Case No. OGRA-6(2)-2(3)/2018-Review

IN THE MATTER OF

SUI SOUTHERN GAS COMPANY LIMITED REVIEW PETITION FOR ESTIMATED REVENUE REQUIREMENT, FY 2018-19

UNDER

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

DECISION ON

FEBRUARY 27, 2019

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

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1. Background

1.1. Sui Southern Gas Company Limited (the petitioner) is a public limited company, incorporated in Pakistan, and is listed on Pakistan Stock Exchanges Limited. The petitioner is operating in the provinces of Sindh and Balochistan under the license granted by Oil & Gas Regulatory Authority. It is engaged in construction and operation of gas transmission and distribution pipelines, sale of natural gas, Liquefied Petroleum Gas (LPG), Air-Mix LPG, natural gas condensate, Natural Gas Liquids (NGL) and manufacture and sale of gas meters. 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/GoP).

1.2. The petitioner, under Section 8(1) of the Oil and Gas Regulatory Authority Ordinance, 2002 (the Ordinance) and Rule 4(3) of the Natural Gas Tariff Rules, 2002 (NGT Rules), had filed a petition on April 17, 2018 for determination of its Estimated Revenue Requirement (ERR) for FY 2018-19 (the said year). The Authority vide its decision dated June 21, 2018 determined a shortfall of Rs. 59,741 million (the amounts have been rounded off to the nearest million here and elsewhere in this document) and allowed an increase of Rs. 166.88 per MMBTU in the average prescribed price w.e.f July 01, 2018.

1.3. Being aggrieved by this determination, the petitioner has submitted a motion for review requesting the Authority to approve shortfall of Rs. 25,912 million translating into average increase in prescribed price of Rs. 72.38 per MMBTU over and above the current average prescribed price w.e.f July 01, 2018.

2. Petition

2.1. The petitioner has also submitted its review petition on October 15, 2018, under Section 8(2) of the Ordinance, incorporating in the ERR the effect of changes in the projected cost of gas for the said year taking into account the latest actual oil prices in the international market, devaluation of rupee against US$, revised projection of gas purchase volume based on actual gas availability (purchases) and latest indications. The petitioner has claimed average increase in prescribed price of Rs. 127.30/MMBTU w.e.f July 01, 2018. The petitioner has included the items contented in its motion for review against determination of ERR for the said year as discussed in para 1.3 above in the instant petition, and accordingly has requested the Authority to treat it as integral part of the instant petition. In view of request of the petitioner, the Authority

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decides to treat the said review motion as part of instant petition.

2.2. The petitioner further submitted an amended petition on November 13, 2018, thereby revising its claim to Rs. 126.29/MMBTU from Rs. 127.30/ MMBTU for the said year. The petitioner subsequently submitted another petition (the Petition) on December 04, 2018 and revised its claim to Rs. 84.30/MMBTU for natural gas consumers, and has revised its claim thereby excluding RLNG handled volumes' adjustment from natural gas tariff calculation.

2.3. The petitioner has envisaged the increase based on following claims for said year:

A. Un Accounted for Gas (UFG)

i) RLNG volume handled impact on UFG - Swapping indigenous gas to SNGPL & supplying RLNG to Karachi consumers through distribution network

B. Capital Assets

ii) New Towns and Villages

iii) Main Laying Rates - Direct Departmental Cost (DDC)

iv) Building & Civil Works

v) Plant & Machinery

vi) Vehicles

C. Operating Expenses

vii) Store, spares and supplies

viii) Legal charges

ix) Repair & Maintenance

x) Revenue expenditure relating to LNG-GIC

xi) Revision in cost of gas owing to Fluctuations in US$/Rupee Parity

D. Operating Revenues

xii) Change in circumstances of LPG/NGL income

xiii) Notional income on IAS - 19

E. Staggering of accumulated losses of SSGCL owing to court decision in the matter of OGRA determinations

F. Cost of Service of RLNG / Transportation Tariff

2.4. The Authority admitted the petition for consideration, as a prima facie case for evaluation existed and it was otherwise in order.

2.5. A notice of pubic hearing inviting interventions/comments on the petition from the consumers, general public and other interested/affected persons, was published in the two daily combined newspapers, and one local Urdu newspapers on December 6,

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2018.

2.6. The Authority received eight (8) applications to intervene in the proceedings from the following persons / entities:

i) Karachi Chamber of Commerce & Industry (KCCI), Karachi,
ii) Landhi Association of Trade & Industry, Karachi,
iii) All Pakistan Textiles Mills Association,
iv) Bin Qasim Association of Trade & Industry(ATI), Karachi,
v) North Karachi Association of Trade & Industry, Karachi,
vi) Sindh Petroleum & CNG Dealer Association,
vii) Lucky Cement, Karachi,
viii) Shan Paper Board, Karachi.

2.7. The Authority accepted all the above mentioned applications for intervention.

3. Proceedings

3.1. Public hearing was held on December 18, 2018 at Karachi. The following interveners/participants attended the public hearing:

Petitioner:

i) The petitioner's team led by Mr. Amin Rajpoot, Acting Managing Director,
ii) Mr. Mirza Mehmood, Legal Counsel

Interveners/ Participants:

i. Mr. M. H. Asif, Consultant, All Pakistan Textile Mills Association (APTMA),
ii. Mr. Malik Mehmood, APTMA,
iii. Dr. Qazi Ahmed Kamal, KCCI,
iv. Mr. Naveed Shakoor, Senior Vice President, Bin Qasim ATI,
v. Mr. Zain Bashir, President, Landhi Association of Trade & Industry,
vi. Mr. M. Anas Makhdoom, Landhi Association of Trade & Industry,
vii. Mr. Malik Khuda Baksh, Chairman, CNG Stations Owners Association of Pakistan,
viii. Mr. Shabir Sulemanjee, Chairman, All Pakistan CNG Forum,
ix. Mr. Samir Gulzar, Vice Chairman, All Pakistan CNG Association,
x. Mr. Samir Najaf, All Pakistan CNG Association,
xi. Mr. Abid Ozair, CNG Dealers Association of Pakistan,
xii. Mr. Kashif Riaz, CNG Dealers Association of Pakistan,
xiii. Mr. Tariq Jamil Khan, CNG Dealers Association of Pakistan,

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xiv. Syed Raza Abbas, Sindh Petroleum & CNG Dealers Association,

xv. Mr. Abdul Haseeb Khan, CNG Dealer Association,

xvi. Mr. Muhammad Faisal Maqsood, Lucky Cement,

xvii. Mr. Masood Bhatti, Head of Commercial, Bahria Foundation,

xviii. Mr. Rehan Jawed, Shan Paper,

xix. Mr. Tariq Mansoor, Advocate,

xx. Mr. Muhammad Arif Bilwani, Consumer,

xxi. Mr. Ahsan Arshad, Taurus Securities Limited,

xxii. Mr. M. Abdul Rahman, Vellani & Vellani,

xxiii. Mr. Junaid Naqvi., Excel Ener Gas Ltd,

xxiv. Mr. K.S Noorullah, Land Ocean Trading,

xxv. Ms. Misha Zahid, Arif Habib Limited,

xxvi. Mr. Samiullah, Arif Habib Limited,

xxvii. Mr. Muhammad Waseem Butt, S.P.CDA,

xxviii. Mr. Shahzad Alahi, Ex Member North Karachi,

xxix. Mr. Usman Ali, Shareholder.

3.2. During the hearing, the petitioner made following submissions with help of multimedia presentation, answered questions of members & officers of the Authority as well as of the interveners and participants:

3.2.1. The Legal counsel of the petitioner reiterated its stance in respect of protecting the interest of petitioner while referring section 6(2) (f), (o) and (q) of the Ordinance.

3.2.2. It was emphasized that the Authority is mandated to determine tariff in accordance with the applicable law as stipulated under Section 7 of the Ordinance. Legal counsel has also emphasized that policy guideline of the Federal Cabinet is binding on OGRA, if the same is issued in writing, by the competent authority i.e. Federal Cabinet and not inconsistent with the Ordinance. Legal counsel also reiterated its stance in respect of ensuring guaranteed return as per its license condition.

3.2.3. Legal counsel has requested the Authority that UFG benchmark be allowed to the petitioner at 7.6% while allowing beta factor as "1". RLNG supply related matters were also contested, thereby requesting the Authority to take a dynamic approach to compensate the petitioner owing to the consequences raised due to this venture.

3.3. The substantive points made by the interveners during the hearing in respect of UFG are summarized at para 7 below, rest of the interventions are summarized as under;

3.3.1. It was highlighted that RERR scope is limited to the extent of actual changes in wellhead gas prices.

3.3.2. It was highlighted that dollar prices of crude oil and HSFO are volatile and therefore, petitioner's estimates seem to be on higher side, requesting the Authority to cross check the same. Moreover, dollar parity has been taken by the petitioner at an exaggerated level. Therefore, it was requested to the Authority for its rationalization.

3.3.3. It was highlighted that motion for review against DERR pending with OGRA were not clubbed by the Authority, as public notice issued by Registrar did not mention it.

3.3.4. It was highlighted that motion for review dated July 20, 2018 do not meet the criteria laid down in section 13 of OGRA Ordinance.

3.3.5. Textile is one of the largest gas consumer group with record earnings of foreign exchange for the country. Over the years, the cost has been climbing up quite sharply owing to the fact that energy cost is our prime input cost after raw material. Consequently, higher cost shall affect / reduce textile sector exports.

3.3.6. It was highlighted that FG can only give policy guideline under section 7 and 21 of the Ordinance in respect of policy related issues. All regulatory matters fall exclusively under the jurisdiction of OGRA. It was also objected that policy guideline from FG in respect of petitioner is in direct conflict of interest, being 75% shareholder of the company.

3.3.7. It was highlighted that revenue from sale of LPG has been brought to zero without giving any cogent reason by the petitioner.

3.3.8. It was highlighted that the petitioner has requested consideration of revised estimates for capital and revenue expenditure without giving any cogent reason in limited scope of review filed under section 8(2) and 13 of the Ordinance.

3.3.9. Pakistan buys crude oil from Middle Eastern sources at a reduced price and on credit but quotes the New York and London prices for gas calculations, which is irrational.

3.3.10. It was asserted that gas prices are not linked to oil prices in gas producing countries world-over, since natural gas is only tradable with LNG.

3.3.11. It was asserted that the aspects of removal of capping system, linking cost of domestic gas to the international price of crude oil, subsequent payments made in dollars and the effect of depreciation of the rupee on the gas price hike (keeping all factors constant) are the basis of all subsequent issues with the gas pricing. It was demanded to move this issue in the national assembly for the Government to alter this iron clad agreement system.

3.3.12. The speculative gas pricing system, rupee dollar parity, the illogical and unjustified linkage of indigenous gas with international oil pricing and consequential impacts on windfall profits for the gas companies were considered to be the pitfall of the present system of gas wellhead tariff calculation.

3.3.13. The tariff has increased owing to launching of new schemes in Parliamentarians constituencies, which are in violation of law. Utilities have failed to meet demand of gas from the existing consumers and even giving rise to issues of UFG, gas theft and leakages because of increased connections.

3.3.14. It was strongly condemned by referring the decision made in DERR FY 2011-12 dated May 24, 2011 wherein the petitioner was asked by GoP to start new connections without the new discoveries, as they are not obliging the old connections' demand at present. It was demanded to ensure that the feasibility of the new connections is checked and approved by OGRA before allowing the cost of towns as part of gas price. The policy is made for the betterment of the country not for electoral popularity.

3.3.15. The unit cost for commercial cases is being doubled by the petitioner from Rs. 43,887 to Rs. 95,505, and the same needs explanation from it.

3.3.16. It was urged that this is a misconception that there is gas shortage in Pakistan. 300 MMCFD can be added into the system, if disputes between Government & local people get resolved. Manzalai and Kohlu fields can add reserves worth billions, if made operational.

3.3.17. The billing system needs overhaul as it is flawed. Almost 25% of consumers are receiving inflated and provisional bills for volumes they have not consumed.

3.3.18. It was highlighted that the government is solely responsible to make suitable monetary and fiscal policies to make sure that the value of its currency remains reasonable against international currencies. The average consumer cannot be asked to pay for the failure of the government in this regard.

3.3.19. It was argued that Government has crippled the gas industry in pricing and exploration activities. The circular debt is the main cause of all the inactivity in gas pricing and exploration resulting in an estimated shortfall of 6 BCF in 2020 as the

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average increase in demand is around 6.8%.

3.3.20. An injustice was done by GoP in July, 2008 to the industrial users by not giving an adequate relief when the crude oil prices hit rock bottom.

3.3.21. It was affirmed that the government prevented passing the lowering of price benefit to the masses in spite of the Rs. 4.53 /MMBTU reduction in pricing by OGRA under the seventh national finance commission award. Referring to the relevant laws from SRO 829(1)2002, questions were raised about hefty financial impacts of the induction of 2000 contract employees, financing of far flung areas of questionable returns, protection of the rights of the consumers and other stakeholders.

3.3.22. Cross subsidy to fertilizer sector should be abolished, and subsidy through budgetary allocation be provided by the FG.

3.3.23. It was submitted that Sindh produces 70% of the gas of the country and is completely self-sufficient and does not need RNLG at all. However, it was highlighted that RNLG based CNG supply is without any GIDC. Accordingly, industries should also not pay GIDC.

3.3.24. ECC guidelines, allowing the burden of the financial charges to be borne by the RLNG users as admissible expense, are illegal.

3.3.25. It was pointed out that the petitioner although near bankruptcy always makes a salary increase of double digits.

3.3.26. The petitioner's projection in respect of over-employment, increase in salaries, 130% increase legal fees and 324 million budgets for repairs and maintenance, 7% decrease in gas consumption, 34% increase in travelling, and 14% increase in operating expenses had been vehemently criticized.

3.3.27. Maintaining the CNG supply, reducing the supply to industry and a reduction of 13% in general industries supply (in ERR 17-18 compared to DERR 16-17) is devastating for industrial sector.

3.3.28. The petitioner's projection, in respect of delivering SNGPL allocation through the swap of SSGC share of indigenous gas in lieu of RLNG, was stated to be unjust play.

3.3.29. The claim that due to HR cost bench-mark it cannot retain "quality work force" was declared to be unfounded.

3.3.30. It was submitted that the amount claimed was greater than ever allowed by the Authority and was without justification.

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3.3.31. It was informed that it was a fair decision that all the costs related to LNG/RLNG business were being ring-fenced and had recovered from RLNG customers only. It was further requested to ensure that indigenous natural gas consumers are not burdened by any RLNG related cost.

3.3.32. It was contended that enormous and exaggerated amounts were projected under this head, in order to inflate the asset base and the return required. It was requested to examine the demands for capital expenditure minutely.

3.3.33. It was apprised that the HR cost had been increasing over the years with substantial increase in salaries as well as the number of employees while the performance was dwindling as amply brought out above while discussing UFG. It was requested to take measures to stop the rot before it is too late.

3.3.34. OGRA was requested to ensure financial impact of RLNG related direct or indirect cost be charged to specific RLNG consumers.

3.3.35. It was highlighted that the petitioner is imposing illegal fines to thousands of customers.

3.4. The Authority has carefully considered all the submissions and arguments of the parties made in writing and at the public hearings. Interveners' comments relating to increase demanded in various head of expenditures have been considered while making the decision in the relevant part of this determination. Moreover, it is clarified that the Authority had already placed HR benchmark since FY 2005-06, so as to curtail any uneconomical cost over and above the operating parameters as decided by it. Regarding RLNG cost as part of gas tariff, it is clarified that the Authority always ensures that no RLNG related cost is charged to natural gas consumers in true compliance of policy guidelines issued by Federal Cabinet. Regarding clubbing of petitions by the Authority, it is clarified that petitioner's request for treating its motion for review as integral part of instant petition was acceded to by it, as the same contents were claimed in instant petition by the company. Therefore, the same was not separately addressed in the public notice for public hearing.

4. Authority's Jurisdiction, Determination Process

4.1. The Authority examined, in depth, all applications and petitions in light of relevant legal provisions. The instant petition has been filed under section 8(2) of the Ordinance. The instant petition is primarily focused on review of cost of gas /

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WACOG of the petitioner based on actual changes in the wellhead gas prices and relevant factors. The wellhead gas prices for the said year are based on the actual prices of crude oil and HSFO during the period May to November, 2018. The rising trend in rupee vs US$ rates in recent months is to be taken into account, along-with actual prices in the previous months, while determining cost of gas to ensure that the determination is rational and fair to all stakeholders.

4.2. The operating revenues, operating expenses and changes in asset base are scrutinized by the Authority in depth. Appropriate benchmarks are set in critical areas of operation to ensure that the cost of petitioner's inefficiencies and imprudence are not passed on to the consumers.

4.3. The applications and petitions, in light of relevant legal provisions, are evaluated in depth by financial/technical experts. In the process, public notices are issued and all stakeholders are provided full opportunity to intervene / comment upon issues pertaining to determination of revenue requirement, in writing and at public hearings. The Authority gives full consideration to observations, and comments of all stakeholders while determining revenue requirement and prescribed prices.

4.4. The overall function of tariff determination / revenue requirement as well as its scheme and evaluation criteria, is explicitly provided in the legal framework as defined in the OGRA Ordinance, NGT Rules and the respective licenses for regulated activities. Therefore, all the legal instruments are to be read together to understand the mechanism established to carry out the function prescribed under the Ordinance.

4.5. ***The instant determination of the Authority is based on the prevalent tariff regime implemented for the said year onwards. In view of the same, the Authority allows 17.43% return on the average net operating fixed assets while treating various income and expenditure heads decided in new tariff regime.***

5. Operating Fixed Assets

5.1. The petitioner has requested to allow an additional amount of Rs. 2,079 million, detail of which is as under:

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Table 1:Summarized Schedule of Projected Additions Compared with Previous Years

Rs. In million

Particulars	FY 2018-19			Inc/Dec. over DERR	
	ERR	DERR	The Petition	Rs.	%
Buildings	268	156	268	112	72
Vehicles	560	427	560	133	31
Plant and Machinery	460	373	460	87	23
Gas Distribution System	8,042	6,070	7,817	1,747	29
Land	2	2	2	-	-
Gas Transmission Pipelines	9,583	2,977	2,977	-	-
Compressors	1,439	550	550		
Office Equipment, Furniture and Security Equipment, Computers and allied equipments	267	263	263	-	-
Computer Software	48	48	48	-	-
LPG Air Mix Projects	5,324	59	59	-	-
Telecommunication Systems	100	100	100	-	-
Appliances, Loose Tools and Equipments	99	85	85	-	-
Gross Assets	*26,192*	*11,110*	*13,189*	*2,079*	*19*

i) Buildings & Civil Works, Plant & Machinery and Vehicles

5.2. The petitioner has claimed an additional amount of Rs. 332 million against the heads of Buildings & Civil Works; Plant & Machinery; and Vehicles. The petitioner has stated that the Authority in the DERR for the said year has not provided justification for disallowing certain amount against these heads and has just relied on historical trend in this regard.

5.3. The Authority notes that its provisional determination against these heads was based on historical trend analysis because the petitioner's projections have historically remained on higher side viz-a-viz actual capitalization against these heads.

5.4. *Since the petitioner has neither provided any new evidence/ justification nor has responded to the observations noted by the Authority in DERR in this regard, therefore, the Authority maintains its earlier decision on the matter.*

ii) Gas Distribution System

5.5. The petitioner has stated that it had claimed Rs. 2,752 million for laying 890 Km (which includes Rs. 1,809 million as material cost and Rs. 943 million Direct Departmental Cost (DDC), whereas the Authority in its DERR allowed Rs. 1,711 million under the said head for laying 890 Km of distribution mains. The petitioner has claimed that OGRA had ignored DDC of Rs. 943 million in its determination despite the fact that the same is integral part for arriving at the cost of the project.

5.6. The Authority notes that the petitioner had not provided details of Rs. 943 million in ERR petition, as such the same were not considered by the Authority in its DERR, however, the petitioner has now provided details of the DDC which show that the petitioner has claimed Rs. 492 million against Mains Extensions, Rs. 175 million against reinforcement Mains and Rs. 276 million against Services Mains. The Authority notes that its ERR determination was based on last year's trend in respect of physical achievement, per Km cost and inflation impact which covers material cost as well as DDC.

5.7. ***The Authority therefore, does not allow any additional amount against this head at this stage, however, it allows the petitioner to claim the actualized amount against this head at FRR stage subject to capitalization.***

iii) New Towns and Villages

5.8. The petitioner has stated that it had claimed Rs. 1,178 million including Rs. 679 million cost of schemes related to Gas Producing Districts (GPD) and Rs. 499 million for schemes related to Non Gas Producing Districts (NGPD) against which only Rs. 679 million pertaining to GPD had been allowed by the Authority in its DERR FY 2018-19. The petitioner added that the Authority disallowed the schemes not falling in the GPD due to moratorium imposed by FG. In this regard, the petitioner has clarified as under:

(i) A moratorium on extension of gas to New Towns/Villages (NTV) was imposed by MPNR on 12-11-2009 which 'imposes a ban on new schemes till the present backlog is cleared'. However, NTV located in GPD were exempted from this moratorium.

(ii) Subsequently, Prime Minster Directive dated 18-04-2011 imposed a moratorium on all new gas connections across the country with immediate effect for a period of six months. Thereafter, MPNR on 04-11-2011 again issued the same instruction.

(iii) However, MPNR on 02-05-2017 lifted the said moratorium for domestic gas development schemes imposed under various directions. The petitioner sought guidance/clarification regarding relaxation of moratorium on gas

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development schemes of new towns & villages falling in NGPD vide its letter dated 29-05-2017.

(iv) In reply the Ministry of Energy vide its letter dated 23-06-2017 categorically clarified that the Federal Cabinet during its meeting held on 12-04-2017 lifted the moratorium imposed by then Federal Cabinet on gas development schemes.

(v) In view of the above clarity provided by MoE dated 23-06-2017, the petitioner understands that moratorium has been lifted on new development schemes pertaining to NGPD. The petitioner therefore requests the Authority to approve the disallowed amount of Rs. 499 million pertaining to cost of Schemes for NGPD under this head as the moratorium has already been uplifted for development schemes for NGPD.

5.9. ***In view of the justification furnished by the petitioner and MP&NR/MoE's letters dated 02-05-2017 and 23-06-2017, wherein, it has been informed with clarity that the Federal Cabinet in its meeting held on 12-04-2017 lifted the moratorium imposed by the then Federal Cabinet on gas development schemes, the Authority allows an amount of Rs. 499 million claimed by the petitioner for the said year.***

5.10. The petitioner has claimed net amount of Rs. 208 million (which is in addition to Rs. 50 million allowed in DERR) against the head of Modems, Installation of EVCs, and Filter Separators. The petitioner has stated that the amount was disallowed in DERR mainly due to difference of per unit cost of Filter Separators. The per unit cost Filter Separators was Rs. 71,250 whereas the actual per unit cost of Rs. 4,200 was inadvertently taken on the lower side.

5.11. The Authority notes that the petitioner had projected per unit cost of Rs. 71,250 for Filter Separators in its ERR petition whereas actual per unit cost of installation of Filter Separators in FY 2016-17, as provided by the petitioner, was Rs. 4,200. The Authority's determination of ERR was based on last year's actual cost plus inflation impact. ***The Authority, therefore, maintains its earlier decision and disallows any additional amount claimed against this head.***

5.12. The petitioner has claimed an amount of Rs. 98 million against the head of Services Mains (Construction Cost). The petitioner has stated that the said amount was disallowed in DERR on the basis of actual cost of FY 2016-17 plus 10% inflation

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factor for one year only however if the inflation factor is extended to FY 2018-19 then the additional amount becomes justified.

5.13. The Authority notes that it had allowed an amount of Rs. 1,711 million against the claimed amount of Rs. 1,809 million in its ERR determination based on the last year's trend in respect of physical achievement, per Km cost and inflation impact. *The Authority, therefore, maintains its earlier stance and disallows any additional amount claimed against this head.*

5.14. *The Authority in view of the discussion at paras 5.5 to 5.13 above allows an additional amount of Rs. 499 million against the head of Gas Distribution System.*

Table 2: Summary of Capitalization Claimed Vs Allowed

Rs. in Million

Particulars	ERR	DERR	The Petition	Variance/ Additional Claim	Addition in Capitalization Allowed by the Authority
	FY 2018-19				
Land	2	2	2	-	-
Building	268	156	268	112	-
Plant and Machinery	460	373	460	87	-
Gas Distribution System	8,042	6,070	7,817	1,747	499
Vehicles	560	427	560	133	-
Gas Transmission Pipelines	9,583	2,977	2,977	-	-
Compressors	1,439	550	550		
Office Equipment, Furniture and Security Equipment, Computers and Allied equipments	267	263	263	-	-
Computer Software	48	48	48	-	-
LPG Air Mix Projects	5,324	59	59	-	-
Telecommunication Systems	100	100	100	-	-
Appliances, Loose Tools and Equipments	99	85	85	-	-
Total	26,192	11,110	13,189	2,079	499

5.15. *The Authority on provisional basis accepts the depreciation rate schedule as per the petition, for the said year. Accordingly, depreciation expense is provisionally determined Rs. 5,344 million as a consequence of reduction in additions to fixed assets for the said year, as discussed above. Accordingly, the Authority, based on the information provided by the petitioner, provisionally determines closing operating fixed assets for the said year at Rs. 43,243 million as against the petitioner's claim of Rs. 47,696 million. Any adjustment thereof shall be dealt at the time of FRR for the said year.*

5.16. The Authority reiterates its directions in respect of submission of concrete proposals to revise/ review the existing depreciation rate based on the precise economic life of the different regulated assets in order to bring the uniformity across the sector as per provision of the tariff regime in place.

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6. Unaccounted For Gas (UFG)

6.1. The petitioner has claimed the financial effect of *'RLNG volume handled, impact on UFG – swapping indigenous gas to SNGPL & supplying RLNG to Karachi consumers through distribution network'* amounting to Rs. 14 billion. In this regard, the petitioner has stated as under:

i) The pricing of RLNG is governed under ECC's decision dated 14-06-2016 whereby the costs as well as revenue of RLNG related gas have been ring fenced. The said ECC decision interalia allowed distribution losses to be determined and charged at actual to RLNG consumers who at this stage are only on the supply network of SNGPL. The pricing model adopted by the ECC was based on the principal that the companies should not be exposed to or be worse off due to any adverse impact of RLNG handling. However, this methodology did not consider the scenario, where due to swap arrangement in place, additional UFG losses suffered in the petitioner's distribution system of indigenous natural gas meaning thereby that the letter and spirit of ring fencing RLNG cost and revenues stands defeated.

(ii) Petroleum Division, Federation of Pakistan during concurrency of swapping arrangements and till complete commissioning of dedicated pipeline of RLNG, proposed and ECC of the Cabinet approved the following as policy guidelines whereby SSGCL is allowed to calculate UFG based on RLNG Volume handling basis (volumetric basis) (effective retrospectively from 1st March 2015) in the sale price of RLNG in its franchise area in partial modification of Para-3(viii) of the summary approved by ECC vide ECC-72/12/2016 dated 14.06.2016 as under:

> *"Distribution loss to be determined and charged at actual including the losses due to swapping arrangements and consumption of RLNG in SSGC franchise area (determined on volume handled basis i.e. metered system gas in and metered gas out). The said loss for the customers located on high pressure transmission lines as well as those customers who are willing to lay their dedicated line from SMS/TBS at their own cost shall also be determined and charged at actual. However, for other customers on distribution lines an actual average UFG for the last financial year will be taken in determination."*

6.2. The Authority notes that the petitioner vide its letter dated 28-09-2018 has informed that 42" dia 373 Kms RLNG pipeline (RLNG I and II) has been fully commissioned alongwith all component and associated infrastructure and becomes operational from 11th September, 2018. *The Authority understands that with the commissioning and operation of the dedicated pipeline from Karachi to Sawan the issue of swapping and any impact arising out of the said swapping, if any, stands resolved for the said year. The Authority, therefore, disallows the claimed amount under this head. Moreover, a detailed determination on this matter has been issued in the Authority's decision of FY 2016-17 dated 24-12-2018.*

6.3. *In view of above as well as the revised parameters below per paras 9.4 and 9.5, the Authority provisionally computes UFG adjustment at Rs. 14,799 million. UFG computation is as under;*

Table 3:Computation of UFG

MMCF

Particulars	The Petition	Determined by the Authority
	2018-19	
Gas Purchases:		
Gross Purchases	428,800	428,800
Less: Gas Internally Consumed-metered	494	494
Available for Sale	**428,306**	**428,306**
Gas Sales:		
Gas Sales	365,223	365,223
Add: Gas Shrinkage at JJVL - LPG/NGL	2,784	2,784
Add: Gas Shrinkage at LHF - Condensate	35	35
Total	**368,042**	**368,042**
UFG Volume	60,264	60,264
UFG Projected	**14.05%**	**14.05%**
UFG Benchmark	5.00%	5.00%
Provisional allowance for local operating conditions	1.30%	1.30%
Allowable UFG Volume @ 6.30% Benchmark	27,014	27,014
Disallowed Volume (MMCF)	33,250	33,250
WACOG (Rs./MCF)	496.23	445.10
UFG Adjustment (Rs. in million)	16,499	14,799

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7. Points Related to UFG Raised during Public Hearing

a. Intervener Comments

7.1. The substantive points made by the interveners including S.I.T.E. Association of Industry, Karachi Chamber of Commerce & Industry (KCCI), All Pakistan Textile Mills Association (APTMA) during the hearing as well as in writing are summarized below:

7.2. Over $2 billion of gas is stolen every year in the petitioner's and SNGPL's system collectively. It is a mind boggling fact that in an energy deficient country such as Pakistan, gas worth over $2 billion worth in terms of import value of substituted furnace oil is leaked or stolen. This is the result of the average 10% UFG presented in both the utilities, which has now been reduced to 6.5% as per claim. The shortage is around 1 BCF in the country as well. So in simpler terms the control of UFG is the key to survival of the country's industrial strength.

7.3. The petitioner is here to explore the benefits that can be passed on to it in terms of monetary compensation as per rules of OGRA but there are reservations over the performance of SSGC in terms of the OGRA rules? There is a glaring contradiction in the petitioner's presentation of the UFG facts and figures. There are 46 different sources of gas receiving: Each has its own gas measurement systems and with different accuracy levels. OGRA has been allowing sufficient spending on system augmentation along with maintenance and repair of the system for several years as and when demanded, therefore the responsibility of the deteriorating lines, leaking pipes and ageing network lies on the petitioner alone. The key is the swift response time and the rectification of leakages and proper monitoring. In addition to all this the issues of sticky meters, under recording meters and various other meter related issues also contribute to the losses. Addition of one gas connection exposes the system to up to 12 leaking points. The high domestic growth rate of around 100,000-200,000 connection per year increase the leakage chances. As a rule of thumb with every 1,000 kilometers of distribution the UFG increases by 0.002% due to underground leakages and aging of network. The UFG levels were set by OGRA in 2002 with extensive consultation with all stake holders and experts and improved till 2005 after which it started to deteriorate.

7.4. 'Full cost recovery' is the slogan being adhered to by the petitioner. Due to the UFG there is a demand and supply gap that is ever increasing and also the price per unit

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is increasing every day as the expenses are not being curtailed but the revenue is being lost more and more every year and on top of that the petitioner is taking loans to reduce the UFG whereas it was doing quite impressively in the UFG itself till 2005.The illogical and politically motivated decisions of the extension of the system to far flung areas with limited revenues and deteriorating lines is also contributing to the UFG. As a result, Rs. 26 billion have been lost by petitioner alone in one year based on high UFG.

7.5. Rs. 350 billion losses heaped on the economy by the two utility companies: There is need to understand that it is the planning commission that has pointed out that due to this UFG issue the entire country suffers a colossal loss of Rs 350 billion as the gas losses result in usage of expensive alternate imported fuel such as furnace oil along with loss in the GDP of 3%. This is five times larger than the combined losses of the WAPDA system. This massive loss is not seen by the public as they face shortage in three months only in winter and but the gas companies are guaranteed to be paid 17% on assets even if they make losses. As per the estimates, around 700 MMCED of gas could be put back in the system if this is controlled reducing the current shortfall by half. In financial terms since furnace oil is used as a replacement fuel by the end users in shortage of gas supplies we have calculated that every MMBTU that is used in place of gas puts an additional burden of US $ 10 per MMBTU. One percent loss of the UFG translates into around 45 MMCFD or Rs. 5 billion but the value loss in the economic chain is higher than Rs 300 billion per annum if calculated on the basis of increased production loss. The petitioner has attempted to improve its losses but still it is not clear what aspect of the reasons has been curtailed and to what extent.

7.6. The petition submitted is quite an elaborate web that has been woven to fleece the end user. It has contributions from the Government, the ECC and the aspirations of the petitioner to ensure that the increase takes place so that the end users pay for the functions of the relevant quarters. Highlights of the petition are:

1. The ECC makes an illegal guideline for it to allow doubtful debts to 1% limit. ECC cannot give any such guideline and neither can the petitioner follow it.

2. The FG in its infinite wisdom plans the gasification of towns and places far off from the main stream of gas piping to win votes and results in an expense plan.

3. The petitioner although near bankruptcy always makes a salary increase of double digits.

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4. Cost of gas prevented from going down deliberately

7.7. It is an accepted fact that the single biggest cost component is the cost of gas in the whole calculation and it is to certain extent out of jurisdiction of the petitioner. As such they do not hold it responsible for the increase in cost as such based on the formula but the GOP and OGRA as the regulator do have a responsibility towards this nation to take care of its citizens just as the other Governments are taking care of their citizens in conducting international negotiations.

7.8. The petitioner claimed a shortfall of Rs. 30 billion. In this shortfall, the single biggest factor is the disallowed UFG at Rs. 16.5 billion based on petitioner's 13% own submission. If this was at 6.5% as per last ruling there would be much lower at Rs. 15 billion and 50% price increase would be wiped out. This means that the petitioner has its own solutions within itself to unburden the common man and give it relief and OGRA on its own has to make this a reality. Together the common man and the industrialist can be left alone to do their planning and increase the GDP of the country instead of holding their breath every time then hearing for tariff comes in. OGRA has determined the limit of 6.5% for this year. The increased revenues will certainly reduce the overheads as well and will make it a profitable company. OGRA must understand that the tariff increase is a useless and fruitless way of solving this acute problem. It has to strengthen the petitioner to deal with the theft and pass exemplary punishments.

7.9. The petitioner has unbelievable theft records in certain cities. Karachi has 4.41% theft. Balochistan indeed has 55%. Quetta has 55%. Mach has 42%. Kolepur has 44%. Kalat has 77%. However total volume of UFG in Balochistan in volume is quite low as consumption is very low too. The theft volume in Karachi alone is high but as a percentage of supply it is only 4.5%. In Dadu zone it is 42%. In Larkana it is 36%.

7.10. The interveners further added that they vehemently oppose the item 'UFG adjustments on RLNG on volume handled basis' for being totally misconceived and unjustified. It was opposed that the addition of volume at item 10 of Table B-4 designed to artificially inflate gas sales volume drastically and being down the UFG percentage from 14.05 to 6.72 in an attempt to escape financial consequence of poor performance in controlling UFG.

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b. Authority's response to interveners

7.11. The Authority has carefully considered all the submissions and arguments of the parties made in writing and at the public hearings. Interveners' comments relating to various heads of expenditures and UFG have been considered while making the decision in the relevant part of this determination. Moreover, as regards the fixation of UFG Benchmark it may be noted that the Authority undertook a UFG study for determining UFG Benchmarks of the gas companies through a consultant of international repute. After a thorough consultative process in stages, at all provincial /Federal Capitals the consultant submitted the final draft report which was accepted by the Authority and forwarded to both the gas companies on 30-8-2017 for implementation and compliance. It is mentioned that the Authority, based on above mentioned UFG Study Report, had determined following formula, in DERR dated 20-09-2017, for calculation of UFG:

UFG Allowance = Gas Received $\times (\alpha \times Rate^1 + Rate^2 \times \beta)$

7.12. In the above said formula, there is a multiplying factor i.e. alpha (α) of Rate1 which will remain at 1.0 for next five years and the same will be reviewed after 05-year period. Quantification of sub-heads of UFG components for Rate1 will be monitored throughout 5 years.

- $Rate^1$ = Technical Component (Inherent gas loss in the system)
- $Rate^2$ = Local Challenging conditions component (Pakistan specific)
- β = Performance factor (Key Monitoring Indicators)

7.13. Rate 2, in the above mentioned formula, is the allowance for local challenging conditions as compared to the world at large particularly with reference to issues in law & order affected areas and uneconomic expansions resulting in theft, leakages, data / meter errors and non-recovery of gas bills both from consumers and non-consumers. Allowance for these challenging conditions has been worked out at 2.6%. Further in order to ensure that appropriate and serious efforts are directed towards reducing UFG over the agreed term of five (5) years, the allowance with respect to local challenging conditions component (2.6%) is linked to the achievement of certain Key Monitoring Indicators (KMIs) designed to rectify the problem areas contributing towards UFG. The performance of gas companies towards achievement

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of KMIs is thus a factor (β) to establish the allowance on account of Rate 2. The better the performance the higher the benefit, upto a maximum of 2.6%.

8. Operating Revenues

i. Income From LPG/NGL

8.1. The petitioner has submitted that the Supreme Court of Pakistan, in its recent decision, has terminated Memorandum of Understanding (MOU) signed with M/s Jamshoro Joint Venture Limited (JJVL) in respect of extraction of LPG/NGL. Therefore, the above projected income may not accrue or arise to the company during the said year, till further arrangement in this respect. Accordingly, the petitioner has not offered any income under this head owing to above decision of Apex Court.

8.2. The Authority notes that during the scrutiny of the petition, it was informed by the petitioner that the supply of gas to M/s JJVL has now been restored under an agreement and M/s A.F. Furguson & Co. has been appointed as receiver by the apex Court to supervise the arrangement. It was further informed that M/s Oil and Gas Development Company Limited's extraction plant on its fields has also started its operations.

8.3. ***The Authority, based on new circumstances as informed by the petitioner, decides to maintain its earlier decision and provisionally includes Rs. 1,263 million, being sale from gas condensate, NGL & LPG as part of revenue requirement for the said year. Any adjustment thereof shall be dealt at the time of FRR based on the circumstances prevalent at that time.***

ii. Notional Income on IAS-19 Provision

8.4. The petitioner has requested the Authority to re-consider its decision and exclude Rs. 359 million on account of notional income on IAS 19, being non-operating.

8.5. The petitioner has submitted that it is of the consistent view that it is not an income of the company, and hence be excluded from revenue requirement of the said year. The petitioner has further argued that new tariff regime issued/implemented by OGRA is also silent, therefore, it was understood that the Authority had accepted its stance. The petitioner has emphasized that by nature notional income on IAS -19 provision, whether recovered or not, is an interest income and it cannot be treated as

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operating income. Moreover, ex-price determining authority had never treated it as operating income.

8.6. The Authority notes that the petitioner's contention for OGRA's silent decision in respect of notional income in new tariff regime is incorrect. The Authority had set criterion / parameters viz; degree of relevance with regulated activity, degree of risk for company, managements' efforts in the operation of the company and overall tariff structure in respect of treatment of incomes. Considering these parameters and the arguments advanced by the petitioner, the Authority, at the time of DERR for the said year, had already decided to treat notional income on IAS-19 as operating, since the income is derived from the direct operations of the company, and involves no risk for company. Therefore, the matter in respect of treatment of notional income on IAS-19 has reached its finality as part of DERR for the said year, and petitioner's contention for OGRA's silent view point is irrational and against the fact. The Authority further observes that arguments of the petitioner are mere repetition, and the Authority has already taken those into account while determining DERR for said year.

8.7. ***In view of above, the Authority maintains its earlier decision and provisionally includes Rs. 359 million as part of tariff calculation for the said year.***

iii. Cost of Supply of RLNG

8.8. The petitioner has calculated Rs. 24,962 million as cost of supply for RLNG transportation as against the earlier determination of Rs. 8,470 million for the said year. The petitioner has explained that it has claimed distribution loss at actual including the losses due to swapping arrangements and consumption of RLNG in franchise area in the light of decision of ECC in its meeting held on May 11, 2018. The petitioner has informed that the cost of service shall be recovered as part of RLNG price, and hence is not part of the instant petition.

8.9. The Authority notes that the petitioner had calculated additional cost of service of RLNG based on its claim of additional UFG adjustment due to swapping of system gas with RLNG in its franchise area. The Authority has considered the issue in detailed in para 6.2 and has not acceded to petitioner's request. The Authority has also maintained its decision in respect of Gas internally consumed – RLNG per para 10.13, and decided to allow 864 MMCF @ average purchase price of Rs. 1282/MMBTU. *Accordingly, cost of supply for RLNG for the said year is determined*

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on provisional basis at Rs. 8,787 million (Rs. 18.96/MMBTU). However, the same has not been included as part of tariff calculation for natural gas consumers, and hence be recovered from RLNG consumers as part of RLNG price in accordance with the prevalent policy guideline of the FG.

9. Cost of Gas

9.1. The petitioner has projected to increase in cost of gas from Rs. 200,614 million per the DERR to Rs. 235,770 million for the said year on the basis of following parameters:

(i) Actual gas purchases for July and August, 2018 and estimates for September, 2018 to June, 2019.

(ii) US $ exchange rate for payment of monthly invoices of gas producers has been assumed at Rs. 140 for period July-December, 2018 and Rs. 150 for the period January-June, 2019.

(iii) In accordance with provisions of existing GPAs between producers and GoP, the petitioner has adopted actual monthly average rates of HSFO and Crude oil upto 3rd October, 2018 without escalation.

9.2. On the basis of above parameters, petitioner has estimated the average C & F prices of crude oil and HSFO for December, 2017 to May, 2018 at US $ 68.0780 per barrel and US $ 383.1059 per ton respectively. For the period June to November, 2018 average C&F prices of crude oil and HSFO have been assumed at US $ 76.4502 per barrel and US$ 448.5650 per ton respectively.

9.3. The Authority observes that well-head prices of gas for all fields in Pakistan are computed in accordance with GPAs and/or provisional pricing parameters, available on record, and are notified in exercise of powers vested in it under the Ordinance.

9.4. The Authority notes that the actual average C&F prices of crude oil and HSFO for the period June to November, 2018 are close to the petitioner's projections. *However, on the basis of actual average US $ exchange rate for the period July to December, 2018 Rs. 129.7545 and estimates for the period January to June, 2019 at Rs. 140 the Authority determines cost of gas sold at Rs. 219,614 million as against Rs. 235,770 million projected by the petitioner for the said year.*

9.5. ***The Authority in view of the revised parameters above, provisionally determines Gas Internally Consumed at Rs. 246 million for the said year.***

10. Transmission & Distribution Cost

i. Store, Spares and Supplies

10.1. The petitioner has requested the Authority to allow entire amount of Rs. 1,026 million projected on account of Store, spares and supplies for the said year. The petitioner has argued that the Authority based on operational activities, historical trend and anticipated inflationary increase provisionally allowed Rs. 725 million i.e. 10% increase over DERR FY 2017-18.

10.2. The petitioner has attributed that major increase is due to extensive UFG control activities and expected increase in consumption & prices of chemical products/fuel and lubricants besides general inflation.

10.3. The petitioner has further explained that it has projected Rs. 74 million on account of printing charges of gas bills based on the premise that its contract with local vendor shall expire in February, 2019. The same was agreed in FY 2015-2016 and were on lower rates.

10.4. The Authority notes that the petitioner has incurred Rs. 669 million in FY 2017-18 and Rs. 237 million (out of total allowed of Rs. 725 million i.e. 33% utilization) during July to December, 2018. ***In view of the historical trend and the justifications advanced by the petitioner, the Authority decides to maintain its earlier decision subject to the actualization at the time of FRR for the said year.***

ii. Legal charges

10.5. The petitioner has submitted that the Authority allowed Rs. 91 million on account of legal charges as against its claim of Rs. 213 million under the above head.

10.6. The petitioner has argued that the Authority, at the time of DERR, had pended Rs. 100 million claimed on account of arbitration related to Habibullah Coastal Power Company (HCPC) and directed it to resolve the matter amicably among the parties i.e. HCPC, WAPDA.

10.7. The petitioner has also informed that the arbitration proceedings at ICC Singapore initiated by HCPC against it have been concluded in favor of HCPC. The decision for filing an appeal against the arbitration order is under the consideration of the management. Therefore, Rs. 100 million projected on account of HCPC be allowed to the petitioner.

10.8. The petitioner has further submitted that other land issues including RLNG/other projects, cases related to OGRA price notifications, Suo moto cases by Supreme & High Courts, HR matters, IPPs role, gas holiday, gas theft, and additionally have also being envisaged during the said year. In view of the above justification/explanation, the petitioner is requested the Authority to reconsider and allow entire amount of Rs. 213 million.

10.9. The Authority notes that the petitioner had advanced similar justification at the time of DERR, and the same had already been considered at that time. No new justifications have been provided by the petitioner in the instant petition so as to substantiate its claim. The Authority further observes that the petitioner has incurred legal charges amounting to Rs. 70 million in FY 2017-18 and Rs. 31 million including HCPC arbitration of Rs. 0.07 million during July-December, 2018. ***Considering the historical trend and repetition of the arguments, the Authority maintains its earlier decision. Moreover, the Authority reiterates its direction to the petitioner to settle the HCPC issue amicably.***

iii. Repair and Maintenance

10.10. The petitioner has stated that the Authority, keeping in view the operational requirement and capitalization trend allowed an amount of Rs. 1,884 million (actual of FY 2016-17 plus 10% per year inflation impact) in DERR in this head. The petitioner has requested to allow an amount of Rs. 324 million (in addition to Rs. 1,884 million allowed in DERR) and has furnished following justifications in support of its claim:

(i) The projected increase is owing to the increase in payment to contract labor deployed at transmission & distribution maintenance activities, additional overhead survey for UFG control activities, T&D line maintenance activities, building/vehicle maintenance activities as well as software development & maintenance

(ii) The increase in expenses in FY 2017-18 over FY 2016-17 is 10% whereas the Authority has allowed an average increase of 5% in FY 2018-19 over the allowed amount in FY 2016-17. Even if an increase of 10% is applied to the amount incurred in FY 2017-18 it comes to Rs. 2,090 million.

(iii) Repair and maintenance plays a vital role to achieve KMIs of UFG Benchmark determined under local challenging conditions. The company projected an extensive plan under this said head related to reducing UFG. The expenditure in this head will directly affect KMIs relating network visibility, leakage rectification, measurement errors which mainly comprises of inspection of CMS and their rectifications and eradication of theft.

10.11. The Authority notes that since actual figures of FY 2017-18 were not available at the time of DERR for the said year, therefore the Authority had taken actual figure of FY 2016-17 and had applied 10% per year inflation impact for estimation of amount to be provisionally allowed for the said year. ***The Authority, however, allows the petitioner to incurr the additionally claimed amount of Rs. 324 million, in principle, on the activities necessary for achievement of KMIs and reduction of UFG and claim the actualized amount at FRR stage.***

iv. Gas Internally Consumed (GIC) - RLNG

10.12. The petitioner has stated that they had claimed a projected volume of 2,695 MMCF GIC for operations related to RLNG whereas OGRA allowed only 862 MMCF GIC based on actual FY 2016-17 consumption. The petitioner has requested to allow the projected volume of 2,695 MMCF GIC for operations related to RLNG based on following grounds:

(i) The influx of RLNG volumes has been increasing at a fast pace resultantly the GIC increases operationally at different locations due to operation of compressors, power generators at HQs.

(ii) The GIC is mainly dependent on swap volumes handled, the significant increase shall spell out the projected increase in GIC for FY 2018-19.

(iii) The petitioner in the background of gas swapping volumes to SNGPL has projected the volume of gas usage for internal consumption based as projected actual numbers of FY 2017-18.

(iv) The petitioner has been swapping indigenous gas to SNGPL and utilizing major chunk of RLNG at Karachi.

10.13. The Authority notes that GIC for all Compressor Stations for FY 2017-18, as provided by the peitioner, is 568 MMCF, whereas the petitioner has projected an exorbitant figure of 2,695 MMCF for FY 2018-19 without any plausible justification for this very high projection. Moreover, in view of the discussion at para 6.2 above, the issue of swapping stands resolved. ***The Authority notes that it has already allowed 862 MMCF against GIC based on actual figures of FY 2016-17 consumption, therefore, it maintains its earlier stance against this head,*** however, it allows the petitioner to claim actualized figures at FRR stage for indigenous gas. The Authority, however adds that since the pricing of RLNG is ring fenced therefore financial impact of GIC related to RLNG operations will be recovered from RLNG consumers only.

11. Financial Impact of Hon'ble Sindh High Court (SHC)Judgment

11.1. The petitioner has offered Rs. 3,672 million, being financial adjustment arising out of the decision of honorable SHC in the light of decision of the Federal Cabinet and SECP clarification.

11.2. ***In view of above, the Authority accepts the same & adjusts Rs. 3,672 million by reducing revenue requirement for the said year.***

12. Determination

12.1. The Authority, after taking into consideration points raised by interveners, clarifications provided by petitioner, scrutiny of petition and available record, provisionally determines the revenue requirement at Rs. 231,880 million while the sales revenue works out to Rs. 206,947 million. Thus there is a shortfall in estimated revenue requirement for said year at Rs. 24,933 million (**Annexure-I**). Accordingly, increase in average prescribed prices works out to Rs. 69.10 per MMBTU effective July 1, 2018. The Authority observes that the revenue shortfall in the instant decision has emerged owing to the inadequate revision in gas prices in respect of DERR FY 2018-19 and due to increase in cost of gas owing to rupee dollar parity.

12.2. The Authority, therefore, has determined the average prescribed prices and the total revenue requirement of the petitioner at **Annexure I & II** respectively. The same under each category of consumers shall be adjusted upon receipt of sale price advice by the FG, under Section 8(3) of the OGRA Ordinance.

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13. Application of Pressure Factor by the petitioner above 8 inches of Water Column (Across the Board)

13.1. The Authority observes that the petitioner has been applying pressure factor to a large number of domestic consumers, in their gas bills, on the pretext of supply/metering pressure over and above 8 inches of water column. As per Clause 11 of the 'Standard Contract for the Supply of Gas for Domestic Use', the petitioner is required to supply natural gas at a pressure not exceeding 8 inches of water column above atmospheric pressure. It is, hence, the petitioner's responsibility to ensure that domestic consumers' gas pressure does not exceed 8 inches of water column above atmospheric pressure.

13.2. ***The Authority, therefore, directs the petitioner to immediately discontinue the application of pressure factor, over and above 8 inches of water column, in the gas bills of domestic consumers to ensure the compliance of clause 11 of the 'Standard Contract for the Supply of Gas for Domestic Use'. Further, the petitioner is directed to make reverse adjustments on this account in the gas bills of those consumers to whom pressure factor in violation of the Standard Contract has been applied by the petitioner in the instant year. In case of non-compliance, the Authority shall pass proper reversal in the form of disallowance at the time of FRR for the said year.***

14. Public Critique, Views, Concerns, Suggestions

14.1. The Authority has recorded concerns of interveners and participants above, which include matters relating to policy and do not fall under the purview of Authority but affect the consumers. Specific attention is drawn to these issues, as summarized in para 3 and 7 above, for consideration and necessary action.

Dr. Abdullah Malik
Member (Oil)

Noorul Haque
Member (Finance)

Uzma Adil Khan
Chairperson

Islamabad,
February 27, 2019

REGISTRAR
Oil & Gas Regulatory Authority
Islamabad

I. Computation of Review of Estimated Revenue Requirement for FY 2018-19

Rs. in Million

	Particulars	The Petition	The Adjustment	Determined by the Authority
Gas sales volume -MMCF		365,223		365,223
	BBTU	360,837		360,837
"A"	**Net Operating Revenues**			
	Net sales at current prescribed price	212,009	(11,831)	200,178
	Meter rentals	792	-	792
	Amortization of deferred credit	432	-	432
	Sale of LPG	-	1,066	1,066
	Sale of condensate	-	20	20
	Sale of NGL	(32)	209	177
	Late payment surcharge	3,353	-	3,353
	Meter manufacturing profit	13	-	13
	Other operating income	557	360	916
	Total Operating Revenue "A"	**217,123**	**(10,176)**	**206,947**
"B"	**Less: Operating Expenses**			
	Cost of gas	235,770	(16,156)	219,614
	UFG Adjustment	(1,346)	(13,454)	(14,799)
	UFG adjustments on RLNG volume handled basis (ring fenced)	(15,153)	15,153	-
	Staggering of Financial Impact on account of SHC Order	(3,672)	-	(3,672)
	Transmission and distribution cost	17,556	(748)	16,808
	Gas internally consumed	264	(18)	246
	Depreciation	5,394	(50)	5,344
	Other charges including WPPF	1,224	-	1,224
	Total Operating Expenses "B"	**240,037**	**(15,272)**	**224,765**
"C"	**Operating profit (A-B)**	**(22,915)**	**5,096**	**(17,818)**
Return required on net operating fixed assets:				
Net operating fixed assets at beginning		40,777	-	40,777
Net operating fixed assets at ending		47,696	(4,453)	43,243
		88,473	**(4,453)**	**84,020**
Average net assets (I)		**44,236**	**(2,226)**	**42,010**
Net LPG air mix project asset at beginning		552	1	553
Net LPG air mix project asset at ending		516	(2)	514
		1,068	**(1)**	**1,067**
Average net assets (II)		**534**	**(0.31)**	**534**
Deferred credit at beginning - Assets related to Natural Gas Activity		4,466	-	4,466
Deferred credit at ending - Assets related to Natural Gas Activity		4,799	-	4,799
		9,265	-	9,265
Average net deferred credit (III)		**4,633**	**-**	**4,633**
"D" Average (I-II-III)		**39,070**	**(2,226)**	**36,844**
"E" return required		**6,810**	**(388)**	**6,422**
"F" Shortfall / (Surplus) in return required (E-C) (Gas Operations)		**29,725**	**(5,484)**	**24,240**
"G"	**Additional revenue requirement for Air-Mix LPG Projects**	693	-	693
Total Shortfall / (Surplus) H=(F+G)		**30,417**	**(5,484)**	**24,933**
Increase in average prescribed price effective (Rs. / MMBTU) w.e.f July 01, 2018		**84.30**	**(15.20)**	**69.10**
Estimated revenue requirement (B+E+G)		**247,540**	**(15,660)**	**231,880**
Average Prescribed Price (Rs. per MMBTU)		**671.84**	**(47.99)**	**623.86**

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II. Provisional Prescribed Prices for FY 2018-19

	Particulars	W.e.f July 01, 2018 Rs./MMBTU
(i)	**Domestic Consumers:**	
	Upto 50 cubic metres per month	623.86
	Upto 100 cubic metres per month	623.86
	Upto 200 cubic metres per month	623.86
	Upto 300 cubic metres per month	623.86
	Upto 400 cubic metres per month	623.86
	Upto 500 cubic metres per month	623.86
	Above 500 cubic metres per month	623.86
(ii)	**Special Commercial Consumers (Roti Tandoors)**	
	Upto 100 M^3 per Month	623.86
	Upto 300 M^3 per Month	623.86
	Over 300 M^3 per Month	623.86
(iii)	**Commercial :**	
	All off-takes at flat rate of	623.86
(iv)	**Ice Factories:** All off-takes at flat rate of	623.86
(v)	**Industrial:** All off-takes at flat rate of	623.86
(vi)	**Registered manufacturers or exporters of five zero-rated sectors and their captive power namely: Textile (including jute), carpets, leather, sports and surgical goods** All off-takes at flat rate of	623.86
(vii)	**Captive Power :** All off-takes at flat rate of	623.86
(viii)	**CNG Stations:** All off-takes at flat rate of	623.86
(ix)	**Cement Factories:** All off-takes at flat rate of	623.86
(x)	**Fauji Fertilizer Bin Qasim Limited** (i) For gas used as feed-stock for Fertilizer	623.86
	(ii) For gas used as fuel for generating steam and electricity and for usage in housing colonies for fertilizer factories	623.86
(xi)	**Power Stations** All off-takes at flat rate of	623.86
(xii)	**Independent Power Producers** All off-takes at flat rate of	623.86

III. List for Abbreviations

APCNGA	All Pakistan CNG Association
APTMA	All Pakistan Textile Mills Association
BAQTI	Bin Qasim Association of Trade and Industry
BBTU	Billion British Thermal Unit
BCFD	Billion Cubic Feet Daily
BOD	Board of Directors
C&F	Cost and Freight
CC	Cement Concrete
CEO	Chief Executive Officer
CNG	Compressed Natural Gas
CP Station	Cathodic Protection Station
CP System	Cathodic Protection System,
CP	Constitutional Petition
CC&B	Customer Care and Billing
CMS	Customer Meter Station
DDC	Direct Departmental Cost
DERR	Determination of Estimated Revenue Requirement
EETPL	Engro Energy Terminal Pvt. Ltd.
ENI	Ente Nazionale Idrocarburi
ERR	Estimated Revenue Requirement
EVC	Electronic Volume Corrector
ECC	Economic Coordination Committee
FBATI	Federal Bureau Association of Trade & Industry
FG	Federal Government
FRR	Final Revenue Requirement
GIC	Gas Internally Consumed
GDP	Gas Domestic Product
GDS	Gas Development Surcharge
GOP	Government of Pakistan
GIDC	Gas Infrastructure Development Cess
GPA	Gas Pricing Agreement
GPD	Gas Producing Districts
HCPC	Habibullah Coastal Power Company
HSFO	High Sulphur Furnace Oil
HQ	Head Quarter
IAS	International Accounting Standard
ISGSL	Inter State Gas System Limited
JJVL	Jamshoro Joint Venture Limited
KCCI	Karachi Chamber of Commerce & Industry
KE	Karachi Electric
KMI	Key Monitoring Indicators
LATI	Landhi Association of Trade & Industry
LPG	Liquified Petroleum Gas
LPS	Late Payment Surcharge
LNG	Liquified Natural Gas
MOE (PD)	Ministry of Energy (Planning Division)
MGFIP	Mehar Gas Field Integration Project
MMBTU	Million Metric British Thermal Unit

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MMCFD	Million Standard Cubic Feet per Day.
MMP	Meter Manufacturing Profit
MP&NR	Ministry of Petroleum and Natural Resource
MR	Market Return
MRP	Market Risk Premium
NGPD	Non Gas Producing Districts
NGRA	Natural Gas Regulatory Authority
NKATI	North Karachi Association of Trade & Industry
NHA	National Highway Authority
NTV	New Towns and Villages
OGDCL	Oil and Gas Development Company Ltd.
OGRA	Oil and Gas Regulatory Authority
OMV	Österr Mineralöl Verwaltung
PPL	Pakistan Petroleum Limited
PRS	Pressure Regulating Station
POD	Point of Delivery
PSO	Pakistan State Oil
QPL	Quetta Pipe Line
RF	Risk Free
RLNG	Re-Gasified Liquefied Natural Gas
RS	Regulating Station
ROW	Right of Way
SECP	Securities & Exchange Commission of Pakistan
SHC	Sindh High Court
SITE	Sindh Industrial Trading Estate
SMS	Sale Meter Station
SNGPL	Sui Northern Gas Pipeline Limited
SSGCL	Sui Southern Gas Company Limited
SCADA	Supervisory Control And Data Acquisition
TBS	Town Border Station
T&D Cost	Transmission and Distribution Cost
TRS	Town Regulating Station
UFG	Un-accounted for Gas
WACOG	Weighted Average Cost of Gas
WAPDA	Water And Power Development Authority
WPPF	Workers Profit Participation Fund

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