



IN THE MATTER OF

SUI NORTHERN GAS PIPELINES LIMITED
ESTIMATED REVENUE REQUIREMENT, FY 2015-16

UNDER

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

DECISION

December 18, 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 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) under Petroleum Product (Petroleum Levy) Ordinance 1961, in accordance with the decision of the Federal Government (FG).
- 1.2. The petitioner filed a petition on December 01, 2014, 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 2015-16 (the said year) at Rs. 233,689 million (the amounts have been rounded off to the nearest million here and elsewhere in this document), estimated operating income at Rs. 208,729 million, and revenue shortfall at Rs. 24,959 million, translating into an increase of Rs. 46.50 per MMBTU in the current average prescribed prices w.e.f. July 1, 2015.
- 1.3. The petitioner submitted an amended petition on March 16, 2015 due to drastic reduction in the prices of Crude/ HSFO and accordingly reduced the projected increase in prescribed prices to Rs. 38.35 per MMBtu w.e.f July 1, 2015. The petitioner on August 12, 2015 further amended the petition after incorporating the revised numbers of domestic connections along with the cost thereof and accordingly sought increase in prescribed prices @ Rs. 39.47 per MMBtu for the said year.
- 1.4. The petitioner further submitted a revised petition on September 1, 2015 (the petition) after incorporating the professional charges on account of LNG/IP/TAPI gas projects and revaluation of fixed assets during the said year. In the petition, revenue requirement for the said year has been estimated at Rs. 223,481 million,



estimated operating income at Rs. 206,313 million and revenue shortfall at Rs. 17,168 million, translating into an increase of Rs. 39.55 per MMBTU in the current average prescribed prices w.e.f. July 1, 2015.

- 1.5. 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

Particulars	Rs./MMBtu		
	FY 2013-14	FY 2014-15	FY 2015-16
	FRR	FRR	The Petition
Sales Volume (BBTU)	473,873	421,343	434,030
Cost of gas sold	427.49	427.17	357.44
UFG adjustment	(25.88)	(27.62)	-
Transmission and distribution cost	32.17	37.50	51.65
Gas internally consumed	4.11	3.50	5.08
Depreciation	18.82	22.95	46.19
Other operating expenses	0.11	0.81	1.60
Impact of IAS 19	6.85	11.90	-
Previous years shortfall	-	42.19	-
Return on net average operating fixed assets	24.48	30.31	52.95
Other operating income	(15.43)	(20.51)	(10.39)
Cost of service / prescribed price	472.71	528.19	504.51
Current average prescribed price	472.71	528.19	464.95
Increase in average prescribed price	-	-	39.55

- 1.6. The Authority admitted the petition for consideration, as a prima facie case for evaluation existed and was otherwise in order.
- 1.7. A notice inviting interventions / comments on the petition from the consumers, general public and other interested / affected persons, was published twice on March 17, 2015 & August 6, 2015 in daily newspapers, namely: The News (combined), The Nawa e Waqt (combined), The Mashriq (Peshawar) and The Din (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, Khyber Pakhtunkhwa. Chamber of Commerce & Industry, Peshawar.
3. Mr. Muhammad Aslam Chaudhry, Chief Executive Officer, UEC (Pvt) Ltd.
4. Mr. Mehmood Elahi, Mehmood Elahi Engineers, Faisalabad.
5. Mr. Ayub Hameed, gas consumer, Faisalabad.



- 1.8. The Authority accepted the above mentioned applications for intervention.
- 1.9. A notice intimating the date, time and place of the public hearing, was published in daily newspapers, namely: The News (combined), The Nawa-e-Waqt (combined), The Mashriq (Peshawar) and The Din (Lahore) on August 23, 2015.

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 existing tariff regime and license condition No. 5.2.
- 2.1.2. The petitioner has projected a gross addition of Rs. 83,597 million in the fixed assets and ex-depreciation addition of Rs. 63,551 million, resulting in projected increase in the net operating fixed assets from Rs. 127,000 million per FY 2014-15 to Rs. 190,551 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. 131,319 million, and the required return to Rs. 22,981 million.
- 2.1.3. The petitioner has projected the net operating revenues at Rs. 206,313 million, as detailed below and compared with previous years:

Table 2: Comparison of Projected Operating Revenues with Previous Years

Rs. in million

Description	FY 2013-14	FY 2014-15	FY 2015-16	Inc/ (Dec) over	
	FRR	FRR	The Petition	FRR FY 2014-15	
Net sales at current prescribed price	206,230	177,808	201,803	23,995	13%
Rental & Service Charges	1,663	1,698	1,481	(217)	-13%
Surcharge and Interest on arrears	2,456	2,914	-	(2,914)	0%
Amortization of deferred credit	2,572	2,746	2,829	83	3%
Other operating income	621	1,282	200	(1,082)	-84%
Net Operating Revenues	213,542	186,448	206,313	19,865	11%



- 2.1.4. The petitioner has projected the net operating expenses at Rs. 200,500 million, as detailed below (and compared with previous years):

Table 3: Comparison of Projected Operating Expenses with Previous Years

Rs. in million

Description	FY 2013-14	FY 2014-15	FY 2015-16	Inc / (Dec) over	
	FRR	FRR	(The Petition)	FRR 2014-15	
Cost of gas	202,574	179,983	155,139	(24,844)	-14%
Transmission and Distribution costs	15,243	15,802	22,417	6,615	42%
UFG disallowance	(12,262)	(11,639)	-	11,639	
Gas Internally Consumed (GIC)	1,948	1,475	2,205	730	49%
Depreciation	8,917	9,669	20,046	10,377	107%
Other Charges including WPPF	3,296	5,356	693	(4,663)	-87%
Prior Year Adjustment		17,775	-	(17,775)	0%
Net Operating Expenses	219,716	218,421	200,500	(17,921)	-8%

- 2.1.5. The petitioner has projected Weighted Average Cost of Gas (WACOG) for the said year at Rs. 319.70 per MMBTU, as against Rs. 365.90 per MMBTU determined in Final Revenue Requirement FY 2014-15 (FRR). 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 petitioner has projected Unaccounted for Gas (UFG) at 7.32% (36,931 MMSCF), for the said year and requested for allowance of the same in the revenue requirement.
- 2.1.7. The shortfall in the projected revenue requirement after achieving 17.5% return on average net operating fixed assets is estimated at Rs. 17,168 million, requiring an increase of Rs. 39.55 per MMBTU in the existing average prescribed price, as detailed below:

Table 4: Computation of Requested Increase in Average Prescribed Price

Description	Rs. in million
A Net operating revenues	206,313
B Less: Net operating expenses including WPPF	200,500
C Shortfall/ (excess) (A - B)	(5,813)
D Return required @ 17.5% on net fixed assets in operation.	22,981
E Total shortfall / (excess) in the revenue requirement (C + D)	17,168
F Sales volume (BBTU)	434,030
Increase in the average prescribed price (Rs./MMBTU) (E / F * 1000)	39.55



3. Proceedings

3.1. The Public Hearing

3.1.1. A public hearing was held at Lahore on September 10, 2015 which was participated by the following;

Petitioner

- i. Team led by Mr. Amer Tufail, Dy. Managing Director (Services)
- ii. Legal counsel, Mr. Mirza Mehmood Ahmad

Intervener/Participants

- i. Mr. Raziuddin, Chief Executive Officer, KPKOGCL, Govt. of Khyber Pakhtunkhwa.
- ii. Mr. Mehmood Elahi, Mehmood Elahi Engineers, Faisalabad.
- iii. Mr. Ayub Hameed, Gas Consumer, Faisalabad.
- iv. Mr. Ashraf Mehtab, Gas Consumer, Lahore.
- v. Mr. Mohsin Aftab, Regional Secretary, All Pakistan Textile Processing Mills, Association.

3.1.2. A public hearing was also held at Peshawar on September 14, 2015 which was participated by the following;

Petitioner

- i. Syed Zahid Hussain, Senior General Manager (Distribution North).
- ii. Syed Jawad Naseem, General Manager (Regulatory Affairs).

Intervener/Participants

- i. Mr. Raziuddin, Chief Executive Officer, KPOGCL, Govt. of Khyber Pakhtunkhwa.
- ii. Mr. Pervaiz Khan Khattak, Executive Member, Khyber Pakhtunkhwa. Chamber of Commerce & Industry, Peshawar.

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 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 the domestic consumers which constitutes 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 deteriorating the financial health of gas utility and is infact impairing the interests of public at large.
- 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 the licensee achieve 17.5% return. Legal counsel, during the hearing, has also requested the Authority to discharge its functions in accordance with Section 6(2)(f),(o) & (q) of the Ordinance. The petitioner has requested for level playing field for all the stakeholders as stipulated in Rule 17(1)(c) & 17(2) of NGT Rules.
- 3.2.3. The legal counsel also pleaded that a meager increase in consumers bills, who are already getting cross subsidy and paying far less cost of fuel viz a viz cost of alternate supplies, is infact protection of interests of public at large and the same also strikes a balance among all stakeholders. The counsel on this premise demanded increase in UFG benchmark on provisional basis till UFG study is finalized.



3.3. The substantive points made by the interveners are summarized below;

- 3.3.1. 17.5% guaranteed return is unprecedented. If the same is not achieved, it is due to petitioner's own inefficiencies and wastages which are very much under its control.
- 3.3.2. The petitioner is not taking into account the ground realities and socio economic issues while extending its network. Gas supplies are witnessing severe decline day by day whereas consumer base and distribution network is increasing, which makes no sense. This phenomenon is unnecessary burdening the existing consumers. It appears that petitioner is concerned only to the extent of fabulous return which is earned on laying down of pipeline irrespective of its optimum utilization. Guaranteed return on operating assets has therefore built-in flaws since it promotes inefficiencies and does not ensure prudent capitalization. This return methodology needs to be amended.
- 3.3.3. Maintenance of law & order is responsibility of provinces. In case, they have failed to do the same, it is not fault of gas consumer. Accordingly, they may not be burdened. Further, non-performing assets are virtually contributed by consumers which is unjustified.
- 3.3.4. HR cost, without any just and cause, is increasing. The petitioner submitted that gas sales which is main indicator of business activities is debilitating day by day. In this plight, there is no rationale to extend the luxuries for the officers. Bonuses and dividends are regularly distributed while petitioner is projecting loss to the company on the other side. There is clear contradiction and the consumer has right to object. It was demanded that OGRA must strictly analyze the unproductive costs that are ultimately picked by consumers.
- 3.3.5. Leakages in domestic sector are far less than theft in industry. Accordingly, it should be strictly watched. Further, use of latest technology can rectify the leakages and combat theft. The petitioner however is not giving due attention



on this aspect rather it prefers to load the losses on gas consumers which is easy way to get the ends.

- 3.3.6. It was criticized that 21 Km Qadirpur -Sawan pipeline segment could not be completed despite passing a financial year. The petitioner, in the instant petition, however is showing strong sentiments to construct 800 Km pipeline in one year. Further, FG has established a fund to finance such giga projects; accordingly the cost of the same should not be passed on to consumers.
- 3.3.7. It was criticized that the petitioner has contended that system /network is aged. It however has not proposed any replacement mechanism in this regard. Companies are not synchronized with latest technology which, in this modern era, is facilitating to the extent that leakages are rectified without any digging. Further, whole network can be effectively operated if technology is in place. This shall also not require establishing new regions and increasing unnecessary overheads.
- 3.3.8. UFG study is OGRA's duty which can be easily carried out in minimum time. Accordingly, petitioner contention in this regard must be considered.
- 3.3.9. The interveners objected that no legible copy of the petition along with adequate information in terms of comparison with historical data has been provided. Accordingly, no suggestion/comments can be offered on this issue. Further, petitioner has made submission to the extent of revenue requirement; no commensurate socio economic plan/agenda however has been discussed. It appears that the petition is for the well being of its employees and shareholders; no public interest is involved in such petitions.
- 3.3.10. The consumers from Kohat, Karak and Hangu, which are gas producing areas in Khyber Pakhtunkhwa, are agitating owing to meter connection @ Rs. 27,000 per meter. The people of the area are kept to wait while the influential people and commercial societies in other areas are given priority. Further, urgent gas connections are also discriminatory at the cost of poor consumers.



- 3.3.11. Khyber Pakhtunkhwa is immensely hit by terrorism. Accordingly, this province seeks reduction in gas prices in order to relief the deprived people.
- 3.3.12. The interveners highlighted lot of discrepancies regarding petition. It was criticized that same is not available on the website, not readable and possess inadequate information.
- 3.3.13. Officers of SNGPL are enjoying lavish perks and benefits and their strength is increasing. The technical quality of workmanship however is decreasing day by day. The interveners further expressed agony that Government establishes organizations for the welfare of the people, who are asset for the company. SNGPL however does not care for public interests. It sends only bills without supplying gas.
- 3.3.14. Company has made the sticky meters as a main source to reduce UFG. Heavy bills are charged on account of defective meters, which is unjustified and unaffordable.
- 3.3.15. The petitioner has considered only the pressure factor for gas measurement because it favors it. Whereas the temperature factor, which has equal impact, has been ignored. Both the factors should be coupled and correctly applied to measure accurate volume of gas. Huge variation of temperature has been observed particularly in Punjab, which impacts billing. It was contended that petitioner is using non professional tactics as an alternate source to control UFG. Further, it was highlighted that OGRA has notified only the pressure factor for domestic consumers in its distribution standards; the same however is silent on the temperature of gas. OGRA should therefore issue the outlines for the both factors i.e; temperature and pressure for domestic consumers.
- 3.3.16. Gas volume has dropped from 1900 MMCFD to 1400 MMCFD and it is further reduced due to theft which is done by the influentials with the connivance of company employees, which is main cause of tariff increase. The interveners contended that consumers at large oppose this increase in gas prices on this ground.



- 3.3.17. The representative of Govt. of Khyber Pakhtunkhwa objected the petitioner's statement regarding illegal connections in Kohat/Gurguri & Karak and contended that illegal connections may not be allowed and if the same does not exist, bigotry statements may be avoided. Further, the province is extremely hit by terrorism. The people of the province, even from the gas producing areas, apply for gas connections which are not provided. They have to wait in que for years while the urgent connection is allowed to other civic areas in a day. This is unfair and must be stopped.
- 3.3.18. The representative of Khyber Pakhtunkhwa further contended that the petition is not merely a matter of calculation. It's a complete fiscal lay out which includes development work in the coming year. In Khyber Pakhtunkhwa, development work is not carried out even in gas producing areas. The constitution makes the province master of his own resources. In the wake of no development work, the essence of constitution cannot be fulfilled. Further, SNGPL is not adhering to the constitution while formulating the gas load management policy. Also, Khyber Pakhtunkhwa is not consulted in this regard.
- 3.3.19. In the tariff estimates presented by petitioner, 36 % increase has been projected in the poor category while tariff of industrial sector has been projected at 20% increase. This shows that tariff is based on the myth that poor should pay more than rich.
- 3.3.20. The representative from Khyber PakhtunKhwa criticized the decrease in GDS. Increase in prescribed price shall further squeeze the GDS. Accordingly; increase in tariff has been opposed. Further, it was objected that FG has recently made 14% increase in gas prices which provides no rationale since the wellhead prices are on downward trend. To control UFG, there is dire need to chalk out a detailed and strategic program in this regard.
- 3.3.21. LNG portion has also been included in the Revenue Requirement of the petitioner which needs legal advice. This portion may be separately



maintained and the cost of the same should not be included in the revenue requirement.

- 3.3.22. Meters should be checked through third party. The defendant and the judge should not be the same person. HDIP and others be involved. Latest technology including meter fiber lock, etc; should be availed.
- 3.3.23. GCV is fairly simple issue. SNGPL bills are not synchronized with notified CNG price. Gas companies are charging at exorbitant rate which is not recovered from the CNG consumers. Further, complaints in this regard have been filed, no result however is achieved.
- 3.3.24. In Khyber Pakhtunkhwa, gas generators are not allowed to generate electricity which is violation of Constitution. Further, Khyber Pakhtunkhwa Govt. is undertaking natural gas based power projects. If indigenous natural gas has to be consumed for power generation, then why CNG stations are prevented for the same activity.
- 3.3.25. Additional capacity of 325 MMCFD available at SNGPL T&D network may be allocated to any private company for utilization in terms of LNG import. Further, there is dire need to augment the capital projects for industrial sales.
- 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 the 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, before its commencement, in accordance with the NGT Rules, 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. The FG further decides the 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 Federal Govt. 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 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.

4.1.4. 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 in depth, keeping in view the provision of the law.

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 treating various income & expenditure heads as per existing regime.
- 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. Apparently, 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 the petitioner contentions are assumed true, it shall be contrary to the regulatory setup established by GoP, violate the legal & regulatory framework as a whole and tantamount to dysfunctional regulator. This shall impair the consumer interests and result into economic distortion for each segment of the society which can never be, by any stretch of mind, the intent of legislature.
- 5.3. The Authority further observes that license condition 5.2 allows the petitioner 17.5% return on fixed assets subject to efficiency benchmarks. The same is strictly followed for determination of estimated revenue requirement for the aid year.



6. Operating Fixed Assets

6.1. Summary of Additions during the year

6.1.1. The petitioner has projected a gross addition of Rs. 83,597 million in the fixed assets and ex-depreciation addition of Rs. 63,551 million, resulting in projected increase in net operating fixed assets from Rs. 127,000 million as per opening balance to Rs. 190,551 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. 131,319 million, and the required return at Rs. 22,981 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		127,000
Addition during the Year		83,597
Depreciation addition		(20,046)
Net Addition		63,551
Net operating fixed assets at closing		190,551
	Sub Total	317,551
Average net assets (A)		158,776
Deferred credit at beginning		27,121
Deferred credit at closing		27,792
	Sub Total	54,913
Average deferred credit (B)		27,457
Average net fixed assets (A-B)		131,319
Return required		17.60%
Amount of return requested by the petitioner		22,981

6.1.2. The details of projected deferred credits for the said year are compared with FRR for FY 2014-15 as under:

Table 6: Comparison of Projected Deferred Credits with previous Year

Particulars	Rs. in million	
	FY 2014-15	FY 2015-16
	FRR	The Petition
Balance as at July 01	17,737	27,121
Addition during the year	2,432	3,500
Sub-total	20,169	30,621
Amortization for the year	(2,746)	(2,829)
Un-amortized balance as at June 30	17,423	27,792

6.1.3. The Authority observes that FRR FY 2014-15 has been concluded whereby the closing fixed assets and deferred credit balances have been determined at Rs. 17,423 million respectively. Accordingly, the same is adopted as opening balances for the said year. Consequently, the deferred credit closing balance for the said year works out to Rs. 18,094 million for said year.

6.1.4. 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 2013-14	FY 2014-15	FY 2015-16	Inc./ (Dec.) Over	
	FRR	FRR	The Petition	FRR	
Transmission	2,301	3,458	58,005	54,547	1577%
Compression	694	437	472	35	8%
Distribution Development	5,498	6,189	15,011	8,822	143%
Measuring and Regulating Assets	3,936	5,567	8,302	2,735	49%
Plant, Machinery & Equipment and Other Assets	649	2,105	1,417	(688)	-33%
Buildings on freehold land	57	110	370	260	236%
Land & Land Acquisition Advance	125	128	20	(108)	-84%
Intangible Assets (IT related cost)	56	16	-	(16)	-100%
Net addition in asset base	13,316	18,010	83,597	65,587	364%

6.1.5. 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

Sr.#	Particulars	Rs. in million
1	Freehold Land	20
2	Building on freehold land	370
3	Transmission Mains	58,005
4	Compression System & Equipment	472
5(a)	Distribution System Mains	15,011
5(b)	Measuring & Regulating Assets	8,302
	<i>Sub-total</i>	82,180
6	Normal & Other Assets:-	
6.1	Telecommunication Equipments & Scada	15
6.2	Plant & Machinery	134
6.3	Tools & Equipment	211
6.4	Motor Vehicles	302
6.5	Construction Equipment	229
6.6	Furniture & Fixture	31
6.7	Office equipment	30
6.8	Computer Hardware	465
	<i>Sub-Total</i>	1,417
	Total Addition For FY 2015-16	83,597

6.1.6. The detail discussion is made as under:-

6.2. Transmission

6.2.1. The petitioner has projected Rs. 58,005 million for the said year under the head of Transmission as follows: -

Table 9: Additions to Transmission Network LNG Project Phase II



Sr. #	DESCRIPTION	Rs. in million
Phase -II LNG Project		
1	LNG PHASE-II Pipelines	
1.1	42" Dia x 70.3 Km Pipeline Qadirpur-AC1X Bhong	6,978
1.2	36" Dia x 302.5 Km Pipeline i) AC1X Bhong-AC4 (Uch) ii) AC4 Uch-AC6 (Multan) iii) AC6 Multan- AV 29 (Qadirpur Rawan)	25,985
1.3	30" Dia x 109.35 Km Pipeline i) Sahiwal-Phoolnagar	5,332
1.4	24" Dia x 145.20 Km Pipeline i) AV 29 (Qadirpur Rawan-Sahiwal)	6,372
1.5	18" Dia x 64.76 Km Pipeline i) Phoolnagar- MP 59	2,797
1.6	16" Dia x 70.32 Km Loopline i) MP59-Tattayali ii) BV3 (Khurrianwali-B1 (Shahkot)	2,073
	Sub-Total A	49,538
2	SCADA (Lot)	80
3	Machinery, construction equipment, spares and capital items/ Camping facility.	3,500
4	Equipment tools and vehicles for transmission	150
	Sub-Total B	3,730
5	Compression (25,000 HP)	4,673
	Sub-Total C	4,673
	Project Total	57,941
	Transmission Regular Expenditure	
6	Budget required for any unforeseen activity on transmission system	50
7	Miscellaneous normal capital expenditure	14
	Sub-Total D	64
	Total	58,005

6.2.2. It is mentioned that the Ministry of Petroleum and Natural Resources (MNPR), vide its letter No. NG-(II)-16(I)/14-Misc-LNG dated 5th November, 2014, stated that in order to transport the gas volumes to be made available under the above projects, fast track implementation of pipeline infrastructure projects is mandatory to achieve the target dates in order to avoid heavy penalties. Non existence of required gas infrastructure within the stipulated time period will jeopardize the entire gas/LNG import projects and it will ultimately have a far-reaching impact on the existing natural gas demand/supply gap and also exposing the country to huge penalties. The Authority was requested to convey its approval of the Gas Pipeline Infrastructure Development Projects on priority basis as decided and discussed in the ECC meeting enabling gas utilities to commence their activities forthwith.

6.2.3. Keeping in view the above letter of the FG, project of national importance and acute shortage of gas in the country, the Authority granted principle approval of Phase-II of pipeline infrastructure development plan for upcoming LNG and anticipated indigenous supplies, vide its letter dated November 21, 2014. The Authority also informed the petitioner that it must had prepared the proposal by fully capable professionals and in accordance with the international standards and practices.

6.2.4. The petitioner has now submitted its LNG Project Phase-II implementation schedule; vide its letter dated August 12, 2015. The Authority observes that only three pipelines (42" Dia x 70.3 Km Pipeline Qadirpur-AC1X Bhong, 18" Dia x 64.76 Km Pipeline



Phoolnagar- MP 59 and 16" Dia x 70.32 Km Loopline MP59-Tatlayali and BV3 (Khurrianwali-B1 (Shahkot)) are expected to be completed in the current fiscal year.

- 6.2.5. Keeping in view the implementation schedule submitted by the petitioner, the Authority allows only the above pipelines which are expected to be completed in the current fiscal year i.e. FY 2015-16. It has been noticed that the petitioner has requested Rs. 99.24 million per kilometer cost for laying of 42" pipeline and the Authority has already allowed Rs. 87 million per kilometer cost for laying of 42" diameter 109.30 KM pipeline in DERR FY 2014-15 and by applying 15% of inflation, the amount works out to be Rs. 99.76 million per kilometer. Further in recent years, the petitioner did not request to capitalize any amount for 18 and 16 inches dia pipelines, therefore, demand for the said pipeline is allowed subject to actualization in the FRR. *The Authority, therefore, allows Rs. 11,848 million for laying of the said pipelines.*
- 6.2.6. The petitioner also submitted to allow Rs. 8,403 million for SCADA, machinery, construction equipment, tools, vehicles and compression. The Authority, keeping in view the implementation schedule provided by the petitioner, observes that half of the aforementioned activities shall be completed in the said year. Therefore, the Authority allows Rs. 4,202 million for the said activities.
- 6.2.7. The petitioner also projected Rs. 50 million for any unforeseen activity that may arise during the year on transmission system and also projected Rs. 14 million for normal regular expenditure. The Authority disallows Rs. 50 million projected for any unforeseen activity and allows only Rs. 7 million under the head of normal expenditure at this stage, to be reviewed at the time of FRR.
- 6.2.8. In view of the observations, the Authority allows Rs. 16,057 million under the head transmission as against Rs. 58,005 million projected by the petitioner. It is pertinent to mention here that the FG, vide its letter No. NG-(II)-16(I)/14-Misc-LNG dated 22nd June, 2015, stated that the project carries significant national importance, accordingly, completion of the same as per the timelines would be very crucial. Further in view of the present financial condition of both utilities, Government will provide required financing facility for undertaking LNG Infrastructure Development (Phase-II) Project from GIDC to both the gas utilities as per the provisions of GIDC Act, 2015 and the mechanism for providing such financing facility is being finalized. Subsequently, MP&NR has now conveyed, vide its letter dated 11th September, 2015, the approval of the ECC of the



Cabinet regarding bank borrowing to the extent of Rs. 101 Billion to the Gas Companies and that the Ministry of Finance will provide GOP guarantee in favour of Gas Companies to arrange financing against LNG Project (Phase-II) from commercial banks. The Authority in view of the magnitude, objective and promulgation of GIDC Act for specific purposes, had in its determination for ERR for FY 2013-14 categorically conveyed its stance that financing of all these mega gas pipeline projects should be financed through GIDC to avoid double impact on consumers, as the same consumers are paying GIDC and return. The decision of the Authority was that *"The Authority, however, is of the considered view that financing of such project should be met from the GIDC account which has been established exclusively for such purposes. Accordingly, this will not be added in rate base for return purposes since inclusion of the same in return base infact invites double treatment at the cost of consumers."* Further OGRA's stance is supported through GIDC Act which has been promulgated and cess is charged from various categories of consumers in connection with infrastructure development for gas import projects including LNG or other ancillary projects. MPNR's latest letter seems to benefit the companies only through inclusion in rate base for return purposes without considering OGRA's observations/ stance, which has been taken in larger public interest.

- 6.2.9. The Authority is of the considered view/ stance that this financial burden may not be passed onto the consumers/ general public and the subject projects should be financed through GIDC to avoid double impact on consumers. The Authority has also requested MPNR vide letter dated 14th October, 2015 to reconsider the matter keeping in view the above scenario and the public interest and advise accordingly.
- 6.2.10. The expenditure under the head may be met through financial assistance provided by the FG through GIDC; capitalization of Rs. 16,057 million pertaining to LNG Project Phase II shall not be entitled for rate of return to the petitioner. The matter may be reviewed after fresh advice of the FG in this matter.

6.3. **Compression**

- 6.3.1. The petitioner projected Rs. 472 million on account of compression during the said year.
- 6.3.2. The petitioner explained that Compressor Stations play a vital role in transmission of gas to the upcountry 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 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.

6.3.3. 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 & 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.

6.3.4. 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. 472 millions under the head for the said year.*

6.4. *Distribution Development*

6.4.1. The petitioner has projected an amount of Rs. 15,011 million for distribution development, breakup of which is as under:

Table 10: Detail of Additions to Distribution Mains

Sr.#	Description	Rs. Million
i	Laying of Distribution Mains.	12,968
ii	Laying of Distribution Mains at cost sharing basis	263
iii	System Rehabilitation	1,500
iv	Cathodic Protection	280
Total		15,011

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

(i) *Laying of Distribution Mains*

6.4.3. The petitioner projected Rs. 12,968 million for the development of 5,952 Kilometers, out of which 5,412 kilometers are to be laid in ongoing new towns and villages whereas 540 kilometers include system augmentation, combing mains and head office reserves to



meet any unforeseen emergencies. The Authority observes that the cost per kilometer projected by the petitioner is at higher side, when compared with the actual capitalization claimed by the petitioner in FRR 2013-14 petition therefore, by adding 20 % cumulative inflation on per kilometer cost for FY 2013-14, the per kilometer cost for FY 2015-16 works out to be Rs. 1.83 million per kilometer. *Therefore, the Authority agrees in principle with the projected investment and provisionally allows Rs. 4,533 million for the said year on the basis of previous three years of actual data of kilometers laid and the company's capability to lay the distribution pipelines subject to the condition that the schemes are in line with the moratorium of the GoP dated October 4, 2011 and in compliance with the Order of the Apex Court in C.P. 20. The over and above expense actualized may be adjusted in the FRR for the said respective.*

(ii) Laying of Distribution Mains at Cost Sharing Basis

- 6.4.4. The petitioner has projected Rs. 263 million under the head of laying of 100 kilometers distribution mains of different diameter on cost sharing basis. The Authority observes that the petitioner does not entitle to rate of return on the said capitalization. The Authority allows the amount as claimed by the Petitioner.

(iii) System Rehabilitation

- 6.4.5. The petitioner has projected an amount of Rs. 1,500 million on account of re-habilitation of distribution system which includes pipe replacement, leakage rectification etc. The Authority observes that the rehabilitation of system is necessary for company's routine operation and is helpful to reduce UFG and any untoward accidents. However, the petitioner exaggerated the expenditure under the head as it has been observed that the petitioner has never been able to capitalize more than 487 million in 2011-12 and Rs. 453 million in FY 2013-14 therefore, keeping in view the recent Final estimates of the petitioner i.e. Rs. 453 million and giving 20% escalation the amount works out to be Rs. 544 million. *The Authority keeping in view the prudence allows Rs. 544 million under the head as against Rs. 1,500 million claimed by the petitioner under the head for the said year as trend analysis of previous years capitalization shows that petitioner never projected such huge budget neither it capitalized the huge amounts in its any final revenue requirement petitions. Keeping in view the prudent expenditure and trend analysis, the Authority allows Rs. 543 million under the head for the said year by*



giving 20 % inflation on final estimates of FY 2013-14 i.e. Rs. 453 million. However any additional expense capitalized under this head will be considered at the time of FRR.

(iv) *Cathodic Protection System*

6.4.6. The petitioner has projected an amount of Rs. 280 million on account of C.P system. The Authority observes that Cathodic Protection System is essential/ necessary to avoid corrosion of pipelines and that the petitioner capitalized Rs. 221 million under the head in FY 2013-14. Since the system is necessary to protect the pipelines and helps in to reduce leakages/ UFG. Therefore, the Authority keeping in view the trend of previous capitalization and allowing 20% inflation on actual estimates of FY 2013-14, allows Rs. 265 million under the head for the said year.

6.4.7. In view of above, the Authority allows the expenditure under distribution mains at Rs. 5,605 million as against Rs.15,011 million claimed by the petitioner for the said year as per the table given below.

Table 11: Detail of Additions to Distribution Development allowed by the Authority

Sr.#	Description	Rs. million	
		Demanded	Allowed
1	Laying of Distribution Mains.	12,968	4,533
2	Laying of Distribution Mains at cost sharing basis	263	263
3	System Rehabilitation	1,500	544
4	Cathodic Protection	280	265
Total		15,011	5,605

6.5. *Measuring and Regulating Assets*

6.5.1. The petitioner has projected Rs. 8,302 million on account of addition under the head 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	3,927
ii	New Connections on urgent fee	708
iii	Construction of TBs/DRs	542
ii	Replacement of old meters	2,392
iii	Construction of SMSs	175
ii	Measuring & Regulating Regular Assets	400
iii	GI Pipe and Fittings	158
Total		8,302



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

(i) **Installation of New Connections**

6.5.3. The Petitioner has projected Rs. 4,635 million for installation of 323,748 new connections. The Authority observes that 323,748 connections includes 20 industrial, 1000 commercial, 272,728 domestic connections and 50,000 domestic connections against urgent fee. The Authority notes that the FG, vide its moratorium dated October 04, 2011, has imposed a ban on the industrial and commercial connections. The Authority, therefore, considers only 272,728 domestic connections. The Authority observes that the petitioner has over estimated the cost for domestic connections, therefore, by giving 10 % inflation on weighted average per unit cost of 2013-14, the amount works out to be Rs. 3,338 million for a total of 300,001 domestic connections. It includes 272,728 normal domestic connections and an additional 27,273 urgent fee connections (10% of the domestic connections i.e. 272,728). *In view of foregoing, the Authority allows Rs. 3,338 million under the head as against Rs. 4,635 million as claimed by the petitioner for the said year.*

6.5.4. As regards commercial connection, the petitioner submitted its comments vide its letter dated 30-9-2015 in response to this Authority's letter dated 15-9-2015, however, the Petitioner did not bifurcated the connections into normal commercial and Roti Tandoor. The Authority shall consider at the time of FRR of the same year only those commercial connections having no imposition of the moratorium dated 4-10-2011, as imposed by the FG.

(ii) **Construction of TBS and DRS**

6.5.5. The petitioner has projected Rs. 542 million expenditure on account of TBS/DRS for the said year. The Authority observes that the trend analysis shows that the petitioner has never been able to capitalize such gigantic amount under the head and projected expenditure is on the higher side. *Therefore, the Authority allows budget required for TBS to the extent of Rs. 259 million as against Rs.542 million by giving 20 % inflation on average expenditure from FY 2011-12 to 2013-14 under the head for the said year.*

(iii) **Replacement of old Meters**

6.5.6. The Petitioner has projected an amount of Rs. 2,392 million on account of replacement of defective/ undersized/ 16 years old meters including domestic, industrial and commercial meters. The Authority observes that aforementioned activity is essential to curb the menace of 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. In ERR 2013-14 decision; the Authority approved Rs. 1,168 million under the same head, therefore, considering the importance of the UFG issue and petitioner's capacity to replace the defective meters, *the Authority allows Rs. 2,392 millions 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**

6.5.7. The petitioner has projected an amount of Rs. 175 millions on account of "Construction of SMSs / modification/ up-grading of SMS" . The petitioner requires SMS's in new developing areas as well as in already existing areas on operational basis. *The Authority, in view of previous years trend analysis allows Rs. 175 million under the head for the said year.*

(v) **Measuring & Regulating Regular Assets**

6.5.8. The petitioner has projected Rs. 400 million under the head for capitalization. The petitioner argued that equipment like soil resistivity meters, laser leak detection units, pipeline current mappers, flow computers, EVC's are essentially required for its smooth operations. The Authority observes that the petitioner, vide its letter dated March 9, 2015, provided the trend analysis of capitalization under the same head which reveals that the petitioner has capitalised more than 58 % on an average since 2011-12 to FY 2014-15. *The Authority, in view of the aforementioned facts and itemwise analysis, allows Rs. 260 million under the head for the said year.*

(v) **G.I. Pipes & Fitting**

6.5.9. The Petitioner has projected Rs. 158 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. In view of above, the addition in respect of Measuring & Regulating Assets is determined as under:



Table 13: Detail of Additions to Measuring & Regulating Assets allowed by the Authority

Million Rs.			
Sr.#	Description	Demanded	allowed
i	New Connections	3,927	3,035
ii	New Connections on urgent fee	708	303
iii	Construction of of TBs/DRs	542	259
iv	Replacement of old meters	2,392	2,392
v	Construction of SMSs	175	175
vi	Measuring & Regulating Regular Assets	400	260
vii	GI Pipe and Fittings	158	-
Total		8,302	6,425

6.6. Plant, Machinery & Equipment and other Assets

6.6.1. The petitioner has projected additions of Rs. 1,417 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	15
ii	Plant & Machinery	134
iii	Tools & Equipment	211
iv	Construction Equipment	229
v	Motor Vehicle	302
vi	Furniture & Fixture	31
vii	Office Equipment	30
viii	Computer Hardware	465
Total		1,417

i. Telecommunication Equipment

6.6.2. The petitioner has projected Rs. 15 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 Faisalabad Gas Control Sector, Ethernet Network Analyzer, Long Range Wireless Access Link, Miscellaneous equipment, Telephone exchange for head office etc.

6.6.3. The Authority observes that an advanced and reliable telecommunication system is essential for effective control and security of transmission system, therefore, the



Authority allows Rs. 15 million on this account for the said year as projected by the petitioner.

ii. **Plant and Machinery**

- 6.6.4. The petitioner has projected Rs. 134 million under the head Plant & Machinery. The petitioner has further divided Plant & Machinery into two sub heads i.e. Power Plant & Equipment and Workshop plant & Equipment.
- 6.6.5. The petitioner has projected Rs. 13 million for purchase of different equipment under sub head "Work shop plant & Equipment" the equipment includes Hydraulic torque wrench, Hydraulic welding clamp, magnetic and paper filtration system, induction hardening machine, digital clamp meters, Lathe machine and different drilling machines etc. The petitioner further projected Rs. 1201 million under sub head Power Plant & Equipment for purchase of solar system for corrosion and gen sets of different capacity. As per below given trend analysis, it has been observed that petitioner has been able to capitalize not more than 61% on the average since 2011-12 to 2013-14 (based on actual expenses).
- 6.6.6. *The Authority, 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, 60% of the projected amount i.e. Rs. 80 million as against Rs. 134 million is allowed by the Authority on provisional basis subject to actualization.*

iii. **Tools and Equipment**

- 6.6.7. The Petitioner has projected Rs. 211 on account of "Tools and Equipment" for the said year, breakup of which is as follows: -

Table 15: Detail of Additions to in tools & Equipment

Sr. #	Particulars	Million Rs.
i	Electrical and gas appliances and fittings	51
ii	Electrical equipment	14
iii	Fire fighting equipment	67
iv	Loose tools	69
v	Sundry equipment	10
	Total	211



- 6.6.8. The petitioner projected Rs. 51 million under subhead Electrical and Gas Appliances and Fittings for capitalization. The Authority observes that the petitioner, in view of previous years trend analysis, has never been able to capitalise more than 60% of the projected amount since FY 2011-12. *Therefore, the Authority allows Rs. 30 million i.e. 60% of the total projected amount under the head for the said year.*
- 6.6.9. The petitioner projected Rs. 14 million under sub head Electrical Equipment for capitalization. The Authority observes that the petitioner, in view of previous years trend analysis, has never been able to capitalise more than 60% of the projected amount since FY 2011-12. *Therefore, the Authority allows Rs. 8 million i.e. 60% of the total projected amount for Electrical Equipment subject to actualization.*
- 6.6.10. The petitioner projected Rs. 67 million under subhead Fire Fighting Equipment for capitalization. The petitioner explained that Natural Gas is very hazardous in nature and it can instantly catch fire. Therefore, it is very necessary to have fire fighting arrangements all the time. The Authority observes that the petitioner, in view of previous years trend analysis, has never been able to capitalise more than 60% of the projected amount since FY 2011-12. However, keeping in view the safety measures and hazardous nature of the natural gas and arguments advanced by the petitioner, *the Authority allows whole of the projected amount i.e. Rs. 67 million under the head for the said year subject to actualization.*
- 6.6.11. The petitioner projected Rs. 69 million under subhead Loose Tools for capitalization. The trend analysis shows that from FY 2011-12 to 2013-14, the petitioner has never been able to capitalize more than 70 % of its projected amount under the sub head. Therefore, the Authority allows 70% of the projected amount i.e. Rs. 48 million under the subhead Loose Tools for the said year.
- 6.6.12. The petitioner projected Rs. 7 million under subhead Sundry Equipment for capitalization. The Authority observes that from FY 2011-12 to 2013-14, the petitioner has never been able to capitalize not more than 30% of its projected amount under the sub head. Therefore, the Authority allows 30% of the projected amount i.e. Rs. 3 million under the head for FY 2015-16 subject to actualization.
- 6.6.13. *In view of above mentioned Justifications, an amount of Rs. 157 million is allowed under the head tools & equipment as against Rs. 211 million projected by the petitioner for FY 2015-16 subject to actualization at the time of FRR of the said year.*



iv. *Construction Equipment*

6.6.14. The petitioner has stated that the network of the company has been expanded manifolds in recent years with changes in regional territories and LNG projects in hand, more construction equipment is required, therefore, Rs. 229 million may please be approved.

6.6.15. *The Petitioner has projected Rs. 229 million on account of construction equipment. It has been noted that petitioner has capitalized 62% more in FY 2013-14. In view of trend analysis and circumstances, the Authority allows the requisite amount under the head i.e. Rs. 229 million subject to actualization.*

v. *Motor Vehicles*

6.6.16. The petitioner has projected Rs. 302 million on account of purchase of motor vehicles during the said year. The petitioner has explained that the budget shall be kept under Head office's pool items head.

6.6.17. *The Authority observes that the petitioner is presently working on LNG projects, northern area projects, UFG surveys etc. therefore, the Authority allows Rs. 243 million under the head "Motor Vehicles for FY 2015-16 subject to justified actualization at the time of FRR keeping in view the fact that the petitioner has spent about the same amount in the previous financial years .*

vi. *Furniture & Fixture*

6.6.18. The petitioner has projected Rs. 31 million under the head of furniture & Fixture.

6.6.19. *In view of the trend analysis the petitioner's demand is prudent and the same i.e. Rs. 31 million is allowed by the Authority subject to actualization at the time of FRR of the same Fiscal year.*

vii. *Office Equipment*

6.6.20. The petitioner has projected Rs. 30 million on account "Office Equipment" for the said year. The petitioner has informed that office equipment is centrally kept in the head of pool items including photocopy and fax machines, digital printing system, colour printing system with heavy duty copier and binder, projectors, projector screens, digital and video cameras required in SNGTL.

6.6.21. *The Authority observes that the petitioner has been able to capitalize only half of the projected amount in the past. Based on the trend analysis, the Authority allows Rs. 15 million under the head for the said year.*



viii. **Computer Hardware and I.T**

- 6.6.22. The Petitioner has projected Rs. 465 million under the head Computer Hardware for the said year. The petitioner further explained that Rs. 231 million out of the projected expenditure pertains to the last trench of IT Project, Rs. 123 million pertains to normal capital expenditure under the head and Rs. 112 million pertains to IT/MIS which includes replacement of different IT equipment like PCs, Laptops E-machines company wide.
- 6.6.23. The petitioner further provided the breakup of Rs. 123 million which includes Rs.41 million for Hand Held Units (HHU), Rs. 20 millions for Storage expansion V 7000, Rs. 30 millions for Network equipment, Rs. 18 million for X-86 Servers, Rs. 10 million for Line Printers and Rs. 2 million for Fire proof cabinets etc.
- 6.6.24. The Petitioner stated that Hand Held (HHU) devices are required to perform the meter reading of more than 4.5 million consumers. HHUs are added every year to cater for growing consumers as well as to replace the older units which have completed their useful life. They have requested for Rs. 41 Million in this regard.
- 6.6.25. *The Authority observes that HHU devices are necessarily needed to facilitate the meter reading staff and to discourage manual reading. Therefore, in view of company's justification of growing consumer base, Rs. 41 million are allowed by the Authority subject to actualization.*
- 6.6.26. The Petitioner submitted that Line printers of Rs. 10 million and fire proof Cabinets worth Rs. 2 million are required at regional offices level for billing operations like edit printing, HHU reports and other reports required by Business departments the Cabinets are to be used to protect data from fire incidents . *The Authority observes that the requisite budget of Rs. 10 million and Rs. 2 million for fire proof cabinets is necessarily required in view of the justifications provided by the Petitioner as the equipment shall be helpful in efficient billing process and safety. Therefore, the Authority allows Rs. 12 million under the head for the said activity.*
- 6.6.27. The Petitioner submitted Rs. 70 million pertaining to Storage Expansion V 7000, Network equipment, X-86 Servers, Servers Racks etc the petitioner further explained that to store the data for the growing consumers, HHU images, business transaction etc. additional disk storage of Rs. 20 million is required. Moreover, to improve the security of enterprise systems as well as to upgrade the core network, new networking



equipment of Rs. 30 million is also required the petitioner further advanced its request to allow Rs. 18 million for X-86 Servers and Rs. 2 million for their Racks and cabinets. The Authority observes that it has already allowed enough budget under IT project, therefore, currently it is not feasible to allow more budget under the same expense head. *Keeping in view the already given allowance for almost same equipment under IT Project the Authority disallows Rs. 70 million as claimed by the petitioner.*

- 6.6.28. As regards companys estimation of Rs. 112 million regarding IT/MIS which includes replacement of different IT equipment like PCs, Laptops E-machines company wide the Authority observes that the petitioner never capitalize such gigantic budget under the head on other hand keeping in view IT needs of the company and facilitation in day to day operations of the company provided by the frequent use of the IT equipment *the Authority allows half of the projected expense i.e. Rs. 56 million under the head.*
- 6.6.29. The Petitioner submitted that Rs. 231 million is the last tranche of the total projected cost amounting to Rs. 587 million which was principally approved by OGRA in DERR FY 2013-14 under head 'IT Related Expenditure'. *The Authority Keeping in view that Rs. 231 million as last tranche of the approved project, the same is allowed by the Authority subject to actualization and in addition Rs 109 million for normal capital expenditure for HHUs, Line Printers and fire proof cabinets. Hence a total amount of Rs 340 million as against Rs. 465million is allowed by the Authority in total subject to actualization under the head Computer Hardware.*
- 6.6.30. *In view of the above the Authority allows addition in assets on account of Plant and Machinery and other assets at Rs. 1,111 million per the table given below as against Rs. 1417 million claimed by the petitioner for the said year, as under.*

Table 16: Detail of Additions under Plant & Machinery

Rs. Million			
S. #	Description	Demanded	Allowed
i	Telecommunication Equipment	15	15
ii	Plant & Machinery	134	80
iii	Tools & Equipment	211	157
iv	Construction Equipment	229	229
v	Motor Vehicle	302	243
vi	Motor Vehicle	31	31
vii	Furniture & Fixture	30	15
viii	Office Equipment	465	340
	Computer Hardware		
	Total	1,417	1,111



6.7. Buildings on Freehold land (Civil Construction)

- 6.7.1. The petitioner has projected Rs. 370 million under the head "Civil Construction" for the said year. The petitioner explained that Rs. 200 million is required for the construction of Sahiwal region building. The Petitioner argued that Sahiwal was made an independent region in FY 2011 as a result of which its operations have increased and the space of the existing building has become inadequate. As a result, an area of 8 Kanals at N-4 transmission station Sahiwal had been handed over to Distribution Department. *The Authority giving due diligence allows 50% of the projected amount in respect of the construction of the said building.*
- 6.7.2. The petitioner also stated that Rs. 140 million are required to meet contingencies in relation to civil construction and Rs. 30 million is required for bill printing setup at Manga and that Bill Printing is one of the core operations performed by the IT/ MIS department as millions of bills are printed through printing facility on monthly basis. A state of the art facility is required for printing of 4.8 Million consumers and future expected additional consumers @ 10 % per annum. The planned facility shall be of 6000 Sft area and shall have Printing Hall, Paper Storage Area, Paper sorting and packing area, Printer maintenance area and Receiving and dispatch area etc.
- 6.7.3. *The Authority keeping in view the justifications advanced by the petitioner allows Rs. 270 million for normal civil construction activities and bill printing facility as against Rs. 370 million for the said year.*

6.8. Land

- 6.8.1. The Petitioner has projected Rs. 20 million on account of purchase of Land for SMS at different locations. The petitioner has explained that the said amount is required to run smooth operations.
- 6.8.2. The Authority observes that the projected expenditure is justified for smooth operation of the the Petitioner's network. *The Authority, therefore, allows Rs. 20 million under the head Land for the said year.*



6.9. *Addition in Fixed Assets C/F FY 2014-15*

i. Phase-I (LNG Project)

- 6.9.1. The Petitioner, during hearings in Lahore and Peshawar dated 10-9-2015 and 14-9-2015 respectively, requested the Authority that LNG, Phase-I (already approved in DERR FY 2014-15) amounting to Rs. 18,543 million be carried forward to ERR for FY 2015-16.
- 6.9.2. It is mentioned that the Authority has already determined total expenditure on account of LNG Project (Phase-I) at Rs. 14,157 million as in Para-6.2 of the DERR (FY 2014-15). This includes construction cost of pipeline, procurement of construction equipment, machinery, tools, camping facilities, upgradation of the coating plant, SCADA, compression requirement etc.
- 6.9.3. The Petitioner has also submitted the implementation schedule of the project according to which the above pipelines are expected to be completed in the current fiscal year i.e. FY 2015-16.
- 6.9.4. Keeping in view the request and the its implementation schedule of the project, *the Authority carries forward and allows a total expenditure of Rs. 14,157 million for LNG Project (Phase-I) for FY 2015-16. In continuation to para 6.2 above, the expenditure under the head may be met through financial assistance provided by the FG through GIDC, capitalization of Rs. 14,157 million pertaining to LNG Project Phase-I shall not be entitled for return to the petitioner.*

ii. Allocation of funds to regularize illegal network in oil and gas producing areas of KPK

- 6.9.5. The petitioner submitted a plan to regularize illegal network in Oil and Gas Producing areas of KPK 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 on District Karak, on account of Law & Order situation. The Authority, vide its letter dated November 24, 2014, sought information regarding funds arrangement for the said project. The petitioner submitted on December 31, 2014 that it has taken up the matter with the Federal and Provincial Government (Govt. of Khyber Pakhtunkhwa) for provision of funds for the said project and various options are under consideration with the Authorities; however, nothing has been materialized as yet.



6.9.6. *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 which may be through GIDC or royalty of the province to curb this menace. The matter is, therefore, pended till arrangement of funds by the petitioner.*

iii. Creation of New Regions

- 6.9.7. The petitioner submitted its phased plan to create 12 new 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 & Distribution activities.
- 6.9.8. The petitioner while considering the financial impact involvements has bifurcated to establish 4 new regions i.e. **Lahore West** with its sub region Ravi Road/Sanda, **Sialkot** alongwith sub region Daska, **Mardan** with sub-region Swabi & Pabbi, and **Rahim Yar Khan** having no sub region. The petitioner also included sub regions Bahawalnagar, Kamooke and Kharian at an estimated cost of Rs. 443 million. The petitioner was asked to submit the UFG losses comparisons sheet of recently established new regions namely Rawalpindi, Sahiwal, Sheikhpura, Gujrat, Sargodha. The comparative results as submitted by the petitioner vide its letter dated March 18, 2015 shows no significant improvements. However, it has been noted that Lahore being a big city needs bifurcation due to large consumer base of 928,700 consumers. Sialkot is also an industrial city and has a consumer base nearly to 192,000 consumers. *In view of the scenario of both cities including Swabi as sub region keeping in view the miseries of the general public being located at a far flung location away from the main region, the Authority allows creation of Lahore West, Sialkot alongwith their sub regions and Swabi as sub region at an estimated cost of Rs. 223 million, subject to actualization at the time of FRR for the said year.*



iv. **Establishment of Customer Service Center at Multan Cantt and Narwala Road Faisalabad**

6.9.9. The petitioner has projected Rs. 9 million to establish two customer services centers at Multan Cantt and Narwala Road, Faisalabad due to large no of consumer base in the area.

6.9.10. *The Authority keeping in view the sufferings of general public allows the requisite budget i.e. Rs. 9 million under the head to establish customer service centers at Multan Cantt and Narwala Road Faisalabad.*

v. **Re appropriation of Construction Equipment and Telecom budget**

6.9.11. The petitioner vide letter dated February 17, 2015 had requested to Re-Appropriate budget of Rs. 30 million which was earlier approved by OGRA under head Construction equipment for the purchase of Crane mounted Truck. The petitioner has requested to subtract the said amount from the head construction equipment and add the same under different head i.e. telecommunication. The Authority is of the view that there is no new addition projected by the petitioner rather the petitioner has requested for re appropriation of small amount of Rs. 30 million. The Authority further observes that SCADA system shall improve the petitioner's vigilance on its main transmission pipelines as well as TBSs and valve assemblies and shall be helpful in alerting during emergency situation.

6.9.12. *In view of arguments and justifications advanced by the petitioner the Authority allows the appropriation of budget i.e. Rs. 30 million as claimed by the petitioner for the said year.*

6.9.13. *In view of above, the assets Carried forward FY 2014-15 already are determined as under;*

Table 17: Asset carried forward FY 2014-15

Million Rs.			
Particulars	Demand	Adjustment	Determined
Phase I (LNG Project)	18,543	(4,386)	14,157
Regularization of illegal network in oil and Gas producing areas of KPK	6,667	(6,667)	-
Creation of new regions	443	(220)	223
New Customer Service Centers at Multan Cantt & Narwala Road Faisalabad	9	-	9
Re- appropriation of Construction Equipment and Telecom budget	30	-	30
Total Assets C/F	25,692	(11,273)	14,419
LNG Project (Financed through GIDC)	-	-	14,157



6.9.14. The Authority observes that petitioner has included the above assets in opening fixed assets balance for FY 2015-16 as the same were added in closing balance for DERR FY 2014-15. FRR FY 2014-15 however has now been finalized. Accordingly, the Authority determines the opening balance for FY 2015-16 at Rs. 94,673 million and treats the above addition in the capitalization for the said year.

6.10. Fixed Assets Determined by the Authority

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

Table 18: Summary of Asset Additions Determined by the Authority.

Million Rs.

Particulars	Demanded	Adjustment	Determined
Transmission	58,005	(41,948)	16,057
Compression	472	-	472
Distribution Development	15,011	(9,406)	5,605
Measuring and Regulating Assets	8,302	(1,877)	6,425
Plant, Machinery & Equipment and Other Assets	1,417	(307)	1,110
Buildings on freehold land	370	(100)	270
Land & Land Acquisition Advance	20	-	20
Addition in asset base FY 2015-16	83,597	(53,638)	29,959
Assets pertaining to FY 2014-15			14,419
Total Addition for FY 2015-16			44,378
LNG Projects to be financed through GIDC	-	-	(30,239)
Total Addition for Rate Base FY 2015-16			14,139

6.10.2. 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. 15,736 million as against Rs. 20,046 million claimed by the petitioner.

6.10.3. In view of the above, the Authority provisionally determines the closing net operating fixed assets for the said year at Rs. 123,315 million and the same for return base purpose computes to Rs. 93,076 million in view of discussion made in para. 6.2.10 & 6.9.4 above. Resultantly, the net average operating fixed assets net of average deferred credits eligible for return works out to Rs. 76,116 million. Accordingly, the return on operating fixed assets @ 17.5% is computed at Rs. 13,320 million for the said year.



7. Operating Revenues

7.1. Number of consumers

7.1.1. The petitioner has projected increase in number of consumers from 5,054,056 per FRR FY 2014-15 to 5,378,004 for the said year, as follows:

Table 19: Comparison of Projected Number of Consumers with Previous Years

Category	# of Consumers			
	2014-15 FRR	Additon during the Year	2015-16 The Petition	Growth over FRR % age
Domestic	4,989,538	322,728	5,312,266	6
Commercial	58,031	1,000	59,031	2
Industrial	6,687	20	6,707	0.30
Total	5,054,256	323,748	5,378,004	6

7.1.2. The Authority, in view of discussion made at Para. 6.5.3 Above, allows 300,000 addition in consumer base 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 434,030 BBTU, as against 421,342 BBTU in FRR FY 2014-15 i.e.; increase of only 3%. However there is decrease of 8% compared with FRR FY 2013-14. Category-wise comparison with previous years is provided as under :

Table 20: Comparison of Sales Volume with Previous Years

Category	Volume in BBTU				
	FY 2013-14 FRR	FY 2014-15 FRR	FY 2015-16 The Petition	Inc./ (Dec.) over FRR	
Power	124,711	117,637	95,526	(22,111)	(19) %
Cement	16,768	15,561	-	(15,561)	(100) %
Fertilizer	215	342	8,916	8,574	2,507 %
General Industries	66,540	44,723	62,608	17,885	40 %
CNG	58,731	38,971	34,821	(4,150)	(11) %
Commercial	26,385	23,748	32,647	8,899	37 %
Domestic	180,523	180,360	199,512	19,152	11 %
Total	473,873	421,342	434,030	12,688	3.01 %

7.2.2. The petitioner has explained that continuous decline in the sale volume is due to decrease in indigenous gas supply owing to depletion of different fields particularly, Qadipur, Zamzama, Makori, Tajjal, Latif 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 434,030 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 existing prescribed prices, to increase by 13%, from Rs. 177,808 million provided in FRR FY 2014-15 to Rs. 201,803 million. Category-wise comparison of sales revenue is given below:

Table 21: Comparison of Projected Sales Revenue with Previous Years

Category	FY 2013-14	FY 2014-15	FY 2015-16	Rs. in million	
	FRR	FRR	The Petition	Inc./ (Dec.) over FRR	
Power	70,956	68,949	44,419	(24,530)	-36%
Cement	3,496	257	-	(257)	-100%
Fertilizer	162	2,304	4,146	1,842	80%
General Industries	32,405	22,084	29,109	7,025	32%
CNG	38,440	25,962	16,190	(9,772)	-38%
Commercial	16,907	15,360	15,179	(181)	-1%
Domestic	43,864	42,893	92,761	49,868	116%
Total	206,230	177,808	201,803	23,995	13%

7.3.2. The petitioner has explained that sales revenue for the said years have been computed on the basis of DERR FY 2014-15.

7.3.3. The Authority observes that during FY 2014-15, the Authority had determined the average prescribed prices at Rs. 464.94 per MMBTU and sent the same to FG for sale price advice under each category of consumer. The FG during FY 2014-15 however has not revised the gas sale prices. Resultantly, the prescribed prices in FRR FY 2014-15 have been adjusted to the extent of the sale prices. On the basis of same, the sales revenue at existing prescribed prices for the said year works out to Rs. 174,972 million.

7.3.4. *Accordingly, the sales revenue for said year works out to Rs. 174,972 million.*

7.4. Other Operating Revenues

7.4.1. The petitioner has projected "other operating revenues" at Rs. 4,510 million during the said year as against Rs. 8,640 million provided in the FRR for FY 2014-15, showing a decrease of 48%. Comparison with previous years is given below:



Table 22: Comparison of Projected Other Operating Income with Previous Years

Rs. in million

Description	FY 2013-14	FY 2014-15	FY 2015-16	Increase/ (Decrease) over FRR	
	FRR	FRR	(The Petition)		
Rental & Service Charges	1,663	1,698	1,481	(217)	-13%
Surcharge and Interest on arrears	2,456	2,914	-	(2,914)	-100%
Amortization of deferred credit	2,572	2,746	2,829	83	3%
Other operating income	621	1,282	200	(1,082)	-84%
Net Operating Revenues	7,312	8,640	4,510	(4,130)	-48%

(i) *Rental & Service Charges*

7.4.2. The petitioner has estimated income from "Rental & Service Charges" at Rs. 1,481 million as against Rs. 1,698 million per FRR 2014-15. The petitioner has explained that income from "Rental & Service Charges" consists of meter rental from gas consumers, transmission of gas and other services for third parties e.g. PPL and POL. This is fixed source of revenue which is directly linked with number of consumers and other activities for third parties.

7.4.3. The Authority observes that petitioner has made unrealistic projection under this head for the said year. The income on this account is a permanent source which grows with the increase in number of consumers. The consumer's base is continuously expanding; therefore decrease under this head is out of question. For the current year, the petitioner has also projected around 6% addition in new connections. The services charges shall also amplify for the said year.

7.4.4. *In view of the above, the Authority determines the income from "Rental and Service Charges" at Rs. 1,868 million i.e; at the level of actual income during FY 2014-15 indexed with 10% estimated average increase 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 highlighted 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 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.
- 7.4.8. The Authority further observes that treatment of income under this head as operating income has been exhaustively discussed in the previous decisions and now have reached finality. Accordingly, the practice in vogue shall remain enforce. *The Authority therefore determines the income on account of LPS at Rs. 3,200 million as operating income for the said year as projected by the petitioner. The income under this head on account of bulk consumers is also treated in accordance with Authority's earlier decision.*

(iii) *Other Operating Income*

- 7.4.9. The petitioner has projected Rs. 200 million 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.
- 7.4.10. 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.
- 7.4.11. *In view of above, the Authority provisionally determines the income under this head for the said at Rs. 1,410 million i.e; at the level of FRR FY 2014-15 plus 10%.*
- 7.4.12. *In view of above, the Authority determines the other operating income at Rs. 9,307 million for the said year as against Rs. 4,510 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. 179,983 million provided in FRR FY 2014-15 to Rs. 155,139 million, based on its projections of international prices of crude and HSFO. Comparative analysis of projected cost of gas with previous years is given below:

Table 23: Comparison of Cost of Gas with Previous Years

Particulars	FRR For 2013-14	FRR For 2014-15	The Petition
BBTU	473,873	421,343	434,030
Million Rs.	202,574	179,983	155,139
Rs./MMBTU	427.49	427.17	357.44

- 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. 319.70/ MMBTU for the said year projecting international prices of HSFO & crude and PKR / US \$ exchange rate as under:

Table 24: Estimates for Determination of WACOG per the Petition

Applicable for wellhead gas price for the period	Avg. C&F prices of oil for the Period	Avg. FOB price of Crude Oil (US \$/BBL)	Avg. FOB price of HSFO (US \$/M.Ton)	Exchange Rate (Rs./US \$)
July to December, 2015	December 2014 to June 2015	54.29	323.2225	101.0000
January to June, 2016	May 2015 to November 2015	54.87	332.9252	101.0000

- 8.1.4. The Authority observed that data forming the basis for WACOG of the said year has now been actualized. Therefore the revised WACOG is computed at Rs. 302.15 per MMBTU for the said year based on following actual average international prices of crude oil and HSFO and latest trend of US \$ exchange rate:-



Applicable for wellhead gas price for the period	Avg. C&F prices of oil for the Period	Avg. FOB price of Crude Oil (US \$/BBL)	Avg. FOB price of HSFO (US \$/M.Ton)	Exchange Rate (Rs/US \$)
July to December, 2015	December 2014 to June 2015	57.65	328.1618	101.8883
January to June, 2016	May 2015 to November 2015	50.54	260.7533	103.6901

8.1.5. Based on the above, the cost of gas is provisionally determined at Rs. 146,651 million for the said year.

8.2. Unaccounted for Gas (UFG)

8.2.1. The petitioner has claimed UFG for the said year at 7.32 % (36,933 MMCF), as follows:

Table 25: UFG Volume Claimed in the Petition

Particulars	Volumes in MMCF
	FY 2015-16 (The Petition)
Total Gas Purchases	511,565
Gas Internally Consumed	7,318
Gas Available for Sales	504,247
Gas Sales	452,641
Bulk Retail Impact	14,673
UFG	36,933
UFG %	7.32%

8.2.2. The petitioner has submitted anticipated volumes in respect of non-consumers, unbilled volumes consumed in law and order affected areas and change in bulk retail ratio.

8.2.3. It is mentioned that the Authority has fixed UFG at 4.5 % since FY 2011-2012 onwards.

8.2.4. The Authority observes that honorable Lahore High Court vide its judgment dated 15.02.2013 in respect of writ petition filed by SNGPL for revenue requirement stated that "benchmarks of UFG set by OGRA are in accordance with OGRA Ordinance, Rules and License. Furthermore, the discretion exercised by OGRA was after giving due consideration to all the issues raised by the Petitioner. Detailed reasons have been given in the decisions for the determinations made. There is nothing on the record to show that OGRA has acted unfairly, unreasonably or contrary to the law and principles of natural justice. OGRA has applied its mind and reasoned its decisions. Therefore, no case for a direction under section 12(2) of OGRA Ordinance is made out. Consequently the petitions of SNGPL are dismissed."



- 8.2.5. The Authority observes that UFG benchmarking is an issue of vital importance and keeping in view its significance, the Authority has already initiated the process of comprehensive UFG study. However, the Authority, in the meantime, after hearing the petitioner, interveners and in house technical deliberations, fixes UFG benchmark provisionally at 4.5% for the said year.
- 8.2.6. In view of the above and on the basis of change in WACOG as mentioned in paras above, disallowance on account of UFG for a volume of 59,871 MMCF works out to Rs. 8,376 million as under. Any uncontrollable factors will be considered at the time of FRR, in the light of then prevailing policy guideline and UFG study.

Table 26: UFG disallowance computation

Particulars		MMCF	
		Per the Petition	Calculated by OGRA
Gas Purchases			
Metered gas purchased	A	511,565	511,565
Gas carried for PPL, POL and SSGCL	B	0	0
Gas Available for Sale	C=A+B	511,565	511,565
Gas Internally Consumed (Metered)	D	7,320	7,320.00
Transmission	a	6,707.00	6,707
(i) Compression		6,365	6,365
(ii) Residential Colonies		233	233
(ii) Coating Plant		109	109
Distribution	b	613	613
(i) Free Gas Facility		541	541
(ii) Co-Generation		72	72
Net Gas Available for Sale	E=C-D	504,245	504,245
Gas Sold (Billed)	F	452,641	452,641
Bulk Retail Impact	G	8,918	0
Law affected area volume	G-1	10,048	0
Non-Consumers	G-2	8,735	0
Total Sales	H=F+G+G-1+G-2	480,342	452,641
UGF Volume	I=E-H	23,903	51,604
Projected UFG		4.74%	10.23%
Working of adjustment			
UGF Target by OGRA			4.50%
Allowed UFG Volume MMCF(4.5%* E) =J			22,691
Disallowance MMCF K= (I-J)			28,913
WACOG (Rs. / MMCF) L			289.70
UGF Disallownce (Million Rs.) M=(K*L)/ 1000			8,376

- 8.2.7. Based on the above computation, the Authority provisionally deducts Rs. 8,376 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 43% increase in Transmission and Distribution (T&D) cost, from Rs. 17,277 million per FRR FY 2014-15 to Rs. 24,622 million for the said year, as detailed below:

Table 27: Comparison of Projected T & D Cost with Previous Years

Rs. in million

Particulars	FY 2013-14	FY 2014-15	FY 2015-16	Increase / (Decrease) Over FRR	
	FRR	FRR	The Petition	Rs.	%
Human Resource Cost	10,487	10,553	13,267	2,714	26
Stores and Spares Consumed	466	353	889	536	152
Repair and Maintenance	811	862	1,350	488	57
Fuel and Power	244	241	316	75	31
Stationery, Telegram and Postage	153	108	187	79	72
Dispatch of gas bills	90	95	112	17	17
Rent, Rate, Electricity and Telephone	351	356	555	200	56
Traveling	152	148	262	114	77
Transport expenses	805	794	1,258	465	59
Insurance	189	189	218	29	15
Legal and Professional Services	102	108	217	109	101
Consultation for ISO 14001 & OHSAS 18000	4	3	5	1	31
Gas bills collection charges	342	376	460	84	22
Gathering charges of gas bills collection data	26	35	81	46	131
OGRA fee	12	124	173	49	40
Advertisement	119	143	200	57	40
Bank Charges	13	11	23	11	99
Uniforms & protective clothing's	3	28	70	42	148
Staff training and recruiting	12	11	28	17	159
Security expenses	405	486	711	226	46
SNG training institute	12	13	22	9	73
Provision for doubtful debts	1,663	2,018	5,196	3,178	157
Sponsorship of chairs at University	10	10	10	-	-
5 Year special training programme	25	27	30	3	12
Budget for UFC control related activities	459	404	-	(404)	(100)
Out Sourcing of call centre complaints management	22	21	36	15	72
Provision for Stores spares written off	65	21	-	(21)	(100)
Cost of Gas Blown off	100	127	-	(127)	(100)
Contribution to Inter State Gas System Limited	66	75	142	67	90
UP gradation of CSC and Complaint Centres	8	-	-	-	-
Other expenses	228	272	427	155	57
Subtotal Expenses	17,442	18,011	26,247	8,236	46
Allocated to fixed capital expenditures	(2,200)	(2,209)	(3,830)	(1,621)	73
T&D Expenses	15,242	15,802	22,417	6,615	42
Gas Internally Consumed	1,948	1,475	2,205	730	49
T&D Expenses	17,190	17,277	24,622	7,345	43

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. 13,267 million (Rs. 12,078 million HR cost + Rs. 1,190 million IAS cost) including Rs. 1,678 million CBA impact for the said year.
- 9.1.4. The petitioner has also computed the HR cost for the said year by extending the benchmark which was applicable for FY 2014-15 and projected Rs. 13,083 under this head for the said year including Rs. 258 million pertaining to FY 2013-14.
- 9.1.5. The Authority observes that benchmark implemented earlier has expired in FY 2014-15. The Authority however extends the same for said year on provisional basis. Accordingly, the HR cost benchmark for the said year computes to Rs. 12,228 million, as per annex-C for the said year.
- 9.1.6. The Authority further observes that CBA impact is built in part of HR benchmark cost allowed to the petitioner every year. It is the responsibility of the petitioner to judiciously utilize the allowed funds keeping in view rational CBA demands. The Authority, as a matter of principle, refrains to intervene in the micro management policies of the petitioner. The Authority is of the view that this mechanism provides the incentive to the petitioner to optimize its HR cost by rationalizing the manpower strength, removing the dead wood and eliminating the discrimination/anomalies within the system.

iii. *Stores and Spares Consumed*

- 9.1.7. The petitioner has projected stores and spares consumed for the said year at Rs. 889 million as against actual expenditure of Rs. 353 million in FRR for FY 2014-15. The historical comparison of stores and spares consumed is given below:

Table 28: Comparison of Projected Stores and Spares Consumed with Previous Years

Particulars	Rs. in million				
	FY 2013-14		FY 2014-15		Increase/(decrease) Over FRR
	FRR		FRR	The petition	
Compression	111		87	165	78 90%
Transmission	193		160	271	111 69%
Distribution	119		32	340	308 966%
Others (incl H.O.)	6		15	9	(6) -40%
Freight & handling	36		59	104	45 77%
Total	466		353	889	536 152%

- 9.1.8. The petitioner has explained that projected increase of Rs. 78 million over FRR under the sub-head "Compression" consists mainly of procurement of turbine oil required for gas turbines compressor packages at Multan and Faisalabad. Further, procurement of Air



intake filter elements required for installation at Air inlet assemblies of gas turbine packages and maintenance spares of solar turbines engines T-47, T-45, T-40 & T-50 installed at various compressor stations, is required for smooth operation.

- 9.1.9. Under the sub-head "Transmission", the petitioner has elaborated that projected increase of Rs. 111 million over FRR consists of store stock replenishment of operational use spares like pressure control valves, orifice meters flow computers, turbine meters, gas chromatographs and also due to procurement of Odorant Oil to maintain at full injection rate as per SOP.
- 9.1.10. Under the sub-head "Distribution" petitioner has projected increase of Rs. 308 million and submitted that amount stated for FRR 2014-15 i.e; Rs. 32 million is understated because of recoveries made from consumers under this head in connection with replacement of G I fittings during normal maintenance activities. The same are subtracted from store consumption, thus indicating lesser expenses as compared to actual. Increase is also due to procurement of spares required for operational & maintenance activities/ spares for commercial and industrial regulators. The petitioner further explained that maintenance activities are undertaken round the clock, the operating expenses under this head are therefore indispensable.
- 9.1.11. The petitioner further elaborated that expenditures under the above heads were witnessed on lower side owing to company's financial incapacity to undertake targeted activities and also delay in the procurement of some essential materials. Therefore, the actual expenditures during FY 2014-15 do not provide an accurate and reliable base to estimate the expenditures for the said year.
- 9.1.12. The Authority, in view of above, observes that consumption of stores & spares for smooth operation and system improvement is a regular feature. Further, spending under this head is directly related to repair and maintenance activities which are undertaken to control gas losses. Accordingly, the Authority has always appreciated the execution of works on this account. However, unrealistic and exaggerated projection, keeping in view the historical data and petitioner capacity, is not convincing. The petitioner is not able to accomplish the amenable targets unless it generates the requisite capacity. If the petitioner's stance is accepted that expenditure during FY 2014-15 is not an accurate base in view of above said grounds, even then the expenses under this head for the said year have been projected considerably on higher side when compared with FRR FY 2013-14 as well. *The Authority therefore adopts the actual expenses for FY 2013-14 and indexes the same with 15% accumulative effect in respect of sub-head "Transmission", "Compression" and*



"Distribution" for the said year. Accordingly, the expenses under sub-head "Compression", "Transmission" and "distribution" are determined provisionally at Rs. 147 million, Rs. 255 million & Rs. 157 million respectively. 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.

- 9.1.13. Under the sub-head "Freight & Handling", the petitioner has explained that due to anticipated enhanced distribution development activities in the said year and increased share of petrol as fuel owing to shut down of CNG, Rs. 45 million increase under this head has been projected for the said year.
- 9.1.14. The Authority observes that petitioner has projected 77% increase under this head over FRR and has not substantiated the same on the basis of rational and concrete justification. The Authority therefore allows the expenditure under this head at Rs. 68 million (i.e; at the level of FRR for FY 2014-15 plus 15% to cater for inflation etc.)
- 9.1.15. *In view of above, the Authority provisionally determines the expenditure under the head "stores and spares consumed" for the said year at Rs. 636 million.*

iv. Repair & Maintenance

- 9.1.16. The petitioner has projected stores and "Repair & Maintenance" for the said year at Rs. 1,350 million as against Rs. 862 million actually incurred in FRR for FY 2014-15. Historical comparison of "Repair & Maintenance" is given below:

Table 29: Comparison of Projected Repair & Maintenance Expenses with Previous Years

Particulars	Rs. in million				
	FY 2013-14	FY 2014-15	FY 2015-16	Increase/(decrease) Over FRR	
	FRR	FRR	The Petition	Rs.	%
Compression	22	22	30	8	38%
Transmission	115	75	294	219	291%
Distribution	431	487	667	180	37%
Others (incl H.O. & service depts)	243	278	360	82	29%
Total	811	862	1,350	488	57%

- 9.1.17. The petitioner has explained that above 57% overall increase is mainly on account of anticipated increase in contract payment rates which are due in said year. Resultantly more funds would be required to cater for the effect of revision in contractual labor rates. Also, petitioner has increased underground leakages & rectification targets from 38,004 in FRR to



141,577 during the said year. The enhanced repair & maintenance activities contribute to additional requirement of budget. The same has also direct impact on UFG savings.

9.1.18. The Authority observes that it has always supported to undertake repair and maintenance related activities and urged the petitioner to undertake extensive efforts and drastically bring the UFG down to the acceptable level. Accordingly, it has given rather free hand to spend budget under this head judiciously with object oriented approach. It has however been observed that petitioner has not generated requisite capacity to undertake the targeted activities and reveal amenable results. The targets therefore remained un-accomplished and the UFG savings have not been witnessed. Further, petitioner has advanced the justification on overall basis, no concrete justification under each head been made.

9.1.19. *In view of above, the Authority determines the expense under "Repair and maintenance" at Rs. 991 million (i.e; at the level of FRR FY 2014-15 plus 15% to cater for the impact of inflation and enhanced activities). The Authority however places no cap on the spending under this head and shall consider all the prudent expenses at actual at the time of FRR for the said year keeping in view the effectiveness of the same in terms of targets achieved and UFG savings made thereof.*

v. Fuel & Power

9.1.20. The petitioner has projected Rs. 316 million under the head "Fuel & Power" for said year as against Rs. 241 million provided in FRR for FY 2014-15. Historical comparison is given below:

Table 30: Comparison of Fuel & Power with Previous Years

Particulars	Rs. in million				
	FY 2013-14		FY 2014-15		Inc/(Dec) over FRR FY 2014-15
	FRR		FRR	The Petition	
Compression	26		22	42	20 90%
Transmission	73		74	106	32 43%
Distribution	144		144	165	21 14%
Others (incl H.O.)	0.46		0.30	3	3 990%
Total	244		241	316	75 31%

9.1.21. The petitioner has explained that during FY 2014-15, development and maintenance related activities were not undertaken as anticipated at the time of DERR owing to different reasons. Accordingly, the expenses have remained on lower side. Further, the prices of the petroleum products during FY 2014-15 were almost stable, which contributed to reduction in the expenses under this head. The petitioner has argued



that activities for the said year however have been projected on higher side and the prices of petroleum products are surging up, therefore only 31 % increase over FRR FY 2014-15 has been estimated.

9.1.22. The Authority agrees the position contended by the petitioner, it however observes that the prices of petroleum products, which is main element for hike in this head, is not expected to increase significantly during FY 2015-16. Likely to this fact, the Authority observes that upto December 2015; the prices of petroleum products have not gone up to the extent as projected by the petitioner. It is therefore expected that same tendency shall prevail and the actual expenses for the said year shall rarely go beyond 10% over FRR.

9.1.23. *The Authority, in view of above, determines the expenses under the head " Fuel & Power" at Rs. 265 million for the said year.*

vi. Stationery, Telegram and Postage

9.1.24. The petitioner has requested Rs. 187 million on Stationary, Telegram and Postage for the said year as compared to Rs. 108 million actually incurred in the recent close FY 2014-15. Historical comparison is given below:

Table 31: Comparison of Projected Stationery, Telegram and Postage with Previous Years

Particulars	Rs. in million				
	FY 2013-14	FY 2014-15	FY 2015-16	Inc/(Dec) over FRR FY 2014-15	
	FRR	FRR	The Petition	Rs.	%
Compression	1	1	2	0.48	43%
Transmission	3	4	5	1.67	47%
Distribution	14	14	21	7	55%
Others (incl H.O.)	135	90	159	69	76%
Total	153	108	187	79	72%

9.1.25. The Authority observes that petitioner has projected 76% increase under the sub-head "others" and has advanced no justification to defend this hefty increase. *The Authority therefore allows Rs. 104 million (i.e; at the level of FRR plus 15%) for the said year.*

9.1.26. In view of above, the Authority under the head "Stationary, Telegram and Postage" allows Rs. 132 million for the said year.



vii. Rent, Rate, Electricity and Telephone

9.1.27. The petitioner has requested Rs. 555 million on account of Rent, Rate, Electricity and Telephone for the said year as compared to Rs. 356 million provided in FRR for FY 2014-15. Historical comparison is given below:

Table 32: Comparison of Rent, Rate, Electricity and Telephone with Previous Years.

Particulars	FY 2013-14	FY 2014-15	FY 2015-16	Inc/(Dec) over FRR	
	FRR	FRR	The Petition	Rs.	%
Rent	165	171	197	27	16%
Royalty/ internet services	26	22	34	11	51%
Telephone	41	42	62	20	48%
Electricity	86	90	114	24	26%
Pakistan Railway (Line crossing charges)	20	15	125	110	717%
Water Conservancy	2	3	3	0	14%
Vehicles rates and taxes	8	10	15	5	57%
Others	2	4	6	2	63%
Total	351	356	555	200	56%

9.1.28. The petitioner has explained that increase under sub-head "Rent" is mainly due to enhanced requirement. *The Authority observes that projected increase under this head is reasonable keeping in view the petitioner's justification and accordingly the same is allowed for said year.*

9.1.29. The petitioner has projected Rs. 34 million (51%) increase under the head "Royalty/ internet fee" and submitted that additional funds are required for links of MPLS-VPN to be provided to 14 more locations planned in the said year as a operational requirement and also for the up-gradation of bandwidth at already connected sites/ links between SNGPL and NADRA for verification of CNIC.

9.1.30. The Authority observes that historically petitioner has always over projected the expenditure under this head and has also over sighted the fact that communication/internet related expenses are continuously decreasing owing to competitive market. The same is witnessed by the comparison of actual results during last completed financial years as above. Further, NTC, a Government owned entity, is also a player in this field, which can be economical source for the requisite facility if the matter is effectively undertaken.

9.1.31. *The Authority in view of above, determines the expenses under the head "Royalty & Internet " at Rs. 26 million(i.e; at the level of FRR FY 2014-15 plus 20% to cater for projected increase owing to new localities)*



- 9.1.32. The petitioner has projected Rs. 62 million under the head "Telephone" as against Rs. 42 million actually incurred in FY 2014-15 (48% increase). The petitioner has pleaded that projected increase under this head is mainly on account of additional Data SIM Charges (approximately 1500) to be installed on GPRS/GSM based EVCs at CMSs in the said year and also on account of telephone and fax facilities at remote places.
- 9.1.33. The Authority observes that in view of the current market dynamics, the petitioner has exaggerated the expenditure under this head. Historically, expenses under this head remained stagnant owing to competitive market. The Authority therefore allows reasonable increase under this head and determines the projected expenditure at Rs. 46 million i.e.; at the level of FRR FY 2014-15 plus 10% to cater for enhanced usage for the said year.
- 9.1.34. The petitioner has projected Rs. 125 million under the head "railway crossings" and explained that the same includes Rs. 100 million on account of outstanding amount claimed by Pakistan Railways for 327 number of crossings comprising, (i) Multan Division 47 number amounting to Rs. 12 million (ii) Lahore Division 156 number amounting to Rs. 35 million and (iii) Peshawar Division 124 number crossings amounting to Rs. 45 million
- 9.1.35. The Authority observes that in the early determinations, it has categorically directed the petitioner to undertake the outstanding issue of railway crossing at the appropriate forum for amicable settlement. The same however is still pending since long. It appears that petitioner has taken no initiative in this regard and the expenditures in this respect are not certain. The Authority therefore reiterates its directions and pends the projected expenditure on account of Railway crossings till amicable settlement. The remaining projected expenses under this sub-head for the said year amounting to Rs. 25 million are restricted at the level of FRR.
- 9.1.36. *Based on the above, the Authority determines expenditure on account of rent, rate, electricity and telephone at Rs. 422 million for the said year.*

viii. Traveling Expenses

- 9.1.37. The petitioner has projected traveling expenses for the said year at Rs. 262 million as against Rs. 148 million provided in FRR for FY 2014-15, showing an increase of 77% as under:



Table 33: Comparison of Traveling Expenses with Previous Years

Particulars	Rs. in million				
	FY 2013-14	FY 2014-15	FY 2015-16	Inc/(dec) Over FRR	
	FRR	FRR	The Petition	Rs.	%
Local travelling					
Executives	76	78	114	36	46
Subordinates	61	56	110	54	95
Sub-total	137	134	224	90	67
Foreign travelling	0.46	0.22	4	4	1,710
Conveyance (Official)	14	11	30	18	160
Travelling directors	1	2	5	3	133
Total	152	148	262	114	77%

9.1.38. The Authority observes that petitioner has projected 77% increase under the head "Traveling", it however has not advanced any plausible justification for projecting this abnormal increase. It appears that the petitioner is lacking proper planning to reflect various cost in the estimated petition. The expenses under this head have been very unreasonably projected. Had the petitioner been realized that every penny is being paid by its consumers, it would have made reasonable and prudent estimates.

9.1.39. *The Authority, in view of above, allows total expenses under the head at Rs. 163 million for the said year i.e; at the level of FRR FY 2014-15 plus 10%.*

ix. Transport Expenses

9.1.40. The petitioner has projected transport expenses for the said year at Rs. 1,258 million as against Rs. 794 million provided in FRR FY 2014-15, showing an increase of 59% as under:

Table 34: Comparison of Transport Expenses with Previous Years

Particulars	Rs. in million				
	FY 2013-14	FY 2014-15	FY 2015-16	Inc/(dec) Over FRR	
	FRR	FRR	The Petition	Rs.	%
Compression	17	19	32	13	69%
Transmission	151	127	201	74	58%
Distribution	454	469	694	224	48%
Others (incl H.O. & service deptts)	183	179	332	153	86%
Total	805	794	1,258	465	59%



- 9.1.41. The petitioner has explained that projected increase under this is due to anticipated rise in the prices of petrol & diesel and also on account of cost of spare parts in said year. Also, non availability of CNG is the major component for rise in projected expenses. Further, hiring charges of vehicles have also increased in FY 2014-15 and full impact is anticipated in the said year.
- 9.1.42. The Authority observes that POL prices uptill now, have not significantly increased as against it has been anticipated by the petitioner. Further, petitioner plea that in last years CNG was available which in the said year would not be provided, holds no factual grounds.
- 9.1.43. *The Authority, in view of above, allows reasonable increase of 10% and determines the expenditure under this head at Rs. 873 million for the said year.*

x. Legal and Professional Charges

- 9.1.44. The petitioner has projected expenditure of Rs. 217 million on account of legal and professional charges for the said year as against Rs. 108 million provided in FRR for FY 2014-15, showing an increase of 101%. Historical comparison is given below:

Table 35: Detailed Comparison of Projected Legal & Professional Charges with Previous Years

Particulars	Rs. in million				
	FY 2013-14	FY 2014-15	FY 2015-16	Inc/(dec) Over FRR	
	FRR	FRR	The Petition	Rs.	%
Legal	58	70	120	51	73%
Professional	22	22	66	44	199%
Tax	9	2	12	10	515%
Audit	6	6	8	2	36%
Apprenticeship/Scholarship/Training	6	6	8	2	38%
Others	1	3	3	-	0%
	102	108	217	109	101%

- 9.1.45. The petitioner has explained that whooping increase of 73% under the sub-head "Legal" compared with FRR FY 2014-15 is due to the fact that the actual expenses under this head were underprovided owing to disallowance of Rs. 67 million at the time of FRR.
- 9.1.46. Further, the petitioner has elaborated that increase in legal expenses is due to litigation /filling of recovery suits, increase in fees of advocates and ancillary expenses. Also with the implementation of judicial policy according to which separate fee is required to be paid to Local Commission for recording evidence, legal expenses have increased tremendously.



Further, international arbitration case of IPP Orient vs. SNGPL is in progress whereon significant expenses have been incurred.

- 9.1.47. The Authority observes that petitioner has been demanding a significant amount in previous years on the same grounds particularly for legal suits against the permanent defaulters; no positive impact however has ever been witnessed. The recoveries from the defaulters are piling up day by day. In view of no satisfactory outcome, there seems no reason to allow exorbitant increase under this head.
- 9.1.48. Further, it has been observed that the petitioner is incurring significant amount unnecessary including the litigation against the regulatory setup which have been established by the FG for the protection of consumer rights and respect to the individual rights. Such nonproductive expenses at the cost of poor consumers are avoidable resulting to saving in cost. Also, the petitioner through its own legal / litigation department should process the litigation cases so that dependence on external legal firms is minimized in order to lessen its impact on revenue requirement / natural gas consumer prices.
- 9.1.49. The Authority, in view of above, restricts the expenses at the level of actual expenses FY 2014-15 i.e; Rs. 70 million for the said year
- 9.1.50. Under the sub head "Professional expenses", the petitioner has projected Rs. 66 million as against Rs. 22 million provided in FRR FY 2014-15. The petitioner has pleaded that unprecedented increase under this head is due to professional charges on account for LNG/IP/TAPI gas projects and revaluation of fixed assets during the said year.
- 9.1.51. *The Authority observes that above expenses are required keeping in view petitioner plan for LNG arrangement and capitalization as projected in the instant petition. The Authority therefore allows a reasonable increase of 15% over FRR and determines the same at Rs. 25 million for the said year.*
- 9.1.52. *The Authority, therefore, determines total expenditure under the head "legal and professional charges" at Rs 126 million for the said year.*

xi. Gas Bills Collection Charges

- 9.1.53. The petitioner has projected gas bill collection charges for the said year at Rs. 460 million as against Rs. 376 million provided in FRR for FY 2014-15, showing an increase of 22% as under:



Table 36: Comparison of gas bills collection charges with previous years

Particulars	Rs. in million				
	FY 2013-14	FY 2014-15	FY 2015-16	Inc/(dec) Over FRR FY 2014-15	
	FRR	FRR	The Petition		%
Gas bills collection charges	342	376	460	84	22%

- 9.1.54. The petitioner has explained that the projected increase under this head is due to increase in number of bills to be distributed during said year owing to increase in number of connections. The petitioner has submitted that during the said year, 64 million bills have been projected to be collected.
- 9.1.55. The Authority observes that petitioner has projected 16% increase in the rate of collection charges which over the one year period is neither preceded nor allowable keeping in view the nature of expenses. Maximum 5% increase is reasonable to cater for increase in rate.
- 9.1.56. The Authority, in view of increase in rate and number of bills, determines the expenditure under this head at Rs. 418 million as against Rs. 460 million projected by the petitioner.

xii. Gathering charges on bills collection data

- 9.1.57. The petitioner has projected gathering charges on bills collection data for the said year at Rs. 81 million (131% increase) as against Rs. 35 million provided in FRR FY 2014-15.

Table 37: Comparison of Gathering charges on bills collection data with Previous Years

Particulars	Rs. in million				
	FY 2013-14	FY 2014-15	FY 2015-16	Inc/(dec) Over FRR	
	FRR	FRR	The Petition		%
Gathering charges on bills collection data	26	35	81	46	131%

- 9.1.58. The petitioner has explained that increase under this head is based on anticipated increase in number of bills by NIFT @ 1.50 per bill
- 9.1.59. The Authority observes that projected expenditure under this head seems to be grossly exaggerated when analyzed in view of expected addition in gas bills. Historically, the increase under this head owing to addition in number of bills amplified with rate has been witnessed around 30%. Accordingly, the same is applied for the said year.



9.1.60. *In view of above, the Authority determines expenditure under this head at Rs. 46 million as against Rs. 81 million projected by the petitioner.*

xiii. Advertisement

9.1.61. The petitioner has projected Rs. 200 million under this head for the said year as against Rs. 143 million provided in FRR FY 2014-15, showing an increase of 40% as under:

Table 38: Comparison of Advertisement Expense with Previous Years

Particulars	FY 2013-14	FY 2014-15	FY 2015-16	Rs. in million Inc/(dec) Over FRR	
	FRR	FRR	The petition		%
Advertisement	119	143	200	57	40%

9.1.62. The petitioner has explained that increase under this head is mainly due to enhanced media campaign on energy conservation, safety measures and gas theft policy during prime time hours of TV/ radio channels which is gaining momentum year by year e.g. in FY 2014-15 expense reported on advertisement is Rs. 164 million in comparison with Rs. 119 million reported in FRR for FY 2013-14. It is anticipated that proposed amount of Rs. 200 million for the said year will be fully utilized by having aggressive campaigns on safety measures and energy conservation

9.1.63. The Authority observes that it has made anxious thought on the issue at the time of FRR FY 2014-15 and has accordingly allowed reasonable amount under this head. The Authority reiterated its stance that it fully supports the petitioner's consumer education campaign initiative in the wake of depleting gas reserves, the same however should be undertaken in judicious manner with result oriented approach.

9.1.64. The Authority also reiterates its observation that the utility companies including its sister utility company and others in power sector is effectively utilizing the space available in the bills. They are using the same for their own as well commercial purposes and earning a reasonable sum which definitely off-sets the expenditure under this head. The petitioner however is not taking serious efforts in this regards despite Authority's clear directions.

9.1.65. *The Authority, in view of the above, determines the expenses under this head at Rs. 172 million i.e; at the level of FRR plus 20% to cater for inflation and enhanced activities.*



xiv. Bank Charges

- 9.1.66. The petitioner has projected Rs. 23 million Bank Charges for the said year as against Rs. 11 million provided in FRR for said year, showing an increase of 99%.
- 9.1.67. The Authority observes that 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 restricts the expenditure under this head at Rs. 13 million i.e; at the level of FRR FY 2013-14.*

xv. Uniform & Protective clothing's

- 9.1.68. The petitioner has projected Rs.70 million under the head " Uniform & Protecting Clothing" for the said year as against Rs. 28 million (148% increase) provided in FRR FY 2014-15. The petitioner has explained that ncrease is due to provision of personal protective equipment/ clothing and protective shoes to all entitled employees to ensure safety of personnel's across the company with regard to HSE policy.
- 9.1.69. The Authority observes that petitioner actual expenditure under this head has always remained upto a nominal amount. In the last year, it has observed hefty increase. Further increase upto 148% is absolutely grossly exaggerated. *Accordingly, the Authority restricts the expenditure under his head at Rs. 32 million i.e; at the level of FRR plus 15% to cater for increase in rates and numbers of uniform and protective clothing for the entitled employees.*

xvi. Staff training and recruiting expenses

- 9.1.70. The petitioner has projected 159 % increase under this head from Rs. 11 million per FRR FY 2014-15 to Rs. 28 million per the petition for the said year.
- 9.1.71. The Authority observes that 159 % increase in training activities is unrealistic and grossly exaggerated keeping in view the fact that such activities are part of long term planning and undertaken with consistent approach. *Accordingly, the expenses under this head are slashed to Rs. 13 million for the said year (i.e; at the level of FRR plus 20%).*



xvii. Security Expenses

9.1.72. The petitioner has projected Rs. 711 million for the said year as against Rs. 486 million provided in FRR FY 2014-15 showing an increase of 46% as under:

Table 39: Comparison of Security Expense with Previous Years

Sr. #	Particulars	Rs. in million				
		FY 2013-14	FY 2014-15	FY 2015-16	Inc/(dec) Over FRR	
		FRR	FRR	The Petition	Rs.	%
1	Security expenses to security forces	283	326	465	138	42%
2	Security Guards	122	159	247	87	55%
	Total Security expenses	405	486	711	226	46%

9.1.73. The petitioner explained that deteriorating law and order situation in different parts of the country coupled with unprecedented load curtailment in the area of franchise has resulted in increase in security of offices/ premises of the company. Increase is also due to additional guards (94) required and revision in security agreements during said year.

9.1.74. 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.

9.1.75. The Authority however observes that the petitioner has exaggerated its demand when compared with the historical results. In the instant petition, it has projected over 40% increase which is totally hypothetical. Also, it has been observed that security forces are not utilized for the key purpose as most of security personnel's are engaged in protocol duties.

9.1.76. *The Authority, in view of above, maintains its strategic position, and allows Rs. 559 million i.e; at the level of FRR plus 15% to cater for inflation and other adjustments under the head " Security expenses" for the said year.*

xviii. Provision for Doubtful Debts

9.1.77. The petitioner has projected provision for doubtful debts for the said year at Rs. 5,196 million. The break up of provision for doubtful debts is provided below:



Table 40: Break up of Provision for doubtful debt

Particulars	Rs. in million				
	FY 2013-14	FY 2014-15	FY 2015-16	Inc/(dec) Over FRR FY 2014-15	
	FRR	FRR	The Petition	Rs.	%
Industry	619	916	3,315	2,399	262
Commercial	94	262	724	462	176
Domestic	868	911	92	(819)	-90
Bulk Domestic	82	-71	1065	1,136	-1601
Total	1,663	2,018	5,196	3,178	157%

9.1.78. 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. The petitioner has explained that security deposit from consumers particularly 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.

9.1.79. The petitioner has further submitted that provision for doubtful debt as per OGRA benchmark introduced in its latest determinations, works out to Rs. 2,137 million for the said year.

9.1.80. The Authority observes it has made detailed deliberation on this issue and as a matter of fact, provision is not necessarily required if management recovery system is properly in place. The Authority, however, keeping in view of the petitioner's submissions has implemented a benchmark. Said benchmark in respect of only disconnected consumers works as under;

- (i) Unsecured debt in respect of bulk consumer (Industrial & Commercial).....
.....upto 25% of claim per petitioner policy.
- (ii) Unsecured debt in respect of domestic consumes upto three months.....nil
- (iii) Unsecured debt in respect of domestic consumes upto one year.....25%
- (iv) Unsecured debt in respect of domestic consumes over one year100%

9.1.81. The Authority, in view of above, determines the expenditure under this head at Rs. 2,137 million for the said year.

xix. Outsourcing of call centers for complaint management

9.1.82. The petitioner has projected Rs. 36 million under the head "outsourcing of call centers" for the said year as against Rs. 21 million provided in FRR FY 2014-15. The petitioner has not forwarded any justification and detailed reason for the abnormal increase under this head.



- 9.1.83. The Authority observes that historically expenditure under this head have remained less than Rs. 21 million. In the last two completed financial years, actual expenditure under this head has remained around the said amount.
- 9.1.84. *The Authority in view of above allows 10% indexation and accordingly allows Rs. 23 million under this head for the said year.*

xx. Contribution of ISGSL expenses

- 9.1.85. The petitioner has projected Rs. 142 million for the said year under this head as against Rs. 75 million provided in FRR for FY 2014-15. The amount represents approximately 49% share of the total expenditure of Rs. 292 million projected by ISGSL.

Table 41: Comparison of Projected SNGPL Share in ISGSL with Previous Years

Particulars	Million Rs.				
	FY 2013-14	FY 2014-15	FY 2015-16	Inc/(dec) over FRR FY 2014-15	
	FRR	FRR	The Petition	Rs.	%
SNGPL share in ISGSL expenses	66	75	142	67	89

- 9.1.86. The petitioner has submitted that ISGSL has informed that after the signing of Transaction Advisory Service Agreement (TASA) in November, 2013, there is progressive development on TAPI project. Further ISGSL has been designated as a commercial entity to take up formal negotiation with India for import of RLNG in 2012. Moreover, all activities relating to LNG fast track project were to be handled by ISGSL as per the advice of MP&NR. Therefore, development expenditure, traveling (Local/Foreign) and advertisement expenditure on account of LNG/RLNG is expected to increase during the year.
- 9.1.87. The Authority observes that ISGSL has been established by GoP for specific projects / purposes w.r.t import of gas options. Since establishment, the projects assigned to ISGSL have not exhibited significant progress. Rather, in case of LNG, other entities including PSO and gas utilities are playing major role in respect of project design till implementation. The Authority notes that the company has been advancing similar justification from last many years, however, fulfillment of obligations as stipulated in Company's memorandum of article as well as Government directives is questionable.
- 9.1.88. Further, the Authority observes that ISGSL is not its licensee, however, the expenditure have been allowed in compliance of an ECC decision dated September 10, 2008, wherein revenue expenditure of ISGSL are to be included in the operating cost of petitioner & SNGPL respectively in the ratio of their shareholding 51:49, to be recovered from gas



consumers in the form of consumer gas tariff. However, it has come to notice that in FY 2010-11, M/s Government Holdings Private Limited (GHPL) had injected equity into ISGSL, thereby changing its share holder percentage to 51% (GHPL), 25%(SSGCL) and 24% (SNGPL). Under the current price formula, share of ISGSL is the pass through item and impacts consumer tariff. The Authority, therefore, is of the view that based on existing percentage of capital structure; reimbursement of expenditure through revenue requirement process in the ratio of 51% & 49% since FY 2010-11 is not justified and prudent so as to protect the interests of natural gas users/consumers.

- 9.1.89. *In view of the above, the Authority decides to provisionally include Rs. 70 million being share of petitioner in ISGSL expenses for the said year. The adjustment under this head owing to change in shareholding ration since FY 2010-11 shall be made at the time of FRR for the said year, after confirmation from the relevant record.*

xxi. Other Expenses

- 9.1.90. The petitioner has projected Rs. 427 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 42: Comparison of Other Expenses with Previous Years

Sr. #	Particulars	Rs. in million				
		FY 2013-14	FY 2014-15	FY 2015-16	Inc/(dec) over FRR	
		FRR	RERR	The Petition	Rs.	%
1	Construction equipment operating cost	85	81	109	27	33
2	Entertainment Expenses	5	6	11	5	92
3	Outside services employed - govt./ local authority	3	1	8	7	516
4	Sports cell expenses	18	-	70	70	100
5	Annual Sport	27	28	43	15	52
6	CNIC verification from NADRA	8	9	20	11	129
	Total	147	125	260	135	108

- 9.1.91. 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 and also on account of cash awards being distributed to players and team management on winning of National level tournaments. Increase is also attributed on account of different match fee paid to PCB, booking of grounds, boarding and lodging of the team and expensive sports material for practice. Out of Rs. 43 million, Rs. 6 million has been proposed for Annual sports of the company.



- 9.1.92. The petitioner has further submitted that verification of CNIC from NADRA was started in FY 2012-13 on limited scale. NADRA is charging Rs. 25 per CNIC verification. The petitioned amount of Rs. 20 million for said year also includes charges of bandwidth and other contingencies beside verification of millions CNIC/consumers during said year.
- 9.1.93. 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 operating expenses. Phenomenal increase however without any logical reasons and plausible justification at the cost of consumer can't be allowed.
- 9.1.94. Under the sub-head "sports cell expenses", the petitioner has advanced no justification. Further, no expenses have incurred in FY 2014-15 in this regard. Accordingly, there is no reason to allow the expenditure under this sub-head.
- 9.1.95. *The Authority, in view of above, allows a reasonable increase of 15% over FRR FY 2014-15. The total expenditure the head "Other expenses" comes to Rs. 311 million as against Rs. 427 million projected by the petitioner.*

xxii. Remaining Items of Transmission & Distribution Cost

- 9.1.96. The items of transmission and distribution cost, except those dealt with in sub-para ii to xxi are projected by the petitioner at Rs. 569 million as against Rs. 1,012 million according to FRR FY 2014-15 The comparative analysis is given below:

Table 43: Remaining Items of Transmission and Distribution Expenses

Particulars	Rs. in million				
	FY 2013-14	FY 2014-15	FY 2015-16	Increase / (Decrease) Over FRR	
	Actual	Actual	The Petition	Rs.	%
Dispatch of gas bills	90	95	112	17	17 %
Insurance	189	189	218	29	15 %
Consultation for ISO 14001 & OHSAS 18000	4	3	5	1	31 %
OGRA fee	12	124	173	49	40 %
SNG training insititute	12	13	22	9	73 %
Sponsorship of chairs at University	10	10	10	-	0 %
5 Year special training programme	25	27	30	3	12 %
Budget for UFG control related activities	459	404	-	(404)	(100) %
Provision for Stores spares written off	65	21	-	(21)	
Cost of Gas Blown off	100	127	-	(127)	
Subtotal Expenses	965	1,012	569	(443)	-44%

- 9.1.97. *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. 569 million.*



xxiii. Transmission & Distribution Cost Determined by Authority

9.1.98. In view of the examination in para ii to xxii above, the Authority provisionally determines operating cost for the said year at Rs. 16,222 million against Rs. 22,417 million claimed by the petitioner, as follows:

Table 44: Summary of T&D Cost Determined by the Authority

Particulars	FY 2015-16		
	Demanded	Adjustment	Determined
Human Resource Cost	13,267	(1,039)	12,228
Stores and Spares Consumed	889	(253)	636
Repair and Maintenance	1,350	(359)	991
Fuel and Power	316	(51)	265
Stationery, Telegram and Postage	187	(55)	132
Dispatch of gas bills	112	0	112
Rent, Rate, Electricity and Telephone	555	(133)	422
Traveling	262	(99)	163
Transport expenses	1,258	(385)	873
Insurance	218	-	218
Legal and Professional Services	217	(91)	126
Consultation for ISO 14001 & OHSAS 18000	5	-	5
Gas bills collection charges	460	(42)	418
Gathering charges of gas bills collection data	81	(35)	46
OGRA fee	173	-	173
Advertisement	200	(28)	172
Bank Charges	23	(10)	13
Uniforms & protective clothing's	70	(38)	32
Staff training and recruiting	28	(15)	13
Security expenses	711	(152)	559
SNG training institute	22	(0)	22
Provision for doubtful debts	5,196	(3,059)	2,137
Sponsorship of chairs at University	10	0	10
5 Year special training programme	30	-	30
Out Sourcing of call centre complaints management	36	(13)	23
Contribution to Inter State Gas System Limited	142	(72)	70
Other expenses	427	(116)	311
Subtotal Expenses	26,247	(6,195)	20,052
Allocated to fixed capital expenditures	(3,830)	-	(3,830)
T&D Expenses	22,417	(6,195)	16,222

9.1.99. The Authority also observes that GIC cost projected by the petitioner at Rs. 2,205 million shall decrease to Rs. 2,084 million owing to reduction in WACOG as discussed above. Accordingly, the same is determined at Rs. 2,084 million.

xxiv. Workers Profit Participation Fund (WPPF)

9.1.100. 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.



10. Shortfall pertaining to FY 2014-15

- 10.1.1. The Authority observed that in FY 2014-15, un-recouped shortfall amounting to Rs. 44,743 million has been carried forward to make it part of said year. Accordingly, the same is included for the said year.

11. 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. determine estimated addition in fixed assets at Rs. 44,378 million, addition in assets for rate base at Rs. 14,139 million and depreciation charge at Rs. 15,736 million;
- 11.2. determine the net average operating fixed assets (net of deferred credit) eligible for return at Rs. 76,116 million as against Rs. 131,320 million claimed by the petitioner for the said year. Consequently, the return required by the petitioner on its assets is determined at Rs. 13,320 million;
- 11.3. determine sales revenue at current prescribed price at Rs. 174,972 million;
- 11.4. determine income under the head Rental & service charges at Rs. 1,868 million
- 11.5. determine LPS as operating income at Rs. 3,200 million
- 11.6. other operating income at Rs. 1,410 million
- 11.7. determine cost of gas at Rs. 146,651 million.
- 11.8. determine the UFG disallowance at Rs. 8,376 million;
- 11.9. determine T&D expenses at Rs. 16,222 million as against Rs. 22,417 million claimed by the petitioner;
- 11.10. determine GIC at Rs. 2,084 million as against Rs. 2,205 million claimed by the petitioner;
- 11.11. adjusts the remaining shortfall of Rs. 44,743 million for FY 2014-15 in the revenue requirement for the said year.
- 11.12. determine WPPF as determined at Rs. 693 million as claimed by the petitioner.
- 11.13. In exercise of its powers under the Ordinance and NGT Rules, the estimated revenue requirement for the said year is determined at Rs. 231,073 million as tabulated below :



Table 45: Components of DERR for FY 2015-16 as Determined by the Authority.

Description	Rs. in Million	
	Demanded by the Petitioner	Determined by the Authority
Cost of Gas	155,139	146,651
Transmission & Distribution Cost	22,417	16,222
GIC	2,205	2,084
UFG Disallowance	-	(8,376)
Depreciation	20,046	15,736
WPPF	693	693
Return on Assets	22,981	13,320
Shortfall pertaing to FY 2014-15	-	44,743
Total	223,481	231,073

- 11.14. 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.
- 11.15. The petitioner's net operating income is estimated at Rs. 184,279 million as against revenue requirement of Rs. 231,073 million and thus there is shortfall of Rs. 46,794 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. 107.81 per MMBTU (27 %) in the petitioners' average prescribed price for the said year (Annexure-A).
- 11.16. The prescribed prices for various categories of retail consumers shall be determined by the Authority upon receipt of sale price advice by the Federal Govt. 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.
- 11.17. 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 Rule 17(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;"

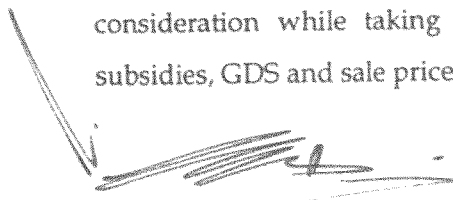
Rule 17(1)(j) "only such capital expenditure should be included in the rate base as is prudent, cost effective and economically efficient;"

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.

13. Public Critique, Views, Concerns, Suggestions

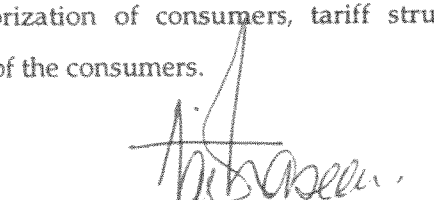
- 13.1. The Authority has recorded critique, views, concerns and suggestions of the interveners and participants in para 3 above, including policy issues falling within the purview of the FG. The Authority considers it important to draw specific attention of the FG to the same for due consideration while taking decisions about categorization of consumers, tariff structure, subsidies, GDS and sale prices for various categories of the consumers.



Noorul Haque
(Member Finance)



Saeed Ahmad Khan
(Chairman)



Aamir Naseem
(Member Gas)

Islamabad,
December 18, 2015



REGISTRAR
Oil & Gas Regulatory Authority
Islamabad



A. Computation of Estimated Revenue Requirement for FY 2015-16

Million Rs.

Particulars	The Petition	Adjustments	Determined by the Authority
Gas sales volume -MMCF	452,641	-	452,641
BBTU	434,030	-	434,030
Calorific Value	959	-	959
"A" Net Operating revenues			
Net sales at current prescribed price	201,803	(26,831)	174,972
Rental & service charges	1,481	387	1,868
Surcharge and interest on arrears	-	3,200	3,200
Amortization of deferred credit	2,829	-	2,829
Other operating income	200	1,210	1,410
Total income "A"	206,313	(22,034)	184,279
"B" Less Expenses			
Cost of gas sold	155,139	(8,488)	146,651
UFG (disallowance) / allowance	-	(8,376)	(8,376)
Transmission and distribution cost	22,417	(6,195)	16,222
Gas Internally Consumed	2,205	(121)	2,084
Depreciation	20,046	(4,310)	15,736
Workers Profit Participation Fund	693	-	693
Total expenses "B"	200,500	(27,490)	173,010
"C" Operating profit / (loss) (A - B)	5,813	5,456	11,269
Return required on net assets:			
Net assets at beginning	127,000	(32,327)	94,673
Net assets at ending	190,551	(97,475)	93,076
	317,551	(129,802)	187,749
Average fixed net assets (I)	158,776	(64,901)	93,875
Deferred credit at beginning	27,121	(9,698)	17,423
Deferred credit at ending	27,792	(9,698)	18,094
	54,913	(19,396)	35,517
Average net deferred credit (II)	27,457	(9,698)	17,759
"D" Average operating assets (I-II)	131,320		76,116
Return required on net assets	17.5%		17.5%
"E" Amount of return required	22,981	(9,661)	13,320
"F" Excess / (shortfall) FY 2015-16	(17,168)	15,117	(2,051)
"G" Shortfall pertaining to FY 2014-15	-	(44,743)	(44,743)
H Total Shortfall	(17,168)	(29,626)	(46,794)
"I" Average Increase/(Decrease) in Prescribed Price (Rs/MMBTU)	39.55	68.26	107.81
"J" Revenue requirement	223,481	7,592	231,073
"K" Average Prescribed Price (Rs/MMBTU)	504.51	6.44	510.95



B. Provisional Prescribed Prices for FY 2015-16

Particulars	Average Prescribed Prices for FY 2015-16 Rs./MMBTU
(i) Domestic Consumers:	
a) Standalone meters	
b) Mosques, churches, temples, madrassas, other Religious Places and	
First slab (upto 100 cubic metres per month).	510.95
Second slab (Upto 300 cubic metres per month).	510.95
Third slab (over 300 cubic metres per month).	510.95
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	510.95
(ii) Special Commercial Consumers (Roti Tandoors)	
First slab (upto 100 cubic metres per month).	510.95
Second slab (Upto 300 cubic metres per month).	510.95
Third slab (over 300 cubic metres per month).	510.95
(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	510.95
(iv) Ice Factories:	
All off-takes at flat rate of	510.95
(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	510.95
(vi) Captive Power:	
All off-takes at flat rate of	510.95
(ii) CNG Stations:	
All off-takes at flat rate of	510.95
(ii) Cement Factories:	
All off-takes at flat rate of	510.95
(ix) Fertilizer Factories:	
(1) Pak American Fertilizer Company Limited, Daudkhel.	
(2) Pak Arab Fertilizer Limited, Multan.	
(3) Dawood Hercules Chemicals Limited, Chichoki Malian, Sheikhpura District.	
(4) Pak-China Fertilizer Limited/Hazara Phosphate Plant Limited, Haripur.	
(5) ENGRO Fertilizer Company Limited	
(a) For gas used as feed stock for fertilizer	
All off-takes at flat rate of	510.95
(b) For gas used as fuel for generation of electricity, steam and for usage of housing colonies.	
All off-takes at flat rate of	510.95
(x) Power Stations:	
(a) WAPDA's Power Stations and other electricity utility companies	
All off-takes at flat rate of	510.95
(b) WAPDA's Natural Gas Turbine Power Station, Nishatabad,	
Commodity Charge	
All off-takes at flat rate of	510.95
Fixed charge (Rupees per month).	390,000
(xi) Liberty Power Limited's Gas Turbine Power Plant	
(xii) Independent Power Producers:	
All off-takes at flat rate of	510.95



C. Computation of HR Cost Benchmark FY 2015-16

Particulars	2014-15 (Base Year)	2015-16
HR benchmark Cost Parameters		
Base Cost	9,714	10,273
CPI factor	4.53%	5.00%
T & D network (Km)	107,670	113,722
Number of Consumers (No.)	5,054,256	5,354,256
Sales Volume (MMCF)	467,449	452,641
Unit Rate (Rs./unit)		
T&D network (Rs./Km)	93,119	95,415
No. of Consumers (Rs./Consumer)	2,024	2,033
Sale Volume (Rs./MMCF)	19,185	21,978
HR Cost Build-up (Million Rs)		
Cost CPI -50%	220	257
T & D network (Km) 25%	2,507	2,713
Number of Consumers (No.) 65%	6,650	7,074
Sales Volume (MMCF)-10%	897	995
HR Benchmark Cost	10,273	11,038
IAS Cost	-	1,190
Total HR Benchmark Cost	-	12,228