OIL & GAS REGULATORY AUTHORITY (OGRA)

Case No. OGRA-6(2)-2(1)/2015-DTRR

IN THE MATTER OF

SUI SOUTHERN GAS COMPANY LIMITED
FINAL REVENUE REQUIREMENT, FY 2014-15

UNDER

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

DECISION

ON

November 27, 2015

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

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TABLE OF CONTENTS

SECTION PAGE NO.

ANNEXURE

TABLES

1. Background

1.1 Sui Southern Gas Company Limited (the petitioner) is a public limited company, incorporated in Pakistan, and listed on stock exchanges at Karachi, Lahore and Islamabad. The petitioner is operating in the provinces of Sindh and Balochistan under the license granted by Oil & Gas Regulatory Authority. It is engaged in construction and operation of gas transmission and distribution pipelines, sale of natural gas, LPG Air-Mix, sale of LPG, gas condensate, Natural Gas Liquids (NGL) and manufacture and sale of gas meters.

1.2 The petitioner filed a petition on August 28, 2015 under Section 8(2) of the Oil and Gas Regulatory Authority Ordinance, 2002 (the Ordinance) and Rule 4(3) of the Natural Gas Tariff Rules, 2002 (NGT Rules), for determination of its Final Revenue Requirement (FRR) for FY 2014-15 (the said year) on the basis of the accounts as initialed by its statutory auditors.

1.3 The Authority, vide its Order dated July 3, 2014, had determined petitioner's Estimated Revenue Requirement (DERR) for the said year under Section 8(1) of the Ordinance at Rs. 191,069 million (amounts have been rounded off to nearest million here and elsewhere in this document) for estimated sale volume of 361,419 BBTU.

1.4 The petitioner challenged decision on ERR specifically w.r.t Unaccounted or Gas (UFG) and certain operating incomes in honorable Sindh High Court (SHC). The honorable Court granted interim relief to the petitioner and directed OGRA to determine revenue requirement for the said year, as per the interim order already passed for the years 2010-11, 2011-12, 2012-13 and 2013-14. The Authority, accordingly, allowed UFG at 7% and treated Late Payment Surcharge (LPS), Meter Manufacturing Profit (MMP), Royalty from Jamshoro Joint Venture Ltd. (JJVL) and income from sale of gas condensate as non-operating incomes. Accordingly, revised revenue requirement for the said year was computed at Rs. 194,495 million i.e. an increase of Rs. 52.38 per MMBTU in average prescribed price for the said year.

1.5 The petitioner in the instant petition has claimed revenue requirement after incorporating actual sales & purchases based on consumer and wellhead gas prices and other relevant factors in terms of Section 8(2) of the Ordinance. The petitioner has also reported UFG at 6.65%. It has further claimed LPS, MMP, Royalty from JJVL and income from sale of gas condensate as non-operating incomes in line with the decision of honorable SHC. The petitioner has also included income derived from sale of NGL & LPG as non-operating income. Based on provisional prescribed prices and actual sale mix, the petitioner has computed a shortfall of Rs. 24,594 million (including Rs. 552 million claimed on account of subsidy for LPG air-mix projects) in its revenue requirement for the said year, thereby seeking an increase of Rs. 69.28 per MMBTU in the average prescribed price. Further, the petitioner has claimed shortfall related to prior years amounting to Rs. 43,545 million (Rs. 122.67 per MMBTU) resulting in a total shortfall of Rs. 68,139 million in revenue requirement for the said year, thereby requesting an increase of Rs. 191.95 per MMBTU in average prescribed price effective July 01, 2014. Accordingly, the petitioner has worked out its FRR for the said year at Rs. 231,004 million for actual sale volume of 354,984 BBTU.

1.6 The Authority issued notice of hearing on October 09, 2015 & October 13, 2015 to the petitioner and following interveners & related parties:

i) Federal Government (FG/GoP),
ii) Dr. Qazi Ahmed Kamal, Advisor Public Sector, Utilities, Power & Gas Sub-Committee, Karachi Chamber of Commerce & Industry,
iii) Mr. Abdul Sami Khan, Chairman, CNG Dealers Association of Pakistan,
iv) Mr. Muhammad Arif Bilvani, Consumer.
v) Mr. Malik Khuda Baksh, President & Chairman CNG Stations Owners Association of Pakistan,
vi) Mr. Saleem Parekh, Central Chairman, Pakistan Hosiery Manufactures & Exporters Assoication,
vii) Mr. Shahid ur Rehman, Economic Generalist.

1.7 The hearing was held at Islamabad on October 28, 2015.

2. Salient Features of the Petition

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

Table 1: Comparison of Cost of Service per the Petition with DERR & Previous Year

Rs. / MMBTU

Particulars	FY 2013-14	FY 2014-15	
	FRR	DERR	The Petition
Units sold (BBTU)	339,155	361,419	354,984
Cost of gas sold	444.59	396.45	439.54
UFG adjustment	(29.32)	(8.04)	-
Transmission and distribution cost including other charges	43.01	37.15	51.13
Shortfall related to prior years	39.54	61.78	122.67
Depreciation	12.35	14.86	13.39
Return on net average operating fixed assets	22.60	34.28	22.46
Other operating income	(32.03)	(39.62)	(11.30)
Subsidy for LPG Air-Mix Project	1.44	1.66	1.55
Cost of service / prescribed price	502.17	498.52	639.44
Current average prescribed price	502.17	498.52	447.49
Increase requested in average prescribed price	-	-	191.95

The petitioner has made the following submissions:-

2.1.1 Annual return has been claimed at Rs. 7,973 million, computed at rate of 17% of the value of its average net operating fixed assets (net of deferred credit, assets related to LPG Air-Mix & MMP) before corporate income taxes, and interest, mark-up and other charges on debt, per License condition No. 5.2 and covenants of the loan agreement between the petitioner and the Asian Development Bank.

2.1.2 The petitioner has claimed a net addition, net of deletions of Rs. 5,875 million in fixed assets, and net addition, ex-depreciation and deletion, of Rs. 4,772 million, resulting in claimed increase in net operating fixed assets from Rs. 52,561 million in FY 2013-14 to Rs. 53,664 million during the said year. The petitioner has further claimed that, after adjustment of deferred credits, and assets related to LPG Air-Mix project & MMP, net average operating fixed assets eligible for return work out to Rs. 46,899 million, and required return to Rs. 7,973 million.

2.1.3 Net operating revenues have been reported at Rs. 162,865 million in the petition, as against Rs. 194,495 million determined in DERR for FY 2014-15, as detailed below:

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

Rs. in million

Particulars	FY 2013-14	FY 2014-15		Inc./(Dec.) over DERR	
	FRR	DERR	The Petition	Rs.	%
Net sales at current prescribed price	170,315	180,174	158,853	(21,321)	(12)
Gas transportation charges	-	71	-	(71)	(100)
Meter rentals	682	703	700	(3)	(0.43)
Amortization of deferred credits	403	428	403	(25)	(6)
Revenue from JJVL	4,524	2,693	-	(2,693)	(100)
Sale of LPG	3,850	5,915	1,040	(4,875)	(82)
Sale of NGL	-	3,405	385	(3,020)	(89)
Sale of Gas condensate-shrinkage cost	417	98	124	26	27
Notional income on IAS provision	320	307	456	149	49
Other income	666	702	904	202	29
Net Operating Revenue	**181,177**	**194,495**	**162,865**	**(31,630)**	**(16)**

2.1.4 Net operating expenses have been claimed at Rs. 222,479 million in the petition as compared to Rs. 181,504 million provided in DERR, as detailed below:

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

Rs. in million

Description	FY 2013-14	FY 2014-15		Inc/ (Dec) over DERR	
	FRR	DERR	The Petition	Rs.	%
Cost of gas	150,785	143,283	156,030	12,747	9
Transmission and distribution costs	11,213	11,786	15,255	3,469	29
Gas Internally Consumed	334	174	347	173	99
UFG adjustment	(9,944)	(2,906)	-	2,906	(100)
Depreciation	4,189	5,371	4,753	(618)	(12)
Shortfall related to prior years	13,409	22,328	43,545	21,217	95
Change in accounting policy IAS-19	2,349	-	780	780	100
Other charges including WPPF	691	1,468	1,769	301	21
Net Operating Expenses	**173,026**	**181,504**	**222,479**	**40,975**	**23**

2.1.5 UFG has been reported at 6.65% (28,861 MMCF).

2.1.6 Subsidy on account of LPG Air-Mix projects has been claimed at Rs. 552 million.

2.1.7 Previous year shortfall has been claimed at Rs. 43,545 million.

2.1.8 Net result of petitioner's above mentioned claims is that a shortfall of Rs. 68,139 million has been computed including 17% return on average net operating fixed assets, which translates to an increase of Rs. 191.95 per MMBTU in the existing average prescribed price, as tabulated below:

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

Rs. In million

	Particulars	FY 2014-15 The Petition
A	**Net Operating Revenues**	162,865
	less: Net operating expenses excluding ROA	178,934
	Subsidy Air Mix LPG Project	552
	Shortfall related to previous years	43,545
B	**Total Expenses**	223,031
C	**Shortfall** {(A) - (B)}	60,166
D	Return required @ 17% on net fixed assets in operation	7,973
E	**Total shortfall in revenue requirement {(D) - (C)}**	68,139
F	Sale volume (BBTU)	354,984
G	**Increase requested in existing average prescribed price Rs./MMBTU**	**191.95**

3. Proceedings

3.1 The petitioner was represented at hearing held on October 28, 2015 by its team of senior executives led by Managing Director, Mr. Khalid Rehman along with legal counsel, Mr. Mirza Mehmood Ahmad, who were given full opportunity to present the petition. No intervener attended the hearing.

3.2 During the hearing, the petitioner made following submissions with help of multimedia presentation and answered questions of members & officers of the Authority:

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

3.2.2 Legal Counsel further added that there is no provision in the relevant statute through which the Authority can penalize the petitioner for not achieving the efficiency benchmarks. The petitioner has therefore, not been provided guaranteed rate of return i.e. 17%, owing to imposition of UFG benchmark, rather in some years in the past it has gone into negative. The percentage of reasonable rate of return can never be negative in any business of the world. Moreover, honorable SHC in its interim stay has restricted UFG disallowance to the amount of penalty as stipulated in Rule 20.

4. Determination

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

5. Return to Licensee

5.1 The Authority is obligated under Section 7(1) of the Ordinance, to determine or approve tariff for regulated activities whose licenses provide for such determination or such approval, or where authorized by this Ordinance, subject to policy guidelines. *License Condition No.* 5.2 of license granted to the petitioner clearly states that subject to the efficiency related benchmarks adjustments, the Authority shall determine total revenue requirement of the licensee to ensure that it achieves 17% 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 the petitioner has been continuously contending that guaranteed return of 17% is not being provided to it, as effectively it is getting much lower rate of return and has been referring to some legal provisions in isolation. The Authority terms this argument as baseless & against the legal scenario. Presumably, the petitioner has been pleading that it is entitled for guaranteed return irrespective of control of gas loses/theft, operational efficiency and effectiveness of capital expenditure incurred to undertake the regulated activities. Petitioner's plea does not consider the regulatory setup established by GoP and legal regulatory framework as a whole, as it defies the established mechanism set out under its own license condition 5.2 that the return is subject to efficiency benchmarks.

5.3 The Authority notes that the petitioner is enjoying monopoly and risk free business owing to captured consumers, guaranteed return and no market competition in the gas distribution sector. Ultimately, the said circumstances do not urge the petitioner to reduce its inefficiencies and improve customer service up to the satisfaction of consumers. Rather, this arrangement favors the petitioner to retain guaranteed return, while lacking concerted efforts to bring efficiency in its system. Moreover, Section 7(2) (a) obligates OGRA to protect consumer against monopolistic and oligopolistic pricing. On the national perspective, OGRA is infact performing its statutory role in a professional and prudent manner allowing guaranteed return as well as incentive for better performance to the petitioner that could actually enhance its return; provided it manages and controls its system in an efficient manner. The understanding that petitioner can not be stressed for improving its performance through benchmark regulation is totally misleading, as monopolies all over the world operate on same premise / principles. Accordingly, the Authority evaluates tariff petitions in line with the evaluation criteria as provided in the Rules, while implementing yardstick regulation as stipulated in Rule 17(c) (g) and (h) of NGT Rules. Resultantly, natural gas prices are still maintained at an affordable level for all sectors of economy.

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

5.5 In view of above, it is established that Authority strictly performs as per its mandate and allows guaranteed return (i.e. 17%) to the petitioner, however it is due to the petitioner's own inefficiencies and business conduct that it could not retain the return allowed to it.

5.6 The Authority further notes that the petitioner is misconceiving the treatments in respect of gas price components, the tariff determination mechanisms and confounding the inadmissibility of inefficiencies/wastages, gas losses in the revenue requirement with penalty. The entire argument of the petitioner, including the interpretation of penal provisions is premised on the false characterization of revenue requirement exercise and the same is also contrary with the regulatory practices carried out world over. The Authority, as per Section 8 of the Ordinance, carefully and independently evaluates / reviews the petitions submitted by the companies at the touchstone of reasonableness/ professional prudence.

Accordingly, the inefficient and imprudent expenses pertaining to capitalization and operating costs are not allowed to form part of revenue requirement. The UFG disallowance is also part of the same exercise. Theft inadmissibility/deduction of such expenses including gas losses beyond limits/benchmark can't be termed as penalty. If this was the case, then entire scheme of regulatory regime and process of determining/ reviewing the revenue requirement would be defeated.

6. Operating Fixed Assets

6.1 Summary

6.1.1 The petitioner has claimed a net addition, net of deletions of Rs. 5,875 million in fixed assets, and net addition, ex-depreciation and deletion, of Rs. 4,772 million, resulting in claimed increase in net operating fixed assets from Rs. 52,561 million in FY 2013-14 to Rs. 53,664 million during the said year. The petitioner has further claimed that, after adjustment of deferred credits, and assets related to LPG Air-Mix project & MMP, net average operating fixed assets eligible for return work out to Rs. 46,899 million, and required return to Rs. 7,973 million.

Table 5: Computation of Return on Assets per the Petition

Particulars	Rs. in Million
Net operating fixed assets at beginning	52,561
Net operating fixed assets at ending	53,664
sub-total	106,225
Average net assets (I)	53,113
Meter manu. Plant asset at beginning	126
Meter manu. Plant asset at ending	170
sub-total	295
Average net assets (II)	148
LPG air mix project asset at beginning	711
LPG air mix project asset at ending	655
sub-total	1,366
Average net assets (III)	683
Deferred credit at beginning	5,449
Deferred credit at ending	5,317
sub-total	10,766
Average net deferred credit (IV)	5,383
"D" Average (I-II-III-IV)	46,899
Return required of 17% on "D"	7,973

6.1.2 The Authority notes that decision of FRR for FY 2013-14 has now been issued where closing balance of operating fixed assets has been determined at Rs. 52,142 million as against Rs. 52,561 million per the instant petition. Therefore, the same shall be used as opening balance of operating fixed assets for the said year.

6.1.3 Comparative analysis of additions in fixed assets as claimed by the petitioner with DERR is as follows:

Table 6: Summarized Schedule of Addition of Assets per the Petition Compared with DERR & Previous year

Rupees in Million

Particulars	FRR	DERR	The Petition	Inc. / (Dec.) over DERR	
	FY 2013-14	FY 2014-15		Rs.	%
Gas distribution system and related facilities &	3,693	3,455	4,949	1,494	43
Telecommunication system	115	106	146	40	38
Land	0.006	9	-	(9)	(100)
Buildings	67	238	115	(123)	(52)
Roads, pavements and related infrastuctures	0.083	138	-	(138)	(100)
Gas Transmission Pipeline	1,116	1,896	229	(1,667)	(88)
Plant and machinery	317	369	252	(117)	(32)
Furniture, equipment including computer & allied equipments	89	179	134	(45)	(25)
Computer Software (Intangible)	30	144	8	(136)	(94)
LPG Air Mix Projecrs	7	24	(1)	(25)	(104)
Appls., loose tools & equipt.	28	124	24	(100)	(81)
Vehicles	234	331	222	(109)	(33)
Construction equipment	19	206	0.011	(206)	(100)
SCADA	-	215	-	(215)	(100)
Gross Addition	**5,715**	**7,434**	**6,078**	**(1,356)**	**(18)**

6.1.4 The petitioner has reported 18% decrease in the addition to fixed assets for the said year. The petitioner has attributed this decrease to financial crunch faced by it owing to which it failed to materialize its envisaged capital projects.

6.2 Gas Distribution System

6.2.1 The petitioner has capitalized Rs. 4,949 million out of Rs. 3,455 million allowed in DERR for the said year. During the said year distribution network of 801 km was laid involving provision of gas to new towns and villages in Sindh & Balochistan and provision of additional connections in existing areas; it also included rehabilitation of leaking mains and services. The petitioner has stated that extension of 615 Km gas distribution system ranging from ¾" to 8" diameter in existing areas resulted in connecting about 96,366. new customers against the provisionally allowed 75,349 connections in DERR for the said year. The above includes main extension of 197 Kms, Reinforcement 37 Kms, Services 381 Kms and new towns 285 Kms. Rehabilitation of 98 Kms of mains and 72 Kms of Services were also carried out during the said year. The total capitalization of Rs. 4,949 million also includes Rs. 737 million for installation of new connections (meters), Rs. 1,428 million for

Replacement /Repair of meters and Rs. 112 million for construction of consumer meter stations, TBSs/TRSs and CP Stations, etc.

6.2.2 The petitioner has stated that variation in capitalization of Rs. 737 million for installation of new connections (meters) against the provisionally allowed amount of Rs. 619 million was mainly due to the fact that the company had envisaged 75,349 additional customers. However, actual number of meters installed during the said year were 96,366, thereby exceeding the amount of budget.

6.2.3 The petitioner has stated that variation in capitalization of Rs. 361 million for installation of services against the provisionally allowed amount of Rs. 94 million was mainly due to the fact that the number of Service mains increased due to increase in new connections during the said year. Cost also increased due to higher material cost.

6.2.4 Moreover, the petitioner has capitalized Rs. 1,428 million for replacement/repair of meters against the provisionally allowed amount of Rs. 151 million. In this regard, the petitioner has stated that the Authority in its DERR for the said year had allowed Rs. 151 million for meter replacement under the head of commercial and industrial meters, against which the petitioner capitalized Rs. 153 million. However, in the ERR petition, the petitioner envisaged Rs. 1,500 million under the head of replacement of domestic meters (NGEP) which was later deferred by the Authority. Therefore, as per routine practice, the petitioner executed / replaced domestic meters under the head meter replacements to control UFG.

6.2.5 The petitioner has stated that extension of gas distribution network resulted in extension of 285 Km of mains while gas was provided to new towns & villages during the said year with the capitalization of Rs. 857 million. The petitioner has mentioned that it had requested the Authority, vide letter dated 17.11.2014, to grant interim relief under Rule 5(7) of NGT Rules in respect of Gas Development Schemes of new towns & villages and the Authority vide its letter dated 01.12.2014 approved schemes from Gas Producing Districts.

6.2.6 The Authority notes that keeping in view the policy of the FG with respect to Gas Producing Districts, the Authority had allowed the petitioner, vide above referred letter, to initiate Gas Development Schemes of Gas Producing Districts subject to compliance by petitioner with the decision of the honorable Supreme Court of Pakistan in CP-20 of 2013 and MP&NR's summary approval conveyed vide their letter dated 06.08.2014. The Authority observes that out of the capitalization of Rs. 857 million under the head of new towns & villages, gas development schemes amounting to Rs. 395 million do not meet ECC's per customer cost criteria and are not in accordance with the policy of the FG. Therefore, the Authority keeping in view the policy of FG as well as decision of the honorable Supreme Court on the matter, does not allow the same. The Authority, however, allows an expenditure of Rs. 462 million capitalized on gas distribution development schemes meeting the ECC criteria and policy of FG on the matter.

6.2.7 *In view of above, the Authority determines expenditure amounting to Rs. 4,554 million under the head of gas distribution system for the said year as per the detail given below:*

Table 7: Gas Distribution System Determined by the Authority

Rs. in Million

Asset Description	Determined by the Authority
Laying of Distribution Mains including Services - Existing Areas	
i) Extension	712
ii) Reinforcement	408
iii) Services	361
iv) Rehabilitation	316
Rehabilitation & Meter replacement of TBS-PRS under NGEP	18
New Towns & Villages	462
Construction of TBSs/TRSs & CP	112
Installation of New Connections (Meters)	737
Replacement/ Repair of Undersized Meters	1,428
Total	**4,554**

6.3 Telecommunication

6.3.1 The petitioner has capitalized Rs. 146 million on account of telecommunication, reporting an increase of Rs. 40 million i.e. 38% over DERR for the said year.

6.3.2 The petitioner has capitalized Rs. 146 million against the provisionally allowed amount of Rs. 106 million at the time of DERR for the said year. The petitioner has submitted that increase reported under the above head is mainly due to capitalization on account of 100MB 5W 8GHz Terminal HSB, GSM/GPRS Remote Monitoring, Rugged tough books, Remote Telemetry Units, SCADA Pack with flow computers, Terminal Server SCADA Host, Microwave CLI Handset.

6.3.3 *In view of the above, the Authority accepts an expenditure of Rs. 146 million on account of telecommunication for the said year.*

6.4 Fixed Assets Determined by Authority

6.4.1 *The Authority, after due diligence and detailed analysis of petitioner's submissions, determines gross additions in fixed assets at Rs. 5,683 million for the said year, and accordingly closing net operating fixed assets for the said year are allowed at Rs. 52,877 million. Consequently, depreciation expense reduces by Rs. 26 million, and the Authority determines depreciation for the said year at Rs. 4,727 million.*

Table 8: Fixed Assets Determined by the Authority

Rupees in Million

Particulars	FY 2014-15	
	The Petition	Determined by the Authoirty
Buildings	115	115
Gas Transmission Pipeline	229	229
Plant and machinery	252	252
Gas distribution system and related facilities & equipments	4,949	4,554
Furniture, equipment including computer & allied	134	134
Computer Software (Intangible)	8	8
LPG Air Mix Projecrs	(1)	(1)
Telecommunication system	146	146
Appls., loose tools & equipt.	24	24
Vehicles	222	222
Construction equipment	0.011	0.011
Gross Addition	6,078	5,683

7. Operating Revenues

7.1 Sales Volume

7.1.1 Sales volume has been reported to decrease by 2%, from 361,420 BBTU determined in DERR to 354,984 BBTU in the instant petition. Category-wise comparison with DERR and previous year has been provided by petitioner as under:

Table 9: Comparison of Category-wise Gas Sales Volume per Petition with DERR & Previous Year

Volume BBTU

Category	FY 2013-14	FY 2014-15		Inc./(Dec.) over DERR	
	FRR	DERR	The Petition		%
Power	65,378	42,826	73,307	30,481	71
Cement	306	311	505	194	62
CNG Stations	28,423	23,447	28,238	4,791	20
HCPC	5,729	5,800	6,185	385	7
Commercial	9,659	9,706	9,854	148	2
Captive Power	72,864	73,559	73,906	347	0.47
General Industries	69,365	74,675	68,701	(5,974)	(8)
Domestic	74,235	93,894	80,906	(12,988)	(14)
Fertilizer - feed stock	12,901	25,336	13,382	(11,954)	(47)
Al-Tuwairiqui Steel	295	6,787	-	(6,787)	(100)
DHA Desalination Plant	-	2,982	-	(2,982)	(100)
Naudero Rental Power	-	2,097	-	(2,097)	(100)
Total	339,155	361,420	354,984	(6,436)	(2)

7.1.2 The petitioner has attributed the increase in gas sale to power sector to lower estimates envisaged at the start of the year, while the same exhibits an increase of 12%, when compared with actual sales per FRR for FY 2013-14. It has informed that enhanced supply to the tune of 5.9 BCF was made to WAPDA – Jamshoro & Kotri during the year resulting in higher sales.

7.1.3 The petitioner has further explained that consumption reported under various categories e.g. CNG stations, fertilizer feedstock, Captive power is kept in line with the actual trend of FY 2013-14. Regarding 14% decrease reported under the head of "domestic", the petitioner has informed that 3% increase in sale to domestic sector over actuals of FY 2012-13 was envisaged at the time of ERR for the said year. However, compared with actual sales for FY 2013-14, the same depicts reasonable increase of 9%.

7.1.4 The Authority refers to its observations given at para 7.1.4 of its decision for FRR for FY 2013-14, and notes that sale to domestic sector have been exaggerated at the time of initial estimates. This being a lesser revenue generating category ultimately adds towards higher price increases. The petitioner should, therefore, project sales volume on realistic basis in order to truly reflect the revenue requirement position during the year. ***In view of the same, the Authority directs the petitioner to consider / incorporate all the relevant factors while projecting the sales volume at the beginning of the year, and adhere to its planned sales during the year as well as implement GoP's load management policy in letter & spirit.***

7.1.5 ***In view of above, the Authority accepts total sales volume at 354,984 BBTU for the said year.***

7.2 Sales Revenue at Existing Prescribed Prices

7.2.1 Sales revenue at existing prescribed prices has been claimed at Rs. 158,853 million in instant petition. Category-wise comparison with DERR and previous year is given below.

Table 10: Comparison of Category-wise Sale Revenues per Petition with DERR & Previous Year

Rs. In Million

Category	FY 2013-14	FY 2014-15		Inc./(Dec.) over DERR	
	FRR	DERR	The Petition	Rs.	%
Power	31,921	20,909	35,792	14,883	71
Cement	228	231	376	144	62
CNG Stations	18,672	15,394	18,541	3,148	20
HCPC	2,797	2,832	3,019	188	7
Commercial	6,279	6,125	6,415	290	5
Captive Power	40,858	42,170	42,344	174	0.41
General Industries	33,935	36,458	33,624	(2,835)	(8)
Domestic	16,109	28,406	17,090	(11,316)	(40)
Fertilizer - feed stock	1,592	2,926	1,651	(1,275)	(44)
DHA Desalination Plant	1	1,456	1	(1,455)	(100)
Naudero Rental Power	0.20	1,024	0.20	(1,024)	(100)
Al-Tuwairqi Steel	149	3,314	1	(3,313)	(100)
Total	**152,542**	**161,244**	**158,853**	**(2,390)**	**(1)**

7.2.2 The Authority observes that decrease in sale revenue for the said year, as compared to DERR, is due to reasons mentioned in paras 7.1.2 to 7.1.3 above.

7.2.3 ***The Authority accepts sales revenue at existing prescribed prices at Rs. 158,853 million for the said year.***

7.3 Other Operating Income

i. Summary

7.3.1 The petitioner has claimed other operating income at Rs. 4,012 million in petition as against Rs. 14,322 million provided per DERR for the said year. Detailed comparative breakup is appended below:

Table 11: Comparison of Other Operating Income per Petition with DERR & Previous Year

Rs. in million

Particulars	FY 2013-14	FY 2014-15		Inc./(Dec.) over DERR	
	FRR	DERR	The Petition	Rs.	%
Notional income on IAS provision	320	307	456	149	49
Sale of Gas condensate - shrinkage cost	417	98	124	26	27
Other income	666	702	904	202	0.29
Meter rentals	682	703	700	(3)	(0.43)
Amortization of deferred credits	403	428	403	(25)	(6)
Sale of LPG	3,850	5,915	1,040	(4,875)	(82)
Sale of NGL	-	3,405	385	(3,020)	(89)
Gas transportation charges	-	71	-	(71)	(100)
Revenue from JJVL	4,524	2,693	-	(2,693)	(100)
Operating Revenue	**10,862**	**14,322**	**4,012**	**(10,310)**	**(72)**

7.3.2 The petitioner has treated LPS (Rs. 1,088 million), MMP (Rs. 90 million) and income from sale of gas condensate (Rs. 193 million) as non-operating incomes in the instant petition in

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line with the interim stay granted by the honorable SHC.

7.3.3 The Authority notes that the petitioner has decided not to recognize LPS on outstanding balance receivable from Pakistan Steel Mills & Karachi Electric (KE) in the financial statements for the said year. Plausible justification was sought from the petitioner, which it failed to provide based on the stance that the same is under management's review. The Authority observes that the matter in respect of LPS is also subjudice and interim stay is infield for the said year. *Therefore, the Authority, in accordance with interim relief granted by the honourable SHC, decides to treat LPS (Rs. 1,088 million), MMP (Rs. 90 million) & income from sale of condensate (Rs. 193 million) as non-operating for the said year on provisional basis, subject to final decision of honorable SHC.* However, on the announcement of final judgment by the honorable High Court, this order of the Authority may be altered, amended or rescinded accordingly.

7.3.4 The Authority notes that the honorable Supreme Court in its decision dated December 04, 2013 has constituted a committee for the settlement of disputed amount of royalty & freight from JJVL. However, freight cost dispute has yet not finalized. *In view of the same, the Authority emphasizes on the early finalization of pending amount pertaining to freight to be received by petitioner from JJVL, and directs the petitioner to submit updated status <u>within two (02) months of the issuance of this Order</u>.*

ii. Income from Sale of LPG /NGL

7.3.5 The petitioner has reported an income of Rs. 4,904 million & Rs. 2,644 million from sale of LPG & NGL respectively. The petitioner has offered shrinkage cost of Rs. 1,040 million & Rs. 385 million in respect of LPG & NGL respectively as an operating income for the said year.

7.3.6 The petitioner has submitted that certain incomes which it derives from its operations over and above those for which it has been granted a license by OGRA cannot be counted as its "operating" or "regulated" income and therefore these incomes cannot be subjected to the tariff determination process. The petitioner has further added that the license granted to petitioner is for "operations" in the areas of transmission, distribution and sale of natural gas and these are the total "regulated activities" for the purposes of the license.

7.3.7 The petitioner sells LPG / NGL extracted from different fields gases, utilizing the extraction facility of JJVL. It has stated that LPG is recognized as a fuel distinct from natural gas, both as per its chemical formula and as per the law. As a consequence of this, any income derived from LPG/NGL cannot be treated as operating income for the purposes of tariff determination. Further, the argument for treating sale of LPG as non-operating income is the same as of sale of gas condensate, which the honourable SHC had accepted.

7.3.8 The petitioner, in response to the Authority's queries, has informed that NGL is being tendered by it for export purposes only, keeping in view the limited potential in the local market. However, as an interim arrangement M/s JJVL has quoted price equivalent to senipah less 15.9% discount through competitive bidding process.

7.3.9 The Authority, on the basis of information provided by the petitioner, notes that regarding sale of gas condensate from Badin field, GoP had allowed to charge / invoice condensate at ICP Senipah. However, in the instant matter, no such approval / consent of NGL pricing was taken by the petitioner from GoP. Moreover, it is also observed that tender inquiry is pending for last three years, while the petitioner has entered into MoU, as an interim arrangement with M/s JJVL, which has raised many questions.

7.3.10 The Authority, however, has already deliberated the matter of sale of LPG & NGL in its decision of FRR for FY 2013-14. ***In view of the same as well as on the basis of available information, the Authority maintains its earlier decision in respect of treating entire income generated from sale of LPG & NGL as operating income.*** *The Authority as per observation at para 7.3.9 above, directs the petitioner to complete tendering process for extraction of LPG & NGL on immediate basis, rather than extending its MoU with JJVL since 2012 onward. It is further directed that the petitioner must take into account all the observations raised by honorable Supreme Court in its decision dated December 04, 2013 in true letter & spirit, while finalizing its agreement with JJVL or any other party for extraction of condensate, LPG & NGL. Moreover, the petitioner is directed to refer its case for sale of NGL to GoP for necessary directives w.r.t price, potential buyer and etc, as was being done in case of sale of condensate.*

7.3.11 ***In view of above, the Authority includes Rs. 4,904 million & Rs. 2,644 million, being net sale received from sale of LPG & NGL respectively as operating income for the said year.***

iii. *Other Income*

7.3.12 The petitioner has reported other income for the said year at Rs. 1,359 million as against Rs. 1,009 million in DERR (i.e. increase by 35%). Detailed breakup with comparison is as under:

Table 12: Comparison of Other Income per Petition with DERR and Previous Year

Rs. in million

Particulars	FY 2013-14	2014-15		Inc./(Dec.) over DERR for FY 2014-15	
	FRR	DERR	The Petition		%
Profit on disposal of fixed assets	35	-	29	29	100
Interest income on loan related to parties		125	-	(125)	(100)
Interest income from SSGLC LPG PVT Ltd		7	-	(7)	(100)
Liquidated damages recovered	5	8	9	1	11
Income from new service connections	239	323	491	168	52
Income from sale of net investment in finance lease	191	167	156	(11)	(7)
Recoveries from consumers	79	45	72	27	59
Income from sale of tender documents	3	2	6	4	189
Income from pipeline construction	79	-	105	105	100
Advertising Income	6	6	5	(1)	(10)
Notional income on IAS 19 provision	320	307	456	149	48
Others	30	18	32	14	75
Total Other Income	**986**	**1,009**	**1,359**	**350**	**35**

7.3.13 *The Authority accepts other income at Rs. 1,359 million for the said year.*

7.3.14 *In view of the above, the Authority determines operating revenues at Rs. 10,135 million as against Rs. 4,012 million for the said year, as tabulated below:*

Table 13: Operating Revenues as Determined by the Authority

Rs. in million

Particulars	FY 2014-15	
	The Petition	Determined by the Authority
Sale of Gas condensate - shrinkage cost	124	124
Other income	1,359	1,359
Meter rentals	700	700
Amortization of deferred credits	403	403
Sale of LPG	1,040	4,904
Sale of NGL	385	2,644
Operating Revenue	**4,012**	**10,135**

8. LPG Air-Mix Project

8.1 The petitioner has claimed subsidy of Rs. 552 million on account of its LPG Air-Mix project for the said year. The breakup of subsidy for the said year is as under:

Table 14: Calculation of Subsidy for Air Mix LPG Project

Rs in Million

DESCRIPTION	Gawadar	Noshki	Kot Ghulam Muhammad	Surab	TOTAL
Net Sales Revenue	3	4	6	8	21
Cost of Gas	36	143	87	103	370
Gross Profit	(33)	(139)	(81)	(96)	(349)
Operating Cost	37	18	10	21	86
Shortfall in Revenue	(70)	(157)	(91)	(117)	(435)
Revenue Requirement					
Annual Natural Gas Sales Volume-	354,984	354,984	354,984	354,984	354,984
Shortfall-LPG Operations	70	157	91	117	435
17% Return on Assets	12	33	38	33	116
Total Shortfall	**82**	**190**	**130**	**150**	**552**
Price Increase per MMBTU	0.28	0.38	0.40	0.37	1.43

8.2 *Keeping in view the submissions of the petitioner in the matter, the Authority accepts subsidy on account of LPG air-mix assets at Rs. 552 million for the said year. However, the Authority reiterates its directions issued as per para 8.2 of SSGCL's decision of FRR for FY 2012-13 in respect of feasibility study including specific parameters / priorities for undertaking these projects.*

9. Operating Expenses

9.1 Cost Of Gas

9.1.1 Cost of gas per petition is Rs. 156,030 million (net of GIC), compared with Rs. 143,283 million determined in DERR, increase of Rs. 12,747 million (9%).

9.1.2 The Authority had determined input cost of gas on the basis of weighted average cost of gas purchased by petitioner and SNGPL at Rs. 345 per MMBTU in DERR in accordance with the agreement for equalization of cost of gas dated 22nd September, 2003, between these two companies. On basis of their actual audited results, weighted average of input cost of gas for the said year works out at Rs. 365.90 per MMBTU as under:

Table 15: Weighted Average Cost of Input Gas

Company	MMCF	BBTU	Rs in million	Rs/ MMBTU
SSGCL	436,613	429,548	196,023	456.35
SNGPL	526,905	496,417	142,789	287.64
Total	**963,518**	**925,965**	**338,812**	**365.90**

9.1.3 WACOG has now been computed based on payments actually made by petitioner and

SNGPL for purchase of gas in accordance with wellhead gas prices as notified by Authority.

9.1.4 ***Accordingly, the Authority accepts cost of gas sold at Rs. 156,030 million for the said year.***

9.2 Unaccounted for Gas

9.2.1 The petitioner has reported UFG at 6.65% (28,861 MMCF) for the said year, as follows:

Table 16: Comparison of UFG per the petition with DERR

MMCF

Particulars	2013-14	FY 2014-15
	FRR (The Petition)	The Petition
Gas Available for Sales	422735	433,799
Gas Sales	393304	404,938
UFG Volumes	29,431	28,861
UFG %	**6.96%**	**6.65%**

9.2.2 The petitioner while calculating UFG has also included gas volume (24,305 MMCF) on account of Bulk Retail Ratio; pilfered volume detected against non-consumers (10,420 MMCF); un-billed pilfered volume in law & order affected areas (2,355 MMCF) and gas delivered to SNGPL as per GoP decision under SWAP arrangement (1,086 MMCF) as part of deemed sale for the said year.

9.2.3 The petitioner has mentioned that the prevailing law & order situation in Quetta has adversely affected company's efforts in controlling UFG where law and order is deteriorating day by day. The petitioner's officials and contractors are receiving life threats and are unable to perform their duties like meter reading, meter change activity, regular maintenance etc. Specifically, this situation is dominant in Sariab region where UFG volume is 55% due to theft of gas, tampering of meters, leakages and faulty meters. The UFG when compared to relatively calm area in Quetta city (Cantt. region) is in the range of 13%. Based on these factors considering company's inability to effectively bill its consumers and operate and maintain its network in Sariab region, the petitioner has included the unbilled volume over and above the normal UFG volume in law and order affected areas in Quetta (2,355 MMCF) as an adjustment to UFG volumes. These are SMS volumes, net of billing recovered.

9.2.4 The petitioner has claimed 2,355 MMCF in respect of law and order in Sariab region of

Quetta against 1,286 MMCF; 1,950 MMCF & 2,279 MMCF claimed by it in the FY 2011-12, FY 2012-13 & FY 2013-14 respectively. The Authority advised the petitioner in the decision of Motion for review of FRR for FY 2011-12, to make efforts to decrease this volume, but instead of decrease, 83% increase has been claimed by the petitioner.

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

9.2.6 The ECC of the Cabinet, vide its decision dated 20th November, 2014, decided to provisionally allow Volume consumed in law and order affected areas.

9.2.7 Keeping in view the Policy Guidelines of the FG and the current Law & Order situation in the country, the Authority provisionally allows 75 % (1,766 MMCF) of the claimed volume subject to the condition that: -

(i) Since Law and Order is a Federal and Provincial subject, the FG shall specify the Law and Order affected areas. As regards, 25 % (589 MMCF) of the claimed volume, GoP is requested to arrange funding from its own resources or from the Royalty of the concerned province.

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

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

9.2.9 The petitioner has claimed a volume of 10,420 MMCF in respect of gas pilfered by non-consumers against 2,059 MMCF, 6,387 MMCF & 8,774 MMCF as claimed by it for the years 2011-12, 2012-13 & 2013-14 respectively. The Authority observes that volume pilfered by non consumers (10,420 MMCF) has exponentially increased by 406% as compared to the volume claimed in the Motion for review of FRR for FY 2011-12. The petitioner also did not comply with the policy guidelines conveyed to it vide MP&NR's letter No. DGO (AC)-5 (26)/2012-13 Vol II Pt dated June 20, 2013, Para- 21 (e) of its summary states that "Both the companies must cooperate with OGRA and protect the pipelines on war footing to reduce UFG instead of litigating in courts."

9.2.10 The Authority also observes that MP&NR vide its letter dated July 17, 2013, gave guidelines to both the companies for dealing with theft of gas including that with regards to satisfaction of civil liabilities (recovery of value of gas stolen), the company will file recovery suit in civil court as per existing law/ procedure under Code of Civil Procedures 1908 (CPC). The Authority notes that the petitioner is not fully complying with the directions of the MP&NR though the petitioner is working under the administrative control of the FG.

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

9.2.12 The Authority is of the view that in the Ordinance there is no provision which fixes the responsibility of recovery of stolen gas upon OGRA. It is a regulatory body entrusted with the fostering of competition, increase private investment and ownership in the mid-stream and down-stream petroleum industry, protect the public interest and provide effective and efficient regulations. Whereas, Rule 30 of Licensing Rules sets out a function to be performed by OGRA, which is neither envisaged in the preamble of the Ordinance nor finds its place in the powers and functions of OGRA as entrusted under section 6 of the

Ordinance. Therefore, recovery of stolen gas does not resonate with functions of OGRA and OGRA cannot act as a Regulator and executing agency simultaneously. Further the established principle of law is that the delegated legislation cannot be ultra vires of the parent statue and if such is the case, the Rule must be deleted void. Para- 21 (g) of the Policy Guidelines conveyed vide MP&NR's letter No. DGO (AC)-5 (26)/ 2012-13 Vol II Pt dated June 20, 2013, states that "Government, Companies as well as OGRA must propose relevant amendments in law, if they feel handicapped in the discharge of their functions, within the ambit and purview of law and constitution." Therefore relevant amendment in Rule 30 of Licensing Rules has been proposed and is pending with the FG. Moreover, in international jurisdictions, the responsibility of curbing gas theft and making arrangements for its recovery is also placed on the gas suppliers. In addition to the above, in terms of licence Condition No. 20, company/ licensee is responsible to control the gas theft.

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

9.2.14 The Authority is of the view that there are sufficient legal provisions available for the petitioner in Criminal Amendment Act, 2011 and guidelines for dealing with theft cases by MP&NR in 2013 vide letter No. NG(1)-14(52)/2011-Vol-I-GA dated July 17, 2013. It should increase its efforts and extensively work on vigilance of the pipeline network to curb this menace. The Authority, in its determination of FRR for FY 2012-13, had capped the volume at the maximum limit of 6,387 MMCF as claimed for FY 2012-13 and onwards. ***Keeping in view the policy guidelines of the FG and in view of the preceding paragraphs, the Authority provisionally allows 5,110 MMCF (i.e. 80% of the volume claimed for FY 2012-13 against this head) subject to the conditions that: -***

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

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

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

(c) Further the petitioner is directed to proceed vigorously against the pilferers as per applicable laws mentioned above for recovery of stolen/ pilfered volumes. The petitioner shall comply with all the directions as referred to above and shall put in all efforts to control the menace of non-consumers through strict administrative control on its officers and staff and shall pursue them. The petitioner is also directed to show downward trend in this volume.

(d) The petitioner may file a review for balance volumes in this head with the commitment to follow the directions of MP&NR and the Authority.

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

9.2.15 The petitioner has claimed an impact of 24,305 MMCF on account of Bulk Retail Ratio in the petition. The FG also issued policy guidelines dated 20-11-2014 in respect of Bulk to Retail ratio. It is pertinent to mention here that Bulk Retail Ratio shifted primarily due to Development Schemes on the directives of the FG to the Gas Companies which further aggravated due to shortfall of gas supply. The Authority has, therefore, not previously allowed any volume in this regard and previous decisions are self explanatory in this regard. ***Keeping in view the legal provisions as in Para-1 (IV) of the policy guidelines of the FG and the matter in totality, the Authority disallows the volume under this head and the same would be considered once the UFG study is completed.***

9.2.16 The petitioner has stated that under the existing scenario of Re-gasified Liquid Natural Gas (RLNG) injection on behalf of third parties the company is obligated to deliver at the exit point the energy content (BTU) equivalent to BTU injected into system at the entry point. When high BTU RLNG commingles with low BTU indigenous gas, more gas in volumetric terms is needed (owing to differential between the GCVs of indigenous gas and RLNG). These volumes are in addition to the volumes injected into transporters system. As a result, the overall UFG of the company increases in volumetric terms as it would reduce sale to existing consumers whereas additional volumes transported to RLNG end consumers. Owing to the above fact the petitioner is of the view that additional volumes of gas delivered to third party for making up the requisite BTU should be treated as deemed sales. This position has been endorsed by ECC as communicated by MP&NR through its letter dated 23-06-2015 in respect of Allocation, Pricing of RLNG and associated matters. During the year under review the petitioner received RLNG from Engro Elengy Terminal Private Limited (EETPL) and transferred natural gas to SNGPL under Swap arrangement. The GCV of RLNG obtained from EETPL is higher than that of natural gas transferred to SNGPL which resulted in additional supply of 1,086 MMCF gas to SNGPL, the same is included as deemed sales in UFG working of the petitioner.

9.2.17 *The Authority, in view of the justifications furnished by the petitioner in Para 9.2.16 above and policy guidelines of the FG, allows a volume of 1,086 MMCF delivered to SNGPL, in excess of the volume received from EETPL due to BTU differential, under Swap arrangement as deemed sales for the calculation of UFG disallowance.*

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

Table 17: Calculation of UFG Adjustment

MMCF

Particulars	The Petition	Determined by the Authority
Gross Purchases	434,779	434,779
Gas Consumed Internally - metered	825	825
(Inc.)/Dec. Gas in pipeline	19	19
Loss due to sabotage activity / ruptures - unmetered	137	137
Sub total	981	981
Available for Sale (A)	433,798	433,798
Gas Sales	362,510	362,510
Additional Gas Delivered to SNGPL as per GoP decision under SWAP arrangement	1,086	1,086
Add: Volume due to Bulk to Retail Ratio	24,305	-
Add: Unbilled pilfered volume in law & order affected areas	2,355	1,766
Add: Pilfered volume detected against non-consumer	10,420	5,110
Add: Gas Shrinkage at LPG/NGL Plant (JJVL)	3,997	3,997
Add: Gas Shrinkage at Condensate (LHF)	266	266
Total Gas Sales (B)	404,939	374,735
Gas Unaccounted For (A - B)	28,859	59,063
Gas Unaccounted For (%)	6.65%	13.62%
Benchmarks 7% as per court stay	-	30,366
Disallowed volume (MMCF)	-	28,697
Avg. MMBTU/MCF		0.9792
Disallowed volume (MMBTU)	-	28,101
WACOG-Rs Per MMBTU		365.90
UFG Adjustment - (Rs. Million)		10,282

9.2.19 ***Based on the above computation, the Authority provisionally deducts Rs. 10,282 million from the revenue requirement of the petitioner for the said year. However, on the announcement of final judgment by the respective High Court, this order of the Authority may be altered, amended or rescinded accordingly.***

9.3 Transmission & Distribution (T & D) Cost

i. Summary

9.3.1 The petitioner has claimed that T&D cost has increased by 30% i.e. from Rs. 11,960 million provided in DERR to Rs. 15,602 million, as compared below:

Table 18: Comparison of T & D Cost per the Petition with DERR & Previous Year

Rs. in Million

Particulars	FRR	DERR	The Petition	Inc./(Dec.) over DERR	
	FY 2013-14	FY 2014-15			%
Salaries, wages, and benefits at benchmark	9,229	9,731	11,076	1,345	14
Advertisement	102	99	116	17	17
Legal charges	46	57	61	4	8
Provision for doubtful debts	506	200	1,828	1,628	814
Impairment of Capital WIP	51	-	-	-	-
License & Tariff Petition Fee to OGRA	125	153	152	(1)	(1)
Gas bills collection charges	164	172	164	(8)	(4)
Security expenses	326	415	392	(23)	(6)
Stores, spares and supplies consumed	677	957	739	(218)	(23)
Insurance	101	120	108	(12)	(10)
Meter reading by contractors	50	83	59	(24)	(29)
Repairs & maintenance	1,176	917	1,420	503	55
Postage & revenue stamps	63	82	76	(6)	(8)
Rent, rate & taxes	109	165	261	96	58
Material used on consumers installations	36	60	16	(44)	(73)
Traveling	105	132	109	(23)	(17)
Gas bills stubs processing charges	11	22	13	(9)	(39)
Electricity	177	202	184	(18)	(9)
Collecting agent commission	1	4	-	(4)	(100)
Professional charges	25	27	31	4	14
Others	122	134	130	(4)	(3)
Others (NGEP) Training & Pilot Project	-	-	1	1	100
Revenue expenditure relating to LNG	12	42	47	5	11
SSGCL Share in ISGSL expenses	71	171	84	(87)	(51)
Sub-total Cost	**13,285**	**13,945**	**17,069**	**3,124**	**22**
Less: Recoveries / Allocations	2,072	2,160	1,813	(347)	(16)
Net T&D Cost before GIC	**11,213**	**11,786**	**15,255**	**3,469**	**29**
Add: Gas consumed internally	212	174	297	123	71
Loss due sabotage activity	122	-	49	49	100
Net T&D	**11,547**	**11,960**	**15,602**	**3,642**	**30**

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

ii. Human Resource (HR) Cost

9.3.2 The petitioner has claimed actual HR cost for the said year at Rs. 11,076 million. The petitioner has argued that benchmark set by the Authority does not cater for its actual needs, and requested to allow 100% CPI and rolling year base year. The petitioner has further requested to allow cost on account of Temporary Assignees (TA) over & above the HR benchmark formula.

9.3.3 The petitioner has requested to include additional volumes of 1,086 MMCF being volume handled under swap arrangement. The petitioner has informed that it has inadvertently reported its T&D network for FY 2013-14 at 46,364 km. The same has now been corrected at 46,453 km.

9.3.4 The Authority notes that despite reduction in number of employees by 137, the petitioner has reported 20% increase over actual expenditure for FY 2013-14 (Rs. 9,214 million). On detailed scrutiny, the Authority observes that HR cost on account of subordinate staff has been increased by over 30%, which is on a very high side, keeping in view the fact that overall inflation remained around 4-5% during the said year. Further, cost on account of TAs & CBA has already been made part of base year cost. Accordingly, reasonable increase is being allowed to the petitioner based on HR cost parameters in order to cater for genuine HR requirements. The Authority observes that existing benchmark has already provided reasonable increases to both gas utilities effective FY 2011-12 onward. Therefore, any expenditure incurred over & above the HR benchmark cost is not justified and points towards unnecessary excessive spending.

9.3.5 ***In view of above, the Authority, based on existing HR cost benchmark parameters in determines HR benchmark cost for said year computes at Rs. 10,440 million as per Annex-C.***

iii. Provision for Doubtful Debts

9.3.6 The petitioner has claimed Rs. 1,828 million at minimum 1% of sales on account of provision for doubtful debts as per the decision of ECC of the Cabinet dated 20th November, 2014.

9.3.7 The Authority notes that it had introduced the benchmark in respect of provision for doubtful debts in its decision of DERR for the said year, wherein no provision was allowed against unsecured debts having age upto 3 months. Contrarily, the petitioner has created provision for unsecured debts having age upto 3 months. Regarding position at 1% of sales, the Authority observes that it does not account for the basic factors necessary to be considered while allowing the cost under this head. The Authority further notes that initialed accounts of the petitioner for the said year also reports Rs. 974 million on account of provision for doubtful debts against disconnected & domestic live consumers. Therefore, the claim of the petitioner is on very high side and not as per the accounting practices.

9.3.8 *The Authority, in the light of said benchmark, recalculates provision for doubtful debts and determines the same against disconnected consumers at Rs. 547 million (i.e. Rs. 455 million for Domestic, Rs. 82 million for Commercial & Rs. 10 million for Industry) for the said year. The Authority reiterates its directions to actively follow the GoP's directives in respect of effective recovery mechanism in natural gas sector.*

iv. Repair & Maintenance

9.3.9 The petitioner has incurred an amount of Rs. 1,420 million on account of repair and maintenance, which is on higher side as compared to provisionally allowed amount of Rs. 917 million in DERR for the said year.

9.3.10 The petitioner has, however, clarified/justified that as against its claim of Rs.1,917 million in ERR for the said year, the Authority allowed Rs. 917 million only, disallowing the entire amount of Rs. 1,000 million for activities (Coating & Wrapping and underground/overhead leak survey and rectification) projected under the head of NGEP. The petitioner has pleaded that owing to the fact that implementation of NGEP has been delayed on account of World Bank conditionalities, normal repair and maintenance programme is carried out to arrest the increasing UFG, therefore, any disallowance on this account is not justified. The petitioner also presented a statement showing actual expenditures incurred for previous five years under this head that depicts that the allowed amount of Rs. 917 million for the said year is even 9% less than the amount allowed in FY 2011-12 i.e. 3 years back. At an average the actual amount incurred during the said year is only 13% high as compared to FY 2011-12.

9.3.11 *Keeping in view the above justification, the Authority allows expenditure amounting to Rs. 1,420 million under the head of Repair & Maintenance for the said year.*

v. Rent, Rates & Taxes

9.3.12 The petitioner has reported rent, rate & taxes at Rs. 261 million for the said year as against

Rs. 165 million provided in DERR for the said year, showing an increase of 58%, as tabulated below

Table 19: Comparison of Rent, rate & taxes per the Petition with DERR & Previous Year

Rs. in Million

Particulars	FRR	DERR	The Petition	Inc./(Dec.) over DERR	
	FY 2013-14	FY 2014-15		Rs.	%
Rent	80	130	106	(24)	(18)
Royalty	0.704	3	0.976	(2)	(67)
Others	28	32	153	121	379
Total	109	165	261	96	58

9.3.13 The petitioner has explained that out of Rs. 153 million reported under the sub-head of "others", Rs. 119 million has been incurred on account of provisional payments to Pakistan Railway (PR) relating to lease / rentals for its gas pipelines crossing railway lines in its franchise area for the period from FY 2002-03 to FY 2014-15. It has further informed that Rs. 720,000 per crossing was paid to PR for 165 crossings.

9.3.14 The Authority observes that the petitioner has booked expenses to previous 12 years in the said year without citing any tangible justification for such delayed payments to PR. It is observed that claim of PR have been raised much earlier, but agreement on rates could not be reached. In view of this fact, the petitioner, as a prudent practice, should have settled this issue well in time, or otherwise a reasonable provision must have been created to avoid heavy impact in one particular year. The Authority further observes that per rate crossing rate seems to be on higher side, which should be negotiated to reasonable level with PR. In view of the same, the Authority allows 50% of the expenditure under this head i.e. Rs. 60 million as part of revenue requirement for the said year. ***Accordingly, the Authority determines rent rates and taxes at Rs. 201 million for the said year.***

*vi. **Advertisement***

9.3.15 The petitioner has reported advertisement expenses at Rs. 116 million for the said year as against Rs. 99 million allowed as per DERR for the said year. The breakup of the same is as under;

Table 20: Comparison of Advertisement per the Petition with DERR & Previous Year

Rs. in Million

Particulars	FY 2013-14	FY 2014-15		Inc./(Dec.) over	
	FRR	DERR	The Petition	DERR	
Consumer Education	60	44	67	23	52
Corporate Image Building	10	9	8.76	(0.24)	(3)
Operational	31	45	38	(7)	(0.16)
Environmental	0.20	1	-	(1)	(1)
Govt. Image Building	-	-	2	2	100
Total	102	99	116	17	17

9.3.16 The petitioner has submitted that it has been able to generate positive trend and concrete results in terms of reduction in number of incidents reported owing to suffocation, increased complaints for gas leakages/theft and keeping / managing gas bills at lower side. However, substantial time and periodical revision is required in order to grab the attention of public. Also, known TV channels maintain a much higher tariff. The petitioner has further informed that after the promulgation of 'Criminal Law Amendment Act 2011', it has reinforced targeted actions. Similarly, in adherence to OGRA directives, advertisement for customer awareness has also increased in last two or three years.

9.3.17 The Authority has always appreciated petitioner's extensive efforts in respect of media campaigns for educating consumers. The Authority has always emphasized on consumer education with measurable benefits derived from these media campaigns. However, continuous increase (i.e. 52%) under the sub-head of consumer education is not desirable. The Authority is of the view that there is a tough competition between the media. Therefore, the petitioner should negotiate / bargain reasonable tariff / rates while launching its media campaign. Moreover, other cost effective measures including SMS, emails, signboards during high consumption months, consumer awareness messages on related official websites, gas bills can be used for consumer awareness. The petitioner can also utilize / deploy its TAs to educate consumers about natural gas usage, conservation, managing bills lower side & other safety measures, etc. ***Accordingly, the Authority decides to restrict expense against "consumer education" at Rs. 60 million i.e. at the level of FY 2013-14, and fixes advertisement expense at Rs. 109 million for the said year.***

vii. Remaining Items of T & D Cost

9.3.18 Expenditure on remaining items of T & D cost, which have not been discussed above, is Rs. 2,367 million as against Rs. 2,833 million provided in DERR for the said year, as detailed below:

Table 21: Summary of Remaining T & D Expenses per the Petition with DERR & Previous Year

Rs. in Million

Particulars	FRR	DERR	The Petition	Inc/(Dec.) over DERR	
	FY 2013-14	FY 2014-15			%
Legal charges	46	57	61	4	8
Revenue expenditure relating to LNG	12	42	47	5	11
Professional charges	25	27	31	4	14
Impairment of Capital WIP	51	-	-	-	-
License & Tariff Petition Fee to OGRA	125	153	152	(1)	(1)
Gas bills collection charges	164	172	164	(8)	(4)
Security expenses	326	415	392	(23)	(6)
Stores, spares and supplies consumed	677	957	739	(218)	(23)
Insurance	101	120	108	(12)	(10)
Meter reading by contractors	50	83	59	(24)	(29)
Postage & revenue stamps	63	82	76	(6)	(8)
Material used on consumers installations	36	60	16	(44)	(73)
Traveling	105	132	109	(23)	(17)
Gas bills stubs processing charges	11	22	13	(9)	(39)
Electricity	177	202	184	(18)	(9)
Collecting agent commission	1	4	-	(4)	(100)
Others	122	134	130	(4)	(3)
Others (NGEP) Training & Pilot Project	-	-	1	1	100
SSGCL Share in ISGSL expenses	71	171	84	(87)	(51)
Remaining T&D expenses	**2,163**	**2,833**	**2,367**	**(466)**	**(16)**

9.3.19 ***The Authority accepts remaining items of T&D cost at Rs. 2,367 million.***

viii. Gas Internally Consumed & Loss due to Sabotage Activities

9.3.20 The petitioner has claimed Rs. 297 million (825 MMCF) on account of GIC-metered as against Rs. 174 million (529 MMCF) provisionally allowed at the time of DERR for the said year. The petitioner has also claimed Rs. 49 million (137 MMCF) on account of loss due to sabotage activity/ruptures for the said year.

9.3.21 The petitioner has stated that in its petition for DERR for the said year, the gas off-takes from Khipro Block (Naimat Basal field) were estimated at 39 MMCFD. Accordingly, compression was not considered at Compressor Station-C (Location HQ-3), as it was expected that gas will flow without compression. As against the projected volume of 39 MMCFD during the period, actual gas off-takes remained at an average of 77 MMCFD i.e. 97% increase was reported. As a result of increasing gas availability at upstream of HQ-3, there was an operational requirement of compression to flow more gas to consumption centers.

9.3.22 ***Keeping in view the above justification, the Authority accepts the GIC and loss due to sabotage activities at 962 MMCF, and accordingly includes Rs. 347 million on these accounts for the said year.***

9.3.23 *The Authority, in view of the discussion & decision in paras 9.3.2 and 9.3.22 determines* *total Transmission and Distribution cost at Rs. 13,618 million as against Rs. 15,602 million claimed by the petitioner for the said year, the break up is as under;*

Table 22: T&D cost Determined by the Authority

Rs. in million

Particulars	The Petition	Determined by the Authority
Salaries, wages, and benefits at benchmark	11,076	10,440
Repairs & maintenance	1,420	1,420
Provision for doubtful debts	1,828	547
Advertisement	116	109
Rent, Rate & Taxes	261	201
Remaining Items of T&D	2,367	2,367
Sub-total	17,069	15,085
Less: Recoveries / Allocations	1,813	1,813
Net T&D Cost before GIC	**15,255**	**13,271**
Add: Gas consumed internally	297	297
Loss due sabotage activity	49	49
Total Transmission & Distribution Cost	**15,602**	**13,618**

10. Shortfall Related to Prior Year

10.1 The petitioner has included Rs. 45,345 million in the instant petition, being shortfall pertaining to previous years as part of revenue requirement for the said year. The Authority notes that decision for FRR for FY 2013-14 has now been issued, wherein shortfall has been determined at Rs. 17,773 million. *Accordingly, the Authority includes Rs. 17,773 million being shortfall pertaining to previous year as part of revenue requirement for the said year.*

11. Workers Profit Participation Funds (W.P.P.F) including Other Charges

11.1 The petitioner has claimed Rs. 2,550 million on account of W.P.P.F including other charges & change in accounting policy (IAS-19) by IASB for the said year. *Consequent upon the deduction / adjustments in various components of revenue requirement as discussed above, the Authority determines W.P.P.F including other charges at Rs. 2,169 million for the said year.*

12. Decision

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

12.1.1 **determines gross addition in fixed assets at Rs. 5,683 million and depreciation charge at Rs. 4,727 million;**

12.1.2 **determines balance of average net operating fixed assets (net of deferred credits, MMP & LPG Air mix) at Rs. 46,296 million. Consequently, the return required by the petitioner on its average net operating fixed assets is determined at Rs. 7,870 million;**

12.1.3 **accepts subsidy on account of Air-mix LPG at Rs. 552 million;**

12.1.4 **determines other operating income at Rs. 10,135 million;**

12.1.5 **accept cost of gas at Rs. 156,030 million;**

12.1.6 **determine UFG disallowance at Rs. 10,282 million at 7% benchmark in line with the interim stay granted by honorable SHC;**

12.1.7 **determine T&D expenses at Rs. 13,271 million as against Rs. 15,255 million claimed by the petitioner;**

12.1.8 **determine shortfall pertaining to previous year at Rs. 17,773 million;**

12.1.9 **accept GIC at Rs. 347 million including loss due to sabotage activities;**

12.1.10 **determine other charges including W.P.P.F. to Rs. 2,169 million as against Rs. 2,550 million claimed by the petitioner; and**

12.2 In exercise of powers under Section 8(2) of Ordinance, Authority determines final revenue requirement of petitioner for said year at Rs. 192,457 million as against petitioner's claim of Rs. 231,004 million, as tabulated below:

Table 23: Components of FRR as Determined by the Authority

Rs. in million

S.No	Particulars	Claimed by the Petitioner	Determined by the Authority
1	Cost of gas sold	156,030	156,030
2	UFG adjustment	-	(10,282)
3	Transmission and distribution cost	15,255	13,271
4	Gas internally consumed	347	347
5	Depreciation	4,753	4,727
6	Other charges including WPPF	2,550	2,169
7	Return on net average operating fixed assets	7,973	7,870
8	Additional revenue requirement for Air-Mix LPG Projects	552	552
9	Shortfall related to prior Year	43,545	17,773
	Total Final Revenue Requirement	**231,004**	**192,457**

12.3 **The petitioner's actual net operating income is Rs. 168,988 million and thus there is a shortfall of Rs. 23,468 million, vis-à-vis its revenue requirement of Rs. 192,457 million for the said year. The Authority decides to carry forward entire shortfall in next financial year. Average prescribed price for each category of consumers comes to Rs. 513.61/ MMBTU. Revised prescribed prices for each category of retail consumers for the said year, based on applicable gas prices fixed by FG, are attached and marked Annexure-B.**

(Noorul Haque)
Member (Finance)

(Aamir Naseem)
Member (Gas)

(Saeed Ahmad Khan)
Chairman

Islamabad, November 27, 2015

REGISTRAR
Oil & Gas Regulatory Authority
Islamabad

A. Final Revenue Requirement for FY 2014-15

ANNEXURE - A

Rs. in Million

	Particulars	The Petition	The Adjustment	Determined by the Authority
	Gas sales volume -MMCF	362,510		362,510
	BBTU	354,984		354,984
"A"	**Net Operating Revenues**			
	Net sales at current prescribed price	158,853	-	158,853
	Meter rentals	700	-	700
	Amortization of deferred credit	403	-	403
	Sale of gas condensate - shrinkage cost	124		124
	Sale of LPG	1,040	3,865	4,904
	Sale of NGL	385	2,259	2,644
	Other operating income	1,359	-	1,359
	Total Operating Revenue "A"	162,865	6,123	168,988
"B"	**Less: Operating Expenses**			
	Cost of gas	156,030	-	156,030
	UFG Adjustment	-	(10,282)	(10,282)
	Transmission and distribution cost	15,255	(1,984)	13,271
	Gas internally consumed	347	-	347
	Depreciation	4,753	(26)	4,727
	Change in accounting policy (IAS 19) by IASB	780	-	780
	Other charges inlcuding WPPF	1,770	(380)	1,389
	Total Operating Expenses "B"	178,934	(12,673)	166,262
"C"	**Operating profit (A-B)**	(16,069)	18,796	2,727
	Return required on net operating fixed assets:			
	Net operating fixed assets at beginning	52,561	(419)	52,142
	Net operating fixed assets at ending	53,664	(788)	52,877
		106,225	(1,207)	105,019
	Average net assets (I)	53,113	(603)	52,509
	Meter manu. Plant asset at beginning	126		126
	Meter manu. Plant asset at ending	170		170
		295	-	295
	Average net assets (II)	148	-	148
	Net LPG air mix project asset at beginning	711	-	711
	Net LPG air mix project asset at ending	655	-	655
		1,366	-	1,366
	Average net assets (III)	683	-	683
	Deferred credit at beginning - Assets related to Natural Gas Activity	5,449	-	5,449
	Deferred credit at ending - Assets related to Natural Gas Activity	5,317	-	5,317
		10,766	-	10,766
	Average net deferred credit (IV)	5,383	-	5,383
	"D" Average (I-II-III-IV)	46,899	(603)	46,296
	"E" 17% return required	7,973	(103)	7,870
	"F" Shortfall / (Surplus) in return required (E-C) (Gas Operations)	24,042	(18,899)	5,144
"G"	**Additional revenue requirement for Air-Mix LPG Projects**	552	-	552
	Total Shortfall / (Surplus) H=(F+G)	24,594	(18,899)	5,695
	Increase in average prescribed price effective (Rs. / MMBTU) w.e.f July 01, 2014	69.28	(53.24)	16.04
	Shortfall related to prior years (I)	43,545	(25,772)	17,773
	Total Shortfall / (Surplus) in revenue requirement J = (H+I)	68,139	(44,671)	23,468
	Increase in average prescribed price effective (Rs. / MMBTU) w.e.f July 01, 2014	191.95	(125.84)	66.11
	Final revenue requirement (B+E+G+I)	231,004	(38,547)	192,457
	Average Prescribed Price (Rs. per MMBTU)	639.44	(125.84)	513.61

B. Prescribed Prices for FY 2014-15

ANNEXURE - B

	Average Prescribed Prices w.e.f. July 01, 2014	w.e.f July 01, 2014
	Rupees per MMBTU	
(i) **Domestic Consumers:**		
a) Standalone meters		
b) Mosques, churches, temples, madrassas, other Religious Places and Hostels attached thereto;		
First slab (upto 100 cubic metres per month).	513.61	106.14
Second slab (Upto 300 cubic metres per month).	513.61	212.28
Third slab (over 300 cubic metres per month).	513.61	530.69
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	513.61	530.69
(ii) **Special Commercial Consumers (Roti Tandoors)**		
First slab (upto 100 cubic metres per month).	513.61	106.14
Second slab (Upto 300 cubic metres per month).	513.61	212.28
Third slab (over 300 cubic metres per month).	513.61	636.83
(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	513.61	636.83
(iv) **Ice Factories:** *All off-takes at flat rate of*	513.61	636.83
(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	513.61	488.23
(vi) **Captive Power :** *All off-takes at flat rate of*	513.61	573.28
(vii) **CNG Stations:** *All off-takes at flat rate of*	513.61	656.52
viii) **Cement Factories:** *All off-takes at flat rate of*	513.61	742.97
(ix) **Pakistan Steel** *All off-takes at flat rate of*	513.61	488.23
(x) **Fauji Fertilizer Bin Qasim Limited**		
(i) For gas used as feed-stock for Fertilizer (upto 60 MMCFD)	513.61	123.41
(ii) Additional allocation (10 MMCFD) Provisional	513.61	67.38
(iii) For gas used as fuel for generating steam and electricity and for usage in housing colonies for fertilizer factories	513.61	488.23
(xi) **Power Stations** *All off-takes at flat rate of*	513.61	488.23
(xii) **Independent Power Producers** *All off-takes at flat rate of*	513.61	488.23

C. Computation of HR Cost Benchmark FY 2014-15

ANNEXURE - C

	Particulars	2010-11 (Base)	2013-14	2014-15
	HR benchmark Cost Parameters			
	Base Cost	7,166	8,432	8,948
	CPI factor	13.92%	8.62%	4.53%
	T & D network (Km)	42,441	46,453	47,273
	Number of Consumers (No.)	2,367,893	2,646,702	2,710,585
	Sales Volume (MMCF)	360,112	356,628	363,596
	Unit Rate (Rs./unit)			
	T&D network (Rs./Km)	168,846	184,793	192,626
	No. of Consumers (Rs./Consumer)	3,026	3,275	3,381
	Sale Volume (Rs./MMCF)	19,899	22,567	25,091
	HR Cost Build-up (Million Rs)			
50%	Cost CPI	-	363	203
25%	T & D network (Km)	1,792	2,146	2,277
65%	Number of Consumers (No.)	4,658	5,634	5,957
10%	Sales Volume (MMCF)	717	805	912
	HR Benchmark Cost	7,166	8,948	9,348
	IAS Cost			456
	Total HR Cost			9,804
	Actual Cost			11,076
	50% of Savings / (Excess) Allowed			636
	HR Cost Allowed (Rs. in Million)			**10,440**