Case No. OGRA-6(2)-2(5)/2014

IN THE MATTER OF

SUI SOUTHERN GAS COMPANY LIMITED ESTIMATED REVENUE REQUIREMENT, FY 2015-16

UNDER

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

DECISION

ON

DECEMBER 18, 2015

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

Plot No. 54-B, Fazal-e-Haq Road, G-6/F-6, Blue Area, Islamabad, Pakistan
Tel: +92-51-9221715-18, Fax: +92-51-9221714
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 listed on stock exchanges at Karachi, Lahore and Islamabad. The petitioner is operating in the provinces of Sindh and Balochistan under the license granted by Oil & Gas Regulatory Authority. It is engaged in construction and operation of gas transmission and distribution pipelines, sale of natural gas, LPG Air-Mix, sale of LPG, gas condensate, Natural Gas Liquids (NGL) and manufacture and sale of gas meters.

1.2. The petitioner filed a petition on March 09, 2015, 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 2015-16 (the said year) at Rs. 194,339 million (the amounts have been rounded off to the nearest million here and elsewhere in this document), and surplus at Rs. 5,886 million. The petitioner has included Rs. 638 million (Rs. 1.59 per MMBTU) on account of Air-mix LPG Projects. The requested decrease claimed by the petitioner is Rs. 14.68/MMBTU. The petitioner has further submitted that determinations are pending with the Authority, therefore after adjusting the shortfall of previous years, net shortfall for the said year is calculated at Rs. 2,617 million, thereby requesting an increase of Rs. 6.52/MMBTU w.e.f July 01, 2015.

1.3. The petitioner, at the time of public hearings held in Karachi & Quetta, revised its petition (the petition) based on initialed accounts of the last three years i.e. FY 2012-13, FY 2013-14 & FY 2014-15, and accordingly requested an increase of Rs. 155.25/MMBTU in average prescribed price effective July, 2015 owing to net shortfall of Rs. 62,253 million for the said year.

1.4. Further, some corrections in addition to assets were made by the petitioner in its initial claim of Rs. 23,616 million to Rs. 23,762 million for the said year. Accordingly, the petitioner forwarded revised submissions in respect of depreciation expense and return on assets lately on December 05, 2015. Based on revised / corrected submissions, Rs. 0.17/MMBTU was additionally claimed by the petitioner for the said year. The Authority notes that public hearings have been held, and proceedings for the said year have been closed. Therefore, no change / amendment at this point of time shall be considered by the Authority.

1.5. 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 2013-14	FY 2014-15	FY 2015-16
	FRR	FRR	The Petition
Units sold (BBTU)	**339,155**	**354,984**	**400,999**
Cost of gas sold	444.59	439.54	388.52
UFG adjustment	(29.32)	(28.96)	-
Transmission and distribution cost including Others	43.01	44.47	46.48
Shortfall of previous years	39.54	50.07	169.92
Depreciation	12.35	13.32	14.87
Return on net average operating fixed assets	22.60	22.17	34.77
Other operating income	(32.03)	(28.55)	(7.98)
Subsidy for LPG Air-Mix Project	1.44	1.55	1.59
Cost of service / prescribed price	502.17	513.61	648.17
Current average prescribed price	502.17	513.61	492.92
Increase requested in average prescribed price	-	-	**155.25**

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

1.7. A notice inviting interventions / comments on the petition from the consumers, general public and other interested / affected persons, was published in the two daily combined newspapers (The News & Daily Nawa-i-Waqt), and one local Urdu newspaper in Karachi and Quetta on August 06, 2015.

1.8. The Authority received four (4) applications to intervene in the proceedings from the following persons / entities:

i) All Pakistan Textiles Mills Association,

ii) All Pakistan Textiles Processing Mills Association,

iii) Karachi Chamber of Commerce & Industry,

iv) Mr. Muhammad Arif Bilvani, Consumer.

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

1.10. A notice intimating the date, time and place of public hearing, was published in two daily combined newspapers (The News & Daily Nawa-i-Waqt), and one local Urdu newspaper in Karachi and Quetta on August 23, 2015.

2. Salient Features of the Petition

2.1. The petitioner has made the following main submissions:

2.1.1. 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 the existing tariff regime and license condition no. 5.2.

2.1.2. The petitioner has claimed a net addition, net of deletions of Rs. 23,616 million in fixed assets, and net addition, ex-depreciation and deletion, of Rs. 6,277 million, resulting in claimed increase in net operating fixed assets from Rs. 81,701 million in FY 2014-15 to Rs. 99,040 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. 82,006 million, and required return to Rs. 13,941 million.

2.1.3. The petitioner has projected net operating revenues at Rs. 200,861 million, as detailed below (and compared with previous years):

Table 2: Comparison of Projected Operating Revenues with Previous Years

Rs. in million

Particulars	FY 2013-14	FY 2014-15	FY 2015-16	Inc./(Dec.) over FRR FY 2014-15	
	FRR	FRR	The Petition	Rs.	%
Net sales at current prescribed price	170,315	182,321	197,660	15,339	8
Amortization of deferred credits	403	403	431	28	7
Meter rentals	682	700	731	31	4
Gas transportation charges	-	-	62	62	100
Sale of Gas condensate	417	124	314	190	153
Sale of LPG	3,850	4,904	1,016	(3,888)	(79)
Sale of NGL	-	2,644	73	(2,571)	(97)
Revenue from JJVL	4,524	-	-	-	-
Notional income on IAS provision	320	456	-	(456)	(100)
Other income	666	904	573	(331)	(0.37)
Net Operating Revenue	**181,177**	**192,456**	**200,861**	**8,404**	**4**

2.1.4. The petitioner has projected net operating expenses at Rs. 248,537 million, as detailed below (and compared with previous years):

Table 3: Comparison of Projected Operating Expenses with Previous Years

Rs. in million

Description	FY 2013-14	FY 2014-15	FY 2015-16	Inc/(Dec) over FRR FY 2014-15	
	FRR	FRR	The Petition	Rs.	%
Cost of gas	150,785	156,030	155,798	(232)	(0.15)
Transmission and distribution costs	11,213	13,271	16,872	3,601	27
Gas Internally Consumed	334	347	487	140	40
UFG adjustment	(9,944)	(10,282)	-	10,282	(100)
Depreciation	4,189	4,727	5,961	1,234	26
Shortfall of previous years	13,409	17,773	68,139	50,366	283
Change in accounting policy IAS-19	2,349	780	53	(727)	(93)
Other charges including WPPF	691	1,389	1,227	(162)	(12)
Net Operating Expenses	**173,026**	**184,035**	**248,537**	**64,502**	**35**

2.1.5. The petitioner has projected Weighted Average Cost of Gas (WACOG) for the said year at Rs. 319.70 per 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).

2.1.6. The petitioner has projected Unaccounted for Gas (UFG) at 6.65% for the said year.

2.1.7. The petitioner has claimed Rs. 68,139 million being shortfall related to previous years.

2.1.8. The petitioner has claimed subsidy amounting to Rs. 638 million on account of Air-mix LPG Projects, being undertaken by it in accordance with directions of the FG / GoP.

2.1.9. The shortfall in the projected revenue requirement after achieving 17% return on average net operating fixed assets is estimated at Rs. 62,255 million, requiring increase of Rs. 155.25 per MMBTU in the existing average prescribed price, as detailed below:

Table 4: Computation of Requested Average Increase in Prescribed Price

Rs. In million

	Particulars	FY 2015-16 The Petition
A	**Net Operating Revenues**	200,861
	less: Net operating expenses excluding ROA	180,397
	Subsidy Air Mix LPG Project	638
	Shortfall of previous years	68,139
B	**Total Expenses**	249,174
C	**Shortfall** [(A) - (B)]	48,313
D	Return required @ 17% on net fixed assets in operation	13,941
E	**Total shortfall in revenue requirement [(D) - (C)]**	62,254
F	Sale volume (BBTU)	400,999
G	**Increase requested in existing average prescribed price Rs./MMBTU**	**155.25**

3. Proceedings

3.1. Public hearings were held on September 16, 2015 and September 18, 2015 at Karachi and Quetta respectively, participated by the following:

Petitioner:

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

Interveners:

i. Mr. Abdul Sami Khan, Chairman, CNG Dealers Association, Karachi,
ii. Mr. Malik Khuda Baksh, Chairman CNG Station Owners Association of Pakistan,
iii. Mr. Zubair Motiwala, Former Chairman, All Pakistan Textile Processing Mills Association,
iv. Mr. Shabbir Suleman Jee, Chairman, All Pakistan CNG Association, Sindh Zone,
v. Dr. Qazi Ahmed Kamal, Advisor, Karachi Chamber of Commerce & Industry,
vi. Mr. M. H. Asif, Consultant, All Pakistan Textile Mills Association,
vii. Mr. Muhammad Arif Bilvani, Consumer,
viii. Brig. (R) Iftikhar Ahmed, Chairman, All Pakistan CNG Association.

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

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 revisit the matter of financial charges since the petitioner is forced to borrow from financial institutions owing to delay in receipts of revenues from Government owned public companies. 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 to deteriorate the financial health of gas utility and is infact impairing the interests of public at large.

3.2.4. The legal counsel also pleaded that a meager increase in consumers' bills who are already getting cross subsidy and paying far less cost of fuel vis-à-vis cost of alternate supplies, is infact protection of interests of public at large and the same also strikes a balance among all stakeholders. The counsel on this premise demanded increase in benchmark on provisional basis till UFG study is finalized.

3.2.5. The counsel also argued that total revenue requirement under Section 8(6)(h) ensures guaranteed return and provides that total revenue requirement of the licensee shall be determined so as licensee may achieve 17% return. 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. The substantive points made by the interveners and participants during public hearings in Karachi & Quetta are summarized below:

3.3.1. 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

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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.

3.3.2. Since FG has issued policy guidelines in respect of UFG, therefore, financial impact of the same to the tune of Rs. 37 billion be borne by FG instead of natural gas consumers.

3.3.3. It was highlighted that introduction of efficiency benchmarks viz; UFG was in accordance with the directives issued by National Security Counsel on October 11, 2000 for energy reforms. Internationally UFG percentage is hovering around 3%, and technical losses are less than 1%. Therefore, the gap between 4.5% and 1% is actually to account for the uncontrollable factors faced by the petitioner.

3.3.4. By any stretch of imagination, UFG definition does not cover un-metered volumes of gas sales & purchases. Therefore, the same can not 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 NGEP projects. UFG losses have reached to the tune of Rs. 21 billion in FY 2014-15.

3.3.5. It was vehemently criticized that petitioner has entirely failed to curb UFG menace. On the other side, K.E has reduced its line losses from 36% to 26% in couple of years while operating in similar conditions.

3.3.6. It was criticized that outdated technology, low quality of material, poor workmanship and corruption are major factors of petitioner's continuous deterioration. In view of the same, World Bank has reduced its financial support from US$ 200 million to US$ 40 million.

3.3.7. Textiles 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.

3.3.8. 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 for both utilities.

3.3.9. 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.

3.3.10. 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 bridge this gap with no positive results.

3.3.11. 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.

3.3.12. Cross subsidy should be abolished, and subsidy through budgetary allocation be provided. Regarding fertilizer sector, it was suggested that subsidy should be calculated as a percentage of actual cost of gas or service and not a fixed rate.

3.3.13. It was objected that cost of higher UFG percentages in Balochistan (35%), Quetta (55%), Kalat (77%), Dadu (42%), Larkana (36%) should be not borne by consumers in Karachi, who have been paying their bills regularly.

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

3.3.15. Allowance of 1% of price as provision for doubtful debts is irrational decision of ECC, and not to be followed by OGRA.

3.3.16. Incomes generated from LPS, MMP and sale of condensate/NGL/LPG be included as part of revenue requirement, since the same workforce is engaged in this activity under the license granted for transmission, distribution & sale of natural gas.

3.3.17. It was urged that OGRA, as an independent body, should come forward to rescue textile sector.

3.3.18. Performance of 3,500 TAs' reinstated through presidential ordinance is also questionable.

3.3.19. Exorbitant cost of Rs. 50-60 billion has been incurred on LNG project by the petitioner on the directives of FG. The same be borne by the FG only, as no significant benefit shall achieve except transportation income.

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

3.3.21. It was pointed that industry including CNG sector is facing low pressures in winters.

3.3.22. 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.

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

3.3.24. 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.

3.3.25. 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.

3.3.26. The tariff has increased because new schemes have been launched in Parliamentarians constituencies, which are violation of law as utilities have failed to meet demand of gas from the existing consumers and even giving rise to issues of UFG, gas theft and leakages.

3.3.27. 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.

3.3.28. 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.

3.3.29. Daily production in last 3 years has almost remained static, and no new discovery has been made.

3.4. 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 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.

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

5. Return to the Petitioner

5.1. The Authority is obligated under Section 7(1) of the Ordinance, to determine or approve tariff for regulated activities whose licenses provide for such determination or such approval, or where authorized by this Ordinance, subject to policy guidelines. License Condition No. 5.2 of license granted to the petitioner clearly states that subject to the efficiency related benchmarks adjustments, the Authority shall determine total revenue requirement of the licensee to ensure that it achieves 17% return on its average net fixed assets in operation for each financial year. The Authority, accordingly, has been determining the revenue requirement of the petitioner, providing return on net operating assets in accordance with the said provision of the Ordinance as well as the petitioner's license, while treating various income & expenditure heads as per existing regime.

5.2. The Authority notes that petitioner has been continuously contending that guaranteed return of 17% 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 the petitioner's contentions are assumed true, it shall be contrary to the regulatory setup established by GoP, violate the legal & regulatory framework as a whole and tantamount to dysfunctional regulator. This shall impair the consumer interest and result into economic distortion for each segment of the society which can never be, by any stretch of imagination the intent of legislature.

5.3. The Authority further observes that license condition 5.2 allows the petitioner 17% return on fixed assets subject to efficiency benchmarks. The same is strictly followed for determination of estimated revenue requirement for the aid year.

6. Operating Fixed Assets

6.1. Summary

6.1.1. The petitioner has claimed a net addition, net of deletions of Rs. 23,616 million in fixed assets, and net addition, ex-depreciation and deletion, of Rs. 6,277 million, resulting in claimed increase in net operating fixed assets from Rs. 81,701 million in FY 2014-15 to Rs. 99,040 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. 82,006 million, and required return to Rs. 13,941 million.

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

Particulars	Rs. in Million
Net operating fixed assets at beginning	81,701
Net operating fixed assets at ending	99,040
sub-total	180,742
Average net assets (I)	**90,371**
Meter manu. Plant asset at beginning	776
Meter manu. Plant asset at ending	2,436
sub-total	3,212
Average net assets (II)	**1,606**
LPG air mix project asset at beginning	454
LPG air mix project asset at ending	546
sub-total	1,000
Average net assets (III)	**500**
Deferred credit at beginning	6,446
Deferred credit at ending	6,071
sub-total	12,517
Average net deferred credit (IV)	**6,258.74**
"D" Average (I-II-III-IV)	**82,006**
17% required returned claimed by the petitioner	**13,941**

6.1.2. The Authority notes that decision of FRR for FY 2014-15 has now been issued where closing balance of net operating fixed assets has been determined at Rs. 52,877 million as against Rs. 81,701 million per the instant petition. Therefore, the same shall be used as opening balance of operating fixed assets for the said year.

6.1.3. The details of deferred credits projected by the petitioner for the said year are compared with FY 2014-15, as under:

Table 6: Comparison of Projected Deferred Credits with FY 2014-15

Rs. in Million

Particulars	FY 2014-15 DERR	FY 2015-16 The Petition
Balance as at July 01	6,727	6,446
Addition during the year	147	56
Sub-total:	6,874	6,502
Amortization during the year	428	431
Un-amortized Balance as at June 30	**6,446**	**6,071**

6.1.4. The Authority notes that decision of FRR for FY 2014-15 has now been issued where closing balance of deferred credit has been determined at Rs. 5,317 million as against Rs. 6,446 million per the instant petition. Therefore, the same shall be used as opening balance of operating fixed assets for the said year. ***Consequently, the Authority provisionally determines closing balance at Rs. 4,941 million for the said year.***

6.1.5. 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	The Petition	Inc./(Dec.) over FRR for FY 2014-15	
	FY 2013-14	FY 2014-15	FY 2015-16	Rs.	%
Land	0.006	-	138	138	-
Buildings	67	115	373	258	225
Roads, pavements and related infrastuctures	0.083	-	279	279	100
Gas Transmission Pipeline	1,116	229	5,676	5,447	2,379
Plant and machinery	317	252	771	519	206
Gas distribution system and related facilities & equipments	3,693	4,554	6,714	2,160	47
Furniture, equipment including computer & allied equipments	89	134	418	284	212
Computer Software (Intangible)	30	8	35	27	320
LPG Air Mix Projecrs	7	(1)	1,722	1,723	(187,886)
Telecommunication system	115	146	208	62	42
Appls., loose tools & equipt.	28	24	259	235	983
Vehicles	234	222	732	509	229
Construction equipment	19	0.011	160	160	1,454,445
Compressors	-	-	1,653	1,653	100
NGEP	-	-	4,433	4,433	100
SCADA	-	-	45	45	100
Gross Addition	**5,715**	**5,683**	**23,616**	**17,933**	**316**

6.2. Land

6.2.1. The petitioner has projected an amount of Rs. 138 million for acquisition of land for three proposed projects including the acquisition of land for Karachi Eastern Region Offices, for Rs. 125 million during the said year.

6.2.2. The Authority observes that the petitioner's average capitalization in this head during the period FY 2006-07 to FY 2014-15 has remained very minimal i.e. 5 % of the projected amount. Moreover, the petitioner has capitalized almost nil expenditure against this head during the last four years.

6.2.3. ***In view of the petitioner's capitalization trend/ historical analysis, the Authority decides to pend the amount of Rs. 125 million projected for acquisition of land for Karachi Eastern Region Offices, however, the petitioner may submit the same to the Authority for consideration at the time of FRR, if it formalizes the land acquisition procedure during the said year. The Authority, however, provisionally allows an amount of Rs. 13 million for acquisition of land for CP Stations and Plot for Zonal office Sibbi for the said year.***

6.3. **Buildings**

6.3.1. The petitioner has projected an amount of Rs. 373 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 last nine years i.e. FY 2006-07 to FY 2014-15 remained at 35% of the projections.

6.3.3. ***In view of the historical trend analysis, the Authority provisionally determines the expenditure at Rs. 130 million (i.e. 35% of the projected amount) for the said head.***

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

6.4.1. The petitioner has projected an amount of Rs. 279 million in respect of Roads, pavement and related ROW for the said year.

6.4.2. The Authority notes that petitioner's ability to materialize these projects in the past has remained very limited e.g. during the last four years, the petitioner had capitalized an amount of Rs. 4 million only against the provisionally allowed

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amount of Rs. 441 million.

6.4.3. ***In view of the historical trend, the Authority provisionally determines the expenditure at Rs. 5 million under this head for the said year. Any additional expense incurred/capitalized shall be considered at the time of FRR.***

6.5. Gas Transmission Pipelines

6.5.1. The petitioner has projected an amount of Rs. 5,676 million on account of additions of assorted diameters of pipelines to its transmission network during the said year, breakup of which is as follows:

Table 8: Requested Additions to Transmission Network

		Rs. in Million
S. No.	Particulars	The Petition
		FY 2015-16
1	8" dia x 85 Km pipeline from Jhal Magsi to Shori	568
2	16" dia X 9 KMs Re-Route of Kotri Barrage	165
3	12" dia x 344 Km QPL Rehabilitation and Intelligent Pigging	317
4	Construction of Sub-merge crossings	80
5	42" dia x 20 Km loop between Nara-Sawan	2,253
6	24" dia x 21 Km Interlink between Pakland to Khadeji	1,039
7	Mixing Skid, Metering, Regulation setup at KDJ/Pakland	450
8	Tie-in and integration arrangement from Tie-in point 2 to Pakland	804
	Total	5,676

Details regarding major heads are as under:-

6.5.2. The petitioner has projected Rs. 568 million for laying of 8" dia, 85 Km transmission pipeline to integrate Jhal Magsi field to QPL system at Shori for projected supply of 15 MMCFD gas at projected cost of Rs. 1,370 million. This project was initially planned to be commissioned by January, 2013 with an estimated cost of Rs. 877 million, however, the same has now been projected at Rs. 1,370 millions by the petitioner, to be commissioned till June, 2016. The petitioner has explained that Rs. 802 million were allowed in previous years and Rs. 568 million have been additionally claimed in rate base for the said year.

6.5.3. The Authority observes that the petitioner has been projecting the said project for the last couple of years, but remained unable to materialize the same owing to poor law & order situations.

6.5.4. *In view of the above, the Authority decides to pend the amount for this project during the said year. However, keeping in view the importance of the project for Balochistan, the Authority approves the project in principle, i.e. if manageable by the petitioner, it is allowed to execute the same. The actual amount capitalized in this regard shall be considered by the Authority in the FRR, if any progress is made in this regard by the petitioner.*

6.5.5. The petitioner has projected Rs. 165 million on account of 16" diameter, 9 kms re-route of kotri barrage during the said year. The petitioner has stated that re-routing of this pipeline is needed since this pipeline segment is non-pigable and also due to current law and order situation and untoward incident there is a direct threat to the integrity of kotri barrage.

6.5.6. *Keeping in view the importance of the project, the Authority decides to provisionally allow an amount of Rs. 165 million for the said year.*

6.5.7. The petitioner has projected Rs. 317 million for rehabilitation and intelligent pigging of 12" dia, 344 Km QPL transmission pipeline during the said year. The Authority notes that the said project was earlier approved by it at the time of DERR for FY 2011-12 at the projected cost of Rs. 57 million, but the petitioner could not capitalize the said amount.

6.5.8. *Keeping in view the progress of previous years, the Authority decides to pend the project for the said year. However, keeping in view of the importance of project to cater for additional gas requirement of Balochistan, specially during winter seasons, the Authority approves the project in principle, i.e. if manageable; the petitioner may execute the project and the same shall be considered in the FRR if significant progress is made in this regard by the petitioner.*

6.5.9. The petitioner has projected Rs. 80 million on account of construction of sub-merged crossings. The petitioner has informed that as per phase-wise security plan agreed at Security Review Conference held in 2004 and keeping in view the current incidents and soft/exposed targets such as overhead pipeline crossings on canals near the sensitive area of Balochistan and Sindh, it was agreed to replace such overhead pipelines with submerged pipeline crossings under the canal beds and water channels to enhance pipeline security. In continuation of required measures, 07 numbers of crossings have been identified to be sub-merged at the capitalization of Rs. 80 million during the said year.

6.5.10. ***Keeping in view the prevailing law and order situation in the country and the fact that almost half a year has lapsed, the Authority decides to provisionally allow an amount of Rs. 40 million for the said year.***

6.5.11. The petitioner has projected Rs. 2,253 million for laying of 42" dia, 20 Km transmission pipeline from Nara to Sawan. The petitioner has stated that this pipeline segment is a part of Phase-I of its pipeline infrastructure development plan for imported LNG & anticipated indigenous gas supplies and is required to transport RLNG at Sawan being part of SNGPL's shares in LNG import. The petitioner has also stated that Engro Elengy Terminal Private Limited (EETPL) has already started re-gasification of LNG imported by FG's designated LNG buyer. Hence, there is a need to lay the said pipeline segment for transportation of RLNG from petitioner's System to SNGPL's system for onward delivery to RLNG consumers.

6.5.12. FG vide MP&NR's letter dated 05.11.2014 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 nonexistence of required gas infrastructure within the stipulated time period will jeopardize the entire gas/LNG import projects.

6.5.13. The Authority notes that since it is a large scale/ gigantic project involving additional gases to the tune of 1.2 BCFD RLNG and having huge financial impact on the consumers, therefore the Authority is also in the process of evaluating the said project through a "Consultant Firm".

6.5.14. The Authority notes that in a recent meeting, the petitioner informed that physical survey had confirmed the actual length of the pipeline segment between Nara to Sawan as 13.5 Km instead of the originally conceived 20 Km.

6.5.15. ***Keeping in view the above stated position, historical estimations of 42" dia pipelines as well as directions of FG on the matter, the Authority provisionally allows an expenditure of Rs. 1,485 million for laying of 42" dia x 13.5 Km loop between Nara to Sawan for the said year.***

6.5.16. The petitioner has projected Rs. 1,039 million for laying of 24" dia, 21 Km Transmission Pipeline Interlink (TPI) between Pakland to Khadeji. The petitioner has stated that this pipeline segment is a part of Phase-I of its Pipeline Infrastructure Development Plan (PIDP) for upcoming LNG & anticipated indigenous gas supplies and is required to transport RLNG from Pakland at Indust Left Bank System to Indus Right Bank Pipeline System at Khadeji.

6.5.17. The Authority notes that the cost estimates projected by the petitioner are higher than the actual cost of the last laid line of similar diameter with the addition of escalation factor. The petitioner had laid 24" x 35 Km pipeline for Kunnar-Pasaki Gas Field Integration Project in the year FY 2011-12 at per Km cost of 34 Million. Adding escalation factor @ 10 % p.a. per Km cost becomes Rs. 48 Million.

6.5.18. ***Keeping in view the above stated position, historical estimations of 24" dia pipelines and view point of FG on the matter, the Authority provisionally allows an expenditure of Rs. 998 million for laying of the said pipeline segment for the said year.***

6.5.19. The petitioner has projected Rs. 450 million for installation of mixing skid, metering, regulation Setup at KDJ/Pakland during the said year. The petitioner has stated that this equipment is a part of Phase-I of its PIDP for upcoming LNG & anticipated indigenous gas supplies and is required for RLNG flow to right bank or low BTU indigenous gas flow to left bank as well commingling with RLNG for its maximum possible consumption at the petitioner's network.

6.5.20. ***Keeping in view the above stated position and view point of FG on the matter, the Authority provisionally allows an expenditure of Rs. 450 million for the said year.***

6.5.21. The petitioner has projected Rs. 804 million for tie-in and integration arrangement from tie-in point 2 to Pakland. The petitioner has stated that this equipment is a part of phase-I of its PIDP for upcoming LNG & anticipated indigenous gas supplies and consists of (i) check metering skid (Ultrasonic) installation for RLNG-1 at tie-in (CTS) Bin Qasim, valves and fittings for off take at CTS and inlet headers for petitioner's LNG terminal (ii) Necessary integration arrangement for RLNG-1 at existing transmission pipeline network at Pakland with 42" dia x 17 km RLNG pipeline header Pakland as per scope of work explained in LNG service agreement.

6.5.22. *Keeping in view the above stated position and view point of FG on the matter, the Authority provisionally allows an expenditure of Rs. 804 million for the said year.*

6.5.23. *In view of the above paras, addition to gas transmission pipeline is provisionally allowed at Rs. 3,942 million for the said year as tabulated below.*

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

Rs. in million

S. No.	DESCRIPTION	The Petition	Determined by the Authority
		FY 2015-16	
1	8" dia x 85 Km pipeline from Jhal Magsi to Shori	568	-
2	16" dia X 9 KMs Re-Route of Kotri Barrage	165	165
3	12" dia x 344 Km QPL Rehabilitation and Intelligent Pigging	317	-
4	Construction of Sub-merge crossings	80	40
5	42" dia x 20 Km loop between Nara-Sawan	2,253	1,485
6	24" dia x 21 Km Interlink between Pakland to Khadeji	1,039	998
7	Mixing Skid, Metering, Regulation setup at KDJ/Pakland	450	450
8	Tie-in and integration arrangement from Tie-in point 2 to Pakland	804	804
	Total	5,676	3,942

6.5.24. It is pertinent to mention here that the FG, vide its letter No. NG-(II)-16(I)/14-Misc-LNG dated 22nd June, 2015, stated that the project carries a significant national importance, accordingly, completion of the same as per the timelines would be very crucial. Further, in view of the present financial condition of both utilities, Government will provide required financing facility for undertaking LNG Infrastructure Development (Phase-II) Project from GIDC to both the gas utilities as per the provisions of GIDC Act, 2015, the mechanism for providing such financing facility is being finalized. Subsequently, MP&NR has now conveyed, vide its letter dated 11th September, 2015, the approval of the ECC of the Cabinet regarding bank borrowing to the extent of Rs. 101 billion to the Gas Companies and that the Ministry of Finance will provide GoP guarantee in favour of Gas Companies to arrange financing against LNG Project (Phase-II) from commercial banks. The

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

6.5.25. The Authority is of the considered view/ stance that this financial burden may not be passed onto the consumers/ general public and the subject projects should be financed through GIDC to avoid double impact on consumers. The Authority has also requested MPNR vide letter dated 14th October, 2015 to reconsider the matter keeping in view the above scenario and the public interest and advice accordingly.

6.5.26. ***Since it has been proposed to the FG that the expenditure under the head be met through financial assistance provided by it through GIDC, capitalization of Rs. 3,737 million pertaining to PIDP for upcoming LNG shall not be entitled for rate of return to the petitioner. The matter may be reviewed after fresh advice of the FG in this matter. However, capitalization of Rs. 205 million pertaining to regular expenditure of Gas Transmission Pipelines shall be entitled for rate of return.***

6.6. **Compressors**

6.6.1. The petitioner has projected Rs. 1,653 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. 253 million and overhauling & relocation of Dadu compressors to Nawabshah at an estimated cost of Rs.1, 400 million. The petitioner has stated that overhauling of two compressors currently installed at Dadu and then relocation of the same to Nawabshah is a part of Phase-1 of PIDP for upcoming LNG and anticipated indigenous gas supplies.

6.6.2. The Authority notes that cost projected for overhauling of two gas turbines at estimated cost of Rs 700 million (i.e. Rs. 350 million per unit) seems very high as compared to the cost estimated by the petitioner for DR 990 Gas Turbines i.e. Rs. 253 million.

6.6.3. *The Authority, in view of the above, provisionally allows an amount of Rs. 1,000 million for re-furbishment of Dadu Compressors and relocation of the same to Nawabshah. However, as regards the overhauling of DR 990 gas turbine engine installed at Hyderabad compressor station, at estimated cost of Rs. 253 million, the Authority decides to pend the same with advice to the petitioner to bring the proposal in subsequent petitions along-with a comprehensive/consolidated overhauling schedule of all the compressors installed in its system with complete detail of their date & location of installation, running hours, last date of overhauling, and scheduled maintenance date etc.*

6.6.4. *In view of the discussion at Paras 6.5.24 to 6.5.25 above, capitalization of Rs.1,000 million pertaining to PIDP for upcoming LNG shall not be entitled for rate of return to the petitioner. The matter may also be reviewed after fresh advice of the FG in this matter.*

6.7. **Plant and Machinery**

6.7.1. The petitioner has projected Rs. 771 million (excluding NGEP related expenditures) for the said year on account of plant and 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 last nine i.e. FY 2006-07 to FY 2014-15 remained at 23%.

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6.7.3. *Keeping in view the importance of plant and machinery for operational activities, and trend analysis, the Authority provisionally allows 230 million for the said year.*

6.8. Distribution Development

6.8.1. The petitioner has projected an amount of Rs. 6,714 million (excluding NGEP related expenditures) in the said head for gas distribution development.

Table 10: Requested Additions to Distribution Network

S/No.	Description	Rs. Million The Petition FY 2015-16
1	Laying of Distribution Mains including services-Existing Areas	2,851
2	Rehabilitation Services	278
3	Installation of New Connections (meters)	664
4	Replacement / Repair of Undersized Meters	173
5	Construction of CMSs, TBSs, and TRSs,/ Cathodic protection	439
6	New Towns	1,745
	Sub Total	6,149
7	12" DIA X 5 Km old city area augmentation main	98
8	16" supply main Hyderabad for re-alignment	59
9	16" dia x 18 Km Augmentation Gas Line from Quetta to Mastung (Ph-II)	227
10	24" dia * 33 Km from SMS Kathore to SMS Surjani	582
	Sub Total	966
	Less Excess Allowed in Previous Years	(400)
	Total Distribution System	**6,714**

6.8.2. The petitioner has projected Rs. 2,851 million for laying of 1,228 Km distribution mains including main extensions, reinforcement mains and service mains for the said year.

6.8.3. *The Authority, based on the last three years trend in respect of physical achievement, provisionally allows Rs. 1,444 million (i.e. average of actual expenditures in FY 2012-13 to FY 2014-15 plus 15% inflation impact) for laying of 760 km distribution mains. Breakup of the said amount is as under:-*

- *Rs. 1,114 million for laying 430 Km main extensions and reinforcement mains;*
- *Rs. 330 millions for laying of 330 Km services mains.*

6.8.4. The petitioner has projected Rs. 278 million for laying of 195 Km rehabilitation services for the said year.

6.8.5. *The Authority, based on the historical trend in respect of physical achievement, provisionally allows Rs. 84 million (i.e. actual expenditures in FY 2012-13 plus 10%*

inflation impact per year) for laying of 195 km rehabilitation services.

6.8.6. The petitioner has projected Rs. 664 millions for installation of 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. Moreover, 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 the moratorium.

6.8.7. The Authority observes that in case of commercial & industrial connections (meters), the petitioner has projected higher per unit cost for Karachi as compared to Interior Sindh and Balochistan and has not furnished any plausible justification for this variation.

6.8.8. ***The Authority therefore, provisionally allows Rs. 638 million, based on historical trend plus inflation, for installation of 118,425 number of new meters for the said year.***

6.8.9. The petitioner has projected Rs. 173 millions for replacement of industrial & commercial meters in Karachi, Sindh and Balochistan regions for the said year.

6.8.10. The Authority, during the process of scrutiny, notes that the petitioner has erroneously computed replacement of meter cost at Rs. 173 million instead of Rs. 520 million. The petitioner accordingly corrected its table. The Authority, however, observes that per unit cost projected by the petitioner is very high as compared to per unit cost projected in ERR for FY 2014-15. ***The Authority, keeping in view the higher projected cost, decides to allow 10% inflation rate on the estimated cost of FY 2014-15 and provisionally allows Rs. 173 million for replacement of 548 industrial meters and 2,075 number of commercial meters for the said year.***

6.8.11. The petitioner has projected an amount of Rs. 439 million for construction of CMSs, TBSs, TRSs and CP Stations for the said year.

6.8.12. The Authority notes that the amount projected in this head is very high as compared to the actual amounts capitalized during the FY 2013-14 and FY 2014-15 under this head i.e. Rs. 111 million and 112 million respectively. ***The Authority,***

inflation impact per year) for laying of 195 km rehabilitation services.

6.8.6. The petitioner has projected Rs. 664 millions for installation of 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. Moreover, 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 the moratorium.

6.8.7. The Authority observes that in case of commercial & industrial connections (meters), the petitioner has projected higher per unit cost for Karachi as compared to Interior Sindh and Balochistan and has not furnished any plausible justification for this variation.

6.8.8. ***The Authority therefore, provisionally allows Rs. 638 million, based on historical trend plus inflation, for installation of 118,425 number of new meters for the said year.***

6.8.9. The petitioner has projected Rs. 173 millions for replacement of industrial & commercial meters in Karachi, Sindh and Balochistan regions for the said year.

6.8.10. The Authority, during the process of scrutiny, notes that the petitioner has erroneously computed replacement of meter cost at Rs. 173 million instead of Rs. 520 million. The petitioner accordingly corrected its table. The Authority, however, observes that per unit cost projected by the petitioner is very high as compared to per unit cost projected in ERR for FY 2014-15. ***The Authority, keeping in view the higher projected cost, decides to allow 10% inflation rate on the estimated cost of FY 2014-15 and provisionally allows Rs. 173 million for replacement of 548 industrial meters and 2,075 number of commercial meters for the said year.***

6.8.11. The petitioner has projected an amount of Rs. 439 million for construction of CMSs, TBSs, TRSs and CP Stations for the said year.

6.8.12. The Authority notes that the amount projected in this head is very high as compared to the actual amounts capitalized during the FY 2013-14 and FY 2014-15 under this head i.e. Rs. 111 million and 112 million respectively. ***The Authority,***

based on the historical trend in respect of physical achievement, provisionally allows Rs. 110 million for the said year.

6.8.13. The petitioner has projected Rs. 1,745 million for extension in distribution network in order to supply gas to new towns & villages during the said year.

6.8.14. The Authority notes that the petitioner has made computational error, and actually claimed Rs. 1,544 million on account of new towns & villages for the said year. Out of total, schemes worth Rs. 109 million meet per customer cost criteria, whereas schemes amounting Rs. 1,435 million do not meet per customer cost criteria.

6.8.15. The Authority further observes that out of Rs. 1,435 million schemes (which do not meet per customer criteria), Public Works Programme schemes are fully/partially funded by GoP/GoS but these are either post moratorium or 0% complete i.e. Yet to start pre-moratorium schemes. The remaining schemes are to be fully funded by the petitioner. Moreover, out of the schemes amounting Rs. 109 million (which meet per customer cost criteria), schemes amounting Rs. 49 million are either post moratorium or 0% complete i.e. Yet to start pre-moratorium schemes. The remaining schemes amounting Rs. 60 million pertain to gas producing districts.

6.8.16. ***The Authority, keeping in view severe shortfall of gas supply in the country, prevailing policy of FG, moratorium imposed vide MP&NR letter dated 04.10.2011 and decision of honorable SC on CP-20 of 2013 provisionally allows Rs. 60 million on account of only those schemes which meet per customer cost criteria and pertain to gas producing districts.***

6.8.17. The petitioner has projected Rs. 98 million for 12" dia, 5 km old city area augmentation main; Rs. 59 million for re-alignment of 16" dia, supply main Hyderabad; and Rs. 374 million for laying of 16" dia, 18 Km augmentation gas line from Quetta to Mastung (Ph-II).

6.8.18. The Authority observes that it had allowed 46 million for 12" dia X 5 km old city area augmentation main; Rs. 155 million for 16" supply main Hyderabad for re-alignment; and Rs. 371 million for 16" dia x 18 km augmentation gas line from Quetta to Mastung (Ph-II) for the FY 2014-15. However, the petitioner has incurred nil expenditure during the said year. ***Keeping in view the previous history, the Authority decides to pend the expenditure against these projects at this stage, however, the petitioner may execute the projects if feasible and claim the actual expenditure in FRR for the said year.***

6.8.19. The petitioner has projected Rs. 582 million for laying of 24" dia x 33 km pipeline from SMS Kathore to SMS Surjani for the said year.

6.8.20. The petitioner has stated that the said line is required to overcome the problem of decrease in pressure and high velocity exceeding the acceptable limits. This loopline would overcome pressure problem and enhance overall system flow capacity to 40 MMCFD as well as storage and flexibility in system operation in the city area.

6.8.21. ***The Authority, keeping in view the operational requirement of the petitioner and the fact that almost half a year has lapsed, provisionally allows an amount of Rs. 291 million for laying of 24" dia x 33 km pipeline from SMS Kathore to SMS Surjani for the said year.***

6.8.22. ***In view of above, addition to distribution development is provisionally allowed at Rs. 2,400 million for the said year, as tabulated below;***

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

			Rs. in Million
S/No.	Description	The Petition	Determined by the Authority
		FY 2015-16	
1	Laying of Distribution Mains including services-Existing Areas	2,851	1,444
2	Rehabilitation Services	278	84
3	Installation of New Connections (meters)	664	638
4	Replacement / Repair of Undersized Meters	173	173
5	Construction of CMSs, TBSs, and TRSs,/ Cathodic protection	439	110
6	New Towns	1,745	60
	Sub Total	6,149	2,509
7	12" DIA X 5 Km old city area augmentation main	98	-
8	16" supply main Hyderabad for re-alignment	59	-
9	16" dia x 18 Km Augmentation Gas Line from Quetta to Mastung (Ph-II)	227	-
10	24" dia * 33 Km from SMS Kathore to SMS Surjani	582	291
	Sub Total	966	291
	Less Excess Allowed in Previous Years	(400)	(400)
	Total	**6,714**	**2,400**

6.9. Furniture; Security & Office Equipments; and Computer & Allied Equipments

6.9.1. The petitioner has projected Rs. 418 million for the said year in respect of furniture, security equipments, office equipments, and computers & allied equipments.

6.9.2. The Authority observes that the petitioner on an average has capitalized 54% of the estimated amounts from FY 2006-07 to FY 2014-15.

6.9.3. *In view of the historical trend the Authority provisionally determines the said expenditures at Rs. 200 for the said year as tabulated below:*

Table 12: Additions to Furniture, Security & Office Equipment as Determined by the Authority

Rs. million

S. No.	DESCRIPTION	The Petition	Determined by the Authority
		FY 2015-16	
1	Computers & allied equipments	221	110
2	Office equipment	67	30
3	Furniture	55	25
4	Security Equipment	74	35
	Total	**418**	**200**

6.10. Computer Software (Intangible)

6.10.1. The petitioner has projected Rs. 35 million for the said year on account of computer software (intangible) for procurement of information technology infrastructure, services of surveyors for GIS, and biometric machines for access control systems etc.

6.10.2. ***The Authority, keeping in view the importance of computer software, provisionally allows Rs. 35 million for the said year.***

6.11. LPG Air-Mix Projects

6.11.1. The petitioner has projected Rs. 1,722 million on account of Air-Mix LPG projects during the said year. The petitioner has projected an amount of Rs. 6 million to be capitalized on Gwadar, Noshki, Surab and Kot Ghulam Muhammad LPG Air Mix Plants and Rs. 1,716 million are projected to be capitalized on new LPG Air Mix Projects in Awaran, Bela, Zhob, and Qilla Saifullah.

6.11.2. The Authority notes that the petitioner has neither furnished approval of ECC for new LPG Air-Mix Projects to be installed at Awaran, Bela, Zhob, and Qilla Saifullah, as required per the prevalent policy guidelines, nor has obtained requisite licences for the said projects.

6.11.3. *In view of the above, the Authority pends expenditure amounting Rs. 1,716 million projected for new LPG Air-Mix Projects at this stage, subject to completion of all requisite formalities. The Authority, however, provisionally allows an amount of Rs. 6 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. 208 million (excluding NGEP related expenditures) for the said year for different telecommunication projects.

6.12.2. The Authority observes that past trend shows that the petitioner has not been able to capitalize more than 32% of the projected expenditure under this head during the last nine years.

6.12.3. *The Authority, in view of the historical trend, provisionally allows Rs. 85 million for the said year.*

6.13. **Appliances Loose Tools & Equipments**

6.13.1. The petitioner has projected Rs. 259 million additions in assets under the head appliances, loose tools and equipments for the said year.

6.13.2. The Authority observes that the expenditure claimed by the petitioner is exorbitant with reference to amount capitalized in previous years. The historical analysis shows that, the average amount capitalized during seven years form FY 2007-08 to FY 2014-15 remained at 19% of the projections. Moreover, the petitioner has been able to capitalize maximum amount of Rs. 37 million in a single year in the past.

6.13.3. *The Authority, in view of the above, provisionally allows an amount of Rs. 50 million for the said year.*

6.14. Vehicles

6.14.1. The petitioner has projected Rs. 732 million (excluding NGEP related expenditure) under the head "Vehicles" for the said year. The petitioner has informed that the said expenditure has been projected for purchase of 547 vehicles, comprising 503 operational and 44 non-operational vehicles.

6.14.2. The Authority notes that percentage capitalization by the petitioner has remained variable during the last nine years under this head. However, the historical trend shows that the petitioner has capitalized a maximum amount of Rs. 237 million in a single year i.e. FY 2012-13.

6.14.3. ***The Authority, in view of the historical trend, provisionally allows an amount of Rs. 284 million (237 Million plus inflation impact @ 20%) under the said head.***

6.15. Construction Equipment

6.15.1. The petitioner has projected Rs. 160 million for procurement of mobile cranes, bulldozer and excavators etc. under the head of construction equipment 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 incurred at the end of the year. ***The Authority, however, keeping in view the importance of construction equipment, provisionally allows an amount of Rs. 80 million i.e. 50% of projected amount for the said year.***

6.16. SCADA

6.16.1. The petitioner has projected Rs. 45 million under the head "SCADA" for the said year. The petitioner has stated that capitalization under the head of SCADA is a component of PIDP 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. These are required for close and real-time monitoring/trending of pressure & temperature and also for improvement of the existing system at all purchase and sales points.

6.16.2. ***The Authority, keeping in view the justification provided by the petitioner decides to provisionally allow Rs. 45 million for the said year.***

6.16.3. ***In view of the discussion at paras 6.5.24 and 6.5.25 above, capitalization of Rs. 45 million pertaining to PIDP for upcoming LNG shall not be entitled for rate of return to the petitioner. The matter may be reviewed after fresh advice of the FG in this matter.***

6.17. **NGEP**

6.17.1. The petitioner has projected capital expenditure amounting Rs. 4,433 million against NGEP related activities in the heads of gas distribution development system, plant & machinery, telecommunication and vehicles as under:

Table 13: Additions to NGEP as claimed by the petitioner

Rs. Million

SR. No.	Particulars	FY 2015-16 The Pitition
1	High Accuracy Meters	1,175
2	Rehabilitation Mains & Services	1,722
3	Replacement Meters - Domestic	871
4	Plant and Machinery	453
5	Telecommunication	6
6	Vehicles	206
	Total	**4,433**

6.17.2. The Authority notes that the World Bank in its aide memoire forwarded vide its letter dated 16.11.2015 has reported that following the second restructuring of NGEP, the project size currently stands at $40 million. The petitioner's action plan had projected to disburse over $8 million by November, 2015, but in reality the expected disbursements will stand at about $2 million by end December, 2015. For the life of project i.e. project closing date of December 31, 2017, a revised disbursement estimate is emerging to be much lower than the current programmed amount of $40 million. Therefore, the World Bank has decided to move into an orderly closure of the project by May 31, 2016 and cancel the remaining funds. The Bank will honor its commitment for contracts already awarded and for the bids already received/under evaluation and limit the signing of fresh contract latest by December 31, 2015, with deliveries scheduled to be completed by April 30, 2016.

6.17.3. The Authority notes that the petitioner had projected an amount of Rs. 5,600 million in ERR for FY 2013-14 for NGEP and the Authority had allowed Rs. 3,162 million under this head. However, the petitioner had incurred nil expenditure under this head during FY 2013-14.

6.17.4. Keeping in view the historical trend and the World Bank's Aide Memoire, the Authority provisionally allows an amount of Rs. 1,111 million as tabulated below, subject to the actualization /capitalization at the time of FRR for the said year.

Table 14: Additions to NGEP as determined by the Authority

Rs. Million

SR. No.	Particulars	FY 2015-16	
		The Pitition	Determined by the Authority
1	High Accuracy Meters	1,175	465
2	Rehabilitation Mains & Services	1,722	350
3	Replacement Meters - Domestic	871	200
4	Plant and Machinery	453	50
5	Telecommunication	6	6
6	Vehicles	206	40
	Total	4,433	1,111

6.18. Assets relating to meter manufacturing business

6.18.1. The petitioner has excluded the projected addition of Rs. 122 million pertaining to meter manufacturing business from the rate base by reiterating its contention that the business is not a regulated activity.

6.18.2. 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 7.3.4 decides to treat assets related to MMP business as regulated activity for the said year.***

6.19. Fixed Assets determined by the Authority

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

Table 15: Summary of Asset additions determined by the Authority

Rupees in Million

Particulars	FY 2015-16	
	The Petition	Determined by the Authority
Land	138	13
Buildings	373	130
Roads, pavements and related infrastuctures	279	5
Gas Transmission Pipeline	5,676	3,942
Plant and machinery	771	230
Gas distribution system and related facilities & equipments	6,714	2,400
Furniture, equipment including computer & allied equipments	418	200
Computer Software (Intangible)	35	35
LPG Air Mix Projecrs	1,722	6
Telecommunication system	208	85
Appls., loose tools & equipt.	259	50
Vehicles	732	284
Construction equipment	160	80
Compressors	1,653	1,000
NGEP	4,433	1,111
SCADA	45	45
Addition in asset base FY 2015-16	23,616	9,616
PIDP-LNG Project (Financed through GIDC)		(4,782)
Total Addtion for Rate Base FY 2015-16	23,616	4,834

6.19.2. *As a consequence of adjustment on account of addition in assets for the said year, depreciation expense is provisionally determined Rs. 5,317 million*

6.19.3. *In view of the discussion at paras 6.5.24, 6.5.25, 6.5.26, 6.6.4 and 6.16.3, the Authority provisionally determines the closing net operating fixed assets for the said year at Rs. 57,340 million and the same for return base purpose computes to Rs. 52,558 million for the said year.*

7. Operating Revenues

7.1. Sales Volume

7.1.1. The petitioner has projected 5% increase (127,615) in number of consumers, from 2,710,585 reported in FY 2014-15 to 2,850,631 during the said year, as follows:

Table 16: Comparison of Projected Number of Consumers with Previous Years

Category	FY 2013-14	FY 2014-15	FY 2015-16	Growth over FRR FY 2014-15	
	FRR	FRR	The Petition		%
Domestic	2,618,806	2,683,024	2,821,948	138,924	5
Commercial	23,740	23,408	24,444	1,036	4
Industrial	4,156	4,153	4,239	86	2
Total	2,646,702	2,710,585	2,850,631	127,615	5

7.1.2. Sales volume has been projected to increase by 13% to 400,999 BBTU for the said year as against 354,984 BBTU as per FRR for FY 2014-15. Category-wise comparison with previous years has been provided as under:

Table 17: Comparison of Projected Sales Volume with Previous Years

Volume in BBTU

Category	FY 2013-14	FY 2014-15	FY 2015-16	Inc. / (Dec.) over FRR FY 2014-15	
	FRR	FRR	The Petition		%
Power	65,378	73,307	72,903	(404)	(1)
Captive Power	72,864	73,906	71,810	(2,096)	(3)
HCPC	5,729	6,185	5,731	(454)	(7)
CNG Stations	28,423	28,238	24,363	(3,875)	(14)
Cement	306	505	306	(199)	(39)
Commercial	9,659	9,854	10,031	177	2
General Industries	69,365	68,701	71,454	2,753	4
Domestic	74,235	80,906	99,917	19,011	23
Fertilizer - feed stock	12,901	13,382	25,551	12,169	91
Al-Tuwairiqui Steel	295	-	6,905	6,905	100
DHA Desalination Plant	-	-	3,021	3,021	100
Naudero Rental Power	-	-	2,103	2,103	100
Nooriabad Power Plant	-		6,905	6,905	100
Total	339,155	354,984	400,999	46,015	13

7.1.3. The petitioner has explained that the category-wise sales volume has been envisaged / estimated taking into account the actual consumptions as well as gas load management policy. Addition of 1,349 MMCFD has been estimated owing to additional gas supplies from new fields namely Suleman, Gambat and Jhal Magsi. Also, increase in off-takes from Mehar, Bhit, Naimat Basal, Kausar gas fields partly compensated by lower off-takes mainly from Sui, Badin, Kadanwari & Zamzama fields has been envisaged for the said year.

7.1.4. The Authority has been observing distorted variations at the year end as against estimates for the last three years. The Authority notes that at the time of FRR for FY 2012-13, FY 2013-14 & FY 2014-15, sales to CNG & captive sector remained at 8% & 21% respectively of total sales mix, as compared to 6% & 18% projected at the time of DERR for the respective periods. It is further observed that 91% increase projected against fertilizer feed-stock seems on a very higher side, keeping in view the consumption pattern as well as petitioner's stance in FY 2012-13 to FY 2014-15. Fertilizer feedstock remained at 4% during last three years of total sales mix, compared with 6% projection for the current year. These variations indicate that petitioner is violating GoP load management plan during the year. Projection of sales volumes & subsequently revenues based on low rate categories, hampering the natural gas consumer ultimately, resulting in higher consumer prices. The Authority, therefore, directs the petitioner to strictly comply GoP Gas Load Management Plan issued from time to time in letter & spirit, otherwise such variations shall be adjusted in line with the consumption pattern of gas supplies for the last year.

7.1.5. ***The Authority, in view of above, accepts the petitioner's sales volume projections at 400,999 BBTU.***

7.2. Sales Revenue at Existing Prescribed Prices

7.2.1. The petitioner has projected increase of 13% in sales revenue at existing prescribed prices, from Rs. 158,853 million in FRR for FY 2014-15 to Rs. 197,660 million for the said year. Category-wise comparison of sales revenue is given below:

Table 18: Comparison of Projected Sales Revenue with Previous Years

Rs. in Million

Category	FY 2013-14	FY 2014-15	FY 2015-16	Inc. / (Dec.) over FY 2014-15	
	FRR	FRR	The Petition		%
Commercial	6,279	6,415	5,001	(1,414)	(22)
Power	31,921	35,792	36,344	552	2
Captive Power	40,858	42,344	35,799	(6,545)	(15)
HCPC	2,797	3,019	2,857	(162)	(5)
CNG Stations	18,672	18,541	12,146	(6,395)	(34)
Cement	228	376	152	(224)	(60)
General Industries	34,084	33,624	35,622	1,998	6
Domestic	16,109	17,090	47,565	30,475	178
Fertilizer - feed stock	1,592	1,651	12,738	11,087	671
Nooriabad Power Plant	-	-	3,442	3,442	100
DHA Desalination Plant	1	1	1,506	1,505	253,863
Al-Tuwairqi Steel	-	1	3,442	3,441	448,661
Naudero Rental Power	0.20	0.20	1,048	1,048	529,193
Total	**152,542**	**158,853**	**197,660**	**20,619**	**13**

7.2.2. The Authority observes that increase in sales revenue is mainly to revision in gas supply allocations of various sectors as indicated in para in 7.1.3 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 2014-15 in compliance of Court Order. The Authority notes that the decision for FRR for FY 2014-15 has now been issued. ***Accordingly, the Authority provisionally determines net sale at current prescribed prices at Rs. 179,472 million as against Rs. 197,660 million as projected by the petitioner for the said year.***

7.3. Other Operating Income

i. Summary

7.3.1. The petitioner has projected 68% decrease for the said year in other operating income at Rs. 3,201 million from Rs. 10,135 million provided in FY 2014-15. Comparison with previous years is given below:

Table 19: Comparison of Projected Operating Revenues with Previous Years

Rs. in million

Particulars	FY 2013-14	FY 2014-15	FY 2015-16	Inc./(Dec.) over FRR FY 2014-15	
	FRR	FRR	The Petition	Rs.	%
Sale of Gas condensate	417	124	314	190	153
Other income	986	1,360	573	(787)	(0.58)
Meter rentals	682	700	731	31	4.43
Amortization of deferred credits	403	403	431	28	7
Sale of LPG	3,850	4,904	1,016	(3,888)	(79)
Sale of NGL	-	2,644	73	(2,571)	(97)
Gas transportation charges	-	-	62	62	100
Revenue from JJVL	4,524	-	-	-	-
Operating Revenue	**10,862**	**10,135**	**3,201**	**(6,935)**	**(68)**

ii. Amortization of Deferred Credit

7.3.2. The petitioner has claimed amortization of deferred credit at Rs. 431 million for the said year. ***The Authority as per para 6.1.4 of the decision recalculates amortization of deferred credit and provisionally determine the same at Rs. 433 million for the said year.***

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

7.3.3. The petitioner has submitted that revenue from MMP (Rs. 134 million), LPS (Rs. 6,138 million), and sale of condensate (Rs. 62 million), NGL (Rs. 1,367 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.

7.3.4. The Authority notes that no new submission / justification have been submitted by the petitioner except referring the above said decisions. The Authority has already exhaustively discussed and deliberated these submissions in its previous decisions. ***In view of the same, the Authority decides to include LPS and MMP as part of operating income as per the practice in vogue.***

7.3.5. The petitioner has projected Rs. 376 million & Rs. 1,440 million on account of sale of gas condensate & NGL respectively, and has offered shrinkage cost on these accounts of Rs. 314 million & Rs. 73 million as operating income for the said year. The petitioner has submitted that it has wrongly computed shrinkage cost on account of condensate & NGL at Rs. 32 million & Rs. 356 million in its petition million respectively for the said year.

7.3.6. 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.

7.3.7. Regarding income from sale of gas condensate & NGL, it is established that condensate/NGL is extracted as a by-product from the natural gas at various fields by the petitioner. During extraction, gas shrinkage occurs along-with reduction in calorific value of natural gas. Hence, extraction of these products is possible only if the petitioner carries out the activities of transmission, distribution and sale of natural gas. Further the petitioner has been under taking the activity of sale of NGL/ condensate under the umbrella of natural gas license. Therefore, any additional revenue earned as a consequence of under taking the principle activities viz; transmission, distribution and sale of natural gas shall, in all fairness, be credited to the benefit of consumers who have in fact funded the entire system of transmission, distribution and sale of natural gas through existing gas pricing mechanism. Had the petitioner not involved in transmission, distribution and sale of natural, it can not extract the condensate/NGL from the fields. Furthermore, the petitioner also claims benefit by adding gas consumed at the plant in the net sales while calculating UFG.

7.3.8. In view of the same, it seems unreasonable on the part of petitioner to demand these incomes as non-operating only to the benefit of itself while totally ignoring its consumers.

7.3.9. ***The Authority, in view of the above decides to treat the above referred incomes as operating, and accordingly provisionally includes MMP (Rs. 134 million), LPS (Rs. 6,138 million), and sale of condensate (Rs. 376 million), NGL (Rs. 1,440 million) as part of tariff calculation for the said year.***

iv. Income from Sale of LPG

7.3.10. The petitioner has projected an income of Rs. 5,180 million from sale of LPG. The petitioner has offered shrinkage cost of Rs. 1,016 million in this respect as an operating income for the said year.

7.3.11. LPG is extracted from Kunnar Pashakhi/ Bobi / Sinjhoro /Niamat Basal Field gases utilizing the extraction facility of JJVL under an interim arrangement Processing of LPG are calculated at US$ 230 per MT as per the agreed terms between the parties.

7.3.12. The petitioner has argued that income from LPG is derived from its operations over and above the activities defined in its license, and therefore, can be termed as operating. Moreover, LPG is recognized as a fuel distinct from natural gas, both as per its chemical formula and as per the law. The petitioner has further asserted that the argument for treating sale of LPG as non-operating income is the same as that of sale of gas condensate. Moreover, the honorable SHC has issued interim stay orders directing to treat sale of gas condensate as a non-operating income.

7.3.13. The Authority, as per the discussion & deliberation in paras 7.3.7 and 7.3.8 above, decides to treat the income from LPG or any by-product extracted from natural gas as operating income.

7.3.14. ***In view of above, the Authority decides to treat the said income as operating, and provisionally includes Rs. 5,180 million as part of tariff calculation for the said year.***

v. Other Income

7.3.15. The petitioner has projected other income at Rs. 573 million for the said year. Comparison with previous years is given below:

Table 20: Comparison of Projected Other Operating Income with Previous Years

Rs. in million

Particulars	FY 2013-14	FY 2014-15	FY 2015-16	Inc./(Dec.) over FRR for FY 2014-15	
	FRR	FRR	The Petition		%
Profit on disposal of fixed assets	35	29	-	(29)	-100
Liquidated damages recovered	5	9	9	(0)	-3
Income from new service connections	239	491	340	(150)	-31
Income from sale of net investment in finance lease	191	156	146	(10)	-6
Recoveries from consumers	79	72	57	(15)	-21
Income from sale of tender documents	3	6	3	(3)	-55
Income from pipeline construction	79	105	-	(105)	-100
Advertising Income	6	5		(5)	-100
Notional income on IAS 19 provision	320	456	-	(456)	-100
Others	30	32	19	(12)	-39
Total Other Operating Income	**986**	**1,359**	**573**	**(786)**	**-58**

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

7.3.16. The petitioner has not included Rs. 468 million estimated on account of "Notional Income on IAS-19" as part of other income for the said year. The petitioner has submitted that inclusion of said income as part of revenue requirement by the Authority is a deviation from the ex-Price Determining Authority practice. Therefore, the Authority should have policy guideline from GoP in the matter.

7.3.17. The petitioner has similarly treated advertising income amounting to Rs. 6 million as non-operating income for the said year.

7.3.18. The Authority notes that it is a legally empowered competent body to determine the revenue requirements of the petitioner, and is of the firm view that any income derived from the operations of the company be treated as operating income. ***In view of same, the Authority provisionally adds Rs. 468 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. 1,047 million for the said year.***

7.3.19. In view of the discussion in paras 7.3.1 and 7.3.18 above, the Authority provisionally determines other operating income for the said year at Rs. 15,540 million as against Rs. 3,201 million claimed by the petitioner, as detailed below.

Table 21: Summary of Other Operating Income Determined by the Authority

Rs. in million

Particulars	FY 2015-16	
	The Petition	Determined by the Authority
Meter manufacturing profit	-	134
Late Payment Surcharge	-	6,138
Sale of Gas condensate	314	376
Other income	573	1,047
Meter rentals	731	731
Amortization of deferred credits	431	433
Sale of LPG	1,016	5,180
Sale of NGL	73	1,440
Gas Transportation Charges	62	62
Operating Revenue	**3,201**	**15,540**

8. Air-Mix LPG Projects

8.1. The petitioner has claimed subsidy of Rs. 638 million on account of its Air-mix LPG projects as against Rs. 552 million allowed in FRR for FY 2014-15.

8.2. On the scrutiny of the information submitted by the petitioner, it has been observed that subsidy on account of air-mix LPG projects have wrongly been computed. The Authority recalculates the subsidy on account of Gwadar, Surab, Kot Ghulam Muhammad, Noshki, Bela, Awaran, Zhob & Qilla Saifullah at Rs. 553 million for the said year. *The Authority, however, in view of the discussion and decision at paras* **6.11.2 and 6.11.3** *above, provisionally allows subsidy at Rs. 330 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. 155,798 million for the said year as compared to Rs. 156,030 million provided in FRR for FY 2014-15, 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 22: Comparison of Projected Cost of Gas with Previous Years

FRR for FY 2013-14		FRR for FY 2014-15		The Petition FY 2015-16	
MMBTU	Rs. Million	MMBTU	Rs. Million	MMBTU	Rs. Million
409,562	150,785	428,559	156,030	487,322	155,798

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

Table 23: Estimates for Determination of WACOG per the Petition

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

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

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

9.1.5. ***Based on the above, the cost of gas is provisionally determined at Rs. 147,460 million for the said year.***

9.2. Unaccounted for Gas (UFG)

9.2.1. The petitioner has claimed UFG for the said year at 6.65% (32,737 MMCF), as follows:

Table 24: UFG Volume Claimed in the Petition

MMCF

Particulars	FY 2015-16 The Petition
Gas Available for Sales	491,991
Gas Sales	459,254
UFG Volumes	32,737
UFG %	**6.65%**

9.2.2. The petitioner has submitted as under:

(a) The Authority, at the time of FRR for FY 2008-09, and subsequently in various determinations, showed its intention to undertake a comprehensive impact assessment study of UFG benchmarks introduced by it. The Authority further decided to review UFG benchmark on the completion of the said study.

(b) The Authority, in FRR for FY 2009-10, allowed UFG at 7% after concurring to the submissions of the petitioner, realizing the ground realities and considering the factors affecting UFG. The honourable SHC granted stay order on petitioner's requests against Authority's determinations for FY 2010-11, FY 2011-12, FY 2012-13, FY 2013-14 and FY 2014-15 and directed OGRA to allow the same treatment for UFG in line with FRR for FY 2009-10 till court further orders and submission of the impact assessment study.

(c) Referring to the ECC decision dated 20-11-2014, while estimating UFG level volumetric adjustments have been made for pilferage by non-consumers, unbilled volumes consumed in law and order affected areas and change in bulk retail ratio on UFG using the base year as FY 2003-04. The adjusted UFG thus arrived at 6.65%.

(d) Since no UFG targets for the said year are available therefore, the petitioner has requested the Authority to allow 6.65% UFG for this period.

(e) In the light of relevant provisions of the Ordinance, licensing and tariff rules, the petitioner is of the view that any disallowance/penalty imposed by the Authority for not meeting the UFG target over and above what has been prescribed in Rule 20 on NGT Rules, 2002 is unlawful and the same has been confirmed by honorable SHC stay order dated July 17, 2014 against OGRA's decision on ERR FY 2014-15 dated July 03, 2014.

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

9.2.4. ***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. 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 factor shall be considered at the time of FRR for the said year in the light of then prevailing policy guideline of FG and UFG study.***

9.2.5. Revised UFG computation on the basis of above and the adjustments discussed in paras **9.1.4** and 9.3.64 , is as under;

Table 25: Unaccounted for Gas

MMCF

Particulars	The Petition	Determined by the Authority
Gross Purchases	493,534	493,534
Gas Consumed Internally - metered	1543	821
Available for Sale (A)	**491,991**	**492,713**
Gas Sales	**418,160**	**418,160**
Add: Volume due to Bulk to Retail Ratio	25,761	-
Add: Unbilled pilfered volume in law & order affected areas	2,300	-
Add: Pilfered volume detected against non-consumer	8,800	-
Add: Gas Shrinkage at Badin	2,655	2,655
Add: Gas Shrinkage at Bobi & others	1,206	1,206
Add: Gas Shrinkage at KPD	372	372
Total Gas Sales (B)	**459,254**	**422,393**
Gas Unaccounted For (A - B)	**32,737**	**70,320**
Gas Unaccounted For (%)	**6.65%**	**14.27%**
Allowable UFG Volume @ 4.5% benchmark	-	22,172
Disallowed volume (MMCF)	-	48,148
Avg. MMBTU/MCF	-	0.9792
Disallowed volume (MMBTU)	-	47,148
WACOG-Rs Per MMBTU	-	302.15
UFG Adjustment - (Rs. Million)		**14,246**

9.2.6. ***Based on the above computation, the Authority provisionally deducts Rs. 14,246 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 increase in transmission and distribution cost (including gas internally consumed) from Rs. 13,618 million provided in FRR for FY 2014-15 to Rs. 17,358 million for the said year, as detailed below:-

Table 26: Comparison of Projected T&D Cost with the Previous Years

Rs. in Million

Particulars	FRR	FRR	The Petition	Inc./(Dec.) over FRR FY 2014-15	
	FY 2013-14	FY 2014-15	FY 2015-16		%
Salaries, wages, and benefits at benchmark	9,229	10,440	12,133	1,693	16
Material used on consumers installations	36	16	60	44	264
Provision for doubtful debts	506	547	1,813	1,266	231
Legal charges	46	61	90	29	47
Advertisement	102	109	155	46	42
Stores, spares and supplies consumed	677	739	1,005	266	36
Meter reading by contractors	50	59	80	21	36
Gas bills stubs processing charges	11	13	18	5	34
Traveling	105	109	139	30	27
Gas bills collection charges	164	164	192	28	17
Collecting agent commission	1	-	5	5	100
Repairs & maintenance	1,176	1,420	1,648	228	16
Others (NGEP) Owner's Engineer	-	1	108	107	9,162
Electricity	177	184	212	28	15
Postage & revenue stamps	63	76	87	11	15
Insurance	101	108	127	19	17
Security expenses	326	392	463	71	18
Impairment of Capital WIP	51	-	-	-	-
License & Tariff Petition Fee to OGRA	125	152	102	(50)	(33)
Rent, rate & taxes	109	201	175	(26)	(13)
Professional charges	25	31	28	(3)	(9)
Others	122	130	190	60	46
Revenue expenditure relating to LNG	12	47	42	(5)	(10)
SSGCL Share in ISGSL expenses	71	84	149	65	78
Sub-total Cost	**13,285**	**15,085**	**19,021**	**3,936**	**26**
Less: Recoveries / Allocations	2,072	1,813	2,150	337	19
Net T&D Cost before GIC	**11,213**	**13,272**	**16,871**	**3,599**	**27**
Add: Gas consumed internally	212	297	487	190	64
Loss due sabotage activity	122	49	-	(49)	(100)
Net T&D	**11,547**	**13,618**	**17,358**	**3,739**	**27**

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. 10,440 million provided in FRR for FY 2014-15 to Rs. 12,133 million (HR cost Rs. 8,081 million + IAS-19 Provision & TAs impact Rs. 4,052 million) for the said year, showing an increase of 16%.

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 further observes that similar parameters have generated savings to its sister utility.

9.3.6. The Authority observes that benchmark implemented earlier has expired in FY 2014-15. The Authority, however, extends same for the said year on provisional basis. ***Accordingly, the HR cost benchmark for the said year computes to Rs. 10,628 million, as per Annexure - C for the said year. 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 Consumers Installations.*

9.3.7. The petitioner has projected material used on consumers installation for the said year at Rs. 60 million as against Rs. 16 million provided in FRR for FY 2014-15, projecting an increase of 264%, which is as under;

Table 27: Comparison of Projected Material Used on Consumers Installations with the Previous Years

Rs. in Million

Particulars	FY 2013-14	FY 2014-15	FY 2015-16	Inc./(Dec.) over FRR FY 2014-15	
	FRR	FRR	The Petition	Rs.	%
Material used on Consumers Installations	36	16	60	44	264
Total	36	16	60	44	264

9.3.8. The petitioner has explained that projections under the above head are made in line with the estimate for FY 2014-15 i.e. Rs. 60 million. Actual expenditure incurred during FY 2014-15 remained at Rs. 16 million due to imposition of moratorium by FG.

9.3.9. The Authority observes that moratorium was imposed much earlier, and the petitioner estimations for FY 2014-15 were also on higher side. Similarly, 264% increase for the said year is on a very higher side. ***In view of the same, the Authority provisionally determines material used on consumer installation at Rs. 36 million i.e. at the level of FRR for FY 2013-14 for the said year.***

iv. *Provision for Doubtful Debts*

9.3.10. The petitioner has projected Rs. 1,813 million on account of provision for doubtful debts for the said year. The breakup of the same is as under;

Table 28: Breakup of Provision for Doubtful Debts as per the Petition

Rs. in Million

Particulars	The Petition FY 2015-16
Industrial - disconnected consumer	54
Commercial - disconnected consumer	115
Domestic - disconnected consumer	1,644
	1,813

9.3.11. The petitioner has explained that the claimed amount is within the allowable limit of Rs. 2,099 million, i.e. 1% of sales approved by ECC vide its decision dated November 20, 2014. Historical analysis of above head is as under;

Table 29: Comparison of Provision for Doubtful Debts with Previous Years

Rs. in Million

Particulars	FY 2013-14	FY 2014-15	FY 2015-16	Inc./(Dec.) over FRR 2014-15	
	FRR	FRR	The petition		%
Provision for doubtful debts	506	547	1,813	1,266	231

9.3.12. The Authority appreciates that the petitioner has projected provision for doubtful debts against disconnected consumers only. The facts reflect that petitioner itself recognizes that calculation of provision for doubtful debts at 1% of sales denies the basic factors to be considered while provisioning.

9.3.13. The Authority is of the consistent view that allowing 1% of sales as provision for doubtful debts without taking into account the relevant / basic factors does not hold logic and is against the generally accepted practices. The Authority had introduced the benchmark in respect of provision for doubtful debts at the time of DERR for FY 2014-15. Therefore, the Authority directs the petitioner to follow the benchmark in respect of provision for doubtful debts in letter & spirit to avoid any non-compliance of Authority's yardstick regulation.

9.3.14. ***The Authority, keeping in view historical trend in respect of disconnected customers, provisionally allows Rs. 602 million (i.e 10% increase over 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. Legal Charges

9.3.15. The petitioner has projected legal charges for the said year at Rs. 90 million as against Rs. 61 million provided in FRR for FY 2014-15, showing a gigantic increase of 48%, as shown below:

Table 30: Comparison Projected Legal Charges with the Previous Years

Rs. in Million

Particulars	FY 2013-14	FY 2014-15	FY 2015-16	Inc./(Dec.) over FRR FY 2014-15	
	FRR	FRR	The Petition	Rs.	%
Legal Charges	46	61	90	29	48
Total	46	61	90	29	48

9.3.16. The petitioner has attributed the increase to various cases filed in respect of Gas Infrastructure Development Cess Ordinance VI of 2014, certain labour / services related matters, etc. It has further argued that the affected commercial consumers including Industries, IPPs, CNG Stations etc. has filed more than 2,400 cases against the company that are pending before different Courts. This has resulted to increase litigation expenses manifold. The petitioner has further informed that appeals / cases in respect of CNG & LNG has increased from last many years, and the financial impact of these litigation can not be gauged unless the sensitivity of the matter is known.

9.3.17. The Authority observes that in view of previous expenditure trend projecting 48% increase on similar premise does not carry logic. The Authority, however, is of the considered view that all pending litigation cases of the petitioner with Government or Government bodies should be addressed / dealt at the competent forum amicably instead of spending public money for payment of hefty fee to legal firms. The petitioner should reduce all such non-development expenditure, and adopt a rather considerate and prudent approach while spending. Also, the petitioner through its own legal / litigation department should process such cases so that dependence on external legal firms is minimized in order to lessen its impact on revenue requirement / natural gas consumer prices.

9.3.18. *In view of above, the Authority decides to restrict it at the level of FRR for FY 2014-15 i.e. Rs. 61 million for the said year, and any increase on this account shall be met from company's own profit. The Authority reiterates that petitioner shall endeavor to take up its matters / issues with OGRA and other GoP bodies and avail the remedy available under the law instead of passing on huge legal fee burden to the public at large.*

vi. Advertisement

9.3.19. The petitioner has projected advertisement expenses at Rs. 155 million for the said year. The breakup of the same is as under;

Table 31: Comparison of Projected Advertisement Expense with the Previous Years

Rs. in Million

Particulars	FY 2013-14	FY 2014-15	FY 2015-16	Inc./(Dec.) over FRR FY 2014-15	
	FRR	FRR	The Petition	Rs.	%
Consumer Education	60	60	86	26	43
Corporate Image Building	10	9	22	13	145
Operational	31	38	47	9	24
Environmental	0.20	-	0.5	1	100
Govt. Image Building	-	2	-	(2)	(100)
Total	102	109	155	46	42

9.3.20. The petitioner has explained that significant period of time is required for grabbing public attention on prime issues e.g. personal safety while using gas appliances specially heaters, keeping gas bills in manageable limits, settling monthly gas bills in time, havocs a gas leakage can cause, etc. Another social evil like gas theft has also grown in stature for which media campaigns can change the mindsets of gas defaulters and gas thieves.

9.3.21. The petitioner has asserted that in adherence to OGRA directives, advertisement for customer awareness has also increased in last two years. Also, popular TV channels maintain a much higher tariff. After the approval of 'Criminal Law Amendment Act 2011', the petitioner has reinforced targeted actions. The petitioner has also asserted that an upward revision of print media tariff and airtime charges of television channels on regular basis also lead the advertising expenses to enhance from the previous years. These media campaigns over period of time have been successful to educate the customers.

9.3.22. The Authority has always appreciated petitioner's extensive efforts in respect of media campaigns for educating consumers. The Authority, however, is of the view that the petitioner should negotiate / bargain reasonable tariff / rates while launching its media campaign. Moreover, other cost effective measures including SMS, emails, signboards during high consumption months, consumer awareness messages on related official websites, gas bills can be used for consumer awareness. The petitioner can also utilize / deploy its TAs to educate consumers about natural gas usage, conservation, managing bills at lower side & other safety measures, etc.

9.3.23. ***In view of the same, the Authority decides to provisionally allow Rs. 69 million i.e. an increase of 15% of FRR for FY 2014-15 in respect of consumer education for the said year.***

9.3.24. The petitioner has projected Rs. 22 million in respect of advertisement related to Corporate Image Building as against Rs. 9 million per FRR for FY 2014-15. The petitioner has envisaged increase owing to higher printing charges of its official magazine and Flame designing, along-with expected increase of sponsorships, seminars and exhibitions.

9.3.25. ***The Authority notes that the average spending during the last two years under the above sub-head has remained at Rs. 9.5 million, and the same is quite reasonable level for spending on this account for the said year.***

9.3.26. ***In view of above, the Authority provisionally fixes the advertisement expense at Rs. 126 million for the said year.***

vii. Stores Spares and Supplies Consumed

9.3.27. The petitioner has projected an amount of Rs. 1,005 million, thereby projecting a significant increase of 36% over FRR for FY 2014-15, breakup of the same is as under:-

Table 32: Comparison of Projected Stores Spares and Supplies Consumed with Previous years

Rs. in Million

Particulars	FY 2013-14	FY 2014-15	FY 2015-16	Inc/(Dec.) over FRR FY 2014-15	
	FRR	FRR	The Petition	Rs.	%
Transmission & Compression and others	130	173	184	11	6
Distribution	462	471	713	242	51
Head Office	80	85	95	9	11
Freight & handling	4	10	14	3	34
Total	677	739	1,005	265	36

9.3.28. The petitioner has explained that it has projected 5% increase over DERR for FY 2014-15, wherein the Authority allowed Rs. 957 million under the above head. The petitioner has further explained that the increase is mainly on account of increase in rates of IBM bill printing from Rs. 1.75 to Rs. 2.25 coupled with increase in number of customers, inflation impact and additional printing requirements of notices and other stationery. Also, increase in pipe & pipe fitting, toner cartridge, cathodic protection material, spares for telecom equipment & chemicals has been envisaged during the said year.

9.3.29. The Authority observes that as against Rs. 957 million allowed at the time of DERR for FY 2014-15, the petitioner actual expenditure remained at Rs. 739 million. 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 increased projections doubt petitioner's ability for budgeting / forecasting.

9.3.30. ***In view of above, the Authority decides to provisionally allow Rs. 850 million under the head of Stores Spares and Supplies i.e. 15% increase over FRR for FY 2014-15 in order to cater for inflation and enhanced activities for the said year.***

viii. Meter Reading By Contractors

9.3.31. The petitioner has projected meter reading by contractors for the said year at Rs. 80 million as against Rs. 59 million provided in FRR for FY 2014-15, projecting an increase of 36%, which is as under;

Table 33: Comparison of Projected Meter Reading by Contractors with Previous Years

Rs. in Million

Particulars	FY 2013-14	FY 2014-15	FY 2015-16	Inc/(Dec.) over FRR FY 2014-15	
	FRR	FRR	The Petition	Rs.	%
Meter Reading By Contractor	50	59	80	21	36
Total	50	59	80	21	36

9.3.32. The petitioner has further explained that an increase of Rs. 21 million i.e. 36% is due to projected increase in number of consumers by 11% and revision in rate by 22% over FY 2014-15.

9.3.33. The Authority notes that 5% increase in number of consumers over FRR for FY 2014-15 has been observed as against petitioner's claim of 11% as mentioned above. Similarly, 22% increase in meter reading rate seems on higher side keeping in view the prevalent inflation rate. ***In view of the same, the Authority decides to allow 10% increase over FRR for FY 2014-15 i.e. Rs. 65 million in order to cater for inflation as well as increase in no. of customers for the said year.***

ix. Gas Bill Stubs Processing Charges

9.3.34. The petitioner has projected gas bill stubs processing charges at Rs. 18 million, thereby projecting an increase of 34% over FRR for FY 2014-15, which is as under;

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

Rs. in Million

Particulars	FY 2013-14	FY 2014-15	FY 2015-16	Inc/(Dec.) over FRR FY 2014-15	
	FRR	FRR	The Petition	Rs.	%
Gas Bills Stubs Processing Charges	11	13	18	5	34
Total	11	13	18	5	34

9.3.35. The petitioner has attributed the increase mainly to the revision of stubs processing charges. The petitioner has explained that average stubs processing charges has been envisaged at Rs. 1.23/bill as against Rs. 1.11/bill in FY 2014-15, thereby projecting an increase of 11%.

9.3.36. ***In view of above, the Authority provisionally allows gas bills stubs processing charges at Rs. 18 million for the said year.***

x. *Traveling*

9.3.37. The petitioner has projected traveling expenses at Rs. 139 million for the said year as against Rs. 109 million provided in FRR for FY 2014-15, showing an increase of 27%, as tabulated below;

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

Rs. in Million

Particulars	FY 2013-14	FY 2014-15	FY 2015-16	Inc./(Dec.) over FRR FY 2014-15	
	FRR	FRR	The Petition	Rs.	%
Local Traveling-Executive	27	27	51	24	89
Local Traveling-Subordinates	5	5	6	1	27
Foreign Travelling	2	4	3	(1)	(14)
Other Traveling	71	73	78	4	6
Total	105	109	139	29	27

9.3.38. The petitioner has explained that it has projected 5% increase over DERR for FY 2014-15, wherein the Authority allowed Rs. 132 million under the above head.

9.3.39. The Authority notes that it has projected significant increase of 89% under the sub-head of Local Traveling-Executive without providing any tangible justification. It appears that the petitioner is lacking proper planning to reflect various costs in the estimated petition. The expenses under this head have been very unreasonably projected. Had the petitioner been considered that every penny is being paid by its consumers, it would have made reasonable and prudent estimates.

9.3.40. *In view of the above, the Authority, keeping in view the justification as well as prudency of expenditure, decides to provisionally fix the "Local Traveling-Executive" at Rs. 31 million i.e. 15% increase over FRR for FY 2014-15 for the said year.*

9.3.41. *Accordingly, the Authority provisionally determines the traveling expense at Rs. 118 million for said year. The Authority further directs the petitioner to economize all avoidable expenditures in larger public interest.*

xi. *Gas Bill Collection Charges*

9.3.42. The petitioner has projected gas bill collection charges at Rs. 192 million, thereby projecting an increase of 17% over FRR for FY 2014-15 which is as under;

Table 36: Comparison of Projected Gas Bill Collection Charges with Previous Years

Rs. in Million

Particulars	FY 2013-14	FY 2014-15	FY 2015-16	Inc./(Dec.) over FRR FY 2014-15	
	FRR	FRR	The Petition	Rs.	%
Gas Bills Collection Charges	164	164	192	28	17
Total	164	164	192	28	17

9.3.43. The petitioner has projected gas bill collection charges at Rs. 192 million, calculated @ Rs. 9 / bill for the said year. The Authority notes that the petitioner has been providing similar justification from last many years. However, per bill rate has not yet been revised by State bank of Pakistan.

9.3.44. *In view of the same, the Authority keeps the collection charges at Rs. 8 per bill, and provisionally allows Rs. 171 million on this account for the said year.*

xii. Others

9.3.45. The petitioner has projected "Others" at Rs. 191 million for the said year as against Rs. 130 million provided in FRR FY 2014-15, increasing by 46%, as shown below:

Table 37: Comparison of Projected Other Expenses with the Previous Years

Rs. in Million

Particulars	FY 2013-14	FY 2014-15	FY 2015-16	Inc./(Dec.) over FRR FY 2014-15	
	FRR	FRR	The Petition	Rs.	%
Communications	46	47	54	6	13
Subscriptions	11	12	16	4	31
Other miscellaneous	65	71	122	50	71
Total	122	130	191	60	46

9.3.46. The petitioner has explained that 31% 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 paid on behalf of senior management according to the service rules.

9.3.47. Also, increase under the sub-heads of "Company function regarding long service awards", "enhancement in mobile cell facilities", "Directors fee", "Board AGM Meeting", "water tanker/Mineral water", "Degree verification" and "Books publication" has been projected by it.

9.3.48. The Authority notes that the petitioner has been projecting enormous increase under the head of "others" over FRR for FY 2014-15, without providing any convincing justification. ***The Authority, in view of the inadequate submissions***

provided by the petitioner, allows increase of 15% over FRR for FY 2014-15, and therefore, provisionally fixes" others" at Rs. 150 million during the said year. The Authority further directs the petitioner to curtail / control all these un-economical costs in larger national interest.

xiii. Repair & Maintenance

9.3.49. The petitioner has projected Rs. 1,648 million (including Rs. 814 million for NGEP related expenditure) on repair and maintenance for the said year.

9.3.50. The Authority notes that out of Rs. 1,648 million, the petitioner has projected revenue expenditure of Rs. 834 million on account of repair & maintenance other than NGEP related activities under this head, which seems reasonable and essentially required to keep the network in operation. ***The Authority, keeping in view the operational requirement as well as capitalization trend, provisionally allows Rs. 834 million for the said year.***

9.3.51. ***Regarding Rs. 814 million projected for NGEP related expenditure, the Authority, keeping in view the discussion at paras 6.17.2 and 6.17.3 above, provisionally allows Rs. 200 million for NGEP related expenditure for the said year.***

9.3.52. ***In view of above, the Authority provisionally fixes repair & maintenance at Rs. 1,034 million for the said year.***

xiv. Others (NGEP) Owner's Engineer (O.E)

9.3.53. The petitioner has projected at Rs. 108 million for the said year as against Rs. 1 million provided in FRR for FY 2014-15.

9.3.54. The petitioner has explained that O.E is to be appointed as per World Bank guidelines, to provide support in the project implementation. The objective is to undertake project activity that will bring down the UFG level in a timely and in cost effective manner.

9.3.55. The Authority notes that project has been initiated as a plan / tool to curtail UFG. However, after initiation of the same, UFG has been increasing. The Authority also observes that petitioner has yet not been able to achieve its milestones set for FY 2012-13, FY 2013-14 & FY 2014-15. Also, the latest status on the same was sought from the petitioner, which reveals that at the moment, expenditure on this account may not likely be required to the Company. *In view of the same as well as the discussions made at paras 6.17.2 and 6.17.3, the Authority decides to pend Rs. 108 million projected on account of O.E subject to the actualization at the time of FRR for the said year.*

xv. SSGC Share in ISGSL Expenses

9.3.56. The petitioner has projected Rs. 149 million for the said year under this head as against Rs. 84 million provided in FRR for FY 2014-15. The amount represents 51% share in total expenditure of Rs. 292 million projected by ISGSL.

Table 38: Comparison of Projected SSGC Share in ISGSL with Previous Years

Rs. in Million

Particulars	FY 2013-14	FY 2014-15	FY 2015-16	Inc/(Dec) over FRR FY 2014-15	
	FRR	FRR	The Petition	Rs.	%
SSGC Share in ISGSL Expenses	71	84	149	65	78
Total	71	84	149	65	78

9.3.57. The petitioner has submitted that ISGSL has informed that after the signing of Transaction Advisory Service Agreement (TASA) in November, 2013, there is progressive development on TAPI project. Further ISGSL has been designated as a commercial entity to take up formal negotiation with India for import of RLNG in 2012. Moreover, all activities relating to LNG fast track project were to be handled by ISGSL as per the advice of MP&NR. Therefore, development expenditure, traveling (Local/Foreign) and advertisement expenditure is expected to increase during the year.

9.3.58. The Authority observes that ISGSL has been established by GoP for specific projects / purposes w.r.t import of gas options. Since establishment, the projects assigned to ISGSL have not exhibited significant progress. Rather, in case of LNG, other entities including PSO and gas utilities are playing major role in respect of project design till implementation. The Authority notes that the company has been advancing similar justification from last many years, however, fulfillment of obligations as stipulated in Company's memorandum of article as well as Government directives is questionable.

9.3.59. Further, the Authority observes that ISGSL is not its licensee, however, the expenditure have been allowed in compliance of an ECC decision dated September 10, 2008, wherein revenue expenditure of ISGSL are to be included in the operating cost of petitioner & SNGPL respectively in the ratio of their shareholding 51:49, to be recovered from gas consumers in the form of consumer gas tariff. However, it has come to notice that in FY 2010-11, M/s Government Holdings Private Limited (GHPL) had injected equity into ISGSL, thereby changing its share holder percentage to 51% (GHPL), 25%(SSGCL) and 24% (SNGPL). Under the current price formula, share of ISGSL is the pass through item and impacts consumer tariff. The Authority, therefore, is of the view that based on existing percentage of capital structure, reimbursement of expenditure through revenue requirement process in the ratio of 51% & 49% since FY 2010-11 is not justified and prudent so as to protect the interests of natural gas users/consumers. ***In view of the same, the Authority decides to provisionally include Rs. 73 million being share of petitioner in ISGSL expenses for the said year. The adjustment under this head owing to change in shareholding ratio since FY 2010-11 shall be made at the time of FRR for the said year after completion from the relevant record.***

xvi. Gas Internally Consumed (GIC)

9.3.60. The petitioner has claimed Rs. 487 million (1,543 MMCF) on account of GIC-metered for the said year as against Rs. 297 million (825 MMCF) per FRR for FY 2014-15. The petitioner has projected 1,386 MMCF for compression of 200,241 MMCF gas for the said year, while claiming volume of gas handled per unit of GIC at 144 MMCF.

9.3.61. 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.

9.3.62. Volume of gas handled/compressed during the said year has been projected to be 200,241 MMCF as against 67,827 MMCF during the FY 2014-15. The petitioner has stated that this increase in the volume is due to the RLNG to be handled/transported by it for SNGPL. The petitioner has explained that in this regard, relocation of Dadu compressors at Nawabshah and the construction of transmission pipeline between Masu and Tando Adam is expected to be completed in 2nd quarter of the said year. It is expected that as the relocation of compressor and pipeline construction job is completed, the swap rate will enhance and to push these additional volumes Nawabshah compressors will become operational.

9.3.63. The Authority notes that as per existing arrangement, RLNG is being swapped with indigenous gases. Moreover, the project for relocation of compressors from Dadu to Nawabashah is yet not complete and Transmission pipeline between Masu to Tando Adam is also under construction. The petitioner would be able to compress gas at Nawabshah only after the relocation of compressors at the site. Therefore, the Authority does not allow additional volumes likely to be compressed during the said year, at this stage, however, the same would be considered based on actual volumes at the time of FRR for the said year.

9.3.64. *In view of the historical trend, the Authority by taking 67,827 MMCF volumes to be handled during the said year, allows a volume of 821 MMCF GIC for the said year. Accordingly, GIC is provisionally fixed at Rs. 245 million for the said year.*

xvii. Remaining Items of Transmission and Distribution Cost

9.3.65. The items of transmission and distribution costs, except those dealt with in sub-para ii to *xiv* of para 9.3 above, are projected by the petitioner at Rs. 1,241 million for the said year, as against Rs. 1,190 million provided in FRR for FY 2014-15, showing an increase of 4%, as given below:

Table 39: Comparison of Remaining Item of Projected T&D Expense with Previous Years

Rs. in Million

Particulars	FRR	FRR	The Petition	Inc./(Dec.) over FRR FY 2014-15	
	FY 2013-14	FY 2014-15	FY 2015-16		%
Impairment of Capital WIP	51	-		-	-
Collecting agent commission	1	-	5	5	100
Security expenses	326	392	463	71	18
Insurance	101	108	127	19	17
Electricity	177	184	212	28	15
Postage & revenue stamps	63	76	87	11	15
License & Tariff Petition Fee to OGRA	125	152	102	(50)	(33)
Rent, rate & taxes	109	201	175	(26)	(13)
Revenue expenditure relating to LNG	12	47	42	(5)	(10)
Professional charges	25	31	28	(3)	(9)
Remaining T & D	**990**	**1,190**	**1,241**	**51**	**4**

9.3.66. *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. 1,241 million for the said year.*

xviii. Transmission and Distribution Cost Determined by the Authority

9.3.67. *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. 13,268 million as against Rs. 17,358 million claimed by the petitioner, as follows:*

Table 40: Summary of T&D Cost Determined by the Authority

Rs. in Million

Particulars	FY 2015-16	
	The Petition	Determined by the Authority
Salaries, wages, and benefits at benchmark	12,133	10,628
Material used on consumers installations	60	36
Provision for Doubtful Debts	1,813	602
Legal charges	90	61
Advertisement	155	126
Stores, spares and supplies consumed	1,005	850
Meter reading by contractors	80	65
Gas bills stubs processing charges	18	18
Traveling	139	118
Gas bills collection charges	192	171
Others	190	150
Repair & Maintenace	1,648	1,034
Others (NGEP) Owner Engineer	108	-
SSGCL Share in ISGSL expenses	149	73
Remaining T&D expenses	1,241	1,241
Total	19,021	15,173
Less: Recoveries / Allocations	2,150	2,150
Net T&D Cost before GIC	**16,871**	**13,023**
Add: Gas consumed internally	487	245
Net T&D	**17,358**	**13,268**

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

9.3.68. The petitioner has claimed Rs. 1,280 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 is made at the time of FRR for the said year.

10. Shortfall Related to Prior Year

10.1. The petitioner has included Rs. 68,139 million in the instant petition, being shortfall pertaining to previous years as part of revenue requirement for the said year. The Authority notes that decision for FRR for FY 2014-15 has now been issued, wherein shortfall has been determined at Rs. 23,468 million. ***Accordingly, the Authority includes Rs. 23,468 million being shortfall pertaining to previous year as part of revenue requirement for the said year.***

11. 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:

11.1. **determines opening balance of deferred credit at Rs. 5,317 million;**

11.2. **determine estimated addition in fixed assets at Rs. 9,616 million, addition in assets for return purposes at Rs. 4,834 million and depreciation charge at Rs. 5,317 million;**

11.3. **determine balance of average net operating fixed assets Rs. 46,958 million as against Rs. 82,006 million 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. 7,983 million;**

11.4. **determine income at Rs. 195,013 million as against Rs. 200,861 million offered by the petitioner;**

11.5. **determine cost of gas at Rs. 147,460 million as against Rs. 155,798 million offered by the petitioner;**

11.6. **determine UFG adjustment at Rs. 14,246 million;**

11.7. **determine T&D expenses at Rs. 13,023 million as against Rs. 16,872 million claimed by the petitioner;**

11.8. **determine cost of GIC at Rs. 245 million as against Rs. 487 million claimed by the petitioner;**

11.9. **accepts other charges including W.P.P.F. & change in accounting policy IAS-19 to Rs. 1,280 million as claimed by the petitioner; and**

11.10. **determines subsidy pertaining to air-mix LPG at Rs. 330 million for the said year as against Rs. 638 million claimed by the petitioner,**

11.11. **includes Rs. 23,468 million as revenue shortfall pertaining to previous years as against Rs. 68,139 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. 184,859 million (as tabulated below):

Table 41: Components of ERR for the Said Year as Determined by the Authority

Rs. in million

S.No	Particulars	Claimed by the Petitioner	Determined by the Authority
1	Cost of gas sold	155,798	147,460
2	UFG adjustment	-	(14,246)
3	Transmission and distribution cost	16,872	13,023
4	Gas internally consumed	487	245
5	Depreciation	5,961	5,317
6	Other charges including WPPF	1,280	1,280
7	Return on net average operating fixed assets	13,941	7,983
8	Additional revenue requirement for Air-Mix LPG Projects	638	330
9	Shortfall related to prior Year	68,139	23,468
	Total Final Revenue Requirement	**263,115**	**184,859**

11.13. The petitioner's net operating income is estimated at Rs. 195,013 million, as against the revenue requirement of Rs. 184,859 million and thus there is a surplus of Rs. 10,154 million in its estimated revenue requirement for the said year. In order to adjust this surplus, the Authority hereby makes downward adjustment of Rs. 25.32 per MMBTU on provisional basis in its average prescribed price for the said year (Annexure-A).

11.14. Provisional prescribed prices for each category of consumers for the said year, effective from July 1, 2015, are attached as Annexure-B. The prescribed prices for various categories of retail consumers determined by the Authority on provisional basis shall be subject to adjustment upon receipt of GoP advice under Section 8(3) of the Ordinance, in respect of the sale price of gas for each category of retail consumers provided that the overall increase in the average prescribed price remains unchanged so that the petitioner is able to achieve its total revenue requirements in accordance with Section 8(6)(f) of the Ordinance.

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. 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.

12.1.2. to curtail ever increasing provision for doubtful debts.

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

12.1.4. to take up legal matters / issues with OGRA and other GoP bodies.

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

13. Public Critique, Views, Concerns, Suggestions

13.1. The Authority has attached the copy of interventions / comments at para 3 above, which include matters relating to policy and do not fall under the purview of the Authority but affect the consumers. Specific attention of the GoP is drawn to these issues for consideration and necessary action.

(Noorul Haque)
Member (Finance)

(Aamir Naseem)
Member (Gas)

(Saeed Ahmad Khan)
Chairman

Islamabad,
December 18, 2015

REGISTRAR
Oil & Gas Regulatory Authority
Islamabad

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		418,160		418,160
	BBTU	400,999		400,999
	July-December, 2015	196,948		196,948
	January-June, 2016	204,051		204,051
	Calorific Value	0.96		0.96
"A"	Net Operating Revenues			
	Gross sales net of general sales tax	179,472	-	179,472
Less:	Gas development surcharge- existing	(18,188)	18,188	-
	Net sales at current prescribed price	197,660	(18,188)	179,472
	Meter rentals	731	-	731
	Amortization of deferred credit	431	2	433
	Gas transportation charges	62	-	62
	Sale of LPG	1,016	4,164	5,180
	Sale of NGL	73	1,367	1,440
	Sale of condensate	314	62	376
	Late payment surcharge	-	6,138	6,138
	Meter manufacturing profit	-	134	134
	Notional income on IAS 19 provision		468	468
	Other operating income	573	6	579
	Total Operating Revenue "A"	200,861	(5,848)	195,013
"B"	Less: Operating Expenses			
	Cost of gas	155,798	(8,338)	147,460
	UFG Adjustment	-	(14,246)	(14,246)
	Transmission and distribution cost	16,872	(3,849)	13,023
	Gas internally consumed	487	(242)	245
	Depreciation	5,961	(644)	5,317
	Change in accounting policy (IAS 19) by IASB	53	-	53
	Other charges	67	-	67
	WPPF	1,160	-	1,160
	Total Operating Expenses "B"	180,397	(27,318)	153,079
"C"	Operating profit (A-B)	20,464	21,471	41,934
Return required on net operating fixed assets:				
Net operating fixed assets at beginning		81,701	(28,825)	52,877
Net operating fixed assets at ending		99,040	(46,482)	52,558
		180,742	(75,307)	105,435
Average net assets (I)		90,371	(37,654)	52,717
Net LPG air mix project asset at beginning		776	(121)	655
Net LPG air mix project asset at ending		2,436	(1,831)	606
		3,212	(1,951)	1,261
Average net assets (II)		1,606	(976)	630
Meter manu. Plant asset at beginning		454	(454)	
Meter manu. Plant asset at ending		546	(546)	
		1,000	(1,000)	-
Average net assets (III)		500	(500)	-
Deferred credit at beginning - Assets related to Natural Gas Activity		6,446	(1,129)	5,317
Deferred credit at ending - Assets related to Natural Gas Activity		6,071	(1,131)	4,941
		12,517	(2,260)	10,258
Average net deferred credit (IV)		6,259	(1,130)	5,129
"D" Average (I-II-III-IV)		82,006	(35,048)	46,958
"E" 17% return required		13,941	(5,958)	7,983
"F" Shortfall / (Surplus) in return required (E-C) (Gas Operations)		(6,523)	(27,429)	(33,951)
"G"	Additional revenue requirement for Air-Mix LPG Projects	638	(308)	330
Total Shortfall / (Surplus) H=(F+G)		(5,885)	(27,737)	(33,622)
Inc./(Decr.) in average prescribed price effective (Rs. / MMBTU) w.e.f July 01, 2015		(14.67)	(69.17)	(83.84)
Shortfall related to prior years (I)		68,139	(44,671)	23,468
Total Shortfall / (Surplus) in revenue requirement J = (H+I)		62,254	(72,408.14)	(10,154)
Inc./(Decr.) in average prescribed price (Rs. / MMBTU)		155.25	(180.57)	(25.32)
Estimated revenue requirement (B+E+G+I)		263,115	(78,256)	184,859
Average Prescribed Price (Rs. per MMBTU)		648.17	(225.93)	422.24

ANNEXURE - B

B: Provisional Prescribed Prices for the Said Year

	Particulars	Average Prescribed Prices for FY 2015-16
		Rupees per MMBTU
(i)	**Domestic Consumers:**	
a)	Standalone meters	
b)	Mosques, churches, temples, madrassas, other Religious Places and Hostels attached thereto;	
	First slab (upto 100 cubic metres per month).	422.24
	Second slab (Upto 300 cubic metres per month).	422.24
	Third slab (over 300 cubic metres per month).	422.24
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	422.24
(ii)	**Special Commercial Consumers (Roti Tandoors)**	
	First slab (upto 100 cubic metres per month).	422.24
	Second slab (Upto 300 cubic metres per month).	422.24
	Third slab (over 300 cubic metres per month).	422.24
(iii)	**Commercial :** All establishments registered as commercial units with local authorities or dealing in consumer items for direct commercial sale like cafes, bakeries, milk shops, tea stalls, canteens, barber shops, laundries, hotels, malls, places of entertainment like cinemas, clubs, theaters and private offices, corporate firms, etc.	
	All off-takes at flat rate of	422.24
(iv)	**Ice Factories:** All off-takes at flat rate of	422.24
(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	422.24
(vi)	**Captive Power :** All off-takes at flat rate of	422.24
(vii)	**CNG Stations:** All off-takes at flat rate of	422.24
viii)	**Cement Factories:** All off-takes at flat rate of	422.24
(ix)	**Pakistan Steel** All off-takes at flat rate of	422.24
(x)	**Fauji Fertilizer Bin Qasim Limited**	
	(i) For gas used as feed-stock for Fertilizer (upto 60 MMCFD)	422.24
	(ii) Additional allocation (10 MMCFD) Provisional	422.24
	(iii) For gas used as fuel for generating steam and electricity and for usage in housing colonies for fertilizer factories	422.24
(xi)	**Power Stations** All off-takes at flat rate of	422.24
(xii)	**Independent Power Producers** All off-takes at flat rate of	422.24

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ANNEXURE - C

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

	Particulars	FY 2014-15	FY 2015-16
	HR benchmark Cost Parameters		
	Base Cost	8,948	9,348
	CPI factor	4.53%	5.50%
	T & D network (Km)	47,273	49,315
	Number of Consumers (No.)	2,710,585	2,850,631
	Sales Volume (MMCF)	363,596	418,160
	Unit Rate (Rs/unit)		
	T&D network (Rs./Km)	192,625	197,745
	No. of Consumers (Rs./Consumer)	3,381	3,449
	Sale Volume (Rs./MMCF)	25,091	25,710
	HR Cost Build-up (Million Rs)		
50%	Cost CPI	203	257
25%	T & D network (Km)	2,276	2,438
65%	Number of Consumers (No.)	5,957	6,390
10%	Sales Volume (MMCF)	912	1,075
	HR Benchmark Cost	9,348	10,160
	IAS Cost		**468**
	Total HR Cost		**10,628**