(آئل اینڈ گیس ریگولیٹری اتھارٹی) OIL & GAS REGULATORY AUTHORITY
"SAY NO TO CORRUPTION"

Case No. OGRA-6(2)-1(2)/2016-DERR

IN THE MATTER OF

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

UNDER

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

DECISION

October 6, 2016

Before:

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

1.2. The petitioner filed a petition on February 04, 2016, under Section 8(1) of the Oil & Gas Regulatory Authority Ordinance, 2002 (the Ordinance) and Rule 4(2) of the Natural Gas Tariff Rules, 2002 (NGT Rules), for Determination of its Estimated Revenue Requirement (DERR) for FY 2016-17 (the said year) at Rs. 211,075 million (the amounts have been rounded off to the nearest million here and elsewhere in this document), estimated operating income at Rs. 219,916 million, and revenue surplus at Rs. 8,841 million, translating into a decrease of Rs. 21.11 per MMBTU in the current average prescribed prices w.e.f. July 1, 2016.

1.3. The petitioner submitted an amended petition on April 27, 2016 due to drastic reduction in the prices of Crude/ HSFO and accordingly reworked the projected decrease in prescribed prices at Rs. 36.24 per MMBtu w.e.f July 1, 2016. The petitioner on June 29, 2016 further amended the petition owing to inclusion of LPG Air Mix projects as well as cost of new regions and accordingly reduced the decrease in prescribed prices @ Rs. 30.86 per MMBtu for the said year.

1.4. The petitioner further submitted a revised petition on July 21, 2016 (the petition) after incorporating the addition of system augmentation assets for addressing the low pressure problem of SWAT and adjoining areas, establishment of Customer Service Centre (CSC) at Khushab and revision in operating cost. In the petition, Revenue Requirement for the said year has been estimated at Rs. 207,091 million, estimated operating income at Rs. 219,965 million and revenue surplus at Rs. 12,825 million, translating into decrease of Rs. 30.62 per MMBTU in the current average prescribed prices w.e.f. July 1, 2016. The petitioner at the time of public hearing also submitted that shortfall amounting to Rs. 44,743 million determined in FY 2015-16 should also be form part of instant petition. Accordingly, it shall result in increase in average prescribed price by Rs. 106.83 per MMBtu.

1.5. In the petition for said year, LPG Air Mix cost has not been included. The petitioner has submitted its cost details separately. Net shortfall on this account has been claimed at Rs. 166 million for the said year. Accordingly, the Authority has discussed and decided it separately.

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

Table 1: Comparison of Projected Cost of Service with Previous Years

				Rs/MMBtu
Particulars	FY 2014-15	FY 2015-16	FY 2015-16	FY 2016-2017
	FRR	**DERR**	**Actual**	**The Petition**
Sales volume (BBTU)	421,343	434,030	408,106	418,840
Cost of gas	427.17	337.88	384.81	306.12
UFG disallowance	(27.62)	(19.30)	-	-
Transmission & distribution	41.00	42.18	53.53	74.59
New Regions Cost	-	-	-	4.60
Depreciation	22.95	36.26	25.61	47.21
Other charges including WPPF	12.71	1.60	2.47	2.72
Impact of IAS 19 (Recognization of Actuarial Losses) for FY 2015-16	-	-	9.26	-
Interest expense on LPS 2014-15 & 2015-16	-	-	40.13	-
Prior year's Adjustment	42.19	103.09	109.64	-
CBA agreement claim (1980-90)	-	-	-	0.61
Total operating cost	91.23	163.82	240.63	129.73
Return on fixed assets	30.31	30.69	33.73	58.59
Other operating income	(20.51)	(21.44)	(13.18)	(14.10)
Average Cost of service/ Prescribed price	528.19	510.95	645.99	480.34

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

1.8. A notice inviting interventions / comments on the petition from the consumers, general public and other interested / affected persons, was published on March 25, 2016 in daily newspapers, namely: The Dawn (combined), The Jang (combined), The daily Mashriq (Peshawar) and The daily Jehan Pakistan(Lahore). The Authority received applications to intervene in the proceedings from the following persons / entities:

1. Mr. Raziuddin, Chief Executive Officer, Khyber Pakhtunkhwa Oil & Gas Company Ltd. (KPKOGCL), Govt. of Khyber Pakhtunkhwa.
2. Mr. Pervaiz Khan Khattak, Executive Member, Federation of Pakistan Chamber of Commerce & Industry.
3. Mr. Muhammad Aslam Chaudhry, on behalf of Lahore Chamber of Commerce & Industry and Pakistan Industrial & Traders Association Front.
4. Mr. Mehmood Elahi, Mehmood Elahi Engineers, Faisalabad.
5. All Pakistan Textiles Mills Association.
6. M/s Rashid Law Associates, Lahore, on behalf of All Pakistan Steel Meltors Association and Steel Re-Rollers Association.
7. M/s Aruj Industrial limited, Lahore.
8. Mr. Ghulam Qadir Awan, Lahore.
9. Syed Akhlaq Ahmad, Islamabad.

1.9. The Authority accepted the above mentioned applications for intervention.

1.10. A notice intimating the date, time and place of the public hearing, was published in daily newspapers, namely: The Dawn (combined), The Jang (combined), Daily Mashriq (Peshawar) and Daily Dunya (Lahore) on August 4, 2016.

2. Salient Features of the Petition

2.1. Following submissions have been made in the petition:

2.1.1. The petitioner has claimed annual return at the rate of 17.5% of the net fixed assets in operation, before corporate income tax, interest, mark-up and other charges on debt, in accordance with license condition No. 5.2.

2.1.2. The petitioner has projected a gross addition of Rs. 88,178 million in the fixed assets and ex-depreciation addition of Rs. 68,404 million, resulting in projected increase in the net operating fixed assets from Rs. 123,289 million per FY 2015-

16 to Rs. 191,693 million during the said year. The petitioner has further claimed that after adjustment of deferred credits, the net average operating fixed assets eligible for return works out to Rs. 140,225 million, and the required return to Rs. 24,539 million.

2.1.3. The petitioner has projected the net operating revenues at Rs. 219,916 million, as detailed below and compared with previous years:

Table 2: Comparison of Projected Operating Revenues with Previous Years

Description	FY 2014-15	FY 2015-16		FY 2016-2017	*Rs. Million* Incr/Decr over Actual	
	FRR	DERR	Actual	The Petition		
Net sales at current prescribed price	177,808	174,972	204,398	214,011	9,613	5%
Rental and service charges	1,698	1,868	1,601	1,918	317	20%
Surcharge and interest on arrears	2,914	3,200	-	-	-	
Amortization of deffered credit	2,746	2,829	2,765	2,527	(238)	-9%
Other operating income	1,282	1,410	1,011	1,460	449	44%
Net operating Revenues	**186,448**	**184,279**	**209,775**	**219,916**	**10,141**	**5%**

2.1.4. The petitioner has projected the net operating expenses at Rs. 182,552 million, as detailed below (and compared with previous years):

Table 3: Comparison of Projected Operating Expenses with Previous Years

Description	FY 2014-15 FRR	FY 2015-16 DERR	FY 2015-16 Actual	FY 2016-17 The petition	*Rs in Million* inc/(dec) over actual	
Cost of gas	179,983	146,651	157,043	128,216	(28,827)	-18%
UFG disallowance	(11,639)	(8,376)	-	-	-	
Transmission & distribution cost	17,277	18,306	21,844	31,241	9,397	43%
New Regions Cost	-	-	-	1,928	1,928	
Depreciation	9,669	15,736	10,451	19,774	9,323	89%
Other charges including WPPF	5,356	693	1,008	1,138	130	13%
Impact of IAS 19 (Recognization of Actuarial Losses) for FY 2015-16			3,779	-	-	-
Interest expense on LPS 2014-15 & 2015-16			16,377	-	-	
CBA agreement claim (1980-90)	-	-	-	255	-	-
Total T&D Cost	20,663	26,359	53,459	54,336	20,778	39%
Total T& D Cost	**200,646**	**173,010**	**210,501**	**182,552**	**(8,049)**	**-4%**

2.1.5. The petitioner has projected Weighted Average Cost of Gas (WACOG) for the said year at Rs. 274.31 per MMBTU, as against Rs. 327.34per MMBtu actually witnessed for FY 2015-16. The petitioner has explained that cost of gas is linked with international prices of crude oil (Crude) and High Sulphur Fuel Oil (HSFO) per Gas Pricing Agreements (GPAs) executed between the producers and GoP.

2.1.6. The surplus in the projected revenue requirement after achieving 17.5% return on average net operating fixed assets is estimated at Rs. 12,825 million, requiring a decrease of Rs. 30.62 per MMBTU in the existing average prescribed price, as detailed below:

Table 4: Computation of Requested Decrease in Average Prescribed Price

	Description	*Rs in Million*
A	Net operating revenues	219,916
B	Less: Net operating expenses including WPPF	182,552
C	(Shortfall)/Excess (A-B)	37,364
D	Return required @ 17.5% on net fixed assets in operation	24,539
E	Total shortfall/ (excess) in revenue requirement (D-C)	(12,825)
F	Sales volume (BBTU)	418,840
Decrease in the average prescribed price (Rs/MMBTU) (E/F*1000)		**(30.62)**

2.1.7. However, as stated per para. 1.4 above, after adjusting the previous year's shortfall, the demanded increase in prescribed prices works to Rs. 76.21 per MMBtu w.e.f 1.7.2016.

3. Proceedings

3.1. The Public Hearing

3.1.1. A public hearing was held at Lahore on August 22,2016 which was participated by the following;

Petitioner

i. Team led by Mr. Amjad Latif, Managing Director

ii. Legal counsel, Mr. Mirza Mehmood Ahmad.

Intervener/Participants

i) Mr. Owais Shakeel Khan, Head of Engg Deptt. KPOGCL

ii) Mr. Muhammad Aslam Chaudhry on behalf of Lahore Chamber of Commerce & Pakistan Industrial & Traders Association Front.
iii) Syed Akhlaq Ahmad, General Citizen, Islamabad
iv) Mr. Mehmood Elahi, Faisalabad
v) All Pakistan Textile Mills Association
vi) M/s Rashid Law Associates, Lahore, on behalf of All Pakistan Steel Meltors Association and Steel Re-Rollers Association.
vii) M/s Aruj Industries Limited, Lahore.
viii) Mr. Irfan Khokhar, Chairman, LPG Distributers Association

Representatives of General Public

i) Mr. H.M Azhar Ali, Advocate for All Pakistan Steel Meltors
ii) Capt. ® Raja Shuja Anwar, Member Central Executive Committee, APCNG Association
iii) Mr. Adnan Yousaf, Reporter, Online News Agency
iv) Mr. Hassan Aftaz, Reporter, Daily Business Recorder
v) Mr. Muhammad Luqman, Reporter, Samma TV
vi) Mr. Almas A. Khan, ARY News
vii) Mr. Imran Haider, Reporter, Roznama Sehar
viii) Mr. Abdul Qadir Khan, Reporter, New TV
ix) Mr. Mustansar Abbas, Reporter, Business Plus
x) Mr. Zahid Abid, Reporter, Dunya TV
xi) Mr. Shahid Chaudhry Sr. Reporter AbTak News
xii) Mr. Imran Ashraf, Reporter Daily Jang

3.1.2. A public hearing was also held at Peshawar on August 25, 2016 which was participated by the following;

Petitioner

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

Intervener/Participants

i) Ms. Dina Naz, Member Provincial Assembly, Khyber Pakhtunkhwa
ii) Mr. Raziuddin, Chief Executive Officer, KPOGCL
iii) Mr. Pervaiz Khan Khattak, FPCCI, Chairman Standing Committee on CNG
iv) Syed Akhlaq Ahmad, on behalf of APTMA, KPK Region.
v) Industrialist's Association, Peshawar
vi) Khyber Pakhtunkhwa Chamber of Commerce & Industry

Representatives of General Public / Participants

i) Mr. Owais Shakeel Khan, HoD Engg. Deptt. KPOGCL
ii) Mr. Iftikharullah, Secretary, APTMA, Khyber Pakhtunkhwa
iii) Syed Asif Jalandhry, Counsel, APTMA
iv) Syed Asif Jalal Advocate, Representative APTMA Khyber Pakhtunkhwa
v) Mr. Fazal Moqeem, Chairman, AP CNG Association, Khyber Pakhtunkhwa
vi) Dr. Ali Maumud, Chief Executive Officer, KPEZOMC
vii) Mr. Saifullah, Engineer, KPOGCL
viii) Mr. Atif Javed, Electrical Engineer, KPOGCL
ix) Mr. Ashfaq Ahmad, Electrical Engineer, KPOGCL
x) Mr. Abdullah Taj, Electrical Engineer, KPOGCL
xi) Mr. Asim Riaz, Mechanical Engineer, KPOGCL
xii) Mr. Junaid Iqbal, Mechanical Engineer, KPOGCL
xiii) Mr. Maaz zakir, Mechanical Engineer, KPOGCL
xiv) Mr. Ahsan Basit, Engineer, KPOGCL
xv) Mr. Amar Jalil, Asst. Engineer, KPOGCL
xvi) Mr. Saddam Hussain, Asst. Engineer, KPOGCL
xvii) Syed Ali Raza Shah, Asst. Engineer, KPOGCL
xviii) Mr. Wasiq Elahi, Trainee Engineer, KPOGCL
xix) Mr. Jawaid Ahmad, Trainee Engineer, KPOGCL
xx) Mr. Saeed Umar, DNN, Hangu
xxi) Mr. Nasir Akbar, Engineer KPOGCL
xxii) Mr. Khalid Khan, Reporter, Daily Payam-e-Khyber
xxiii) Mr. Faheem Zaidi, Daily Khabrain, Peshawar
xxiv) Mr. Arslan Nawaz, Reporter Daily Payam-e-Khyber
xxv) Mr. Sohail Akhtar, Reporter Dunya News

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

3.2.1. The petitioner's legal counsel, during the hearing, submitted that Section 6 of the Ordinance obligates the Authority to safeguard the public interest, including the national security interests of Pakistan in relation to regulated activities. The Counsel further highlighted that Section 7 of the Ordinance provides that the Authority shall determine or approve the tariff for regulated activities keeping in view the cost of alternate or substitute source of energy. The Counsel contended that in tariff determination process, the Authority is not only obligated to protect the interests of gas consumers, but the interests of public at the large. The natural gas sale prices for different consumers, particularly domestic consumers which constitute a small segment of the society, are already subsidized and far less than cost of alternate fuel i.e. LPG or wood paid by most of the general public. Thus, tariff minimization on the basis of stringent benchmarks is causing to deteriorate the financial health of gas utility and is infact impairing the interests of public at large. The counsel also demanded increase in benchmark on provisional basis till UFG study is finalized.

3.2.2. The counsel also argued that total revenue requirement under Section 8(6)(h) ensures guaranteed return and provides that total revenue requirement of the licensee shall be determined so as licensee may achieve 17.5% return. Legal counsel, during the hearing, also requested the Authority to discharge its functions in accordance with Section 6(2)(f),(o) & (q) of the Ordinance, and to ensure level playing field for all the stakeholders as stipulated in Rule 17(1)(c) & 17(2) of NGT Rules.

3.3. The substantive points made by the interveners during the hearing as well as in writing are summarized below;

3.3.1. The petition submitted by SNGPL for determination of estimated revenue requirement for FY 2016-17 is incomplete in all respect. Most part of the same is illegible and no data & analysis have been enclosed therewith. This situation reveals that it has been deliberately done as it was also done at the time of petition for FY 2015-16. The interveners contended that in this situation, it is difficult to comment and offer input in this regard. It was accordingly requested to adjourn the petition unless the required data is made available.

3.3.2. The petition submitted by SNGPL has not been prepared in accordance with international norms. It contains the information all about the price increase and guaranteed return on capitalization. No commitments or cost vs. benefits analysis has been included. Further, no consultation has been carried out with the stakeholders including provinces which are constitutionally main stakeholder.

3.3.3. Petition for FY 2016-17 has been revised almost three times without advancing any tangible reasons. This act is against the regulatory practices which must be stopped on immediate basis.

3.3.4. It was agitated that SNGPL has violated the Prime Minister's directives to provide gas connections within 5 kilometers radius of gas producing fields. Further OGRA's directions regarding establishment of proper and legal network in the law & order affected areas have not been complied with. The petitioner was categorically directed to lay legal and proper distribution network in law affected areas through the funding of GIDC. It was highlighted that provincial Government has barred to use Royalty funds for this purpose. Therefore, SNGPL should avail GIDC funds from Federal Govt. for gas distribution infrastructure development in Khyber Pakhtunkhwa.

3.3.5. It was highlighted that SNGPL has also refused to arrange Rs. 6.8 billion loan to extend/lay the distribution infrastructure in law affected areas of Khyber Pakhtunkhwa. Astonishingly, it has taken Rs. 54.67 billion for LNG projects from commercial banks. This discrimination needs to be investigated. It was stressed to undertake said Rs. 6.8 billion project in KPK through GIDC funding. Further, the Authority may proceed the contempt against the petitioner for not complying with its directions/decision in letter & spirit.

3.3.6. SNGPL is charging heavy bills from consumers to cover UFG and its inefficiencies. The consumers of Tehsil Banda Daud Shah have been charged gas bills upto Rs. 45,000 per month per house which is abnormal. The same must be stopped. Further, the industrial and commercial sectors of gas producing districts are facing low gas pressure which should be rectified.

3.3.7. Honorable Member Provincial Assembly of Khyber Pakhtunkhwa, Ms. Dina Naz, highlighted that God has blessed Hangu, Karak and Kohat with abundant resources of natural gas. The people of the same locality however are suffering from number of issues including gas shortage, pressure drop problems, distribution development etc; Further, there is no issue of Law & Order in the Kohat, Karak and Hangu. SNGPL on the false premise is attempting to park the illegal theft. The above areas are quite peaceful. No development in the said areas however is undertaken which is causing resentment. The people of these gas producing areas have to wait for months for legal connections. This has resulted into sense of deprivation/ discrimination. If the proper network is laid, the gas connections including industrial connections are provided at priority, there will be no law & order issue.

3.3.8. To undertake business in Khyber Pakhtunkhwa is not less than sacrifice since the risk factor in the same locality is maximum. The business circles including Khyber Pakhtunkhwa Chamber of Commerce & Industry are interested to the response of their submissions/interventions. It was requested to take action and intimate accordingly.

3.3.9. The interveners appreciated that in the past, OGRA promoted clean and environment friendly CNG sector. The main purpose of this sector was also focused to reduce import bill. Accordingly, this sector has contributed to achieve amenable goals. Further, CNG licenses have been extended for five years by OGRA, thus provided sustainability to this valuable sector. It was urged that CNG re-location should also be allowed for better marketing and commercialization. Further price linkage with petrol be defined and auditors recommendations regarding CNG pricing be given due consideration. It was demanded that in line with the determination of revenue requirement, each and every cost component including depreciation, return etc; should indiscriminately considered in CNG pricing as well.

3.3.10. CNG association agitated that issue of adjustment of GCV in cost of gas in CNG pricing be addressed. It was contended that OGRA determines the CNG prices @

1040btu/scft whereas actual GCV is much higher. This issue needs to be resolved based on the scientific conviction on immediate basis. This GCV difference is deteriorating the legitimate profit of the CNG stations. OGRA must resolve this issue as mandated in terms of Section 2(6) (q) of OGRA Ordinance 2002.

3.3.11. UFG is unnecessary burdening natural gas consumers. The petitioner has claimed that in the recent completed financial year, UFG has been brought down by 2%. In the instant petition, it has been projected at 11.66% which is quite high as against the OGRA's benchmark of 4.5%. Further, old infrastructure and pipelines should be replaced in planned and gradual manner if the same is contributing to UFG menace.

3.3.12. Domestic and fertilizer sectors are being subsidized at the cost of Industrial sector. This cross subsidy mechanism should be eliminated as the industrial sector is already at the brink and passing through critical time.

3.3.13. Under the law, Gas Development Surcharge (GDS) is difference between the sale price and prescribed price and the same is always payable by the company to the Federal Govt. There is no concept of GDS receivable under the OGRA Ordinance and GDS Ordinance. OGRA's role is restricted to the extent of determination of prescribed prices. The petitioner contention in this regard is therefore incomprehensible.

3.3.14. Unjustified and unprecedented mega size proposed asset capitalization looks overambitious to earn only hefty return. The same however lacks performance targets, commitments to meet customer demand in cost effective and feasible manner. Further, intended capitalization shall not bring any improvement in the SNGPL system in terms of increase in sales volume of gas, reduction in UFG or increase in new connections to the industrial customers. It shall only contribute to increase in gas price which is not in accordance with the applicable law. It was therefore opposed that CAPEX plan for FY 2016-17 should not be allowed unless a comprehensive plan coupled with financial and operational feasibility in the interest of both company and customers is ensured. It was agitated that addition of cost of LNG to calculate revenue requirement on the basis of all assets is not justified, since LNG, as per decision of the Federal Govt. has to be provided to IPPs, Fertilizers and CNG consumers. Accordingly, it was stressed that cost of capitalization should be recovered from the LNG consumers.

3.3.15. Government decision that gas companies should finance gas development projects by taking the loan from commercial banks is against the spirit of GIDC Act 2015. Financing of project through borrowing from commercial bank will impact the gas consumers by paying price of RLNG. The decision of commercial borrowing for financing LNG project was highly criticized and was termed as illegal unfair and unjustified. It was demanded to oppose this decision to safeguard the interest of consumers.

3.3.16. Extension of T&D network is for the purpose of transportation of RLNG. The company has projected massive capitalization and increase in revenue expenses, no income on account of transportation charges however has been factored. This irrational action and unmatched expenses are against the fundamental accounting principles.

3.3.17. Cost of service study guides the extent of recovery to be made from each category of consumer while meeting the revenue requirement determined by the Authority. This involves segregation of fixed and variable cost components and operating factors on the basis of rational and justification. In this regard, the participants demanded number of information to be provided on regular basis including; net operating assets in transmission and distribution, assets utilized for indigenous gas and RLNG, Region wise volume of gas sold, UFG etc;

3.3.18. Oil prices in the international market are observing downward trend. There is however incomprehensible situation that the price of indigenous gas is even higher than RLNG. There seems to be flaws in the mechanism. Indigenous gas is cheapest source; the price of the same should not exceed the import product.

3.3.19. LPG Air-Mix projects were criticized on the grounds that same involves heavy subsidy of Rs. 2,400 per MMBtu. It was highlighted that there seems no rationale to undertake such economically unfit projects. OGRA is responsible to protect public interest while respecting the individual rights through effective and efficient regulation. Accordingly, such inefficient cost should be avoided while determining the revenue requirement of licensee.

3.3.20. Company is considering adding seven regions for efficient operations of its system. It was stressed that establishment of Mardan and DI Khan region should also be considered. DI Khan is located at far flung area, the gas consumers of the same locality suffers even for the petty issues.

3.3.21. HR cost has been projected to increase from Rs. 12 billion during FY 2015-16 to Rs. 18 billion for the said year while new recruitment on nominal size has been projected. This reckons to 50% increase in HR cost over one year which is not justified at all.

3.3.22. Projection of Rs. 180 million Legal expenses indicates that entire SNGPL is engaged in litigation with consumers. Exceptional increase in legal expenses is sign of bad governance which must be avoided. SNGPL is equipped with competent professionals; therefore, in house expertise must be utilized. Further, until 2009, SNGPL team has been presenting the petition without acquiring services of any lawyer. The same practice may be continued to save the resources. Accordingly, this cost on this account should not be billed to consumers.

3.3.23. Provision for doubtful debt is result of inefficiencies and bad management to deal with the consumers as per its own approved policy. The credit sale of gas to customers is fully secured. Provision should not be needed at all if the disconnection is made in timely manner. Since this cost arises owing to company own inefficiencies, the same should not be allowed in the tariff.

3.3.24. Increase in director's fee was agitated. It was highlighted that Rs. 29 million spent for directors meetings transpires that directors have held meetings as a source of their income. Director's fee has increased from Rs. 5,000 per meeting in 2009 to Rs. 20,000 in the recent year, which is burden on the poor gas consumer. It was urged to take notice of this exceptional increase in fee of directors.

3.3.25. Estimates for cost of gas lacks transparency and the same are not aligned with ground realities. The cost of gas is based on the well-head prices that changes with international prices of crude /HSFO. SNGPL has provided cost of gas figure but not provided any detail and assumptions used in the calculation of cost of gas. Further average exchange rate of Rs.110/US $ used in the computation of cost of gas is unrealistic and grossly exaggerated.

3.3.26. Operating cost is grossly over exaggerated. Also use of different GC values for billing to customers is without any approval of OGRA. It was demanded that an oversight mechanism should be in place so that this practice is not misused.

3.3.27. Compliance to Article 158 of the constitution of Islamic Republic of Pakistan is binding on the petitioner. Further, constitution is substantive law, all other are subservient to it. The petitioner therefore must provide information with regard to production from each well-head and sales to each region.

3.3.28. It was objected that the company is appearing before the Authority in the hearing without Authorization / resolution from its Board of Directors, thus it has not fulfilled the mandatory requirement of OGRA Ordinance and Rules made thereunder. Further, the amended petitions for determination of estimated revenue requirement of FY 2016-17 submitted by SNGPL to OGRA have not been reflected in the public notices. Further, figures in the petitions including estimated capital expenditure and operating costs, appears to be exaggerated and need to be audited by independent auditors / financial consultant. Company is adding assets only to earn easy return of 17.5% without increasing its efficiency and services. The rate of return should be reviewed and linked to the volume of gas sold and performance of the company.

3.3.29. Gas Pricing Agreements (GPAs) with Producers should be reviewed by OGRA by inviting public comment on each of GPA. Like electricity generation license, each gas producer should obtain license while seeking wellhead gas price determination from OGRA. Federal Government and the petitioner should put all Concession Agreements, GPAs, and Gas Sale Agreements to the jurisdiction of OGRA for critical analysis and scrutiny, to determine the wellhead gas prices accordingly. Further, natural gas is indigenous product; therefore, wellhead price of such gas should not be linked to international prices of HSFO / Crude oil.

3.3.30. UFG is persistently increasing while budget for UFG control activities has been projected to increase from Rs. 404 million in last financial year to Rs. 777 million. UFG emerges due to negligence of the company, therefore impact of the same should not be passed on to consumers, rather company should bear it from its own profits.

3.3.31. Gas is supplied to Fertilizer industry at lower rate as compared to other industry. Discrimination in gas sale price between Textile/ Industrial consumers and Fertilizer was criticized. Textile may be categorized separately from Industry.

3.3.32. Removal of gas meters without notice and charging of heavy bills to consumer beyond actual consumption is highly unjustified. Establishment of independent meter testing Lab is imperative. Most of the meters installed by the company are defective and faulty and despite lodging complaint by consumers, the company is not responding within the time stipulated by OGRA. Therefore, the company is unnecessarily penalizing the consumers. Accordingly, strict action was demanded to be initiated against the petitioner.

3.3.33. Increase in projected expenditure in the establishment of call centers is unnecessarily burdening the consumers and has not contributed to improve consumer service. Further, projected increase in legal and professional charges on these bases was highly criticized.

3.3.34. SNGPL is unnecessary increasing the number of regions on the plea to improve its efficiency. On the other hand, SSGCL is operating effectively with less number of regions. This burden should not be passed on to the consumers. Gas consumers are suffering from burden of hefty increase in salaries of official / officers of company, purchase of luxury vehicles, meeting expenses/ allowance to director/chairman etc. Whereas gas sale volume are decreasing. Such expenditure should be rationalized in context of company efficiency and sale volume.

3.4. The Authority has carefully considered all the submissions and argument of the parties made in writing and verbally at the public hearings, and proceeds to make its determination.

4. Authority's Jurisdiction And Determination Process

4.1.1. The Authority is obligated to determine total 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. Section 8(1) of the Ordinance empowers the Authority to determine an estimate of the total revenue requirement of its licensees for a financial year and on that basis, advises the FG, the prescribed price of natural gas for each category of retail consumers.

4.1.2. GoP, pursuant to Section 8(3) of the Ordinance, is legally empowered to advise the Authority for notification in the official gazette, the minimum charges and sale price for each category of retail consumers. FG further decides Gas Development Surcharge as well as subsidy to be enjoyed/extra amount to be paid by various categories of consumers with respect to average cost of supply. Accordingly, fixation of sale prices keeping in view macro-economic indicators, the cost of alternate and substitute source of supply falls very much under the domain of FG. The Authority, however, in principle, is of the view that all the category of consumers must at least pay the average cost of supply, keeping in view the cost of alternative or substitute source of supply. This shall provide a level playing field for all concerned.

4.1.3. The Authority examines all applications and petitions in the light of relevant rules. Public notices are issued and all the stakeholders are provided full opportunity to intervene / comment upon the issues pertaining to determination of revenue requirement, in writing and at public hearings, which are duly taken into account. Further, GoP's attention is specifically drawn to the pleas relating to policy matters for consideration, before deciding the retail prices for various categories of consumers. The operating revenues, operating expenses and changes in asset base are scrutinized by OGRA in depth, keeping in view the provision of the law.

4.1.4. The decisions issued by the Authority have always been strictly in accordance with the relevant provisions of Law. All the statutory requirements are firmly complied with before issuing any Order and in this whole process the Authority, very meticulously, ensures that public service utilities prosper in an efficient manner. The Authority, throughout the determinations since inception, ensures transparency in the process 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 to bring efficiency in the overall management of the company have proved to be beneficial for the whole nation in measurable terms.

4.1.5. The Authority observes that interveners during the public hearings highlighted various operational and service issues/problems being faced by them. The same have also been summarized in para. 3.3 above. The Authority has held the public hearings in the instant matter i.e; to the extent of revenue requirements, however, it is obligated to safeguard public interest and to ensure compliance of the petitioner to the performance and service standard as advised by it from time to time. In the light of above, the Authority directs the petitioner to address/attend to the problems being faced by its consumers with the objective to resolve the same within the stipulated timelines or otherwise put forward plans/solutions to improve its services upto satisfaction of consumers.

5. Return to the Petitioner

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 return on net operating assets in accordance with the said provision of the Ordinance as well as the petitioner's license, while including various income & expenditure heads as part of prescribed price.

5.2. The Authority notes that 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 losses/theft, operational efficiency and effectiveness of capital expenditure incurred to undertake the regulated activities. If this is the case, it is contrarily to the regulatory setup established by GoP, violative of legal & regulatory framework as a whole and tantamount to dysfunctional regulator and impairment of consumer interest. This shall result into economic distortion and the same can never be and by any stretch of imagination the intent of legislature.

5.3. The Ordinance defines the role in terms of powers and functions as well as jurisdiction of OGRA, while the guiding principles, including detailed mechanism to carry out the statutory functions, are provided in the Rules and more specifically in the respective licensees issued under the Ordinance. Accordingly, OGRA Ordinance, under section 7, empowers the Authority to determine tariff for regulated activities **whose licenses provides for such determination**. Section 7 further elaborates that the criteria for tariff determination shall be prescribed in the rules and **in the terms and conditions of each license**(emphasis added). It is evident from the legal framework that power to determine tariff is derived from the Ordinance and mechanism including guidelines for such determination is provided in the **NGT Rules and petitioner's license**. Accordingly, Rule 17 of NGT Rules provides detailed tariff evaluation criteria and more specifically yardstick regulation as stipulated in Rules 17(c) , reproduced as under:-

> "tariffs should include a mechanism to allow licensees a benefit from and penalties for failure to achieve, benchmarks set by the Authority through yardstick regulation for, inter-alia and without limiting the generality of such regulation, capacity utilization, operation and maintenance costs and unaccounted for natural gas;"

5.4. The rate of return allowed to the licensee is provided in Rule 17(g), reproduced below:-

> "tariffs should generally be determined taking into account **a rate of return as provided in the license**, prudent operation and maintenance costs, depreciation, government levies and, if applicable, financial charges and cost of natural gas;" (emphasis added)

5.5. The legal framework now refers to the license of the petitioner in respect of return allowed to it and efficiency benchmarks. For this purpose, condition 5 of the said license is referred that specifically deals with "Rate of Return and Tariff Determination" allowed to the petitioner. Condition 5.2 states as under:-

"**<u>Subject to such adjustments as required under condition 21 or other efficiency related benchmarks fixed by the Authority from time to time in accordance with the rules</u>**, the Authority shall determine total revenue requirement of the Licensee to ensure it achieves 17.5% return on the value of its average net fixed assets in operation for each financial year......." (emphasis added).

5.6. As referred above, it is relevant to mention that condition 21 pertains to UFG targets to be fixed by OGRA while it also clarifies that if the licensee fails to meet the UFG target the loss on that account shall be borne by the Licensee and**<u>shall not form part of its total revenue requirement</u>**.

5.7. It is clear from the above that OGRA has been allowing entitled return to the petitioner as well as inducing it to operate in an efficient manner, as required under the relevant provisions of the law. Tariff petitions have been evaluated in line with the evaluation criteria as provided in the Rules. Accordingly, OGRA maintains that essence of law is to allow the return to licensees in undertaking the regulated activities subject to efficiency benchmarks. OGRA is of the firm view that legal framework is very explicit and provides for improvement in terms of efficiency as well as reasonable returns. The tariff mechanism in place provides reasonable returns and accounts for all prudent and justified capital and revenue expenditure to attract investment of quantitative and qualitative improvement of regulated activities, as required under section 7 of the Ordinance.

5.8. Moreover, section 7(2) (a) obligates OGRA to protect consumer against monopolistic and oligopolistic pricing. The Authority observes that practically the petitioner enjoys risk free business with captured consumers, guaranteed return and no market competition in the gas distribution sector exists that urges petitioner to reduce their inefficiencies and improve customer service up to the satisfaction of consumers. It is only the effective regulation by OGRA, which places a check and balance among divergent interests of all stakeholder whereby only economically efficient and cost effective prudent expenses are passed on to consumers. Resultantly, natural gas prices as still maintained at an affordable level for all sectors of economy.

5.9. In view of above, it is established that Authority is performing its statutory function strictly in accordance with the applicable laws. Also, there is no lacuna or anomaly in the regulations that put the petitioner at disadvantage. It is mainly due to gas losses/UFG and operational inefficiencies whereby it could not retain the return allowed to it. Conversely, the petitioner can get the return more than the guaranteed limits if it performs better than the targets provided in the efficiency benchmarks.

5.10. ***The Authority, however, notes that existing tariff regime is in place. In view of the same, 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.***

6. Operating Fixed Assets

6.1. Summary of Additions during the year

6.2. The petitioner has projected a gross addition of Rs. 88,178 million in the fixed assets and ex-depreciation addition of Rs. 68,404 million, resulting in projected increase in net operating fixed assets from Rs. 123,289 million as per opening balance to Rs. 191,693 million closing balance during the said year. After adjustment of deferred credits, the net average operating fixed assets eligible for return are projected at Rs. 140,225 million, and the required return at Rs. 24,539 million, as under:

Table 5: Computation of Projected Return on Operating Fixed Assets

	Rs. in Million
Description	**The petition**
Net operating fixed assets at beginning	123,289
Additions Carried forwarded from previous year	46,277
Additions during the year	41,901
Total Addition	**88,179**
Depriciation addition	(19,774)
Net addition	**68,405**
Net operating fixed assets at closing	191,694
Sub total	314,984
Average net assets	157,492
Deffered credit at beginning	17,531
Deffered credit at closing	17,004
Sub total	34,535
Average deffered credit	17,268
Average net fixed assets (A-B)	140,225
Return Required	17.5%
Amount of return required by the petitioner	**24,539**

6.2.1. The details of projected deferred credits for the said year are compared with actual for FY 2015-16 are as under:

Table 6: Comparison of Projected Deferred Credits with previous Year

		Millin Rs.
Particulars	FY 2015-16	FY 2016-17
	Actual	The petition
Balance at July 01	27,121	17,531
Addition during the year	3,500	2,000
Sub total	30,621	19,531
Amortization for the year	(2,829)	(2,527)
Un-amortized balance as at June 30	**27,792**	**17,004**

6.2.2. The Authority observes that actual results for FY 2015-16 has been concluded whereby the closing fixed assets and deferred credit balances have been worked out at Rs. 111,430 million and Rs. 16,620 million respectively. Accordingly, the same are adopted as opening balances for the said year. Consequently, the deferred credit closing balance for the said year works out to Rs. 16,093 million for said year.

6.2.3. Comparative analysis of projected additions in fixed assets with the previous years is as follows:

Table 7: Projected Addition in fixed assets compared with Previous Years

							Million Rs.
Particulars	FY 2014-15	FY 2015-16	FY 2016-17 (The Petition)			Inc/(Dec) over Actual	
	DERR	DERR	Additoin	Addition C/f	Total		
Transmission	3,458	16,057	2,397	46,277	48,674	32,617	203%
Compression	437	472	310	-	310	(162)	-34%
Distribution Development	6,189	5,605	21,835	-	21,835	16,230	290%
Measuring and Regulating Assets	5,567	6,425	7,917	-	7,917	1,492	23%
Plant, Machinery & equipment and other assets	2,105	1,110	1,170	-	1,170	60	5%
Buildings on free/leasehold land	110	270	320	-	320	50	19%
Land and land acquisition advance	128	20			-	(20)	-100%
Regularization of illegal network in KPK			6,700		6,700		
New Regions			602	-	602		
Intangible Assets (IT related cost)	16	-	650	-	650	650	0%
Net addition in asset base	**18,010**	**29,959**	**41,901**	**46,277**	**88,178**	**50,917**	**170%**

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

Table 8: Break up of addition in operating fixed assets

				Rs. in million
Sr.#	Particulars	Addition for the current period	Addition (carried forwarded)	Total
1	Freehold land			
2	Building on Freehold land	320	-	320
3	Transmission mains	2,397	46,277	48,674
4	Compression system & equipment	310	-	310
5(a)	Distribution system mains	21,835	-	21,835
5(b)	Measuring & regulating assets	7,917	-	7,917
5(c)	Regularisation of illegal network in KPK	6,700	-	6,700
Sub total		**39,479**	**46,277**	**85,756**
6	**Normal and other assets :**			
6.1	Telecommunication equipments	23		23
6.2	Plant and machinery	94		94
6.3	Tools & equipment	156		156
6.4	Motor vehicles	300		300
6.5	Construction equipment	182		182
6.6	Furniture & Fixtures	60		60
6.7	Office Equipment	47		47
6.8	Computer hardware	308		308
Sub total		**1,170**	**-**	**1,170**
7	New Regions	602		602
8	SCADA System	650	-	650
	Total addition for FY 2016-17	**41,901**	**46,277**	**88,178**

6.2.5. The detail discussion is made as under:-

6.3. *Transmission*

i. *Phase II (LNG Project)*

6.3.1. The petitioner has projected Rs. 58,004 million for laying of pipelines under Phase-II of Pipeline Infrastructure Development Plan during the previous years and the Authority had already granted principle approval of Phase-II of the project for upcoming LNG and anticipated indigenous supplies, vide its letter dated November 21, 2014.

6.3.2. The petitioner has projected the following pipelines/ items under LNG Phase-II Project, expected to be completed in the current fiscal year.

Table 9: Additions to Transmission Network LNG Project Phase II

Sr. #	DESCRIPTION	Rs. in million
i	**LNG PHASE-II Pipelines**	
1	36" Diameter x 302.5 KM comprising of (36" Diameter, 64 Kms AC1X to A3 (AV 9), (36" Diameter, 112 Kms A3 (AV 9) to AV 20) and (36" Diameter, 121 Kms AV 20 to AV 29) Phase -II(LNG PROJECT)	25,985
2	30`` Dia x 109.35 Km Pipeline i) Sahiwal-Phoolnagar	5,332.00
3	24`` Dia x 145.20 Km Pipeline i) AV 29 (Qadirpur Rawan-Sahiwal)	6,372
	Sub-Total (Pipelines)	**37,689**
3	SCADA (Lot)	40
4	Machinery, construction equipment, spares and capital Items/ Camping facility.	1,750
5	Equipment tools and vehicles for transmission	75
6	Compression (25,000 HP)	2,337
	Sub-Total (Other Assets)	**4,202**
	Total	**41,891**

6.3.3. It is also mentioned that since it was a large scale/ gigantic project involving additional gas to the tune of 1.2 BCFD RLNG and having huge financial impact on the consumers, therefore, the Authority engaged Zishan Engineers Private Limited (ZEL), a consultant firm on September 8, 2015 through competitive bidding process to render its services for Technical Evaluation of Pipeline Infrastructure Development Projects of SNGPL and SSGCL for upcoming LNG and anticipated indigenous gas supplies. ZEL, vide its letter dated March 21, 2016, furnished Final Report, wherein they concluded that the Project plans submitted by both SNGPL and SSGCL are adequate and justified and cost estimated by both the companies is within ZEL's in-house estimates for both pipelines and compression equipment.

6.3.4. However, keeping in view the percentage physical progress of the above pipeline projects as on September 19, 2016, submitted by the petitioner, the Authority allows 50 % of the projected amount of Rs. 37,689 million i.e. Rs. 18,845 million for laying of the pipelines under ring fence mechanism in the light of ECC decision dated February 10, 2016. Any additional expense incurred may be considered at the time of FRR.

6.3.5. The petitioner also requested to allow Rs. 1,865 million for SCADA, machinery, construction equipment, spares and capital items/ camping facility, equipment tools and vehicles for transmission. The petitioner also submitted to allow half of the remaining amount i.e. Rs. 2,337 million for Compression.

6.3.6. The Authority allows Rs. 40 million for SCADA, Rs. 75 million for equipment, tools and vehicles for transmission and Rs. 2,337 million for Compression. The Authority also allows 50 % of the projected amount i.e. Rs. 875 million for machinery, construction equipment, spares and capital item etc. subject to actualization at the time of FRR. The petitioner is also advised to provide to the Authority a detailed list of construction equipment and machinery for Transmission alongwith bifurcation of the equipment and machinery acquired for the LNG (Phase-I and Phase-II) projects.

Table 10: Transmission Network LNG Project Phase II allowed

Million

Sr. #	DESCRIPTION	The petition	Allowed
i	**LNG PHASE-II Pipelines**		
1	36" Diameter x 302.5 KM comprising of (36" Diameter, 64 Kms AC1X to A3 (AV 9), (36" Diameter, 112 Kms A3 (AV 9) to AV 20) and (36" Diameter, 121 Kms AV 20 to AV 29) Phase -II(LNG PROJECT)	25,985	12,993
2	30" Dia x 109.35 Km Pipeline i) Sahiwal-Phoolnagar	5,332	2,666
3	24" Dia x 145.20 Km Pipeline i) AV 29 (Qadirpur Rawan-Sahiwal)	6,372	3,186
	Sub-Total (Pipelines)	37,689	**18,845**
3	SCADA (Lot)	40	40
4	Machinery, construction equipment, spares and capital Items/ Camping facility.	1,750	875
5	Equipment tools and vehicles for transmission	75	75
6	Compression (25,000 HP)	2,337	2,337
	Sub-Total (Other Assets)	4,202	3,327
	Total	41,891	22,172

6.3.7. ***The Authority, therefore, allows Rs. 22,172 million against the projected amount of Rs. 41,891 million subject to actualization at the time of FRR for FY 2016-17.***

ii. Phase-I (LNG Project)

6.3.8. The petitioner has also stated that an amount of Rs. 1,136 million in respect of the head "Pipeline" was disallowed in Phase-I but the same is included in the said year with the view of subsequent booking to be incurred in this year. It is mentioned that the petitioner has tendered no justification in this regard whereas the Authority has already accorded proper justification in DERR for FY 2014-15 for not allowing the said amount. The petitioner also requested for Rs. 3,250 million in respect of machinery, construction equipment, capital items and camping facility. It is also pertinent to mention here that Phase-I is almost 100 % complete.

6.3.9. ***Keeping in view the above, the Authority disallows Rs. 1,136 million and Rs. 3,250 million in respect of machinery, construction equipment, capital items and camping facility. However, the Authority may consider the same at the time*** *of FRR keeping in view the actual expense made and any tangible justification provided by the petitioner in this regard.*

iii. **Transmission Mains (Normal)**

6.3.10. The petitioner stated that the projected amount (Rs. 76 million) is required for maintenance jobs including sleeving, modifications, up-gradations, civil works and rehabilitation of the Transmission System and that the equipment/ maintenance is essentially required to carry out day to day operations. The petitioner also requested to lay 12" Diameter X 106 Kilometers Mardan-Swat loop-line to cope with low gas pressure in Swat at a cost of Rs. 2,221 million as well as up-gradation of Nowshera Valve Assembly at Rs. 100 million). The total projected amount under the head is Rs. 2,397 million.

6.3.11. *Keeping in view the above request of the petitioner and to cope with the low pressure problem, the Authority allows Rs. 2,397 million under the head of Transmission Mains for the said year.*

6.3.12. *In view of above, the Authority allows Rs. 24,569 million for the said year.*

6.4. *Compression (Normal)*

6.4.1. The petitioner projected Rs. 310 million on account of compression during the said year.

6.4.2. The petitioner explained that Compressor Stations play a vital role in transmission of gas to various consumption centers at adequate pressure and flows. As the gas is transmitted through pipelines, its pressure drops due to frictional losses and to make up this pressure, the compressor stations are installed along with the transmission network. The petitioner is operating 11 Nos. compressor stations based on Solar and Saturn compressor packages. The Centaur compressor packages are of different models such as T-40, T-45, T-47 and T-50. As per manufacturers recommendations, overhauling of Turbine Engines of different models is essential for smooth running of the operations.

6.4.3. The petitioner informed that the overhauling of turbine engines is a mandatory operational requirement to ensure the availability of the compressor packages for transmission of gas up to the consumer centers at adequate flow and pressure. Additionally, the following benefits are associated with the overhauling of these engines: -

(i.) Reduction in breakdown frequency, maintenance cost and down time of machines.

(ii.) Smooth, reliable and sustained operation of compressor stations to ensure maximum through put of gas to consumers.

6.4.4. ***In view of above, the Authority notes that the overhauling of compressor stations is essential and is an operational requirement, therefore, keeping in view the above position and the trend analysis, the Authority allows Rs. 310 million under the head Compression for the said year.***

6.5. *SCADA Host System on the existing Transmission Network*

6.5.1. The petitioner projected Rs. 650 million on account of SCADA Host System on the existing Transmission Network for effective network management through real time monitoring and control including SCADA field instrumentation at all sites of Transmission network.

6.5.2. ***Keeping in view the operational requirement, the Authority allows Rs. 650 million under the head SCADA Host System for the said year.***

6.6. *Distribution Development*

6.6.1. The petitioner projected an amount of Rs. 21,835 million for distribution mains, breakup of which is as under: -

Table 10: Detail of Additions in Distribution Development

Rs. Million

Sr.#	Description	The petition
i	Laying of Distribution Mains Pending Works against PWP-II Schemes (4, 800 Kilometers)	8,930
ii	Laying of Distribution Mains New Schemes Approved (Moratorium Relaxed) (700 Kilometers)	2,373
iii	Laying of Distribution Mains (Anticipated approvals from GOP (2, 500 Kilometers)	7,000
iv	Combing, Augmentation, Head Office Reserves (370 Kilometers) Laying of Distribution Mains at Cost Sharing Basis	1,221
v	Laying of Distribution Mains at Cost Sharing Basis (100 Kilometers) System Rehabilitation	320
vi	System Rehablitation and UFG Control Activities	1,675
vii	Cathodic Protection	316
	Total	**21,835**

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

i. Laying of Distribution Mains

6.6.3. The petitioner has projected Rs. 8,930 million for the development of 4,800 Kilometers against pending/ ongoing works against PWP-II Schemes in new towns and villages through its revised petition dated June 29, 2016. Keeping in view the actual per Kilometer cost for FY 2014-15 and adding 10 % inflation for two years, the amount works out to be Rs. 8,305 million under the head.

6.6.4. The Authority, therefore, allows Rs. 8,305 million as against Rs. 8,930 million as **projected by the petitioner for laying of 4,800 Kilometers for the said year subject to actualization and compliance with the moratorium of the GOP dated October 4, 2011 and the decision of the Apex Court in CP-20.**

ii. Laying of Distribution Mains- New schemes

6.6.5. The petitioner projected Rs. 2,373 million for the development of 700 Kilometers against new schemes approved (Moratorium Relaxed) in new towns and village.

6.6.6. Keeping in view the funding arrangements available with the petitioner, *the Authority allows Rs. 935 million for the said year as against Rs. 2,373 million projected by the petitioner for laying of pipelines for the specific schemes for* *which the moratorium has been relaxed by the Prime Minister subject to compliance with the decision of the Apex Court in CP-20 and the decision of Apex Court in Civil Appeals No. 1428 to 1436 of 2016 dated August 18, 2016.*

iii. Laying of Distribution Mains- anticipated approval from GOP

6.6.7. The petitioner projected Rs. 7,000 million for the development of 2,500 Kilometers against anticipated approvals from the GOP in respect of new schemes. No details of any scheme have been provided.

6.6.8. The Authority therefore disallows Rs. 7,000 million as projected by the petitioner for laying of 2,500 Km in anticipation.

iv. Combing, Augmentation, Head Office Reserves

6.6.9. The petitioner has projected Rs. 1,221 million for Combing, Augmentation, Head Office reserves. Keeping in view the actual per Kilometer cost for FY 2014-15, petitioner's capability, actual expenses in the past and adding inflation for two years, the amount works out to be Rs. 640 million under this head.

6.6.10. The Authority therefore allows the amount i.e; Rs. 640 million.

v. Laying of Distribution Mains at Cost Sharing Basis

6.6.11. The petitioner has projected Rs. 320 million under the head of laying of 100 kilometers distribution mains of different diameter on cost sharing basis.

6.6.12. The Authority observes that the petitioner is not entitled to rate of return on the said capitalization. ***The Authority, therefore, allows the amount i.e. Rs. 320 million as claimed by the petitioner.***

vi. System Rehabilitation& UFG Control Activities

6.6.13. The Petitioner has projected an amount of Rs. 1,000 million on account of Rehabilitation of Distribution System and stated that underground leakages are one of the factors adding to UFG. The petitioner has also stated that the underground network has been cathodically protected to reduce metal loss due to corrosion and that it carries out replacement of under ground network against 'System Rehabilitation Program' on yearly basis due to the following: -

(i.) Repeated power outages results in corrosion and leakages.
(ii.) Corrosively of soil cause continuous deterioration of underground network, resulting in leakage loss.
(iii.) Useful life of pipeline coating is limited after which its disbondment starts, making it prone of leakages.
(iv.) The rehabilitation of system is necessary activity for their routine operation and it is also helpful to reduce UFG and any untoward accidents.

6.6.14. It has been observed that the petitioner has projected very high amount and it has never been able to capitalize more than Rs. 453 million in the previous years, therefore, keeping in view the maximum expense i.e. Rs. 453 million for FY 2013-14 and by adding escalation for FY 2015-16 and FY 2016-17, the amount works out to be Rs. 548 million.

6.6.15. The petitioner has also projected Rs. 675 million for UFG control activities like Detection and Rectification of underground leakages, Installation of GPRS based system, Installation of measurement facility at TBSs, Equipment, Tools and Furniture for inspection of domestic meters in regional inspection.

6.6.16. ***Keeping in view the prudent expenditure and trend analysis, the Authority allows Rs. 1,223 million under the head i.e. Rs. 548 million for system rehabilitation and Rs. 675 million for UFG control activities subject to actualization at the time of FRR.***

vii. Cathodic Protection System

6.6.17. The petitioner has projected an amount of Rs. 316 million on account of C.P system. The petitioner has apprised that Cathodic protection is maintenance and mitigation process of their underground pipelines against corrosion and that the overall percentage protection of their Distribution network is already low i.e. 72%. New lines are also being laid and connected with the existing network, old coating is deteriorating and the load on the CP Stations is increasing. Further over the years, the cost of material used in the construction of CP Station has increased manifold including for refurbishment /renovation of the old ones. Construction of new C.P Stations and Renovation of exhausted ground beds of already existed CP Station as per Distribution Development Plan 2015-16 is in progress in all Distribution Regions and minimum 200 Nos. CP Station are essentially required in FY 2016-17. The current requirement is increasing every year. As there is no systematic Re-coating Program in the Distribution System, hence, the only resort left to protect the distribution lines from further corrosion and leakages is Cathodic Protection, which if not provided will result in increase in UFG, hence, it is imperative that financial layout for Cathodic Protection should be reviewed upward to enhance the life of MS Network, so as to ensure uninterrupted supply of gas to consumers.

6.6.18. The CP system is necessary to protect the pipelines and to help reduce leakages/ UFG. The trend shows that the petitioner has never been able to capitalize according to its projections except in FY 2011-12. Therefore, by giving inflation on actual estimates of FY 2014-15, the amount works out to be Rs. 249 million under the head and the same is allowed by the Authority subject to actualization.

6.6.19. *In view of above, the Authority allows the expenditure under Distribution Mains at Rs. 11,672 million as against Rs. 21,835 million as projected by the petitioner for the said year as per the table given below: -*

Table 11: Distribution Development allowed by the Authority

Rs. Million

DISTRIBUTION DEVELOPMENT			
Sr.#	Description	The petition	Determined
i	Laying of Distribution Mains Pending Works against PWP-II Schemes (4, 800 Kilometers)	8,930	8,305
ii	Laying of Distribution Mains New Schemes Approved (Moratorium Relaxed) (700 Kilometers)	2,373	935
iii	Laying of Distribution Mains (Anticipated approvals from GOP (2, 500 Kilometers)	7,000	-
iv	Combing, Augmentation, Head Office Reserves (370 Kilometers) Laying	1,221	640
v	Laying of Distribution Mains at Cost Sharing Basis (100 Kilometers) System Rehabilitation	320	320
vi	System Rehabilitation and UFG Control Activities	1,675	1,223
vii	Cathodic Protection	316	249
	Total	21,835	11,672

6.7. ***Measuring and Regulating Assets***

6.7.1. The petitioner has projected Rs. 7,917 million on account of addition under the head of Measuring and Regulating Assets. The petitioner has provided the break up as under:-

Table 12: Detail of Additions to Measuring and Regulating Assets

Sr.#	Description	*Million Rs.*
i	New Connections including 10% additional urgent fee	4,213
ii	Construction of of TBs/DRs	361
iii	Replacement of old meters	2,549
iv	Construction of SMSs	200
v	Measuring & Regulating Regular Assets	420
vi	GI Pipe and Fittings	174
	Total	**7,917**

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

i. Installation of New Connections

6.7.3. The petitioner has projected Rs. 4,213 million for installation of 301,020 number new connections. The Authority observes that 301,020 connections includes 20 industrial, 1000 commercial and 300,000 domestic connections including domestic connections against urgent fee. The Authority notes that the Federal

Government, vide its moratorium dated October 4, 2011, has imposed a ban on the industrial and commercial connections. The Authority, therefore, considers only 300,000 domestic connections plus 30,000 additional urgent fee connections. *Based on the past trend, the Authority allows Rs. 4,213 million under the head as projected by the petitioner for the said year.*

6.7.4. As regards commercial connections, the Authority may consider the same at the time of FRR petition for the said year provided those commercial connections have no imposition of the moratorium by GOP dated October 4, 2011.

ii. Construction of TBS and DRS

6.7.5. The petitioner has projected an expenditure of Rs. 361 million on account of construction of TBS/DRS's of the said year. *Keeping in view the operational requirement of the petitioner and past trend, the Authority allows Rs. 361 million as projected under the head for the said year.*

iii. Replacement of old Meters

6.7.6. The petitioner has projected an amount of Rs. 2,549 million for the activity of meter replacement and stated that defective / tampered / suspected meters of Industrial, Commercial and Domestic consumers are detected as a result of vigilance activities by Engineering Sections, Reports received from billing departments, Consumer's Complaints, Operational Defects. In addition to above, the meters are replaced against schedule replacement program based on the following aging Criteria: Industrial = 1 year, Commercial = 7 years, Domestic = 16 years. Replacement of defective, tampered, suspected meters in addition to schedule replacement program is a continuous ongoing activity and required to be carried out on yearly basis. The petitioner has stated that it has planned replacement of approximately 450,000 Nos. Industrial, Commercial and Domestic meters during FY 2016-17. Therefore, Rs. 2,549 million may be allowed by the Authority on provisional basis subject to actualization.

6.7.7. The Authority observes that aforementioned activity is essential to reduce UFG as accounting errors of defective meters contribute towards UFG. The Authority further notes that trend analysis shows that the petitioner has taken the said activity much seriously since 2010-11 and put efforts to change the defective meters. The expenditure under the head incurred by the petitioner during FY 2014-15 is Rs. 1,770 million.

6.7.8. ***Therefore, considering the importance of the UFG issue and petitioner's capacity to replace the defective meters, the Authority allows Rs. 2,549 million under the head for the said year. However, the Authority expects that this exercise of replacement of meters shall lead to correct billing and there shall be reduction in UFG as well.***

iv. Construction of SMSs

6.7.9. The petitioner has projected an amount of Rs. 200 million on account of "Construction of SMSs for new towns/ modification/ up-grading of SMS's". The petitioner submitted that budget for the construction of New SMSs and modification / up-gradation of SMSs has been proposed to commission gas supply schemes against ongoing / new projects funded by the GOP and accordingly construction / up-gradation of following Sales Meter Stations will likely to be undertaken by it in the coming Financial Year 2016-17: -

1. SMS Dhari Rai Ditta (NA-59).
2. SMS Chak 23/10R (NA-159)
3. SMS Nari Panos (Karak)
4. SMS Rujhan (NA-175).
5. SMS Chakkian, Mator (NA-50).
6. Upgradation of SMS lala Musa

6.7.10. The petitioner requires SMS's in new developing areas as well as in already existing areas on operational basis. The petitioner has capitalized Rs. 247 million in FY 2013-14 and Rs. 108 million in FY 2014-15.

6.7.11. ***The Authority, in view of the previous years trend analysis allows Rs. 175 million under the head for the said year subject to actualization at the time of FRR.***

v. Measuring & Regulating Regular Assets

6.7.12. The petitioner has projected Rs. 420 million under the head for capitalization. The petitioner stated that equipment is essentially required for day to day operations like up-gradation of existing CP System at Transmission Section, installation of Remote Monitoring Units at various locations, Soil Resistivity Meters, Flow Computers, Online Gas Chromatograph, Compact unit for Hydrostatic Testing, Misc. Metering Equipment, Ultrasonic Thickness Testers, Gas Leak Detection etc.

6.7.13. The Authority observes that the petitioner provided the trend analysis of capitalization under the same head which reveals that the petitioner has capitalized Rs. 179 million on an average since FY 2012-13 to 2014-15.

6.7.14. ***The Authority, in view of the above and incorporating the inflation factor, allows Rs. 217 million under the head for the said year.***

vi. G.I. Pipes & Fitting

6.7.15. The petitioner has projected an amount of Rs. 174 million in this regard. The Authority is of the considered opinion that this direct cost should continue to be recovered/ borne by the beneficiary/ consumer. Therefore, the Authority disallows the claimed amount under the head as per its earlier decisions. The allowances may be consulted in the table given below: -

Table 13: Measuring and Regulating Assets allowed

Million Rs.

Sr.#	Description	*Demanded*	*allowed*
i	New Connections including 10% additional urgent fee	4,213	4,213
ii	Construction of of TBs/DRs	361	361
iii	Replacement of old meters	2,549	2,549
iv	Construction of SMSs	200	175
v	Measuring & Regulating Regular Assets	420	217
vi	GI Pipe and Fittings	174	-
	Total	**7,917**	**7,515**

6.7.16. ***In view of the above, the Authority allows Rs. 7,515 million against Rs. 7,917 million as projected by the petitioner on account of addition under the head of Measuring and Regulating Regular Assets.***

6.8. *Plant, Machinery & Equipment and other Assets*

6.8.1. The petitioner has projected addition of Rs. 1,170 million on account of "Plant, Machinery & Equipment and Other Assets" for the said year, break-up of which is as follows:

Table 14: Detail of Additions to Plant, Machinery & Equipment and Other Assets

S. #	Description	Rs. Million
i	Telecommunication Equipment	23
ii	Plant & Machinery	94
iii	Tools & Equipment	156
iv	Construction Equipment	182
v	Motor Vehicle	300
vi	Furniture & Fixture	60
vii	Office Equipment	47
viii	Computer Hardware	308
	Total	**1,170**

i. Telecommunication Equipment

6.8.2. The petitioner has projected Rs. 23 million on account of "Telecommunication Equipment" for the said year. The petitioner has projected the said amount for procurement of different communications equipment including video wall for Telecom Network operations centre, Mini-PLC for Radio Room Temperature along with Ancillary Equipment, Orthogonal Data Radio Link, EPABX Telephone Exchange, etc.

6.8.3. ***The Authority observes that an advanced and reliable telecommunication system is essential for effective control and security of transmission system, therefore, keeping in view the past trend, the Authority allows Rs. 23 million on this account for the said year as projected by the petitioner.***

ii. Plant and Machinery

6.8.4. The petitioner has projected Rs. 94 million under the head Plant & Machinery. The petitioner has further divided Plant & Machinery into sub heads i.e. Power Plant & Equipment, Transmission-Compression Equipment, Distribution and Head office workshop plant and equipment etc.

6.8.5. The petitioner has projected the amount for purchase of different equipment like 25 KVA Transformer (Sec. III), 50 kVA Step down Transformer for Section II & IV, Companywide Requirements of Gensets, Laser Temperature Guns, Tacho Meters, Spanners, Threading Die Sets, Hydraulic Flange Spreader, Lathe Machines, Screw compressor with accessories, labeling machine, etc.

6.8.6. As per below given trend analysis, it has been observed that petitioner has been able to capitalize not more than 72 % on the average since FY 2012-13 to FY 2014-15.

6.8.7. ***Therefore, in view of trend analysis and justifications advanced by the petitioner and keeping in view the need assessment of the equipment required in day to day operations of the petitioner, 72 % of the projected amount i.e. Rs. 68 million as against Rs. 94 million is allowed by the Authority on provisional basis subject to actualization.***

iii. Tools and Equipment

6.8.8. The petitioner has projected Rs. 156 million on account of "Tools and Equipment" for the said year including electrical equipment for transmission, corrosion control, central meter shop, telecom, stores department and firefighting equipment/ loose tools.

6.8.9. ***The Authority observes that the petitioner, in view of previous years trend analysis, has been able to capitalize only Rs. 34 million on an average from FY 2012-13 to FY 2014-15. Therefore, by adding inflation for the last two years, the***

Authority allows Rs. 41 million of the total projected amount under the head for the said year.

iv. Construction Equipment

6.8.10. The petitioner has projected an amount of Rs. 182 million for construction equipment and informed that the equipment is required for operational, maintenance, modification tasks, pneumatic operation, welding activities, tool for proper beveling of cutting ends of pipes during repair, construction / modification jobs including welding plants, air compressors, gas cutting sets, road cutting machines, beveling machines, fork lifters etc. Further there have been expanded manifolds in recent years with changes in regional territories and LNG projects in hand, therefore, more construction equipment is required. The petitioner is also advised to provide to the Authority a detailed list of construction equipment and machinery for distribution. Any expense over and above the allowed amount may be considered by the Authority at the time of respective FRR.

6.8.11. **The Authority allows 50 % of the projected amount i.e. Rs. 91 million. Moreover, construction equipment has also separately been allowed in RLNG projects activity.**

v. Motor Vehicles

6.8.12. The petitioner has projected Rs. 300 million on account of allocated and non allocated vehicles required during the said year. The petitioner has explained that the budget shall be kept under Head office's pool items head.

6.8.13. *The Authority observes that the petitioner is presently working on LNG projects, UFG surveys etc. The trend shows that the petitioner has been able to capitalize an average of 76 % in the last three years. Therefore, the Authority allows Rs. 229 million under the head "Motor Vehicles for FY 2016-17 subject to justified actualization at the time of FRR.*

vi. Furniture & Fixture

6.8.14. The petitioner has projected Rs. 60 million under the head of furniture & fixture.

6.8.15. ***In view of the trend analysis of past three years, Rs. 60 million is allowed by the Authority subject to actualization at the time of FRR.***

vii. Office Equipment

6.8.16. The petitioner has projected Rs. 47 million on account "Office Equipment" for the said year and informed that they are using "Office Equipment" for procurements of Photocopy machines/Fax machines as well as for Security Equipment's i.e; CCTV Camera, Walkthrough Gates, Security Scanners etc. owing to the unfortunate security conditions in the country as well as companywide increasing threats to the installations and offices from the different quarters. Currently HSE department is more active in the Company and making efforts for implementation of HSE policies at all levels also.

6.8.17. ***The Authority observes that the petitioner has been able to capitalize only Rs. 17 million on an average since the last four years from FY 2012-13 till FY 2015-16. Therefore, the Authority allows Rs. 17 million under the head for FY 2016-17 and any expenditure over and above may be considered by the Authority at the time of FRR.***

viii. Computer Hardware and I.T

6.8.18. The petitioner has projected Rs. 308 million under the head Computer Hardware for FY 2016-17 for I.T Equipment Pool Budget, Replication Licenses, HHU, Next Generation Threat Protection, Core Switches (Network), Core Routers (WAN), Switches (layer 3-38 ports), Wireless AP, Access Control Server, Virtualization, operating System and Antivirus for Virtualization for regions, License for Lotus Domino Server, Notes Clients and Antivirus for Domino, Active Directory Reporting / Management software etc.

6.8.19. The petitioner has projected this amount for procurement of computer related equipment and licences for software used for smooth function and operation. The Authority observes that in the past, the petitioner had capitalized 66% average budget under this head for the last four years from FY 2012-13 to FY 2015-16.

6.8.20. *Keeping in view the previous trend, the Authority allows 50 % of the projected amount i.e. Rs. 154 million under the head for the said year.*

Table 15: Detail of Additions under Plant & Machinery

Rs. Million

S. #	Description	Demanded	Allowed
i	Telecommunication Equipment	23	23
ii	Plant & Machinery	94	68
iii	Tools & Equipment	156	41
iv	Construction Equipment	182	91
v	Motor Vehicle	300	229
vi	Furniture & Fixture	60	60
vii	Office Equipment	47	17
viii	Computer Hardware	308	154
	Total	**1,170**	**683**

6.8.21. *In view of the above the Authority allows addition in assets on account of Plant, Machinery and other assets at Rs. 683 million as per the table given below as against Rs. 1,170 million as projected by the petitioner for the said year.*

ix. Civil Construction

6.8.22. The petitioner has projected Rs. 320 million under the head "Civil Construction" for civil constructions and explained that Sahiwal was made independent region in 2011 as a result of which the operations of the company have increased and the space of the existing building have become inadequate and that area of 8 Kanal at N-4 transmission station Sahiwal has been handed over to Distribution Department Sahiwal for the construction of proposed Distribution office building. The building is proposed to have a ground floor and two upper floors.

The building shall have facility of HVAC Plant, Electric Power Generator, Lifts and Security system. An amount of Rs. 200 million was proposed in FY 2015-16 and the Authority allowed only Rs. 100 million. It has been stated that an approximate amount of Rs. 400 million may be required. The amount required for Stage-1 shall be utilized from available budget for FY 2015-16 and an amount of Rs. 100 million has been requested in FY 2016-17. The budget requirement above Rs. 200 million shall be requested in FY 2017-18.

6.8.23. *The Authority keeping in view the justifications advanced by the petitioner allows Rs. 200 million for normal civil construction activities and Sahiwal Region Building as against Rs. 320 million for the said year. The actual expense in this regard may be considered at the time of FRR by the Authority. The Authority also notes with concern the massive increase in projected cost of Sahiwal Region Building from Rs. 200 million to Rs. 400 million. The petitioner is advised to remain within the original budget.*

6.9. *Funds to regularize illegal network in Oil and Gas producing areas of Khyber Pakhtunkhwa*

6.9.1. The petitioner submitted a plan to regularize illegal network in Oil and Gas producing areas of Khyber Pakhtunkhwa at an estimated cost of Rs. 6,667 million. The petitioner pleaded its case by arguing that regularization of illegal network shall be helpful to curb the losses in District Karak, on account of Law & Order situation.

6.9.2. The petitioner, vide its letter dated July 29, 2016, informed that the matter has been taken up with DG (Gas) office regarding funding of the project through GIDC or royalty of the province to curb this menace along-with the request to seek approval of the ECC. The Authority, therefore, pends the matter till receipt of the policy guidelines from the Federal Government or arrangement of funding by the Provincial or the Federal Government. The Authority reiterates it earlier stance that petitioner will submit a comprehensive cost & benefit study specially with respect to the reduction in UFG.

6.10. *LPG Air Mix Plants*

6.10.1. The petitioner submitted an amount of Rs. 514 million for 03 LPG Air Mix Plants located in Murree (Dewal, Tret and Company Bagh). The petitioner has also submitted its application with the Authority for grant of LPG Air Mix Licences.

6.10.2. The Authority granted construction licenses to the petitioner for the above three (03) sites on 23rd September 2016 subject to certain conditions which are required to be fulfilled by the licensee before acquiring license for operation. The Authority in principle approved the request of the petitioner regarding LPG Air Mix Plants. However, the Authority does not include Rs. 514 million projected by the petitioner in the rate base at this stage. Accordingly, actual expenditure by the petitioner shall be considered at the time of FRR for the respective year.

6.11. *Creation of New Regions*

6.11.1. The petitioner submitted its phased plan to create new regions/ sub regions in three years. The petitioner has pleaded that in order to focus on UFG at micro level, for better management, efficient operations and accountability; it is the need of the hour to establish new regions to make the respective area a self sufficient unit, responsible for all Customer Services, Billing and Distribution activities.

6.11.2. The petitioner has projected an amount of Rs. 602 million for Phase-I, II and III regarding creation of new regions and sub regions.

6.11.3. The petitioner has projected Rs. 215 million for Phase-I which includes Gujranwala remaining with sub-region Kamokee, Gujrat with sub-region Kharian, Mardan Region with Nil sub region, Rahim Yar Khan with sub-region Bahawalnagar alongwith expenditure including free hold land, Building and Office Equipment, Vehicles, Machinery, Equipment and Tools.

6.11.4. Out of Rs. 215 million, the petitioner has projected an amount of Rs. 101 million for establishment of new Region at Mardan. Keeping in view the lesser number of regions in Khyber Pakhtunkhwa, geographical location of Mardan, number of consumers, easy access for consumers, anticipated growth due to Mardan-Swat pipeline augmentation and for better control over UFG, ***the Authority approves the creation of new region Mardan*** and allows an amount of Rs. 51 million subject to capitalization in the FRR. Further the petitioner is advised to operate the new region in rented premises with optimum use of already available office items/ equipment /vehicles and human resource. A separate plan focusing utilization of existing resources in this reference be submitted within one month of issuance of this order.

6.11.5. The Authority also allows an amount of Rs. 18 million for Swabi as Sub-Region which was already been approved by the Authority in DERR 2015-16.

6.11.6. It is mentioned that none of the remaining proposed Region/ Sub-Region meet the assessed criteria of the Authority for its establishment.

6.11.7. ***The Authority, therefore, allows an amount of Rs. 69 million against Rs. 215 million for Phase-I as projected by the petitioner under the head for the said year.***

6.11.8. The petitioner projected Rs. 374 million for Phase-II (creation of new regions and sub regions) which includes Attock with sub-regions Hazro and Murree, Toba Tek Singh with sub-region Chiniot, D.G Khan, D.I. Khan with sub-regions Karak and Bannu and sub regions Rawalpindi City and Gujar Khan along with expenditure freehold Land, Building and Office Equipment, Vehicles, machinery, equipment and tools.

6.11.9. It is mentioned here that only Rawalpindi City as sub-region meets the criteria regarding number of consumers. Therefore, an amount of Rs. 14 million is allowed for establishment of Rawalpindi City sub-region in Phase-II for the said year with the advice to operate the new region in rented premises with optimum use of already available office items/ equipment /vehicles and human resource.

A separate plan focusing utilization of existing resources in this reference be submitted within one month of issuance of this order.

6.11.10. The petitioner also projected Rs. 13 million for creation of Mirpur (AJ & K) as sub-region, CSC's at Khushab and Shorkot in Phase-III. It is mentioned that none of the remaining proposed sub-region and customer service center meet the assessed criteria of the Authority for its establishment.

6.11.11. Mirpur already has a CSC currently operating and it does not qualify as sub-region and is pended in Phase-III at this stage, however, the petitioner is advised to post optimal number of executive and add some pertinent activities to address the specific issues of the area on priority. Small incremental cost may be brought in the FRR for consideration of the Authority.

6.11.12. *In view of the above, the Authority allows a total amount of Rs. 83 million against the projected amount of Rs. 602 million by the petitioner under the head of creation of new regions (Phase-I, II & III) for the said year. The petitioner is also advised to revisit its internal criteria and come up with a comprehensive revised assessment criteria based on all the relevant factors separately for establishment of Regions, Sub-regions and CSC's within one month of issuance of this order.*

6.12. Fixed Assets Determined by the Authority

6.12.1. The value of additions in assets claimed by the petitioner and provisionally allowed by the Authority for the said year is as under:

Table 16: Summary of Asset Additions Determined by the Authority.

			Million Rs.
Particulars	Demanded	Adjustment	Determined
Transmission	48,674	(24,105)	24,569
Compression	310	-	310
Distribution Development	21,835	(10,163)	11,672
Measuring and Regulating Assets	7,917	(402)	7,515
Plant, Machinery & Equipment and Other Assets	1,170	(287)	683
Buildings on freehold land (Civil construction)	320	(120)	200
Creation of new Regions	602	(519)	83
SCADA	650	-	650
Illegal network in KPK	6,700	(6,700)	-
Addition in asset base FY 2016-17	**88,178**	**(42,296)**	**45,682**

6.12.2. As a consequence of adjustment on account of addition in assets for the said year, the depreciation expense claimed by the petitioner comes down to Rs. 17,962 as against Rs. 19,774 million claimed by the petitioner. The depreciation charged to T&D cost works out to Rs. 17,238 million for the said year.

6.12.3. *In view of the above, the Authority provisionally determines the closing net operating fixed assets for the said year at Rs. 139,150 million*

7. Operating Revenues

7.1. Number of consumers

7.1.1. The petitioner has projected increase in number of consumers from 5,315,885 per DERR FY 2015-16 to 5,816,886 for the said year, as follows:

Table 17: Comparison of Projected Number of Consumers with Previous Years

				# of consumers
Sector	FY 2014-15	FY 2015-16	Additoin during the year	FY 2016-17
Domestic	4,989,538	5,250,894	500,000	5,750,894
Commercial	58,031	58,303	1,000	59,303
Industrial	6,687	6,688	1	6,689
Total	**5,054,256**	**5,315,885**	**501,001**	**5,816,886**

7.1.2. The Authority, in view of discussion made above, allows 330,000 addition in consumer base for the said year. Accordingly projected number of consumers comes to 5,645,885 for the said year.

7.2. Sales Volume

7.2.1. The petitioner has submitted that sale volume for the said year has been projected at 418,840 BBTU, as against 408,106 BBTU in actual FY2015-16 i.e. increase of 3%.

Table 18: Comparison of Sales Volume with Previous Years

BBTU

Category	FY 2014-15	FY 2015-16		2016-17	Growth
	FRR	DERR	Actual	The Petition	%
Power	120,043	97,326	97,801	91,669	-6%
Cement	342	-	300	5,469	1725%
Fertilizer	13,155	7,116	32,778	27,993	-15%
General Industries	44,723	62,608	43,870	46,418	6%
CNG	38,971	34,821	29,101	24,915	-14%
Commercial	23,748	32,647	22,481	29,110	29%
Domestic	180,361	199,512	181,776	193,266	6%
Total	**421,343**	**434,030**	**408,106**	**418,840**	**3%**

7.2.2. The petitioner has explained that a slight increase in sales volume is based on the commitments from the well head gas producer. Generally, there is declining trend, compared with previous years, owing to depletion of different fields particularly, Chanda, Makori East, Manzalai, Nashpa, Pariwali, Kandhkot, Zamzama, Tajjal, etc. The petitioner has further elaborated that it has allocated the category-wise sale volumes in accordance with the current gas load management policy approved by the FG.

7.2.3. *The Authority, in view of above rationale, provisionally accepts the gas sale volume for the said year at 418,840 BBTU as projected by the petitioner.*

7.3. Sales Revenue at Existing Prescribed Prices

7.3.1. The petitioner has projected sales revenue for the said year, at prescribed prices determined by the Authority for FY 2015-16, to increase by 5%, from Rs. 204,397 million reported at actual for FRR FY 2015-16 to Rs. 214,011 million. Category-wise comparison of sales revenue is given below:

Table 19: Comparison of Projected Sales Revenue with Previous Years

Million Rs.

Category	FY 2014-15	FY 2015-16		2016-17	Incr/Decr over Actual
	FRR	**DERR**	**Actual**	**The Petition**	
Power	70,123	45,255	49,961	46,843	-6%
Cement	257	-	156	2,794	1697%
Fertilizer	1,129	3,309	16,745	14,303	-15%
General Industries	22,084	29,109	22,561	23,717	5%
CNG	25,962	16,190	14,927	12,730	-15%
Commercial	15,360	15,179	11,697	14,874	27%
Domestic	42,893	92,761	88,350	98,749	12%
Total	**177,808**	**201,803**	**204,397**	**214,011**	5%

7.3.2. The petitioner has explained that sales revenue for the said year has been computed on the basis of DERR FY 2015-16.

7.3.3. The Authority obverses that during FY 2015-16, the Authority had determined the average prescribed prices at Rs. 510.95 per MMBTU and sent the same to FG for sale price advice under Section 8(3) of the Ordinance for each category of consumer. The FG though revised the sale prices, however, the same could not sufficiently cover the revenue requirement; accordingly prescribed prices have now been re-adjusted. ***On the basis of same, the sales revenue at existing prescribed prices for the said year are determined to Rs. 177,060 million.***

7.4. Other Operating Revenues

7.4.1. The petitioner has projected "other operating revenues" at Rs. 5,905 million during the said year as against Rs. 9,464 million provided in the actuals for FY 2015-16, showing a decrease of 46%. Comparison with previous years is given below:

Table 20: Comparison of Projected Other Operating Income with Previous Years

Million Rs.

Description	FY 2014-15 FRR	FY 2015-16 DERR	FY 2015-16 Actual	FY 2016-17 The petition	Increase/(Decrease) over Actual	
Rental and service charges	1,698	1,481	1,601	1,918	317	21%
Surcharge and interest on arrears	2,914	3,200	4,087			
Amortization of deffered credit	2,746	2,829	2,765	2,527	(238)	-8%
Other operating income	1,282	200	1,011	1,460	449	225%
Net operating revenue	8,640	7,710	9,464	5,905	(3,559)	-46%

i. *Rental & Service Charges*

7.4.2. The petitioner has estimated income from "Rental & Service Charges" at Rs. 1,918 million as against Rs. 1,601million per actual forFY 2015-16. The petitioner has explained that income from "Rental" comprises rent charged from the consumers owing to use of gas meters. "Service Charges" consists of reconnection charges, testing & inspection, transmission charges and recoveries from consumers in respect of dedicated lines on consumer contribution basis. "Recoveries from consumers" and "Testing & inspection" are not permanent source of income and depends on the quantum of jobs done each year. The same activities during FY 2015-16 have remained on lower side.

7.4.3. The Authority always observes that major chunk of income under this head is "meter rental" which always observe increase owing to constant growth in number of connection every year. The remaining sources of incomes are not definite. The Authority however expects that same shall also grow keeping in view the enhanced activities and increased operations to improve quality of services.

7.4.4. *In view of the above, the Authority accepts petitioner's projection under this head and allows Rs. 1,918 million for the said year.*

ii. Late Payment Surcharge and Interest on Arrears

7.4.5. The petitioner has not included income on account of "Late Payment Surcharge and Interest on Arrears (LPS)" in tariff computation considering the same as non-operating for the said year.

7.4.6. The petitioner has reiterated its stance that LPS is a non-regulated income as it is an interest charge being financial compensation for delayed payment of gas dues by defaulting consumers. It was contended that delayed /non-payment by the consumers results in financing activities requiring the company to borrow additional funds to offset shortfall in cash flow. LPS, therefore, is not an operating activity but in fact a financing activity and thus cannot form part of operating income.

7.4.7. The petitioner also reiterated that income under this head in respect of WAPDA/IPPs, Fertilizer & Cement is not actually received. The same form part of circular debt settlement and is adjusted against the outstanding payment to gas producers. The petitioner accordingly requested to continue to treat the LPS in respect of such bulk consumers as non- operating.

7.4.8. The Authority observes that LPS has been treated as operating income under the existing tariff regime implemented since long on the basis that same is generated while undertaking a regulated activity. Under the existing tariff regime, income from all sources associated with regulated activity is adjustable in the revenue requirement. Accordingly, the Authority maintains its decisions and treats the income on account of LPS as operating income.

7.4.9. The Authority further observes that petitioner during the said year has also claimed the cost of working capital owing to insufficient increase in sale prices resulting to un-recouped shortfall in revenue requirement since FY 2015-16. The actual recovery from consumers has been far less even to meet the revenue requirement determined by the Authority. The petitioner has pleaded that during FY 2015-16 and in current year as well, it has to excessively borrow the funds from commercial banks in order to meet its operating cost and resolve the cash flow issues. Accordingly, the petitioner has claimed cost of working capital in the instant and last completed financial year as operating expenses in the revenue requirement.

7.4.10. The Authority observes that the contention made by the petitioner is relevant on the basis of facts and ground realities. Gas prices in FY 2014-15 have not been revised while in FY 2015-16, these were revised insignificantly that eventually incapacitated the petitioner to fully meet the revenue requirement. This accumulation of shortfall resulted to additional borrowings from commercial banks which certainly has cost impact. Accordingly, the Authority has decided in principle to consider the same only to the extent of cost of working capital necessitated for operating activities including payments to gas creditors subject to audited figures, if any, to be provided by the petitioner at the time of FRR. The Authority further observes that the petitioner is claiming working capital cost, accordingly LPS on account of bulk consumers as well equitably requires to be treated as operating income. This shall provide a fair treatment in the revenue requirement for the said year.

7.4.11. *The Authority, in view of above, determines the income on account of LPS at Rs. 6,100 million (i.e; at the level of DERR plus 10% growth) for the said year.*

iii. Other Operating Income

7.4.12. The petitioner has projected Rs. 1,460million under the head "Other Operating Income" for the said year. The petitioner has elaborated that income under this head comprises number of small and miscellaneous components which are estimated on lump sum basis, and no head wise break-up is provided with the petition at the time of DERR.

7.4.13. The Authority observes that income under this head definitely accrues; the quantum of the same however varies from year to year. Recovery of arrears, insurance claims and recovery from defaulting consumers are chief source under this head.

7.4.14. *In view of above, the Authority accepts the petitioner's claim under this head for the said year at Rs. 1,460 million for the said year.*

iv. Transportation of R LNG

7.4.15. The Authority observes that during FY 2015-16 and in the instant year, the petitioner has planned extensive capitalization on account of RLNG transportation from south to north part of the country. All such expenses/revenues owing to undertaking of transportation of RLNG activities, as per FG decisions, are part of revenue subject to ring-fencing. Accordingly, the petitioner, in RLNG pricing, has factored significant income on this account since last financial year.

7.4.16. The Authority observes that petitioner was required to project the income on account of transportation for the said year as well. Accordingly, it has advanced a working whereby Rs. 12,351million, has been estimated as income on this account for the said year.

7.4.17. The petitioner has submitted that capitalization to transport huge RLNG volume is under progress which is likely to complete in the third quarter of this year. The construction of Terminal-2 is also under progress. Accordingly, the realistic estimation of transportation income shall materialize at that time. Provisionally, the above figures may be accepted to be included in the revenue requirement for the said year. The Authority agrees with the petitioner's view point and provisionally includes Rs. 12,351 million as transport income of RLNG for the said year.

7.4.18. *In view of above, the Authority determines the other operating income at Rs. 24,356 million for the said year as against Rs. 5,905 million projected by the petitioner.*

8. Operating Expenses

8.1. Cost of Gas Sold

8.1.1. The petitioner has projected cost of gas sold for the said year to decrease from Rs. 157,043 million actually reported in FY 2015-16 to Rs. 128,216 million, based on decrease in purchase volume and projections of international prices of crude and HSFO. Comparative analysis of projected cost of gas with previous years is given below:

Table 21: Comparison of Cost of Gas with Previous Years

Particulars	FY 2014-15	FY 2015-16		The petition
	FRR	DERR	Actual	
BBTU	421,343	434,030	478,483	418,840
Million Rs.	179,983	146,651	157,043	128,216
Rs. /MMBTU	**427.17**	**337.88**	**328.21**	**306.12**

8.1.2. The well-head gas prices, on the basis of which cost of gas is determined, are indexed to the international prices of crude or HSFO per GPAs between the GoP and the producers and are notified bi-annually, effective on 1st July and 1st January each year. The international average prices of crude and HSFO during the immediately preceding period of December to May are used as the basis for calculating the estimated well-head gas prices for the period July to December, and similarly oil prices during the immediately preceding period of June to November are used to calculate the projected well-head gas prices for the period January to June.

8.1.3. The petitioner has computed WACOG at Rs. 274.31/ MMBTU for the said year projecting international prices of HSFO & crude and PKR / US $ exchange rate as under:

Table 22: Estimates for Determination of WACOG per the Petition

Wellhead gas prices effective period	Period of Avg. Priecs of Oil	Avg. C&F Price of Crude Oil (US $ /BBL)	Avg. C&F Price of HSFO (US $ /M. Ton)	Exchange Rate (Rs./US $)
July to December, 2016	December, 2015 to May, 2016	32.4462	155.3798	109.00
January to June, 2017	June to November, 2016	34.8937	160.8331	111.00

8.1.4. The Authority observes that actual average international oil prices for the period December, 2015 to May, 2016 are now available, and are used for computation of well-head gas prices effective July 01, 2016. Average actual prices for the period June - August, 2016 has been assumed for computation of prices w.e.f January 01, 2017. Therefore, keeping in view the current trend of international oil prices and US $ exchange rate as provided in table below. WACOG is computed at Rs. 275.18/MMBTU for the said year.

Wellhead gas prices effective period	Period of Avg. Priecs of Oil	Avg. C&F Price of Crude Oil (US $ /BBL)	Avg. C&F Price of HSFO (US $ /M. Ton)	Exchange Rate (Rs./US $)
July to December, 2016	December, 2015 to May, 2016	35.1775	169.9806	104.94
January to June, 2017	June to November, 2016	45.4711	232.3409	105.50

8.1.5. *Based on the above, the cost of gas is provisionally determined at Rs. 128,632 million for the said year.*

8.2. Unaccounted for Gas (UFG)

8.2.1. The petitioner has claimed UFG for the said year at 10 % (49,959 MMCF), as follows:

Table 23: UFG Volume Claimed in the Petition

	Volumes in MMCF
	FY 2016-17
Particulars	The Petition
Gas Purchases	506,884
Gas Available for Sale	499,585
Gas Sales	449,626
UFG Volume	49,959

8.2.2. The Authority has fixed UFG at 4.5 % since FY 2011-2012 onwards. The Authority observes that UFG benchmarking is an issue of vital importance and keeping in view its significance; the Authority has already started the UFG Benchmarking study and also has sent the draft UFG report to the gas utilities for comments. In view of above, the Authority fixes UFG benchmark provisionally at 4.5% for the said year subject to be reviewed at FRR.

Table 24: UFG disallowance computation

MMCF

Particulars		Per the Petition	Calculated by OGRA
Gas Purchases			
Metered gas purchased	A	506,884	506,884
Gas taken out / put into	B	0	0
Net Gas Received	C=A+B	506,884	506,884
Gas Internally Consumed (Metered)	D	6,687	6,687
Transmission	a	613	613
(i) Compression			
(ii) Residential Colonies			
(ii) Coating Plant			
Distribution	b		
(i) Free Gas Facility			
(ii) Co-Generation			
Net Gas Available for Sale	E=C-D	499,585	499,585
Gas Sold (Billed)	F	449,626	449,626
Less RLNG sold		0	0
UGF Volume	G=E-F	49,959	49,959
Projected UFG		10.00%	10.00%
		(G/E)X100	(G/E)X100
Working of Disallowance		**Calculated by SNGPL**	**Calculated by OGRA**
UFG TARGET may be set by the Authority		SNGPL did not calculate disallowance	4.50%
Allowed UFG Volume MMCF =H			22,481
Disallowance (G-H) MMCF			27,478
UFG VOLUME DISALLOWED (MMCF) = I			27,478
WACOG (Rs./MMCF)			256.34
UFG Disallowance (Rs. Million)			7,044

8.2.3. *Based on the above computation, the Authority provisionally deducts Rs. 7,044 million from the revenue requirement of the petitioner for the said year.*

9. Transmission and Distribution Cost

i. Summary

9.1.1. The petitioner has projected 44% increase in Transmission and Distribution (T&D) cost, from Rs. 21,657 million per actual results FY 2015-16 to Rs. 31,241 million for the said year, as detailed below:

Table 25: Comparison of Projected T & D Cost with Previous Years

Rs. in million

Particulars	FY 2014-15	FY 2015-16		FY 2016-17	Increase / (Decrease) Over	
	FRR	DERR	Actual	The Petition	Rs.	%
Human Resource Cost	10,553	12,228	13,581	18,559	4,978	37
Stores and Spares Consumed	353	636	454	747	293	65
Repair and Maintenance	862	991	953	1,457	504	53
Fuel and Power	241	265	250	261	11	4
Stationery, Telegram and Postage	108	132	134	188	55	41
Dispatch of gas bills	95	112	100	105	5	5
Rent, Rate, Electricity and Telephone	356	423	376	539	163	43
Traveling	148	163	157	209	52	33
Transport expenses	794	873	739	1,044	305	41
Insurance	189	218	189	298	109	58
Legal and Professional Services	108	126	215	244	28	13
Consultation for ISO 14001 & OHSAS	3	5	4	5	1	24
Provision for doubtful debts	2,018	2,137	3,144	5,836	2,692	86
Gas bills collection charges	376	418	381	450	69	18
Gathering charges of gas bills collection	35	46	37	55	18	50
OGRA fee	124	173	152	173	21	14
Advertisement	143	172	145	197	52	36
Bank Charges	11	13	13	23	9	71
Uniforms & protective clothing's	28	32	11	65	54	513
Staff training and recruiting	11	13	10	28	18	184
Security expenses	486	559	575	786	210	37
SNG training insititute	13	22	12	24	12	94
Sponsorship of chairs at University	9.96	9.96	9.79	9.96	0	2
Interstate Gas System Pvt Ltd	75	70	105	221	116	110
Cost of Gas Blown off	127	-	170	-	(170)	(100)
Budget for UFG control related activities	404	-	327	777	450	138
5 Year special training programme	27	30	25	30	5	21
Out Sourcing of call centre complaints	21	23	27	36	9	33
Other expenses	272	312	261	475	214	82
Subtotal Expenses	**18,011**	**20,203**	**22,556**	**32,841**	**10,285**	46
Allocated to fixed capital expenditures	(2,209)	(3,830)	(1,898)	(3,434)	(1,536)	81
T&D Expenses	**15,802**	**16,373**	**20,658**	**29,407**	**8,749**	42
Gas Internally Consumed	1,475	2,084	999	1,834	835	84
T&D Expenses	**17,277**	**18,456**	**21,657**	**31,241**	**9,584**	44

9.1.2. Various components of operating cost are discussed in the following paras:

ii. Human Resource (HR) Cost

9.1.3. The petitioner has estimated HR cost at Rs. 18,559 million (Rs. 16,840 million HR cost + Rs. 1,719 million IAS cost) including Rs. 3,552 million CBA impact for the said year as against Rs. 12,228 million provided in DERR and Rs. 13,581 million actually observed for FY 2015-16.

9.1.4. The petitioner has estimated HR cost based on DERR FY 2015-16 and indexed the same keeping in view the impact of annual increments, CBA agreement and expected recruitment against the vacant posts. The petitioner has explained that the major impact, contributing to approximately Rs. 4 billion over DERR, is due to cost of annual increments, CBA agreement and IAS 19.

9.1.5. The Authority observes that the petitioner was asked to provide comprehensive manpower need assessment study based on the working norms and justify the phenomenal increase projected during the said year. The same however has not been provided. Further, no plausible justification has been advanced for projecting fabulous increase and claiming the CBA cost separately during said year.

9.1.6. The Authority observes that the petitioner has been categorically advised that HR benchmark covers all costs related to HR including CBA impact. Accordingly, it requires that HR cost should be utilized in optimal and judicious manner and necessary provision may be made to offset the CBA demand first. The petitioner however has been devoid of the basic concept and theme of HR cost benchmarking and adopted rather inconsistent approach to utilize the funds on this account. Additional funds for CBA etc; over and above the HR cost benchmark shall defeat the very purpose of benchmarking. The Authority therefore adheres with the principles and accordingly considers petitioner's demand to the extent of reasonable level without intervening the petitioner's micro management policies including HR funds allocation.

9.1.7. The Authority further observes that company is in the process of restructuring. New regions have been claimed while gas sector reform process is also under way. In this scenario, new benchmark shall require time for extensive deliberation and consultation with all stakeholders keeping in view expected change in business dynamics. ***The Authority therefore extends the existing benchmark for said year. Accordingly, the HR cost benchmark for the said year computes to Rs. 13,800 million, as per Annex C. The petitioner in this regard is also directed to carry out a comprehensive HR manpower need assessment & allocation study with respect to proposed business dynamics relates to sector reforms and submit the same with the Authority.***

9.1.8. The Authority also observes that interveners in the public hearings raised assertions regarding compliance to relevant articles of Constitution of Islamic Republic of Pakistan. Particularly, the provincial representative expressed agony that gas companies do not even share reliable and relevant data with the provinces who are prime stakeholder after 18th Amendment. The Authority observes that compliance to the Constitution of Islamic Republican of Pakistan is obligation on each and every organ of the state. ***Accordingly, all the stakeholders particularly the provinces should be taken on board in terms of Article 38(g) of the Constitution of Pakistan while proceeding on the respective matters. Further, requisite data in this regard should be shared with the provinces on regular basis.***

iii. Stores and Spares Consumed

9.1.9. The petitioner has projected stores and spares consumed for the said year at Rs. 747 million as against actual expenditure of Rs. 454 million reported for FY 2015-16. The historical comparison of "Stores and Spares Consumed" is given below:

Table 26: Comparison of Projected Stores and Spares Consumed with Previous Years

Rs. In million

	FY 2014-15	FY 2015-16		FY-2016-17	Incr/Decr over actual	
	FRR	DERR	Actual	The Petition	Rs	%
Compression	87	147	78	165	87	112%
Transmission	160	255	174	266	92	53%
Distribution	32	157	119	207	87	73%
Others (incl H.O.)	15	9	10	20	10	103%
Freight & Handling	59	68	73	89	16	22%
Total	353	636	454	747	293	65%

9.1.10. The petitioner has explained that projected increase under the sub-head "Compression" includes procurement of turbine oil required for gas turbine compressor packages at Multan and Faisalabad. Procurement of Air Intake filter elements are also required for installation at Air inlet assemblies of gas turbine packages and also for maintenance of solar turbines engines T-47, T-45, T-40 and T-50 installed at various compressor stations.

9.1.11. Under the sub-head" Transmission", the petitioner has stated that projected increase is normal keeping in view the expenses allowed in DERR for FY 2015-16.

9.1.12. Under the sub-head "Distribution", the petitioner has projected increase of Rs. 87million and submitted that increase is mainly due to allocation of Rs. 33 million for metering distribution. The same is part of capacity enhancement activities which had been separately allowed by the Authority. The balance amount of Rs. 53 million increase has been projected for replenishment of stock/procurement of material for operational & maintenance activities.

9.1.13. The Authority, in view of above, observes that consumption of stores & spares for smooth operation, system up-gradation and improvement is a regular feature. Further, spending under this head is directly related to routine operation, repair & maintenance activities which are mainly undertaken to control gas losses. On this backdrop, the Authority has always appreciated the company's endeavors to undertake core operating activities in an effective manner. The current projection however seems to be rather flimsy when compared with the actual results during last years. Further, the same seems to be on higher side keeping in view the aspect of general inflationary trend which currently prevails less than 5%. *The Authority therefore adopts the actual expenses for FY 2015-16 and index the same with 15% increase under this head for the said year in order to cater for inflationary trend and enhanced activities.* The Authority however shall review the actual expenses incurred under this head at the time of FRR for the said year and accordingly prudent cost shall be admissible.

9.1.14. *In view of above, the Authority provisionally determines the expenditure under the head "stores and spares consumed" for the said year at Rs. 522 million.*

iv. Repair & Maintenance

9.1.15. The petitioner has projected "Repair & Maintenance" for the said year at Rs. 1,457 million as against Rs. 953 million actually stated for FY 2015-16. Historical comparison of "Repair & Maintenance" is given below:

Table 27: **Comparison of Projected Repair & Maintenance Expenses with Previous Years**

Particulars	FY 2014-15	FY 2015-16		FY-2016-17	Incr/Decr over actual	
	FRR	DERR	Actual	The Petition	Rs	%
Compression	22	25	20	30	10	51%
Transmission	75	86	82	231	149	183%
Distribution	487	560	524	778	254	48%
Others (incl H.O.)	278	320	326	418	91	28%
Total	**862**	**991**	**953**	**1457**	**504**	**53%**

9.1.16. The petitioner has explained that proposed increase for "Transmission" includes Rs. 162 million for recoating of transmission lines. In previous years recoating works could not be undertaken at its full capacity due to non clearance of ROWs. The projected increase in distribution is mainly on account of anticipated increase in contract payment rates which is due from July 2016.

9.1.17. The petitioner has further explained that increase in others (incl H.O and service depts) is mainly on account of revision of janitorial services and also due to minimum wage rate announced by GoPfor FY 2016-17.

9.1.18. The Authority observes that it has always supported the petitioner's initiatives to undertake repair and maintenance related activities and has given rather free hand to spend budget under this head with primary focus on the achievement of targets. The Authority observes that activities under this head are carried out on continuous basis and the effectiveness of the same directly contributes to petitioner's operating performance. The same therefore are anchored with the timeframe and physical targets primarily aimed to control leakages particularly in the distribution segment.

9.1.19. The Authority further observes that petitioner is claiming that it has vigorously undertaken repair & maintenance activities with object oriented approach during the last financial year, and has resultantly reduced the UFG by around 2%. The Authority appreciates petitioner's efforts for UFG reduction and expects that the same can be further lowered down if consistent approach is strategically maintained with measurable results.

9.1.20. The Authority further observes that actual expenses during the last financial year depicts that petitioner has generated capacity and has been able to achieve amenable targets. The Authority adopts the same and allows 15% increase with a view to enhance activities and cater for rate increase.

9.1.21. *In view of above, the Authority determines the expense under "Repair and maintenance "at Rs. 1,096 million for the said year. The Authority however shall consider actual prudent expenses at the time of FRR for the said year provided the same conforms to operational efficiency in terms of UFG reduction for the said year.*

v. Stationery, Telegram and Postage

9.1.22. The petitioner has projected Rs. 188 million under the head "Stationery, Telegram and Postage" for said year as compared to Rs. 132 million allowed in DERR and actual reported at Rs. 134 million for FY 2015-16. Historical comparison is given below:

Table 28: Comparison of Projected Stationery, Telegram and Postage with Previous Years

Rs. In million

Particulars	FY 2014-15	FY 2015-16		FY-2016-17	Incr/Decr over actual	
	FRR	DERR	Actual	The Petition	Rs	%
Compression	1	1	1	2	1	69%
Transmission	4	4	3	6	2	75%
Distribution	14	15	16	25	9	53%
Others (incl H.O.)	90	112	113	156	43	38%
Total	**108**	**132**	**134**	**188**	**55**	**41%**

9.1.23. The petitioner has explained that an overall increase of 41% over actual expenses FY 2015-16 is mainly on account of Pre-printed gas bills. Expenses on Pre-printed gas bills were not fully booked in FY 2014-15 due to late submission of the invoices from suppliers and procurement procedures. The petitioner has therefore anticipated that full impact of utilization will be reflected in FRR 2015-16 and on the same pattern in FY 2016-17. Increase in "Others (incl. H.O) also represent escalation in prices of printing paper and stationery items in FY 2015-16 and also in FY 2016-17.

9.1.24. The Authority observes that the petitioner has projected 53% increase under the sub-head "Distribution" and 38% increase under the sub-head "Others (incl. H.O)on the premise that charges for printing of bills and quantity thereof is increasing. The Authority agrees with petitioner's contention, however, projection of abnormal increase is not convincing keeping in view the tendency of expenses incurred under this head.

9.1.25. ***The Authority in view of above maintains the latest trend and accordingly allows the expenditure under the sub-head "distribution" and "Others (incl. HO) at Rs. 18 million and Rs. 141 million respectively for the said year.***

Accordingly, the total expenditure under this head is determined at Rs. 167 million for the said year.

vi. Rent, Rate, Electricity and Telephone

9.1.26. The petitioner has requested Rs. 539million on account of Rent, Rate, Electricity and Telephone for the said year as compared to Rs. 423 million provided in DERR for FY 2015-16 and actual expenditure of Rs. 376 million in FY 2015-16. Historical comparison is given below:

Table 29: Comparison of Rent, Rate, Electricity and Telephone with Previous Years.

Rs. In million

Particulars	FY 2014-15	FY 2015-16		FY-2016-17	Incr/Decr over actual	
	FRR	DERR	Actual	The Petition	Rs	%
Rent	171	197	180	204	25	14%
Royalty/internet services	22	26	34	33	-1	-4%
Telephone	42	46	40	55	15	38%
Electricity	90	114	94	104	10	10%
Pakistan Railway (Line crossing charges)	15	15	10	119	108	1056%
Water Conservancy	3	3	2	3	2	87%
Vehicles rates and taxes	10	15	11	15	4	41%
Others	4	6	6	6	1	9%
Total	356	423	376	539	163	43%

9.1.27. The petitioner has projected Rs. 55million (38%) increase under the head "Telephone" for the said year. The petitioner has projected Rs. 55 million under this head as against Rs. 40 million actually incurred during FY 2015-16. The petitioner has pleaded that projected increase under this head is mainly on account of additional Data SIM Charges (approximately Rs. 1500) to be installed on GPRS/GSM based EVCs at CMSs in FY 2016-17 and existing expenses of already installed data SIMs/ PABX charges / Fax, etc.

9.1.28. The Authority observes that in view of historical results and the current market dynamics, the petitioner has projected the expenditure under this head on a higher side. The expenses under this head seem to be stagnant keeping in view competition in the market. The Authority therefore allows these expenses at the level of FY 2015-16 plus 10% to cater for enhanced usage for the said year.

9.1.29. The petitioner has projected Rs. 119 million under the head "railway crossings" and explained that the same includes Rs. 89 million demanded by Pakistan Railways as outstanding land lease charges of different crossings in Multan, Lahore and Peshawar Division. Rs. 30 million has been proposed for payment of different railway track crossings during FY 2016-17. Further the petitioner has submitted that as per direction of the Authority, matter is being taken at proper forum of Pakistan Railways for amicable settlement of outstanding issues of Railway crossings and lease charges.

9.1.30. The Authority reiterated that it has directed the petitioner repeatedly to take up matters of outstanding crossing charges at the appropriate forum for amicable settlement. The same, however, is still pending and has not been finalized yet. The expenditures in this respect therefore do not seem to be certain. The Authority therefore reiterates its directions to settle the issue as soon as possible and accordingly pends the same for the said year.

9.1.31. Regarding the remaining projected expenses under this sub-head for the said year amounting to Rs. 30million, the Authority observes that same have been grossly exaggerated keeping in view historical results which at maximum have been allowed at Rs. 15 million. The Authority maintains the same limit for the said year.

9.1.32. ***Based on the above, the Authority determines expenditure on account of rent, rate, electricity and telephone at Rs. 424 million for the said year.***

vii. Traveling Expenses

9.1.33. The petitioner has projected traveling expenses for the said year at Rs. 209 million as against Rs. 163 million provided in DERR and Rs. 157 million actually reported for FY 2015-16, showing an increase of 33% as under:

Table 30: Comparison of Traveling Expenses with Previous Years

Rs. In million

Particulars	FY 2014-15	FY 2015-16		FY-2016-17	Incr/Decr over actual	
	FRR	DERR	Actual	The Petition	Rs	%
Local travelling						
Executives	78	87	92	103	11	12%
Subordinates	56	62	52	76	24	47%
	134	149	144	180	35	25%
Foreign travelling	0.221	0.242	0	4.000	4.000	#DIV/0!
Conveyance (Official)	11	12	11	21	11	100%
Travelling directors	2	2	2	4	2	71%
Total	148	163	157	209	52	33%

9.1.34. The petitioner has explained that 15% increase over FRR FY 2014-15 is proposed for two years i.e FY 2015-16 and FY 2016-17 on account of local travelling of Executives and Subordinates.

9.1.35. The Authority observes that petitioner has projected 47% increase under the sub-head "Local Traveling sub-ordinates", and 100 % increase has been projected under the sub-head "Conveyance Official" for the said year whereas the expenses under both sub-heads have remained constant or on decreasing trend. The petitioner contention therefore has no plausible justification to allow the projected expenditure. The Authority, in order to cater for the relevant factor including inflation and enhanced activities, allows a reasonable increase of 5% under these heads.

9.1.36. *The Authority, in view of above, allows total expenses under the head at Rs. 165 million for the said year.*

viii. Transport Expenses

9.1.37. The petitioner has projected transport expenses for the said year at Rs. 1,044 million as against Rs. 739 million actual incurred in FY2015-16 showing an increase of 41% as under:

Table 31: Comparison of Transport Expenses with Previous Years

Rs. In million

Particulars	FY 2014-15	FY 2015-16		FY-2016-17	Incr/Decr over actual	
	FRR	DERR	Actual	The Petition	Rs	%
Compression	19	21	14	25	12	86%
Transmission	127	140	122	160	38	31%
Distribution	469	516	458	574	115	25%
Others (incl H.O.)	179	197	146	285	140	96%
Total	794	873	739	1044	305	41%

9.1.38. The petitioner has explained that transport expense comprises of various elements like POL, repairing of vehicles, replacements of tyres/tubes and batteries. It further contended that though the POL prices are declining in current year but the same cannot be anticipated in FY 2016-17. Further, Repair and Maintenance charges are one of the major components of transport expenses and the prices of parts are going on higher side. Therefore, only 15% increase over FRR 2014-15 with cumulative impact has been proposed for two years i.e; FY 2015-16 and 2016-17 on account of transport expense.

9.1.39. The Authority observes that POL prices uptill now, are historically on downward trend as against the increase anticipated by the petitioner. Further, inflationary impact which is another element of increase in expenses is also prevailing at affordable level. In this scenario, it is strongly expected that the actual spending for FY 2016-17 under this head shall not exceed the previous actual results.

9.1.40. *The Authority, in view of above, determines the expenses under this at the level of actual of FY 2015-16 i.e; Rs. 739 million for the said year.*

ix. Insurance

9.1.41. The petitioner has projected Insurance expenses for the said year at Rs. 283 million against Rs. 189 million actually incurred in FY 2015-16, showing an increase of 50% as under:

Table 32: Comparison of Insurance Expenses with Previous Years

Rs. In million

Particulars	FY 2014-15	FY 2015-16		FY-2016-17	Incr/Decr over actual	
	FRR	DERR	Actual	The Petition	Rs	%
Third party	2	2	2	2	0	
Fire risk	99	112	107	120	13	21%
Fidelity / cash in transit	0	1	0	1	1	12%
Motor vehicles	36	43	52	45	-7	926%
Loss of Profit	50	60	24	115	91	-14%
Road / Rail / Bridge	3	-	4	0	-4	379%
Total	189	218	189	283	94	-100%
						50%

9.1.42. The petitioner has explained that projected increase of Rs. 91 million is mainly owing to anticipated premium to be paid on account of "loss of profit" policy in FY 2016-17. Provision of Rs. 115 million against loss of profit policy in FY 2016-17 is based on the increase of estimated gross profit for FY 2016-17.

9.1.43. The Authority observes that during last completed FY, overall expenses did not witness any increase keeping in view the actual results for last two completed financial years under the sub-head "premium for loss of profit" it has decreased from Rs. 50 million in FRR FY 2014-15 to Rs. 24 million in FY 2015-16.

9.1.44. The Authority also observes that petitioner is claiming improvement in operating indicators and referring the UFG level for FY 2015-16 which has been reported to drop down. This definitely impacts the profitability of the company and consequently insurance premium on this account. Likely to this factum, actual insurance expenses under this head shall go down.

9.1.45. The Authority, in view of above, therefore restricts the projected expenses under the sub-head "loss of profit" at the actual level of FY 2015-16 and *determines total expenses under the head at Rs. 192 million for the said year.*

x. Legal and Professional Charges

9.1.46. The petitioner has projected expenditure of Rs. 244 million on account of legal and professional charges for the said year as against Rs. 126 million provided in

DERR for FY 2015-16, showing an increase of 93%. Actual spending stand at Rs. 215 million. Historical comparison is given below:

Table 33: Detailed Comparison of Projected Legal & Professional Charges with Previous Years

Rs. In million

Particulars	FY 2014-15	FY 2015-16		FY-2016-17	Incr/Decr over actual	
	FRR	DERR	Actual	The Petition	Rs	%
Legal	70	70	153	180	27	18%
Professional	22	25	38	30	-8	-22%
Tax	2	12	12	13	1	12%
Audit	6	8	8	10	2	23%
Apprenticeship/Scholarship/	6	8	4	8	4	86%
Others	3	3	1	3	3	409%
Total	108	126	215	244	28	13%

9.1.47. The petitioner has explained that an amount of Rs. 90 million has been booked so far on account of legal expenses and it is anticipated that proposed amount of Rs. 180 million will be utilized in FY 2016-17. Furthermore the petitioner has stated that increase under the sub-head "Legal" compared with DERR FY 2015-16 is due to lapse of gas theft (control and recovery) Ordinance 2014. Consequently, all cases were transferred back to the lower and relevant courts. Further due to implementation of judicial policy, separate fee is required to be paid to the local commission for recording of evidences, which now is being properly implemented. Court fee affixed on the plaints for recovery of over and above Rs. 25,000/- under the law in Khyber Pakhtunkhwa is levied at 7.5% irrespective of the amount involved in the matter. Moreover, along with routine litigation, number of writ petitions have increased due to new policies especially as a result of the gas theft campaign. In addition to above cases, regarding gas generators, curtailment, criminal proceedings/bails/trails and acquittal, are also dealt across the company. Apart from above, there are 100 of cases which are under litigation filed by the employees against the company on grievances and reservations on recruitment policy.

9.1.48. The Authority observes that petitioner has been demanding a significant amount in previous years on the same grounds particularly for the legal suits against the permanent defaulter, gas theft recoveries etc, no positive impact however has ever been witnessed. The recoveries from the defaulters are piling up day by day. The petitioner is also projecting on the same plea another expense head "recoveries from defaulters". The expense incurred on this account does not match with corresponding recoveries and amenable results.

9.1.49. The Authority further observes that hiring of legal counsels or prominent lawyers at higher fee is not token of favorable impacts. The management own actions, policies and service attitude may require improvement to create a win-win situation thereby avoiding unnecessary litigation. Further, legal proceedings without management strict pursuance and follow-up is just a futile exercise and wastage of resources. The Authority observes that despite spending of substantial amount on this account, no significant recoveries have been reported rather litigation cases and expenses are continuously increasing thereby questioning the performance standards and effectiveness of expenses allowed under this head.

9.1.50. In view of above, the Authority directs the petitioner to undertake concerted efforts to improve its customer service and pursue/plead the cases effectively to produce favorable results for the company. In this regard, the Authority directs to effectively utilize in house expertise and minimize the imprudent expense under this head.

9.1.51. The Authority, in view of above, allows reasonable cumulative increase of 20% over FRR for FY 2014-15 for the said year. Accordingly, the expense under the sub-head legal works out to Rs. 101 million for the said year and directs the petitioner to strictly observe the expenditure limits as determined by the Authority.

9.1.52. *The Authority, in view of above determines total expenditure under the head "legal and professional charges" at Rs. 165 million for the said year.*

xi. Provision for Doubtful Debts

9.1.53. The petitioner has projected "Provision for Doubtful Debts" for the said year at Rs.5,836 million. Historical trend of the provision for doubtful debts per petitioner is provided below:

Table 34: Provision for doubtful debt

Particulars	FY 2014-15	FY 2015-16	*Million Rs.* FY 2016-17
	FRR	Actual	The Petition
Industrial	916	2,400	3,828
Commercial	262	414	1,096
Domestic	841	330	912
Total	2,019	3,144	5,836

9.1.54. The petitioner has elaborated that projected expenditure under this head has been worked out in accordance with its policy which is based on disconnected consumers and unsecured debt. Unsecured debt is outstanding amount from defaulting consumers after adjusting the security deposit and provision held there against. This amount is also exposed to risk of recovery. The petitioner has explained that security deposit from consumers particularly from the domestic consumers is not adequate to compensate/offset the unpaid amount from the defaulters. This situation leads to increased default as well as cash flow crises for the petitioner. The petitioner has provided its approved policy in respect of disconnection consumers, as under;

Unsecured debt up to one year age 25%
Unsecured debt over one year age ....100%.

9.1.55. The petitioner has pleaded that keeping in view strategic nature of industry, essential services of some commercial entities, uninterrupted electricity dispatch and subjudice matters; it is precluded to disconnect the gas supply in swift manner in view of larger interest of the county. Resultantly, in the event of default by such consumers, the outstanding amount exceeds the security deposits and provision cover, thereby exposing the company to credit risk.

Similarly, in the subjudice matters wherein stay orders by the Honorable Courts are in field, the petitioner is unable to make recovery or disconnect the gas supply. Such situation becomes cause of unsecured debt and the same is pretty much beyond company control.

9.1.56. The Authority observes that it has made conscious thought and deliberated the issue in detail considering the previous decisions in this regard as well. The Authority reiterates its stance that risk of default by the consumers is very much secured keeping in view the reasonable security deposit, cumulative provisioning and non-substitutive nature of the product. Accordingly, expenses under this head can be maintained at reasonable level as the same are squarely dependent upon management efficiency, customer services, controls and feedback and effective recovery mechanism.

9.1.57. The Authority also reiterates that in the gas utility business, value of gas supply in respect of all the category of consumers including domestic consumers is backed/secured by adequate amount of security deposit taken at the time of grant of connection. In case of commercial and industrial consumers, this security deposit is even adjustable/replenished on continuous basis with respect to latest invoices/bills. However, credit sales are exposed to risk of default and this factor cannot be simply ignored. Therefore, reasonable provisioning is part of normal business operations, however, abnormal impact on the company on this ground is avoidable provided timely disconnection coupled with effective recovery mechanism and management concerted efforts are in place.

9.1.58. The Authority also observes that there has been abnormal and ever rising increasing trend in the outstanding debt when actual results are compared on year to year basis. Further, major chunk of provision is claimed in respect of industrial and commercial consumers, whose security amount is held in advance. Major factors giving rise to this expense may include ineffective recovery mechanism and lack of concerted efforts including delay in disconnection. The

Authority therefore has been stressing the petitioner to design and implement effective disconnection/recovery system in letter & spirit in line with its approved policy so that consumers as well as shareholders' interests must not be impaired.

9.1.59. Besides above, the Authority has deliberated the issue of litigation cases, continuous piled up amount against strategic industry etc; which may not only raise the doubtful debt but also create cash flow issues. The petitioner is accordingly required to substantiate its claim on the basis of facts, thrash out the stuck amount owing to chronic issues including litigation, identify the constraints and inherent limitation in the system and highlight the ground realities in quantitative terms which realistically contribute towards uncontrollable factors becoming cause of unsecured debt.

9.1.60. The Authority, keeping in view the petitioner's continuous contentions on the basis of ground realities in terms of uncontrollable factors including continuity of gas supply for essential services despite default, subjudice matters etc; implemented a benchmark at the time of time of FRR FY 2012-13, FY 2013-14 and FY 2014-15 and the same shall continue for the said year as follows;

- It shall consider only disconnected consumers and unsecured debt in the following manner;

Domestic Consumers (including bulk domestic):

- Unsecured debt having age up to three month .... Nil
- Unsecured debt having age over three months & up to 12 month.......25%
- Unsecured debt having age over 12 month ... . 100%.

All other (Commercial & Industrial Consumers):

- 25% of the total claimed by the petitioner as per its company's policy. However, the balance of provision can be considered at the time of FRR in the following circumstances;

Cogent reasons exist for increase in provision for doubtful debt for commercial and industrial consumers; duly supported by consumer wise following details;

(a) Name & category of consumers

(b) Amount booked as outstanding against the consumer during the year

(c) Reasons for creating provision

(d) Amount of provision

(e) Security held against the consumer

(f) Age analysis

9.1.61. In view of above, ***the provision for doubtful debt for the said year computes to Rs. 3,219 million.***

xii. Gas Bills Collection Charges

9.1.62. The petitioner has projected gathering charges on bills collection data for the said year at Rs. 450 million (18% increase) as against Rs. 381 million actually incurred in FY 2015-16. The historical comparison as under;

Table35: Comparison of Gas Bills Collection Charges with Previous Years

Rs. In million

Particulars	FY 2014-15	FY 2015-16		FY-2016-17	Incr/Decr over actual	
	FRR	DERR	Actual	The Petition	Rs	%
Gas bills collection charges	376	418	381	450	69	18%
	376	418	381	450	69	18%

9.1.63. The Authority observes that on the average about four million gas bills are added each year. The historical analysis of the same reveals that average rate per collection charges is on downward trend due to competitive market among the collecting agencies. Now the bills are collected from different sources including on line payment, through mobile companies, banks etc; During the last financial year, average rate of collection per bill has remained approximately less than Rs.6 per bill. If it is assumed that more or less same rate shall remain applicable, the expenses under this head tentatively computes to Rs. 402 million.

9.1.64. *The Authority in view of above, determines the expenses under this head at Rs. 402 million for the said year.*

xiii. Gathering charges of gas bills collection data

9.1.65. The petitioner has projected gathering charges on bills collection data for the said year at Rs. 55 million (50% increase) as against Rs. 37 million actually incurred in FY 2015-16. The historical trend shows as under;

Table36: Comparison of Gathering charges on bills collection data with Previous Years

Rs. In million

Particulars	FY 2014-15	FY 2015-16		FY-2016-17	Incr/Decr over actual	
	FRR	DERR	Actual	The Petition	Rs	%
Gathering charges on Bills Collection data	35	46	37	55	18	50%

9.1.66. The petitioner has explained that increase under this head is based on anticipated 25,312,000 number of bills by NIFT @ 1.86 per bill. Collection of bills by NIFT varies year to year and amount allowed by the Authority as per DERR FY 2015-16 is Rs. 46 million.

9.1.67. The Authority observes that actual results during the last financial year do not justify the petitioner contention made thereon. The Authority observes that due to new horizon of electronic media and competitive environment, the expenses are staying almost at the same level.

9.1.68. *In view of above, the Authority allows Rs. 40 million under this head for the said year, keeping in view the latest trend under this head.*

xiv. Advertisement

9.1.69. The petitioner has projected Rs. 197 million under this head for the said year as against Rs. 145 million actually incurred during FY 2015-16, showing an increase of 36% as under:

Table 37: Comparison of Advertisement Expense with Previous Years

Rs. In million

Particulars	FY 2014-15	FY 2015-16		FY-2016-17	Incr/Decr over actual	
	FRR	DERR	Actual	The Petition	Rs	%
Advertisement	143	172	145	197	52	36%

9.1.70. The petitioner has explained that increase under this head is mainly due to enhanced media campaign on account of energy conservation due to shortage/curtailment of gas supply to consumers. Further, as a corporate responsibility, company is also obligated for massive campaign regarding safety measures in winter season. Awareness regarding gas theft policies is also one of the component of advertisement. The publicity of all above is mostly transmitted during prime time hours of T.V / radio channels, which results in heavy cost under this head.

9.1.71. The Authority observes that petitioner has estimated the expenditure under this head keeping in view expenses allowed at the time of DERR. The expenses at the time of said DERR however was not indexed at the actual of FRR FY 2014-15, which were unprecedented. The actual expenses during the FY 2015-16 now reflects true picture and have been observed at adequate level.

9.1.72. *The Authority in view of above allows reasonable increase of 15% over actual expenses FY 2015-16 and determines the same Rs. 167 million for the said year.*

xv. Bank Charges

9.1.73. The petitioner has projected Rs. 23 million Bank Charges for the said year as against Rs. 13 million provided in DERR 2015-16 for said year, showing an increase of 71%.

Table 38: Comparison of Bank Charges with Previous Years

Rs. In million

Particulars	FY 2014-15	FY 2015-16		FY-2016-17	Incr/Decr over actual	
	FRR	DERR	Actual	The Petition	Rs	%
Bank Charges	11	13	13	23	9	71%

9.1.74. The petitioner has submitted that expenditure under this head for the said year includes Collection, T. T charges, remittance charges, issuance of pay orders/ Demand drafts, same day charges and issuance of cheque books etc;

9.1.75. The Authority observes petitioner has made whooping increase under this head and provided no justification and rationale. The expenses under this head are primarily of fixed nature, properly authorized and does not fluctuate tremendously. *The Authority therefore determines the expenditure under this head at Rs. 15 million i.e; at the actual level of FY 2015-16 plus 15% normal increase.*

xvi. uniform& Protective clothing's

9.1.76. The petitioner has projected Rs.65 million under the head "Uniform & Protective Clothing" for the said year as against Rs. 11 million (513% increase) actually incurred in FY 2015-16, as under;

Table 39: Comparison of Uniform & Protective clothing's Expense with Previous Years

Rs. In million

Particulars	FY 2014-15	FY 2015-16		FY-2016-17	Incr/Decr over actual	
	FRR	DERR	Actual	The Petition	Rs	%
Uniform & Protective Clothing	28	32	11	65	54	513%

9.1.77. The petitioner has explained that expenses booked in FY 2014-15& 2015-16 on protective clothing / supplies are on lower side. It is however anticipated that full implementation of HSE Policy to all entitled employees will be ensured during the said year causing to increase the expenses for the said year.

9.1.78. The Authority observes that petitioner actual expenditure under this head has always remained upto a nominal amount. In FY 2014-15, it was the alone first year wherein it has observed hefty increase whereupon DERR FY 2015-16 was based. The expenses incurred in last financial year however reverted and maintained previous years trends.

9.1.79. *The Authority in view of above, determines the expenses at Rs.13 million i.e; at the level of FY 2015-16 plus 15% normal increase for the said year. The Authority however appreciates the petitioner's efforts for compliance to HSE policy. Accordingly, the actual expenditure prudently incurred in this regard shall be considered at the time of FRR for the said year.*

xvii. Staff training and recruiting expenses

9.1.80. The petitioner has projected 184% increase under this head from Rs. 10 million per actual expenses FY 2015-16 to Rs. 28 million per the petition for the said year.

Table 40: Comparison of Staff training &recruiting expenses with Previous Years

Rs. In million

Particulars	FY 2014-15	FY 2015-16		FY-2016-17	Incr/Decr over actual	
	FRR	DERR	Actual	The Petition	Rs	%
Staff training and recruiting expenses	11	13	10	28	18	184%

9.1.81. The Petitioner has explained that amount proposed in FY 2016-17 includes expenses on recruitment and training activities of executives and subordinate staff.

9.1.82. The Authority observes that petitioner has not given proper and concrete justification to defend un-realistic increase of 184% in training activities. Such activities are part of long term planning and undertaken with consistent approach. The projection for the said year however seems to be exaggerated under the said head. ***Accordingly, the expenses under this head are slashed to Rs. 12 million for the said year (i.e; at the actual level of FY 2015-16 plus 15%).***

xviii. Security Expenses

9.1.83. The petitioner has projected Rs. 786 million for the said year as against Rs. 575 million actually incurred in FY 2015-16 showing an increase of 37% as under:

Table 41: Comparison of Security Expense with Previous Years

Rs. In million

Particulars	FY 2014-15	FY 2015-16		FY-2016-17	Incr/Decr over actual	
	FRR	DERR	Actual	The Petition	Rs	%
Security expenses to security forces	326	376	370	528	158	43%
Security guards	159	183	205	258	53	26%
Total Security Expenses	**486**	**559**	**575**	**786**	**210**	**37%**

9.1.84. The petitioner explained that Pakistan Rangers (Punjab) troops are essentially required to be deployed for security of 45 miles segment (MP-14 to MP-34 Guddu & MP-43 to MP-68) in the province of Punjab, keeping in view the current deteriorated law and order situation. Further, frequently miscreants' attack on high pressure pipelines and rupture the same. SNGPL is making monthly payment to Pakistan Rangers Punjab as per 1/3rd share arrangement in accordance with instructions of MP&NR. Moreover, additional security services are required for performing protection duty on exposed installation of transmission network at Sutlej crossing and all other locations in the Punjab and Khyber Pakhtunkhwa province to avoid any untoward incident like sabotage activity & illegal tapping.

9.1.85. The Authority reiterates its stance that it has always appreciated the petitioner's security arrangements and stressed to protect the exposed installations, valuable assets and precious lives. This is therefore very fact that Authority has allowed reasonable amounts under this head.

9.1.86. The Authority however observes that the petitioner has exaggerated its demand when compared with the actual result of recent completed financial year.

9.1.87. *The Authority, in view of above, determines Rs. 661 million i.e at the actual level of FY 2015-16plus 15% to cater for inflation and other adjustments, under the head "Security expenses" for the said year. Actual expenses in this regard however shall be considered at the time of FRR at the touchstone of actual deployment to ensure fool proof security measures.*

xix. SNG Training Institute Expenses

9.1.88. The petitioner has projected "Staff Training Institute Expenses at Rs. 24 million as against actually reported for the previous year at Rs. 12 million, the historical results as under;

Table 42: Comparison of SNG Training Institute Expenses

Rs. In million

Particulars	FY 2014-15	FY 2015-16		FY-2016-17	Incr/Decr over actual	
	FRR	DERR	Actual	The Petition	Rs	%
Sui Northern Gas Training Institute(SNGTI)	13	22	12	24	12	94%

9.1.89. The Authority observes that the petitioner has exaggerated the expenses under this head when compared with the historical actual results. Normally, nominal increase has incurred under this head. ***Accordingly, the Authority determines the expenses under this head at Rs. 15 million for the said year.***

xx. Contribution of ISGSL expenses

9.1.90. The petitioner has projected Rs. 221 million for the said year under this head as against Rs. 105 million actual expenses for FY 2015-16. The amount represents 110% increase.

Table 43: Comparison of Projected SNGPL Share in ISGSL with Previous Years

Rs. In million

Particulars	FY 2014-15	FY 2015-16		FY-2016-17	Incr/Decr over actual	
	FRR	DERR	Actual	The Petition	Rs	%
Inter state gas systems (pvt) Ltd	75	70	105	221	116	110%
Total	75	70	105	221	116	110%

9.1.91. The petitioner has submitted that above expenditure has been claimed on the basis of shareholding pattern i.e; 49:51 between SNGPL & SSGCL respectively in accordance with the earlier policy guideline.

9.1.92. The Authority observes that at present M/s GHPL is majority shareholder with 99.57% ownership. The petitioner and SSGCL contributed only a small proportion of shareholding at 0.21 %and 0.22% respectively. The Authority notes that draft **summary** dated August 18, 2008 as well as ECC decision dated September 10, 2008 refers to reimbursement of ISGSL operating expenses through revenue requirement of the petitioner and SSGCL in the ratio of their shareholding. This scenario has now totally changed.

9.1.93. The Authority further notes that gas utilities are required to provide complete set of documents containing FG's specific decision w.r.t shareholding pattern, intent and scope of induction of equity by GHPL and its role w.r.to reimbursement of ISGSL expenditure in the current shareholding scenario. Further, the petitioner should justify its claim on account of ISGSL as part of revenue requirement.

9.1.94. The Authority observes that as part of FG's agenda to mitigate energy shortages, the mandate of ISGSL seems to extend, since the company is planning to undertake various other natural gas related national importance projects including construction of pipelines and sale of natural gas. The Authority is of the considered opinion that in view of the changing scenario and revised shareholding pattern as well as revised mandate of ISGSL, the matter may again be taken up with the competent relevant forum for appropriate decision w.r.t financing and funding of the ISGSL in larger national interest. Further, the petitioner's BoD decision in this regard should also be communicated.

9.1.95. *In view of above, the Authority decides to pend the claim in respect of ISGSL for the said year subject to the receipt of requisite evidence /information as well as clear decision for the competent forum.*

xxi. Budget for UFG Control Related Activities

9.1.96. The petitioner has projected Rs. 777 million for the said year under this head as against Rs. 327 million reported actually for FY 2015-16. The amount represents 138% increase.

Table 44: Comparison of Projected UFG control related activities

Rs. In million

Particulars	FY 2014-15	FY 2015-16		FY-2016-17	Incr/decr over actual	
	FRR	DERR	Actual	The Petition	Rs	%
Budget for UFG Control related activities	404	-	327	777	450	138%

9.1.97. The Authority observes that petitioner has projected the expenditure under this comparatively on higher side viz a viz last years actual trend. The same however is allowed in line with decision regarding the capitalization on this account.

9.1.98. ***In view of above, the Authority allows Rs. 777 million under the "Budget for UFG control related activities" for the said year.***

xxii. Outsourcing of call centers for complaint management

9.1.99. The petitioner has projected Rs. 36 million under the head "outsourcing of call centers for complaint management" for the said year as against Rs. 23 million provided in DERR FY 2015-16 and Rs. 27 million actual expenses for FY 2015-16.

Table 45: Break up of Outsourcing of call centers for complaint management expenses

Rs. In million

Particulars	FY 2014-15	FY 2015-16		FY-2016-17	Incr/Decr over actual	
	FRR	DERR	Actual	The Petition	Rs	%
Outsourcing of Call Centre for Complaints Management	21	23	27	36	9	33%
Total	21	23	27	36	9	33%

9.1.100. The petitioner has stated that increase is due to anticipated revision in rates and hiring of more agents for complaint managements in FY 2016-17.

9.1.101. The Authority observes that the petitioner has not provided concrete justification for 33% increase over one year. Furthermore, historically expenditure under this head has remained around Rs. 25 million.

9.1.102. *The Authority in view of above allows 10% increase over actual expenses 2015-16 and accordingly allows Rs. 30 million under this head for the said year.*

9.1.103. *The Authority further directs the petitioner to submit a report with respect to the effectiveness of the expenses incurred under this head in terms of complaint resolution under each operational region, clearly specifying the nature of complaints.*

xxiii. *Other Expenses*

9.1.104. The petitioner has projected Rs. 475 million for the said year under this account wherein some expenses included therein have been projected on exceptionally higher side. The comparative analysis of the same is provided below:

Table 46: Comparison of Other Expenses with Previous Years

Rs. In million

Particulars	FY 2014-15	FY 2015-16		FY-2016-17	Incr/Decr over actual	
	FRR	DERR	Actual	The Petition	Rs	%
Construction equipment operating cost	81	94	78	126	48	61%
Laundry charges	1	1	1	2	1	110%
Subscriptions	1	2	2	3	1	41%
Newspapers, books & periodicals	2	2	3	5	2	80%
Recovery through contractors (disconnected)	48	56	20	95	75	369%
Board meetings & directors' expense	27	31	35	29	-6	-17%
Stock exchange fee	4	4	1	5	3	234%
Revenue stamps & filing fee	0	0	0	0	0	255%
Entertainment expenses	6	6	7	11	4	65%
Soprts Cell expenses	33	37	42	94	52	125%
Outside services employed - govt./ local authority	1	1	2	6	4	164%
Annual Sports	28	32	35	52	17	49%
NIC verification NADRA	9	10	11	13	2	13%
Sundries	31	36	23	34	12	51%
Total	**272**	**312**	**261**	**475**	**214**	**82%**

9.1.105. The petitioner has submitted justifications for increase under sub-head "construction equipment operating cost" that proposed amount includes fuel, repair and maintenance, replacement of tyres/tubes and batteries for construction equipment's. Increase also represents anticipated enhanced repair and maintenance activities by distribution and transmission departments.

9.1.106. Under the sub-head" subscription" and "news papers, books & periodicals", the petitioner has explained that same includes purchase of technical books and provision of newspapers.

9.1.107. The petitioner has explained that exceptional increase under sub-head "recovery through contractor" is mainly due to anticipated recovery targets enhanced for FY 2016-17 in all regions. The commission paid to contractors in FY 2014-15 was Rs. 48 million which is likely to be enhanced in FY 2015-16 and on the same lines in FY 2016-17.

9.1.108. Under the sub-head "Board Meetings & Directors' expenses", the petitioner has projected to decrease for said year. The Authority observes that interveners during the public hearing have vehemently opposed the fabulous remunerations paid to directors in each meeting which contributes to gas price increase. The Authority observes that the petitioner projected the expenses on lower side which is right initiative, the same is therefore allowed for the said year with the direction that expenses under this head should be gradually decreased.

9.1.109. The petitioner has submitted under sub-head "revenue stamps and entertainment expense" that the percentage increase of revenue stamps although is higher, yet the amount involved is very nominal. Regarding "entertainment expense" the actual expenses during last year is Rs. 7millionwhich is projected to increase in FY 2016-17.

9.1.110. The petitioner has explained that Establishment of "sports cell" is to promote sports activities across the company. Presently sports cell is maintaining 8 different sports besides company's annual sports and cricket team. According to the rules of football federation/Kabbadi and Hockey association, it is mandatory to retain 25 players and 20 players respectively for each kind of sports. Remuneration of players has also significantly increased to retain Provincial and National level players to maintain corporate image of company.

9.1.111. Regarding "outside service employed" and "CNIC verification", No justification has been provided for increase under sub-head.

9.1.112. The petitioner has submitted that increase under the sub-head "Annual Sports" is mainly due to revision of salary of players on contract/match fee and expenses on first class trophy/ one day cup/ T-20 cup.

9.1.113. The Authority observes that above expenses although are not directly associated with the petitioner's core activities, yet the same are necessary and are part of established organizations. There is however dire need to incur the expenses under these heads judiciously maintaining a consistent and prudent approach while spending under each head. Phenomenal increase over one year without any concrete reason and plausible justification defies logic. The same thereof can't be allowed at the cost of consumer.

9.1.114. *The Authority, in view of above, allows a reasonable increase of 15% over the actual expenses FY 2015-16 under the head. Accordingly, total expenditures under the head "Other expenses" comes to Rs.289 million for the said year.*

xxiv. Remaining Items of Transmission & Distribution Cost

9.1.115. The items of transmission and distribution cost, except those dealt with in sub-para. ***ii*** to xxiii are projected by the petitioner at Rs. 584 million as against Rs. 540 million according to actual expenses in FY 2015-16. The comparative analysis is given below:

Table 47: Remaining Items of Transmission and Distribution Expenses

Rs. in million

Particulars	FY 2014-15	FY 2015-16		FY 2015-16	Increase / (Decrease) Over FRR	
	FRR	DERR	Actual	The Petition	Rs.	%
Fuel and Power	241	265	250	261	11	4
Dispatch of gas bills	95	112	100	105	5	5
Consultation for ISO 14001 & OHSAS 18000	3	5	4	5	1	24
OGRA fee	124	173	152	173	21	14
Sponsorship of chairs at University	9.96	9.96	9.79	9.96	0	2
5 Year special training programme	27	30	25	30	5	21
Subtotal Expenses	500	595	540	584	44	8
Gas Internally Consumed	1,475	2,084	999	1,834	835	84
T&D Expenses	1,975	2,678	1,539	2,418	878	92

9.1.116. *The Authority observes that the remaining items of T&D expense have been reasonably projected by the petitioner and therefore, provisionally accepts the same, for the said year, at Rs. 584million.*

9.1.117. *The Authority also observes that GIC consequent to change in WACOG revised to Rs. 1,832 million for the said year.*

xxv. *Transmission & Distribution Cost Determined by Authority*

9.1.118. In view of the examination in para ii to xxiv above, the Authority provisionally determines operating cost for the said year at Rs. 21,892 million against Rs. 31,241 million claimed by the petitioner, as follows:

Table 48: Summary of T&D Cost Determined by the Authority

Rs. in million

Particulars	The petition	Adjustment	Determined
Human Resource Cost	18,559	(4,759)	13,800
Stores and Spares Consumed	747	(225)	522
Repair and Maintenance	1,457	(361)	1,096
Fuel and Power	261	-	261
Stationery, Telegram and Postage	188	(21)	167
Dispatch of gas bills	105	-	105
Rent, Rate, Electricity and Telephone	539	(115)	424
Traveling	209	(44)	165
Transport expenses	1,044	(305)	739
Insurance	298	(106)	192
Legal and Professional Services	244	(79)	165
Consultation for ISO 14001 & OHSAS 18000	5	-	5
Provision for doubtful debts	5,836	(2,617)	3,219
Gas bills collection charges	450	(48)	402
Gathering charges of gas bills collection data	55	(15)	40
OGRA fee	173	-	173
Advertisement	197	(30)	167
Bank Charges	23	(8)	15
Uniforms & protective clothing's	65	(52)	13
Staff training and recruiting	28	(16)	12
Security expenses	786	(125)	661
SNG training insititute	24	(9)	15
Sponsorship of chairs at University	9.96	0	10
Interstate Gas System Pvt Ltd	221	(221)	-
Budget for UFG control related activities	777	-	777
5 Year special training programme	30	-	30
Out Sourcing of call centre complaints management	36	(6)	30
Other expenses	475	(186)	289
Subtotal Expenses	32,841	(9,347)	23,494
Allocated to fixed capital expenditures	(3,434)	-	(3,434)
T&D Expenses	29,407	(9,347)	20,060
Gas Internally Consumed	1,834	(2)	1,832
T&D Expenses	31,241	(9,349)	21,892

9.2. *New Regions (Operating & HR cost)*

9.2.1. The petitioner has projected Rs. 1,928 million to allow for the said year on account of New Regions operating and additional HR cost and requested to allow the same. The detail is as under;

Table 49: New Regions (Operating & HR Cost)

Region/Sub Region	Operating Cost	HR Cost	*Million Rs.* Total Operating Cost
Phase-I	561	407	968
Phase-II	258	561	819
Swabi	12	28	40
sub-total	831	996	1,827
Customer Service Centers			
Khushab	5	5	10
Shorkot, Faisalabad	5	4	9
Faisalabad & Multan Cantt	72	10	82
sub-total	82	19	101
Total	**913**	**1,015**	**1,928**

9.2.2. The petitioner has submitted that capital cost in respect of Phase I (Lahore west, Sialkot, Mardan& Rahim Yar Khan) and customer's services centers have already been allowed during FY 2015-16. In the instant petition, additional HR cost and operating cost of the same along with New Regions - Phase II (D.I.Khan, D.G Khan, Toba and Attock) has been projected for the said year.

9.2.3. The Authority observes that petitioner has projected HR cost in respect of above regions/sub-regions/CSS in addition to HR cost benchmark which defeats very purpose of benchmarking on this account and infact invites double treatment. The operating factors which justify creation of new regions are indexed with the HR benchmark to provide additional funds. For instance, if the creation on new regions becomes necessitated owing to increase in number of consumer or network, the same also contributes towards HR cost for additional funds. The parameters for creation of regions and escalation of HR cost are basically same. Therefore no additional cost on this account in principle can be allowed. Further, as per discussion in para 6.11 above, the petitioner should optimally utilize its existing manpower, specially the executive staff and hiring on this account be restricted/avoided.

9.2.4. Regarding operating cost, the Authority observes that petitioner has submitted break up of same which comprises routine nature small items. Such cost items should have been made part of respective O&M cost components. Further, establishment of new regions/sub-regions/CSS have been slashed as discussed in para 6.10 above. Accordingly cost on this account shall be considered at the time of FRR for the said year.

9.2.5. *In view of above, the Authority pends the expenses on this account for the said year.*

9.3. *CBA Agreement Impact (1980-1990) decided by NIRC)*

9.3.1. The petitioner has submitted that during FY 1990-91 it had declared 10% dividend and 100% bonus shares in two tranches of 50% each in the months of August 1991 and December 1991. Since the dividend was only 10%, therefore according to the terms of Union Agreement 1987-89, the workers were not entitled to bonus linked with the dividend. Feeling aggrieved, employees of SNGPL (CBA) had filed a petition before NIRC in 1992 claiming payment of bonus, alleging that the Company had issued bonus shares to shareholders instead of dividend thus depriving the employees from the benefits of bonus under the Union Agreement 1987-89.

9.3.2. The Single Bench of NIRC decided the matter in favor of the employees. The Company thereafter filed an appeal before the full bench of NIRC and obtained stay against the operations of the Single Bench's order on July 4, 1996 to safeguard its interest as it involved payment of Rs. 255 million equivalents to 37.5 basic salaries to those workers who were employees of the Company as on June 30, 1991.

9.3.3. During the pendency of appeal, an amendment was made in the Federal Service Tribunal Act whereby jurisdiction of NIRC was taken away. The Company filed an appeal before the Service Tribunal as a matter of abundant caution. The said appeal was dismissed by the Tribunal on the ground that the amendment was made with prospective effect and not retrospective effect. Subsequently, the Supreme Court of Pakistan held that the amendment was made with retrospective effect and therefore all the cases which were pending before any court or Tribunal were abated and Service Tribunal assumed the jurisdiction. The Company filed an application for revival of the earlier appeal in view of the decision of Supreme Court. The Service Tribunal dismissed the appeal on the ground that the Service Tribunal Act is only competent to hear the appeals of the employees and not of the employers in addition to the ground that the Tribunal has no jurisdiction to review its earlier orders.

9.3.4. Later on, the full bench of NIRC rejected the Company's appeal vide order dated June 16, 1998 upholding the order of the Single Bench. The Company filed a Writ Petition in the Lahore High Court, Lahore and the Court vide order dated September 16, 1998 suspended the order of Full Bench of NIRC subject to furnishing bank guarantee for the amount involved. On advice of Company's Counsel M/s Surridge & Beecheno, the Company filed an appeal before the Supreme Court of Pakistan. M/s Surridge & Beecheno informed that the Supreme Court of Pakistan has not accepted our appeal observing that if bonus shares were issued to the shareholders instead of dividend, the employees would be entitled to receive their bonus on the bonus shares issued. The counsel also informed that there was a possibility to file a Review Petition against the order as the Supreme Court had decided on the understanding that there was a settlement between the parties, whereas, as per Company's stance, taken in the appeal before Apex Court and during arguments, it was pleaded that it was not a settlement but are regulations framed by NIRC. As per advice of the counsel, the Company has filed a Review Petition before the Supreme Court of Pakistan, which has not so far been fixed for hearing.

9.3.5. *The Authority observes that matter of NIRC is sub-judice, therefore petitioner claim on this account is held till the outcome of the Honorable Apex Court decision.*

9.4. *Workers Profit Participation Fund (WPPF)*

9.4.1. The petitioner has projected W.P.P.F at Rs. 693 million. The Authority accepts the same for the said year. Any adjustment on this account is made at the time of FRR.

9.5. *Shortfall pertaining to FY 2015-16*

9.5.1. The Authority observes that in DERR FY 2015-16, un-recouped shortfall amounting to Rs. 44,743 million exists. The revised sale prices during April 2016 were not sufficient to pick this shortfall. Accordingly, the same is included for the said year.

9.6. *LPG Air Mix Cost*

9.6.1. The petitioner has mentioned the LPG Air Mix activity in the petition for the said year separately. The breakup of the cost provided by the petitioner is as under;

Table 50: **LPG Air Mix Cost**

Particulars	Million Rs.	Rs./MMBTU
Sales Volume (BBTU)	81	81
Sales Revenue	49	600
Operating Cost:		
Cost gas	99	1,222
Operating Cost:	37	457
HR cost	6	74
Depreciation	31	383
Return	42	519
Total Expenses	215	2,654
(Shortfall)	(166)	(2,054)
No UFG has been projected		

9.6.2. The Authority observes that license in respect of construction of Air Mix LPG plants at three localities of Murree (Company Bagh, Tret, Dewal) has been issued. The actual expenditure incurred in this respect shall be considered in the revenue requirement under the applicable legal framework.

10. Interest cost on GDS Receivable

10.1.1. The petitioner has submitted that gas sale prices have not been revised since FY 2013-14. During FY 2014-15 & FY 2015-16, the prices were shortly increased which were not adequate to recover the revenue requirement from the consumers. Resultantly, the sale prices have remained less than the prescribed prices determined by OGRA thereby creating a GDS receivable amounting to Rs. 59,157 million as on June 30, 2016.

10.1.2. The petitioner has pleaded that it has to borrow funds from financial institutions or delayed the payments to its Creditors in order to bridge this cash flow gap. This situation resulted in huge accumulation of interest expense on part of the Company. The petitioner pleaded that since the benefit of no increase in sales prices have been enjoyed by the consumers, therefore, its consequential impact of increased interest expense may also be borne by them. Accordingly, the petitioner has requested to allow interest expense incurred due to the above situation as operating expense owing to the fact that same has arisen due to reasons not related to company affairs, the same is unprecedented and has no nexus with the company regular interest cost.

10.1.3. The Authority observes that petitioner claim on this account has been in principle agreed per para. 7.4.9 & 7.4.10 above. The Authority, at the time of FRR, shall consider such expenses to the extent of cost of working capital/operational financing only on the basis of audited figures for the said year. These expenses at this point in time accordingly can't be included in the instant determination since the same were not included at the time of petition and the figures claimed does not seem to be realistic.

10.1.4. *In view of above, the Authority decides to defer the petitioner's claim for consideration at the time of FRR for the said year.*

11. Summary of Discussion & Decisions

11.1. **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:**

11.1.1. **determine estimated addition in fixed assets at Rs. 45,682 million and depreciation charge at Rs. 17,238 million;**

11.1.2. **determine the net average operating fixed assets (net of deferred credit) eligible for return at Rs. 125,290 million as against Rs. 157,491 million claimed by the petitioner for the said year. Consequently, the return required by the petitioner on its assets is determined at Rs. 19,063 million;**

11.1.3. **determine sales revenue at current prescribed price at Rs. 177,060 million;**

11.1.4. **determine income under the head Rental & service charges at Rs. 1,918 million**

11.1.5. **determine LPS as operating income at Rs. 6,100 million**

11.1.6. **determine income on account of transportation of RLNG at Rs. 12,351 million**

11.1.7. **other operating income at Rs. 1,460 million**

11.1.8. **determine cost of gas at Rs. 128,632 million.**

11.1.9. **determine the UFG disallowance at Rs. 7,044 million;**

11.1.10. **determine T&D expenses at Rs. 21,892 million as against Rs. 31,241 million claimed by the petitioner;**

11.2. **In exercise of its powers under the Ordinance and NGT Rules, the estimated revenue requirement for the said year is determined at Rs. 225,661 million as tabulated below:**

Table 51: **Components of DERR for FY 2016-17 as Determined by the Authority.**

Rs. in Million

Description	Demanded by the Petitioner	Determined by the Authority
Cost of Gas	128,216	128,632
Transmission & Distribution Cost	31,241	21891.58
UFG Disallowance	-	(7,044)
Depreciation	19,774	17,238
New Regions HR & Operating Cost	1,928	-
CBA claim on account of NIRC decision	255	-
Workers Profit Participation Fund	1,138	1,138
Return	24,539	19,063
Shortfall pertaining to FY 2015-16		44,743
Total	**207,091**	**225,661**

11.3. **The provisionally allowed expenses are subject to adjustments after scrutiny of auditors initialed accounts of the petitioner for the said year, provided these**

expenses are substantiated with appropriate justification and analysis in the form acceptable to the Authority.

11.4. **The petitioner's net operating income is estimated at Rs. 201,416 million as against revenue requirement of Rs. 225,661 million and thus there is shortfall of Rs. 24,245 million in its estimated revenue requirement for the said year. In order to adjust this shortfall, the Authority hereby makes, on provisional basis, upward revision of Rs. 57.89 per MMBTU in the petitioners' average prescribed price for the said year (Annexure-A). Accordingly, the category wise prescribed prices on the basis of existing sale prices advised by the Federal Govt. are attached at (Annexure-B)**

11.5. **The prescribed prices for various categories of retail consumers shall be re-adjusted by the Authority upon receipt of sale price advice by the Federal Govt., within forty days of determination, under Section 8(3) of the Ordinance provided that the overall increase in the average prescribed price remains unchanged so that the petitioner is able to achieve its total revenue requirements in accordance with Section 8(6)(f) of the Ordinance and license condition 5.2. Section 8(4) of OGRA Ordinance 2002 also provides that in case no sale price advice is received within stipulated time, the prescribed prices under each category of consumer which are higher than the existing sale prices shall be notified by OGRA as sale price to be charged from the consumer for the said year.**

11.6. **The Authority considers it important and essential to impress upon the petitioner that this provisional determination of estimated revenue requirement for the said year pre-supposes that the petitioner would, in any case, faithfully and with responsibility conduct its affairs in full compliance of the requirement of Rule17(1)(h) & Rule 17(1)(j) of the NGT Rules, as reproduced below:**

Rule 17(1)(h) *"tariffs should generally be determined taking into account a rate of return as provided in the license,* ***prudent*** *operation and maintenance costs, depreciation, government levies and, if applicable, financial charges and cost of natural gas;"*

Rule 17(1)(j) *"only such capital expenditure should be included in the rate base as is prudent, cost effective and economically efficient;"*

12. Directions

12.1. **In addition to the directions issued by the Authority in its previous determinations, the petitioner is further directed to:-**

12.2. **provide at the time of final revenue requirement, certificate by its statutory auditors to the effect that HR cost used for comparison with HR benchmark includes all regular, contractual and casual staff / labour.**

12.3. **submit the progress report in respect of capital projects on quarterly basis.**

12.4. **ensure ring fencing of RLNG related capital and revenue cost as a separate segment. Accordingly, submit a report in this regard on quarterly basis.**

12.5. **operate new region i.e; Mardan in rented premises with optimum use of already available office items/ equipment /vehicles and human resource. Also submit separate plan focusing utilization of existing resources on account of creation of new regions within one month of issuance of this order. The petitioner is also advised to revisit its internal criteria and come up with a comprehensive revised assessment criteria based on all the relevant factors separately for establishment of Regions, Sub-regions and CSC's within one month of issuance of this order.**

12.6. **undertake the matter of contribution of ISGSL with Federal Govt. for necessary guidance keeping in view changed scenario of shareholding.**

12.7. **expedite the recovery from defaulting consumers and curtail ever rising expenses under provision for doubtful debt.**

12.8. **economize capital & revenue expenditures, utilize the resources efficiently and effectively and avoid/curtail non productive /non development expenditure.**

12.9. **amicably resolve the issue of outstanding railway crossing charges.**

12.10. **address / attend to the problems being faced by its consumers with the objective to resolve the same within the stipulated timelines or otherwise put forward plans/solutions to improve its services upto satisfaction of consumers.**

12.11. **submit the petition in proper & legible format, complete in all respect containing necessary analysis in comparative form & fiscal targets/plans. Further, amendment in the petition may be furnished with the prior approval of the Authority.**

13. Public Critique, Views, Concerns, Suggestions

13.1. The Authority has recorded critique, views, concerns and suggestions of the interveners and participants in para 3 above particularly para. 3.3.4, 3.3.7, 3.315, 3.3.19 & 3.3.27, which include matters relating to policy issues falling within the purview of the FG. The Authority considers it important to draw specific attention of the FG to the same for due consideration while taking decisions about categorization of consumers, tariff structure, subsidies, GDS and sale prices for various categories of the consumers.

Noorul Haque
(Member Finance)

Aamir Naseem
(Member Gas)

Uzma Adil Khan
(Chairperson)

The Islamabad,
October 6, 2016

A. Computation of Estimated Revenue Requirement for FY 2016-17

Million Rs.

	Particulars	The Petition	Adjustments	Determined by the
	Gas sales volume -MMCF	449,626	-	449,626
	BBTU	418,840	-	418,840
	Calorific Value	932	-	932
"A"	**Net Operating revenues**			
	Net sales at current prescribed price	214,011	(36,951)	177,060
	Rental & service charges	1,918	-	1,918
	Surcharge and interest on arrears	-	6,100	6,100
	Amortization of deferred credit	2,527	-	2,527
	Income on the transportation of RLNG		12,351	12,351
	Other operating income	1,460		1,460
	Total income "A"	**219,916**	**(18,500)**	**201,416**
"B"	Less Expenses			
	Cost of gas sold	128,216	416	128,632
	UFG (disallownce) / allowance	-	(7,044)	(7,044)
	Transmission and distribution cost	31,241	(9,349)	21,892
	Depreciation	19,774	(2,536)	17,238
	New Regions HR & Operating Cost	1,928	(1,928)	-
	CBA claim on account of NIRC decision	255		-
	Workers Profit Participation Fund	1,138	-	1,138
	Total expenses "B"	**182,552**	**(20,441)**	**161,855**
"C"	**Operating profit / (loss)(A - B)**	**37,365**	**1,941**	**39,561**
	Return required on net assets:			
	Net assets at begining	123,289	(11,859)	111,430
	Net assets at ending	191,693	(52,543)	139,150
		314,982	(64,402)	250,580
	Average fixed net assets (I)	**157,491**	**(32,201)**	**125,290**
	Deferred credit at begining	17,531	(911)	16,620
	Deferred credit at ending	17,004	(911)	16,093
		34,535	(1,822)	32,713
	Average net deferred credit (II)	**17,268**	**(911)**	**16,357**
"D"	**Average operating assets (I-II)**	**140,225**		**108,934**
	Return required on net assets	17.5%		17.5%
"E"	Amount of return required	24,539	(5,476)	19,063
"F"	**Excess /(shortfall) FY 2016-17**	**12,825**		**20,498**
"G"	**Shortfall pertaining to FY 2015-16**	-	**(44,743)**	**(44,743)**
H	**Total Excess /(Shortfall)**	**12,825**	**(37,071)**	**(24,245)**
"I"	**Average Increase/(Decrease) in Prescribed**	**(30.62)**		**57.89**
"J"	**Revenue requirement**	**207,091**	**(70,660)**	**225,661**
"K"	**Average Prescribed Price (Rs/MMBTU)**	**480.34**	**0.29**	**480.63**

B. Provisional Prescribed Prices for FY 2016-17

Particulars	Average Prescribed Prices for FY 2016-17	Prescribed Prices	
		1.7.2016 to 30.11.2016	16.11.2016 to 30.6.2017
		Rs./MMBTU	
a) Standalone meters			
b) Mosques, churches, temples, madrassas, other Religious Places and Hostels attached thereto;			
First slab (upto 100 cubic metres per month).	480.63	110	110.00
Second slab (Upto 300 cubic metres per month).	480.63	220	220.00
Third slab (over 300 cubic metres per month).	480.63	600	600.00
c) Government and semi-Government offices, Hospitals, clinics, maternity homes, Government Guest Houses, Armed Forces messes, Langars, Universities, Colleges, Schools and Private Educational Institutions, Orphanages and other Charitable Institutions along-with Hostels and Residential Colonies to whom gas is supplied through bulk meters including captive power.			
All off-takes at flat rate of	480.63	600	600.00
(ii) **Special Commercial Consumers (Roti Tandoors)**			
First slab (upto 100 cubic metres per month).	480.63	110	110.00
Second slab (Upto 300 cubic metres per month).	480.63	220	220.00
Third slab (over 300 cubic metres per month).	480.63	700	952.75
iii) **Commercial :**			
All establishments registered as commercial units with local authorities or dealing in consumer items for direct commercial sale like cafes, bakeries, milk shops, tea stalls, canteens, barber shops, laundries, hotels, malls, places of entertainment like cinemas, clubs, theaters and private offices, corporate firms, etc.			
All off-takes at flat rate of	480.63	700	952.75
iv) **Ice Factories:**			
All off-takes at flat rate of	480.63	700	952.75
(v) **Industrial:**			
All consumers engaged in the processing of industrial raw material into value added finished products irrespective of the volume of gas consumed including hotel industry but excluding such industries for which a separate rate has been prescribed.			
All off-takes at flat rate of	480.63	600	816.64
vi) **Captive Power :**			
All off-takes at flat rate of	480.63	600	816.64
ii) **CNG Stations:**			
All off-takes at flat rate of	480.63	700	952.75
iii) **Cement Factories:**			
All off-takes at flat rate of	480.63	750	1,020.80
(ix) **Fertilizer Factories:**			
Feed Stock: all off-takes at flat rate of			
(1) Pak American Fertilizer Company Limited, Daudkhel.	480.63	123.41	123.41
(2) Pak Arab Fertilizer Limited, Multan.	480.63	123.41	123.41
(3) Dawood Hercules Chemicals Limited, Chichoki Malian, Sheikhupura District.	480.63	123.41	123.41
(4) Pak-China Fertilizer Limited, Haripur.	480.63	123.41	123.41
(5) ENGRO Fertilizer Company Limited	480.63	72.72	72.72
For gas used as fuel for generation of electricity, steam and for usage of housing colonies.	480.63	600	816.64
(x) **Power Stations:**			
(a) WAPDA's Power Stations and other electricity utility companies excluding			
All off-takes at flate rate of	480.63	600	816.64
(b) WAPDA's Natural Gas Turbine Power Station, Nishatabad, Faisalabad.			
Commodity Charge			
All off-takes at flate rate of	480.63	600	816.64
Fixed charge (Rupees per month).	390,000		
(xi) **Independent Power Producers:**	480.63	600	816.64
xii **Liberty Power Limited's Gas Turbine Power Plant (Phase1) at Daharki:**			
All off-takes at flate rate of	480.63	443.58	443.58

C. Computation of HR Cost Benchmark FY 2016-17

Million Rs.

Particulars	2015-16 DERR	Actual 2015-16	2016-17 DERR
SNGPL			
HR benchmark Cost Parameters			
Base Cost	10,273	11,038	11,038
CPI factor	5.00%	5.00%	5.00%
T & D network (Km)	113,722	111,798	118,728
Number of Consumers (No.)	5,354,256	5,315,885	5,645,885
Sales Volume (MMCF)	452,641	544,615	618,956
Unit Rate (Rs,/unit)			
T&D network (Rs./Km)	95,415		98,735
No. of Consumers (Rs./Consumer)	2,033		2,076
Sale Volume (Rs./MMCF)	21,978		20,268
HR Cost Build-up (Million Rs)			
Cost CPI -50%	257		276
T & D network (Km) 25%	2,713		2,931
Number of Consumers (No.) 65%	7,074		7,620
Sales Volume (MMCF)-10%	995		1,255
HR Benchmark Cost	11,038		12,081
IAS Cost	1,190		1,719
Total HR Benchmark Cost	12,228		13,800