Case No. OGRA-6(2)-1(4)/2022-RERR

IN THE MATTER OF
SUI NORTHERN GAS PIPELINES LIMITED
REVIEW OF ESTIMATED REVENUE REQUIREMENT, FY 2022-23

UNDER

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

DECISION ON

JANUARY 9, 2023

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

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Islamabad

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1. Background

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

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

1.3. The Authority, under Section 8(1) of the OGRA Ordinance, 2002 (the Ordinance) determined the Estimated Revenue Requirement (DERR) of the petitioner for FY 2022-23 (the said year) vide its Order dated June 03, 2022 at Rs. 278,715 million. Based on the available revenues, the resultant deficit was determined at Rs. 81,408 million, translating into increase of Rs. 266.59 per MMBTU in the average prescribed price w.e.f. July 01, 2022. Impact of previous years' shortfall amounting to Rs. 264,894 million was not included in the above said price and the matter was referred to FG for an appropriate policy decision.

1.4. Being aggrieved with aforementioned determination, the petitioner has submitted Motion for Review (MFR) on July 03, 2022 under Rule 16 of Natural Gas Tariff Rules, 2002 (NGT Rules) seeking for increase in the average prescribed price for the said year.

2. The Petition

2.1. Subsequent to the above motion for review, the petitioner has submitted its review petition (the Petition) under Section 8(2) of the Ordinance on October 14, 2022, incorporating the effect of changes in the projected cost of gas, latest international oil prices, Rupee US$ parity, revised projection of gas purchases & sales volume and revised return on assets (ROA). Further, the petitioner has requested that the issues raised vide motion for review as referred in para 1.4 above, have also been made part of the instant petition. Accordingly, the petitioner has claimed its shortfall at Rs. 178,814 million and requested the Authority to increase its average prescribed price by Rs. 488.08/MMBTU for the said year. The petitioner has submitted that due to depletion of gas reserve coupled with increasing demand by domestic consumers, RLNG volume equivalent to 63,396 BBTU has been projected to be diverted and sold to system gas consumers at system gas price during the said year. Accordingly, partial amount of Rs. 34,618 million has also been claimed in the instant petition, and balance amount has requested as part of RLNG cost of service in the light of applicable decision of the Federal Cabinet.

2.2. The petitioner has also requested to include Rs. 295,268 million, being previous years' accumulated shortfall upto RERR FY 2021-22 as part of instant petition, requesting the Authority to allow aggregate increase in average prescribed price of Rs. 1,294.02/MMBTU for the said year. Accordingly, the petitioner has requested average prescribed price at Rs. 1,839.91/MMBTU for the said year.

2.3. Moreover, the petitioner has claimed RLNG cost of service at Rs. 56,216 million i.e. Rs. 253.20/MMBTU for the said year, being ring-fenced to be recoverable from RLNG consumers in the light of applicable Federal Cabinet decision. The petitioner has also claimed Rs. 169,276 million, being differential against RLNG volume diversion to domestic consumers

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and requested to allow additional Rs. 762.44/MMBTU resulting an aggregate cost of RLNG Rs. 1,015.64/MMBTU for the said year.

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

Table 1: Projected Cost of Service per the Petition

PARTICULARS	Rs./MMBTU FY 2022-23 The Petition
Volume (BBTU)	**366,364**
Cost of gas	809.03
UFG Adjustment	(13.89)
Operating Cost	65.52
Depriciation	56.13
Late Payment Surcharge & short term borrowing	89.30
Return on Assets	75.15
Additional Revenue Requirement for LPG Air Mix	1.21
Other Operating Income	(48.50)
Average Prescribed Price for the said year	***1,033.97***
Cumulative Previous Years Shortfall	805.94
Average Prescribed Price including previous year shortfall	**1,839.91**
Current Average Prescribed Price	545.89
Aggregate increase in Avg. Prescribed Price	**1,294.02**

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

2.6. A notice inviting interventions/comments on the petition from all stakeholders was published in the local newspapers. Public hearing notice was published in the national press on November 05, 2022. In response to public notices, the Authority received intervention requests from All Pakistan CNG Association and All Pakistan Textile Processing Mills Association (APTPMA). The Authority accepted the same for intervention.

3. Proceedings and Public Interventions

3.1. Public hearing was held on November 14, 2022 at Lahore. The following interveners/participants presented their views/comments/suggestions:

The Petitioner:

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

Interveners/Participants:

i. Sheikh Muhammad Ayub, Ex-Chairman, All Pakistan Textile Processing Mills Association

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

3.2.1. The petitioner stated that the petition has been filed in line with past practice, on the basis of revised assumptions in terms of latest trend of international oil prices coupled with Rupee Dollar parity and actual volumes for sales & purchases for the months of July and August, 2022 for computation of cost of gas.

3.2.2. The petitioner has requested for revised ROA at 19.99% in the light of parameters set for new tariff regime for natural gas sector of Pakistan.

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 explained that the variance reported against the head of depreciation is due to difference in estimates of economic lives in respect of CMS, CP stations and UPS etc., and it was requested to re-consider the company's request for review of the economic lives against above assets.

3.2.5. The petitioner has reiterated that UFG disallowance be computed on the basis of company's respective Weighted Average Cost of Gas (WACOG) in the light of its license condition No. 21.3 as against national WACOG as adopted by the Authority.

3.2.6. The petitioner has requested to fix UFG benchmark formula for the said year after consultation process with sui companies as well as experts as required under the relevant license condition.

3.2.7. The petitioner has contested that allowed HR cost by the Authority for the said year is not sufficient to meet its current HR requirements. It has been facing shortage of 42% in current manpower strength based on a past study conducted by it in 2016 and this shortage is severely affecting its operations. The petitioner has requested to revise parameters of HR benchmark through consultative session and include CPI allowance considering hyper inflation prevailing in the country.

3.2.8. The petitioner has further requested to allow annual increase of 15% on prevailing HR Benchmark cost as this will enable the petitioner to at least partially meet the economic challenges arisen due to hyperinflation which is hovering over 25%.

3.2.9. The petitioner has apprised that the petitioner made slight adjustment in input volume as nine cargoes per month would be available as per revised projection instead of 12 cargoes per months as per DERR, owing to current international scenario arising from Russia & Ukraine war.

3.2.10. The petitioner has argued that after incorporation of LPS income as part of RLNG cost of service from default consumers, corresponding finance cost should also be included. It was explained that the same is being incurred to meet the shortfall arising from RLNG diversion to domestic consumers. Therefore, based on prevailing huge outstanding amount, finance cost should be allowed on the basis of similar mechanism being used for natural gas.

3.2.11. The petitioner has demanded that SSGCL's GIC should also be made part of RLNG cost of service since its exclusion from computation formula is resulting in less

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recovery from its consumers. It was highlighted that around 11 billion has been deducted and retained by SSGCL on account of GIC under compression.

3.3. The substantive points made by the representative of textile processing unit are summarized below:

3.3.1 It was highlighted that textile export in Pakistan is the prime sector earning foreign exchange, therefore, increase in textile tariff would lead this sector uncompetitive in the international market. It was requested that all uneconomical costs including any increase in HR costs including other T&D cost components must be rejected and steps be taken to improve UFG losses.

3.3.2 It was highlighted that utility bills have reached unprecedent 40% of the cost of production in textile industry, therefore, any further increase in tariff as requested by the petitioner would be detrimental for textile sector and lead to closure of business.

4. Authority's Jurisdiction & Determination Process

4.1. The Authority examined, in depth, all applications and petitions in light of relevant legal provisions. The instant petition has been filed under section 8(2) of the Ordinance. The instant petition is primarily focused on review of cost of gas of the petitioner based on actual changes in the wellhead gas prices and relevant factors. The wellhead gas prices for the said year are based on the actual prices of crude oil and HSFO during the period December, 2021 to September, 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. Accordingly, FG, keeping in view economic indicators, policy considerations in terms of uniform pricing across the country, Gas Development Surcharge and the inter-category subsidies, etc. advises the gas sales prices to OGRA & the same is accordingly notified by it in the official gazette.

4.4. The Authority, however, observes that during past, FG under Section 8(3) of the Ordinance had advised insufficient revisions to OGRA, resulting in accumulation of previous years' revenue shortfall in the total revenue requirement of the petitioner & as well as its sister utility. The Authority, in the instant determination as well as previous decisions, has already referred the matter of previous years' shortfall to FG for an appropriate policy decision. MoE needs to devise a mechanism for direct disbursement to sui companies without affecting the revenue requirement exercise and process for future determinations in the light of latest amendments in OGRA's act. 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

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also attract litigation in various courts. 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.

4.5. The Authority observes that the petitioner has re-worked its Weighted Average Cost of Capital (WACC) at 19.90% 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.

4.6. 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 petitioner 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.

4.7. ***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 Asset

5.1. The Authority at the time of DERR for the said year had allowed addition in operating fixed assets as per following details;

Table 2: Operating Fixed Assets as per DERR

Sr. No.	Particulars	Petition FY 2022-23 (Rs. Million)											
		Distribution			Transmission			Sales			Total		
		Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total
1	Land freehold	-	-	-	25	15	40	-	-		25	15	40
2	Building on Freehold land	423		423				-	-	-	423	-	423
3	Transmission Mains				1,460	-	1,460	-	-	-	1,460	-	1,460
4	Compression	-	-	-	481	-	481	-	-	-	481	-	481
5	Distribution Mains	44,462	6,013	50,474	-				-		44,462	6,013	50,474
6	Measuring and Regulating	7,868	338	8,205	-					-	7,868	338	8,205
	Sub Total	52,752	6,350	59,102	1,966	15	1,981	-	-	-	54,718	6,365	61,083
7	Telecommunication Equipment	-			50	-	50	-	-		50	-	50
8	Plant & Machinery	1,047		1,047	615		615	64	-	64	1,727	-	1,727
9	Tools & Equipment	115		115	5	-	5	0	-	0	120	-	120
10	Construction Equipment	363		363	7		7	-		-	370	-	370
11	Motor Vehicles	300	-	300	-		-	-	-	-	300		300
12	Furniture & Fixture	50	-	50	-		-	-	-	-	50	-	50
13	Office Equipment	-			-		-	60	-	60	60	-	60
14	Computer Hardware		-		30	-	30	745	-	745	775	-	775
15	Computer System Software / Intangible Assets		-	-	5	-	5	360	-	360	365	-	365
16	SCADA System	-		-	-		-	-	-	-			
	Sub Total	1,875	-	1,875	712	-	712	1,229	-	1,229	3,817	-	3,817
	Grand Total	54,627	6,350	60,977	2,678	15	2,693	1,229	-	1,229	58,535	6,365	64,900

Sr. No.	Particulars	Determined FY 2022-23 (Rs. Million)											
		Distribution			Transmission			Sales			Total		
		Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total
1	Land freehold	-	-	-				-					
2	Building on Freehold land	123	-	123	-	-					123		123
3	Transmission Mains	-			499	-	499	-	-	-	499	-	499
4	Compression				-			-	-	-			-
5	Distribution Mains	2,429	6,013	8,442	-		-			-	2,429	6,013	8,442
6	Measuring and Regulating	2,590	338	2,927	-		-			-	2,590	338	2,927
	Sub Total	5,142	6,350	11,492	499	-	499	-	-	-	5,641	6,350	11,991
7	Telecommunication Equipment				50	-	50	-			50		50
8	Plant & Machinery	113	-	113	208		208	22		22	343		343
9	Tools & Equipment	29		29	1		1	0	-	0	30	-	30
10	Construction Equipment	247		247	5		5	-			252	-	252
11	Motor Vehicles	-	-	-		-	-	-	-	-	-		-
12	Furniture & Fixture	50	-	50				-	-	-	50		50
13	Office Equipment	-		-			-	5	-	5	5		5
14	Computer Hardware	-		-	18	-	18	239	-	239	258	-	258
15	Computer System Software / Intangible Assets		-		2		2	127	-	127	129		129
16	SCADA System		-	-			-	-		-	-	-	-
	Sub Total	439	-	439	284	-	284	393	-	393	1,115	-	1,115
	Grand Total	5,581	6,350	11,931	783	-	783	393	-	393	6,757	6,350	13,107

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5.2. Now the petitioner has claimed reinstatements and addition of following assets in its Motion for Review against Authority's determination of ERR for the said year;

Table 3: Addition/Reinstatements of Assets per the petition

Sr. No.	Particulars	Petition FY 2022-23 (Rs. Million)			Determined FY 2022-23 (Rs. Million)			Reinstatement RERR 2022-23 (Rs. Million)		
		Total			Total			Total		
		Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total
1	Land freehold	25	15	40	-	-	-	25	15	40
2	Building on Freehold land	423	-	423	123	-	123	123	-	123
3	Transmission Mains	1,460	-	1,460	499		499	530	-	530
4	Compression	481		481	-	-	-	481	-	481
5	Distribution Mains	44,462	6,013	50,474	2,429	6,013	8,442	42,033	-	42,033
6	Measuring and Regulating	7,868	338	8,205	2,590	338	2,927	5,213		5,213
	Sub Total	54,718	6,365	61,083	5,641	6,350	11,991	48,404	15	48,419
7	Telecommunication Equipment	50	-	50	50	-	50	-	-	
8	Plant & Machinery	1,727	-	1,727	343	-	343	1,384	-	1,384
9	Tools & Equipment	120		120	30	-	30	90	-	90
10	Construction Equipment	370	-	370	252	-	252	118	-	118
11	Motor Vehicles	300	-	300		-	-	300		300
12	Furniture & Fixture	50		50	50		50	-		-
13	Office Equipment	60	-	60	5	-	5	55	-	55
14	Computer Hardware	775	-	775	258	-	258	518	-	518
15	Computer System Software / Intangible Assets	365	-	365	129	-	129	236	-	236
16	SCADA System	-	-			-	-	-	-	
	Sub Total	3,817	-	3,817	1,115	-	1,115	2,701	-	2,701
	Grand Total	58,535	6,365	64,900	6,757	6,350	13,107	51,105	15	51,120
	Additions / New Projects									
17	Augmentation / Bifurcation of Gas Network of Lahore City (Phase-II)									
18	Injection Of Additional Gas From Bannu West-1 Gas Field And Wali Gas Field							3,909	-	3,909
19	Bhawalpur Industrial Estate							23,441	-	23,441
20	Laying on 100% cost sharing basis (FFC's Facility at Mirpur Mathelo)							-	577	577
21	Additional Budget (Karak)								1,987	1,987
22	Gujjar Khan							49		49
	Total							27,399	2,564	29,963
	Grand Total	58,535	6,365	64,900	6,757	6,350	13,107	78,504	2,579	81,083

5.3. Reinstatement of Assets

5.3.1 The petitioner has requested for reconsideration of disallowed amounts in respect various assets mentioned at Sr. No. 3, 5, 6, 8, 9, 10, 11, 14 & 15 above including establishment of sub regions, complaint centre (CC) & customer service centres (CSC).

5.3.2 The petitioner has repeated its justifications as already submitted per its ERR petition. The Authority observes that it had analyzed the request of the petitioner keeping in view the operational requirement and the ability of the petitioner to execute such jobs and determined reasonable amounts at the time of DERR for the said year. Moreover, the Authority has always urged the petitioner to project capital expenditures that are prudent, cost effective, realistic and economically efficient so as to avoid unnecessary cost impacts.

5.3.3 The Authority observes that the petitioner has merely repeated its earlier stance and has not provided any new evidence/ justification for review of earlier decisions. The Authority further notes that the petitioner only intends to file motion for review without complying with the legal justification for filing the same as in most of the items demanded as part of review petitions, the petitioner does not provide any new argument or justification nor could establish change in circumstances. Moreover, the relevant observations of the Authority in such cases are also not addressed. The senior management of petitioner, therefore, must ensure that reviews are only filed, if and only if, there is new evidence or change in circumstances, as otherwise it is not prudent to waste time and resources of petitioner as well as the Authority.

5.3.4 ***Therefore, the Authority maintains its original decisions in respect of assets as mentioned at para 5.3.1 above.***

5.4. Principle Approval of Capital Project

5.4.1 The petitioner has requested the Authority to include the principally allowed assets/ special projects during the said year in the rate base to avoid financial loss to the company.

5.4.2 The Authority notes that various fixed assets are allowed by the Authority in principle as unreasonable and unachievable targets are usually set by the petitioner for laying of assets, only to engulf return on the same throughout the year and reporting unsatisfactory progress at year end. The petitioner, through its past performance, in respect of executing various jobs/ projects has exhibited lack of project planning and deficient execution. The Authority is, therefore, of the view that the petitioner usually does not meet the timeline for completion of various projects/ jobs and always come up with vague reasons for delays. Hence, the Authority while keeping in view operational requirement, prudency of the projects/jobs and impact on consumer prices considers only prudent and reasonable claims.

5.4.3 In view of the above, the Authority finds no new evidence, therefore, maintains its earlier decisions in this respect.

5.5. Distribution Development (System Augmentation & Cost Sharing Jobs)

5.5.1 The petitioner has submitted that budgets under the head have been allowed subject to compliance with the conditions as per framework devised by the Authority vide DERR 2021-22 [Para 5.17.6] and requires perusal and advice from competent Authority.

5.5.2 The petitioner has explained that budget in respect of system augmentation is required for augmentation of existing distribution network and neither any locality is added nor additional requirement of gas is involved in such cases. Moreover, the petitioner has apprised that the pipelines under this head are proposed/approved for rectification of low gas pressure issues against consumer complaints and existing consumers get benefit in the form of improved gas pressures through laying of these pipelines.

5.5.3 In respect of cost sharing jobs, the petitioner has highlighted that the budget amounting to Rs. 1,400 million pertaining to system gas had been projected for jobs related to judiciary, armed forces and other government institutions. The petitioner further apprised that cost sharing jobs also include a number of cases mainly related to government/army institutions which require conversion from bulk to individual metering (already on system gas), and will involve no additional gas requirement.

5.5.4 In view of the above, the petitioner has requested the Authority to allow Rs. 2,900 million for 290 Kms against system augmentation and Rs. 1,400 million for laying of 323 Kms for indigenous gas system on cost sharing basis.

5.5.5 The Authority observes that after development of framework by the Authority vide DERR 2021-22, the petitioner has executed number of jobs on account of system augmentation and cost sharing basis. Therefore, the clarification being requested at this stage is quite surprising as ***the said decision is abundantly clear and requires no further clarification***.

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5.6. New Projects/ Additions

5.6.1 The petitioner has also requested the Authority for consideration of additions/ new projects as per following sub heads:

5.7. Augmentation /Bifurcation of Gas Network of Lahore City (Phase-II)

5.7.1 The petitioner has submitted that the Authority has already granted principle approval of Phase-II of the project in its decision on RERR for FY 2021-22 dated March 01, 2022.

5.7.2 The petitioner has stated that cost estimates for the project were prepared in year 2018 based on then prevalent exchange rate, material, and land prices. The petitioner has explained that the pipeline route traverse in the close surrounding of urban areas of Lahore District which are developing day by day and agriculture land is being converted to residential and commercial areas having high tendency of increase in value with the passage of time. Moreover, the petitioner added that dollar exchange rate and material cost has also increased to the tune of 73 % and 87 % since 2018, resulting in increase in estimated amount.

5.7.3 The petitioner has highlighted that after detailed working, it has been observed that cost of project under Phase-II will increase from earlier estimated cost of Rs. 2,363 million to Rs. 3,909 million. Accordingly, the petitioner while providing Board of Directors (BOD) approval has requested a budget enhancement of Rs. 1,546 million to complete Phase-II of the project.

5.7.4 In view of the submission of the petitioner, the Authority observes that the Phase-II of the said project has already been approved in principle vide RERR FY 2021-22, however, keeping in view the escalation in material and land costs alongwith rupee dollar parity over the years, reasonable and prudent expenses on Phase II of this project shall be considered at the time of FRR provided the same are within the estimated amount for the said year.

5.8. Injection of Additional Gas from Bannu West Well-1 and Wali Well-1 Gas fields into SNGPL Transmission Network

5.8.1 The petitioner has apprised that M/s Mari Petroleum Company Limited (MPCL) has discovered gas at its field Bannu West Well-1 with an initial gas flow rate of upto 40 MMCFD and future prospects of upto 70 MMCFD, similarly Oil and Gas Development Company Limited (OGDCL) has discovered gas at its Wali Well-1 with an initial gas flow rate of 25-30 MMCFD which will ramp upto 50 MMCFD in future.

5.8.2 The petitioner further submitted that the Prime Minister of Pakistan has directed Ministry of Energy (Petroleum Division) and the petitioner to implement the project of laying of pipelines to connect above mentioned new gas discoveries with SNGPL transmission network within a period of four (04) months. The petitioner has also provided the BOD approval for the project as per following cost estimates;

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Table 4: Cost Estimates break down (Bannu West Well-1 & Wali Well-1)

Rs. in million

Sr No.	Description	Cost
1	18" Dia x 230 KM proposed transmission line from Bannu West Well-1 upto Daudkhel (including uplifting cost of 18" Dia x 255 KM transmission line from AC-1 (Guddu) to AC-6 (Multan) along with uplifting of valves and fittings, de-coating and gas purging	18,495
2	8" Dia x 65 KM proposed transmission line from Wali Well-1 upto proposed V/A Kakakhel	3,446
3	Estimated markup cost to be capitalized during construction period in accordance with International Accounting Standards	1,500
	Total Cost	**23,441**

5.8.3 The Authority while considering the request of the petitioner and national importance of the project to improve gas supply to consumers, has already granted principle approval vide letter dated 24.06.2022 and has also conveyed its analysis vide subsequent letter dated 18-11-2022. The same are reiterated here with the directions to execute the project prudently & efficiently after due diligence and within given timeline.

5.9. Laying of Pipeline on 100% Cost Sharing Basis for the Supply of 20 MMCFD RLNG at Zero Point of Bahawalpur Industrial Estate

5.9.1 The petitioner has projected Rs. 520 million for supply of 20 MMCFD RLNG at zero point of Bahawalpur Industrial Estate (BIE) on 100% cost sharing basis alongwith Rs. 57 million pertaining to metering gadgets from petitioner's own resources.

5.9.2 The petitioner has apprised that GoP is developing BIE at District Bahawalpur through the Punjab Industrial Estate Development & Management Company (PIEDMC) which is a subsidiary of the Government of Punjab. The petitioner has stated that M/s PIEDMC has requested for provision of 20 MMCFD gas to BIE and accordingly, a system analysis has been carried out, which reveals that 10" dia x 1.35 Km transmission spur along with SMS cum CMS having capacity of 20 MMCFD is required to cater the desired load. Moreover, the land measuring 300' x 170' shall also be required for the construction of SMS cum CMS inside the boundary of BIE at terminal point which shall be provided by M/s PIEDMC authorities free of cost.

5.9.3 The petitioner while providing BOD approval for the project has submitted that total estimated cost for the pipeline infrastructure (excluding the land cost of SMS cum CMS) to be developed for providing the desired gas at BIE shall be Rs. 520 million which will be paid by M/s PIEDMC. Moreover, procurement and installation of metering gadgets for this project at the total budgeted cost of Rs. 57 million shall be arranged from petitioner's own resources and will be entitled to rate of return.

5.9.4 In view of the foregoing, the Authority approves the project in principle under RLNG ring fenced mechanism and subject to following conditions:

a. 10" dia x 1.35 Km transmission spur from A5 Bahawalpur transmission segment at MP 25.85 to terminal point inside the boundary of BIE along with SMS cum CMS

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having capacity of 20 MMCFD shall be undertaken on 100% cost sharing basis and the petitioner shall not be entitled to rate of return on this amount.

b. Installation of metering gadgets for the subject project at the total budgeted cost of Rs. 57 million shall be arranged from petitioner's own resources and shall be entitled to rate of return.

c. SNGPL shall be responsible for operation and maintenance of the said pipeline.

5.10. Laying Of Pipeline for Supply of 105 MMCFD RLNG at Fauji Fertilizer Company Limited's Facilities at Mirpur Mathelo on 100% Cost Sharing Basis

5.10.1 The petitioner has projected Rs. 1,860 million for supply of 105 MMCFD RLNG at zero point of M/s Fauji Fertilizer Company (FFC) Limited on 100% cost sharing alongwith Rs. 127 million pertaining to metering gadgets from petitioner's own resources.

5.10.2 The petitioner has apprised that FG has allocated upto 105 MMCFD RLNG to M/s FFC purely on as and when available basis and based on the technical details shared by M/s FFC, 20" dia x 14 KM transmission spur line is to be laid from QV-2, Muhammad Pur Valve Assembly (V/A) alongwith SMS cum CMS at the doorstep/ terminal point of FFC's facilities. Moreover, land measuring 325' x 200' shall also be required for the construction of SMS cum CMS which shall be provided by M/s FFC free of cost.

5.10.3 The petitioner while providing BOD approval for the project has submitted that total estimated cost of pipeline infrastructure (excluding the land cost of SMS cum CMS) to be developed for providing the desired gas at FFC facilities shall be Rs. 1,860 million which shall be financed by M/s FFC on 100% cost sharing basis. Moreover, procurement and installation of metering gadgets for this project at total budgeted cost of Rs. 127 million shall be arranged from petitioner's own resources and will be entitled to rate of return.

5.10.4 In view of the foregoing, the Authority approves the project in principle under RLNG ring fenced mechanism and subject to following conditions:

a. 20" dia x 14 KM transmission spur line from QV-2, Muhammad Pur V/A alongwith SMS cum CMS at the doorstep/ terminal point of FFC's facilities on 100 percent cost sharing basis and the petitioner shall not be entitled to rate of return.

b. Installation of metering gadgets for the project at total budgeted cost of Rs. 127 million shall be arranged from petitioner's own resources and shall be entitled to rate of return.

c. SNGPL shall be responsible for the operation and maintenance of the said pipeline.

5.11. Establishment of Regional Office at Karak & Upgradation of CSC at Bannu & Hangu to Sub Area Offices

5.11.1 The petitioner has submitted that Authority vide its decision on ERR of FY 2021-22 had allowed in principle the capital budget amounting to Rs. 103 million for up-gradation of Karak Office only instead of establishment of regional office at Karak. The petitioner while reiterating its earlier stance/ efforts has again requested the Authority for establishment of regional office at Karak alongwith up-gradation of Customer Service Centres (CSCs) at Bannu and Hangu.

5.11.2 The Authority observes that the petitioner has been advancing similar justifications since many years in respect of establishment of regional office at Karak alongwith creation of sub-areas at Hangu & Bannu and has not given any new tangible justification for

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reconsideration of its request while totally ignoring to address the concerns raised by the Authority in this case. ***In view of the foregoing, the Authority maintains its earlier decision in this respect and directs the petitioner to reinforce its existing setup to facilitate the consumers.***

5.12. Gujjar Khan Sub-Region

5.12.1 The petitioner while referring to its letter dated 07.09.2022 has requested the Authority for principle approval of upgradation of CSC Gujjar Khan to Sub-Region office at a projected amount of Rs. 79.4 million.

5.12.2 The petitioner has apprised that an agenda for establishment of new regions in three phases was earlier submitted to the Authority wherein up-gradation of Gujjar Khan as Sub Area was included in phase-II. However, the Authority vide its decision dated 27-02-2019 pended the matter. The petitioner has informed that a fresh approval from BOD with updated assessment of revenue & capital expenditures is under process and shall be submitted shortly.

5.12.3 The petitioner has explained that Tehsil Gujjar Khan, District Rawalpindi, located at a distance of 40 Km from Rawalpindi office and 50 Km from Sub-Regional Office Jhelum has around 62,271 consumers and is the largest Tehsil of Punjab by land area and third most populous tehsil of Rawalpindi District after Taxila & Rawalpindi. The petitioner has highlighted that distance for the consumers visiting from Gujjar Khan to Regional Office Rawalpindi or Sub Area Jhelum is way beyond economic viability for them and for their easy approach, it is most important that a sub-regional office is established within Gujjar Khan.

5.12.4 The request of the petitioner in respect of proposed setup has been analyzed considering current consumer density viz-a-viz prospective number of consumers and keeping in view the existing/ nearby company's offices/ setup. The Authority observes that CSC already exists at Gujjar Khan and the city of Gujjar Khan is at a distance of only 40 km from Rawalpindi Regional office. Moreover, major chunk of consumers are located between Rawalpindi Regional Office and CSC Gujjar Khan, therefore they can be managed by adopting proper resource planning and utilization of the existing/ nearby setup of the company.

5.12.5 ***In view of the above, the Authority, does not allow any amount for upgradation of CSC. However, the petitioner may re-enforce its existing setups to facilitate the consumers. Moreover, the petitioner is specifically advised to submit such projects for consideration of the Authority after taking BOD approval in advance.***

5.13. LPG Air Mix Gilgit

5.13.1 The petitioner has projected an amount of Rs. 353 million in respect of LPG Air Mix Plant at Gilgit. ***The Authority observes that principle approval of LPG Air Mix plant at Gilgit has already been granted by the Authority vide RERR FY 2018-19, therefore, any prudent expenses on this project shall be considered at the time of FRR for the respective year, provided that the petitioner has complied with decision of the Authority regarding extension in construction license.***

5.14. Depreciation and ROA

5.14.1 ***Regarding petitioner's contention on useful economic life and its depreciation rates on various fixed assets, the Authority notes that justifications provided by the petitioner for revision in depreciation are generic in nature & hence merit no consideration. Accordingly,***

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Authority decides to provisionally allow depreciation at Rs. 18,342 million for the said year. Consequently, ROA, in the light of decision as per para 4.7, is computed at Rs. 16,526 million based on net average operating assets for the said year.

6. Operating Revenues

i. Sales Revenues at Existing Prescribed Price

6.1 The petitioner has claimed gas sales revenues at Rs. 199,996 million based on two months' actual supplies i.e. July-August, 2022, for the said year. The petitioner has also requested to include projected revenue of Rs. 20,699 million against RLNG volumes of 63,396 BBTU diverted to domestic consumer as part of instant petition for the said year. The petitioner has claimed 224% & 160% increase against actual RLNG diversion/sold volumes during FY 2020-21 and FY 2019-20 respectively, despite the fact that 25% decrease has been projected in RLNG imports/supplies. The petitioner has also not included these volumes as part of UFG computations claiming that no gas loss is being incurred while transporting RLNG into distribution system, which is contradictory to its position otherwise taken at various forums.

6.2 The Authority observes that the matter in respect of inclusion of estimated RLNG volumes was discussed in DERR for the said year and the matter was referred to Ministry of Energy (MoE) for formulation of policy after consulting all stakeholders, in the light of latest amendments in OGRA's act. The Authority notes that MoE (PD) has submitted its draft summary with Economic Coordination Committee (ECC) on January 03, 2023 for issuance of policy guideline to OGRA under Section 21 of the OGRA Ordinance, 2002 in respect of RLNG sale price and inclusion of RLNG diverted cost in annual estimated revenue requirement. ECC, however, in the above referred meeting, has advised MoE(PD) to resubmit the case indicating financial implication against the above proposals. In the light thereof, the Authority decides to pend the matter in respect of inclusion of RLNG in revenue requirement calculations and shall review the same in the light of Federal Cabinet's decision.

6.3 ***In view of the above, the Authority provisionally includes gas sale volumes at 302,968 BBTU and allows sale revenues at Rs. 179,297 million for the said year, computed at applicable natural gas sale price.***

ii. Other Operating Income

6.4 The petitioner kept other operating income at the level of DERR i.e. Rs. 17,768 million, and the same is accepted for the for the said year.

6.5 ***Keeping in view the above, total operating revenues are determined at Rs. 197,065 million on provisional for the said year.***

7 Operating Expenditures

i. Cost of Gas

7.1 The petitioner has projected cost of gas Rs. 296,339 million, based on its projections of international prices of crude and HSFO, for the said year, as tabulated below:

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Table 5: Assumptions for Petitioner's WACOG

Applicable for Wellhead Gas Price	Average oil price for the period	Average C&F price		Exchange Rate
		Crude Oil	HSFO	
		US$/BBL	US$/M.TON	Rs. / US$
July to December, 2022	December 2021 to May 2022	99.32	558.61	230.00
January to June, 2023	June 2022 to November, 2022	89.47	503.30	230.00
Average		94.40	530.95	230.00

7.2 The petitioner has claimed local cost of gas at Rs. 741.66/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. The petitioner has also requested that RLNG diversion be made part of instant petition and accordingly has claimed Rs. 34,618 million, being partial recovery calculated at average sale price of Rs. 546.07/MMBTU.

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

7.4 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 6: 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	224.00
January to June, 2023	June 2022 to November, 2022	101.9995	454.2417	230.00
Average		100.7323	507.7594	227.00

7.5 Regarding RLNG diversion cost of Rs. 63,396 million as part of cost of gas sold, the Authority excludes the same in the light of decision per para 6.2.

7.6 ***In view of the above, cost of gas is included at Rs. 264,020 million based on revised WACOG of Rs. 748.01/MMCF on provisional basis for the said year. The Authority, however, notes with serious concern that petitioner has projected unrealistic basis for the computation of cost of gas, despite the fact that actual data was available with the company at the time of submission of petition for the said year. The Authority has always urged the petitioner to project these costs prudently and realistically as to avoid unnecessary cost impacts. The senior management of the company must ensure reasonable projections so as to reflect actual cost revision.***

ii. Gas Internally Consumed (GIC)

7.7 The petitioner has claimed GIC for the said year at Rs. 1,230 million under transmission system as per following detail;

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Table 7: GIC per the Petition

Indigenous Gas				
Particulars	MMCF	MMBTU	Avg. cost price	(Rs. In million)
Transmission System				
Compressors	1,646	1,552,096	793	1,230
Coating Plant	109	102,917	793	82
Residential Colonies	74	69,827	793	55
Sub total	1,829	1,724,840		1,367
Distribution System				
Free Gas Facility	536	505,355	793	401
Co-Generation	87	81,701	793	65
Sub total	622	587,055		466
GIC Indigenous	2,452	2,311,895		1,833
		GIC as per Petition		1,230

7.8 The Authority based on the historical rate of internal consumption provisionally calculates GIC for indigenous system at 1,174 MMCF against claimed volume of 1,646 MMCF and 2,816 MMCF against claimed volume of 3,457 MMCF in case of RLNG system. The volumes calculated in respect of GIC are subject to actualization at the time of respective FRR.

7.9 In addition to above, the petitioner in respect of RLNG system has also included 1,448 MMCF as GIC at SSGC system to compute the net RLNG received in Transmission system of the petitioner. The Authority notes that the claim of the petitioner in respect of GIC volume at SSGC system is not appropriate at this stage. However, any prudent volume in this respect shall be considered by the Authority at FRR stage based on actual figures as reconciled with SSGC.

7.10 The petitioner has also projected 36,500 MMCF @ 100 MMCFD on account of volume to be retained by SSGC for its sale to K-Electric during the said year. The petitioner added that volume being retained by SSGC is as per advice of GOP enabling K-electric to produce electricity to mitigate the electricity load shedding in Karachi. The same is being allowed on provisional basis subject to actualization at the time of FRR.

7.11 ***Accordingly, GIC has been provisionally re-worked at Rs. 878 million based on revised petitioner's WACOG @ Rs. 748.01/MMCF, determined per paras 7.4 and 7.5 for the said year.***

iii. Unaccounted for Gas (UFG)

a) Uncontrollable factors:

7.12 The petitioner while referring to the observations of the Authority regarding improvement in uncontrollable factors related to UFG and law & order situation has highlighted that Authority while approving UFG study through ERR 2017-18 had allowed 'Local Conditions Component' of UFG benchmark to cater for impact of certain factors beyond control of the petitioner including inter-alia gas losses due to extending network in retail sector, losses in high UFG areas of KPK and miscellaneous other UFG contributing factors that are still prevalent.

7.13 The petitioner has mentioned that untiring efforts of the company have resulted in significant reduction in T&D losses in High UFG Areas of KPK but still losses in these areas contribute around 24 – 25% of the total UFG loss. The petitioner has added that all the stake holders including Federal Govt., Provincial Govt., Law Enforcement agencies as well as local administration are fully cognizant of the fact that these areas are a serious challenge and hard to regulate.

7.14 The petitioner has claimed that for achievement of sustainable results, minimum 2-3 more years are required for execution/completion of planned site work and consolidation of achieved results, owing to difficult operational conditions and local political issues. Accordingly, the petitioner has requested the Authority that relief in the shape of KMI regime should be continued to account for this issue for a minimum period of 2-3 years i.e., during the execution period of planned work in these areas.

b) Shift of Gas from Bulk to Retail Sector:

7.15 The petitioner has apprised that due to reduction of indigenous gas supplies and dependence on imported RLNG, the industrial sale has been adversely affected. Moreover, the petitioner has further submitted that compliance of priority order prescribed by GoP, has been adversely affecting UFG of the company owing to less allocation of gas to Industrial sector, to ensure uninterrupted gas supply to domestic sector.

7.16 The petitioner has highlighted that, improvements in retail (domestic) sector requires lot of field work, for which different infrastructure projects are underway that shall require 2-3 years, as it involves larger diameter lines and after its execution, its benefits will be translated in terms of better operational control, as well as reduction in losses.

7.17 In view of the above, the petitioner has requested that due relief against the above said uncontrollable factors, should be provided to the petitioner correlated with execution of KMIs related to UFG control activities at least for next 3 years.

c) Separate UFG Benchmark for Distribution Network:

7.18 The petitioner submitted that since the inception of UFG benchmark there has been a single consolidated UFG benchmark for Transmission and Distribution network. The petitioner has explained that the consolidated UFG benchmark, earlier prescribed by Authority allowed some cushion with regard to financial disallowance, however, the separate UFG benchmark for distribution network coupled with calculation of UFG disallowance @WACOG will result in unbearable financial disallowance.

7.19 The petitioner added that revision in criteria or change in formula for disallowance calculation requires thorough consultation with the gas companies as well as experts, whereas this time the Authority has made a major change with regard to UFG benchmark, without any consultation with the gas companies or any thorough study by experts as was done in year FY 2017.

7.20 In view of above, the petitioner has requested the Authority to consider the following:

a. Reinstate previous practice of consolidated UFG Benchmark for Transmission and Distribution Networks.
b. Arrange new UFG Benchmark Study commensurate with the historical trend of UFG losses, prevailing scenario and ground realities. The study must be carried out in consultation with gas companies.
c. KMI regime must be continued till completion of new UFG Benchmark Study or provide due relief against losses in High UFG Areas of KPK as 'deemed sale' as per earlier decision of ECC of Cabinet.

7.21 The Authority observes that the facts being highlighted by the petitioner have been abundantly repeated by the petitioner in earlier petitions. The Authority is always appreciative

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of the efforts of the petitioner, specifically in respect of law and order affected areas and providing legal gas connections.

7.22 Moreover, the Authority is also fully aware of improving law & order situation in such areas and keeping in view the operational requirement, has also approved number of projects as requested by the petitioner including upgradation of Karak office, system augmentation in major cities, segregation of SMSs etc. for better monitoring and control of losses, in the recent years. The Authority observes that focused efforts of the petitioner have resulted in reduction of the overall UFG of the company.

7.23 The stance of the petitioner in respect of increase in losses due to bulk to retail shift and compliance of priority order set by GoP directives is not sound. The Authority notes that this priority order has always been in field as per directions of Government and hence not a new phenomenon and extension of retail network is the responsibility of petitioner, where through proper workmanship and prudent planning, the petitioner must have laid the network of exceptional quality that must not be prone to theft and leakages of other errors/ issues. Moreover, efficient & timely maintenance activities must be undertaken on priority to overcome operational challenges. Furthermore, in respect of various infrastructure projects being undertaken by the petitioner to bring operational improvement in gas supply to retail sector, the Authority observes that proper resource planning is not being managed by the petitioner, since in most of the cases, such projects are not completed as per set timeline. Accordingly, the Authority urges the petitioner to meet the set timeline and work once started should be completed in all respects to save integrity of asset and to avoid theft.

7.24 It is pertinent to mention that allowance of 2.6 % on account of prevalent local challenging conditions including law & order situations & theft by non-consumers, linked with 30 KMIs to execute activities such as rehabilitation, replacement of lines, leak survey, etc was introduced for a period of 5 years. The Authority is of the firm view that 5 years is quite a reasonable time for such allowance as the activities relevant to KMIs, if undertaken with proper planning and objective approach to eradicate UFG, had been effective enough to control the uncontrollable factors and were not aimed to remain implemented for foreseeable future. Therefore, ground realities in respect of uncontrollable factors specifically law & order situation are no more applicable.

7.25 In respect of segregating transmission & distribution allowable losses, the Authority 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.

7.26 ***In view of the foregoing, the Authority finds it prudent that transmission and distribution losses be segregated and accordingly maintains as per ERR where the allowable losses were provisionally calculated at 0.36 % for transmission system and 6.25 % for distribution respectively subject to certain conditions mentioned therein. Hence no revision is required.***

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Table 8: UFG Calculation Sheet

UFG CALCULATION SHEET					
		RERR FY 2022-23			
		As per petition		As Calculated	
Gas Purchases		Indigenous gas (UFG)	RLNG to be Supplied to Transmission and Distribution consumers	Indigenous gas (UFG)	RLNG to be Supplied to Transmission and Distribution consumers
Transmission System		MMCF	MMCF	MMCF	MMCF
(Gas Received) in Transmission Indigenous	A	355,436		355,436	
RLNG received at FSRU	B		328,500		328,500
Retainage	C		(2,464)		(2,464)
Retained by SSGC	D		(36,500)		(36,500)
GIC at SSGC System	E		(1,448)		-
Net Gas Received in Trans. System of SNGPL	F=A+B+C+D+E	355,436	288,089	355,436	289,536
Gas used in operation of Tran. Sys.	G	(1,829)	(3,457)	(1,357)	(2,816)
(i) Compression		(1,646)	(3,457)	(1,174)	(2,816)
(ii) Residential Colonies		(74)	-	(74)	-
(ii) Coating Plant		(109)	-	(109)	-
Gas Available in Transmission System	H=F+G	353,607	284,632	354,079	286,720
Gas passed to Dist. System and sold to PFC consumers	i	84,780	144,136	84,780	144,136
Gas passed to Distribution system through SMS	J	267,050	139,055	267,050	139,055
Loss in Tansmission System	K=H-I-J	1,777	1,440	2,249	3,529
% Loss or Gain in Transmission Sytem	L=K/F*100	0.50%	0.50%		
UFG Allowed (% age)				0.36%	
Allowed UFG (MMCF)				1272	
Invalid Claim (MMCF)				977	
Distribution System					
Gas Received in Dist. System (Through SMS)	J	267,050	139,055	267,050	139,055
Gas internally consumed in Distribution System (GIC)	M	(622)	-	(622)	-
(i) Free Gas Facility		(536)	-	(536)	-
(ii) Co-Generation		(87)	-	(87)	-
(Gas available for Sale in Dist. Sytem)	N=J+M	266,428	139,055	266,428	139,055
Gas Sold					
Gas Delivered (Net Gas Sold)-(RLNG sales includes Diversion)	O	238,952	127,687	238,952	127,687
Loss in Distribution System	P=N-O	27,475	11,368	27,475	11,368
% age Loss in Distribution Sytem	Q=P/J*100	10.29%	8.18%		
Allowed UFG (%)				6.25%	
Allowed UFG (MMCF)				16691	
Invalid Claim (MMCF)				10785	
Total UFG Volume (Transmission + Distribution)	R=P+K	29,253	12,808	29,725	14,897
Total % age UFG (Transmission + Distribution)	S=R/F*1000	8.23%	4.45%		

7.27 ***The Authority further maintains its earlier decision and decides to compute UFG adjustment, being an invalid claim, at national WACOG. In view of the same, UFG adjustment is provisionally re-worked at Rs. 9,821 million at national WACOG (Indigenous) of Rs. 835.01/MMCF for the said year.***

iv. Same UFG Benchmark for Indigenous Gas and RLNG:

7.28 The petitioner has stated that although both indigenous gas and RLNG are passing through the same shared gas network yet RLNG is much costlier than indigenous gas and ECC of the Cabinet after deliberating the aforementioned fact and in the best interest of sustainability of the RLNG supply chain approved the actual allowance of UFG for RLNG sales vide its decision dated 14.06.16. The petitioner has highlighted that fixing of the same UFG benchmark for indigenous gas and RLNG will result in huge financial loss to the petitioner as actual UFG of the petitioner is much higher than the proposed UFG benchmark. The petitioner has apprised that it is not in a position to sustain the disallowance on account of actual UFG of network viz-a-viz UFG benchmark of RLNG, so the same should be reviewed based on ground realities.

7.29 The Authority observes that arguments submitted by petitioner have already been considered by the Authority and no new justification could be found to review earlier decision in this respect. Therefore, the Authority maintains its earlier decision and no further clarification is required.

8 Transmission & Distribution Cost (T&D)

i. Summary

8.1 The petitioner has projected Rs. 44,080 million against T&D cost while allocating Rs. 22,040 million equally to natural gas segment and RLNG for the said year. Comparison of T&D with DERR for the said year is as under:

Table 9: Comparison of Projected T & D Cost with DERR

Rs. in million

Sr#	Description	RERR	Actual Unaudited	DERR	The Petition FY 2022-23				Diff	%age
		FY 2021-22		FY 2022-23	Transmission	Distribution	Selling	Total	Inc./(dec)	
1	HR Cost	16,996	20,673	19,554	6,908	12,631	10,195	29,734	10,180	52%
2	Stores & spares consumed	880	686	880	726	735	25	1,486	606	69%
3	Repairs & maintenance of system	1,294	1,467	1448	355	1,496	276	2,127	679	47%
4	Stationery, telegrams and postage	239	220	270	21	49	201	270	0	0%
5	Rent, rates, royalty, electricity and telephones	619	613	673	264	367	262	892	219	33%
6	Travelling expenses	163	135	163	60	54	49	163	-	0%
7	Transport expenses	975	1,156	1007	321	775	205	1,301	294	29%
8	Insurance	279	261	278	70	129	80	279	1	0%
9	Fuel & Power	516	511	567	272	296	-	567	0	0%
10	Legal and Professional services	204	320	280	88	162	98	348	68	24%
11	ISO 14001 & OHSAS Certification	9	7	12	3	6	3	12	-	0%
12	Advertisement & publicity	208	183	235	11	20	204	235	-	0%
13	Protective clothing & Supplies	59	54	77	6	64	7	77	-	0%
14	Staff Recruiting expenses	-	-	0	7	13	8	28	28	#DIV/0!
15	Staff Training Expenses	35	42	23	18	32	20	70	47	203%
16	Security expenses	1,760	1,591	1853	1,979	232	143	2,353	500	27%
18	Outsourcing of Call Centre	30	24	33	-	-	33	33	-	0%
19	Sports cell expenses / Annual Sports	48	58	43	11	20	12	43	-	0%
20	OGRA fee	371	228	379	-	-	379	379	-	0%
21	Bank Charges	10	6	11	3	5	3	11	(1)	-5%
22	Facilities Provided by other companies	14	19	15	4	7	4	15	-	0%
23	Board Meeting and directors expenses	61	49	61	15	28	17	61	-	0%
24	Corporate Social Responsibility	12	19	10	3	5	3	10	-	0%
25	Other expenses	205	347	225	69	162	69	299	74	33%
27	Gas Bills Collection Charges	660	593	666	-	-	666	666	-	0%
28	KMI Implementation Plan / UFG Control Activities	662	983	722	-	1,444	-	1,444	722	100%
29	Gathering charges of collection data	65	50	65	-	-	65	65	-	0%
30	Dispatch of Gas Bills	165	163	180	-	-	180	180	-	0%
31	Recovery through contractors	25	25	-						
32	Sponsorship of Chairs for Universities	-	12	-				-		
33	Provision for doubtful debts	-	772	-	-	-	1,433	1,433	1,433	
33	Gross Operating Budget	26,564	31,267	29,730	11,212	18,728	14,640	44,580	14,850	50%
34	Allocation to CWIP (Others)	(319)	(451)	(500)	-	(436)	(64)	(500)		
35	Net Operating Budget	26,245	30,816	29,230	11,212	18,292	14,575	44,080		
36	**Allocated to RLNG Segment @ 50%**	12,219		14,615	5,606	9,146	7,288	22,040		
37	**Allocated to NG Segment @ 50%**	14,026		14,615	5,606	9,146	7,288	22,040		

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

ii. Human Resource Cost

8.2 The petitioner has submitted that an amount of Rs. 29,734 million has been claimed under the head of HR cost for the said year, while allocating proportionate amount to RLNG segment.

8.3 The petitioner has stated that its minimum requirement under this head is Rs. 23,000 million while Authority had allowed Rs. 19,500 million at the time of DERR for the said year which is not sufficient to meet its existing HR cost requirements based on the fact that the country is facing hyperinflation of around 25%.

8.4 The petitioner has highlighted that FG has also allowed a total of 50% Adhoc relief allowance to its employees during last 15 months, while the petitioner has not been allowed adequate amount under this head which is leading to demotivation and inefficiency in operational activities. The petitioner has informed that it has started various initiatives to control costs viz; overtime, negotiation with CBA for rationalization of various perks and facilities, capping of maximum pay scales based on market-based compensation study conducted by it etc.

8.5 The petitioner has informed that it is facing severe shortage of manpower due to inadequate hiring of subordinate staff in the past. The petitioner has emphasized that it is incorrect to state that the petitioner used its additional HR cost allowed on the basis of operational parameters for increasing the salaries of its existing employees and no recruitment was made. The petitioner has argued that no additional cost for recruitment despite its repeated requests had been allowed. The petitioner claimed shortage of employees is 6,040 (42%) for FY 2020 as per the study conducted in 2016. Besides above, around 852 employees will be retiring in next five years increasing this shortfall.

8.5 The petitioner has stated that the recently introduced HR benchmark in FY 2021-22 does not provide any cushion for increase in salary/ wages based on operating parameters. For instance, during FY 2021-22, moratorium was imposed by the Government on distribution development activities as well as on new connections. Due to this moratorium, there will be marginal increase in two out of three parameters of the HR Benchmark. The petitioner has suggested to use additional parameters such as increase in minimum wage rates, CPI impact, performance based annual increment, career progression of employees, increase in indirect costs due to increase in length of service of employees etc. Accordingly, the petitioner has requested to allow straight line increase of 12% p.a. or allow an increase equivalent to the percentage increase allowed to government employees as announced by GoP.

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

i) An increase of 15% was allowed against RERR for FY 2021-22 which duly accounts for the inflationary impact prevalent for the said year.

ii) A composite HR benchmark based on operating parameters as well as CPI was allowed to gas utilities to manage its salary revision as well as workforce requirement. However, the said freedom allowed by the regulator had not been properly executed by its management. The inbuilt factors in the benchmark to regulate the manpower strength had been used by the management for mopping up its salary revision. Therefore, now the petitioner's plea to allow additional funds for hiring is against the very basis of this HR benchmark and conduct of the petitioner as exhibited by it in past. A table indicating workforce strength is as under;

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Table 10: SNGPL Historical HR Analysis:

Particulars	FRR FY 2014-15	FRR FY 2015-16	FRR FY 2016-17	FRR FY 2017-18	FRR FY 2018-19	FRR FY 2019-20	FRR FY 2020-21	FY 2021-22
Manpower Strength:							528	
Executives	1,381	1,530	1,507	1,484	1,461	1,609	1,561	1,525
		11%	-2%	-2%	-2%	10%	-3%	
Subordinates	7,688	7,717	7,677	7,580	7,420	7,281	7,146	7,019
		0%	-1%	-1%	-2%	-2%	-2%	
	9,069	9,247	9,184	9,064	8,881	8,890	8,707	8,544
		2%	-1%	-1%	-2%	0.1%	-2%	-2%
Casual/Badli:								
Casual/Badli:	2,100	2,029	2,470	3,091	2,893	3,006	2,720	2,885
		-3%	22%	25%	-6%	4%	-10%	6%
Part time meter readers	2,102	2,059	746	797	784	843	876	879
Total	4,202	4,088	3,216	3,888	3,677	3,849	3,596	3,764
		-3%	-21%	21%	-5%	5%	-7%	5%

It is evident from above that the petitioner managed its operational requirements through hiring of badli employees, especially when huge transmission and distribution network was laid down and the benefit was availed for salary revisions only.

iii) Moreover, operations related to security, complaint/call centers and etc are outsourced besides regular workforce involved in petitioner's operations as referred above.

8.7 The Authority appreciates the petitioner's initiatives for introducing automation & technology for operational efficiency and real time monitoring. These initiatives include introduction of new dash boards, mobile application to track and trace the whole operational workflow in number of departments including billing, optimum utilization of CC&B, GIS and SCADA. These initiatives would not only increase the petitioner's operational efficiency but also invariably result in curtailment of human resource cost as well as workforce requirement.

8.8 The Authority notes that HR Benchmark formula has been evolved over the period based on sui companies' data and changing business dynamics. In the wake of current energy crisis in the country, 52% increase claimed by the company is not justified. The petitioner's employees are already drawing hefty salaries and the observation on the same had already been provided by the Authority in DERR & RERR FY 2020-21. It is crystal clear that company, being responsible shall devise a comprehensive HR policy including rationale workforce assessment and undertake concrete steps to run its operations prudently. Increasing litigation, poor complaint management system & uncontrolled UFG are the serious points of concern for the regulator. Moreover, considering declining gas supplies, request of revision in HR formula by the petitioner is imprudent and irrational hence does not merit consideration. The Authority, at the time of DERR for the said year, has already advised the petitioner to meet their operational requirement and administrative matters including additional hiring of manpower, CBA on first priority by utilizing the additional amounts through OGRA's allowed funds for the said year.

8.9 ***In view of above, the Authority finds no valid reason to review its HR benchmark formula and decides to maintain its earlier decision and fixes HR cost at Rs. 19,554 million (including IAS-19 cost Rs. 260 million) for the said year based on existing operating parameters as provided at the time of DERR. Any adjustment based on actual parameters shall be considered at the time of FRR for the said year.***

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iii. Stores Spares & Consumed Expenses

8.10 The petitioner has requested to allow Rs. 1,486 million under Stores & Spares Consumed expenses as against Rs. 880 million allowed per DERR for the said year. The petitioner has submitted that the Authority restricted the amount at RERR FY 2021-22 while ignoring the surging US$ exchange parity and global inflationary trends which have resulted into increase in prices of spares up to 35% as compared to the preceding year. Since most of the spares are imported from original equipment manufacturers and involve payment in foreign currency, therefore, are directly affected by devaluation of the Pakistani Rupee.

8.11 The petitioner has emphasized that it has standardized inventory system for minimizing the inventory cost and maintaining a bare minimum inventory level for smooth operations. Moreover, more than 60% increase in steel rates has been observed since last year. The actual expenses, however, during last two financial years have remained on the lower side due to limited repair and maintenance activities in pandemic situation. The petitioner has requested the Authority to allow the remaining amount of Rs. 606 million, thereby granting entire amount claimed under the above head.

8.12 The Authority notes that the average actual expenditure during the last 3 years had remained around Rs. 595 million only. The Authority, therefore, considering all the relevant factors including Rupee US$ parity, local as well as global inflation & operational activities, had already allowed an increase of around 50% against three years actual average. ***Accordingly, the Authority decides to maintain its earlier decision and provisionally Rs. 880 million under the head "Stores & Spares Consumed" for the said year subject to actualization at year end.***

iv. Transport Expense

8.13 The petitioner has requested to allow Rs. 1,300 million under the head "Transport Expense" as against the Authority's determination of Rs. 1,007 million for the said year. The petitioner has submitted that major expenditure under this head is on account of fuel, which is notified by the Government of Pakistan from time to time and is directly proportionate to this expenses. The petitioner has argued that the Authority, while allowing budget under this head, must consider the average prices of fuel as well as anticipated increase in future.

8.14 ***In view of the justifications as provided by the petitioner, the Authority fixes transport expenses at the level of FY 2021-22 i.e. Rs. 1,156 million.***

v. Remaining T&D Expenses not discussed above

8.15 The Authority notes that the petitioner, as part of its motion for review, has also claimed review against various other heads including Repairs & maintenance, KMI Implementation plan/UFG Control Activities, Rent & Rates, Legal & Professional, staff training and recruitment, security expense, provision for doubtful debt and construction equipment and has requested to allow an amount of Rs. 8,919 million as per table below:

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Table 11: Comparative of Remaining T&D Expenses with DERR:

(Rs. In million)

Sr #	Description	DERR	The Petition
		FY 2022-23	
1	Rent, rates, royalty, electricity and telephones	673	892
2	Legal and Professional services	280	348
3	Staff Training & Recruiting expenses	23	98
4	Security expenses	1,853	2,353
5	Provision for doubtful debts	-	1,433
6	Construction Equipment operating cost	161	235
7	KMI Implementation Plan/UFG Control Activities	722	1,433
8	Repairs & Maintenance	1,448	2,127
	Total	**5,160**	**8,919**

8.16 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.***

8.17 In view of the discussion and decision in preceding paras and the RLNG allocation @ 50% as decided in para 9.4, the Authority provisionally allows T&D costs as per table below:

Table 12: Transmission & Distribution Cost Allowed by the Authority

(Rs. in million)

Sr #	Description	DERR FY 2022-23	The Petition FY 2022-23	As Allowed
1	HR Cost	19,554	29,734	19,554
5	Transport expenses	1,007	1,301	1,156
2	Stores & spares consumed	880	1,486	880
3	Repairs & maintenance of system	1,448	2,127	1,448
4	Rent, rates, royalty, electricity and telephones	673	892	673
6	Legal and Professional services	280	348	280
7	Staff Recruiting expenses	-	28	-
8	Staff Training Expenses	23	70	23
9	Security expenses	1,853	2,353	1,853
10	KMI Implementation Plan / UFG Control Activities	722	1,444	722
11	Other expenses	225	299	225
12	Provision for doubtful debts	-	1,433	-
13	Remaining T&D cost components	3,066	3,066	3,066
14	Gross Operating Budget	29,731	44,580	29,880
	Allocation to CWIP (Others)	(500)	(500)	(500)
	Net Operating Budget	29,230	44,080	29,380
	Allocated to RLNG Segment @ 50%	14,615	22,040	14,690
	Allocated to NG Segment @ 50%	14,615	22,040	14,690

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vi. Late Payment Surcharge (LPS)

8.18 The Authority notes that the petitioner has claimed Rs. 31,658 million on account of LPS payment which has already been discussed and deliberated in its various earlier determinations. The Authority is of the firm view that petitioner's receivables and payables alongwith LPS in respect of state-owned entities is infact matter of 'circular debt'. The Authority therefore, advises the petitioner to take up the same with the FG for settlement. ***In the light thereof, the Authority maintains its earlier decision and pends the inclusion of Rs. 31,658 million till the resolution of matter of circular debt by GoP.***

9 RLNG Cost of Service

9.1 The petitioner has claimed Rs. 56,216 million on account of RLNG cost of supply at Rs. 253.20/MMBTU for the said year. In addition to the above, the petitioner has requested to allow additional differential cost of RLNG Rs. 169,276 million at Rs. 762.44/MMBTU against the volume diverted to domestic consumers. Accordingly, aggregate RLNG cost of supply has been requested at Rs. 1,015.64/MMBTU for the said year as per table below:

Table 13: RLNG's Cost of Service as claimed by the petitioner

Particulars		The Petition
Quantitative Data		*BBTU*
RLNG Input		344,925
Retainage / gas used in FSRU @ 0.75%		(2,587)
Retained by SSGC		(38,325)
GIC - SSGCL network @ 0.5%		(1,520)
GIC - SNGPL network @ 1.2%		(3,630)
UFG @ 4.5%		(13,449)
RLNG (Diverted to)/taken from System Gas		(63,396)
Net RLNG sold		**222,019**
Cost Components		*Million Rs.*
Amortization of Deferred Credit		(611)
LPS Income		(3,063)
Depreciation		2,311
Return on Assets		7,173
T&D cost including other relevant costs		22,371
Gas Internally Consumed SNGPL		11,675
Gas Internally Consumed SSGC		4,889
Transportation charges payable to SSGC		9,313
Finance cost for working capital		2,159
Total		**56,216**
Rs/ MMBTU		**253.20**
Diversion of RLNG towards Indigenous Gas Consumer		
RLNG to be Sold as System Gas	*BBTU*	63,396
Total Cost of RLNG Sold as System Gas @ avg cost of RLNG Purchased (A)	*Rs. in Million*	203,894
RLNG Sold as Indigenous gas @ avg sale price of indigenous gas(B)	*Rs. in Million*	34,618
Impact of Diversion of RLNG to be charged to RLNG consumer (A-B)	*Rs. in Million*	**169,276**
Impact of Diversion of RLNG to be charged to RLNG consumer	*RS./MMBTU*	**762.44**

9.2 The petitioner has highlighted that major reason for increase in RLNG cost of service is due to significant reduction in RLNG supplies owing to reduced imports by PSO and PLL of around 8-9 cargoes as against average 12 RLNG cargos in last year . The petitioner has also submitted that RLNG equivalent to 63,943 BBTU would also be diverted to system gas consumers during this winter as per FG's directions owing to depletion of indigenous gas sources and increase in number of domestic consumers. Besides above, the petitioner has requested to offset SSGCL's retained volume as well as diverted volumes from RLNG for

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determination of RLNG cost of supply including other volumetric adjustments on account of GIC and retainage for the said year.

9.3 The petitioner has argued that Authority vide SNGPL's determination of MFR FY 2019-20, has considered the LPS income (i.e. charged on delayed payments by the consumer due to non-compliance of contractual obligation) as part of the cost of supply of RLNG, thereby reducing per unit RLNG cost of supply. On contrary, the corresponding mark up on running finance on loans to finance the delayed payment from gas consumers has not been treated as operating expense. This mark-up cost is exactly similar to LPS Income which has been treated as an operating income. Therefore, on the same principle and in line with the practice in vogue in system gas, finance cost of Rs. 2,159 million should be allowed as an operating expense in the cost of supply of RLNG.

9.4 The Authority notes that the petitioner has failed to substantiate its claim on account of short-term finance cost on the analogy prevalent in system gas. Monthly RLNG pricing is regularly being done by OGRA for charging of sui companies' consumers on its transmission and distribution network. The petitioner must approach all the concerned quarters for timely recovery. Any delay, owing to inefficiency of the petitioner, can't be charged to RLNG consumers who are already paying full RLNG cost. Any delay in processing of direct disbursement by MoE or Finance Division may be taken up by FG so as to curtail such avoidable costs. Moreover, SSGCL transportation charges payable has been taken at Rs. 9,313 million as per their RERR determination for the said year. ***In view of above and related decisions in preceding paras, the Authority decides to charge all directly attributable costs (CAPEX, OPEX) to RLNG cost of service and equitably include all operating income arising from RLNG business segment while computing the RLNG cost of service. Accordingly, RLNG cost of service is calculated on provisional basis as per table below subject to actualization at year end:***

Table 14: Computation of RLNG Cost of Service for the Said Year

Particulars	The Petition	As Allowed
Quantitative Data	*BBTU*	*BBTU*
RLNG Input	344,925	344,925
Retainage / gas used in FSRU @ 0.75%	(2,587)	(2,587)
Retained by SSGC	(38,325)	(38,325)
GIC - SSGCL network @ 0.5%	(1,520)	
GIC - SNGPL network @ 1.2%	(3,630)	(2,960)
UFG @ 4.5%	(13,449)	(11,948)
RLNG (Diverted to)/taken from System Gas	(63,396)	
Net RLNG sold	**222,019**	**289,105**
Cost Components	*Million Rs.*	*Million Rs.*
Amortization of Deferred Credit	(611)	(611)
LPS Income	(3,063)	(3,063)
Depreciation	2,311	2,183
Return on Assets	7,173	6,246
T&D cost including other relevant costs	22,371	15,020
Gas Internally Consumed SNGPL	11,675	9,519
Gas Internally Consumed SSGC	4,889	
Transportation charges payable to SSGC	9,313	9,313
Finance cost for working capital	2,159	
Total	**56,216**	**38,607**
Rs/ MMBTU	**253.20**	**133.54**

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10 Previous Year's Cumulative Shortfall

10.1 The petitioner has claimed Rs. 295,268 million previous years' revenue shortfall and requested to include the same in tariff determination as tabulated below:

Table 15: Breakup of Previous Years Shortfall:

Sr. #	Description	Rs. In million
1	Shortfall upto FY 2018-19	167,091
2	Shortfall of FY 2019-20	37,755
3	Shortfall of FY 2020-21 (As per M/R against DFRR FY 2020-21)	69,313
4	Shortfall of FY 2021-22 (As per RERR FY 2021-22)	21,109
5	**Total Cumulative Previous Year Shortfall upto FY 2021-22**	**295,268**

10.2 The petitioner has submitted that this revenue shortfall has emerged due to inadequate gas price revision by GoP and, therefore, requested to incorporate cumulative revenue shortfall as part of instant decision. The Authority notes that the petitioner has claimed revised shortfall Rs. 69,313 million as against Authority's determination of FRR for FY 2020-21 at Rs. 38,939 million based on its review motion filed by it.

10.3 The Authority, taking into account its determinations, decides to determine previous years' cumulative shortfall at Rs. 264,894 million upto FY 2021-22. ***The Authority has not included any impact as part of instant determination and decides to refer the matter in respect of previous years' shortfall to FG for devising appropriate policy so that the revenue shortfall as determined by OGRA is fully met.***

11 Determination

11.1 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. 109,180 million (**Annexure-I**). Accordingly, the revenue requirement is provisionally allowed at Rs. 306,245 million for the said year as tabulated below:

Table 16: Components of Revenue Requirement FY 2022-23 as allowed by the Authority:

		Million Rs.
Particulars	Claimed by the peitioner	As allowed
Cost of gas sold	296,399	264,020
UFG Adjustment	(5,088)	(9,821)
Transmission and distribution cost	23,284	15,750
Gas internally consumed	1,230	878
Depreciation	20,565	18,342
Late Payment Surcharge (Payable)	31,658	-
Workers Profit Participation Fund	550	550
Return on assets	27,534	16,526
Additional revenue requirement for LPG Air-Mix Projects	445	-
Total Revenue Requirement (excluding Previous year shortfall)	396,577	306,245

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11.2 Provisional prescribed prices against each category of consumers for the said year are attached as **Annexure-II**. ***The Authority has decided not to include previous years' shortfall, as discussed in para 10.3 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.

11.3 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.

11.4 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."

11.5 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.***

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12 Public Critique, Views, Concerns, Suggestions

12.1 The Authority has recorded critique, views, concerns, and suggestions of the interveners and participants given in Para 3 above. The Authority, keeping in view the vehemently requests by the interveners, considers it important to draw specific attention of the FG regarding policy issues as included in chapter 3 above for due consideration. The petitioner should focus and make concerted efforts on reduction of UFG, improvement of internal control systems, increase of efficiency, quality of service, emergency response plan, and effective cost control/reduction measures should be taken to remain financially viable instead of making all out of efforts to seek passing on of costs associated with its own inefficiencies, malpractices, thefts, bad debts and alike to the consumers.

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

Mohammad Naeem Ghouri
Member (Finance)

Zain-ul-Abideen Qureshi
(Member Oil)

Masroor Khan
(Chairman)

for
REGISTRAR
Oil & Gas Regulatory Authority
Islamabad

1.Computation of Review Estimated Revenue Requirement FY 2022-23

Million Rs.

	Particulars	DERR	The Petition	Adjustment	As Allowed
	Gas sales volume -MMCF	326,364	384,337	(60,605)	323,732
	BBTU	305,374	366,364	(63,396)	302,968
"A"	**Net Operating revenues**				-
	Net sales at current prescribed price	179,539	199,996	(20,699)	179,297
	Rental & service charges	4,320	4,320	-	4,320
	Late Payment Surcharge and interest on arrears	7,549	7,549	-	7,549
	Amortization of deferred credit	3,089	3,089	-	3,089
	Transportation Income	760	760	-	760
	Other operating income	2,050	2,050	-	2,050
	Total income "A"	**197,307**	**217,764**	(20,699)	**197,065**
"B"	**Less Expenses**				-
	Cost of gas sold	235,644	296,399	(32,379)	264,020
	UFG (disallownce) / allowance	(8,806)	(5,088)	(4,733)	(9,821)
	HR cost Incl. T& D cost, net of capital allocation	14,615	22,041	(7,351)	14,690
	Gas internally consumed	784	1,230	(352)	878
	Depreciation	18,342	20,565	(2,223)	18,342
	Late Payment Surcharge (Payable)	-	31,658	(31,658)	-
	Finance cost for working capital	1,060	1,060	-	1,060
	Operating expense of Sub-region,CSC and CCs	-	183	(183)	-
	Workers Profit Participation Fund	550	550	-	550
	Total expenses "B"	**262,189**	**368,599**	(78,880)	**289,719**
"C"	**Operating profit / (loss)(A - B)**	**(64,882)**	**(150,835)**	58,181	**(92,654)**
	Return required on net assets:				-
	Net assets at begining	125,787	125,877	(90)	125,787
	Net assets at ending	114,293	190,573	(76,280)	114,293
		240,080	*316,450*	(76,370)	*240,080*
	Average fixed net assets (I)	**120,040**	**158,225**	(38,185)	**120,040**
	Deferred credit at begining	20,819	20,819	-	20,819
	Deferred credit at ending	20,155	20,155	-	20,155
		40,974	*40,974*	-	*40,974*
	Average net deferred credit (II)	**20,487**	**20,487**	-	**20,487**
"D"	**Average operating assets (I-II)**	**99,553**	**137,738**	(38,185)	**99,553**
	Return required on net assets	16.60%	19.99%	(0)	16.60%
"E"	Amount of return required	16,526	27,534	(11,008)	16,526
"F"	Excess / (Shortfall) FY 2022-23 - gas operations	(81,408)	(178,369)	69,189	(109,180)
"G"	Additional revenue requirement for LPG Air-Mix Projects	-	445	(445)	
"H"	Excess /(Shortfall) FY 2022-23 without previous years shortfall	(81,408)	(178,814)	69,634	(109,180)
	Average Inc/(Dec) in Prescribed Price FY 2022-23 (Rs/MMBTU)	(266.58)	(976.15)	615.79	(360.37)
"I"	**Total Revenue requirement FY 2022-23**	278,715	396,578	(90,333)	306,245
"J"	**Average Prescribed Price (PP) FY 2022-23(Rs./MMBTU)**	854.52	1,033.97	(81.80)	952.17

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2. Category wise Provisional Prescribed Price for FY 2022-23

	Particulars	Existing Sale Price	Average Prescribed Price FY 2022-23
		Rs./MMBTU	
(i)	**Domestic Consumers:**		
	Upto 0.5 HM3 per month	121.00	952.17
	Upto 1 HM3 per month	300.00	952.17
	Upto 2 HM3 per month	553.00	952.17
	Upto 3 HM3 per month	738.00	952.17
	Upto 4 HM3 per month	1,107.00	952.17
	Above 4 HM3 per month	1,460.00	952.17
	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	952.17
(ii)	**Special Commercial (Roti Tandoors)**		
	Upto 0.5 HM³ per month	110.00	952.17
	Upto 1 HM³ per month	110.00	952.17
	Upto 2 HM³ per month	220.00	952.17
	Upto 3 HM³ per month	220.00	952.17
	Over 3 HM³ per month	700.00	952.17
(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	952.17
(iv)	**Ice Factories:**		
	All off-takes at flat rate of	1,283.00	952.17
(v)	**General Industrial:**		
	All consumers engaged in the processing of industrial raw material into value added finished products irrespective of the volume of gas consumed but excluding such industries for which a separate rate has been prescribed.		
	All off-takes at flat rate of	1,054.00	952.17
(vi)	**Export Oriented (General Industry):**		
	All off-takes at flat rate of	819.00	952.17
(vii)	**Export Oriented (Captive):**		
	All off-takes at flat rate of	852.00	952.17
(viii)	**Captive Power :**		
	All off-takes at flat rate of	1,087.00	952.17
(ix)	**CNG-Region-I:** (KPK, Baluchistan Including Potohar region (Rawalpindi, Islamabad & Gujar Khan)		
	All off-takes at flat rate of	1,371.00	952.17
(x)	**CNG-Region-II:** (Sindh & Punjab (Exluding Potohar Region)		
	All off-takes at flat rate of	1,350.00	952.17
(xi)	**Cement Factories:**		
	All off-takes at flat rate of	1,277.00	952.17
(xii)	***Fertilizer Factories***		
	Feed stock: *All off takes at flat rate of*	302.00	952.17
	Gas used for Fuel for Electricity Generation, steam and housing colonies		
(a)	***Pak-American Fertilizer Limited, Daudkhel***		
	All off takes at flat rate of	1,023.00	952.17
(b)	***Pak-Arab Fertilizer Limited, Multan***		
	All off takes at flat rate of	1,023.00	952.17
(c)	***Dawood Hercules Chemicals Limited, Chichoki Malain, Sheikhupura District***		
	All off takes at flat rate of	1,023.00	952.17
(d)	***Pak-China Fertilizer Limited/ Hazara Phosphate Plant Limited, Haripur***		
	All off takes at flat rate of	1,023.00	952.17
(e)	***Engro Fertilizer Company limited***		
	Feed stock: *All off takes at flat rate of*	$0.70	952.17
	Gas used for Fuel for Electricity Generation, steam and housing colonies	1,023.00	952.17
(xiii)	***POWER STATIONS***		
(a)	***WAPDA's Power Stations and other electricity utility companies excluding WAPDA's Natural Gas Turbine Station, Nishatabad, Faisalabad***		
	All off takes at flat rate of	857.00	952.17
(b)	***WAPDA's Natural Gas Turbine Station, Nishatabad, Faisalabad***		
	All off takes at flat rate of	857.00	952.17
	Fixed Charge (Rupee per month)	390,000	390,000
(xiv)	***Captive Power***		
	All off-takes at flat rate of	1,087.00	952.17
(xv)	***Independent Power Projects***		
	All off-takes at flat rate of	857.00	952.17

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3. List of Abbreviations

AJ&K	Azad Jammu & Kashmir
APTPMA	All Pakistan Textile Processing Mills Association
BBTU	Billion British Thermal Unit
BOD	Board of Directors
CBA	Collective Bargaining Agreement
CC	Complaint Centre
C&F	Cost and Freight
CNG	Compressed Natural Gas
CP System	Cathodic Protection System
CMS	Customer Meter Station
CPI	Consumer Price Index
CSCs	Customer Service Centres
DERR	Determination of Estimated Revenue Requirement
DHA	Defence 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
GDS	Gas Development Surcharge
GOP	Government of Pakistan
GCV	Gas Calorific Value
GIDC	Gas Infrastructure Development Cess
HSFO	High Sulphur Furnace Oil
IAS	International Accounting Standard
KIBOR	Karachi Interbank Offer Rate
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
MFR	Motion for Review
MMCF	Million Cubic Feet
MMCFD	Million Standard Cubic Feet per Day
MMP	Meter Manufacturing Profit
MoE (PD)	Ministry of Energy, Petroleum Division
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

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PRS	Pressure Regulating Station
PSX	Pakistan Stock Exchange
RLNG	Re-Gasified Liquefied Natural Gas
ROA	Return on Operating Assets
RS	Regulating Station
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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