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No. OGRA-6(2)-1(1)/2017-DTRR

IN THE MATTER OF

SUI NORTHERN GAS PIPELINES LIMITED
FINAL REVENUE REQUIREMENT, FY 2016-17

UNDER

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

DECISION

October 6, 2017

Before:

Ms. Uzma Adil Khan, Chairperson
Mr. Noorul Haque, Member (Finance)
Dr. Abdullah Malik, Member (Gas)

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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 Pakistan Stock Exchange. The petitioner is operating in the provinces of Khyber Pakhtunkhwa, Punjab and Azad Jammu & Kashmir under the license granted by the Oil & Gas Regulatory Authority. It is engaged in the business of construction and operation of gas transmission and distribution pipelines, sale of natural gas and sale of gas condensate (as a by-product). The petitioner is also engaged in the business of Re-gasified Liquefied Natural Gas (RLNG), in accordance with the decision of the Federal Government (FG).

1.2. The petitioner filed a petition on August 15, 2017 under Section 8(2) of the Oil & Gas Regulatory Authority Ordinance, 2002 (the Ordinance) and Rule 4(3) of the Natural Gas Tariff Rules, 2002 (NGT Rules), for determination of its Final Revenue Requirement (FRR) for FY 2016-17 (the said year) on the basis of accounts, as initialed by its statutory auditors, after incorporating the effect of actual changes in the relevant factors in terms of Section 8(2) of the Ordinance. The petitioner has also submitted an amended petition (the petition) on August 16, 2017 wherein it has requested to allow 10-C bonus amounting to Rs. 512 million over and above HR benchmark cost for the said year. The petitioner has also provided a statement of account pertaining to RLNG business for the said year wherein it has claimed revenue shortfall at Rs. 2,681 million (Rs. 16.56 per MMBTU) to be recovered from RLNG consumers. The RLNG activity, as per decision of the FG is a ring fenced and separate activity, accordingly, instant revenue requirement determination is only to the extent of the natural gas activity of the petitioner.

1.3. In the petition for the said year, the petitioner, for the actual volume of 415,423 BBTU, has worked out its FRR for the said year, including Rs. 61,986 million previous years shortfall, at Rs. 275,783 million and the revenue shortfall at Rs 70,581 million. Based on the actual sales revenue on the basis of prescribe prices and actual sale mix, the petitioner has claimed an increase of Rs. 169.90 per MMBtu in the average prescribed price for the said year.

1.4. The Authority, vide its order dated October 6, 2016, had determined the petitioner's Estimated Revenue Requirement (DERR) for the said year under Section 8(1) of the Ordinance at Rs. 255,661 million for estimated sale volume of 418,840 BBTU.

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2. Salient Features of the Petition

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

Table 1: Comparison of Cost of Service with DERR & Previous Year

Rs/MMBtu

Particulars	FY 2015-16 FRR	FY 2016-2017 DERR	FY 2016-2017 The Petition
Sales volume (BBTU)	408,106	418,840	415,423
Cost of gas	384.81	307.11	373.14
UFG disallowance	(18.42)	(16.81)	-
Transmission & distribution	48.31	52.26	52.54
Law & order affected area	-	-	8.09
Depreciation	25.98	41.15	26.65
Other charges including WPPF	3.20	2.72	2.66
Impact of IAS 19 (Recognization of Actuarial Losses) for FY 2015-16	9.26	-	11.80
Interest expense on LPS 2014-15 & 2015-16	20.51	-	7.17
Prior year's Adjustment	110.31	106.82	149.21
WPPF 2015-16			(2.42)
Total operating cost	199.15	186.14	255.70
Return on fixed assets	36.89	45.51	35.02
Other operating income	(58.94)	(58.15)	(24.03)
Cost of service/ Prescribed price	561.91	480.61	639.83
Current average prescribed price	410.05	422.74	469.93
Incr/(decr) in Avg. PP	151.86	57.87	169.91

2.2. The petitioner has made the following submissions:

2.2.1. Annual return has been claimed at the rate of 17.5% of the value of its average net operating fixed assets (net of deferred credit) per license condition no. 5.2.

2.2.2. Gross addition in fixed assets during the said year has been claimed at Rs. 21,300 million and net addition, after accounting for deletion and depreciation, at Rs. 9,766 million, resulting in increase in net operating fixed assets from Rs. 97,350 million in DERR 2016-17 to Rs. 107,116 million for the said year. After adjustment of deferred credit, the average value of operating fixed assets eligible for return works out to Rs. 83,173 million and the required return at Rs. 14,549 million.

2.2.3. Total operating revenues have been claimed at Rs. 205,202 million in the petition, as against Rs. 189,065 million in DERR, as detailed below:

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Table 2: Comparison of Operating Revenues with DERR & Previous Year

Rs. Million

Description	FY 2015-16 FRR	FY 2016-2017 DERR	FY 2016-2017 The Petition	Incr/Decr over DERR	
Net sales at current prescribed price	167,344	177,060	195,218	27,874	17%
Rental and service charges	1,601	1,918	1,914	313	20%
Surcharge and interest on arrears	16,061	6,100	3,119	(12,942)	-81%
Amortization of deffered credit	2,765	2,527	3,250	485	18%
Income on transportation of RLNG	2,615	12,351	-	-	0%
Other operating income	1,011	1,460	1,701	690	68%
Net operating Revenues	**191,397**	**201,416**	**205,202**	**13,805**	**7%**

2.2.4. Net operating expenses have been claimed at Rs. 261,234 million in the petition as compared to Rs. 206,874 million provided in DERR, as detailed below:

Table 3: Comparison of Operating Expenses per the petition with DERR & Previous Year

Rs in Million

Description	FY 2015-16 FRR	FY 2016-17 DERR	FY 2016-17 The petition	Inc/(Dec) over Actual	
Cost of gas	157,043	128,632	155,013	26,381	21%
UFG disallowance	(7,518)	(7,044)	-	7,044	
Transmission & distribution cost	19,717	21,892	21,825	(67)	0%
Law & order affected area			3,362		100%
New Regions Cost	-	-	-		0%
Depreciation	10,602	17,238	11,073	(6,165)	-36%
Other charges including WPPF	1,316	1,138	1,103	(35)	-3%
Impact of IAS 19 (Recognization of Actuarial Losses) for FY 2015-16	3,779	-	4,902	4,902	0%
LPS on account of Gas creditors	8,371	-	2,978	2,978	0%
WPPF FY 2015-16	-	-	(1,008)	(1,008)	0%
CBA agreement claim (1980-90)	-	-	-	-	0%
T&D Cost	36,267	33,224	44,235	11,011	33%
Prior year adjustments	**45,018**	**45,018**	**61,986**	**16,968**	**38%**
Total T& D Cost	**238,327**	**206,874**	**261,234**	**54,360**	**26%**

2.2.5. Net result of the petitioner's above mentioned claims is that there is a shortfall of Rs. 70,581 million after allowing 17.5% return on average net operating assets, which translates to an increase of Rs. 169.90 per MMBTU in the existing average prescribed price, as tabulated below:

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

	Description	Rs in Million
A	Net operating revenues	205,202
B	Less:Net operating expenses including WPPF	261,234
C	(Shortfall)/Excess (A-B)	(56,032)
D	Return required @ 17.5% on net fixed assets in operation	14,549
E	Total (shortfall)/ excess in revenue requirement (D-C)	(70,581)
F	Sales volume (BBTU)	415,423
Increase in the average prescribed price (Rs/MMBTU) (E/F*1000)		(169.90)

3. Proceedings

3.1. The Authority issued notice of hearing on August 31, 2017 to the petitioner and the following interveners and related parties:

i. Federal Government (FG/GoP).
ii. Mr. Raziuddin (Razi), CEO, Khyber Pakhtunkhwa Oil & Gas Company Ltd (KPOGCL) Peshawar.
iii. Mr. Saleem Saleh, Acting Secretary General, All Pakistan Textile Mills Association Karachi.
iv. Mr. Pervaiz Khan Khattak, Chairman Standing Committee on CNG, Federation of Pakistan Chamber of Commerce and Industry & Consumer, Islamabad.
v. Mahmood Elahi Engineers, Sui Gas Contractors Punjab and Khyber Pakhtunkhwa, Faisalabad.
vi. Mian Mahmood Rashid, Advocate Supreme Court
vii. Mr. Maqsood Ahmad Butt, Managing Director Aruj Industries Limited, Lahore.
viii. Mr. Ghazanfar Bilour, President Industrialist's Association Peshawar.
ix. Mr. Zulfizar Ali Khan, President Khyber Pakhtunkhwa Chamber of Commerce and Industry, Peshawar
x. Mr. Ghulam Qadir Awan, Lahore.

3.2. The hearing was held at Lahore on September 18, 2017.

3.3. The petitioner was represented at the hearing by a team of senior executives led by Mr. Amjad Latif, Managing Director along with legal counsel, who were given full opportunity to present the petition. The petitioner made submissions with the help of multimedia presentation explaining the basis of its petition and also responded to the comments, observations, objections, questions, and suggestions of the participants as well as members & officers of the Authority.

3.4. The petitioner's legal counsel emphasized that under section 6(2)(O), the Authority has to safeguard the public interest including national security interest as well as as-

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per section 6(2)(q) the Authority has to protect interest of all stakeholders including consumers and licensees. Counsel further discussed that cost of alternate or substitute source of energy must be considered while determining the tariff.

3.5. On UFG report, the counsel argued that determination of ERR dated October 6, 2016 states that UFG benchmark being set therein is provisional and will be finalized once the report has been received. He further argued that the UFG report also acknowledges that detected claim has to be recovered from non consumers and if it remains unrecovered it becomes an issue of debtors management rather than UFG. The Authority is therefore obligated to discount theft volume to non consumers from the overall UFG figures.

3.6. The counsel also argued that in terms of Gas (Theft Control and Recovery) Act 2016 and in terms of section 21 of the Ordinance and Rule 30 of the Natural Gas Licensing Rules, 2002 recovery of volume of theft by non consumers is OGRA's domain.

3.7. The Legal Counsel emphasized that UFG report has acknowledged local condition factors including change in sales mix, theft by non consumers and losses due to poor Law & Order conditions, in view of the fact that the utilities companies are operating in peculiar conditions not prevalent in other Countries and on that vary basis. On this, ED (Gas) informed that the local challenging condition allowance covers all such factors.

3.8. The counsel also appreciated the fact that the petitioner intends to have positive relationship with OGRA to resolve the disputed matters through discussion and dialogue. He further stated that for the past few years both the petitioner and OGRA have tried to resolve and find solution for the conflicting issues, and expressed his desire continue this trend to and improve the overall efficiency including reduction in UFG over the next 5 years and for that very purpose the petitioner will submit another detailed 5 years UFG reduction plan in the light of KMI's to address the whole UFG issue holistically.

3.9. The following interveners and participants have attended the hearing:

i. Mr. Fawad Haider, (KPOGCL), Peshawar.
ii. Mian Mahmood Rashid, Advocate Supreme Court.
iii. Mr. Ghulam Qadir Awan, Lahore.

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3.9.1. The representative from KPOGCL highlighted that UFG losses should not be passed on to the consumers and its rate should be fixed at 4% and rather less. He further stated that a strategy should be made in order to fix the UFG impact and international standards/parameters for the same should be followed. The intervener further suggested to conduct hearing at Peshawar. He also referred to the letter written by KPK Govt w.r.t law & order situation in the year 2013 and stated that there is no issue of law & order in the area. SNGPL on false premise is attempting to park illegal theft. Kohat, Hangu and Karak are quite peaceful areas. People of these areas have to wait for months for legal connections. If proper network is laid, the gas connections including industrial connections are provided at priority there will be no law & order issue.

3.9.2. Mr. Mian Mahmood Rashid, Advocate Supreme Court argued that SNGPL's petition was not provided in full by OGRA, whereas, NEPRA provides full petition along with annexures. He further stated that UFG, when added in recoveries on account of non consumers cannot be assumed as receivables to be excluded from UFG. The same is contradictory to the UFG definition as per law. He further argued that legal counsel of SNGPL claims that it's a public limited company then why it is generating profits through public money. Furthermore, he stated that international standards should be followed in all walks of life, however, in case one of the international standard is not being followed in one part of the country, it does not allow everyone to be inefficient in terms of other standards as well. He therefore, stated that everyone should play its role in an effective manner to bring efficiency in the whole system.

3.9.3. Mr. Ghulam Qadir Awan stated that he requested to provide copy of petition and the financial statements which were not provided. The intervener argued that UFG and other increased expenses are due to inefficiencies of the petitioner which should not be passed on to the consumers. He further referred to the comments of petitioner's legal counsel that both gas utilities are earning profits on the existing price and paying taxes then sufferings of SNGPL are beyond understanding and contradictory to financial results. He further argued that traditionally HR cost used to be 50% of operating cost, whereas, in the instant case HR cost is almost double the operating cost as it is increasing beyond limits. He also stated that sale price cannot be less than prescribe price.

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As per GDS Act, sale price should be more than the prescribed price hence the prescribed prices as given by OGRA are not legally correct. OGRA is bound to abide by the laws and even any advice from FG cannot override the law. With respect to category wise natural gas sale price, he expressed that the same are not rational as it is not judicious to sell a product below its cost of supply.

3.9.4. The observations were responded by the petitioner and also affirmed that other desired information is available on its website. ED (Gas) also raised the objection on the referred law of OGRA Ordinance section 21, and replied that utilities companies are bound to recover the stolen/ theft as-per applicable laws and this matter has severely been adjudicated in Courts and before Ministry of Law & Justice and they have endorsed OGRA stance. With respect to issue highlighted by intervener on account of non-provision of petition the Authority directed the concerned to provide all relevant record as permissible under the law.

4. Determination

4.1. After detailed scrutiny of the petition, clarifications given by the petitioner, and valuable input from interveners and participants, the Authority determines as follows:

5. Authority's Jurisdiction And Determination Process

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

5.2. The decisions issued by the Authority have always been strictly in accordance with the relevant provisions of Law. All the statutory requirements are firmly complied with before issuing any Order and in this whole process the Authority, very meticulously, ensures that public service utilities prosper in an efficient manner. The Authority, since its inception had issued all of its determinations, after going through the due process of transparent public hearings, while balancing the interest of all stakeholders, including general public, gas utilities, industrial consumers, etc. The checks and balances implemented by the Authority to improve the quality of service to consumers and bring efficiency in the overall management of the company have proved to be beneficial for the whole nation in measurable terms.

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

5.4. The operating revenues, operating expenses and changes in asset base are scrutinized in depth, keeping in view the FG socio economic agenda and policy advices, in accordance with Rule 17(j) of NGT Rules.

6. Return to Licensee

6.1. The Authority is obligated under Section 7(1) of the Ordinance, to determine or approve tariff for regulated activities whose licenses provide for such determination or such approval, or where authorized by this Ordinance, subject to policy guidelines. *License Condition No. 5.2* of license granted to the petitioner clearly states that subject to the efficiency related benchmarks adjustments, the Authority shall determine total revenue requirement of the licensee to ensure that it achieves 17.5% return on its average net fixed assets in operation for each financial year. The Authority, accordingly, has been determining the revenue requirement of the petitioner, providing return on net operating assets in accordance with the said provision of the Ordinance as well as the petitioner's license, while treating various income and expenditure heads as per existing regime.

6.2. In view of above, it is established that Authority strictly performs as per its mandate and allows guaranteed return (i.e. 17.5%) to the petitioner. The Authority, however, notes with grave concern that petitioner's operating inefficiencies specifically the gas losses are not only deteriorating its profitability but also contributing national loss in terms of productivity and return to Government investment. More specifically, gas loss is almost the only factor which precludes it to retain the guaranteed return. The petitioner is therefore stressed to formulate strategic plan and control the gas losses to produce amenable results benefitting the shareholders and public at large.

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7. Operating Fixed Assets

7.1. Summary

7.1.1. Gross addition in fixed assets during the said year has been claimed at Rs. 21,300 million. The depreciation on the opening assets and added during the year has been claimed at Rs. 10,993 and deletion in assets at Rs. 542 million. Accordingly, net addition in assets after accounting for depreciation/deletion is Rs. 9,765 million, increasing the net opening fixed assets of Rs. 97,350 million to 107,116 million at the closing for the said year. After adjustment of deferred credit, the average value of operating fixed assets has been claimed at Rs. 83,137 million and the required return at Rs. 14,549 million. The computation of return on fixed assets is tabulated below:-

Table 5: Computation of Return on Operating Fixed Assets per the petition

Description		Natural Gas
Net operating fixed assets at beginning		97,350
Additions during the year		21,300
deletion during the year		(542)
Total Addition		**20,758**
Depreciation		10,993
Net addition		9,765
Net Operating fixed assets at closing		107,116
Average Net operating fixed assets	A	102,233
Deferred Credit at Beginning		16,620
Deferred Credit at Closing		21,573
Average Deferred Credit	B	19,096
Average Net Assets eligible for return (A-B)		83,137
Rate of return		17.50%
Amount of Return		**14,549**

7.1.2. The comparative analysis of additions in fixed assets with DERR and the previous year is as follows: -

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Table 6: Comparison of Summarized Schedule of Additions in assets

Million Rs.

Particulars	FY 2015-16	FY 2016-17		Inc./(Dec.) Over DERR	
	FRR	DERR	The Petition		(%)
Transmission (LNG)	13,910	22,172	24,566	2,394	11
Normal Assets Pertaining to Natural Gas					
Transmission (Normal)	180	2,572	5,988*	3,416	133
Transmission (Normal) prior year adjustments	1,555	-	-35	-35	
Compression	544	310	333	23	7
Distribution Development	6,544	11,755	8,365	-3,390	-29
Measuring and Regulating Assets	3,518	7,340	5,149	-2,191	-30
Plant, Machinery, Equipment and Other Assets	1,279	683	1,227	544	80
Buildings on freehold Land	245	200	82	-118	-59
Land & Land Acquisition Advance	128	-	160	160	
Intangible Assets (IT related cost)	108	650	31	-619	-95
Net addition in asset base	14,101	23,510	21,300	184	0.4

* Rs. 5988 million includes Rs. 4,452 million which is in respect of pipelines laid on 100 % Cost Sharing Basis.

7.1.3. The petitioner has reported approximately 0.4 % increase in addition of fixed assets compared with DERR for the said year.

7.2. TRANSMISSION MAINS

7.2.1. The petitioner has requested to allow Rs. 30,519 million under the head "Transmission" for the said year. The addition to transmission is summarized as below: -

Table 7: Summarized additions in Transmission for the said year

Sr. No.	Description	Diameter	Physical Targets (Kms)	Rs. In Million
Transmission (LNG Project) Phase-I				
1	NARA CANAL CROSSING ON SV2-SV3 LINE	42"	0.49	379
2	C.P STATIONS			231
3	PRIOR YEARS ADJUSTMENTS			122
	Total-A			732
Transmission (LNG Project) Phase-II				
1	QADIRPUR TO QV/2 LINE	42"	26.30	2,223
2	QV/2 TO ACIX LINE	42"	44.0	3,193
3	AV-10-A4 TO AC4 LINE	36"	59.62	3,282
4	AV20 - A6 - AV22 LINE	36"	66.21	3,733
5	AV15 - AV20	36"	5.54	629

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6	OKARA CANTT - AKHTARABAD (1st Segment)	30"	42.37	952
7	MIAN CHANNU - SAHIWAL LINE	24"	145.20	3,556
8	PHOOL NAGAR - MP-59.9 LINE	18"	63.50	1,351
9	(D/H OFF TAKE (MP-59.9) - TATLAYALI (MP-27.7)	16"	44.60	695
10	BV3 (KHURRIANWALA) B1 (MANAWALA)	16"	25.37	459
	Total-B		522.71	20,072
	Total(A+B)			20,804
Addition of Other Assets (SMS's/ Machinery/ Construction Equipment/ Compression/ etc.)	**Addition of Other Assets (SMS's/ Machinery/ Construction Equipment/ Compression/ etc.)**	**Addition of Other Assets (SMS's/ Machinery/ Construction Equipment/ Compression/ etc.)**	**Addition of Other Assets (SMS's/ Machinery/ Construction Equipment/ Compression/ etc.)**	**Addition of Other Assets (SMS's/ Machinery/ Construction Equipment/ Compression/ etc.)**
1	LAND, MACHINERY, CONSTRUCTION EQUIPMENT, EQUIPMENT, TOOLS AND VEHICLES (LNG Phase I and II)	-	-	423
2	COMPRESSION i.e. COMPRESSOR STATION EQUIPMENT (LNG Phase I and II)	308	3031	3,339
	Total -C			3,762
	Grand Total (A+B+C)			24,566
Transmission (Normal) RLNG Based Power Plants (100 % Cost Recovery Basis)				
1	NANDIPUR POWER PLANT	24"	84.60	2,173
2	BHIKKI POWER PLANT	30"	17.5	734
3	BALLOKI POWER PLANT	30"	7.5	455
4	HAVELI BAHADUR SHAH POWER PLANT	30"	37.30	1,091
	Total (100 % Cost Recovery Basis)			**4,452**
OTHERS/SMS'S				
1	**BALLOKI BRIDGE CROSSING**	16"	0.49	43
2	NARI PANOOS TRANSMISSION LINE	8"	2.98	29
3	SHAHIWAL - ROJHAN LINE	12"	21.0	171
4	KALABAGH 1-A TO EXISTING V/A MP:11.29	8"	1.0	12
5	SMS FOR BHIKKI, BALLOKI AND HAVELI BAHADUR SHAH			1,006
6	OTHER SMS ADDITIONS			214
7	PLANT & MACHINERY/COMPUTER HARDWARE			26
	Total (Others)			1,501
	Grand Total Normal Transmission			5,954
	Grand Total (LNG + NORMAL)			30,519

7.2.2. The detailed Para-wise breakup of the above table is given below: -

(i) LNG Phase-I

7.2.3. The petitioner informed that it had commissioned Nara Canal Crossing on SV2-SV3 line with a total length of 0.49 Km (42" Diameter) including CP Stations and prior year adjustments under LNG Phase-I project during said year at a cost of Rs. 732 million. The petitioner projected Rs. ,1136 million under the head in ERR for the said year, however, the Authority disallowed the said amount stating therein that it will consider the same at the time of FRR keeping in view the actual expense made by the petitioner in this regard. ***Keeping in view the***

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decision of the ERR for the said year and actual expense made by the petitioner, the Authority allows Rs. 732 million under the head LNG Phase-I as requested by the petitioner.

(ii) LNG Phase-II

7.2.4. The petitioner informed that it had commissioned 10 Nos. lines with a total length of 522.71 Km ranging from 42" to 16" Diameter under LNG Phase-II project during the said year at a cost of Rs. 20,072 million. The Authority had approved an amount of Rs. 18,845 million for laying of these pipelines under LNG Phase-II in DERR for the said year. ***Therefore, the Authority allows Rs. 20,072 million under the head LNG Phase-II on actual basis as requested by the petitioner.***

(iii) Other Assets (LNG Phase-I and II)

7.2.5. The petitioner also informed that it had capitalized Rs. 3,762 million against Land, Machinery, Construction Equipment, Equipment, Tools and Vehicles and Compression for LNG Phase I and II. The Authority had approved an amount of Rs. 3,327 million for the said equipment under LNG Phase I and II in DERR for said year. The over and above expense is due to procurement of land and land advances in respect of R.O.W and construction of SMSs for RLNG based projects. ***Therefore, the Authority allows Rs. 3,762 million under the head as requested by the petitioner.***

(iv) Transmission Mains (Normal) for RLNG Based Power Plants on 100 % Cost Sharing

7.2.6. The petitioner has requested to allow Rs. 4,452 million under the head of Transmission Lines (Normal) for RLNG based power plants which are on 100 % Cost Recovery Basis. The Authority vide its letter dated April 8, 2016 had already granted principle approval in respect of the aforementioned Transmission Mains. ***The Authority therefore allows Rs. 4,452 million under the head, however, there will be no return on this expense.***

(v) Other Transmission Assets (Normal)

7.2.7. The petitioner also informed that it had capitalized Rs. 1,501 million against Balloki Bridge Crossing, Nari Panoos Transmission Line, Sahiwal-Rojhan Line

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and SMSs etc. The Authority had approved an amount of Rs. 2,572 million for the said head in DERR for said year. *Therefore, the Authority allows Rs. 1,501 million on actual basis under the head as requested by the petitioner.*

i. It is observed that Rs. 35 million against Transmission Normal in the above table is prior year adjustments which could not be capitalized by the petitioner.

ii. It is also observed that assets of Rs. 24,566 million in respect of RLNG are ring fenced as per Policy Guidelines of the FG.

7.2.8. ***The Authority after due diligence and keeping in view the arguments and justifications advanced by the petitioner allows capitalization of Rs. 30,519 million as requested by the petitioner under the head" Transmission" for the said year.***

7.3. COMPRESSION

7.3.1. The petitioner has requested to allow Rs. 333 million under the head Compression against 5 years' compression overhauling project as against Rs. 310 million under the head in DERR for the said year. The petitioner informed that it includes Rs. 322 million from previous 5-year compression overhauling project (FY 2011-16) whereas Rs. 11 million is against previous years' adjustments.

7.3.2. ***Keeping in view the operational requirements and earlier approved project, the Authority allows Rs. 333 million under the head for the said year.***

7.4. DISTRIBUTION DEVELOPMENT

7.4.1. The petitioner informed that it has laid 4,860 Km Distribution Mains against 9,000 Km as allowed/ principally approved in DERR/ DRERR for the said year at a cost of Rs. 4,907 million. The petitioner requested that the expense may be allowed by the Authority.

7.4.2. ***Keeping in view the above, the Authority allows Rs. 4907 million actualized under the head for the said year and advises the petitioner to project prudently and in line with its capacity.***

7.4.3. The petitioner informed that it has laid 65 Km Distribution Mains on 100 % cost sharing against 100 Km as allowed by the Authority in DERR/ DRERR for said

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year at a cost of Rs. 66 million. The petitioner has stated that reduced capitalization in this respect is due to the fact that supply of gas to Islamabad International Airport is still in progress.

7.4.4. *Keeping in view the above, the Authority allows Rs. 66 million actualized under the head for the said year. However, this amount will not be included in the rate base of the petitioner.*

7.4.5. The petitioner has informed that it has capitalized Rs. 2,340 million for provision of service lines for new connections laid as and when required basis.

7.4.6. *Keeping in view the operational requirement, the Authority allows Rs. 2,340 million actualized under the head for the said year.*

7.4.7. The petitioner has informed that it has capitalized Rs. 863 million against projected cost of Rs. 548 million under Rehabilitation and UFG Control and it may be allowed by the Authority.

7.4.8. *Keeping in view the operational requirement, the Authority allows Rs. 863 million actualized under the head for the said year.*

7.4.9. The petitioner has informed that it has capitalized Rs. 189 million under UFG Reduction Plan as against Rs. 675 million allowed in DERR/ DRERR for said year.

7.4.10. *Keeping in view the operational requirement, the Authority allows Rs. 189 million actualized under the head for the said year.*

7.4.11. *Keeping in view the above, the Authority allows R. 8,365 million under the head Distribution Development for the said year.*

7.5. MEASURING AND REGULATING

7.5.1. The petitioner informed that it has installed 420,704 connections as against 530, 000 new domestic connections projected for the said year at a cost of Rs. 3,068 million and the petitioner has requested that the expense may be allowed by the Authority. The Authority allowed an amount of Rs. 4,213 million in DERR for the said year for provision of 330,000 new domestic connections.

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However, in review petition for the said year, the Authority allowed, in principle, additional 200,000 new domestic connections.

7.5.2. ***Keeping in view the above, the Authority allows Rs. 3,068 million under the head for the said year.***

7.5.3. The petitioner informed that it has replaced 478,307 old meters at a cost of Rs. 1546 million as against projected cost of Rs. 2,549 million during said year, which may be allowed by the Authority.

7.5.4. ***The Authority allows Rs. 1,546 million under the head for the said year for correct metering of the gas.***

7.5.5. The petitioner informed that it has installed 241 new TBS/ DRSs at a cost of Rs. 534 million against projected cost of Rs. 361 million per DERR for said year. The petitioner informed that the increase is due to installation of 241 TBS/ DRSs against 200 as projected in the respective ERR during the said year. The petitioner requested that it may be allowed by the Authority.

7.5.6. ***Keeping in view the operational requirement, the Authority allows Rs. 534 million under the head for the said year.***

7.5.7. ***Keeping in view the above, the Authority allows Rs. 5,149 million under the head "Measuring and Regulating" for the said year.***

7.6. PLANT, MACHINERY, EQUIPMENT AND OTHER ASSETS

7.6.1. Under the head "Plant & Machinery equipment and other assets", the petitioner has capitalized Rs. 1,227 million per DERR FY 2016-17. The details alongwith reasons for variation are as under: -

7.6.2. The petitioner has capitalized Rs. 544 additional as against allowed per DERR FY 2016-17. The petitioner has explained that the increase is due to the previous years adjustments which are capitalized during said year. The heads under which previous years adjustments, made are I.T/MIS, Construction Equipment, Furniture & Fixture, Plant & Machinery and Telecommunication Equipment.

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7.6.3. *Keeping in view the above, the Authority allows addition in Assets on account of "Plant, Machinery and other assets" at Rs. 1,227 million for the said year with the advice to remain within the budget in future.*

7.7. **BUILDING ON FREE HOLD LAND (NORMAL)**

7.7.1. The petitioner has capitalized Rs. 82 million against Rs. 200 million allowed in DERR FY 2016-17 under the head of construction of office building in Sahiwal Region. It has been observed that the petitioner remained within the projected amount.

7.7.2. Keeping in view the operational requirement, the Authority allows Rs. 82 million under the head for the said year.

7.8. **LAND AND LAND ACQUISITION ADVANCE**

7.8.1. The petitioner has capitalized Rs 160 million against purchase of land and advance for purchase of land during the said year. It has been observed that the petitioner has not projected any amount in its petition for ERR for the said year under this head, however, the petitioner has informed that the amount had been incurred in respect of Land for ROW for LNG, transmission lines and SMSs.

7.8.2. *Keeping in view the mandatory requirement of ROW and an operational requirement, the Authority allows Rs. 160 million and directs the petitioner to project such expenditures prudently in the ERR.*

7.9. **SCADA (IT RELATED COST)**

7.9.1. The petitioner has capitalized Rs. 31 million against Rs. 650 million per DERR FY 2016-17 under the head. The petitioner remained within the projected amount.

7.9.2. *The project has already been approved by the Authority, therefore, the Authority allows Rs. 31 million under the head.*

7.9.3. *In view of above, the Authority allows addition in fixed assets for the said year at Rs. 45,866 (Rs. 24,566 million pertains to LNG business) as requested by the petitioner.*

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8. Operating Revenues

8.1. Sales Volume

8.1.1. The sales volume has dropped to 415,423 BBTU, witnessing a decrease of 1% for the said year, as against 418,840 BBTU per DERR FY 2016-17. Category-wise comparison with previous year has been provided by the petitioner as under:

Table 8: Comparison of Category-wise Sales Volume

BBTU

Category	FY 15-16	FY 2016-17		Growth
	FRR	DERR	The Petition	%
Power	97,801	91,669	95,232	4%
Cement	300	5,469	209	-96%
Fertilizer	32,778	27,993	36,189	29%
General Industries	43,870	46,418	45,363	-2%
CNG	29,101	24,915	27,288	10%
Commercial	22,481	29,110	21,856	-25%
Domestic	181,776	193,266	189,286	-2%
Total	**408,106**	**418,840**	**415,423**	**-1%**

8.1.2. The Authority observes that petitioner had projected the volumes a bit on higher side at the time of DERR for the said year. In the cement sector, drastic decrease has been witnessed since this sector is provided gas on as and when available basis. The actual gas supply to commercial sector has been dropped to 25% viz a viz it was projected at the time of DERR FY 2016-17. With almost same ratio, the gas sale to fertilizer sector has increased for the said year. The Authority observes variations with respect to category-wise sales when compared to DERR based on the total volume projected at that time, however, the category-wise sales ratio has remained similar to the previous years.

8.1.3. The Authority observes that gas supply to various sector is made in accordance with the gas load management policy which is FG domain. ***The Authority accepts sales volume at 415,423 BBTU for the said year.***

8.2. Sales Revenue

8.2.1. Sales revenue has been increased from Rs. 177,062 million to Rs. 195,218 million per DERR. Category-wise comparison with DERR and previous year is given below:

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Table 9: Historical Comparison of Category-wise Sales Revenue per the petition

Million Rs.

Category	FY 2015-16	FY 2016-17		Incr/Decr over Actual
	FRR	DERR	The Petition	
Power	56,024	49,669	46,477	-6%
Cement	227	4,102	102	-98%
Fertilizer	2,999	6,327	17,571	178%
General Industries	27,686	27,851	21,367	-23%
CNG	20,218	17,441	13,156	-25%
Commercial	15,726	20,374	10,746	-47%
Domestic	44,464	51,298	85,798	67%
Total	**167,344**	**177,062**	**195,218**	**10%**

8.2.2. The petitioner has submitted that above revenues are based on the existing average prescribed price determined by the Authority as per DERR for the said year. Further, variation in sales revenue is due to change in sale mix.

8.2.3. The Authority observes that it had determined the revenue requirement /Prescribed Prices for the said year at the time of DERR and sent the same to FG for sale price advice. FG revised the gas prices, the same however does not meet the revenue requirement. The prescribed prices for the said year consequently are determined to the extent of the notified sale prices for the said year.

8.2.4. ***In view of above, the sales revenue at sale prices for the said year is determined at Rs. 165,318 million for the said year.***

8.3. Other Operating Income

i. Summary

8.3.1. The petitioner has reported other operating income at Rs. 9,984 million for the said year as against Rs. 10,922 million per DERR. Item-wise comparison is as under:

Table 10: Historical Comparison of Other Operating Income

Million Rs.

Description	FY 2015-16	FY 2016-17	FY 2016-17	Increase/(Decrease) over DERR	
	FRR	DERR	The petition		
Rental and service charges	1,601	1,918	1,914	(4)	0%
Surcharge and interest on arrears	5,545	6,100	3,119	(2,981)	-49%
Amortization of deffered credit	2,765	2,527	3,250	723	29%
Other operating income	1,011	1,460	1,701	241	17%
Net operating revenue	10,922	12,005	9,984	(2,021)	-17%

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ii. *Rental & Service Charges*

8.3.2. The petitioner has claimed income from "Rental & Service Charges" at Rs. 1,914 million for the said year.

8.3.3. The Authority observes that the petitioner has also booked Rs. 12 million income under this head to be charged from RLNG consumer and has treated the same as non operating. The Authority notes that income under the head "meter rental" pertains to revenue requirement of the gas companies. The gas meters were primarily installed for provision of natural gas regulated activity, the same are now used for the measurement of indigenous gas as well RLNG. Therefore, the asset which emanates wholly from public funding through revenue requirement cannot be bifurcated in terms of indigenous or RLNG gas *Therefore, the income under "Rental & Service Charges" is computed at Rs. 1,926 million for the said year.*

iii. *Late payment surcharge and Interest on arrears (LPS)*

8.3.4. The petitioner has included income on account of LPS at Rs. 3,119 for the said year against Rs. 6,100 million determined in DERR 2016-17. The petitioner has attributed the decrease in LPS is mainly due to shifting of most of the industrial consumers from indigenous gas to RLNG. Due to shorter billing cycle of RLNG consumers, the default ratio in RLNG consumers is very much on the lower side and the LPS on this account is also not operating activity.

8.3.5. The Authority observes that an amount of Rs. 325 million under this head in respect of IPPs and Cement sector has not been included by the petitioner without any rationale. Accordingly the same has been added. Further, the petitioner has claimed Rs. 187 million LPS on account of RLNG activity as non operating income which is allowed since it is ring fenced activity which has not been formed part of instant determination.

8.3.6. *In view of above, the income on account of Late payment surcharge reported on the basis of initialed accounts is computed at Rs. 3,444 million for the said year.*

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iv. Supply of RLNG

8.3.7. The Authority observes that petitioner has ring-fenced the expenses on account of "Transportation Charges" and computed the shortfall at Rs. 2,681 million for the said year.

8.3.8. The Authority further observes that RLNG pricing as per legal framework provided by the FG is carried out under Petroleum Product (Petroleum Levy) Ordinance 1967. Further, as per decision of the FG regarding "RLNG pricing, allocation & allied matters" expenses on this account is a ring-fenced activity, separately maintained and entirely recovered from RLNG consumers. Thus, for all practical purposes the expenses on account of RLNG does not impact the revenue requirement inter-alia the natural gas consumers. Accordingly, the same have not been formed part of instant determination.

8.3.9. ***In view of above, the Authority determines the other operating income at Rs. 10,321 million for the said year as against Rs. 9,984 million projected by the petitioner.***

9. Operating Expenses

9.1. Cost of Gas

9.1.1. The cost of gas per petition is Rs. 155,013 million (net of GIC), compared with Rs. 128,623 million determined in DERR, increased by Rs. 26,390 million (21%).

9.1.2. The Authority had determined input cost of gas on the basis of combined weighted average cost of gas purchased by the petitioner and SSGCL at Rs. 275.18 per MMBTU in DERR in accordance with the agreement for equalization of cost of gas dated 22nd September, 2003, between these two companies. On the basis of their actual audited results, weighted average of input cost of gas for the said year works out at Rs. 327.34 per MMBTU as under:

Table 11: Weighted Average Cost of Input Gas

Company	MMCF	MMBTU	Rs. In Million	Rs./MMBTU
SNGPL	513,981	482,158	128,013	265.50
SSGCL	469,381	464,356	181,815	391.54
Total	983,362	946,514	309,828	327.34

9.1.3. ***In view of the above, the Authority determines cost of gas sold for the said year at Rs. 155,013 million.***

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9.2. Unaccounted for Gas

9.3. Unaccounted for Gas

9.3.1. The petitioner has reported UFG at 2.79 % (13,675 MMSCF) for the said year, as follows:

Table 12: Comparison of UFG per the petition with Previous Year

MMCF

Particulars	DFRR FY 2015-16	FRR Petition FY 2016-17	DFRR FY 2016-17*
Total Gas Purchases	514,357	501,323	501,323
Gas Available for Sale	506,444	494,180	494,180
Gas Sales	449,024	454,674	449, 024
UFG	46,652	13,674	39,547
	9.21 %	2.79 %	8.07%

* Details are at UFG Sheet

9.3.2. The petitioner has submitted audited figures and data in respect of RLNG volumes showing separately 313 MMCF of RLNG carried for third party, 6,111 MMCF in respect of energy equivalence and 5,390 MMCF in respect of additional gas sold to the RLNG consumers from the indigenous natural gas.

9.3.3. The petitioner has included un-billed volume (11,982 MMCF) due to law and order situation in Khyber Pakhtunkhwa province, pilferage by non-consumers (4, 739 MMCF), Impact of Bulk to Retail Ratio (8,155 MMCF) and unmeasured gas volume (13,775 MMCF) on account of minimum billing as part of deemed sale for the said year.

9.3.4. 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). After a thorough consultative process in stages, M/s KPMG submitted the final draft report on 11-7-2017. The Authority accepted the final UFG Study Report and forwarded it to both the gas companies on 30-8-2017 for implementation and compliance.

9.3.5. The Authority observes that it had stated in its FRR for FY 2012-13, FY 2013-14, FY 2014-15 and FY 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, therefore, in accordance with the KPMG's study / recommendation, it will not be practicable to assess the performance of the sui

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companies on KMI with retrospective effect. Therefore, taking into consideration the fact that the Authority has been allowing UFG allowance over and above the benchmark of 4.5% based on local challenging conditions i.e. present Rate 2, the Authority concludes and decided to finalize the FRR for FY 2012-13, 2013-14, 2014-15, 2015-16 on the same basis as was done provisionally and stands settled. In view of the above, the Authority decides that since FY 2016-17 had already been concluded prior to finalization of the UFG Study Report, the prior methodology is also applicable on FY 2016-17.

9.3.6. In view of above, UFG is worked out as under;

MMCF

Gas Purchases		2016-17			
		As per petition		As per OGRA	
		Indigenous gas (UFG)	UFG on RLNG Supplied to Transmission and Distribution consumers	Indigenous gas (UFG)	RLNG Supplied to Transmission and Distribution consumers
Metered gas purchased		501,323	179,701	501,323	179,701
Line Pack		-719		-719	
Less RLNG Volume for Sale					
Less RLNG Carried for Third Party					
Energy Equivalence		-6,111	6,111	-6,111	6,111
Gas carried for PPL, POL		-313		-313	
Gas Available for Sale	A	494,180	185,812	494,180	185,812
Gas Internally Consumed (Metered)	B=a+b	3,842	2,109	3,842	2,109
Transmission	a	2,853	2,109	2,853	2,109
(i) Compression		2,216	2,109	2,216	2,109
(i)(a) Compression for RLNG					
(ii) Residential Colonies		93		93	
(ii) Coating Plant		133		133	
(iii) Ruptures/Sabotage		159		159	
(iv) Other usage Depressurization purging		252		252	
Distribution	b	989	-	989	-
(i) Free Gas Facility		509		509	
(ii) Co-Generation		105		105	
(iii) Sabotage		345		345	
(Iv) Purging		31		31	
Net Gas Available for Sale	C=A-B	490,338	183,703	490,338	183,703
Gas Sold (Billed)	D	454,674	171,353	454,674	171,353
Unrecovered Pilferage volume reversed		-11,271		-11,271	
Less RLNG Swap Sale					
RLNG Stock A/C (Additional sales of RLNG)		-5,390	5,390	-5,390	5,390
Un billed Vol due to law& order in KPK (Gurguri/Kohat)		11,982		8,987	
Under measured Vol. in respect of min		13,775		0	
Pilfered Vol detected against non-consumers		4,739		3,791	
Impact of Bulk to Retail Ratio		8,155		0	
Total Sales net of RLNG sales	E	476,664	176,743	450,791	176,743
UFG Volume	F=C-E	13,674	6,960	39,547	
UFG %	I=(F/C)*100	2.79	3.79	8.07	
Working disallowance for SNGPL					
Gas available for External Sale				490,338	
UFG Target				4.5%	
Allowed UFG Volume				22,065	
Disallowance (MMCF)				17,482	
WACOG (Rs./MMCF)				312	
UFG Disallowance (Rs. Million)				5,448	

9.3.7. In view of above, UFG disallowance is determined at 17,482 MMCF, amounting to Rs. 5,448 million for the said year.

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Transmission and Distribution Cost

i. Summary

9.3.8. The transmission and distribution cost is higher by 0.3% i.e. from Rs. 21,892 million per DERR to Rs. 21,825 million per the petition, as compared below:

Table 13: Comparison of T & D Cost with DERR and Previous Year

Rs. in million

Particulars	FY 2016-17	FY 2016-17	Increase / (Decrease) Over DERR FY 2016-17	
	DERR	Actual	Rs.	%
Human Resource Cost	13,800	13,432	(368)	(3)
Stores and Spares Consumed	522	633	111	21
Repair and Maintenance	1,096	961	(135)	(12)
Fuel and Power	261	254	(7)	(3)
Stationery, Telegram and Postage	167	103	(64)	(39)
Dispatch of gas bills	105	95	(10)	(9)
Rent, Rate, Electricity and Telephone	424	406	(19)	(4)
Traveling	165	136	(29)	(18)
Transport expenses	739	737	(2)	(0)
Insurance	192	266	73	38
Legal and Professional Services	165	207	42	26
Consultation for ISO 14001 & OHSAS 18000	5	4	(1)	(15)
Gas bills collection charges	402	405	3	1
Gathering charges of gas bills collection data	40	37	(3)	(8)
OGRA fee	173	215	42	24
Advertisement	167	163	(4)	(2)
Bank Charges	15	16	1	10
Uniforms & protective clothing's	13	32	20	153
Staff training and recruiting	12	6	(6)	(52)
Security expenses	661	630	(31)	(5)
SNG training insititute	15	17	2	13
Provision for doubtful debts	3,219	868	(2,351)	(73)
Sponsorship of chairs at University	10	9	(1)	(9)
5 Years special training programme	30	27	(3)	(9)
Budget for UFG control related activities	777	560	(217)	(28)
Out Sourcing of call centre complaints manageme	30	22	(9)	(28)
Provision for Stores spares written off		-	-	-
Cost of Gas Blown off	-	236	236	100
Contribution to Inter State Gas System Limited	-	120	120	100
Other expenses	289	313	24	8
Subtotal Expenses	23,493	20,909	(2,584)	(11)
Allocated to fixed capital expenditures	(3,434)	-	-	-
T&D Expenses	20,059	20,909	850	4
Gas Internally Consumed	1,832	916	(916)	-
TotalT&D Expenses	21,892	21,825	(66)	(0.30)

9.3.9. Various components of operating cost are discussed in detail in the following paras.

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ii. Human Resource Cost

9.3.10. The petitioner has claimed increase of 3% on account of HR cost from Rs. 13,800 million provided in DERR to Rs. 13,432 million including Rs. 512 million for the said year . The petitioner has claimed the HR cost on the basis of benchmark provided at the time of DERR for the said year. Further the petitioner has claimed 10-c bonus amounting to Rs. 512 million separately over and above the benchmark on the plea that same is statutory obligation of the petitioner to be paid to its workers for the said year.

9.3.11. The Authority observes that HR cost benchmark computation made by the petitioner slightly varies as provided at Annex -B. Further, the Authority observes that existing benchmark operates on rolling basis and accounts for the base year cost of FY 2010-11 wherein 10-c bonus was part of it. Thus the funds on account of 10-c bonus is built in part of HR cost benchmark and included in the HR cost benchmark for the said year as well. Accordingly, no separate funds on this account in principle can be allowed over and above the HR cost for the said year.

9.3.12. ***In view of above, the HR cost for the said year computes to Rs. 12,846 million.***

iii. Legal and Professional Charges

9.3.13. The petitioner has claimed expenditure of Rs. 207 million on account of "legal and professional charges" for the said year as against Rs. 165 million provided in DERR for the said year, showing an increase of 20%. The comparison is given below:

Table 14: Historical comparison of Legal & Professional Charges

Rs. In million

Particulars	FY 2015-16	FY 2016-17		Incr/Decr over DERR	
	FRR	DERR	The petition	Rs	%
Legal	153	101	170	69	40%
Professional	38	30	15	-14	-95%
Tax	12	13	10	-3	-28%
Audit	8	10	8	-2	-27%
Apprenticeship/Scholarship/Training	4	8	4	-4	-86%
Others	1	3	0	-3	0%
Total	**215**	**165**	**207**	**42**	**20%**

9.3.14. The petitioner has explained that litigation against its has significantly increased due to arbitration matters, LNG contracts, filing of complaints

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promulgation of gas, rapid growth in demand of gas, change in gas tariff, revision in GIDC, recovery suits etc.

9.3.15. The Authority observes that the petitioner has been allowed considerable amount in DERR of the said year on the same grounds despite it has ful-fledged in-house legal team for dealing such matters.

9.3.16. The Authority further observes that petitioner has been time and again advised to undertake concerted efforts to improve its customer service and plead cases effectively to get favorable results rather than only demanding increased budget under the head. Accordingly, the exceeded expenses have no rationale to pass on to the consumers.

9.3.17. ***The Authority, in view of above, restrict the expenditure under the head "Legal & Professional Charges" at the level of DERR 2016-17 i.e Rs. 165 million.***

iv. Store & Spares Consumed

9.3.18. The petitioner has claimed expenditure of Rs. 633 million on account of "Stores & Spares Consumed" for the said year as against Rs. 522 million provided in DERR for the said year, showing an increase of 21%. The comparison is given below:

Table 15: Historical comparison of Store & Spares Consumed

Rs. In million

Particulars	FY 2015-16	FY-2016-17		Incr/Decr over DERR	
	FRR	DERR	The Petition	Rs	%
Compression	78	90	119	29	32%
Transmission	174	200	150	-50	-25%
Distribution	119	137	292	155	113%
Others (incl H.O.)	10	12	8	-4	-33%
Freight & Handling	73	84	65	-19	-23%
Total	**454**	**522**	**633**	**111**	**21%**

9.3.19. The petitioner has submitted that reasons for increase is mainly on account of achieving targets of repairing of around 17,000 commercial and 281,000 domestic meters. Furthermore, repair and maintenance of compressor stations

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due to more compression hours has also contributed to the increase under this head.

9.3.20. The petitioner has pleaded that consumption of stores & spares for smooth operation, system up-gradation and improvement is essentially required and spending under this head is directly related to routine effective operations.

9.3.21. ***The Authority, in view of above, accepts the petitioner's stance and allows Rs. 633 million under "Stores & Spares Consumed" for the said year.***

v. Uniform & Protective Clothing

9.3.22. The petitioner has claimed expenditure of Rs. 32 million on account of "Uniform & Protective Clothing" for the said year as against Rs. 13 million provided in DERR for the said year, showing an increase of 61%. The comparison is given below:

Table 16: Historical comparison of uniform & Protective Clothing

Rs. In million

Particulars	FY 2015-16	FY-2016-17		Incr/Decr over Actual	
	FRR	DERR	The petition	Rs	%
Uniform & Protective Clothing	11	13	32	20	61%
Total	11	13	32	20	61%

9.3.23. The petitioner has explained that the expense under the head has increased by 61% due to procurement of personal protective equipments which could not be matured in FY 2015-16 due to delay in tendering process/lead time and therefore the same are booked in FY 2016-17.

9.3.24. The Authority observes that it has always appreciated the petitioner's efforts for compliance of HSE policy to all entitled employees and has always provided reasonable amount under this head based on the historical trends. The petitioner over the past, however could not utilize the funds under the essential head.

9.3.25. ***In view of above, the Authority accepts the actual expenses incurred under this head at Rs. 32 million for the said year.***

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vi. Insurance

9.3.26. The petitioner has claimed expenditure of Rs. 266 million on account of "Insurance" for the said year as against Rs. 192 million provided in DERR for the said year, showing an increase of 38%. The comparison is given below:

Table 17: Historical comparison of Insurance

Rs. In million

Particulars	FY 2015-16	FY-2016-17		Incr/Decr over Actual	
	FRR	DERR	The petition	Rs	%
Third party	2	2	2	0	-16%
Fire risk	107	120	120	0	0%
Fidelity / cash in transit	0	1	0	-1	-89%
Motor vehicles	52	45	66	21	48%
Loss of Profit	24	24	67	43	178%
Miscellaneous	4	0	11	11	100%
Total	189	192	266	73	38%

9.3.27. The petitioner has explained that the expense under the head "Motor Vehicle" has increased by 38% as an aggregate amount of Rs. 16 million was paid as insurance premium for vehicles purchased in FY 2015-16 and their premium was calculated on pro-rata days basis. Accordingly, Rs. 61 million was paid in the said year. Further Rs. 6 million has been paid for newly purchased vehicles.

9.3.28. *The Authority observes that petitioner contention under this sub-head are relevant, accordingly the requested amount is allowed.*

9.3.29. Under the sub-head "Loss of profit", the petitioner has pleaded that premium under this sub-head for the said year has increased owing to extension in network, reduction in UFG and provision for doubtful debt disallowance.

9.3.30. The Authority observes that significant amount under this head has always been allowed on the basis of petitioner stance which varied from time to time. Earlier, the petitioner has been pleading that premium under this head is inevitable owing to erosion of profit due to UFG losses. In the petition, the pleadings are at different angle.

9.3.31. The Authority further observes that petitioner has not provided adequate detail to substantiate its claim in terms of expected benefit from this kind of insurance alongwith the benefits attained during last years etc;.

9.3.32. *The Authority, in view of above, pends the increase under this head over DERR for the said year and advise the petitioner to submit the detailed*

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information in this regard comprising the purpose, the methodology of premium computation, expected benefit / advantage received during last ten years.

9.3.33. Under the sub-head "Miscellaneous" the petitioner has included Rs. 6 million on account professional indemnity insurance for directors and officers for the said year. The Authority observes that petitioner has provided no plausible justification and convincing reason to allow this kind of new expenses for the said year. ***Accordingly, the expenses under this head are pended till the provision of requisite of information.***

9.3.34. ***In view of above Authority determines the expenses under this head at Rs. 217 million for the said year.***

vii. Contribution to ISGSL expenses

9.3.35. The petitioner has claimed Rs. 120 million on account of reimbursement of contribution to ISGSL expenses for the said year. The petitioner explained that above expenses includes Rs. 105 million pertaining to FY 2015-16 in accordance with decision on motion for review on FRR for FY 2015-16. The remaining amount of Rs. 15 million has been reimbursed during the said year.

9.3.36. The Authority observes that the expenses allowed in motion for review for FY 2015-16 under this head has already been accounted for in the "shortfall pertaining to FY 2015-16" while the expenses incurred during the said year are inadmissible as per decision of the Federal Government discussed in the Authority latest determinations.

9.3.37. ***In view of above, the Authority rejects the petitioner claim on this account for the said year.***

viii. Provision for Doubtful Debt

9.3.38. The petitioner has claimed Rs. 868 million on account of provision for doubtful debt for the said year.

9.3.39. The Authority observes that the provision under this head is made as per benchmark in place implemented since last many years.

9.3.40. ***In view of above, the Authority accepts the petitioner' claim on this account for the said year.***

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ix. Other Expenses

9.3.41. The petitioner has claimed Rs. 343 million under the head "other expenses" for the said year as against Rs. 289 million provided in DERR for the said year.

9.3.42. The Authority observes that the above expenses includes the expenses on account "Boards Meetings & Directors expenses" the detail of the same is provided as under;

Table 18: Board Meetings & Directors expenses

Million Rs.

Category	FY 2014-15	FY 2015-16	FY 2016-17		Incr/Decr over
	FRR	FRR	DERR	The Petition	DERR
Board Meetings & Directors Expenses	27	35	29	55	90%
Total	27	35	29	55	90%

9.3.43. The Authority observes that petitioner explained that expenses under this head has increased owing to increase in fee and number of the meetings held during said year. The petitioner has submitted that director fee per meeting has increased from 50,000 during FY 2015-16 to Rs. 100,000 during said year. Furthermore, the petitioner has submitted that number of meetings has increased due to unbundling exercise, on RLNG infrastructure, major procurement was required due to which increased meetings of BoDs were held.

9.3.44. The Authority observes strict criticism has been observed from the interveners in the public hearing on the issue. The interveners have always been stressing the regulator to protect their interest and curtail operating expenses. However, keeping in view the justification of the petitioner, the Authority accepts the increase under the head on this point of time. The petitioner is directed to observe the necessity of board meetings meticulously and conduct such meetings with combined agendas on monthly basis and restrict the expenses at its best.

9.3.45. The Authority, in view of above justification allows the expenses under this head. Accordingly, the expenses under this head works out to Rs. 343 million for the said year.

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Table 19: Transmission & Distribution Cost Determined by the Authority

Rs. in million

Particulars	FY 2016-17		
	Demanded	Adjusment	Determined
Human Resource Cost	13,432	(586)	12,846
Stores and Spares Consumed	633		633
Repair and Maintenance	961		961
Fuel and Power	254		254
Stationery, Telegram and Postage	103		103
Dispatch of gas bills	95		95
Rent, Rate, Electricity and Telephone	406		406
Traveling	136		136
Transport expenses	737		737
Insurance	266	(49)	217
Legal and Professional Services	207	(42)	165
Consultation for ISO 14001 & OHSAS 18000	4		4
Gas bills collection charges	405		405
Gathering charges of gas bills collection data	37		37
OGRA fee	215		215
Advertisement	163		163
Bank Charges	16		16
Uniforms & protective clothing's	32		32
Staff training and recruiting	6		6
Security expenses	630		630
SNG training insititute	17		17
Provision for doubtful debts	868	-	868
Sponsorship of chairs at University	9		9
5 Years special training programme	27		27
Budget for UFG control related activities	560		560
Out Sourcing of call centre complaints management	22		22
Provision for Stores spares written off	-		
Cost of Gas Blown off	236		236
Contribution to Inter State Gas System Limited	120	(120)	-
Other expenses	313		313
Subtotal Expenses	20,909	(797)	19,245
Allocated to fixed capital expenditures	-	-	
T&D Expenses	20,909	(797)	20,112
Gas Internally Consumed	916		916
TotalT&D Expenses	21,825	(797)	21,028

9.4. Other Operating Expenses

9.4.1. The petitioner has claimed Rs. 42 million under this head on account of "Exchange Loss" for the said year.

9.4.2. The Authority observes that exchange loss on account of gas purchases is admissible expenditure as appearing in the "cost of gas sold statement" for the said year. Accordingly, ***the same is allowed for the said year as claimed by the petitioner.***

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9.5. Impact of IAS 19 (Recognition of actual losses) FY 2016-17

9.5.1. The petitioner has claimed Rs. 4,902 million on account of IAS-19 (Recognition of actual losses) for the said year.

9.5.2. The petitioner has explained that expenditure under this head is due to the requirements of revised IAS 19 'Employees Benefits' and in accordance with the requirement of IAS 8, 'Accounting policies, Changes in accounting estimates and errors'.

9.5.3. The Authority observes that while deciding FRR 2015-16 the matter was discussed in detail and the petitioner was specifically advised to rationalize the expenses under this head at reasonable level. It was also highlighted that the petitioner sister utility concern is managing almost same level of organizational structure and similar policies at a nominal annual requirement. Accordingly, the petitioner was advised to revisit its policies and parameters contributing to such expenses in a way that consumer must not be over burdened.

9.5.4. The Authority observes that despite passing considerable time, the petitioner has not undertaken meaningful initiative to evaluate the expenses under this head to bring it at bare minimum level rather it has placed another claim for the said year which too involves gigantic figure. Recently, the petitioner has submitted that it has approached its BOD for review of policy, no decision/progress in this regard however has been provided yet.

9.5.5. ***The Authority, in view of above, provisionally allows 50% of the expenses under IAS-19 i.e Rs. 2,451 million under this head and directs the petitioner to resolve the issue of IAS-19 at the earliest and conclude the same.***

9.6. Shortfall pertaining to FY 2015-16

9.6.1. The petitioner has claimed Rs. 61,986 million on account of shortfall for FY 2015-16

9.6.2. The Authority observes that above shortfall claimed by the petitioner has already been determined in FRR for FY 2015-16. Further, in the motion for the review on FRR FY 2015-16, net downward adjustment of Rs. 138 million has also been determined. ***Accordingly, the shortfall pertaining to FY 2015-16 comes to Rs. 61,848 million. The same is included in the revenue requirement for the said year.***

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9.6.3. The Authority further observes that the petitioner has claimed Rs. 56 million on account of HR cost and has also factored a downward adjustment of Rs. 1,008 million on account of WPPF pertaining to FY 2015-16 as well. The Authority observes that this petitioner's claim is part of motion for review on FRR for FY 2015-16, the net impact of the same is already included as part of Rs. 138 million adjustment mentioned in above para. The same has therefore not been considered separately as claimed by the petitioner.

9.7. Late Payment Surcharge in respect of gas suppliers

9.7.1. The petitioner has claimed Rs. 2,978 million for said year on account of LPS in respect of gas suppliers. The petitioner has requested to allow the same as operating expense in line with the Authority decision already taken in this regard.

9.7.2. The Authority observes that petitioner claim under this head mostly pertains to public sector gas exploration entities; waiver of the same could have been obtained if effectively pursued through the relevant Government forum. ***Accordingly, the petitioner is directed to take up this matter with FG since the expenses under this head have primarily arisen due to insufficient revision in gas sale prices which is FG's domain.***

9.7.3. The Authority further observes that petitioner has included an amount of Rs. 779 million payable to SSGCL, while the receiving end has not realized such income in its books of accounts. The same therefore, has been excluded from the petitioner's claim.

9.7.4. ***In view of above, the Authority allows Rs. 2,199 million under this head for the said year.***

9.7.5. The Authority further observes that the petitioner has claimed Rs. 35 million on account of short term financing cost for the said year. ***The Authority allows the same in line with its decision already taken in this regard.***

10. Summary of Discussion & Decisions

10.1.1. In view of the justifications submitted and arguments advanced by the petitioner in support of its petition, comments offered by the participants,

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scrutiny by the Authority and detailed reasons recorded by the Authority in earlier paras, the Authority recapitulates and decides to:

(i) determine the sale revenue at prescribed prices for the said year at Rs. 165,318 million.

(ii) determine the late payment surcharge and interest on arrears for said year at Rs. 3,444 million

(iii) determine the other operating income at Rs. 1,701 million;

(iv) gross addition in fixed assets at Rs. 21,300 million;

(v) allow closing balance of fixed assets at Rs. 107,116 million;

(vi) accept the cost of gas at Rs. 155,013 million;

(vii) allow UFG at 4.5% based on which disallowance works out to Rs. 5,448 million;

(viii) allow T&D cost at Rs. 21,028;

(ix) allow shortfall pertaining to FY 2015-16 at Rs. 61,848;

10.1.2. ***In exercise of its powers under Section 8(2) of the Ordinance, the Authority determines the FRR for the said year at Rs. 263,214 million as against petitioner's claim of Rs. 275,783 million, as tabulated below:***

Table 20: Components of FRR for FY 2016-17 as Determined by the Authority

Rs. in Million

Description	Demanded by the petitioner	Determined by the Authority
Cost of gas sold	155,013	155,013
UFG (disallownce) / allowance	-	(5,448)
Transmission and distribution cost	21,825	21,028
Depreciation	11,073	11,073
Law & Order Affected areas Adjustments of Prev	3,362	-
Impact of IAS 19 (Recognization of Actuarial Los	4,902	2,451
LPS Gas Creditors	2,978	2,199
Mark up on Running Finance	35	35
Other operating expenses (Exchange Loss)	42	42
Shortfall/ (Surplus) pertaining to FY 2015-16	61986	61848
Revision in HR cost FY 2015-16	56	-
WPPF FY 2015-16	(1,008)	-
WPPF	970	424
Amount of return required	14,549	14,549
Total	**275,783**	**263,214**

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10.1.3. *The petitioner's actual net operating income is Rs. 175,639 million and thus there is a shortfall of Rs. 87,575 million, for the said year (Annex. A). The Average prescribed price comes to Rs. 608.76 / MMBTU.*

10.1.4. *The Authority decides to carry forward the entire shortfall for the said year. The prescribed prices for each category of retail consumers for the said year are accordingly adjusted to the extent of notified gas sale prices advised by the Federal Government.*

Dr. Adbullah Malik
Member (Oil)

Noorul Haque
Member (Finance)

Uzma Adil Khan
(Chairperson)

Islamabad, October 6, 2017

REGISTRAR
Oil & Gas Regulatory Authority
Islamabad

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A. Final Revenue Requirement for FY 2016-17

Million Rs.

	Particulars	The Petition	Adjustments	Determined by the Auhtority
	Gas sales volume -MMCF	443,649	-	443,649
	BBTU	415,423	-	415,423
	Calorific Value	936	-	936
"A"	Net Operating revenues			
	Net sales at current prescribed price	195,218	(29,900)	165,318
	Rental & service charges	1,914	12	1,926
	Surcharge and interest on arrears	3,119	325	3,444
	Amortization of deferred credit	3,250	-	3,250
	Other operating income	1,701	-	1,701
	Total income "A"	205,202	(29,563)	175,639
"B"	Less Expenses			
	Cost of gas sold	155,013	-	155,013
	UFG (disallownce) / allowance	-	(5,448)	(5,448)
	Transmission and distribution cost	21,825	(797)	21,028
	Depreciation	11,073		11,073
	Law & Order Affected areas Adjustments of Pr	3,362	(3,362)	0
	Impact of IAS 19 (Recognization of Actuarial L	4,902	(2,451)	2,451
	LPS Gas Creditors	2,978	(779)	2,199
	Mark up on Running Finance	35	-	35
	Other operating expenses (Exchange Loss)	42	-	42
	Shortfall / (Surplus) pertaining to FY 2015-16	61986.00	-138.00	61848.00
	Revision in HR cost FY 2015-16	56	(56)	-
	WPPF FY 2015-16	(1,008)	1,008	-
	WPPF	970	(546)	424
	Total expenses "B"	261,234	(12,569)	248,665
"C"	Operating profit / (loss)(A - B)	(56,032)	(16,994)	(73,026)
	Return required on net assets:			
	Net assets at begining	97,350		97,350
	Net assets at ending	107,116		107,116
		204,466	-	204,466
	Average fixed net assets (I)	102,233		102,233
	Deferred credit at begining	16,620		16,620
	Deferred credit at ending	21,573		21,573
		38,193	-	38,193
	Average net deferred credit (II)	19,096	-	19,096
"D"	Average operating assets (I-II)	83,137		83,137
	Return required on net assets	17.5%		17.5%
"E"	Amount of return required	14,549	-	14,549
"F"	Excess /(shortfall) FY 2016-17	(70,581)	(16,994)	(87,575)
"G"	Average Increase/(Decrease) in Prescribed Pr	169.90	41	211
H	Revenue requirement	275,783	(12,569)	263,214
"I"	Average Prescribed Price (Rs/MMBTU)	639.83	(31)	608.76

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B. HR Cost Benchmark FY 2016-17

Million Rs.

Particulars	FY 2015-16 FRR 2015-16	FRR FY 2016-17 Per SNGPL Computation	FRR FY 2016-17 Determined by the Authority
SNGPL			
HR benchmark Cost Parameters			
Base Cost	10,273	11,090	11,034
CPI factor	2.86%	4.16%	4.16%
T & D network (Km)	111,798	119,659	119,659
Number of Consumers (No.)	5,315,885	5,736,589	5,736,589
Sales Volume (MMCF)	554,615	615,003	615,003
Unit Rate (Rs./unit)			
T&D network (Rs./Km)	95,415	99,197	98,696
No. of Consumers (Rs./Consumer)	2,033	2,086	2,076
Sale Volume (Rs./MMCF)	21,978	19,996	19,895
HR Cost Build-up (Million Rs)			
Cost CPI -50%	147	231	230
T & D network (Km)	2,667	2,967	2,952
Number of Consumers (No.)	7,023	7,779	7,740
Sales Volume (MMCF)	1,197	1,252	1,224
HR Benchmark Cost	11,034	12,229	12,145
Actual Cost	11,149		12,167
50% sharing (excess)/saving	58		11
IAS Cost	903		690
Total HR Benchmark Cost	11,994		12,846

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C. List of Abbreviations

Words	Abbreviations
BBTU	Billion British Thermal Unit
BOD	Board of Directors
CAPEX	Capital Expenditure
CPI	Consumer Price Index
CBA	Collective Bargaining Agent
DERR	Determination of Estimated Revenue Requirement
DRERR	Determination of Review of Estimated Revenue Requirement
DRS	District Regulator Station
ECC	Economic Co-ordination Committee
FG	Federal Government
FRR	Final Revenue Requirement
GDS	Gas Development Surcharge
GOP	Government of Pakistan
GIDC	Gas Infrastructure Development Cess
GIC	Gas Internally Consumed
HR	Human Resource
ISGSL	Inter State Gas System Limited
KPMG	Klynveld Peat Marwick Goerdeler
KPOGCL	Khyber Pahktunkhwa Oil and Gas Company Limited
LPS	Late Payment Surcharge
LNG	Liquefied Natural Gas
MMBTU	Million Metric British Thermal Unit
MMCFD	Million Standard Cubic Feet per Day.
MPNR	Ministry of Petroleum & Natural Resources
NGRA	Natural Gas Regulatory Authority
NGT Rules	Natural Gas Tariff Rules
OGRA	Oil and Gas Regulatory Authority
RLNG	Re-gasified Liquefied Natural Gas
SNGPL	Sui Northern Gas Pipeline Limited
SSGCL	Sui Southern Gas Company Limited
SMS	Sale Meter Station
SCADA	Supervisory Control And Data Acquisition
TBS	Town Border Station
T&D Cost	Transmission and Distribution Cost
UFG	Un-accounted for Gas
WACOG	Weighted Average Cost of Gas
WPPF	Workers Profit Participation Fund

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