Case No. OGRA-6(2)-2(4)/2018-ERR

IN THE MATTER OF

SUI SOUTHERN GAS COMPANY LIMITED
ESTIMATED REVENUE REQUIREMENT, FY 2019-20

UNDER

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

DECISION

ON

MAY 17, 2019

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

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1. Background

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

1.2. The petitioner filed a petition on November 30, 2018, under Section 8 (1) of the Oil and Gas Regulatory Authority Ordinance, 2002 (the Ordinance) and Rule 4(2) of Natural Gas Tariff Rules, 2002 (NGT Rules), for Determination of its Estimated Revenue Requirement (DERR) for FY 2019-20 (the said year) at Rs. 254,754 million (the amounts have been rounded off to the nearest million here and elsewhere in this document), and short fall for the said year is calculated at Rs. 38,020 million, including Rs. 1,938 million (Rs. 5.43 per MMBTU) on account of Air-mix LPG Projects, thereby requesting an increase of Rs. 106.54/MMBTU w.e.f July 01, 2019. As per decision of the FG, the petitioner has ring fenced the operating fixed assets and incremental operating cost related to RLNG business.

1.3. The Authority observes that supply of RLNG is ring fenced activity as per decision of the FG. Accordingly, the said determination is being done to the extent of revenue requirement of gas companies on account of supply of indigenous gas to its consumers. However, cost of service shall be computed in the instant determination, to be recoverable from RLNG consumers as part of RLNG monthly price in accordance with policy guidelines issued by the FG.

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

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

Rs. / MMBTU

Particulars	FY 2018-19	FY 2019-20
	RERR	The Petition
Units sold (BBTU)	**360,837**	**356,872**
Cost of gas sold	608.62	641.92
UFG adjustment	(41.01)	(2.10)
UFG adjustment on RLNG volume handled basis (ring fence)	-	(24.72)
Staggering of Financial Impact on account of SHC Order	(10.18)	(10.29)
Transmission and distribution cost including Others	50.65	64.58
Depreciation	14.81	16.88
Return on net average operating fixed assets	17.80	22.16
Other operating income	(18.76)	(15.64)
Subsidy for LPG Air-Mix Project	1.92	5.43
Cost of service / prescribed price	**623.86**	**698.21**
Current average prescribed price	554.76	591.67
Increase requested in average prescribed price	**69.10**	**106.54**

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

1.6. A notice inviting interventions / comments on the petition from the consumers, general public and other interested / affected persons and intimating date, time and place of public hearings, was published in the two daily combined newspapers, and one local Urdu newspaper on March 23, 2019.

1.7. The Authority received seven (7) applications to intervene in the proceedings from the following persons / entities:

i) Mr. M.H. Asif, Consultant, All Pakistan Textile Mills Association
ii) Dr. Q.A. Kamal, Karachi Chamber of Commerce & Industry
iii) Chamber of Commerce & Industry
iv) Mr. Shahnawaz Siddiqui, SITE Association
v) Mr. Yawer Shahwani, Sindh Petroleum & CNG Dealers Association
vi) Mr. Ghiyas Paracha, All Pakistan CNG Association
vii) Mian Suhail Hussain, Chief Executive Officer, Gresham Eastern Ltd

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

2. Salient Features of the petition

2.1 The petitioner has made the following main submissions:

2.2 The petitioner has claimed annual return at the rate of 17.43% of the net fixed assets in operation, before corporate income tax in accordance with the new tariff regime implemented effective July, 2018.

2.3 The petitioner has claimed net addition, net of deletions of Rs. 21,758 million in fixed assets, and net addition, ex-depreciation and deletion, of Rs. 5,228 million, resulting in claimed increase in net operating fixed assets from Rs. 45,958 million for FY 2018-19 to Rs. 60,799 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. 45,365 million and required return to Rs. 7,907 million.

2.4 The petitioner has projected net operating revenues at Rs. 216,734 million, as detailed below (and compared with previous years):

Table 2: Comparison of Projected Operating Revenues with Previous Years

Rs. in million

Particulars	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	Inc./(Dec.) over RERR for FY 2018-19	
	MFRR	DERR	RERR	The Petition	Rs.	%
Net sales at current prescribed price	158,016	148,954	225,111	211,152	(13,959)	(6)
Late Payment Surcharge	4,075	2,958	3,353	3,292	(61)	(2)
Meter Manufacturing Profit	(2)	209	13	11	(2)	(13)
RLNG transportation Income	4,146	8,920	-	-	-	-
Sale of LPG	2,533	3,009	1,066	-	(1,066)	(100)
Sale of NGL	423	584	177	(34)	(211)	
Sale of Gas condensate	53	134	20	-	(20)	(100)
Meter rentals	735	773	792	820	28	4
Amortization of deferred credits	401	426	432	473	41	10
Other income	1,142	816	916	1,019	103	11
Net Operating Revenue	**171,522**	**166,782**	**231,880**	**216,734**	**(15,146)**	**(7)**

2.5 The petitioner has projected net operating expenses at Rs. 244,909 million, as detailed below (and compared with previous years):

Table 3:Comparison of Projected Operating Expenses with Previous Years

Rs. in million

Description	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	Inc / (Dec) over RERR for FY 2018-19	
	MFRR	DERR	RERR	The Petition	Rs.	%
Cost of gas	143,834	140,824	219,614	229,083	9,469	4
Depreciation	5,848	6,820	5,344	6,024	680	13
Transmission and distribution costs	15,233	15,857	16,808	20,326	3,518	21
Other charges including WPPF	2,452	725	1,224	1,979	755	62
Gas Internally Consumed	208	298	246	740	494	201
UFG adjustment	(12,281)	(9,722)	(14,799)	(750)	14,049	(95)
Prior years adjustment in line with retrospective effect of UFG study report up to 2015-16	5,668	-	-	-	-	-
Prior years impact on UFG disallowance due to change in GCV due to RLNG mix	728	-	-	-	-	-
UFG adjustment on RLNG volume handled basis (ring fenced)	-	-	-	(8,820)	(8,820)	-
Staggering of Financial Impact on account of SHC Order	(3,672)	-	(3,672)	(3,672)	-	-
Net Operating Expenses	158,019	154,803	224,765	244,909	20,144	9

2.6 The petitioner has projected its Weighted Average Cost of Gas (WACOG) for the said year at Rs. 560.18/MMBTU. The cost of gas is linked with international prices of Crude and HSFO according to the Gas Pricing Agreements (GPAs) executed between the producers and GoP.

2.7 The petitioner has projected UFG at 15.54%. The petitioner has however, restricted its UFG adjustment to Rs. 750 million as per Rule 20(1) of NGT Rules, 2002 for the said year.

2.8 The petitioner has claimed subsidy amounting to Rs. 1,938 million on account of its Air-mix LPG Projects.

2.9 The shortfall in the projected revenue requirement after computing 17.43% return on average net operating fixed assets is estimated at Rs. 38,020 million, requiring increase of Rs. 106.54 per MMBTU in the existing average prescribed price, as detailed below:

Table 4: Computation of Requested Average Increase in Prescribed Price

Rs. In million

	Particulars	FY 2019-20 The Petition
A	Net Operating Revenues	216,734
	less: Net operating expenses excluding ROA	244,910
	Subsidy Air Mix LPG Project	1,938
B	Total Expenses	246,847
C	Shortfall {(B) - (A)}	30,113
D	Return required @ 17.43% on net fixed assets in operation	7,907
E	Total shortfall in revenue requirement {(D) + (C)}	38,020
F	Sale volume (BBTU)	356,872
G	Increase requested in existing average prescribed price Rs./MMBTU	106.54

3. Proceedings

3.1 Public hearings were held on April 08, 2019 and April 10, 2019 at Karachi and Quetta respectively. The following interveners / participants attended the public hearings held in Karachi & Quetta:

Petitioner:

i. Team was led by Mr. Mohammad Wasim, Acting Managing Director
ii. Mr. Mirza Mehmood Ahmad, Legal Counsel / Director

Interveners/ Participants at Karachi:

i. Mr. Muhammad Waseem Butt, Sindh Petroleum & CNG Dealers Association
ii. Mr. Hamayun Muhammad Chaudhry, Chairman Public Utilities, Karachi
iii. Mr. Ameer Ali, Trafigura Pakistan Limited
iv. Mr. Fawad Ahmed Khan, Fine CNG Enterprises
v. Mr. Saleem Saleh, Dy. Secretary, All Pakistan Textile Mills Association
vi. Mr. Muhammad Mahboob, Asstt. Secretary, All Pakistan Textile Mills Association
vii. Mr. Waseem Al-Hussain, Sales Manager, ENCOM
viii. Mr. Muhammad Junaid, Gresham Eastern Ltd
ix. Mr. Mohammad Qasim, Gresham Eastern Ltd
x. Mr. S.A Alam, MWE
xi. Mr. Baleegh Hussain, MCM RC
xii. Mr. Maqsood Ahmed, NBP Retd Employee
xiii. Mr. Muhammad Arif Bilwani, Consumer
xiv. Mr. Owais Mir, Chief Executive, Officer Metro Gas
xv. Mr. Usman Ali, Consumer
xvi. Mr. Muhammad Farooq Memon, Al Madina CNG, Hyderabad
xvii. Mr. Sameer Gulzar, Vice Chairman, All Pakistan CNG Association
xviii. Mr. Shoaib, Khanjee, All Pakistan CNG Association
xix. Mr. Samir Najmul, All Pakistan CNG Association
xx. Mr. Shabbir Sulemanjee, All Pakistan CNG Association

Interveners/ Participants at Quetta:

i. Mr. Azizullah Hazara, Member Distt. Council, Quetta

ii. Mr. Nadir Ali Arbab, Labor councilor, Metropolitan, Quetta

iii. Syed Muhammad Iqbal, Private Business

iv. Haji Abdul Ghani, Political party

v. Mr. Nauman Khan, Consumer

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

3.2.1 It was explained by Acting Managing Director that there are energy shortages in oil and gas sector. Therefore, the petitioner has been directed to enhance capacity to handle additional RLNG volumes. It was argued that company had been facing serious repercussions owing to swapping of natural gas with RLNG. It was also highlighted that Karachi Electric and Pakistan Steel Mill are the major defaulters, causing serious cash flow issues. Moreover, stay on consumer selling price notification is resulting in less recoveries.

3.2.2 Acting Managing Director of the petitioner during Quetta public hearing has also informed that "fixed billing / tariff" for Baluchistan is under consideration of FG. The same was appreciated by intervenors / participants of Baluchistan. It was also informed that General Manager, Quetta has been given full authority to resolve transmission and distribution issues. Once this model gets successful in this region, it shall be implemented gradually in interior Sindh too with the intent to achieve operational efficiency.

3.2.3 The petitioner's legal counsel, during the hearing, submitted that the Authority under the provisions of the Ordinance is obligated to promote and ensure the observance of the efficient practices, safeguard the public interest including the national security interests of Pakistan in relation to regulated activities and protect the interests of all stakeholders inter-alia the people of Pakistan in general, the licensee and the Government of Pakistan.

3.2.4 Under Section 7 of the Ordinance read with Section 8, as well as the licensing Rules, the primary duty of OGRA is to determine the tariff of the petitioner/licensee in respect of regulated activities and to ensure that it achieves the stipulated rate of return.

3.2.5 While protecting public interest, the licensee and the national security interests, OGRA has to further ensure, under the provisions contained in Section 8 of the Ordinance, that under no circumstances the average sale price should be less than the average prescribed price set by the Authority. Ordinance does not envisage a scenario where the average sale price is less than the average prescribed price. The scheme of the Ordinance seeks to ensure that at no point in time the licensee/petitioner short of money it is entitled to receive.

3.2.6 Legal Counsel argued that the prescribed price determined by OGRA under Sections 8(1) and 8(2) of the Ordinance, is an "entitlement" of the petitioner so that it ensures the stipulated rate of return. This is strengthened by the definition of the term total revenue requirement. The petitioner can achieve the required return only if its sale price is at least as much as the prescribed price it is entitled. Therefore, the average notified sale price for natural gas can't conceivably be less than the average prescribed price.

3.2.7 Legal Counsel further pleaded that in case of non-receipt of sale price advice from FG, section 8(4) of the Ordinance obligates OGRA to notify the prescribed price for any category of retail consumer determined by OGRA under section 8(1) and 8(2) to be the sale price for that category, provided the said prescribed price is higher than the most recently notified sale price. This ensures that the sale price advised by the FG for each category of consumer is always at least as much as the prescribed price to which the petitioner is entitled. Any reliance by the Authority on an advice by FG which does not ensure that the petitioner to receive the price it is entitled to, is against the law.

3.2.8 It was also argued by the petitioner that policy guideline issued by FG in respect of RLNG handled volumes be implemented by OGRA in true letter and spirit.

Karachi Hearing:

3.3 The substantive points made by the interveners and participants during public hearing in Karachi are summarized below:

3.3.1 It was pointed out that representative from the petitioner is not authorized to present the case.

3.3.2 It was vehemently criticized that the petitioner has been claiming increase in T&D cost, HR cost despite the bitter fact that sale volume and revenues are decreasing. Similarly, borrowings and receivables are increasing on an alarming rate.

3.3.3 It was highlighted that the petitioner has not been following the license condition for disconnection of end consumers. Industry comes at 3rd number in the list of disconnection, but it was closed on first priority.

3.3.4 It was highlighted that policy guidelines are not binding on OGRA, if issued in contradiction of the OGRA Ordinance.

3.3.5 UFG control activities as envisaged by the company as part of its petition are mere repetition of its earlier petitions, which may not materially affect the UFG control activities.

3.3.6 It was demanded that provision for doubtful debts be not allowed as no justification was provided as part of petition.

3.3.7 Province of Sindh be provided natural gas on priority basis in accordance with Article 158 of the constitution of Pakistan.

3.3.8 Gas load shedding in CNG sector was opposed by Sindh Dealer Association.

3.3.9 Comingling of natural gas and RLNG was criticized by CNG sector, as it is affecting the billing.

3.3.10 Large number of work force in this loss-making company was criticized.

3.3.11 It was pointed out that customer care department of the company is not properly working and the complainants suffer a lot.

3.3.12 Gas meters measure faulty. Third party inspection of gas meters was demanded.

3.3.13 It was demanded that both Sui companies be directed to submit the petitions on similar format for comparative purposes.

3.3.14 Market based salary be provided to hire and retain competent professionals.

3.3.15 It was demanded that natural gas and RLNG be dealt under one legal framework.

3.3.16 It was highlighted that petitioner receives gas from 46 different sources and each has its own gas measurement systems and with different accuracy levels. Despite sufficient spending on system augmentation, problems still persist and the onus lies on petitioner. It has been pointed out that addition of one gas connection exposes the system to up to 12 leaking points and increased UFG with addition in gas connections.

3.3.17 Price of natural gas in USA is below $2/MMBTU, now which is 1/6th of the price of gas Pakistan has agreed to pay for LNG. The Gas prices in USA will remain 50-70% cheaper than Europe and Japan Pakistan buys crude oil from Middle Eastern sources at a reduced price and on credit but quotes the New York and London prices for gas calculations, which is irrational.

3.3.18 Tariff has increased owing to launching of new schemes in Parliamentarians constituencies, which are in violation of law. Utilities have failed to meet demand of gas from the existing consumers and even giving rise to issues of UFG, gas theft and leakages because of increased connections.

3.3.19 It was urged that this is a misconception that there is gas shortage in Pakistan. 300 MMCFD can be added into the system, if disputes between Government & local people get resolved. Manzalai and Kohlu fields can add reserves worth billions, if made operational.

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

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

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

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

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

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

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

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

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

3.3.29 Tariff should be determined in a manner that protects consumers from monopolistic and oligopolistic pricing.

3.3.30 It was demanded that interests of all stake holders including the consumers be protected.

3.3.31 The petition submitted is quite an elaborate web that has been woven to fleece the end user. It has contributions from the Government, the ECC and the aspirations of the petitioner to ensure that the increase takes place so that the end users pay for the functions of the relevant quarters.

3.3.32 It was highlighted that there is an overall 22% increase in T&D expenses for natural gas alone.

3.3.33 Maintaining the CNG supply, reducing the supply to industry and a reduction of 38% in general industries supply (in ERR 18-19 compared to DERR 17-18) is devastating the industrial sector and it cause to kill the non zero industrial sector.

3.3.34 It was pointed out that gas supply to Cement sector increases by 65% and general industries & power sector are reduced by 38% & 16% respectively.

3.3.35 Referring the decision made in DERR FY 11-12 dated May 24, 2011 it was strongly condemned that the petitioner was asked by GoP to start new connections without the new discoveries taking place, as the company is not obliging the old connections' demand at present. It was demanded to ensure that the feasibility of the new connections is checked and approved by OGRA before the towns are given gas. The policy is made for the betterment for the country not for electoral popularity or the fulfillment of promises.

3.3.36 The petitioner's projection, in respect of delivering SNGPL allocation through the swap of the petitioner share of indigenous gas in lieu of RLNG, was stated to be unjust play.

3.3.37 UFG has now touched 15% owing to company's own inefficiencies.

3.3.38 The petitioner's claim that it cannot retain "quality work force" due to HR cost benchmark, was declared to be unfounded.

3.3.39 The increase in gas charges was rejected till such time OGRA is willing to re-negotiate any method to reimburse the amount.

3.3.40 It was demanded that OGRA should be made to work as per its mandate and its obligation to the industry and reverse its stance on the betterment of the utility company alone otherwise the disbandment of the authority is called for.

3.3.41 It was demanded that Government must put at least one member of the KCCI on the panel of OGRA in a capacity of voting rights on any issues that are being finalized rather than only a figurehead.

3.3.42 Over the years, the cost has been climbing up quite sharply owing to the fact that energy cost is our prime input cost after raw material. Consequently, higher cost will reduce textile sector exports. International competitiveness shall be seriously affected, in case of increase in natural gas tariff by OGRA. Already, Bangladesh, Sri Lanka, Vietnam and India have much lower cost of production. It was requested that no increase in natural gas tariff be allowed enabling it to compete in the international market.

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

3.3.44 It was highlighted that policy guidelines are not binding on OGRA.

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

3.3.46 The interveners further added that they vehemently oppose the item 'UFG adjustments on RLNG on volume handled basis' for being totally misconceived and unjustified. It was opposed that the addition of volume to artificially inflate gas sales volume drastically and being down the UFG percentage in an attempt to escape financial consequence of poor performance in controlling UFG.

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

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

3.3.49 It was informed that it was a fair decision that all the costs related to LNG/RLNG business were being ring-fenced and had recovered from RLNG customers only. It was further requested to ensure that indigenous natural gas consumers are not burdened by any RLNG-related cost

3.3.50 It was contended that enormous and exaggerated amounts were projected under this head, in order to inflate the asset base and the return required. It was requested to examine the demands for capital expenditure minutely.

3.3.51 Regarding sales volume, it was requested to examine the projections of category-wise sales minutely and determine realistic numbers after obtaining necessary data/clarifications.

3.3.52 It was apprised that the HR cost had been increasing over the years with substantial increase in salaries as well as the number of employees while the performance was dwindling as amply brought out above while discussing UFG. It was requested to take measures to stop the rot before it is too late.

3.3.53 It was asserted that the technical and performance standards and License conditions need to be fully enforced in order to ensure more efficient performance and controlled volume and percentage of the UFG.

3.3.54 It was highlighted that dollar prices of crude oil and HSFO are volatile and therefore, petitioner's estimates seem to be on higher side, requesting the Authority to cross check the same. Moreover, dollar parity has been taken by the petitioner at an exaggerated level. Therefore, it was requested to the Authority for its rationalization.

3.3.55 It was apprised that new gas fields have been taken to increase capacity and to make the distribution system smoother.

3.3.56 It was highlighted that it is OGRA's duty to see all stake holders' stakes are safe guarded. OGRA should save the CNG sector from collapse because it provides cheap alternate green fuel helping the whole public at large so it should be treated at per with other industries.

3.3.57 It was demanded that the petitioner should reduce its UFG. FG and OGRA should uniformly distribute tariff among all customer groups and all customers get the required gas according to their contractual load under article 158 of the constitution.

Quetta Hearing:

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

3.4.1 It was vehemently criticized that faulty meters installed by the petitioner are resulting in high billing. Accordingly, it was demanded that inspection of gas meter be carried out by third party.

3.4.2 It was demanded that local people be appointed and promoted in regional office of Quetta in accordance with Article 38 (b) of the constitution of Pakistan.

3.4.3 Direct rate in slabbing was criticized by the majority participants.

3.4.4 It was demanded that head quarter in Karachi and Quetta be rotated for every three years.

3.4.5 Small diameter of pipeline resulting in low pressure for domestic consumers was highlighted.

4. Authority's Jurisdiction and Determination Process

4.1 OGRA is obligated to determine the total revenue requirement of the licensee under Section 8(1) of the Ordinance for a particular year after going through the due process of law. This primarily involves scrutiny of the petition, in depth analysis of the estimates, examination of operating and capital items, issuances of the notices to receive the valuable input/comments of all stakeholders, the opportunity of public hearing and then determination of the total revenue requirement as per mandate under the legal framework. Accordingly, the Authority decision surely strikes a balance among the divergent interests of all stakeholders. The total revenue requirement of the licensee determined by OGRA under Section 8(1) or 8(2) of the Ordinance is sent to FG to seek the advice regarding revision in sale price in respect of various category of natural gas consumers.

4.2 Section 8(3) of the Ordinance empowers the FG to fix the consumer sale prices and advise OGRA the revision in gas sale prices and minimum charges in respect of natural gas retail consumers for notification in the official gazette. Accordingly, the FG, keeping in view economic indicators, policy considerations in terms of uniform pricing across the country, Gas Development Surcharge and the inter category subsidies etc.; advises the gas sales prices and minimum charges for each retail category to OGRA. The same is notified in the official gazette. The Authority however observes that during last years, the FG, after detailed deliberation with the stakeholders' particularly the gas utilities, under Section 8(3) of the Ordinance, has mostly advised OGRA to maintain the existing level of gas prices or revised the gas sale prices slightly upward. Consequently, there has been unmet revenue shortfall in the total revenue requirement, especially in case of SNGPL, which has been time and again taken up by the gas companies as well as by OGRA with the FG. GoP being cognizant of the matter, advised OGRA that the accumulated revenue shortfall arising owing to non-recovery of the entitled price be staggered over four to five years and be formed part of future revenue requirements. This transpires that the FG has catered for the unmet revenue requirement of the licensee, however the period been extended to multiple years.

4.3 In respect of Zero rated export sector, the FG during current year has even injected the subsidy to meet the revenue shortfall of the gas companies. The Authority is of the view that under the legal framework, there is no check on the FG in the exercise of its powers as enshrined in the Ordinance and also there is no limitation of the modes and methodologies for the FG to meet the revenue requirement of the licensee. Further, under the scheme of Ordinance, this is undisputed fact that the petitioner's revenue requirement determined by OGRA cannot be slashed, subsided or denied. It has to be eventually met. Further, any cost of cash flows constraints if arisen owing to such revenue shortfall is also catered for in the revenue requirement. The petitioner's sudden highlight on the issue, while it has been privy to all deliberations with the FG in connection with the revision in gas sale prices, is therefore out of the context.

4.4 The Authority however reiterates its view that all the category of consumers must at least pay the average cost of service, keeping in view the existing cost of alternative or substitute source of energy. Resultantly, there shall be no situation of unmet revenue requirement. This shall provide a level playing field for all concerned and avoid the situation of revenue shortfall faced to the licensee.

4.5 The Authority further notes that the legal counsel in its submissions has only contended the OGRA's role in respect of "ensuring rate of return" and entirely ignored the petitioner's own efforts for "earning" the same. The Authority categorically affirms that the petitioner has always been allowed stipulated rate of return strictly in accordance with the law. However, the petitioner has failed to "earn" the rate of return in pursuance of Section 8(6)(h), Section 6(2)(t) of the Ordinance and license conditions amendable from time to time. The petitioner is incorrectly contending that it has been getting much lower rate of return and has been referring to some legal provision in isolation. It appears that petitioner is pleading for guaranteed rate of return, irrespective of its inefficiencies. If this is the case, it defeats very purpose of establishment of regulator created by the legislature for public interest. The very intent of the law clearly leads to the operating efficiency and optimum endeavor to deliver the services. Thus return by any stretch of imagination cannot be isolated from performance yardsticks. Such contentions by the petitioner are contrary to regulatory setup established by GoP, violate the legal and regulatory framework as a whole and tantamount to dysfunctional the mandate of regulator.

4.6 The Authority further observes that the matter of 'ensuring rate of return', UFG adjustment and all others issues contended by the petitioner earlier in Lahore High Court, Lahore and Sindh High Court, Karachi have been decided. Hon'ble courts in their respective judgements upheld OGRA stance stating that the decisions taken by OGRA are lucid, due process of the law has been followed and OGRA has applied its mind while taking such decision. Accordingly, the petitioner contention on such issues has no logic and rationale to repeat.

4.7 The Authority also notes that any consequential impact in terms of reduction in petitioner's profit is mainly due to gas losses wherein theft is major constituent. This factor alone has server repercussions on all stakeholders, if the same is considered with respect to cost of import energy molecules or alternative fuels. The gas losses incurred by the gas companies due to its inefficient management practices not only deteriorates its profits but also impairs the gas consumer's interests when they have to buy the expensive energy in its replacement. The resort to the situation therefore warrants the petitioner to combat the energy losses which shall in turn secure the interests of the petitioner and the public at large. The Authority in this regard has already taken significant initiatives through introduction of efficiency related benchmarks in consultation with licensees which shall surely reveal win-win situation if implemented by the petitioner in letter & spirit.

4.8 *The Authority, as per the existing legal framework and tariff regime in place determines the revenue requirement of the petitioner, providing stipulated return on net operating assets, while including various income & expenditure heads as part of prescribed price. The petitioner is again advised to submit the amendment in the existing license in conformity with the ibid tariff regime in place.*

5. Operating Fixed Assets

5.1 Summary

5.1.1 The petitioner has claimed a net addition, net of deletions of Rs. 21,758 million in fixed assets, and net addition, ex-depreciation and deletion, of Rs. 5,228 million, resulting in claimed increase in net operating fixed assets from Rs. 45,958 million in FY 2018-19 to Rs. 60,799 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. 45,365 million and required return to Rs. 7,907 million.

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

Particulars	Rs. in Million
Net operating fixed assets at beginning	45,958
Net operating fixed assets at ending	60,799
sub-total	106,757
Average net assets (I)	53,378
LPG air mix project asset at beginning	654
LPG air mix project asset at ending	5,457
sub-total	6,111
Average net assets (II)	3,055
Deferred credit at beginning	4,799
Deferred credit at ending	5,118
sub-total	9,917
Average net deferred credit (III)	4,959
"D" Average (I-II-III)	45,365
17.43% required returned claimed by the petitioner	7,907

5.1.2 The Authority notes that the it has provisionally determined closing balance of net operating fixed assets at Rs. 43,243 million in RERR for FY 2018-19. The same is to be adopted by the petitioner as opening balance of net operating fixed assets for the said year. However, the petitioner has adopted Rs. 45,958 million as opening balance in the instant petition. The Authority, based on its earlier determination, takes Rs. 43,243 million as opening balance of net operating fixed assets for the said year.

5.1.3 The details of deferred credits projected by the petitioner for the said year are compared with RERR for FY 2018-19, as under:

Table 6: Comparison of Projected Deferred Credits with FY 2018-19

Rs. in Million

Particulars	FY 2017-18	FY 2018-19	FY 2019-20
	DERR	RERR	The Petition
Opening Balance as at July 01	4,533	4,466	4,799
Addition during the year	386	796	822
Sub-total:	4,919	5,262	5,621
Amortization during the year	453	463	504
Closing Balance as at June 30	**4,466**	**4,799**	**5,118**

5.1.4 *The Authority provisionally accepts estimated deferred credits opening balance at Rs. 4,799 million and closing balance at Rs. 5,118 million for the said year.*

5.2 Comparative analysis of projected additions in fixed assets with the previous years is as follows:

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

Rs. in Million

Particulars	FY2014-15	FY2015-16	FY2016-17	FY2019-20
	FRR	FRR	FRR	The Petition
Land	0	397	24	1
Buildings	115	168	130	281
Roads, pavements and related infrastructures	-	-	138.00	-
Gas transmission pipeline	229	2,147	24,791	2,316
Compressors	0	1,152	5,794	2,079
Plant and machinery	252	417	311	774
Gas distribution system, related facilities and equipments	4,581	6,858	5,486	8,498
Furniture, equipments including computers and allied equipments	134	175	219	349
Computer software (Intangible)	8	20	72	140
LPG Air Mix Projects	-1	10	4	5,228
Telecommunication system	146	149	93	194
Appliances, loose tools and equipment	24	34	71	1,204
Vehicles	222	404	631	1,107
Construction equipment	0	1,113	725	385
SCADA	0	458	0	0
Assets related to Gas Activities	5,710	13,502	38,489	22,558

i. Land

5.3 The petitioner has projected an amount of Rs. 1 million for acquisition of land for CP Stations in various regions and the Authority provisionally allows the same for the *said year, subject to actualization at FRR stage.*

ii. Buildings

5.4 The petitioner has projected an amount of Rs. 281 million to be spent on different building projects & civil works including construction of building for executive office, MS Shade with CC flooring at three places, and boundary wall along HQ west, industrial area and Abdul Hassan Isphani road etc.

5.5 The Authority observes that projections under this head have historically remained on higher side when compared with actual expenditure at year end e.g. the petitioner's average capitalization during the last ten years remained at about Rs 100 million per year. Moreover, actual capitalization in this head during FY 2016-17 was Rs 130 million.

5.6 ***In view of the historical trend analysis, the Authority provisionally allows an amount of Rs. 140 million i.e. actual of FY 2016-17 plus inflation factor @ 4% per year, subject to actualization at FRR stage.***

iii. Gas Transmission Pipelines

5.7 The petitioner has projected an amount of Rs. 1,529 million for addition of following pipelines to its indigenous gas related transmission network during the said year:

Table 8: Requested Additions to Normal Transmission Pipeline Network

Rs. in Million

S. No.	Description Of Segment	The Petition FY 2019-20
1	12" dia x 46 Km Pipeline from Rehman Field to Naing MVA	37
2	8" dia x 28 Kms Pipeline from Ayesha Gas Field	82
3	30" dia x 125 Km pipeline from SMS Sindh University to SMS Pakland (1st segment)	1,226
4	Upgradation of SMS Thatta	12
5	Check Metering Facility at Shahdadpur for Gambat South Field Gas Measurement (RS3)	23
6	Check Metering arrangements at Daru	31
7	12" dia x 344 Km QPL Rehabilitation and Intelligent Pigging	118
	Total	1,529

5.8 The petitioner has projected an amount of Rs 37 million for 12" dia x 46 Km Pipeline from Rehman Field to Naing MVA on Bajara Karachi Pipeline for receiving projected gas supply of 90 MMCFD. The petitioner has stated that they are receiving gas under existing EWT arrangements through producer's line which is expected to increase above 40 MMCFD for which a pipeline network will be required as existing setup cannot supply more than 40 MMCFD. The petitioner has added that this project has been initiated and is expected to be completed by June 2019 with an estimated capitalization amount of Rs 1,291 million, however, left over job would be completed in FY 2019-20 with an estimated amount of Rs 37 million.

5.9 The Authority notes that since the said pipeline segment is required for connecting the gas supplies from indigenous field to SSGCL's transmission network, therefore the Authority had provisionally allowed an amount of Rs 760 million against this pipeline segment in DERR FY 2018-19. ***As per the petitioner, the project has been initiated, therefore the Authority provisionally allows the requisite amount of Rs 37 million against the left over works of this project for FY 2019-20 which would be subject to actualization at FRR stage.***

5.10 The petitioner has projected an amount of Rs 82 million for 8" dia x 28 Kms Pipeline to integrate Ayesha Gas Field with Badin Gas Pipeline at Golarchi for receiving projected gas supply of 22 MMCFD. The petitioner has added that the project has been initiated and is expected to be completed by June 2019 with an estimated capitalization amount of Rs 445 million, however left over job would be completed in FY 2019-20 with an estimated amount of Rs 82 million.

5.11 The Authority notes that since the said pipeline segment is required for connecting the gas supplies from indigenous field to SSGCL's transmission network, therefore the Authority had provisionally allowed an amount of Rs 275 million against this pipeline segment in DERR FY 2018-19. ***As per the petitioner, the project has been initiated, therefore the Authority provisionally allows the requisite amount of Rs 82 million against the left over works of this project for FY 2019-20 which would be subject to actualization at FRR stage.***

5.12 The petitioner has projected Rs. 1,226 million for laying 30" dia × 125 Km transmission pipeline from SMS Sindh University to SMS Pakland for transportation of indigenous gas from different gas fields to the load center i.e Karachi. The petitioner has stated that the increasing trend in gas supply volume from Naimat Basal, Kausar, Gambat South, KPD gas fields and after discontinuation of swapping arrangement in lieu of RLNG;

gas volumes from Kadanwari, Miano, Latif and Sawan fields have to be transported through ILBP Transmission System. The petitioner has stated that existing pipeline capacity from POD-2 (Hyderabad) to POD-5 (Pakland, Karachi) is 468 MMSCFD whereas the gas that would be available from POD-2 to POD-5 in near future is around 715 MMSCFD, therefore there is a capacity constraint/bottleneck of 247 MMSCFD. The petitioner has also explained that current gas supplies from KPD & Tay Dars are 122 MMCFD whereas in future the same would be around 222 MMSCFD. Moreover, current gas supplies from Sinjhoro/Jhakhro, Bobi, Gambat South, Adam Hala, Khipro and Mirpurkhas fields are 466 MMCFD whereas in future the same would be around 572 MMCFD. The limited pipeline capacity in left bank transmission system is a bottleneck for additional gas volume, and would cause the curtailment of indigenous gas supply, hence laying of 30" dia × 125 Km transmission pipeline from Sindh University to SMS Pakland is required as it will increase the transmission network capacity upto 247 MMCFD. The project has been divided into two segments:

(i) 30" dia × 50 Km pipeline from SMS Sindh University to MVA RS-4
(ii) 30" dia × 66 Km pipeline from MVA RS-4 to MVA Pakland

The petitioner has added that the first segment is expected to be completed and commissioned by June 2019 with an estimated capitalization amounting Rs 5,946 million in FY 2018-19 however the remaining second segment would be commissioned in September, 2019, the estimated capitalization amount in FY 2019-20 would be Rs 1,226 million.

5.13 The Authority notes that it had already allowed the said pipeline segment in principle in its DERR FY 2017-18. Moreover, the Authority, had provisionally allowed an amount of Rs 1,816 million in DERR FY 2018-19 enabling the company to complete the said pipeline segment which is required to overcome the bottleneck in transportation of indigenous gases from the fields located in Interior Sindh to Karachi. ***Furthermore, in view of the justification furnished by the petitioner, the Authority, provisionally allows the claimed amount of Rs 1,226 million for FY 2019-20, which would be subject to actualization at FRR stage.***

5.14 The petitioner has projected an amount of Rs 12 million for Upgradation of SMS Thatta. The petitioner has stated that existing SMS set-up at Thatta is 30 years old, running on maximum capacity and will not be able to fulfill future load demands as equipment installed like valves, regulators, safety valves and pipe fittings have deteriorated with the passage of time. Also this SMS does not have Scrubbers which needs to be installed to provide quality gas free of dust and debris to customers, therefore, upgradation of SMS at Thatta is needed.

5.15 *The Authority in view of the operational requirement of the petitioner had allowed an amount of Rs 45 million in DERR FY 2018-19 for upgradation of SMS Thatta. The Authority, therefore, revalidates this project, however does not allow upfront amount for FY 2019-20, the petitioner may complete the project and claim the requisite amount for left over activities at FRR stage subject to actualization.*

5.16 The petitioner has projected an amount of Rs 23 million for Check Metering Facility at Shahdadpur for Gambat South Field Gas Measurement (RS3). The petitioner has stated that Check Metering Facility for receiving gas in its ILBP System is required at RS-3 (Shahdadpur) for reconciliation of 150 MMCFD gas supplied from PPL "Gambat South" and "Halla" Blocks. The petitioner has added that FEED is in progress; after completion of FEED, procurement of required material will be initiated, the installation of check metering arrangement is expected to be completed with an estimated amount of Rs 321 million by June, 2019 and left over job is expected to be completed in FY 2019-20 with an estimated amount of Rs 23 million.

5.17 *The Authority notes that it had already allowed an amount of Rs 344 million in DERR FY 2016-17 for the said project, however the petitioner could not execute the project during the said year. The Authority, therefore, revalidates this project, however does not allow any upfront amount in this regard for the said year, the petitioner may execute the pipeline segment, if manageable, and claim the capitalization amount at FRR stage subject to actualization.*

5.18 The petitioner has projected an amount of Rs 31 million for Check Metering arrangements at Daru. The petitioner has stated that in order to carry out reconciliation of gas, Check Metering Facility is required at POD Daru. The petitioner has added that currently 7-8 MMCFD gas from Pakhro field is being received in its system, furthermore, the installation of check metering project is expected to be completed in June 2019 with an estimated amount of Rs 50 million whereas leftover job would be completed in FY 2019-20 with an estimated amount of Rs 31 million.

5.19 *The Authority notes that it had allowed an amount of Rs 81 million in DERR FY 2018-19 for Check Metering arrangements at Daru. The Authority, therefore, revalidates this project, however does not allow any upfront amount for FY 2019-20, the petitioner may complete the project and claim the requisite amount for left over activities at FRR stage subject to actualization.*

5.20 The petitioner has projected an amount of Rs 118 million for 12" dia × 344 Km QPL Rehabilitation and Intelligent Pigging. In this regard, the Authority notes that it had previously allowed amount against this item in its earlier determinations; however, the petitioner could not capitalize the same during the past years.

5.21 *In view of the above, the Authority decides to revalidates this project, however not allows upfront and pend the amount claimed against this project at this stage. However, if the company manages to execute the project during the said year, the same will be considered at the time of FRR subject to actual capitalization.*

5.22 *In view of the discussion at paras 5.8 to 5.21 above, the Authority provisionally allows an expenditure of Rs 1,345 million for addition in Normal Transmission Network, the detail of which is as under:*

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

S. No.	Description Of Segment	The Petition	Determined by the Authority
			Rs. in Million
		FY 2019-20	
1	12" dia x 46 Km Pipeline from Rehman Field to Naing MVA	37	37
2	8" dia x 28 Kms Pipeline from Ayesha Gas Field	82	82
3	30" dia x 125 Km pipeline from SMS Sindh University to SMS Pakland (1st segment)	1,226	1,226
4	Upgradation of SMS Thatta	12	-
5	Check Metering Facility at Shahdadpur for Gambat South Field Gas Measurement (RS3)	23	-
6	Check Metering arrangements at Daru	31	-
7	12" dia x 344 Km QPL Rehabilitation and Intelligent Pigging	118	-
	Total	1,529	1,345

5.23 The petitioner has claimed an amount of Rs 787 million to be capitalized on Pipeline Infrastructure Development Projects for RLNG, the detail of which is as under:

Table 10: Requested Additions to RLNG Related Transmission Pipeline Network

S. No.	Description Of Segment	Rs. in Million The Petition FY 2019-20
1	Tie-in and integration arrangement from tie-in point 2 to Pakland and Bin Qasim (Ph-1)	615
2	42" dia x 342 Km (Phase-II) from Pakland to Nara (Leftover in FY 2018-19)	172
	Total	787

5.24 As regards the installation of Tie-in and integration arrangement from tie-in point 2 to Pakland, the petitioner has stated that this is a remaining work of Phase-I of RLNG Infrastructure Development Project, already approved by the Authority.

5.25 The Authority notes that petitioner in its earlier determinations had stated that "Tie-in and integration arrangement from tie-in point 2 to Pakland is a part of phase-1 of its PIDP for upcoming LNG & anticipated indigenous gas supplies and consists of (i) check metering skid (Ultrasonic) installation for RLNG-1 at tie-in (CTS) Bin Qasim, valves and fittings for off take at CTS and inlet headers for petitioner's LNG terminal (ii) Necessary integration arrangement for RLNG-1 at existing transmission pipeline network with 42" dia ×17 Km RLNG pipeline header Pakland as per scope of work explained in LNG service agreement".

5.26 *The Authority notes that this is a remaining activity of already commissioned Phase-I of the RLNG Infrastructure Development Project and the Authority had allowed certain amounts against this head in its earlier determinations, however, the petitioner could not capitalize the same. The Authority, therefore, revalidates this project and does not allow any upfront amount at this stage. The petitioner may however, carry out the activities against this head and claim capitalization at FRR stage subject to actualization.*

5.27 The petitioner has projected an amount of Rs. 172 million for leftover works of 42" × 342 Km RLNG Pipeline for Phase-II of RLNG Infrastructure Development Project. The Authority notes that this is a leftover work of already commissioned Phase-II of the RLNG Project. *Since the Authority had already approved the project in principle, therefore, the Authority does not allow any upfront amount at this stage, however, the petitioner may carry out the leftover activity against this head and claim*

capitalization at FRR stage subject to actualization.

iv. Compressors

5.28 The petitioner has projected Rs. 2,079 million under this head for the said year, the detail of which is as under:

Table 11: Requested Additions to Compressors

Rs. Million

Sr. No.	Description of Project	The Petition
		FY 2019-20
1	01 No. New Compressor Unit at Sibbi	1,555
2	Gas Turbine Engine - Solar Taurus T-60 (7800 HP) - HQ2 Compressor Station	264
3	Rotor Bundles (200 MMSCFD) - HQ-2	260
	Total	2,079

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

New Compressor at Sibbi for QPL at estimated cost of Rs. 1,555 million:

5.30 The petitioner has stated that increasing gas demands and peak consumption trends of Quetta city and en-route areas, make it imperative for the petitioner to enhance the capacity of its pipeline. This project is also linked with the petitioner's sequential efforts (Quetta Pipeline Capacity Enhancement Project) to increase the capacity of gas infrastructure in the region. Moreover, due to gas shortfalls experienced in the region during winter season, the petitioner is under Balochistan High Court's order to make the required gas volumes available for the city as well as meet the contractual obligation with Habibullah Coastal Power Plant. Instead of revamping existing compressors at HQ-Sibbi, the option for installation of 01 New Compressor having 200 MMCFD flow capacity has been opted on the basis of technical and financial analysis. This proposed project is expected to be completed by June 2020 with an estimated cost of Rs 1,555 million.

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

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

5.32 *Since the Authority in its earlier determinations had already approved the Quetta Pipeline Capacity Enhancement Project in principle, therefore the Authority allows an upfront amount of Rs 777 million (50% of the claimed amount) at this stage, however, the petitioner may install the said Compressor Unit and claim the actualized amount at FRR stage subject to capitalization.*

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

5.33 The petitioner has stated that turbine engine is required as a spare engine for six identical running engines at HQ-2 RLNG Compressor Station. It shall be utilized during breakdown / repair/overhaul of any of the 06 installed units, so that required gas volume can be transferred to SNGPL without any delay. The petitioner has added that this item was not envisaged at the time of initiation of RLNG Project however the same will be treated and capitalized in RLNG Project under ring fenced mechanism.

5.34 *The Authority notes that the said turbine engine is required for compression of RLNG at Nawabshah Compressor Station hence is a part of already commissioned RLNG Project. The Authority therefore allows the petitioner to execute the project and claim actualized amount at FRR stage against the RLNG Project under ring fenced mechanism.*

Rotor Bundles (200 MMCFD) HQ-2 at estimated cost of Rs. 260 million:

5.35 The petitioner had projected an amount of Rs 260 million for 02 spare Rotor bundles for Solar Compressor Units at HQ-2 Compressor Station, however, later on the petitioner rationalized the budget for this item and deferred this item for the time being. The petitioner has clarified that this item is not required for FY 2019-20.

5.36 *Since the petitioner has deferred the said item for the time being and has stated that* *this item is not required for FY 2019-20 therefore, the Authority pends the amount against this head for the said year.*

5.37 *Keeping in view the discussion at paras 5.28 to 5.36 above, the Authority provisionally allows an amount of Rs. 777 million under this head as per following details:*

Table 12: Additions to Compressors as Determined by the Authority

Rs. Million

Sr. No.	Description of Project	The Petition	Determined by the Authority
		FY 2019-20	
1	01 No. New Compressor Unit at Sibi	1,555	777
2	Gas Turbine Engine - Solar Taurus T-60 (7800 HP) - HQ2 Compressor Station	264	-
3	Rotor Bundles (200 MMSCFD) at HQ-2	260	-
	Total	2,079	777

v. Plant and Machinery

5.38 The petitioner has projected an amount of Rs. 774 million on account of Plant and Machinery in the major heads of air compressors, generators, unit valves, hydraulic crane, chromatographs and meter test benches as replacement / new addition of plant and machinery. The Authority observes that projections under this head have historically remained on higher side when compared with actual expenditure at year end e.g. actual average capitalization during the period FY 2011-12 to FY 2015-16 remained at R.s 272 million per year, moreover actual capitalization during FY 2016-17 was Rs. 311 million.

5.39 *Keeping in view the importance of plant and machinery for operational activities and trend analysis, the Authority provisionally allows an amount of Rs 336 million (i.e. actual of FY 2016-17 plus 4% per year inflation impact) for the said year.*

vi. Gas Distribution System

5.40 The petitioner has projected an amount of Rs. 8,498 million for gas distribution system and related facilities & equipment.

Table 13: Requested Additions to Distribution Network

S. No.	Description Of Segment	*Rs. in Million* The Petition FY 2019-20
1	Rehabilitation Mains and Services-UFG Control Program	915
2	Laying Of Distribution Mains including services - Existing Areas	3,497
3	Installation of New Connections (meters)	1,221
4	Replacement/ Repair of Meters	1,745
5	Modems, Installation of EVC, Filter Separators	169
6	Construction of CMSs,TBSs,TRSs and Cathodic Protection	195
7	New Towns	758
	Total Gas Distribution System	8,498

5.41 The petitioner has projected an amount of Rs. 915 million for Rehabilitation Mains & Services under UFG Control Program. As per the petitioner, actual amount capitalized against this head in FY 2016-17 & 2017-18 was Rs. 873 million and Rs. 363 million respectively.

5.42 The Authority notes that the petitioner's UFG has an increasing trend since last several years and it is increasingly important to enhance UFG control activities. *Since Rehabilitation of Mains and Services is a UFG control activity, therefore the Authority provisionally allows the projected amount of Rs. 915 million in this head for the said year.*

5.43 The petitioner has projected Rs. 3,497 million for laying of Distribution Mains including services in existing areas for the said year. As per the details provided by the petitioner, it had capitalized amounts of Rs 855 million and Rs 1,191 million against this head in FY 2016-17 and Rs 2017-18 respectively.

5.44 *The Authority, based on historical trend, provisionally allows an amount of Rs. 1,238 million (actual of FY 2017-18 plus 4% per year inflation impact) for laying distribution mains (extensions, reinforcements and services) in existing areas.*

5.45 The petitioner has projected Rs. 1,221 million for installation of 125,245 Nos. new connections (meters) in Karachi, Sindh and Balochistan regions for the said year.

5.46 The Authority observes that average No. of Meters (connections) installed during last four years stood at 89,872 Nos. Moreover, maximum No. of meters installed in a single year in the past stood at 96,366 Nos. (for FY 2014-15). Furthermore, average capitalization during last four years against this head stood at Rs. 768 million, moreover actual capitalization during FY 2016-17 was Rs. 827 million.

5.47 The Authority notes that, as pointed out by the interveners, the petitioner is facing acute shortage of gas owing to which it is unable to meet the demand of its existing consumers and in this bleak situation, further increase in T&D network will result in scarcity of gas supply for all categories of consumers. ***The Authority therefore, advises the petitioner to establish availability of additional gas supply and ensure continuous and reliable supply of natural gas to its existing consumers.***

5.48 ***The Authority, based on historical trend and company's average capacity to execute yearly connections, allows an amount of Rs. 975 million for installation of 100,000 Nos. new connections (meters) for the said year, with advice to the petitioner to strictly follow the policy of FG including the moratorium imposed by FG in the year 2011 on the matter, while processing the gas connections during the said year.***

5.49 The petitioner has projected Rs. 1,745 million for replacement of 326,932 Nos. gas meters in Karachi, Sindh and Balochistan regions for the said year.

5.50 The Authority notes that average capitalization during last four years against this head stood at Rs. 1,637 million, moreover actual capitalization during FY 2016-17 was Rs. 2,016 million in this head. Furthermore, replacement of old/defective meters is required for reduction of UFG.

5.51 ***The Authority based on historical trend allows the projected amount of Rs. 1,745 million for replacement of 326,932 Nos. gas meters during the said year.***

5.52 The petitioner has projected an amount of Rs. 169 million for installation of Modems, Installation of EVCs and Filter Separators. The petitioner has stated that these are required for better vigilance of Metering Systems under UFC Control Activity. ***Since it is a UFG control activity, therefore, the Authority provisionally allows the requisite amount of Rs. 169 million under this head.***

5.53 The petitioner has projected an amount of Rs. 195 million for construction of CMSs, TBSs, TRSs and CP Stations. The petitioner had capitalized an amount of Rs 163 million during the FY 2016-17 under this head. ***The Authority in view of the historical trend analysis and inflation impact, provisionally allows the requisite amount of Rs 195 million under this head.***

5.54 The petitioner has projected Rs. 758 million for extension in distribution network in order to supply gas to new towns & villages during the said year. The petitioner has informed that Moratorium on domestic gas development schemes has been lifted and communicated by the Ministry of Energy (Petroleum Division) vide letter No.NG(D)-16(91)/16-IMP dated 02-05-2017. *The Authority based on the details and justification furnished by the petitioner provisionally allows the requisite amount of Rs 758 million subject to the condition that the Company shall comply with the prevalent policies of the Federal Government on the matter and comply with the advice of the Authority as given at para 5.47 above.*

5.55 *In view of above, addition to Gas Distribution System is provisionally allowed at Rs. 5,994 million for the said year, as tabulated below;*

Table 14: Additions to Distribution Network as Determined by the Authority

			Rs. in Million
S/No.	**Description**	**The Petition**	**Determined by the Authority**
		FY 2019-20	
1	Rehabilitation Mains and Services-UFG Control Program	915	915
2	Laying Of Distribution Mains including services - Existing Areas	3,497	1,238
3	Installation of New Connections (meters)	1,221	975
4	Replacement/ Repair of Gas Meters	1,745	1,745
5	Modems, Installation of EVCs, Filter Separators	169	169
6	Construction of CMSs,TBSs,TRSs and Cathodic Protection	195	195
7	New Towns	758	758
	Total Gas Distribution System	**8,498**	**5,994**

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

5.56 The petitioner has projected Rs. 349 million in respect of furniture, security equipments, office equipments and computers & allied equipments for the said year.

5.57 The Authority observes that the petitioner has capitalized an average amount of Rs. 114 million per year during the period FY 2006-07 to FY 2015-16 and has capitalized an amount of Rs 219 million during FY 2016-17.

5.58 In *view of the historical trend the Authority provisionally allows an amount of Rs. 237 million (actual of FY 2016-17 plus 4% per year inflation impact) under the said head.*

viii. Computer Software (Intangible)

5.59 The petitioner has projected Rs. 140 million for procurement of various software during the said year.

5.60 The Authority notes that the petitioner has capitalized an average amount of Rs. 72 million/year during the last seven years. Furthermore, the petitioner has capitalized an amount of Rs 8 million in FY 2017-18 in this head. ***Keeping in view the historical trend analysis, the Authority provisionally allows an amount of Rs. 9 million (actual of FY 2017-18 plus 4% per year inflation impact) for the said year.***

ix. LPG Air-Mix Projects

5.61 The petitioner has projected an amount of Rs. 5,228 million to be capitalized on installation of LPG Air-Mix Plants at various locations of Balochistan i.e. Uthal, Kharan, Khuzdar, Washuk, Loralai, Keech @ Turbat, Killi Khinzoi, Zhob, Qilla Saifullah and Muslim Bagh. The Authority notes that the petitioner has obtained Provisional/Construction License for construction of ECC approved LPG Air Mix Plants at seven different locations in Balochistan i.e. Uthal, Kharan, Khuzdar, Washuk, Turbat, Qilla Saifullah and Muslim Bagh, however, the petitioner has not obtained the requisite licenses for the remaining sites of LPG Air Mix Projects.

5.62 ***Since the petitioner has obtained the requisite licenses for seven of the sites, therefore, the Authority allows an upfront amount of Rs. 1,893 million (i.e. 50% of the claimed amount against the LPG Air Mix Plants at Uthal, Kharan, Khuzdar, Washuk, Turbat, Qilla Saifullah and Muslim Bagh).***

x. Telecommunication System

5.63 The petitioner has projected Rs 194 million for procurement of telecommunications equipment including Self Support Tower for RS-4, Extension Sections of existing tower and its installation at RS-Naing, SCADA RTU for Distribution North & South, and Telecom Links RS-2, RS-Nara, RS-Kadanwari, HQ-2, RO-Nawabshah & TM Khan, RS-Golarchi etc.

5.64 The Authority notes that average capitalization in this head during the last five years was Rs 108 million / year. Moreover, actual capitalization against this head during FY 2016-17 was Rs 93 million. ***In view of the historical trend, the Authority provisionally allows the projected amount of Rs 100 million (actual of FY 2016-17 plus 4% inflation impact per year) in the said head.***

xi. Appliances, Loose Tools & Equipments

5.65 The petitioner has projected an amount of Rs. 1,204 million for procurement of different tools and equipment including smart metering (Rs. 525 million), GCV management (Rs 450 million) and control valves (54 million) etc. under the said head.

5.66 With respect to procurement of GCV Management at estimated cost of Rs 450 million, the petitioner has stated that monitoring and timely updation of GCV for billing is very crucial from rightful billing/revenue collection and heating value reconciliation perspective. The petitioner has added that GCV Pilot Project will allow the balancing of UFG figures in MMCF and MMBTU terms, real time updation of certain gas parameters into the EVC for getting corrected reads, and will have direct impact on the UFG. As per the petitioner, GCV Management Pilot Project will include GCV stations / Metering Locations, Pressure monitoring devices, Smart metering devices for SSGC's V3 meters, G6 equivalent diaphragm meters, swivels, smart metering devices, G10 equivalent diaphragm meters, swivels, and Dual Pressure Sensing etc.

5.67 With respect to procurement of Smart Metering at estimated cost of Rs 525 million, the petitioner has stated that pressure theft by domestic and commercial customers has been on the rise with very little or almost nil control, therefore, they intend to obtain a Custom Designed Solution with the proposed technology and solution components, adequately proven in the gas utilities sector in the world, to detect and measure the peaks and turfs in customer's consumption patterns during the day on an hourly basis including the pressure factor. The petitioner has added that High Peak Value, Oversized Meters, Undersized Meters, Tampering Detection, and Meter Read & Data Analysis are some of the key features of the desired solution. As per the petitioner, Smart Metering Pilot Project includes Smart Technology and Supporting Software / Applications, Smart Meters, Swivels, Non Return Valve, EVCs, and Dual Pressure Sensors for different capacity meters e.g. V3 Meters, 6 M^3/Hr Capacity; 9 M^3/Hr Capacity; and for 12 M^3/Hr Capacity and Remote Pressure Sensors (0 PSI – 20 PSI).

5.68 The Authority notes that average amount capitalized during last nine years in this head was Rs 23 million/year. Moreover, actual capitalization during FY 2017-18 was Rs 13 million in this head. *Keeping in view the historical trend analysis, the Authority provisionally allows an amount of Rs 14 million (actual of FY 2017-18 plus 4% per* *year inflation impact) against the claimed amount of Rs 229 million for normal/routine activities in the said head. The Authority also allows an additional amount of Rs 292 million for Smart Metering Project and GCV Pilot Project (i.e. 30% of the Projected amount of Rs 975 million) which would be subject to actualization at FRR stage.*

xii. Vehicles

5.69 The petitioner has projected an amount of Rs. 1,107 million under this head for the said year. The petitioner has informed that the said expenditure has been projected for purchase of 867 vehicles, comprising 789 operational and 78 non-operational vehicles. The petitioner has added that 414 Nos. are the replacement vehicles whereas 453 Nos. vehicles are the new ones/additional.

5.70 The Authority notes that as per the historical trend the petitioner has capitalized an average amount of Rs. 225 million per year during the past eleven years, however, capitalization during FY 2017-18 remained at Rs 177 million in this head.

5.71 *The Authority, in view of the historical trend analysis, allows an amount of Rs. 177 million under this head for the said year. The Authority notes that the petitioner had procured vehicles amounting Rs 102 million in FY 2015-16 and Rs 275 million in FY 2016-17 for RLNG Projects which have been completed and commissioned, therefore the petitioner may also utilize the said vehicles till the initiation of RLNG Project-III.*

xiii. Construction Equipment and Vehicles

5.72 The petitioner has projected an amount of Rs. 385 million under this head for procurement of different construction equipments including Mobile Crane, Pipe Layer, Electric Gas Generator, Pipeline Filling Pump, Pipeline Hydraulic Testing Pump, Low Bed Trailer with trolley, Ambulance and Fuel Tanker etc.

5.73 The Authority notes that capitalization trend against this head is inconsistent over the previous years, however, the petitioner had actually capitalized an amount of Rs 25 million during FY 2016-17 in this head. *Keeping in view the historical trend analysis, the Authority provisionally allows an amount of Rs 27 Million (actual of FY 2016-17 plus 4% inflation impact per year) in this head. The Authority also notes that the* *petitioner had procured construction equipments amounting Rs 1,813 million for RLNG Projects which have been completed and commissioned, the petitioner may therefore utilize the said equipment till the initiation of RLNG Project-III.*

xiv. Fixed Assets Determined by the Authority

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

Table 15: Summary of Asset Additions Determined by the Authority

			Rs. in Million
S/No.	Description	The Petition	Determined by the Authority
		FY 2019-20	
1	Land	1	1
2	Building	281	140
3	Gas transmission pipeline	2,316	1,345
4	Compressors	2,079	777
5	Plant and machinery	774	336
6	Gas distribution system, related facilities and equipments	8,498	5,994
7	Furniture, equipments including computers and allied equipments	349	237
8	Computer software (Intangible)	140	9
9	LPG Air Mix Projects	5,228	1,893
10	Telecommunication system	194	100
11	Appliances, loose tools and equipment - Normal	229	14
12	Appliances, loose tools and equipment - Projects	975	292
13	Vehicles	1,107	177
14	Construction Equipment and Vehicles	385	27
	Assets related to Gas Activities	22,558	11,342

5.75 *The Authority on provisional basis accepts the depreciation rate schedule as per the petition, for the said year. Accordingly, depreciation expense is provisionally determined Rs. 5,506 million as a consequence of reduction in additions to fixed assets for the said year, as discussed above. Accordingly, the Authority provisionally determines closing operating fixed assets for the said year at Rs. 46,615 million. The Authority, based on the information provided by the petitioner, determines LPG air-mix assets at Rs. 2,628 million on provisional basis that shall be re-computed/re-determined at the time of FRR for the said year.*

5.76 *The petitioner is once again advised to submit the concrete proposals, within one month of the issuance of this Order, to revise/ review the existing depreciation rate*

based on the precise economic life of the different regulated assets in order to bring the uniformity across the sector as per provision of the tariff regime in place. Accordingly, consultation among the licensees shall be carried out before finalization of the same by the Authority.

6. Operating Revenues

6.1 Sales Volume

6.1.1 The petitioner has projected 4% increase (117,817) in number of consumers, from 3,070,048 reported in RERR for FY 2018-19 to 3,187,865 during the said year, as follows:

Table 16: Comparison of Projected Number of Consumers with Previous Years

Category	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	Growth over RERR FY 2018-19	
	MFRR	Actual	RERR	The Petition		%
Domestic	2,812,211	2,886,222	3,042,093	3,159,828	117,735	4
Industrial	4,196	4,207	4,282	4,319	37	1
Commercial	22,764	22,695	23,673	23,718	45	0.19
Total	**2,839,171**	**2,913,124**	**3,070,048**	**3,187,865**	**117,817**	**4**

6.1.2 Sales volume has been projected at 356,872 BBTU for the said year. Category-wise comparison with previous years has been provided as under:

Table 17: Comparison of Projected Sales Volume with Previous Years

Volume in BBTU

Category	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	Inc. / (Dec.) over RERR FY 2018-19	
	MFRR	Actual	RERR	The Petition		%
Nooriabad Power Plant	-	3,356	7,041	-	(7,041)	(100)
Captive Power	69,843	78,567	71,409	29,970	(41,439)	(58)
General Industries	61,194	61,114	59,792	38,052	(21,740)	(36)
Power	76,903	57,017	58,521	51,998	(6,523)	(11)
CNG Stations	25,847	24,852	26,010	26,777	767	3
Commercial	10,411	10,528	10,463	10,992	529	5
Domestic	98,719	100,455	103,355	109,634	6,279	6
Fertilizer - feed stock	18,345	19,846	17,677	19,893	2,216	13
HCPC	6,537	7,426	6,321	7,448	1,127	18
Cement	251	415	248	417	169	68
Captive Power-(zero rated)	-	-	-	38,224	38,224	100
Industrial-(zero rated)	-	-	-	23,467	23,467	100
Total	368,049	363,577	360,837	356,872	(3,965)	(1)

6.1.3 The petitioner has explained that gas sales volume has been projected based on the availability of gas, considering take and pay and current trend of gas off takes from existing and new gas fields. Moreover, the allocation of gas to various sectors has been made in accordance with GoP policy and gas supply agreements keeping in view the natural gas constraints.

6.1.4 The petitioner has further submitted that increase in sales volume to the Habibullah Coastal Power Company (HCPC), Cement sector and Fertilizer feed-stock have been projected at the level of FY 2017-18. The petitioner has also explained that projected increase to domestic and commercial consumer is mainly due to additional customer connected over last year's revised estimates. Regarding projected decrease in power sector, the petitioner has submitted that decrease has been envisaged owing to curtailment of demand from power sector. Similarly, decrease in Captive Sector is due to gas load management plan and introduction of zero-rated category. Accordingly, consumption has been separated as compare to the prior year. Moreover, the gas sales volumes to the rest of sectors have been declined mainly due to gas load management.

6.1.5 *The Authority, in view of above, accepts the petitioner's sales volume projections at 356,872 BBTU.*

6.2 Sales Revenue at Existing Prescribed Prices

6.2.1 The petitioner has projected to decrease sales revenues at existing prescribed price by 0.4% over FY 2018-19 to Rs. 211,152 million for the said year. Category-wise comparison of sales revenue is given below:

Table 18: Comparison of Projected Sales Revenue with Previous Years

Rs. In Million

Particulars	FY 2017-18 Actual	FY 2018-19 RERR	FY 2019-20 The Petition	Inc. / (Dec.) over RERR for FY 2018-19	%
Captive Power-(zero rated)	-	-	27,439	27,439	100
Industrial-(zero rated)	-	-	16,846	16,846	100
Cement	143	231	388	157	68
Commercial	6,041	7,324	8,765	1,442	20
Habibullah Coastal Power	2,060	3,865	4,553	689	18
Fertilizer - Feedstock	2,325	2,757	3,103	346	13
Domestic	18,048	48,553	51,478	2,925	6
CNG Stations	17,738	21,383	22,013	630	3
Power	33,599	35,777	31,789	(3,988)	(11)
General Industries	29,291	36,554	23,263	(13,290)	(36)
Captive Power	36,209	51,262	21,514	(29,747)	(58)
Nooriabad Power Plant	3,500	4,305	-	(4,305)	(100)
Total Sales Revenues	**148,954**	**212,009**	**211,152**	**(857)**	**(0.4)**

6.2.2 The petitioner has explained that gas sales revenue is based on consumer's prices as per notification dated October 04, 2018 and October 18, 2018. The petitioner has informed that after issuance of the said notifications, various customers have started approaching Federal Board of Revenue for getting zero rated status in order to avail the tariff applicable on the category. Therefore, the projected sales revenue may decline for which appropriate adjustments will be made at the time of FRR for the said year.

6.2.3 The Authority observes that projections in sales revenue have been made in accordance with projected sales volumes and revision in gas supply allocations of various sectors as indicated in paras in 6.1.2 and 6.1.4 above.

6.2.4 The Authority, however, observes that the petitioner has worked out net sale at current prescribed price on the basis of prescribed price determined by the Authority per RERR for FY 2018-19. The Authority, considering the applicable natural gas tariff, re-adjusted the category-wise prescribed prices to the level of sale prices. ***Accordingly, the Authority provisionally determines net sale at category-wise prescribed price at Rs. 206,261 million as against Rs. 211,152 million as projected by the petitioner for the said year.***

6.3 Other Operating Income

i. *Summary*

6.3.1 The petitioner has projected other operating income at Rs. 5,582 million for the said year. Comparison with previous years is given below:

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

Rs. in million

Particulars	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	Inc./(Dec.) over RERR for FY 2018-19	
	MFRR	DERR	RERR	The Petition	Rs.	%
Sale of LPG	2,533	3,009	1,066	-	(1,066)	(100)
Sale of NGL	423	584	177	(34)	(211)	(119)
Sale of Gas condensate	53	134	20	-	(20)	-
Meter Manufacturing Plants Profit	(2)	209	13	11	(2)	(13)
Late Payment Surcharge	3,187	2,958	3,353	3,292	(60)	(2)
Notional income on IAS provision	262	281	360	-	(360)	-
Meter rentals	735	773	792	820	29	4
Amortization of deferred credits	401	426	432	473	41	10
Other income	880	536	557	1,019	462	83
RLNG transportation Income	4,146	8,920	-	-	-	-
Operating Revenue	12,618	17,829	6,770	5,582	(1,187)	(18)