Case No. OGRA-6(2)-1(3)/2021-RERR

IN THE MATTER OF
SUI NORTHERN GAS PIPELINES LIMITED
REVIEW OF ESTIMATED REVENUE REQUIREMENT, FY 2021-22

UNDER

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

DECISION ON

01 MAR 2022

Before:
Mr. Masroor Khan, Chairman
Mr. Muhammad Arif, Member (Gas)
Mr. Zain-ul-Abideen Qureshi, Member (Oil)

Table of Contents

ANNEXURES:

1. Background

1.1. Sui Northern Gas Pipelines Limited (the petitioner) is a public limited company, incorporated in Pakistan, and listed on the stock exchanges at Karachi, Lahore and Islamabad. The petitioner is operating in the provinces of Punjab, Khyber Pakhtunkhwa (KPK) and Azad Jammu & Kashmir (AJ&K) under the license granted by Oil & Gas Regulatory Authority. However, petitioner's exclusive right to operate in the franchised areas had ended on 30th June, 2010.

1.2. The petitioner is engaged in the business of construction and operation of gas transmission and distribution pipelines and sale of natural gas and other by-products under the umbrella of above said license. Moreover, in pursuance of Federal Government (FG/GoP) decision, the petitioner is engaged in transportation and sale of RLNG.

1.3. The Authority, under Section 8(1) of the OGRA Ordinance, 2002 (the Ordinance) determined the Estimated Revenue Requirement (DERR) of the petitioner for FY 2021-22 (the said year) vide its Order dated August 17, 2021 at Rs. 236,749 million. Based on the available revenues, the resultant deficit to the tune of Rs. 27,561 million was determined translating into increase of Rs. 86.93 per MMBTU in the average prescribed price w.e.f. July 01, 2021. Impact of previous years' shortfall amounting to Rs. 219,892 million was not included in the above said price and the matter was referred to FG for an appropriate policy decision.

1.4. Being aggrieved with aforementioned determination, the petitioner has submitted Motion for Review on September 15, 2021 under Rule 16 of Natural Gas Tariff Rules, 2002 (NGT Rules) seeking average prescribed price at Rs. 845.35/MMBTU.

2. The Petition

2.1. Subsequent to the above motion for review, the petitioner has submitted its review petition (the Petition) under Section 8(2) of the Ordinance on October 15, 2021, incorporating in the ERR the effect of changes in the projected cost of gas, latest international oil prices, Rupee US$ parity, revised projection of gas purchases and sales volume. Further, the petitioner has requested that the issues raised including capital and revenue budget claimed vide motion for review as referred in para 1.4 above, be made part of the instant review petition.

2.2. The petitioner has revised its shortfall at Rs. 92,617 million and requested the Authority to increase its prescribed price Rs. 269.03/MMBTU for the said year, including Rs. 163 million against LPG air-mix projects. The petitioner has also requested to include Rs. 219,892 million, being previous years' accumulated shortfall upto RERR FY 2020-21 as part of instant petition, requesting the Authority to allow aggregate increase in prescribed price Rs. 1,484.07/MMBTU for the said year.

2.3. Besides above, the petitioner sated that due to depletion of gas reserve coupled with increase in number of domestic consumers and demand, RLNG volume equivalent to 33,943 BBTU has been projected to be diverted and sold to system gas consumers at system gas price during the said year. Accordingly, partial amount Rs. 14,599 million has been booked at average sale price of domestic and commercial consumers and balance has been claimed as part of RLNG cost of service.

2.4. Moreover, the petitioner has claimed RLNG cost of service at Rs. 38,661 million i.e. Rs. 119.42/MMBTU being ring-fenced to be recoverable from RLNG consumers. Further, the petitioner has claimed adjustment of Rs. 57,768 million against RLNG volume diversion to

28

domestic consumers and requested to allow additional Rs. 181.53/MMBTU resulting an aggregate cost of RLNG Rs. 300.94/MMBTU for the said year.

2.5. The details of the main items claimed in the petition are as under:

- *i.* Operating fixed assets
- *ii.* Additional Revenue Requirement of LPG Air mix Plant, Gilgit
- *iii.* Change in depreciation rates
- *iv.* Cost of supply of RLNG
- *v.* Calculation of UFG disallowance at WACOG instead of Cost of Gas
- *vi.* Human Resource Benchmark cost
- *vii.* Other Transmission & Distribution expenses

2.6. The petitioner 's submission is summarized in the following statement of cost of service per MMBTU:

Table 1: Comparison of Projected Cost of Service per the Petition

Particulars	Rs/MMBTU FY 2021-22 The petition
Volume (BBTU)	**344,268**
Cost of gas	571.35
UFG adjustment	(8.34)
Operating Cost	112.81
Depriciation	56.03
Late Payment surcharge & short term borrowing	103.92
Return on Assets	59.78
Add; revenue requirement for LPG air mix	0.47
Other Operating Income	(50.69)
Cumulative Previous Year Shortfall	**638.72**
Prescribed prices for 2021-22	**1,484.07**
Average Prescribed prices for 2021-22	576.32
Aggregate increase in prescribed price	**907.75**

2.7. The Authority admitted the petition under Rule 5 of NGT Rules, as a prima facie case for evaluation and consideration by the Authority.

2.8. A notice inviting interventions/comments on the petition from all stakeholders was published in the local newspapers. Public hearing notice was published in the national press on November 23, 2021. In response to public notices, the Authority received intervention request from All Pakistan Textile Processing Mills Association (APTPMA). The Authority accepted the same for intervention.

3. Proceedings and Public Interventions

3.1. Public hearing was held on December 01, 2021 at Lahore. The following interveners/participants presented their views / comments / suggestions:

Petitioner (List Attached):

i. The petitioner team led by Syed Ali Javed Hamdani, Managing Director (MD)

Interveners/Participants (List attached)

i. Sheikh Muhammad Ayub, Ex-Chairman, All Pakistan Textile Processing Mills Association
ii. Mr. Mahboob Elahi, Consultant, Energy & Resources Affairs

3.2. Managing Director at the outset of the public hearing expressed his gratitude to the Authority for providing an opportunity for hearing. The submissions were explained with the help of multimedia presentation explaining the basis of its petition. The main points contended by the petitioner are summarized below:

3.2.1. The petitioner stated that the petition has been filed, in line with past practice, on revised conditions and assumptions (latest crude oil price and exchange rate trend etc.) for establishing cost of gas and incorporated actual figures of sales volume and purchases for the month of July-August, 2021.

3.2.2. It was argued that HR benchmark parameters were revised and implemented without any consultative process with the petitioner. It was suggested that more weightage should be given to number of consumers and network expansion than sales volume since gas sales volume is declining due to depletion of indigenous gas reserves. Moreover, it was requested to allow impact of CPI in the light of previous practice along-with additional impact of CBA to the tune of Rs. 4,687 million as part of HR cost. It was requested to recalculate the HR Benchmark in consultation with sui gas companies as reduction in weightage of sales volume is affecting HR benchmark determination. It was also argued that impact of re-assessment on account of actuarial gains or losses on terminal benefits be allowed over and above HR benchmark formula as per the consistent regulatory practice in the past since the same is a statutory requirement arising out of implementation of International Accounting Standard IAS-19.

3.2.3. It was requested that assets depreciation schedule allowed in DERR for the said year needs to be reconsidered as economic useful lives of regulated assets viz; consumer metering stations, CP systems and UPS for PCs can't be forty years.

3.2.4. It was also requested to compute petitioner's RLNG cost of service on actual throughput volume instead of designed capacity so that entire cost be recovered by it.

3.2.5. It was further requested to adjust RLNG withheld stock sold to SSGC as well as RLNG molecules diverted to domestic and commercial consumers from input RLNG volume while computing per unit cost of supply.

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

3.3.1. APTAMA's representative criticized the petitioner for demanding increase in average prescribed prices on the basis of increase in international oil prices as prices have now shown a declining trend.

3.3.2. It was urged that only rational gas pricing can revive the textile industry.

3.3.3. It was criticized that the petitioner is requesting additional budget for supply of 10 MMCFD RLNG to Bhalwal Industrial City (Special Economic Zone) despite the fact that gas with low pressure is being supplied to existing industrial consumers.

3.3.4. It was requested to reject the petition on the basis of dismal performance on account of UFG curtailment by the petitioner.

3.3.5. Following suggestions have been made by Senior Energy Expert:

1) The questions arising in the tariff petitions should be made public for awareness of masses.
2) Financial viability of the petitioner must be considered while making decisions by the regulator.
3) Subsidies and cross subsidies should be avoided.
4) Differential margin of the petitioner should be taken care of, to resolve long standing circular debt issues.
5) RLNG cost of service is to be dealt under OGRA Ordinance as WACOG.UFG sheet of the petitioner must be classified according to Regions. This would help the Authority to evaluate the performance of the petitioner on regional basis.
6) It was emphasized that third party shipper be encouraged to implement the TPA rules in true letter and spirit.

4. Authority's Jurisdiction, Determination Process

4.1. The Authority examined, in depth, all applications and petitions in light of relevant legal provisions. The instant petition has been filed under section 8(2) of the Ordinance. The instant petition is primarily focused on review of cost of gas of the petitioner based on actual changes in the wellhead gas prices and relevant factors. The wellhead gas prices for the said year are based on the actual prices of crude oil and HSFO during the period December, 2020 to November, 2021. The actual trend in rupee vs US$ rates in recent months is to be taken into account, along-with actual prices in the previous months, while determining cost of gas to ensure that the determination is rational and fair to all stakeholders.

4.2. The operating revenues, operating expenses and changes in asset base are scrutinized keeping in view the justification and provisions of the law. Appropriate benchmarks are set in to control inefficiencies. Accordingly, the decision is always based on the logic and rationale striking a balance among stakeholders. ***Further, FG's attention is specifically drawn to the pleas relating to policy matters for consideration, before deciding the retail prices for various categories of consumers.*** The Authority further, wherever necessary, issues directions to the petitioner to streamline/resolve the matters under the regulatory and legal framework.

4.3. FG in response to OGRA's determination under Section 8(3) of the Ordinance fixes the consumer sale prices and minimum charges, keeping in view economic indicators, policy considerations in terms of uniform pricing across the country, Gas Development Surcharge and the inter category subsidies and 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 of the petitioner & mainly its sister utility. 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 an appropriate policy decision.*** 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. so that no such situation of unmet revenue requirement arises.

4.4. ***Moreover, the Authority, as per prevalent tariff regime, computes rate of return at 16.60% on the average net operating fixed assets while treating various income and expenditure heads decided therein.***

5. Operating Fixed Asset

5.1. The Authority against the petition at the time of DERR FY 2021-22 had allowed addition in operating fixed assets as per following details;

Table 2: Addition in Operating Fixed Assets per the Petition

Rs. in Million

Sr. No.	Particulars	Petition FY 2021-22											
		Distribution			Transmission			Sales			Total		
		Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total
1	Land freehold				3	0	3				3	0	3
2	Building on Freehold land	270	0	270	30	0	30				300	0	300
3	Transmission Mains	0			1821	97	1918				1821	97	1918
4	Compression				576	0	576				576	0	576
5	Distribution Mains	67394	1960	69354							67394	1960	69354
6	Measuring and Regulating	15426	261	15687							15426	261	15687
	Sub Total	83090	2221	85311	2429	97	2526	0	0	0	85519	2318	87837
7	Telecommunication Equipment	44		44							44	0	44
8	Plant & Machinery	733		733	589		589				1322	0	1322
9	Tools & Equipment	42		42	1		1				42	0	42
10	Construction Equipment	546		546	5		5				551	0	551
11	Motor Vehicles	224		224							224	0	224
12	Furniture & Fixture	74		74							74	0	74
13	Office Equipment	41		41							41	0	41
14	Computer Hardware	27		27				394		394	420	0	420
15	Computer System Software / Intangible Assets	96		96				9		9	106	0	106
16	SCADA System	1		1							1	0	1
	Sub Total	1828	0	1828	595	0	595	403	0	403	2825	0	2825
	Grand Total	84918	2221	87139	3024	97	3121	403	0	403	88344	2318	90662

Sr. No.	Particulars	Determined FY 2021-22											
		Distribution			Transmission			Sales			Total		
		Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total
1	Land freehold				3	0	3				3	0	3
2	Building on Freehold land	11	0	11	16	0	16				28	0	28
3	Transmission Mains				292	97	389				292	97	389
4	Compression				43		43				43	0	43
5	Distribution Mains	2026	1960	3986							2026	1960	3986
6	Measuring and Regulating	3240	261	3501							3240	261	3501
	Sub Total	5277	2221	7498	354	97	451				5631	2318	7949
7	Telecommunication Equipment	44		44							44	0	44
8	Plant & Machinery	266		266	217		217	0	0	0	483	0	483
9	Tools & Equipment	41.40		41	1		1				41.40	0	42
10	Construction Equipment	329		329	3		3				332	0	332
11	Motor Vehicles	18		18							18	0	18
12	Furniture & Fixture	48		48							48	0	48
13	Office Equipment	21		21							21	0	21
14	Computer Hardware	13		13				308		308	321	0	321
15	Computer System Software / Intangible Assets	96		96				9		9	106	0	106
16	SCADA System	1		1							1	0	1
	Sub Total	378		378	221		221	318		318	1416	0	1416
	Grand Total	6155	2221	8376	574	97	671	318	0	318	7047	2318	9365

5.2. Now the petitioner has claimed reinstatements of following assets in Motion for Review against DERR for the said year;

Table 3: Reinstatements of Assets per the Petition

Rs. in Million

Sr. No.	Particulars	Reinstatement												Additions											
		Distribution			Transmission			Sales			Total			Distribution			Transmission			Sales			Total		
		Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total
1	Land freehold				0	0	0				0	0	0				0	0	0				0	0	0
2	Building on Freehold land		0	0		0	0				0	0	0	0	0	0	0	0	0				0	0	0
3	Transmission Mains	0			643	0	643				643	0	643				0	491	491				0	491	491
4	Compression				0	0	0				0	0	0				0		0				0	0	0
5	Distribution Mains	27333		27333							27333	0	27333	127	2400	2527							127	2400	2527
6	Measuring and Regulating	5901		5901							5901	0	5901		55	55							0	55	55
	Sub Total	**33234**	**0**	**33234**	**643**	**0**	**643**	**0**	**0**	**0**	**33877**	**0**	**33877**	**127**	**2455**	**2582**	**0**	**491**	**491**				**127**	**2946**	**3073**
7	Telecommunication Equipment	0		0							0	0	0	0		0							0	0	0
8	Plant & Machinery	0		0	0		0				0	0	0	0		0	0		0	0	0	0	0	0	0
9	Tools & Equipment	0		0	0		0				0	0	0	0.00		0	0		0				0.00	0	0
10	Construction Equipment	0		0	0		0				0	0	0	0		0	0		0				0	0	0
11	Motor Vehicles	200		200							200	0	200	0		0							0	0	0
12	Furniture & Fixture	0		0							0	0	0	0		0							0	0	0
13	Office Equipment	0		0							0	0	0	0		0							0	0	0
14	Computer Hardware	0		0				0		0	0	0	0	0		0				0		0	0	0	0
15	Computer System Software / Intangible Assets	0		0				0		0	0	0	0	0		0				0		0	0	0	0
16	SCADA System	0		0							0	0	0	0		0							0	0	0
	Sub Total	**200**	**0**	**200**	**0**	**0**	**0**	**0**	**0**	**0**	**200**	**0**	**200**	**0**		**0**	**0**		**0**	**0**		**0**	**0**	**0**	**0**
	Grand Total	**33434**	**0**	**33434**	**643**	**0**	**643**	**0**	**0**	**0**	**34077**	**0**	**34077**	**127**	**2455**	**2582**	**0**	**491**	**491**	**0**	**0**	**0**	**127**	**2946**	**3073**
17	Karak Regional Office	49		49	0	0	0	0	0	0	49	0	49	0	0	0	0	0	0	0	0	0	0	0	0
18	Establishment of sub-region at Pabbi	0		0	0	0	0	0	0	0	0	0	0	46	0	46	0	0	0	0	0	0	46	0	46
19	Establishment of CSC Jehangira	0		0	0	0	0	0	0	0	0	0	0	10	0	10	0	0	0	0	0	0	10	0	10
20	GIS Mapping project	0		0	0	0	0	0	0	0	0	0	0	74	0	74	0	0	0	0	0	0	74	0	74
	Total (Sp. Projects)	49	0	49	0	0	0	0	0	0	49	0	49	130	0	130	0	0	0	0	0	0	130	0	130
	Grand Total	33483	0	33483	643	0	643	0	0	0	34126	0	34126	257	2455	2712	0	491	491	0	0	0	257	2946	3203

5.3. BUILDINGS ON FREEHOLD LAND:

5.3.1 The petitioner has requested for principle approval of the disallowed budget in respect of building on freehold land as per following sub-heads:

5.3.2 Regular Capital Expenditure

5.3.2.1 The petitioner has requested for reconsideration of Rs. 32 million in respect of capital expenditure relating to various construction activities such as upgradation of regional office at Islamabad, civil construction activity at Manga and miscellaneous transmission construction activities. The petitioner stated that the Authority has allowed budget under this head based on previous year capitalization trend which may not be a judicious yard stick to assess the petitioner's budget requirements, as civil construction works take a longer period of time for completion and the petitioner could not capitalize the same in one year.

5.3.2.2 The Authority based on operational requirement and justification provided by the petitioner allowed Rs. 28 million at DERR stage. The petitioner has now again repeated its earlier stance with no new tangible and specific reason or evidence for re-consideration of its request, **therefore the Authority maintains its original decision taken in respect of various heads relating to regular budget of building on free hold land.**

5.3.3 Domestic Meter Inspection Shops:

5.3.3.1 The petitioner at the time of ERR for the said year projected Rs. 230 million for construction of Domestic Meter Inspection Shops (DMIS) at Regional Distribution Office (RDO) Islamabad and Peshawar. The Authority disallowed the same keeping in view 100% achievement claimed by the petitioner against KMI 29 at the time of FRR which specifically relates to improvement in meter testing workshop as per the requirement of international standards. Moreover, the Authority also noted that valid certification/ affiliation in this respect establishes that the relevant certification agencies have shown satisfaction on the present arrangement of the DMISs.

5.3.3.2 The petitioner has again reiterated its earlier stance and stated that in order to achieve the annual target of inspection and to comply with the requirements of requisite standards (ISO 9001:2015 & ANSI B 109.1), construction of DMIS at Peshawar and Islamabad is essentially required.

5.3.3.3 The Authority observes that the petitioner has not provided any new submission, justification or analysis to substantiate its stance on construction of DMIS at RDO Islamabad and Peshawar, **therefore the Authority maintains its original decision in this respect.**

5.4. TRANSMISSION MAINS:

5.4.1 The petitioner has requested for reconsideration/reinstatement of disallowed amount in respect of transmission mains, as per following sub-heads:

5.4.2 Construction/ Upgradation of SMSs:

5.4.2.1 The petitioner has requested for reconsideration of Rs. 400 million in respect of construction/ upgradation of SMSs. The petitioner has stated that budget for the construction of new SMSs and modification / up-gradation of SMSs is required to complete / commission the already laid network. The schemes feasibility is approved subject to installation of new SMS or up-gradation of existing SMS depending upon the availability of load. The petitioner has explained that non-installation / up-gradation of SMS will result in non-commissioning of laid network / low pressure issues. The petitioner has also provided the details of 05 Nos. SMSs supplying gas to various localities along with load requirement pertaining to different constituencies.

5.4.2.2 The Authority observes that hefty expenditure amounting to Rs. 449 million has remained unutilized in respect of pervious years relating to incomplete/ earlier approved tasks. The Authority notes that installation/ construction of SMS is essential for commissioning of laid network and to address resolve low pressure under the prevailing energy in the country. ***The Authority, therefore allows in principle the construction/ upgradation of SMS and actual expense incurred will be considered at the time of FRR for the said year provided the same is within the amount per ERR petition. The Authority further directs the petitioner to execute incomplete/ earlier approved jobs in respect of previous years on priority.***

5.4.3 Cathodic Protection System (CP System):

5.4.3.1 The petitioner has stated that OGRA has allowed Rs. 209 million on the basis of annual average CP jobs of 84 Nos. carried out during last 03 years, considering construction cost of Rs. 2.5 million per CP station. The petitioner while mentioning the number of jobs completed during last five years in respect of CP system has explained that cost of construction of CP system has increased substantially during last 02 years due to devaluation of PKR against USD and cost of CP material being imported in nature is directly affected by the fluctuation / deprecation of Pak Rupee. Moreover, the petitioner added that as per PPRA Rules annual procurement of material needs to be arranged at once and the procurement of material has a lead time of about 8 to 10 months, therefore partial allowance of budget by the Authority restricts the petitioner from completing the annual target being monitored against KMI # 16. The petitioner accordingly has requested for reconsideration of the disallowed budget in respect of CP system.

5.4.3.2 The Authority observes that the request of the petitioner at the time of DERR was analyzed keeping in view the justification provided, operational requirement and progress of the petitioner in the past year. Moreover, the petitioner has been able to capitalize only Rs. 10 million in respect of CP system during FY 2019-20 which further indicates the tendency of the petitioner to project the activities over and above its capacity to carry out the tasks. ***Since the petitioner has not provided any new evidence or justification for review of earlier decision, therefore, the Authority maintains its original decision in this respect. However, any prudently incurred expenditure shall be considered by the Authority at the time of FRR for the said year, provided the same is within the amount per ERR petition.***

5.4.4 Charsadda-Khazana-Tangi Transmission Network System Augmentation:

5.4.4.1 The petitioner has stated that the Authority pended its decision for allowing any amount for Phase-II of the project with the direction that request of Phase-II may be submitted to the Authority for consideration upon successful completion of Phase-I.

5.4.4.2 The petitioner explained that due to prevailing Covid conditions and adherence of the PPRA Rules, the procurement process of material is taking much time. If the petitioner waits for completion of Phase-I to start the material procurement process required for Phase-II, the completion of the project will take more time. Consequently, the delay in the project will also increase the overall cost of the project, owing to increasing material prices, inflationary trends and exchange rate parity. The petitioner accordingly has requested the Authority to at least principally allow the budget of Phase-II, so that material procurement process may be initiated, parallel to construction of Phase-I while actual cost incurred should be allowed at FRR level.

5.4.4.3 The Authority at DERR stage observed that the petitioner had not been able to initiate any physical activities relating to Phase-I of the project and as per the extracts of BOD meeting, construction of Phase-II of the project will be undertaken after completion of Phase-I. Accordingly, the Authority pended the decision and did not allow any amount. ***However, in view of the justification provided by the petitioner and in light of the operational requirement, the Authority while considering the request of the petitioner principally allows Phase-II of Charsadda-Khazana-Tangi transmission network system augmentation project, subject to actualization at the time of FRR for the said year, provided the same is within the amount per ERR petition.***

5.4.5 Supply of 10 MMCFD RLNG to Bhalwal Industrial City (SEZ):

5.4.5.1 The petitioner has projected Rs. 491 million for infrastructure Development work for supply of 10 MMCFD RLNG/ natural gas to M/s Punjab Industrial Estate Development & Management Company (PIEDMC) at Bhalwal Industrial Estate SEZ on 100 % cost recovery basis alongwith Rs. 55 million for metering gadgets from petitioner's own resources.

5.4.5.2 The petitioner has informed that the Government of Pakistan (GoP) is developing special economic zones (SEZ) at Bhalwal Industrial Estate, District Sargodha through PIEDMC which is a subsidiary of Government of Punjab. The petitioner has stated that PIEDMC has requested for provision of 10 MMCFD gas to Bhalwal SEZ and accordingly system analysis has been carried out which reveals that 8-inch dia x 12.25 KMs transmission spur alongwith SMS cum CMS having capacity of 10 MMCFD shall be required to cater the desired load. Moreover, land measuring 275 ft x 155 ft shall be required for the construction of SMS cum CMS inside the boundary of Bhalwal Industrial Estate (SEZ) at terminal point which shall be provided by M/s PIEDMC authorities free of cost.

5.4.5.3 The petitioner has submitted that total estimated cost for the pipeline infrastructure (excluding cost of land of SMS cum CMS) to be developed for providing the desired gas at Bhalwal Industrial Estate (SEZ) shall be Rs. 491 million which will be paid by M/s PIEDMC. Moreover, procurement and installation of metering gadgets for SEZ at the total budgeted cost of Rs. 55 Million (Fifty-Five Million Rupees Only) shall be arranged from petitioner's own resources and will be entitled to rate of return.

5.4.5.4 The petitioner further added that the instant case has the design capacity of 10 MMCFD therefore does not fall under Rule 20 (XVIII) of Natural Gas Licensing Rules 2002. The petitioner has also provided BOD approval for the project. In view of the foregoing, the Authority approves the project in principle under RLNG ring fenced mechanism and subject to following conditions:

a) 8" dia x 12.25 Km Transmission spur from MP-66 on C leg to terminal point to cater for the desired gas load of Bhalwal SEZ shall be undertaken on a 100% cost recovery basis and the company will not be entitled to the rate of return on this amount.
b) Installation of metering gadgets for the above referred SEZ at the total budgeted cost of Rs. 55 million will be from the petitioner's resources and shall be entitled to rate of return
c) SNGPL shall be responsible to undertake the operation and maintenance activity of the said pipeline built on a 100 % cost recovery basis.

5.4.6 Modification/ Augmentation at Valve Assembly QV-2 Ghotki:

5.4.6.1 The petitioner vide its letter dated November 10, 2021 has requested for immediate relief under Rule 5(7) of NGT Rules in respect of the said project amounting to Rs. 95 million. The petitioner while providing BOD approval has also requested the Authority to consider it as part of instant petition.

5.4.6.2 The petitioner has stated that M/s Mari Petroleum Company Limited (MPCL) is undertaking construction of its processing facility for supply of additional 110 MMCFD processed gas from its Mari gas field to the petitioner. It has been further informed that M/s MPCL is constructing its own 20" x 25 Kms pipeline to connect Mari Processing facility with petitioner's network at valve assembly QV-2 near Ghotki, Sindh. The expected completion of above stated pipeline is in December, 2021 whereas commissioning of said pipeline is expected in January, 2022.

5.4.6.3 The petitioner has further apprised that V/A QV-2 was initially constructed for the supply of gas from Qadirpur gas field through 30" dia pipeline from Qadirpur to Bhong in 1995.

However, with further discoveries in south & commencement of RLNG, additional pipelines (20", 36", 42" Dia) were also connected with QV-2 V/A. In addition, 45 MMCFD gas for M/s Pak Arab Fertilizer and 20 – 45 MMCFD gas for petitioner is also being injected at QV-2 assembly from Mari gas field. The petitioner has informed that in order to receive the volume of 110 MMCFD gas at QV-2 V/A, piping modification works are essentially required at existing infrastructure of QV-2.

5.4.6.4 The breakdown of Rs. 95 million has also been provided, wherein Rs. 7.45 million has been claimed as cost of gas blown off. The petitioner has apprised that the line is currently operated at a pressure of 625~650 psig, however, gas will be blown off at a lower pressure of around 250 psig by consuming/ diverting the pack to nearby sales meter stations. It has been further informed that gas is inevitably required to be blown off as not all of gas pack can be consumed due to constraints like capacity of metering gadgets and downstream pressure setting etc.

5.4.6.5 **Keeping in view the above submissions, the Authority principally allows the project, subject to actualization at the time of FRR for the said year, provided the same is within the estimated amount.**

5.5 COMPRESSION

5.5.1 Compression Overhaul Project (FY 2021-22 to FY 2025-26):

5.5.1.1 The petitioner has stated that the Authority has principally allowed the first-year tranche of the five-year project (FY 2021-22 to FY 2025-26) instead of project as a whole. The petitioner explained that historically, the complete 5 years plan of overhauling, is submitted for principle approval of the Authority to avoid the challenges regarding various approvals and procurement processes. The petitioner has therefore requested Authority for principle approval of the whole project being a special capital requirement to enhance the operational flexibility, reliability and availability of the Turbo Compressor Packages.

5.5.1.2 The Authority notes that the petitioner at the time of ERR for the said year requested for approval of budget of Rs. 533 million for first year tranche of the project only, which was granted by the Authority in principle. Moreover, the principle approval in respect of whole project was not requested by the petitioner at ERR stage.

5.5.1.3 The Authority is of the view that compressor overhaul projects are significant to maintain system balance especially under the prevailing situation of gas demand & supply gap throughout the country and anticipated future supplies, specifically in respect of RLNG from southern network. The Authority, however, observes that petitioner while executing compression overhauling projects has never been able to meet its own set annual targets. Moreover, the Authority also notes that compressor overhaul project for FY 2016-21 is still under process/ not completed.

5.5.1.4 The Authority keeping in view the operational requirement at ERR stage had already accorded principle approval for first year tranche as requested by the petitioner. The Authority therefore urges the petitioner to focus on executing and completing the jobs already in hand in a timely manner to strengthen its case for similar additional projects. ***In view of the foregoing, the Authority pends its decision in respect of approving the said compression overhauling project as a whole with the directions that request for approval of such project be submitted upon completion of earlier approved compression overhauling project.***

5.6 DISTRIBUTION DEVELOPMENT

5.6.1 The petitioner has requested for reconsideration in respect of distribution development, as per following sub-heads:

5.6.2 Laying in New Towns & Villages (against GOP directives):

5.6.2.1 The petitioner has revised its projections in respect of budget related to distribution mains as tabulated below:

Table 4: Projections in respect of Distribution Mains per the Petition

S. No	Description	Petition (ERR)		(RERR)	
		KM	Amount	KM	Amount
1	Laying in New Town & Villages (against GOP directives)	11,500	42,093	5,000	19,073
2	Combing Mains	600	1,492	300	767
3	System Augmentation	135	1,201	135	1,201
4	Removal of Anomalies/ HO Reserve	125	383	-	-
5	Laying on 100% Cost Sharing Basis	500	1,641	651 (addition)	2400
	Grand Total	**12,860**	**46,810**	**6,086**	**23,441**

5.6.2.2 The petitioner has submitted that, in view of huge quantum of work viz-a-viz limited physical/financial capacity to implement the GoP directives, the following strategy has been in practice since 2003 in consultation with the stake holders, which has worked quite successfully and all the concerned Hon'able Parliamentarians, who sponsored the schemes, remained satisfied and has also been manageable for the Company:

i. Undertaking the projects in phases in order to execute the work on approved schemes in all constituencies simultaneously, so that grievances may not arise among the public as well as the Honorable parliamentarians who are the main stakeholders for implementing the Socio-Economic/Political agenda of the Government. The supply mains are laid in 1st phase and Distribution network is laid after completion of Supply mains.

ii. The petitioner further stated that when a large number of schemes are approved in one constituency, certain schemes, prioritized in coordination and with the consent of concerned Honorable Parliamentarians, are executed first, leaving rest of the schemes in queue to be undertaken subsequently.

5.6.2.3 The petitioner in respect of Authority's direction at Para 5.17.6 of DERR for the said year relating to compliance of licence condition and not to pass on adverse/financial impact on existing consumers while executing development schemes/ adding new connection has stated that gas development schemes are undertaken under Socio Economic agenda of Government of Pakistan. Moreover, the company explained that demand supply scenario/ shortage of gas has been highlighted invariably in each feasibility report to GoP. However, GoP i.e., Federal Cabinet, the highest authority of Government has relaxed the moratorium on gas supply schemes, imposed in 2009 in the wake of demand-supply gap, relating to domestic gas development schemes vide

Ministry of Petroleum & Natural Resources letter No. NG(D)-16(91)/16-IMP dated 02.05.2017.

5.6.2.4 The petitioner further added that Ministry of Energy (Petroleum Division) vide letter NG(D)-16(91)/2020-SAP dated 02.03.2020 has also relaxed the requirement of certificate regarding availability of natural gas, required under the guidelines of Sustainable Development Goals Achievement Programme (SAP). The petitioner has stated that the decision of the Authority seems to be contrary to the decision of the Federal Cabinet further adding that the Federal Government as part of energy security is taking number of steps for the availability of natural gas/ RLNG which will be available for distribution to consumers.

5.6.2.5 The petitioner has explained that if the work on development schemes remains stopped while waiting for availability of additional gas it will result in corrosion of line pipe and material already laid, theft of gas, escalation of cost, sense of deprivation amongst people, etc. Moreover, audit observations will also be raised regarding non following of SAP guidelines relating to completion of SAP schemes within 02 years.

5.6.2.6 In addition to above, the petitioner in respect of combing mains and system augmentation has stated that the budget is essentially required to remove anomalies and operational requirement for rectification of low-pressure problem. The petitioner has submitted that the targets for combing mains have been revised keeping in view the remaining months of the said year as time is not sufficient to achieve the earlier proposed target. Moreover, the prospective localities and number of consumers cannot be given at this stage as it may vary with localities to be approved.

5.6.2.7 The petitioner has not provided specific schemes/ new town wise detail rather reiterated that the projected 5,000 KMs in respect of anticipated schemes will be laid in the new towns and villages as selected by itself out of the complete list which has already been provided to the Authority. The Authority observes that petitioner is yet again reluctant to share details of schemes that it has planned to undertake during the said year. In the absence of specific information/ details with only generic reasons as submitted by the petitioner for revision in targets, the instant claim is not convincing when compared with KMs of lines proposed at the time of ERR. It is rather surprising to observe that the petitioner has now realized its physical and financial capacity and drastically reduced its targets by almost half. This is a point of serious concern for the Authority as well as for the Government and all stakeholders since fake exaggeration in targets has a huge impact on company's own financial position besides burden on consumers. The petitioner itself raised its liquidity issues at various forums however, its planning under this head appears to be totally inconsistent with the financial position reported by it. Such unrealistic goals setting raises doubts on the planning and budgeting strategy being devised by the petitioner's professional and experienced workforce.

5.6.2.8 The Authority notes that nothing tangible has been presented by the petitioner while misinterpreting the decision of the Authority. Moreover, the claim of the petitioner w.r.t satisfaction of the Honorable Parliamentarians does not hold true in view of serious concerns expressed in various forums by the Honorable Parliamentarians over delay in execution of gas development projects despite availability of approved budget. The Authority is of the considered view that petitioner has tendency of starting multiple projects in parallel leaving the old schemes/works unattended, which ultimately compels the public to resort to gas theft, leaving assets unutilized as well. The Honorable Parliamentarians have always stressed that the development works once started should not remain unattended and the laid network should be commissioned on priority to avoid corrosion and save the integrity of the laid pipeline. In view of the said position, the petitioner was advised to develop a computerized data base, clearly showing progress against each of the ongoing & pending gas development schemes/ application for gas connection providing complete details and place the same on the website to bring transparency. However, the same is still pending to be implemented in true letter and spirit.

5.6.2.9 ***Furthermore, the Authority observes that in DERR for the said year, it has already devised a proper framework for execution of distribution development projects that is consistent with legal position and shall ensure energy sustainability and security for the existing and prospective consumers. Hence, no further clarity or revision is necessitated in this respect.***

5.6.2.10 The petitioner has also requested for approval of additional Rs. 2.4 billion in respect of laying of distribution mains on 100 % cost sharing basis over and above Rs. 1.641 billion allowed at the time of ERR for the said year. The petitioner has added that keeping in view the quantum of pending and anticipated cases during current and next fiscal year, the additional budget of Rs. 2.40 billion for laying of 651 KMs distribution mains on 100% percent sharing is required for processing of RLNG based industrial and commercial connections and supply of gas to Privately Developed Housing Societies & Government Institutions.

5.6.2.11 In addition to above, the petitioner vide its letter dated 02.02.2022 sought clarification for execution of jobs under this head and arbitrarily included indigenous gas cases as well on the pretext of operational requirement and stated that aforesaid budget on cost recovery basis shall be capitalized in the relevant business segments i.e. indigenous or RLNG segment. The Authority observes that a completely inconsistent stance has been taken by the petitioner vide the said letter as against the projections made at ERR & RERR stage wherein, the said budget has been requested under RLNG ringfenced mechanism. The petitioner now wants to avail a blanket approval to exercise discretion for capitalization of the amount under this head in business segment of either indigenous or RLNG. This points towards lapse on part of petitioner while making projections, which it now intends to cover smartly. This approach is not appreciated and it further shows lack of proper inhouse working on part of the petitioner while making projections in its revenue petitions.

5.6.2.12 ***Keeping in view the justification provided by the petitioner, the Authority allows in principle Rs. 2.4 billion for laying of distribution mains on cost recovery basis, however the petitioner shall not be entitled to rate of return on the said capitalization as the same shall be treated under RLNG Ring fenced mechanism.***

5.6.3 G.I. Pipe and Fittings:

5.6.3.1 The petitioner has submitted that Authority had disallowed the claimed amount of Rs. 720 million for G.I. Pipe and fittings for new connections at the time of DERR for the said year, with directions to stop charging any additional charges on account of G.I. Pipe and fittings from consumers. The petitioner has highlighted that the Authority in its various ERR decisions till FY 2020-21 used to disallow the amount under this head with the direction to recover this cost from the beneficiary/consumers. Moreover, the petitioner has further stated that in compliance of the instant decision i.e., DERR for the said year, the petitioner has stopped to bill the G.I. fittings charges to respective consumers and the additional expenses incurred on this account will consequently become part of revenue requirement of the petitioner and as per their understanding will be allowed by the Authority at the time of FRR.

5.6.3.2 In this regard, the Authority observes that the petitioner has already been apprised vide letter No. OGRA-8(2)/Comp/2021/Misc dated August 11, 2021 and OGRA-9(36)/2008 dated 11-10-2021 that the above understanding of the petitioner is misconstrued. The Authority is of the view that as per NGRA (Licensing) Rules 2002, "Service Line" is defined as a distribution line that transports Natural gas from a main to consumers' meter in respect of a domestic consumer and hence any fittings upstream of meter are part of service line and need not be segregated further. Moreover, in accordance with Licence Condition 45.2 of SNGPL licence fixed & variable charges have been notified by the Authority in respect of service lines that primarily covers GI Pipes, coupling, regulators etc. Since no revision in service line charges have been made, therefore, charging domestic consumers on account of GI fittings in addition to already approved service line charges is in contradiction to relevant Rules and respective license condition and must be discontinued. ***In view of the foregoing, the Authority maintains its earlier decision in this respect.***

5.6.4 System Rehabilitation & KMI Implementation Plan/ UFG Control activities:

5.6.4.1 The petitioner in respect of System Rehabilitation has claimed Rs. 2,646 million in addition to already allowed amount of Rs. 1,661 at the time of ERR. Moreover, the petitioner has also requested for reconsideration of disallowed amount of Rs. 364 million in respect of underground leakage identification while adding that the budget is essentially required for completion of Key Monitoring Indicators (KMIs) target particularly relevant to KMI 14 having 7 % weightage and is also mandatory for compliance of Performance and Service Standards.

5.6.4.2 The petitioner has stated that replacement of underground network is core leakage control activity to control UFG since leakage is the main contributing factor of gas losses. The petitioner has apprised that its corrosion control department has so far recommended replacement of around 1,178 Km network which requires a budget amount of Rs. 4,307 million, however, the budget allowed by the Authority is sufficient for replacement of only 450 km that is almost half of the 888 km network replaced by the petitioner in FY 2020-21.

5.6.4.3 The petitioner further submitted that in the absence of requisite budget, the company will not be able to execute the target against this KMI and resultantly not only the UFG will increase but the petitioner will also not be able to achieve 100% target against this KMI.

5.6.4.4 The Authority observes that leakage identification and replacement is a key activity to control gas losses and must be carried out even without referring to KMIs, since it is a major operational responsibility of the petitioner. However, it is always urged that realistic targets, keeping in view the ability to undertake such tasks should be estimated to avoid unnecessary costs impacts.

5.6.4.5 ***In view of the foregoing and keeping in view past performance of the petitioner, the Authority maintains its original decisions in this respect, however, any prudently incurred expenditure shall be considered by the Authority at the time of FRR for the said year, provided the same is within the amount as per instant petition.***

5.6.5 Service Line for New Connections:

5.6.5.1 The petitioner at the time of ERR projected Rs. 10,241 million in respect of service lines for provision of 1,200,000 new domestic connections. However, the targets alongwith the budgeted amount has now been revised by the petitioner and accordingly Rs. 2,560 million against 300,000 domestic connections has been requested for consideration of the Authority.

5.6.5.2 The petitioner has stated that keeping in view the huge pendency of applications (approximately 03 million), 1.2 million connections were proposed at the time of ERR but due to limited availability of system gas, request for installation of 300,000 new gas connections has been made to provide gas connections in already gasified areas/ localities where network has already been laid / commissioned. The petitioner has stated that more than 400,000 Nos. of new domestic connections per year (on average) have been installed during last five years.

5.6.5.3 The petitioner has further explained that the new gas connections target has been revised keeping in view the fact that 1st quarter of the said year has already passed in finalization of budget and the remaining time is not sufficient to achieve the earlier proposed target, particularly, keeping in view the availability of required material.

5.6.5.4 The Authority notes that the target in respect of new connections has been reduced to one fourth of the figures projected at ERR stage for the said year without giving any tangible reasons. Moreover, as discussed under the respective head of distribution mains, the petitioner does not account for its physical and financial capacity while projecting such exaggerated figures at ERR stage which have direct financial impact on the consumers. The revision of targets without any tangible reasons further raises question on the criteria being followed by the petitioner for setting, planning and budgeting for new gas connections. Pressure drops and interruption in gas supply is continuously reported on petitioner's system and the situation worsens in winter months. The Authority has repetitively advised the petitioner to resolve such issues on priority and plan its network growth in a systematic manner to avoid such situations adversely affecting the existing consumers. The petitioner however seems to pay no heed to address these issues.

5.6.5.5 ***The Authority at ERR stage, keeping in view the current energy crises prevailing in the country and considering all aspects as mentioned above, has already devised a proper framework for execution of distribution development projects alongwith provision of new gas connections consistent with legal position to ensure energy sustainability and security for existing and prospective consumers. Hence no further clarity or revision is necessitated in this respect.***

5.6.6 Augmentation/ Bifurcation of Gas Network in Lahore City:

5.6.6.1 The petitioner has submitted that Authority has pended its decision regarding allowing any amount for Phase-II of the project with the direction that request of Phase-II may be submitted to the Authority for consideration upon successful completion of Phase-I.

5.6.6.2 The petitioner has stated that the project has been proposed to overcome low pressure issues in Lahore city. Moreover, Phase – I of this project is near to completion and the benefit of this system augmentation cannot be fully obtained without completion of whole project. The petitioner further has added that due to prevailing Covid conditions and adherence of the PPRA Rules, the procurement processes of material are taking much time and if the material procurement process for Phase-II is started after completion of Phase-I, the completion of the project will take a longer period of time. Consequently, the delay in the project will also increase the overall cost of the project, owing to ever increasing material prices, inflationary trends and exchange rate parity. The petitioner accordingly has requested the Authority to at least principally allow the budget of Phase-II, so that material procurement process may be initiated, parallel to construction of Phase-I while actual cost incurred should be allowed at FRR level.

5.6.6.3 The Authority at DERR stage observed that the petitioner physical activities relating to Phase-I of the project are still in process and as per project execution plan, construction of Phase-II of the project is to be undertaken after completion of Phase-I. Accordingly, Authority pended the decision and did not allow any amount. However, in view of the justification provided by the petitioner and in light of the operational requirement, the Authority observes that the project has significance in catering low pressure problems, controlling UFG and to bring improvement in system balance. ***The Authority advises the petitioner to correlate the activities under this project specifically with KMI No. 2 and accordingly submit a report thereon alongwith FRR for the said year. In view of the foregoing, the Authority while considering the request of the petitioner principally allows Phase-II of the project relating to augmentation/ bifurcation of Gas Network in Lahore city, subject to actualization at the time of FRR for the said year, provided the same is within the amount per ERR petition.***

5.6.7 Laying of 16" Dia x 28 Km Supply Main from D/S SMS Rawat to Faisal Avenue:

5.6.7.1 The petitioner has projected an additional budget of Rs. 127 million in respect of Laying of 16" Dia x 28 Km Supply Main from D/S SMS Rawat to Faisal/ Jinnah Avenue and submitted that the company had projected Rs. 110 million as an additional budget for the said project in ERR FY 2020-21 and RERR FY 2020-21, however, the same was disallowed by the Authority.

5.6.7.2 The petitioner further stated that Authority, at the time of DERR FY 2019-20 approved Rs. 294 million against petitioner's claim of Rs. 588 million, however, the budget is insufficient to complete the remaining jobs due to escalation of material costs. The petitioner has also explained that the route condition and execution of two major river crossings have caused excessive use of heavy machinery/ equipment leading to overrun of the construction equipment operating cost budget.

5.6.7.3 The Authority notes that the BOD approval in respect of additional budget of Rs. 127 million has not been provided by the petitioner. Moreover, the petitioner vide its letter dated 11.11.2021 has requested the Authority to consider the projected amount at level of Rs. 110 million which is in line with the BOD approval taken in meeting No. 547 dated 21.02.2020.

5.6.7.4 The Authority at the time of DERR and RERR for FY 2020-21 observed that the reasons given by the petitioner were not prudent for consideration of projected amount of Rs. 110 million, over and above Rs. 294 million allowed in DERR FY 2019-20, for laying of distribution line from Rawat to Jinnah Avenue. ***However, in view of the justification provided by the petitioner and escalation of material costs over the years, the Authority while considering the request of the petitioner principally allows the additional budget of Rs. 110 million for the said project.***

5.7 MEASURING AND REGULATING ASSETS

5.7.1 Installation of New Connections:

5.7.1.1 The petitioner has projected the revised estimates of Rs. 2,094 million against 300,000 domestic connections in respect of metering and regulating assets related to installation of new connection. ***As discussed earlier, the Authority has already devised a proper***

framework for execution of distribution development projects along with provision of new gas connections consistent with legal position to ensure energy sustainability and security for existing and prospective consumers. Hence no further clarity or revision is necessitated in this respect.

5.7.2 **Construction/ Modification of TBS, DRS:**

5.7.2.1 The petitioner has apprised that the budget against this head is essentially required to commission already laid and under progress network. Moreover, operational lines to be approved against system augmentation budget also require installation of TBS / DRS and its disallowance will result in non-commissioning of operational phase and low-pressure issues in localities downstream of such gas mains. The petitioner has accordingly, requested the Authority for consideration of projected amount of Rs. 826 million under the said head.

5.7.2.2 The Authority observes that hefty expenditure amounting to Rs. 384 million has remained unutilized in respect of pervious years relating to incomplete/ earlier approved tasks. The Authority, however notes that installation/ construction of TBS is essential for commissioning of laid network and to address low pressure issue under the prevailing energy in the country. ***The Authority, therefore allows in principle the construction/ modification of TBS/ DRS and actual expense occurred will be considered at the time of FRR for the said year provided the same is within the amount per ERR petition. The Authority further directs the petitioner to execute incomplete/ earlier approved jobs in respect of previous years on priority.***

5.7.3 **Replacement of Old Meters:**

5.7.3.1 The petitioner has requested the Authority to allow entire claim amounting to Rs. 2,782 million as projected at ERR stage in respect of replacement of old meters.

5.7.3.2 The petitioner has stated that defective/tampered/suspected meters of industrial, commercial and domestic consumers are detected by vigilance activities carried out by respective departments and replacement of identified anomalies is essential to ensure measurement accuracy and accurate billing. The petitioner further submitted that meters are replaced against scheduled replacement program as per the Natural Gas Measurement (Technical Standards) Regulations, 2019, whereby timelines have been defined for replacement of meters in case of each category of consumers.

5.7.3.3 The request of the petitioner at the time of ERR was analyzed keeping in view the progress of the petitioner in the past years, operational requirement and to curb UFG by the means of accurate metering. Moreover, the Authority at ERR stage had only rationalized the cost estimates to Rs. 2,375 million based on capitalization trend over the years without reducing the number of meters to be replaced. The petitioner has not provided any new submission, justification and has reiterated its earlier stance. ***In view of foregoing, the Authority maintains its earlier decision in this respect, however, any prudently incurred expenses will be considered at FRR stage provided the same is within the amount per ERR petition.***

5.7.4 **Installation of TBSs on Operational Grounds:**

5.7.4.1 The petitioner claimed Rs. 65 million in respect of installation of TBS on operational ground and has stated that installation of TBSs on operational grounds is one of the most important activities for optimum utilization of gas network, equitable distribution of available gas across network and avoiding leakage loss during off peak.

5.7.4.2 The Authority observes that the installation of TBS/DRS has already been discussed under the respective head of construction of TBS. ***Moreover, the petitioner has repeated its earlier stance with no new tangible and specific reason or evidence has been provided for re-consideration of its request, therefore the Authority maintains its decision.***

5.7.5 Measurement Facility at Isolated TBSs for Micro Monitoring of UFG Losses

5.7.5.1 The petitioner has requested the Authority for reconsideration of disallowed budget of Rs. 2,509 million in respect of Measurement Facility at Isolated TBSs and allow project as a whole to enable the petitioner to continue its efforts against UFG control activities.

5.7.5.2 The petitioner has reiterated that the project is essential to improve system visibility, pin point grey areas, in planning corrective measures and facilitate ease of network operations.

5.7.5.3 ***In*** view ***of the justification provided by the petitioner, the Authority allows the project in respect of measurement facility at isolated TBS for Micro Monitoring of UFG Losses in principle, subject to actualization at the time of FRR for the said year provided the same is within amount per ERR petition.***

5.7.6 Supply of 10 MMCFD gas to Bhalwal Industrial City (SEZ) (RLNG)

5.7.6.1 The petitioner has projected Rs. 55 million in respect of measuring and regulating assets related to supply of 10 MMCFD gas to Bhalwal Industrial City (SEZ) under RLNG ring fenced mechanism. As discussed earlier, the Authority allows the claimed budget in principle and subject to actualization at the time of respective FRR under ring fenced mechanism.

5.8 PLANT & MACHINERY, EQUIPMENT AND OTHER ASSETS

5.8.1 The petitioner has requested for reconsideration of disallowed amount in respect of plant machinery, equipment and other assets as provided in table below:

Table 5: Projections in respect of Distribution Mains per the Petition

Rs. in million

Sr. No	Description	Petition	Allowed by OGRA	Motion for Review
1	Plant & Machinery	1,312	483	829
2	IT/MIS Eqp. (Hardware/Software)	424	338	86
3	Construction Equipment	551	332	219
4	Transportation/Motor Vehicles	200	-	200
5	Furniture & Fixture	60	46	14
6	Office equip. /Security equip.	34	21	13
7	Telecom. Equipment	44	44	-
8	Tools & equipment	42	42	-
	Total	**2,667**	**1,306**	**1,361**

5.8.2 In respect of items under plant & machinery, equipment and other assets as tabulated above, since the petitioner has not provided any new tangible reasons and evidences, therefore, the Authority maintains its earlier decision.

5.8.3 **Establishment of Karak Regional Office (Balance Amount Rs. 49 million):**

5.8.3.1 The petitioner at the time of ERR for the said year requested the Authority to allow establishment of Karak as regional office alongwith upgradation of CSCs at Bannu and Hangu as approved by BOD. The Authority while appreciating the petitioner's efforts that resulted in substantial reduction in the UFG in Karak allowed in principle the upgradation of Karak office rather than creation of new regional office alongwith sub area offices.

5.8.3.2 The petitioner while requesting the Authority for establishment of regional office at Karak alongwith up-gradation of CSCs at Bannu and Hangu has reiterated its earlier stance in respect of efforts of the company such as laying of gas network, maintenance & operation activities, establishment of police stations etc. to control losses/ theft. The petitioner further submitted that operational/UFG control activities can be managed more effectively if regional office is established at Karak. In addition, the petitioner has also added that local MNAs and other political notables are also pressing hard to establish Regional Office at Karak to facilitate general public.

5.8.3.3 The petitioner further has explained that present sub-area Kohat & DI Khan, proposed sub-areas Hangu & Bannu, present CSC Lakki Marwat and CC Tank will be looked after from the proposed regional office at Karak, which is geographically located at a central position of proposed regional setup and is the main district contributing in the context of gas losses. The petitioner added that gas losses in Bannu, Kohat and DI Khan are also on higher side and it is difficult to manage/monitor UFG control activities from regional office, Peshawar. Therefore, establishment of regional office at central location i.e., Karak is essential to facilitate the consumers and to strengthen efforts to control gas losses in all these areas.

5.8.3.4 The Authority observes that the petitioner has reiterated its stance and has not given any new tangible justification for reconsideration of its request. The Authority further notes that Hangu has a consumer density of around of 4513 and is located at a distance of 45 KMs from Kohat. Moreover, a complaint centre is already present at Hangu to look after the complaints of the consumers. Moreover, Bannu is at a distance of 62 KM from Karak having current consumer density of around 16,411 Nos and already CSC exists to handle the complaints of the consumers. The Authority is of the view that the maintenance activities/ complaints of the consumers can be addressed efficiently from the existing CCs and CSCs alongwith nearby offices. The same offices can further be strengthened, if required, to satisfy the issues of consumers.

5.8.3.5 ***In view of the above, the Authority maintains its original decision in this respect. However, the petitioner is directed to reenforce its existing setup to facilitate the consumers.***

5.8.4 **GIS Mapping Project of Gas Infrastructure:**

5.8.4.1 The petitioner in respect of GIS Mapping project of Gas infrastructure has submitted that Capital cost of Phase 1-A of the project was projected as Rs. 109 million & revenue cost (excluding HR cost) as Rs. 31 million was approved in ERR decision. However, cost of the additional HR, required for implementation of the project is not approved by the Authority.

5.8.4.2 The petitioner has explained that the projected HR cost of Phase 1-A i.e., Rs. 73.58 million is the 36-month salary of 30 GIS Professionals, which is required for the implementation of the project and for this purpose, additional resource will be engaged on contract basis and after implementation of the same, the existing employees of the petitioner will take over the operations or these contractual employees will be absorbed in the regular cadre subject to availability of vacancies and HR policy. The petitioner further added that as per International Accounting standard, all the directly attributable costs incurred on bringing the assets in operations are included in the cost of the assets. The petitioner has accordingly requested the Authority to approve the additional HR cost, considering the same as project implementation cost and not the operating cost of the project.

5.8.4.3 The Authority notes that service provider is responsible for installation/ implementation of the software and providing necessary training & handholding support during implementation phase of the project. The petitioner's request for additional budget in respect of HR cost to implement the said project is not prudent and shows inefficiency on part of the petitioner while executing such contracts with the procuring agencies. ***In view of the foregoing, the Authority maintains its original decision in this respect and no additional HR cost is allowed.***

5.8.5 **Sub-Region at Pabbi (Peshawar Region):**

5.8.5.1 The petitioner has stated that the Authority vide its decision dated February 10, 2021 had disallowed the establishment of sub-region at Pabbi with direction to re-enforce the nearest Complaint Centre to facilitate the consumers. The petitioner has again requested for reconsideration of its request while submitting that Pabbi is centrally located to cater the huge population and ever-increasing households in its vicinity.

5.8.5.2 The Authority notes that current consumer density of Pabbi is around 25600 Nos and is at a distance of 42 Kms from Regional Office at Hayatabad Peshawar and 22 Kms from sub-area office Faqirabad. Moreover, the total laid network is around 195 Km whereas, as highlighted by the petitioner, job numbers have been approved for laying of about 163 Kms network to facilitate 14,000 Nos. of prospective consumers. The petitioner's BOD has already accorded approval for establishment of new Sub Regional Office at Pabbi at a capital cost of Rs. 46 million.

5.8.5.3 ***In view of the detailed justification provided by the petitioner and to facilitate the consumers, the Authority while reconsidering its earlier decision taken at the time of RERR 2020-21 allows in principle the establishment of sub-regional office at Pabbi. Moreover, any operating cost shall be considered at the time of FRR on touchstone prudence and justification.***

5.8.6 **Establishment of CSC at Jehangira (Mardan Region):**

5.8.6.1 The petitioner has stated that the Authority vide its decision dated February 10, 2021 has disallowed establishment of CSC Jehangira at Mardan Region on the pretext that no new evidence or tangible justification has been forwarded for reconsideration of the petitioner's request.

5.8.6.2 The petitioner has again requested the Authority for reconsideration of its request while submitting that Jehangira is centrally located to cater to a huge population and ever-increasing households in its vicinity. Moreover, the laid network in Jehangira is about 447.44 kms having pending applications of around 3,176 Nos whereas, as confirmed by the petitioner, job numbers have been approved for laying of about 226.4 Kms network to facilitate 15,000 Nos of prospective consumers. The petitioner's BOD has already accorded approval for establishment of CSC at Jehangira at a capital cost of Rs. 10 million.

5.8.6.3 ***In view of the justification provided by the petitioner and to facilitate the consumers, the Authority while reconsidering its earlier decisions allows in principle the establishment of CSC Jehangira. Moreover, any operating cost shall be considered at the time of FRR on touchstone prudence and justification.***

5.9 LPG AIR MIX PLANT (GILGIT)

5.9.1 The petitioner in respect of LPG Air Mix Plant at Gilgit has submitted that Authority has rejected to allow the additional revenue requirement /subsidy on account of LPG air mix plant at Gilgit on the grounds that the request for extension in construction license of the subject plant has not been acceded to by the Authority.

5.9.2 The petitioner while referring to its letter No. RA-LPG AirMix-003-21 dated August 11, 2021 in respect of grant of extension in construction license of LPG Air Mix Plant at Gilgit has again requested to allow the additional revenue requirement amounting to Rs. 163 million against the LPG air Mix Plant. Moreover, the petitioner has also requested for capital budget of Rs. 907 million.

5.9.3 In this respect, it is noted that the Authority, keeping in view the request of the petitioner and operational requirement, has already granted extension in construction licence for LPG Air Mix Plant in Gilgit subject to certain condition.

5.9.4 ***In addition to above and keeping in view the position that principle approval had already been granted to the petitioner in respect of Gilgit LPG Air Mix project in RERR FY 2018-19, it is decided that any prudent expenses on this project shall be considered by the Authority at the time of FRR for the respective year provided that the petitioner has complied with the decision of the Authority regarding extension in construction licence.***

5.10 Depreciation and ROA

5.10.1 ***Keeping in view of above, the Authority decides to allow depreciation Rs. 14,731 million for the said year, after incorporating revised depreciation rates based on uniform economic useful life of assets for both sui gas companies etc. Consequently, ROA is computed Rs. 18,098 million based on net average operating assets for the said year.***

6 Operating Revenues

6.1 Sales Revenues at Existing Prescribed Price

6.1.1 The petitioner has claimed projected gas sales at Rs. 198,408 million based on two months' actual supplies i.e. July-August, 2021, for the said year. The petitioner has also requested to include projected amount received against RLNG volumes sold/diverted to domestic consumer as part of instant petition.

6.1.2 The Authority notes that the matter in respect of RLNG diversion to domestic & commercial consumers had already been decided by it at the time of DERR for the said year. The petitioner has failed to respond any of the observation raised by it. ***In the absence of any new justification, the Authority decides to maintain its earlier decision and allows sales revenues at prescribed price at Rs. 186,924 million, after excluding RLNG diverted volumes, based on actual sales for the months of July and August 2021, for the said year.***

6.2 Other Operating Income

6.2.1 The petitioner has claimed Rs. 17,452 million as other operating incomes against Rs. 19,002 million allowed at the time of DERR for the said year.

6.2.2 The petitioner has informed that it has revised its LPS income by Rs. 2,000 million at Rs. 7,348 million due to declining indigenous gas supplies. The company has, however, offered Rs. 450 million on account of transportation income.

6.2.3 The Authority observes that similar circumstances exist at the time of DERR, when LPS was projected by the petitioner itself. No evidence for change in scenario has been provided by it in order to substantiate its claim. ***In view of the same, the Authority maintains its earlier decision and fixes LPS income at Rs. 9,348 million for the said year while accepting transportation income as envisaged by the petitioner.***

6.2.4 ***Accordingly, "other operating income" is determined at Rs. 19,452 million for the said year.***

6.2.5 ***Keeping in view of above, total operating revenues has been included on provisional basis at Rs. 206,376 million for the said year.***

7 Operating Expenditures

7.1 Cost of Gas

7.1.1 The petitioner has projected cost of gas Rs. 196,697 million, based on its projections of international prices of crude and HSFO, for the said year, as tabulated below:

Table 6: Assumptions for Petitioner's WACOG

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, 2021	December 2020 to May 2021	61.363	349.589	168.20
January to July, 2022	June 2021 to November, 2021	75.0000	600.000	177.40

7.1.2 The petitioner has claimed cost of gas at Rs. 508.54/MMCF for the said year. The petitioner has submitted that actual gas purchased volume for July and August, 2021 has been taken while volumes for remaining ten months' purchases have been kept at the level of DERR for the said year. The petitioner has also requested that RLNG diversion to domestic consumers is an indispensable part and has, therefore, requested to allow upfront RLNG's partial cost recovery of Rs. 14,599 million under cost of gas sold for the said year against projected diversion of RLNG volume equivalent to 33,943 BBTU to domestic consumers.

7.1.3 The Authority observes that the well-head prices of gas for all fields are computed in accordance with agreements signed between the GoP and various gas producers, available on record and are notified in exercise of the powers vested in Authority under the Ordinance.

7.1.4 The Authority observes that latest data of international oil prices and rupee dollar exchange rate are available upto December 31, 2021. Therefore, the Authority based on volumes as provided by the petitioner after excluding RLNG volumes as decided in para 6.1.2 above and latest data in respect of Crude / HSFO & US$ exchange rate revises the parameters for the purpose of computation of cost of gas at petitioner's system as per table below:

Table 7: Revised Parameters for WACOG

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, 2021	December 2020 to May 2021	61.363	349.589	169.63
January to July, 2022	June 2021 to November, 2021	77.3876	434.630	178.00

7.1.5 ***In view of above, cost of gas is included at Rs. 183,333 million (at petitioner's WACOG of Rs. 511.99/MMCF) for said year.***

7.2 Gas Internally Consumed (GIC)

7.2.1 The petitioner has claimed GIC for the said year at Rs. 1,345 million under transmission system as per following detail;

Table 8: GIC per the Petition

Indigenous Gas				
Particulars	MMCF	MMBTU	Avg. cost price	Rs. in Million
Transmission System				
Compressors	2,630	2,480,692	542.22	1,345.074
Coating Plant	109	102,812	542.22	55.746
Residential Colonies	74	69,799	542.22	37.846
Sub total	**2,813**	**2,653,303**		**1,438.666**
Distribution System				
Free Gas Facility	536	505,571	542.22	274.129
Co-Generation	87	82,061	542.22	44.495
Sub total	**623**	**587,632**		**318.624**
GIC Indigenous	**3,436**	**3,240,935**		**1,757.290**
		GIC as per Petition		1,345.074

7.2.2 The petitioner has allocated, 109 MMCF on account of 'Coating plant', 74 MMCF deduced from the 'Residential Colonies' and 536 MMCF from 'Free gas facilities', to the capitalization for the said year. The Authority based on the historical trend provisionally calculates GIC for indigenous system (compression) at 1,209 MMCF against claimed volume of 2,630 MMCF and 3,695 MMCF against claimed volume of 4,321 MMCF in case of RLNG system. The volumes calculated in respect of GIC are subject to actualization at the time of respective FRR.

7.2.3 In addition to above, the petitioner in respect of RLNG system has also included 1,809 MMCF as GIC at SSGC system to compute the net RLNG received in Transmission system of the petitioner. The petitioner submitted that RLNG received at FSRU and enters into petitioner system after passing through the SSGC system, accordingly GIC @ 0.5% for SSGC system has been assumed to compute the Net gas received in Transmission system of the petitioner. The petitioner further added that GIC of SSGC has only been taken to compute the net RLNG received in system, however, no separate GIC cost has been claimed under RLNG cost of supply. The claim of the petitioner in respect of GIC volume at SSGC system is not appropriate at this stage. However, any volume in this respect shall be considered by the Authority at FRR stage based on actual figures along with prudent justification.

7.2.4 The petitioner has also projected 54,750 MMCF @ 150 MMCFD on account of volume to be retained by SSGC for its sale to K-Electric during the said year. The petitioner added that volume being retained by SSGC is as per advice of GOP enabling K-electric to produce electricity to mitigate the electricity load shedding in Karachi. The same is being allowed on provisional basis subject to actualization at the time of FRR.

7.2.5 ***Accordingly, in view of the above Para 7.2.2 above, GIC has been provisionally re-worked at Rs. 619 million based on revised petitioner's WACOG @ Rs. 511.99/MMCF, as determined per para 7.1.5 above.***

7.3 UFG Adjustments

Table 9: UFG Computation Sheet

UFG CALCULATION SHEET					
		The petition		As calculated	
Gas Purchases		Indigenous gas (UFG)	RLNG Supplied to Transmission and Distribution consumers	Indigenous gas (UFG)	RLNG Supplied to Transmission and Distribution consumers
Transmission System		MMCF		MMCF	
(Gas Received)	A	361,536	419,750	361,536	419,750
Retainage	B		(3,148)	-	- 3,148
Retained by SSGC	C		(54,750)	-	- 54,750
GIC at SSGC System	D		(1,809)	-	
Net Gas Received in Trans. System of SNGPL	C=A+B+C+D	**361,536**	360,043	361,536	361,852
Gas used in operation of Tran. Sys. (Indigenous gas)	E	**(2,813)**	(4,321)	(1,392)	(3,695)
(i) Compression		(2,630)	(4,321)	(1,209)	(3,695)
(ii) Residential Colonies		(74)	-	(74)	-
(ii) Coating Plant		(109)	-	(109)	-
Gas Available in Transmission System	F=C+E	358,723	355,722	360,144	358,157
Gas sold to PFC consumers	G	89,790	209,425	89,790	209,425
Gas passed to Distribution system through SMS	H	265,318	144,497	265,318	144,497
Loss in Tansmission System	I=F-G-H	3,615	1,800	5,036	4,235
% Loss or Gain in Transmission Sytem	J=I/C*100	1.00%	0.50%	-	-
Distribution System					
Gas Received in Dist. System (Through SMS)	H	**265,318**	144,497	**265,318**	**144,497**
Gas internally consumed in Distribution System (GIC)	K	(622)	-	(622)	-
(i) Free Gas Facility		(536)	-	(536)	-
(ii) Co-Generation		(87)	-	(87)	-
(Gas available for Sale in Dist. Sytem)	L=H+K	264,696	144,497	264,696	144,497
Gas Sold					
Gas Delivered (Net Gas Sold)-(RLNG sales includes Diversion)	M	239,891	129,614	239,891	129,614
Loss in Distribution System	N=L-M	24,805	14,883	24,805	14,883
%age Loss in Distribution Sytem	O=N/H	9.35%	10.30%	-	-
Total UFG Volume (Transmission + Distribution)	P=I+N	28,420	16,683	29,841	19,118
Total %age UFG (Transmission + Distribution)	Q=P/A	7.86%	4.63%		
Working disallowance for SNGPL					
Gas Received (Gas available for Sale in Dist. Sytem)				361,536	
UFG Benchmark (Percentage)	5%	5%		5%	
Local Conditions Allowance Percentage (Maximum)	2.6%	1.3%		1.3%	
Allowed UFG Percentage	7.6%	6.3%		6.3%	
Allowed UFG Volume (MMCF)		22,777		22,777	
Invalid claim (MMCF)		5,644		7,064	

7.3.1 ***The Authority maintains its earlier decision and decides to compute UFG adjustment, being an invalid claim, at national WACOG. In view of above, UFG adjustment is provisionally re-worked at Rs. 4,196 million at national WACOG (Indigenous) of Rs. 593.97/MMCF for the said year.***

8 Transmission & Distribution Cost (T&D)

8.1 The petitioner has projected Rs. 35,507 million against T&D cost while allocating Rs. 2,252 million to RLNG cost of supply/service for the said year. Further, the petitioner apportioned these expenses under three heads of natural gas i.e. Transmission, Distribution and Selling segments. Comparison of T&D with DERR for the said year is as under:

Table 10: Comparison of Projected T & D Cost with DERR

						Rs. in million		
Sr #	Description	FY 2021-22	Transmission	Distribution	Selling	Total	Diff	
		DERR	The Petition RERR FY 2021-22				Inc/(Dec)	%age
1	HR Cost	16,996	5,549	9,614	9,189	24,352	7,356	43%
2	Stores & spares consumed	880	534	322	24	880	-	0%
3	Repairs & maintenance of system	1,294	473	1,509	281	2,262	968	75%
4	Stationery, telegrams and postage	239	18	51	170	239	0	0%
5	Rent, rates, royalty, electricity and telephones	619	212	310	228	750	131	21%
6	Travelling expenses	163	55	64	44	163	-	0%
7	Transport expenses	975	274	706	185	1,165	190	19%
8	Insurance	279	67	130	82	279	-	0%
9	Fuel & Power	469	260	290	-	550	81	17%
10	Legal and Professional services	204	64	127	83	274	70	34%
11	ISO 14001 & OHSAS Certification	9	2	4	3	9	-	0%
12	Advertisement & publicity	208	8	16	229	253	46	22%
13	Protective clothing & Supplies	59	23	45	29	96	37	63%
14	Staff Recruiting expenses	-	5	10	7	22	22	
15	Staff Training Expenses	35	15	29	18	62	27	77%
16	Security expenses	1,375	1,454	187	119	1,760	385	28%
17	Sponsorship of Chairs for Universities	-	2	5	3	10	10	
18	Outsourcing of Call Centre	30	-	-	30	30	-	0%
19	Sports cell expenses / Annual Sports	48	12	22	14	48	-	0%
20	OGRA fee	371	-	-	371	371	-	0%
21	Bank Charges	10	2	5	3	10	(0)	0%
22	Facilities Provided by other companies	14	3	7	4	14	-	0%
23	Board Meeting and directors expenses	61	17	33	21	70	9	15%
24	Corporate Social Responsibility	10	3	6	4	14	4	35%
25	Recoverty Through Contractors	25	-	-	25	25	-	0%
26	Other expenses	205	45	167	39	251	46	23%
27	Gas Bills Collection Charges	660	-	-	660	660	-	0%
28	KMI Implementation Plan / UFG Control Activiti	662	-	1,387	-	1,387	725	110%
29	Gathering charges of collection data	65	-	-	65	65	-	0%
30	Dispatch of Gas Bills	165	-	-	165	165	-	0%
31	Provision for doubtful debts	-	-	-	1,843	1,843	1,843	
32	Gross Operating Budget	26,128	9,096	15,044	13,938	38,078	11,950	46%
33	Allocation to CWIP (Others)	(319)	-	(278)	(41)	(319)		0%
34	**Net Operating Budget**	**25,809**	**9,096**	**14,766**	**13,897**	**37,759**		0%
35	Allocation to RLNG	2,252				2,252		0%
36	**Total**	**23,557**				**35,507**		0%

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

8.3 Human Resource Cost

8.3.1 The petitioner submitted that the company projected an amount of Rs. 24,352 million under the head of HR cost for the said year, while allocating Rs. 2,252 million to RLNG cost of service. The company projected its HR requirement based on the previous HR Benchmark parameters, while additional amount of (Rs. 4,687 million) has been claimed against pending CBA agreement FY 2019-21.

8.3.2 The petitioner has expressed its concern over exclusion of CPI impact from HR benchmark parameters and requested to review it after consultative session. The petitioner has submitted that sales volume was given low weightage in the previous HR benchmark computation, whereas in the revised parameters, gas sales volume has been equalized with other parameters and resulted in reduction of HR benchmark. HR cost allowed by the Authority is just 1% above the base cost which proves that the revised formula is even not able to cater for the annual increments (i.e. avg. 7% approx.), increase in various other HR related costs like medical and terminal benefits etc. Moreover, the revised HR benchmark parameters have failed to address the effect of Inflation, increase in minimum wage rates, performance based annual increment etc.

8.3.3 The petitioner stated that it has taken different austerity measures to reduce HR Cost including capping of maximum of pay scales and, development of punishment and reward policy to strengthen efforts against UFG losses as per Authority's directions. The petitioner further stated that negotiations had been underway with its employee's union on free gas facility as part of CBA agreement 2019-21. Moreover, multiple checks have been imposed on cost of overtime.

8.3.4 The petitioner has proposed that the benchmark should be designed in such a way that in case of decrease in any parameter, especially the sales volume and that too in bulk sector, the resultant allowed HR cost should at least not decrease when compared with the base cost. The petitioner stated that it cannot unilaterally reduce, vary or abolish benefits of its employees whether prospectively or retrospectively; since the employment contract is an agreement between SNGPL and the employee.

8.3.5 The petitioner has also stated that they have been working at understrength manpower for past many years, therefore, curtailment of HR cost would affect SNGPL's ability to hire requisite manpower as available resources are already overburdened. The petitioner stated that SNGPL is operating with shortfall of 725 executives and 3,748 subordinates which accounts for total short fall of 4,473 employees (36% shortfall).

8.3.6 In view of the above submission, the petitioner has requested the Authority to:

i. Re-calculate the HR cost as per previous benchmark till such time the new HR benchmark formula is put in place after meaningful consultation with the licensees.
ii. Allocate the fair weightages to Sales volume after considering the trend of domestic sector sales. If the sales volume in any year has decreased, then the HR cost allocated to that segment should be kept at previous year's level.
iii. Allow the impact of at least 50% of CPI.
iv. Allow the impact of CBA cost over and above the HR benchmark cost.

8.3.7 The Authority, after considering the submissions/arguments advanced by the petitioner, observes as under;

i) The Authority, after careful consideration and extensive analysis based on the data provided by the petitioner, has devised revised HR benchmark parameters in DERR for the said year, wherein primarily all operating parameters are kept at equal proportion.

ii) Earlier in HR benchmark formula, pipeline network and no. of consumers comprised 90% weightage of the formula, whereas the sales volume that is actually the real/intrinsic revenue generation activity, was allocated 10% weightage. Considering the change in business dynamics, it was necessarily required to evolve the HR benchmark on equal weightage for each parameter so as to reflect the significance and impact of activities and factors in proportion and corresponding to the HR cost. The same is evident from the following comparative table:

	Rs. in million		
HR Cost Build-up (Million Rs)	FY 2020-21	FY2021-22	% age
T & D network (Km) 33%	5,520	6,073	10%
Number of Consumers (No.) 33%	5,520	6,073	10%
Sales Volume (MMCF)-33%	5,520	4,591	-17%
HR Benchmark Cost	16,562	16,736	

27

28

iii) As evident from the above table, the T&D network & number of consumers are still major contributing factors to HR cost. System gas has witnessed a drastic decrease in supplies which has been, however, supported/managed by RLNG additional volumes. Equal weightage of operating parameters shall also rationalize HR cost and align the same with the core activities.

iv) Regarding petitioner's contention to allow last year cost in case of reduction in sales volume or any others parameter, the Authority notes with concern that laying of T&D network infrastructure is not actually meant to be put idle as it is primarily built for optimal utilization through inducting new consumers with increased sales volume. In view of the same, the petitioner must address its management and the administrative matters in a rather proactive and realistic manner and rationalize its cost in view of market liberalization so as to remain competitive and operate as a going concern

v) Based on the data provided by the petitioner, increases in overall salary breakup of the executive (31%) and staff (34% including the impact of the CBA agreement of Rs. 4,687 million) has been projected against last year actual salary breakup. Moreover, the petitioner projects huge amount to the tune of Rs. 4,969 million, being capitalized under the head of CWIP.

vi) Regarding 50% allowance of CPI, the Authority notes that unprecedented increases allowed in the salaries of executives and staff based on executive's decisions, leaves no reason to consider petitioner's stance where a reasonable increase is already met through revised benchmark. The Authority reiterates that the broader productivity linked benchmark was grossly misused by the petitioner to increase the salaries while purposely overlooking realistic organizational manpower requirement and ignoring its impact on consumers.

8.3.8 ***In view of above, the Authority finds no valid reason to review its HR benchmark formula and decides to maintain its earlier decision and fixes HR cost at Rs. 16,996 million (including IAS-19 cost Rs. 260 million) for the said year based on existing operating parameters as provided at the time of DERR. Any adjustment based on actual parameters shall be considered at the time of FRR for the said year.*** The Authority reiterates its directions to review the wide pay scales including perks and HR policies viz; club membership, tea/coffee, long service award, best option car entitlement, medical (parents) etc, failing which these costs shall be funded through company's own profits. Moreover, the Authority directs the petitioner to end the wide disparity among the pay package of the senior management when compared with junior level management/ staff. This aspect creates sheer discrimination amongst the employees of same company leading to demotivation. The above aspect needs to be considered by BOD so as to rationalize the salaries and remove such disparity while remaining within the budget already allowed.

8.4 Repair & Maintenance Expenses

8.4.1 The petitioner has requested to allow Rs. 2,262 million under Repair & Maintenance expenses, however, the Authority based on operational requirement and past trend allowed an amount of Rs. 1,294 million for the said year. The petitioner has stated that the allowed expenses are insufficient to carry out the activities when compared with expenditures incurred/ allowed in respect of previous years.

8.4.2 The petitioner has further explained that proposed budget mainly comprises contract payments and hiring of labour for operations and maintenance activities. Moreover, petitioner has apprised that government has increased minimum wage rate in the instant year and accordingly, the schedule contract rates have also been increased which have been reviewed after the last revision in July 2017, with overall expected impact of both the revisions around 25-30%.

8.4.3 The Authority notes that the petitioner has repeated its earlier stance already submitted at the time of ERR for the said year in respect of various heads of repair and maintenance activities. ***Since the petitioner has not provided any new evidence and justifications provided are not tangible for reconsideration of petitioner's claim, the Authority maintains its original decision in this respect. However, any prudently incurred expenditure shall be considered at the time of FRR for the said year, provided the same are within the amount per ERR petition.***

8.4.4 ***In view of the above, the Authority decides to maintain Rs. 1,294 million under the head "Repair & Maintenance" for the said year as tabulated below:***

			Rs. in Million	
	Transmission	Distribution	Selling	Total
Demanded	476	1,508	278	2,262
Allowed	272	863	159	1294

8.5 Fuel & Power

8.5.1 The petitioner has requested to allow Rs. 550 million under the head of "Fuel & Power" as against the Authority determination of Rs. 469 million per DERR for the said year.

8.5.2 The petitioner has submitted that huge expenditure of Rs. 622 million was incurred during FY 2020-21 owing to an operation against illegal taps in district Karak with the help of Police & FC and remove 414 No. of illegal taps/connections, which would eventually benefitted through reduced UFG losses in future.

8.5.3 The Authority appreciates Company's efforts to curtail UFG losses in District Karak. However, this activity's impact on "Fuel & Power" shall be dealt at the time of FRR FY 2020-21. The Authority observes that determination of revenue requirement is standalone activity. Each petition is examined and scrutinized on annual basis based on the circumstances and activities carried out in that particular financial year. Any expenditure based on one-time special activity does not qualifies the petitioner to claim it in future with no evidence.

8.5.4 ***Notwithstanding to the above, the Authority, considering the anticipated revision in the electricity tariff by NEPRA, decides to allow Rs. 516 million (i.e. 10% over Rs. 469 million FY 2020-21) for the said year.***

			Rs. in Million	
	Transmission	Distribution	Selling	Total
Demanded	260	290	-	550
Allowed	244	272	-	516

8.6 Rent, Rate, Electricity, and Taxes

8.6.1 The petitioner has requested to allow Rs. 750 million under the head "Rent, Rate, Electricity and Taxes" as against the Authority's earlier determination of Rs. 619 for the said year.

8.6.2 Under the sub-head "Rent", the petitioner submitted that the Authority restricted the expenditure under this sub head at Rs. 299 million i.e. 8% increase over actual. The petitioner reiterated that the Authority ignored SNGPL's actually finalized rental agreements of Rs. 317 million, which has been executed by the petitioner after due deliberation with the landlords.

8.6.3 The Authority observes that the petitioner is offering generic and repetitive arguments without providing any conclusive reasons. The Authority has always reiterated that petitioner should negotiate the lease agreement with landlords and avoid lopsided agreements. ***In view of the same, the Authority decides to maintain its earlier decision and restricts rent expenditure at Rs. 299 million for the said year. However, any prudently incurred expenditure shall be considered at the time of FRR for the said year, provided the same are within the amount per ERR petition.***

8.6.4 Under the sub-head "Office Electricity" the petitioner has requested to allow Rs. 210 million against the Authority's determination of Rs. 195 million (i.e. 10% increase over FRR 2019-20). The petitioner has argued that this increase is insufficient considering the actual expense of Rs. 190 million incurred during FY 2020-21 as expenditure during FY 2019-20 remained on the lower side due to reduced operations during Covid-19 situation in the country. The petitioner has further added that electricity tariff was already jacked up by 11.1% from Rs. 17.560 to Rs. 19.510 per unit during March 2021.

8.6.5 The Authority notes that petitioner has always been allowed reasonable increase in the past determinations including DERR for the said year so as to absorb the impact of increased tariff of electricity. ***In view of the same, the Authority decides to maintain its earlier decision and allows Rs. 195 million against Electricity Expenses for the said year.*** The Authority reiterates its earlier direction that Electricity, being a precious commodity, be consumed in an economized and rationalize manner through effective measures, control and sound monitoring mechanism.

8.6.6 ***In view of above, the Authority decides to allow "rent, rate, electricity & taxes" at Rs. 619 million for the said year; subject to the actualization at year end, as tabulated below:***

			Rs. in Million	
	Transmission	Distribution	Selling	Total
Demanded	215	309	226	750
Allowed	177	255	187	619

8.7 Legal and Professional Charges

8.7.1 The petitioner has requested to allow Rs. 350 million under the head "Legal and Professional Expenses" as against the Authority earlier DERR determination of Rs. 204 million for the said year.

8.7.2 Regarding the sub-head "Legal", the petitioner has requested to allow Rs. 291 million against the Authority's earlier determination of Rs. 145 million for the said year. The petitioner has stated that the Authority disallowed significant amounts under this subhead without considering the actual need of the company. With regard to recovery suits, the petitioner has already taken various measures to reduce the cost including increasing the minimum threshold for filing of recovery suits against consumer's defaults from earlier Rs. 10,000 to Rs. 40,000. In declaratory suits, the petitioner has to contest against every case filed against it by the consumer regardless of its materiality, as the amounts involved in such suits may not be material individually but in aggregate such cases will be of significant impact. In case, if these are not contested, it is likely that the decision against the company will be declared resulting in huge losses. The petitioner has provided detail of number of cases filed and decided during last three years, as summarized below:

Table 11: Comparison of Year-wise Cases Filed and Decided

Sr.	Years	No. of Cases Filed	No. of Cases Decided
1	2018-19	12,536	5,761
2	2019-20	5,826	3,752
3	2020-21	6,438	3,602

8.7.3 The Authority notes that the petitioner has failed to respond to the observations raised by it at the time of DERR for the said year. The above table does not indicate the cases/applications filed by the petitioner itself, but on overall basis. The Authority observes that the petitioner has always come up with similar arguments and has not paid heed to its directions to curtail unnecessary litigation and explore amicable solutions. Such consistent increase by the petitioner without tangible basis can't be allowed as part of price.

8.7.4 ***Keeping in view of the above, the Authority decides to maintain its earlier stance and keep legal expenses at the level of Rs. 145 million for the said year. However, any prudently incurred expenditure shall be considered at the time of FRR for the said year, provided the same are within the amount per ERR petition.***

8.7.5 ***In view of the above, the Authority determines the expenses under the head "Legal and Professional Charges" at Rs. 204 million for the said year.***

			Rs. in Million	
	Transmission	Distribution	Selling	Total
Demanded	83	162	105	350
Allowed	49	94	61	204

8.8 **Provision for doubtful debts**

8.8.1 The petitioner has requested to allow Rs. 1,843 million under the head "Provision for doubtful debts" as against the Authority earlier DERR determination of nil for the said year. The petitioner claimed provision for doubtful debts against disconnected consumers at Rs. 1,843 million excluding Expected Credit Loss (ECL) for the said year.

8.8.2 The petitioner has submitted that actual recoveries from active consumers have been approximately 99% of the current bills issued to them during the said year. Large number of industrial consumers are in litigation, which the Company is bound to follow up. No business in the world has zero default if the goods are sold on credit. Presently gross sales value (inclusive of GST) has exceeded Rs. 800 billion of which the projected amount of provision for doubtful debts is only 0.23% which is negligible. Moreover, under the new prevalent IFRS 9, the petitioner has to provide provision even against the active consumers. It is, therefore, requested that marginal provision against the doubtful debts be provided.

8.8.3 The petitioner has also highlighted those serious efforts are being made to arrange recoveries against disconnected consumers. Additional control and measures are being taken such as adjustment of security deposit with SNGPL, encashment of Bank Guarantees, filing of recovery suits before gas utility courts as well as recovery contractor, blockage of CNIC of defaulting consumers, attachment of properties through respective Courts and Revenue Authorities, Media Campaign and Publishing list of defaulted Industrial and Commercial disconnected consumers (Rs. 1 Million and above) at Company's official website.

8.8.4 The Authority observes that certain information on a devised format was sought from the petitioner so as to ascertain the quantum of efforts as referred in para 8.7.3 above. However, the petitioner failed to substantiate its claim. ***In the absence of tangible justification, the Authority is constrained to disallow the claimed amount on this account.*** The Authority once again directs the petitioner to take measure for good corporate governance and demonstrates efficiency in measurable terms in respect of reduction in litigation cases as well as increase in recovery of default amount.

8.9 **Security Expenses**

8.9.1 The petitioner has requested to allow Rs. 1,760 million under the head "Security Expenses" as against the Authority earlier DERR determination of Rs. 1,375 million for the said year.

8.9.2 Under the sub-head "Security forces", the petitioner has submitted that it has projected the cost of Rs. 1,760 million based on already executed agreements. The petitioner has explained that annually 8% rise is projected as stipulated under security agreements in view of increase in minimum wages by respective provinces. Moreover, the petitioner has informed that the arrangements are strictly carried out following PPRA Rules giving award to the lowest bidder.

8.9.3 The petitioner has also informed that since February, 2021, security agreement amounting to. Rs. 403 million has been made with Frontier Corps for safety of high-pressure pipeline in KPK, and removal of illegal taps on transmission pipeline.

8.9.4 ***The Authority, keeping in view the revised agreements and deployment of security force at KPK pipeline infrastructure, decides to allow Rs. 1,760 million in respect of security expenses.***

8.10 **KMI Implementation Plan (UFG Control Activities)**

8.10.1 The Authority had allowed Rs. 662 million against claim of Rs. 1,387 million at the time of DERR for the said year on account of UFG control activities. The petitioner while requesting the Authority for reconsideration of the disallowed budget has apprised that the amount under this head is essentially required to achieve allowance against Local Conditions Component of UFG Benchmark such as theft Control Program (i.e. KMI 4, 5, 20, & 22), measurement errors control program (i.e. KMI 8, 11 & 12) and leakage control program (i.e. KMI 15 & 21). The petitioner also stated, in the absence of requisite budget, the petitioner will not be able to execute 100% KMIs and resultantly UFG control Activities will adversely be affected.

8.10.2 The Authority observes that the petitioner has merely repeated its stance and no new justifications have been provided for reconsideration of the Authority's decision. ***Therefore, the Authority maintains its original decision in this respect.***

8.11 **Corporate Social Responsibility (CSR) and sports related activities**

8.11.1 The petitioner has requested to allow Rs. 14 million under the head "Corporate social responsibility" as against the Authority earlier determination per DERR at Rs. 5 million for the said year.

8.11.2 The petitioner submitted that National Command and Operation Center (NCOC) in its meeting has asked public sector / state owned enterprises (SOEs) to participate in national vaccination derive and play their role in vaccination of general public in their area of presence by allocating funds under CSR. Accordingly, the BOD has approved Rs. 7 million for establishing around 15 Nos. of temporary corona vaccination camps preferably in 09 districts of Khyber Pakhtunkhwa and south Punjab, sponsoring mobile units under the head of CSR.

8.11.3 The Authority appreciates the initiatives taken by the Company in the backdrop of support needed by FG and especially general public at large. The petitioner is directed to ensure provision of covid-19 vaccination facility on priority to gas producing fields and shall submit a certificate to this effect at the time of FRR that the expenditure in health activities has been made in the light of parameters set in natural gas tariff regime implemented FY 2018-19 onwards. ***Accordingly, any impact shall be considered at the time of FRR based on actualization, subject to touchstone of prudence and rationale.***

In view of the above, the Authority decides to allow Rs. 11.58 million under the head of CSR for the said year.

			Rs. in Million	
	Transmission	Distribution	Selling	Total
Demanded	3	6	4	14
Allowed	2.74	5.39	3.44	11.58

8.12 Remaining T&D Expenses not discussed above/Final T&D Cost Summary

8.12.1 The petitioner has claimed to allow total amount of Rs. 511 million against various T&D cost components viz; protective supplies, staff training and staff recruitment, sponsorship to universities, BoD Meeting and Construction Equipment expenses against the Authority determination Rs. 360 million at the time of DERR for the said year. The Authority, after going through the detailed justifications and reasons, with careful review and analysis, notes that the petitioner has failed to offer any new justification, evidence or emergence of new circumstance as stipulated under Section 13 of the Ordinance. ***Therefore, the Authority decides to maintain its earlier decision taken at the time of DERR for the said year,*** as tabulated below:

Table 12: Transmission & Distribution Cost as per DERR

						Rs. in Million
Sr #	Description	FY 2020-21	Transmission	Distribution	Selling	Total
		DERR	The Petition FY 2021-22			
1	Protective clothing & Supplies	96	14	28	17	59
2	Staff Recruiting expenses	22	-	-	-	-
3	Staff Training Expenses	62	8	16	10	35
4	Sponsorship of Chairs for Universities	10	-	-	-	-
5	Board Meeting and directors expenses	70	13	36	12	61
6	Other expenses/Construction Equipment Operating cost	251	37	136	32	205
	Total	511	72	216	71	360

8.12.2 In view of the discussion and decision in preceding paras and the RLNG allocation as decided in para 11.9, the Authority provisionally allows T&D costs as per table below;

Table 13: Transmission & Distribution Cost Determined by the Authority

Rs. in million

Sr #	Description	The Petition RERR FY 2021-22	As Calculated Transmission	Distribution	Selling	Total
1	HR Cost	24,352	3,873	6,710	6,413	16,996
2	Repairs & maintenance of system	2,262	272	863	159	1,294
3	Rent, rates, royalty, electricity and telephones	750	177	255	187	619
4	Transport expenses	1,165	229	591	154	975
5	Fuel & Power	550	244	272	-	516
6	Legal and Professional services	274	49	94	61	204
7	Advertisement & publicity	253	7	13	188	208
8	Protective clothing & Supplies	96	14	27	17	59
9	Staff Recruiting expenses	22				-
10	Staff Training Expenses	62	8	16	10	35
11	Security expenses	1,760	1,454	187	119	1,760
12	Sponsorship of Chairs for Universities	10				-
13	Board Meeting and directors expenses	70	13	36	12	61
14	Corporate Social Responsibility	14	3	5	3	12
15	Other expenses	251	37	136	32	205
16	KMI Implementation Plan / UFG Control Activities	1,387	-	662	-	662
17	Provision for doubtful debts	1,843				-
18	Remaining T&D Cost	2,958	693	605	1,660	2,958
19	**Gross Operating Budget**	**38,079**	**7,073**	**10,473**	**9,016**	**26,563**
20	Allocation to CWIP (Others)	(319)		(178)	(141)	(319)
21	Allocation to RLNG	**(2,252)**				(12,219)
22	Net Operating Budget	35,508	7,073	10,295	8,875	14,025

8.13 ***Regarding LPS payment as claimed by the petitioner at Rs. 35,778 million, the Authority maintains its earlier decision and pends the same till the resolution of matter of circular debt by GoP.***

9 Worker Profit Participation Fund (WPPF)

9.1 The petitioner has claimed Rs. 872 million against WPPF calculated at 5% on estimated operating profit for the said year. The petitioner stated that the Companies Profit Worker's Participation Act, 1968 has been adopted by Punjab Government in December, 2020, therefore the same is applicable on companies operating in Pakistan.

9.2 The Authority observes that matter in respect of participation fund is sub-judice in the Courts. ***Accordingly, the Authority decides to consider the amount at the time of FRR based on actualization at year end.***

10 Previous Year's Cumulative Shortfall

10.1 The petitioner has claimed Rs. 219,892 million previous years' revenue shortfall and requested to include the same in tariff determination. The petitioner has submitted that this revenue shortfall has emerged due to inadequate increase in gas prices by GoP and, therefore, requested to incorporate cumulative revenue shortfall as part of instant decision.

10.2 The Authority notes that decision of MFR FRR FY 2019-20 has been finalized by it. Accordingly, revised cumulative shortfall is computed at Rs. 209,199 million upto FY 2020-21. ***The Authority has not included any impact as part of instant determination and decides to refer the matter in respect of previous years' shortfall to FG for devise of appropriate policy so that the revenue shortfall as determined by OGRA is fully met.***

11 RLNG Cost of Service

11.1 The petitioner has claimed Rs. 97,429 million on account of RLNG cost of supply for the said year, including differential cost of RLNG Rs. 58,768 million against the volume diverted to domestic consumers. The petitioner has projected actual throughput volume at 323,743 MMBTU (i.e. at 1150 MMCFD) and has accordingly requested RLNG cost of supply at Rs. 300.94/MMBTU for the said year. The same is tabulated below:

Table 14: RLNG's Cost of Service as claimed by the petitioner

Description	The Petition
Quantitative Data	BBTU
RLNG Input	**442,836**
Retainage / gas used in FSRU	(3,321)
Retained by SSGC	(57,761)
GIC - SSGCL network	(1,909)
GIC - SNGPL network	(4,558)
UFG	(17,601)
RLNG Diverted to System Gas Consumers	(33,943)
Net RLNG sold	**323,743**
Cost Components	**Million Rs.**
Amortization of Deferred Credit	(890)
Depreciation	2,111
Return on Assets	6,228
HR and other relevant costs allocated to RLNG	2,344
Gas Internally Consumed SNGPL	9,852
Gas Internally Consumed SSGC (FY 2021-22)	4,126
Gas Internally Consumed SSGC (2017-18 & FY 20	3,503
Transportation charges payable to SSGC	9,303
Finance cost for working capital	1,766
WPPF	318
Total	**38,660**
Rs/ MMBTU	**119.42**
Recovery of RLNG price differential, diversion to Indigenous Gas (to be charged from RLNG consumer)	58,768
Impact of RLNG price differential Rs./MMBTU	**181.53**
Total	**300.94**

11.2 The petitioner has argued that sale of RLNG to its own retail consumers does not come under the purview of Third Party Access Rules, 2018 (TPA Rules) and therefore, OGRA's decision to compute RLNG cost of service as transmission/distribution activity does not hold any legal support. The petitioner has argued that determining RLNG cost of supply on total installed capacity of RLNG (i.e. 1200 MMCFD) based on the TPA Rules is resulting in less recovery, being a ring-fenced activity since these costs can't be charged to any other segment of consumers. The petitioner has also submitted that pipeline was financed through commercial banks' loans and such disallowance shall badly affect the repayment of loans and become an impediment in future financing of such mega projects.

11.3 The petitioner has also argued that such treatment is not in line with the spirit of License condition 5.2 which requires OGRA to place a benchmark for curtailment of inefficient costs, if any. Moreover, OGRA's treatment for computation of cost of service on TPA Rules, 2018 basis is also contradictory with point No. 3 and 4 of Schedule-I of TPA Rules which allows the transporter to collect its relevant and fairly allocated costs, although this is not the case for SNGPL, being its sale activity.

11.4 In addition to the above, the petitioner has submitted that utilization of pipeline is dependent on demand of RLNG from the end consumers and uninterrupted supply from the upstream transporter (i.e. SSGC) as its sister utility has been retaining about 100 to 150 MMCFD RLNG procured by it. OGRA's decision dated November, 2018 is also relevant and restricts the petitioner to recover its cost of service as well as UFG on RLNG sale at SSGCL system. The petitioner has further submitted that RLNG equivalent to 33,943 MMBTU has been diverted/sold to system gas consumers at highly subsidized system gas price as per FG's directions owing to depletion of indigenous gas sources along with increase in number of domestic consumers and severe winter season. Accordingly, these retained as well as diverted volumes shall be adjusted from RLNG sold volumes for full recovery of RLNG cost of service.

11.5 The petitioner, at the time of ERR petition, has also highlighted that RLNG segment has reached 46% of entire sales volume, and has, therefore, requested to charge fairly allocated T&D cost to respective business segment i.e. RLNG and natural gas. The petitioner has also referred to Federal Cabinet's decision dated February, 2016 wherein it was decided that RLNG pricing will be ring-fenced and all directly attributable costs will be charged/recovered from RLNG consumers without burdening the natural gas consumers. The petitioner has therefore, requested to charge allocated costs based on projected sales volume of RLNG and natural gas as part of cost of service for the said year.

11.6 The Authority has examined the contentions of the petitioner and observes that ownership of RLNG molecule rests with company and it is selling gas directly to its own consumers, therefore, the applicability of TPA Rules for computation of RLNG cost of service does not seem relevant. Moreover, regarding company's request for charging allocated costs, it is noted that increasing share of RLNG supply into the system necessitates charging fairly allocated and relevant costs as well as revenues to each business segment separately viz: indigenous as well as RLNG for computation of fair cost of supply in each case. Therefore, recording /charging majority costs to indigenous system needs revision so as to effectuate recovery of costs through relevant consumers. Accordingly, allocated costs on the basis of RLNG sales and related incomes shall be charged to RLNG cost of service.

11.7 Regarding petitioner's request for allowance of finance cost amounting to Rs. 1,766 million, the Authority notes that the said matter has already reached finality in its past determinations and therefore, mere repetition of the arguments without basis holds no logic. In view of the same, the Authority decides to exclude the same from RLNG cost of service for the said year.

11.8 Regarding adjustment on account of RLNG volumes held by SSGCL and RLNG supplies diverted to domestic & commercial as per FG's directions, the Authority shall consider the same at the time of FRR based on actual volumes supplied during the said year. The Authority, however, directs the petitioner to keep this business segment ring-fenced in the light of policy guidelines of FG without unnecessarily burdening any class of consumers in true letter and spirit of the FG's policy. The Authority shall only consider the petitioner's claim on touchstone of prudence and rationale. Any claim lacking evidence and prudence shall be met from Company's own profit.

11.9 The Authority, keeping in view of the above, with some slight adjustment/correction in depreciation rates (i.e. Compressor and Measuring & Regulating Assets etc), revised depreciation and Return to Rs. 1,893 million and Rs. 6,001 million respectively for the said year. Accordingly, revised Transportation charges payable to SSGC Rs. 9,303 million has been incorporated as computed under SSGCL's RLNG cost of supply per determination in RERR for the said year. Amount under WPPF shall be allowed on the basis of actualization at the time of FRR for the said year.

11.10 ***In view of the above, the Authority decides to charge all directly attributable costs (CAPEX, OPEX) to RLNG cost of service and equitably include all operating income arising from RLNG business segment while computing the RLNG cost of service.***

Accordingly, RLNG cost of service is calculated on provisional basis as per table below subject to actualization at year end:

Table 15: Computation of RLNG Cost of Service for the Said Year

Description	As Allowed
Quantitative Data	**BBTU**
RLNG Input	**462,090**
Retainage / gas used in FSRU	(3,321)
GIC - SNGPL network	(3,898)
UFG	(20,170)
GIC - SSGCL network	-
Retained by SSGC	-
RLNG Diverted to System Gas Consumers	-
Net RLNG sold	**434,701**
Cost Components	**Million Rs.**
Amortization of Deferred Credit	(833)
Depreciation	1,893
Return on Assets	6,001
HR and other relevant costs allocated to RLNG	12,219
Gas Internally Consumed SNGPL	8,022
Late payment surcharge	(2,473)
Transportation charges payable to SSGC	9,303
Total	**34,131**
Rs/ MMBTU	**78.52**

12 Determination

12.1 The Authority, after taking into consideration points raised by interveners, clarifications provided by petitioner, scrutiny of petition and available record, provisionally determines the shortfall in estimated revenue requirement for said year at Rs. 21,109 million (**Annexure-I**). Accordingly, the revenue requirement is provisionally allowed at Rs. 227,485 million for the said year and the prescribed against each category of consumers is determined per **Annexure-II**. The Authority has not, however, included previous years' shortfall, as discussed in para 10.2 as part of instant determination and decides to refer it to FG for an appropriate policy decision. The Authority, under Section 8(2) of the Ordinance refers the instant determination to the FG for advise of category-wise sale prices along-with minimum charges within the stipulated time period of forty days.

12.2 The Authority, as a matter of principle under legal domain, is of the view that all the classes of consumers should at least pay the average cost of service or the average prescribed price except wherever FG policy guidelines have been provided, which shall be implemented accordingly.

12.3 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.

12.4 The revised provisional prescribed price determined, under Section 8(2) of the Ordinance, against each category of consumers is 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."*

12.5 In view of the above legal position, 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 along-with minimum charges for notification in the Official Gazette within the stipulated time period.

12.6 All other directions/decisions issues at DERR for the said year, unless specifically revised/amended under the RERR, shall remain in full force and effect.

13 Public Critique, Views, Concerns, Suggestions

13.1 The Authority has recorded critique, views, concerns, and suggestions of the interveners and participants given in Para 3 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. The petitioner should focus and make concerted efforts on reduction of UFG, improvement of internal control systems, increase of efficiency, quality of service, emergency response plan, and effective cost control/reduction measures should be taken to remain financially viable instead of making all out of efforts to seek passing on of costs associated with its own inefficiencies, malpractices, thefts, bad debts and alike to the consumers.

Zain-ul-Abideen Qureshi
(Member Oil)

Muhammad Arif
(Member Gas)

01 MAR 2022

Mr. Masroor Khan
(Chairman)

Annexure -I

1.Computation of Review Estimated Revenue Requirement FY 2021-22

Amount in million.

	Particulars	The Petition	Adjustment	As Allowed
	Gas sales volume -MMCF	362,259	(32,578)	329,681
	BBTU	344,268	(33,943)	310,325
"A"	**Net Operating revenues**			
	Net sales at current prescribed price	198,408	(11,484)	186,924
	Rental & service charges	4,100	-	4,100
	Late Payment Surcharge and interest on arrears	7,348	2,000	9,348
	Amortization of deferred credit	3,660	-	3,660
	Transportation Income	450	-	450
	Other Operating Income	1,894	-	1,894
	Total income "A"	**215,860**	(9,484)	**206,376**
"B"	**Less Expenses**			
	Cost of gas sold	196,697	(13,364)	183,333
	UFG (disallownce) / allowance	(2,870)	(1,326)	(4,196)
	HR cost Incl. T& D cost, net of capital allocation	35,415	(21,390)	14,025
	Gas internally consumed	1,345	(726)	619
	Depreciation	19,291	(4,560)	14,731
	Late Payment Surcharge (Payable)	35,778	(35,778)	-
	Finance cost for working capital	875	-	875
	Regional office at karak	229	(229)	-
	Sub-Region Pabbi & CSC at Jehangira	71	(71)	-
	operating expense of GIS Mapping project	31	(31)	-
	Workers Profit Participation Fund	872	(872)	-
	Total expenses "B"	**287,734**	(78,347)	**209,387**
"C"	**Operating profit / (loss)(A - B)**	**(71,874)**	**68,863**	**(3,011)**
	Return required on net assets:			
	Net assets at begining	133,561	-	133,561
	Net assets at ending	155,700	(29,913)	125,787
		289,261	*(29,913)*	**259,348**
	Average fixed net assets (I)	**144,631**	**(14,957)**	**129,674**
	Deferred credit at begining	20,480	-	20,480
	Deferred credit at ending	20,819	-	20,819
		41,299	-	**41,299**
	Average net deferred credit (II)	**20,650**	-	**20,650**
"D"	**Average operating assets (I-II)**	**123,981**	**(14,957)**	**109,025**
	Return required on net assets	16.60%	-	16.60%
"E"	Amount of return required	20,581	(2,483)	18,098
"F"	(Excess) / Shortfall FY 2021-22 - gas operations	**92,454**	**(71,346)**	**21,109**
"G"	Additional revenue requirement for LPG Air-Mix Projects	163	(163)	-
"H"	(Excess) / shortfall FY 2021-22 without previous years shortfall	**92,617**	**(71,509)**	**21,109**
	Average Inc/(Dec) in Prescribed Price FY 2021-22 (Rs. /MMBTU)	**269.03**	**(201.01)**	**68.02**
"I"	**Total Revenue requirement FY 2021-22**	**308,478**	**(80,993)**	**227,485**
"J"	**Average Prescribed Price (PP) FY 2021-22(Rs./MMBTU)**	**845.35**	**(174.97)**	**670.37**

Annex-II

2. Provisional Prescribed Price for RERR FY 2021-22

	Particulars	Existing Sales Price	Average Prescribed Price FY 2021-22
		Rs./MMBTU	
(I)	**Domestic Consumers:**		
	a) Standalone meters b) Mosques, churches, temples, madrassas, other Religious Places and Hostels attached thereto;		
	Upto 0.5 hm^3 per month	121.00	670.37
	Upto 1 hm3 per month	300.00	670.37
	Upto 2 hm3 per month	553.00	670.37
	Upto 3 hm3 per month	738.00	670.37
	Upto 4 hm3 per month	1,107.00	670.37
	Above 4 hm3 per month	1,460.00	670.37
	The billing mechasism will be revised so that the benefit of one previous / preceding slab is availble to domestic consumer (residentail use). 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.		
(II)	Special Commercial Consumers (Roti Tandoors)		
	Upto 0.5 hm^3 per month	110.00	670.37
	Upto 1 hm3 per month	110.00	670.37
	Upto 2 hm3 per month	220.00	670.37
	Upto 3 hm3 per month	220.00	670.37
	Above 3 hm3 per month	700.00	670.37
(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 including hotel industry, malls, places of entertainment like cinemas, clubs, theaters and private offices, corporate firms, etc.		
	All off-takes at flat rate of	1,283.00	670.37
(IV)	Ice Factories:		
	All off-takes at flat rate of	1,283.00	670.37
(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	1,054.00	670.37
(VII)	**Export Oriented (General Industry)**		
	All off-takes at flat rate of	819.00	670.37
(VIII)	**Export Oriented (Captive)**		
	All off-takes at flat rate of	852.00	670.37
(IX)	**Captive Power :**		
	Captive Power plant/unit means an industrial undertaking/unit carrying out the activity of power production (with or without co-generation) for self-consumption and/or for sale of surplus power to a Distribution Company or bulk-power consumer.		
	All off-takes at flat rate of	1,087.00	670.37
(X)	**Compressed Natural Gas (CNG):**		
(a)	**CNG (Region-I):**		
	All off-takes at flat rate of	1,371.00	670.37
(XI)	**Cement Factories:**		
	All off-takes at flat rate of	1,277.00	670.37

(XII)	**Fertilizer Companies:**			
(i)	*Pak American Fertilizer Company Limited, Daudkhel.*			
(a)	For gas used as feed stock for fertilizer			
	All off-takes at flat rate of		302.00	670.37
(b)	For gas used as fuel for generation of electricity, steam and for usage of housing colonies.			
	All off-takes at flat rate of		1,023.00	670.37
(ii)	**Pak Arab Fertilizer Limited, Multan.**			
(a)	**For gas used as feed stock for fertilizer**			
	All off-takes at flat rate of		302.00	670.37
(b)	**For gas used as fuel for generation of electricity, steam and for usage of housing colonies.**			
	All off-takes at flate rate of		1,023.00	670.37
(iii)	*Dawood Hercules Chemicals Limited, Chichoki Malian, Sheikhupura District.*			
(a)	For gas used as feed stock for fertilizer.			
	All off-takes at flate rate of		302.00	670.37
(b)	**For gas used as fuel for generation of electricity, steam and for usage of housing colonies.**			
	All off-takes at flate rate of		1,023.00	670.37
(vi)	*Pak-China Fertilizer Limited, Haripur*			
(a)	**For gas used as feed stock for fertilizer.**			
	All off-takes at flate rate of		302.00	670.37
(b)	**For gas used as fuel for generation of electricity, steam and for usage of housing colonies.**			
	All off-takes at flate rate of		1,023.00	670.37
(v)	*Hazara Phosphate Plant Limited, Haripur.*			
(a)	For gas used as feed stock for fertilizer.			
	All off-takes at flate rate of		302.00	670.37
(b)	For gas used as fuel for generation of electricity, steam and for usage of housing colonies.			
	All off-takes at flate rate of		1,023.00	670.37
(vi)	*ENGRO Fertilizer Company Limited*			
(a)	For gas used as feed stock for fertilizer			
	All off-takes at flate rate of	US$	0.70	0.70
(b)	For gas used as fuel for generation of electricity, steam and for usage of housing colonies.			
	All off-takes at flate rate of		1,023.00	670.37
(XIII)	**Power Stations:**			
(a)	WAPDA's Power Stations and other electricity utility companies excluding WAPDA's Natural Gas Turbine Power Station, Nishatabad, Faisalabad.			
	All off-takes at flate rate of		857.00	670.37
(b)	WAPDA's Natural Gas Turbine Power Station, Nishatabad, Faisalabad.			
	All off-takes at flate rate of		857.00	670.37
	Fixed Charges (Rupees per month)		390,000	390,000
(XIV)	**Liberty Power Limited's Gas Turbine Power Plant (Phase1) at Daharki:**			
	All off-takes at flate rate of	*w.e.f January 01, 2022 to June 30, 2022*	1,623.24	
(XV)	**Independent Power Producers:**			
	All off-takes at flate rate of		857.00	670.37