

آئل اینڈ گیس
ریگولیٹری اتھارٹی



Oil & Gas
Regulatory Authority

Case No. OGRA-6(2)-1(5)/2022-ERR

IN THE MATTER OF

SUI NORTHERN GAS PIPELINES LIMITED
ESTIMATED REVENUE REQUIREMENT, FY 2023-24

UNDER

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

DECISION

JUNE 02, 2023

Before:

Mr. Masroor Khan, Chairman

Mr. Zain-ul-Abideen Qureshi, Member (Oil)

Mr. Mohammad Naeem Ghouri, Member (Finance)

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1. Background

- 1.1 Sui Northern Gas Pipelines Limited (the petitioner) is a public limited company, incorporated in Pakistan and listed on the Pakistan Stock Exchange Ltd. in Pakistan. The petitioner is operating in the provinces of Punjab, Khyber Pakhtunkhwa (KPK) and Azad Jammu & Kashmir (AJ&K) under the license granted by Oil & Gas Regulatory Authority (OGRA). However, petitioner's exclusive right to operate in the franchised areas had ended on 30th June, 2010.
- 1.2 The petitioner is engaged in the business of construction and operation of gas transmission and distribution pipelines and sale of natural gas. Moreover, in pursuance of Federal Government (FG/GoP) decision, the petitioner is engaged in transportation and sale of RLNG.
- 1.3 The petitioner initially filed the petition on December 30, 2022, subsequently amended on February 21, 2023, for determination of Estimated Revenue Requirement (ERR) for FY 2023-24 (the said year) under Section 8(1) of the Oil & Gas Regulatory Authority Ordinance, 2002 (the Ordinance) and Rule 4(2) of the Natural Gas Tariff Rules, 2002 (NGT Rules). The petitioner, later on, submitted revised petition (the petition), to the extent of incorporating the impact of revised gas sale prices effective January 01, 2023 and taking into account the actual changes in international oil prices thereby revising cost of gas, as per the directions of the Authority issued during public hearings held in Lahore and Peshawar.
- 1.4 The petitioner has claimed average prescribed price of Rs. 1,379.49/MMBTU for the said year based on projected current year revenue requirement of Rs. 483,747 million depicting a shortfall of Rs. 213,266 million, thereby requesting an increase of Rs. 608.17/MMBTU effective July 01, 2023. The petitioner has also claimed previous years' cumulative shortfall of Rs. 560,378 million up to FY 2022-23 in the instant petition, requesting the Authority to allow an additional increase in prescribed price by Rs. 2,206.19/MMBTU for the said year, and has accordingly demanded an aggregate average prescribed price at Rs. 2,977.51/MMBTU for the said year. The petitioner, through the above said price, has also claimed upfront recovery Rs. 47,291 million on account of price differential impact of RLNG volumes projected to be diverted to domestic & commercial consumers during the said year. Moreover, the petitioner has also claimed unrecouped cumulative impact of diversion of RLNG molecules to domestic consumers at Rs. 221,447 million (i.e. Rs. 710.82/MMBTU) as part of ERR.
- 1.5 Besides above, the petitioner has also claimed RLNG cost of service at Rs. 69,272 million i.e. Rs. 222.36/MMBTU for the said year.
- 1.6 The petitioner statement of cost of service per MMBTU is summarized below:

Table 1: Projected Cost of Service per Petition

PARTICULARS	The Petition	
	Rs. in million	Rs./MMBTU
Volume (BBTU)		350,670
Cost of gas	398,071	1,135.17
Operating Cost	28,783	82.08
UFG Adjustment	(750)	(2.14)
Depreciation	20,072	57.24
Late Payment Surcharge & short term borrowing	33,334	95.06
Return on Assets	22,166	63.21
Other Operating Income	(17,929)	(51.13)
Average Prescribed Price FY 2023-24	483,747	1,379.48
Previous Years Shortfall:		
Shortfall upto FY 2018-19	167,091	476.49
Shortfall of FY 2019-20	37,755	107.67
Shortfall of FY 2020-21	38,939	111.04
Shortfall of FY 2021-22 (As per FRR FY 2021-22)	207,413	591.48
Shortfall of FY 2022-23 (As per DRERR FY 2022-23)	109,180	311.35
Average Prescribed Price	1,044,125	2,977.51
Current Average Prescribed Price		771.32
Increase in Average Prescribed Price		2,206.19

- 1.7 The petitioner has also provided following two gas price scenarios in connection with a meeting held with Ministry of Energy:
 - i. **Model-1: where only RLNG diversion volume and its associated cost is included in indigenous revenue requirement.**

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- ii. **Model-2: where both the gases (indigenous & RLNG) are included in one basket to determine a combined revenue requirement.**
- 1.8 Summary of revenue shortfall and average prescribed prices as per the above mentioned average cost of gas models is as under:

Description	SNGPL Model-1	SNGPL Model-2
Shortfall (Rs. in Million)	477,574	477,574
Avg. Prescribed Price (Rs. /MMBTU)	1,860.96	3,069.39

- 1.9 The Authority admitted the petition on February 11, 2023 under Rule 5 of NGT Rules, as a prima facie case for evaluation and consideration by the Authority.
- 1.10 Accordingly, a Public Hearing Notice was published in the leading newspapers on March 17, 2023 under Rule 7 of NGTR, 2002 inviting interventions/ comments on the petition from the consumers, stakeholder and the general public as well as intimating schedule of Public Hearings to be held on 27-03-2023 and 29-03-2023 at Lahore and Peshawar, respectively. In response thereto, the Authority received interventions requests from:
- All Pakistan Textile Processing Mills Association (APTPMA)
 - Mr. Mahboob Elahi, Consultant, Energy and Regulatory Affairs

2. Salient Features of the Petition

- 2.1. Following submissions have been made in the petition:
- The petitioner has claimed annual return at the rate of 21.13% of the net regulated fixed assets, incorporating financial impact of super tax as corporate tax in WACC.
 - The petitioner has claimed segregated depreciation expense on NG and RLNG sales activities for the said year.
 - The petitioner has projected subsidy of Rs. 677 million against LPG Air Mix project.
 - The petitioner has projected the operating revenues at Rs. 288,409 million as per the following table:

Table 2: Comparison of Projected Operating Revenues with Previous Years

Description	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	Rs. in Million	
	FRR	RERR	RERR	The Petition	Incr/Decr over RERR	
*Net sales at current prescribed price	175,261	186,924	179,297	270,480	91,183	51%
Meter rental and service charges	3,694	4,100	4,320	4,416	96	2%
Late payment surcharge and interest on arrears	6,847	9,348	7,549	7,549	-	0%
Amorization of deferred credit	2,426	3,660	3,089	3,154	65	2%
Transportation Income	760	450	760	760	-	0%
Other operating income	1,860	1,894	2,050	2,050	-	0%
Net Operating Revenues	190,848	206,376	197,065	288,409	91,344	46%

- 2.1.5. The petitioner has projected the net operating expenses at Rs. 478,832 million, as detailed below and compared with previous years:

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Table 3: Comparison of Projected Operating Expenses with Previous Years

Description					Rs. in Million	
	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	Inc/(Dec) over RERR	%age
	FRR	FRR	RERR	The Petition		
Sales volume (BBTU)	347,771	310,325	367,806	350,670	(18,289)	-5%
Cost of gas	179,682	183,333	264,020	398,071	134,051	51%
UFG Adjustment	(3,092)	(4,196)	(9,821)	(750)	9,071	-92%
Transmission & distribution Cost	15,947	14,644	17,178	28,106	10,928	64%
Depreciation	16,355	14,731	18,342	20,072	1,730	9%
Late Payment Surcharge (Payable) & Cost of short term borrowing	698	875	-	33,334	33,334	
Total operating cost including cost of gas	209,590	209,387	289,719	478,832	189,113	65%

- 2.1.6. The petitioner has projected its Average Cost of Gas for the said year at Rs. 1,046.70/MMCF, based on latest estimation of international prices and US\$/Rs. exchange parity for the said year. The cost of gas is linked with international prices of crude oil (Crude) and High Sulphur Fuel Oil (HSFO) as per Gas Pricing Agreements (GPAs) executed between the producers and GoP. The petitioner has also requested recovery of RLNG diversion to domestic consumers amounting to Rs. 47,291 million.
- 2.1.7. The petitioner has projected UFG at 8.00%. The petitioner has, however, restricted its UFG adjustment to Rs. 750 million claiming to be as per Rule 20(1) of NGT Rules for the said year.
- 2.1.8. The petitioner has claimed upfront recovery of previous years' revenue shortfall upto DERR-FY 2022-23 at Rs. 560,378 million; thereby projected an average increase in prescribed price by Rs. 2,206.19 per MMBTU, as detailed below:

Table 4: Computation of the requested increase in Average Prescribed Price

Description	Rs in Million
A Net operating revenues	288,409
B Net operating expenses including WPPF	478,832
C Shortfall (B-A)	190,424
D Return required @ 21.13% on net fixed assets in operation	22,166
E Shortfall in revenue requirement (D+C)	212,589
F Previous year Revenue shortfall upto FY 2022-23	560,378
G Total Revenue Shortfall (E+F)	772,967
H Addl Revenue Requirement for LPG Air mix	677
H Sales volume (BBTU)	350,670
Increase in the average prescribed price (Rs/MMBTU) (H/I*1000)	2,206.19

3. Proceedings

- 3.1. Public hearings were held at Lahore and Peshawar on March 27, 2023 and March 29, 2023 respectively (it was initially scheduled at March 20 & 22, 2023), participated by the following;

Public Hearing at Lahore on March 27, 2023

- i) Petitioner's team led by Mr. Amir Tufail, Deputy Managing Director, SNGPL

Interveners / Participants:

- i) Sheikh Muhammad Ayub, Former Chairman, APTMA
ii) Mr. Mehboob Elahi, Consultant, Energy & Regulatory Affairs

Public Hearing at Peshawar on March 29, 2023

- i) Petitioner's team led by Mr. Faisal Iqbal, CFO, SNGPL



Interveners / Participants:

- i) Mr. Fazal Moqees Khan, Chairman, KPK, All Pakistan CNG Association
 - ii) Mr. Pervaiz Khan Khattak, KPCCI, FPCCI & Focal Person APCNG Association
 - iii) Engr. Aurangzeb Khan, Cooperative CNG Association
- 3.2. The petitioner has made submissions in detail with the help of a multimedia presentation explaining the basis of its petition. The petitioner has also responded to key issues framed by the Authority in both public hearings. The petitioner also responded to the comments, observations, objections and questions of the participants as well as the Authority. The main points of the petitioner are summarized below:
- 3.2.1 It was requested to allow reasonable amount under HR cost in the wake of unprecedented inflation of around 39%, witnessed upto March 2023.
 - 3.2.2 It was demanded that upfront partial recovery of projected cost against diversion of estimated RLNG volume 61,312 BBTU to domestic sector be allowed; as inclusion at the time of FRR may lead to financial implications.
 - 3.2.3 It was informed that negotiation with M/s. Energas Pvt and M/s. Tabeer Energy Pvt Ltd. for allocation pipeline capacity of around 250 MMCFD is underway. Similarly, access agreement is also under consideration with M/s UGDCL for allocation of pipeline capacity from Mami-Khel field. The petitioner further submitted that it is publishing surplus pipeline capacity for utilization of access capacity on its official website for third party shippers and it is anticipated that in the light of Federal Government directions and OGRA's efforts, private shippers will mitigate the energy shortfall.
 - 3.2.4 It was further requested to allow super tax as part of WACC along-with updation of related base data for re-setting of the WACC.
 - 3.2.5 It was requested to allow markup on running finance facility to meet the challenge of liquidity crunch due to circular debts of power sector and differential amount recoverable against RLNG diversion to domestic sector.
 - 3.2.6 It was requested to allow SUG/GIC on account of compression for RLNG volume transported for SNGPL.
- 3.3 The substantive points made by the interveners during the public hearing held in Lahore and Peshawar are summarized below:
- 3.3.1 It was pointed out by APTPMA representative that utilities' cost has already reached upto 40% of cost of production, therefore, the petitioner's request for gas price increase may be rejected. Textile industries are already uncompetitive in international market, and any further increase shall be devastating for the textile industry.
 - 3.3.2 It was demanded that UFG losses be reduced, and visible progress be seen as huge amounts are being allowed for reduction in UFG losses.
 - 3.3.3 HR cost was vehemently objected by the interveners and concrete justification was sought for this consistent increase without any tangible results on account of reduction of UFG as well as governance. It was demanded to restructure the manpower strength and complete detail of salaries and perks of the employees be provided.
 - 3.3.4 KPK industry vehemently opposed the average cost of gas scenarios as submitted by the petitioner. It was highlighted that implementation of combined average cost of gas (natural gas and RLNG) is unconstitutional and against the provincial rights with respect to resources as provided under Article of 158 of Constitution of Pakistan. It was highlighted that any policy guidelines, if issued by FG, shall be challenged by KPK industry at all forums including international courts. It was further demanded that control of KPK gas must be under the provincial administration.
 - 3.3.5 It was pointed out that the petitioner incurring losses under their business while posing profit in its annual accounts, which is not comprehensible. Moreover, if the petitioner is in loss then its unbundling is necessitated and must be initiated at earliest.
 - 3.3.6 It was demanded that low pressure issues in KPK region must be resolved on priority. It was also demanded that actual pressure factor must be adopted while calculating bills. Meter monitoring must also be carried out regularly in KPK.

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3.3.7 It was requested to resolve/restore licencing issues of private companies on priority basis with the view to implement ease of doing business model in the country.

4. Authority's Jurisdiction and Determination Process

- 4.1. The Authority is obligated to determine the total revenue requirement of the licensee under Section 8(1) of the Ordinance for a particular year after going through the due process of law. This primarily involves scrutiny of the petition, in-depth analysis of the estimates, the examination of operating and capital items, issuances of the notices to receive the valuable input/comments of all stakeholders, the opportunity of a public hearing and then determination of the total revenue requirement as per mandate under the legal framework. The Authority further notes that it has been able to curtail the petitioner's uneconomical costs to a greater extent through the introduction of efficiency benchmark and effective scrutiny and diligence. Accordingly, the Authority decision surely strikes a balance among the divergent interests of all stakeholders. Total revenue requirement of the licensee determined by OGRA under Section 8(1) or 8(2) of the Ordinance is sent to FG to seek the advice regarding revision in sale price in respect of various categories of natural gas consumers.
- 4.2. Section 8(3) of the Ordinance empowers the FG to fix the consumer sale prices so as to ensure that revenue requirement determined by OGRA is fully met and advise OGRA the revision in gas sale prices and minimum charges in respect of natural gas retail consumers for notification in the official gazette.
- 4.3. The Authority, however, observes that during past, FG under Section 8(3) of the Ordinance had advised insufficient revisions to OGRA, resulting in accumulation of previous years' revenue shortfall in the total revenue requirement. The Authority, in the instant determination as well as previous decisions, has already referred matter of previous years' shortfall to FG for an appropriate policy decision.
- 4.4. The Authority reiterates its view that all the categories of consumers must at least pay the average cost of service, keeping in view the existing cost of alternative or substitute sources of energy. Resultantly, there shall be no situation of unmet revenue requirement. This shall provide a level playing field for all concerned and avoid the situation of revenue shortfall.
- 4.5. The Authority notes that the matter regarding non-utilization of excess capacity affecting liberalization of natural gas market, was discussed at length during public hearing. It was emphasized by the Authority that the petitioner needs to take all possible measures to facilitate smooth entry of third party shippers, so that additional volumes could be made available to consumers as to bridge the energy shortfall prevalent in the country. It was clearly communicated to the petitioner as well as its sister utility that Revenue Requirement shall be allowed to the extent of utilized capacity of the T&D network. Accordingly, the expenditure on unutilized capacity of pipeline shall not form part of revenue requirement as in all fairness and rationality. In the light thereof, the petitioner is advised to implement OGRA Gas (Third Party Access) Rules, 2018 by finalizing the long outstanding agreements/applications already pending with the petitioner.
- 4.6. Regarding the petitioner's submission of two pricing scenarios as explained in para 1.7 above, the Authority is of the view that in pursuance of the legal provision as provided in OGRA Ordinance 2002, amended from time to time, it requires policy guidelines on determination of tariff. OGRA, already through its various earlier decisions, as well as correspondence, had approached FG for issuance of much awaited policy guideline as provided under Section 7 and 21 of the Ordinance, enabling OGRA and the Sui companies to act accordingly. The Authority further, during public hearing held at Peshawar, has directed the petitioner to put up its case of different pricing scenarios and also take up the matter with the relevant forum through MoE for consideration by the Federal Government, in holistic manner keeping in view the entire legal position. OGRA has already communicated that inclusion of cost of RLNG or cost of RLNG volumes diverted to domestic gas consumer as a part of revenue requirement under section 8 of OGRA Ordinance, 2002, needs a careful review of MoE(PD) as this may have major implications on entire gas sector including market liberalization. The issue is not limited to tariff only but have also impact on overall energy position. Moreover, decision on matter of inclusion in natural gas revenue

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requirement, the diversion of RLNG molecules to domestic consumers and monthly RLNG pricing is with MoE(PD) since January, 2023 as per Federal Cabinet decision advising the Ministry to re-submit the case indicating financial implications. OGRA is cognizant of the fact that MoE(PD) has already initiated the consultation process upon the notification of amended Act, since May, 2022. Keeping in view above position, and policy guidelines from Federal Government, OGRA is proceeding for revenue requirement determination as per practice and guidelines in vogue.

- 4.7. Besides above, the petitioner has requested to reset the WACC at 21.13% based on the significant variation reported in base data of the related parameters. The petitioner has also requested to include impact of Supertax as imposed by FG to the tune of 4% on the persons whose income exceeds over Rs. 300 million effective FY 2022-23.
- 4.8. The Authority notes that there has been visible variation in the base data upto December, 2022 and it had already consented to consider in the current year's revenue requirement while disposing its decision of RERR for FY 2022-23. The Authority further notes that tariff regime for natural gas sector effective July, 2018 was introduced on identical basis/grounds after thorough consultative process. The Authority, however, notes that the petitioner's sister utility (i.e. SSGCL) has not claimed the super tax in its WACC computation, in its both petitions for FY 2021-22 & FY 2023-24. Since, both gas utilities are allowed WACC on similar basis, the petitioner is directed to submit a joint proposal in consultation with SSGC while also obtaining independent professional opinion from a reputable tax advisor.
- 4.9. Regarding petitioner's claim for revision of WACC on the basis of variation in other existing parameters, the Authority in the light of decision in RERR for FY 2022-23, resets WACC at 20.60% as per table below:

Particulars	Formula	Revised working
Risk Free Rate: Rf (Last 10 year Average of 20 year's PIB)	A	12.02
Market Return (15 year average PSX-KSE 100 Index)	B	11.37
Market Risk Premium	C=B-A	(0.65)
Market Risk Premium (Capped 11%, Floor 7%)	D	7.00
Beta Equity-Distribution	E	1.30
Cost of Equity (Re)	Re=Rf + beta x MRP	21.12
6 monthly Avg of last 12 months Kibor	F	14.68
Cost of Debt	Rd=F+2%	16.68
Tax rate (t)		0.29
WACC Pre Tax	{Re/(1-t) x 30%} + {Rd x 70%}	20.60
Note:		
i) Last 10 year Average of 20 year's PIB: Data Available from 01.01.2013 to 31.12.2022.		
ii) 15 year average PSX-KSE 100 Index: From FY 2008-09 to FY 2022-23 (Jul-22 to Dec-22)		
iii) 6 Monthly average of Kibor for the months of Jan-22 to Dec-22		

- 4.10. *Various income & expenditure heads have been included as part of the prescribed price in the light of latest tariff regime in field.*

5. Operating Fixed Assets

- 5.1. Summary of the additions in assets claimed by the petitioner in ERR FY 2023-24 is as follows;

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Sr. No.	Particulars	Petition ERR FY 2023-24 (Rs. in Million)											
		Distribution			Transmission			Sales			Total		
		Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total
1	Land freehold	—	—	—	30	—	30	—	—	—	30	—	30
2	Building on Freehold land	141	—	141	141	—	141	43	—	43	325	—	325
3	Transmission Mains	—	—	—	1995	—	1995	—	—	—	1995	—	1995
4	Compression	—	—	—	755	—	755	—	—	—	755	—	755
5	Distribution Mains	19495	1358	20853	—	—	—	—	—	—	19495	1358	20853
6	Measuring and Regulating	12777	457	13234	—	—	—	—	—	—	12777	457	13234
	Sub Total	32413	1815	34228	2921	—	2921	43	—	43	35377	1815	37192
7	Telecommunication Equipment	0.1	—	0.1	65	—	65	—	—	—	65	—	65
8	Plant & Machinery	604	—	604	497	—	497	96	—	96	1196	—	1196
9	Tools & Equipment	181	—	181	4	—	4	—	—	—	185	—	185
10	Construction Equipment	565	—	565	35	—	35	—	—	—	600	—	600
11	Motor Vehicles	106	—	106	50	—	50	—	—	—	156	—	156
12	Furniture & Fixture	52	—	52	5	—	5	5	—	5	62	—	62
13	Office Equipment	42	—	42	5	—	5	10	—	10	57	—	57
14	Computer Hardware	44	—	44	—	—	—	664	—	664	708	—	708
15	Computer System Software / Intangible Assets	8	—	8	9	—	9	219	—	219	236	—	236
	Sub Total	1602	—	1602	670	—	670	994	—	994	3266	—	3266
	Grand Total	34015	1815	35830	3591	—	3591	1037	—	1037	38643	1815	40458

5.2. Land Freehold:

- 5.2.1 The petitioner has projected Rs. 30 million in respect of land required for modification of SMSs at Chishtian, Vehari and Shedani Sharif as part of operational requirement and to meet current/ future load. The Authority, keeping in view the submissions of the petitioner and operational requirements, principally allows Rs. 30 million under the head for the said year.

5.3. Building on Freehold Land:

- 5.3.1 The petitioner has projected Rs. 325 million under the head out of which, Rs. 141 million has been projected against distribution activities, Rs. 141 million against transmission activities and Rs. 43 million against sales activities to meet companywide operational requirement. *Keeping in view the justifications provided by the petitioner and the ability of the petitioner to execute such jobs, the Authority provisionally allows Rs. 87 million in respect of regular capital expenditure relating to building on freehold land.*

5.4. Transmission Mains:

- 5.4.1 The petitioner has projected Rs. 1,995 million under the head as per following sub-head;

i. Cathodic Protection:

- 5.4.2 The petitioner has projected Rs. 630 million for installation of 53 Nos. of Cathodic Protection (CP) stations and renovation/ relocation of ground beds at 147 Nos. of CP stations. The petitioner has explained that currently a total of 1,912 CP stations have been installed i.e., 1,730 on its distribution and 182 on transmission network, whereas unit cost of construction of new CP station is Rs. 3.5 million while that of renovation is Rs. 3 million. The Authority notes that the petitioner has been able to renovate around 87 Nos. CP station and install 38 Nos. new CP station during the last five years. The Authority further observes that cathodic protection is important for 24/7 maintenance & mitigation process of underground pipeline against erosion and is an essential operational requirement. *The Authority, keeping in view the submissions of the petitioner and ability of petitioner to execute such projects, provisionally allows Rs. 398 million in respect of CP system for the said year.*

ii. Construction/ Upgradation/ Purchase of Land for SMSs:

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5.4.3 The petitioner has projected Rs. 555 million for construction/ upgradation/ purchase of land for SMSs. The petitioner has apprised that the budget is proposed for purchase of land/upgradation/ construction of SMSs in respect of ongoing/ new distribution development schemes and is essentially required for commissioning and capitalization of newly laid distribution network. The Authority notes that petitioner has not claimed any budget against laying of distribution main relating to new towns and villages during the said year. In this respect, the petitioner has explained that the Government of Pakistan (GoP) has recently relaxed moratorium against schemes approved during years 2013 to 2018 and SMSs would be required to commission the laid network of these schemes.

5.4.4 The Authority notes that the petitioner has been able to capitalize only Rs. 274 million in respect of construction of SMS during FY 2021-22 and budget amounting to Rs. 641 million has also remained unutilized in respect of previous years that further indicates that physical and financial capacity of company is not accounted for by the petitioner while projecting exaggerated figures at ERR stage. *In view of the foregoing and keeping in view the operational requirement, the Authority provisionally allows the projected amount in principle for construction of SMSs with specific directions to execute incomplete/ earlier approved tasks during the said year.*

iii. **Rehabilitation of Transmission System:**

5.4.5 The petitioner has projected Rs. 560 million under the head to carryout rehabilitation jobs such as lowering of lines, construction of retaining walls, civil protective works for protection etc., during the said year. *In view of submissions of the petitioner and keeping in view the actual performance of petitioner in previous years on this account, the Authority provisionally allows Rs. 225 million on account of rehabilitation of transmission system for the said year.*

iv. **Modification/ Upgradations of SMSs:**

5.4.6 The petitioner has claimed Rs. 250 million for jobs relating to modification/ upgradation of existing SMSs that include replacement of defective valves, upgradation of piping structure, upgradation of regulation facility etc. to cater peak load demands. *Keeping in view the operational requirement, the Authority provisionally allows the projected amount in principle for modification/ upgradation of SMSs during the said year.*

5.4.7 The summary of capitalization allowed by the Authority under the head is as under;

TRANSMISSION (Rs. In Millions)																									
No.	Description	Petition												Determined											
		Distribution			Transmission			Sales			Total			Distribution			Transmission			Sales			Total		
		Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total			
1	Cathodic Protection System (CP System)	-	-	-	630	-	630	-	-	-	630	-	630	-	-	-	398	-	398	-	-	-	398	-	398
2	Construction / Upgradation / Purchase of Land for SMS	-	-	-	555	-	555	-	-	-	555	-	555	-	-	-	-	-	-	-	-	-	-	-	-
3	Rehabilitation of Transmission System	-	-	-	560	-	560	-	-	-	560	-	560	-	-	-	225	-	225	-	-	-	225	-	225
4	Modification/ upgradations of SMSs etc.	-	-	-	250	-	250	-	-	-	250	-	250	-	-	-	-	-	-	-	-	-	-	-	-
	Total	-	-	-	1995	-	1995	-	-	-	1995	-	1995	-	-	-	623	-	623	-	-	-	623	-	623

5.5. **Compression:**

5.5.1 The petitioner in respect of transmission activities has projected an amount of Rs. 755 million for compression equipment for the said year as per following sub-heads.

i. **Compression Equipment Regular Capital Expenditure:**

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5.5.2 The petitioner has projected Rs. 70 million in respect of compression equipment under regular expenditure. The petitioner has submitted that major expenditure involves procurement of heat exchanger for AC-1X and upgradation of emergency shutdown system at AC-8 which are required for reliable and safe operation. *Keeping in view the justification provided by the petitioner and operational requirement, the Authority provisionally allows regular capital expenditure of Rs. 70 million in respect of compression equipment.*

ii. **Compression Overhaul Project FY 2021-26:**

5.5.3 The Petitioner has projected Rs. 685 million for third tranche in respect of compression overhauling project to be executed during FY 2021-22 to FY 2025-26. It has been apprised that the project has been approved in principle at the time of DERR FY 2022-23.

5.5.4 The Authority notes that compressor overhaul projects are significant to maintain system balance especially under the prevailing situation of gas demand & supply gap throughout the country and supplies of RLNG from southern sources. *Keeping in view the justification provided by the petitioner, the Authority provisionally approves 685 million for the third year of compressor overhaul project (2021-26) in principle and any expenditure in this respect shall be considered for capitalization at the time of FRR provided the same is as per ERR petition.*

5.6. **Distribution Development:**

5.6.1 The petitioner has projected Rs. 20,853 million in respect of distribution development as per following sub-heads;

i. **Laying of Distribution Mains:**

5.6.2 The petitioner has projected Rs. 11,375 million for laying of 1,180 KMs of distribution lines as per details given below;

Breakup of Distribution Lines				
Head	KMs	Cost (Rs. In Million)		
		Normal	RLNG	Total
Combing Mains	300	1,100		1,100
Cost Recovery Jobs	630	4,300	800	5,100
Augmentaion/ HO	250	5,175		5,175
Total	1,180	10,575	800	11,375

5.6.3 The petitioner has not projected any budget against anticipated schemes during the said year. Moreover, the petitioner in respect of combing mains and system augmentation/ HO reserves has stated that the budget is essentially required for removal of anomalies and rectification of low-pressure issues to meet the operational requirement. The petitioner has further added that budget against cost recovery is required for supply of gas to private housing societies, cases pertaining to armed forces / judiciary / government institutions and industrial / commercial consumers.

5.6.4 *The Authority, keeping in view the trend analysis of capitalization over the past years and with no cut on kilometers of lines claimed by the petitioner allows Rs. 452 million against 300 kms of combing mains and Rs. 1,155 million against 250 kms to be laid against augmentation/ head office reserves subject to compliance of conditions as per framework devised by the Authority vide DERR 2021-22 (Para 5.17.6).*

5.6.5 *However, in respect of distribution mains relating to cost recovery jobs, the Authority allows Rs. 5,100 million as projected by the petitioner with directions to ensure compliance*



of conditions as per framework devised by the Authority vide DERR 2021-22 (Para 5.17.6). Moreover, the petitioner shall not be entitled to rate of return on the said capitalization and the amount allowed against RLNG shall also be treated under RLNG ring fenced mechanism.

ii. **System Rehabilitation:**

5.6.6 The petitioner has projected Rs. 8,000 million for replacement of 2,136 kms of gas mains in respect of system rehabilitation. The petitioner has stated that gas leakages are one of the important UFG contributing factors and the budget is essentially required to control gas leakages through replacement of leaking underground network. The Authority notes that the petitioner has been able to rehabilitate at an average of around 728 Km gas mains during last five years, that further shows that the targets projected during the said year are exaggerated when compared with actualization trend. *The Authority, keeping in view the capacity of petitioner for executing such jobs and budget already available with the petitioner, provisionally allows Rs. 1,672 million under the head.*

iii. **Service Lines for New Connections:**

5.6.7 The petitioner has projected Rs. 558 million for installation of 2,800 commercial & 250 industrial connections under RLNG ring fenced mechanism. *In view of the foregoing, the Authority provisionally allows Rs. 558 million in respect of service lines for new industrial/commercial connections and this amount is ring fenced as per the policy of the GoP regarding RLNG/ ECC decision.*

iv. **UFG Control Activities:**

5.6.8 The petitioner has projected Rs. 920 million for rectification and identification of underground leakages. The projected amount includes Rs. 660 million for leakage rectification of 50,000 Km of underground gas mains and Rs. 260 million for underground leakage identification of 48,776 km of gas mains through laser leak detection equipment.

5.6.9 The Authority observes that identification/ rectification of underground leakages is an important activity to control gas losses and is an essential operational responsibility of the petitioner. Moreover, the Authority further notes that the petitioner has been able to rectify around 32,000 Kms of gas mains and surveyed 29,000 Km of gas mains during last five years against leakages, that further shows that the targets projected during the said year are exaggerated when compared with actualization trend. *In view of the operational requirement and keeping in view past performance of the petitioner, the Authority provisionally allows Rs. 570 million under the head of UFG control activities for the said year.*

5.6.10 The summary of capitalization allowed by the Authority under the head is as follows;



DISTRIBUTION DEVELOPMENT (Rs. In Millions)																									
No.	Description	Petition												Determined											
		Distribution			Transmission			Sales			Total			Distribution			Transmission			Sales			Total		
		Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total			
1	Laying of Distribution Mains (Combining Mains)	1100	-	1100	-	-	-	-	-	1100	-	1100	452	-	452	-	-	-	-	452	-	452			
2	Laying of Distribution Mains (Cost Sharing Basis)	4300	800	5100	-	-	-	-	-	4300	800	5100	4300	800	5100	-	-	-	-	4300	800	5100			
3	Laying of Distribution Mains (System Augmentation/ RLC)	5175	-	5175	-	-	-	-	-	5175	-	5175	1155	-	1155	-	-	-	-	1155	-	1155			
4	System Rehabilitation	8000	-	8000	-	-	-	-	-	8000	-	8000	1672	-	1672	-	-	-	-	1672	-	1672			
5	Service Lines Industrial/commercial (Ring Fenced)	-	558	558	-	-	-	-	-	-	558	558	-	558	558	-	-	-	-	-	558	558			
6	Underground Leakage Rectification	660	-	660	-	-	-	-	-	660	-	660	-	-	-	-	-	-	-	-	-	-			
7	Underground Leakage Identification (Laser Leak)	260	-	260	-	-	-	-	-	260	-	260	570	-	570	-	-	-	-	570	-	570			
	Grand Total	19495	1358	20853	-	-	-	-	-	19495	1358	20853	8156	1358	9508	-	-	-	-	8156	1358	9508			

5.7 Measuring & Regulating:

5.7.1 The petitioner has projected Rs. 13,234 million under Measuring & Regulating as per following sub-heads;

i. Installation of New Connections:

5.7.2 The petitioner has projected Rs. 457 million for installation of 2,800 commercial and 250 industrial connections under ring-fenced mechanism. *The Authority provisionally allows the projection of the petitioner subject to compliance of framework devised by the Authority vide DERR 2021-22 (Para 5.17.6) under ring-fenced mechanism.*

ii. Construction of TBSs and DRs:

5.7.3 The petitioner has projected Rs. 750 million for construction/ modification of TBSs/ DRs in respect of 235 jobs to meet operational requirements such as system augmentation/ upgradation of existing infrastructure. The petitioner has further added that GoP has recently relaxed moratorium against schemes approved during years 2013 to 2018 and TBSs / DRs would also be required to commission the laid network of these schemes.

5.7.4 The petitioner in respect of unutilized expenditure of Rs. 2,067 million relating to previous years has stated that budget has already been sanctioned for various works, which are in progress and will be completed in due course of time. The petitioner has highlighted operational constraints such as non-responsive tendering process, re-floatation of tenders and delay in delivery/commissioning/ testing time etc. as reasons for delay.

5.7.5 The Authority, notes that installation of TBS is essential for commissioning of already laid network and to address low pressure problem under the prevailing energy crises in the country. *Keeping in view the operational requirement, the Authority allows in principle the construction/ modification of TBS/ DRS and actual expense incurred will be considered at the time of FRR for the said year provided the same is within the amount per ERR petition. The Authority further directs the petitioner to execute incomplete/ earlier approved jobs in respect of previous years on priority.*

iii. Replacement of Old Meters:

5.7.6 The petitioner has projected Rs. 6,250 million for replacement of 1,207,475 defective/undersized/ old meters (Industrial/ Commercial/ Domestic). The petitioner plans to replace 1,200,000 domestic, 6,700 commercial and 775 industrial meters along with 3,500 electronic volume correctors (EVCs) during the said year.

5.7.7 The Authority observes that the per unit cost project by the petitioner during the said year is on the higher side when compared with cost actually incurred in previous years. The petitioner

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in this respect has clarified that per unit cost has been projected while considering high fluctuation in exchange rate and increase in raw material/overheads.

- 5.7.8 The Authority notes that under the provisions of OGRA Natural Gas Measurement (Technical Standards) Regulations, 2019, the periodic accuracy of gas meter is to be checked at least once in 15 years in case of domestic consumers, at least once in 5 years in case of commercial consumers and once in two years in case of industrial consumers. Moreover, the activity is essential for ensuring measurement accuracy and detection of gas theft cases through replacement of suspected, tampered, defective and scheduled replacement of meters.
- 5.7.9 *In view of the above and considering the importance of UFG, the Authority provisionally allows Rs. 2,742 million in respect of replacement of old meters for the said year. Furthermore, the Authority expects that this exercise of replacement of meter shall lead to correct billing and there shall be reduction in UFG.*

iv. TBSs Installation on Operational Grounds:

- 5.7.10 The petitioner has projected Rs. 80 million for installation of TBSs to meet its operational requirement. The Authority observes that the installation of TBS/ DRS has already been discussed under the respective head of construction of TBS. *In view of the foregoing, the Authority, does not allow any amount in respect of installation of TBSs on operational grounds.*

v. Installation of Meters at TBSs:

- 5.7.11 The petitioner has projected Rs. 5,697 million for installation of meters at town border stations (TBSs). The petitioner has apprised that project for installation of meters at all TBSs is being executed in pursuance of the PM Office and accordingly, a roadmap for installation of meters on TBSs has been approved by the Board of Directors (BOD) of petitioner for which the Authority's approval is being sought.
- 5.7.12 The petitioner has submitted that there are two types of TBSs on their network i.e., isolated and looped. Earlier, a project for installation of measurement facility to the extent of isolated TBSs only had been approved by the Authority in DERR FY 2021-22. However, as per the directives of PM office, the project of installation of meters at all TBSs has been approved by BOD and the balance amount available out of Rs. 3,345 million, previously approved by OGRA has been included in the projected budget. The petitioner has explained that there are around 5,586 TBSs at distribution network, out of which 1,274 isolated TBSs are monitored however, in respect of looped TBSs, isolation of downstream distribution network is required for which segmentation of looped SMS clusters is in progress.
- 5.7.13 The petitioner has apprised that implementation plan has been divided in two phases, completion of Phase-1 has been planned on or before June-2023 and that of Phase-2 is on or before December-2023. It has been submitted that phase-1 encompasses installation of meters at TBSs in Peshawar, Mardan, Lahore, Islamabad and Rawalpindi as collective losses of these cities in FY 2021-22 makeup 37% of total losses. Moreover, a total of 902 number of meters have been planned to be installed in these cities while dividing phase-1 into two tasks; i.e., Task-1 involves relocation of existing meters (around 700) at scattered locations across SNGPL network to aforementioned cities and Task-2 involves procurement of 451 meters. Whereas, remaining 251 meters are planned to be installed in Faisalabad, Multan, Gujranwala etc.
- 5.7.14 The petitioner has further added that in Phase-2, installation of meters at remaining TBSs i.e., 4,458 (5,732-1,274) will be carried out, the target for completion of the same has been set as December, 2023 however it is highly dependent upon number of factors inter-alia opening of LCs and timely delivery of material.

- 5.7.15 The petitioner has further highlighted that it is not expected that installation of meters will immediately result in reduction of UFG, however, it is believed that installation of meters is the best approach to improve network visibility providing a focused tool to control/ manage gas losses. The petitioner further states that in order to achieve UFG reduction after meter installation, various UFG control activities will have to be carried out regularly.
- 5.7.16 The petitioner has further apprised that the project cost is exclusive of markup capitalization and HR and related cost including operational cost for distribution regions for this new activity will be brought separately. The petitioner further plans to enhance the capacity of metering workshops to cater for the additional load of around 5,600 meters annually.
- 5.7.17 *Keeping in view the operational requirement and justification provided by the petitioner, the Authority while principally approving the project allows 25 % of the projected amount i.e., Rs. 1,424 million in the rate base. However, any prudent expenditure shall be considered at the time of FRR provided the same is within the amount per ERR petition.*
- 5.7.18 The summary of capitalization allowed by the Authority under the head is as follows;

MEASURING & REGULATING (Rs. In Millions)																									
No.	Description	Petition												Determined											
		Distribution			Transmission			Sales			Total			Distribution			Transmission			Sales			Total		
		Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total			
1	Industrial/ Commercial Connections CMS (Ring Feeder)	-	457	457	-	-	-	-	-	-	-	-	457	457	-	457	457	-	-	-	-	-	457	457	
2	Construction of TBSs/TBSs (ZSS)	750	-	750	-	-	-	-	-	-	-	-	750	-	750	-	-	-	-	-	-	-	-	-	
3	Replacement of Old Meters (1,207,475)	6250	-	6250	-	-	-	-	-	-	-	-	6250	-	6250	2742	-	2742	-	-	-	-	-	2742	
4	Installation of TBS on Operational Grounds	80	-	80	-	-	-	-	-	-	-	-	80	-	80	-	-	-	-	-	-	-	-	-	
5	Installation of Meters at TBSs	5697	-	5697	-	-	-	-	-	-	-	-	5697	-	5697	1424	-	1424	-	-	-	-	-	1424	
	Grand Total	12771	457	13224	-	-	-	-	-	-	-	-	12771	457	13224	4166	457	4623	-	-	-	-	-	4166	

5.8 Regional Office at Karak (Distribution Business Head):

- 5.8.1 The petitioner has submitted that in order to ensure effective presence in oil & gas producing areas for creating deterrence to avoid recurrence of illegal taps & illegal networks/ connections and to facilitate consumers, the request for establishment of regional office at Karak and upgradation of CSCs at Bannu & Hangu to sub area office is again requested for approval of the Authority as per following details:

Rs. in Million	
Description	Office at Karak
Telecommunication equipment	0.10
Plant and machinery	10
Tools and equipment	0.35
Motor vehicles	6
Furniture and fixture	12
Office equipment	7
Computer hardware	14
Sub Total	49

- 5.8.2 The Authority vide its decision on ERR of FY 2021-22 had allowed in principle the capital budget amounting to Rs. 103 million for up-gradation of Karak Office only instead of establishment of regional office at Karak. The petitioner while reiterating its earlier stance/ efforts has again requested the Authority for establishment of regional office at Karak alongwith up-gradation of Customer Service Centres (CSCs) at Bannu and Hangu.
- 5.8.3 The Authority observes that the petitioner has been advancing similar justifications since many years in respect of establishment of regional office at Karak alongwith creation of sub-

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areas at Hangu & Bannu and has not given any new tangible justification for reconsideration of its request while totally ignoring to address the concerns raised by the Authority in this case. *In view of the foregoing, the Authority maintains its earlier decision in this respect and directs the petitioner to reinforce its existing setup to facilitate the consumers. Keeping in view of the above, the Authority decides to disallow Rs. 229 million for the said year.*

i. Green Office Initiative/ Solarization of Company Premises:

5.8.4 The petitioner has projected Rs. 356 million in respect of installation of solar systems at its various offices with estimated potential of around 1370 KW. The petitioner has apprised that pursuant to directions of the GoP regarding solarization of public sector buildings on own cost model, following ten potential sites have been identified for installation of solar system to reduce reliance on purchase of electricity and further to conserve energy.

Sr No.	Sites	City	Estimated Solar System Potential (KW)	Estimated Installation Cost Rs. Million	Estimated Annual Savings Rs. Million
1.	Central Meter Shop	Lahore	250	65	12.81
2.	Manga Store/ Workshop	Lahore	150	39	7.71
3.	SMS-II Transmission	Lahore	50	13	2.60
4.	SNGPL Regional Office	Gujranwala	70	18	4.21
5.	SNGPL Regional Office	Faisalabad	100	26	6.12
6.	Transmission Office	Faisalabad	200	52	10.17
7.	SNGPL Regional Office	Multan	200	52	11.14
8.	Transmission Office	Multan	200	52	10.76
9.	Transmission Office	Wah	100	26	5.18
10.	SNGPL Regional Office	Abbottabad	50	13	1.76
Total			1,370	356	72.50

5.8.5 The petitioner while providing BOD approval of the said project has added that installation of solar panels will have estimated potential to generate 1370 KWH of power that will save electricity bill by Rs. 72.50 million. *The Authority keeping in view the potential benefits of the project allows the project in principle.*

5.9 Plant & Machinery, Equipment and Other Assets:

5.9.1 The petitioner in respect of plant & machinery, equipment & other assets has projected Rs. 3,266 million that includes Rs. 1,602 million for distribution, Rs. 670 million for transmission and Rs. 994 million relating to sales activities respectively, as per following sub-heads;

i. Telecommunication Equipment:

5.9.2 The petitioner has projected Rs. 65.4 million for purchase of telecommunication equipment that also includes Rs. 0.1 million in respect of regional office at Karak. The projected amount mainly includes procurement of data radio links, video conferencing systems, network



expansion package etc. to meet operational requirement. The Authority observes that advanced and reliable telecommunication system is essential for effective control and security of transmission and distribution system. *Keeping in view the operational requirement for day-to-day activities, the Authority provisionally allows Rs. 65.3 million in respect of regular expenditure of telecommunication equipment as projected by the petitioner. However, as discussed earlier under the respective head, expenditure relevant to regional office at Karak is not allowed.*

ii. Plant & Machinery:

5.9.3 The petitioner has projected Rs. 1,196 million in respect of plant and machinery that includes Rs. 356 million for Green Office Initiative/ Solarization project and Rs. 10 million for Regional office Karak respectively.

5.9.4 The petitioner in respect of regular budget of Rs. 830 million has projected Rs. 381 million for distribution, Rs. 354 million against transmission and Rs. 96 million against sales activities respectively. The projected amount relates to purchase of power plant equipment, CP Equipment, firefighting equipment, metering equipment, electrical equipment, workshop plant equipment and testing/ survey equipment etc. *The Authority keeping in view the need assessment of the equipment required for day-to-day activities and ability of the petitioner to execute such jobs provisionally allows regular budget of Rs. 344 million in respect of plant and machinery for the said year.*

5.9.5 *In addition to above and as discussed under the respective heads, the Authority principally allows capital expenditure of Rs. 356 million in respect of Green Office initiative/ solarization project, however, no amount is allowed in respect of regional office at Karak.*

iii. Tools and Equipment:

5.9.6 The petitioner has projected Rs. 185 million for procurement of different tools and equipment such as drill machines, grinders, welder's equipment, fitter's equipment etc. to meet operational requirement. The petitioner out of the total amount has projected Rs. 181 million including Rs. 0.35 million for regional office at Karak against distribution activities and Rs. 4 million against transmission activities. *The Authority, keeping in view the operational requirement and capitalization trends provisionally allows Rs. 28 million under the head for the said year. However, as discussed earlier under the respective head, expenditure relevant to regional office at Karak is not allowed.*

iv. Construction Equipment:

5.9.7 The petitioner has projected Rs. 600 million for procurement of different construction equipment such as excavators, crane trucks, drilling and stopping machines, air compressors, portable gensets, dewatering pumps, jack hammers etc. to meet operational requirement. The petitioner out of the total amount has projected Rs. 565 million against distribution and Rs. 35 million against transmission activities respectively. *The Authority, keeping in view the operational requirement and capitalization trend provisionally allows Rs. 217 million under the head for the said year.*

v. Motor Vehicles:

5.9.8 The petitioner has projected Rs. 156 million under the head. The petitioner in respect of regular budget of motor vehicles has projected Rs. 150 million against distribution activity and Rs. 50 million relating to transmission respectively. In addition, Rs. 6 million has been projected in respect of motor vehicles required for Regional office at Karak. The petitioner has explained that that budget under the head has been mainly proposed for procurement of operations vehicles/ motorcycles required for routine operations of the company and for



procurement of vehicles being allocated to the executives of the company as per their service agreements with the organization.

- 5.9.9 The petitioner while highlighting the measures to minimize the expenditure under the head has apprised that vehicle need assessment was carried out in 2019 and accordingly, number of operational vehicles of each department have been capped whereas, replacement will only be allowed against scarping of an existing vehicles.
- 5.9.10 The Authority notes that petitioner is a public service company whose costs/ expenditures are picked/ borne by the consumers/ public. Accordingly, the Authority is of the considered view that the burden of fulfilling the contractual obligations of the petitioner under the head may not be passed onto consumers. Furthermore, in view of the austerity measures being observed *the Authority curtails the projected amount to Rs. 75 million and allows the same in principle to the extent of operational vehicles only. However, as discussed earlier under the respective head, expenditure relevant to regional office at Karak is not allowed.*

vi. Furniture and Fixture:

- 5.9.11 The petitioner has projected Rs. 62 million under the head, out of which Rs. 52 million (including Rs. 12 million for Karak office) pertains to distribution activities and Rs. 5 million each for transmission & sales activities respectively. The petitioner has submitted that the projections have been made to meet companywide operational requirements. *The Authority keeping in view the operational requirement provisionally allows Rs. 50 million in respect of regular budget of furniture and fixture for the said year. However, as discussed earlier under the respective head, expenditure relevant to regional office at Karak is not allowed.*

vii. Office / Security equipment:

- 5.9.12 The petitioner has projected Rs. 57 million under the head out of which Rs. 42 million (including Rs. 7 million for Karak office) is in respect of distribution activity, Rs. 5 million for transmission activity and Rs. 10 million for sales activity respectively. The petitioner has submitted that the projected amount is required for procurement of video surveillance system for repeater system, barcode & RFIG reader/ writer, still photography camera etc. and to meet companywide operational requirements. *In view of foregoing, the Authority keeping in view the operational requirement provisionally allows Rs. 50 million in respect of regular budget for the said year. However, as discussed earlier under the respective head, expenditure relevant to regional office at Karak is not allowed.*

viii. Computer Hardware:

- 5.9.13 The petitioner has projected Rs. 708 million under the head out of which Rs. 44 million (including Rs. 14 million for Karak office) is in respect of distribution business activity and Rs. 664 million for sales activity respectively. The petitioner in respect of regular budget has projected Rs. 250 million for meeting companywide operational requirements i.e., purchase of PCs, UPS, Laptop, Printer, Scanners etc. whereas remaining amount has been projected for procurement of hand-held units, high-end enterprise server and other hardware related equipment. *Keeping in view the past trends, the Authority provisionally allows Rs. 235 million in respect of regular budget of computer hardware for the said year. However, as discussed earlier under the respective head, expenditure relevant to regional office at Karak is not allowed.*

ix. Computer Software:

- 5.9.14 The petitioner has projected Rs. 231 million under the head out of which Rs. 8 million is in respect of distribution activity, Rs. 4 million for transmission activity and Rs. 219 million for sales activity. Major amount projected under regular budget relates to IBM spectrum protect



license upgrade, Microsoft office licenses, CC&B consumers licences, and Oracle technology licenses etc. *Keeping in view the operational requirement and past trends, the Authority provisionally allows Rs. 143 million in respect of computer software/ intangible assets for the said year.*

5.9.15 The details of additions in plant, machinery & equipment and other assets allowed by the Authority are tabulated below

		DETAILS OF PLANT, MACHINERY, EQUIPMENT AND OTHER ASSETS (Rs. In Millions)																								
No.	Description	Petition												Determined												
		Distribution			Transmission			Sales			Total			Distribution			Transmission			Sales			Total			
		Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	
1	Telecommunication Equipment	0	-	0	65	-	65	-	-	65	-	65	-	65	-	65	-	65	-	65	-	65	-	65	-	65
2	Plant & Machinery	604	-	604	497	-	497	96	-	96	1196	-	1196	158	-	158	347	-	347	40	-	40	344	-	344	
3	Tools & Equipment	181	-	181	4	-	4	-	-	-	185	-	185	27	-	27	1	-	1	-	-	-	28	-	28	
4	Construction Equipment	565	-	565	35	-	35	-	-	-	600	-	600	285	-	285	13	-	13	-	-	-	217	-	217	
5	Motor Vehicles	106	-	106	50	-	50	-	-	-	156	-	156	-	-	-	-	-	-	-	-	-	-	-	-	
6	Furniture & Fixture	52	-	52	5	-	5	5	-	5	62	-	62	40	-	40	5	-	5	5	-	5	50	-	50	
7	Office Equipment	42	-	42	5	-	5	10	-	10	57	-	57	35	-	35	5	-	5	10	-	10	50	-	50	
8	Computer Hardware	44	-	44	-	-	-	664	-	664	708	-	708	10	-	10	-	-	-	225	-	225	235	-	235	
9	Computer System Software / Intangible Assets	8	-	8	9	-	9	219	-	219	236	-	236	5	-	5	2	-	2	135	-	135	143	-	143	
	Grand Total	1602	-	1602	670	-	670	994	-	994	3266	-	3266	480	-	480	230	-	230	415	-	415	1132	-	1132	

5.10 Summary of asset additions allowed by the Authority is as under;

Sr. No.	Particulars	Rs. in Million					
		Petition			Determined		
		Normal	RLNG	Total	Normal	RLNG	Total
1	Land freehold	30	-	30	-	-	-
2	Building on Freehold land	325	-	325	87	-	87
3	Transmission Mains	1995	-	1995	623	-	623
4	Compression	755	-	755	70	-	70
5	Distribution Mains	19495	1358	20853	8150	1358	9508
6	Measuring and Regulating	12777	457	13234	4166	457	4623
	Sub Total	35377	1815	37192	13097	1815	14912
7	Telecommunication Equipment	65	-	65	65	-	65
8	Plant & Machinery	1196	-	1196	344	-	344
9	Tools & Equipment	185	-	185	28	-	28
10	Construction Equipment	600	-	600	217	-	217
11	Motor Vehicles	156	-	156	-	-	-
12	Furniture & Fixture	62	-	62	50	-	50
13	Office Equipment	57	-	57	50	-	50
14	Computer Hardware	708	-	708	235	-	235
15	Computer System Software / Intangible Assets	236	-	236	143	-	143
	Sub Total	3266	-	3266	1132	-	1132
	Grand Total	38643	1815	40458	14228	1815	16044

5.11 It may be noted that apart from the amount being allowed as in above table, several projects have been allowed in principle (amounting to Rs. 2,701 million) subject to capitalization in respective FRRs detail of which has been discussed above.

5.12 Revalidation of Carry Forward Budgets:

5.12.1 The petitioner has submitted following budget to the Authority for revalidation in FY 2023-24;



Rs. in Million

Sr. No.	Description	Amount (Rs. Million)	Expected Completions		
			FY 2022-23	FY 2023-24	FY 2024-25
1	Special Projects	57,106	8,544	46,327	2,235
2.	Distribution Development	44,167	16,000	28,640	
3.	Regular Capital Expenditure	4,678	2,000	2,205	
Total		105,951	26,544	77,172	2,235

- 5.12.2 The petitioner has stated that most of the special projects are in execution, but owing to slow economic activities and import of materials, the execution is delayed. The petitioner has stated that utmost efforts are being undertaken to complete these projects at the earliest for tentative completion of these in last half of FY 2022-23 or 1st quarter of FY 2023-24. Accordingly, the petitioner has requested the Authority to the extent of revalidation of these projects in FY 2023-24 for completion of financial aspects.
- 5.12.3 The Authority also notes that the petitioner has tendency of executing multiple projects in parallel leaving jobs unattended that also adversely affect the integrity of the asset due to corrosion etc. Moreover, the Authority has always stressed that work once started should not remain unattended and should be completed on priority. Moreover, the petitioner should always account for its financial / physical capability while projecting exaggerated figures at ERR stage.
- 5.12.4 The Authority observes that as per the execution plan, Rs. 77,172 million of assets are expected to be completed during the said year. *In view of the foregoing, the Authority revalidates the amount of Rs. 77,172 million in principle i.e. against the assets expected to be completed during the said year. Moreover, while executing distribution mains/ projects, compliance of framework devised by the Authority vide DERR FY 2021-22 (Para 5.17.6) is required to be ensured.*

5.13 Depreciation and ROA

- 5.13.1 *Keeping in view of above, the Authority decides to allow depreciation Rs. 19,108 million for the said year. Consequently, ROA is also computed Rs. 19,194 million based on net average operating assets for the said year. Moreover, based on the above decision on fixed assets, the petitioner subsidy claims against LPG air-mix project amounting Rs. 677 million has been disallowed for the said year.*

6. Operating Revenues

i. Sales Volume

- 6.1. The petitioner has submitted that sale volume for the said year has been projected at 350,670 BBTU, including estimated diversion of 61,312 BBTU RLNG volumes to domestic gas sector, as against 302,968 BBTU per RERR for FY 2022-23, thereby projecting an increase by 16% in the sales volume for the said year. Category-wise comparison with previous years has been provided as under:

Table 5: Comparison of Projected Gas Sales Volume with Previous Years

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Category	BBTU					
	FY 2019-20 FRR	FY 2020-21 FRR	2021-22 FRR	FY 2022-23 RERR	FY 2023-24 The Petition	Incr/(Decr) over RERR
Domestic	209,969	204,235	204,039	161,524	225,872	64,348 40%
Bulk Domestic	13,767	12,691	12,703	13,204	13,900	696 5%
Fertilizer (Fuel & Feed)	31,782	32,033	29,361	34,578	33,341	(1,237) -4%
Power including IPPs	23,957	20,335	20,931	31,763	33,445	1,682 5%
Commercial	13,138	12,343	11,235	15,342	6,253	(9,089) -59%
Gen. Industry	9,141	8,954	8,957	6,611	5,853	(758) -11%
CNG	21,906	19,205	18,408	17,490	14,631	(2,859) -16%
Zero Rated	21,095	26,256	24,094	19,303	12,437	(6,866) -36%
Cement	139	105	63	35	1,829	1,794 5126%
Sp. Commercial	2,937	2,888	3,087	3,118		(9) 0%
Grand Total	347,771	339,045	332,878	302,968	350,670	47,702 16%

- 6.2. The petitioner has explained that gas sales volumes have been envisaged based on projections by E&P companies' gas productions. The petitioner has stated that power sector allocation increase is based on contractual loads of dedicated supplies to power plants. Regarding 40% increase of gas sales volume over RERR FY 2022-23 in case of domestic sector, the petitioner has informed that RLNG shall be sold to domestic sector as per earlier FG's decision. The petitioner has also not included these volumes as part of UFG computations claiming that no gas loss is being incurred while transporting RLNG into distribution system, which is contradictory to its position otherwise taken at various forums. Regarding allocation to the rest of the consumers, major projection has been made based on available supplies as per GoP policy under gas load management plan.
- 6.3. The Authority notes that the matter in respect of inclusion of estimated RLNG volumes was discussed in DERR / RERR for FY 2022-23 and the same was referred to Ministry of Energy, MoE (PD) for formulation of comprehensive policy after consulting all stakeholders, in the light of latest amendments in OGRA Ordinance, 2002. The Authority further notes that MoE (PD) has submitted its draft summary with Economic Coordination Committee (ECC) on January 03, 2023 for issuance of policy guideline to OGRA under Section 21 of the OGRA Ordinance, 2002 in respect of RLNG sale price under Section 43(b) of the Ordinance and inclusion of estimated RLNG diverted cost under Section 8 of the Ordinance, while determining annual revenue requirement. ECC/Federal Cabinet, however, has advised MoE(PD) to resubmit the case indicating financial implication against the above proposals. In the light thereof, the Authority decides to pend the matter in respect of inclusion of RLNG in revenue requirement calculations and shall review the same in the light of Federal Cabinet's decision.
- 6.4. *In view of the above, the Authority includes gas sale volumes at 289,358 BBTU on provisional basis for the said year.*
- ii. *Sales Revenue at Existing Prescribed Prices*
- 6.5. The petitioner has projected revenue at latest notified prices effective January, 2023 for the said year at Rs. 270,480 million as against Rs. 179,296 million allowed per RERR FY 2022-23. Category-wise comparison of sales revenue is given below:

Table 6: Comparison of Projected Sales Revenue with Previous Years

Category	Rs. in Million				Incr/Decr over RERR
	FY 2020-21 FRR	FY 2021-22 FRR	FY 2022-23 RERR	FY 2023-24 Petition	
Power including IPPs	18,815	23,027	36,834	61,617	24,783 67%
Fertilizer (Fuel & Feed)	5,783	5,746	7,245	11,644	4,399 61%
Cement	138	82	45	2,743	2,698 6055%
Gen. Industry	9,442	9,396	6,897	7,023	126 2%
CNG	26,125	25,237	23,964	26,410	2,446 10%
Commercial	18,133	16,889	21,859	12,467	(9,392) -43%
Domestic	65,066	63,603	55,288	112,656	57,368 104%
Bulk Domestic	10,084	-10,055	10,329	22,240	11,911 115%
Zero Rated	21,675	20,679	16,836	13,680	(3,156) -19%
Grand Total:	175,261	174,714	179,296	270,480	91,184 51%



- 6.6. The petitioner has submitted that gas sales revenue in respect of various categories of consumers is in accordance with the projected sales volume on the basis of justifications provided in para 6.2.
- 6.7. *In view of the decision taken at para 6.3, the Authority re-calculates gas sales revenues at Rs. 238,306 million for the said year.*

iii. **Other Operating Income**

- 6.8. The petitioner has projected "other operating income" at Rs. 17,929 million during the said year as against Rs. 17,768 million per in RERR for FY 2022-23, showing an increase of 1%. Comparison of projected other operating income with previous years is given below:

Table 7: Comparison of Projected Other Operating Income with Previous Year

Description	Rs. In Million					Incr/(Decr) over	
	FY 2020-21 FRR	FY 2021-22 FRR	FY 2022-23 RERR	FY 2023-24 The Petition	RERR		
Meter rental and service charges	3,694	4,116	4,320	4,416	96	2%	
Late payment surcharge and interest on arrears	6,847	4,795	7,549	7,549	-	0%	
Amorization of deferred credit	2,426	1,753	3,089	3,154	65	2%	
Transportation income	760	818	760	760	-	0%	
Other operating income	1,860	1,196	2,050	2,050	-	0%	
Net Operating Revenues	15,587	12,678	17,768	17,929	161	1%	

- 6.9. *In view of the above, the Authority provisionally accepts the other operating incomes at Rs. 17,929 million, being reasonably projected for the said year.*
- 6.10. *Keeping in view the above, total operating revenues are allowed at Rs. 256,235 million on provisional basis for the said year.*

7. Operating Expenses

i. **Cost of Gas Sold**

- 7.1. The petitioner has projected cost of gas sold for the said year at Rs. 398,071 million including financial impact of Rs. 47,291 million against diversion of RLNG volume of 61,312 BBTU to domestic consumers. The petitioner has claimed cost of gas, calculated on the basis of following assumptions/parameters:

Table 8: SNGPL's Average Cost of Gas Parameters

Applicable for Wellhead Gas Price	Average oil price for the period	Average C&F price		Exchange Rate
		Crude Oil	HSFO	
		US\$/BBL	US\$/M.TON	Rs. / US\$
July to December, 2023	December 2022 to May 2023	79.00	597.52	300.00
January to June, 2024	June 2023 to November, 2023	85.00	612.29	315.00
Average		82.00	604.91	307.50

- 7.2. The petitioner has stated that total projected cost of diverted RLNG volume is Rs. 252,046 million (calculated at US\$ 15.66/MMBTU @ Rs. 262.50/US\$), out of which partial cost of Rs. 47,291 million has been booked under cost of gas sold statement of system gas while the balance amount of Rs. 204,755 million has been claimed under RLNG cost of service, as per its previous practice.
- 7.3. The well-head gas prices on the basis of which cost of gas is determined are indexed to the international prices of crude oil or HSFO per GPAs between the GoP and the producers and are notified semi-annually, effective on 1st July and 1st January. The international average prices of crude and HSFO during the immediately preceding period of December to May are used as the basis for calculating the estimated well-head gas prices for the period July to December, and similarly estimated oil prices during the immediately preceding period of June to November are used to calculate the projected well-head gas prices for the period January to June.

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- 7.4. The Authority has reworked the parameters for computation of average cost of gas for the said year based on latest trend observed in the average prices of HSFO and Crude. Wellhead gas prices effective July to December, 2023 have been calculated on the basis of actual average prices of HSFO and Crude during the period December 01, 2022 to May 15, 2023. The same has been adopted for next six months i.e. January-June-2024, based on international price estimation. However, any adjustment based on actual international prices shall be reviewed / considered at the time of RERR for the said year. Therefore, keeping in view of the trend of international oil prices and prevalent US\$ currency exchange rate, revised parameters for computation of cost of gas at the petitioner system is as below:

Table 9: SNGPL Revised Average Cost of Gas parameters

Applicable for Wellhead Gas Price	Average oil price for the period	Average C&F price		Exchange Rate
		Crude Oil	HSFO	
		US\$/BBL	US\$/M.TON	Rs. / US\$
July to December, 2023	December 2022 to May 2023	81.16	381.87	290.00
January to June, 2024	June 2023 to November, 2023	81.16	381.87	290.00
Average		81.16	381.87	290.00

- 7.5. Regarding inclusion of RLNG diversion cost of Rs. 47,291 million as part of cost of gas sold, the Authority per its decision in para 6.3 decides to exclude the RLNG volumes & the corresponding cost, from the calculations of revenue requirement.
- 7.6. Based on above, the Authority provisionally determines cost of gas at Rs. 329,903 million excluding GIC based on average cost of indigenous gas at Rs. 984.40/MMCF for the said year. The petitioner is, however, directed to submit a review petition to the Authority latest by October 15, 2023 for review of its estimated revenue requirements as required under Section 8(2) of the Ordinance, keeping in view the actual and anticipated changes in international prices of crude and HSFO for rest of the period and the trend of Rupee – Dollar exchange rate.

ii. Unaccounted for Gas (UFG):

- 7.7. The petitioner has projected and requested UFG at 8.00% (26,999 MMCF) for the said year. The relevant components of UFG are discussed under following subhead:

A. Gas Internally Consumed (GIC) Indigenous System:

- 7.8. The petitioner has claimed GIC for the said year as per following detail;

Gas Internally Consumed					
Particulars	MMCF	GCV	MMBTU	Avg. Cost Price	M/ Rs.
Transmission System					
Compressors	1,579	939	14,82,947	1001	1,484.00
Coating Plant	92	939	86,333	1001	86
Residential Colonies	78	939	73,548	1001	74
Sub Total	1,749		16,42,827		1,644.00
Distribution System					
Free Gas Facility	527	939	4,94,735	1001	495
Co-Generation	86	939	80,956	1001	81
Sub Total	613		5,75,691		576
GIC Indigenous	2,362		22,18,518		2,221.00
					GIC as per Petition 1,484.00

- 7.9. The petitioner has allocated, 92 MMCF on account of 'Coating plant', 78 MMCF for 'Residential Colonies' and 527 MMCF from 'Free gas facilities', to the capitalization for the said year. The Authority in respect of compression and based on the historical trend provisionally calculates GIC for indigenous system at 1,123 MMCF against claimed volume of 1,579 MMCF which is subject to actualization at the time of respective FRR.
- 7.10. The gas consumed on account of free gas facility, residential colonies, co-generation and coating plant has to be booked under the relevant head i.e., HR cost & fuel and power.



B. Gas Internally Consumed (GIC) RLNG System:

- 7.11. The petitioner in respect of RLNG system has included 1,891 MMCF as GIC at SSGC system to compute the net RLNG received in Transmission system of the petitioner. The petitioner submitted that RLNG received at FSRU and enters into petitioner system after passing through the SSGC system, accordingly GIC @ 0.5% for SSGC system has been assumed to compute the net gas received in Transmission system of the petitioner. *However, the Authority based on the past trend of SSGC GIC w.r.t volume of RLNG received at SNGPL allows 1,760 MMCF provisionally.*
- 7.12. In respect of GIC in SGNPL system, the Authority in respect of compression and based on the historical trend provisionally calculates GIC at 3,591 MMCF against claimed volume of 4,516 MMCF in case of RLNG system which is subject to actualization at the time of respective FRR.

C. RLNG Retained by SSGCL for K-Electric:

- 7.13. The petitioner has also projected 27,450 MMCF @ 75 MMCFD on account of volume to be retained by SSGC for its sale to K-Electric during said year. The petitioner added that volume being retained by SSGC is as per advice of GoP enabling K-electric to produce electricity to mitigate the electricity load shedding in Karachi. *Keeping in view the operational requirement and justification provided by the petitioner, the same is being allowed on provisional basis subject to actualization at the time of FRR.*

D. PFC Sales Included in Distribution System:

- 7.14. The Authority notes that petitioner in the UFG sheet for the said year has accounted for gas sold to PFC consumers under distribution system whereas, the same was represented/ included as transmission sales previously by the petitioner. The petitioner in this respect has explained that since PFC consumers are located downstream of SMSs from where gas is handed over to distribution system, therefore, sales to PFC consumers have been included in the sale of distribution network.
- 7.15. The Authority is of the view that PFC consumers are given gas connection directly from transmission mains while installing SMS-cum-CMS, therefore the same should be made part of the transmission sales.

E. UFG Benchmark:

- 7.16. The Authority observes that the UFG benchmark was implemented for five (05) years with effect from FY 2017-18, based on the study conducted by M/s KPMG Taseer Hadi & Co. Chartered Accountants (KPMG) during 2016-17, where UFG benchmark was fixed at 5 % and 2.6 % allowance was built on account of local challenging conditions further linked to implementation/ progress of 30 Nos. KMIs. The local challenging conditions mainly included law & order situations & theft/ non-consumers issues. Therefore, the KMI were designed, in thorough consultation with Gas companies so as to devise a plan of action that is practically implementable and effective to control the reasons contributing toward UFG. Accordingly, multiple activities comprising rehabilitation, replacement, leak survey, segmentation, theft recoveries etc., formed a multi-pronged strategy covering all areas and aspects of utilities operations that could possibly help in reducing UFG. For the purpose, capital as well as operating expenditures were also allowed to the petitioner to undertake such jobs.
- 7.17. The Authority based on the length of network of sui companies and change in ground realities vide DERR 2022-23, started to apply separate UFG benchmarks for transmission and distribution system at 0.36 % & 6.25 % respectively, subject to certain conditions mentioned therein. The Authority further notes that the petitioner vide various meetings has requested

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for reinstatement of previous practice of consolidated UFG Benchmark for Transmission and Distribution networks. The petitioner has repeatedly highlighted that earlier prescribed practice by Authority allowed some cushion with regard to financial disallowance, however, the separate UFG benchmark for distribution network coupled with calculation of UFG disallowance @ national cost of gas will result in unbearable financial disallowance.

7.18. *In view of the foregoing, the Authority reiterates its earlier stance of DERR FY 2022-23 as well as RERR FY 2022-23 and provisionally allows 0.36% for Transmission network and 6.25% for Distribution network which is subject to revision based on the*

- i. *Findings of the UFG Audit determining actual UFG of gas companies in respect of indigenous as well as imported RLNG.*
- ii. *Policy guidelines from Federal Government in respect of recent amendment in OGRA Ordinance i.e., Oil and Gas Regulatory Authority (Amendment) Act, 2022 dated 3rd March, 2022.*

Table 10: UFG Sheet

UFG CALCULATION SHEET					
		ERR FY 2023-24		ERR FY 2023-24	
		As per petition		As Calculated	
Gas Purchases		Indigenous gas (UFG)	RLNG to be Supplied to Transmission and Distribution consumers	indigenous gas (UFG)	RLNG to be Supplied to Transmission and Distribution consumers
Transmission System					
(Gas Received) in Transmission Indigenous	A	337,492		337,492	
RLNG received at FSRU	B		408,750		408,750
Retainage	C		(3,066)		(3,066)
Retained by SSGC	D		(27,450)		(27,450)
GIC at SSGC System	E		(1,891)		
Net Gas Received in Trans. System of SNGPL	F=A+B+C+D+E	337,492	376,343	337,492	378,234
Gas used in operation of Tran. Sys	G	(1,749)	(4,516)	(1,294)	(3,591)
(i) Compression		(1,579)	(4,516)	(1,123)	(3,591)
(ii) Residential Colonies		(78)	-	(78)	-
(iii) Coating Plant		(92)	-	(92)	-
Gas Available in Transmission System	H=F+G	335,743	371,827	336,199	374,645
Gas sale on Transmission System (PFC Consumers)	I			87,002	175,897
Gas passed to Distribution system through SMS	J	334,528	370,472	247,526	194,575
Loss in Transmission System	K=H+I	1,215	1,355	1,671	4,171
% Loss or Gain in Transmission System	L=K/F*100	0.36%	0.36%	0.50%	1.10%
UFG Allowed (%)				0.36%	
Allowed UFG Volume (MMCF)				1215	
Invalid Claim (MMCF)				456	
Distribution System					
Gas Received in Dist. System (Through SMS)	I	334,528	370,472	247,526	194,575
Gas internally consumed in Distribution System (GIC)	M	(613)	-	(613)	-
(i) Free Gas Facility		(527)	-	(527)	-
(ii) Co-Generation		(86)	-	(86)	-
(Gas available for Sale in Dist. System)	N=J+M	333,915	370,472	246,913	194,575
Gas Sold					
Gas Delivered (Net Gas Sold incl PFC Sale)-(RLNG sales Inclusive Diversion)	O	309,130	355,085	221,129	179,198
Loss in Distribution System	P=N-O	25,784	15,377	25,784	15,377
% age Loss in Distribution System	Q=P/N*100	7.71%	4.15%		
Allowed UFG (%)				6.25%	
Allowed UFG (MMCF)				15,470	
Invalid Claim (MMCF)				10,314	
Total UFG Volume (Transmission + Distribution)	R=P+Q	26,999	16,732	27,455	19,548
Total % age UFG (Transmission + Distribution)	S=R/F*100	8.00%	4.45%		

7.19. In view of the above, the Authority, taking into account the revised cost of gas at the petitioner's system, calculates the GIC under compression at Rs. 1,105 million based on 1,123 MMCF (i.e.@ Rs. 984.40/MMCF) for the said year.

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7.20. In view of the computation as per above table, the Authority provisionally allows UFG adjustment at Rs. 10,076 million (Rs. 1,028.43/MMCF at national average cost of gas) for the said year.

8. Transmission and Distribution Cost (T&D)

8.1 The petitioner has claimed Rs. 48,314 million against T&D cost for the said year. The petitioner has allocated entire T&D cost of Rs. 48,314 million at 53% and 47% proportionately against projected sale volume of Natural Gas and RLNG respectively. Comparison of T&D with previous years is as under:

Table 11: Comparison of Projected T & D Cost with Previous Years

Sr.#	Description	FRR FY 2021-22	RERR FY 2022-23	Nine months actual FY 2022-23	Rs. in million					
					Transmission	Distribution	Sales	FY 2023-24 Total	Diff	%age
1	Net HR Cost	22,546	19,554	22,617	6,765	15,129	7,959	29,852	10,298	53%
2	Stores, Spares and Supplies Consumed	686	880	809	610	551	26	1,186	306	35%
4	Repairs & Maintenance	1,467	1,448	1,205	168	1,373	659	2,200	752	52%
5	Fuel & Power	511	567	417	430	355	20	806	239	42%
6	Stationery, Telegram and Postage	-	270	275	25	53	336	414	144	53%
7	Dispatch of gas bills	163	180	194	-	-	300	300	120	67%
8	Rent, Rates, Electricity and Taxes	645	673	570	295	392	239	926	253	38%
9	Travelling	136	163	118	72	69	49	190	27	17%
10	Transport	1,159	1,156	1,371	501	1,172	291	1,964	808	70%
11	Insurance	261	279	193	91	138	71	300	21	8%
12	Legal and professional charges	321	280	248	107	159	81	347	67	24%
13	Consultancy for ISO 14001: 2004 & OHSAS 18000: 1999	7	12	6	3	8	2	13	1	10%
14	Provision for doubtful debts	1,154	-	728	-	-	1,000	1,000	1,000	-
15	Gas Bills Collection Charges	593	666	444	-	-	660	660	(6)	-1%
16	Gathering charges on Bills Collection costs	50	65	35	-	-	65	65	-	0%
17	OGRA Fee	228	379	144	107	161	83	350	(29)	-8%
18	Advertisement	183	235	153	11	16	213	239	4	2%
19	Security expenses	1,591	1,853	1,475	1,880	244	125	2,249	396	21%
20	UFG Control Activities	983	722	821	-	2,008	-	2,008	1,296	178%
21	Bank charges	6	11	4	4	5	3	12	1	6%
22	Protective supplies/ Clothing	54	77	58	32	49	25	106	29	38%
23	Staff training	42	23	38	27	41	21	90	67	291%
24	Recruitment expenses	-	-	1	9	14	7	30	30	-
26	Sponsorship of chairs at Universities	12	-	8	2	4	2	8	8	-
28	Outsourcing of Call Centre for Complaints Management	24	33	16	-	-	33	33	-	0%
29	Recovery through contractors - (Disconnected Consumers)	25	-	18	-	-	80	80	80	-
30	Sports Related expenses	58	43	28	41	62	32	136	93	215%
31	Corporate Social Responsibility	19	10	73	6	9	5	20	10	100%
32	Facilities Provided by other companies	19	15	14	7	11	6	24	9	60%
35	Board meetings & directors' expenses	49	61	45	22	33	17	71	10	16%
36	Stores and Spares written off	13	-	-	-	-	-	-	-	-
37	BANNU WEST WELL-1 AND WALI WELL-1	-	-	-	2,632	-	-	2,632	2,632	-
38	Quality Assurance Program	-	-	-	-	92	-	92	92	-
39	Expenses on uplifting of lines	104	-	-	-	-	-	-	-	-
40	Others	244	225	331	103	276	32	410	185	82%
41	TOTAL OPERATING COST	33,351	29,880	32,457	13,950	22,423	12,441	48,814	18,934	63%
42	Less: Allocated to Fixed Capital expenditure	(367)	(500)	(300)	-	(433)	(67)	(500)	-	-
43	Net Operating Cost	32,984	29,380	(300)	13,950	21,990	12,374	48,314	18,934	64%
44	Allocation of T&D Cost to (System Gas)	-	-	-	-	-	-	25,584	53%	-
45	Allocation of T&D Cost to (RLNG)	-	-	-	-	-	-	22,729	47%	-
	Gas Internally Consumed	Indigenous	824	878	-	-	-	1,484	606	69%

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

i. Human Resource (HR) Cost

8.3 The petitioner has claimed net HR cost at Rs. 29,852 million including IAS- 19 at Rs. 1,510 million for the said year as against Rs. 19,554 million allowed at RERR FY 2022-23 showing huge increase of 53%. The petitioner has demanded Rs. 4,312 million against pending CBA for the period 2021-23 as part of current year price. Besides above, the petitioner has also allocated Rs. 4,500 million under the head of CWIP relating to HR costs.

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- 8.4 The petitioner has demanded exclusive 5% increase in “executive’s salaries” over actual spending during FY 2021-22 on account of annual increase and performance increment. In the case of subordinate staff, decrease in “wages” has been envisaged over FY 2021-22 due to retirement of subordinate staff. Moreover, Rs. 1,600 million has been claimed against “Badli/casual labour” as against Rs. 1,450 million incurred in FY 2021-22, thereby claiming 10% increase. The petitioner has also claimed “medical expenses” of subordinate staff at Rs. 977 million, demanding 22% increase over FY 2021-22 due to escalation of medicine prices.
- 8.5 The petitioner, through the written submission as well as during public hearing, has emphasized the importance of human resource. The petitioner has informed that total workforce strength includes around 12,000, comprising 7,000 subordinate staff and 1,500 executives and remaining casual/badly staff, for managing 150,000 Km of T&D network and serving 7.4 million consumers for its geographical spread comprising KPK, GB, AJK and Punjab regions. In order to service these areas, fair and adequate amount is required for operational requirement and to keep their morale high, in the wake of inflationary impact. Moreover, company is facing shortage of staff of around 30%. The company has submitted that the revised benchmark may affect its hiring process due to non-availability of cushion in HR benchmark cost. Moreover, the petitioner has argued that its salary structure is below the market norms prevalent in the oil and gas sector locally as well as internationally.
- 8.6 The petitioner has argued that new HR benchmark was revised without any consultation with the stakeholders and specially using/opting equal weightage to all the parameters is not rational and needs to be revisited. Further, exclusion of CPI financial impact from benchmark is not equitable and fair. The petitioner has requested to allow two years financial impact of CBA over and above HR benchmark cost.
- 8.7 Regarding the petitioner’s submission on new HR benchmark formula, the Authority notes that it has revised HR benchmark parameters effective for FY 2021-22 onwards, after careful consideration and extensive analysis as already provided in its various previous determinations; considering the changed business dynamics and demand supply constraints. The Authority is of the firm view that all these factors are important and their activities are interconnected to a greater extent. Therefore, allowance of additional weightage to any operating parameter may distort the intent of this benchmarking. Moreover, allowance on account of operating parameters at different weightage along with CPI was grossly exploited by the management in its favor despite warning by the Regulator. The inbuilt factors in the benchmark to regulate the manpower strength had been used by the management to increase their salary structure while purposefully overlooking the hiring aspect. The Authority notes with serious concern that it has been advising the petitioner since many years to rationalize its HR costs within allowable limits. Unfortunately, the petitioner had never paid heed to the Authority’s directions.
- 8.8 Regarding allowance of CPI as part of benchmark formula, the Authority notes that unprecedented increases made in the salaries of executives and staff leaves no reason to consider petitioner’s stance. Moreover, inclusion of CPI under benchmark does not merit consideration as annual increment is sufficient enough to cater inflationary impact since it is not mandatory either in private or government sector to allow CPI factor over and above the annual increment increase.
- 8.9 In view of above, the Authority is of the considered view that it was necessary to evolve HR benchmark on equal weightage for each parameter, considering the change in business dynamics, so as to ensure efficiency as well as effectiveness in determining HR cost. It is also pertinent to highlight that its sister utility, based on revised benchmark formula, has been able to curtail its HR cost within the allowed limits owing to various steps taken by its management as well as Board of Directors in respect of cost curtailment. This also endorses the reasonability of OGRA’s introduced benchmark composition effective FY 2021-22.



8.10 In view of above, the petitioner's contentions are not justified and hence merit no consideration. The petitioner is directed to efficiently manage its operations in terms of manpower induction/requirement through minimizing HR cost. *Accordingly, the Authority finds no valid reasons to review its HR benchmark formula parameters and provisionally allows HR cost at Rs. 20,268 million including IAS-19, as per Annexure-C on the basis of revised cost and operating parameters in the light of actual numbers for FY 2021-22. The petitioner is further directed to manage its operational and administrative matters including finalization of CBA on first priority. Moreover, Board of Director of the petitioner must take cognizance of the issue being raised by Subordinate Staff of the petitioner and ensure apportionment of funds in just and fair manner among all its employees, while meeting the legitimate CBA requirement on priority.*

ii. **Repair & Maintenance Expenses**

8.11 The petitioner has projected Repair & Maintenance expenses for the said year at Rs. 2,200 million as against Rs. 1,448 million allowed in DERR 2022-23 and Rs. 1,467 million in FRR (petition) for FY 2021-22. The petitioner has attributed the increase mainly due to inflation and revision in minimum wage rate. The petitioner has explained that the amount projected is required for inter-alia recoating of transmission pipelines, Service Level Agreement (SLA) for mandatory annual maintenance of SCADA system, for repair and maintenance activities linked with end users i.e., leakage complaints, ruptures etc, and for various SLAs against data centres, digitization and pipeline integrity management etc. The Authority observes that the petitioner has been advancing similar justification since many years, however, year wise actualization does not commensurate with the projections made in respect of transmission, distribution and others (H.O. & service departments).

8.12 *As per trend analysis and the justifications advanced by the petitioner, the Authority provisionally allows Rs. 14 million in respect of Compression, Rs. 42 million in respect of Transmission, Rs. 818 million in respect of Distribution and Rs. 612 million in respect of Others (incl H.O, Service depts, computer software & hardware repairs and maintenance).*

8.13 *In view of the above, the Authority determines the expenses under the head "Repair & Maintenance" at Rs. 1,486 million for the said year as tabulated below.*

(Rs. in million)

Description	Petition FY 2023-24	Allowed
Compression	17	14
Transmission	75	42
Distribution	1261	818
Others (incl H.O. & service depts.)	847	612
Total	2200	1486

iii. **Stores, Spares and Supplies Consumed**

8.14 The petitioner has claimed Rs. 1,186 million under the head "Stores, Spares & supplies consumed" as against Rs. 880 million allowed at RERR FY 2022-23, thereby projecting an increase of 35% for said year. Historical comparison is given below:

Table 12: Comparison of Projected Stores, Spares and Supplies Consumed with Previous Years

(Rs. in million)

Particulars	FRR	FRR	FRR	RERR	The Petition FY 2023-24	(Inc/Dec) over RERR 2022-23	
	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23			
Compression	126	155	107	253	250	(3)	-1%
Transmission	145	194	159	220	318	98	45%
Distribution	154	189	351	320	513	193	60%
Others (incl H.O.)	5	7	(7)	5	5	-	0%
Freight & handling	55	73	35	82	100	18	22%
Total	484	616	686	880	1,186	306	35%

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- 8.15 The petitioner has submitted that expenses under the sub-head of "Compression" include procurement of spares used in maintenance of gas turbines and genset installed at compressor stations. The petitioner has attributed the increase to Pakistani Rupee devaluation against US\$ which impact import from international buyers. In addition to the above, it is stated that the operations of the compression system have increased in past few years and continuous equipment aging require aggressive maintenance for system availability and reliability, which cannot be compromised in anyway.
- 8.16 Regarding "Transmission", the petitioner has stated that main item is Odorant oil and whose rate has increased by 41% from Rs. 1,100 per kg in FY 2021-22 to Rs. 1,550 per kg in FY 2022-23. Further to the above, an amount of Rs. 60 million being material portion of Recoating of Transmission Lines has been projected for the said year. As stated earlier, recoating activities remained at halt during FY 2019-20 & FY 2020-21 while limited operations were conducted in FY 2021-22. The petitioner has anticipated that recoating activities shall be operationalized in full swing from FY 2022-23 onwards.
- 8.17 Regarding "Distribution", the petitioner has submitted that at the time of ERR 2022-23, the impact of recoveries from consumers remained upto Rs. 200-250 million approximately on account of GI Fittings, however the same has been discontinued as per Authority's directions. The same is evident from the expenditure for FY 2021-22 as compared to the preceding years. Moreover, as already communicated in the other sub heads, the prices of spares have increased significantly in past few years due to devaluation of Pak Rupee against USD.
- 8.18 The Authority notes that deterioration of Pakistani Rupee currency and global inflation is unprecedented and operational activities carried out during last three years owing to the factors narrated above, also seems on lower side. *In the light thereof, the Authority decides to allow Rs. 1,056 million under "stores, spares & supplies consumed" i.e. 20% over RERR for FY 2022-23 for the said year, subject to the actualization at year end provided the expenditure remains within the petitioned amount, as tabulated below:*

	Rs. in Million			
	Transmission	Distribution	Selling	Total
Demanded	610	551	26	1,186
Allowed	543	490	23	1056

iv. **Rent, Rate, Electricity, and Taxes**

- 8.19 The petitioner has claimed Rs. 926 million under the head "Rent, Rate, Electricity and Taxes" as against Rs. 673 million allowed in RERR FY 2022-23, thereby projecting 38% increase for the said year. Historical comparison is given below:

Table 13: Comparison of Projected Rent, Rate, Electricity and Taxes with Previous Years

Particulars	(Rs. in million)					
	FRR FY 2019-20	FRR FY 2020-21	FRR FY 2021-22	RERR FY 2022-23	The Petition FY 2023-24	(Inc/Dec) over RERR 2022-23
Rent	270	299	316	330	372	42 13%
Royalty/ Internet services	41	47	43	52	56	4 8%
Telephone	41	37	31	46	51	5 10%
Electricity	177	183	219	215	350	135 63%
Pakistan Railway (line crossing charges)	-	51	2	-	50	50
Water Conservancy	6	4	5	6	9	3 45%
Vehicles rates and taxes	18	23	29	23	23	(0) 0%
Others	-	2	-	1	16	15 1506%
Total	553	646	645	673	926	253 38%

- 8.20 Under the sub-head "Rent", the petitioner has submitted that its current agreements with landlords stand at Rs. 372 million. Therefore, additional 13% expected annual increase under Rent expenses may be allowed, being a normal annual inflationary increase for the said year.
- 8.21 The Authority notes with concern that very generic justification has been advanced by the petitioner despite Authority's clear directions in past to curtail this avoidable cost. *Therefore,*

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the Authority considering its directions in field, decides to allow 8% increase over RERR FY 2022-23 & allows Rs. 356 million for the said year.

- 8.22 Under the sub-head "Electricity" the petitioner has projected Rs. 350 million as compared to Rs. 215 million allowed per RERR for FY 2022-23. The petitioner has explained that the electricity tariff has been revised twice since January 2022 (12%-15%) by the Government. It may be noted that NEPRA also increase electricity cost every month on account of Fuel Price Adjustment (FPA) which is expected to increase by 5-6% from previous year.
- 8.23 *The Authority, based on the above justification, decides to allow 20% increase over year RERR for FY 2022-23 i.e. Rs. 258 million against Electricity Expenses for the said year subject to the actualization at year end provided the expenditure remains within the petitioned amount.*
- 8.24 Regarding Pakistan Railways (line crossing charges) projected amount of Rs. 50 million, the Authority decides to pend the same subject to its actualization/realization of actual expenses at year end with the direction to amicably negotiate the charges at a reasonable level.
- 8.25 *The Authority, observes that the remaining expenses under various heads have either been under the allowed limits except "other expenses" being excessive and without material justification and kept at nil, for the said year.*
- 8.26 *In view of above, the Authority decides to allow "rent, rate, electricity & taxes" at Rs. 753 million on provisional basis for the said year.*

	Rs. in Million			
	Transmission	Distribution	Selling	Total
Demanded	295	392	239	926
Allowed	240	319	194	753

v. **Fuel & Power**

- 8.27 The petitioner has claimed Rs. 806 million on account of "Fuel & Power" for the said year, thereby projecting an increase of 42% over RERR FY 2022-23. Historical comparison is given below:

Table 14: Comparison of Projected Traveling Expenses with Previous Years

Particulars	FRR FY 2019-20	FRR FY 2020-21	FRR FY 2021-22	RERR FY 2022-23	(Rs. in million)	
					The Petition FY 2023-24	(Inc/Dec) over RERR 2022-23
Compression	25	18	18	30	10	-67%
Transmission	161	321	162	186	395	112%
Distribution	203	215	253	296	315	7%
Others (incl. Co-Generation)	80	72	79	55	86	56%
Total	469	626	511	567	806	42%

- 8.28 The petitioner has submitted that the major expense under this head pertains to electricity expense of Terminals/CP/Compression stations which contributes to 62% of the total expense. The petitioner stated that vast political unrest in the country over last 3 years, coupled with stern IMF impositions of reforms and uncontrollable global hike in fuel prices, are all contributors of increase in this head. Another prime reason cited for increase is revision in the electricity tariff by the Government (twice since January, 2022 (12%-15%). NEPRA also increase electricity cost every month on account of Fuel Price Adjustment (FPA) which is expected to increase by 5-6% from previous year. Furthermore, the increase has also been attributed to purging / blowdown and Co-generation expenses i.e. Rs. 241 million, which are mainly due to revision in prices, however, there is no significant increase in volumetric terms.
- 8.29 The Authority, in principle, considers the reasons as explained by the petitioner, however, claiming 112% and 56% increase over RERR FY 2022-23 against the sub-heads of "transmission" and "other including Co-generation" is not justified, and hence can't be allowed on upfront basis. *Accordingly, the Authority decides to fix Fuel & Power expenses*

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at Rs. 643 million for the said year, subject to the actualization at year end provided the expenditure remains within the petitioned amount, as tabulated below:

	Rs. in Million			
	Transmission	Distribution	Selling	Total
Demanded	430	355	20	805
Allowed	344	283	16	643

vi. **Stationery, Telegram & Postage Expense**

8.30 The petitioner has claimed Rs. 414 million on account of "Stationery, Telegram & Postage" for the said year, thereby projecting an increase of 53% over RERR FY 2022-23. Historical comparison is given below:

Table 15: Comparison of Projected Stationery, Telegram & Postage with Previous Years

Particulars	(Rs. In million)					
	FRR FY 2019-20	FRR FY 2020-21	FRR FY 2021-22	RERR FY 2022-23	The Petition FY 2023-24	(Inc/Dec) over RERR 2022-23
Compression	1	1	1	1	1	(0) -10%
Transmission	4	4	4	6	6	0 2%
Distribution	17	14	13	22	25	3 14%
Others (incl HO & service depts.)	169	173	202	241	382	141 59%
Total	190	191	221	270	414	144 53%

8.31 The petitioner stated that major expenses under this sub-Head is on account of Gas bill paper. The petitioner submitted that actual expense in FY 2021-22 was Rs. 141million, when gas Bill boxes were procured @ PKR 2,998.12 / Box. The petitioner stated that annual requirement of gas bill paper is 50,000 boxes/year, which are being procured in 3 phases. Currently this paper is being procured at the rate of Rs. 5100/box in FY 2022-23 while for FY 2023-24, an amount of Rs.300 million is being proposed for 50,000 boxes @ 6,000/ box. The petitioner submitted that main reason for considerable increase under this head is hike in cost of paper. In addition to the above, there is also considerable increase in cost of general paper supplies, which went from Rs. 700/rim to Rs1300/rim (80% increase).

8.32 The Authority, in principle, considers the reasons as explained by the petitioner, however, such huge projection is not justified, and hence can't be allowed on upfront basis. Accordingly, the Authority decides to allow Stationery, Telegram & Postage expenses at Rs. 324 million, i.e. over 20% of last year RERR, for the said year, subject to actualization at year end provided the expenditure remains within the petitioned amount, as tabulated below:

	Rs. in Million			
	Transmission	Distribution	Selling	Total
Demanded	25	53	336	414
Allowed	20	41	263	324

vii. **Dispatch of Gas Bills**

8.33 The petitioner has claimed Rs. 300 million on account of "Dispatch of gas bill" for the said year, thereby projecting an increase of 67% over RERR FY 2022-23. Historical comparison is given below:

Table 16: Comparison of Projected Dispatch of Gas Bills with Previous Years

Particulars	(Rs. In million)					
	FRR FY 2019-20	FRR FY 2020-21	FRR FY 2021-22	RERR FY 2022-23	The Petition FY 2023-24	(Inc/Dec) over RERR 2022-23
Dispatch of gas bills	133	136	163	180	300	120 67%
Total	133	136	163	180	300	120 67%



8.34 The petitioner stated that bill distribution rate FY 2010-11 to September, 2022 always remained on lower side ranging from approximately Rs. 1.52/bill to Rs. 1.78/bill. However due to current inflation wave and increasing fuel prices, increase in per bill distribution rate (42.33% per annum) being justified and maybe considered by the Authority.

8.35 The Authority, in principle, considers to the reasons as explained by the petitioner, however, it is observed that the principle of reasonability and adequacy has been ignored while projecting those numbers. The Authority directs the petitioner to re-negotiate the dispatch rates with contractor so to reduce burden on general consumers. *Accordingly, the Authority decides to allow Dispatch of bill expenses at Rs. 216million, i.e. over 20% of last year RERR, for the said year, as tabulated below:*

	Rs. in Million			
	Transmission	Distribution	Selling	Total
Demanded	-	-	300	300
Allowed	0	0	216	216

viii. Transport Expenses

8.36 The petitioner has claimed transport expenses for the said year at Rs. 1,964 million as against Rs. 1,156 million provided in RERR for FY 2022-23 projecting an increase of 70% for the said year. Historical comparison of transport expense is as under:

Table 17: Comparison of Projected Transport Expenses with Previous Years

Particulars	(Rs. in million)					
	FRR FY 2019-20	FRR FY 2020-21	FRR FY 2021-22	RERR FY 2022-23	The Petition FY 2023-24	(Inc/Dec) over RERR 2022-23
Compression	25	25	22	22	40	18 80%
Transmission	184	184	224	224	323	99 44%
Distribution	469	469	573	573	1,106	533 93%
Others (incl HO & service depts.)	242	242	339	336	495	159 47%
Total	920	920	1,159	1,156	1,964	808 70%

8.37 The petitioner has submitted that the increase is mainly due to the significant increase in fuel prices as compared to FY 2021-22. The petitioner submitted that the average petrol price during FY 2021-22 was Rs. 148 per ltr whereas current prices are upto Rs. 220 per ltr which is around 50% higher than the average price last year. The petitioner contended that proposed budget is calculated on the @ Rs.250. per liter while no increase is projected in fuel consumption.

8.38 The Authority observes that international oil prices coupled with Rupee/Dollar parity is resulting in consistent increase in fuel prices leading to impact on transport expense. The Authority, in principle, considers the petitioner's view point, however, allowance of upfront 70% impact under the head of "transport expenses" shall excessively burden the natural gas consumers. *In the light thereof, the Authority decides to provisionally allow transport expense at Rs. 1,387 million (i.e. 20% over RERR FY 2022-23) for the said year, subject to the actualization at year end provided the expenditure remains within the petitioned amount, as tabulated below:*

	Rs. in Million			
	Transmission	Distribution	Selling	Total
Demanded	501	1,172	291	1,963
Allowed	354	828	206	1,387

ix. Legal and Professional Charges

8.39 The petitioner has claimed Rs. 347 million on account of "Legal and Professional Charges" for the said year as against Rs. 280 million provided in RERR for FY 2022-23 projecting an increase of 24%. Historical comparison is given below:

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

Particulars	(Rs. in million)						
	FRR FY 2019-20	FRR FY 2020-21	FRR FY 2021-22	RERR FY 2022-23	The Petition FY 2023-24	(Inc/Dec) over RERR 2022-23	
Legal Expenses	145	182	145	182	217	35	19%
Professional Charges	18	47	19	56	53	(3)	-6%
Tax	14	8	13	15	43	27	166%
Audit	8	5	5	12	11	10	88%
Apprenticeship/Scholarship	8	9	9	12	12	-	0%
LCIA (Arbitration)							
Others	3	1	3	3	3	-	0%
Total	196	253	201	280	347	67	24%

8.40 Regarding sub-head of "Legal", the petitioner has submitted that annual inflation coupled with increased litigation owing to revision in gas price tariff has been envisaged while projecting 19% increase over RERR FY 2022-23. Moreover, increased number of cases are expected to be filed against the petitioner due to supply of RLNG in privately developed housing schemes, industrial and commercial consumers, being high tariff gas.

8.41 The Authority observes that the petitioner has always come up with similar generic justifications in the past. The interveners, during public hearings, has always criticized such superfluous expenditure, which always arises owing to consumer non-satisfaction on part of petitioner's state of conduct. The Authority reiterates its directions to avoid unnecessary litigation with its important stakeholders, and to give this effect, to formulate a comprehensive plan and mechanism for improvement of its corporate governance in terms of reduction in its litigation as well as complaints. *In view of above, the Authority decides to fix Legal expense at Rs. 145 million i.e. at the level of FRR FY 2022-23, for the said year. The Authority further decides that directed that all litigation cost against the Regulator shall not be allowed as part of Revenue Requirement henceforth. BoD of the petitioner must also ensure compliance of OGRA directive while devising policies for management and deciding financial matters.*

8.42 Regarding claim on account of professional charges amounting to Rs. 53 million, the petitioner has submitted that the services of a tax consultant is required to be hired to recover the huge amount stuck up on account of sales tax. Furthermore, external auditors shall also be engaged in various special assignments for certification of expenditure upon Authority's direction.

8.43 The Authority notes that the petitioner was allowed Rs. 56 million at the time of RERR for FY 2022-23 on similar premise, therefore, claiming additional expense on same basis is not justified and hence is disallowed. *In the light thereof, the Authority decides to fix professional expenses at Rs. 19 million i.e. FRR FY 2019-20 and directs the petitioner to utilize in-house expertise and manpower to resolve sales tax issues.*

8.44 *In view of the above, the Authority determines the expenses under the head "Legal and Professional Charges" at Rs. 210 million for the said year, as tabulated below;*

	Transmission	Distribution	Selling	Total
Demanded	107	159	81	347
Allowed	65	96	49	210

x. **Provision for doubtful debts**

8.45 The petitioner has projected under this head "Provision for doubtful debts" for the said year at Rs. 1,000 million, as against nil amount over RERR FY 2022-23. Historical comparison is given below:

Table 19: Comparison of Provision of doubtful debts with Previous Years

Particulars	(Rs. in million)						
	FRR FY 2019-20	FRR FY 2020-21	FRR FY 2021-22	RERR FY 2022-23	The Petition FY 2023-24	(Inc/Dec) over RERR 2022-23	
Provision of doubtful debts	1,243	1,413	1,154	-	1,000	1,000	-
Total (Indigenous):	1,243	1,413	1,154	-	1,000	1,000	-

8.46 The petitioner has claimed provision for doubtful debts against disconnected consumers at Rs. 1,000 million excluding Expected Credit Loss (ECL) for the said year.

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8.47 The petitioner has been repeatedly advised by the Authority to increase internal control systems, management practices and recoveries. Unfortunately, increasing trend of disconnected consumers shows a dismal situation, whereby instead of increasing recoveries, doubtful debts are being increased which does not reflect good corporate governance measures being taken by the petitioner. *In view thereof, the Authority is constrained to disallow the claimed amount on this account until the petitioner demonstrates and physically achieve efficiency in terms of reduction in litigation cases and further piling up of disconnected consumers.*

xi. UFG Control Activities

8.48 The petitioner has projected an operational expense of Rs. 2,008 million on account of UFG Control Activities for ensuring implementation of KMIs that cover different Leakage Control, Theft Control and Measurement Error Control Programs etc. The Authority notes that it undertook a UFG study for determining UFG Benchmarks of the gas companies through a consultant of international repute vis M/s KPMG Taseer Hadi & Co. Chartered Accountants (KPMG) and in light of the said study, UFG benchmark was fixed at 5 % whereas, 2.6 % local condition allowance was linked with the implementation of 30 KMIs for the period of five years i.e. from 2016-17 till 2021-22. The Authority notes that the validity of the study has expired, however, activities as per KMIs are essential to increase network visibility, carry out rehabilitation, curtail theft and improve recoveries and cannot be ignored.

8.49 *In view of the foregoing while keeping in view operational requirement and trend analysis, the Authority allows Rs. 934 million under this head against the amount projected by the petitioner.*

xii. Protective supplies & Clothing

8.50 The petitioner has claimed Rs. 106 million under this head "Protective supplies & Clothing" for the said year as against Rs. 77 million per the RERR FY 2022-23 projecting an increase of 38% for the said year. Historical comparison is given below:

Table 20: Comparison of Projected Protective supplies & Clothing with Previous Years

Particulars	FRR				RERR	(Rs. In million)	
	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23		The Petition FY 2023-24	(Inc/Dec) over RERR 2022-23
Protective supplies/ Clothing	53	70	54	77	106	29 38%	
Total	53	70	54	77	106	29 38%	

8.51 The petitioner has submitted that it provides uniform and protective clothing to its employees as per standards so to ensure safety of employees. The petitioner has argued that this fact has already been apprised to the Authority that owing to cost rationalization, it has already petitioned lesser amounts than its actual requirement as the equipment is already being used for longer period than its useful life. Moreover, due to surge increase in prices of the safety equipment & supplies, 40% increase is justified over last year budget considering the expenditure incurred by the company in past.

8.52 The Authority observes that the petitioner was allowed reasonable amount on account of inflationary impact so as to ensure safety of its workers. The Authority, considers the petitioner's claim, however, upfront impact shall unnecessarily burden the consumers. *Accordingly, the Authority, considering the operational requirement as well as petitioner's capacity to manage the said expense in past, decides to allow protective supplies and clothing at Rs. 92 million (i.e. 20% increase over RERR FY 2022-23) on provisional basis, as per table below, subject to the actualization at year end provided the amount remains within the petitioned amount:*

	Rs. in Million			
	Transmission	Distribution	Selling	Total
Demanded	32	49	25	106
Allowed	28	42	22	92

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xiii. Staff training and recruiting expenses

8.53 The petitioner has claimed Rs. 120 million under the head of “staff training & recruiting expenses” for the said year as against Rs. 23 million allowed per the RERR FY 2022-23 projecting an increase of 422%. Historical comparison is given below:

Table 21: Comparison of Projected Staff training and recruiting expenses with Previous Years

Particulars	(Rs. In million)					
	FRR FY 2019-20	FRR FY 2020-21	FRR FY 2021-22	RERR FY 2022-23	The Petition FY 2023-24	(Inc/Dec) over RERR 2022-23
Staff recruiting expenses	-	-	-	-	30	30
Staff Training, SNGTI/EDP	40	23	42	23	90	67
Total	40	23	42	23	120	97
						422%

8.54 The petitioner has stated that Rs. 30 million has been projected for new hiring of around 280 and 3,773 entry level executives as well as subordinates respectively, based on historic cost incurred during hiring conducted in 2019.

8.55 The Authority observes that similar justification has been advanced by the petitioner since many years, however, year-end actualization does not commensurate with initial estimates. *In view of the same, such projected amount is not allowed at this point in time and shall be reviewed at the time of FRR for the said year based on touchstone of prudence and rationale.* Regarding training expenditure, the Authority notes that such huge expenditure has been projected Rs. 90 million under sub-heads SNGTI & EDP, for which no concrete justification has been provided. Accordingly, *the same is allowed at the level of RERR FY 2022-23 the Authority decides to maintain “Staff Training & Recruitment expenses” at Rs. 25 million for the said year, as per table below;*

	Rs. in Million			
	Transmission	Distribution	Selling	Total
Demanded	37	55	28	120
Allowed	8	11	6	25

xiv. Sponsorship of chairs at Universities

8.56 The petitioner has claimed Rs. 8 million under this head “Sponsorship of Chair at Universities” for the said year as against nil amount per the RERR FY 2022-23.

8.57 The Authority notes with grave concern that the matter on this account has reached finality through its various earlier determinations, however, claiming the same expense without any justification indicates petitioner’s incautious attitude towards Authority directions and tantamount to non-compliance of its clear decisions. *Accordingly, the Authority decides to disallow entire amount of Rs. 8 million from the revenue requirement calculations and directs the petitioner to sponsor the same through its own profits, if it so desires.*

xv. Sports related activities

8.58 The petitioner has projected Rs. 136 million under the head as against Rs. 43 million per the RERR FY 2022-23 projecting an increase of 216%. Historical comparison is given below:

Table 22: Comparison of Sports activities

Particulars	(Rs. in million)					
	FRR FY 2019-20	FRR FY 2020-21	FRR FY 2021-22	RERR FY 2022-23	The Petition FY 2023-24	(Inc/Dec) over RERR 2022-23
Sports related activities and Annual Sports	-	43	43	43	136	93
						216%

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8.59 The petitioner stated that the allowed budget under this head was insufficient even to cater-for salaries of the players/officials of all 08 games for FY 2022-23 leaving no room to participate in assorted sports events. It is likely that well ranked players will leave SNGPL as many top ranked players have already joined other organizations paying better remunerations.

8.60 The Authority appreciates the initiatives being taken by the petitioner to encourage sports activities for staff and outside players, but claiming such huge amount would lead to overburdening gas consumers. The Authority noted that sports activities fall under non-core activity and their financing should be allocated from own revenue. *In view of above, the Authority decides to restrict the expenditure Rs. 43 million to cater sports related activities during the said year.*

xvi. Corporate Social Responsibility (CSR)

8.61 The petitioner has projected Rs. 20 million under the head as against Rs. 10 million allowed per the RERR FY 2022-23 projecting an increase of 100%. The petitioner has stated that CSR activities are carried out in accordance with the its policy to improve the quality of life of the communities in underdeveloped/under privileged / gas producing areas with priority to community residing in 15 Km radius of gas field by allocating resources from the CSR budget in the fields of Health, Education and Environment.

8.62 The Authority notes that the criteria for CSR activities have been provided in detail. The petitioner is encouraged to incur/spend the same in the light of parameters set in tariff regime for CSR activities and shall submit a certificate to this effect at the time of FRR. Any additional spending by company for activities falling outside tariff regime, will be met from its own profit in the larger national interest.

8.63 *The Authority, per the criteria set in tariff regime for natural gas sector, decides to allow 50% of the claim and allows Rs. 10 million on provisional basis subject to the actualization at year end.*

xvii. Quality Assurance Program

8.64 The petitioner has claimed Rs. 91 million under this head "Quality Assurance Program" for the said year. The petitioner has stated that in compliance of OGRA's License Condition No. 28, the company had arranged technical audit of its operations in FY 2018-19 wherein it was pointed out by the Third-party auditors that "QA role is not seen as very effective or as it supposed to be, since currently, it is in surveillance role limited to Projects". Later on, it was also advised by the Board of Directors to present a detailed Quality Assurance plan covering technical works including metering Workshops etc. in addition to the development works" Previously, scope of Quality Assurance Department was limited to the selected activities of Distribution & Project departments whereas, after approval of Quality Assurance Program "QAP" the scope of the department had been enhanced to all the Engineering departments including Customer services. Currently, "QAP" has been partially implemented at Distribution (material procurement), Metering & Customer Services under the available T&D cost approved by the Authority because these activities pertained to Distribution.

8.65 The Authority notes with concern that Q.A should have been already in-built function of every department, through designed check and control measures, benchmark, procedure, international best practices, modernization and through implementing new technologies. Therefore, establishing an entire department for QA appears illogical. *In view of the same, the Authority decides to pend entire amount and directs the petitioner to provide detailed framework / scope of activities to be carried out under the head of Quality Assurance not limited to product and procedure quality. Accordingly, the same will be reviewed at RERR stage based on the justification provided by the petitioner in this respect.*



xviii. Other Expenses

8.66 The petitioner has projected Rs. 490 million in head "Others" for the said year under this account as against Rs. 224 million per RERR FY 2022-23, projecting an increase of 119%, as per table below:

Table 23: Comparison of projected "Other Expenses" with Previous Years

Particulars	(Rs. In million)					
	FRR FY 2019-20	FRR FY 2020-21	FRR FY 2021-22	RERR FY 2022-23	The Petition FY 2023-24	(Inc/Dec) over RERR 2022-23
Construction equipment operating cost	146	146	209	161	335	174 108%
Subscriptions	3	4	4	5	6	1 20%
Newspapers, books & periodicals	3	3	1	7	5	(2) -25%
Recovery through Contractors	10	0	25	-	80	80 -
Stock exchange fee	3	4	4	4	6	2 50%
Entertainment expenses	6	6	7	9	13	4 44%
Outside services employed - govt./ local authority	(0.27)	2	0	5	9	4 87%
Sundries	10	6	10	20	22	2 11%
CNIC verification	8	10	9	13	13	- 0%
	0	189	181	269	490	266 119%

8.67 The petitioner under the sub-head "construction equipment operating cost", has projected Rs. 335 million for the said year as against Rs. 161 million allowed per the RERR FY 2022-23 projecting an increase of 108% under this head of account for the said year. The petitioner further submitted that the increase is mainly due to the significant increase in fuel prices as compared to FY 2021-22.

8.68 The Authority observes that projecting 108% increase under the head of construction equipment operating cost is beyond any reasonable justification. The Authority directs the petitioner to control the expenditure within tolerable limit and actively monitor expense in this head. *In view of the same, the Authority decides to fix Rs. 193 million i.e. 20% over RERR FY 2022-23 against the "construction equipment operating cost" for the said year.*

8.69 Under the head of "Recovery through Contractor", the petitioner has projected Rs. 80 million for the said year.

8.70 The petitioner provided detailed region wise table mentioning status of outstanding amount from domestic, commercial and industrial consumers amounting to Rs. 67,454 million, against which estimated commission will be Rs. 187 million for the said year. However, the petitioner requested to allow Rs. 80 million i.e. around 43%, for upfront recovery as summarized below:

Gas Consumers:	Rs. in million		Rs. in million	
	Recoverable Amount	%age	Commission	%age
Domestic	8,957	13%	29	13%
Commercial	8,657	13%	22	13%
Industrial	49,841	74%	136	74%
Total	67,455	100%	187	100%

8.71 The Authority notes with concern that the petitioner inhouse legal department and recovery department is not pursuing this issue as per their role and domain rather the petitioner has planned to engage the services of outside recovery unit for the entire recoverable amount and eventually burdening the gas consumers. The Authority expressed serious concern on the quantum of default amount, and have observed that recovery efforts should commensurate accordingly. The Authority directs to make concerted effort and engage inhouse expertise through incentivized recovery mechanism. *In view of the same, the Authority decides to disallow entire amount under the head of "Recovery through Contractor" for the said year.*

8.72 *Further, the Authority accepts other expenses being within tolerable limit. In view of the above, the Authority decides to maintain "other expenses" at Rs. 268 million with the directions to incur the expenses judiciously.*

8.1 Regarding petitioner's claim amounting to Rs. 2,632 million on account of operating cost against Bannu & Walli wells, the Authority observes that that these projects are at development

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stage, therefore, operating cost projection under this head appears premature. *In view of the above the Authority decides to disallow entire amount under this head.*

xix. Remaining T&D Expenses not discussed above

8.2 The Authority observes that the remaining expenses Rs. 1,887 million for the said year not discussed above have been reasonably projected, as advanced by the petitioner, as under:

Table 24: Summary of Remaining T&D Expenses

Sr. #	Description	Rs. in million		
		RERR FY 2022-23	The Petition FY 2023-24	Diff
1	Travelling	163	190	27
2	Insurance	279	300	21
3	Consultancy for ISO 14001: 2004 & OHSAS 18000: 1999	12	13	1
4	Gas Bills Collection Charges	666	660	(6)
5	Gathering charges on Bills Collection data	65	65	-
6	OGRA Fee	379	350	(29)
7	Advertisement	235	239	4
8	Bank charges	11	12	1
10	Outsourcing of Call Centre for Complaints Management	33	33	-
13	Facilities Provided by other companies	15	24	9
15	Total	1,858	1,887	29

xx. Transmission & Distribution Cost Determined by the Authority

8.3 In view of above discussion, the Authority decides T&D expenses as under;

Table 25: Transmission & Distribution Cost Allowed by the Authority

Sr. #	Description	Rs. in million		
		RERR . FY 2022-23	The Petition FY 2023-24	As Allowed
1	Net HR Cost	19,554	29,852	20,268
2	Stores, Spares and Supplies Consumed	880	1,186	1,056
3	Repairs & Maintenance	1,448	2,200	1,486
4	Fuel & Power	567	806	643
5	Stationery, Telegram and Postage	270	414	324
6	Dispatch of gas bills	180	300	216
7	Rent, Rates, Electricity and Taxes	673	926	753
8	Travelling	163	190	190
9	Transport	1,156	1,964	1,387
10	Insurance	278	300	300
11	Legal and professional charges	280	347	210
12	Consultancy for ISO 14001: 2004 & OHSAS 18000: 1999	12	13	13
13	Provision for doubtful debts	-	1,000	-
14	Gas Bills Collection Charges	666	660	660
15	Gathering charges on Bills Collection data	65	65	65
16	OGRA Fee	379	350	350
17	Advertisement	235	239	239
18	Security expenses:	1,853	2,249	2,249
19	UFG Control Activities	722	2,008	934
20	Bank charges	11	12	12
21	Protective supplies/ Clothing	77	106	92
22	Staff training	23	90	25
23	Recruitment expenses	-	30	-
24	Sponsorship of chairs at Universities	-	8	0
25	Outsourcing of Call Centre for Complaints Management	33	33	33
26	Recovery through contractors - (Disconnected	-	80	-
27	Sports Related expenses	43	136	43
28	Corporate Social Responsibility	10	20	10
29	Facilities Provided by other companies	15	24	24
30	Board meetings & directors' expenses	61	71	71
31	Stores and Spares written off	-	-	-
32	Bannu west well-1 & walli well-1	-	2,632	-
33	Quality Assurance Program	-	92	-
34	Expenses on uplifting of lines	-	-	-
35	Others	225	410	268
	TOTAL OPERATING COST	29,880	48,814	31,921
36	Less: Allocated to Fixed Capital expenditure	(500)	(500)	(500)
	Net Operating Cost	29,380	48,314	31,421
	Allocation of T&D Cost to (System Gas)	14,690	25,584	16,638
37	Allocation of T&D Cost to (RLNG)	14,690	22,729	14,782

9. Late Payment Surcharge in respect of gas supplier and Finance Cost of Working Capital

9.1 The petitioner claimed Rs. 31,658 million on account of LPS in respect of gas suppliers for the said year. Further, the petitioner demanded Rs. 1,676 million against financing cost of working capital.

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- 9.2 The Authority observes that matter in respect of LPS payable has been exhaustively discussed & decided in its determination of FRRs i.e. FY 2018-19 & MFR FY 2018-19 and FY 2019-20. The Authority is of the firm view that payables along with LPS in respect of state-owned entities is a matter of 'circular debt' and burden of payment cannot be shifted to general consumers till the final settlement by GoP. *In view of the same, the Authority decides to pend the entire LPS payment Rs. 31,658 million for the said year, and reiterates its directions to take up the matter with the Ministry of Energy for early and amicable settlement.*
- 9.3 *The Authority, however, allows the cost of short-term borrowing amounting to Rs. 838 million i.e. 50% of the claimed amount, on provisional basis subject to the actualization at year end that shall be considered at the touchstone of prudence and rationale.*

9.2 Worker Profit Participation Fund (WPPF)

- 9.4 The petitioner claimed 1,965 million against WPPF, as an operating cost, for the said year. The petitioner stated that the WPPF Act is applicable on companies operating in Pakistan. Accordingly, the petitioner has projected WPPF @ 5% on estimated profit for the said year. The petitioner stated that PWWF is not applicable as per the court judgement, therefore the same has been excluded.
- 9.5 *In view of the decisions in preceding paras, WPPF is re-calculated at Rs. 640 million on provisional basis subject to the actualization at year end.*

9.3 Cumulative revenue shortfall pertaining to previous years'

- 9.6 The petitioner has claimed Rs. 560,378 million on account of cumulative revenue shortfall pertaining to previous years upto RERR for FY 2022-23. The petitioner has submitted that inadequate revision/increase in gas prices is mainly attributable to those past years' shortfall, therefore requested to incorporate cumulative revenue shortfall as part of instant decision.
- 9.7 The Authority notes that decision for FRR FY 2021-22 has now been issued and accordingly, cumulative previous years' shortfall is re-calculated as tabulated below;

Particulars	(Rs. In Million)
Shortfall upto FY 2018-19	167,091
Shortfall of FY 2019-20	37,755
Shortfall of FY 2020-21	38,939
Shortfall of FY 2021-22 (As per FRR FY 2021-22)	69,587
Shortfall of FY 2022-23 (As per DRERR FY 2022-23)	109,180
Total	422,552

- 9.8 *The Authority has not included the same as part of instant revenue requirement and directs the petitioner to take up the matter with FG to devise appropriate policy for recoupment of previous years' shortfall in the light of its earlier determinations on this matter.*
- 9.9 The Authority notes that Pakistan Exploration & Production Companies Association (PEPCA) has recently raised the matter with FG for short recovery from sui companies owing to non-revision of adequate gas prices since many years. The Authority is of the considered view that fixation of category-wise gas sale price is the exclusive jurisdiction of FG, being a policy matter. *The Authority, through this Determination considering the request of PEPCA as well as sui companies, recommends FG for timely and adequate gas price revision including previous years, so that matter of outstanding receivables be resolved.*

10 RLNG Cost of Service

- 10.1 The petitioner has claimed RLNG cost of service at Rs. 69,544 million i.e. Rs. 223.23/MMBTU for the said year on projected RLNG sales volume of 311,538 MMBTU. Further, against the RLNG diversion volume 61,312 MMBTU to domestic sector, the petitioner claimed upfront recovery of balancing differential amount of RLNG cost Rs. 221,447 million (i.e. Rs. 710.82/MMBTU) to be incorporated under RLNG cost of service, thus an aggregate amount of Rs. 934.05/MMBTU has been claimed by the petitioner for the said year. The computation of RLNG cost of service is made as under:

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Table 26: RLNG's Cost of Service FY 2023-24 as Claimed by the petitioner

Particulars	
Quantitative Data	MMBTU
RLNG Input	429,188
Retainage / gas used in FSRU @ 0.75%	(3,210)
Retained by SSGC	(28,823)
GIC - SSGCL network @ 0.5%	(1,986)
GIC - SNGPL network @ 1.2%	(4,742)
UFG @ 4.5%	(17,569)
RLNG (Diverted to)/taken from System Gas	(61,312)
Net RLNG sold	311,537
Cost Components	Million Rs.
Amortization of Deferred Credit	(697)
LPS Income	(3,063)
Depreciation	2,496
Return on Assets	7,272
HR and other relevant costs allocated to RLNG	22,729
Gas Internally Consumed SNGPL	19,494
Gas Internally Consumed SSGC	8,163
Transportation charges payable to SSGC	9,313
Finance cost for working capital	3,341
WPPF	225
Total	69,272
Rs/ MMBTU	222.36
Diversion of RLNG towards Indigenous Gas Consumer	
Differential Impact of Diversion of RLNG to Indigenous Gas consumers to be charged to RLNG consumer	221,447
Impact of Diversion of RLNG	710.82
RLNG cost of service FY 2023-24 (Rs/ MMBTU)	933.18

10.2 The petitioner has requested that estimated RLNG volume, after exclusion of RLNG diverted volumes to domestic sector and the volume retained by SSGCL, should be used to ensure full cost recovery under cost of service. As per the petition, RLNG segment based on its proportionate business, T&D cost is accordingly charged at Rs. 22,729 million. The petitioner also excluded SSGCL GIC volume of 1,986 MMBTU, along with its cost recovery from its RLNG cost of service. The petitioner also claimed financing cost of working capital at Rs. 3,341 million for the said year.

10.3 The Authority, based on historical trend of LPS income, accepts LPS amount at Rs. 3,063 million on provisional basis; while SSGCL transportation cost has been revised based on latest determination per SSGCL's ERR for the said year. In the light of discussion per para 7.11 above, GIC is included at Rs. 1,896 million, calculated at Rs. 1,077.11/MMCF, as discussed in para 11.16 and 11.7 per SNGPL's FRR FY 2021-22.

10.4 W.r.t RLNG diversion volume to domestic sector, the same has been excluded in pursuance to para 6.12 above. Regarding allowance of finance cost for working capital amounting to Rs. 3,341 million, the Authority notes that MOE in its various meetings has duly acknowledged the liquidity crunch in RLNG supply chain and supported the petitioner's claim on this account. The Authority agrees that LNG/RLNG holds major share in overall gas supplies, therefore continuity of its supply chain is vital for larger public interest. *In view of the issues prevalent at this point in time as submitted by the petitioner and acknowledged by MoE(PD), the Authority in principle accedes to the request of the petitioner to treat finance charges on short term borrowings for payment to LNG/RLNG suppliers as operating expense.* Accordingly, in order to manage the petitioner's LNG suppliers viz PSO/PLL, the Authority allows 50% of the finance cost on provisional basis subject to the actualization at year end. The Authority further directs the petitioner to provide a certificate by an independent auditor confirming that finance cost on short term borrowing has been incurred to manage its LNG suppliers viz; PSO/PLL to pay its outstanding liabilities in respect of power sector, diversion/sale of expensive RLNG to domestic consumers and sale of RLNG at subsidized rate to export oriented sector and fertilizer consumers. Further, ROA is computed on RLNG operating fixed assets at 20.60% for the said year. In the light thereof, RLNG cost of service is re-calculated as per table below;

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Table 27: RLNG Cost of Service Allowed FY 2023-24

Quantitative Data		BBTU	
RLNG Input		429,188	429,188
Retainage / gas used in FSRU @ 0.75%		(3,219)	(3,219)
Retained by SSGC		(28,823)	(28,823)
GIC - SSGCL network @ 0.5%		(1,986)	(1,848)
GIC - SNGPL network @ 1.2%		(4,742)	(3,770)
UFG @ 4.5%		(17,569)	(17,569)
RLNG (Diverted to)/taken from System Gas		(61,312)	-
Net RLNG sold		311,537	373,959
Cost Components		Million Rs.	
Amortization of Deferred Credit		(697)	(697)
LPS Income		(3,063)	(3,063)
Depreciation		2,496	2,410
Return on Assets		7,272	6,384
HR and other relevant costs allocated to RLNG		22,729	14,782
Gas Internally Consumed SNGPL		19,494	15,500
Gas Internally Consumed SSGC		8,163	1,896
Transportation charges payable to SSGC		9,313	10,279
Finance cost for working capital		3,341	1,671
WPPF		225	225
Total	Rs. in Million	69,272	49,386
Rs/ MMBTU		222.36	132.06

11 Determination

11.1 In exercise of its powers under Section 8(1) of the Ordinance, the Authority determines the ERR for the said year at Rs. 358,421 million as against petitioner's claim of Rs. 501,676 million, as tabulated below:

Table 28: Components of ERR for FY 2023-24 as allowed

Particulars	Claimed by the petitioner	Million Rs.
		As allowed
Cost of gas sold	398,071	329,903
UFG (disallowance) / allowance	(750)	(11,076)
Transmission and distribution cost	27,489	17,476
Gas internally consumed	1,653	1,105
Depreciation	20,072	19,108
Late Payment Surcharge (Payable)	31,658	-
Workers Profit Participation Fund	640	640
Return on assets	22,166	19,194
Additional revenue requirement for LPG Air-Mix Projects	677	-
Other operating income	(17,929)	(17,929)
Total Revenue Requirement (excluding Previous year shortfall)	483,747	358,421

11.2 The provisionally allowed expenses are subject to adjustments on the basis of review under section 8(2) of the Ordinance, and later after scrutiny of auditors initialed accounts of the petitioner for the said year, provided these expenses are substantiated with appropriate justification and analysis in the form acceptable to the Authority.

11.3 The Authority considers it important and essential to impress upon the petitioner that this provisional determination of estimated revenue requirement for the said year pre-supposes that the petitioner would, in any case, faithfully and with responsibility conduct its affairs in full compliance of the requirement of Rule 17(1)(h) & Rule 17(1)(j) of the NGT Rules, as reproduced below:

Rule 17(1)(h)

"tariffs should generally be determined taking into account a rate of return as provided in the license, prudent operation and maintenance costs, depreciation, government levies and, if applicable, financial charges and cost of natural gas;"

Rule 17(1)(j)

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"only such capital expenditure should be included in the rate base as is prudent, cost effective and economically efficient;"

11.4 In view of above, the petitioner's total operating income is estimated at Rs. 256,235 million as against the revenue requirement of Rs. 358,421 million and thus there is a shortfall of Rs. 120,115 million in its estimated revenue requirement for the said year. In order to adjust this shortfall, the Authority hereby makes, on provisional basis, upward revision (Rs. 415.11/MMBTU) in the prescribed price, thereby determining the average prescribed price at Rs. 1,238.68/MMBTU for the said year (**Annexure-A**). Provisional prescribed prices against each category of consumers for the said year, effective for FY 2023-24, are attached as **Annexure-B** in comparison with existing sale price.

11.5 The revised provisional prescribed prices are subject to re-adjustment upon receipt of Federal Government advice under Section 8 (3) of the Ordinance in respect of the sale price of gas for each category of retail consumers provided that the overall increase in the average prescribed price remains unchanged so that the petitioner is able to achieve its total revenue requirements in accordance with Section 8 (6) (f) of the Ordinance."

12 Public Critique, Views, Concerns, Suggestions

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

13 General Directions

13.1 In addition to the directions issued by the Authority in its previous determinations, the petitioner is further directed to: -

- i) *submit a review petition to the Authority latest by October 15, 2023, for review of its estimated revenue requirements as required under Section 8(2) of the Ordinance, keeping in view the actual and anticipated changes in international prices of crude and HSFO during the period June to November 2023 and the trend of Rupee-Dollar exchange rate.*
- ii) *implement OGRA Gas (Third Party Access) Rules, 2018 by finalizing the long outstanding agreements/applications already pending with the petitioner.*
- iii) *Board of Directors is requested to take effective measures to reduce cost of service by effectively monitoring of all input costs.*
- iv) *rationalize HR cost keeping in view of changing business dynamics and gradual decrease of NG from local fields and increase proportion of RLNG. Moreover, all operational and administrative matters, additional hiring of manpower and CBA shall be assigned first priority in utilizing the additional amounts through OGRA's allowed funds.*
- v) *expedite the recovery from ever-increasing defaulting consumers and curtail ever-increasing expenses under the provision for doubtful debt, litigation cases and cost relating thereto.*
- vi) *Regarding international arbitration, the petitioner to ensure compliance of all agreed terms and avoid any breach thereof, since the same shall eventually result in spending of imprudent costs of litigation and shall be considered by the Authority at the time of FRR purely on merits and touchstone prudence.*


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vii) *All the relevant contentions of the intervener as summarized in chapter 3 of this order be carefully noted and complied/addressed in letter & spirit under the ambit of the regulatory framework.*


Mohammad Naeem Ghouri,
Member (Finance)


Masroor Khan
(Chairman)


Zain-ul Abideen Qureshi
(Member Oil)

The Islamabad, June, 2023


REGISTRAR
Oil & Gas Regulatory Authority
Islamabad



A. Computation of Estimated Revenue Requirement for FY 2023-24

Particulars	RERR FY 2022-23	The Petition FY 2023-24	Adjustment	Million Rs.
				As allowed
Gas sales volume -MMCF	323,732	366,522	(58,392)	308,130
BBTU	302,968	350,670	(61,312)	289,358
"A" Net Operating revenues				
Net sales at current prescribed price	179,297	270,480	(32,174)	238,306
Rental & service charges	4,320	4,416	-	4,416
Late Payment Surcharge and interest on arrears	7,549	7,549	-	7,549
Amortization of deferred credit	3,089	3,154	-	3,154
Transportation Income	760	760	-	760
Other operating income	2,050	2,050	-	2,050
Total income "A"	197,065	288,409	(32,174)	256,235
"B" Less Expenses				
Cost of gas sold (Indigenous Gas only)	264,020	398,071	(68,168)	329,903
UFG (disallowance)/ allowance	(9,821)	(750)	(10,326)	(11,076)
HR cost Incl. T & D cost, net of capital allocation	14,690	25,584	(8,946)	16,638
Gas internally consumed	878	1,653	(548)	1,105
Depreciation	18,342	20,072	(964)	19,108
Late Payment Surcharge (Payable)		31,658	(31,658)	
Finance cost for working capital	1,060	1,676	(838)	838
Operating expense of Upgradation of Bannu and Hangu		229	(229)	
Workers Profit Participation Fund	550	640	-	640
Total expenses "B"	289,719	478,833	(121,677)	357,156
"C" Operating profit / (loss)(A - B)	(92,654)	(190,425)	89,503	(100,921)
Return required on net assets:				
Net assets at beginning	125,787	114,293	-	114,293
Net assets at ending	114,293	132,865	(23,452)	109,413
	240,980	247,158	(23,452)	223,706
Average fixed net assets (I)	120,040	123,579	(11,726)	111,853
Deferred credit at beginning	20,819	20,155	-	20,155
Deferred credit at ending	20,155	17,200	-	17,200
	40,974	37,355	-	37,355
Average net deferred credit (II)	20,487	18,678	-	18,678
"D" Average operating assets (I-II)	99,552	104,902	(11,726)	93,176
Return required on net assets	16.60%	21.13%	-0.53%	20.60%
"E" Amount of return required	16,526	22,166	(2,972)	19,194
"F" Excess / (Shortfall) FY 2023-24 - gas operations	(109,180)	(212,590)	92,475	(120,115)
"G" Additional revenue requirement for LPG Air-Mix Projects		677	(677)	
"H" Excess / (Shortfall) FY 2023-24 without previous years shortfall	(109,180)	(213,267)	93,152	(120,115)
Average Inc/(Dec) in Prescribed Price FY 2023-24 (Rs/MMBTU)	(360.37)	608.17	(193)	415.11
"I" Total Revenue requirement FY 2023-24	306,245	483,747	(125,325)	358,421
"K" Average Prescribed Price (PP) FY 2023-24(Rs./MMBTU)	952.17	1,379.49	(140.81)	1,238.68

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B. Existing Category-wise Sale Price & Provisional Prescribed Prices for FY 2023-24

Description	Rupees per MMBTU	
	Existing Sales Price	Average Prescribed Prices FY 2023-24
1 Domestic consumers		
A STAND ALONE METERS		
B mosques, churches, temples, madrassas, other religious places and hostels attached thereto		
Protected:		
Upto 0.25 hm ³ per month		
Upto 0.50 hm ³ per month	121.00	1,238.68
Upto 0.60 hm ³ per month	150.00	1,238.68
Upto 0.90 hm ³ per month	200.00	1,238.68
Non-Protected:	250.00	1,238.68
Upto 0.25 hm ³ per month		
Upto 0.6 hm ³ per month	200.00	1,238.68
Upto 1 hm ³ per month	300.00	1,238.68
Upto 1.5 hm ³ per month	400.00	1,238.68
Upto 2 hm ³ per month	600.00	1,238.68
Upto 3 hm ³ per month	800.00	1,238.68
Upto 4 hm ³ per month	1,100.00	1,238.68
above 4hm ³ per month	2,000.00	1,238.68
	3,100.00	1,238.68
B Government and semi-Government offices, hospitals, Clinics, Maternity Homes, Government guest houses, Armed Forces messes and langurs, universities, colleges, schools, private educational institutions, orphanages and other charitable institutions along with Hostels and Residential Colonies to whom Gas is supplied through bulk meters including captive power		
All off-takes at flat rate of		
2 COMMERCIAL CONSUMERS	1,600.00	1,238.68
All establishments registered as commercial units with local authorities or dealing in consumer items for direct commercial sale like cafes, milk shops, tea stalls, canteens, barber shops, laundries, tandours, places of entertainment like cinemas, clubs and theaters, private offices, corporate homes etc.		
All off-takes at flat rate of		
3 Special Commercial Consumer (Roti Tandoor)	1,650.00	1,238.68
Upto 50 Cubic Meters Per Month		
Upto 100 Cubic Meters Per Month	110.00	-
Upto 200 Cubic Meters Per Month	110.00	1,238.68
Upto 300 Cubic Meters per Month	220.00	1,238.68
Over 300 Cubic Meters per month	220.00	1,238.68
4 Ice Factories	700.00	1,238.68
All off-takes at flat rate of		
5 General Industrial consumers	1,650.00	1,238.68
All consumers engaged in the processing of industrial raw material into value added finished products irrespective of the volume of gas consumed including hotel industry but excluding such industries for which a separate rate has been prescribed.		
All off-takes at flat rate of		
6 Zero Rated Consumers (Industrial & Captive)	1,200.00	1,238.68
General Industry: All off-takes at flat rate of		
Captive: All off-takes at flat rate of	1,100.00	1,238.68
7 CNG Stations	1,100.00	1,238.68
All off-takes at flat rate of		
8 Cement Factories	1,805.00	1,238.68
All off-takes at flat rate of		
9 Fertilizer Factories	1,500.00	1,238.68
Feed stock: All off takes at flat rate of		
Gas used for Fuel for Electricity Generation, steam and housing colonies	510.00	1,238.68
(a) Pak-American Fertilizer Limited, Dawdkhel		
All off takes at flat rate of		
(b) Pak-Arab Fertilizer Limited, Multan	1,500.00	1,238.68
All off takes at flat rate of		
(c) Dawood Hercules Chemicals Limited, Chichoki Malau, Sheikhpura District	1,500.00	1,238.68
All off takes at flat rate of		
(d) Pak-China Fertilizer Limited/ Hazara Phosphate Plant Limited, Haripur	1,500.00	1,238.68
All off takes at flat rate of		
(e) Engro Fertilizer Company limited	1,500.00	1,238.68
Feed stock: All off takes at flat rate of		
Gas used for Fuel for Electricity Generation, steam and housing colonies	\$0.70	1,238.68
10 POWER STATIONS	1,500.00	1,238.68
(a) WAPDA's Power Stations and other electricity utility companies excluding WAPDA's Natural Gas Turbine Station, Nishatabad, Faisalabad		
All off takes at flat rate of		
(b) WAPDA's Natural Gas Turbine Station, Nishatabad, Faisalabad	1,050.00	1,238.68
All off takes at flat rate of		
Fixed Charge (Rupee per month)	1,050.00	1,238.68
10 Captive Power	390,000	390,000
All off-takes at flat rate of		
11 Independent Power Projects	1,200.00	1,238.68
All off-takes at flat rate of		
	1,050.00	1,238.68

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C. HR Benchmark Computation FY 2023-24

HR benchmark Cost Parameters	FY 2022-23	FY 2023-24
	(RERR)	(ERR)
	Total	Total
Base Cost (Million Rs.)	17,910	18,151
CPI factor (%age)		
T & D network (Km)	163,880	165,060
Number of Consumers (No.)	8,007,505	8,010,555
Sales Volume (MMCF)	632,055	690,675
Unit Rate (Rs./unit)		
T&D network (Rs./Km)	115,274	110,756
No. of Consumers (Rs./Consumer)	2,355	2,267
Sale Volume (Rs./MMCF)	26,425	28,717
HR Cost Build-up (Million Rs)		
Cost CPI -		
T & D network (Old:33%)	6,297	6,094
Number of Consumers (Old:33%)	6,286	6,053
Sales Volume-(Old:33%)	5,567	6,611
HR Benchmark Cost	18,151	18,758
IAS Cost (incremental impact)		1,510
Total HR Benchmark Cost with IAS-19		20,268

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