آئل اینڈ گیس
ریگولیٹری اتھارٹی

GUARDING PUBLIC INTEREST

Oil & Gas
Regulatory Authority

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

IN THE MATTER OF

SUI SOUTHERN GAS COMPANY LIMITED
FINAL REVENUE REQUIREMENT, FY 2018-19

UNDER

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

DECISION

ON

May 25, 2021

Before:
Mr. Masroor Khan, Chairman
Mr. Noorul Haque, Vice Chairman/ Member (Finance)
Mr. Muhammad Arif, Member (Gas)
Mr. Zain ul Abideen Qureshi, Member (Oil)

CERTIFIED TRUE COPY

TABLE OF CONTENTS

CONTENTS

CERTIFIED TRUE COPY

ANNEXURES:

CERTIFIED TRUE COPY

TABLES

CERTIFIED TRUE COPY

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 Ltd. The petitioner is operating in the provinces of Sindh and Balochistan under the license granted by Oil & Gas Regulatory Authority. However, petitioner's exclusive right to operate in the franchised areas had ended on 30th June, 2010. It is engaged in construction and operation of gas transmission and distribution pipelines, sale of Natural Gas. The petitioner is also engaged in the business of Re-gasified Liquefied Natural Gas (RLNG) and transportation of the same for the public and private sector on a commercial basis, in accordance with the decisions of the Federal Government (FG)/ GoP).

1.2. The Authority, vide its Order dated February 27, 2019, had determined the Review petition against Estimated Revenue Requirement (RERR) under section 8(2) of the Ordinance at Rs. 231,880 million (the amounts have been rounded off to the nearest million here and elsewhere in this document) for estimated sale volume of 357,981 BBTU.

1.3. Now, the petitioner has submitted the petition dated October 19, 2020, for determination of its FRR for the said year after incorporating the effect of actual changes in the wellhead gas prices, a change in sales mix, other relevant factors in terms of Section 8(2) of the Ordinance. Based on the provisional prescribed prices and actual sale mix, the petitioner has computed the shortfall in its revenue requirement of Rs. 88,750 million (including Rs. 465 million claimed on account of subsidy for LPG air-mix projects) thereby seeking an increase in the prescribed prices by Rs. 258.92 per MMBTU.

1.4. Subsequently, the petitioner has amended its petition (the petition) during hearing on February 26, 2021 on account of re-classification between RLNG and Indigenous gas business. The petitioner has informed that there is no such change in overall company's revenue requirement and submitted the revised shortfall of Rs. 88,762 million, seeking increase in current prescribed price of Rs. 535.44/MMBTU to Rs. 794.39/MMBTU (increase of Rs. 258.95 per MMBTU) effective July 01, 2018.

1.5. The Authority issued a notice of hearing on February 17, 2021 to the petitioner. The hearing was held at OGRA's office, Islamabad on February 26, 2021.

CERTIFIED TRUE COPY

391

2. Salient Features of the Petition

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

Table 1: Comparison of Cost of Service per the Petition with RERR.

Rs. / MMBTU

Particulars	FY 2018-19	
	RERR	The Petition
Units sold (MMBTU)	**360,837**	**342,776**
Cost of gas sold	608.62	702.06
UFG adjustment	(41.01)	(59.70)
Transmission and distribution cost including GIC	47.26	54.86
Depreciation	14.81	16.92
Staggering of financial impact on account of SHC order	(10.18)	(10.71)
Reclaimed items pertains to prior year	-	22.81
Return on net average operating fixed assets	17.80	27.89
Other operating income	(18.76)	(12.42)
Subsidy for LPG Air-Mix Project	1.92	1.36
Other Charges including Expected Credit Loss-pertains to FY 2017-18 and FY 2018-19 effect of adoptions of IFRS-9	3.39	51.32
Cost of service / prescribed price	**623.86**	**794.39**
Current average prescribed price	623.86	535.44
Increase requested in average prescribed price	-	**258.95**

2.2 The petitioner has made the following submissions: -

2.2.1 Annual return has been claimed at Rs. 9,560 million, computed at the rate of 17.43% of the value of its average net operating fixed assets after adjustment of deferred credit and assets related to LPG Air-Mix, Meter Manufacturing Plant (MMP) and Liquid Handling Facility (LHF).

2.2.2 The petitioner has claimed a net addition/deletion of Rs. 6,345 million in fixed assets, and net addition, ex-depreciation, and deletion, of Rs. 6,042 million, resulting in an increase in net operating fixed assets from Rs. 61,763 million in FY 2017-18 to Rs. 62,066 million during the said year.

2.2.3 Net operating revenues have been reported at Rs. 187,792 million in the petition as against Rs. 206,947 million determined in RERR for the said year, as detailed below:

CERTIFIED TRUE COPY

392

Table 2: Comparison of Operating Revenues per the Petition with RERR & Previous Year

Rs. in million

Particulars	FY 2017-18	FY 2018-19		Inc./(Dec.) over RERR for FY 2018-19	
	MFRR	RERR	The Petition	Rs.	%
Net sales at current prescribed price	142,040	200,178	183,535	(16,643)	(8)
Meter rentals	756	792	774	(18)	(2)
Meter Manufacturing Profit	(58)	13	5	(8)	(65)
Late Payment Surcharge	1,096	3,353	1,044	(2,309)	(69)
Sale of LPG/NGL and Condensate	2,850	1,263	48	(1,215)	(96)
Amortization of deferred credits	552	432	524	92	21
Notional income on IAS 19 provision	318	360	486	126	35
Other income	1,843	557	1,377	820	147
Net Operating Revenue	**149,397**	**206,947**	**187,792**	(19,155)	(9)

2.2.4 Net operating expenses have been claimed at Rs. 266,529 million in the petition as compared to Rs. 225,458 million provided in RERR, as detailed below:

Table 3: Comparison of Operating Expenses per the Petition with RERR & Previous Year

Rs. in million

Description	FY 2017-18	FY 2018-19		Inc / (Dec) over RERR for FY 2018-19	
	MFRR	RERR	The Petition	Rs.	%
Cost of gas	164,938	219,614	240,649	21,035	10
Depreciation	5,666	5,344	5,800	456	9
UFG adjustment	(17,167)	(14,799)	(20,464)	(5,665)	38
Gas Internally Consumed	271	246	858	612	249
Other charges including WPPF	10,507	1,224	17,786	16,562	1,353
Transmission and distribution costs	15,550	16,808	16,635	(173)	(1)
Shortfall /SHC Order of previous years	(3,672)	(3,672)	(3,672)	-	-
Expected Credit Loss-effect of adoption of IFRS-9	-	-	7,819	7,819	-
Reclaimed items pertains to prior year	-	-	1,118	1,118	-
Additional Revenue Requirement for Air Mix LPG Project	512	693	465	(228)	1
Net Operating Expenses	176,605	225,458	266,529	41,071	18

2.2.5 Subsidy on account of LPG Air-Mix projects has been claimed at Rs. 465 million.

2.2.6 The net result of the petitioner's above-mentioned claims is that a shortfall of Rs. 88,762 million has been computed including a 17.43% return on average net operating fixed assets, which translates to an increase of Rs. 258.95 per MMBTU in the existing average prescribed price, as tabulated below:

CERTIFIED TRUE COPY

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

Rs. In million

	Particulars	FY 2018-19 The Petition
A	**Net Operating Revenues**	187,792
	less: Net operating expenses excluding ROA	266,529
	Subsidy Air Mix LPG Project	465
B	**Total Expenses**	266,994
C	**Shortfall /(Excess)** {(B) - (A)}	79,202
D	Return required @ 17.43% on net fixed assets in operation	9,560
E	**Total shortfall in revenue requirement {(D) + (C)}**	88,762
G	Sale volume (MMBTU)	342,776
H	**Increase requested in existing average prescribed price Rs./MMBTU**	**258.95**

3. Proceedings

3.1 The petitioner was represented at the hearing by a team of senior executives led by Mr. Imran Ilyas, Managing Director, who was given full opportunity to present the petition. The petitioner made submissions with the help of multimedia presentation explaining the basis of its petition and responded to the comments of the members & officers of the Authority.

3.2 The petitioner has explained that due to non-implementation of policy guidelines in respect of RLNG volumes handled, profitability has been severely affected. The petitioner has, therefore, requested the Authority to review its decision in respect of RLNG impact on UFG and grant its legitimate and justified claim. The petitioner also highlighted that recoveries from Karachi Electric and Pakistan Steel Mill Limited has been mounting up, resulting in difficulty in cash flow.

4. Determination

4.1 After detailed scrutiny of the petition and clarifications given by the petitioner, the Authority determines as follows:

5. Authority's Jurisdiction and Determination Process

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

5.2 The decisions issued by the Authority have always been strictly in accordance with the relevant provisions of Law. All the statutory requirements are firmly complied with

CERTIFIED TRUE COPY

394

before issuing any decision and in this whole process the Authority, very meticulously, ensures that public service utilities prosper in an efficient manner. The Authority, since its inception had issued all of its determinations, after going through the due process of transparent public hearings, while balancing the interest of all stakeholders, including general public, gas utilities, industrial consumers, etc. The checks and balances implemented by the Authority to improve the quality of service to consumers and bring efficiency in the overall management of the company have proved to be beneficial for the whole nation in measurable terms.

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

5.4 The operating revenues, operating expenses and changes in asset base are scrutinized in depth, keeping in view the FG socio economic agenda and policy advices, in accordance with Rule 17(j) of NGT Rules, 2002. Further, Authority, in consultation with the FG and licensees in the natural gas sector has revised the tariff regime including the rate of return which is based on Weighted Average Cost of Capital (WACC) and the same is applicable from the current financial year.

6. Operating Fixed Assets

6.1 *Summary*

6.1.1 The petitioner has claimed a net addition/deletion of Rs. 6,345 million in fixed assets, and net addition, ex-depreciation, and deletion, of Rs. 6,042 million, resulting in an increase in net operating fixed assets from Rs. 61,763 million in FY 2017-18 to Rs. 62,066 million during the said year. The petitioner has further claimed that after adjustment of deferred credits and assets related to LPG Air-Mix project net average operating fixed assets eligible for return work out to Rs. 54,850 million and required return to Rs. 9,560 million.

CERTIFIED TRUE COPY

395

Table 5: Computation of Return on Assets per the Petition:

Particulars	Rs. in Million
Net operating fixed assets at beginning	61,763
Net operating fixed assets at ending	62,066
sub-total	**123,829**
Average net assets (I)	**61,915**
LPG air mix project asset at beginning	834
LPG air mix project asset at ending	973
sub-total	**1,807**
Average net assets (II)	**904**
Deferred credit at beginning	6,042
Deferred credit at ending	6,280
sub-total	**12,323**
Average net deferred credit (IV)	**6,161**
"D" Average (I-II-III-IV)	**54,850**
17.43% required returned claimed by the petitioner	**9,560**

6.1.2 Comparative analysis of additions in fixed assets as claimed by the petitioner with RERR and previous year is as follows:

Table 6: Summarized Schedule of Addition Compared with RERR & Previous Year:

Rs in Million

Particulars	FY 2017-18	FY 2018-19		
	MFRR	ERR	DERR	The Petition
Land	-	2	2	-
Building	92	268	156	53
Gas Transmission Pipeline	2,751	9,583	2,977	2,477
Compressors	408	1,439	550	705
Plant and Machinery	322	460	373	126
Gas Distribution System	4,824	8,042	6,569	5,768
Furniture, Equipments including Computers & Allied Equipments	282	267	263	52
Computer Software (Intangible)	9	48	48	2
LPG Air Mix Projects	42	5,324	59	221
Telecommunication Systems	35	100	100	11
Appliances, Loose Tools & Equipments	13	99	85	17
Vehicles	178	560	427	252
Construction Equipments and Vehicles	140	-		24
SCADA	7	-		78
Total	***9,102***	***26,192***	***11,609***	***9,787***

6.2 Buildings

6.2.1 The petitioner has capitalized an amount of Rs. 53 million against the provisionally allowed amount of Rs. 156 million in DERR for the said year. The petitioner has stated that major completed works include construction of boundary wall at Mastung, civil works at Regional Office (R.O.) Hyderabad, renovation of power house at Khadeji, Sari & Bagla, boundary wall at HQ-3 Hyderabad, barracks for casual labour at Khadeji, measurement building at K.T, and CC flooring at HQ Sui etc.

CERTIFIED TRUE COPY

396

6.2.2 ***In view of the petitioner's justifications, the Authority allows capitalization***

6.2.3 ***of Rs. 53 million under this head with advice to the petitioner to project realistically at ERR stage.***

6.3 Gas Transmission Pipelines

6.3.1 The petitioner has capitalized an amount of Rs. 2,477 million against the provisionally allowed amount of Rs. 2,977 million in DERR for the said year. The capitalization against this head includes an amount of Rs 2,388 million capitalized on RLNG-Transmission Projects. Detail of capitalization against this head is as under:

Table 7: Requested Additions to Transmission Pipeline Network

Rs in Million

Sr. No.	Description	ERR	DERR	The Petition
1	12" dia × 46 Km pipeline from Rehman Field to Naing MVA	1,521	760	-
2	8" dia × 28 Km pipeline from Ayesha Gas Field	550	275	-
3	30" dia × 125 Km pipeline from SMS Sindh University to SMS Pakland (Ist Segment)	6,053	1,816	-
4	Upgradation of SMS Thatta	45	45	-
5	Check Metering Facility at Shahdadpur for Gambat South Field Gas Measurement (RS-3)	344	-	-
6	Check Metering Arrangements at Daru	81	81	-
7	16" dia × 9 Km Re-Route of Kotri Barrage	217	-	-
8	12" dia ILBP Rehabilitation and Intelligent Pigging	47	-	-
9	12" dia × 344 Km QPL Rehabilitation and Intelligent Pigging	328	-	-
10	Construction of Sub-merge Crossings	66	-	79
11	SMS Dhabeji	-	-	8
12	12" dia × 64 Km Zarghun (Reversal of Accrual)	-	-	0.04
13	24" dia × 34 Km loopline from Shikarpur to Jacobabad (Reversal of Accrual & Inventory Return)	-	-	3
14	GTPL-200 Km Bajara to Karachi Loopline	-	-	2
15	12" dia × 23 Km Rerouting of QPL	-	-	1
16	Sinjhoro Gas Field 12" × 35 Km	-	-	0.5
17	Metering Setup for POGC	-	-	0.4
18	24" dia × 33Km loopline from Tando Adam Masu	-	-	0.1
19	***Sub-total (Natural Gas Transmission Pipeline Network) - A***	***9,252***	***2,977***	***88***
20	**RLNG Projects**			
21	**Phase-I**			
22	42" dia × 14 Km loop between Nara-Sawan (Leftover)	52	-	17
23	24" dia × 21 Km interlink between Pakland to Khadeji (Leftover)	8	-	31
24	**Phase-II**			
25	42" dia × 342 Km pipeline from Pakland to Nara and Indus River Crossing	270	-	2,340
26	***Sub-total (RLNG Transmission Pipeline Network) - B***	***330***	-	***2,388***
27	***Total (A+B)***	***9,582***	***2,977***	***2,477***

6.3.2 The Authority notes that the petitioner has capitalized Nil amount against the projects mentioned at Sr. Nos. 1 to 4 and 6 of the above Table. The petitioner has stated that projects mentioned at Sr. Nos. 1 & 6 could not be completed during the said year, however, the same have been commissioned in FY 2019-20, moreover, projects mentioned at Sr. Nos. 2 to 3 could not be executed due to land acquisition issues. With respect to the project mentioned at Sr. No. 4, the petitioner has stated that, in view of the current as well as future requirement, upgradation of SMS, earlier proposed in the ERR petition, has been revisited and now complete new SMS has

CERTIFIED TRUE COPY

been envisaged which would replace the old SMS and is expected to be completed in FY 2021-22.

6.3.3 The petitioner has capitalized an amount of Rs. 79 million against projected amount of Rs. 66 million for 'construction of sub-merged crossings'. The Authority in its ERR Determination had not allowed any upfront amount against this head, however, it had allowed the petitioner to execute the project during the said year and claim actualized amount at FRR stage.

6.3.4 ***The Authority, keeping in view the above, allows capitalization of Rs. 79 million against 'Construction of Sub-merged crossings' for the said year.***

6.3.5 The petitioner has capitalized an amount of Rs. 9 million for leftover works against already commissioned pipeline projects mentioned at Sr. Nos. 11 to 15 of the above Table. With respect to capitalization amounting to Rs. 8 million against SMS Dhabeji (Item No. 11 of above Table), the petitioner has explained that upgradation of SMS Dhabeji was capitalized in FY 2017-18, however, leftover works were carried out during the said year. The petitioner had not projected the above leftover works at ERR/RERR stage. In this regard, it has clarified that at the time of estimation, due consideration is given to plan new major projects, however, as per normal practice costs of leftover works (such as civil works) are incurred after commissioning of the project, being part of the project cost.

6.3.6 With respect to "Reversal of accrual & Inventory Return" amounting Rs. 3 million against 24" dia × 34 Km loop line from Shikarpur to Jacobabad (Item No. 13 of above table), the petitioner has explained that leftover quantity of line pipe returned to store was the cause of negative cash flow. With respect to Item No. 15 of the above Table, the petitioner has stated that re-routing of existing QPL 12" dia × 23 Km was completed and commissioned in January, 2018.

6.3.7 ***The Authority, keeping in view the above, allows capitalization of Rs. 9 million for leftover works against the said projects, with advice to project such expenditures at the time of ERR/Mid-Year Review in future for approval of the Authority.***

6.3.8 The petitioner has capitalized an amount of Rs 17 million on leftover works against 42" dia × 14 Km loop between Nara to Sawan (Phase-I of Pipeline Infrastructure Development Project). Detail provided by the petitioner shows that the said amount was capitalized on Valves and Fittings (Rs. 12 million), and Civil works etc. (Rs. 5

CERTIFIED TRUE COPY

398

million).

6.3.9 The petitioner has capitalized an amount of Rs 31 million on leftover works against 24" dia × 21 Km interlink between Pakland to Khadeji (Phase-I of Pipeline Infrastructure Development Project). The petitioner has stated that the said amount was capitalized on civil work, boundary and flooring job, and payment of exchange rate & regulatory duty claims of M/s Crescent Steel.

6.3.10 The petitioner has capitalized an amount of Rs. 2,340 million on 42" dia × 342 Km pipeline from Pakland to Nara and Indus River Crossings (Phase II of RLNG Project). Detail provided by the petitioner shows that the said amount was capitalized on Valves and Fittings (Rs. 149 million), Joint Coating Material & Welding Electrodes (Rs. 5 million), Filter & Separators (Rs. 166 million), Pigging Equipment (Rs. 14 million), Welding Inspection (Rs. 12 million), Pipeline Construction (Rs. 297 million), Indus River Crossing-HDD (Rs. 1,534 million), and Civil works (Rs. 22 million) etc. The Authority, in its earlier determinations has already approved the RLNG Infrastructure Development Project for transportation of RLNG from Karachi to Sawan for onward delivery to SNGPL at Sawan. The Authority, therefore, allows capitalization of Rs. 17 million for '42" dia × 14 Km loop between Nara to Sawan', Rs. 31 million for 24" dia × 21 Km interlink between Pakland to Khadeji and Rs. 2,340 million for '42" dia × 342 Km pipeline project from Pakland to Nara and Indus River Crossings'.

6.3.11 The Authority, in its earlier determinations has already approved the RLNG Infrastructure Development Project for transportation of RLNG from Karachi to Sawan for onward delivery to SNGPL at Sawan. ***The Authority, therefore, allows capitalization of Rs. 17 million for '42" dia × 14 Km loop between Nara to Sawan', Rs. 31 million for 24" dia × 21 Km interlink between Pakland to Khadeji and Rs. 2,340 million for '42" dia × 342 Km pipeline project from Pakland to Nara and Indus River Crossings'.***

6.3.12 The Authority notes that Policy Guidelines of the Federal Government conveyed vide Ministry of Petroleum & Natural Resource's letter dated 10.02.2016 stipulate as under:

"OGRA is advised that subject projects will be included in the asset base of gas companies subject to condition that RLNG pricing will be ring fenced and all directly attributable

CERTIFIED TRUE COPY

costs will be charged/recovered from RLNG consumers without affecting consumers relying on domestically produced gas. Financial costs incurred in creation of RLNG infrastructure of national importance should be allowed as admissible expense in the revenue requirement of the utility companies."

6.3.13 In view of the above said policy guidelines of FG, all costs incurred in creation of RLNG infrastructure are to be charged / recovered from RLNG Consumers without affecting consumers relying on domestically produced gas. Hence, cost of transmission pipeline assets related to RLNG, i.e. Rs. 2,388 million capitalized on RLNG Assets in the said year is to be ring fenced and recovered from RLNG consumers only.

6.3.14 ***In view of the discussion in the preceding paras, the Authority allows capitalization of Rs. 2,477 million in the head of Gas Transmission Pipelines for the said year. However, it observes that an amount of Rs 2,388 million relating to RLNG Infrastructure is to be ring fenced and charged from RLNG Consumers only.***

6.4 Compressors

6.4.1 The petitioner has capitalized an amount of Rs. 705 million, under this head, against the provisionally allowed amount of Rs. 550 million in DERR for the said year. The capitalization against this head includes an amount of Rs 523 million capitalized on RLNG related Compressor Stations. Detail of capitalization against this head is as under:

Table 8: Requested Additions to Compressor Stations

				Rs in Million
Sr. No.	**Description**	**ERR**	**DERR**	**The Petition**
	Indigenous System related Compressor Stations			
1	New Compressor at Shikarpur to Jacobabad for QPL (01 No.)	1,100	550	-
2	Gas Turbine Engine - Solar Taurus T-60 (7800 HP) -HQ-2 Compressor Station	264	-	-
3	Repair of DR 990 Turbo Compressor Rotor (Capacity 120 MMSCFD)	30	-	-
4	DR 990 Turbo Compressor Rotor (Capacity 120 MMSCFD)	45	-	-
5	Compressor Station HQ-3	-	-	176
6	Compressor Station HQ-Shikarpur	-	-	7
	Sub-total (indigenous)	1,439	550	183
	RLNG related Compressor Stations			
7	Disposition & Refurbishment of Retrieved faulty 6 Rotor Bundle and 2 new Solar Rotor Bundles	-	-	523
	Total	***1,439***	***550***	***706***

6.4.2 The petitioner has capitalized Nil amount on installation of new compressor at Shikarpur to Jacobabad (QPL) against the provisionally allowed amount of Rs. 550 million against this project during the said year. The petitioner has stated that the said project could not be completed during the said year, however, the same has been commissioned in November, 2020.

CERTIFIED TRUE COPY

6.4.3 The Authority notes that the petitioner in its ERR petition had projected to complete the project by September, 2018, however, the same could not be executed during the said year. ***The Authority, therefore, advises the petitioner to project realistically at ERR stage.***

6.4.4 The petitioner has capitalized an amount of Rs. 176 million on Control System up-gradation (03 control panels, vibration probes & accessories, Fire & Gas Detectors) and replacement of Unit Valves (Suction, Discharge, Pressurizing, Vent, and Recycle & Non-Return) of DR-990 Compressors at HQ-3 Compressor Station. The petitioner has stated that these Compressors/Gas Turbine Engines were installed in May, 1984. The petitioner has reported that the project of Control System Modification/control panels replacement was approved in FY 2015-16. The petitioner has added that Modules supplied by M/s Dresser Rand USA had become obsolete and no more available after June, 2010, therefore, replacement of M/s Dresser Rand USA manufactured modules will provide an open, flexible, reliable technology base for the future, and facilitate the electronic capture of data at its source through windows based human machine interface.

6.4.5 ***In view of above, the Authority allows capitalization of Rs. 176 million against this head for the said year.***

6.4.6 The petitioner has capitalized an amount of Rs. 7 million on major overhaul of Discharge Valve of DR 990 Gas Turbine at HQ-Shikarpur Compressor Stations. The petitioner has clarified that due to malfunctioning of Compressor Unit Discharge Valve, emergency replacement was required to meet demand of Karachi/Quetta. ***In view of above, the Authority allows capitalization of Rs. 7 million against this head for the said year.***

6.4.7 The petitioner has capitalized an amount of Rs. 523 million on disposition and refurbishment of six faulty Rotor bundles and procurement of two new solar rotor bundles. The petitioner has stated that the claimed expenditure was not envisaged in ERR petition as it was unplanned, and condition based operational requirement. The petitioner has explained that three rotor bundles developed high vibrations on compressor bearings whereas remaining were kept offline, for further inspections by Original Equipment Manufacturer (OEM). The six compressor rotor bundles were sent to OEM facility for refurbishment where repair and replacement of rotating parts of the rotor bundles was done. The rotor bundles were assembled back at site after

CERTIFIED TRUE COPY

balancing with the support of OEM. Two new rotors were also procured as spare rotors for meeting emergency and planned maintenance.

6.4.8 *In view of above, the Authority allows capitalization of Rs. 706 million under the head of compressors for the said year. However, as per policy guidelines of FG dated 10.02.2016 cost of Compressors amounting Rs. 523 million related to RLNG infrastructure, is to be charged / recovered from RLNG Consumers without affecting consumers relying on domestically produced gas.*

6.5 Plant and Machinery

6.5.1 The petitioner has capitalized an amount of Rs. 126 million against the provisionally allowed amount of Rs. 373 million in ERR for the said year. The petitioner has acquired Gas/Diesel Engine Driven Generators, Pressure Control Valves, and Meter Provers etc. during the said year.

6.5.2 *In view of the operational requirement of the petitioner, the Authority allows capitalization of Rs. 126 million in this head for the said year.*

6.6 Gas Distribution System

6.6.1 The petitioner has capitalized an amount of Rs. 5,768 million against provisionally allowed amount of Rs. 6,569 million in DERR for the said year. Detail of capitalization against this head is as under:

Table 9: Requested Additions to Gas Distribution Network

				Rs. Million
Sr. No.	**Description**	**ERR Petition**	**DERR**	**FRR Petition**
1	Rehabilitation Mains & Services - UFG Control Program	851	851	371
2	Segmentation - UFG Control Program	236	236	0
3	Laying of Distribution Mains-Existing Areas	2,752	1,711	1,072
4	Installation of New Connections - Services	1,061	992	894
5	Replacement /Repair of Gas Meters - Meter Stations	1,448	1,448	2,985
6	Installation of Modems, EVCs and Filter Separators	258	50	0
7	Construction of CMSs, TBSs, PRSs and Cathodic protection	103	103	171
8	New Towns	1,178	1178	275
9	8" DIA X 15 Km Supply Main Hala	156	0	0
	Total Gas Distribution System	**8,043**	**6,569**	**5,768**

6.6.2 The petitioner has capitalized an amount of Rs. 371 million on Rehabilitation of Mains & Services for UFG Control Program during the said year. The petitioner has stated that in ERR petition, amounts of Rs. 741 million and Rs. 110 million were projected for 455 KMs Rehabilitation Mains and 197 KMs Services Replacement respectively, however, they have actualized amounts of Rs. 297 million and Rs. 75 million for 56 KMs Rehabilitation Mains and 47 KMs Service Mains respectively. The petitioner has added that less capitalization under this head was mainly due to delay in road cutting permissions, from concerned agencies, against Rehabilitation

CERTIFIED TRUE COPY

schemes.

6.6.3 The petitioner has capitalized an amount of Rs. 1,072 million on laying of 451 Kms Distribution & Reinforcement Mains ranging from 1" dia. to 16" dia. pipelines. The petitioner has added that segmentation is part of reinforcement and its expenditures have been clubbed under the head of Reinforcements.

6.6.4 The petitioner has capitalized an amount of Rs. 894 million on installation of 114,761 Nos. Domestic, 1,232 Nos. Commercial and 94 Nos. Industrial connections during the said year. The petitioner has confirmed that all commercial and industrial cases processed during the said year are in line with GOP directives.

6.6.5 The Authority notes that capitalization against the above heads is less than the provisionally allowed amounts against these heads. The Authority, therefore, advises the petitioner to project realistically at ERR stage to avoid upfront burdening of consumers. The Authority, however, allows the requisite capitalization against above heads.

6.6.6 The petitioner has capitalized an amount of Rs. 2,985 million on repair/replacement of gas meters against the provisionally allowed amount of Rs. 1,448 million under this head. The petitioner has stated that it had projected 327,560 meters replacement at a cost of Rs. 1,448 million, however, during the said year replacement targets were realigned i.e. 483,813 meters with cost of Rs. 2,985 million. The petitioner has explained that excessive capitalization under this head is due to over and above meter replacement targets.

6.6.7 The Authority observes that the petitioner has not furnished proper justification of exorbitant increase in meter replacement cost. The petitioner has stated that they have been replacing the faulty domestic meters with new ones since FY 2013-14 and the Authority has been allowing the cost of such replacements in its previous determinations. The petitioner has capitalized more than Rs. 12 billion during the last six years on replacement of around 1.5 million gas meters i.e. 50% of its total installed meters, with new ones. In this regard, the Authority notes that it has been allowing the cost of meter replacements with the objective that this would help in reducing UFG of the petitioner, however, practically UFG of the petitioner has an increasing trend since last several years. Detail of the amounts incurred on replacement of gas meters, No. of meters replaced, and UFG of the petitioner during the last several

CERTIFIED TRUE COPY

403

years is as under:

F.Y.	Amount incurred on Meter Replacement (Rs. Million)	No. of meters replaced	UFG (%age)
2013-14	1,147	170,451	13.82
2014-15	1,428	N/A	13.62
2015-16	2,396	310,342	13.73
2016-17	2,016	213,244	13.29
2017-18	2,396	306,443	17.11
2018-19	2,985	483,813	18.28
	12,368	**1,484,293**	

6.6.8 Moreover, the Authority observes that activities like 'Rehabilitation of Mains & Services', 'Segmentation', 'Installation of EVCs' are critically important in reducing UFG but the petitioner has capitalized less than the provisionally allowed amounts against these heads. However, in case of meter replacement, it has claimed much higher amount of Rs. 2,985 million against the provisionally allowed amount of Rs. 1,448 million. The petitioner appears to be focused on replacement of gas meters, which is also an important UFG control activity, but replacement of all domestic gas meters with new ones instead of repairing & reusing the meters is increasing the cost of meter replacement hence unnecessarily burdening the gas consumers, without having any positive impact on reduction in UFG. This factor becomes more worrisome since the petitioner uses domestic meters of its own Meter Manufacturing Plant, therefore, the petitioner seems to have some incentive in replacing the meters with new ones, purchased from its plant, instead of repairing and reusing the replaced meters being an economical option.

6.6.9 The Authority notes that it has always allowed such expenditures which may contribute towards reduction in UFG of the petitioner but the petitioner's actual capitalization under UFG control activities has remained lower than the provisionally allowed amount which shows that the petitioner is not focused on UFG control activities, hence there has been no tangible improvement in reduction of UFG.

6.6.10 The Authority notes that the petitioner had projected per unit cost of meter replacement @ Rs. 4,421 at ERR stage whereas it has claimed per unit cost of meter replacement @ Rs. 6,170 in the petition. Furthermore, the petitioner has claimed an amount of Rs. 2,985 million for replacement of 483,813 Nos. meters during the said year, whereas SNGPL (its sister utility) has claimed an amount of Rs. 2,596 million for replacement of 639,891 Nos. meters during FY 2019-20. Cost of meter replacement claimed by the petitioner (i.e. Rs. 6,170/unit) is much higher than the cost of meter

CERTIFIED TRUE COPY

replacement claimed by its sister utility (i.e. Rs. 4,057/unit). The petitioner has thus failed to establish prudence and cost effectiveness in its claims under this head.

6.6.11 *The Authority, keeping in view the above, allows capitalization of Rs. 1,448 million (i.e. @ level of provisional capitalization allowed at DERR stage) against the claimed amount of Rs. 2,985 million in this head.*

6.6.12 The petitioner has capitalized amounts of Rs. 171 million on installation of TBS, PRS, and Cathodic Protection Systems; and Rs. 275 million on laying of 160 Kms pipelines in New Towns & Villages. The petitioner has stated that out of Rs. 275 million capitalized against New Towns & Villages, an amount of Rs. 71 million, over and above per customer cost criteria, is to be adjusted against grants. *The Authority allows the actualized amounts of Rs. 171 million and Rs. 275 million against the heads of TBS, PRS & Cathodic Protection System and New Towns & Villages respectively.*

6.6.13 The petitioner has added that an amount of Rs. 36 million was capitalized on RLNG related Gas Distribution System.

6.6.14 *In view of above, the Authority after due diligence and keeping in view the arguments & justifications advanced by the petitioner, allows capitalization of Rs. 4,231 million under the head of 'gas distribution system' for the said year. However, as per policy guidelines of FG dated 10.02.2016 cost of Gas Distribution System amounting to Rs. 36 million related to RLNG infrastructure, is to be charged / recovered from RLNG Consumers without affecting consumers relying on domestically produced gas.*

Table 10: Requested Additions to Gas Distribution Network

				Rs. Million
Sr. No.	**Description**	**DERR**	**FRR Petition**	**Determined by the Authority**
1	Rehabilitation Mains & Services - UFG Control Program	851	371	371
2	Segmentation - UFG Control Program	236	0	0
3	Laying of Distribution Mains-Existing Areas	1,711	1,072	1,072
4	Installation of New Connections - Services	992	894	894
5	Replacement /Repair of Gas Meters - Meter Stations	1,448	2,985	1,448
6	Installation of Modems, EVCs and Filter Separators	50	0	0
7	Construction of CMSs, TBSs, PRSs and Cathodic protection	103	171	171
8	New Towns	1178	275	275
9	8" DIA X 15 Km Supply Main Hala	0	0	0
	Total Gas Distribution System	**6,569**	**5,768**	**4,231**

6.7 Furniture and Equipment including Computers & Allied Equipments:

6.7.1 The petitioner has capitalized an amount of Rs. 52 million against the provisionally

CERTIFIED TRUE COPY

allowed amount of Rs. 263 million under this head. The said capitalization includes an expenditure of Rs 39 million on furniture & fixture, office equipment & security, and Rs 13 million on IT & ancillary equipment including printers, Servers, Hand Held Computers, and IT Disaster Recovery-Regional Office Hyderabad etc.

6.7.2 ***In view of the above, the Authority allows capitalization of Rs. 52 million under this head.***

6.8 **Computer Software (Intangible):**

6.8.1 The petitioner has capitalized an amount of Rs. 2 million against the provisionally allowed amount of Rs. 48 million under this head. As per the petitioner, the said amount was capitalized on procurement of Mobile Application Development over IOS etc.

6.8.2 ***In view of the above, the Authority allows capitalization of Rs. 2 million under this head.***

6.9 **LPG Air Mix Projects:**

6.9.1 The petitioner has capitalized an amount of Rs. 221 million against the provisionally allowed amount of Rs. 59 million under this head. As per the petitioner, it has capitalized the said amount on laying of Gas Distribution System (Rs. 220 million), procurement of vehicles (Rs. 0.14 million), and installation of Air Conditioners (Rs. 0.7 million) at Bela, Gwadar, Kot Ghulam Muhammad, Noshki and Surab LPG Air Mix Projects. The petitioner has added that Gas Distribution Network to Killi Sharifan, Killi Sahibzada, Killi Badal Karex (Phase-II), and Killi Mengalabad was added at Noshki LPG Air Mix Project during the said year. All of the above mentioned LPG Air Mix Plants are already commissioned and duly approved by ECC / FG.

6.9.2 ***In view of the above, the Authority allows capitalization of Rs. 221 million under this head for the said year.***

6.10 **Telecommunication Systems:**

6.10.1 The petitioner has capitalized an amount of Rs. 11 million against the provisionally allowed amount of Rs. 100 million under this head. Major items procured under this head include Self Support Towers, Guyed Tower at Regional Office, Hyderabad and upgradation of PABX Opens cape 4000 Eco Server Simplex.

CERTIFIED TRUE COPY

406

6.10.2 *The Authority, in view of the above, allows capitalization of Rs. 11 million for the said year.*

6.11 Appliances, Loose Tools and Equipment:

6.11.1 The petitioner has capitalized an amount of Rs. 17 million against the provisionally allowed amount of Rs. 85 million under this head. The petitioner has stated that Tools are small value items and procured to fulfill operational requirements of the petitioner. Major items procured under this head include Dry Gas Test Meters, Flow Controllers, Pneumatic Screw Drivers, Pressure Gauges, and Pressure Recorders etc.

6.11.2 *The Authority, in view of the above, allows capitalization of Rs. 17 million for the said year.*

6.12 Vehicles:

6.12.1 The petitioner has capitalized an amount of Rs. 252 million against the provisionally allowed amount of Rs. 427 million under this head. The petitioner has stated that with the ever increasing operational area of the petitioner, move-ability of the maintenance/complaint staff is also increasing. To achieve this objective, the petitioner owns fleet of different category of vehicles. During the year under review, the petitioner replaced 92 old vehicles while 26 additional vehicles (including motorcycles) have been acquired. The petitioner has capitalized amounts of Rs. 201 million and Rs. 51 million on operational and non-operational vehicles respectively. The petitioner has added that the expenditure against this head includes an amount of Rs. 10 million pertaining to RLNG.

6.12.2 *The Authority, in view of the above, allows capitalization of Rs. 252 million under this head, however, as per policy guidelines of FG dated 10.02.2016 cost of the vehicles amounting Rs. 10 million, related to RLNG infrastructure, is to be charged/ recovered from RLNG Consumers without affecting consumers relying on domestically produced.*

6.13 Construction Equipment's & Vehicles:

6.13.1 The petitioner has capitalized an amount of Rs. 24 million on RLNG related Construction Equipment's i.e. Air Compressors (Rs. 23.3 million) and Automatic Mechanized Pipe Welding System (Rs. 0.6 million). The petitioner has explained that budget for RLNG-II construction equipment was approved in FY 2015-16, however,

CERTIFIED TRUE COPY

407

the supplier did not supply Air Compressors as per specification, therefore, case went in litigation and capitalization got delayed. The petitioner has added that total 8 No. air compressors were approved, out of which 4 Nos. were already received and the remaining four were received and capitalized on 21.12.2018 at the total amount of Rs. 23.3 million.

6.13.2 *In view of above, the Authority allows capitalization of Rs. 24 million on account of construction equipment for the said year. However, as per policy guidelines of FG dated 10.02.2016 cost of the construction equipment amounting Rs. 24 million, related to RLNG infrastructure, is to be charged / recovered from RLNG Consumers without affecting consumers relying on domestically produced gas.*

6.14 SCADA

6.14.1 The petitioner has capitalized an amount of Rs. 78 million under this head for the said year. The petitioner has stated that project of upgradation/revamp of Radio Network along Quetta Pipeline in Sindh and Baluchistan was approved by the Authority in DERR FY 2014-15 dated 03-07-2014. The project was commissioned and capitalized in FY 2015-16, however, there had been some delay or invoices from vendor due to which capitalization was delayed upto 2019, hence, an amount of Rs. 31 million was capitalized on SCADA Host Hardware during the said year.

6.14.2 The petitioner has capitalized an amount of Rs. 48 million on SCADA and Telecom. Equipment's related to RLNG. The petitioner has stated that in order to monitor gas measurement i.e. Pressure, Temperature, Flow as well as control of main valves along 42" dia RLNG pipeline, SCADA sites had to be installed at Bin Qasim, Pakland, Khadeji Interlink, HQ3, HQ2, Sawan Custody Transfer Site and Sui Field. Similarly to incorporate these SCADA sites with the Telecom Core Network system, the data payload capacity had to be upgraded for increased bandwidth along the pipeline route. The petitioner has added that the project was allowed by the Authority in DERR FY 2016-17.

6.14.3 *In view of above, the Authority allows capitalization of 78 million under this head for the said year. However, as per policy guidelines of FG dated 10.02.2016 cost of Compressors amounting Rs. 48 million related to RLNG infrastructure, is to be charged / recovered from RLNG Consumers without affecting consumers relying on domestically produced gas.*

CERTIFIED TRUE COPY

408

6.15 Fixed Assets Determined by the Authority:

6.15.1 *The Authority, after due diligence & detailed analysis of petitioner's submissions, determines gross additions in fixed assets at Rs. 8,250 million for the said year against the provisionally allowed amount of Rs. 11,609 million. Moreover, the petitioner is advised to project realistic figures in ERR since these have impact on gas consumer price.*

6.15.2 *In view of discussion in the preceding paras, the cost of fixed assets amounting to Rs. 3,028 million related to RLNG projects is to be ring fenced and recovered from RLNG consumers only.*

Table 11: Requested Additions in Fixed Assets

Rs in Million

Particulars	FY 2018-19			
	ERR	DERR	The Petition	Allowed by the Authority
Land	2	2	-	-
Building	268	156	53	53
Gas Transmission Pipeline	9,583	2,977	2,477	2,477
Compressors	1,439	550	705	705
Plant and Machinery	460	373	126	126
Gas Distribution System	8,042	6,569	5,768	4,231
Furniture, Equipments including Computers & Allied Equipments	267	263	52	52
Computer Software (Intangible)	48	48	2	2
LPG Air Mix Projects	5,324	59	221	221
Telecommunication Systems	100	100	11	11
Appliances, Loose Tools & Equipments	99	85	17	17
Vehicles	560	427	252	252
Construction Equipments and Vehicles	-		24	24
SCADA	-		78	78
Total	*26,192*	*11,609*	*9,787*	*8,250*

6.15.3 *In view of the adjustment in preceding paras, the Authority determines the net closing fixed assets at Rs. 60,529 million as against the petitioner's claim of Rs. 62,066 million for the said year.*

7. Operating Revenues

7.1 Sales Volume

7.1.1 Sales volume has been reported to decrease by 5%, from 360,837 MMBTU per RERR to 342,776 MMBTU in the instant petition. Category-wise comparison with RERR and previous year has been provided by petitioner as under:

CERTIFIED TRUE COPY

409

Table 12: Comparison of Category-wise Gas Sales Volume with RERR & Previous Year:

Volume in MMBTU

Category	FY 2017-18	FY 2018-19		Inc. / (Dec.) over RERR FY 2018-19	
	MFRR	RERR	The Petition		%
Industrial-(zero rated)	-	-	28,762	28,762	-
Captive Power-(zero rated)	-	-	43,597	43,597	-
Fertilizer - feed stock	19,846	17,677	18,803	1,126	6
HCPC	7,426	6,321	6,244	(77)	(1)
Commercial	10,528	10,463	10,252	(211)	(2)
Cement	415	248	239	(9)	(4)
Nooriabad Power Plant	3,356	7,041	6,515	(526)	(7)
Domestic	100,455	103,355	95,949	(7,406)	(7)
CNG Stations	24,852	26,010	22,888	(3,122)	(12)
Power	57,017	58,521	45,290	(13,231)	(23)
General Industries	61,114	59,792	32,671	(27,121)	(45)
Captive Power	78,567	71,409	31,567	(39,842)	(56)
Total	**363,575**	**360,837**	**342,776**	**(18,061)**	**(5)**

7.1.2 The petitioner has explained that the overall decrease in gas sales volume is mainly due to decreasing gas supplies/availability in the country. The gas sales volume to various sectors have been supplied in the light of Natural Gas Load Management and Policy approved by FG during the said year.

7.1.3 ***In view of the above, the Authority accepts total sales volume at 342,776 MMBTU for the said year.***

7.2 Sales Revenue at Prescribed Prices

7.2.1 Sales revenue has decreased from Rs. 212,009 million per RERR to Rs. 183,535 million in instant petition. Category-wise comparison with RERR and previous year is given below.

Table 13: Comparison of Category-wise Sale Revenues per Petition with RERR & Previous Year:

Rs. In Million

Particulars	FY 2017-18	FY 2018-19		Inc. / (Dec.) over RERR for FY 2018-19	
	MFRR	RERR	The Petition		%
Captive Power-(zero rated)	-	-	29,033	29,033	-
Industrial-(zero rated)	-	-	18,374	18,374	-
Commercial	6,314	7,324	9,371	2,048	22
Fertilizer - Feedstock	2,449	2,757	3,144	387	12
CNG Stations	15,074	21,383	20,615	(768)	(4)
Cement	285	231	216	(15)	(7)
Habibullah Coastal Power	3,344	3,865	3,522	(343)	(10)
Nooriabad Power Plant	1,623	4,305	3,728	(577)	(15)
Power	23,691	35,777	25,462	(10,315)	(41)
General Industries	29,256	36,554	23,902	(12,652)	(53)
Domestic	18,245	48,553	25,390	(23,164)	(91)
Captive Power	41,759	51,262	20,780	(30,482)	(147)
Total Sales Revenues	**142,040**	**212,009**	**183,535**	**(28,474)**	**(16)**

7.2.2 The petitioner has submitted that above revenues are based on the category-wise prescribed prices issued by the Authority. Further, variation in sales revenue is due to change in sale mix. The petitioner has explained that variation in sales revenue is due to revision in gas supply allocations of various sectors as indicated in para 7.1.2.

CERTIFIED TRUE CO

410

7.2.3 The Authority observes that the petitioner has worked out sales revenues at current prescribed price as determined by the Authority. However, owing to litigation against certain category of consumers, sales revenues have been reported as per actuals. In view of the same, the Authority, while finalizing the instant determination, decides to re-adjust the prescribed price revenues to the extent of sale price revenues as reported by petitioner. ***Accordingly, the Authority determines prescribed price revenues at Rs. 177,871 million for the said year. Any recovery based on the final outcome of the Hon'ble Court judgment shall be adjusted in future determinations.***

7.3 Other Operating Income

i. Summary

7.3.1 The petitioner has reported other operating income at Rs. 4,257 million in the petition as against Rs. 6,769 million per RERR for the said year. Detailed comparative breakup is appended below:

Table 14: Comparison of Other Operating Income per Petition with RERR & Previous Year:

Particulars	FY 2017-18	FY 2018-19	
	MFRR	RERR	The Petition
Sale of LPG/NGL and Condensate	2,849	1,263	48
Late Payment Surcharge (LPS)	1,096	3,353	1,044
Meter Manufacturing Profit (MMP)	(58)	13	5
Meter rentals	756	792	774
Amortization of deferred credits	552	432	524
Notional income on IAS 19 provision	318	360	486
Other income	1,526	557	1,377
Net Operating Revenue	**7,039**	**6,769**	**4,257**

7.3.2 The petitioner has explained that revenues from Meter Manufacturing Plant (MMP), Late Payment Surcharge, sale of gas condensate, NGL and LPG have been treated as operating income in line with the Hon'ble Sindh High Court (SHC) decision. Moreover, profit from MMP, sale of LPG, NGL and condensate have been included as per the criteria set down in respect of new tariff regime for regulated natural gas sector has been implemented effective July 01, 2018.

ii. Income from Meter Manufacturing Plant (MMP)

7.3.3 The petitioner has reported income from MMP for the said year at Rs. 5 million as against Rs. 13 million in RERR (i.e. decreased by 65%) for the said year. The petitioner has explained that revenue from MMP depends on sale of domestic gas meters and spare parts to SNGPL and other private parties. At the time of DERR, it was

CERTIFIED TRUE CO

411

anticipated that SNGPL would purchase 250,000 domestic gas meters during the said year. However, SNGPL imported meters which has resulted in a significant decline of revenues. This has also affected the per meter fixed cost.

7.3.4 *In view of the above, the Authority agrees to petitioner's justification and accepts the revenue from MMP at Rs. 5 million for the said year.* The Authority however, directs the petitioner to curtail its fixed costs considering changed business dynamics arisen owing to change in its customer's priorities so that income from MMP improves.

iii. ***Income from LPG/NGL and Condensate***

7.3.5 The petitioner has reported income from LPG/NGL and Condensate for the said year at Rs. 48 million as against Rs. 1,263 million in RERR (i.e. decreased by 96%) for the said year.

7.3.6 The petitioner has submitted that income from sale from LPG and NGL has decreased due to termination of MoUs. Since then, no gas was supplied to M/s JJVL resulting in non-production of LPG and NGL. The petitioner has, however, informed that pursuant to Supreme Court of Pakistan order dated December 04, 2018, a new agreement was signed between the parties. Accordingly, production of LPG and NGL again started from January, 2019.

7.3.7 Regarding revenues from sale of condensate, the petitioner has informed that due to the installation of condensate extraction plant at Kunnar Pasaki Deep field and depletion of supplies from Badin Gas fields, revenues from sale of condensate has decreased.

7.3.8 ***In view of above, the Authority accepts the revenues from LPG/NGL and Condensate at Rs. 48 million for the said year.***

iv. ***Other Income***

7.3.9 The petitioner has reported "other income" for the said year at Rs. 1,377 million as against Rs. 560 million in RERR (i.e., increase by 146%) for the said year. Detailed breakup with comparison is as under:

CERTIFIED TRUE COPY

412

Table 15: Comparison of Other Income per Petition with RERR and Previous Year:

Rs. in million

Particulars	FY 2017-18	FY 2018-19		Inc./(Dec.) over RERR of FY 2018-19	
	MFRR	RERR	The Petition	RS.	%
Recoveries from consumers	100	89	88	(2)	(2)
Interest income and Other from SNGPL	561	-	1,130	1,130	100
Income from sale of tender documents	8	5	6	1	14
Income from pipeline construction	14	-	2	2	-
Income from new service connections	702	312	-	(312)	(100)
Liquidated damages recovered (50%)	38	10	26	16	162
Others	23	20	78	58	289
Advertising Income	-	3	-	(3)	(100)
Income from sale of net investment in finance lease	57	120	47	(73)	(61)
Total Other Operating Income	1,525	560	1,377	817	146

7.3.10 The petitioner has explained that income from new service connection has been reported nil owing implementation of IFRS-15 with effect from July 01, 2018. The same shall be charged to contract liabilities appearing under non-current liabilities. *In view of same, the Authority accepts "other income" at Rs. 1,377 million.*

7.3.11 *In view of the above, the Authority accepts operating revenues at Rs. 4,257 million for the said year, as tabulated below:*

Table 16: Operating Revenues as Allowed by the Authority

Rs. in million

Particulars	FY 2018-19	
	The Petition	Allowed by the Authority
Meter rentals	774	774
Sale of LPG/NGL and Condensate	48	48
Late Payment Surcharge	1,044	1,044
Meter Manufacturing Profit	5	5
Amortization of deferred credits	524	524
Notional income on IAS 19 provision	486	486
Other income	1,377	1,377
Operating Revenue	4,257	4,257

8. *RLNG Cost of Service/ Supply*

8.1.1 The petitioner has reported Rs. 10,802 million (Rs. 29.34 per MMBTU) at a throughput volume of 955 MMCFD on account of RLNG cost of service for the said year. The petitioner has informed that the cost of the service shall be recovered as part of RLNG price. The breakup of the same is as under;

Table 17: Breakup of RLNG - Cost of Service/ Supply

Particulars	Rs. In Million
Total RLNG Energy in MMBTU	368,190
Transmission & Distribution Cost	1,968
Gas consumed internally	1,284
Depreciation	1,662
ROA	5,889
Cost of Supply of RLNG	10,802

CERTIFIED TRUE COPY

413

8.1.2 The Authority notes that under the provisions of OGRA Gas Third Party Rules, 2018 and Gas Transportation Agreements, the petitioner is entitled to claim the required volume of GIC from the shipper i.e. SNGPL. ***Therefore, the Authority does not allow any volume & the corresponding costs against this head.***

8.1.3 ***The Authority, based on the above, computes RLNG cost of supply at Rs. 9,842 million (Rs. 21.28 / MMBTU) at a designed capacity of 1200 MMCFD for the said year.*** 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 as tabulated below:

Table 18: Computation of RLNG - Cost of Service/ Supply

Particulars	Rs. In Million
Total RLNG Energy in MMBTU	**462,585**
Transmission & Distribution Cost	2,292
Depreciation	1,662
ROA	5,889
Cost of Supply of RLNG	**9,842**

9. *LPG Air-Mix Project*

9.1 The petitioner has claimed a subsidy of Rs. 465 million on account of the operation of its LPG Air-Mix project for the said year.

9.2 The petitioner has explained that as per the directives of GoP, the company is supplying SNG for domestic consumer only as alternative to natural gas in far flung areas of Sindh & Balochistan. The petitioner has also explained that four LPG Air Mix projects have been installed and commissioned, currently operational in Gwader, Noshki, Surab and Kot Ghulam Muhammad. In view of the same, the petitioner has claimed Rs. 465 million in the revenue requirement with respect to the subsidy on account of above four projects.

9.3 ***The Authority as per para 6.9.2, includes subsidy on account of LPG air-mix at Rs. 465 million for the said year.***

10. *Operating Expenses*

10.1 *Cost of Gas*

10.1.1 The petitioner has claimed the cost of gas sold as per initialed accounts at Rs. 240,649 million (net of GIC), compared with Rs. 219,614 million determined in RERR, an increase of Rs. 21,035 million (i.e. 10%). The petitioner has explained that

CERTIFIED TRUE COPY

cost of gas has been worked out on the basis of its cost of gas since national Weighted Average Cost of Gas (WACOG) has been put in abeyance in accordance with the decision of the FG effective May 18, 2018.

10.1.2 ***In view of the above and the decision per para 10.4.6, the Authority includes cost of gas at Rs. 241,128 million for the said year. The field wise gross purchases are provided at Annex C.***

10.2 *Unaccounted for Gas (UFG)*

10.2.1 The petitioner has reported UFG at 17.10% (72,670 MMCF) for the said year. The petitioner has claimed 11,602 MMCF as Gas Delivered to SNGPL as per GOP decision/directive

10.2.2 **Gas Delivered to SNGPL as per GOP decision / Sale of RLNG Held Stock:** Supply of Re-gasified Liquefied Natural Gas (RLNG) in the natural gas network system started in March, 2015. There had been no dedicated pipeline to transport the RLNG directly from the LNG terminals to SNGPL's delivery point i.e. Sawan until September, 2018. The transmission of RLNG, owned by SNGPL, from South to North had been undertaken under the swap arrangement whereby the petitioner retained the RLNG received from LNG Terminals and delivered its system gas from indigenous fields to SNGPL. Initially RLNG supplies started from 200 MMCFD which later on ramped upto 1200 MMCFD. Owing to system constraints and operational reasons, the petitioner over the previous years', could not transmit equal quantity of gas to SNGPL on account of RLNG it had received from the terminals. Resultantly, SNGPL's gas started to pile up with SSGCL since inception. In pursuance of decision of the ECC of the Cabinet and SNGPL consent, the Ministry of Energy (Petroleum Division) has been allocating such stock to SSGCL. In this regard, the relevant decision of ECC of the Cabinet dated 11-05-2018 reads as under:

> *"M/s SNGPL and SSGCL be allowed to manage gas loads on their system through RLNG-System gas swap mechanism for which necessary provision of volumetric adjustment and financial impact may be made on cost neutral basis in the Sale Price of RLNG on a multi-year and on-going basis through setting up of a deferral account by OGRA."*

10.2.3 Director (Technical), Petroleum Division, Ministry of Energy vide its letter No. NG(II)-16(4)/17-RLNG-Misc.vol-I dated 23rd October, 2017 has stated as under:

CERTIFIED TRUE COPY

415

"I am directed to refer to M/s SSGCL's letter No. MD.MOE/238 dated 21.09.2017 and SNGPL's letter No. GMS:938(LNG) dated 27-09-2017 regarding the Reconciliation of RLNG Stock Held with SSGC and to state that in pursuance of the decision of the ECC vide Case No. ECC-126/15/2015 dated 03-09-2015 this Division hereby allocates 5 BCF of RLNG to M/s SSGCL out of the RLNG stock held with SSGCL. ***M/s SSGCL shall enter into an Agreement with M/s SNGPL pursuant to above RLNG allocated volumes with the condition that either SSGCL will make payments to SNGPL for the RLNG so sold in its franchise area or it will return these molecules when dedicated pipeline is available."***

10.2.4 In pursuance of the above noted decision of ECC of the Cabinet and allocation of RLNG Held Stock by MOE, the petitioner has claimed 11,602 MMCF as deemed sales for UFG purpose on account of volume swapped to SNGPL. The Authority, in view of the below mentioned details provided by the petitioner, allows a volume of 6,995 MMCF as deemed sales for UFG Working:

Table 19: ***RLNG Computation of UFG***

Description	As per the petition	Calculated by the Authority
	MMCF	
Volume received	(348,622)	(348,622)
RLNG utilized for Customer Sales	29,521	24,709
Transmission Loss RLNG (0.2231% -0.5% for 162/363 KMs)	732	732
RLNG utilized for Internal consumption	1,043	1,043
RLNG Available for Swapping	(317,327)	(321,933)
Volume Swapped to SNGPL	328,928	328,928
Deemed Sales for UFG Purpose	11,602	6,995

10.2.5 The Authority has provisionally considered certain volumes in respect of 'RLNG utilized for Internal Consumption', 'RLNG Transmission Loss', and 'RLNG pipeline related Line Pack', as provided by the petitioner, however, in accordance with the relevant provisions of OGRA Gas (Third Party Access) Rules, 2018 and GTA, said volumes are required to be settled between the transporter and the shipper. The Authority shall finalize the said volumes once the same are settled between both the parties.

10.2.6 The Authority observes that the petitioner has been repeatedly claiming certain allowances on account of RLNG volume, despite the fact that the Authority has already given its detailed decisions, after thorough technical evaluation on such claims in its previous determination. The Authority further notes that the petitioner

CERTIFIED TRUE COPY

416

has repeatedly held RLNG matters for erosion of its equity and risk on financial viability. In this respect, it may be noted that various earlier decisions taken by the petitioner's management in the past including dividend distribution and non-recognition of contingent liabilities on sub-judice mattes, has actually hit the petitioner's viability and financial position.

10.2.7 Despite above, the Authority notes that the petitioner, instead of focusing on real issues to arrest UFG, has been pressing invalid claims. The Authority notes that it has always allowed such expenditures which may contribute towards reduction in UFG of the petitioner but the petitioner's actual capitalization under UFG control activities has remained lower than the provisionally allowed amount showing slackness on petitioner's part thereby depicting that petitioner's initiatives are not aligned in the right direction, resulting in higher UFG day by day.

10.3 *Gas Consumed Internally (GIC)*

10.3.1 The petitioner has claimed GIC of 1,040 MMCF for the said year. The details furnished by the petitioner show that the claimed GIC of 1,040 MMCF includes 915 MMCF for compressions, 118 MMCF for Company Own Use, and 7 MMCF for Distribution. ***The Authority in view of the operational requirement of the company determines GIC of 1,040 MMCF for the said year.***

10.4 *Line Pack (LP)*

10.4.1 The petitioner has claimed a volume of 297 MMCF against the head of "(Inc.)/Dec Gas in pipeline".

10.4.2 In this regard, the data provided by the petitioner shows that the petitioner has claimed 92 MMCF for addition in Line Pack of indigenous gas pipeline network. The petitioner has also claimed 205 MMCF for addition in Line Pack of 42" diameter dedicated pipeline related to Phase-II of the RLNG Infrastructure Development Project.

10.4.3 The Authority notes that as per the Gas Transportation Agreement (GTA) between SNGPL and SSGCL, "LP" means line pack, which is the volume of gas in the relevant segment of SSGC's gas pipeline transportation system at a certain point in time at a defined gas specification, temperature and pressure and only applies to the transportation of SN-RLNG. Furthermore, as per clause 7.2 of the said GTA, "SSGC's

CERTIFIED TRUE COPY

obligation to transport SN-RLNG to SNGPL under Phase II shall be subject to reduction due to Pipeline Losses **and one-time adjustment for LP**, if applicable."

10.4.4 Rule 12 of OGRA Gas (Third Party Access) Rules, 2018 stipulates as under:

(1) "Line pack, system use gas and transportation losses.-(1) The transporter shall be responsible for the line pack of its gas pipeline transportation system.
(2) A shipper shall provide gas for adjustment on account of system use gas and transportation loss as agreed in the access arrangement and in accordance with the latest determination thereof by the Authority for the transporter.
(3) In case of a dedicated pipeline, the shipper shall provide the required volume of gas for the line pack and which shall be recoverable by the shipper, in kind or monetary terms, as agreed in the access arrangement."

10.4.5 In accordance with the above noted provisions of OGRA Gas (Third Party Access) Rules, 2018 and GTA, the petitioner is required to get the required volume of gas for the line pack for 42" diameter dedicated pipeline from the shipper i.e. SNGPL.

10.4.6 ***The Authority, therefore, does not allow line pack of 205 MMCF for 42" dedicated pipeline for the said year.*** In accordance with the above noted legal provisions, the petitioner may claim the said volumes from SNGPL.

10.4.7 The Authority notes that it undertook a UFG study for determining UFG Benchmarks of the gas companies through a consultant of international repute vis M/s KPMG Taseer Hadi & Co. Chartered Accountants (KPMG).

10.4.8 The petitioner along with implementation status of the KMIs has also submitted an Audit Report of M/s KPMG Taseer Hadi & Co., Chartered Accountants regarding KMIs for UFG Benchmark. The Authority has carried out in depth analysis and assessment of KMIs based on the information provided by the petitioner and observation of Auditors. The Authority observes that the petitioner has claimed 95.38% achievement in respect of its KMI implementation. However, the same cannot be substantiated in physical term since there has been no tangible improvement/reduction in UFG even though hefty expenditures in the past years for reduction in UFG over and above all other related costs have been contributed by consumers through revenue requirement. Accordingly, based on the performance of the petitioner and assessment of KMIs, the allowance on this account has been worked out as 1.99% and is incorporated in the UFG sheet.

10.4.9 The petitioner has also claimed 12 MMCF against 'Loss due to sabotage activity/ruptures/unmetered'. In this regard, the Authority notes that the Authority has already given 'Allowance for local operating conditions', as per recommendations of the UFG Study Report, therefore the Authority disallows the

CERTIFIED TRUE COPY

additional volume claimed against this head.

Table 20: Calculation of UFG:

MMCF

Particulars	FRR FY 2017-18	The Petition (with volume handled)	The Petition (without volume handled)	Calculated by the Authority
Gross Purchases	438,147	425,009	425,009	425,009
Gas transported on behalf of SNGPL as per GoP decision/directives		348,622		0
Gross Purchases	438,147	773,631	425,009	425,009
Gas Consumed Internally - metered	713	2083	1040	1040
(Inc.)/Dec. Gas in pipeline	49	297	297	92
(Inc.)/Dec. Gas in pipeline (prior year adjustment)	-399		0	0
Loss due to sabotage activity / ruptures / unmetered	0	12	12	0
Sub-total	363	2,392	1,349	1,132
Available for Sale (A)	437,784	771,239	423,660	423,877
Gas Sales	355,337	338,372	338,372	338,372
Gas Delivered to SNGPL as per GoP decision/directives		359,181	0	0
Additional Gas Delivered to SNGPL under SWAP arrangement, on account of BTU Equivalence, as per GoP decision / Sale of RLNG heldstock	5,169	0	11,602	6,790
Add: Gas Shrinkage at LPG/NGL Plant (JJVL)	2,311	1,004	1,004	1,004
Add: Gas Shrinkage at Condensate (LHF)	11	11	11	11
Total Gas Sales (B)	362,828	698,568	350,989	**346,177**
Gas Unaccounted For (A-B)	**74,956**	72,671	72,671	77,700
Gas Unaccounted For (%)	**17.11**	9.39	17.1	18.28
Benchmark @ 5%	21,907	38,682	21,250	21,250
Allowance for local operating conditions **(1.99%)**	**8,369**	19,186	**10,540**	8,458
Disallowed Volume	**44,680**	14,803	**40,880**	47,992
WACOG (Rs./MMCF)			500.60	500.47
UFG Adjustment (Rs. in million)			20,464	24,019

10.4.10 *The Authority has computed WACOG based on both sui companies' data and worked out it at Rs. 500.47 per MMCF. Based on the above, the Authority deducts Rs. 24,019 million being an invalid claim from the revenue requirement for the said year.*

CERTIFIED TRUE COPY

10.5 Transmission & Distribution (T & D) Cost

i. *Summary*

10.5.1 The petitioner has claimed T&D cost at Rs. 16,767 million, as compared below:

Table 21: Comparison of T & D Cost per the Petition with RERR & Previous Year

Rs. in Million

Particulars	FRR	RERR	The Petition	Inc./(Dec.) over RERR FY 2018-19	
	FY 2017-18	FY 2018-19			%
Salaries, wages, and benefits at benchmark	12,497	14,156	14,244	88	1
Postage & bill delivery by Contractors	86	94	228	134	143
Impairment of Capital WIP	-	-	70	70	100
Professional Charges	24	46	70	24	52
Others	123	135	172	36	27
Gas bills stubs processing charges	22	26	32	5	20
Advertisement	112	108	127	19	18
Rent, rate & taxes	166	212	245	33	15
Gas bills collection charges	188	185	195	10	5
Electricity	194	223	232	9	4
Traveling	100	131	129	(2)	(1)
Repairs & maintenance	1,567	1,884	1,839	(45)	(2)
Meter reading by contractors	70	84	83	(1)	(2)
Stores, spares and supplies consumed	645	725	702	(23)	(3)
Security expenses	610	656	620	(36)	(6)
Legal charges	116	91	81	(10)	(11)
Insurance excluding royalty	124	146	107	(39)	(27)
Material used on consumers installations	30	39	18	(21)	(55)
Collecting agent commission	0	3	1	(2)	(67)
License & Tariff Petition Fee to OGRA	133	84	(23)	(107)	(128)
Sub-total Cost	**16,806**	**19,029**	**19,171**	**142**	**1**
Less: Recoveries / Allocations	2,035	2,219	2,404	185	8
Net T&D Cost before GIC	**14,771**	**16,810**	**16,767**	**(43)**	**(0)**

10.5.2 Various components of T & D cost are discussed in following paragraphs:

ii. *Human Resource (HR) Cost*

10.5.3 The petitioner has claimed HR cost at Rs. 14,244 million based on the Authority's HR benchmark formula, calculating 50% saving while including capitalized cost of Rs. 1,447 million. The petitioner has also informed that Rs. 325 million on account of HR cost has been charged to RLNG cost of service under ring-fenced arrangement.

10.5.4 The petitioner has explained that at the time of MFR for FY 2017-18, actual HR cost was provided after deducting LNG department cost Rs. 41 million for FY 2017-18 which principally should be included in the HR benchmark cost calculations. The petitioner has requested the Authority to include the net impact of Rs. 19 million in the said year on account of HR cost.

10.5.5 The Authority notes that matter of HR benchmark cost has already been finalized by

CERTIFIED TRUE COPY

420

it while disposing off SNGPL's MFR FRR FY 2018-19. ***In view of the same, the Authority decides to extend similar treatment and decides to allow HR benchmark cost as per Annex-C at Rs. 13,586 million (Rs. 13,575 million HR cost plus Rs. 660 million on account of IAS incremental impact). Rs. 649 million shall be charged to RLNG segment as part of RLNG cost of service. Moreover, the Authority also accept the petitioner's claim of Rs. 19 million on account of previous year adjustment of HR cost.***

10.5.6 The Authority further observes that expenses on accounts of medical (parents), overtime, free gas facility and significant cost of post retirement obligations requires to be rationalized in line with Authority earlier directions. In the wake of such overspendings, there is no justification to share 50% saving or surplus with the petitioner. Accordingly, the same has not been considered/factored in the HR cost benchmark given above.

iii. Postage & bill delivery by Contractors

10.5.7 The petitioner has reported postage & bill delivery charges for the said year at Rs. 228 million as against Rs. 94 million provided in RERR for the said year, as shown below:

Table 22: Comparison of Postage & Bill Delivery Charges with the RERR & Previous Year:

Rs. in Million

Particulars	MFRR	RERR	The Petition	Inc./(Dec.) over RERR FY 2018-19	
	FY 2017-18	FY 2018-19		Rs.	%
Postage & bill delivery by Contractors	86	94	228	134	143
Total	86	94	228	134	143

10.5.8 The petitioner has explained that substantial increase is reported on account of payment for deficit stamp duty pertaining to rent agreements, local and foreign purchase orders and sales connection agreement of Karachi and interior Sindh. The petitioner explained that it had paid Rs. 118 million to Sindh Government, Board of Revenue on account of deficit stamp duty under the above head.

10.5.9 ***In view of the above, the Authority accepts the same and allows postage & bill delivery by contractors for the said year.***

CERTIFIED TRUE COPY

iv. Professional Charges

10.5.10 The petitioner has reported professional charges for the said year at Rs. 70 million as against Rs. 46 million provided in RERR for the said year, as shown below:

Table 23: Comparison of Professional Charges with the RERR & Previous Year:

Rs. in Million

Particulars	MFRR	RERR	The Petition	Inc./(Dec.) over RERR FY 2018-19	
	FY 2017-18	FY 2018-19		Rs.	%
Professional Charges	24	46	70	24	52
Total	24	46	70	24	52

10.5.11 The petitioner has explained that Rs. 21 million has been paid to A.F Ferguson to audit the arrangement between the Company and JJVL according to the Supreme Court's Order. The petitioner has also explained that payment of Rs. 10 million had made to Bureau Veritas for Technical Health & Safety Audit.

10.5.12 ***In view of the above, the Authority agrees to the petitioner's justification and decides to allow Rs. 70 million under the above head for the said year.***

v. Gas Bills Stubs Processing Charges

10.5.13 The petitioner has reported gas bill stubs processing charges for the said year at Rs. 32 million as against Rs. 26 million provided in RERR for the said year, as shown below:

Table 24: Comparison of Gas Bills Stubs Processing Charges with the RERR & Previous Year:

Rs. in Million

Particulars	MFRR	RERR	The Petition	Inc./(Dec.) over RERR FY 2018-19	
	FY 2017-18	FY 2018-19		Rs.	%
Gas bills stub processing charges	22	26	32	5	20
Total	22	26	32	5	20

10.5.14 The petitioner has attributed the increase mainly to the revision of contract of stubs processing charges and due to change in vendor from Tameer Micro Finance Bank Ltd to NIFT, that is charging increase rate of Rs. 4.5 per bill as compared to previous vendor rate of Rs. 2.45 per bill. The petitioner further argued said arrangement is in place effective April, 2018.

10.5.15 ***The Authority agrees to petitioner's contention and decides to accept the petitioner's claim i.e. Rs. 32 million for the said year.***

CERTIFIED TRUE COPY

vi. *Advertisement*

10.5.16 The petitioner has reported advertisement charges for the said year at Rs. 127 million as against Rs. 108 million provided in RERR for the said year, as shown below:

Table 25: Comparison of Advertisement Charges with the RERR & Previous Year:

Rs. in Million

Particulars	MFRR	RERR	The Petition	Inc./(Dec.) over RERR FY 2018-19	
	FY 2017-18	FY 2018-19		Rs.	%
Operational	49	52	37	(15)	(29)
Consumer Education(Media Campaigns)	47	44	80	36	82
Corporate Image Building	16	11	10	(1)	(12)
Total	112	108	127	19	18

10.5.17 The petitioner has submitted that the increase is mainly due to consumer education media campaigns in respect of law and leakage campaigns, wherein Rs. 50 million was incurred as per the table below;

Table 26: Breakup of Consumer education through media campaign is as under;

Particulars	MFRR	RERR	The Petition	Inc./(Dec.) over RERR FY 2018-19	
	FY 2017-18	FY 2018-19		Rs.	%
Winter Safety Campaign	10	6	9	3	51
Media Campaign for Recovery of outstanding dues	0	9	11	3	34
Media Campaign for Natural Gas Conservation	0	8	9	1	11
Media Campaign for combating UFG	35	11	28	18	166
Gas Leakage Digital Media Campaign	0	11	22	12	109
Total	46	44	80	36	82

10.5.18 The Authority observes that it has always appreciated petitioner's efforts in respect of media campaigns for educating consumers. However, abnormal increase of 82% must commensurate with tangible benefits. The Authority directs that the petitioner should negotiate / bargain reasonable tariff or rates while launching its campaigns at print media as well as digital media. Moreover, other constructive measures including SMS, emails, signboards during high consumption months, consumer awareness messages on related official websites, gas bill can be used for consumer education.

10.5.19 ***In view of above, the Authority determines the amount under this head at Rs. 123 million i.e. FRR for FY 2017-18 plus 10 % escalation.***

vii. *Rent Rates & Taxes*

10.5.20 The petitioner has claimed expenditure of Rs. 245 million on account of "rent, rate and taxes" as against Rs. 212 million provided in RERR for the said year, showing an increase of 15% , as shown below:

CERTIFIED TRUE COPY

Table 27: Comparison Rent, Rates & Taxes with the RERR & Previous Year:

Rs. in Million

Particulars	MFRR	RERR	The Petition	Inc/(Dec.) over RERR FY 2018-19	
	FY 2017-18	FY 2018-19		Rs.	%
Rent	115	150	144	(6)	(4)
Royalty	2	9	10	1	6
Others	49	53	91	38	72
Total	166	212	245	33	15

10.5.21 The petitioner has explained that Rs. 61 million has been made on account of payments made to Pakistan Railways for lease / way leave rentals. The petitioner has further explained that Rs. 14 million has been paid to PTA in pursuance of its decision.

10.5.22 ***In view of the above justification provided by the petitioner, the Authority accept the petitioner's contention and decides to allow rent, rates & taxes at Rs. 245 million for the said year.***

viii. Repair & Maintenance

10.5.23 The petitioner has capitalized Rs. 1,839 million on account of Repair and Maintenance against the provisionally allowed amount of Rs 1,884 million in this head. The petitioner has stated that major amount in this regard was incurred on UFG control activities like coating and wrapping, overhead and underground leak survey/rectification of leakages in the distribution network.

10.5.24 ***In view of the above, the Authority allows revenue expenditure amounting to Rs. 1,839 million under the head of Repair & Maintenance for the said year.***

ix. Impairment of Capital Work in Progress (CWIP)

10.5.25 The petitioner has claimed Rs. 70 million against impairment of capital work in progress for the said year. The petitioner has explained that impairment of capital work in progress is booked based upon impairment testing carried out by the external auditor. Such amounts were allowed in the past by the Authority. The petitioner has further explained major portion have already been capitalized as the development work has been completed.

10.5.26 The Authority notes that the said impairment was being allowed in the past but the consistent increase in recording of impairment in respect of capital WIP indicates towards company's inefficiency in respect of completion of projects. The petitioner also remained failed to justify the non-execution of the schemes. ***In view of the above, the Authority disallows the same, and directed the petitioner to execute the projects***

CERTIFIED TRUE COPY

424

timely so that no/minimal burden owing to impairment of capital W.I.P be avoided.

x. ***Other Charges of T&D***

10.5.27 The petitioner has reported Other Charges for the said year at Rs. 172 million as against Rs. 135 million provided in RERR for the said year, as shown below:

Table 28: Comparison of Other Charges with the RERR & Previous Year:

Rs. in Million

Particulars	MFRR	RERR	The Petition	Inc./(Dec.) over RERR FY 2018-19	
	FY 2017-18	FY 2018-19		Rs.	%
Communications	10	22	29	7	31
Subscriptions	30	24	38	14	59
Other miscellaneous	83	89	105	16	18
Total	123	135	172	37	27

10.5.28 The petitioner has explained that the increase under the said head is mainly attributed to the increase new club memberships to employees upto and above GM level. The petitioner has also explained that the increase under the said head is due to increase in rate of GCI from average of Rs. 380 per MMBTU to Rs. 577 per MMBTU. Moreover, the expenses of the company functions and festivals increase due to CBA and other general meeting.

10.5.29 The Authority notes that the petitioner had recorded an enormous increase under the head "Others charges" in the said year over FRR for FY 2017-18 without providing any convincing justification. ***In view of same, the Authority determines the amount under this head at Rs. 149 million i.e. at the level of RERR plus 10% increase.***

xi. ***Remaining Items of T & D Cost***

10.5.30 Expenditure on remaining items of T & D cost, which have not been discussed above, is Rs. 3,983 million as against Rs. 4,251 million provided in RERR for the said year, as detailed below:

Table 29: Summary of Remaining T & D Expenses per the Petition with RERR & Previous year:

Rs. in Million

Particulars	MFRR	RERR	The Petition	Inc./(Dec.) over RERR FY 2018-19	
	FY 2017-18	FY 2018-19		Rs.	%
Gas bills collection charges	188	185	195	10	5
Electricity	194	223	232	9	4
Traveling	100	131	129	(2)	(1)
Repairs & maintenance	1,567	1,884	1,839	(45)	(2)
Meter reading by contractors	70	84	83	(1)	(2)
Stores, spares and supplies consumed	645	725	702	(23)	(3)
Security expenses	610	656	620	(36)	(6)
Legal charges	116	91	81	(10)	(11)
Insurance excluding royalty	124	146	107	(39)	(27)
Material used on consumers installations	30	39	18	(21)	(55)
Collecting agent commission	0	3	1	(2)	(67)
License & Tariff Petition Fee to OGRA	133	84	(23)	(107)	(128)
Sub-total Cost	3,776	4,251	3,983	(269)	(6)

CERTIFIED TRUE C

10.5.31 ***In view of the above, the Authority accepts remaining items of T&D cost at Rs. 3,983 million for the said year.***

xii. ***Transmission and Distribution Cost Determined by the Authority***

10.5.32 In view of the above , the Authority allowed operating cost for the said year at Rs. 16,166 million for the said year, as detailed below:

Table 30: T&D Cost Allowed by the Authority

Rs. In Million

Particulars	FY 2018-19	
	Claimed	To be Allowed
Salaries, wages, and benefits at benchmark	14,245	13,605
Postage & bill delivery by Contractors	228	228
Impairment of Capital WIP	70	-
Others	172	149
Gas bills stubs processing charges	32	32
Advertisement	127	123
Rent, rate & taxes	245	245
Professional Charges	70	70
Remaining T&D Cost	3,983	3,983
Sub-total Cost	**19,171**	**18,434**
Less: Recoveries / Allocations	2,268	2,268
Net T&D Cost before GIC	**16,903**	**16,166**

11. *Other Charges excluding WPPF*

xiii. ***Exchange Loss on Payment of Gas Purchases***

11.1 The petitioner has claimed Rs. 16,341 million on account of exchange loss on gas purchases (i.e. difference of Rs./US$ at the time of booking of purchases invoices vs. subsequent payment of invoices). The petitioner has argued that significant increase is due to the rupee depreciation i.e. 36% against the dollars during the said year. The petitioner has also argued that exchange losses had incurred on long outstanding liabilities due to circular debts pertaining to gas purchases and have a significant impact on the financial performance.

11.2 The petitioner has explained that OGRA in its decision dated April 23, 2020, emphasize to devise a mechanism to minimize such losses, however, option of hedging to mitigate such losses is not available for public-sector state-owned companies.

11.3 The Authority observes that exchange loss on account of gas purchases is admissible expenditure. ***In view of the above, the Authority decides to allow exchange losses on payment of gas purchases amounting to Rs. 16,341 million for the said year and directs the petitioner to devise a mechanism to minimize such losses.***

CERTIFIED TRUE COPY

426

xiv. ***Other Charges***

11.4 The petitioner has reported Rs. 210 million on account of other charges as per table below;

Table 31: Comparison of other Charges with Previous Years.

Rs. in Million

Particulars	MFRR	RERR	The Petition	Inc./(Dec.) over RERR FY 2018-19	
	FY 2017-18	FY 2018-19		Rs.	%
Sports Club Expenses	66	5	76	72	1,596
Corporate Social Responsibility	20	129	16	(113)	(87)
Provision against impaired Stores and Spares	68	-	105	105	100
Other/Auditor fees	16	28	13	(15)	(53)
Total	170	161	210	49	31

11.5 The Authority notes that such obsolete item i.e. Rs. 105 million recorded by the petitioner under store and spare identified by the statutory Auditor; and as per IAS compliance, it is required each year to identify obsolete/slow moving store item as an expense for the year. Since the procurement of operating items as required to performs its operations as per policy approved by its Board of Directors, ***in view of the same, the Authority decides to allow the same.***

11.6 ***In view the above, the Authority decides to allow Rs. 210 million under the above head for the said year.***

xv. ***Expected Credit Loss-Effect of Adoption of IFRS-9 (ECL)***

11.7 The petitioner has claimed Rs. 1,117 million including prior years on account of expected credit loss for the said year.

Table 32: Comparison of Expected Credit Loss with Previous Years.

Rs. in Million

Particulars	MFRR	RERR	The Petition	Inc./(Dec.) over RERR FY 2018-19	
	FY 2017-18	FY 2018-19		Rs.	%
Provision for doubtful debts	668	1,063	1,117	54	5
Total	668	1,063	1,117	54	5

11.8 The petitioner has explained that International Financial Reporting Standard (IFRS)-9 'Financial Instruments' has become effective for reporting period after 30 June, 2019. The petitioner has also explained that OGRA is allow provisioning only against disconnected customers. However, IFRS would be required to be accounted for on Expected Credit Loss (ECL) method instead of general provisioning based on historic

CERTIFIED TRUE COPY

data, resulting in significant additional provisioning against overdue receivable balances from live consumers.

11.9 The Authority is of the view that since the petitioner is operating on cost plus formula, therefore, any such provisioning against trade debts considering forward looking expectations shall only burden the natural gas consumers. SECP has already granted exemption with respect to ECL method on financial assets due from Government of Pakistan (including receivables in context of circular debt) till June 30, 2021. In view of the same precedent, the petitioner may take up the matter w.r.t exemption for its rest of financial assets/receivables.

11.10 Notwithstanding the above, the Authority observes that adoption of IFRS 9 in compliance to SECP regulations is the petitioner's obligation while preparing the statutory accounts. The Authority in this regard has no reservation. However, the cost on this account can't be included as part of assets based rate of return tariff regime. ***In view of same, Rs. 552 million is allowed, being provision against disconnected consumers for the said year.***

12. *Change in Accounting Policy -International Accounting Standards-19- (IAS-19)*

12.1 The petitioner has claimed Rs. 1,312 million on account of post-retirement obligation due to change in accounting policy of IAS-19. The petitioner has submitted that it is mandatory under IAS-19 that re-measurements of the net defined benefit liability (asset) recognized in Other Comprehensive Income (OCI), comprising of actuarial gains and losses. As actuarial gains/losses are computed based on differences between the previous actuarial assumptions vs. the actual occurred during the year.

12.2 The Authority notes that it has been allowing post retirement obligations over & above the HR cost based on the actuarial valuation report since FY 2013-14. The Authority also notes that contribution to post-retirement obligations has remained a complementary part of HR cost which has been allowed on actual basis. Accordingly, the Authority decides to allow Rs. 1,312 million being impact of IAS-19 (actuarial (gain)/loss) for the said year. The Authority, however, being cognizant of the changed marked dynamics of the petitioner in terms of dwindling indigenous gas supplies & national level struggle by every institution for curtailment of cost directs the petitioner to review its post retirement obligations in the light of Authority's directions per para 10.5.6 above.

CERTIFIED TRUE COPY

13. *Reclaimed Items – pertains to prior year*

13.1 The petitioner has explained that Rs. 7,819 million has been requested as reclaimed items in respect of motion for review on DFRR FY 2017-18 dated 22nd May 2020. The same is under consideration of the Authority. In view the same, the petitioner has requested the Authority that it has been made an integral part of the instant petition and treat the same accordingly.

13.2 ***The Authority notes that the decision of motion for review on DFRR FY 2017-18 has been issued on January 26, 2021 and Rs. 5,079 million has been allowed as against petitioner's claim of Rs. 7,819 million. Therefore, the impact of the same has been included i.e. Rs. 5,079 million for the said year.***

14. *Summary of Discussion & Decisions*

14.1 In view of the justifications submitted and arguments advanced by the petitioner in support of its petition, scrutiny by the Authority and detailed reasons recorded in earlier paras, the Authority recapitulates and decides to:

14.1.1 **determines gross addition in fixed assets at Rs. 8,250 million and depreciation charge at Rs. 5,670 million;**

14.1.2 **determines the balance of average net operating fixed assets (net of deferred credits & LPG Air mix) at Rs. 54,083 million. Consequently, the return required by the petitioner on its average net operating fixed assets is determined at Rs. 9,427 million;**

14.1.3 **accepts subsidy on account of Air-mix LPG at Rs. 465 million;**

14.1.4 **accepts the other operating income at Rs. 4,257 million;**

14.1.5 **determine revenue at current prescribed price at Rs. 177,871 million;**

14.1.6 **accepts the cost of gas at Rs. 240,649 million;**

14.1.7 **accepts Rs. 3,672 million adjustment on account of staggering of the financial impact on account of Honourable Sindh High Court decision;**

14.1.8 **determine UFG adjustment being invalid claim at Rs. 23,916 million at benchmark;**

14.1.9 **determine T&D expenses at Rs. 16,166 million;**

14.1.10 **determines GIC at Rs. 583 million;**

CERTIFIED TRUE COPY

14.1.11 **determine Reclaim items pertain to prior year at Rs. 5,079 million**

14.1.12 **accept change in accounting policy IAS-19 by IASB to Rs. 1,312 million**

14.1.13 **determine other charges including change in accounting policy of IAS-19 to Rs. 17,027 million; and**

14.2 In exercise of powers under Section 8(2) of Ordinance, Authority determines final revenue requirement of petitioner for said year at Rs. 268,789 million as against petitioner's claim of Rs. 276,554 million, as tabulated below:

Table 33: Components of FRR as Determined by the Authority

Rs. in million

S.No	Particulars	Claimed by the Petitioner	Determined by the Authority
1	Cost of gas sold	240,649	240,649
2	UFG adjustment	(20,464)	(23,916)
3	Transmission and distribution cost	16,903	16,166
4	Gas internally consumed	590	583
5	Staggering of financial impact on account of SHC order	(3,672)	(3,672)
6	Depreciation	5,800	5,670
7	Other charges including change in policy of IAS-19	18,904	18,338
8	Reclaimed items pertains to prior year	7,819	5,079
9	Return on net average operating fixed assets	9,560	9,427
10	Additional revenue requirement for Air-Mix LPG Projects	465	465
	Total Final Revenue Requirement	**276,554**	**268,789**

14.3 The petitioner's actual net operating income is Rs. 182,128 million and thus there is a shortfall of Rs. 86,661 million for the said year (**Annex-A**) resulting in an average prescribed price of Rs. 771.74/ MMBTU for the said year.

14.4 The Authority notes that it has been determining prescribed prices on annual basis as per its mandate provided in the Ordinance. However, owing to insufficient sale price revision by the FG during the said year, cushion between the prescribed and sale price is not available for recoupment of revenue shortfall for the said year. The Authority, therefore, in the instant determination, has decided to refer the matter in respect of recoupment of revenue shortfall to the FG so that appropriate actions be taken in this respect.

14.5 Accordingly, the prescribed prices for each category of retail consumers for the said year stands adjusted to the extent of notified gas sale prices as advised by the GoP during the said year.

CERTIFIED TRUE COPY

430

14.6 The Authority further directs the petitioner to make the concerted efforts to reduce all the avoidable costs particularly the finance related costs, UFG-thefts, currency exchange loss, LPS and Transmission and distribution cost. Moreover, the petitioner is directed to undertake concerted efforts to reduce gas theft and losses.

Zain-ul-Abideen Qureshi,
Member (Oil)

Muhammad Arif,
Member (Gas)

Noorul Haque,
Vice Chairman / Member (Finance)

Masroor Khan,
(Chairman)

Islamabad, May 25, 2021

REGISTRAR
Oil & Gas Regulatory Authority
Islamabad

E. Final Revenue Requirement for FY 2018-19

ANNEXURE – A

Rs. in Million

Particulars	The Petition	The Adjustment	Determined by the Authority
Gas sales volume -MMCF	338,372		338,372
MMBTU	342,776		342,776
"A" Net Operating Revenues			
Net sales at current prescribed price	183,535	(5,664)	177,871
Meter rentals	774	-	774
Amortization of deferred credit	524	-	524
Sale of LPG/NGL and Condensate	48	-	48
Late payment surcharge	1,044	-	1,044
Meter manufacturing profit	5	-	5
Notional income on IAS 19 provision	486	-	486
Other operating income	1,377	-	1,377
Total Operating Revenue "A"	187,792	(5,664)	182,128
"B" Less: Operating Expenses			
Cost of gas	240,649	-	240,649
UFG Adjustment	(20,464)	(3,452)	(23,916)
Transmission and distribution cost	16,903	(737)	16,166
Gas internally consumed including sabotage	590	(7)	583
Staggering of financial impact on account of SHC order	(3,672)	-	(3,672)
Depreciation	5,800	(130)	5,670
Expected Credit Loss-effect of adoption of IFRS-9	1,118	(566)	552
Reclaimed items pertains to prior year	7,819	(2,740)	5,079
Other charges	16,475	-	16,475
Change in accounting policy IAS-19 by IASB	1,312	-	1,312
Total Operating Expenses "B"	266,529	(7,631)	258,898
"C" Operating profit (A-B)	(78,737)	1,967	(76,770)
Return required on net operating fixed assets:			
Net operating fixed assets at beginning	61,763	-	61,763
Net operating fixed assets at ending	62,066	(1,537)	60,529
	123,829	(1,537)	122,292
Average net assets (I)	61,915	(768)	61,146
Net LPG air mix project asset at beginning	745	-	745
Net LPG air mix project asset at ending	894	-	894
	1,640	-	1,640
Average net assets (II)	820	-	820
Net MMP and LHF (condensate) at beginning	88		88
Net MMP and LHF (condensate) at ending	76		76
	165		165
Average net assets (III)	82	-	82
Deferred credit at beginning - Assets related to Natural Gas Activity	6,042	-	6,042
Deferred credit at ending - Assets related to Natural Gas Activity	6,280	-	6,280
	12,323	-	12,323
Average net deferred credit (IV)	6,161	-	6,161
"D" Average (I-II-III-IV)	54,850	(767)	54,083
"E" return required	9,560	(134)	9,427
"F" Shortfall / (Surplus) in return required (E-C) (Gas Operations)	88,297	(2,101)	86,196
"G" Additional revenue requirement for Air-Mix LPG Projects	465	-	465
Total Shortfall / (Surplus) I=(F+G)	88,762	(2,101)	86,661
Increase in average prescribed price effective (Rs. / MMBTU) w.e.f July 01, 2018	258.95	(6.13)	252.82
Total revenue requirement (B+E+G)	276,554	(7,765)	268,789
Average Prescribed Price (Rs. per MMBTU)	794.39	(22.65)	771.74

CERTIFIED TRUE COPY

432

F. Prescribed Prices for FRR FY 2018-19

ANNEXURE – B

	Particulars	w.e.f Jul. 01, 2018 to Sept.26, 2018	w.e.f Sept. 27, 2018 to Nov.28, 2018	w.e.f Nov. 29, 2018 to Dec. 31, 2018	w.e.f Jan. 01, 2019 to June 30, 2019
		Rupees per MMBTU			
(i)	Domestic Consumers:				
	First slab (upto 50 cubic metres per month)	110.00	121.00	121.00	121.00
	Second slab (upto 100 cubic metres per month)	110.00	127.00	127.00	127.00
	Third slab (upto 200 cubic metres per month)	220.00	264.00	264.00	264.00
	Forth slab (upto 300 cubic metres per month)	220.00	275.00	275.00	275.00
	Fifth slab (upto 400 cubic metres per month)	600.00	780.00	780.00	780.00
	Sixth slab (above 400 cubic metres per month)	600.00	1,460.00	1,460.00	1,460.00
(ii)	Special Commercial Consumers (Roti Tandoors)				
	First slab (upto 100 cubic metres per month)	110.00	127.00	110.00	110.00
	Second slab (upto 300 cubic metres per month)	220.00	275.00	220.00	220.00
	Third slab (above 300 cubic metres per month)	700.00	980.00	700.00	700.00
(iii)	Commercial :				
	All off-takes at flat rate of	700.00	980.00	980.00	980.00
(v)	Industrial:				
	All off-takes at flat rate of	600.00	780.00	780.00	780.00
(vi)	Captive Power :				
	All off-takes at flat rate of	600.00	780.00	780.00	780.00
(vii)	CNG Stations:				
	All off-takes at flat rate of	700.00	980.00	980.00	980.00
(viii)	Cement Factories:				
	All off-takes at flat rate of	750.00	975.00	975.00	975.00
(ix)	Pakistan Steel				
	All off-takes at flat rate of	600.00	780.00	780.00	780.00
(ix)	Fertilizer				
	(i) For gas used as feed-stock for Fertilizer	123.00	185.00	185.00	185.00
	(ii) For gas used as fuel for generating steam and electricity and for usage in housing colonies for fertilizer factories	600.00	780.00	780.00	780.00
(x)	Power Stations				
	All off-takes at flat rate of	400.00	629.00	629.00	629.00

CERTIFIED TRUE COPY

433

G. Computation of HR Cost Benchmark FY 2018-19 ANNEXURE - C

Particulars	2017-18	2018-19	
	FRR	The Petition	Allowed
HR BENCHMARK COST PARAMETERS			
Base Cost	11,959	12,660	**12,660**
CPI factor	3.92%	7.34%	**7.34%**
T & D network (Km)	50,240	51,048	**51,048**
Number of Consumers (No.)	2,913,124	3,019,178	**3,019,178**
Sales Volume (MMCF)	641,554	692,009	**692,009**
Unit Rate (Rs./unit)			
T&D network (Rs./Km)	**241,616**	**251,991**	**251,991**
No. of Consumers (Rs./Consumer)	**4,212**	**4,346**	**4,346**
Sale Volume (Rs./MMCF)	**22,063**	**19,733**	**19,733**
HR Cost Build-up (Million Rs)			
Cost CPI -50%	234	465	465
T & D network (Km) 25%	3,035	3,216	3,216
Number of Consumers (No.) 65%	7,976	8,529	8,529
Sales Volume (MMCF)-10%	1,415	1,366	1,366
HR Benchmark Cost	**12,660**	**13,575**	**13,575**
IAS Cost	538	660	660
Total HR Benchmark Cost (A)	**13,198**	**14,235**	**14,235**
Actual HR COST (B)	**12,412**	**13,496**	
Less: allocated cost / DDC	1,336	1,447	
Adjusted Actual HR COST	11,076	12,049	-
50% of saving/(excess) Saving=B-A	393	1,093	
HR cost allowed (Rs. in million)	**12,805**	**14,589**	**-**
Excluded HR Cost-related to RLNG consumers	**(325)**	**(325)**	**(649)**
Net HR cost allowed (Rs. in million)	**12,480**	**14,264**	**13,586**
HR cost related to FY 2017-18			**19**
Total HR cost allowed			**13,605**

CERTIFIED TRUE COPY

434

H. SSGCL Field-wise Gas Purchases & WACOG FY 2018-19 ANNEXURE – D

	MMCF	MMMBTU	Average Rs per MMBTU	Rs Million
Sui	38,346	36,613	416.61	15,253
Kandhkot	552	452	206.35	93
Ghotki ,Rustam,Ubaro,Sherdil,Chandiko - SNGPL	1,730	1,502	728.38	1,094
Mari	354	259	218.39	56
Sari / Hundi	442	397	727.06	288
Maher / Mubarak Block	2,962	3,192	354.46	1,131
Pasaki Deep & Kunnar Deep	50,328	51,613	349.07	18,016
Adam X-1 / Hala	5,566	5,795	634.03	3,675
Pakhro / Noorai Jagir/Daru	101	117	328.36	38
Zargoon	5,129	4,874	684.36	3,335
Bobi	1,451	1,610	272.54	439
Latif	4,371	4,396	585.19	2,572
Kirther (Rehman)-EWT	6,005	5,035	801.54	4,036
Rizq EWT	5,546	5,166	781.10	4,035
Badin	9,248	10,529	308.03	3,243
Kadanwari	15,878	15,899	1,145.14	18,206
Miano	12,993	12,997	484.01	6,291
Sawan	5,694	5,729	482.69	2,765
Zamzama	4,899	3,907	466.65	1,823
Bhit	51,242	48,654	553.81	26,945
Mazarani	1,364	1,384	240.36	333
Khipro Block - Naimat Basal	68,809	60,659	674.13	40,892
Mirpurkhas Block - Kausar	62,838	69,659	684.80	47,702
Sujawal / Sujjal	5,699	6,005	691.01	4,150
Nur Bagla fields	1,764	1,903	350.29	667
Jakhro/Dachrapur /Gopang/ Nim	970	1,092	351.74	384
Gambat Block -Wafiq/Shahdad-(XI)	19,583	18,678	670.98	12,532
Sinjhoro	11,016	11,167	345.66	3,860
TAY	21,725	22,463	388.72	8,732
Sofiya	2,861	3,082	701.50	2,162
Aqeeq	856	902	681.96	615
Britism	189	193	402.72	78
Mitha	1,826	1,829	816.74	1,494
Chutto	2,671	3,124	597.93	1,868
Excise duty	-	-	-	4,209
Sub-Total	425,009	420,874	577.40	243,014
GST on exempted gas sales	-	-	-	146
Currency Exchange Loss				16,341
Weighted Average SSGCL input Cost of Gas	**425,009**	**420,874**	**616.58**	**259,502**
Weighted Average SNGPL input Cost of Gas	**443,093**	**416,300**	**420.28**	**174,961**
Weighted Average Both input Cost of Gas WACOG	**868,102**	**837,173**	**518.96**	**434,463**
		MMCF	**500.47**	

CERTIFIED TRUE COPY