3.1.1. The Authority 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). M/s KPMG submitted the first draft report on September 20, 2016 which was shared with Sui companies. Written comments of SNGPL, the petitioner and OGRA on the first draft report were forwarded to the Consultant for perusal / consideration in the 2nd draft report. The Consultant submitted 2nd draft report on February 3, 2017 which was publicized on the OGRA's website. In order to make the process meaningful an advertisement was given in leading Urdu and English newspapers to hold public consultation sessions in all provinces and Federal Capital to invite comments of the all stakeholders since the allowance of UFG impacts them.Comments received from various stakeholders including SNGPL, the petitioner, Energy & Power Department, Government of KPK, Government of Sindh, All Pakistan Textile Mills Association, Mr. Fahim ullah Khattak, World Bank, Khyber Pakhtunkwa Oil and Gas Company Ltd, Mr. Mehboob Elahi, and All Pakistan CNG Association as well as comments of OGRA were also forwarded to Consultant for perusal / consideration. The final report submitted by the Consultant was examined by OGRA in detail. OGRA observed that Consultant has taken into account comments of gas companies and other stakeholders and used an analytical approach while giving due consideration to international practices and ground realties faced by the gas companies. At the same time consumer's interest has closely been taken care to avoid putting any unnecessary burden on them. OGRA acknowledges the approach of Consultant for proposing a roadmap with specimen Key Monitoring Indicators (KMIs)and their linkage with the UFG Allowance.

3.1.2. Consultant rightly pointed out that not only mandate of Authority demands to protect the public interest by respecting their rights but also it requires to enable a controlled and regulated environment for the utilities. OGRA has to make sure that good consumers are not penalized for menace created by illegal consumer sand that adequate UFG control mechanism is implemented and appropriate UFG allowance is provided in the gas tariff. OGRA analyzed that the report is well-researched and neutral which will help to strike a balance between all stakeholders. Accordingly, the Authority has accepted the UFG Study Report on the following parameters: -

i. Thefollowing two component formula for calculating UFG allowance: -

$$\textbf{UFG Allowance} = \textbf{Gas Received} \times (\text{Rate}_1 + \text{Rate}_2 \times \beta)$$

**Legend**

$\text{Rate}_1$= Technical Component (Inherent gas loss in the system)

Rate $_2$= Local Challenging conditions component (Pakistan specific)

β =Performance factor (Key Monitoring Indicators)

ii. $\text{Rate}_1$ is the benchmark fixed rate based on prevalent conditions / infrastructure in the areas of the operation of the sui companies and same is fixed at 5% for the next five years. The fixed rate also includes allowance for transmission losses which is calculated upto maximum 0.5%.

iii. $\text{Rate}_2$ is the allowance for local challenging conditions as compared to the world at large. This factor is suggested to cover impact of gas losses due to expanding gas supply network in retail including law & order affected areas and making it more prone to theft, leakages, data / meter errors and non-recovery of gas bills from law and order affected areas. Allowance for these challenging conditions is fixed at a maximum of 2.6%.

iv. To ensureappropriate and seriouseffortsaredirectedtowards reducing UFG over the agreed term of five (5) years, the local challenging conditions component is linked to the achievement of KMIs.

v. The performance of Sui Companies against KMIs shall be validated through an annual review/assessment. Sui companies shall submit a five yearly KMI implementation plan, the achievement of which will be assessed on yearly basis.

vi. To compute and evaluate Estimated Revenue Requirements (ERRs) forprospective years, the Rate 2 will be taken at 50% and the same will be actualized in line with the achievement of proposed KMIs to evaluate respective Final Revenue Requirements (FRRs) on submission.

vii. The Authority observes that it had stated in its FRR for FY 2012-13, 2013-14, 2014-15 and 2015-16 that the volumes provisionally allowed as per policy decisions of the ECC of Cabinet shall be reconciled with the results of the UFG Study and any variation (s) shall be adjusted accordingly. However, since the benchmark has been revised on fixed and variable factors wherein the variable factor is based on KMI in accordance with the KPMG's study / recommendation hence it will not be practicable to assess the performance of sui companies on KMIs with retrospective effect. Therefore, taking into consideration the fact that the Authority has been allowing UFG allowance over and above the then benchmark of 4.5% based already on local challenging conditions i.e. present Rate 2, the Authority concludes to finalize the FRR for FY 2012-13, 2013-14, 2014-15 and 2015-16 on the same basis as done provisionally.

viii. If the companysustains a UFG loss below the benchmark set by the Authority the said company will only be given an allowance for UFG at actual levels.

ix. Based on analysis of the existing UFG calculation methodology along with reservation made by Sui companies and considering the international better practices for calculating UFG the following formula for the UFG calculation purpose will be used: -

$$\textbf{UFG\%} = \frac{\textbf{(Gas received – Gas Delivered) - Adjustments}}{\textbf{Gas received}}$$

3.1.3. The Authority further decides that there will be a multiplying factor i.e. alpha of Rate1which will remain at 1.0 for next five years. The same may be reviewed after 05-year period. Quantification of sub-heads of UFG components for $Rate_1$ will be monitored throughout 5 years, as per below formula: -

$$\textbf{UFG Allowance} = \textbf{Gas Received} \times (\alpha \times Rate_1 + Rate_2 \times \beta)$$

3.1.4. It is mandatory for the gas companies to submit an annual report regarding quantification of the components of UFG.