Case No. OGRA-6(2)-1(4)/2019-ERR

IN THE MATTER OF

SUI NORTHERN GAS PIPELINES LIMITED
ESTIMATED REVENUE REQUIREMENT, FY 2019-20

UNDER

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

DECISION

May 17, 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 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 (KPK), Punjab and Azad Jammu & Kashmir (AJ&K) under the license granted by the Oil & Gas Regulatory Authority. It is engaged in the business of construction and operation of gas pipelines, transmission, distribution and 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)and transportation of the same for the private parties on commercial basis, in accordance with the decisions of the Federal Government (FG).

1.2. The Petitioner filed the petition on February 2, 2019 for determination of estimated revenue requirement for FY 2019-20(the said year) under Section 8(1) of the Oil & Gas Regulatory Authority Ordinance, 2002 (the Ordinance) and Rule 4(2) of the Natural Gas Tariff Rules, 2002 (NGT Rules).

1.3. The Petitioner vide its letter March 19, 2019 submitted the revised petition (the petition) wherein it has requested for re-validation of leftover projects and also sought the approval in respect of certain capital projects. As per decision of the Federal Government, the Petitioner has ring fenced the operating fixed assets and incremental operating cost related to RLNG business. Accordingly, the Petitioner, for the said year, has claimed cumulative shortfall of Rs. 272,080 million *(the amounts have been rounded off to the nearest million here and elsewhere in this document)*, for normal business of natural gas, Rs. 36,410 million transportation charges in respect of RLNG supplies and Rs. 371 million revenue shortfall in respect of LPG business. In addition, the Petitioner has also separately factored the impact of Rs. 26,441 million on account of diversion of RLNG to domestic sector in winter (December 2018 to February 2019) and requested to include the same in the natural gas or RLNG prices for the said year. The Petitioner has referred the Ministry of Energy (Petroleum Division) letter dated February 22, 2019 wherein the Petitioner has been advised to file a petition with OGRA for inclusion of differential of RLNG diverted to domestic sector as per ECC of the Cabinet decision dated 11.5.2018.

1.4. The Authority observes that supply of RLNG is ring-fenced activity as per decision of the Federal Government. Accordingly, this determination is to the extent of revenue requirement of gas companies on account of supply of indigenous gas to its consumers.

1.5. The Petitioner 's submission is summarized in the following statement of cost of service per MMBTU and compared with previous years:

Table1:Comparison of Projected Cost of Service with Previous Years:

				Rs/MMBtu
Particulars	FY 2017-18	FY 2018-19		FY 2019-20
	FRR	**DERR**	**RERR**	**The Petition**
Sales volume (BBTU)	368,803	436,187	424,371	376,578
Cost of gas	422.39	451.94	460.45	566.97
UFG disallowance	(17.23)	(22.87)	(25.33)	(1.99)
Transmission & distribution	64.10	57.49	58.79	97.80
Operating cost of upgradation of CC&B	-	0.03	0.04	-
Depreciation	34.08	47.16	43.90	62.29
Late Payment Surcharge (Payable) & cost of short term borrowing	16.25	4.27	4.39	20.13
Scanning and Electronic Archiving of Sales Record	-	-	-	0.47
Corporate Social Responsibility (CSR)	-	1.14	1.17	2.51
Impact of IAS 19 (Recognization of Actuarial Gains) for FY 2015-16	(7.78)	-	-	-
Other Operating Expenses (Exchange Loss)	4.66	-	-	-
Previous Year's Revenue Shortfall	250.80	67.27	69.15	438.49
WPPF	1.98	2.61	2.68	3.48
Total Operating Cost	769.24	609.04	615.24	1,190.15
Return on fixed assets	41.53	48.27	45.38	70.30
Other operating income	(46.86)	(27.98)	(28.76)	(36.75)
Avg Cost of service/ Prescribed price (PP)	763.91	629.33	631.86	1,223.70
Current average prescribed price	448.26	399.45	512.17	501.19
Increase in Average Prescribed Prices	315.66	229.88	119.69	722.51

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

1.7. A notice inviting interventions / comments on the petition from the consumers, general public and other interested / affected persons and intimating the date, time and place of the public hearing, was published on March 24, 2019 in daily local newspapers. The Authority received applications to intervene in the proceedings from the following persons/entities:

1. Mr. Ghiyas Abdullah Paracha, Chairman, All Pakistan CNG Association
2. Engr. Maqsood Anwar Pervaiz, President Small Industries Association, Khyber Pakhtunkhwa
3. Mr. Muhammad Aslam Chaudhry, Lahore
4. Mr. Mehmood Elahi Engineers, Faisalabad
5. Mr. Ayub Hameed, Lahore
6. Shahzada Iqbal, SNGPL CBA Union
7. Ghulam Mustafa, Chakwal

1.7.1. The Authority accepted the above-mentioned applications for intervention.

2. Salient Features of the Petition

2.1. Following submissions have been made in the petition

2.1.1. The Petitioner has claimed annual return at the rate of 17.43% of the net fixed assets in operation in accordance with the new tariff regime implemented effective July 2018.

2.1.2. The Petitioner, on account of natural gas normal business, has projected a gross addition of Rs. 72,219million in the fixed assets (including Rs. 29,333 million assets carried forward owing to in principle approval in RERR FY 2018-19) and ex-depreciation addition of Rs. 48,762 million, resulting projected increase in the net operating fixed assets from Rs. 150,014 million per RERR FY 2017-18 (Re-adjusted) to Rs. 198,776 million during the said year. Accordingly, the Petitioner has claimed that after adjustment of deferred credits, the net average operating fixed assets eligible for return works out to Rs. 174,395 million, and the required return to Rs. 26,474 million for the said year.

2.1.3. The Petitioner, in respect of LPG Air Mix Plants and RLNG, has projected average net operating fixed assets at Rs. 1,122 million and Rs. 43,777 million respectively for the said year.

2.1.4. The Petitioner has projected the net operating revenues at Rs. 202,577 million, detailed below and compared with previous years:

Table2: Comparison of Projected Operating Revenues with Previous Years:

				Rs. Million	
Description	**FY 2017-18**	**FY 2018-19**	**FY 2019-20**	**Incr/Decr over RERR**	
	FRR	RERR	The Petition		
Net sales at current prescribed price	139,909	217,351	188,737	(28,614)	-13%
Meter Rental and service charges	2,175	2,135	2,391	256	12%
Late Payment Surcharge and interest on arrears	5,859	4,719	6,445	1,726	37%
Amortization of deffered credit	3,746	3,152	3,512	360	11%
Other operating income	1,356	2,200	1,492	(708)	-32%
Net operating Revenues	**153,045**	**229,557**	**202,577**	**(26,980)**	**-12%**

2.1.5. The Petitioner has projected the net operating expenses at Rs. 283,057million, as detailed below (and compared with previous years):

Table3: Comparison of Projected Operating Expenses with Previous Years:

Rs. in Million

Description	FY 2017-18	FY 2018-19	2019-20	Inc/(Dec) over RERR	
	FRR	RERR	The petition		
Sales volume (BBTU)	368,803	424,371	376,578	(47,793)	-11%
Cost of gas	155,780	195,401	213,508	18,107	9%
UFG disallowance	(6,356)	(10,748)	(750)	9,998	-93%
Transmission & distribution	23,642	24,948	36,831	11,883	48%
Operating cost of upgradation of CC&B	-	15	-	(15)	-100%
Depreciation	12,568	18,632	23,457	-	-
Late Payment Surcharge (Payable) & cost of short term borrowing	5,992	1,863	7,580	5,717	307%
Scanning and Electronic Archiving of Sales Record	-	-	177	177	-
Corporate Social Responsibility (CSR)	-	496	944	448	90%
Impact of IAS 19 (Recognization of Actuarial Gains) for FY 2015-16	(2,871)	-	-	-	-
Other Operating Expenses (Exchange Loss)	1,718	-	-	-	-
WPPF	729	1,138	1,310	172	15%
Total operating cost including cost of gas	**191,202**	**231,745**	**283,057**	**28,380**	**12%**

2.1.6. The Petitioner has projected SNGPL's Weighted Average Cost of Gas (WACOG) for the said year at Rs. 486.36 per MMBTU. The cost of gas is linked with international prices of crude oil (Crude) and High Sulphur Fuel Oil (HSFO) per Gas Pricing Agreements (GPAs) executed between the producers and GoP.

2.1.7. The Petitioner has projected UFG at 10.95. The Petitioner has however, restricted its UFG adjustment to Rs. 750 million per Rule 20(1) of NGT Rules, 2002 for the said year.

2.1.8. The Petitioner has claimed subsidy amounting to Rs. 371 million (Rs. 6,086.12 per MMBtu) on account of its Air-mix LPG projects.

2.1.9. The Petitioner has claimed previous years' revenue shortfall upto FY 2017-18 at Rs. 143,680 million and for FY 2018-19 at Rs. 21,446 million. Accordingly, the Petitioner, in view of above, has projected the increase in prescribed prices at Rs. 722.51 per MMBtu, as detailed below:

Table4: Computation of requested increase in Average Prescribed Price:

	Description	*Rs in Million*
A	Net operating revenues	202,577
B	Net operating expenses including WPPF	283,057
C	Shortfall (B-A)	80,480
D	Return required @ 17.43% on net fixed assets in operation	26,474
E	Shortfall in revenue requirement (D+C)	106,954
F	Actual Revenue shortfall determined by Authority upto FY 2017-18	143,680
G	Estimated revenue shortfall determined by Authority for FY 2018-1	21,446
H	Cummulative Shortfall in revenue requirement (E+F+G)	272,080
I	Sales volume (BBTU)	376,578
Increase (Decrease) in the average prescribed price (Rs/MMBTU) (H/I*1000)		**722.51**

3. Proceedings

3.1. The Public Hearing

3.1.1. A public hearing was held at Peshawar on April 11, 2019 which was participated by the following;

Petitioner

i. Team led by Mr. Zia Mahmood, Acting Managing Director

Intervener/Participants

i. Mr. Ghiyas Paracha, Chairman, All Pakistan CNG Association
ii. Engr. Maqsood Anwar Pervaiz, President Small Industries Association, KPK
iii. Mr. Fazal Moqeem Khan, Chairman, All Pakistan CNG Association, KPK Zone
iv. Mr. Ghalib Khan, All Pakistan CNG Association
v. Mr. Salah Uddin, All Pakistan CNG Association
vi. Mr. Imran Hameed Awan, All Pakistan CNG Association
vii. Mr. Hafeezullah Khan, All Pakistan CNG Association
viii. Mr. Tahir Zia Khan, All Pakistan CNG Association
ix. Engr. Alamzeb Khan, Real CNG Group
x. Mr. Tahir Khan, Real CNG Group
xi. Mr. Shoaib Khan, Real CNG Group
xii. Mr. Muhammad Nauman Shah, SHAH III CNG Station

3.1.2. A public hearing was also held at Lahore on April 15, 2019 which was participated by the following;

Petitioner

i. Team led by Mr. Amer Tufail, Dy. Managing Director (Services)

Intervener/Participants

i) Mr. Muhammad Aslam Chaudhry, Lahore
ii) Mr. Ghiyas Paracha, Chairman, All Pakistan CNG Association
iii) Mr. Mehmood Elahi Engineers, Faisalabad
iv) Mr. Ayub Hameed, Lahore
v) Shahzada Iqbal, SNGPL CBA Union
vi) Ghulam Mustafa, Chakwal (written submission)
vii) Mr. Shigki Terada, Mitsubishi Corporation
viii) Capt. (Retd) Raja Shuja Anwar, All Pakistan CNG Association
ix) Mr. Imran Hameed Awan, All Pakistan CNG Association
x) Mr. Affan Khalid, Consumer
xi) Mr. Ali Ahmed, Consumer
xii) Mr. Umar Altaf, Consumer
xiii) Abdul Hayee, Consumer

3.2. The Petitioner made submissions in detail with the help of multimedia presentation explaining the basis of its petition. The Petitioner also responded to the comments, observations, objections, questions, and suggestions of the participants.

3.2.1. The Petitioner's legal counsel, during the hearing, submitted that the Authority under the provisions of the Ordinance is obligated to promote and ensure the observance of the efficient practices, safeguard the public interest including the national security interests of Pakistan in relation to regulated activities and protect the interests of all stakeholders inter-alia the people of Pakistan in general, the licensee and the Government of Pakistan.

3.2.2. Under Section 7 of the Ordinance read with Section 8, as well as the licensing Rules, the primary duty of OGRA is to determine the tariff of the Petitioner/licensee in respect of regulated activities and to ensure that it achieves the rate of return provided in its license.

3.2.3. While protecting public interest, the licensee and the national security interests, OGRA has to further ensure, under the provisions contained in Section 8 of the Ordinance, that under no circumstances the average sale price should be less than the average prescribed price set by the Authority. Ordinance does not envisage a scenario where the average sale price is less than the average prescribed price. The scheme of the Ordinance seeks to ensure that at no point in time the licensee/Petitioner short of money it is entitled to receive.

3.2.4. Under the provisions of Ordinance, the prescribed price determined by OGRA under Sections 8(1) and 8(2) is an "entitlement" of the Petitioner so that it ensures the rate of return provided in its license. This is strengthened by the definition of the term total revenue requirements. SNGPL can achieve the required return only if its sale price is at least as much as the prescribed price it is entitled. Therefore, the average notified sale price for natural gas cannot conceivably be less than the average prescribed price. Any other interpretation of Sections 8(1)—8(4) of the Ordinance would be contrary to the scheme of the Ordinance and the license.

3.2.5. Section 8(4) obligates OGRA to notify the prescribed price for any category of retail consumer determined by OGRA under section 8(1) and 8(2) to be the sale price for that category, provided said prescribed price is higher than the most recently notified sale price. This ensures that the sale price advised by the Federal Government for each category of consumer is always at least as much as the prescribed price to which the Petitioner is entitled. Any reliance by the Authority on an advice by the Federal Government, which does not ensure that the Petitioner to receive the price it is entitled to is against the law.

3.2.6. The Petitioner has had to face a shortfall of revenue due to the average sale price of natural gas being less than the average prescribed price determined by the Authority itself in previous years. Current state of affairs has also led to an alarming circular debt situation. The Petitioner has faced significant shortfall in revenue as a consequence of the inadequate sale price. Consequently, the Petitioner has had to manage its cash flows.

3.2.7. In the petition, 75.10% (i.e. Rs. 543.19 per MMBTU) of the increase sought by Petitioner through the instant Petition is its undisputed entitlement. The remaining 24.9% (i.e. Rs. 180.18) increase per MMBTU sought by the Petitioner comprise depreciation, operating costs, WPPF, LPS, GIC, ROA etc;.

3.2.8. The counsel also argued that total revenue requirement under Section 8(6)(h) ensures guaranteed return and provides that total revenue requirement of the licensee shall be determined so as licensee may achieve 17.43% return. Legal counsel, during the hearing, also requested the Authority to discharge its functions in accordance with relevant provisions of OGRA Ordinance, and to ensure level playing field for all the stakeholders as stipulated in Rule 17(1)(c) & 17(2) of NGT Rules. Despite the clear mandate of the law, the Authority treats the rate of return as a ceiling item rather than a floor item and proceeds to make deductions from the same. It is submitted that as a consequence of this faulty interpretation, the Petitioner has received an abysmal effective rate of return over the years which is contrary to express mandate of law

3.3. The Unaccounted for Gas (UFG) related contention made by Petitioner's legal counsel as well as by the interveners have been incorporated in this order at the relevant part "Unaccounted for Gas (UFG)" and has been accordingly addressed/responded there.

3.4. The interveners at the outset highlighted that OGRA has to protect the consumers' interests whether the matters pertain to policy related issues or regulation. The substantive points made by the interveners during the hearing as well as in writing, are summarized below;

3.4.1. The Petitioner has its own legal team involving handsome amount as part of gas prices. In this situation, the Petitioner is required to substantiate the circumstances whereby it has acquired the services of private legal firm(s) against heavy payments. This issue has been raised repeatedly but neither any comment from the Petitioner nor any action by OGRA has been initiated through its decisions issued frequently. It was stressed that OGRA must ask the reasons for acquiring the services of private law firms and check, the recoveries made through courts against such legal expenses incurred which are ultimately borne by the consumers.

3.4.2. Total manpower strength and detail of gross salary in respect of top ranks of the Petitioner's management including Senior General Managers (SGMs), General Managers (GMs), Chiefs, Dy. Chiefs and other officers has not been provided. At present, the HR cost of Petitioner is about 18 billion rupees. The OGRA is keeping on allowing to the Petitioner. In addition, the Petitioner's officers have been allowed luxury vehicles with drivers. Not all these are defendable particularly when the Petitioner's management has failed to control UFG and the gas sale volumes are persistently dropping.

3.4.3. As per law, GIDC is collected from the consumers for utilization of the same for LNG pipeline infrastructure etc. The intervener(s) demanded to demand such amount from the Government to reduce the dividend due to capitalization. Instead of utilization of GIDC, the loans from Banks under sovereign Guarantee of the Government have been arranged at very low interest rate in connivance with directors/ shareholders to get maximum profits. This treatment is not fair. At consumers' cost, the Petitioner has paid 60% +15% dividends to shareholders before increase in gas prices.

3.4.4. Massive assets capitalization is causing increase in gas prices whereas as per Rule 17(J) of Gas Tariff Rules 2002, only prudent, cost effective and economical efficient are liable to be added in rate base.

3.4.5. Gas sale volume is continuously decreasing. It reflects negative performance of the Petitioner's management. In the light of decline in sale volume, addition in revenue requirement is absolutely uneconomical, imprudent and unjustified. Therefore, the revenue requirement as demanded by the Petitioner for the said year does not meet criteria of tariff rules 2002. It was accordingly demanded to turn down the increase in gas prices sought by the Petitioner.

3.4.6. Impact of CBA agreement 2019-20 has been projected at Rs. 2,953 million. It was criticized that even the subordinate staff of the Petitioner' is highly paid viz a viz other utility organization of Pakistan. At present, assistants, operators, drivers, welders, fitters, electricians etc; are being paid hefty salary package to the extent of Rs. 3 Lac per month per head. This salary package is equal to grade 18 of Government officers. Said CBA impact if allowed by OGRA shall increase the monthly wages of subordinate staff manifolds. This exceptionally high cost of salaries and wages is recovered from poor consumers through gas sale prices. It was accordingly opposed to allow the same.

3.4.7. The interveners highlighted the flaws in the Petitioner's organizational structure. It was highlighted that the strength of Senior General Managers/ General Managers has reached to tune of about 36 and chiefs to the figure of about 90. Deputy Chiefs are countless. In the Petitioner's office, separate General Managers are heading most of the sections in one department, which is certainly bad governance of human resources management.

3.4.8. The perks and benefits to the Petitioner's officers have increased. Chauffer driven cars of chiefs has been recently upgraded from Suzuki Cultus to Toyota. For this purpose, about 90 new cars have been purchased. Three vehicles Fortuner branded each of Rs. 65 Lacs have been purchased for the senior management in addition to 1800CC Honda Cars already under their use. The consumers pay the cost of such luxuries. Exorbitant increase in HR cost need independent inquiry/ investigation in order to find reasons of such increase in HR cost. It was opposed that further increase in HR cost is unjustified and adversely affecting the gas consumers'. The same therefore should not be approved. It was also criticized that the directors of the company do not bother about increase in HR cost since it is recovered from poor consumers without affecting their profits.

3.4.9. It is matter of serious concern that sales are showing decline while the revenue requirement including the HR cost has been demanded to increase. In order to avoid increase in gas prices and payment of subsidy for gas prices, HR cost and operational expanses should be capped at the existing level. Further, the matter of existing over billing is still under question. Beyond doubts, the increase in gas prices sought is due to bad governance and poor performance of the Petitioners' management. The same therefore must not be allowed.

3.4.10. The Petitioner has estimated 616 MMCF 'free gas facility' amounting to Rs. 265 million for the said year. It was stressed that it is unjustified keeping in view the performance of the Petitioner. The same therefore should not be allowed. If the Petitioner intends to extend the facility, it should be at its cost but not at the cost of poor consumers'.

3.4.11. Under the head 'sponsorship of chairs at universities', the Petitioner has projected Rs. 10 million for the said year. It was opposed that the universities fulfill its expenditure as of grant-in-aid from the government. This charity at the time of gas crises is therefore not understandable. The same therefore should be stopped and disallowed.

3.4.12. The utility companies tend to over-project sales volume and revenues in subsidized categories resulting in exaggerated prescribed price and consequently higher consumer prices. The petition is therefore extensively scrutinized to protect the interest of the consumers.

3.4.13. Gas consumers are forced to purchase LPG cylinder due to pendency of new gas connections and new tariff slabs. Approximately twenty-four (24) lack applications for new gas connection are pending. The intervener appeals OGRA to resolve the issue and define the new gas connection policy in the larger interest of the public.

3.4.14. It was highlighted that the Petitioner gave incomplete and misleading information under the head 'capital expenditures', so the matter is of serious concern and defective for comments.

3.4.15. Gas measurement system/mechanism is faulty. OGRA has fixed the pressure & temperature factor however, the latter is not considered in the measurement and billing. By allowing pressure factor, 5-6% increased has been adversely effected the consumer and created problems which is resulting to benefit the shareholders'.

3.4.16. The intervener requested OGRA not to increase the gas prices in respect of CNG sector. Actual expense should be fixed not more than 10% as per international standard and forensic audited of the Petitioner' actual expenses is indispensable.

3.4.17. SNGPL covers 70% area of the country while the UFG is applied to the entire country. It was demanded to review the UFG policy accordingly and ensure the utilization of gas pipeline capacity. Further, the Petitioner is selling the blend of indigenous natural gas and RLNG without any lawful permission. The parameters for gas allocation and consumption may be defined. It was also highlighted that UFG benchmark is fixed only on local gas and not on imported gas, which is case of discrimination.

3.4.18. It is very unfair to determine the indigenous gas prices for CNG sector without consulting the stakeholders'. There is clear Rules & Regulation for determination the CNG prices. Only CNG sector is suffering, while others sectors are continuously using local and mix importer gas. The main reason for increase in CNG prices is dollar rate, electricity and petroleum prices. UFG &line losses be stopped to reduce the CNG tariff from Rs. 980/- per MMBtu.

3.4.19. The Petitioner supplies RLNG whole month, however the dollar rupee exchange rate of the last day is applied. This issue must be resolved. The gas companies should encourage the private sectors (especially for CNG sector) for the betterment of the economy of this Country.

3.5. The Authority has carefully considered all the submissions and arguments of the parties made in writing and at the public hearings. Interveners' comments are mostly pertaining to increase demanded in various head of expenditures. The same have been considered while making the decision in the relevant part of this determination. The policy related issues shall be referred for the attention of the Federal Government. The response to certain legal contentions pertaining to Authority functions are has been addressed below.

4. Authority's Jurisdiction and Determination Process

4.1. OGRA is obligated to determine the total revenue requirement of the licensee under Section 8(1) of the Ordinance for a particular year after going through the due process of law. This primarily involves scrutiny of the petition, in depth analysis of the estimates, examination of operating and capital items, issuances of the notices to receive the valuable input/comments of all stakeholders, the opportunity of public hearing and then determination of the total revenue requirement as per mandate under the legal framework. Accordingly, the Authority decision surely strikes a balance among the divergent interests of all stakeholders. The total revenue requirement of the licensee determined by OGRA under Section 8(1) or 8(2) of the Ordinance is sent to Federal Government to seek the advice regarding revision in sale price in respect of various categories of natural gas consumers.

4.2. Section 8(3) of the Ordinance empowers the Federal Government to fix the consumer sale prices and advise OGRA the revision in gas sale prices and minimum charges in respect of natural gas retail consumers for notification in the official gazette. Accordingly, the Federal Government, keeping in view economic indicators, policy considerations in terms of uniform pricing across the country, Gas Development Surcharge and the inter category subsidies etc. advises the gas sales prices and minimum charges for each retail category to OGRA. The same is notified in the official gazette. The Authority however observes that during last years, the Federal Government, after detailed deliberation with the stakeholders' particularly the gas utilities, under Section 8(3) of the Ordinance, has mostly advised OGRA to maintain the existing level of gas prices or revised the gas sale prices slightly upward. Consequently, there has been unmet revenue shortfall in the total revenue requirement, which has been repeatedly taken up by the gas companies as well as by OGRA with the Federal Government. The Federal Government being the cognizant of the matter, advised OGRA that the accumulated revenue shortfall of the gas companies owing to non-recovery of the entitled price be staggered over four to five years and be formed part of future revenue requirements. Accordingly, the accumulated revenue shortfall factored by the Petitioner in its revenue requirement since FY 2018-19 has been staggered. This transpires that the Federal Government has catered for the unmet revenue requirement of the licensee, however the period of the same has been extended to multiple years. In respect of Zero rated export sector, the Federal Government during current year has even injected the subsidy to meet the revenue shortfall of the gas companies. OGRA is of the view that under the legal framework, there is no check on the Federal Government in the exercise of its powers as enshrined in the Ordinance and also there is no limitation of the modes and methodologies for the Federal Government to meet the revenue requirement of the licensee. Further, under the scheme of Ordinance, this is undisputed fact that the Petitioner's revenue requirement determined by OGRA cannot be slashed, subsided or denied. It has to be eventually met to it. Further, any cost of cash flows constraints if arisen owing to such revenue shortfall is also catered for in the revenue requirement. The Petitioner's sudden highlight on the issue, while it has been privy to all deliberations with the Federal Government in connection with the revision in gas sale prices, is therefore out of the context. The Authority however reiterates its view that all the category of consumers must at least pay the average cost of service, keeping in view the existing cost of alternative or substitute source of energy. Resultantly, there shall be no situation of unmet revenue requirement. This shall provide a level playing field for all concerned and avoid the situation of revenue shortfall faced to the licensee.

4.2.1. The Authority further notes that the legal counsel in its submissions has only contended the OGRA's role in respect of "ensuring rate of return" and entirely ignored the Petitioner's own efforts for "earning" the same. The Authority categorically affirms that the Petitioner has always been allowed stipulated rate of return strictly in accordance with the law. However, the Petitioner has failed to "earn" the rate of return in pursuance of Section 8(6)(h), Section 6(2)(t) of the Ordinance and license conditions amendable from time to time. The Petitioner is incorrectly contending that it has been getting much lower rate of return and has been referring to some legal provision in isolation. It appears that Petitioner is pleading for guaranteed rate of return, irrespective of its inefficiencies. If this is the case, it defeats very purpose of establishment of regulator created by the legislature for public interest. The very intent of the law clearly leads to the operating efficiency and optimum endeavor to deliver the services. Thus, return by any stretch of imagination cannot be isolated from performance yardsticks. Such contentions by the Petitioner are contrary to regulatory setup established by GoP, violate the legal and regulatory framework as a whole and tantamount to dysfunctional the mandate of regulator.

4.2.2. The Authority further observe that the matter of ensuring rate of return', UFG disallowance and all others issues contended by the Petitioner earlier in Lahore High Court, Lahore and Sindh High Court, Karachi have been decided. Hon'ble courts in their respective judgments upheld OGRA stance stating that the decisions taken by OGRA are lucid, due process of the law has been followed and OGRA has applied its mind while taking such decision. Accordingly, the Petitioner contention on such issues has no logic and rationale to repeat.

4.2.3. The Authority also notes that any consequential impact in terms of reduction in Petitioner's profit is mainly due to gas losses wherein theft is major constituent. This factor alone has server repercussions for all stakeholders If the same is considered with respect to cost of import energy molecules or alternative fuels. The gas losses incurred by the gas companies due to its inefficient management practices not only deteriorates its own profits but also impairs the gas consumer's interests when they have to buy the expensive energy in its replacement. The resort to the situation therefore warrants the Petitioner to combat the energy losses, which shall in turn secure the interests of the Petitioner and the public at large. The Authority in this regard has already taken significant measures through introduction of efficiency related benchmarks in consultation with licensees, which should surely reveal win-win situation in term of reduction in gas losses if it is implemented by the Petitioner in letter & spirit.

4.3. ***The Authority, as per the existing legal framework and tariff regime in place determines the revenue requirement of the Petitioner, providing stipulated return on net operating assets, while including various income & expenditure heads as part of prescribed price. The Petitioner is again advised to submit the amendment in the existing license in conformity with the ibid tariff regime in place.***

5. Operating Fixed Assets

5.1. Summary of Additions during the year

5.1.1. The Petitioner has projected a gross addition of Rs. 72,219 million in the fixed assets (including Rs. 29,333 million assets carried forward owing to in principle approved in RERR FY 2018-19) and ex-depreciation addition of Rs. 48,762million, resulting in projected increase in net operating fixed assets from Rs. 150,014million as per opening balance to Rs. 198,776million closing balance during the said year. After adjustment of deferred credits, the net average operating fixed assets eligible for return have been projected at Rs. 151,886million, and the required return at Rs. 26,474million, as under:

Table5: Computation of Projected Return on Operating Fixed Assets:

	Rs. in Million
Description	**The petition**
Net operating fixed assets at beginning	150,014
Additions during the year	42,886
Additions carried forward (in principle approved in RERR FY 2018-19)	29,333
Total Addition	72,219
Depreciation	23,457
Net addition	**48,762**
Net operating fixed assets at closing	198,776
Sub total	348,790
Average net assets	174,395
Deffered credit at beginning	22,595
Deffered credit at closing	22,423
Sub total	45,018
Average deffered credit	22,509
Average net fixed assets (A-B)	151,886
Return Required	17.43%
Amount of return claimed by the petitioner	**26,474**

5.1.2. The assets approved/determined in respect of RLNG infrastructure, as per decision of the Federal Government, have been ring-fenced and have therefore not been included in the above return and the instant revenue requirement. This shall form part of "Transportation Charges/Cost of Service", determined in this determination, to be recovered from RLNG consumer. Further, the assets addition amounting to Rs. 1,122 million on account of LPG Air-mix has also been dealt separately.

5.1.3. The Petitioner has provided further breakup of the above addition for the said year as under;

Table6: Break up of addition in operating fixed assets:

			Rs. in million
Sr.#	**Particulars**	**Addition for the current period**	**Total**
1	Freehold land		
2	Building on Freehold land	252	252
3	Transmission mains (Normal)	1,063	1,063
4	Compression system & equipment	391	391
5(a)	Distribution system mains	33,467	33,467
5(b)	Measuring & regulating assets	5,845	5,845
Sub total		**41,018**	**41,018**
6	**Normal and other assets :**		
6.1	Telecommunication equipments	29	29
6.2	Plant and machinery	566	566
6.3	Tools & equipment	28	28
6.4	Motor vehicles	300	300
6.5	Construction equipment	404	404
6.6	Furniture & Fixtures	40	40
6.7	Office Equipment	41	41
6.8	Computer hardware	381	381
Sub total		**1,789**	**1,789**
7	Intangible Assets	79	79
	Total addition for FY 2019-20	**42,886**	**42,886**

5.1.4. The detail discussion is made as under: -

5.2. *Buildings on freehold land*

5.2.1. The Petitioner has requested for Rs. 252 million under the head which includes the following: -

i. Rs. 52 million for lifts at Head Office building. It has been stated that the lifts were installed in 1989 and are in operations since the last 30 years. Since the useful life of the lifts is around 25 years, its Civil Department has recommended replacing the same to avoid any unwanted risks/ mishap.

ii. Rs. 65 million for construction of new buildings of two (2) Domestic Meter Inspection Shops for implementation of ISO 9001:2015 at Faisalabad and Gujranwala.

iii. Small amounts in respect of mosques, rooms, RCC Sheds etc.

iv. Construction of boundary walls at A-5 and 6, MA-16, AV-22, 29 etc., Construction of rooms and Chowkidar/ Security Guard Huts at different valve assemblies, SMS is for safety purposes, which are essential during rains, night and extreme weathers.

5.2.2. **The past trend of actualization for the last 5 years shows that the Petitioner had been able to capitalize Rs. 130 million on an average under the head.**

5.2.3. **Keeping in view the justifications tendered by the Petitioner, the Authority allows an amount of Rs. 130 million which includes 52 million for replacement of lifts at the Head Office Building and Rs. 65 million for construction of new buildings of two Domestic Meter Inspection Shops for implementation of ISO 9001:2015 at Faisalabad and Gujranwala and Rs. 13 for other operational requirements i.e.; construction of boundary walls, Chowkidar Huts and rooms etc. for safety purposes.**

5.3. Transmission

i. Transmission Mains (Normal)

5.3.1. The Petitioner has projected an amount of Rs. 1,063 million for Transmission Mains, breakup of which is as under: -

Table 7: Transmission Mains (Normal)

Million Rs.

Sr. #	Description of Segments/ Other Assets	Petition
1	Construction of new SMS's	600
2	Rehabilitation of Transmission System/ Upgradation of SMS's	84
3	Cathodic Protection System (CP System)	339
4	Transmission Mains (Enhancement in the Budget of 10" diameter Daudkhel-Mianwali Transmission Line)	40
	Total	**1,063**

(a) Construction of new SMS's

5.3.2. The Petitioner has projected Rs.600 million for construction of new SMS's and Modification/ up gradation of SMS's proposed for commissioning of gas supply to schemes against ongoing /new projects funded by the Government of Pakistan and New Housing Schemes. Accordingly, the Company in FY 2019-20, will likely undertake construction/up gradation of 10 to 15 Sales Meter Stations. It has been requested that the proposed budget is essentially required for commissioning and capitalization of newly laid Distribution Network.

5.3.3. The Petitioner has also informed that projected cost for one SMS is around Rs. 50 million and therefore the budget of Rs. 600 million would be required for approximately 10-15 new SMS's.

5.3.4. It is mentioned that the Petitioner has only provided the projected cost, however, it has not provided the exact number of new SMS's to be installed or to be upgraded.

5.3.5. **It is also mentioned that the Petitioner has been able to capitalize Rs. 165 million under the head during the last 5 years. Therefore, keeping in view the past trend as well as the contention of the Petitioner, the Authority allows Rs. 200 million upfront including inflation under this head subject to actualization at the time of FRR.**

(b) Rehabilitation of Transmission System/Up gradation of SMS's

i. **Rehabilitation of Transmission Pipeline**

5.3.6. The Petitioner has informed that amount is mainly required to carry out different maintenance activities at existing Transmission Network for better protections. The works include construction of retaining walls in flood areas, lowering, and fillings etc. amounting to Rs. 64 million.

ii. **Up-gradation of SMS's**

5.3.7. The Petitioner has informed that budget of Rs. 20 million is required to carry out the upgradation/modification of SMS's on Transmission Network to cope with the increasing gas loads, Installation of AGA compliant orifice meters, replacement of appropriate size Pressure control valves for smooth operation and to meet current load requirements and also installation of controlled condensate burning system at N-6, Pattoki to meet the operational requirements.

5.3.8. The Petitioner has requested for a total of Rs. 84 million under the above head.

5.3.9. **Keeping in view, the operational requirements of the Transmission network, the Authority allows Rs. 84 million under this head subject to actualization at the time of FRR.**

(c) Cathodic Protection System (CP System)

5.3.10. The Petitioner has apprised that Cathodic protection is 24/7 maintenance and mitigation process of underground pipelines against corrosion and that the overall percentage protection of its distribution network is already low i.e. 75 % and that new lines are also being laid and connected with the existing network, old coating is deteriorating and the load on the CP stations is increasing and that over the years the cost of material used in the construction of CP Station has increased manifold. Moreover, high currency exchange rates i.e. USD to PKR had resulted in increase of cost of CP material required for construction of CP system. Hence, budget requirements have increased for construction of new CP Stations and refurbishment /renovation of old ones.

5.3.11. It has also been stated that construction of new C.P Stations and Renovation of exhausted ground beds of already existed CP Station as per Distribution Development Plan 2018-19 is in progress in all Distribution Regions and proposed budget of Rs. 339 Million is essentially required in FY 2019-20 as there is no systematic Re-Coating Program in the Distribution System, hence the only resort left to protect its distribution lines from further corrosion and leakages is Cathodic Protection which, if not provided, will result in increase in UFG, hence it is imperative that financial layout for Cathodic Protection should be reviewed upward to enhance the life of MS Network so as to ensure uninterrupted supply of gas to its consumers. The Petitioner has projected for Rs. 339 million in this regard.

5.3.12. **It is mentioned that the Petitioner has provided no details of construction or up gradation in the previous years or per unit cost. Moreover, works amounting to Rs. 307 million are already pending with the Petitioner since FY 2015-16 and onwards as informed by it. Therefore, keeping in view such a huge pendency of works, the Petitioner may first complete the works already approved by the Authority from FY 2015-16 subject to revalidation by the Authority. However, keeping in view the operational requirements and the past trends for the last 5 years in FRR's, the Authority allows, in principle, Rs. 152 million under this head subject to actualization at the time of FRR.**

(d) Transmission Mains(Enhancement in the Budget of 10" diameter Daudkhel-Mianwali Transmission Line)

5.3.13. The Petitioner has informed that it's BOD in 519th meeting dated 25-2-2019 approved the project and that the Transmission Line is included as an enhancement in the budget. The Petitioner has projected Rs. 40 million as an enhancement in the budget of 10" Diameter Daudkhel-Mianwali Transmission Line. The Petitioner informed that the locals of en-route villages demanding gas supply to their villages due to which the work is still pending, however, negotiations are now at an advanced stage forcefully stopped the laying of pipelines and these community issues shall be resolved soon.

5.3.14. It is mentioned that the Authority approved the instant project vide its letter dated 14th November, 2012 for laying of pipelines (24" x 54.3 Kms Kohat-Dakhni, 24" x 50.41 Kms Dakhni-FCI, 24" x 40.1 Kms FCI-Gali Jagir and 10"x38 Kms Daudkhel-Mianwali) at a capital cost of Rs. 5,165 million.

5.3.15. **It is mentioned that Rs. 301 million is already available with the Petitioner for laying of 10" Diameter Daudkhel-Mianwali Transmission Line. The Authority allows, in principle, an amount of Rs. 40 million as requested by the Petitioner subject to actualization at the time of respective FRR.**

5.3.16. ***In view of above, the Authority allows the expenditure under Transmission Mains at Rs. 284 million as against Rs. 1,063 million as projected by the Petitioner for the said year as per the Table given below: -***

Table 8: Transmission Mains (Normal) allowed by the Authority:

Sr. #	Description of Segments/ Other Assets	Petition	Allowed
1	Construction of new SMS's	600	200
2	Rehabilitation of Transmission System/ Upgradation of SMS's	84	84
3	Cathodic Protection System (CP System)	339	-
4	Transmission Mains (Enhancement in the Budget of 10" diameter Daudkhel-Mianwali Transmission Line)	40	-
	Total	**1,063**	**284**

5.4. Compression

5.4.1. The Petitioner projected Rs. 365 million on account of compression during the said year. The Petitioner stated that the amount represents the fourth tranche of the special 5 years' project of "Compression Overhauling (2016-17 to 2020-21)" already approved by OGRA, vide its letter No. OGRA-9 (422) 2016 dated 15-8-2016.

5.4.2. It is mentioned that the Authority has already approved in principle the plan for overhauling of the compressors spread over a period of 05 years (2016-17 to 2020-21) with a projected cost of Rs. 2, 065 million for overhauling of 22 No. turbine engines (Centaur & Saturn) vide its letter dated August 15, 2016.The claimed amount Rs. 365 million is part of the project to be incurred by the Petitioner during the said year.

5.4.3. **It is also mentioned here that works amounting to Rs. 1,227 million (Rs. 310 million for FY 2016-17, Rs. 494 million for FY 2017-18 and Rs. 423 million for FY 2018-19) are already pending with the Petitioner since FY 2016-17.**

5.4.4. ***Keeping in view the above position, the Authority does not allow any upfront amount this year, however, any expense under the said project may be brought for capitalization at the time of FRR.***

i. **Compression Equipment (Regular Capex)**

5.4.5. The Petitioner projected Rs. 26 million under the head and stated that Rs.8 million is required to replace the Vibration Analyzer with Machinery Health Manager Software and that existing equipment is obsolete and old technology. The existing analyzer has been scrapped as the same was causing vibration-monitoring problems of Gas Turbines and Gas Gensets. In order to have proper condition monitoring and operational reliability of high-speed machinery, a latest vibration analyzer is required against scrapping.

5.4.6. Moreover, Rs.18 million is required for replacement of Actuators for Units No. 1 and 2 Yards Valves sizes 8", 4" and 1" at Compressor Station AC-8. The existing equipment is very old and creating operational problems.

5.4.7. **Keeping in view the operational requirements, the Authority allows Rs. 26 million under the head subject to actualization in the respective FRR.**

ii. Re-location of Gas Turbine Compressor Package and System Augmentation (LNG)

5.4.8. The Petitioner projected Rs. 98 million under the head and informed that relocation and system augmentation of gas turbine and compressor is to be carried out respectively for Transmission of 1350 MMCFD RLNG, approved by BOD in its 519th meeting held on 25.02.2019. The Compression infrastructure was expanded at compressor stations ACI-X (Bhong), AC-4 (Uch Sharif) and AC-6 (Multan) to transport 1200 MMCFD RLNG and indigenous supplies downstream of compressor station AC-6 Under LNG Infrastructure development project (Phase-I & II). Now, as per directives of Government of Pakistan, it is planned to transport additional 150 MMCFD RLNG supplies downstream of compressor station AC-6 (Multan) to be supplied to Punjab Power Plant (Tarimu) through 24" dia. Tarimu Power Pipeline. To meet the demand of Power sector in coming years, RLNG to the tune of 1170 MMCFD (max) has been planned to be supplied to this sector as per requirement of NTDC, Islamabad and major part of this gas volume will be utilized in power houses located downstream of Multan i.e. Compressor Station AC-6. In order to comply with Government of Pakistan's plan, a detailed system analysis was carried out for transportation of this additional 150 MMCFD RLNG and its supply downstream AC-6, Compression system augmentation is required at compressor station AC-6 (Multan) to process 1796 MMCFD flow against designed maximum capacity of 1 670 MMCFD. Accordingly, following augmentation is required at compressor station AC-6 (Multan);

i. Relocation of one (I) Gas Turbine Compressor Package from compressor station AC I -X (Qadirpur section) to existing compressor train at AC-6 (A-Section).
ii. Re-staging of Compressor from 3-Stage-C-Type to 2-Stage-D-Type Staging in order to meet the required operational parameters and synchronize with existing system at AC-6.
iii. Addition of one (I) No. Water Cooled I-Heat Exchanger at AC-6 (A-Section) in parallel with existing heat exchangers.

5.4.9. **Keeping in view** the **operational requirements, the Authority allows Rs. 98 million under the head subject to actualization in the respective FRR and under the ring-fenced mechanism for RLNG.**

5.5. Distribution Development

5.5.1. The Petitioner has informed that reason for increase in Distribution Development Budget is due to more spare (pipefittings, valves & cocks etc.) used in repair and maintenance activities. Moreover, the installation of sophisticated Metering equipment/gadgets at said locations for accurate measure of volume. Increase in foreign exchange rate is another factor.

5.5.2. The Petitioner has projected an amount of Rs. 33,811 million for distribution mains, breakup of which is as under:

Table9: Distribution Development:

Million Rs.

Sr. #	Description	Petition
1	Laying of Distribution Mains 8000 Km	22,860
2	Laying of Distribution Mains on Cost Sharing Basis	2,600
3	System Rehabilitation	1,910
4	G.I Pipe and Fittings	343
5	KMI Implementation Plan (No. 14 and 15)	627
6	Service Lines Domestic (600,000)	4539
7	Service Lines Industerial/commercial (Ring Fenced)	344
8	System Augmentation (Rawalpindi-Islamabad to receive additional Gases from Adhi-Sukho Gas Field)	588
	Grand Total	**33,811**

5.5.3. These assets are discussed in detail as under: -

i. Laying of Distribution Mains, Combing Mains, Augmentation and Head Office Reserves

5.5.4. The Petitioner has projected Rs. 22,860million for development of 9,126 Kms distribution lines out of which 8,000 kilometers are to be laid in anticipated schemes whereas 1,126 Kilometers include system augmentation, combing mains and head office reserves for existing areas etc. The breakup of 9,126 Kms is given in the Table below: -

Head	Kilometers
New Schemes	8,000
Augmentation	131
Combing Mains	710
Head Office Reserves	285
Total	**9,126**

5.5.5. The Petitioner has also furnished the following details of gas development schemes approved by GoP till the close of financial year 2017-18:-

5.5.6. **It is mentioned that the Petitioner has projected Rs. 20, 000 million for laying of 8,000 Kms pipelines for new Towns and Villages. It is also mentioned here that the Petitioner has informed that works amounting to Rs. 66,081 million (Rs. 34,287 million for FY 2018-19, Rs. 21,022 million for FY 2017-18, Rs. 8,206 million for FY 2016-17, Rs. 890 million for FY 2015-16, Rs. 1,211 million for FY 2014-15 and Rs. 466 million for FY 2013-14) are already pending with the Petitioner subject to revalidation by the Authority. It is mentioned that the Petitioner has not provided the data/ details of works for re-validation, which may be completed by it in FY 2019-20. In view thereof, the Authority may not re-validate the same under this decision. The expenditure on this account will only be allowed, if the budget for the same is revalidated prior to expenditure in the respective year.**

5.5.7. **The Authority keeping in view of the above allows, laying of 8000 Kms distribution network to the Petitioner in principle, with an initial cost of Rs. 5,383 based on last five years' capitalization trend and any over and above expense may be considered by the Authority at the time of respective FRR subject to actualization and justifications.**

5.5.8. **The Authority also allows Rs. 2,195 million for 1,126 Kms in respect of System Augmentation (131 Kms), Combing Mains (710 Kms) and Head Office Reserves (285 Kms) subject to actualization in the respective FRR.**

5.5.9. **However, the Authority apprises the FG that due to continuous increase in the distribution network viz-a viz depletion in the indigenous gas supplies/sales as mentioned by the Petitioner in its Petition of ERR 2019-20, it will lead to increase in gas load shedding of domestic sector/consumers.**

ii. Laying of Distribution Mains at Cost Sharing Basis

5.5.10. The Petitioner has projected Rs. 2,600 million under the head of laying of 774 Kilometers distribution mains of different diameter on cost sharing basis.

5.5.11. **The Authority observes that the Petitioner is not entitled to rate of return on the said capitalization. The Authority, therefore, allows the amount of Rs. 2,600 million as projected by the Petitioner.**

iii. **System Rehabilitation and UFG Control Activities**

5.5.12. The Petitioner has projected an amount of Rs. 1,910 million on account of Rehabilitation of Distribution System and stated that underground leakages are one of the factors contributing towards UFG and that the Petitioner's underground network has been cathodically protected to reduce metal loss due to corrosion. Moreover, it carries out replacement of underground network against System Rehabilitation Program on yearly basis due to following: -

1. Repeated power outages result in corrosion and leakages
2. Corrosivity of soil cause continuous deterioration of underground network resulting in leakage loss
3. Useful life of pipeline coating is limited after which its disbandment starts, making it prone to leakages.

5.5.13. Further, OGRA has notified specific KMI related to underground network replacement so budget against this activity is essentially required.

5.5.14. **Keeping in view the trend analysis, the Authority allows Rs. 1,122 million under the head for system rehabilitation and UFG control activities taking into account the inflation for the two years' subject to actualization at the time of respective FRR.**

iv. **G.I Pipe and Fittings**

5.5.15. The Petitioner has projected an amount of Rs. 343 million in this regard. The Authority is of the considered opinion that this direct cost should continue to be recovered/borne by the beneficiary/consumer. Therefore, the Authority disallows the claimed amount under the head as per its earlier decisions.

v. **KMI Implementation Plan (KMI No. 14 and 15)**

5.5.16. The Petitioner has projected an amount of Rs. 627 million in respect of KMI No. 14 and 15 relating to U/G and above ground leakages. It is mentioned that during assessment of KMI's for FY 2017-18, the Authority granted 100 % marks to the Petitioner keeping in view the achievements in the said KMI's. As the Petitioner is already executing the KMI's through the allocated budget for UFG Control activities, therefore, there is no justification for the additional budget for these KMI's as this budget relates to KMI No. 14 &15, which is already being under taken by the Petitioner.

5.5.17. **The Authority, therefore, does not allow any amount upfront to the Petitioner projected by it, however, any specific expense to undertake this activity will be considered at the time of FRR subject to justification that it is not overlapping of the amounts already allowed in different heads of UFG control.**

vi. **Service lines for New Connections (Domestic and Ring Fenced)**

5.5.18. The Petitioner has projected Rs. 4,539 million for provision of 600,000 new domestic Connections and Rs. 344 million for provision 5000 commercial and 450 Industrial connections (Under ring fenced mechanism). The GOP vide its letter dated April 21, 2017 informed that the moratorium on new industrial and commercial connections may be relaxed enabling the Ministry of Energy to allocate RLNG volumes to these prospective consumers.

5.5.19. ***The Authority allows the projected amount of Rs. 344 million for 450 industrial and 5000 commercial connections and this amount is ring fenced as per policy of the GOP regarding RLNG/ ECC decision.*** It is mentioned that the Petitioner installed 6,02,057 new domestic gas connections during FY 2017-18 as per the FRR. It is also mentioned that the Authority has been allowing around 300,000 new connections under the head in previous years.

5.5.20. Keeping in view the above position, ***the Authority allows Rs. 3,026 million for services lines for 400,000 new domestic connections (including 10% of the domestic connections on urgent fee basis) subject to the condition that the petitioner, before installation of such connections, shall seek prior approval of the Authority for the allocation of said connections in respect of its various regions, based on transparent and fair criteria.*** Further, the Demand Supply position of the natural gas may be seen by the Petitioner viz a viz its request. Based on the per unit cost projected Rs. 3,026 million is allowed by the Authority under the head for FY 2019-20 subject to actualization at the time of respective FRR. The Authority also advises the Petitioner to stagger the connections allowed by the

Authority in a fair and an equitable manner over a whole period of one year keeping in view the pendency in the respective region.

vii. System Augmentation (Rawalpindi-Islamabad to receive additional Gases from Adhi-Sukho Gas Field)

5.5.21. The Petitioner has projected an amount of Rs. 588 million for the subject project, which has already been approved by the Authority, in principle, in DRERR for FY 2018-19for utilization of additional gas from Adhi Gas Field in Rawalpindi /Islamabad Regions.

5.5.22. **Keeping in view the operational requirements and to utilized the additional gas from the Gas Field, the Authority allows 50 % of the projected amount i.e. Rs. 294 million under the head subject to actualization at the time of the respective FRR. The Authority may consider any over and above expense at the time of FRR.**

5.5.23. ***In view of above, the Authority allows the expenditure under Distribution Mains at Rs. 14,964 million as against Rs. 33,811 million as projected by the Petitioner for the said year as per the Table given below: -***

Table10: Distribution Development Allowed by the Authority:

Million Rs.

Sr. #	Description	Petition	Allowed
1	Laying of Distribution Mains 8000 Km	22,860	7578
2	Laying of Distribution Mains on Cost Sharing Basis	2,600	2600
3	System Rehabilitation	1,910	1122
4	G.I Pipe and Fittings	343	-
5	KMI Implementation Plan (No. 14 and 15)	627	-
6	Service Lines Domestic (400,000)	4539	3026
7	Service Lines Industerial/commercial (Ring Fenced)	344	344
8	System Augmentation (Rawalpindi-Islamabad to receive additional Gases from Adhi-Sukho Gas Field)	588	294
	Grand Total	**33,811**	**14,964**

5.6. Measuring and Regulating Assets

5.6.1. The Petitioner has projected Rs. 6,228 million on account of addition under the head of Measuring and Regulating Assets. The Petitioner has provided the break up as under: -

5.6.2. The assets are discussed in detail as under: -

Table11: Measuring and Regulating Assets claimed by the Petitioner:

		Million Rs.
Sr. #	**Description**	**Petition**
1	New Domestic Connections including 10 % additional Urgent Fee Connections CMS (600,000)	2,853
2	Construction of TBSs/DRSs	428
3	Replacement of Old Meters	2,539
4	Industerial/ Commercial Connections CMS (Ring Fenced)	383
5	TBS's under UFG Control /UFG Control Activities	25
	Grand Total	**6,228**

i. **Installation of New Connections**

5.6.3. The Petitioner has projected Rs. 2,853 million for 600,000 new domestic connections and Rs. 383 million for 450 industrial, 5000 commercial connections (under ring-fenced mechanism).

5.6.4. The GOP vide its letter dated April 21, 2017 informed that the moratorium on new industrial and commercial connections may be relaxed enabling the Ministry of energy to allocate RLNG volumes to these prospective consumers.

5.6.5. **The Authority allows the projected amount of Rs.383 million for 450 industrial and 5000 commercial connections and this amount is ring fenced as per policy of the GOP regarding RLNG/ ECC decision. It is mentioned that the Petitioner installed 6,02,057 new domestic gas connections during FY 2017-18 as per the FRR. It is also mentioned that the Authority allowed 400, 000 new domestic connections in FY 2018-19. It may be mentioned that the Authority is allowing 300,000 connections during the previous years on the average.**

5.6.6. **Keeping in view the above position, the Authority allows 400,000 new domestic connections including (10% on urgent fee basis of the domestic connections). The Demand Supply Position of the natural gas may be seen by the Petitioner viz a viz its request. Based on the actual per unit cost provided by the Petitioner, Rs. 1,902 million is allowed by the Authority under the head for FY 2019-20 subject to actualization at the time of respective FRR.**

5.6.7. **The Petitioner is also directed to strictly comply with the decision of the Supreme Court of Pakistan dated 1st March, 2018, in Human Rights Case No.**

6465-G of 2017, relating to provision of new gas connection on turn-merit basis in a fair, equitable and non-discriminatory manner keeping in view its capacity to undertake and complete the said jobs as well as availability of gas. The Authority reiterates here that connections must be provided uniformly across its area of operation based on transparent set criteria for all regions. Actual expenditure in this respect shall be assessed accordingly for allowance at the time of FRR.

ii. **Construction of TBSs and DRSs**

5.6.8. The Petitioner has informed that the budget for installation of 300 Nos. new TBSs/DRS'S has been proposed against ongoing/new Government funded schemes, cost sharing schemes and system augmentation etc. The Petitioner has projected Rs. 428 million on account of TBSs/DRSs in its ERR Petition for FY 2019-20.

5.6.9. **Keeping in view the operational requirement of the Petitioner, the past trend and implementation of the KMI plan, the Authority allows Rs. 428 million as projected under the head for the said year.**

iii. **Replacement of Old Meters**

5.6.10. The Petitioner has projected Rs. 2,539 million for the activity of meter replacement and stated that defective / tampered / suspected meters of industrial, commercial and domestic are detected as a result of:

1. Vigilance activities by Engineering Sections.
2. Reports received from Billing Department.
3. Consumer's Complaints
4. Operational Defects

5.6.11. It has been stated that in addition to above, meters are replaced against schedule replacement program based on following aging criteria:

Industrial = 1 Year
Commercial = 7 Years
Domestic = 16 Years

5.6.12. It has also been stated that replacement of defective, tampered, suspected meters in addition to schedule replacement program is a continuous ongoing activity and are required to be carried out on yearly basis.

5.6.13. **It is mentioned that the Petitioner intends to replace 654,740 old/defective meters during FY 2019-20. Therefore, considering the importance of the UFG issue and the average cost incurred for the last five years and by adding 10 % inflation each for two years, the amount works out to be Rs. 2,272 which is allowed by the Authority under the head for the said year. However, the Authority expects that this exercise of replacement of meters shall lead to correct billing and there shall be reduction in UFG as well this activity also relates to KMIs No. 6 to 12. The replacement of old meters may be verified at the time of FRR.**

iv. **TBS's under UFG Control /UFG Control Activities**

5.6.14. The Petitioner informed that the budget for installation / modification of TBSs/DRSs under UFG Control activities has been proposed to install check meters on isolated points so as to quantify the volumetric losses at the downstream of TBSs / TRSs. The activity will help the region to focus on a specific area related to UFG-C to identify underground, above ground leakages, theft and measurement errors.

5.6.15. **Keeping in view the implementation plan of the KMI No. (2&21) the Authority allows Rs. 25 million as projected under the head for the said year subject to actualization at the time of respective FRR.**

5.6.16. ***In view of above, the Authority allows the expenditure under Measuring and Regulating Assets at Rs. 5,010 million as against Rs. 6,228 million as projected by the Petitioner for the said year as per the Table given below: -***

Table12: Measuring and Regulating Assets allowed:

			Million Rs.
Sr. #	**Description**	**Petition**	**Allowed**
1	New Domestic Connections including 10 % additional Urgent Fee Connections CMS (600,000)	2,853	1,902
2	Construction of TBSs/DRSs	428	428
3	Replacement of Old Meters	2,539	2,272
4	Industerial/ Commercial Connections CMS (Ring Fenced)	383	383
5	TBS's under UFG Control /UFG Control Activities	25	25
	Grand Total	**6,228**	**5,010**

5.7. Machinery& Equipment and other Assets

5.7.1. The Petitioner has projected addition of Rs. 1,868 million on account of "Plant, Machinery & Equipment and Other Assets" for the said year, break-up as follows:

Table13: Detail of Additions to Plant, Machinery & Equipment and Other Assets:

		Million Rs.
Sr. #	**Description**	**The Petition**
1	Telecommunication Equipment	29
2	Plant & Machinery	566
3	Tools & Equipment	28
4	Construction Equipment	404
5	Motor Vehicles	300
6	Furniture & Fixture	40
7	Office Equipment	41
8	Computer Hardware	381
9	Computer System Software (Intangible Assets)	79
	Grand Total	**1,868**

i. Telecommunication Equipment

5.7.2. The Petitioner has projected Rs. 29 million on account of "Telecommunication Equipment" for the said year including video Conference Facility at different Regional locations for better coordination with the Head Office and for meetings held by the Management through Video Conference for monitoring daily targets. Further equipment is to be purchased for up-gradation of telecommunication facility.

5.7.3. **It may be mentioned here that last year the Authority allowed Rs. 42million, under the same head.**

5.7.4. **The Authority observes that an advanced and reliable telecommunication system is essential for effective control and security of distribution and transmission system, therefore, keeping in view the past trend, the Authority allows Rs. 29 million on this account for the said year as projected by the Petitioner subject to actualization at the time of FRR.**

ii. Plant and Machinery

5.7.5. The Petitioner has projected Rs. 566 million under the head Plant and Machinery. The Petitioner has projected the amount for purchase of different equipment like Fire Fighting Equipment, Metering Equipment, Survey Equipment, Power Plant

Equipment, CP Equipment etc. for Metering Workshop, CP department, P & D department and companywide requirements for Electrical Appliances, Power Plants etc.

5.7.6. **As per trend analysis, the Petitioner has capitalized Rs. 296 million during the last 5 years on an average, therefore, keeping in view the trend analysis, justifications advanced by the Petitioner and need assessment of the equipment required in day to day operations of the Petitioner and inflation for two years, Rs. 358 million is allowed by the Authority subject to actualization at the time of respective FRR.**

iii. **Tools and Equipment**

5.7.7. The Petitioner has projected Rs. 28 million on account of "Tools and Equipment" for the said year including Tool Kits and various loose tools.

5.7.8. **The Authority keeping in view the average capitalization for the last 5 years, allows Rs. 28 million subject to actualization in the respective FRR.**

iv. **Construction Equipment**

5.7.9. The Petitioner has projected an amount of Rs. 404 million for construction equipment and informed that different equipment is required to meet the operational requirements and a detailed list has been enclosed like Welding Plants, Excavator, Air Compressor etc. to meet the operational requirement. The number of existing equipment's isold, beyond economical repair and that the expansion of network, operational and maintenance activities has also increased manifold, and the existing fleet of the equipment does not meet the requirement. Therefore, new equipment is essentially required.

5.7.10. **It is mentioned that the Petitioner was allowed sufficient budget for LNG Phase (I&II) projects under this head. It may therefore, also utilize the surplus construction equipment and machinery.**

5.7.11. **Moreover, under the subject head, the Authority has allowed sufficient amounts for purchase of the said equipment during the past years. However, keeping in view the actualization on an average basis in the last 5 years, the Authority allows Rs. 187 Million subject to actualization in the respective FRR.**

v. Motor Vehicles

5.7.12. The Petitioner has projected Rs. 300 million on account of purchase of motor vehicles It is submitted that since last 5 years, major portion of the budget allocated for the Motor vehicles, is being used for the replacements of oldest operational vehicles. However, despite of all this, around 2000 vehicles/ motorcycles have outlived their useful life and due for replacement for which around 3 billion rupees are required. However, keeping in view the budgetary constraints amount of Rs. 300 million is requested to approve for FY 2019-20, to meet the operational requirement.

5.7.13. **The trend shows that the Petitioner has been able to capitalize on an average Rs. 177million during the last five years. Based on the last trend, the Authority allows Rs. 177 million under the head motor vehicles subject to actualization at the time of FRR. Any over and above expense may be considered by the Authority in the respective FRR. The Authority further advises the Petitioner to review its policy for replacement of old vehicles keeping in view their useful life in future. The Authority also advised to prudently utilize the existing fleet before projecting the replacement of vehicles under this head.**

vi. Furniture & Fixture

5.7.14. The Petitioner has projected Rs. 40 million under the head of furniture & fixture. The Petitioner has informed that the budget is required to meet the Companywide requirements, and projections are made, keeping in view the better utilization by its Civil Department.

5.7.15. **Keeping in view the past trends and past trend of actualization, Rs. 33 million is allowed by the Authority subject to actualization at the time of FRR.**

vii. Office Equipment

5.7.16. The Petitioner has projected Rs. 41 million on account "Office Equipment" for the said year and informed that Companywide Office Equipment is compiled by Finance Department at Head Office and the amount is required to meet companywide requirement of Photocopy machines/Fax machines/Security Equipment like CCTV Camera/Walkthrough Gates/Metal Detectors etc.

5.7.17. ***The trend shows that the Petitioner has been able to capitalize on an average 15 million during the last five years. However, in view of the position as explained above, Rs. 15 million under the head is allowed subject to actualization at the time of FRR.***

viii. **Computer Hardware**

5.7.18. The Petitioner has projected an amount of Rs. 381 million for procurement miscellaneous computer related equipment's. The amount is mainly required to replace the existing equipment, need of computers are increased after roll-outof many ERPs like Store Module, Asset Management Module etc. Tentative details are as under:

i.	PC	=	650 No.
ii.	Laptop	=	222 No.
iii.	UPS	=	165 No.
iv.	Printer	=	342 No.
v.	Scanners	=	234 No.
vi.	Printer Colored	=	06 No.

5.7.19. ***In view of the position as explained above, the Authority allows 50% of the projected amount i.e Rs. 190 million under the head subject to actualization at the time of FRR. The Authority further advised the Petitioner to review its policy for replacement of computer hardware keeping in view its useful life in future. The Authority also advised to the Petitioner to prudently utilize the existing computer hardware before projecting the replacement under this head.***

ix. **Computer System Software (Intangible Assets)**

5.7.20. The Petitioner has projected Rs. 79 million initially and then projected 181 million after publication of advertisement for hearing, which could not me entertained. Hence, the Authority considered only 79 million as initially projected by the Petitioner under the above head. The Petitioner informed that mainly the budget is required to meet the operational requirements to purchase the license/ software etc. Outsourcing of electronic archiving of sales record. The BOD in its 519th meeting held on 25.02.2019 approves the same.

5.7.21. **Keeping on view the justification provided by the Petitioner the Authority allow Rs. 79 million required to purchase license/ software, which are mainly required for operational purposes only subject to actualization at the time of FRR.**

5.7.22. ***In view of the above* the *Authority allows addition in assets on account of Plant, Machinery and other assets at Rs.1,096 million as against Rs. 1,868 million as projected by the Petitioner for the said year , as under.***

Table14: Detail of Additions under Plant & Machinery:

			Million Rs.
Sr. #	**Description**	**The Petition**	**Allowed**
1	Telecommunication Equipment	29	29
2	Plant & Machinery	566	358
3	Tools & Equipment	28	28
4	Construction Equipment	404	187
5	Motor Vehicles	300	177
6	Furniture & Fixture	40	33
7	Office Equipment	41	15
8	Computer Hardware	381	190
9	Computer System Software (Intangible Assets)	79	79
	Grand Total	**1,868**	**1,096**

5.8. Revalidation of Assets approved by the Authority in the Previous Years

5.8.1. It may be mentioned here that the Petitioner has not made part of the budgets approved by the Authority in the previous DERRs for revalidation by the Authority in ERR FY 2019-20, therefore, the Authority directs the Petitioner to bring such budgets in future for revalidation at ERR stage only for revalidation by the Authority keeping in view the Petitioner's overall capacity to undertake the development works, otherwise, in future the Authority will only allow capitalization at FRR stage pertaining to respective DERR.

5.9. Fixed Assets Determined by the Authority

5.9.1. The value of additions in assets requested by the Petitioner and provisionally determined by the Authority for the said year, is as under:

Table15: Summary of Assets Determined by the Authority FY 2019-20:

			Determined		Million Rs.
Sr. #	**Particulars**	**Petition**	**LNG**	**Normal**	**Allowed (Total)**
1	Building on Free Hold land	252	-	130	130
2	Transmission Mains	1,063	-	284	284
3	Compression	489	98	26	124
4	Distribution Development	33,811	344	14,620	14,964
5	Measuring and Regulating	6,228	383	4,627	5,010
6	Telecommunication Equipment	29	-	29	29
7	Plant & Machinery	566	-	358	358
8	Tools & Equipment	28	-	28	28
9	Construction Equipment	404	-	187	187
10	Motor Vehicles	300	-	177	177
11	Furniture & Fixture	40	-	33	33
12	Office Equipment	41	-	15	15
13	Computer Hardware	381	-	190	190
14	Computer System Software (Intangible Assets)	79	-	79	79
	Total	**43,711**	**825**	**20,783**	**21,608**

5.9.2. The addition in the normal business for the said year works out to Rs. 20,783 million. The LNG related assets has been determined at Rs. 825 million which shall form part of 'Transportation Charges' for LNG supplies.

5.9.3. As a consequence of adjustment on account of addition in assets for the said year, the depreciation expense, return and closing fixed assets works out as under;

Table16: Summary of Return allowed by the Authority:

		Rs. in Million
Description	**The petition**	**The Determination**
Net operating fixed assets at beginning	150,014	150,014
Additions during the year	42,886	20,783
Additions carried forward (in principle approved in RERR FY 2018-19)	29,333	-
Total Addition	**72,219**	**20,783**
Depreciation	23,457	21,781
Net addition	**48,762**	**(998)**
Net operating fixed assets at closing	198,776	149,016
Sub total	348,790	299,030
Average net assets	174,395	149,515
Deffered credit at beginning	22,595	22,595
Deffered credit at closing	22,423	22,423
Sub total	45,018	45,018
Average deffered credit	22,509	22,509
Average net fixed assets (A-B)	151,886	127,006
Return Required	17.43%	17.43%
Amount of return	**26,474**	**22,137**

5.9.4. The Authority however observes that the Petitioner has not submitted the uniform depreciation rates based on the due diligence in compliance to spirit of tariff regime implemented since last year. The Petitioner is therefore again advised to submit the concrete proposals, within one month of the issuance of this Order, 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. Accordingly, the Authority shall carry out consultation among the licensees in the sector before finalization of the same.

5.9.5. ***In view of the above, the Authority provisionally determines the closing net operating fixed assets for the said year at Rs. 149,016 million.***

6. Operating Revenues

6.1. Number of consumers

6.1.1. The Petitioner has projected increase in number of consumers from 6,744,808 per RERR FY 2018-19 to 7,350,258 for the said year, as follows:

Table17: Comparison of Projected Number of Consumers with Previous Years:

					# of consumers
Description	**FY 2017-18**	**FY 2018-19**	**Projected Addition during the year 2019-20**	**FY 2019-20**	**Growth over RERR**
	FRR	**RERR**		**The Petition**	
Domestic	6,273,372	6,673,372	600,000	7,273,372	9%
Commercial	61,331	64,331	5,000	69,331	8%
Industrial	6,805	7,105	450	7,555	6%
Total	**6,341,508**	**6,744,808**	**605,450**	**7,350,258**	**9%**

6.1.2. The Petitioner has submitted that during FY 2018-19 it had requested 600,000 new gas connection, the Authority however has allowed 400,000. The addition for the said year therefore includes the current years' impact as well.

6.1.3. The Authority observes that the Petitioner has been allowed 400,000 new connections in RERR FY 2018-19. In the light of discussion made above, 400,000 new connections have been allowed for the said year. Accordingly, the estimated total number of domestic consumers for FY 2019-20 comes to 7,073,372 and total consumers including commercial and commercial comes to 7,150,258.

6.2. Sales Volume

6.2.1. The Petitioner has submitted that sale volume for the said year has been projected at 376,576 BBTU as against 424,371 BBTU in RERR FY 2018-19. Category-wise comparison with previous years has been provided as under:

Table18: Comparison of Sales Volume with Previous Years:

BBTU

Category	FY 2017-18	FY 2018-19	FY 2019-20	Growth
	FRR	RERR	The Petition	%
Power	72,947	43,717	40,807	-7%
Cement	191	16,099	737	-95%
Fertilizer	32,011	32,909	31,300	-5%
General Industries	29,768	27,678	32,364	17%
Zero Rated	-	22,059	32,506	47%
CNG	27,459	30,627	25,812	-16%
Commercial	20,955	27,878	21,387	-23%
Domestic	185,472	223,404	191,663	-14%
Total	**368,803**	**424,371**	**376,576**	**-11%**

6.2.2. The Petitioner has explained that allocation of gas to General Industries, Commercial and Fertilizer sector has been made in accordance with GoP policy and gas supply agreements keeping in view the natural gas constraints.

6.2.3. The Petitioner further elaborated that overall decrease is due to continuous depletion of indigenous gas fields. Further, variation among the sectors is due to switching of RLNG.

6.2.4. Under the category "General Industry' and 'Zero rated Sector, the Petitioner has explained that actual results for July 18- March 19 are on lower side since no system gas was available in winter months FY 2018-19. Now the system gas has started to divert in this sector, accordingly its actual sales hall be around the estimated figures. On this premise, the Petitioner has submitted that the projection for FY 2019-20 are therefore justified.

6.2.5. ***In view of above justification, the Authority accepts the Petitioner's projections and determines the gas sale volumes at 376,576 BBTU for the said year.***

6.2.6. ***The Authority however observes with grave concern that the Petitioner's indigenous gas supply from the fields is continuously depleting. Conversely, the Petitioner is extending the gas distribution network and new consumers. This simply leads that all the consumers on the network shall face gas constraints***

particularly during the peak season which is undesired keeping in view the acute need as well as the license conditions.

6.2.7. ***The Authority further observes that since last couple of years, the Petitioner is diverting the RLNG in the system gas in order to meet the demand of its consumers particularly the domestic consumers. The recovery of actual cost of service from such consumers however is far less. Resultantly, the unmet revenue shortfall is persistently piling up resulting to cash flow issues for the Petitioner. The Authority observes that this diversion of RLNG in system gas keeping in view network expansion and increase in number of consumer may be regular phenomena, accordingly the Petitioner is required to seek the policy of the Federal Government for supply of gas to the consumers on sustainable basis.***

6.3. Sales Revenue at Existing Prescribed Prices

6.3.1. The Petitioner has projected sales revenue for the said year, at prescribed prices determined by the Authority for FY 2018-19, to decrease by 13%, from Rs. 217,351 million from RERR FY 2018-19 to Rs. 188,738 million. Category-wise comparison of sales revenue is given below:

Table19: Comparison of Projected Sales Revenue with Previous Years:

				Million Rs.	
Category	**FY 2017-18**	**FY 2018-19**	**FY 2019-20**	**Incr/Decr over RERR**	
	FRR	**RERR**	**The Petition**		
Power	38,663	30,281	30,914	633	2%
Cement	145	15,376	719	(14,657)	-95%
Fertilizer	5,171	7,228	7,512	284	4%
General Industries	18,025	18,721	25,244	6,523	35%
Industries Zero Rated		12,941	19,504	6,563	51%
CNG	19,235	28,348	25,296	(3,052)	-11%
Commercial	14,993	25,979	20,952	(5,027)	-19%
Domestic	43,677	78,477	58,597	(19,880)	-25%
Total	**139,909**	**217,351**	**188,738**	**(28,613)**	**-13%**

6.3.2. The Petitioner has explained that sales revenue in respect of various categories of consumers is in accordance with the projected sales volume. The Petitioner has further elaborated that overall decrease in sales revenue is due to decrease in sales volume and change in sales mix.

6.3.3. ***In view of above, the Authority accepts the Petitioners' projections under this head at Rs. 188,738 million for the said year.***

6.4. Other Operating Revenues

6.4.1. The Petitioner has projected "other operating revenues" at Rs. 13,840million during the said year as against Rs. 12,206 million provided in RERR for FY 2018-19, showing an increase of 13%. Comparison with previous years is given below:

Table20: Comparison of Projected Other Operating Income with Previous Years:

Description	FY 2017-18 FRR	FY 2018-19 RERR	2019-20 The Petition	Incr/Decr over RERR (Million Rs.)	
Meter Rental and service charges	2,175	2,135	2,391	256	12%
Late Payment Surcharge and interest on arrears	5,859	4,719	6,445	1,726	37%
Amortization of deffered credit	3,746	3,152	3,512	360	**11%**
Other operating income	1,356	2,200	1,492	(708)	-32%
Diversion of domestic gas impact	4,145				
Other operating revenue	**17,281**	**12,206**	**13,840**	**1,634**	**13%**

6.4.2. The Authority observes that the Petitioner has reasonably projected the revenues under the above head except "other operating income". The main chunk of income under this head is contributed on account of "Urgent connection fee", construction contracts and re-coating of pipes. The income under this head is relatively definite source of income and always tends to grow. ***The Authority, keeping in view the last increase, determines the "Other Operating Revenue" at Rs. 3,044 million for the said year.***

6.4.3. ***The Authority in view of above determines the "Other Operating Income" at Rs. 15,392 million for the said year.***

i. Transportation of RLNG

6.4.4. The Authority observes that Petitioner has ring-fenced the expenses on account of "Transportation Charges" and computed the rate at Rs. 111.32 per MMBTU on the basis of total revenue requirement of Rs. 36,410 Million and energy volume through put at 900 MMCFD. Subsequently, the Petitioner has also submitted the revised working based on 1100 MMCFD gas throughput and revised GCV value whereby the Transportation Charges works out to Rs. 80.83 per MMBTU for the said year. In the