Case No. OGRA-6(2)-1(4)/2017-DERR

IN THE MATTER OF

SUI NORTHERN GAS PIPELINES LIMITED ESTIMATED REVENUE REQUIREMENT, FY 2018-19

UNDER

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

DECISION

June 21, 2018

Before:

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

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ANNEXURE

TABLES

1. Background

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

1.2. The petitioner filed the petition for determination of estimated revenue requirement for FY 2018-19 (the said year) on December 29, 2017 under Section 8(1) of the Oil & Gas Regulatory Authority Ordinance, 2002 (the Ordinance) and Rule 4(2) of the Natural Gas Tariff Rules, 2002 (NGT Rules). As per decision of the Federal Government, the petitioner has ring fenced the operating fixed assets and incremental operating cost related to RLNG business. Accordingly, the petitioner, for the said year, has claimed cumulative shortfall of Rs. 151,374 million for normal business of natural gas, Rs. 34,780 million transportation charges in respect of RLNG and Rs. 262 million revenue shortfall in respect of LPG business for the said year*(the amounts have been rounded off to the nearest million here and elsewhere in this document)*. The petitioner vide its letter dated March, 21, 2018 revised the petition to the extent of normal business of natural gas operation for the said year after incorporation of impact of decision of the Authority in respect of motion for review for Final Revenue Requirement (FRR) for FY 2016-17 amounting to Rs. 3,017 million and Rs. 993 million on account of Corporate Social Responsibility (CSR). The petitioner has further revised its petition for estimated revenue requirement vide its letter dated April 27, 2018 (the petition) for said year after incorporating the impact of cost of Customer Care & Billing (CC&B) project and has accordingly claimed shortfall in the estimated revenue requirement in respect of normal business of natural gas operation at Rs. 155,429 million, translating into total increase of Rs. 356.34 per MMBtu w.e.f July 1, 2018. This revenue shortfall includes previous year's cumulative shortfall as well amounting to Rs. 117,376 million translating into Rs. 269.09 per MMBTU.

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

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

			Rs/MMBtu
Particulars	FY 2016-17	FY 2017-18	FY 2018-2019
	FRR	DERR	The Petition
Sales volume (BBTU)	415,423	441,601	436,187
Cost of gas	373.14	360.57	372.81
UFG disallowance	(13.11)	(9.92)	(1.72)
Transmission & distribution cost	50.62	47.88	73.79
New Regions HR and Operating Cost	-	-	5.48
Operating cost of upgradation of CC&B			0.07
Depreciation	26.65	40.39	49.61
Late Payment Surcharge (Payable)	5.29	1.59	7.51
Finance cost for Working Capital	0.08	0.11	1.03
Corporate Social Responsibility (CSR)	-	-	2.28
Impact of IAS 19 (Recognization of Actuarial Losses) for FY 2015-16	5.90	-	-
Other Operating Expenses (Exchange Loss)	0.10	-	-
WPPF	1.02	1.89	2.61
Cumulative Shortfall pertaining to previous years	148.88	-	269.10
Total Operating Cost	**598.58**	**442.51**	**782.56**
Return on fixed assets	35.02	37.43	53.22
Other operating income	(24.84)	(24.73)	(24.23)
Avg Cost of service/ Prescribed price (PP)	**608.76**	**455.21**	**811.56**
Current average prescribed price	397.95	394.56	455.22
Increase in Average Prescribed Prices	**210.81**	**60.65**	**356.34**

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

1.5. A notice inviting interventions / comments on the petition from the consumers, general public and other interested / affected persons, was published on April 10, 2018 in daily local newspapers. The Authority received applications to intervene in the proceedings from the following persons / entities:

1. Mr. Raziuddin Razi, Chief Executive Officer, Khyber Pakhtunkhwa Oil & Gas Company Ltd. (KPKOGCL), Peshawar.

2. Energy & Power Department Government of Khyber Pakhtunkhwa.
3. Mr. Ghulam Qadir Awan, consumer
4. All Pakistan Textiles Mills Association.

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

1.7. A notice intimating the date, time and place of the public hearing, was published in the daily newspapers, on April 21, 2018. The same, owing to amendment in petition requested by the petitioner, was again published on May 1, 2018.

2. Salient Features of the Petition

2.1. Following submissions have been made in the petition

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

2.1.2. The petitioner, on account of natural gas normal business, has projected a gross addition of Rs. 92,561 million in the fixed assets (including Rs. 37,410 million assets carried forward) and ex-depreciation addition of Rs. 70,922 million, resulting projected increase in the net operating fixed assets from Rs. 117,958 million per DERR FY 2017-18 to Rs. 188,880 million during the said year. The petitioner has further claimed that after adjustment of deferred credits, the net average operating fixed assets eligible for return works out to Rs. 132,659 million, and the required return to Rs. 23,215 million.

2.1.3. The petitioner, in respect of LPG Air Mix Plants and RLNG, has projected average net operating fixed assets at Rs. 596 million and Rs. 50,132 million respectively for the said year.

2.1.4. The petitioner has projected the net operating revenues at Rs. 209,128 million, detailed below and compared with previous years:

Table 2: Comparison of Projected Operating Revenues with Previous Years

Rs. Million

Description	FY 2016-17	FY 2017-18	FY 2018-2019	Incr/Decr over DERR	
	FRR	DERR	The Petition		
Net sales at current prescribed price	165,318	174,236	198,561	24,325	14%
Rental and service charges	1,926	2,014	1,926	(88)	-4%
Surcharge and interest on arrears	3,444	4,291	3,788	(503)	-12%
Amortization of deffered credit	3,250	2,615	3,152	537	21%
Other operating income	1,701	2,000	1,701	(299)	-15%
Net operating Revenues	**175,639**	**185,156**	**209,128**	**23,972**	**13%**

2.1.5. The petitioner has projected the net operating expenses at Rs. 223,966 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	2018-19	Inc/(Dec) over DERR	
	FRR	DERR	The petition		
Cost of gas	155,013	159,226	162,613	3,387	2%
UFG disallowance	(5,448)	(4,380)	(750)	3,630	-83%
Transmission & distribution cost	21,028	21,144	32,185	11,041	52%
New Regions cost	-	-	2,391	2,391	-
Operating cost of upgradation of CC&B	-	-	31	-	-
Depreciation	11,073	17,838	21,639	3,801	21%
Other charges including WPPF	424	833	1,138	305	37%
Impact of IAS 19 (Recognization of Actuarial Losses) for FY 2015-16	2,451	-	-	-	0%
LPS on gas creditors	2,199	702	3,276	2,574	0%
Other operating expenses (Exchange Loss)	42	-		-	0%
Corporate Social Responsibility (CSR)	-	-	993	-	-
Finance cost for working capital	35	48	450	402	838%
TOTAL OPEX	31,804	36,185	61,353	24,144	67%
Total operating cost including cost of gas	186,817	195,410	223,966	27,532	14%

2.1.6. The petitioner has projected Weighted Average Cost of Gas (WACOG) for the said year at Rs. 330.83 per MMBTU, as against Rs. 325.22 per MMBtu determined in Determination of Estimated Revenue Requirement (DERR) FY 2017-18. The petitioner has explained that cost of gas is linked with international prices of crude oil (Crude) and High Sulphur Fuel Oil (HSFO) per Gas Pricing Agreements (GPAs) executed between the producers and GoP.

2.1.7. The cumulative shortfall in the projected revenue requirement after 17.5% return on average net operating fixed assets is estimated at Rs. 155,429 million, requiring an increase of Rs. 356.34 per MMBTU in the existing average prescribed price, as detailed below:

Table 4: Computation of requested increase in Average Prescribed Price

	Description	*Rs in Million*
A	Net operating revenues	209,128
B	Net operating expenses including WPPF	223,966
C	Shortfall (B-A)	14,838
D	Return required @ 17.5% on net fixed assets in operation	23,215
E	Shortfall in revenue requirement (D+C)	38,053
F	Shortfall determined by Authority pertaining to previous years	117,376
G	Cummulative Shortfall in revenue requirement (E+F)	155,429
H	Sales volume (BBTU)	436,187
Increase (Decrease) in the average prescribed price (Rs/MMBTU) (G/H*1000)		356.34

3. Proceedings

3.1. The Public Hearing

3.1.1. A public hearing was held at Peshawar on May 7, 2018 which was participated by the following;

Petitioner

i. Team led by Mr. Saghirul Hassan Khan, Chief Finance Officer

Intervener/Participants

i. Mr. Raziuddin Razi, representing KPKOGCL, Govt. of Khyber Pakhtunkhwa.

ii. Mr. M.H.Asif, representing, All Pakistan Textile Mills Association (KPK Region), Peshawar

iii. Mr. Fazal Muqeem Khan, All Pakistan CNG Association, KPK, Peshawar.

iv. Mr. Jamshaid Mohmand, Member Provincial Assembly, Khyber Pakhtunkhwa.

3.1.2. A public hearing was also held at Lahore on May 8, 2018 which was participated by the following;

Petitioner

i. Team led by Mr. Amer Tufail, Dy. Managing Director (Services)

Intervener/Participants

ii. Mr. Muhammad Aslam Chaudhry, Lahore.

iii. Mr. Ghulam Qadir Awan, Lahore

iv. Mr. Azhar Ali, Advocate High Court, Lahore.

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

3.2.1. The petitioner's legal counsel, during the hearing, submitted that the Authority under the provisions of the Ordinance is obligated to promote and ensure the observance of the efficient practices, safeguard the public interest including the national security interests of Pakistan in relation to regulated activities and protect the interests of all stakeholders inter-alia the people of Pakistan in general, the licensee and the Government of Pakistan. The public interest would mean something in which public at large had some interest or by which their rights or liabilities were affected, but would not mean interest to a particular person.

3.2.2. The counsel further stressed that Section 7 of the Ordinance provides that the Authority shall determine or approve the tariff for regulated activities keeping in view the cost of alternate or substitute source of energy. The counsel contended that in tariff determination process, the Authority is not only obligated to protect the interests of gas consumers, but the interests of public at the large. The counsel argued that natural gas, keeping in view the alternative sources of energy, is a privilege, not a right of the consumer at subsidized rates. Approximately 23% population in domestic category, which is comparatively well off, is consuming natural gas at subsidized rates through inter-class subsidy which is a case of economic distortion since one class of the society is enjoying the privilege at the cost of other. On the other, main chunk of the population is using expensive fuels in the form of LPG and Wood, which are considerably expensive. This distinction is creating discrimination/anomaly among the same class of the society at the same time.

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

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

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

3.2.6. Regarding the RLNG supply chain, the petitioner' legal counsel has submitted that the Province of Punjab is facing acute shortage of natural gas due to priority of other provinces on the natural gas extracted from well heads located there. As a consequence, a principle decision was taken by the Federal Cabinet to provide RLNG to SNGPL for supply to necessary quarters through a ring-fenced mechanism from the petitioners' ordinary course of business, i.e. transmission, distribution and sale of natural gas. Accordingly, the same is being done under the Petroleum Products (Petroleum Levy) Ordinance, 1961, based on pricing components also decided by the Federal Cabinet. The legal counsel contended that the petitioner however is facing numerous issues on account of supplying RLNG to end consumers. On different accounts, the matters associated to RLNG pricing, allocation and supply are in the courts whereby interim orders have also been passed. Resultantly, the petitioner is already facing shortfall in revenue of over Rs. 400 Million per month

3.2.7. Supply of RLNG is a new matter. The Authority has been requested to take a dynamic approach to the issues faced by the petitioner as a consequence of this new venture. In this vein, the regulator, i.e. this Authority, is obligated under the law, to look at the interests of all stakeholders.

3.2.8. RLNG is being supplied by the petitioner to industrial consumers, the CNG sector, fertilizer sector etc. in accordance with the socio-economic agenda of the State. This was on the express understanding that the petitioner will not be disadvantaged as a consequence of such supply. The petitioner however has had to suffer losses on account of RLNG supplies for various reasons—most of which are beyond its control including less retainage than actual as determined by the Authority

3.3. The Unaccounted for Gas (UFG) related contention made by petitioner's legal counsel and interveners have been incorporated in this order under the heading "Unaccounted for Gas (UFG)" and has been accordingly addressed/responded there.

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

3.4.1. The Human Resource (HR) Cost projected at Rs. 19,708 million for the said year is required to be bifurcated into operating cost for the financial year and allocated for capitalization. Accordingly, specific information with respect to manpower deployment in the development projects and their remuneration has been sought. The intervener referred that LESCO, which has more or less same number of consumers and dealing in the same kind of business, incurs the HR cost in accordance with national pay scales. The salaries paid to SNGPL however are exorbitant and unaffordable by the consumers.

3.4.2. As per petition, total revenue proposal (operating cost) has been projected at Rs. 47,197 Million and requirement for capital expenditures is Rs. 93,772 Million. It has been required to disclose the proportion of finance from the internal resources and through bank loans. Further, it is necessary to draw a comparison in respect of expected rate of interest viz a viz fixed rate of return of 17.5% allowed to the petitioner, causing to increase gas sale prices. Further, during last year, SNGPL has earned net profit of about Rs. 7 billion owing to financing of LNG projects through commercial loans at very nominal rates of 3-4 %/year while claiming the return on such assets at 17.5%. This has caused to increase the profit and paying dividends.

3.4.3. The consumer has been paying GIDC for gas infrastructure development and laying of LNG pipeline for gas supply, but it is not being utilized by SNGPL. Thus, the proceeds from GIDC are not being used for the purpose it has been charged. The consumers are therefore paying twice. It was agitated that the point of GIDC utilization has been raised time and again but the same still requires to be addressed.

3.4.4. There is no investment from shareholders therefore rate of return (ROR) @ 17.5% cannot be paid to shareholders. The investment is made by the consumers through GIDC, therefore they should be considered as shareholders in the investment for the purpose of return.

3.4.5. Serious concerns were expressed on the continuous increase in HR Cost directly impacting the operating cost, instead it should have been curtailed. HR cost constitutes main chunk of SNGPL operating cost, OGRA should rationalize the same by the protecting the consumers' interest.

3.4.6. It has been pointed out that the cost of legal services should not be charged to consumers because lawyers are not contesting/pleading the cases to safeguard the interest of consumers rather they are protecting the interests of shareholders.

3.4.7. As per terms of gas agreement, secured facility is granted by the consumers equal to last three months average gas consumption bill. Cost of doubtful receivables represent inefficient management owing to non-recovery of arrears from consumers and delay in disconnection of defaulting consumers. Timely disconnection can avoid this cost; the same therefore should not be transferred in consumer price.

3.4.8. APTMA's representative stressed that its stake in the matter of increase in gas pricing is substantial being one of the largest gas consumer group with having long standing record of largest foreign exchange earnings for the country. Over the years, the cost of doing business has been climbing up sharply for several reasons including increasing prices of utilities. The price of gas is therefore of vital importance to keep industrial units economically viable and operational.

3.4.9. The energy cost in our country is much higher than our competitor' countries in the international markets and consequently textile sector is facing reduction in exports. Any further increase will prove to be fatal for this export oriented industry and the same is definitely undesired keeping in view the public interests. The APTMA accordingly appealed to reduce the gas price for textile industry.

3.4.10. It has been emphasized that under the law, OGRA enjoys complete independence in decision making in all regulatory matters and is legally obliged to give primary importance to consumers' interest. In support of this contention, judgment dated December 12, 2012 of the Hon'ble Supreme Court of Pakistan in Const. petitions No. 33, 34 of 2005 and HRC No. 5332/2006 & CMA No. 4567 of 2012, has been referred.

3.4.11. The petitioner has projected the number of new connections in 2018-19 over one million i.e; 3-4 times as many as achieved in any past year. Consequently, associated CAPEX increased. Theses exaggerated estimates have produced a fantastic increase in return on assets and revenue requirement compared to OGRA determination in previous years. In view of the petitioner's exaggeration of the estimates, it has been implored the Authority to exercise greater caution in order not to unfairly overburden the consumers and pose a threat to the national economy by hurting industry and exports.

3.4.12. The interveners apprehended that the petitioner has tried to carry out number of schemes for extension of distribution mains and to provide new gas connections in certain new areas selected under political pressure. If that is so, the contention should be rejected since any decision on the basis of political pressure, in itself, is a negation of regulatory merit and fairness.

3.4.13. OGRA's State of Industry Report, 2016-17 states that country-wide gas shortage of 4 BCFD is almost equivalent to the current supplies. It further informs that the current supplies come from Sindh (56%), Baluchistan (13%), Khyber Pakhtunkhwa (12%), RLNG (16%) and Punjab (5%). In this scenario, there is absolutely no justification to extend gas distribution mains to new areas for domestic users. In addition to this cogent reason, the domestic connections are a big drain on overall economics of the petitioner because they are not charged the real cost of service and are cross-subsidized at the cost of the industry.

3.4.14. It has been demanded with concern that the policy of cross-subsidization should be discontinued forthwith as it is not in national interest. It impedes the growth of industry, exports and employment, which are basic needs of the economy. Therefore, the cost of providing new connections and their operating cost should be recovered from the consumers themselves and if that is not considered advisable, the FG should meet the same from the national exchequer.

3.4.15. It has been highlighted that, in KPK, the petitioner is sending the bills based on LNG tariff instead of normal price, which is flagrant violation of Article 158 of the Constitution of the Islamic Republic of Pakistan. KPK is a gas surplus province and all its consumers should receive gas at normal price under this constitutional provision. It has been accordingly requested OGRA to ensure that the petitioner operates within the bounds of the law of the land and save the helpless consumers from monopolistic exploitation.

3.4.16. The Human Resource (HR) Cost has been increasing over the years with substantial increase in salaries as well as the number of employees while its performance is dwindling. The quality of HR has also been deteriorating over the years and this will be vouched by any old consumer or the Authority itself which interacts regularly with the petitioner's officers. It has been requested to take measures to stop the rot before it is too late.

3.4.17. OGRA has done well to lay down several standards and conditions but it seems to have not ensured full enforcement. Had the petitioner been following the prescribed standards faithfully, its performance would have been far more efficient and the UFG would not have been increasing as uncontrollably as it did over the years. This aspect craves for the Authority's attention. Further, it has been demanded to take up review of the standards with a view to upgrade them with trends globally.

3.4.18. In KPK, CNG sector is already paying highest natural gas tariff owing to burden of cross subsidy of other sectors. Furthermore, this sector is also paying GIDC. In this sphere, further increase in gas prices shall make CNG expensive thereby making uncompetitive with petrol and RLNG. Alternatively, this shall prove to be an attempt to compel to buy RLNG inter-alia to defraud the people of Khyber Pakhtunkhwa from the constitutional rights vested under Article 158 of the Constitution of Pakistan. The CNG sector has therefore vehemently opposed the increase in natural gas prices.

3.4.19. Member from Provincial Assembly KPK highlighted that establishment of Regional office at Mardan has facilitated the people of the region manifolds and has reduced their misery from different aspects. It has been highlighted that Mardan Region is serving almost fifteen national assembly constituencies comprising fifteen million population. Further, the work on new development projects and provision of new gas connections is also under progress. In this scenario, it is dire need to upgrade the existing Mardan Region. Further, Swat is currently connected with Mardan Region, however it is far away from it. Accordingly it was demanded to categories Swat as a Region / sub-region.

3.4.20. The Member of Provincial Assembly KPK further stressed that the gas production in KPK is higher than its consumption. The constitution of Pakistan gives the priority of gas utilization to the province where it is produced. It was accordingly requested that gas development projects in the province should be extended to remote and rural areas so that they could get the equal benefit of this facility.

3.4.21. KPK should be given reasonable share of employment in the petitioner's manpower on the basis of equity and gas production from the province.

3.4.22. The petitioner' petition is deficient of long or medium term strategic plan. The petition lacks proper table & page numbering. In the wake of such shortcomings, it is difficult to give references. Further the petition has been prepared conventionally; it does not conform to the best practices.

3.4.23. The petitioner has sought increase in gas prices by 78% without controlling UFG losses. Increase in prescribed prices (PP) not only negatively affects the GDS of KPK, it will also put burden on the consumers of all sectors of KPK. Accordingly, the proposed increase in PP was opposed.

3.4.24. The petitioner has projected Rs. 4.5 billion Capex for Transmission network and Rs. 30 billion for distribution network for the said year. KPK gas infrastructure is choked with no real improvement in past 10 years. KPOGCL in 2014 stated 440 MMCFD KP Production but SNGPL has chalked out no expansion plan. Likely to this, 2 Bcfd KPK gas production by 2025 has been projected, no action/expansion however has been deliberated by the petitioner. Change of BoD of the petitioner is therefore need of the hour. It was demanded to appoint a nominee of Government of Khyber Pakhtunkhwa on the Board of Directors (BoD) of the petitioner.

3.4.25. KPK needs gas infrastructure to utilize the indigenous gas and get benefit of it. It is general principle where there is more appetite more nutrition is required. The petitioner planning however is reverse. For the said year, no Transmission & Distribution Network Development for KPK has been planned despite major gas discoveries in KPK (Baratai Block etc.). Further, KPK is suffering critical low pressure and law & order situation. It was requested the Authority to decide that petitioner should devise long term and medium term plan & execute infrastructure development in all parts of KPK and share the same with GoKP in one week time.

3.4.26. It has also been criticized that for 78% population proportion of Punjab, its share in new gas connection is 84.4%. Whereas 22% population proportion of KPK, its share in new gas connection is 15.6%. New connection is based on the applications and existence of gas network. This situation leads discrimination to get more connection if you are developed and vice versa. This is gross injustice. The new connections and development should be carried out on population basis. Further, KPK should be provided 500,000 new gas connections during FY 2018-19.

3.4.27. In KPK, drilling is in progress in respect of 8 Wells at Gurgolot, Tal & Nashpa which shall result in further increase of production by end of 2018. Drilling in respect of Lakki, Pezu, Kulachi, Paharpur, Latambar, Baska North & Wali Blocks has also been started, which will result in further increase of gas by end of FY 2018-19. SNGPL however has not accounted for this projected increase in gas volume and has made no arrangement for its transmission. There seems a clear communication gap between Exploration companies & SNGPL, causing billions of loss. This is the reason GoKP proposed in the Gas Sector Reforms that upstream & midstream shall be under one management for synchronized efforts.

3.4.28. It was requested that the burden of RLNG consumers should not be passed onto the indigenous gas consumers. The petitioner has highlighted that Repair & Maintenance cost, Stores, Spares and Supplies Consumption increased because of RLNG and the burden has been placed on indigenous gas consumers.

3.4.29. OGDCL-KPOGCL BARATAI BLOCK gas discovery success has been officially announced on December 21, 2017. OGDCL timely intimated SNGPL to construct the requisite pipeline till field gate for uplifting of 28.96 MMCFD of Gas. SNGPL however responded that it doesn't have the capacity to absorb any additional gas. This has resulted energy loss of 11.5 BBtu translating into Rs. 9.3 billion per annum gross profit loss to the company, Rs. 17 Billion foreign exchange loss and approximately Rs. 1,548 Million per annum loss of Royalty and duties. It has been accordingly requested for the recovery of the said amount from the company dividends and in case of non-availability of same, fresh equity has to be injected. As a further recourse, it has been stressed to immediately construct pipeline infrastructure for lifting the gas of Baratai.

3.4.30. Article 158 states that "*The province in which a well-head of natural gas is situated shall have precedence over other parts of Pakistan in meeting the requirements from that well-head, subject to the commitments and obligations as on the commencing day.*" word "Requirement" empowers to determine the requirement of the respective province. Further, Hon' ble Peshawar High Court Peshawar in its decision dated December 7,2010 states that "*Supply of gas would remain uninterrupted in the areas of producing gas and authorities*............Despite PHC directives, Karak, Kohat & Hangu has no gas supplies. Massive load shedding & low gas pressure prevails across KPK including Peshawar. Thousands of applications of new connections are pending. It has been stressed to iimplement Article 158 in true letter & spirit and extend development work. KPK is gas surplus producing province, however it is allowed approximately up-to 50% of gas production.

3.4.31. It has been pointed out that no real time gas production, consumption data is shared despite CCI clear direction on November 24, 2017 in its 34th meeting. Further, SCADA system installed by SNGPL suffers from inaccuracies which have not been rectified despite number of reminders

3.5. The Authority has carefully considered all the submissions and arguments of the parties made in writing and at the public hearings. Interveners' comments are mostly pertaining to increase demanded in various head of expenditures. The same have been considered while making the decision in the relevant part of this determination. The policy related issues shall be referred for the attention of the Federal Government.

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 of its integrated License. Section 8(1) of the Ordinance empowers the Authority to determine an estimate of the total revenue requirement of its licensees for a financial year and on that basis, advises the FG, the prescribed price of natural gas for each category of retail consumers.

4.2. GoP, pursuant to Section 8(3) of the Ordinance, is legally empowered to advise the Authority for notification in the official gazette, the minimum charges and sale price for each category of retail consumers. 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 17.5% return on its average net fixed assets in operation for each financial year. The Authority, accordingly, has been determining the revenue requirement of the petitioner, providing return on net operating assets in accordance with the said provision of the Ordinance as well as the petitioner's license, while including various income & expenditure heads as part of prescribed price.

5.2. The Authority 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 Southern Gas Company Limited (SSGCL) 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 said tariff regime in place.***

6. Operating Fixed Assets

6.1. Summary of Additions during the year

6.1.1. The petitioner has projected a gross addition of Rs. 92,561 million in the fixed assets (including Rs. 37,410 million assets carried forward+ new regions) and ex-depreciation addition of Rs. 70,915 million, resulting in projected increase in net operating fixed assets from Rs. 107,958 million as per opening balance to Rs. 188,873 million closing balance during the said year. After adjustment of deferred credits, the net average operating fixed assets eligible for return are projected at Rs. 153,416 million, and the required return at Rs. 23,215 million, as under:

Table 5: Computation of Projected Return on Operating Fixed Assets

	Rs. in Million
Description	**The petition (Normal)**
Net operating fixed assets at beginning per FRR FY 2016-17	107,116
Addition during FY 2017-18	28,292
Depriciation charged FY 2017-18	17,450
Closing Fixed Assets (FY 2017-18)	117,958
Additions Carried forwarded from previous year (For 18-19)	37,410
Additions during the year	55,151
Total Addition	92,561
Depriciation for the Period FY 2018-19	21,639
Net addition	70,922
Net operating fixed assets at closing	188,880
Sub total	306,838
Average net assets	153,419
Deffered credit at beginning	20,586
Deffered credit at closing	20,934
Sub total	41,520
Average deffered credit	20,760
Average net fixed assets (A-B)	132,659
Return Required	17.5%
Amount of return requested by the petitioner	**23,215**

6.1.2. The assets approved/determined in respect of RLNG infrastructure, as per decision of the Federal Government, has been ring-fenced and has therefore not been included in the above return and the instant revenue requirement. This shall form part of "Transportation Charges/ cost of service", determined in this determination, to be recovered from RLNG consumer. Further, the assets addition amounting to Rs. 1,192 million on account of LPG Air-mix has also been dealt separately.

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

Table 6: Break up of addition in operating fixed assets

Rs. in million

Sr.#	Particulars	Addition for the current period	Principally approved FY 2016-17	Total
1	Freehold land	4	-	4
2	Building on Freehold land	300	-	300
3	Transmission mains (Normal)	4,492	-	4,492
4	Compression system & equipment	423		423
5(a)	Distribution system mains	29,829	26,762	56,591
5(b)	Measuring & regulating assets	18,148	9,683	27,831
Sub total		**53,196**	**36,445**	**89,642**
6	Normal and other assets :			
6.1	Telecommunication equipments	42		42
6.2	Plant and machinery	405	161	566
6.3	Tools & equipment	27		27
6.4	Motor vehicles	300		300
6.5	Construction equipment	380		380
6.6	Furniture & Fixtures	80		80
6.7	Office Equipment	128		128
6.8	Computer hardware	541		541
Sub total		**1,903**	**161**	**2,064**
7	New Regions	804		804
8	SCADA System/CC&B Project	52		52
	Total addition for FY 2016-17	**55,955**	**36,606**	**92,561**

6.1.4. The detail discussion is made as under:-

6.2. *Land*

6.2.1. The petitioner has requested for Rs. 4 million in respect of land for Right of Way for SMSs.

6.2.2. ***The Authority, keeping in view the operational requirements, allows Rs. 4 million subject to actualization at the time of FRR.***

6.3. *Civil Construction*

6.3.1. The petitioner has projected Rs. 300 million on account of Civil Construction. The petitioner has stated that for efficient use of financial resources, Civil Construction activities are centrally monitored at Head Office level by Civil Department and that at present requests of about Rs. 700 million from various departments are in hand for the said year. A tentative list of the projects to be executed during said year during the said year has been enclosed which may slightly be changed owing to some other urgency.

6.3.2. The Authority observes that the petitioner has incurred Rs. 153 million on an average for the last three years under the head. By adding 10% inflation each for two years, the amount works out to be Rs. 185 million. Since the requisite budget is essentially required for need based normal civil construction activities, therefore, ***the Authority allows Rs. 185 million in DERR for the said year subject to actualization at the time of FRR. Further any over and above expense may be considered by the Authority at the time of respective FRR subject to justifications by the petitioner.***

6.4. *Transmission*

i. *Transmission Mains (Normal)*

6.4.1. The petitioner has projected an amount of Rs. 4,492 million (including Rs. 3,981 million works on cost sharing basis) for Transmission Mains, the break-up of same is as under: -

Table7: Transmission Mains (Normal)

No.	DESCRIPTION	Million Rs.
1	42" dia. X 93 Km pipeline (Infrastructure Development for supply of 200 mmcfd RLNG to PTPL) on 100% cost recovery basis.	3,981
2	Modification of SMSs/Procurement of metring fittings /equipment's.	40
3	Pipeline operation (any Unfore seen/modification)	50
4	Miscellaneous Jobs (Lowering, Protection walls, Retaining walls etc.)	21
5	Construction/upgradation/Land for SMS(s)	400
	Total	**4,492**

(a) **42" diameter X 93 Kms pipeline (Infrastructure Development for supply of 200 MMCFD RLNG to Punjab Power Plant Limited (PTPL) on 100% cost recovery basis.**

6.4.2. The petitioner has informed that it tends to lay the said pipeline on 100 % cost sharing basis, amounting to Rs. 3,981 million for the said year.

6.4.3. *The Authority observes that it has already granted approval of the said pipeline under Rule-20 (xviii) of NGRA Licensing Rules, 2002, vide letter No. OGRA-*

9(457)/2017 dated 30-11-2017. Further the Authority had also allowed the same in DERR for FY 2017-18 with the comments that the line is being laid on 100 % cost sharing basis, the petitioner will not be entitled to claim any return on this amount. However, installation of metering gadgets for the said Power Plant at a total estimated cost of Rs. 55 million from the petitioner's own resources will be part of Revenue Requirement.

(b) Modification of SMSs/ Procurement of Metering Fittings / Equipment.

6.4.4. The petitioner has requested for Rs. 40 million under the head and informed that the budget is required for up-gradation/modification jobs at SMSs on Transmission Network in order to cope the increasing gas loads, Installation of AGA compliant orifice meters, replacement of under-sized meters to avoid UFG and operational problems.

6.4.5. *Keeping in view the operational requirements, the Authority allows Rs. 40 million for the purpose as per request of the petitioner.*

(c) Pipeline operation (any Unforeseen/modification)

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

6.4.7. *Keeping in view the request of the petitioner and as per past trend, the Authority allows 50% of the projected amount i.e. Rs. 25 million under this head subject to actualization at the time of FRR.*

(d) Miscellaneous Jobs (Lowering, Protection walls, Retaining walls etc.)

6.4.8. *The* petitioner has projected Rs. 21 million under the head saying that in some areas high sandy storms cause exposure of pipelines so lowering is required to safeguard the pipelines from external threats.

6.4.9. *In order to protect the pipelines and to ensure safety, the Authority allows the projected amount of Rs. 21 million as per request of the petitioner.*

(e) **Construction/ upgradation/ Land for SMS (s)**

6.4.10. The petitioner requested for Rs. 400 million under the head. It has been stated that the budget for construction of New Sales Meter Stations (SMSs) and Modification /upgradation of SMSs has been proposed for commissioning of gas supply schemes against ongoing /new projects funded by Government of Pakistan and accordingly construction/up-gradation of 15-20 Nos. SMSs will likely be undertaken during the said year, therefore, the proposed budget is essentially required for commissioning and capitalization of newly laid Distribution Network.

6.4.11. *Based on the last years' capitalization and adding 10 % inflation for two years, the Authority allows Rs. 259 million for the purpose. However, any expense over and above may be considered by the Authority at the time of FRR keeping in view the justifications of the petitioner.*

6.4.12. *In view of above, the Authority allows the expenditure under Transmission Mains (Normal) at Rs. 4,326 million as against Rs. 4,492 million as projected by the petitioner for the said year as per the Table given below: -*

Table 8: Transmission Mains (Normal) allowed by the Authority

Million Rs.

Sr. #	Desscription of Segments /other Assets	The petition	Allowed
1	42" dia. X 93 Km pipeline (Infrastructure Development for supply of 200 mmcfd RLNG to PTPL) on 100% cost recovery basis.	3,981	3,981
2	Modification of SMSs/ Procurement of metring fittings /equipment's.	40	40
3	Pipeline operation (any Unfore seen/modification)	50	25
4	Miscellaneous Jobs (Lowering, Protection walls, Retaining walls etc.)	21	21
5	Construction/upgradation/Land for SMS(s)	400	259
	Total	4,492	4,326

6.5. *Compression*

6.5.1. The petitioner projected Rs. 423 million on account of compression during the said year.

6.5.2. The Authority has already approved the plan for overhauling of the compressors spread over the period of 5 years (2016-17 to 2020-21) with a projected cost of Rs. 2, 065 million for overhauling of 22 No. turbine engines (Centaur & Saturn) vide its letter dated August 15, 2016. The claimed amount Rs. 423 million is part of the project to be incurred by the petitioner during the said year. ***Therefore, the Authority allows the said amount being an operational requirement subject to actualization at the time of FRR.***

6.6. *Distribution Development*

6.6.1. The petitioner has projected an amount of Rs. 29,828 million for distribution mains, breakup of which is as under:-

Table 9: Detail of Additions in Distribution Development

		Million Rs.
Sr. #	**Description**	**Petition**
1	Laying of Distribution Mains	23,713
2	Laying of Distribution Mains at Cost Sharing Basis	3,506
3	System Rehablitation and UFG Control Activities	1,350
4	UFG Control Activities	503
5	G.I Pipe and Fittibngs	476
6	Cathodic Protection	280
	Grand Total	**29,828**

6.6.2. These assets are discussed in detail as under: -

i. *Laying of Distribution Mains, Combing Mains, Augmentation and H.O Reserves*

6.6.3. The petitioner has projected Rs. 23,713 million for development of 8,070 Kms distribution lines out of which 6,665 kilometers are to be laid in anticipated schemes whereas 1,405 Kilometers include system augmentation, combing mains and head office reserves for existing areas etc. The break-up of 8,070 Kms is given in the below: -

Head	Kms as projected by the petitioner
Anticipated Scheme	6,665
Augmentation	160
Combing Mains	1,000
Head Office Reserves	245
Total	8,070

6.6.4. *The Authority provisionally allows a total of 8,070 Kilometers under the subject head, as projected by the petitioner. The Authority, however, notes that the average actual per Kilometer cost from FY 2013-14 to FY 2016-17 is Rs. 1.26 Million/ Km and by adding 10 % inflation each for FY 2017-18 and the said year, the per kilometer cost comes to be about Rs. 1.52 million/ Km. Based on the past trend, the Authority, therefore, allows Rs. 12, 266 million as against Rs. 23, 713 million projected by the petitioner for laying of 8,070 Kilometers for the said year subject to actualization.*

6.6.5. However, the petitioner shall 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 and subsequent relaxation of 2011 moratorium by the GOP in different cases.

ii. Laying of Distribution Mains at Cost Sharing Basis

6.6.6. The petitioner has projected Rs. 3,506 million under the head of laying of 1,150 Kilometers distribution mains of different diameter on cost sharing basis.

6.6.7. The Authority observes that the petitioner is not entitled to rate of return on the said capitalization. *The Authority, therefore, allows the amount of Rs. 3,506 million as projected by the petitioner.*

iii. System Rehabilitation and UFG Control Activities

6.6.8. The petitioner has projected an amount of Rs. 1,350 million on account of Rehabilitation of Distribution System and stated that underground leakages are one of the factors adding to UFG and that the underground network has been catholically protected to reduce metal loss due to corrosion. The petitioner further stated that it carries out replacement of underground network against 'System Rehabilitation Program' on yearly basis due to the following reasons: -

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

6.6.9. It has also been stated that OGRA has notified specific KMI related to underground network replacement so budget against this activity is essentially required.

6.6.10. The rehabilitation of system is necessary activity for company's routine operation and it is also helpful to reduce UFG and any untoward accidents. ***Keeping in view the recent maximum expense of the petitioner i.e. Rs. 863 million for FY 2016-17 and by adding 10 % escalation each for FY 2017-18 and FY 2018-19, the amount works out to be Rs. 1,044 million.***

iv. **UFG Control Activities**

6.6.11. The petitioner has also projected Rs. 503 million for UFG Control Activities. The total amount works out to be Rs. 1,044 Million.

6.6.12. Keeping in view the trend analysis and UFG Control activities, ***the Authority allows Rs. 1,547 million under the head i.e. Rs. 1,044 million for system rehabilitation and Rs. 503 million for UFG control activities subject to actualization at the time of FRR.***

6.6.13. ***The Authority also directs the petitioner to submit in tabulated form the reduction in UFG in each region vis a vis expenditure allowed by the Authority and the expenditures incurred at the time of respective FRR.***

v. **G.I Pipe and Fittings**

6.6.14. The petitioner has projected an amount of Rs. 476 million in this regard. The Authority is of the considered opinion that this direct cost should continue to be recovered/ borne by the beneficiary/ consumer. ***Therefore, the Authority disallows the claimed amount under the head as per its earlier decisions.***

vi. ***Cathodic Protection (C.P) System***

6.6.15. The petitioner has apprised that Cathodic protection is 24/7 maintenance and mitigation process of underground pipelines against corrosion and the overall percentage protection of its Distribution network is already low i.e. 72.7%. Further the new lines are also being laid and connected with the existing network whereas the old coating is deteriorating and the load on the CP Stations is increasing and that over the years the cost of material used in the construction of CP Station has increased manifold, hence need new CP Stations and refurbishment / renovation of old ones is required. The construction of new C.P Stations and renovation of exhausted ground beds of already existed CP Station as per Distribution Development Plan 2017-18 is in progress in all Distribution Regions and proposed budget of Rs. 280 Million is essentially required in FY 2018-19, as there is no systematic Re-Coating Program in the Distribution System, hence the only resort left to protect its distribution lines from further corrosion and leakages is Cathodic Protection, which if not provided will result in increase in UFG, hence it is imperative that financial layout for Cathodic Protection should be reviewed upward to enhance the life of MS Network, so as to ensure uninterrupted supply of gas to our consumers.

6.6.16. *In view of the average expense under the head for the last four years and by adding 10 % inflation each for FY 2017-18 and the said year, the Authority allows Rs. 95 Million under the head and any over and above expense may be considered by the Authority at the time of respective FRR.*

6.6.17. *In view of above, the Authority allows the expenditure under Distribution Mains at Rs. 17,414 million as against Rs. 29,828 million projected by the petitioner for the said year, as given below: -*

Table10: Distribution Development allowed by the Authority

Million Rs.

Sr. #	Description	Petition	Allowed
1	Laying of Distribution Mains	23,713	12,266
2	Laying of Distribution Mains at Cost Sharing	3,506	3,506
3	System Rehablitation and UFG Control Activiti	1,350	1,044
4	UFG Control Activities	503	503
5	G.I Pipe and Fittibngs	476	-
6	Cathodic Protection	280	95
	Grand Total	**29,828**	**17,414**

6.7. *Measuring and Regulating Assets*

6.7.1. The petitioner has projected Rs. 18, 148 million on account of addition under the head of Measuring and Regulating Assets. The petitioner has provided the break up as under: -

Table11: Detail of Additions in Measuring and Regulating Assets

S.No	Description	Million Rs. Per Petition
1	New Connections including 10 % additional Urgent Fee Connections	14,467
2	Construction of TBs/DRs	591
3	Replacement of Old Meters	3,035
4	Installation of Metering Gadgets at (PPP, Jhang)	55
	Grand Total	**18,148**

The assets are discussed in detail as under: -

i. *Installation of New Connections*

6.7.2. The petitioner has projected Rs. 14,467 million for 1,003,300 new connections including 300 industrial, 3000 commercial and 10,00,000 domestic connections. The projected amount also includes Rs. 468 million for industrial and commercial connections.

6.7.3. The GOP vide its letter dated April 21, 2017 informed that the moratorium on new industrial and commercial connections may be relaxed enabling the Ministry of energy to allocate RLNG volumes to these prospective consumers. ***The Authority allows the projected amount of Rs. 468 million for 300 industrial and 3000 commercial connections and this amount is ring fenced as per policy of the GOP regarding RLNG/ ECC decision.***

6.7.4. It is mentioned that the Authority has enhanced the new domestic gas connections from 300,000 to 1,000,000 on the request of the petitioner in its decision for Review against Determination of Estimated Revenue Requirement for FY 2017-18 on one-time basis. It is also mentioned that the petitioner has installed about 500,000 connections till to date.

6.7.5. Keeping in view the position, the Authority allows only 272,727 connections of domestic category plus 27,273 new domestic connections on urgent fee basis (10 % of the domestic connections). Based on the actual per unit cost for FY 2016-17 and adding 10 % inflation each for FY 2017-18 and FY 2018-19, *the amount works out to be Rs. 4,666 million, which is allowed by the Authority under the head for FY 2018-19.*

6.7.6. *The petitioner is also directed to strictly comply with the decision of the Supreme Court of Pakistan dated 1st March, 2018, in Human Rights Case No. 6465-G of 2017, relating to provision of new gas connection on turn-merit basis.*

ii. Construction of TBS and DRS

6.7.7. The petitioner has informed that the budget for installation of 300 Nos. new TBSs/DRS'S has been proposed against ongoing/new Government funded schemes, cost sharing schemes and system augmentation etc. The petitioner has projected Rs. 591 million on account of TBSs/DRSs in its ERR petition for the said year.

6.7.8. *Keeping in view the operational requirements of the petitioner and the past trend, the Authority allows Rs. 591 million as projected under the head for the said year.*

iii. Replacement of old Meters

6.7.9. The petitioner has projected Rs. 3,035 million for the activity of meter replacement and stated that defective / tampered / suspected meters of industrial, commercial and domestic are detected as a result of:

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

6.7.10. It has been stated that meters are replaced against schedule replacement program based on following aging Criteria: Industrial=1 year Commercial = 7 Years Domestic= 16 years. Replacement of defective, tampered, suspected meters in addition to schedule replacement programme is a continuous ongoing activity and required to be carried out on yearly basis.

6.7.11. It has also been stated that OGRA had notified specific KMI related to: -

(i) Meter replacement of all categories of consumers
(ii) Replacement of batch of minimum billed domestic consumers

6.7.12. It has been requested that the required budget is essentially required for the purpose.

6.7.13. Therefore, considering the importance of the UFG issue and the average cost incurred for the last three and by adding 10 % inflation each for FY 2017-18 and the said year, ***the amount works out to be Rs. 2,126 which is allowed by the Authority under the head for the said year. However, the Authority expects that this exercise of replacement of meters shall lead to correct billing and there shall be reduction in UFG as well.***

6.7.14. ***The Authority also directs the petitioner to submit in tabulated form the reduction in UFG in each region vis a vis expenditure allowed by the Authority and the expenditures incurred at the time of respective FRR to justify its claims of UFG reduction.***

6.7.15. ***In view of above, the Authority allows the expenditure under Measuring and Regulating Assets at Rs. 7,438 million as against Rs. 18,148 million as projected by the petitioner for the said year,*** as per the Table given below: -

Table12: Measuring and Regulating Assets allowed

		Million Rs.	
S.No		**Per petition**	**Allowed**
1	New Connections including 10 % additional Urgent Fee Connections	14,467	4,666
2	Construction of TBs/DRs	591	591
3	Replacement of Old Meters	3,035	2,126
4	Installation of Metering Gadgets at (PPP, Jhang)	55	55
	Total	**18,148**	**7,438**

**Rs. 468 million has been allowed for new industrial and commercial connections and this amount is ring fenced as per policy of the GOP regarding RLNG/ ECC decision and it shall not become a part of the rate base.*

6.8. *Machinery & Equipment and other Assets*

6.8.1. The petitioner has projected addition of Rs. 1,902 million on account of "Plant, Machinery & Equipment and Other Assets" for the said year, break-up of which is as follows:

Table 13: Detail of Additions to Plant, Machinery & Equipment and Other Assets

S.No	Description	Rs. In Million The Petition
1	Telecommunication Equipment	42
2	Plant & Machinery	405
3	Tools & Equipment	26
4	Construction Equipment	380
5	Motor Vehicles	300
6	Furniture & Fixture	80
7	Office Equipment	128
8	Computer Hardware	541
	Grand Total	**1,902**

i. Telecommunication Equipment

6.8.2. The petitioner has projected Rs. 42 million on account of "Telecommunication Equipment" for the said year including UHF walkie talkies with texting feature, Video Conference Terminal Equipment, Data Radio Link, Telephone Exchanges for different Regions etc.

6.8.3. *The Authority observes that an advanced and reliable telecommunication system is essential for effective control and security of distribution and transmission system, therefore, keeping in view the past trend, the Authority allows Rs. 42 million on this account for the said year as projected by the petitioner subject to actualization at the time of FRR.*

ii. Plant and Machinery

6.8.4. The petitioner has projected Rs. 405 million under the head Plant and Machinery. The petitioner has projected the amount for purchase of different equipment like Gas/ Diesel Gen Sets, Drill Machines, Grinders, CP equipment, Metering Equipment, Testing Equipment, Electrical and Gas Appliances and Fittings etc.

6.8.5. *As per trend analysis, the petitioner has capitalized Rs. 417 million in FY 2016-17, therefore, keeping in view the trend analysis, justifications advanced by the petitioner and need assessment of the equipment required in day to day operations of the petitioner, Rs. 405 million is allowed by the Authority subject to actualization.*

iii. Tools and Equipment

6.8.6. The petitioner has projected Rs. 27 million on account of "Tools and Equipment" for the said year including Tool Kits and various loose tools.

6.8.7. *The Authority observes that the petitioner has been able to capitalize Rs. 39 million on an average from FY 2012-13 to FY 2016-17 (based on actual expenses), therefore, the Authority allows Rs. 27 Million subject to actualization in the respective FRR.*

iv. Construction Equipment

6.8.8. The petitioner has projected an amount of Rs. 380 million for construction equipment and informed that different equipment is required to meet the operational requirements including Welding Plants, Beveling Machines, Excavator, Air Compressors, Road Cutting Machines, Fusion Tool Kits, Gas Cutting Sets, Pipe Cutters, Truck Crane etc. The petitioner has explained that the equipment is required for smooth operations.

6.8.9. *It is mentioned that the petitioner was allowed sufficient budget for LNG Phase (I & II) projects under this head. It may, therefore, also utilize the surplus construction equipment and machinery.*

6.8.10. *Moreover, based on the trend analysis from FY 2012-13 to 2016-17, the average expense of the Petitioner is Rs. 197 million. In view of the earlier major procurements for RLNG I and II Phases, the Authority allows Rs. 200 million under the head for the said year. Any over and above expense may be considered by the Authority in the respective FRR subject to justifications by the petitioner.*

v. Motor Vehicles

6.8.11. The petitioner has projected Rs. 300 million on account of purchase of motor vehicles during the said year and submitted that since the last four years, most of the budget approved under this head is being used for replacement of the oldest vehicles, however, despite all this, only those vehicles, which have outlived their useful life and due for replacement, are taken in the budget estimates for the said year.

6.8.12. The petitioner was asked to provide the details of vehicles to be replaced during the said year against the projected amount of Rs. 300 million. In response thereto, the petitioner has informed that it is not possible for it to provide the requisite details at present.

6.8.13. The trend shows that the petitioner has been able to capitalize on an average 159 million during the last five years and by adding 10% inflation for FY 2017-18 and the said year, *the Authority allows an amount of Rs. 193 million under the head subject to actualization at the time of FRR. Any over and above expense may be considered by the Authority in the respective FRR.*

vi. Furniture & Fixture

6.8.14. The petitioner has projected Rs. 80 million under the head of furniture & fixture.

6.8.15. *Keeping in view the past trends and 10 % inflation for FY 2017-18 and FY 2018-19, Rs. 75 million is allowed by the Authority subject to actualization at the time of FRR. Any over and above expense may be considered by the Authority in the respective FRR*

vii. Office Equipment

6.8.16. The petitioner has projected Rs. 128 million on account "Office Equipment" for the said year and informed that owing to the increased numbers of consumers, numbers of visits have been increased on the Consumer Service Centers. The equipment includes Video Camera HD, DSLR Camera, Misc. Security Equipment for different Regions and Head Office, CCVT Cameras on all CSCs, CCVT Cameras on all Complaint Centers etc.

6.8.17. *It has been noted that the petitioner has been able to capitalize a maximum amount of Rs. 23 million during the last three years under the head. Therefore, keeping in view past trends and 10 % inflation for FY 2017-18 and FY 2018-19, Rs. 28 million is allowed by the Authority subject to actualization at the time of FRR. Any over and above expense may be considered by the Authority in the respective FRR*

viii. Computer Hardware and I.T

6.8.18. The petitioner has projected an amount of Rs. 541 million for procurement miscellaneous computer related equipment and licenses for software used for smooth function and operation. It has been observed that in the past, the petitioner had capitalized Rs. 286 million on an average under this head in FY 2014-15 to FY 2016-17. Keeping in view the previous trend and by adding inflation@ 10 % for FY 2017-18, and the said year, the amount works out to be Rs. 346 million.

6.8.19. *Keeping in view the previous trend, the Authority allows Rs. 346 million under the head for the said year subject to actualization at the time of FRR.*

6.8.20. *In view of the above, the Authority allows addition in assets on account of Plant, Machinery and other assets at Rs. 1,353 million as against Rs. 1,902 million as projected by the petitioner for the said year,* the detail as below;

Table14: Detail of Additions under Plant, Machinery & Other Assets

Million Rs.

S.No	Description	Petition	Allowed
1	Telecommunication Equipment	42	42
2	Plant & Machinery	405	405
3	Tools & Equipment	26	26
4	Construction Equipment	380	238
5	Motor Vehicles	300	193
6	Furniture & Fixture	80	75
7	Office Equipment	128	28
8	Computer Hardware	541	346
	Total	**1,902**	**1,353**

6.9. Establishment of new Regions

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

6.9.2. The petitioner has projected an amount of Rs. 804 million on account of capital cost for all remaining phases i.e. Phase-I, II and Phase-III regarding creation of new regions and sub regions etc. Besides this, the petitioner has also claimed Rs. 1,076 on account of operating cost and Rs. 1,315 million on account of HR cost over and above the HR cost benchmark allowed by the Authority.

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

6.9.4. Regarding operating/ capital cost, ***the Authority has pended the creation of new regions/ sub offices for the time being owing to relevant data/ further deliberations in this regard. Accordingly, the capital and operating cost on this account is also pended for the said year.***

6.10. Up-gradation of Customer Care & Billing Project

6.10.1. The petitioner has submitted the project for up-gradation of Oracle Customer Care and Billing (CC&B) version 2.2 system has been implemented and in use at SNGPL since 2009. The system is in its 9th successful year and being used to bill more than 5 million consumers every month and that this system is now completely entrenched and fully utilized by all the user departments such as

Sales, Distribution, Billing, UFG, Customer Services, Metering and Accounts for their business processes. The system has improved customer services and brought in transparency and accuracy by providing several MIS reports. It has considerably improved the system's accuracy, bill delivery, revenue realization, process visibility across the board while ensuring, customer satisfaction and employees' productivity. CC&B system has contributed significantly towards informed decision making and facilitated in UFG reduction.

6.10.2. It has further been stated that "as per general practice, all software vendors around the globe continue to develop and enhance the software to improve and build new features to fulfil the technology requirements and that new versions of the software are also released to support the newer operating systems and platforms. Similar to other software products, Oracle has released a number of new versions over the years with the latest being CC&B version 2.6 and that Oracle has highly recommended upgrading CC&B to the latest release as patches and updates are no longer released for the version used by SNGPL. New release will bring significant enhancements and some of the benefits are listed below: -

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

6.10.3. The petitioner has informed that CC&B is extensively used in the organization and IT/MIS has initiated the process to upgrade from existing version of Oracle CC&B 2.2 to the latest version. Further IT/MIS has held exploratory meetings with Oracle partners as well as approached Oracle for the upgrade of CC&B and that the local Oracle partners do not have necessary skilled and experienced resources for the Oracle CC&B upgrade, while Oracle is not willing to fly in resources to Pakistan due to their internal policies. Furthermore, Oracle has informed that before the upgrade process there is Transit/Migration license fee in lieu of a task optimizer functionality/module introduced in newer releases and quoted USD 550,000/-as license fee and that Oracle has now approached them again with further discount of USD 100,000/-. The following table describes the cost estimate for the upgrade: -

Sr. #	Description	Cost in USD
1	Licensing Cost	450,000
2	Annual Support for License	99, 000
3	CC&B Upgrade Services	1,000,000
4	CC&B Trainings	100,000
	Total Cost (in USD)*	**1,649,000**

* Excluding applicable Taxes

6.10.4. The petitioner also informed that based on their extensive experience and knowledge of CC&B, it is their considered opinion to perform the upgrade of CC&B 2.2 to the latest stable release by internal resources, however, as the internal resources will be engaged in the upgrade activity, 10 additional resources are needed to ensure smooth operations during the upgrade activity. The Cost estimate for their in-house upgrade is set out below: -

Sr. #	Description	Cost in USD
1	Licensing Cost	450,000
2	Annual Support for License	99, 000
3	HR Cost for Contractual Resources	70,000
4	CC&B Trainings	100,000
	Total Cost (in USD)	719,000

** Excluding applicable Taxes*

6.10.5. The petitioner also stated that "performing the activity in-house will be cost effective and will result in savings of approximately USD 1 million of the public money and that as Billing of millions of consumers as well as revenue realization is critical to SNGPL business, any issue in the CC&B system cannot only disrupt the smooth business operations but will also lead to grievances faced by the consumers. The Board of Directors of the Company at its 503rd meeting held on

February 24, 2018 has accorded approval for USD 719,000 for CC & B upgrade project and also accorded approval for issuance of purchase order to acquire CC&B Licenses and annual support from Oracle on Proprietary basis subject to completion of all relevant codal/procedural, legal and financial pre-requisites."

6.10.6. *The Authority based on the justifications tendered by the petitioner and the approval of their BOD's, relating to up-gradation of the above Customer Care and Billing Project for facilitation of the consumers, initially approves 50 % cost of the project mentioned at Serial No.1& 2 of the above table amounting to USD 274,500/- (50 % of USD 549,000/-) which equals to Pak Rs. 274,500 x 115.70 (As per interbank rates on 14.05.2018) = Pak rupees 31.76 million excluding applicable taxes subject to actualization at the time of respective FRR. Further the Authority also directs the petitioner to facilitate the consumers maximum through CC&B online facilities. However, prevailing interbank rates at the time of actualization would be considered. Any over and above expense in this regard shall be considered by the Authority at the time of the respective FRR.*

6.11. Fixed Assets Determined by the Authority

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

Table 15: Summary of Assets Determined by the Authority

In million Rs.

Sr. #	Particulars	Petition	Allowed
1	Land	4	4
2	Civil Construction	300	185
3	Transmission Mains	4,492	4,326
4	Compression	423	423
5	Distribution Development	29,828	17,414
6	Measuring and Regulating	18,148	7,438
7	Plant , Machinery & Equipment and other Assets	1,903	1,353
sub-total		55,099	31,143
8	Up gradation of Customer Care & Billing Project	52	32
9	New Regions	804	-
Total Additions FY 2018-19		55,955	31,175
10	Assets carried forward/ approved in Principle in FY 2017-18	36,606	36,606*
	Total	**92,561**	**67,781**

**subject to actualization at the time of respective FRR*

6.11.2. As a consequence of adjustment on account of addition in assets for the said year, the depreciation expense claimed by the petitioner comes down to Rs. 20,569 million.

6.11.3. 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 in the sector shall be carried out before finalization of the same by the Authority.

6.11.4. ***In view of the above, the Authority provisionally determines the closing net operating fixed assets for the said year at Rs. 165,171 million.***

7. Operating Revenues

7.1. Number of consumers

7.1.1. The petitioner has projected increase in number of consumers from 6,036,589 per DERR FY 2017-18 to 7,739,889 for the said year, as follows:

Table16: Comparison of Projected Number of Consumers with Previous Years

Description	FY 2016-17	FY 2017-18	Addition during the year	FY 2018-19	Growth over DERR
	FRR	DERR		The Petition	
Domestic	5,671,315	5,971,315	1,700,000	7,671,315	28%
Commercial	58,585	58,585	3,000	61,585	5%
Industrial	6,689	6,689	300	6,989	4%
Total	**5,736,589**	**6,036,589**	**1,703,300**	**7,739,889**	**28%**

7.1.2. The petitioner has submitted that projected addition for the said year includes 700,000 numbers domestic connections in principle approved in Motion for Review against DERR FY 2017-18

7.1.3. The Authority in view of discussion made above, allows 300,000 additions in number of consumers for the said year. Accordingly, projected number of consumers comes to 6,336,589 for the said year.

7.2. Sales Volume

7.2.1. The petitioner has submitted that sale volume for the said year has been projected at 436,187 BBTU as against 441,601 BBTU in DERR FY 2017-18 i.e. Decrease of 1%.

Table17: Comparison of Sales Volume with Previous Years

BBTU

Category	FY 2016-17	FY 2017-18	FY 2018-19	Growth
	FRR	DERR	The Petition	%
Power	95,232	49,842	49,644	0%
Cement	209	1,474	19,302	1209%
Fertilizer	36,189	35,774	33,096	-7%
General Industries	45,363	69,312	36,374	-48%
CNG	27,288	30,207	30,880	2%
Commercial	21,856	34,259	30,091	-12%
Domestic	189,286	220,733	236,800	7%
Total	**415,423**	**441,601**	**436,187**	**-1%**

7.2.2. The petitioner has explained that increase in sale volume to Cement sector has been envisaged due to allocation of natural gas to Cements Plants in KPK area. Further, allocation of gas to General Industries, Commercial and Fertilizer sector has been made in accordance with GoP policy and gas supply agreements keeping in view the natural gas constraints.

7.2.3. *The Authority, in view of justification advanced by the petitioner, provisionally accepts the gas sale volume for the said year at 436,187 BBTU, as projected by the petitioner.*

7.3. Sales Revenue at Existing Prescribed Prices

7.3.1. The petitioner has projected sales revenue for the said year, at prescribed prices determined by the Authority for FY 2018-19, to decrease by 1%, from Rs. 201,232 million from DERR FY 2017-18 to Rs. 198,561 million. Category-wise comparison of sales revenue is given below:

Table18: Comparison of Projected Sales Revenue with Previous Years

Million Rs.

Category	FY 2016-17	FY 2017-18	2018-19	Incr/Decr over DERR	
	FRR	DERR	The Petition		
Power	46,477	22,700	22,603	(98)	0%
Cement	102	671	8,786	8,116	1210%
Fertilizer	17,571	16,285	15,066	(1,219)	-7%
General Industries	21,367	31,751	16,558	(15,193)	-48%
CNG	13,156	13,751	14,057	306	2%
Commercial	10,746	15,595	13,697	(1,898)	-12%
Domestic	85,798	100,480	107,794	7,314	7%
Total	**195,218**	**201,232**	**198,561**	**(2,671)**	**-1%**

7.3.2. The petitioner has explained that sales revenue in respect of various categories of consumers is in accordance with the projected sales volume.

7.3.3. The Authority observes that the petitioner has wrongly computed the sale revenue at the prescribed prices. Gas sale prices during FY 2017-18 have not been revised by the Federal Government, the prescribed prices are therefore liable to be adjusted to the extent of existing sale prices.

7.3.4. The Authority observes with concern that petitioner, at the time of submission of petition, in the complete negation of regulatory practices, inflates the prescribed prices which in turn reduces the revenue shortfall. This impression misleads the stakeholders since the rectification of the same involves increase in revenue shortfall by the Authority. Had the petitioner correctly computed the sales revenue, the determined shortfall by the Authority for the said year would have been further decreased by Rs. 26,371 million.

7.3.5. *The Authority, in view of above, determines the existing Sales Revenue at Prescribed Prices at Rs. 172,190 million for the said year and advises the*

petitioner to correctly workout the sales revenue at the time of submission of petition thereby avoiding the misinformation.

7.4. Other Operating Revenues

7.4.1. The petitioner has projected "other operating revenues" at Rs. 10,567 million during the said year as against Rs. 10,920 million provided in DERR for FY 2017-18, showing a decrease of 3%. Comparison with previous years is given below:

Table 19: Comparison of Projected Other Operating Income with Previous Years

				Million Rs.	
Description	FY 2016-17	FY 2017-18	2018-19	Incr/Decr	
	FRR	DERR	The Petition	over DERR	
Meter Rental and service charges	1,926	2,014	1,926	(88)	-4%
Late Payment Surcharge and interest on arrears	3,444	4,291	3,788	(503)	-12%
Amortization of deffered credit	3,250	2,615	3,152	537	21%
Other operating income	1,701	2,000	1,701	(299)	-15%
Other operating revenue	**10,321**	**10,920**	**10,567**	**(353)**	**-3%**

i. Meter Rental & Service Charges

7.4.2. The petitioner has estimated income from "Rental & Service Charges" at Rs. 1,926 million for the said year as against Rs. 2,014 million per DERR FY 2017-18. The petitioner has explained that income from "Rental" comprises rent charged from the consumers on account of use of gas meters. The "Service Charges" include reconnection charges, testing & inspection, transmission charges and recoveries from consumers in respect of dedicated lines on consumer contribution basis.

7.4.3. The Authority observes that the petitioner has projected significant increase in number of consumers during the said year as compared to DERR FY 2017-18. There is a linear relation between number of consumers and income generated under this head. Therefore both require to be conformed to each other.

7.4.4. The Authority observes that during the latest complete financial years, on the average 6% increase has been witnessed in respect of "addition in number of consumers". ***Accordingly, the Authority adopts the same trend and determines the income under this head "Rental and Service Charges" at Rs. 2,135 for the said year.***

ii. Late Payment Surcharge and Interest on Arrears

7.4.5. The petitioner has included income on account of "Late Payment Surcharge and Interest on Arrears (LPS)" in tariff computation at Rs. 3,788 million for the said year as against Rs. 4,291 million determined by the Authority for the FY 2017-18. The petitioner has estimated the income under this head on the basis of actual figure for FY 2016-17 and extrapolated the same by 10%.

7.4.6. The Authority observes that petitioner has not advanced any justification for drastic reduction projected under this head for the said year. Income under the said head was as high as Rs. 5,545 million in FY 2015-16. Further, actual for July-December, 2017 has been reported at Rs. 2,203 million under the said head.

7.4.7. The Authority observes that during last many years the gas sale prices have not been revised by the Federal Government which has direct impact on the income under this head. During the said year, revision in gas sale price is inevitable keeping in view huge cumulative shortfall in revenue requirement.

7.4.8. ***In the view of above, the Authority determines the income on account of LPS at Rs. 4,719 million for the said year i.e. 10% increase on the income determined by Authority for FY 2017-18.***

iii. Other Operating Income

7.4.9. The petitioner has projected Rs. 1,701 million under the head "Other Operating Income" for the said year as against Rs. 2,000 million determined by the Authority for FY 2017-18. The petitioner has projected the said income at the level of actual for FY 2016-17. The petitioner has not provided head wise break-up with the petition.

7.4.10. The Authority observes that the income under this head is not based on the definite sources; the same however has remained on increasing trend. The main chunk of income under this head is now contributed on account of "Urgent connection fee", construction contracts and re-coating of pipes.

7.4.11. The Authority, in view of above, index the income under this head for FY 2017-18 by 10% and determines the same at Rs. 2,200 million.

7.4.12. ***In view of above, the Authority determines the income under the head "Other Operating Revenue" at Rs. 12,206 million for the said year.***

iv. Transportation of RLNG

7.4.13. The Authority observes that petitioner has ring-fenced the expenses on account of "Transportation Charges" and computed the rate at Rs. 79.51 per MMBTU on the basis of total revenue requirement of Rs. 34,780 Million and energy volume through put at 1200 MMCFD. The petitioner, in the said revenue requirement, has included Rs. 4,019 million on account of financial charges and projected no addition in fixed assets relevant to RLNG dispatch for the said year. The return has been claimed at Rs. 8,773 million on basis of already built assets by the petitioner.

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

7.4.15. The Authority further observes that the financial charges amounting to Rs. 4,019 million has already been extensively deliberated; the same has no justification to be claimed while return is also admissible. The petitioner is advised not to repeat its claim which has been rejected more than once owing to unjustified. Accordingly, this issue has reached finality. The Authority further observes that petitioner has computed the return @ 17.50%. The same however, owing to implementation of "Tariff Regime for Regulated Natural Gas Sector" has been revised on the basis market based return @ 17.43%, accordingly the same shall apply.

7.4.16. ***In view of above, the transportation charges are determined at Rs. 61.30 per MMBTU for the said year as under;***

Table 20: Computation of Transportation Charges

Particulars	Per petitioner	Per OGRA
Quantitative Data	BBtu	
RLNG Input	463,453	463,453
Retainage / gas used in FSRU @ 0.7142% (Average of two terminals)	(3,310)	(3,310)
GIC - SSGCL network	(3,681)	(3,681)
GIC - SNGPL network	(5,478)	(5,478)
UFG	(13,530)	(13,530)
Net RLNG sold	**437,454**	**437,454**
Cost Components	*Million Rs.*	
Depreciation	4,457	4,457
Return on Assets	8,773	8,738
Gas Internally Consumed SSGCL	3,461	-
Gas Internally Consumed SNGPL	5,150	5,150
Transportation charges payable to SSGCL	8,920	8,470
Finance cost on LNG financing	**4,019**	-
Total	**34,780**	**26,815**
Rs/ MMBTU	**79.51**	**61.30**

1. GIC has been assumed as 0.8% for SSGC and 1.2% for SNGPL networks respectively.
2. Consolidated UFG (at Bulk & Retail has been taken at 3% of RLNG input).
3. Input volume have been taken as 1200 MMCFD at GCV of 1058 Btu/SCF.
4. GIC has been valued at the average purchase price of Rs. 940.20/MMBTU.

7.4.17. The Authority observes that transportation charges payable to SSGCL, as appearing in the above working, includes GIC cost and the same is in accordance with its determination for the revenue requirement for the said year.

8. Operating Expenses

8.1. Cost of Gas Sold

8.1.1. The petitioner has projected cost of gas sold for the said year to increase from Rs. 159,226 million determined by the Authority for FY 2017-18 to Rs. 162,613 million, based on purchased volume and projections of international prices of crude and HSFO. Comparative analysis of projected cost of gas with previous years is given below:

Table21: Comparison of Cost of Gas with Previous Years

				Million Rs.
Particulars	**FY 2015-16**	**FY 2016-17**	**FY 2017-18**	**FY 2018-19**
	FRR	**FRR**	**DERR**	**The Petition**
BBTU	478,483	415,423	441,601	436,187
Million Rs.	157,043	155,013	159,226	162,613
Rs./MMBTU	**328.21**	**373.14**	**360.57**	**372.81**

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

8.1.3. The Authority observes that Economic Coordination of the Committee (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.

8.1.4. ***In view of above decision of ECC of the Cabinet, the Government policy of maintaining uniform cost of gas across the country has been held in abeyance. Accordingly, the cost of gas in respect of the petitioner has been computed keeping in view the gas supply form its allocated fields only.***

8.1.5. The Authority observes that petitioner has not accounted for the latest indicators in terms of Crude/HSFO prices and dollar rupee exchange rate. Had the same been accurately taken, the cost of gas, owing to above ECC decision would have been showing decrease by Rs. 16,580 million for the said year. ***The Authority, in this aspect, advises the petitioner to account for the latest indicators while submitting/revising the petition for the financial year.***

8.1.6. 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 same have been also extrapolated for the period June – November 2018 for the purpose of well-head 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;.

Table22: 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	62.43	359.65	119.75
January to June, 2019	June to November 2018	62.43	359.65	120.75

8.1.7. ***Based on the above, the cost of gas is provisionally determined at Rs. 197,131 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.***

8.2. Gas Internally Consumed (GIC)

8.2.1. The petitioner has claimed the GIC for the said year at Rs. 1,299 million. The petitioner has explained that, out of this projected GIC, Rs. 78 million has been estimated for the capitalization for the said year. Accordingly, the petitioner has included Rs. 1,221 million in the operating expenses for the said year. The break-up of GIC is provided as under;

Table 23: GIC Volume Claimed in the Petition

Particulars	MMCF	GCV	MMBTU	Avg. cost price	Million Rs.
Transmission System					
Compressors	3,271	952	3,114,344	331.98	1,034
Coating Plant	154	952	146,632	331.98	49
Residential Colonies	71	952	67,603	331.98	22
Sub total	**3,496**		**3,328,578**		**1,105**
Distribution System					
Free Gas Facility	528	952	502,737	331.98	167
Co-Generation	85	952	80,933	331.98	27
Sub total	**613**		**583,670**		**194**
GIC Indigenous	**4,109**		**3,912,249**		**1,299**

8.2.2. Based on the actual past trends of GIC for FY 2015-16 and FY 2016-17, the Authority provisionally allows the total GIC of 4,109 MMCF for FY 2018-19 as claimed by the petitioner subject to actualization at the time of FRR for the said year .

8.2.3. The Authority further observes that GIC relevant to the operation of compressors for the purpose of transmission of gas, has been formed part of T&D cost. The gas consumed on account of free gas facility, residential colonies and capitalization requires to be allocated/booked under the under the relevant head.

8.2.4. *In view of above, the Authority, taking into account the revised cost of gas at the petitioner' system, determines the GIC at Rs. 1,253 million for the said year.*

8.3. Unaccounted for Gas (UFG)

8.3.1. The petitioner has claimed UFG for the said year at 10.87 % (56,345 MMCF), as follows:

Table 24: UFG Volume Claimed in the petition

	Volumes in MMCF
	The petition
Gas Purchases	518,559
Gas Available for Sale	503,500
Gas Sales	447,156
UFG Volume	56345

8.3.2. On the basis of above, UFG allowance has been calculated 32,669_MMCF for the said year subject to adjustments on the basis of KMIs at FRR stage, in accordance with the following Table: -

Table 25: UFG Calculation Sheet

				MMCF
Particulars	Natural Gas (*Normal Business*)		*RLNG Business*	
Gas Purchases	**As per Petition**	**Determined by the Authority**	**Per Petition**	**Determined by the Authority**
Metered gas purchased	518,559	518,559	438,000	438,000
Retainage Allowed			(3,285)	-
Less RLNG Volume for Sale	-	-		
Less RLNG Carried for Third Party	-	-	-	-
Energy Equilance	(10,950)	(10,950)	10,950	10,950
Gas Available for Sale	507,609	507,609	445,665	448,950
Gas Internally Consumed (Metered)	4,109	4,109		
Transmission	3,496	3,496	8,913	8,913
Distribution	613	613		
Net Gas Available for Sale	503,500	503,500	436,752	440,037
Gas Sold (Billed)	447,155	447,155	423,626	423,626
Total Sales	447,155	447,155	423,626	423,626
UFG Volume	56,345	56,345	13,126	16,411
UFG %	10.87%	10.87%		
Working disallowance for SNGPL				
Metered gas purchased		518,559		
UFG Benchmark (Percentage)		5%		
Local Conditions Allowance Percentage (Provisional)		1.30%		
Allowed UFG Percentage		6.30%		
Allowed UFG Volume		32,669		
Disallowance (MMCF)		23,676		
WACOG (Rs./ MCF)		421.25		
UFG Disallowance (Million Rs.)		9,974		

8.3.3. *In view of above, UFG disallowance works out to Rs. 9,974 million for the said year.*

i. Response on Interventions

8.3.4. It is also mentioned that one of the interveners during the hearing conducted by the Authority in Peshawar raised questions regarding no planning vis a vis inability of the petitioner to receive Natural Gas from Baratai Well, correct utilization of allocated gas, high budget in UFG related activities. In this connection, the Authority is of the view that gas allocation and management is a policy issue and the intervener may approach the Federal Government i.e. Ministry of Energy, Petroleum Division for the purpose. Moreover, the budget allowed for UFG activities is required to reduce the UFG in accordance with the Key Monitoring Indicators (KMI's) set out by the Authority. Initially the allowed amount is provisional and the actual expense is indicated in the respective FRR.

8.3.5. The points raised by the legal counsel of Sui Companies regarding UFG of prior years and KMI's 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 Estimated Revenue Requirements (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 Final Revenue Requirements

8.4. Transmission and Distribution Cost

i. *Summary*

8.4.1. The petitioner has projected 38% increase in Transmission and Distribution (T&D) cost, from Rs. 19,838 million determined by the Authority for FY 2017-18 to Rs. 30,964 million for the said year, as detailed below:

Table 26: Comparison of Projected T & D Cost with Previous Years

Rs. in million

Particulars	FY 2016-17	FY 2017-18	FY 2018-19	Increase / (Decrease) Over	
	FRR	DERR	The Petition	Rs.	%
Human Resource Cost	12,846	14,392	19,708	5,316	37
Stores and Spares Consumed	633	627	843	216	35
Repair and Maintenance	961	1,105	1,728	622	56
Fuel and Power	254	280	285	5	2
Stationery, Telegram and Postage	103	190	209	19	10
Dispatch of gas bills	95	100	140	40	40
Rent, Rate, Electricity and Telephone	406	553	733	180	33
Traveling	136	150	218	68	46
Transport expenses	737	737	854	117	16
Insurance	217	293	415	122	42
Legal and Professional Services	165	163	303	140	86
Consultation for ISO 14001 & OHSAS 18000	4	5	8	3	60
Gas bills collection charges	405	430	460	30	7
Gathering charges of gas bills collection data	37	45	50	5	11
OGRA fee	215	180	256	76	42
Advertisement	163	180	205	25	14
Bank Charges	16	18	19	1	3
Uniforms & protective clothing's	32	32	90	58	181
Staff training and recruiting	6	12	33	21	175
Security expenses	630	725	1,133	408	56
SNG training insititute	17	17	25	8	46
Provision for doubtful debts	868	1,584	1,584	-	-
Sponsorship of chairs at University	9	10	10	(0)	(0)
5 Years special training programme	27	30	30	-	-
Budget for UFG control related activities	560	616	1,314	698	113
Out Sourcing of call centre complaints manage	22	24	40	16	67
Cost of Gas Blown off	236	-	-	-	
Other expenses	313	310	663	353	114
Subtotal Expenses	20,113	22,808	31,356	8,548	40
Allocated to fixed capital expenditures	-	(2,970)	(392)	(392)	-
T&D Expenses	20,113	19,838	30,964	8,156	38

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

ii. Human Resource (HR) Cost

8.4.3. The petitioner has projected the HR cost at Rs. 19,708 million (including IAS cost of Rs. 1,250 million and Rs. 4,777 million CBA and vacant post impact)as against Rs. 14,392 million provided in DERR for FY 2017-18 i.e; approximately 37% increase. The petitioner has explained that projected increase under this head is due to revision of executive salaries in addition to annual increment and due to CBA impact.

8.4.4. The Authority observes that the petitioner has estimated an unprecedented increase of 37% over one year and provided no logical grounds and convincing reasons to allow this whooping increase under this head. The salaries entitled to gas companies have already been vehemently criticized by the interveners during the public hearings for the said year. They have contended to allow SNGPL the salary package as applicable to other utilities in public sector. Fabulous salary package to the petitioner is adversely impacting the consumers.

8.4.5. The Authority observes that the petitioner has also submitted "Manpower Assessment Study Report" carried out by the consultant firm. A cursory review of the same reveals that petitioner's manpower strength has been suggested to increase. Said study is under in-depth evaluation to confirm judicious and prudent manpower strength and extract meaningful information which may form the basis for new HR cost benchmark. The same however shall take some time. The Authority further observes that similar HR manpower study is under progress by SSGCL which shall also be evaluated simultaneously once it is submitted by it.

8.4.6. The Authority further observes that IAS cost for the said year has been projected on higher side i.e; at Rs. 1,250 million as against Rs. 840 million projected for FY 2017-18, despite the petitioner has been of the consistent stance that cost under this head in the coming years shall considerably decrease. The Authority therefore has slashed the projected expenses under this head by half for the said year.

8.4.7. *In view of above, the Authority extends the existing HR cost benchmark on provisional basis for the said year and determines the HR cost at Rs. 15,206 million as per computation at Annex- C.*

8.4.8. *The petitioner is further directed to provide, at the time of final revenue requirement, 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. Stores and Spares Consumed

8.4.9. The petitioner has projected the expenses on account of "stores and spares consumed" for the said year at Rs. 843 million as against Rs. 627 million determined by the Authority in DERR for FY 2017-18. The historical comparison of "Stores and Spares Consumed" is given below:

Table 27: Comparison of Projected Stores and Spares Consumed with Previous Years

Rs. In million

Particulars	FY-2016-17	FY-2017-18		FY-2018-19	Incr/Decr over DERR	
	FRR	DERR	Actual July - March	The Petition	Rs	%
Compression	119	125	120	175	50	40%
Transmission	150	220	138	274	54	24%
Distribution	292	191	240	274	83	43%
Others (incl H.O.)	8	15	24	17	2	13%
Freight & Handling	65	75	56	103	28	37%
Total	**633**	**627**	**578**	**843**	**216**	**35%**

8.4.10. The petitioner has projected increase of Rs. 50 million (40%) over DERR FY 2017-18 under the sub-head "Compression" for the said year. The petitioner has explained that due to supply of RLNG, compression running hours have been increased significantly. This has also increased the maintenance cost and consumption of turbine oil required for gas turbines compressor packages. Further, procurement of electrical material / gas engine spares and general store items required for maintenance and smooth operation of gas turbine packages installed at various compressor stations have been increased.

8.4.11. The Authority observes that projected expenditure appears to be on higher side even if the petitioner's contention is acceded to. Further, RLNG related expenses are required to be fairly allocated and ring-fenced in RLNG price as per Federal Government decisions. ***Therefore, keeping in view, the latest trend of actual expenditure, the Authority allows 20% increase over the DERR FY 2017-18 and determines projected expenditure under the subhead "Compression" at Rs.150 million for the said year.***

8.4.12. The petitioner has projected increase of Rs. 54 million (24%) over DERR FY 2017-18 under the sub-head "Transmission" for the said year. The petitioner has explained that projected increase is mainly on account of projected supplies of additional spares like pressure control valve, filter elements and moisture analyzer etc to CMSs of Government Power Plants (Quaid-e-Azam Thermal Power Plant, Haveli Bahdur Shah Power Plant, Nandipur Power Plant, Baloki power plant and Punjab power plant).

8.4.13. The Authority, keeping in view the trend of actual expenditure under the sub-head "Transmission", observes that the petitioner has over projected the expenditure for the said year. The actual expenditure upto March 31, 2018 for FY 2017-18 has been reported at Rs. 138 million. If this fact is admitted that most of the expenses are booked during the last quarter of financial year, even then it is hardly expected that the actual expenditure for FY 2017-18 shall exceed the allowed limit. ***The Authority therefore restricts the projected expenditure under this head at the level of DERR FY 2017-18 i.e; Rs. 220 million.***

8.4.14. The petitioner has projected increase of Rs. 83 million (43%) over DERR FY 2017-18 under the sub-head "Distribution" for the said year. The petitioner has explained that projected increase in expenditure under the sub-head "Distribution" during the said year is mainly due to provision of Rs. 100 million for metering distribution on account of spares like gearbox assembly, SS sealing wire, twist tite seals, index glass, counter assembly and batteries etc. Further the petitioner has envisaged expenditure on replenishment of stock / procurement of material for operational and maintenance activities.

8.4.15. ***The Authority, in view of justification advanced by the petitioner, accedes the projection made under this sub-head. Accordingly, the expenses as projected by the petitioner for the said year are allowed for the said year.***

8.4.16. The petitioner has projected increase of Rs. 28 million (37%) over DERR FY 2017-18 under the sub-head "Freight & handling "for the said year. The petitioner has explained that projected increase in expenditure under the sub-head "Freight & handling "during the said year is mainly owing to enhanced repair and maintenance activities and also due to increase in number of consumers. The petitioner has further stated that Transportation charges are expected to increase due to increase in POL prices.

8.4.17. ***The Authority in view of the justification advanced by the petitioner admits the expenditures as projected by the petitioner for the said year.***

8.4.18. ***In view of the above, the Authority determines the projected expenditure under the head "Store & Spares Consumed" at Rs. 764 million as against Rs. 843 million projected by the petitioner for the said year.***

iv. Repair & Maintenance Expenses

8.4.19. The petitioner has projected "Repair & Maintenance" expenses for the said year at Rs. 1,728 million as against Rs. 1,105 million allowed in DERR 2017-18 and Rs. 961 million actual expenses for FY 2016-17.Historical comparison of "Repair &Maintenance" is given below:

Table 28: Comparison of Projected Repair & Maintenance Expenses with Previous Years

Rs. In million

Particulars	FY-2016-17	FY-2017-18		FY-2018-19	Incr/Decr over DERR	
	FRR	DERR	Actual July - March	The Petition	Rs	%
Compression	17	20	6	29	9	46%
Transmission	80	92	21	280	188	205%
Distribution	565	649	503	937	287	44%
Others (incl H.O.)	300	345	288	482	138	40%
Total	**961**	**1105**	**817**	**1728**	**622**	**56%**

8.4.20. The petitioner has submitted that increase in compression is on account of enhanced repair and maintenance activities at compression stations and also due to inclusion of RLNG in the system.

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

8.4.22. Under the sub-head "Distribution" the petitioner has pleaded that 44% increase is to cater for revision in expected contract schedule rates during said year. Furthermore, extensive development activities have been undertaken in current year, resultantly maintenance activities are expected to increase during said year.

8.4.23. The petitioner has further explained that increase in others (incl H.O and service depts) is mainly on account of revision in rates of janitorial services and contractual labor. Scheduled rates for contractual labor were previously revised on July 01, 2017 and next revision of rates is applicable from July 01, 2017. Moreover, additional budget is also requested for janitorial/repairs and maintenance activities at newly established areas.

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

8.4.25. The Authority however observes that the interveners noted with dismay that the petitioner appears to have deliberately adopted the strategy of greatly exaggerating its estimates with a view to maximize its revenue requirement, which is not fair.

8.4.26. The Authority observes that the petitioner's actual expenditure up-to the third quarter FY 2017-18 has so for spent far less amount than it has been allowed for the same year.

8.4.27. *In view of above, the Authority determines the expense under "Repair and maintenance" for the said year at Rs. 1,215 million (i.e; 10% increase over DERR FY 2017-18 to cater for inflationary trend and enhanced activities. The Authority however shows rather flexible approach under this head, accordingly it shall consider actual expenses at the time of FRR at the touchstone of prudence, reasonability and relatedness*

v. Stationery, Telegram and Postage

8.4.28. The petitioner has projected Rs. 209 million under the head "Stationery, Telegram and Postage" i.e; 19 million (10%) increase for the said year over DERR FY 2017-18 Historical comparison is given below:-

Table 29: Comparison of Stationery, Telegram and Postage with Previous Years.

Rs. In million

Particulars	FY-2016-17	FY-2017-18		FY-2018-19	Incr/Decr over DERR	
	FRR	DERR	Actual July - March	The petition	Rs	%
Compression	1	2	1	1	-1	-37%
Transmission	4	6	2	5	-1	-12%
Distribution	17	19	13	25	5	28%
Others (incl H.O.)	82	163	106	178	15	9%
Total	103	190	122	209	19	10%

8.4.29. The Authority observes that under the sub-head "Others (incl. H.O)", the petitioner has projected 118% sharp increase when compared the actual results for FY 2016-17. The Authority further observes that amount provided in DERR for FY 2017-18 was allowed as per petitioner's justification when the actual results for FY 2016-17 were not made available.

8.4.30. *The Authority, in view of above, determines the expenditure under the sub-head "Others (incl H.O)" at Rs. 98 million for the said year i.e; at the level of FRR FY 2016-17 plus 10% indexation for two years. Accordingly, the total amount under*

the head "Stationery, Telegram and Postage" computes to Rs. 130 million for the said year.

vi. Dispatch of gas bills

8.4.31. The petitioner has requested Rs. 140 million on account of "Dispatch of gas bills" i.e. 40 million (40%) increase for the said year over DERR FY 2017-18 Historical comparison is given below:

Table 30: Comparison of Dispatch of gas bills with Previous Years.

Rs. In million

Particulars	FY-2016-17	FY-2017-18		FY-2018-19	Incr/Decr over DERR	
	FRR	DERR	Actual July - March	The Petition	Rs	%
Dipatch of gas bills	95	100	48	140	40	40%
Total	**95**	**100**	**48**	**140**	**40**	**40%**

8.4.32. The petitioner has argued that number of consumers is expected to increase from 5.692 million to 6.867 million during the said year. Further, average charges of dispatch of gas bills have been increased significantly over the year from Rs. 1.46 to Rs. 1.87 per bill per month averagely.

8.4.33. The Authority observes that reasonable amount has already been allowed under this head when compared the actual results for FY 2017-18. Further, the petitioner has projected the increase in rate of dispatch on higher side when compared the actual results.

8.4.34. ***The Authority in view of the increase in number of consumers coupled with increase in dispatch rate per bill, determines the expenditure at Rs. 110 million for the said year.***

vii. Rent, Rate, Electricity and Telephone

8.4.35. The petitioner has requested Rs. 733 million on account of "Rent, Rate, Electricity and Telephone" for the said year as compared to Rs. 553 million provided in DERR FY 2017-18. Historical comparison is given below:

Table 31: Comparison of Rent, Rate, Electricity and Telephone with Previous Years.

Rs. In million

Particulars	FY-2016-17	FY-2017-18		FY-2018-19	Incr/Decr over DERR	
	FRR	DERR	Actual July - March	The Petition	Rs	%
Rent	174	191	165	298	107	56%
Royalty/internet services	33	36	19	52	16	46%
Telephone	31	33	35	59	26	78%
Electricity	74	110	76	100	-10	-9%
Pakistan Railway (Line crossing charg	77	155	0	197	42	27%
Water Conservancy	2	3	2	4	1	23%
Vehicles rates and taxes	9	15	12	15	0	0%
Others	5	10	7	8	-2	-21%
Total	**406**	**553**	**316**	**733**	**180**	**33%**

8.4.36. The petitioner has projected 56% increase for the said year under the sub-head "Rent" over DERR for FY 2017-18. The petitioner has submitted that increase of Rs. 107 million includes Rs. 58 million for hiring of additional office space and Rs. 49 million has been envisaged on account of increase in rentals, which represent 26% increase over FY 2017-18.

8.4.37. The Authority observes that increase under the sub-head "rent", owing to expanding need for space and annual rise is unavoidable. However, 56% increase over one year defies logic. Further, if a substantial increase in rent is necessitated to be allowed during the said year, it should have been substantiated logically. Mere projections without any rationale is not convincing. ***The Authority therefore determines the expenses at Rs. 210 million for the said year i.e; at the level of DERR for FY 2017-18 plus 10% to cater for increase in rates and additional space requirement.***

8.4.38. Under the sub-head "Royalty/internet services" the petitioner has explained that 46% increase is mainly due to up gradation of existing sites and addition of new sites as well as bandwidth up gradation which is almost double the existing bandwidth. Moreover, Rs. 4.6 million includes as Royalty/ Maintenance charges of SCADA system of Telecom department.

8.4.39. Under sub-head "Telephone" the petitioner has contended that 78% increase is mainly due to operational activities which has been increased significantly over the years, hence the operational mobile communications has been increased. Further, the requested increase also represents expenditure of GPRS/GSM based data sims installed at CMSs.

8.4.40. The Authority in its earlier decisions has already noted that due to strict competition between the service providers in the telecommunication sector, the rates have become quite reasonable. Further, the petitioner has its own communication system while the actual expenditure has been witnessed on decreasing trend. Therefore, projection of 46% and 78% increase in the expenditure respectively does not appear to be logical. The Authority in view of the same, allows 10% increase over DERR FY 2017-18 and determines the expenditure on account of "Royalty / Internet service" at Rs. 40 million for the said year. Further keeping in view, the trend of actual expenditure, the Authority determines Rs. 40 million on account of "Telephone" for the said year.

8.4.41. The petitioner has projected increase of Rs. 42 million (27%) over DERR FY 2017-18 under the sub-head "Pakistan Railways (Line crossing charges)" for the said year. The petitioner has explained that an amount of Rs. 20,000 was paid to Pakistan Railways for each line crossings in FY 2016-17. Adjustment/issue of outstanding payments with Pakistan Railways has yet not resolved. Major payments have to be made against laid pipelines to National Highways Authority on account of ROW as per new rates w.e.f 01-03-17. The petitioner has stated that amount due in this respect is Rs. 54 million.

8.4.42. The Authority observes that at the time of DERR FY 2017-18, the petitioner informed that all the matter with regard to rate per railway crossing and outstanding issues have been settled. Accordingly the amount was sought which was provided.

8.4.43. The Authority observes that the review of available actual expenses for FY 2017-18 reveals that no expense has been booked under this head. There may be payment before the close of financial year. The Authority, at the time of FRR, shall review the same, accordingly prudent expenses shall form part of revenue requirement. The Authority, therefore, for the time being, restricts the expenses under this head at the level of DERR FY 2017-18.

8.4.44. ***Based on the above, the Authority determines expenditure on account of "rent, rate, electricity and telephone" at Rs. 572 million for the said year as against Rs. 733 million claimed by the petitioner.***

viii. Traveling Expenses

8.4.45. The petitioner has requested Rs. 218 million on account of "Traveling Expenses" i.e. 68 million (46%) increase for the said year over DERR FY 2017-18 Historical comparison is given below:

Table 32: Comparison of Traveling Expenses with Previous Years

Rs. In million

Particulars	FY-2016-17	FY-2017-18		FY-2018-19	Incr/Decr over DERR	
	FRR	DERR	Actual July - March	The Petition	Rs	%
Local travelling						
Executives	76	83	69	119	35	43%
Subordinates	49	54	43	78	24	44%
	125	**138**	**113**	**197**	**59**	**43%**
Foreign travelling						
Conveyance (Official)	9	10	0.38	18	8	85%
Travelling directors	2	2	2	4	1	50%
Total	**11**	**12**	**2**	**21**	**9**	**78%**
Total	**136**	**150**	**115**	**218**	**68**	**46%**

8.4.46. The petitioner has projected increase of Rs. 35 million (43%) and Rs.24 million (44%) over DERR FY 2017-18 under the sub-head "Local Travelling-Executive" and "Local Travelling-Subordinates ", respectively, for the said year. The petitioner has explained that projected increase in expenditure under these sub-heads is due to enhanced operational activities as well as the expansion in network coupled with revision in staff TA/HA rates.

8.4.47. The Authority observes that the petitioner has not substantiated its claim with plausible justification. Therefore, keeping in view the actual expenditure trend and in order to enable the petitioner to cater for its requirements under these heads, the Authority allows 10% increase over DERR FY 2017-18 and determines Rs.91 million and 60 million on account of "Local Travelling-Executive and Local Travelling-Subordinates "respectively for the said year.

8.4.48. The petitioner has projected increase of Rs. 8 million (85%) over DERR FY2017-18 under the sub-head "Foreign Travelling (conveyance official)" for the said year.

8.4.49. The Authority observes that the petitioner has not provided any concrete justification and detailed plan to substantiate 85% increase over one year for the said increase. Therefore, the Authority determines the expenditure under the said sub-head at the level of DERR FY 2017-18 i.e. Rs. 10 million and Rs. 2 million on account of Foreign Travelling (Travelling Directors)", respectively for the said year.

8.4.50. ***The Authority, in view of above, determines the expenditure at Rs. 163 million for the said year the under the head "Travelling Expenses as against Rs. 218 million claimed by the petitioner.***

ix. Transport Expenses

8.4.51. The petitioner has projected transport expenses for the said year at Rs. 854 million as against Rs. 737 million provided in DERR for FY 2017-18 showing an increase of 22% as under:

Table 33: Comparison of Transport Expenses with Previous Years

Rs. In million

Particulars	FY-2016-17	FY-2017-18		FY-2018-19	Incr/Decr over DERR	
	FRR	DERR	Actual July - March	The Petition	Rs	%
Compression	12	12	8	17	5	39%
Transmission	107	107	95	142	35	32%
Distribution	454	454	299	511	57	13%
Others (incl H.O.)	163	163	143	184	21	13%
Total	**737**	**737**	**546**	**854**	**117**	**22%**

8.4.52. The petitioner has explained that proposed budget of Rs. 854 has been calculated on the basis of an increase of approximately 6% over actual for FY 2016-17 for two years i.e. FY 2017-18 and FY 2018-19. Moreover, petrol prices remained at the lowest levels in FY 2016-17, the same is now expected to be increased in future.

8.4.53. The Authority observes that petitioner's projection appears to rather on higher side keeping in *view* of actual expenditure trend. *The Authority therefore, determines the expenditure on account of "Transport Expenses" at Rs. 810 million i.e; at the level of DERR plus 10% to cater for inflationary trend.*

x. *Insurance*

8.4.54. The petitioner has projected insurance expenses for the said year at Rs. 415 million against Rs. 293 million per DERR FY 2017-18, showing an increase of 42% as under:

Table34: Comparison of Insurance Expenses with Previous Years

Rs. In million

Particulars	FY-2016-17	FY-2017-18		FY-2018-19	Incr/Decr over DERR	
	FRR	DERR	Actual July 2017 - March 2018	The Petition	Rs	%
Third party	2	2	1	3	1	60%
Fire risk	120	132	99	180	48	36%
Fidelity / cash in transit	0	0	0	2	2	1233%
Motor vehicles	66	73	54	110	37	51%
Loss of Profit	24	73	57	115	42	57%
Miscellaneous	5	12	7	5	-7	-59%
Total	**217**	**293**	**218**	**415**	**122**	**42%**

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

8.4.56. The Authority observes that petitioner's projection under the above head reveals no logic when analyzed at the touchstone of rationale and historical actual results. Under the sub-head "Fire risk", the petitioner has grossly exaggerated the expenses when compared with the actual results for last years. Similarly, in respect of "Motor Vehicles", the insurance is on the sum insured which may not increase to the extent as projected by the petitioner. Further, the trend of actual expenditure under these heads reveals that actual expenditure shall not go beyond the prescribed limit. Accordingly, the same are determined at the level of DERR plus 10% to cater for the increase in the sum insured.

8.4.57. Regarding the "loss of profit", the Authority observes that this issue has been exhaustively discussed at the time of FRR FY 2016-17 and it has been transpired that premium on this account has no rationale & advantage for the petitioner. The Authority therefore disallows the same.

8.4.58. ***The Authority, in view of above, determines the expenses under the head "Insurance" at Rs. 235 million for the said year.***

xi. Legal and Professional Charges

8.4.59. The petitioner has projected expenditure of Rs. 303 million on account of "Legal and Professional Charges" for the said year as against Rs. 163 million provided in DERR for FY 2017-18, showing an increase of 86%.Historical comparison is given below:

Table 35: Comparison of Projected Legal & Professional Charges with Previous Years

Rs. In million

Particulars	FY-2016-17	FY-2017-18		FY-2018-19	Incr/Decr over DERR	
	FRR	DERR	Actual July 2017 - March 2018	The Petition	Rs	%
Legal	170	115	119	229	114	99%
Professional	15	16	20	35	19	114%
Tax	10	12	2	15	3	25%
Audit	8	10	6	11	1	10%
Apprenticeship/Scholarship/Training	4	7	5	10	3	43%
Others	0	3	1	3	0	0%
Total	207	163	153	303	140	86%

8.4.60. The petitioner has argued that litigation against the company has significantly increased due to expansion of network, deteriorating law and order situation, rapid gas demand growth, gap between demand and supply of gas, change in gas tariff, promulgation of Gas (Theft Control & Recovery) Act, 2016, filing of complaint against culprits / gas thieves, Gas Infrastructure Development Cess, load curtailment policy, arbitration matters, LNG project matters etc. In this regard the payment of fee to advocates and hiring services of senior advocates and Law Firms in high profile cases is involved. Further due to implementation of Judicial policy, separate fee is required to be paid to the Local Commission for recoding of Evidence. The petitioner has stated that court fee at the rate of 7.5% is affixed on the plaints for recovery of over and above Rs. 25,000/- in Punjab. Whereas, in Khyber Pakhtunkhwa fee is levied at 7.5% irrespective of the amount involved in the matter subject to maximum of 15, 000/-. The petitioner has further pleaded that increase also represent rising number of litigation cases against the company by its employees for CBA related issues.

8.4.61. The Authority observes that the petitioner stance under this head is merely repetition and contains no concrete justification in the support of its claim involving robust increase under the heads. The Authority observes that persistent increase under the sub-head "Legal" provides no rationale when the same is neither core activity nor commensurate with any benefit attained.

8.4.62. Further, the Authority observes that despite spending significant amount on this account, no substantial recoveries have been observed. In fact, litigation cases and expenses are continuously increasing without any corresponding benefit.

8.4.63. ***The Authority therefore adhering with the consistent approach allows 15% increase over DERR for the said year and determines the amount under this head at Rs. 132 million.*** The Authority further advises the petitioner to curtail its expenditure under this head by utilizing its in-house expertise and pursue the cases vigorously to achieve the meaningful results.

8.4.64. Regarding the "Professional Charges" the petitioner has argued that it has estimated to incur Rs. 10 million on account of potential assessment of 247 executives falling in different grades. The remaining increase has been projected on different issues including consultancy services of Risk Management department, Engineering departments for consultancy and professional charges to be paid against pending and current cases of sales tax, income tax and allied cases before the High Court/Sales tax and Income tax Authority.

8.4.65. The Authority observes that petitioner has grossly exaggerated the expenses under this head and advanced no justification to defend its claim. Simply, projection by doubling the existing level over one year holds no rationale. ***The Authority therefore allows the reasonable increase of 20% under this head over DERR for the said year and determines the amount under this head at Rs. 19 million.***

8.4.66. ***The Authority, in view of above, determines the expenses under this head at Rs. 190 million for the said year.***

xii. Provision for Doubtful Debts

8.4.67. The petitioner has projected "Provision for Doubtful Debts" for the said year at Rs. 1,584 million. Historical trend of the provision for doubtful debts is as below:

Table 36: Provision for doubtful debt

Rs. In million

Particulars	FY-2016-17	FY-2017-18		FY-2018-19	Incr/Decr over DERR	
	FRR	DERR	Actual July - March	The Petition	Rs	%
Provision for doubtful debts	868	1,584	-	1,584	-	-
Total	868	1,584	-	1,584	-	-

8.4.68. The petitioner has stated that expenses under this head are allowed as per OGRA benchmark. In the petition, it has been provisionally estimated at the level of DERR for FY 2017-18.

8.4.69. ***The Authority, in view of above, accepts the petitioner's claim and determined the amount under this head at Rs. 1,584 million for said year.***

xiii. Advertisement

8.4.70. The petitioner has projected Rs. 205 million under this head for the said year as against Rs. 180 million per the DERR FY 2017-18 showing an increase of 14%. Historical comparison is given below:

Table 37: Comparison of Advertisement Expense with Previous Years

Rs. In million

Particulars	FY-2016-17	FY-2017-18		FY-2018-19	Incr/Decr over DERR	
	FRR	DERR	Actual July - March	The Petition	Rs	%
Advertisement	163	180	131	205	25	14%
Total	**163**	**180**	**131**	**205**	**25**	**14%**

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

8.4.72. The Authority observes that petitioner is repeating its previous stance and providing no concrete justification for requesting high increases under above heads. The expenses under this head are although important to promote company strategy regarding safety, energy conservation etc; yet the same is not core activity, accordingly it requires to be economized in effective manner.

8.4.73. *The Authority further observes that trend of actual expenditure for the said year reveals that the expenses under this head have been adequately provided and it is strongly expected that actual total expenses under this head shall be less than determined limit for FY 2017-18. The Authority therefore restricts the expenditure under this head at level of DERR for FY 2017-18 i.e; Rs. 180 million for the said year.*

xiv. Uniform& Protective clothing's

8.4.74. The petitioner has projected Rs. 90 million under the head "Uniform & Protective Clothing" for the said year as against Rs. 32 million (181% increase) over DERR FY 2017-18. The Historical comparison is as under;

Table38: Comparison of Uniform & Protective clothing's Expense with Previous Years

Rs. In million

	FY-2016-17	FY-2017-18	FY-2018-19	Incr/Decr over DERR	
Particulars	FRR	DERR	The Petition	Rs	%
Uniform & Protective Clothing	32	32	90	58	181%
Total	**32**	**32**	**90**	**58**	**181%**

8.4.75. The petitioner has stated that increase of Rs. 58 million under the head "Uniform & Protective clothing's" has been projected to meet the operational requirement of procurement of Personal Protective Equipments (PPEs). The petitioner has further stated that the allowed budget for FY 2017-18 is insufficient to meet operational requirements in this regard, and the company cannot compromise on safety and security of it's personals. Hence, procurement of essential PPEs cannot be reduced. The petitioner has urged that actual expenses of FY 2016-17 do not portray the real picture as procurement of approximately Rs. 38 million related to FY 2016-17 could not be materialized due to procurement lead time.

8.4.76. The petitioner has further elaborated that an amount of Rs. 55 million has been projected for provision of PPE under implementation of HSE policy. PPE procured so far have been distributed to the entitled staff. Main PPEs items procured under protective clothing are Coverall/ Dungaree, Ear Muff, Face Mask Full/half with filters, Safety helmets, safety shoes, face shields, safety goggles, gloves etc.

8.4.77. The petitioner has also informed that beside provision of PPEs to entitled employees, an amount of Rs. 35 million has been projected for provision of protective shoes and protective cloth (uniform). The petitioner has explained that 3,900 entitled employees will be provided protective shoes and 3,500 entitled employees will be provided with three sets of stitched protective uniform during FY 2018-19.

8.4.78. The Authority notes with grave concern that the petitioner, at the time of DERR, has always expressed ambitious plan for compliance with HSE. However at the time of FRR, no such results have been ever witnessed. This shows petitioner' perfunctory approach even towards important issues which involve life safety.

8.4.79. The Authority observes that it has always supported HSE related activities and also provided requested budget, the petitioner however lacks attention to judiciously utilize the same under this head.

8.4.80. ***The Authority, in view of above, determines the expenses under this head at Rs. 38 million i.e; at the level of DERR plus 20% to cater for inflationary impact and enhanced activities.*** The Authority however adopts rather flexible approach under this head and allows to spend the expenses under this in judicious and prudent manner. Accordingly, the actual expenditure under this head shall be considered at the time of FRR for the said year.

xv. Staff training and recruiting expenses

8.4.81. The petitioner has projected 175% increase under this head from Rs. 12 million per DERR FY 2017-18 to Rs. 33 million for the said year. Detail is as under: -

Table 39: Comparison of Staff training & recruiting expenses with Previous Years

Rs. In million

Particulars	FY-2016-17	FY-2017-18		FY-2018-19	Incr/Decr over DERR	
	FRR	DERR	Actual July 2017 - March 2018	The Petition	Rs	%
Staff training and recruiting expenses	6	12	8	33	21	175%
Total	6	12	8	33	21	175%

8.4.82. The petitioner has stated that it has projected Rs. 33 million i.e. increase of Rs. 21 million (175%) for the said year on account of expenses on recruitment including advertisement etc. and training activities of Executives &

Subordinates staff. The petitioner has explained that proposed expenditure include an amount Rs. 15 million advertisement and allied expenses relating to recruitment process. The petitioner has elaborated that at present 3,195 positions are lying vacant and under the directive of GoP 50% of the fee payable to the testing agency will be borne by the company, therefore huge number of applications against said vacant positions are envisaged for which, considerable provision has been proposed.

8.4.83. The petitioner has informed that an amount of Rs. 3 million has been projected for training activities of Executives & Subordinates staff which are organized on departmental level on need assessment basis. The petitioner has informed that an amount of Rs. 0.724 million was booked on this account in FY 2016-17 and training activities were fenced due to budgetary constraints.

8.4.84. The petitioner explained that it has projected Rs. 10 million for the said year on account of foreign training for staff. The petitioner has informed that an amount of Rs. 7 million has been booked so far for FY 2017-18.

8.4.85. The Authority observes that it recognizes the need for recruitment of officials on need assessment basis once manpower study submitted with the Authority is evaluated and finalized. The Authority further observes that in the technical organization continuous training for professionals is necessary to abreast with latest technologies to control the operating activities on latest dynamics. The projected expenses however appears to be on higher side when compared the actual results upto third quarter for FY 2017-18. Further, the petitioner has not submitted any detailed proposal or plan for inland and foreign trainings focused on key objectives and benefits expected from such trainings. The Authority in the absence of such comprehensive plan with detailed strategy, and cost benefit analysis cannot admit the petitioner projected expenditure under this head.

8.4.86. *The Authority, therefore, in view of above, provisionally restricts the expenses under this head at Rs. 12 million for the said year i.e. at the level of DERR FY 2017-18. The petitioner however is advised to submit the detailed strategy for*

inland and foreign training as career oriented approach for the organization, accordingly the expenses under this head shall be considered.

xvi. Security Expenses

8.4.87. The petitioner has projected Rs. 1,133 million for the said year as against Rs. 725 million provided per DERR FY 2017-18, showing and increase of 56%. Detail is as under:

Table 40: Comparison of Security Expense with Previous Years

Rs. In million

Particulars	FY-2016-17	FY-2017-18		FY-2018-19	Incr/Decr over DERR	
	FRR	DERR	Actual July 2017 - March 2018	The Petition	Rs	%
Security expenses to security forces	410	472	417	720	248	53%
Security guards	219	253	201	413	160	63%
Total Security Expenses	**630**	**725**	618	**1133**	**408**	**56%**

8.4.88. The petitioner has attributed the increase under this head towards full share of payment to Pakistan Rangers Punjab, anticipated increase in Armed Security Guards deployed in Punjab and KPK, increase in number of security guards and anticipated revision in rate.

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

8.4.90. The Authority however observes that the petitioner always exaggerates the expenses under this head at the time of DERR when compared with the historical position in the respective year. This practice unnecessarily misleads which is not desired at all.

8.4.91. *The Authority, in view of above, determines Rs. 798 million under this head for the said year i.e. at the level of DERR plus 10% to cater for inflation and other adjustments. The petitioner however, is allowed to ensure security measures for* *the well-defined purpose particularly at valuable installations, at reasonable cost which shall be reviewed by the Authority at the time of FRR.*

xvii. Sui Northern Gas Training Institute (SNGTI)

8.4.92. The petitioner has projected Rs. 25 million for the said year as against Rs. 17 million provided per DERR FY 2017-18 and actuals for FY 2016-17, showing and increase of 46% under the head "SNGTI". Detail is as under:

Table 41: Comparison of Expense for SNGTI with Previous Years

Rs. In million

Particulars	FY-2016-17	FY-2017-18		FY-2018-19	Incr/Decr over DERR	
	FRR	DERR	Actual July - March	The Petition	Rs	%
Sui Northern Gas Training Institute(SNGTI)	17	17	13	25	8	46%
Total	**17**	**17**	**13**	**25**	**8**	**46%**

8.4.93. The Authority observes that the at the time of public hearing, an intervener highlighted that Staff working in SNGPL needs on job training rather class rooms training as carried out by the petitioner. Further, it was criticized that retired executives of the petitioner has been employed as trainer and are obliged/favored by paying handsome amount per lecture. Such amount per lecture is not being paid even in Government institutions for training of even civil services officers. This issue needs to be thrashed out in detail.

8.4.94. The Authority, in view of above, observes that the petitioner is required to submit the detailed break-up and related information pertaining to the current and previous year at the time of upcoming FRR to ensure transparency in the spending's which are made at the consumer cost. *Accordingly, for the time being, the projected expenses for the said year on this account are restricted at the level of DERR for FY 2017-18 i.e; Rs. 17 million for the said year.*

xviii. Budget for UFG Control Related Activities

8.4.95. The petitioner has projected Rs. 1,314 million for the said year as against Rs. 616 million provided per DERR FY 2017-18, showing an increase of 113%. Detail is as under:

Table 42: Comparison of Projected UFG control related activities

Rs. In million

Particulars	FY-2016-17	FY-2017-18		FY-2018-19	Incr/Decr over DERR	
	FRR	DERR	Actual July - March	The Petition	Rs	%
Budget for UFG Control related activities	560	616	405	1,314	698	113%
Total	**560**	**616**	**405**	**1,314**	**698**	**113%**

8.4.96. The petitioner has elaborated that an amount of Rs. 1,093 million has been projected for UFG activities, Rs. 113 million for underground leak detection activities and Rs. 107 million for inspection of domestic meters in regional meter shops.

8.4.97. The Authority, keeping in view the historical trend, observes that the expenditure under this head have been grossly exaggerated. ***The Authority determines the expenditure under the said head at Rs. 708 million for the said year i.e; at the level of DERR plus 15% to cater for inflation and enhanced activities. The Authority however has been giving rather free hand to undertake UFG related activities with result oriented strategy. Accordingly, the expenses under this head shall be reviewed at the time of FRR. The justified expenses shall form part of revenue requirement for the said year.***

xix. Outsourcing of call centers for complaint management

8.4.98. The petitioner has projected Rs. 40 million under the head "outsourcing of call centers for complaint management" for the said year as against Rs. 24 million per DERR FY 2017-18, showing an increase of 67%. Historical comparison is given below:

Table 43: Break- up of outsourcing of call centers for complaint management expenses

Rs. In million

Particulars	FY-2016-17	FY-2017-18		FY-2018-19	Incr/Decr over DERR	
	FRR	DERR	Actual July 2017 - March 2018	The Petition	Rs	%
Outsourcing of Call Centre for Complaints Management	22	24	19	40	16	67%
Total	**22**	**24**	**19**	**40**	**16**	**67%**

8.4.99. The petitioner has explained that increase is due to anticipated revision in rates in FY 2017-18 and also due to hiring of more agents for complaints management.

8.4.100. The Authority observes that the petitioner has not provided concrete justification for 67%increase under this head. The petitioner has reported the actual expense upto third quarter of FY 2017-18 at Rs. 19 million which conforms that the actual expenses for FY 2017-18 has been adequately provided. ***Accordingly, the Authority restricts the expenditure for the said year at the level of DERR for FY 2017-18 i.e; Rs. 24 million.***

xx. Other Expenses

8.4.101. The petitioner has projected Rs. 663 million for the said year under this account wherein some expenses included therein have been projected on exceptionally higher side. The comparative analysis of the same is provided below:

Table 44: Comparison of Other Expenses with Previous Years

Rs. In million

Particulars	FY-2016-17	FY-2017-18		FY-2018-19	Incr/Decr over DERR	
	FRR	DERR	Actual July - March	The Petition	Rs	%
Construction equipment operating cost	104	102	79	138	35	34%
Laundry charges	1	2	1	2	0	0%
Subscriptions	2	3	1	3	0	0%
Newspapers, books & periodicals	3	5	2	5	1	11%
Recovery through contractors (disconnected)	29	23	15	141	118	513%
Board meetings & directors' expenses	55	29	43	67	38	131%
Stock exchange fee	1	3	0	3	1	20%
Revenue stamps & filing fee	0.03	0.280	0.072	0.250	0	-11%
Entertainment expenses	8	12	7	15	3	23%
Sports Cell expenses	50	48	40	137	89	185%
Outside services employed - govt./ local authority	1	3	0.19	4	1	23%
Annual Sports	48	40	26	80	40	100%
NIC verification NADRA	9	13	6	13	0	0%
Sundries	32	26	15	55	29	113%
Total	**343**	**309**	**235**	**663**	**354**	**115%**

8.4.102. Under the sub-head "construction equipment operating cost", the petitioner has claimed 34% increase over DERR for FY 2017-18 and advanced no justification and detailed break-up to justify this tremendous increase under this head. The Authority therefore restricts the expenses under this head at the level of DERR for FY 2017-18

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

8.4.104. The Authority observes that under the sub-head "Recovery through Contractors", the petitioner has always made expense, no commensurate benefit in terms of recoveries from defaulters has ever been reported under this head. If the expense is incurred persistently without any desired input, this defies logic to make the expense for a futile activity. The Authority therefore expresses its concern regarding performance made under this head and accordingly advise to justify the expenditure made under this head. ***Accordingly, the Authority restricts the expenses on this account at the level of DERR for the said year. Actual expenses under this head shall be allowed at the time of FRR keeping in view the effectiveness and amenable results of the same in terms of Recoveries from debt.***

8.4.105. Under the sub-head "Board Meetings & Directors' expenses", the petitioner has projected an unprecedented increase of 131%for said year over DERR for FY 2017-18 due to enhanced number of meetings of BOD/Sub committees anticipated during the said year.

8.4.106. The Authority observes that expenses made under this head are criticized by the interveners in the public hearings. Further, exorbitant increase of 131% under this head provides no justification while the activity is same as undertaken in the previous years.

8.4.107. *The Authority in view of above, restricts the expense at the actual level of FRR FY 2016-17. The petitioner is advised to curtail the expenses under this head in order to protect the consumer's interest.*

8.4.108. The petitioner has claimed Rs. 137 million under head "Sports Cell" and Rs. 80 million under the sub-head "Annual Sports" as against Rs. 48 million and Rs. 40 million respectively in DERR FY 2017-18.

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

8.4.110. The Authority observes that undertaking of sports related activities by organization is appreciated; the same however should be in reasonable limits. The projection of over Rs. 200 million for the non-core activity is neither logical nor affordable by the poor consumers.

8.4.111. The Authority further observes that the petitioner was asked to substantiate claim on the basis of nature of expenses involved and submit the detail plan in this regard, it however has provided only the break-up the projected expense. The evaluation of the same reveals that expenses under this head have not been projected judiciously. It lacks petitioner's conscious thought to incur the expenses prudently and judiciously.

8.4.112. *The Authority therefore restricts the sports related activities at the level of DERR for FY 2017-18 and advises the petitioner to undertake the same across its regions. Further, the petitioner is advised to submit the detailed strategy and at least five years plan regarding Sports related activities, on the basis of consistency and economy of resources. In case, the petitioner intends to* *extensive spend on this activity, it should contribute out of its own profits as well.*

8.4.113. The Authority further observes that there is dire need to slash the expenses under the subhead "Sundries" and incur the expenses judiciously maintaining a consistent and prudent approach. Phenomenal increase of 113% over one year without any concrete reason and plausible justification defies logic.

8.4.114. The Authority further observes that the petitioner has included Rs. 15 under this head related to CSR activities which has no relevance. The same is required to be factored under the relevant head.

8.4.115. *The Authority, in view of above, restricts the expenses at the level of DERR for FY 2017-18.*

8.4.116. *The Authority, in view of above, allows total expenditures under the head "Other expenses" at Rs. 339 million for the said year.*

xxi. Remaining Items of Transmission & Distribution Cost

8.4.117. The items of transmission and distribution cost, except those dealt with in sub-para *ii* to xx are projected by the petitioner at Rs. 1,117 million as given below:

Table 45: Remaining Items of Transmission and Distribution Expenses

Rs. in million

Particulars	FY 2016-17	FY 2017-18	FY 2018-19	Incr/ (Dec) over DERR FY 2017-18	
	FRR	DERR	The petition	Rs.	%
Fuel and Power	254	280	285	5	2
Consultation for ISO 14001 & OHSAS 18000	4	5	8	3	60
Gas bills collection charges	405	430	460	30	7
Gathering charges of gas bills collection data	37	45	50	5	11
OGRA fee	215	180	256	76	42
Bank Charges	16	18	19	1	3
Sponsorship of chairs at University	9	10	10	(0)	(0)
5 Years special training programme	27	30	30	-	-
Total	967	998	1,117	119	12

8.4.118. The Authority *observes that the remaining items of T&D expense have been reasonably projected by the petitioner and therefore, provisionally accepts the same, for the said year, at Rs. 1,117 million.*

xxii. *Transmission & Distribution Cost Determined by Authority*

8.4.119. ***In view of the examination in para ii to xx above, the Authority provisionally determines operating cost for the said year at Rs. 23,822 million against Rs. 30,964 million claimed by the petitioner, as follows:***

Table 46: Summary of T&D Cost Determined by the Authority

Particulars	FY 2018-19		Million Rs.
	Demanded	Adjusment	Determined
Human Resource Cost	19,708	(4,788)	15,206
Stores and Spares Consumed	843	(79)	764
Repair and Maintenance	1,728	(513)	1,215
Fuel and Power	285	0	285
Stationery, Telegram and Postage	209	(79)	130
Dispatch of gas bills	140	(30)	110
Rent, Rate, Electricity and Telephone	733	(161)	572
Traveling	218	(55)	163
Transport expenses	854	(44)	810
Insurance	415	(180)	235
Legal and Professional Services	303	(113)	190
Consultation for ISO 14001 & OHSAS 18000	8	-	8
Gas bills collection charges	460	-	460
Gathering charges of gas bills collection data	50	-	50
OGRA fee	256	-	256
Advertisement	205	(25)	180
Bank Charges	19	1	19
Uniforms & protective clothing's	90	(52)	38
Staff training and recruiting	33	(21)	12
Security expenses	1,133	(335)	798
SNG training insititute	25	(8)	17
Provision for doubtful debts	1,584	-	1,584
Sponsorship of chairs at University	10	0	10
5 Years special training programme	30	-	30
Budget for UFG control related activities	1,314	(606)	708
Out Sourcing of call centre complaints manager	40	(16)	24
Other expenses	663	(324)	339
Subtotal Expenses	**31,356**	**(7,142)**	**24,213**
Allocated to fixed capital expenditures	(392)	-	(392)
T&D Expenses	**30,964**	**(7,142)**	**23,822**

8.5. *Workers Profit Participation Fund (WPPF)*

8.5.1. The petitioner has projected W.P.P.F at Rs. 1,138 million. The Authority accepts the same for the said year. Any adjustment on this account is made at the time of FRR.

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

8.6.1. The petitioner has projected Rs. 2,391 million to allow for the said year on account of New Regions operating and additional HR cost and requested to allow the same. The detail is as under;

Table 47: New Regions (Operating & HR Cost)

Million Rs.

Phase	Name of Unit	Type of Unit	Operating Cost	HR	Total
I	West Lahore	Regional Office	260	93	353
	Sialkot		100	101	201
	Mardan		99	62	161
	Rahim Yar Khan		74	68	142
	Kamoke	Sub Regional Office		30	58
	Kharian		28	27	27
	Bahawalnagar			25	25
	TOTAL (A)		561	407	967
II	Attock	Regional Office	76	129	205
	Toba		76	90	167
	DI Khan		31	106	137
	DG Khan	Regional Office	47	85	132
	Murree			28	54
	Rawalpindi City		26	94	94
	Gujar Khan				
	Chiniot			31	31
	TOTAL (B)		257	562	820
III	Chakwal	Regional Office	80	85	165
	Khanewal		55	117	171
	Mianwali	Sub Regional Office			
	Mansehra		26	90	116
	Mirpur-AJK				
	TOTAL (C)		161	292	452
CSC	Swabi	Customer Service Center	12	28	40
	CSC Khushab		5	5	10
	CSC Shorkot		5	4	9
	CSC FSD & Multan		72	10	82
	Bhakkar		1	2	4
	Dunyapur		1	2	4
	Tandlianwala, Fsd		1	2	4
	TOTAL (D)		98	54	152
Total New Regions Phase-I-II/ CSC (A+B+C+D)			1,076	1,315	2,391

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

8.6.3. The Authority in view of above observes that in view of discussion made above, establishment of new regions have been pended. Further, HR cost over and above the benchmark is inadmissible, as elaborated above.

8.6.4. Regarding the operating cost in respect of new regions already established, the Authority observes that such regions are functional, accordingly their operating cost should have been claimed under the relevant heads. There is no rationale to claim operating cost in respect of certain regions separately

8.6.5. ***In view of above, the Authority disallows the expenses under this head for the said year. The operating cost in respect of already established regions however shall be considered at the time of FRR for the said year under the relevant heads on the basis of reasonability and prudence.***

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

8.7.1. The petitioner has claimed Rs. 3,276 million on account of LPS and Rs. 31 million under the head 'Short Term Borrowing' for the said year. The petitioner has pleaded that due to no revision in the gas sale prices since many years, it is facing serious financial crises resulting to delay in payment to gas suppliers and arrangement of short term borrowings to offset its immediate liabilities.

8.7.2. The petitioner has explained that above stated LPS has been claimed in line with the Authority earlier decisions. The petitioner has accordingly requested to allow the same for the said year.

8.7.3. The Authority accedes the above contention made by the petitioner keeping in view the provisions of the existing tariff regime in place and the plausible justification made by the petitioner based on the facts; it however observes that the petitioner has projected the expenses rather on higher side. The issue of pending revision in sale prices has been recently discussed at the apex forum whereby previous years shortfalls in the revenue requirement has been decided to be staggered and be included in the revenue requirement. In the current scenario, there is therefore compelling reasons to revise the gas prices which shall inter-alia alleviate the cash flow issues and payment to gas creditors. Accordingly, it is expected that the cash flows of the petitioner shall improve gradually.

8.7.4. *The Authority, in view of above, accepts the petitioner's claim for the said year, tentatively to the extent of 50%. The Authority however shall review the same in the FRR for the said year; accordingly the actual expenditure on this account owing to cumulative shortfall in revenue requirement shall form part of it.*

8.8. ***Previous Years' Revenue Shortfall***

8.8.1. The petitioner has claimed Rs. 117,376 million previous years revenue shortfall already determined by the Authority in the relevant determinations. This revenue shortfall has emerged due to no increase in gas prices adequately by the Federal Government.

8.8.2. The Authority observes that the ECC of the Cabinet in its decision dated May 17,2018 has decided as under;

> *"The OGRA is allowed to stagger revenue shortfall of the SNGPL's previous years, over a period of four (4) to five (05) years."*

8.8.3. *Accordingly, the Authority, in view of above, staggers the previous year's shortfall over four years and includes Rs. 29,344 million in the revenue requirement for the said year.*

8.9. ***Operating cost for up-gradation of CC&B***

8.9.1. ***The petitioner has submitted that it*** has initiated the process to upgrade from existing version of Oracle CC&B 2.2 to the latest version and has accordingly claimed Rs. 31 million as operating cost for the said year. The implementation of existing CC&B was done on proprietary basis by Oracle during 2008-09. This system is now completely entrenched and fully utilized by all the user departments. Oracle has released a number of newer versions over the years with latest CC&B version 2.6. Oracle has highly recommended the up-gradation of CC&B to the latest release. The petitioner has asserted that new release will bring significant enhancements and some of the benefits are listed below:

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

8.9.2. ***The Authority observes that it has always supported the utilization of latest technology to improve quality of service and customer facilitation. Accordingly, for the said year, it allows Rs. 15 million being 50% of claimed amount in line with discussion in the assets part made above. The remaining expenditure shall be considered on actual basis at the time of FRR for the said year.***

8.10. ***Corporate Social Responsibility (CSR)***

8.10.1. The petitioner has projected Rs. 993 million on account of CSR projects to be carried out in underdeveloped / gas producing districts, in the area of operation of the licensee during the said year. The petitioner has explained that the amount under this head shall be spent in undertaking the projects related to health, environment and education during the said year.

8.10.2. The petitioner has pleaded that, being a responsible corporate entity, it has to carryout multiple activities for enhancing the quality of life of the community in which it operates. Further, the CSR policy is approved by its Board of Directors and is in line with the laid down principles of Securities and Exchange Commission of Pakistan (SECP). Also, the CSR activities are undertaken through a committee of senior officers.

8.10.3. The Authority observes that as per provision of tariff regime currently in place, CSR activities, particularly in the gas producing areas, has been allowed to be financed equally through gas prices and petitioner' own profits. The same however required to be undertaken in a systematic and transparent manner, with consistent approach on strategic basis.

8.10.4. *The Authority further observes that the petitioner has not provided any detail of the projects where the projected amount has to be spent. The Authority however allows the amount demanded under this head on provisional basis and advises the petitioner to utilize the amount under this head judiciously in the underdeveloped/ gas producing areas. The detail of such projects undertaken shall be reviewed at the time of FRR for the said year.*

8.10.5. *The Authority in view of above accedes petitioner submission and allows Rs. 496 (being 50%) million as part of revenue requirement for the said year.*

8.11. *LPG Air Mix Cost*

8.11.1. The petitioner has claimed Rs. 262 million shortfall in the revenue requirement of LPG Air Mix segment for the said year.

8.11.2. The Authority observes that the petitioner has projected an amount of Rs. 1,262, million for establishment of LPG Air Mix plants which includes Rs. 4 million for land, Rs. 800 million for distribution lines, Rs. 444 million for tools and equipment and Rs. 14 million for purchase of Vehicles. However, the petitioner has not provided any details regarding number of plants, their location, licence status etc. *Therefore, the Authority pends this amount claimed under this head and advises the petitioner to provide the complete information with all the relevant details separately in the review petition of the respective year.*

9. Summary of Discussion & Decisions

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

9.1.1. determine estimated addition in fixed assets at Rs. 67,781million *(inclusive of previous years carried forward amount of Rs. 36,606)* and depreciation charge at Rs. 20,569 million;

9.1.2. determine sales revenue at current prescribed price (re-adjusted) at Rs. 172,190 million;

9.1.3. determine income under the head Rental & service charges at Rs. 2,135 million

9.1.4. determine LPS as operating income at Rs. 4,719 million

9.1.5. other operating income at Rs. 2,200 million

9.1.6. determine cost of gas at Rs. 197,131 million.

9.1.7. determine the UFG disallowance at Rs. 9,974million;

9.1.8. determine T&D expenses at Rs. 23,822 million as against Rs. 30,964 million claimed by the petitioner;

9.2. In exercise of its powers under the Ordinance and NGT Rules, the estimated revenue requirement for the said year is determined at Rs. 286,713 million as tabulated below:

Table 48: Components of DERR for FY said year as Determined by the Authority.

Million Rs.

Particulars	Claimed by the Peitioner	Determined
Cost of gas sold	162,613	197,131
UFG (disallownce) / allowance	(750)	(9,974)
Transmission and distribution cost	30,964	23,822
Gas internally consumed	1,221	1,253
New Regions Operating & HR Cost	2,391	-
Operating cost for upgradation of CC&B	31	15
Depreciation	21,639	20,569
Late Payment Surcharge (Payable) & Interest on short term borrowing	3,726	1,863
Corporate Social Responsibility (CSR)	993	496
Workers Profit Participation Fund	1,138	1,138
Return on assets	23,215	21,056
Previous Years Shortfall in Revenue Requirement	117,376	29,344
Total Revenue Requirement	**364,557**	**286,713**

9.3. The petitioner's net operating income is estimated at Rs. 184,396 million as against revenue requirement of Rs. 280,258 million and thus there is shortfall of Rs. 102,317 million in its estimated revenue requirement for the said year. In order to adjust this shortfall, the Authority hereby makes, on provisional basis, upward average revision of Rs. 234.57 per MMBTU in the petitioners' average prescribed price for the said year (Annexure-A).

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

Rule 17(1)(h) *"tariffs should generally be determined taking into account a rate of return as provided in the license,* ***prudent*** *operation and maintenance costs, depreciation, government levies and, if applicable, financial charges and cost of natural gas;"*

Rule 17(1)(j) *"only such capital expenditure should be included in the rate base as is prudent, cost effective and economically efficient;"*

9.5. *The Prescribed Prices under various category of consumers*

9.5.1. 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 as an alternative in the energy consumption and relevant provisions under the legal framework. Accordingly, the prescribed prices under each category of consumers have been determined and are attached at (Annexure-B). The rationale of the same is provided as under;

(i) 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 Federal Government policy guidelines have been provided, which shall be implemented accordingly.

(ii) The domestic and special commercial consumers, particularly first two slabs, are currently 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 of the country. Accordingly, in respect of existing first slab (upto 100 HM3), the prescribed price has been determined at 50% of average cost of service. The next slab is, over 100HM3 and upto 300 HM3 and its prescribed price has been determined equal to average cost of service.

(iii) The price of liberty power and new fertilizer feed stock has been determined as per Federal Government policies.

(iv) All rest of consumer categories including the 3rd slab in domestic and Special commercial category of consumers (over 300 HM3), Bulk domestic, Commercial, Power, Industry, Fertilizer (old), CNG, Captive power and Cement absorbs the remaining shortfall of the determined revenue requirement across the board based on the existing gas sale prices.

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

9.5.3. 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.***

9.6. Directions

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

9.6.2. ***provide at the time of final revenue requirement, 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.***

9.6.3. ***submit the progress report in respect of capital projects and region wise UFG on quarterly basis.***

9.6.4. ***to submit in tabulated form the reduction in UFG in each region vis a vis expenditure incurred compared with allowed by the Authority, at the time of respective FRR.***

9.6.5. ***submit the amendment in the existing license in conformity with the current tariff regime in place.***

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

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

9.6.8. *economize capital & revenue expenditures, utilize the resources efficiently and effectively and avoid/curtail non-productive /non development expenditure in order to protect consumer interest as well.*

9.6.9. *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.*

9.6.10. *submit the petition in proper & legible format, complete in all respect containing necessary analysis in comparative form & fiscal targets/plans. Further, existing template of the petition may be revised/reviewed and be submitted within thirty days for prior approval of the Authority.*

9.6.11. *share, on regular basis, the monthly gas production and consumption data with the provinces and address their reservations in this regard. Further, compliance to the Constitution and Law provisions must be ensured in letter & spirit.*

9.6.12. *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.*

9.6.13. *curtail sports related expenses within reasonable limit, since every expense is being funded by poor natural gas consumers.*

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

9.7. Public Critique, Views, Concerns, Suggestions

9.7.1. The Authority has recorded critique, views, concerns and suggestions of the interveners and participants given in para. 3 above. ***The Authority, keeping in view the vehemently requests by the interveners, considers it important to draw specific attention of the FG regarding policy issues as included in Para. 3 above for due consideration, some of them are specifically highlighted as under;***

(i) *Gas consumers are paying twice since they are paying the return on assets as well as Gas Infrastructure Development Cess (GIDC). It has been demanded that Federal Government should withdraw the GIDC or provide the funds from GIDC proceeds to undertake the capital infrastructure/CAPEX.*

(ii) *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)

The Islamabad,
June 21, 2018

A. Computation of Estimated Revenue Requirement for FY 2018-19

	Particulars	The Petition	Adjustment	*Million Rs.* Determined Amount
	Gas sales volume -MMCF	447,155	-	447,155
	BBTU	436,187	-	436,187
	Calorific Value	975	-	975
"A"	**Net Operating revenues**			
	Net sales at current prescribed price	198,561	(26,371)	172,190
	Rental & service charges	1,926	209	2,135
	Late Payment Surcharge and interest on arrears	3,788	931	4,719
	Amortization of deferred credit	3,152	-	3,152
	Other operating income	1,701	499	2,200
	Total income "A"	**209,128**	**(24,732)**	**184,396**
"B"	**Less Expenses**			
	Cost of gas sold	162,613	34,518	197,131
	UFG (disallowcne) / allowance	(750)	(9,224)	(9,974)
	Transmission and distribution cost	30,964	(7,142)	23,822
	Gas internally consumed	1,221	32	1,253
	New Regions Operating & HR Cost	2,391	(2,391)	-
	Operating cost for upgradation of CC&B	31	(16)	15
	Depreciation	21,639	(1,070)	20,569
	Late Payment Surcharge (Payable)	3,276	(1,638)	1,638
	Finance cost for Working capital	450	(225)	225
	Corporate Social Responsibility (CSR)	993	(497)	496
	Workers Profit Participation Fund	1,138	-	1,138
	Total expenses "B"	223,966	12,347	236,313
"C"	**Operating profit / (loss)(A - B)**	**(14,838)**	**(37,079)**	**(51,917)**
	Return required on net assets:			
	Net assets at begining	117,958	-	117,958
	Net assets at ending	188,880	(23,709)	165,171
		306,838	*(23,709)*	*283,129*
	Average fixed net assets (I)	153,419	(11,855)	141,565
	Deferred credit at begining	20,586	-	20,586
	Deferred credit at ending	20,934	-	20,934
		41,520	-	41,520
	Average net deferred credit (II)	20,760	-	20,760
"D"	**Average operating assets (I-II)**	132,659	(11,855)	120,805
	Return required on net assets	17.5%		17.43%
"E"	Amount of return required	23,215	(2,159)	21,056
"F"	**Excess /(shortfall)**	**(38,053)**	**(34,920)**	**(72,973)**
"G"	*Average Ince/(Dec) in Prescribed Price (Rs/MMBTU) pertaining to FY 2018-19*	*87.24*	*80.06*	*167.30*
"H"	**Cumulated Previous years shortfall**	(117,376)	88,032	(29,344)
"I"	**Total Shortfall (incl.cumulative)**	(155,429)	53,112	(102,317)
"J"	**Total increase / (Decrease) in prescribed Price (RS./MMBTU)**	356.34	(121.76)	234.57
"k"	**Total Revenue requirement (incl. previous years)**	364,557	(77,844)	286,713
"L"	**Average Prescribed Price (Rs/MMBTU)**	811.56	(182.22)	629.33

B. Provisional Prescribed Prices for FY 2018-19

		Particulars	Existing Sale/Prescribed Prices	Revised Average Prescribed Prices	Revised Prescribed Prices (Category wise)
			Rs./MMBTU		
			W.e.f 1.7.2018		
1		**Domestic consumers**			
	A	Stand alone Meters			
	B	Mosques, churches, temples, madrassas, other religious places and hostels attached thereto			
		Upto 100 Cubic Meters per Month	110	629.33	314.67
		Over 100 Cubic Meters Upto 300 Cubic Meters per Month	220	629.33	629.33
		Over 300 Cubic Meters Per Month	600	629.33	780.43
	C	Government and semi-Government offices, hospitals, Clinics, Maternity Homes, Government guest houses, Armed Forces messes and langars, universities, colleges, schools, private educational institutions, orphanages and other charitable institutionsalong with Hostels and Residential Colonies to whom Gas is supplied through bulk meters including captive power			
		All off-takes at flat rate of	600	629.33	780.43
2		**Commercial Consumers**			
		All establishments registered as commercial units with local authorities or dealing in consumer items for direct commercial sale like cafes, milk shops, tea stalls, canteens barber shops, laundries, tandours, places of entertainment like cinemas, clubs and theaters, private offices, corporate homes etc.			
		All off-takes at flat rate of	700	629.33	910.50
3		**Special Commercial Consumer (Roti Tandoor)**			
	(a)	**Upto 300 M³ per month**			
		Upto 100 Cubic Meters per Month	110	629.33	314.67
		Over 100 Cubic Meters Upto 300 Cubic Meters per Month	220	629.33	629.33
		Over 300 Cubic Meters Per Month	700	629.33	910.50
4		**Ice Factories**			
		All off-takes at flat rate of	700	629.33	910.50
5		**General Industrial consumers**			
		All consumers engaged in the processing of industrial raw material into value added finished products irrespective of the volume of gas consumed including hotel industry but excluding such industries for which a separate rate has been prescribed.			
		All off-takes at flat rate of	600	629.33	780.43
6		**CNG Stations**			
		All off-takes at flat rate of	700	629.33	910.50
7		**Cement Factories**			
		All off-takes at flat rate of	750	629.33	975.54
8		**Fertilizer Factories**			
	(a)	Pak-American Fertilizer Limited, Daudkhel			
	(b)	Pak-Arab Fertilizer Limited, Multan			
	(c)	Dawood Hercules Chemicals Limited, Sheikhupura			
	(d)	Pak-China Fertilizer Limited/ Hazara Phosphate Plant Limited, Haripur			
		Feed Stock : All off takes at flat rate of	123	629.33	159.99
		Gas used for fuel for electrcity Generatoin, Steam and housing colonies	600	629.33	780.43
	(e)	**Engro Fertilizer Company limited**			
		Feed Stock : All off takes at flat rate of	72.72	629.33	84.18
		Gas used for fuel for electrcity Generatoin, Steam and housing colonies	600	629.33	780.43
9		**Power Stations**			
	(a)	**WAPDA's Power Stations and other electricity utility companies excluding WAPDA's Natural Gas Turbine Station, Nishatabad, Faisalabad**			
		All off takes at flat rate of	398.76	629.33	520.29
	(b)	**WAPDA's Natural Gas Turbine Station, Nishatabad, Faisalabad**			
		All off takes at flat rate of	398.76	629.33	520.29
		Fixed Charge (Rupee per month)	390,000.00	390,000.00	390,000
	(c)	**Liberty Power Limited**			
		All off takes at flat rate of	703.18	629.33	899.53
10		**Captive Power**			
		All off-takes at flat rate of	600	629.33	780.43
11		**Independent Power Plants**			
		All off-takes at flat rate of	400	629.33	520.29

C. Computation of HR Cost Benchmark FY 2018-19

Million Rs.

Particulars	DERR 2017-18 Re-adjusted	DERR FY 2018-19 Per SNGPL Computation	DERR FY 2018-19 Determined by the Authority
SNGPL			
HR benchmark Cost Parameters			
Base Cost	12,168	13,651	13,651
CPI factor	5.00%	5.00%	4.20%
T & D network (Km)	128,889	150,692	137,052
Number of Consumers (No.)	6,036,589	7,739,889	6,336,589
Sales Volume (MMCF)	883,431	874,536	874,536
Unit Rate (Rs/unit)			
T&D network (Rs./Km)	101,686	105,917	105,913
No. of Consumers (Rs./Consumer)	2,121	2,261	2,261
Sale Volume (Rs./MMCF)	19,785	15,453	15,452
HR Cost Build-up (Million Rs)			
Cost CPI -50%	304	683	287
T & D network (Km)	3,277	3,990	3,629
Number of Consumers (No.)	8,323	11,377	9,314
Sales Volume (MMCF)	1,748	1,351	1,351
HR Benchmark Cost	**13,651**	**17,401**	**14,581**
IAS Cost	840	1,250	625
Total HR Benchmark Cost	**14,491**	**18,651**	**15,206**

D. List of Abbreviations

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

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