(آئل اینڈ گیس ریگولیٹری اتھارٹی) OIL & GAS REGULATORY AUTHORITY
"SAY NO TO CORRUPTION" 333

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

IN THE MATTER OF

SUI SOUTHERN GAS COMPANY LIMITED
FINAL REVENUE REQUIREMENT, FY 2016-17

UNDER

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

DECISION

ON

OCTOBER 26, 2017

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

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## ANNEXURE



## APPENDIX

**Interventions / Comments**

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# TABLES



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# 1. Background

1.1 Sui Southern Gas Company Limited (the petitioner) is a public limited company, incorporated in Pakistan, and is listed on Pakistan Stock Exchanges Limited. The petitioner is operating in the provinces of Sindh and Balochistan under the license granted by Oil & Gas Regulatory Authority. It is engaged in construction and operation of gas transmission and distribution pipelines, sale of Natural Gas, Liquefied Petroleum Gas (LPG) Air-Mix, LPG, Gas Condensate, Natural Gas Liquids (NGL) and manufacture and sale of gas meters. The petitioner is also engaged in the business of Re-gasified Liquefied Natural Gas (RLNG) in accordance with the decision of the Federal Government (FG/GoP).

1.2 The petitioner has now filed a petition on August 26, 2017 under Section 8(2) of the Ordinance and Rule 4(3) of the Natural Gas Tariff Rules, 2002 (NGT Rules), for determination of its Final Revenue Requirement (FRR) for the said year on the basis of the accounts as initialed by its statutory auditors.

1.3 The Authority, vide its Order dated October 06, 2016, had determined the petitioner's Estimated Revenue Requirement (ERR) under section 8(1) of the Ordinance at Rs. 150,190 million (the amounts have been rounded off to the nearest million here and elsewhere in this document) for estimated sale volume of 390,315 BBTU.

1.4 The petitioner has submitted the petition for determination of its FRR for the said year after incorporating the effect of actual changes in the wellhead gas prices, change in sales mix, other relevant factors in terms of Section 8(2) of the Ordinance and has also made some other claims. Based on the provisional prescribed prices and actual sale mix, the petitioner has computed the shortfall in its revenue requirement of Rs. 32,173 million for the said year, thereby seeking increase in the prescribed prices by Rs. 87.42 per MMBTU. The petitioner has also requested for an additional amount of Rs. 622 million being prior year shortfall, increasing the shortfall to Rs. 32,795 million. Accordingly, the petitioner has worked out its FRR for the said year at Rs. 166,246 million for actual sale volume of 368,049 BBTU and average requested increase in prescribed price to Rs. 89.10 per MMBTU effective July 01, 2016.

1.5 The Authority issued notice of hearing on September 29, 2017 to the petitioner and following interveners and related parties:

(i) Federal Government (FG/GoP),



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(ii) Mr. Saleem Shah, All Pakistan Textile Mills Association,

(iii) Dr. Qazi Ahmed Kamal, Advisor, Karachi Chamber of Commerce & Industry,

(iv) Mr. Malik Khuda Baksh, President & Chairman, CNG Station Owners Association of Pakistan,

(v) Mr. Zain Bashir, President, Landi Association of Trade & Industry,

(vi) Mr. Muhammad Arif Bilvani, Consumer,

(vii) Mr. Abdul Sami Khan, Chairman, CNG Dealers Association, Karachi,

(viii) Abdur Rehman Ismail, Secretary General, Bin Qasim Association of Trade & Industry,

(ix) Mr. Yunus Bin Alyoob, Secretary General, Pakistan Hosiery Manufacturers & Exporters Association,

(x) Abdul Zahir Kakar, Advocat, Quetta

1.6 The hearing was held at OGRA's office, Islamabad on October 05, 2017.

## 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 per the Petition with DERR & Previous Year**

*Rs. in million*

| Description | FY 2015-16 | FY 2016-17 | | Inc / (Dec) over DERR for FY 2016-17 | |
|---|---|---|---|---|---|
| | FRR | DERR | The Petition | Rs. | % |
| Cost of gas | 151,088 | 133,285 | 143,834 | 10,549 | 8 |
| Transmission and distribution costs | 13,549 | 14,300 | 15,701 | 1,401 | 10 |
| Depreciation | 5,070 | 5,708 | 5,861 | 153 | 3 |
| Shortfall of previous years | (1,654) | - | 622 | 622 | 100 |
| Financial impact of SHC order | (18,360) | - | (18,359) | (18,359) | 100 |
| Reclaim provision against LPS income receivable | - | - | 3,058 | 3,058 | 100 |
| Other charges | 1,158 | 432 | 3,140 | 2,708 | 627 |
| Gas Internally Consumed | 319 | 215 | 208 | (7) | (3) |
| UFG adjustment | (14,106) | (13,826) | (536) | 13,290 | (96) |
| Net Operating Expenses | 137,066 | 140,113 | 153,529 | 13,416 | 10 |

The petitioner has made the following submissions:-

2.1.1 Annual return has been claimed at Rs. 12,257 million, computed at rate of 17% of the value of its average net operating fixed assets (net of deferred credit and assets related to LPG Air-Mix).

2.1.2 The petitioner has claimed a net addition, net of deletions of Rs. 37,510 million in fixed assets, and net addition, ex-depreciation and deletion, of Rs. 5,793 million, resulting in claimed increase in net operating fixed assets from Rs. 61,947 million in FY 2015-16 to

Rs. 93,664 million during the said year. The petitioner has further claimed that after adjustment of deferred credits and assets related to LPG Air-Mix project net average operating fixed assets eligible for return work out to Rs. 72,104 million, and required return to Rs. 12,257 million.

2.1.3 Net operating revenues have been reported at Rs. 133,452 million in the petition, as against Rs. 150,190 million determined in DERR for the said year, as detailed below:

**Table 2: Comparison of Operating Revenues per the Petition with DERR & Previous Year**

*Rs. in million*

| Particulars | FY 2015-16 | FY 2016-17 | | Inc./(Dec.) over DERR for FY 2016-17 | |
|---|---|---|---|---|---|
| | FRR | DERR | The Petition | Rs. | % |
| Net sales at current prescribed price | 137,584 | 138,266 | 124,356 | (13,910) | (10) |
| Late Payment Surcharge | 2,198 | 1,151 | 3,187 | 2,037 | 177 |
| Amortization of deferred credits | 406 | 407 | 401 | (6) | (1) |
| Meter rentals | 719 | 750 | 735 | (15) | (2) |
| Sale of LPG | 2,854 | 2,728 | 2,533 | (195) | (7) |
| Other income | 1,145 | 1,067 | 880 | (187) | (18) |
| Sale of NGL | 568 | 1,132 | 423 | (709) | (63) |
| RLNG transportation Income | 459 | 3,697 | 877 | (2,820) | (76) |
| Sale of Gas condensate | 181 | 283 | 53 | (230) | (81) |
| Meter Manufacturing Profit | 15 | 641 | 7 | (634) | (99) |
| Gas transportation charges | - | 68 | - | (68) | (100) |
| Net Operating Revenue | 146,128 | 150,190 | 133,452 | (16,739) | (11) |

2.1.4 Net operating expenses have been claimed at Rs. 153,529 million in the petition as compared to Rs. 140,113 million provided in DERR, as detailed below:

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

*Rs. in million*

| Description | FY 2015-16 | FY 2016-17 | | Inc / (Dec) over DERR for FY 2016-17 | |
|---|---|---|---|---|---|
| | FRR | DERR | The Petition | Rs. | % |
| Cost of gas | 151,088 | 133,285 | 143,834 | 10,549 | 8 |
| Depreciation | 5,070 | 5,708 | 5,861 | 153 | 3 |
| Transmission and distribution costs | 13,549 | 14,300 | 15,701 | 1,401 | 10 |
| Shortfall of previous years | (1,654) | - | 622 | 622 | 100 |
| Financial impact of SHC order | (18,360) | - | (18,359) | (18,359) | (100) |
| Reclaim provision against LPS income receivable | - | - | 3,058 | 3,058 | 100 |
| Other charges | 1,158 | 432 | 3,140 | 2,708 | 627 |
| Gas Internally Consumed | 319 | 215 | 208 | (7) | (3) |
| UFG adjustment | (14,106) | (13,826) | (536) | 13,290 | (96) |
| Net Operating Expenses | 137,066 | 140,113 | 153,529 | 13,416 | 10 |

2.1.5 UFG has initially been reported at 4.76% (29,048 MMCF) for the said year, which subsequently revised to 4.33% (18,916 MMCF).

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2.1.6 Adjustment to the tune of Rs. 18,359 million arisen from the Order of honorable Sindh High Court has been offered.

2.1.7 Subsidy on account of LPG Air-Mix projects has been claimed at Rs. 461 million.

2.1.8 Net result of petitioner's above mentioned claims is that a shortfall of Rs. 32,795 million has been computed including 17% return on average net operating fixed assets, which translates to an increase of Rs. 89.10 per MMBTU in the existing average prescribed price, as tabulated below:

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

*Rs. In million*

| | Particulars | FY 2016-17 The Petition |
|---|---|---|
| A | **Net Operating Revenues** | **133,452** |
| | less: Net operating expenses excluding ROA | 152,907 |
| | Subsidy Air Mix LPG Project | 461 |
| B | **Total Expenses** | **153,368** |
| C | **Shortfall** {(B) - (A)} | **19,917** |
| D | Return required @ 17% on net fixed assets in operation | 12,257 |
| E | Shortfall related to prior years | 622 |
| F | **Total shortfall in revenue requirement {(C+D+E)}** | 32,795 |
| G | Sale volume (BBTU) | 368,049 |
| H | **Increase requested in existing average prescribed price Rs./MMBTU** | **89.10** |

## 3. Proceedings

3.1 The petitioner was represented at the hearing by a team of senior executives led by Mr. Amin Rajpoot, Acting Managing Director 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 members & officers of the Authority.

3.2 The petitioner, during hearing, raised the issue of company's financial health after the decision of honorable Sindh High Court in respect of revenue requirements for FY 2010-11 to FY 2015-16. It was highlighted that petitioner's equity is about to erode during the said year after the above said adjustment. It was, therefore, requested to allow retrospective adjustment of revised UFG benchmark based on the final outcome of the Consultant's



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study. It was also informed that hefty amounts have been paid on account of gas development surcharge to Provincial Governments.

3.3 The petitioner's legal counsel, during the hearing, while arguing on UFG Benchmarking / UFG Study Report and its retrospective application submitted that the Authority in its decision relating to UFG in ERR FY 2017-18 concluded to finalize the FRR for FY 2012-13 to FY 2015-16 on the same basis as done provisionally. The counsel further argued that this stance is contradictory to Authority's various determinations where UFG was provisionally allowed with the express direction / observation that due adjustment will be allowed on account of UFG for FYs 2010-11 to FY 2016-17 after finalization of UFG consultant report. The legal counsel also argued on treatment of Bulk Retail Ratio; Law and Order affected areas; and Theft by Non-consumers in the UFG Benchmarking.

3.4 The petitioner's legal counsel further submitted that Section 6 of the Ordinance obligates the Authority to safeguard the public interest, including the national security interests of Pakistan in relation to regulated activities. The Counsel further highlighted that Section 7 of the Ordinance provides that the Authority shall determine or approve the tariff for regulated activities keeping in view the cost of alternate or substitute source of energy. The Counsel, in its presentation, has again reiterated its stance in respect of reasonable rate of return and urged the Authority to strike a balance so as to optimize the benefits to all persons. The Authority observes that these contentions had already been exhaustively responded by it in its earlier decisions, and hence needs no further deliberation.

## 4. Determination

4.1 After detailed scrutiny of the petition and clarifications given by petitioner, the Authority determines as follows:

## 5. Return to Licensee

5.1 The Authority is obligated under Section 7(1) of the Ordinance, to determine or approve tariff for regulated activities whose licenses provide for such determination or such approval, or where authorized by this Ordinance, subject to policy guidelines. License Condition No. 5.2 of license granted to the petitioner clearly states that subject to the efficiency related benchmarks adjustments, the Authority shall determine total revenue requirement of the licensee to ensure that it achieves 17% return on its average net fixed assets in operation for each financial year. The Authority, accordingly, has been determining the revenue requirement of the petitioner, providing return on net operating assets in accordance with the said provision of the Ordinance as well as the petitioner's license, while treating various income and expenditure heads as per existing regime.

5.2 The Authority, however, observes that FG had initiated gas sector reforms agenda, wherein sectoral reforms are under detailed deliberation with all stakeholders. FG intends to divide Sui companies into separate transmission and distribution companies. Introduction of new tariff regime is also part of the reform agenda and has otherwise also been developed by OGRA. The same is in process of deliberation and computation. The draft regime shall then be shared for public consultation before finalization. Till such time, the Authority adopts existing tariff regime for all practical purposes. ***In view of the same, the Authority has decided, to follow the existing basis of 17% return on the average net operating fixed assets while treating various income and expenditure heads per the exiting regime, in accordance with the Licence Condition No. 5.2 till the new tariff regime is finalized as well as implemented.***

## 6. Operating Fixed Assets

### *i. Summary*

6.1.1 The petitioner has claimed a net addition, net of deletions of Rs. 37,510 million in fixed assets, and net addition, ex-depreciation and deletions, of Rs. 5,793 million, resulting in claimed increase in net operating fixed assets from Rs. 61,947 million in FY 2015-16 to Rs. 93,664 million during the said year. The petitioner has further claimed that, after adjustment of deferred credits, and assets related to LPG Air-Mix project, net average operating fixed assets eligible for return work out to Rs. 72,104 million, and required return to Rs. 12,258 million.

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

| Particulars | Rs. in Million |
|---|---|
| Net operating fixed assets at beginning | 61,947 |
| Net operating fixed assets at ending | 93,664 |
| sub-total | **155,610** |
| **Average net assets (I)** | **77,805** |
| | |
| LPG air mix project asset at beginning | 862 |
| LPG air mix project asset at ending | 799 |
| sub-total | **1,661** |
| **Average net assets (II)** | **830** |
| Deferred credit at beginning | 5,034 |
| Deferred credit at ending | 4,709 |
| sub-total | **9,742** |
| **Average net deferred credit (III)** | **4,871** |
| **"D" Average (I-II-III)** | **72,104** |
| **17% required returned claimed by the petitioner** | **12,258** |

6.1.2 Comparative analysis of additions in fixed assets as claimed by the petitioner with DERR is as follows:

**Table 6: Summarized Schedule of Addition of Assets per the Petition Compared with DERR & Previous year**

*Rs. In Million*

| Particulars | FY 2015-16 | FY 2016-17 | | Inc./Dec. over DERR | |
|---|---|---|---|---|---|
| | FRR | DERR | The Petition | Rs. | % |
| Land | 397 | 4 | 24 | 20 | 469 |
| Gas Distribution System | 6,858 | 5,141 | 5,317 | 176 | 3 |
| Plant and Machinery | 417 | 274 | 311 | 37 | 13 |
| Compressors | 1,152 | 5,000 | 5,794 | 794 | 16 |
| Buildings | 168 | 100 | 130 | 30 | 30 |
| Gas Transmission Pipelines | 2,147 | 18,844 | 24,791 | 5,947 | 32 |
| Construction Equipments | 1,113 | 500 | 725 | 225 | 45 |
| Telecommunication Systems | 149 | 51 | 93 | 42 | 83 |
| Computer Software | 20 | 38 | 72 | 34 | 90 |
| Furniture, equipment including computers and allied equipments | 175 | 110 | 219 | 109 | 99 |
| Roads, pavements and related infrastructure (ROW) | 0 | 68 | 138 | 70 | 103 |
| Vehicles | 404 | 310 | 631 | 321 | 104 |
| Appliances, Loose Tools and Equipments | 34 | 24 | 71 | 47 | 195 |
| LPG Air Mix Projects | 10 | 13 | 4 | (9) | (72) |
| SCADA | 458 | 45 | - | (45) | (100) |
| *Gross Assets* | *13,502* | *30,522* | *38,320* | *7,798* | *26* |

*ii.* ***Land***

6.1.3 The Petitioner has capitalized an amount of Rs. 24 million against the provisionally allowed amount of Rs. 4 million in DERR for the said year. The petitioner has stated that it has capitalized an amount of Rs. 15 million on acquisition of land for laying Transmission Pipelines for getting supply from certain gas fields, Rs. 8 million on acquisition of land for RLNG projects and Rs. 1 million on Distribution East Office at DHA. The petitioner has added that while preparing budget estimate of any specific Transmission Pipeline project in ERR petition, land cost is also considered and budgeted under the head of "Land acquisition & Crop Compensation" and is merged in project cost. Further the procedure for Land acquisition for laying of pipeline and construction of Right of Way is very lengthy process. Therefore, Land Acquisition Officers are hired by the petitioner from Revenue Department, Government of Sindh to complete the legal formalities and pass necessary awards. Subsequently, the petitioner makes the payments to land owners after the said passing of awards. The petitioner has added that the amount capitalized against ROW land in the said year for Transmission Projects was estimated in respective earlier petitions, which were accordingly determined by the Authority. Moreover, the petitioner has already laid pipelines for receiving gas from the gas fields mentioned in its petition.

6.1.4 ***In view of the above, the Authority allows an expenditure of Rs. 24 million on account of acquisition of land for the said year. As per policy guidelines of FG dated 10.02.2016 cost of land amounting Rs. 8 million, related to RLNG infrastructure, is to be charged/ recovered from RLNG cconsumers without affecting consumers relying on domestically produced gas.***

*iii.* ***Buildings***

6.1.5 The petitioner has capitalized an amount of Rs. 130 million against the provisionally allowed amount of Rs. 100 million in DERR for the said year. The petitioner has stated that major work done include construction of office block at HQ2, work at Regional Office Hyderabad, re-construction of boundary walls at repeater station, and work at marketing building at Gulshan Iqbal etc. The petitioner has added that they spent Rs. 3 million on Construction of solar rooms, Rs. 4 million on renovation of Bunglows, Rs. 5

million on upgradation of panel, Rs. 5 million on construction of employee mess Khadeji, Rs. 4 million on store at Jabal-e-Noor, and Rs. 19 million on reconstruction of collapsed/tilted boundary wall at Repeater station Jhatpat SKP etc.

6.1.6 ***In view of the operational requirement of the petitioner, the Authority allows an expenditure of Rs. 130 million on account of construction of buildings for the said year.***

*iv.* ***Roads, Pavements and Related Infrastructure: Right of Way (ROW)***

6.1.7 The petitioner has capitalized an amount of Rs. 138 million against the provisionally allowed amount of Rs. 68 million in DERR for the said year. The petitioner has stated that during the said year old projects have been capitalized, however work on new segments is under process. The petitioner has added that it had projected an amount of Rs. 151 million against this head in its ERR petition, however, the Authority based on historical trend had allowed an amount of Rs. 68 million only. Therefore, the capitalization against this head is within the projected amount. The petitioner has stated that the amount was capitalized on rehabilitation of ROW, damaged due to floods, in Shikarpur section of 16" dia ILBP, 18" dia and 20" dia IRBP-CEP.

6.1.8 ***In view of the operational requirement of the petitioner, the Authority allows an expenditure of Rs. 138 million in this head for the said year.***

*v.* ***Gas Transmission Pipelines***

6.1.9 The petitioner has capitalized an amount of Rs. 24,791 million against the provisionally allowed amount of Rs. 18,844 million in DERR for the said year. The detail of which is as under;

**Table 7: Addition of Transmission Assets per the Petition Compared with ERR & DERR**

*Rs. Million*

| Sr. No. | Description | ERR | DERR | The Petition |
|---|---|---|---|---|
| 1 | 30" dia x 212 Km pipeline from Shahdadpur to Malir (1st Segment Hyderabad to Karachi 131 Km) | 7,879 | - | - |
| 2 | Check Metering Facility at Shahdadpur for Gambat South Field Gas Measurement | 344 | 344 | - |
| 3 | 8" dia x 85 Km pipeline from Jhal Magsi to Shori | 1,181 | - | - |
| 4 | 16" dia X 9 KMs Re-Route of Kotri Barrage | 191 | - | - |
| 5 | 16" dia ILBP Rehabilitation and Intelligent Pigging | 24 | - | |
| 6 | 12" dia x 344 Km QPL Rehabilitation and Intelligent Pigging | 328 | - | - |
| 7 | Construction of Sub-merge crossings | 67 | - | - |
| 8 | Upgradation and relocation of regulation on 18" & 20" IRBP at ACPL | 97 | - | - |
| 9 | 24" dia x 33 Km Tando Adam Masu Loop Line Project | 112 | - | - |
| 10 | 24" dia x 31 Km pipeline from SMS Kathore to SMS Surjani | 1,429 | - | - |
| 11 | 24" dia x 34 Km loopline from Shikarpur to Jacobabad | 1,429 | 725 | - |
| 12 | Rerouting of existing QPL 12" dia × 9 Km (KM 56 to KM65) and 12" dia × 14 Km (KM 84 to KM96) | 550 | 275 | - |
| 13 | 12" dia × 53 Km Mehar Gas Field Integration Project (MGFIP) at Thari Mohabat- leftover | 43 | - | 1 |
| 14 | 6" Nur Bagla & Sujawal - leftover | 8 | - | - |
| 15 | 42" dia x 14 Km loop between Nara-Sawan | 96 | - | 547 |
| 16 | 24" dia x 21 Km Interlink between Pakland to Khadeji | 124 | - | 820 |
| 17 | Tie-in and integration arrangement from Tie-in point 2 to Pakland | 34 | - | - |
| 18 | 42" dia x 342 Km from Pakland to Nara and Indus River Crossings | 34,905 | 17,500 | 23,143 |
| 19 | 12" x 64 Km Zarghun to QPL | - | - | 1 |
| 20 | Meterig Setup for POGC | - | - | 87 |
| 21 | Integration of Haseeb Gas | - | - | 24 |
| 22 | 12" QPL at KMP 4 Shikarpur HQ | - | - | 8 |
| 23 | Integration of Bobi Gas | - | - | 33 |
| 24 | Intelligent Pigging of BGFIP | - | - | 19 |
| 25 | Check Meter at POD - SUI | - | - | 16 |
| 26 | Additional Gas from Naimat POD | - | - | 67 |
| 27 | Piping Setup at JJVL | - | - | 25 |
| 28 | 24" dia × 35 Km Kunnar Pasaki | - | - | 0.003 |
| | Total | 48,841 | 18,844 | 24,791 |

6.1.10 The Authority notes that the petitioner has capitalized only Rs. 1 million against the projected amount of Rs. 13,682 million against the items mentioned at Sr. No. 1 to 14 of Table 7. The petitioner is, therefore, advised to project rationally in ERR to avoid un-necessary upfront burden on consumers.

6.1.11 The petitioner has capitalized an amount of Rs. 547 million on 42" dia × 14 Km loop between Nara to Sawan, which is fully commissioned and operational. In this regard, the Authority notes that 42" dia × 14 Km loop between Nara to Sawan is a part of Phase-I of Pipeline Infrastructure Development Plan for upcoming LNG, which is a large scale/ gigantic project involving additional gases to the tune of 1.2 BCFD RLNG and having major financial impact on the consumers. Therefore, the Authority engaged Zishan Engineers Pvt Limited (ZEL), a consultant firm on 08.09.2015 through competitive bidding process to render its services for Technical Evaluation of Pipeline Infrastructure Development Projects of SNGPL & the petitioner for upcoming LNG & anticipated indigenous gas supplies. ZEL vide its letter dated 21.03.2016 furnished Final Report, wherein they concluded that the Project plans submitted by both SNGPL and the petitioner are adequate & justified and cost estimated by both the companies is within ZEL's in-house estimates for both pipelines and compression equipment.

6.1.12 The Authority notes that FG vide Ministry of Petroleum & Natural Resource's letter dated 05.11.2014 had confirmed availability and subsequent allocation of gas from different import projects to gas utilities. Moreover, FG informed that in order to transport gas volumes to be made available under different projects, fast track implementation of pipeline infrastructure projects was mandatory to achieve the target dates and in order to avoid heavy penalties and nonexistence of required gas infrastructure within the stipulated time period will jeopardize the entire gas/LNG import projects. Further, FG asked OGRA to convey its approval of the gas pipeline infrastructure development projects on priority basis as decided and discussed in the ECC meeting enabling gas utilities to commence their activities forthwith. Subsequently, the Authority keeping in view the national importance of the project, granted principle approval of Phase-I and Phase-II of RLNG project on 13.11.2014 and 15.05.2015 respectively.

6.1.13 The Authority also notes that policy guidelines of the FG conveyed vide Ministry of Petroleum & Natural Resource's letter dated 10.02.2016 stipulate as under:

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

6.1.14 In view of the above said policy guidelines of FG, all costs incurred in creation of RLNG infrastructure are to be charged / recovered from RLNG consumers without affecting consumers relying on domestically produced gas. Hence, ***cost of transmission pipeline assets related to RLNG, i.e. Rs. 547 million capitalized on 42" dia x 14 Km loop***

***between Nara to Sawan, is to be ring fenced and recovered from RLNG consumers only.***

6.1.15 The petitioner has capitalized an amount of Rs. 820 million on 24" dia × 21 Km interlink between Pakland to Khadeji, which is fully commissioned and operational. The said pipeline segment is a part of Phase-I of Pipeline Infrastructure Development Plan for upcoming LNG, already approved by the Authority.

6.1.16 ***In view of the above, the Authority allows an amount of Rs. 820 million capitalized on 24" dia × 21 Km Interlink between Pakland to Khadeji for the said year. However, cost of transmission pipeline assets related to RLNG, i.e. Rs. 820 million capitalized on 24" dia × 21 Km interlink between Pakland to Khadeji, is to be ring fenced and recovered from RLNG consumers only.***

6.1.17 The petitioner has capitalized an amount of Rs. 23,143 million on 42" dia × 342 Km pipeline project from Pakland to Nara. The petitioner has stated that about 316 Km of the said pipeline project has been commissioned, the detail of which is as under:

(a) 42" dia × 120 Km pipeline from Pakland to MVA (Main Valve Assembly) Jamshoro – Fully commissioned

(b) 42" dia × 64 Km pipeline from MVA Masu to MVA Lundo – Fully commissioned

(c) 42" dia × 132 Km pipeline from MVA Lundo to MVA Nara – Fully commissioned

(d) 42" dia × 24 Km pipeline between MVA Jamshoro & MVA Masu – Leftover job, as 42" dia × 5 Km pipeline is incomplete due to land issue in this segment.

(e) Indus River crossing not commissioned (only tie-in job is leftover)

6.1.18 The Authority notes that this pipeline is part of Phase-II of RLNG project already approved by the Authority. The Authority in its DERR for the said year had provisionally allowed an amount of Rs. 17,500 million for the said pipeline, the Authority had also decided that the petitioner may claim the remaining amount at the time of mid-year review/FRR subject to actual progress of the project/capitalization.

6.1.19 ***In view of the above, the Authority allows an amount of Rs. 23,143 million capitalized on 42" dia × 316 Km pipeline from Pakland to Nara for the said year with the exception that the segment of 24 Km from MVA Jamshoro to MVA Masu has not been completed and will be brought in subsequent petitions once commissioned. However, cost of*** *transmission pipeline assets related to RLNG, i.e. Rs. 23,143 million capitalized on 42" dia × 342 Km pipeline project from Pakland to Nara, is to be ring fenced and recovered from RLNG consumers only.*

6.1.20 The petitioner has capitalized an amount of Rs. 280 million on left over works of already commissioned pipelines mentioned at Sr. no. 19 to 28 of Table 1, for which no projections were made by the petitioner at the time of ERR. *The Authority, however, allows the requisite amount of Rs. 280 million with direction to the petitioner to project such expenditures at the time of ERR/Mid-Year Review in future for approval of the Authority.*

6.1.21 *In view of the discussion at paras 6.1.13, 6.1.14, 6.1.16 and 6.1.19, an amount of Rs. 24,509 million relating to RLNG Infrastructure, is to be ring fenced and charged from RLNG Consumers only.*

### vi. *Plant and Machinery*

6.1.22 The petitioner has capitalized an amount of Rs. 311 million against the provisionally allowed amount of Rs. 274 million in DERR for the said year. The petitioner has stated that the capitalization related to Plant & Machinery remained lower than envisaged in ERR. The petitioner has stated that in order to provide efficient service to existing and prospective customers, it keeps its staff equipped with required machinery, tools and equipment. Moreover, requirement of additional plants and equipment is also increasing with the ever increasing transmission/distribution system, customer base and operational areas with gasification of new towns and villages. The petitioner has acquired air compressors, chromatograph, fork lifters, generators, pipe squeezing machines, pressure control valves and welding plants etc. during the year under review.

6.1.23 The capitalization, in this regard, includes an amount of Rs. 101 million capitalized on installation and commissioning of 3 Nos. Gas Engine Driven 923 KW generators required to cater load of RLNG-II at Nawabshah, Daur (6 Nos. compressors, pump motors & lighting load).

6.1.24 *In view of the above, the Authority allows an expenditure of Rs. 311 million in this head for the said year. As per policy guidelines of FG dated 10.02.2016 cost of Plant & Machinery amounting Rs. 101 million, related to RLNG infrastructure, is to be charged*

***/ recovered from RLNG cconsumers without affecting consumers relying on domestically produced gas.***

### *vii. Gas Distribution System*

6.1.25 The petitioner has capitalized Rs. 5,317 million against provisionally allowed amount of Rs. 5,141 million in DERR for the said year. Detail of the expenditure against this head is as under:

**Table 8: Addition of Distribution Assets per the Petition Compared with ERR and DERR**

*Rs. In Million*

| Sr. No. | Description | ERR | DERR | The Petition |
|---|---|---|---|---|
| | | FY 2016-17 | | |
| 1 | Rehabilitation Mains and Services - UFG Control Program | 2,547 | 744 | 1,152 |
| 2 | Replacement Meters - Domestic and Bulk Meters-UFG Control Program | 866 | 400 | 210 |
| 3 | Segmentation - UFG Control Program | 578 | 290 | - |
| 4 | Cathodic Protection-UFG Control Program | 547 | 275 | - |
| 5 | Laying of Distribution Mains-Existing Areas | 2,159 | 1,658 | 366 |
| 6 | Installation of New Connections | 649 | 312 | 827 |
| 7 | Replacement /Repair of Gas Meters | 1,192 | 941 | 2,016 |
| 8 | Installation of Modems, EVCs and Filter Separators | 445 | 200 | - |
| 9 | Construction of CMSs, TBSs, PRSs and Cathodic protection | 96 | 96 | 163 |
| 10 | New Towns | 486 | 25 | 583 |
| 11 | 12" DIA X 26.5 Km Tando Allah Yar Supply Main | 378 | - | - |
| 12 | 20" x 7 Km Distribution main from Desalination Plant DHA Phase VIII to Dolmen Mall Clifton | 315 | 200 | - |
| | **Total Distribution System** | **10,258** | **5,141** | **5,317** |

6.1.26 The petitioner in its ERR petition had claimed an amount of Rs. 2,547 million against rehabilitation of mains & services, however, the Authority keeping in view the company's capability and previous history to undertake such activities had allowed an amount of Rs. 744 million in this head. The actual capitalization in this regard is although higher than the provisionally allowed amount but it is still much less than the projected amount. ***Since it is a UFG control related activity, therefore the Authority in view of its importance allows an amount of Rs. 1,152 million for rehabilitation of mains & services for the said year.***

6.1.27 The petitioner has capitalized an amount of Rs. 827 million for installation of 86,359

Nos. new connections against the projected amount of Rs. 649 million and provisionally allowed amount of Rs. 312 million in this head. Actual per unit cost of installation of domestic and industrial connections is higher than the per unit cost projected at the time of ERR, therefore actual capitalization in this head is higher than the petitioner's own projections. The petitioner has confirmed that 29 Nos. industrial and 318 Nos. commercial connections processed during the said year meet FG's policy on the matter.

6.1.28 ***The Authority in view of the above, allows an amount of Rs. 827 million in the head of 'installation of new connections' for the said year.***

6.1.29 The petitioner has capitalized Rs. 2,016 million for replacement/repair of 213,244 Nos. meters against the provisionally allowed amount of Rs. 941 million in this head. The petitioner has replaced 800 Nos. industrial, 3,353 Nos commercial and 209,091 Nos. domestic meters during the said year.

6.1.30 ***The Authority in view of the importance of the replacement of defective/undersized/old meters towards controlling UFG allows an amount of Rs. 2,016 million in the head of 'Replacement/Repair of Meters'.***

6.1.31 The petitioner has capitalized an amount of Rs. 583 million in the head of 'New Towns & Villages' against the provisionally allowed amount of Rs. 25 million. The Authority notes that schemes amounting Rs. 454 million do not meet FG's prescribed cost per consumer criteria. Moreover, the Authority notes that loan may not be considered as grant or resource as the same is required to be returned by the company to the lender.

6.1.32 ***In view of the above, the Authority allows an amount of Rs. 129 million, under the sub-head of 'New Towns & Villages' for those schemes which meet FG's prescribed cost per consumer criteria and prevalent policy on the matter.***

6.1.33 ***In view of above, the Authority after due diligence and keeping in view the arguments and justifications advanced by the petitioner allows an amount of Rs. 4,863 million under the head of 'gas distribution system' for the said year as per the detail given below:***

**Table 9: Addition of Distribution Determined by the Authority**

*Rs. in Million*

| Sr. No. | Description | The Petition | Determined by the Authority |
|---|---|---|---|
| 1 | Rehabilitation Mains and Services - UFG Control Program | 1,152 | 1,152 |
| 2 | Replacement Meters - Domestic and Bulk Meters-UFG Control Program | 210 | 210 |
| 3 | Laying of Distribution Mains including services-Existing Areas | 366 | 366 |
| 4 | Installation of New Connections (meters) | 827 | 827 |
| 5 | Replacement / Repair of Gas Meters | 2,016 | 2,016 |
| 6 | Construction of CMSs, TBSs, PRSs and Cathodic protection | 163 | 163 |
| 7 | New Towns & Villages | 583 | 129 |
| | **Total Distribution System** | **5,317** | **4,863** |

***viii. Furniture and Equipment including Computers & Allied Equipment***

6.1.34 The petitioner has capitalized an amount of Rs. 219 million against the provisionally allowed amount of Rs. 110 million in DERR for the said year. The said capitalization includes an expenditure of Rs. 14 million on furniture, Rs. 109 million on office equipment and Rs. 96 million on computer hardware including personal computers, hand held computers, printers and Servers etc. The petitioner has stated that company-wide furniture items are procured as per the requirements of various departments against the approved capital budget. In the past the procurement was held due to physical verification and to ascertain genuineness of furniture fixture requirement. In this regard, the petitioner had budgeted Rs. 55 million in FY 2015-16 against which Rs. 23 million were capitalized and Rs. 32 million was available and carried forward to the said year.

6.1.35 ***In view of the operational requirement of the company, the Authority allows an expenditure of Rs. 219 million in this head.***

***ix. Computer Software***

6.1.36 The petitioner has capitalized an amount of Rs. 72 million against the provisionally allowed amount of Rs. 38 million in DERR for the said year. As per the petitioner, major items in this head include ORACLE CC&B software additional license, ORACLE

Enterprise Edition etc.

6.1.37 *In view of the operational requirement of the petitioner, the Authority, allows an expenditure of Rs. 72 million in this head.*

x. *LPG Air Mix Projects*

6.1.38 The petitioner has capitalized an amount of Rs. 4 million against the provisionally allowed amount of Rs. 13 million in DERR for the said year. *The Authority, therefore, determines the same at Rs. 4 million for the said year.*

xi. *Telecommunication Systems*

6.1.39 The petitioner has capitalized an amount of Rs. 93 million against the provisionally allowed amount of Rs. 51 million in DERR for the said year. *In view of the operational requirement of the petitioner, the Authority, allows an expenditure of Rs. 93 million in this head.*

xii. *Appliances, Loose Tools and Equipment*

6.1.40 The petitioner has capitalized an amount of Rs. 71 million against the provisionally allowed amount of Rs. 24 million in DERR for the said year. The petitioner has stated that with ever increasing transmission and distribution systems, the need for tools and equipment is also increasing. Moreover, tools and small equipment have a fast wear and tear and need early replacement. For efficient execution of work, necessary tools and equipment are required.

6.1.41 *The Authority, based on the above noted justification of the petitioner, allows an expenditure of Rs. 71 million in this head.*

xiii. *Vehicles*

6.1.42 The petitioner has capitalized Rs. 631 million against provisionally allowed amount of Rs. 310 million in this head for the said year. The petitioner has stated that with its ever increasing operational area, the movement of its maintenance staff is also increasing. In order to achieve this objective, the petitioner owns fleet of different category of vehicles. In this regard, during the said year the petitioner replaced 149 old vehicles and acquired

264 Nos new vehicles (including motor cycles). Moreover, capitalization in this head includes Rs. 275 million pertaining to RLNG project, already approved by the Authority.

6.1.43 *In view of above, the Authority allows an expenditure amounting Rs. 631 million on account of vehicles for the said year. However, as per policy guidelines of FG dated 10.02.2016 cost of vehicles amounting Rs. 275 million, related to RLNG infrastructure, is to be charged / recovered from RLNG consumers without affecting consumers relying on domestically produced gas.*

*xiv. Construction Equipment*

6.1.44 The petitioner has capitalized an amount of Rs. 725 million against the provisionally allowed amount of Rs. 500 million in DERR for the said year. The petitioner has stated that the said capitalization includes an expenditure of Rs. 700 million for RLNG projects and Rs. 25 million on routine construction equipment for other projects.

6.1.45 The Authority notes that the company had projected an amount of Rs. 1,000 million in ERR against this head. However, the Authority keeping in view the historical trend analysis allowed an amount of Rs. 500 million (50% of projected amount) for construction equipment related to RLNG project.

6.1.46 *In view of above, the Authority allows an expenditure amounting Rs. 725 million on account of construction equipment for the said year. However, as per policy guidelines of FG dated 10.02.2016 cost of the construction equipment amounting Rs. 700 million related to RLNG infrastructure, is to be charged / recovered from RLNG consumers without affecting consumers relying on domestically produced gas.*

*xv. Compressors*

6.1.47 The petitioner has capitalized an amount of Rs. 5,794 million against provisionally allowed amount of Rs. 5,000 million in this head. The petitioner has stated that capitalization in this head includes Rs. 129 million for revamp/relocation of Dadu compressors and Rs. 5,652 million for additional compressor units at Nawabshah for RLNG project, whereas the remaining amount of Rs. 14 million has been capitalized on Leftover expenditure i.e. import duty (Modification of DR-990 Gas Turbine Two Units

SR ≠ 626-201-006) HQ SKP.

6.1.48 The Authority notes that most of the expenditure claimed in this head relates to RLNG pipeline projects already approved by the Authority.

6.1.49 *In view of above, the Authority allows an expenditure amounting Rs. 5,794 million on account of compressors for the said year. However, as per policy guidelines of FG dated 10.02.2016 cost of compressors amounting Rs. 5,781 million related to RLNG infrastructure, is to be charged / recovered from RLNG consumers without affecting consumers relying on domestically produced gas.*

## 6.2 Fixed Assets Determined by Authority

6.2.1 *The Authority, after due diligence and detailed analysis of petitioner's submissions, determines gross additions in fixed assets at Rs. 37,866 million for the said year. Accordingly, depreciation is reduced by Rs. 30 million and is determined at Rs. 5,831 million.* The petitioner is advised to project realistic figures in ERR since these have impact on gas consumer price.

**Table 10: Fixed Assets Determined by the Authority**

*Rs. Million*

| Particulars | The petition | Allowed by the Authortiy |
|---|---|---|
| Land | 24 | 24 |
| Buildings | 130 | 130 |
| Roads, Pavements and related infrastructure | 138 | 138 |
| Gas Transmission Pipelines | 24,791 | 24,791 |
| Plant and Machinery | 311 | 311 |
| Gas Distribution System | 5,317 | 4,863 |
| Furniture, equipment including computers and allied equipments | 219 | 219 |
| Computer Software | 72 | 72 |
| LPG Air Mix Projects | 4 | 4 |
| Telecommunication Systems | 93 | 93 |
| Appliances, Loose Tools and Equipments | 71 | 71 |
| Vehicles | 631 | 631 |
| Construction Equipments | 725 | 725 |
| Compressors | 5,794 | 5,794 |
| *Gross Assets* | *38,320* | *37,866* |

6.2.2 *In view of discussion at paras relating to RLNG assets above, the cost of fixed assets amounting Rs. 31,374 million related to RLNG projects is to be ring fenced and recovered from RLNG consumers only.*

## 7. Operating Revenues

### 7.1 Sales Volume

7.1.1 Sales volume has been reported to decrease by 6%, from 390,315 BBTU determined in DERR to 368,049 BBTU in the instant petition. Category-wise comparison with DERR and previous year has been provided by petitioner as under:

**Table 11: Comparison of Category-wise Gas Sales Volume per Petition with DERR & Previous Year**

*Volume in BBTU*

| Category | FY 2015-16 | FY 2016-17 | | Inc./(Dec.) over DERR FY 2016-17 | |
|---|---|---|---|---|---|
| | FRR | DERR | The Petition | | % |
| Commercial | 10,102 | 10,057 | 10,411 | 354 | 4 |
| HCPC | 4,752 | 6,185 | 6,537 | 352 | 6 |
| Domestic | 83,101 | 86,992 | 98,719 | 11,727 | 13 |
| Fertilizer - feed stock | 18,960 | 13,382 | 18,345 | 4,963 | 37 |
| General Industries | 61,934 | 63,156 | 61,194 | (1,962) | (3) |
| Captive Power | 67,701 | 74,802 | 69,843 | (4,959) | (7) |
| CNG Stations | 28,482 | 28,903 | 25,847 | (3,056) | (11) |
| Power | 108,732 | 99,285 | 76,903 | (22,382) | (23) |
| Cement | 214 | 505 | 251 | (254) | (50) |
| Nooriabad Power Plant | | 7,048 | - | (7,048) | (100) |
| Total | 383,979 | 390,315 | 368,049 | (22,266) | (6) |

7.1.2 The petitioner has submitted that overall decrease in gas sales volume is mainly due to dwindling gas supplies in the country. The petitioner has further elaborated that decrease in gas sales volume to power & captive power sectors is witnessed mainly due to Natural Gas Load Management Program of GoP during the said year. The petitioner further informed that cement sector has been shifted to alternate fuels resulting in 50% decrease in sales volume at the year end. Moreover, Nooriabad Power Plant has not yet started its commercial activities, therefore, no sale has been made during the year. Resultantly, the available gas was supplied to Fertilizer-feed stock resulting in increased sales volume at year end.

7.1.3 The Authority observes that gas supply to various sector is made in accordance with the gas load management policy which is FG domain. *In view of above, the Authority* *accepts total sales volume at 368,049 BBTU for the said year.*

## 7.2 Sales Revenue at Prescribed Prices

7.2.1 Sales revenue has decreased from Rs. 138,266 million per DERR to Rs. 124,356 million in instant petition. Category-wise comparison with DERR and previous year is given below.

**Table 12: Comparison of Category-wise Sale Revenues per Petition with DERR & Previous Year**

Rs. In Million

| Particulars | FY 2015-16 | FY 2016-17 | | Inc. / (Dec.) over DERR for FY 2016-17 | |
|---|---|---|---|---|---|
| | FRR | DERR | The Petition | | % |
| Commercial | 5,228 | 5,042 | 5,339 | 297 | 6 |
| Habibullah Coastal Power | 1,852 | 2,377 | 2,560 | 183 | 8 |
| Fertilizer - Feedstock | 3,070 | 1,651 | 2,257 | 606 | 37 |
| Domestic | 17,247 | 15,052 | 15,021 | (31) | (0.21) |
| Captive Power | 30,994 | 33,761 | 31,466 | (2,295) | (7) |
| General Industries | 23,875 | 25,415 | 23,597 | (1,818) | (7) |
| CNG Stations | 14,823 | 14,939 | 13,404 | (1,535) | (10) |
| Power | 42,357 | 38,163 | 30,568 | (7,595) | (20) |
| Cement | 127 | 295 | 145 | (150) | (51) |
| Nooriabad Power Plant | - | 1,570 | - | (1,570) | (100) |
| **Total Sales Revenues** | **139,570** | **138,266** | **124,356** | **(13,910)** | **(10)** |

7.2.2 The Authority observes that decrease in sale revenue for the said year, as compared to DERR, is due to reasons mentioned in paras 7.1.2 above.

7.2.3 The *Authority accepts sales revenue at prescribed prices at Rs. 124,356 million for the said year.*

## 7.3 Other Operating Income

i. ***Summary***

7.3.1 The petitioner has claimed other operating income at Rs. 9,095 million in petition as against Rs. 11,924 million provided per DERR for the said year. Detailed comparative breakup is appended below:

**Table 13: Comparison of Other Operating Income per Petition with DERR & Previous Year**

*Rs. in million*

| Particulars | FY 2015-16 | FY 2016-17 | | Inc./(Dec.) over DERR FY 2016-17 | |
|---|---|---|---|---|---|
| | FRR | DERR | The Petition | Rs. | % |
| Late Payment Surcharge | 2,198 | 1,151 | 3,187 | 2,037 | 177 |
| Other income | 895 | 452 | 880 | 428 | 95 |
| Meter rentals | 719 | 750 | 735 | (15) | (2) |
| Sale of LPG | 2,854 | 2,728 | 2,533 | (195) | (7) |
| Amortization of deferred credits | 406 | 407 | 401 | (6) | (1) |
| Sale of NGL | 568 | 1,132 | 423 | (709) | (63) |
| RLNG transportation Income | 459 | 3,697 | 877 | (2,820) | (76) |
| Sale of Gas condensate | 181 | 283 | 53 | (230) | (81) |
| Meter Manufacturing Plants Profit | 15 | 641 | 7 | (634) | (99) |
| Gas transportation charges | - | 68 | - | (68) | (100) |
| Notional income on IAS provision | 269 | 615 | - | (615) | (100) |
| Operating Revenue | 8,564 | 11,924 | 9,095 | (2,829) | (24) |

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

7.3.2 The petitioner has submitted that in line with the honorable Sindh High Court (SHC) decision dated November 25, 2016 whereby all the stay orders granted to the petitioner from FY 2010-11 to FY 2015-16 were dismissed in respect of revenue from MMP (Rs. 7 million), LPS (Rs. 3,187 million), Sale of Condensate (Rs. 53 million), LPG (Rs. 2,533 million) and NGL (Rs. 423 million). Accordingly, these incomes have been treated as operating incomes in the instant petition. The petitioner has, however, submitted that an appeal in the Supreme Court of Pakistan has been filed against the above decision of honorable SHC and in case of favourable decision; it reserves the right to amend the instant petition in the light of the decision.

7.3.3 The Authority notes that LPS income has decreased in all categories of consumers except Habibullah Coastal Power Company Ltd. (HCPC) which has increased by Rs. 2,011 million during the said year. The petitioner has submitted that its recovery department has been making strenuous efforts to recover the outstanding dues through media campaigns, sending notices, disconnection of gas supply by locking and removing meters resulting in LPS income to decrease overall.

7.3.4 Regarding sale of LPG, condensate and NGL, the Authority notes that off-takes from the fields has decreased resulting in lower extraction of the by-products vis-à-vis their sale. Moreover, income from MMP has witnessed 99% decrease owing to the fact that during the said year no sale of meters to SNGPL has been made.

7.3.5 ***In view of the justifications at paras 7.3.3 and 7.3.4 above, the Authority accepts the incomes and treats the above said income as operating in line with its principle stance as part of operating income for the said year.***

7.3.6 The Authority observes that petitioner has responded that it has been recording LPS from the defaulting consumers on compounding basis owing to its system limitations. The Authority notes with concern that such practice of the petitioner raises many questions on petitioner's control system as well as conduct of audit carried out by its internal and external auditors. In view of the same, the Authority directs the petitioner to resolve the matter on immediate basis within 3 months of the issuance of the Order and submit an implementation report with the Authority. Further the petitioner is directed to ensure that LPS is charged strictly in accordance with the terms of the agreement as approved by the Authority, and amount erroneously charged over the prescribed amount has accurately settled / resolved.

### *iii. RLNG Transportation Income*

7.3.7 The petitioner has reported Rs. 877 million on account of RLNG transportation income for the said year.

7.3.8 The Authority notes that the petitioner has erroneously calculated cost of supply for RLNG consumers at Rs. 877 instead of computing transportation income based on actual capitalization and other related costs. ***The Authority, based on the information provided by the petitioner, computes cost of supply for RLNG consumers at Rs. 4,146 million for the said year.*** The Authority, however, observes that RLNG pricing, as per legal framework provided by the GoP, is carried out under Petroleum Product (Petroleum Levy) Ordinance 1967. Further, as per decision of the FG regarding "RLNG pricing, allocation & allied matters", expenses under this head on this account is a ring-fenced activity, separately maintained and entirely recovered from RLNG consumers. Thus, for all practical purposes the expenses on account of RLNG does not impact the revenue requirement inter-alia the natural gas consumers.

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### iv. *Other Income*

7.3.9 The petitioner has reported other income for the said year at Rs. 880 million as against Rs. 1,067 million in DERR (i.e. decrease by 18%) for the said year. Detailed breakup with comparison is as under:

**Table 14: Comparison of Other Income per Petition with DERR and Previous Year**

*Rs. in million*

| Particulars | FY 2015-16 | FY 2016-17 | | Inc. / (Dec.) over DERR of FY 2016-17 | |
|---|---|---|---|---|---|
| | FRR | DERR | The Petition | | % |
| Liquidated damages recovered | 132 | 7 | 291 | 284 | 3798 |
| Others | 70 | 18 | 97 | 79 | 428 |
| Recoveries from consumers | 79 | 69 | 104 | 35 | 51 |
| Income from sale of tender documents | 5 | 4 | 5 | 2 | 45 |
| Income from new service connections | 300 | 280 | 285 | 5 | 2 |
| Income from pipeline construction | 101 | - | 28 | 28 | - |
| Profit on disposal of fixed assets | 98 | - | - | - | - |
| Income from sale of net investment in finance lease | 106 | 68 | 68 | (1) | (1) |
| Advertising Income | 5 | 6 | 1 | (5) | (81) |
| Notional income on IAS 19 provision | 298 | 615 | - | (615) | (100) |
| Total Other Operating Income | 1,193 | 1,067 | 880 | (187) | (18) |

7.3.10 *The Authority notes that the petitioner has treated notional income on IAS 19 provision as non-operating income, for which no justification has been advanced by it. The Authority as per its principle stance decides to include Rs. 262 million, as per the information provided by the petitioner in respect of notional income on IAS 19, as part of revenue requirement for the said year. Accordingly, other income is determined at Rs. 1,142 million for the said year.*

7.3.11 *In view of the above, the Authority determines operating revenues at Rs. 12,626 million as against Rs. 9,095 million for the said year, as tabulated below:*

**Table 15: Operating Revenues as Determined by the Authority**

*Rs. in million*

| Particulars | FY 2016-17 | |
|---|---|---|
| | The Petition | Determined by the Authority |
| Sale of NGL | 423 | 423 |
| Sale of LPG | 2,533 | 2,533 |
| Sale of Gas condensate | 53 | 53 |
| Late Payment Surcharge | 3,187 | 3,187 |
| Meter Manufacturing Profit | 7 | 7 |
| Meter rentals | 735 | 735 |
| Amortization of deferred credits | 401 | 401 |
| RLNG transportation Income | 877 | 4,146 |
| Other income | 880 | 1,142 |
| Operating Revenue | 9,095 | 12,626 |

## 8. LPG Air-Mix Project

8.1 The petitioner has claimed subsidy of Rs. 461 million on account of its LPG Air-Mix project for the said year. *The Authority as per para 6.1.38, the Authority accepts subsidy on account of LPG air-mix assets at Rs. 461 million for the said year.*

## 9. Operating Expenses

### 9.1 Cost Of Gas

9.1.1 Cost of gas per petition is Rs. 143,834 million (net of GIC), compared with Rs. 133,285 million determined in DERR, increase of Rs. 10,549 million (7.91%).

9.1.2 The Authority had determined input cost of gas on the basis of weighted average cost of gas purchased by petitioner and SNGPL at Rs. 275.18/MMBTU in DERR in accordance with the agreement for equalization of cost of gas dated 22nd September, 2003, between these two companies. On basis of their actual audited results, weighted average of input cost of gas for the said year works out at Rs. 332.97/ MMBTU as under:

**Table 16: Weighted Average Cost of Input Gas**

| Company | MMCF | BBTU | Rs. in million | Rs./ MMBTU |
|---|---|---|---|---|
| SSGCL | 438,389 | 433,943 | 160,831 | 370.63 |
| SNGPL | 501,011 | 469,098 | 139,854 | 298.13 |
| Total | 939,400 | 903,041 | 300,685 | 332.97 |

9.1.3 *Accordingly, the Authority accepts cost of gas sold at Rs. 143,834 million for the said year.*

### 9.2 Unaccounted for Gas (UFG)

9.2.1 The petitioner has reported UFG at 4.33% (18,916 MMCF) for the said year, as follows:

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**Table 17: Comparison of UFG per the petition with previous year**

*MMCF*

| Particulars | FY 2015-16 FRR | FY 2016-17 The Petition |
|---|---|---|
| Gas Available for Sales | 468,299 | 436,509 |
| Gas Sales | 404,018 | 417,593 |
| UFG Volumes | 64,281 | 18,916 |
| UFG % | 13.73% | 4.33% |

9.2.2 The petitioner while calculating UFG has also included gas volume (24,097 MMCF) on account of Bulk Retail Ratio; pilfered volume detected against non-consumers (8,054 MMCF); and un-billed pilfered volume in law & order affected areas (3,818 MMCF) as its deemed sale for the said year.

9.2.3 The Authority notes that the petitioner, in its earlier petitions, had claimed unbilled pilfered volume against law & order affected area of Sariab Road, Quetta; however, in the instant petition in addition to 2,528 MMCF for Sariab Road, Quetta, the petitioner has claimed law & order volume of 1,290 MMCF against Mastung and Kalat. The Authority also notes that the volume claimed in this head has an increasing trend, detail of which is given as under:

**Table 18: Unbilled pilfered volume History**

Volume in MMCF

| Financial Year | FY 2011-12 | FY 2012-13 | FY 2013-14 | FY 2014-15 | FY 2015-16 | FY 2016-17 |
|---|---|---|---|---|---|---|
| Unbilled pilfered volume in Law & Order affected areas | 1,236 | 1,950 | 2,279 | 2,355 | 2,467 | 3,818 |

9.2.4 *Keeping in view the policy guidelines of the FG on the matter and in line with the earlier decisions of the Authority in respect of FRR for FY 2012-13, FY 2013-14, FY 2014-15 & FY 2015-16, the Authority provisionally allows 1,896 MMCF (i.e. 75%of 2,528 MMCF) the volume claimed in respect of Law and Order affected area of Sariab Road, Quetta. As regards the petitioner's claim w.r.t Mastung and Kalat, the petitioner is advised to take up the matter with FG for identification/definition of Law & Order affected areas in consultation with the Provincial Governments and for declaration that the petitioner cannot operate in the said areas.*

**BTU Equivalence:**

9.2.5 Initially, the petitioner for calculation of its UFG had treated the gas transported for SNGPL, under Third Party Access (TPA) regime, as its purchase and sale, however, the same was later on corrected by the petitioner vide its letter No. RA/26/17 dated October 11, 2017.

9.2.6 Under the existing scenario of RLNG injection on behalf of third parties, the petitioner is obligated to deliver at the exit point the energy content (BTU) equivalent to BTU injected into system at the entry point, which may require the company to deliver additional volumes of gas to third party for making up the requisite BTU. This position has been endorsed by ECC as communicated by MP&NR through its letter dated 23-06-2015 in respect of Allocation, Pricing of RLNG and associated matters. The relevant para of the said ECC decision reads as under:

> ***"In case of ring fencing, any makeup volume due to BTU equivalence may be treated as "deemed delivery/sales" in the UFG computation sheet less UFG of transmission/distribution as allowed by the OGRA being an operational constraint."***

9.2.7 During the year under review, the petitioner received Re-gasified LNG from Engro Elengy Terminal Private Ltd. and transferred indigenous natural gas to SNGPL under Swap arrangement. The GCV of RLNG obtained from EETPL was higher than that of natural gas transferred to SNGPL which resulted in additional supply of gas to SNGPL, the same has been included as deemed sales in UFG working.

9.2.8 The petitioner has added that since the increase of RLNG from 200 MMCFD to 400 MMCFD and further to 600 MMCFD, the deemed sales could not be fully realized because of system constraints which has resulted in accumulation of about 10.1 BCF till June, 2017 which is actually the "Unrealized Deemed Sales to SNGPL for FYs 2014-15 to FY 2016-17".

9.2.9 The Authority notes that it acknowledges and has been allowing the additional volume passed by SSGC (transporter) to SNGPL (shipper) in lieu of BTU differential in the UFG sheets of its earlier determinations. ***In continuation of this, the Authority allows a volume of 5,844 MMCF for UFG Working as deemed sales for the said year, however, as regards the "Unrealized sales" of 10.1 BCF, the same shall be considered by the***

*Authority, once the transporter actually/physically passes this volume to the shipper company at the delivery points.*

9.2.10 The petitioner has also pointed out certain technical issues arising out of handling of RLNG in its distribution system. The petitioner has stated that under the existing arrangement, the company has to consume high BTU RLNG in its distribution system, while swapping its low BTU indigenous gas to Shipper. Due to handling of the RLNG, which has high BTU and has low specific gravity, they have experienced more UFG in their RLNG consuming area i.e. Karachi. *In this regard, the Authority notes that technical issues related to the use of RLNG, if any, are to be taken by the transporter with the shipper under the relevant access arrangement/Gas Transportation Agreement and settle the same accordingly.*

Gas Consumed Internally (GIC)

9.2.11 The petitioner has claimed GIC of 1,482 MMCF against the provisionally determined figure of 794 MMCF in DERR for the said year. The details furnished by the petitioner show that the claimed GIC of 1,482 MMCF includes 862 MMCF pertaining to RLNG related operations. As per the petitioner, under the existing swapping arrangement indigenous gas from different fields / sources is being supplied to SNGPL in lieu of RLNG, which is being consumed at Karachi. *The Authority in view of the details furnished by the petitioner provisionally allows GIC of 1,482 MMCF for the said year.*

9.2.12 The volume claimed by the petitioner against the head of "(Inc.)/Dec gas in pipeline" has been taken as 367 MMCF, whereas historically the same has remained as under:

**Table 19: Unbilled pilfered volume History**

Volume in MMCF

| Financial Year | FY 2011-12 | FY 2012-13 | FY 2013-14 | FY 2014-15 | FY 2015-16 | FY 2016-17 |
|---|---|---|---|---|---|---|
| (Inc.) / Dec Gas in Pinpline | 32 | (51) | 92 | 19 | 88 | 367 |

9.2.13 In this regard, the data provided by the petitioner shows that Line Pack of the company during the said year has increased due to commissioning of pipelines related to RLNG Infrastructure Development Project. *The Authority, in view of the existing swapping arrangements provisionally allows the said volume of Line Pack for working of UFG for the said year.*

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9.2.14 The Authority notes that it undertook a UFG study for determining UFG benchmarks of the gas companies through a consultant of international repute vis M/s KPMG Taseer Hadi & Co. Chartered Accountants (KPMG). After a thorough consultative process in stages, M/s KPMG submitted the final draft report on 11-7-2017. The Authority accepted the final UFG Study Report and forwarded it to both the gas companies on 30-8-2017 for implementation and compliance.

9.2.15 The Authority observes that it had stated in its FRRs for FY 2012-13, FY 2013-14, FY 2014-15 and FY 2015-16 that the volumes provisionally allowed as per policy decisions of the ECC of Cabinet shall be reconciled with the results of the UFG Study and any variation(s) shall be adjusted accordingly. However, since the benchmark has been revised on fixed and variable factors wherein the variable factor is based on KMI, therefore, in accordance with the KPMG's study / recommendation, it will not be practicable to assess the performance of the Sui companies on KMI with retrospective effect. Therefore, taking into consideration the fact that the Authority has been allowing UFG allowance over and above the benchmark of 4.5% based on local challenging conditions i.e. present Rate 2, the Authority concluded to finalize the FRR for FY 2012-13, 2013-14, 2014-15, 2015-16 on the same basis as was done provisionally and stand settled. ***In view of the above, the Authority decides that since FY 2016-17 had already been concluded prior to finalization of the UFG Study Report, the prior methodology is also applicable for the said year.***

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

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**Table 20: Calculation of UFG Adjustment**

*MMCF*

| Particulars | The Petition | Determined by the Authority |
|---|---|---|
| | FY 2016-17 | |
| Gross Purchases | 438,389 | 438,389 |
| Gas Consumed Internally - metered | 1,482 | 1482 |
| (Inc.)/Dec. Gas in pipeline | 367 | 367 |
| Loss due to sabotage activity / ruptures / unmetered | 31 | 31 |
| Sub-total | 1,880 | 1,880 |
| **Available for Sale (A)** | 436,509 | 436,509 |
| Gas Sales | 362,313 | 362,313 |
| Additional Gas Delivered to SNGPL under SWAP arrangement, on account of BTU Equivalence, as per GoP decision | 5,844 | 5,844 |
| Unrealized Deemed Sales (FY 2014-15, FY 2015-16 & FY 2016-17) | 10,131 | - |
| Add: Volume due to Bulk Retail Ratio | 24,097 | - |
| Add: Unbilled pilfered volume in law & order affected areas | 3,818 | 1,896 |
| Add: Pilfered volume detected against non-consumers | 8,054 | 5,110 |
| Add: Gas Shrinkage at LPG/NGL Plant (JJVL) | 3,274 | 3,274 |
| Add: Gas Shrinkage at Condensate (LHF) | 62 | 62 |
| **Total Gas Sales (B)** | 417,593 | 378,499 |
| Gas Unaccounted For (A-B) | 18,916 | 58,010 |
| Gas Unaccounted For (%) | 4.33% | 13.29% |
| Benchmark 4.5% | 19,643 | 19,643 |
| Disallowed Volume | (727) | 38,367 |
| Disallowed Volume (MMBTU) | (740) | 38,981 |
| WACOG - Rs. / MMBTU | | 332.97 |
| ***UFG Adjustment - (Rs. Million)*** | | 12,979 |

9.2.17 ***Based on the above computation, the Authority deducts Rs. 12,979 million from the revenue requirement of the petitioner for the said year.***

## 9.3 Transmission & Distribution (T & D) Cost

### *i. Summary*

9.3.1 The petitioner has claimed that T&D cost has decreased by 4% i.e. from Rs. 15,508 million provided in DERR to Rs. 14,963 million, as compared below:

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**Table 21: Comparison of T & D Cost per the Petition with DERR & Previous Year**

*Rs. in Million*

| Particulars | FY 2015-16 | FY 2016-17 | | Inc./(Dec.) over DERR FY 2016-17 | |
|---|---|---|---|---|---|
| | MFRR | DERR | The Petition | | % |
| Salaries, wages, and benefits at benchmark | 11,534 | 12,928 | 12,530 | (398) | (3) |
| Legal charges | 90 | 81 | 286 | 205 | 253 |
| Revenue expenditure relating to LNG | 26 | 62 | 96 | 34 | 55 |
| Repairs & maintenance | 1,374 | 1,506 | 1,570 | 64 | 4 |
| Impairment of Capital WIP | 60 | - | 49 | 49 | - |
| Traveling | 98 | 109 | 108 | (1) | (1) |
| Security expenses | 470 | 561 | 554 | (7) | (1) |
| Gas bills collection charges | 178 | 187 | 181 | (6) | (3) |
| Gas bills stubs processing charges | 19 | 23 | 22 | (1) | (3) |
| Meter reading by contractors | 67 | 75 | 69 | (6) | (7) |
| Advertisement | 103 | 125 | 108 | (17) | (14) |
| Postage & revenue stamps | 88 | 97 | 82 | (15) | (15) |
| Insurance | 119 | 140 | 119 | (21) | (15) |
| Rent, rate & taxes | 164 | 199 | 161 | (38) | (19) |
| Electricity | 193 | 232 | 189 | (43) | (19) |
| Material used on consumers installations | 37 | 44 | 34 | (10) | (22) |
| Stores, spares and supplies consumed | 659 | 813 | 595 | (218) | (27) |
| Others | 123 | 150 | 103 | (47) | (32) |
| Professional charges | 89 | 46 | 18 | (28) | (60) |
| License & Tariff Petition Fee to OGRA | 99 | 167 | 57 | (110) | (66) |
| Collecting agent commission | 3 | 3 | 0.364 | (3) | (88) |
| **Sub-total Cost** | 15,594 | 17,548 | 16,933 | (615) | (4) |
| Less: Recoveries / Allocations | 2,148 | 2,254 | 2,177 | (77) | (3) |
| **Net T&D Cost before GIC** | 13,446 | 15,294 | 14,755 | (539) | (4) |
| Add: Gas consumed internally | 306 | 215 | 198 | (17) | (8) |
| Loss due sabotage activity | 13 | - | 10 | (2) | - |
| **Net Transmission & Distribution Cost** | 13,765 | 15,508 | 14,963 | (545) | (4) |

Various components of T & D cost are discussed in following paragraphs:

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

9.3.2 The petitioner has reported actual HR cost for the said year at Rs. 12,434 million. The petitioner has, however, submitted that based on Authority's HR benchmark formula, HR cost for the said year is computed at Rs. 12,530 million and the same have, therefore, been claimed in the instant petition.

9.3.3 *The Authority notes that actual HR benchmark cost based on its existing HR benchmark formula is computed at Rs. 12,431 million for the said year as per the Annexure-C.* The Authority reiterates its directions in respect of completion of manpower assessment study by December, 2017 and submits the same to the Authority.

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*iii. Legal Charges*

9.3.4 The petitioner has reported legal charges for the said year at Rs. 286 million as against Rs. 81 million provided in DERR for the said year, showing a robust increase of 253%, as shown below:

**Table 22: Comparison Legal Charges with the DERR & Previous Year**

Rs. in Million

| Particulars | FY 2015-16 | FY 2016-17 | | Inc./(Dec.) over DERR FY 2016-17 | |
|---|---|---|---|---|---|
| | FRR | DERR | The Petition | Rs. | % |
| Legal Charges | 90 | 81 | 286 | 205 | 253 |
| Total | 90 | 81 | 286 | 205 | 253 |

9.3.5 The petitioner has explained that out of Rs. 286 million, Rs. 210 million has been incurred on account of arbitration in respect of Habibullah Coastal Power Company (HCPC).

9.3.6 The petitioner has explained that as per the terms of Gas Supply Agreement (GSA) signed between the petitioner and HCPC in 1996, the contract is liable to govern under the laws of England and Wales. Also, GSA provides that disputes shall be settled under the Rules of International Chamber of Commerce (ICC), Paris.

9.3.7 The petitioner has briefed that it has been supplying gas to HCPC for power generation and dispatched to WAPDA. Due to short supplies especially in winter, the petitioner could not supply gas as per its GSA to HCPC, resulting in reduced production of electricity to WAPDA by it. Accordingly, WAPDA claimed penalties and other charges from HCPC and subsequently HCPC lodged its claim in respect of liquidated damages from the petitioner. Finally, the matter went to International Courts from 2006 onwards. The petitioner informed that during the current financial year, it has to make hefty payments on account international legal counsel, quantification expert, chamber charges and etc for filing appeal in ICC, Paris. The petitioner has further informed that it has taken up the matter with GoP for the resolution of liquidated damages and penalties, as the matter had mainly arisen due to claim from Government owned entity (WAPDA) to HCPC for non-supply of electricity. Ministry of Petroleum & Natural Resources, vide its Notification No. 3(4)/2016-CDN dated May 29, 2017, has mandated Secretaries of Organizations coming under concerned respective Ministries to solve the outstanding issues.

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9.3.8 Regarding remaining legal charges of Rs. 76 million, the petitioner has argued that these are well within the allowable limit of Rs. 81 million allowed at the time of DERR, and therefore, it has requested to be allowed for the said year.

9.3.9 The Authority notes that huge payments have been made during the said year on account of international arbitration relating to HCPC. Regarding terms of agreement, the Authority notes with serious concern that both the parties are local, therefore, agreeing court for jurisdiction outside Pakistan holds no logic. The Authority, however, understands that the petitioner after signing the agreement left with no option but to defend its case. ***The Authority, while taking a lenient view, decides to allow this unprecedented cost of Rs. 210 million and directs the petitioner to avoid such agreements in future which involves international arbitration.*** The Authority further directs the petitioner to negotiate the terms of agreements reasonably and to its advantage as it has been observed that contract/agreement signed by it in past have resulted in arbitration against the petitioner owing to week legal grounds. The Authority further directs the petitioner to aggressively take up mater with GoP in respect of Liquidated Damages charges and etc and resolve the matter on early basis as all three entities are Pakistani and such international arbitration has been resulting in foreign exchange loss only.

9.3.10 ***In view of above, the Authority allows legal charges at Rs. 286 million for the said year.***

*iv. Repair & Maintenance*

9.3.11 The petitioner has capitalized an amount of Rs. 1,570 million on account of Repair and Maintenance which is slightly high as compared to provisionally allowed amount, however, it is much less than the amount projected at the time of ERR for the said year. The petitioner has stated that major reason for increase is the actual expenditure for UFG control activities of coating and wrapping, overhead and underground leak survey/rectification of leakages in distribution network.

9.3.12 ***Keeping in view the above justification, the Authority determines expenditure amounting to Rs. 1,570 million under the head of Repair & Maintenance for the said year*** *v. Revenue Expenditure Relating to LNG*

9.3.13 The petitioner has reported Rs. 96 million on account of revenue expenditure relating to LNG, as against Rs. 62 million determined in DERR, showing an increase of 55%.

**Table 23: Comparison of Revenue expenditure relating to LNG with DERR & Previous Year**

Rs. in Million

| Particulars | FY 2015-16 | FY 2016-17 | | Inc./(Dec.) over DERR FY 2016-17 | |
|---|---|---|---|---|---|
| | FRR | DERR | The Petition | Rs. | % |
| Revenue Expenditure relating to LNG | 26 | 62 | 96 | 34 | 55 |
| Total | 26 | 62 | 96 | 34 | 55 |

9.3.14 The petitioner has attributed that Rs. 96 million has been incurred during the said year in view of the increased activities in respect of LNG.

9.3.15 *In view of above, the Authority, decides to allow Rs. 96 million relating to RLNG for the said year. However, the same shall be recovered from RLNG consumers as part of transportation charges discussed in para 7.3.8 for the said year. The Authority, however, directs the petitioner to remain vigilant while planning / undertaking any project relating to LNG/RLNG, so as to make RLNG consumer price competitive for local market.*

*vi. Remaining Items of T & D Cost*

9.3.16 Expenditure on remaining items of T & D cost, which have not been discussed above, is Rs. 2,451 million as against Rs. 2,971 million provided in DERR for the said year, as detailed below:

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**Table 24: Summary of Remaining T & D Expenses per the Petition with DERR & Previous Year**

*Rs. in Million*

| Particulars | FY 2015-16 | FY 2016-17 | | Inc./(Dec.) over DERR FY 2016-17 | |
|---|---|---|---|---|---|
| | FRR | DERR | The Petition | | % |
| Impairment of Capital WIP | 70 | - | 49 | 49 | 100 |
| Traveling | 98 | 109 | 108 | (1) | (1) |
| Security expenses | 470 | 561 | 554 | (7) | (1) |
| Gas bills collection charges | 178 | 187 | 181 | (6) | (3) |
| Gas bills stubs processing charges | 19 | 23 | 22 | (1) | (3) |
| Meter reading by contractors | 67 | 75 | 69 | (6) | (7) |
| Advertisement | 103 | 125 | 108 | (17) | (14) |
| Postage & revenue stamps | 88 | 97 | 82 | (15) | (15) |
| Insurance | 119 | 140 | 119 | (21) | (15) |
| Rent, rate & taxes | 164 | 199 | 161 | (38) | (19) |
| Electricity | 193 | 232 | 189 | (43) | (19) |
| Material used on consumers installations | 37 | 44 | 34 | (10) | (22) |
| Stores, spares and supplies consumed | 659 | 813 | 595 | (218) | (27) |
| Others | 123 | 150 | 103 | (47) | (32) |
| Professional charges | 93 | 46 | 18 | (28) | (60) |
| License & Tariff Petition Fee to OGRA | 99 | 167 | 57 | (110) | (66) |
| Collecting agent commission | 3 | 3 | 0.364 | (3) | (88) |
| Total Cost | 2,584 | 2,971 | 2,451 | (520) | (18) |

9.3.17 ***The Authority accepts remaining items of T&D cost at Rs. 2,451 million.***

**Table 25: T&D cost Determined by the Authority**

Rs. In Million

| Particulars | FY 2016-17 | |
|---|---|---|
| | The Petition | Determined by the Authority |
| Salaries, wages, and benefits at benchmark | 12,530 | 12,431 |
| Repair & Maintenance | 1,570 | 1,570 |
| Legal charges | 286 | 286 |
| Revenue expenditure relating to LNG | 96 | 96 |
| Remaining T&D Cost | 2,451 | 2,451 |
| **Sub-total Cost** | **16,933** | **16,834** |
| Less: Recoveries / Allocations | 2,177 | 2,177 |
| **Net T&D Cost before GIC** | **14,755** | **14,656** |
| Add: Gas consumed internally | 198 | 198 |
| Loss due sabotage activity | 10 | 10 |
| **Net Transmission & Distribution Cost** | **14,963** | **14,864** |

## 10. Financial Impact of Honorable Sindh High Court Judgment

10.1 The petitioner has excluded Rs. 18,359 million being financial impact adjustment arising owing to honorable Sindh High Court judgment dated November 25, 2015. Rs. 18,359

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million has already been excluded from FRR FY 2015-16 by the Authority, while considering SECP phased recognition of the said impact in two years.

10.2 *In view of the above, the Authority excludes Rs. 18,359 million as computed by the petitioner in compliance of judgment passed by honorable Sindh High Court.*

## 11. Reclaim Provision against LPS Income Receivable

11.1 The petitioner has claimed Rs. 3,058 million on account of reclaim provision against LPS income receivable for the said year.

11.2 The Authority notes that the petitioner has referred its earlier contentions only and has not provided any justification for claiming LPS provision against live consumers despite Authority's detailed deliberations and decision in MFRR FY 2015-16. The Authority is of the firm view that LPS provision against live consumers can't be classified as "doubtful", being active / live consumers. *In view of the same, the Authority maintains its earlier decision and excludes Rs. 3,058 million from the tariff calculation of revenue requirement for the said year.*

## 12. Prior Years Adjustment

12.1 The petitioner has claimed Rs. 622 million being shortfall as determined by the Authority in its MFRR FY 2015-16. The petitioner has explained that these items can't be adjusted in FY 2015-16 owing to closure of books.

12.2 *In view of the above, the Authority accepts the same, as earlier determined by it, as part revenue requirement for the said year.*

## 13. Workers Profit Participation Funds (W.P.P.F) including Other Charges

13.1 The petitioner has claimed Rs. 4,086 million on account of W.P.P.F including other charges & change in accounting policy (IAS-19) by IASB for the said year.

13.2 Out of Rs. 4,086 million, the petitioner has claimed Rs. 2,602 million on account of *"provision for doubtful debts"* under the head of "other charges", the breakup of the same is as under;

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**Table 26: Breakup of Provision for Doubtful Debts as per the Petition**

Rs. In Million

| Particulars | FY 2016-17 The Petition |
|---|---|
| A- Disconnected Consumers: | |
| Industrial | 9 |
| Commercial | 17 |
| Domestic | 1057 |
| *Sub-total Disconnected Provision* | *1082* |
| B - Live LPS | |
| DHA Cogen | 176 |
| Industrial (LPS provision CPP/IPP Litigated Cases | 70 |
| HCPC | 1231 |
| *Sub-total Live Provision - LPS* | *1478* |
| C- Live Others | |
| Hussain Industries | 9 |
| Shamsain Marketing Services | (0.035) |
| Domestic Defalut Cases 3 years and above | 34 |
| *Sub-total Live Provision - Others* | 43 |
| **Total Provision (A+B+C)** | 2,602 |

13.3 ***The Authority, as per its benchmark and the information provided by the petitioner, re-computes provision against doubtful debts for disconnected consumers at Rs. 791 million. The Authority reiterates its directions to actively follow the GoP's directives in respect of effective recovery mechanism in natural gas sector.***

13.4 ***Consequent upon the deduction / adjustments in various components of revenue requirement as discussed above, the Authority determines W.P.P.F Rs. 946 million and other charges at Rs. 1,225 million for the said year.***

## 14. Summary of Discussion & Decisions

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

14.1.1 **determines gross addition in fixed assets at Rs. 37,866 million and depreciation charge at Rs. 5,831 million;**

14.1.2 **determines balance of average net operating fixed assets (net of deferred credits, assets laid down by M/s EETL & LPG Air mix) at Rs. 70,824 million. Consequently, the return required by the petitioner on its average net operating fixed assets is determined at Rs. 12,040 million;**

14.1.3 **accepts subsidy on account of Air-mix LPG at Rs. 461 million;**

14.1.4 **determines other operating income at Rs. 12,626 million;**

**14.1.5 accept cost of gas at Rs. 143,834 million;**

**14.1.6 determine UFG adjustment at Rs. 12,979 million at 4.5% benchmark;**

**14.1.7 determine T&D expenses at Rs. 14,656 million;**

**14.1.8 accepts recovery of financial impact arisen owing to honorable Sindh High Court judgment at Rs. 18,359 million;**

**14.1.9 includes shortfall of Rs. 622 million being prior year adjustment;**

**14.1.10 accept GIC at Rs. 208 million including loss due to sabotage activities;**

**14.1.11 accept change in accounting policy IAS-19 by IASB to Rs. 946 million**

**14.1.12 determine other charges including W.P.P.F. to Rs. 1,225 million; and**

14.2 In exercise of powers under Section 8(2) of Ordinance, Authority determines final revenue requirement of petitioner for said year at Rs. 148,485 million as against petitioner's claim of Rs. 166,246 million, as tabulated below:

**Table 27: Components of FRR as Determined by the Authority**

Rs. in million

| S.No | Particulars | Claimed by the Petitioner | Determined by the Authority |
|---|---|---|---|
| 1 | Cost of gas sold | 143,834 | 143,834 |
| 2 | UFG adjustment | (536) | (12,979) |
| 3 | Transmission and distribution cost | 14,755 | 14,656 |
| 4 | Financial impact on account of SHC order | (18,359) | (18,359) |
| 5 | Gas internally consumed | 208 | 208 |
| 6 | Depreciation | 5,861 | 5,831 |
| 7 | Reclaim provision against LPS income recievable | 3,058 | - |
| 8 | Other charges including WPPF | 4,086 | 2,171 |
| 9 | Return on net average operating fixed assets | 12,257 | 12,040 |
| 10 | Shortfall related to Prior Yrar | 622 | 622 |
| 11 | Additional revenue requirement for Air-Mix LPG Projects | 461 | 461 |
| | **Total Final Revenue Requirement** | 166,246 | 148,485 |

**14.3 The petitioner's actual net operating income is Rs. 136,982 million and thus there is a shortfall of Rs. 11,502 million, vis-à-vis its revenue requirement of Rs. 148,485 million for the said year. Average prescribed price for each category of consumers comes to Rs. 369.13/ MMBTU. Revised prescribed prices for each category of retail consumers for the**

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

**Dr. Abdullah Malik,**
**Member (Oil)**

**Noorul Haque,**
**Member (Finance)**

**Uzma Adil Khan,**
**(Chairperson)**

Islamabad, October 26, 2017

REGISTRAR
Oil & Gas Regulatory Authority
Islamabad

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## A. Final Revenue Requirement for FY 2016-17

**ANNEXURE - A**

*Rs. in Million*

| | Particulars | The Petition | The Adjustment | Determined by the Authority |
|---|---|---|---|---|
| Gas sales volume -MMCF | | 362,313 | | 362,313 |
| | BBTU | 368,049 | | 368,049 |
| "A" | Net Operating Revenues | | | |
| | Net sales at current prescribed price | 124,356 | | 124,356 |
| | Meter rentals | 735 | - | 735 |
| | Amortization of deferred credit | 401 | - | 401 |
| | Sale of LPG | 2,533 | - | 2,533 |
| | Sale of condensate | 53 | - | 53 |
| | Sale of NGL | 423 | - | 423 |
| | Late payment surcharge | 3,187 | - | 3,187 |
| | Meter manufacturing profit | 7 | - | 7 |
| | RLNG Transportation Income | 877 | 3,269 | 4,146 |
| | Other operating income | 880 | 262 | 1,142 |
| | Total Operating Revenue "A" | 133,452 | 3,531 | 136,983 |
| "B" | Less: Operating Expenses | | | |
| | Cost of gas | 143,834 | - | 143,834 |
| | UFG Adjustment | (536) | (12,443) | (12,979) |
| | Transmission and distribution cost | 14,755 | (99) | 14,656 |
| | Financial impact on account of SHC order | (18,359) | - | (18,359) |
| | Gas internally consumed | 208 | - | 208 |
| | Depreciation | 5,861 | (30) | 5,831 |
| | Reclaim provision against LPS income recievable | 3,058 | (3,058) | - |
| | Other charges | 3,140 | (1,915) | 1,225 |
| | Change in acounting policy IAS-19 by IASB | 946 | - | 946 |
| | | | | |
| | Total Operating Expenses "B" | 152,907 | (17,545) | 135,362 |
| "C" | Operating profit (A-B) | (19,456) | 21,076 | 1,620 |

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*Rs. in Million*

| Particulars | The Petition | The Adjustment | Determined by the Authority |
|---|---|---|---|
| **Return required on net operating fixed assets:** | | | |
| Net operating fixed assets at beginning | 61,947 | - | 61,947 |
| Net operating fixed assets at ending | 93,664 | (425) | 93,239 |
| | 155,610 | (425) | 155,186 |
| **Average net assets (I)** | 77,805 | (212) | 77,593 |
| Net LPG air mix project asset at beginning | 862 | - | 862 |
| Net LPG air mix project asset at ending | 799 | - | 799 |
| | 1,661 | - | 1,661 |
| **Average net assets (II)** | 830 | - | 830 |
| Net EETPL asset at beginning | - | 1,081 | 1,081 |
| Net EETPL asset at ending | - | 1,053 | 1,053 |
| | - | 2,134 | 2,134 |
| **Average net assets (II)** | - | 1,067 | 1,067 |
| Deferred credit at beginning - Assets related to Natural Gas Activity | 5,034 | - | 5,034 |
| Deferred credit at ending - Assets related to Natural Gas Activity | 4,709 | - | 4,709 |
| | 9,742 | - | 9,742 |
| **Average net deferred credit (IV)** | 4,871 | - | 4,871 |
| **"D" Average (I-II-III-IV)** | 72,104 | (1,279) | 70,824 |
| **"E" 17% return required** | 12,257 | (216) | 12,040 |
| **"F" Shortfall / (Surplus) in return required (E-C) (Gas Operations)** | 31,713 | (21,293) | 10,420 |
| **"G" Additional revenue requirement for Air-Mix LPG Projects** | 461 | - | 461 |
| **Total Shortfall / (Surplus) H=(F+G)** | 32,173 | (21,293) | 10,880 |
| **Inc./(Decr.) in average prescribed price effective (Rs. / MMBTU) w.e.f July 01, 2016** | 87.42 | (57.85) | 29.56 |
| **Shortfall related to prior years (I)** | 622 | - | 622 |
| **Total Shortfall in Revenue Requirement J=(H+I)** | 32,795 | (21,293) | 11,502 |
| **Inc./(Decr.) in average prescribed price effective (Rs. / MMBTU) w.e.f July 01, 2016** | 89.10 | (57.85) | 31.25 |
| **Final revenue requirement (B+E+G+I)** | 166,246 | (17,762) | 148,485 |
| **Average Prescribed Price (Rs. per MMBTU)** | 426.98 | (57.85) | 369.13 |



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## B. Prescribed Prices for FY 2016-17

**ANNEXURE – B**

Rs. /MMBTU

| | Particluars | w.e.f July 01, 2016 |
|---|---|---|
| (i) | **Domestic Consumers:** | |
| | a) Standalone meters | |
| | b) Mosques, churches, temples, madrassas, other Religious Places and Hostels attached thereto; | |
| | First slab (upto 100 cubic metres per month). | 110.00 |
| | Second slab (Upto 300 cubic metres per month). | 220.00 |
| | Third slab (Over 300 cubic metres per month). | 600.00 |
| | c) Government and semi-Government offices, Hospitals, clinics, maternity homes, Government Guest Houses, Armed Forces messes, Langars, Universities, Colleges, Schools and Private Educational Institutions, Orphanages and other Charitable Institutions along-with Hostels and Residential Colonies to whom gas is supplied through bulk meters including captive power. | |
| | All off-takes at flat rate of | 600.00 |
| (ii) | **Special Commercial Consumers (Roti Tandoors)** | |
| | First slab (upto 100 cubic metres per month). | 110.00 |
| | Second slab (Upto 300 cubic metres per month). | 220.00 |
| | Third slab (over 300 cubic metres per month). | 595.76 |
| (iii) | **Commercial :** | |
| | All establishments registered as commercial units with local authorities or dealing in consumer items for direct commercial sale like cafes, bakeries, milk shops, tea stalls, canteens, barber shops, laundries, hotels, malls, places of entertainment like cinemas, clubs, theaters and private offices, corporate firms, etc. | |
| | All off-takes at flat rate of | 595.76 |
| (iv) | **Ice Factories:** | |
| | All off-takes at flat rate of | 595.76 |
| (v) | **Industrial:** | |
| | All consumers engaged in the processing of industrial raw material into value added finished products irrespective of the volume of gas consumed including hotel industry but excluding such industries for which a separate rate has been prescribed. | |
| | All off-takes at flat rate of | 456.74 |
| (vi) | **Captive Power :** | |
| | All off-takes at flat rate of | 488.23 |
| (vii) | **CNG Stations:** | |
| | All off-takes at flat rate of | 614.18 |
| (viii) | **Cement Factories:** | |
| | All off-takes at flat rate of | 518.05 |
| (ix) | **Pakistan Steel** | |
| | All off-takes at flat rate of | 456.74 |
| (x) | **Fauji Fertilizer Bin Qasim Limited** | |
| | (i) For gas used as feed-stock for Fertilizer (upto 60 MMCFD) | 123.41 |
| | (i) For gas used as feed-stock for Fertilizer (upto 60 MMCFD) w.e.f 15.12.2016 | 123.00 |
| | (ii) For gas used as fuel for generating steam and electricity and for usage in housing colonies. | 456.74 |
| (xi) | **Power Stations** | |
| | All off-takes at flat rate of | 340.42 |
| (xii) | **Independent Power Producers** | |
| | All off-takes at flat rate of | 340.42 |

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## C. Computation of HR Cost Benchmark FY 2016-17

**ANNEXURE - C**

| | Particulars | 2015-16 | 2016-17 | |
|---|---|---|---|---|
| | | MFRR | The Petition | Determined by the Authority |
| | **HR BENCHMARK COST PARAMETERS** | | | |
| | Base Cost | 10,620 | 11,534 | 11,347 |
| | CPI factor | 2.86% | 4.16% | 4.16% |
| | T & D network (Km) | 48,375 | 49,494 | 49,494 |
| | Number of Consumers (No.) | 2,773,457 | 2,839,171 | 2,839,171 |
| | Sales Volume (MMCF) | 484,223 | 542,014 | 542,014 |
| | **Unit Rate (Rs./unit)** | | | |
| | T&D network (Rs./Km) | 224,654 | 238,426 | 234,557 |
| | No. of Consumers (Rs./Consumer) | 3,918 | 4,159 | 4,091 |
| | Sale Volume (Rs./MMCF) | 29,208 | 23,819 | 23,433 |
| | **HR Cost Build-up (Million Rs)** | | | |
| 50% | Cost CPI -50% | 152 | 240 | 236 |
| 25% | T & D network (Km) 25% | 2,717 | 2,950 | 2,902 |
| 65% | Number of Consumers (No.) 65% | 7,063 | 7,675 | 7,550 |
| 10% | Sales Volume (MMCF)-10% | 1,414 | 1,291 | 1,270 |
| | **HR Benchmark Cost** | 11,347 | 12,156 | 11,959 |
| | IAS Cost | | 470 | 470 |
| | **Total HR Cost** | | 12,626 | 12,428 |
| | **Actual HR COST** | | 12,434 | 12,434 |
| | **50% of saving/(excess)** | | 96 | (3) |
| | **HR cost allowed (Rs. in million)** | | 12,530 | 12,431 |

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## D. List of Abbreviations

ANNEXURE – D

| | |
|---|---|
| ACPL | Attock Cement Pakistan Limited |
| BBTU | Billion British Thermal Unit |
| BCFD | Billion Cubic Feet Daily |
| BOD | Board of Directors |
| CC | Cement Concrete |
| CEO | Chief Executive Officer |
| CNG | Compressed Natural Gas |
| CP System | Cathodic Protection System |
| CP | Constitutional Petition |
| CC&B | Customer Care and Billing |
| CMS | Customer Meter Station |
| DERR | Determination of Estimated Revenue Requirement |
| DHA | Defence Housing Authority |
| EVC | Electronic Volume Corrector |
| ECC | Economic Coordination Committee |
| FG | Federal Government |
| FRR | Final Revenue Requirement |
| GIC | Gas Internally Consumed |
| GDS | Gas Development Surcharge |
| GOP | Government of Pakistan |
| GCV | Gas Calorific Value |
| GIDC | Gas Infrastructure Development Cess |
| GPA | Gas Pricing Agreement |
| GSA | Gas Supply Agreement |
| HCPC | Habibullah Coastal Power Company |
| HSFO | High Sulphur Furnace Oil |
| HQ | Head Quarter |
| HQ SKP | Head Quarter Shikarpur |
| IAS | International Accounting Standard |
| ILBP | Indus Left Bank Pipeline |
| IRBP-CEP | Indus Right Bank Pipeline – Capacity Expansion Project |
| ISGSL | Inter State Gas System Limited |
| JJVL | Jam Shoro Joint Venture Limited |
| KPMG | Klynveld Peat MarwicK Goerdeler |
| KMI | Key Monitoring Indicators |
| KPD | Kunner Pasakhi Deep |
| LHF | Liquid Handling Facility |
| LPG | Liquified Petroleum Gas |
| LPS | Late Payment Surcharge |
| LNG | Liquified Natural Gas |
| MGFIP | Mehar Gas Field Integration Project |
| MMBTU | Million Metric British Thermal Unit |

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| | |
|---|---|
| MMCF | Million Cubic Feet |
| MMCFD | Million Standard Cubic Feet per Day |
| MMP | Meter Manufacturing Profit |
| MP&NR | Ministry of Petroleum and Natural Resource |
| MVA | Main Valve Assembly |
| NGL | Natural Gas Liquid |
| NGRA | Natural Gas Regulatory Authority |
| NHA | National Highway Authority |
| OGRA | Oil and Gas Regulatory Authority |
| PRS | Pressure Regulating Station |
| POD | Point of Delivery |
| POGC | Polish Oil and Gas Company |
| PCFA | Pakistan Cotton Fashion Apparel |
| QPL | Quetta Pipe Line |
| RLNG | Re-Gasified Liquefied Natural Gas |
| RS | Regulating Station |
| ROW | Right of Way |
| SMS | Sale Meter Station |
| SNGPL | Sui Northern Gas Pipeline Limited |
| SSGCL | Sui Southern Gas Company Limited |
| SCADA | Supervisory Control And Data Acquisition |
| TBS | Town Border Station |
| TPA | Third Party Access |
| T&D | Transmission and Distribution |
| UFG | Un-accounted for Gas |
| WACOG | Weighted Average Cost of Gas |
| WAPDA | Water & Power Development Authority |
| WPPF | Workers Profit Participation Fund |
| ZEL | Zishan Engineering Pvt. Limited |