OIL & GAS REGULATORY AUTHORITY (OGRA)

No. OGRA-6(2)-1(3)/2013-DTRR

IN THE MATTER OF

SUI NORTHERN GAS PIPELINES LIMITED
FINAL REVENUE REQUIREMENT, FY 2012-13

UNDER

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

DECISION

November 5, 2015

Before:

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

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1. Background

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

1.2 The petitioner filed a petition on August 14, 2013 under Section 8(2) of the Oil & Gas Regulatory Authority Ordinance, 2002 (the Ordinance) and Rule 4(3) of the Natural Gas Tariff Rules, 2002 (NGT Rules), for determination of its Final Revenue Requirement (FRR) for FY 2012-13 (the said year) on the basis of accounts, as initialed by its statutory auditors.

1.3 The petitioner submitted the petition for determination of its FRR for the said year after incorporating the effect of actual changes in the wellhead gas prices, sale mix and other relevant factors in terms of Section 8(2) of the Ordinance. The petitioner has claimed Unaccounted for Gas (UFG) at 7% and has not included Late Payment Surcharge (LPS) as operating income. Accordingly, the petitioner has worked out its FRR for the said year at Rs. 241,017 million for actual sale volume of 511,643 BBTU. Based on the provisional prescribed prices and actual sale mix, the petitioner has computed a shortfall of Rs. 35,118 million for the said year thereby seeking increase in the average prescribed price by Rs. 68.64 per MMBTU. The petitioner vide its letter dated July 7, 2015 slightly amended the petition (the petition) owing to change in LPS treatment on account of GIDC whereby shortfall has been revised to Rs. 35,060 million for the said year thereby seeking an increase of Rs. 68.52 per MMBtu in the existing prescribed price.

1.4 The Authority issued the notices of hearings on September 03, 2013 and December 27, 2013 and hearings were held according to schedule. However, process of determination could not be completed owing to deficiency of quorum as well as deliberations with the FG on certain items of revenue requirement related to policy guidelines. Therefore, fresh notice of re-hearing was issued on August 4, 2015, after completion of quorum. The notice of hearing was sent to the petitioner and the following interveners and related parties:

a) Federal Government (FG/GoP) - GoP.
b) Mr. Ghiyas Abdullah Paracha, Chairman All Pakistan CNG Association, Islamabad
c) Sheikh Muhammad Ayyub, Chairman All Pakistan Textile Processing Mills Association, Faisalabad.
d) Mr. Mehmood Elahi, Sui Gas Contractor, Faisalabad.

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

2. Salient Features of the Petition

2.1 The petitioner has submitted the following statement of cost of service per MMBTU:

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

Rs. Per MMBTU

[illegible]	[illegible]	[illegible]	[illegible]
Units sold (BBTU)	**558,175**	**587,893**	**511,643**
Cost of gas sold	347.84	372.79	399.15
Transmission and distribution cost	24.69	25.60	34.84
UFG Disallowance	(11.23)	(24.19)	(9.31)
Depreciation	14.81	19.76	17.01
Return on net average operating fixed assets	18.91	18.95	21.62
Prior Year Adjustment	-	0.00	2.18
Imact of IAS 19 (Recognition of Actuarial Losses			3.52
Other Expenses including WPPF	-	0.00	0.98
Other operating expenses	0.00	0.80	0.97
Other Operating income	(6.87)	(10.82)	(9.17)
Cost of service / Prescribed price	**388.15**	**402.89**	**461.78**
Current average prescribed price	388.15	402.89	393.25
[illegible]			[illegible]

2.2 The petitioner has made the following submissions:

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

2.1.2 Gross addition in fixed assets during the said year has been claimed at Rs. 9,464 million and net addition, after accounting for deletion and depreciation, at Rs. 8,704 million, resulting in claimed increase in net operating fixed assets from Rs. 81,413 million in FY 2011-12 to Rs. 82,174 million for the said year. After adjustment of deferred credit, the average value of operating fixed assets eligible for return works out to Rs. 63,198 million and the required return at Rs. 11,060 million.

2.1.3 Total operating revenues have been claimed at Rs. 205,899 million in the petition, as against Rs. 242,219 million in RERR, as detailed below:

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

Rs. in million

Description	FY 2011-12	FY 2012-13		Increase / (Decrease) over RERR	
	FRR	RERR	As Petition		
Net sales at current prescribed price	216,653	235,859	201,206	(34,653)	-15%
Rental & Service Charges	1,346	1,331	1,398	67	5%
Surcharge and Interest on arrears	-	2,225	-	(2,225)	-
Amortization of deferred credit	2,257	2,159	3,215	1,056	49%
Other operating income	234	645	80	(565)	-88%
Net Operating Revenues	220,490	242,219	205,899	(36,320)	[illegible]

2.1.4 Net operating expenses have been claimed at Rs. 229,900 million in the petition as compared to Rs. 232,075 million provided in RERR, as detailed below:

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

Rs. in million

Description	FY 2011-12	FY 2012-13		Increase / (Decrease) over RERR	
	FRR	RERR	As Petition		
Cost of gas	194,157	219,158	204,220	(14,938)	-7%
Transmission and Distribution costs	10,736	12,375	16,024	3,649	29%
UFG disallowance above allowable limit	(6,269)	(14,221)	(4,761)	9,460	-67%
Gas Internally Consumed (GIC)	2,094	2,813	2,305	(508)	-18%
Depreciation	8,265	11,617	8,701	(2,916)	-25%
Prior Year Adjustment	-	-	1,113	1,113	
Impact of IAS 19 (Recognition of Acturial Losses			1,800	1,800	
Other Charges including WPPF	953	333	498	165	50%
Net Operating Expenses	209,936	232,075	229,900	(2,175)	[illegible]

2.1.5 UFG has been reported at 9.33% (59,531 MMSCF) and UFG disallowance has been claimed at 7% for the said year.

2.1.6 Net result of the petitioner's above mentioned claims is that there is a shortfall of Rs. 35,060 million after allowing 17.5% return on average net operating assets, which translates to an increase of Rs. 68.52 per MMBTU in the existing average prescribed price, as tabulated below:

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

	Description	Rs. in million
A	Net operating revenues	205,899
B	Less: Net operating expenses including WPPF	229,900
C	Shortfall (A - B)	24,000
D	Return required @ 17.5% on net fixed assets in operation.	11,060
E	Total shortfall in the revenue requirement (C + D)	35,060
F	Sales volume (BBTU)	511,643
	Increase in the existing average prescribed price (Rs./MMBTU) (E/F * 1000)	68.52

3 Proceedings

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

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

i) Sheikh Muhammad Ayyub, Chairman All Pakistan Textile Processing Mills Association, Faisalabad.

ii) Mr. Mehmood Elahi, Sui Gas Contractor, Faisalabad.

iii) Mr. Muhammad Aslam Chaudhry , Member Executive Committee, Lahore Chamber of Commerce and Industry & Consumer

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

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

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

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

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

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

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

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

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

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

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

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

4 Determination

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

5 Return to Licensee

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

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determining the revenue requirement of the petitioner, providing the said return on net operating assets in accordance with the said provision of the Ordinance as well as the petitioner's license.

5.2 The Authority notes that the petitioner has been continuously contending that guaranteed return of 17.5% is not being provided to it, as effectively it is getting much lower rate of return and has been referring to some legal provisions in isolation. The Authority terms this argument as baseless & against the legal scenario. Presumably, the petitioner has been pleading that it is entitled for guaranteed return irrespective of, control of gas loses/theft, operational efficiency and effectiveness of capital expenditure incurred to undertake the regulated activities. The petitioner's plea does not consider the regulatory setup established by GOP and legal regulatory framework as a whole. The Authority notes that the petitioner is enjoying monopoly and risk free business owing to captured consumers, guaranteed return and no market competition in the gas distribution sector. Ultimately, the said circumstances do not urge the petitioner to reduce its inefficiencies and improve customer service up to the satisfaction of consumers. Rather, this arrangement favors the petitioner to retain guaranteed return, while lacking concerted efforts to bring efficiency in its system. Moreover, Section 7(2) (a) obligates OGRA to protect consumer against monopolistic and oligopolistic pricing. On the national perspective, OGRA is infact performing its statutory role in a professional and prudent manner allowing guaranteed return as well as incentive for better performance to the petitioner that could actually enhance its return; provided it manages and controls its system in an efficient manner. The understanding that petitioner can not be stressed for improving its performance through benchmark regulation is totally misleading, as monopolies all over the world operates on same premise / principles.

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

5.4 The Authority is of the firm view that legal framework is explicit and balanced as it provides for improvement in terms of efficiency as well as reasonable returns. The tariff mechanism accounts for all prudent and justified capital and revenue expenditure to attract investment for bringing quantitative and qualitative improvement of regulated activities, as required under section 7 of the Ordinance. Accordingly, the Authority has been performing its statutory role of a regulator, since all the prudently incurred rationalized costs are allowed to the petitioner to enable it to operate efficiently while servicing its consumers. Similarly, consumers' interest is also safeguarded by ensuring that cost of inefficiencies is not recovered from them. Therefore, benchmarks have been put in place, which compel the petitioner to focus its efforts towards eradicating inefficiencies and imprudent costs, however failure of the petitioner to improve and perform upto the mark, engulfs its return. The misconception that the petitioner should at least get guaranteed return in his pocket irrespective of operational efficiently is against the license conditions and very purpose of whole regulatory framework.

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

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

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

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

6 Operating Fixed Assets

6.1 Summary

6.2 Gross addition in fixed assets during the said year has been claimed at Rs. 9,464 million and net addition, after accounting for deletion and depreciation at Rs. 8,701 million, increasing the net operating fixed assets from Rs. 81,413 million in FY 2011-12 to Rs. 82,174 million. After adjustment of deferred credit, the average value of operating fixed assets has been claimed at Rs. 63,198 million and the required return at Rs. 11,060 million. The computation of return on fixed assets is tabulated below:-

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

Rs. in million

Description	The Petition
Net operating fixed assets at beginning	81,413
Addition during the Year	9,464
Deletion in Assets	(163)
Depreciation addition	(8,701)
Depreciation deletion	160
Net Addition	761
Net operating fixed assets at closing	82,174
Sub Total	163,587
Average net assets (A)	81,793
Deferred credit at beginning	18,979
Deferred credit at closing	18,212
Sub Total	37,191
Average deferred credit (B)	18,596
Average net fixed assets (A-B)	63,198
Return required	17.5%
Amount of return required by the petitioner	[illegible]

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

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

Rs. in million

Particulars	FY 2011-12	FY 2012-13		Inc/(Dec) over RERR	
	[illegible]	RERR	The Petition		
Transmission	712	-	304	304	-
Compression	793	553	61	(492)	-89%
Distribution Development	10,398	6,301	4,476	(1,825)	-29%
Measuring and Regulating Assets		2,918	1,494	(1,424)	-49%
Plant, Machinery & Equipment and Other Assets	859	1,259	935	(324)	-26%
Buildings on freehold land	257	-	71	71	
New Connection		2,068	1,972	(96)	-5%
Land & Land Acquisition Advance	243	-	142	142	-
Intangible Assets (IT related cost)	37	-	11	11	-
Total additions in assets [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

6.2.2 The petitioner has reported approximately 28% decrease in addition of fixed assets compared with RERR for the said year. The petitioner has attributed the decrease in capitalization to financial crisis faced by it and moratorium on new development schemes imposed by the FG.

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

The petitioner had claimed Rs. 300 million under the head "Motor Vehicles" at the time of ERR for the said year. The Authority, however, disallowed 50% of the claimed amount and determined the same at Rs. 150 million. The petitioner has now claimed Rs. 268 million on this account. The Authority reviewed the request of the petitioner and in view of the justifications provided by the petitioner as well as detailed scrutiny of the information provided by it allows Rs. 213 million under this head for the said year as against Rs. 268 million requested by the petitioner.

6.2.4 *In view of the above, the Authority determines the addition in fixed assets during said year at Rs. 9,409 million. After adjustment of depreciation and deletion, the closing net operating fixed assets for the said year are determined at Rs. 82,126 million. Consequently, the depreciation claimed by the petitioner is adjusted at Rs. 8,694 million for the said year.*

7 Operating Revenues

7.1 Sales Volume

7.1.1 The sales volume has dropped to 511,643 BBTU, witnessing a decrease of 13% for the said year, as against 587,893 BBTU per RERR. Category-wise comparison with previous year has been provided by the petitioner as under:

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

Category	[illegible]	[illegible]		[illegible]	
	[illegible]	[illegible]	[illegible]		
Power	145,463	155,140	136,928	(18,212)	-12%
Fertilizer	31,344	56,527	13,783	(42,744)	-76%
Cement	929	85	244	159	188%
General Industry	103,136	70,271	86,404	16,133	23%
CNG	84,511	109,517	70,450	(39,067)	-36%
Commercial	27,718	28,452	28,575	124	0%
Domestic	165,074	167,902	175,258	7,357	4%
Total	[illegible]	[illegible]	[illegible]	[illegible]	

7.1.2 The petitioner has explained that gas sale volume to Power and Fertilizer sector has been reduced owing to lesser availability of gas, while gas sale to CNG sector has been reduced due to its least priority per load management policy of the FG. The gas supply thus curtailed from CNG sector, has been provided to General Industry. The petitioner further elaborated that gas sale to cement sector has increased due to Court Order in KPK whereby it has been directed to provide at least the minimum quantity as per the

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Gas Sale Agreements with cement factories. The increase in gas sale to domestic consumers has been attributed to increase in number of consumers during the said year.

7.1.3 *In view of the justifications advanced by the petitioner, the Authority accepts the sales volume at 511,643 BBTU for the said year.*

7.2 Sales Revenue at Existing Prescribed Prices

7.2.1 Sales revenue at existing prescribed prices has decreased to Rs. 201,206 million for the said year as compared to Rs. 236,861 million per RERR. Category-wise comparison with RERR and previous year is given below:

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

Rs. in million

Category	FY 2011-12	FY 2012-13		Increase/(Decrease) over RERR	
	Actual	RERR	Per Petition		%
Power	70,901	62,509	65,742	3,233	5%
Fertilizer	5,375	22,774	2,070	(20,704)	-91%
Cement	528	34	153	119	350%
General Industry	44,252	28,312	36,299	7,988	28%
CNG	50,137	44,123	39,134	(4,989)	-11%
Commercial	14,780	11,463	14,590	3,127	27%
Domestic	35,091	67,646	43,218	(24,428)	-36%
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

7.2.2 *The petitioner has stated that due to lesser availability of gas, as explained in para 7.1.2 above, the sale revenue has decreased.*

7.2.3 *In view of above, the Authority accepts the sale revenue at existing prescribed prices at Rs. 201,206 million as claimed by petitioner for the said year.*

7.3 Other Operating Income

i. Summary

7.3.1 The petitioner has claimed other operating income at Rs. 4,693 million for the said year as against Rs. 6,360 million per RERR. Item-wise comparison is as under:

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

Rs. in million

Description	FY 2011-12	FY 2012-13		Increase/(Decrease) over RERR	
	Actual	RERR	Per Petition		
Rental & Service Charges	1,346	1,331	1,398	67	5%
Surcharge and Interest on arrears	-	2,225	-	(2,225)	0%
Amortization of deferred credit	2,257	2,159	3,215	1,056	49%
Other operating income	234	645	80	(565)	-88%
Net Operating Revenue	3,837	6,360	4,693	(1,667)	-26%

ii. Late Payment Surcharge and Interest on Arrears (LPS)

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

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

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

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

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

7.3.7 ***The Authority, in view of above, decides to treat the LPS amounting to Rs. 2,734 million as operating income for the said year.***

iii. Other Operating Income:

7.3.8 The petitioner has claimed Rs. 80 million on account of other operating income as against Rs. 234 million per FRR FY 2011-12.

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7.3.9 The Authority observes that petitioner has not realized income on account of gain of construction contracts (Rs. 238 million), coating of pipeline of SSGCL (Rs. 5 million) and liquidated damages (Rs. 41 million) as operating despite OGRA's lucid and justified decision in this regard. It has already been established that petitioner's goodwill, resources and management, which are totally financed through public money, are important to generate this income. ***Therefore, 50% of the income (Rs. 142 million) earned on this account is treated as operating income for the said year, in accordance with the Authority's earlier decisions.***

7.3.10 The Authority also observes that petitioner has claimed income on account of bad debts recoveries Rs. 26 million, as non-operating incomes for the said year. The Authority observes that petitioner has not advanced any concrete reasons and plausible justifications to substantiate its claim. Also, the treatment of above income as non-operating is not equitable and fair since the expenses incurred on same head is part of tariff mechanism. Therefore the Authority treats income on this account as operating income.

7.3.11 ***The Authority, in view of that above, determines the other operating income at Rs. 247 million for the said year as against Rs. 80 million claimed by the petitioner.***

8 Operating Expenses

8.1 Cost of Gas

8.1.1 The cost of gas per petition is Rs. 204,220 million(net of GIC), compared with Rs. 219,158 million determined in RERR, lower by Rs. 14,938 million (7%).

8.1.2 The Authority had determined input cost of gas on the basis of combined weighted average cost of gas purchased by the petitioner and SSGCL at Rs. 331.15 per MMBTU in RERR in accordance with the agreement for equalization of cost of gas dated 22nd September, 2003, between these two companies. On the basis of their actual audited results, weighted average of input cost of gas for the said year works out at Rs. 343.47 per MMBTU as under:

Table 10: Weighted Average Cost of Input Gas

Company	MMCF	BBTU	Rs. Million	Rs./MMBTU
SNGPL	646,156	602,447	171,630	284.89
SSGCL	419,275	397,983	171,989	432.15
Total	1,065,431	1,000,430	343,619	343.47

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

8.1.4 ***In view of the above, the Authority determines cost of gas sold for the said year at Rs. 204,220 million.***

8.2 Unaccounted for Gas

8.2.1 The petitioner has reported UFG at 9.33% (59,531 MMSCF) for the said year, as follows:

Table 11: Comparison of UFG per the petition with Previous Year (FY 2011-2012)

Volumes in MMCF

Particulars	FRR 2011-12	FY 2012-13 (Per Petition)
Total Gas Purchases	682,413	645,747
Gas Internally Consumed	7,662	7,671
Gas Available for Sales	674,751	638,076
Gas Sales	619,373	578,545
UFG	55,378	59,531
UFG %	8.21%	9.33%

8.2.2 The petitioner has requested to fix UFG target at 7%. The petitioner has also included unmeasured gas volume (7,663 MMCF) on account of minimum billing, pilferage by non-consumers (10,136 MMCF) and un-billed volume (8,124 MMCF) due to law and order situation in Gurguri area (KPK province) as part of deemed sale for the said year.

8.2.3 The petitioner claimed 8,124 MMCF in respect of law & order in Gurguri area of province KPK against 3,377 MMCF claimed by it in the previous year, which is almost 140 % increase rather than decrease as advised by the Authority in Decision of FRR 2011-12. These are SMS volumes, net of billing recovered.

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

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

8.2.6 Keeping in view the policy guidelines of the FG and the current Law & Order situation in the country, the Authority provisionally allows 75 % (6,093 MMCF) of the claimed volume subject to the conditions that: -

(i) Since Law and Order is a Federal and Provincial subject, the FG shall specify the Law and Order affected areas. As regards, 25 % (2,031 MMCF) of the claimed volume, the FG is requested to arrange funding from its own resources or from the Royalty of the concerned province and all such amounts in future to meet the shortfall under this head.

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

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

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

8.2.8 The petitioner has claimed a volume of 7,663 MMCF in respect of minimum consumption of domestic consumers. The Authority disallows the petitioner's claim on account of un-metered gas as part of minimum billing on the rationale that the same is unmeasured and also arises due to petitioner's own equipment fault, which is not justified to allow.

8.2.9 The Authority observes that volume pilfered by non-consumers (10,136 MMCF) is slightly decreased viz a viz volume of 11,172 MMCF in FY 2011-12; however, the petitioner did not reflect any significant decrease in this regard in the said year. The petitioner also did not comply with the Policy Guidelines conveyed to it vide MP&NR's letter No. DGO (AC)-5 (26)/2012-13 Vol II Pt dated June 20, 2013, Para- 21 (e) of its summary states that "Both the companies must cooperate with OGRA and protect the pipelines on war footing to reduce UFG instead of litigating in courts."

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

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

8.2.12 It is mentioned that during a high level meeting held on 4-3-2015 at MP&NR under the chairmanship of Honorable Minister for Petroleum & Natural Resources and attended by the Secretary, MPNR and the Authority, the Minister agreed and directed that recovery of the non-consumer cases is the responsibility of the gas companies and this responsibility cannot be put on the shoulders of OGRA as the network is owned and operated by the companies. The honorable Minister also agreed that amendment proposed in Rule-30 of the NGLR shall be done at the earliest and the companies shall not send any non-consumer case (s) to OGRA rather the companies shall pursue these cases in the relevant courts for recovery of the pilfered volume/ amount at their own. **However, the petitioner is still sending such cases to the Authority in violation of the directions of the honorable Minister, MPNR, OGRA and agreed to by the officers of the petitioner in the said meeting.**

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

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

8.2.15 The Authority is of the view that there are sufficient legal provisions available for the petitioner in Criminal Amendment Act, 2011 and Guidelines for dealing with Theft cases by MPNR in 2013 vide letter No. NG(1)-14(52)/2011-Vol-I-GA dated July 17, 2013. The petitioner is directed to increase its efforts and extensively work on vigilance of the pipeline network to curb this menace. Keeping in view the policy guidelines of the FG

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and in view of the preceding paragraphs, the Authority provisionally allows 80 % (8,109 MMCF) of the claimed volume subject to the conditions that: -

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

(i.) Registration of FIR's against the pilferers by the petitioner.
(ii.) Filing of Criminal and recovery suits by the gas companies under courts of competent jurisdiction.
(iii.) Authentication/ Decision in respect of pilfered/ theft volume of gas etc. by the relevant courts.

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

(c) Further the petitioner is directed not to send any such case to the Authority and proceed vigorously against the pilferers as per applicable laws mentioned above for recovery of stolen/ pilfered volumes. The petitioner shall comply with all the directions as referred to above and shall put in all efforts to control the menace of non-consumers through strict administrative control on its officers and staff and shall pursue them. The petitioner is also directed to show downward trend in this volume in future.

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

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

8.2.16 The FG also issued policy guidelines dated 20-11-2014 in respect of Bulk to Retail ratio. It is pertinent to mention here that Bulk to Retail Ratio shifted primarily due to Development Schemes on the directives of the FG to the Gas Companies which further aggravated due to shortfall of gas supply. The Authority has, therefore, not previously allowed any volume in this regard and previous decisions are self explanatory in this regard. Keeping in view the legal provisions as in Para-1 (IV) of the policy guidelines of the FG and the matter in totality, the Authority disallows the volume under this head and the same would be considered once the UFG study is completed.

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

Table 12: Calculation of UFG Disallowance

Particulars		Per the Petition	Calculated by OGRA (MMCF)
Gas Purchases			
Metered gas purchased	A	646,626	646,626
Line Pack	B	-409	-409
Gas carried for PPL, POL and SSGCL	C	-470	-470
Gas Available for Sale	D=A+B+C	645,747	645,747
Gas Internally Consumed (Metered)	E=a+b	7,673	7,671
Transmission	a	6,730	6,728
(i) Compression		6,188	6,188
(ii) Residential Colonies		130	130
(ii) Coating Plant		57	57
(iii) Ruptures/Sabotage		353	353
(iv) Other usage		2	0
Distribution	b	943	943
(i) Free Gas Facility		634	634
(ii) Co-Generation		102	102
(iii) Sabotage		90	90
(iv) Third Party Damages		0	0
(v) Purging		117	117
Net Gas Available for Sale	F=D-E	638,074	638,076
Gas Sold (Billed)		555,574	555,574
Unrecovered Pilferage volume reversed		-2,952	-2,952
Un billed Vol due to law& order in KPK (Gurguri/Kohat)		8,124	6,093
Under measured Vol. in respect of min cases/domestic		7,663	0
Pilfered Vol detected against non-consumers		10,136	8,109
Total Sales	G	578,545	566,824
UFG Volume	H=F-G	59,529	71,252
UFG %	I=H/F*100	9.33%	11.17%
Working disallowance for SNGPL			
Gas available for External Sale		638,074	638,076
UFG Target		7.0%	4.5%
Allowed UFG Volume		44,665.18	28,713
Disallowance (MMCF)	J	14,864	42,539
Disallowance 2011-12 MMCF (in line with policy guidelines received in June, 2013 from the GOP)	K		1,021
Total Diallowance MMCF (including 2011-2012 and 2012-2013)	L		43,560
WACOG 2012-13 (Rs./MCF)	M		320.24
WACOG 2011-12 (Rs./MCF)	N		288.19
UFG Disallowance (Million Rs.)	O=(J*M/100+K*N/1000)		13,917

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

8.2.19 ***In view of above, UFG disallowance is determined at Rs. 13,917 million for the said year.***

8.3 Transmission and Distribution Cost

i. Summary

8.3.1 The transmission and distribution cost is higher by 17% i.e. from Rs. 15,187 million per RERR to Rs. 17,828 million per the petition, as compared below:

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

Rs. in million

Particulars	FY 2011-12	FY 2012-13	FY 2012-13	Increase / (Decrease) Over RERR	
	FRR	RERR	The Petition	Rs.	%
Human Resource Cost	8,012	8,180	8,631	451	6 %
Cost of Reinstated Employees	269	288	370	82	29 %
Gas Internally Consumed	2,094	2,813	2,305	(508)	(18) %
Stores and Spares Consumed	365	586	546	(40)	(7) %
Repair and Maintenance	866	1,128	686	(442)	(39) %
Fuel and Power	185	244	188	(55)	(23) %
Stationery, Telegram and Postage	104	163	148	(15)	(9) %
Dispatch of gas bills	74	82	89	7	9 %
Rent, Rate, Electricity and Telephone	246	320	279	(41)	(13) %
Traveling	152	221	153	(68)	(31) %
Transport expenses	613	667	825	158	24 %
Insurance	147	183	172	(12)	(6) %
Legal and Professional Services	63	58	100	42	72 %
Consultation for ISO 14001 & OHSAS 18000	3	4	2	(2)	(50) %
Gas bills collection charges	302	326	325	(1)	0 %
Gathering charges of gas bills collection data	27	38	27	(11)	(30) %
OGRA fee	102	160	141	(19)	(12) %
Advertisement	65	65	60	(5)	(8) %
Bank Charges	12	26	13	(13)	(51) %
Uniforms & protective clothing's	12	29	12	(17)	(59) %
Staff training and recruiting	28	25	26	1	6 %
Security expenses	268	315	340	25	8 %
SNG training insititute	8	13	10	(2)	(18) %
Provision for doubtful debts	180	180	3,344	3,164	1,758 %
Sponsorship of chairs at University	5	7	7	0	3 %
5 Year special training programme	8	17	5	(11)	(68) %
Budget for UFG control related activities	5	471	355	(116)	(25) %
Out Sourcing of call centre complaints manag	24	20	11	(9)	(46) %
Provision for Stores spares written off	26	-	4	4	-
Cost of Gas Blown off	90	-	143	143	-
Contribution to Inter State Gas System Limite	55	219	58	(161)	(73) %
Other expenses	92	111	136	25	22 %
Up gradation of CSC	-	-	-	-	-
Addition of New Regions		249	-	(249)	-
Subtotal Expenses	14,502	17,208	19,511	2,303	13%
Allocated to fixed capital expenditures	(1,672)	(2,021)	(1,683)	338	(17) %
Net T&D Expenses	12,830	15,187	17,828	2,641	17%

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

ii. Human Resource Cost

8.3.3 The petitioner has claimed an increase of 6% on account of HR cost for the said year, from Rs. 8,180 million provided in RERR to Rs. 8,631 million per the petition.

8.3.4 The petitioner has submitted that it has worked out the HR cost as per benchmark recommended by the HR consultant appointed by the Authority. The petitioner further

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argued that proposals submitted by HR consultant are logical; the same therefore should be implemented in letter & spirit.

8.3.5 The Authority observes that the consultant appointed on the HR study in respect of gas companies could not execute its assignment. Accordingly, during DERR FY 2014-15, it had made extensive in house deliberation on this issue and has reviewed the HR cost benchmark effective from FY 2011-12 to FY 2014-15. The new benchmark operates on rolling base year, includes the cost of reinstated employees in the regular HR cost and provides the indexation to the base year cost in view of latest dynamics as 65% weightate of "no. of consumers", 20% weightage of " T&D network", and 15% weightage of "sales volume".

8.3.6 ***In view of above, the HR cost benchmark for said year works out to Rs. 8,323 million, as per Annex C.***

iii. Provision for Doubtful Debts

8.3.7 The petitioner had claimed provision for doubtful debts for the said year at Rs. 3,344 million. Category wise break up is shown as under;

Table 14: Break-up of Provision for Doubtful Debts for the said year

Million Rs.

[illegible]	[illegible]
Industry	1,737
Commercial	893
Domestic	551
Bulk domestic	163
[illegible]	[illegible]

8.3.8 The petitioner has submitted that provision under this head has been worked out keeping in view the disconnected consumes only, after adjusting the security deposit. Further, computation has been made as per OGRA benchmark introduced in FY 2014-15 for domestic category, the same has been extended for other consumers for the said year. The petitioner also referred the ECC decision in this regard which allows minimum 1% of gas charges as provisioning for the said year.

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

8.3.10 The Authority observes the issue of provision for doubtful debts with grave concern and notes that expenditure under this head arises mainly due to management inefficiencies and flaws in its recovery mechanism. Trade debts of the petitioner are backed/secured by adequate amount of security deposit paid by the consumers at the time of new connection. In case of CNG, commercial and industrial consumers, this security deposit is even adjustable on continuous basis with respect to latest amount of bill and increase in gas tariff from time to time. Therefore, loss to the company on account of default by such consumers is totally out of question. The risk of doubtful debt may however arise in case of domestic consumers if the recoverable amount exceeds the amount of security deposits paid by them.

8.3.11 The Authority also observes that the petitioner has time and again requested OGRA to increase the security deposit in order to avoid the risk of default from domestic consumers as well. Accordingly, this being logical submission advanced by the petitioner has been considered thereby increasing the amount of security deposit on the basis of consumption pattern of the gas consumer in a financial year. This increase however shall impact from FY 2013-14.

8.3.12 The Authority observes that it has devised the benchmark for provision for doubtful debts for FY 2014-15 on the basis of outstanding debt in respect of domestic consumers viz a viz security deposit received there against. Industrial and commercial category of consumers have not form part of benchmark for provision purposes rather it has been decided that same shall be allowed on actual write off basis. Subsequently, the petitioner in the petition for motion for review for FY 2014-15 contended that the company does not write off its debts as per its BoD policy.

8.3.13 The Authority observes that trade debt in respect of Industrial and Commercial consumers arises purely due to management own inefficiencies, ineffective follow up and late decisions. Had the same carried out in an effective manner, there will be no unsecured debt in this regard. The Authority therefore stressed upon the situation and observes that this cost, at the fault of some consumers, should not be passed on to all consumers. Further with respect to court stay orders and onward accumulation of insecure debt, the Authority strongly feels that had the petition properly adjudicated its cases and brought the financial position arising due to stay orders in the knowledge of Honorable courts, the decision could have been otherwise.

8.3.14 The Authority further notes that allowing 1% of sales as provision for doubtful debt without taking into account relevant factors holds no logic and is against the generally accepted principles. This hypothetical mechanism does not account for the basic factors necessary to be considered while allowing the cost under this head. The same is also contradiction of petitioner's own policy for provision for doubtful debts approved by its BoD. Further, it shall negate the effective and efficient regulation as it shall leave no incentive for petitioner to put practical efforts towards recovery of debts and disconnection of defaulters etc;.

8.3.15 In view of above, Authority determines the provision under this head as per benchmark introduced in DERR FY 2014-15 whereby the provision in respect of domestic and bulk domestic computes to Rs. 500 million and Rs. 160 million respectively. In respect of Industrial and Commercial consumers, 25% of the petitioner's claim however is allowed in order to cater for the cost under this head on account of uncontrollable factors i.e; litigation etc;. The Authority however directs the petitioner that these default consumers are identifiable and their cases must be pursued with serious and focused efforts and the expenses on this score should be curtailed at the minimum level.

8.3.16 ***In view of above, the Authority determines the provision for doubtful debts at Rs. 1,318 million for the said year.***

iv. Legal and Professional Charges

8.3.17 The petitioner has claimed expenditure of Rs. 100 million on account of legal and professional charges for the said year as against Rs. 58 million provided in RERR for FY 2011-12, showing an increase of 74%. Historical comparison is given below:

Table 15: Detailed Comparison of Projected Legal & Professional Charges with Previous Year

Rs. in million

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Legal	40	18	64	46	256%
Professional	7	13	17	4	27%
Tax	4	6	6	1	10%
Audit	6	5	6	1	22%
Software development charges	-		-	-	0%
Apprenticeship/Scholarship/Training	3	13	6	(7)	-55%
Others	3	3	2	(1)	-48%
[illegible]	[illegible]	[illegible]	100	[illegible]	[illegible]

8.3.18 The petitioner has explained that 256% increase under the sub-head "legal" is due to (i) lodging of FIRs/filing of pre/post arrest bail petition in gas theft case (ii) recovery suits against disconnected consumes for recovery of outstanding amount of gas bills in respect of 13 regions of the company (iii) court fee (iv) revision in GIDC (v) Rota Policy (vi) Load Curtailment etc

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

8.3.20 The Authority also observes that petitioner was asked to provide specific case-wise details of expenditure incurred during the said year. It however has failed to provide the same.

8.3.21 The Authority observes that petitioner has been spending a significant amount on litigation against OGRA to undermine the regulatory regime which has been exclusively setup to protect the interest of all stake holders. Actual expenditure since last couple of year has jumped owing to this reason. Un-necessary litigation against OGRA and other GoP bodies at the cost of poor consumers must be avoided.

8.3.22 ***The Authority, in view of no detailed justification and information, determines the expenditure under the sub head "legal" at Rs. 48 million i.e; at the level of FRR 2011-12 plus 20% inflationary impact. Accordingly, the total expenditure under this head is allowed at Rs. 84 million for the said year.***

v. Remaining Items of Transmission & Distribution Cost

8.3.23 The items of transmission and distribution cost, except those dealt with in para's 8.3.3 to 8.3.22 above, are claimed by the petitioner at Rs. 5,381 million as against Rs. 6,461 million provided in RERR, showing decrease of 17%.

8.3.24 The petitioner has reported that actual expenditure under most of the heads has been witnessed on lower side, except few where nominal increase has incurred and the same has been reasonably justified by the petitioner.

8.3.25 ***Accordingly, expenditure under the remaining items of T&D cost seems to be reasonable, and the Authority allows the same at Rs .5381 million.***

8.3.26 ***Based on the above, the Authority determines total transmission and distribution cost for the said year at Rs. 15,106 million, as against Rs. 17,828 million claimed by the petitioner, as under;***

Table 16: Break up of Transmission & Distribution Cost

[illegible]	[illegible]	[illegible]	[illegible]
Human Resource Cost	8,631	(308)	8,323
Cost of Reinstated Employees	370	(370)	-
Stores and Spares Consumed	546	-	546
Repair and Maintenance	686	-	686
Fuel and Power	188	-	188
Stationery, Telegram and Postage	148	-	148
Dispatch of gas bills	89	-	89
Rent, Rate, Electricity and Telephone	279		279
Traveling	153		153
Transport expenses	825		825
Insurance	172		172
Legal and Professional Services	100	(16)	84
Consultation for ISO 14001 & OHSAS 18000	2		2
Gas bills collection charges	325		325
Gathering charges of gas bills collection data	27		27
OGRA fee	141		141
Advertisement	60		60
Bank Charges	13		13
Uniforms & protective clothing's	12		12
Staff training and recruiting	26		26
Security expenses	340		340
SNG training insititute	10		10
Provision for doubtful debts	3,344	(2,026)	1,318
Sponsorship of chairs at University	7		7
5 Year special training programme	5		5
Budget for UFG control related activities	355		355
Out Sourcing of call centre complaints management	11		11
Provision for Stores spares written off	4		4
Cost of Gas Blown off	143		143
Contribution to Inter State Gas System Limited	58		58
Other expenses	136		136
Up gradation of CSC	-		-
Addition of New Regions	-		-
[illegible]	[illegible]	[illegible]	[illegible]
Allocated to fixed capital expenditures	(1,683)		(1,683)
[illegible]	[illegible]	[illegible]	[illegible]
Gas Internally Consumed	2,305	-	2,305
[illegible]	[illegible]	[illegible]	[illegible]

8.4 Other Operating Expenses

8.4.1 The petitioner has claimed Rs. 501 million under this head comprising Rs. 460 million on account of "Exchange Loss" and Rs. 41 million on account of "Loss on the Initial Recognition of Financial Assets" at fair value, during the said year.

8.4.2 The Authority observes that above exchange loss has been claimed at actual and also same is admissible under the existing tariff mechanism. Loss on the Initial Recognition of Financial Assets however is part of financial expense which is not part of operating expense. ***In view of above, the Authority allows Rs. 460 million under this head for the said year as claimed by the petitioner.***

8.5 Prior Year Adjustment

8.5.1 The petitioner has claimed Rs. 1,113 million as "Prior Year Adjustment" for the said year, as under;

Rs. in million

[illegible]	[illegible]	[illegible]
i	Pak Army LPS	366
ii	Cost of reinstated employees & Credit Balance Written Back	381
iii	Treatment of Rehmat Field Default Gas	366
	[illegible]	[illegible]

8.5.2 Regarding Pak Army LPS, the petitioner has elaborated that income on account of LPS receivable from Pak Army was booked on accrual basis, the same, however, has not been realized. The petitioner therefore has claimed the same as operating expense under Prior Year Adjustment for the said year.

8.5.3 The Authority observes that loss of revenue due to petitioner's inefficiency can not be passed on to the consumers. The petitioner should take up the matter at highest forum and amicably settle the issue. ***The Authority therefore does not agree with petitioner contention and disallows the same for the said year.***

8.5.4 The petitioner claim on account of "cost of reinstated employees & credit balance written back" has already been admitted in motion of review against FRR FY 2011-12, adjustment thereof however has not been made yet. ***The Authority therefore accepts the same for the said year.***

8.5.5 Regarding, treatment of Rehmat gas field, the petitioner has elaborated that amount involved under this head, as per Authority decision, is non-operating income received from the well head produce owing to default of supply of gas. This income however inadvertently has been credited to cost of gas during FY 2011-12 thereby reducing operating cost component. The same now has been claimed in order to offset its impact in the revenue requirement.

8.5.6 The Authority observes that the matter of compensation on account of default gas has already been discussed, deliberated and decided vide its decision dated July 29, 2004. Accordingly, it is settled issued that any sum received on account of default gas constitutes the operating income of the petitioner. Therefore, no adjustment on this account is acceptable.

8.5.7 *In* view *of above, the Authority, determines the prior year adjustment at Rs. 381 million for the said year.*

8.6 Prior Year's Adjustment (FY 2010-11 & FY 2011-12)

8.6.1 The Authority observes that in respect of FY 2010-11 and FY 2011-12, the matter of UFG and LPS has already been finalized by it on August 30, 2013, after the Honorable Lahore High Court (LHC) judgment (PLD 2013 Lah.289) dated February 15, 2013. The financial impact arising due to above decision is now being incorporated/recovered in FY 2012-13, as requested by the petitioner and in line with the advice of MP&NR.

8.6.2 ***Accordingly, the Authority hereby recovers Rs. 12,743 million from the petitioner by*** reducing ***the final revenue requirement/prescribed prices for the said year, as determined through this order thereby adding to the GDS. The FG may however devise suitable treatment of the same in order to pass on the benefit to the public at large /licensee as deemed appropriate.***

8.7 Impact of amendment In IAS-19

8.7.1 The petitioner has claimed Rs 1,800 million on account of IAS-19 based on justification recorded at para 2.2.3 (IAS-19) of the financial statements which states that the said amendment in IAS-19 was introduced in June 2011 and is applicable for accounting periods beginning on or after January, 2013. The impact will lead to; (i) eliminate the corridor approach and recognize all actuarial gains and losses in Other Comprehensive income (OCI) as they occur: to immediately recognize all past service cost; and (ii) to replace interest cost and expected return on plan assets with a net interest amount calculated by applying the discount to the net defined liability (asset). The expected impact of this reduction is Rs 3,600 million in retained earnings as at July 01, 2013 The petitioner has claimed only 50% (Rs 3,600 million X 50%) of the impact of change in the standard next year in order to stagger the impact over two year instead of one.

8.7.2 The Authority observes that contribution to post retirement obligations is complimentary part of HR cost which has been allowed on actual basis. The petitioner is public listed company; it has to comply the SECP regulation which, as per company ordinance, refers IAS/IFRS in the presentation of financial statement. The company is thus statutory obligated to realize post retirement obligation with the contribution in the fund as per actuarial valuation.

8.7.3 ***The Authority, in view of above justification advanced by the petitioner, allows Rs. 1,800 million under this head for the said year.***

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9 Decision

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

(i) accept the sales revenue at prescribed prices at Rs. 201,206 million

(ii) determine the late payment surcharge as operating income at Rs. 2,734 million.

(iii) determine the other operating income at Rs. 247 million;

(iv) Gross addition in fixed assets at Rs. 9,409 million;

(v) allow closing balance of fixed assets at Rs. 82,126 million;

(vi) accept the cost of gas at Rs. 204,220 million;

(vii) allow the UFG at 4.5% based on which disallowance on this account works out to Rs. 13,917 million;

(viii) allow T&D cost at Rs. 12,801 million as against Rs. 15,523 million claimed by the petitioner;

(ix) accept the GIC at Rs. 2,305 million;

(x) determine prior year adjustment at Rs. 381 million and other operating expenses at Rs. 460 million for the said year.

(xi) recover Rs. 12,743 million arisen due to finalization of FY 2010-11 & FY 2011-12 after Honorable LHC decision dated 15.02.2013.

(xii) Consequent to adjustments, WPPF has not arisen.

9.1.2 ***In exercise of its powers under Section 8(2) of the Ordinance, the Authority determines the FRR for the said year at Rs. 215,056 million as against petitioner's claim of Rs. 240,959 million, as tabulated below:***

Table 17: Components of FRR for FY 2012-13 as Determined by the Authority

Rs. in Million

[illegible]	[illegible]	[illegible]
Cost of Gas	204,220	204,220
Transmission & Distribution Cost	15,523	12,801
GIC	2,305	2,305
UFG Disallowance	(4,761)	(13,917)
Depreciation	8,701	8,694
Other expenses incl. WPPF	498	-
Prior Year Adjustment	1,113	381
Other operating expenses	501	460
Imapct of IAS 19	1,800	1,800
[illegible]	[illegible]	[illegible]
Return on Assets	11,060	11,055
Prior Year's Adjustment (FY 2011-12 & FY 2012-13)	-	(12,743)
[illegible]	[illegible]	[illegible]

9.1.3 *The petitioner's actual net operating income is Rs. 208,800 million and thus there is a shortfall of of Rs. 6,256 million, viz a viz its revenue requirement of Rs 215,056 million for the said year. In order to adjust it, the Authority hereby revises the average prescribed price upward by Rs. 12.23 per MMBTU (Annex. A). Revised prescribed prices for each category of retail consumers for FY 2012-13 are attached and marked Annex-B.*

Noorul Haque
(Member Finance)

Aamir Naseem
(Member Gas)

Saeed Ahmad Khan
(Chairman)

Islamabad, November 05, 2015

REGISTRAR
Oil & Gas Regulatory Authority
Islamabad

A. Final Revenue Requirement for FY 2012-13

Million Rs.

	Particulars	The Petition FRR 2012-13	Adjustment	Determination
	Gas sales volume -MMCF	552,272	-	552,272
	BBTU	511,643	-	511,643
	Calorific Value	926	-	926
"A"	**Net Operating revenues**			
	Net sales at current prescribed price	201,206	-	201,206
	Rental & service charges	1,398	-	1,398
	Surcharge and interest on arrears	-	2,734	2,734
	Amortization of deferred credit	3,215	-	3,215
	Other operating income	80	167	247
	Total income "A"	**205,899**	**2,901**	**208,800**
"B"	**Less Expenses**			
	Cost of gas sold	204,220	-	204,220
	UFG (disallowance) / allowance	(4,761)	(9,156)	(13,917)
	Transmission and distribution cost	15,523	(2,722)	12,801
	Gas Internally Consumed	2,305	-	2,305
	Depreciation	8,701	(7)	8,694
	Other Expenses Incl. WPPF	498	(498)	-
	Prior Year Adjustment	1,113	(732)	381
	Other operating expenses	501	(41)	460
	Impact of IAS 19	1,800	-	1,800
	Total expenses "B"	**229,900**	**(13,156)**	**216,744**
"C"	**Operating profit / (loss)(A - B)**	**(24,000)**	**16,057**	**(7,944)**
	Return required on net assets:			
	Net assets at begining	81,413	-	81,413
	Net assets at ending	82,174	(48)	82,126
		163,587	(48)	163,539
	Average fixed net assets (I)	81,794	(24)	81,770
	Deferred credit at begining	18,979	-	18,979
	Deferred credit at ending	18,212	-	18,212
		37,191	-	37,191
	Average net deferred credit (II)	18,596	-	18,596
"D"	**Average operating assets (I-II)**	63,198	(24)	63,174
	Return required on net assets	17.5%		17.5%
"E"	Amount of return required	11,060	(4)	11,055
"F"	**Excess /(shortfall) over return required**	(35,060)	16,061	(18,999)
"G"	**Prior Year's adjustments (FY 2011-12 & FY 2012-13)**	-	12,743	12,743
"H"	**Net Excess /(shortfall) over return required**	(35,060)	28,803	(6,256)
"I"	**Average Increase/(Decrease) in Prescribed Price (Rs/MMBTU)**	68.52	(56.30)	12.23
"J"	**Revenue requirement**	240,959	(25,902)	215,056
"K"	**Average Prescribed Price (Rs/MMBTU**	461.78	(56.30)	405.48

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B. Prescribed Prices Determined FY 2012-13

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
		[illegible]		
CATEGORY				
(i) **Domestic Sector:**				
a) Standalone meters				
(i) Upto 100 M^3 per month	405.48	100.00	100.00	
All off-takes at flat rate of				
(ii) Upto 300 M^3 per month	405.48	200.00	200.00	
All off-takes at flat rate of				
(iii) Over 300 M^3 per month	405.48	500.00	500.00	
All off-takes at flat rate of				
b) Mosques, churches, temples, madrassas, other Religious Places and Hostels attached thereto; Government and semi-Government offices and Hospitals, 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.				
(i) Upto 100 M^3 per month	405.48	100.00		
All off-takes at flat rate of				
(ii) Upto 300 M^3 per month	405.48	200.00		
All off-takes at flat rate of				
(iii) Over 300 M^3 per month	405.48	500.00		
All off-takes at flate rate of				
b) Mosques, churches, temples, madrassas, other Religious Places and Hostels attached thereto; 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 flate rate of			500.00	
a) Standalone meters				
b) Mosques, churches, temples, madrassas, other Religious Places and Hostels attached thereto;				
(i) Upto 100 M^3 per month	405.48			106.14
All off-takes at flat rate of				
(ii) Upto 300 M^3 per month	405.48			212.28
All off-takes at flat rate of				
(iii) Over 300 M^3 per month	405.48			530.69
All off-takes at flat rate of				
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	405.48			530.69
(ii) **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, places of entertainment like cinemas, clubs, theaters and private offices, clinics, maternity homes, etc.				
All off-takes at flat rate of	405.48	504.43		
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	405.48		504.43	554.25

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		Revised Average Prescribed Price w.e.f. July 01, 2012	Prescribed Prices w.e.f. July 01, 2012	Prescribed Prices w.e.f. January 01, 2013
	Special Commercial Consumers (Roti Tandoors)			
	First slab (upto 100 cubic metres per month).	**405.48**	**100.00**	**106.14**
	Second slab (Upto 300 cubic metres per month).	**405.48**	**200.00**	**212.28**
	Third slab (over 300 cubic metres per month).	**405.48**	**504.00**	**553.77**
(iii)	**Ice Factories:**			
	All off-takes at flat rate of	**405.48**	**504.00**	**553.77**
(iv)	**Industrial Consumers:** *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	**405.48**	**415.55**	**456.59**
(v)	**Captive Power:**			
	All off-takes at flat rate of	**405.48**	**415.55**	**456.59**
(vi)	**CNG Stations:**			
	All off-takes at flat rate of	**405.48**	**547.36**	**618.78**
(vii)	**Cement Factories:**			
	All off-takes at flat rate of	**405.48**	**624.65**	**686.34**
(viii)	**Fertilizer Factories:**			
	(1) Pak American Fertilizer Limited, Daudkhel.			
	(a) For gas used as feed stock for fertilizer *Commodity charge.*			
	All off-takes at flat rate of	**405.48**	**116.27**	**123.41**
	(b) **For gas used as fuel for generating steam and electricity and for usage in housing colonies.** *Commodity charge.*			
	All off-takes at flat rate of	**405.48**	**415.55**	**456.59**
	(2) Pak Arab Fertilizer Limited, Multan.			
	(a) **For gas used as feed stock for fertilizer** *Commodity charge.*			
	All off-takes at flat rate of	**405.48**	**116.27**	**123.41**
	(b) **For gas used as fuel for generating steam and electricity and for usage in housing colonies.** *Commodity charge.*			
	All off-takes at flat rate of	**405.48**	**415.55**	**456.59**

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(3) <u>Dawood Hercules Chemicals Limited, Chichoki Malian, Sheikhupura District:</u>

(a) **For gas used as feed stock for fertilizer**			
Commodity charge.			
All off-takes at flat rate of	**405.48**	**116.27**	**123.41**
(b) **For gas used as fuel for generating steam and electricity and for usage in housing colonies.**			
Commodity charge.			
All off-takes at flat rate of	**405.48**	**415.55**	**456.59**

(4) <u>Pak-China Fertilizer Limited/Hazara Phosphate Plant Limited, Haripur.</u>

(a) **For gas used as feed stock for fertilizer**			
Commodity charge.			
All off-takes at flat rate of	**405.48**	**116.27**	**123.41**
(b) **For gas used as fuel for generating steam and electricity and for usage in housing colonies.**			
Commodity charge.			
All off-takes at flat rate of	**405.48**	**415.55**	**456.59**

(5) <u>ENGRO Fertilizer Company Limited</u>

(a) **For gas used as feed stock for fertilizer**			
Commodity charge.			
All off-takes at flat rate of	**405.48**	**60.67**	**67.55**
(b) **For gas used as fuel for generating steam and electricity and for usage in housing colonies.**			
Commodity charge.			
All off-takes at flat rate of	**405.48**	**415.55**	**456.59**

(ix) <u>Power Stations:</u>

(a) *WAPDA's Power Stations and other electricity utility companies excluding WAPDA's Natural Gas Turbine Power Station, Nishatabad, Faisalabad.*			
All off-takes at flat rate of	**405.48**	**415.55**	**456.59**
(b) *WAPDA's Natural Gas Turbine Power Station, Nishatabad, Faisalabad.*			
Commodity Charge			
All off-takes at flat rate of	**405.48**	**415.55**	**456.59**
Fixed charge (Rupees per month).		**390,000**	**390,000**
(c) *Liberty Power Limited.*			
All off-takes at flat rate of	**405.48**	**1,633.94**	**1,505.20**

(x) <u>Independent Power Projects</u>

Commodity Charge			
All off-takes at flat rate of	**405.48**	**415.55**	**456.59**

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C. Computation of HR Cost Benchmark FY 2012-13

[illegible]	[illegible]	[illegible]	[illegible]
HR benchmark Cost Parameters			
Base Cost	7,370	7,370	8,251
CPI factor	13.92%	11.01%	7.36%
T & D network (Km)	89,441	96,655	100,988
Number of Consumers (No.)	3,964,530	4,219,279	4,505,493
Sales Volume (MMCF)	581,935	597,056	552,272
Unit Rate (Rs./unit)			
T&D network (Rs./Km)	82,399	82,399	85,367
No. of Consumers (Rs./Consumer)	1,859	1,859	1,956
Sale Volume (Rs./MMCF)	12,664	12,664	13,820
HR Cost Build-up (Million Rs)			
Cost CPI -50%	-	406	304
T & D network (Km) 25%	1,842	1,991	2,155
Number of Consumers (No.) 65%	4,790	5,098	5,727
Sales Volume (MMCF)-10%	737	756	763
[illegible] benchmark Cost	[illegible]	[illegible]	[illegible]
Actual Cost			8,434
50% saving share			257
IAS Cost			(368)
[illegible] benchmark Cost			[illegible]

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