Case No. OGRA-6(2)-2(5)/2022-RERR

IN THE MATTER OF

**SUI SOUTHERN GAS COMPANY LIMITED
REVIEW ON ESTIMATED REVENUE REQUIREMENT
FY 2022-23**

UNDER

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

DECISION ON

JANUARY 09, 2023

Before:

Mr. Masroor Khan, Chairman
Mr. Zain ul Abideen Qureshi, Member (Oil)
Mr. Mohammad Naeem Ghouri, Member (Finance)

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1. Background

1.1. Sui Southern Gas Company Limited (the petitioner) is a public limited company incorporated in Pakistan and is listed on Pakistan Stock Exchanges Ltd. The petitioner undertakes activities relating to construction, operation of gas transmission, distribution pipelines, sale of natural gas and by-products in the provinces of Sindh and Balochistan under the license granted by the 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 filed a petition on March 09, 2022, under Section 8 (1) of the Oil and Gas Regulatory Authority Ordinance, 2002 (the Ordinance) and Rule 4(2) of Natural Gas Tariff Rules, 2002 (NGT Rules) requesting the Authority to allow prescribed price of Rs. 1,013.02/MMBTU for FY 2022-23 (the said year). The Authority vide its decision dated June 03, 2022 determined the prescribed price at Rs. 1,007.82/MMBTU w.e.f. July 01, 2022.

1.3. Being aggrieved by this determination, the petitioner has submitted a Motion for Review on July 01, 2022 under Rule 16 of the NGT Rules and the same was rejected by the Authority on September 05, 2022.

2. The Petition

2.1. The petitioner has submitted its review petition (the petition) on October 14, 2022, under Section 8(2) of the Ordinance, incorporating in the ERR the effect of changes in the projected cost of gas for the said year taking into account the latest oil prices in the international market and rupee US$ parity. The petitioner has also revised gas purchases and sales volume based on two months' actual purchase/sales figures along with 10 months estimated figures. Further, the petitioner has requested to treat the Motion for Review per para 1.3 above, as part of the instant review petition and requested the Authority to re-consider its earlier decision. Accordingly, a shortfall of Rs. 184,881 million or increase of Rs. 667.44 per MMBTU including unrecouped previous year shortfall for FY 2021-22 for natural gas consumers has been requested for the said year. The petitioner has, therefore, requested the Authority to allow the average prescribed price at Rs. 1,360.07 / MMBTU w.e.f. July 01, 2022.

2.2. The petitioner has submitted following statement of cost of service:

Table 1: Projected Cost of Service per the Petition

Rs. / MMBTU

Particulars	FY 2022-23
	The Petition
Sale Volume (BBTU)	277,000
Cost of gas Sold	1,162.47
UFG adjustment	-
UFG adjustment on RLNG volume handled basis (ring fence)	(71.77)
Transmission and distribution cost	86.73
Depreciation	32.09
Return on net average operating fixed assets	42.81
Other operating income	(19.41)
Subsidy for LPG Air-Mix Project	5.18
Cost of service / prescribed price for the said year	**1,238.10**
Un-recouped Prior years determined Revenue Shortfall for FY 2021-22	121.97
Cost of service / prescribed price including Prior year shortfall	**1,360.07**
Current average prescribed price	692.63
Increase requested in average prescribed price w.e.f. 1-7-2022	**667.44**

2.3. The Authority admitted the petition under Rule 5 of NGT Rules, as a prima facie case for evaluation and consideration by the Authority on November 03, 2022.

2.4. Accordingly, a notice of Public Hearing was published in the leading newspapers on November 8, 2022 inviting interventions / comments on the petition from the consumers, stakeholder and the general public for hearing to be held at Movenpick Hotel, Karachi on November 21, 2022. In response thereto, the Authority received following applications for intervention in the proceedings:

i) Karachi Chamber of Commerce & Industry, Karachi
ii) All Pakistan Textile Processing Mills Association, Faisalabad

2.5. The Authority accepted all the applications mentioned above for intervention.

3. Proceedings and Public Interventions

3.1. Accordingly, public hearing was held on November 21, 2022, at Movenpick Hotel, Karachi. The following interveners / participants presented their views:

Petitioner:

(i) The petitioner's team led by Mr. Imran Maniar, Managing Director.

Interveners / Participants:

(i) Mr. Zubair Motiwala, KCCI, APTPMA & SITE
(ii) Abdul Sami Khan, Chairman, Pakistan Petroleum Dealers Association
(iii) Mr. Sameer Gulzar, Former Chairman, All Pakistan CNG Association
(iv) Mr. M. Jawed Bilwani, Pakistan Hosiery Manufacturers Association
(v) Mr. Aadil Jilani, Special Assistant to President, KCCI
(vi) Mr. Riaz Uddin, President SITE Association
(vii) Mr. Saleem Parekh, SITE Association
(viii) Mr. Arif Bilwani, Consumer
(ix) Mr. Tanveer Bari, Chairman Public Sector Committee, KCCI
(x) Mr. Aamir Hassan, KCCI
(xi) Mr. Baleegh Hussain, BMA Corporate
(xii) Khawaja Jawad Ahmed, S.H Former KCCI
(xiii) Mr. Dawood A.G, Share Holder

3.2. During the hearing, the petitioner made submissions in detail with the help of multimedia presentation explaining major reasons for its claims including T&D expenses and fixed assets. The crux of the same is as under: -

3.2.1. The petitioner has explained that the petition has been filed in line with past practice, based on revised parameters and assumptions (i.e., latest crude oil price and exchange rate trend etc.) and actual figures of sales volume and purchases for the month of July-August 2022 for calculating cost of gas.

3.2.2. It was requested the Authority to allow RLNG handling volumes since it is affecting the company's financial position.

3.2.3. The petitioner has also requested for revision in various T&D costs components owing to high inflationary impact. The petitioner has also requested to consider Motion for Review against DERR for the said year as an integral part of the instant petition and accordingly merged it in RERR.

3.2.4. The petitioner has highlighted its achievements made during the last year for bringing improvement in the system as a going concern. It was informed that the company has segregated the industrial mains from other distribution network so as better monitoring of UFG and reconciliation of gas supply and consumption.

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3.2.5. It was emphasized that the petitioner has taken various steps including meetings with honorable Sindh Chief Minister, and officials of Sindh Building Control Authority (SBCA) for allowance of gas connection to non-customers.

3.2.6. It was also highlighted that defective EVCs, Modems, and TBS (Town Board Station) have been replaced / installed.

3.2.7. It was requested OGRA to allow capital expenditure in principle as it shall not impact consumers' price upfront.

3.2.8. It was explained that strict actions were also taken for gas theft consumers.

3.2.9. It was also requested to allow the replacement of faulty meters in Baluchistan and Sindh to reduce the UFG. It was also highlighted that company is trying to regularize almost 0.7 million customers, which were using illegal gas in Karachi for recovery of gas usage after getting approval from its Board of Directors.

3.2.10. It was pointed out that company is suffering significant losses over past several years in Balochistan due to high UFG but still carrying out the FG's socio-economic agenda for supply of gas. FG should share the burden of loss.

3.2.11. It was highlighted that company was buying gas from new well at US$ 6/MMBTU, however, the same is not received due to the non-revision of gas sale prices.

3.2.12. It was also pointed out that the company is trying to introduce hydro and bio gas projects owing to energy shortfall in the system.

3.2.13. It was also informed that the company has increased its LPG imports from 10,000 MT to 40,000 MT.

3.2.14. It was further informed that gas supplies are not being stopped to industry instead of captive power.

3.3. The substantive points made by the interveners during the hearing are summarized below: -

3.3.1. It was highlighted that under the ongoing economic crisis, viability of business has become very critical for the private sector. Hundreds of businesses are already closed & left because of high petroleum & energy prices leading inflation. Also, submitted that hike in gas prices is neither practical nor a realistic approach that would further deepen the economic crises. Pakistan needs consistency in policies for sustainable economic growth & end this recurring balance of payment crises. OGRA is therefore, requested to facilitate the private sector & create an enabling environment & improve the ease of doing business to make it viable, and increase competitiveness for boosting exports of the country to protect taxpayers' public interests.

3.3.2. It was highlighted that Textile is one of the largest gas consumer groups with record earnings of foreign exchange for the country showing 20% increase in exports. Increased cost, if any, to be allowed by the Authority shall affect/reduce textile sector exports.

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3.3.3. It was expressed that under Article 158 of the Constitution, the province producing gas has the first right to utilize the same in its province, therefore curtailment of gas should be ended. It was opined that instead of extending the gas network to far-flung areas, immediate attention must be given to the repair and maintenance of the existing distribution network in Karachi being 50 years old.

3.3.4. The intervener has pointed out the hefty increase in gas prices for Karachi based local consumers. It was protested that ineffective cathodic protection is resulting in continuously rising leakages.

3.3.5. Almost 0.7 million customers are using illegal gas in Karachi leading UFG losses. Implementation of UFG Reduction Plan (3-year), as approved by the FG for both Sui companies was raised.

3.3.6. It was proposed that a mechanism must be made on the principle of fairness in consultation with all stakeholders and forensic, technical, commercial & management audit from independent energy experts be carried out to develop fair mechanisms.

3.3.7. It was further submitted that UFG losses of the petitioner are as much higher as compared to the international standard by 2-3%. Therefore, increase from 15% to 19% as part of UFG benchmark adjustment should not be allowed.

3.3.8. It was informed that petitioner has not met the targets to reduce the UFG. Without improving company's own financial performance & addressing administrative failures, burdening taxpayers & industrialists through gas price increments, is not justified.

3.3.9. Karachi is an economic growth engine of national GDP and now being deprived of gas / RLNG. It is requested that fair & equitable proportionate demand of SSGCL be allowed.

3.3.10. All Pakistan CNG Association stated that they are facing severe financial hardships and are on verge of closure owing to reduced supplies from petitioner. It was also requested to ensure continued gas supply for CNG sector without curtailment so that their running expenditure will be met.

3.3.11. It was also requested that alternative measures be taken to address gas deficit as indigenous gas production had declined. FG should address the issue & secure the LNG deal timely to resolve ongoing energy shortages & protect business.

3.3.12. It was requested to re-check the basis of international oil prices & US$ parity.

3.3.13. It was requested that energy sector circular debt be resolved on a priority basis & without aggressive energy reform, the country cannot move forward and sustain growth. The high circular debt is due to high-capacity charges, high fuel cost, energy inefficiencies & UFG losses fueling the economic calamities.

3.3.14. It was requested that National Gas Transmission Company be created to classified as a strategic asset, to begin with, the gas sector reform & open up the gas market for competition and facilitate bridging the massive demand-supply gap currently facing the country.

3.3.15. It was requested to focused on alternative energy project such as renewable or environmentally friendly fuels like biogas, biomethane, and futuristic energy project like coal to gas and hydrogen production.

3.3.16. It was suggested that petitioner should install TBS to bring down UFG losses by international standards in its franchise area.

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4. Authority's Jurisdiction and 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/WACOG 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, 2021 to November, 2022. 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. Section 8(3) of the Ordinance empowers the FG to fix the consumer sale prices, keeping in view economic indicators, policy considerations in terms of uniform pricing across the country, Gas Development Surcharge and the inter-category subsidies, etc. advises the gas sales prices to OGRA, the same is accordingly notified by OGRA in the official gazette.

4.4. The Authority, however, observes that during the past, FG under Section 8(3) of the Ordinance had advised insufficient revisions to OGRA, resulting in the 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 the matter of the previous year's shortfall to FG for an appropriate policy decision through which MoE needs to devise a mechanism for direct disbursement to sui companies without affecting the revenue requirement exercise and process for future determinations under the instant amendments. Any inclusion of previous years 'shortfall by FG, after latest amendments, shall not only jack-up the price significantly for all categories of consumers but also attract litigation in various courts.

4.5. The Authority, however, reiterates its view that all the categories of consumers must at least pay the average cost of service, keeping in view the existing cost of alternative or substitute sources of energy. Resultantly, there shall be no situation of unmet revenue requirement. This shall provide a level playing field for all concerned and avoid the situation of revenue shortfall.

4.6. The Authority observes that the petitioner has re-worked its Weighted Average Cost of Capital (WACC) at 19.56% based on revised data taken in respect of Pakistan Investment Bond (PIB), Pakistan Stock Exchange (PSX) and Karachi Interbank Offer Rate (KIBOR) upto September, 2022 and has, accordingly, requested OGRA to allow this return on its operating assets.

4.7. The Authority observes that OGRA, while determining ERR for FY 2021-22, had re-set WACC at 16.60% in the light of parameters as provided in the tariff regime for regulated natural gas sector dated June 01, 2018. The Authority notes that WACC for FY 2021-22 onwards was re-computed in accordance with sui companies' requests based on the related data upto December, 2020. However, currently both sui companies in order to obtain undue advantage of market variation, have requested revision, in its mid-year review, while distorting base reference period i.e., upto December of relevant financial year. The Authority notes that tariff regime does not allow review on arbitrary cut off dates, based on wishes and whims of petitioners but clearly provides WACC re-setting on the review of same relevant base period. In light thereof, the Authority, while disposing upcoming petition for next financial year, shall review WACC while analyzing the relevant data upto December, 2022 and reset the same from OGRA's next revenue requirement determination, if required.

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4.8. ***In view of above, the Authority maintains its earlier decision in respect of return on assets and fixes it 16.60% for the said year and decides to review it in future strictly in accordance with true spirit of tariff regime.***

5. Operating Fixed Assets

a. Summary of Additions during the year

5.1. The petitioner has requested to allow an additional amount of Rs. 65,967 million, detail of which is as under:

Table 2: Summary of Requested Addition in Fixed Assets

Rs. In Million

	Particulars	FY 2022-23 (ERR)					FY 2022-23 (DERR)					FY 2022-23 (Petition)					
		Transmission		Distribution & Sale		Total	Transmission		Distribution & Sale		Total	Transmission		Distribution & Sale		Total	Variance over DERR
		Indigenous gas	RLNG	Indigenous gas	RLNG		Indigenous gas	RLNG	Indigenous gas	RLNG		Indigenous gas	RLNG	Indigenous gas	RLNG		
1	Gas transmission pipeline	10,981	1,695			12,676	227				227	21,919	2,716			24,635	24,408
2	Compressors	2,426	2,691			5,117	219				219	2,839	3,444			6,283	6,064
3	Gas distribution system, related facilities and equipments			15,141	619	15,760			4,368	619	4,987			29,352	743	30,095	25,108
4	Buildings	165		474		639	41		119		160	198		648		846	686
5	Plant and machinery	685	48	489		1,222	110		90		200	822	58	586		1,466	1,266
6	Furniture, equipments including computers and allied equipments	135	2	305		442	57		129		186	162	2	365		529	343
7	Computer software (Intangible)	109		338		447					-	131	4	405		540	540
8	LPG Air Mix Projects			106		106			53		53			127		127	74
9	Telecommunication system	10		30		40	10		30		40	12		36		48	8
10	Appliances, loose tools and equipment	65	3	148		216	34		74		108	78		177		255	147
11	Vehicles	175		778		953	33		145		178	210		933		1,143	965
	Gross Assets	14,751	4,439	17,809	619	37,618	731		5,008	619	6,358	26,371	6,224	32,629	743	65,967	59,609

b. Gas Transmission Pipelines

5.2. The petitioner has claimed an amount of Rs. 24,408 million which is in addition to already allowed amount of Rs. 227 million at DERR stage as against Rs. 12,676 million demanded by petitioner. The detail of claimed amount against this head is as under:

Table 3: Requested Additions to Transmission Pipeline Network

Rs in Million

Sr. No.	Description	ERR		DERR		Petition (revisedcost)	
		Indigenous	RLNG	Indigenous	RLNG	Indigenous	RLNG
1	8" x 102 KM pipeline project for Jhal Magsi Gas Field					3,004	
2	30" Dia × 125 Km (rev. 116 KMs) pipeline from SMS Sindh University to SMS Pakland.	8,630				14,006	
3	24" Dia x31Km from SMS Kathore to SMS Surjani (ACPL Surjani)	1,998				3,849	
4	Upgradation of SMS Larkana	126		63		151	
5	Upgradation of SMS Nawabshah	126		63		151	
6	Modification of existing Check Metering & Regulation Setup- Shikarpur	65		65		77	
7	8" Dia × 28 Km pipeline from Ayesha Gas Field [Leftover]	19		19		20	
8	Check Metering Arrangements at Daru (Leflover)	17		17		17	
RLNG Projects							
	Phase-I						
9	Tie-in and integration arrangement from tie-in point 2 to Pakland & Bin Qasim		626				830
	Phase-II and others						
10	30" Dia x 17 KMs from CTS Bin Qasim to MVA Pakland		433				454
11	Future Extension of CTS Bin Qasim		426				511
12	42" dia × 342 Km pipeline from Pakland to Nara		210				462
New Projects envisaged in Motion for review petition							
13	12" Dia QPL Rehabilitation & Intelligent Pigging						400
14	Check Metering Arrangement for PLL customer against Inter-connection agreement					644	
15	Construction of causeway at Lath and Hariyo Nala on exposed section of 42" dia RLNG-2 pipeline						59
	Sub-total	10,981	1,695	227	0	21,919	2,716
	Total(Indigenous + RLNG)	12,676		227		24,635	
Conceptual Approval required							
16	Replacement of 16" dia ILBP with 20" dia (180 KM) pipeline from HQ-2 to HQ-1						95
17	Left over civil work against following three locations: 1)POD at Sujawal 2) POD Nur bagla 3) SMS Sanghar at POD Sinjhoro						15

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8" x 102 KM pipeline project for Jhal Magsi Gas Field

5.3. The petitioner has stated that the company's BoD had approved the subject project in February 2011, in order to receive indigenous gas from Jhal Magsi Gas Field. However, considering the law-and-order situation at that time in the area, declining trend of gas projection profiles and issue related to sharing of volumes between SSGC and SNGPL, the petitioner had informed OGDCL that it was not in a position to execute the project. The petitioner has further stated that in the wake of gas shortage in the country, Ministry of Energy, Petroleum Division recently asked it for execution of the subject project. The petitioner has further stated that as per directives of the Prime Minister, the subject project has to be initiated on fast-track basis and expected to be completed & capitalized with the amount of Rs. 3,004 million during the said year.

5.4. The Authority notes that the said project has been previously allowed by the Authority through its determinations on SSGC's petitions from ERR FY 2012-13 to FY 2016-17, but the same could not be materialized by petitioner. The Authority also notes that the petitioner linked initiation of the project with OGRA's approval, despite the fact that the said project had been continuously approved by OGRA in its earlier determinations and FG issued specific directions to the petitioner to undertake the project.

5.5. The Authority notes that in pursuance of Rule 5 (7) of the NGT Rules, 2002, it has already allowed the said pipeline segment in principle vide letter dated November 02, 2022, while considering the justifications mentioned above.

5.6. ***In view of the above, the Authority hereby allows the said project in principle, subject to actualization at FRR stage, in line with conditions as specifically conveyed vide letter dated November 02, 2022 as referred above and with the directions to complete the project within given timelines by FG, considering the urgency to bring the available system gas in the network.***

30" dia x 125 Km pipeline from SMS Sindh University to SMS Pakland

5.7. The petitioner has acknowledged that the Authority in its DERR FY for the said year has already allowed the project in principle with the directions to ensure to complete the project without further delay. However, the petitioner has now conveyed that owing to unanticipated price hike, the total estimated project cost has been revised to Rs. 14,006 million from Rs. 8,630 million projected in its petition for ERR for the said year. It further apprised that due to budget constraints the procurement process of 30" dia line pipe (80,000 meters) is stuck now.

5.8. The Authority notes with concern that it has been allowing the project since the year 2017-18, with initial cost of around Rs. 5,017 million, which has now escalated to Rs. 14,006 million, despite of which, the petitioner could not even initiate the project owing to reported problem of land acquisition in a small portion of the ROW. The petitioner has been persistently associating the project with the issue of impact of UFG with transportation of RLNG through its system (due to limited flow capacity for the system gas in the captioned segment from Hyderabad to Pakland, Karachi) but does not take the initiative to execute the pipeline project. It is pertinent to mention that such an issue was also encountered during construction of 42" dia x 342 Km RLNG transmission line, however, the same was resolved by the petitioner itself facilitating commissioning of said RLNG pipeline back in September, 2018. It is opined that the petitioner could have taken up this matter seriously with district/ provincial administration and resolved the issue as done in case of RLNG line, besides it could have procured the import items like line pipe and fittings earlier (which constitute major part of the expenses) to avoid cost escalation, but it did not so happen due to mismanagement on the part of the petitioner.

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5.9. ***In view of the above, the Authority reiterates its earlier stance in DERR for the said year and hereby approves an upfront amount of Rs. 2,801 million (20 % of the total estimated amount) against the said project subject to actualization at FRR stage with the directions to ensure completion of the project without further delay while observing prudent, economically efficient and cost-effective measures during execution of the capital project.***

Transmission Projects mentioned at Sr. No. 03 to Sr. No.12

5.10. The petitioner has claimed an amount of Rs. 4,265 million for indigenous gas transmission pipeline projects and Rs. 2,257 million for RLNG transmission projects mentioned in the above transmission projects table respectively at Sr. No. 03 to 08 and Sr. No 09 to 12. The petitioner has stated that the estimated cost for the said projects has been revised due to dollar rupee parity, current inflation, higher commodity / material prices in international / local markets and engineering estimates.

5.11. The Authority notes that price escalations must have been accounted for in the estimated amounts against the projects as a part of project planning and feasibilities by the SSGC, however, cost incurred over and above (if any) the estimated / allowed amounts on individual projects will be considered at FRR stage, provided the same are prudent and reasonable. ***Therefore, the Authority reiterates its earlier decision in its DERR FOR THE SAID YEAR w.r.t Projects at Sr. No. 03 to 08 (indigenous gas) and Sr. No 09 to 12 (RLNG) of the above transmission table, subject to actualization at FRR stage. However, any reasonable, justified and prudently incurred expenditure against the above projects will be considered at FRR stage. Further, expenditure to be incurred against RLNG projects (Sr. No 09 to 12) shall be ring fenced as per the directions of the FG.***

New Projects mentioned at Sr. No 13 to 15

5.12. The petitioner has claimed an amount of Rs. 1,103 million against the following transmission pipeline projects which were not envisaged at the time of ERR.

12" Dia QPL Rehabilitation & Intelligent Pigging

5.13. The petitioner has claimed an amount of Rs. 644 million against the subject project. The petitioner apprised that shop fabrication of valve assemblies with respect to rehabilitation job has been completed. Construction team has been mobilized at site whereas rehabilitation job is in progress and expected to be completed soon. Moreover, Intelligent pigging of 12" dia QPL has been planned to be carried out for the said year with the purpose of establishing reliability/ integrity of the pipeline and enhance its useful life. The petitioner has further informed about change in scope of work by adding pressure controller, Gas Filtration requirement and security arrangements in the project. This has resulted in increase of total project cost from Rs. 379 million to Rs. 644 million.

5.14. ***In view of the above and considering operational requirement of the project, the Authority provisionally allows the said project in principle subject to its actualization at FRR. However, any prudently incurred expenditure will be considered at the time to FRR for the said year provided the same remains within the estimated amount.***

Check Metering Arrangement for PLL customer against Inter-connection agreement (RLNG project)

5.15. The petitioner has claimed an amount of Rs. 400 million against the subject project. The petitioner has stated that SSGC's Board of Directors, in its 571st meeting held on February 12, 2022 approved the **'Interconnection Service Agreement'** between SSGC and PLL for the supply of RLNG upto 150 MMSCFD to PLL's customer. For this purpose, a check meter needs to be installed at CTS Bin Qasim to check the flow of gas being supplied to PLL's customer i.e., K-Electric as per industrial practice. Accordingly, a metering skid having capacity of 150 MMSCFD flow has been proposed.

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5.16. The Authority notes that as per Scope of SSGC and PLL, mechanism under Net Off Metering (Exhibit C) of the "Inter Connection Agreement" (ICA) existing measurement equipment belongs to the PLL consumer i.e., KE located at upstream of K. E's pipeline, the same is operational for more than six months. It is observed that after necessary negotiations and finalization by the petitioner, SSGC initialed the above agreement, wherein as per Exhibit C of the ICA, mechanism of 'Joint Meter Check' of both PGPCL and K.E meters and their periodic meter readings in presence of all stakeholders along with participation of independent third-party surveyor, has been clearly defined. This mechanism of periodic joint meter check and joint meter readings amply covers operational aspects of the existing meters and actual gas flows to each stakeholder i.e., SNGPL/ SSGCL & K.E through the interconnection arrangement. Further, the existing mechanism of joint metering at CTS Port Qasim is fully functional with the commissioning of RLNG to the PLL's customer. The petitioner in its petition failed to convince the need basis/ justifications for the installation of check meter, specially two ultrasonic meters (one meter as a standby in case of service / removal of the second meter) are already installed and fully functional under the ICA. In addition, no details of the check meter planned, its cost and clarification whether the cost will be borne by PLL or the petitioner's RLNG consumers has been mentioned by the petitioner.

5.17. ***In view of the above, the Authority does not allow the said project.***

Construction of causeway at Lath and Hariyo Nala on exposed section of 42" dia RLNG-2 pipeline (RLNG project)

5.18. The petitioner has claimed an amount of Rs. 59 million against the subject project. The petitioner has stated that 42" dia. RLNG-II pipeline has been exposed at Lath and Hariyo Nala; approximately 20.5 Km and 22.5 Km respectively downstream of CTS Bin Qasim. In order to protect the pipeline, rectification work with an estimated amount of Rs. 59 million, from the saving of the project budget of Replacement of overhead crossings with Submerged Crossings Project (17 Nos.) is proposed, the said job is expected to be completed in THE SAID YEAR. The rectification work will include as minimum:

a. Construction of causeway with RCC slabs at Lath and Hariyo Nala
b. Rip rap (R6) protection with arrow mesh
c. Construction of wing wall
d. Realigning of existing river weights
e. An extra layer of two- or three-ply coating on the existing coated pipeline.

5.19. ***In view of the operational natural of the RLNG Project Phase - II, the Authority allows the said project in principle subject to actualization at FRR stage. However, any prudent cost to be incurred against the above project shall be ring fenced under the directions of the FG.***

Conceptual Approvals

5.20. The petitioner has requested to conceptually allow the following two projects amounting to Rs. 110 million in order to enable the petitioner to start the procurement process.

Table 4: Request for the conceptual approval

Sr. No	Description	Rs in Million
1	Replacement of 16" dia ILBP with 20" dia (180 KM) pipeline from HQ-2 to HQ-1	95
2	Left over civil work against following three locations: 1)POD at Sujawal 2) POD Nur bagla 3) SMS Sanghar at POD Sinjhoro	15

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Replacement of 16" dia ILBP with 20" dia (180 KM)

5.21. The petitioner has stated that the segment from Sui to Nawabshah was commissioned in the year 1955 which is currently fed from HQ-2 Nawabshah for the supplying of gas to Sukkur & Khairpur region. By carrying out the Intelligent pigging (IP) job of the segment from Nawabshah to Karachi in the year 2010, internal pitting and erosion was noted at several locations in the pipeline which was repaired accordingly. The petitioner has further informed that as pipeline useful design life is considered as 40 years, whereas the subject pipeline has completed 65 years since its commissioning, therefore its replacement is proposed from Nawabshah to Sukkur i.e., around 180 Km with 20" dia.

5.22. The petitioner has further informed that by considering rising inflation trends, dollar-rupee parity and higher commodity prices in international markets; the estimated amount of the proposed pipeline project has been revised to Rs. 20,772 million from Rs. 14,673 million. An amount of Rs 95 million is required for detailed route & topographic survey that will be initiated in the said year. Whereas, procurement of material will be initiated after detailed engineering survey report.

5.23. The Authority observes that the project pertains to replacement of pipeline which is supposed to be laid on the same ROW, in this case, there is no logic to conduct the detailed route or topographic surveys. Further, transmission pipelines are well maintained under the relevant code and standards for longer periods, besides, it is astonishing to note that the petitioner is taking belated action on the reports prepared on the data retrieved from Intelligent Pigging carried out back in 2010.

5.24. ***In view of the above, the Authority does not allow conceptual approval involving above mentioned surveys for the same ROW. However, the petitioner may bring the said project for replacement of the pipeline in its ERR with proper justification including hydrostatic reports (if operationally feasible) and relevant CP survey reports to check the integrity of the existing 16-inch dia pipeline.***

Left over civil work against three locations

5.25. The petitioner has sought the conceptual approval for leftover civil works in MVA Sujawal POD, POD Nur bagla and SMS Sanghar at POD Sinjhoro which includes Construction of boundary wall, Guard Room, Watchtower, Under-ground water tank, condensate pit, Construction of Pipe Supports and C.C Flooring.

5.26. ***In view of the above, the Authority allows conceptual approval of above project, with the directions to petitioner to submit the same in its Revenue Requirements in future.***

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5.27. ***Keeping in view the above discussion at paras 5.3 to 5.26, justification provided by the petitioner and operational requirement, the Authority provisionally allows amounts against the said projects as per the following table:***

Table 5: Additions to Transmission Pipeline Network

Rs in Million

Sr. No.	Description	Petition (revised cost)		Allowed	
		Indigenous	RLNG	Indigenous	RLNG
1	8" x 102 KM pipeline project for Jhal Magsi Gas Field	3,004			
2	30" Dia × 125 Km (rev. 116 KMs) pipeline from SMS Sindh University to SMS Pakland.	14,006		2,801	
3	24"Dia x 31Km from SMS Kathore to SMS Surjani (ACPL Surjani)	3,849			
4	Upgradation of SMS Larkana	151		63	
5	Upgradation of SMS Nawabshah	151		63	
6	Modification of existing Check Metering & Regulation Setup- Shikarpur	77		65	
7	8" Dia × 28 Km pipeline from Ayesha Gas Field [Leftover]	20		19	
8	Check Metering Arrangements at Daru (Leftover)	17		17	
RLNG Projects					
	Phase-I				
9	Tie-in and integration arrangement from tie-in point 2 to Pakland & Bin Qasim		830		
	Phase-II and others				
10	30" Dia x 17 KMs from CTS Bin Qasim to MVA Pakland		454		
11	Future Extension of CTS Bin Qasim		511		
12	42" dia × 342 Km pipeline from Pakland to Nara		462		
New Projects envisaged in Motion for review petition					
13	12" Dia QPL Rehabilitation & Intelligent Pigging	644			
14	Check Metering Arrangement for PLL customer against Inter-connection agreement		400		
15	Construction of causeway at Lath and Hariyo Nala on exposed section of 42" dia RLNG-2 pipeline		59		
	Sub-total	21,919	2,716	3,028	
	Total(Indigenous + RLNG)	24,635		3,028	
Conceptual Approval required					
16	Replacement of 16" dia ILBP with 20" dia (180 KM) pipeline from HQ-2 to HQ-1		95		
17	Left over civil work against following three locations: 1)POD at Sujawal 2) POD Nur bagla 3) SMS Sanghar at POD Sinjhoro		15		

c. Compressors

5.28. The petitioner has claimed an additional amount of Rs. 6,064 million which is in addition to already allowed amount of Rs. 219 million at DERR stage as against petitioner's claim of Rs. 5,117 million. The detail of claimed amount against this head is as under:

Table 6: Requested Additions to Compressor Stations

Rs in Million

Sr. No.	Description	ERR		DERR		Petition	
		Indigenous	RLNG	Indigenous	RLNG	Indigenous	RLNG
1	01 New Compressor Unit at Sibbi OR Refurbishment of existing	2,207				2,620	
2	New Compressor at Shikarpur to Jacobabad for QPL [Leftover]	219		219		219	
	RLNG related Compressor Stations						
3	Additional 01 Unit of Compressor at HQ-2 for RLNG		2,207				2,648
4	Repair / Overhaul of Solar T-60 Gas Turbine Engine including FAT and FSR installation charges		390				468
5	06 Compressor units & extension of facility at Nawabshah - HQ-2 Daur [leftover]		74				304
6	Air Compressor Air Flow 320 ACFM for Dry Gas Seal and instrumentair of Solar Compressors at HQ-2		20				24
	Sub-Total	2,426	2,691	219		2,839	3,444
	Total Compressors (Indigenous + RLNG)	5,117		219		6,283	

5.29. The petitioner has claimed an amount of Rs. 6,283 million against the said head. The petitioner has stated that the estimated cost for the said projects has been revised due to dollar rupee parity, current inflation and higher commodity / material prices in international / local markets.

5.30. The Authority notes that price escalations must have been taken into account in the estimated amounts against the projects submitted at ERR stage. However, reasonable cost incurred over and above the estimated / allowed amounts in some projects may be considered at FRR stage, subject to comprehensive and convincing justifications by the petitioner. ***Therefore, the Authority reiterates its earlier decision in its DERR for the said year w.r.t Projects at Sr. No. 01 to 02 (indigenous gas) and Sr. No 03 to 06 (RLNG) of the above compressors table, subject to actualization at FRR stage. However, expenses incurred against the RLNG Compressors projects shall be ring fenced under the directions of FG.***

d. Gas Distribution System

5.31. The petitioner has claimed an amount of Rs. 30,095 million against the head of gas distribution system. Detail of the amounts projected on this account against various subheads is as under:

Table 7: Summary of Requested Additions in Gas Distribution System

Rs. Million

Sr. No.	Description	ERR		DERR		Petition	
		Indigenous	RLNG	Indigenous	RLNG	Indigenous	RLNG
1	Rehabilitation Mains and Services - UFG Control Program	4,096		493		12,756	
2	Replacement /Repair of Undersized Meters	2,060		1,745		2,472	
3	Laying of Distribution Mains including services- Existing Areas and DDC	4,998		1,113		5,998	
4	Recovery Campaign-Outsourcing Disconnection (head of account claimed in review petition)					654	
5	Segmentation	173		173		208	
6	Construction of CMS, TBS, PRS, Cathodic protection	329		329		395	
7	Installation of New Connections (meters)	763				916	
8	New Towns	1,395				1,674	
9	RLNG - New Connections (Meters) and Services		619		619		743
	Total GDS Other Than Major Projects: (A)	**13,814**	**619**	**3,853**	**619**	**25,073**	**743**
10	16" Dia x 5 KMs Pipeline from Surjani Step-Down Assy. To Madinat al Hikmah	270				367	
11	16" Dia x 6.2 KMs Pipeline from PSM Main Gate to Yousuf Goth Landhi	320		160		445	
12	Reinf. Work at Quetta Mid City Area 16" dia Loop Line total of 18 KMs in length	355		355		426	
13	08" Dia x 35 KMs Supply Main Badin	381				457	
New Projects envisaged in review petition							
14	16" dia x 10 Km from KT to TBS Maymar CNG					751	
15	20" dia x 9 Km from Azeem pura to Jam Sadiq Ali Bridge.					831	
16	20" dia x 11 Km SMS Sheedi Goth to Future Colony					1,002	
	Sub-Total: Major Distribution Projects(B)	**1,326**		**515**		**4,279**	
	Sub-Total Gas Distribution System(A+B)	**15,140**	**619**	**4,368**	**619**	**29,352**	**743**
	Total Gas Distribution System (Indigenous + RLNG)	**15,759**		**4,987**		**30,095**	

Rehabilitation Mains and Services - UFG Control Program

5.32. The petitioner has claimed an amount of Rs. 12,756 million against the allowed amount of Rs. 493 million at DERR stage. The petitioner in its ERR petition projected an amount of Rs. 4,096 million, however, the petitioner has revised the estimates to Rs. 12,756 million which includes an addition of Rs. 819 million due to inflation factor and Rs. 7,842 million for additional Rehabilitation schemes of 585 Kms of distribution network of Karachi region.

5.33. The petitioner has stated that historically the execution source was only Distribution department and its capacity was limited, hence its management has decided to include two (02) additional sources to execute the rehabilitation projects and enhance the yearly capacity i.e., Project & Construction Department (P&C) of SSGC and Out-sourcing of rehabilitation projects to 3rd party under the supervision of petitioner's team. The TORs for outsourcing and its tendering are designed in such a way that the road cutting permission issue has been kept on the end of contracting firm and line-up with concerned Department, which will enhance the capacity of Distribution Department.

5.34. The Authority, vide its letter dated November 30, 2022 sought clarifications regarding leakage and CP surveys and existing UFG of areas, where Rehabilitation work is proposed to be carried out by the petitioner. Further, the petitioner did not share any plan highlighting specific target for reduction of UFG from the current level (unknown), which would be achieved after completion of the project. However, the reply received is generic one, without mentioning any clear-cut tangible goals, besides the petitioner has clarified that the impact of UFG savings would be reflected in 5-7 years. Moreover, petitioner has estimated undue prolonged time period for any positive impact on UFG that appears to be lenient in terms of assessing progress or effectiveness of relevant activities. It is opined that outsourcing of the said project to third parties might enhance management/ technical issues thereby compromising on the quality and pace of the work, the petitioner has not addressed this particular aspect. The company is relying heavily on such third parties for seeking NOCs from different departments, although the petitioner, being a professional company with large human resource, should take the lead and undertake to obtain such NOCs/ permissions. Moreover, ignoring all other factors referred above, it is highly unlikely that the said estimated project worth billions of Rupees could be completed satisfactorily within six months by the end of the said year. Here, it is to point out that the petitioner could only manage to rehabilitate 114 Km Mains and 146 Km Services during FY 2020-21 with actual cost of Rs.536 million.

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5.35. ***In view of the above and considering the time constraint and the capability of the petitioner to undertake the project, as evident from capitalization amount against this head in FRR FY 2020-21, the Authority hereby provisionally allows an upfront amount of Rs. 536 million against this head. However, any prudently incurred expenditure, in the light of the above observations of the Authority in this regard, will be considered at the time to FRR for the said year provided the same remains within the estimated amount.***

Laying of Distribution Mains – Existing Area

5.36. The petitioner has claimed an amount of Rs. 5,998 million against the subject head. The petitioner has stated that the Authority had based its determination against this head by considering the actual capitalization for FY 2019-20, however, in order to follow an aggressive performance achievement, the petitioner's actual capitalization for FY 2020-21 is Rs. 2,613 million and has projected actual capitalization of Rs. 2,020 million for FY 2021-22 which shows over achievement and reflect the petitioner's consistent aggressive approach to meet the deadline & targets. The petitioner has further clarified that actual achievement for FY 2020-21 & FY 2021-22 and recent price increases in material and construction costs are quite evident for fair projections of Rs. 5,998 million for the said year.

5.37. ***The Authority notes that it has allowed Rs. 1,113 million based on actual capitalization in FY 2019-20 against this head at ERR stage, considering the capability to undertake such activities. In view of the above, the Authority reiterates its earlier decision i.e., DERR for the said year, however any prudently incurred amount, with tangible justifications, actualized at FRR stage against this head will be considered accordingly.***

Replacement /Repair of Undersized Meters

5.38. The petitioner has claimed an amount of Rs. 2,472 million i.e., Rs. 727 million in addition to already allowed amount of Rs. 1,745 at DERR stage. The claims include Rs. 315 million disallowed by the Authority at DERR stage and Rs. 412 million due to inflation factor. The petitioner with respect to Authority observation mentioned at para 5.86 of DERR for the said year has clarified that this was due to punching error as same number i.e., 132,000 meters has been taken while calculating the per unit cost of Replacement of Domestic Meters as well as Additional Meters in case of new connections. The correct numbers of new meters to be replaced are 274,000 instead of 132,000, hence per unit cost comes to Rs. 4,268 this is lower than the per meter cost of meter installation. The petitioner has further added that this is a UFG control initiative, reduction in this budgeted amount will badly affect the UFG control activities envisaged by it and on the other hand increase the UFG disallowances of the Company.

5.39. Over the years, the petitioner has a tendency to replace the gas meters excessively on the pretext of 'UFG Control Initiative' without achieving corresponding decrease in UFG (which stands currently beyond 15% of the total system gas input in a year). The Authority considers that replacement of meters is not the only factor for UFG reduction, there are other important factors such as theft of gas particularly in Karachi and Balochistan (as per its own claim), illegal non consumers, leakage of distribution gas network and measurement errors, which the petitioner must focus seriously to achieve tangible results. Further, the petitioner in its petition for FRR FY 2020-21 informed that **"As per its policy all the replaced domestic meters are considered irreparable therefore, retired."** Such a stance taken by the petitioner is not justified as not all the domestic meters removed from consumers' premises are unserviceable to be rendered scrapped based on assumptions, without any authentication. The Authority notes that the petitioner has been consistently claiming/ capitalizing amount against meters' replacement, which are over and above the allowed amounts by OGRA in its relevant ERRs, resultantly the Authority had to disallow surplus expenses at FRR stage.

5.40. ***In view of the above, the Authority reiterates its earlier decision against this head in the DERR for the said year and directs the petitioner to remain within the allowed amount of Rs.1,745 million.***

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<u>Additional amounts / head of account claimed in RERR - Recovery Campaign-Outsourcing Disconnection Drive.</u>

5.41. The petitioner has claimed an amount of Rs. 654 million against the head of Recovery Campaign which were not envisaged at the time of ERR. The petitioner has stated that it initiates a Recovery Campaign through Outsourcing Disconnection Drive and UFG reduction strategy following new initiatives has been envisaged by the petitioner which is in compliance with the Authority's directives and IFRS obligations.

5.42. The petitioner has stated that Recovery Department cannot address all the defaulters with existing resources; hence, it has planned to outsource meter removal activities. Estimated budget required for increased activities is Rs. 663 million which includes estimates for cost of meters amounting to Rs. 654 million.

5.43. The Authority observes that the petitioner projected total amount of Rs. 663 million against this head in the said year, out of which an amount of Rs. 654 million has been earmarked for replacement of the meters with new ones, in pursuit of its efforts for recovery of outstanding amounts against gas consumption. However, it is noticed that meters to be removed, on account of non-payment/ outstanding gas bills under the gas sale contract, do not necessitate rendering all such meters flatly redundant. However, based on inspection/ flow proving of such meters, removed from the defaulter consumers, some of these can be scrapped if found unserviceable/ irreparable, on case-to-case basis.

5.44. ***In view of the above, the Authority hereby disallows an amount of Rs. 663 million against this head, with the directions to the petitioner to comply with its earlier directions in this regard and ensure recovery of outstanding gas bills from the consumers without further delay.***

<u>Items mentioned at S. No 05 to 13 of the Distribution Development table</u>

5.45. The petitioner envisaged Rs. 4,605 million at ERR stage against the items mentioned at Sr. No 05 to Sr. No. 13 of above distribution development table. As per the petitioner, it has revised the estimated cost to Rs. 5,630 million against the said heads due to hyper inflationary impact.

5.46. The Authority observes that it is not possible for a professional corporate company like the licensee to bring the projects without taking into account the inflationary impact on the proposed capital projects at planning stage for the upcoming year. ***As such, the Authority maintains its earlier decision in its DERR for the said year against Sr. No 05 to Sr. No. 13 of above distribution development table, subject to actualization at FRR stage, to be assessed based on the touchstone of prudence and tangible justifications. In case of installation of new gas connections (meters) & extension of network in new areas, the petitioner is directed to comply with the prevalent policy of FG and proceed accordingly.***

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<u>New Distribution Projects mentioned at S. No 14 to 16</u>

5.47. The petitioner has claimed an amount of Rs. 2,584 million against the captioned distribution pipeline projects which were not envisaged at the time of ERR in order to improve the gas pressure, segregation of areas and enhancement of supply capacity in the targeted areas. The new Distribution Projects are being mentioned below along with respective claimed amounts for the said year:

(i) 16" dia. x 10 Km pipeline from SMS-KT to TBS-Maymar CNG. Requested estimated revised cost is Rs. 751 million;
(ii) 20" dia. x 9 Km pipeline from Azeempura to Jam Sadiq Ali Bridge. Requested revised cost is Rs. 831 million;
(iii) 20" dia. x 11 Km Pipeline from SMS-Sheedi Goth to Future Colony. Requested estimated revised cost is Rs. 1,002 million.

5.48. ***In view of the above and considering operational requirements, the Authority hereby provisionally allows the above three distribution pipelines projects in principle, subject to actualization at FRR stage. Further, the Authority directs to complete all the distribution pipeline projects by the end of the financial year, while observing utmost prudence and care with respect to cost and quality of the actual work to be undertaken.***

5.49. ***The summary of allowed amounts against subheads under the Gas Distribution System are tabulated below:***

Table 8: Summary of Allowed Additions in Gas Distribution System

Rs. Million

Sr. No.	Description	ERR		DERR		Petition		Allowed	
		Indigenous	RLNG	Indigenous	RLNG	Indigenous	RLNG	Indigenous	RLNG
1	Rehabilitation Mains and Services - UFG Control Program	4,096		493		12,756		536	
2	Replacement /Repair of Undersized Meters	2,060		1,745		2,472		1,745	
3	Laying of Distribution Mains including services- Existing Areas and DDC	4,998		1,113		5,998		1,113	
4	Recovery Campaign-Outsourcing Disconnection (head of account claimed in review petition)					654			
5	Segmentation	173		173		208		173	
6	Construction of CMS, TBS, PRS, Cathodic protection	329		329		395		329	
7	Installation of New Connections (meters)	763				916			
8	New Towns	1,395				1,674			
9	RLNG - New Connections (Meters) and Services		619		619		743		619
	Total GDS Other Than Major Projects: (A)	13,814	619	3,853	619	25,073	743	3,896	619
10	16" Dia x 5 KMs Pipeline from Surjani Step-Down Assy. To Madinat al Hikmah	270				367			
11	16" Dia x 6.2 KMs Pipeline from PSM Main Gate to Yousuf Goth Landhi	320		160		445		160	
12	Reinf. Work at Quetta Mid City Area 16" dia Loop Line total of 18 KMs in length	355		355		426		355	
13	08" Dia x 35 KMs Supply Main Badin	381				457			
New Projects envisaged in review petition									
14	16" dia x 10 Km from KT to TBS Maymar CNG					751			
15	20" dia x 9 Km from Azeem pura to Jam Sadiq Ali Bridge.					831			
16	20" dia x 11 Km SMS Sheedi Goth to Future Colony					1,002			
	Sub-Total: Major Distribution Projects(B)	1,326		515		4,279		515	
	Sub-Total Gas Distribution System(A+B)	15,140	619	4,368	619	29,352	743	4,411	619
	Total Gas Distribution System (Indigenous + RLNG)	15,759		4,987		30,095		5,030	

5.50. **Other Operating Fixed Assets (sr. no. 04 to sr. no. 11 of table no. 2): (Building; Plant and Machinery; Furniture equipment including Computer and Allied equipment; Computer Software; LPG Air Mix Projects; Telecommunication system; Appliances, Loose Tools and equipment; & Vehicles)**

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5.51. The petitioner has claimed an amount of Rs. 4,064 million for captioned heads at ERR stage, however, as per the petitioner, due to Dollar Rupee parity, current inflation and higher commodity / material prices in international / local markets, cost of these heads has been revised to an amount of Rs. 4,954 million. In addition, in the head of Buildings, the petitioner has envisaged new projects in the instant petition amounting to Rs. 79 million which were not the part of ERR petition for the said year. The projected civil works in the head of Building includes Extension of shades at 06 number of locations and construction of Beach Huts at Hawks Bay H-8 and Sandspit S-14, Karachi.

5.52. ***The Authority in its DERR for the said year had already allowed the amount against the heads indicated at S.No.4 to S. No. 11 of the fixed assets table and hereby maintains the same against above stated heads without any additional upfront amount at this stage. The Authority may, at the time of FRR, consider such amounts which are prudently incurred during the said year.***

Table 9: Summary of Asset Additions Allowed by the Authority

Rs. In Million

	Particulars	RERR FY 2022-23 (Petition)					Allowed				
		Transmission		Distribution & Sale		Total	Transmission		Distribution & Sale		Total
		Indigenous gas	RLNG	Indigenous gas	RLNG		Indigenous gas	RLNG	Indigenous gas	RLNG	
1	Gas transmission pipeline	21,919	2,716			24,635	3,028				3,028
2	Compressors	2,839	3,444			6,283	219				219
3	Gas distribution system, related facilities and equipments			29,352	743	30,095			4,411	619	5,030
4	Buildings	198		648		846	41		119		160
5	Plant and machinery	822	58	586		1,466	110		90		200
6	Furniture, equipments including computers and allied equipments	162	2	365		529	57		129		186
7	Computer software (Intangible)	131	4	405		540					-
8	LPG Air Mix Projects			127		127			53		53
9	Telecommunication system	12		36		48	10		30		40
10	Appliances, loose tools and equipment	78		177		255	34		74		108
11	Vehicles	210		933		1,143	33		145		178
	Gross Assets	26,371	6,224	32,629	743	65,967	3,532		5,051	619	9,202

6. Depreciation and ROA

6.1. ***In the light of discussion and decisions in the preceding paras, the Authority decides to provisionally allow depreciation at Rs. 7,511 million for the said year. Consequently, ROA, in the light of decision per para 4.8 above, is computed at Rs. 5,968 million based on net average operating assets for the said year.***

7. Operating Revenues

a. Sales Revenue at Existing Prescribed Prices

7.1. The petitioner has claimed projected gas sales revenues at Rs. 191,859 million based on the existing sales price for the said year.

7.2. The Authority notes that FG, in response to OGRA's DERR for the said year has not revised sale price and minimum charges. ***Accordingly, the Authority accepts the same to the extent of applicable natural gas prices at Rs. 191,859 million based on sales volume 277,000 BBTU for the said year.***

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b. Other Operating Income

7.3. The petitioner kept other operating income at the level of DERR i.e., Rs. 5,377 million, which is within the allowable limit, therefore accept the same for the said year.

7.4. ***Keeping in view the above, the Authority decides to provisionally allows total operating revenues at Rs. 197,236 million for the said year.***

8. Cost of Gas

8.1. The petitioner has projected cost of gas Rs. 322,005 million, based on its projections of international prices of crude and HSFO, for the said year, as tabulated below:

Table 10: Assumption of WACOG for Petitioner

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 2022	December, 2021 to May, 2022	98.3320	560.0366	227
January to June 2023	June 2022 to November, 2022	101.5795	450.8334	235
Averages		99.9558	505.4350	231

8.2. The petitioner has claimed weighted average cost of gas at Rs. 938.93/MMCF for the said year. The petitioner has submitted that actual gas purchased volume for July and August, 2022 has been taken while volumes for remaining ten months' purchases have been kept at the level of DERR for the said year.

8.3. The Authority observes that well-head gas prices 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 to Authority under the Ordinance.

8.4. The Authority observes that latest data of international oil prices are available upto November 30, 2022. Therefore, the Authority based on 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 11: 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 2022	December, 2021 to May, 2022	99.4650	561.2771	224
January to June 2023	June 2022 to November, 2022	101.9995	454.2417	230
Averages		100.7323	507.7594	227

8.5. ***In view of above, cost of gas is included at Rs. 317,230 million based on revised WACOG of Rs. 924.90/MMCF on provisional basis for the said year.***

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9. Un-accounted for Gas (UFG)

i. Revised Working/Calculation of UFG

9.1. The petitioner has submitted revised working/calculation of UFG based on two months actual gas purchase and gas sale volumes.

9.2. In respect of segregating transmission & distribution allowable losses, the Authority reiterates its observations (paras 9.6-9.14) in the relevant DERR for the said year on this aspect and is of the view that natural gas market is heading towards liberalization and implementation of TPA regime desires segregation of regulated activities of transmission, distribution and sales, as transportation tariff for each regulated activity is also being calculated separately.

9.3. The petitioner has calculated UFG for the said year at 14.24% (49,000 MMCF). The Authority based on its working of Gas Internally Consumed (GIC) at paras 10.1 to 10.3 determines UFG at 49,440 MMCF for the said year as under:

Table 12: Unaccounted for Gas

			MMCF
Transmission System		**RERR FY 2022-23**	
		Petition	**As Calculated**
Gross Purchases	A	343,985	343,985
Gas Consumed Internally - metered	B	-1,037	-997
Gas Available in Transmission System	D=A-B	342,948	342,988
Gas Consumed Internally - unmetered	C	0	0
Gas Available (net) in Transmission System	E=D-C	342,948	342,988
Gas Passed to Distribution System through SMS	F	342,547	342,547
Loss / (Gain) in Transmission System	G=E-F	401	441
% Loss in Transmission	H	0.12%	
Allowed UFG (% age)			0.14%
Allowed UFG (MMCF)			482
Invalid Claim (+/_)			
Distribution System		**RERR FY 2022-23**	
		Petition	**As Calculated**
Gas Received in Distribution Network	F	342,547	342,547
Damage by third party - unmetered	I	0	0
Gas Available for Sale	J=F-I	342,547	342,547
Gas Sales	K	281,810	281,810
Deemed Sales / Energy Imbalance	L	11,738	11,738
Total Gas Sales	M=K+L	293,548	293,548
Loss in Distribution System	N=J-M	48,999	48,999
% Loss in Distribution	O=(N/F)*100	14.30%	
Allowed UFG (%)			6.25%
Allowed UFG (MMCF)			21,409
Invalid Claim (MMCF)			27,590
Total UFG Volume (Transmission + Distribution)	P=C+G+I+N	49,400	49,440
Total % age UFG (Transmission + Distribution)	Q=(P/A)*100	14.36%	

9.4. ***In view of the above, UFG adjustment is provisionally re-worked at Rs. 23,038 million at national WACOG of Rs. 835.01/MMCF an invalid claim volume per table above from the revenue requirement for the said year.***

10. Gas Consumed Internally (GIC)

10.1. The petitioner had requested for same GIC volume of 1,037 MMCF as per ERR. However, the Authority based on the actual volumes of FY 2019-20 claimed by the petitioner in the sub-heads of company own use (119 MMCF) and Liquid Handling Facility (Nil), allowed the GIC at the level of 997 MMCF for the said year.

10.2. The petitioner has stated that the estimated figures as per ERR had been calculated on the basis of increase in consumption of indigenous gas, while incorporating impact of increase in cost of gas due to rising foreign exchange / oil prices.

10.3. ***In this regard, the petitioner has not furnished any additional justifications for consideration, therefore, the Authority maintains its earlier decision. However, GIC has been provisionally re-worked at Rs. 922 million based on revised petitioner's WACOG @ 924.90/MMCF, per para 8.5 above for the said year.***

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11. RLNG Volume Handling Impact

11.1. The petitioner, on the basis of RLNG handling, has claimed an amount of Rs. 19,879 million as UFG differential impact on this account for the said year, while contesting that the Authority has totally disallowed and ignored this claim.

11.2. The petitioner referred to ECC / Cabinet Policy Guideline No. ECC-37/09/2018 dated: 11 May 2018 and is of the stance that the policy guidelines referred above are still valid and pending for their implementation.

11.3. Meanwhile, the Managing Director, SSGC, vide letter MD/OGRA/17/21(RA/321) dated: 25 June 2021 has sent a complete case to OGRA related to RLNG Volume Handling and its impact on UFG. The petitioner has requested the Authority to allow the claim against this head accordingly.

11.4. In this regard, the Authority observes that a detailed reasoned decision, considering all the arguments raised by the petitioner from time to time, has already been made as part of recent determination of Review of FRR 2018-19. ***Accordingly, the Authority refers the same and holds the said decision and does not allow any amount in this respect.***

12. Transmission and Distribution Cost

i. Summary

12.1. The petitioner has projected transmission and distribution cost (including gas internally consumed) at Rs. 21,187 million projecting an increase of 17% over DERR for the said year for the said year, as detailed below: -

Table 13: Projected T&D Cost with the Previous Years

Rs. in Million

Particulars	FRR	RERR	Actual (Un-audited)	DERR	The Petition	Transmission	Distribution & Sale	Inc./(Dec.) over DERR FY 2022-23	
	FY 2020-21	FY 2021-22	FY 2021-22	FY 2022-23	FY 2022-23				%
Salaries, wages, and benefits at benchmark	16,105	16,991	12,730	17,187	17,187	3,008	14,179	-	-
Budget provision for recovery campaign outsourced - Disconnection Drive				-	183	-	183	183	100
Repairs & maintenance	1,801	1,368	1,926	2,076	4,065	928	3,137	1,989	96
Meter reading by contractors	96	99	101	109	162	-	162	53	49
Others	130	137	125	137	216	67	149	79	58
Gas bills collection charges	219	245	235	218	294	-	294	76	35
Professional & Legal Charges	117	140	118	144	190	46	144	46	32
Stores, spares and supplies consumed	727	798	808	878	1,131	265	866	253	29
Security expenses	774	785	862	868	1,042	654	388	174	20
Postage & bill delivery by Contractors	125	124	128	136	160	5	155	24	17
Electricity	248	290	240	280	336	110	226	56	20
Rent, rate & taxes	208	280	201	271	325	37	288	54	20
Advertisement	91	123	74	118	142	35	107	24	20
Insurance including royalty	122	132	42	127	152	75	78	25	20
Traveling	85	121	80	103	124	79	45	21	20
Material used on consumers installations	9	36	32	20	24	-	24	4	20
License & Tariff Petition Fee to OGRA	70	283	50	87	87	21	66	-	-
Sub-total Cost	20,927	21,954	17,753	22,760	25,821	5,329	20,492	3,061	13
Less: Recoveries / Allocations	2,364	2,333	1,844	2,077	2,077	27	2,050	-	-
Less: HR cost relating to RLNG segment	788	3,089	1,956	3,273	3,273	-	3,273	-	-
Less: /Recover of Service Cost				256	256	256	-	-	
Net T&D Cost before GIC	17,775	16,532	13,953	17,153	20,214	5,302	21,714	3,061	18
Add: Gas consumed internally	571	598	495	897	973	973	-	76	9
Loss due sabotage activity	37	-	-	-	-	-	-	-	
Net Transmission & Distribution Cost	18,383	17,130	14,448	18,050	21,187	6,276	21,714	3,137	17

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

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ii. Meter Reading by Contractors

12.3. The petitioner has claimed meter reading by contractors at Rs. 162 million projecting an increase of 49% over DERR for the said year, as shown below:

Table 14: Projected Meter Reading by Contractors with the Previous Years

Rs. in Million

Particulars	FRR	RERR	Actual (un-audited)	DERR	The Petition	Inc./(Dec.) over DERR FY 2022-23	
	FY 2020-21	FY 2021-22		FY 2022-23		Rs.	%
Meter reading by Contractors	96	99	101	109	162	53	49

12.4. The petitioner has submitted that the Authority allowed Rs. 109 million at the time of DERR for the said year as against demanded amount of Rs. 155 million i.e., 10% increase over RERR FY 2021-22 subject to the actualization at year end. The petitioner has explained that increase is required due to enhanced scope of works, which includes; snapshots, instant surveys, identifying irregularities in work quality & reading accuracies to control UFG. The petitioner has also explained that owing to rates revision for meter reading and 20% hyper inflationary impact, 49% increase has been claimed over DERR.

12.5. After detailed scrutiny, the Authority notes that the petitioner, while submitting additional information, has revised average rate/meter at Rs. 4.19 as against its earlier submission of Rs. 4.51, thereby revising its claim at Rs. 126 million. The petitioner has also informed that in the light of latest Supreme Court's decision for sacked employees, reinstated employees shall be utilized for meter read. Regarding 20% inflationary increase, the Authority is of the view that revised estimates on the basis of latest contract and increased in-house meter read ratio, based on apex court decision, requires no additional allowance on account of inflation. ***In the light thereof, the Authority maintains its earlier decision and fixes it at Rs. 109 million subject to the actualization at year end that shall be considered on touchstone prudence and rationale.***

iii. Postage & Bill delivery by Contractor

12.6. The petitioner has projected postage & bill delivery by the contractor at Rs. 160 million, thereby projecting an increase of 18% over DERR for the said year which is as under;

Table 15: Comparison of Projected Postage & Bill delivery by Contractor with Previous Years

Rs. in Million

Particulars	FRR	RERR	Actual (un-audited)	DERR	The Petition	Inc./(Dec.) over DERR FY 2022-23	
	FY 2020-21	FY 2021-22		FY 2022-23		Rs.	%
Postage & bill delivery	125	124	128	136	160	24	18

12.7. The petitioner has explained that it is bound to consider expected increase of 20% in revenue expenditures/departmental adjustment in the light of hyperinflation. The petitioner has also explained that increase is also required due to enhanced scope of work, which includes; delivery of disconnection notices, FBR notices, GSD/ PUG letters, GIDC instalment bills, non-customer claims and revised rate effective from July-2022.

12.8. After detailed scrutiny, the Authority notes that the petitioner, while submitting additional information, has revised average rate/meter at Rs. 2.59 as against its earlier submission of Rs. 3.36 owing to revision in contract at lower rate. The Authority, based on the information submitted by the petitioner, notes that it has also revised its estimates after moratorium on new connections along-with minor increase in non-customers. Regarding 20% inflationary increase, the Authority notes that new tender has been awarded which shows a reduced rate, as per the petitioner's submission, therefore, any additional allowance on inflation defies no logic. ***In the light thereof, the Authority maintains its earlier decision and fixes it at Rs. 136 million subject to the actualization at year end, which shall be considered on touchstone prudence and rationale.***

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iv. Stores Spares and Supplies Consumed

12.9. The petitioner has claimed an amount of Rs. 1,131 million as against Authority's earlier determined of Rs. 878 million, thereby projecting an increase of 29% over DERR for the said year. The breakup is as under: -

Table 16: Comparison of Projected Stores Spares and Supplies Consumed with Previous years

Rs. in Million

Particulars	FRR	RERR	Actual (un-audited)	DERR	The Petition	Inc./(Dec.) over DERR FY 2022-23	
	FY 2020-21	FY 2021-22		FY 2022-23		Rs.	%
Transmission & Compression and others	221	328	160	207	208	1	1
Distribution	337	824	477	545	620	75	14
Head Office	63	127	61	26	79	52	198
Freight & handling	13	21	16	8	20	13	163
Printing & Stationery	17	23	14	15	30	15	96
Gas Bills Printing Charges	77	86	80	77	174	97	126
Total	**727**	**1,408**	**808**	**878**	**1,131**	**253**	**29**

12.10. The petitioner has explained that owing to the hyper inflationary impact, the company is bound to consider expected increase of 20% in revenue expenditures/departmental adjustment therefore, an amount of Rs. 1,131 million is required to cope up with the expenditure under this head. The petitioner highlighted that Rs. 302 million has been projected for UFG control activities against the projected amount for the said year.

12.11. The petitioner has also explained that increase under this head is mainly due to extensive UFG control activities schedule for the said year and expected huge inflation in store and consumable items as well as projected increase in consumption & prices of chemical products/fuel and lubricants. The petitioner has further explained that increase under this head is due to revision of bill printing rate as existing contract shall expire on August, 2022. The petitioner has further clarified that a new contract for 3-year will be put in place, considering inflation rates, exchange rates and annual growth in number of printed bills and notices.

12.12. The Authority notes that the petitioner has been advancing similar justification from last many years, and claiming such increase on account of UFG curtailment activities without tangible results merits no consideration. The Authority has always remained fair and legitimate in allowing expenditure for smooth operations of company. The Authority further notes that the petitioner had been allowed at Rs. 1,408 million for RERR for FY 2021-22 as against Rs. 808 million actually incurred during the same period.

12.13. ***In view of the above, as well as company's capacity of carrying out operational activities, the Authority decides to maintain its earlier decision. Any additional expenditure incurred by the company shall be considered at the time of FRR on the basis of prudent and rationale.***

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v. Gas Bill Collection Charges

12.14. The petitioner has projected an amount of Rs. 294 million, thereby an increase of 35% over DERR for the said year which is as under;

Table 17: Comparison of Projected Gas Bill Collection Charges with Previous Years

Rs. in Million

Particulars	FRR	RERR	Actual (un-audited)	DERR	The Petition	Inc./(Dec.) over DERR FY 2022-23	
	FY 2020-21	FY 2021-22		FY 2022-23		Rs.	%
Gas Bills collection charges	219	245	235	218	294	76	35

12.15. The petitioner has explained that 1link has revised their charges from Rs. 8 per bill to Rs. 10 per bill, based on verdict of Supreme Court of Pakistan which allow revision in charges by 25% after every two years. In the light of this order, other banks may also approach for revision of charges. The petitioner has further requested to allow an erroneous exclusion of Rs. 33 million on account processing charges as part of gas bill collection charges. In addition, the petitioner has also explained that owing to the hyper inflationary impact shall requires increase of 20% in revenue expenditures/departmental adjustment, therefore, the petitioner is requested to allow Rs. 294 million under the above head for the said year.

12.16. The Authority has always remained fair and legitimate in allowing expenditure for smooth operations of company. ***The Authority, considering the decision of Supreme Court decides to allow in principle the bill collection charges, however, the impact of additional bill collection shall be considered at the time of FRR on the basis of documentary evidence. Accordingly, gas bill collection charges are provisionally allowed at Rs.251 million including processing charges for the said year.***

vi. Legal & Professional Charges

12.17. The petitioner has claimed Legal & Professional charges for the said year at Rs. 190 million as against Authority's earlier determined of Rs. 144 million, thereby projecting an increase of 32% over DERR for the said year, which is as under;

Table 18: Comparison of Projected Legal & Professional Charges with the Previous Years

Rs. in Million

Particulars	FRR	RERR	Actual (un-audited)	DERR	The Petition	Inc./(Dec.) over DERR FY 2022-23	
	FY 2020-21	FY 2021-22		FY 2022-23		Rs.	%
Legal & Professional Charges	117	140	118	144	190	46	32

12.18. The petitioner has explained that prime reason for 32% increase in the said head is owing to prevailing hyper-inflation in the country. The petitioner has further explained that increase in the professional charges is due to HR manpower study/other HR consultancies/professional charges/related matters, whereby the company is obligated to comply the same as per OGRA's directives. Therefore, projected amount is required to make up with the expenditure under this head.

12.19. The Authority observes that the petitioner has always come up with similar arguments and generic justifications. Despite its various earlier directions, the Authority observes consistent increase in litigation without any rationale and basis has been reported. The Authority further notes that the petitioner has not provided any detailed breakup and concrete justification for projecting 32% increase in support of its claim, moreover, actual expenditure for FY 2021-22 on this account has remained at Rs. 118 million. ***In view of the same, the Authority, decides to maintains its earlier decision under this head for the said year.***

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vii. Budget provision for Recovery Campaign-Outsourcing Disconnection Drive

12.20. The petitioner has claimed at Rs. 183 million on account of "Budget provision for Recovery Campaign-Outsourcing Disconnection Drive" for the said year. The petitioner has explained that Recovery Department is making all out efforts to reach maximum number of defaulters to make payment and further explained that disconnection gas supply of the customers in order to recover the outstanding balances from defaulters and get the gas supply restored as per policy. The petitioner has also explained that defaulters increased mostly during FY 2019-20 due to lock down imposed by government and management has also directed to work with 50% attendance on and off due to which disconnection activity also suffered in the year 2020-21.

12.21. The petitioner has further explained that recovery department has changed its policy of disconnection from three months to six months default due to increase in number of defaulters and resource constraint. The petitioner has submitted that importance of Recovery Department's operations increased manifold due to applicability of IFRS-9 which demands extensive focus on the disconnections and recovery drive to minimize the impact of provision for doubtful debts on company profitability/loss. The petitioner has also explained that recovery department cannot address all the defaulters with existing resources; hence, it was planned to outsource the meter removal activities and trying best efforts for recovery of outstanding dues from the defaulters. In view of the same, the petitioner has requested the Authority to allow the said amount for the said year.

12.22. The Authority notes that the petitioner has not shared any feasibility plan and approval of its Board for outsourcing activity for recovery campaign against its disconnected consumers. During public hearing, interveners have also vehemently objected the outsourcing this activity & questioned the legal authority of the outsourced company in respect of recovery. The Authority further notes with serious concerns regarding non-utilization of re-instated employee for enhanced recovery efforts as company is also in failure in submission of quarterly report with OGRA for effective and efficient workforce utilization. On the contrary, company is claiming huge provision, which seems baseless.

12.23. ***In view of above, the Authority decides to disallow the entire claim on this account and directs the petitioner to utilize in-house workforce for enhanced recovery.***

viii. Repair & Maintenance

12.24. The petitioner projected Rs. 2,912 million under the said head, whereas the Authority keeping in view the last year actualization allowed Rs. 2,076 million. While referring to the hyper inflationary impact the petitioner foresees an increase of 20% in revenue expenditures, therefore an amount of Rs. 3,494 million is required to make up with the expenditure under this head. Although the petitioner did not mention any justification /details of its claim against this head to execute jobs required during recent floods, however, an additional amount of Rs. 571 million has also been mentioned in petition (table B-5.1(a)).

12.25. The petitioner stated that the projected amount includes an amount of Rs. 1,708 million for UFG control activities because SSGC has undertaken an extensive overhead and underground leak survey and their repairing activities, re-habilitation of old leaky pipelines & extensive meter replacement. The petitioner apprised that the repair and maintenance play a vital role to achieve KMIs of UFG Benchmark (BM) determined under local challenging conditions. And that the expenditure in this head would directly affect KMIs relating network visibility, leakage rectification, measurement errors which mainly comprises of inspection of CMS and their rectifications and eradication of theft. Further, the increase in cost under this head has been projected owing to maintenance activities of building/vehicle as well as software development & maintenance.

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12.26. The Authority is very much cognizant to the importance of repair and maintenance activities, particularly which are focused on distribution network, for which a reasonable amount has already been allowed in DERR for the said year. As regards the issue of local challenging conditions and KMI's based on the UFG study conducted by M/s KPMG, the same was applicable for the period from FY 2017-18 to FY 2021-22, the above UFG benchmark is no more applicable for the said year. However, it is hereby clarified that petitioner's UFG reduction plans such as rehabilitation of distribution network, segmentation, above/ underground leakage surveys and action against gas pilferers including non-consumers etc. must be vigorously pursued by the petitioner.

12.27. ***In view of the above, the Authority maintains its early decision against this head as per DERR for the said year on the SSGC's petition. However, any prudently incurred expenditure including repair & maintenance of network required in flood affected areas, will be considered at FRR stage.***

ix. Others

12.28. The petitioner has claimed Rs. 216 million on account of "Other charges" as against Authority's earlier determined of Rs. 137 million, thereby projecting an increase of 58% over DERR for the said year, which is as under:

Table 19: Comparison of Projected Other expense with the Previous Years

Rs. in Million

Particulars	FRR	RERR	Actual (un-audited)	DERR	The Petition	Inc./(Dec.) over DERR FY 2022-23	
	FY 2020-21	FY 2021-22		FY 2022-23		Rs.	%
Comunications	38	34	43	34	73	39	115
Other Miscellaneous	92	103	82	103	143	40	39
Total	**130**	**137**	**125**	**137**	**216**	**79**	**58**

12.29. The petitioner had claimed Rs. 180 million at the time of ERR petition for the said year whereas the Authority restricted it at the level of RERR FY 2021-22 i.e., Rs. 137 million under the above head. The petitioner has explained that 58% projection over DERR is due to the hyper inflationary impact and requested the Authority to allow Rs. 216 million for the said year.

12.30. ***The Authority observes that no concrete justification has been provided by the petitioner, therefore, maintains its earlier decision under this head. The Authority again reiterated to minimize spending and curtail its cost through austerity measures at all level and avoid unnecessary spending.***

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x. Comparative of Remaining T&D Expenses with the Previous Years

12.31. The Authority notes that the petitioner, as part of its motion for review, has also claimed review against various heads including Security expense, Electricity, Rent, rate & taxes, Advertisement, Insurance including royalty, Travelling, and Material used on consumers installations, and has requested to allow an amount of Rs. 2,232 million as per table below:

Table 20: Comparative of Remaining T&D Expenses with Previous Years

							Rs. in Million
Particulars	FRR	RERR	Actual Un-audited	DERR	The Petition	Inc./(Dec.) over DERR FY 2022-23	
	FY 2020-21	FY 2021-22		FY 2022-23			%
Security expenses	774	785	862	868	1,042	174	20
Electricity	248	290	240	280	336	56	20
Rent, rate & taxes	208	280	201	271	325	54	20
Advertisement	91	123	74	118	142	24	20
Insurance including royalty	122	132	42	127	152	25	20
Traveling	85	121	80	103	124	21	20
Material used on consumers installations	9	36	32	20	24	4	20
OGRA License Fee	70	283	50	87	87	-	-
Remaining T&D Cost	**1,607**	**2,050**	**1,581**	**1,874**	**2,232**	**358**	**20**

12.32. The Authority, after considering the justifications as advanced by the petitioner, notes that no new material argument and documentary evidence has been provided by the company in order to substantiate its claim. The Authority has already considered these arguments while deciding ERR petition for the said year. ***Therefore, any additional allowance for already decided items based on generic justifications holds no logic.***

12.33. ***In view of the examination in sub-para ii to x of para 12 above, the Authority provisionally allows operating cost at Rs. 18,108 million as against Rs. 21,187 million including GIC claimed by the petitioner for the said year, as follows:***

Table 21: Summary of T&D Cost Allowed by the Authority

			Rs. in million
Particulars	FY 2022-23		
	DERR	The Petition	Allowed
HR Cost	17,187	17,187	17,187
Gas bills collection Charges	218	294	251
Repair & Maintenance	2,076	4,065	2,076
Meter reading by Contractor	109	162	109
Others	137	216	137
Postage & bill delivery by contractor	136	160	136
Stores, spares and supplies consumed	878	1,131	878
Legal & Professional Charges	144	190	144
Budget provision for Recovery Campaign-Outsourcing Disconnection Drive	-	183	-
Remaining T&D Cost	1,874	2,232	1,874
Sub-total Cost	**22,759**	**25,820**	**22,792**
Less: Recoveries / Allocations	(2,333)	(2,333)	(2,333)
T&D Cost before GIC	**20,427**	**23,487**	**20,459**
Less: HR cost allocated to RLNG	**(3,273)**	**(3,273)**	**(3,273)**
Net T&D Cost before GIC	**17,154**	**20,214**	**17,186**
Add: Gas consumed internally	897	973	922
Net Transmission & Distribution Cost	**18,051**	**21,187**	**18,108**

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13. Other Charges

13.1. The petitioner has projected Rs. 2,836 million on account of other charges as against Rs. 75 million allow in DERR for the said year. The historical trend is as under:

Table 22: Comparison of Projected Other Charges with Previous Years

Rs. in Million

Particulars	FRR	RERR	Actual	DERR	The Petition	Inc./(Dec.) over DERR FY 2022-23	
	FY 2020-21	FY 2021-22		FY 2022-23		Rs.	%
Sports Club Expenses	54	60	55	38	38	-	-
Corporte Social Responsibility	35	49	50	13	13	-	-
Other/Auditor's Fee	367	25	25	25	25	-	-
Provision for Doubtful Debts	906	806	1,550	-	2,761	2,761	100
Total	**1,362**	**940**	**1,680**	**75**	**2,836**	**2,761**	**3,681**

i. Provision for Doubtful Debts

13.2. The petitioner has claimed "Provision for doubtful debts" for the said year at Rs. 2,761 million. The historical trend is as under:

Table 23: Comparison of Projected Provision for Doubtful Debts with Previous Years

Rs. in Million

Particulars	FRR	RERR	DERR	The Petition	Inc./(Dec.) over DERR FY 2022-23	
	FY 2020-21	FY 2021-22	FY 2022-23		Rs.	%
Provision for Doubtful Debts	906	806	-	2,761	2,761	100

13.3. The petitioner has requested to allow Expected Credit Loss (ECL) at Rs. 2,761 million i.e. (Rs. 1,836 million for disconnected consumers and Rs. 925 million for live consumer) in compliance of International Financial Reporting Standard (IFRS)-9.

13.4. The petitioner has submitted that the Authority has pended the entire amount because of poor internal control systems, weak management practices and less recoveries. The petitioner has stated that the Authority observations do not align with the business practices, as it operates business in a highly regulated environment. The petitioner has provided last four years' data for disconnection and reconnection, emphasizing company's efforts is tabulated below: -

Table 24: Provision for Doubtful Debts (Disconnected Customers)

Rs. Million

FY	Disconnection		Reconnection	Payment	Engaged	Total
	Nos.	Rs. Million	Nos.	Rs Million		
2018-19	318,202	4,234	144,053	1,493	1,927	3,420
2019-20	267,356	3,876	132,466	1,223	1,683	2,906
2020-21	213,643	5,121	113,189	1,291	1,841	3,132
2021-22	215,000	6,000	121,000	1,400	2,100	3,500
Total	**1,014,201**	**19,231**	**510,708**	**5,407**	**7,551**	**12,958**

13.5. The petitioner has explained that defaulters increased mostly during FY 2019-20 due to suspension of work during lock down period. The petitioner has also explained that recovery department has changed its policy for disconnected consumers from three months to six months continuous default and has faced difficulties in recovering dues from armed forces, rangers, police, government offices, hospital and areas where poor law and order situation persists. However, it has been trying best efforts for recovery of outstanding amount from the defaulters.

13.6. ***The Authority notes that it has taken the earlier decision considering all the above arguments as already advanced by the petitioner. The petitioner miserably failed to provide any new justification or the documentary evidence in order to substantiate its claim. In the light thereof, the Authority maintains its earlier decision on the above head for the said year.***

13.7. ***Consequent upon the deduction / adjustments in various components of revenue requirement as discussed above, the Authority allows other charges at Rs. 75 million as against Rs. 2,836 million for the said.***

14. RLNG Cost of Service/ Transportation Income

14.1. The petitioner has projected Rs. 12,119 million (Rs. 27.67 per MMCF at gross capacity 1200 MMCFD) on account of RLNG cost of service for the said year. The breakup of the same is as under;

Table 25: Breakup of RLNG Cost of Service

	Rs. in Million
Total RLNG Energy in MMCF	**438,000**
Revenue Expenditure Relating to RLNG	3,479
Depreciation	1,611
Contribution to WPPF	1,323
ROA	5,706
Cost of Supply of RLNG	12,119
Cost of Supply of RLNG Rs./MMCF	**27.67**

14.2. The Authority, per the decision relating to WPPF in its previous determinations, decides to exclude Rs. 1,323 million from RLNG cost of service and shall consider the same at the time of FRR based on actualization.

14.3. ***In view of above and the determination made per para 4.8, RLNG cost of service is provisionally re-worked at Rs. 9,313 million (Rs. 21.26/ MMCF or Rs. 20.15 / MMBTU) per the table below: -***

Table 26: RLNG Cost of Service as Calculated

		Rs. in Million
Description	**The Petition**	**As Allowed**
Quantitative Data (MMCF)	438,000	438,000
Quantitative Data (MMBTU)	462,090	462,090
Revenue Expenditure Relating to RLNG	3,479	3,479
Depreciation	1,611	1,474
Contribution to WPPF	1,323	-
ROA	5,706	4,360
Cost of Supply of RLNG	**12,119**	**9,313**
Cost of Supply of RLNG (Rs./MMCF)	27.67	21.26
Cost of Supply of RLNG (Rs./MMBTU)	26.23	20.15

15. Previous Year Shortfall

15.1. The petitioner has claimed Rs. 33,787 million previous year shortfall for FY 2021-22 and requested to include the same in tariff determination for the said year.

15.2. ***The Authority has not included any impact as part of instant determination and decides to refer the matter in respect of previous year shortfall to FG for devising appropriate policy so that the revenue shortfall as determined by OGRA is fully met.***

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16. Determination

16.1. 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. 129,990 million **(Annexure-I)**. Accordingly, the revenue requirement is provisionally allowed at Rs. 327,227 million for the said year as tabulated below:

Table 27: Components of Revenue Requirement as Allowed by the Authority

Particulars	Claimed by the Petitioner	As Allowed
		Rs. in million
Cost of gas sold	322,005	317,230
UFG adjustment	-	(23,038)
UFG adjustment on RLNG volume handled basis (ring fence)	(19,879)	-
Transmission and distribution cost	20,214	17,186
Gas internally consumed	973	922
Depreciation	8,889	7,511
Other charges	2,836	75
Return on net average operating fixed assets	11,857	5,968
Additional revenue requirement for Air-Mix LPG Projects	1,434	1,373
Total Estimated Revenue Requirement	**348,330**	**327,227**

16.2. Provisional prescribed prices against each category of consumers for the said year are attached as **Annexure-II** in comparison with existing sale price. ***The Authority has not, however, included previous years' shortfall, as discussed in para 15.2 above as part of instant determination and decides to refer it to FG for an appropriate policy decision.*** 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.

16.3. The Authority, under Section 8(2) of the Ordinance refers the instant determination to the FG for natural gas sale price advise. 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.

16.4. 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."

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16.5. The Authority, however, reiterates that latest amendment in OGRA's Act requires FG to ensure adequate and timely gas price revision within the stipulated time period. The latest amendments in relevant legal provisions of Section 8(3) & (4) are reproduced below;

Section 8(3) of the Ordinance

The Federal Government shall, within forty days of the advice referred to in sub-sections (1) and (2), advise the Authority of minimum charges and the sale price for each category of retail consumer for natural gas for notification in the official Gazette by the Authority of the prescribed price as determined in sub-sections (1) and (2), the minimum charges and the sale prices for each category of retail consumers for natural gas.
Federal Government shall ensure that the sale prices so advised are not less than the revenue requirement determined by the Authority.

Section 8(4) of the Ordinance

If the FG fails to advise the Authority within the time specified in sub-section (3), ***the category wise prescribed prices so determined by the Authority under sub-section (1) and (2), as the case may be, shall be notified by the Authority as the category wise sale prices.***

17. Public Critique, Views, Concerns, Suggestions

17.1. The Authority has recorded concerns of interveners and participants in Para 3 above, which include matters relating to policy and do not fall under the purview of Authority but affect the consumers. Specific attention of FG is drawn to these issues for consideration and necessary action. 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.

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

Mohammad Naeem Ghouri
Member (Finance)

Zainul Abideen Qureshi,
Member (Oil)

Masroor Khan
Chairman

for
REGISTRAR
Oil & Gas Regulatory Authority
Islamabad

A. Computation of Revised Estimated Revenue Requirement for FY 2022-23

Rs. in Million

	Particulars	DERR	The Petition	The Adjustment	As Allowed
	Gas sales volume -MMCF	288,816	281,810		281,810
	BBTU	283,040	277,000		277,000
"A"	**Net Operating Revenues**				
	Net sales at current prescribed price	197,926	191,859	-	191,859
	Meter rentals	1,726	1,726	-	1,726
	Amortization of deferred credit	584	584	-	584
	Sale of condensate	(1)	(1)	-	(1)
	Late payment surcharge	1,061	1,061	-	1,061
	Meter manufacturing profit	74	74	-	74
	Notional Income on IAS-19	766	766	-	766
	Other operating income	1,167	1,167	-	1,167
	Total Operating Revenue "A"	203,303	197,236	-	197,236
"B"	**Less: Operating Expenses**				
	Cost of gas	277,449	322,005	(4,776)	317,230
	UFG Adjustment	(19,510)	-	(23,038)	(23,038)
	UFG adjustment on RLNG volume handled basis (ring fence)	-	(19,879)	19,879	-
	Transmission and distribution cost	17,154	20,214	(3,029)	17,186
	Gas internally consumed	897	973	(51)	922
	Depreciation	7,472	8,889	(1,379)	7,511
	Other charges including WPPF	75	2,836	(2,761)	75
	Total Operating Expenses "B"	283,536	335,039	(15,154)	319,885
"C"	**Operating profit / (loss) (A-B)**	(80,233)	(137,803)	15,154	(122,649)
	Return required on net operating fixed assets:				
	Net operating fixed assets at beginning	46,125	46,125	-	46,125
	Net operating fixed assets at ending	44,015	96,357	(20,948)	46,951
		90,139	142,482	(49,406)	93,076
	Average net operating assets (I)	45,070	71,241	(24,703)	46,538
	Net LPG air mix project asset at beginning	2,457	2,457	(0)	2,457
	Net LPG air mix project asset at ending	2,464	2,484	(70)	2,414
		4,921	4,941	(70)	4,871
	Average net LPG air-mix assets (II)	2,460	2,471	(35)	2,435
	Net MMP at beginning	255	255	-	255
	Net MMP at ending	229	231	-	231
		483	486	-	486
	Average net MMP assets (III)	242	243	-	243
	Net LHF (condensate) at beginning	7	7	-	7
	Net LHF (condensate) at ending	7	7	-	7
		15	15	-	15
	Average net LHF assets (IV)	7	7	-	7
	Deferred credit at beginning - Assets related to Natural Gas Activity	7,326	7,326	(0)	7,326
	Deferred credit at ending - Assets related to Natural Gas Activity	8,727	8,727	-	8,727
		16,052	16,053	(1)	16,052
	Average net deferred credit (V)	8,026	8,027	(0)	8,026
"D"	**Average (I-II-III-IV-V)**	34,458	60,619	(24,668)	35,951
	Rate of Return	16.60%	19.56%	-2.96%	16.60%
"E"	Return required	5,720	11,857	(5,889)	5,968
"F"	Shortfall / (Surplus) (E-C) (Gas Operations)	85,953	149,661	(21,043)	128,617
"G"	Additional revenue requirement for Air-Mix LPG Projects	1,373	1,434	(61)	1,373
"H"	**Shortfall / (Surplus) H=(F+G)**	87,326	151,095	(21,104)	129,990
"I"	Increase/(decrease) in average prescribed price FY 2022-23 (Rs. / MMBTU)	308.53	545.47	(76.19)	469.28
"J"	**Total estimated revenue requirement FY 2022-23**	290,629	348,330	(21,104)	327,226
"K"	**Average Prescribed Price for FY 2022-23 (Rs./MMBTU)**	1,007.82	1,238.10	(76.19)	1,161.91

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B. Category-wise Provisional Prescribed Prices for FY 2022-23

	Particulars	Existing Sale Price	Average Prescribed Price FY 2022-23
		Rs./MMBTU	
(i)	**Domestic Consumers:**		
	Upto 0.5 HM^3 per month	121.00	1,161.91
	Upto 1 HM^3 per month	300.00	1,161.91
	Upto 2 HM^3 per month	553.00	1,161.91
	Upto 3 HM^3 per month	738.00	1,161.91
	Upto 4 HM^3 per month	1,107.00	1,161.91
	Above 4 HM^3 per month	1,460.00	1,161.91
	The billing mechnism will be revised so that the benefit of one previous /slab is available to domestic consumer (residential use.)		
	Bulk Consumption	780.00	
(ii)	**Special Commercial Consumers (Roti Tandoors)**		
	Upto 0.5 HM^3 per month	110.00	1,161.91
	Upto 1 HM^3 per month	110.00	1,161.91
	Upto 2 HM^3 per month	220.00	1,161.91
	Upto 3 HM^3 per month	220.00	1,161.91
	Over 3 HM^3 per month	700.00	1,161.91
(iii)	**Commercial :**		
	All establishments registered as commercial units with local authorities or dealing in consumer items for direct commercial sale like cafes, bakeries, milk shops, tea stalls, canteens, barber shops, laundries, hotels, malls, places of entertainment like cinemas, clubs, theaters and private offices, corporate firms, etc.		
	All off-takes at flat rate of	1,283.00	1,161.91
(iv)	**Ice Factories:** All off-takes at flat rate of	1,283.00	1,161.91
(v)	**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	1,161.91
(vi)	**Export Oriented (General Industry):** All off-takes at flat rate of	819.00	1,161.91
(vii)	**Export Oriented (Captive):** All off-takes at flat rate of	852.00	1,161.91
(viii)	**Captive Power :** All off-takes at flat rate of	1,087.00	1,161.91
(ix)	**CNG-Region-I:** (KPK, Baluchistan Including Potohar region (Rawalpindi, Islamabad & Gujar Khan) All off-takes at flat rate of	1,371.00	1,161.91
(x)	**CNG-Region-II:** (Sindh & Punjab (Exluding Potohar Region) All off-takes at flat rate of	1,350.00	1,161.91
(xi)	**Cement Factories:** All off-takes at flat rate of	1,277.00	1,161.91
(xii)	**Fauji Fertilizer Bin Qasim Limited**		
	(i) For gas used as feed-stock for Fertilizer	302.00	1,161.91
	(ii) For gas used as fuel for generating steam and electricity and for usage in housing colonies for fertilizer factories	1,023.00	1,161.91
(xiii)	**Power Stations** All off-takes at flat rate of	857.00	1,161.91
(xiv)	**Pakistan Steel** All off-takes at flat rate of	857.00	1,161.91
(xv)	**Independent Power Producers** All off-takes at flat rate of	857.00	1,161.91

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C. List of Abbreviations for RERR FY 2022-23

APTPMA	All Pakistan Textile Processing Mills Association
BBTU	Billion British Thermal Unit
BOD	Board of Directors
CBA	Collective Bargaining Agreement
CNG	Compressed Natural Gas
CP System	Cathodic Protection System
CMS	Customer Meter Station
CPI	Consumer Price Index
CSCs	Customer Service Centers
DERR	Determination of Estimated Revenue Requirement
DHA	Defense Housing Authority
EVC	Electronic Volume Corrector
ECC	Economic Coordination Committee
FFC	Fauji Fertilizer Company
FG	Federal Government
FRR	Final Revenue Requirement
GIC	Gas Internally Consumed
GIS	Geographic Information System
GOP	Government of Pakistan
GCV	Gas Calorific Value
GIDC	Gas Infrastructure Development Cess
HSFO	High Sulphur Furnace Oil
IFRS	International Financial Reporting Standards
KIBOR	Karachi Interbank Offer Rate
KPMG	Klynveld Peat MarwicK Goerdeler
KMI	Key Monitoring Indicators
KPK	Khyber Pakhtunkhwa
LPG	Liquified Petroleum Gas
LPS	Late Payment Surcharge
LNG	Liquified Natural Gas
MMBTU	Million Metric British Thermal Unit
MMCF	Million Cubic Feet
MMCFD	Million Standard Cubic Feet per Day
MMP	Meter Manufacturing Profit
MoE (PD)	Ministry of Energy, Petroleum Division
MVA	Main Valve Assembly
NGTR	Natural Gas Tariff Rules
NHA	National Highway Authority
OGRA	Oil and Gas Regulatory Authority
OGDCL	Oil and Gas Development Company
PIB	Pakistan Investment Bond
PRS	Pressure Regulating Station
PSX	Pakistan Stock Exchange
RLNG	Re-Gasified Liquefied Natural Gas
ROA	Return on Assets
RS	Regulating Station
ROW	Right of Way
SMS	Sale Meter Station

SNGPL	Sui Northern Gas Pipeline Limited
SSGCL	Sui Southern Gas Company Limited
SCADA	Supervisory Control and Data Acquisition
TBS	Town Border Station
TPA	Third Party Access
T&D	Transmission and Distribution
UFG	Un-accounted for Gas
WACOG	Weighted Average Cost of Gas
WACC	Weighted Average cost of capital
WAPDA	Water & Power Development Authority
WPPF	Workers Profit Participation Fund

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