Case No. OGRA-6(2)-2(5)/2016

IN THE MATTER OF

SUI SOUTHERN GAS COMPANY LIMITED ESTIMATED REVENUE REQUIREMENT, FY 2016-17

UNDER

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

DECISION

ON

October 06, 2016

Before:
Ms. Uzma Adil Khan, Chairperson
Mr. Aamir Naseem, Member (Gas)
Mr. Noorul Haque, Member (Finance)

54-B, Fazal-e-Haq Road, Blue Area, Islamabad, Pakistan.
Tel: +92-51-9244090-98, Fax: +92-51-9244206
Website: www.ogra.org.pk

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1. Background

1.1. Sui Southern Gas Company Limited (the petitioner) is a public limited company, incorporated in Pakistan, and is listed on Pakistan Stock Exchanges Ltd. 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, LPG, gas condensate, Natural Gas Liquids (NGL) and manufacture and sale of gas meters. The petitioner is also engaged in the business of Re-gasified Liquefied Natural Gas (RLNG) in accordance with the decision of the Federal Government (FG/GoP).

1.2. The petitioner filed a petition on March 15, 2016, under Section 8 (1) of the Oil and Gas Regulatory Authority Ordinance, 2002 (the Ordinance) and Rule 4(2) of Natural Gas Tariff Rules, 2002 (NGT Rules), for determination of its estimated revenue requirement for FY 2016-17 (the said year) at Rs. 172,227 million (the amounts have been rounded off to the nearest million here and elsewhere in this document), and shortfall for the said year is calculated at Rs. 6,800 million, including Rs. 840 million (Rs. 2.15 per MMBTU) on account of Air-mix LPG Projects, thereby requesting an increase of Rs. 17.42/MMBTU w.e.f July 01, 2016. The petitioner has informed that the said increase includes Rs. 15.39/MMBTU relating to RLNG, which shall be charged to RLNG consumers in the light of FG's decision.

1.3. The petitioner has submitted the following statement of cost of service:

Table 1: Comparison of Cost of Service per the Petition with Previous Years.

			Rs. / MMBTU
Particulars	FY 2014-15	FY 2015-16	FY 2016-17
	FRR	DERR	The Petition
Units sold (BBTU)	354,984	400,999	390,315
Cost of gas sold	439.54	367.73	340.40
UFG adjustment	(28.96)	(35.53)	(1.92)
Transmission and distribution cost including Others	44.47	36.28	52.07
Shortfall of previous years	50.07	58.52	-
Depreciation	13.32	13.26	15.92
Return on net average operating fixed assets	22.17	19.91	34.79
Other operating income	(28.55)	(38.76)	(7.67)
Subsidy for LPG Air-Mix Project	1.55	0.82	2.15
Cost of service / prescribed price	513.61	422.24	435.73
Current average prescribed price	513.61	422.24	418.31
Increase requested in average prescribed price	-	-	17.42

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

1.5. A notice inviting interventions / comments on the petition from the consumers, general public and other interested / affected persons, was published in the two daily combined newspapers (Daily Dawn & Daily Jang), and one local Urdu newspaper in Karachi (Daily Awami Awaz) and Quetta (Daily Azadi) on April 06, 2016.

1.6. The Authority received seven (7) applications to intervene in the proceedings from the following persons / entities:

- i) Landhi Association of Trade & Industry,
- ii) Karachi Chamber of Commerce & Industry,
- iii) Bin Qasim Association of Trade & Industry,
- iv) All Pakistan Textiles Mills Association,
- v) CNG Station Owners Association of Pakistan,
- vi) Pakistan Hoisery Manufactures & Exporters Association,
- vii) Mr. Muhammad Arif Bilvani, Consumer.

1.7. The Authority accepted all the above mentioned applications for intervention.

1.8. A notice intimating the date, time and place of public hearing, was published in two daily combined newspapers (Daily Dawn & Daily Jang), and one local Urdu newspaper in Karachi (Daily Dunia) and Quetta (Daily Azadi) on July 29, 2016.

2. Salient Features of the petition

2.1. The petitioner has made the following main submissions:

2.2. The petitioner has claimed annual return at the rate of 17% of the net fixed assets in operation, before corporate income tax, interest, markup and other charges on debt, in accordance with license condition no. 5.2.

2.3. The petitioner has claimed net addition, net of deletions of Rs. 74,302 million in fixed assets, and net addition, ex-depreciation and deletion, of Rs. 7,025 million, resulting in claimed increase in net operating fixed assets from Rs. 52,561 million in FY 2015-16 to

Rs. 119,837 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. 79,870 million, and required return to Rs. 13,578 million.

2.4. The petitioner has projected net operating revenues at Rs. 166,266 million, as detailed below (and compared with previous years):

Table 2: Comparison of Projected Operating Revenues with Previous Years

Rs. in million

Particulars	FY 2014-15	FY 2015-16		FY 2016-17	Inc./(Dec.) over Actuals of FY 2015-16	
	FRR	DERR	Actuals	The Petition	Rs.	%
Net sales at current prescribed price	182,321	169,318	167,078	163,272	(3,806)	(2)
Amortization of deferred credits	403	433	406	407	1	0.25
Meter rentals	700	731	719	750	31	4
Gas transportation charges	-	62	-	68	68	100
Late Payment Surcharge	-	6,138	-	-	-	-
Meter Manufacturing Profit	-	134	-	-	-	-
Sale of Gas condensate	124	376	428	122	(307)	(72)
Sale of LPG	4,904	5,180	856	845	(11)	(1)
Sale of NGL	2,644	1,440	2,391	356	(2,036)	(85)
Other income	1,360	1,047	895	447	(449)	(50)
Net Operating Revenue	**192,456**	**184,859**	**172,775**	**166,266**	**(6,508)**	**(4)**

2.5. The petitioner has projected net operating expenses at Rs. 158,649 million, as detailed below (and compared with previous years):

Table 3: Comparison of Projected Operating Expenses with Previous Years

Rs. in million

Description	FY 2014-15	FY 2015-16		FY 2016-17	Inc / (Dec) over Actuals of FY 2015-16	
	FRR	DERR	Actuals	The Petition	Rs.	%
Cost of gas	156,030	147,460	151,088	132,862	(18,226)	(12)
Transmission and distribution costs	13,271	13,023	13,286	19,677	6,391	48
Gas Internally Consumed	347	245	319	215	(104)	(33)
UFG adjustment	(10,282)	(14,246)	(750)	(750)	-	-
Depreciation	4,727	5,317	5,096	6,213	1,116	22
Shortfall of previous years	17,773	23,468	-	-	-	-
Other charges including WPPF	2,169	1,280	2,525	492	(2,033)	(81)
Net Operating Expenses	**184,035**	**176,547**	**171,564**	**158,709**	**(12,856)**	**(7)**

2.6. The petitioner has projected Weighted Average Cost of Gas (WACOG) for the said year at Rs. 274.31/MMBTU. The cost of gas is linked with international prices of Crude and HSFO according to the Gas Pricing Agreements (GPAs) executed between the producers and Government of Pakistan (GoP / FG).

2.7. The petitioner has projected Unaccounted for Gas (UFG) at 7.63% for the said year. The petitioner has, however, restricted UFG adjustment at Rs. 750 million for the said year as per Rule 20(1) of NGT Rules.

2.8. The petitioner has claimed subsidy amounting to Rs. 840 million on account of its Air-mix LPG Projects.

2.9. The shortfall in the projected revenue requirement after achieving 17% return on average net operating fixed assets is estimated at Rs. 6,800 million, requiring increase of Rs. 17.42 per MMBTU in the existing average prescribed price, as detailed below:

Table 4: Computation of Requested Average Increase in Prescribed Price

	Particulars	FY 2016-17 The Petition
A	**Net Operating Revenues**	166,266
	less: Net operating expenses excluding ROA	158,649
	Subsidy Air Mix LPG Project	840
B	**Total Expenses**	159,489
C	**Shortfall** {(A) - (B)}	(6,778)
D	Return required @ 17% on net fixed assets in operation	13,578
E	**Total shortfall in revenue requirement {(D) - (C)}**	6,800
F	Sale volume (BBTU)	390,315
G	**Increase requested in existing average prescribed price Rs./MMBTU**	**17.42**

3. Proceedings

3.1. Public hearings were held on August 16, 2016 and August 18, 2016 at Karachi and Quetta respectively. The following interveners / participants attended the public hearing:

Petitioner:

i. Team led by Mr. Amin Rajpoot, Managing Director,
ii. Mr. Mirza Mehmood Ahmad, Director/Legal Counsel.

Interveners/ Participants:

i. Mr. M. H. Asif, Consultant, All Pakistan Textile Mills Association,
ii. Dr. Qazi Ahmed Kamal, Advisor, Karachi Chamber of Commerce & Industry,
iii. Mr. Malik Khuda Baksh, Chairman CNG Station Owners Association of Pakistan,

iv. Mr. Zain Bashir, Landi Association of Trade & Industry,

v. Mr. Muhammad Arif Bilvani, Consumer,

vi. Mr. Abdul Sami Khan, Chairman, CNG Dealers Association, Karachi,

vii. Mr. Zulfiqar Yousafi, Chairman, Sindh CNG Association,

viii. Mr. Rehan Javed, Korangi Association of Trade & Industry,

ix. Mr. Zubair Motiwala, SITE Association of Trade & Industry,

x. Mr. Shabbir Suleman Jee, Chairman, All Pakistan CNG Association, Sindh Zone,

xi. Mr. Muhammad Shahid Ali, Shareholder of the petitioner.

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

3.2.1. The petitioner during the hearing has emphasized on the finalization of pending tariff regime with GoP for many years, since it is affecting the financial condition of the company. Also, circular debt from Karachi Electric (K.E) & Pakistan Steel has been adding miseries to the petitioner, resulting in negative cash flows. The petitioner has further argued that imposition of moratorium on new connections forces people towards gas theft.

3.2.2. The Authority was also requested to consider the impact of additional borrowings for its working capital requirement and payment to gas producers, since it is forced to borrow from financial institutions owing to delay in receipts of revenues from Government owned public companies as well as short recoupment of shortfall requirement of previous years. The petitioner's legal counsel submitted that network extension, aging of network, changed bulk to retail ratio, higher gas theft in Balochistan and gas pilferage are main factors of higher UFG. Legal counsel again agitated that reasonable rate of return is to be ensured to the petitioner.

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

3.2.4. Legal counsel, during the hearing, also requested the Authority to discharge its functions in accordance with Section 6(2)(f),(o) & (q) of the Ordinance, and to ensure for level playing field for all the stakeholders as stipulated in Rule 17(1)(c) & 17(2) of NGT Rules.

3.3. During public hearing in Karachi, the petitioner was advised to provide rationale as well as international practice for assuming provision for doubtful debts at 1% of sales. It was further directed to provide a feasibility of air-mix LPG projects projected in the instant petition vis-à-vis details of the costs, if the same were provided natural gas through piped network. The Authority, considering the petitioner's request for allowing cost of TA's outside HR benchmark formula, directed it to submit its working and substantiate the claim. The Authority, however, notes with grave concern that responses to all queries by the petitioner is still pending.

3.4. The substantive points made by the interveners and participants during public hearing in Karachi are summarized below:

Karachi Hearing:

3.4.1. It was highlighted that GoP has conflict of interest with company, being the majority shareholder. FG owns 81% shareholding of the petitioner, and therefore, affects company's decision/functions. Similarly, any policy guideline from FG inconsistent with the Ordinance is not binding on OGRA. It was urged that the Authority should perform its statutory functions in legal & fair manner, and must protect the interest of ordinary consumers, instead of following FG's policies that are inconsistent.

3.4.2. Mandate / role of ECC is questionable in the presence of CCI forum.

3.4.3. It was highlighted that petitioner receives gas from 46 different sources and each has its own gas measurement systems and with different accuracy levels. Despite sufficient spending on system augmentation, problems still persist and the onus lies on petitioner.

3.4.4. By any stretch of imagination, UFG definition does not cover un-metered volumes of gas sales & purchases. Therefore, the same cannot be construed as "deemed sales volume", to be included in UFG adjustment calculations. UFG was 6.63% in FY 2007-08, which has now reached to 15.14% in FY 2014-15 besides initiation of Natural Gas Efficiency Project (NGEP). UFG losses have reached to the tune of Rs. 21 billion in FY 2014-15.

3.4.5. It has been noted that the system is exposed to more leaking points and increased UFG with addition in gas connections. Millions of dollars is borrowed to control UFG losses.

3.4.6. Cost of high UFG owing to new connections be borne by petitioner, and not the existing consumers.

3.4.7. It was quoted that Planning Commission has even pointed out that because of UFG national exchequer suffers a colossal loss of Rs. 350 billion. The gas losses result in use of expensive alternate imported fuel such as furnace oil, which causes loss of 3% to GDP. This is 5 times greater than the combined losses of the WAPDA system.

3.4.8. It was highlighted that FG has deliberately not passed on the benefits of pricing to the masses. Price of gas was increased by 31% on July 1, 2008 by FG, when the crude oil price was at $147 per barrel. However, reduction in oil prices to $47/barrel was not passed onto the consumers. The Government further levied Rs. 5 per MMBTU as excise duty instead of passing the benefit of lower prices to the masses as against OGRA's proposal of reduction by Rs. 4.53/MMBTU.

3.4.9. It was asserted that gas prices are not linked to oil prices in gas producing countries, since natural gas is only tradable with LNG.

3.4.10. Pakistan buys crude oil from Middle Eastern sources at a reduced price and on credit but quotes the New York and London prices for gas calculations, which is irrational.

3.4.11. Price of natural gas in USA is below $2/MMBTU, now which is 1/6th of the price of gas that Pakistan will buy from Iran.

3.4.12. The tariff has increased owing to launching of new schemes in Parliamentarians constituencies, which are in violation of law. Utilities have failed to meet demand of gas from the existing consumers and even giving rise to issues of UFG, gas theft and leakages because of increased connections.

3.4.13. It was urged that this is a misconception that there is gas shortage in Pakistan. 300 MMCFD can be added into the system, if disputes between Government & local people get resolved. Manzalai and Kohlu fields can add reserves worth billions, if made operational.

3.4.14. The billing system needs overhaul as it is flawed. Almost 25% of consumers are receiving inflated and provisional bills for volumes they have not consumed.

3.4.15. UFG has now touched 15% owing to company's own inefficiencies.

3.4.16. OGRA's stance in respect of treatment of operating income was supported.

3.4.17. Allowing provision of doubtful debts of 1% of sales as per ECC decision was criticized and termed as unjustified & irrational. Such relaxation does not urge the company to make concerted efforts in respect of recovery.

3.4.18. It was demanded that no provision for doubtful debts in respect of commercial & industrial consumers be allowed.

3.4.19. It was pointed out that expenses relating to litigation against OGRA or any government body be borne by the petitioner from its profits, rather than burdening the natural gas consumers.

3.4.20. Financial impact of RLNG assets be charged to specific consumers.

3.4.21. Textile is a major contributor in exports (57%), employment (47%), GDP (8%). International competitiveness shall be seriously affected, in case of increase in natural gas tariff by OGRA. Already, Bangladesh, Sri Lanka, Vietnam and India have much lower cost of production. It was requested that special tariff for Textile may be announced by FG enabling it to compete in the international market.

3.4.22. It was stated that over $2 billion worth of gas in terms of import value of alternate fuel i.e. furnace oil is leaked or stolen resulting in 10% UFG in both utilities.

3.4.23. Consumers of Karachi should not be burdened for the gas losses of other areas.

3.4.24. It has been pointed out that shareholder of the petitioner company is not getting any reasonable return/dividend owing to OGRA's stringent regulation.

3.4.25. It was demanded that CNG sector be deregulated.

3.4.26. Natural Gas consumers are charged high tariff rate as compared to other neighboring countries of Pakistan.

3.4.27. It was demanded that new tariff formula be devised as loan covenants have already expired.

3.4.28. Government should negotiate better rates with E&P companies to keep cost of gas at reasonable level.

3.4.29. Special tariff for textile sector be introduced so as to incentivize the exports.

3.4.30. Cross subsidy to fertilizer sector should be abolished, and subsidy through budgetary allocation be provided by the FG. It was highlighted that if the same is abolished, it shall result in reduction of tariff by 40% for textile sector alone.

3.4.31. It was demanded that special tariff for Karachi industry especially textile be introduced. Also Karachi consumers be not burdened for cost and inefficiencies of others.

3.4.32. Price of final goods of textile is high as well as uncompetitive owing to increased tariff of natural gas.

3.4.33. Region-wise UFG be charged to respective consumers as in the case of NEPRA.

3.4.34. LNG should also be provided to CNG sector of Sindh.

3.4.35. It was pointed out that industry including CNG sector is facing low pressures in winters, which should be resolved by the petitioner.

3.4.36. Subsidy on air-mix LPG projects was criticized. It was suggested that Government should provide direct subsidy on LPG cylinders for far flung areas instead of establishing capital intensive projects of LPG air-mix.

3.4.37. It was criticized that outdated technology, low quality of material, poor workmanship and corruption are major factors of petitioner's continuous deterioration.

Quetta Hearing:

3.5. Public hearing at Quetta on August 18, 2016 was participated by the following:

Interveners/ Participants:

i. Mr. Rahim Agha, President All Balochistan Restaurant & Hotel Association,
ii. Advocate Abdul Zahid Kakar,
iii. Mr. Faiz Muhammad, Consumer,
iv. Mr. Muhammad Ibrahim, Consumer,
v. Mr. Abdul Ghaffar Kakar, Ex-Nazim, Ziarat,
vi. Mr. Mirza Hussain Hazara, Counselor Hazara Town,
vii. Mr. Bostan Kishtmand, Counselor Ward 14, Alamdar Road, Quetta.

3.6. The substantive points made by the interveners and participants during public hearing in Quetta are summarized below:

3.6.1. Company be made responsible for communicating the message of conducting public hearing in Quetta to major industrial/ hotel consumers.

3.6.2. Issues related to low pressure & load shedding were raised.

3.6.3. Special tariff for Baluchistan in winter be introduced, since high tariff force people for gas theft.

3.6.4. Meters are of low quality & shows wrong meter reading.

3.6.5. Low quality seals are used by company, which break in very short time. Consequently, poor consumers are fined.

3.6.6. Madrassas, Mosques be excluded from the category of bulk consumers.

3.6.7. It was urged that company be directed to resolve complaints within 90 days, otherwise an inquiry be initiated against them.

3.6.8. Regional office of OGRA be opened in Quetta.

3.6.9. It was emphasized that low gas pressure problem in Ziarat be addressed so as to control de-forestation there.

3.6.10. It was demanded that gas be provided to entire Baluchistan.

3.6.11. Piped network of small diameter be replaced with larger ones to improve low pressures.

3.6.12. It was complained that bills are delivered to consumers after expiry of due date.

3.6.13. Implementation of Article 158(b) & 38(g) of constitution of Pakistan be ensured by providing natural gas to gas producing provinces and providing job opportunities to locals.

3.6.14. Consumers of CNG be compensated for high altitude.

3.7. The Authority has carefully considered all the submissions and arguments of the parties made in writing and at the public hearings and proceeds to discuss the same and make its determination as follows:

4. Authority's Jurisdiction and Determination Process

4.1. The Authority is obligated to determine total revenue requirement / prescribed prices of the petitioner in accordance with Section 8(1) and 8(2) of the Ordinance and License condition no. 5.2 of its integrated License. Section 8(1) of the Ordinance empowers the Authority to determine an estimate of the total revenue requirement of its licensees for a financial year and on that basis, advises the FG, the prescribed price of natural gas for each category of retail consumers.

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

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

4.4. The decisions issued by the Authority have always been strictly in accordance with the relevant provisions of Law. All the statutory requirements are firmly complied with before issuing any Order and in this whole process the Authority, very meticulously, ensures that public service utilities prosper in an efficient manner. The Authority, throughout the determinations since inception, ensures transparency in the process while balancing the interest of all stakeholders, including general public, gas utilities, industrial consumers, etc. The checks and balances implemented by the Authority to improve the quality of service to consumers and to bring efficiency in the overall management of the company have proved to be beneficial for the whole nation in measurable terms.

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

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% return on its average net fixed assets in operation for each financial year. The Authority, accordingly, has been determining the revenue requirement of the petitioner, providing return on net operating assets in accordance with the said provision of the Ordinance as well as the petitioner's license, while including various income & expenditure heads as part of prescribed price.

5.2. The Authority notes that petitioner has been continuously contending that guaranteed return of 17% is not being provided to it, as effectively it is getting much lower rate of return and has been referring to some legal provisions in isolation. The Authority terms this argument as baseless & against the legal scenario. Presumably, the petitioner has been pleading that it is entitled for guaranteed return irrespective of control of gas losses/theft, operational efficiency and effectiveness of capital expenditure incurred to undertake the regulated activities. If this is the case, it is contrarily to the regulatory setup established by GoP, violative of legal & regulatory framework as a whole and tantamount to dysfunctional regulator and impairment of consumer interest. This shall result into economic distortion and the same can never be and by any stretch of imagination the intent of legislature.

5.3. The Ordinance defines the role in terms of powers and functions as well as jurisdiction of OGRA, while the guiding principles, including detailed mechanism to carry out the statutory functions, are provided in the Rules and more specifically in the respective licensees issued under the Ordinance. Accordingly, OGRA Ordinance, under section 7, empowers the Authority to determine tariff for regulated activities **whose licenses provides for such determination**. Section 7 further elaborates that the criteria for tariff determination shall be prescribed in the rules and **in the terms and conditions of each**

license (emphasis added). It is evident from the legal framework that power to determine tariff is derived from the Ordinance and mechanism including guidelines for such determination is provided in the **NGT Rules and petitioner's license**. Accordingly, Rule 17 of NGT Rules provides detailed tariff evaluation criteria and more specifically yardstick regulation as stipulated in Rules 17(c) , reproduced as under:-

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

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

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

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

"**Subject to such adjustments as required under condition 21 or other efficiency related benchmarks fixed by the Authority from time to time in accordance with the rules**, the Authority shall determine total revenue requirement of the Licensee to ensure it achieves 17% return on the value of its average net fixed assets in operation for each financial year......." (emphasis added).

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

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

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

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

5.10. *The Authority, however, notes that existing tariff regime is in place. In view of the same, the Authority has decided, to follow the existing basis of 17% return on the average net operating fixed assets while treating various income and expenditure heads per the exiting regime, in accordance with the Licence Condition No. 5.2 till the new tariff regime is finalized as well as implemented.*

6. Operating Fixed Assets

6.1. Summary

6.1.1. The petitioner has claimed a net addition, net of deletions of Rs. 74,302 million in fixed assets, and net addition, ex-depreciation and deletion, of Rs. 7,025 million, resulting in claimed increase in net operating fixed assets from Rs. 52,561 million in FY 2015-16 to Rs. 119,837 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. 79,870 million, and required return to Rs. 13,578 million.

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

Particulars	Rs. in Million
Net operating fixed assets at beginning	52,561
Net operating fixed assets at ending	119,837
sub-total	**172,398**
Average net assets (I)	**86,199**
Meter manu. Plant asset at beginning	606
Meter manu. Plant asset at ending	2,035
sub-total	**2,641**
Average net assets (II)	**1,321**
LPG air mix project asset at beginning	266
LPG air mix project asset at ending	277
sub-total	**543**
Average net assets (III)	**271**
Deferred credit at beginning	4,941
Deferred credit at ending	4,533
sub-total	**9,474**
Average net deferred credit (IV)	**4,736.79**
"D" Average (I-II-III-IV)	**79,870**
17% required returned claimed by the petitioner	**13,578**

6.1.2. The details of deferred credits projected by the petitioner for the said year are compared with FY 2015-16, as under:

Table 6: Comparison of Projected Deferred Credits with FY 2015-16

Rs. in Million

Particulars	FY 2015-16		FY 2016-17
	DERR	**Actuals**	**The Petition**
Opening Balance as at July 01	6,727	5,317	4,941
Addition during the year	147	150	26
Sub-total:	6,874	5,467	4,967
Amortization during the year	428	433	434.044
Closing Balance as at June 30	**6,446**	**5,034**	**4,533**

6.1.3. ***The Authority provisionally accepts estimated deferred credits opening balance at Rs. 4,941 million and closing balance at Rs. 4,533 million for the said year.***

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

Table 7: Summarized Schedule of Projected Additions Compared with Previous Years

Rupees in Million

Particulars	FRR	FRR	FRR	The Petition	Inc. / (Dec.) over FY 2014-15	
	FY 2012-13	FY 2013-14	FY 2014-15	FY 2016-17	Rs.	%
Land	-	-	-	4	4	100
Buildings	60	67	115	278	163	143
Roads, pavements and related infrastuctures	-	-	-	151	151	100
Gas Transmission Pipeline	1,162	1,116	229	48,841	48,612	21,230
Compressors	-	-	-	9,940	9,940	100
Plant and machinery	227	317	252	642	390	155
Gas distribution system and related facilities & equipments	4,756	3,693	4,554	10,258	5,704	125
Furniture, equipment including computer & allied equipments	123	89	134	598	464	347
Computer Software (Intangible)	127	30	8	162	153	1,839
LPG Air Mix Projecrs	316	7	(1)	1,564	1,565	(170,641)
Telecommunication system	63	115	146	65	(81)	(55)
Appls., loose tools & equipt.	37	28	24	131	108	450
Vehicles	210	234	222	622	399	180
Construction equipment	-	19	-	1,000	1,000	100
SCADA	-	-	-	45	45	100
Gross Addition	7,081	5,715	5,683	74,301	68,618	1,207

6.2. Land

6.2.1. The petitioner has projected an amount of Rs. 4 million to be capitalized for purchase of land for new CP Stations. ***In view of the petitioner's capitalization trend and need assessment, the Authority provisionally allows an amount of Rs. 4 million for acquisition of land for CP Stations for the said year.***

6.3. Buildings

6.3.1. The petitioner has projected an amount of Rs. 278 million to be spent on different building projects for the said year.

6.3.2. The Authority observes that projections under this head have historically remained on higher side when compared with actual expenditure at year end. The petitioner's average capitalization during the period FY 2006-07 to FY 2014-15 remained at 35% of the projections. Moreover, the petitioner capitalized an average amount of Rs. 92 million per year during the above noted period.

6.3.3. *In view of the historical trend analysis, the Authority provisionally determines the expenditure at **Rs. 100 million** under this head for the said year.*

6.4. Roads, Pavements and Related Infrastructure: Right of Way (ROW)

6.4.1. The petitioner has projected an amount of Rs. 151 million in respect of Roads, Pavement and related infrastructure: Right of Way (ROW) Development Plan for the said year.

6.4.2. The Authority notes that petitioner's ability to materialize similar projects in the past has remained limited e.g. during the last ten years, the petitioner capitalized an average amount of Rs. 68 million per year in this head.

6.4.3. *In view of the historical trend, the Authority provisionally determines the expenditure at **Rs. 68 million** under this head for the said year.*

6.5. Gas Transmission Pipelines

6.5.1. The petitioner has projected an amount of Rs. 48,841 million for addition of assorted diameters of pipelines to its transmission network during the said year, breakup of which is as follows:

Addition in Normal Transmission Pipeline Assets	= Rs. 13,682 million
Addition in Pipeline Assets related to RLNG Projects	= Rs. 35,159 million

Table 8: Requested Additions to Normal Transmission Pipeline Network

Rs. in Million

S. No.	Description Of Segment	The Petition FY 2016-17
1	30" dia x 212 Km pipeline from shahdadpur to Malir (Ist segment Hyderabad to karachi 131 Km)	7,879
2	Check Metering Facility at shahdadpur for Gambat South Field Gas Measurement	344
3	8" dia X 85 KM Pipeline from Jhal Magsi to Shori	1,181
4	16" dia x 9 Km Re Route of Kotri Barrage	191
5	16" dia ILBP Rehabilitation and Intelligent Pigging	24
6	12" dia x 344 Km QPL Rehabilitation and Intelligent Pigging	328
7	Construction of Sub-merge crossings	67
8	Up-gradation and re-location of regualtion on 18" & 20" IRBP at ACPL	97
9	24" dia x 33 Km Tando Adam Masu Loop Line Project	112
10	24" dia x 31 Km from SMS Kathore to SMS Surjani	1,429
11	24" dia x 34 Km loopline from Shikarpur to Jacobabad	1,429
12	Rerouting of existing QPL 12" dia x 9 Km (KM 56 to KM65) and 12" dia x 14 Km (KM 84 to KM96)	550
13	12" dia x 53 Km Mehar Gas Field Integration Project (MGFIP)at Thari Mohabat-leftover	43
14	6" Nur Bgla & Sujawal-leftover	8
	Total	13,682

6.5.2. The petitioner has projected Rs. 7,879 million for laying 30" dia, 131 Km transmission pipeline from Hyderabad to Karachi (1st segment of 30" dia, 212 Km pipeline from Shahdadpur to Malir, Karachi). The petitioner has stated that recent gas field development in Sanghar, Hala, MKK block has created bottleneck in ILBP transmission system, therefore, in order to mitigate this situation 30" dia, 212 km transmission pipeline from Shahdadpur to Malir has been proposed for transmission of up-coming Gambat South field gas and additional gas volume from UEP's Naimat Basal field.

6.5.3. The Authority notes that the petitioner was asked vide several letters to furnish data for evaluation of this capital intensive project. However, the company has not furnished the requisite information pertaining to the project. ***The Authority, therefore, decides to pend the expenditure against this segment for the said year.***

6.5.4. The petitioner has projected an amount of Rs. 344 million for Check Metering Facility at Shahdadpur for Gambat South Field Gas Measurement. The petitioner has stated that Check Metering Facility and hook up of 16" size PPL Sale Gas Pipeline with 20" and 24" SSGC's ILBP System would be required at RS-3 Shahdadpur for reconciliation and injection of additional 150 MMCFD gas supplied from PPL Gambat South and Halla Block.

6.5.5. The Authority notes that installation of check metering facility and hook-up arrangement is an operational requirement, *therefore, the Authority provisionally allows an amount of Rs. 344 million in the said year.*

6.5.6. As regards the items mentioned at Sr. no. 3 to 8 of Table 8 above, the Authority notes that it previously allowed amounts against these items in its earlier determinations; however, the petitioner could not capitalize the same during the past years.

6.5.7. *In view of the above, the Authority decides not to allow upfront and pend the amount claimed against these projects for the said year. However, if the company manages to execute the projects, the same may be considered at the time of FRR for the said year.*

6.5.8. The petitioner has projected an amount of Rs. 112 million for 24" dia, 33 Km Tando Adam Masu Loop Line Project. The petitioner has stated that this pipeline project, required to complete 24" dia Sanghar Hyderabad-Karachi pipeline for reverse flow of RLNG from Karachi to Sawan, was allowed by the Authority in DERR for FY 2014-15 dated July 03, 2014 and the same has been commissioned recently with an estimated cost of Rs. 1,126 million.

6.5.9. The Authority notes that it allowed an amount of Rs. 1,630 million for this project in DERR FY 2014-15 and the amount capitalized against this head till FY 2015-16 is less than the already allowed amount. *The Authority, therefore, decides not to allow upfront and pend the amount at this stage. The Authority will, however, consider it at the time of FRR subject to actual capitalization in this head.*

6.5.10. The petitioner has projected an amount of Rs. 1,429 million for laying 24" dia, 31 Km pipeline from SMS Kathore to SMS Surjani. The petitioner has stated that the said pipeline segment is required to improve operational efficiency of Western region namely Northern Bypass Hub Town, Coastal Area of Hawks Bay, Kannup and other industrial, commercial and domestic customers. The petitioner has explained that this pipeline will overcome low pressure problems of the consumers in SITE industrial area and also enhance overall system flow capacity to 100 MMCFD to cater future gas demand flexibility in the operations of the city area.

6.5.11. The Authority notes that the petitioner was asked vide several letters to furnish data for evaluation of this capital intensive project, however, the company has not furnished the requisite information pertaining to the project. The Authority, therefore, decides to pend the expenditure against this segment for the said year.

6.5.12. The petitioner has projected an amount of Rs. 1,429 million for laying 24" dia, 34 Km loopline from Shikarpur to Jacobabad; and Rs 550 million for Rerouting of existing QPL 12" dia, 9 Km and 12" dia, 14 Km pipelines. The petitioner has stated that currently daily gas supply to Quetta city and surroundings is approximately 135-150 MMCFD from Bhit, Sui and other gas fields, however, current cumulative gas requirement of Quetta city and surrounding areas including the Habibullah Coastal and Quetta Power during winters is around 200 MMCFD. The petitioner has reported that gas demand of Quetta and its surroundings is not being fulfilled due to following bottlenecks: Maximum flow capacity of existing 18" dia pipeline is around 120 MMCFD, however, in order to meet the demand around 145 MMCFD gas is being transported through this single line. The petitioner has added that at present existing 12" dia, 9Km (KM56 to KM65) and 12" dia, 14 Km (KM 84 to KM96) high pressure QPL pipeline segments are operating at low pressure due to encroachment. The petitioner has stated that it has proposed that the said projects in order to mitigate the aforementioned bottlenecks.

6.5.13. The Authority notes that the said transmission pipeline projects are required to cater the additional gas flow requirement / demand of Quetta and its surrounding areas. In this regard, the honorable High Court of Balochistan in its decision dated 07.03.2016 on CP No. 1229/2015 titled 'Ali Ahmed Kurd and others Vs FoP and others' has also directed as under:

> **"Since low pressure of gas is the main problem in Balochistan, therefore, the Managing Director, SSGC is directed to immediately take steps for up-gradation of the transmission line accordingly. This matter must be placed before the Board of Directors in its forthcoming meeting for up-gradation of**

the transmission line. All the stakeholders including OGRA should give top priority to this project."

6.5.14. Keeping in view the operational requirement and the above noted court directions, the Authority approves these projects in principle and provisionally allows an amount of Rs. 725 million for 24" dia x 34 Km loopline from Shikarpur to Jacobabad and Rs. 275 million for Rerouting of existing QPL 12" dia x 9 Km and 12" dia x 14 Km (KM 84 to KM96) pipelines. The petitioner may claim the remaining amount at the time of mid year review/FRR subject to actual progress of the projects.

6.5.15. As regards the items mentioned at Sr. No. 13 to 14 of Table 8 above, the Authority notes that these are leftover activities of already commissioned projects, which may be considered at the time of FRR subject to actual capitalization. The Authority, therefore, pends the amounts against these projects at this stage.

6.5.16. In *view of the discussion at paras 6.5.1 to 6.5.15 above, the Authority provisionally allows an expenditure of Rs. 1,344 million for addition to Normal Transmission Network, the detail of which is as under:*

Table 9: Additions to Normal Transmission Network as Determined by the Authority

Rs. in Million

S. No.	Description Of Segment	The Petition	Determined by the Authority
		FY 2016-17	
1	30" dia x 212 Km pipeline from shahdadpur to Malir (Ist segment Hyderabad to karachi 131 Km	7,879	-
2	Check Metering Facility at shahdadpur for Gambat South Field Gas Measurement	344	344
3	8" dia X 85 KM Pipeline from Jhal Magsi to Shori	1,181	-
4	16" dia x 9 Km Re Route of Kotri Barrage	191	-
5	16" dia ILBP Rehabilitation and Intelligent Pigging	24	-
6	12" dia x 344 Km QPL Rehabilitation and Intelligent Pigging	328	-
7	Construction of Sub-mergecrossings	67	-
8	Up-gradation and re-location of regualtion on 18" & 20" IRBP at ACPL	97	-
9	24" dia x 33 Km Tando Adam Masu Loop Line Project	112	-
10	24" dia x 31 Km from SMS Kathore to SMS Surjani	1,429	-
11	24" dia x 34 Km loopline from Shikarpur to Jacobabad	1,429	725
12	Rerouting of existing QPL 12" dia x 9 Km (KM 56 to KM65) and 12" dia x 14 Km (KM 84 to KM96)	550	275
13	12" dia x 53 Km Mehar Gas Field Integration Project (MGFIP)at Thari Mohabat-leftover	43	-
14	6" Nur Bgla & Sujawal-leftover	8	-
	Total	13,682	1,344

6.5.17. The petitioner has claimed an amount of Rs 35,159 million to be capitalized on Pipeline Infrastructure Development Projects for upcoming RLNG, the detail of which is as under:

Table 10: Requested Additions to Transmission Network (RLNG Projects)

Rs. in Million

S. No.	Description Of Segment	The Petition FY 2016-17
1	42" dia x14 Km Loop Between Nara-Sawan	96
2	24" dia x 21 Km Interlink between Pakland to Khadeji	124
3	Tie-in and integration arrangement-from tie-in point to Pakland	34
4	42" dia x 342 Km- from Pakland to Nara & Indus River Crossing	34,905
	Total	35,159

6.5.18. As regards the projects mentioned at Sr. No. 1 to 3 of Table 10 above, the petitioner has stated that these are the remaining works of the projects, which are part of Phase-I of RLNG Infrastructure Development Projects, already approved by the Authority.

6.5.19. The Authority notes that it had already allowed Rs 2,933 million for these projects in DERR FY 2015-16 and the petitioner may claim the balance amount in this regard at the stage of FRR. The Authority also observes that the petitioner has capitalized nil expenditure against the project mentioned at Sr. No. 2 of Table 10 above during the last year. *The Authority, therefore, decides to pend the amount claimed against items mentioned at Sr No. 1 to 3 of Table 10 at this stage.*

6.5.20. The petitioner has projected an amount of Rs 34,905 million for laying 42" dia x 342 Km pipeline from Pakland to Nara & Indus River Crossing. The petitioner has stated that this project is required for transporting 1.2 bcf RLNG dedicatedly to SNGPL. The petitioner has added that the pipeline has been divided into following three segments considering the design requirements based on route and population density survey:

1st Segment: Nawabshah to Nara, 82 Km, estimated cost Rs 8,105 million

2nd Segment: Hyderabad to Nawabshah, 131 Km, est. cost of Rs 12,949 million

3rd Segment: SMS Pakland to Hyderabad, 129 km, est. cost of Rs 12,751 million & Indus River Crossing through HDD, Rs 1,100 million.

6.5.21. The petitioner has stated that the said pipeline segments are expected to be commissioned by December, 2016.

6.5.22. The Authority notes that 42" dia x 342 Km pipeline from Pakland to Nara is a part of Phase-II of Pipeline Infrastructure Development Plan for upcoming LNG. Since it is a large scale/ gigantic project involving additional gases to the tune of 1.2 BCFD RLNG and having major financial impact on the consumers, therefore the Authority engaged Zishan Engineers Pvt Limited (ZEL), a consultant firm on September 8, 2015 through competitive bidding process to render its services for Technical Evaluation of Pipeline Infrastructure Development Projects of SNGPL & the petitioner for upcoming LNG & anticipated indigenous gas supplies. ZEL vide its letter dated March 21, 2016 furnished Final Report, wherein they concluded that the Project plans submitted by both SNGPL and the petitioner are adequate & justified and cost estimated by both the companies is within ZEL's in-house estimates for both pipelines and compression equipment.

6.5.23. The Authority notes that FG vide Ministry of Petroleum & Natural Resource's (M/o P&NR) letter dated November 5, 2014 had confirmed availability and subsequent allocation of gas from different import projects to gas utilities. Moreover, FG informed that in order to transport the gas volumes to be made available under different projects, fast track implementation of pipeline infrastructure projects was mandatory to achieve the target dates and in order to avoid heavy penalties and non-existence of required gas infrastructure within the stipulated time period will jeopardize the entire gas/LNG import projects. Further, FG asked the Authority 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. Subsequently, the Authority keeping in view the national importance of the project, granted principle approval of Phase-II of RLNG Project on May 15, 2015.

6.5.24. The Authority notes that the petitioner has projected an estimated amount of Rs. 34,905 million for laying 42"dia x 342 Km pipeline from Pakland to Nara @ per Km cost of Rs. 102 million whereas actual per Km cost for laying similar diameter pipeline i.e. 42" from Nara to Sawan, per FRR FY 2015-16 petition, was much less i.e. Rs 74.33 million/Km. The Authority observes that cost of laying 42"dia x 342 Km pipeline, based on per Km cost of Rs 74.33 million/Km, comes out to be Rs. 25,421 million i.e. much less than the petitioner's estimates.

6.5.25. Keeping *in view the above stated position, current progress of the project as well as advice of FG on the matter, the Authority provisionally allows an amount of Rs. 17,500 million (50% of the projected amount) against these projects for the said year. The petitioner may claim the remaining amount at the time of mid year review/FRR subject to actual progress of the projects/capitalization.*

6.5.26. *In view of the discussion at paras 6.5.17 to 6.5.25 above, addition to gas transmission pipeline assets related to RLNG projects is provisionally allowed at Rs. 17,500 million for the said year as tabulated below:*

Table 11: Additions to Transmission Network as Determined by the Authority

S/No.	Description	The Petition	Determined by the Authority
		FY 2016-17	
1	42" dia x14 Km Loop Between Nara-Sawan	96	-
2	24" dia x 21 Km Interlink between Pakland to Khadeji	124	-
3	Tie-in and integration arrangement-from tie-in point to Pakland	34	-
4	42" dia x 342 Km- from Pakland to Nara & Indus River Crossing	34,905	17,500
	Total	**35,159**	**17,500**

6.5.27. In this regard, it may be noted that Policy Guidelines of the GoP conveyed vide M/o P&NR's letter dated February 10, 2016 stipulate as under:

"OGRA is advised that subject projects will be included in the asset base of gas companies subject to condition that RLNG pricing will be ring fenced and all directly attributable costs will be charged/recovered from RLNG consumers without affecting consumers relying on domestically produced gas. Financial costs incurred in creation of RLNG infrastructure of national importance should be allowed as admissible expense in the revenue requirement of the utility companies."

6.5.28. *The Authority notes that in view of the above said policy guidelines of FG, all costs incurred in creation of RLNG infrastructure are to be charged / recovered from RLNG Consumers without affecting consumers relying on domestically produced gas. Hence cost of transmission pipeline assets related to RLNG, amounting Rs. 17,500 million, is to be recovered from RLNG consumers only.*

6.6. **Compressors**

6.6.1. The petitioner has projected Rs. 9,940 million under this head for the said year. The petitioner has explained that the said expenditure is projected to be capitalized on account of:

- Overhauling of Turbine Engine of DR 990 Gas Turbine at estimated cost of Rs. 275 million: The petitioner has stated that turbine engine needs to be overhauled as per Original Equipment Manufacturer recommended overhaul schedule. It has clocked 48,000 hours as on October, 2015.

- Replacement of Unit Valves of DR-990 Compressors at HQ-3 Compressor Station at estimated cost of Rs. 26 million: The petitioner has stated that the valves are required as replacement of unit valves of DR 990 Compressor Units procured in 1984. Now after 32 years of service, they are leaking and their spares are not available.

- Additional Compressor Unit 01 No. (Quetta Capacity Enhancement Project) at estimated cost of Rs. 1,400 million: The petitioner has stated that the said compressor would enable to cater the additional gas flow requirement / demand of Quetta and its surrounding areas.

- Additional 06 Compressor Units & extension of facility at Nawabshah (Total 30,000 HP) at estimated cost of Rs. 8,239 million; The petitioner has stated that these are required for transportation of RLNG upto Sawan and are part of RLNG Infrastructure Development Project-II.

6.6.2. The Authority notes that the honorable High Court of Balochistan in its decision dated March 7, 2016 on CP No. 1229/2015 titled 'Ali Ahmed Kurd and others Vs FoP and others' has directed as under:

"Since low pressure of gas is the main problem in Balochistan, therefore, the Managing Director, SSGC is directed to immediately take steps for up-gradation of the transmission line accordingly. This matter must be placed before the Board of Directors in its forthcoming meeting for up-gradation of the transmission line. All the stakeholders including OGRA should give top priority to this project."

6.6.3. The company in its earlier estimates, furnished in its "Pipeline Infrastructure Development Plans for Upcoming LNG" had estimated an amount of Rs. 6,920 million for installation of 30,000 HP Compression facilities at Nawabshah, however, in the instant petition, the company has projected an amount of Rs. 8,239 million for the said project and has not furnished any plausible justification for increase in estimates. It may however be noted that the Authority vide its letters dated May 15, 2015 and June 1, 2015 has already granted in principle approval to SSGC for Phase-II of its RLNG Infrastructure Development Project. Moreover the consultant firm i.e. Zeshan Engineers Pvt Limited has also endorsed the company's project plans and project design.

6.6.4. *Keeping in view the operational requirement of the company, national importance of Quetta Pipeline Capacity Enhancement Project and RLNG Infrastructure Development Projects as well as the capability/past trend of the company to capitalize such projects, the Authority provisionally allows an amount of Rs. 5,000 million (approx 50% of the projected amount) under this head as per following details:*

- *a) Rs. 275 million for overhauling of turbine engine*
- *b) Rs. 25 million for replacement of Unit Valves*
- *c) Rs. 700 million for additional compressor for Quetta Capacity Enhancement project*
- *d) Rs. 4,000 million for 06 additional compressors of capacity 30,000 HP for RLNG Project-II (as projected in earlier estimates instead of current projection of Rs 8,239 million)*

Any additional expense under this head will be considered at the time of FRR.

6.6.5. *In view of the discussion at paras 6.5.27 to 6.5.28 above, cost of additional compressors amounting Rs. 4,000 million related to RLNG infrastructure, is to be charged / recovered from RLNG Consumers without affecting consumers relying on domestically produced gas.*

6.7. Plant and Machinery

6.7.1. The petitioner has projected an amount of Rs. 642 million on account of Plant and Machinery for the said year, which includes an amount of Rs 263 million for UFG reduction program related plant & machinery.

6.7.2. The Authority observes that projections under this head have historically remained on higher side when compared with actual expenditure at year end e.g. actual average capitalization during the period FY 2006-07 to FY 2014-15 remained at 21% of the projections. Moreover, the petitioner has actually capitalized an average amount of Rs 274 million per year during the last three years.

6.7.3. *Keeping in view the importance of plant and machinery for operational activities and trend analysis, the Authority provisionally allows an amount of Rs. 274 million for the said year.*

6.8. Gas Distribution System

6.8.1. The petitioner has projected an amount of Rs. 10,258 million for gas distribution system and related facilities & equipments.

Table 12: Requested Additions to Distribution Network

Rs. in Million

S. No.	Description Of Segment	The Petition FY 2016-17
1	Rehabilitation Mains and Services-UFG Control Program	2,547
2	Replacement Meters -Domestic and Bulk Meters-UFG Control Program	866
3	Segmentation-UFG Control Program	578
4	Cathodic Protection-UFG Control Program	547
	Sub-total	*4,538*
5	Laying Of Distribution Mains including services - Existing Areas	2,158
6	Installation of New Connections (meters)	649
7	Replacement/ Repair of Meters	1,192
8	Installation of Modems,EVCs and Filter Separators	445
9	Construction of CMSs,TBSs,TRSs and Cathodic Protection	96
10	New Towns	486
	Sub-total	*5,026*
11	12" DIA x 26.5Km Tando Allah Yar Supply Main	378
12	20" x 7 Km Distribuition Main from Desalination Plant DHA Phase VIII to Dolmen mall Clifton	315
	Total Gas Distribution System	**10,258**

6.8.2. The petitioner has projected an amount of Rs 4,538 million for UFG Control Program, the breakup of which is as under:

Table 13: Breakup of UFG Control Program

Activity	Rs. in million
Rehabilitation Manis & services	2,547
Replacement Meters (Domestic & Bulk)	866
Segmentation	578
Cathodic Protection	547
Total	4,538

6.8.3. The petitioner has stated that they are no longer continuing with NGEP Program under the World Bank because of various reasons, however, same activities will be continued; they are now focusing to install bulk meters on all TBSs, create isolated segments to manage small business units more effectively and add new CP stations to control UFG.

6.8.4. The Authority notes that the petitioner's UFG has an increasing trend since last several years and it is increasingly important to enhance UFG control activities. However, company's ability and seriousness to undertake activities under this head has remained limited in the past.

6.8.5. *The Authority, in view of the importance of UFG Control activities as well as the capacity of the petitioner to execute such projects, allows an amount of Rs 1,709 million upfront under this head as per following details:*

Table 14: UFG Control Program Allowed by the Authority

Activity	Rs. In million
Rehabilitation Mains & Services	744
Replacement Meters (Domestic & Bulk)	400
Segmentation	290
Cathodic Protection	275
Total	1,709

Any additional expense under this head will be considered at the time of FRR.

6.8.6. The petitioner has projected Rs. 2,158 million for laying 968 Km distribution mains including main extensions, reinforcement mains and service mains for the said year.

6.8.7. The Authority, based on the last three years trend in respect of physical achievement, per Km cost and inflation impact , provisionally allows Rs. 1,658 million for laying of 800 km distribution mains as per following breakup:-

- *Rs. 1,277 million for laying 430 Km main extensions and reinforcement mains;*
- *Rs. 381 millions for laying 370 Km services mains.*

6.8.8. The petitioner has projected Rs. 649 millions for installation of 104,367 Nos. new connections (meters) in Karachi, Sindh and Balochistan regions for the said year. The petitioner has explained that the industrial connections projected to be installed are pre-moratorium and the commercial connections projected to be installed during the said year either pertain to Balochistan or are the Roti Tandoor connections in Sindh which are exempted from moratorium.

6.8.9. The Authority observes that in case of commercial connections (meters) the petitioner has projected higher per unit cost as compared to the cost actually incurred in FY 2014-15. Moreover, the petitioner has not yet provided actual per unit cost of installing industrial, commercial and industrial connections during FY 2015-16.

6.8.10. ***The Authority therefore, based on historical trend allows Rs. 312 million for installation of 104,367 Nos. new meters for the said year. The petitioner is advised to use actual per unit cost incurred in previous years after adding all expenses like DDC, for estimation as done in previous years.***

6.8.11. The petitioner has projected Rs. 1,192 millions for replacement of industrial, commercial and domestic gas meters in Karachi, Sindh and Balochistan regions for the said year.

6.8.12. The Authority notes that per unit cost projected by the petitioner for replacement of meters in FY 2016-17 is much higher than the per unit cost actually incurred in FY 2014-15. ***The Authority based on actual per unit cost incurred in last years and inflation allows Rs. 941 million for replacement of 120 Nos. industrial meters, 3,250 Nos. commercial meters and 300,000 domestic meters for the said year.***

6.8.13. The petitioner has projected an amount of Rs. 445 million for installation of EVCs, Modems and Filter Separators.

6.8.14. The Authority notes that the petitioner has also projected an amount of Rs. 486 million for similar items under the head of "Replacement Meters – UFG Control Program". ***The Authority, therefore, provisionally allows an amount of Rs 200 million under this head.***

6.8.15. The petitioner has projected an amount of Rs. 96 million for construction of CMSs, TBSs, TRSs and CP Stations.

6.8.16. ***The Authority in view of the historical trend analysis, provisionally allows Rs. 96 million under this head.***

6.8.17. The petitioner has projected Rs. 486 million for extension in distribution network in order to supply gas to new towns & villages during the said year.

6.8.18. The Authority observes that out of the projected schemes, only schemes worth Rs. 25 million meet per customer cost criteria approved by ECC and policy of the FG on the matter; whereas the remaining schemes amounting Rs 461 million are either post moratorium or do not meet per customer cost criteria approved by ECC and Policy of FG on the matter.

6.8.19. ***The Authority, keeping in view severe shortfall of gas supply in the country, prevailing policy of FG, moratorium imposed vide MP&NR letter dated October 04, 2011 and decision of Honorable Supreme Court on CP-20 of 2013 provisionally allows Rs. 25 million on account of only those schemes which meet per customer cost criteria and pertain to Gas Producing Districts.***

6.8.20. The petitioner has projected Rs. 378 million for laying 12" dia x 26.5 Km Tando Allah Yar Supply Main for the said year.

6.8.21. The Authority observes that the petitioner has been projecting the said project since long and the Authority had allowed the same in earlier determinations, however, the petitioner did not execute the project. ***Keeping in view the previous history, the Authority decides to pend the expenditure against this project at this stage, however, the petitioner may execute the project if feasible and claim the actual expenditure in FRR.***

6.8.22. The petitioner has projected Rs. 315 million for laying 20" dia x 7 Km Distribution Main from Desalination Plant DHA Phase VIII to Dolmen Mall Clifton for the said year.

6.8.23. The petitioner has stated that this project was approved in FY 2013-14 but could not be executed due to non-availability of the pipe. The petitioner has added that this project is the extension of 20" dia Supply Main at Desalination Plant DHA to 12" dia

Supply Main at Dolmen Mall Clifton; where severe low pressure is being faced at present, now by extending 20" dia pipeline not only pressure at tail ends of the Central Regions will increase, but they will meet the pressure requirements of the Industrial Areas at Mauripur road.

6.8.24. The *Authority, in view of the above, provisionally allows an amount of Rs 200 million under this head.*

6.8.25. *In view of above, addition to Gas Distribution System is provisionally allowed at Rs. 5,141 million for the said year, as tabulated below;*

Table 15: Additions to Distribution Network as Determined by the Authority

Rs. in Million

S/No.	Description	The Petition	Determined by the Authority
		FY 2016-17	
1	Rehabilitation Mains and Services-UFG Control Program	2,547	744
2	Replacement Meters -Domestic and Bulk Meters-UFG Control Program	866	400
3	Segmentation-UFG Control Program	578	290
4	Cathodic Protection-UFG Control Program	547	275
	Sub-total	*4,538*	*1,709*
5	Laying Of Distribution Mains including services -Existing Areas	2,158	1,658
6	Installation of New Connections (meters)	649	312
7	Replacement/ Repair of Gas Meters	1,192	941
8	Installation of Modems,EVCs and Filter Separators	445	200
9	Construction of CMSs,TBSs,TRSs and Cathodic Protection	96	96
10	New Towns	486	25
	Sub-total	*5,026*	*3,232*
11	12" DIA x 26.5Km Tando Allah Yar Supply Main	378	-
12	20" x 7 Km Distribuition Main from Desalination Plant DHA Phase VIII to Dolmen mall Clifton	315	200
	Total Gas Distribution System	10,258	5,141

6.9. Furniture; Security & Office Equipment, Computer & Allied Equipment

6.9.1. The petitioner has projected Rs. 598 million in respect of furniture, security equipment, office equipment, and computers & allied equipment for the said year.

6.9.2. The Authority observes that the petitioner has capitalized an average amount of Rs. 107 million per year during the period FY 2006-07 to FY 2013-14.

6.9.3. *In view of the historical trend the Authority provisionally determines the said expenditure at Rs. **110** million as tabulated below:*

Table 16: Additions to Furniture, Security, Office Equipment Allowed by the Authority

Rs. Million

Sr. No.	Description	The Petition	Determined by the Authority
		FY 2016-17	
1	Computers & allied equipments	488	80
2	Office equipment, Furniture and Security Equipment	110	30
	Total	598	**110**

6.10. Computer Software (Intangible)

6.10.1. The petitioner has projected Rs. 124 million for procurement of various softwares including High Resolution Natural Color/ Multispectral Satellite Data, Remedy Software, Oracle Time and Labor License, GRC Technology Licenses, Additional Oracle Technology Licenses and CC&B Upgrade.

6.10.2. ***The Authority notes that the petitioner has capitalized an average amount of Rs. 38 million / year during the last seven years. Keeping in view the historical trend analysis, the Authority provisionally allows an amount of Rs 38 Million for the said year.***

6.11. LPG Air-Mix Projects

6.11.1. The petitioner has projected Rs. 1,564 million on account of LPG Air–Mix projects for the said year out of which an amount of Rs. 13 million is to be capitalized on operational projects at Gwadar, Noshki, Surab and Kot Ghulam Muhammad LPG

Air Mix Plants and Rs. 1,551 million are projected to be capitalized on new LPG Air Mix Projects in Zhob, Qilla Saifullah, Loralai, Kharan, Awaran, and Bela.

6.11.2. The Authority notes that the petitioner has not obtained the requisite approvals / licenses for installation of new LPG Air Mix Projects at Zhob, Qilla Saifullah, Loralai, Kharan, Awaran, and Bela. In this regard, the petitioner has reported that they have applied to obtain approval/directives from the ECC for the installation of these plants and they will apply for OGRA license of the said projects when directives from the ECC/GoP will be available.

6.11.3. *In view of the above, the Authority does not allow expenditure amounting Rs. 1,551 million projected for new LPG Air Mix Projects at this stage. The Authority, however, allows an amount of Rs. 13 million to be capitalized on Gwadar, Noshki, Surab and Kot Ghulam Muhammad LPG Air Mix Systems, which are operational and duly licensed by the Authority.*

6.12. Telecommunication System

6.12.1. The petitioner has projected Rs 65 million for the said year for different telecommunication projects.

6.12.2. The Authority observes that actual expense that the company has been able to capitalize under this head during the period FY 2006-07 to 2013-14 is Rs 51 million/year.

6.12.3. *The Authority, in view of the historical trend, allows Rs. 51 million for the said year.*

6.13. Appliances Loose Tools & Equipment

6.13.1. The petitioner has projected Rs. 131 million for appliances, loose tools and equipment for the said year.

6.13.2. The Authority observes that the petitioner has capitalized an average amount of Rs 24 million/year during the last eight years. *Keeping in view the historical trend* *analysis, the Authority provisionally allows an amount of Rs 24 Million for the said year.*

6.14. Vehicles

6.14.1. The petitioner has projected Rs. 622 million under this head for the said year. The petitioner has informed that the said expenditure has been projected for purchase of 399 vehicles, comprising 341 operational and 58 non-operational vehicles. The petitioner has added that 237 vehicles are the replacement vehicles whereas 162 vehicles are the new ones/additional.

6.14.2. The Authority notes that as per the historical trend the petitioner has capitalized an average amount of Rs 230 million per year during the last three years.

6.14.3. *The Authority, in view of the historical trend and after adding inflation impact provisionally allows an amount of Rs. 310 million for the said year.*

6.15. Construction Equipment

6.15.1. The petitioner has projected Rs. 1,000 million for procurement of different construction equipment's including Bore Machine, Excavators, Welding Plants, Trucks, Water & Fuel Tankers etc, which are required for laying 42" dia pipeline for RLNG Project. The petitioner has argued that the it had initially planned to outsource the pipeline construction job, but now keeping in view the project completion timelines, they have decided to carry out construction of 42" dia, 82 Km pipeline at their own, and therefore, they have projected the construction equipments of Rs 1,000 million for the said year.

6.15.2. The Authority notes that the petitioner's projections under this head have historically been on higher side as compared to actual expenditure at the close of the year.

6.15.3. *The Authority, keeping in view the national importance of the RLNG projects in hand as well as historical trend, provisionally allows an amount of 500 million (50% of the projected amount) in this head.*

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6.15.4. In view of the discussion at paras 6.5.27 to 6.5.28 above, cost of construction equipment amounting to Rs. 500 million, related to RLNG infrastructure, is to be charged / recovered from RLNG Consumers without affecting consumers relying on domestically produced gas.

6.16. **SCADA**

6.16.1. The petitioner has projected Rs. 45 million under this head. The petitioner has stated that capitalization under the head of SCADA is a component of Pipeline Infrastructure Development Project for upcoming LNG. The petitioner has also explained that in order to maintain RLNG transportation from injection point to exit point, there is a need to extend voice communication and set up new SCADA sites at Bin Qasim, Pakland, Khadeji interlink, Dadu, HQ-3, HQ-2, Hassan, Sawan and Sui.

6.16.2. ***The Authority, keeping in view the above, allows Rs. 45 million for the said year. Moreover, in view of the discussion at paras 6.5.27 to 6.5.28 above, cost of SCADA amounting Rs 45 million, which relates to RLNG infrastructure, is to be charged / recovered from RLNG Consumers without affecting consumers relying on domestically produced gas.***

6.17. **Assets relating to meter manufacturing business**

6.17.1. The petitioner has excluded the projected addition of Rs. 43 million pertaining to meter manufacturing business from the rate base by reiterating its contention that the business is not a regulated activity.

6.17.2. The Authority maintains its earlier decision of treating the meter manufacturing business as operating activity till the existing tariff regime is in place. ***The Authority therefore, keeping in view its earlier decisions as well as discussion at para 7.3.7 decides to treat assets related to MMP business as regulated activity for the said year.***

6.18. **Fixed Assets Determined by the Authority**

6.18.1. The value of additions in assets requested by the petitioner and provisionally determined by the Authority for the s said year, is as under:

Table 17: Summary of Asset Additions Determined by the Authority

Rupees in Million

Particulars	FY 2016-17	
	The Petition	Determined by the Authority
Land	4	4
Buildings	278	100
Roads, pavements and related infrastuctures	151	68
Gas Transmission Pipeline	48,841	18,844
Compressors	9,940	5,000
Plant and machinery	642	274
Gas distribution system and related facilities & equipments	10,258	5,141
Furniture, equipment including computer & allied equipments	598	110
Computer Software (Intangible)	162	38
LPG Air Mix Projecrs	1,564	13
Telecommunication system	65	51
Appls., loose tools & equipt.	131	24
Vehicles	622	310
Construction equipment	1,000	500
SCADA	45	45
Gross Addition	74,301	30,522

6.19. **Assets *related to RLNG***

6.19.1. In view of the discussion at paras 6.5.27 to 6.5.28 above, all cost incurred in creation of RLNG infrastructure, is to be charged / recovered from RLNG Consumers without affecting consumers relying on domestically produced gas. Hence cost of following assets related to RLNG, amounting Rs 22,045 million is to be recovered from RLNG consumers.

Table 18: Asset Related to RLNG Charged to RLNG Consumers by the Authority

Rs. in million

Asset Description	Determined by the Authority
Transmission Pipeline	17,500
Compressors	4,000
Construction Equipment	500
SCADA	45
Total	22,045

6.19.2. *Accordingly, depreciation expense is provisionally determined Rs. 5,708 million as a consequence of reduction in additions to fixed assets for the said year, as discussed above.*

6.19.3. *In view of the discussion above, the addition in fixed assets for the purpose of return are determined at Rs. 30,522 million. In view of the above, the Authority*

provisionally determines closing operating fixed assets for the said year at Rs. 72,097 million.

7. Operating Revenues

7.1. Sales Volume

7.1.1. The petitioner has projected 5% increase (140,883) in number of consumers, from 2,773,447 reported in FY 2015-16 to 2,914,330 during the said year, as follows:

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

Category	FY 2014-15	FY 2015-16		FY 2016-17	Growth over Actuals FY 2015-16	
	FRR	DERR	Actuals	The Petition		%
Domestic	2,683,024	2,821,948	2,746,202	2,885,891	139,689	5
Commercial	23,408	24,444	23,071	24,223	1,152	5
Industrial	4,153	4,239	4,174	4,216	42	1
Total	2,710,585	2,850,631	2,773,447	2,914,330	140,883	5

7.1.2. Sales volume has been projected at 390,315 BBTU for the said year. Category-wise comparison with previous years has been provided as under:

Table 20: Comparison of Projected Sales Volume with Previous Years

Volume in BBTU

Category	FY 2014-15	FY 2015-16		FY 2016-17	Inc. / (Dec.) over Actuals of FY 2015-16	
	FRR	DERR	Actuals	The Petition		%
CNG Stations	28,238	24,363	28,482	28,903	421	1
General Industries	68,701	71,454	61,934	63,156	1,222	2
Domestic	80,906	99,917	83,101	86,992	3,891	5
Captive Power	73,906	71,810	67,701	74,802	7,101	10
HCPC	6,185	5,731	4,752	6,185	1,433	30
Nooriabad Power Plant		6,905		7,048	7,048	100
Cement	505	306	214	505	291	136
Commercial	9,854	10,031	10,102	10,057	(45)	(0.45)
Power	73,307	72,903	108,732	99,285	(9,447)	(9)
Fertilizer - feed stock	13,382	25,551	18,960	13,382	(5,578)	(29)
Al-Tuwairiqui Steel	-	6,905		-	-	
DHA Desalination Plant	-	3,021		-	-	
Naudero Rental Power	-	2,103		-	-	
Total	354,984	400,999	383,977	390,315	6,338	2

7.1.3. The petitioner has explained that gas sales volume has been projected based on the availability of gas, considering take and pay and current trend of gas off takes from existing and new gas fields.

7.1.4. The petitioner has explained that increase in sales volume to the power sector is mainly due to enhanced supply to WAPDA - Jamshoro & Kotri. Moreover, volumes are available as major plants namely Al-Tuwairqui steel, DHA Desalination Plant and Naudero Rental Power are shut down. Earlier in FY 2015-16, estimates against these categories were made on lower sides.

7.1.5. ***The Authority, in view of above, accepts the petitioner's sales volume projections at 390,315 BBTU.***

7.2. Sales Revenue at Existing Prescribed Prices

7.2.1. The petitioner has projected to decrease sales revenues at existing prescribed price by 2% over FY 2015-16 to Rs. 163,272 million for the said year. Category-wise comparison of sales revenue is given below:

Table 21: Comparison of Projected Sales Revenue with Previous Years

Rs. In Million

Particulars	FY 2014-15 FRR	FY 2015-16 DERR	FY 2015-16 Actuals	FY 2016-17 The Petition	Inc./(Dec.) over Actuals of FY 2015-16	%
Habibullah Coastal Power	3,176	2,420	2,320	2,611	291	13
Cement	259	129	159	213	54	34
Nooriabad Power Plant	-	2,915	-	2,976	2,976	100
Domestic	41,554	42,189	17,248	35,197	17,950	104
Fertilizer - Feedstock	6,873	10,789	2,281	5,650	3,369	148
General Industries	35,286	30,171	29,983	26,667	(3,316)	(11)
Captive Power	37,959	30,321	36,867	31,584	(5,282)	(14)
Power	37,651	30,783	53,087	41,922	(11,165)	(21)
CNG Stations	14,503	10,287	18,602	12,204	(6,398)	(34)
Commercial	5,061	4,235	6,529	4,246	(2,283)	(35)
Al-Tuwairqi Steel	-	2,915	1	-	(1)	(100)
Naudero Rental Power	-	888	0.216	-	(0)	(100)
DHA Desalination Plant	-	1,275	-	-	-	-
Total Sales Revenues	**182,321**	**169,318**	**167,078**	**163,272**	**(3,805)**	**(2)**

7.2.2. The Authority observes that decrease in sales revenue is mainly due to revision in gas supply allocations of various sectors as indicated in para in 7.1.3 and 7.1.4 above.

7.2.3. The Authority observes that the petitioner has worked out net sale at current prescribed price on the basis of average prescribed price determined by the Authority per DERR for FY 2015-16. Based on existing sale price, prescribed price for FY 2015-16 was re-adjusted. ***Accordingly, the Authority provisionally determines net sale at category-wise prescribed price based on existing prescribed price of FY 2015-***

16 at Rs. 163,684 as against Rs. 163,272 million projected by the petitioner for the said year.

7.3. Other Operating Income

i. *Summary*

7.3.1. The petitioner has projected other operating income at Rs. 2,994 million for the said year. Comparison with previous years is given below:

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

Rs. in million

Particulars	FY 2014-15	FY 2015-16		FY 2016-17	Inc/(Dec.) over Actual FY 2015-16	
	FRR	DERR	Actuals	The Petition	Rs.	%
Amortization of deferred credits	403	433	406	407	1	0.25
Meter rentals	700	731	719	750	31	4
Gas transportation charges	-	62	-	68	68	100
Sale of LPG	4,904	5,180	856	845	(11)	(1)
Other income	904	579	895	447	(449)	(50)
Sale of Gas condensate	124	376	428	122	(307)	(72)
Sale of NGL	2,644	1,440	2,391	356	(2,036)	(85)
Late Payment Surcharge	-	6,138	-	-	-	-
Meter Manufacturing Plants Profit	-	134	-	-	-	-
Notional income on IAS provision	456	468	-	-	-	-
Operating Revenue	**10,135**	**15,541**	**5,696**	**2,994**	**(2,702)**	**(47)**

ii. *Meter Manufacturing Profit (MMP), Late Payment Surcharge (LPS), Sale of Gas Condensate*

7.3.2. The petitioner has submitted that revenue from MMP (Rs. 641 million), LPS (Rs. 1,151 million), and sale of gas condensate (excluding shrinkage cost) (Rs. 161 million) are treated as non-operating income in the petition in line with the Authority's decision of FRR for FY 2009-10, and subsequent interim stay orders granted by honorable SHC in respect of FY 2010-11, FY 2011-12, FY 2012-13, FY 2013-14 and FY 2014-15.

7.3.3. The Authority notes that no new submission / justification have been submitted by the petitioner except referring the above said decisions. Decision for FRR for FY 2009-10 was a one time decision specifically for that year owing to compelling financial and operational reasons of gas utilities, along-with categorical statement that it shall have no bearing on future decisions of the Authority.

7.3.4. Regarding LPS and MMP, the Authority is of the view that treatment of the same shall be continued as operating income as per the existing tariff regime. It is already on record that OGRA had already given its stance in this respect while forwarding the new tariff regime in 2005. OGRA, with the assistance of World Bank, and in consultation with all stake holders is in a process to review the existing tariff regime, considering the market dynamics and business challenges, in connection with MP&NR's "Gas Sector Structural Reforms Program". The Authority, however, is of the considered view that till the finalization of a new tariff regime, treatment of components as per the existing tariff regime be continued.

7.3.5. The Authority further observes that petitioner has also claimed the cost of working capital owing to insufficient increase in sale prices resulting to un-recouped shortfall in revenue requirement. The actual recovery from consumers has been far less even to meet the revenue requirement determined by the Authority. Accordingly, it has to excessively borrow funds from commercial banks in order to meet its operating costs and resolve the cash flow issues. Accordingly, the petitioner has claimed cost of working capital as operating expenses in the revenue requirement.

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

7.3.7. ***In view of above, the Authority decides to include LPS and MMP as part of operating income as per the practice in vogue.***

7.3.8. Regarding treatment of sale of gas condensate, the Authority has always been of considered view that extraction of condensate or any by-product is carried out by the petitioner under the umbrella of transmission, distribution and sale of natural gas.

Therefore, exclusion of income from sale of gas condensate or any by-product from revenue requirement determination defies logic. Moreover, the petitioner claims adjustment on account of shrinkage of gas while claiming UFG adjustment. These assets have been financed by natural gas consumers over a period of time. It appears that the petitioner is emphasizing its efforts over profit maximization, rather than substantiating its stance on technical and logical grounds. The Authority reiterates its stance of reviewing existing tariff regime in totality, where all concerns of the petitioner shall be considered and decision shall be taken on merit. ***Till the time, the Authority decides to include income from sale of gas condensate (Rs. 161 million) as operating income, and fixes income from sale of gas condensate at Rs. 283 million for the said year.***

iii. Sale of LPG / NGL

7.3.9. The petitioner has projected Rs. 1,132 million & Rs. 2,728 million on account of sale of NGL & LPG respectively, and has offered shrinkage cost on these accounts of Rs. 356 million & Rs. 845 million as an operating income for the said year.

7.3.10. The petitioner has further informed that it is selling LPG/NGL extracted from the Kunnar Pashakhi/ Bobi / Sinjhoro /Niamat Basal Field gases utilizing the extraction facility of JJVL under an interim arrangement with JJVL to process and extract LPG and NGL from the gas being delivered from these gas fields.

7.3.11. The petitioner has argued that those incomes which are derived from its operations over and above the activities defined in the license granted by OGRA cannot be treated as its "operating" or "regulated" income. The license granted to the 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. The petitioner has further 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 by the petitioner cannot be treated as operating income for the purposes of tariff determination.

7.3.12. The Authority notes that the petitioner's above submissions are mere repetition of its earlier ones, which have already been exhaustively discussed and deliberated by it in para 7.3.8 of this determination. The Authority further notes with serious concern that the petitioner is still extending its Memorandum of Association with M/s JJVL despite the Authority's clear directions dated November 27, 2015 in this respect, wherein it was directed to execute the tender inquiry process so as to ensure transparency. Moreover, the petitioner has failed to get clear directives or NOC in respect of adopting discounted senipah price for sale of NGL as was being done in case of sale of gas condensate. Moreover, status and stance w.r.t to on going litigation in the matter of JJVL was sought, however, the same was not provided by the petitioner. The Authority also notes with serious concern that the petitioner has not yet provided the status on the calculation of disputed freight to be received from M/s JJVL in pursuance of honorable Supreme Court Order dated December 04, 2013. In view of the same, the petitioner is once again directed to submit status on pending amount of *freight within one (01) month of the issuance of this Order.*

7.3.13. *In view above as well as decision in para 7.3.8, the Authority decides to treat entire incomes projected against LPG (Rs. 2,728 million) and NGL (Rs. 1,132 million) as operating incomes.*

7.3.14. *Accordingly, the Authority provisionally includes MMP (Rs. 641 million), LPS (Rs. 1,151 million), and sale of gas condensate (Rs. 283 million), sale of NGL (Rs. 1,132 million) and sale of LPG (Rs. 2,728 million) as part of tariff calculation for the said year.*

iv. Transportation of RLNG

7.3.15. The Authority observes that during the said year as well as in FY 2015-16, the petitioner has planned extensive capitalization on account of RLNG transportation. All such expenses/revenues owing to undertaking of RLNG activities shall be ring-fencing, and the cost of the same shall be borne by respective LNG consumers s per GoP's decisions. Accordingly, the petitioner, in RLNG pricing, was sought to provide incremental cost of service, to be charged to RLNG consumers in the light of GoP's decision. The petitioner has estimated Rs. 21,327 million as transportation income/ incremental cost of supply related to RLNG for the said year.

7.3.16. The Authority notes that the capitalization to transport the huge RLNG volume is under progress which shall be completed during the said year. Accordingly, the realistic estimation of transportation income impact shall be materialized at that time. ***In view of the same, the Authority re-calculates transportation income based on the adjustment decided in para 6.19.1, and provisionally determines RLNG transportation income at Rs. 3,697 million for the said year. Any adjustment on this account shall be considered at the time of FRR for the said year based on the capitalization of assets and related costs.***

v. Other Income

7.3.17. The petitioner has projected other income at Rs. 447 million for the said year. Comparison with previous years is given below:

Table 23: Comparison of Projected Other Income with Previous Years

Rs. in million

Particulars	FY 2014-15	FY 2015-16		FY 2016-17	Inc. / (Dec.) over Actual of FY 2015-16	
	FRR	DERR	Actuals	The Petition		%
Income from sale of net investment in finance lease	156	146	106	68	(38)	(36)
Income from new service connections	491	340	300	280	(20)	(7)
Liquidated damages recovered	9	9	132	7	(125)	(94)
Others	32	19	70	18	(51)	(74)
Recoveries from consumers	72	57	79	69	(10)	(13)
Income from sale of tender documents	6	3	5	4	(1)	(26)
Profit on disposal of fixed assets	29	-	98	-	(98)	(100)
Income from pipeline construction	105	-	101	-	(101)	(100)
Advertising Income	5	-	5	-	(5)	(100)
Notional income on IAS 19 provision	456	468	-	-	-	0
Total Other Operating Income	1,359	1,041	895	447	(449)	(50)

- *Income from Sale of Net Investment in Finance Lease*

7.3.18. The petitioner has projected "income from sale of net investment in finance lease" at Rs. 68 million in the instant petition.

7.3.19. The petitioner has explained that agreements with M/s OGDCL and M/s ENI have expired resulting in decrease in income from sale of net investment in finance lease.

7.3.20. ***In view of above, the Authority accepts the petitioner's contention and provisionally allows Rs. 68 million for the said year.***

- *Notional Income on IAS-19 & Advertising Income*

7.3.21. The petitioner has not included Rs. 615 million estimated on account of "Notional Income on IAS-19" and "Advertising income" amounting to Rs. 6 million respectively as non-operating income for the said year as per its previous practice.

7.3.22. The Authority is of the firm view that any income derived from the operations of the company is an operating income, and therefore, be included as part of tariff calculation. In view of same, the Authority provisionally includes Rs. 615 million & Rs. 6 million on account of notional income on IAS-19 & Advertising income as part of revenue requirement for the said year. Accordingly, the Authority provisionally determines "other income" at Rs. 1,067 million for the said year.

7.3.23. *In view of the discussion in paras 7.3.1 and 7.3.22 above, the Authority provisionally determines other operating income for the said year at Rs. 11,924 million as against Rs. 2,994 million claimed by the petitioner, as detailed below.*

Table 24: Summary of Other Operating Income Determined by the Authority

Rs. in million

Particulars	FY 2016-17	
	The Petition	Determined by the Authority
Meter manufacturing profit	-	641
Late Payment Surcharge	-	1,151
Sale of Gas condensate	122	283
Other income	447	1,067
Meter rentals	750	750
Amortization of deferred credits	407	407
Sale of LPG	845	2,728
Sale of NGL	356	1,132
RLNG Transportation Income	-	3,697
Gas Transportation Charges	68	68
Operating Revenue	**2,994**	**11,924**

8. Air-Mix LPG Projects

8.1.1. The petitioner has claimed subsidy of Rs. 840 million on account of its Air-mix LPG projects for the said year.

8.1.2. *The Authority, in view of the discussion and decision at paras 6.11.2 and 6.11.3 above, provisionally allows subsidy at Rs. 359 million on account of Gwadar, Noshki, Surab and Kot Ghulam Muhammad LPG Air Mix projects for the said year.*

9. Operating Expenses

9.1. Cost of Gas

9.1.1. The petitioner has projected cost of gas Rs. 132,862 for the said year, 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 25: Comparison of Projected Cost of Gas with Previous Years

FRR for FY 2014-15		DERR for FY 2015-16		The Petition FY 2016-17	
MMBTU	Rs. Million	MMBTU	Rs. Million	MMBTU	Rs. Million
428,559	156,030	488,035	147,461	484,354	132,862

9.1.2. 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.

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

Table 26: Estimates for Determination of WACOG per the Petition

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

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

Table 27: Revised WACOG

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

9.1.5. ***Based on the above, the cost of gas is provisionally determined at Rs. 133,285 million for the said year.***

9.2. Unaccounted for Gas (UFG)

9.2.1. The petitioner has claimed UFG for the said year at 7.63% (36,987 MMCF), as follows:

Table 28: UFG Volume Claimed in the Petition

Volumes in MMCF

Particulars	FY 2016-17 The Petition
Gas Purchases	485,360
Gas Sales	447,579
	36,987
UFG(%age of Purchases)	7.63%

9.2.2. The Authority observes that 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 the Ordinance is made out. Consequently the petitions of SNGPL are dismissed."

9.2.3. The Authority observers 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, which is in progress. *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. Any uncontrollable factors will be dealt at the time of FRR, once the UFG Study is completed.*

9.2.4. Revised UFG computation on the basis of above and the adjustments discussed in paras 9.1.4 is as under;

Table 29: Unaccounted for Gas

MMCF

Particulars	The Petition	Determined by the Authority
	FY 2016-17	
Gas Purchases		
Gas purchases (Gross)	485,360	485,360
Less: Gas Internally Consumed-metered	794	794
Available for Sale (A)	**484,566**	**484,566**
Gas Sales		
Gas Sales	398,489	398,489
Gas Delivered to SNGPL as per GoP decision under SWAP arrangement	8,273	8,273
Add: Bulk Retail Ratio	25,759	-
Add: Unbilled pilfered volume in law & order affected a	2,355	-
Add: Pilfered volume detected against non-consumers	8,000	-
Add: Gas Shrinkage at JJVL - LPG/NGL	4,380	4,380
Add: Gas Shrinkage at LHF - Condensate	324	324
Total (B)	**447,580**	**411,466**
UFG Volume C= (A-B)	36,986	73,100
UFG Projected D = C/A * 100	7.63%	15.09%
UFG Benchmark		4.50%
Allowable UFG Volume @ 4.5% Benchmark		21,805
Disallowed Volume over & above benchmark		51,295
Avg. MMBTU/MCF		0.979
Disallowed volume (MMBTU)		50,242
WACOG-Rs Per MMBTU		275.18
UFG Adjustment - (Rs. Million)		**13,826**

9.2.5. *Based on the above computation, the Authority provisionally adjusts Rs. 13,826 million from the revenue requirement of the petitioner for the said year.*

9.3. Transmission and Distribution Cost

i. Summary

9.3.1. The petitioner has projected transmission and distribution cost (including gas internally consumed) at Rs. 20,187 million for the said year, as detailed below:-

Table 30: Comparison of Projected T&D Cost with the Previous Years

Rs. in Million

Particulars	FRR	DERR	Actuals	The Petition	Inc./(Dec.) over Actuals FY 2015-16	
	FY 2014-15	2015-16		FY 2016-17		%
Salaries, wages, and benefits at benchmark	10,440	10,628	11,180	13,021	1,841	16
Stores, spares and supplies consumed	739	850	659	1,673	1,014	154
Provision for doubtful debts	547	602	1,103	2,344	1,241	113
Traveling	109	118	98	175	77	79
Repairs & maintenance	1,420	1,034	1,374	2,208	834	61
Insurance	108	127	119	170	51	43
Material used on consumers installations	16	36	37	51	14	36
Postage & revenue stamps	76	87	88	110	22	25
Gas bills stubs processing charges	13	18	19	23	4	18
Meter reading by contractors	59	65	67	75	8	11
Gas bills collection charges	164	171	178	187	9	5
SSGCL Share in ISGSL expenses	84	73	105	149	44	42
Professional charges	31	28	46	52	6	13
Others	130	150	97	263	166	172
Revenue expenditure relating to LNG	47	42	107	62	(45)	(42)
Electricity	184	212	193	232	39	20
Advertisement	109	126	103	125	22	22
Security expenses	392	463	470	561	91	19
Legal charges	61	61	70	81	11	16
Rent, rate & taxes	201	175	164	199	35	22
Collecting agent commission	-	5	3	3	0	7
Others (NGEP) Owner's Engineer	1	-	-	-	-	-
License & Tariff Petition Fee to OGRA	152	102	99	167	67	68
Sub-total Cost	**15,085**	**15,173**	**16,379**	**21,931**	**5,552**	**34**
Less: Recoveries / Allocations	1,813	2,150	1,992	1,959	(33)	(2)
Net T&D Cost before GIC	**13,272**	**13,023**	**14,387**	**19,972**	**5,585**	**39**
Add: Gas consumed internally	297	245	306	215	(91)	(30)
Loss due sabotage activity	49	-	13	-	-	-
Net Transmission & Distribution Cost	**13,618**	**13,268**	**14,706**	**20,187**	**5,481**	**37**

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

ii. Human Resource (HR) Cost

9.3.3. The petitioner has projected HR cost to increase from Rs. 10,628 million provided in DERR for FY 2015-16 to Rs. 13,021 million (HR cost Rs. 8,723 million + IAS-19 Provision & TAs impact Rs. 4,298 million) for the said year, showing an increase of 23%.

9.3.4. The petitioner has requested the Authority to finalize the new HR Benchmark formula in consultation with the gas utilities considering the following points;

- Rolling base year concept;
- Allowance of 100% impact of CPI;
- Treatment of the cost of TA's and IAS 19 provision outside benchmark formula;
- Treatment of impact of CBA charter outside benchmark formula.

9.3.5. The Authority observes that the petitioner's contention of rolling base year has already been acceded by the Authority in the earlier benchmark. However, the petitioner's request to treat impact of CBA & TA's does not hold logic, in view of the very fact that the same has been made part of base year cost. The Authority, however, considering petitioner's contention during public hearing advised it to submit proposal while taking TA's cost outside HR benchmark. No response has yet been received by the petitioner in support of its claim. The Authority further observes that the petitioner, in the past, was asked to provide comprehensive manpower need assessment study based on the working norms and justify the phenomenal increase. The same was also not provided.

9.3.6. The Authority observes that HR benchmark covers all legitimate cost related to HR including CBA. However, it requires that HR cost should be utilized in optimal and judicious manner and necessary provision may be made to offset the CBA demand. The petitioner, however, has been devoid of the basic concept of HR cost benchmarking and adopted rather inconsistent approach to utilize the funds on this account. The Authority however sticks on the principles and accordingly considers any petitioner's demand only on macro level without intervening the petitioners micro management policies and HR funds allocation. The Authority further observes that compliance to the Constitution of Pakistan is an obligation on each and every organ of the state. Accordingly, the petitioner should ensure compliance specially in terms of Article 38(g) of the Constitution while proceeding on the respective matters. Accordingly, the requisite data on the same shall be shared on regular basis.

9.3.7. The Authority further observes that company is in the process of restructuring and gas sector reform process is also under way. In this scenario, new benchmark shall require time for extensive deliberation and consultation with all stakeholders keeping in view expected changed business dynamics. ***The Authority, therefore, extends the existing benchmark for said year on provisional basis. Accordingly, the HR cost benchmark for the said year computes to Rs. 11,386 million, as per Annexure - C for the said year.*** The petitioner in this regard is also directed to carry out comprehensive manpower need assessment and allocation study w.r.t proposed business dynamics relates to gas sector reforms, and submit the same with Authority. The Authority further directs the petitioner, at the time of final revenue requirement, shall provide a 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.

iii. Material Used on Consumer Installations

9.3.8. The petitioner has projected material used on consumers installations for the said year at Rs. 51 million, which is as under;

Table 31: Comparison of Projected Material Used on Consumers Installations with the Previous Years

Rs. in Million

Particulars	FY 2014-15	FY 2015-16		FY 2016-17	Inc./(Dec.) over Actuals FY 2015-16	
	FRR	DERR	Actuals	The Petition	Rs.	%
Material used on Consumers Installations	16	36	37	51	14	36
Total	16	36	37	51	14	36

9.3.9. The petitioner has explained that it had envisaged Rs. 60 million at the time of ERR for FY 2015-16, against which the Authority allowed Rs. 36 million. Therefore, it has actually decreased its expenses from Rs. 60 million to Rs. 51 million. The petitioner has further submitted that it is expected to receive projects of Rs. 49 million during the last quarter of FY 2015-16 and during the said year.

9.3.10. The Authority notes that basis / rationale along with documentary evidence was sought from petitioner for envisaging Rs. 49 million projects during the said year. However, no concrete information was provided by the company. Actual expenditure under the head of material used on consumer installations has been reported at Rs. 37 million in FY 2015-16. The petitioner has, however, informed that during FY 2015-16, recovery on account of consumer installation have remained on higher side, and the works on the same shall be executed during the said year.

9.3.11. *The Authority, therefore, considering the importance of the expenditure and actual spending during FY 2015-16, decides to allow 50% of the claimed increase, and provisionally fixes material used on consumer installation at Rs. 44 million for the said year.*

iv. Provision for Doubtful Debts

9.3.12. The petitioner has projected Rs. 2,344 million on account of provision for doubtful debts. Historical trend is as under;

Table 32: Comparison of Provision for Doubtful Debts with Previous Years

Rs. in Million

Particulars	FY 2014-15	FY 2015-16		FY 2016-17	Inc./(Dec.) over Actuals FY 2015-16	
	FRR	DERR	Actuals	The Petition	Rs.	%
Provision for doubtful debts	547	602	1,103	2,344	1,241	113
	547	602	1,103	2,344	1,241	113

9.3.13. The petitioner has explained that the claimed amount is within the allowable limit of Rs. 2,344 million, i.e. 1% of sales approved by ECC vide its decision dated November 20, 2014.

9.3.14. The Authority notes with serious concern that projecting Rs. 2,344 million by only referring ECC decision itself is against the establishment of regulatory regime as well as company's own policy of provisioning against trade debts receivable and recovery mechanism. In the instant scenario, no direct linkage has been proved, even otherwise the petitioner has also projected 3% decrease in sales volume as well as decrease in price applicable for natural gas consumers. The Authority further notes an abnormal increase of 83% was reported in respect of provision for doubtful debts while comparing actuals of FY 2015-16 with its DERR.

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

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

9.3.17. The Authority also observes that there has been abnormal and ever rising increasing trend in the outstanding debt when actual results are compared on year to year basis. Further, major chunk of provision is claimed in respect of industrial and commercial consumers, whose security amount is held in advance. Major factors giving rise to this expense may include ineffective mechanism and lack of concerted efforts including delay in disconnection. The Authority, therefore, has been stressing the petitioner to design and implement effective disconnection/recovery system in letter and spirit in line with its approved policy so that consumers as well as shareholders interests must not be impaired.

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

9.3.19. The Authority keeping in view the ground realities in terms of uncontrollable factos including continuity of gas for essential services despite default, subjudice matters etc, set up a benchmark, as under;

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

Domestic Consumers (including bulk domestic):

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

All other (Commercial & Industrial Consumers):

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

Cogent reasons exists for increase in provision for doubtful debts for commercial and industrial consumers; duly supported by consumer-wise following details:

a) Name and category of consumers,

b) Amount booked as outstanding against the consumers during the year,

c) Reasons for creating provision,

d) Amount of provision,

e) Security held with consumers,

f) Age analysis.

9.3.20. The Authority further notes with serious concern that the petitioner was directed to provide the rationale for assuming 1% of sales as provision for doubtful debts. However, the same was not yet provided by the petitioner. Moreover, information on prescribed format was also not being provided so as to analyze the benchmark.

9.3.21. *The Authority, however keeping in view available information, historical trend in respect of disconnected customers, provisionally allows Rs. 547 million (i.e. at the level of FRR for FY 2014-15) 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.*

v. Repair & Maintenance

9.3.22. The petitioner has projected an amount of Rs. 2,208 million to be spent on repair and maintenance during the said year.

9.3.23. *The Authority, keeping in view the operational requirement of the petitioner and capitalization trend in this head, provisionally allows an amount of Rs. 1,506 million for the said year.*

vi. Stores Spares and Supplies Consumed

9.3.24. The petitioner has projected an amount of Rs. 1,673 million, thereby projecting a significant increase of 154% over FY 2015-16, breakup of the same is as under:-

Table 33: Comparison of Projected Stores Spares and Supplies with Previous years

Rs. in Million

Particulars	FY 2014-15	FY 2015-16		FY 2016-17	Inc./(Dec.) over Actuals of FY 2015-16	
	FRR	DERR	Actuals	The Petition	Rs.	%
Transmission & Compression and others	173	184	155	392	236	152
Distribution	471	558	421	1065	644	153
Head Office	85	95	77	193	116	152
Freight & handling	10	14	6	24	18	298
Total	739	850	659	1,673	1,014	154

9.3.25. The petitioner has explained that the increase is due to enhanced level of repair and maintenance activities for UFG control purposes and inflation impact. Also, increase in pipe & pipe fitting, cathodic protection and related material & chemicals have been envisaged during the said year.

9.3.26. The Authority observes that out of Rs. 850 million allowed at the time of DERR for FY 2015-16, the petitioner actual expenditure has remained at Rs. 659 million.

Similar, over estimation has already been envisaged by petitioner in previous years. Quantum of repair & maintenance activities in respect of UFG, as explained by petitioner, is not so large, which may increase the expenses by 97%. Moreover, inflation as well as US dollar rate is stable for couple of years, thereby predicting reasonable expenses for the said year.

9.3.27. The Authority, keeping in view the historical trend, is of the view that expenditure envisaged by the petitioner seems on a higher side. The Authority has always remained prudent while allowing the expenditures, however, expenses directly relating to operations of the company have always been allowed to the petitioner in order to ensure smooth operations. However, continuous increase without concrete justification is not allowable.

9.3.28. ***In view of above, the Authority decides to provisionally allow Rs. 813 million under the head of Stores Spares and Supplies i.e. 10% increase over FRR for FY 2014-15 in order to cater for inflation and enhanced activities for the said year subject to the actualization at year end.***

vii. Gas Bill Stubs Processing Charges

9.3.29. The petitioner has projected gas bill stubs processing charges at Rs. 23 million, thereby projecting an increase of 18% over FY 2015-16, which is as under;

Table 34: Comparison of Projected Gas Bills Stubs Processing Charges with Previous Years

Rs. in Million

Particulars	FY 2014-15	FY 2015-16		FY 2016-17	Inc./(Dec.) over Actuals FY 2015-16	
	FRR	DERR	Actuals	The Petition	Rs.	%
Gas Bills Stubs Processing Charges	13	18	19	23	4	18
Total	13	18	19	23	4	18

9.3.30. The petitioner has attributed the increase mainly to the revision of contract of stubs processing charges. Major Banks have developed their own gas bills collection system and are reporting their data directly to the petitioner. Resultantly, volume of job (bills) has decreased from 2.6 million to 0.6 million as compared to last contract period. Therefore, available volume is not feasible for service provider, to cover the cost at previous rate of Rs. 1.10/bill. Accordingly, a new contract has been awarded through open bidding process to M/s Tameer Microfinance Bank at the rate Rs. 2.45/bill effective April 01, 2015 resulting in the projected expenditure.

9.3.31. *The Authority, keeping in view the justification and historical trend, decides to provisionally allow gas bills stubs processing charges at Rs. 23 million for the said year.*

viii. Traveling

9.3.32. The petitioner has projected traveling expenses at Rs. 175 million for the said year, showing an increase of 79% over FY 2015-16, as tabulated below;

Table 35: Comparison of Projected Traveling Expense with the Previous Years

Rs. in Million

Particulars	FY 2014-15	FY 2015-16		FY 2016-17	Inc./(Dec.) over Actuals of FY 2015-16	
	FRR	DERR	Actuals	The Petition	Rs.	%
Local Traveling-Executive	27	31	22	48	26	115
Local Traveling-Subordinates	5	6	5	10	5	89
Foreign Travelling	4	3	0.06	6	5	9,067
Other Traveling	73	78	70	112	42	59
Total	109	118	98	175	77	79

9.3.33. The petitioner has attributed the increase to the increased traveling related to court cases, meetings, presentations, LNG matters.

9.3.34. The Authority notes that the petitioner has projected significant increase of 79% under the head of "Traveling" without providing any tangible justification. Similar justification was also provided at the time of DERR for FY 2015-16, however, actual spending of Rs. 97 million commensurate otherwise. Trend of POL prices, in the future, seems stable. Regarding expenditure relating to LNG traveling, the same shall become part of RLNG price in the light of GoP's decision. Apparently, no significant change in circumstances w.r.t activities is expected during the said year.

9.3.35. *The Authority, keeping in view the justification and historical trend, decides to provisionally determine the traveling expense at Rs. 109 million i.e. at the level of FRR for FY 2014-15 for said year. The Authority further directs the petitioner to minimize all such kind of expenditures and adopt a prudent approach while spending.*

ix. Professional charges

9.3.36. The petitioner has projected professional charges for the said year at Rs. 52 million as against Rs. 46 million reported in FY 2015-16, showing an increase of 13%, as shown below:

Table 36: Comparison of Projected Professional Charges with the Previous Years

Rs. in Million

Particulars	FY 2014-15	FY 2015-16		FY 2016-17	Inc./(Dec.) over Actuals FY 2015-16	
	FRR	DERR	Actuals	The Petition	Rs.	%
Professional Charges	31	28	46	52	6	13
Total	31	28	46	52	6	13

9.3.37. The petitioner has attributed the increase on account of professional fee to the consultancy for risk management. The petitioner explained that risk management department be established during the said year as per the recommendation / decision of board committees. Therefore, a consultant shall be hired to assist the company to establish the department.

9.3.38. The Authority appreciates the establishment of risk management department in the company, however, hiring of consultant despite having expert professional experienced team is not justified. The Authority notes that practice of outsourcing consultancy for legal and professional matters is increasing day by day in the company. ***The Authority, in view of the same, decides to fix professional charges at Rs. 46 million i.e. actuals for FY 2015-16 for the said year, and directs the petitioner to utilize its own resource for providing assistance to the management.***

x. Postage & Revenue Stamps

9.3.39. The petitioner has projected postage & revenue stamps charges for the said year at Rs. 110 million, as shown below:

Table 37: Comparison of Postage & Revenue Stamps Charges with the Previous Years

Rs. in Million

Particulars	FY 2014-15	FY 2015-16		FY 2016-17	Inc./(Dec.) over Actuals FY 2015-16	
	FRR	DERR	Actuals	The Petition	Rs.	%
Postage & Revenue Stamps	76	87	88	110	22	25
Total	76	87	88	110	22	25

9.3.40. The petitioner has attributed the increase in postage & revenue stamps charges is mainly to the revision of courier charges and expected enhanced activity. The petitioner has further submitted that increase in projected amount is due to expected increase in consumers as well as delivery of special notices and disconnection letters.

9.3.41. The Authority observes that increased activity envisaged during the said year does not commensurate 26% increase under the sub-head of postage & revenue stamps. Moreover, there are a number of courier service providers, offering very competitive rate. The petitioner should negotiate reasonable rates, keeping in view the fact that every penny of this price is funded/borne by natural gas consumers. The petitioner should emphasize & focus on non-paper correspondence in this advance technological world, where everyone is going towards paper less correspondence, where possible. The petitioner has not been able to provide concrete justification in support of its claim.

9.3.42. *The Authority, in view of the above and insufficient justification decides to allow 10% increase over actual, and provisionally fixes it at Rs. 97 million for the said year.*

xi. Insurance

9.3.43. The petitioner has projected insurance expense at Rs. 170 million for the said year as against Rs. 119 million reported in FY 2015-16, showing increase by 34%, as under:

Table 38: Comparison of Projected Insurance Expense with the Previous Years

Rs. in Million

Particulars	FY 2014-15	FY 2015-16		FY 2016-17	Inc./(Dec.) over Actuals of FY 2015-16	
	FRR	DERR	Actuals	The Petition	Rs.	%
Third Party	1	1	1	1	0	16
Fire risk damage to property	57.68	57	64	68	5	7
Others	49	69	54	100	46	86
Total	108	127	119	170	51	43

9.3.44. The petitioner has attributed the increase mainly to the raise in insurance premium pertaining to asset base. The petitioner has also explained that war risk for the said year has also been resulting in increase under the above head.

9.3.45. *The Authority keeping in view the insufficient justification provided by the petitioner decides to provisionally allow 10% increase over DERR FY 2015-16 at Rs. 140 million for the said year.*

xii. Revenue Expenditure Relating to LNG

9.3.46. The petitioner has projected revenue expenditure relating to LNG for the said year at Rs. 62 million as against Rs. 107 million reported in FY 2015-16, showing decrease of 42%, as shown below:

Table 39: Comparison of Revenue Expenditure Relating to LNG with the Previous Years

Rs. in Million

Particulars	FY 2014-15	FY 2015-16		FY 2016-17	Inc./(Dec.) over Actuals FY 2015-16	
	FRR	DERR	Actuals	The Petition	Rs.	%
Revenue Expenditure Relating to LNG	47	42	107	62	(45)	(42)
	47	42	107	62	(45)	(42)

9.3.47. The petitioner has attributed the increase in revenue expenditure relating to LNG is due expected increase in legal and professional charges kept with respect to the consultancy and professional fees in view of the expenses incidental to on going fast pace of the project activities. The petitioner has further informed that Rs. 107 million has been incurred during FY 2015-16 in view of the increased activities in respect of LNG.

9.3.48. *In view of above the Authority, decides to provisionally allow Rs. 62 million and decides to charge it to RLNG consumers as per the ECC decision.*

xiii. Others

9.3.49. The petitioner has projected "Others" at Rs. 263 million for the said year as against Rs. 123 million reported in FY 2015-16, increasing gigantic increase of 114%, as shown below:

Table 40: Comparison of Projected Other Expenses with the Previous Years

Rs. in Million

Particulars	FY 2014-15	FY 2015-16		FY 2016-17	Inc./(Dec.) over Actuals of FY 2015-16	
	FRR	DERR	Actuals	The Petition	Rs.	%
Communications	47	54	6	48	42	701
Subscriptions	12	14	13	66	53	409
Other miscellaneous	71	82	104	149	45	43
Total	130	150	123	263	140	114

The petitioner has explained that in FY 2015-16, the Authority had disallowed Rs. 41 million, out of total claim of Rs. 191 million. The petitioner has further argued that 409% increase projected on account of sub-head of "subscription" is due to contribution paid on behalf of company employees to professional bodies and club membership for senior management, according to its service rules.

9.3.50. Also, increase under the sub-heads of "GCI-distribution/HO Canteens/Pantries", "Entertainment Expenses", "Directors fee", "Board AGM Meeting", "water tanker/Mineral water", "Company Functions and Festivals" and "Books publication" has been projected by it.

9.3.51. ***The Authority notes that in FY 2015-16, the petitioner has reported 6% decrease over FRR for FY 2014-15, which is really commendable. The Authority, keeping in view the actual spending, decides to provisionally fix it at the level DERR FY 2015-16 i.e. Rs. 150 million for the said year.***

xiv. SSGC Share in ISGSL Expenses

9.3.52. The petitioner has claimed Rs. 149 million, being petitioner's share in ISGSL expenses for the said year.

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

Rs. in Million

Particulars	FY 2014-15	FY 2015-16		FY 2016-17	Inc./(Dec.) over Actuals FY 2015-16	
	FRR	DERR	Actuals	The Petition	Rs.	%
SSGC Share in ISGSL Expenses	84	73	105	149	44	42
Total	84	73	105	149	44	42

9.3.53. The amount represents 33% share in total expenditure of Rs. 450 million projected by ISGSL. The petitioner has submitted that its management has decided to fix the share of ISGSL expenses at the level of originally projected for ERR for FY 2015-16 i.e. Rs. 149 million.

9.3.54. The Authority notes that ISGSL expenditure has been claimed at 33% as against the claim of 51% in previous years. The Authority, while scrutinizing / approving the reimbursement expenditure initialed between ISGSL, SNGPL and the petitioner, finds that shareholding pattern of the gas utilities has changed from 25% and 24% to 0.22% & 0.21%. At present, M/s GHPL is majority shareholder with 99.57% ownership. **The Authority notes that draft summary dated August 18, 2008 as well as the ECC decision dated September 10, 2008 refers to the inclusion of operating costs as part of revenue requirement of SNGPL and the petitioner in the ratio of their shareholding.** The Authority further notes that it had directed gas utilities to provide complete set of documents containing FG's specific decision w.r.t shareholding pattern, intent and scope of induction of equity by GHPL and its role w.r.t reimbursement of ISGSL expenditure in the current shareholding scenario. Further, the petitioner should justify claiming revenue expenditure as part of its revenue requirement in view of the clear and specific ECC decision and the shareholding pattern.

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

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

xv. Gas Internally Consumed (GIC)

9.3.57. The petitioner has projected 794 MMCF as GIC-metered, as per following details:

Table 42: Breakup of GIC

Description	Volume (in MMCF)
Compression - metered	644
Company Own Use - metered	147
Liquid Handling Facility - Metered - Internally used	3
Total GIC - Metered	794

9.3.58. The petitioner has projected 644 MMCF for compression of 67,027 MMCF gas for the said year while claiming volume of gas handled per unit of GIC at 104 MMCF.

9.3.59. The Authority notes that as per historical trend of the past several years, the petitioner has been handling 105 MMCF of gas by consuming one MMCF as GIC, hence the GIC claimed for compression, for the said year, is in line with the historical trend.

9.3.60. *In view of the above, the Authority provisionally allows the claimed volume of 794 MMCF (Rs. 215 million) as GIC for the said year.*

xvi. Remaining Items of Transmission and Distribution Cost

9.3.61. The items of transmission and distribution costs, except those dealt with in sub-para ii to xv of para 9.3 above, are projected by the petitioner at Rs. 1,630 million for the said year, as against Rs. 1,347 million reported in FY 2015-16, showing an increase of 18%, as given below:

Table 43: Comparison of Remaining Item of Projected T&D Expense with Previous Years

Rs. in Million

Particulars	FRR	DERR	Actuals	The Petition	Inc./(Dec.) over Actual FY 2015-16	
	FY 2014-15	2015-16		FY 2016-17		%
Legal Charges	61	61	70	81	11	16
Security expenses	392	463	470	561	91	19
Meter reading by contractors	59	65	67	75	8	11
Rent, rate & taxes	201	175	164	199	35	22
Gas bills collection charges	164	171	178	187	9	5
Electricity	184	212	193	232	39	20
Advertisement	109	126	103	125	22	22
Collecting agent commission	-	5	3	3	0.19	7
License & Tariff Petition Fee to OGRA	152	102	99	167	67	68
Remaining T&D Cost	1,322	1,380	1,347	1,630	250	18

9.3.62. The Authority observes that the remaining items of T&D expense have been reasonably projected by the petitioner and therefore, provisionally accepts the same at Rs. 1,630 million for the said year.

xvii. Transmission and Distribution Cost Determined by the Authority

9.3.63. In view of the examination in sub-para ii to xv of para 9.3 above, the Authority provisionally determines operating cost for the said year at Rs. 14,514 million as against Rs. 19,892 million claimed by the petitioner, as follows:

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

Rs. in Million

Particulars	FY 2016-17	
	The Petition	Determined by the Authority
Salaries, wages, and benefits at benchmark	13,021	11,386
Provision for doubtful debts	2,344	547
Repairs & maintenance	2,208	1,506
SSGCL Share in ISGSL expenses	149	-
Stores, spares and supplies consumed	1,673	813
Professional charges	52	46
Others	263	150
Traveling	175	109
Revenue expenditure relating to LNG	62	62
Material used on consumers installations	51	44
Insurance	170	140
Postage & revenue stamps	110	97
Gas bills stubs processing charges	23	23
Remaining T&D expenses	1,630	1,630
Sub-total Cost	**21,931**	**16,554**
Less: Recoveries / Allocations	2,254	2,254
Net T&D Cost before GIC	**19,677**	**14,300**
Add: Gas consumed internally	215	215
Net Transmission & Distribution Cost	**19,892**	**14,514**

xviii. Other Charges including Workers Profit Participation Fund (W.P.P.F)

9.3.64. The petitioner has claimed Rs. 432 million on account of W.P.P.F including other charges & change in accounting policy (IAS-19) by IASB for the said year. The Authority accepts the same for the said year. Any adjustment on this account shall be made at the time of FRR for the said year.

10. Interest Cost on GDS Receivable

10.1. The petitioner has submitted that gas sale prices have not been revised since FY 2013-14. During FY 2014-15 & FY 2015-16, the prices were shortly increased which were not adequate to recover the revenue requirement from the consumers. Resultantly, the sale prices have remained less than the prescribed prices determined by OGRA thereby creating a GDS receivable amounting to Rs. 25,798 million as on June 30, 2016.

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

10.3. The Authority observes that petitioner claim on this account has been in principle agreed per para 7.3.5 and 7.3.6 above. The Authority, at the time of FRR, shall consider such expenses to the extent of cost of working capital/operational financing only on the basis of audited figures for the said year. These expenses at this point in time accordingly can't be included in the instant determination since the same were not included at the time of petition and are figures claimed do not seem to be realistic.

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

11. Summary of Discussion & Decision

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

11.2. accepts opening balance of deferred credit at Rs. 4,941 million;

11.3. determine estimated addition in fixed assets at Rs. 30,522 million, and depreciation charge at Rs. 6,520 million;

11.4. determine balance of average net operating fixed assets Rs. 57,165 million as against Rs. 79,870million claimed by the petitioner for the said year. Consequently, the return required by the petitioner on its average net operating fixed assets is determined at Rs. 9,718 million;

11.5. determine income at Rs. 175,608 million as against Rs. 166,266 million offered by the petitioner;

11.6. determine cost of gas at Rs. 133,285 million as against Rs. 132,862 million offered by the petitioner;

11.7. determine UFG adjustment at Rs. 13,826 million;

11.8. determine T&D expenses at Rs. 14,300 million as against Rs. 19,677 million claimed by the petitioner;

11.9. determine cost of GIC at Rs. 215 million as claimed by the petitioner;

11.10. accepts other charges including W.P.P.F. & change in accounting policy IAS-19 to Rs. 432 million as claimed by the petitioner; and

11.11. determines subsidy pertaining to air-mix LPG at Rs. 359 million for the said year as against Rs. 840 million claimed by the petitioner,

11.12. In exercise of its powers under the Ordinance and NGT Rules, the estimated revenue requirement for the said year is determined at Rs. 150,190 million (as tabulated below):

Table 45: Components of ERR for the Said Year as Determined by the Authority

Rs. in million

Particulars	Claimed by the Petitioner	Determined by the Authority
Cost of gas sold	132,862	133,285
UFG adjustment	(750)	(13,826)
Transmission and distribution cost	19,677	14,300
Gas internally consumed	215	215
Depreciation	6,213	5,708
Other charges including WPPF	432	432
Return on net average operating fixed assets	13,578	9,718
Additional revenue requirement for Air-Mix LPG Projects	840	359
Total Final Revenue Requirement	**173,066**	**150,190**

11.13.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.

11.14.The petitioner's net operating income is estimated at Rs. 175,608 million, as against the revenue requirement of Rs. 150,190 million and thus there is a surplus of Rs. 25,418 million in its estimated revenue requirement for the said year. In order to adjust this surplus, the Authority hereby makes downward adjustment of Rs. 65.12 per MMBTU on provisional basis in its average prescribed price for the said year (**Annexure-A**). Accordingly, category-wise prescribed prices are attached at (**Annexure-B**).

11.15.The prescribed prices for various categories of retail consumers shall be re-adjusted by the Authority upon receipt of sale price advice from FG, within forty (40) days of determination, under Section 8(3) of the Ordinance provided that overall adjustment in average prescribed prices as determined by the Authority remained unchanged, so that the petitioner is able to achieve its total revenue requirement in accordance with Section 8(6)(f) of the Ordinance and License Condition no. 5.2. Section 8(4) of the Ordinance, also provides that in case no sale price advice is received from FG within stipulated time, the prescribed prices under each category of consumers, which are higher than the existing sale price shall be notified by the Authority as sale prices to be charged from the consumer for the said year.

11.16. The Authority considers it important and essential to impress upon the petitioner that this provisional determination of estimated revenue requirement for the said year, pre-supposes that the petitioner would, in any case, faithfully and with responsibility conduct its affairs in full compliance of the requirement of Rule17(1)(h) & Rule 17(1)(j) of the NGT Rules, 2002, 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:-**

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

12.1.2. address/attend to the problems being faced by its consumers with the objective to resolve the same with the stipulated timelines or otherwise put forward plans/solutions to improve its services upto satisfaction of consumers as per the license conditions /rules.

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

12.1.4. ensure prudence and ring fencing of all capital and revenue expenditures, including all cost allocations in respect of each Air-mix LPG, CNG or LNG based pipeline distribution projects.

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

12.1.6. submit status on pending amount of freight within one (01) month of the issuance of this Order.

12.1.7. carry out comprehensive manpower need assessment and allocation study w.r.t proposed business dynamics relates to gas sector reforms, and submit the same with Authority.

12.1.8. provide a certificate at the time of FRR by its statutory auditors to the effect that HR cost used for comparison with HR benchmark includes all regular, contractual and casual staff / labour.

12.1.9. to curtail ever increasing provision for doubtful debts.

12.1.10. actively follow the GoP's directives in respect of effective recovery mechanism in natural gas sector, while capturing the defaulters.

12.1.11. economize all avoidable & non-development expenditures in larger public interest.

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, which include matters relating to policy issues especially raised under Article 158 of the Constitution of Islamic Republic of Pakistan, gas demand supply situation, natural gas tariff, etc. which falls within the purview of GoP. The Authority considers it important to draw specific attention of GoP to the same for due consideration, while taking decisions about categorization of consumers, tariff structure, subsidies, GDS and sale prices for various categories of consumers.

(Noorul Haque)
Member (Finance)

(Aamir Naseem)
Member (Gas)

(Uzma Adil Khan)
Chairperson

Islamabad,
October 06, 2016

ANNEXURE - A

A: Computation of Estimated Revenue Requirement for the Said Year

Rs. in Million

	Particulars	The Petition	The Adjustment	Determined by the Authority
	Gas sales volume -MMCF	398,489		398,489
	BBTU	390,315		390,315
	Calorific Value	0.98		0.979
"A"	**Net Operating Revenues**			
	Net sales at current prescribed price	163,272	412	163,684
	Meter rentals	750	-	750
	Amortization of deferred credit	407	-	407
	Gas transportation charges	68	-	68
	Sale of LPG	845	1,883	2,728
	Sale of condensate	122	161	283
	Sale of NGL	356	776	1,132
	Late payment surcharge	-	1,151	1,151
	Meter manufacturing profit	-	641	641
	RLNG Transportation Income	-	3,697	3,697
	Other operating income	447	621	1,067
	Total Operating Revenue "A"	166,266	9,341	175,608
"B"	**Less: Operating Expenses**			
	Cost of gas	132,862	423	133,285
	UFG Adjustment	(750)	(13,076)	(13,826)
	Transmission and distribution cost	19,677	(5,378)	14,300
	Gas internally consumed	215	-	215
	Depreciation	6,213	(505)	5,708
	Other charges	135	-	135
	WPPF	297	-	297
	Total Operating Expenses "B"	158,649	(18,535)	140,113
"C"	**Operating profit (A-B)**	7,618	27,877	35,495
	Return required on net operating fixed assets:			
	Net operating fixed assets at beginning	52,561	316	52,877
	Net operating fixed assets at ending	119,837	(47,741)	72,097
		172,398	(47,425)	124,973
	Average net assets (I)	86,199	(23,712)	62,487
	Net LPG air mix project asset at beginning	606	-	606
	Net LPG air mix project asset at ending	2,035	(1,473)	563
		2,641	(1,473)	1,169
	Average net assets (II)	1,321	(736)	584
	Meter manu. Plant asset at beginning	266	(266)	-
	Meter manu. Plant asset at ending	277	(277)	-
		543	(543)	-
	Average net assets (III)	271	(271)	-
	Deferred credit at beginning - Assets related to Natural Gas Activity	4,941	-	4,941
	Deferred credit at ending - Assets related to Natural Gas Activity	4,533	-	4,533
		9,474	-	9,474
	Average net deferred credit (IV)	4,737	-	4,737
	"D" Average (I-II-III-IV)	79,870	(22,705)	57,165
	"E" 17% return required	13,578	(3,860)	9,718
	"F" Shortfall / (Surplus) in return required (E-C) (Gas Operations)	5,960	(31,737)	(25,777)
"G"	**Additional revenue requirement for Air-Mix LPG Projects**	840	(481)	359
	Total Shortfall / (Surplus) H=(F+G)	6,800	(32,217)	(25,418)
	Inc./(Decr.) in average prescribed price effective (Rs. / MMBTU) w.e.f July 01, 2016	17.42	(82.54)	(65.12)
	Estimated revenue requirement (B+E+G+H)	173,066	(22,876)	150,190
	Average Prescribed Price (Rs. per MMBTU)	435.73	(81.49)	354.24

ANNEXURE - B

B: Provisional Prescribed Prices for the Said Year

	Particulars	Average Prescribed Prices for FY 2016-17	Category-wise Prescribed Price w.e.f July 01, 2016	Category-wise Prescribed Price w.e.f November 16, 2016
			Rupees per MMBTU	
(i)	**Domestic Consumers:**			
	First slab (upto 100 cubic metres per month).	354.24	99.32	74.03
	Second slab (Upto 300 cubic metres per month).	354.24	198.65	148.06
	Third slab (over 300 cubic metres per month).	354.24	496.61	370.14
(ii)	**Special Commercial Consumers (Roti Tandoors)**			
	First slab (upto 100 cubic metres per month).	354.24	99.32	74.03
	Second slab (Upto 300 cubic metres per month).	354.24	198.65	148.06
	Third slab (over 300 cubic metres per month).	354.24	595.93	444.17
(iii)	**Commercial :**			
	All off-takes at flat rate of	354.24	595.93	444.17
(iv)	**Ice Factories:**			
	All off-takes at flat rate of	354.24	595.93	444.17
(v)	**Industrial:**			
	All off-takes at flat rate of	354.24	456.87	340.52
(vi)	**Captive Power :**			
	All off-takes at flat rate of	354.24	536.46	399.85
(vii)	**CNG Stations:**			
	All off-takes at flat rate of	354.24	614.36	457.91
viii)	**Cement Factories:**			
	All off-takes at flat rate of	354.24	695.25	518.20
(ix)	**Pakistan Steel**			
	All off-takes at flat rate of	354.24	456.87	340.52
(x)	**Fauji Fertilizer Bin Qasim Limited**			
	(i) For gas used as feed-stock for Fertilizer	354.24	123.41	123.41
	(ii) For gas used as fuel for generating steam and electricity and for usage in housing colonies for fertilizer factories	354.24	456.87	340.52
(xi)	**Power Stations**			
	All off-takes at flat rate of	354.24	456.87	340.52
(xii)	**Independent Power Producers**			
	All off-takes at flat rate of	354.24	456.87	340.52

ANNEXURE - C

C: Computation of Human Resource Cost Benchmark for the Said Year

Rs. In million

	Particulars	DERR FY 2015-16	Actuals FY 2015-16	2016-17
	HR benchmark Cost Parameters			
	Base Cost	9,348	9,348.09	10,160.00
	CPI factor	5.50%	2.86%	5.00%
	T & D network (Km)	49,315	48,375	51,511
	Number of Consumers (No.)	2,850,631	2,773,457	2,914,330
	Sales Volume (MMCF)	418,160	484,223	537,289
	Unit Rate (Rs,/unit)			
	T&D network (Rs./Km)	**197,745**	**197,747**	**210,026**
	No. of Consumers (Rs./Consumer)	**3,449**	**3,449**	**3,663**
	Sale Volume (Rs./MMCF)	**25,710**	**25,710**	**20,982**
	HR Cost Build-up (Million Rs)			
50%	Cost CPI	257		-
25%	T & D network (Km)	2,438		2,705
65%	Number of Consumers (No.)	6,390		6,939
10%	Sales Volume (MMCF)	1,075		1,127
	HR Benchmark Cost	10,160		10,771
	IAS Cost	**468**		**615**
	Total HR Cost	**10,628**		**11,386**