



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

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

IN THE MATTER OF

SUI SOUTHERN GAS COMPANY 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

ON

SEPTEMBER 20, 2017

Before:

Ms. Uzma Adil Khan, Chairperson

Mr. Noorul Haque, Member (Finance)

Dr. Abdullah Malik, Member (Oil)

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## 1. Background

- 1.1. Sui Southern Gas Company Limited (the petitioner) is a public limited company, incorporated in Pakistan, and is listed on Pakistan Stock Exchanges Ltd. The petitioner is operating in the provinces of Sindh and Balochistan under the license granted by Oil & Gas Regulatory Authority. It is engaged in construction and operation of gas transmission and distribution pipelines, sale of natural gas, LPG Air-Mix, LPG, gas condensate, Natural Gas Liquids (NGL) and manufacture and sale of gas meters. The petitioner is also engaged in the business of Re-gasified Liquefied Natural Gas (RLNG) in accordance with the decision of the Federal Government (FG/GoP).
- 1.2. The petitioner filed a petition on March 06, 2017, under Section 8 (1) of the Oil and Gas Regulatory Authority Ordinance, 2002 (the Ordinance) and Rule 4(2) of Natural Gas Tariff Rules, 2002 (NGT Rules), for determination of its estimated revenue requirement for FY 2017-18 (the said year) at Rs. 168,929 million (the amounts have been rounded off to the nearest million here and elsewhere in this document), and shortfall for the said year is calculated at Rs. 42,163 million, including Rs. 624 million (Rs. 1.70 per MMBTU) on account of Air-mix LPG Projects, thereby requesting an increase of Rs. 114.57/MMBTU w.e.f July 01, 2017. The petitioner has informed that the said increase includes Rs. 17.86/MMBTU relating to RLNG, which shall be charged to RLNG consumers in the light of FG's decision.
- 1.3. The petitioner has submitted the following statement of cost of service:

**Table 1: Comparison of Cost of Service per the Petition with Previous Year**


Particulars	Rs. / MMBTU	
	FY 2016-17	FY 2017-18
	DERR	The Petition
Units sold (BBTU)		
Cost of gas sold	390,315	368,017
UFG adjustment	341.48	353.63
Transmission and distribution cost including Others	(35.42)	(7.00)
Depreciation	38.29	52.64
Return on net average operating fixed assets	14.62	19.35
Other operating income	24.90	38.71
Subsidy for LPG Air-Mix Project	(14.59)	(36.05)
Cost of service / prescribed price	0.92	1.69
Current average prescribed price	370.20	422.98
Increase requested in average prescribed price	-	308.41
	-	114.57



- 1.4. The Authority admitted the petition for consideration, as a *prima facie* case for evaluation existed and it was otherwise in order.
- 1.5. A notice inviting interventions / comments on the petition from the consumers, general public and other interested / affected persons, was published in the two daily combined newspapers, and one local Urdu newspapers on May 31, 2017.
- 1.6. The Authority received two (2) applications to intervene in the proceedings from the following persons / entities:
  - i) Karachi Chamber of Commerce & Industry,
  - ii) All Pakistan Textiles Mills Association,
- 1.7. The Authority accepted all the above mentioned applications for intervention.
- 1.8. A notice intimating the date, time and place of public hearing, was published in two daily combined newspapers and one local Urdu Newspaper on July 19, 2017.

## 2. Salient Features of the petition

- 2.1. The petitioner has made the following main submissions:
- 2.2. The petitioner has claimed annual return at the rate of 17% of the net fixed assets in operation, before corporate income tax in accordance with license condition no. 5.2.
- 2.3. The petitioner has claimed net addition, net of deletions of Rs. 25,014 million in fixed assets, and net addition, ex-depreciation and deletion, of Rs. 7,786 million, resulting in claimed increase in net operating fixed assets from Rs. 81,521 million for FY 2016-17 to Rs. 98,749 million during the said year. The petitioner has further claimed that, after adjustment of deferred credits, and assets related to LPG Air-Mix project, net average operating fixed assets eligible for return work out to Rs. 83,809 million, and required return to Rs. 14,248 million.
- 2.4. The petitioner has projected net operating revenues at Rs. 126,767 million, as detailed below (and compared with previous years):

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**Table 2: Comparison of Projected Operating Revenues with Previous Years**

Particulars	Rs. in million				
	FY 2015-16	FY 2016-17	FY 2017-18	Inc/(Dec.) over DERR for FY 2016-17	
	FRR	DERR	The Petition	Rs.	%
Net sales at current prescribed price	167,078	163,684	113,500	(50,184)	(31)
Sale of NGL	568	1,132	584	(548)	(48)
Other income	1,193	1,067	532	(536)	(50)
Meter Manufacturing Profit	15	641	209	(432)	(67)
Gas transportation charges	-	68	-	(68)	(100)
Sale of Gas condensate	181	283	134	(149)	(53)
Meter rentals	719	750	773	23	3
Amortization of deferred credits	406	407	426	19	5
Sale of LPG	2,854	2,728	3,009	280	10
RLNG transportation Income	456	3,697	4,643	946	26
Late Payment Surcharge	2,198	1,151	2,958	1,807	157
Net Operating Revenue	175,668	175,608	126,767	(48,842)	(28)

- 2.5. The petitioner has projected net operating expenses at Rs. 154,058 million, as detailed below (and compared with previous years):

**Table 3: Comparison of Projected Operating Expenses with Previous Years**

Description	Rs. in million				
	FY 2015-16	FY 2016-17	FY 2017-18	Inc/ (Dec) over DERR for FY 2016-17	
	FRR	DERR	The Petition	Rs.	%
Cost of gas	151,088	133,285	130,140	(3,145)	(2)
UFG adjustment	(14,106)	(13,826)	(2,575)	11,251	(81)
Shortfall of previous years	(18,664)	-	-	-	-
Transmission and distribution costs	13,531	14,300	17,073	2,773	19
Depreciation	5,048	5,708	7,120	1,412	25
Gas Internally Consumed	319	215	366	151	70
Other charges including WPPF	2,098	432	1,932	1,500	347
Net Operating Expenses	139,314	140,114	154,058	13,944	10

- 2.6. The petitioner has projected Weighted Average Cost of Gas (WACOG) for the said year at Rs. 300.76/MMBTU. The cost of gas is linked with international prices of Crude and HSFO according to the Gas Pricing Agreements (GPAs) executed between the producers and Government of Pakistan (GoP / FG).
- 2.7. The petitioner has projected Unaccounted for Gas (UFG) at 13.10% for the said year. The petitioner has, however, requested to allow UFG adjustment at Rs. 2,575 million (i.e. 11.06%) for the said year.



- 2.8. The petitioner has claimed subsidy amounting to Rs. 624 million on account of its Air-mix LPG Projects.
- 2.9. The shortfall in the projected revenue requirement after achieving 17% return on average net operating fixed assets is estimated at Rs. 42,163million, requiring increase of Rs. 114.57per MMBTU in the existing average prescribed price, as detailed below:

**Table 4: Computation of Requested Average Increase in Prescribed Price**

		<i>Rs. In million</i>
	<b>Particulars</b>	<b>FY 2017-18 The Petition</b>
A	<b>Net Operating Revenues</b>	126,767
	less: Net operating expenses excluding ROA	154,058
	Subsidy Air Mix LPG Project	624
B	<b>Total Expenses</b>	154,682
C	<b>Shortfall</b> <span style="float: right;">{(A) - (B)}</span>	(27,915)
D	<b>Return required @ 17% on net fixed assets in operation</b>	14,248
E	<b>Total shortfall in revenue requirement {(D) - (C)}</b>	42,163
F	<b>Sale volume (BBTU)</b>	368,017
G	<b>Increase requested in existing average prescribed price Rs./MMBTU</b>	114.57

### 3. Proceedings

- 3.1. Public hearings were held on August 08, 2017 and August 10, 2017 at Karachi and Quetta respectively. The following interveners / participants attended the public hearing:

**Petitioner:**

- i. Team led by Mr. Amin Rajpoot, Managing Director,
- ii. Mr. Mirza Mehmood Ahmad, Director/Legal Counsel.

**Interveners/Participants:**

- i. Mr. M. H. Asif, Consultant, All Pakistan Textile Mills Association,
- ii. Abdul Sami Khan, Chairman, CNG Dealers Association of Pakistan
- iii. Malik Khuda Baksh, Chairman, CNG Station Owners of Pakistan
- iv. Mr. Mehboob Elahi,
- v. Mr. Muhammad Arif Bilwani, Consumer
- vi. Mr. Tariq Ali Shah, Chief Executive Officer, Sindh Petroleum Ltd, Energy Deptt. Govt. of Sindh,

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- vii. Mr. Zubair Motiwala, KCCI & SITE Association,
- viii. Mr. Mohammad Arshad, Ebrahim Group of Companies, Karachi,
- ix. Mr. Abdul Ghaffar, Manager, Chottani Industries,
- x. Mr. Iftikhar Ahmed, Member Executive Committee, BAQATI,
- xi. Mr. Imtiaz Ahmed, Regal Textile Industries,
- xii. Mr. Muhammad Shahbaz, Admn Manager, Nazeer Dying,
- xiii. Mr. Zain Bashir, President, Landhi Association of Trade & Industry,
- xiv. Mr. Junaid Makda, All Pakistan CNG Association, Sindh,
- xv. Mr. Ahmad Azeem Alvi, Karachi Chamber of Commerce & Industry,
- xvi. Mr. Muhammad Mahboob, APTMA,
- xvii. Mr. Muhammad Alimullah Ansari, Chief Accountant, Sajid Textile,
- xviii. Mr. Muhammad Asif, Account Officer, Sajid Textile,
- xix. Mr. Usman Ali Nagouri, Consumer,
- xx. Mr. Waris Ali Shah, Lecturer,
- xxi. Syed Mohammd Ishaq, Private Company Manager,
- xxii. Mr. Akhlas Ahmed, Partner, Salauddin Industries,
- xxiii. Mr. Muhammad Ali Afzal, Partner, Salauddin Industries,
- xxiv. Mr. Sajid Abdul Ghaffar, Manager, Salauddin Industries,
- xxv. Mr. Agha Suleman, Chief Manager Audit, Afraze Textile,
- xxvi. Mr. Muhammad Iqbal, Ihsan Sons (Pvt.) Ltd.,
- xxvii. Mr. Salim Parekh, SITE Karachi,
- xxviii. Mr. Javed Akhtar, PCFA,
- xxix. Mr. Muhammad Jawed Bilwani, Pakistan Hosiery Manufacturers Association,
- xxx. Mr. Wajid Ali, Manager Coordination, FUN Textile,
- xxxi. Mr. Rehan Jawed, Shan Paper Mills,
- xxxii. Mr. Nadeem Ahmed, Manager Ahmed Textile & General Mills,
- xxxiii. Sardar Abdul Rafi Abbasi, Chairman, Sindh CNG Association,
- xxxiv. Mr. Khurram A. Ghani, Secretary General, APCNG,
- xxxv. Mr. Farooq Memon, Proprietor, Al-Madina CNG, Hyderabad,
- xxxvi. Mr. Laeeq, Manager AHD,
- xxxvii. Mr. Ashiq Ali, Owner AHD,
- xxxviii. Mr. Gulfam, Accountant, Home Care Textiles,
- xxxix. Mr. Abdul Rehman, Secretary General, BAQATI,

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- xl. Dr. Parshotam, Owner, Mehar CNG Filling Station,
- xli. Mr. Ashok Kumar, Director, Al-Mustafa CNG Nooriabad,
- xlii. Mr. Abraham Ghaffar, CEO, Humera Industries.

3.2. During the hearing, the petitioner made following submissions with help of multimedia presentation, answered questions of members & officers of the Authority as well as interveners and participants:

3.2.1. The petitioner, during hearing, raised the issue of company's financial health after the decision of honorable Sindh High Court in respect of revenue requirements for FY 2010-11 to FY 2015-16. It was highlighted that petitioner's equity is about to erode owing to change in UFG benchmark at 4.5% as per the Court's Orders. It was informed that around Rs. 40 billion has been paid till todate on account of gas development surcharge to Provincial Governments.

3.2.2. 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 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 people of Pakistan, being public sector utility. 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. It was argued that there is discrimination in tariff for natural gas consumers and RLNG consumers resulting in economic distortions. Thus, tariff minimization in respect of gas utilities on the basis of stringent benchmarks is causing deterioration of the financial health of the petitioner as a going concern and is infact impairing the interests of public at large. Legal counsel again agitated that reasonable rate of return is to be ensured to the petitioner.



- 3.2.3. 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 for level playing field for all the stakeholders as stipulated in Rule 17(1)(c) & 17(2) of NGT Rules.
- 3.2.4. The petitioner's legal counsel submitted that network extension, aging of network, changed bulk to retail ratio, higher gas theft in Balochistan and gas pilferage are main factors of higher UFG. The Authority was requested to review its stance in respect of bulk to retail ratio, as this change has impacted the potential leakage points a lot. It was further demanded to implement UFG benchmark based on Consultant's study from FY 2010-11 onwards as per the Authority's earlier decision in its various determinations.
- 3.3. The substantive points made by the interveners and participants during public hearing in Karachi are summarized below:

**Karachi Hearing:**

- 3.3.1. OGRA was requested to act in an independent manner while protecting the natural gas consumers from oligopolistic and monopolistic activities.
- 3.3.2. It was highlighted that policy guidelines are not binding on OGRA.
- 3.3.3. The petitioner's plea for computing UFG adjustment based on Consultant's formula was criticized.
- 3.3.4. The petitioner's stance of referring alternate fuel cost was rejected, as local production of indigenous gas can not be compared with imported fuel.
- 3.3.5. It was pointed out that deteriorating governance and management policies is resulting in dismal performance of the petitioner.
- 3.3.6. It was pointed out that the petitioner is not making full efforts to fight against the menace of increasing UFG. It is only focusing on finding innovative ways to get benchmark softened including litigation and FG's pressure.
- 3.3.7. Internationally UFG is less than 1% covering essentially, uncontrollable technical gas loss arising from measurement.



- 3.3.8. The petitioner's plan for UFG control program/strategy lacks the essential elements for controlling gas losses.
- 3.3.9. Enormous amounts projected under asset base doubts the financial and technical capacity of the petitioner.
- 3.3.10. By any stretch of imagination, UFG definition does not cover un-metered volumes of gas sales & purchases. Therefore, the same cannot be construed as "deemed sales volume", to be included in UFG adjustment calculations. UFG was 6.63% in FY 2007-08, which has now reached to 13% in FY 2015-16, which translates into annual loss to the nation in terms of substitution cost of US\$. 1.5 to US\$ 2 billion.
- 3.3.11. It has been noted that the system is exposed to more leaking points and increased UFG with addition in gas connections. Millions of dollars is borrowed to control UFG losses.
- 3.3.12. Cost of high UFG owing to new connections be borne by petitioner, and not the existing consumers.
- 3.3.13. It was asserted that gas prices are not linked to oil prices in gas producing countries, since natural gas is only tradable with LNG.
- 3.3.14. Price of natural gas in USA is below \$2/MMBTU, now which is 1/6<sup>th</sup> of the price of gas of Pakistan.
- 3.3.15. The tariff has increased owing to launching of new schemes in Parliamentarians constituencies, which are in violation of law. Utilities have failed to meet demand of gas from the existing consumers and even giving rise to issues of UFG, gas theft and leakages because of increased connections.
- 3.3.16. It was urged that this is a misconception that there is gas shortage in Pakistan. 300 MMCFD can be added into the system, if disputes between Government & local people get resolved. Manzalai and Kohlu fields can add reserves worth billions, if made operational.
- 3.3.17. The billing system needs overhaul as it is flawed.
- 3.3.18. It was demanded that only reasonable provision for doubtful debts be allowed.
- 3.3.19. Financial impact of RLNG assets be charged to specific consumers.

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- 3.3.20. Textile is a major contributor in exports (57%), employment (47%), GDP (8%). International competitiveness shall be seriously affected, in case of increase in natural gas tariff by OGRA. Already, Bangladesh, Sri Lanka, Vietnam and India have much lower cost of production. It was requested that no increase in natural gas tariff be allowed enabling it to compete in the international market.
- 3.3.21. Consumers of Karachi Industry should not be burdened for the gas losses of other areas.
- 3.3.22. Natural Gas consumers are charged high tariff rate as compared to other neighboring countries of Pakistan.
- 3.3.23. It was demanded that new tariff formula be devised as loan covenants have already expired.
- 3.3.24. Cross subsidy to fertilizer sector should be abolished, and subsidy through budgetary allocation be provided by the FG. It was highlighted that if the same is abolished, it shall result in reduction of tariff by Rs. 100/MMBTU.
- 3.3.25. Price of final goods of textile is high as well as uncompetitive owing to increased tariff of natural gas.
- 3.3.26. LNG should also be provided to CNG sector of Sindh.

**Quetta Hearing:**




- 3.4. Public hearing at Quetta on August 10, 2017 was participated by the following:

***Interveners/ Participants:***

- i. Mr. Azizullah Hazara, Member Distt. Counsel, Quetta
- ii. Mr. Abdul Ghani, HDD Member Halqa Counsel
- iii. Mr. Ahad Kakar, Chairman, Wolasi Committee Balozai
- iv. Mr. Nizamuddin, Committee Member, Wolasi Committee Balozai
- v. Mr. Hanan, Teacher
- vi. Mr. Sherbaz Khan, Community Member

- 3.4.1. The substantive points made by the interveners and participants during public hearing in Quetta are summarized below:

- 3.4.2. Issues related to low pressure and load shedding were raised.

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- 3.4.3. It was emphasized that low gas pressure problem in Hazara community be addressed.
- 3.4.4. Piped network of small diameter be replaced with larger ones to improve low pressures.
- 3.4.5. Consumers of CNG be compensated for high altitude.
- 3.5. 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 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. 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.
- 4.2. 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 prices. 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.
- 4.3. 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.

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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 in depth, keeping in view the provision of the law.

- 4.4. 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. 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.

## 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% 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% 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

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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 licenses 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)

  
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- 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% 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 Sui companies 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% return on the average net operating fixed assets while treating various income and expenditure heads per the exiting 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

- 6.1.1. The petitioner has claimed a net addition, net of deletions of Rs. 25,014 million in fixed assets, and net addition, ex-depreciation and deletion, of Rs. 7,786 million, resulting in claimed increase in net operating fixed assets from Rs. 81,521 million in FY 2016-17 to Rs. 98,749 million during the said year. The petitioner has further claimed that, after adjustment of deferred credits, and assets related to LPG Air-Mix project, net average operating fixed assets eligible for return work out to Rs. 83,809 million, and required return to Rs. 14,248 million.



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

Particulars	Rs. in Million
Net operating fixed assets at beginning	81,521
Net operating fixed assets at ending	98,749
sub-total	180,270
<b>Average net assets (I)</b>	<b>90,135</b>
LPG air mix project asset at beginning	819
LPG air mix project asset at ending	758
sub-total	1,576
<b>Average net assets (II)</b>	<b>788</b>
EETL asset at beginning	1,053
EETL asset at ending	1,024
sub-total	2,077
<b>Average net assets (II)</b>	<b>1,038</b>
Deferred credit at beginning	4,533
Deferred credit at ending	4,466
sub-total	8,999
<b>Average net deferred credit (III)</b>	<b>4,499</b>
<b>"D" Average (I-II-III)</b>	<b>83,809</b>
<b>17% required returned claimed by the petitioner</b>	<b>14,248</b>

6.1.2. The Authority notes that it has provisionally determined closing balance of net operating fixed assets at Rs. 72,097 million in DERR for FY 2016-17 as against Rs. 81,521 million per the instant petition. Therefore, the same shall be used as opening balance of operating fixed assets for the said year.

6.1.3. The details of deferred credits projected by the petitioner for the said year are compared with DERR for FY 2016-17, as under:

**Table 6: Comparison of Projected Deferred Credits with FY 2016-17**

Particulars	Rs. in Million		
	FY 2015-16 FRR	FY 2016-17 DERR	FY 2017-18 The Petition
Opening Balance as at July 01	5,317	4,941	4,533
Addition during the year	150	26	386
Sub-total:	5,467	4,967	4,919
Amortization during the year	433	434	453
Closing Balance as at June 30	5,034	4,533	4,466

6.1.4. *The Authority provisionally accepts estimated deferred credits opening balance at Rs. 4,533 million and closing balance at Rs. 4,466 million for the said year.*

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



**Table 7: Summarized Schedule of Projected Additions Compared with Previous Years**

Particulars	FRR	DERR	The Petition	Inc. / (Dec.) over FY 2016-17	
	FY 2015-16	FY 2016-17	FY 2017-18	Rs.	%
Land	397	4	277	272	100
Buildings	168	100	746	646	646
Roads, pavements and related infrastructures	-	68	151	83	100
Gas Transmission Pipeline	2,147	18,844	12,200	(6,644)	(35)
Compressors	1,152	5,000	2,701	(2,299)	100
Plant and machinery	417	274	458	184	67
Gas distribution system and related facilities & equipments	6,123	5,141	7,019	1,878	37
Furniture, equipment including computer & allied	175	110	383	273	248
Computer Software (Intangible)	20	38	143	105	275
LPG Air Mix Projects	10	13	15	2	16
Telecommunication system	149	51	96	45	88
Appls, loose tools & equipt.	34	24	222	198	825
Vehicles	404	310	605	295	95
Construction equipment	1,113	500	-	(500)	100
SCADA	458	45	-	(45)	100
<b>Gross Addition</b>	<b>12,768</b>	<b>30,522</b>	<b>25,014</b>	<b>(5,508)</b>	<b>(18)</b>

## 6.2. Land

- 6.2.1. The petitioner has projected an amount of Rs. 7 million for acquisition of land for CP Stations at different locations and Rs. 270 million for acquisition of land for laying 42" dia x 338 Km transmission pipeline from Pakland to Sawan for the RLNG Project.
- 6.2.2. The Authority notes that 42" dia x 338 Km pipeline from Pakland to Sawan is part of the Pipeline Infrastructure Development Plan for LNG, which is a large scale/ gigantic project involving additional gases to the tune of 1.2 BCFD RLNG and having major financial impact on the consumers. Therefore, the Authority engaged Zishan Engineers Pvt Limited (ZEL), a consultant firm on 08.09.2015 through competitive bidding process to render its services for Technical Evaluation of Pipeline Infrastructure Development Projects of SNGPL & the petitioner for upcoming LNG & anticipated indigenous gas supplies. ZEL vide its letter dated 21.03.2016 furnished Final Report, wherein they concluded that the Project plans submitted by both SNGPL and the petitioner are adequate & justified and cost estimated by both the companies is within ZEL's in-house estimates for both pipelines and compression equipment.
- 6.2.3. The Authority notes that FG vide Ministry of Petroleum & Natural Resource's letter dated 05.11.2014 had confirmed availability and subsequent allocation of gas from different import projects to gas utilities. Moreover, FG informed that in order to transport the gas volumes to be made available under different projects, fast track





implementation of pipeline infrastructure projects was mandatory to achieve the target dates and in order to avoid heavy penalties and non-existence of required gas infrastructure within the stipulated time period will jeopardize the entire gas/LNG import projects. Further, FG asked OGRA to convey its approval of the Gas Pipeline Infrastructure Development Projects on priority basis as decided and discussed in the ECC meeting enabling gas utilities to commence their activities forthwith. Subsequently, the Authority keeping in view the national importance of the project, granted principle approval of Phase-II of RLNG Project on 15.05.2015.

6.2.4. *In view of the above, the Authority provisionally allows an amount of Rs. 277 million for acquisition of land, including Rs 270 million for RLNG Project, for the said year.*

6.2.5. The Authority further notes that Policy Guidelines of the FG conveyed vide M/o P&NR's letter dated 10.02.2016 stipulate as under:

*"OGRA is advised that subject projects will be included in the asset base of gas companies subject to condition that RLNG pricing will be ring fenced and all directly attributable costs will be charged/recovered from RLNG consumers without affecting consumers relying on domestically produced gas. ...."*

6.2.6. In view of the above noted policy guidelines of FG, all costs incurred in creation of RLNG infrastructure, as allowed by the Authority, are to be charged / recovered from RLNG Consumers without affecting consumers relying on domestically produced gas. *The Authority, therefore, decides that cost of land related to RLNG Projects, amounting Rs 270 million, is to be recovered from RLNG consumers only.*

### 6.3. Buildings

6.3.1. The petitioner has projected an amount of Rs. 367 million to be spent on different routine building projects for the said year. The petitioner has also claimed Rs. 379 million for RLNG Project related buildings & civil works, which include construction of CC Flooring, Pipe Supports, Pig launcher / Receiver supports, Filters and Scrubbers foundations, Metering skid foundations, Metering room, Anchor blocks, culverts, condensate drain pits, Security Watch tower and boundary enclosures of the main valve assemblies against 42" x 338 Km pipeline for the RLNG Project (Phase-II).



- 6.3.2. The Authority observes that projections under this head have historically remained on higher side when compared with actual expenditure at year end e.g. the petitioner's average capitalization during the period FY 2006-07 to FY 2015-16 remained at about Rs. 100 million per year.
- 6.3.3. *In view of the historical trend analysis, the Authority provisionally allows an amount of Rs. 479 million i.e. Rs 100 million for routine building projects and Rs 379 million for RLNG Project related expenditures in this head.*
- 6.3.4. *In view of the discussion at paras 6.2.5 and 6.2.6 above, the Authority decides that cost of buildings & civil works amounting Rs 379 million, related to RLNG Projects, is to be recovered from RLNG consumers only.*

#### 6.4. Roads, Pavements and Related Infrastructure: Right of Way (ROW)

- 6.4.1. The petitioner has projected an amount of Rs. 151 million in respect of Right of Way (ROW) Development Plan for the said year. The petitioner's plan for the said year consists of Earth filling from KM-264 to KM-323 along 18" dia IRBP and 20" dia IRBP CEP and construction of small bridges /culverts on already developed ROW in Shikarpur Section.
- 6.4.2. The Authority notes that petitioner's ability to materialize similar projects in the past has remained limited e.g. during the last eleven years, the petitioner capitalized an average amount of Rs. 62 million per year in this head.
- 6.4.3. *In view of the historical trend, the Authority provisionally determines the expenditure at Rs. 62 million under this head for the said year.*

#### 6.5. Gas Transmission Pipelines

- 6.5.1. The petitioner has projected an amount of Rs. 12,200 million for addition of assorted diameters of pipelines to its transmission network during the said year, breakup of which is as follows:

Addition in Normal Transmission Pipeline Assets = Rs. 11,577 million

Addition in RLNG Project related Transmission Pipeline Assets = Rs. 623 million

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**Table 8: Requested Additions to Normal Transmission Pipeline Network**

S. No.	Description Of Segment	Rs. in Million
		The Petition FY 2017-18
1	30" dia x 125 Km pipeline from SMS Sindh University to SMS Pakland (1st segment)	6,967
2	Check Metering Facility at Shahdadpur for Gambat South Field Gas Measurement (RS3)	344
3	16" dia x 9 Km Re Route of Kotri Barrage	191
4	16" dia ILBP Rehabilitation and Intelligent Piggling	28
5	12" dia x 344 Km QPL Rehabilitation and Intelligent Piggling	328
6	Construction of Sub-merge crossings	126
7	Permanent metering setup installation for POGC line at Naing Valve Assembly	13
8	24" dia x 31 Km Pipeline from SMS Kathore to SMS Surjani	1,413
9	24" dia x 34 Km loopline from Shikarpur to Jacobabad	1,429
10	Rerouting of existing QPL 12" dia x 9 Km (KM 56 to KM65) and 12" dia x 14 Km (KM 84 to KM96)	550
11	12" dia x 53 Km Mehar Gas Field Integration Project (MGFIP) at Thari Mohabat-leftover	189

6.5.2. The petitioner has projected Rs. 6,967 million for laying 30" dia x 125 Km transmission pipeline from SMS Sindh University to SMS Pakland. The petitioner has stated that gas supply volume from Naimat Basal, Kausar, Gambat South and KPD gas fields has increasing trends, and after completion of RLNG-II dedicated pipeline, Kadanwari, Miano, Latif & Sawan field gas would be required to be transported through ILBP Transmission system. However, the limited pipeline capacity in Left Bank Transmission System is creating bottleneck for additional gas volume, and would cause the curtailment of indigenous gas supply. Hence, laying of 30" dia x 125 Km transmission pipeline from Sindh University to SMS Pakland would increase the network capacity upto 247 MMCFD and would provide sustainable gas supply to meet growing demand of domestic, commercial, industrial and power sector customers.

6.5.3. The petitioner has also explained that existing pipeline capacity from Point of Delivery (POD)-2 (Hyderabad) to POD-5 (Pakland, Karachi) is 468 MMSCFD, whereas the gas that would be required to be transported from POD-2 to POD-5 in near future is around 715 MMSCFD. Therefore, there is a capacity constraint/bottleneck of 247 MMSCFD.

6.5.4. The Authority notes that cumulative gas production profiles of Badin, Mirpurkhas (Kausar), Khipro (Naimat Basal), Hala, Gambat South, and KPD gas field show an

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increasing trend. Moreover, as per the petitioner, the existing transmission pipelines from Hyderabad to Pakland, Karachi are already being operated above their design capacity.

- 6.5.5. *The Authority, in view of the above justification furnished by the petitioner, allows the said pipeline project in principle and allows an upfront amount of Rs. 2,090 million (30% of the projected amount) at this stage for the said year subject to mid year review or actual capitalization at FRR.*
- 6.5.6. The petitioner has projected an amount of Rs 344 million for Check Metering Facility at Shahdadpur for Gambat South Field Gas Measurement. The petitioner has stated that Check Metering Facility for receiving gas in the petitioner's ILBP System is required at RS-3 (Shahdadpur) for reconciliation of 150 MMCFD gas supplied from PPL "Gambat South" and "Halla" Blocks.
- 6.5.7. The Authority notes that it has already allowed an amount of Rs. 344 million, vide its Determination of ERR for FY 2016-17, for the said project, *therefore it decides to pend any further amount against this project at this stage. However, the petitioner company may execute the works and claim the balance amounts in the Mid-Year Review/FRR subject to actual capitalization against this project.*
- 6.5.8. As regards the items mentioned at Sr. no. 3 to 6 of Table 8 above, the Authority notes that it previously allowed amounts against these items in its earlier determinations; however, the petitioner could not capitalize the same during the past years.
- 6.5.9. *In view of the above, the Authority decides not to allow upfront and pend the amount claimed against these projects at this stage. However, if the petitioner manages to execute the projects during the said year, the same shall be considered at the time of Mid-Year Review / FRR subject to actual capitalization.*
- 6.5.10. The petitioner has projected an amount of Rs. 13 million for Permanent Metering Setup installation for POGC line at Naing Valve Assembly.
- 6.5.11. *The Authority, in view of the operational requirement of the petitioner, decides to principally allow the same under this head subject to actualization at the time of*

FRR.



- 6.5.12. The petitioner has projected an amount of Rs. 1,413 million for laying 24" dia, 31 Km pipeline from SMS Kathore to SMS Surjani. The petitioner has stated that this pipeline segment is required to improve operational efficiency of Western region namely; Northern Bypass Hub Town, Coastal Area of Hawks Bay, Kannup and other industrial, commercial and domestic customers; to overcome low pressure problems of the consumers in SITE industrial area. It shall also enhance overall system flow capacity to 100 MMCFD to cater future gas demand flexibility in the operations of the city area. The Authority had earlier allowed Rs. 1,139 million in DERR FY 2012-13 for laying the said pipeline as "Distribution Project" but the petitioner has now converted the same into "Transmission Project", which will increase flow capacity of the pipeline.
- 6.5.13. The Authority notes that in several of its earlier determinations it had allowed this pipeline segment as a Distribution Project, however the company could not execute the same. Subsequently, the Authority allowed the same as a transmission pipeline project in its determination on Motion for Review of DERR FY 2016-17, without allowing any amount for this project. Now the company, vide instant petition, has projected an amount of Rs. 1,413 million for the said Pipeline Project.
- 6.5.14. *In view of the above, the Authority, principally allows an amount of Rs. 1,413 million against this segment for the said year. However, if the company manages to execute the projects during the said year, the same will be considered at the time of Mid-Year Review / FRR subject to actual capitalization.*
- 6.5.15. The petitioner has projected an amount of Rs. 1,429 million for laying 24" dia × 34 Km loopline from Shikarpur to Jacobabad; and Rs. 550 million for Rerouting of existing QPL 12" dia × 9 Km and 12" dia × 14 Km pipelines. The petitioner has stated that current daily gas supply to Quetta city and surroundings is approximately 135-150 MMCFD from Bhit, Sui and other gas fields. However, the gas requirement trend in last two years shows that maximum gas requirement in Quetta city and surrounding areas, including the Habibullah Coastal and Quetta Power during winters is around 200 MMCFD. The gas demand of Quetta and its surroundings is not being fulfilled due to the following bottlenecks: Maximum flow capacity of existing 18" dia pipeline is around 120 MMCFD. However, in order to meet the demand, around 145 MMCFD





gas is being transported through this single line, the said pipeline is currently operating at its saturation capacity and additional gas throughput results in violation of pipeline design criteria in respect of gas velocity in the pipeline. Moreover, at present existing 12" dia × 9Km (KM56 to KM65) and 12" × 14 Km (KM 84 to KM96) high pressure QPL pipeline segments are operating low pressure due to encroachment. In order to mitigate aforementioned bottlenecks the above said projects have been proposed.

6.5.16. The Authority notes that the said transmission pipeline projects are required to cater the additional gas flow requirement / demand of Quetta and its surrounding areas. In this regard, the honorable High Court of Balochistan in its decision dated 07.03.2016 on CP No. 1229/2015 titled Ali Ahmed Kurd and others Vs FoP and others' has also directed as under:

*"Since low pressure of gas is the main problem in Balochistan, therefore, the Managing Director, SSGC is directed to immediately take steps for up-gradation of the transmission line accordingly. This matter must be placed before the Board of Directors in its forthcoming meeting for up-gradation of the transmission line. All the stakeholders including OGRA should give top priority to this project."*

6.5.17. *Keeping in view the operational requirement and the above noted court directions, the Authority vide its DERR FY 2016-17 has already approved these projects in principle. Moreover, the Authority decides to provisionally allow an amount of Rs. 1,000 million (almost 50%) for the said pipelines for the said year. The petitioner may claim the remaining amount at the time of mid year review/FRR subject to actual progress of the projects.*

6.5.18. As regards the item mentioned at Sr. No 11 of Table 8 above, the Authority notes that the expenditure relates to the leftover activities of already commissioned project. *The Authority, therefore, provisionally allows an upfront amount of Rs 95 million (almost 50% of the projection) against this project at this stage.*

6.5.19. *In view of the discussion at paras 6.5.1 to 6.5.18 above, the Authority provisionally allows an expenditure of Rs. 3,185 million for addition to Normal Transmission Network, the detail of which is as under:*





**Table 9: Additions to Normal Transmission Network as Determined by the Authority**

S. No.	Description Of Segment	Rs. in Million	
		The Petitioner	Determined by the Authority
FY 2017-18			
1	30" dia x 125 Km pipeline from SMS Sindh University to SMS Pakland (1st segment)	6,967	2090
2	Check Metering Facility at Shahdadpur for Gambat South Field Gas Measurement (RS3)	344	-
3	16" dia x 9 Km Re Route of Kotri Barrage	191	-
4	16" dia ILBP Rehabilitation and Intelligent Pigging	28	-
5	12" dia x 344 Km QPL Rehabilitation and Intelligent Pigging	328	-
6	Construction of Sub-merge crossings	126	-
7	Permanent metering setup installation for POGC line at Naing Valve Assembly	13	-
8	24" dia x 31 Km from SMS Kathore to SMS Surjani	1,413	-
9	24" dia x 34 Km loopline from Shikarpur to Jacobabad	1,429	725
10	Rerouting of existing QPL 12" dia x 9 Km (KM 56 to KM65) and 12" dia x 14 Km (KM 84 to KM96)	550	275
11	12" dia x 53 Km Mehar Gas Field Integration Project (MGFIP) at Thari Mohabat-leftover	189	95

6.5.20. The petitioner has claimed an amount of Rs. 623 million to be capitalized on Pipeline Infrastructure Development Projects for upcoming RLNG, the detail of which is as under:

**Table 10: Requested Additions to Transmission Network (RLNG Projects)**

S. No.	Description Of Segment	Rs. in Million	
		The Petitioner	Determined by the Authority
FY 2017-18			
1	42" dia x 14 Km Loop Between Nara-Sawan	133	-
2	24" dia x 21 Km Interlink between Pakland to Khadeji	51	-
3	Tie-in and integration arrangement-from tie-in point to Pakland	439	-
Total		623	-

6.5.21. As regards the projects mentioned at Sr. no. 1 to 3 of Table 10 above, the petitioner has stated that these are the remaining works of the projects, which are part of Phase-I of RLNG Infrastructure Development Projects, already approved by the Authority.

6.5.22. The Authority notes that these are leftover activities of, already approved, Phase-I of RLNG Infrastructure Development Project, therefore, *the Authority, decides to provisionally allow an amount of Rs. 312 million (50% of the projected amount) at this stage subject to actualization at FRR.*



6.5.23. In view of the discussion at paras 6.2.5 and 6.2.6 above, cost of the above mentioned assets related to RLNG Projects, amounting Rs. 312 million, is to be recovered from RLNG consumers only.

**Table 11: Additions to Transmission Network as Determined by the Authority**

S/No.	Description	Rs. in Million	
		The Petition	Determined by the Authority
		FY 2017-18	
1	42" dia x 14 Km Loop Between Nara-Sawan	133	67
2	24" dia x 21 Km Interlink between Pakland to Khadeji	51	26
3	Tie-in and integration arrangement-from tie-in point to Pakland	439	220
	<b>Total</b>	<b>623</b>	<b>312</b>

### 6.6. Compressors

6.6.1. The petitioner has projected Rs. 2,701 million under this head for the said year, the detail of which is as under:

**Table 12: Requested Additions to Compressors**

Sr. No.	Description of Project	Rs. In Million
		The Petition FY 2017-18
1	Repair of DR 990 Turbo Compressor Rotor, HQ-2 Compressor Station	30
2	Repair of DR 990 Turbo Compressor Rotor, Shikarpur Compressor Station	45
3	Overhauling of Engine of DR 990 Gas Turbine S/No:655-201-001 (at 35,000 Hrs)	281
4	Additional 06 Compressor Units & extension of facility at Nawabshah (Total 30,000 HP) Left Over works	145
5	New Compressor at Shikarpur to Jacobabad for QPL	1,100
6	Refurbishment / Revamp of HQ-Sibi Compressor	1,100
	<b>Total</b>	<b>2,701</b>

6.6.2. The petitioner has furnished the following justifications for the above said expenditures:

- (i) Repair of DR 990 Turbo Compressor Rotor at estimated cost of Rs. 30 million: The petitioner has stated that they have one used rotor (120 MMSCFD) whose impeller blades edges have worn out due to dust & condensate while in operation at Unit "B"



- of HQ-2 Compressor Station, which needs to be inspected, repaired, & dynamically balanced by Original Equipment Manufacturer M/s Dresser Rand.
- (ii) Repair of DR 990 Turbo Compressor Rotor at estimated cost of Rs. 45 million: The petitioner has stated that they do not have any spare Rotor of Dry Seal System configuration for two DR 990 turbo-compressors installed at Shikarpur Compressor Station, therefore, the said rotor is required to meet any eventuality in case of installed Rotor failure.
- (iii) Overhauling of Engine of DR 990 Gas Turbine S/No:655-201-001 (at 35,000 Hrs) at estimated cost of Rs. 281 million: The petitioner has stated that the said turbine engine is in operation at Shikarpur Compressor Station and has clocked 33,000 hours as on October, 2016. Therefore, needs to be overhauled as per Original Equipment Manufacturer recommended overhaul schedule.
- (iv) Additional 06 Compressor Units & extension of facility at Nawabshah (Total 30,000 HP) Left Over works at estimated cost of Rs 145 million: The petitioner has stated that with the completion of 42" dia × 356 Km pipeline (Pakland-Sawan) project for transporting 1.2 bcfd RLNG to SNGPL at 1,115 psig at Sawan, new Compressor Station comprising Six (6) units having flow capacity of 200 MMCFD each have been installed at HQ-2 Nawabshah. As per the petitioner, total expected amount of capitalization for new Compressor Project would be Rs. 8,068 million by June, 2017, furthermore Rs. 145 million has been carry forwarded for civil work at residential area in FY 2017-18.
- (v) Additional Compressor Unit 01 No. (Quetta Capacity Enhancement Project) at estimated cost of Rs. 1,400 million: The petitioner has stated that the said compressor would enable to cater the additional gas flow requirement / demand of Quetta and its surrounding areas.
- (vi) New Compressor at Shikarpur for OPL at estimated cost of Rs. 1,100 million: The petitioner has stated that current daily gas supply to Quetta city and surroundings is approximately 135-150 mmscf from Bhit, Sui and other gas fields, however gas requirement trend in last two years shows that maximum gas requirement in Quetta city and surrounding areas including the gas requirement of Habibullah coastal and Quetta Power remained around 200 mmscf. The installation of additional compressor at Shikarpur along-with laying of 24" × 34 Km loop line from Shikarpur



to Jacobabad and Rerouting of existing QPL 12" dia × 9 Km (KM56 to KM65) and 12" dia × 14 Km (KM84 to KM96) would provide sustainable gas supply and availability of additional gas to meet growing demand of Quetta and surrounding region.

(vii) Refurbishment / Revamp of HQ-Sibi Compressor at estimated cost of Rs. 1,100 million: In addition to above mentioned three components of Quetta Pipeline Capacity Enhancement Project, the petitioner has also included the refurbishment / revamp of HQ-Sibi Compressors in the instant petition. The petitioner has stated that keeping in view the sustainability in gas supply and increasing demands of Quetta city and en-routed area of Balochistan, the revamping of existing compressor is under consideration. Two compressor units are available at Sibi Compressor Station, the rated flow capacity of each unit is 60 MMSCF, and the rated flow capacity would increase from 60 MMCFD to 120 MMCFD. The possibility for installation of 01 New Compressor unit having upto 200 MMCFD flow capacity at Sibi compressor Station instead of Revamping of both compressors is also under technical and financial analysis.

6.6.3. The Authority notes that it has already approved the project for installation of 06 compressor units at Nawabshah and in this regard, it has already allowed an amount of Rs. 4,000 million in DERR FY 2016-17. Therefore, the Authority decides to pend any further amount under this head subject to actual capitalization at the time of Mid-Year Review / FRR.

6.6.4. The Authority notes that the honorable High Court of Balochistan in its decision dated 07.03.2016 on CP No. 1229/2015 titled 'Ali Ahmed Kurd & others Vs FoP & others' has directed as under:

*"Since low pressure of gas is the main problem in Balochistan, therefore, the Managing Director, SSGC is directed to immediately take steps for up-gradation of the transmission line accordingly. This matter must be placed before the Board of Directors in its forthcoming meeting for up-gradation of the transmission line. All the stakeholders including OGRA should give top priority to this project."*

Since the Authority in its earlier Determination of ERR FY 2016-17 has already approved the Quetta Pipeline Capacity Enhancement Project in principle and had allowed an amount of Rs. 700 million for the said Compressor Unit, therefore, the Authority decides to pend any additional amount against this head at this stage,



however, the same may be claimed subject to actual capitalization at the Mid-Year Review / FRR stage.

6.6.5. As regards the installation of new compressor at Sibi, the Authority notes that since the petitioner has yet to decide whether it has to revamp the old compressors or it has to install new one, therefore, the Authority decides not to allow any amount in this head at this stage.

6.6.6. *Keeping in view the operational requirement of the company, national importance of the projects as well as the capability/past trend of the company to capitalize such projects, the Authority provisionally allows an amount of Rs. 356 million under this head as per following details:*

**Table 13: Additions to Compressors as Determined by the Authority**

Sr. No.	Description of Project	Rs. in Million	
		The Petition	Determined by the Authority
		FY 2017-18	
1	Repair of DR 990 Turbo Compressor Rotor	30	30
2	Repair of DR 990 Turbo Compressor Rotor	45	45
3	Overhauling of Engine of DR 990 Gas Turbine S/No:655-201-001 (at 35,000 Hrs)	281	281
4	Additional 06 Compressor Units & extension of facility at Nawabshah (Total 30,000 HP) Left Over works	145	-
5	New Compressor at Shikarpur for QPL	1,100	-
6	Refurbishment / Revamp of HQ-Sibi Compressor	1,100	-
	<b>Total</b>	<b>2,701</b>	<b>356</b>

### 6.7. Plant and Machinery

6.7.1. The petitioner has projected an amount of Rs. 458 million on account of Plant and Machinery for the said year. The Authority observes that projections under this head have historically remained on higher side when compared with actual expenditure at year end e.g. actual average capitalization during the period FY 2011-12 to FY 2016-17 remained at Rs 272 million per year.

6.7.2. *Keeping in view the importance of plant and machinery for operational activities and trend analysis, the Authority provisionally allows an amount of 272 million for the said year.*

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## 6.8. Gas Distribution System

6.8.1. The petitioner has projected an amount of Rs. 7,019 million for gas distribution system and related facilities & equipment.

**Table 14: Requested Additions to Distribution Network**

S. No.	Description Of Segment	Rs. in Million
		The Petition FY 2017-18
1	Rehabilitation Mains and Services-UFG Control Program	1,311
2	Segmentation-UFG Control Program	236
	<i>Sub-total</i>	<b>1,547</b>
3	Laying Of Distribution Mains including services -Existing Areas	2,165
4	Installation of New Connections (meters)	650
5	Replacement/ Repair of Meters	1,177
6	Construction of CMSs, TBSs, TRSs and Cathodic Protection	237
7	New Towns	610
	<i>Sub-total</i>	<b>4,839</b>
8	12" DIA x 26.5 Km Tando Allah Yar Supply Main	378
9	16" x 7.5 Km Supply Main Hyderabad	255
	<b>Total Gas Distribution System</b>	<b>7,019</b>

6.8.2. The petitioner has projected an amount of Rs. 1,547 million for UFG Control Program, the breakup of which is as under:

Activity	Rs. in Million
Rehabilitation Mains and Services-UFG Control Program	1,311
Segmentation-UFG Control Program	236
<i>Total</i>	<b>1,547</b>

The petitioner has stated that rehabilitation of old leaking pipelines besides saving considerable gas losses (UFG) will provide an opportunity to remodel the network keeping in view the present gas demand as well as provision for coming years so that the system may be operated at optimum pressure without upgrading the network again. The petitioner has added that they are focusing to install bulk meters on all TBS/PRS, to establish the manageable and measureable segments for effective controls. Bulk Meters, EVCs and Modems are being installed on Pressure Reducing Stations called TBS/PRS to ascertain the gas losses in the specific segment by tagging consumers. 59 Nos. of such segments have been planned.

6.8.3. The Authority notes that the petitioner's UFG has an increasing trend since last several years and it is increasingly important to enhance UFG control activities.

However, per km cost of rehabilitation mains projected by the petitioner is higher

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than the per km cost actually incurred in the last financial year i.e. FY 2015-16 even after adding inflation impact on the same.

6.8.4. *The Authority, in view of the importance of UFG Control activities, and taking per km cost of FY 2015-16 plus 10% inflation factor per year, allows an amount of Rs. 888 million upfront under this head as per following details:*

Activity	Rs. in Million
Rehabilitation Mains and Services	652
Segmentation	236
<b>Total</b>	<b>888</b>

6.8.5. The petitioner has projected Rs. 2,165 million for laying 808 Km distribution mains including main extensions, reinforcement mains and service mains for the said year.

6.8.6. *The Authority, based on the last years trend in respect of physical achievement, per Km cost and inflation impact, provisionally allows Rs. 1,239 million for laying 662 km distribution mains as per following breakup, subject to actualization at FRR:-*

- *Rs.1,063 million(@per unit cost of FY 2015-16 plus 10% inflation factor per year) for laying 409 Km (average of last four years) main extensions and reinforcement mains;*
- *Rs. 176 million (@per unit cost of FY 2015-16 plus 10% inflation factor per year) for laying 253 Km services mains.*

6.8.7. The petitioner has projected Rs. 650 million for installation of 114,721 Nos. new connections (meters) in Karachi, Sindh and Balochistan regions for the said year. The petitioner has confirmed that the projection of no. of connections is based on the actual connections processed in the year enhanced by certain percentage, moreover the said connections will be processed according to the moratorium directives on receipt of customer applications. The petitioner has added that industrial connections projected for the said year are pre-moratorium, moreover projected new commercial connections are of Roti Tandoor in Sindh and regular commercial connections (including Roti Tandoor) in Baluchistan which are exempted from moratorium, therefore commercial cases will be application driven and based on "First come first Serve" basis.

6.8.8. *The Authority, based on historical trend, provisionally allows an amount of Rs. 650 million for installation of 114,721 Nos. new connections (meters) for the said year,*



***with advice to the petitioner to strictly follow the Federal Government Policy on the matter, while processing the gas connections during the said year.***

- 6.8.9. The petitioner has projected Rs. 1,177 million for replacement of 3,064 Nos. commercial and 321,500 Nos. domestic gas meters in Karachi, Sindh and Balochistan regions for the said year.
- 6.8.10. The Authority notes that per unit cost projected by the petitioner for replacement of commercial meters in FY 2017-18 is higher than the per unit cost actually incurred in FY 2015-16 plus inflation impact. ***The Authority based on actual per unit cost incurred in last years and after adding inflation impact allows Rs. 1,134 million for replacement of gas meters during the said year.***
- 6.8.11. The petitioner has projected an amount of Rs. 237 million for construction of CMSs, TBSs, TRSs and CP Stations.
- 6.8.12. ***The Authority in view of the historical trend analysis, provisionally allows Rs. 110 million under this head, subject to actualization at FRR.***
- 6.8.13. The petitioner has projected Rs. 610 million for extension in distribution network in order to supply gas to new towns & villages during the said year.
- 6.8.14. The Authority observes that out of the projected schemes, the schemes worth Rs. 561 million meet per customer cost criteria approved by ECC and policy of the FG on the matter; whereas the remaining schemes amounting Rs 48 million do not meet per customer cost criteria approved by ECC / Policy of FG on the matter.
- 6.8.15. ***The Authority, keeping in view the policy of FG on the matter, provisionally allows Rs. 561 million on account of only those schemes which meet per customer cost criteria and meet FG's policy on the matter. The petitioner is however, advised to strictly follow the prevailing policy of FG, moratorium imposed vide MP&NR letter dated 04.10.2011 and decision of Honorable Supreme Court on CP-20 of 2013 on the matter.***
- 6.8.16. The petitioner has projected Rs. 378 million and Rs 255 million for laying 12" dia x 26.5 Km Tando Allah Yar Supply Main and 16" dia x 7.5 Km supply main Hyderabad respectively.

6.8.17. The Authority observes that the petitioner has been projecting the said projects since long and although the Authority allowed these projects in its earlier determinations, but the petitioner could not execute the same in the past. *Keeping in view the previous history, the Authority decides to pend the expenditure against these projects at this stage, however, the petitioner may execute the projects if feasible and claim the actual expenditure in FRR.*

6.8.18. *In view of above, addition to Gas Distribution System is provisionally allowed at Rs. 4,582 million for the said year, as tabulated below;*

**Table 15: Additions to Distribution Network as Determined by the Authority**

S/No.	Description	Rs. in Million	
		The Petition	Determined by the Authority
		FY 2017-18	
1	Rehabilitation Mains and Services-UFG Control Program	1,311	652
2	Segmentation-UFG Control Program	236	236
	<i>Sub-total</i>	<b>1,547</b>	<b>888</b>
3	Laying Of Distribution Mains including services -Existing Areas	2,165	1,239
4	Installation of New Connections (meters)	650	650
5	Replacement/ Repair of Gas Meters	1,177	1,134
6	Construction of CMSs, TBSs, TRSs and Cathodic Protection	237	110
7	New Towns	610	561
	<i>Sub-total</i>	<b>4,839</b>	<b>3,694</b>
8	12" DIA x 26.5Km Tando Allah Yar Supply Main	378	-
9	16" x 7.5 Km Supply Main Hyderabad	255	-
	<b>Total Gas Distribution System</b>	<b>7,019</b>	<b>4,582</b>

**6.9. Furniture; Security & Office Equipment; and Computer & Allied Equipment**

6.9.1. The petitioner has projected Rs. 383 million in respect of furniture, security equipment, office equipment and computers & allied equipment for the said year.

6.9.2. The Authority observes that the petitioner has capitalized an average amount of Rs. 114 million per year during the period FY 2006-07 to FY 2015-16 and has capitalized maximum amount of Rs. 175 million in a single year.

6.9.3. *In view of the historical trend the Authority provisionally determines the said expenditure at Rs. 175 million as tabulated below:*




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**Table 16: Additions to Furniture, Office Equipment, and Computers as Determined by the Authority**

S/No.	Description	Rs. in Million	
		The Petition	Determined by the Authority
		FY 2017-18	
1	Computers and allied equipments	247	120
2	Office equipment, Furniture and Security Equipment	136	55
	<b>Total</b>	<b>383</b>	<b>175</b>

**6.10. Computer Software (Intangible)**

6.10.1. The petitioner has projected Rs. 143 million for procurement of various software including High Resolution Natural Color/ Multispectral Satellite Data, Remedy Software, Oracle Time and Labor License, GRC Technology Licenses, Additional Oracle Technology Licenses and CC&B Upgrade.

6.10.2. The Authority notes that the petitioner has capitalized an average amount of Rs. 35 million/year during the last seven years. *Keeping in view the historical trend analysis, the Authority provisionally allows an amount of Rs. 35 million for the said year.*

**6.11. LPG Air-Mix Projects**

6.11.1. The petitioner has projected an amount of Rs. 15 million to be capitalized on LPG Air-Mix Plants located at Gwadar, Noshki, Surab and Kot Ghulam Muhammad.

6.11.2. *In view of the above, the Authority provisionally allows an amount of Rs. 15 million to be capitalized on Gwadar, Noshki, Surab and Kot Ghulam Muhammad LPG Air Mix Systems, which are already operational and duly licensed by the Authority.*

**6.12. Telecommunication System**

6.12.1. The petitioner has projected Rs. 96 million for different telecommunication projects for the said year.

6.12.2. The Authority observes that average capitalization under this head during the last five years remained within this range. *The Authority, in view of the historical trend, allows the projected amount of Rs. 96 million under this head, for the said year.*

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### 6.13. Appliances, Loose Tools & Equipment

- 6.13.1. The petitioner has projected Rs. 222 million for appliances, loose tools and equipment for the said year.
- 6.13.2. The Authority observes that the petitioner has capitalized maximum amount of Rs. 37 million in a single year and an average amount of Rs. 23 million/year during the last nine years. *Keeping in view the historical trend analysis, the Authority provisionally allows an amount of Rs. 37 million for the said year.*

### 6.14. Vehicles

- 6.14.1. The petitioner has projected an amount of Rs. 605 million under this head for the said year. The petitioner has informed that the said expenditure has been projected for purchase of 579 vehicles, comprising 535 operational and 44 non-operational vehicles. The petitioner has added that 372 Nos. are the replacement vehicles whereas 207 Nos. vehicles are the new ones/additional.
- 6.14.2. The Authority notes that as per the historical trend the petitioner has capitalized an average amount of Rs 268 million per year during the last four years, however, capitalization during FY 2015-16 remained at Rs. 404 million in this head.
- 6.14.3. *The Authority, in view of the historical trend analysis, allows an amount of Rs. 444 million (actual of FY 2015-16 plus 10% inflation impact) under this head for the said year.*

### 6.15. Fixed Assets Determined by the Authority

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

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**Table 17: Summary of Asset Additions Determined by the Authority**

S/No.	Description	Rs. in Million	
		The Petition	Determined by the Authority
		FY 2017-18	
1	Land	277	277
2	Building	746	479
3	Roads, pavements and related infrastructures	151	62
4	Gas transmission pipeline	12,200	3,497
5	Compressors	2,701	356
6	Plant and machinery	458	272
7	Gas distribution system, related facilities and equipments	7,019	4,582
8	Furniture, equipments including computers and allied equipments	383	175
9	Computer software (Intangible)	143	35
10	LPG Air Mix Projects	15	15
11	Telecommunication system	96	96
12	Appliances, loose tools and equipment	222	37
13	Vehicles	605	444
	<b>Assets related to Gas Activities</b>	<b>25,014</b>	<b>10,327</b>

**6.16. Assets related to RLNG**

6.16.1. *In view of the discussion at paras 6.2.5 and 6.2.6 above, all cost incurred in creation of RLNG infrastructure, is to be charged / recovered from RLNG Consumers without affecting consumers relying on domestically produced gas. Hence cost of following assets related to RLNG, amounting Rs. 961 million is to be recovered from RLNG consumers:*

**Table 18: Summary of RLNG Asset Additions Determined by the Authority**

Asset Description	Rs. in Million	
	Determined by the Authority	
Land	270	
Buildings	379	
Transmission Pipelines	312	
<b>Total</b>	<b>961</b>	

6.16.2. *Accordingly, depreciation expense is provisionally determined Rs. 6,820 million as a consequence of reduction in additions to fixed assets for the said year, as discussed above. In view of the same, the Authority provisionally determines closing operating fixed assets for the said year at Rs. 74,939 million.*





## 7. Operating Revenues

### 7.1. Sales Volume

7.1.1. The petitioner has projected 3% increase (78,146) in number of consumers, from 2,914,330 reported in DERR for FY 2016-17 to 2,992,476 during the said year, as follows:

**Table 19: Comparison of Projected Number of Consumers with Previous Years**

Category	FY 2015-16	FY 2016-17	FY 2017-18	Growth over DERR FY 2016-17	
	FRR	DERR	The Petition		%
Domestic	2,746,202	2,885,891	2,964,410	78,519	3
Commercial	23,071	24,223	23,823	(400)	(2)
Industrial	4,174	4,216	4,243	27	1
<b>Total</b>	<b>2,773,447</b>	<b>2,914,330</b>	<b>2,992,476</b>	<b>78,146</b>	<b>3</b>

7.1.2. Sales volume has been projected at 368,017 BBTU for the said year. Category-wise comparison with previous years has been provided as under:

**Table 20: Comparison of Projected Sales Volume with Previous Years**

Category	FY 2015-16	FY 2016-17	FY 2017-18	Volume in BBTU Inc. / (Dec.) over DERR FY 2016-17	
	FRR	DERR	The Petition		%
CNG Stations	28,482	28,903	29,182	279	1
Domestic	83,101	86,992	88,641	1,649	2
Commercial	10,102	10,057	10,219	162	2
Nooriabad Power Plant		7,048	7,237	189	3
Fertilizer - feed stock	18,960	13,382	18,904	5,522	41
General Industries	61,934	63,156	62,038	(1,118)	(2)
Captive Power	67,701	74,802	68,345	(6,457)	(9)
HCPC	4,752	6,185	4,751	(1,434)	(23)
Cement	214	505	214	(291)	(58)
Power	108,732	99,285	78,487	(20,798)	(21)
<b>Total</b>	<b>383,979</b>	<b>390,315</b>	<b>368,017</b>	<b>(22,298)</b>	<b>(6)</b>

7.1.3. The petitioner has explained that gas sales volume has been projected based on the availability of gas, considering take and pay and current trend of gas off takes from existing and new gas fields.

7.1.4. The petitioner has further explained that increase in sales volume to the Fertilizer-feed stock sector has been projected in line with FRR for FY 2015-16. However, the sales volumes to the rest of sectors have been declined mainly due to gas load management. Regarding cement sector, the petitioner has informed that most of the cement plants have now been shifted to other fuels from natural gas resulting in lower projections for the said year.



7.1.5. *The Authority, in view of above, accepts the petitioner's sales volume projections at 368,017 BBTU.*

## 7.2. Sales Revenue at Existing Prescribed Prices

7.2.1. The petitioner has projected to decrease sales revenues at existing prescribed price by 30% over FY 2016-17 to Rs. 113,500 million for the said year. Category-wise comparison of sales revenue is given below:

**Table 21: Comparison of Projected Sales Revenue with Previous Years**

Particulars	Rs. In Million				
	FY 2015-16 FRR	FY 2016-17 DERR	FY 2017-18 The Petition	Inc. / (Dec.) over DERR for FY 2016-17	%
Commercial	6,529	4,246	4,539	293	7
CNG Stations	18,602	12,204	13,363	1,159	9
Captive Power	36,867	31,584	27,328	(4,257)	(13)
Nooriabad Power Plant	-	2,976	2,464	(512)	(17)
General Industries	29,983	26,667	21,125	(5,542)	(21)
Power	53,087	41,922	26,727	(15,196)	(36)
Habibullah Coastal Power	2,320	2,611	1,618	(994)	(38)
Cement	159	213	111	(103)	(48)
Domestic	17,248	35,197	13,893	(21,304)	(61)
Fertilizer - Feedstock	2,281	5,650	2,333	(3,317)	(59)
Al-Tuwairqi Steel	1	-	-	-	-
Naudero Rental Power	0.216	-	-	-	-
<b>Total Sales Revenues</b>	<b>167,078</b>	<b>163,272</b>	<b>113,500</b>	<b>(49,772)</b>	<b>(30)</b>

7.2.2. The Authority observes that decrease in sales revenue is mainly due to decrease in sales volumes and revision in gas supply allocations of various sectors as indicated in para in 7.1.2 and 7.1.4 above.

7.2.3. *Accordingly, the Authority provisionally accepts net sale at category-wise prescribed price at Rs. 113,500 million as projected by the petitioner for the said year.*

## 7.3. Other Operating Income

### i. Summary

7.3.1. The petitioner has projected other operating income at Rs. 13,267 million for the said year. Comparison with previous years is given below:

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**Table 22: Comparison of Projected Other Operating Income with Previous Years**

Particulars	Rs. in million				
	FY 2015-16	FY 2016-17	FY 2017-18	Inc./(Dec.) over DERR FY 2016-17	
	FRR	DERR	The Petition	Rs.	%
Sale of NGL	568	1,132	584	(548)	(48)
Sale of Gas condensate	181	283	134	(149)	(53)
Meter Manufacturing Plants Profit	15	641	209	(432)	(67)
Gas transportation charges		68	-	(68)	(100)
Notional income on IAS provision	298	615	-	(615)	(100)
Meter rentals	719	750	773	23	3
Amortization of deferred credits	406	407	426	19	5
Sale of LPG	2,854	2,728	3,009	280	10
Other income	895	452	532	79	18
RLNG transportation Income	456	3,697	4,643	946	26
Late Payment Surcharge	2,198	1,151	2,958	1,807	157
<b>Operating Revenue</b>	<b>8,590</b>	<b>11,924</b>	<b>13,267</b>	<b>1,343</b>	<b>11</b>

**ii. Meter Manufacturing Profit (MMP), Late Payment Surcharge (LPS), Sale of Gas Condensate, LPG and NGL**

7.3.2. The petitioner has submitted that revenues from MMP (Rs. 209 million), LPS (Rs. 2,958 million), and sale of gas condensate (Rs. 134 million), NGL (Rs. 584 million), and LPG (Rs. 3,009 million) have been treated as operating income in the petition in line with the honorable SHC decision.

7.3.3. The Authority observes that the petitioner has reasonably projected the revenues based on the offtakes from the respective fields. *Accordingly, the Authority, in line with its principle stance, decides to include all above said incomes as part of operating income for the said year.*

**iii. Transportation of RLNG**

7.3.4. The petitioner has projected Rs. 4,643 million on account of RLNG transportation income for the said year.

7.3.5. The Authority observes that the petitioner has claimed Rs. 9,286 million being transportation cost as part of revenue requirement for the said year. On the contrary, Rs. 4,643 million i.e. 50% has been offered to offset the impact of RLNG expenses, which reflects that differential shall be recovered from natural gas consumers. The Authority notes with concern that such treatment is against the decision of ECC in respect of ring-fenced activity as well as its recovery from RLNG consumers. *The Authority, in accordance with the ECC policy guidelines, and the decision in paras*



**6.16.1 and 9.3.34 decides to provisionally determine Rs. 8,920 million, being transportation income /cost of supply for RLNG activities for the said year. Any adjustment on this account shall be considered at the time of FRR for the said year based on the capitalization of assets and related costs, and shall accordingly, be adjusted from RLNG consumers.**

7.3.6. The Authority, however, observes that RLNG pricing, as per legal framework provided by the GoP, is carried out under Petroleum Product (Petroleum Levy) Ordinance 1967. Further, as per decision of the FG regarding "RLNG pricing, allocation & allied matters", expenses under this head 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.

**iv. Other Income**

7.3.7. The petitioner has projected other income at Rs. 532 million for the said year. Comparison with previous years is given below:

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

Particulars	Rs. in million				
	FY 2015-16	FY 2016-17	FY 2017-18	Inc. / (Dec.) over DERR of FY 2016-17	
	FRR	DERR	The Petition		%
Liquidated damages recovered	132	7	8	0.03	0.45
Income from sale of tender documents	5	4	5	1	30
Others	70	18	20	2	9
Recoveries from consumers	79	69	73	4	6
Income from sale of net investment in finance lease	106	68	126	58	84
Income from new service connections	300	280	300	21	7
Profit on disposal of fixed assets	98	-	-	-	-
Income from pipeline construction	101	-	-	-	-
Advertising Income	5	6	-	(6)	(100)
Notional income on IAS 19 provision	298	615	-	(615)	(100)
<b>Total Other Operating Income</b>	<b>1,193</b>	<b>1,067</b>	<b>532</b>	<b>(535)</b>	<b>(50)</b>

7.3.8. The Authority observes that the petitioner has treated "Notional Income on IAS-19" and "Advertising income" as non-operating without citing any justification. The Authority is of the firm view that any income derived from the operations of the company is an operating income, and therefore, be included as part of tariff calculation. *In view of same, the Authority provisionally includes Rs. 281 million, based on the information provided by the petitioner in respect of notional income on IAS-19 & Rs. 5 million on account of Advertising income as part of revenue*



*requirement for the said year. Accordingly, the Authority provisionally determines "other income" at Rs. 817 million for the said year.*

7.3.9. *In view of the discussion in paras 7.3.1 and 7.3.8 above, the Authority provisionally determines other operating income for the said year at Rs. 17,829 million as against Rs. 13,267 million claimed by the petitioner, as detailed below.*

**Table 24: Summary of Other Operating Income Determined by the Authority**

Particulars	Rs. in million	
	FY 2017-18	
	The Petition	Determined by the Authority
Sale of NGL	584	584
Other income	532	817
Meter Manufacturing Profit	209	209
Sale of Gas condensate	134	134
Meter rentals	773	773
Amortization of deferred credits	426	426
Sale of LPG	3,009	3,009
RLNG transportation Income	4,643	8,920
Late Payment Surcharge	2,958	2,958
Operating Revenue	13,267	17,829

## 8. Air-Mix LPG Projects

8.1. The petitioner has claimed subsidy of Rs. 624 million on account of its Air-mix LPG projects for the said year.

8.2. *The Authority, in view of the discussion and decision at para 6.11.2 above, provisionally allows subsidy at Rs. 522 million on account of Gwadar, Noshki, Surab and Kot Ghulam Muhammad LPG Air Mix projects for the said year.*

## 9. Operating Expenses

### 9.1. Cost of Gas

9.1.1. The petitioner has projected cost of gas Rs. 130,140 for the said year, based on its projections of international prices of crude and HSFO. Comparative analysis of projected cost of gas with previous years is given below:

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**Table 25: Comparison of Projected Cost of Gas with Previous Years**

FY 2015-16		FY 2016-17		The Petition FY 2017-18	
FRR		DERR			
MMBTU	Rs. Million	MMBTU	Rs. Million	MMBTU	Rs. Million
463,292	151,088	484,354	133,284	432,711	130,140

9.1.2. 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.

9.1.3. 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 (as per Annexure-D) for the said year.

**Table 26: 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	309.3140	105.50
January to June, 2018	June to November, 2017	48.4667	297.0598	106.00

9.1.4. *Based on the above, the cost of gas is provisionally determined at Rs. 140,824 million for the said year.*





## 9.2. Unaccounted for Gas (UFG)

9.2.1. The petitioner has claimed UFG for the said year at 5.56% (24,198 MMCF), as follows:

**Table 27: UFG Volume Claimed in the Petition**

Particulars	MMCF
	2017-18 The Petition
Gas Purchases	434,819
Gas Sales	410,621
	24,198
UFG( %age of Purchases)	5.56%

9.2.2. 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. Written comments of SNGPL, the petitioner and OGRA on the first draft report were forwarded to the Consultant for perusal / consideration in the 2<sup>nd</sup> draft report. The Consultant submitted 2<sup>nd</sup> 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 the all stakeholders since the allowance of UFG impacts them. Comments received from various stakeholders including SNGPL, the petitioner, 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 also forwarded to Consultant for perusal / consideration. 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 realities 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 acknowledges the approach of Consultant for proposing a roadmap with specimen Key Monitoring Indicators (KMIs) and their linkage with the UFG Allowance.



9.2.3. 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 will help to 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: -

$$\text{UFG Allowance} = \text{Gas Received} \times (\text{Rate}_1 + \text{Rate}_2 \times \beta)$$

#### Legend

Rate<sub>1</sub> = Technical Component (Inherent gas loss in the system)

Rate<sub>2</sub> = Local Challenging conditions component (Pakistan specific)

β = Performance factor (Key Monitoring Indicators)

- ii. Rate<sub>1</sub> 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<sub>2</sub> 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 KMIs.
- v. The performance of Sui Companies against KMIs 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) for prospective years, the Rate 2 will be taken at 50% and the same will be actualized in line with the achievement of proposed KMIs to evaluate respective Final Revenue Requirements (FRRs) on submission.
- vii. The Authority observes that it had stated in its FRR for FY 2012-13, 2013-14, 2014-15 and 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 sui companies on KMIs with retrospective effect. Therefore, taking into consideration the fact that the Authority has been allowing UFG allowance over and above the then benchmark of 4.5% based already 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 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 Sui companies and considering the international better practices for calculating UFG the following formula for the UFG calculation purpose will be used: -

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

- 9.2.4. The Authority further decides that there will be a multiplying factor i.e. alpha of Rate1 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 5 years, as per below formula: -

 
$$\text{UFG Allowance} = \text{Gas Received} \times (\alpha \times \text{Rate}_1 + \text{Rate}_2 \times \beta)$$

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

9.2.6. On the basis of above, UFG allowance has been calculated 27,472 MMCF for the said year subject to adjustments on the basis of KMI at FRR stage, in accordance with the following table: -

**Table 28: Calculation of UFG Adjustment determined by the Authority**

Particulars	MMCF	
	The Petition 2017-18	Determined by the Authority
<b>Gas Purchases:</b>		
Gross Purchases	436,062	436,062
Less: Gas Internally Consumed-metered	1,243	936
<i>Available for Sale</i>	<b>434,819</b>	<b>435,126</b>
<b>Gas Sales:</b>		
Gas Sales	371,774	371,774
Add: Bulk Retail Ratio	21,231	-
Add: Unbilled pilfered volume in law & order affected areas	2,663	-
Add: Pilfered volume detected against non-consumers	9,273	-
Add: Gas Shrinkage at JJVL - LPG/NGL	5,425	5,425
Add: Gas Shrinkage at LHF - Condensate	256	256
<b>Total</b>	<b>410,621</b>	<b>377,455</b>
UFG Volume	24,198	57,671
UFG Projected	5.56%	13.23%
UFG Benchmark (Benchmark)		5.00%
Provisional allowance for local operating conditions		1.30%
Allowable UFG Volume @ 6.30% Benchmark		27,472
Disallowed Volume (MMCF)		30,199
BTU factor		0.990
Disallowed Volume (MMBTU)		29,894
WACOG (Rs./MMBTU)		325.22
UFG Adjustment (Rs. in million)		9,722

9.2.7. Revised UFG on the basis of above and the adjustments discussed in paras 9.3.51, is provisionally computed at Rs. 9,722 million for the said year.

9.2.8. The Authority notes that the interveners have raised their concerns over UFG during the public hearings. The Authority was already cognizant of fact that there is a requirement of a formal credible study in respect of UFG to reach at harmonious decision keeping in view the concerns of all stakeholders and this could only be achieved through a neutral, well reputed and reliable Consultant. The Authority in accordance with regulation 3(B) of the PPRA Regulation of Consultancy Services Regulation 2010 selected the Consultant for the said task. After a thorough

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consultative process with all stakeholders the Consultant has come up with the final UFG Study report which has been approved. The Authority notes that the above issues raised by the interveners and petitioner relating to the UFG has been discussed /addressed at length in the UFG Study Report.

### 9.3. Transmission and Distribution Cost

#### i. Summary

9.3.1. The petitioner has projected transmission and distribution cost (including gas internally consumed) at Rs. 17,439 million for the said year, as detailed below:-

**Table 29: Comparison of Projected T&D Cost with the Previous Years**

Particulars	Rs. in Million					
	FRR	DERR	Actual	The Petition	Inc./(Dec.) over Actuals	
	FY 2015-16	FY 2016-17		FY 2017-18	FY 2016-17	%
Salaries, wages, and benefits at benchmark	11,544	12,928	12,434	13,840	1,406	11
Stores, spares and supplies consumed	659	813	595	998	403	68
Postage & revenue stamps	88	97	82	121	39	47
Rent, rate & taxes	164	199	161	223	61	38
Legal charges	90	81	286	105	(181)	(63)
Traveling	98	109	108	141	33	30
Repairs & maintenance	1,374	1,506	1,570	2,050	480	31
Insurance	119	140	119	146	27	23
Meter reading by contractors	67	75	69	85	16	23
Electricity	193	232	189	227	38	20
Material used on consumers installations	37	44	34	41	7	19
Gas bills stubs processing charges	19	23	22	24	2	9
Gas bills collection charges	178	187	181	194	13	7
Advertisement	103	125	108	115	7	7
Security expenses	470	561	554	582	28	5
License & Tariff Petition Fee to OGRA	99	167	57	58	1	2
Others	123	150	103	208	105	103
Collecting agent commission	3	3	0.364	3	3	724
SSGCL Share in ISGSL expenses	105	-	-	-	-	-
Professional charges	93	46	18	80	62	336
Impairment of Capital WIP	60	-	49	-	(49)	(100)
Revenue expenditure relating to LNG	26	62	386	93	(293)	(76)
<b>Sub-total Cost</b>	<b>15,713</b>	<b>17,548</b>	<b>17,127</b>	<b>19,333</b>	<b>2,206</b>	<b>13</b>
Less: Recoveries / Allocations	2,148	2,254	2,177	2,260	82	4
<b>Net T&amp;D Cost before GIC</b>	<b>13,566</b>	<b>15,294</b>	<b>14,949</b>	<b>17,073</b>	<b>2,124</b>	<b>14</b>
Add: Gas consumed internally	306	215	198	366	169	85
Loss due sabotage activity	13	-	10	-	(10)	100
<b>Net Transmission &amp; Distribution Cost</b>	<b>13,884</b>	<b>15,509</b>	<b>15,157</b>	<b>17,439</b>	<b>2,282</b>	<b>15</b>

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

#### ii. Human Resource (HR) Cost

9.3.3. The petitioner has projected HR cost to increase from Rs. 12,434 million reported in FY 2016-17 to Rs. 13,840 million for the said year, showing an increase of 11%. The



petitioner has explained that estimated HR cost for the said year is based on the Authority's HR cost allowed in previous years.

9.3.4. 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 submits the same to the Authority. *The HR cost benchmark including IAS-19, as per existing benchmark, for the said year is computed at Rs. 13,509 million, as per Annexure - C for the said year.* The Authority directs the petitioner, at the time of final revenue requirement, shall provide a 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. Also, 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. Repair and Maintenance*

9.3.5. The petitioner has projected an amount of Rs. 2,050 million to be spent on repair and maintenance during the said year.

**Table 30: Comparison of Projected Repair & Maintenance Cost with the Previous Years**

Particulars	Rs. in Million					
	FY 2015-16	DERR	Actual	FY 2017-18	Inc./ (Dec.) over Actuals FY 2016-17	
	FRR	FY 2016-17		The Petition	Rs.	%
Transmission	115	111	128	135	7	5
Distribution	888	926	1,033	1,122	89	9
Compression	1.89	3	3	4	1	39
Other	370	466	406	789	383	94
<b>Total</b>	<b>1,374</b>	<b>1,506</b>	<b>1,570</b>	<b>2,050</b>	<b>480</b>	<b>31</b>

9.3.6. *The Authority, keeping in view the operational requirement of the petitioner and capitalization trend in this head, provisionally allows an amount of Rs. 1,510 million for the said year.*

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**iv. Stores Spares and Supplies Consumed**

9.3.7. The petitioner has projected an amount of Rs. 998 million, thereby projecting a significant increase of 68% over actual of FY 2016-17, breakup of the same is as under:-

**Table 31: Comparison of Projected Stores Spares and Supplies with Previous years**

Particulars	Rs. in Million						
	FY 2015-16	DERR	Actual	FY 2017-18	Inc./(Dec.) over Actuals FY 2016-17		
	FRR	FY 2016-17		The Petition	Rs.	%	
Transmission & Compression and other	155	191	161	234	72	45	
Distribution	421	518	370	635	265	72	
Head Office	77	94	52	115	63	122	
Freight & handling	6	11	12	14	2	21	
<b>Total</b>	<b>659</b>	<b>813</b>	<b>595</b>	<b>998</b>	<b>403</b>	<b>68</b>	

9.3.8. The petitioner has explained that the increase is due to inflation impact along-with enhanced level of repair and maintenance activities for UFG control purposes. The petitioner has further attributed the increase to expected increase in consumption coupled with prices of chemical products, fuel and lubricants during the said year.

9.3.9. The Authority observes that out of Rs. 813 million allowed at the time of DERR for FY 2016-17, the petitioner actual expenditure has remained at Rs. 587 million. Similar, over estimation has already been envisaged by petitioner in previous years. Quantum of repair & maintenance activities in respect of UFG, as explained by petitioner, is not so large, which may increase the expenses by 68%. Moreover, inflationary increase over a period of last four years has remained stable, under 5%. Similarly, Rupee to US\$ parity is not volatile, thereby predicting a reasonable increase during the said year.

9.3.10. The Authority has always remained prudent while allowing the expenditures, however, expenses directly relating to operations of the company have always been allowed to the petitioner in order to ensure smooth and efficient operations. However, continuous increase without concrete justification is not allowable.

9.3.11. *In view of above, the Authority decides to provisionally allow Rs. 659 million under the head of Stores Spares and Supplies i.e. at the level of FRR for FY 2015-16 for the said year subject to the actualization at year end.*



**v. Traveling**

9.3.12. The petitioner has projected traveling expenses at Rs. 141 million for the said year, showing an increase of 31% over actual of FY 2016-17, as tabulated below;

**Table 32: Comparison of Projected Traveling Expense with the Previous Years**

Particulars	Rs. in Million					
	FY 2015-16	DERR	Actual	FY 2017-18	Inc./Dec. over Actuals FY 2016-17	
	FRR	FY 2016-17		The Petition	Rs.	%
Local Traveling-Executive	22	27	25	38	13	54
Local Traveling-Subordinates	5	5	4	8	4	100
Foreign Travelling	0.06	4	-	4	4	100
Other Traveling	70	73	79	90	11	14
<b>Total</b>	<b>98</b>	<b>109</b>	<b>108</b>	<b>141</b>	<b>33</b>	<b>31</b>

9.3.13. The petitioner has explained that out of Rs. 175 million, Rs. 109 million was allowed by the Authority at the time of DERR for FY 2016-17. The petitioner has attributed the increase to general inflation and increased traveling related to court cases, meetings, presentations at various forums including Prime Minister Secretariat, National Assembly Standing Committees, Public Accounts Committee, OGRA and MP&NR. Other reasons also include frequent traveling of its Board of Directors and its committee meetings in others cities of the country.

9.3.14. The Authority notes that the petitioner has projected significant increase of 31% under the head of "Traveling" without providing any tangible justification. The Authority observes that its decision in ERR for FY 2016-17 in respect of traveling, based on similar justifications of the petitioner, has proved to be quite accurate. Actual expenditure on account of traveling for FY 2016-17 is being reported at Rs. 108 million as against the petitioner's own projections of Rs. 175 million at the time of ERR petition. Circumstances, during the said year, have also not changed. POL prices as well as US\$ exchange rate predicts a reasonable increase during the said year.

9.3.15. *In view of above, the Authority decides to provisionally determine the traveling expense at Rs. 119 million i.e. 10% inflationary increase over actual of FY 2016-17 for said year.*

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**vi. Legal Charges**

9.3.16. The petitioner has projected legal charges for the said year at Rs. 105 million, as shown below:

**Table 33: Comparison of Projected Legal Charges with the Previous Years**

Particulars	Rs. in Million					
	FY 2015-16	DERR	Actual	FY 2017-18	Inc./Dec. over Actuals FY 2016-17	
	FRR	FY 2016-17		The Petition	Rs.	%
Legal Charges	90	81	286	105	(181)	(63)
Total	90	81	286	105	(181)	(63)

9.3.17. The petitioner has explained that increase in the legal expenses is due to expected increase in the number of legal cases filed against/by it. The petitioner has attributed the increase to various cases filed in respect of OGRA price notification, employees related matters, gas holiday, billing issues/ gas theft both criminal as well as civil matters and tender enquiries.

9.3.18. The petitioner has also explained that the affected commercial consumers including Industries, IPPs, GIDC matters etc. has filed cases against it. The same are pending in different Courts, and resulted in increase in respect of litigation expenses manifold. The petitioner has further argued that majority of cases have been filed against it and therefore, the Company left with no option but to defend it.

9.3.19. The Authority notes that the petitioner had advanced similar justifications in its previous petition for ERR for FY 2016-17. However, legal charges amounting to Rs. 210 million on account of M/s Habibullah Coastal Power Company Ltd. has resulted in gigantic expenditure of Rs. 286 million at year end of FY 2016-17. The Authority, however, is of the view that except M/s HCPC, the other circumstances have not changed so far. *Considering the similar circumstances prevalent in last couple of years, the Authority decides to provisionally fix legal charges at Rs. 91 million i.e. 10% increase over last two years actual of FY 2015-16 and FY 2016-17. Also, the petitioner is advised to process cases through its own legal / litigation department so that dependence on external legal firms is minimized in order to lessen its impact on revenue requirement / natural gas consumer prices.*



**vii. Professional Charges**

9.3.20. The petitioner has projected professional charges for the said year at Rs. 80 million as against Rs. 18 million reported in actual of FY 2016-17, showing a gigantic increase of 336%, as shown below:

**Table 34: Comparison of Projected Professional Charges with the Previous Years**

Particulars	Rs. in Million					
	FY 2015-16	DERR	Actual	FY 2017-18	Inc./(Dec.) over Actuals	
	FRR	FY 2016-17		The Petition	Rs.	%
Professional Charges	37	46	18	80	62	336
<b>Total</b>	<b>37</b>	<b>46</b>	<b>18</b>	<b>80</b>	<b>62</b>	<b>336</b>

9.3.21. The petitioner has attributed the increase on account of professional charges to the consultancy fee envisaged for the installation of pipe coating (Rs. 20 million), nitrogen blending plants (Rs. 10 million) and risk management (Rs. 15 million). The petitioner has emphasized that nitrogen blending plant study has been necessitated owing to injection of RLNG into the system resulting in hindrances of the devices being run on gas. Regarding pipe coating plant, the petitioner has submitted that it is planning to set up its own pipe coating plant so as to avoid delay while purchasing pipes from external suppliers.

9.3.22. The Authority notes that the petitioner had projected professional charges at Rs. 52 million at the time of petition for ERR of FY 2016-17, while citing major reason for establishment of risk management department. However, actual expenses for FY 2016-17 have remained at Rs. 11 million only, which reflects that establishment of risk managements department could not materialize by the petitioner.

9.3.23. The Authority agrees to the petitioner's contention in respect of nitrogen blending plants and pipe coating plants. However, projecting Rs. 15 million for risk management consultancy charges is not acceptable as per its stance in DERR for FY 2016-17.

9.3.24. *The Authority, considering the justifications advanced by petitioner, decides to provisionally fix it at Rs. 46 million i.e. at the level of DERR for FY 2016-17, for the said year.*



**viii. Postage & Revenue Stamps**

9.3.25. The petitioner has projected postage & revenue stamps charges for the said year at Rs. 121 million, as shown below:

**Table 35: Comparison of Postage & Revenue Stamps Charges with the Previous Years**

Particulars	Rs. in Million					
	FY 2015-16	DERR	Actual	FY 2017-18	Inc./Dec. over Actuals FY 2016-17	
	FRR	FY 2016-17		The Petition	Rs.	%
Postage & Revenue Stamps	88	97	82	121	39	47
<b>Total</b>	<b>88</b>	<b>97</b>	<b>82</b>	<b>121</b>	<b>39</b>	<b>47</b>

9.3.26. The petitioner has attributed the increase in postage & revenue stamps charges to the revision of courier charges and expected enhanced activity. The petitioner has further submitted that increase in projected amount is due to expected increase in number of consumers as well as delivery of special notices and disconnection letters.

9.3.27. The Authority observes that increased activity coupled with projected consumer base envisaged during the said year does not commensurate to 47% increase as projected by the petitioner. Actual expenses during FY 2016-17 has remained at Rs. 82 million, which is even Rs. 6 million less than the actual expenditure of FY 2015-16. The Authority, however, appreciates that the petitioner has been able to curtail the expenditure within the allowable limits.

9.3.28. *The Authority, keeping in view the historical trend, decides to provisionally determine the postage & revenue stamps charges at Rs. 94 million i.e. 10% increase over average of last two years actual expenditure for said year.*

**ix. Meter Reading by Contractors**

9.3.29. The petitioner has projected meter reading by contractors charges for the said year at Rs. 85 million, as shown below:

**Table 36: Comparison of Projected Meter reading by Contractors with the Previous Years**

Particulars	Rs. in Million					
	FY 2015-16	DERR	Actual	FY 2017-18	Inc./Dec. over Actuals FY 2016-17	
	FRR	FY 2016-17		The Petition	Rs.	%
Meter reading by Contractors	67	75	69	85	16	22
<b>Total</b>	<b>67</b>	<b>75</b>	<b>69</b>	<b>85</b>	<b>16</b>	<b>22</b>

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9.3.30. The petitioner has explained that increase in meter reading by contractors expense is mainly due to expected increase in number of customers. The petitioner has further explained that increase in projected amount is due to expected revision of rates in future, as well as nil / minimum surveys and special meter reading.

9.3.31. The Authority notes that the petitioner has projected 4% increase in number of meter reads from 23,309,143 (per DERR for FY 2016-17) to 24,353,976 in the instant petition at Rs. 3.49/meter read. However, actual number of meter reads for FY 2016-17 have been reported at 18,352,064, while reporting an actual expenditure of Rs. 69 million. Analysis of the actual numbers clearly reflects that the petitioner has inflated its expenses in the instant petition. *The Authority, based on actual expenditure in last couple of years, decides to allow 10% increase over actual of FY 2016-17 and provisionally fixes it at Rs. 76 million to cater for inflation and enhanced activity envisaged during the said year.*

**x. Revenue Expenditure Relating to LNG**

9.3.32. The petitioner has projected revenue expenditure relating to LNG for the said year at Rs. 93 million, as shown below:

**Table 37: Comparison of Projected Revenue Expenditure Relating to LNG with the Previous Years**

Particulars	Rs. in Million				
	FY 2015-16	DERR	Actual	FY 2017-18	Inc./(Dec.) over Actuals FY 2016-17
	FRR	FY 2016-17		The Petition	Rs.      %
Revenue Expenditure Relating to LNG	107	62	386	93	(293)      (76)
	107	62	386	93	(293)      (76)

9.3.33. The petitioner has explained that 42" x 342 km dedicated pipeline is almost complete and LNG has become a regular feature as Tier 1 and Tier 2 gas, resulting in higher projections for the said year.

9.3.34. The Authority notes that the petitioner has included Rs. 338 million on account of RLNG expenses as part of transportation formula in the instant petition. On scrutiny, the petitioner has informed it has anticipated that during the said year, around Rs. 338 million be incurred in respect of LNG/RLNG activities, however, erroneously the





same has been projected at Rs. 93 million under the above head. The Authority further notes that actual expenditure during FY 2016-17 has remained at Rs. 386 million.

9.3.35. *The Authority, while considering the advancement in RLNG activities in FY 2016-17 and anticipated development during the said year, decides to provisionally allow Rs. 338 million during the said year, and decides to charge it to RLNG consumers as per the ECC decision.*

**xi. Others**

9.3.36. The petitioner has projected "Others" at Rs. 208 million for the said year as against Rs. 103 million in reported in actual of FY 2016-17, showing an increase of 101%, as shown below:

**Table 38: Comparison of Projected Other Expenses with the Previous Years**

Particulars	Rs. in Million					
	FY 2015-16	DERR	Actual	FY 2017-18	Inc./(Dec.) over Actuals FY 2016-17	
	FRR	FY 2016-17		The Petition	Rs.	%
Communications	6	54	19	49	30	161
Subscriptions	13	14	16	35	19	115
Other miscellaneous	104	82	68	124	56	81
<b>Total</b>	<b>123</b>	<b>150</b>	<b>103</b>	<b>208</b>	<b>105</b>	<b>101</b>

9.3.37. The petitioner has explained that in FY 2016-17, the Authority had disallowed Rs. 41 million, out of total claim of Rs. 191 million. The petitioner has further argued that 115% increase projected on account of sub-head of "subscription" is due to contribution paid on behalf of company employees to professional bodies and club membership for senior management, according to its service rules.

9.3.38. Also, increase under the sub-heads of "GCI-distribution/HO Canteens/Pantries", "Entertainment Expenses", "Directors fee", "Board AGM Meeting", "water tanker/Mineral water", "Company Functions and Festivals" and "Books publication" has been projected by it.

9.3.39. *The Authority notes that in FY 2015-16 and FY 2016-17, the petitioner has reported 6% and 16% decrease over respective previous years, which is really commendable. The Authority, keeping in view the actual spending, decides to provisionally fix it at the level of FRR for FY 2015-16 i.e. Rs. 123 million for the said year.*



**xii. Rent, Rates and Taxes**

9.3.40. The petitioner has projected rent, rates and taxes at Rs. 223 million for the said year as against Rs. 161 million reported in actual of FY 2016-17, showing gigantic increase of 38%, as shown below:

**Table 39: Comparison of Projected Rent, Rates and Taxes with the Previous Years**

Particulars	Rs. in Million					
	FY 2015-16	DERR	Actual	FY 2017-18	Inc./(Dec.) over Actuals FY 2016-17	
	FRR	FY 2016-17		The Petition	Rs.	%
Rent	109	129	131	145	14	11
Royalty	1	5	0.96	4	3	100
Others	53	65	29	74	45	156
<b>Total</b>	<b>164</b>	<b>199</b>	<b>161</b>	<b>223</b>	<b>61</b>	<b>38</b>

9.3.41. The petitioner has submitted that increase in rent, rates and taxes are mainly on account of way leave rental due to National Highway Authority payments as well as utility charges for municipal services. The petitioner has further explained that increase in projected amount is due to additional increase in rent on account of expected revision of rental agreements.

9.3.42. The Authority observes that petitioner has projected 158% increase over "others" without providing any concrete justification. Actual expenses during FY 2016-17 have also remained at Rs. 29 million. The Authority, in view of the justification provided by the petitioner as well as the actual spending under the sub-head of others has decided to provisionally determine it at Rs. 53 million for the said year. *Accordingly, rent, rates and taxes have been provisionally determined at Rs. 202 million for said year.*

**xiii. Electricity**

9.3.43. The petitioner has projected electricity at Rs. 227 million for the said year as against Rs. 187 million, projected an increase of 20% over actual of FY 2016-17. The historical trend is as under;

**Table 40: Comparison of Projected Electricity with the Previous Years**

Particulars	Rs. in Million					
	FY 2015-16	DERR	Actual	FY 2017-18	Inc./(Dec.) over Actuals FY 2016-17	
	FRR	FY 2016-17		The Petition	Rs.	%
Electricity	193	232	189	227	38	20
<b>Total</b>	<b>193</b>	<b>232</b>	<b>189</b>	<b>227</b>	<b>38</b>	<b>20</b>

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9.3.44. The petitioner has submitted that increase in electricity is envisaged owing to enhanced activities along-with anticipated high tariff during the said year.

9.3.45. The Authority observes that the petitioner has not able to provide any concrete justification in support of its claim. Electricity tariff owing to stable international oil prices and US\$ exchange rate has witnessed a stable trend from last 4 years. It is further expected that similar trend shall prevail during the said year.

9.3.46. *The Authority, in view of the insufficient justification provided by the petitioner and historical trend of electricity, decides to allow 10% increase over actual of FY 2016-17 and provisionally fixes it at Rs. 208 million for the said year.*

*xiv. Material Used on Consumers' Installation*

9.3.47. The petitioner has projected Rs. 41 million on account of material used on consumers' installation for the said year, thereby projecting an increase of 19% over actual of FY 2016-17. The historical analysis is as under;

**Table 41: Comparison of Projected Material Used on Consumers' Installation with the Previous Years**

Particulars	Rs. in Million					
	FY 2015-16	DERR	Actual	FY 2017-18	Inc./(Dec.) over Actuals FY 2016-17	
	FRR	FY 2016-17		The Petition	Rs.	%
Material Used on Consumers Installation	37	44	34	41	7	19
Total	37	44	34	41	7	19

9.3.48. The petitioner has explained that increase is projected during the said year on account of number of projects to be completed during the said year. *In view of the same, the Authority provisionally accepts material used on consumers' installation at Rs. 41 million for the said year.*

*xv. Gas Internally Consumed (GIC)*

9.3.49. The petitioner has projected GIC-metered of 1,243 MMCF as against 955 MMCF per FRR FY 2015-16. The petitioner has projected 1,042 MMCF for compression of 93,229 MMCF gas for the said year, while claiming volume of gas handled per unit of GIC at 89 MMCF.



9.3.50. The Authority notes that as per historical trend of the past two years the petitioner has been handling 102 MMCF of gas by consuming one MMCF as GIC. Moreover, volume of gas handled/compressed during the said year has been projected to be 93,229 MMCF as against 80,066 MMCF during the FY 2015-16. In this regard, the Authority notes that the projections of gas purchases and gas sales during the said year show declining trends as compared to FY 2015-16 whereas the company has projected the volume of gas handled during the said year to be higher than the FY 2015-16, which is not correct.

9.3.51. *In view of the above and the historical trend, the Authority by taking 80,066 MMCF volumes to be handled during the said year, allows a volume of 936 MMCF GIC-metered for the said year subject to actualization at FRR. Accordingly, GIC is provisionally determined at Rs. 298 million for the said year.*

*xvi. Remaining Items of Transmission and Distribution Cost*

9.3.52. The items of transmission and distribution costs, except those dealt with in sub-para ii to xv of para 9.3 above, are projected by the petitioner at Rs. 903 million for the said year, as against Rs. 837 million reported in FY 2016-17, showing an increase of 8%, as given below:

**Table 42: Comparison of Remaining Item of Projected T&D Expense with Previous Years**

Particulars	Rs. in Million					
	FRR	DERR	Actual	The Petition	Inc./(Dec.) over Actuals FY 2016-17	
	FY 2015-16	FY 2016-17		FY 2017-18	Rs.	%
Advertisement	103	125	108	115	7	7
Security expenses	470	561	554	582	28	5
License & Tariff Petition Fee to OGRA	99	167	57	58	1	2
Collecting agent commission	3	3	0.364	3	3	724
SSGCL Share in ISGSL expenses	105	-	-	-	-	-
Insurance	119	140	119	146	27	23
<b>Sub-total Cost</b>	<b>899</b>	<b>996</b>	<b>837</b>	<b>903</b>	<b>66</b>	<b>8</b>

9.3.53. *The Authority observes that the remaining items of T&D expense have been reasonably projected by the petitioner and therefore, provisionally accepts the same at Rs. 903 million for the said year.*



**xvii. Transmission and Distribution Cost Determined by the Authority**

9.3.54. In view of the examination in sub-para ii to xvi of para 9.3 above, the Authority provisionally determines operating cost for the said year at Rs. 16,156 million as against Rs. 17,439 million claimed by the petitioner, as follows:

**Table 43: Summary of T&D Cost Determined by the Authority**

Particulars	Rs. In Million	
	The Petition	Determined by the Authority
Salaries, wages, and benefits at benchmark	13,840	13,509
Stores, spares and supplies consumed	998	659
Postage & revenue stamps	121	94
Rent, rate & taxes	223	202
Legal charges	105	91
Traveling	141	119
Repairs & maintenance	2,050	1,510
Meter reading by contractors	85	77
Electricity	227	208
Material used on consumers installations	41	41
Gas bills stubs processing charges	24	24
Gas bills collection charges	194	173
Professional charges	80	46
Revenue expenditure relating to LNG	93	338
Others	208	123
Remaining T&D items	903	903
<b>Sub-total Cost</b>	<b>19,333</b>	<b>18,117</b>
Less: Recoveries / Allocations	2,260	2,260
<b>Net T&amp;D Cost before GIC</b>	<b>17,073</b>	<b>15,857</b>
Add: Gas consumed internally	366	298
<b>Net Transmission &amp; Distribution Cost</b>	<b>17,439</b>	<b>16,156</b>

**9.4. Other Charges**

**i. Provision for Doubtful Debts**

9.4.1. The petitioner has projected Rs. 1,833 million on account of provision for doubtful debts. Historical trend is as under;



**Table 44: Comparison of Provision for Doubtful Debts with Previous Years**

Particulars	Rs. in Million					
	FY 2015-16	DERR	Actual	FY 2017-18	Inc./Dec. over Actuals FY 2016-17	
	FRR	FY 2016-17		The Petition	Rs.	%
Provision for doubtful debts	851	547	1,081	1,833	752	70
Total	851	547	1,081	1,833	752	70

9.4.2. The petitioner has claimed Rs. 1,833 million under this head being provisioning based on disconnected consumers. The petitioner has further explained that the treatment is in line with the directions of the Authority provided in its decision for DERR FY 2016-17.

9.4.3. *The Authority notes that the provision for doubtful debts, based on benchmark implemented by it, in previous years is computed at Rs. 626 million. The same is provisionally allowed for the said year and shall be reviewed based on existing benchmark introduced by the Authority at the time of FRR for the said year. The Authority reiterates its directions to actively follow the GoP's directives in respect of effective recovery mechanism in natural gas sector.*

**ii. Other Charges including Workers Profit Participation Fund (W.P.P.F)**

9.4.4. The petitioner has claimed Rs. 54 million on account of W.P.P.F including other charges for the said year. The Authority accepts the same for the said year. Any adjustment on this account shall be made at the time of FRR for the said year.

**10. Summary of Discussion & Decision**

10.1. In view of the justifications submitted and arguments advanced by the petitioner in support of its petition, points raised by the interveners, comments offered by the participants, scrutiny by the Authority and detailed reasons recorded by the Authority in earlier sections, the Authority recapitulates and decides to

10.1.1. accepts opening balance of deferred credit at Rs. 4,533 million;

10.1.2. determine estimated addition in fixed assets at Rs. 10,327 million, and depreciation charge at Rs. 6,820 million;





- 10.1.3. determine balance of average net operating fixed assets Rs. 67,401 million as against Rs. 83,809 million claimed by the petitioner for the said year. Consequently, the return required by the petitioner on its average net operating fixed assets is determined at Rs. 11,458 million;
- 10.1.4. determine income at Rs. 131,329 million as against Rs. 126,767 million offered by the petitioner;
- 10.1.5. determine cost of gas at Rs. 140,824 million as against Rs. 130,140 million offered by the petitioner;
- 10.1.6. determine UFG adjustment at Rs. 9,722 million;
- 10.1.7. determine T&D expenses at Rs. 15,857 million as against Rs. 17,073 million claimed by the petitioner;
- 10.1.8. determine cost of GIC at Rs. 298 million as against Rs. 366 million claimed by the petitioner;
- 10.1.9. determines other charges including W.P.P.F. to Rs. 725 million as against Rs. 1,932 million claimed by the petitioner; and
- 10.1.10. determines subsidy pertaining to air-mix LPG at Rs. 522 million for the said year as against Rs. 624 million claimed by the petitioner,
- 10.2. In exercise of its powers under the Ordinance and NGT Rules, the estimated revenue requirement for the said year is determined at Rs. 166,783 million (as tabulated below):

**Table 45: Components of ERR for the Said Year as Determined by the Authority**

S.No	Particulars	Rs. in million	
		Claimed by the Petitioner	Determined by the Authority
1	Cost of gas sold	130,140	140,824
2	UFG adjustment	(2,575)	(9,722)
3	Transmission and distribution cost	17,073	15,857
4	Gas internally consumed	366	298
5	Depreciation	7,120	6,820
6	Other charges including WPPF	1,932	725
7	Return on net average operating fixed assets	14,248	11,458
8	Additional revenue requirement for Air-Mix LPG Projects	624	522
	<b>Total Final Revenue Requirement</b>	<b>168,929</b>	<b>166,783</b>



- 10.3. The provisionally allowed expenses are subject to adjustments after scrutiny of auditors' initialed accounts of the petitioner for the said year, provided these expenses are substantiated with appropriate justification and analysis in the form acceptable to the Authority.
- 10.4. The petitioner's net operating income is estimated at Rs. 131,329 million, as against the revenue requirement of Rs. 166,783 million and thus there is a shortfall of Rs. 35,454 million in its estimated revenue requirement for the said year. In order to adjust this surplus, the Authority hereby makes downward adjustment of Rs. 96.34 per MMBTU on provisional basis in its average prescribed price for the said year (Annexure-A). Accordingly, category-wise prescribed prices are attached at (Annexure-B).
- 10.5. The prescribed prices for various categories of retail consumers shall be re-adjusted by the Authority upon receipt of sale price advice from FG, within forty (40) days of determination, under Section 8(3) of the Ordinance provided that overall adjustment in average prescribed prices as determined by the Authority remained unchanged, so that the petitioner is able to achieve its total revenue requirement in accordance with Section 8(6)(f) of the Ordinance and License Condition no. 5.2. Section 8(4) of the Ordinance, also provides that in case no sale price advice is received from FG within stipulated time, the prescribed prices under each category of consumers, which are higher than the existing sale price shall be notified by the Authority as sale prices to be charged from the consumer for the said year.
- 10.6. The Authority considers it important and essential to impress upon the petitioner that this provisional determination of estimated revenue requirement for the said year, presupposes that the petitioner would, in any case, faithfully and with responsibility conduct its affairs in full compliance of the requirement of Rule 17(1)(h) & Rule 17(1)(j) of the NGT Rules, 2002, as reproduced below:

**Rule 17(1)(h)**

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



**Rule 17(1)(j)**

*"only such capital expenditure should be included in the rate base as is prudent, cost effective and economically efficient;"*

**11. Directions**

- 11.1. In addition to the directions issued by the Authority in its previous determinations, the petitioner is further directed to:-
- 11.2. address/attend to the problems being faced by its consumers with the objective to resolve the same with the stipulated timelines or otherwise put forward plans/solutions to improve its services upto satisfaction of consumers as per the license conditions / rules.
- 11.3. ensure prudence and ring fencing of all capital and revenue expenditures, including all cost allocations in respect of each Air-mix LPG, CNG or LNG based pipeline distribution projects.
- 11.4. ensure ring fencing of RLNG related capital and revenue cost as a separate segment. Accordingly, submit a report in this regard on quarterly basis.
- 11.5. complete comprehensive manpower need assessment study w.r.t proposed business dynamics relates to gas sector reforms, and submit the same with Authority by December, 2017.
- 11.6. provide a certificate at the time of FRR by its statutory auditors to the effect that HR cost used for comparison with HR benchmark includes all regular, contractual and casual staff / labour.
- 11.7. process cases through its own legal / litigation department so that dependence on external legal firms is minimized.
- 11.8. to curtail ever increasing provision for doubtful debts.
- 11.9. actively follow the GoP's directives in respect of effective recovery mechanism in natural gas sector, while capturing the defaulters.



11.10. economize all avoidable & non-development expenditures in larger public interest.

## 12. Public Critique, Views, Concerns, Suggestions

12.1. The Authority has recorded critique, views, concerns and suggestions of the interveners and participants in para 3 above, which include matters relating to policy issues especially raised under the Constitution of Islamic Republic of Pakistan, gas demand supply situation, natural gas tariff, etc. which falls within the purview of GoP. The Authority considers it important to draw specific attention of GoP to the same for due consideration, while taking decisions about categorization of consumers, tariff structure, subsidies, GDS and sale prices for various categories of consumers.

Dr. Abdullah Malik,  
Member (Oil)

Noorul Haque,  
Member (Finance)

Uzma Adil Khan,  
(Chairperson)

Islamabad, September 20, 2017

REGISTRAR  
Oil & Gas Regulatory Authority  
Islamabad



**ANNEXURE - A**

**A: Computation of Estimated Revenue Requirement for the Said Year**

Particulars		Rs. in Million		
		The Petition	The Adjustment	Determined by the Authority
Gas sales volume -MMCF		371,774		371,774
BBTU		368,017		368,017
"A"	Net Operating Revenues			
	Net sales at current prescribed price	113,500	-	113,500
	Meter rentals	773	-	773
	Amortization of deferred credit	426	-	426
	Sale of LPG	3,009	-	3,009
	Sale of condensate	134	-	134
	Sale of NGL	584	-	584
	Late payment surcharge	2,958	-	2,958
	Meter manufacturing profit	209	-	209
	RLNG Transportation Income	4,643	4,276	8,920
	Other operating income	532	286	817
	<b>Total Operating Revenue "A"</b>	<b>126,767</b>	<b>4,562</b>	<b>131,329</b>
"B"	Less: Operating Expenses			
	Cost of gas	130,140	10,684	140,824
	UFG Adjustment	(2,575)	(7,148)	(9,722)
	Transmission and distribution cost	17,073	(1,216)	15,857
	Gas internally consumed	366	(68)	298
	Depreciation	7,120	(301)	6,820
	Other charges	1,878	(1,207)	671
	WPPF	54	-	54
	<b>Total Operating Expenses "B"</b>	<b>154,058</b>	<b>745</b>	<b>154,803</b>
"C"	Operating profit (A-B)	(27,292)	3,817	(23,474)
<b>Return required on net operating fixed assets:</b>				
Net operating fixed assets at beginning		81,521	(9,424)	72,097
Net operating fixed assets at ending		98,749	(23,810)	74,939
		180,270	(33,234)	147,036
Average net assets (I)		90,135	(16,617)	73,518
Net LPG air mix project asset at beginning		819	(213)	606
Net LPG air mix project asset at ending		758	(204)	553
		1,576	(417)	1,159
Average net assets (II)		788	(209)	580
Net EETL asset at beginning		1,053	-	1,053
Net EETL asset at ending		1,024	-	1,024
		2,077	-	2,077
Average net assets (III)		1,038	-	1,038
Deferred credit at beginning - Assets related to Natural Gas		4,533	-	4,533
Deferred credit at ending - Assets related to Natural Gas Activity		4,466	-	4,466
		8,999	-	8,999
Average net deferred credit (IV)		4,499	-	4,499
"D"	Average (I-II-III-IV)	83,809	(16,408)	67,401
"E"	17% return required	14,248	(2,789)	11,458
"F"	Shortfall / (Surplus) in return required (E-C) (Gas Operation)	41,539	(6,607)	34,932
"G"	Additional revenue requirement for Air-Mix LPG Projects	624	(102)	522
Total Shortfall / (Surplus) H=(F+G)		42,163	(6,708)	35,454
Increase in average prescribed price effective (Rs. / MMBTU) w.e.f July 01, 2017		114.57	(18.23)	96.34
Estimated revenue requirement (B+E+G)		168,929	(2,146)	166,783
Average Prescribed Price (Rs. per MMBTU)		422.98	(18.23)	404.75

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**ANNEXURE - B**

**B: Provisional Prescribed Prices for the Said Year**

Sr. No.	Particulars	Average Prescribed Prices for FY 2017-18	Category-wise Prescribed Price w.e.f July 01, 2017	Category-wise Prescribed Price w.e.f September 21, 2017
		Rupees per MMBTU		
(i)	<b><u>Domestic Consumers:</u></b>			
	First slab (upto 100 cubic metres per month).	404.75	74.03	105.15
	Second slab (Upto 300 cubic metres per month).	404.75	148.06	210.31
	Third slab (over 300 cubic metres per month).	404.75	370.14	525.76
(ii)	<b><u>Special Commercial Consumers (Roti Tandoors)</u></b>			
	First slab (upto 100 cubic metres per month).	404.75	74.03	105.15
	Second slab (Upto 300 cubic metres per month).	404.75	148.06	210.31
	Third slab (over 300 cubic metres per month).	404.75	444.17	630.91
(iii)	<b><u>Commercial :</u></b>			
	All off-takes at flat rate of	404.75	444.17	630.91
(iv)	<b><u>Ice Factories:</u></b>			
	All off-takes at flat rate of	404.75	444.17	630.91
(v)	<b><u>Industrial:</u></b>			
	All off-takes at flat rate of	404.75	340.52	483.69
(vi)	<b><u>Captive Power :</u></b>			
	All off-takes at flat rate of	404.75	399.85	567.96
(vii)	<b><u>CNG Stations:</u></b>			
	All off-takes at flat rate of	404.75	457.91	650.43
(viii)	<b><u>Cement Factories:</u></b>			
	All off-takes at flat rate of	404.75	518.20	736.07
(ix)	<b><u>Pakistan Steel</u></b>			
	All off-takes at flat rate of	404.75	340.52	483.69
(x)	<b><u>Fauji Fertilizer Bin Qasim Limited</u></b>			
	(i) For gas used as feed-stock for Fertilizer	404.75	123.41	123.41
	(ii) For gas used as fuel for generating steam and electricity and for usage in housing colonies for fertilizer factories	404.75	340.52	483.69
(xi)	<b><u>Power Stations</u></b>			
	All off-takes at flat rate of	404.75	340.52	483.69
(xii)	<b><u>Independent Power Producers</u></b>			
	All off-takes at flat rate of	404.75	340.52	483.69





**ANNEXURE - C**

**C: Computation of Human Resource Cost Benchmark for the Said Year**

		<b>Rs. In Million</b>	
	<b>Particulars</b>	<b>FY 2016-17</b>	<b>FY 2017-18</b>
		<b>MFR DERR</b>	
	<b>HR benchmark Cost Parameters</b>		
	Base Cost	11,346	12,313
	CPI factor	5.00%	5.00%
	T & D network (Km)	51,511	50,419
	Number of Consumers (No.)	2,914,330	2,992,476
	Sales Volume (MMCF)	537,289	590,774
	<b>Unit Rate (Rs./unit)</b>		
	T&D network (Rs./Km)	234,547	239,030
	No. of Consumers (Rs./Consumer)	4,091	4,225
	Sale Volume (Rs./MMCF)	23,432	22,916
	<b>HR Cost Build-up (Million Rs)</b>		
50%	Cost CPI	284	308
25%	T & D network (Km)	3,020	3,013
65%	Number of Consumers (No.)	7,750	8,218
10%	Sales Volume (MMCF)	1,259	1,354
	<b>HR Benchmark Cost</b>	<b>12,313</b>	<b>12,892</b>
	IAS Cost		617
	<b>Total HR Cost</b>		<b>13,509</b>



**ANNEXURE - D**

**D: Computation of Weighted Average Cost of Gas (WACOG) for the Said Year**

	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/SherAli/Jatoi	-	-	-	-	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
Pakiro / Noorai Jagir	-	-	-	-	730	809	241.75	196	730	809	241.75	196
Zargoan	-	-	-	-	5,840	5,537	353.91	1,960	5,840	5,537	353.91	1,960
Bobli	-	-	-	-	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 / Sujal	-	-	-	-	8,395	8,804	313.99	2,764	8,395	8,804	313.99	2,764
Nur Bagh 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
Sinboro	-	-	-	-	10,585	10,700	261.21	2,795	10,585	10,700	261.21	2,795
Ayesha	-	-	-	-	3,614	4,075	311.08	1,268	3,614	4,075	311.08	1,268
Dhodak	10,585	11,216	155.70	1,746	3,614	4,075	311.08	1,268	10,585	11,216	155.70	1,746
Dakhni	4,599	3,925	146.29	574	10,585	11,216	155.70	1,746	10,585	11,216	155.70	1,746
Pirkoah / Loti	365	424	453.95	192	4,599	3,925	146.29	574	4,599	3,925	146.29	574
Sadkal	72,270	63,660	303.06	19,293	365	424	453.95	192	72,270	63,660	303.06	19,293
QADIRPUR (PROCESSED)	16,425	13,876	276.28	3,834	16,425	13,876	276.28	3,834	16,425	13,876	276.28	3,834
QADIRPUR (FOR LIBERTY)	18,250	12,382	272.76	3,377	18,250	12,382	272.76	3,377	18,250	12,382	272.76	3,377
QADIRPUR (PERMEATE)	24,090	26,201	155.70	4,079	24,090	26,201	155.70	4,079	24,090	26,201	155.70	4,079
Adhi	2,409	2,629	413.51	1,087	2,409	2,629	413.51	1,087	2,409	2,629	413.51	1,087
Ratna	402	427	218.73	93	402	427	218.73	93	402	427	218.73	93
Bhanganli	438	462	136.88	63	438	462	136.88	63	438	462	136.88	63
Bela / Meyal / Dornal Dhulian	767	865	136.88	118	767	865	136.88	118	767	865	136.88	118
Bela	730	780	136.88	107	767	865	136.88	118	730	780	136.88	107
Dhulian	37	41	337.09	14	37	41	337.09	14	37	41	337.09	14
Pindori	949	1,012	337.09	341	949	1,012	337.09	341	949	1,012	337.09	341
Parival	986	1,114	285.80	318	986	1,114	285.80	318	986	1,114	285.80	318
Chanda	4,636	2,676	247.37	662	4,636	2,676	247.37	662	4,636	2,676	247.37	662
Badar	23,725	25,262	476.76	12,044	23,725	25,262	476.76	12,044	23,725	25,262	476.76	12,044
GURGURI / MAKORI	16,425	17,224	285.80	4,923	16,425	17,224	285.80	4,923	16,425	17,224	285.80	4,923
Menzalai / Mamkhal / Maramzai	4,782	4,460	296.58	1,323	4,782	4,460	296.58	1,323	4,782	4,460	296.58	1,323
Radho / Salsabil	365	289	218.67	63	365	289	218.67	63	365	289	218.67	63
CHACHAR	511	511	285.80	146	511	511	285.80	146	511	511	285.80	146
TAJJAL	2,847	3,308	278.40	921	2,847	3,308	278.40	921	2,847	3,308	278.40	921
MELA	40,880	47,753	278.40	13,294	40,880	47,753	278.40	13,294	40,880	47,753	278.40	13,294
NASHPA	42,340	43,479	285.80	12,426	42,340	43,479	285.80	12,426	42,340	43,479	285.80	12,426
MARAN ZAI	365	316	271.76	86	365	316	271.76	86	365	316	271.76	86
KOONJ	2,555	2,698	285.80	771	2,555	2,698	285.80	771	2,555	2,698	285.80	771
MAMI KHEL	37,595	27,249	86.31	2,352	37,595	27,249	86.31	2,352	37,595	27,249	86.31	2,352
MARI - ENGRO	33,945	35,303	476.76	16,831	33,945	35,303	476.76	16,831	33,945	35,303	476.76	16,831
MARDANKHEL	-	-	10.00	4,919	-	-	10.00	4,323	-	-	10.00	9,242
Excise duty	-	-	-	-	-	-	-	-	-	-	-	-
Weighted average	517,315	491,863	295.15	145,174	436,062	433,930	359.31	155,915	953,376	925,793	325.22	301,089

*[Handwritten signatures and initials]*



**ANNEXURE - E**

**E: List of Abbreviations**

APCNGA	All Pakistan CNG Association
APTMA	All Pakistan Textile Mills Association
BAQTI	Bin Qasim Association of Trade and Industry
BBTU	Billion British Thermal Unit
BCFD	Billion Cubic Feet Daily
BOD	Board of Directors
C&F	Cost and Freight
CC	Cement Concrete
CEO	Chief Executive Officer
CNG	Compressed Natural Gas
CP System	Cathodic Protection System,
CP	Constitutional Petition
CC&B	Customer Care and Billing
CMS	Customer Meter Station
DERR	Determination of Estimated Revenue Requirement
EVC	Electronic Volume Corrector
ECC	Economic Coordination Committee
FG	Federal Government
FRR	Final Revenue Requirement
GIC	Gas Internally Consumed
GDS	Gas Development Surcharge
GOP	Government of Pakistan
GIDC	Gas Infrastructure Development Cess
GPA	Gas Pricing Agreement
HCPC	Habibullah Coastal Power Company
HSFO	High Sulphur Furnace Oil
HQ	Head Quarter
IAS	International Accounting Standard
ISGSL	Inter State Gas System Limited
JJVL	Jamshoro Joint Venture Limited
KPMG	Klynveld Peat Marwick Goerdeler
KMI	Key Monitoring Indicators
KPD	Kunner Pasakhi Deep
LPG	Liquified Petroleum Gas
LPS	Late Payment Surcharge
LNG	Liquified Natural Gas
MGFIP	Mehar Gas Field Integration Project
MMBTU	Million Metric British Thermal Unit
MMCFD	Million Standard Cubic Feet per Day.
MMP	Meter Manufacturing Profit
MP&NR	Ministry of Petroleum and Natural Resource
NGRA	Natural Gas Regulatory Authority



NHA	National Highway Authority
OGRA	Oil and Gas Regulatory Authority
PRS	Pressure Regulating Station
POD	Point of Delivery
POGC	Polish Oil and Gas Company
PCFA	Pakistan Cotton Fashion Apparel
QPL	Quetta Pipe Line
RLNG	Re-Gasified Liquefied Natural Gas
RS	Regulating Station
ROW	Right of Way
SITE	Sindh Industrial Trading Estate
SMS	Sale Meter Station
SNGPL	Sui Northern Gas Pipeline Limited
SSGCL	Sui Southern Gas Company Limited
SCADA	Supervisory Control And Data Acquisition
TBS	Town Border Station
T&D Cost	Transmission and Distribution Cost
TRS	Town Regulating Station
UFG	Un-accounted for Gas
WACOG	Weighted Average Cost of Gas
WPPF	Workers Profit Participation Fund
ZEL	Zishan Engineering Pvt. Limited

  
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