آئل اینڈ گیس
ریگولیٹری اتھارٹی

GUARDING PUBLIC INTEREST

Oil & Gas
Regulatory Authority

Case No. OGRA-6(2)-2(3)/2019-DTRR

IN THE MATTER OF

SUI SOUTHERN GAS COMPANY LIMITED
FINAL REVENUE REQUIREMENT, FY 2019-20

UNDER

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

DECISION

ON

March 28, 2022

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

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1. Background

1.1. Sui Southern Gas Company Limited (the petitioner) is a public limited company, incorporated in Pakistan, and is listed on Pakistan Stock Exchanges Ltd. The petitioner is operating in the provinces of Sindh and Balochistan under the license granted by Oil & Gas Regulatory Authority. However, petitioner's exclusive right to operate in the franchised areas had ended on 30th June, 2010. It is engaged in construction and operation of gas transmission and distribution pipelines, sale of Natural Gas. The petitioner is also engaged in the business of Re-gasified Liquefied Natural Gas (RLNG) and transportation of the same for the public and private sector on commercial basis, in accordance with the decisions of the Federal Government (FG/GoP).

1.2. The Authority, vide its Order dated December 11, 2019, had determined the Review petition against Estimated Revenue Requirement (RERR) for FY 2019-20 (the said year) under section 8(2) of the Ordinance at Rs. 282,883 million (the amounts have been rounded off to the nearest million here and elsewhere in this document) for estimated sale volume of 362,668 BBTU.

1.3. Now, the petitioner has submitted the petition dated September 24, 2021 for determination of its FRR for the said year after incorporating the effect of actual changes in the wellhead gas prices, a change in sales mix and other relevant factors in terms of Section 8(2) of the Ordinance. Based on the actual sale revenue on the basis of prescribed prices and actual sale mix, the petitioner has computed the shortfall in its revenue requirement of Rs. 56,319 million (including Rs. 651 million claimed on account of subsidy for LPG air-mix projects) thereby seeking an increase in the prescribed prices by Rs. 182.56 per MMBTU effective from 01 July, 2019.

1.4. Subsequently, the petitioner has amended its petition on November 19, 2021. The petitioner has submitted another amended petition (the petition) on January 14, 2022. The petitioner has informed that incorrect rates against category-wise sale and prescribed prices & sales volumes were applied in customer care and billing, resulting in revised shortfall at Rs. 193,002 million, thereby seeking increase in current prescribed price of Rs. 668.78/MMBTU to Rs. 1,294.41/MMBTU (increase of Rs. 625.63 per MMBTU) effective July 01, 2019. Regarding RLNG Cot of service, the petitioner has claimed the same at Rs. 10,138 million (Rs. 31.69 / MMBTU) effective from 01 July, 2019.

1.5. The petitioner has included the items contented in its motion for review against determination of FRR for FY 2018-19 as integral part of the instant petition and accordingly has included Rs. 7,027 million impact during the said year.

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2. Salient Features of the Petition

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

Table 1: Comparison of Cost of Service per the Petition with RERR

Rs. / MMBTU

Particulars	FY 2019-20
	The Petition
Units sold (BBTU)	**308,492**
Cost of gas sold	783.39
UFG adjustment	(68.74)
Staggering of Financial Impact on account of SHC Order	(23.81)
Transmission and distribution cost including Others	113.19
Depreciation	20.58
Return on net average operating fixed assets	31.34
Other operating income	(17.99)
Subsidy for LPG Air-Mix Project	2.11
Cost of service / prescribed price	**840.07**
Previous year shortfall i.e. up to FY 2017-18	**454.34**
Total Cost of Service / prescribed price	**1,294.41**
Current average prescribed price	**668.78**
Increase requested in average prescribed price	**625.63**

2.2 The petitioner has made the following submissions: -

2.2.1. Annual return has been claimed at Rs. 9,667 million, computed at the rate of 17.43% of the value of its average net operating fixed assets after adjustment of deferred credit and assets related to LPG Air-Mix, Meter Manufacturing Plant (MMP) and Liquid Handling Facility (LHF).

2.2.2. The petitioner has claimed a net addition / deletion of Rs. 7,578 million in fixed assets net addition, ex-depreciation, and deletion of Rs. 5,944 million, resulting in an increase in net operating fixed assets from Rs. 62,066 million in FY 2018-19 to Rs. 63,701 million during the said year.

2.3 Net operating revenues have been reported at Rs. 211,863 million in the petition as against Rs. 282,883 million determined in RERR for the said year, as detailed below:

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

Rs. in million

Particulars	FY 2018-19	FY 2019-20		Inc./(Dec.) over RERR for FY 2019-20	
	MFRR	RERR	The Petition	Rs.	%
Net sales at current prescribed price	264,532	275,353	206,313	(69,040)	(25)
Late Payment Surcharge	1,044	3,292	1,697	(1,595)	(48)
Meter Manufacturing Profit	5	11	7	(4)	(38)
Sale of LPG/NGL and Condensate	48	1,264	121	(1,143)	(90)
Notional income on IAS 19 provision	486	645	643	(2)	(0)
Meter rentals	774	820	796	(25)	(3)
Amortization of deferred credits	524	473	549	76	16
Other income	1,377	1,023	1,738	714	70
Net Operating Revenue	**268,789**	**282,883**	**211,863**	**(71,020)**	**(25)**

2.4 Net operating expenses have been reported at Rs. 254,388 million in the petition as compared to Rs. 250,066 million provided in RERR, as detailed below:

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

Rs. in million

Description	FY 2018-19	FY 2019-20		Inc / (Dec) over RERR for FY 2019-20	
	MFRR	RERR	The Petition	Rs.	%
Cost of gas sold	240,649	242,083	241,671	(412)	(0.2)
Depreciation	5,670	5,344	6,349	1,005	19
Transmission and distribution costs	16,241	18,264	17,984	(280)	(2)
Other charges including WPPF	17,787	147	5,657	5,510	3,748
Gas Internally Consumed	590	424	644	220	52
UFG adjustment	(21,507)	(13,923)	(21,205)	(7,282)	52
Staggering of Financial Impact on account of SHC Order	(3,672)	(3,672)	(7,344)	(3,672)	100
Impairment Loss against Financial Assets	1,327	1,399	3,604	2,205	158
Reclaimed Items	5,079	-	7,027	7,027	-
Net Operating Expenses	**262,164**	**250,066**	**254,388**	**4,321**	**2**

2.5 Subsidy on account of LPG Air-Mix projects has been claimed at Rs. 651 million.

2.6 The shortfall in the revenue requirement after achieving 17.43% return on average net operating fixed assets is claimed at Rs. 193,003 million including prior year shortfall i.e. Rs. 140,161 million, requiring an increase of Rs. 625.63 per MMBTU in the existing average prescribed price, as tabulated below:

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

Rs. In million

	Particulars	FY 2019-20 The Petition
A	**Net Operating Revenues**	211,863
	Less: Net operating expenses excluding ROA	254,388
	Subsidy Air Mix LPG Project	651
B	**Total Expenses**	255,039
C	**Shortfall** {(B) - (A)}	43,176
D	Return required @ 17.43% on net fixed assets in operation	9,667
E	Previous Year's Shortfall	140,161
F	**Total shortfall in revenue requirement {(C + D+E)}**	193,003
G	Sale volume (BBTU)	308,492
H	**Increase requested in existing average prescribed price Rs./MMBTU**	625.63

3. Proceedings

3.1 The Authority issued a notice of hearing on January 5, 2022 to the petitioner. The hearing was held at OGRA's office, Islamabad on January 24, 2022.

3.2 The petitioner was represented at the hearing by a team of senior executives led by Mr. Imran Maniar, Managing Director, who was given full opportunity to present the petition. The petitioner made submissions with the help of multimedia presentation explaining the basis of its petition and responded to the comments of the members & officers of the Authority.

3.3 The petitioner, at the outset of meeting, has explained the reasons for late submission of the petition. It was argued that due to non-implementation of policy guidelines in respect of RLNG volumes handled, profitability has been severely affected. Accordingly, the Authority was requested to review its decision in respect of RLNG impact on UFG and accept its claim. The petitioner has also raised the matter of illegal connection in Karachi in high-rise building and the katchi abaadi and requested the Authority to consider its request for provisional billing. Also, matte of UFG losses in Balochistan region was raised and the petitioner termed it major factor for its non-performance on account of UFG.

4. Determination

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

5. Authority's Jurisdiction and Determination Process

5.1 The Authority is obligated to determine the revenue requirement / prescribed prices of the petitioner in accordance with Section 8(1) and 8(2) of the Ordinance and License condition no. 5.2 of its integrated License.

5.2 The decisions issued by the Authority have always been strictly in accordance with the relevant provisions of law. All the statutory requirements are firmly complied with before issuing any decision and in this whole process the Authority, very meticulously, ensures that public service utilities prosper in an efficient manner. The checks and balances implemented by the Authority to improve the quality of service to consumers and bring efficiency in the overall management of the company have proved to be beneficial for the whole nation in measurable terms.

5.3 The Authority examines all applications and petition in the light of relevant rules. Notices are issued and all the stakeholders are provided full opportunity to intervene / comment upon the issues pertaining to determination of revenue requirement, in writing and at hearing, which are duly taken into account. Further, GoP's attention is specifically drawn to the submissions relating to policy matters for consideration, before deciding the retail prices for various categories of consumers.

5.4 The operating revenues, operating expenses and changes in asset base are scrutinized in depth, in accordance with Rule 17(j) of NGT Rules. ***The Authority as per the existing framework and tariff regime in place determines the revenue requirement of the petitioner, providing stipulated return on net operating assets, while including various income and expenditure head as part of prescribed price.***

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6. Operating Fixed Assets

6.1 *Summary*

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

Table 5: Summarized Schedule of Addition of Assets Compared with DERR & Previous Year

Rs in Million

Particulars	FY 2018-19 Petition	FY 2019-20			
		ERR	DERR	The Petition	
				Indigenous	RLNG
Land	-	1	1	-	
Buildings	53	281	140	56	
Gas Transmission Pipeline	2,477	2,316	1,345	1,898	554
Plant and Machinery	126	774	336	128	
Gas Distribution System and related facilities and equipments	5,768	8,498	5,994	5,368	268
Computer Software (Intangible)	2	140	9	0.288	
LPG Air Mix Projects	221	5,228	1,893	320	
Telecommunication Systems & SCADA	89	194	100	14	
Appliances, Loose Tools & Equipments	17	1,204	306	13	
Vehicles	252	1,107	177	178	
Compressors	705	2,079	777	346	286
Furniture, Equipments including Computers & Allied Equipments	52	349	237	169	
Construction Equipments and Vehicles	24	385	27	-	
Sub -Total	**9,787**	**22,556**	11,342	8,490	1,108
Total(Indigenous + RLNG)	**9,787**	**22,556**	**11,342**	**9,598**	

6.2 *Buildings*

6.2.1. The petitioner has capitalized an amount of Rs. 56 million against the provisionally allowed amount of Rs. 140 million in DERR for the said year. The petitioner has mentioned major capitalization which includes: Modification of existing Building at HQ-Dadu; Watch Towers at HQ-2 & HQ3; Establishment/up-gradation of Contact Center, Mettled road at Regional Office, Larkana, etc.

6.2.2. ***In view of the petitioner's justifications, the Authority allows capitalization of Rs. 56 million under this head with the advice to the petitioner to project realistically at ERR stage.***

6.3 *Gas Transmission Pipelines*

6.3.1. The petitioner has capitalized in total an amount of Rs. 2,452 million against the provisionally allowed amount of Rs. 1,345 million in DERR for the said year. The detail of capitalization against this head is as under:

Table 6: Requested Additions to Transmission Pipeline Network

Rs in Million

Sr. No.	Description	ERR		DERR		The Petition	
		Indigenous	RLNG	Indigenous	RLNG	Indigenous	RLNG
1	12" dia × 46 Km pipeline from Rehman Field to Naing MVA	37		37		1,312	
2	8" dia × 28 Km pipeline from Ayesha Gas Field	82		82		583	
3	30" dia × 125 Km pipeline from SMS Sindh University to SMS Pakland (Ist Segment)	1,226		1,226			
4	Upgradation of SMS Thatta	12					
5	Check Metering Facility at Shahdadpur for Gambat South Field Gas Measurement (RS-3)	23					
6	Check Metering Arrangements at Daru	31					
7	12" dia × 344 Km QPL Rehabilitation and Intelligent Pigging	118					
8	Construction of Sub-merge Crossings					4	
9	SMS Dhabeji					1	
10	24" dia × 34 Km loopline from Shikarpur to Jacobabad (Reversal of Accrual & Inventory Return)					-5	
11	12" dia × 23 Km Rerouting of QPL					2	
	RLNG Projects						
	Phase-I						
1	42" dia × Ph-1 14 Km loop between Nara-Sawan						0.096
2	24" dia × 21 Km interlink between Pakland to Khadeji						1.39
3	Tie-in and integration arrangement from tie-in point 2 to Pakland & Bin Qasim		615				534
	Phase-II						
4	42" dia × 342 Km pipeline from Pakland to Nara and Indus River Crossing		172				18
	Sub-total	1,529	787	1,345		1,898	554
	Total(Indigenous + RLNG)	**2,316**		**1,345**		**2,452**	

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12" dia × 46 Km pipeline from Rehman Field to Naing MVA

6.3.2. The petitioner has capitalized an amount of Rs. 1,312 million against the provisionally allowed amount of Rs. 37 million in DERR for the said year for the project of '12" diameter × 46 Km pipeline from Rehman Field to Naing MVA'. The company, in its petition for ERR FY 2019-20, informed that work on the said project had been initiated, which would be completed by June, 2019 as per provisionally allowed amount of Rs. 760 million by the Authority in the DERR FY 2018-19. The petitioner stated that this project was required to receive a projected gas supply of 90 MMSCFD from Rehman Field. However, the left-over job against Rs.37 million was envisaged to be initiated in FY 2019-20. The subject pipeline had been commissioned in January, 2020 with the capitalization amount of Rs. 1,312 million. The petitioner did not mention in the instant petition reasons for failing to complete the said project in the FY 2018-19. It is noted that the country is facing huge gap of demand and supply of natural gas and gas utility companies had to enforce gas curtailment for various sectors, yet the said project was delayed without giving any substantial reasons. The Authority notes that the petitioner delayed the project and managed to complete the same in subsequent FY 2019-20 but without even projecting it in the petitions for ERR/ RERR FY 2019-20. OGRA is of the view that with the right planning and implementation of project management practices, the petitioner, being a responsible public limited company, can keep things under its control during each phase of the project (i.e. initiation, planning, execution and closure) which will help in the timely, cost effective and satisfactory completion of the projects in hand.

8" dia × 28 Km pipeline from Ayesha Gas Field

6.3.3. The petitioner has capitalized an amount of Rs. 583 million against the provisionally allowed amount of Rs. 82 million in DERR for the said year for the project of '8" diameter × 28 Km pipeline' from Ayesha Gas Field. The petitioner stated that this project was required to receive a projected gas supply of 22 MMSCFD from Ayesha Gas Field. The captioned pipeline had been commissioned in February, 2020 with the capitalization amount of Rs. 583 million.

6.3.4. The Authority notes that the said project was approved in DERR FY 2018-19 with an estimated amount of Rs. 550 million, however for the remaining work on the said project Rs. 82 million was allowed at DERR for the said year. The petitioner in its petition did not mention any reason for failing to accomplish the said important project in the last year i.e. FY 2018-19. The Authority does not appreciate this tendency of delaying the projects and completing it in the following years without even seeking prior approval in respective ERR's. The Authority reiterates the observations as per preceding para.

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

6.3.5. The Authority notes that the petitioner could not capitalize any amount against the allowed amount of Rs. 1226 million at ERR stage for the said project. The petitioner attributed the non-utilization of allowed amount against the project to delay in land acquisition process for the ROW.

6.3.6. The Authority notes that the petitioner in its ERR petition had projected to complete the project in the said year, however, the same could not be executed during the said year. ***The Authority, therefore, advises the petitioner to project realistically at ERR stage to avoid upfront burdening on consumers.***

Construction of Sub-Merge Crossings

6.3.7. The petitioner has capitalized an amount of Rs. 4 million for the leftover work against the Nil projected amount for 'Construction of sub-merged crossings.' As per petitioner 02 number of submerged crossings were commissioned with capitalization of Rs. 4 million in FY 2019-20.

Other Projects (Sr. No. 9 to 11 indicated in the above table)

6.3.8. The petitioner has capitalized an amount of Rs. 2 million and Rs.1 million respectively for the leftover works for 12" dia ×34 km Rerouting of QPL and 'SMS Dhabeji' However, both the above projects were not projected in the ERR FY 2019-20. The petitioner has also offered the "Reversal of Accrual & Inventory Return' amounting Rs. 5 million against 24" x 34 Km Loop line from Shikarpur to Jacobabad. The petitioner subsequently clarified that the reversal is due to return of 170 meters of 24" diameter Line pipe amounting to Rs. 4.437 million and reversal of related interest capitalization amounting to Rs.0307 million.

Tie-in and integration arrangement from tie-in point 2 to Pakland & Bin Qasim

6.3.9. The petitioner has capitalized an amount of Rs.534 million on Tie in and integration arrangement from Tie in point 2 to Pakland & Bin Qasim. Pipeline Infrastructure Development Plan (PIDP) was envisaged to facilitate import of upcoming LNG because of gradual drop in indigenous gas volumes. On the request of the petitioner and exigency as conveyed by the FG, the Authority, vide letter OGRA-9(356)/2014-LNG dated 13.11.2014 addressed to the petitioner, agreed with the proposed plan for the said Phase-1. Both Phase – I & II comprise of the following projects:

Phase - I

- 42" x 20 Km Transmission Pipeline Segment between Nara-Sawan;
- 24" x 21 Km Transmission Pipeline Interlink between Pakland - Khadeji;
- Revamp of 02 Compressors at Dadu and relocation of the same to Nawabshah;
- Mixing Skid, Metering, Regulation Setup at KDJ/Pakland;
- Tie-in and Integration arrangement;
- Telecom and SCADA network.

Phase – II

- 42" x 338 Km Transmission Pipeline Segment between Pakland – Nara;
- Additional 03 Compressor Units at Nawabshah;
- Nitrogen Injection System.

6.3.10. As indicated above, the captioned project is the remaining work already allowed by the Authority in earlier determinations. Since the petitioner could not capitalize the said remaining project of Phase – 1 of the PIDP, the same was revalidated by the Authority at ERR stage of FY 2019-20. The Authority, however, did not allow any upfront amount at the ERR stage and the petitioner was directed to carry out the leftover activity against this head and claim capitalization at the FRR stage subject to actualization.

42" dia × 342 Km pipeline from Pakland to Nara and Indus River Crossing

6.3.11. The petitioner has capitalized an amount of Rs.18 million against the '42" diameter × 342 Km pipeline from Pakland to Nara and Indus River Crossing'. The captioned project is left over

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work of Phase – II of the RLNG project, as mentioned above in the preceding paras. While determining ERR FY 2019-20, the Authority allowed to carry out the leftover activity against this head with the directions to the petitioner to claim capitalization of the actual amount incurred at the FRR stage.

42" dia × 14 Km loop between Nara-Sawan and 24" dia × 21 Km interlink between Pakland to Khadeji (Phase – I)

6.3.12. The petitioner has capitalized an amount of Rs. 0.096 million and Rs. 1.39 million for the leftover work against 42" dia × Phase -1 and 14 Km loop between Nara-Sawan & 24" dia × 21 Km interlink between Pakland to Khadeji respectively.

6.3.13. ***In view of the discussion in the preceding paras, the Authority allows capitalization of Rs. 2,452 million in the head of Gas Transmission Pipeline for the said year. However, an amount of Rs. 554 million relating to RLNG Infrastructure is to be ring fenced and charged from RLNG Consumers only.***

6.4 *Plant and Machinery*

6.4.1. The petitioner has capitalized an amount of Rs. 128 million against the provisionally allowed amount of Rs. 336 million in DERR for the said year. The petitioner has stated that in order to provide efficient service to existing and prospective customers, the Company has to keep its staff equipped with required machinery, tools, and equipment. The requirement against this head increases with the corresponding increase in transmission/distribution system and customer base. The petitioner has stated that it has acquired Air compressors, Deadweight testers, Online Moisture Analyzer, Electric Generators, Pressure control valves and welding plants, etc. during the year under review.

6.4.2. ***In view of the operational requirement of the petitioner, the Authority allows capitalization of Rs. 128 million in this head for the said year, with the advice to project the prudent estimates which match the actual requirement.***

6.5 *Gas Distribution System and Related Facilities and Equipment*

6.5.1. The petitioner has capitalized an amount of Rs. 5,637 million against provisionally allowed amount of Rs. 5,995 million in DERR for the said year. Detail of capitalization against this head is as under:

Table 7: Requested Additions to Gas Distribution Network

Rs. Million

Sr. No.	Description	ERR Petition	DERR	FRR Petition	
		Indigenous		Indigenous	RLNG
1	Rehabilitation Mains and Services - UFG Control Program	915	915	441	
2	Segmentation - UFG Program	-	-	-	
3	Replacement /Repair of Gas Meters	1,745	1,745	2,045	
4	Modems, Installation of EVCs, Filter Separators	168	169	2	
5	Construction of CMS, TBS, PRS, Cathodic protection	195	195	56	
6	Laying of Distribution Mains- Existing Area	3,497	1,238	1,113	
7	Installation of New Connection - Services	1,221	975	858	
8	New Towns	758	758	432	
	Sub-Total Distribution System	**8,499**	**5,995**	**4,947**	**-**
9	Notional Assets (IAS 20 disclosure requirement)			0	0
10	RLNG - Mains and Services New				268
11	Major Distribution Project - 12" diameter x 26.5 km Supply Main Tando Allah Yar			422	
	Sub-Total	8,499	5,995	5,369	268
	Total Gas Distribution System (Indigenous + RLNG)	**8,499**	**5,995**	**5,637**	

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Rehabilitation Mains and Services - UFG Control Program

6.5.2. The petitioner has capitalized an amount of Rs. 441 million on Rehabilitation of Mains & Services for UFG Control Program during the said year. The petitioner had projected an amount of Rs. 915 million for completion of 582 KMs Mains and replacement of 181 KMs Services respectively but the company could only manage to complete 127 Km Rehabilitation Mains and 24 Km Service Mains. The Authority notes that the petitioner does not appear to prioritize such programs related to UFG control activity,

Laying of Distribution Mains – Existing Area

6.5.3. The petitioner has capitalized an amount of Rs. 1,113 million out of allowed amount of Rs. 1,238 million on laying of 470 KMs Distribution & Reinforcement Mains ranging from 3/4" dia. to 16" dia pipelines.

Installation of New Connections

6.5.4. The petitioner has capitalized an amount of Rs. 858 million against the allowed amount of Rs. 975 million and managed to install 96,533 Nos. Domestic, 489 Nos. Commercial and 106 Nos. Industrial connections during the said year. The petitioner has confirmed that all commercial and industrial Gas connections installed by the company during the said year comply with the prevailing policy of Federal Government on the matter. However, the petitioner was asked to clearly segregate amounts between domestic, commercial and industrial connections respectively actualized against activities related to indigenous gas and RLNG supplies, in line with FG's policy conveyed, vide letter No. NG(II)-7(143)/PS/2016-Vol-IV-Pt dated 21-04.2017. ***The Authority allows Rs. 605 million for indigenous gas connections, whereas Rs.251 million is allowed against RLNG industrial and commercial connections, the allowed amount against RLNG shall be treated under ring fenced mechanism to be borne by the RLNG consumers.***

Construction of CMS, TBS, PRS, Cathodic Protection and New Towns

6.5.5. The petitioner has capitalized amounts of Rs. 56 million on installation of TBS, PRS & Cathodic Protection Systems and Rs. 432 million on laying of 53 Kms pipelines in New Towns & Villages. The petitioner has stated that out of Rs. 432 million capitalized against New Towns & Villages, an amount of Rs. 213 million, over and above per customer cost criteria, is to be adjusted against the Government funding and shall not be entitled to Rate of Return.

Modems, Installation of EVCs, Filter Separator

6.5.6. The petitioner has capitalized an amount of Rs. 2 million against the allowed amount of Rs. 169 million for the said year. The Petitioner has installed 672 Filter Separators and 7 EVCs during the said year.

6.5.7. The Authority notes that capitalization against this head is much less than the provisionally allowed amount. The Authority, therefore, advises the petitioner to project the amount realistically at ERR stage to avoid upfront burdening on the consumers. *Further, installation of EVC's, Modems is an important UFG control activity for better visibility of the system, the same may not be ignored by the petitioner.*

Major Distribution Project- 12" Dia x 26.5 Km Supply Main Tando Allah Yar

6.5.8. The petitioner has capitalized an amount of Rs. 422 million for the distribution project 12" x 26.5 Km Supply Main Tando Allah yar, the project was not submitted before the Authority at ERR stage for the said year. However, the petitioner clarified that the project was submitted for approval in ERR FY 2012-13 involving an estimated cost of Rs. 446 million, which the Authority had approved the same. The reason for the delay has been attributed to engagements on other projects specially 42" dia RLNG Pipeline Infrastructure Development Project and late receipt of permission from the Railways department for crossing enroute this pipeline. The work on this project commenced from 2017 and supply main completed & commissioned in February 2020.

Replacement / Repair of Gas Meters

6.5.9. The petitioner has capitalized an amount of Rs. 2,045 million on repair/replacement of gas meters against the provisionally allowed amount of Rs. 1,745 million under this head. The petitioner had projected 326,932 meters' replacement at a cost of Rs. 1,745 million, however, during the year it has replaced 308,856 meters with cost of Rs. 2,045 million.

6.5.10. The Authority notes that the petitioner incurred an amount of Rs.300 million over and above the allowed amount in this head. Further, the Authority has serious concerns regarding the replacement of almost 1.8 million meters from 2013-14 to 2019-20 i.e more than 50% of its total installed meters, however, practically UFG of the petitioner has an increasing trend during last several years. The Authority also discussed its concerns regarding the replacement of meters at length in its DFRR 2018-19 dated 25-05-2021, ***therefore, the Authority allows capitalization of Rs. 1,745 million (i.e., @ level of provisional capitalization allowed at DERR stage) against the claimed amount of Rs. 2,045 million in this head.***

RLNG – Mains and Services New

6.5.11. The petitioner has claimed an amount of Rs. 268 million for RLNG – Mains and New Services. The petitioner, upon seeking clarifications on prior approval of RLNG – Mains and Services New at ERR stage, it was subsequently informed that the Authority, vide para 5.47 and 5.55 of DERR FY 2019-20, had allowed provision of gas connections in the light of FG's policy guidelines related to lifting of moratorium on new gas connections to new housing societies/ colonies, commercial and industrial consumers on RLNG supplies so as to ensure continuous and reliable supply of natural gas to the company's existing consumers. The petitioner further informed that captioned RLNG Mains/ Services have been laid on 100 % cost sharing basis from RLNG consumers. Therefore, **the Authority allows capitalized amount of Rs. 268 million against RLNG systems on 100 % cost recovery basis. However, the petitioner shall not be entitled to rate of return on the capitalized amount against 100 % cost recovery basis. Moreover, the capitalized amount allowed against RLNG shall be treated under ring fenced mechanism.**

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6.5.12. ***In view of above the Authority allows capitalization of Rs. 5,335 million under the head of 'gas distribution system' for the said year.***

Table 8: Requested Additions to Gas Distribution Network

					Rs. Million
Sr. No.	Description	DERR	FRR Petition	Determined by the Authority	
				Indigenous	RLNG
1	Rehabilitation Mains and Services - UFG Control Program	915	441	441	
2	Segmentation - UFG Program	0	0		
3	Replacement /Repair of Gas Meters	1,745	2,045	1,745	
4	Modems, Installation of EVCs, Filter Separators	169	2	2	
5	Construction of CMS, TBS, PRS, Cathodic protection	195	56	56	
6	Laying of Distribution Mains- Existing Area	1,238	1,113	1,113	
7	Installation of New Connection - Services	975	858	605	251
8	New Towns	758	432	432	
	Sub-Total Distribution System	**5,995**	**4,947**	**4,394**	
9	National Assets (IAS 20 disclosure requirement)	0	0		
10	RLNG - Mains and Services New	0	268		268
11	Major Distribution Project - 12" diameter x 26.5 km Supply Main Tando Allah Yar	0	422	422	
	Sub-Total	5,995	5,637	4,816	519
	Total Gas Distribution System (Indigenous + RLNG)	5,995	5,637	5,335	

6.6 *Computer software (Intangible)*

6.6.1. The petitioner has capitalized an amount of Rs. 0.288 million against projected amount of Rs. 140 million and provisionally allowed amount of Rs. 9 million at ERR stage for the said year. However, the petitioner could only capitalize an amount of Rs. 0.288million, upon enquiring for the reasons for underutilization against this head, the petitioner attributed using of in-house technical resources on the said projects, hence there was no need to procure services or consultancy from the third parties that resultantly reduced the capitalization.

6.6.2. ***In view of the above, the Authority allows capitalization of Rs. 0.288 million under this head, with advice to the petitioner to project realistically at ERR stage.***

6.7 *LPG air mix projects*

6.7.1. The petitioner has capitalized an amount of Rs. 320 million against the allowed amount of Rs. 1,893 million at ERR stage for the said year. The petitioner has stated that the LPG Air Mix Plant Projects were shelved by ECC vide MoE-PD Letter no. LG-16(1)/2019-LPG Air Mix Plant dated 09 April 2020. However, the amount of Rs. 320 million represents the leftover activities carried out in existing plants located at 'Awaran, Bela, Gawadar, Kot Ghulam Muhammad, Noshki and Surab'. Major amount of Rs. 304 million capitalized at the Plant located in Awaran.

6.7.2. ***In view of the above, the Authority allows capitalization of Rs. 320 million under this head for the said year.***

6.8 *Telecommunication System & SCADA*

6.8.1. The petitioner has capitalized an amount of Rs. 14 million against the provisionally allowed amount of Rs. 100 million under this head. Major item under this head includes revamping of 7/8 Giga Hertz (Rs.11 million). The petitioner has stated that as per PTA directives, new links are required to replace 2 Giga Hertz Links between HQ-Dadu and HQ-2.

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6.8.2. ***The Authority, in view of the above, allows capitalization of Rs. 14 million for the said year with advice to the petitioner to project realistically at ERR stage.***

6.9 *Appliances, Loose Tools & Equipment*

6.9.1. The petitioner has capitalized an amount of Rs.13 million against the projected amount of Rs. 1,204 million, the Authority provisionally allowed amount of Rs. 306 million under this head. The petitioner informed that Appliances, Loose tools and equipment are required to ensure proper maintenance and operation of its T & D network.

6.9.2. ***The Authority, in view of the above, allows capitalization of Rs. 13 million for the said year with advice to the petitioner to indicate the estimated amounts which are close to actual achievable targets, rather than exaggerated amounts at ERR stage.***

6.10 *Vehicles*

6.10.1. The petitioner has capitalized an amount of Rs. 178 million against the provisionally allowed amount of Rs. 177 million under this head. The petitioner has stated that with the ever-increasing operational area, transportation of its resources i.e. manpower, equipment and material is also increasing. To achieve this objective, the Licensee company owns a fleet of different categories of vehicles. During the year, the petitioner replaced 120 old vehicles (117 operational and 3 non-operational) while 53 additional operational vehicles (including motorcycles) have been acquired.

6.10.2. ***The Authority in the view of the above, allows capitalization of Rs. 178 million under this head.***

6.11 *Furniture, Equipment including Computers & Allied Equipment*

6.11.1. The petitioner has capitalized an amount of Rs. 169 million against the provisionally allowed amount of Rs. 237 million under this head. The major expenditure includes furniture for Rs. 25 million, office equipment amounting Rs. 27 million, and computers and allied equipment's of Rs. 118 million which includes Server – IBM Power 850 Server 40 Core (50 million), Flow Computer for orifice Gas meters (18 million) and personal desktop computers (Rs. 15 million).

6.11.2. ***In view of the above, the Authority allows capitalization of Rs. 169 million under this head.***

6.12 *Construction equipment and vehicles*

6.11.3. The petitioner has not capitalized any amount against projected amount of Rs. 385 million, the Authority provisionally allowed amount of Rs. 27 million under this head at ERR stage. The petitioner has pointed out multiple reasons having been unable to actualize the allowed amount, which are: retendering of procurement of mobile crane (Rs.20 million) & Pipeline Hydrostatic pump due to non-compliance by the bidders etc.

6.11.4. ***The Authority, advises the petitioner to project realistically at ERR stage to avoid upfront burdening on consumers.***

6.13 *Compressors*

6.13.1. The petitioner has capitalized an amount of Rs. 632 million, under this head, against the provisionally allowed amount of Rs. 777 million in DERR for the said year. The capitalization against this head includes an amount of Rs. 286 million capitalized on RLNG related Compressor Stations. Detail of capitalization against this head is as under:

Table 9: Requested Additions to Compressor Stations

Rs in Million

Sr. No.	Description	ERR		DERR		The Petition	
		Indigenous	RLNG	Indigenous	RLNG	Indigenous	RLNG
1	Rotor Bundles (200MMCFD) -HQ-2 Nos	260					
2	New Compressor at Sibbi-1 Nos	1,555		777			
3	Compressor Station HQ-3					1.7	
4	Compressor Station HQ-Shikarpur					344	
	RLNG related Compressor Stations						
5	Gas Turbine Engine- Solar Taurus T-60 (7800HP)-HQ-2 Compressor station 1 Nos (RLNG)		264				
6	New Compressor at HQ2, Daur(Nawabshah) RLNG ii-06 Numbers						286
	Sub-Total	1,815	264	777		346	286
	Total Compressors (Indigenous + RLNG)	2,079		777		632	

<u>New Compressor at Sibbi-1</u>

6.13.2. The petitioner has capitalized Nil amount against provisionally allowed amount of 777 million under this head. The petitioner informed that the project could not be initiated since SSGC's Board of Directors directed the management to conduct comparison analysis between refurbishing old machines and purchasing new ones while keeping in consideration the cost, design aspect, efficiency etc. The matter is yet to be finalized.

6.13.3. The Authority notes that it is an important project, which was aimed at boosting the supply pressures to Quetta. Baluchistan, where low pressure issues rise particularly during winter. In the past, the honorable Courts passed orders related to the said issue, moreover, parliamentarians have repeatedly raised the same issue of low pressure of gas in the Baluchistan province in various Senate and National Assembly committee proceedings. Foregoing in view, the Authority notes that any relevant comparative study should have been carried out prior to projecting the amount against this head in the ERR. Nevertheless, the Authority directs the petitioner to complete the project without any further delay, considering the low pressure of gas issues encountered by the underprivileged segment of population located in remote areas of Balochistan.

<u>Compressor Station HQ-Shikarpur</u>

6.13.4. The petitioner has capitalized an amount of Rs. 344 million for Compressor Station-HQ at Shikarpur against the Nil projected amount at ERR stage. Upon a query, petitioner's clarifications confirmed that the company did not bring the project at ERR stage during the same year. However, as per information provided by the company, an amount of Rs. 550 million was allowed in DERR FY 2018-19, the project was delayed owing to suspension of field work by the service provider, M/s GKN Sweden owing to imposition of COVID – 19 restrictions. The petitioner further informs that the turbine engine needed to be overhauled (since it clocked 48000 hours back in 2015-16) as per Original Equipment Manufacturer's recommended schedule for the overhauls. The Authority notes that the project could have been brought at Review stage on ERR FY 2019-20, in case the same was somehow not submitted at ERR stage, but that was not the case. OGRA is of the view that with the right planning and implementation of project management practices, the petitioner, being a responsible public limited company, can keep things under its control during each phase of the project (i.e. initiation, planning, execution and closure) which will help in the timely, cost effective and satisfactory completion of the projects in hand. ***However, considering the operational requirements, the Authority allows capitalization of Rs.344 million against this head with the directions to timely complete the projects.***

Compressor Station HQ-3

6.13.5. The petitioner has capitalized an amount of Rs. 1.7 million for the Control system upgradation of 3 compressors HQ-3 against the Nil projected amount for Compressor Station at HQ-3 at ERR stage. The petitioner has stated that need of the project was to control system upgradation of 3 compressor units at HQ-3. The petitioner confirmed that it did submit the captioned project at ERR or later in the Review on ERR FY 2019-20. ***In view of the above and operational nature of the project, the Authority allows capitalization of Rs.1.7 million against this head.***

New Compressor at HQ2, Daru (Nawabshah) RLNG II-06 Numbers

6.13.6. The petitioner has capitalized an amount of Rs. 286 million for New Compressor at HQ2, Daur (Nawab shah) RLNG II-06 Numbers against the Nil projected amount in ERR. The petitioner states that Rs. 522 million were capitalized in FY 2018-19 and now Rs. 286 million has been capitalized for 6 rotor bundle refurbishments at OEM-facility-USA. Six compressor rotor blades were sent to OEM facility and were repaired and assembled back with support of OEM FSR using new parts etc.

6.13.7. The Authority observes that the above Compressor is a part of phase – II of Pipeline Infrastructure Development Plan (PIDP), which was allowed in principle by OGRA vide letter OGRA-9(356)/2014-LNG dated 15.05.2015 addressed to the petitioner. The said Phase – II envisaged following projects at an estimated cost of Rs. 49,331 million:

Phase – II

- 42" x 338 Km Transmission Pipeline Segment between Pakland – Nara;
- Additional 03 Compressor Units at Nawabshah;
- Nitrogen Injection Facility.

6.13.8. ***In view of the above the Authority allows capitalization of Rs. 632 million under the head of compressors for the said year. However as per policy guidelines of F.G dated 10.02.2016 cost of compressors amounting Rs 286 million related to RLNG infrastructure, is to be charged/recovered from RLNG consumers without affecting consumers relying on domestically produced gas.***

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Table 10: Additions in Fixed Assets as Allowed

Rs in Million

Particulars	FY 2019-20				
	ERR	DERR	The Petition	As Allowed	
				Indigenous	RLNG
Land	1		-		
Buildings, Roads, pavements, and related infrastructure (ROW)	281	141	56	56	
Gas Transmission Pipeline	2,316	1,345	2,452	1,898	554
Plant and Machinery	774	336	128	128	
Gas Distribution System and related facilities and equipments	8,498	5,994	5,636	4,816	519
Computer Software (Intangible)	140	9	0.288	0.288	
LPG Air Mix Projects	5,228	1893	320	320	
Telecommunication Systems & SCADA	194	100	14	14	
Appliances, Loose Tools & Equipments	1,204	306	13	13	
Vehicles	1,107	177	178	178	
Compressors	2,079	777	632	346	286
Furniture, Equipments including Computers & Allied Equipments	349	237	169	169	
Construction Equipments and Vehicles	385	27	-	-	
Sub-Total	22,556	11,342	9,599	7,938	1,359
Total (Indigenous + RLNG)	22,556	11,342	9,599	9,297	

7. Operating Revenues

a. Sales Volume

7.1 Sales volume has been reported to decrease by 15%, from 362,668 MMBTU per RERR to 308,492 MMBTU in the instant petition. Category-wise comparison with RERR and previous year has been provided by petitioner as under: -

Table 11: Comparison of Category-wise Gas Sales Volume with RERR & Previous Year

Volume in MMBTU

Category	FY 2018-19	FY 2019-20		Inc. / (Dec.) over RERR FY 2019-20.	
	MFRR	RERR	The Petition		%
HCPC	6,244	6,854	1,006	(5,848)	(85)
Cement	239	390	130	(260)	(67)
CNG Stations	22,888	25,524	14,103	(11,421)	(45)
General Industries	32,671	36,034	25,354	(10,680)	(30)
Captive Power	31,567	29,368	22,262	(7,106)	(24)
Power	45,290	50,922	39,159	(11,763)	(23)
Commercial	10,252	10,721	8,556	(2,165)	(20)
Nooriabad Power Plant	6,515	7,256	6,051	(1,205)	(17)
Domestic	95,949	106,503	102,615	(3,888)	(4)
Fertilizer - feed stock	18,803	19,822	19,302	(520)	(3)
Captive Power-(zero rated)	43,597	42,187	42,330	143	0.3
Industrial-(zero rated)	28,762	27,087	27,625	538	2
Total	**342,776**	**362,668**	**308,492**	**(54,176)**	**(15)**

7.2 The petitioner has explained that 15% reduction in sales volume over RERR is mainly due to supply constraints coupled with pandemic covid-19 and gradual switching of energy consumption on RLNG. The petitioner has informed that gas consumption by Habibullah Coastal Power Company (HCPC), Cement, CNG Stations, Power Sector, Commercial, and General Industries got severely hit during covid-19 pandemic in 2nd half of the said year. However, gas consumption by Zero-rated (textile) increased owing to switching of the indigenous consumers to RLNG volumes. The petitioner has also informed that 85% decrease has been reported against HCPC as 20 years Gas Sale Agreement (GSA) has ended during the year i.e. October, 2019 onwards.

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7.3 The petitioner has, however, confirmed that the gas sales volume to various categories of consumers have been supplied in the light of Natural Gas Load Management Policy issued by FG during the said year.

7.4 ***In view of the above, the Authority accepts total sales volume at 308,492 MMBTU for the said year.***

b. Sales Revenue at Prescribed Prices

7.5 Sales revenue has decreased from Rs. 275,353 million per RERR to Rs. 206,313 million in instant petition. Category-wise comparison with RERR and previous year is given below.

Table 12: Comparison of Category-wise Sale Rev. per Petition with RERR & Previous Year

Rs. In Million

Particulars	FY 2018-19	FY 2019-20		Inc. / (Dec.) over RERR for FY 2019-20	
	FRR	RERR	The Petition		%
Industrial-(zero rated)	25,141	20,672	21,922	1,250	6
Habibullah Coastal Power	5,236	5,482	811	(4,671)	(85)
Cement	321	484	163	(321)	(66)
CNG Stations	30,654	31,797	17,706	(14,091)	(44)
Fertilizer - Feedstock	5,317	9,955	5,791	(4,165)	(42)
Domestic	37,760	50,348	32,550	(17,798)	(35)
General Industries	33,598	35,736	25,338	(10,398)	(29)
Captive Power	30,782	29,121	22,179	(6,942)	(24)
Power	37,835	40,726	31,544	(9,182)	(23)
Commercial	13,937	13,035	10,332	(2,703)	(21)
Nooriabad Power Plant	5,541	5,803	4,873	(930)	(16)
Captive Power-(zero rated)	38,406	32,195	33,104	909	3
Total Sales Revenues	**264,532**	**275,353**	**206,313**	**(69,040)**	**(25)**

7.6 The petitioner has submitted that revenue at prescribed price has been calculated in accordance with prescribed price notification dated October 28, 2019. The petitioner has explained that variation in sales revenue is due to revision in gas supply allocations of various sectors as indicated in para 7.2 above. ***In view of same, the Authority accepts the sales revenue of Rs. 206,313 million at current prescribed for the said year.***

c. Other Operating Income

7.7 The petitioner has reported other operating income at Rs. 5,550 million in the petition as against Rs. 7,529 million per RERR for the said year. Detailed comparative breakup is appended below:

Table 13: Comparison of Other Operating Income per Petition with RERR & Previous Year

Rs. in million

Particulars	FY 2018-19	FY 2019-20		Inc./(Dec.) over RERR for FY 2019-20	
	FRR	RERR	The Petition	Rs.	%
Sale of LPG/NGL and Condensate	48	1,264	121	(1,143)	(90)
Meter Manufacturing Plants	5	11	7	(4)	(38)
Late Payment Surcharge	1,044	3,292	1,697	(1,595)	(48)
Notional income on IAS provision	486	645	643	(2)	-
Meter rentals	774	820	796	(25)	(3)
Amortization of deferred credits	524	473	549	76	16
Other income	1,377	1,023	1,738	714	70
Operating Revenue	**4,258**	**7,529**	**5,550**	**(1,979)**	**(26)**

7.8 The petitioner has explained that revenues from Meter Manufacturing Plant (MMP), Late Payment Surcharge (LPS), sale of gas condensate, Natural Gas Liquid (NGL) and Liquified Petroleum Gas (LPG) have been treated as operating income in line with the Hon'ble Sindh High Court (SHC) decision. However, an appeal in the Supreme Court of Pakistan has been filed against the decision of SHC. In case of favorable decision, the company shall amend the instant petition in the light of the decision having significant financial impact.

7.9 Moreover, the petitioner has submitted that profit from MMP, sale of LPG, NGL and condensate have been included as per the criteria set down in respect of new tariff regime for regulated natural gas sector implemented from FY 2018-19 onwards.

d. Income from LPG/NGL and Condensate

7.10 The petitioner has reported income from LPG/NGL and condensate for the said year at Rs. 121 million as against Rs. 1,264 million in RERR (i.e. decreased by 90%) for the said year.

7.11 Regarding decrease in revenues from LPG and NGL, the petitioner has informed that the agreement signed with M/s JJVL stands expired on June 20, 2020, resulting in non-production of LPG and NGL. The petitioner has informed that revenues from sale of condensate has also decreased due to installation of condensate extraction plant at Kunnar Pasaki Deep field and depletion of supplies from Badin Gas fields.

7.12 ***In view of above, the Authority accepts the revenues from LPG/NGL and Condensate at Rs. 121 million for the said year. The Authority, however, directs the petitioner to explore new avenues for increase in business and profit, thereby benefitting all the stakeholders.***

e. Income from Meter Manufacturing Plant (MMP)

7.13 The petitioner has reported income from MMP for the said year at Rs. 7 million as against Rs. 11 million in RERR (i.e. decreased by 38%) for the said year. The petitioner has explained that revenue from MMP depends on sale of domestic gas meters and spare parts to SNGPL and other private parties. The petitioner has also explained that at the time of DERR, it was anticipated that SNGPL would purchase 250,000 domestic gas meters during the said year. However, SNGPL procured domestic gas meters through international tenders and no orders were awarded to the petitioner due to much lower prices offered by imported bidders which has resulted in a significant decline of revenues and affected the per meter fixed cost.

7.14 ***In view of the above, revenue from MMP is included at Rs. 7 million as part of revenue requirement for the said year.***

f. Late Payment Surcharge (LPS)

7.15 The petitioner has reported income from LPS at Rs. 1,697 million as against Rs. 3,292 million in RERR (i.e. decreased by 48%) for the said year. The petitioner has explained that 83% & 100% decrease has been reported against Independent Power Producers (IPP) and Other General industry respectively owing to pending litigation in various Courts. The petitioner has also informed that 100% decrease has been reported against HCPC as 20 years Gas Sale Agreement (GSA) has ended during the year i.e. October, 2019 onwards.

7.16 ***The Authority agrees to petitioner's justification and accepts the revenue from LPS at Rs. 1,697 million for the said year, however any adjustment on account of LPS shall be dealt in future determination after final outcome of the honorable Court.***

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g. Other Income

7.17 The petitioner has reported "other income" for the said year at Rs. 1,738 million as against Rs. 1,023 million in RERR (i.e. increase by 70%) for the said year. Detailed breakup with comparison of previous year is as under:

Table 14: Comparison of Other Income per Petition with RERR and Previous Years

Rs. in million

Particulars	FY 2018-19	FY 2019-20		Inc. / (Dec.) over RERR of FY 2019-20	
	FRR	RERR	The Petition	RS.	%
Recoveries from consumers	89	98	58	(40)	(40)
Interest income and Other from SNGPL	1,130	-	1,139	1,139	-
Scrap Sales	-	-	(3)	(3)	-
Income from sale of tender documents	5	6	-	(6)	(100)
Income from pipeline construction	-	14	(15)	(29)	(207)
Income from new service connections	312	774	-	(774)	(100)
Liquidated damages recovered	8	70	15	(55)	(79)
Others	20	20	33	13	67
Advertising Income	3	5	-	(5)	(100)
Income from sale of net investment in finance lease	120	36	36	-	-
Insurance Claim	-	-	475	475	-
Total Other Operating Income	**1,688**	**1,023**	**1,738**	**714**	**70**

7.18 The petitioner has explained that reconnection fee is significant low due to less numbers of reconnections in the said year under the head "Recoveries from Consumers". Regarding "Income from Pipeline Construction", the petitioner has informed that adjustment of Rs. 15 million has been made since the same was over-reported in previous years. Accordingly, a credit notes for material supplied by the customer has now been issued during the said year.

7.19 The petitioner has also explained that income arising from new service connection is reported nil owing to implementation of IFRS-15, since the same is now charged to amortization of deferred credit due to change in accounting treatment. ***In view of same, the Authority accepts the "other income" at Rs. 1,738 million for the said year.***

7.20 ***In view of the above petitioner's justifications, the Authority accepts other operating revenues at Rs. 5,550 million for the said year, as tabulated below:***

Table 15: Operating Revenues as Allowed by the Authority

Rs. in million

Particulars	FY 2019-20	
	The Petition	As Allowed
Amortization of deferred credits	549	549
Meter rentals	796	796
Late Payment Surcharge	1,697	1,697
Meter Manufacturing Profit	7	7
Sale of LPG/NGL and Condensate	121	121
Notional income on IAS 19 provision	643	643
Other income	1,738	1,738
Operating Revenue	**5,550**	**5,550**

8. RLNG Cost of Service/ Supply

8.1 The petitioner has reported Rs. 10,138 million (Rs. 31.69 per MMBTU) at a throughput volume of 835 MMCFD on account of RLNG cost of service for the said year. The petitioner has informed that the cost of the service shall be recovered as part of RLNG price. The breakup of the same is as under;

Table 16: Breakup of RLNG - Cost of Service / Supply

	Rs. in Million
Quantitative Data (MMCF)	**304,692**
Revenue Expenditure Relating to RLNG	196
Gas Internally Consumed	754
Depreciation	1,649
Contribution to WPPF	1,638
ROA	5,902
Cost of Supply of RLNG	**10,138**
Cost of Supply of RLNG (Rs./MMCF)	**33.27**

8.2 The Authority notes that under the provisions of OGRA Gas Third Party Rules, 2018 and Gas Transportation Agreements, the petitioner is entitled to claim the required volume of GIC from the shipper i.e. SNGPL. In view of the same, the Authority decides to exclude Rs. 754 million for GIC from RLNG cost of services.

8.3 The Authority further notes that Company is reporting loss on account of RLNG business segment for FY 2017-18 and FY 2018-19. Accordingly, the Authority decides to exclude Rs. 1,638 million from RLNG cost of service on provisional basis subject to the adjustment, if required based on published accounts. ***Therefore, the Authority does not allow any costs against this head for the said year.***

8.4 ***The Authority, based on the above and decision made in para 10.4.4 below, computes RLNG cost of supply at Rs. 8,353 million (Rs. 26.11 / MMBTU) for the said year.*** The Authority notes that audit of entire supply chain is under process. Any adjustment in RLNG cost of supply shall be made, if required in future. Accordingly, RLNG cost of supply is calculated on provisional basis to be recoverable from RLNG consumers as part of RLNG price, as per following detail:

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

Rs. in Million

Description	**As Allowed**
Quantitative Data (MMCF)	304,692
Revenue Expenditure Relating to RLNG	770
Depreciation	1,660
ROA	5,923
Cost of Supply of RLNG	**8,353**
Cost of Supply of RLNG (Rs./MMCF)	**27.41**
Cost of Supply of RLNG (Rs./MMBTU)	**26.11**

9. LPG Air-Mix Project

9.1 The petitioner has claimed a subsidy of Rs. 651 million on account of the operation of its LPG Air-Mix project for the said year. The petitioner has explained that as per the directives of GoP, the company is supplying natural gas for domestic consumer only as alternative to natural gas in far flung areas of Sindh & Balochistan. The petitioner has also explained that four LPG Air Mix projects have been installed and commissioned, currently operational in **Gwader, Noshki, Surab and Kot Ghulam Muhammad.**

9.2 Moreover, in addition to above, the company as per the directives from GoP has installed such LPG Air Mix projects in Awaran & Bella from its own resources. However, the Awaran plant was operational in October, 2019. In view of the same, the petitioner has claimed Rs. 651 million in the revenue requirement with respect to the subsidy on account of above five operational projects.

9.3 ***The Authority as per above para, includes subsidy on account of LPG air-mix at Rs. 651 million for the said year.***

10. Operating Expenses

10.1 *Cost of Gas*

10.1.1. The petitioner has claimed the cost of gas per initialed accounts at Rs. 241,671 million (net of GIC) for the said year. The petitioner has worked out its respective WACOG at Rs. 624.06/MMCF (i.e. Rs. 635.11/MMBTU) based on local gas purchases volume. ***In view of the same, the Authority includes cost of gas at Rs. 241,671 million for the said year. The field wise gross purchases are provided at Annex C.***

10.2 *Unaccounted for Gas (UFG)*

10.2.1. The petitioner has reported UFG at 17.25% (68,628 MMCF) for the said year. The petitioner has claimed 14,889 MMCF energy imbalance as Gas Delivered to SNGPL as per GOP decision/directive.

<u>Gas Delivered to SNGPL as per GOP decision / Sale of RLNG Held Stock:</u>

10.2.2. With the commissioning of Engro Elengy Terminal Limited in March, 2015, Re-gasified Liquefied Natural Gas (RLNG) was started to be injected in the natural gas network system. Initially, there had been no dedicated pipeline to transport the RLNG directly from the LNG terminals to SNGPL's delivery point i.e. Sawan until September, 2018. The transmission of RLNG, owned by SNGPL, from South to North had been undertaken under the swap arrangement whereby the petitioner retained the RLNG received from LNG Terminals and delivered its system gas from indigenous fields to SNGPL. Over the period, RLNG supplies gradually ramped up to 1200 MMCFD from the initial figures of 200 MMCFD. Owing to system constraints and operational reasons, the petitioner over the previous years', could not transmit equal quantity of gas to SNGPL on account of RLNG it had received from the terminals. Resultantly, SNGPL's gas started to pile up with SSGCL since inception. In pursuance of decision of the ECC of the Cabinet and SNGPL consent, the Ministry of Energy (Petroleum Division) has been allocating such stock to SSGCL. In this regard, the relevant decision of ECC of the Cabinet dated 11-05-2018 reads as under:

> ***"M/s SNGPL and SSGCL be allowed to manage gas loads on their system through RLNG-System gas swap mechanism for which necessary provision of volumetric adjustment and financial impact may be made on cost neutral basis in the Sale Price of RLNG on a multi-year and on-going basis through setting up of a deferral account by OGRA."***

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

"I am directed to refer to M/s SSGCL's letter No. MD.MOE/238 dated 21.09.2017 and SNGPL's letter No. GMS:938(LNG) dated 27-09-2017 regarding the Reconciliation of RLNG Stock Held with SSGC and to state that in pursuance of the decision of the ECC vide Case No. ECC-126/15/2015 dated 03-09-2015 this Division hereby allocates 5 BCF of RLNG to M/s SSGCL out of the RLNG stock held with SSGCL. M/s SSGCL shall enter into an Agreement with M/s SNGPL pursuant to above RLNG allocated volumes with the condition that either SSGCL will make payments to SNGPL for the RLNG so sold in its franchise area or it will return these molecules when dedicated pipeline is available."

10.2.4. In pursuance of the above noted decision of ECC of the Cabinet and allocation of RLNG Held Stock by MOE, the petitioner has claimed energy imbalance as deemed sales for UFG purpose on account of volume swapped to SNGPL. The detail of the claim is as under:

Table 18: Computation of Deemed Sales for UFG Purpose

	Volume in MMCF
Description	**As per the Petition**
Volume received	323,715
RLNG utilized for Customer Sales	26,788
Transmission Loss RLNG	678
RLNG utilized for Internal consumption	1,177
RLNG Available for Swapping	295,072
Volume Swapped to SNGPL	305,526
Additional Gas required for sales to Customers	4,436
Energy imbalance / Deemed Sales for UFG Purpose	14,889

10.2.5. The Authority shall actualize / finalize the above gas volume against energy imbalance/ Deemed Sales for UFG purposes i.e. 14,889 MMCF including 4,436MMCF against additional gas required for sales to petitioner's consumers, subject to verification of the Shipper.

10.2.6. The petitioner has again repeated its concerns on issue of handling of RLNG in its distribution system, as raised earlier in various petitions. In this regard, the Authority observes that a detailed reasoned decision on this account has already been made as part of recent determination of Review on FRR 2018-19, considering all the arguments raised by the petitioner from time to time. Accordingly, ***the Authority refers the same and maintains its earlier stance in this respect.***

10.3 ***Gas Internally Consumed (GIC)***

10.3.1. The petitioner has claimed GIC of 1,062 MMCF for the said year. The details furnished by the petitioner show that the claimed GIC of 1,062 MMCF includes 925 MMCF for compressions, 119 MMCF for Company Own Use, 13 MMCF for gas purged and 5 MMCF for Distribution. ***The Authority in view of the operational requirement of the company determines GIC of 1,049 MMCF for the said year.***

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10.3.2. ***Accordingly, the Authority works out the UFG for the said year.***

Table 19: Calculation of UFG

MMCF

Particulars	The Petition	As Calculated
Transmission System		
Gross Purchases	397,926	397,926
(Inc.)/Dec. Gas in pipeline	(114)	(114)
Gas Consumed Internally - metered	2,226	1,049
Gas Available in Transmission System (A)	395,814	396,991
Gas Passed to Distribution System through SMS (B)	395,615	395,615
Loss / (Gain) in Transmission System (A-B)	199	1,376
Percentage Loss in Transmission	0.05	
Distribution System		
Gas Received in Distribution Network	395,615	395,615
Loss due to sabotage activity / ruptures - unmetered	12	0
Damage by third party - unmetered	268	0
Gas Consumed Internally - unmetered	27	0
Gas Available for Sale (C)	395,308	395,615
Gas Sales	310,310	310,310
Sale of RLNG heldstock / Additional Gas Delivered to SNGPL under SWAP arrangement, as per GoP decision	14,889	14,889
Add: Gas Shrinkage at LPG/NGL Plant (JJVL)	3,150	3,150
Total Gas Sales (D)	**328,349**	328,349
Loss in Distribution System (C-D)	66,959	67,266
Percentage Loss in Distribution	16.93	
Total UFG		
Gross Purchases	397,926	397,926
Gas Consumed Internally - metered	1062	1049
(Inc.)/Dec. Gas in pipeline	(114)	(114)
Loss due to sabotage	1	0
Available for Sale (E)	396,977	396,991
Gas Sales	310,310	310,310
Sale of RLNG heldstock / Additional Gas Delivered to SNGPL under SWAP arrangement, as per GoP decision	14,889	14,889
Shrinkage	3,150	3,150
Total Gas Sales (F)	328,349	328,349
Gas Unaccounted For (E-F)	68,628	68,642
Gas Unaccounted For (%)	17.25	
Working of Invalid Claim		
Gas Received		397,926
UFG Benchmark (Percentage)		5%
Local Conditions Allowance Percentage		1.9%
Allowed UFG Percentage		6.9%
Allowed UFG Volume (MMCF)		27,457
UFG Invalid claim (MMCF)		41,185

10.3.3. ***The Authority has computed national (local gas) WACOG at Rs. 543.53 per MMCF. Based on the above, the Authority deducts Rs. 22,385 million being an invalid claim from the revenue requirement for the said year.***

Achievement in Key Monitoring Indicators

10.3.4. The petitioner submitted an audit report on implementation of KMI's conducted by M/s KPMG, Taseer Hadi & Co. Chartered Accountants. The Authority carried out an analysis and assessment of KMI's based on the information provided by the petitioner and observation made therein by the Auditor in its report. It is observed that the petitioner has claimed 91.15% achievements in respect of implementation of KMI's. In this regard, a number of clarifications w.r.t achievement in implementation of KMI's were sought from the petitioner. It is observed that the petitioner did not focus on Balochistan, while undertaking pilot projects and Segmentation (KMI 2 & 3). As regard replacement of distribution network (KMI 13), the

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petitioner has underachieved from the estimated targets. In respect of installation of new CP stations (KMI 16), achievement appears to be exaggerated when compared with actual figures of installation of new CP stations. In case of theft control non- registered, only fifty (55) such theft cases were booked/ filed in the local courts for recovery of dues, whereas as per the petitioner's own estimates, around 500,000 – 700,000 Nos unauthorized gas consumers exist only in Karachi. In order to gauge the seriousness, commitment of the petitioner's performance towards UFG control measures in high UFG prone areas identified in previous years, the petitioner was required to provide UFG in such areas (10 each) as well as segmented areas during the last 03 years in line with KMI Nos 1 & 2, in response an insufficient data related to only few such areas could be provided by the petitioner. In this respect, expenditure/ capitalization on different heads under Distribution Development exclusively meant for UFG control measures are as under:

Rs. in million

S.No.	UFG Control Programs	Projected Amount by the Petitioner in the said year (ERR 2019-20)	Determination by OGRA at ERR Stage	Capitalized Amount claimed by the Petitioner
1	Rehabilitation of Mains in Distribution Network	915	815	441
2	Segregation of Distribution System	Nil	-	Nil
3	Installation EVCs, Modems etc.	168	168	2
4	Construction of CMS, TBS and Cathodic Protection	195	195	56

10.3.5. It is observed from the above table, that the petitioner could not capitalize even its projected amounts viz UFG Reduction Programs during the current year, which indicates that the petitioner is not fully aligned with the priorities in relation to UFG control activities.

10.3.6. The Authority observes that UFG control activities, as drafted in the KMIs, were meant to increase network visibility, carry out rehabilitation, curtail theft and improve recoveries. Moreover, the gas utility companies have also been incentivized to demonstrate progression through research & development and up-gradation of the systems. The KMIs as briefly mentioned above, were not prepared in isolation rather these were quite comprehensive and relevant and were required to be implemented in its letter and spirit so as to accomplish the all-important task of gradual reduction in UFG with the consistent efforts of the petitioner. The overall objective through effective implementation of KMIs is not only reduction in company-wide average UFG but the aim is to specifically identify the problem areas and focus objectively on the root cause and undertake suitable actions to eradicate such issues. However, it has been observed on analyzing the claimed achievement of the petitioner that its focus is only towards achieving numerical numbers of 91.25 % in respect of tasks as per the KMI's, while corresponding benefits in quantifiable terms could not be ascertained as evident from the results of meter replacement wherein, the petitioner replaced more than 1.5 million gas meters with new ones during the last six-year, however, its UFG increased from 14% to 17%. This fact leads to the conclusion that effective implementation of KMIs to achieve the desired results is still lacking and not up to the mark when it comes to actual reduction of UFG. ***In view of the observations, the Authority determines 73% i.e. 1.9/ 2.6 total achievements in KMI's as against the claim of 2.37 of the petitioners.***

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10.4 *Transmission & Distribution (T & D) Cost*

i. Summary

10.4.1. The petitioner has reported T&D cost at Rs. 17,984 million, as compared below: -

Table 20: Comparison of T&D Cost per the Petition with RERR & Previous Year

Rs. in Million

Particulars	MFRR	RERR	The Petition	Inc./(Dec.) over RERR FY 2019-20	
	FY 2018-19	FY 2019-20			%
Salaries, wages, and benefits at benchmark	13,605	15,520	15,442	(78)	(0.5)
Professional charges	70	46	81	35	76
Repairs & maintenance	1,839	1,633	2,076	443	27
Electricity	232	230	281	51	22
Postage & bill delivery by Contractors	228	103	120	17	17
Security expenses	620	722	756	34	5
Meter reading by contractors	83	90	91	1	1
Gas bills collection charges	195	197	179	(18)	(9)
Others	149	149	134	(14)	(10)
Advertisement	127	112	96	(16)	(14)
Insurance excluding royalty	107	134	114	(20)	(15)
Traveling	129	131	110	(21)	(16)
Stores, spares and supplies consumed	702	798	636	(162)	(20)
Gas bills stubs processing charges	32	36	27	(9)	(25)
Legal charges	81	100	60	(40)	(40)
License & Tariff Petition Fee to OGRA	(23)	130	58	(72)	(56)
Material used on consumers installations	18	39	9	(30)	(76)
Rent, rate & taxes	245	311	202	(109)	(35)
Collecting agent commission	1	3	-	(3)	(100)
Impairment work in progress	70	-	-	-	-
Sub-total Cost	**18,509**	**20,483**	**20,472**	**(11)**	**(0)**
Less: Recoveries / Allocations	2,268	2,219	2,488	269	12
Net T&D Cost before GIC	**16,241**	**18,264**	**17,984**	**(280)**	**(2)**

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

ii. Human Resource (HR) Cost

10.4.3. The petitioner has reported decrease of 0.5% in HR cost from Rs. 15,442 million including IAS cost and RLNG as against the amount allowed at Rs. 15,520 million in RERR for the said year. The petitioner, in pursuance of Authority's directions, has provided its Auditor's certificate in respect of HR cost, thereby confirming actual HR cost including IAS-19 is at Rs. 15,442 million for the said year.

10.4.4. The Authority observes that at the time of RERR for the said year, HR cost was allowed based on HR benchmark parameters on provisional basis. The same parameters have been extended for the purpose of computation of HR cost for the said year in the light of decision made for its sister utility i.e. SNGPL. ***Accordingly, HR cost is computed at Rs. 15,442 million including IAS-19 cost, out of which Rs. 599 million shall be charged to RLNG business segment recoverable from RLNG consumer, being ring-fenced activity.***

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iii. Professional Charges

10.4.5. The petitioner has claimed expenditure of Rs. 81 million on account of "Professional Charges" for the said year as against Rs. 46 million provided in RERR for the said year, showing an increase of 76%. The comparison is given below:

Table 21: Comparison of Professional Charges with the RERR & Previous Year

Rs. in Million

Particulars	FRR	RERR	The Petition	Inc./(Dec.) over RERR FY 2019-20	
	FY 2018-19	FY 2019-20		Rs.	%
Professional Charges	70	46	81	35	76
Total	**70**	**46**	**81**	**35**	**76**

10.4.6. The petitioner has argued that Rs. 99 million has been projected at the time of ERR for the said year, out of which the Authority allowed only Rs. 46 million under this head. Moreover, actual expenditure for FY 2018-19 had remained at Rs. 70 million based on actual requirement. The petitioner has also provided details of professional charges and informed that Rs. 19 million was paid to M/s ILF-Pakistan for consultancy services for LPG/NGL/Propane Extraction Plan in addition to other normal expenditure.

10.4.7. ***In view of the above, the Authority accepts the petitioner's claim and allows Rs. 81 million under the above head for the said year.***

iv. Repair & Maintenance

10.4.8. The petitioner has capitalized Rs. 2,076 million on account of Repair and Maintenance against the provisionally allowed amount of Rs. 1,633 million in this head. The petitioner has stated that the variance in this head is due to increased repair and maintenance activities on its transmission/distribution pipeline network, increase in expenses on building maintenance, software maintenance and UFG control activities of coating and wrapping, overhead and underground leak surveys and leakage controls etc. in the distribution network.

10.4.9. ***In view of the above, the Authority allows Rs. 2,076 million under the head of Repair & Maintenance for the said year.***

v. Electricity Charges

10.4.10. The petitioner has reported electricity charges at Rs. 281 million as against Rs. 230 million provided in RERR for the said year. The petitioner has explained that increase in electricity expenditure was reported owing to revision in slab rate / billing by NEPRA and KE along with excess consumption of electricity.

10.4.11. ***In view of the above, the Authority allows Rs. 281 million as claimed by the petitioner for the said year.***

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vi. Postage & bill delivery by Contractors

10.4.12. The petitioner has reported postage & bill delivery charges for the said year at Rs. 120 million as against Rs. 103 million provided in RERR for the said year, as shown below:

Table 23: Comparison of Postage & Bill Delivery Charges with the RERR & Previous Year

Rs. in Million

Particulars	FRR	RERR	The Petition	Inc./(Dec.) over RERR FY 2019-20	
	FY 2018-19	FY 2019-20		Rs.	%
Postage & bill delivery by Contractors	228	103	120	17	17
Total	**228**	**103**	**120**	**17**	**17**

10.4.13. The petitioner has submitted that Rs. 132 million has been projected at time of ERR for the said year. However, the Authority allowed only Rs. 103 million while disallowing Rs. 29 million under the head of postage and bill deliver by contractors.

10.4.14. The petitioner has explained that increase is reported in postage & revenue stamps charges due to revision of courier charges, enhanced activity and increase in number of consumers as well as delivery of special notices and disconnection letters during recovery campaign. Moreover, the petitioner has informed that bill distribution charges has been revised from Rs. 2.70 to Rs. 2.94 per bill.

10.4.15. ***In view of the above, the Authority allows Rs. 120 million in respect of postage & bill delivery by contractors for the said year.***

vii. Remaining Items of T & D Cost

10.4.16. Expenditure on remaining items of T&D cost, which have not been discussed above, has been reported at Rs. 2,471 million as against Rs. 2,951 million provided in RERR for the said year, as detailed below:

Table 24: Summary of Remaining T&D Expenses per the Petition with RERR & Previous years

Rs. in Million

Particulars	FRR	FRR	RERR	The Petition	Inc./(Dec.) over RERR FY 2019-20	
	FY 2017-18	FY 2018-19	FY 2019-20		Rs.	%
Security expenses	610	620	722	756	34	5
Meter reading by contractors	70	83	90	91	1	1
Gas bills collection charges	188	195	197	179	(18)	(9)
Others	123	172	149	134	(14)	(10)
Advertisement	112	127	112	96	(16)	(14)
Insurance excluding royalty	124	107	134	114	(20)	(15)
Traveling	100	129	131	110	(21)	(16)
Stores, spares and supplies consumed	645	702	798	636	(162)	(20)
Gas bills stubs processing charges	22	32	36	27	(9)	(25)
Legal charges	116	81	100	60	(40)	(40)
License & Tariff Petition Fee to OGRA	133	(23)	130	58	(72)	(56)
Material used on consumers installations	30	18	39	9	(30)	(76)
Rent, rate & taxes	166	245	311	202	(109)	(35)
Collecting agent commission	0.4	1	3	-	(3)	(100)
Remaining T&D Cost	**2,438**	**2,488**	**2,951**	**2,471**	**(480)**	**(16)**

10.4.17. ***In view of the above, the Authority accepts remaining items of T&D cost at Rs. 2,471 million for the said year.***

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viii. Transmission and Distribution Cost as Allowed

10.4.18. In view of the above, the Authority allowed T&D cost for the said year at Rs. 17,384 million for the said year, as detailed below:

Table 25: T&D Cost Allowed by the Authority

Rs. in Million

Particulars	FY 2019-20 As allowed
Salaries, wages, and benefits at benchmark	15,442
Professional charges	81
Repairs & maintenance	2,076
Electricity	281
Postage & bill delivery by Contractors	120
Other Remaining T&D Cost	2,471
Sub-total Cost	**20,471**
Less: Recoveries / Allocations	2,488
Net T&D Cost before Allocation to RLNG	**17,984**
less: Allocation to RLNG	**599**
Net T&D Cost before GIC	**17,384**

11. Other Charges excluding WPPF

i. Exchange Loss on Payment of Gas Purchases

11.1 The petitioner has reported exchange losses on payment of gas purchases for the said year at Rs. 1,531 million as against Rs. 16,341 million provided in FRR for FY 2018-19 (i.e. difference of Rs. /US$ at the time of booking of purchases invoices vs subsequent payment of invoices). The petitioner has explained that exchange loss is due to the rupee depreciation i.e. 6% against the dollars during the said year.

11.2 ***In view of the above, the Authority allows exchange losses on payment of gas purchases amounting to Rs. 1,531 million for the said year and directs the petitioner to devise a mechanism to minimize this cost.***

ii. Other Charges

11.3 The petitioner has reported Rs. 238 million on account of other charges as per table below:

Table 26: Comparison of Other Charges with RERR & Previous Year

Rs. in Million

Particulars	FRR	RERR	The Petition	Inc./(Dec.) over RERR FY 2019-20	
	FY 2018-19	FY 2019-20		Rs.	%
Sports Club Expenses	76	63	131	68	108
Corporate Social Responsibility	16	60	27	(33)	(55)
Loss on sale of property, plant & equipment	-	-	42	-	-
Provision against impaired Stores and Spares	105	-	32	32	
Other/Auditor fees	13	25	7	(18)	(73)
Total	210	148	238	90	61

11.4 The petitioner has submitted that it has been spending sports related expenses as the said activity needs continuous support from the corporate sector.

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11.5 The Authority notes that the petitioner has reported 108% increase over RERR for the said year without substantiating this huge increase. The Authority appreciates sports activities, however, gigantic increase with no valid reasons can't be allowed as part of revenue requirement for the said year. ***In view of the same, the Authority decides to fix Sports Club Expenses at the level of FRR FY 2018-19 i.e. Rs. 76 million for the said year.*** The Authority however, directs the petitioner to curtail sports charges within reasonable limit, since every expense is being funded by natural gas consumers, failing which additional amounts shall be paid by the petitioner from its own funds.

11.6 The petitioner has claimed Rs. 27 million on account of CSR activities being 50% share of total CSR expenditures of Rs. 54 million. The petitioner has informed that it has deposited Rs. 30 million to PM fund for Covid 19. Balance amount of Rs. 24 million has been incurred in respect of various projects related to health, environment and education, in accordance with the criteria set in tariff regime for natural gas sector of Pakistan.

11.7 The Authority observes that as per the criteria defined in tariff regime developed for natural gas sector includes health and environment in the underdeveloped / gas producing districts in the area of operation of the licensee. In view of the same, contribution made by the petitioner to GoP funds in respect of COVID-19 needs to be met from company's own pocket instead of burdening natural gas consumers who already went through tough time during this pandemic. The petitioner, being public sector company, come forward to play its role in this crisis instead of claiming the cost as part of price. ***In view of same, the Authority decides to include the expenses on account of CSR at Rs. 12 million, being 50% share of total expenditure of Rs. 24 million for the said year.***

11.8 ***In view of the above, the Authority decides to allow Rs. 169 million under the above head i.e. Other charges as against Rs. 238 million for the said year.***

12. Financial Charges on Short Term Borrowing

12.1 The petitioner has reported Rs. 3,887 million including prior year charges i.e. Rs. 2,433 million on account of finance cost of short-term borrowing and financial charges due to adoption of IRFS-16 for the said year, detail as below;

Table 27: Financial Charges on Short Term Borrowing

Rs. in Million

Particulars	FY 2019-20
	The Petition
Financial charges on short term borrowing cost	1,422
Financial charges on short term borrowing cost from FY 2013-14 to FY 2018-19	2,433
Financial charges arising due to adoption of IFRS 16	32
Total	**3,887**

12.2 The petitioner has explained that due to substantial delay in the issuance of selling price notifications by the FG, a receivable balance of GDS has been accumulated to the tune of Rs. 140 billion as on 30th June, 2019 already determined by OGRA and has further piled up to Rs. 214 billion as part of instant petition. In order to manage its cash flows and smooth running of its operational activities, the petitioner borrow funds from financial institution to meet the working capital requirement. The year-wise break-up of short-term borrowing is as follows: -

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Table 28: Breakup of Finance Cost on Short Term Borrowings

Financial Year	Rs. Million
2013-14	80
2014-15	54
2015-16	71
2016-17	206
2017-18	772
2018-19	1,250
Total:	**2,433**
2019-20	1,422

12.3 The petitioner has also argued that its sister utility has also been regularly incurring financial cost on short-term borrowing due to delay in issuance of consumer price notifications and the same has been allowed by the Authority. In view of the same, the petitioner has requested the Authority to allow Rs. 1,422 million for the said year and Rs. 2,433 million for the period from FY 2012-13 to FY 2018-19.

12.4 The Authority observes that due to insufficient and delayed price revision by FG, the cashflows of the gas utilities are affected. Therefore, in order to meet the working capital requirement during the year, the company resort to short term borrowings and keep the system in operation. In the light of the same, the Authority has been allowing finance cost on short term basis since FY 2015-16 to SNGPL. ***The petitioner has, for the first time, claimed this cost and accordingly based on the same principle, finance cost relevant for the said year is allowed by the Authority.*** However, regarding previous years' finance cost, since the relevant years are completed and closed transactions, it is not prudent to considered their working capital requirement at this point in time for inclusion in prescribed price for this year.

12.5 ***In view of the above, the Authority decides to allow only Rs. 1,422 million on account of financial charges on short-term borrowing cost for the said year.***

iii. Expected Credit Loss-Effect of Adoption of IFRS-9 (ECL)

12.6 The petitioner has claimed Rs. 3,604 million including prior years on account of expected credit loss for the said year.

Table 29: Comparison of Expected Credit Loss with Previous Years.

Rs. in Million

Particulars	MFRR	RERR	The Petition	Inc./(Dec.) over RERR FY 2019-20	
	FY 2018-19	FY 2019-20		Rs.	%
Provision for doubtful debts	1,327	1,399	3,604	2,205	158
Total	**1,327**	**1,399**	**3,604**	**2,205**	**158**

12.7 The petitioner has requested to allow ECL at Rs. 3,604 million in the light of International Financial Reporting Standard (IFRS)-9 for the said year. The petitioner has argued that it is statutorily obligated to comply with the requirements of the IFRS affective June 30, 2019. IFRS requires general provisioning on account of ECL based on historic data, resulting in significant additional provisioning against overdue receivable balances from live consumers.

12.8 The Authority notes that matter of provision for doubtful debts against live consumers has already been extensively discussed in earlier determinations. The Authority finds no valid reason to change

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its earlier decision on ECL against live consumers. ***In view of the same as well as the decisions made in previous determinations, the Authority decides to allow Rs. 893 million, being provision against disconnected consumers for the said year.***

13. Reclaimed Items – pertains to prior year

13.1 The petitioner has submitted that Rs. 7,027 million has been requested as 'reclaimed items' in motion for review on DFRR FY 2018-19 dated 25th May 2021, which is under consideration of the Authority. The petitioner has requested to made it as an integral part of the instant petition.

13.2 The Authority notes that the decision of motion for review on DFRR FY 2018-19 has been issued on February 25, 2022 and Rs. 3,277 million has been allowed as against petitioner's claim of Rs. 7,027 million. ***Therefore, the impact of the same has already been included per para 14.2 of the instant decision for the said year.***

14. Cumulative revenue shortfall pertaining to previous years

14.1 The petitioner has claimed Rs. 140,161 million on account of cumulative revenue shortfall pertaining to previous years. The petitioner has submitted that this revenue shortfall has emerged due to inadequate increase in gas prices by FG. Therefore, the petitioner has requested to incorporate cumulative revenue shortfall as part of instant decision.

14.2 The Authority notes that decision for motion for review of FRR FY 2018-19 has now been issued. Accordingly, revenue shortfall for FY 2018-19 has been calculated at Rs. 89,938 million. Regarding petitioner's claim for Rs. 53,980 million upto FY 2017-18, the Authority notes that the same was allowed as part of DERR FY 2020-21. Therefore, any additional shortfall shall be considered by the Authority at the time of FRR FY 2020-21, upon submission of respective petition with it. ***In view of the same, the Authority decides to determine revenue shortfall for FY 2018-19 at Rs. 89,938 million.*** The Authority has, however, not included this shortfall as part of instant decision and directs the petitioner to take up this issue i.e. recoupment of previous years' shortfall with FG for an appropriate policy decision.

15. Summary of Discussion & Decisions

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

15.1.1. determine gross addition in fixed assets at Rs. 7,938 million and depreciation charge at Rs. 6,182 million.

15.1.2. determine the balance of average net operating fixed assets (net of deferred credits & LPG Air mix) at Rs. 54,501 million. Consequently, the return required by the petitioner on its average net operating fixed assets is determined at Rs. 9,499 million.

15.1.3. accept subsidy on account of Air-mix LPG at Rs. 651 million.

15.1.4. accept the other operating income at Rs. 5,550 million.

15.1.5. determine revenue at current prescribed price at Rs. 206,313 million.

15.1.6. accept the cost of gas at Rs. 241,671 million.

15.1.7. accept Rs. 7,344 million adjustments as offered by the petitioner on account of staggering of the financial impact on account of Honourable Sindh High Court decision.

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15.1.8. determine UFG adjustment being invalid claim at Rs. 22,385 million at benchmark.
15.1.9. determine T&D expenses at Rs. 17,384 million.
15.1.10. accept GIC at Rs. 644 million.
15.1.11. determine other charges including short term finance cost and ECL against disconnected consumers at Rs. 4,015 million.

15.2 In exercise of powers under Section 8(2) of Ordinance, Authority determines final revenue requirement of petitioner for said year at Rs. 244,766 million as against petitioner's claim of Rs. 399,316 million, as tabulated below:

Table 30: Components of FRR as Determined by the Authority

Rs. in Million

S.No	Particulars	Claimed by the Petitioner	As Allowed
1	Cost of gas sold	241,671	241,671
2	UFG adjustment	(21,205)	(22,385)
3	Transmission and distribution cost	17,984	17,383
4	Gas internally consumed	644	644
5	Depreciation	6,349	6,182
6	Staggering of Financial Impact on account of SHC Order	(7,344)	(7,344)
7	Reclaimed items	7,027	-
8	Other charges including Financial and ECL Charges	9,261	4,015
9	Return on net average operating fixed assets	9,667	9,499
10	Revenue Shortfall pertaining to prior years	171	125
11	Additional revenue requirement for Air-Mix LPG Projects	651	651
12	Less Other Operating Income	(5,550)	(5,550)
	Total Final Revenue Requirement	**259,327**	**244,890**

15.3 The petitioner's actual net operating income is Rs. 211,863 million and thus there is a shortfall of Rs. 38,453 million vis-à-vis its revenue requirement of Rs. 244,766 million for the said year **(Annex-A)** resulting in an average prescribed price of Rs. 793.43/ MMBTU for the said year. The Authority decides to recoup this shortfall to the extent of Rs. 3,480 million owing to the cushion available in prescribed price and sale price. However, the remaining shortfall of Rs. 34,973 million shall be carried forward. Accordingly, the prescribed prices for each category of retail consumers for the said year stands adjusted to the extent of applicable notified gas sale prices.

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

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15.5 ***The Authority further directs the petitioner to make the concerted efforts to reduce all the avoidable costs including but not limited to UFG-theft, Transmission and distribution cost and currency exchange loss.***

Zainul Abideen Qureshi,
Member (Oil)

Muhammad Arif,
Member (Gas)

Masroor Khan,
Chairman

REGISTRAR
Oil & Gas Regulatory Authority
Islamabad

A. Final Revenue Requirement for FY 2019-20

ANNEXURE – A

Rs. in Million

	Particulars	RERR FY 2019-20	The Petition	The Adjustment	Allowed by the Authority
Gas sales volume -MMCF		355,363	310,310	-	310,310
	BBTU	362,668	308,492	-	308,492
"A"	Net Operating Revenues				
	Net sales at current prescribed price	267,542	206,313	-	206,313
	Meter rentals	820	796	-	796
	Amortization of deferred credit	473	549	-	549
	Sale of LPG\NGL and Condensate	1,263	121	-	121
	Late payment surcharge	3,292	1,697	-	1,697
	Meter manufacturing profit	11	7	-	7
	Notional income on IAS 19 provision	649	643		643
	Other operating income	1,019	1,738	-	1,738
	Total Operating Revenue "A"	275,071	211,863	-	211,863
"B"	Less: Operating Expenses				
	Cost of Gas	242,083	241,671	-	241,671
	UFG Adjustment	(13,923)	(21,205)	(1,180)	(22,385)
	Staggering of Financial Impact on account of SHC Order	(3,672)	(7,344)	-	(7,344)
	Transmission and Distribution Cost	18,264	17,984	(602)	17,383
	Gas Internally Consumed	424	644	-	644
	Depreciation	5,344	6,349	(167)	6,182
	Impairment Loss against Financial Assets	-	3,604	(2,711)	893
	Reclaimed Items	-	7,027	(7,027)	-
	Financial Charges on Short Term Borrowing	-	3,887	(2,465)	1,422
	Other charges including WPPF	1,546	1,770	(70)	1,700
	Total Operating Expenses "B"	250,066	254,388	(14,223)	240,165
"C"	Operating profit (A-B)	(25,005)	42,524	(14,223)	28,302
Return required on net operating fixed assets:					
Net operating fixed assets at beginning		43,243	62,066	(1,407)	60,659
Net operating fixed assets at ending		46,615	63,701	(511)	63,190
		89,858	125,767	(1,918)	123,849
Average net assets (I)		44,929	62,884	(959)	61,924
Net LPG air mix project asset at beginning		514	897	-	897
Net LPG air mix project asset at ending		2,628	1,120	-	1,120
		3,142	2,017	-	2,017
Average net assets (II)		1,571	1,009	-	1,009
Net MMP and LHF(Consensate) assets at beginning		-	76	-	76
Net MMP and LHF(Condensate) assets at ending		-	64	-	64
		-	140	-	140
Average net assets (III)		-	70	-	70
		-			
	Deferred credit at beginning - Assts related to Natural Gas Activity	4,799	6,278	-	6,278
	Deferred credit at beginning - Assts related to Natural Gas Activity	5,118	6,412	-	6,412
		9,917	12,690	-	12,690
Average net deferred credit (III)		4,959	6,345	-	6,345
"D" Average (I-II-III)		38,400	55,460	(959)	54,501
"E"	Return required @ 17.43%	6,693	9,667	(167)	9,499
"F"	Shortfall / (Surplus) in return required (E-C) (Gas Operations)	(18,312)	52,191	(14,390)	37,801
"G"	Additional revenue requirement for Air-Mix LPG Projects	1,190	651	-	651
"H"	Shortfall / (Surplus) H=(F+G)	(17,121)	52,842	(14,390)	38,452
"I"	Average Ince/(Dec) in Prescribed Price FY 2019-20 - (Rs/MMBTU)	(47.21)	171.29	(46.65)	124.65
"J"	Total estimated revenue requirement for the said year	250,421	259,155	(14,390)	244,765
"K"	Average Prescribed Price for the said year (Rs. per MMBTU)	690.50	840.07	(46.65)	793.43

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B. Prescribed Prices for FRR FY 2019-20

ANNEXURE – B

	Particulars	Average Prescribed Price	w.e.f July 01, 2019
		Rs./MMBTU	
(i)	Domestic Consumers:		
	Upto 50 cubic metres per month	793.43	121.00
	Upto 100 cubic metres per month	793.43	300.00
	Upto 200 cubic metres per month	793.43	553.00
	Upto 300 cubic metres per month	793.43	738.00
	Upto 400 cubic metres per month	793.43	1,107.00
	Above 400 cubic metres per month	793.43	1,460.00
	The billing mechnism will be revised so that the benefit of one previous /slab is available to domestic consumer (residential use.)		
(ii)	Special Commercial Consumers (Roti Tandoors)		
	Upto 50 M^3 per Month	793.43	110.00
	Upto 100 M^3 per Month	793.43	110.00
	Upto 200 M^3 per Month	793.43	220.00
	Upto 300 M^3 per Month	793.43	220.00
	Over 300 M^3 per Month	793.43	700.00
(iii)	Commercial :		
	All off-takes at flat rate of	793.43	1,283.00
(iv)	Ice Factories:		
	All off-takes at flat rate of	793.43	1,283.00
(v)	Industrial:		
	All off-takes at flat rate of	**793.43**	**1,283.00**
(vi)	**Registered manufacturers or exporters of five zero-rated sectors and their captive power namely: Textile (including jute), carpets, leather, sports and surgical goods**		
	All off-takes at flat rate of	**793.43**	**786.00**
(vii)	Captive Power :		
	All off-takes at flat rate of	793.43	1,021.00
(viii)	CNG Stations:		
	All off-takes at flat rate of	**793.43**	**1,283.00**
(ix)	Cement Factories:		
	All off-takes at flat rate of	793.43	1,277.00
(x)	Fauji Fertilizer Bin Qasim Limited		
	(i) For gas used as feed-stock for Fertilizer	793.43	300.00
	(ii) For gas used as fuel for generating steam and electricity and for usage in housing colonies for fertilizer factories	793.43	1,021.00
(xi)	Power Stations		
	All off-takes at flat rate of	**793.43**	**824.00**
(xii)	Pakistan Steel		
	All off-takes at flat rate of	**793.43**	**1,021.00**
(xiii)	Independent Power Producers		
	All off-takes at flat rate of	**793.43**	**824.00**

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C. Computation of HR Cost Benchmark FY 2019-20 ANNEXURE – C

Rs. in million

	Particulars	DFRR	FRR 2019-20	
	HR BENCHMARK COST PARAMETERS	2018-19	The Petition	Allowed
	Base Cost	12,660	13,575	13,575
	CPI factor	7.34%	10.74%	10.74%
	T & D network (Km)	51,048	51,646	51,646
	Number of Consumers (No.)	3,019,178	3,113,935	3,113,935
	Sales Volume (MMCF)	692,009	642,624	642,624
	Unit Rate (Rs,/unit)			
	T&D network (Rs./Km)	251,991	265,921	265,921
	No. of Consumers (Rs./Consumer)	4,346	4,496	4,496
	Sale Volume (Rs./MMCF)	19,733	19,616	19,616
	HR Cost Build-up (Million Rs)			
50%	Cost CPI -50%	465	729	729
25%	T & D network (Km) 25%	3,216	3,433	3,433
65%	Number of Consumers (No.) 65%	8,529	9,100	9,100
10%	Sales Volume (MMCF)-10%	1,366	1,261	1,261
	HR Benchmark Cost	13,576	14,523	14,523
	IAS Cost	660	919	919
	Total HR Benchmark Cost	14,236	15,442	15,442
	Excluded HR cost related to RLNG consumers	(649)	(599)	(599)
	Net HR cost allowed (Rs. in million)	13,586	14,843	14,843
	HR Cost related to FY 2017-18	19	-	-
	Total HR cost allowed	13,605	14,843	14,843

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D. SSGCL Field-wise Gas Purchases & WACOG FY 2019-20 — ANNEXURE – D

Fields	MMCF	MMMBTU	Rs per MMBTU	Rs Million
Sui	39,417	37,724	470.21	17,738
Kandhkot	563	461	279.03	129
Ghotki ,Rustam,Ubaro,Sherdil,Chandiko - SNGPL	1,601	1,388	780.00	1,082
Mari	360	261	263.30	69
Sari / Hundi	477	453	825.10	374
Maher / Mubarak Block	4,829	5,223	406.71	2,124
Pasaki Deep & Kunnar Deep	45,274	46,451	404.08	18,770
Adam X-1 / Hala	5,809	6,036	676.35	4,083
Pakhro / Noorai Jagir/Daru	29	34	404.67	14
Zargoon	5,417	5,145	820.40	4,221
Bobi	1,199	1,356	272.54	370
Latif	4,393	4,440	598.46	2,657
Kirther (Rehman)-EWT	8,612	7,216	743.67	5,367
Rizq EWT	5,353	5,008	879.86	4,406
Badin	14,629	15,957	376.96	6,015
Kadanwari	10,496	10,513	1,289.62	13,558
Miano	9,495	9,509	531.96	5,059
Sawan	3,390	3,422	540.12	1,848
Zamzama	3,900	3,113	519.70	1,618
Bhit	45,636	43,661	571.93	24,971
Mazarani	1,208	1,226	277.59	340
Khipro Block - Naimat Basal	68,556	59,714	771.22	46,053
Mirpurkhas Block - Kausar	43,481	49,178	785.31	38,620
Sujawal / Sujjal	5,371	5,664	778.24	4,408
Nur Bagla fields	915	989	409.19	405
Jakhro/Dachrapur /Gopang/ Nim	592	648	406.94	264
Gambat Block -Wafiq/Shahdad-(XI)	24,623	22,608	729.16	16,485
Sinjhoro	9,539	9,801	404.95	3,969
TAY	17,466	17,946	446.10	8,006
Sofiya	1,361	1,470	832.87	1,224
Aqeeq	664	701	815.21	571
Britism	1,731	1,778	400.50	712
Chutto	2,469	2,928	140.04	410
Mitha	2,523	2,527	726.84	1,837
Kotri North	1,279	1,222	717.61	877
Thal	1,311	1,313	843.30	1,107
Bitro	1,595	1,605	762.71	1,224
Ayesha	2,362	2,316	824.89	1,910
Excise duty	-	-	-	3,897
GST on exempted gas sales				(12)
Sub-Total	397,926	391,005	631.13	246,777
Currency Exchange Loss	-	-	-	1,553
Weighted Average SSGCL input Cost of Gas	397,926	391,005	635.11	248,330
Weighted Average SNGPL input Cost of Gas	384,236	363,269	486.68	176,797
Weighted Average Both input Cost of Gas (WACOG)	782,161	754,274	563.62	425,126
Rs./MMCF			543.53	

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