آئل اینڈ گیس
ریگولیٹری اتھارٹی

Oil & Gas
Regulatory Authority

GUARDING PUBLIC INTEREST

No. OGRA-6(2)-1(3)/2018-FRR

IN THE MATTER OF

SUI NORTHERN GAS PIPELINES LIMITED
FINAL REVENUE REQUIREMENT, FY 2017-18

UNDER

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

DECISION

January 15, 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 Northern Gas Pipelines Limited (SNGPL/the petitioner) is a public limited company, incorporated in Pakistan, and listed on Pakistan Stock Exchange. The petitioner is operating in the provinces of Khyber Pakhtunkhwa, Punjab and Azad Jammu & Kashmir under the license granted by the Oil & Gas Regulatory Authority. It is engaged in the business of construction and operation of gas transmission and distribution pipelines, sale of natural gas and sale of gas condensate (as a by-product). The petitioner is also engaged in the business of Re-gasified Liquefied Natural Gas (RLNG), in accordance with the decision of the Federal Government (FG).

1.2. The petitioner filed a petition on August 17, 2018 under Section 8(2) of the Oil & Gas Regulatory Authority Ordinance, 2002 (the Ordinance) and Rule 4(3) of the Natural Gas Tariff Rules, 2002 (NGT Rules), for determination of its Final Revenue Requirement (FRR) for FY 2017-18 (the said year) on the basis of its annual accounts, as initialed by its statutory auditors, after incorporating the effect of actual changes in the relevant factors in terms of Section 8(2) of the Ordinance. The petitioner has also submitted an amended petition (the petition) on October 12, 2018 due to revision in auditor's initialed accounts on the basis of take or pay arrangements under Gas Supply Agreements' (GSA) with Government Power Producers (GPPs). The petitioner has also provided a statement of accounts pertaining to RLNG business for the said year wherein it has claimed revenue shortfall at Rs. 2,132 million (Rs. 7.78 per MMBTU) to be recovered from RLNG consumers. The RLNG activity, as per decision of the FG is a ring-fenced and separate activity and its pricing is carried out under a different set of law. Accordingly, the instant revenue requirement determination is decided only to the extent of the natural gas activity of the petitioner.

1.3. In the petition for the said year, the petitioner, for the actual sales of 368,803 BBTU, has worked out its FRR for the said year, including Rs. 90,593 million previous years' shortfall, at Rs. 325,693 million and the revenue shortfall at Rs 172,649 million. Based on the actual sales revenue on the basis of prescribed prices and actual sale mix, the petitioner has claimed an increase of Rs. 468.13 per MMBtu in the average prescribed price for the said year.

1.4. The Authority, vide its order dated September 20, 2017, had determined the petitioner's Estimated Revenue Requirement (DERR) for the said year under Section 8(1) of the Ordinance at Rs. 211,940 million for estimated sale volume of 441,601 BBTU.

2. Salient Features of the Petition

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

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

Rs/MMBtu

Particulars	FY 2016-17 FRR	FY 2017-18 DERR	FY 2017-18 FRR Petition
Sales volume (BBTU)	415,423	441,601	368,803
Cost of gas	373.14	360.57	422.39
UFG disallowance	(13.11)	(9.92)	(2.03)
Transmission & Distribution Cost	50.62	47.88	101.64
Depreciation	26.65	40.39	35.93
Late Payment Surcharge (Payable)	5.29	1.59	15.93
Markup on running finance	0.08	0.11	0.32
Impact of IAS 19 (Recognization of Actuarial Losses)	5.90	-	(7.78)
Other Operating Expenses (inc.Exchange Loss)	0.10	-	24.38
WPPF	1.02	1.89	2.07
Total Operating Cost	449.70	442.51	592.85
Return on fixed assets	35.02	37.43	44.62
Prior Year Adjustment (cumulative)	148.88	-	245.64
Other operating income incl. LPS Income	(24.84)	(24.73)	(35.62)
Avg Cost of service/ Prescribed price (PP)	608.76	455.21	847.49
Current average prescribed price	397.95	394.56	379.36
Increase in Average Prescribed Prices	210.81	60.65	468.13

2.2. The petitioner has made the following submissions:

2.2.1. Annual return has been claimed at the rate of 17.5% of the value of its average net operating fixed assets (net of deferred credit) per license condition no. 5.2.

2.2.2. Gross addition in fixed assets during the said year has been claimed at Rs. 31,324 million and net addition, after accounting for deletion, adjustments and depreciation, at Rs. 17,901 million, resulting in increase in net operating fixed assets from Rs. 107,116 million in FRR 2016-17 to Rs. 125,017 million for the said year. After adjustment of deferred credit, the average value of operating fixed assets eligible for return works out to Rs. 94,027 million and the required return at Rs. 16,455 million.

2.2.3. Total operating revenues have been claimed at Rs. 153,045 million in the petition, as against Rs. 185,156 million in DERR for the said year, as detailed below:

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

Rs. Million

Description	FY 2016-17 FRR	FY 2017-18 DERR	FY 2017-18 FRR Petition	Incr/Decr over DERR	
Net sales at current prescribed price	165,318	174,236	139,909	(34,327)	-20%
Meter Rental and service charges	1,926	2,014	2,175	161	8%
Late Payment Surcharge and interest on arrears	3,444	4,291	5,859	1,568	37%
Amortization of deffered credit	3,250	2,615	3,746	1,131	43%
Other operating income	1,701	2,000	1,356	(644)	-32%
Net operating Revenues	175,639	185,156	153,045	(32,111)	-17%

2.2.4. Net operating expenses have been claimed at Rs. 218,646 million in the petition as compared to Rs. 195,411 million provided in DERR, as detailed below:

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

Rs. in Million

Particulars	FY 2016-17 FRR	FY 2017-18 DERR	FY 2017-18 FRR Petition	Inc/(Dec) over DERR	
Cost of gas	155,013	159,226	155,780	(3,446)	-2%
UFG disallowance	(5,448)	(4,380)	(750)	3,630	-83%
Transmission & Distribution Cost	21,028	21,144	37,486	16,342	77%
Depreciation	11,073	17,838	13,251	(4,587)	-26%
Late Payment Surcharge (Payable)	2,199	702	5,875	5,173	737%
Markup on running finance	35	48	117	69	144%
Impact of IAS 19 (Recognization of Actuarial Losses)	2,451	-	(2,871)	(2,871)	-
Other Operating Expenses (inc.Exchange Loss)	42	-	8,993	8,993	-
WPPF	424	833	765	(68)	-8%
Total operating cost including cost of gas	186,817	195,411	218,646	23,235	12%
Return on fixed assets	14,549	16,529	16,455	(74)	-
Prior Year Adjustment (cumulative)	61,848	-	90,593	90,593	-
Revenue Requirement	263,214	211,940	325,694	113,754	54%

2.2.5. In addition to operating cost including cost of gas, the return and cumulative prior years' adjustment has also been provided to work out the total shortfall claimed by the petitioner.

2.2.6. Net result of the petitioner's above mentioned claims is that there is a shortfall of Rs. 172,648 million after 17.5% return on average net operating assets and cumulative previous year's shortfall, which translates into an increase of Rs. 468.13 per MMBTU in the existing average prescribed price, as tabulated below:

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

	Description	Rs in Million
A	Net operating revenues	153,045
B	Net operating expenses including WPPF	218,645
C	Shortfall (B-A)	65,600
D	Return required @ 17.5% on net fixed assets in operation	16,455
E	Shortfall in revenue requirement (D+C)	82,055
F	Shortfall determined by Authority pertaining to previous years	90,593
G	Cummulative Shortfall in revenue requirement (E+F)	172,648
H	Sales volume (BBTU)	368,803
Increase (Decrease) in the average prescribed price (Rs/MMBTU) (G/H*1000)		468.13

3. Proceedings

3.1. The Authority issued notice of hearing on December 3, 2018 to the petitioner and the following interveners and related parties:

i. The Secretary, Ministry of Energy (Petroleum Division) Government of Pakistan, Islamabad.
ii. Mr. Malik Luqman, Section Officer (Energy), Energy & Power Department, Government of Khyber Pakhtunkhwa, Peshawar.
iii. Mr. Ghulam Qadir Awan, Lahore.
iv. Mr. Raziuddin (Razi), Chief Executive Officer, Khyber Pakhtunkhwa Oil & Gas Company, Peshawar.
v. Mr. Muhammad Aslam Chaudhry, Consumer, Lahore.
vi. Mr. Mohammad Kuli Khan, Chairman, All Pakistan Textile Mills Association, KPK Zone, Peshawar.

3.2. The hearing was held at Lahore on December 11, 2018.

3.3. The petitioner was represented at the hearing by a team of senior executives led by Mr. Amer Tufail, Deputy Managing Director along with legal counsel, who were given full opportunity to present the petition. The petitioner made submissions with the help of multimedia presentation explaining the basis of its petition and also responded to the comments, observations, objections, questions, and suggestions of the participants as well as members & officers of the Authority.

3.4. The petitioner's legal counsel emphasized regarding the implementation of the policy guideline and the UFG benchmark for the said year. The contention made by the counsel pertaining to UFG has been addressed in the relevant part.

3.5. The following interveners and participants have attended the hearing.

i. Mr. Muhammad Aslam Chaudhry, gas consumer, Lahore.

3.6. The contention made by intervener(s) is summarized as under;

3.6.1. It has been noted from the past record that the management and the petitioner's Board of Director have been continuously making efforts to increase profit for the shareholders at the cost of increase in gas prices and the loss of gas development surcharge. Therefore the interest of the consumer has been ignored.

3.6.2. The petitioner has paid dividend to shareholders @ 60% in financial year 2016-17 and 15% cash dividend for the 1st quarter of financial year 2017-18, before recent increase in gas prices. In addition, shareholders earned capital again on share price. if gas prices before increase were sufficient to pay cash dividend @ Rs. 75 per share, then recommendation for gas increase shall be detrimental for the consumers.

3.6.3. The intervener contended that in every business enterprise, sales revenue is considered blood and butter to run the operations successfully. When operating assets are unable to earn reasonable sales revenue in comparison to capital investment, it shows inefficient assets have been allowed to be included in the rate base. Accordingly, increase in prescribed price on the basis of inefficient operating assets will result in increase of consumer price It has been accordingly demanded to reject the request for gas price increase and consider Tariff Rule 17(J) while approving capital expenditures. It has also been stressed that uneconomical, inefficient and wasteful assets should not be added in rate base, for earning 17.5% revenue for the benefits of shareholders.

3.6.4. 17.5% guaranteed return available to the petitioner was based on the loan covenants which have been paid off. OGRA therefore should adopt revised rate of return, effective and economical to reduce gas prices.

3.6.5. In order to complete gas pipeline projects, GIDC has been imposed/ received from consumers. But in violation of law, said projects has been completed with commercial loan arrangements. For the completion of RLNG project, GIDC funds should have been provided by the Government.

3.6.6. RLNG is gaseous product and not the petroleum product. The then Ministry of Petroleum however has declared it as gaseous product to involve PSO for import. It has been highlighted that RLNG must have been imported by SNGPL/SSGC as being the licenses of gas marketing companies.

3.6.7. Legal expenses are incurred for the benefit of shareholders. It has been demanded that OGRA should decide whether it should be paid by shareholders or consumers. Further, in total revenue requirement, Rs 75 Million has been claimed on account of Directors expenses' showing exceptional increase as compared to Rs. 29 Million allowed at the time of DERR for the said year. In the past, payments to directors were up-to Rs. 5,000 per meeting. Now it has been fixed at Rs. 100,000 per meeting. Not only payment per meeting has been increased 1000% but also number of meetings and number of committees have increased, causing millions of Rupees to the consumers. OGRA should not approve these expenses to safeguard the interest of consumers

3.6.8. It has been opposed that the cost of provision for doubtful debt should not be recovered from honest consumers. The authority has been extending extensive favor to the company to allow reduction in UFG and pass on the burden to honest consumers.

3.6.9. The law and order situation is precarious in almost all part of the country and, therefore, a portion of KPK cannot be specified worst area. This cannot be made an excuse by the company to claim un-billed gas to reduce its UFG losses. It is not prudent decision to allow the company certain percentage of the unbilled gas.

3.6.10. The claim in respect of Gas pilfered by non-consumers has been accommodated by the authority for the last few years. There is no proof or certification/ authorization with respect to non-consumers. The company in order to show reduction in UFG losses has been booking volume to non-consumers discreetly for the last 4-5 years.

3.6.11. Increase in the HR cost as compared to operating and depreciation cost is alarming, exceptionally high, unjustified and imprudent. Salary of Managing Director has raised to Rs. 2 Million per month and of the Sr. General Manager, it has raised to Rs 1.5 Million and so on. In LESCO, there are only two General Managers and three chief Engineers who are dealing with almost same number of consumers equal to SNGPL. The difference in Management cost however can be compared which shows the perks and benefits of SNGPL are exceptionally high. This cost should be reduced to avoid further increase in gas prices.

3.6.12. UFG has increased from 8.07% in 2017 to 10.93% in 2018. It is clear to establish that management has shown relaxation to control UFG because in the last year indirectly about 7% UFG was allowed considering loss of gas billing to non-consumers and worst law and order situation in KPK without any evidence.

3.7. The above contentions raised by the petitioner and the intervener has been given due weight and has been considered while deciding in the relevant component

4. Determination

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

5. Authority's Jurisdiction And Determination Process

5.1. The Authority is obligated to determine the revenue requirement /prescribed prices of the petitioner in accordance with Section 8(1) and 8(2) of the Ordinance and License condition no. 5.2 of its integrated License.

5.2. The decisions issued by the Authority have always been strictly in accordance with the relevant provisions of Law. All the statutory requirements are firmly complied with before issuing any decision and in this whole process the Authority, very meticulously, ensures that public service utilities prosper in an efficient manner. The Authority, since its inception had issued all of its determinations, after going through the due process of transparent public hearings, while balancing the interest of all stakeholders, including general public, gas utilities, industrial consumers, etc. The checks and balances implemented by the Authority to improve the quality of service to consumers and bring efficiency in the overall management of the company have proved to be beneficial for the whole nation in measurable terms.

5.3. The Authority examines all applications and petitions in the light of relevant rules. Public notices are issued and all the stakeholders and are provided full opportunity to intervene / comment upon the issues pertaining to determination of revenue requirement, in writing and at public hearings, which are duly taken into account. Further, GoP's attention is specifically drawn to the pleas relating to policy matters for consideration, before deciding the retail prices for various categories of consumers.

5.4. The operating revenues, operating expenses and changes in asset base are scrutinized in depth, keeping in view the FG socio economic agenda and policy advices, in accordance with Rule 17(j) of NGT Rules. Further, Authority, in consultation with the FG and licensees in the natural gas sector has revised the tariff regime including the rate of return which is based on Weighted Average Cost of Capital (WACC) and the same is applicable from the current financial year 2018-19.

6. Return to Licensee

6.1. The Authority is obligated under Section 7(1) of the Ordinance, to determine or approve tariff for regulated activities whose licenses provide for such determination or such approval, or where authorized by this Ordinance, subject to policy guidelines. *License Condition No. 5.2* of license granted to the petitioner clearly states that subject to the efficiency related benchmarks adjustments, the Authority shall determine total revenue requirement of the licensee to ensure that it achieves 17.5% return on its average net fixed assets in operation for each financial year. The Authority, accordingly, has been determining the revenue requirement of the petitioner, providing return on net operating assets as per provision of the Ordinance as well as the petitioner's license, while treating various income and expenditure heads as per existing regime.

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

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7. Operating Fixed Assets

7.1. Summary

7.1.1. In respect of normal business, gross addition in fixed assets during the said year has been claimed at Rs. 31,324 million. The depreciation on the opening assets and added during the year has been claimed at Rs. 12,572 and deletion in assets at Rs. 850 million. Accordingly, net addition in assets after accounting for depreciation/deletion is Rs. 17,902 million, increasing the net opening fixed assets of Rs. 107,116 million to 125,018 million at the closing for the said year. After adjustment of deferred credit, the average value of operating fixed assets has been claimed at Rs. 116,067 million and the required return at Rs. 16,455 million. In respect of LNG business, the return computes to Rs. 7,504 million. The detail as under;

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

Million Rs.

Description	For Indigenous Gas	For RLNG
Net operating fixed assets at beginning	107,116	36,446
Additions during the year	31,324	16,670
deletion during the year	(850)	(1)
Total Addition	**30,474**	**16,669**
Depreciation	12,572	3,803
Net addition	17,902	12,866
Net Operating fixed assets at closing	125,018	49,312
Average Net operating fixed assets A	116,067	42,879
Deferred Credit at Beginning	21,573	-
Deferred Credit at Closing	22,507	-
Average Deferred Credit B	22,040	-
Average Net Assets eligible for return (A-B)	94,027	42,879
Rate of return	17.50%	17.50%
Amount of Return	**16,455**	**7,504**

7.1.2. The comparative analysis of additions in fixed assets is as follows: -

Table 6: Comparison of Summarized Schedule of Additions in assets

Rs. in million

Sr.#	Particulars	FY 2017-18 (DERR)			FY 2017-18 (FRR Petition)		
		Normal Business	*LNG	Total	Normal Business	LNG	Total
1	Freehold land	3		3	242	104	346
2	Building on Freehold/Leasehold land	275		275	168		168
3	Transmission System-Main	1,036	19,719	20,755	2,656	15,302	17,958
4	Compression system & equipment	494		494	264	385	649
5(a)	Distribution system	15,474		15,474	19,724	109	19,834
5(b)	Measuring & regulating assets	8,497		8,497	6,543	313	6,857
Sub total		**25,779**	**19,719**	**45,498**	**29,596**	**16,215**	**45,810**
6	**Normal and other assets :**						
6.1	Telecommunication equipments	26	-	26	62	49	110
6.2	Plant and machinery	161	-	161	449	45	494
6.3	Tools & equipment	115		115	30	22	52
6.4	Motor vehicles	213		213	407	340	746
6.5	Construction equipment	161		161	160	31	191
6.6	Furniture & Fixtures	60		60	40	3	43
6.7	Office Equipment	28		28	21	3	23
6.8	Computer hardware	199		199	289	1	290
Sub total		**963**		**963**	**1,456**	**493**	**1,950**
7	SCADA System/CC&B Project	1,550		1,550	95	-	95
8	Advance for land	-		-	177	(38)	139
	Total addition	**28,292**	**19,719**	**48,011**	**31,324**	**16,670**	**47,994**

* LNG Phase II project was approved by the Authority in- principle vide its letter dated November 21,2014

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7.2. Freehold Land

7.2.1. The details of the land capitalized by the petitioner during FY 2017-18 is given in the table below: -

Table 7: The detail of Freehold land

Million Rs.

S. No.	Description	DERR 2017-18	Claimed by the Petitioner	Justifications given by the Petitioner	Capitalization allowed by the Authority
1	Normal	3	188	Land acquired for Right of Way (ROW)	-
2	Advance for Land	-	177	Advance for acquisition of Land for ROW	-
	Sub-total (normal expenses)	3	365		
3	100 % Cost Recovery (CR) Basis	-	54	Land acquired for Right of Way (ROW)	54
4	LNG	-	104	Land acquired for Right of Way (ROW)	104
5	Advance for Land (LNG)	-	-38		
	Sub-Total (LNG+100% CR)	-	120	-	158
	Total		485	-	158

7.2.2. The petitioner has claimed capitalization of Rs. 365 million against the head **"Land Freehold"** in FRR 2017-18 under normal expenditure which includes Rs. 188 million for purchase of land for ROW and Rs. 177 million advance for land for ROW.

7.2.3. ***The Authority notes that the petitioner has not provided tangible justifications/ details for the said amount, therefore, the Authority pends Rs. 365 million under the normal expenditure. The Authority advises the petitioner to bring the remaining amount of Rs. 365 million for Authority's consideration whether the expense merits re-validation in its ERR Petition for FY 2019-20 and once the corresponding pipelines are commissioned.***

7.2.4. The petitioner further incurred Rs. 158 million for purchase of land for ROW under 100% cost recovery basis and LNG Project.

7.2.5. ***Keeping in view the operational requirements, the Authority allows capitalization of Rs.158 million under the head "Freehold Land" against 100% cost recovery and LNG. However, the petitioner shall not be entitled to get any rate of return on Rs. 54 million incurred under 100% cost recovery basis. The capitalization of Rs. 104 million in respect of RLNG shall be treated under the ring fencing mechanism as per the policy of the Government of Pakistan.***

7.3. Building on Freehold Land

7.3.1. The Authority allowed Rs. 275 million under the head Building on freehold land in DERR FY 2017-18. However, the petitioner had capitalized an amount of Rs.168

469

million including previous years' amounts. The Petitioner has only capitalized Rs. 11 million pertaining to the budget for FY 2017-18.

7.3.2. ***Keeping in view the above, the Authority allows capitalization of Rs. 11 million only which has been capitalized by the petitioner in FY 2017-18 and pends the amount of Rs. 157 million capitalized by the petitioner pertaining to previous years.***

7.3.3. ***The Authority advises the petitioner to bring the remaining amount of Rs. 157 million for Authority's consideration whether the expense merits re-validation in its ERR Petition for FY 2019-20.***

7.4. **Transmission** (Normal and 100 % Cost Recovery Basis)

7.4.1. The petitioner has informed that it had commissioned the below mentioned Transmission lines and SMSs during FY 2017-18: -

Table 8: The break -up of Transmission (Normal & on cost sharing basis)

Million Rs.

Sr. No.	Normal/Special Transmission Projects /100% cost Recovery Basis	DOC	DIA.	LENGTH	DERR FY 2017-18	Captilization Claimed by SNGPL in TRR 2017-18/Previous	Capatilization Allowed by the Authority
			(")	Km	Million Rs.		
(i)	Uplifting of 16" diameter X 35 Kms Rehmat Line and laying of 16" diameter X 21.1 Kms Sargodha Transmission line.	31/12/17	16	21.2	353	183	183
(ii)	Laying of 12" Diameter X 106 Kilometers Mardan-Swat loop-line.	3/5/2018	12	56	2,397	1,223	1,223
(iii)	Laying of Sambrial-Daska 8" transmission loop line. Including SMS.	9/6/2018	8	11.6	179	129	129
(iv)	Laying of 8" diameter X 3.2 Kms pipeline to receive sales gas from M/s MOL'S Tolanj Processing Facility	5/12/2017	8	3.5	47	36	36
(v)	Laying 16" dia. x 8.85 Kms Transmission loop-line from MP 37.88 up-to KAPCO.	20/06/18	16	8.5	152	78	78
(vi)	Adjustments				0	8	8
(viii)	Construction of SMSs commissioned under Regular Budget				200	162	31
xi	Cathodic Protection				230	438	206
xi	SMS Daska-Samrial Transmission				30	24	24
ix	Lines at 100% coost recovery					47	47
iix	SMSs on 100 % cost Recovery					328	328
	Total				**3,588**	**2,656**	**2,293**

7.4.2. ***Keeping in view the progress of the petitioner, the Authority allows capitalization of Rs. 2,293 million under the head of Normal Transmission and 100 % Cost Recovery Basis against the claimed amount of Rs. 2,656 million, however, the Authority pends an amount of Rs. 363 million which had been incurred by the petitioner on SMSs and Cathodic Protection System from the budgets of the previous years.***

7.4.3. ***The Authority advises the petitioner to bring the remaining amount of Rs. 363 million for Authority's consideration whether the expense merits re-validation in its ERR Petition for FY 2019-20.***

7.4.4. ***Moreover, the petitioner shall not be entitled to get any rate of return on an amount of Rs. 375 million mentioned at (Sr. No. x & xi) in the above table i.e. (Rs. 47 plus 328 million) incurred under the head 100% cost recovery basis.***

(i) Phase- II (LNG Projects)

7.4.5. The Authority, keeping in view the Ministry of Petroleum and Energy Resources' letter dated 5-11-2014 and subsequent letters relating to acute shortage of gas in the country and national importance of the project granted, in principle, approved LNG Phase-II of pipeline infrastructure development plan for upcoming LNG and anticipated indigenous supplies, vide its letter dated November 21, 2014. The petitioner projected Rs. 58,005 million for laying of pipelines under Phase-II of the Pipeline Infrastructure Development Plan.

7.4.6. The detail of pipelines and other assets capitalized by the petitioner during FY 2017-18 is given as under:

Table 9: Detail of Transmission Mains (LNG Phase-I&II)

Sr. No.	Additions Under LNG Phase-II Project	DOC	Project	Dia.	Length	Capitalization Claimed by SNGPL in FRR 2017-18	Capitalization allowed by the Authority
i	AC6 - AV29 LOOP LINE	23/11/17	LNG-II	36	23.16	1,918	1,918
ii	ACIX TO AC2 /AV8 (First / Second Segment)	31/01/18	LNG-II	36	63.86	4,346	4,346
iii	AC4 - AV15	23/03/18	LNG-II	36	26.96	1,698	1,698
iv	A3 - ACIX - AC4 (Second Segment)	31/12/17	LNG-II	36	22.25	1,257	1,257
v	AV22 - AC6 (3rd Segment)	1/2/2018	LNG-II	36	34.9	1,793	1,793
vi	N5 OKARA - PHOOL NAGAR LINE	10/1/2018	LNG-II	30	66.98	2,902	2,902
vii	Head Balloki Crossing from (U/S V/A To D/S V/A AT River Ravi)	29/09/17	LNG-II	24	3.1	268	268
	Total Lines					14,182	14,182
viii	Against Infrastructure Development Project (IDP) for LNG (Phase-I & II)					1,120	1,120
	Total (Lines+ IDP)				241.21	15,302	15,302

7.4.7. The petitioner informed that it had commissioned 7 Nos. lines from 24" to 36" diameter under LNG Phase-II project during FY 2017-18 at a cost of Rs. 15,302 million including Rs. 1,120 million in respect of adjustments against LNG (Phase I and II) projects.

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7.4.8. ***Keeping in view the above, the Authority allows the capitalization of Rs. 15,302 million under the head of LNG Projects during FY 2017-18 under the ring fencing mechanism.***

7.5. Compression System and Equipment

7.5.1. The Authority allowed to the petitioner Rs. 494 million under the head of Compression System and Equipment under regular budget in DERR FY 2017-18. It may be mentioned that the Authority has already approved a plan for overhauling of the compressors spread over a period of five years (2016-17 to 2020-21) with a projected cost of Rs. 2,065 million. The amount approved in DERR 2017-18 i.e. Rs. 494 million is the part of the said plan the petitioner has capitalized an amount of Rs. 264 million under this plan in FRR 2017-18 under regular Budget.

7.5.2. As far as capitalization of Rs. 385 million is concerned it pertains to LNG Project Phase-II, it may be mentioned here that Rs. 4,673 million was the part of LNG Phase-II Project for compression (25, 000 HP).

7.5.3. ***Keeping in view the operational requirements, the Authority allows capitalization of Rs. 264 million under regular budget and Rs. 385 million under LNG Projects during FY 2017-18 later under the ring fencing mechanism.***

7.6. Distribution System Mains

Table 10: Detail of Capitalization under Distribution Development

Million Rs.

S.No	Description	DERR FY 2017-18	FRR Petition			Capitalization allowed by the Authority
			NORMAL	LNG	Total	
1	Laying of Distribution Mains New Towns and village (8000 Kilometers)	13,932	12,172		12,172	2,653
2	Combing, Augmentation, Head Office Reserves (370 Kilometers)		1,325		1,325	637
3	Laying of Distribution Mains at Cost Sharing Basis	0	624		624	624
4	System Rehabilitation and UFG Control Activities	1,312	2,619		2,619	1,530
5	New Connection including 10% additional Urgent Fee Connections (Service Line)		2,882		2,882	2,882
6	Industrial/Commercial Connections (Ring Fenced) - SL		102	109	211	211
7	Cathodic Protection	230				
	Grand Total	15,474	19,724	109	19,833	8,537

7.6.1. The petitioner has informed that it had laid 8,581 Kms distribution lines at a cost of Rs. 12,172 million out of which only Rs. 2,653 million pertains to DERR for FY 2017-18 and the remaining amount pertains to the previous years. The petitioner further informed that it had capitalized Rs. 1,325 million for laying of 965 Kms lines under the head combing Mains and Head Office Reserves out of which Rs. 637 million pertains to DERR for FY 2017-18 and remaining amount of Rs. 688 million pertains to the previous years.

7.6.2. Under the head "System Rehabilitation and UFG Control Activities" the petitioner has capitalized an amount of Rs. 1,530 million against budget of FY 2017-18 and that the rest of the amount pertains against the budgets of the previous years.

7.6.3. ***Keeping in view the above, the Authority allows capitalization of Rs. 8,537 million under the head of Distribution Development against the claimed amount of Rs. 19,833 million; however, the Authority pends an amount of Rs. 11,296 million under the above head.***

7.6.4. ***The Authority advises the petitioner to bring the remaining amount of Rs.11,296 million for Authority's consideration whether the expense merits re-validation in its ERR Petition for FY 2019-20.***

7.7. Measuring and Regulating

7.7.1. The capitalization made by the petitioner under the head Measuring and Regulating is given as under:-

Table 11: Detail of Capitalization under Measuring and Regulating

Sr. No	Description	DERR FY 2017-18	NORMAL	LNG	Total Claimed in FRR FY 2017-18	Capitalization allowed by the Authority
1	New Connection including 10% additional Urgent Fee Connections (CMS)	4,222	2,381		2,381	2,381
2	Industrial/Commercial Connections (Ring Fenced) CMS	72	423	313	736	736
3	Construction of TBs/DRs	734	629		629	370
4	Replacement of Old Meters	3,343	3,110		3,110	3,110
	Grand Total	8,371	6,543	313	6,857	6,597

7.7.2. The petitioner has claimed a capitalization of Rs. 629 million under the head "Construction of TBSs/DRSs" out of which Rs. 370 million pertains to DERR for FY 2017-18 and the remaining amount pertains to the previous years.

7.7.3. ***Keeping in view the above, the Authority allows capitalization of Rs. 6,597 million under the head of Distribution Development against the claimed amount of Rs. 6,857 million, however, the Authority pends an amount of Rs. 260 million under the above head.***

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7.7.4. ***The Authority advises the petitioner to bring the remaining amount of Rs. 260 for Authority's consideration whether the expense merits re-validation in its ERR Petition for FY 2019-20.***

7.8. Plant, Machinery, Equipment and Other Assets

7.8.1. Under the head "Plant & Machinery equipment and other assets", the petitioner has capitalized Rs. 1,952 million in total, against Rs. 963 million allowed by the Authority in DERR FY 2017-18. The details are as under: -

Table 12: Detail of Capitalization under Plant, Machinery, Equipment and other Assets

Million Rs.

S.No	Description	DERR FY 2017-18	FRR Petition			Capitalization allowed by the Authority
			NORMAL	LNG	Total	
i	Telecommunication Equipment	26	62	49	111	50
ii	Plant & Machinery	161	449	45	494	101
iii	Tools & Equipment	115	30	22	52	41
iv	Construction Equipment	161	160	31	191	32
v	Motor Vehicles	213	407	340	747	388
vi	Furniture & Fixture	60	40	3	43	6
vii	Office Equipment	28	21	3	24	8
viii	Computer Hardware	199	289	1	290	78
	Grand Total	**963**	**1,458**	**494**	**1,952**	**704**

7.8.2. The petitioner has informed that out of the total capitalization of Rs. 1,458 million against regular expenditure under the different head as mentioned above, it has capitalized Rs. 210 million pertaining to FY 2017-18 whereas, the remaining amounts represents previous year's budget and has also capitalized Rs. 494 million under LNG Projects.

7.8.3. The petitioner has further informed that out of total capitalization of Rs. 407 million under the head "Motor Vehicles" from Regular Expenditure, only Rs. 48 million has been capitalized against the Authority's approval in DERR for the FY 2017-18 and rest of the amount has capitalized against previous years.

7.8.4. ***Keeping in view the above, the Authority allows capitalization of Rs. 704 million in total i.e. (Rs. 210 million under regular budget in the head of Plant, Machinery, Equipment and other Assets against the claimed amount of Rs. 1,458 million, and Rs.494 million under LNG Projects) however, the Authority pends an amount of Rs. 1,248 million under the above head. Moreover, Rs. 494 million in respect of RLNG head shall be treated under the ring fencing mechanism as per the policy of the Government of Partisan.***

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7.8.5. ***The Authority advises the petitioner to bring the remaining amount of Rs. 1,248 million for Authority's consideration whether the expense merits re-validation in its ERR Petition for FY 2019-20.***

7.9. SCADA System

7.9.1. The petitioner has informed that it has capitalized Rs. 95 million against Rs.1,550 million allowed by the Authority.

7.9.2. ***Keeping in view the operational requirements, the Authority allows capitalization of Rs. 95 million under this head as part of the SCADA project approved, in principle, by the Authority vide its letter dated 6th November, 2015.***

7.10. Fixed Assets Determined by the Authority

7.10.1. ***In view the above analysis, the summary of fixed assets allowed by the Authority is as under;***

Table 13: Fixed Assets Determined by the Authority

Rs. in million

Sr.#	Particulars	FY 2017-18			FY 2017-18		
		Per FRR Petition			Per Authority Determination		
		Normal Business	LNG	Total	Normal Business	LNG	Total
1	Freehold land	242	104	346	54	104	158
2	Building on Freehold land	168	-	168	11	-	11
3	Transmission mains (Normal)	2,656	15,302	17,958	2,293	15,302	17,595
4	Compression system & equipment	264	385	649	264	385	649
5(a)	Distribution system mains	19,724	109	19,834	8,428	109	8,537
5(b)	Measuring & regulating assets	6,543	313	6,857	6,284	313	6,597
Sub total		29,596	16,215	45,810	17,332	16,215	33,547
6	Normal and other assets :						
6.1	Telecommunication equipments	62	49	111	1	49	50
6.2	Plant and machinery	449	45	494	56	45	101
6.3	Tools & equipment	30	22	52	19	22	41
6.4	Motor vehicles	407	340	746	48	340	388
6.5	Construction equipment	160	31	191	1	31	32
6.6	Furniture & Fixtures	40	3	43	3	3	6
6.7	Office Equipment	21	3	23	5	3	8
6.8	Computer hardware	289	1	290	77	1	78
Sub total		1,456	493	1,950	210	493	704
7	SCADA System/CC&B Project	95	-	95	95	-	95
8	Advance for land	177	(38)	139	-	(38)	(38)
Total addition		31,324	16,670	47,994	17,638	16,670	34,308

7.10.2. ***In view the above analysis, the Authority allows Rs. 34,308 million in respect of fixed assets*** **against Rs. 47,994 million claimed by the petitioner. The Authority advises the petitioner to bring the remaining amount of Rs. 13,687 million for**

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Authority consideration whether the expense merits re-validation in its ERR Petition for FY 2019-20 along-with tangible justifications.

7.10.3. ***In consequence of above capitalization allowed by the Authority, the closing fixed assets, return and depreciation computes as under;***

Table 14: Computation of closing fixed assets, return and depreciation

Million Rs.

Description	For Indigenous Gas	For RLNG
Net operating fixed assets at beginning	107,116	36,446
Additions during the year	17,638	16,670
deletion during the year	(850)	(1)
Total Addition	**16,788**	**16,669**
Depreciation	11,888	3,803
Net addition	4,899	12,866
Net Operating fixed assets at closing	112,015	49,312
Average Net operating fixed assets A	109,566	42,879
Deferred Credit at Beginning	21,573	-
Deferred Credit at Closing	22,507	-
Average Deferred Credit B	22,040	-
Average Net Assets eligible for return (A-B)	87,526	42,879
Rate of return	17.50%	17.50%
Amount of Return	**15,317**	**7,504**
Depreciation chargeable to T&D cost	12,568	2550

7.11. Clarification w.r.t FRR 2016-17 for Rectifications of Draft Paras

7.11.1. The Authority observes that the petitioner vide its letter dated 31-10-2018 has referred Draft Paras (DP) 40, 66 and 74 pertaining to FRR FY 2016-17 and requested for clarification in FRR FY 2017-18. The petitioner has further informed that Departmental Audit Committee (DAC) in its meeting held on 27.12.2018 discussed the below paras and directed it to take-up the matter with OGRA for rectification and to share it with audit.

7.11.2. In view of above, the requisite clarification/ rectification w.r.t FRR FY 2016-17 is made as under;

7.11.3. Para 7.7.1 of FRR 2016-17 "Building on Freehold Land-Normal Capex" may be read as :-

> *"Keeping in view the operational requirements the Authority allows Rs. 82 million under the head "building on free hold land" to the petitioner in regular capex."*

7.11.4. Para 7.9.1 of FRR 2016-17 "Intangible Assets" may be read as:-

> *"Keeping in view the operational requirements the Authority allows Rs. 31 million under the head "Intangible Assets" to the petitioner during the FY 2016-17.*

7.11.5. Para 7.8.1 of FRR 2016-17 "Land for ROW and Advance for Land-Normal Capex" may be read as :-

"Keeping in view the operational requirements the Authority allows Rs. 160 million under the head "Land freehold and Advance for Land" for ROW under regular capex." to the petitioner during the FY 2016-17.

8. Operating Revenues

8.1. Sales Volume

8.1.1. The sales volume has dropped to 368,803 BBTU, witnessing a decrease of 17% for the said year, as against 441,601 BBTU per DERR FY 2017-18. Category-wise comparison with previous year has been provided by the petitioner as under:

Table 15: Comparison of Category-wise Sales Volume

				BBTU	
Category	FY 2016-17	FY 2017-18	FY 2017-18	Incr/Decr over DERR	
	FRR	DERR	The Petition		
Power	95,232	49,842	72,947	23,105	46%
Cement	209	1,474	191	(1,283)	-87%
Fertilizer	36,189	35,774	32,011	(3,763)	-11%
General Industries	45,363	69,312	29,768	(39,544)	-57%
CNG	27,288	30,207	27,459	(2,748)	-9%
Commercial	21,856	34,259	20,955	(13,304)	-39%
Domestic	189,286	220,733	185,472	(35,261)	-16%
Total	**415,423**	**441,601**	**368,803**	**(73,357)**	**-17%**

8.1.2. The Authority observes that petitioner had projected the volumes a bit on higher side at the time of DERR for the said year. In the cement sector, drastic decrease has been witnessed since this sector is provided gas on as and when available basis. The actual gas supply to commercial sector has been dropped to 39% viz a viz it was projected at the time of DERR FY 2017-18. There is overall decrease except power sector which has been provided the gas more than it has been expected at the time of DERR for the said year.

8.1.3. The Authority relies that the petitioner has supplied gas to various sectors in accordance with the gas load management policy of FG. T*he Authority therefore accepts sales volume at 368,803 BBTU for the said year.*

8.2. Sales Revenue

8.2.1. Sales revenue has been decreased from Rs. 201,232 million to Rs. 139,909 million per DERR. Category-wise comparison with DERR and previous year is given below:

Table 16: Historical Comparison of Category-wise Sales Revenue per the petition

					Million Rs.
Category	FY 2016-17	FY 2017-18	FY 2017-18	Incr/Decr over DERR	
	FRR	DERR	The Petition		
Power	46,477	22,700	38,663	15,963	70%
Cement	102	671	145	(526)	-78%
Fertilizer	17,571	16,285	5,171	(11,113)	-68%
General Industries	21,367	31,751	18,025	(13,726)	-43%
CNG	13,156	13,751	19,235	5,485	40%
Commercial	10,746	15,595	14,993	(602)	-4%
Domestic	85,798	100,480	43,677	(56,804)	-57%
Total	195,218	201,232	139,909	(61,506)	-31%

8.2.2. The petitioner has submitted that above revenues are based on the existing prescribed/sale prices price determined by the Authority. Further, variation in sales revenue is due to change in sale mix.

8.2.3. ***In view of above, the sales revenue at sale prices for the said year is determined at Rs. 139,909 million for the said year.***

8.3. Other Operating Income

8.3.1. The petitioner has reported other operating income at Rs. 13,136 million for the said year as against Rs. 10,920 million per DERR. Item-wise comparison is as under:

Table 17: Historical Comparison of Other Operating Income

					Rs. Million
Description	FY 2016-17	FY 2017-18	FY 2017-18	Incr/Decr over	
	FRR	DERR	FRR Petition	DERR	
Meter Rental and service charges	1,926	2,014	2,175	161	8%
Late Payment Surcharge and interest on arrears	3,444	4,291	5,859	1,568	37%
Amortization of deffered credit	3,250	2,615	3,746	1,131	43%
Other operating income	1,701	2,000	1,356	(644)	-32%
Net operating Revenues	10,321	10,920	13,136	2,216	20%

i. *Rental & Service Charges*

8.3.2. The petitioner has claimed income from "Rental & Service Charges" at Rs. 2,175 million for the said year and explained that income under this head is generated on account of rent from meters and service charges which increases with consistent trend.

8.3.3. ***The Authority, in view of above, agrees with petitioner's submission and accepts "Rental & Service Charges" at Rs. 2,175 million for the said year, as per initialed accounts for the said year.***

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

8.3.4. The petitioner has included income on account of LPS at Rs. 5,859 million for the said year against Rs. 4,291 million determined in DERR 2017-18.

8.3.5. The petitioner explained that total income under this head earned during the year is Rs. 6,432 million which includes Rs. 573 million on account of RLNG activity.

8.3.6. ***The Authority, therefore accepts the income under this head at Rs. 5,859 for the said year. Accordingly, the Authority accepts the other operating income at Rs. 13,136 million.***

iii. *Indigenous Gas Diversion to RLNG consumers*

8.3.7. The petitioner has submitted that it has been swapping gas between RLNG and Indigenous consumers during the said year. The volumes from both sides normally compensate each other. However as at June 30, 2018, a volume of 10,379,957 MMBTU of indigenous gas has been sold as RLNG. Therefore, the petitioner has transferred the Cost of indigenous gas in respect of above volumes to RLNG segment at its WACOG. By doing so, RLNG sales price being on higher side created extra ordinary profits on RLNG side. Accordingly, a swapping deferral account showing an amount of Rs. 6,786 million as an expense has been created in the RLNG segment for these volumes to the extent of difference in WACOG and RLNG cost price so that the profit does not exceed the guaranteed return allowed to the Company. Consequently the balancing figure of Rs. 2,132 Million, being shortfall in RLNG revenue requirement, has been requested to be allowed through appropriate increase in RLNG Sales price of the forthcoming period.

8.3.8. The petitioner has also submitted that in the RLNG segment, a revenue of Rs. 17,178 million has been recognized as an income on account of take or pay charges billed to National Power Parks Management Company Limited and Quaid-e-Azam Thermal Power (Private) Limited. The outcome of take or pay revenue of Rs. 17,178 million is dependent upon the resolution of the dispute which is pending in the arbitration. In case of adverse decision of arbitrator, the current system gas sold as RLNG will convert into RLNG.

8.3.9. Regarding the above arrangement, the petitioner has referred the decision of the ECC of the Cabinet taken in case ECC-37/09/2018 dated May 11, 2018 which inter-alia provides as under;

"(ii) SNGPL and SSGCL be allowed to manage gas loads on their system through RLNG System gas swap mechanism for which necessary provision of volumetric adjustment and financial impact may be made on cost neutral basis in the Sale Price of RLNG on a multiyear and on going basis through setting up of a deferral account by OGRA."

8.3.10. The Authority observes that ECC of the Cabinet in its decision has allowed the petitioner for swapping of natural gas and RLNG for the purpose of gas load management on cost neutral basis. This transpires that petitioner may carry out the swapping arrangement whereby indigenous gas and RLNG volumes should compensate during a financial year and if such arrangement is exposed to price differential, the same shall part of deferral account. The instant case however involves transfer/sale of indigenous gas as RLNG. The sale activity has been recorded at the cut of date of FY 2017-18 i.e; June 30, 2018. Accordingly, the appropriate recourse is to establish a liability in RLNG account through provisioning/deferral account which shall be adjusted prospectively on portion basis regularly.

8.3.11. ***In view of above, the Authority accepts the petitioner's stance in this regard. The Authority however observes that the petitioner has swapped the volume on cost of gas basis only. The same however should be based on the prescribed prices. The Authority accordingly, determines the deferral account in RLNG price at Rs. 2,641 million. Accordingly it shall further recover the revenue requirement by Rs. 4,145 million for the said year. The Authority however directs the petitioner to submit the detailed statement in this regard separately duly certified by its statutory auditors.***

9. Cost of Gas

9.1.1. The petitioner has claimed the cost of gas sold as per initialed accounts at Rs. 155,780 million (net of GIC) for the said year. The petitioner has explained that cost of gas has been worked out on the basis of national WACOG. However, effective May 2018, WACOG has been put in abeyance in accordance with the decision of the Federal Government.

9.1.2. The Authority had determined input cost of gas on the basis of combined weighted average cost of gas purchased by the petitioner and SSGCL at Rs. 325.22 per MMBTU in DERR in accordance with the agreement for equalization of cost of gas dated 22nd September, 2003, between these two companies. On the basis of their actual audited results, weighted average of input cost of gas for the said year works out at Rs. 375.88 per MMBTU (Rs. 353.82 per MCF).

9.1.3. ***In view of the above, the Authority determines cost of gas sold for the said year at Rs. 155,780 million.***

9.2. Unaccounted for Gas

9.2.1. The petitioner submitted audited figures and data showing Gas carried for PPL and POL (145 and 113 MMCF) respectively. The petitioner also furnished detailed calculations; vide its letter dated November 27, 2018, for Energy Equivalence Volume i.e. 11,165 MMCF which includes Gas passed to Distribution System and sold to PFC consumers (7,286 MMCF) and Energy Equivalence Volume of 3,879 MMCF in Distribution System. Additional gas sold to the RLNG consumers from the indigenous natural gas is 5,958 MMCF. The petitioner has also mentioned that bulk consumers are fed from distribution segment immediately downstream of SMS hence sales to such consumers are dealt with in the distribution segment and in all UFG workings these sales are treated as sales in distribution.

9.2.2. The petitioner also submitted that Energy Equivalence has its relation with RLNG Swap GCV at receipt point and RLNG sales GCV and it decreases or increases with RLNG Calorific Value difference and quantity of RLNG sales. Regarding higher GIC of RLNG than System Gas, the petitioner stated that: -

(a) Total Indigenous Gas consists of sum of gases received from different Gas Fields situated in Southern and Northern part of SNGPL pipeline network.

(b) Swap Gas in lieu of RLNG is being received from SSGC from Southern part of the System only.

9.2.3. The petitioner, vide its letter dated December 14, 2018, has submitted the following UFG figures: -

Table 18: Breakup of UFG as per the petitioner

	UFG percentage (Indigenous gas)
Transmission	0.38
Distribution	10.79
Total UFG	10.93

9.2.4. The Authority, vide its letter No. OGRA-9(472)/2018 dated February 28,2018, sent the KMI's to the petitioner for implementation in letter and spirit. The Petitioner submitted its replies, vide its letters No. RA-UFG-012-18 dated August 20, 2018, RA-TAR-17-18(F)-013 dated October 17/ November 20, 2018 and RA-TAR-17-18(F)-020 dated December 14, 2018 including Audit Report of M/s AF Ferguson & Company regarding KMI's for UFG Benchmark, which were considered by the Authority.

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9.2.5. The Authority Further advises the petitioner to comply with the metering related KMIs specifically w.r.t. KMI Nos. (1-3) for better visibility and targeted efforts to reduce UFG.

9.2.6. Moreover, the petitioner to install check meters in large load areas and customers for better reconciliation. The meters must be calibrated on regular basis and connected with head office. These must be locked so no field staff can access the meters without the head office knowledge. The petitioner is also advised to provide the breakdown of UFG components for its quantification, for the analysis of the multiplying factor i.e. alpha of Rate1, as per UFG Study Report and re-iterated at Para-8.2.4 and 8.2.5 of DERR FY 2017-18.

9.2.7. The Local area conditions allowance, based on the KMIs performance and as allowed by the Authority, is incorporated and the UFG sheet is given as under: -

Table 19: Detailed Breakup of UFG Determined by the Authority

		As per petition		Determined by the Authority	
Gas Purchases		Indigenous gas (UFG)	RLNG Supplied to Transmission and Distribution consumers	Indigenous gas (UFG)	RLNG Supplied to Transmission and Distribution
		MMCF		MMCF	
Transmission System					
(Gas Received) in Transmission Indigenous	A	456,556		456,556	
Gas Received in Transmission RLNG			279,730		279,730
Taken out (+) Taken in (-) or (Line Pack)	B	1,735	-2,318	1,735	-2,318
Net Gas Received in Trans. System	C=A+B	458,291	277,411	458,291	277,412
Gas used in operation of Tran. Sys. RLNG			-3,136		-3,136
Gas used in operation of Tran. Sys. (Indigenous gas)	D	-2,265		-2,265	
(i) Compression		1,796		1,796	
(ii) Residential Colonies		72		72	
(ii) Coating Plant		169		169	
(iii) Ruptures/Sabotage		36		36	
(iv) Other usage Depressurization purging etc		191		191	
Gas Available in Transmission System	E=C+D	456,026	274,275	456,026	274,275
Energy Equivalence Volume related to PFC	F	-7,286	7,286	-7,286	7,286
Gas passed to Dist. System and sold to PFC consumers		-	187,766	-	187,766
RLNG Stock Additional sale of LNG or vice versa	G	607	-607	607	-607
Gas passed to Distribution system through SMS	H	446,399	93,339	446,399	93,339
Loss in Tansmission System	I=E+F-G-H	1,735	1,063	1,735	1,063
% Loss or Gain in Transmission Sytem	J=I/C*100	0.38	0.38	0.38	0.38
Distribution System					
Gas Received in Dist. System (Through SMS)	A	446,399	93,339	446,399	93,339
Gas carried for PPL	B	-145		-145	
Gas carried for POL	C	-113		-113	
Energy Equalence Volume	D	-3,879	3,879	-3,879	3,879
Gas internally consumed in Distribution System	E	-1,147		-1,147	
(i) Free Gas Facility		616		616	
(ii) Co-Generation		97		97	
(iii) Sabotage		382		382	
(v) Purging		52		52	
(Gas available for Sale in Dist. Sytem)	F=A+B+C+D+E	441,115	97,218	441,115	97,218
Gas Sold					
Billed	G	398,865	95,370	398,865	95,370
Unrecovered Pilferage volume reversed	H	-11,249		-11,249	
Less LNG swap sale					
Unbilled/ lost in L& O effected Areas					
Pilferage volume detected against non					
RLNG Stock Additional sale of LNG or vice versa	I	5,351	-5,351	5,351	-5,351
Under measured volume in respect of minimum					
Gas sold but not Billed previous					
Gas sold but not Billed current					
Gas Delivered (Net Gas Sold)	J=G+H+I	392,967	90,019	392,967	90,019
Loss in Distribution System	K	48,148	7,199	48,148	7,199
% age Loss in Distribution Sytem	L=K/A*100	10.79	7.71	10.55	7.71
Total UFG Volume (Transmission + Distribution)	M	49,883	8,262	49,883	8,262
Total % age UFG (Transmission + Distribution)	N	10.9	2.95	10.9	
Working disallowance for SNGPL				MMCF	
Gas Received (Gas available for Sale in Dist.				456,556	
UFG Benchmark (Percentage)	5%	5%		5%	
Local Conditions Allowance Percentage	2.6%	2.6%		1.991%	
Allowed UFG Percentagee	7.6%	7.6%		6.991%	
Allowed UFG Volume (MMCF)				31,918	
Disallowance (MMCF)				17,965	
WACOG (Rs./MCF)				353.82	
Disallowance (Million Rs.)				6.356	

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9.2.8. In view of above, UFG disallowance is determined at 17,965 MMCF, amounting to Rs. 6,356 million for the said year. The Authority however observes that the petitioner has not confirmed the WACOG figure owing to non-availability of cost equalization data of the sister utility for June 2018. Accordingly, any adjustment on this account, if required, shall be subsequently made.

10. Transmission and Distribution Cost

i. Summary

10.1.1. The transmission and distribution cost is higher by 77% i.e. from Rs. 21,144 million per DERR to Rs. 37,485 million per the petition, as compared below:

Table 20: Comparison of T & D Cost with DERR and Previous Year

Rs. in million

Particulars	FY 2016-17	FY 2017-18	FY 2017-18	Incr/ (Dec) over DERR FY 2017-18	
	FRR	DERR	FRR Petition	Rs.	%
Human Resource Cost	12,857	14,392	28,605	14,213	99
Stores and Spares Consumed	633	627	774	148	24
Repair and Maintenance	961	1,105	1,341	236	21
Fuel and Power	254	280	350	70	25
Stationery, Telegram and Postage	103	190	154	(36)	(19)
Dispatch of gas bills	95	100	123	23	23
Rent, Rate, Electricity and Telephone	406	553	480	(74)	(13)
Traveling	136	150	171	22	14
Transport expenses	737	737	897	161	22
Insurance	217	293	300	8	3
Legal and Professional Services	165	163	227	64	39
Consultation for ISO 14001 & OHSAS 18000	4	5	4	(1)	(13)
Gas bills collection charges	405	430	472	42	10
Gathering charges of gas bills collection data	37	45	45	-	-
OGRA fee	215	180	217	37	21
Advertisement	163	180	189	9	5
Bank Charges	16	18	7	(11)	(61)
Uniforms & protective clothing's	32	32	89	57	179
Staff training and recruiting	6	12	11	(1)	(8)
Security expenses	630	725	907	182	25
SNG training insititute	17	17	20	3	20
Provision for doubtful debts	868	1,584	-	(1,584)	(100)
Sponsorship of chairs at University	9	10	10	(0)	(2)
5 Years special training programme	27	30	28	(2)	(8)
Budget for UFG control related activities	560	616	765	149	24
Out Sourcing of call centre complaints management	22	24	27	3	11
Cost of Gas Blown off	236	-	173	173	-
Contribution to ISGSL	-	-	15	15	-
Sports Cell	50	48	72	24	50
Annual Sports/Cricket Expenses	48	40	52	12	31
Corporate Social Responsibility	10	11	13	2	18
Facilities provided by other companies	11	7	10	3	39
Board Meetings and Directors expenses	55	29	75	46	159
Other expenses	139	174	186	12	7
Expenses for uplifting of lines			79	79	-
Subtotal Expenses	20,123	22,808	36,891	14,004	61
Allocated to fixed capital expenditures	-	(2,970)	(320)	2,650	(89)
T&D Expenses	20,123	19,838	36,570	16,654	84
Gas Internally Consumed	2,686	1,306	910	(396)	(30)
License Cost LPG Air Mix			5		-
Total T&D Expenses	22,810	21,144	37,485	16,258	77

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

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ii. Human Resource Cost

10.1.3. The petitioner has claimed increase of 99% on account of HR cost from Rs. 14,392 million provided in DERR to Rs. 28,605 million. The petitioner has claimed the HR cost on the basis of SSGCL's unit rate for the said year.

10.1.4. The petitioner has pleaded that in case of UFG benchmark, OGRA has calculated uniform rate for local factor. Likely to this, the petitioner requested to allow the same rate for HR cost so that it should have the same resource base that OGRA has allowed to SSGC in line with other "equal" benchmarks and rate of return, given to both the gas companies. The petitioner highlighted that it is efficiently managing its workforce therefore, it should be given incentive.

10.1.5. The Authority reiterates that petitioner contention for uniform HR base is rather perfunctory and based on hypothetical assumptions. The HR benchmarking since inception has started on the basis of respective actual HR cost and organizational strength which witness different executive to sub-ordinate ratio and geographical operating conditions. Accordingly, if SSGCL is compelled to adopt the SNGPL's organizational model, as claimed better to deliver the desired results, it shall take time to gradually replace the existing structure. Further, the Authority observes that the current UFG benchmark has built in feature to retain the gain if the petitioner better performs to save the precious resources. Accordingly, efficiency related factor is already catered for.

10.1.6. The Authority further observes that interveners in the various hearing criticized the hefty pay and perks drawn by the petitioner's executives and requested OGRA to allow similar pay structure which is in vogue in the energy sector for LESCO, IESCO etc; . It has been also stressed that performance of the petitioner is not better than the power utility companies; accordingly there is no justification to allow such fabulous packages. The Authority observes that the review of grade-wise actual HR cost reveals that the executive cadre particularly the top slot of the petitioner is drawing emoluments rather on higher side which may not be defendable and also may become cause of paucity of funds for sub-ordinate cadre. Accordingly, the Authority directs the petitioner to rationalize the pay and perks of all the cadre on the justifiable basis and the salaries of executive must not be enhanced until the sub-ordinate judicious demand is met.

10.1.7. In view of above, the Authority determines the HR cost benchmark as per existing parameters in the computation as provided at **Annex –B**.

10.1.8. ***In view of above, the HR cost for the said year computes to Rs. 14,961 million.***

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iii. Travelling Expenses

10.1.9. The petitioner has claimed Rs. 171 million on account of "Travelling Expenses" for the said year as against Rs. 150 million provided in DERR for the said year, showing an increase of 14%. The comparison is given below:

Table 21: Historical comparison of travelling expenses

Rs. In million

Particulars	FY 2016-17	FY-2017-18		Incr/Decr over DERR	
	FRR	DERR	The petition	Rs	%
Local travelling					
Executives	76	83	101	18	22%
Subordinates	49	54	67	13	23%
	125	137	168	31	23%
Foreign travelling					
Conveyance (Official)	9	10	0	-10	-99%
Travelling directors	2	2	3	1	48%
Total	11	12	3	-9	-76%
Total	136	150	171	22	14%

10.1.10. The petitioner has explained that increase under this head is normal keeping in view the inflationary trend.

10.1.11. The Authority observes that gas prices are continually rising up. Accordingly, there is need to adopt austerity measures and curtail such establishment expenses.

10.1.12. ***In view of above, the Authority determines the amount under this head at the level of DERR i.e; Rs. 150 million for the said year.***

iv. Insurance

10.1.13. The petitioner has claimed expenditure of Rs. 300 million on account of "Insurance" for the said year. The historical comparison is given below:

Table 22: Historical comparison of Insurance Expenses with Previous Years

Rs. In million

Particulars	FY 2015-16	FY-2016-17	FY-2017-18		Incr/Decr over Actual	
	FRR	FRR	DERR	The petition	Rs	%
Third party	2	2	2	2	0	-3%
Fire risk	107	120	132	137	5	4%
Fidelity / cash in transit	0	0	0	0	0	33%
Motor vehicles	52	66	73	74	1	1%
Loss of Profit	24	24	73	78	5	7%
Miscellaneous	4	5	12	9	-3	100%
Total	189	217	293	300	8	3%

10.1.14. The Authority observes that the petitioner has claimed Rs. 78 million under sub-head "Loss of Profit" for the said year and notes that the matter of insurance premium on this account, after DERR for the said year, has been exhaustively deliberated and discussed in the motions for review FRR FY 2016-17. The Authority observes that the petitioner has been of the view that this policy covers Loss of Profit in terms of gas supplied by SNGPL, due to physical loss/damage caused to

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SNGPL existing gas pipelines (including compressor stations, repeater stations and other installation on the existing pipelines). The Authority after taking into the methodology of computation already concluded that insurance premium on account of "Loss of Profit" lacks logic and rationale when compared with the amount spent viz a viz benefit derived over the years. Accordingly, the same is not convincing to allow the increase over the previous year. Moreover, ensuring profit to the shareholder at the cost of consumer defies logic.

10.1.15. ***In view of above, the Authority restricts the expenses under the sub-head "loss of profit" at the level of FRR for FY 2016-17 and advised the petitioner to place the matter before its Board of Directors for review. Accordingly, the total amount under the "Insurance" works out to Rs. 246 million for the said year.***

v. Uniform & Protective Clothing

10.1.16. The petitioner has claimed expenditure of Rs. 89 million on account of "Uniform & Protective Clothing" for the said year as against Rs. 32 million provided in DERR for the said year, showing an increase of 178%. The comparison is given below:

Table 23: Historical comparison of uniform & Protective Clothing

Rs. In million

Particulars	FY-2016-17	FY-2017-18		Incr/Decr over Actual	
	FRR	DERR	The petition	Rs	%
Uniform & Protective Clothing	32	32	89	57	178%
Total	**32**	**32**	**89**	**57**	**178%**

10.1.17. The petitioner has explained that that procurement of Rs. 43 million pertain to FY 2016-17 which could not be matured due to procurement lead time. Expenses against PPE's booked in FY 2017-18 is infact impact of two years i.e. FY 2016-17 Rs. 43 million and FY 2017-18 Rs. 46 million.

10.1.18. The Authority observes that it has always appreciated the employees' protections related activities, however, the same requires to be undertaken with consistent approach.

10.1.19. ***In view of above, the Authority accepts the petitioner justification and allows the actual expenses under this head at Rs. 89 million for the said year.***

vi. Sports Cell, Annual Sports & CSR

10.1.20. The petitioner has claimed Rs. 138 million under the head "Sports Cell, Annual Sports and CSR" for the said year as against Rs. 99 million provided in DERR for the said year. The historical comparison is as under;

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Table 24: Sports Cell, Annual Sports & CSR

Particulars	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18		Incr/ (Dec) over DERR FY 2017-18	
	FRR	FRR	FRR	DERR	FRR Petition	Rs.	%
Sports Cell	33	42	50	48	72	24	50
Annual Sports/Cricket Expenses	28	35	48	40	52	12	-
Corporate Social Responsibility	5	10	10	11	13	2	18
Total	66	87	108	99	138	38	39

10.1.21. Under the sub-head "Sports Cell" the petitioner has submitted that increase under this head is mainly on account of revision in salaries of contractual players. Moreover, SNGPL is participating in major tournaments in different sports activities like Football, Hockey, Kabbadi, Tennis & Squash. The petitioner claimed it has performed very well in all major sports. Further, to attract national level players and to retain existing good players in the teams, a handsome packages and perks are offered to the players.

10.1.22. Regarding, "Annual Sports / Cricket" the petitioner has explained that its cricket team is 7 times winner of Quaid e Azam Trophy (including 5 times in last 6 years). Further, the petitioner is keen to hire more national players in the team to maintain it's winning streak in the most valuable tournament in Pakistan. In this regard, the petitioner has to held annual sports to provide healthy activities to its employees.

10.1.23. Regarding CSR Activities, the petitioner has signed an MOU with WWF Pakistan regarding the Agro Waste Project for the installation of Gasifirs in different areas of Punjab and KPK. The objective is to provide an alternative mean of energy to rural communities in cotton and rice producing areas. CSR activities are important to maintain good image of the petitioner.

10.1.24. In view of above, the Authority appreciates the petitioner' interest in the sports and CSR related activities which are part of service to the society as well as good image for the petitioner. Accordingly, the Authority has always supported the petitioner's initiatives in this regard. The Authority, however, observes that it has repeatedly stressed that such activities are essential but not core business of the petitioner'. Accordingly the same requires be undertaken at reasonable cost with consistent and sharing approach. At the time of DERR for the said year, it was clearly provided that the expenses under this head be controlled upto to approved limit.

10.1.25. ***In view of above, the Authority determines the expenses under this head at the level of DERR i.e; Rs. 99 million. The Authority appreciates that the remaining expenses shall be shared/ contributed by the shareholders profit.***

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vii. Board Meetings & Directors Expenses

10.1.26. The petitioner has claimed Rs. 75 million under the head "Board Meetings & Directors Expenses" for the said year as against Rs. 29 million provided in DERR for the said year. The detail comparison with previous year' is provided as under;

Table 25: Historical Comparison of Board Meetings & Directors expenses

Million Rs.

Particulars	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18		Incr/ (Dec) over DERR FY 2017-18	
	FRR	FRR	FRR	DERR	FRR Petition	Rs.	%
Board Meetings and Directors expenses	27	35	55	29	75	46	159
Total	27	35	55	29	75	46	159

10.1.27. The Authority observes that petitioner explained that expenses under this head have increased owing to increase in fee and number of the meetings held during said year. The petitioner has submitted that director fee per meeting has increased from 40,000 since FY 2015-16 to Rs. 80,000 during said year.

10.1.28. The Authority observes that there has been vehemently criticism from the interveners in the public hearing on this issue. The interveners have highlighted that the Directors fee as well as number of the meetings have increased manifolds which is adversely impacting the consumers. The interveners have therefore always been stressing to protect their interest and curtail such expenses which have been exorbitantly increased without any logic. Accordingly, the Authority at the time of DERR also advised the petitioner to strictly control this expense under the approved limits.

10.1.29. ***The Authority, in view of above, restricts the expenses at the level of DERR for the said year and determines the same at Rs. 29 million.***

viii. Uplifting of Pipelines

10.1.30. The petitioner has informed that an expense of 79 million has incurred on account of uplifting of two lines i.e. 8" dia. x 23.241 km at Kohat and 16" dia. x 35.56 Km at Rehmat field. The project of Uplifting of Rehmat pipeline was approved by BOD of SNGPL in its 481st meeting held on 23-01-2017, and accordingly approved by OGRA vide letter No. OGRA-9(457)/2017 21-07-2017 at a cost of Rs. 353.0 million including Rs. 35 million as uplifting cost, however, the petitioner has informed that it has not claimed the uplifting cost in Capex. Therefore, the cost of uplifting of 16" dia. Rehmat line Rs. 35 million is allowed to the petitioner.

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10.1.31. The Authority vide its letter OGRA-9(243)/12 dated 14-11-2012 approved the uplifting of 8" dia. x 54.3 Km Kohat-Dakhni pipeline at cost of Rs. 27 million, however the petitioner has uplifted 23.241 Km on prorate basis the Authority allows Rs. 10 million to the petitioner.

10.1.32. ***Therefore, the Authority in total allows Rs. 45 million against the claimed amount of Rs. 79 million.***

ix. Remaining T&D Expenses not discussed above

10.1.33. The Authority observes that the expenses under the head "Repair & Maintenance activities", "Store & Spares consumed "and "budget for UFG control related activities" witnesses 21%. 24% and 24% increase respectively for the said year. The same however has been allowed to cater for the inflation and encourage the petitioner to undertake maintenance activities with consistent approach and result oriented strategy which must reduce UFG menace.

10.1.34. The Authority observes that under the sub-head "security expenses", there is significant increase of 25%. The same has been allowed owing to revision in rates. The Authority however notes that the expenses under this head should be judiciously utilized to meet the acute need and only for the protection of installations and valuable premises.

10.1.35. The Authority observes that expense on account of LPG Air Mix has not been allowed since no information has been provided in this regard.

10.1.36. Regarding the expense head "Advertisement", the Authority observes that petitioner has incurred Rs. 189 million which mainly comprises "customer campaign" through electronic and print media. The Authority notes with concern that the petitioner is spending significant amount under this head, no effective campaign for the conservation of precious gas resource through awareness and education of the consumers has been observed. The Authority therefore directs the petitioner to undertake the advertisement campaign in economized manner with result oriented approach focused to conserve the resources by highlighting its demand supply statistics, slab structure and the real/substitute cost of the gas consumed by the subsidized consumers.

10.1.37. The Authority further observes that under the sub-head 'Foreign Training', the petitioner has spent Rs. 10 million for the said year which witnesses exorbitant increase, almost double than FY 2016-17. The Authority allows the same since the same has been actually paid. The petitioner is however directed to judiciously utilize

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these expenses on merit through a well devised program duly approved by OGRA in advance.

10.1.38. The Authority further observes all remaining expenses not discussed here have been allowed on the specific reason advanced by the petitioner.

x. Transmission & Distribution Cost Determined by the Authority

10.1.39. In view of above discussion, the Authority decides the T&D expenses as under;

Table 26: Transmission & Distribution Cost Determined by the Authority

Rs. in million

Particulars	FRR FY 2017-18		
	Claim by the Petitioner	Adjustment	Determined by the Authority
Human Resource Cost	28,605	(13,644)	14,961
Stores and Spares Consumed	774	-	774
Repair and Maintenance	1,341	-	1,341
Fuel and Power	350	-	350
Stationery, Telegram and Postage	154	-	154
Dispatch of gas bills	123	-	123
Rent, Rate, Electricity and Telephone	480	-	480
Traveling	171	(21)	150
Transport expenses	897	-	897
Insurance	300	(54)	246
Legal and Professional Services	227	-	227
Consultation for ISO 14001 & OHSAS 18000	4	-	4
Gas bills collection charges	472	-	472
Gathering charges of gas bills collection data	45	-	45
OGRA fee	217	-	217
Advertisement	189	-	189
Bank Charges	7	-	7
Uniforms & protective clothing's	89	-	89
Staff training and recruiting	11	-	11
Security expenses	907	-	907
SNG training insititute	20	-	20
Sponsorship of chairs at University	10	-	10
5 Years special training programme	28	-	28
Budget for UFG control related activities	765	-	765
Out Sourcing of call centre complaints management	27	-	27
Provision for Stores spares written off	-	-	-
Cost of Gas Blown off	173	-	173
Contribution to ISGSL	15	-	15
Sports Cell	72	(24)	48
Annual Sports/Cricket Expenses	52	(12)	40
Corporate Social Responsibility	13	(2)	11
facilities provided by other companies	10	-	10
Board Meetings and Directors expenses	75	(46)	29
Other expenses	186	-	186
Expenses for uplifting of lines	79	(34)	45
Subtotal Expenses	**36,891**	**(13,838)**	**23,053**
Allocated to fixed capital expenditures	(320)	-	(320)
T&D Expenses	**36,570**	**(13,838)**	**22,732**
Gas Internally Consumed	910	-	910
License Cost LPG Air Mix	5	(5)	-
Total T&D Expenses	**37,485**	**(13,843)**	**23,642**

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10.2. Exchange Losses

10.2.1. The petitioner has claimed Rs. 1,255 million under this head on account of "Exchange Loss" for the said year.

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

10.3. T&D cost items pertaining to Motions for Review FY 2016-17 and Impact of IAS 19 (Recognition of actual losses)

10.3.1. The petitioner has claimed Rs. 740 million on account of various T&D cost components pertaining to motions for Review for FY 2016-17, Rs. 6,535 million on account of previous Year's UFG disallowance and Rs. 2,871 million impact of IAS-19 (Recognition of actual gains) for the said year.

10.3.2. The Authority observes that it has recently issued review against motions for review FRR FY 2016-17 wherein various T&D cost components pertaining to motions for Review for FY 2016-17 and petitioner's claim on account of previous Year's UFG disallowance has been settled. The same shall form part of "accumulated revenue shortfall pertaining to FY 2016-17" included in this determination for the said year. ***Regarding the impact of IAS-19 (Recognition of actual gains), the Authority accepts the same for the said year.***

10.4. Reversal of Transportation Income (Pakarab) & Workers Profit Participation Fund (WPPF)

10.4.1. The petitioner has claimed Rs. 463 million on account of "Reversal of Transportation Income (Pakarab)" for the said year. The same is accepted since it is based on the separate decision of the Authority in this regard pursuant to direction of Hon'ble Lahore High Court, Lahore.

10.4.2. Regarding WPPF, the petitioner has claimed Rs. 765 million for the said year. The same is slightly computes downward owing to discussion and decision above. ***Accordingly, the Authority provisionally determines Rs. 729 under the head WPPF for the said year.***

10.4.3. ***The Authority further observes that the WPPF is computed on provisional basis at the time of FRR since the actual figure is finalized at the time of completion of statutory accounts. Accordingly, any adjustment if required on this account shall be made part of upcoming determination.***

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10.5. Late Payment Surcharge in respect of gas suppliers and cost of short term borrowing

10.5.1. The petitioner has claimed Rs. 5,875 million on account of LPS in respect of gas suppliers and Rs. 117 million on account of finance cost of short term borrowing for the said year.

10.5.2. The Authority observes that petitioner claim under this head is in line with its earlier decision in this regard which was taken since the adequate sale prices were not revised by the Federal Government. The same situation is also faced to the petitioner during the said year as well. **Accordingly, the Authority accepts the petitioner claim under this head for the said year.**

10.6. Cumulative revenue shortfall pertaining to previous years'

10.6.1. The petitioner has claimed Rs. 90,593 million on account of cumulative revenue shortfall pertaining to previous years'

10.6.2. The Authority observes that above shortfall claimed by the petitioner has already been determined in the Authority previous determinations. ***Accordingly, the revised amount under this head keeping in view the discussion at Para. 9.5 work out to Rs. 92,496 million for the said year.***

11. RLNG related Matters

i. *Transportation Charges*

11.1.1. The Authority observes that petitioner has ring-fenced the expenses on account of "Transportation Charges" and computed the rate at Rs. 125.10 per MMBTU on the basis of total revenue requirement of Rs. 34,289 Million and energy volume through put at 274,101 BBTU. The computation of Transportation charges is made as under;

Table 27: Computation of Transportation Charges FY 2017-18

Million Rs.

Particulars	Per SNGPL	Per OGRA
RLNG Sales volume (BBTU)	274,101	274,101
Income Components		
Rental & Service Charges	1	-
Amortization of deferred Credit	92	-
Late payment Surcharge	574	-
Sub Total	667	-
Cost Components		
Return	7,504	7,504
GIC	3,238	3,238
Depreciation	2,550	2,550
Transportation charges SSGCL	7,198	7,198
Swapping Deferal Account	6,786	
Finance Cost on LNG Borrowings 2017-18	3,795	
Finance Cost on LNG Borrowings (FY 2015-16 & FY 2016-17	1,494	
Shortfall Pertaining to FY 2016-17	2,391	
Sub Total	34,956	20,490
Cost of Supply/RLNG transportation Charges	34,289	20,490
Rs/MMBTU	125.10	74.75

11.1.2. The Authority observes that the petitioner, in the said revenue requirement, has included other income and expense related items including Rental & Service Charges, amortization of deferred credit, late payment surcharge, swapping of deferral account. Finance cost and shortfall pertaining to FY 2016-17, as appearing in the table above, which has no nexus and rationale for the determination of transportation charges. Transportation charges simply relevant to cost associated with the dispatch of energy molecules from one point to other through petitioner pipeline network.

11.1.3. The Authority further observes that the petitioner has included Rs. 7,198 million as transportation charges SSGCL. This figure however has not been decided in SSGCL determination. The Authority therefore adopts the same on provisional basis, the same shall be revised in accordance with SSGCL's determination.

11.1.4. ***In view of above, the transportation charges are provisionally determined at Rs. 20,490 million (Rs. 74.75 per MMBTU) for the said year.***

ii. Revenue Surplus/shortfall on account of RLNG Supply

11.1.5. The petitioner has submitted that revenue shortfall on account of RLNG activity at Rs. 2,391 million translating into increase in RLNG prices @ Rs. 7.78 per MMBTU for the said year

11.1.6. The Authority observes that RLNG pricing, as per legal framework provided by the FG, is carried out under Petroleum Product (Petroleum Levy) Ordinance 1967. Further, as per decision of the FG regarding "RLNG pricing, allocation & allied matters" expenses on this account is a ring-fenced activity, separately maintained and entirely recovered from RLNG consumers. Accordingly, contention of the petitioner shall be addressed while determining the RLNG pricing, in accordance with the decision of the ECC of the cabinet dated May 11, 2018.

12. Summary of Discussion & Decisions

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

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(i) determine the sale revenue at prescribed prices for the said year at Rs. 139,909 million.

(ii) accepts the late payment surcharge and interest on arrears for said year at Rs. 5,859 million

(iii) accepts the other operating income at Rs. 1,356 million;

(iv) determine the deferral account in RLNG at Rs. 2,641 and further adjustment in revenue requirement on account of domestic gas swap at Rs. 4,145 million.

(v) determine the transportation charges on account of RLNG provisionally at Rs. 20,490 million (Rs. 74.75 per MMBtu) for the said year.

(vi) gross addition in fixed assets at Rs. 17,638 million;

(vii) allow closing balance of fixed assets at Rs. 112,015 million;

(viii) accept the cost of gas at Rs. 155,780 million;

(ix) determine UFG at 10.9% based on which adjustment over the benchmarks works out to Rs. 6,356 million;

(x) allow T&D cost including GIC at Rs. 23,642;

(xi) allow cumulative revenue shortfall pertaining to previous years' Rs. 92,496 million;

12.1.2. ***In exercise of its powers under Section 8(2) of the Ordinance, the Authority determines the FRR for the said year at Rs. 299,015 million as against petitioner's claim of Rs. 325,693 million, as tabulated below:***

Table 28: Components of FRR for FY 2017-18 as Determined by the Authority

Million Rs.

Description	Demanded by the Petitioner	Determined by the Authority
Cost of gas sold	155,780	155,780
UFG (disallownce) / allowance	(750)	(6,356)
Transmission and distribution cost incl. GIC	37,486	23,642
Depreciation	13,251	12,568
Motions for Review FY 2016-17	740	-
Previous Years UFG Disallowance	6,535	-
Impact of IAS-19 -Recognition of Actuarial gains	(2,871)	(2,871)
Late Payment Surcharge (Payable) & short term borro	5,992	5,992
Exchange losses	1,255	1,255
Reversal of Transportation Income (Pakarab)	463	463
Workers Profit Participation Fund	765	729
Return	16,455	15,317
Cumulative Excess /(shortfall) previous years'	90593	92,496
Total	325,693	299,015

12.1.3. ***The petitioner's actual net operating income is Rs. 157,190 million and thus there is a shortfall of Rs. 141,825 million (Including Rs. 92,496 million***

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pertaining to precious years), for the said year (Annex. A). The Average prescribed price comes to Rs.763.92 / MMBTU.

12.1.4. *The Authority decides to carry forward the entire shortfall for the said year. The prescribed prices for each category of retail consumers for the said year are accordingly stand adjusted to the extent of notified gas sale prices as advised by the Federal Government during the said year.*

12.1.5. *The Authority further directs the petitioner to re-examine the application of correct pressure factor in the domestic consumers' gas bills and make any adjustment on this account to ensure the compliance of provision of clause 11 of the standard supply contract with the consumers. Further, the compliance of said clause may be ensured henceforth to avoid the deviation from the standard supply contract viz a viz actual bills.*

Dr. Adbullah Malik
Member (Oil)

Noorul Haque
Member (Finance)

Uzma Adil Khan
(Chairperson)

Islamabad, January 15, 2019

REGISTRAR
Oil & Gas Regulatory Authority
Islamabad

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A. Final Revenue Requirement for FY 2017-18

Million Rs.

	Particulars	The Petition	Adjustments	Determined by the Auhtority
	Gas sales volume -MMCF	387,507	-	387,507
	BBTU	368,803	-	368,803
	Calorific Value	952	-	952
"A"	**Net Operating revenues**			
	Net sales at current prescribed price	139,909		139,909
	Rental & service charges	2,175		2,175
	Late Payment Surcharge and interest on arrears	5,859		5,859
	Amortization of deferred credit	3,746		3,746
	Other operating income	1,356	-	1,356
	Diversion of domestic gas impact	-	4,145	4,145
	Total income "A"	**153,045**	**4,145**	**157,190**
"B"	**Less Expenses**			
	Cost of gas sold/RLNG	155,780		155,780
	UFG (disallownce) / allowance	(750)	(5,606)	(6,356)
	Transmission and distribution cost	36,576	(13,844)	22,732
	Gas Internally Consumed	910	-	910
	Depreciation	13,251	(683)	12,568
	Motions for Review FY 2016-17	740	(740)	-
	Previous Years UFG Disallowance	6,535	(6,535)	-
	Impact of IAS-19 -Recognition of Actuarial gains	(2,871)	-	(2,871)
	Late Payment Surcharge (Payable)	5,875	-	5,875
	Short term Borrowing	117	-	117
	Exchange losses	1,255	-	1,255
	Reversal of Transportation Income (Pakarab)	463	-	463
	Workers Profit Participation Fund	765	(36)	729
	Total expenses "B"	**218,645**	**(27,443)**	**191,202**
"C"	**Operating profit / (loss)(A - B)**	**(65,601)**	**(31,588)**	**(34,012)**
	Return required on net assets:			
	Net assets at begining	107,116		107,116
	Net assets at ending	125,017	(13,002)	112,015
		232,133		219,131
	Average fixed net assets (I)	**116,067**		109,566
	Deferred credit at begining	21,573		21,573
	Deferred credit at ending	22,507		22,507
		44,080	-	44,080
	Average net deferred credit (II)	22,040	-	22,040
"D"	**Average operating assets (I-II)**	94,027		87,526
	Return required on net assets	17.5%		17.5%
"E"	Amount of return required	16,455	(1,138)	15,317
"F"	**Excess /(shortfall) FY 2017-18**	(82,056)	(32,726)	(49,329)
"G"	**Cumulative Excess /(shortfall) previous years'**	(90,593)	(1,903)	(92,496)
"H"	**Total Revenue Shortfall**	(172,649)	(30,823)	(141,825)
"I"	**Average (Increase)/decrease in Prescribed Price (Rs/MMBTU)**	(468.13)	83.58	(384.56)
"J"	**Revenue requirement**	325,693	(30,823)	299,015
"K"	**Average Prescribed Price (Rs/MMBTU)**	**847.49**	(83.58)	**763.92**

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B. HR Cost Benchmark FY 2017-18

Particulars	FY 2016-17 MOTION REVIEW	FRR FY 2017-18 Per SNGPL Computation	FRR FY 2017-18 Per OGRA
SNGPL		Million Rs.	
HR benchmark Cost Parameters			
Base Cost	11,034	12,168	12,168
CPI factor	4.16%	3.92%	3.92%
T & D network (Km)	119,659	131,694	131,694
Number of Consumers (No.)	5,736,589	6,341,508	6,341,508
Sales Volume (MMCF)	615,003	670,643	670,643
Unit Rate (Rs,/unit)			
T&D network (Rs./Km)	98,696	239,030	101,686
No. of Consumers (Rs./Consumer)	2,076	4,225	2,121
Sale Volume (Rs./MMCF)	20,260.18	22,920	19,785
HR Cost Build-up (Million Rs)			
Cost CPI -50%	230	477	238
T & D network (Km) -25%	2,952	7,870	3,348
Number of Consumers (No.) - 65%	7,740	17,415	8,743
Sales Volume (MMCF) - 10%	1,246	1,537	1,327
HR Benchmark Cost	12,168	27,300	13,656
Actual Cost			13,654
50% sharing (excess)/saving			(1)
IAS Cost		1,306	1,306
Total HR Benchmark Cost	12,168	28,605	14,961

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C. List of Abbreviations

Words	Abbreviations
BBTU	Billion British Thermal Unit
BOD	Board of Directors
CAPEX	Capital Expenditure
CPI	Consumer Price Index
CBA	Collective Bargaining Agent
CSR	Corporate Social Responsibility
DERR	Determination of Estimated Revenue Requirement
DC	Date of commissioning
DRERR	Determination of Review of Estimated Revenue Requirement
DRS	District Regulator Station
ECC	Economic Co-ordination Committee
FG	Federal Government
FRR	Final Revenue Requirement
GDS	Gas Development Surcharge
GOP	Government of Pakistan
GIDC	Gas Infrastructure Development Cess
GIC	Gas Internally Consumed
GPPs	Government Power Producers
HR	Human Resource
ISGSL	Inter State Gas System Limited
KMIs	Key Monitoring Indicators
KPMG	Klynveld Peat Marwick Goerdeler
KPOGCL	Khyber Pahktunkhwa Oil and Gas Company Limited
LPS	Late Payment Surcharge
LNG	Liquefied Natural Gas
MMBTU	Million Metric British Thermal Unit
MMCFD	Million Standard Cubic Feet per Day.
MPNR	Ministry of Petroleum & Natural Resources
MoU	Memorandum of Understanding
NGRA	Natural Gas Regulatory Authority
NGT Rules	Natural Gas Tariff Rules
OGRA	Oil and Gas Regulatory Authority
RLNG	Re-gasified Liquefied Natural Gas
ROW	Right of way
SNGPL	Sui Northern Gas Pipeline Limited
SSGCL	Sui Southern Gas Company Limited
SMS	Sale Meter Station
SCADA	Supervisory Control And Data Acquisition
TBS	Town Border Station
T&D Cost	Transmission and Distribution Cost
UFG	Un-accounted for Gas
WACOG	Weighted Average Cost of Gas
WWF	World wild Foundation
WPPF	Workers Profit Participation Fund

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