

آئل اینڈ گیس
ریگولیٹری اتھارٹی



Oil & Gas
Regulatory Authority

Case No. OGRA-6(2)-2(4)/2020-ERR

IN THE MATTER OF

SUI SOUTHERN GAS COMPANY LIMITED
DETERMINATION OF ESTIMATED REVENUE REQUIREMENT, FY 2021-22

UNDER

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

DECISION

ON

August 17, 2021

Before:

Mr. Masroor Khan, Chairman

Mr. Muhammad Arif, Member (Gas)

Mr. Zainul Abideen Qureshi, Member (Oil)

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Oil & Gas Regulatory Authority
Islamabad

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1. Background

- 1.1. Sui Southern Gas Company Limited (the petitioner) is a public limited company incorporated in Pakistan and is listed on Pakistan Stock Exchanges Ltd. The petitioner is operating in the provinces of Sindh and Balochistan under the license granted by the Oil & Gas Regulatory Authority. It is engaged in construction and operation of gas transmission and distribution pipelines and sale of natural gas. However, petitioner's exclusive right to operate in the franchised areas had ended on 30th June, 2010.
- 1.2. The petitioner filed a petition on January 13, 2021, under Section 8 (1) of the Oil and Gas Regulatory Authority Ordinance, 2002 (the Ordinance) and Rule 4(2) of Natural Gas Tariff Rules, 2002 (NGT Rules). Subsequently, the petitioner in compliance of the Authority's directives as per DERR FY 2020-21, submitted an amended petition on February 19, 2021, segregating revenue requirement in terms of Transmission, Distribution and Sales activities. Also, rate of return was revised to 16.76% as against its earlier submission of 17.43% on its net operating fixed assets and requested shortfall at Rs. 34,994 million including Rs. 944 million on account of Air-mix LPG project i.e. Rs. 109.78 per MMBTU based on the prescribed prices as per notification Nov. 23, 2020.
- 1.3. The petitioner submitted another amended petition (the petition) at the time of Public Hearing in Karachi, wherein the petitioner has requested for determination of its ERR at Rs. 256,658 million. The petitioner has revised shortfall at Rs. 3,395 million on the basis of latest determination of RERR FY 2020-21 dated January 27, 2021 for the said year. Accordingly, the petitioner has requested to increase current prescribed price of Rs. 778.59/MMBTU to Rs. 789.24/MMBTU (increase of Rs. 10.65 per MMBTU) effective July 01, 2021. The petitioner has also requested to allow the revised shortfall of Rs. 16,715 million in respect of RLNG business for the said year. Moreover, the petitioner has claimed transportation tariff at Rs. 9,417 million (Rs. 21.80/MMCF) for the said year.
- 1.4. The Authority observes that the supply of RLNG is a ring-fenced activity as per the decision of the FG. Accordingly, the instant determination is being done to the extent of the revenue requirement on account of the supply of indigenous gas to its consumers. Further, the transportation charge on account of dispatch of RLNG to SNGPL as well as supplied to petitioner's own consumers is also part of this determination, recoverable from RLNG consumers as part of monthly RLNG prices, as per policy guidelines issued by the FG.
- 1.5. The petitioner has submitted the following statement of cost of service:

Table 1: Cost of Service per the Petition

Particulars	FY 2021-22		
	Transmission	Distribution & Sale Activity	The Petition
Units sold (BBTU)			318,783
	Rs. in million		
Cost of gas sold	-	224,152	224,152
Transmission and distribution cost	4,962	20,633	25,595
Depreciation	1,327	6,377	7,704
UFG adjustment on RLNG volume handled basis (ring)	-	(10,192)	(10,192)
Return on net average operating fixed assets	2,714	5,742	8,456
Other operating income	(1,179)	(3,884)	(5,062)
Subsidy for LPG Air-Mix Project	-	944	944
Cost of service/prescribed price	7,825	243,771	251,596
Current average prescribed price	-	-	248,201
Increase requested in average prescribed price (Rs./MMBTU)			3,395
			10.65

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- 1.6. The Authority admitted the petition under Rule 5 of NGT Rules, as a prima facie case for evaluation and consideration by the Authority.
- 1.7. A notice inviting interventions/comments on the petition from all stakeholders was published in daily local newspapers. The Authority received intervention requests from the following parties:
- Total Dynamic Systems (Pvt.) Limited, Karachi
 - All Pakistan Textile Mills Association, Karachi
 - All Pakistan Textile Processing Mills Association, Faisalabad
 - All Pakistan CNG Association, Islamabad.
 - Karachi Chamber of Commerce & Industry, Karachi
- 1.8. The Authority accepted the same for intervention. Public hearing notices were published in the national press on June 10, 2021. Accordingly, public hearings were held on June 28 & June 30, 2021 at Karachi and Quetta respectively.

2. Salient Features of the Petition

- 2.1 The petitioner has made the following main submissions:
- 2.1.1 The petitioner has claimed market based annual return at the rate of 16.76% on net fixed assets in operation in pursuance of parameters provided in new tariff regime implemented effective FY 2018-19.
- 2.1.2 The petitioner has claimed net addition, net of deletions of Rs. 28,924 million in fixed assets, and net addition, ex-depreciation, and deletion, of Rs. 8,007 million, resulting in claimed increase in net operating fixed assets from Rs. 47,944 million for FY 2020-21 to Rs. 68,861 million during the said year. The petitioner has further contended that, after adjustment of deferred credits, meter manufacturing plant and liquid handling facility for gas condensate in accordance with the principles set in new tariff regime and assets related to the LPG Air-Mix project, net average operating fixed assets eligible for return work out to Rs. 50,455 million and required return to Rs. 8,456 million at 16.76%.
- 2.2 The petitioner has projected operating revenues at Rs. 253,263 million, as detailed below, compared with previous years:

Table 2: Comparison of Projected Operating Revenues with Previous Years

Particulars	Rs. in million							
	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22			Inc/(Dec.) over RERR for FY 2020-21	
	FRR	RERR	RERR	Transmission	Distribution & Sale Activities	The Petition	Rs.	%
Net sales at current prescribed prices	264,532	275,353	278,520	-	246,529	246,529	(31,991)	(11)
Late Payment Surcharge	1,044	3,353	1,248	-	1,026	1,026	(222)	(18)
Meter Manufacturing Profit	5	11	29	-	30	30	1	3
Sale of LPG/NGL	48	1,243	1,517	-	-	-	(1,517)	(100)
Sale of Gas Condensate	-	20	(11)	(5)	-	(5)	6	(56)
Meter rentals	774	820	1,489	-	1,672	1,672	183	12
Amortization of deferred credits	524	473	530	-	596	596	66	12
Other income	1,863	1,664	2,935	1,183	2,233	3,416	482	16
Net Operating Revenue	268,790	282,939	286,257	1,179	252,084	253,263	(32,993)	(12)

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- 2.3 The petitioner has projected operating expenses at Rs. 247,259 million, as detailed below, compared with previous years:

Table 3: Comparison of Projected Operating Expenses with Previous Years

Description	Rs. in million							Inc / (Dec) over RERR for FY 2020-21	
	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22			Rs.	%	
	FRR	RERR	RERR	Transmission	Distribution & Sale Activities	The Petition			
Cost of gas	240,649	242,083	224,612	-	224,152	224,152	(460)	(0.2)	
Depreciation	5,670	5,344	6,857	1,327	6,377	7,704	847	12	
Transmission and Distribution Costs	21,245	18,264	17,619	4,258	18,913	23,172	5,553	32	
Other charges including WPPF	18,339	1,546	1,243	27	1,719	1,746	503	40	
Gas Internally Consumed	583	424	380	677	-	677	297	78	
UFG Adjustment	(23,916)	(13,923)	(19,718)	-	-	-	19,718	(100)	
UFG adjustment on RLNG volume handled basis (ring fenced)	-	-	-	-	(10,192)	(10,192)	(10,192)	100	
Staggering of Financial Impact on account of SHC Order	(3,672)	(3,672)	(3,672)	-	-	-	3,672	(100)	
Net Operating Expenses	258,898	250,066	227,321	6,289	240,968	247,259	19,938	9	

- 2.4 The petitioner has projected its weighted average input cost of gas for the said year at Rs. 604.95/MMCF. The cost of gas is linked with international prices of Crude and HSFO according to the Gas Pricing Agreements (GPAs) executed between the producers and GOP.
- 2.5 The petitioner has claimed a subsidy amounting to Rs. 944 million on account of its Air-mix LPG Projects.
- 2.6 The shortfall in the projected revenue requirement after computing 16.76% return on average net operating fixed assets is estimated at Rs. 3,395 million, requiring an increase of Rs. 10.65 per MMBTU in the existing average prescribed price, as detailed below:

Table 4: Computation of Requested Average Increase in Prescribed Price

Particulars	FY 2021-22
	The Petition
A Net Operating Revenues	253,263
less: Net operating expenses excluding ROA	247,259
Subsidy Air Mix LPG Project	944
B Total Expenses	248,202
C Shortfall $\{(B) - (A)\}$	(5,061)
D Return required @ 16.76% on net fixed assets in operation	8,456
E Total shortfall in revenue requirement (D + C)	3,395
F Sale volume (BBTU)	318,783
G Increase requested in existing average prescribed price Rs./MMBTU	10.65

3. Public Hearings Proceedings:

- 3.1 Accordingly, the Authority conducted Public Hearing at Karachi and Quetta:

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Public Hearing at Karachi

3.2 The following interveners / participants presented their views:

Petitioner:

- i) *Petitioner's team led by Mr. Imran Maniar, Managing Director*

Intervenors / Participants:

- i) *Mr. Ghiyas Paracha, Mr. Samir Najmul, & Mr. Khalid Latf, All Pakistan CNG Association*
ii) *Mr. Abdul Sami Khan (SI), Chairman, PPOA & CNGOA*
iii) *Malik Khuda Baksh, Chairman, CNG Stations Owners Association*
iv) *Mr. Tanveer Bari, Karachi Chamber of Commerce & Industry*
v) *Mr. Koseke Makino, Tabeer Energy (Pvt.) Limited*
vi) *Mr. Shigeki Terada, & Mr. Akio Miyazaki, Tabeer / Mitsubishi*
vii) *Mr. Saad A. Qazi, Ms. Kinza Hanif, & Mr. Javed Majeed, Mitsubishi*
viii) *Mr. Mohammad Farooq Memon, Hi-Tech Engineering / Shah Latif CNG*
ix) *Mr. Saleem Saleh, Secretary, All Pakistan Textile Mills Association*
x) *Mr. Zeeshan Hanif, General Manager, Malik Group of Companies*
xi) *Mr. Muhammad Faisal, Joint Secretary, KCCI*
xii) *Mr. Fahim Hashmi, Total Gas Marketing*
xiii) *Dr. Parshotam, Sindh CNG Association*
xiv) *Mr. Muhammad Abdullah, PPDA*
xv) *Mr. Ali Imran, GEO TV*
xvi) *Mr. Abdul Hameed Samroo, Sr. Reporter GNN News*
xvii) *Mr. Ashraf Khan, Business Desk, 24 News*
xviii) *Mr. Ayaz Rana, Reporter, 24 News*
xix) *Mr. Farhan Khan, Metro Gas*
xx) *Raja Kamran, NEO TV*
xxi) *Mr. Sheryar Janjua, Dunya TV*
xxii) *Mr. Ismail Dilawar, Bloomberg News*
xxiii) *Ms. Sumaira Sajjad, Dawn Newspaper*

Public Hearing at Quetta

3.3 The following interveners / participants presented their views:

Petitioner:

- i) *Petitioner's team led by Mr. Madni Siddique, Regional Head / General Manager*

Intervenors / Participants:

- i) *Ms. Robeel Afreen, President, Women Think Tank*
ii) *Ms. Noreen Naz Ghori, President, Baluchistan Reforms*
iii) *Ms. Khalida, Executive Member, Kind Welfare Forum*
iv) *Mr. Hazoor Bux, Jaffarabad*
v) *Mr. Maliak Bux, Jaffarabad*
vi) *Mr. Inayat ullah, Jaffarabad*
vii) *Mr. Ali Amin, Qallat*
viii) *Mr. Muhammad Anwar, Quetta*

3.4 The petitioner made submissions in detail with the help of a multimedia presentation explaining the basis of its petition. The petitioner also responded to the comments, observations, objections and questions of the participants. The main points of the

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petitioner are summarized below: -

- 3.4.1 MD SSGCL has highlighted that the company has laid down mega projects for SNGPL from Karachi to Sawan and has also been undertaking socio economic agenda in Baluchistan. It was highlighted that company is suffering significant losses over the several years in Balochistan but still carrying out the FG's agenda.
- 3.4.2 The petitioner has submitted that extensive efforts have been carrying out for reduction in UFG. The petitioner has also pointed out that Rs. 200 billion are outstanding from KE & Pakistan Steel Mills which is also challenge since its long outstanding issue and causing cash flow problems for the company.
- 3.4.3 It was requested the Authority to allow RLNG handling volumes since it is affecting the company's financial position. It was also highlighted that almost 1.8 million customers, using gas in Karachi are residing in illegal buildings, where meters can't be installed to be get paid from these consumers.
- 3.5 The substantive points made by the interveners during the hearings pertaining to the instant petition as well as policy matters are summarized below:
- 3.5.1 All Pakistan Textile Mill Association (APTMA) pointed out that gas prices include several unnecessary administrative costs, UFG and other losses. UFG is a major part, and is in question for long time. It was demanded that UFG be lowered down and eliminated to reduce the gas prices of all the sectors.
- 3.5.2 It was stated that cross-subsidy is a burden on the Export Oriented Textile industry.
- 3.5.3 It was highlighted that benefit of lower international oil prices during pandemic of COVID-19 was not passed onto the end consumer. It was requested to consider the reduction in international oil prices while finalizing the said decision.
- 3.5.4 It was also highlighted that doubtful debt of Rs. 1,612 million are unfairly borne by natural gas consumers. Such costs be reduced to a bare minimal. It was pointed out that income from sale of LPG, NGL and Condensate has been dropped, which requires improvement.
- 3.5.5 It was pointed out that Pakistan's export products cost is becoming uncompetitive, especially when compared to neighbouring countries. This has led to a decrease in investments, the flight of capital, and de-industrialization on a massive scale.
- 3.5.6 It was demanded that rate of return needs to be reviewed and make it realistic and in line with the market rate of return. It was demanded that gas companies be asked to cut their rate of return in the main petition, and asking for a market-based return based on the WACC model in line with the implementation of the new tariff regime, which OGRA approved from 2018-19.
- 3.5.7 It was also requested to freeze petitioner's operating expenses and salaries of executives in the said petition.
- 3.5.8 It was objected that issuance of new gas connections to towns, must be immediately banned. Instead, such towns should be given LPG and saved gas should be diverted to the industry since industry cannot run on LPG.
- 3.5.9 It was pointed out that the tariff rates of SNGPL are applied because of a uniform



- policy of FG for both companies. The excessive amount that is charged by the petitioner goes into government kitty in the form of GDS, which is an indirect way of taxing and is entirely illegal since no tax can be imposed without fulfilling the constitutional requirements.
- 3.5.10 It was highlighted that the petitioner had not uploaded its Annual Audited Accounts for FY, 2018-19, FY 2019-20 and Unaudited Accounts of 3 quarters of FY 2020-21. It is, therefore, not possible to analyse the figures. Therefore, any increase in tariff/rates becomes questionable. It is, therefore, suggested to conduct a forensic audit of petitioner's accounts, pricing, and costs through an independent audit firm.
- 3.5.11 It was objected that cost of air mix LPG project be not charged to natural gas tariff.
- 3.5.12 It was stated that they businesses in Pakistan is facing severe financial hardships owing to Corona Pandemic. APCNGA raised concern over higher cost of gas. It was demanded that the same be reduced to a great extent under the prevailing situation of COVID-19.
- 3.5.13 It was pointed out that virtual meetings are not acceptable, and suggested physical meetings be held as the matter is of public interest.
- 3.5.14 It was demanded that a proper RLNG accounts' ring-fencing be ensured for revenue requirement determination purposes of both companies.
- 3.5.15 It was demanded that the cost of corporate governance and legal expenditure are strictly aligned with the tangible result as these costs are ultimately borne by the consumers.
- 3.5.16 It was demanded that regulatory accounts, as prescribed under OGRA law/regulation, be separately maintained by the petitioner.
- 3.5.17 It was demanded that the uniform useful economic life of the transmission pipeline should be maintained. There is anomaly that depreciation policies being employed, causing distortion is cost and revenue.
- 3.5.18 It was also pointed out that OGRA carried out UFG analysis and based on the bench mark set by the Regulator, it did not allow substantial amount against UFG volume, which otherwise would have been passed on to the consumers. Yet, gas molecules lost in any case are required to be replenished with expensive imported fuel to makeup the deficiency. Therefore, serious efforts must be made to reduce the UFG loss.
- 3.5.19 In the last two years, the petitioner has been allowed total amount of Rs. 12.6 Billion on various heads in connection with its schemes against UFG control, the petitioner should convey how much it has contributed in reducing the UFG.
- 3.5.20 The intervener apprehended that applicability of UFG bench mark should be uniform for transmission and distribution system so that the impact of the same can be shared equally amongst the consumer located in transmission and distribution system.
- 3.5.21 At the time of the public hearing, there was no supply of gas to Industries and CNG Stations owing to shut downs at Kunnar Pasaki Gas Field etc. Such a



situation must have been avoided as Industries cannot afford to bear the loss.

3.5.22 It was highlighted that industries in Sindh Province may be asked to accept supply of RLNG instead of indigenous gas, similar to CNG Stations, who had accepted RLNG with the assurance that supplies would not be curtailed/stopped. However, contrary to the above assurance, RLNG supplies to CNG Sector is being curtailed, which is hurting the poor people.

4. Authority's Jurisdiction and Determination Process

- 4.1 The Authority is obligated to determine the total revenue requirement of the licensee under Section 8(1) of the Ordinance for a particular year after going through the due process of law. This primarily involves scrutiny of the petition, in-depth analysis of the estimates, the examination of operating and capital items, issuances of the notices to receive the valuable input/comments of all stakeholders, the opportunity of a public hearing and then determination of the total revenue requirement as per mandate under the legal framework. The Authority further notes that it has been able to curtail the petitioner's uneconomical costs to a greater extent through the introduction of efficiency benchmark and effective scrutiny and diligence. The Authority also fully supports the Government's initiative for austerity measures, which is already being implemented by it through its effective regulation. Accordingly, the Authority decision surely strikes a balance among the divergent interests of all stakeholders. Total revenue requirement of the licensee determined by OGRA under Section 8(1) or 8(2) of the Ordinance is sent to F.G to seek the advice regarding revision in sale price in respect of various categories of natural gas consumers.
- 4.2 Section 8(3) of the Ordinance empowers the FG to fix the consumer sale prices and advise OGRA the revision in gas sale prices and minimum charges in respect of natural gas retail consumers for notification in the official gazette. Accordingly, FG, keeping in view economic indicators, policy considerations in terms of uniform pricing across the country, Gas Development Surcharge and the inter category subsidies, etc. advises the gas sales prices and minimum charges for each retail category to OGRA. The same is notified in the official gazette. The Authority, however, observes that during past, FG under Section 8(3) of the Ordinance had advised insufficient revisions to OGRA, resulting in accumulation of previous years' revenue shortfall in the total revenue requirement. *The Authority, in the instant determination as well as previous decision, has already referred as the matter of previous year's shortfall to FG for appropriate policy decision.* The Authority further notes that the petitioner has also taken up the matter with FG regarding previous year's shortfall. The Authority supports petitioner's request so that revenue requirements as determined by it is fully met.
- 4.3 *The Authority, however, reiterates its view that all the categories of consumers must at least pay the average cost of service, keeping in view the existing cost of alternative or substitute sources of energy. Resultantly, there shall be no situation of unmet revenue requirement. This shall provide a level playing field for all concerned and avoid the situation of revenue shortfall.*
- 4.4 The Authority notes that the new tariff regime was implemented from FY 2018-19 onwards wherein market based Rate of Return on Asset (ROA), based on Weighted Average Cost of Capital (WACC) model, was allowed to gas licensees on the value of their net regulated assets. Accordingly, ROA at 17.43% was allowed for the period of 3 years to gas companies involved in the business of it transmission & distribution from

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FY 2018-19 onwards.

- 4.5 The Authority observes that 3 years period have passed and rate of return needs to be revised based on updated figures in the light of parameters set for tariff regime implemented for natural gas sector of Pakistan. *The Authority, as per the existing legal framework and tariff regime in place, reset the revised WACC at 16.60% on net operating assets for the next three years, based on the actual data upto December 2020, as tabulated below:*

Particulars	Formula	Revised working
Risk Free Rate: Rf (Last 10 year monthly Average of 20 year's PIB)	A	12.44
Market Return (15 year monthly average PSX-KSE 100 index)	B	13.47
Market Risk Premium	C=B-A	1.04
Market Risk Premium (Capped 11%, Floor 7%)	D	7.00
Beta Equity-Distribution	E	1.30
Cost of Equity (Re)	Re=Rf + beta x MRP	21.54
6 monthly Avg of last 12 months Kibor	F	8.71
Cost of Debt	Rd=F+2%	10.71
Tax rate (t)		0.29
WACC Pre Tax	{Re/(1-t) x 30%} + {Rd x 70%}	16.60

Various income & expenditure heads has been included as part of the prescribed price in the light of latest tariff regime implemented since FY 2018-19.

5. Operating Fixed Assets

5.1 Summary of Additions during the year

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

Table 5: Summarized Schedule of Projected Additions Compared with Previous Years

Particulars	Rs. in Million								
	FY2017-18 (FRR)		FY 2018-19 (FRR)		FY2021-22 (ERR)				
	Indigenous Gas	RLNG	Indigenous Gas	RLNG	Petition	Transmission		Distribution & Sale	
					Indigenous Gas	RLNG	Indigenous Gas	RLNG	
Land									
Buildings	92		53		275			275	
Gas transmission pipeline	1,920	733	2,477	2,388	13,086	10,522	2,564		
Compressors	277	131	705	523	3,764	2,786	978		
Plant and machinery	322		126		1,366	107	21	1,238	
Gas distribution system, related facilities and equipments	4,618		4,231	36	11,559			11,559	
Furniture, equipments including computers and allied equipments	282		52		333	112		221	
Computer software (Intangible)	9		2		558	112		446	
LPG Air Mix Projects	42		221		10			10	
Telecommunication system	35		11		70	14		56	
Appliances, loose tools and equipment	13		17		284	29		255	
Vehicles	176	2	252	10	889	330	1	558	
Construction equipment	63	77	24	24	225	45		180	
SCADA			78	48	45	45			
Assets related to Gas Activities	7,848	943	8,250	3,028	32,465	14,102	3,564	14,799	

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5.1.2 The petitioner while responding to segregation of assets, clarified that overall assets other than Transmission / Distribution / Sales are procured centrally, therefore these have been allocated to Transmission (20 %) & Distribution / Sales (80 %) activity based on Cost / Revenues ratios as per Expenditure for FY 2019-20. Therefore, details of all such individual segregated items cannot be provided.

5.1.3 Keeping in view the above, expenditure against each head has been further segregated accordingly in the succeeding paras.

i. Buildings

5.2 The petitioner has projected an amount of Rs. 275 million for Civil work projects in Distribution & Sales activity, as per following break up:

- Rs. 162 million have been projected for Construction of Building at Phase I – DHA Karachi.
- Rs. 109 million have been projected for Construction of Building at Phase IV – DHA Karachi.
- Rs. 5 million have been Projected for New Construction of ground plus first floor warehouse / stores at Meter Plant.

5.3 The petitioner informed that DHA plots at Phase I & Phase IV were allocated to SSGC back in the year 2003 for the benefit of general public and its customers, however, it could not utilize the said Amenity plots till now. DHA took notice of the above, and accordingly served show cause notices on October 22, 2019 for failing to utilize these plots. Consequently, the petitioner's management now intends to use these plots for establishing CFC centers and SSGC Distribution offices. Once the petitioner is able to construct the buildings on the allocated plots in DHA, this will save an amount of Rs. 18 Million per Annum against 02 number of rented properties for use as CFC i.e. Building, Customer Relations and Distribution Zonal Offices. On the basis of consultant's preliminary design of the buildings, an estimated cost of Rs. 271 million is required for their construction.

5.4 *In view of the Company's requirements, the Authority provisionally allows an amount of Rs. 69 million (i.e. 25% of projected amount) for the said civil work projects in Distribution & Sales activity, subject to actualization at FRR stage.*

ii. Gas Transmission Pipelines

5.5 The petitioner has projected an amount of Rs. 10,522 million for addition of following pipelines to its indigenous gas related transmission network during the said year:

Table 6: Requested Additions to Transmission Pipeline Network

S. No.	Description Of Segment	Rs. in Million	
		The Petitioner	
			FY 2021-22
1	30" dia x 125 Km pipeline from SMS Sindh University to SMS Pakland (1st segment)		
2	24" Dia x 31 Km from SMS Karthore to SMS Surjani (ACPL Surjani)		8,011
3	12" dia x 344 Km QPL Rehabilitation and Intelligent Pigging		1,818
4	Construction of Sub-merge Crossings		379
5	Upgradation of SMS Thatta		159
6	Check Metering Facility at Shahdadpur for Gambat South Field Gas Measurement (RS3)		148
	Total		10,522

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30" dia x 125 Km pipeline from SMS Sindh University to SMS Pakland (1st segment):

- 5.6 The petitioner has projected an amount of Rs. 8,011 million for laying 30" dia x 125 Km transmission pipeline from SMS Sindh University to SMS Pakland for transportation of indigenous gas from different gas fields to the load center i.e. Karachi. The petitioner has stated that existing pipeline transmission capacity in left bank from Hyderabad to Karachi is a bottleneck for additional gas volume and cause the curtailment of the indigenous gas supply, hence the proposed 30" x 125 Km transmission pipeline project between Sindh University to Pakland is required. This proposed pipeline will increase the transmission system capacity up to 247 MMSCFD. The project has been divided into two segments:
- 30" dia x 50 Km pipeline from SMS Sindh University to MVA RS-4
 - 30" dia x 66 Km pipeline from MVA RS-4 to MVA Pakland

The Petitioner further informed that based on the engineering survey report the actual total length of this proposed project would be around 116 Km. Some of earlier procured material against subject project has already been utilized for commissioning of 30" x 17 Km pipeline at Bin Qasim hence procurement of remaining project material and land Acquisition activities are under process, whereas pipeline construction activities will be commenced after completion of land acquisition process.

30" dia. x 116 Km pipeline project which was earlier envisaged to be commissioned completely in FY 2020-21 is now expected to be commissioned by December, 2021 with an estimated capitalization amount of Rs. 8,011 million subjects to availability of land for ROW.

- 5.7 The Authority notes that it had already allowed Rs. 2,090 million and Rs. 1,816 million in respect of FY 2017-18 and FY 2018-19 respectively for the said pipeline segment. However, the petitioner could not even initiate the same during the last five years, despite the fact that the petitioner as per its own *position before the Authority that it was forced to swap indigenous gas with RLNG due to non-completion of this pipeline and hence incurring losses due to swapping arrangement/consumption of RLNG in its distribution system.*
- 5.8 *In view of the above discussion, the Authority considering the operationally vital nature of the project, hereby approves the same in principle with the direction to complete it during the said year.*

24" Dia x 31 Km from SMS Karthore to SMS Surjani (ACPL Surjani)

- 5.9 The petitioner has projected an amount of Rs. 1,818 million for laying of 24" dia x 31 Km from SMS Karthore to SMS Surjani (ACPL Surjani). The project has been proposed to improve operational efficiency as well as enhancing the gas distribution capacity of western region of Karachi namely Northern By-Pass Hub Town, Coastal Area of Hawks Bay, Kannup and other industrial, commercial and domestic customers. This pipeline will help in overcoming low pressure problems in SITE Industrial area and also enhance over-all system flow capacity up to 100 MMCFD to cater future gas demand.
- 5.10 The Authority notes that the petitioner was allowed this pipeline segment as a Distribution Project in its earlier determinations, however, it could not execute the same. Subsequently, the Authority allowed the same as a transmission pipeline project in its determination on Motion for Review of DERR FY 2016-17.

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- 5.11 *In view of the above discussion, the Authority considering the operationally vital nature of the project, hereby allows the same in principle with the direction to complete it during the said year subject to the actualization at the time of FRR for the said year.*

12" dia x 344 Km QPL Rehabilitation and Intelligent Pigging

- 5.12 The petitioner has projected an amount of Rs. 379 million for Rehabilitation and Intelligent Pigging of 12" x 344 Km Quetta Pipeline.
- 5.13 The petitioner has stated that 12" dia. x 344 Km QPL was constructed and commissioned in 1983-84 for supply of gas to Quetta. The proposed rehabilitation of 12" dia x 344 Km QPL involves modification work on 13 number of piping set-ups at main valve assemblies. The intelligent pigging is proposed to be carried out with the objective of establishing reliability/integrity of QPL pipeline and enhance its useful life. The petitioner has further informed that design for rehabilitation job has been finalized, whereas procurement of remaining project material is under process. The construction activities are expected to be started in April, 2021 with an estimated amount of Rs. 326 million. Whereas, intelligent pigging of Quetta pipeline will be carried out after completion of Rehabilitation job in FY 2021-22, with the total estimated capitalization amount of Rs. 53 million.
- 5.14 The Authority notes that the company had projected the said project in ERR FY 2009-10 which was approved by the Authority. The company again projected the said project in ERR FYs 2011-12, 2013-14, 2014-15, 2015-16, 2017-18, 2018-19, 2019-20 & 2020-21 however, it has not been able to execute the said project. The Authority takes serious note of non-execution of this project despite of its approvals and funds allowed/recovered from consumers as also observed during public hearing in Quetta. The petitioner is directed to complete the project within the said year. *In view of the same the Authority decides to allow the said project in principle with the direction to complete it during the said year subject to the actualization at the time of FRR for the said year.*

Construction of Sub-Merge Crossings

- 5.15 The petitioner has projected an amount of Rs. 159 million for Construction of Sub-Merge Crossings to ensure safety of the network.
- 5.16 The petitioner has stated that as per phase wise security plan agreed at Security Review Conference held in 2004 and keeping in view the incidents and soft / exposed targets such as overhead pipeline crossings on canals near the sensitive area of Balochistan and at Sindh, it was agreed to replace such existing overhead pipelines with submerged pipeline crossings to enhance pipeline security.
- 5.17 The Authority observes that the pace of completion of such national important projects by the petitioner is quite dismal. *The Authority, however, considering the vital nature of the said project, decides to allow the same, in principle, subject to the actualization at the time of FRR for the said year.*

Upgradation of SMS Thatta

- 5.18 The petitioner has projected an amount of Rs. 148 million for Upgradation of SMS Thatta. The petitioner has stated that existing SMS set-up at Thatta is 30 years old, running on maximum capacity and will not be able to fulfill future load demands.

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- 5.19 The Authority notes that it had provisionally allowed an amount of Rs. 45 million in DERR FY 2018-19 for the said project, however, the petitioner could not execute the same and has now again projected an amount of Rs. 148 million as part of the instant petition.
- 5.20 The Authority notes that the said project, despite of its earlier approvals and funds allowed, could not be completed by the petitioner. Such state of affairs points towards the inefficiency of the petitioner. *In view of the same, the Authority decides to allow the said project in principle with the direction to complete it during the said year subject to the actualization at the time of FRR for the said year.*

Check Metering Facility at Shahdadpur for Gambat South Field Gas Measurement (RS3)

- 5.21 The petitioner has projected an amount of Rs. 7 million for Check Metering Facility at Shahdadpur for Gambat South Field Gas Measurement (RS3).
- 5.22 In view of the discussion in paras 5.6 to 5.21 above, the Authority notes that these aforesaid projects/ schemes had been provisionally allowed in its earlier determinations, but could not be implemented by the petitioner. *In view of the same, the Authority decides to allow the said projects in principle with the direction to complete it during the said year subject to the actualization at the time of FRR for the said year.*
- 5.23 The petitioner has claimed an amount of Rs. 2,564 million to be capitalized on Pipeline Infrastructure Development Projects (PIDP) for RLNG, the detail of which is as under:

Table 7: Requested Additions to RLNG Related Transmission Pipeline Network

S. No.	Description Of Segment	Rs. in Million	
		The Petition	FY 2021-22
1	Tie-in and integration arrangement from tie-in point 2 to Pakland and Bin Qasim (Ph-1)		825
2	42" dia x 342 Km (Phase-II) from Pakland to Nara (Leftover)		233
3	30" dia x 17 Km from CTS Bin Qasim to MVA Pakland		1,079
4	Future Extension of CTS Bin Qasim - RLNG		427
	Total		2,564

Tie-in and integration arrangement from tie-in point 2 to Pakland and Bin Qasim (Ph-1)

- 5.24 The petitioner has projected an amount of Rs. 825 million for installation check metering arrangement with 2nd Terminal for RLNG-1 at existing Transmission Pipeline network at Pakland with 42" dia x 17 Km.
- 5.25 The Authority notes that petitioner in its earlier petitions had stated that "Tie-in and integration arrangement from tie-in point 2 to Pakland" is a part of phase-1 of its PIDP for upcoming LNG & anticipated indigenous gas supplies and consists of (i) check metering skid (Ultrasonic) installation for RLNG-1 at tie-in Custody Transfer Station (CTS) Bin Qasim, valves and fittings for off take at CTS and inlet headers for petitioner's LNG terminal (ii) Necessary integration arrangement for RLNG-1 at existing transmission pipeline network with 42" dia x 17 Km RLNG pipeline header Pakland as per scope of work explained in LNG service agreement".

42" dia x 342 Km (Phase-II) from Pakland to Nara (Leftover)

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5.26 The petitioner has projected an amount of Rs. 233 million for leftover works of 42" x 342 Km RLNG Pipeline for Phase-II of RLNG Infrastructure Development Project. The Authority notes that this is a leftover work of already commissioned Phase-II of the RLNG Project.

30" dia x 17 Km from CTS Bin Qasim to MVA Pakland

5.27 The petitioner has projected an amount of Rs. 1,079 million for the construction of 30" x 17 Km RLNG Pipeline from CTS Bin Qasim to MVA Pakland. The petitioner has stated that the construction of the captioned pipeline has been undertaken on advice of the Government, supported by a comfort letter. The Government agreed to settle the issue by facilitating in the UFG allowance and support strengthening of the financial health of the Company. The Petitioner has further stated that the subject pipeline increases RLNG Transmission capacity upto 600 MMCFD from CTS Bin Qasim to MVA Pakland. Further, due to shortfall of indigenous gas, Industrial and CNG Sectors, consumers are being switched to the RLNG.

5.28 The Authority notes that it has already approved the said project on April 03, 2019 under Rule 20(xviii) of the NGRA (Licensing) Rules, 2002. Moreover, the petitioner had projected an amount of Rs. 43 million for leftover works of the said projects in ERR 2020-21.

Future Extension of CTS Bin Qasim - RLNG

5.29 The petitioner has projected an amount of Rs. 427 million for Future Extension of CTS Bin Qasim. The petitioner has stated that new RLNG Terminal Projects for additional RLNG capacities are in pipeline and additional RLNG supply from these new terminals are expected in near future. Keeping in view the above extension of CTS-Bin Qasim has been proposed, for which additional land adjacent to existing CTS-Bin Qasim with associated civil work will be required during the said year.

5.30 *The Authority, keeping in view the justification provided by the petitioner and operational requirement, provisionally allows the said projects against RLNG transmission activities in principle. However, any prudently incurred expenditure shall be considered at the time of FRR for the said year provided the same is within the estimated amount.*

iii. Compressors

5.31 The petitioner has projected Rs. 2,786 million under this head for the said year, the detail of which is as under:

Table 8: Requested Additions to Compressors

Sr. No.	Description of Project	Rs. in Million	
		The Petition	
		FY 2021-22	
1	01 New Compressor Unit at Sibi		
2	Overhaul of Solar T-60 Gas Turbine Engine Including FAT & FSR Installation Charges		2,268
3	Rotor - DR 990 Turbo Compressor (Capacity 120 MMSCFD)		365
4	Actuated Valves, Size 18 inch (04 Nos)		90
5	Installation/Testing FSR charges of New Procured Solar Gas Turbine Engine plus miscellaneous inspections on all six solar units.		30
6	Fuel Control Valve (AGV-10 01 No.)		20
7	Instrument Air Compressor, Air flow 320 AFCM, full load pressure 150 Psi (No.1)		9
8	Diesel Engine Fire Pump (500 US Gallons per minute) 01 No.		2.5
9	Screw Air Compressor (5 cubic meter per minute at 0.7Mpa, 01 No.)		0.6
			0.5
		Total	2,786

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

New Compressor at Sibi for an estimated amount of Rs. 2,268 million:

- 5.33 The petitioner has stated that it has 02 Compressors installed at HQ-Sibi to provide required gas volumes to Baluchistan province in winter season. These two units were installed in 1996 and have the gas compression capability of 60 MMCFD each.
- 5.34 The petitioner has further stated that in order to meet the growing demand of Baluchistan region in winter season, both compressor units have to be operated on the maximum side of their operative envelope, hence the operation is extremely less efficient. Moreover, the company neither have any stand-by unit nor spare turbine and compressor rotor to meet the emergency situation.
- 5.35 The Authority is fully cognizant of low pressure problems at tail end of the Quetta Pipeline and therefore, had been allowing the said project since FY 2016-17. The Authority reiterates the importance of this particular scheme and takes serious note of non-execution of this project despite of its approvals and funds allowed/recovered from consumers as also observed during public hearing in Quetta. The petitioner is directed to complete the project within the said year so as to comply with the decision of the Honorable Baluchistan High Court dated March 7, 2016.
- 5.36 *The Authority, keeping in view the operational requirement, provisionally allows the said project in principle. However, any prudently incurred expenditure shall be considered at the time of FRR for the said year provided the same is within the estimated amount.*

Overhaul of Solar T-60 Gas Turbine Engine Including Installation Charges:

- 5.37 The petitioner has projected an amount of Rs. 365 million against overhauling of the Solar T - 60 turbine engine. The petitioner has informed that the turbine, installed at solar Unit B at HQ-2 Daur Compressor Station, has already completed 15,000 Hours out of total recommended overhaul hours of 30,000, therefore, the same is envisaged for the said year.
- 5.38 The Authority notes that overhauling of Gas Turbine Engine is an operational requirement, and hence the petitioner is allowed to carry out the activities during the said year and claim actualized amount at FRR stage. *In view of the same, an amount of Rs. 182 million (50% of claimed amount) is provisionally allowed, subject to actualization at FRR stage.*

Other Operational Requirements

- 5.39 The Authority notes that the items projected at serial number 03 to 09 of the table mention below, amounting to Rs. 153 million have been projected by the petitioner considering its operational requirements and hence are allowed for the said year subject to the actualization at the time of FRR.
- 5.40 *Keeping in view the above discussion, the Authority provisionally allows an amount of Rs. 335 million under this head as per following details:*

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Table 9: Additions to Compressors as Determined by the Authority

Sr. No.	Description of Project	Rs. in Million	
		The Petition	As calculated
		FY 2021-22	
1	01 New Compressor Unit at Sibi	2,268	0
2	Overhaul of Solar T-60 Gas Turbine Engine Including FAT & FSR Installation Charges	365	182
3	Rotor – DR 990 Turbo Compressor (Capacity 120 MMSCFD)	90	90
4	Actuated Valves, Size 18 inch (04 Nos)	30	30
5	Installation/Testing FSR charges of New Procured Solar Gas Turbine Engine plus miscellaneous inspections on all six solar units.	20	20
6	Fuel Control Valve (AGV-10 01 No.)	9	9
7	Instrument Air Compressor, Air flow 320 AFCM, full load pressure 150 Psi (No.1)	2.5	2.5
8	Diesel Engine Fire Pump (500 US Gallons per minute) 01 No.	0.6	0.6
9	Screw Air Compressor (5 cubic meter per minute at 0.7Mpa, 01 No.)	0.5	0.5
	Total	2,786	335

5.41 The petitioner has projected an amount of Rs. 978 million for various projects related to RLNG Project, as per details given in Table below:

Table 10: Requested Additions to RLNG Compressors

Sr. No.	Description of Project	Rs. in Million
		The Petition
1	Gas Turbine Engine Solar Taurus T- 60 (7800 HP) with storage container FAT charges and FSR installation charges.	462
2	30 K Overhaul of Solar T-60 Gas Turbine Engine installed at RLNGHQ-2 compressor Station	300
3	Refurbishment of Dry gas Seal Cartridges for Solar T-60 gas compressor installed at RLNGHQ-2 Compressor station	9
4	Compressor units & Extension of facility at Nawabshah (Total 30,000 Hp) – (Leftover work)- RLNG	207
	Total	978

5.42 *The Authority keeping in view the justification provided by the petitioner and operational requirement provisionally allows the said projects against RLNG compressors in principle. However, any prudently incurred expenditure shall be considered at the time of FRR for the said year provided the same is within the estimated amount.*

iv. Plant and Machinery

5.43 The petitioner has projected an amount of Rs. 1,366 million including Rs. 21 million related to RLNG on account of Plant and Machinery for the said year. The petitioner has further segregated an amount of Rs. 1,366 million i.e. Rs. 128 million for Transmission (including 21 million of RLNG) activities whereas Rs. 1,238 million for Distribution & Sales activities. Major Plants and Equipment envisaged to be procured during the said year include Smart Balls – Pipers, Trenchless-Pipeline Bursting, Pipeline Liner – Leak Repair, Automatic Pressure Management System-TBS, Fork lifters, Dewatering pumps, Air compressors, drilling machines, Welding plants, Electro Fusion machines, Odorizer units, Gas chromatographs, Flow computers and Generators etc.

5.44 The Authority observes that projections under this head had historically remained on higher side when compared with actual expenditure at year end. Moreover, the petitioner could only capitalize an amount of Rs. 126 million during FY 2018-19 as against the allowable limit of Rs. 373 million. *Keeping in view the same, the Authority*

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provisionally allows an amount of Rs. 126 million with segregation of Rs. 11 million for Transmission activities and Rs. 115 million for Distribution & Sales activities against this head for the said year, subject to actualization at FRR stage. Regarding RLNG related activities, the Authority decides to allow the assets in principle subject to the actualization at the time of FRR for the said year.

v. Gas Distribution System

5.45 The petitioner has projected an amount of Rs. 11,559 million for gas distribution system and related facilities & equipment.

Table 11: Requested Additions to Distribution Network

S/No.	Description	Rs. in Million
		The Petition FY 2021-22
1	Rehabilitation Mains and Services	2,023
2	Replacement/ Repair of Undersized Meters	2,470
3	Segmentation	133
4	Modems, Installation of EVCs, Filter Separators	171
5	Construction of CMSs, TBSs, TRSs	423
Sub Total: UFG Control Program (A)		5,219
6	Laying Of Distribution Mains including services -Existing Areas and DDC	3,579
7	Installation of New Connections (meters)	1,336
8	New Towns	1,044
Sub Total: Normal (B)		5,958
Sub GDS Other Than Major Projects : (A+B)		11,178
9	8" x 35 KM Supply Main Badin	381
Total Gas Distribution System		11,559

Rehabilitation Mains and Services:

5.46 The petitioner has projected an amount of Rs. 2,023 million for Rehabilitation of 338 Km Mains & 152 Km Services under UFG Control Program. The petitioner has taken per Km cost of Rs. 5.23 million for Rehabilitation-Mains against actual Per Km cost of Rs. 5.27 million in FY 2018-19. Moreover, the petitioner has taken per Km cost of Rs. 1.68 million for Rehabilitation-services against actual per Km cost of Rs. 1.60 million in FY 2018-19.

5.47 The Authority notes that the petitioner's UFG has increasing trend for the last several years and it is even more necessitated to enhance UFG control activities. However, the petitioner could only capitalize an amount of Rs. 371 million in FY 2018-19 in this head against the provisionally allowed amount of Rs. 851 million.

5.48 *In view of the above, the Authority principally allows an amount of Rs. 371 million against this head for the said year, subject to actualization at FRR stage, with the advice to converge its focus on UFG Control Program.*

Segmentation

5.49 The petitioner has projected an amount of Rs. 133 million for segmentation of distribution network.

5.50 The Authority notes that segmentation is an important requirement envisaged in UFG Study report / Key Monitoring Indicators (KMIs) to be implemented by the petitioner. It

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has been noted with concern that the petitioner could not capitalize any amount in FY 2018-19 in this head against the provisionally allowed amount of Rs. 236 million. *Keeping in view the importance of above said project the Authority allows an upfront amount of Rs. 133 million against this head for the said year, subject to actualization at FRR stage, with the directions to focus on UFG Control Program while re-aligning its priorities.*

Laying of Distribution Mains including services - Existing Areas;

- 5.51 The petitioner has projected Rs. 3,579 million for laying 1,210 Km of Distribution Mains including services in existing areas for the said year.
- 5.52 The Authority observes that the average capitalization during last 6 years has remained Rs. 1,033 million. Further, the petitioner managed to capitalize an amount of Rs. 1,072 million on laying of 451 Kms Distributions Mains for the year FY 2018-19. *Keeping in view the capability of the petitioner to physically execute such activity, the Authority provisionally allows an amount of Rs. 1,072 million against this head.*

Installation of New Connections (meters)

- 5.53 The petitioner has projected Rs. 1,336 million for installation of 133,976 numbers of new connections (meters) i.e. 192 connections for industrial, 500 for commercial and 133,284 for Domestic categories for the said year.
- 5.54 The last four years' capitalization trend of the petitioner indicates that it has been able to install on an average 85% of the allowed number of connections, however in the light of observation at para 8.2.2 & 8.2.3, the petitioner must proceed against all non-consumers to include them as bonafide consumers under the legal domain.
- 5.55 *In view of the foregoing, the Authority directs the petitioner to ensure compliance with the following while planning for the provision of new gas connections, other than required for ongoing schemes where principle approval is hereby granted, without prejudice to following:*
- 5.55.1 The petitioner may undertake combing connections within its already served areas on priority and in order of economy, provided cost of such connections is within the Government approved per consumer cost criteria, as may be decided by the Management and its BOD.
- 5.55.2 Since the exclusivity of gas companies to develop gas development schemes in its franchised area has ended in 2010 and Authority vide its decision on RERR 2020-21 in case of SNGPL has referred the matter to FG to formulate policy to award of new gas distribution network projects in new towns and villages through some competitive mechanism to facilitate new entrants and promote competitive market, except where schemes are fully funded by the Government and specifically decided to be executed through Sui Companies. Therefore, the petitioner is advised to take cognizance thereof.
- 5.55.3 Pursuant to Licence Condition 34, the petitioner shall ensure that addition of new gas connections/ development schemes shall not further affect security and continuity of gas supplies to existing consumers and arrange sufficient additional gas supplies for the new connections.

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- 5.55.4 The petitioner shall ensure that addition in new gas connections/ development schemes shall have no adverse and financial impact on existing consumers.
- 5.55.5 The petitioner shall ensure adherence / compliance of decision on case No. 309/12/2021 dated 13 April 2021 vide which Federal Government has authorized sub-committee on Sustainable Development Goal Achievement Program (SAP) to approve new schemes against savings available with the gas utility from previous programs.
- 5.55.6 The petitioner shall ensure compliance to its non-discrimination obligation as stipulated under License Condition 12 of its License while planning, finalizing and executing the distribution projects and gas connections.
- 5.56 *The Authority also provisionally allows the projected amount of Rs. 243 million for 192 industrial and 500 commercial connections and this amount is ring-fenced as per the policy of the GoP regarding RLNG/ECC decision.*

Replacement/ Repair of Undersized Meters

- 5.57 The petitioner has projected Rs. 2,470 million for replacement of 356,699 numbers gas meters in its franchised area for the said year.
- 5.58 The Authority observes that the petitioner's justification for excessive replacement of meters appears to be inappropriate and overdoing for the purpose of UFG control for which other related factors such as segmentation and Rehabilitation of distribution network are not being given due attention. The details of amount incurred on replacement of gas meters and UFG of the petitioner during last several years are as under;

F.Y.	Amount incurred on Meter Replacement (Rs. Million)	No. of meters replaced	UFG (%age)
2013-14	1,147	170,451	13.82
2014-15	1,428	N/A	13.62
2015-16	2,396	310,342	13.73
2016-17	2,016	213,244	13.29
2017-18	2,396	306,443	17.11
2018-19	2,985	483,813	18.28
	12,368	1,484,293	

- 5.59 From the above table, it is clear that more than Rs. 12 billion amount has been incurred on account of replacement of 1.5 million number of gas meters, which is almost 50% of the total meters installed on the petitioner's network. On the contrary, UFG of the petitioner shows an increasing trend, particularly during last two years i.e. during FY 2017-18 & 2018-19. In this regard, this issue has been discussed at length in FRR 2018-19. *Keeping in view the above, the Authority provisionally allows an amount of Rs. 1,448 million against this head, based on last determination against this head i.e. FY 2018-19. The petitioner is further directed to first utilize the repairable old meters before using the new ones.*

Modems, Installation of EVCs, Filter Separators

- 5.60 The petitioner has projected an amount of Rs. 171 million for installation of 300 EVCs at per unit cost of Rs. 569,333.
- 5.61 The Authority notes that the petitioner earlier claimed an amount of Rs. 1.5 million for installation of 11 EVCs at per unit cost of Rs. 134,247 during FY 2018-19, which shows

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that projected amount of Rs. 569,333 per unit cost of EVC for the said year is on higher side. *Accordingly, Rs. 45 million is provisionally allowed for installation of 300 EVCs subject to the actualization provided the same do not exceed the estimated amount.*

Construction of CMSs, TBSs, TRSs

- 5.62 The petitioner has projected an amount of Rs. 423 million for construction of CMSs, TBSs, TRSs and CP Stations.
- 5.63 The Authority notes that the petitioner has capitalized an amount of Rs. 171 million during FY 2018-19 against this head. *The Authority in view of the operational capability of the petitioner allows an amount of Rs. 171 million for this head.*

New Towns Within 05 Km Radius of Gas Fields

- 5.64 The petitioner has projected Rs. 1,044 million for 278 Kms extension in distribution network in order to supply gas to new towns & villages during the said year. Average capitalization against this head during the last 6 years was Rs. 471 million. The petitioner has informed that funds of Rs. 515 million have been released in its assignment account for implementation of the schemes of villages falling within 5 km radius of Gas Producing Fields in 1st Phase during FY 2020-21. Remaining schemes would be implemented in a phased manner subject to receipt of the required funds (over & above cost criteria share) from the FG as Grant and petitioner would also invest its own resources (within cost criteria share) accordingly. The petitioner has also informed that moratorium on domestic gas development schemes has been lifted as communicated by the Ministry of Energy (Petroleum Division) vide letter No.NG(D)-16(91)/16-IMP dated 02-05-2017.
- 5.65 The petitioner has projected to capitalize Rs. 193 million (within cost criteria share) from its own resources and the remaining funds amounting Rs. 851 million have been projected to be received form FG as grant. The petitioner has envisaged an amount of Rs. 1,024 million for 51 Schemes for New Towns & villages which are primarily falling within 5 Km radius of Gas producing fields under the order of Honorable Supreme Court of Pakistan & Honorable Sindh High Court, whereas Rs. 20 million for 7 schemes funded through Company's Annual Development has been envisaged.
- 5.66 The Authority notes that Honorable Supreme Court of Pakistan, while disposing of the Civil Petition No. 534 of 2020 on 05.03.2020 was satisfied that the Sindh High Court is taking steps for early implementation of their judgement dated 27.12.2013 and had referred certain technical and physical constraints faced by the petitioner to Sindh High Court. Subsequently, Honorable high Court of Sindh, vide its order dated 02.11.2020 in CP No. 5841/2018 had passed orders that *"when this matter is next fixed for hearing, it is expected that the Federal Government which has already obtained the required approvals for the money which the Federal Government should be paying to the SSGCL is in fact paid to SSGCL so that the SSGCL can carry out the works stipulated for the financial year 2020-21 and complete the same accordingly"*.
- 5.67 The Authority notes that the matter has been decided by the honorable Courts as mentioned above, *therefore, the Authority keeping in view the above, allows an amount of Rs. 1,024 million for 51 Schemes for New Towns & villages which primarily fall within 5 Km radius of Gas producing fields for the said year. Furthermore, in future,*

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Distribution Development Projects on new schemes be undertaken in line with para 5.55 above.

8" x 35 KM Supply Main Badin

- 5.68 The petitioner has projected to capitalize Rs. 381 million for 8-inch dia. x 35 KM Supply Main Badin (from Golarchi to Badin). The petitioner has stated that this project is required to reinforce existing 6" dia Supply Main Badin, the capacity of which has been exhausted due to extension of new towns & Villages on the supply main. Existing customer base on this supply main is 16,000 domestic, 73 commercial & 6 CNG Stations. This project will enhance the capacity of Supply Main and help to handle gas emergencies safely in future along Golarchi-Badin Road.
- 5.69 *The Authority keeping in view the justification provided by the petitioner and operational requirement provisionally allows the said project in principle. However, any prudently incurred expenditure shall be considered at the time of FRR for the said year provided the same is within the estimated amount.*

Table 12: Additions to Distribution Network as Determined by the Authority

S/No.	Description	Rs. in Million		
		The Petition	Determined by the Authority	
			FY 2021-22	
		Indignions	RLNG	
1	Rehabilitation Mains and Services, including segmentation-UFG Control Program	2,023	371	
2	Replacement/ Repair of Undersized Meters	2,470	1,448	
3	Segmentation	133	133	
4	Modems, Installation of EVCs, Filter Separators	171	45	
5	Construction of CMSs, TBSs, TRSs	423	171	
	Sub Total: UFG Control Program (A)	5,219	2,168	
6	Laying Of Distribution Mains including services -Existing Areas and DDC	3,579	1,072	
7	Installation of New Connections (meters)	1,336	-	243
8	New Towns	1,044	1,024	
	Sub Total: Normal (B)	5,959	2,096	
	Sub GDS Other Than Major Projects : (A+B)	11,178	4,264	
9	8" x 35 KM Supply Main Badin	381	-	
	Total Gas Distribution System	11,559	4,264	243

vi. Furniture; Security & Office Equipment's; and Computer & Allied Equipment's

- 5.70 The petitioner has projected Rs. 333 million i.e. Rs. 112 million for Transmission activities whereas Rs. 221 million for Distribution & Sales activities in respect of furniture, security equipment, office equipment and computers & allied equipment for the said year.
- 5.71 Major components of capitalization include Computers and Allied equipment (Rs. 167 million), Office equipment (Rs. 61 million), Furniture (Rs. 24 million), and Security equipment (Rs 79 million). The petitioner on an average has capitalized an amount of Rs. 130 million/year during the period FY 2006-07 to FY 2018-19.
- 5.72 *In view of the historical trend the Authority provisionally allows an amount of Rs. 130 million with segregation of Rs. 44 million for Transmission activities and Rs. 86 million for Distribution/sales activities under the said head.*

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vii. Computer Software (Intangible)

- 5.73 The petitioner has projected Rs. 558 million i.e. Rs. 112 million for Transmission activities whereas Rs. 446 million for Distribution activities for procurement of various software for improved operations and customer facilitation during the said year.
- 5.74 The petitioner has capitalized an average amount of Rs. 33 million/year during the last 11 years i.e. FY 2008-09 to FY 2018-19. *Keeping in view the historical trend analysis, the Authority provisionally allows an amount of Rs. 33 million with segregation of Rs. 26 million for Distribution activities and Rs. 7 million for Transmission activities for the said year.*

viii. LPG Air-Mix Projects

- 5.75 The petitioner has projected an amount of Rs. 10 million to be capitalized on LPG Air-Mix Plants at various locations which include Gwadar (Rs. 1.2 million), Noshki (Rs. 2.6 million), Surab (Rs. 0.55 million), Kot Ghulam Muhammad (Rs. 3.1 million), Awaran (Rs. 2.1 million), and Bela (Rs. 0.7 million).
- 5.76 *Keeping in view the above being already operational projects, the Authority allows an upfront amount of Rs. 10 million for the said LPG Air-Mix plants for the said year.*
- 5.77 *Accordingly, revised subsidy owing to revision in rate of return per para 4.5, is re-worked at i.e. Rs. 942 million on account of air-mix LPG projects.*

ix. Telecommunication System

- 5.78 The petitioner has projected Rs. 70 million i.e. Rs. 14 million for Transmission activities whereas Rs. 56 million for Distribution activities for procurement of telecommunications equipment including replacement of towers, server for SCADA System, drone with camera, etc.
- 5.79 Average capitalization during the last 13 years i.e. FY 2006-07 to FY 2018-19 was Rs. 56 million / year. The Authority based on operational requirement and justification provided by the petitioner *provisionally allows an amount of Rs. 35 million (i.e. 50 % of the projected amount) with segregation of Rs. 7 million for Transmission activities whereas Rs. 28 million for Distribution activities for the said head.*

x. Appliances, Loose Tools & Equipments

- 5.80 The petitioner has projected an amount of Rs. 284 million i.e. Rs. 29 million for Transmission activities whereas Rs. 255 million for Distribution activities for procurement of different tools and equipment. The petitioner has stated that under its UFG reduction plan, special emphasis has been placed to increase network maintenance and the existing teams be equipped with modern tools & equipment. The petitioner has further stated that the purchase of said tools will facilitate performance of duties by company employees and improve their efficiency.
- 5.81 The Authority notes that average amount capitalized during last 12 years i.e. FY 2007-08 to FY 2018-19 in this head was Rs. 28 million/year. *Keeping in view the historical trend analysis, the Authority provisionally allows an amount of Rs. 28 million with*

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segregation of Rs. 3 million for Transmission activities and Rs. 25 million for Distribution & Sales activities for the said year.

xi. Vehicles

- 5.82 The petitioner has projected an amount of Rs. 889 million i.e. Rs. 331 million for Transmission activities, whereas Rs. 558 million for Distribution activities under this head for procurement of 240 Operational vehicles (37 Additional + 197 Replacement) and 7 Non-Operation Vehicles (6 Replacement). The petitioner has projected to procure Hi-Roof Van amounting to Rs. 1 million against RLNG activity.
- 5.83 The Authority notes that petitioner is public service company whose costs/expenditures are picked/borne by the consumers/public. Moreover, the GoP has advised to implement austerity measures at all levels so as to avoid unnecessary expenditure and bring economy in overall operations. On the contrary, it is observed that the petitioner expends significant amount every year on vehicles alone.
- 5.84 The Authority notes that the petitioner has capitalized an amount of Rs. 252 million in this head during 2018-19 which shows that the projections are on higher sides. Therefore, *the Authority, in view of the last actualizing trend, allows an amount of Rs. 252 million with segregation of Rs. 94 million for Transmission activities whereas Rs. 158 million for Distribution & Sales activities under this head for the said year. Moreover, the Authority does not allow any amount against RLNG activity for the said head.*

xii. Construction Equipment and Vehicles

- 5.85 The petitioner has projected an amount of Rs. 225 million i.e. Rs. 45 million for Transmission activities whereas Rs. 180 million for Distribution activities under this head for procurement of different construction equipment including Pipe Layer (Rs. 135 million), Excavator (Rs. 60 million) and Hydrostatic Pressurizing Pump (Rs. 30 million).
- 5.86 The petitioner had capitalized an average amount of Rs. 50 million per year during the last 13 years. Moreover, the expenditures projected at Rs. 135 million against pipe layer is not justified. Keeping in view the petitioner's operational requirements, the Authority allows an amount of *Rs. 45 million (i.e. 50 % of the projected amount against the other two items) with segregation of Rs. 10 million for Transmission activities whereas Rs. 35 million for Distribution & Sales activities.*

xiii. SCADA

- 5.87 The petitioner has projected an amount of Rs. 45 million for transmission activities under this head for procurement of different equipment including SCADA hardware.
- 5.88 The Authority based on operational requirement and justification provided by the petitioner *provisionally allows an amount of Rs. 22 million (i.e. 50 % of the projected amount) for transmission activities against the said projects.*

xiv. Fixed Assets Determined by the Authority

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

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Table 13: Summary of Asset Additions Allowed by the Authority

Particulars	FY2021-22 (RFR)					Determined by the Authority FY 2021-22 (RFR)					Rs. in Million	
	Petition	Transmission		Distribution & Sale		Total	Transmission		Distribution & Sale		Indigenous Gas	RLNG
		Indigenous Gas	RLNG	Indigenous Gas	RLNG		Indigenous Gas	RLNG				
Land												
Buildings	275			275		69				69		
Gas transmission pipeline	13,086	10,522	2,564									
Compressors	3,764	2,786	978									
Plant and machinery	1,366	107	21	1,238		335	335					
Gas distribution system, related facilities and equipments	11,559			11,559		126	11			115		
Furniture, equipments including computers and allied equipments	333	112		221		130	44			86		
Computer software (Intangible)	558	112		446		33	7			26		
LPG Air Mix Projects	10	0		10		10				10		
Telecommunication system	70	14		56		35	7			28		
Appliances, loose tools and equipment	284	29		255		28	3			25		
Vehicles	889	330	1	558		252	94			158		
Construction equipment	225	45		180		45	10			35		
SCADA	45	45				22	22					
Assets related to Gas Activities	32,868	14,282	1,564	11,779		1,591	513			4,916		243

- 5.90 As a consequence of adjustment on account of addition in assets for the said year, the depreciation expense claimed by the petitioner comes down to Rs. 7,009 million. The Authority observes that it has approved uniform depreciation rates for natural gas transmission & distribution companies as per Annexure D. Accordingly, the petitioner is advised to file the forthcoming petition for the said year based on revised depreciation rates and make necessary financial adjustments thereof.
- 5.91 In view of the above, the Authority provisionally determines the closing net operating fixed assets for the said year at Rs. 45,997 million. Moreover, the Authority accepts the closing balance of the assets as projected by the petitioner.

6. Operating Revenues

6.1 Sales Volume

- 6.1.1 Sales volume has been projected at 318,783 MMBTU for the said year. Category-wise comparison with previous years has been provided as under:

Table 14: Comparison of Projected Sales Volume with Previous Years

Category	Volume in BBTU				Inc. / (Dec.) over RERR FY 2020-21	
	FY 2018-19 FRR	FY 2019-20 RERR	FY 2020-21 RERR	FY 2021-22 The Petition		%
Industrial-zero rated	28,762	27,087	25,530	46,495	20,965	82
Domestic	95,949	106,503	102,052	109,063	7,011	7
Fertilizer - feed stock	18,803	19,822	17,562	18,662	1,100	6
Captive Power-zero rated	43,597	42,187	45,736	48,011	2,275	5
Commercial	10,252	10,721	9,617	9,493	(124)	(1)
Nooriabad Power Plant	6,515	7,256	6,502	5,979	(523)	(8)
General Industries	32,671	36,034	39,418	32,718	(6,700)	(17)
HCPC	6,244	6,854	5,144	3,577	(1,567)	(30)
Cement	239	390	202	131	(71)	(35)
Captive Power	31,567	29,368	39,670	25,325	(14,345)	(36)
Power	45,290	50,922	45,135	17,921	(27,214)	(60)
CNG Stations	22,888	25,524	21,156	1,408	(19,748)	(93)
Total	342,776	362,668	357,722	318,783	(38,941)	(11)

- 6.1.2 The petitioner has explained that increase in sales volume has been envisaged in respect of zero-rated industrial consumers by 82% & captive power consumers by

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5% owing to GoP policy for increased exports. Moreover, sales volume for domestic sector has also been projected to increase by 7% due to expected approval of low tariff for Baluchistan. The petitioner has further submitted that sales volume of fertilizer feed-stock has been kept at the level of FY 2018-19.

6.1.3 Regarding power and CNG sector, the petitioner has informed that most of these consumers have now been shifted to RLNG resulting decrease in sales volume by 60% & 93% respectively over RERR FY 2020-21. The petitioner has further explained that reduction in sales volumes of HCPC is mainly due to pending negotiation with it. Moreover, the gas sales volumes to the rest of the sectors have been declined mainly due to gas load management.

6.1.4 *The Authority, in view of the above, accepts the petitioner's sales volume projections at 318,783 MMBTU for the said year.*

6.2 Sales Revenue at Existing Prescribed Prices

6.2.1 The petitioner has projected to decrease sales revenues at the existing prescribed price by 11% over RERR FY 2020-21 to Rs. 248,201 million for the said year. Category-wise comparison of sales revenue is given below: -

Table 15: Comparison of Projected Sales Revenue at Prescribed Price with Previous Years

Particulars	Rs. In Million				Inc. / (Dec.) over RERR for FY 2020-	
	FY 2018-19 FRR	FY 2019-20 RERR	FY 2020-21 RERR	FY 2021-22 The Petition	Inc. / (Dec.)	%
Industrial-(zero rated)	16,905	20,672	20,606	36,201	15,595	76
Domestic	25,390	50,348	42,963	84,915	41,952	98
Captive Power-(zero rated)	25,824	32,195	37,723	37,381	(342)	(1)
Fertilizer - Feedstock	3,575	9,955	5,839	14,530	8,691	149
Commercial	9,371	13,035	12,053	7,391	(4,662)	(39)
Nooriabad Power Plant	3,726	5,803	5,490	4,655	(835)	(15)
General Industries	22,591	35,736	40,675	25,474	(15,201)	(37)
Habibullah Coastal Power	3,521	5,482	4,385	2,785	(1,600)	(36)
Cement	216	484	259	102	(157)	(61)
Captive Power	20,698	29,121	42,247	19,718	(22,529)	(53)
Power	25,440	40,726	38,116	13,953	(24,163)	(63)
CNG Stations	20,612	31,797	28,163	1,097	(27,066)	(96)
Total Sales Revenues	177,871	275,353	278,520	248,201	(30,319)	(11)

6.2.2 The petitioner has explained that gas sales revenue for the said year is based on prescribed prices determined as per RERR FY 2020-21. The petitioner has also explained that Sindh High Court has granted stay order to certain industrial consumers on OGRA's price notifications. However, the impact of these stay orders have not been accounted for while calculating sales revenue in the instant petition.

6.2.3 The Authority observes that decrease in sales revenue is mainly due to decrease in sales volumes and revision in gas supply allocations of various sectors as indicated in paras in 6.1.2 and 6.1.3 above.

6.2.4 The Authority, considering the applicable natural gas tariff, re-adjusted the category-wise prescribed prices to the level of sale prices. Accordingly, the Authority provisionally calculates net sales revenue at category-wise prescribed price at Rs. 231,250 million as against Rs. 248,201 million as projected by the petitioner for the said year.

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6.3 Other Operating Income

i. Summary

6.3.1 The petitioner has projected other operating income at Rs. 5,062 million for the said year. Comparison with previous years is given below:

Table 16: Comparison of Projected Other Operating Income with Previous Years

Rs. in million

Particulars	FY 2019-20		FY 2020-21	FY 2021-22			Inc./(Dec.) over RERR for FY 2020-21	
	RERR	Actual	RERR	The Petition	Transmission	Distribution & Sale Activities	Rs.	%
Sale of LPG/NGL	1,243	100	1,517	-	-	-	(1,517)	(100)
Sale of Gas Condensate	20	3	(11)	(5)	(5)	-	6	(56)
Late Payment Surcharge	3,353	1,802	1,248	1,026	-	1,026	(222)	(18)
Meter Manufacturing Profit	11	(90)	29	30	-	30	1	3
Meter rentals	820	800	1,489	1,672	-	1,672	183	12
Amortization of deferred credits	473	549	530	596	-	596	66	12
Other income	1,664	473	2,935	1,744	1,183	561	(1,190)	(41)
Net Operating Revenue	7,584	3,638	7,737	5,062	1,179	3,884	(2,674)	(35)

ii. Sale of Gas Condensate, LPG/NGL

6.3.2 The petitioner has projected a loss of Rs. 5 million in respect of sale of gas condensate and nil income from sale of LPG/NGL for the said year.

6.3.3 The petitioner has explained that estimates from LPG/NGL income have not been projected in the instant petition owing to the reason that the related agreement signed with M/s JJVL had expired in June, 2020. The petitioner has however, submitted that income from LPG & NGL shall be projected, if any agreement gets signed between the parties in future.

6.3.4 *In view of the above, the Authority accepts the petitioner's contention, and decides to include the incomes as offered by the petitioner.*

iii. Meter Manufacturing Plant (MMP)

6.3.5 The petitioner has projected income from MMP for the said year at Rs. 30 million as against Rs. 29 million in RERR FY 2020-21. The petitioner has explained that revenue from MMP depends on sale of gas meters and spare parts. The petitioner has further explained that major client has not purchased gas meters from the petitioner, resultantly significant decrease in revenue from MMP has been envisaged.

6.3.6 The Authority notes that the petitioner has increased its cost due to replacement of approximately 50,000 meters in Balochistan province since last couple of years. However, as discussed in para 5.59, the Authority directs the petitioner to curtail this expense and devise a strategy to economize their MMP cost. *In view of the above, the Authority accepts the revenue from MMP at Rs. 30 million for the said year.*

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iv. Late Payment Surcharge (LPS)

- 6.3.7 The petitioner has offered Rs. 1,026 million on account of LPS as against Rs. 1,248 million, thereby projecting a decrease of 18% for the said year.
- 6.3.8 The petitioner has submitted that due to decrease in industrial customers and the litigation involved in IPPs and other general industry, LPS has been projected on lower side. *In view of the above, the Authority includes LPS income at Rs. 1,026 million for the said year.*

v. Other Income

- 6.3.9 The petitioner has projected other income at Rs. 1,744 million for the said year. Comparison with previous years is given below: -

Table 17: Comparison of Projected Other Income with Previous Years

Particulars	Rs. in million						
	FY 2018-19	FY 2019-20		FY 2020-21	FY 2021-22	Inc./ (Dec.) over RERR of FY 2020-21	
	FRR	RERR	Actual 30.6.2020	RERR	The Petition	RS.	%
Interest income from KESC/WAPDA	-	-	691	225	399	174	78
Others	78	20	-	20	30	10	50
Income from pipeline construction	2.00	14	-	14	15	1	6.5
Interest income and Other from SNGPL	1,130	-	1,175	1,135	1,139	4	0.4
Profit on sale of fix assets	-	-	43	-	6	6	100
Income from sale of tender documents	6	6	4	6	6	(0)	(4)
Income from sale of net investment in finance lease	47	36	36	30	27	(3)	(11)
Recoveries from consumers	88	98	58	98	86	(12)	(12)
Liquidated damages recovered	26	70	29	70	37	(33)	(47)
Income from new service connections	-	774	-	762	-	-762	-100
Advertising Income	-	1	-	1	-	(1)	(100)
Notional income on IAS 19 provision	486	645	-	575	-	(575)	(100)
Total Other Operating Income	1,863	1,664	2,037	2,935	1,744	(1,190)	(41)

- 6.3.10 The Authority observes that the petitioner has treated "Notional Income on IAS-19" as non-operating without citing any justification. The Authority, per its principle decision taken in its previous determination decides to include notional income on IAS-19 as operating income amounting to Rs. 431 million. Moreover, the Authority also observes that the petitioner has erroneously treated "Interest income from WAPDA" amounting to Rs. 399 million as operating income. The Authority in the light of New Tariff Regime decides to exclude "interest income from WAPDA" as non-operating income. *Accordingly, the Authority provisionally allows "other income" at Rs. 1,776 million for the said year.*
- 6.3.11 *In view of the discussions & decision in paras above, the Authority provisionally includes "other operating income" for the said year at Rs. 5,094 million as against Rs. 5,062 million offered by the petitioner, as detailed below: -*

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Table 18: Summary of Other Operating Income as Allowed

Particulars	Rs. in million	
	FY 2021-22	
	The Petition	As Allowed
Amortization of deferred credits	596	596
Meter rentals	1,672	1,672
Late Payment Surcharge	1,026	1,026
Other income	1,744	1,776
Sale of Gas condensate/LPG/NGL	(5)	(5)
Meter Manufacturing Profit	30	30
Operating Revenue	5,062	5,094

7. RLNG Cost of Service

- 7.1 The petitioner has projected Rs. 9,418 million (Rs. 21.80 per MMCF at designed capacity of 1200 MMCFD) on account of RLNG cost of service for the said year. The breakup of the same is as under: -

Table 19: Breakup of RLNG - Cost of Service

Total RLNG Energy in MMCF	432,000
Revenue Expenditure Relating to RLNG	218
Gas Internally Consumed	2,052
Depreciation	1,467
Contribution to WPPF/Other Charges	743
ROA	4,938
Cost of Supply of RLNG	9,418
Cost of Supply of RLNG Rs./MMCF	21.80

- 7.2 The petitioner computes GIC (1,597 MMCF) at Rs. 2,052 million (at an average purchase price of Rs. 1,264.07/MMBTU). The Authority, as part of FRR FY 2018-19, had advised the petitioner to claim volumetric adjustment on account of GIC from the shipper i.e.; SNGPL, under OGRA Gas (Third Party Access) Rules, 2018. In view of the same GIC volumes (1,597 MMCF) and corresponding cost of Rs. 2,052 million is not allowed as part of RLNG Cost of Supply. Regarding WPPF, the same shall be considered at the of FRR based on actualization.
- 7.3 Further, the Authority computes RLNG's ROA Rs. 4,938 million at 16.60% on average net fixed, in view of the above, the Authority decision made in respect of RLNG assets and HR cost in above paras, RLNG cost of supply is calculated as tabulated below:

Table 20: Breakup of RLNG Cost of Service / Supply

Description	Rs. in Million	
	The Petition	As calculated
Quantitative Data (MMBTU)	454,032	460,338
Revenue Expenditure Relating to RLNG	218	3,272
Gas Internally Consumed	2,052	-
Depreciation	1,467	1,409
Contribution to WPPF/Other Charges	743	-
ROA	4,938	4,622
Cost of Supply of RLNG	9,418	9,303
Cost of Supply of RLNG (Rs./MMBTU)	20.74	20.21

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8. Operating Expenses

8.1 Cost of Gas

- 8.1.1 The petitioner has projected the cost of gas Rs. 224,152 million for the said year, based on projected purchased volume and projections of international prices of crude and HSFO. The petitioner has claimed cost of gas at Rs. 604.90/MMCF for the said year. The petitioner's cost of gas is based on the following assumptions/pricing parameters:

Table 21: SSGCL's WACOG Parameters

Applicable for Wellhead Gas Price	Average oil price for the period	Average C&F price		Exchange Rate
		Crude Oil	HSFO	
		US\$/BBL	US\$/M.Ton	Rs./US\$
July to December 2020	December, 2020 to May, 2021	51.8621	302.3492	168.0000
January to June 2021	June 2021 to November, 2021	57.3821	352.0892	170.0000

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

- 8.1.3 The Authority, keeping in view actual dates, as communicated by MOE for the purpose of wellhead prices for the period December, 2020 to May, 2021, has revised the parameters. Regarding the prices applicable for the subsequent period January to July 2022, actual average of latest international oil prices for the months of June upto August 10, 2021, have been adopted for rest of the applicable period. Revised parameters for computation of cost of gas at the petitioner system is as below:

Table 22: Revised parameters:

Applicable for Wellhead Gas Price	Average oil price for the period	Average C&F price		Exchange Rate
		Crude Oil	HSFO	
		US\$/BBL	US\$/M.Ton	Rs./US\$
July to December 2020	December, 2020 to May, 2021	61.3631	349.5892	157.9540
January to June 2021	June 2021 to November, 2021	74.5965	408.2591	165.0000

- 8.1.4 *Based on the above, the cost of gas is provisionally calculated at Rs. 234,360 million (Rs. 632.01/MMCF the petitioner's respective WACOG) for the said year.* The petitioner is, however, directed to submit a review petition to the Authority latest by October 15, 2021, for review of its estimated revenue requirements as required under Section 8(2) of the Ordinance, keeping in view the actual and anticipated changes in international prices of crude and HSFO and the trend of

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Rupee-Dollar exchange rate based on instant determination's volume in respect of sales & purchases.

8.2 Unaccounted for Gas (UFG)

- 8.2.1 The petitioner has estimated UFG for the said year at 45,202 MMCF. The petitioner has projected RLNG held stock purchase and sales in UFG Sheet however, since it has been selling RLNG allocated out of RLNG held stock, therefore, as per prevalent policy of FG, it may claim the sale volume against such allocations as 'Deemed Sale' as in the case of BTU equivalence volume, at FRR stage, once the sale out of RLNG held stock has been actualized. Moreover, since the petitioner has to make up the sales to RLNG consumers from its indigenous allocations/purchases, therefore, such volumes may not be added again in 'Purchases'.
- 8.2.2 The petitioner has projected UFG @ 12.16% for the said year as against actual UFG reported at the rate of 18.28% based on actual accounts for the year FY 2018-19. The Authority observes that UFG of the petitioner is increasing at an alarming rate, despite substantial amounts allowed to the petitioner in respect of UFG control activities, however the performance of the petitioner does not reflect any corresponding reduction in UFG. On the contrary, a huge number of illegal non-consumers are residing in High Rise Buildings, Katchi abadis falling in unregularized, unleased localities of the petitioner's main consumption hub i.e. Karachi and all such non-consumers have been pilfering precious and scarce natural gas with impunity over a period of decade or so. The petitioner itself conceded that about 10-BCF gas is annually pilfered in Karachi alone. The petitioner has admittedly been losing a significant volume of scarce resource that has huge impact on its revenues as well as profitability, however, the illegal practices are continuing, even in metropolitan cities, pointing clearly towards failure of the petitioner to take legal action against all such defaulters/transgressors due to its ineffective policies. The performance of the petitioner in this respect is not encouraging and raises doubts on the initiatives on UFG reduction as claimed by the company. The Authority has already directed the petitioner to address the issue so as to include all such consumers as its bonafide consumers under the legal domain.
- 8.2.3 The Authority notes that Gas Theft Recovery (GTR) Act, 2016 passed by the Majlis-e-Shoora on March 24, 2016 is the principal legal statute related to prosecution of persons involved in the acts of natural gas theft and to provide for a procedure for expeditious recovery of the amounts due, value of gas, fine, punishments etc., and for any other ancillary matters. Pursuant to the enactment of the above law, prosecution of cases of natural gas theft is the responsibility of the Gas Utilities, which are obligated to take cognizance of the above situation and actively proceed under the said law and the terms and conditions of sales licence granted to ensure the integrity of its pipeline system and volumes of gas contained therein. In view of the above, the petitioner is directed to proceed effectively and rigorously under the stipulated GTR Act, 2016 against gas pilferers/ non-consumers to effectively reduce the overall UFG in its franchised area, instead of hollow tall claims.

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8.2.4 The Authority during the public hearing held on June 30, 2021 at Quetta, directed the petitioner to provide / update information within a week time, related to expenditure actually incurred during last ten (10) years against UFG control under various heads such as segmentation, rehabilitation of gas network and replacement of old meters with new meters, leakage rectifications and theft control measures etc., and its quantitative impact on actual UFG in each year. The said information is awaited till date, therefore, submission of the same must be ensured by the petitioner within 15 days hereof.

8.2.5 *The Authority based on the above and its working of GIC, at paras 8.3.1 to 8.3.3 determines UFG at 45,464 MMCF for the said year as under:*

Table 23: Unaccounted for Gas

Particulars	MMCF	
	The Petition FY 2021-22	As calculated
Gas Purchases		
Gross Purchases (A)	371,680	371,680
Less: Gas Internally Consumed-metered	1,149	887
Available for Sale (B)	370,531	370,793
Gas Sales		
Gas Sales		
Add: Gas Shrinkage at LHF - Condensate	325,289	325,289
	40	40
Total (C)	325,329	325,329
UFG Volume D= (B-C)	45,202	45,464
UFG Claimed		
UFG Benchmark	12.16%	
Provisional allowance for local operating conditions	5.00%	5.00%
Allowable UFG Volume @ 6.3% Benchmark	1.30%	1.30%
Invalid Claim	23,416	23,416
	21,786	22,048

8.2.6 *Based on the above, the Authority deducts Rs. 12,303 million (at national WACOG of Rs. 558.01 per MMCF) from the revenue requirement for the said year.*

8.3 Gas Internally Consumed (GIC)

8.3.1 The petitioner has projected GIC-metered of 1,149 MMCF for the said year. The petitioner has projected higher volumes for the said year viz a viz average of actual figures of last two years i.e. FY 2017-18 & FY 2018-19. The petitioner has projected 992 MMCF for compression of 136,000 MMCF gas for the said year, while claiming volume of gas handled per unit of GIC at 137 MMCF.

8.3.2 The Authority notes that volume of gas handled / compressed during the said year has been projected to 136,000 MMCF, however, it has been noted that an average volume of 99,981 MMCF was actually handled / compressed during last two actualized years i.e. FY 2017-18 & FY 2018-19. Moreover, the projections of gas purchases and gas sales during the said year show declining trend as compared to 2017-18 & 2018-19 whereas the company has projected higher volume of gas to be handled/compressed during the said year.

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8.3.3 In view of the above and the historical trend, the Authority by taking 99,981 MMCF volumes to be handled during the said year, provisionally allows a volume of 887 MMCF GIC-metered for the said year.

Table 24: Detail of Gas Internally Consumed (GIC)

Description	2014-15	2015-16	2016-17	2017-18	2018-19	2021-22	in MMCF	
	FRR	FRR	FRR	FRR	FRR	ERR	As calculated	DERR
Compression-(metered)	674	779	450	592	915	992		
Company Own Use (m)	147	163	162	114	118	149		730
Liquid Handling Facility (metered)	3	4	0	0	0	0		149
Gas Purged (metered)	0	8	7	0	6.6	0		0
Distribution (metered)	2	1	1	7	0	8.3		8
Total	826	955	620	713	1040	1,149		887

8.3.4 In view of the Para 8.3.3 above, the Authority allows Rs. 546 million (at Rs. 638.79/MMBTU) for the said year per the table given below: -

Table 25: GIC Allowed by the Authority

Particulars	Rs. in Million		
	FY 2021-22		
	Total	Transmission	Distribution & Sales
The Petition	677	677	-
As Allowed	546	546	-

9. Transmission and Distribution Cost

i. Summary

9.1 The petitioner has projected transmission and distribution cost (including gas internally consumed) at Rs. 23,849 million projecting an increase of 33% over RERR FY 2020-21 for the said year, as detailed below: -

Table 26: Comparison of Projected T&D Cost with the Previous Years

Particulars	FRR	RERR	Actual	RERR	Actual	The Petition			Rs. in Million	
	FY 2018-19	FY 2019-20		FY 2020-21		FY2021-22	Transmission	Distribution & Sale Activities	Inc/(Dec) over RERR FY 2020-21	
					July 2020 to Mar.2021					%
Salaries, wages, and benefits at benchmark	13,605	15,520	15,527	14,936	10,507	19,812	3,067	16,745	4,876	33
Stores, spares and supplies consumed	702	798	637	798	452	1,408	200	1,208	610	76
License & Tariff Petition Fee to OGRA	(23)	130	58	162	53	283	57	226	121	75
Meter reading by contractors	83	90	91	90	73	130	-	130	40	44
Gas bills collection charges	195	197	179	197	141	238	-	238	41	21
Advertisement	123	112	96	120	54	164	33	131	44	37
Postage & bill delivery by Contractors	228	103	121	113	92	145	3	142	32	28
Professional & Legal Charges	151	146	131	129	64	140	32	108	11	9
Security expenses	620	722	756	746	612	785	439	346	39	5
Electricity	232	230	281	278	185	290	60	230	12	4
Traveling	129	131	110	120	62	121	53	68	1	1
Collecting agent commission	1	3	-	3	-	3	-	3	-	-
Insurance including royalty	107	134	114	134	87	132	73	59	(2)	(2)
Rent, rate & taxes	245	311	202	291	149	280	65	215	(11)	(4)
Material used on consumers installations	18	39	9	39	3	36	-	36	(3)	(8)
Repairs & maintenance	1,839	1,633	2,076	1,567	1,312	1,367	422	945	(200)	(13)
Others	149	149	132	157	95	137	41	96	(20)	(13)
Gas bills stubs processing charges	32	36	27	32	22	33	-	33	1	2
Sub-total Cost	18,434	20,483	20,347	19,912	13,962	25,505	4,546	20,959	5,593	28
Less: Recoveries / Allocations	2,268	2,219	2,098	2,294	1,504	2,333	288	2,046	40	2
Net T&D Cost before GIC	16,166	18,264	18,449	17,619	12,458	23,172	4,258	18,913	5,553	32
Add: Gas consumed internally	583	424	826	380	672	677	677	-	297	78
Net Transmission & Distribution Cost	17,602	18,688	19,275	17,999	13,130	23,849	4,935	18,913	5,850	33

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

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ii. Human Resource (HR) Cost

- 9.2.1 The petitioner has projected HR cost to increase from Rs. 14,936 million per RERR for FY 2020-21 to Rs. 19,812 million for the said year, showing an increase of 33%. The petitioner has explained that Authority allowed Rs. 12,497 million as against Rs. 17,312 million at the time of Motion for Review of DERR for FY 2020-21.
- 9.2.2 The petitioner has explained that the existing basis of HR benchmark figure has been used for the computation of Rs. 19,812 for the said year. Moreover, the petitioner has informed Rs. 2,500 million would also be required/envisaged for the expected Regularization of Third Party service provider/casual workers in pursuance of Court Orders as per table below;

Table 27: HR Cost by the Petitioner

HR Cost Estimates FY 2021-22	
Description	Rs. Million
HR cost maintained at RERR FY 2020-21	17,312
3rd Party / Contract Worker existing cost re-classification from Repair & Maintenance	1,322
Incremental impact of 3rd Party / Contract Workers Induction	1,178
HR Cost Estimates for FY 2021-22	19,812

- 9.2.3 The petitioner has submitted that it has acquired services of approx., 4,500 casual workers through 3rd Party Service Providers and are deployed at various locations in Sindh and Baluchistan. In 2013, third party workers started initiating litigation for regularization of their services, the Supreme Court of Pakistan declined its petitions and maintained the orders of the High Courts. Therefore, approx., 2,500 casual workers have approached the High Courts of Sindh and Baluchistan for regularization of their services. Now the cases are pending for adjudication. The petitioner has informed that it has completed the process of regularization of 355 litigants and the cost effect of these litigants who have been regularized as yet, is approximately to Rs. 207 million per annum.
- 9.2.4 The Authority observes that there is no HR benchmark applicable for the said year. HR benchmark parameters require review in the backdrop of changing business dynamics of the petitioner as well as its sister utility. The Authority has given cautious consideration and made detailed deliberations keeping in view the ground realities and various factors and the same are as under;
- a) Consistent increase on account of HR cost, based on operating parameters viz; sales volume, numbers of consumers and T&D network as well as CPI factor has been allowed by the Authority to meet its legitimate requirement in terms of salaries and employee strength. The petitioner, on the contrary, had utilized the HR benchmark formula to increase the salaries of its employees without considering effective management of manpower. The petitioner had ignored the basic intent of HR benchmark composition and grossly misused it. Therefore, impact on account of additional hiring, if any, be managed within the allowed cost for the said year

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- b) Adjustment on account of actuarial gain or loss on account of re-assessment of terminal benefits has been allowed as part of price since FY 2013-14. Rs. 7,682 million has been allowed over & above the HR benchmark upto FY 2018-19. The Authority observes that compliance of SECP regulations is the petitioner's obligation, where it has no reservation. However, claiming of an adjustment to Other Comprehensive Income, under the cost plus regime is not justified.
- c) The Authority has noticed that unprecedented increase in salaries of executives and staff leaves no rationale for CPI cushion as was earlier being allowed over a decade. The inflationary impact is already accounted for through the regular increase in salaries, as annual increment is enough to absorb the impact of inflation and surge in prices.

9.2.5 In view of the above, the Authority decides to conclude HR benchmark w.e.f 2021-22 as under;

- a) FY 2020-21 shall be taken as base year and the same shall rolled to adopt the base cost for next year.
- b) 33% equal weightage shall be allocated to all operating parameters i.e. T&D network in KM, Number of Consumers and Sales Volume in MMCF.
- c) IAS cost -19 shall be allowed as per actual.
- d) No impact on account of CPI over & above HR benchmark shall be allowed.
- e) Adjustment on account of recognition of actuarial gain or loss shall not be allowed as part of prescribed price. The petitioner continues to charge the same to Other Comprehensive Income in accordance with International Accounting Standards without impacting the natural gas consumers.

9.2.6 The Authority however notes that it has directed the petitioner to undertake and execute previous years leftovers ongoing projects, during the said year per para 5.55. *In view of the same, the Authority, on provisional basis, for the purpose of computation of HR cost decides to adopt the operating parameters based on RERR FY 2020-21 while indexing T&D network (in KM) and number of consumers at 10%. However, the same shall be actualized based on the activities undertaken during the said year. Accordingly, HR cost for the said year is allowed at 16,991 million, out of which Rs. 3,089 million shall be charged to RLNG business segment as per Annexure-C.* The Authority notes with serious concern that the petitioner has not taken seriously its directions made at the time of DERR and RERR for FY 2020-21 for curtailment of HR cost. The Authority reiterates its directions in respect of review of employees' perks & benefits and advises the petitioner to reduce / rationalize HR cost in the light of its direction issued from time to time.

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9.2.7 In view of the same HR cost is allowed as per table below: -

Table 28: HR Allowed by the Authority

Particulars	Rs. in Million		
	FY 2021-22		
	Total	Transmission	Distribution & Sales
The Petition	19,812	3,067	16,745
As Allowed for NG	13,902	2,152	11,750
As Allowed for RLNG business	3,089	-	-

iii. Stores Spares and Supplies Consumed

9.2.8 The petitioner has projected an amount of Rs. 1,408 million projecting significant increase of 76% over RERR of FY 2020-21. The breakup of the same is as under: -

Table 29: Comparison of Projected Stores Spares and Supplies Consumed with Previous years

Particulars	Rs. in Million							
	FRR	RERR	Actual (Un-audited)	RERR	July to March	The Petition	Inc./(Dec.) over RERR FY 2020-21	
	FY 2018-19	FY 2019-20	FY 2020-21	FY 2020-21	FY 2021-22	Rs.	%	
Transmission & Compression and others	177	188	162	188	97	328	140	74
Distribution	381	495	325	495	198	824	329	66
Head Office	49	24	47	24	80	127	103	430
Freight & handling	11	7	15	7	7	21	14	193
Printing & Stationery	20	14	16	14	12	23	9	64
Gas Bills Printing Charges	64	70	71	70	59	86	16	23
Total	702	798	637	798	452	1,408	610	76

9.2.9 The petitioner has explained that the Authority deducted an amount of Rs. 563 million at the time of DERR FY 2020-21. The petitioner has also explained that increase under this head is mainly due to extensive UFG control activities and general inflation as well as projected increase in consumption & prices of chemical products/fuel and lubricants.

9.2.10 The Authority notes that no concrete justification has been provided by the petitioner while projecting gigantic increase of 76%. Petitioner's historical trend in respect of actualization of expenditures does not commensurate with its projections. Actual expenditure upto nine month i.e. July, 2020 to March, 2021 also remained at Rs. 452 million. The Authority has always remained prudent while allowing the expenditures, directly relating to operations of the company in order to ensure smooth and efficient operations. However, continuous increase without concrete justification is not allowable.

9.2.11 *In view of above, the Authority, considering historical trend, generic justification and the company's capacity, decides to fix the above head at the level of RERR FY 2020-21 i.e. Rs. 798 million subject to actualization with prudent justification as per table below: -*

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Table 30: Stores Spares & Supplies Consumed Allowed by the Authority

Particulars	FY 2021-22		
	Total	Transmission	Distribution & Sales
The Petition	1,408	200	1,208
As Allowed	798	113	685

iv. Meter reading by Contractors

- 9.2.12 The petitioner has claimed meter reading by contractors at Rs. 130 million projecting an increase of 44% over RERR for FY 2020-21 for the said year, as shown below:

Table 31: Comparison of Projected Meter Reading by Contractors with the Previous Years

Particulars	FRR	RERR	Actual (Un-audited)	RERR	July to March	The Petition	Inc./Dec. over RERR FY 2020-21	
	FY 2018-19	FY 2019-20		FY 2020-21		FY 2021-22	Rs.	%
Meter reading by Contractors	83	90	91	90	73	130	40	44

- 9.2.13 The petitioner has explained that increase in meter reading by contractor's expense is mainly due to the expected increase in the number of customers and expected revision of rates since existing contract has expired in June, 2021. The petitioner further argued that there is no provision available to further extend to the previous tender.
- 9.2.14 The petitioner has further explained that new contract is expected to be at a higher rate, due to inflation as well as enhancement of scope of work i.e.; snapshots, instant surveys against nil and incentives against identifying irregularities. This will increase work quality & reading accuracies to control UFG. Additional impact has been envisaged at revised rate of Rs. 31 million.
- 9.2.15 The Authority notes that the petitioner has projected 6% increase in number of meter reads from 3,114,000 per DERR for FY 2020-21 to 3,286,000 in the instant petition at Rs. 4.12/meter read. The Authority appreciates petitioner's efforts for enhancement of scope of work of meter readers. It shall not only bring transparency but also reduce consumers billing complaints.
- 9.2.16 *The Authority, considering revision in rates as well as petitioner's efforts, decides to allow Rs. 99 million i.e. 10% increase for inflation over RERR FY 2020-21 for the said year as per table below: -*

Table 32: Meter Reading by Contractors Allowed by the Authority

Particulars	FY 2021-22		
	Total	Transmission	Distribution & Sales
The Petition	130	-	130
As Allowed	99	-	99

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v. Gas Bill Collection Charges

9.2.17 The petitioner has projected gas bill collection charges at Rs. 238 million, thereby projecting an increase of 21% over RERR for FY 2020-21 which is as under;

Table 33: Comparison of Projected Gas Bill Collection Charges with Previous Years

Particulars	Rs. in Million							
	FRR	RERR	Actual (Un-audited)	RERR	July to March	The Petition	Inc./(Dec.) over RERR FY 2020-21	
	FY 2018-19	FY 2019-20		FY 2020-21		FY 2021-22	Rs.	%
Gas Bills collection charges	195	197	179	197	141	238	41	21

9.2.18 The petitioner has submitted that gas bill collection charges was calculated @ Rs. 9/bill in the instant petition. The petitioner has further submitted that an increase in gas bill collection charges has been envisaged due to new connections and increase in processing/collection charges.

9.2.19 The Authority notes that the petitioner has been providing similar justification for the last many years. However, per bill rate has not yet been revised by the State Bank of Pakistan. *In view of the same, the Authority keeps the collection charges at Rs. 8 per bill, and provisionally allows Rs. 212 million on this account for the said year as per table given below: -*

Table 34: Gas Bill Collection Charges Allowed by the Authority

Particulars	Rs. in Million		
	Total	Transmission	Distribution & Sales
The Petition	238	-	238
As Allowed	212	-	212

vi. Advertisement Charges

9.2.20 The petitioner has projected an amount of Rs. 164 million, thereby projecting a significant increase of 37% over RERR of FY 2020-21, the breakup of the same is as under:-

Table 35: Comparison of Projected Advertisement Charges with Previous years

Particulars	FRR	RERR	Actual (Un-audited)	RERR	July to March	The Petition	Inc./(Dec.) over RERR FY 2020-21	
	FY 2018-19	FY 2019-20		FY 2020-21		FY 2021-22	Rs.	%
	Advertisement Charges	123	112	96	120	54	164	44

9.2.21 The petitioner has explained that projected increase is due to adherence to OGRA directives in respect of advertisement for customer awareness campaigns, winter campaigns and tender advertisements. The petitioner has also explained that an upward revision of print media tariff and campaigns against theft also lead the advertising expenses to increase from last two years. Further newly launched SSGC customer connect application will bring convenience to customers with

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one touch solution to their queries during this pandemic situation. Thus an increased budget will ensure more downloads with enhanced services.

9.2.22 The Authority always encourage petitioner's efforts in respect of media campaigns for educating consumers. However, abnormal increase of 37% must commensurate with tangible benefits in respect of reaction in gas theft, energy conservation, etc. The Authority directs that the petitioner should negotiate / bargain reasonable tariff or rates while launching its campaigns at print media as well as digital media especially in national media, so as to have win win situation for all stakeholders. Moreover, other cost effective measures including SMS, emails, signboards during high consumption months, consumer awareness messages on related official websites, and gas bill be used for consumer education.

9.2.23 The Authority further observes that the petitioner has been able to curtail its advertisement expenditure during last two years i.e. Rs. 96 million (FY 2019-20) & Rs. 54 million (July, 2020 to March, 2021). *In view of the same, the Authority decides to fix it at Rs. 123 million at the level of FRR FY 2018-19 for the said year as per table below: -*

Table 36: Advertisement Charges Allowed by the Authority

Particulars	Rs. in Million		
	FY 2021-22		
	Total	Transmission	Distribution & Sales
The Petition	164	33	131
Allowed	123	25	98

vii. *Postage & Bill Delivery by Contractors*

The petitioner has projected postage & bill delivery by contractors for the said year at Rs. 145 million, as shown below:

Table 37: Comparison of Projected Postage & Bill Delivery by Contractors with the Previous Years

Particulars	Rs. in Million						
	FRR	RERR	Actual (Un-audited)	RERR	July to March	The Petition	Inc/(Dec.) over RERR FY 2020-21
	FY 2018-19	FY 2019-20		FY 2020-21		FY 2021-22	Rs. %
Postage & bill delivery	226	103	121	113	92	145	32 28

9.2.24 The petitioner has attributed the increase in postage & bill delivery by contractors to the revision of courier charges and expected enhanced activity. The petitioner has informed that the increase is due to the expected increase in customer base and rate revision.

9.2.25 The Authority notes that increased activity coupled with projected consumer base envisaged during the said year, which does not commensurate to its claim of 28% increase. The Authority directs the petitioner to negotiate reasonable rates with

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the prospective contractor including Pakistan Post Office, considering the tough competition in the market.

- 9.2.26 *In view of above, the Authority, considering anticipated activities, historical trend and general inflation, decides to provisionally allow a 10% increase over RERR for FY 2020-21 and fixes the postage & bill delivery by contractors at Rs. 124 million for the said year as per table below: -*

Table 38: Postage & Bill Delivery Contractors Allowed by the Authority

Particulars	FY 2021-22		
	Total	Transmission	Distribution & Sales
The Petition	145	3	142
As Allowed	124	3	121

viii. Remaining Items of Transmission and Distribution Cost

- 9.2.27 The items of transmission and distribution costs, except those dealt with in sub-para ii to vii of para 9.2 above, are projected by the petitioner at Rs. 3,608 million for the said year, as per table below:

Table 39: Comparison of Remaining Item of Projected T&D Expense with Previous Years

Particulars	FRR	RERR	Actual (Un-audited)	RERR	Actual July 2020 to Mar.2021	The Petition	Inc./Dec. over RERR FY 2020-21	
	FY 2018-19	FY 2019-20		FY 2020-21		FY 2021-22		%
Professional & Legal Charges	151	146	131	129	64	140	11	9
License & Tariff Petition Fee to OGRA	(23)	130	58	162	53	283	121	75
Security Expenses	620	722	756	746	612	785	39	5
Electricity	232	230	281	278	185	290	12	4
Traveling	129	131	110	120	62	121	1	1
Collecting agent Commission	1	3	-	3	-	3	-	-
Insurance & Royalty	107	134	114	134	87	132	(2)	(2)
Rent, Rate & Taxes	245	311	202	291	149	280	(11)	(4)
Material used on Consumers Installations	18	39	9	39	3	36	(3)	(8)
Repair & Maintenance	1,839	1,633	2,076	1,567	1,312	1,368	(200)	(13)
Others	792	149	132	157	95	137	(20)	(13)
Gas bills stubs processing charges	32	36	27	32	22	33	1	3
Remaining T&D Cost	4,143	3,664	3,896	3,658	2,644	3,608	(50)	(1)

- 9.2.28 *The Authority observes that the remaining items of T&D expense have been reasonably projected by the petitioner and, therefore, provisionally accepts the same at Rs. 3,608 million for the said year.*

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9.2.29 In view of the examination in sub-para i to viii of para 9.2 above, the Authority provisionally allows operating cost for the said year at Rs. 17,079 million as against Rs. 23,849 million including GIC claimed by the petitioner, as follows:

Table 40: Summary of T&D Cost Allowed by the Authority

Particulars	Rs. in Million			
	The Petition	As allowed		Total
		Transmission	Distribution & Sale Activities	
HR Cost	19,812	2,152	11,750	13,902
Stores, spares and supplies consumed	1,408	113	685	798
Meter reading by Contractor	130	-	99	99
Postage & bill delivery	145	3	121	124
Gas bills collection charges	238	-	212	212
Advertisement	164	25	98	123
Other Remaining T&D Cost	3,608	1,243	2,365	3,608
Sub-total Cost	25,505	3,536	15,330	18,866
Less: Recoveries / Allocations	2,333	288	2,046	2,333
Net T&D Cost before GIC	23,172	3,248	13,284	16,533
Add: Gas consumed internally	677	546	-	546
Net Transmission & Distribution Cost	23,849	3,794	13,284	17,079

ix. Other Charges

a. Sports Club Expenses and Corporate Social Responsibility(CSR)

9.2.30 The petitioner has claimed Rs. 109 million as against Rs. 145 million allowed per RERR FY 2020-21, as per following breakup:

Table 41: Comparison of Sports Club and CSR with Previous Years

Particulars	Rs. in Million							
	FRR	RERR	Actual (Un-audited)	RERR	July to March	The Petition	Inc/(Dec) over RERR FY 2020-21	
	FY 2018-19	FY 2019-20		FY 2020-21		FY 2021-22	Rs.	%
Sports Club Expenses	76	63	112	55	62	60	5	9
Corporate Social Responsibility	16	60	119	90	7	49	(41)	(46)
Total	92	123	231	145	69	109	(36)	(25)

9.2.31 The petitioner has submitted that sports-related expenses activity needs continuous support from the corporate sector.

9.2.32 The petitioner has further explained that CSR intends to broaden its education projects through special education and skill based training accessible for as many under privileged communities as possible. The petitioner has further explained that they are actively playing their role by supporting NGOs, adopting govt. schools, constructing vocational/computer labs in schools and by assisting annual operational expenses of various training institutes. Moreover, an increase in scholarship grants is planned by granting scholarships through reputable educational institutions/Universities of Sindh and Baluchistan. The petitioner has also explained that under health head long-term partnership and association are

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also under process for continuation of provision of life saving facilities to the remote areas of Sindh and Baluchistan.

9.2.33 The Authority appreciates the initiatives of the Company to encourage sports activities being responsible entity. *The Authority, per the criteria set in tariff regime for natural gas sector, decides to allow the same i.e. Rs. 109 million for the said year.* The petitioner is advised to incur the same in the light of parameters set in tariff regime for CSR activities and shall submit a certificate to this effect at the time of FRR. Any further spending by company for activities falling outside tariff regime, will be met from its own profit in the larger national interest.

9.2.34 *In view of the above, the Authority decides to provisionally allow Rs. 109 million on account of Sports Club Expenses and CSR for the said year, as per table given below: -*

Table 42: Sports Club Expense & CSR as Allowed by the Authority

Particulars	FY 2020-21		
	Total	Transmission	Distribution & Sales
The Petition	109	22	87
As Allowed	109	22	87

b. Others / Auditor's fees:

9.2.35 The petitioner has explained that projected increase in estimated actual expenses under this head is due to taxation services currently being obtained, but will be going on open tendering in compliance of PPRA.

9.2.36 *In view of the above, the Authority decides to allow Rs. 25 million for the said year, as per table given below: -*

Table 43: Others / Auditor's fees Allowed by the Authority

Particulars	FY 2021-22		
	Total	Transmission	Distribution & Sales
The Petition	25	5	20
As Allowed	25	5	20

c. Provision for Doubtful Debts

9.2.37 The petitioner has projected under this head "Provision for doubtful debts" for the said year at Rs. 1,612 million as against Rs. 1,118 million over RERR FY 2020-21 thereby projecting an increase of 44%. The historical trend is as under;

Table 44: Comparison of Provision for Doubtful Debts with Previous Years

Particulars	Rs. in Million						
	FRR	Actual	RERR	July to	The Petition	Inc./ (Dec.) over RERR	
	FY 2018-19	(Un-audited) FY 2019-20	FY 2020-21	March	FY 2021-22	Rs.	%
Provision for Doubtful Debts	552	1,399	1,118	-	1,612	494	44
Total	552	1,399	1,118	-	1,612	494	44

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- 9.2.38 The petitioner confirmed that provision for doubtful debts of Rs. 1,612 million based on OGRA's direction excluding Expected Credit Loss (ECL, IAS-9) for the said year. The petitioner has explained that significant additional provisioning against overdue receivable balances from live consumers is required as per ECL method, whether OGRA is allowing provisioning only disconnected customers.
- 9.2.39 The petitioner has been repeatedly advised by the Authority to increase internal control systems, management practices and recoveries. Unfortunately, the above table shows a dismal situation, whereby instead of increasing recoveries, doubtful debts are being increased which does not reflect good corporate governance measures being taken by the petitioner. *In view thereof, the Authority is constrained to disallow the claimed amount on this account until the petitioner demonstrates and physically achieve efficiency in terms of reduction in litigation cases and bad debts.*
- 9.2.40 *Consequent upon the deduction / adjustments in various components of revenue requirement as discussed above, the Authority allows other charges at Rs. 134 million as against Rs. 1,746 million for the said year per table below:*

Table 45: Others Charges Allowed by the Authority

Particulars	Rs. In Million		
	FY 2021-22		Distribution & Sales
	Total	Transmission	
The Petition	1,746	27	1,719
As Allowed	134	27	107

10. Determinations

- 10.1 In exercise of its powers under Section 8(1) of the Ordinance and NGT Rules, the estimated revenue requirement for the said year is allowed at Rs. 253,708 million (as tabulated below):

Table 46: Components of ERR for the said year as Allowed

S.No	Particulars	Rs. in million	
		Claimed by the Petitioner	As allowed
1	Cost of gas sold	224,152	234,360
2	UFG adjustment	-	(12,303)
3	Transmission and distribution cost	23,172	16,533
4	Gas internally consumed	677	546
5	Depreciation	7,704	7,009
6	UFG adjustment on RLNG volume handled basis (ring fence)	(10,192)	-
7	Other charges including WPPF	1,746	134
8	Return on net average operating fixed assets	8,456	6,487
9	Additional revenue requirement for Air-Mix LPG Projects	944	942
	Total Estimated Revenue Requirement	256,658	253,708

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- 10.2 The petitioner's total operating income is estimated at Rs. 236,344 million as against the revenue requirement of Rs. 253,708 million and thus there is a shortfall of Rs. 17,364 million in its estimated revenue requirement for the said year. *In order to adjust this shortfall, the Authority hereby makes, on a provisional basis, upward revision of Rs. 54.47 /MMBTU, thereby determining the petitioners' average prescribed price at Rs. 779.88/MMBTU for the said year (Annexure-A).*
- 10.3 The Authority observes that FG in the past had advised insufficient revisions to OGRA in respect of natural gas sale prices and resultantly the petitioner remained unable to meet the shortfall as determined by OGRA in the respective revenue requirements. Accordingly, the backlog is persistently piling up. The Authority is of the view that FG needs to devise an appropriate policy decision in respect of previous years' shortfall, as accumulating in respect of the petitioner as well as its sister utility.
- 10.4 The Authority considers it important and essential to impress upon the petitioner that this provisional determination of estimated revenue requirement for the said year presupposes that the petitioner would, in any case, faithfully and with responsibility conduct its affairs in full compliance of the requirement of the Ordinance, Rule 17(1)(h) & Rule 17(1)(j) of the NGT Rules and terms & conditions of its license.
- 10.5 The revised provisional prescribed prices are subject to the condition that these "may be re-adjusted upon receipt of Federal Government advice under Section 8 (3) of the Ordinance in respect of the sale price of gas for each category of retail consumers provided that the overall increase in the average prescribed price remains unchanged so that the petitioner is able to achieve its total revenue requirements in accordance with Section 8 (6) (f) of the Ordinance."
- 10.6 Under Section 8 (3) of the Ordinance, the FG is required to advise the Authority, within 40 days of advice from the Authority of revision of prescribed prices, the minimum charges and the sale price for each category of retail consumers, for notification in the Official Gazette by the Authority. *The Authority, as a matter of principle under the legal domain, is of the view that all the classes of consumers should at least pay the average cost of service or the average prescribed price except wherever FG policy guidelines have been provided, which shall be implemented accordingly.*
- 10.7 In view of the above, FG may take necessary action under Section 8 (3) of the Ordinance and advise the Authority of the revised sale price for each category of retail consumers of natural gas for notification in the Official Gazette within the stipulated time period.

11. Directions

- 11.1 In addition to the directions issued by the Authority in its previous determinations, the petitioner is further directed to :-
- 11.1.1 *submit a review petition to the Authority latest by October 15, 2021, for review of its estimated revenue requirements as required under Section 8(2) of the Ordinance, keeping in view the actual and anticipated changes in international prices of crude and HSFO during the period June to November 2021 and the trend of Rupee-Dollar exchange rate.*
- 11.1.2 *ensure ring fencing of RLNG related capital and revenue cost as a separate segment.*

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- 11.1.3 *expedite the recovery from defaulting consumers and curtail ever-increasing expenses under the provision for doubtful debt, litigation cases and cost relating thereto.*
- 11.1.4 *all the relevant contentions of the intervener as summarized in chapter 3 of this order be carefully noted and complied/addressed in letter & spirit under the ambit of the regulatory framework.*
- 11.1.5 *undertake and execute previous years leftovers ongoing projects, during the said year.*
- 11.1.6 *review the employees' perks & benefits and advises the petitioner to reduce / rationalize HR cost.*
- 11.1.7 *all new development projects should be undertaken in accordance with the directions under para 5.55.*
- 11.1.8 *ensure prudence in undertaking all jobs in an effective manner so as to cover all area of operation while maintaining excellent level of workmanship, good corporate governance prudent management practices and in compliance with PPRA rules.*
- 11.1.9 *ensure prudence and ring-fencing of all capital and revenue expenditures, including all cost allocations in respect of each Air-mix LPG, CNG, or LNG based pipeline distribution projects.*
- 11.1.10 *take cognizance by the Board of Directors for implementation and adherence of Authority's directions in true letter and spirit.*
- 11.1.11 *address/attend to the problems being faced by its consumers, as highlighted in the public hearings, with the objective of resolving the same within the stipulated timelines. Further, if required, put forward plans/solutions for Authority approval regarding the improvement in the quality of the service to the consumers.*
- 11.1.12 *implement all decisions of the Authority / Designated Officer (D.O) on complaint cases without any delay, so as to provide relief to the people, particularly domestic consumers of Baluchistan province under the Ordinance, Complaint Resolution Procedure regulations, (CRPR), 2003 and the Procedure to deal with theft of gas cases.*
- 11.1.13 *proceed effectively and rigorously under the GTR Act, 2016 against gas pilferers/ non-consumers to effectively reduce the overall UFG in its franchised area.*

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12. Public Critique, Views, Concerns, Suggestions

- 12.1 The Authority has recorded critique, views, concerns, and suggestions of the interveners and participants given above. The Authority, keeping in view the vehemently requests by the interveners, considers it important to draw specific attention of the FG regarding policy issues as included in chapter 3 above for due consideration.

Zainul Abideen Qureshi,
Member (Oil)

Muhammad Arif,
Member (Gas)

Masroor Khan,
Chairman

Islamabad, August 17, 2021.

REGISTRAR
Oil & Gas Regulatory Authority,
Islamabad



A: Computation of Estimated Revenue Requirement for the Said Year

Rs. in Million

Particulars	The Petition	The Adjustment	As Calculated
Gas sales volume -MMCF			
BBTU	325,289		325,289
"A" Net Operating Revenues	318,783		318,783
Net sales at current prescribed price			
Meter rentals	248,201	(16,951)	231,250
Amortization of deferred credit	1,672	-	1,672
Sale of condensate	596	-	596
Late payment surcharge	(5)	-	(5)
Meter manufacturing profit	1,026	-	1,026
Other operating income	30	-	30
Total Operating Revenue "A"	253,263	(16,919)	236,344
"B" Less: Operating Expenses			
Cost of gas			
UFG Adjustment	224,152	10,208	234,360
UFG adjustment on RLNG volume handled basis (ring fence)	-	(12,303)	(12,303)
Transmission and distribution cost	(10,192)	10,192	-
Gas internally consumed	23,172	(6,639)	16,533
Depreciation	677	(131)	546
Other charges	7,704	(695)	7,009
Total Operating Expenses "B"	1,746	(1,612)	134
"C" Operating profit / (loss) (A-B)	247,259	(979)	246,279
Return required on net operating fixed assets:	6,005	(15,940)	(9,935)
Net operating fixed assets at beginning	47,944	124	48,068
Net operating fixed assets at ending	68,861	(20,948)	45,997
Average net operating assets (I)	116,804	(22,740)	94,064
	58,402	(11,370)	47,032
Net LPG air mix project asset at beginning	2,538	-	2,538
Net LPG air mix project asset at ending	2,457	-	2,457
Average net LPG air-mix assets (II)	4,995	-	4,995
	2,497	-	2,497
Net MMP at beginning	236	-	236
Net MMP at ending	255	-	255
Average net MMP assets (III)	491	-	491
	245	-	245
Net LHF (condensate) at beginning	7	-	7
Net LHF (condensate) at ending	7	-	7
Average net LHF assets (IV)	15	-	15
	7	-	7
Deferred credit at beginning - Assets related to Natural Gas Activity	5,258	13	5,271
Deferred credit at ending - Assets related to Natural Gas Activity	5,389	-	5,389
Average net deferred credit (V)	10,647	13	10,660
	5,323	6	5,330
"D" Average (I-II-III-IV-V)	50,455	(11,376)	39,079
Rate of Return	16.76%		16.60%
"E" Return required	8,456	(1,969)	6,487
"F" Shortfall / (Surplus) in return required (E-C) (Gas Operations)	2,452	13,971	16,422
"G" Additional revenue requirement for Air-Mix LPG Projects	944	(2)	942
"H" Shortfall / (Surplus) H=(F+G)	3,395	13,969	17,364
"I" Increase / (decrease) in average prescribed price FY 2021-22 (Rs. / MMBTU)	10.65	43.82	54.47
"J" Total estimated revenue requirement	256,658	(2,950)	253,708
"K" Average Prescribed Price for FY 2021 22 (Rs./MMBTU)	789.24	(9.35)	779.88

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B: Prescribed Price for the Said Year

Particulars	Rs./MMBTU
	Average Prescribed Price FY 2021-22
(i) Domestic Consumers:	Rs./MMBTU
a) Standalone meters	
b) Mosques, churches, temples, madrassas, other Religious Places and Hostels attached thereto;	
Upto 0.5 hm ³ per month	
Upto 1 hm ³ per month	779.88
Upto 2 hm ³ per month	779.88
Upto 3 hm ³ per month	779.88
Upto 4 hm ³ per month	779.88
Above 4 hm ³ per month	779.88
The billing mechanism will be revised so that the benefit of one previous/preceding slsb is available to domestic consumer (residential use).	779.88
c) Government and semi-Government offices, Hospitals, clinics, maternity homes, Government Guest Houses, Armed Forces messes, Langars, Universities, Colleges, Schools and Private Educational Institutions, Orphanages and other Charitable Institutions along-with Hostels and Residential Colonies to whom gas is supplied through bulk meters including captive power.	
All off-takes at flat rate of	779.88
(ii) Special Commercial Consumers (Roti Tandoors):	
Upto 0.5 hm ³ per month	
Upto 1 hm ³ per month	779.88
Upto 2 hm ³ per month	779.88
Upto 3 hm ³ per month	779.88
Above 3 hm ³ per month	779.88
(iii) Commercial:	
All establishments registered as commercial units with local authorities or dealing in consumer items for direct commercial sale like cafes, bakeries, milk shops, tea stalls, canteens, barber shops, laundries, hotels, malls, places of entertainment like cinemas, clubs, theaters and private offices, corporate firms, etc.	
All off-takes at flat rate of	779.88
(iv) Ice Factories:	
All off-takes at flat rate of	779.88
(v) General Industrial:	
All consumers engaged in the processing of industrial raw material into value added finished products irrespective of the volume of gas consumed but excluding such industries for which a separate rate has been prescribed.	
All off-takes at flat rate of	779.88
(vi) Export Oriented (General Industry):	
All off-takes at flat rate of	779.88
(vii) Export Oriented (Captive):	
All off-takes at flat rate of	779.88
(viii) CNG-Region-I:	
All off-takes at flat rate of	779.88
(ix) CNG-Region-II:	
All off-takes at flat rate of	779.88
(x) Cement Factories:	
All off-takes at flat rate of	779.88
(xi) Captive Power:	
Captive Power Plant/Unit means an industrial understanding/unit carrying out the activity of power production (with or without co-generation) for self-consumption and/or for sale or surplus power to a Distribution Company or bulk-power consumer.	
All off-takes at flat rate of	779.88
(xii) Fauji Fertilizer Bito Qasim Limited:	
(i) For gas used as feed-stock for Fertilizer	
All off-takes at flat rate of	779.88
(ii) For gas used as fuel for generating steam and electricity and for usage of housing colonies.	
All off-takes at flat rate of	779.88
(xiii) Power Stations:	
All off-takes at flat rate of	779.88
(xiv) Pakistan Steel:	
All off-takes at flat rate of	779.88
(xv) Independent Power Producers:	
All off-takes at flat rate of	779.88

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C: HR Benchmark for FY 2021-22

Rs. in Million

Particulars	Base Year FY 2020-21	2021-22		
	Total	NG	RLNG	Total
Base Cost	14,936		-	14,936
T & D network (Km)	52,991		-	58,290
Number of Consumers (No.)	3,336,151	3,639,389	30,377	3,669,766
Sales Volume (MMCF)	836,034	325,289	511,049	836,338
Unit Rate (Rs./unit)				
T&D network (Rs./Km)	281,859			281,859
No. of Consumers (Rs./Consumer)	4,477			4,477
Sale Volume (Rs./MMCF)	17,865			17,865
HR Cost Build-up (Million Rs)				
33% T & D network (Km)	4,979	5,477	-	5,477
33% Number of Consumers (No.)	4,979	5,431	45	5,477
33% Sales Volume (MMCF)	4,979	1,937	3,043	4,980
HR Benchmark Cost	14,936	12,845	3,089	15,934
IAS 19		-	-	1,057
Total HR Benchmark Cost incl. IAS-19		-	-	16,991
Cost Allocated to RLNG segment				(3,089)
Total HR Cost charged to Indigenous				13,902

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D: Asset-wise Depreciation Schedule

DESCRIPTION OF ITEMS	CATEGORY	Life (Years)	RATE
BUILDING ON FREEHOLD LAND		20	5%
BUILDING ON LEASEHOLD LAND		20	5%
COMPRESSORS STATION EQUIPMENT		17	6%
	COMP. STATION	17	6%
	COMP. STATION EQUIPMENT	17	6%
	COMP. REFURBISHED	8	12.5%
COMPUTER HARDWARE			
	COMPUTER SERVER MACHINE	6.67	15%
	INDUTRIAL PRINTER	6.67	15%
	ROUTERS/SWITCHES	6.67	15%
	STORAGE AREA NETWORK	6.67	15%
	LASER PRINTER	4	25%
	DESKTOP COMPUTER	4	25%
	HHU	4	25%
	NETWORK PRINTER	3	33%
	SCANNER	3	33%
	LAPTOP	3	33%
	TABLET	3	33%
	THINCLIENT	3	33%
COMPUTER SYSTEM SOFTWARE		3	33%
CONSTRUCTION EQUIPMENTS		5	20%
DISTRIBUTION MAINS SERVICES & REGULATORS & RELATED DISTRB. SYS.			
	COMBING MAINS/SUPPLY MAINS	20	5%
	DISTRIBUTION SYSTEM	20	5%
	SERVICE LINES	20	5%
FURNITURE & FIXTURES		5	20%
MEASURING AND REGULATING STATION EQUIP (TBS. DRS)			
	FEDERAL MAINS/DRS/TBS	20	5%
	CMS	20	5%
MOTOR VEHICLES		5	20%
OFFICE EQUIPMENT/SECURITY EQUIPMENT		5	20%
PLANT AND MACHINERY			
	AIR CONDITIONING PLANT	10	10%
	CATHODIC PROTECTION EQUIP.	10	10%
	GAS APPLIANCES	10	10%
	ELECTRICAL EQUIPMENT	10	10%
	FIRE FIGHTING EQUIPMENT	10	10%
	METERING EQUIPMENT	10	10%
	POWER STATION EQUIPMENT	10	10%
	SUNDRY EQUIPMENT	10	10%
	WORKSHOP PLANT & EQUIPMENT	10	10%
	ELECTRIC APPLIANCES	10	10%
	SURVEYS INSTRUMENT & EQUIPMEN	10	10%
	UPS FOR PCs	10	10%
SCADA SYSTEMS		6.67	15%
TELECOMMUNICATION EQUIPMENT			
	CHANNELLING EQUIPMENT	6.67	15%
	H.F. EQUIPMENT	6.67	15%
	MOBILE RADIO EQUIPMENT	6.67	15%
	RADIO RELAY EQUIPMENT	6.67	15%
	TELECOM EQUIP.	6.67	15%
	TELEMETRY EQUIPMENT	6.67	15%
	TELEPHONE EXCHANGES&INSTRUM	6.67	15%
	TEST GEAR AND TOOLS	6.67	15%
	TOWERS & AERIALS	6.67	15%
TOOLS AND EQUIPMENT		3.03	33%
TRANSMISSION MAINS			
	SALES METER STATIONS	40	2.5%
	TRANSMISSION PIPELINE	40	2.5%
	CATHODIC PROTECTION SYSTEM	40	2.5%

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