

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

6.3.2 The petitioner has explained that new tariff regime for regulated natural gas sector has been implemented effective July 01, 2018 for the treatment of various incomes as operating / non-operating. Accordingly, the petitioner has submitted that revenues from MMP (Rs. 11 million), LPS (Rs. 3,292 million) and NGL (Rs. Minus 34 million) have been treated as operating income in the petition in line with the new tariff regime.

6.3.3 The petitioner has informed that no income has been projected against condensate and LPG, as Supreme Court of Pakistan, in its recent decision, has terminated Memorandum of Understanding (MOU) signed with M/s Jamshoro Joint Venture Limited (JJVL) in respect of extraction of by-products. Therefore, the income may not accrue or arise to the company during the said year, till further arrangement in this respect. The petitioner has, however, assured that any income derived under this head will be offered at year end in accordance with the treatment allowed per the new tariff regime.

6.3.4 The Authority, however, notes that during RERR FY 2018-19, it was informed by the petitioner that the supply of gas to M/s JJVL has now been restored under an agreement and M/s A.F. Ferguson & Co. has been appointed as receiver by the apex Court to supervise the arrangement. *In view of latest circumstances, the Authority decides to provisionally determine income from LPG, NGL, condensate at the level of RERR FY 2018-19 i.e. 50% share of the petitioner's projected incomes in accordance with the new tariff regime.*

6.3.5 *In view of above, the Authority decides to include Rs. 4,567 million as operating income for the said year.*

iii. Other Income

6.3.6 The petitioner has projected other income at Rs. 1,019 million for the said year. Comparison with previous years is given below:





Table 20: Comparison of Projected Other Income with Previous Years

Particulars	Rs. in million					
	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	Inc. / (Dec.) over RERR of FY 2018-19	
	MFRR	DERR	RERR	The Petition		%
Recoveries from consumers	104	73	89	98	8	9
Income from sale of tender documents	5	5	5	6	1	15
Income from pipeline construction	28	-	-	14	14	100
Income from new service connections	285	300	312	774	462	148
Liquidated damages recovered	291	8	8	70	62	775
Others	97	20	20	20	(1)	(3)
Advertising Income	1	5	3	1	(2)	(55)
Income from sale of net investment in finance lease	68	126	120	36	(84)	(70)
Notional income on IAS 19 provision	262	281	359	-	(359)	(100)
Total Other Operating Income	1,142	818	917	1,019	103	11

6.3.7 The Authority observes that the petitioner has treated “Notional Income on IAS-19” as non-operating without citing any justification. The Authority, in accordance with its principle decision taken in RERR FY 2018-19, decides to determine notional income or IAS-19 as operating income. The Authority computes notional income at 11% as against petitioner’s projected rate of 7%, and provisionally determined notional income on IAS-19 at Rs. 645 million for the said year.

6.3.8 The Authority further notes that the petitioner has under-projected “advertising income” at Rs. 1 million. The Authority, considering the latest actual results of FY 2017-18, determines the said income at Rs. 5 million on provisional basis for the said year. *Accordingly, the Authority provisionally determines “other income” at Rs. 1,669 million for the said year.*

6.3.9 *In view of the discussion in paras 6.3.2 and 6.3.8 above, the Authority provisionally determines “other operating income” for the said year at Rs. 7,529 million as against Rs. 5,582 million claimed by the petitioner, as detailed below.*



Table 21: Summary of Other Operating Income Determined by the Authority

Particulars	Rs. in million	
	FY 2019-20	
	The Petition	Determined by the Authority
Amortization of deferred credits	473	473
Meter rentals	820	820
Late Payment Surcharge	3,292	3,292
Sale of LPG	-	1,066
Sale of NGL	(34)	177
Other income	1,019	1,669
Sale of Gas condensate	-	20
Meter Manufacturing Profit	11	11
Operating Revenue	5,582	7,529

iv. RLNG Cost of Service/ Supply

6.3.10 The petitioner has projected Rs. 10,353 million (Rs. 33.43 per MMBTU at throughput volume of 917 MMCFD) on account of RLNG cost of service for the said year. The breakup of the same is as under;

Table 22: Breakup of RLNG - Cost of Service/ Supply

Particulars	Rs. in Million
Revenue Expenditure	197
Gas Internally Consumed	2,650
Depreciation	1,543
Return on Assets	5,446
WPPF	518
	10,353

6.3.11 The Authority per the decision per paras 8.4.56 and 8.4.57 computes GIC (1462 MMCF) at Rs. 1,450 million (at average purchase price of Rs. 1,500/MMBTU). The Authority, in accordance with the ECC policy guidelines, and the decision relating to RLNG assets per paras, decides to provisionally determine Rs. 9,946 million (Rs. 21.11/MMBTU), being cost of supply for RLNG activities for the said year. The breakup of the same is as under;



Table 23: Breakup of RLNG Cost of Service / Supply as Determined by Authority

Particulars	Rs. in Million
Revenue Expenditure	197
Gas Internally Consumed	2,331
Depreciation	1,522
Return on Assets	5,378
WPPF	518
	9,946

6.3.12 *Any adjustment on this account shall be considered at the time of FRR for the said year based on the capitalization of assets and related costs, and shall accordingly, be adjusted from RLNG consumers as part of RLNG price.*

7. Air-Mix LPG Projects

7.1 The petitioner has claimed subsidy of Rs. 1,938 million on account of its Air-mix LPG projects for the said year.

7.2 *The Authority, in view of the discussion and decision at paras 5.62, provisionally allows subsidy at Rs. 1,190 million relating to commissioned / operational projects for the said year.*

8. Operating Expenses

8.1 Cost of Gas

8.1.1 The petitioner has projected cost of gas Rs. 229,083 for the said year, based on its projections of international prices of crude and HSFO. Comparative analysis of projected cost of gas with previous years is given below:

Table 24: Comparison of Projected Cost of Gas with Previous Years

FY 2017-18		FY 2018-19		FY 2019-20	
DERR		RERR		The Petition	
MMBTU	Rs. Million	MMBTU	Rs. Million	MMBTU	Rs. Million
433,013	143,824	423,232	219,614	408,944	229,083

8.1.2 The well-head gas prices on the basis of which cost of gas is determined are indexed to the international prices of crude or HSFO per GPAs between the GoP



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

- 8.1.3 The Authority observes that Economic Coordination of the Committee (ECC) of the Cabinet in its meeting held on May 17, 2018, in the matter of WACOG has decided as under;

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

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

- 8.1.5 The Authority, observes that actual average international C&F prices of oil for the period December, 2018 to April, 2019 provide the relatively correct estimation and are used for computation of well-head gas prices effective July 01, 2019. The estimations of the same have been extrapolated for the period June - November 2019 for the purpose of wellhead prices applicable w.e.f January 01, 2020. Therefore, keeping in view the current trend of international oil prices and US \$ exchange rate and other related factors, revised parameters for the purpose of computation of cost of gas at petitioner system is as below:

Table 25: Revised Parameters

Wellhead Gas Prices effective period	Period of Avg. Prices of Oil	Avg. C&F Price of Crude Oil(US\$/BBL)	Avg. C&F Price of HSFO(US\$/M.Ton)	Exchange Rate (Rs./US\$)
July to December 2019	December, 2018 to May, 2019	63.5	400	150
January to June 2020	June to November, 2019	70	400	150

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8.1.6 *Based on the above, the cost of gas is provisionally determined at Rs. 236,551 million (@ Rs. 576.58/MMBTU i.e. petitioner's respective WACOG) for the said year. The petitioner is, however, directed to submit a review petition to the Authority latest by October 15, 2019 for review of its estimated revenue requirements as required under Section 8(2) of the Ordinance, keeping in view the actual and anticipated changes in international prices of crude and HSFO during the period June to November, 2019 and the trend of Rupee - Dollar exchange rate.*

8.2 Unaccounted for Gas (UFG)

8.2.1 The petitioner has calculated UFG for the said year at 15.54% (64,485 MMCF). The Authority based on its working of Gas Internally Consumed (GIC), at paras 8.4.54 to 8.4.55 below determines UFG at 15.69% for the said year as under:

Table 26: Unaccounted for Gas

Particulars	MMCF	
	The Petition 2019-20	Determined by the Authority
Gas Purchases:		
Gross Purchases	414,904	414,904
Less: Gas Internally Consumed-metered	1,332	709
<i>Available for Sale</i>	413,572	414,195
Gas Sales:		
Gas Sales	349,064	349,064
Add: Gas Shrinkage at LHF - Condensate	23	23
<i>Total</i>	349,087	349,087
UFG Volume	64,485	65,108
UFG Projected	15.54%	15.69%
UFG Benchmark (Benchmark)	5.00%	5.00%
Provisional allowance for local operating conditions	1.30%	1.30%
Allowable UFG Volume @ 6.30% Benchmark	26,139	26,139
Disallowed Volume (MMCF)	38,346	38,969
WACOG (Rs./MMCF)		494.70
UFG Adjustment (Rs. in million)		19,278

8.2.2 *Revised UFG adjustment on the basis of above, is provisionally computed at Rs. 19,278 million for the said year.*

i. Comments of the interveners:

8.2.3 The substantive relevant points made by the interveners including S.I.T.E. Association of Industry, Karachi Chamber of Commerce & Industry (KCCI), All

Pakistan Textile Mills Association (APTMA), GRESHAM's Eastern Ltd, Bin Qasim Association of Trade & Industry, APCNGA and Sindh Petroleum & CNG Dealer Association, during the hearing as well as in writing are summarized below:

- 8.2.4 It is a mind boggling fact that in an energy deficient country such as Pakistan, gas worth over \$2 billion worth in terms of import value of substituted furnace oil is leaked or stolen every year in the petitioner's and SNGPL's system collectively. This is the result of the average 10% UFG presented in both the utilities, which, as per claim, has now been reduced to 6.5%. The shortage is around 1 BCF in the country, so in simpler terms the control of UFG is the key to survival of the country's industrial strength.
- 8.2.5 There is a glaring contradiction in the petitioner's presentation of the UFG facts and figures. OGRA has been allowing sufficient spending on system augmentation along with maintenance and repair of the system for several years as and when demanded, therefore the responsibility of the deteriorating lines, leaking pipes and ageing network lies on the petitioner alone. The key is the swift response time and the rectification of leakages and proper monitoring. In addition to all this the issues of sticky meters, under recording meters and various other meter related issues also contribute to the losses. Addition of one gas connection exposes the system to up to 12 leaking points. The high domestic growth rate of around 100,000-200,000 connection per year increase the leakage chances. As a rule of thumb with every 1,000 kilometers of distribution network, the UFG increases by 0.002% due to underground leakages and aging of network. The UFG levels were set by OGRA in 2002 with extensive consultation with all stake holders and experts and improved till 2005 after which it started to deteriorate.
- 8.2.6 Due to the UFG there is a demand and supply gap that is ever increasing and also the price per unit is increasing every day as the expenses are not being curtailed but the revenue is being lost more and more every year and on top of that the petitioner is taking loans to reduce the UFG whereas it was doing quite impressively in the UFG itself till 2005. The illogical and politically motivated decisions of the extension of the system to far flung areas with limited revenues and deteriorating lines is also contributing to the UFG. As a result, Rs 26 billion have been lost by petitioner alone in one year based on high UFG.



- 8.2.7 The planning commission has pointed out that due to this UFG issue the entire country suffers a colossal loss of Rs 350 billion as the gas losses result in usage of expensive alternate imported fuel such as furnace oil along with loss in the GDP of 3%. This is five times larger than the combined losses of the WAPDA system. This massive loss is not seen by the public as they face shortage in three months only in winter but the gas companies are guaranteed to be paid 17% on assets even if they make losses. As per the estimates, around 700 MMCFD of gas could be put back in the system if this is controlled reducing the current shortfall by half. In financial terms since furnace oil is used as a replacement fuel by the end users in shortage of gas supplies they have calculated that every MMBTU that is used in place of gas puts an additional burden of US \$ 10 per MMBTU. One percent loss of the UFG translates into around 45 MMCFD or Rs.5 billion but the value loss in the economic chain is higher than Rs 300 billion per annum if calculated on the basis of increased production loss. The petitioner has attempted to improve its losses but still it is not clear what aspect of the reasons has been curtailed and to what extent.
- 8.2.8 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. The Federal Government in its infinite wisdom plans the gasification of towns and places far off from the main stream of gas piping to win votes and results in an expense plan.
- 8.2.9 Looking at petition they understand that the petitioner has a shortfall of Rs.38 billion. In this shortfall the single biggest factor is the disallowed UFG at Rs 26.82 billion. This is at 15% as per the petitioner's own submission. If this was at 6.5% as per last ruling there would be much lower at Rs. 13 billion and 50% price increase would be wiped out. This means that the petitioner has its own solutions within itself to unburden the common man and give it relief and OGRA on its own has to make this a reality.
- 8.2.10 The petitioner has unbelievable theft records in certain cities e.g. Karachi (4.41%), Balochistan (35%), Quetta (55%), Mach (42%), Kolepur (44%), and Kalat (77%) However total volume of UFG in Balochistan is quite low as consumption is very



low too. The theft volume in Karachi alone is high but as a percentage of supply it is only 4.5%. In Dadu zone it is 42%. In Larkana it is 36%.

8.2.11 OGRA has been envisaged by the legislature as a body which is supposed to protect the public interest and to protect the consumers from oligopolistic and monopolistic activities of the gas companies. The Federal Government is empowered under Section 21 of the OGRA Ordinance to "issue policy guidelines to the Authority on matters of policy not inconsistent with the provision of the Ordinance or the rules". This power of the Federal Government is confined to "matters of policy" and cannot be extended to regulatory domain of the Authority, which is exclusive to the Authority. In other words, any guideline intruding the regulatory matters is not required to be complied with although it may be taken into consideration as Government's viewpoint along with views of other stakeholders. Therefore, they contend that all policy guidelines mentioned in the petition should be tested by the Authority strictly on the basis given in the aforesaid Section 21. In the instant matter before the Authority, FG, besides being the executive pillar of the state, is a directly interested party being the majority shareholder, enjoying control of the petitioner company. Any attempt by the FG to influence OGRA regulatory proceedings or decisions to help its company in the garb of policy guideline must be carefully guarded against in the face of FG's conflict of interest.

8.2.12 The Authority has already ruled that no UFG adjustment is allowable to the petitioner on RLNG volume handling basis and this volume cannot be allowed to artificially inflate gas sales volume bringing down the UFG percentage in an attempt to escape the financial consequence of poor performance in controlling UFG. The petitioner has projected actual UFG at 15.54% and has deducted 9.15% stated to have been computed on volume handling basis, to arrive at a figure of 6.39%. This computation is contrary to the Authority's ruling holding the field.

8.2.13 The Authority has taken a decision on UFG benchmark for 5 years after considering the Consultant's report and critical comments of the consumer groups. Apparently, that does not seem to be resulting in controlling this menace. The petitioner has projected UFG of the order of 15.54% which is significantly worse than the year 2018-19. This means that tough reform route has not been taken.



There is nothing concrete in the present petition to give any hope of a turnaround any time soon.

ii. Authority's response to interveners:

8.2.14 The Authority has carefully considered all the submissions and arguments of the parties made in writing and at the public hearings. Intervenors' comments relating to various heads of expenditures and UFG have been considered while making the decision in the relevant part of this determination. Moreover, as regards the fixation of UFG Benchmark it may be noted that the Authority undertook a UFG study for determining UFG Benchmarks of the gas companies through a consultant of international repute. After a thorough consultative process in stages, and based on the UFG Study Report, a new UFG Benchmark is in place and being implemented.

8.2.15 As regards the intervenors' observations on policy guidelines w.r.t Sale Price of RLNG, conveyed by MoE vide its letter dated May 25, 2018, the Authority notes that it has not allowed any amount against this head in the instant determination.

8.3 UFG Adjustments on RLNG Volume Handling Basis in the Revenue Requirement of RLNG

8.3.1 The petitioner has claimed an amount of Rs 8,820 million as 'UFG adjustments on RLNG volume handled basis (ring fenced mechanism)'. The petitioner has stated that keeping in view the adverse impact on UFG due to RLNG handling in the petitioner's franchise area under swap arrangement, ECC of the Cabinet approved the Policy Guidelines whereby the petitioner has been allowed to calculate UFG based on RLNG Volume handling basis to be claimed in the sale price of RLNG in the form of distribution loss due to swapping arrangements and consumption of RLNG in its franchise area in partial modification of Para-3(viii) of the summary approved by ECC vide ECC-72/12/2016 dated 14.06.2016. The petitioner has added that UFG has been worked out at 9.15% on volume handling basis and the impact of the differential i.e. 6.39% (15.54% - 9.15%) amounting to Rs. 8,820 million has been claimed in the revenue requirement of RLNG.



8.3.2 The Authority notes that as informed by the petitioner vide its earlier communications, dedicated pipeline network for transportation of RLNG from Karachi to Sawan has already been fully commissioned alongwith all component and associated infrastructure w.e.f 11th September, 2018. *The Authority, therefore, observes that with the commissioning and operation of the dedicated pipeline from Karachi to Sawan the issue of swapping and any impact arising out of the said swapping, if any, stands resolved for the said year. Moreover, a detailed determination on this matter including technical grounds has been issued in the Authority's decision on FRR FY 2016-17 dated 24-12-2018. The Authority, therefore, disallows the claimed amount of Rs. 8,820 million against the revenue requirement of RLNG for the said year.*

8.4 Transmission and Distribution Cost

i. Summary

8.4.1 The petitioner has projected transmission and distribution cost (including gas internally consumed) at Rs. 23,914 million for the said year, as detailed below:-



Table 27: Comparison of Projected T&D Cost with the Previous Years

Rs. in Million

Particulars	DMFRR	Actuals	RERR	July to Dec, 2018	The Petition	Inc./(Dec.) over RERR FY 2018-19	
	FY 2016-17	FY 2017-18	FY 2018-19	FY 2018-19	FY 2019-20		%
Salaries, wages, and benefits at benchmark	12,431	12,427	14,156	6,688	15,492	1,336	9
Revenue expenditure relating to LNG	96	132	119	72	197	78	65
Professional charges	18	23	46	15	99	53	114
Others	103	129	135	57	279	143	106
Stores, spares and supplies consumed	595	645	725	275	1,297	572	79
Insurance	119	124	146	52	134	(12)	(9)
License & Tariff Petition Fee to OGRA	57	55	84	12	130	46	55
Repairs & maintenance	1,570	1,672	1,884	868	2,683	799	42
Traveling	108	100	131	53	180	49	37
Postage & bill delivery by Contractors	82	86	94	47	132	38	40
Advertisement	108	112	108	16	169	61	56
Rent, rate & taxes	161	166	212	80	311	99	47
Legal charges	286	116	91	37	237	146	160
Gas bills collection charges	182	188	185	99	221	36	20
Security expenses	554	610	656	326	773	117	18
Gas bills stubs processing charges	22	22	26	17	46	20	74
Meter reading by contractors	69	70	84	42	90	6	7
Electricity	189	194	223	137	230	7	3
Material used on consumers installations	34	30	39	1	39	-	-
Collecting agent commission	0	0	3	1	3	-	-
Impairment of Capital WIP	49	127	-	-	-	-	-
Sub-total Cost	16,834	17,027	19,148	8,894	22,741	3,593	19
Less: Recoveries / Allocations	2,042	2,207	2,219	480	2,219	-	-
Net T&D Cost before GIC	14,792	14,820	16,929	8,415	20,522	3,593	21
Add: Gas consumed internally	198	261	225	104	740	515	229
GIC related to LNG	290	672	853	279	2,651	1,799	211
Loss due sabotage activity	10	10	-	-	-	-	-
Net Transmission & Distribution Cost	15,290	15,762	18,007	8,797	23,914	5,907	33

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

ii. Human Resource (HR) Cost

8.4.3 The petitioner has projected HR cost to increase from Rs. 14,156 million per RERR for FY 2018-19 to Rs. 15,492 million for the said year, showing an increase of 9%.

8.4.4 The petitioner has explained that estimated HR benchmark cost for the said year has been computed in accordance with the Authority's HR Benchmark formula determined in FRR FY 2015-16 and DERR FY 2016-17. The petitioner has further



informed that it is in the process of carrying out a detailed manpower assessment study, and hence requested to allow Rs. 15,492 million for the said year.

- 8.4.5 The Authority observes that the petitioner's HR benchmark was extended on provisional basis in DERR FY 2016-17 owing to circumstances prevalent at that time. Moreover, the petitioner was later directed to conduct manpower study to analyze insight into real need of the company keeping in view working norms and latest technical horizon, job accountabilities and vibrant approaches practiced in this sector carried out internationally. The Authority notes with serious concern that the manpower assessment study has not yet been completed despite lapse of almost 1.5 years. OGRA, in August, 2017, had already finalized Terms of Reference for carrying out the manpower study. The non-execution of the study reveals that the petitioner is in continuous default of non-compliance with Authority's directions and tantamount to punitive action as stipulated under the law. Moreover, the petitioner has remained miserably failed to provide HR related information sought by OGRA during the scrutiny of the petition.
- 8.4.6 The Authority further observes that the interveners during the public hearing held in Karachi has vehemently criticized 9% increase in HR cost. It was argued that primary operating parameters e.g. sales volume are decreasing and on the contrary the petitioner is willing to pay hefty salaries to its employees. Moreover, the company has failed to show improvement in respect of primary parameters including line losses/theft. Accordingly, it was urged that increase as claimed by the petitioner be rejected by the Authority.
- 8.4.7 The Authority, considering the above narrated facts and the changed business dynamics after RLNG induction into the system, is intending to initiate a new HR benchmark study. *In view of the same, the Authority decides to fix HR cost at the level of RERR for FY 2018-19 i.e. Rs. 14,156 million on provisional basis for the said year. The same shall be reviewed at time of FRR based on the outcome of the study.*
- 8.4.8 The Authority directs the petitioner, at the time of final revenue requirement, shall provide a certificate by its statutory auditors along with detailed break-up of HR cost actually paid, accrued and capitalized to the effect that HR cost used includes



all regular, contractual and casual staff / labour. Further, no HR related cost in respect of petitioner's employee has been booked in any other head of account.

iii. Repair & Maintenance

8.4.9 The petitioner has projected an amount of Rs. 2,683 million to be spent on repair and maintenance related activities against the major heads of Gas Transmission Pipeline System, Gas Distribution System, Software maintenance, Buildings, Motor Vehicles and Plant & Machinery during the said year. Actual capitalization in this head in FY 2016-17 was Rs 1,570 million.

8.4.10 *The Authority, keeping in view the operational requirement of the petitioner and capitalization trend in this head, allows an amount of Rs. 1,633 million (actual of FY 2016-17 plus 4% per year inflation impact) for the said year.*

iv. Stores Spares and Supplies Consumed

8.4.11 The petitioner has projected an amount of Rs. 1,297 million, thereby projecting a significant increase of 79% over RERR of FY 2018-19, breakup of the same is as under:-

Table 28: Comparison of Projected Stores Spares and Supplies with Previous years

Particulars	Rs. in Million						
	MFRR	Actual	FY 2018-19		The Petition	Inc./(Dec.) over RERR FY 2018-19	
	FY 2016-17	FY 2017-18	RERR	Actual July to Dec, 2018	FY 2019-20	Rs.	%
Transmission & Compression and others	161	141	171	65	283	113	66
Distribution	370	429	463	179	862	399	86
Head Office	52	68	85	28	137	52	61
Freight & handling	12	7	7	3	15	8	127
Total	595	645	725	275	1,297	572	79

8.4.12 The petitioner has attributed the increase to gas bills printing, pipe & pipe fitting, valve spares, hardware items, petrol/diesel and oil lubricant. The petitioner has explained that the Authority deducted an amount of Rs. 301 million at the time of ERR of FY 2018-19. The petitioner has further informed that gas bills printing contract has expired in February, 2019. Accordingly, considering continuous PKR depreciation and other inflationary / economic factors, the budgeted amount is enhanced. The petitioner has also informed that requirement for odorant oil shall

also increase in current year, as in previous years' stock available with the company was used owing to non-availability in market.

- 8.4.13 The petitioner has further argued that the projected increase is due to huge use of field vehicles in connection with increased operational activities i.e. meter replacement, domestic meter testing, EVC maintenance and commissioning of new industrial customers, uninterrupted Cathodic Protection Cover to pipelines. The petitioner has also envisaged extensive UFG control activities. Moreover, increase has been envisaged owing to additional meter station installed for RLNG and coating repair as it was not done in FY 2018-19 due to delay in service contract.
- 8.4.14 The Authority notes that RLNG related cost have been projected by the petitioner as part of natural gas revenue requirement, which is in contradiction of decision of the ECC/ Federal Cabinet. The petitioner is advised to comply policy guidelines issued in this regard in true letter of spirit, and book all RLNG related costs as part of RLNG revenue requirement.
- 8.4.15 The Authority notes that the petitioner has envisaged enhanced budget to meet its operational requirements. The Authority agrees that all legitimate costs required to continue smooth operations must be allowed to the petitioner. The Authority, however, notes that similar circumstances also prevail in past but capitalization remains quite low. The Authority is of the view that operational activities as envisaged by the petitioner at the beginning of the year may not lead to such gigantic hike of 79%. Estimations appear to be on higher sides considering its historical trend. Actual expenditure incurred in FY 2017-18 (Rs. 645 million) and July-December, 2018 (Rs. 275 million) does not commensurate to this increase.
- 8.4.16 *In view of above, the Authority considering historical spending and budgeted requirement, the Authority provisionally allows 10% increase over RERR FY 2018-19 & fixes it at Rs. 798 million, subject to actualization of year end.*

v. Traveling

- 8.4.17 The petitioner has projected traveling expenses at Rs. 180 million for the said year, showing an increase of 37% over RERR of FY 2018-19, as tabulated below;



Table 29: Comparison of Projected Traveling Expense with the Previous Years

Particulars	Rs. in Million						
	DMFRR	Actual	FY 2018-19		The Petition	Inc./(Dec.) over RERR FY 2018-19	
	FY 2016-17	FY 2017-18	RERR	Actual July to Dec, 2018	FY 2019-20	Rs.	%
Local Traveling-Executive	25	21	30	12	32	2	8
Local Traveling-Subordinates	4	3	5	2	9	4	77
Foreign Travelling	-	-	-	-	3	3	100
Other Traveling	80	75	96	39	136	40	42
Total	108	100	131	53	180	49	37

8.4.18 The petitioner has explained that out of its claim of Rs. 159 million, Rs. 131 million was allowed in respect of travelling expenses by the Authority at the time of DERR for FY 2018-19. The petitioner has attributed the increase to general inflation and expected increases in fare rate including TA/DA. & accommodation /hotel expenses.

8.4.19 The petitioner has submitted that pick & drop facility to school going children through contractor at Karachi Terminal, Head Quarter (HQ)-1, HQ-2, HQ-3, HQ-Shikarpur, HQ-Dadu , HQ-Sibi and Quetta, has been envisaged to increase resulting in higher expenditure. Moreover, operational activities and de-valuation of local currency with exponential increase of foreign currencies are the other contributory factors for projecting 37% increase. The petitioner has also explained that the projected increase due to operational activities and material shifting to various locations.

8.4.20 The Authority observes that anticipated increase in international oil prices coupled with Rupee Vs. US\$ parity may result in hike in petroleum products and other related costs thereby leading slight increase to travelling expense. However, by no stretch of imagination, considering projected activities and general inflation, Rs. 180 million seems rather on higher side. Actual expenditure incurred in FY 2016-17, 2017-18 and July-December, 2018 indicates that the petitioner's legitimate requirements cannot touch Rs. 180 million during the said year. The Authority is of the firm view that the petitioner must avoid unnecessary travelling and use technological modes of communication, where possible to curtail travelling costs.



8.4.21 *In view of the above, the Authority decides to fix it at the level of RERR FY 2018-19 and provisionally allows Rs. 131 million under the above head for the said year.*

vi. Legal Charges

8.4.22 The petitioner has projected legal charges for the said year at Rs. 237 million, as shown below:

Table 30: Comparison of Projected Legal Charges with the Previous Years

Particulars	Rs. in Million						
	DMFRR	Actual	FY 2018-19		The Petition	Inc./ (Dec.) over RERR FY 2018-19	
	FY 2016-17	FY 2017-18	RERR	Actual July to Dec, 2018	FY 2019-20	Rs.	%
Legal Charges	76	70	91	31	137	46	50
HCPC	210	46	-	-	100	100	100
Total	286	116	91	31	237	146	160

8.4.23 The petitioner has attributed the increase to various cases filed in respect of OGRA price notification, land issues, Suo moto cases by Supreme & High Courts, employees related matters, gas holiday, billing issues/ gas theft etc. The petitioner has argued that majority of cases have been filed against it and therefore, the Company left with no option but to defend it.

8.4.24 The Authority notes that the petitioner had advanced similar justifications in its previous petition of ERR for FY 2018-19, however, results up to December, 2018 indicates that Rs. 31 million has only been incurred (i.e. 34% actualization in half year). The Authority appreciates petitioner's efforts to curtail the expenditure within the reasonable limits, being public sector company. The Authority further observes that the petitioner has claimed Rs. 100 million on account of Habibullah Coastal Power Company (HCPC). Regarding HCPC, the Authority reiterates its directions issued in FRR FY 2016-17, DERR FY 2018-19 for taking up the matter with GoP for resolution of liquidated damages and penalties among HCPC, WAPDA & the petitioner.

8.4.25 *The Authority, considering the circumstances & generic justification provided by the petitioner, decides to provisionally allow Rs. 100 million in respect of legal charges. The Authority further decides to pend amount claimed under the sub head*



of HCPC, since the same shall be reviewed at year end based on circumstances prevalent at the time.

vii. Professional Charges

8.4.26 The petitioner has projected professional charges for the said year at Rs. 99 million as against Rs. 46 million, projecting an increase of 114% over RERR of FY 2018-19, as shown below:

Table 31: Comparison of Projected Professional Charges with the Previous Years

Particulars	Rs. in Million						
	DMFRR	Actual	FY 2018-19		The Petition	Inc./((Dec.) over RERR FY 2018-19	
	FY 2016-17	FY 2017-18	RERR	Actual July to Dec, 2018	FY 2019-20	Rs.	%
Professional Charges	18	23	46	15	99	53	114
Total	18	23	46	15	99	53	114

8.4.27 The petitioner has explained that professional charges are envisaged mainly for head-hunting services, i.e. to pay for aptitude tests / potential assessment, job advertisements, reimbursement of recruitment activities and hiring of consultancy for manpower workload assessment / audit, salary surveys etc. Moreover, hiring of professionals for preparation of a report for establishment of gas flow meter, calibration facility to calibrate the meters of various sizes on actual gas flow conditions is also planned during the said year.

8.4.28 The petitioner has also explained that amount is projected for PPRR (Policies & Procedures Review and Redesign) project and ERM (Enterprise Risk Management) project which is expected to start. These are aimed at strengthening internal business processes of company for enhancing efficiencies and reducing bottlenecks, deficiencies and turnaround time.

8.4.29 The Authority notes that the petitioner had projected Rs. 80 million and Rs. 122 million at the time of ERR petitions for FY 2017-18 and FY 2018-19 respectively. Actual expenditures incurred in FY 2017-18 and July-December, 2018 are Rs. 23 million and Rs. 15 million respectively. The Authority observes that petitioner is only envisaging new projects at the time of ERR and could not able to materialize the same at year end. Such estimations by the petitioner at beginning could jack up



the price and may impact the natural gas consumers. Non-execution of the projects in the past also doubts petitioner's non-seriousness towards its own activities/projects. The Authority appreciates all those projects / initiatives which increase the company's efficiency and brings improvement in business processes. However, projecting 114% increase is not allowable considering petitioner's past trend and capability of executing such projects.

8.4.30 *In view of above, the Authority considering the justification advanced by the petitioner and its capacity to execute the projects, decides to provisionally determine the professional charges for the said year at Rs. 46 million, subject to the actualization at year end.*

viii. Postage & Bill Delivery by Contractors

8.4.31 The petitioner has projected postage & bill delivery by contractors for the said year at Rs. 132 million, as shown below:

Table 32: Comparison of Projected Postage & bill delivery contractors with the Previous Years

Particulars	Rs. in Million							
	DMFRR	Actual	FY 2018-19		The Petition	Inc./(Dec.) over RERR FY 2018-19		
	FY 2016-17	FY 2017-18	RERR	Actual July to Dec, 2018	FY 2019-20	Rs.	%	
Postage & bill delivery by Contractors	82	86	94	41	132	38	40	
Total	82	86	94	41	132	38	40	

8.4.32 The petitioner has attributed the increase in postage & bill delivery by contractors to the revision of courier charges and expected enhanced activity. The petitioner has informed that gas bill delivery contracts had been extended twice till September, 2018. Processing for the new tender is in process due to late issuance of service purchase order. Therefore, the payments of contractors for the month of October-December, 2018 does not reflect the actual situation.

8.4.33 The Authority notes that increased activity coupled with projected consumer base envisaged during the said year does not commensurate to 40% increase as projected by the petitioner. The Authority agrees to the petitioner's contention that gas bill delivery contract was extended twice in the past and now the petitioner be



in process of revising its agreement. The Authority, therefore, directs the petitioner to negotiate & finalize the reasonable terms & conditions with the contractor considering the competition in market. The Authority further notes that Pakistan Post Office has also improved its courier services at reasonable rates. The petitioner may also engage Government department partially to have win win situation at both sides. *Accordingly, the Authority considering anticipated activities, historical trend and general inflation decides to provisionally allow 10% increase over RERR for FY 2018-19 and fixes the postage & bill delivery by contractors at Rs. 103 million for the said year.*

ix. Gas Bill Stubs Processing Charges

8.4.34 The petitioner has projected gas bill stubs processing charges at Rs. 46 million, thereby projecting an increase of 74% over RERR FY 2018-19, which is as under;

Table 33: Comparison of Projected Gas Bills Stubs Processing Charges with Previous Years

Particulars	Rs. in Million						
	DMFRR	Actual	FY 2018-19		The Petition	Inc./(Dec.) over RERR FY 2018-19	
	FY 2016-17	FY 2017-18	RERR	Actual July to Dec, 2018	FY 2019-20	Rs.	%
Gas Bills stubs processing charges	181	22	26	17	46	20	74
Total	181	22	26	17	46	20	74

8.4.35 The petitioner has attributed the increase mainly to the revision of contract of stubs processing charges. The petitioner has explained that projected increase is mainly due to change in vendor from Telenor Micro Finance Bank Ltd to NIFT, that is charging increase rate of Rs. 4.5 per bill as compared to previous vendor rate of Rs. 2.45 per bill. The said arrangement is in place effective April, 2018.

8.4.36 *The Authority agrees to petitioner's contention, however, decides to allow 50% of the claimed increase over RERR FY 2018-19, and provisionally allows Rs. 36 million on this account, subject to the actualization at year end.*



x. Rent, Rates and Taxes

8.4.37 The petitioner has projected rent, rates and taxes at Rs. 311 million for the said year as against Rs. 212 million in RERR for FY 2018-19, showing an increase of 47%, the breakup of the same is as below:

Table 34: Comparison of Projected Rent, Rates and Taxes with the Previous Years

Particulars	Rs. in Million						
	DMFRR	Actual	FY 2018-19		The Petition	Inc/(Dec.) over RERR FY 2018-19	
	FY 2016-17	FY 2017-18	RERR	Actual July to Dec, 2018	FY 2019-20	Rs.	%
Rent	131	115	155	59	165	10	6
Royalty	1	2	4	-	9	5	125
Others	29	49	53	21	137	84	158
Total	161	166	212	80	311	99	47

8.4.38 The petitioner has explained that 158% increase has been projected on account of sub-head of "Other" is mainly due to way leave rental with National Highway Authority and expected revision of rental agreements. The petitioner has informed that out of Rs. 137 million, Rs. 61 million (i.e. 45%) shall be paid to NHA in respect of right of way usage pertaining to FY 2017-18 and FY 2018-19. The petitioner has further submitted that outstanding dues of Rs. 14 million shall be paid to Karachi Water & Sewerage Board.

8.4.39 *In view of above, the Authority accepts to rent, rate and taxes at Rs. 311 million for the said year.*

xi. Security Expenses

8.4.40 The petitioner has projected security expense at Rs. 773 million for the said year, showing an increase of 18% over RERR of FY 2018-19, as tabulated below:

Table 35: Comparison of Projected Security Expense with the Previous Years

Particulars	Rs. in Million						
	DMFRR	Actual	FY 2018-19		The Petition	Inc/(Dec.) over RERR FY 2018-19	
	FY 2016-17	FY 2017-18	RERR	Actual July to Dec, 2018	FY 2019-20	Rs.	%
Transmission	374	370	473	205	469	(4)	(1)
Distribution	151	195	150	104	248	98	65
Head Office & Others	30	44	33	17	56	23	72
Total	554	610	656	326	773	117	18

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8.4.41 The petitioner has attributed the increase in security expenses to the revision of salary contract as per GoP increase. The petitioner has explained that increase in projected amount is due to expected increase in number of guards as well as fuel rates. Moreover, the petitioner has informed that increase is due to fresh deployment on LNG Pipeline under the above head.

8.4.42 *The Authority understands the importance for security expenses, considering the changing geo-political situation, anticipated activities, historical trend and general inflation. The Authority, therefore, decides to provisionally allow 10% increase over RERR for FY 2018-19 and fixes it at Rs. 722 million for the said year, subject to the actualization at year end. The Authority reiterates its directions in respect of ring-fencing of RLNG related cost & advises it to book under RLNG cost.*

xii. Advertisement

8.4.43 The petitioner has projected advertisement expenses at Rs. 169 million for the said year. The breakup of the same is as under;

Table 36: Comparison of Projected Advertisement Expense with the Previous Years

Particulars	Rs. in Million						
	DMFRR	Actual	FY 2018-19		The Petition	Inc./(Dec.) over RERR FY 2018-19	
	FY 2016-17	FY 2017-18	RERR	Actual July to Dec, 2018	FY 2019-20	Rs.	%
Operational	52	49	52	0.31	90	38	72
Consumer Education(Media Campaigns)	44	47	44	3	18	(27)	(60)
Corporate Image Building	11	16	11	13	62	50	444
Total	108	112	108	16	169	61	57

8.4.44 The petitioner has explained that projected increase is due to adherence to OGRA directives in respect of advertisement for customer awareness campaigns, winter campaigns and tender advertisements. The petitioner has also explained that an upward revision of print media tariff and campaigns against theft also lead the advertising expenses to enhance from the previous years.

8.4.45 During the scrutiny of the petition, in response to six-month actual expenditure query, the petitioner has argued that actual figures for the period July-December, 2018 may not reflect actual expenses at year end, due to ongoing tender and bidding processes. The petitioner has further argued that the expenses under



corporate image building head are not reflecting in six month actual owing to non-finalization of tender/contracts and non-submission of invoices.

8.4.46 The Authority notes that petitioner has been developing mobile application and has also launched SMS alert services for its 2.8 million customer. In view of the same, the Authority emphasizes the use of SMS for consumer awareness programs along with other economical options e.g. emails, signboards, petitioner's websites and gas bills. The Authority has always appreciated petitioner's extensive efforts in respect of media campaigns for educating consumers in respect of theft, energy conservation & use of efficient appliances. *Accordingly, the Authority, considering actual expenditure in the past and the generic justification provided by the petitioner, decides to fix it at the level of FY 2017-18 i.e. Rs. 112 million for the said year.*

xiii. Gas Bill Collection Charges

8.4.47 The petitioner has projected gas bill collection charges at Rs. 221 million, thereby projecting an increase of 20% over DERR for FY 2018-19 which is as under;

Table 37: Comparison of Projected Gas Bill Collection Charges with Previous Years

Particulars	DMFRR	Actual	Rs. in Million				
			FY 2018-19		The Petition	Inc./(Dec.) over RERR	
			RERR	Actual July to Dec, 2018		FY 2019-20	Rs.
FY 2016-17	FY 2017-18						
Gas Bills collection charges	181	188	185	99	221	36	20
Total	181	188	185	99	221	36	20

8.4.48 The petitioner has projected gas bill collection charges at Rs. 221 million, calculated @ Rs. 9 / bill for the said year. The petitioner has further submitted that 6% increase in gas bill collection charges, has been envisaged due to new connections.

8.4.49 The Authority notes that the petitioner has been providing similar justification from last many years. However, per bill rate has not yet been revised by State bank of Pakistan. *In view of the same, the Authority keeps the collection charges at Rs. 8 per bill, and provisionally allows Rs. 197 million on this account for the said year.*



xiv. Others

8.4.50 The petitioner has projected "Others" at Rs. 279 million for the said year as against Rs. 135 million in RERR for FY 2018-19, showing an increase of 107%, as shown below:




Table 38: Comparison of Projected Other Expenses with the Previous Years

Particulars	Rs. in Million						
	DMFRR	Actual	FY 2018-19		The Petition	Inc./(Dec.) over RERR FY 2018-19	
	FY 2016-17	FY 2017-18	RERR	Actual July to Dec, 2018	FY 2019-20	Rs.	%
Club Membership	9	1	18	-	36	18	100
Directors Fee/Training	21	38	34	-	51	17	49
Other miscellaneous	73	89	83	49	192	109	132
Total	103	129	135	49	279	144	107

8.4.51 The petitioner has explained that in FY 2018-19, the Authority had disallowed Rs. 99 million, out of total claim of Rs. 234 million. The petitioner has also explained that 100% increase has been projected on account of sub-head of "Club membership" which is envisaged due to prospective hiring and promotions and the consequential increase in contribution paid to the club on behalf of employees.

8.4.52 The petitioner has argued that 132% increase has been projected on account of sub-head of "Other miscellaneous" which is envisaged due to developing mobile application, SMS alerts service through vendor. The petitioner has further argued that water supply from Karachi Water & Sewerage Board is in sufficient due to which water taker are procured / supplied to meet the shortfall. The petitioner has further explained that tap water in the entire city is highly contaminated / polluted due to which use of mineral water is inevitable to avoid water borne diseases also lead the other expenses to enhance from the previous years.

8.4.53 The Authority notes that the petitioner has failed to justify 107% increase under the sub-head of "others". Projecting 100% increase against club membership without citing any concrete justification is not allowable. The company has been facing severe financial crunch. The Authority expects that the petitioner at this juncture shall try to avoid all its uneconomical expenditures. The Authority further notes that out of Rs. 51 million projected under the sub-head of "directors fee/training", Rs. 50 million has been projected in respect of director fee. The Authority directs the petitioner to be vigilant while conducting meetings of its directors, and merge the agendas in fewer meetings with the intent to follow the austerity measures drive initiated by the FG. In case, it is necessary to pay the directors' the significant



amount owing to board meeting, the petitioner may the same from its own profits. Actual expenditure incurred in FY 2016-17 and 2017-18 are encouraging, considering the fact that the petitioner has been able to curtail its non-development expenditures. *In view of the above, the Authority decides to provisionally allow 10% increase over DERR for FY 2018-19 and provisionally fixes it at Rs. 149 million for the said year.*

xv. Gas Internally Consumed (GIC)

8.4.54 The petitioner has projected GIC-metered of 1,332 MMCF for the said year. The petitioner has projected volume of gas handled/compressed to be 186,150 MMCF whereas as per historical trend the same has remained in the range of 37,234 MMCF to 80,066 MMCF during the last ten years. The Authority observes that estimation of Volume handled/compressed for the said year is exorbitantly high as compared to previous years and the petitioner has not provided plausible justification for this increase. Keeping in view the historical trend w.r.t Volume of gas handled vs GIC, the Authority allows average figures of FY 2012-13 to FY 2016-17 i.e 554 MMCF for handling a gas volume of 53,447 MMCF during the said year. The Authority also notes that volume claimed against GIC-Company Own Use i.e. 207 MMCF is higher than the historical figures which have remained in the range of 133 to 163 MMCF during the last ten years. The Authority therefore determines the same at 151 MMCF i.e average figure of FY 2012-13 to FY 2016-17.

8.4.55 *In view of the above and the historical trend, the Authority allows a volume of 709 MMCF (Rs. 406 million) GIC-metered for the said year. Detail of the claimed vs allowed figures is as under:*



Table 39: Detail of Gas Internally Consumed (GIC)

Description	in MMCF						Determined by
	2012-13	2013-14	2014-15	2015-16	2016-17	2019-20	the Authority
	FRR	FRR	FRR	FRR	FRR	ERR	DERR
Compression-(metered)	427	440	674	779	450	1117	554
Company Own Use (m)	138	144	147	163	162	207	151
Liquid Handling Facility (metered)	3	4	3	4	0	0	0
Gas Purged (metered)	0	0	0	8	7	0	0
Distribution (metered)	9	8	2	1	1	8	4
Total	577	596	826	955	620	1332	709
COMPRESSION DETAILS							
Volume of gas handled/ Compressed (MMCF)	37,968	38,038	67,827	80,066	43,338	186,150	53,447
GIC (MMCF)	427	440	674	779	450	1117	554
Volume of gas handled /compressed per GIC	89	86	101	103	96	167	96

xvi. GIC related to RLNG Operations:

8.4.56 The petitioner has claimed GIC volume of 1,462 MMCF for compression of 438,000 MMCF RLNG volume (@ 1200 MMCFD) at HQ-2 Compressor Station during the said year.

8.4.57 *The Authority based on operational requirement allows the requisite volume of 1,462 MMCF as GIC for transportation of RLNG by the petitioner for SNGPL up to Sawan under TPA Regime, however, the cost of GIC related to RLNG Operations shall be recoverable from RLNG consumers only under ring fenced mechanism*

xvii. Remaining Items of Transmission and Distribution Cost

8.4.58 The items of transmission and distribution costs, except those dealt with in sub-para ii to xvii of para 9.3 above, are projected by the petitioner at Rs. 626 million for the said year, as against Rs. 579 million in RERR FY 2018-19, as shown below:



Table 40: Comparison of Remaining Item of Projected T&D Expense with Previous Years

Rs. in Million

Particulars	MFRR	Actual	RERR	The Petition	Inc/(Dec.) over RERR FY 2018-19	
	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20		%
Insurance	119	124	146	134	(12)	(9)
Meter reading by contractors	69	70	84	90	6	7
Electricity	189	194	223	230	7	3
Material used on consumers installations	34	30	39	39	-	-
Collecting agent commission	0.36	0.41	3	3	-	-
License & Tariff Petition Fee to OGRA	57	55	84	130	75	137
Impairment of Capital WIP	49	-	-	-	-	-
Sub-total Cost	518	473	579	626	47	8

8.4.59 *The Authority observes that the remaining items of T&D expense have been reasonably projected by the petitioner and therefore, provisionally accepts the same at Rs. 626 million for the said year.*

xviii. Transmission and Distribution Cost Determined by the Authority

8.4.60 In view of the examination in sub-para ii to xvi of para 9.3 above, the Authority provisionally determines operating cost for the said year at Rs. 17,306 million as against Rs. 23,914 million claimed by the petitioner, as follows:

Table 41: Summary of T&D Cost Determined by the Authority

Rs. in Million

Particulars	FY 2019-20	
	The Petition	Determined by the Authority
Salaries, wages, and benefits at benchmark	15,492	14,156
Revenue expenditure relating to LNG	197	-
Professional charges	99	46
Others	279	149
Stores, spares and supplies consumed	1,297	798
Repairs & maintenance	2,683	1,633
Traveling	180	131
Postage & bill delivery by Contractors	132	103
Advertisement	169	112
Rent, rate & taxes	311	311
Legal charges	237	100
Gas bills collection charges	221	197
Gas bills stubs processing charges	46	36
Security expenses	773	722
Remaining T&D expenses	626	626
Sub-total Cost	22,741	19,119
Less: Recoveries / Allocations	2,219	2,219
Net T&D Cost before GIC	20,522	16,900
Add: Gas consumed internally	740	406
GIC related to LNG	2,651	-
Net Transmission & Distribution Cost	23,914	17,306

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8.5 Other Charges

i. Provision for Doubtful Debts

8.5.1 The petitioner has projected Rs. 1,723 million on account of provision for doubtful debts. Historical trend is as under;

Table 42: Comparison of Provision for Doubtful Debts with Previous Years

Particulars	Rs. in Million					
	DMFRR	Actual	RERR	The Petition	Inc./(Dec.) over RERR FY 2018-19	
	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	Rs.	%
Provision for doubtful debts	791	626	1063	1723	660	62
Total	791	626	1063	1723	660	62

8.5.2 The petitioner has claimed Rs. 1,723 million under this head being provisioning based on disconnected consumers. The petitioner has further explained that the treatment is in line with the directions of the Authority provided in its decision for DERR FY 2016-17.

8.5.3 The Authority, as per its benchmark and the information provided by the petitioner, computes provision against doubtful debts for disconnected consumers at Rs. 1,399 million. The Authority reiterates its directions to actively follow the GoP's directives in respect of effective recovery mechanism in natural gas sector.

ii. Sports Club Expenses

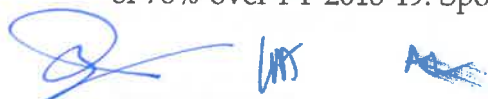
8.5.4 The petitioner has claimed an amount of Rs. 112 million under the above head. The breakup of the same is as under;

Table 43: Comparison of Sports Club Expenses with Previous Years

Particulars	Rs. in Million					
	DMFRR	Actual	RERR	The Petition	Inc./(Dec.) over RERR FY 2018-19	
	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	Rs.	%
Sports Club Expenses	63	66	63	112	49	78
Total	63	66	63	112	49	78

8.5.5 The petitioner has submitted that it has been spending sports related expenses as the said activity needs continuous support from the corporate sector.

8.5.6 The Authority notes that the petitioner has failed to justify this significant increase of 78% over FY 2018-19. Sports related activities have always been appreciated by





the Authority. However, claiming this gigantic increase without citing any justification is not allowable. *The Authority in view of the same decides to fix at the level of RERR for FY 2018-19 i.e. Rs. 63 million on account of Sports Club Expenses. The Authority however, directs the petitioner to curtail sports charges within reasonable limit, since every expense is being funded by natural gas consumers, failing which additional amounts shall be paid by the petitioner from its own profits.*

iii. Corporate Social Responsibility(CSR)

8.5.7 The petitioner has claimed an amount of Rs. 119 million under the head of "CSR. The breakup of same is as under:

Table 44: Comparison of Corporate Social Responsibility with Previous Years

Description	Rs. In Million					Inc. / (Dec.) over RERR	
	MFRR	Actual	RERR	The Petition	FY 2018-19		
	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20			
Corporate Social Responsibility	12	40	71	119	48	67	
Total	12	40	71	119	48	67	

8.5.8 *The Authority, in accordance with its principal decision taken as part of tariff regime, decides to include Rs. 60 million on account of CSR as part of revenue requirement for the said year. The same shall be scrutinized on the basis of touchstone prudence in the light of criteria framed in New Tariff Regime and Securities and Exchange Commission of Pakistan (SECP) Code of Corporate Governance.*

9. Previous Year Revenue Shortfall

9.1 The Authority notes that petitioner's revenue shortfall determined per RERR FY 2018-19 has remained un-adjusted owing to non-revision in sale prices by FG. *The Authority has not included Rs. 24,933 million, being unmet revenue requirement (prior year shortfall) as part of revenue requirement for the said year. The Authority, however, seeks GoP decision on this issue while undertaking the matter of revision in gas sale prices for the said year under Section 8(3) of the Ordinance. Accordingly, the previous year' revenue shortfall is integral part of this determination for consideration of FG.*

10. Summary of Discussion & Decision

- 10.1 In view of the justifications submitted and arguments advanced by the petitioner in support of its petition, points raised by the interveners, comments offered by the participants, scrutiny by the Authority and detailed reasons recorded by the Authority in earlier sections, the Authority recapitulates and decides to;
- 10.1.1 accepts opening balance of deferred credit at Rs. 4,799 million;
- 10.1.2 determine estimated addition in fixed assets at Rs. 11,342 million, and depreciation charge at Rs. 5,506 million;
- 10.1.3 determine balance of average net operating fixed assets Rs. 38,399 million as against Rs. 45,365 million claimed by the petitioner for the said year. Consequently, the return required by the petitioner on its average net operating fixed assets is determined at Rs. 6,693 million;
- 10.1.4 determine income at Rs. 213,790 million as against Rs. 216,734 million offered by the petitioner;
- 10.1.5 determine cost of gas at Rs. 236,551 million as against Rs. 229,083 million offered by the petitioner;
- 10.1.6 determine UFG adjustment at Rs. 19,278 million;
- 10.1.7 determine T&D expenses at Rs. 16,900 million as against Rs. 20,326 million claimed by the petitioner;
- 10.1.8 determine cost of GIC at Rs. 406 million as against Rs. 740 million claimed by the petitioner;
- 10.1.9 determines other charges including W.P.P.F. to Rs. 1,547 million as against Rs. 1,979 million claimed by the petitioner; and
- 10.1.10 includes revenue shortfall pertaining to FY 2018-19 amounting to Rs. 24,933 million; and



- 10.1.11 accepts Rs. 3,672 million adjustment on account of staggering of financial impact on account honorable Sindh High Court; and
- 10.1.12 determines subsidy pertaining to air-mix LPG at Rs. 1,190 million for the said year as against Rs. 1,938 million claimed by the petitioner,
- 10.2 In exercise of its powers under the Ordinance and NGT Rules, the estimated revenue requirement for the said year is determined at Rs. 270,776 million (as tabulated below):

Table 45: Components of ERR for the Said Year as Determined by the Authority

Rs. in million			
S.No	Particulars	Claimed by the Petitioner	Determined by the Authority
1	Cost of gas sold	229,083	236,551
2	UFG adjustment	(750)	(19,278)
3	Transmission and distribution cost	20,326	16,900
4	Gas internally consumed	740	406
5	Depreciation	6,024	5,506
6	Staggering of Financial Impact on account of SHC Order	(3,672)	(3,672)
7	UFG adjustment on RLNG volume handled basis (ring fence)	(8,820)	-
8	Other charges including WPPF	1,979	1,547
9	Return on net average operating fixed assets	7,907	6,693
10	Revenue Shortfall pertaining to FY 2018-19	-	24,933
11	Additional revenue requirement for Air-Mix LPG Projects	1,938	1,190
	Total Final Revenue Requirement	254,754	270,776

- 10.3 The provisionally allowed expenses are subject to adjustments after scrutiny of auditors' initialed accounts of the petitioner for the said year, provided these expenses are substantiated with appropriate justification and analysis in the form acceptable to the Authority.
- 10.4 The petitioner's net operating income is estimated at Rs. 213,790 million, as against the revenue requirement of Rs. 270,776 million and thus there is a shortfall of Rs. 56,986 million in its estimated revenue requirement for the said year. In order to adjust this shortfall, the Authority hereby makes upward adjustment of Rs. 159.68 per MMBTU on provisional basis in its average prescribed price for the said year (Annexure-A).
- 10.5 The Authority considers it important and essential to impress upon the petitioner that this provisional determination of estimated revenue requirement for the said year pre-supposes that the petitioner would, in any case, faithfully and with responsibility



conduct its affairs in full compliance of the requirement of Rule 17(1)(h) & Rule 17(1)(j) of the NGT Rules, as reproduced below:

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

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

11. The Prescribed Prices Under Various Category Of Consumers

11.1 While determining the prescribed prices in respect of various category of retail consumers, the Authority has considered the existing categories keeping in view the provision of Section 8(6) of the Ordinance which inter-alia provides that creation of new category of retail consumer is the domain of the FG. Accordingly, the existing category of consumers per the current notified gas prices has been taken and there is no change therein. *However, in respect of slabs structure within the 'domestic category of consumers', the prescribed prices recommended for the said year accounts for the benefit of previous slabs as well for the purpose of rational and logical basis.*

11.2 During the determination of prescribed prices under various category of consumers, the Authority has considered the petitioner's legal counsel arguments, interveners contentions, ground realities in view of indigenous gas constraints, enhanced proportion of RLNG, price of alternative fuel i.e; LPG and the relevant provisions under the legal framework. Accordingly, the prescribed prices under each category of consumer have been determined and are attached at (Annexure-B). The rationale of the same is briefly provided as under;



- i) The Authority, as a matter of principle under legal domain, is of the view that all the classes of consumers should *at least pay the average cost of service or the average prescribed price* except wherever FG policy guidelines have been provided, which shall be implemented accordingly.
 - ii) The domestic consumers, particularly first two slabs, are currently highly subsidized and grossly indiscriminative when compared the actual cost of service of natural gas or the cost of RLNG, which is diverted in winter, and the cost of alternative fuel i.e; LPG, which is, used almost 77% population of the country. Therefore, the same has been decided to be rationalized gradually keeping in view the actual cost of service. Accordingly, in respect of existing first two slabs (up to 100 M³), the prescribed price has been determined at 50% of average cost of service. The existing third slab is, over 100 M³ and up to 200 M³ and its prescribed price has been determined at 75% of average prescribed price. The fourth slab is, over 200 M³ and upto 300 M³ and its prices is equal to average cost of service. The prescribed price for fifth and sixth slabs for the consumption of over 300 M³ has been determined at 150% of cost of service. As per the existing pattern, the prescribed price in respect of bulk domestic is aligned with fifth slab. It is worth mentioning that the average RLNG price for petitioner' distribution network during last twelve months from May 2018- April 2019 has been witnessed approximately at US \$ 11.791 per MMBTU, which in Rupee term computes to around Rs. 1,674 per MMBTU. Similarly, the average price of the alternative fuel i.e; LPG for the same period has been notified at Rs. 2,781 per MMBTU.
 - iii) The price of new fertilizer feed stock has been determined as per FG policies.
 - iv) All rest of consumer categories including CNG, Commercial, Industrial, Captive, Power, Special Commercial (Roti Tandoor exceeding 3 HM³) and Cement absorbs the remaining shortfall of the determined revenue requirement for the said year across the board based on the existing gas sale prices.
- 11.3 In case of old fertilizer plants, the Government, as per existing sale prices, is providing cross subsidy while it is also charging GIDC on the other hand. This aspect may be taken care while determining the gas sale price advice / revision in GIDC.



11.4 The prescribed prices for various categories of retail consumers shall be re-adjusted by the Authority upon receipt of sale price advice by the FG, under Section 8(3) of the OGRA Ordinance that overall adjustment in average prescribed prices as determined by the Authority remained unchanged, so that the petitioner is able to achieve its total revenue requirement in accordance with Section 8(6)(f) of the Ordinance and License Condition no. 5.2. Section 8(4) of the Ordinance, also provides that in case no sale price advice is received from FG within stipulated time, the prescribed prices under each category of consumers, which are higher than the existing sale price shall be notified by the Authority as sale prices to be charged from the consumer for the said year.

12. Directions

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

- 12.1.1 submit the amendment in the existing license in conformity with the ibid tariff regime in place.
- 12.1.2 ensure ring fencing of RLNG related capital and revenue cost as a separate segment.
- 12.1.3 strictly follow the FG Policy while processing the gas connections during the said year.
- 12.1.4 provide a certificate by its statutory auditors along with detailed break-up of HR cost actually paid, accrued and capitalized to the effect that HR cost used includes all regular, contractual and casual staff / labour. Further, no HR related cost in respect of petitioner's employee has been booked in any other head of account.
- 12.1.5 submit the concrete proposals, within one months 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.



- 12.1.6 take up the matter with GoP for resolution of liquidated damages and penalties among HCPC & WAPDA.
- 12.1.7 continue consumer awareness through SMS, emails, signboards, petitioner's websites and gas bills.
- 12.1.8 launch an effective consumer education campaign for energy conservation highlighting the actual cost of natural gas provided to domestic consumers.
- 12.1.9 actively follow the GoP's directives in respect of effective recovery mechanism in natural gas sector.
- 12.1.10 curtail sports charges within reasonable limit, since every expense is being funded by poor natural gas consumers.
- 12.1.11 ensure prudence and ring fencing of all capital and revenue expenditures, including all cost allocations in respect of each Air-mix LPG, CNG or LNG based pipeline distribution projects.
- 12.1.12 chalk out detailed long term plan regarding CSR abreast with the criteria enshrined in Tariff Regime for Regulated Natural Gas Sector.
- 12.1.13 economize all avoidable & non-development expenditures in larger public interest.
- 12.1.14 address/attend to the problems being faced by its consumers, as highlighted in the public hearings, with the objective to resolve the same within the stipulated timelines. Further, if required, put forward plans/solutions for Authority approval regarding the improvement in the quality of the service to the consumers.
- 12.1.15 All the relevant contentions of the interveners as summarized in chapter 3 & 8(ii) of this Order be carefully noted and complied/addressed in letter & spirit under the ambit of regulatory framework.



13. Public Critique, Views, Concerns, Suggestions

13.1 The Authority has recorded critique, views, concerns and suggestions of the interveners and participants given in paras 3 & 8.2 (i) above. *The Authority, keeping in view the vehemently requests by the interveners, considers it important to draw specific attention of the FG regarding policy issues as included in paras 3 above for due consideration, some of them are specifically highlighted as under;*

- i) *Gas consumers are paying twice since they are paying the return on assets as well as Gas Infrastructure Development Cess (GIDC). It has been demanded that Federal Government should withdraw the GIDC or provide the funds from GIDC proceeds to undertake the capital infrastructure/CAPEX.*
- ii) *Certain class of consumer (particularly the domestic consumers) is enjoying privilege at the cost of other consumers. In order to eliminate this economic distortion, it has been urged that inter-class subsidies should be eliminated and the tariff should be set keeping in view the cost of alternative source of energy. Further, it has been demanded to discontinue the cross-subsidization as it is not in national interest since it impedes the growth of industry, exports and employment, which are basic needs of the economy.*

Dr. Abdullah Malik,
Member (Oil)

Noorul Haque,
Member (Finance)

Uzma Adil Khan,
(Chairperson)

Islamabad, May 17, 2019



A: Computation of Estimated Revenue Requirement for the Said Year

Rs. in Million

Particulars		The Petition	The Adjustment	Determined by the Authority
Gas sales volume -MMCF				
BBTU		349,064		349,064
"A" Net Operating Revenues		356,872		356,872
Net sales at current prescribed price		211,152	(4,891)	206,261
Meter rentals		820	-	820
Amortization of deferred credit		473	-	473
Sale of LPG		-	1,066	1,066
Sale of condensate		-	20	20
Sale of NGL		(34)	211	177
Late payment surcharge		3,292	-	3,292
Meter manufacturing profit		11	-	11
Other operating income		1,019	649	1,669
Total Operating Revenue "A"		216,734	(2,945)	213,790
"B" Less: Operating Expenses				
Cost of gas		229,083	7,468	236,551
UFG Adjustment		(750)	(18,528)	(19,278)
UFG adjustment on RLNG volume handled basis (ring fence)		(8,820)	8,820	-
Staggering of Financial Impact on account of SHC Order		(3,672)	-	(3,672)
Transmission and distribution cost		20,326	(3,425)	16,900
Gas internally consumed		740	(335)	406
Depreciation		6,024	(518)	5,506
Other charges including WPPF		1,979	(433)	1,547
Total Operating Expenses "B"		244,910	(6,950)	237,960
"C" Operating profit (A-B)		(28,175)	4,005	(24,170)
Return required on net operating fixed assets:				
Net operating fixed assets at beginning		45,958	(2,715)	43,243
Net operating fixed assets at ending		60,799	(14,184)	46,615
Average net assets (I)		106,757	(16,899)	89,858
		53,378	(8,449)	44,929
Net LPG air mix project asset at beginning		654	(140)	514
Net LPG air mix project asset at ending		5,457	(2,829)	2,628
Average net assets (II)		6,111	(2,969)	3,142
		3,055	(1,484)	1,571
Deferred credit at beginning - Assets related to Natural Gas Activity		4,799	-	4,799
Deferred credit at ending - Assets related to Natural Gas Activity		5,118	-	5,118
Average net deferred credit (III)		9,917	-	9,917
		4,959	-	4,959
"D" Average (I-II-III)		45,365	(6,965)	38,399
"E" Return required @ 17.43%		7,907	(1,214)	6,693
"F" (Shortfall) / Surplus in return required (E-C) (Gas Operations)		(36,082)	5,219	(30,863)
"G" Additional revenue requirement for Air-Mix LPG Projects		1,938	(747)	1,190
"H" (Shortfall) / Surplus H=(F+G)		(38,020)	5,966	(32,053)
(Increase)/decrease in average prescribed price FY 2019-20 (Rs./MMBTU)		(106.54)	16.72	(89.82)
Estimated revenue requirement (B+E+G) for FY 2019-20		254,754	(8,911)	245,843
Average Prescribed Price (Rs./MMBTU) for FY 2019-20 (Rs./MMBTU)		698.21	(30.42)	667.79
"I" Revenue Shortfall pertaining to FY 2018-19		-	(24,933)	(24,933)
"J" Total (Shortfall) / Surplus J=(H+I) (including FY 2018-19)		(38,020)		(56,986)
(Increase)/decrease in average prescribed price owing to previous year shortfall (Rs./MMBTU)		(106.54)	(53.15)	(159.68)
Total estimated revenue requirement (B+E+G+I) (including FY 2018-19 shortfall)		292,774	(21,998)	270,776
Total Average Prescribed Price (including FY 2018-19 shortfall) Rs./MMBTU		698.21	39.44	737.65



B: Provisional Prescribed Prices for the Said Year

Particulars		Existing Sale/Prescribed Prices	Average Prescribed Price	Revised Category-wise Prescribed Prices W.e.f July 01, 2019
Rs./MMBTU				
(i) Domestic Consumers:				
	Upto 50 cubic metres per month	121	737.65	368.83
	Upto 100 cubic metres per month	127	737.65	368.83
	Over 100 cubic metres per month	264	737.65	553.24
	Over 200 cubic metres per month	275	737.65	737.65
	Over 300 cubic metres per month	780	737.65	1,106.48
	Over 400 cubic metres per month	1460	737.65	1,106.48
(ii) Special Commercial Consumers (Rofit Tandoors)				
	Upto 100 M ³ per Month	110	737.65	368.83
	Over 100 M ³ per Month	220	737.65	737.65
	Over 300 M ³ per Month	700	737.65	841.41
(iii) Commercial:				
	All off-takes at flat rate of	980	737.65	1,177.97
(iv) Ice Factories:				
	All off-takes at flat rate of	980	737.65	1,177.97
(v) Industrial:				
	All off-takes at flat rate of	780	737.65	937.57
(vi) Registered manufacturers or exporters of five zero-rated sectors and their captive power namely: Textile (including jute), carpets, leather, sports and surgical goods				
	All off-takes at flat rate of	600	737.65	721.21
(vii) Captive Power :				
	All off-takes at flat rate of	780	737.65	937.57
(viii) CNG Stations:				
	All off-takes at flat rate of	980	737.65	1,177.97
(ix) Cement Factories:				
	All off-takes at flat rate of	975	737.65	1,171.96
(x) Fauji Fertilizer Bin Qasim Limited				
	(i) For gas used as feed-stock for Fertilizer	185	737.65	222.37
	(ii) For gas used as fuel for generating steam and electricity and for usage in housing colonies for fertilizer factories	780	737.65	937.57
(xi) Power Stations				
	All off-takes at flat rate of	629	737.65	756.07
(xii) Independent Power Producers				
	All off-takes at flat rate of	629	737.65	756.07

[Handwritten signatures and initials in blue ink]



C: List of Abbreviations

APCNGA	All Pakistan CNG Association
APTMA	All Pakistan Textile Mills Association
BAQTI	Bin Qasim Association of Trade and Industry
BBTU	Billion British Thermal Unit
BCF	Billion Cubic Feet
BCFD	Billion Cubic Feet Daily
BOD	Board of Directors
C&F	Cost and Freight
CC	Cement Concrete
CEO	Chief Executive Officer
CNG	Compressed Natural Gas
CP Station	Cathodic Protection Station
CP System	Cathodic Protection System,
CP	Constitutional Petition
CC&B	Customer Care and Billing
CMS	Customer Meter Station
CTS	Custody Transfer Station
DERR	Determination of Estimated Revenue Requirement
EETPL	Engro Energy Terminal Pvt. Ltd.
ENI	Ente Nazionale Idrocarburi
EVC	Electronic Volume Corrector
ECC	Economic Coordination Committee
FBATI	Federal Bureau Association of Trade & Industry
FG	Federal Government
FoP	Federation of Pakistan
FRR	Final Revenue Requirement
GCV	Gas Calorific Value
GDS	Gas Development Surcharge
GIC	Gas Internally Consumed
GOP	Government of Pakistan
GIDC	Gas Infrastructure Development Cess
GPA	Gas Pricing Agreement
HCPC	Habibullah Coastal Power Company
HSFO	High Sulphur Furnace Oil
HQ	Head Quarter
IAS	International Accounting Standard
ILBP	Indus Left Bank Pipeline
ISGSL	Inter State Gas System Limited
JJVL	Jamshoro Joint Venture Limited
KCCI	Karachi Chamber of Commerce & Industry
KE	Karachi Electric
KPD	Kunner Pasaki Deep



KPMG	Klynveld Peat Marwick Goerdeler
KMI	Key Monitoring Indicators
LATI	Landhi Association of Trade & Industry
LHF	Liquid Handling Facility
LPG	Liquified Petroleum Gas
LPS	Late Payment Surcharge
LNG	Liquified Natural Gas
MOE (PD)	Ministry of Energy (Planning Division)
MGFIP	Mehar Gas Field Integration Project
MMBTU	Million Metric British Thermal Unit
MMCF	Million Standard Cubic Feet
MMCFD	Million Standard Cubic Feet per Day
MMP	Meter Manufacturing Profit
MP&NR	Ministry of Petroleum and Natural Resource
MR	Market Return
MRP	Market Risk Premium
MVA	Multi Valve Assembly
NGRA	Natural Gas Regulatory Authority
NKATI	North Karachi Association of Trade & Industry
NHA	National Highway Authority
OGDCL	Oil and Gas Development Company Ltd.
OGRA	Oil and Gas Regulatory Authority
OMV	Österr Mineralöl Verwaltung
PPL	Pakistan Petroleum Limited
PRS	Pressure Regulating Station
POD	Point of Delivery
PSO	Pakistan State Oil
QPL	Quetta Pipe Line
RF	Risk Free
RLNG	Re-Gasified Liquefied Natural Gas
RS	Regulating Station
ROW	Right of Way
RTU	Remote Terminal Unit
SECP	Securities & Exchange Commission of Pakistan
SHC	Sindh High Court
SITE	Sindh Industrial Trading Estate
SMS	Sales Meter Station
SNGPL	Sui Northern Gas Pipeline Limited
SSGCL	Sui Southern Gas Company Limited
SCADA	Supervisory Control And Data Acquisition
TBS	Town Border Station
T&D Cost	Transmission and Distribution Cost
TRS	Town Regulating Station

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UFG	Un-accounted for Gas
WACOG	Weighted Average Cost of Gas
WAPDA	Water And Power Development Authority
WPPF	Workers Profit Participation Fund