OIL & GAS REGULATORY AUTHORITY

No. OGRA-6(2)-1(2)/2014-DTRR

IN THE MATTER OF

SUI NORTHERN GAS PIPELINES LIMITED
FINAL REVENUE REQUIREMENT, FY 2013-14

UNDER

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

DECISION

November 6, 2015

Before:

Mr. Saeed Ahmad Khan, Chairman
Mr. Aamir Naseem, Member (Gas)
Mr. Noorul Haque, Member (Finance)

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1. Background

1.1. Sui Northern Gas Pipelines Limited (the petitioner) is a public limited company, incorporated in Pakistan, and listed on the stock exchanges at Karachi, Lahore and Islamabad. The petitioner is operating in the provinces of Punjab, Khyber Pakhtunkhwa (KPK) and Azad Jammu & Kashmir (AJ&K) under the license granted by Oil & Gas Regulatory Authority (OGRA). It is engaged in the business of construction and operation of gas transmission and distribution pipelines, sale of natural gas and sale of gas condensate (as a by-product).

1.2. The petitioner filed a petition on August 13, 2014 under Section 8(2) of the Oil & Gas Regulatory Authority Ordinance, 2002 (the Ordinance) and Rule 4(3) of the Natural Gas Tariff Rules, 2002 (NGT Rules), for determination of its Final Revenue Requirement (FRR) for FY 2013-14 (the said year) on the basis of accounts, as initialed by its statutory auditors. The petitioner has also submitted a revised petition vide its letter dated September 18, 2014 wherein fixed assets balances were revised taking into account the closing balance of FY 2012-13. Subsequently, the petitioner vide its letter dated July 7, 2015 has further amended the petition (the petition) owing to change in other operating expenses and LPS treatment on account of GIDC.

1.3. The petitioner has submitted the petition for determination of its FRR for the said year after incorporating the effect of actual changes in the wellhead gas prices, sale mix and other relevant factors in terms of Section 8(2) of the Ordinance. The petitioner has not computed the disallowance on account of Unaccounted for Gas (UFG) on the plea that no benchmark exists for the said year. Late Payment Surcharge & Interest on Arrears (LPS) has also not been included in the revenue requirement thereby treating it as non operating income. Accordingly, the petitioner, for the actual volume of 473,873 BBTU has worked out its FRR for the said year at Rs. 258,769 million including Rs. 12,259 million on account of shortfall pertaining to FY 2012-13. Based on the provisional prescribed prices and actual sale mix, the petitioner has computed a shortfall of Rs. 48,126 million for the said year thereby seeking increase in the average prescribed price by Rs. 101.56 per MMBTU.

1.4. The Authority, vide its order dated June 27, 2014, had determined the petitioner's Review of Estimated Revenue Requirement (RERR) for the said year under Section 8(2) of the Ordinance at Rs. 251,943 million for estimated sale volume of 551,933 BBTU.

1.5. The Authority issued notice of hearing on August 4, 2015 to the petitioner and the following interveners and related parties:

a) Federal Government (FG/GoP).

b) Mr. Ghiyas Abdullah Paracha, Chairman All Pakistan CNG Association, Islamabad
c) Sheikh Muhammad Ayyub, Chairman All Pakistan Textile Processing Mills Association, Faisalabad.
d) Mr. Mehmood Elahi, Sui Gas Contractor, Faisalabad.

1.6. The hearing was held at Lahore on August 19, 2015.

2. Salient Features of the Petition

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

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

Rs./MMBtu

Particulars	FY 2012-13	FY 2013-14	
	Actual	RERR	Petition for FRR
Sales	551,933	551,933	473,873
Cost of gas	399.15	403.09	427.49
Transmission and distribution cost	30.27	29.77	42.37
UFG Disallowance	(27.20)	(22.13)	-
Depreciation	16.99	23.83	18.82
Exchange Gain/loss	0.90	-	0.20
Shortfall for FY 2012-13	-	-	25.87
Impact of IAS-19 (Recognition of actual losses) 50%	3.52	-	3.80
Impact of IAS-19 (Recognition of actual losses) for FY 2013-14	-	-	3.05
Return on Assets	21.61	21.90	24.48
Adjustments pertaining to FY 2010-11 & FY 2011-12	(24.91)		
Other Operating Income	(14.84)	(12.84)	(9.31)
Cost of Service/Prescribed Price	**405.48**	**443.63**	**536.76**
Current Average Prescribed Price	405.48	443.63	435.20
Increase requested in Average Prescribed Price	-	-	**101.56**

2.2. The petitioner has made the following submissions:

2.2.1. Annual return has been claimed at the rate of 17.5% of the value of its average net operating fixed assets (net of deferred credit) before corporate income taxes, and interest, mark-up and other charges on debt, per license condition no. 5.2 and as guaranteed by the GoP under the covenants of the loan agreement between the petitioner and the World Bank.

2.2.2. Gross addition in fixed assets during the said year has been claimed at Rs. 13,316 million and net addition, after accounting for deletion and depreciation, at Rs. 4,299 million, resulting in claimed increase in net operating fixed assets from Rs. 82,122 million in FY 2012-13 to Rs. 86,420 million for the said year. After adjustment of deferred credit, the average value of operating fixed assets eligible for return works out to Rs. 66,297 million and the required return at Rs. 11,602 million.

2.2.3. Total operating revenues have been claimed at Rs. 210,643 million in the petition, as against Rs. 251,943 million in RERR, as detailed below:

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

Rs. in million

Description	FY 2012-13	FY 2013-14		Increase / (Decrease) over RERR	
	FRR	RERR	The Petition		
Net sales at current prescribed price	207,462	244,855	206,230	(38,625)	-16%
Rental & Service Charges	1,398	1,629	1,663	34	2%
Surcharge and Interest on arrears	2,734	2,350	-	(2,350)	-
Amortization of deferred credit	3,215	2,414	2,572	158	7%
Other operating income	247	695	178	(517)	-74%
Net Operating Revenues	**215,056**	**251,943**	**210,643**	**(41,300)**	**-16%**

2.2.4. Net operating expenses have been claimed at Rs. 258,770 million in the petition as compared to Rs. 251,943 million provided in RERR, as detailed below:

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

Rs. million

Particulars	FRR-FY 2012-13	RERR-FY 2013-14	Petition for FRR	Increase / (Decrease) over	
Sales	511,643	551,933	473,873	(78,060)	-14%
Cost of Gas	204,220	222,478	202,574	(19,904)	-9%
Transmission and Distribution Cost	15,487	16,432	20,078	3,646	22%
UFG Disallowance	(13,917)	(12,212)	-	12,212	-100%
Depreciation	8,694	13,155	8,917	(4,238)	-32%
Exchange Gain/loss	460		95		
Shortfall for FY 2012-13	-	-	12,259	12,259	
Impact of IAS-19 (Recognition of actual losses) 50%	1,800		1,800		
Impact of IAS-19 (Recognition of actual losses) for FY 2013-14	-		1,445		
Return on Assets	11,055	12,090	11,602	(488)	-4%
Adjustments pertaining to FY 2010-11 & FY 2011-12	(12,743)				
Total	**215,056**	**251,943**	**258,770**	**6,162**	**2.45%**

2.2.5. Net result of the petitioner's above mentioned claims is that there is a shortfall of Rs. 48,126 million after allowing 17.5% return on average net operating assets, which translates to an increase of Rs. 101.56 per MMBTU in the existing average prescribed price, as tabulated below:

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

	Description	**Rs. in million**
A	Net operating revenues	210,643
B	Less: Net operating expenses including WPPF	234,908
C	Shortfall (A – B)	24,265
D	Return required @ 17.5% on net fixed assets in operation.	11,602
E	Shortfall pertaining to FY 2012-13	12,259
F	Total shortfall in the revenue requirement (C + D)	48,126
G	Sales volume (BBTU)	473,873
Increase in the existing average prescribed price (Rs./MMBTU) (F/G * 1000)		**101.56**

3. Proceedings

3.1. The petitioner was represented at the hearing by a team of senior executives led by its Managing Director, Mr. Arif Hameed, who were given full opportunity to present the petition. They made submissions with the help of multimedia presentation.

3.2. The following intervener and participant have been attending the hearing:

i) Sheikh Muhammad Ayyub, Chairman All Pakistan Textile Processing Mills Association, Faisalabad.
ii) Mr. Mehmood Elahi, Sui Gas Contractor, Faisalabad.
iii) Mr. Muhammad Aslam Chaudhry , Member Executive Committee, Lahore Chamber of Commerce and Industry & Consumer

3.3. The petitioner made submissions in detail explaining the basis of its petition and also responded to the comments, observations, objections, questions, and suggestions of the participants.

3.4. The petitioner's legal counsel, during the hearing, has submitted that no new gas connection is being provided to any industrial consumer after the imposition of moratorium by FG in 2011. However, distribution network along-with connection on the same is extending as per directions of GoP. This ultimately affects UFG of the company and exposes the T&D network to more theft / leakages. The Authority should look into this matter, as the provision of law obligates to protect the interest of all stakeholders.

3.5. Legal counsel further added that there is no provision in the relevant statute through which the Authority can penalize the petitioner for not achieving the efficiency benchmarks. The petitioner has therefore, not been able to attain guaranteed rate of return i.e. 17.5%, owing to imposition of UFG benchmark, rather in some years in the past it has gone into negative. The percentage of reasonable rate of return can never be negative in any business of the world.

3.6. Section 7 of the Ordinance states that tariff determination is subject to policy guidelines of the FG. Therefore, the policy guidelines issued by FG in respect of allowance of deemed sale volume is not in contradiction of any provision of the Ordinance.

3.7. The petitioner's counsel, during the hearing, has also contended the computation of UFG disallowance at Weighted Average Cost of Gas (WACOG), since international prices of oil are not under control of the petitioner. Therefore, as per the petitioner, penalizing on the basis of cost of gas / WACOG, is not justified. It was also agitated by legal counsel that decision in respect of new tariff regime is pending since 2005, wherein income from LPS was classified as non operating income.

3.8. The substantive points made by the interveners, representatives of general public, and participants during hearings are summarized below:

3.8.1. The gas sale volume is debilitating day by day while T&D expenses are increasing, which does not hold any logic. If the gas sales volume is on the decreasing trend, the unproductive expenses should have squarely dropped down.

3.8.2. UFG is very much under the control of the petitioner since it mostly consists of leakages and pilferage. Continuous increase in the level of UFG shows that no concerted efforts are being taken to control this menace.

3.8.3. Industry is not provided gas. Resultantly, it is suffering and leading to the verge of collapse. Industry should be provided gas at priority for its survival and contribution in national economy.

3.8.4. Litigation expenses have increased manifolds which are not justified at all. Such expense, when the operational activities are curtailed, overloads the operating expenses, which is not justified.

3.8.5. The petitioner is incurring billions of expenses every year. Accordingly, it requires to ensure transparency in all its affairs.

3.8.6. 10% quota for urgent gas connection is discriminatory and contrarily to the law. It must be eliminated.

4. Determination

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

5. Return to Licensee

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

5.2. The Authority notes that the petitioner has been continuously contending that guaranteed return of 17.5% is not being provided to it, as effectively it is getting much lower rate of return and has been referring to some legal provisions in isolation. The Authority terms this argument as baseless & against the legal scenario. Presumably, the petitioner has been pleading that it is entitled for guaranteed return irrespective of control of gas loses/theft, operational efficiency and effectiveness of capital expenditure incurred to undertake the regulated activities. Petitioner's plea does not consider the regulatory setup established by GOP and legal regulatory framework as a whole.

5.3. The Authority notes that the petitioner is enjoying monopoly and risk free business owing to captured consumers, guaranteed return and no market competition in the gas distribution sector. Ultimately, the said circumstances do not urge the petitioner to reduce its inefficiencies and improve customer service up to the satisfaction of consumers. Rather, this arrangement favors the petitioner to retain guaranteed return, while lacking concerted efforts to bring efficiency in its system. Moreover, Section 7(2) (a) obligates OGRA to protect consumer against monopolistic and oligopolistic pricing. On the national perspective, OGRA is in-fact performing its statutory role in a professional and prudent manner, allowing guaranteed return as well as incentive for better performance to the petitioner that could actually enhance its return; provided it manages and controls its system in an efficient manner. The understanding that petitioner can not be stressed for improving its performance through benchmark regulation is totally misleading, as monopolies all over the world operate on same regulatory premise / principles.

5.4. Accordingly, the Authority evaluates tariff petitions in line with the evaluation criteria as provided in the Rules, while implementing yardstick regulation as stipulated in Rule 17 (c) (g) and (h) of NGT Rules. Resultantly, natural gas prices as still maintained at an affordable level for all sectors of economy.

5.5. The Authority is of the firm view that legal framework is explicit and balanced as it provides for improvement in terms of efficiency as well as reasonable returns. The tariff mechanism accounts for all prudent and justified capital and revenue expenditure to attract investment for bringing quantitative and qualitative improvement of regulated activities, as required under section 7 of the Ordinance. Accordingly, the Authority has

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been performing its statutory role of a regulator, since all the prudently incurred rationalized costs are allowed to the petitioner to enable it to operate efficiently while servicing its consumers. Similarly, consumers' interest is also safeguarded by ensuring that cost of inefficiencies is not recovered from them. Therefore, benchmarks have been put in place, which compel the petitioner to focus its efforts towards eradicating inefficiencies and imprudent costs, however failure of the petitioner to improve and perform upto the mark, engulfs its return. The misconception that the petitioner should at least get guaranteed return in his pocket irrespective of operational efficiently is against the license conditions and very purpose of whole regulatory framework.

5.6. In view of above, it is established that Authority strictly performs as per its mandate and allows guaranteed return (i.e. 17.5%) to the petitioner, however it is due to the petitioner's own inefficiencies and business conduct that it could not retain the return allowed to it.

5.7. The Authority, in pursuance of *Licence Condition No. 5.3* of the Licence granted to the petitioner, had developed a new tariff regime for regulated natural gas sector of Pakistan, which, in the course of legally mandatory consultation process, was forwarded to GoP for approval. The Authority had also conducted various public hearings on new tariff regime to record the opinion as well as the sentiments of all stakeholders. It was urged that a fresh comprehensive study through experts on this issue may be conducted, since the previous study is outdated.

5.8. Planning Commission, during the said year, while acknowledging the Authority's view point, had decided to initiate a broad based task with respect to major reforms in the gas sector including a fresh study on tariff regime for gas utilities operating in Pakistan. The matter is under active consideration of the Authority as well as GoP.

5.9. ***In view of the above situation, the Authority has decided, to follow the existing basis of 17.5% return on the average net operating fixed assets while treating various income and expenditure heads per the exiting regime, in accordance with the Licence Condition No. 5.2 till the new tariff regime is finalized as well as implemented.***

Operating Fixed Assets

5.10. Summary

5.10.1. Gross addition in fixed assets during the said year has been claimed at Rs. 13,316 million and net addition, after accounting for deletion and depreciation at Rs. 4,299 million, increasing the net operating fixed assets from Rs. 82,122 million in FY 2012-13 to Rs. 86,420 million. After adjustment of deferred credit, the average value of operating fixed assets has been claimed at Rs. 66,297 million and the required return at Rs. 11,602 million. The computation of return on fixed assets is tabulated below:-

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

Million Rs.

Description		The Petition
Net operating fixed assets at beginning		82,122
Addition During the Year		13,316
Net operating fixed assets at closing		86,421
	Sub Total	168,543
Average net assets (A)		84,272
Deferred credit at beginning		18,212
Deferred credit at closing		17,737
	Sub Total	35,949
Average deferred credit (B)		17,975
Average net fixed assets (A-B)		66,297
Return required		17.5%
Amount of return requested by the petitioner		**11,602**

5.10.2. Comparative analysis of additions in fixed assets with RERR and the previous year is as follows:

Table 6: Summarized Schedule of Additions in assets Compared with RERR & Previous Year

Million Rs.

Particulars	FY 2012-13	FY 2013-14		Inc./(Dec.) Over RERR	
	FRR	RERR	The Petition		
Transmission	304	5,166	2,301	(2,865)	-55%
Compression	61	541	694	153	28%
Distribution Development	4,476	3,750	5,498	1,748	47%
Measuring and Regulating Assets	1,494	7,547	3,936	(3,611)	-48%
Plant, Machinery & Equipment and Other Assets	880	839	649	(190)	-23%
Buildings on freehold land	71	-	57	57	
New Connection	1,972			-	
Land & Land Acquisition Advance	142	18	125	107	594%
Intangible Assets (IT related cost)	11	231	56	(175)	-76%
Net addition in asset base	**9,409**	**18,092**	**13,316**	**(4,776)**	**-26%**

5.10.3. The petitioner has reported approximately 26% decrease in addition of fixed assets compared with RERR for the said year. The petitioner has attributed the overall decrease in capitalization to financial crisis faced by it. The petitioner has also pleaded that increase under "Distribution Development" is due to different amounts on account of prior years' adjustments.

5.10.4. The petitioner has further explained that Rs. 125 million under the head "Land" is due to the payment to Railway Department on account of crossings which is part of business operation.

5.10.5. The Authority observes that capital expenditure claimed by the petitioner has almost remained within allowed limits. However, under some heads, there is a nominal increase which is acceptable owing to plausible justification advanced by the petitioner.

5.10.6. ***In view of the above, the Authority determines the addition in fixed assets during said year at Rs. 13,316 million and depreciation for the year at Rs. 8,917 million. After adjustment of depreciation and depletion, the closing net operating fixed assets for the said year are determined at Rs. 86,420 million.***

6. Operating Revenues

6.1. Sales Volume

6.1.1. The sales volume has dropped to 473,873 BBTU, witnessing a decrease of 14% for the said year, as against 551,932 BBTU per RERR. Category-wise comparison with previous year has been provided by the petitioner as under:

Table 7: Comparison of Category-wise Sales Volume per the petition with RERR & Previous Year

Volume in BBTU

Category	2012-13	2013-14	2013-14	Inc./ (Dec.) over RERR	
	FRR	RERR	The Petition		
Power	136,928	132,934	124,711	(8,223)	(6) %
Cement	244	65	215	150	231%
Fertilizer	13,783	59,310	16,768	(42,542)	-72%
General Industries	86,404	59,882	66,540	6,658	11%
CNG	70,450	66,276	58,731	(7,545)	-11%
Commercial	28,575	30,159	26,385	(3,774)	-13%
Domestic	175,258	203,306	180,523	(22,783)	-11%
Total	**511,642**	**551,932**	**473,873**	**(78,059)**	**(14) %**

6.1.2. The petitioner has explained that there was lesser availability of gas during the said year owing to depletion of gas sources. Accordingly, almost all the category of consumers faced severe load shedding throughout the year. The power sector however received more gas in order to minimize the power shortfall and in case of cement, supplies were to be maintained as per respective GSA's in accordance with High Court Orders in the matter.

6.1.3. ***In view of the justifications advanced by the petitioner, the Authority accepts the sales volume at 473,873 BBTU for the said year.***

6.2. Sales Revenue at Existing Prescribed Prices

6.2.1. Sales revenue at existing prescribed prices has decreased to Rs. 206,231 million for the said year as compared to Rs. 216,919 million per RERR. Category-wise comparison with RERR and previous year is given below:

Table 8: Comparison of Category-wise Sales Revenue per the petition with RERR & Previous Year

Rs in million

Category	2012-13	2013-14	2013-14	Inc./ (Dec.) over RERR	
	FRR	RERR	The Petition		
Power	65,742	76,019	70,956	(5,062)	(7) %
Cement	153	43	162	119	280%
Fertilizer	2,070	10,849	3,496	(7,353)	-68%
General Industries	36,299	26,237	32,405	6,168	24%
CNG	39,134	38,249	38,440	191	0%
Commercial	14,590	16,025	16,907	882	6%
Domestic	43,218	49,498	43,864	(5,634)	-11%
Total	**201,206**	**216,919**	**206,231**	**(10,688)**	**(4.93) %**

6.2.2. *The petitioner has stated that due to lesser availability of gas, as explained in para 6.1.2 above, the sale revenue has decreased.*

6.2.3. *In view of above, the Authority accepts the sale revenue at existing prescribed prices at Rs. 206,231 million as claimed by petitioner for the said year.*

6.3. Other Operating Income

i. Summary

6.3.1. The petitioner has reported other operating income at Rs. 4,413 million for the said year as against Rs. 7,088 million per RERR. Item-wise comparison is as under:

Table 9: Comparison of Other Operating Income per the petition with RERR & Previous Year

Rs. in million

Description	FY 2012-13	FY 2013-14		Increase/ (Decrease) over RERR	
	FRR	RERR	The Petition		
Rental & Service Charges	1,398	1,629	1,663	34	2%
Surcharge and Interest on arrears	2,734	2,350	-	(2,350)	-100%
Amortization of deferred credit	3,215	2,414	2,572	158	7%
Other operating income	247	695	178	(517)	-74%
Net Operating Revenues	**7,594**	**7,088**	**4,413**	**(2,675)**	**-38%**

*ii. **Late Payment Surcharge (LPS)***

6.3.2. The petitioner has claimed LPS as non operating income; accordingly it has included no amount in this regard in the revenue requirement for the said year.

6.3.3. The petitioner made contention that LPS be treated as non-operating income since the financial expense owing to above is not part of tariff regime. Therefore, equitably, if expense from a source is non-operating, income from the same cannot be treated as operating income.

6.3.4. The petitioner, at the time of re-hearing, also argued that if LPS is not treated as non operating income, then the cost incurred owing to delay in payments to gas producers be included as operating cost since the same arises due to late receipts/defaulting consumers.

6.3.5. The petitioner has also contended that LPS in respect of Gencos and IPPs has accrued on account of circular debt, created as a result of non payment by Government owned PEPCO/IPPs. The company is neither receiving LPS from Gencos and IPPs, nor paying LPS to gas creditor. Therefore it is expected that balance receivable and payable by the company may be set off at the time of resolution of circular debt issue. Similarly, the LPS from fertilizer, cement and other Govt. bulk consumers is directly associated with circular debt/ payment to gas producers and accordingly same is not part of revenue requirement.

6.3.6. The Authority observes that treatment of income under this head as operating income has been exhaustively discussed in the previous decisions and now have reached finality. Therefore, the practice in vogue shall remain enforce till new tariff regime is implemented. ***Accordingly, the Authority determines the income on account of LPS as operating income for the said year.*** Regarding Gencos/IPPs and other bulk consumers (fertilizers & cement), the Authority maintains its earlier decisions/practices considering the company stance that the income on this account is practically not collected and ultimately form part of circular debt settlement.

6.3.7. ***In view of above and the exhaustive discussion already made on the issue, the Authority determines the operating income under this head at Rs. 2,456 million for the said year.***

*iii. **Other Operating Income:***

6.3.8. The petitioner has claimed Rs. 178 million on account of other operating income as against Rs. 247 million per FRR FY 2012-13.

6.3.9. The Authority observes that petitioner has not realized income on account of gain of construction contracts (Rs. 70 million) as operating income despite OGRA's consistent decisions in this regard whereby 50% of such income, owing to utilization of regulated resources, is included in the revenue requirement. Further, liquidated damages recovered (Rs. 67 million) is fully operating income as per practice in vogue, the petitioner however has included fifty percent of the same. Moreover, the petitioner has treated urgent connection fee (Rs. 374 million) as non operating income, which is inconsistent with the existing tariff mechanism and Authority decisions in this regard.

6.3.10. ***The Authority, in view of above discussion, determines the other operating income at Rs. 621 million for the said year as against Rs.178 million claimed by the petitioner.***

7. Operating Expenses

7.1. Cost of Gas

7.1.1. The cost of gas per petition is Rs. 202,574 million (net of GIC), compared with Rs. 222,478 million determined in RERR, lower by Rs. 19,904 million (9.8%).

7.1.2. The Authority had determined input cost of gas on the basis of combined weighted average cost of gas purchased by the petitioner and SSGCL at Rs. 362.09 per MMBTU in RERR in accordance with the agreement for equalization of cost of gas dated 22nd September, 2003, between these two companies. On the basis of their actual audited results, weighted average of input cost of gas for the said year works out at Rs. 368.24 per MMBTU as under:

Table 10: Weighted Average Cost of Input Gas

Company	MMCF	BBTU	Rs. Million	Rs./MMBTU
SNGPL	587,116	553,533	166,163	300.19
SSGCL	423,665	410,248	188,736	460.05
Total:-	**1,010,781**	**963,780**	**354,898**	**368.24**

7.1.3. WACOG has now been computed based on payments actually made by the petitioner and SSGCL for purchase of gas in accordance with wellhead gas prices as notified by the Authority.

7.1.4. ***In view of the above, the Authority determines cost of gas sold for the said year at Rs. 202,574 million.***

7.2. Unaccounted for Gas

7.2.1. The petitioner has reported UFG at 8.43% (49,085 MMSCF) for the said year, as follows:

Table 11: Comparison of UFG per the petition with RERR & Previous Year

MMCF

Particulars	FRR 2012-13	FRR The Petition FY 2013-14
Total Gas Purchases	645,747	587,798
Gas Internally Consumed	7,672	5,843
Gas Available for Sale	638,075	581,955
Gas Sales	578,545	532,870
UFG	**59,530**	**49,085**
	9.33%	**8.43%**

7.2.2. The petitioner has included unmeasured gas volume (8,238 MMCF) on account of minimum billing, pilferage by non-consumers (7,406 MMCF) and un-billed volume (10,803 MMCF) due to law and order situation in Gurguri area (Khyber Pakhtun Khaw province) as part of deemed sale for the said year.

7.2.3. The petitioner claimed 10,803 MMCF in respect of law & order in the province of Khyber Pakhtun Khaw against 8,124 MMCF claimed by it in the previous year, which is almost 33 % increase rather than decrease. These are SMS volumes, net of billing recovered.

7.2.4. In response to MPNR's letter dated May 23, 2014, the Authority, vide its letter dated 13th June, 2014, gave its detailed point of view with the background/ complete facts of the case stating therein that the Authority is of the considered opinion that FG should provide subsidy as per section-22 of the OGRA Ordinance and if otherwise volumes allowed under this head should be suitably capped and FG may also identify the Law and Order effected areas for this purpose. It was also urged from the FG as well as Provincial Governments to initiate suitable action to control these huge losses through law enforcement agencies as maintaining law and order falls in their domain.

7.2.5. The ECC of the Cabinet, vide its decision dated 20th November, 2014, decided to provisionally allow volume consumed in law and order affected areas. The Authority also sought external legal advice in the case of Law and Order affected areas, Non-Consumers and Bulk to Retail Ratio especially keeping in view Para-IV of the policy guidelines issued by the FG.

7.2.6. Keeping in view the policy guidelines of the FG and the current Law & Order situation in the country, the Authority provisionally allows 75 % (8,102 MMCF) of the claimed volume subject to the conditions that: -

i. Since Law and Order is a Federal and Provincial Government subject, the FG shall specify the Law and Order affected areas. As regards, 25 % (2,701 MMCF) of the claimed volume, the FG is requested to arrange funding from its own resources or from the Royalty of the concerned province and all such amounts in future to meet the shortfall under this head.

ii. The petitioner is directed to establish its legal and proper pipeline network in the area and replace illegal network in Law and Order affected areas to avoid loss of precious gas as it is a national loss. The petitioner is also directed to pursue the case with the FG regarding funding of the project may be through GIDC to curb this menace.

iii. The volumes provisionally allowed as per above said policy decision by the ECC of the Cabinet shall be reconciled with the results of the UFG study being undertaken and any variation (s) shall be adjusted accordingly.

7.2.7. The Authority is of the considered view that it is the obligation of the petitioner to take all possible steps to cope up with the problems affecting its business including initiation of legal proceedings under Pakistan Penal Code and recovery proceedings before the court of competent jurisdiction to recover the value of pilferage or stolen gas/ losses. The petitioner must make concrete efforts to resolve the issue. Further the FG may also direct the petitioner to come up with practical solution of the problem to get rid of this menace as referred to above. The solution must be viable through cost and benefit analysis, showing gradual decrease in lost volume.

7.2.8. The petitioner has claimed a volume of 8,238 MMCF in respect of minimum consumption of domestic consumers. The Authority disallows the petitioner's claim on account of un-metered gas as part of minimum billing on the rationale that the same is unmeasured and also arises due to petitioner's own equipment fault, which is not justified to allow.

7.2.9. The Authority observes that volume pilfered by non-consumers (7,406 MMCF) have reduced as compared to previous year but more effort is required. The petitioner also has to take the responsibility in complying with the Policy Guidelines conveyed to it vide MP&NR's letter No. DGO (AC)-5 (26)/2012-13 Vol II Pt dated June 20, 2013, Para-

21 (e) of its summary states that "Both the companies must cooperate with OGRA and protect the pipelines on war footing to reduce UFG instead of litigating in courts."

7.2.10. The Authority also observes that MP&NR vide its letter dated July 17, 2013, gave guidelines to both the companies for dealing with theft of gas including that with regards to satisfaction of civil liabilities (recovery of value of gas stolen), the company will file recovery suit in civil court as per existing law/ procedure under Code of Civil Procedures 1908 (CPC). In this regard, the Authority requested MP&NR, on 12-08-2013, being policy maker and major shareholder in the gas companies to give directions to the SNGPL, being owner and custodian of gas pipelines, to follow the directions /decisions of the said forums in letter and spirit and immediately deal the non consumers cases at their end and file recovery suit in civil courts as per existing law/ procedure under code of Civil Procedures 1908 (CPC). It is pertinent to mention here that the petitioner did not comply with the directions of the Ministry of Petroleum and Natural Resources though the petitioner is working under the administrative control of FG.

7.2.11. The Authority vide a number of letters directed the company for provision of details of FIR's, Criminal Suits, Civil Suits vis a vis volume recovered etc. In response, the petitioner, vide its letter dated 4th September, 2013, did not provide the requisite information and stated that relevant FIR's, applications of FIR's, calculation sheet and other evidences of the cases have already been forwarded to OGRA and that it is the responsibility of the Authority to initiate proceedings against non-consumers. Thus it is also not complying with the directions of the Authority as well.

7.2.12. It is mentioned that during a high level meeting held on March 4, 2015 at MP&NR under the chairmanship of Honorable Minister for Petroleum & Natural Resources and attended by the Secretary, MPNR and the Authority, the chair agreed and directed that recovery of the non-consumer cases is the responsibility of the gas companies and this responsibility cannot be put on the shoulders of OGRA as the network is owned and operated by the companies. The chair also agreed that amendment proposed in Rule-30 of the NGLR shall be done at the earliest and companies shall not send any non-consumer case (s) to OGRA rather the companies shall pursue these cases in the relevant courts for recovery of the pilfered volume/ amount at their own. **However, the petitioner is still sending such cases to the Authority in violation of the**

directions of the honorable Minister, MPNR, OGRA and as agreed by the officers of the petitioner in the said meeting.

7.2.13. The Authority is of the view that in the OGRA Ordinance, 2002 there is no provision which fixes the responsibility of recovery of stolen gas upon OGRA. It is a regulatory body entrusted with the fostering of competition, increase private investment and ownership in the mid-stream and down-stream petroleum industry, protect the public interest and provide effective and efficient regulations. Whereas, Rule 30 of Licensing Rules sets out a function to be performed by OGRA, which is neither envisaged in the preamble of the OGRA Ordinance, 2002 nor finds its place in the powers and functions of OGRA as entrusted under section 6 of the OGRA Ordinance, 2002. Therefore, recovery of stolen gas does not resonate with functions of OGRA and OGRA cannot act as a Regulator and executing agency simultaneously. Further the celebrated principle of law is that the delegated legislation cannot be ultra vires of the parent statue and if such is the case, the Rule must be deleted void. Para- 21 (e) of the Policy Guidelines conveyed vide MP&NR's letter No. DGO (AC)-5 (26)/ 2012-13 Vol II Pt dated June 20, 2013, states that "Government, Companies as well as OGRA must propose relevant amendments in law, if they feel handicapped in the discharge of their functions, within the ambit and purview of law and constitution." Therefore, an amendment in Rule-30 was sent to the FG which is still pending with it. Moreover, in international jurisdictions, the responsibility of curbing gas theft and making arrangements for its recovery is also placed on the gas suppliers. In addition to the above, in terms of licence Condition No. 20, company/ licensee is responsible to control the gas theft.

7.2.14. The ECC of the Cabinet, vide its decision dated 20th November, 2014, decided to provisionally allow volume pilfered by Non Consumers.

7.2.15. The Authority is of the view that there are sufficient legal provisions available for the petitioner in Criminal Amendment Act, 2011 and Guidelines for dealing with Theft cases by MPNR in 2013 vide letter No. NG(1)-14(52)/2011-Vol-I-GA dated July 17, 2013. It should increase its efforts and extensively work on vigilance of the pipeline network to curb this menace. Keeping in view the policy guidelines of the FG and in view of the preceding paragraphs, the Authority provisionally allows 80 % (5,925 MMCF) of the claimed volume subject to the conditions that: -

(a) The volume allowed is capped at the maximum limit of 7,406 MMCF for FY 2013-14 and onwards.

(b) The petitioner is directed to pursue the non-consumer cases in the following manner in accordance with Criminal Amendment Act, 2011, Guidelines for dealing with Theft cases by MPNR in 2013 vide letter No. NG(1)-14(52)/2011-Vol-I-GA dated July 17, 2013 and Civil Procedures 1908 (CPC) for recovery of pilfered volume as per the following procedure:-

(i.) Registration of FIR's against the pilferers by the petitioner.

(ii.) Filing of Criminal and recovery suits by the gas companies under courts of competent jurisdiction.

(iii.) Authentication/ Decision in respect of pilfered/ theft volume of gas etc. by the relevant courts.

(c) The volume allowed by the Authority shall be subject to final adjustments and shall be reconciled on yearly basis and the volume not realized will be reversed for the purpose of UFG calculation. The volumes provisionally allowed as per above said policy decision by the ECC of the Cabinet shall be reconciled with the results of the UFG study and any variation (s) shall be adjusted accordingly.

(d) Further the petitioner is directed not to send any such case to the Authority and proceed vigorously against the pilferers as per applicable laws mentioned above for recovery of stolen/ pilfered volumes. The petitioner shall, from its Managing Director, submit an affidavit to Registrar, OGRA, to the effect that it shall comply with all the directions as referred to above and ensure that no such cases are sent to OGRA in future and the petitioner shall put in all efforts to control the menace of non-consumers through strict administrative control on its officers and staff and shall pursue them. The petitioner is also directed to maintain downward trend in this volume in future.

(e) The petitioner may file a review for balance volumes under this head, with the commitment to follow the directions of MPNR and the Authority.

(f) A Third Party Audit of the non consumer cases/ purging shall also be undertaken by the petitioner in consultation/ co-ordination with OGRA and the volumes allowed shall be adjusted accordingly.

7.2.16. The FG also issued policy guidelines dated November 20, 2014 in respect of Bulk to Retail ratio. It is pertinent to mention here that Bulk to Retail Ratio shifted primarily due to Development Schemes on the directives of the FG to the Gas Companies which further aggravated due to shortfall of gas supply. The Authority has, therefore, not previously allowed any volume in this regard and previous decisions are self explanatory in this regard. Keeping in view the legal provisions as in Para-1 (IV) of the policy guidelines of the FG and the matter in totality, the Authority disallows the volume under this head and the same would be considered once the UFG study is completed.

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

Table 12: Calculation of UFG Disallowance

MMCF

Particulars		Per the Petition	Calculated by OGRA
Gas Purchases			
Metered gas purchased	A	587,653	587,653
Line Pack	B	635	635
Gas carried for PPL, POL and SSGCL	C	-490	-490
Gas Available for Sale	D=A+B+C	587,798	587,798
Gas Internally Consumed (Metered)	E=a+b	5,843	5,837
Transmission	a	5,142	5,136
(i) Compression		4,683	4,683
(ii) Residential Colonies		111	111
(iii) Coating Plant		61	61
(iv) Rupturs/Sabotage		281	281
(v) Other Usage		6	0
Distribution	b	701	701
(i) Free Gas Facility		579	579
(ii) Co- Generation		95	95
(iii) Sabotage		4	4
(iv) Purging		23	23
Net Gas Available for Sale	E=D-E	581,955	581,961
Gas Sold (Billed)		512,907	512,907
Unrecoverd Pilferage Volume Reversed		-6,483	-6,483
Un- billed volume due to law & order in KPK (Gurguri/Kohat)		10,803	8,102
Un-measured volume in respect of min. cases/domestic		8,238	-
Pilfered Volume detected against non-consumers		7,406	5,925
Total Sales	G	532,871	520,451
UGF Volume	H=F-G	49,084	61,510
UFG %		8.43%	10.57%
Working of Disallowance			
UFG target	I	4.5%	4.50%
UFG Volume Allowed	J=E*I	26,188	26,188
Disallowance (G-H) MMCF	K= H-J	22,896	35,322
Wtd. Average cost of gas (Rs./MCF)	L	347.14	347.14
UFG Disallowance (Million Rs.)	M=K*L/1000	7,948	12,262

7.2.18. The Authority notes that during the public hearing the petitioner has raised the issue of UFG disallowance on the basis of WACOG. The Authority is of the considered view that arresting ever increasing UFG is the sole responsibility of the petitioner. The Authority has always been allowing sufficient funds to control this menace. The natural gas saved by controlling UFG could have been supplied to consumers including General Industry, Cement, CNG, etc. thereby generating additional sales revenue and reduction in prices. Therefore, the petitioner's UFG is not only loss of national scarce resource but also loss of revenue impacting the overall pricing. In case, this analogy is applied and disallowance of UFG is computed with reference to loss of revenue, it would have much more impact. The Authority however, strictly complying with its statutory role of safeguarding the interest of consumers as well as the petitioner, has decided to compute the UFG disallowance at the base level i.e. WACOG.

7.2.19. ***In view of above, UFG disallowance is determined at Rs. 12,262 million for the said year.***

7.3. Transmission and Distribution Cost

i. Summary

7.3.1. The transmission and distribution cost is higher by 22% i.e. from Rs. 15,928 million per RERR to Rs. 19,463 million per the petition, as compared below:

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

Rs. in million

Particulars	FY 2012-13	FY 2013-14	FY 2013-14	Increase / (Decrease) Over RERR	
	FRR	RERR	The Petition	Rs.	%
Human Resource Cost	8,323	9,829	10,511	682	7
Gas Internally Consumed	2,305	2,448	1,948	(500)	(20)
Stores and Spares Consumed	546	653	466	(187)	(29)
Repair and Maintenance	686	1,140	811	(328)	(29)
Fuel and Power	188	270	244	(26)	(10)
Stationery, Telegram and Postage	148	167	153	(14)	(8)
Dispatch of gas bills	89	92	90	(2)	(2)
Rent, Rate, Electricity and Telephone	279	344	351	7	2
Traveling	153	293	152	(141)	(48)
Transport expenses	825	667	805	138	21
Insurance	172	204	189	(15)	(7)
Legal and Professional Services	84	64	117	53	82
Consultation for ISO 14001 & OHSAS 18000	2	4	4	(0)	(7)
Gas bills collection charges	325	348	342	(5)	(2)
Gathering charges of gas bills collection data	27	45	26	(19)	(42)
OGRA fee	141	110	12	(98)	(89)
Advertisement	60	65	119	54	83
Bank Charges	13	26	13	(13)	(51)
Uniforms & protective clothing's	12	32	3	(29)	(91)
Staff training and recruiting	26	32	12	(21)	(64)
Security expenses	340	378	405	27	7
SNG training insititute	10	16	12	(4)	(25)
Provision for doubtful debts	1,318	180	3,896	3,716	2,065
Sponsorship of chairs at University	7	7	10	3	50
5 Year special training programme	5	30	25	(5)	(15)
Budget for UFG control related activities	355	610	459	(151)	(25)
Out Sourcing of call centre complaints mana	11	25	22	(3)	(13)
Provision for Stores spares written off	4	-	65	65	
Cost of Gas Blown off	143	-	100	100	
Contribution to Inter State Gas System Limi	58	219	66	(153)	(70)
Other expenses	136	165	228	63	38
Up gradation of CSC	-	33	8	(26)	(77)
Subtotal Expenses	**16,789**	**18,495**	**21,663**	**3,168**	**17**
Allocated to fixed capital expenditures	(1,683)	(2,567)	(2,200)	(367)	14
Net T&D Expenses	**15,106**	**15,928**	**19,463**	**3,534**	**22**

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

ii. Human Resource Cost

7.3.3. The petitioner has claimed an increase of 7% on account of HR cost for the said year, from Rs. 9,829 million provided in RERR to Rs. 10,511 million per the petition.

7.3.4. The Authority observes that it had made extensive deliberation on this issue and has reviewed the HR cost benchmark at the time of DERR FY 2014-15. Said benchmark is effective from FY 2011-12 to FY 2014-15. ***Accordingly, the HR benchmark cost for said year computes to Rs. 10,487 million as per Annex-B.***

iii. Legal and Professional Charges

7.3.5. The petitioner has projected expenditure of Rs. 117 million on account of legal and professional charges for the said year as against Rs. 64 million provided in RERR for FY 2011-12, showing an increase of 83%. Historical comparison is given below:

Table 14: Detailed Comparison of Projected Legal & Professional Charges with Previous Year

Rs. in million

Particulars	FY 2012-13	FY 2013-14		Inc/(dec) Over RERR	
	FRR	RERR	The Petition	Rs.	%
Legal	48	23	73	51	225%
Professional	17	11	22	11	95%
Tax	6	7	9	2	37%
Audit	6	8	6	(2)	-30%
Software development charges	-	-	-	-	0%
Apprenticeship/Scholarship/Training	6	13	6	(7)	-54%
Others	2	3	1	(1)	-57%
	84	64	117	53	83%

7.3.6. The petitioner has explained that 225% increase under the sub-head "legal" is due to increase in number of consumers cases, deteriorating law and order situation, rapid growth in demand of gas, gap between demand and supply of gas, change/revision in gas tariff, promulgation of gas (Theft control & recovery) Ordinance 2014, lodging of F.I.Rs against culprits/gas thieves, contesting of Pre/Post arrest bail petitions, revision in Gas Infrastructure Development Cess, load curtailment policy and arbitration matters, etc. Further, IPPs have started invoking arbitration clauses of the Gas Supply Agreements executed with them.

7.3.7. The Authority observes that petitioner has been allowed significant amount in previous years on the same grounds particularly for legal suits against the permanent defaulters to recover bad debts. The recoveries from the defaulters and non-consumers however have not exhibited satisfactory results.

7.3.8. The Authority also observes that petitioner was asked to provide the detailed information and substantiate the expenditure claimed under this head on various account, it however has not provided the same.

7.3.9. *The Authority, in view of no detailed justification and information, determines the expenditure under the sub head "legal" at Rs. 58 million i.e; at the level of FRR FY 2012-13 plus 20% to cater inflationary impact and increase in litigation cases. Accordingly, the total expenses under this head comes Rs. 102 million for the said year.*

iv. Provision for Doubtful Debts

7.3.10. The petitioner has claimed provision for doubtful debts for the said year at Rs. 3,896 million. Category wise break up is shown as under;

Table 15: Break-up of Provision for Doubtful Debts for the said year

Million Rs.

Customer Category	Addition during the Year
Industry	2,477
Commercial	375
Domestic	934
Bulk domestic	111
Total	3,896

7.3.11. The petitioner has also referred the ECC decision in this regard which allows minimum 1% of gas charges as provisioning for the said year.

7.3.12. The petitioner has elaborated that expenditure under this head has been worked out on the basis of a mechanism which accounts for outstanding amount and security deposit thereof in respect of only disconnected consumers. Since the price of gas has increased, it has resulted to increase in default thereby increasing the provision for doubtful debt for the said year. The petitioner further pleaded that major chunk of industrial and commercial consumers file suits against the company in the Courts and obtain stay orders whereby company could not disconnect the consumers in timely manner. Resultantly, the amount of debt exceeds the security deposit and contributes towards unsecured debt.

7.3.13. The Authority observes the issue of provision for doubtful with grave concern and has accordingly made exhaustive deliberation in FRR FY 2012-13. In view of the same, the Authority decides to allow the provision under this head as per benchmark introduced in DERR FY 2014-15 whereby the provision in respect of domestic and bulk domestic computes to Rs. 868 million and Rs. 82 million respectively. In respect of Industrial and commercial consumers, 25% of the petitioner's claim however is allowed on the basis of plea that litigation by consumers is beyond its control. The Authority further directs that expenses on this score should be curtailed at the minimum level.

7.3.14. *In view of above, the Authority determines the provision for doubtful debts at Rs. 1,663 million for the said year.*

v. ***Advertisement***

7.3.15. The petitioner has claimed Rs. 119 million on account of advertisement for the said year, as under;

Table 16: Detailed Break up of advertisement

Particulars	Million Rs.
Advertisement Expenses (Publicity)	23
Advertisement Expenses (Teders notices/sale of scrap)	21
Advertisement Expenses (Notices of meetings/dividend etc)	1
Customer Compaign Adverstisement	73
Total	**119**

7.3.16. The petitioner has submitted that in view of increasing gap between demand and supply of natural gas and to control the law and order situation, both in summer as well as in winter, and for anti gas theft campaign, frequent advertisement of conspicuous sizes are released in order to create awareness and control wasteful use of gas by consumers. The same is carried out on the repeated directions by its Board of Directors as well.

7.3.17. The petitioner has submitted that in current year, its Media Affairs Department has incurred Rs. 97 million on advertisement & customer education campaign through Print and Electronic Media, which is rather on the lower side since campaign was started at a belated stage. It is inevitable that the media budget is going up owing to unprecedented challenges being faced by the company. Furthermore the beefing-up of media department has started last year on corporate grounds, similar to its sister utility, which was not the case previously and hence the earlier budget was unrealistically low and cannot be compared to the current on ground situation.

7.3.18. The petitioner further explained that All Pakistan Newspapers Society (APNS) does not allow it to be treated as a Government entity in order to qualify for government advertisement rates to be released through Press Information Department (PID), since GOP holds only 36% shares of the Company. However, in case of SSGCL, majority shares are held by the Government, its advertisement are therefore released through PID at Government rates, resultantly SSGCL's the expenditure under this head is lower when compared with the petitioner.

7.3.19. The Authority observes that earlier the expenditure under this head was witnessed around Rs. 65 million. However, in view of above latest developments and aggressive awareness campaign, the actual expenditure have increased. It is therefore realized that media affairs department has increased its budget in order to educate the consumers for conservation of scarce energy resources. ***Accordingly, in view of new developments, advertisement expenses the expenditure claimed by the petitioner are allowed.***

vi. Remaining Items of Transmission & Distribution Cost

7.3.20. The items of transmission and distribution cost, except those dealt with in para's 7.3.1 to 7.3.19 above, are claimed by the petitioner at Rs. 5,072 million.

7.3.21. The petitioner has reported that decrease in majority of expenditure head is due to strict budgetary controls. Decrease under maintenance expenditure is however due to the lesser activities viz a viz targeted at the time of budget.

7.3.22. In few expense heads, nominal increase has been observed and the same has been adequately justified by the petitioner.

7.3.23. The petitioner has attributed significant increase in; "Transport Expenses" towards hike in petrol prices and other expenses (annual sports) towards creation of new teams i.e. Kabaddi, squash and tennis, for the said year.

7.3.24. ***Accordingly, expenditure under the remaining items of T&D cost seems to be reasonable, and the Authority allows the same at Rs. 5,072 million.***

7.3.25. ***Based on the above, the Authority determines total transmission and distribution cost for the said year at Rs. 17,191 million, as against Rs. 19,463 million claimed by the petitioner, as under;***

Table 17: Transmission & Distribution Cost Determined by the Authority

Rs. in million

Particulars	FY 2013-14		
	The Petition	Adjustment	Determination
Human Resource Cost	10,511	(24)	10,487
Stores and Spares Consumed	466		466
Repair and Maintenance	812	-	812
Fuel and Power	244	-	244
Stationery, Telegram and Postage	153	-	153
Dispatch of gas bills	90	-	90
Rent, Rate, Electricity and Telephone	351		351
Traveling	152	-	152
Transport expenses	805	-	805
Insurance	189	-	189
Legal and Professional Services	117	(15)	102
Consultation for ISO 14001 & OHSAS 18000	4	-	4
Gas bills collection charges	342	-	342
Gathering charges of gas bills collection data	26	-	26
OGRA fee	12	-	12
Advertisement	119	-	119
Bank Charges	13	-	13
Uniforms & protective clothing's	3	-	3
Staff training and recruiting	12	-	12
Security expenses	405	-	405
SNG training insititute	12	-	12
Provision for doubtful debts	3,896	(2,233)	1,663
Sponsorship of chairs at University	10	-	10
5 Year special training programme	25	-	25
Budget for UFG control related activities	459.27	-	459
Out Sourcing of call centre complaints management	22	-	22
Provision for Stores spares written off	65	-	65
Cost of Gas Blown off	100	-	100
Contribution to Inter State Gas System Limited	66	-	66
Other expenses	228	-	228
Subtotal Expenses	**19,716**	**(2,272)**	**17,444**
Allocated to fixed capital expenditures	(2,200)		(2,200)
Net T&D Expenses	**17,515**	**(2,272)**	**15,243**
Gas Internally Consumed	**1,948**		**1,948**
Net T&D Expenses Includign GIC	**19,463**	-	**17,191**

7.4. Other Operating Expenses

7.4.1. The petitioner has claimed Rs. 95 million under this head comprising Rs. 51 million on account of "Exchange Loss" and Rs. 43 million on account of "Loss on the Initial Recognition of Financial Assets" at fair value, during the said year.

7.4.2. The Authority observes that above exchange loss has been claimed at actual and also same is admissible under the existing tariff mechanism. Loss on the Initial Recognition of Financial Assets however is part of financial expense which is not part of revenue requirement. ***In view of above, the Authority allows Rs. 51 million under this head for the said year as claimed by the petitioner.***

7.5. Impact of IAS 19 (Recognition of actual losses)

7.5.1. The petitioner has claimed Rs. 1,800 million on account of IAS 19 (Recognition of actual loses) pertaining to the period before FY 2013 and Rs. 1,445 on the same account for the said year.

7.5.2. The petitioner has submitted that IAS 19 (amendment) 'Employee benefits' was introduced in June 2011 and is applicable for accounting periods beginning on or after July 1, 2013 with retrospective impact. The liability before this timeframe has been computed which works out to Rs. 3,600 million. The petitioner has claimed 50% of this amount in FY 2012-13 and the remaining during the said year in addition to Rs. 1,445 million current charge under this head for the said year.

7.5.3. The petitioner has explained that it has changed its accounting policy in respect of post retirement defined plans. The new policy is in accordance with the requirements of revised IAS 19 'Employees Benefits'. According to new policy, on measurements, actual gains and losses resulting from the increase or decrease in present value of defined benefits obligations, because of changes in actuarial assumptions and experience adjustments etc, are recognized in the balance sheet immediately, with a charge on total comprehensive income in the period in which it occur.

7.5.4. The petitioner has further elaborated that change in accounting policy has been accounted for respectively in accordance with the requirement of IAS 8, 'Accounting policies, Changes in accounting estimates and errors'. Accordingly, the comparative figures have been restated where necessary. The effect of this policy for the said year and earlier comes to aforementioned amount.

7.5.5. The petitioner has further elaborated that adoption of revised policy is aimed to; eliminate the corridor approach, recognize all actuarial gains and losses in Other Comprehensive Income (OCI) as they occur, immediately recognize all past service costs; replace interest cost and expected return on plan assets with a net interest amount. The expected impact pertaining to previous years is reduction of Rs. 3,600 million in retained earnings as at July 1, 2013, which have been claimed bifurcating equally in the revenue requirements for FY 2012-13 and FY 2013-14. .

7.5.6. The Authority observes that contribution to post retirement obligations is complimentary part of HR cost which has been allowed on actual basis. The petitioner is public listed company; it has to comply the SECP regulations which, as per company ordinance, refers IAS/IFRS in the presentation of financial statement.

The company is thus statutory obligated to realize post retirement obligation with the contribution in the fund as per actuarial valuation.

7.5.7. ***The Authority, in view of above justification advanced by the petitioner, allows Rs. 3,245 million under this head for the said year.***

8. Decision

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

(i) determine the late payment surcharge and interest on arrears at Rs. 2,456 million as operating income.

(ii) determine the other operating income at Rs. 621 million;

(iii) Gross addition in fixed assets at Rs. 13,316 million;

(iv) allow closing balance of fixed assets at Rs. 86,420 million;

(v) accept the cost of gas at Rs. 202,574 million;

(vi) allow UFG at 4.5% based on which disallowance on this account works out to Rs. 12,262 million;

(vii) allow T&D cost at Rs. 15,243 million as against Rs. 17,515 million claimed by the petitioner;

(viii) accept GIC at Rs.1,948 million.

8.1.2. ***In exercise of its powers under Section 8(2) of the Ordinance, the Authority determines the FRR for the said year at Rs. 231,317 million as against petitioner's claim of Rs. 258,769 million, as tabulated below:***

Table 18: Components of FRR for FY 2013-14 as Determined by the Authority

Rs. in Million

Description	Demanded by the Petitioner	Determined by the Authority
Cost of Gas	202,574	202,574
Transmission & Distribution Cost	17,515	15,243
GIC	1,948	1,948
UFG Disallowance	-	(12,262)
Depreciation	8,917	8,917
Exchange gain/loss	95	51
Exchange gain/loss	3,245	3,245
WPPF	616	-
Return on Assets	11,602	11,602
Surplus/(shortfall) requiring adjustment	12,259	-
Total	258,769	231,317

8.1.3. *The petitioner's actual net operating income is Rs. 213,542 million and thus there is a shortfall of Rs. 17,775 million, viz a viz its revenue requirement of Rs. 231,317 million for the said year (Rs. 37.51 per MMBTU (Annex. A).*

8.1.4. *The Authority decides to carry forward the entire shortfall in FRR FY 2014-15 as no cushion is available during the said year. Accordingly, there is no change in the category-wise prescribed prices determined by the Authority vide its decision dated June 27, 2014 for the said year.*

Noorul Haque
Member (Finance)

Aamir Naseem
Member (Gas)

Saeed Ahmad Khan
(Chairman)

Islamabad, November 6, 2015

REGISTRAR
Oil & Gas Regulatory Authority
Islamabad

A. Final Revenue Requirement for FY 2013-14

Million Rs.

	Particulars	The Petition FRR FY 2013-14	Adjustment	Determination
	Gas sales volume -MMCF	506,355	-	506,355
	BBTU	473,873	-	473,873
	Calorific Value	936	-	935.85
"A"	**Net Operating revenues**			
	Net sales at current prescribed price	206,230	-	206,230
	Rental & service charges	1,663	-	1,663
	Surcharge and interest on arrears	-	2,456	2,456
	Amortization of deferred credit	2,572	-	2,572
	Other operating income	178	443	621
	Total income "A"	**210,643**	**2,899**	**213,542**
"B"	**Less Expenses**			
	Cost of gas sold	202,574	-	202,574
	UFG (disallowance) / allowance	-	(12,262)	(12,262)
	Transmission and distribution cost	17,515	(2,272)	15,243
	Gas Internally Consumed	1,948	-	1,948
	Depreciation	8,917	-	8,917
	Exchange gain/loss	95	(44)	51
	Impact of IAS 19	3,245		3,245
	WPPF	616	(616)	-
	Total expenses "B"	**234,908**	**(15,193)**	**219,715**
"C"	**Operating profit / (loss)(A - B)**	**(24,265)**	**18,092**	**(6,173)**
	Return required on net assets:			
	Net assets at begining	82,122	-	82,122
	Net assets at ending	86,420		86,420
		168,542	-	168,542
	Average fixed net assets (I)	**84,271**	-	**84,271**
	Deferred credit at begining	18,212	-	18,212
	Deferred credit at ending	17,737	-	17,737
		35,949	-	35,949
	Average net deferred credit (II)	17,975	-	17,975
"D"	**Average operating assets (I-II)**	66,297	-	66,297
	Return required on net assets	17.5%		17.5%
"E"	Amount of return required	11,602	-	11,602
"F"	**Excess /(shortfall) over return required**	(35,867)		(17,775)
"G"	**shortfall requiring adjustment in FY 2012-13**	(12,259)	12,259	-
"H"	**Net Excess /(shortfall) over return required**	(48,126)	30,351	(17,775)
"I"	**Average Increase/(Decrease) in Prescribed Price (Rs/MMBTU)**	101.56	(64.05)	37.51
"J"	**Revenue requirement**	258,769	(27,452)	231,317
"K"	**Average Prescribed Price (Rs/MMBTU**	536.76	(64.05)	472.71

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B. Computation of HR Cost Benchmark FY 2013-14

Million Rs.

Particulars	2010-11 (Base year)	2011-12	2012-13	2013-14
HR benchmark Cost Parameters				
Base Cost	7,370	7,370	8,251	8,949
CPI factor	13.92%	11.01%	7.36%	8.64%
T & D network (Km)	89,441	96,655	100,988	104,320
Number of Consumers (No.)	3,964,530	4,219,279	4,505,493	4,799,015
Sales Volume (MMCF)	581,935	597,056	552,272	506,355
Unit Rate (Rs./unit)				
T&D network (Rs./Km)	82,399	82,399	85,367	88,616
No. of Consumers (Rs./Consumer)	1,859	1,859	1,956	1,986
Sale Volume (Rs./MMCF)	12,664	12,664	13,820	16,204
HR Cost Build-up (Million Rs)				
Cost CPI -50%	-	406	304	387
T & D network (Km) 25%	1,842	1,991	2,155	2,311
Number of Consumers (No.) 65%	4,790	5,098	5,727	6,196
Sales Volume (MMCF)-10%	737	756	763	821
HR Benchmark Cost	**7,370**	**8,251**	**8,949**	**9,714**
Actual Cost				9,730
50% Excess Sharing				(8)
IAS Cost				781
Total HR Benchmark Cost				10,487

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