Case No. OGRA-6(2)-2(4)/2017-DERR

IN THE MATTER OF

SUI SOUTHERN GAS COMPANY LIMITED
ESTIMATED REVENUE REQUIREMENT, FY 2018-19

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

June 21, 2018

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

ANNEXURE

TABLES

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, Liquefied Petroleum Gas (LPG), gas condensate, Natural Gas Liquids (NGL), Air-Mix LPG 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 February 28, 2018, 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 (DERR) for FY 2018-19 (the said year) at Rs. 208,406 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. 39,030 million, including Rs. 1,750 million (Rs. 4.89 per MMBTU) on account of Air-mix LPG Projects, thereby requesting an increase of Rs. 109.03/MMBTU w.e.f July 01, 2018. The petitioner has informed that the said increase excludes Rs. 23.62/MMBTU relating to RLNG, which shall be charged to RLNG consumers in the light of FG's decision.

1.3. The petitioner has again submitted its amended petition (the petition) on April 17, 2018, requesting to consider the amended petition and approve a revised shortfall of Rs. 39,165 million, seeking average increase in prescribed price of Rs. 109.40 per MMBTU over and above the current average prescribed price w.e.f July 01, 2018.

1.4. The petitioner has submitted the following statement of cost of service:

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

		Rs. / MMBTU
Particulars	**FY 2017-18**	**FY 2018-19**
	DERR	**The Petition**
Units sold (BBTU)	**368,017**	**357,981**
Cost of gas sold	382.66	460.33
UFG adjustment	(26.42)	(3.46)
Transmission and distribution cost including Others	45.87	65.22
Depreciation	18.53	19.64
Return on net average operating fixed assets	31.13	35.80
Other operating income	(48.44)	(50.82)
Subsidy for LPG Air-Mix Project	1.42	4.89
Cost of service / prescribed price	404.75	531.61
Current average prescribed price	404.75	422.20
Increase requested in average prescribed price	-	**109.40**

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

1.6. 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 news papers on April 10, 2018.

1.7. The Authority received four (4) applications to intervene in the proceedings from the following persons / entities:

- i) Karachi Chamber of Commerce & Industry, Karachi
- ii) Landhi Association of Trade & Industry, Karachi
- iii) All Pakistan Textiles Mills Association, Karachi
- iv) Shah Paper Board, Karachi

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

1.9. A notice intimating the date, time and place of public hearing, was published in two daily combined newspapers and one local Urdu Newspaper on April 25, 2018.

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. 26,192 million in fixed assets, and net addition, ex-depreciation and deletion, of Rs. 7,820 million, resulting in claimed increase in net operating fixed assets from Rs. 74,938 million for FY 2017-18 to Rs. 93,310 million during the said year. The petitioner has further claimed that, after adjustment of deferred credits, and assets related to LPG Air-Mix project and Engro Energy Terminal Pvt. Ltd. (EETPL) related assets, net average operating fixed assets eligible for return work out to Rs. 75,396 million and required return to Rs. 12,817 million.

2.4 The petitioner has projected net operating revenues at Rs. 169,333 million, as detailed below (and compared with previous years):

Table 2: Comparison of Projected Operating Revenues with Previous Years

				Rs. in million	
Particulars	FY 2016-17	FY 2017-18	FY 2018-19	Inc./(Dec.) over DERR for FY 2017-18	
	FRR	DERR	The Petition	Rs.	%
Net sales at current prescribed price	135,859	148,954	151,141	2,187	1
Amortization of deferred credits	401	426	432	6	1
Meter rentals	735	773	792	19	2
Late Payment Surcharge	3,187	2,958	3,353	395	13
RLNG transportation Income	4,146	8,920	10,505	1,585	18
Sale of LPG	2,533	3,009	2,133	(876)	(29)
Sale of NGL	423	584	355	(229)	(39)
Other income	1,142	816	557	(259)	(32)
Sale of Gas condensate	53	134	40	(94)	(70)
Meter Manufacturing Profit	(2)	209	26	(182)	(87)
Net Operating Revenue	**148,476**	**166,782**	**169,333**	**2,552**	**2**

2.5 The petitioner has projected net operating expenses at Rs. 193,931 million, as detailed below (and compared with previous years):

Table 3:Comparison of Projected Operating Expenses with Previous Years

Rs. in million

Description	FY 2016-17	FY 2017-18	FY 2018-19	Inc / (Dec) over DERR for FY 2017-18	
	FRR	DERR	The Petition	Rs.	%
Cost of gas	143,834	140,824	164,790	23,966	17
Depreciation	5,831	6,820	7,032	212	3
Transmission and distribution costs	14,656	15,857	19,153	3,296	21
Other charges including WPPF	2,171	725	3,916	3,191	440
UFG adjustment	(12,979)	(9,722)	(1,238)	8,484	(87)
Shortfall / SHC Order of previous years	(18,359)	-	-	-	-
Gas Internally Consumed	208	298	278	(20)	(7)
Net Operating Expenses	**135,362**	**154,803**	**193,931**	**39,128**	**25**

2.6 The petitioner has projected Weighted Average Cost of Gas (WACOG) for the said year at Rs. 389.58/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 UFG at 6.68%. The petitioner, in the light of recommendation of M/s KPMG study, requested to allow UFG adjustment at Rs. 1,238 million (i.e. 6.30%) for the said year.

2.8 The petitioner has claimed subsidy amounting to Rs. 1,750 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. 39,165 million, requiring increase of Rs. 109.40 per MMBTU in the existing average prescribed price, as detailed below:

Table 4: Computation of Requested Average Increase in Prescribed Price

		Rs. In million
	Particulars	**FY 2018-19**
		The Petition
A	**Net Operating Revenues**	169,333
	less: Net operating expenses excluding ROA	193,931
	Subsidy Air Mix LPG Project	1,750
B	**Total Expenses**	195,681
C	**Shortfall** **{(B) - (A)}**	26,348
D	Return required @ 17% on net fixed assets in operation	12,817
E	**Total shortfall in revenue requirement {(D) + (C)}**	39,165
F	Sale volume (BBTU)	357,981
G	**Increase requested in existing average prescribed price Rs./MMBTU**	**109.40**

3. Proceedings

3.1 Public hearings were held on May 14, 2018 and May 16, 2018 at Karachi and Quetta respectively. The following interveners / participants attended the public hearings held in Karachi & Quetta:

Petitioner:

i. In Karachi, team was led by Mr. Amin Rajpoot, Acting Managing Director.

ii. Mr. Mirza Mehmood Ahmad, Director/Legal Counsel.

iii. In Quetta, team was led by Syed Fashi-ud-Din Fawad, Chief Financial Officer.

Interveners/ Participants at Karachi:

i. Mr. M. H. Asif, Consultant, All Pakistan Textile Mills Association (APTMA).

ii. Mr. Abdul Sami Khan, Chairman, CNG Dealers Association of Pakistan.

iii. Mr. Malik Khuda Baksh, Chairman, CNG Stations Owners Association of Pakistan.

iv. Mr. Muhammad Arif Bilwani, Consumer.

v. Dr. Qazi Ahmed Kamal, Karachi Chamber of Commerce & Industry.

vi. Mr. Ahmad Azeem Alvi, Chairman Public Sector KCCI.

vii. Mr. Imran Maqbool, APTMA.

viii. Mr. Asif Khan, APTMA.

ix. Dr. S. Agha Ibne Hasan, SITE Association of Industry.

x. Mr. Ehtesham Uddin, Chairman Standing Committee, KATI.

xi. Mr. Salim Paracha, SITE Association.

xii. Mr. Shahnawaz Siddiqui, SITE Association.

xiii. Mr. Muhammad Irfan, Federal Bureau Association of Trade & Industry.

xiv. Mr. Muhammad Babar Khan, Federal "B" Area Industrial Association.

xv. Mr. Muhammad Abdullah Abid, Ex-Officio Federal "B" Area Industrial Association.

xvi. Mr. Rana Naveed Shekoor, Sr. Vice President, Bin Qasim ATI.

xvii. Mr. Sajjad Vazir, NKATI.

xviii. Mr. Shaikh Ismail, NKATI

xix. Mr. Javed Akbar, Javed Akbar Associates.

xx. Mr. Ahsan Arshad, Dy. Head of Research, Taurus Securities Ltd.

xxi. Mr. Wajid Ali, Manager Coordination.

xxii. Mr. Usman Ali, Consumer.

xxiii. Mr. Khawaja Shah Noorullah, Gas Trade Consultant.

xxiv. Mr. Sikandar Imran, Director, M.M. Silk.

xxv. Mr. Anwer Aziz, Director, Iqbal Silk Mills Ltd.

xxvi. Syed Arif Kaleem, AFC Beach Luxury Hotel.

xxvii. Mr. Rahim Qurban Ali, Avari Hotels Ltd.

xxviii. Mr. Ghulam Mujtaba, Syntech Fibers Pvt. Ltd.

xxix. Mr. Dawood A. Ghafoor, Retired Officer.

Interveners/ Participants at Quetta:

xxx. Mr. A. Zahir Kakar, Advocate.

xxxi. Mr. Aziz Ullah, Member District Council.

xxxii. Mr. Arbab Nadir, Counselor.

xxxiii. Mr. Rahim Agha, President, Anjuman Tajiran Baluchistan.

xxxiv. Mr. H. Ashan Tarin, Vice President, Anjuman Tajiran Baluchistan.

xxxv. Mr. Qadir Neyal, Counselor Hazara Tribe.

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 Legal counsel of the petitioner reiterated its stance in respect of protecting the interest of petitioner while referring section 6(2) (f), (o) and (q) of the Ordinance.

3.2.2 It was emphasized that the Authority is mandated to determine tariff in accordance with the applicable law as stipulated under Section 7 of the Ordinance. Legal counsel has also emphasized that policy guideline of the Federal Cabinet is binding on OGRA, if the same is issued in writing, by the competent authority i.e. Federal Cabinet and not inconsistent with the Ordinance. Legal counsel has also reiterated its stance in respect of ensuring guaranteed return as per its license condition.

3.2.3 Legal counsel has again requested finalization of provisional determination in respect of UFG benchmark. Moreover, it was requested that UFG benchmark be allowed to petitioner at 7.6% while allowing beta factor as 1. RLNG sales related matters were also contested, thereby requesting the Authority to take a dynamic approach to the issue faced by petitioner, as a consequence of this non venture.

3.2.4 The petitioner also contested the treatment of income viz, income from MMP, LPS and income from sale of condensate, LPG and NGL as non-operating.

3.3 The interveners at the outset highlighted that policy related issues and regulation work together to form a framework. Accordingly, their contention, besides regulatory matters, also pertains to policy issues which may be transmitted to the quarters concerned since there is no other forum of communication for the same. Accordingly, the substantive points made by the interveners during the hearing as well as in writing are summarized below;

3.3.1 Textile is one of the largest gas consumer groups with record of largest foreign exchange earnings for the country. Over the years, the cost has been climbing up quite sharply owing to the fact that energy cost is our prime input cost after raw material. Consequently, higher cost will reduce textile sector exports. It was demanded that no increase in natural gas tariff be allowed as international competitiveness of textiles be further affected.

3.3.2 OGRA was requested to act in an independent manner while protecting the natural gas consumers from oligopolistic and monopolistic activities.

3.3.3 It was highlighted that OGRA is independent in decision making on all regulatory matters and its legal obligation is to give primary importance to consumer's interest. In this regard, judgment by the Hon'ble Supreme Court dated 12-12-2012 was also referred.

3.3.4 It was highlighted that GoP has conflict of interest with company, being the majority shareholder, enjoying full control of the petitioner company, and therefore, affects company's decision/functions. Similarly, any policy guideline from FG inconsistent with the Ordinance is not binding on OGRA. It was urged that the Authority should perform its statutory functions in legal & fair manner, and must protect the interest of ordinary consumers, instead of following FG's policies that are inconsistent.

3.3.5 It was highlighted that petition is not maintainable as power of attorney of Mr. Khalid Rahman Ex-MD of SSGC has been attached with the instant petition.

3.3.6 It was demanded that only written off bad debts by the company's Board of Directors (BoD) be allowed as part of revenue requirement of the company.

3.3.7 It was demanded that only reasonable provision for doubtful debts be allowed and petitioner may be asked to provide detailed justification for failure to recover overdue, efficacy of recovery efforts, variation analysis etc.

3.3.8 It was suggested that petitioner may include category-wise "Analysis of Debts to Sales" with historical comparison in their printed accounts/reports.

3.3.9 Petition is not showing field-wise volume of gas thereby concealing the facts with OGRA and general public.

3.3.10 OGRA was requested to ensure financial impact of RLNG related direct or indirect cost be charged to specific RLNG consumers.

3.3.11 Enormous amounts projected under asset base doubts the financial and technical capacity of the petitioner.

3.3.12 It was highlighted that industries have been facing low pressures even during summers. It was urged that the petitioner may be advised to resolve the issue on urgent basis.

3.3.13 It was urged that OGRA enforce the "technical standards" and "performance standards" for improved performance of the company.

3.3.14 It was highlighted that the company's meters are sub-standard. All meters have broken seal and are being tempered deliberately and unlawfully.

3.3.15 New gas connections in Parliamentarians constituencies and far flung areas were criticized.

3.3.16 The billing system needs overhaul as it is flawed. Almost 25% of consumers are receiving inflated and provisional bills for volumes they have not consumed.

3.3.17 It was highlighted that the petitioner is imposing illegal fines to thousands of customers.

3.3.18 Cross subsidy to fertilizer sector should be abolished, and subsidy through budgetary allocation be provided by the FG.

3.3.19 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.

3.3.20 The petitioner's plea for computing UFG adjustment at 7% based on Consultant's soft and unfair formula was criticized.

3.3.21 It was highlighted that internationally UFG is less than 1% covering essentially, uncontrollable technical gas loss arising from measurement.

3.3.22 The petitioner's plan for UFG control program/strategy lacks the essential elements for controlling gas losses.

3.3.23 It was demanded that no separate credit be given to the petitioner on account of performance factor in new UFG formula.

3.3.24 It was pointed out that in last year UFG has touched 15%, which translates into annual loss to the nation in terms of substitution cost in US$ besides indirect cost of significant environmental degradation.

3.3.25 It was urged that the Authority should fixed the UFG at 4.5% with no further concessions, and over & above should hit the shareholders not the consumers.

3.3.26 It has been noted that the system is exposed to more leaking points and increased UFG with addition in gas connections. Cost of high UFG owing to new connections be borne by petitioner, and not the existing consumers.

3.3.27 The petitioner's plea for computing UFG adjustment based on Consultant's formula was criticized.

3.3.28 Consumers of Karachi Industry should not be burdened for the gas losses of other areas.

3.3.29 UFG is so called drama by the petitioner with OGRA and general public. Main cause of UFG is the mismanagement of the company. Company's affairs are being run in non-prudent manner.

3.3.30 It was quoted that Planning Commission has even pointed out that because of UFG national exchequer suffers a colossal loss of Rs. 350 billion. The gas losses result in use of expensive alternate imported fuel such as furnace oil, which causes loss of 3% to GDP. This is 5 times greater than the combined losses of the WAPDA system.

3.3.31 The tariff rates for Baluchistan is needed to be revised.

3.3.32 Pakistan buys crude oil from Middle Eastern sources at a reduced price and on credit but quotes the New York and London prices for gas calculations, which is irrational.

3.3.33 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.

3.3.34 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.

3.3.35 It was asserted that gas prices are not linked to oil prices in gas producing countries, since natural gas is only tradable with LNG.

3.3.36 It was emphasized that vast deposit of shale and tight gas reserves are available, however, the same are not yet tapped. Moreover, approximately, 1160 MMCFD of discoveries are also not being commercialized. It was further highlighted that around 241-781 TCF of gas is possible in the avenues of various other technologies other than the conventional means.

3.3.37 It was asserted that the aspects of removal of capping system, linking cost of domestic gas to the international price of crude oil, subsequent payments made in dollars and the effect of depreciation of the rupee on the gas price hike (keeping all factors constant) are the basis of all subsequent issues with the gas pricing. It was demanded to move this issue in the national assembly for the Government to alter this iron clad agreement system.

3.3.38 It was further highlighted that up to 2012, the petitioner is purchasing gas from off shore American companies i.e. ENI, BHV and OMH at 100% higher rates of Pakistani companies viz; OGDCL, PPL, PSO, Mari and etc. OGRA should look into this matter.

3.3.39 The speculative gas pricing system, rupee dollar parity, the illogical and unjustified linkage of indigenous gas with international oil pricing and consequential impacts on windfall profits for the gas companies were considered to be the pitfall of the present system of gas wellhead tariff calculation.

3.3.40 It was highlighted that the Government is solely responsible to make suitable monetary and fiscal policies to make sure that the value of its currency remains reasonable versus the international currencies. The average consumer cannot be asked to pay for the failure of the Government in this regard.

3.3.41 It was argued that Government has crippled the gas industry in pricing and exploration activities. The circular debt is the main cause of all the inactivity in gas pricing and exploration resulting in an estimated shortfall of 6 BCF in 2020 as the average increase in demand is around 6.8%.

3.3.42 It was highlighted that FG has deliberately not passed on the benefits of pricing to the masses. Price of gas was increased by 31% on July 1, 2008 by FG, when the crude oil price was at $147 per barrel. However, reduction in oil prices to $47/barrel was not passed onto the consumers.

3.3.43 In July 2008, industrial users were not given an appropriate relief when the crude oil prices hit rock bottom.

3.3.44 It was affirmed that the Government prevented passing the lowering of price benefit to the masses in spite of the Rs. 4.53 / mmbtu reduction in pricing by OGRA under the seventh national finance commission award. Referring to the relevant laws from SRO 829(1)2002, questions were raised about hefty financial impacts of the induction of 2000 contract employees, financing of far flung areas of questionable returns and protection of the rights of the consumers & other stakeholders.

3.4 The Authority, during public hearings, took notice of outdated power of attorney submitted by the petitioner and directed it to provide a fresh one. Accordingly, fresh power of attorney was received from the petitioner.

3.5 The Authority further notes that OGRA's regional office in Quetta has successfully been able to address / resolve consumers' complaints, resulting in minimal complaints received during public hearing in Quetta. The Authority, while considering interveners / participants' comments, advises the petitioner to improve its service standards on immediate basis. The Authority further directs the petitioner to address all the complaints received during public hearings especially in Karachi by trade associations and CNG sectors regarding low pressure.

3.6 The Authority has carefully considered all the submissions and arguments of the parties made in writing and at the public hearings. Interveners' comments relating to increase demanded in various head of expenditures 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 relevant License conditions 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. The Federal Government further decides the Gas Development Surcharge and the subsidy to be enjoyed/extra amount to be paid with respect to average cost of service, by various categories of consumers. Accordingly, it requires that macro-economic indicators as well as the cost of alternate and substitute source of supply be considered by the FG as well while fixing the sale prices. The Authority, in principle, is of the view that all the category of consumers must at least pay the average cost of service, keeping in view the existing cost of alternative or substitute source of energy. Accordingly, in the instant determination prescribed prices have been set keeping in view the provisions of Section 7 of the Ordinance. 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. The operating revenues, operating expenses and changes in asset base are scrutinized in depth, keeping in view the justification and provision of the law. Accordingly, the decision is always based on the logic and rationale striking a balance among the divergent interests of stakeholders. 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 Authority further, wherever necessary, issues directions to the petitioner to streamline/resolve the matters under the regulatory and legal framework.

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 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. Section 6(2)(s) of the Ordinance requires the Authority to prescribe, review, approve and regulate tariffs for regulated activities pertaining to natural gas and operation of the licensees for natural gas. In this connection, Section 6(2)(t) of the Ordinance and License Condition 5.3 of license granted to the petitioner provides that the Authority, in consultation with the FG and licensees for natural gas, shall determine for each such licensee a reasonable rate which may be earned by such licensees in the undertaking of its regulated activity pertaining to natural gas keeping in view all the circumstances.

5.3 FG, in 2016, envisaged gas sector reforms particularly from structural as well as regulatory aspects. Accordingly, the Ministry of Energy (Petroleum Division)- MoE (PD), constituted a committee comprising MoE (PD), OGRA, Sui Northern Gas Pipelines Limited (SNGPL) and the petitioner. In this connection, OGRA developed a detailed tariff study report encompassing the tariff proposals for natural gas sector which was widely publicized to attract the comments of various stakeholders. Further, OGRA, in order to finalize "tariff regime for natural gas sector", conducted consultative sessions with all stakeholders which were held at Peshawar, Lahore, Karachi, Quetta and Islamabad on November 30, December 4, 6, 8 and 12, 2017 respectively. Accordingly, the "Tariff Regime for Regulated Natural Gas Sector" was finalized and forwarded to MoE (PD) for Federal Government's consultation/views under the relevant provisions of the Ordinance. MoE vide its letter dated May 24, 2018 conveyed the concurrence to said Tariff Regime and the same has been circulated for implementation taking the effect from the said year and onwards.

5.4 The tariff regime is a complete package to deal the tariff for regulated natural gas sector, including, it allows both gas utilities or any prospective licensee to receive a reasonable market based rate of return on WACC model, on the value of their net regulated fixed assets in operation. WACC for return purpose is pre-tax, and is computed as per following formula;

WACC Pre-Tax = Ke/(1-t) * 30% + Kd*70%

Where;
Cost of Equity (Ke)= Risk free rate (Rf) +Beta*Market Risk Premium

i. **Risk free rate (Rf)** shall be based on the last 10 years average monthly 20 years PIB bond yield as available from the source https://www.investing.com/rates-bonds/pakistan-20-year-bond-yield-historical-data.
ii. **Market Return (MR)**, shall be based on last 15 years PSX/KSE- 100 index average return.
iii. **Market Risk Premium (MRP)** shall be difference of MR and Rf. MRP for the calculation of Ke shall be capped at 11% with floor at 7%.
iv. **Beta** shall be taken at 1.06 for Transmission and 1.30 for Distribution. In respect of integrated T&D structure, beta for distribution shall apply.
v. ***Cost of debt*** is based on 6 monthly averages of last twelve months Kibor + spread at 2%.
vi. Debt equity shall be assumed at the optimal structure of 70:30.

5.5 **In view of above, the WACC is computed at 17.43% for the petitioner as well as for its sister utility for the said year, if the same, in any subsequent year, changes by ±2% than the reference figure i.e. WACC for the said year, it shall be automatically re-set.**

5.6 ***In view of above, the Authority, for the determination of revenue requirement of the licensee in the natural gas sector, adopts tariff regime currently in place including 17.43% return on the average net operating fixed assets.***

5.7 ***The petitioner is advised to submit the amendment in the existing license in conformity with the ibid tariff regime in place.***

6. Operating Fixed Assets

6.1 Summary

6.1.1 The petitioner has claimed a net addition, net of deletions of Rs. 26,192 million in fixed assets, and net addition, ex-depreciation and deletion, of Rs. 7,820 million, resulting in claimed increase in net operating fixed assets from Rs. 74,938 million in FY 2017-18 to Rs. 93,310 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. 75,396 million and required return to Rs. 12,817 million.

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

Particulars	Rs. in Million
Net operating fixed assets at beginning	74,938
Net operating fixed assets at ending	93,310
sub-total	**168,249**
Average net assets (I)	**84,124**
LPG air mix project asset at beginning	553
LPG air mix project asset at ending	5,619
sub-total	**6,172**
Average net assets (II)	**3,086**
EETL asset at beginning	1,024
EETL asset at ending	996
sub-total	**2,020**
Average net assets (III)	**1,010**
Deferred credit at beginning	4,466
Deferred credit at ending	4,799
sub-total	**9,265**
Average net deferred credit (IV)	**4,633**
"D" Average (I-II-III-IV)	**75,396**
17% required returned claimed by the petitioner	**12,817**

6.1.2 The details of deferred credits projected by the petitioner for the said year are compared with DERR for FY 2017-18, as under:

Table 6: Comparison of Projected Deferred Credits with FY 2017-18

			Rs. in Million
Particulars	**FY 2016-17**	**FY 2017-18**	**FY 2018-19**
	FRR	**DERR**	**The Petition**
Opening Balance as at July 01	5,034	4,533	4,466
Addition during the year	107	386	796
Sub-total:	5,141	4,919	5,262
Amortization during the year	432	453	463
Closing Balance as at June 30	**4,709**	**4,466**	**4,799**

6.1.3 ***The Authority provisionally accepts estimated deferred credits opening balance at Rs. 4,466 million and closing balance at Rs. 4,799 million for the said year.***

6.1.4 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

Rs. in Million

Particulars	FY2014-15	FY2015-16	FY2016-17	FY2018-19	Inc./(Dec) over FRR FY 2016-17	
	FRR	FRR	FRR	The Petition		%
Land	0	397	24	2	(22)	(92)
Buildings	115	168	130	268	138	106
Roads, pavements and related infrastructures	-	-	138	-	(138)	(100)
Gas transmission pipeline	229	2,147	24,791	9,583	(15,208)	(61)
Compressors	0	1,152	5,794	1,439	(4,355)	(75)
Plant and machinery	252	417	311	460	149	48
Gas distribution system, related facilities and equipments	4,581	6,123	5,486	8,042	2,556	47
Furniture, equipments including computers and allied equipments	134	175	219	267	48	22
Computer software (Intangible)	8	20	72	48	(24)	(33)
LPG Air Mix Projects	-1	10	4	5,324	5,320	132,990
Telecommunication system	146	149	93	100	7	8
Appliances, loose tools and equipment	24	34	71	99	28	40
Vehicles	222	404	631	560	(71)	(11)
Construction equipment	-	1,113	725	-	(725)	(100)
SCADA	-	458	0	-	-	-
Assets related to Gas Activities	**5,710**	**12,768**	**38,489**	**26,192**	(12,297)	(32)

i) Land

6.2 The petitioner has projected an amount of Rs. 2 million for acquisition of land for CP Stations in Balochistan Region and ***the Authority provisionally allows the same for the said year.***

ii) Buildings

6.3 The petitioner has projected an amount of Rs. 268 million to be spent on different routine building projects & civil works which include construction of Floor/other civil work at Bin Qasim Power Plant KE, Construction of rooms/halls at store building at Nawabshah Headquarter HQ-2, and Odorizers for SMS at different locations of Distribution Sindh.

6.4 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 last ten years remained at about Rs 100 million per year. Moreover, actual capitalization in this head during FY 2016-17 was Rs 130 million.

6.5 ***In view of the historical trend analysis, the Authority provisionally allows an amount of Rs. 156 million i.e. actual of FY 2016-17 plus inflation impact @ 10% per year in this head.***

iii) Gas Transmission Pipelines

6.6 The petitioner has projected an amount of Rs. 9,583 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. 9,253 million
Addition in RLNG Project related Transmission Pipeline Assets = Rs. 330 million

Table 8: Requested Additions to Normal Transmission Pipeline Network

		Rs. in Million
S. No.	**Description Of Segment**	**The Petition FY 2018-19**
1	12" dia x 46 Km Pipeline from Rehman Field to Naing MVA	1521
2	8" dia x 28 Kms Pipeline from Ayesha Gas Field	550
3	30" dia x 125 Km pipeline from SMS Sindh University to SMS Pakland (1st segment)	6,053
4	Upgradation of SMS Thatta	45
5	Check Metering Facility at Shahdadpur for Gambat South Field Gas Measurement (RS3)	344
6	Check Metering arrangements at Daru	81
7	16" dia x 9 Km Re Route of Kotri Barrage	217
8	16" dia ILBP Rehabilitation and Intelligent Pigging	47
9	12" dia x 344 Km QPL Rehabilitation and Intelligent Pigging	328
10	Construction of Sub-merge crossings	66
	Total	**9,253**

6.7 The petitioner has projected an amount of Rs. 1,521 million for 12" dia x 46 Km Pipeline from Rehman Field to Naing MVA on Bajara Karachi Pipeline for receiving projected gas supply of 90 MMCFD. The petitioner has stated that they are receiving gas under existing EWT arrangements through producer's line which is expected to increase above 40 MMCFD for which a pipeline network will be required as existing setup cannot supply more than 40 MMCFD.

6.8 ***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. 760 million***

(50% of the projected amount) at this stage for the said year subject to actualization at the FRR stage.

6.9 The petitioner has projected an amount of Rs. 550 million for 8" dia x 28 Kms Pipeline to integrate Ayesha Gas Field with Badin Gas Pipeline at Golarchi for receiving projected gas supply of 22 MMCFD.

6.10 ***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. 275 million (50% of the projected amount) at this stage for the said year subject to actualization at FRR stage.***

6.11 The petitioner has projected Rs. 6,053 million for laying 30" dia × 125 Km transmission pipeline from SMS Sindh University to SMS Pakland for transportation of indigenous gas from different gas fields to the load center i.e Karachi. 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 whereas 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 × 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.

6.12 The petitioner has also explained that existing pipeline capacity from 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. The petitioner has also informed that current gas supplies from KPD & Tay Dars are 122 MMCFD whereas in future the same would be around 222 MMSCFD; moreover, current gas supplies from Sinjhoro/Jhakhro, Bobi, Gambat South, Adam Hala, Khipro and Mirpurkhas fields are 466 MMCFD whereas in future the same would be around 572 MMCFD. The petitioner has explained that cumulative gas production profiles of Badin, Mirpurkhas (Kausar), Khipro (Naimat Basal), Hala, Gambat South, and KPD gas field show an increasing trend; moreover, the existing transmission pipelines from Hyderabad to Pakland, Karachi are already being operated above their design capacity.

6.13 *The Authority, in view of the above noted justification furnished by the petitioner, had already allowed the said pipeline project in principle in its DERR FY 2017-18. Since the project is capital intensive therefore, the Authority, provisionally allows an amount of Rs. 1,816 million (30% of the projected amount) for the procurement of materials, line pipe and acquisition of land etc. for the said year subject to actualization at FRR stage.*

6.14 The petitioner has projected an amount of Rs. 45 million for Upgradation of SMS Thatta. The petitioner has stated that existing SMS set-up at Thatta is 30 years old, running on maximum capacity and will not be able to fulfill future load demands as equipment installed like valves, regulators, safety valves and pipe/pipe fittings have deteriorated with the passage of time. Also this SMS does not have Scrubbers which needs to be installed to provide quality gas free of dust and debris to customers, therefore, upgradation of SMS at Thatta is needed.

6.15 *The Authority in view of the operational requirement of the petitioner decides to provisionally allow an amount of Rs. 45 million under this head.*

6.16 The petitioner has projected an amount of Rs. 344 million for Check Metering Facility at Shahdadpur for Gambat South Field Gas Measurement (RS3). The petitioner has stated that Check Metering Facility for receiving gas in SSGC's ILBP System is required at RS-3 (Shahdadpur) for reconciliation of 150 MMCFD gas supplied from PPL "Gambat South" and "Halla" Blocks.

6.17 *The Authority notes that it had already allowed an amount of Rs 344 million in DERR FY 2017-18 for the said project, therefore the Authority does not allow any amount in this regard for the said year. However, the petitioner may execute the pipeline segment and claim the capitalization amount at FRR stage subject to actualization.*

6.18 The petitioner has projected an amount of Rs. 81 million for Check Metering arrangements at Daru. The petitioner has stated that in order to carry out reconciliation of gas at POD, Check Metering Facility is required at POD Daru; currently 2-3 MMCFD gas from Chutto field is expected in 2017-18.

6.19 *The Authority in view of the operational requirement of the petitioner decides to provisionally allow an amount of Rs 81 million under this head.*

6.20 As regards the items mentioned at Sr. no 7 to 10 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.

6.21 *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 company manages to execute the projects during the said year, the same will be considered at the time of FRR subject to actual capitalization.*

6.22 *In view of the discussion at paras 6.6 and 6.21 above, the Authority provisionally allows an expenditure of Rs 2,977 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

			Rs. in Million
S. No.	**Description Of Segment**	**The Petition**	**Determined by the Authority**
		FY 2018-19	
1	12" dia x 46 Km Pipeline from Rehman Field to Naing MVA	1521	760
2	8" dia x 28 Kms Pipeline from Ayesha Gas Field	550	275
3	30" dia x 125 Km pipeline from SMS Sindh University to SMS Pakland (1st segment)	6,053	1,816
4	Upgradation of SMS Thatta	45	45
5	Check Metering Facility at Shahdadpur for Gambat South Field Gas Measurement (RS3)	344	-
6	Check Metering arrangements at Daru	81	81
7	16" dia x 9 Km Re Route of Kotri Barrage	217	-
8	16" dia ILBP Rehabilitation and Intelligent Pigging	47	-
9	12" dia x 344 Km QPL Rehabilitation and Intelligent Pigging	328	-
10	Construction of Sub-merge crossings	66	-
	Total	**9,253**	**2,977**

6.23 The petitioner has claimed an amount of Rs. 330 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 Petition FY 2018-19
1	42" dia x 14 Km Loop Between Nara-Sawan (Leftover)	52
2	24" dia x 21 Km Interlink between Pakland to Khadeji (Leftover)	8
3	42" dia x 338 Km (Phase-II) from Pakland to Nara (Leftover)	270
	Total	**330**

6.24 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 and Phase-II of RLNG Infrastructure Development Projects, already approved by the Authority.

6.25 ***The Authority notes that these are leftover activities of already commissioned Phase-I and Phase-II of the RLNG Infrastructure Development Projects. The Authority had already allowed these projects in its earlier determinations therefore it does not allow any upfront amount at this stage. The petitioner is, however, allowed to carry out the left over activities in this year and claim the capitalization at FRR stage subject to actualization.***

iv) Compressors

6.26 The petitioner has projected Rs. 1,439 million under this head for the said year, the detail of which is as under:

Table 11: Requested Additions to Compressors

Sr. No.	Description of Project	Rs. Million The Petition FY 2018-19
1	New Compressor at Shikarpur to Jacobabad for QPL	1100
2	Gas Turbine Engine - Solar Taurus T-60 (7800 HP) - HQ2	264
3	Repair of DR 990 Turbo Compressor Rotor (Capacity 120 MMSCFD)	30
4	DR 990 Turbo Compressor Rotor (Capacity 120 MMSCFD)	45
	Total	**1,439**

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

a) **New Compressor at Shikarpur to Jacobabad for QPL at estimated cost of Rs. 1,100 million:**

6.28 The petitioner has stated that the said compressor is part of the Quetta Pipeline Capacity Enhancement Project envisaged in earlier years for enhancement of gas supplies to Quetta region and surrounding areas. The said project consists of the compressor at Shikarpur alongwith laying of 24" × 34 Km loopline from Shikarpur to Jacobabad and Rerouting of existing QPL 12" dia × 9 Km (KM56 to KM65) and 12" dia ×14 kM (KM84 to KM96). The construction of the said pipelines has been completed in December, 2017 and January, 2018 respectively and left over civil works are in progress, however, technical evaluation of the installation of compressor unit at Shikarpur through project consultant is under process and the project is expected to be completed by September, 2018.

6.29 *The Authority notes that in pursuance of the decision of the honorable High Court of Balochistan dated 07.03.2016 in CP No. 1229/2015 titled "Ali Ahmed Kurd and Others Vs FoP and others", the Authority in its determinations of last two years had already approved the Quetta Pipeline Capacity Project in principle, therefore, the petitioner may install the said Compressor in the said year and claim the actualized amount at FRR stage. The Authority however allows an amount of Rs 550 million (50% of the projected amount) at this stage.*

b) **Gas Turbine Engine – Solar Tauru T-60 (7800 HP) HQ-2 Compressor Station at estimated cost of Rs. 264 million:**

6.30 The petitioner has stated that turbine engine is required as a spare for six identical units installed at HQ-2 Compressor Station. It shall be utilized during breakdown / repair/overhaul of any of the 06 installed units, so that required gas volume can be transferred to SNGPL without any delay.

6.31 *The Authority notes that the said turbine engine is required for compression of RLNG at Nawabshah Compressor Station therefore is a part of already commissioned Phase-*

II of RLNG Project. The petitioner is allowed to execute the project and claim its amount at FRR stage against the RLNG Project.

c) **Repair of DR 990 Turbo Compressor Rotor at estimated cost of Rs. 30 million:**

6.32 The petitioner has stated that they have one used rotor (120 MMSCFD capacity) whose impeller blades edges have worn out due to dust & condensate while in operation at Unit "B" of HQ-2 Compressor Station. This rotor needs to be inspected, repaired, & dynamically balanced by Original Equipment Manufacturer M/s Dresser Rand.

6.33 *The Authority notes that it had already allowed an amount of Rs 30 million against this head in DERR FY 2017-18, therefore the petitioner is allowed to execute the same in the said year and claim the capitalized amount at FRR stage subject to actualization.*

d) **Repair of DR 990 Turbo Compressor Rotor at estimated cost of Rs. 45 million:**

6.34 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. The Rotor is therefore required to meet any eventuality in case of installed Rotor failure.

6.35 *The Authority notes that it had already allowed an amount of R.s 45 million against this head in DERR FY 2017-18, therefore the petitioner is allowed to execute the same in the said year and claim the capitalized amount at FRR stage subject to actualization.*

6.36 *Keeping in view the discussion at paras 6.26 and 6.29 above, the Authority provisionally allows an amount of Rs. 550 million under this head as per following details:*

Table 12: Additions to Compressors as Determined by the Authority

Sr. No.	Description of Project	The Petition	Determined by the Authority
		FY 2018-19	
1	New Compressor at Shikarpur to Jacobabad for QPL	1100	550
2	Gas Turbine Engine - Solar Taurus T-60 (7800 HP) - HQ2 Coressor Station	264	-
3	Repair of DR 990 Turbo Compressor Rotor (Capacity 120 MMSCFD)	30	-
4	DR 990 Turbo Compressor Rotor (Capacity 120 MMSCFD)	45	-
	Total	1,439	550

v) Plant and Machinery

6.37 The petitioner has projected an amount of Rs. 460 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 2015-16 remained at Rs. 272 million per year, moreover actual capitalization during FY 2016-17 was Rs. 311 million.

6.38 ***Keeping in view the importance of plant and machinery for operational activities and trend analysis, the Authority provisionally allows an amount of 373 million (i.e. actual of FY 2016-17 plus 10% per year inflation impact) for the said year.***

vi) Gas Distribution System

6.39 The petitioner has projected an amount of Rs. 8,042 million for gas distribution system and related facilities & equipments.

Table 13: Requested Additions to Distribution Network

		Rs. in Million
S. No.	**Description Of Segment**	**The Petition FY 2018-19**
1	Rehabilitation Mains and Services-UFG Control Program	851
2	Segmentation-UFG Control Program	236
	Sub-total	*1,087*
3	Laying Of Distribution Mains including services - Existing Areas	2,752
4	Installation of New Connections (meters)	1,061
5	Replacement/ Repair of Meters	1,448
6	Modems, Installation of EVC, Filter Separators	258
7	Construction of CMSs,TBSs,TRSs and Cathodic Protection	103
8	New Towns	1,178
	Sub-total	*6,799*
9	8" DIA x 15 Km Supply Main Hala	156
	Total Gas Distribution System	**8,042**

6.40 The petitioner has projected an amount of Rs. 1,087 million for UFG Control Program, the breakup of which is as under:

Table 14: Breakup of UFG Control Program

Activity	Rs. In Million
Rehabilitation Mains & Services	851
Segmentation	236
	1,087

6.41 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. The Authority notes that KMs envisaged to be rehabilitated during the said year are high as compared to the company's actual performance during the last several years, however since it is a UFG control activity, therefore the Authority provisionally allows the projected amount of Rs 1,087 million in this head for the said year.

6.42 The petitioner has projected Rs. 1,809 million for laying 890 Km distribution mains including main extensions, reinforcement mains and service mains for the said year.

6.43 ***The Authority, based on the last year's trend in respect of physical achievement, per Km cost and inflation impact, provisionally allows Rs. 1,711 million for laying 890 km distribution mains as per following breakup: -***

- ***The requested amount of Rs. 609 million for laying 341 Km main extensions;***
- ***The requested amount of Rs. 672 million for laying 190 Km reinforcement mains***
- ***Rs. 430 million (@per unit cost of FY 2016-17 plus 10% inflation factor per year) for laying 359 Km services mains.***

6.44 The petitioner has projected Rs. 1,061 million for installation of 117,995 Nos. new connections (meters) in Karachi, Sindh and Balochistan regions for the said year.

6.45 The Authority observes that average capitalization during last four years against this head stood at Rs. 768 million, moreover actual capitalization during FY 2016-17 was Rs. 827 million.

6.46 ***The Authority, based on historical trend, allows an amount of Rs. 992 million (actual of FY 2016-17 plus 10% per year inflation impact) for installation of 117,995 Nos. new connections (meters) for the said year, with advice to the petitioner to strictly follow the FG Policy on the matter, while processing the gas connections during the said year.***

6.47 The petitioner has projected Rs. 1,448 million for replacement of 327,560 Nos. gas meters in Karachi, Sindh and Balochistan regions for the said year.

6.48 The Authority notes that average capitalization during last four years against this head stood at Rs. 1,637 million, moreover actual capitalization during FY 2016-17 was Rs. 2,016 million in this head.

6.49 ***The Authority based on historical trend allows the projected amount of Rs. 1,448 million for replacement of 327,560 Nos. gas meters during the said year.***

6.50 The petitioner has projected an amount of Rs. 258 million for installation of Modems, Installation of EVCs and Filter Separators. The Authority notes that the petitioner has projected per unit cost of Rs. 71,250 for Filter Separators whereas actual per unit cost of the same in FY 2016-17 was Rs. 4,200. The Authority therefore determines per unit cost of Rs. 5,040 (per unit cost of Rupees FY 2016-17 plus 10% inflation factor per year) for installation of 2,620 Nos Filter Separators & Dry Gas Filter Installation.

6.51 ***The Authority, in view of the historical trend analysis, provisionally allows an amount of Rs. 50 million under this head.***

6.52 The petitioner has projected an amount of Rs. 103 million for construction of CMSs, TBSs, TRSs and CP Stations.

6.53 The ***Authority in view of the historical trend analysis, provisionally allows the projected amount of Rs. 110 million under this head.***

6.54 The petitioner has projected Rs. 1,178 million for extension in distribution network in order to supply gas to new towns & villages during the said year.

6.55 The petitioner has informed that moratorium on domestic gas development schemes has been lifted as communicated by M/o P&NR vide letter dated 02-05-2017, and para (i) of summary approved by Federal Cabinet on 12-04-2017, in this regard, states as under:

> "Since the moratorium imposed back in year 2009 was not lifted specifically therefore, the same may be relaxed henceforth for domestic gas development schemes."

6.56 The Authority had asked the petitioner to provide relaxation of moratorium dated 4th October, 2011, however the same was not provided by the petitioner company.

6.57 As per the petitioner, grant has been provided by FG/PG for the expenses over and above cost criteria for the schemes which do not meet per customer cost criteria.

6.58 ***The Authority, keeping in view the above, provisionally allows an amount of Rs. 679 million for gas development schemes in new towns and villages pertaining to Gas Producing Districts. The petitioner shall, however, ensure compliance with the decision of the Apex Court in CP-20 and the decision of Apex Court in Civil Appeals No. 1428 to 1436 of 2016 dated August 18, 2016; per customer cost criteria and policy of FG / moratorium imposed by FG on the matter.***

6.59 The petitioner has projected Rs. 156 million for laying 8" dia x 15 Km Supply Main Hala. The petitioner has stated that due to gasification of new towns/villages and various CNG Stations the capacity of existing 6" dia supply main Hala emanating from SMS Shahdadpur has been exhausted. The petitioner has added that this proposal is meant to provide adequate volume and pressure to the domestic, commercial and CNG customers in the areas which are facing severe low pressure problem.

6.60 The Authority observes that the petitioner has been projecting similar distribution projects in past without actually capitalizing the same at year end. ***Keeping in view the previous history, the Authority allows the pipeline segment in principle and decides to pend the amount against this project at this stage, however, the petitioner may execute the project if feasible and claim the actual expenditure in FRR.***

6.61 ***In view of above, addition to Gas Distribution System is provisionally allowed at Rs. 6,070 million for the said year, as tabulated below;***

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

			Rs. in Million
Sr No.	**Description**	**The Petition**	**Determined by the Authority**
		FY 2018-19	
1	Rehabilitation Mains and Services-UFG Control Program	851	851
2	Segmentation-UFG Control Program	236	236
	Sub-total	*1,087*	*1,087*
3	Laying Of Distribution Mains including services -Existing Areas	2,752	1,711
4	Installation of New Connections (meters)	1,061	992
5	Replacement/ Repair of Gas Meters	1,448	1,448
6	Modems, Installation of EVCs, Filter Separators	258	50
7	Construction of CMSs,TBSs,TRSs and Cathodic Protection	103	103
8	New Towns	1,178	679
	Sub-total	*6,799*	*4,983*
9	8" DIA x 15 Km Supply Main Hala	156	-
	Total Gas Distribution System	**8,042**	**6,070**

vii) Furniture; Security & Office Equipments; and Computer & Allied Equipments

6.62 The petitioner has projected Rs. 267 million in respect of furniture, security equipments, office equipments and computers & allied equipments for the said year.

6.63 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 an amount of Rs. 219 million during FY 2016-17.

6.64 ***In view of the historical trend the Authority provisionally determines the said expenditure at Rs. 263 million (actual of FY 2016-17 plus 10% per year inflation impact).***

viii) Computer Software (Intangible)

6.65 The petitioner has projected Rs. 48 million for procurement of various softwares during the said year.

6.66 The Authority notes that the petitioner has capitalized an average amount of Rs. 72 million/year during the last seven years. ***Keeping in view the historical trend analysis, the Authority provisionally allows the claimed amount of Rs. 48 million for the said year.***

ix) Telecommunication System

6.67 The petitioner has projected Rs. 100 million for different telecommunication projects for the said year.

6.68 The Authority observes that average capitalization under this head during the last five years remained around Rs. 108 million per year. ***The Authority, in view of the historical trend, allows the projected amount of Rs. 100 million under this head, for the said year.***

x) Appliances, Loose Tools & Equipments

6.69 The petitioner has projected Rs. 99 million for appliances, loose tools and equipments for the said year.

6.70 The Authority notes that average amount capitalized during last nine years in this head was Rs. 23 million/year. Moreover, actual capitalization during FY 2016-17 was Rs. 71 million in this head. ***Keeping in the historical trend, the Authority provisionally allows an amount of Rs. 85 million (actual of FY 2016-17 plus 10% per year inflation impact) in the said head.***

xi) Vehicles

6.71 The petitioner has projected an amount of Rs. 560 million under this head for the said year. The petitioner has informed that the said expenditure has been projected for purchase of 384 vehicles, comprising 333 operational and 51 non-operational vehicles. The petitioner has added that 263 Nos. are the replacement vehicles whereas 121 Nos. vehicles are the new ones/additional.

6.72 The Authority notes that as per the historical trend the petitioner has capitalized an average amount of Rs. 200 million per year during the last four years, however, capitalization during FY 2016-17 remained at Rs. 356 million in this head.

6.73 ***The Authority, in view of the historical trend analysis, allows an amount of Rs. 427 million (actual of FY 2016-17 plus 10% inflation impact) under this head for the said year.***

xii) LPG Air-Mix Projects

6.74 The petitioner has projected an amount of Rs. 5,323 million to be capitalized on LPG Air–Mix Plants located at various locations of Balochistan, out of which an amount of Rs. 5,264 million has been projected for LPG Air Mix Plants at Uthal, Kharan, Khuzdar, Washuk, Loralai, Keech, Killi Khinzoi, Zhob, Qilla Saifullah and Muslim Bagh. The petitioner has stated that they are in the process of applying for obtaining OGRA approval for construction of ECC approved LPG Air Mix Plants for ten locations in Balochistan. The petitioner has not yet applied in OGRA for requisition of licenses for the said LPG Air Mix Projects.

6.75 ***The Authority notes that since the petitioner has not obtained the requisite licenses, therefore, the Authority, as per the previous practice does not allow the claimed amount of Rs. 5,264 million against these projects at this stage.***

6.76 The petitioner has projected an amount of Rs. 59 million for the LPG Air Mix Plants at Gwadar, Kot Ghulam Muhammad, Noshki and Surab, which are already operational and duly licensed by the Authority.

6.77 ***The Authority therefore provisionally allows an amount of Rs. 59 million for the LPG Air Mix Plants at Gwadar, Noshki, Kot Ghulam Muhammad and Surab.***

xiii) Fixed Assets Determined by the Authority

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

Table 16: Summary of Asset Additions Determined by the Authority

			Rs. in Million
S/No.	Description	The Petition	Determined by the Authority
		FY 2018-19	
1	Land	2	2
2	Building	268	156
3	Gas transmission pipeline	9,583	2,977
4	Compressors	1,439	550
5	Plant and machinery	460	373
6	Gas distribution system, related facilities and equipments	8,042	6,070
7	Furniture, equipments including computers and allied equipments	267	263
8	Computer software (Intangible)	48	48
9	LPG Air Mix Projects	5,324	59
10	Telecommunication system	100	100
11	Appliances, loose tools and equipment	99	85
12	Vehicles	560	427
	Assets related to Gas Activities	**26,192**	**11,110**

6.79 ***The Authority on provisional basis accepts the depreciation rate schedule as per the petition, for the said year. Accordingly, depreciation expense is provisionally determined Rs. 6,691 million as a consequence of reduction in additions to fixed assets for the said year, as discussed above. Accordingly, the Authority provisionally determines closing operating fixed assets for the said year at Rs. 78,570 million.***

6.80 The petitioner is, however, advised to submit the concrete proposals, within one month of the issuance of this Order, to revise/ review the existing depreciation rate based on the precise economic life of the different regulated assets in order to bring the uniformity across the sector as per provision of the tariff regime in place. Accordingly, consultation among the licensees shall be carried out before finalization of the same by the Authority.

7. Operating Revenues

7.1 Sales Volume

7.1.1 The petitioner has projected 3% increase (77,572) in number of consumers, from 2,992,476 reported in DERR for FY 2017-18 to 3,070,048 during the said year, as follows:

Table 17: Comparison of Projected Number of Consumers with Previous Years

Category	FY 2016-17	FY 2017-18	FY 2018-19	Growth over DERR FY 2017-18	
	FRR	DERR	The Petition		%
Domestic	2,812,211	2,964,410	3,042,093	77,683	3
Industrial	4,196	4,243	4,282	39	1
Commercial	22,764	23,823	23,673	(150)	(1)
Total	**2,839,171**	**2,992,476**	**3,070,048**	**77,572**	**3**

7.1.2 Sales volume has been projected at 357,981 BBTU for the said year. Category-wise comparison with previous years has been provided as under:

Table 18: Comparison of Projected Sales Volume with Previous Years

Volume in BBTU

Category	FY 2016-17 FRR	FY 2017-18 DERR	FY 2018-19 The Petition	Inc. / (Dec.) over DERR FY 2017-18	%
HCPC	6,537	4,751	6,536	1,785	38
Domestic	98,719	88,641	103,652	15,011	17
Cement	251	214	243	29	14
Commercial	10,411	10,219	10,353	134	1
Captive Power	69,843	68,345	69,292	947	1
Nooriabad Power Plant	-	7,237	7,161	(76)	(1)
General Industries	61,194	62,038	59,279	(2,759)	(4)
Fertilizer - feed stock	18,345	18,904	17,418	(1,486)	(8)
CNG Stations	25,847	29,182	26,050	(3,132)	(11)
Power	76,903	78,487	57,998	(20,489)	(26)
Total	**368,049**	**368,017**	**357,981**	**(10,036)**	**(3)**

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 submitted that increase in gas sales volume to Domestic sector is mainly due to the fact that moratorium on new connections and high rise buildings have now been lifted by Government. The petitioner has further explained that increase in sales volume to the Habibullah Coastal Power Company (HCPC) and Cement sector has been projected in line with FRR for FY 2016-17. However, the sales volumes to the rest of sectors have been declined mainly due to gas load management.

7.1.5 ***The Authority, in view of above, accepts the petitioner's sales volume projections at 357,981 BBTU.***

7.2 Sales Revenue at Existing Prescribed Prices

7.2.1 The petitioner has projected to increase sales revenues at existing prescribed price by 1% over FY 2017-18 to Rs. 151,141 million for the said year. Category-wise comparison of sales revenue is given below:

Table 19: Comparison of Projected Sales Revenue with Previous Years

Rs. In Million

Particulars	FY 2016-17	FY 2017-18	FY 2018-19	Inc. / (Dec.) over DERR for FY 2017-18	
	FRR	DERR	The Petition		%
Habibullah Coastal Power	2,560	2,060	3,162	1,102	53
Cement	145	143	179	36	25
Domestic	15,021	18,048	22,632	4,584	25
Captive Power	31,466	36,209	39,355	3,146	9
Commercial	5,339	6,041	6,532	490	8
Power	30,568	33,599	28,053	(5,546)	(17)
Fertilizer - Feedstock	2,257	2,325	2,150	(175)	(8)
CNG Stations	13,404	17,738	16,944	(795)	(4)
General Industries	23,597	29,291	28,673	(618)	(2)
Nooriabad Power Plant	-	3,500	3,464	(36)	(1)
Total Sales Revenues	**124,357**	**148,954**	**151,141**	**2,187**	**1**

7.2.2 The Authority observes that projections in sales revenue have been made in accordance with projected 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 ***The Authority provisionally accepts net sale at category-wise prescribed price at Rs. 151,141 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. 18,192 million for the said year. Comparison with previous years is given below:

Table 20: Comparison of Projected Other Operating Income with Previous Years

				Rs. in million	
Particulars	**FY 2016-17**	**FY 2017-18**	**FY 2018-19**	**Inc./(Dec.) over DERR for FY 2017-18**	
	FRR	**DERR**	**The Petition**	**Rs.**	**%**
Sale of LPG	2,533	3,009	2,133	(876)	(29)
Sale of NGL	423	584	355	(229)	(39)
Sale of Gas condensate	53	134	40	(94)	(70)
Meter Manufacturing Plants Profit	(2)	209	26	(182)	(87)
Notional income on IAS provision	262	281	-	(281)	(100)
Amortization of deferred credits	401	426	432	6	1
Meter rentals	735	773	792	19	2
Other income	880	536	557	21	4
Late Payment Surcharge	3,187	2,958	3,353	395	13
RLNG transportation Income	4,146	8,920	10,505	1,585	18
Operating Revenue	**12,618**	**17,829**	**18,192**	**363**	**2**

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. 26 million), LPS (Rs. 3,353 million), and sale of gas condensate (Rs. 40 million), NGL (Rs. 355 million), and LPG (Rs. 2,133 million) have been treated as operating income in the petition in line with the Hon'ble SHC decision.

7.3.3 The petitioner has informed that besides decreased off-takes from the fields, income from sale from LPG and NGL is decreasing owing to the fact that OGDCL has installed its own plant for extraction of by-products, thereby resulting in decreased revenues.

7.3.4 The Authority, as per para 5.3, observes that proposal in respect of new tariff regime for regulated natural gas sector has been implemented effective July 01, 2018. Said regime is complete package and provides a detailed rationale / deliberation for the treatment of various incomes as operating / non-operating. Accordingly, the above incomes are required to be decided for the said year.

7.3.5 The Authority is of the firm opinion that revision in tariff regime for natural gas sector in Pakistan in totality has been made. Existing guaranteed return is replaced with market based rate of return since the companies' role to attractively handle regulated activity has a bit enhanced. Accordingly, revision in tariff regime in totality coupled with change in business dynamics focuses the companies' to exert more efforts inter-alia justify for the layer of incentive. After implementation of market based return, the petitioner shall now experience volatility in their operating as well as financial parameters and shall be exposed to commercial risks. It is therefore, keeping in view the latest norms, expedient to equally share certain incomes between the consumers and the petitioner effective from the implementation of new tariff regime. The Authority is of the view that implementation of new tariff regime is pre-condition for treatment of certain incomes, which can't be applied in isolation prospectively/ retrospectively. Further, the Authority 's view to equally share certain incomes is with respect to regulated tariff aspect in whole scenario, it has no nexus with subjudice matters on the same or any other connected/relevant aspect.

7.3.6 In view of above, the Authority has decides as under;

a) *Meter Rental as 100% operating income being directly generated while undertaking regulated activity,*

b) *LPS as 100% operating income as per the existing practice and rationale,*

c) *Transportation Income as 100% operating because the same arises in connection with the regulated activity,*

d) *Income from royalty as 100% operating because the same arises as a compensation of rights of the licensee in respect of gas fields allocated to it by the FG,*

e) *Income from MMP as 50% operating income because the petitioner enjoys its company's portfolio and goodwill,*

f) *Income from sale of LPG, NGL and condensate as 50% operating income as the petitioner is exposed to market risk after the change in business model as per new commercial arrangements and removal of guaranteed rate of return of 17% (as in previous regime),*

7.3.7 *In view of above, the Authority decides to include Rs. 4,630 million as operating income for the said year.*

iii. Transportation Income from RLNG

7.3.8 The petitioner has projected Rs. 10,505 million (Rs. 23.46 per MMBTU at throughput volume of 1200 MMCFD) on account of RLNG transportation income for the said year. The breakup of the same is as under;

Table 21: Breakup of RLNG Transportation Income

Particulars	Rs. in Million
Revenue Expenditure	119
Gas Internally Consumed	1,065
Depreciation	1,526
Return on Assets	5,532
Financial charges for RLNG	1,930
WPPF	333
	10,505

7.3.9 The Authority notes that the petitioner has computed GIC volumes on WACOG, the rate for indigenous gas as against the very fact that RLNG is being transported to SNGPL system under the Gas Transportation Agreement. *In view of the same,*

the Authority computes GIC at average purchase price of Rs. 920.20/MMBTU, the parameters as projected by the sister utility. The Authority further observes that the financial charges amounting to Rs. 1,930 million has already been extensively deliberated, the same has no justification to be claimed while return is also admissible. The Authority further observes that petitioner has computed the return @ 17%. The same however, owing to implementation of "Tariff Regime for Regulate Natural Gas Sector" has been revised on the basis market based return @ 17.43%, accordingly it shall apply.

7.3.10 The Authority further observes that the petitioner has computed the transportation charges on the basis of reasonable parameters. The same however shall be further refined/aligned once the network codes under Third Party Access Regime are finalized and published.

7.3.11 ***The Authority, in accordance with the ECC policy guidelines, and the decision relating to RLNG assets, 9.3.53 and 9.3.57 decides to provisionally determine Rs. 8,470 million (Rs. 18.92/MMBTU), being transportation income /cost of supply for RLNG activities for the said year. The breakup of the same is as under;***

Table 22: Breakup of Transportation Income

Particulars	Rs. in Million
Revenue Expenditure	119
Gas Internally Consumed	853
Depreciation	1,522
Return on Assets	5,643
WPPF	333
	8,470

7.3.12 ***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 as part of RLNG price.***

iv. Other Income

7.3.13 The petitioner has projected other income at Rs. 557 million for the said year. Comparison with previous years is given below:

Table 23: Comparison of Projected Other Income with Previous Years

						Rs. *in million*
Particulars	FY 2016-17	FY 2017-18	July, 2017 to March, 2018	FY 2018-19	Inc./ (Dec.) over DERR of FY 2017-18	
	FRR	DERR	Actual	The Petition		%
Liquidated damages recovered	291	8	73	8	-	0
Others	97	20	25	20	-	0
Income from new service connections	285	300		312	12	4
Income from pipeline construction	28	-	634	-	-	-
Income from sale of tender documents	5	5	7	5	0.44	9
Recoveries from consumers	104	73	75	89	16	22
Income from sale of net investment in finance lease	68	126	42	120	(6)	(5)
Advertising Income	1	5	-	3	(2)	(40)
Notional income on IAS 19 provision	262	281	-	-	(281)	(100)
Total Other Operating Income	**1,142**	**818**	**856**	**557**	**(261)**	**(32)**

7.3.14 The Authority observes that the petitioner has treated "Notional Income on IAS-19" 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. 359 million, based on the information provided by the petitioner in respect of notional income on IAS-19 as part of revenue requirement for the said year. Accordingly, the Authority provisionally determines "other income" at Rs. 916 million for the said year.*

7.3.15 *In view of the discussion in paras 7.3.1 and 7.3.14 above, the Authority provisionally determines other operating income for the said year at Rs. 15,240 million as against Rs. 18,192 million claimed by the petitioner, as detailed below.*

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

		Rs. *in million*
Particulars	FY 2018-19	
	The Petition	Determined by the Authority
Amortization of deferred credits	432	432
Meter rentals	792	792
Late Payment Surcharge	3,353	3,353
RLNG transportation Income	10,505	8,470
Sale of LPG	2,133	1,066
Sale of NGL	355	177
Other income	557	916
Sale of Gas condensate	40	20
Meter Manufacturing Profit	26	13
Operating Revenue	**18,192**	**15,240**

8. Air-Mix LPG Projects

8.1 The petitioner has claimed subsidy of Rs. 1,750 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 paras 6.75 and 6.77 above, provisionally allows subsidy at Rs. 692 million for the said year for the LPG Air Mix Plants at Gwadar, Noshki, Kot Ghulam Muhammad and Surab.***

9. Operating Expenses

9.1 Cost of Gas

9.1.1 The petitioner has projected cost of gas Rs. 164,790 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:

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

FY 2016-17		FY 2017-18		FY 2018-19	
FRR		DERR		The Petition	
MMBTU	Rs. Million	MMBTU	Rs. Million	MMBTU	Rs. Million
432,946	143,834	433,013	140,824	422,994	164,790

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 ECC of the Cabinet in is meeting held on May 17, 2018, in the matter of WACOG has decided as under;

"The weighted average cost of gas equalization shall be held in abeyance till such time the committee comprising members from petroleum division, finance division, planning development and reforms division and OGRA submits its recommendations to the ECC."

9.1.4 ***In view of above decision of Economic Coordination Committee (ECC) of the Cabinet, the Government policy of maintain uniform cost of gas across the country has been held in abeyance. Accordingly, the WACOG and cost of gas in respect of the petitioner has been computed keeping in view the gas supply from its allocated fields only.***

9.1.5 The Authority observes that petitioner has not accounted for the latest indicators in terms of Crude/HSFO prices and dollar rupee exchange rate. The Authority, in this aspect, advises the petitioner to account for the latest indicators while submitting/revising the petition for the financial year.

9.1.6 The Authority, observes that actual average international C&F prices of oil for the period December, 2017 to May, 2018 provide the relatively correct estimation and are used for computation of well-head gas prices effective July 01, 2018. The average of the same have been extrapolated for the period June - November 2018 for the purpose of wellhead prices applicable w.e.f January 01, 2019. Therefore, keeping in view the current trend of international oil prices and US $ exchange rate and other related factors, revised parameters for the purpose of computation of cost of gas at petitioner system is as below:

Table 26: Revised Parameters

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 2018	December, 2017 to May, 2018	62.4326	359.6505	119.75
January to June 2019	June to November, 2018	62.4326	359.6505	120.75

9.1.7 ***Based on the above, the cost of gas is provisionally determined at Rs. 200,614 million for the said year. The petitioner is, however, directed to submit a review petition to the Authority latest by October 15, 2018 for review of its estimated revenue requirements as required under Section 8(2) of the Ordinance, keeping in view the actual and anticipated changes in international prices of crude and HSFO during the period June to November, 2018 and the trend of Rupee – Dollar exchange rate.***

9.2 Unaccounted for Gas (UFG)

9.2.1 The petitioner has claimed UFG for the said year at 13.29% (59,966 MMCF), as follows:

Table 27: UFG Volume Claimed in the Petition

	Volumes in MMCF
Particulars	FY 2018-19
	The Petition
Gas Purchases	428,576
Gas Sales	368,172
	59,966
UFG(%age of Purchases)	13.29%

9.2.2 *The Authority based on its working of Gas Internally Consumed (GIC), at paras from 9.3.54 to 9.3.58 below determines UFG at 13.98% for the said year as under:*

Table 28: Calculation of UFG Adjustment determined by the Authority

MMCF

Particulars	The Petition 2018-19	Determined by the Authority
Gas Purchases:		
Gross Purchases	428,576	428,576
Less: Gas Internally Consumed-metered	3,437	494
Available for Sale	**425,139**	**428,082**
Gas Sales:		
Gas Sales	365,354	365,354
Add: Gas Shrinkage at JJVL - LPG/NGL	2,784	2,784
Add: Gas Shrinkage at LHF - Condensate	35	35
Total	**368,173**	**368,173**
UFG Volume	56,966	59,909
UFG Projected	**13.29%**	**13.98%**
UFG Benchmark (Benchmark)	5.00%	5.00%
Provisional allowance for local operating conditions	1.30%	1.30%
Allowable UFG Volume @ 6.30% Benchmark	27,000	27,000
Disallowed Volume (MMCF)	29,966	32,909
WACOG (Rs./MCF)		421.25
UFG Adjustment (Rs. in million)		13,863

9.2.3 *Revised UFG adjustment on the basis of above, is provisionally computed at Rs. 13,863 million for the said year.*

i. Response on petitioner's Legal Counsel & Interventions

9.2.4 The points raised by the legal counsel of Sui Companies (petitioners') regarding UFG of prior years and Key Monitoring Indicators (KMIs) are being dealt with separately. The legal counsel has pleaded that the local conditions allowance Rate 2 be allowed to the maximum upfront. In this connection, it is informed that the allowance for local challenging conditions has been fixed at a maximum of 2.6 % and is linked with the KMI's achievement. To compute and evaluate ERRs in prospective years, the Rate 2 will be taken at 50% in line with the UFG study and the same will be actualized in line with the achievement of proposed KMI at the time of respective FRRs on submission.

9.2.5 The other intervener's criticism on treatment of UFG and computation of UFG benchmark through a formula recommended by Consultant is whimsical as a thorough and impartial process has been followed to resolve this long outstanding issue.

9.2.6 The UFG benchmark has been determined in accordance with the recommendation of the UFG Study conducted by the Consultant of international repute i.e. M/s KPMG Taseer Hadi & Co. Chartered Accountants (KPMG).

9.2.7 During the course of study extensive consultations were held with the stakeholders to make the process meaningful which inter-alia includes placement of draft reports on the website, advertisements in leading newspapers for seeking comments, holding of public consultation sessions in all provinces and Federal Capital.

9.2.8 OGRA reiterates its stance that given in earlier determinations that Consultant has taken into account comments of gas companies and other stakeholders and used an analytical approach while giving due consideration to international practices and ground realties faced by the gas companies.

9.2.9 OGRA acknowledges the approach of Consultant for proposing a roadmap with specimen KMI and their linkage with the UFG Allowance. In order to take maximum benefit of the proposed formula gas companies will ensure that appropriate and serious efforts are directed towards reducing UFG, as the local challenging conditions component is linked to the achievement of KMIs.

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. 19,430 million for the said year, as detailed below:-

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

Rs. in Million

Particulars	FRR	DERR	Actual	The Petition	Inc./(Dec.) over DERR FY 2017-18	
	FY 2016-17	FY 2017-18	July, 17 to Mar. 18	FY 2018-19		%
Salaries, wages, and benefits at benchmark	12,431	13,509	9,271	14,156	647	5
Revenue expenditure relating to LNG	96	338	491	1,183	845	250
Professional charges	18	46	15	122	76	165
Others	103	123	87	234	111	91
Stores, spares and supplies consumed	595	659	457	1,026	367	56
Insurance	119	146	91	216	71	48
License & Tariff Petition Fee to OGRA	57	58	41	84	26	46
Repairs & maintenance	1,570	1,727	1,175	2,208	481	28
Traveling	108	119	73	159	40	34
Postage & bill delivery by Contractors	82	94	62	124	30	32
Advertisement	108	115	24	150	35	30
Rent, rate & taxes	161	202	135	257	55	27
Legal charges	286	91	47	213	122	134
Gas bills collection charges	181	173	143	208	35	20
Security expenses	554	582	430	656	74	13
Gas bills stubs processing charges	22	24	14	26	2	10
Meter reading by contractors	69	77	51	84	7	9
Electricity	189	208	140	223	15	7
Material used on consumers installations	34	41	14	39	(2)	(5)
Collecting agent commission	0.364	3	0.268	3	-	-
Sub-total Cost	**16,834**	**18,334**	**12,762**	**21,371**	**3,037**	**17**
Less: Recoveries / Allocations	2,177	2,260	1,368	2,219	(41)	(2)
Net T&D Cost before GIC	**14,656**	**16,074**	**11,393**	**19,152**	**3,078**	**19**
Add: Gas consumed internally	198	298	216	278	(20)	(7)
Net Transmission & Distribution Cost	**14,864**	**16,372**	**11,609**	**19,430**	**3,058**	**19**

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. 13,509 million per DERR for FY 2017-18 to Rs. 14,156 million for the said year, showing an increase of 5%.

9.3.4 The petitioner has further informed that it is in the process of carrying out a detailed manpower assessment study, and hence requested to allow Rs. 14,156 million for the said year.

9.3.5 *The Authority accept the petitioner's stance and allows HR cost at Rs. 14,156 million on provisional basis for the said year, keeping in view the inflation factor.*

9.3.6 The Authority directs the petitioner, at the time of final revenue requirement, shall provide a certificate by its statutory auditors along with detailed break-up of HR cost actually paid, accrued and capitalized to the effect that HR cost used includes all regular, contractual and casual staff / labour. Further, no HR related cost in respect of petitioner's employee has been booked in any other head of account.

iii. Repair and Maintenance

9.3.7 The petitioner has projected an amount of Rs. 2,208 million to be spent on repair and maintenance related activities during the said year.

9.3.8 *The Authority, keeping in view the operational requirement of the petitioner and capitalization trend in this head, allows an amount of Rs. 1,884 million (actual of FY 2016-17 plus 10% per year inflation impact) for the said year.*

iv. Stores Spares and Supplies Consumed

9.3.9 The petitioner has projected an amount of Rs. 1,026 million, thereby projecting a significant increase of 56% over DERR of FY 2017-18, breakup of the same is as under:-

Table 30: Comparison of Projected Stores Spares and Supplies with Previous years

					Rs. in Million	
Particulars	FRR	DERR	Actual	The Petition	Inc./(Dec.) over DERR FY 2017-18	
	FY 2016-17	FY 2017-18	July-March, 2018	FY 2018-19	Rs.	%
Transmission & Compression and others	161	155	115	242	86	56
Distribution	370	421	300	656	234	56
Head Office	52	77	42	119	43	56
Freight & handling	12	6	-	9	3	56
Total	595	659	457	1,026	367	56

9.3.10 The petitioner has explained that the Authority deducted an amount of Rs. 339 million at the time of ERR of FY 2017-18. The petitioner has also explained that the increase is due to inflation impact along-with extensive UFG control activities. 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.

9.3.11 The Authority observes that the petitioner, at the time of DERR FY 2017-18, had provided similar justification, while claiming Rs. 998 million against the above head. However, actual expenditure up to March, 2018 has remained at Rs. 457 million as against Authority's determination of Rs. 659 million. The Authority notes that no significant activities have been projected by the petitioner, which may lead to increase the said expense by 56%.

9.3.12 The Authority has always allowed prudent and justified expenditures for smooth operations of company. However, projecting gigantic increase of 56% without providing concrete justification is not allowable.

9.3.13 ***The Authority keeping in view the petitioner's justification, projected operational activities, historical trend & anticipated inflationary increase coupled with US$ parity, decides to provisionally allow Rs. 725 million i.e. 10% increase over DERR FY 2017-18 for the said year.***

v. Traveling

9.3.14 The petitioner has projected traveling expenses at Rs. 159 million for the said year, showing an increase of 34% over DERR of FY 2017-18, as tabulated below;

Table 31: Comparison of Projected Traveling Expense with the Previous Years

					Rs. in Million	
Particulars	**FRR**	**DERR**	**Actual**	**The Petition**	**Inc./(Dec.) over DERR FY 2017-18**	
	FY 2016-17	**FY 2017-18**	**July-March 2018**	**FY 2018-19**	**Rs.**	**%**
Local Traveling-Executive	25	27	16	30	2	8
Local Traveling-Subordinates	4	4	2	8	3	70
Foreign Travelling	0	-	-	2	2	100
Other Traveling	80	87	55	121	33	38
Total	**108**	**119**	**73**	**159**	**40**	**34**

9.3.15 The petitioner has explained that out of its claim of Rs. 141 million, Rs. 119 million was allowed in respect of travelling expenses by the Authority at the time of DERR for FY 2017-18. The petitioner has attributed the increase to general inflation and expected increases in fare rate for local traveling including TA/DA.

9.3.16 The petitioner has also explained that 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 has increased. Other reasons also include frequent traveling of its Board of Directors and its committee meetings in others cities of the country.

9.3.17 The Authority notes that the petitioner has been advancing similar justification from last many years. However, year-end actual expenditures do not commensurate with initial projections made by petitioner itself. The Authority, however, is of the view that anticipated increase in international oil prices coupled with higher Rupee Vs. US$ parity may result in hike in petroleum products during the said year, thereby leading slight increase to travelling expense.

9.3.18 ***In view of above, the Authority considering actual expenditure incurred in the past and considering anticipated POL prices, decides to allow an increase of 10% over DERR FY 2017-18 and provisionally fixes traveling at Rs. 131 million for the said year.***

vi. Legal Charges

9.3.19 The petitioner has projected legal charges for the said year at Rs. 213 million, as shown below:

Table 32: Comparison of Projected Legal Charges with the Previous Years

					Rs. in Million	
Particulars	FRR	DERR	Actual	The Petition	Inc./(Dec.) over DERR FY 2017-18	
	FY 2016-17	FY 2017-18	July-March	FY 2018-19	Rs.	%
Legal Charges	76	91	47	113	22	24
HCPC	210	-	-	100	100	100
Total	286	91	47	213	122	134

9.3.20 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, land issues including RLNG/other projects, Suo moto cases by Supreme & High Courts, IPPs role, employees related matters, gas holiday, billing issues/ gas theft both criminal as well as civil matters. 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.

9.3.21 The Authority notes that the petitioner had advanced similar justifications in its previous petition of ERR for FY 2017-18, however, results upto March, 2018 indicates that Rs. 47 million has been incurred (i.e. 51% actualization in 3 quarters).

9.3.22 The Authority further observes that the petitioner has claimed that Rs. 100 million on account of Habibullah Coastal Power Company (HCPC). The Authority, however, notes that the petitioner at the time of FRR for FY 2016-17 had informed that it has taken up the matter with GoP for the resolution of liquidated damages and penalties, as the matter had mainly arisen due to claim from Government owned entity WAPDA to HCPC for non-supply of electricity. Accordingly, Ministry of Energy had formulated a committee to solve the outstanding issues between the petitioner, HCPC and WAPDA.

9.3.23 ***In view of above, the Authority directs the petitioner to settle the issue amicably among the parties, before commencement of next financial year. Till such time, the Authority decides to pend the claim on account of HCPC, as the same shall be reviewed at year end based on the circumstances prevalent at that time.***

9.3.24 ***In view of above, the Authority decides to fix legal charges at the level of DERR for FY 2017-18 and provisionally allow Rs. 91 million under the head of Legal Charges for the said year.***

vii. Professional Charges

9.3.25 The petitioner has projected professional charges for the said year at Rs. 122 million as against Rs. 46 million, projected an increase of 165% over DERR of FY 2017-18, as shown below:

Table 33: Comparison of Projected Professional Charges with the Previous Years

Particulars	FRR	DERR	Actual	The Petition	Inc./(Dec.) over DERR FY 2017-18	
					Rs. in Million	
	FY 2016-17	FY 2017-18	July-March	FY 2018-19	Rs.	%
Professional Charges	18	46	15	122	76	165
Total	18	46	15	122	76	165

9.3.26 The petitioner has explained that at the time of DERR for FY 2017-18, the Authority deducted an amount of Rs. 34 million i.e. 43% from professional charges. The petitioner has submitted that out of Rs. 122 million, Rs. 63 million has been projected under the sub-head of "consultancy charges" for carrying out studies in respect of nitrogen blending plant, pipe coating and planned transmission & distribution project.

9.3.27 The Authority observes that the petitioner has been projecting consultancy charges against the above said projects from FY 2017-18, however, non-execution of the same indicates petitioner's non-seriousness towards its own activities. Actual expenditure during July-March, 2018 has remained at Rs. 15 million as against its earlier projections of Rs. 80 million.

9.3.28 ***In view of above, the Authority decides to provisionally fix professional charges at Rs. 46 million for the said year.***

viii. Postage & Bill Delivery by Contractors

9.3.29 The petitioner has projected postage & bill delivery by contractors for the said year at Rs. 124 million, as shown below:

Table 34: Comparison of Postage & Revenue Stamps Charges with the Previous Years

Particulars	FRR	DERR	Actual	The Petition	Inc./(Dec.) over DERR FY 2017-18	
					Rs. in Million	
	FY 2016-17	FY 2017-18	July-March	FY 2018-19	Rs.	%
Postage & bill delivery by Contractors	82	94	62	124	30	32
Total	82	94	62	124	30	32

9.3.30 The petitioner has attributed the increase in postage & revenue stamps charges to the revision of courier charges and expected enhanced activity. The petitioner has explained that increase in projected amount is due to expected increase in number of consumers as well as delivery of special notices and disconnection letters during recovery campaign. Moreover, the petitioner has informed that bill distribution contracts are matured and needs to be revised through bidding.

9.3.31 The Authority observes that increased activity coupled with projected consumer base envisaged during the said year does not commensurate to 32% increase as projected by the petitioner. Actual expenditure during first nine months of FY 2017-18 indicates that the petitioner will only be able to incur Rs. 82 million i.e. actual expenditure of FY 2016-17. ***In view of the same, the Authority considering anticipated activities and general inflation decides to fix postage & bill delivery by contractors at the level of DERR FY 2017-18 i.e. Rs. 94 million for the said year.***

ix. Others

9.3.32 The petitioner has projected "Others" at Rs. 234 million for the said year as against Rs. 123 million in DERR for FY 2017-18, showing an increase of 91%, as shown below:

Table 35: Comparison of Projected Other Expenses with the Previous Years

					Rs. in Million	
Particulars	FRR	DERR	Actual	The Petition	Inc./(Dec.) over DERR FY 2017-18	
	FY 2016-17	FY 2017-18	July-March	FY 2018-19	Rs.	%
Communications	19	6	16	67	61	1,017
Subscriptions	16	13	8	45	32	246
Other miscellaneous	68	104	62	122	18	18
Total	103	123	87	234	111	91

9.3.33 The petitioner has explained that in FY 2017-18, the Authority had disallowed Rs. 85 million, out of total claim of Rs. 208 million. The petitioner has further argued that 246% increase has been projected on account of sub-head of "subscription" which is envisaged due to prospective hiring in Grade-VIII and promotions. Moreover, number of General Managers have increased, resultantly increase in contribution paid on behalf of employees to the club, etc.

9.3.34 The Authority notes that the petitioner has not able to submit plausible justification in support of its claim. The Authority further notes that 91% increase under the head of "others" is not justifiable in view of the very fact that the company has been facing severe financial crunch. The Authority expects that the petitioner at this juncture shall try to avoid all its uneconomical expenditures.

9.3.35 ***In view of the above, the Authority decides to provisionally allow 10% increase over DERR for FY 2017-18 and provisionally fixes it at Rs. 135 million for the said year.***

x. Rent, Rates and Taxes

9.3.36 The petitioner has projected rent, rates and taxes at Rs. 257 million for the said year as against Rs. 202 million in DERR for FY 2017-18, showing an increase of 27%, as shown below:

Table 36: Comparison of Projected Rent, Rates and Taxes with the Previous Years

					Rs. in Million	
Particulars	FRR	DERR	Actual	The Petition	Inc./(Dec.) over DERR FY 2017-18	
	FY 2016-17	FY 2017-18	July-March	FY 2018-19	Rs.	%
Rent	131	145	105	150	5	3
Royalty	1	4	1	4	-	100
Others	29	53	29	103	50	95
Total	161	202	135	257	55	27

9.3.37 The petitioner has explained that at the time of DERR for FY 2017-18, the Authority had disallowed Rs. 21 million, out of total claim of Rs. 223 million. The petitioner has also explained that increase in rent, rates and taxes are mainly on account of way leave rental due to National Highway Authority payments. 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.

9.3.38 The Authority observes that petitioner has projected 95% increase over "others" without providing any concrete justification. The Authority further observes that out of Rs. 103 million, the petitioner has claimed Rs. 46 million in respect of "lease/way leave rental" as against actual expenditure of Rs. 4 million (July-March, 2018) and Rs. 2 million (FRR for FY 2016-17). Similarly, "property tax" and "water conservancy" has been envisaged at higher side without citing any justification. Accordingly, the Authority, considering actual expenditure in the past and the generic justification provided by the petitioner, decides to provisionally determine the sub-head of "others" at Rs. 58 million (10% increase over DERR FY 2017-18).

9.3.39 ***In view of above, the Authority provisionally determines rent, rates and taxes Rs. 212 million for the said year.***

xi. Insurance

9.3.40 The petitioner has projected insurance expense at Rs. 216 million for the said year, showing an increase of 48% over DERR of FY 2017-18, as tabulated below:

Table 37: Comparison of Projected Insurance Expense with the Previous Years

					Rs. in Million	
Particulars	**FRR**	**DERR**	**Actual**	**The Petition**	**Inc./(Dec.) over DERR FY 2017-18**	
	FY 2016-17	**FY 2017-18**	**July-March 2018**	**FY 2018-19**	Rs.	%
Third Party	1	1	1	2	0	29
Fire risk/Damage to property	55	67	34	96	29	42
Other Insurance	63	77	55	118	42	54
Total	**119**	**146**	**91**	**216**	**71**	**48**

9.3.41 The petitioner has attributed the increase mainly to the raise in insurance premium pertaining to asset base. The petitioner has also explained that war risk for the said year has also been resulting in increase under the above head.

9.3.42 The Authority observes that the petitioner has not provided concrete justification in support of its claim. ***The Authority, keeping in view the insufficient justification, allowed asset base and actual spending, decides to provisionally fix it at the level of DERR for FY 2017-18 i.e. Rs. 146 million for the said year.***

xii. **Advertisement**

9.3.43 The petitioner has projected advertisement expenses at Rs. 150 million for the said year. The breakup of the same is as under;

Table 38: Comparison of Projected Advertisement Expense with the Previous Years

					Rs. in Million	
Particulars	**FRR**	**DERR**	**Actual**	**The Petition**	**Inc./(Dec.) over DERR FY 2017-18**	
	FY 2016-17	**FY 2017-18**	**July-March**	**FY 2018-19**	Rs.	%
Operational	52	45		55	10	22
Consumer Education(Media Ca	44	60		82	22	37
Corporate Image Building	11	10		13	3	30
Total	**108**	**115**	**24**	**150**	**35**	**30**

9.3.44 The petitioner has explained that projected increase is due to adherence to OGRA directives in respect of advertisement for customer awareness campaigns, winter campaigns and tender advertisements. The petitioner has reinforced targeted actions.

9.3.45 The petitioner has also explained that an upward revision of print media tariff and campaigns against theft also lead the advertising expenses to enhance from the previous years.

9.3.46 The Authority has always appreciated petitioner's extensive efforts in respect of media campaigns for educating consumers. Actual expenditure under the head of advertisement during July-March, 2018 has remained at Rs. 24 million, which indicates that the petitioner, in compliance of Authority's directions as per DERR FY 2017-18, has initiated cost effective awareness campaigns. Such actions are highly appreciable. The Authority reiterates its direction in respect of consumer awareness through SMS, emails, signboards, petitioner's websites and gas bills.

9.3.47 ***The Authority, keeping in view the actual spending, decides to provisionally fix it at the level of FRR for FY 2016-17 i.e. Rs. 108 million for the said year.***

xiii. Gas Bill Collection Charges

9.3.48 The petitioner has projected gas bill collection charges at Rs. 208 million, thereby projecting an increase of 20% over DERR for FY 2017-18 which is as under;

Table 39: Comparison of Projected Gas Bill Collection Charges with Previous Years

					Rs. in Million	
Particulars	FRR	DERR	Actual	The Petition	Inc./(Dec.) over	
	FY 2016-17	FY 2017-18	July-March	FY 2018-19	Rs.	%
Gas Bills collection charges	181	173	143	208	35	20
Total	181	173	143	208	35	20

9.3.49 The petitioner has projected gas bill collection charges at Rs. 208 million, calculated @ Rs. 9 / bill for the said year. The Authority notes that the petitioner has been providing similar justification from last many years. However, per bill rate has not yet been revised by State bank of Pakistan.

9.3.50 ***In view of the same, the Authority keeps the collection charges at Rs. 8 per bill, and provisionally allows Rs. 185 million on this account for the said year.***

xiv. Revenue Expenditure Relating to LNG

9.3.51 The petitioner has projected revenue expenditure relating to LNG for the said year at Rs. 1,183 million including GIC, as shown below:

Table 40: Comparison of Projected Revenue Expenditure Relating to LNG with the Previous Years

					Rs. in Million	
Particulars	FRR	DERR	Actual	The Petition	DERR FY 2017-18	
	FY 2016-17	FY 2017-18	July-March	FY 2018-19	Rs.	%
Revenue Expenditure Relating to LNG	96	338	491	1,183	845	250
	96	**338**	**491**	**1,183**	**845**	**250**

9.3.52 The petitioner has explained that Rs. 119 million has been claimed on account of revenue expenditure relating to LNG and Rs. 1065 million has been projected on account of GIC for RLNG activities.

9.3.53 The Authority observes that RLNG project is of utmost important to reduce energy crisis of Pakistan, and hence is allowed. The Authority, however, as per para 9.3.58 decides to allow GIC at Rs. 853 million at the rate of average purchase price of imported LNG of Rs. 920.20/MMBTU. ***In view of the same, the Authority provisionally allows Rs. 972 million including GIC during the said year, and decides to charge it to RLNG consumers as per the ECC decision.***

xv. Gas Internally Consumed (GIC)

9.3.54 The petitioner has projected GIC-metered of 3,437 MMCF for the said year. The said volume includes 2,695 MMCF related to RLNG operations which is to be recovered from RLNG consumers, being ring fenced / based on prevalent policy of FG on the matter.

9.3.55 The Authority notes that as per historical trend of the past two years the petitioner has been handling 100 MMCF of gas by consuming one MMCF as GIC. Moreover, volume of gas handled/compressed during the said year excluding RLNG volume has been projected to be 37,200 MMCF.

9.3.56 ***In view of the above and the historical trend, the Authority for handling indigenous gas volumes of 37,200 MMCF during the said year, allows a volume of 494 MMCF GIC-metered for the said year. Accordingly, the Authority, taking into account the revised cost of gas at the petitioner' system, determines the GIC at Rs. 225 million for the said year.***

9.3.57 The Authority further notes that the petitioner has projected a volume of 2,695 MMCF related to RLNG operations whereas actual figure of GIC-RLNG in FY

2016-17 was 862 MMCF. The petitioner has not provided plausible justification for this very high projection, keeping in view the fact that most of the gas is being swapped from nearby fields to SNGPL.

9.3.58 ***In view of the above, the Authority provisionally determines GIC for RLNG related operations as 862 MMCF (actual of FY 2016-17) subject to actualization at FRR stage, however since the pricing of RLNG is ring fenced therefore the same will be recovered from RLNG consumers only. Accordingly, the Authority, as per para 7.3.9, determines the GIC at Rs. 853 million for the said year.***

xvi. Remaining Items of Transmission and Distribution Cost

9.3.59 The items of transmission and distribution costs, except those dealt with in sub-para ii to xvii of para 9.3 above, are projected by the petitioner at Rs. 375 million for the said year, as against Rs. 353 million in DERR FY 2017-18, showing an increase of 6%, as given below:

Table 41: Comparison of Remaining Item of Projected T&D Expense with Previous Years

Rs. in Million

Particulars	FRR	DERR	Actual-July to Mar. 2018	The Petition	Inc./(Dec.) over DERR FY 2017-18	
	FY 2016-17	FY 2017-18		FY 2018-19		%
Gas bills stubs processing charges	22	24	14	26	2	10
Meter reading by contractors	69	77	51	84	7	9
Electricity	189	208	140	223	15	7
Material used on consumers installations	34	41	14	39	(2)	(5)
Collecting agent commission	0.364	3	0.268	3	-	-
Remaining T&D-total Cost	364	353	220	375	22	6

9.3.60 ***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. 375 million for the said year.***

xvii. Transmission and Distribution Cost Determined by the Authority

9.3.61 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. 18,005 million as against Rs. 19,430 million claimed by the petitioner, as follows:

Table 42: Summary of T&D Cost Determined by the Authority

Particulars		Rs. in Million
	FY 2018-19	
	The Petition	Determined by the Authority
Salaries, wages, and benefits at benchmark	14,156	14,156
Revenue expenditure relating to LNG	1,183	972
Professional charges	122	46
Others	234	135
Stores, spares and supplies consumed	1,026	725
Insurance	216	146
License & Tariff Petition Fee to OGRA	84	84
Repairs & maintenance	2,208	1,884
Traveling	159	131
Postage & bill delivery by Contractors	124	94
Advertisement	150	108
Rent, rate & taxes	257	212
Legal charges	213	91
Gas bills collection charges	208	185
Security expenses	656	656
Remaining T&D expenses	375	375
Sub-total Cost	**21,371**	**19,999**
Less: Recoveries / Allocations	2,219	2,219
Net T&D Cost before GIC	**19,152**	**17,780**
Add: Gas consumed internally	278	225
Net Transmission & Distribution Cost	**19,430**	**18,005**

9.4 Other Charges

i. Provision for Doubtful Debts

9.4.1 The petitioner has projected Rs. 1,287 million on account of provision for doubtful debts. Historical trend is as under;

Table 43: Comparison of Provision for Doubtful Debts with Previous Years

Particulars	FRR	DERR	Actual	The Petition	Inc./(Dec.) over DERR FY 2017-18	Rs. in Million
	FY 2016-17	FY 2017-18	July to Dec.	FY 2018-19	Rs.	%
Provision for doubtful debts	791	626		1,287	661	106
Total	**791**	**626**	**-**	**1,287**	**661**	**106**

9.4.2 The petitioner has claimed Rs. 1,287 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, as per its benchmark and the information provided by the petitioner, computes provision against doubtful debts for disconnected consumers at Rs. 1,063 million.*** The Authority reiterates its directions to actively follow the GoP's directives in respect of effective recovery mechanism in natural gas sector.

ii. Sports Club Expenses

9.4.4 The petitioner has claimed an amount of Rs. 75 million under the head of "Sports Club Expenses". The breakup of same is as under:

Table 44: Comparison of Sports Club Expenses with Previous Years

Rs. In Million

Description	Actual FY 2016-17	Provisional FY 2017-18	Actual July-March 2018	FY 2018-19 The Petition	Inc. / (Dec.) over FY 2017-18	
Sports Expenses	63	59	56	75	16	27
Total	**63**	**59**	**56**	**75**	**16**	**27**

9.4.5 The petitioner has submitted that it has been spending sports related expenses as the said activity needs continuous support from the corporate sector. The petitioner has further informed that three members of its cricket team were part of National team in the final of ICC champions trophy 2017, won by Pakistan in England. In addition, its cycling, football and hockey teams are also doing considerably well at national level.

9.4.6 The Authority appreciates petitioner's activities in respect of Sports, being healthy activity for the society. However, claiming 27% increase over FY 2017-18 without citing any justification is not allowable. ***The Authority in view of the same decides to fix at the level of FRR for FY 2016-17 i.e. Rs. 63 million on account of Sports Club Expenses. The Authority however, directs the petitioner to curtail sports charges within reasonable limit, since every expense is being funded by poor natural gas consumers.***

iii. Corporate Social Responsibility (CSR)

9.4.7 The petitioner has claimed an amount of Rs. 141 million under the head of "CSR. The breakup of same is as under:

Table 45: Comparison of Corporate Social Responsibility with Previous Years

				Rs. In Million		
Description	FRR	DERR	Actual	FY 2018-19	Inc. / (Dec.) over	
	FY 2016-17	FY 2017-18	July-March 2018	The Petition	DERR FY 2017-18	
Corporate Social Responsibilty	12	55	4	141	86	156
Total	12	55	4	141	86	156

9.4.8 The petitioner has claimed Rs. 141 million on account of CSR, the breakup of the same as under;

Table 46: Breakup of Corporate Social Responsibility for the said year.

	Rs. In Million
Description	FY 2018-19
	The Petition
Enviroment	14
Health	18
Other Social Welfare Projects	10
Education	100
Total	141

9.4.9 The petitioner has submitted that it has been spending in different areas of CSR including health, environment, noble cause for the development of community with more emphasis to less privileged areas. The Authority has always encouraged expenses incurred in connection with CSR activities. The Authority, in the new tariff regime, has introduced following criteria in respect of CSR related activities;

(i) It shall be incurred on account of;
- (a) health and environment in the underdeveloped/gas producing districts, in the area of operation of the licensee.
- (b) education and sports activities.

9.4.10 The expenses incurred per criteria (i) above, shall be equally contributed by licensee from its own profit.

9.4.11 ***In view of above, the Authority decides to include Rs. 71 million on account of CSR as part of revenue requirement for the said year and directs the petitioner to comply the criteria as stipulated in above paras as well as New Tariff Regime.*** The same shall be scrutinized on the basis of touchstone prudence in the light of criteria framed in New Tariff Regime and Securities and Exchange Commission of Pakistan (SECP) Code of Corporate Governance. The petitioner is further directed to chalk out detailed long term plan regarding CSR abreast with the criteria enshrined in Tariff Regime for Regulated Natural Gas Sector.

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

9.4.12 The petitioner has claimed Rs. 455 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. 4,466 million;

10.1.2 determine estimated addition in fixed assets at Rs. 11,110 million, and depreciation charge at Rs. 6,691 million;

10.1.3 determine balance of average net operating fixed assets Rs. 70,578 million as against Rs. 75,396 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. 12,302 million;

10.1.4 determine income at Rs. 166,381 million as against Rs. 169,333 million offered by the petitioner;

10.1.5 determine cost of gas at Rs. 200,614 million as against Rs. 164,790 million offered by the petitioner;

10.1.6 determine UFG adjustment at Rs. 13,863 million;

10.1.7 determine T&D expenses at Rs. 17,780 million as against Rs. 19,153 million claimed by the petitioner;

10.1.8 determine cost of GIC at Rs. 225 million as against Rs. 278 million claimed by the petitioner;

10.1.9 determines other charges including W.P.P.F. to Rs. 1,679 million as against Rs. 3,916 million claimed by the petitioner; and

10.1.10 determines subsidy pertaining to air-mix LPG at Rs. 693 million for the said year as against Rs. 1,750 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. 226,122 million (as tabulated below):

Table 47: Components of ERR for the Said Year as Determined by the Authority

Rs. in million

S.No	Particulars	Claimed by the Petitioner	Determined by the Authority
1	Cost of gas sold	164,790	200,614
2	UFG adjustment	(1,238)	(13,863)
3	Transmission and distribution cost	19,153	17,780
4	Gas internally consumed	278	225
5	Depreciation	7,032	6,691
6	Other charges including WPPF	3,916	1,679
7	Return on net average operating fixed assets	12,817	12,302
8	Additional revenue requirement for Air-Mix LPG Projects	1,750	693
	Total Final Revenue Requirement	**208,498**	**226,122**

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. 166,381 million, as against the revenue requirement of Rs. 226,122 million and thus there is a shortfall of Rs. 59,741 million in its estimated revenue requirement for the said year. In order to adjust this surplus, the Authority hereby makes upward adjustment of Rs. 166.88 per MMBTU on provisional basis in its average prescribed price for the said year (**Annexure-A**).

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

Rule 17(1)(h)

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

Rule 17(1)(j)

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

10.6 While determining the prescribed prices, the Authority has considered the petitioner' legal counsel arguments, interveners contentions, ground realities in view of indigenous gas constraints, enhanced proportion of RLNG in the gas sector of Pakistan as an alternative, in the energy consumption and relevant provisions under the legal framework. Accordingly, the prescribed prices under each category of consumers has been determined and are attached at (**Annexure-B**). The rationale of the same is provided below;

10.6.1 The Authority, as a matter of principle under legal domain, is of the view that all the classes of consumers should at least pay the average cost of service or the average prescribed price except wherever FG policy guideline has been provided, which shall be implemented accordingly.

10.6.2 The domestic and special commercial consumers, particularly first two slabs, earlier have been highly subsidized. The same have been decided to be rationalized gradually keeping in view the cost of alternative fuels available to major proportion of the population. Accordingly, in respect of existing first slab (upto 100 HM^3), the prescribed price has been determined at 50% of average cost of service. The next slab is, over 100 HM^3 and upto 300 HM^3 and its prescribed price has been determined equal to average cost of service.

10.6.3 All rest of consumer categories including the 3rd slab in domestic and Special commercial category of consumers (over 300 HM^3), Bulk domestic, Commercial, Power, Independent Power Producer, Industry, Fertilizer (old), CNG, Captive power and Cement absorbs the remaining shortfall of the determined revenue requirement based on the existing prices.

10.6.4 In case of old fertilizer plants, the Government, as per existing sale prices, is providing cross subsidy while it is also charging GIDC. This aspect may be taken care while determining the sale price advice/revision in GIDC.

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

11. Directions

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

11.1.1 submit the amendment in the existing license in conformity with the ibid tariff regime in place.

11.1.2 takes into account the latest indicators while submitting/revising the petition for the financial year

11.1.3 ensure ring fencing of RLNG related capital and revenue cost as a separate segment.

11.1.4 address/attend to the problems being faced by its consumers, as highlighted in the public hearings, with the objective to resolve the same within the stipulated timelines. Further, if required, put forward plans/solutions for Authority approval regarding the improvement in the quality of the service to the consumers.

11.1.5 strictly follow the FG Policy while processing the gas connections during the said year.

11.1.6 provide a certificate by its statutory auditors along with detailed break-up of HR cost actually paid, accrued and capitalized to the effect that HR cost used includes all regular, contractual and casual staff / labour. Further, no HR related cost in respect of petitioner's employee has been booked in any other head of account.

11.1.7 submit the concrete proposals, within one month of the issuance of this Order, to revise/ review the existing depreciation rate based on the precise economic life of the different regulated assets in order to bring the uniformity across the sector as per provision of the tariff regime in place.

11.1.8 settle the issue of HCPC amicably among the parties, before commencement of next financial year.

11.1.9 continue consumer awareness through SMS, emails, signboards, petitioner's websites and gas bills.

11.1.10 actively follow the GoP's directives in respect of effective recovery mechanism in natural gas sector.

11.1.11 curtail sports charges within reasonable limit, since every expense is being funded by poor natural gas consumers.

11.1.12 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.

11.1.13 comply the criteria in respect of CSR as stipulated in above paras as well as New Tariff Regime.

11.1.14 chalk out detailed long term plan regarding CSR abreast with the criteria enshrined in Tariff Regime for Regulated Natural Gas Sector.

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

11.1.16 curtail sports charges within reasonable limit, since every expense is being funded by poor natural gas consumers.

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

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, gas allocation, natural gas tariff & its structure, Gas Development Surcharge, Gas Infrastructure Development Cess (GIDC) and etc. which falls within the purview of GoP. **The Authority, keeping in view the vehemently requests by the interveners, considers it important to draw specific attention of the FG regarding policy issues as included in Para. 3 above for due consideration, some of them are specifically highlighted as under;**

12.1.1 *Gas consumers are paying twice since they are paying the return on assets as well as GIDC. It has been demanded that FG should withdraw the GIDC or provide the funds from GIDC proceeds to undertake the capital infrastructure/CAPEX.*

12.1.2 *Certain class of consumer (particularly the domestic consumers) is enjoying privilege at the cost of other consumers. In order to eliminate this economic distortion, it has been urged that inter-class subsidies should be eliminated and the tariff should be set keeping in view the cost of alternative source of energy. Further, it has been demanded to discontinue the cross-subsidization as it is not in national interest since it impedes the growth of industry, exports and employment, which are basic needs of the economy.*

Dr. Abdullah Malik,
Member (Oil)

Noorul Haque,
Member (Finance)

Uzma Adil Khan,
(Chairperson)

Islamabad, June 21, 2018

ANNEXURE - A

A: Computation of Estimated Revenue Requirement for the Said Year

Rs. in Million

	Particulars	The Petition	The Adjustment	Determined by the Authority
Gas sales volume -MMCF		365,354		365,354
	BBTU	357,981		357,981
"A"	Net Operating Revenues			
	Net sales at current prescribed price	151,141	-	151,141
	Meter rentals	792	-	792
	Amortization of deferred credit	432	-	432
	Sale of LPG	2,133	(1,066)	1,066
	Sale of condensate	40	(20)	20
	Sale of NGL	355	(177)	177
	Late payment surcharge	3,353	-	3,353
	Meter manufacturing profit	26	(13)	13
	RLNG Tranportation Income	10,505	(2,035)	8,470
	Other operating income	557	360	916
	Total Operating Revenue "A"	169,333	(2,952)	166,381
"B"	Less: Operating Expenses			
	Cost of gas	164,790	35,824	200,614
	UFG Adjustment	(1,238)	(12,624)	(13,863)
	Transmission and distribution cost	19,153	(1,373)	17,780
	Gas internally consumed	278	(53)	225
	Depreciation	7,032	(341)	6,691
	Other charges	3,461	(2,237)	1,224
	WPPF	455	-	455
	Total Operating Expenses "B"	193,931	19,197	213,127
"C"	Operating profit (A-B)	(24,598)	(22,149)	(46,746)
Return required on net operating fixed assets:				
Net operating fixed assets at beginning		74,938	-	74,938
Net operating fixed assets at ending		93,310	(14,740)	78,570
		168,249	(14,740)	153,508
Average net assets (I)		84,124	(7,370)	76,754
Net LPG air mix project asset at beginning		553	-	553
Net LPG air mix project asset at ending		5,619	(5,105)	514
		6,172	(5,105)	1,067
Average net assets (II)		3,086	(2,552)	534
Net EETL asset at beginning		1,024	-	1,024
Net EETL asset at ending		996	-	996
		2,020	-	2,020
Average net assets (III)		1,010	-	1,010
Deferred credit at beginning - Assets related to Natural Gas Activity		4,466	-	4,466
Deferred credit at ending - Assets related to Natural Gas Activity		4,799	-	4,799
		9,265	-	9,265
Average net deferred credit (IV)		4,633	-	4,633
"D" Average (I-II-III-IV)		75,396	(4,818)	70,578
"E" return required		12,817	(516)	12,302
"F" Shortfall / (Surplus) in return required (E-C) (Gas Operations)		37,415	21,633	59,048
"G"	Additional revenue requirement for Air-Mix LPG Projects	1,750	(1,057)	693
Total Shortfall / (Surplus) H=(F+G)		39,165	20,576	59,741
Increase in average prescribed price effective (Rs. / MMBTU) w.e.f July 01, 2018		109.40	57.48	166.88
Estimated revenue requirement (B+E+G)		208,498	17,624	226,122
Average Prescribed Price (Rs. per MMBTU)		531.61	57.48	589.09

ANNEXURE - B

B: Provisional Prescribed Prices for the Said Year

	Particulars	Average Prescribed Prices for FY 2018-19	Category-wise Prescribed Price w.e.f July 01, 2018
		Rupees per MMBTU	
(i)	**Domestic Consumers:**		
	First slab (upto 100 cubic metres per month).	589.09	294.55
	Second slab (Upto 300 cubic metres per month).	589.09	589.09
	Third slab (over 300 cubic metres per month).	589.09	664.52
(ii)	**Special Commercial Consumers (Roti Tandoors)**		
	First slab (upto 100 cubic metres per month).	589.09	294.55
	Second slab (Upto 300 cubic metres per month).	589.09	589.09
	Third slab (over 300 cubic metres per month).	589.09	797.42
(iii)	**Commercial :**		
	All off-takes at flat rate of	589.09	797.42
(iv)	**Ice Factories:**		
	All off-takes at flat rate of	589.09	797.42
(v)	**Industrial:**		
	All off-takes at flat rate of	589.09	611.35
(vi)	**Captive Power :**		
	All off-takes at flat rate of	589.09	717.86
(vii)	**CNG Stations:**		
	All off-takes at flat rate of	589.09	822.09
viii)	**Cement Factories:**		
	All off-takes at flat rate of	589.09	930.33
(ix)	**Pakistan Steel**		
	All off-takes at flat rate of	589.09	611.35
(x)	**Fauji Fertilizer Bin Qasim Limited**		
	(i) For gas used as feed-stock for Fertilizer	589.09	155.98
	(ii) For gas used as fuel for generating steam and electricity and for usage in housing colonies for fertilizer factories	589.09	611.35
(xi)	**Power Stations**		
	All off-takes at flat rate of	589.09	611.35
(xii)	**Independent Power Producers**		
	All off-takes at flat rate of	589.09	611.35

ANNEXURE - C

C: 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 Station	Cathodic Protection Station
CP System	Cathodic Protection System,
CP	Constitutional Petition
CC&B	Customer Care and Billing
CMS	Customer Meter Station
DERR	Determination of Estimated Revenue Requirement
EETPL	Engro Energy Terminal Pvt. Ltd.
ENI	Ente Nazionale Idrocarburi
EVC	Electronic Volume Corrector
ECC	Economic Coordination Committee
FBATI	Federal Bureau Association of Trade & Industry
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
KCCI	Karachi Chamber of Commerce & Industry
KE	Karachi Electric
KPMG	Klynveld Peat MarwicK Goerdeler
KMI	Key Monitoring Indicators
LATI	Landhi Association of Trade & Industry
LPG	Liquified Petroleum Gas
LPS	Late Payment Surcharge
LNG	Liquified Natural Gas
MOE (PD)	Ministry of Energy (Planning Division)
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
MR	Market Return
MRP	Market Risk Premium
NGRA	Natural Gas Regulatory Authority
NKATI	North Karachi Association of Trade & Industry
NHA	National Highway Authority
OGDCL	Oil and Gas Development Company Ltd.
OGRA	Oil and Gas Regulatory Authority
OMV	Österr Mineralöl Verwaltung
PPL	Pakistan Petroleum Limited
PRS	Pressure Regulating Station
POD	Point of Delivery
PSO	Pakistan State Oil
QPL	Quetta Pipe Line
RF	Risk Free
RLNG	Re-Gasified Liquefied Natural Gas
RS	Regulating Station
ROW	Right of Way
SECP	Securities & Exchange Commission of Pakistan
SHC	Sindh High Court
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
WAPDA	Water And Power Development Authority
WPPF	Workers Profit Participation Fund