



IN THE MATTER OF

SUI NORTHERN GAS PIPELINES LIMITED
FINAL REVENUE REQUIREMENT, FY 2015-16

UNDER

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

DECISION

November 25, 2016

Before:

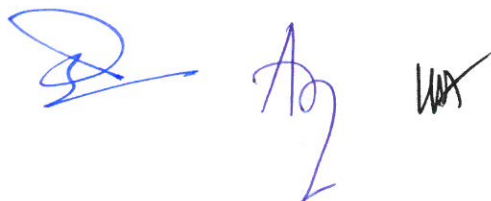
Ms. Uzma Adil Khan, Chairperson
Mr. Aamir Naseem, Member (Gas)
Mr. Noorul Haque, Member (Finance)

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1. Background

- 1.1. Sui Northern Gas Pipelines Limited (the petitioner) is a public limited company, incorporated in Pakistan, and listed on Pakistan Stock Exchange. The petitioner is operating in the provinces of Khyber Pakhtunkhwa, Punjab and Azad Jammu & Kashmir under the license granted by the Oil & Gas Regulatory Authority. It is engaged in the business of construction and operation of gas transmission and distribution pipelines, sale of natural gas and sale of gas condensate (as a by-product). The petitioner is also engaged in the business of Re-gasified Liquefied Natural Gas (RLNG), in accordance with the decision of the Federal Government (FG).
- 1.2. The petitioner filed a petition on August 15, 2016 under Section 8(2) of the Oil & Gas Regulatory Authority Ordinance, 2002 (the Ordinance) and Rule 4(3) of the Natural Gas Tariff Rules, 2002 (NGT Rules), for determination of its Final Revenue Requirement (FRR) for FY 2015-16 (the said year) on the basis of accounts, as initialed by its statutory auditors, after incorporating the effect of actual changes in the wellhead gas prices, sale mix and other relevant factors in terms of Section 8(2) of the Ordinance. The petitioner has also submitted an amended petition (the petition) on October 17, 2016 whereby finance cost on account of working capital amounting to Rs. 993 million has been included. Sales revenue was initially computed on the basis of provisional prescribed prices, the same was later rectified and worked out on the basis of notified sale prices. The petitioner has also provided a statement of account pertaining to RLNG business with different parties in parallel to Revenue Requirement break up for the said year. The RLNG activity, however, as per decision of the FG is a ring fenced and separate activity, accordingly, this revenue requirement determination is only to the extent of the natural gas activity of the petitioner. However, the directly attributable expenses on account of RLNG pricing comprising depreciation, Gas Internally Consumed (GIC) and return shall be included in the revenue requirement and allocated to RLNG price.
- 1.3. The petitioner has factored Rs. 16,381 million late payment cost on account of gas supplier/circular debt related parties. The petitioner has included no adjustment on account of Unaccounted for Gas (UFG) without assigning any reason. Late payment surcharge and interest on arrears (LPS) has also not been included in the revenue requirement thereby treating it as non-operating income. Accordingly, the petitioner, for the actual volume of 408,106 BBTU, has worked out its FRR for the said year,

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including Rs. 44,743 million previous years shortfall, at Rs. 270,005 million and the revenue shortfall at Rs. 97,284 million. Based on the actual sales revenue on the basis of notified sale prices and actual sale mix, the petitioner has claimed an increase of Rs. 238.38 per MMBtu in the average prescribed price for the said year.

- 1.4. The Authority, vide its order dated December 18, 2015, had determined the petitioner's Estimated Revenue Requirement (DERR) for the said year under Section 8(1) of the Ordinance at Rs. 231,073 million for estimated sale volume of 434,030 BBTU.

2. Salient Features of the Petition




- 2.1. The petitioner has submitted following statement of cost of service.

Table 1: Comparison of Cost of Service with DERR & Previous Year

Particulars	Rs./MMBtu		
	FY 2014-15 FRR	FY 2015-16 DERR The Petition	
Sales volume (BBTU)	421,343	434,030	408,106
Cost of gas	427.17	337.88	384.81
UFG disallowance	(27.62)	(19.30)	-
Transmission & distribution	41.00	42.18	53.07
Depreciation	22.95	36.26	25.61
Other charges including WPPF	12.71	1.60	2.93
Impact of IAS 19 (Recognition of Actuarial Losses) for FY 2015-16	-	-	9.26
Accumulated LPS for gas suppliers/circular debt parties	-	-	40.14
Finance cost for working capital	-	-	2.43
Prior year's Adjustment	42.19	103.09	109.64
Total operating cost	91.22	163.82	243.07
Return on fixed assets	30.31	30.69	33.73
Other operating income	(20.51)	(21.44)	(13.18)
Cost of service/ Prescribed price	528.19	510.95	648.43
Current average prescribed price	422.00	403.13	410.05
Incr/(decr) in Avg. PP	106.19	107.81	238.38

- 2.2. The petitioner has made the following submissions:

- 2.2.1. Annual return has been claimed at the rate of 17.5% of the value of its average net operating fixed assets (net of deferred credit) per license condition no. 5.2.
- 2.2.2. Gross addition in fixed assets during the said year has been claimed at Rs. 28,011 million and net addition, after accounting for deletion and depreciation, at Rs. 16,758 million, resulting in increase in net operating fixed assets from Rs. 94,673 million in FY 2014-15 to Rs. 111,430 million for the said year. After adjustment of

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deferred credit, the average value of operating fixed assets eligible for return works out to Rs. 86,030 million and the required return at Rs. 15,055 million.

- 2.2.3. Total operating revenues have been claimed at Rs. 172,722 million in the petition, as against Rs. 184,279 million in DERR, as detailed below:

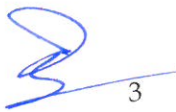


Table 2: Comparison of Operating Revenues with DERR & Previous Year

Description	FY 2014-15	FY 2015-16		Increase/(Decrease)	
	FRR	DERR	The Petition	over DERR	
Net Sales at current prescribed price	177,808	174,972	167,344	(7,628)	-4%
Rental & Service Charges	1,698	1,868	1,601	(267)	-14%
Surcharge & Interest on arrears	2,914	3,200	-	(3,200)	-100%
Amortization of deferred credit	2,746	2,829	2,765	(64)	-2%
Other operating Income	1,282	1,410	1,011	(399)	-28%
Net operating revenues	186,448	184,279	172,722	(11,557)	-6%

- 2.2.4. Net operating expenses have been claimed at Rs. 256,241 million in the petition as compared to Rs. 217,753 million provided in DERR, as detailed below:

Table 3: Comparison of Operating Expenses per the petition with DERR & Previous Year

Description	FY 2014-15	FY 2015-16	FY 2015-16	Inc/(Dec) over DERR	
	FRR	DERR	The Petition		
Cost of gas	179,983	146,651	157,043	10,392	7%
UFG disallowance	(11,639)	(8,376)	-	8,376	
Transmission & distribution cost	15,802	16,222	20,658	4,436	21%
Gas Internally Consumed (GIC)	1,475	2,084	999		
Depreciation	9,669	15,736	10,451	(5,285)	-51%
Other charges including WPPF	342	693	1,195	502	42%
Impact of IAS 19 (Recognition of Actuarial Losses) for FY 2015-16	5,014	-	3,779	3,779	100%
LPS on account of gas creditors and circular debt parties	-	-	16,381	16,381	
Prior year adjustments	17,775	44,743	44,743	-	100%
Finance cost for working capital	-	-	993	993	100%
T&D Cost	38,438	71,102	99,199	28,097	28%
Total T& D Cost	218,421	217,753	256,241	38,488	15%






- 2.2.5. Net result of the petitioner's above mentioned claims is that there is a shortfall of Rs. 97,283 million after allowing 17.5% return on average net operating assets, which translates to an increase of Rs. 238.38 per MMBTU in the existing average prescribed price, as tabulated below:

Table 4: Computation of Average Increase in Prescribed Price per the petition

Description		Rs in Million
A	Net operating revenues	172,722
B	Less:Net operating expenses including WPPF	256,241
C	(Shortfall)/Excess (A-B)	(83,519)
D	Return required @ 17.5% on net fixed assets in operation	13,764
E	Total (shortfall)/ excess in revenue requirement (D-C)	(97,283)
F	Sales volume (BBTU)	408,106
Increase in the average prescribed price (Rs/MMBTU) (E/F*1000)		(238.38)

3. Proceedings

- 3.1. The Authority issued notice of hearing on October 19, 2016 to the petitioner and the following interveners and related parties:
- i. Federal Government (FG/GoP).
 - ii. Mr. Raziuddin (Razi), CEO, Khyber Pakhtunkhwa Oil & Gas Company Ltd. Peshawar.
 - iii. Mr. Muhammad Aslam Chaudhry, Member Executive Committee, Lahore Chamber of Commerce and Industry & Consumer, Lahore.
 - iv. Mahmood Elahi Engineers, Sui Gas Contractors Punjab and Khyber Pakhtunkhwa, Faisalabad.
 - v. Mr. Ayub Hameed, Lahore.
 - vi. Mr. Pervaiz Khan Khattak, Chairman Standing Committee on CNG, Federation of Pakistan Chamber of Commerce & Industry, Islamabad.
- 3.2. The hearing was held at Lahore on November 04, 2016.
- 3.3. The petitioner was represented at the hearing by a team of senior executives led by Mr. Amer Tufail, Deputy Managing Director (Services) along with legal counsel, who were given full opportunity to present the petition. The petitioner made submissions with the help of multimedia presentation explaining the basis of its petition and also responded to the comments, observations, objections, questions, and suggestions of the participants as well as members & officers of the Authority.

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- 3.4. The petitioner's legal counsel reiterated its contentions regarding return in summarized manner. This issue has been exhaustively discussed and decided in the determinations issued by the Authority earlier and during Octobers 2016. The same are therefore endorsed for the instant determination as well.
- 3.5. The following interveners and participants have attended the hearing:
- i. Mr. Owais Shakeel Khan, Head of Engineering Department, Khyber Pakhtunkhwa Oil & Gas Company Ltd (KPOGCL), Peshawar.
 - ii. Mr. Nasir Akbar, Engineer, KPOGCL, Peshawar.
 - iii. Mahmood Elahi Engineers, Sui Gas Contractors Punjab and Khyber Pakhtunkhwa, Faisalabad.
 - iv. Mr. Ayub Hameed, Lahore.
- 3.5.1. The representative from Government of Khyber Pakhtunkhwa highlighted that an agreement has been signed between SNGPL, Govt of Kyber Pakhtunkhwa and MNA Hangu for provision of gas connections in Karak, Kohat & Hangu. In this respect, certain information was required from SNGPL which has not been provided yet. The same may be provided at the earliest.
- 3.5.2. It was agitated that burden of 32 paisas per unit on account of LPG air mix projects may not be passed onto Khyber Pakhtunkhwa consumers unless SNGPL installs at least one such Plant in Chitral and 10 out of 65 LPG Air Mix Plants in Swat, Dir, Hazara & Galliat, on priority basis.
- 3.5.3. Representative of Government of Khyber Pakhtunkhwa also requested to construct LNG pipelines till Khyber Pakhtunkhwa and clarify the LNG Tariff Sheet. It was also demanded that SNGPL should pay Rs. 5.4 billion to Government of Khyber Pakhtunkhwa for revenue losses for past 3 years.
- 3.5.4. The observations were responded by the petitioner and it was consented by the petitioner that detail of project pertaining to provision of gas connections in Karak, Kohat and Hangu shall be shared with Government of Khyber Pakhtunkhwa. The petitioner also affirmed that other desired information is available on its website.

4. Determination

- 4.1. After detailed scrutiny of the petition, clarifications given by the petitioner, and valuable input from interveners and participants, the Authority determines as follows:

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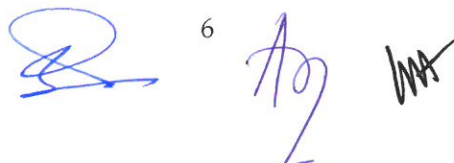


5. Authority's Jurisdiction And Determination Process

- 5.1. The Authority is obligated to determine the revenue requirement /prescribed prices of the petitioner in accordance with Section 8(1) and 8(2) of the Ordinance and License condition no. 5.2 of its integrated License.
- 5.2. The decisions issued by the Authority have always been strictly in accordance with the relevant provisions of Law. All the statutory requirements are firmly complied with before issuing any Order and in this whole process the Authority, very meticulously, ensures that public service utilities prosper in an efficient manner. The Authority, since its inception had issued all of its determinations, after going through the due process of transparent public hearings, 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 bring efficiency in the overall management of the company have proved to be beneficial for the whole nation in measurable terms.
- 5.3. The Authority examines all applications and petitions in the light of relevant rules. Public notices are issued and all the stakeholders are provided full opportunity to intervene / comment upon the issues pertaining to determination of revenue requirement, in writing and at public hearings, which are duly taken into account. Further, GoP's attention is specifically drawn to the pleas relating to policy matters for consideration, before deciding the retail prices for various categories of consumers.
- 5.4. The operating revenues, operating expenses and changes in asset base are scrutinized in depth, keeping in view the FG socio economic agenda and policy advices, in accordance with Rule 17(j) of NGT Rules.

6. Return to Licensee

- 6.1. 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

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petitioner's license, while treating various income and expenditure heads as per existing regime.

- 6.2. In view of above, it is established that Authority strictly performs as per its mandate and allows guaranteed return (i.e. 17.5%) to the petitioner. The Authority, however, notes with grave concern that petitioner's operating inefficiencies specifically the gas losses are not only deteriorating its profitability but also contributing national loss in terms of productivity and return to Government investment. More specifically, gas loss is almost the only factor which precludes it to retain the guaranteed return. The petitioner is therefore stressed to formulate strategic plan and control the gas losses to produce amenable results benefitting the shareholders and public at large.




7. Operating Fixed Assets

7.1. Summary

- 7.1.1. Gross addition in fixed assets during the said year has been claimed at Rs. 28,011 million. The depreciation on the opening assets and added during the year has been claimed at Rs. 10,819 and deletion in assets at Rs. 434 million. Accordingly, net addition in assets after accounting for depreciation/deletion is Rs. 16,758 million, increasing the net opening fixed assets of Rs. 94,673 million to 111,430 million at the closing for the said year. After adjustment of deferred credit, the average value of operating fixed assets has been claimed at Rs. 86,030 million and the required return at Rs. 15,055 million. The computation of return on fixed assets is tabulated below:-

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

Description	Million Rs.		
	Natural Gas	RLNG	Total
Net operating fixed assets at beginning	93,891	781	94,673
Additions during the year	14,101	13,910	28,011
deletion during the year	(434)	-	(434)
Total Addition	13,667	13,910	27,577
Depreciation Addition (net)	10,100	719	10,819
<i>Net Addition</i>	3,567	13,191	16,758
Net Operating fixed assets at closing	97,458	13,972	111,430
Average Net operating fixed assets A			103,051
Deferred Credit at Beginning			17,423
Deferred Credit at Closing			16,620
Average Deferred Credit B			17,021
Average Net Assets eligible for return (A-B)			86,030
Rate of return			17.5%
Amount of Return			15,055

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7.1.2. Comparative analysis of additions in fixed assets with DERR and the previous year is as follows:

Table 6: Summarized Schedule of Additions in assets compared with DERR & Previous Year

Million Rs.

Particulars	FY 2014-15	FY 2015-16	FY 2015-16	Inc/(Dec) over DERR	
	FRR	DERR	Actual		
Transmission (LNG)	2,807	16,057	13,910	(2,147)	-13%
Transmission (Normal)	651	440	180	(260)	
Transmission (Normal) prior years adjustment			1,555	1,555	
Compression	437	472	544	72	15%
Distribution Development	6,189	5,340	6,544	1,204	23%
Measuring and Regulating Assets	5,567	6,250	3,518	(2,732)	-44%
Plant, Machinery & equipment and other assets	2,105	1,110	1,279	169	15%
Buildings on free/leasehold land	110	270	245	(25)	-9%
Land and land acquisition advance	128	20	128	108	539%
Intangible Assets (IT related cost)	16	-	108	108	0%
Net addition in asset base	18,010	29,959	28,011	(1,948)	-7%

7.1.3. The petitioner has reported approximately 11% decrease in addition of fixed assets compared with DERR for the said year. The petitioner has attributed the overall decrease in capitalization to capacity constraints and financial crisis faced by it.

i. Transmission Mains

7.1.4. The petitioner has requested to allow Rs. 15,645 million under the head "Transmission" for the said year. The addition to transmission is summarized as below: -

Table 7: Summarized additions in Transmission for the said year: -

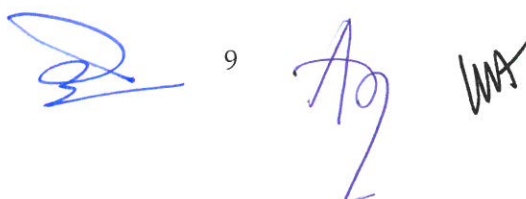
Sr. No.	Description	Diameter	Physical	Rs. In Million
			Targets (Kms)	
Transmission (LNG Project)				
1	V/A SV-2 to VA/ SV-3 (LNG-I)	42"	26	2,092
2	V/A SV-1 to VA/ SV-2 (LNG-I)	42"	27	2,509
3	V/A SV-5 to Qadirpur (LNG-I)	42"	29	2,285
4	V/A SV-3 to VA/ SV-5 (LNG-I)	42'	29	2,301
Sub-Total (A)			111	9,187
5	SCADA (Lot), Machinery, Construction Equipment and Capital items and camping facility, Equipment, tools and vehicles (LNG)	-	-	4,383
6	Compression i.e. Compressor Station Equipment (LNG- Phase I and II)	-	-	340
Sub-Total (B)				4,723
Total (A & B)				13,910
Transmission (Normal)				
7	SMS	-	-	93
8	(CP Transmission Jobs normal Activity)	-	-	87
9	Prior year adjustments includes different line segments	-	-	1555
Sub-Total (C)				1735
Grand Total (A+ B+C)				15,645

7.1.5. The petitioner, vide its email dated October 31, 2016, informed that it had commissioned the above 42" diameter 111 kilometer pipelines at a cost of Rs. 9,187 million in respect of LNG Phase-I and that the current operating pressure of the lines is in the range of 800-1000 Psig. It is mentioned that the Authority had approved an amount of Rs. 9,482 million for laying of the 42" diameter pipelines under LNG Phase-I in DERR for FY 2014-15.

7.1.6. The petitioner informed about prior year adjustments of Rs. 1,555 million that it includes different line segments i.e. Dhakni-Mayal-FC-I Line (2nd Segment), FC-I - Gali Line (2nd Segment), Pindori Line (2nd Segment), New Engro Energy Line, Chakdara - Talash Line, Dawood Herculees Line P-9, SV-5 Sawan - Qadirpur Line, Villages Of Kasur NA-138, Industrial City (M3-IC) Faisalabad and Hookup of SSGC V/A to SV 0 Sawan earlier approved by the Authority in respective years. The Authority advises to also include such major prior year adjustments in the ERR of the respective year.

7.1.7. *The Authority after due diligence and keeping in view the arguments and justifications advanced by the petitioner allows capitalization of Rs. 15,645*

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million as requested by the petitioner under the head "Transmission" for the said year.

ii. All Other Assets

- 7.1.8. The petitioner has capitalized Rs 128 million against Rs. 20 million approved by the Authority in DERR 2015-16 and informed that the amount has been incurred on purchase of land and advance for acquisition of Land for ROW in previous years. Keeping in view the mandatory requirement of ROW, the Authority allows the same and directs the petitioner to project such expenditures prudently in the ERR.
- 7.1.9. The petitioner vide its letter dated November 8, 2016 has stated that "The ongoing schemes are being implemented as per Prime Minister's Directive dated 1-10-2014 which has been issued by the Prime Minister's office after due diligence in compliance with the Orders of the Apex Court."
- 7.1.10. The petitioner has requested to allow Rs. 544 million under the head compression against 5 years compression overhauling project. Keeping in view the operational requirement and earlier approved project, the Authority allows Rs. 544 million under the head for the said year.
- 7.1.11. The Authority observed that the petitioner claimed an amount of Rs. 169 million over and above in the head of Plant, Machinery, equipment and other Assets allowed in DERR 2015-16. The petitioner explained that the Capitalization of Rs. 148 million over and above the amount allowed in the DERR for FY 2015-16 in respect of Plant, Machinery, equipment and other Assets is in respect of the previous years for which there was surplus budget available. Further under the head IT and Computer Hardware, the Authority observed that the petitioner has capitalized Rs. 21 million above the budget allowed by the Authority in DERR FY 2015-16. The Authority approves the same, however, the petitioner is advised to remain within the budget in future.
- 7.1.12. The amount Rs. 108 million pertains to the I.T project. The Authority in principle approved the I.T Project amounting to Rs. 231 million in DERR 2013-14. During the FY 2013-2015 an amount of Rs. 72 million have been capitalized by the petitioner whereas, the amount of Rs. 108 million as remaining amount of the earlier approved project is projected in the petition. In view of the balance sum available, the Authority approves this amount, however, the Authority strongly advises the petitioner to correctly project the anticipated amounts at the time of ERR.

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7.1.13. *In view of above, the Authority allows addition in fixed assets for the said year at Rs. 28,011 million as requested by the petitioner.*

8. Operating Revenues

8.1. Sales Volume

8.1.1. The sales volume has dropped to 408,106 BBTU, witnessing a decrease of 6% for the said year, as against 434,030 BBTU per DERR. Category-wise comparison with previous year has been provided by the petitioner as under:

Table 8: Comparison of Category-wise Sales Volume per the petition with DERR & Previous Year

Category	FY 2014-15	FY 2015-16		BBTU	
	FRR	DERR	The Petition	Inc/(Dec) over DERR	
Power	120,043	97,326	97,801	475	0%
Cement	342	-	300	300	100%
Fertilizer	13,155	7,116	32,778	25,662	361%
General Industries	44,723	62,608	43,870	(18,738)	-30%
CNG	38,971	34,821	29,101	(5,720)	-16%
Commercial	23,748	32,647	22,481	(10,166)	-31%
Domestic	180,361	199,512	181,776	(17,736)	-9%
Total	421,343	434,030	408,106	(25,924)	-6%

8.1.2. The petitioner has explained that there was lesser availability of gas during the said year owing to depletion of gas sources. Accordingly, almost all the category of consumers faced load shedding throughout the year. The petitioner further explained that increase in fertilizer sector is due to allocation of gas to Engro Fertilizer from Mari gas field as per decision of FG.

8.1.3. The Authority observes that petitioner had projected the volumes a bit on higher side at the time of DERR for the said year. The actual supply of gas despite allocation from Mari field however has been on downward trend.

8.1.4. *In view of above, the Authority accepts sales volume at 408,106 BBTU for the said year.*



8.2. Sales Revenue

8.2.1. Sales revenue has decreased from Rs. 201,803 million to Rs. 167,344 million per DERR. Category-wise comparison with DERR and previous year is given below:

Table 9: Historical Comparison of Category-wise Sales Revenue per the petition

Million Rs.

Category	FY 2014-15	FY 2015-16		Inc/(Dec) over DERR	
	FRR	DERR	The Petition		
Power	70,123	45,255	56,024	10,769	24%
Cement	257	-	227	227	100%
Fertilizer	1,129	3,309	2,999	(310)	-9%
General Industries	22,084	29,109	27,686	(1,423)	-5%
CNG	25,962	16,190	20,218	4,028	25%
Commercial	15,360	15,179	15,726	547	4%
Domestic	42,893	92,761	44,464	(48,297)	-52%
Total	177,808	201,803	167,344	(34,459)	-17%

8.2.2. The petitioner has submitted that above revenues are based on the notified sale prices. The petitioner also submitted that resultant decrease in sales revenue for the said year is due to decrease in sale volume and mainly change in sale mix. The allocation to fertilize sector as explained above has increased which is comparatively less revenue contributing sector.

8.2.3. The Authority observes that FG has revised the sale prices twice during the said year, the proceeds of the same however does not meet the revenue requirement owing to short revision in some categories of consumers. The Authority therefore agrees with petitioner stance and re-adjusts the prescribed prices under each category of consumers to the extent the sales prices have been revised by the FG. during the said year. *Resultantly the sales revenue at prescribed prices for the said year are determined at Rs. 167,344 million for the said year.*

8.3. Other Operating Income

i. Summary

8.3.1. The petitioner has reported other operating income at Rs. 5,377 million for the said year as against Rs. 9,307 million per DERR. Item-wise comparison is as under:





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Table 10: Historical Comparison of Other Operating Income

Description	FY 2014-15	FY 2015-16		Rs in million	
	FRR	DERR	The Petition	Increase/Decrease over DERR	
Rental & Service Charges	1,698	1,868	1,601	(267)	-17%
Surcharge & Interest on arrears	2,914	3,200	-	(3,200)	-100%
Amortization of deferred credit	2,746	2,829	2,765	(64)	-2%
Other operating Income	1,282	1,410	1,011	(399)	-39%
Total	8,640	9,307	5,377	(3,930)	-42%

ii. *Late payment surcharge and Interest on arrears (LPS)*

- 8.3.2. The petitioner has claimed LPS as non-operating income and accordingly included no amount in this regard in the revenue requirement for the said year.
- 8.3.3. The petitioner reiterated its contention that LPS be treated as non-operating income since it is an interest being charged from the defaulters for delayed payments. This results in borrowing additional funds to offset shortfall in cash flow. LPS, therefore, is not an operating activity but a financing activity which cannot be treated as operating income.
- 8.3.4. The petitioner also reiterated that income under this head in respect of WAPDA/IPPs, Fertilizer & Cement is not actually received. The same form part of circular debt settlement and is adjusted against the outstanding payment to gas producers. The petitioner accordingly requested to continue to treat the LPS in respect of such bulk consumers as non- operating.
- 8.3.5. The Authority observes that LPS has been treated as operating income under the existing tariff regime implemented since long on the basis that same is generated while undertaking a regulated activity. Under the existing tariff regime, income from all sources associated with regulated activity is adjustable in the revenue requirement. Accordingly, the Authority decides to continue treating income on account of LPS as operating income for the said year.
- 8.3.6. The Authority further observes that petitioner has also claimed previous years' accumulated LPS cost on account of gas suppliers (circular debt parties) owing to cash flow constraints. The petitioner further explained that such late



payment charges have neither been paid nor cleared through circular debt settlement. Accordingly, the same has been claimed as operating expense.

8.3.7. The Authority observes that the contention made by the petitioner has already been discussed and agreed in principle in DERR FY 2016-17 based on the equitable treatment of the foregoing items that directly related to petitioner's regulated activities. The matter has been further dealt later in the relevant paras of this determination.

8.3.8. In view of above, LPS on account of bulk consumers being the equitable part under this head requires to be treated as operating income. This shall provide a fair treatment in the revenue requirement for the said year.

8.3.9. *The Authority, in view of above, determines the income on account of LPS at Rs. 5,545 million as operating income for the said year.*

iii. Other Operating Income

8.3.10. The petitioner has claimed Rs. 1,011 million on account of "other operating income" as per audited accounts, as against Rs. 1,410 million estimated as per DERR FY 2015-16.

8.3.11. *The Authority observes that petitioner has accounted for the income on this account in line with earlier decisions. Accordingly the same is accepted.*

8.3.12. *Supply of RLNG*

8.3.13. The Authority observes that during the said year, the petitioner has claimed significant capitalization and revenue expenses on account of RLNG supply from southern to northern part of the Country. All such allowable expenses/revenues as decided by the Authority in the light of FG's decisions are part of revenue requirement subject to ring-fencing and recoverable from RLNG consumers. Accordingly, expenses comprising; GIC, depreciation and return on assets on account of RLNG form part of revenue requirement. The income generated from the same source is accordingly included as operating income for the said year, setting off the expense on this account.



- 8.3.14. *The Authority further observes that petitioner has provided the detail of income on account of RLNG supply for its own consumers and under third party access arrangement amounting to Rs. 2,080 million and Rs. 535 million respectively.*
- 8.3.15. *In view of above, the Authority includes Rs. 2,615 million as operating income in the revenue requirement.*
- 8.3.16. *The Authority, in view of discussion above under this head and at para. 9.7 below, determines the other operating income at Rs. 24,053 million for the said year.*

9. Operating Expenses

9.1. Cost of Gas

- 9.1.1. The cost of gas per petition is Rs. 157,043 million (net of GIC), compared with Rs. 146,651 million determined in DERR, increased by Rs. 10,392 million (7.08%).
- 9.1.2. The Authority had determined input cost of gas on the basis of combined weighted average cost of gas purchased by the petitioner and SSGCL at Rs. 357.44 per MMBTU in DERR in accordance with the agreement for equalization of cost of gas dated 22nd September, 2003, between these two companies. On the basis of their actual audited results, weighted average of input cost of gas for the said year works out at Rs. 327.34 per MMBTU as under:

Table 11: Weighted Average Cost of Input Gas

Company	MMCF	MMBTU	Rs. In Million	Rs./MMBTU
SNGPL	513,981	482,158	128,013	265.50
SSGCL	469,381	464,356	181,815	391.54
Total	983,362	946,514	309,828	327.34

- 9.1.3. *In view of the above, the Authority determines cost of gas sold for the said year at Rs. 157,043 million.*

9.2. Unaccounted for Gas

- 9.2.1. The petitioner has reported UFG at 4.37 % (22, 116 MMSCF) for the said year, as follows:



Table 12: Comparison of UFG per the petition with Previous Year

Particulars	MMCF		
	DFRR FY 2014-15	FRR Petition FY 2015-16	DFRR FY 2015-16*
Total Gas Purchases	543,488	514,357	514,357
Gas Available for Sale	521,533	506,444	506,444
Gas Sales	464,304	449,024	449,024
UFG	57,229	22,116	46,652
	10.97%	4.37 %	9.21%

* Details are at UFG Sheet at Table-13.

9.2.2. The petitioner has submitted audited figures and data in respect of RLNG volumes showing separately 9,701 MMCF of RLNG carried for third party, 3,607 MMCF in respect of energy equivalence and 9,041 MMCF in respect of additional gas sold to the RLNG consumers from the indigenous natural gas.

9.2.3. The petitioner has included un-billed volume (11,526 MMCF) due to law and order situation in Khyber Pakhtunkhwa province, pilferage by non-consumers (5,895 MMCF) and unmeasured gas volume (10,252 MMCF) on account of minimum billing as part of deemed sale for the said year.

Law and Order Affected Areas

9.2.4. The petitioner claimed 11,526 MMCF in respect of law & order in the province of Khyber Pakhtunkhwa against 10,048 MMCF claimed by it in the previous year. These are SMS volumes, net of billing recovered.

9.2.5. Keeping in view the policy guidelines of the FG and inline with the previous decisions of the Authority in respect of Final Revenue Requirements for FY 2012-13, FY 2013-14 and FY 2014-15, the Authority provisionally allows 75 % of the claimed volume in respect of Law and Order areas i.e. 8,645 MMCF subject to following conditions: -

- i. Since Law and Order is a Federal and Provincial Government subject, the Federal Government shall specify the Law and Order affected areas. As regards, 25 % of the claimed volume, the Federal Government is requested to arrange funding from its own resources or from the Royalty of the concerned province.
- ii. The petitioner is directed to establish its legal and proper pipeline network in the area and replace illegal network in Law and Order affected areas to avoid loss of



precious gas as it is a national loss. The petitioner is also directed to pursue the case with the Federal Government/ Provincial Government regarding funding of the project to curb this menace.

iii. The volumes provisionally allowed as per above said policy decision of the ECC of the Cabinet shall be reconciled with the results of the UFG study and any variation (s) shall be considered accordingly.

9.2.6. However, it's once again reiterated that it is the obligation of the petitioner to take all possible steps to cope up with the problems affecting its business including initiation of legal proceedings under the applicable laws to recover the value of pilferage or stolen gas/ losses.

9.2.7. Further it is pointed out that petitioner is referring the letter of Chief Minister of Khyber Pakhtunkhwa, regarding Law and Order Affected Areas, issued on 19.12.2013. It is clarified that the subject letter is outdated as it is almost three years old further it is a correspondence between the Authority and the Provincial Government rather than a declaration of the Law & Order Affected Areas. Now the Law and Order situation in the Province has improved considerably after the Zarb-e- Azab operation. Moreover, if any worst Law and Order situation exists in the Province, it is a subject of the FG which may declare such law and order areas in consultation with the Provincial Government.

Volume Pilfered by Non-Consumers

9.2.8. The petitioner had claimed 5, 895 MMCF in respect of volume pilfered by non-consumers keeping in view the policy guidelines of the FG and the previous decisions of the Authority for FY 2012-2015, the Authority provisionally allows 80 % of the claimed volume i.e. 4,716 MMCF subject to the condition that the volume allowed by the Authority shall be subject to final adjustments and shall be reconciled on yearly basis and the volume not realized will be reversed for the purpose of UFG calculation.

9.2.9. The Authority also directs the petitioner to take necessary action for recovery of sums recoverable under provisions of Natural Gas (Theft & Recovery) Act, 2016 including Section- 5 (7) of the Act. The executing agency should strictly follow the law of the Country for recovery of the stolen/ pilfered volumes under the

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above Act having overriding effect over the specific provisions of OGRA Ordinance, 2002 and NGLR, 2002.

- 9.2.10. **The volumes provisionally allowed as per above said policy decision of the ECC of the Cabinet shall be reconciled with the results of the UFG study and any variation (s) shall be considered accordingly.**

Minimum Billing

- 9.2.11. The petitioner has claimed a volume of 10, 252 MMCF in respect of minimum consumption of domestic consumers.
- 9.2.12. It is mentioned that correct measurement is the prime responsibility of the petitioner and as such no relaxation can be allowed for this factor. If the petitioner considers it to be an important factor, it must aggressively work on it and the Authority shall support any such feasible project/ expenditure. The Authority has also disallowed the volumes under the head in all of its previous decisions on the rationale that the same arises due to petitioner's own equipment fault, which is not justified. The contention of the petitioner is thus denied.

Bulk to Retail Ratio

- 9.2.13. The petitioner has claimed a volume of 10,224 MMCF in respect of Bulk to Retail ratio.
- 9.2.14. It is pertinent to mention here that Bulk to Retail Ratio shifted primarily due to Development Schemes undertaken by the gas companies. Further the Authority has not previously allowed any volume in this regard and previous decisions are self-explanatory in this regard and also upheld by the Lahore High Court.
- 9.2.15. The Authority, considered the view point of the petitioner and keeping in view the fact that there is no change in circumstances and no new tangible justifications have been tendered by the petitioner, decides that the volume pilfered and the impact of change in bulk to retail ratio may be considered in the light of UFG Study, once the report is finalized in consultation with all the stakeholders and accordingly any adjustment approved by the Authority will be passed in the subsequent FRR.



9.2.16. In view of above, UFG is worked out as under;

Table 13: Calculation of UFG Adjustment

		2015-16			
		As per petition		As per OGRA	
Gas Purchases		Indigenous gas (UFG)	UFG on RLNG Supplied to Transmission and Distribution consumers	Indigenous gas (UFG)	UFG on RLNG Supplied to Transmission and Distribution consumers
Metered gas purchased		514,357	99,236	514,357	99,236
Line Pack		-153		-153	
Less RLNG Volume for Sale					
Less RLNG Carried for Third Party			-9,701		-9,701
Energy Equivalence		-3,607	3,607	-3,607	3,607
Gas carried for PPL, POL		-376		-376	
Gas Available for Sale	A	510,221	93,141	510,221	93,141
Gas Internally Consumed (Metered)	B=a+b	3,777	1,052	3,777	1,052
Transmission	a	2,636	1,052	2,636	1,052
(i) Compression		2,380	1,052	2,380	1,052
(i)(a) Compression for RLNG					
(ii) Residential Colonies		111		111	
(ii) Coating Plant		101		101	
(iii) Ruptures/Sabotage		0		0	
(iv) Other usage Depressurization purging etc		43		43	
Distribution	b	1,141	-	1,141	-
(i) Free Gas Facility		515		515	
(ii) Co-Generation		110		110	
(iii) Sabotage		503		503	
(iv) Third Party Damages					
(v) Purging		13		13	
Net Gas Available for Sale	C=A-B	506,444	92,089	506,444	92,089
Gas Sold (Billed)	D	449,024	97,671	449,024	97,671
Carried for third party					
Unrecovered Pilferage volume reversed		-11,633		-11,633	
Less RLNG Swap Sale					
RLNG Stock A/C (Additional sales of RLNG)		9,041	-9,041	9,041	-9,041
Un billed Vol due to law& order in KPK (Gurguri/Kohat)		11,526		8,645	
Under measured Vol. in respect of min		10,252		0	
Pilfered Vol detected against non-consumers		5,895		4,716	
Impact of Bulk to Retail Ratio		10,224		0	
Total Sales net of RLNG sales	E	484,329	88,630	459,792	88,630
UFG Volume	F=C-E	22,116	3,460	46,652	3,460
UFG %	I=H/F*100	4.37	3.76	9.21	3.76
Working disallowance for SNGPL					
Gas available for External Sale				506,444	
UFG Target				4.5%	
Allowed UFG Volume				22,790	
Disallowance (MMCF)	J			23,862	
WACOG (Rs./MMCF)	k			315.07	
Disallowance (Million Rs.)	L=J*K/1000			7,518	

9.2.17. In view of above, UFG disallowance is determined at Rs. 7,518 million for the said year.



9.3. Transmission and Distribution Cost

i. Summary

9.3.1. The transmission and distribution cost is higher by 17% i.e. from Rs. 18,456 million per DERR to Rs. 21,657 million per the petition, as compared below:

Table 14: Comparison of T & D Cost with DERR and Previous Year

Particulars	<i>Rs. in million</i>				
	FY 2014-15	FY 2015-16		Increase / (Decrease) Over DERR	
		FRR	DERR	The Petition	Rs.
Human Resource Cost	10,553	12,228	13,581	1,353	11%
Stores and Spares Consumed	353	636	454	(182)	-29%
Repair and Maintenance	862	991	953	(39)	-4%
Fuel and Power	241	265	250	(15)	-6%
Stationery, Telegram and Postage	108	132	134	2	1%
Dispatch of gas bills	95	112	100	(12)	-11%
Rent, Rate, Electricity and Telephone	356	423	376	(47)	-11%
Traveling	148	163	157	(6)	-3%
Transport expenses	794	873	739	(134)	-15%
Insurance	189	218	189	(29)	-13%
Legal and Professional Services	108	126	215	89	71%
Stores and spares written off	21	-	-	-	0%
Consultation for ISO 14001 & OHSAS 18000	3	5	4	(0)	-11%
Provision for doubtful debts	2,018	2,137	3,144	1,007	47%
Gas bills collection charges	376	418	381	(37)	-9%
Outsourcing charges of gas bills collection data	35	46	37	(9)	-20%
OGRA fee	124	173	152	(21)	-12%
Advertisement	143	172	145	(27)	-16%
Bank Charges	11	13	13	0	2%
Uniforms & protective clothing's	28	32	11	(21)	-67%
Staff training and recruiting	11	13	10	(3)	-24%
Security expenses	486	559	575	16	3%
SNG training insititute	13	22	12	(10)	-44%
Sponsorship of chairs at University	9.96	9.96	9.79	(0)	-2%
Interstate Gas System Pvt Ltd	75	70	105	35	50%
Cost of Gas Blown off	127	-	170	170	-
Budget for UFG control related activities	404	-	327	327	-
5 Year special training programme	27	30	25	(5)	-17%
Out Sourcing of call centre complaints management	21	23	27	4	17%
UP gradation of CSC and Complaint Centres	-	-	-	-	
Other expenses	272	312	261	(52)	-17%
Sub total Expenses	18,011	20,203	22,556	2,353	12%
Allocated to fixed capital expenditures	(2,209)	(3,830)	(1,898)	1,932	-50%
T&D Expenses	15,802	16,373	20,658	4,285	26%
Gas Internally Consumed	1,475	2,084	999	(1,085)	-52%
T&D Expenses	17,277	18,456	21,657	3,201	17%



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

ii. Human Resource Cost

9.3.3. The petitioner has claimed an increase of 11% on account of HR cost for the said year, from Rs. 12,228 million provided in DERR to Rs. 13,581 million per the petition. The same however, works out to 22% when compared with actual HR cost of Rs. 10,553 million for previous year.

9.3.4. The Authority observes that it has extensively deliberated the issue at the time of DERR for the said year and extended the HR benchmark applicable till FY 2014-15 for the said year as well. *The same is therefore adopted for the FRR for said year. Accordingly, the HR cost for the said year computes to Rs. 12,759 million as per Annex-C.*

9.3.5. The Authority further observes that the petitioner, at the time of DERR, was asked to provide comprehensive manpower need assessment study based on the working norms and accordingly justify its claim for revision of benchmark. The same is still outstanding which may be provided for consideration of the Authority.

iii. Legal and Professional Charges

9.3.6. The petitioner has claimed expenditure of Rs. 215 million on account of “legal and professional charges” for the said year as against Rs. 126 million provided in DERR for the said year, showing an exorbitant increase of 71%. The comparison is given below:

Table 15: Historical comparison of Legal & Professional Charges

Particulars	FY 2014-15	FY 2015-16		Rs. In million	
	FRR	DERR	Actual	Rs	%
Legal	70	70	153	83	54%
Professional	22	25	38	12	33%
Tax	2	12	12	0	-4%
Audit	6	8	8	0	-1%
Apprenticeship/Scholarship/Training	6	8	4	-4	-86%
Others	3	3	1	-2	-377%
Total	108	126	215	89	71%



- 9.3.7. The petitioner has explained that 71% increase is mainly due to expenses incurred in respect of arbitration case in London Court of International Arbitration with M/S Orient Power and M/S Sapphire Electric. Increase is also due to enhanced filing fee of different courts (Lower courts & High court), lodging of FIRs/filing of petitions in gas theft cases. Approximately 14,000 cases are pending in different courts. Recovery suits have to be filed against disconnected consumers for recovery of outstanding amount of gas bills in respect of 13 regions of the company. Furthermore, court fee @ 7.5% is required to be affixed on the plaint for recovery, over and above Rs. 25,000/- in Punjab, whereas, in Khyber Pakhtunkhwa court fee of 7.5% is required to be affixed on the plaint irrespective of amount, subject to maximum of Rs. 15,000.
- 9.3.8. The Authority observes that petitioner has been allowed significant amount in previous years on the same grounds particularly for arbitration matters and legal suits against the permanent defaulters to recover bad debts. The recoveries from the defaulters and non-consumers however have not exhibited satisfactory results.
- 9.3.9. The Authority also observes that there is continuous increase under this head owing to extended litigations. It is further noted that the petitioner has unnecessarily contended various issues in Courts which exclusively falls under the domain of OGRA. Therefore, honorable Courts in their various judgments have given the verdict with reference to the due process of Law only and as such the Authority's jurisdiction on revenue requirement determinations has been given due weightage under the scheme of Law. Accordingly, the expenses on this score cannot be termed as prudent and have no rationale to pass on to the consumers. In case, the petitioner still intends to avail its legal right, it must use either its in-house expertise or expenditure for the same be funded through its own profits.
- 9.3.10. The Authority further observes that petitioner is hiring outside legal counsel to deal the cases pertaining to GIDC, Customs, Revenue Requirement etc; and spending hefty amount on this account. The Authority observes that petitioner should utilize its in-house legal team for such issues of recurring nature and accordingly there is no rationale to allow such expenses.



- 9.3.11. *The Authority, in view of consistency and prudent practices, determines the expenditure under the sub head "legal" at Rs. 77 million i.e; at the level of FRR FY 2014-15 plus 10% to cater inflationary impact and increase in litigation cases. The Authority however observes that expenses on account of international arbitration and others are relatively unprecedented expenses amounting to Rs. 30 million. The same is therefore allowed, however petitioner is directed to avoid agreements which involves international arbitration in order to control such expenditure. In view of above, the total expenditure under this head is allowed at Rs. 107 million.*
- 9.3.12. Under the sub-head "Professional", the petitioner has attributed the increase towards consultant fee on account of re-valuation of assets. The petitioner has pleaded that increase under this head is unprecedented and non-recurring in nature, accordingly the same may be allowed for the said year.
- 9.3.13. *The Authority agrees with petitioner contention and allows Rs. 38 million on this account for the said year.*
- 9.3.14. *Accordingly, the total expenses under the head "Legal & Professional Charges" comes to Rs. 169 million for the said year.*

iv. Provision for Doubtful Debts

- 9.3.15. The petitioner has claimed provision for doubtful debts for the said year at Rs. 3,144 million. Category wise break up is shown as under;

Table 16: Break-up of Provision for Doubtful Debts for the said year

Particulars	Rs. In million
	The Petition
Industrial	322
Commercial	1,194
Domestic	1,628
Total	3,144

- 9.3.16. The petitioner has submitted that larger number of disconnections were carried out for recovery of arrears from defaulting consumers and as per policy for creation of provision for doubtful debts, the disconnected consumers having arrears over one year are provided 100% net-off security deposit while the disconnected consumers having arrears less than one year are provided to the extent of 25% net off security deposit.



9.3.17. The Authority observes that the issue of provision for doubtful debts has been exhaustively discussed and deliberated in DERR FY 2016-17 and previous years. A benchmark is in place in respect of various category of trade debtors which is applicable for this year as well and provides as under;

- The Authority shall consider only disconnected consumers and unsecured debt in the following manner;

Domestic Consumers (including bulk domestic):

- Unsecured debt having age up to three month Nil
- Unsecured debt having age over three months & up to 12 month.....25%
- Unsecured debt having age over 12 month 100%.

All other (Commercial & Industrial Consumers):

- 25% of the total claimed by the petitioner as per its company's policy. However, as advised in DERR FY 2016-17, the balance of provision can be considered in the following circumstances;

Cogent reasons exist for increase in provision for doubtful debt for commercial and industrial consumers; duly supported by consumer wise following details;

- Name & category of consumers
- Amount booked as outstanding against the consumer during the year
- Reasons for creating provision
- Amount of provision
- Security held against the consumer
- Age analysis

9.3.18. *In view of above, the Authority determines the provision for doubtful debts at Rs. 1,407 million for the said year, as under;*

Table 17: Break-up of Provision for Doubtful Debts for the said year

Particulars	Rs. In million
	The Determination
Industrial	1,042
Commercial	227
Domestic	138
Total	1,407



v. SNGPL'S Share in Inter State Gas System Limited (ISGSL) Expenses

- 9.3.19. The petitioner has claimed Rs. 105 million, being petitioner's share in ISGSL expenses for the said year. The petitioner has explained that it has claimed the expenses under this head in the previous ratio of shareholding.
- 9.3.20. The Authority, while scrutinizing / approving the reimbursement expenditure initialed between ISGSL, SSGCL and the petitioner, found that shareholding pattern of the gas utilities has changed from 25% and 24% to 0.22% & 0.21%. At present, M/s GHPL is majority shareholder with 99.57% ownership.
- 9.3.21. Accordingly, the Authority considering the changed scenario and revised shareholding pattern directed the concerned quarters to take up the matter with the competent relevant forum for appropriate decision w.r.t financing / funding of the ISGSL, in the larger national interest. The Authority further observes that draft summary dated August 18, 2008 as well as the Economic Coordination Committee (ECC) decision dated September 10, 2008 refers to the inclusion of operating costs as part of revenue requirement of the petitioner and SSGCL in the ratio of their shareholding.
- 9.3.22. The Authority however observes that no advancement on the above issue in terms of approval of the competent forum has been conveyed yet. The business dynamics in the gas sector in Pakistan is also observing change wherein new players at the behest of FG are also contributing particularly with respect to LNG supplies. ISGSL role as such has not been crystalized.
- 9.3.23. **In view of the above, the Authority decides to disallow the ISGSL reimbursement expenditure for the said year. The Authority however observes that the same may be considered in the light of fresh policy guidelines from GoP consistent with the Ordinance, keeping in view the changed scenario and current mandate of ISGSL.**
- 9.3.24. *Based on the above at para. 9.3.3 to 9.3.23, the Authority determines total Transmission and Distribution cost for the said year at Rs. 19,717 million, as against Rs. 21,657 million claimed by the petitioner, as under;*



Table 18: Transmission & Distribution Cost Determined by the Authority

Rs. in million

Particulars	FY 2015-16		
	The Petition	Adjustment	The Determination
Human Resource Cost	13,581	(822)	12,759
Stores and Spares Consumed	454	-	454
Repair and Maintenance	953	-	953
Fuel and Power	250	-	250
Stationery, Telegram and Postage	134	-	134
Dispatch of gas bills	100	-	100
Rent, Rate, Electricity and Telephone	376	-	376
Traveling	157	-	157
Transport expenses	739	-	739
Insurance	189	-	189
Legal and Professional Services	215	(46)	169
Consultation for ISO 14001 & OHSAS 18000	4	-	4
Provision for doubtful debts	3,144	(1,737)	1,407
Gas bills collection charges	381	-	381
Gathering charges of gas bills collection data	37	-	37
OGRA fee	152	-	152
Advertisement	145	-	145
Bank Charges	13	-	13
Uniforms & protective clothing's	11	-	11
Staff training and recruiting	10	-	10
Security expenses	575	-	575
SNG training insititute	12	-	12
Sponsorship of chairs at University	9.79	-	10
Interstate Gas System Pvt Ltd	105	(105)	-
Cost of Gas Blown off	170	-	170
Budget for UFG control related activities	327	-	327
5 Year special training programme	25	-	25
Out Sourcing of call centre complaints management	27	-	27
UP gradation of CSC and Complaint Centres	-	-	-
Other expenses	261	-	261
Sub total Expenses	22,556	(2,710)	19,846
Allocated to fixed capital expenditures	(1,898)	-	(1,898)
T&D Expenses	20,658		17,948
Gas Internally Consumed	999	770	1,769
T&D Expenses	21,657	(2,710)	19,717

9.4. Other Operating Expenses

9.4.1. The petitioner has claimed Rs. 187 million under this head on account of "Exchange Loss" for the said year.



- 9.4.2. The Authority observes that exchange loss on account of gas purchases is admissible expenditure as appearing in the “cost of gas sold statement” for the said year. Accordingly, *the same is allowed for the said year as claimed by the petitioner.*

9.5. Impact of IAS 19 (Recognition of actual losses) FY 2015-16

- 9.5.1. The petitioner has claimed Rs. 3,779 million on account of IAS-19 (Recognition of actual losses) for the said year.
- 9.5.2. The petitioner has explained that expenditure under this head is due to the requirements of revised IAS 19 ‘Employees Benefits’ and in accordance with the requirement of IAS 8, ‘Accounting policies, Changes in accounting estimates and errors’.
- 9.5.3. The petitioner has elaborated that adoption of above accounting standard is aimed to eliminate the corridor approach, recognize all actuarial gains and losses in Other Comprehensive Income (OCI) as they occur, immediately recognize all past service costs; replace interest cost and expected return on plan assets with a net interest amount.
- 9.5.4. The Authority observes that contribution to post retirement obligations is complimentary part of HR cost which is based on the actuarial valuation report. The petitioner is public listed company; it has to comply the SECP regulations which as per Companies Ordinance refer IAS/IFRS in the presentation of financial statement. The company is thus statutory obligated to realize post retirement obligation with the contribution in the fund as per actuarial valuation.
- 9.5.5. The Authority however observes with grave concern that petitioner claim under this head involves significant amount in each financial year while its sister utility company is managing almost same level of organizational structure and similar policies at a nominal annual requirement. This questions the reasonability and rationality of input data and various assumptions adopted for the purpose of actuarial valuation and resultantly the claim under this head. The petitioner is accordingly required to review the whole exercise of actuarial valuation on the basis of uniform assumptions and consistent factors so that only reasonable impact on this account should form part of revenue requirement.



9.5.6. *The Authority, in view of above, provisionally allows Rs. 3,779 million under this head. The petitioner is directed to undertake the assignment as elaborated per para. 8.5.5 above and factor the same in the upcoming petition for determination of revenue requirement. A report in this respect be, however, submitted to the Authority within one month of issuance of this order.*

9.6. Shortfall pertaining to FY 2014-15

- 9.6.1. The petitioner has included Rs. 44,743 million on account of shortfall for FY 2014-15.
- 9.6.2. The Authority observes that above shortfall is determined by it in the respective years with clear decision to adjust the same in the forthcoming determinations. Further, the Authority has recently disposed of the petitions for motions for review for FY 2012-13, FY 2013-14 & FY 2014-15, the net financial impact of the same is computed to Rs. 275 million. *Accordingly, the Authority includes the total impact of Rs. 45,018 million in the revenue requirement for the said year.*

9.7. Late Payment Surcharge in respect of gas suppliers and circular debt parties

- 9.7.1. The petitioner has claimed Rs. 16,381 million for FY 2008 till 2016 on account of LPS in respect of gas suppliers and circular debt parties. The petitioner has subsequently revised its claim on November 10, 2016 and restricted the amount at Rs. 8,371 on account of LPS on gas suppliers from FY 2012-13 onwards.
- 9.7.2. The petitioner has explained that above stated accumulated LPS balance has not been cleared through circular debt settlement. Accordingly, a significant liability has accrued and appearing in the books of accounts. The petitioner has accordingly requested to allow the same as operating expense to settle this liability.
- 9.7.3. The petitioner has also forwarded the detail of LPS as income earned from bulk gas consumers for the corresponding period which has been discussed above and accordingly included in the revenue requirement for the said year
- 9.7.4. The Authority observes that petitioner submissions on the above are relevant in view of recent determinations of Authority issued during October 2016.

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9.7.5. *The Authority, in view of above, accounts for the impact of Late Payment Surcharge paid to gas suppliers and circular debt parties for the period FY 2012-13 to FY 2014-15 and accordingly determines the amount in this regard at Rs. 8,371 million for the said year. Equitably, the LPS received from bulk consumers (WAPDA, IPPs, Fertilizer & Cement) from FY 2012-13 to FY 2014-15 which earlier have been subjected to circular debt settlement is determined as operating income at Rs. 10,516 million for the said year.*

9.8. Interest on short term borrowings due to Gas Development Surcharge(GDS) receivable/un-recouped shortfall

9.8.1. The petitioner has claimed that revenue requirement since last three financial years has not been met owing to no or insufficient increase in gas sale prices by the FG. Resultantly, the sale prices have remained less than the prescribed prices determined by OGRA thereby creating a GDS receivable inter-alia the shortage of funds for operational requirement. Resultantly, the petitioner has to make commercial borrowings and paid interest cost thereon. Further, the petitioner has claimed that interest cost on; GDS payable, long term secured debt, short term borrowings and interest on security deposit should also be allowed in the instant determination. Accordingly, it has claimed Rs. 993 million at the time of submission of petition for the said year only and subsequently w.e.f FY 2012-13 at Rs. 10,078 million.

9.8.2. The Authority observes that it has considered the petitioner claim on account of GDS receivable, more appropriately the cost of un-recouped shortfall, in DERR FY 2016-17, with clear intention to compensate the petitioner on account of insufficient revision in gas prices. The petitioner has to arrange short term borrowings to abridge the cash flow gap. Accordingly, the Authority admits the petitioner's claim specifically on this backdrop and allows working capital cost of such short term borrowing effective FY 2013-14 at Rs. 121 million. The Authority further notes that this cost has been allowed on the specific reasons i.e; un-recouped revenue requirement shortfall. Had the gas sale prices been increased, there would have been no claim arisen on this account. The germane of the Authority decision is based on financing cost



necessitated on account of un-recouped shortfall only, it therefore requires to be understood in same letter & spirit.

- 9.8.3. The Authority further observes that interest cost on GDS payable pertains to previous years when there was no such issue of revision of gas sale price by the FG. GDS is generated when the sale prices exceeds the prescribed prices determined by the Authority and the same is required to be deposited in public exchequer in timely manner under the relevant provisions of the law. Accordingly, the petitioner claim on this account holds no logic. Further, interest on long term financing is not admissible under the existing tariff regime. If return on assets and interest on long term financing both are allowed it shall involve double treatment. Similarly, interest expense and income on security deposits is not part of tariff regime.
- 9.8.4. The Authority further observes that petitioner financing activity is not part of tariff regime, accordingly the petitioner's financial arrangements and any cost thereof is not a matter of deliberation/scrutiny in the revenue requirement. The petitioner must therefore adhere with very basis of tariff mechanism and established principles.
- 9.8.5. **The Authority in view of above allows Rs. 121 million for the said year.**

10. Summary of Discussion & Decisions

10.1.1. 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:

- (i) determine the sale revenue at prescribed prices for the said year at Rs. 167,344 million.
- (ii) determine the late payment surcharge and interest on arrears for said year at Rs. 5,545 million and accumulated balances at Rs. 10,516 as operating income.
- (iii) determine the supply charges on account of RLNG supply at Rs. 2,615 million.

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- (iv) determine the other operating income at Rs. 1,011 million;
- (v) gross addition in fixed assets at Rs. 28,011 million;
- (vi) allow closing balance of fixed assets at Rs. 111,430 million;
- (vii) accept the cost of gas at Rs. 157,043 million;
- (viii) allow UFG at 4.5% based on which disallowance works out to Rs. 7,518 million;
- (ix) allow T&D cost at Rs. 19,717 million as against Rs. 21,657 million claimed by the petitioner;

10.1.2. *In exercise of its powers under Section 8(2) of the Ordinance, the Authority determines the FRR for the said year at Rs. 253,383 million as against petitioner's claim of Rs. 270,006 million, as tabulated below:*

Table 19:: Components of FRR for FY 2015-16 as Determined by the Authority

Rs. in Million

Description	Demanded by the petitioner	Determined by the Authority
Cost of Gas	157,043	157,043
Transmission & Distribution Cost	21,657	19,717
UFG Disallowance	-	(7,518)
Depreciation	10,451	10,602
Impact of IAS 19 (Recognition of Actuarial Losses) for FY 2015-16	3,779	3,779
LPS on account of gas supplier and circular debt parties as on June 30, 2016	16,381	8,371
Finance cost of working capital	993	121
Other operating expenses	187	187
Workers Profit Participation Fund	1,008	1,008
Return	13,764	15,055
Shortfall pertaining to FY 2014-15	44,743	45,018
Total	270,006	253,383

10.1.3. *The petitioner's actual net operating income is Rs. 191,397 million and thus there is a shortfall of Rs. 61,986 million, for the said year (Rs. 151.89 per MMBTU (Annex. A).*

10.1.4. *The Authority decides to carry forward the entire shortfall for the said year. Average prescribed price for each category of consumers comes to Rs. 561.94 / MMBTU. Revised prescribed prices for each category of retail consumers for*

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the said year, based on applicable gas prices fixed by FG, are attached and marked Annexure-B.

Noorul Haque
Member (Finance)

Aamir Naseem
Member (Gas)

Uzma Adil Khan
(Chairperson)

Islamabad, November 25, 2016

A. Final Revenue Requirement for FY 2015-16

Million Rs.

	Particulars	The Petition	Adjustments	Determined by the Authority	
"A"	Gas sales volume -MMCF	43,725	-	43,725	
	BBTU	408,106	-	408,106	
	Calorific Value	932	-	932	
	Net Operating revenues				
	Net sales at current prescribed price	167,344	-	167,344	
	Rental & service charges	1,601	-	1,601	
	Surcharge and interest on arrears	-	5,545	5,545	
	Surcharge and interest on arrears (Accumulated)		10,516	10,516	
	Amortization of deferred credit	2,765	-	2,765	
	Income on the transportation of RLNG		2,615	2,615	
Other operating income	1,011		1,011		
	Total income "A"	172,721	18,676	191,397	
"B"	Less Expenses				
	Cost of gas sold	157,043	-	157,043	
	UFG (disallowance) / allowance	-	(7,518)	(7,518)	
	Transmission and distribution cost	21,657	(1,940)	19,717	
	Impact of IAS 19 (Recognition of Actuarial Losses) for FY 2015-16	3,779	-	3,779	
	LPS on account of gas supplier and circular debt parties as on June 30, 2016	16,381	(8,010)	8,371	
	Depreciation	10,451	151	10,602	
	Finance cost of working capital	993	(872)	121	
	Other operating expenses	187		187	
	Workers Profit Participation Fund	1,008	-	1,008	
		Total expenses "B"	211,499	(18,189)	193,310
	"C"	Operating Revenue surplus/deficit (A - B)	(38,778)	36,865	(1,913)
Return required on net assets:					
"D"	Net assets at beginning	93,891	781	94,673	
	Net assets at ending	97,458	13,972	111,430	
		191,349	14,753	206,103	
	Average fixed net assets (I)	95,675	7,377	103,051	
	Deferred credit at beginning	17,423		17,423	
	Deferred credit at ending	16,620		16,620	
		34,043	-	34,043	
	Average net deferred credit (II)	17,022	-	17,022	
	Average operating assets (I-II)	78,654		86,030	
	Return required on net assets	17.5%		17.5%	
"E"	Amount of return required	13,764	1,291	15,055	
"F"	Excess /(shortfall) FY 2015-16	(52,542)		(16,968)	
"G"	Shortfall pertaining to previous years	(44,743)	(275)	(45,018)	
H	Total Excess /(Shortfall)	(97,285)	35,299	(61,986)	
"I"	Average Increase/(Decrease) in Prescribed Price (Rs/MMBTU)	238.38		151.89	
"J"	Revenue requirement	270,006	(17,173)	253,383	
"K"	Average Prescribed Price (Rs/MMBTU)	648.43	(86.49)	561.94	





B. Prescribed Prices FY 2015-16

Particulars	Average Prescribed Prices for FY 2015-16	Prescribed Prices		
		1.7.2015 to 31.8.2015	1.9.2015 to 30.4.2016	01.5.2016 to 30.6.2016
<i>Rs./MMBTU</i>				
a) Standalone meters				
b) Mosques, churches, temples, madrassas, other Religious Places and Hostels attached thereto;				
<i>First slab (upto 100 cubic metres per month).</i>	561.94	106.14	110	110
<i>Second slab (Upto 300 cubic metres per month).</i>	561.94	212.28	220	220
<i>Third slab (over 300 cubic metres per month).</i>	561.94	530.69	600	600
c) Government and semi-Government offices, Hospitals, clinics, maternity homes, Government Guest Houses, Armed Forces messes, Langars, Universities, Colleges, Schools and Private Educational Institutions, Orphanages and other Charitable Institutions along-with Hostels and Residential Colonies to whom gas is supplied through bulk meters including captive power.				
<i>All off-takes at flat rate of</i>	561.94	530.69	600	600
(ii) Special Commercial Consumers (Roti Tandoors)				
<i>First slab (upto 100 cubic metres per month).</i>	561.94	106.14	110	110
<i>Second slab (Upto 300 cubic metres per month).</i>	561.94	212.28	220	220
<i>Third slab (over 300 cubic metres per month).</i>	561.94	636.83	700	700
(iii) Commercial :				
<i>All establishments registered as commercial units with local authorities or dealing in consumer items for direct commercial sale like cafes, bakeries, milk shops, tea stalls, canteens, barber shops, laundries, hotels, malls, places of entertainment like cinemas, clubs, theaters and private offices, corporate firms, etc.</i>				
<i>All off-takes at flat rate of</i>	561.94	636.83	700	700
(iv) Ice Factories:				
<i>All off-takes at flat rate of</i>	561.94	636.83	700	700
(v) Industrial:				
<i>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.</i>				
<i>All off-takes at flat rate of</i>	561.94	488.23	600	600.00

vi) Captive Power :					
<i>All off-takes at flat rate of</i>	561.94	573.28	600	600.00	
ii) CNG Stations:					
<i>All off-takes at flat rate of</i>	561.94	656.52	700	700.00	
iii) Cement Factories:					
<i>All off-takes at flat rate of</i>	561.94	742.97	750	750.00	
(ix) Fertilizer Factories:					
<i>Feed Stock: all off-takes at flat rate of</i>					
(1) Pak American Fertilizer Company Limited, Daudkhel.	561.94	123.41	200	123.41	
(2) Pak Arab Fertilizer Limited, Multan.	561.94	123.41	200	123.41	
(3) Dawood Hercules Chemicals Limited, Chichoki Malian, Sheikhupura District.	561.94	123.41	200	123.41	
(4) Pak-China Fertilizer Limited, Haripur.	561.94	123.41	200	123.41	
(5) ENGRO Fertilizer Company Limited	561.94	70.61	70.61	72.73	
For gas used as fuel for generation of electricity, steam and for usage of housing colonies.	561.94	488.23	600	600.00	
(x) Power Stations:					
(a) WAPDA's Power Stations and other electricity utility companies					
<i>All off-takes at flat rate of</i>	561.94	428.23	600	613.00	
(b) WAPDA's Natural Gas Turbine Power Station, Nishatabad,					
Commodity Charge					
<i>All off-takes at flat rate of</i>	561.94	428.23	600	613.00	
<i>Fixed charge (Rupees per month).</i>		390,000			
(xi) Independent Power Producers:	561.94	428.23	600	613.00	
Liberty Power Limited's Gas Turbine Power Plant (Phase1) at Daharki:					
<i>All off-takes at flat rate of</i>	561.94	713.89	713.89	648.52	

C. HR Cost Benchmark FY 2015-16

Million Rs.

Particulars	2014-15 (Base Year)	FRR 2015-16
SNGPL		
HR benchmark Cost Parameters		
Base Cost	9,714	10,273
CPI factor	4.53%	2.86%
T & D network (Km)	107,670	111,798
Number of Consumers (No.)	5,054,256	5,315,885
Sales Volume (MMCF)	467,449	544,615
Unit Rate (Rs./unit)		
T&D network (Rs./Km)	93,119	95,415
No. of Consumers (Rs./Consumer)	2,024	2,033
Sale Volume (Rs./MMCF)	19,185	21,978
HR Cost Build-up (Million Rs)		
Cost CPI -50%	220	147
T & D network (Km) 25%	2,507	2,667
Number of Consumers (No.) 65%	6,650	7,023
Sales Volume (MMCF)-10%	897	1,197
HR Benchmark Cost	10,273	11,034
Actual Cost		12,678
50% Sharing of Shortfall		822
IAS Cost	-	903
Total HR Benchmark Cost		12,759

