آئل اینڈ گیس
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O G R A
GUARDING PUBLIC INTEREST

Oil & Gas
Regulatory Authority

Case No. OGRA-6(2)-2(3)/2018-DTRR

IN THE MATTER OF

SUI SOUTHERN GAS COMPANY LIMITED
FINAL REVENUE REQUIREMENT, FY 2017-18

UNDER

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

DECISION

ON

April 23, 2020

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

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770

TABLE OF CONTENTS

CONTENTS

CERTIFIED TURE COPY

ANNEXURES:

CERTIFIED TURE COPY

-772

TABLES

CERTIFIED TURE COPY

773

1. Background

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

1.2 The petitioner has filed a petition on May 08, 2019, under Section 8(2) of the Ordinance and Rule 4(3) of the Natural Gas Tariff Rules, 2002 (NGT Rules), for determination of its Final Revenue Requirement (FRR) for the said year based on its annual accounts as initialed by its statutory auditors.

1.3 The Authority, vide its Order dated September 20, 2017, had determined the petitioner's Estimated Revenue Requirement (ERR) under section 8(1) of the Ordinance at Rs. 166,783 million (the amounts have been rounded off to the nearest million here and elsewhere in this document) for estimated sale volume of 368,017 BBTU.

1.4 Being aggrieved by this determination, the petitioner has submitted motions for review on October 19, 2017, November 28, 2017 and January 09, 2018 under Rule 16 of the NGT Rules, requesting to consider the amended petition and approve a revised shortfall of Rs. 9,794 million, seeking an average increase in the prescribed price of Rs. 26.62 per MMBTU over and above the current average prescribed price w.e.f July 01, 2017. The Authority issued the order against the motion for review of DERR FY 2017-18 dated April 24, 2018 and disposed the motion subject to financial impact of adjustments to be allowed at the time of FRR.

1.5 In continuation of the above, the petitioner has submitted the petition dated May 08, 2019, for determination of its FRR for the said year after incorporating the effect of actual changes in the wellhead gas prices, a change in sales mix, other relevant factors in terms of Section 8(2) of the Ordinance and has also made some other claims. Based on the provisional prescribed prices and actual sale mix, the petitioner has computed the shortfall in its revenue requirement of Rs. 40,652 million for the said year, thereby seeking an increase in the prescribed prices by Rs.

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111.81 per MMBTU (including Rs. 512 million claimed on account of subsidy for LPG air-mix projects) in its revenue requirement for the said year.

1.6 The petitioner has amended its petition on October 07, 2019, thereby seeking an increase of Rs. 111.46 per MMBTU in the average prescribed price effective July 01, 2017. Subsequently, the petitioner has again amended its petition (the petition) on January 30, 2020, wherein the petitioner has worked out its FRR for the said year at Rs. 189,742 million for actual sale volume of 363,575 BBTU and average requested increase in prescribed price to Rs. 111.84 per MMBTU effective July 01, 2017.

1.7 The Authority issued a notice of hearing on January 17, 2020 to the petitioner. The hearing was held at OGRA's office, Islamabad on January 29, 2020.

2. Salient Features of the Petition

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

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

Rs. / MMBTU

Particulars	FY 2017-18	
	DERR	The Petition
Units sold (BBTU)	368,017	363,575
Cost of gas sold	382.66	453.66
UFG adjustment	(26.42)	(39.40)
Transmission and distribution cost including Others	45.87	75.26
Depreciation	18.53	15.59
Staggering of accumulated losses	-	(10.10)
Return on net average operating fixed assets	31.13	25.47
Other operating income	(48.44)	(19.36)
Subsidy for LPG Air-Mix Project	1.42	1.41
Cost of service / prescribed price	404.75	502.52
Current average prescribed price	404.75	390.68
Increase requested in average prescribed price	-	111.84

The petitioner has made the following submissions: -

2.1.1 Annual return has been claimed at Rs. 9,261 million, computed at the rate of 17% of the value of its average net operating fixed assets (net of deferred credit and assets related to LPG Air-Mix).

2.1.2 The petitioner has claimed a net addition/deletion of Rs. 8,607 million in fixed assets, and net addition, ex-depreciation, and deletion, of Rs. 5,318 million, resulting in an increase in net operating fixed assets from Rs. 59,875 million in FY 2016-17 to Rs. 61,763 million during the said year. The petitioner has further claimed that after

775

adjustment of deferred credits and assets related to LPG Air-Mix project net average operating fixed assets eligible for return work out to Rs. 54,475 million and required return to Rs. 9,261 million.

2.1.3 Net operating revenues have been reported at Rs. 149,079 million in the petition, as against Rs. 166,783 million determined in DERR for the said year, as detailed below:

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

Rs. in million

Particulars	FY 2016-17	FY 2017-18		Inc./(Dec.) over DERR for FY 2017-18	
	FRR	DERR	The Petition	Rs.	%
Net sales at current prescribed price	135,859	148,954	142,040	(6,914)	(5)
Meter rentals	735	773	756	(16)	(2)
Sale of LPG	2,533	3,009	2,412	(596)	(20)
Sale of NGL	423	584	437	(146)	(25)
Sale of Gas condensate	53	134			
Late Payment Surcharge	3,187	2,958	1,096	(1,861)	(63)
RLNG transportation Income	4,146	8,920	-	(8,920)	(100)
Meter Manufacturing Profit	(2)	209	(58)	(267)	(128)
Amortization of deferred credits	401	426	552	126	29
Other income	1,142	817	1,843	1,026	126
Net Operating Revenue	148,476	166,783	149,079	(17,704)	(11)

2.1.4 Net operating expenses have been claimed at Rs. 179,968 million in the petition as compared to Rs. 154,803 million provided in DERR, as detailed below:

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

Rs. in million

Description	FY 2016-17	FY 2017-18		Inc / (Dec) over DERR for FY 2017-18	
	FRR	DERR	The Petition	Rs.	%
Cost of gas	143,834	140,824	164,938	24,114	17
Depreciation	5,831	6,820	5,666	(1,154)	(17)
Transmission and distribution costs	14,656	15,857	15,985	128	1
Other charges including WPPF	2,171	725	11,105	10,380	1,432
UFG adjustment	(12,979)	(9,722)	(14,325)	(4,603)	47
Shortfall /SHC Order of previous years	(18,359)	-	(3,672)	(3,672)	-
Gas Internally Consumed	208	298	271	(27)	(9)
Net Operating Expenses	135,362	154,803	179,968	25,165	16

2.1.5 UFG has initially been reported at 16.30% (71,422 MMCF) for the said year.

2.1.6 Subsidy on account of LPG Air-Mix projects has been claimed at Rs. 512 million.

2.1.7 The net result of the petitioner's above-mentioned claims is that a shortfall of Rs. 40,663 million has been computed including a 17% return on average net operating fixed assets,

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which translates to an increase of Rs. 111.84 per MMBTU in the existing average prescribed price, as tabulated below:

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

Rs. In million

	Particulars	FY 2017-18 The Petition
A	Net Operating Revenues	149,079
	less: Net operating expenses excluding ROA	179,969
	Subsidy Air Mix LPG Project	512
B	Total Expenses	180,481
C	Shortfall {(B) - (A)}	31,402
D	Return required @ 17% on net fixed assets in operation	9,261
E	Total shortfall in revenue requirement {(D) + (C)}	40,663
F	Sale volume (BBTU)	363,575
G	Increase requested in existing average prescribed price Rs./MMBTU	111.84

3. Proceedings

3.1 The petitioner was represented at the hearing by a team of senior executives led by Mr. Amin Rajpoot, Acting Managing Director, who was given full opportunity to present the petition. The petitioner made submissions with the help of multimedia presentation explaining the basis of its petition and also responded to the comments, observations, objections, questions, and suggestions of the members & officers of the Authority.

3.2 The petitioner, during the hearing, raised the issue of the company's financial health after the decision of honorable Sindh High Court in respect of revenue requirements for FY 2010-11 to FY 2015-16. It was, therefore, requested to allow retrospective adjustment of the revised UFG benchmark based on the outcome of the Consultant's study. It was also informed that hefty amounts have been paid on account of gas development surcharge to Provincial Governments.

3.3 The petitioner, during the hearing, highlighted the phenomenon of RLNG injection in the SSGCL distribution system especially in the Karachi region has resulted in higher UFG in lieu of which indigenous gas has been transported to SNGPL under swapping arrangement.

3.4 The Authority in its decision relating to UFG in ERR FY 2017-18 concluded to finalize the FRR for FY 2012-13 to FY 2015-16 on the same basis as done provisionally. The petitioner also argued on the treatment of Bulk Retail Ratio; Law and Order affected areas; and theft by Non-consumers in the UFG Benchmarking.

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

4. Determination

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

5. Return to Licensee

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

5.2 *It is highlighted that the Authority has implemented new tariff regime w.e.f. FY 2018-19 after detailed consultation with the Federal Government and stakeholders. The Authority notes that even though the instant order is being issued in FY 2019-20, the new tariff regime is not applicable for the said year. Therefore ROA is computed on 17% net operating fixed assets for the said year.*

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6. Operating Fixed Assets

i. *Summary*

6.1.1 The petitioner has claimed a net addition/deletions of Rs. 8,607 million in fixed assets, and depreciation on opening assets and net addition/deletions, of Rs. 5,318 million, resulting in a claimed increase in net operating fixed assets from Rs. 59,875 million in FY 2016-17 to Rs. 61,763 million during the said year. The petitioner has further claimed that, after adjustment of deferred credits, and assets related to the LPG Air-Mix project, net average operating fixed assets eligible for return work out to Rs. 54,475 million and required return to Rs. 9,261 million.

Table 5: Computation of Return on Assets per the Petition

Particulars		Rs. in Million
Net operating fixed assets at beginning		59,875
Net operating fixed assets at ending		61,763
	sub-total	121,639
Average net assets (I)		60,819
LPG air mix project asset at beginning		799
LPG air mix project asset at ending		745
	sub-total	1,545
Average net assets (II)		772
Deferred credit at beginning		4,709
Deferred credit at ending		6,436
	sub-total	11,144
Average net deferred credit (IV)		5,572
"D" Average (I-II-III-IV)		54,475
17% required returned claimed by the petitioner		9,261

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

Table 6: Summarized Schedule of Addition Compared with DERR & Previous Year

Rs. in Million

Particulars	FY 2016-17	FY 2017-18		
	FRR	ERR	DERR	The Petition
Land	24	277	277	0
Buildings	130	746	479	92
Roads, pavements and related infrastructure (ROW)	138	151	62	0
Gas Transmission Pipelines	24,791	12,200	3,497	2,751
Plant and Machinery	311	458	272	322
Gas Distribution System	5,125	7,019	4,582	4,824
equipments	219	383	175	282
Computer Software	72	143	35	9
LPG Air Mix Projects	4	15	15	42
Telecommunication Systems	93	96	96	35
Appliances, Loose Tools and Equipments	71	222	37	13
Vehicles	631	605	444	178
Construction Equipments	725	0	0	140
Compressors	5,794	2,701	356	408
SCADA	0	0	0	7
Gross Assets	*38,128*	*25,014*	*10,327*	*9,102*

ii. **Land**

6.1.3 The Petitioner has capitalized Nil amount against the provisionally allowed amount of Rs. 277 million in DERR for the said year. The petitioner has stated that land for RLNG-II project could not be acquired because notifications under Section 6 & 17 of the Land Acquisition Act, 1894 were pending before the offices of the Commissioners Hyderabad Division and Shaheed Benazirabad Division since 19.08.2016 and 22.06.2016 respectively. The petitioner has added since the required notifications, as explained above, have not been issued by the competent authority, therefore, the required awards for land acquisition could not be passed for onward payment to landowner/claimant.

iii. **Buildings**

6.1.4 The Petitioner has capitalized an amount of Rs. 92 million against the provisionally allowed amount of Rs. 479 million in DERR for the said year. The petitioner has stated that variance is due to non-utilization of budget for Building & Civil Works related to RLNG Transmission Project 42" dia x 338 Km pipeline, however, civil works on all Main Valve Assemblies are in progress except some location where work is on hold due to land issue.

6.1.5 M/s Deloitte Yousaf Adil, Chartered Accountants, vide their letter No. 19-33-A/1516 dated May 07, 2019 has reported that the draft financial statements, which have been initialed by them for the purpose of identification only, have been prepared by management solely for the submission to OGRA for the purpose of FRR of the Company for the said year.

6.1.6 M/s Deloitte Yousaf Adil, vide above referred initialed draft financial statements, have reported capitalization amounting Rs 92 million against this head.

6.1.7 ***In view of the above stated position, the Authority allows capitalization amounting to Rs. 92 million on account of construction of buildings for the said year.***

iv. **Gas Transmission Pipelines**

6.1.8 The Petitioner has capitalized an amount of Rs. 2,751 million against the provisionally allowed amount of Rs. 3,497 million in DERR for the said year. The capitalization against this head includes an amount of Rs 733 million capitalized on RLNG-Transmission Projects. Segment-wise detail of capitalization against this head is as

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under:

Table 7: Requested Additions to Transmission Pipeline Network

Rs. Million

Sr. No.	Description	ERR Petition	Determination of ERR by the Authority	FRR Petition
1	30" dia x 125 Km pipeline from SMS Sindh University to SMS Pakland (1st Segment)	6967	2,090	0
2	Check Metering Facility at Shahdadpur for Gambat South Field Gas Measurement (RS3)	344	0	0
3	16" dia X 9 KMs Re-Route of Kotri Barrage	191	0	0
4	16" dia ILBP Rehabilitation and Intelligent Pigging	28	0	0
5	12" dia x 344 Km QPL Rehabilitation and Intelligent Pigging	328	0	0
6	Construction of Sub-merge crossings	126	0	114
7	Permanent Meterig Setup installation for POGC line at Naing Valve Assembly	13	0	0
8	24" dia x 31 Km pipeline from SMS Kathore to SMS Surjani	1,413	0	0
9	24" dia x 34 Km loopline from Shikarpur to Jacobabad	1,429	725	1,401
10	Rerouting of existing QPL 12" dia × 9 Km (KM 56 to KM65) and 12" dia × 14 Km (KM 84 to KM96) (Total 23 Kms)	550	275	405
11	12" dia × 53 Km Mehar Gas Field Integration Project (MGFIP) at Thari Mohabat- leftover	189	95	0
12	12" x 64 Km Zarghun to QPL	0	0	65
13	Additional Gas from Naimat POD	0	0	0
14	Piping Setup at JJVL	0	0	0
15	SMS Dhabeji Full Bore Ball	0	0	32
16	Other leftovers	0	0	1
	Sub-total (Natural Gas Transmission Pipeline Network)- A	*11,578*	*3,184*	*2,018*
	RLNG PROJECTS			
	PHASE-I			
17	42" dia x 14 Km loop between Nara-Sawan	133	67	9
18	24" dia x 21 Km Interlink between Pakland to Khadeji	51	26	-4
19	Tie-in and integration arrangement from Tie-in point 2 to Pakland	439	220	0
	PHASE-II			
20	42" dia x 342 Km from Pakland to Nara and Indus River Crossings (RLNG-PhaseII)	0	0	728
	Sub-total (RLNG Transmission Pipeline Network)-B	*622*	*313*	*733*
	Total (A+B)	**12,200**	**3,497**	**2,751**

6.1.9 The petitioner has capitalized Nil amount against the provisionally allowed amount of Rs 2,090 million for 30" dia x 125 Km pipeline from SMS Sindh University to SMS Pakland' (Item No.1 of the Table: 7 above). The petitioner has stated that detailed engineering survey job has been completed, 57 Km line pipe has been delivered at dump location; and other pipeline project materials are also under procurement, however, pipeline construction activities are on hold due to in-process land acquisition for ROW.

6.1.10 *The Authority has taken serious view of the unprecedented delay in this pipeline project and hereby direct the petitioner to complete the same as soon as possible. This project is of paramount importance for the petitioner itself since as per its own position taken before the Authority, it is incurring losses due to RLNG swapping arrangement. The Authority, however, cannot compensate for the petitioner's own inefficiencies.*

6.1.11 The petitioner has capitalized an amount of Rs 114 million against projected amount of Rs 126 million for construction of sub-merged crossings' (Item No. 6 of the Table:7 above). The petitioner has stated that keeping in view the incidents and soft/exposed

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targets such as overhead pipeline crossings on canals near the sensitive areas of Baluchistan and Sindh, it was agreed at Security Review Conference held in 2004 to replace the overhead pipelines with submerged pipeline crossings under the canal beds and water channels to enhance pipeline security. The petitioner has added that sub-merge crossing of 16" ILBP (two locations) and 20" Kadanwari pipelines (two locations) at Naseer and Rohri Canal have been successfully commissioned in February, 2018 with capitalization amount of Rs 114 million. The Authority in its ERR Determination had not allowed any upfront amount against this head, however, it had allowed the petitioner to execute the project, in principle, during the said year and claim actualized amount at FRR stage.

6.1.12 *The Authority, keeping in view the above, allows capitalization amounting to Rs 114 million against 'Construction of Sub-merged crossings' for the said year.*

6.1.13 The petitioner has capitalized an amount of Rs 1,401 million against projected amount of Rs 1,429 million for '24" dia x 34 Km loopline from Shikarpur to Jacobabad' (Item No. 9 of the Table: 7 above). The Authority in its ERR Determination had allowed an amount of Rs 725 million against this head and had advised the petitioner to claim the remaining amount at the time of FRR subject to actual progress of the project. The petitioner has stated that the said pipeline segment was commissioned in December, 2017.

6.1.14 *The Authority, keeping in view the above stated position, allows capitalization amounting to Rs 1,401 million against '24" dia x 34 Km loopline from Shikarpur to Jacobabad' for the said year*

6.1.15 The petitioner has capitalized an amount of Rs 405 million against projected amount of Rs 550 million for 'Rerouting of existing QPL 12" dia x 9 Km (KM 56 to KM65) and 12" dia x 14 Km (KM 84 to KM96)' (Item No. 10 of the Table:7 above). The petitioner has stated that re-routing of pipelines to suitable location is needed since some of the pipeline segments are passing on the barrage structure, are exposed &cause of potential security risk. The Authority in its ERR Determination had allowed an amount of Rs 275 million against this head and had advised the petitioner to claim the remaining amount at the time of FRR subject to actual progress of the project. The petitioner has stated that the said pipeline segment was commissioned in January, 2018.

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782

6.1.16 ***The Authority, keeping in view the above stated position, allows capitalization amounting to Rs 405 million against 'Rerouting of existing QPL 12" dia x 9 Km (KM 56 to KM65) and 12" dia x 14 Km (KM 84 to KM96)' for the said year.***

6.1.17 The petitioner has capitalized Nil amount against the provisionally allowed amount of Rs 95 million for leftover works against '12" dia x 53 Km Mehar Gas Field Integration Project at Thari Mohabat pipeline.

6.1.18 The petitioner has capitalized an amount of Rs 65 million on 12" dia x 64 Km Zarghun to QPL; Rs 32 million on SMS Dhabeji Full Bore Ball; and Rs 1 million on other leftovers. The petitioner had neither projected these amounts at ERR/Motion for Review/Mid-year Review stage nor have provided details of the leftover activities/works. ***The Authority, therefore, disallows the requisite capitalization amounting to Rs 98 million against the said pipeline segments/components for the said year.***

6.1.19 The petitioner has capitalized an amount of Rs 9 million on 42" dia × 14 Km loop between Nara to Sawan, and has offered an adjustment of Rs 4 million (i.e. -4 million) w.r.t24" dia×21 Km interlink between Pakland to Khadeji (Phase-I of Pipeline Infrastructure Development Project) against provisionally allowed amounts of Rs 67 million and Rs 26 million respectively in DERR for the said year. The petitioner has stated that 42" dia × 14 Km loop between Nara to Sawan and 24" dia ×21 Km interlink between Pakland to Khadeji were commissioned in FY 2015-16 and FY 2016-17 respectively, however leftover civil works and payment of land (ROW) are in progress.

6.1.20 ***The Authority, in view of the above, allows capitalization amounting to Rs. 9 million against '42" dia × 14 Km loop between Nara to Sawan', to be charged from RLNG consumers. The Authority also allows adjustment entry of Rs. -4 million against the interlink between Pakland to Khadeji.***

6.1.21 The petitioner has capitalized an amount of Rs. 728 million on 42" dia × 342 Km pipeline project from Pakland to Nara and Indus River Crossings (Phase II of RLNG Project). The petitioner has stated that this project involves laying of 42" dia × 342 Km pipeline project from Pakland to Nara for transporting 1.2 BCFD RLNG volume with requisite pressure of 1,115 psig at Sawan to SNGPL. The pipeline has been divided into three segments considering the design requirements based on route and population density

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survey.

1st segment 42" dia × 128 Km pipeline from Pakland to HQ-3 Hyderabad:In this segment 42" ×120 Km pipeline from Pakland to MVA Jamshoro including 400 meters segment between KMP-129 to KMP-131 was commissioned in June, 2017. The remaining 8 Km pipeline from Jamshoro to HQ-3 has also been commissioned with Indus river crossing tie-in job in September, 2018.

2nd segment 42" dia × 132 Km pipeline from Hyderabad to Nawabshah:42" dia ×50 Km pipeline from MVA Lundo to Nawabshah was commissioned in March, 2017. Moreover, 42" dia ×82 Km segment from HQ-3 Hyderabad to MVA Lundo including 400 meters segment between KMP-129 to KMP-131 was commissioned in September 2018.

3rd segment 42" dia ×82 Km pipeline from Nawabshah to MVA Nara: This pipeline segment was commissioned in March, 2017.

The total amount of capitalization for the leftover job is Rs. 728 million. The petitioner has added that the entire pipeline project was to be completed and commissioned by the end of December 2016. However, a section of 42" × 400 meters (Jamshoro) out of 342 Km project in SSGCL's franchise area had jeopardized the entire project. The said 400 Meters land belonged to Provincial Minister who was not willing to permit the pipeline construction activities to take place within the boundaries of his land. The petitioner was able to complete the segment in September 2018 after lots of efforts on all fronts.

6.1.22 The Authority, in its earlier determinations has already approved, in principle, the RLNG Infrastructure Development Project for transportation of RLNG from Karachi to Sawan for onward delivery to SNGPL at Sawan. ***The Authority, keeping in view the above stated position, allows capitalization amounting to Rs. 728 million for '42" dia × 342 Km pipeline project from Pakland to Nara and Indus River Crossings' to be charged from RLNG consumers.***

6.1.23 The Authority notes that Policy Guidelines of the FG conveyed vide Ministry of Petroleum &Natural Resource's letter dated 10.02.2016 stipulate as under:

"OGRA is advised that subject projects will be included in the asset base of gas companies subject to condition that RLNG pricing will be ring fenced and all directly attributable costs

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will be charged/recovered from RLNG consumers without affecting consumers relying on domestically produced gas. Financial costs incurred in creation of RLNG infrastructure of national importance should be allowed as admissible expense in the revenue requirement of the utility companies."

6.1.24 In view of the above said policy guidelines of FG, all costs incurred in creation of RLNG infrastructure are to be charged/recovered from RLNG Consumers without affecting consumers relying on domestically produced gas. Hence, cost of transmission pipeline assets related to RLNG, i.e. Rs. 733 million (after adjustment of Rs. 4 million against Item No. 18 of Table 7 above) capitalized on RLNG Assets in the said year is to be ring fenced and recovered from RLNG consumers only.

6.1.25 M/s Deloitte Yousaf Adil, vide its initialed draft financial statements referred at para 6.1.5 above, have reported capitalization amounting Rs 2,751 million against this head.

6.1.26 *In view of the discussion at paras 6.1.9 to 6.1.24 above, the Authority allows capitalization amounting to Rs. 1,920 million, detail of which is given below, in the head of Gas Transmission Pipelines related to indigenous gas system. Moreover, the Authority allows capitalization amounting Rs. 733 million for Gas Transmission Pipelines related to RLNG. However, it observes that an amount of Rs. 733 million relating to RLNG Infrastructure, is to be ring fenced and charged from RLNG Consumers on SNGPL and SSGCL Network.*

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Table 8: Additions to Transmission Pipeline Network Allowed by the Authority

Rs. Million

Sr. No.	Description	FRR Petition	Allowed by the Authority
1	30" dia x 125 Km pipeline from SMS Sindh University to SMS Pakland (1st Segment)	0	0
2	Check Metering Facility at Shahdadpur for Gambat South Field Gas Measurement (RS3)	0	0
3	16" dia X 9 KMs Re-Route of Kotri Barrage	0	0
4	16" dia ILBP Rehabilitation and Intelligent Pigging		
5	12" dia x 344 Km QPL Rehabilitation and Intelligent Pigging	0	0
6	Construction of Sub-merge crossings	114	114
7	Permanent Meterig Setup installation for POGC line at Naing Valve Assembly	0	0
8	24" dia x 31 Km pipeline from SMS Kathore to SMS Surjani	0	0
9	24" dia x 34 Km loopline from Shikarpur to Jacobabad	1,401	1,401
10	Rerouting of existing QPL 12" dia × 9 Km (KM 56 to KM65) and 12" dia × 14 Km (KM 84 to KM96) (Total 23 Kms)	405	405
11	12" dia × 53 Km Mehar Gas Field Integration Project (MGFIP) at Thari Mohabat- leftover	0	0
12	12" x 64 Km Zarghun to QPL	65	0
13	Additional Gas from Naimat POD	0	0
14	Piping Setup at JJVL	0	0
15	SMS Dhabeji Full Bore Ball	32	0
16	Other leftovers	1	0
	Sub-total (Natural Gas Transmission Pipeline Network)- A	***2,017***	***1,920***
	RLNG PROJECTS		
	PHASE-I		
17	42" dia x 14 Km loop between Nara-Sawan	9	9
18	24" dia x 21 Km Interlink between Pakland to Khadeji	-4	-4
19	Tie-in and integration arrangement from Tie-in point 2 to Pakland	0	0
	PHASE-II		
20	42" dia x 342 Km from Pakland to Nara and Indus River Crossings (RLNG-PhaseII)	728	728
	Sub-total (RLNG Transmission Pipeline Network)-B	***733***	***733***
	Total (A+B)	**2,751**	**2,654**

v. **Plant and Machinery**

6.1.27 The Petitioner has capitalized an amount of Rs. 322 million against the provisionally allowed amount of Rs. 272 million in DERR for the said year. The petitioner has capitalized an amount of Rs. 63 million on leftover works related to addition of Crane, Elevator, Gas Engine Generator, HVAC, and Welding Plant etc. during the said year.

6.1.28 M/s Deloitte Yousaf Adil, vide its initialed draft financial statements referred at para 6.1.5 above, has verified the above capitalization against this head.

6.1.29 ***In view of the above stated position, the Authority allows capitalization amounting to Rs. 322 million in this head for the said year.***

vi. **Gas Distribution System**

6.1.30 The petitioner has capitalized Rs. 4,824 million against projected amount of Rs. 7,019 million in ERR for the said year. Components of capitalization are as under:

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Table 9: Requested Additions to Gas Distribution Network

Rs. Million

Sr. No.	Description	ERR Petition	Determination of ERR by the Authority	FRR Petition
1	Rehabilitation Mains & Services and Segmentation - UFG Control Program	1,547	888	668
2	Laying of Distribution Mains-Existing Areas	2,165	1,239	890
3	Installation of New Connections - Services	650	650	478
4	Replacement /Repair of Gas Meters - Meter Stations	1,177	1,134	2,396
5	Construction of CMSs, TBSs, PRSs and Cathodic protection	237	110	50
6	New Towns	610	561	505
7	12" DIA X 26.5 Km Tando Allah Yar Supply Main	378	0	0
8	16" x 7.5 Km Supply Main Hyderabad	255	0	0
9	Notional Assets (IAS 20 disclosure requirement)	0	0	72
10	Reversal of Incremental Capitalization due to conversion of Sindh Governmnet's Loan into grant	0	0	-235
	Total Distribution System	**7,019**	**4,582**	**4,824**

6.1.31 The petitioner has capitalized an amount of Rs. 668 million on Rehabilitation of Mains & Services and Segmentation against provisionally allowed amount of Rs. 888 million in the DERR for the said year. ***The Authority, therefore, allows capitalization amounting to Rs. 668 million against this head for the said year.***

6.1.32 The petitioner has capitalized an amount of Rs. 890 million against provisionally allowed amount of Rs. 1,239 million in DERR on laying distribution mains (including reinforcement) ranging from 1" dia to 16" dia pipelines. ***The Authority, therefore, allows capitalization amounting to Rs. 890 million against this head for the said year.***

6.1.33 The petitioner has capitalized an amount of Rs. 478 million on installation of 89,398 Nos. new connections – Service Mains against the provisionally allowed amount of Rs. 650 million in this head. ***The Authority, therefore, allows capitalization amounting to Rs. 478 million in this head for the said year.***

6.1.34 The petitioner has capitalized an amount of Rs. 2,396 million on meter stations - replacement of meters against the provisionally allowed amount of Rs. 1,134 million in DERR for the said year. The petitioner has stated that it has replaced 306,443 Nos. domestic and 3,899 Nos. commercial meters during the said year. ***The Authority in view of the importance of the replacement of defective/undersized/old meters towards controlling UFG, allows capitalization amounting to Rs. 2,396 million in this head for the said year.***

6.1.35 The petitioner has capitalized an amount of Rs. 50 million on installation of TBS, TRS and PRS against the provisionally allowed amount of Rs. 110 million in DERR in this

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head. *The Authority allows capitalization amounting to Rs. 50 million in this head for the said year.*

6.1.36 The petitioner has capitalized an amount of Rs. 505 million in the head of 'New Towns & Villages' against the provisionally allowed amount of Rs. 561 million. As per the petition, capitalization amounting Rs. 371 million has been done from the petitioner's own, resources and capitalization amounting Rs. 134 million has been carried out through grants of Federal/Provincial Government. *The Authority, therefore, allows capitalization amounting to Rs. 371 million under this head for the said year. However, capitalization amounting to Rs. 134 million, funded through Govt. grants, does not qualify to become part of the asset base for calculation of ROA/depreciation etc.*

6.1.37 The petitioner has claimed an amount of Rs. 72 million against Notional Assets (IAS-20 disclosure requirement). Since the petitioner has not provided any details/plausible justification against this item therefore the Authority does not allow the same.

6.1.38 M/s Deloitte Yousaf Adil, vide its initialed draft financial statements referred at para 6.1.5 above, have reported capitalization amounting to Rs. 4,830 million against this head.

6.1.39 *In view of above, the Authority, after due diligence and keeping in view the arguments and justifications advanced by the petitioner, allows capitalization amounting to Rs. 4,618 million, detail of which is given below, under the head of 'gas distribution system' for the said year.*

Table 10: Additions to Gas Distribution Network Allowed by the Authority

Rs. Million

Sr. No.	Description	FRR Petition	Allowed by the Authority
1	Rehabilitation Mains & Services and Segmentation - UFG Control Program	668	668
2	Laying of Distribution Mains-Existing Areas	890	890
3	Installation of New Connections - Services	478	478
4	Replacement /Repair of Gas Meters - Meter Stations	2,396	2,396
5	Construction of CMSs, TBSs, PRSs and Cathodic protection	50	50
6	New Towns	505	371
7	12" DIA X 26.5 Km Tando Allah Yar Supply Main	0	0
8	16" x 7.5 Km Supply Main Hyderabad	0	0
9	Notional Assets (IAS 20 disclosure requirement)	72	0
10	Reversal of Incremental Capitalization due to conversion of Sindh Governmnet's Loan into grant	-235	-235
	Total Distribution System	**4,824**	**4,618**

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788

vii. **Furniture and Equipment including Computers &Allied equipment**

6.1.40 The Petitioner has capitalized an amount of Rs. 282 million against the provisionally allowed amount of Rs. 175 million in DERR for the said year. The Authority had allowed an additional amount of Rs. 68 million, in principle, in its Determination on Motion for Review of DERR dated 24.04.2018 for the said year.

6.1.41 M/s Deloitte Yousaf Adil, vide its initialed draft financial statements referred at para 6.1.5 above, have reported capitalization amounting Rs. 282 million against this head.

6.1.42 *In view of the above stated position, the Authority allows capitalization amounting to Rs. 282 million in this head for the said year.*

viii. **Computer Software (Intangible)**

6.1.43 The Petitioner has capitalized an amount of Rs. 9 million against the provisionally allowed amount of Rs. 35 million in DERR for the said year. M/s Deloitte Yousaf Adil, vide its initialed draft financial statements referred at para 6.1.5 above, has verified the above capitalization against this head.

6.1.44 *The Authority, keeping in view the above, allows capitalization amounting to Rs. 9 million against this head for the said year.*

ix. **LPG Air Mix Projects**

6.1.45 The petitioner has capitalized an amount of Rs. 42 million against the licensed LPG Air Mix Plants located at Gwadar, Noshki, Surab, Kot Ghulam Muhammad, Awaran and Bela. The Authority had provisionally allowed an amount of Rs 15 million in DERR for the said year. The Authority had also allowed an additional amount of Rs. 906 million, in principle in its Determination on Motion for Review of DERR dated 24.04.2018 for the said year. *The Authority, therefore, allows capitalization amounting to Rs. 42 million for the said year.*

x. **Telecommunication Systems**

6.1.46 The Petitioner has capitalized an amount of Rs. 35 million against the provisionally allowed amount of Rs. 96 million in DERR for the said year. M/s Deloitte Yousaf Adil, vide its initialed draft financial statements referred at para 6.1.5 above, have reported capitalization amounting Rs. 35 million against this head.

6.1.47 *The Authority allows capitalization amounting to Rs 35 million in this head for the*

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said year.

xi. **Appliances, Loose Tools and Equipment**

6.1.48 The Petitioner has capitalized an amount of Rs. 13 million against the provisionally allowed amount of Rs. 37 million in DERR for the said year. M/s Deloitte Yousaf Adil, vide its initialed draft financial statements referred at para 6.1.5 above, have reported capitalization amounting Rs. 13 million against this head.

6.1.49 *The Authority allows capitalization amounting to Rs. 13 million in this head for the said year.*

xii. **Vehicles**

6.1.50 The petitioner has capitalized an amount of Rs. 178 million against the provisionally allowed amount of Rs. 444 million in this head for the said year. The petitioner has added that the expenditure against this head includes an amount of Rs. 2 million spent on All Terrain Crane pertaining to RLNG. M/s Deloitte Yousaf Adil, vide its initialed draft financial statements referred at para 6.1.5 above, has verified the above capitalization against this head.

6.1.51 *The Authority, therefore, allows capitalization amounting to Rs. 176 million related to indigenous gas system. Moreover, the Authority allows Rs. 2 million for vehicles related to RLNG Project for the said year, however, as per policy guidelines of FG dated 10.02.2016 cost of the vehicles amounting Rs. 2 million, related to RLNG infrastructure, is to be charged / recovered from RLNG Consumers without affecting consumers relying on domestically produced gas.*

xiii. **Construction equipment**

6.1.52 The Petitioner has capitalized an amount of Rs. 140 million against the head of 'Construction equipment's' for the said year. The petitioner had not projected any amount in this head at ERR stage. The petitioner has stated that it has procured Crane (Rs. 0.99 million – leftover work), Pay Welder (Rs. 0.14 million – leftover work), Welding Work Station (Rs. 0.15 million – leftover work) and Pipe Welding System (Rs 77 million) for RLNG related project. The petitioner has added that it had procured Pipe layer heavy duty for handling 42" dia other than RLNG pipeline projects. The petitioner has also stated that for handling 42" dia pipeline the minimum capacity of a pipe layer should be of 70 tons and more, however, these type of pipe layers are also being utilized for laying of lesser diameter i.e. 30" and 24" pipelines. This pipe layer is expected to be deployed at their 02 Nos upcoming pipeline projects i.e. 30" × 17 KMs (CTS Bin Qasim to MVA Pakland pipeline project and 30" × 125 KMs SMS Sindh University to MVA Pakland Project. The equipment useful life is estimated upto 15 years. The petitioner has stated that the said heavy duty pipe layer was approved by the Authority in Normal Capex in DERR FY 2013-14 but during first inspection, the machine parts were found corroded. Later on, the supplier replaced the corroded parts and after that the equipment was commissioned and capitalized on 11th April, 2018.

6.1.53 M/s Deloitte Yousaf Adil, vide its initialed draft financial statements referred at para 6.1.5 above, have reported capitalization amounting Rs 140 million against this head.

6.1.54 In *view of above, the Authority allows capitalization amounting to Rs. 63 million on account of construction equipment related to indigenous gas system, with advice to project such expenditures at ERR/Mid-Year Review Stage. The Authority also allows capitalization amounting to Rs. 77 million for construction equipment related to RLNG Project. However, as per policy guidelines of FG dated 10.02.2016 cost of the construction equipment amounting to Rs. 77 million, related to RLNG infrastructure, is to be charged / recovered from RLNG Consumers without affecting consumers relying on domestically produced gas.*

xiv. **Compressors**

6.1.55 The Petitioner has capitalized an amount of Rs. 408 million against provisionally allowed amount of Rs 356 million in this head. The Authority had also allowed an additional amount of Rs 1,100 million, in principle, in its Determination on Motion for Review of DERR dated 24.04.2018 for the said year. The Authority notes that an amount of Rs. 131 million claimed in this head relates to leftover works of RLNG Pipeline Projects already commissioned by the petitioner.

6.1.56 M/s Deloitte Yousaf Adil, vide its initialed draft financial statements referred at para 6.1.5 above, have reported capitalization amounting Rs. 408 million against this head.

6.1.57 *In view of above, the Authority allows capitalization amounting to Rs. 277 million on account of compressors related to indigenous gas system. Moreover, the Authority allows capitalization amounting to Rs. 131 million for compressors related to RLNG Project for the said year. However, as per policy guidelines of FG dated 10.02.2016 cost*

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of Compressors amounting Rs. 131 million related to RLNG infrastructure, is to be charged / recovered from RLNG Consumers without affecting consumers relying on domestically produced gas.

xv. **SCADA**

6.1.58 The Petitioner has capitalized an amount of Rs. 7 million against the head of 'SCADA' for Revamp of Telecom at QPL during the said year. The petitioner had not projected any amount in this head at ERR stage. The petitioner has stated that the old Telecom system was deployed in 1996 with frequency band of 2 GHz. Pakistan Telecommunication Authority/Frequency Allocation Board, after awarding 3G license to cell phone operators, advised the petitioner to vacate 2 GHz band. Furthermore, the petitioner's old Telecom system had also lived up its economical life, hence new Telecom system with 7/8 GHz frequency band was successfully deployed, commissioned and tested.

6.1.59 M/s Deloitte Yousaf Adil, vide its initialed draft financial statements referred at para 6.1.5 above, have reported capitalization amounting to Rs 7 million against this head.

6.1.60 *In view of above, the Authority allows capitalization amounting to Rs. 7 million for the said year.*

xvi. **Fixed Assets Determined by Authority**

6.1.61 *The Authority, in view of the above discussion at para 6.1.18, 6.1.36 to 6.1.37 above, disallows an amount of Rs. 304 million for the said year.*

6.1.62 *The Authority, after due diligence and detailed analysis of petitioner's submissions, determines gross additions in fixed assets at Rs. 7,855 million for the said year. Accordingly, depreciation is reduced by Rs. 14 million on addition of assets disallowed in para above. Further, an adjustment of Rs. 73 million has been made in depreciation due to adjustment in opening balance of operating assets Rs. 1,254 million, taken as per MFRR-FY 2016-17 order, for the said year.*

6.1.63 *The petitioner is advised to project realistic figures in ERR since these have impact on gas consumer price.*

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792

Table 11: Fixed Assets Determined by the Authority

Rs. Million

Particulars	The petition	Determined by the Authority
Land		-
Buildings	92	92
Roads, pavements and related infrastuctures	-	-
Gas Transmission Pipeline	2,017	1,920
Plant and machinery	322	322
Gas distribution system and related facilities & equipments	4,824	4,618
Furniture, equipment including computer & allied equipments	282	282
Computer Software (Intangible)	9	9
LPG Air Mix Projecrs	42	42
Telecommunication system	35	35
Appls., loose tools & equipt.	13	13
Vehicles	176	176
Construction equipment	63	63
Compressors	277	277
SCADA	7	7
Gross Addition	8,159	7,855

6.1.64 ***Further, the Authority allows addition in fixed assets amounting Rs.943 million related to RLNG projects which is to be ring fenced and recovered from RLNG consumers only.***

7. Operating Revenues

7.1 Sales Volume

7.1.1 Sales volume has been reported to decrease by 1%, from 368,017 BBTU determined in DERR to 363,575 BBTU in the instant petition. Category-wise comparison with DERR and previous year has been provided by petitioner as under:

Table 12: Comparison of Category-wise Gas Sales Volume per Petition with DERR & Previous Year

Volume in BBTU

Category	FY 2016-17	FY 2017-18		Inc./(Dec.) over DERR FY 2017-18	
	FRR	DERR	The Petition		%
Cement	251	214	415	201	94
HCPC	6,537	4,751	7,426	2,675	56
Captive Power	69,843	68,345	78,567	10,222	15
Domestic	98,719	88,641	100,455	11,814	13
Fertilizer - feed stock	18,345	18,904	19,846	942	5
Commercial	10,411	10,219	10,528	309	3
General Industries	61,194	62,038	61,114	(924)	(1)
CNG Stations	25,847	29,182	24,852	(4,330)	(15)
Power	76,903	78,487	57,017	(21,471)	(27)
Nooriabad Power Plant	-	7,237	3,356	(3,882)	(54)
Total	368,049	368,017	363,575	(4,442)	(1)

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793

7.1.2 The petitioner has explained that the overall decrease in gas sales volume is mainly due to decreasing gas supplies/availability in the country; whereas the petitioner has attributed an increase in domestic sales volume owing to an increase in domestic consumers during the said year. As per the above table, the decrease in gas sales volume to CNG & Power sectors has been witnessed mainly due to the Natural Gas Load Management Program of FG during the said year. Moreover, Nooriabad Power Plant has resumed its commercial activities; accordingly, sales have resumed during the year. The petitioner has further explained that the gas sales volume to the Cement sector was underestimated at the time of ERR.

7.1.3 The Authority observes that gas supply to the various sectors has been made per the gas load management policy, which is the FG domain. *In view of the aforementioned the Authority accepts total sales volume at 363,575 BBTU for the* said *year.*

7.2 Sales Revenue at Prescribed Prices

7.2.1 Sales revenue has decreased from Rs. 148,954 million per DERR to Rs. 142,040 million in instant petition. Category-wise comparison with DERR and previous year is given below.

Table 13: Comparison of Category-wise Sale Revenues per Petition with DERR & Previous Year

Rs. In Million

Particulars	FY 2016-17 FRR	FY 2017-18 DERR	FY 2017-18 The Petition	Inc./(Dec.) over DERR for FY 2017-18	%
Cement	145	143	285	142	99
Habibullah Coastal Power	2,560	2,060	3,344	1,284	62
Captive Power	31,466	36,209	41,759	5,551	15
Commercial	5,339	6,041	6,314	273	5
Fertilizer - Feedstock	2,257	2,325	2,449	124	5
Domestic	15,021	18,048	18,245	197	1
General Industries	23,597	29,291	29,256	(35)	(0.12)
Power	30,568	33,599	23,691	(9,908)	(29)
CNG Stations	13,404	17,738	15,074	(2,665)	(15)
Nooriabad Power Plant	-	3,500	1,623	(1,877)	(54)
Total Sales Revenues	**124,357**	**148,954**	**142,040**	(6,914)	(5)

7.2.2 The Authority observes that the decrease in sale revenue for the said year, compared to DERR, is because of gas availability constraints and its supply to various sectors has been made per the gas load management policy.

7.2.3 *In view of the above the Authority accepts sales revenue at Rs. 142,040 million for the said year.*

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794

7.3 Other Operating Income

i. Summary

7.3.1 The petitioner has reported other operating income at Rs. 7,039 million in the petition as against Rs. 17,829 million estimated at the time of DERR for the said year. Detailed comparative breakup is appended below:

Table 14: Comparison of Other Operating Income per Petition with DERR & Previous Year

Rs. in million

Particulars	FY 2016-17	FY 2017-18		Inc./(Dec.) over DERR for FY 2017-18	
	FRR	DERR	The Petition	Rs.	%
Sale of LPG	2,533	3,009	2,412	(596)	(20)
Sale of NGL	423	584		(146)	(25)
Sale of Gas condensate	53	134	437	(134)	(100)
Meter Manufacturing Plants Profit	(2)	209	(58)	(267)	(128)
Notional income on IAS provision	262	281	318	37	13
Amortization of deferred credits	401	426	552	126	29
Meter rentals	735	773	756	(16)	(2)
Other income	880	536	1,525	989	185
Late Payment Surcharge	3,187	2,958	1,096	(1,861)	(63)
RLNG transportation Income	4,146	8,920	-	(8,920)	(100)
Operating Revenue	12,618	17,829	7,039	(10,790)	(61)

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

7.3.2 The petitioner has submitted that in line with the honorable Sindh High Court (SHC) decision dated November 25, 2016, whereby all the stay orders granted to the petitioner from FY 2010-11 to FY 2015-16 were dismissed in respect of revenue from Meter Manufacturing Plant (Rs. 58 million), LPS (Rs. 1,096 million), Sale of Condensate (nil), LPG (Rs. 2,412 million) and NGL (Rs. 437 million). Accordingly, these incomes have been treated as operating incomes in the instant petition. The petitioner has, however, submitted that an appeal in the Supreme Court of Pakistan has been filed against the above decision of honorable SHC and in case of favorable decision; it reserves the right to amend the instant petition. The petitioner has explained that LPS of Rs. 1,096 million claimed in the instant petition as against Rs. 2,958 million estimated at the time of DERR for the said year. The petitioner explained the reason for the decrease in LPS revenue in the said year due to the award of arbitration decision in favor of HCPC.

7.3.3 Regarding the sale of LPG, condensate and NGL, the Authority notes that off-takes from

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795

the fields have decreased resulting in lower extraction of the by-products vis-à-vis their sale. The Authority showed concern on MMP's losses i.e. Rs. 58 million, apparently on account of its overhead expenses. Furthermore, the Authority directed the petitioner to file a detailed report regarding steps being taken to put the MMP back into profit.

7.3.4 The Authority observed that the petitioner has excluded RLNG transportation income from the said year as estimated at the time of DERR Rs. 8,920 million, the same has been ring-fenced and is being directly recovered from RLNG consumers. The petitioner has also ring-fenced RLNG assets along with its expenses. The treatment is in line with the RLNG pricing framework put in place by the Federal Government through the issuance of policy guidelines in this respect.

7.3.5 ***In view of the justifications at paras 7.3.2 above, the Authority accepts the incomes and treats the above said Rs. 7,039 million income as operating in line with its principal stance as part of operating income for the said year.***

ii. Other Income

7.3.6 The petitioner has reported other income for the said year at Rs. 1,843 million as against Rs. 818 million in DERR (i.e. increase by 125%) for the said year. Detailed breakup with comparison is as under:

Table 15: Comparison of Other Income per Petition with DERR and Previous Year

Rs. in million

Particulars	FY 2016-17	FY 2017-18		Inc./(Dec.) over DERR of FY 2017-18	
	FRR	DERR	The Petition		%
Liquidated damages recovered	291	8	38	31	410
Others	97	20	23	3	16
Profit on sale of fixed assets	-	-	23		100
Income from new service connections	285	300	702	402	134
Income from pipeline construction	28	-	14	14	100
Interest income from SNGPL	888		561	561	100
Income from sale of tender documents	5	5	8	3	55
Recoveries from consumers	104	73	100	27	36
Income from sale of net investment in finance lease	68	126	57	(69)	(55)
Advertising Income	1	5	-	(5)	(100)
Notional income on IAS 19 provision	262	281	318	37	13
Total Other Operating Income	2,030	818	1,843	1,025	125

7.3.7 ***The Authority has determined the other income at Rs. 1,843 million; including notional income on IAS-19 Rs. 318 million, for the said year. In view of the above, the Authority***

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determines operating revenues at Rs. 7,039 million *for the said year, as tabulated below:*

Table 16: Operating Revenues as Determined by the Authority

Rs. in million

Particulars	FY 2017-18	
	The Petition	Determined by the Authority
Amortization of deferred credits	552	552
Meter rentals	756	756
Late Payment Surcharge	1,096	1,096
Sale of LPG	2,412	2,412
Sale of NGL Sale of Gas condensate	437	437
Other income	1,843	1,843
Meter Manufacturing Profit	(58)	(58)
Operating Revenue	7,039	7,039

8. *RLNG Cost of Service/ Supply*

8.1.1 The petitioner has reported Rs. 8,386 million (Rs. 36.69 per MMBTU at a throughput volume of 766 MMCFD) on account of RLNG cost of service for the said year. The petitioner has informed that the cost of the service shall be recovered as part of RLNG price; and hence not part of the petition. The breakup of the same is as under;

Table 17: Breakup of RLNG - Cost of Service/ Supply

Particulars	Rs. In Million
Revenue Expenditure Relating to RLNG	132
Gas Consumed Internally	672
Depreciation	1,551
ROA	5,703
Contribution to WPPF/Other Charges	329
Cost of Supply of RLNG	**8,386**

8.1.2 Pursuant to Para 10.2.5, *the Authority decides to exclude RLNG GIC claimed under the cost of supply of RLNG for the said year.*

8.1.3 *The Authority, based on the above, computes RLNG cost of supply at Rs. 8,023 million for the said year. However, the same has not been included as part of tariff calculation for natural gas consumers, and hence be recovered from RLNG consumers as part of RLNG price as tabulated below:*

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797

Particulars	Rs. In Million
Revenue Expenditure to RLNG	441
Gas Consumed Internally	-
Depreciation	1,551
ROA	5,703
Contribution to WPPF/Other Charges	329
Cost of Supply of RLNG	**8,023**

9. LPG Air-Mix Project

9.1 The petitioner has claimed a subsidy of Rs. 512 million on account of the operation of its LPG Air-Mix project for the said year.

9.2 *The Authority as per para, accepts subsidy on account of LPG air-mix assets at Rs. 512 million for the said year.*

10. Operating Expenses

10.1 Cost Of Gas

10.1.1 The petitioner has claimed the cost of gas, as per initialed accounts, at Rs. 164,938 million (net of GIC), compared with Rs. 140,824 million determined in DERR, an increase of Rs. 24,114 million (i.e. 17%). The petitioner has worked out the weighted average cost of gas (WACOG) for the said year at Rs. 383.52/MMBTU (i.e. Rs. 370.22/MCF).

10.1.2 The Authority had determined SNGPL's weighted average cost of gas purchased Rs. 375.88 per MMBTU in FRR for the said year; in accordance with the agreement for equalization of cost of gas dated 22nd September 2003, between these two companies. However effective May 2018, the WACOG cost equalization agreement has been put in abeyance by the Federal Government. After incorporating the same with SSGCL's total cost of gas purchased, as per audited result, the revised WACOG has been determined Rs. 398.03/MMBTU (i.e. Rs. 384.23/MCF) as under:

Wellhead Gas Prices effective period	MMCF	MMBTU	Rs. per MMBTU	Rs. in Million
Weighted Average SSGCL input cost of Gas	438,147	433,909	419.95	182,220
Weighted Average SNGPL input cost of Gas	456,298	429,521	375.88	161,448
WACOG	894,445	863,430	398.03	343,668
Rs. per MCF			384.23	

10.1.3 *Accordingly, the Authority determines cost of gas at Rs. 164,938 million (net of GIC) for the said year.*

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10.2 Unaccounted for Gas (UFG)

10.2.1 The petitioner has reported UFG at 16.30% (71,422 MMCF) for the said year. The petitioner has claimed 7,904 MMCF as Gas Delivered to SNGPL as per GOP decision/directive.

10.2.2 **Gas Delivered to SNGPL as per GOP decision/Sale of RLNG Held Stock:**

Supply of Re-gasified Liquefied Natural Gas (RLNG) in the natural gas network system started in March, 2015. There had been no dedicated pipeline to transport the RLNG directly from the LNG terminals to SNGPL's delivery point i.e. Sawan until September, 2018. The transmission of RLNG, owned by SNGPL, from south to north had been undertaken under the swap arrangement whereby the petitioner retained the RLNG received from LNG Terminals and delivered its system gas from indigenous fields to SNGPL. Initially RLNG supplies started from 200 MMCFD which later on ramped upto 1200 MMCFD. Owing to system constraints and operational reasons, the petitioner over the previous years', could not transmit equal quantity of gas to SNGPL on account of RLNG it had received from the terminals. Resultantly, SNGPL's gas started to pile up with SSGCL since inception. In pursuance of decision of the ECC of the Cabinet and SNGPL consent, the Ministry of Energy (Petroleum Division) has been allocating such stock to SSGCL. Uptill now, it has allocated 60 BCF gas to SSGCL already piled with it. In this regard, the relevant decision of ECC of the Cabinet dated 11-05-2018 reads as under:

"M/s 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 multi-year and on-going basis through setting up of a deferral account by OGRA."

10.2.3 Director (Technical), Petroleum Division, Ministry of Energy vide its letter No. NG(II)-16(4)/17-RLNG-Misc.vol-I dated 23rd October, 2017 has stated as under:

"I am directed to refer to M/s SSGCL's letter No. MD.MOE/238 dated 21.09.2017 and SNGPL's letter No. GMS:938(LNG) dated 27-09-2017 regarding the Reconciliation of RLNG Stock Held with SSGC and to state that in pursuance of the decision of the ECC vide Case No. ECC-126/15/2015 dated 03-09-2015 this Division hereby allocates 5 BCF of RLNG to M/s SSGCL out of the RLNG stock held with SSGCL. ***M/s SSGCL shall enter into an Agreement with M/s SNGPL pursuant to above RLNG allocated volumes with the***

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condition that either SSGCL will make payments to SNGPL for the RLNG so sold in its franchise area or it will return these molecules when dedicated pipeline is available."

10.2.4 In pursuance of the above noted decision of ECC of the Cabinet and allocation of RLNG Held Stock by MOE, the petitioner has claimed 7,904 MMCF as deemed Gas Delivered to SNGPL as per GOP decision/directive. The above volume consists of RLNG sale of 6,487 MMCF out of the RLNG Held Stock less 1,318 MMCF (Differential of RLNG received from Terminals - RLNG delivered to SNGPL), T&D Loss of 994 MMCF, and GIC of 1,741 MMCF. Since the petitioner had received more volume of RLNG from Terminals and delivered less volume of gas to SNGPL therefore it has adjusted the differential i.e. 1,318 MMCF out of the sale of RLNG heldstock.

10.2.5 The Authority notes that the petitioner was asked to clarify how much GIC corresponds to RLNG Sales of 6,487 MMCF. The petitioner vide email dated 23-01-2020 responded that a very nominal GIC may be attributable to RLNG sales. The petitioner has not provided any break down of GIC corresponding to RLNG Sales. The Authority, therefore, does not allow any GIC related to the sale of RLNG Held Stock.

10.2.6 The petitioner while claiming T&D Loss of 994 MMCF has reported the entire RLNG Sales of 6,487 MMCF to Sectors on Distribution Lines during the said year. However, the Authority notes that in pursuance of the above noted decision of ECC of the Cabinet and allocation of RLNG Held Stock by MOE, the petitioner may claim only such volumes as deemed sales for which it has made payments to SNGPL. In pursuance of the policy of FG, the Authority may only allow BTU equivalence volumes or such volumes of RLNG held stock for which the petitioner makes payment to SNGPL. Since the petitioner has not established payments to SNGPL against T&D loss of 994 MMCF therefore the Authority does not allow any volume against the head of T&D loss on Sale of RLNG Held Stock.

10.2.7 The Authority, in view of the above, allows a volume of 5,169 MMCF as deemed sales for UFG Working, detail of which is as under:

805

	Volume in MMCF Claimed by the Company	Volume in MMCF Determined by the Authority
Sale of RLNG	6,487	6,487
UFG on transmission & distribution of RLNG	994	0
GIC on transportation of RLNG	1,741	0
Differential of RLNG received from Terminals - RLNG delivered to SNGPL	(1,318)	(1,318)
Total	**7,904**	**5,169**

10.2.8 The petitioner has also pointed out certain technical issues arising out of handling of RLNG in its distribution system. The petitioner has stated that under the swapping arrangement, SSGC had to consume high BTU RLNG in its distribution system, while swapping its low BTU indigenous gas to Shipper. Due to handling of the RLNG, which has high BTU and low specific gravity, they had experienced more UFG in their RLNG consuming area i.e. Karachi. In this regard, the Authority notes that technical issues related to the use of RLNG, if any, are to be taken by the transporter with the shipper under the relevant access arrangement/Gas Transportation Agreement and settle the same accordingly. As regards the implementation of Policy Guidelines on the issue, a detailed determination on this matter has already been issued in the Authority's decision on FRR FY 2016-17 dated 24-12-2018.

10.3 <u>Gas Consumed Internally (GIC)</u>

10.3.1 The petitioner has claimed GIC of 713 MMCF against the provisionally determined figure of 936 MMCF in DERR for the said year. The details furnished by the petitioner show that the claimed GIC of 713 MMCF includes 592 MMCF for compressions, 114 MMCF for Company Own Use, and 7 MMCF for Distribution. The Authority in view of the operational requirement of the company allows the requisite GIC of 713 MMCF for the said year. ***Based on the above, the Authority accepts GIC Rs. 271 million for the said year.***

Line Pack (LP)

10.3.2 The petitioner has claimed a volume of 423 MMCF against the head of "(Inc.)/Dec Gas in pipeline" whereas historically the same has remained as under:

Volume in MMCF

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F.Y.	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
(Inc.)/Dec Gas in pipeline	32	(51)	92	19	88	367	423

10.3.3 In this regard, the data provided by the petitioner shows that the petitioner has claimed 49 MMCF for addition in Line Pack of indigenous gas pipeline network. The petitioner has also claimed 374 MMCF for addition in Line Pack of 42" diameter dedicated pipeline related to Phase-II of the RLNG Infrastructure Development Project.

10.3.4 The Authority notes that as per the Gas Transportation Agreement (GTA) between SNGPL and SSGCL, "LP" means line pack, which is the volume of gas in the relevant segment of SSGC's gas pipeline transportation system at a certain point in time at a defined gas specification, temperature and pressure and only applies to the transportation of SN-RLNG. Furthermore, as per clause 7.2 of the said GTA, "SSGC's obligation to transport SN-RLNG to SNGPL under Phase II shall be subject to reduction due to Pipeline Losses <u>and one-time adjustment for LP</u>, if applicable."

10.3.5 Rule 12 of OGRA Gas (Third Party Access) Rules, 2018 stipulates as under:

(1) ***"Line pack, system use gas and transportation losses.-(1) The transporter shall be responsible for the line pack of its gas pipeline transportation system.***
(2) ***A shipper shall provide gas for adjustment on account of system use gas and transportation loss as agreed in the access arrangement and in accordance with the latest determination thereof by the Authority for the transporter.***
(3) ***In case of a dedicated pipeline, the shipper shall provide the required volume of gas for the line pack and which shall be recoverable by the shipper, in kind or monetary terms, as agreed in the access arrangement."***

10.3.6 In accordance with the above noted provisions of OGRA Gas (Third Party Access) Rules, 2018 and GTA, the petitioner is required to get the required volume of gas for the line pack for 42" diameter dedicated pipeline from the shipper i.e. SNGPL.

10.3.7 *The Authority, therefore, does not allow line pack of 374 MMCF for 42" dedicated pipeline for the said year.* Furthermore, in view of the prevalent swapping arrangements, the Authority in its Determination of FRR FY 2016-17 had provisionally allowed Line Pack volume of 399 MMCF against 42" dia RLNG Line. However, since the dedicated pipeline is now operational w.e.f September 2018, therefore, the Authority adjusts 399 MMCF line pack allowed for 42" dia RLNG Line in FRR FY 2016-17, accordingly. In accordance with the above noted legal provisions, the petitioner may

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claim the said volumes from SNGPL.

10.3.8 The Authority notes that it undertook a UFG study for determining UFG Benchmarks of the gas companies through a consultant of international repute vis M/s KPMG Taseer Hadi& Co. Chartered Accountants (KPMG). The Authority forwarded the UFG Study Report to the petitioner on 30-8-2017 for implementation and compliance. The Authority vide its DERR for FY 2017-18 dated 20-09-2017 reiterated salient parameters of the said UFG Report. The petitioner vide its letter No. RA 26-18 dated 14-12-2019 has submitted Audit Report of M/s Deloitte regarding implementation of KMIs for UFG Benchmark, which were considered by the Authority. Allowance for local operating conditions based on the performance as per KMIs has been worked out and is incorporated in the UFG sheet.

The petitioner has also claimed 26 MMCF against 'Loss due to sabotage activity/ruptures/unmetered'. In this regard, the Authority notes that the Authority has already given 'Allowance for local operating conditions', as per recommendations of the UFG Study Report, therefore the Authority disallows the additional volume claimed against this head.

Table 18: Calculation of UFG Disallowance

Particulars	FRR FY 2016-17	The Petition	Determined by the Authority
Gross Purchases	438,389	438,147	438,147
Gas Consumed Internally - metered	1482	713	713
(Inc.)/Dec. Gas in pipeline	367	423	49
(Inc.)/Dec. Gas in pipeline (Prior Year Adjustment of Line Pack for 42" RLNG Pipeline)		-	(399)
Loss due to sabotage activity / ruptures / unmetered	31	26	-
Sub-total	1,880	1,162	363
Available for Sale (A)	436,509	436,985	437,784
Gas Sales	362,313	355,337	355,337
Deemed Gas Delivered to SNGPL under SWAP arrangement / Sale of RLNG Held Stock, as per GoP decision	5,844	7,904	5,169
Add: Unbilled pilfered volume in law & order affected areas	1,896	-	-
Add: Pilfered volume detected against non-consumers	5,110	-	-
Add: Gas Shrinkage at LPG/NGL Plant (JJVL)	3,274	2,311	2,311
Add: Gas Shrinkage at Condensate (LHF)	62	11	11
Total Gas Sales (B)	378,499	365,563	362,828
Calculated Gas Unaccounted For (A-B)	58,010	71,422	74,956
Calculated Gas Unaccounted For (%)	13.29	16.30	17.11
Benchmark 5%	19,643	21,907	21,907
Allowance for local operating conditions (@1.91%)	0	10,822	8,369
Disallowed Volume	43,208	38,692	44,680
WACOG (Rs./MCF)	-	-	384.23
UFG Adjustment (Rs. in million)	-	-	17,167

803

10.3.9 ***Based on the above, the Authority deducts Rs. 17,167 million from the revenue requirement for the said year.***

10.4 Transmission & Distribution (T & D) Cost

iii. Summary

10.4.1 The petitioner has claimed that T&D cost has increased by 2% i.e. from Rs. 15,736 million provided in DERR to Rs. 15,985 million, as compared below:

Table 19: Comparison of T & D Cost per the Petition with DERR & Previous Year

Rs. in Million

Particulars	FY 2016-17	FY 2017-18		Inc./(Dec.) over DERR FY 2017-18	
	FRR	DERR	The Petition	Rs.	%
Salaries, wages, and benefits at benchmark	12,434	13,509	13,473	(36)	(0)
Advertisement	108	115	112	(3)	(2)
Stores, spares and supplies consumed	595	659	645	(14)	(2)
Repairs & maintenance	1,570	1,727	1,672	(55)	(3)
License & Tariff Petition Fee to OGRA	57	58	133	75	130
Electricity	189	208	194	(14)	(7)
Gas bills stubs processing charges	22	24	22	(2)	(8)
Postage & bill delivery by Contractors	82	94	86	(8)	(8)
Meter reading by contractors	69	77	70	(7)	(9)
Insurance	119	146	124	(21)	(15)
Traveling	108	119	100	(19)	(16)
Rent, rate & taxes	161	202	166	(36)	(18)
Material used on consumers installations	34	41	30	(11)	(28)
Professional charges	18	46	24	(22)	(47)
Collecting agent commission	0.364	3	0	(3)	(86)
Security expenses	554	582	610	28	5
Others	103	123	129	6	5
Gas bills collection charges	181	173	188	15	9
* Legal charges	286	91	116	25	27
Impairment of Capital WIP	49	-	127	127	100
Sub-total Cost	16,741	17,996	18,020	24	0
Less: Recoveries / Allocations	2,042	2,260	2,035	(225)	(10)
Net T&D Cost before GIC	14,698	15,736	15,985	248	2

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

iv. Human Resource (HR) Cost

10.4.2 The petitioner has claimed Rs. 13,473 million HR cost for the said year, based on the Authority's approved HR benchmark formula; through capitalizing (excluded Direct Departmental Cost) Rs. 1,336 million costs from actual HR cost; resultantly claimed 50%

804

saving. The petitioner referred to SNGPL determination MFRR FY 2015-16, wherein similar treatment was allowed to SNGPL.

10.4.3 In compliance with the Authority's directive in DERR for the said year, the petitioner has submitted an HR cost certificate from its statutory auditor thereby confirming that HR cost Rs. 12,412 million assigned to T&D cost (including HR development cost and uniform cost) which is directly attributable to operating activities, comprises only the salaries of its regular employees.

10.4.4 The Authority notes that the HR benchmark cost allowed includes Rs. 309 million related to RLNG consumers / RLNG volume transported. Therefore, the Authority decides to exclude the same from HR cost FY 2017-18 for indigenous gas consumers and decides to recover the same from RLNG consumers in line with the ring-fencing pricing framework.

10.4.5 The Authority has also observed that the petitioner has claimed a 50% saving of Rs. 1,061 million by comparing HR benchmark cost with its net HR cost after capitalization. The Authority believes that to implement the HR benchmark in true letter and spirit the saving has to be computed on the gross HR cost i.e. before capitalization.

10.4.6 *In view of the above, the Authority determines HR cost Rs. 12,497 million for the said year as per the Annexure-C. Further, the Authority directed that this surplus/capitalization should utilize to settle the first pending CBA agreement including future HR costs instead of distributing the same among executives/shareholders.*

v. Security Expenses

10.4.7 The petitioner has reported security expenses for the said year at Rs. 610 million as against Rs. 582 million provided in DERR for the said year, as shown below:

Table 20: Comparison Security Expenses with the DERR & Previous Year

Rs. in Million

Particulars	FRR	DERR	The Petition	Inc./(Dec.) over DERR FY 2017-18	
	FY 2016-17	FY 2017-18		Rs.	%
Transmission	374	420	370	-50	-12
Distribution	151	133	195	62	47
Head Office & Others	30	29	45	16	54
Total	554	582	610	28	5

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805

10.4.8 The petitioner has explained that the major reason for an increase under the said head is mainly attributed to an increase in the strength of Guards to beef up security at important Company's installations. The petitioner has also explained that an increase under this head is owed to revision in the security Guard's rate per month by the security agencies.

10.4.9 The Authority observes that the actual security expense for FY 2016-17 was Rs. 554 million. It is, therefore, evident that the expenditures for the said year are on the higher side. ***In view of the above justification and historical trend, the Authority allows security expenses at Rs. 610 million for the said year.***

vi. Other Charges of T&D

10.4.10 The petitioner has reported Other Charges for the said year at Rs. 129 million as against Rs. 123 million provided in DERR for the said year, as shown below:

Table 21: Comparison Other Charges with the DERR & Previous Year

Rs. in Million

Particulars	FRR	DERR	The Petition	Inc/(Dec.) over DERR FY 2017-18	
	FY 2016-17	FY 2017-18		Rs.	%
Communications	19	6	31	25	416
Subscriptions	16	13	10	(3)	(25)
Other miscellaneous	68	104	88	(16)	(15)
Total	103	123	129	6	5

10.4.11 The petitioner has explained that the increase under the said head is mainly attributed to the increase in mobile charges under the head of communication expenses, as huge savings were achieved in the last two years, network/internet charges increased due to several new contracts to provide network connectivity in various areas of Sindh and Baluchistan. The savings were due to new contract negotiations with Warid Telecom.

10.4.12 The Authority notes that the petitioner had recorded an enormous increase under the head "Others" in DERR for the said year over FRR for FY 2016-17 without providing any convincing justification. The Authority further notes that at the time of FY 2016-17, the petitioner has reported a 16% decrease over FRR for FY 2015-16, which is admirable. It is, therefore, evident that the expenditures for the said year are on the higher side. ***In view of the above, the Authority determines Rs. 123 million i.e. fix at the level of DERR for the said year.***

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806

vii. ***Legal Charges***

10.4.13 The petitioner has reported legal charges for the said year at Rs. 116 million as against Rs. 91 million provided in DERR for the said year, as shown below:

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

Rs. in Million

Particulars	FRR	DERR	The Petition	Inc./(Dec.) over DERR FY 2017-18	
	FY 2016-17	FY 2017-18		Rs.	%
Legal Charges	76	91	70	(21)	(24)
Habibullah Coastal Power Company Private Limited	210	-	46	46	100
Total	286	91	116	25	27

10.4.14 The petitioner has explained that Rs. 70 million spent in connection with legal charges and Rs. 46 million in connection with HCPC arbitration international. The petitioner has informed that the Arbitration Tribunal has announced its award in the favor of HCPC.

10.4.15 ***In view of the above justification provided by the petitioner, the Authority allows legal charges at Rs. 116 million for the said year.***

viii. ***Repair & Maintenance***

10.4.16 The petitioner has capitalized Rs. 1,672 million on account of Repair and Maintenance against the provisionally allowed amount of Rs 1,510 million in this head. The Authority had also allowed an additional amount of 217 million in its Determination on Motion for Review of DERR dated 24.04.2018 for the said year. The petitioner has stated that major amount in this regard was incurred on UFG control activities like coating and wrapping, overhead and underground leak survey/rectification of leakages in the distribution network.

10.4.17 The Authority observed that M/s Deloitte Yousaf Adil, vide its initialed draft financial statements have reported capitalization amounting Rs 1,567 million against this head. ***In view of the above-stated position, the Authority allows revenue expenditure amounting to Rs. 1,567 million under the head of Repair & Maintenance for the said year.***

ix. ***Gas Bill Collection Charges***

10.4.18 The petitioner has reported Rs. 188 million on account of gas bill collection charges, as against Rs. 173 million determined at the time of DERR, showing an increase of 9%.

Table 23: Comparison of Gas Bills Collection Charges with DERR & Previous Year

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807

Rs. in Million

Particulars	FRR	DERR	The Petition	Inc./(Dec.) over DERR FY 2017-18	
	FY 2016-17	FY 2017-18		Rs.	%
Gas Bills collection charges	182	173	188	15	9
Total	182	173	188	15	9

10.4.19 The petitioner has explained that during the year Rs. 104 million has been spent on the sub-head "Other charges" including Nadra, Post Office, Pakistan State Oil, Tameer Easy Paisa, UBL Omni, 1-Link, etc. The petitioner has also explained that the 7% increase in Collection Charges is due to New Connections and excess bills paid by the customers during the period.

10.4.20 *Keeping in view the above justification and historical trend, the Authority decides to allow Rs. 188 million under the head of gas bills collection charges for the said year.*

x. *Impairment of Capital WIP and Others*

10.4.21 The petitioner claimed Rs. 127 million against impairment on capital WIP. The Authority observed that Impairment of WIP cannot be allowed since assets once commissioned qualify for the return and cost over-runs are also picked by the consumers however charging them for impairment of WIP before commissioning is unreasonable. *The Authority, therefore, decides to disallow the same for the said year.*

10.4.22 The petitioner, after the public hearing, has submitted revised petition and requested to allow additional Rs. 1.3 million against KMI Audit fee since the same was initiated on advice of the Authority; therefore, its adjustment has been required to be incorporated in the petition.

10.4.23 The petitioner has also claimed additional Rs. 78 million on account of OGRA annual license renewal fee, based on MFRR-FY 2016-17, the total amount Rs. 133 million against license fee has been computed for the said year and the differential amount has been deposited during in house public hearing held on January 29, 2020 at OGRA office.

10.4.24 *Keeping in view the above justifications offered in Para 10.4.22 and 10.4.23 by the petitioner, the Authority decides to allow additional KMI Audit fee and OGRA annual license fee Rs. 1.3 million and Rs. 133 million respectively for the said year.*

xi. *Remaining Items of T & D Cost*

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308

10.4.25 Expenditure on remaining items of T & D cost, which have not been discussed above, is Rs. 1,705 million as against Rs. 1,791 million provided in DERR for the said year, as detailed below:

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

Rs. in Million

Collecting agent commission	FY 2016-17	FY 2017-18		Inc./(Dec.) over DERR FY 2017-18	
	FRR	DERR	The Petition	Rs.	%
Advertisement	108	115	112	(3)	(2)
Stores, spares and supplies consumed	595	659	645	(14)	(2)
License & Tariff Petition Fee to OGRA	57	58	133	75	130
Electricity	189	208	194	(14)	(7)
Gas bills stubs processing charges	22	24	22	(2)	(8)
Postage & bill delivery by Contractors	82	94	86	(8)	(8)
Meter reading by contractors	69	77	70	(7)	(9)
Insurance	119	146	124	(21)	(15)
Traveling	108	119	100	(19)	(16)
Rent, rate & taxes	161	202	166	(36)	(18)
Material used on consumers installations	34	41	30	(11)	(28)
Professional charges	18	46	24	(22)	(47)
Collecting agent commission	0.364	3	0	(3)	(86)
Sub-total Cost	**1,563**	**1,791**	**1,705**	**(86)**	**(5)**

10.4.26 ***In view of the above the Authority accepts remaining items of T&D cost at Rs. 1,705 million as tabulated below:***

Table 25: T&D Cost Determined by the Authority

Rs. In Million

Particulars	FY 2017-18	
	The Petition	**Determined by the Authority**
Salaries, wages, and benefits at benchmark	13,473	12,497
Security Expenses	610	610
Other Charges	129	123
Legal charges	116	116
Gas Bills Collection Charges	188	188
Repairs & maintenance	1,672	1,567
Impairment WIP	127	-
Remaining T&D Cost	1,705	1,705
Sub-total Cost	**18,020**	**16,806**
Less: Recoveries / Allocations	2,035	2,035
Net T&D Cost before GIC	**15,985**	**14,771**

11. Other Charges excluding WPPF

xii. HCPC Arbitration Award

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809

11.1.1 The petitioner has claimed Rs. 4,167 million as other charges in the petition on account of bad debts adjustment against LPS amount receivable from Habibullah Coastal Power Company Private Limited (HCPC) along with Interest on LD charges and legal charges as summarized below:

Sr. #	Description	Rs. in million
1	LPS Receivable from HCPC (FY 2009-10 TO FY 2016-17)	3,243
2	Interest on LD Charges	353
3	Legal Charges	571
4	Total - HCPC Arbitration Charges	4,167

11.1.2 The petitioner explained that LPS receivable from HCPC comprised FY 2009-10 of FY 2016-17 allowed as other income in the respective revenue requirement; the same has been recorded bad debt expenses, after the award of the decision in favor of HCPC on April 30, 2018, by the International Arbitration Tribunal (i.e. HCPC is entitled to an indemnity and damages from SSGC Rs. 3,626 million; whereas SSGCL recorded this amount as amount receivable against Gas sale).

11.1.3 The petitioner explained that HCPC has claimed Rs. 353 million on account of interest on LD charges from SSGCL; since the same is charged by WAPDA to HCPC. Moreover, HCPC has charges SSGCL for the recovery of legal charges Rs. 571 million paid to the International Arbitration Tribunal for resolution of the dispute for the short/ non-supply of gas by SSGCL.

11.1.4 The petitioner has highlighted that ECC of the cabinet vides case no. ECC_06/02/2018 dated 07.02.2018 has approved the proposal regarding waiver of liquidated damages claimed by WAPDA to HCPC which are subsequently claimed by HCPC from SSGCL. Regarding the waiver of the LD charges, all three stakeholders recently met on April 18th, 2019 and agreed that CPPA-G and HCPC shall reconcile and settle their payable and receivable amounts, after adjustments and settlement, the setoff amount of gas bills shall be reimbursed to SSGCL in order to implement the ECC waiver.

11.1.5 The petitioner through telephonic discussion/hearing confirmed that WAPDA and HCPC have not finalized their claim yet; and any setoff amount of gas bills outstanding from HCPC has not been realized yet. The Authority observed that ECC has approved a waiver for liquidated damages claimed by WAPDA to HCPC; therefore, interest on liquidated damages Rs. 353 million has become superfluous; therefore, the Authority

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810

has disallowed the same in the said petition.

11.1.6 *In the light of ECC's decision, the Authority decides to pend LPS adjustment and other arbitration charges until the conclusion of matter between WAPDA/CPPA-G and HCPC.*

xiii. Exchange Loss on Payment of Gas Purchases

11.1.7 The petitioner has claimed Rs. 4,304 million on account of exchange loss on gas purchases (i.e. difference of Rs./US$ at the time of booking of purchases invoices vs. subsequent payment of invoices), including the provision of Rs. 2,794 million against outstanding amount.

11.1.8 The Authority observed that exchange loss on account of gas purchases is admissible expenditure.

11.1.9 *After scrutinizing the same, the Authority decides to allow exchange losses on payment of gas purchases amounting to Rs. 4,304 million for the said year and directs the petitioner to devise a mechanism to minimize such losses.*

xiv. Other Charges

11.1.10 The petitioner has claimed Rs. 249 million on account of other charges comprising sports club expenses, corporate social responsibility, provision against impaired stores and spares and auditor fee, the breakup of the same is as under;

Table 26: Comparison of other Charges with Previous Years.

Rs. in Million

Particulars	FRR	DERR	The Petition	Inc./(Dec.) over	
	FY 2016-17	FY 2017-18		Rs.	%
Sports Club Expenses	63	0	66	66	-
Corporate Social Responsibility	12	55	39	(16)	
Prior year FY 2015-16 Sport expenses allowed by OGRA	0	0	59	59	
Provision against impaired Stores and Spares	0	0	68	68	
Other/Auditor fees	0	0	16	16	
Total	63	0	249	249	-

11.1.11 The Petitioner referred to the Authority decision dated April 24, 2018 Motion for Review on DERR during the said year, wherein the sports charges have been allowed in principle at the time of FRR. In *view of the decision, the Authority decides to allow Rs. 66 million*; however, *the expenses of Rs. 59 million pertaining to FY 2015-16 are not admissible.*

11.1.12 The Authority observed that CSR activities shall be equally contributed by the petitioner

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from its own profit, therefore, *the Authority decides to allow 50% i.e. Rs. 20 million for the said year.*

11.1.13 The Authority noted that the petitioner has been allowed store and spare consumed under T&D expenses in Para 9.3,26; therefore, provision against impaired stores Rs. 68 million has been disallowed by the Authority for the said year.

11.1.14 The Authority further noted that the petitioner has claimed Rs. 16 million against other /Audit fee which the petitioner has not provided concerted justification; therefore the Authority decides to disallow Rs. 16 million related to Other/Audit fee for the said year.

11.1.15 *Keeping in view the above, the Authority decides to allow Rs. 86 million as against Rs. 249 million under the above head i.e. Other Charges for the said year.*

xv. Provision for Doubtful Debts

11.1.16 The petitioner has claimed Rs. 908 million on account of provision for doubtful debts, as against Rs. 547 million determined in DERR, showing an increase of 66%.

Table 27: Comparison of Provision for Doubtful Debts with Previous Years.

Rs. in Million

Particulars	FRR	DERR	The Petition	Inc./(Dec.) over	
	FY 2016-17	FY 2017-18		Rs.	%
Provision for doubtful debts	791	547	908	361	66
Total	791	547	908	361	66

11.1.17 The petitioner has claimed Rs. 908 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 2017-18.

11.1.18 *The Authority, as per its benchmark and the information provided by the petitioner, re-computes provision against doubtful debts for disconnected consumers at Rs. 668 million. The Authority reiterates its directions to actively follow the GOP's directives in respect of effective recovery mechanisms in the natural gas sector.*

11.1.19 *Consequent upon the deduction/adjustments in various components of revenue requirement as discussed above, the Authority determines other charges at Rs. 5,057 million for the said year.*

12. Revenue Expenditure Relating to LNG

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812

12.1.1 The petitioner has reported Rs. 132 million on account of revenue expenditure relating to LNG, as against Rs. 93 million determined in DERR, showing an increase of 42%.

Table 28: Comparison of Revenue expenditure relating to LNG with DERR & Previous Year

Rs. in Million

Particulars	FRR	DERR	The Petition	Inc./(Dec.) over	
	FY 2016-17	FY 2017-18		Rs.	%
Revenue Expenditure Relating to LNG	96	93	132	39	42
	96	93	132	39	42

12.1.2 The petitioner has attributed that Rs. 132 million has been incurred during the said year in view of the increased activities with respect to LNG. The petitioner has further explained that repair & maintenance and stores & spares consumed are comparatively high due to Ring-Fencing of Nawabshah-Compressor Operations (RLNG) cost during the year. Moreover, the security and repair & maintenance of motor vehicles bear the same phenomena.

12.1.3 *In view of the above and treatment decided in para 10.4.4. the Authority decides to allow Rs. 441 million relating to RLNG for the said year as tabulated below:*

Table 29: RLNG related Cost determined by the Authority

Rs. in Million

Particulars	FRR	DERR	The Petition	Inc./(Dec.) over DERR FY 2017-18	
	FY 2016-17	FY 2017-18		Rs.	%
Revenue Expenditure Relating to RLNG	96	93	132	39	42
HR Cost-related to RLNG consumers			309	309	
Total Revenue Expenditure to RLNG	96	93	441	348	374

12.1.4 *However, the same shall be recovered from RLNG consumers as part of the transportation charges discussed in para 8.1.2 for the said year. The Authority, however, directs the petitioner to remain vigilant while planning /undertaking any project relating to LNG/RLNG for making the RLNG consumer price competitive for the local market.*

13. Change in Accounting Policy -International Accounting Standards-19- (IAS-19)

13.1.1 The petitioner has claimed Rs. 1,368 million on account of FY 2017-18 post-retirement

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813

obligation of employees and its financial impact resulting from accounting policy -IAS-19.

13.1.2 The Authority notes that contribution to post-retirement obligations is a complementary part of HR cost which has been allowed on an actual basis. The petitioner is a public listed company; it has to comply with the SECP regulation which, as per Companies Ordinance, refers to IAS/IFRS in the presentation of financial statements. The petitioner is thus statutorily obligated to realize post-retirement obligation with the contribution in the fund as per actuarial valuation.

13.1.3 *The Authority, in view of the above justification advanced by the petitioner, allows Rs. 1,368 million under this head for the said year.*

14. Summary of Discussion & Decisions

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

14.1.1 determines gross addition in fixed assets at Rs. 7,855 million and depreciation charge at Rs. 5,579 million;

14.1.2 determines the balance of average net operating fixed assets (net of deferred credits & LPG Air mix) at Rs. 53,701 million. Consequently, the return required by the petitioner on its average net operating fixed assets is determined at Rs. 9,129 million;

14.1.3 accepts subsidy on account of Air-mix LPG at Rs. 512 million;

14.1.4 determines other operating income at Rs. 7,039 million;

14.1.5 accept the cost of gas at Rs. 164,938 million;

14.1.6 accepts Rs. 3,672 million adjustment on account of staggering of the financial impact on account of honorable Sindh High Court decision;

14.1.7 determine UFG adjustment at Rs. 17,167 million at benchmark;

14.1.8 determine T&D expenses at Rs. 14,771 million;

14.1.9 accept GIC at Rs. 271 million including loss due to sabotage activities;

14.1.10 accept change in accounting policy IAS-19 by IASB to Rs. 1,368 million

14.1.11 determine other charges excluding W.P.P.F. to Rs. 5,057 million; and

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814

14.2 In exercise of powers under Section 8(2) of Ordinance, Authority determines final revenue requirement of petitioner for said year at Rs. 180,786 million as against petitioner's claim of Rs. 189,742 million, as tabulated below:

Table 30: Components of FRR as Determined by the Authority

Rs. in million

S.No	Particulars	Claimed by the Petitioner	Determined by the Authority
1	Cost of gas sold	164,938	164,938
2	UFG adjustment	(14,325)	(17,167)
3	Transmission and distribution cost	15,985	14,771
4	Gas internally consumed	271	271
5	Staggering of accumulated losses	(3,672)	(3,672)
6	Depreciation	5,666	5,579
7	Other charges including WPPF	11,105	6,425
8	Return on net average operating fixed assets	9,261	9,129
9	Additional revenue requirement for Air-Mix LPG Projects	512	512
	Total Final Revenue Requirement	189,742	180,786

14.3 **The petitioner's actual net operating income is Rs. 149,079 million and thus there is a shortfall of Rs. 31,707 million, vis-à-vis its revenue requirement of Rs. 180,786 million for the said year. Average prescribed price for each category of consumers comes to Rs. 477.89/ MMBTU.**

14.4 The Prescribed prices of each category of retail consumers for the said year accordingly stand adjusted to the extent of notified gas sale prices as advised by the Federal Government during the said year and shortfall for the said year will be carried forward.

Mr. Muhammad Arif,
Member (Gas)

Dr. Abdullah Malik,
Member (Oil)

Noorul Haque,
Member (Finance)

Uzma Adil Khan,
(Chairperson)

REGISTRAR
Oil & Gas Regulatory Authority
Islamabad

Islamabad, April 23, 2020

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A. Final Revenue Requirement for FY 2017-18

ANNEXURE – A

Rs. in Million

	Particulars	The Petition	The Adjustment	Determined by the Authority
	Gas sales volume -MMCF	355,337		355,337
	BBTU	363,575		363,575
"A"	**Net Operating Revenues**			
	Net sales at current prescribed price	142,040	-	142,040
	Meter rentals	756	-	756
	Amortization of deferred credit	552	-	552
	Sale of LPG	2,412	-	2,412
	Sale of condensate	-	-	
	Sale of NGL	437	-	437
	Late payment surcharge	1,096	-	1,096
	Meter manufacturing profit	(58)	-	(58)
	RLNG Tranportation Income	-	-	-
	Other operating income	1,843	0	1,843
	Total Operating Revenue "A"	149,079	0	149,079
"B"	**Less: Operating Expenses**			
	Cost of gas	164,938	-	164,938
	UFG Adjustment	(14,325)	(2,843)	(17,167)
	Transmission and distribution cost	15,985	(1,214)	14,771
	Gas internally consumed	271	(0)	271
	Staggering of accumulated losses	(3,672)	-	(3,672)
	Depreciation	5,666	(87)	5,579
	Other charges	9,737	(4,680)	5,057
	Change in accounting policy IAS-19 by IASB	1,368	-	1,368
	Total Operating Expenses "B"	179,969	(8,824)	171,145
"C"	**Operating profit (A-B)**	(30,890)	8,824	(22,065)
	Return required on net operating fixed assets:			
	Net operating fixed assets at beginning	59,875	(1,254)	58,621
	Net operating fixed assets at ending	61,763	(294)	61,470
		121,639	(1,548)	120,091
	Average net assets (I)	60,819	(774)	60,045
	Net LPG air mix project asset at beginning	799	-	799
	Net LPG air mix project asset at ending	745	-	745
		1,545	-	1,545
	Average net assets (II)	772	-	772
	Deferred credit at beginning - Assets related to Natural Gas Activity	4,709	-	4,709
	Deferred credit at ending - Assets related to Natural Gas Activity	6,436	-	6,436
		11,144	-	11,144
	Average net deferred credit (IV)	5,572	-	5,572
	"D" Average (I-II-III-IV)	54,475	(774)	53,701
	"E" return required	9,261	(132)	9,129
	"F" Shortfall / (Surplus) in return required (E-C) (Gas Operations)	40,150	(8,956)	31,195
"G"	**Additional revenue requirement for Air-Mix LPG Projects**	512	-	512
	Total Shortfall / (Surplus) H=(F+G)	40,663	(8,956)	31,707
	Increase in average prescribed price effective (Rs. / MMBTU) w.e.f July 01, 2017	111.84	(24.63)	87.21
	Total revenue requirement (B+E+G)	189,742	(8,956)	180,786
	Average Prescribed Price (Rs. per MMBTU)	502.52	(24.63)	477.89

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B. Computation of HR Cost Benchmark FY 2017-18

ANNEXURE - B

Particulars	2016-17 MFRR	2017-18 The Petition	2017-18 Determined by the Authority
HR BENCHMARK COST PARAMETERS			
Base Cost	11,347	11,959	11,959
CPI factor	4.16%	3.92%	3.92%
T & D network (Km)	49,494	50,240	50,240
Number of Consumers (No.)	2,839,171	2,913,124	2,913,124
Sales Volume (MMCF)	542,014	641,554	641,554
Unit Rate (Rs./unit)			
T&D network (Rs./Km)	234,557	241,616	241,616
No. of Consumers (Rs./Consumer)	4,091	4,212	4,212
Sale Volume (Rs./MMCF)	23,433	22,063	22,063
HR Cost Build-up (Million Rs)			
Cost CPI -50%	236	234	234
T & D network (Km) 25%	2,902	3,035	3,035
Number of Consumers (No.) 65%	7,550	7,976	7,976
Sales Volume (MMCF)-10%	1,270	1,415	1,415
HR Benchmark Cost	**11,959**	**12,660**	**12,660**
IAS Cost	470	538	538
Total HR Benchmark Cost (A)	**12,428**	**13,198**	**13,198**
Actual HR COST (B)	12,434	12,412	12,412
Less: allocated cost / DDC		1,336	1,336
Adjusted Actual HR COST		11,076	11,076
50% of saving/(excess) Saving=B-A	(3)	1,061	393
HR cost allowed (Rs. in million)	**12,431**	**13,473**	**12,805**
Excluded HR Cost-related to RLNG consumers			**(309)**
Net HR cost allowed (Rs. in million)			**12,497**

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C. SSGCL Field wise Gas Purchases & WACOG FY 2017-18

ANNEXURE – C

	MMCF	MMMBTU	Rs per MMBTU	Rs Million
Sui	38,669	37,084	292.73	10,856
Kandhkot	549	450	156.25	70
Hassan (SNGPL)-Rustam/SherAliJatoi	132	97	600.00	58
Ghotki Town - SNGPL	761	668	600.00	401
Ubaro Town - SNGPL	689	592	600.00	355
Mari	364	267	126.49	34
Sari / Hundi	900	899	282.45	254
Maher / Mubarak Block	3,447	3,719	282.05	1,049
Pasaki Deep & Kunnar Deep	42,343	43,771	282.53	12,367
Choundiko - SNGPL	133	134	600.00	80
Adam X-1 / Hala	5,699	5,933	459.71	2,728
Pakhro / Noorai Jagir	137	156	292.61	46
Zargoon	5,655	5,388	541.74	2,919
Bobi	1,422	1,579	249.90	395
Latif	5,406	5,413	426.07	2,306
Kirther (Rehman)-EWT	6,436	5,435	544.58	2,960
Rizq EWT	4,587	4,253	502.03	2,135
Badin	14,749	16,291	263.37	4,291
Kadanwari	7,900	7,872	766.04	6,031
Miano	14,388	14,340	327.74	4,700
Sawan	11,866	11,880	334.11	3,969
Zamzama	10,685	8,520	317.96	2,709
Bhit	61,370	57,912	356.60	20,651
Mazarani	1,571	1,596	192.38	307
Khipro Block - Naimat Basal	58,573	57,254	501.16	28,693
Mirpurkhas Block - Kausar	75,135	76,880	488.47	37,554
Sujawal / Sujjal	7,096	7,502	472.16	3,542
Nur Bagla fields	651	702	282.41	198
Jakhro / Dachrapur / Gopang	1,661	1,798	280.21	504
Gambat Block - Wafiq/Shahdad-(XI)	15,410	14,568	464.94	6,773
Sinjhoro	11,313	11,498	280.06	3,220
TAY	24,547	25,268	298.89	7,552
Sofiya	2,882	3,101	516.90	1,603
Chutto	106	123	531.57	65
Aqeeq	915	966	515.08	498
GST on exempted gas sales				946
Excise duty				4,324
Sub-Total	438,147	433,909	408.25	177,142
Currency Exchange Loss				5,078
Weighted Average SSGCL input Cost of Gas	438,147	433,909	419.95	182,219
Weighted Average SNGPL input Cost of Gas	456,307	429,521	375.88	161,448
Weighted Average Both input Cost of Gas	894,453	863,430	398.03	343,668
WACOG			384.22 Rs per MCF	

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818

D. List of Abbreviations

ANNEXURE – D

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

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819

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