(آئل اینڈ گیس ریگولیٹری اتھارٹی) OIL & GAS REGULATORY AUTHORITY
"SAY NO TO CORRUPTION"

Case No. OGRA-6(2)-1(3)/2016-DERR

IN THE MATTER OF

SUI NORTHERN GAS PIPELINES LIMITED ESTIMATED REVENUE REQUIREMENT, FY 2017-18

UNDER

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

DECISION

September 20, 2017

Before:

Ms. Uzma Adil Khan, Chairperson
Mr. Noorul Haque, Member (Finance)
Dr. Abdullah Malik, Member (Oil)

CERTIFIED TRUE COPY

(1)

CONTENTS

ANNEXURES

TABLES

1. BACKGROUND

1.1. Sui Northern Gas Pipelines Limited (the petitioner) is a public limited company, incorporated in Pakistan, and listed on Pakistan Stock Exchange. The petitioner is operating in the provinces of Khyber Pakhtunkhwa, Punjab and Azad Jammu & Kashmir under the license granted by the Oil & Gas Regulatory Authority. It is engaged in the business of construction and operation of gas transmission and distribution pipelines, sale of natural gas and sale of gas condensate (as a by-product). The petitioner is also engaged in the business of Re-gasified Liquefied Natural Gas (RLNG) and transportation of the same for the private parties on commercial basis, in accordance with the decisions of the Federal Government (FG).

1.2. The petitioner filed the petition for determination of estimated revenue requirement for FY 2017-18(the said year) on January 16, 2017under Section 8(1) of the Oil & Gas Regulatory Authority Ordinance, 2002 (the Ordinance) and Rule 4(2) of the Natural Gas Tariff Rules, 2002 (NGT Rules). In the petition, the petitioner has merged the LNG business account with the natural gas activities and claimed total revenue shortfall at Rs. 40,834 million for the said year*(the amounts have been rounded off to the nearest million here and elsewhere in this document)*. The petitioner vide its letter dated April, 3, 2017 revised the petition to the effect that it has ring fenced the RLNG activity and claimed shortfall in the estimated revenue requirement of Rs. 283,705 million, at Rs. 42,203 million translating into increase of Rs. 96.25 per MMBtu w.e.f July 1,2017.

1.3. The petitioner submitted an amended petition on April 07, 2017 on the premise that new gas source from "Tolanj" has been discovered by M/s MOL from which total gas of 20 MMscfd will be supplied to it. Further, the petitioner submitted that its Board of Directors has accorded approval for laying of 8" dia x 3.2 KM pipeline for receiving additional gas at the total capital outlay of Rs. 57,053 million which has been factored in the petition. Accordingly the petitioner has reworked out the revenue requirement at Rs. 283,713 million, the revenue shortfall at Rs. 42,209 million and demanded the increase in prescribed prices at Rs. 96.27 per MMBtu w.e.f July 1, 2017.

1.4. The petitioner on May 19, 2017 further amended the petition **(the petition)** owing to revision in Capital Expenditure (CAPEX) estimates for distribution development and receiving additional gas from different localities, as accorded by its Board of Directors. In the petition, Revenue Requirement for the said year has been estimated at Rs. 283,780 million, estimated operating income at Rs. 218,696 million and revenue shortfall at Rs. 42,259 million, translating into increase of Rs.96.38 per MMBTU in the current average prescribed prices w.e.f. July 1, 2017. The petitioner at the time of public hearing also highlighted that previous years' shortfall amounting to Rs. 24,245 million determined in FY 2016-17 has not been included in the instant petition since it is already a determined figure. Further, RLNG activities has been entirely ring fenced as per FG decisions, accordingly no cost on this account has been included in the petition for the said year.

1.5. The petitioner's submission is summarized in the following statement of cost of service per MMBTU and compared with previous years:

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

Rs/MMBtu

Particulars	FY 2015-16 FRR	FY 2016-17 DERR	FY 2017-2018 The Petition
Sales volume (BBTU)	408,106	418,840	438,471
Cost of gas	384.81	307.11	418.33
UFG disallowance	(18.42)	(16.81)	
Transmission & distribution	48.31	52.26	74.63
New Regions Cost	-	-	5.44
Depriciation	25.97	41.15	43.12
Other charges including WPPF	2.93	2.72	1.90
Impact of IAS 19 (Recognization of Actuarial Losses) for FY 2015-16	9.26	-	-
Late Payment Surcharge	20.51	-	7.30
Finance Cost for working capital	0.30	-	0.11
Prior Year Adjustment	110.30	106.82	-
CBA agreement claim (1980-90)	-	-	-
Total Operating Cost	199.16	186.14	132.49
Return on fixed assets	36.90	45.51	44.32
Other operating income	(58.93)	(58.15)	(22.10)
Avg Cost of service/ Prescribed price	561.94	480.61	573.04
Current average prescribed price	410.05	422.74	476.66
Incr/(decr) in Avg. PP	151.89	57.87	96.38

AL WA

1.6. The Authority admitted the petition for consideration, as a prima facie case for evaluation existed and was otherwise in order.

1.7. A notice inviting interventions / comments on the petition from the consumers, general public and other interested / affected persons, was published on June 01, 2017 in daily local newspapers. The Authority received applications to intervene in the proceedings from the following persons / entities:

1. Mr. Raziuddin, Chief Executive Officer, Khyber Pakhtunkhwa Oil & Gas Company Ltd. (KPKOGCL), Govt. of Khyber Pakhtunkhwa.
2. Energy & Power Deptt. Govt of KPK, Peshawar
3. Mr. Mehmood Elahi, Mehmood Elahi Engineers, Faisalabad.
4. All Pakistan Textiles Mills Association.

1.8. The Authority accepted the above mentioned applications for intervention.

1.9. A notice intimating the date, time and place of the public hearing, was published in daily newspaper, on July 15, 2017.

2. Salient Features of the Petition

2.1. Following submissions have been made in the petition

2.1.1. The petitioner has claimed annual return at the rate of 17.5% of the net fixed assets in operation, before corporate income tax, in accordance with license condition No. 5.2.

2.1.2. The petitioner has projected a gross addition of Rs. 62,553 million in the fixed assets and ex-depreciation addition of Rs. 43,646 million, resulting in projected increase in the net operating fixed assets from Rs. 105,013 million per FY 2016-17 to Rs. 148,659 million during the said year. The petitioner has further claimed that after adjustment of deferred credits, the net average operating fixed assets eligible for return works out to Rs. 111,050 million, and the required return to Rs. 19,434 million.

2.1.3. The petitioner has projected the net operating revenues at Rs. 218,696 million, detailed below and compared with previous years:

CERTIFIED TRUE COPY

Table 2: Comparison of Projected Operating Revenues with Previous Years

Rs. Million

Description	FY 2015-16	FY 2016-17		FY 2017-2018	Incr/Decr over Actual	
	FRR	DERR	Actual	The Petition		
Net sales at current prescribed price	167,344	177,060	195,218	209,003	13,785	7%
Rental and service charges	1,601	1,918	1,914	1,968	54	3%
Surcharge and interest on arrears	16,061	6,100	3,119	3,600	481	15%
Amortization of deffered credit	2,765	2,527	3,250	2,615	(635)	-20%
Income on transportation of RLNG	2,615	12,351	-	-	-	0%
Other operating income	1,011	1,460	1,701	1,510	(191)	-11%
Net operating Revenues	**191,397**	**201,416**	**205,202**	**218,696**	**17,280**	**9%**

2.1.4. The petitioner has projected the net operating expenses at Rs. 241,521 million, as detailed below (and compared with previous years):

Table 3: Comparison of Projected Operating Expenses with Previous Years

Rs in Million

Description	FY 2015-16	FY 2016-17		FY 2017-18	Inc/(Dec) over Actual	
	FRR	DERR	Actual	The petition		
Cost of gas	157,043	128,632	155,013	183,426	28,413	18%
UFG disallowance	-	(7,044)	-	-	-	0%
Transmission & distribution cost	21,657	21,892	21,923	32,724	10,801	49%
New Regions cost	-		-	2,384	2,384	#DIV/0!
Depreciation	10,451	17,238	11,073	18,907	7,834	71%
Other charges including WPPF	1,195	1,138	(38)	833	871	-2291%
Impact of IAS 19 (Recognization of Actuarial Losses) for FY 2015-16	3,779	-	4,902		(4,902)	-100%
Interest expense on LPS 2014-15 & 2015-16	16,377	-		-	-	0%
Prior Year adjustment	44,743	-	65,348	-	(65,348)	-100%
Late Payment Surcharge (payable)			2,978	3,200	222	7%
Finance cost for working capital	993	-	35	48	13	37%
TOTAL OPEX	99,195	33,224	106,221	58,095	(48,126)	-45%
Total T& D Cost	256,238	161,855	261,234	241,521	(19,713)	-8%

2.1.5. The petitioner has projected Weighted Average Cost of Gas (WACOG) for the said year at Rs. 377.26 per MMBTU, as against Rs. 275.18 per MMBtu determined in Determination of Estimated Revenue Requirement (DERR) FY 2016-17. The petitioner has explained that cost of gas is linked with international prices of crude oil (Crude) and High Sulphur Fuel Oil (HSFO) per

Gas Pricing Agreements (GPAs) executed between the producers and GoP.

2.1.6. The shortfall in the projected revenue requirement after achieving 17.5% return on average net operating fixed assets is estimated at Rs. 42,259 million, requiring an increase of Rs.96.38 per MMBTU in the existing average prescribed price, as detailed below:

Table 4: Computation of Requested Decrease in Average Prescribed Price

	Description	Rs in Million
A	Net operating revenues	218,696
B	Less:Net operating expenses including WPPF	241,521
C	(Shortfall)/Excess (A-B)	(22,825)
D	Return required @ 17.5% on net fixed assets in operation	19,434
E	Total shortfall/ (excess) in revenue requirement (D-C)	42,259
F	Sales volume (BBTU)	438,471
Increase (Decrease) in the average prescribed price (Rs/MMBTU) (E/F*1000)		**96.38**

3. Proceedings

3.1. The Public Hearing

3.1.1. A public hearing was held at Lahore on July 31,2017 which was participated by the following;

Petitioner

i. Team led by Mr. Amjad Latif, Managing Director
ii. Legal counsel, Mr. Mirza Mehmood Ahmad.

Intervener/Participants

i. Mr. Mehmood Elahi, Faisalabad
ii. Mr. Muhammad Aslam Chaudhry, Lahore
iii. Mr. Ghulam Qadir Awan, Lahore
iv. Mr. Mehboob Elahi, Hassan & Co. Sargodha

v. Mr. Khizar Hayat, Faisalabad

vi. Mr. Abdul Waheed, Waheed Ullah & Sons, Faisalabad

vii. Khan Brother, Sargodha

viii. Mr. Tanveer Yousaf, Executive Officer, Media.

3.1.2. A public hearing was also held at Peshawar on August 3, 2017 which was participated by the following;

Petitioner

3.1.3. Team led by Mr. Amjad Latif, Managing Director (Services)

Intervener/Participants

i. Khyber Pakhtunkhwa Oil & Gas Company Limited (KPOGCL), officials, representing, Energy Department, Government of Khyber Pakhtunkhwa.

ii. Mr. Rehmat Jadoon, ex- district Nazim Karak, Joint Secretary, Pakistan Muslim League (N)

iii. Mr. Asghar Arif, Joint Secretary, The Network, Khyber PakhtunKhwa

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

3.2.1. The petitioner's legal counsel, during the hearing, submitted that Section 6 of the Ordinance obligates the Authority to safeguard the public interest, including the national security interests of Pakistan in relation to regulated activities. The public interest would mean something in which public at large had some interest or by which their rights or liabilities were affected, but would not mean interest to a particular person. Further, Section 6(2)(q) protects the interest of all stakeholders including the customer and licensee.

3.2.2. The counsel further highlighted that Section 7 of the Ordinance provides that the Authority shall determine or approve the tariff for regulated activities keeping in view the cost of alternate or substitute source of energy. The counsel contended that in tariff determination process, the Authority is not only obligated to protect the interests of gas consumers, but the interests of public at the large. The natural gas sale prices for different consumers, particularly domestic consumers which constitute a small segment of the society, are already subsidized and far less than cost of alternate fuel i.e. LPG or wood paid by most of the general public.

3.2.3. The counsel argued that the powers and functions of the OGRA as well as its obligations are much greater than that of any other regulator.

3.2.4. The counsel highlighted that tariff exercise in terms of Section 7 of the Ordinance subject to policy guideline of the FG which refers the provision of reasonable rate of return, encouragement and reward of efficiency, minimizing the economic distortion and keeping in view cost of alternate or substitute source of energy.

3.2.5. The counsel also referred Section 8(4) of the Ordinance and submitted if the FG fails to advise Authority the gas sale prices within the time specified the under Section 8(3) of the Ordinance, Section 8(4) of the Ordinance provides Authority to notify the prescribed prices under each category of consumer as sale price.

3.2.6. The counsel also argued that total revenue requirement under Section 8(6)(h) ensures guaranteed return and provides that total revenue requirement of the licensee shall be determined so as licensee may achieve 17.5% return. Legal counsel, during the hearing, also requested the Authority to discharge its functions in accordance with Section 6(2)(f),(o) & (q) of the Ordinance, and to ensure level playing field for all the stakeholders as stipulated in Rule 17(1)(c) & 17(2) of NGT Rules.

3.2.7. The public hearing in respect of UFG benchmark have already been taken place and SNGPL has participated in all public hearings and given its comments based on the reports made available to it by the Authority. The petitioner demanded that benchmark system has to be balanced and in line with the internationally recognized best practices enabling it to undertake effective and comprehensive UFG reduction plan. In order to provide the sanctity to UFG study report, there needs to be consensus regarding law & order affected areas and Key Monitoring Indicators. Further, the counsel requested to allow its justified UFG claim in the instant petition.

3.3. The substantive points made by the interveners during the hearing as well as in writing are summarized below;

3.3.1. The decision of RLNG pricing under the petroleum product (petroleum levy) Ordinance 1967 is incorrect which needs to be rectified on immediate basis. RLNG in all its chemical composition is natural gas recognized world over. To treat the same a different commodity is therefore not defendable.

3.3.2. OGRA is obligated to protect the interest of both i.e; the petitioner as well as consumers. From consumer perspective, it is only the Authority who is to watch the consumer's interests. Therefore the consumer's contention and complaints on various issues are agitated before the Authority.

3.3.3. Logically, the petition is deficient of price, cost analysis etc. The petitioner is only interested to submit the issues before OGRA, no plan for consumer betterment and facilitation as such is part of petition.

3.3.4. The Economic Coordination Committee of the Cabinet (ECC) has no domain to override the legal framework. Law & order allowance which is built in part of price is not due to fault of all consumers. The same therefore should not be factored and the honest consumers should not be penalized.

3.3.5. Tariff sheet is not showing UFG. RLNG sale is in bulk which is less prone to UFG. It was demanded to provide UFG calculation in the context that RLNG injection in the network and sale to bulk consumers should have dwarfed down the UFG level.

3.3.6. Lavish increase in HR cost, directors remunerations etc; is ultimately borne by the consumers. The increase in their HR cost is not balanced with respect to the remuneration of Government employees. A salary of subordinate of the petitioner is much higher than 18 grade government officer. This anomaly needs to be eliminated and salaries of the employees be fixed at the reasonable level and linked with performance. Further, free gas facility allowed to company employees is grossly misused which must be withdrawn.

3.3.7. Petitioner claim for loss of profit is not understandable. Further, the petitioner is incurring fabulous expenses under the head "legal" to protect the shareholder interests. In the scenario, the consumer should not be penalized. Similarly provision for doubtful debt primarily arises due to management inefficiencies and delay in the disconnection. The petitioner therefore should not be penalized. Further, increase in security expenses, advertisement has no justification to allow, accordingly the same may be rejected. The intervener criticized that advertisement is a tool of favoritism, as such it does not have effectiveness to benefit the regulated activities. Prints on the bills are economic and effective medium for advertisement which should be judiciously availed.

3.3.8. No purposeful activity is undertaken under the head "staff training" It is only the source to oblige the retired executives, which must be stopped. It was also stressed to initiate the cost of service study through open bidding. The proposal of capital expenses FY 2017-18 under the head "work against GOP directives" should not burden the consumers.

3.3.9. Awareness for consumers regarding technical parameters is primarily responsibility of the company. The pressure factor and temperature issue has direct impact on the measurement of gas volume which has not been responded yet satisfactorily.

3.3.10. GDS receivable term is not covered under the law. The tariff computation exercise is complex, un-understandable and does not facilitate to comprehend and comment. There must be at the outset of the petition a comparison of detail price break up seeking the increase therein. It shall provide a quick approach to understand the petition and petitioner's claim in this regard. It was accordingly demanded to change the pattern of the petition.

3.3.11. Capital cost should be allowed on the basis of laid down criteria, observe consumer cost criteria and reflect cost effectiveness and prudence. Standard cost control techniques must also be applied.

3.3.12. Regarding the revenue requirement, there is no legal lacuna. There is no provision in the law that the prescribed prices be increased while keeping the sale price stagnant.

3.3.13. In the analysis phase of the petitioner, issues should be established by OGRA which should be briefed at the time of hearing. This shall provide the insight into extensive analysis and should be quite helpful for the consumers. Further, it was highlighted that major part of the UFG report comprises correspondence, expert professional view is inadequate.

3.3.14. The petition is illegible; most of the pages are dimmed and not readable. It was demanded that petition be presented in professional style along with the brief presentation.

3.3.15. SNGPL is pending the development work and gas connections in the district of Hangu and Karak which are gas producing districts. Further, no development plan has been envisaged for Khyber Pakhtunkhwa. No RLNG allocation has been made. This shall create serious energy security issues for the province of Khyber Pakhtunkhwa.

3.3.16. 100% CPI in HR cost is not reasonable. Overcharging of bills, low pressure etc; has become common phenomena which should be avoided to the possible extent.

3.3.17. UFG study status has not been updated. UFG control strategy and plan should be shared with the Government of Khyber Pakhtunkhwa, This shall put all the stakeholders on board and shall help to curb the UFG menace.

3.3.18. Establishment of regional office at Karak shall facilitate to control theft. The location of Karack district is in the mid of surrounding areas. It was accordingly demanded to establish regional office there rather than any other far flung areas not in the access of the public.

3.3.19. Illegal connection in the area of Karak is only due to absence of legal network there despite number of reminders and requests. It was again urged to approve the much awaited development plan for this area which shall in turn eliminate the illegal network thereby controlling the UFG. The project cost in this regard has been chalked out at around Rs. 8.5 billion which is not so significant viz a viz expected saving from gas losses. The residents of the Karak are willing to pay the bills provided legitimate network and proper billing system should exist there. In the absence of network, the gas is wasted by the persons owing to careless commercial use.

3.3.20. Karak is producing huge oil and gas supplies. The deprivation of this area creates sense of insecurity. OGRA was requested to look into it. The provincial government is willing to spend royalty for the development of the same area.

3.4. The Authority has carefully considered all the submissions and arguments of the parties made in writing and at the public hearings. Interveners' comments are mostly pertaining to increase demanded in various head of expenditures. The same have been considered while making the decision in the relevant part of this determination.

4. Authority's Jurisdiction And Determination Process

4.1.1. The Authority is obligated to determine total revenue requirement /prescribed prices of the petitioner in accordance with Section 8(1) and 8(2) of the Ordinance and License condition no. 5.2 of its integrated License. Section 8(1) of the Ordinance empowers the Authority to determine an estimate of the total revenue requirement of its licensees for a financial year and on that basis, advises the FG, the prescribed price of natural gas for each category of retail consumers.

4.1.2. GoP, pursuant to Section 8(3) of the Ordinance, is legally empowered to advise the Authority for notification in the official gazette, the minimum charges and sale price for each category of retail consumers. FG further decides Gas Development Surcharge as well as subsidy to be enjoyed/extra amount to be paid by various categories of consumers with respect to average cost of supply. Accordingly, it requires that macro-economic indicators as well as the cost of alternate and substitute source of supply be considered by the FG while fixing the sale price. The Authority, however, in principle, is of the view that all the category of consumers must at least pay the average cost of supply, keeping in view the cost of alternative or substitute source of supply. This shall provide a level playing field for all concerned.

4.1.3. The Authority examines all applications and petitions in the light of relevant rules. Public notices are issued and all the stakeholders are provided full opportunity to intervene / comment upon the issues pertaining to determination of revenue requirement, in writing and at public hearings, which are duly taken into account. Further, GoP'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 operating revenues, operating expenses and changes in asset base are scrutinized by OGRA in depth, keeping in view the provision of the law.

4.1.4. The decisions issued by the Authority have always been strictly in accordance with the relevant provisions of Law. All the statutory requirements are firmly complied with before issuing any Order and in this whole process the Authority, very meticulously, ensures that public service utilities prosper in an efficient manner. The Authority, throughout the determinations since inception, ensures transparency in the process while balancing the interest of all stakeholders, including general public, gas utilities, industrial consumers, etc. The checks and balances implemented by the Authority to improve the quality of service to consumers and to bring efficiency in the overall management of the company have proved to be beneficial for the whole nation in measurable terms.

4.1.5. The Authority observes that interveners during the public hearings highlighted various operational and service issues/problems being faced by them. The same have also been summarized in para. 3.3 above. The Authority has held the public hearings in the instant matter i.e; to the extent of revenue requirements, however, it is obligated to safeguard public interest and to ensure compliance of the petitioner to the performance and service standard as advised by it from time to time. In the light of above, the Authority directs the petitioner to address/attend to the problems being faced by its consumers with the objective to resolve the same within the stipulated timelines or otherwise put forward plans/solutions to improve its services upto satisfaction of consumers.

5. Return to the Petitioner

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

5.2. The Authority notes that petitioner has been continuously contending that guaranteed return of 17.5% is not being provided to it, as effectively it is getting much lower rate of return and has been referring to some legal provisions in isolation. The Authority terms this argument as baseless & against the legal scenario. Presumably, the petitioner has been pleading that it is entitled for guaranteed return irrespective of control of gas losses/theft, operational efficiency and effectiveness of capital expenditure incurred to undertake the regulated activities. If this is the case, it is contrary to the regulatory setup established by GoP, violative of legal & regulatory framework as a whole and tantamount to dysfunctional regulator and impairment of consumer interest. This shall result into economic distortion and the same can never be and by any stretch of imagination the intent of legislature.

5.3. The Ordinance defines the role in terms of powers and functions as well as jurisdiction of OGRA, while the guiding principles, including detailed mechanism to carry out the statutory functions, are provided in the Rules and more specifically in the respective licensees issued under the Ordinance. Accordingly, OGRA Ordinance, under section 7, empowers the Authority to determine tariff for regulated activities **whose licenses provides for such determination**. Section 7 further elaborates that the criteria for tariff determination shall be prescribed in the rules and **in the terms and conditions of each license**(emphasis added). It is evident from the legal framework that power to determine tariff is derived from the Ordinance and mechanism including guidelines for such determination is provided in the **NGT Rules and petitioner's license**. Accordingly, Rule 17 of NGT Rules provides detailed tariff evaluation criteria and more specifically yardstick regulation as stipulated in Rules 17(c) , reproduced as under:-

> "tariffs should include a mechanism to allow licensees a benefit from and penalties for failure to achieve, benchmarks set by the Authority through yardstick regulation for, inter-alia and without limiting the generality of such regulation, capacity utilization, operation and maintenance costs and unaccounted for natural gas;"

5.4. The rate of return allowed to the licensee is provided in Rule 17(g), reproduced below:-

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

5.5. The legal framework now refers to the license of the petitioner in respect of return allowed to it and efficiency benchmarks. For this purpose, condition 5 of the said license is referred that specifically deals with "Rate of Return and Tariff Determination" allowed to the petitioner. Condition 5.2 states as under:-

> "**Subject to such adjustments as required under condition 21 or other**

efficiency related benchmarks fixed by the Authority from time to time in accordance with the rules, the Authority shall determine total revenue requirement of the Licensee to ensure it achieves 17.5% return on the value of its average net fixed assets in operation for each financial year……." (emphasis added).

5.6. As referred above, it is relevant to mention that condition 21 pertains to UFG targets to be fixed by OGRA while it also clarifies that if the licensee fails to meet the UFG target the loss on that account shall be borne by the Licensee and **shall not form part of its total revenue requirement**.

5.7. It is clear from the above that OGRA has been allowing entitled return to the petitioner as well as inducing it to operate in an efficient manner, as required under the relevant provisions of the law. Tariff petitions have been evaluated in line with the evaluation criteria as provided in the Rules. Accordingly, OGRA maintains that essence of law is to allow the return to licensees in undertaking the regulated activities subject to efficiency benchmarks. OGRA is of the firm view that legal framework is very explicit and provides for improvement in terms of efficiency as well as reasonable returns. The tariff mechanism in place provides reasonable returns and accounts for all prudent and justified capital and revenue expenditure to attract investment of quantitative and qualitative improvement of regulated activities, as required under section 7 of the Ordinance.

5.8. Moreover, section 7(2) (a) obligates OGRA to protect consumer against monopolistic and oligopolistic pricing. The Authority observes that practically the petitioner enjoys risk free business with captured consumers, guaranteed return and no market competition in the gas distribution sector exists that urges petitioner to reduce their inefficiencies and improve customer service up to the satisfaction of consumers. It is only the effective regulation by OGRA, which places a check and balance among divergent interests of all stakeholder whereby only economically efficient and cost effective prudent expenses are passed on to consumers. Resultantly, natural gas prices as still maintained at an affordable level for all sectors of economy.

5.9. In view of above, it is established that Authority is performing its statutory function strictly in accordance with the applicable laws. Also, there is no lacuna or anomaly in the regulations that put the petitioner at disadvantage. It is mainly due to gas losses/UFG and operational inefficiencies whereby it could not retain the return allowed to it. Conversely, the petitioner can get the return more than the guaranteed limits if it performs better than the targets provided in the efficiency benchmarks.

5.10. The Authority further observes that FG had initiated gas sector reforms agenda, wherein sectoral reforms are under detailed deliberation with all stakeholders. FG intends to divide SNGPL and SSGCL into separate transmission and distribution companies. Introduction of new tariff regime is also part of the reform agenda and has otherwise also been developed by OGRA. The same is in process of deliberation and computation. The draft regime shall then be shared for public consultation before finalization. ***Till such time, the Authority adopts existing tariff regime for all practical purposes. In view of the same, the Authority has decided, to follow the existing basis of 17.5% return on the average net operating fixed assets while treating various income and expenditure heads per the existing regime, in accordance with the Licence Condition No. 5.2 till the new tariff regime is finalized as well as implemented.***

6. Operating Fixed Assets

6.1. Summary of Additions during the year

6.1.1. The petitioner has projected a gross addition of Rs. 62,553 million in the fixed assets and ex-depreciation addition of Rs. 43,646 million, resulting in projected increase in net operating fixed assets from Rs. 105,013 million as per opening balance to Rs. 148,659 million closing balance during the said year. After adjustment of deferred credits, the net average operating fixed assets eligible for return are projected at Rs. 111,050 million, and the required return at Rs. 19,434 million, as under:

Table 5: Computation of Projected Return on Operating Fixed Assets

Rs. in Million

Description	The petition
Net operating fixed assets at beginning	105,013
Additions Carried forwarded from previous year	20,622
Additions during the year	41,931
Total Addition	62,553
Depriciation addition	18,907
Net addition	43,646
Net operating fixed assets at closing	148,659
Sub total	253,672
Average net assets	126,836
Deffered credit at beginning	16,093
Deffered credit at closing	15,478
Sub total	31,571
Average deffered credit	15,786
Average net fixed assets (A-B)	111,051
Return Required	17.5%
Amount of return required by the petitioner	19,434

6.1.2. The assets addition already approved/determined in respect of RLNG infrastructure amounting to Rs. 19,719 million, as per decision of the Federal Government, has been ring-fenced and has therefore not been included in the above return and the instant revenue requirement. This shall form part of "cost of service" to be recovered from RLNG consumer.

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

Table 6: Projected Addition in fixed assets compared with Previous Years

Million Rs.

Particulars	FY 2015-16	FY 2016-17		FY 2017-18 (The Petition)			Inc/(Dec) over Actual	
	FRR	DERR	Actual	Addition	Addition C/f	Total		
Transmission (Normal)	1,735	24,569		1,258	179	1,437	(23,132)	-94%
Transmission (LNG)	13,910			-			-	
Compression	544	310		494	-	494	184	59%
Distribution Development	6,544	11,672		26,672	17,676	44,348	32,676	280%
Measuring and Regulating Assets	3,518	7,515		9,381	2,767	12,148	4,633	62%
Plant, Machinery & equipment and other assets	1,279	683		1,332	-	1,332	649	95%
Buildings on free/leasehold land	245	200		438	-	438	238	119%
Land and land acquisition advance	128			3		3	3	
Regularization of illegal network in KPK	-					-	-	
New Regions	-	83		803	-	803	720	867%
Intangible Assets (IT related cost)/SCADA	108	650		1,550	-	1,550	900	138%
Net Addition in asset base	28,011	45,682		41,931	20,622	62,553	16,871	37%

6.1.4. The petitioner has provided further breakup of the above addition for the said year as under;

Table 7: Break up of addition in operating fixed assets

Rs. in million

Sr.#	Particulars	Addition for the current period	Principally approved FY 2016-17	Total
1	Freehold land	3	-	3
2	Building on Freehold land	438	-	438
3	Transmission mains (Normal)	1,258	179	1,437
4	Compression system & equipment	494		494
5(a)	Distribution system mains	26,672	17,676	44,348
5(b)	Measuring & regulating assets	9,381	2,767	12,148
5(c)	Regularisation of illegal network in KPK			-
Sub total		38,246	20,622	58,868
6	Normal and other assets :			
6.1	Telecommunication equipments	26		26
6.2	Plant and machinery	161		161
6.3	Tools & equipment	145		145
6.4	Motor vehicles	300		300
6.5	Construction equipment	323		323
6.6	Furniture & Fixtures	60		60
6.7	Office Equipment	65		65
6.8	Computer hardware	252		252
Sub total		1,332	-	1,332
7	New Regions	803		803
8	SCADA System	1,550		1,550
	Total addition for FY 2016-17	41,931	20,622	62,553

6.1.5. The detail discussion is made as under:-

6.2. *Transmission*

i. LNG Project (Phase II)

6.2.1. The petitioner has requested to carry forward Rs. 19, 719 million against LNG Project Phase-II.

6.2.2. It is mentioned that the Authority has already granted principle approval of the project in DERR 2016-17. Therefore, the Authority allows to carry forward the above amount of Rs. 19, 719 million the said year.

ii. Assets Carried Forward / in principle approved in FY 2016-17

6.2.3. The petitioner has also requested for carrying forward the following Assets which the petitioner could not complete in FY 2016-17 as allowed by the Authority in DRERR for FY 2016-17:

Table 8: Assets carried forwarded /in principle approved in FY 2016-17

S. #	Description	Rs. Million Projected
1	Laying of 8" Diameter x 11.8 Kms Transmission Spur Line from Daska to Sambrial, Sialkot and approved in Principle in RERR FY 2016-17	179
2	Laying of Distribution Mains-New Schemes and approved in Principle in RERR FY 2016-17	2,061
3	Laying of Distribution Mains-Anticipated Approval from GOP and approved in Principle in RERR FY 2016-17	7,000
4	Laying of Distribution Mains on Cost Sharing Basis	244
5	Combing Mains-Head Office Reserves and approved in Principle in RERR FY 2016-17	1,671
6	Illegal Network in Oil and Gas Producing Areas and approved in Principle in RERR FY 2016-17 subject to arrangement of funds	6,700
7	200, 000 New Connections and approved in Principle in RERR FY 2016-17	2,767
	Total	20,622

6.2.4. The Authority allows the expenditure in respect of Sr. # 1, 2, 3, 4, 5 & 7 in principle subject to actualization at the time of FRR for the said year.

6.2.5. Regarding the component at Sr. # 6 in the above Table, the Authority further observes that interveners in the public hearings vehemently stressed that the theft in the gas producing area of Karak is only due to absence of legal network. The petitioner can save billion rupees provided the legal network is laid in the said locality. Further, Karak is gas producing and populated district, the residents of the locality therefore deserves the gas through legal network on priority basis.

6.2.6. The Authority observes that development in the above area is part of UFG control plan as well. Thus the criteria for the development in the said area more importantly accounts for the UFG saving vs. development expenses. Besides this, clustered population wherever exists in any segment also amplifies the consumer cost criteria. It has been repeatedly highlighted that the feasibility for provision of gas to Karak has not been based on realistic and factual parameters rather the cost has been taken on higher side. The consumer base for Karak needs to be reviewed in the light of population to consumer ratio prevailing in other areas being operated by the petitioner. More specifically, as per the latest population to consumer base ratio of 10% for Islamabad, the consumer base for Karak must be around 70,000 in view of 706,299 population base (As per Population Census, 2017, *source-Federal Bureau of Statistics)*. By applying the said ratio, the project for Karak seems to be within the criteria of the FG and hence can be executed without further delay. The Authority therefore directs the petitioner to carry out the development activities in the said area prudently and execute the project accordingly, in a phased manner and evaluation of the same be carried out segment-wise on quarterly basis and invariably be provided to the Authority.

6.2.7. ***The Authority, in view of the above, has already approved the project in principle subject to actualization at the time of FRR and in accordance with the directions given above.***

iii. Transmission Mains (Normal)

6.2.8. The petitioner has projected an amount of Rs. 1, 821 million (including Rs. 560 million works on cost sharing basis) for Transmission Mains, breakup of which is as under: -

Table 9: Transmission Mains (Normal)

Rs. million

Sr. #	Description	The Petition
(a)	Uplifting of 16" diameter X 35 Kms Rehmat Line and laying of 16" diameter X 21.1 Kms Sargodha Transmission line.	353
(b)	Laying of 8" diameter x 1 Kms from Kalabagh Well to SNGPL existing 10" diameter Shakardara Daudkhel pipeline near MP 11.29.	9.5
(c)	Laying of 10" diameter x 11.5 Kms Adhi-Sukho transmission loop line for enhanced supply of gas from Adhi field upto 100 MMCFD	381
(d)	Laying of 8" diameter X 3.2 Kms pipeline to receive sales gas from M/s MOL 'S Tolanj Processing Facility	47
€	Laying of 8" diameter X 33.5 Km transmission line and installation of 01 No. SMS for Supply of gas to Regi Lalma Model Town, Peshawar. (100% cost recovery basis)	560
(f)	Construction/up gradation/Land for SMS(s)	400
(g)	Pipeline operations (any Unforeseen/modification)	50
(h)	Pipeline operation (Civil protection works at various site)	17.5
(i)	Land for ROW of SMSs	3
	Total	*1, 821*

(a) Uplifting of 16" diameter X 35 Kms Rehmat Line and laying of 16" diameter X 21.1 Kms Sargodha Transmission line.

6.2.9. The petitioner informed that it tends to uplift its redundant 35.56 Kms, 16" diameter Rehmat Gas Field Transmission line due to depleted Rehmat Gas field. Moreover, it is bearing maintenance cost on account of Cathodic Protection, R.O.W maintenance, etc. for this non-operative pipeline to keep it in good condition. The petitioner further informed that it has planned to re-lay /utilize the above transmission line to replace the existing 6" diameter, 21 Kms line, originating from C-Leg of its Transmission Network, supplying gas to Sargodha City and Khayaban Ghee mills to enhance the capacity which has got undersized due to increased demand of Sargodha City. Moreover, the Board of Directors (BOD) of the petitioner, in its 481st meeting, has already accorded approval for executing the above project at a cost of Rs. 353.178 million.

6.2.10. *It is mentioned that as per petitioner's request, the Authority has already granted approval of the line under Rule-20 (xviii) of NGRA Licensing Rules, 2002 vide letter dated July 26, 2017. Keeping in view the justification given by the petitioner, the Authority allows Rs. 353 million for relaying the above transmission line as projected by the petitioner subject to actualization at the time of FRR.*

(b) Laying of 8" diameter x 1 Km from Kalabagh Well to SNGPL existing 10" diameter Shakardara-Daudkhel pipeline near MP 11.29.

6.2.11. A new source of gas named Kalabagh-1A has been discovered by Mari Petroleum Company Limited located in Karak concession area. Mari Petroleum Company Limited has requested the petitioner to lay pipeline to receive the allocated gas from well up-to 6 MMCFD during EWT period. For this purpose, the petitioner has requested Rs. 9.5 million.

6.2.12. *It is mentioned that as per petitioner's request, the Authority has already granted approval of the line under Rule-20 (xviii) of NGRA Licensing Rules, 2002 vide letter dated May 29, 2017. Keeping in view the above, the Authority*

approves an amount of Rs. 9.5 million subject to actualization at the time of FRR.

(c) Laying of 10" diameter x 11.5 Km Adhi-Sukho transmission loopline for enhanced supply of gas from Adhi field up to 100 MMCFD

6.2.13. The petitioner informed that as a result of successful drilling and exploration activities by Pakistan Petroleum Limited, gas supply from Adhi gas field shall be enhanced up to 80 MMCFD by October 2017, which shall further be increased to 100 MMCFD. It will increase system pressure of Adhi-Sukho segment of Adhi - Sukho-Pindori-Rawat transmission network beyond the maximum contractual limit of 600 psig which may result in equipment tripping /gas flaring at source or decline in capacity if operated at contractual pressure and therefore the petitioner shall be unable to absorb enhanced supply from Adhi field. Therefore, in order to keep the pressure within stable contractual range, it is unavoidable to lay 10" diameter x 11.5 Km pipeline at a cost of Rs. 381 million.

6.2.14. ***It is mentioned that as per Petitioner's request, the Authority has already granted approval of the line under Rule-20 (xviii) of NGRA Licensing Rules, 2002 vide letter dated May 29, 2017. Keeping in view the justification given by the petitioner, the Authority approves an amount of Rs. 381 million subject to actualization at the time of FRR.***

(d) Laying of 8" diameter X 3.2 Kms pipeline to receive sales gas from M/s MOL'S Tolanj Processing Facility

6.2.15. The petitioner has stated that a new source named Tolanj has been discovered by M/s MOL Pakistan located in TAL Block. M/s MOL Pakistan being the operator of TAL Block is initiating the construction of a new Tolanj Processing Facility (TPF) near Kohat which will process the gas and condensate produced from Tolanj X-I well and Tolanj West-I discoveries. M/s MOL has confirmed that a total gas of 20 MMscfd from these discoveries will be supplied to the petitioner through TPF. The BOD, in its 484th meeting, has accorded approval for laying of

8" diameter X 3.2 Km pipeline at a cost of Rs. 47 million.

6.2.16. *It is mentioned that as per petitioner's request, the Authority has already granted approval of the line under Rule-20 (xviii) of NGRA Licensing Rules, 2002 vide letter dated May 29, 2017. Keeping in view the justification given by the petitioner, the Authority allows Rs. 47 million for laying the transmission line as projected by the petitioner subject to actualization at the time of FRR.*

(e) Laying of 8" diameter X 33.5 Kms transmission line and installation of 01 No. SMS for Supply of gas to Regi Lalma Model Town, Peshawar. (100% cost recovery basis)

6.2.17. The petitioner has stated that it has recently received an amount of Rs. 560 million from Peshawar Development Authority (PDA) for laying of 8" diameter X 33.5 Km transmission line and installation of 01 No. SMS for Supply of gas to Regi Lalma Model Town, Peshawar on 100% cost recovery basis as 2nd Phase of the Project. Phase-1 of the project was approved in FY 2014-15 by BOD at a cost of Rs. 630 million. In view of the foregoing the petitioner has requested to the Authority for approval of Rs. 560 million under this head.

6.2.18. *Keeping in view, the justification tendered by the petitioner, the Authority allows an amount of Rs. 560 million for laying of 8" diameter X 33.5 Kms transmission line and installation of 01 No. SMS for Supply of gas to Regi Lalma Model Town, Peshawar on 100% cost recovery basis. Therefore, the amount will not be included in the rate base of the petitioner.*

(f) *Construction/up gradation/Land for SMS(s)*

6.2.19. The petitioner has requested Rs. 400 million under the head and informed that the budget for the construction of new SMSs and modification/ up-gradation of SMSs has been proposed for commissioning of gas supply schemes against ongoing/ new projects funded by the GOP and accordingly construction/ up-gradation of 10-15 number SMS's will likely to be undertaken by the petitioner in the said year. Therefore, the proposed budget is essentially required for commissioning and capitalization of newly laid distribution network.

6.2.20. *The Authority allows 50 % of the projected amount i.e. Rs. 200 million for the purpose as no specific SMS's locations have been mentioned by the petitioner. However, any expense over and above may be considered by the Authority at the time of FRR keeping in view the justifications of the petitioner.*

(g) Pipeline operation (any Unforeseen/modification)

6.2.21. The petitioner requested for Rs. 50 million to cater for maintenance jobs such as sleeving, modifications, up-gradations etc. and to undertake rehabilitation of Transmission System in the event of emergency situations.

6.2.22. *As no past trend is available, therefore, the Authority keeping in view the prudency allows 50% of the projected amount i.e. Rs. 25 million under this head subject to actualization at the time of FRR.*

(h) Pipeline operation (Civil protection works at various site)

6.2.23. Rs. 17 million has been projected for Pipeline operation (Civil protection works) by the petitioner to protect transmission lines at different sites.

6.2.24. *In order to protect the pipelines and to ensure safety, the Authority allows the projected amount of Rs. 17 million as projected by the petitioner.*

(i) Land

6.2.25. The petitioner has requested for Rs. 3 million in respect of land for Right of Way for SMSs. Keeping in view the operational requirement, the Authority allows Rs. 3 million subject to actualization at the time of FRR.

6.2.26. *In view of above, the Authority allows the expenditure under Transmission*

Mains (Normal) at Rs. 1,036 million as against Rs. 1,821 million as projected by the petitioner for the said year as per the Table given below: -

Table 10: Transmission Mains (Normal) allowed by the Authority

Rs. Million

Sr. #	Description	The Petition	Determined
i	Uplifting of 16" diameter X 35 Kms Rehmat Line and laying of 16" diameter X 21.1 Km Sargodha Transmission line.	353	353
ii	Laying of 8" diameter x 1 Kms from Kalabagh Well to SNGPL existing 10" diameter Shakardara Daudkhel pipeline near MP 11.29.	9.5	9.5
iii	Laying of 10" diameter x 11.5 Kms Adhi-Sukho transmission loop line for enhanced supply of gas from Adhi field up to 100MMCFD	381	381
iv	Laying of 8" diameter X 3.2 Kms pipeline to receive sales gas from M/s MOL 'S Tolanj Processing Facility	47	47
v	Laying of 8" diameter X 33.5 Kms transmission line and installation of 01 No. SMS for Supply of gas to Regi Lalma Model Town, Peshawar. (100% cost recovery basis)	560	0
vi	Construction/up gradation/Land for SMS(s)	400	200
vii	Pipeline operation (any Unforeseen/modification)	50	25
viii	Pipeline operation (Civil protection works at various site)	17.5	17.5
ix	Land for ROW of SMSs	3	3
	Total	***1, 821***	***1, 036***

6.3. *Compression*

6.3.1. The petitioner projected Rs. 494 million on account of compression during the said year.

6.3.2. *The Authority has already approved the plan for overhauling of the compressors spread over a period of 05 years (2016-17 to 2020-21) with a projected cost of Rs. 2, 065 million for overhauling of 22 No. turbine engines (Centaur & Saturn) vide its letter dated August 15, 2016. The claimed amount Rs. 494 million is part of the project to be incurred by the petitioner during the said year. Therefore, the Authority allows the said amount being an operational requirement subject to actualization at the time of FRR.*

6.4. *SCADA Host System on the existing Transmission Network*

6.4.1. The petitioner projected Rs. 1, 550 million on account of SCADA Host System on the existing Transmission Network for effective network management through real time monitoring and control including SCADA field instrumentation at all sites of Transmission network.

6.4.2. *The Authority has already granted approval of Rs. 1,550 million for Phase-II of SCADA Project vide its letter dated 6th November, 2015. Keeping in view the operational requirement, the Authority allows Rs. 1,550 million under the head SCADA Host System for the said year.*

6.5. *Distribution Development*

6.5.1. The petitioner has projected an amount of Rs. 26,672 million for distribution mains, breakup of which is as under: -

Table 11: Detail of Additions in Distribution Development

Million Rs.

S.#	Description	The Petition
i	Laying of Distribution Mains (8000 Kilometers)	20, 832
ii	Combing Mains, Augmentation and Head Office Reserves (1230 Kilometers)	3, 310
iii	Laying of Distribution Mains Cost Sharing basis	299
iv	System Rehabilitation and UFG Control Activities	1, 912
v	C.P System	319
	Total	26, 672

These assets are discussed in detail as under: -

(j) Laying of Distribution Mains, Combing Mains, Augmentation and Head Office Reserves

6.5.2. The petitioner has projected Rs. 24,142 million for development of 9,230 KM distribution lines out of which 8,000 kilometers are to be laid in anticipated schemes whereas 1,230 kilometers include system augmentation, combing mains and head office reserves for existing areas etc. The breakup of 9, 230 KM is given in the Table below: -

Head	Kms as projected by the Petitioner
Anticipated Scheme	8,000
Augmentation	130
Combing Mains	1,000
Head Office Reserves	100
Total	9,230

6.5.3. *The Authority provisionally allows total 9,230 Kilometers under the subject head, as projected by the petitioner. The Authority, however, notes that the average actual per Kilometer cost from FY 2012-13 to FY 2015-16 is Rs. 1.25 Million/ Km and by adding 10 % inflation each for FY 2016-17 and FY 2017-18, the per kilometer cost comes to be about Rs. 1.51 million/ Km. Based on the past trend, the Authority, therefore, allows Rs. 13, 932 million as against Rs. 24, 142 million projected by the petitioner for laying of 9,230 Kilometers for the said year subject to actualization.*

6.5.4. *However, the petitioner shall ensure that the moratorium has been relaxed by the Prime Minister for the specific schemes and are subject to compliance with the decision of the Apex Court in CP-20 and the decision of Apex Court in Civil Appeals No. 1428 to 1436 of 2016 dated August 18, 2016.*

i. Laying of Distribution Mains at Cost Sharing Basis

6.5.5. The petitioner has projected Rs. 299 million under the head of laying of 100 kilometers distribution mains of different diameter on cost sharing basis.

6.5.6. The Authority observes that the petitioner is not entitled to rate of return on the said capitalization. *The Authority, therefore, allows the amount of Rs. 299 million as projected by the petitioner.*

ii. System Rehabilitation and UFG Control Activities

6.5.7. The petitioner has projected an amount of Rs. 1,190 million on account of Rehabilitation of Distribution System and stated that underground leakages are one of the factors adding to UFG and that the underground network has been cathodically protected to reduce metal loss due to corrosion. The petitioner further stated that it carries out replacement of underground network against 'System Rehabilitation Program' on yearly basis due to the following reasons.

1. Repeated power outages results in corrosion and leakages.
2. Continuous deterioration of underground network, resulting in leakage loss due to corrosion.
3. Useful life of pipeline coating is limited making it prone to leakages.

6.5.8. The rehabilitation of system is necessary activity for company's routine operation and it is also helpful to reduce UFG and any untoward accidents. It has been observed that the petitioner has projected very high amount and it has never been able to capitalize more than Rs. 487 million as in FY 2011-12. Therefore, keeping in view the maximum expense of the petitioner i.e. Rs. 487 million between FY 11-12 and FY 15-16 and allowing reasonable escalation, the amount works out to be Rs. 590 million subject to actualization at the time of FRR.

6.5.9. Further the petitioner has projected Rs. 722 million for UFG Control Activities. The total amount works out to be Rs. 1370 Million.

6.5.10. ***Keeping in view the trend analysis and UFG Control activities, the Authority allows Rs. 1,312 million under the head i.e. Rs. 590 million for system rehabilitation and Rs. 722 million for UFG control activities subject to actualization at the time of FRR.***

iii. Cathodic Protection (C.P) System

6.5.11. The petitioner has apprised that Cathodic protection is maintenance and mitigation process of their underground pipelines against corrosion. The overall percentage protection of their Distribution network is already low i.e. 72% and that the new lines are also being laid and connected with the existing network, old coating is deteriorating and the load on the CP Stations is increasing. Over the years the cost of material used in the construction of CP Station has increased manifold, hence it needs new CP Stations and refurbishment /

renovation of old ones.

6.5.12. It has further been stated by the petitioner that the construction of new C.P Stations and Renovation of exhausted ground beds of already existing CP Stations as per Distribution Development Plan FY 2016-17 is in progress in all Distribution Regions and proposed budget of Rs. 319 million is essentially required in FY 2017-18, as there is no systematic Re-Coating Program in the Distribution System. Hence the only resort left to protect their distribution lines from further corrosion and leakages is Cathodic Protection, which if not provided, will result in increase in UFG. It is therefore imperative that financial layout for Cathodic Protection should be reviewed upward to enhance the life of Mild Steel Network, so as to ensure uninterrupted supply of gas to their consumers.

6.5.13. Keeping in view the average capitalization from FY 2011-12 to FY 2015-16 and adding 10 % inflation for FY 2016-17 and FY 2017-18, an amount of Rs. 230 million is allowed by the Authority subject to actualization in the respective FRR.

6.5.14. ***In view of above, the Authority allows the expenditure under Distribution Mains at Rs. 15,474 million as against Rs. 26, 672 million as projected by the petitioner for the said year as per the Table given below: -***

Table 12: Distribution Development allowed by the Authority

Million Rs.

S.#	Description	The Petition	Determined
i	Laying of Distribution Mains (8000 Kilometers)	20,832	13,932
ii	Combing Mains, Augmentation and Head Office Reserves (1230 Kilometers)	3,310	
iii	Laying of Distribution Mains Cost Sharing basis	299	-
iv	System Rehabilitation and UFG Control Activities	1,912	1,312
v	C.P System	319	230
	Total	26,672	15,474

6.6. *Measuring and Regulating Assets*

6.6.1. The petitioner has projected Rs. 9, 381 million on account of addition under the head of Measuring and Regulating Assets. The petitioner has provided the break up as under: -

Table 13: Detail of Additions in Measuring and Regulating Assets

Million Rs.

S.#	Description	The Petition
i	Installation of new connections including 10% additional urgent fee	4,222
ii	Construction of TBSs and DRs	734
iii	Replacement of Old Meters	3,912
iv	Measuring and Regulating Regular Assets	217
v	G.I Pipe and Fittings	296
	Total	**9,381**

The assets are discussed in detail as under: -

i. ***Installation of New Connections***

6.6.2. The petitioner has projected Rs. 4,222 million for 301,125 new connections including 25 industrial, 1100 commercial and 300,000 domestic connections.

6.6.3. The GOP vide its letter dated April 21, 2017 informed that the moratorium on new industrial and commercial connections may be relaxed enabling the Ministry of energy to allocate RLNG volumes to these prospective consumers. Rs. 72 million may, therefore, be allowed for new industrial and commercial connections and this amount is ring fenced as per policy of the GOP regarding RLNG/ ECC decision.

6.6.4. Keeping in view the request, 272,727 connections of domestic category is allowed plus 27,273 additional domestic connections on urgent fee basis (10 % of the domestic connections). ***Based on the past trend and data, the Authority allows Rs. 4, 222 million under the head as projected by the petitioner for the said year.***

6.6.5. The Authority further observes that as per its mandate it is obligated to safeguard the public interest to ensure non-discrimination and fairness in the regulated activities. Though it is established fact that there is scarcity of resources to extend facility to everyone, yet the petitioner's resources require to be utilized indiscriminately and uniformly across the licensed area as per well-defined strategic plan. The current situation of development, if tested on a parameter shall reflect as under ;

Table 14: New gas connections viz a viz population

Number

Regions	Population	Revised Region wise new connection
1	2	3
Islamabad	3,890,128	8,187
Rawalpindi	8,124,265	17,099
Gujranwala	6,171,153	12,988
Gujrat	4,349,402	9,154
Sialkot	5,603,429	11,793
Lahore	14,581,281	30,688
Sheikhupura	4,816,800	10,138
Faisalabad	14,177,081	29,838
Sargodha	6,530,981	13,745
Sahiwal	7,380,386	15,533
Bahawalpur	13,164,651	27,707
Multan	23,229,457	48,890
Peshawar	13,685,879	28,804
Abbotabad	5,325,121	11,207
Mardan	11,512,371	24,229
[illegible]	142,542,885	300,000

6.6.6. The Authority observes that petitioner is required to undertake the development projects uniformly across its area of operation on the basis of existing and future population to avoid discrimination. This shall surely protect the public interest at large which has been obligated upon Authority under the law. *Accordingly, the "new gas connections" in respect of regions are determined per third column of the Table 14 above.*

ii. Construction of TBS and DRS

6.6.7. The petitioner has informed that the budget for installation of 300 Nos. new TBSs/DRS'S has been proposed against ongoing/new Government funded schemes, cost sharing schemes and system augmentation etc. The petittioner has proposed 8,230 Kms Distribution Network to be undertaken against above

Jobs during said year and accordingly TBS/DRS's are essentially required for segments of Distribution network having length between 15-25 Kms.

6.6.8. Further the budget for installation / modification of 100 Nos. TBSs/DRSs have been proposed for installation of check meters on isolated points so as to quantify the volumetric losses at the downstream of TBSs / DRSs. The activity will help the region to focus on a specific area related to UFG to identify underground and above ground leakages as well as theft and measurement errors.

6.6.9. The petitioner has projected Rs. 734 million on account of TBS/DRS in its ERR petition for FY 2017-18. ***Keeping in view the operational requirement of the petitioner and past trend, the Authority allows Rs. 734 million as projected under the head for the said year.***

iii. Replacement of old Meters

6.6.10. The petitioner has projected Rs. 3,912 million for the activity of meter replacement and stated that defective / tampered / suspected meters of industrial, commercial and domestic are detected as a result of:

1. Vigilance activities by Engineering Sections.
2. Reports received from Billing Department.
3. Consumer's Complaints
4. Operational Defects

6.6.11. In addition to above, meters are replaced against schedule replacement program based on following aging Criteria: Industrial=1 years Commercial = 7 Years Domestic= 16 years. Replacement of defective, tampered, suspected meters in addition to schedule replacement programme is a continuous ongoing activity and required to be carried out on yearly basis. Petitioner has planned replacement of approximately 652,100 Industrial, Commercial and Domestic meters during FY 2017-18.

6.6.12. ***Therefore, considering the importance of the UFG issue and past data/ trends, the Authority allows Rs. 3,343 million under the head for the said year. However, the Authority expects that this exercise of replacement of meters shall lead to***

correct billing and there shall be reduction in UFG as well.

iv. ***Measuring & Regulating Regular equipment***

6.6.13. The petitioner has projected Rs. 217 million under this head. The petitioner stated that equipment is essentially required for day to day operations like DCVG equipment, Current Interrupter, Online Gas Chromatograph, Digital Temperature and Pressure Calibrator, Turbine Meter, Sonic Nozzle Auto Prover, Orifice Meters, Misc. Metering Equipment, Safety Relief Valve test Bench, Pipeline locator, CIP Survey Equipment, Gas Leak Detection etc.

6.6.14. The trend analysis of capitalization shows that the petitioner has been able to capitalize 47 % on an average from FY 2012-13 to FY 2015-16 and that the maximum expense is 58 % in FY 2012-13.

6.6.15. Keeping in view the average capitalization from FY 2012-13 to FY 2015-16 ***and incorporating the inflation factor,*** the Authority allows Rs. 198 million under the head subject to actualization in the respective FRR.

v. ***G.I. Pipes & Fitting***

6.6.16. The petitioner has projected an amount of Rs. 296 million in this regard. The Authority is of the considered opinion that this direct cost should continue to be recovered/ borne by the beneficiary/ consumer. Therefore, the Authority disallows the claimed amount under the head as per its earlier decisions. The allowances are given in the Table below: -

Table 15: Measuring and Regulating Assets allowed

Million Rs.

S.#	Description	The Petition	Determined
i	Installation of new connections including 10% additional urgent fee	4,222	4,222
ii	Construction of TBSs and DRs	734	734
iii	Replacement of Old Meters	3,912	3,343
iv	Measuring and Regulating Regular Assets	217	198
v	G.I Pipe and Fittings	296	-
	Total	9,381	8,497

6.6.17. ***In view of the above, the Authority allows Rs. 8,497 million against Rs. 9,381 million as projected by the petitioner on account of addition under the head of Measuring and Regulating Assets.***

6.7. ***Machinery & Equipment and other Assets***

6.7.1. The petitioner has projected addition of Rs. 1,332 million on account of "Plant, Machinery & Equipment and Other Assets" for the said year, break-up of which is as follows:

Table 16: Detail of Additions to Plant, Machinery & Equipment and Other Assets

Million Rs.

S.#	Description	The Petition
i	Telecommunication Equipment	26
ii	Plant & Machinery	161
iii	Tool & Equipment	145
iv	Construction Equipment	323
v	Motor Vehicle	300
vi	Furniture & Fixture	60
vii	Office Equipment	65
viii	Computer Hardware	252
	Total	1332

i. ***Telecommunication Equipment***

6.7.2. The petitioner has projected Rs. 26 million on account of "Telecommunication Equipment" for the said year. The petitioner has projected the said amount for procurement of different communication equipment including DMC Exchange for Abbottabad with Structured Cabling, Pressure Transmitter, Differential Pressure Transmitter, Orthogonal Data Radio Link (5.8GHZ), UHF Mobile Base with Antenna and RF Accessories, Multipoint Video Conferencing System and Telephone Exchange, etc.

6.7.3. ***The Authority observes that an advanced and reliable telecommunication system is essential for effective control and security of transmission system, therefore, keeping in view the past trend, the Authority allows Rs. 26 million***

on this account for the said year as projected by the petitioner subject to actualization at the time of FRR.

ii. *Plant and Machinery*

6.7.4. The petitioner has projected Rs. 161 million under the head Plant and Machinery. The petitioner has projected the amount for purchase of different equipment like Generators of different capacities required company wide, Overhead Crane capacity 6 Tons required for Instrumentation workshop Multan, Heavy duty Industrial Air Compressor, Rotor Balancing Machine, Turning Machine, Grease Guns and Lab Testing Equipment etc.

6.7.5. As per trend analysis, the petitioner has capitalized 100 % on an average from FY 2012-13 to FY 2015-16 (based on actual expenses).

6.7.6. ***Therefore, in view of trend analysis and justifications advanced by the petitioner and keeping in view the need assessment of the equipment required in day to day operations of the petitioner, Rs. 161 million is allowed by the Authority on provisional basis subject to actualization.***

iii. *Tools and Equipment*

6.7.7. The petitioner has projected Rs. 145 million on account of "Tools and Equipment" for the said year including electrical equipment, firefighting equipment and loose tools.

6.7.8. ***The Authority observes that the petitioner, in view of previous years' trend analysis, has been able to capitalize only Rs. 54 million on an average from FY 2012-13 to FY 2015-16. However, as per actual expense in FRR FY 2015-16 and justifications of the petitioner, the Authority allows Rs. 115 Million on provisional basis subject to actualization in the respective FRR.***

iv. *Construction Equipment*

6.7.9. The petitioner has projected an amount of Rs. 323 million for construction equipment and informed that different equipment is required to meet the operational requirements including Welding Plants, Excavator, Air Compressor etc. The petitioner has explained that it is expecting, exorbitant targets of development activities in coming year, owing to which additional equipment will be required to meet the development targets.

6.7.10. It has been noted that petitioner has been allowed sufficient budget for LNG phase (I & II) projects including major amount (Rs. 7,500 Million) in the case of LNG Phase-II under this head. The petitioner may be advised to utilize the surplus construction equipment and machinery as the LNG projects Phase-I & II have been completed and LNG Phase-III is going to be started.

6.7.11. The ***Authority allows 50% of the projected amount i.e. Rs. 161 million. Moreover, construction equipment has also separately been allowed in RLNG projects activity.***

v. ***Motor Vehicles***

6.7.12. The petitioner has projected Rs. 300 million on account of purchase of motor vehicles during the said year. The trend shows that the petitioner has been able to capitalize an average of 59 % in the last four years. By adding 10% inflation for the FY 2016-17 and FY 2017-18 the amount works out to the tune of Rs. 213 million under the head.

6.7.13. ***The Authority keeping in view the trend analysis allows Rs. 213 million under the head "Motor Vehicles for FY 2017-18 subject to actualization at the time of FRR.***

vi. ***Furniture & Fixture***

6.7.14. The petitioner has projected Rs. 60 million under the head of furniture & fixture.

6.7.15. ***In view of the trend analysis of past four years, Rs. 60 million is allowed by the Authority subject to actualization at the time of FRR.***

vii. ***Office Equipment***

6.7.16. The petitioner has projected Rs. 65 million on account "Office Equipment" for the said year and informed that owing to the increased numbers of consumers, numbers of visits have been increased on the Consumer Service Centers Q-Matic

Teller Machines are required for Regional, Sub-Regional and independent CSCs. For the provision of better services, it has been planned to install Q-Matic Teller Machines at CCSs.

6.7.17. Office Equipment like Photocopy machines/Fax machines/Security Equipment etc. is required company wide. Owing to the prevailing security risks, surrounding the Country environment, the demand for the different security equipment have been increased, in last few years, by the different law enforcing agencies. CCTV Camera/Walkthrough Gates/Metal Detectors etc. are required for security purposes.

6.7.18. ***It has been noted that the petitioner has been able to capitalize a maximum amount of Rs. 23 million in FY 2015-16 under the head. Therefore, keeping in view past trends and 10 % inflation for FY 2016-17 and FY 2017-18, Rs. 28 million is allowed by the Authority subject to actualization at the time of FRR.***

viii. Computer Hardware and I.T

6.7.19. The petitioner has projected an amount of Rs. 252 million for procurement miscellaneous computer related equipment and licences for software used for smooth function and operation. It has been observed that in the past, the petitioner had capitalized Rs. 165 million on an average under this head in FY 2012-13 to FY 2015-16. Keeping in view the previous trend and by adding inflation@ 10 % for FY 2016-17, and 2017-18, the amount works out to be Rs.199 million.

6.7.20. ***Keeping in view the previous trend, the Authority allows Rs. 199 million under the head for the said year subject to actualization at the time of FRR.***

Table 17: Detail of Additions under Plant & Machinery

Million Rs.

S.#	Description	The Petition	Determined
i	Telecommunication Equipment	26	26
ii	Plant & Machinery	161	161
iii	Tool & Equipment	145	115
iv	Construction Equipment	323	161
v	Motor Vehicle	300	213
vi	Furniture & Fixture	60	60
vii	Office Equipment	65	28
viii	Computer Hardware	252	199
	Total	1332	963

6.7.21. ***In view of the above the Authority allows addition in assets on account of Plant, Machinery and other assets at Rs. 963 million as against Rs. 1,332 million as projected by the petitioner for the said year.***

6.8. ***Civil Construction***

6.8.1. The petitioner has projected Rs. 150 million for normal civil construction activities Company wide. The petitioner has further explained that at present civil works around Rs. 600 million are pending owing to budgetary constraints, out of which works of Rs. 150 million have been shortlisted, to be carried out in the said year. The petitioner has requested for Rs. 438 million under the head of Civil Construction.

6.8.2. The petitioner has submitted that the requisite budget is essentially required for need based normal civil construction activities, the Authority may allow Rs. 150 million for the said year subject to actualization at the time of FRR.

6.8.3. The petitioner has explained that initial project cost for construction of building for Sahiwal Region was Rs. 400 million. This project was based on single piece of land allocated by Transmission Department out of land for compressor station at Repeater Station N-4, Sahiwal. Later on, the Consultant, hired for this purpose, advised that 8 Kanals land is insufficient to cater the requirements of Regional Office. Owing to which, the plan has been changed and revised to 2 buildings. It is pertinent to mention here that total estimated cost of the project is Rs. 450 million, out of which Rs.100 million was approved by the Authority in FY 2015-16 and Rs. 100 million in FY 2016-17 and the remaining amount is requested for approval, to move forward for the execution of the Project, which is currently not possible due to budgetary constraints.

6.8.4. The petitioner has projected the tentative amount required for routine civil and maintenance works company wide. The petitioner is advised to only take up the maintenance works which are urgent in nature. The Authority observes that this head should be reflected separately in petitions and after due diligence allows Rs.150 million under the head normal civil works.

6.8.5. Initially the total cost of the project was Rs. 400 million out of which Rs. 200 million had already been allowed by the Authority in DERR 2015-16 and DERR 2016-17. Now the company has shown escalation with fresh cost of the project at Rs. 450 million. The Authority considered the request of the petitioner for ongoing construction works of Sahiwal Regional Office Building and allows 50% as upfront amount for the said project and advised the petitioner to complete the project economically and bring the actual cost at the time of FRR.

6.8.6. ***The Authority keeping in view the justifications advanced by the petitioner allows Rs. 150 million for normal civil construction activities and Rs. 125 million for Sahiwal Region Building. The Authority allows Rs. 275 million in total against projected amount of Rs. 438 million. The actual expense in this regard may be considered at the time of FRR by the Authority.***

6.9. <u>Creation of New Regions</u>

6.9.1. The petitioner had earlier submitted its phased plan to create new regions/ sub regions in three years. The petitioner has pleaded that in order to focus on UFG at micro level, for better management, efficient operations and accountability; it is the need of the hour to establish new regions to make the respective area a self-sufficient unit, responsible for all Customer Services, Billing and Distribution activities.

6.9.2. The petitioner has projected an amount of Rs. 803 million for Phase-I, II (Left over regions in DERR 2015-16 & DERR 2016-17) and Phase-III regarding creation of new regions and sub regions as under: -

Table 18: Details of Creation of New Regions

Rs. Million

Description	The Petition
Phase -I	
Mardan (Region)	52
Rahim Yar Khan (Region)	65
Kamokee, Kharian and Bahawalnagar (Sub-Regions)	29
Total Phase-I	146
Phase -II	
Attock (Region)	93
Toba Tek Singh (Region)	85
D.G. Khan (Region)	77
D.I. Khan (Region)	78
Murree, Chiniot and Gujar Khan (Sub-Regions)	27
Bhakkar, Shorkot and Kahuta (Customer Service Centers/Complaint Centers)	6
Total Phase-II	367
Phase -III	
Khanewal (Region)	71
Chakwal (Region)	74
Mianwali, Manshera and Mirpur (Sub-Regions)	138
Total Phase-III	283
Others	
Khushab and Tandlianwala (Complaint center)	8
Grand Total (Phase-I,II & III), Others	803

6.9.3. The petitioner has projected Rs. 146 million for Phase-I which includes Mardan (Rs. 52 million) and Rahim Yar Khan (Rs. 65 million) as Regions and Kamokee, Kharian and Bahawalnagar (Rs. 29 million) as Sub-regions alongwith expenditure for Building, Office Equipment, Vehicles, Machinery, Equipment and Tools.

6.9.4. It is mentioned that the petitioner projected Rs. 101 million in ERR for FY 2016-17 for establishment of Mardan region. It was observed that Mardan was already operating as sub-region and the same was upgraded as a region. Accordingly, a reasonable amount of the budget (i.e; Rs. 51 million) was allowed for the procurement of office equipment, vehicles, machinery, tools and plants etc., keeping in view the judicious utilization of existing resources. In this context, the petitioner was advised to operate the new region in rented premises with optimum use of available resources.

6.9.5. In view of the above, the Authority observes that the petitioner should justify any additional amount required on this account by submitting the utilization of amount already approved.

6.9.6. It has been observed that the petitioner has started creating regions, sub-regions, Customer Facilitation Centers and Complaint Centers at its own discretion. The petitioner needs to discuss and finalize the parameters to be adopted for creation of these establishments. The petitioner should, therefore, present a Table of organization and equipment for each establishment for approval by the Authority. The establishment should be proposed based on population census / area. ***In view of above, the Authority pends the determination on account of creation of new regions till submission/finalization of the above information.***

6.10. Fixed Assets Determined by the Authority

6.10.1. The value of additions in assets requested by the petitioner and provisionally determined by the Authority for the said year, is as under:

Table 19: Summary of Assets Determined by the Authority

Rs. in million

Sr.#	Particulars	Addition for FY 2017-18	Adjustment	Fixed Assets Determind by the Authority
1	Freehold land	3	-	3
2	Building on Freehold land	438	(163)	275
3	Transmission mains (Normal)	1,258	(222)	1,036
4	Compression system & equipment	494	-	494
5(a)	Distribution system mains	26,672	(11,198)	15,474
5(b)	Measuring & regulating assets	9,381	(884)	8,497
5(c)	Regularisation of illegal network in KPK		-	
Sub total		38,246	(12,467)	25,779
6	Plant, Machinery and other assets :	1,332	(369)	963
Sub total		1,332	(369)	963
7	New Regions	803	(803)	-
8	SCADA System	1,550	-	1,550
	Total addition for FY 2017-18	41,931		28,292
9	Assets carried forwarded/ in principle approved FY 2016-17	20,622	(20,622)	-
	Total	62,553	(20,622)	28,292

6.10.2. The Authority allows capitalization of Rs. 48,011 million (including Rs. 19,719 on account of LNG assets which have been ring-fenced in accordance with the Federal Government decision). Accordingly, addition in the normal business for the said year works out to Rs. 28,292 million.

6.10.3. As a consequence of adjustment on account of addition in assets for the said year, the depreciation expense claimed by the petitioner comes down to Rs. 17,838 million. The depreciation works out to takes into the revised rates on account of normal assets (computer hardware etc;) in accordance with the company policy approved by its Board approval in line with industry norms.

6.10.4. ***In view of the above, the Authority provisionally determines the closing net operating fixed assets for the said year at Rs. 115,467 million.***

7. Operating Revenues

7.1. Number of consumers

7.1.1. The petitioner has projected increase in number of consumers from 5,645,885 per DERR FY 2016-17 to 5,947,010 for the said year, as follows:

Table 20: Comparison of Projected Number of Consumers with Previous Years

\# of consumers

Description	FY 2015-16	FY 2016-17	Addition during the year	FY 2017-18	Growth over DERR FY 2016-17 %
	FRR	DERR		DERR	
Domestic	5,250,894	5,579,893	300,000	5,879,893	5%
Commercial	58,303	59,303	1,100	60,403	2%
Industrial	6,688	6,689	25	6,714	0.3%
Total	5,315,885	5,645,885	301,125	5,947,010	5

7.1.2. The Authority accepts 301,125 additions in consumer base for the said year. Accordingly projected number of consumers comes to 5,947,010 for the said year.

7.2. Sales Volume

7.2.1. The petitioner has submitted that sale volume for the said year has been projected at 438,470 BBTU as against 418,840 BBTU in DERR FY 2016-17 i.e. increase of 5%.

Table 21: Comparison of Sales Volume with Previous Years

BBTU

Category	FY 2015-16	FY 2016-17	FY 2017-18	Growth
	FRR	DERR	The Petition	%
Power	97,801	91,669	50,063	-45%
Cement	300	5,469	1,464	-73%
Fertilizer	32,778	27,993	35,753	28%
General Industries	43,870	46,418	63,586	37%
CNG	29,101	24,915	30,008	20%
Commercial	22,481	29,110	34,033	17%
Domestic	181,776	193,266	223,563	16%
Total	408,106	418,840	438,470	5%

7.2.2. The petitioner has explained that decrease in sales volume in power sector is due to major shift of these consumers from indigenous gas to RLNG. This has resultantly made the indigenous gas available for other sectors. Accordingly, the allocation of gas for commercial, industrial and fertilizer sector has been increased in accordance with the current gas load management policy approved by the FG. The decrease in cement sector is due to lesser availability of gas for this sector being lowest in priority, whereas, increased sales volume in CNG sector is due to increased consumption in Khyber Pakhtunkhwa owing to continuous supply in compliance to Court verdict.

7.2.3. The Authority observes that the petitioner has re-adjusted the GCV, accordingly the sales volume now computes to 441,601 BBTU for the said year.

7.2.4. ***The Authority, in view of above rationale, provisionally accepts the gas sale volume for the said year at 441,601 BBTU as re-computed by the petitioner.***

7.3. Sales Revenue at Existing Prescribed Prices

7.3.1. The petitioner has projected sales revenue for the said year, at prescribed prices determined by the Authority for FY 2016-17, to increase by 15%, from Rs. 177,060 million from DERR FY 2016-17 to Rs. 209,003 million. Category-wise comparison of sales revenue is given below:

Table 22: Comparison of Projected Sales Revenue with Previous Years

Million Rs.

Category	FY 2015-16	FY 2016-17	2017-18	Incr/Decr over DERR	
	FRR	DERR	The Petition		
Power	56,024	49,669	24,067	(25,602)	-55%
Cement	227	4,102	704	(3,398)	-122%
Fertilizer	2,999	6,327	17,184	10,858	76%
General Industries	27,686	27,851	28,818	967	4%
CNG	20,218	17,441	14,423	(3,018)	-24%
Commercial	15,726	20,374	16,357	(4,017)	-27%
Domestic	44,464	51,298	107,451	56,154	57%
Total	**167,344**	**177,060**	**209,003**	**31,943**	**15%**

7.3.2. The Authority obverses that during FY 2016-17, the Authority had determined the average prescribed prices at Rs. 480.63 per MMBTU and sent the same to FG for sale price advice under Section 8(3) of the Ordinance for each category of consumer. The FG advised downward revision in gas sale prices in respect of power and fertilizer sector while no change was advised in other categories of consumers. Accordingly prescribed prices have now been re-adjusted. ***On the basis of same, the sales revenue at existing prescribed prices coupled with the revised sale volume for the said year are determined to Rs. 174,236 million.***

7.4. Other Operating Revenues

7.4.1. The petitioner has projected "other operating revenues" at Rs. 9,693 million during the said year as against Rs. 12,005 million provided in DERR for FY 2016-17, showing a decrease of 19%. Comparison with previous years is given below:

Table 23: Comparison of Projected Other Operating Income with Previous Years

Million Rs.

Description	FY 2015-16	FY 2016-17	FY 2017-18	Incr/Decr over DERR	
	FRR	DERR	The		
Rental and service charges	1,601	1,918	1,968	50	3%
Surcharge and interest on arrears	5,545	6,100	3,600	(2,500)	-41%
Amortization of deffered credit	2,765	2,527	2,615	88	3%
Other operating income	1,011	1,460	1,510	50	3%
Net operating revenue	10,922	12,005	9,693	(2,312)	-19%

i. Rental & Service Charges

7.4.2. The petitioner has estimated income from "Rental & Service Charges" at Rs. 1,968 million as against Rs. 1,918 million per DERRFY 2016-17. The petitioner has explained that income from "Rental" comprises rent charged from the consumers on account of use of gas meters. The "Service Charges" include reconnection charges, testing & inspection, transmission charges and recoveries from consumers in respect of dedicated lines on consumer contribution basis.

7.4.3. The Authority observes that major income under this head is "meter rental" which continuously increase due to persistent growth in number of connections every year. The Authority however expects that same shall also grow with larger pace keeping in view the increase in number of connections sought during the said year.

7.4.4. ***In view of above, the Authority projects income under this head at Rs. 2,014 million i.e; 5% increase over DERR 2016-17 keeping in view the enhanced activities.***

Late Payment Surcharge and Interest on Arrears

7.4.5. The petitioner has included income on account of "Late Payment Surcharge and Interest on Arrears (LPS)" in tariff computation at Rs. 3,600 million for the said year as against Rs. 5,545 million determined in FRR FY 2015-16 and Rs. 4,291 million actually reported during the recently completed FY 2016-17.

7.4.6. The Authority observes that petitioner has not advanced any justification for drastic reduction projected under this head for the said year. The detailed review however reveals that LPS in respect of "Industrial Consumer category" is on declining trend. It was determined at Rs. 2,604 million in FRR FY 2015-16 which now has reduced to Rs. 529 million in actuals for FY 2016-17.

7.4.7. In view of above, the Authority realistically reviews income under this head and considers the recent actual results for FY 2016-17 as reasonable basis to

AL

determine the revenue under this head.

7.4.8. *In the view of above, the Authority determines the income on account of LPS at the actual level of FY 2016-17 i.e; Rs. 4,291 million for the said year.*

ii. Other Operating Income

7.4.9. The petitioner has projected Rs. 1,510 million under the head "Other Operating Income" for the said year. The petitioner has not provided head wise break-up with the petition.

7.4.10. The Authority observes that income under this head definitely accrues; the quantum of the same however varies from year to year. Urgent connection fee for new meters, recovery of arrears, insurance claims and recovery from defaulting consumers are main source under this head.

7.4.11. The Authority observes that during recent completed financial year, the operating income includes "urgent fee for new connection" at Rs. 1,437 million and the total income under this head for the same year hovers around Rs. 1,800 million. This income, in view of enhanced activities and increased pace of work shall rise beyond doubts. Accordingly, around 10% escalation has been factored under this head.

7.4.12. *In view of above, the Authority determines the income under this head for the said year tentatively at Rs. 2,000 million for the said year.*

iii. Transportation of RLNG

7.4.13. The Authority observes that petitioner has ring-fenced the expenses on account of "Transportation Charges" and computed the shortfall at Rs. 29,097 million for the said year. The petitioner has highlighted that capital projects in respect of LNG infrastructure are now commissioned one by one to take RLNG under SWAP arrangement. SSGCL has already laid down dedicated network to dispatch RLNG for SNGPL system. Accordingly, the above expenses include Rs. 9,286 million to be paid to SSGCL on this account for the said year. Contentions of the interveners are also addressed in the forthcoming paras.

7.4.14. The Authority observes that scrutiny of the break-up of Transportation charges reveals that the petitioner has included Rs. 9,286 million for the transmission of RLNG by SSGCL. This figure now however has been determined at Rs. 8,920 million. Further, the petitioner has included Rs. 5,221 million interest expense on LNG loans which is inadmissible as per decision of the Federal Government. ***Accordingly, the Authority determines the "Transportation Charges" at Rs. 23,510 million for the said year. Accordingly the cost of supply/transportation charges to be recovered from RLNG consumers is worked out at Rs. 53.21 per MMBTU.***

7.4.15. The Authority further observes that RLNG pricing as per legal framework provided by the Federal Government is carried out under Petroleum Product (Petroleum Levy) Ordinance 1967. Further, as per decision of the Federal Government regarding "RLNG pricing, allocation & allied matters" expenses on this account is a ring-fenced activity, separately maintained and entirely recovered from RLNG consumers. Thus, for all practical purposes the expenses on account of RLNG does not impact the revenue requirement inter-alia the natural gas consumers. Accordingly, the same have not been formed part of instant determination. The above figures only provide clarity to charge the same from RLNG consumers.

7.4.16. ***In view of above, the Authority determines the other operating income at Rs. 10,920 million for the said year as against Rs. 9,693 million projected by the petitioner.***

8. Operating Expenses

8.1. Cost of Gas Sold

8.1.1. The petitioner has projected cost of gas sold for the said year to increase from Rs. 155,013 million actually reported in FY 2016-17 to Rs. 183,426 million, based on decrease in purchase volume and projections of international prices of crude and HSFO. Comparative analysis of projected cost of gas with previous years is given below:

Table 24: Comparison of Cost of Gas with Previous Years

Particulars	FY 2015-16	FY 2016-17		FY 2017-18
	Actual	DERR	The Actual	The petition
BBTU	478,483	418,840	415,423	438,471
Million Rs.	157,043	128,216	155,013	183,426
Rs. /MMBTU	328.21	306.12	373.14	418.33

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

8.1.3. The Authority observes that actual average international C&F prices of oil for the period December, 2016 to May, 2017 are now available, and are used for computation of well-head gas prices effective July 01, 2017. Average actual prices for the period June – September 08, 2017 have been assumed for computation of prices w.e.f January 01, 2017. Therefore, keeping in view the current trend of international oil prices and US $ exchange rate and other related factors, revised WACOG is computed at Rs. 325.22/MMBTU for the said year as per (Annexure D)..

Table 25: Revised WACOG

wellhead gas prices effective period	Period of Avg. prices of Oil	Avg. C&F price of Crude Oil (US $/BBL)	Avg. C&F Price of HSFO (US $/M.Ton)	Exchange Rate (Rs./ US $)
July to December 2017	December, 2016 to May 2017	53.2266	309.314	105.5
January to June, 2018	June to November 2017	48.4667	297.0598	106

8.1.4. ***Based on the above, the cost of gas is provisionally determined at Rs. 159,226 million for the said year.***

8.2. Unaccounted for Gas (UFG)

8.2.1. The petitioner has claimed UFG for the said year at 9.21 % (46,756 MMCF), as follows:

Table 26: UFG Volume Claimed in the Petition

	Volumes in MMCF
Particulars	FY 2017-18 The Petition
Gas Purchases	517,315
Gas Available for Sale	507,631
Gas Sales	460,875
UFG Volume	46,756

8.2.2. The Authority undertook a UFG study for determining UFG Benchmarks of the gas companies through a consultant of international repute vis M/s KPMG Taseer Hadi & Co. Chartered Accountants (KPMG). M/s KPMG submitted the first draft report on September 20, 2016 which was shared with Sui companies. Comments of SNGPL, SSGCL and OGRA on the first draft report were forwarded to the Consultant for perusal / consideration in the 2nd draft report. The Consultant submitted 2nd draft report on February 3, 2017 which was publicized on the OGRA's website. In order to make the process meaningful an advertisement was given in leading Urdu and English newspapers to hold public consultation sessions in all provinces and Federal Capital to invite comments of all the stakeholders since the allowance of UFG impacts them. Comments received from various stakeholders including SNGPL, SSGCL, Energy & Power Department, Government of KPK, Government of Sindh, All Pakistan Textile Mills Association, Mr. Fahimullah Khattak, World Bank, Khyber Pakhtunkwa Oil and Gas Company Ltd, Mr. Mehboob Elahi, and All Pakistan CNG Association as well as comments of OGRA were forwarded to Consultant for perusal / consideration in the Final Report. The final report submitted by the consultant was examined by OGRA in detail. OGRA observed that Consultant has taken into account comments of gas companies and other stakeholders and used an analytical approach while giving due consideration to international practices and ground realties faced by the gas companies. At the same time consumer's interest has closely been taken care to avoid putting any unnecessary burden on them. OGRA acknowledged the approach of Consultant for proposing a roadmap with specimen Key Monitoring Indicators (KMIs) and their linkage with the UFG Allowance.

8.2.3. Consultant rightly pointed out that not only mandate of Authority demands to protect the public interest by respecting their rights but also it requires to enable a controlled and regulated environment for the utilities. OGRA has to make sure that good consumers are not penalized for menace created by illegal consumers and that adequate UFG control mechanism is implemented and appropriate UFG allowance is provided in the gas tariff. OGRA analyzed that the report is well-researched and neutral which shall strike a balance between all stakeholders. Accordingly, the Authority has accepted the UFG Study Report on the following parameters: -

i. The following two component formula for calculating UFG allowance: -

$$\text{UFG Allowance} = \text{Gas Received} \quad X \quad (Rate_1 + Rate_2 \times \beta)$$

Legend

$Rate_1$ = Technical Component (Inherent gas loss in the system)

Rate $_2$ = Local Challenging conditions component (Pakistan specific)

β = Performance factor (Key Monitoring Indicators)

ii. $Rate_1$ is the benchmark fixed rate based on prevalent conditions / infrastructure in the areas of the operation of the sui companies and same is fixed at 5% for the next five years. The fixed rate also includes allowance for transmission losses which is calculated upto maximum 0.5%.

iii. $Rate_2$ is the allowance for local challenging conditions as compared to the world at large. This factor is suggested to cover impact of gas losses due to expanding gas supply network in retail including law & order affected areas and making it more prone to theft, leakages, data / meter errors and non-recovery of gas bills from law and order affected areas. Allowance for these challenging conditions is fixed at a maximum of 2.6%.

iv. To ensure appropriate and serious efforts are directed towards reducing UFG over the agreed term of five (5) years, the local challenging conditions component is linked to the achievement of KMI.

v. The performance of Sui Companies against KMI shall be validated through an annual review/ assessment. Sui companies shall submit a five yearly KMI implementation plan, the achievement of which will be assessed on yearly basis.

vi. To compute and evaluate Estimated Revenue Requirements (ERRs) in prospective years the Rate 2 will be taken at 50% and the same will be actualized in line with the achievement of proposed KMI to evaluate respective Final Revenue Requirements (FRRs)on submission.

vii. The Authority observes that it had stated in its FRR for FY 2012-13, FY 2013-14, FY 2014-15 and FY 2015-16 that the volumes provisionally allowed as per policy decisions of the ECC of Cabinet shall be reconciled with the results of the UFG Study and any variation(s) shall be adjusted accordingly. However, since the benchmark has been revised on fixed and variable factors wherein the variable factor is based on KMI in accordance with the KPMG's study / recommendation hence it will not be practicable to assess the performance of the sui companies on KMI with retrospective effect. Therefore, taking into consideration the fact that the Authority has been allowing UFG allowance over and above the benchmark of 4.5% based on local challenging conditions i.e. present Rate 2, the Authority concludes to finalize the FRR for FY 2012-13, 2013-14, 2014-15 and 2015-16 on the same basis as was done provisionally.

viii. If the company sustains a UFG loss below the benchmark set by the Authority the said company will only be given an allowance for UFG at actual levels.

ix. Based on analysis of the existing UFG calculation methodology along with reservation made by SNGPL and SSGCL considering the international better practices for calculating UFG the following formula for the UFG calculation purpose will be used: -

$$\text{UFG\%} = \frac{(\text{Gas received} - \text{Gas Delivered}) - \text{Adjustments}}{\text{Gas received}}$$

8.2.4. The Authority further decides that there will be a multiplying factor i.e. alpha of $Rate_1$ which will remain at 1.0 for next five years. The same may be reviewed after 05-year period. Quantification of sub heads of UFG components for Rate1 will be monitored throughout the next five years, as per below formula: -

$$\text{UFG Allowance} = \text{Gas Received} \quad X \quad (\alpha \times Rate_1 + Rate_2 \times \beta)$$

8.2.5. It is mandatory for the gas companies to submit an annual report regarding quantification of the components of UFG.

8.2.6. On the basis of above, UFG allowance has been calculated 32,591 MMCF for the said year subject to adjustments on the basis of KMIs at FRR stage, in accordance with the following Table: -

CERTIFIED TRUE COPY

Table 27: UFG Calculation Sheet

UFG CALCULATION SHEET

Particulars		Natural Gas (Normal Business) Per the Petition	Natural Gas (Normal Business) Determined by the Authority	RLNG Business Per the Petition	RLNG Business Determined by the Authority
					MMCF
Gas Purchases					
Metered gas purchased		517,315	517,315	438,000	438,000
Less RLNG Volume for Sale		-	-	-	-
Less RLNG Carried for Third Party		-	-	-	-
Energy Equilance		(5,475)	(5,475)	5,475	5,475
Gas Available for Sale	A	511,840	511,840	443,475	443,475
Gas Internally Consumed (Metered)	B=a+b	4,209	4,209	4,435	4,435
Transmission	a	3,596	3,596		
Distribution	b	613	613		
Net Gas Available for Sale	C=A-B	507,631	507,631	439,040	439,040
Gas Sold (Billed)	D	460,875	460,875	429,550	429,550
Total Sales	E	460,875	460,875	429,550	429,550
UFG Volume	F=C-E	46,756	46,756	9,490	9,490
UFG %		9.21%	9.04	2.16%	2.16%
Working disallowance for SNGPL					
Metered gas purchased			517,315		
UFG Benchmark (Percentage)	5%		25,865.75		
Local Conditions Allowance Percentage (Provisional)	1.3%		6,725		
Allowed UFG Percentagee	6.3%		6.3%		
Allowed UFG Volume			32,591		
Disallowed Volume (MMCF)			14,165		
WACOG (Rs./MMCF)			309		
Disallowed Volume (Million Rs.)			4,380		

*UFG on RLNG Supplied to Transmission and Distribution consumers provided by the Petitioner.

8.2.7. It is also mentioned that one of the interveners during the hearing conducted by the Authority in Lahore raised a question regarding loss of gas in Law and Order Affected Areas in KPK & being borne by other regions. In this connection, the Authority is of the view that it is also component in the UFG study already addressed in the UFG study by the Consultant in its report.

8.3. Transmission and Distribution Cost

i. Summary

8.3.1. The petitioner has projected 59% increase in Transmission and Distribution (T&D) cost, from Rs. 24,185 million per actual results FY 2016-17 to Rs. 32,724 million for the said year, as detailed below:

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

Rs. in million

Particulars	FY 2015-16	FY 2016-17	FY 2016-17	FY 2017-18	(Decrease) Over Actual FY 2016-17	
	FRR	DERR	Actual	The Petition	Rs.	%
Human Resource Cost	12,759	13,800	14,022	21,117	7,095	51
Stores and Spares Consumed	454	522	633	675	42	7
Repair and Maintenance	953	1,096	961	1,637	676	70
Fuel and Power	250	261	254	301	47	19
Stationery, Telegram and Postage	134	167	103	190	88	85
Dispatch of gas bills	100	105	95	130	35	37
Rent, Rate, Electricity and Telephone	376	424	406	671	266	65
Traveling	157	165	136	196	60	44
Transport expenses	739	739	737	875	139	19
Insurance	189	192	266	360	94	35
Legal and Professional Services	169	165	207	279	72	35
Consultation for ISO 14001 & OHSAS 18000	4	5	4	5	1	18
Gas bills collection charges	381	402	405	430	25	6
Gathering charges of gas bills collection data	37	40	37	45	8	23
OGRA fee	152	173	215	417	202	94
Advertisement	145	167	163	205	42	26
Bank Charges	13	15	16	18	2	12
Uniforms & protective clothing's	11	13	32	70	38	117
Staff training and recruiting	10	12	6	19	13	227
Security expenses	575	661	630	951	322	51
SNG training insititute	12	15	17	24	7	39
Provision for doubtful debts	1,407	3,219	868	3,616	2,748	317
Sponsorship of chairs at University	10	10	9	10	1	10
5 Years special training programme	25	30	27	30	3	10
Budget for UFG control related activities	327	777	560	1,167	607	108
Out Sourcing of call centre complaints manageme	27	30	22	50	29	133
Provision for Stores spares written off			-		-	-
Cost of Gas Blown off	170	-	236	-	(236)	(100)
Contribution to Inter State Gas System Limited	-	-	120	233	113	94
Other expenses	261	289	313	522	210	67
Subtotal Expenses	19,845	23,493	21,499	34,244	12,745	59
Allocated to fixed capital expenditures	(1,898)	(3,434)	-	(2,970)	(2,970)	-
T&D Expenses	17,947	20,059	21,499	31,274	9,775	45
Gas Internally Consumed	1,769	1,832	2,686	1,450	(1,237)	(46)
TotalT&D Expenses	19,716	21,890	24,185	32,724	8,539	35

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

ii. Human Resource (HR) Cost

8.3.3. The petitioner has estimated the HR cost at Rs. 21,117 million including Rs. 1,965 million IAS cost and Rs. 8,330 million CBA impact as against Rs. 13,800 million(including Rs. 1,719 million on account of IAS 19) provided in DERR 2016-17. The Authority has also observed the contentions made by the interveners regarding increase in HR cost.

8.3.4. The Authority notes that the manpower assessment study has already been initiated by gas utilities and shall be completed by end of this year. Accordingly, the existing benchmark shall be reviewed, if required, while considering the outcome of the said study. The Authority, therefore, directs the petitioner to complete the said study by December, 2017 and submit the same to the Authority for its consideration.

8.3.5. ***The HR cost benchmark including IAS-19, as per existing benchmark, for the said year is computed at Rs. 14,392 million, as per Annexure - C for the said year.*** The petitioner is further directed to submit, at the time of FRR, HR certificate duly signed by its statutory auditors that HR cost assigned to T&D cost is relevant for the operating activities, based on fair allocations and comprises only the salaries of its regular employees. No cost on account of daily wages, casual/temporary labour, badly etc; is included therein.

iii. Stores and Spares Consumed

8.3.6. The petitioner has projected the expenses on account of "stores and spares consumed" for the said year at Rs. 675 million as against actual expenses of Rs. 633 million for FY 2016-17. The historical comparison of "Stores and Spares Consumed" is given below:

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

Rs. In million

Particulars	FY 2015-16	FY-2016-17		FY-2017-18	Incr/Decr over Actual	
	FRR	DERR	Actual	The Petition	Rs	%
Compression	78	90	119	125	6	5%
Transmission	174	200	150	250	100	67%
Distribution	119	137	292	191	-100	-34%
Others (incl H.O.)	10	12	8	15	7	96%
Freight & Handling	73	84	65	93	28	44%
Total	454	522	633	675	42	7%

8.3.7. The petitioner has explained that rising trend under the sub-head "Compression" is mainly due to procurement of electrical material, engine spares and general store items required for maintenance of gas turbine compressor packages at Multan and Faisalabad. Further, the consumption of turbine oil has also been projected rather on higher side owing to operation of relocated/newly added gas turbines since last financial year during the construction of LNG Phase-I & II. In this regard, a complete new station has been added and made operational for LNG during phase-II of project adjacent to compressor station AC-1X. Further, during the said year, 1200 MMcfd of RLNG has been projected to add in the system requiring more operations of the machines, ultimately requiring more lube oil consumption for transmitting additional gas.

8.3.8. *The Authority, in view of latest trend of actual expenses, accedes to the petitioner's justification made under this sub-head. Accordingly, the expenses as projected by the petitioner for the said year are allowed.*

8.3.9. Under the sub-head "Transmission", the petitioner has stated that projected increase is mainly on account of consumption of store material for recoating plants and also the injection of odorant oil in the system at prescribed rate. Odorant oil creates smell and is therefore an effective tool to identify and control leakages. The petitioner has further pleaded that actual expenses during the last year was witnessed on lower side owing to delay in the start of recoating activities. During the said year, the recoating activity is expected to be in full swing, accordingly, around 20% increase has been estimated over the DERR for FY 2016-17.

8.3.10. The Authority observes that the expenses incurred under this sub-head squarely relate to the smooth operation of network. Accordingly, the expense under this head is allowed based on the judicious utilization. The current projection however, keeping in view the historical trend seems to be on higher side. ***The Authority therefore determines the expenses under this head for the said year at Rs. 220 million i.e; at the level of FY 2016-17 plus 10% cumulative increase.***

8.3.11. Under the sub-head "Freight & handling", the petitioner has projected 11% increase over DERR FY 2016-17 and justified the same as normal increase for the said year.

8.3.12. The Authority observes that the above expenses have been reported for the last year on actual basis at Rs. 65 million and the same provides more realistic basis. ***Accordingly, the Authority determines the expenses under this head for the said year at Rs.75 million i.e; at the level of actual expenses for FY 2016-17 plus 15% reasonable allowance.***

8.3.13. ***In view of above, the Authority provisionally determines the expenditure under the head "stores and spares consumed" for the said year at Rs. 627 million for the said year.***

iv. Repair & Maintenance

8.3.14. The petitioner has projected "Repair & Maintenance" for the said year at Rs. 1,637 million as against Rs. 1,096 million allowed in DERR 2016-17 and Rs. 961 million actual expenses for FY 2016-17.Historical comparison of "Repair & Maintenance" is given below:

Table 30: Comparison of Projected Repair & Maintenance Expenses with Previous Years

Particulars	FY 2015-16	FY-2016-17		FY-2017-18	Incr/Decr over Actual FY 2016-17	
	FRR	DERR	Actual	The Petition	Rs	%
Compression	20	23	17	32	9	39%
Transmission	82	94	80	163	69	73%
Distribution	524	603	565	925	322	53%
Others (incl H.O.)	326	376	300	517	142	38%
Total	953	1,096	961	1637	676	70%

8.3.15. The petitioner has explained that proposed increase in compression is due to repair and maintenance activities of compression stations.

8.3.16. The petitioner explained that increase under sub-head "Transmission" is due to recoating works of transmission lines in the said year which could not be fully undertaken during FY 2015-16 and FY 2016-17. Further, the petitioner has reckoned the increase under this head towards revision of contractual labor rates to the tune of 35% applicable from July 2016.

8.3.17. The petitioner has further explained that increase in others (incl H.O and service depts) is mainly on account of revision in rates of janitorial services and contractual labor. Scheduled rates for contractual labor were previously revised on July 01, 2017 and next revision of rates is applicable from July 01, 2017.

8.3.18. The Authority observes that it has always encouraged the petitioner's initiatives to undertake repair and maintenance related activities primarily focused for smooth and efficient operation of the network. The activities under this head are carried out on continuous basis and the effectiveness of the same directly contributes to petitioner's operating performance. The same are anchored with time and progress to meet the targets.

8.3.19. The Authority further observes that the actual expenses reported in respect of FY 2016-17 are far less when compared with the same as allowed at the time of DERR. The identical situation also reveals during the previous years which corroborate petitioner's capacity constraints to undertake the activities projected at the time of DERR.

8.3.20. ***In view of above, the Authority determines the expense under "Repair and maintenance for the said year at Rs. 1,105 million (i.e; 15% increase over actual of FY 2016-17 to cater for inflationary trend and enhanced activities. The Authority however shows rather flexible approach under this head, accordingly it shall consider actual expenses at the time of FRR at the touchstone of prudence, reasonability and relatedness.***

v. Fuel & Power

8.3.21. The petitioner has projected the expenses under "Fuel & Power" for the said year at Rs. 301 million as against Rs. 261 million provided in DERR and actual expenditure at Rs. 255 million for FY 2016-17, showing an increase of 18% as under:

Table 31: Comparison of Fuel & Power with Previous Years

Rs. In million

Particulars	FY 2015-16	FY-2016-17		FY-2017-18	Incr/Decr over Actual	
	FRR	DERR	Actual	The Petition	Rs	%
Compression	19	15	27	16	-11	-42%
Transmission	80	85	91	91	0	0%
Distribution	151	161	137	194	57	42%
Others (incl H.O.)	0	0	0	0	0	0%
Total	250	261	255	301	46	18%

8.3.22. The petitioner has explained that increase under this head is nominal keeping in view the rising prices of POL and expected enhanced activities during the said year.

8.3.23. The Authority observes that projected expenses under this head are primarily relevant to POL prices which are comparatively stable since last couple of financial years. The recent historical trend also depicts that similar trend shall prevail and the actual expenses under this head shall be around actual results in respect of recent completed financial year.

8.3.24. ***In view of above, Authority allows 10% allowance over actual expenses FY 2016-17 to cater for inflationary trend and enhanced activities. Accordingly,***

the expenses under this head are determined at Rs. 280 million for the said year.

vi. Stationery, Telegram and Postage

8.3.25. The petitioner has projected the expenses under "Stationery, Telegram and Postage" for the said year at Rs. 190 million as against actual expenses at Rs. 103 million for FY 2016-17, showing an increase of 85% as under:

Table 31: Comparison of Stationary, Telegram and Postage with Previous Years

Rs. In million

Particulars	FY 2015-16	FY-2016-17		FY-2017-18	Incr/Decr over Actual	
	FRR	DERR	Actual	The Petition	Rs	%
Compression	1	2	1	2	1	146%
Transmission	3	6	4	6	2	69%
Distribution	16	18	17	19	3	17%
Others (incl H.O.)	113	142	82	163	81	99%
Total	134	167	103	190	88	85%

8.3.26. The petitioner has elaborated that amount allowed for FY 2016-17 could not be fully utilized due to delay in procurement of pre-printed gas bills. Said bills have now been received. It is anticipated that a part of procurement for FY-2016-17 will also be booked to the FY 2017-18 in addition to the requirement for the said year.

8.3.27. ***The Authority in view above justification advanced by the petitioner, accepts the petitioner's claim and allows Rs. 190 million under the head Stationary, Telegram and Postage for the said year.***

vii. Rent, Rate, Electricity and Telephone

8.3.28. The petitioner has requested Rs. 671 million on account of "Rent, Rate, Electricity and Telephone" for the said year as compared to Rs. 424 million provided in DERR and actual expenses at Rs. 406 million for FY 2016-17. Historical comparison is given below:

Table 30: Comparison of Rent, Rate, Electricity and Telephone with Previous Years.

Rs. In million

Particulars	FY 2015-16	FY-2016-17		FY-2017-18	Incr/Decr over Actual	
	FRR	DERR	Actual	The Petition	Rs	%
Rent	180	204	174	243	69	40%
Royalty/internet services	34	33	33	46	13	40%
Telephone	40	44	31	52	21	68%
Electricity	94	104	74	110	36	48%
Pakistan Railway (Line crossing	10	15	77	192	114	148%
Water Conservancy	2	3	2	3	1	35%
Vehicles rates and taxes	11	15	9	15	6	63%
Others	6	6	5	10	5	109%
Total	**376**	**424**	**406**	**671**	**266**	**65%**

8.3.29. The petitioner has projected 40% increase under the sub-head "Rent" over actual figure for FY 2016-17. The petitioner has submitted that increase has been projected to cater for cost on account of additional office space and increase in rentals.

8.3.30. The Authority observes that increase in allowance under the sub-head "rent" is necessary to cater for additional office space and increase in rentals. The projection under this head for the said year @ 40% however appears to be beyond any rationale. ***Keeping in view the prevailing trend, the Authority allows the expense under this head at Rs. 191 million i.e; at the level of actual expenses for FY 2016-17 plus 10% increase to cater for additional space and annual rise in rentals.***

8.3.31. Under the sub-head "Royalty/internet services" the petitioner has explained that 40% increase is due to additional links of MPLS-VPN to be provided to existing locations and up gradation of bandwidth at already connected sites. Further, the petitioner has contended that the projected amount is only 15% increase over FRR FY 2015-16 for two years. Initially MPLS-VPN links were provided to 40 locations which are now increased upto 69 locations. The petitioner has further stated that SNGPL was advised through Cabinet Division's directive in April 2010, to obtain Data/Voice services only from

National Telecommunication Corporation (NTC) therefore, SNGPL has been using internet and MPLS-VPN Bandwidth by NTC, PTCL and Wateen Telecom.

8.3.32. Under sub head "Telephone" the petitioner has contended that increase is mainly on account of additional DATA SIMS scheduled to be installed on EVCs during FY 2017-18. Further, the petitioner has elaborated that company's network of regions/sub regions/CSCs shall increase during said year and accordingly payments of PABX and direct lines will also increase.

8.3.33. The Authority observes that internet as well as communication related expenses are continuously decreasing for the past few years owing to competitive market. Even if the packages of NTC, PTCL and Wateen Telecom are observed, the rates are at reasonable level due to competition in the market. Increase of 40% in expenses under the head "Royalty/Internet" and 68% under the sub-head telephone therefore holds no logic. Further, the review of historical results reveals that no significant expenses have been increased under the heads over the past. ***However, while giving allowance to the petitioner for its additional requirements, the Authority allows 10% increase i.e Rs. 36 million and Rs. 33 million respectively under Royalty, Internet and Telephone over the actual level of FY 2016-17.***

8.3.34. Regarding the "Railway Crossing Charges", the petitioner has submitted that it has agreed with Pakistan Railways to make payment of long outstanding crossing charges @ Rs.3,000/- per month per crossing for 20 years (240 months) on lump sum basis which works out to Rs. 720,000/- per crossing. The total liability in this regard, for 310 verified crossing sites, works out to Rs. 223 million out of which Rs. 72 million has been paid during 2016-17 while Rs. 152 million remaining is outstanding to be paid during the said year. Further, as regards the existing crossings, the same rate will also be charged for 310 reconciled crossings as against 412 crossings claimed by Pakistan Railways.

8.3.35. The Authority observes that matter of railway crossing charges is long outstanding issue; the settlement thereof is therefore appreciated. For the projected expenditure under this head, the Authority observes that if the petitioner contention is acceded, the previous liability in this regard has been mentioned at Rs. 152 million while for the current year, it works out to around Rs. 1 million. *Thus, the total expenses under this head shall remain around Rs. 155 million for the said year. The same is therefore determined under this head.*

8.3.36. ***Based on the above, the Authority determines expenditure on account of "rent, rate, electricity and telephone" at Rs. 553 million for the said year.***

viii. Dispatch of Gas Bills

8.3.37. The petitioner has projected the expenses under "Dispatch of gas bills" for the said year at Rs. 130 million as against Rs. 95 million actually incurred during FY 2016-17 showing an increase of 37% as under:

Table 31: Comparison of Dispatch of gas bills

Rs. In million

Particulars	FY 2015-16	FY-2016-17		FY-2017-18	Incr/Decr over Actual	
	FRR	DERR	Actual	The Petition	Rs	%
Dipatch of gas bills	100	105	95	130	35	37%
Total	100	105	95	130	35	37%

8.3.38. The Authority observes that the petitioner has projected unprecedented increase under this head and advanced no plausible justification to substantiate its claim. Normally the expenses under this head has been either stagnant or witnessed a meager increase due to change in rates.

8.3.39. ***In view of above, the Authority determines the expenses under this head at Rs. 100 million i.e; at the actual level of FY 2016-17 plus 5% for the said year.***

ix. Traveling Expenses

8.3.40. The petitioner has projected traveling expenses for the said year at Rs. 196 million as against Rs. 165 million provided in DERR and Rs. 136 million actual expenses for FY 2016-17,showing an increase of 19% as under:

Table 31: Comparison of Traveling Expenses with Previous Years

Rs. In million

Particulars	FY 2015-16	FY-2016-17		FY-2017-18	Incr/Decr over Actual	
	FRR	DERR	Actual	The Petition	Rs	%
Local travelling						
Executives	92	97	76	113	37	49%
Subordinates	52	55	49	65	16	32%
	144	152	125	178	53	35%
Foreign travelling						
Conveyance (Official)	11	11	9	15	6	62%
Travelling directors	2	2	2	4	2	112%
Total	13	14	11	18	7	69%
Total	157	165	136	196	31	19%

8.3.41. The petitioner has explained that 12% increase over FRR FY 2015-16 is proposed for two years i.e FY 2016-17 and FY 2017-18 on account of local travelling of Executives and Subordinates. Increase represents revision of TA/HA rates of staff applicable from December 2016 and also on account of establishment of new regions/sub regions/CSCs.

8.3.42. The Authority observes that expenses under both sub-heads have remained constant or on decreasing trend during past years. If the actual expenses (i.e; Rs. 125 million) provided by the petitioner are observed, the petitioner claim for the said year seems to be on higher side. The petitioner's contention therefore has no plausible justification for projected expenditure. The Authority, in order to cater for the relevant factor for increase including inflation and enhanced activities, ***allows a reasonable increase of 10% over the latest actual expenses under these heads and accordingly determines the same at Rs. 138 million.***

8.3.43. Under the sub-head "Foreign Travelling", the Authority observes that the petitioner has almost doubled the projection over the actual expenses for conveyance and foreign travelling of the directors. Whereas, if historical results are seen, the expenses under this head has remained constant. In order to cater for inflation and increased activities, ***the Authority allows Rs. 12 million i.e***

10% increase over actual expenses for FY 2016-17.

8.3.44. ***The Authority, in view of above, allows total expenses under the head at Rs. 150 million for the said year.***

x. Transport Expenses

8.3.45. The petitioner has projected transport expenses for the said year at Rs. 875 million as against Rs. 737 million actually incurred for FY 2016-17 showing an increase of 19% as under:

Table 32: Comparison of Transport Expenses with Previous Years

Rs. In million

Particulars	FY 2015-16	FY-2016-17		FY-2017-18	Incr/Decr over Actual	
	FRR	DERR	Actual	The Petition	Rs	%
Compression	14	14	12	15	4	30%
Transmission	122	122	107	137	30	28%
Distribution	458	458	454	530	76	17%
Others (incl H.O.)	146	146	163	193	30	18%
Total	739	739	737	875	139	19%

8.3.46. The petitioner has explained that increase has been proposed for 02 years keeping in view the rising trend in petrol prices as witnessed in FY 2016-17.

8.3.47. The Authority observes that POL prices historically has observed stable trend at reasonable level since last year which is expected to continue. The anticipated increase by the petitioner therefore seems to be grossly exaggerated when compared with the actual results for the recent completed financial year

8.3.48. ***The Authority, in view of above, determines the expenses under this head at the level of actual of FY 2016-17 i.e; Rs. 737 million for the said year.***

xi. Insurance

8.3.49. The petitioner has projected insurance expenses for the said year at Rs. 360 million against Rs. 266 million actually incurred in FY 2016-17, showing an increase of 35% as under:

Table 33: Comparison of Insurance Expenses with Previous Years

Rs. In million

Particulars	FY 2015-16	FY-2016-17		FY-2017-18	Incr/Decr over Actual	
	FRR	DERR	Actual	The Petition	Rs	%
Third party	2	2	2	3	1	48%
Fire risk	107	120	120	150	30	25%
Fidelity / cash in transit	0	1	0	3	2	1712%
Motor vehicles	52	45	66	90	24	36%
Loss of Profit	24	24	67	115	48	72%
Miscellaneous	4		11		-11	-100%
Total	189	192	266	360	94	35%

8.3.50. The petitioner has explained that projected increase is mainly on account of anticipated premium to be paid under the sub-head "Fire Risk", "Motor Vehicle" and "Loss of Profit". The petitioner has explained that increase in vehicle insurance has been anticipated for vehicles to be purchased during the year which triggers insurance premium against said vehicles.

8.3.51. The Authority observes that petitioner's projection under the above head reveals no logic when analyzed at the touchstone of rationality and historical actual results. Under the sub-head "Fire risk", the petitioner has grossly exaggerated the expenses when compared with the actual results for last years. Similarly, in respect of "Motor Vehicles", the insurance is on the sum insured which may not increase to the extent as projected by the petitioner. Further, fabulous increase has been projected on account of "loss of profit" which is unprecedented and perfunctory since the UFG which is main constituent of profit erosion, as per petitioner sentiments, is on downward trend.

8.3.52. ***In view of above, the Authority under the above sub-head "Insurance" allows a reasonable increase of 10% over the actual of FY 2016-17 and determines the amount at Rs. 293 million for the said year.***

xii. Legal and Professional Charges

8.3.53. The petitioner has projected expenditure of Rs. 279 million on account of Legal and Professional Charges for the said year as against Rs. 165 million provided in DERR for FY 2016-17, showing an increase of 69% and Rs. 207 million actually spent in FY 2016-17. Historical comparison is given below:

Table 34: Comparison of Projected Legal & Professional Charges with Previous Years

Rs. In million

Particulars	FY 2015-16	FY-2016-17		FY-2017-18	Incr/Decr over Actual	
	FRR	DERR	Actual	The Petition	Rs	%
Legal	153	101	170	196	26	16%
Professional	38	30	15	49	34	227%
Tax	12	13	10	13	3	28%
Audit	8	10	8	10	2	30%
Apprenticeship/Scholarship/T	4	8	4	7	3	63%
Others	1	3	0	3	3	3650%
Total	215	165	207	279	72	35%

8.3.54. The petitioner has explained that litigation against the company has significantly increased due to arbitration matters, including international arbitration, LNG contracts, filing of complaints, FIRs, deteriorating law& order situation, revision in GIDC, load curtailment policy etc. Furthermore, the petitioner has stated that court fee at the rate of 7.5% is affixed on the plaints for recovery of over and above Rs. 25,000/- in Punjab. Whereas, in Khyber Pakhtunkhwa fee is levied at 7.5% irrespective of the amount involved in the matter.

8.3.55. The petitioner has further submitted that Rs. 3 million so far has been paid as professional charges on account of reviewing the proposal of unbundling /gas sector reforms. Consultancy charges for Sales Tax pending before Lahore High Court (Rs. 5 million) and Rs. 7 million for Income tax cases.

8.3.56. The Authority observes that the petitioner is repeating its previous stance and providing no concrete justification for requesting higher increases under above heads.

8.3.57. The Authority observes that during FY 2015-16, expenses on this account include the cost incurred in respect of arbitration abroad. At the time of DERR FY 2016-17 reasonable expenses were again allowed on this account, however, actual expenditure surpassed the allowed limit. The interveners during public hearing have also contended the same. The Authority observes that the petitioner should have restricted the expenses for FY 2016-17 at the given level. Persistent increase under the sub-head "Legal" provides no rationale for prudency when the same is neither core activity and nor commensurate with any benefit attained. Moreover, as far as international arbitration is concerned, no detail of the same has been provided by the petitioner. Further, the petitioner has included RLNG related expenses under this head which as per FG decision is ring fenced activity and all expenses pertaining to the same shall be charged from RLNG consumers and not from the normal gas consumers.

8.3.58. The Authority further observes that hiring of legal counsels or prominent lawyers at higher fee cannot ascertain favorable results. Despite spending significant amount on this account, no major recoveries have been observed. In fact litigation cases and expenses are continuously increasing without any matching gain. Furthermore, the Authority has been apprised that the petitioner has strengthened its legal team to utilize in house expertise. This should in all fairness requires to decrease the expenses under this head.

8.3.59. In view of above, the Authority determines the expenses under the sub-head "legal" at Rs. 115 million i.e; at the level of DERR for FY 2016-17 plus 15%.

8.3.60. Regarding "Professional Charges", the Authority observes that petitioner has grossly exaggerated the expenses under this head and advanced no justification to defend its claim. The Authority therefore restricts the expense under this head at the actual level of FY 2016-17.

8.3.61. ***The Authority, in view of above,*** determines the actual expenses under this head at Rs. 163 million for the said year.

xiii. OGRA Fee

8.3.62. The petitioner has projected expenditure of Rs. 417 million on account of OGRA fee for the said year.

8.3.63. The Authority observes that petitioner has revised the OGRA fee and requested to allow Rs. 180 million for the said year. ***Accordingly, the same is allowed for the said year.***

xiv. Provision for Doubtful Debts

8.3.64. The petitioner has projected "Provision for Doubtful Debts" for the said year at Rs.3,616 million. Historical trend of the provision for doubtful debts is as below:

Table 31: Provision for doubtful debt

Rs. In million

Particulars	FY 2015-16	FY-2016-17	FY-2017-18
	FRR	DERR	The Petition
Industrial	1,042	1,738	2,761
Commmercial	227	444	476
Domestic	138	1,037	380
Total	**1,407**	**3,219**	**3,616**

8.3.65. The petitioner has stated that it has worked out the expenses under this head as per company's policy based on unsecured debt of disconnected consumers.

8.3.66. The Authority observes that the petitioner has not computed the expenses under this head on the basis of Authority benchmark implemented in previous years. Accordingly, the expenses under this head as per benchmark work out to Rs. 1,584 million for the said year.

8.3.67. In view of above, ***the provision for doubtful debt for the said year is determined at Rs. 1,584 million.***

xv. Advertisement

8.3.68. The petitioner has projected Rs. 205 million under this head for the said year as against Rs. 163 million actually incurred during FY 2016-17, and Rs. 167 million allowed in DERR 2016-17 showing an increase of 26% as under:

Table 32: Comparison of Advertisement Expense with Previous Years

Rs. In million

Particulars	FY 2015-16	FY-2016-17		FY-2017-18	Incr/Decr over Actual	
	FRR	DERR	Actual	The Petition	Rs	%
Advertisement	145	167	163	205	42	26%
Total	145	167	163	205	42	26%

8.3.69. The petitioner has explained that increase under this head is mainly due to enhanced media campaign on account of energy conservation due to shortage/curtailment of gas supply to consumers. Further, as a corporate responsibility, company is also obligated for massive campaign regarding safety measures in winter season. Awareness regarding gas theft policies is also one of the component of advertisement. The publicity of all above is mostly transmitted during prime time hours of T.V / radio channels, which results in heavy cost under this head.

8.3.70. The Authority observes that petitioner has grossly exaggerated the projections under this head when compared with the actual results, unjustified increase under the head has also been contended by the interveners. Further, the Authority has time and again accentuated that the expenses under this head to a certain extent are avoidable without compromising the amenable results. The petitioner in this regard however has not strived to optimize the expense and explored no further avenues to reveal effectiveness of the expenses incurred in this regard.

8.3.71. ***The Authority, in view of above, adopts a consistent approach and allows reasonable increase of 10% over actual expenses for FY 2016-17 amounting to Rs. 180 million for the said year.***

xvi. Uniform& Protective clothing's

8.3.72. The petitioner has projected Rs. 70 million under the head "Uniform & Protective Clothing" for the said year as against Rs. 32 million (117% increase) actual results for 2016-17. Historical comparison is as under;

Table 40: Comparison of Uniform & Protective clothing's Expense with Previous Years

Rs. In million

Particulars	FY 2015-16	FY-2016-17		FY-2017-18	Incr/Decr over Actual	
	FRR	DERR	Actual	The Petition	Rs	%
Uniform & Protective Clothing	11	13	32	70	38	117%
Total	11	13	32	70	38	117%

8.3.73. The petitioner has explained that the expenses booked in FY 2015-16 on protective clothing/supplies are on lower side as the procurement could not be made due to delayed decision of ERR. In FY 2016-17, the Authority has disallowed Rs. 52 million allowing only Rs. 13 million for procurement of essential items for the safety and security of personnel. In FY 2017-18, full implementation of HSE Policy with regard to provision of personal protective equipment/clothing and protective shoes to all entitled employees will be ensured. It is anticipated that PPEs (approximately to 3500 employees) and protective clothing/protective shoes (approximately to 4300 employees) will be provided during FY 2017-18.

8.3.74. The Authority observes that historically actual expenditure under this head has always remained on lower side. The petitioner, however, has been demanding significant amount under this head despite it could not utilize even the amount allowed in this regard. ***Nevertheless, actual expense under this head has been reported at Rs. 32 million which provides reasonable benchmark to allow the expenses under this head.***

8.3.75. ***The Authority, while encouraging the petitioner to implement the HSE policy in letter & spirit, allows the expenses under this head at the actual level of FY 2016-17. The actual expenses in this regard however shall be considered at the time of FRR keeping in view the acute need and compliance with the HSE policy. Further, the petitioner is advised to provide, at the time of FRR for the said year, the details of employees who have been provided protective clothing in compliance with HSE policy.***

xvii. Staff training and recruiting expenses

8.3.76. The petitioner has projected 227% increase under this head from Rs. 6 million per actual FY 2016-17 to Rs. 19 million per the petition for the said year.

Table 42: Comparison of Staff training & recruiting expenses with Previous Years

Rs. In million

Particulars	FY 2015-16	FY-2016-17		FY-2017-18	Incr/Decr over Actual	
	FRR	DERR	Actual	The Petition	Rs	%
Staff training and recruiting expenses	10	12	6	19	13	227%
Total	10	12	6	19	13	227%

8.3.77. The petitioner has explained that amount proposed for the said year includes expenses on account of Recruitment, Foreign training and Staff local trainings which are organized on departmental level. The petitioner has projected Rs. 7 million on account of recruitment and submitted that approximately 2,467 positions are lying vacant in approved career which are to be filled through third party (NTS). The petitioner further explained that no such expenditure has been incurred during FY 2016-17, therefore the requested amount allocated for a specific purpose may be allowed.

8.3.78. The Authority observes that petitioner is also conducting manpower need assessment study which shall measure the appropriate manpower strength based on the business norms. Accordingly, the petitioner is advised to initiate the recruitment process once the need assessment study is finalized and attained regulatory approval as well.

8.3.79. Under the sub-head local and foreign trainings, the petitioner has projected Rs. 12 million as against Rs. 6 million actually incurred in FY 2016-17.

8.3.80. The Authority observes that training activities are inevitable part of the organization. The same may be undertaken on the basis of detailed strategy and consistent approach in this regard. Expense under this head has also been contended by the interveners.

8.3.81. The Authority in view of above, Authority observes that the projected expenses viz a viz anticipated activities seems to be on higher side. The Authority therefore provisionally restricts the expenses at the level of DERR FY 2016-17 for the said year. ***The actual expenses under this head however shall be reviewed at the time of FRR; accordingly the effective and prudent expenses shall form part of part of revenue requirement.***

xviii. Security Expenses

8.3.82. The petitioner has projected Rs. 951 million for the said year as against Rs. 630 million actual expenses for FY 2016-17 showing an increase of 51% as under:

Table 43: Comparison of Security Expense with Previous Years

Rs. In million

Particulars	FY 2015-16	FY-2016-17		FY-2017-18	Incr/Decr over Actual	
	FRR	DERR	Actual	The Petition	Rs	%
Security expenses to security for	370	425	410	627	217	53%
Security guards	205	236	219	324	105	48%
Total Security Expenses	575	661	630	951	322	51%

8.3.83. The petitioner has explained that Pakistan Ranges (Punjab) troops are essentially required to be deployed for the security of 45 miles segment falling in the province of Punjab. Further, keeping in view the current deteriorated law and order situation, frequent miscreants attacks on high pressure pipelines and past rupture history of pipelines, the petitioner is making monthly payment to Pakistan Rangers Punjab as per 1/3rd share arrangement. The petitioner has submitted that approximately 1,308 armed security guards are performing protection duty on exposed installation of transmission network falling in Punjab & KPK province and payment is also required for Police deployed in FC (KPK) province. Besides this, the petitioner has stated that revision of agreement with Security agencies was due from 1st January, 2017 which is still under process.

8.3.84. The Authority reiterates its stance that it has always appreciated the petitioner's security arrangements and stressed to ensure fool proof security to protect the exposed installations, valuable assets and precious lives. Therefore, the Authority has always allowed reasonable amounts under this head.

8.3.85. The Authority however observes that the petitioner always exaggerates the expenses under this head at the time of DERR when compared with the historical positions. This practice unnecessarily misleads which is not desired at all. During public hearing, critiques and objections were also raised by the interveners regarding expense under this head.

8.3.86. ***The Authority, in view of above, determines Rs. 725 million i.e at the actual level of level of plus 15% to cater for inflation and other adjustments, under the head "Security expenses" for the said year. The petitioner however, is allowed to ensure security measures for the well-defined purpose at reasonable cost that shall be reviewed by the Authority at the time of FRR.***

xix. Contribution of ISGSL expenses

8.3.87. The petitioner has projected Rs. 233 million for the said year under this head as against Rs. 9 million actual expenses for FY 2016-17.

8.3.88. The petitioner, at the time of public hearing withdrew its claim in view of latest decisions of the FG. ***Accordingly, no amount under this head is included in the instant determination for the said year.***

xx. Budget for UFG Control Related Activities

8.3.89. The petitioner has projected Rs. 1,167 million for the said year under this head as against Rs. 560 million actual observed for FY 2016-17. The amount represents 108% increase.

Table 46: Comparison of Projected UFG control related activities

Rs. In million

Particulars	FY 2015-16	FY-2016-17		FY-2017-18	Incr/Decr over Actual	
	FRR	DERR	Actual	The Petition	Rs	%
Budget for UFG Control related activities	327	777	560	1167	607	108%
Total	**327**	**777**	**560**	**1167**	**607**	**108%**

8.3.90. Keeping in view the actual expense of Rs. 560 million for fiscal year 2016-17 and by adding 10% inflation, the Authority allows Rs. 616 million under the head subject to actualization at the time of FRR and proper justification by the petitioner.

8.3.91. ***In view of above, the Authority allows Rs. 616 million under the "Budget for UFG control related activities" for the said year.***

xxi. Outsourcing of call centers for complaint management

8.3.92. The petitioner has projected Rs. 50million under the head "outsourcing of call centers for complaint management" for the said year as against Rs. 22 million provided in actual for FY 2016-17. Historical comparison is given below:

Table 47: Break up of Outsourcing of call centers for complaint management expenses

Rs. In million

Particulars	FY 2015-16	FY-2016-17		FY-2017-18	Incr/Decr over Actual	
	FRR	DERR	Actual	The Petition	Rs	%
Outsourcing of Call Centre for Complaints Management	27	30	22	50	29	133%
Total	**27**	**30**	**22**	**50**	**29**	**133%**

8.3.93. The petitioner has stated that budget proposal was based on the projection of anticipated expenses for FY 2016-17. Agreement in vogue will expire in February 2018 and anticipated increase in number of agents and rate has been accordingly also accounted for the said year.

8.3.94. The Authority observes that the petitioner has not provided concrete justification for 133%increase over one year on the basis of actual expenses for FY 2016-17. The projected amount is almost more than double than actual expenses for the recent completed financial year. It is unlikely to expect that the actual expenses shall go to this limit if it is properly tackled.

8.3.95. ***The Authority in view of above allows the expenses at Rs. 24 million i.e; at the level of actual of FY 2016-17 plus 10 % normal increase to cater for the new arrangements.***

xxii. Other Expenses

8.3.96. The petitioner has projected Rs. 522million for the said year under this account wherein some expenses included therein have been projected on exceptionally higher side. The comparative analysis of the same is provided below:

Table 48: Comparison of Other Expenses with Previous Years

Rs. In million

Particulars	FY 2015-16	FY-2016-17		FY-2017-18	Incr/Decr over Actual	
	FRR	DERR	Actual	The Petition	Rs	%
Construction equipment operating cost	78	90	104	102	-2	-1%
Laundry charges	1	1	1	2	1	106%
Subscriptions	2	2	2	3	1	21%
Newspapers, books & periodical	3	3	3	5	1	38%
Recovery through contractors (disconnected)	20	23	29	115	86	303%
Board meetings & directors' expe	35	29	55	57	3	5%
Stock exchange fee	1	2	1	3	1	78%
Revenue stamps & filing fee	0.094	0.108	0.03	0.280	0	803%
Entertainment expenses	7	8	8	12	5	63%
Sports Cell expenses	42	48	50	105	55	110%
Outside services employed - govt./ local authority	2	3	1	3	2	146%
Annual Sports	35	40	48	60	12	26%
NIC verification NADRA	11	13	9	13	4	45%
Sundries	23	26	32	42	10	31%
Total	261	289	343	522	179	52%

8.3.97. The petitioner has explained that exceptional increase under sub-head "recovery through contractor" is due to total amount awarded to contractor which was Rs. 30 million and minimum target of recovery has been estimated to be 3% in FY 2017-18. Keeping in view total portfolio awarded, minimum rate and their rate of commission, revenue budget of recovery contractor amounting Rs. 115 million has been calculated. Anticipated recovery targets enhanced for FY 2017-18 in all regions.

8.3.98. Under the sub-head "Board Meetings & Directors' expenses", the petitioner has projected an increase of 96% for said year over DERR for FY 2016-17 due to enhanced number of meetings (60 to 70) of BOD/Sub committees anticipated in FY 2017-18.

8.3.99. The petitioner has explained that NGPL Sport cell Budget was not initially allowed by the Authority for the FY 2015-16 that created uncertainties in undertaking the sports activities in respective games/head due to which it was not able to utilize the budget properly in the first half of the year and had to curtail most of the activities. Presently sports cell is maintaining 8 different sports besides company's annual sports and cricket team.

8.3.100. The Authority observes that above expenses although are not directly associated with the petitioner's core activities, yet the same are necessary and are part of established organizations. There is however dire need to incur the expenses under these heads judiciously maintaining a consistent and prudent approach while spending under each head. Phenomenal increase over one year without any concrete reason and plausible justification defies logic. The same therefore particularly in respect of " Recovery through contractors", "Board meetings and directors expenses", "Annual sports" , "sports cell" and "sundries" can't be allowed at the cost of consumer. ***The same are therefore restricted at the level of DERR for FY 2016-17.***

8.3.101. ***The Authority, in view of above, allows total expenditures under the head "Other expenses" at Rs. 310 million for the said year. The projected expenses on account of "recovery through contractors" however shall be considered at the time of FRR based on the cost vs benefit analysis.***

xxiii. Remaining Items of Transmission & Distribution Cost

8.3.102. The items of transmission and distribution cost, except those dealt with in sub-para *ii* to xxii are projected by the petitioner at Rs. 758 million as given below:

Table 49: Remaining Items of Transmission and Distribution Expenses

Rs. in million

Particulars	FY 2017-18
	Demanded
Stationery, Telegram and Postage	190
Consultation for ISO 14001 & OHSAS 18000	5
Gas bills collection charges	430
Gathering charges of gas bills collection data	45
Bank Charges	18
Sponsorship of chairs at University	10
5 Years special training programme	30
Subtotal Expenses	**758**

8.3.103. *The Authority observes that the remaining items of T&D expense have been reasonably projected by the petitioner and therefore, provisionally accepts the same, for the said year, at Rs. 758 million.*

8.3.104. *The Authority also observes that GIC consequent to change in WACOG revised to Rs. 1,306 million for the said year.*

xxiv. *Transmission & Distribution Cost Determined by Authority*

8.3.105. **In view of the examination in para ii to xxiii above, the Authority provisionally determines operating cost for the said year at Rs. 23,363 million against Rs. 32,724 million claimed by the petitioner, as follows:**

Table 49: Summary of T&D Cost Determined by the Authority

Rs. in million

Particulars	FY 2017-18		
	Demanded	Adjusment	Determined
Human Resource Cost	21,117	(6,725)	14,392
Stores and Spares Consumed	675	(48)	627
Repair and Maintenance	1,637	(532)	1,105
Fuel & Power	301	(21)	280
Stationery, Telegram and Postage	190	-	190
Rent, Rate, Electricity and Telephone	671	(118)	553
Dispatch of gas bills	130	(30)	100
Traveling	196	(46)	150
Transport expenses	875	(138)	737
Insurance	360	(67)	293
Consultation for ISO 14001 & OHSAS 18000	5	-	5
Legal and Professional Services	279	(116)	163
Gas bills collection charges	430	-	430
Gathering charges of gas bills collection data	45	-	45
OGRA fee	417	(237)	180
Advertisement	205	(25)	180
Bank Charges	18	-	18
Uniforms & protective clothing's	70	(38)	32
Staff training and recruiting	19	(7)	12
Security expenses	951	(226)	725
SNG training insititute	24	(7)	17
Provision for doubtful debts	3,616	(2,032)	1,584
Sponsorship of chairs at University	10	-	10
5 Years special training programme	30	-	30
Budget for UFG control related activities	1,167	(551)	616
Out Sourcing of call centre complaints management	50	(26)	24
Contribution to Inter State Gas System Limited	233	(233)	-
Other expenses	522	(212)	310
Subtotal Expenses	**34,244**	**(11,435)**	**22,808**
Allocated to fixed capital expenditures	(2,970)	-	(2,970)
T&D Expenses	**31,274**	**(11,435)**	**19,838**
Gas Internally Consumed	1,450	(144)	1,306
T&D Expenses	**32,724**	**(11,579)**	**21,144**

8.4. *New Regions (Operating & HR cost)*

8.4.1. The petitioner has projected Rs. 2,384 million to allow for the said year on account of New Regions operating and additional HR cost and requested to allow the same. The detail is as under;

Table 33: New Regions (Operating & HR Cost)

Million Rs.

Regoins /Sub-Regions	Operating Cost	HR Cost	Total T&D cost
Phase I	561	407	967
Phase II	257	562	820
Phase III	161	292	452
Complaint Center Tandlianwala, Faisalabad	4	-	4
Customer Service Centers; Khushab, Shorkot, Faisalabad, Multan Region Office Swabi	94	47	141
Total	1,076	1,308	2,384

8.4.2. The petitioner has submitted that Phase I (Lahore west, Sialkot, Mardan & Rahim Yar Khan) and customer's services centers have already been allowed. In the instant petition, additional HR cost and operating cost of the same along with New Regions - Phase II (D.I.Khan, D.G Khan, Toba and Attock) and sub-regions Murree, Rawalpindi City, Gujar Khan and Chiniot has been projected for the said year. In respect of Phase III, new regions at Chakwal and Khanewal along with sub-regions at Mianwali, Mansehra and AJ&K has been projected. Further, complaint centers/customer service centers have been projected at Khushab, Shorkot, Faisalabad and Multan.

8.4.3. The Authority reiterates its stance that HR cost in respect of above regions/sub-regions/CSS has already been accounted for since the parameters which justify creation of new establishments are also the basic factors to index HR benchmark cost providing the additional funds to meet the enlarged structure. A separate consideration of the same infact invites double treatment and in turn defeats very purpose of HR cost optimization. The Authority therefore maintains its earlier stance in this regard.

8.4.4. Regarding operating cost, the Authority has pended the creation of new regions for the time being owing to relevant data in this regard. Accordingly, operating cost on this account is pended.

8.5. ***Workers Profit Participation Fund (WPPF)***

8.5.1. The petitioner has projected W.P.P.F at Rs. 833 million. The Authority accepts the same for the said year. Any adjustment on this account is made at the time of FRR.

8.6. ***Shortfall pertaining to FY 2016-17***

8.6.1. The Authority observes that in DERR FY 2016-17, it has determined the shortfall in revenue requirement at Rs. 24,245 million and forwarded the same to FG to revision in sale prices to the effect that the revenue requirement of the company can be met. The FG under Section 8(3) of the Ordinance, FG revised the gas sale prices the same however were made conversely on lower side thereby further increasing the revenue shortfall. The petitioner has raised this issue with the FG. In the instant petition, it has however not factored the same as part of revenue requirement for the said year.

8.7. **Late Payment Surcharge–Payable (LPS)& Short Term Borrowing**

8.7.1. The petitioner has claimed Rs. 3,200 million on account of LPS and Rs. 48 million under the head 'Short Term Borrowing' for the said year. The petitioner has pleaded that due to no revision in the gas sale prices since many years, it is facing serious financial crunch resulting to delay in payment to gas suppliers and arrangement of short term borrowings to offset its immediate liabilities. The petitioner has highlighted that since the expenses on this ground have emerged due to the circumstances beyond its purview, the same may therefore be allowed for the said year as well.

8.7.2. The petitioner has explained that above stated LPS has been claimed in line with the Authority earlier decision in respect of FRR FY 2015-16 whereby the income as well as expenses from such sources has been formed part of revenue requirement. The petitioner has accordingly requested to allow the same for the said year.

8.7.3. The Authority accedes to the above contention made by the petitioner; it however observes that the petitioner has projected the expenses on higher side. The actual expenses on account of LPS and short term borrowing during the latest completed financial year, when the company faced huge financial shortfall in the revenue requirement, has been reported at Rs. 2,978 million and Rs. 35 million respectively. For the said year, it is hardly to expect that this situation may incur since the issue of non-revision in sales prices and consequential impacts on cash flows has already been taken up by the petitioner with the FG being the relevant forum in this regard. In this scenario, the financial position may not get so adverse. Further, there is positive impact on prescribed prices owing to stability in the prices of crude/HSFO which under the head "cost of gas" constitutes major portion of around 80%.

8.7.4. *The Authority, in view of above, accepts the petitioner's claim for the said year to the extent of tentatively a quarter of a year on the basis of actual figure for FY 2016-17. Accordingly, Rs. 750 million is allowed for the said year.*

9. Summary of Discussion & Decisions

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

9.1.1. determine estimated addition in fixed assets at Rs. 28,292 million *(exclusive of LNG Assets of Rs. 19,719 million)* and depreciation charge at Rs. 17,838 million;

9.1.2. determine sales revenue at current prescribed price (re-adjusted) at Rs. 174,236 million;

9.1.3. determine income under the head Rental & service charges at Rs. 2,014 million

9.1.4. determine LPS as operating income at Rs. 4,291 million

9.1.5. other operating income at Rs. 2,000 million

9.1.6. **determine cost of gas at Rs. 159,226 million.**

9.1.7. **determine the UFG disallowance at Rs. 4,380 million;**

9.1.8. **determine T&D expenses at Rs. 21,144 million as against Rs. 32,724 million claimed by the petitioner;**

9.2. In exercise of its powers under the Ordinance and NGT Rules, the estimated revenue requirement for the said year is determined at Rs. 211,940 million as tabulated below:

Table 34: Components of DERR for FY 2017-18 as Determined by the Authority.

Million Rs.

Description	Demanded by the Petitioner	Determined by the Authority
Cost of gas sold	183,426	159,226
UFG (disallownce) / allowance	-	(4,380)
Transmission and distribution cost	32,724	21,144
Depreciation	18,907	17,838
New Regions HR & Operating Cost	2,384	-
Late Payment Surcharge (Payable)	3,200	702
Finance cost for Working capital	48	48
Workers Profit Participation Fund	833	833
Return	19,434	16,529
Total Revenue Requirement	**260,955**	**211,940**

9.3. **The petitioner's net operating income is estimated at Rs. 185,156 million as against revenue requirement of Rs. 211,940 million and thus there is shortfall of Rs. 26,784 million in its estimated revenue requirement for the said year. In order to adjust this shortfall, the Authority hereby makes, on provisional basis, upward revision of Rs. 60.65 per MMBTU in the petitioners' average prescribed price for the said year (Annexure-A). Accordingly, the category wise prescribed prices on the basis of existing sale prices advised by the FG are attached at (Annexure-B)**

9.4. **The prescribed prices for various categories of retail consumers shall be re-adjusted by the Authority upon receipt of sale price advice by the FG, under Section 8(3) of the OGRA Ordinance.**

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

> **Rule 17(1)(h)** *"tariffs should generally be determined taking into account a rate of return as provided in the license,* ***prudent*** *operation and maintenance costs, depreciation, government levies and, if applicable, financial charges and cost of natural gas;"*
>
> **Rule 17(1)(j)** *"only such capital expenditure should be included in the rate base as is prudent, cost effective and economically efficient;"*

10. Directions

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

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

10.1.3. submit the progress report in respect of capital projects on quarterly basis.

10.1.4. ensure ring fencing of RLNG related capital and revenue cost as a separate segment. Accordingly, submit a report in this regard on quarterly basis.

10.1.5. expedite the recovery from defaulting consumers and curtail ever rising expenses under provision for doubtful debt.

10.1.6. economize capital & revenue expenditures, utilize the resources efficiently and effectively and avoid/curtail non-productive /non development expenditure.

10.1.7. address/attend to the problems being faced by its consumers with the objective to resolve the same within the stipulated timelines or otherwise put forward plans/solutions to improve its services upto satisfaction of consumers.

10.1.8. **submit the petition in proper & legible format, complete in all respect containing necessary analysis in comparative form & fiscal targets/plans. Further, amendment in the petition may be furnished with the prior approval of the Authority.**

10.1.9. **At the outset of the petitioner, the breakdown of the increase in prescribed prices and comparative of T&D cost invariably be provided in future.**

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 considers it important to draw specific attention of the FG for due consideration relating to policy related issues while taking decisions about categorization of consumers, tariff structure, subsidies, GDS and sale prices for various categories of the consumers.

Abdullah Malik
(Member Oil)

Noorul Haque
(Member Finance)

Uzma Adil Khan
(Chairperson)

The Islamabad,
September 20, 2017

REGISTRAR
Oil & Gas Regulatory Authority
Islamabad

A. Computation of Estimated Revenue Requirement for FY 2017-18

Million Rs.

	Particulars	The Petition	Adjustments	Determined by the Auhtority
	Gas sales volume -MMCF	460,875	(1)	460,874
	BBTU	438,471	3,130	441,601
	Calorific Value	951	-	951
"A"	Net Operating revenues			
	Net sales at current prescribed price	209,003	(34,767)	174,236
	Rental & service charges	1,968	46	2,014
	Surcharge and interest on arrears	3,600	691	4,291
	Amortization of deferred credit	2,615	-	2,615
	Other operating income	1,510	490	2,000
	Total income "A"	218,696	(33,540)	185,156
"B"	Less Expenses			
	Cost of gas sold	183,426	(24,200)	159,226
	UFG (disallownce) / allowance	-	(4,380)	(4,380)
	Transmission and distribution cost	32,724	(11,580)	21,144
	Depreciation	18,907	(1,069)	17,838
	New Regions HR & Operating Cost	2,384	(2,384)	-
	Late Payment Surcharge (Payable)	3,200	(2,498)	702
	Finance cost for Working capital	48		48
	Workers Profit Participation Fund	833	-	833
	Total expenses "B"	241,521	(46,111)	195,410
"C"	Operating profit / (loss)(A - B)	(22,825)	12,570	(10,255)
	Return required on net assets:			
	Net assets at begining	105,013		105,013
	Net assets at ending	148,659	(33,192)	115,467
		253,672	(33,192)	220,480
	Average fixed net assets (I)	126,836	(16,596)	110,240
	Deferred credit at begining	16,093		16,093
	Deferred credit at ending	15,478		15,478
		31,571	-	31,571
	Average net deferred credit (II)	15,786	-	15,786
"D"	Average operating assets (I-II)	111,050		94,454
	Return required on net assets	17.5%		17.5%
"E"	Amount of return required	19,434	(2,904)	16,529
"F"	Excess /(shortfall) FY 2017-18	(42,259)	15,475	(26,784)
"G"	Average Increase/(Decrease) in Prescribed Price (Rs/MMBTU)	96.38	(35.73)	60.65
H	Revenue requirement	260,955	(49,015)	211,940
"I"	Average Prescribed Price (Rs/MMBTU)	573.04	(117.83)	455.21

B. Provisional Prescribed Prices for FY 2017-18

Particulars	Average Prescribed Prices for FY 2017-18	Prescribed Prices	
		Existing wef 1.7.2017 to 15.9.2017	Revised from 16.9.2017 to 30.6.2018
		Rs./MMBTU	
a) Standalone meters			
b) Mosques, churches, temples, madrassas, other Religious Places and Hostels attached thereto;			
First slab (upto 100 cubic metres per month).	455.21	110	133.50
Second slab (Upto 300 cubic metres per month).	455.21	220	267.00
Third slab (over 300 cubic metres per month).	455.21	600	728.19
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.			
All off-takes at flat rate of	455.21	600	728
(ii) Special Commercial Consumers (Roti Tandoors)			
First slab (upto 100 cubic metres per month).	455.21	110	133.50
Second slab (Upto 300 cubic metres per month).	455.21	220	267.00
Third slab (over 300 cubic metres per month).	455.21	700	849.56
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	455.21	700	849.56
iv) Ice Factories:			
All off-takes at flat rate of	455.21	700	849.56
(v) Industrial: *All consumers engaged in the processing of industrial raw material into value added finished products irrespective of the volume of gas consumed including hotel industry but excluding such industries for which a separate rate has been prescribed.*			
All off-takes at flat rate of	455.21	600	728.19
vi) Captive Power :			
All off-takes at flat rate of	455.21	600	728.19
vii) CNG Stations:			
All off-takes at flat rate of	455.21	700	849.56
viii) Cement Factories:			
All off-takes at flat rate of	455.21	750	910.24
(ix) Fertilizer Factories:			
Feed Stock: all off-takes at flat rate of			
(1) Pak American Fertilizer Company Limited, Daudkhel.	455.21	123	149.28
(2) Pak Arab Fertilizer Limited, Multan.	455.21	123	149.28
(3) Dawood Hercules Chemicals Limited, Chichoki Malian, Sheikhupura District.	455.21	123	149.28
(4) Pak-China Fertilizer Limited, Haripur.	455.21	123	149.28
(5) ENGRO Fertilizer Company Limited	455.21	72.72	72.72
For gas used as fuel for generation of electricity, steam and for usage of housing colonies.	455.21	600	728.19
(x) Power Stations:			
(a) WAPDA's Power Stations and other electricity utility companies			
All off-takes at flate rate of	455.21	400	485.46
(b) WAPDA's Natural Gas Turbine Power Station, Nishatabad, Commodity Charge			
All off-takes at flate rate of	455.21	400	485.46
Fixed charge (Rupees per month).	390,000	390,000	390,000
(xi) Independent Power Producers:	455.21	400	485.46
xii Liberty Power Limited's Gas Turbine Power Plant (Phase1) at Daharki:			
All off-takes at flate rate of	455.21	443.58	443.58

AL

-87-

C. Computation of HR Cost Benchmark FY 2017-18

Million Rs.

Particulars	FY 2016-17	FY 2017-18	
	2016-17 DERR	Per SNGPL Computation	Determined by the Authority
SNGPL			
HR benchmark Cost Parameters			
Base Cost	11,038	12,081	12,081
CPI factor	5.00%	5.00%	5.00%
T & D network (Km)	118,728	135,924	127,958
Number of Consumers (No.)	5,645,885	6,147,010	5,945,885
Sales Volume (MMCF)	618,956	887,140	883,431
Unit Rate (Rs/unit)			
T&D network (Rs./Km)	98,735	101,757	101,757
No. of Consumers (Rs./Consumer)	2,076	2,140	2,140
Sale Volume (Rs./MMCF)	20,268	19,519	19,519
HR Cost Build-up (Million Rs)			
Cost CPI -50%	276	302	302
T & D network (Km)	2,931	3,458	3,255
Number of Consumers (No.)	7,620	8,550	8,270
Sales Volume (MMCF)	1,255	1,732	1,724
HR Benchmark Cost	12,081	14,041	13,552
IAS Cost	1,719	840	840
Total HR Benchmark Cost	13,800	14,881	14,392

D. Computation of Weighted Average Cost of Gas (WACOG) FY 2017-18

	SNGPL				SSGCL				TOTAL			
	MMCF	MMMBTU	Rs per MMBTU	Rs Million	MMCF	MMMBTU	Rs per MMBTU	Rs Million	MMCF	MMMBTU	Rs per MMBTU	Rs Million
Sui	76,285	73,502	275.34	20,238	38,842	37,425	275.35	10,305	115,127	110,927	275.35	30,543
Kandhkot	18,250	15,369	153.13	2,353	558	470	153.13	72	18,808	15,838	153.13	2,425
Hassan	694	488	256.12	125	-	-	-	-	694	488	256.12	125
Hassan (SNGPL)-Rustam/SherAlifatoi					146	109	600.00	65	146	109	600.00	65
Ghotki Town - SNGPL					871	766	600.00	460	871	766	600.00	460
Ubaro Town - SNGPL					686	594	600.00	356	686	594	600.00	356
Mari					291	212	86.31	18	291	212	86.31	18
Sari / Hundi					365	334	440.98	148	365	334	440.98	148
Maher / Mubarak Block	-	-	-	-	4,385	4,787	261.11	1,250	4,385	4,787	261.11	1,250
Pasaki Deep & Kunnar Deep	-	-	-	-	63,240	66,749	271.76	18,139	63,240	66,749	271.76	18,139
Choundiko - SNGPL					150	151	600.00	90	150	151	600.00	90
Adam X-1 / Hala					5,840	6,113	278.75	1,704	5,840	6,113	278.75	1,704
Pakhro / Noorai Jagir					730	809	241.75	196	730	809	241.75	196
Zargoon					5,840	5,537	353.91	1,960	5,840	5,537	353.91	1,960
Bobi					822	913	311.90	285	822	913	311.90	285
Latif	2,008	2,007	276.13	554	6,571	6,568	276.11	1,813	8,579	8,575	276.11	2,368
Kirther (Rehman)-EWT					7,300	6,088	496.74	3,024	7,300	6,088	496.74	3,024
Badin Block					7,120	7,655	265.03	2,029	7,120	7,655	265.03	2,029
Kadanwari					5,145	5,114	748.10	3,826	5,145	5,114	748.10	3,826
Miano					22,086	21,947	316.54	6,947	22,086	21,947	316.54	6,947
Sawan	25,550	25,546	316.41	8,083	10,194	10,192	316.61	3,227	35,744	35,738	316.46	11,310
Zamzama	26,645	21,336	307.15	6,554	11,506	9,214	307.40	2,832	38,151	30,550	307.23	9,386
Bhit					59,270	56,336	340.07	19,158	59,270	56,336	340.07	19,158
Mazarani					1,095	1,112	185.06	206	1,095	1,112	185.06	206
Khipro Block					108,580	107,779	439.26	47,344	108,580	107,779	439.26	47,344
Mirpurkhas Block					34,675	35,330	418.85	14,798	34,675	35,330	418.85	14,798
Sujawal / Sujjal					8,395	8,804	313.99	2,764	8,395	8,804	313.99	2,764
Nur Bagla fields					730	793	261.21	207	730	793	261.21	207
Jakhro / Dachrapur					1,825	1,776	261.21	464	1,825	1,776	261.21	464
Gambat Block - Wafiq/Shahdad-(XI)					14,600	15,932	261.21	4,162	14,600	15,932	261.21	4,162
Sinjhoro					10,585	10,700	261.21	2,795	10,585	10,700	261.21	2,795
Ayesha					3,620	3,620	261.83	948	3,620	3,620	261.83	948
Dhodak	3,614	4,075	311.08	1,268					3,614	4,075	311.08	1,268
Dakhni	10,585	11,216	155.70	1,746					10,585	11,216	155.70	1,746
Pirkoh / Loti	4,599	3,925	146.29	574					4,599	3,925	146.29	574
Sadkal	365	424	453.95	192					365	424	453.95	192
QADIRPUR (PROCESSED)	72,270	63,660	303.06	19,293					72,270	63,660	303.06	19,293
QADIRPUR (FOR LIBERTY)	16,425	13,876	276.28	3,834					16,425	13,876	276.28	3,834
QADIRPUR (PERMEATE)	18,250	12,382	272.76	3,377					18,250	12,382	272.76	3,377
Adhi	24,090	26,201	155.70	4,079					24,090	26,201	155.70	4,079
Ratna	2,409	2,629	413.51	1,087					2,409	2,629	413.51	1,087
Bhangali	402	427	218.73	93					402	427	218.73	93
Bela / Meyal / Domial Dhulli	438	462	136.88	63					438	462	136.88	63
Bela	767	865	136.88	118					767	865	136.88	118
Dhulian	730	780	136.88	107					730	780	136.88	107
Pindori	37	41	337.09	14					37	41	337.09	14
Pariwal	949	1,012	337.09	341					949	1,012	337.09	341
Chanda	986	1,114	285.80	318					986	1,114	285.80	318
Badar	4,636	2,676	247.37	662					4,636	2,676	247.37	662
GURGURI / MAKORI	23,725	25,262	476.76	12,044					23,725	25,262	476.76	12,044
Menzalai / Mamikhel / Mara	16,425	17,224	285.80	4,923					16,425	17,224	285.80	4,923
Radho / Salsabil	4,782	4,460	296.58	1,323					4,782	4,460	296.58	1,323
CHACHAR	365	289	218.67	63					365	289	218.67	63
TAJJAL	511	511	285.80	146					511	511	285.80	146
MELA	2,847	3,308	278.40	921					2,847	3,308	278.40	921
NASHPA	40,880	47,753	278.40	13,294					40,880	47,753	278.40	13,294
MARAN ZAI	42,340	43,479	285.80	12,426					42,340	43,479	285.80	12,426
KOONJ	365	316	271.76	86					363	316	271.76	86
MAMI KHEL	2,555	2,698	285.80	771					2,555	2,698	285.80	771
MARI - ENGRO	37,595	27,249	86.31	2,352					37,595	27,249	86.31	2,352
MARDANKHEL	33,945	35,303	476.76	16,831					33,945	35,303	476.76	16,831
Excise duty			10.00	4,919			10.00	4,323	-	-	10.00	9,242
Indigenous weighted average input cost of gas	517,315	491,863	295.15	145,174	436,062	433,930	359.31	155,915	953,376	925,793	325.22	301,089

E. List of Abbreviations

Words	Abbreviations
APTMA	All Pakistan Textile Mills Association
BBTU	Billion British Thermal Unit
BOD	Board of Directors
CIP	Close Interval Potential Survey
CSC	Customer Services Centre
CAPEX	Capital Expenditure
CPI	Consumer Price Index
CBA	Collective Bargaining Agent
C.P System	Cathodic Protection System
C&F Price	Carriage and Freight Price
DERR	Determination of Estimated Revenue Requirement
DRS	District Regulator Station
DCVG	Direct Current Voltage Gradient
DMC	Data Monitoring Committee
ECC	Economic Co-ordination Committee
EWT	Extended Well Test
FG	Federal Government
FRR	Final Revenue Requirement
GDS	Gas Development Surcharge
GOP	Government of Pakistan
GI	Galvanized Iron
GPA	Gas Purchase Agreement
GIDC	Gas Infrastructure Development Cess
GIC	Gas Internally Consumed
HSFO	High Sulfur Fuel Oil
ISGSL	Inter State Gas System Limited
KPMG	Klynveld Peat Marwick Goerdeler
KPOGCL	Khyber Pahktunkhwa Oil and Gas Company Limited
KMI	Key Management Infrastructure
LPS	Late Payment Surcharge
LNG	Liquefied Natural Gas
MMBTU	Million Metric British Thermal Unit
MMCFD	Million Standard Cubic Feet per Day.
MPNR	Ministry of Petroleum & Natural Resources
NGRA	Natural Gas Regulatory Authority
NGT Rules	Natural Gas Tariff Rules
NTC	National Telecommunication Corporation
OGRA	Oil and Gas Regulatory Authority
PDA	Peshawar Development Authority

PPL	Pakistan Petroleum Limited
RLNG	Re-gasified Liquefied Natural Gas
SNGPL	Sui Northern Gas Pipeline Limited
SSGCL	Sui Southern Gas Company Limited
SMS	Sale Meter Station
SCADA	Supervisory Control And Data Acquisition
TPF	Tolang Processing Facility
TBS	Town Border Station
T&D Cost	Transmission and Distribution Cost
UFG	Un-accounted for Gas
UHF	Ultra High Frequency
WACOG	Weighted Average Cost of Gas
WPPF	Workers Profit Participation Fund