آئل اینڈ گیس
ریگولیٹری اتھارٹی

Oil & Gas
Regulatory Authority

GUARDING PUBLIC INTEREST

Case No. OGRA-6(2)-2(3)/2021-RERR

IN THE MATTER OF

SUI SOUTHERN GAS COMPANY LIMITED
REVIEW ON ESTIMATED REVENUE REQUIREMENT
FY 2021-22

UNDER

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

DECISION ON

01 MAR 2022

Before:
Mr. Masroor Khan, Chairman
Mr. Muhammad Arif, Member (Gas)
Mr. Zainul Abideen Qureshi, Member (Oil)

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Annexures:

1. Background

1.1. Sui Southern Gas Company Limited (the petitioner) is a public limited company incorporated in Pakistan and is listed on Pakistan Stock Exchanges Ltd. The petitioner undertakes activities relating to construction, operation of gas transmission and distribution pipelines and sale of natural gas and by-products in the provinces of Sindh and Balochistan under the license granted by the Oil & Gas Regulatory Authority. However, petitioner's exclusive right to operate in the franchised areas had ended on 30th June, 2010.

1.2. The petitioner filed a petition on January 13, 2021, subsequently amended petition on February 19, 2021 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) requesting the Authority to allow prescribed price of Rs. 789.24/MMBTU for FY 2021-22 (the said year). The Authority vide its decision dated August 17, 2021 determined the prescribed price at Rs. 779.88/MMBTU w.e.f. July 01, 2021.

1.3. Being aggrieved by this determination, the petitioner has submitted a motion for review on September 15, 2021 under Rule 16 of the NGT Rules, seeking additional increase of Rs. 18.16 per MMBTU in current prescribed price of Rs. 779.88/MMBTU to Rs. 798.04/MMBTU w.e.f. July 01, 2021.

2. Petition

2.1. Subsequent to the Motion for Review, whereby petitioner demanded an increase of Rs. 18.16/MMBTU, it has also submitted its review petition (the petition) on October 12, 2021, under Section 8(2) of the Ordinance, incorporating in the ERR the effect of changes in the projected cost of gas for the said year taking into account the latest oil prices in the international market and rupee US$ parity. The petitioner has also revised gas purchases and sales volume based on actual purchases. Accordingly, the petitioner has requested to allow a shortfall of Rs. 18,399 million or increase of Rs. 58.42 per MMBTU for natural gas consumers for the said year. Further, the petitioner has requested the Authority to treat the review motion referred in para 1.3 above as part of the instant review petition. ***In view of request of the petitioner, the Authority decides to treat the said review motion as part of instant review petition.***

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

Table 1: Comparison of Projected Cost of Service per the petition with DERR.

Rs. / MMBTU

Particulars	FY 2021-22	
	DERR	The petition
Projected Sale Volume (MMBTU)	**318,783**	**314,911**
Cost of gas Sold	735.17	774.54
UFG adjustment	(38.59)	-
UFG adjustment on RLNG volume handled basis (ring fence)	-	(39.12)
Transmission and distribution cost	54.00	70.51
Depreciation	21.99	23.23
Return on net average operating fixed assets	20.35	22.32
Other operating income	(15.98)	(16.18)
Subsidy for LPG Air-Mix Project	2.96	3.00
Cost of service / prescribed price	**779.88**	**838.30**
Current average prescribed price	**779.88**	**779.88**
Increase requested in average prescribed price w.e.f. 1-7-2021	**-**	**58.42**

2.3. The Authority admitted the petitions under Rule 5 of NGT Rules, as a prima facie case for evaluation and consideration by the Authority on November 09, 2021.

2.4. Accordingly, a notice of Public Hearing was published in the leading newspapers on November 23, 2021 inviting interventions/ comments on the petition from the consumers, stakeholder and the general public for Hearing to be held at Pearl Continental Hotel, Karachi on December 06, 2021. In response thereto, the Authority received following applications for intervention in the proceedings:

i) Karachi Chamber of Commerce & Industry, Karachi
ii) All Pakistan Textile Processing Mills Association, Faisalabad
iii) All Pakistan Textile Mills Association, Karachi
iv) SITE Association of Trade and Industry, Karachi

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

3. Proceedings and Public Interventions

3.1. Accordingly, public hearing was held on December 6, 2021, at PC Hotel, Karachi. The following interveners / participants presented their views:

Petitioner:

(i) The petitioner's team led by Mr. Imran Maniar, Managing Director.

Interveners / Participants:

(i) Mr. Muhammad Razziuddin, Consultant All Pakistan Textile Mills Association
(ii) Mr. Ghiyas Paracha & Mr. Samir Najmul, All Pakistan CNG Association
(iii) Mr. Zubair Motiwala, All Pakistan Textile Processing Mills Association (APTMA)
(iv) Mr. Sameer Gulzar, CNG Dealers Association of Pakistan
(v) Mr. Saleh Parekh, SITE, Karachi

3.2. During the hearing, the petitioner's MD and acting CFO made submissions in detail with the help of multimedia presentation explaining major reasons for its claims including T&D expenses and fixed assets. The crux of the same are as under: -

3.2.1. The petitioner has explained that the petition has been filed in line with past practice, based on revised parameters and assumptions (i.e. latest crude oil price and exchange rate trend etc.) and actual figures of sales volume and purchases for the month of July-August 2021 for calculating cost of gas.

3.2.2. It was informed that extensive efforts have been made for reduction in UFG from 16% to 11%. It was explained that stern actions were taken by it for gas theft consumers.

3.2.3. It was highlighted that company is suffering significant losses over past several years in Balochistan but still carrying out the FG's socio-economic agenda for supply of gas. It was informed that matter of flat billing for Baluchistan region and capping of slabs has been agitated with FG so as to control UFG losses improvement in repayment of bills.

3.2.4. It was informed that a MOU has been signed with SNGPL for meter manufacturing plant for their customers.

3.2.5. It was also informed that Rs. 4.5 billion has been saved in nine months to reduce the cost in the interest of Company and end consumers.

3.2.6. It was requested to allow the replacement of faulty meters in Baluchistan and Sindh to reduce the UFG. It was also highlighted that almost 0.7 million customers are using illegal gas in Karachi as meters can't be installed due to non-issuance of NOC by Sindh Building Controlling Authority (SBCA) for recovery of gas usages, being illegal societies.

3.2.7. It was also requested by MD, SSGCL to industrial consumers to minimize litigation so as to curtail company's cost.

3.3. The petitioner has requested the Authority to issue prescribed price notifications timely.

3.4. It was also requested to the Authority to allow RLNG handling volumes since it is affecting the company's financial position.

3.5. The petitioner has argued that HR benchmark parameters were revised and implemented without any consultative process with the petitioner. Moreover, impact of CPI has not been allowed in revised benchmark formula which was previously allowed.

3.6. The substantive points made by the interveners during the hearing are summarized as under: -

3.6.1. It was requested to the Authority to re-check the basis of international oil prices & US$ parity.

3.6.2. It was highlighted that Textile is one of the largest gas consumer groups with record earnings of foreign exchange for the country showing 20% increase in exports. Increased cost, if any, to be allowed by the Authority shall affect/reduce textile sector exports.

3.6.3. Cross subsidy was vehemently opposed by textile sector as it affects competitiveness in the international market. This has led to a decrease in investments, flight of capital and deindustrialization on a massive scale.

3.6.4. All Pakistan Textile Mill Association (APTMA) pointed out that gas prices include several unnecessary administrative costs, UFG and other losses. UFG is a major part and is in question for long time. It was demanded that UFG be lowered down and eliminated to reduce the gas prices of all the sectors.

3.6.5. Members of Company's Board of Directors of the petitioner to attend the hearing and hear views points of the interveners.

3.6.6. Exorbitant costs and expenditure of the petitioner's management must be capped or linked with actual performance improvement as the same is ultimately passed on to consumers.

3.6.7. APTMA vide its letter No. ADM/SEC-15/ 0276 dated 14.10.2021 made several interventions which are mostly related to Unavailable Audited Accounts, GDS, doubtful debts, Well Head Price, UFG etc.

3.6.8. APTMA requested OGRA to issue directions for reducing UFG on deceleration basis in line with internationally accepted practices.

3.6.9. APTMA highlighted petitioner's excessive UFG claim of 50.5 BCF or Rs.43 billion in its petition for the said year and suggested deduction of amount against UFG volumes from the petitioner's Return on Assets (ROA).

3.6.10. APTMA also objected to increase of UFG Volume form 42.6 BCF to 45.2 BCF in the petitioner's finance committee (BOD) meeting, which would cost the consumers additional amount of Rs.10 billion. Further, the petitioner spent Rs.12.6 billion over last two years on controlling UFG but the results are not very encouraging.

3.6.11. APTMA showed concern that the company had not uploaded its Annual Audited Accounts for FY 2018-19, FY 2019-20 and 3 quarters of FY 2020-21.

3.6.12. UFG of about 50 BCF has been reported, if translated in monetary terms, it is a huge loss of about Rs.43 billion, which must be given top priority by the petitioner by introducing new technologies and new ways and means to eradicate this menace. Although OGRA disallows large volumes against this head, yet occurrence of huge loss of gas is not at all desirable.

3.6.13. RLNG Gas allocation must not be curtailed to export/ zero rated Industry, as it affects the exports.

3.6.14. Representative of CNG sector stressed that Supply of RLNG to CNG sector should not be discontinued as the sector has been switched to RLNG in place of indigenous gas, with limited volume allocation of about 15 MMSCFD. A fully operational CNG sector can not only reduce import bill but its promotion positively impacts the environment.

3.6.15. The petitioner should implement gas curtailment in high UFG prone areas.

3.6.16. The shortfall in supplies should be equal to the proportionate depletion in gas reserves i.e., if the industry is using 400 MMCFD and the reserves depletion percentage is 10% then at least 360 MMCFD gas supplies be ensured. Losses should proportionally be cut down, and the total shortfall is distributed in that area.

3.6.17. The petitioner can effectively deal with the issue of illegal gas connection under Gas Theft (Control and Recovery) Act, 2016;

3.6.18. Low pressure in SITE area be addressed and old rusty pipelines may be replaced to reduce leakages/ UFG.

3.6.19. It was raised that in the absence of audited accounts analysis figures and requested increase in tariff/rates becomes questionable. It is, therefore, suggested to conduct a forensic audit of petitioner's accounts, pricing, and costs through an independent audit firm.

3.6.20. It was requested that OGRA may take an interim decision to keep the wellhead price at $2.0/MMBtu, being the maximum in competing countries.

3.6.21. It was highlighted that CNG sector was switched to RLNG in commitment of consistent supplies. However, the petitioner has now curtailed its supplies for 3 months on the basis of supplies to domestic sector. It was demanded from the petitioner to share the official document for managing RLNG demand supply as domestic is not supplied as well as billed at RLNG rate. Moreover, this diversion has severely affected the petitioner's revenue stream by not supplying gas to the highest tariff buyer and depriving the government for significant revenues in the form of taxes.

3.6.22. All Pakistan CNG Dealer Association stated that they are facing severe financial hardships and are at verge of closure owing to Corona pandemic as well as reduced supplies from petitioner.

3.6.23. It was highlighted that the gas tariff for the CNG sector is highest i.e. Rs. 1,283 per MMBTU among all sectors.

3.6.24. It was also requested to ensure gas supply of CNG sectors without curtailment so that their running expenditure will be met.

3.6.25. Increase in gas tariff is totally unjustified considering the latest revision as advised by FG. It was highlighted that no details of accounts were provided to scrutinize neither they are audited.

3.6.26. It was demanded that transportation and distribution costs need to be brought down along with ROA.

4. Authority's response to the Interveners:

4.1. The Authority has carefully considered the submissions and arguments of intervenor made in writing and at the hearing relating to UFG etc. while making the decision in the relevant part of RERR determination.

4.2. In this regard, the Authority notes that the petitioner in its various petitions pleads to restrict the UFG Disallowance at Rs 750 million based on its own interpretation of Rule 20(1) of NGT Rule 2002. However, the Authority in accordance with the License Condition No. 21 restricts the UFG at Benchmark level set for the said year. Accordingly, out of the petitioner claimed 45,464 MMCF volume of UFG, a substantial volume is rendered invalid in line with OGRA's benchmark for the said year and the same does not form part of petitioner's prescribed prices.

4.3. The Authority observes that supply of gas to utilities and its allocation to various category of consumers/sectors is being managed by Federal Government as part of its Natural Gas Allocation & Management Policy, 2005. The Authority, however, directs the petitioner to ensure its contractual obligations by suppling uninterrupted gas to its existing customers.

5. Authority's Jurisdiction and Determination Process

5.1. The Authority examined, in depth, all applications and petitions in light of relevant legal provisions. The instant petition has been filed under section 8(2) of the Ordinance. The instant petition is primarily focused on review of cost of gas/WACOG of the petitioner based on actual changes in the wellhead gas prices and relevant factors. The wellhead gas prices for the said year are based on the actual prices of crude oil and HSFO during the period December, 2020 to November, 2021. The actual trend in rupee vs US$ rates in recent months is to be taken into account, along-with actual prices in the previous months, while determining cost of gas to ensure that the determination is rational and fair to all stakeholders.

5.2. The operating revenues, operating expenses and changes in asset base are scrutinized keeping in view the justification and provisions of the law. Appropriate benchmarks are set in to control inefficiencies. Accordingly, the decision is always based on the logic and rationale striking a balance among stakeholders. ***Further, FG'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 Authority further, wherever necessary, issues directions to the petitioner to streamline/resolve the matters under the regulatory and legal framework.

5.3. Regarding intervener's stance for fixing wellhead price at $2/MMBTU, it is clarified that GoP regulates the upstream oil & gas sector and Section 43A of the Ordinance specifically excludes those activities from the purview of OGRA. Over the years, GoP has been concluding with the E & P companies the terms and conditions including the parameters for determination of well-head gas price in accordance with its respective petroleum policies. OGRA, however, has a rather limited role in this case. Pursuant to Section 6(2)(w) of the Ordinance, OGRA **determines and notifies "the well-head gas prices for the producers of natural gas in accordance with the relevant agreements or contracts"**. Therefore, this intervener's plea has no legal basis, as OGRA is neither responsible nor legally competent in the matter.

5.4. FG in response to OGRA's determination under Section 8(3) of the Ordinance fixes the consumer sale prices and minimum charges, while deciding on the inter consumer category subsidies and advises the gas sales prices and minimum charges for each retail category to OGRA. The same is notified in the official gazette. The Authority, however, observes that during past, FG under Section 8(3) of the Ordinance had advised insufficient revisions to OGRA, resulting in accumulation of previous years' revenue shortfall in the total revenue requirement of the petitioner & mainly its sister utility. Therefore, the Authority is of the considered opinion that FG should devise an appropriate policy for recoupment of previous year shortfall. The Authority, however, reiterates its view that all the categories of consumers must at least pay the average cost of service, keeping in view the existing cost of alternative or substitute sources of energy so that no such situation of unmet revenue requirement arises.

5.5. The Authority notes that the petitioner has contended rate of return allowed per DERR for the said year. The petitioner has argued the basis for determination of rate of return at 16.60% and requested to allow 16.79% rate of return on regulated asset base. The Authority, after thorough examination, observes that accurate basis in line with the parameters set in new tariff regime effective FY 2018-19 has been used by it i.e. month end average of six month KIBOR and hence the same involves no correction/adjustment. The Authority notes that same basis were being used which determined rate of return based on the period April, 2017 to March, 2018, however the petitioner has calculated its cost of debt based on period from April, 2017 to March, 2018.

5.6. ***In view of the above, the Authority maintains its earlier decision and computes rate of return at 16.60% on the average net operating fixed assets while treating various income and expenditure heads decided therein.***

6. Operating Fixed Assets

6.1. Summary of Additions during the year

6.1.1. The petitioner has requested to allow an additional amount of Rs. 5,988 million, detail of which is as under:

Table 2: Summary of Requested Addition in Fixed Assets

Rs. In Million

Particulars	FY 2021-22 (ERR)	FY 2021-22 (DERR)					FY 2021-22 (RERR)						
	Petition	Total	Transmission		Distribution & Sale		Petition	Transmission		Distribution & Sale		Additional Amount Claimed	Variation Inc./(Dec.) %
			Indigenous gas	RLNG	Indigenous gas	RLNG		Indigenous gas	RLNG	Indigenous gas	RLNG		
Land													
Buildings	275	69			69		69			69			
Gas transmission pipeline	13,086												
Compressors	3,764	335	335				335	335					
Plant and machinery	1,366	126	11		115		126	11		115			
Gas distribution system, related facilities and equipments	11,559	4,507			4,264	243	9,138			9,138	243	4,874	108
Furniture, equipments including computers and allied equipments	333	130	44		86		285	63		222		155	119
Computer software (Intangible)	558	33	7		26		521	104		417		488	1,480
LPG Air Mix Projects	10	10			10		10			10			
Telecommunication system	70	35	7		28		70	14		56		35	101
Appliances, loose tools and equipment	284	28	3		25		284	30		254		256	916
Vehicles	889	252	94		158		409	134	1	273		157	62
Construction equipment	225	45	10		35		45	10		35			
SCADA	45	22	22				45	45				23	103
Gross Assets	**32,464**	**5,591**	**533**	**-**	**4,816**	**243**	**11,580**	**746**	**1**	**10,589**	**243**	**5,988**	**107**

6.2. Gas Distribution System

6.2.1. The petitioner has claimed an amount of Rs 4,874 million which is in addition to Rs 4,507 million already allowed in DERR against the head of Gas Distribution System. Detail of the amounts projected on this account against various subheads is as under:

Table 3: Summary of Requested Additions in Gas Distribution System

Rs. In Millions

Description of Segments	ERR	DERR	The Petition	Additional Amount Claimed by the Company	Variance Inc./(Dec.) %
Replacement/Repair of Undersized Meters	2,470	1,448	2,470	1,022	71
Construction of CMSs, TBSs, and TRSs	423	171	423	252	147
Laying of Distribution Mains including services-Existing Areas and DDC	3,579	1,072	3,579	2,507	234
Installation of new connections (meters)	1,336	243	1,336	1,093	450
Grand Total	7,808	2,934	7,808	4,874	166

6.2.2. AS tabulated above, the petitioner has claimed additional amount of Rs. 4,874 million against the four sub heads, the Authority has already allowed Rs. 2,934 million in DERR for FY 2021-22 for the same jobs.

i) **Replacement/ Repair of Undersized Meters**

6.2.3. The petitioner claimed an amount of Rs 2,470 million at the time of ERR for the said year, however the Authority provisionally allowed Rs 1,448 million based on last determination i.e., FY 2018-19 with the direction to first utilize repairable old meters.

6.2.4. The petitioner submitted that it is not justified to base the allowed amount on FRR FY 2018-19 since the same has been agitated through motion for review on the same for consideration of the Authority.

6.2.5. The petitioner informed that this activity has been done with the objective to reduce UFG while meeting the 5 years' KMI's targets implemented through UFG Benchmark Study by OGRA, and OGRA has been allowing these meter replacements in the revenue requirements of the company since FY 2013-14. The KMI's on the system visibility has been referred by the petitioner that encompasses activities including replacement of defective meters, scheduled replacements and testing of 2.5 % of total meters replaced to ascertain actual minimum billed volume cases Vs defective meters. The petitioner informed that a volume of 9,469 MMCF had been recovered though meter replacement on account of claims under Passing unregistered gas (PUG), Theft and slow meters. Further, petitioner, did not agree with the Authority's comments that it had some incentive in replacing domestic meters with new one being purchased from its Meter Manufacturing Plant (MMP). The petitioner further informed that since the Authority has specifically given the said directions in its instant determination, therefore the management of the Company is formulating a strategy on utilization of used meters' subject to satisfactory technical verification. Any outcome of above noted strategy will be presented to the Authority in due course of time. The petitioner, therefore, requests the Authority to reconsider and allow total amount of Rs 2,470 million.

6.2.6. The Authority observes that the petitioner's stance is misconstrued and based on false notions, as the Authority is fully committed to enforce all UFG Control measures including replacement of 'Defective' Meters and in fact the Authority allowed reasonable amount against this head. It is observed that under the provisions of OGRA Natural Gas Measurement (Technical Standards) Regulations, 2019, the periodic accuracy of gas meter is to be checked at least once in 15 years in case of domestic consumer, at least once in 5 years in case of commercial consumers and once in two years in case of industrial consumer. Similarly, KMI referred above also requires to check the replaced meters to ascertain actual minimum billed cases Vs defective meters, so as to take corrective measures. The above Regulation/ KMI clearly requires the petitioner to check the condition of the meters before their replacement. OGRA has no qualms if the petitioner undertakes to replace those meters, which have crossed the predetermined useful life as per schedule stipulated in OGRA Natural Gas Measurement (Technical Standards) Regulations, 2019 and are technically defective. In this respect, the petitioner claimed recovery of volume of 9,469 MMCF sans any break up of amount against different sub heads such as PUG, theft of gas and slow meters and period for which this volume has been claimed. Further, too much emphasis on this particular activity (even capitalization beyond the allowed amounts in the past years), while ignoring other effective measures, is a matter of concern, as at times the licensee could not even utilize the allowed amounts to complete the important UFG control activities in respect of Segregation and Rehabilitation of its distribution system. It seems that huge number of domestic meters are being replaced merely on the basis of assumption and no assessment of corresponding benefit particularly without any backing of solid evidence and later its authentic validation/ critical inspection from a credible Metering Workshop is available with the petitioner.

6.2.7. As regards, the petitioner's claim of a recovered volume of 9,469 MMCF through this activity, it is observed that replacement of meters is not mandatory in every case, rather it depends on the condition of such meter, that is to be technically determined by the Meter Workshop on case-to-case basis. It is pertinent to mention that the above recovered volume valuing around Rs. 5 million is not substantial as compared to the corresponding expenditure of billions of rupees in the replacement of meters. As highlighted in the DERR for the said year, in the matter of few years, the licensee has replaced almost 50 % of total domestic meters (more than 3.0 million) installed on its network. But despite of this gigantic exercise, UFG is unfortunately on the increase with every passing year ultimately burdening the existing consumers.

6.2.8. In view of the above, the Authority maintains its earlier decision with the directions to strictly remain within the allowed amount.

ii) <u>Construction of CMSs, TBSs, TRSs</u>

6.2.9. The petitioner has claimed an amount of Rs. 252 million which is in addition to Rs. 171 million already allowed in DERR against the subhead of 'Construction of CMSs, TBSs, and TRSs.

6.2.10. The petitioner stated the said head is an important UFG control activity for reconciliation of important data like gas flows and pressure. Further, capital expenditures on such stations are equally important to efficiently manage pressure regulation throughout the pipeline network. Thus, curtailing the amount will adversely affect the Company's efforts towards UFG control.

6.2.11. The Authority notes that the petitioner's UFG has an increasing trend for the last several years, despite appreciable amounts that have been allowed by the Authority in its earlier determinations of Revenue Requirement. The petitioners above stance in the preceding para is negated by the petitioner itself as had these expenditures been so inevitable, the petitioner would not have failed to capitalize the allowed amounts against this head during 2018-19 and 2019-20. Therefore, based on operational capability i.e., capitalization during FY 2018-19, the Authority allowed an amount of Rs. 171 million for this head at DERR stage. Moreover, it is observed from FRR petition for FY 2019-20 that the petitioner has capitalized an amount of Rs. 56 million during FY 2019-20 as against the allowed amount of Rs. 195 million in DERR 2019-20. Keeping in view the above, the Authority does not allow any additional upfront amount against this head at this stage.

iii) Laying of Distribution Mains including services - Existing Areas:

6.2.12. The petitioner has claimed an amount of Rs. 2,507 million which is in addition to Rs. 1,072 million allowed in DERR FY 2021-22 against the subhead of 'Laying of Distribution Mains including Services-Existing Areas and Direct Departmental Cost (DDC).

6.2.13. The petitioner has stated that the Authority has based its determination considering the actual capitalization for FY 2018-19. In order to make an informed decision, it is imperative that actual capitalization v/s the DERR for FY 2019-20 and FY 2020-21 should also have been considered. The petitioner, therefore requested to allow the amount estimated on the basis of the current level of achievements i.e. actual capitalization for FY 2019-20 instead of taking the basis of capitalized amount for FY 2018-19.

6.2.14. The Authority notes that the petitioner projected Rs. 3,497 million at ERR stage for FY 2019-20 but could only capitalize Rs. 1,113 million in the same year.

6.2.15. Keeping in view the above and based on capitalized amount claimed in FRR 2019-20 petition against this head, ***the Authority allows an amount of Rs. 1,113 million i.e., Rs. 41 million in addition to Rs. 1072 million already allowed at DERR stage for the said year.***

iv) Installation of New Connections (meters)

6.2.16. The petitioner states that it has projected Rs. 1,336 million against 133,976 Nos total gas connections, out of which OGRA allowed only Rs. 243 million to the extent of industrial & commercial consumers on RLNG in DERR for the said year. No amount has been allowed for installation of domestic connections. As per the Authority determination, the Company presumes that the new connections for Domestic sector have been principally allowed subject to fulfillment of certain conditions as referred therein paras 5.55.1 to 5.55.6.

6.2.17. The petitioner apprised that as per license condition No. 33.3, the petitioner is obligated to provide gas connections subject to completion of necessary formalities. The petitioner informed that 129,497 Nos. of new connections have been provided during FY 2020-21, which authenticates its capacity to undertake 133,976 Nos of new gas connections as projected in its Petition for ERR 2021-22. The petitioner requested to allow the requisite financial space in terms of upfront allowance of Rs. 1,336 million, any variations subject to actual performance may be considered at the FRR stage.

6.2.18. The Authority notes that OGRA, vide Para 5.55 of its DERR for 2021-22 has already granted approval in principle for provision of gas connections in the domestic category. The Authority expects the licensee to provide gas connections while ensuring maintenance of balance in its system which must commensurate with the available gas supplies in line with provisions under Performance and Service Standards.

6.2.19. In view of the above, the Authority directs the petitioner to proceed accordingly in line with the decision of the Authority taken at the time of ERR at para 5.55 and in accordance with the directions of MoE letter dated 03.12.2021 relating to execution of gas development schemes and provision of gas connections.

Table 4: Summary of Asset Additions in Gas Distribution System

Rs. in Million

Description of Segments	ERR	DERR	The Petition	Additional Amount Claimed by the Company	DRERR	Additional Amount Determined
Replacement/Repair of Undersized Meters	2,470	1,448	2,470	1,022	1,448	-
Construction of CMSs, TBSs, and TRSs	423	171	423	252	171	-
Laying of Distribution Mains including services-Existing Areas and DDC	3,579	1,072	3,579	2,507	1,113	41
Installation of new connections (meters)	1,336	243	1,336	1,093	243	-
Grand Total	**7,808**	**2,934**	**7,808**	**4,874**	**2,975**	**41**

6.3. Furniture, equipment including computers & allied equipment

6.3.1. The petitioner has claimed an amount of Rs. 155 million which is in addition to Rs. 130 million allowed in DERR FY 2021-22 against the head, the item wise detail is tabulated below:

Rs in millions

S.No	Items	ERR 2021-22	DERR	The Petition
1	Computer & Allied Equipment	167.75	65.49	167.75
2	Office Equipment	61.69	24.08	61.69
3	Furniture	24	9.37	24
4	Security	79.56	31.06	31.06
	Total:	333	130	284.5

6.3.2. The petitioner submitted that Computer and Allied equipment is invariably used all across the Company to ensure online transfer of data as well as its efficient storage and maintenance. However, the old computer hardware, aged beyond ten years, is unable to support new Operating Systems, besides maintenance and services of the existing computers has become a challenge due to unavailability of consumable parts and support from vendor.

6.3.3. The petitioner claimed an amount of Rs. 62 million against Office Equipment falling in this head, however OGRA approved Rs. 24 million (pro-rata basis). Office equipment comprises of electronic and other appliances used in office premises. Moreover, the petitioner claimed an amount of Rs. 24 million against Office Furniture on lump-sum basis against this head, however OGRA approved Rs. 9.37 million (pro-rata basis). The petitioner requested to reconsider the said amounts citing reason that unlike revenue expenses, capital expenditure is not based on past trends and only those expenditures which fulfill prudence test are kept in the budget.

6.3.4. The Authority, in general agrees with the petitioner's stance regarding allowance of capital expenditures on past trends basis, yet it is observed that the petitioner has been achieving only 48% capitalization against the estimated amounts (equivalent to around Rs.130 million on average) during the period from FY 2006-07 to FY 2018-19 under this head. In view of the above and considering only prudent cost recovery through consumers, the petitioner's additional claims on office equipment and furniture are not allowed. However, it is noted in respect of Computer and allied equipment, that importance of updated technology to keep pace with the contemporary world and adapt / equip with the changing technologies to gain maximum benefit in terms of network vigilance, security of supplies and customer facilitation etc. cannot be undermined. In the view of the above, the Authority ***allows additional amount of Rs.102 million against Computer & Allied Equipment, with the view that same will bring improvement and efficiency in the system in measurable terms.***

6.4. **Computer software (Intangible)**

6.4.1. The petitioner has claimed an amount of Rs. 488 million which is in addition to Rs. 33 million already allowed in DERR for the said year against this head. The petitioner submitted details of existing ***critical applications / software's that need up-gradation, as briefly given below:***

i) **Up gradation of CC&B application upgrade to Version 2.7:**
Support of existing version is already discontinued from December, 2020. Whole of the Billing operations are run through this billing engine and application is implemented across the board. This is a critical business need and activity will take time to conclude. Up gradation will be performed in phases. (Rs. 100 Million)

ii) **UP gradation of Oracle ERP Application to Version 12.2.X:**
Support of the existing version will be discontinued by December, 2021. All the financial transaction and processing is done through the Oracle Financials modules and after the end of support Oracle will again take time and charge more for a bug resolution. Running end of support version is also a threat as it may affect rest of the applications too. (Rs. 40 Million).

iii) **Microsoft exchange mail Server migration (Rs. 80 Million):**
As directed by the Ministry, acquisition of IBM Lotus Domino by an Indian company was highlighted as a national security concern. All the users need to be migrated on MS Exchange which require: Server Hardware, Exchange software, User licenses, Security appliance covering three years' maintenance and support.

iv) **Business Intelligence and Analytics Solution for predictive Analysis (Rs. 80 Million):**
Old and obsolete version of BI tool is in use from IBM and BI is need of the time and used for various reports in order to have handy information.

v) **CC&B Customer Licenses (Rs. 33 Million):**

Gas consumers are increasing in SSGC on a regular basis, it is mandatory to maintain count of customer licenses in CC&B accordingly for software compliance. Hence, there is a dire need to procure additional CC&B customer licenses every year.

vi) **Oracle Application Additional User licenses for ERP licensing compliance (Rs. 25 Million):**
Various modules of ERP are in use in SSGC and as a regulatory compliance we need to purchase additional end-user licenses to remain compliant with software licensing requirements and policies.

vii) **Oracle Application Server Enterprise Edition Processors (04) For ERP Software Compliance (Rs. 28 Million):**
These server licenses are needed in order to bridge the gap of already used licenses by SSGC and are also needed for Oracle licensing policy compliance.

6.4.2. Further, the petitioner's IT department has planned to undertake a number of initiatives during FY 2021-22 specifically for Digitization and Automation in-line with the Board directives, which will bring efficiency in its system.

6.4.3. Keeping in view the above, the Authority allow these projects in principle and actualized amount at FRR stage may be claimed with tangible and prudent justifications.

6.5. **Telecommunication system**

6.5.1. The petitioner has claimed an amount of Rs. 35 million, in addition to Rs. 35 million already allowed in DERR FY 2021-22 against the head of Telecommunication System. The petitioner provided details of the equipment along with justifications, which is briefly mentioned as under:

i) Replacement to Guyed Towers:

6.5.1.1. An amount of Rs. 55 million is required to replace above Towers with new Self Support Tower, the existing towers were installed some 45 years back on IRBP lines. Further, frequency shift from 2 GHz to 8 GHz in line with PTA requirement necessitates replacement of Guyed Towers.

ii) Reporting Server for SCADA System:

6.5.1.2. The petitioner informed that SCADA system was deployed in 2015, it was designed to communicate real data for monitoring and control of gas pipelines. The Reporting Servers (Rs. 15 million) are required to integrate with IT network to analyze gas load and forecasting based on acquiring data from historical servers for forecasting of load of all regions on weekly, monthly and yearly basis.

iii) Drone with camera:

6.5.1.3. The drone with Camera (Rs. 0.25 million) is required to check the quality of work on Telecommunication Towers during its erection as well as during its maintenance work.

6.5.1.4. The Authority based on operational requirement and justification provided by the petitioner, ***in principle allows the expenditure against above head, subject to its capitalization at FRR stage, with the directions to the petitioner to restrict the expenses against the specific items within the projected amount in this head.***

6.6. **Appliances, loose tools, and equipment**

6.6.1. The petitioner has claimed an amount of Rs. 256 million which is in addition to Rs. 28 million allowed in DERR FY 2021-22 against the head of Appliances, loose tools and equipment.

6.6.2. The petitioner has provided item-wise details under this head. The list comprises of loose tools, gas leak detectors, pipeline locators, power grinders, pressure gauges, gas cutters, grease guns, holiday detectors and hydraulic jack hammers etc. The petitioner apprised that such appliances, tools and equipment are required to perform operational and maintenance activities, which is important in achieving KMI targets/ UFG control activities. Also, the non-availability of such items directly affects the operational activities of the Company and imposes a negative impact on customer services.

6.6.3. The Authority notes that the petitioner projects high amounts against this head but is unable to capitalize the allowed amounts at FRR stage. The historical trend of last 12 years' data depicts that the petitioner could, on an average, capitalize Rs. 28 million at FRR stage.

Moreover, as per FRR petition for FY 2019-20, the petitioner has capitalized an amount of Rs. 13 million as against the allowed amount of Rs. 306 million in DERR 2019-20.

6.6.4. ***Keeping in view the above, the Authority does not allow any additional upfront amount against this head at this stage. However, the Authority in principle allows to proceed for expenditure under this head on prudent basis, subject to capitalization at FRR stage.***

6.7. **Vehicles**

6.7.1. The petitioner has claimed an amount of Rs. 157 million which is in addition to Rs. 252 million allowed in DERR FY 2021-22 against the head of Vehicles.

6.7.2. The petitioner initially projected estimated Rs 889 million under the head of Vehicles in the petition for the ERR for FY 2021-22. The Company has now submitted an additional expenditure of Rs. 157million, upto a total projected expenditure to Rs. 409 million against this head. The total amount of Rs. 408.74 million has been rationalized by the Company's BoD, based on the compulsory replacement of operational vehicles (104 Nos) which were beyond economical repair. Some of these vehicles to be replaced age 20 years and above, some ten years with high operational and maintenance cost. In addition, as per the petitioner, almost half of the amount (Rs.198 million) against the vehicles is meant for UFG control activities.

6.7.3. The Authority observes that there has been no appreciable increase in its network and consumer base. Similarly, UFG control activities are ongoing activities and have been underway with sufficient existing resources, including the vehicles. Moreover, the petitioner's irrational and exaggerated claims have also been revised by its BOD which is appreciated. In view of the above and to ensure compliance with the GoP's advice to implement austerity measures at all levels so as to avoid unnecessary expenditures, the petitioner must keep above considerations while projecting amount at ERR stage and therefore, only those vehicles which have been rendered unserviceable and uneconomical to operate, may be replaced in phases to avoid over burdening of the existing consumers in the said year. Based on capitalization during FY 2018-19, the Authority allowed an amount of Rs. 252 million for this head at DERR stage. T***herefore, the Authority does not allow any additional upfront amount against this head at this stage.***

6.8. **SCADA**

6.8.1. The petitioner has claimed an amount of Rs. 23 million which is in addition to Rs. 22 million allowed in DERR FY 2021-22 against the head of SCADA, which includes Remote Terminal Units for Distribution sites in Hyderabad Region (Rs. 20 million), SCADA Hardware including Servers, Workstations, Web Clients (Rs. 11.5 million) and Web Clients License for SCADA System (Rs. 7.5 million).

6.8.2. The petitioner has stated that all the above-mentioned items are operationally required to ensure real-time monitoring and control of gas pipelines. These items for SCADA are also essential for load management especially in winter seasons.

6.8.3. The petitioner has also mentioned that the Authority itself, through its letter OGRA-9(41)/2008 dated: 16 September 2021, has asked SSGC to make arrangements to provide access to real-time data available in the SCADA system covering all parameters involved for monitoring/control of system/network. However, despite serving several reminders dated October 01, 2021, October 22, 2021 and dated December 24, 202, the petitioner is yet to convey its response in this regard. ***The position has been seriously noted by the Authority with the direction that any further delay shall tantamount to non-compliance of directions and shall therefore be dealt accordingly.***

6.8.4. ***Keeping in view the operational requirements and justification provided by the petitioner, the Authority allows the petitioner to procure the equipment against this head in the said year and claim actualized amount at FRR stage with tangible justification.***

Table 5: Summary of Asset Additions Allowed by the Authority

Rs. In Million

Particulars	RERR FY 2021-22				
	Petition		Additional Amount Claimed	DRERR	Additional Amount Determined
	Indigenous gas	RLNG			
Buildings	69	-	-	69	-
Gas transmission pipeline	-	-	-	-	-
Compressors	335	-	-	335	-
Plant and machinery	126	-	-	126	-
Gas distribution system, related facilities and equipments	9,138	243	4,874	4,548	41
Furniture, equipments including computers and allied equipments	284	-	155	232	102
Computer software (Intangible)	521	-	488	33	-
LPG Air Mix Projects	10	-	-	10	-
Telecommunication system	70	-	35	35	-
Appliances, loose tools and equipment	284	-	256	28	-
Vehicles	409	-	157	252	-
Construction equipment	45	-	-	45	-
SCADA	45	-	23	22	-
Gross Assets	11,336	243	5,988	5,735	143

7. Unaccounted for Gas (UFG)

7.1. Revised Working/Calculation of UFG:

7.1.1. The petitioner has submitted revised working/calculation of UFG. The petitioner has stated that two months' actual gas purchase and gas sale volumes have been incorporated in the revised estimates.

7.1.2. The petitioner has calculated UFG for the said year at 12.32% (45,202 MMCF). The Authority based on its working of Gas Internally Consumed (GIC), at paras 10.16 to 10.18 determines UFG at 45,464 MMCF for the said year as under:

Table 6: Unaccounted for Gas

UFG Sheet RERR FY 2021-22 SSGCL *MMCF*

Particulars	The Petition	As Calculated
Transmission System		
Gross Purchases	367,031	367,031
Gas Consumed Internally - metered	1,149	887
Gas Consumed Internally - unmetered	25	0
Gas Available in Transmission System (A)	365,857	366,144
Gas Passed to Distribution System through SMS (B)	365,632	365,632
Loss / (Gain) in Transmission System (A-B)	225	512
Percentage Loss in Transmission	0.06%	
Distribution System		
Gas Received in Distribution Network	365,632	365,632
Damage by third party - unmetered	364	0
Gas Available for Sale (C)	365,268	365,632
Gas Sales	320,640	320,640
Add: Gas Shrinkage	40	40
Total Gas Sales (D)	320,680	320,680
Loss in Distribution System (C-D)	44,588	44,952
Percentage Loss in Distribution	12.19%	
Total UFG		
Gross Purchases	367,031	367,031
Gas Consumed Internally - metered	1149	887
Available for Sale (E)	365,882	366,144
Gas Sales	320,640	320,640
Add: Gas Shrinkage	40	40
Total Gas Sales (F)	320,680	320,680
Gas Unaccounted For (E-F)	45,202	45,464
Gas Unaccounted For (%)	12.32%	
Benchmark @ 5%	18,352	18,352
Allowance for local operating conditions @ 1.3%	4,771	4,771
Invalid claim	22,079	22,341

7.1.3. ***In view of the same, Rs. 13,270 million (@500.47/MMCF, local indigenous gas), being an invalid claimed volume per table above is adjusted from the revenue requirement for the said year.***

7.2. RLNG Volume Handling Impact:

7.2.1. The petitioner, on the basis of RLNG handling, has claimed 5.58% UFG and an amount of Rs. 10,192 million as UFG differential impact on this account, while contesting that the Authority has totally disallowed and ignored this claim.

7.2.2. The petitioner referred to ECC / Cabinet Policy Guideline No. ECC-37/09/2018 dated: 11 May 2018 and is of the stance that the policy guidelines referred above are still valid and pending for their implementation.

7.2.3. Meanwhile, the Managing Director of petitioner, vide letter MD/OGRA/17/21(RA/321), dated 25 June 2021 has sent a complete case to OGRA related to RLNG Volume Handling and its impact on UFG. The petitioner has requested the Authority to allow the claim against this head accordingly.

7.2.4. In this regard, the Authority observes that a detailed reasoned decision, considering all the arguments raised by the petitioner from time to time, has already been made as part of recent determination of Review of FRR FY 2018-19. Accordingly, the Authority refers the same and holds the said decision in this respect.

8. Operating Revenues

a. Sales Revenue at Existing Prescribed Prices

8.1. The petitioner has projected to increase gas sales revenues at prescribed price by 1%, from Rs. 231,250 million to Rs. 245,593 million based on two months' actual supplied for July-August, 2021. The petitioner has explained that gas sales revenue for the said year is based on average prescribed prices determined as per DERR for the said year.

8.2. The Authority notes that FG, in response to OGRA's DERR for the said year, had advised to maintain the existing sale prices. ***Accordingly, the Authority adjusts the revenues at prescribed prices to the extent of applicable natural gas prices and calculates the sales revenues at Rs. 227,426 million as against Rs. 245,593 million based on sales volume 314,911 MMBTU for the said year.***

b. RLNG Cost of Service/ Transportation Income

8.3. The petitioner has projected Rs. 14,085 million (Rs. 32.60 per MMCF at gross capacity 1200 MMCFD) on account of RLNG cost of service for the said year. The breakup of the same is as under;

Table 7: Breakup of RLNG - Cost of Service

	Rs. in Million
Total RLNG Energy in MMCF	**432,000**
Revenue Expenditure Relating to RLNG	3,272
Gas Internally Consumed	3,888
Depreciation	1,409
Contribution to WPPF	841
ROA	4,675
Cost of Supply of RLNG	14,085
Cost of Supply of RLNG (Rs./MMCF)	**32.60**

8.4. The Authority, per the decision relating to GIC decides to exclude Rs. 3,888 million from RLNG cost of service for the said year. Regarding WPPF, the same shall be considered at the time of FRR based on actualization. ***Accordingly, RLNG cost of service is re-worked on provisional basis at Rs. 9,303 million (Rs. 21.24/ MMCF or Rs. 20.13 / MMBTU) per the table below: -***

Table 8: RLNG Cost of Service as Calculated

			Rs. in Million
Description		**The Petition**	**As calculated**
Quantitative Data	**(MMCF)**	**432,000**	**438,000**
	(MMBTU)	**455,760**	**462,090**
Revenue Expenditure		3,272	3,272
Gas Internally Consumed		3,888	-
Depreciation		1,409	1,409
Contribution to WPPF		841	-
ROA		4,675	4,622
Cost of Supply of RLNG		**14,085**	**9,303**
Cost of Supply of RLNG (Rs./MMCF)		**32.60**	**21.24**

9. Cost of Gas

9.1. The petitioner has projected to increase cost of gas from Rs. 234,360 million per the DERR to Rs. 243,911 million for the said year based on its projections of international prices of crude and HSFO for the said year, as tabulated below: -

Table 9: Assumption for Petitioner's Weighted Average Cost of Gas (WACOG)

Applicable for Wellhead Gas Price	Average oil price for the period	Average C&F price		Exchange Rate
		Crude Oil	HSFO	
		US$/BBL	US$/M.Ton	Rs./US$
July to December 2021	December, 2020 to May, 2021	61.3600	349.5900	168.0000
January to June 2022	June 2021 to November, 2021	73.6500	438.3000	176.0000

9.2. The petitioner has used actual gas purchases volume for July and August 2021 and estimated volume for September, 2021 to June, 2022.

9.3. The Authority observes that the well-head prices of gas for all fields are computed in accordance with agreements signed between the GoP and various gas producers, available on record and are notified in exercise of the powers vested in Authority under the Ordinance.

9.4. The Authority observes that latest data of international oil prices available upto November 30, 2021. Therefore, the Authority, based on volume as provided by the petitioner and latest data in respect of Crude / HSFO & US$ exchange rate, revises the parameters for the purpose of computation of cost of gas at petitioner's system as per table below:

Table 10: Revised Parameters for WACOG by Petitioner

Applicable for Wellhead Gas Price	Average oil price for the period	Average C&F price		Exchange Rate
		Crude Oil	HSFO	
		US$/BBL	US$/M.Ton	Rs./US$
July to December 2021	December, 2020 to May, 2021	61.3630	349.5890	168.1193
January to June 2022	June 2021 to November, 2021	77.3876	434.6302	178.0000

9.5. ***In view of above, cost of gas is included at Rs. 247,043 million (computed at petitioner's WACOG of Rs. 674.72/MMCF) on provisional basis by the Authority for the said year.***

10. Transmission & Distribution Cost

i. Human Resource Cost

10.1. The petitioner has requested the Authority to allow Rs. 19,491 million (including Rs. 3,089 million allocated to RLNG business segment and Rs. 2,500 million on account of regularization of 3rd party / contract worker through Apex Court Orders) as against Rs. 16,991 million determined per DERR for the said year. The petitioner has argued that the revised formula has been applied by the Authority without any consultation with the licensees. The petitioner has explained that previous HR benchmark formula had been developed after detailed deliberation with both Sui Companies. The petitioner argued that a long run practice has been discontinued by the Authority without deliberations, while ignoring market trend and Government announcements. Moreover, the Authority had been allowing 50% impact of CPI to compensate against the adverse impact of inflation on cost of living enabling the company to keep the employees motivated. No such provision has been provided in the current HR benchmark cost.

10.2. The petitioner has further submitted that around 4,500 casual workers through 3rd Party Service Providers are working at various locations in Sindh and Baluchistan. Out of which approximately 3,700 workers filed petitions for regularization of their services and around 2600 have already been granted Court's decree for regularization of their service. The petitioner has envisaged that remaining employees may get (about 750) regularized in future. Accordingly, an additional financial impact of Rs. 2.5 billion is projected in HR cost. In view of the same submission, the petitioner has requested the Authority to:

i. Recalculate the HR cost as per previous benchmark till such time the new HR benchmark formula is put in place after meaningful consultation with the licensees.

ii. While revising the HR benchmark formula, to consider the induction of 3rd party worker's impact i.e. Rs. 2,500 million in the light of Court judgments.

iii. Allow the impact of CPI in the HR benchmark cost.

10.3. The petitioner has argued that the Authority in the DERR for the said year has taken inflated numbers of pipeline network and number of customers by adding 10% in the base figure i.e. RERR FY 2020-21. Resultantly, the actual allowable HR cost for FY 2021-22 would be short by more than Rs. 700 million i.e. Rs. 16,261 million based on actualized figures (i.e. T&D network, numbers of consumers and actual sales volume) as against the determined figure of Rs. 16, 991 million.

10.4. The Authority, after considering the submissions/arguments advanced by the petitioner, observes as under;

i. Revised HR benchmark parameters in DERR for the said year has been devised after careful consideration and extensive analysis by OGRA based on the data provided by the petitioner, wherein primarily all operating parameters are kept at equal proportion.

ii. Earlier in HR benchmark formula, pipeline network and no. of consumers comprised 90% weightage of the formula, whereas the sales volume that is actually the real/intrinsic revenue generation activity, was allocated 10% weightage. Considering the change in business dynamics, it was necessarily required to evolve the HR benchmark on equal weightage for each parameter so as to reflect the significance and impact of activities and factors in proportion and corresponding to the HR cost.

iii. Regarding 50% allowance of CPI, the Authority notes that unprecedented increases allowed in the salaries of executives and staff, leaves no reason to consider petitioner's stance where a reasonable increase is already met through revised benchmark. The Authority reiterates that the broader productivity linked benchmark was grossly misused by the petitioner to increase the salaries while purposely overlooking realistic organizational manpower requirement and ignoring its impact on consumers.

iv. Regarding additional impact of Rs. 2.5 billion, as referred by the petitioner in para 10.1 above, any additional impact shall be considered based on touchstone prudence at the time of FRR considering the net impact based on Court's order, if any. However, the Authority directs the petitioner to control its imprudent costs and review its policies to keep HR cost within the Benchmark formula, with the fact that the Company being public sector company recovering all its cost through consumers.

10.5. ***In view of above, the Authority finds no valid reason to review its HR benchmark formula and decides to maintain its earlier decision and fixes HR cost at Rs. 16,991 million i.e. DERR level (including IAS-19 cost of Rs. 1,057 million, out of which Rs. 3,089 million shall be allocated to RLNG business segment) for the said year based on existing operating parameters as provided at the time of DERR. Any adjustment based on actual operating parameters or otherwise shall be considered at the time of FRR for the said year.*** The Authority reiterates its directions to review the wide pay scales including perks and HR policies viz; club membership, tea/coffee, long service award, best option car entitlement, medical (parents) etc., failing which these costs shall be funded through company's own profits. Moreover, the Authority directs the petitioner to end the wide disparity among the pay package of the senior management when compared with junior level management/ staff. This aspect creates sheer discrimination amongst the employees of same company leading to demotivation. The above aspect needs to be considered by BOD so as to rationalize the salaries and remove such disparity while remaining within the budget already allowed.

ii. Stores Spares and Supplies Consumed

10.6. The petitioner has claimed an amount of Rs. 1,408 million as against Authority's earlier determined of Rs. 798 million for the said year. The breakup is as under: -

Table 11: Comparison of Projected Stores Spares and Supplies Consumed with Previous years.

Rs. in Million

Particulars	FY 2018-19	FY 2019-20	FY 2020-21		FY 2021-22		Inc./(Dec.) over DERR FY 2021-22	
	FRR	Actual	RERR	Actual (Un-audited)	DERR	The Petition	Rs.	%
Transmission & Compression and others	177	162	188	186	188	328	140	74
Distribution	381	325	495	413	495	824	329	66
Head Office	49	47	24	24	24	127	103	430
Freight & handling	11	15	7	7	7	21	14	193
Printing & Stationery	20	16	14	16	14	23	9	64
Gas Bills Printing Charges	64	71	70	77	70	86	16	23
Total	**702**	**637**	**798**	**723**	**798**	**1,408**	**610**	**76**

10.7. The petitioner has explained that increase under this head is mainly due to extensive UFG control activities, general inflation as well as projected increase in consumption & prices of chemical products / fuel and lubricants. The petitioner has further informed that Rs. 816 million has been envisaged for UFG control activities. Further, the petitioner has argued that gas bill printing charges is one of the most critical business services which directly contributes its cash flow as is outsourced to local vendor, who has been awarded new contract for three years with new rates due to inflationary economic factors. Therefore, reduction under this head, will be shortage of OPEX budget causing negative impact of cash flow.

10.8. The petitioner has also explained that stores and spares required to perform repair and maintenance work for achieving KMIs of UFG benchmark determined under local challenging conditions and will directly affect KMIs relating network visibility, leakage rectification, measurement errors which mainly comprises of inspection of CMS and their rectifications and abolition of theft.

10.9. The Authority notes that the petitioner has been advancing similar justification from last many years. Claiming such huge increase on account of UFG curtailment activities without tangible results merits no consideration. The Authority has always remained gracious in allowing expenditure for smooth operations of company. In view of the same as well as company's capacity of carrying out operational activities, ***the Authority decides to maintain its earlier decision. Any additional expenditure incurred by the company shall be considered at the time of FRR on the basis of prudent and rationale. The Authority, further directs the petitioner to book all UFG / KMI related expenditure under one head, so as to ascertain the company's efforts viz-a-vis results.***

iii. Meter reading by Contractors

10.10. The petitioner has stated that the Authority allowed Rs. 99 million against the demanded amount of Rs. 130 million. The petitioner has explained that increase in meter reading by contractors' expense is mainly due to the expected increase in the number of customers and revision of rates since existing contract has expired in December, 2021.

10.11. The petitioner has also explained that in compliance of Apex Court decision 64% meter readers / inspectors have been terminated from services since August 2021. Accordingly, upon service standard on monthly gas meter readings, outsourced proportion will have to increase manifold.

10.12. The Authority notes that Rs. 146 million was claimed at the time of ERR without any basis where no such circumstances in respect of outsourced of employees exists. Therefore, claiming same amount with new justification also raises question on company's state of affairs. **The Authority, considering the latest decision of supreme court for reinstatement of employees decided to maintain its earlier decision and accordingly, allows Rs. 99 million for the said year.**

iv. Bill delivery through Contractors

10.13. The petitioner has stated that the Authority allowed Rs. 124 million against the demanded amount of Rs. 145 million (Rs. 127 million for bill delivery and Rs. 18 million for postage & revenue stamps) based on anticipated activities, historical trend and general inflation. The comparison of the same is as under: -

Table 12: Comparison of Bill delivery through Contractors with Previous years.

Rs. in Million

Particulars	FY 2018-19	FY 2019-20	FY 2020-21		FY 2021-22		Inc./(Dec.) over DERR FY 2021-22	
	FRR	Actual	RERR	Actual (Un-audited)	DERR	The Petition	Rs.	%
Postage & bill delivery	228	121	113	125	124	145	21	17
Total	228	121	113	125	124	145	21	17

10.14. The petitioner has attributed the increase in postage & bill delivery by contractors to the revision of courier charges and expected enhanced activity. The petitioner has informed that the increase is due to the expected increase in customer base and rate revision and scope of work. The company also negotiate best possible rates with contractors considering their quality and reliability of services.

10.15. ***The Authority notes that no concrete justification have been provided by the petitioner. In view of the same, the Authority decides to maintain its earlier decision subject to the actualization at the time of FRR based on touchstone prudence and tangible justifications.***

v. Gas Consumed Internally (GIC)

10.16. The petitioner has stated that they had projected a GIC volume of 1,149 MMCF however, the Authority allowed 887 MMCF based on actual average volumes of FY 2017-18 and FY 2018-

19. The petitioner has added that the actual GIC projected for FY 2021-22 is less than actual incurred in FY 2020-21.

10.17. The petitioner's projected figures of 1,149 MMCF has been based on average of total actual GIC during the last four fiscal years, which is tabulated below:

MMCF

	ACTUAL FY 2017-18	ACTUAL FY 2018-19	ACTUAL FY 2019-20	ACTUAL FY 2020-21	PROJECTED FY 2021-22
Metered	783.17	1,154.79	1,087.52	1,572.69	1,149.54

10.18. The Authority in its DERR for the said year had allowed GIC volume of 887 MMCF based on average volume actually handled / compressed during last two actualized years i.e., FY 2017-18 & FY 2018-19. The petitioner has relied on the average GIC of actuals for the previous four financial years, wherein FY 2019-20 and FY 2020-21 are not final as yet. The Authority, therefore, maintains its earlier decision.

10.19. ***In view of the para 10.18 above, the Authority allows Rs. 598 million at Rs. 674.72 per MMCF for the said year.***

vi. Provision for Doubtful Debts

10.20. The petitioner has submitted that provision for doubtful debts has been claimed at Rs. 1,612 million based on disconnected consumers in the light of Authority's directions excluding Expected Credit Loss (ECL, IAS-9) for the said year.

10.21. The petitioner has argued that the Authority has been continuously deviating from its decisions. Further, company has been following the disconnection policy based on Authority's benchmark in place. However, this time the same was not even allowed. The petitioner has explained that last three years' data for disconnection and reconnection which emphasizing company's efforts is tabulated below: -

Table 13: Comparison of Provision for Doubtful Debts with Previous years.

								Rs. Million	
FY	**Disconnection**		**Reconnection**	**Payment**	**Engaged**	**Total**	**Opening**	**Addition**	**Closing**
	Nos.	Rs. Million	Nos.	Rs Million			Rs. Million		
2018-19	318,202	4,234	144,053	1,493	1,927	3,420	6,955	1,327	8,282
2019-20	267,356	3,876	132,466	1,223	1,683	2,906	8,282	893	9,175
(Un Audited) 2020-21	213,643	5,121	113,189	1,291	1,841	3,132	9,175	3,454	12,629
Total	**799,201**	**13,231**	**389,708**	**4,007**	**5,451**	**9,458**	24,412	5,674	30,086

10.22. The petitioner has explained that defaulters increased mostly during FY 2019-20 due to suspension of work during lock down period. The petitioner has also explained that recovery department has changed its policy of disconnection from disconnecting defaulter with continuous three months of default to six months of continuous default due to increase in number of defaulters and resource constraint. The petitioner has faced difficulties in recovering the dues from armed forces, rangers, police, government offices, hospital and areas where poor law and order situation persists. However, it has been trying best efforts for recovery of outstanding dues from the defaulters. In view of the same, the petitioner has requested the Authority to allow Rs. 1,612 million under the above head for the said year.

10.23. ***In view of the above, the Authority decided to allow 50% of its claim on account of disconnected consumer i.e. Rs. 806 million allowed on provisional basis for the said year. The Authority observes that above table indicates company's efforts vis-à-vis results.***

10.24. Net T&D cost before GIC is allowed at Rs. 16,532 million on provisional basis as per the table below: -

Table 14: T&D Cost Allowed by the Authority.

		Rs. in million
Particulars	**The Petition**	**As Allowed**
HR Cost	16,402	13,902
Stores, spares and supplies consumed	1,408	798
Meter reading by Contractor	146	99
Postage & bill delivery	145	124
Other Remaining T&D Cost	3,943	3,943
Sub-total Cost	**22,044**	**18,866**
Less: Recoveries / Allocations	2,333	2,333
Net T&D Cost before GIC	**19,711**	**16,532**
Add: Gas consumed internally	749	598
Net Transmission & Distribution Cost	**20,459**	**17,130**

11. Determination

11.1. In exercise of its powers under Section 8(2) of the Ordinance, the Authority determines the ERR for the said year at Rs. 266,307 million as against petitioner's claim of Rs. 269,086 million, as tabulated below:

Table 15: Components of ERR as allowed

			Rs. in million
S.No	Particulars	The Petition	As allowed
1	Cost of gas sold	243,911	247,043
2	UFG adjustment	-	(13,270)
3	Transmission and distribution cost	19,711	16,532
4	Gas internally consumed	749	598
5	Depreciation	7,317	7,024
6	UFG adjustment on RLNG volume handled basis (ring fence	(12,320)	-
7	Other charges including WPPF	1,746	940
8	Return on net average operating fixed assets	7,029	6,498
9	Additional revenue requirement for Air-Mix LPG Projects	944	942
	Total Estimated Revenue Requirement	269,086	266,307

11.2. The Authority, after taking into consideration points raised by interveners, clarifications provided by petitioner, scrutiny of petition and available record, provisionally determines shortfall in estimated revenue requirement/prescribed price for said year at Rs. 33,787 million (**Annexure-I**). Accordingly, the revenue requirement is provisionally allowed at Rs. 266,307 million for the said year and the prescribed against each category of consumers is determined per Annexure-II.

11.3. The Authority observes that FG in the past had advised insufficient revisions to OGRA in respect of natural gas sale prices and resultantly the sui companies remained unable to meet the shortfall as determined by OGRA in the respective revenue requirements. Accordingly, the backlog is persistently piling up. The Authority is of the view that FG must devise an appropriate policy regarding inclusion of previous year shortfall, so that the revenue shortfall as determined by it is fully met.

11.4. The Authority, as a matter of principle under legal domain, is of the view that all the classes of consumers should at least pay the average cost of service or the average prescribed price except wherever FG policy guidelines have been provided, which shall be implemented accordingly.

11.5. The revised provisional prescribed price determined, under Section 8(2) of the Ordinance, against each category of consumers is subject to the condition that these *"may be re-adjusted upon receipt of Federal Government advice under Section 8 (3) of the Ordinance in respect of the sale price of gas for each category of retail consumers so that the petitioner is able to achieve its total revenue requirements in accordance with Section 8 (6) (f) of the Ordinance."*

11.6. Under Section 8 (3) of the Ordinance, the FG is required to advise the Authority, within 40 days of advice from the Authority of revision of prescribed prices, the minimum charges and the sale price for each category of retail consumers, for notification in the Official Gazette by the Authority.

11.7. In view of above legal position, FG may take necessary action under Section 8 (3) of the Ordinance and advise the Authority the revised sale price for each category of retail consumers of natural gas along with minimum charges for notification in the Official Gazette within the stipulated time period.

11.8. All other directions/decision issues at DERR for the said year, unless specifically revised/amended under the RERR, shall remain in full force and effect.

12. Public Critique, Views, Concerns, Suggestions

12.1. The Authority has recorded concerns of interveners and participants in Para 3 above, which include matters relating to policy and do not fall under the purview of Authority but affect the consumers. Specific attention of FG is drawn to these issues for consideration and necessary action. The petitioner should focus and make concerted efforts on reduction of UFG, improvement of internal control systems, increase of efficiency, quality of service, emergency response plan, and effective cost control/reduction measures should be taken to remain financially viable instead of making all out of efforts to seek passing on of costs associated with its own inefficiencies, malpractices, thefts, bad debts and alike to the consumers.

Zainul Abideen Qureshi,
Member (Oil)

Muhammad Arif,
Member (Gas)

01 MAR 2022

Masroor Khan,
Chairman

A. Computation of Revised Estimated Revenue Requirement for FY 2021-22 Annexure-I

Rs. in Million

	Particulars	DERR	The Petition	The Adjustment	As Allowed
Gas sales volume -MMCF		**325,289**	**320,640**		**320,640**
	BBTU	**318,783**	**314,911**		**314,911**
"A"	**Net Operating Revenues**				
	Net sales at current prescribed price	**231,250**	**245,593**	**(18,167)**	**227,426**
	Meter rentals	1,672	1,672	-	1,672
	Amortization of deferred credit	596	596	-	596
	Sale of condensate	(5)	(5)	-	(5)
	Late payment surcharge	1,026	1,026	-	1,026
	Meter manufacturing profit	30	30	-	30
	Other operating income	1,776	1,776	-	1,776
	Total Operating Revenue "A"	**236,344**	**250,688**	**(18,167)**	**232,520**
"B"	**Less: Operating Expenses**				
	Cost of gas	**234,360**	**243,911**	3,132	**247,043**
	UFG Adjustment	(12,303)	-	(13,270)	(13,270)
	UFG adjustment on RLNG volume handled basis (ring fence)	-	(12,320)	12,320	-
	Transmission and distribution cost	16,533	19,711	(3,179)	16,532
	Gas internally consumed	546	749	(150)	598
	Depreciation	7,009	7,317	(293)	7,024
	Other charges	134	1,746	(806)	940
	Total Operating Expenses "B"	**246,279**	**261,113**	**(2,246)**	**258,867**
"C"	**Operating profit / (loss) (A-B)**	**(9,934)**	**(10,425)**	**(15,921)**	**(26,347)**
Return required on net operating fixed assets:					
Net operating fixed assets at beginning		48,068	47,944	124	48,068
Net operating fixed assets at ending		45,997	51,680	(20,948)	46,125
		94,064	**99,624**	**(5,431)**	**94,192**
Average net operating assets (I)		**47,032**	**49,812**	**(2,716)**	**47,096**
Net LPG air mix project asset at beginning		2,538	2,538	-	2,538
Net LPG air mix project asset at ending		2,457	2,457	-	2,457
		4,995	**4,995**	-	**4,995**
Average net LPG air-mix assets (II)		**2,497**	**2,497**	-	**2,497**
Net MMP at beginning		236	236	-	236
Net MMP at ending		255	255	-	255
		491	**491**	-	**491**
Average net MMP assets (III)		**245**	**245**	-	**245**
Net LHF (condensate) at beginning		7	7	-	7
Net LHF (condensate) at ending		7	7	-	7
		15	**15**	-	**15**
Average net LHF assets (IV)		7	7	-	7
Deferred credit at beginning - Assets related to Natural Gas Activity		5,271	5,258	13	5,271
Deferred credit at ending - Assets related to Natural Gas Activity		5,389	5,389		5,389
		10,660	**10,647**	**13**	**10,660**
Average net deferred credit (V)		**5,330**	**5,323**	**6**	**5,330**
"D" Average (I-II-III-IV-V)		**39,079**	**41,865**	**(2,722)**	**39,143**
	Rate of Return	**16.60%**	**16.79%**	**(0)**	**16.60%**
"E"	Return required	**6,487**	**7,029**	**(531)**	**6,498**
"F"	Shortfall / (Surplus) in return required (E-C) (Gas Operations)	**16,422**	**17,454**	**15,390**	**32,844**
"G"	Additional revenue requirement for Air-Mix LPG Projects	942	944	(2)	942
"H"	**Shortfall / (Surplus) H=(F+G)**	**17,364**	**18,399**	**15,388**	**33,787**
"I"	Increase/(decrease) in average prescribed price FY 2021-22 (Rs. / MMBTU)	**54.47**	**58.42**	**48.86**	**107.29**
"J"	**Total estimated revenue requirement**	**253,708**	**269,086**	**(2,779)**	**266,307**
"K"	**Average Prescribed Price for FY 2021 22 (Rs./MMBTU)**	**779.88**	**838.31**	**(8.83)**	**829.48**

B. Provisional Prescribed Prices for RERR FY 2021-22

Annexure-II

	Particulars	Existing Sales Price	Average Prescribed Price
		Rs/MMBTU	
(i)	**Domestic Consumers:**		
	Upto 50 M^3 per Month	121.00	829.48
	Upto 100 M^3 per Month	300.00	829.48
	Upto 200 M^3 per Month	553.00	829.48
	Upto 300 M^3 per Month	738.00	829.48
	Upto 400 M^3 per Month	1,107.00	829.48
	Over 400 M^3 per Month	1,460.00	829.48
	The billing mechnism will be revised so that the benefit of one previous / slab is available to domestic consumer (residential use.)		
(ii)	**Special Commercial Consumers (Roti Tandoors)**		
	Upto 50 M^3 per Month	110.00	829.48
	Upto 100 M^3 per Month	110.00	829.48
	Upto 200 M^3 per Month	220.00	829.48
	Upto 300 M^3 per Month	220.00	829.48
	Over 300 M^3 per Month	700.00	829.48
(iii)	**Commercial :**		
	All off-takes at flat rate of	1,283.00	829.48
(iv)	**Ice Factories:**		
	All off-takes at flat rate of	1,283.00	829.48
(v)	**Industrial:**		
	All off-takes at flat rate of	1,054.00	829.48
(vi)	**Export Oriented (General Industry)**		
	All off-takes at flat rate of	819.00	829.48
(vii)	**Export Oriented (Captive)**		
	All off-takes at flat rate of	852.00	829.48
(viii)	**Captive Power :**		
	All off-takes at flat rate of	1,087.00	829.48
(ix)	**CNG-Region-I (Balochistan):**		
	All off-takes at flat rate of	1,371.00	829.48
(x)	**CNG-Region-II (Sindh):**		
	All off-takes at flat rate of	1,350.00	829.48
(xi)	**Cement Factories:**		
	All off-takes at flat rate of	1,277.00	829.48
(xii)	**Fauji Fertilizer Bin Qasim Limited**		
	(i) For gas used as feed-stock for Fertilizer	302.00	829.48
	(ii) For gas used as fuel for generating steam and electricity and for usage in housing colonies for fertilizer factories	1,023.00	829.48
(xiii)	**Power Stations**		
	All off-takes at flat rate of	857.00	829.48
(xiv)	**Pakistan Steel**		
	All off-takes at flat rate of	1,054.00	829.48
(xv)	**Independent Power Producers**		
	All off-takes at flat rate of	857.00	829.48