 2024 as per Federal Bureau of Statistics Report. The Authority notes that it allowed 50% CPI for FY 2024-25 which already is sufficient enough to cater to inflation prevailing in the country and petitioner's claim does not merit consideration.

8.7 ***Accordingly, the Authority finds no valid reason/grounds to review its HR benchmark formula parameters and hence maintains its earlier decision taken at the time of DERR and allowed HR cost at Rs. 24,108 million including IAS-19 for the said year.***

iii. Repairs & Maintenance:

8.8 The Authority has provisionally allowed Rs. 1,686 million against claim of Rs. 2,324 million at the time of DERR for the said year on account of repair & maintenance expenses as per following detail;

Repair & Maintenance (Rs. In Million)		
Description	**Petition FY 2024-25**	**Allowed**
Compression	22	15
Transmission	120	51
Distribution	1090	880
Others (incl H.O. & service depts.)	1092	740
Total	2324	1686

8.9 The petitioner has submitted that restricting the budget equivalent to actual consumption of FY 2022-23 is not rationale, considering the inflationary impact and revision of minimum wage rate by the

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GoP w.e.f. July, 2023. Further, the petitioner has been compelled to revise the schedule rates due to minimum wage rate increase by the GoP, consequently expenses on account of janitorial services, billing disconnection teams and other contractors are expected to increase by almost 28%. In addition, in respect of computer related service level agreements (SLAs), the petitioner while providing the breakdown of various SLAs and highlighting the reasons for increase in projected expense has requested the Authority for approval of petitioned amount.

8.10 ***The Authority notes that the petitioner has repeated its earlier submissions, therefore, the Authority maintains its earlier decision however, any prudent expense will be considered at the FRR stage.***

iv. UFG Control Activities:

8.11 The Authority had allowed Rs. 1,031 million against claim of Rs. 1,949 million at the time of DERR for the said year on account of UFG control activities.

8.12 The petitioner while requesting the Authority for reconsideration of the disallowed budget has reiterated its submissions. The petitioner has submitted that reinstatement of disallowed amount is essentially required to execute UFG control activities and meet inter-alia OGRA Performance and Service Standards, Rules, Environmental obligations and various UFG control programs.

8.13 ***The Authority observes that the petitioner has repeated its stance and no new justifications have been provided for reconsideration of the Authority's decision. Therefore, the Authority maintains its earlier decision in this respect.***

v. Sports Related Activities

8.14 The petitioner has requested to allow projected amount of Rs. 333 million against Rs. 68 million allowed by the Authority per DERR for the said year. The petitioner has stated that its Sports Cell responsible for organizing the Annual Sports Gala and managing various professional sports teams. The petitioner has informed that it has suspended operations for Football, Hockey, and Kabaddi since July, 2023 due to insufficient funding from OGRA. The petitioner has explained that due to lack of funds the directives of Ministry of Inter-Provincial Coordination to continue funding departmental sports and reinstatement of cricket operations could not be yet implemented.

8.15 The Authority observes that actual unaudited spending for FY 2023-24 and July-September, 2024 is Rs. 139 million and Rs. 83 million respectively as against the its allowance of Rs. 68 million in each financial year. The Authority notes that the petitioner is over spending under the head of sports expenses without getting prior approval which definitely raise questions on the licensee's state of affairs as it is governed / managed under a cost-plus formula in a regulated regime. This practice of spending exorbitantly undermines the regulator's role, thereby affecting the entire process of gas pricing determinations. Regarding head-wise analysis of the sports expenses, the Authority notes that out of total expenditure of Rs. 333 million, Rs. 162 million (49%) and Rs. 149 million (45%) has been envisaged against eight games (i.e. Badminton, Football, Hockey, Tennis, Squash, Mountaineering, Sports Climbing & Kabaddi) and cricket respectively. The petitioner, despite various directions, has not provided the details about its planning in respect of these games and terms and details of players engaged. ***In view of the same, the Authority maintains its earlier decision and allows on provisional basis an amount of Rs. 68 million for the said year.***

vi. Legal Professional Charges Professional charges for tax litigations

8.16 The petitioner has claimed Rs. 626 million under the head of "Legal & Professional Charges" as against Rs. 251million allowed per DERR for the said year. The petitioner has explained that an

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additional amount of Rs. 260 million has been projected for engaging a consultant for the matters relating to tax litigation since Salex Tax matters are specialized in nature and requires specific skills set. The petitioner has further submitted that a reduction of Rs. 50 million in its overall claim has been projected i.e. from Rs. 416 million per ERR petition to Rs. 366 million its MFR for the said year. The reduction has been projected due to the rationalization of expenses in the light of Authority's earlier directions.

8.17 Regarding tax consultant, the petitioner has stated that the primary objective for engaging this consultant is to enhance the efficiency of tax filings and allied matters as per prevalent complex tax regime. The petitioner stated that the company serves a vast consumer base, including 38,273 commercial and 2,727 industrial active consumers, and regularly files monthly sales tax returns as required by law. This involves uploading of above-mentioned data and comparing and selecting approximately 5000 to 6000 supplier invoices on the FBR portal for input tax claims each month. However, due to the shortage of qualified personnel experienced in handling complex sales tax return filing and subsequent litigation issues at various forums including Alternative Dispute Resolution Committees (ADRC), it is necessary to engage tax consultants specialized in such matters. The petitioner has further explained that it will be able to secure adjustment of Input GST/PST invoices, after approval of condonation through tax consultants which are presently appearing in Sales tax receivable to the tune of Rs 4 billion. The petitioner has stated that the amount claimed under this head is over and above from the amount already claimed under Legal & professional Charges.

8.18 The Authority notes that the petitioner, through a later communique, has apprised that said claim of Rs. 260 million has now been revised to Rs. 20 million at an initial stage after careful evaluation and negotiation with the consultant. The Authority agrees to the contention of the petitioner that sales tax is a specialized field and requires robust response in the light of recent developments in FBR and Provincial Revenue Authority (PRA). The Authority further notes that hon'ble Prime Minister had also emphasized immediate redressal / disposal for the cases pending in litigation with FBR and other bodies and various meetings on this account have already held with MoE (PD) and other stakeholders. ***The Authority, taking into account the above justification and anticipated revision of agreement at the reasonable level, decides to allow Rs. 20 million for the said year.*** However, regarding rest of its claim under legal and professional charges, the Authority notes that no new justification has been provided by the petitioner, as required under Section 13 of the Ordinance, and hence does not merit consideration.

8.19 ***In view of above, the Authority provisionally allows "Legal & Professional Charges" at Rs. 271 million for the said year.***

vii. Outsourcing of Sales Tax & Billing Affairs

8.20 The petitioner has requested to allow projected amount of Rs. 500 million against "Outsourcing of Sales tax and Billing affairs" which was earlier not claimed by the petitioner at the time of DERR for the said year. The petitioner has stated that the said amount has been provisioned for the outsourcing of tax compliance work (Rs. 50 million) and billing affairs. The petitioner has submitted that it believes that outsourcing of this service is critical to maintain its operational proficiency relating to billing affairs, effectiveness in tax compliance as well as billing affairs to reduce the pressure on HR benchmark cost.

8.21 The petitioner has stated that Rs. 450 million has been allocated in petition for outsourcing of meter reading activity. The petitioner has explained that it is currently utilizing part-time meter readers (PTMR) on an individual engagement basis, where predefined meter reading rates are applied for the monthly reading of all consumer meters. The petitioner has stated that the associated costs for this activity amount to approximately Rs. 400 million annually and are recorded under casual labor as part

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of HR cost. The petitioner has stated that this approach has presented several challenges, including, but not limited to, frequent and undue demands from the meter readers for increased meter reading rates. The petitioner has submitted that to address these issues, it is considering outsourcing the meter reading activity to a third-party service provider through a competitive bidding process. This shift will allow for a more structured and efficient approach, reducing the risks and operational difficulties currently faced.

8.22 The Authority observes that the petitioner is planning to outsource billing affairs by subletting and transferring their functions and duties to third party firms. The Authority further observes that the petitioner has claimed that a saving of Rs. 400 million annually shall be achieved owing to outsourcing of the said activity. The Authority observes that outsourcing is a global cost saving management technique to curtail cost. ***The Authority taking into account HR cost saving and operational efficacy of the petitioner, principally allows the expense subject to actualization at year end provided the expense does not exceed the petitioned amount.*** Further, the Authority agree to outsourcing of activities on contractual basis, being economical resulting in cost curtailment and reducing future obligations; however, the projected saving to the tune of Rs. 400 million should be reflected under HR cost with reduction of spending under the head of causal labor.

viii. Security Expenses

8.23 The petitioner has requested to allow projected amount of Rs. 3,335 million against Rs. 2,250 million allowed at DERR by the Authority under this head. The petitioner has submitted that the approved budget of Rs. 2,250 million will not be sufficient to meet the requirement considering the high actual security expenses and recent increase in minimum wages rates. The petitioner demanded Rs. 480 million were proposed for hiring of Shahbaz Rangers (Sindh) for protection of Sawan – Qadirpur – AC1X segment and there is a misunderstanding about approval of Shahbaz Rangers Sindh in previous decision, the budget for Shahbaz Rangers Sindh has never been approved in past. The petitioner stated that building of new installation and emergence of new sensitive point would require additional security.

8.24 The Authority notes that Shahbaz Rangers (Sindh) provisioning has been allowed in principle at the DERR level, subject to actualization at the time of FRR for the said year, therefore claiming such amount again defies logic and reason. However, the Authority based on petitioner's justification on compliance with minimum wage rate allows 15% increase over actual expense of FY 2023-24 (i.e. Rs. 2,145 million).

8.25 ***In view of the above, the Authority decides to fix security expense at Rs. 2,475 million for the said year.***

ix. Capacity enhancement of Centre Meter Shop (CMS), Lahore

8.26 The petitioner also demanded additional operating expense Rs. 176 million against Capacity enhancement of Centre Meter Shop (CMS), Lahore. The petitioner has demanded HR cost of Executive and Subordinate staff as recurring expense annually to run the CMS premises. The petitioner has intended to handle the additional load of 5600 meter annually for repair maintenance and overhauling purpose. Therefore, the petitioner demanded Rs. 176 million recurring expenses as part of revenue requirement for the said year.

8.27 The Authority notes that the matter is at preliminary stage, therefore claim of recurring operating expenses does not seem logical. Further, the Authority observes that HR cost is allowed on composite basis thereby catering for all HR manpower requirement for the said year, therefore, demanding additional HR cost on the name of capacity enhancement of CMS is not fair and admissible.

8.28 ***The Authority in view of the above, decides to disallow entire amount requested against capacity enhancement of CMS, Lahore for the said year.***

x. Other Operating Expenses

8.29 The petitioner has requested to allow Rs. 9,063 million under various heads as against the Authority's determination of Rs. 8,706 million for the said year as tabulated below:

Table 14: Historical Analysis of Other Operating Expenses

				Rs. in million
Sr. #	Particulars	DERR	The Petition	Difference Inc/(Dec)
		A	B	C=B-A
1	Stores & spares consumed	1,162	1,637	475
2	Repairs & maintenance of system	1,686	2,323	637
3	Rent, rates, royalty, electricity and telephones	829	1,061	232
4	Transport Expenses	1,526	2,500	974
5	Construction Equipment Opt Cost	212	400	188
7	Fuel & Power	708	1,047	339
8	Staff Training Expenses	35	70	35
9	Staff Recruiting Expenses	-	25	25
10	Recovery through contractors - (Disconnected Consumers)	26	-	(26)
11	Sponsorship of Chairs for Universities	8	26	18
12	Outsourcing of Call Centre	33	-	(33)
13	Bannu West Well	2,481	-	(2,481)
	Total	**8,706**	**9,063**	**357**

8.30 The Authority notes that no new material justification has been provided by the petitioner in order to substantiate its claim. Since the Authority had already considered the repeated arguments while deciding DERR for the said year, therefore considering such amount based on repetitive generic justifications holds no logic. ***In view of the above, the Authority decides to maintain these expenses (i.e. 8,706 million) at the level of DERR level for the said year as tabulated above.***

8.31 The petitioner during public hearing requested to allow Rs. 27 million as its share of the study fee on account of "Integrated Energy Study (Oil & Gas Demand/Supply) for Pakistan. The petitioner has submitted that MOE (PD) has initiated the process for undertaking study on requirements and future demand of gas infrastructure. The petitioner has further explained that MOE(PD) has assigned the task and nominated Mari Petroleum Company Limited (MPCL) to take lead for undertaking the said study with consultant namely Wood Mackenzie Asia Pacific Limited with costs to be shared equally among the consortium comprising of MPCL, OGDCL, PPL, GHPL, SNGPL, SSGCL, PLL and ISGS. The petitioner has stated that its share in the anticipated study comes to Rs. 27 million and has requested to principally allow the same.

8.32 ***The Authority based on the justification of the petitioner principally allows the said amount subject to actualization at year end.***

8.33 In view of the above discussion, the Authority provisionally allows T&D costs as per table below:

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Table 15: Transmission & Distribution Cost Allowed by the Authority

(Rs. in million)

Sr. #	Particulars	DERR	The Petition	As allowed
1	Net HR Cost	24,108	34,771	24,108
2	Stores & spares consumed	1,162	1,637	1,162
3	Repairs & maintenance of system	1,686	2,323	1,686
4	Stationery, telegrams and postage	350	350	350
5	Rent, rates, royalty, electricity and telephones	829	1,061	829
6	Travelling expenses	200	200	200
7	Transport Expenses	1,526	2,500	1,526
8	Construction Equipment Opt Cost	212	400	212
9	Insurance	315	315	315
10	Fuel & Power	708	1,047	708
11	Legal and Professional services	251	366	251
12	Professional charges for tax litigations	-	260	20
13	Outsourcing of Sales Tax & Billing Affairs	-	500	-
14	ISO certification	14	14	14
15	Advertisement & publicity	265	265	265
16	Protective clothing & Supplies	101	101	101
17	Staff Recruiting expenses	-	25	-
18	Staff Training Expenses	35	70	35
19	Security expenses	2,250	3,335	2,475
20	Sponsorship of Chairs for Universities	8	26	8
21	Outsourcing of Call Centre	33	39	33
22	Sports cell expenses / Annual Sports	68	333	68
23	OGRA Fee	639	639	639
24	Bank Charges	10	10	10
25	Facilities Provided by other companies	25	25	25
26	Board Meeting and directors expenses	71	71	71
27	Corporate Social Responsibility	20	20	20
28	Recovery through contractors - (Disconnected Consumers)	26	80	26
29	Other expenses	80	80	80
30	Gas Bills Collection Charges	650	650	650
31	UFG Control Activities	1,031	1,949	1,031
32	Gathering charges of collection data	60	60	60
33	Dispatch Of Gas Bills	400	400	400
34	Provision for doubtful debts	971	971	971
35	Bannu West Well	2,481	2,654	2,481
36	Quality Assurance Program	-	-	-
	Gross Operating Cost	**40,586**	**57,548**	**40,831**
	Allocation to CWIP	(600)	(600)	(600)
	Allocation to Gilgit LPG Air Mix Plant	(55)		
	Net Operating Cost	**39,931**	**56,948**	**40,231**
	Operating Costs- Allocated to RLNG	16,008	22,830	16,128
	Operating Costs- Allocated to Indigenous Gas	23,923	34,118	24,102

9 RLNG Cost of Service

9.1 The petitioner has claimed Rs. 70,161 million on account of RLNG cost of supply at Rs. 304.27/MMBTU for the said year as per table below:

Table 16: RLNG's Cost of Service as claimed by the petitioner

Particulars	The Petition
Quantitative Data:	***BBTU***
RLNG Input (net off LNG retained by PLL for KE)	339,131
Retainage / gas used in FSRU @ 0.75%	(2,543)
Retained by SSGC	(28,744)
GIC - SSGCL network	(1,610)
GIC - SNGPL network	(3,218)
UFG	(9,799)
RLNG (Diverted to)/taken from System Gas	(62,628)
Net RLNG sold	**230,589**
Cost Components	***Million Rs.***
Amortization of Deferred Credit	(743)
LPS Income	(12,500)
Rental and Service Charges	(24)
Depreciation	2,826
Return on Assets	9,711
HR and other relevant costs allocated to RLNG	22,830
Transportation charges payable to SSGC	15,302
Finance cost of working capital	32,617
WPPF	142
Total Rs. in Million	**70,161**
Rs/ MMBTU	**304.27**

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9.2 The petitioner has projected reduction in projected throughput volume at 339,131 BBTU over DERR while an increase projection has been made in RLNG diversion volume 62,628 BBTU to domestic sector.

9.3 The petitioner has stated that there has been overall reduction in consumption by Power & General Industry sectors and discontinuation of supply to Captive Power to National Grid shall further dampen the consumption. The petitioner has explained that it has firm Take or Pay contracts for purchase of LNG from Qatar while reduction in consumption has resulted in surplus RLNG. The petitioner has further informed that in current year's annual delivery program (ADP), PSO has exercised downward flexibility clause and have deferred 5 cargoes in subsequent years. Despite curtailing the cargoes, the petitioner has stated that it is anticipating surplus RLNG, hence the petitioner is forced to reduce input from indigenous sources to accommodate surplus RLNG.

9.4 The petitioner has stated that the Authority has allowed the 25% of amount projected by the company (i.e. Rs. 6,340 million against Rs. 25,361 million) under the head of markup on running finance. The petitioner has submitted that deferring a major portion of finance cost will increase the risk piling up of shortfall / circular debt in the RLNG segment as the major portion of finance cost will remain unrecovered and may cause disruption of RLNG supply chain. The petitioner has emphasized that prior year shortfall relating to diversion stands at Rs. 260 billion approx. upto October 2023 which still requires working capital requirement for payment to the LNG suppliers.

9.5 The petitioner has stated that reduction of take or pay of Power sector at 33% would result in increase in RLNG Diversion due to non-off take of their committed demand and reduction in full recovery. Further, the petitioner stated that the petitioner had initially projected finance cost to the tune of Rs. 25,361 million, based on Rs. 110 billion financing for actual payments to LNG/RLNG suppliers at the time of projections. The petitioner has clarified that an additional loan amounting to Rs. 40 billion has also been arranged in line with the direction of MoE for onward payment to PSO, which has further increased the projected finance cost at Rs. 32,617 million for the said year. The petitioner has requested to allow the revised cost of supply for the said year enabling the full recovery of finance cost through monthly RLNG sale prices.

9.6 The Authority notes that petitioner at the time of MFRR for FY 2022-23 has provided a certificate by an independent auditor in line with its direction to ascertain the quantum of outstanding LNG suppliers. Previous years' RLNG diversion and difference of adjustment of input/output tax, power sector receivables necessitate the petitioner to borrow from commercial banks for payment to PLL and PSO. ***The Authority, however, keeping in view of past accumulated price differential, decides to allow 50% (i.e. Rs. 16,309 million) under cost of service to ensure smooth functioning of RLNG supply chain. Moreover, the Authority reiterates its stance contained in letter dated March 15, 2023 and directs the petitioner to utilize this running finance facility exclusively for paying obligations to PSO and PLL to maintain smooth operations under RLNG supply chain and accordingly a certificate at the time of FRR from independent auditor be provided in compliance of OGRA's letter dated march 15, 2023.***

9.7 The Authority, per its decision in para 6.6 above, determines the RLNG input volume at 345,477 for the said years. Keeping in view of the above, RLNG cost of service has been re-computed as tabulated below:

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Table 17: Computation of RLNG Cost of Service

Particulars	The Petition	As Allowed
Quantitative Data:	***BBTU***	**BBTU**
RLNG Input (net off LNG retained by PLL for KE)	**339,131**	**345,477**
Retainage / gas used in FSRU @ 0.75%	(2,543)	(2,591)
Retained by SSGC	(28,744)	(28,744)
GIC - SSGCL network	(1,610)	(1,366)
GIC - SNGPL network	(3,218)	(2,664)
UFG	(9,799)	(10,889)
RLNG (Diverted to)/taken from System Gas	(62,628)	(49,327)
Net RLNG sold	**230,589**	**249,897**
Cost Components	***Rs. in million***	**Rs. in million**
Amortization of Deferred Credit	(743)	(743)
LPS Income	(12,500)	(12,500)
Rental and Service Charges	(24)	(24)
Depreciation	2,826	2,826
Return on Assets	9,711	9,711
HR and other relevant costs allocated to RLNG	22,830	16,128
Transportation charges payable to SSGC	15,302	14,032
Finance cost of working capital	32,617	16,309
WPPF	142	142
Total Rs. in Million	**70,161**	**45,881**
Rs/ MMBTU	**304.27**	**183.60**

10 Determination

10.1 The Authority, after taking into consideration points raised by interveners, clarifications provided by petitioner, scrutiny of petition and available record, provisionally determines the shortfall for said year at Rs. 4,168 million (Annexure-I). Accordingly, the revenue requirement is provisionally allowed at Rs. 578,351 million as tabulated below:

Table 18: Components of Revenue Requirement FY 2023-24 as allowed by the Authority:

Million Rs.

Particulars	Claimed by the peitioner	As Allowed
Cost of gas sold	502,272	474,546
UFG (disallownce) / allowance	(2,894)	(6,076)
Transmission and distribution cost	34,294	24,102
Gas internally consumed	1,278	1,097
Depreciation	24,680	22,743
Workers Profit Participation Fund	455	455
Return on assets	38,120	28,143
Additional revenue requirement for LPG Air-Mix Projects	489	488
Other operating income	(17,950)	(17,950)
Total Revenue Requirement	580,744	527,548
Prior year shortfall/Available Cushion Adjustment, as per Federal Cabinet decision dated 30.6.2024		50,803
Total Revenue requirement FY 2024-25 after adjustment of Cushion Available		578,351

10.2 The Authority notes that based on the current notified prescribed price, adjustments with regard to change in volume as well as cost of gas and existing sale prices as per RERR projections, additional recovery to the tune of Rs. 54,971 million is estimated to be available, therefore, the shortfall determined above amounting to Rs. 4,168 million is adjusted against the additional recovery, leaving Rs. 50,803 million for adjustment of prior years' shortfall in pursuance of the decision of the Federal Cabinet in case no. ECC-156/14/2024 dated June 30, 2024 advising to adjust the prior year shortfall to the extent of possible recovery during current financial year. ***In the light of para 10.1 above and the decision of Federal Cabinet, cumulative prior year shortfall is adjusted to the extent of possible***

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recovery subject to actual recoupment at the time of FRR.

10.3 The Authority notes that the petitioner submitted revised petition dated October 18, 2024 based on the premise that captive power plants shall be disconnected from January, 2025, leading to surplus RLNG in the system and consequent increase in diversion volume to domestic sector. On query, the petitioner informed that it has no written policy communication from FG for disconnection of CPPs, except verbal advice. The Authority notes that various intervenors, especially industry, has also raised its concerns on this matter of anticipated disconnection of CPPs from January, 2025 during public hearing held in Lahore. The Authority observes that the petitioner's gas supplies to its various categories of consumers are based on the Gas Load management Policy of the Federal Government, as advised from time to time. Moreover, the gas supply from indigenous sources as well as RLNG import and its allocation to gas utilities is also decided by the Federal Government. OGRA has been mandated to determine the revenue requirement whereby it ensures that the applicable policies of the FG are duly implemented by the gas utilities and accordingly the revenue requirement are determined by OGRA.

10.4 In the light of the above, the Authority considered it expedient to engage with the FG. A series of meetings were held with MoE (PD) team led by honorable Minister for Petroleum accompanied by Secretary Petroleum, Additional Secretary, Director General Gas and sui companies represented through respective Managing Directors along-with senior management to deliberate on the issue of disconnection of captive power plants effective January, 2025. The challenges consequent to the disconnection of CPPs were discussed at length including access to national grid, surplus volumes of indigenous natural gas as well as RLNG and reduction in sales revenues impacting the overall revenue requirement. The Authority observes that in case of exclusion of Captive power supplies, the petitioner shall be constrained to divert additional 12,807 MMCF RLNG to system gas consumers with rollover of five RLNG cargoes of MMCF 5,836. Further, the Authority notes that local supplies would also be curtailed over January to June 2025 tenure due to surplus volume of RLNG available in the system. The Authority observes that if the FG decides to proceed with the disconnection of CPP, effective January 2025, the petitioner's revenue requirement after adjustment of cushion available would amount to Rs. 560,161 million (Rs. 1,746.22/MMBTU), thus reducing the available cushion to Rs. 7,890 million.

10.5 The Authority, under Section 8(2) of the Ordinance refers the instant determination to the FG for natural gas sale price advise. Under Section 8 (3) of the Ordinance, the FG is required to advise the Authority, within 40 days of advice from the Authority of revision of prescribed prices, the minimum charges and the sale price for each category of retail consumers, for notification in the Official Gazette by the Authority.

10.6 The revised provisional prescribed price determined, under Section 8(2) of the Ordinance, against each category of consumers is subject to the condition that these *"may be re-adjusted upon receipt of Federal Government advice under Section 8 (3) of the Ordinance in respect of the sale price of gas for each category of retail consumers provided that the overall increase in the average prescribed price remains unchanged so that the petitioner is able to achieve its total revenue requirements in* accordance with Section 8 (6) (f) of the Ordinance."

10.7 The Authority, however, reiterates that latest amendment in OGRA's Act requires FG to ensure adequate and timely gas price revision within the stipulated time period. The latest amendments in relevant legal provisions of Section 8(3) & (4) are reproduced below;

Section 8(3) of the Ordinance

The Federal Government shall, within forty days of the advice referred to in sub-sections (1) and (2), advise the Authority of minimum charges and the sale price for

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each category of retail consumer for natural gas for notification in the official Gazette by the Authority of the prescribed price as determined in sub-sections (1) and (2), the minimum charges and the sale prices for each category of retail consumers for natural gas.

Federal Government shall ensure that the sale prices so advised are not less than the revenue requirement determined by the Authority.

Section 8(4) of the Ordinance

If the FG fails to advise the Authority within the time specified in sub-section (3), ***the category wise prescribed prices so determined by the Authority under sub-section (1) and (2), as the case may be, shall be notified by the Authority as the category wise sale prices.***

11 Public Critique, Views, Concerns, Suggestions

11.1 The Authority has recorded critique, views, concerns, and suggestions of the interveners and participants given in Para 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. The petitioner should focus and make concerted efforts on reduction of UFG, improvement of internal control systems, increase of efficiency, quality of service, emergency response plan, and effective cost control/reduction measures should be taken to remain financially viable instead of making all out of efforts to seek passing on of costs associated with its own inefficiencies, malpractices, thefts, bad debts and alike to the consumers.

11.2 All other directions/decisions issues at DERR for the said year, unless specifically revised/amended under the RERR, shall remain in full force and effect.

Mohammad Naeem Ghouri
Member (Finance)

Zain-ul-Abideen Qureshi (Member Oil)

Masroor Khan
(Chairman)

Senior Registrar
Oil & Gas Regulatory Authority
Islamabad

1. Computation of Review Estimated Revenue Requirement FY 2024-25

Rs. in million

		DERR FY 2024-25	The Petition FY 2024-25	Adjustment	As Allowed
	Gas sales volume -MMCF	387,192	337,822	6,413	344,235
	BBTU	371,296	320,785	4,432	325,217
"A"	**Net Operating revenues**				
	Net sales at current prescribed price	607,403	560,161	(36,781)	523,380
	Rental & service charges	4,101	4,101	-	4,101
	Late Payment Surcharge and interest on arrears	7,387	7,387	-	7,387
	Amortization of deferred credit	3,194	3,194	-	3,194
	Transportation Income	1,217	1,217	-	1,217
	Other operating income	2,050	2,050	-	2,050
	Total income "A"	**625,353**	**578,111**	(36,781)	**541,330**
"B"	**Less Expenses**				
	Cost of gas sold (Indigneous Gas only)	373,524	294,630	17,416	312,046
	Cost of RLNG	183,546	207,642	(45,142)	162,500
	UFG Adjustments	(8,992)	(2,894)	(3,182)	(6,076)
	T& D cost, net of capital allocation	23,923	34,118	(10,016)	24,102
	Gas internally consumed	1,696	1,278	(181)	1,097
	Depreciation	22,701	24,680	(1,937)	22,743
	Capacity enhancement of CMS Lahore	-	176	(176)	-
	WPPF	455	455	-	455
	Total expenses "B"	**596,852**	**560,084**	(43,217)	**516,867**
"C"	**Operating profit / (loss)(A - B)**	**28,500**	**18,027**	6,435	**24,462**
	Return required on net assets:				
	Net assets at begining	129,373	129,373	-	129,373
	Net assets at ending	119,961	197,668	(76,986)	120,682
		249,334	*327,041*	(76,986)	*250,055*
	Average fixed net assets (I)	**124,667**	**163,521**	(38,493)	**125,028**
	Deferred credit at begining	17,200	17,200	-	17,200
	Deferred credit at ending	15,706	15,706	-	15,706
		32,906	**32,906**	-	**32,906**
	Average net deferred credit (II)	**16,453**	**16,453**	-	**16,453**
"D"	**Average operating assets (I-II)**	**108,214**	**147,068**	(38,493)	**108,575**
	Return required on net assets	25.92%	25.92%	-	25.92%
"E"	Amount of return required	28,049	38,120	(9,977)	28,143
"F"	Shortfall/(Excess) FY 2024-25 - gas operations (C-E)	**451**	**20,093**	**(16,412)**	**3,680**
"G"	Additional revenue requirement for LPG Air-Mix Projects	451	489	(1)	488
"H"	Shortfall/(Excess) FY 2024-25 without previous years shortfall (E-G)	**(0.00)**	**20,582**	**(16,413)**	**4,168**
	Average Inc/(Dec) in Prescribed Price FY 2024-25 (Rs. /MMBTU)	0.00	64.16	(78)	(13.76)
"I"	**Total Revenue requirement FY 2024-25 net off revenues**	**607,403**	**580,744**	**(53,195)**	**527,548**
"I"	**Average Prescribed Price (PP) FY 2024-25(Rs./MMBTU) ***	**1,635.90**	**1,810.38**	**(188)**	**1,622.14**
	Prior years shortfall adjustment as per Federal Cabinet dicision dated 30-6-2024		**589,354**	**(538,551)**	**50,803**
	Total Shortfall (including previous year shortfall **)		**609,936**	**(554,964)**	**54,971**
	Inc/(dec) in Average Prescribed Price FY 2024-25 (Rs. /MMBTU)		**1,901.38**	**(1,759)**	**142.45**
	Prescribed Price for FY 2024-25 (Rs./MMBTU) after prior year shortfall		**3,647.61**	**(1,869)**	**1,778.35**
	Total Revenue requirement FY 2024-25 including previous year shortfall		**1,170,098**	**(591,746)**	**578,351**

* **Increase in current Average Prescribed Price over DERR is due to sales volume variance and rate variance.**

** **The petitioner's previous year revenue shortfall was not part of the petition; however the same is incorporated for completeness.**

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2. Category wise Provisional Prescribed Price 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	1,778.35
	Upto 0.50 hm3 per month	250.00	1,778.35
	Upto 0.60 hm3 per month	300.00	1,778.35
	Upto 0.90 hm3 per month	350.00	1,778.35
**	**Non-Protected:**		
	Upto 0.25 hm3 per month	500.00	1,778.35
	Upto 0.6 hm3 per month	850.00	1,778.35
	Upto 1 hm3 per month	1,250.00	1,778.35
	Upto 1.5 hm3 per month	1,450.00	1,778.35
	Upto 2 hm3 per month	1,900.00	1,778.35
	Upto 3 hm3 per month	3,300.00	1,778.35
	Upto 4 hm3 per month	3,800.00	1,778.35
	above 4hm3 per month	4,200.00	1,778.35
	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. 3,000 per MMBTU w.e.f. 01-7-2024		
	All off-takes at flat rate of	2,900.00	1,778.35
(ii)	**Special Commercial Consumers (Roti Tandoors)**		
	Upto 0.5 hm3 per month	110.00	1,778.35
	Upto 1 hm3 per month	110.00	1,778.35
	Upto 2 hm3 per month	220.00	1,778.35
	Upto 3 hm3 per month	220.00	1,778.35
	Over 3 hm3 per month	700.00	1,778.35
(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	1,778.35
(iv)	**Ice Factories:**		
	All off-takes at flat rate of	3,900.00	1,778.35
(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	1,778.35
(viii)	**General Industrial (Captive):**		
	All off-takes at flat rate of	3,000.00	1,778.35
(ix)	**CNG**		
	All off-takes at flat rate of	**3,750.00**	**1,778.35**
(x)	**Cement Factories:**		
	All off-takes at flat rate of	4,400.00	1,778.35
(xi)	**Fertilizer Companies:**		
	(i) For gas used as feed-stock for Fertilizer		
	All off-takes at flat rate of	1,597.00	1,778.35
	(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	1,778.35
(xii)	**Power Stations:**		
	(a) WAPDA's Power Stations and other electricity utility companies excluding WAPDA's Natural Gas Turbine Station, Nishatabad, Faisalabad		
	All off-takes at flat rate of	1,050.00	1,778.35
	b) WAPDA's Natural Gas Turbine Stations, Nishatabad, Faisalabad		
	All off-takes at flat rate of	1,050.00	1,778.35
	Fixed charges (Rupees per month)	390,000	390,000
(xiii)	**Independent Power Producers**		
	All off-takes at flat rate of	1,050.00	1,778.35

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