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

IN THE MATTER OF

SUI SOUTHERN GAS COMPANY LIMITED
FINAL REVENUE REQUIREMENT, FY 2012-13

UNDER

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

DECISION

ON

November 05, 2015

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

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Interventions / Written Submissions

1. Background

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

1.2 The petitioner filed a petition on August 15, 2013 under Section 8(2) of the Oil and Gas Regulatory Authority Ordinance, 2002 (the Ordinance) and Rule 4(3) of the Natural Gas Tariff Rules, 2002 (NGT Rules), for determination of its Final Revenue Requirement (FRR) for FY 2012-13 (the said year) on the basis of the accounts as initialed by its statutory auditors.

1.3 The Authority, vide its Order dated November 30, 2012, had determined petitioner's Review of Estimated Revenue Requirement (RERR) for the said year under Section 8(2) of the Ordinance at Rs. 160,470 million (amounts have been rounded off to nearest million here and elsewhere in this document) for estimated sale volume of 368,972 BBTU. The Authority had allowed Unaccounted for Gas (UFG) at 7% and treated Late Payment Surcharge (LPS), Meter Manufacturing Profit (MMP), Royalty from Jamshoro Joint Venture Limited (JJVL), and income from sale of gas condensate (net of operating income) as non-operating incomes in line with the interim stay order granted by honorable Sindh High Court (SHC).

1.4 The petitioner in the instant petition has claimed revenue requirement after incorporating actual sales & purchases based on consumers, wellhead gas prices and other relevant factors in terms of Section 8(2) of the Ordinance. The petitioner has also claimed UFG at 7% and LPS, MMP, Royalty from JJVL and income from sale of gas condensate as non-operating incomes in line with the decision of SHC. Accordingly, the petitioner has worked out its FRR for the said year at Rs. 167,283 million for actual sale volume of 350,048 BBTU. Based on the provisional prescribed prices and actual sale mix, the petitioner has computed a shortfall of Rs. 20,282 million in its revenue requirement for the said year, thereby seeking an increase of Rs. 57.94 per MMBTU in the average prescribe price. The petitioner has also requested for an additional amount of Rs. 462 million (Rs. 1.32 per MMBTU) on account of its LPG Air-Mix projects, resulting in a total shortfall of Rs. 20,744 million in revenue requirement for the said year and requested average increase in prescribed price of Rs. 59.26 per MMBTU effective July 01, 2012.

1.5 The Authority issued the notices of hearings on September 12, 2013 and December 27, 2013 and hearings were held according to schedule. However, process of determination could not be completed owing to deficiency of quorum as well as deliberations with the Federal Government (FG) on certain items of revenue requirement related to policy guidelines. Therefore, fresh notice of re-hearing was issued on August 5, 2015, after completion of quorum. The notice of hearing was sent to the petitioner and the following interveners and related parties:

i) Federal Government (FG/GoP),
ii) Mr. Abdul Sami Khan, Chairman, CNG Dealers Association of Pakistan,
iii) Mr. Shabbir Suleman Jee, Chairman, All Pakistan CNG Association, Sindh Zone,
iv) Mr. Ghyas Abdullah Paracha, Central Chairman, All Pakistan CNG Association,
v) Dr. Qazi Ahmed Kamal, Advisor, Karachi Chamber of Commerce & Industry and SAI,
vi) Mr. Muhammad Arif Bilvani, Consumer.

1.6 The hearing was held at Karachi, on August 25, 2015.

2. Salient Features of the Petition

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

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

			Rs. / MMBTU
Particulars	**FY 2011-12 FRR**	**FY 2012-13**	
		RERR	**The Petition**
Units sold (BBTU)	**343,761**	**368,972**	**350,048**
Cost of gas sold	342.93	368.84	387.55
UFG disallowance	(11.29)	(6.41)	0.46
Transmission and distribution cost	31.96	27.22	49.28
Shortfall of previous year	-	5.42	6.67
Depreciation	10.41	11.04	11.51
Return on net average operating fixed assets	20.01	28.31	21.10
Other operating income	(10.90)	(12.05)	(12.44)
Subsidy for LPG Air-Mix Project	0.73	0.49	1.32
Cost of service / prescribed price	383.86	422.86	465.44
Current average prescribed price	383.86	422.86	406.18
Increase / (Decrease) requested in average prescribed price	**-**	**-**	**59.26**

The petitioner has made the following submissions:-

2.1.1 Annual return has been claimed at Rs. 7,385 million, computed at rate of 17% of the value of its average net operating fixed assets (net of deferred credit, assets related to LPG Air-Mix, & MMP) before corporate income taxes, and interest, mark-up and other charges on debt, per License condition No. 5.2 and covenants of the loan agreement between the petitioner and the Asian Development Bank.

2.1.2 The petitioner has claimed a net addition, net of deletions of Rs. 7,338 million in fixed assets, and net addition, ex-depreciation and deletion, of Rs. 4,179 million, resulting in claimed increase in net operating fixed assets from Rs. 48,071 million in FY 2011-12 to Rs. 51,229 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 works out to Rs. 43,438 million, and required return to Rs. 7,385 million.

2.1.3 Net operating revenues have been claimed at Rs. 146,539 million in the petition, as against Rs. 160,469 million determined in RERR, as detailed below:

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

					Rs. in million
Particulars	**FY 2011-12**	**FY 2012-13**		**Inc./(Dec.) over RERR**	
	FRR	**RERR**	**The Petition**	**Rs.**	**%**
Net sales at current prescribed price	131,955	156,024	142,184	(13,840)	(9)
Meter rentals	643	661	667	6	1
Amortization of deferred credits	387	401	397	(4)	(1)
Revenue from JJVL	1,742	2,127	2,190	63	3
Gas transportation charges	10	19	10	(9)	(46)
Sale of NGL			76	76	100
Sale of gas condensate	57	75	64	(11)	(14)
Sales of LPG	-	-	129	129	100
Other income	907	1,162	821	(341)	(29)
Net Operating Revenue	**135,701**	**160,469**	**146,539**	**(13,930)**	**(9)**

2.1.4 Net operating expenses have been claimed at Rs. 159,437 million in the petition as compared to Rs. 149,846 million provided in RERR, as detailed below:

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

					Rs. in million
Description	**FY 2011-12**	**FY 2012-13**		**Inc / (Dec) over RERR**	
	FRR	**RERR**	**The Petition**	**Rs.**	**%**
Cost of gas	117,885	136,092	135,660	(432)	(0.32)
Transmission and distribution costs	9,431	9,392	12,391	2,999	32
Gas Internally Consumed (GIC)	233	177	303	126	71
UFG disallowance	(3,880)	(2,365)	162	2,527	(107)
Depreciation	3,578	4,075	4,029	(46)	(1)
Previous Year Shortfall	-	2,000	2,336	336	17
Re-claimed items	-	-	2,852	2,852	100
Other charges including WPPF	1,324	475	1,703	1,228	259
Net Operating Expenses	**128,571**	**149,846**	**159,437**	**9,591**	**6**

2.1.5 UFG has been reported at 6.88% (28,785 MMCF) thereby claiming savings of Rs. 162 million based on 7% UFG allowance in the light of SHC Stay Order for the said year.

2.1.6 Subsidy on account of LPG Air-Mix project has been claimed at Rs. 462 million.

2.1.7 Net result of petitioner's above mentioned claims is that a shortfall of Rs. 20,744 million has been computed including 17% return on average net operating fixed assets, which translates to an increase of Rs. 59.26 per MMBTU in the existing average prescribed price, as tabulated below:

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

		Rs. in Million
	Particulars	**FY 2012-13 The Petition**
A	Net operating revenues	146,539
	Less: Net operating expenses excluding ROA	159,437
	Subsidy Air Mix LPG Project	462
B	Total Expenses	159,899
C	Shortfall {(A) – (B)}	(13,360)
D	Return required @ 17% on net fixed assets in operation.	7,385
E	Total shortfall in revenue requirement {(D) - (C)}	20,744
F	Sale volume (BBTU)	350,048
H	**Increase requested in existing average prescribed price Rs. / MMBTU**	**59.26**

3. Proceedings

3.1 The petitioner was represented at hearing held on August 25, 2015 by its team of senior executives led by Managing Director, Mr. Khalid Rehman along with legal counsel, Mr. Mirza Mehmood Ahmad, who were given full opportunity to present the petition.

3.2 The following interveners / participants also attended the hearing:

i) Mr. Abdul Sami Khan, Chairman, CNG Dealers Association of Pakistan,

ii) Mr. Malik Khuda Baksh, Chairman & President CNG Stations Owners Association of Pakistan,
iii) Mr. Tariq Ali Shah, Director (Oil & Gas), Energy Deptt., Govt. of Sindh,
iv) Mr. Samir Gulzar, Member Executive Committee, Federation of Pakistan Chamber of Commerce and Industry,
v) Mr. Shabbir Suleman Jee, Chairman, All Pakistan CNG Association, Sindh Zone,
vi) Dr. Qazi Ahmed Kamal, Advisor, Karachi Chamber of Commerce & Industry and SAI,
vii) Mr. M.H. Asif, Consultant, All Pakistan Textile Mills Association,
viii) Mr. Muhammad Arif Bilvani, Consumer,
ix) Mr. Shakeel Baly, Chairman, Consumer Rights Protection Cell
x) Dr. Zulfiqar Yousafzai, Chairman, Sindh CNG Association

The list of participants is placed as **ANNEXURE-I**.

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

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

3.3.2 Legal Counsel further added that there is no provision in the relevant statute through which the Authority can penalize the petitioner for not achieving the efficiency benchmarks. The petitioner has, therefore, not been able to attain guaranteed rate of return i.e. 17%, owing to imposition of UFG benchmark, rather in some years in the past it has gone into negative. The percentage of reasonable rate of return can never be negative in any business of the world.

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

3.3.4 The petitioner, during the hearing, has also agitated computation of UFG disallowance at Weighted Average Cost of Gas (WACOG), since international prices of oil are not under control of the petitioner. Therefore, as per the petitioner, penalizing the company, on the basis of cost of gas / WACOG, is not justified. It was also agitated by legal counsel that decision in respect of new tariff regime is pending since 2005, wherein all incomes from MMP, LPS sale of gas condensate were classified as non operating income. Pursuant to SHC decision, liquids extracted from gas i.e sale of gas condensate are non operating incomes. Therefore, income derived from NGL and LPG extracted from gas through similar process should also be treated as non operating income.

3.4 The substantive points made by the interveners and participants on the petition are summarized below:

3.4.1 It was vehemently criticized that policy guidelines in respect of allowance of deemed sale volume, issued by the FG, are not binding on OGRA and is unlawful as it has no concurrence / approval from Council of Common Interest. Government of Sindh also took up the matter with GoP that all the provinces should have been taken on board as required. It was highlighted that policy guideline in respect of allowance of deemed sale volume is a new factor, which did not exist at the time of ERR or RERR determination for the said year, and has changed the parameters of whole exercise. In view of the same it should not be considered and allowed by the Authority.

3.4.2 It was stressed that management has to optimize the utilization of proliferate HR towards arresting the ever increasing trend of UFG. The petitioner should put its house in order in this regard rather than focusing on the other options through Government.

3.4.3 It was pointed out that OGRA has been allowing sufficient funds in respect of UFG. However, the petitioner has failed to curb UFG menace, rather it is relying upon policy guidelines.

3.4.4 Sale price of natural gas for captive power should be reduced to the level of price for general industry.

3.4.5 Cost of reinstated employees through the orders of the court should be borne by the FG.

3.4.6 External auditor of the petitioner, in the initialed accounts, has pointed out that the feasibility study to assess the economic viability of the projects has to be undertaken by the petitioner before commencing any such project. Appropriate compensation from FG is to be taken in case of supply of gas to far flung areas, which are not economically viable and are taken as per the instructions of GoP.

3.4.7 Use of Bio gas be encouraged in line with the trend adopted internationally. Pakistan has large coal reserves. Natural gas may be supplied to fertilizer factories for feedstock only. However, fertilizer factories should use coal for generation of power to save this precious gift of nature. Similarly, cement factories should use coal in kiln instead of gas. Natural gas so saved could be utilized for electricity generation in the country.

3.4.8 The petitioner should curtail its non-development T&D expenses. Only prudent and cost effective expenditure should be allowed.

3.4.9 CNG sector should be exempted from load shedding owing to the import of LNG. Sindh is producing 70% of total natural gas in the country; therefore, load shedding in CNG sector (non UFG sector) in Sindh is not justified. Decision for removal of CNG cylinders from the school vans be reviewed by the Government and strict measures in respect of inspection of such cylinders by HDIP in accordance with international standards should be taken.

4. Determination

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

5. Return to Licensee

5.1 The Authority is obligated under Section 7(1) of the Ordinance, to determine or approve tariff for regulated activities whose licenses provide for such determination or such approval, or where authorized by this Ordinance, subject to policy guidelines. *License Condition No. 5.2* of license granted to the petitioner clearly states that subject to the efficiency related benchmarks adjustments, the Authority shall determine total revenue requirement of the licensee to ensure that it achieves 17% 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 the return on net operating assets in accordance with the said provision of the Ordinance as well as the petitioner's license.

5.2 The Authority notes that the petitioner has been continuously contending that guaranteed return of 17% is not being provided to it, as effectively it is getting much lower rate of return and has been referring to some legal provisions in isolation. The Authority terms this argument as baseless & against the legal scenario. Presumably, the petitioner has been pleading that it is entitled for guaranteed return irrespective of control of gas loses/theft, operational efficiency and effectiveness of capital expenditure incurred to undertake the regulated activities. Petitioner's plea does not consider the regulatory setup established by GOP and legal regulatory framework as a whole.

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

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

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

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

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

5.8 ***In view of the above situation, the Authority has decided, to follow the existing basis of 17% 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 at Rs. 7,338 million including net of deletions (Rs. 129 million) in fixed assets, and net addition, ex-depreciation and deletion, of Rs. 4,179 million, resulting in claimed increase in net operating fixed assets from Rs. 48,071 million in FY 2011-12 to Rs. 51,229 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. 43,438 million, and required return to Rs. 7,385 million.

Table 5: Computation of Return on Assets per the Petition

Particulars	Rs. in Million
Net operating fixed assets at beginning	48,071
Net operating fixed assets at ending	51,229
sub-total	**99,301**
Average net assets (I)	**49,650**
Meter manu. Plant asset at beginning	34
Meter manu. Plant asset at ending	39
sub-total	**73**
Average net assets (II)	**37**
LPG air mix project asset at beginning	507
LPG air mix project asset at ending	759
sub-total	**1,267**
Average net assets (III)	**633**
Deferred credit at beginning	5,336
Deferred credit at ending	5,748
sub-total	**11,084**
Average net deferred credit (IV)	**5,542**
"D" Average (I-II-III-IV)	**43,438**
"E" 17% return required	**17%**
Amount of Return claimed by the petitioner	**7,385**

6.1.2 Comparative analysis of additions in fixed assets as claimed by petitioner with RERR is as follows:

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

Rs. In million

Particulars	FY 2011-12	FY 2012-13		Increase / (decrease) over RERR	
	FRR	RERR	The Petition	Rs.	%
Land	-	5	0.006	(5)	(100)
Buildings	62	78	60	(18)	(23)
Roads, pavements and related infrastuctures	4	87	0.139	(87)	(100)
Gas Transmission Pipelines	1,677	2,229	1,162	(1,067)	(48)
Compressors	-	229	-	(229)	(100)
Plant and machinery	146	1,395	227	(1,168)	(84)
Gas distribution system	4,666	10,931	5,113	(5,818)	(53)
Furniture, equipment computers & allied equipments	199	190	123	(67)	(35)
Computer Software (Intangible)	43	28	127	99	354
LPG Air Mix Projects	45	8	316	308	3,855
Telecommunication system	68	125	63	(62)	(50)
Appls., loose tools & equipt.	34	26	37	11	44
Vehicles	198	210	237	27	13
Construction equipment	-	192	-	(192)	(100)
SCADA	-	284	-	(284)	(100)
Gross Assets	**7,142**	**16,018**	**7,467**	**(8,551)**	**(53)**

6.1.3 The petitioner has reported 53% decrease in the addition to fixed assets for the said year. The petitioner has attributed this decrease to the financial crunch faced by it owing to which it failed to materialize its envisaged capital projects.

6.2 Gas Distribution Systems

6.2.1 The petitioner has capitalized only Rs. 5,113 million out of Rs. 10,931 million allowed in DERR for the said year. The petitioner has provided an affidavit confirming that the schemes for new towns and villages worth Rs. 2,053 million have been carried out in accordance with the decision of FG and ECC criteria. The Authority observes that the petitioner has capitalized Rs. 357 million over and above Rs. 1,969 million allowed to it for new towns and villages in DERR for the said year. In view of the same, the Authority decides to disallow Rs. 357 million, capitalized over and above, the allowed limit.

6.2.2 ***In view of above, the Authority determines expenditure amounting to Rs. 4,756 million under the head of gas distribution system for the said year.***

6.3 Vehicles

6.3.1 The petitioner has reported Rs. 237 million on account of vehicles for the said year. The petitioner has submitted that it has not capitalized any amount out of Rs. 57 million allowed for NGEP project. Ignoring the Authority's direction to focus on loss reduction and efficiency improvements, the petitioner has instead made expenditures of Rs. 237 million more than the allowed amount of Rs. 210 million by purchasing 143 new vehicles and replacing 54 vehicles, to the company's fleet. The petitioner has not submitted any acceptable justification in this regard. Therefore, the expenditure in this respect is restricted to the allowed limit of Rs. 210 million for the said year.

6.3.2 ***In view of above, the Authority determines expenditure under the head of vehicles at Rs. 210 million for the said year.***

6.4 Assets Related to LPG Air-Mix Projects

6.4.1 The petitioner has reported Rs. 316 million for LPG Air-Mix projects for the said year. The petitioner has submitted that all mandatory requirements for Surab, Noshki and Kot Ghulam Mohammad projects have been completed.

6.4.2 The Authority has issued marketing licenses to Surab, Noshki and Kot Ghulam Muhammad Air-Mix LPG projects on meeting all the necessary requirements, therefore assets related to these projects claimed in the instant petition are allowed for the said year.

6.4.3 ***In view of above facts, Authority allows assets for Gawadar, Surab, Noshki and Kot Ghulam Muhammad LPG Air-Mix projects and determines the same at Rs. 316 million for the said year.***

6.5 Fixed Assets As Determined by Authority

6.5.1 ***The Authority, after due diligence and detailed analysis of petitioner's submissions, determines gross additions in fixed assets at Rs. 7,083 million for the said year and accordingly closing net operating fixed assets for the said year are allowed at Rs. 50,863 million. Consequently, depreciation expense reduces by Rs. 18 million, and the Authority determines depreciation for the year at Rs. 4,012 million. Moreover, the petitioner is advised to project realistic figures in ERR since they have impact on gas consumer price.***

Table 7: Fixed Assets as Determined by the Authority

Rupees Million

Particulars	The Petition	Determined by the Authority
	FY 2012-13	
Land	0.006	0.006
Buildings	60	60
Roads, pavements and related infrastuctures	0.139	0.1390
Gas Transmission Pipeline	1,162	1,162
Plant and machinery	227	227
Gas distribution system and related facilities & equipments	5,113	4,756
Furniture, equipment including computer & allied equipments	123	123
Computer Software (Intangible)	127	127
LPG Air Mix Projecrs	316	316
Telecommunication system	63	63
Appls., loose tools & equipt.	37	37
Vehicles	237	210
Construction equipment	-	-
SCADA	-	-
Gross Addition	**7,467**	**7,083**

7. Operating Revenues

7.1 Sales Volume

7.1.1 Sales volume has been decreased by 5%, from 368,972 BBTU determined in RERR to 350,048 BBTU in the petition. Category-wise comparison with previous year has been provided by petitioner as under:

Table 8: Comparison of Category-wise Gas Sales Volume per Petition with RERR & Previous Year

Volume in BBTU

Category	FY 2011-12	FY 2012-13		Inc. / (Dec.) over RERR	
	FRR	RERR	The Petition		%
Power	63,259	63,234	63,234	-	-
HCPC	5,804	8,745	5,717	(3,028)	(35)
Cement	362	581	338	(243)	(42)
Fertilizer	15,407	23,164	14,664	(8,500)	(37)
CNG Stations	31,756	31,231	27,511	(3,720)	(12)
Captive Power	58,217	51,099	68,453	17,354	34
DHA Desalination Plant	-	4,933	-	(4,933)	(100)
Naudero Rental Power	1,101	3,596	-	(3,596)	(100)
General Industries	72,487	87,579	72,408	(15,171)	(17)
Commercial	9,823	10,227	9,558	(669)	(7)
Domestic	85,545	84,582	88,166	3,584	4
Total	**343,761**	**368,972**	**350,048**	**(18,924)**	**(5)**

7.1.2 The petitioner has explained that overall decline in gas sales volume is due to excessive reduction in gas off-takes from gas producers and shortages of gas in the Country. This has resulted in reduction of gas sales to all sectors except captive power. Increase in gas sales to captive power has been attributed to excessive load shedding, which forced industrial sector to rely on captive powers for their requirements.

7.1.3 The Authority observes that natural gas is a scarce resource in the country and demand of every sector / consumer cannot be fully met, therefore its supply to different sectors/customers is being governed by GoP's policy in the matter. The Authority observes that petitioner, disregarding GoP's Gas Load Management policy, has provided gas to captive power. This gas could otherwise have been provided to power sector to produce more electricity to curtail excessive load shedding in the country. The Authority, through this decision, brings this position to the notice of GoP for appropriate action.

7.1.4 ***In view of above, the Authority directs the petitioner to implement GoP's policies in its true letter and spirit and determines total sales volume at 350,048 BBTU for the said year.***

7.2 Sales Revenue at Existing Prescribed Prices

7.2.1 Sales revenue at existing prescribed prices has been reported at Rs. 142,708 million in instant petition. Category-wise sales revenues comparison with RERR is given below.

Table 9: Comparison of Category-wise Sale Revenues per Petition with RERR

				Rs. in Million
Category	**FY 2012-13**		**Inc. / (Dec.) over RERR**	
	RERR	**The Petition**		**%**
Power	29,914	29,740	(174)	(1)
HCPC	4,149	2,690	(1,459)	(35)
Cement	422	245	(177)	(42)
Fertilizer	5,046	3,624	(1,422)	(28)
CNG Stations	20,477	18,047	(2,430)	(12)
Captive Power	24,208	32,486	8,279	34
DHA Desalination Plant	2,353	0.03	(2,352)	(100)
Naudero Rental Power	1,715	0.19	(1,715)	(100)
General Industries	39,149	32,558	(6,591)	(17)
Commercial	6,328	6,028	(300)	(5)
Domestic	22,264	16,779	(5,484)	(25)
Sub-Total	**156,024**	**142,197**	**(13,827)**	**(9)**
Sales Adjustment		**511**		
Total		**142,708**		

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

7.2.3 ***In view of above, Authority determines sales revenue at existing prescribed prices at Rs. 142,708 million for the said year.***

7.3 Other Operating Income

i. Summary

7.3.1 The petitioner has claimed other operating income at Rs. 4,355 million in petition as against Rs. 4,445 million provided per RERR. Detailed comparative breakup is appended below:

Table 10: Comparison of Other Operating Income per Petition with RERR & Previous Year

					Rs. in million
Particulars	**FY 2011-12**	**FY 2012-13**		**Inc./(Dec.) over**	
	FRR	**RERR**	**The Petition**	**Rs.**	**%**
Meter rentals	643	661	667	6	1
Amortization of deferred credits	387	401	397	(4)	(1)
Revenue from JJVL	1,742	2,127	2,190	63	3
Gas transportation charges	10	19	10	(9)	(46)
Sale of NGL	-	-	76	76	100
Sale of gas condensate	57	75	64	(11)	(14)
Sales of LPG	-	-	129	129	100
Other income	907	1,162	821	(341)	(29)
Net Operating Revenue	**3,746**	**4,445**	**4,355**	**(90)**	**(2)**

7.3.1 The petitioner has claimed LPS (Rs. 4,174 million), MMP (Rs. 537 million), royalty from JJVL (Rs. 2,586 million) and income from sale of gas condensate (Rs. 126 million) as non-operating income in instant petition. The petitioner has submitted that the honorable SHC in its stay order has allowed same treatment regarding above mentioned head of incomes as granted by the Authority at the time of FRR FY 2009-10. Accordingly, the same has been treated as non-operating incomes in petition.

7.3.2 ***The Authority notes that revenue requirement for the said year is subjudice and interim stay in the matter is in field. Therefore, Authority, in accordance with interim relief granted by the honourable SHC, decides to treat LPS, MMP, Royalty from JJVL & income from sale of condensate as non-operating for the said year on provisional basis, subject to final decision of the honorable SHC. However, on the announcement of final judgment by this Court, this order of the Authority may be altered, amended or rescinded accordingly.***

ii. Income from Sale of LPG / NGL

7.3.3 The petitioner, for the first time, has reported an income of Rs. 2,115 million from sale of LPG from Bobi gas field and Rs. 591 million from NGL / condensate from Kunnar Pasaki gas field for the said year. The petitioner has treated Rs. 2,501 million of the said income as non-operating on the assumption that the Authority in its decision of FRR FY 2009-10 treated the income from sale of gas condensate extracted from Badin gas field as non-operating income.

7.3.4 The Authority notes that the petitioner has adopted similar basis for computing revenues from extraction of LPG/NGL as being used for gas condensate from Badin field. It is therefore established that extraction of LPG/NGL from other fields is similar to extraction of gas condensate from Badin field, and hence shall be treated as operating income in line with the Authority's principle stance in the matter.

7.3.5 ***In view of above, the Authority the entire income amounting to Rs. 2,706 million as operating income for the said year.***

iii. Other Income

7.3.6 The petitioner has claimed other income for the said year at Rs. 821 million as against Rs. 1,162 million in RERR. Detailed breakup with comparison is as under:

Table 11: Comparison of Other Income per Petition with RERR and Previous Year

					Rs. in million
Particulars	**FY 2011-12**	**FY 2012-13**		**Inc. / (Dec.) over RERR**	
	FRR	**RERR**	**The Petition**		**%**
Liquidated damages recovered	5	10	13	3	27
Income from new service connections	436	675	310	(365)	(54)
Notional income on IAS 19 provision	208	245	240	(5)	(2)
Income from sale of net investment in finance lease	188	173	180	7	4
Recoveries from consumers	45	33	46	13	38
Income from sale of tender documents	2	1	3	2	187
Income from pipeline construction	-	-	6	6	100
Advertising Income	7	9	5	(4)	(49)
Others	17	17	19	2	11
Total Other Income	**907**	**1,162**	**821**	**(341)**	**(29)**

7.3.7 The Authority observes that other income has been reported to decline by 29% over RERR for the said year mainly on account of "Income from new service connections" and "advertising income". The petitioner has submitted that due to gas shortages in the country, GoP in April 2011, has imposed a moratorium on new commercial and industrial connections, whereby limited new connections have been provided to industrial and commercial sector which ultimately resulted in lower income from the said head.

7.3.8 The Authority further notes that the petitioner has reported Rs. 6 million on account of income generated from the construction of transmission pipeline of 8 x 46" km for a third party (Polish Oil & Gas Company – POGC). The line has been laid under a construction contract signed between POGC, Pakistan Petroleum Limited & the petitioner to carry 15-20 mmcfd gas from Rehman field to Naing valave assembly.

7.3.9 The petitioner has contended that activity of pipeline construction on behalf of third parties is a non-core activity of the company and thus the income derived from it should be treated as a non-regulated activity. In view of the same, the petitioner has requested to allow Rs. 6 million i.e. 50% of the income accrued during the said year as operating income, in line with the treatment allowed to its sister utility by the Authority.

7.3.10 ***The Authority, keeping in view its earlier decision for FRR FY 2004-05 dated October 26, 2005 in respect of SNGPL, decides to allow Rs. 6 million for the said year.***

7.3.11 ***In view of above, Authority accepts other income at Rs. 821 million for the said year.***

7.3.12 Keeping in view discussion from para 7.3.1 to 7.3.11 above, the Authority fixes other operating income at Rs. 6,856 million for the said year, as tabulated below;

Table 12: Operating Revenues as Determined by the Authority

		Rs. in Million
Particulars	**Claimed by the Petitioner**	**Determined by the Authority**
Meter rentals	667	667
Amortization of deferred credit	397	397
Sale of gas condensate (net of non-operating income)	64	64
Gas transportation charges	10	10
Income from sale of LPG	129	2,115
Income from sale of NGL	76	591
Revenue from JJVL	2,190	2,190
Other operating income	821	821
Total Operating Revenues	**4,355**	**6,856**

8. LPG Air-Mix Project

8.1 The petitioner has claimed subsidy of Rs. 462 million on account of its LPG Air-Mix project as against Rs. 179 million provisionally allowed in RERR for the said year. The project-wise breakup of subsidy for the said year is as under:

Table 13: Breakup of Subsidy for Air Mix LPG Project for the said year

				Rs. in Million	
Particulars	**Gwadar**	**Surab**	**Noshki**	**Kot Ghulam Mohammad**	**Total**
Sales Volume MMBTU	**14**	**27**	**22**	**37**	**98**
Net Sales Revenue	2	6	3	5	16
Cost of Gas	32	57	85	98	271
Gross Profit	**(30)**	**(51)**	**(81)**	**(93)**	**(255)**
Operating Cost	18	42	28	11	99
Shortfall in Revenue	**(47)**	**(93)**	**(110)**	**(105)**	**(354)**
Revenue Requirement					
Shortfall-LPG Operations	47	93	110	105	354
17% Return on Assets	14	18	32	43	108
Total Shortfall	**61**	**111**	**142**	**148**	**462**

8.2 ***The Authority, in view of discussion and decision in paras 6.4.2 to 6.4.3, decides to allow subsidy on account of LPG Air-Mix at Rs. 462 million for the said year.*** The Authority, however, notes that it has been allowing subsidy on account of air-mix LPG projects, pursuant to FG's policy guideline, as part of revenue requirement. The Authority is of the view that the petitioner should specify the parameters / basis for initiating these projects, while providing the complete feasibility of the projects. LPG is 5 times more expensive than natural gas, therefore, LPG air led gasification projects not be formed as part of revenue requirement, as the same will translate into huge burden on existing natural gas consumers and sharp increase in gas prices. The Authority through this Order brings it to the notice of FG, being a policy matter.

9. Operating Expenses

9.1 Cost Of Gas

9.1.1 Cost of gas per petition is Rs. 135,660 million (net of GIC), compared with Rs. 136,092 million determined in RERR, lower by Rs. 432 million (0.3%).

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

Table 14: Weighted Average Cost of Input Gas

Company	MMCF	BBTU	Rs in million	Rs./ MMBTU
SSGCL	419,275	397,983	171,989	432.15
SNGPL	646,156	602,446	171,630	284.89
Total	1,065,431	1,000,429	343,619	343.47

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

9.1.4 ***Accordingly, the Authority accepts cost of gas sold at Rs. 135,660 million for the said year.***

9.2 Unaccounted for Gas

9.2.1 The petitioner has reported UFG at 6.88% (28,785 MMSCF) for the said year, as follows:

Table 15: Comparison of UFG per the petition with RERR

	Volumes in MMCF	
	RERR	**The Petition**
Gas available for sale	430,440	418,396
Gas Sales	392,774	389,611
UFG Volumes	37,666	28,785
UFG (%)	**8.75%**	**6.88%**

9.2.2 The petitioner while calculating UFG has also included unmeasured gas volume (4,705 MMCF) on account of minimum billing, pilferage by non-consumers (6,387 MMCF) and un-billed volume (1,950 MMCF) due to law and order situation in Sariab region , Quetta (Balochistan Province) as part of deemed sale for the said year.

9.2.3 The petitioner has mentioned that the prevailing law & order situation in Quetta has adversely affected company's efforts in controlling UFG where law and order is deteriorating day by day. Specifically, this situation is dominant in Sariab region where UFG volume is 52% due to theft of gas, tempering of meters, leakages and faulty meters. The UFG when compared to relatively calm area in Quetta city (Cantt. region) is in the range of 25-28%. Based on these factors considering company's inability to effectively bill its consumers and operate and maintain its network in

Sariab region, the petitioner has included the unbilled volume over and above the normal UFG volume in law and order affected areas in Quetta (1,950 MMCF).

9.2.4 The petitioner has claimed 1,950 MMCF in respect of law and order in Sariab region of Quetta against 1,286 MMCF claimed by it in the previous year. The Authority advised the petitioner in the decision of Motion for review of DFRR 2011-12 to make efforts to decrease this volume, but instead of decrease 52% increase has been claimed by the petitioner. These are SMS volumes, net of billing recovered.

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

9.2.6 The ECC of the Cabinet, vide its decision dated 20th November, 2014, decided to provisionally allow volume consumed in law and order affected areas. The Authority also sought external legal advice in the case of law and order affected areas, non-Consumers and bulk to retail Ratio, especially keeping in view Para-IV of the Policy Guidelines issued by the FG.

9.2.7 Keeping in view the policy guidelines of the FG and the current law & order situation in the country, the Authority provisionally allows 75 % (1,463 MMCF) of the claimed volume subject to the conditions that: -

(i) Since law and order is a Federal and Provincial subject, the FG shall specify the law and order affected areas. As regards, 25 % (487 MMCF) of the claimed volume, the FG is requested to arrange funding from its own resources or from the royalty of the concerned province.

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

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

9.2.9 The petitioner has claimed a volume of 4,705 MMCF in respect of minimum consumption of domestic consumers. The Authority disallows the petitioner's claim on account of un-metered gas as part of minimum billing on the rationale that the same is unmeasured and also arises due to petitioner's own equipment fault, which is not justified to allow.

9.2.10 The petitioner has claimed a volume of 6,387 MMCF in respect of gas pilfered by non-consumers against 2,059 MMCF as claimed by it in the previous year which is 210% increase. The Authority observes that volume pilfered by non consumers (6,387 MMCF) has exponentially increased as compared to the volume claimed in the Motion for review of DFRR 2011-12. The petitioner also did not comply with the policy guidelines conveyed to it vide MP&NR's letter No. DGO (AC)-5 (26)/2012-13 Vol II Pt dated June 20, 2013, Para- 21 (e) of its summary states that "Both the companies must cooperate with OGRA and protect the pipelines on war footing to reduce UFG instead of litigating in courts."

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

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

9.2.13 The Authority is of the view that in the Ordinance there is no provision which fixes the responsibility of recovery of stolen gas upon OGRA. It is a regulatory body entrusted with fostering of competition, increase private investment and ownership in the mid-stream and down-stream petroleum industry, protect the public interest and provide effective and efficient regulations. Whereas, Rule 30 of Licensing Rules sets out a function to be performed by OGRA, which is neither envisaged in the preamble of the Ordinance nor finds its place in the powers and functions of OGRA as entrusted under section 6 of the Ordinance. Therefore, recovery of stolen gas does not resonate with functions of OGRA and OGRA cannot act as a Regulator and executing agency simultaneously.

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

9.2.15 The ECC of the Cabinet, vide its decision dated 20th November, 2014, decided to provisionally allow volume pilfered by non-consumers.

9.2.16 The Authority is of the view that there are sufficient legal provisions available for the Petitioner in Criminal Amendment Act, 2011 and Guidelines for dealing with Theft cases by MP&NR in 2013 vide letter No. NG(1)-14(52)/2011-Vol-I-GA dated July 17, 2013. The petitioner is directed to increase its efforts and extensively work on vigilance of the pipeline network to curb this menace. Keeping in view the policy guidelines of the FG and in view of the preceding paragraphs, the Authority provisionally allows 80 % (5,110 MMCF) of the claimed volume subject to the conditions that: -

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

    (i.) Registration of FIR's against the pilferers by the petitioner.

    (ii.) Filing of criminal and recovery suits by the gas companies under courts of competent jurisdiction.

    (iii.) Authentication/ decision in respect of pilfered/ theft volume of gas etc. by the relevant courts.

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

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

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

e. A third party audit of the non consumer cases shall also be undertaken by the Petitioner in consultation/ co-ordination with OGRA and the volumes allowed shall be adjusted accordingly.

f. The allowed volume in respect of gas theft by non-consumers is capped at the maximum limit of 6,387 MMCF for FY 2012-13 and onwards.

9.2.17 ***In view discussion in the above mentioned paras, Authority determines the UFG volumes at 8.43%. Therefore, UFG disallowance over and above 7%, per the interim decision of the honorable SHC, comes to Rs. 1,920 million subject to review of honorable Court. However, on the announcement of final judgment by the respective High Court, this order of the Authority may be altered, amended or rescinded accordingly.***

Table 16: Computation of UFG

		MMCF
Particulars	**The Petition**	**Determined by the Authority**
Gross Purchases	419,275	419,275
Gas Consumed Internally - metered	576	576
(Inc.)/Dec. Gas in pipeline	(51)	(51)
Loss due to sabotage activity / ruptures - unmetered	354	354
Sub total	879	879
Available for Sale (A)	**418,396**	**418,396**
Gas Sales	**373,645**	**373,645**
Add: Volumes relevant to minimum billing of domestic sector consumers	4,705	-
Add: Unbilled pilferred volume in law & order affected areas	1,950	1,463
Add: Pilfered volume detected against non-consumer	6,387	5,110
Add: Gas Shrinkage at LPG Plant (JJVL) - Badin	2,181	2,181
Add: Gas Shrinkage at LPG Plant (JJVL) - Bobi	159	159
Add: Gas Shrinkage at LPG Plant (JJVL) - KPD	478	478
Add: Gas Shrinkage at LHF & Others	106	106
Total Gas Sales (B)	**389,611**	**383,142**
Gas Unaccounted For (A - B)	**28,785**	**35,254**
Gas Unaccounted For (%)	**6.88%**	**8.43%**
Benchmarks 7% as per court stay	29,288	29,288
Disallowed volume (MMCF)	(503)	5,966
Disallowed volumes - MMMBTU	(471)	5,590
WACOG - Rs per MMBTU	343.47	343.47
Disallowance / (Savings) over UFG targets - Rs Million	**(162)**	**1,920**

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

9.2.19 ***Based on the above computation, the Authority provisionally deducts Rs. 1,920 million from the revenue requirement of the petitioner for the said year.***

9.3 Transmission & Distribution (T & D) Cost

i. Summary

9.3.1 The petitioner has claimed that T&D cost has increased by 33% i.e. from Rs. 9,569 million provided in RERR to Rs. 12,694 million, as compared below:

Table 17: Comparison of T & D Cost per the Petition with RERR & Previous Year

Rs. in Million

Particulars	FRR	RERR	The Petition	Inc./(Dec.) over RERR	
	FY 2011-12	FY 2012-13			%
Salaries, wages, and benefits at benchmark	7,861	6,785	9,666	2,880	42%
Advertisement	66	66	100	34	51%
Legal charges	37	30	64	34	113%
Provision for doubtful debts	146	146	825	679	465%
Impairment of Capital WIP	-	-	25	25	100%
License & Tariff Petition Fee to OGRA	123	112	112	0.09	0.08%
Gas bills collection charges	153	157	160	3	2%
Security expenses	236	275	290	15	5%
Stores, spares and supplies consumed	699	737	795	58	8%
Insurance	82	93	93	(0.24)	-0.26%
Meter reading by contractors	55	64	55	(9)	-14%
Repairs & maintenance	1,011	1,405	1,201	(204)	-15%
Postage & revenue stamps	52	76	64	(12)	-16%
Rent, rate & taxes	125	115	97	(18)	-16%
Material used on consumers installations	43	75	62	(13)	-17%
Traveling	90	126	101	(25)	-20%
Gas bills stubs processing charges	13	15	12	(3)	-21%
Electricity	118	183	140	(43)	-23%
Collecting agent commission	1	3	2	(1)	-29%
Professional charges	32	35	24	(11)	-32%
Others	103	112	107	(5)	-5%
Others (NGEP) Training & Pilot Project	-	100	-	(100)	-100%
Revenue expenditure relating to LNG	24	14	28	14	102%
SSGCL Share in ISGSL expenses	56	228	60	(168)	-74%
Sub-total Cost	**11,127**	**10,952**	**14,080**	**3,128**	**29%**
Less: Recoveries / Allocations	1,598	1,560	1,689	129	8%
Net T&D Cost before GIC	**9,529**	**9,392**	**12,391**	**2,999**	**32%**
Add: Gas consumed internally	163	177	188	11	6%
Loss due sabotage activity	70	-	115	115	100%
Net T&D	**9,762**	**9,569**	**12,694**	**3,125**	**33%**

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

ii. Human Resource (HR) Cost

9.3.2 The petitioner has claimed HR benchmark cost for the said year at Rs. 9,666 million (including Rs. 1,220 million on account of CBA provision) as against Rs. 6,785 million provided in RERR, thereby reporting 42% increase. The petitioner has explained that effectively no HR benchmark formula was available for the said year therefore the Authority, at the time of DERR for FY 2012-13, had provisionally allowed an increase of 10.80% over RERR for FY 2011-12, which was on lower side, as the actual expenditure for FY 2011-12 was determined at Rs. 7,861 million.

9.3.3 The petitioner has worked out HR benchmark cost at Rs. 9,731 million by applying existing costs drivers in the same ratio. However, 100% CPI adjustment over last year actual expenditure and rolling year base of FY 2011-12 has been claimed by it.

9.3.4 The petitioner has alleged that the Authority decided HR benchmark cost formula without consultation with licensees and without considering the relevant factors.

Consequently, it faced disallowance in FY 2009-10 as well as in FY 2010-11.

9.3.5 The petitioner further stated that Authority, in its DERR for FY 2011-12, agreed that previous HR benchmark formula requires review. Accordingly, the Authority appointed Consultant for carrying out study in this respect. According to the petitioner, the Consultant had also agreed to its stance in respect of rolling base year and 100% CPI allowance.

9.3.6 The petitioner has also requested to consider its view point while deciding benchmark formula through independent consultants for future years, in order to retain its valuable and experienced employees and enabling it to induct new capable and professional individuals. The petitioner further asserted that meeting the requirements of CBA Charter is its contractual obligation, and absence of HR benchmark will eventually result in non-compliance of this obligation.

9.3.7 The Authority observes that HR benchmark was implemented after carrying out detailed analysis and exhaustive discussions with utilities and has, therefore, proved to be reasonably fit. HR benchmark has been tested in terms of effectiveness and efficiency since its introduction, which reveals that composition of HR benchmark cost remained quite successful, tight enough to control this cost and relaxed enough to provide a cushion for extra funding and incentive for cost optimization. HR cost benchmark implemented for second term of three years effective FY 2008-09 to FY 2010-11 also provided sufficient additional funding to offset reasonable demand of its executives and CBA in total.

9.3.8 The Authority, with the intent to obtain expertise of other corporate entities, had engaged the services of independent expert to carry out HR benchmark study. Accordingly, the consultant submitted its draft report, which totally failed to assume rationale basis to compute the HR cost, and the same was also vehemently criticized by all stakeholders. Accordingly, contract has been terminated.

9.3.9 As the consultant appointed on the HR study in respect of gas companies could not execute its assignment, the Authority, per its decision on ERR FY 2014-15 dated 3rd July, 2014, had made extensive in house deliberation on this issue and has reviewed the HR cost benchmark effective from FY 2011-12 to FY 2014-15. The new benchmark operates on rolling base year and provides the indexation to the base year cost in view of latest dynamics as 65% weightage of "no. of consumers", 20% weightage of " T&D network", and 15% weightage of "sales volume".

9.3.10 The Authority notes that the petitioner has informed that CBA for FY 2010-11 & FY 2011-12 finalized after the issuance of FRR for FY 2010-11. Negotiations were finalized with CBA resulting in higher cost. In view of the same, actual / correct impact in the base year cost of HR was not passed to the petitioner. The petitioner has submitted that an additional amount of Rs. 681 million has further been included on account of CBA provision. ***The Authority, while considering actual impact of revised CBA agreement, decides to include Rs. 681 million in base year cost, and determines the HR benchmark cost for the said year at Rs. 9,169 million. The Authority further allows Rs. 160 million (i.e. 50% of surplus) on account of adjustment in respect of HR benchmark pertaining to FY 2011-12.***

9.3.11 ***In view of above, the Authority allows Rs. 9,329 million under the head of HR cost benchmark (as per Annexure- C).***

iii. Provision for Doubtful Debts

9.3.12 The petitioner has claimed Rs. 825 million on account of provision for doubtful debts (including Rs. 300 million in respect of live domestic defaulted cases), as against Rs. 146 million per RERR, for the said year, showing huge increase of 465%. The breakup of the same is as under:

Table 18: Breakup of Provision for Doubtful Debts

CustomerCategory	Rs. in Million
Industry	5
Commercial	52
Domestic	297
	355
Difference between G/L & CC&B	170
	525
Domestic Live Customer over 3 years	300
Provision cliamed as part of revenue requirement	**825**

9.3.13 The petitioner has argued that Authority fixed this provision at Rs. 146 million at level of FY 2006-07 without giving consideration to rise in number of disconnections and gas price which ultimately cause increase in trade debts and resultantly alters the provision for doubtful debts. The petitioner has asserted that since FY 2006-07, it's annual sales have increased from Rs. 86 billion to almost Rs. 164 billion in FY 2012-13 (an 91% increase). Also, restricting provision at a level is not justified as the petitioner sells its gas on an approximately thirty days credit period. The petitioner has also demanded Rs. 171 million on account of difference between Customer Care & Billing (CC&B) related to disconnected customers & general ledger balance. The Authority observes that difference between CC&B and general ledger was Rs. 74 million at the time of FY 2011-12, which has now soared to Rs. 171 million for the year ended June, 2013. The petitioner's statutory auditor has been emphasizing to reconcile these balances, which it failed to do so till now.

9.3.14 ***The Authority, keeping in view the slackness at the part of petitioner, decides to disallow Rs. 171 million claimed on account of disconnected customer for the said year.***

9.3.15 During the hearing, the petitioner has revised its claim in the light of ECC of the Cabinet dated 20th November, 2014 by Rs. 819 million, i.e. 1% provision of doubtful debts against sale, thereby requesting to allow provision for doubtful debts at Rs. 1,644 million for the said year.

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

9.3.17 The Authority has always been allowing significant amount in respect of collecting agent commission for the recovery of outstanding dues from the defaulted consumers as well as the expenditure incurred on consumer awareness campaigns. Also, the Authority had already increased the security deposit as per the request of petitioner in order to avoid the risk of default from consumer. Therefore, all categories of consumers including domestic are subject to sufficient amount of security deposit in order to compensate the credit risk. In this scenario, it is only the late disconnection by the petitioner, which accumulates the outstanding amounts, hence, it is the fault on part of the petitioner only. ***In view of the same, the Authority decides to allow provision against disconnected consumers only i.e. Rs. 355 million for the said year. The Authority further directs the petitioner to actively follow the GoP's directives in respect of effective recovery mechanism in natural gas sector, while capturing the defaulters so that other consumers are not burdened through increased prices as well as gas shortages.***

iv. Advertisement

9.3.18 The petitioner has reported advertisement expense at Rs. 100 million for the said year as against Rs. 66 million provided in RERR, increasing by 51%. The breakup of advertisement is as under;

Table 19: Comparison of Advertisement Expense with RERR & previous year

Rs. in million

Particulars	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	
	FRR	FRR	FRR	RERR	The Petition
Consumer Education	20	27	44	43	60
Corporate Image Building	2	10	7	14	9
Operational	13	21	44	22	29
LNG		0.97	2	-	2
Others - Environmental		0.04	0.27	-	0
Total Claimed	**35**	**59**	**97**	**79**	**100**
Allowed by Authority	**35**	**50**	**66**	**66**	

9.3.19 The petitioner has submitted that reason for this increase under the head of advertisement is the disallowance made by Authority at the time of DERR for the said year. The petitioner asserted that it had projected an amount of Rs. 79 million under this head, whereas the Authority allowed only Rs. 66 million.

9.3.20 The petitioner has further emphasized that there was an increase in consumer awareness and operational advertisement than initially envisaged at the start of the year. On yearly basis, approximately Rs. 12-15 million are expensed in the media campaigns, aimed at recovering of huge targeted amounts from defaulters, which does not even constitute 1% of the outstanding amounts.

9.3.21 The petitioner informed that it has taken following new initiatives, duly reviewed and approved, by the management;

1) Appointment of a 'Marketing Research Company',

2) Launching of an awareness drive in academic institutions,
3) Launching a page on 'Facebook' and an account on 'Twitter',
4) Communication through telecommunication i.e. SMS

Such new initiatives would significantly augment the periodic review of measurable objectives vis-à-vis the expenses incurred in media campaigns.

9.3.22 The Authority observes that petitioner has been planning to appoint a research company for assessment of impact of media campaigns on the consumers. The Authority notes that about 1,800 employees were reinstated in the petitioner company under the Sacked Employees (re-instated) Ordinance, 2009. This additional force can be utilized for conducting research in this respect under the guidance of the petitioner's Advertising / Sales Department experienced personnel. ***In view of the same, the Authority hereby directs the petitioner to utilize this additional work force in lieu of research marketing company, since the cost incurred on this account shall not be allowed by the Authority in revenue requirement computations.***

9.3.23 The Authority notes that the petitioner, at the time of DERR for FY 2012-13, was allowed Rs. 66 million on this account, as against it's own claim of Rs. 80 million. On the contrary, petitioner has reported actual expenditure of Rs. 100 million, thereby showing a significant increase of 51% against OGRA's approved limit and 25% increase above its own estimates. This shows that the petitioner has neither been complying with the Authority's directions in respect of curtailment of expenditures nor has been restricting itself to its own projections. The Authority notes with serious concern that the petitioner, despite various earlier directions, has been incurring huge expenditure, over and above the approved limits. The Authority has always appreciated petitioner's efforts in respect of consumer education / awareness. However, no significant improvement in recovery and timely payment of bills could be seen. The Authority notes that spending Rs. 34 million over and above the approved / allowed expenditure shows casual and irresponsible attitude of the petitioner towards the determined expenditure is not justified as recovery of bills is also not improving.

9.3.24 ***The Authority, keeping in view the continuous excessive spending of the petitioner, decides to fix it at Rs. 83 million, thereby allowing a 50% of the claimed increase over RERR for the said year.***

v. Legal Charges

9.3.25 The petitioner has reported Rs. 64 million on account of legal charges, as against Rs. 30 million determined in RERR, showing an increase of 113%, as tabulated below:

Table 20: Comparison of Legal Charges with RERR & previous year

Rs. in Million

Particulars	FRR	RERR	The Petition	Inc./(Dec.) over RERR	
	FY 2011-12	FY 2012-13			%
Legal charges	37	30	64	34	113%

9.3.26 The petitioner attributed the increase (i.e. Rs. 34 million) to increased number of court cases / litigation and fee of legal consultant for matters being followed up in High / Supreme Courts as compared to projections for FY 2012-13.

9.3.27 The Authority, after scrutiny of the information submitted by the petitioner, notes with grave concern that petitioner has been paying hefty fee to M/s Minto & Mirza for filing petitions in OGRA. This is highly unreasonable that petitioner's own relevant departments can not even file a petition with OGRA in accordance with applicable rules / laws. A hefty amount of Rs. 7.5 million has been paid to M/s Minto & Mirza for the same task, in addition to Rs. 4 million paid in respect of litigation cases against OGRA pending in SHC. The Authority has been repeatedly directing the petitioner to control these costs in larger national interest. However, the petitioner, on the other hand, has been continuously increasing its expenditures thereby entirely ignoring Authority's directions in the matter.

9.3.28 ***In view of above, the Authority allows 50% of claimed increase over RERR and fixes legal charges at Rs. 47 million for the said year and reiterates its directions in respect of curtailing this expenditure.***

vi. Other Expenses

9.3.29 The petitioner has claimed "other expenses" at Rs. 107 million for the said year as against Rs. 112 million per RERR, showing decrease of 5%, as under.

Table 21: Comparison of Other Expense with RERR & Previous Year

					Rs. in Million
	FRR	RERR	The Petition	Variance over RERR	
Description	FY 2011-12	FY 2012-13			%
				-	
Out of Pocket expenses - Directors	9	5	23	19	403%
Communications	48	47	44	(3)	-7%
Subscriptions & Club Membership	4	4	4	(0.08)	-2%
Others	42	57	36	(21)	-36%
Sub total:	*103*	*112*	*107*	*(5)*	*-5%*

9.3.30 The petitioner has reported increase in out of pocket expense – directors by 403% (i.e. from Rs. 5 million to Rs. 23 million) over RERR for the said year. The petitioner has submitted that 403% increase is mainly due to the increase in number of board of directors' meetings as well as increase in director's fee.

9.3.31 The Authority notes that the justifications advanced by the petitioner are very general to substantiate its claim. The petitioner has been directed several times to control such expenditures. ***The Authority reiterates its directions in respect of curtailing / controlling all such avoidable expenditure in the wake of austerity measures.***

9.3.32 ***In view of above, the Authority allows 50% of the claimed amount under the above sub-head and fixes out of pocket expenses – directors at Rs. 12 million for the said year.***

9.3.33 ***In view of above, Authority determines "other expenses", at Rs. 95 million for the said year.***

vii. Revenue Expenditure Relating to LNG

9.3.34 The petitioner has reported Rs. 28 million on account of revenue expenditure relating to LNG, as against Rs. 14 million determined in RERR, showing an increase of 102%.

Table 22: Comparison of Revenue expenditure relating to LNG with RERR & Previous Year

Rs. in Million

Particulars	FRR	RERR	The Petition	Inc./(Dec.) over RERR	
	FY 2011-12	FY 2012-13			%
Revenue expenditure relating to LNG	24	14	28	14	102%

9.3.35 The petitioner has asserted that it had envisaged expenditure relating to LNG at Rs. 40 million at the time of DERR, which was slashed down by Authority to Rs. 14 million. Therefore, the actual expenditure is in line with the original estimates envisaged at that time. The petitioner has further argued that it has reported a reasonable increase of 16% over actual expenditure incurred in FY 2011-12.

9.3.36 ***The Authority, keeping in view actual spending pattern, importance of LNG projects in current energy crisis as well as GoP directives in the matter allows revenue expenditure relating to LNG for the said year at Rs. 28 million for the said year.***

viii. Remaining Items of T & D Cost

9.3.37 Expenditure on remaining items of T & D cost, which have not been discussed above, is Rs. 3,291 million as against Rs. 3,799 million provided in RERR, as detailed below:

Table 23: Summary of Remaining T & D Expenses per the Petition with RERR & Previous Year

					Rs. in Million
Particulars	**FRR**	**RERR**	**The Petition**	**Inc./(Dec.) over RERR**	
	FY 2011-12	**FY 2012-13**			**%**
License & Tariff Petition Fee to OGRA	123	112	112	0.09	0.08%
Gas bills collection charges	153	157	160	3	2%
Security expenses	236	275	290	15	5%
Stores, spares and supplies consumed	699	737	795	58	8%
Insurance	82	93	93	(0.24)	-0.26%
Meter reading by contractors	55	64	55	(9)	-14%
Repairs & maintenance	1,011	1,405	1,201	(204)	-15%
Postage & revenue stamps	52	76	64	(12)	-16%
Rent, rate & taxes	125	115	97	(18)	-16%
Material used on consumers installations	43	75	62	(13)	-17%
Traveling	90	126	101	(25)	-20%
Gas bills stubs processing charges	13	15	12	(3)	-21%
Electricity	118	183	140	(43)	-23%
Impairment of Capital WIP	-	-	25	25	100%
Collecting agent commission	1	3	2	(1)	-29%
Professional charges	32	35	24	(11)	-32%
Others (NGEP) Training & Pilot Project	-	100	-	(100)	-100%
SSGCL Share in ISGSL expenses	56	228	60	(168)	-74%
	2,890	**3,799**	**3,291**	**(508)**	**-13%**

9.3.38 ***The Authority accepts remaining items of T&D cost at Rs. 3,291 million.***

9.3.39 ***The Authority also accepts the GIC and loss due to sabotage activities at Rs. 303 million.***

9.3.40 ***In view of discussion in paras 9.3.2 to 9.3.39 above, the Authority determines operating cost for the said year at Rs. 11,842 million as against Rs. 12,694 million claimed by the petitioner, as follows:***

Table 24: Summary of T & D Cost Determined by the Authority

		Rs. in million
DESCRIPTION	**FY 2012-13**	
	The Petition	**Determined by the Authority**
Salaries, wages, and benefits at benchmark	9,666	9,329
Provision for doubtful debts	825	355
Advertisement	100	83
Legal charges	64	47
Others	107	95
Revenue Expenditure relating to LNG	28	28
Remaining Items of T & D Cost	3,291	3,291
Sub-total T&D cost	**14,080**	**13,228**
Less: Recoveries / Allocations	1,689	1,689
Net T&D Exp before GIC	**12,391**	**11,539**
Add: Gas consumed internally	188	188
Loss due to sabotage activity	115	115
Total Transmission & Distribution Cost	**12,694**	**11,842**

9.4 **Reclaimed Items**

9.4.1 The petitioner has claimed Rs. 2,852 million as reclaimed items, approved / allowed by the Authority in its decision on Motion for Review for FY 2011-12 dated 18th June 2013. The breakup of the same is as under:

Table 25: Break up of Reclaimed Items

Rs. in Million

DESCRIPTION	**REFERENCE OF DETERMINATION**		
	REF.	**Year of Expenditure**	**The Petition**
(A) Billing Cycle Synchronization - Sales value impact	**Para - 4.7.2**	FY 2011-12	414
(B) CBA provision allowed	**Para - 4.5.2**	FY 2011-12	191
(C) Theft Adjustment	**Para 4.1.7**	773 mmcf	98
(D) Pilferred Volumes UFG Allowed	**Para - 4.2.4**	FY 2011-12	
Unbilled pilferred volume in law & order affected areas	**(63.25% of 1286**	FY 2011-12	236
Pilfered volume detected against non-consumer	**(59.14% of 2059**	FY 2011-12	353
(E) In line with Cabinet Committee Decision			
Claim on account of:			
i) Unbilled pilferred volume in law & order affected areas		(36.75% of 1286 mmcf)	137
ii) Pilfered volume detected against non-consumer		(40.86% of 2059 mmcf)	244
iii) Minimum Billing (Domestic Deemed Sales)		3897 mmcf	1,156
(F) Subsidy on LPG Air Mix Project -			24
TOTAL			**2,852**

9.4.2 The petitioner has claimed Rs. 414 million on account of billing cycle synchronization, allowed by the Authority in its para 4.7.2 of its decision in respect of Motion for Review of FRR (MFRR) for FY 2011-12. The petitioner has further claimed Rs. 191 million in respect of CBA provision allowed by the Authority in the above referred decision.

9.4.3 ***The Authority accepts petitioner's claim in respect of sales value – billing cycle synchronization (Rs. 414 million) and CBA provision (Rs. 191 million) as approved in its decision for MFRR for FY 2011-12.***

9.4.4 The petitioner has claimed 773 MMCF with respect to theft by disconnected domestic consumers, and correspondingly Rs. 98 million has been booked as sales revenue against it. In FRR for FY 2011-12, the Authority disallowed 773 MMCF volumes on this account, without adjusting the corresponding sales revenue figures. Therefore, the same i.e. Rs. 98 million is reclaimed in the instant Petition.

9.4.5 ***The Authority notes that in para 4.1.7 of motion for review of FRR dated June 13, 2013 had agreed with the petitioner's contention for equitable treatment in respect of volumes and sales revenues. In view of the same, the Authority allows adjustment of Rs. 98 million as part of revenue requirement for the said year.***

9.4.6 The petitioner has also included Rs. 236 million on account of unbilled pilfered volumes in law and order affected areas and Rs. 353 million in respect of pilfered volumes against non-consumers as reclaimed items keeping in view the Authority's decision in para 4.2.4 of motion for review of FRR for FY 2011-12.

9.4.7 The petitioner, in addition to the volumes allowed in FY 2011-12, has also claimed remaining pilfered volumes by non-consumers, law and order, and minimum billing in UFG in view of its interpretation of the Cabinet's decision dated June, 2013. The petitioner has requested to allow remaining pilfered volumes of UFG of 36.75 % (Rs. 137 million) for law and order affected areas and 40.86% (Rs. 244 million) for non consumers, over and above the volumes allowed by OGRA in MFRR FY 2011-12.

9.4.8 The Authority, vide its decision on MFRR for FY 2011-12, capped volume in respect of non-consumer at 1,218 MMCF and 813 MMCF for law & Order affected areas giving an equitable treatment to petitioner on the basis of volumes allowed to SNGPL in FRR for FY 2011-12, subject to audit and reconciliation. After receipt of policy guidelines in June, 2013, the allowed volumes have been restricted to 50% i.e. 188 MMCF in respect of non-consumers and 170 MMCF in case of law and order affected areas are being disallowed. Accordingly, 643 MMCF in respect of law & order affected areas and 1,030 MMCF in respect of pilfered volumes against non-consumers pertaining to FY 2011-12 have been allowed as part of reclaimed items.

9.4.9 ***In view of above, the Authority allows Rs. 198 million and Rs. 316 million on account of law & order affected areas and non-consumers respectively.***

9.4.10 ***The Authority, therefore, only allows reclaimed adjustment of the amount of 50% for FY 2011-12 in respect of non-consumers and law and order heads amounting to Rs. 198 million and Rs. 316 million respectively.***

9.4.11 The petitioner has further claimed 3,897 MMCF (Rs. 1,156 million) on account of minimum billing for domestic consumers as deemed sales volume in the revenue requirement calculation for the said year.

9.4.12 ***The Authority observes that petitioner can only claim the metered volume in its sales; therefore, the claimed un-metered volume 3,897 MMCF on account of minimum billing of the consumers is not justified and is disallowed.***

9.4.13 The petitioner has also claimed Rs. 24 million, disallowed by Authority on account of LPG Air Mix Project for Surab as part of the revenue requirement for the said year.

9.4.14 The Authority issued license for LPG storage, operation of air mix LPG plant and distribution of air mix LPG through pipeline, for Surab, Balochistan, on 21st August, 2013 with a validity period from 15th May, 2009 till 14th May, 2024. Therefore, subsidy has been adjusted accordingly.

9.4.15 ***The Authority, therefore, allows a total amount of Rs. 1,241 million under the head of Reclaimed items for the said year.***

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

9.5.1 The petitioner has claimed Rs. 1,704 million including Rs. 879 million on account of W.P.P.F for the said year. The petitioner has attributed the increase to exchange loss on payment of gas purchases amounting to Rs. 745 million incurred during the said year.

9.5.2 ***Consequent upon the deduction / adjustments in various components of revenue requirement as discussed above, W.P.P.F. is decreased by Rs. 240 million for the said***

year.

9.5.3 ***In view of above discussion, the Authority determines other charges including W.P.P.F at Rs. 1,463 million, for the said year.***

10. Decision

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

10.1.1 **accept opening balance of deferred credit at Rs. 5,336 million;**

10.1.2 **determines gross addition in fixed assets at Rs. 7,083 million and depreciation charge at Rs. 4,012 million;**

10.1.3 **determines balance of average net operating fixed assets (net of deferred credits, MMP & LPG Air mix) at Rs. 43,255 million. Consequently, the return required by the petitioner on its average net operating fixed assets is determined at Rs. 7,353 million;**

10.1.4 **accepts subsidy on account of Air-mix LPG at Rs. 462 million;**

10.1.5 **determines operating income at Rs. 6,856 million;**

10.1.6 **accept cost of gas at Rs. 135,660 million;**

10.1.7 **determine UFG cut at Rs. 1,920 million at 7% benchmark in line with the interim stay of SHC;**

10.1.8 **determine T&D expenses at Rs. 11,539 million as against Rs. 12,391 million claimed by the petitioner;**

10.1.9 **determine reclaimed items at Rs. 1,241 million as against petitioner's claim of Rs. 2,852 million;**

10.1.10 **accept revenue shortfall pertaining to FY 2011-12 at Rs. 2,336 million;**

10.1.11 **accept GIC at Rs. 303 million including loss due to sabotage activities;**

10.1.12 **determine other charges including W.P.P.F. to Rs. 1,463 million as against Rs. 1,703 million claimed by the petitioner; and**

10.2 In exercise of powers under Section 8(2) of Ordinance, Authority determines final revenue requirement of petitioner for said year at Rs. 162,449 million as against petitioner's claim of Rs. 167,283 million, as tabulated below:

Table 26: Components of FRR as Determined by the Authority

S. No	Particulars	Claimed by the Petitioner	Determined by the Authority
			Rs. in million
1	Cost of gas sold	135,660	135,660
2	UFG adjustment	162	(1,920)
4	Transmission and distribution cost	12,391	11,539
5	Reclaimed Items	2,852	1,241
6	Gas internally consumed	303	303
7	Depreciation	4,029	4,012
8	Other charges including WPPF	1,703	1,463
9	Return on net average operating fixed assets	7,385	7,353
10	Revenue shortfall pertaining to FY 2011-12	2,336	2,336
11	Additional revenue requirement for Air-Mix LPG Projects	462	462
	Total Final Revenue Requirement	**167,283**	**162,449**

10.3 **The petitioner's actual net operating income is Rs. 149,040 million and thus there is a shortfall of Rs. 13,409 million, vis-à-vis its revenue requirement of Rs. 162,449 million for the said year. The Authority decides to adjust entire shortfall amounting to Rs. 13,409 million in FRR for FY 2013-14. Average prescribed price for each category of consumers comes to Rs. 444.49/ MMBTU. Revised prescribed prices for each category of retail consumers for the said year, based on applicable gas prices fixed by FG, are attached and marked Annexure-B.**

(Noorul Haque)
Member (Finance)

(Aamir Naseem)
Member (Gas)

(Saeed Ahmed Khan)
Chairman

Islamabad, November 05, 2015

A. Final Revenue Requirement for FY 2012-13

ANNEXURE-A

Rs. in Million

	Particulars	The Petition	The Adjustment	Determined by the Authority
Gas sales volume -MMCF		**373,645**	**-**	**373,645**
	BBTU	**350,048**	**-**	**350,048**
"A"	**Net Operating Revenues**			
	Net sales at current prescribed price	**142,184**	**-**	**142,184**
	Meter rentals	667	-	667
	Amortization of deferred credit	397	-	397
	Sale of gas condensate (net of non-operating income)	64	-	64
	Gas transportation charges	10	-	10
	Revenue from JJVL	2,190	-	2,190
	Sale of LPG	129	1,986	2,115
	Sale of NGL	76	515	591
	Notional income on IAS 19 provision	240	-	240
	Other operating income	581	-	581
	Total Operating Revenue "A"	**146,539**	**2,501**	**149,040**
"B"	**Less: Operating Expenses**			
	Cost of gas	**135,660**		**135,660**
	UFG Adjustment	162	(2,082)	(1,920)
	Transmission and distribution cost	12,391	(852)	11,539
	Gas internally consumed	303	-	303
	Depreciation	4,029	(18)	4,012
	Other charges	825	-	825
	Re-claimed items	2,852	(1,611)	1,241
	Revenue shortfall pertaining to FY 2011-12	2,336	-	2,336
	W.P.P.F	879	(240)	639
	Total Operating Expenses "B"	**159,437**	**(4,803)**	**154,634**
"C"	**Operating profit (A-B)**	**(12,897)**	**7,304**	**(5,594)**
Return required on net operating fixed assets:				
Net operating fixed assets at beginning		48,071	-	48,071
Net operating fixed assets at ending		51,229	(367)	50,863
		99,301	(367)	**98,934**
Average net assets (I)		**49,650**	(183)	**49,467**
Meter manu. Plant asset at beginning		34	-	34
Meter manu. Plant asset at ending		39	-	39
		73	-	**73**
Average net assets (II)		**37**	-	**37**
Net LPG air mix project asset at beginning		507	-	507
Net LPG air mix project asset at ending		759	-	759
		1,267	-	**1,267**
Average net assets (III)		633	-	633
Deferred credit at beginning - Assets related to Natural Gas Activity		5,336	-	5,336
Deferred credit at ending - Assets related to Natural Gas Activity		5,748	-	5,748
		11,084	-	**11,084**
Average net deferred credit (IV)		5,542	-	5,542
"D" Average (I-II-III-IV)		**43,438**	**(183)**	**43,255**
"E" 17% return required		**7,385**	**(31)**	**7,353**
"F" Shortfall / (Surplus) in return required (E-C) (Gas Operations)		**20,282**	**(7,335)**	**12,947**
"G"	**Additional revenue requirement for Air-Mix LPG Projects**	462		462
Total Shortfall / (Surplus) (F+G)		**20,744**	**(7,335)**	**13,409**
Increase in average prescribed price effective (Rs. / MMBTU)		**59.26**	**(20.95)**	**38.31**
Estimated revenue requirement (B+E+G)		**167,283**	**(4,834)**	**162,449**
Average Prescribed Price (Rs. per MMBTU)		**465.44**	**(20.95)**	**444.49**

B. Prescribed Prices for FY 2012-13

ANNEXURE-B

CATEGORY	Avg. Prescribed Price w.e.f 01.07.2012	W.e.f 01.07.2012	W.e.f 22.09.2012	W.e.f 01.01.2013
	Rupees per MMBTU			
CATEGORY				
(i) **Domestic Sector:**				
a) Standalone meters				
(i) Upto 100 M^3 per month	444.49	100.00		
All off-takes at flat rate of				
(ii) Upto 300 M^3 per month	444.49	200.00		
All off-takes at flat rate of				
(iii) Over 300 M^3 per month	444.49	500.00		
All off-takes at flat rate of				
b) Mosques, churches, temples, madrassas, other Religious Places and Hostels attached thereto; Government and semi-Government offices and Hospitals, Government Guest Houses, Armed Forces messes, Langars, Universities, Colleges, Schools and Private Educational Institutions, Orphanages and other Charitable Institutions along-with Hostels and Residential Colonies to whom gas is supplied through bulk meters.				
(i) Upto 100 M^3 per month	444.49	100.00		
All off-takes at flat rate of				
(ii) Upto 300 M^3 per month	444.49	200.00		
All off-takes at flat rate of				
(iii) Over 300 M^3 per month	444.49	500.00		
All off-takes at flate rate of				
b) Mosques, churches, temples, madrassas, other Religious Places and Hostels attached thereto; Government and semi-Government offices, Hospitals, clinics, maternity homes, Government Guest Houses, Armed Forces messes, Langars, Universities, Colleges, Schools and Private Educational Institutions, Orphanages and other Charitable Institutions along-with Hostels and Residential Colonies to whom gas is supplied through bulk meters including captive power.				
All off-takes at flate rate of			500.00	
a) Standalone meters				
b) Mosques, churches, temples, madrassas, other Religious Places and Hostels attached thereto;				
(i) Upto 100 M^3 per month	444.49			106.14
All off-takes at flat rate of				
(ii) Upto 300 M^3 per month	444.49			212.28
All off-takes at flat rate of				
(iii) Over 300 M^3 per month	444.49			530.69
All off-takes at flat rate of				
c) Government and semi-Government offices, Hospitals, clinics, maternity homes, Government Guest Houses, Armed Forces messes, Langars, Universities, Colleges, Schools and Private Educational Institutions, Orphanages and other Charitable Institutions along-with Hostels and Residential Colonies to whom gas is supplied through bulk meters including captive power				
All off-takes at flat rate of	444.49			530.69
(ii) **Commercial:**				
All establishments registered as commercial units with local authorities or dealing in consumer items for direct commercial sale like cafes, bakeries, milk shops, tea stalls, canteens, barber shops, laundries, places of entertainment like cinemas, clubs, theaters and private offices, clinics, maternity homes, etc.				
All off-takes at flat rate of	444.49	600.00		
All establishments registered as commercial units with local authorities or dealing in consumer items for direct commercial sale like cafes, bakeries, milk shops, tea stalls, canteens, barber shops, laundries, hotels, malls, places of entertainment like cinemas, clubs, theaters and private offices, corporate firms, etc.				
All off-takes at flat rate of	444.49		600.00	636.83

	CATEGORY	Avg. Prescribed Price w.e.f 01.07.2012	W.e.f 01.07.2012	W.e.f 01.01.2013
		Rupees per MMBTU		
	CATEGORY			
(iii)	**Special Commercial (Roti Tandoors):**			
(i)	Upto 100 M^3 per month	444.49	100.00	106.14
	All off-takes at flat rate of			
(ii)	Upto 300 M^3 per month	444.49	200.00	212.28
	All off-takes at flat rate of			
(iii)	Over 300 M^3 per month	444.49	600.00	636.83
	All off-takes at flat rate of			
(iv)	**Ice Factories:**			
	All off-takes at flat rate of	444.49	600.00	636.83
(v)	**Industrial:**			
	All consumers engaged in the processing of industrial raw material into value added finished products irrespective of the volume of gas consumed including hotel industry but excluding such industries for which a separate rate has been prescribed.			
	All off-takes at flat rate of	444.49	460.00	488.23
(vi)	**Captive Power:**			
	All off-takes at flat rate of	444.49	460.00	488.23
(vii)	**Compressed Natural Gas (CNG):**			
	All off-takes at flat rate of	444.49	618.55	656.52
(viii)	**Cement:**			
	All off-takes at flat rate of	444.49	700.00	742.97
(ix)	**Pakistan Steel:**			
	All off-takes at flat rate of	444.49	460.00	488.23
(x)	**Fauji Fertilizer Bin Qasim Ltd.:**			
(i)	*For gas used as feed-stock for Fertilizer (upto 60MMCFD*	444.49	116.27	123.41
(ii)	*Additional allocation (10 MMCFD) (Provisional)*	444.49	60.67	67.38
(iii)	*For gas used as fuel for generating steam and electricity and for usage in housing colonies for fertilizer factories.*	444.49	460.00	488.23
(xi)	**Power Stations:**			
	All off-takes at flat rate of	444.49	460.00	488.23
(xii)	**Independent Power Producers:**			
	All off-takes at flat rate of	444.49	460.00	488.23

C. Computation of HR Cost Benchmark FY 2012-13 **ANNEXURE-C**

	Particulars	2010-11 (Base)	2011-12	2012-13
	HR benchmark Cost Parameters			
	Base Cost	7,166	7,166	7,878
	CPI factor	13.92%	11.01%	7.36%
	T & D network (Km)	42,441	44,100	45,630
	Number of Consumers (No.)	2,367,893	2,489,117	2,574,857
	Sales Volume (MMCF)	360,112	364,409	373,645
	Unit Rate (Rs,/unit)			
	T&D network (Rs./Km)	168,846	168,846	178,629
	No. of Consumers (Rs./Consumer)	3,026	3,026	3,165
	Sale Volume (Rs./MMCF)	19,899	19,899	21,617
	HR Cost Build-up (Million Rs)			
50%	Cost CPI -50%	-	394	290
25%	T & D network (Km) 25%	1,792	1,862	2,038
65%	Number of Consumers (No.) 65	4,658	4,896	5,297
10%	Sales Volume (MMCF)-10%	717	725	808
	HR Benchmark Cost	**7,166**	**7,878**	**8,432**
	IAS Cost	**229**	**303**	**306**
	Total HR Cost	**7,395**	**8,181**	**8,738**
	Cost Already Allowed/Claimed	**6,360**	**7,861**	**9,600**
	50% of Savings / (Excess) Allowed		(160)	431
	HR Cost Allowed		**8,340**	**9,169**
	Additional Impact of FY 2011-12			**160**
	HR Cost Allowed			**9,329**