Case No. OGRA-6(2)-1(4)/2022-ERR

IN THE MATTER OF

SUI NORTHERN GAS PIPELINES LIMITED
ESTIMATED REVENUE REQUIREMENT, FY 2022-23

UNDER

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

DECISION

June 03, 2022

Before:

Mr. Masroor Khan, Chairman
Mr. Muhammad Arif, Member (Gas)
Mr. Zain-ul-Abideen Qureshi, Member (Oil)

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1. Background

1.1 Sui Northern Gas Pipelines Limited (the petitioner) is a public limited company, incorporated in Pakistan, and listed on the Pakistan Stock Exchange Ltd. in Pakistan. The petitioner is operating in the provinces of Punjab, Khyber Pakhtunkhwa (KPK) and Azad Jammu & Kashmir (AJ&K) under the license granted by Oil & Gas Regulatory Authority (OGRA). However, petitioner's exclusive right to operate in the franchised areas had ended on 30th June, 2010.

1.2 The petitioner is engaged in the business of construction and operation of gas transmission and distribution pipelines and sale of natural gas. Moreover, in pursuance of Federal Government (FG/GoP) decision, the petitioner is engaged in transportation and sale of RLNG.

1.3 The petitioner filed the petition initially on January 15, 2022 for determination of estimated revenue requirement for FY 2022-23 (the said year) under Section 8(1) of the Oil & Gas Regulatory Authority Ordinance, 2002 (the Ordinance) and Rule 4(2) of the Natural Gas Tariff Rules, 2002 (NGT Rules) and subsequently filed revised its petition on February 08, 2022 and February 21, 2022 (the petition). The petitioner has claimed shortfall for the said year at Rs. 132,079 million and requested the Authority to increase its current prescribed price by Rs. 359.10/MMBTU effective July, 2022. The petitioner has also included previous years' cumulative shortfall of Rs. 431,073 million in the instant petition, requesting the Authority to allow additional increase in prescribed price by Rs. 1,531.11/MMBTU for the said year. Thus, the petitioner demanded aggregate average prescribed price at Rs. 2,074.90/MMBTU for the said year. The petitioner, through the above said price, has also claimed price differential impact of RLNG volumes projected to be diverted to domestic & commercial consumers at Rs. 33,950 million as part of instant petition.

1.4 Besides above, the petitioner has also claimed RLNG cost of service at Rs. 52,653 million i.e. Rs. 159.50/MMBTU for the said year. The petitioner has also claimed impact of diversion of RLNG to indigenous gas consumers at Rs. 109,163 million i.e. Rs. 330.68/MMBTU, thus aggregate amount of Rs. 490.18/MMBTU claimed by the petitioner for the said year.

1.5 The petitioner 's submission is summarized in the following statement of cost of service per MMBTU:

Table 1: Projected Cost of Service per Petition

PARTICULARS	The Petition			
	Transmission	Distribution	Selling	Transmission, Distribution & Sales
	Rs. in Million			
Sales Volume (BBTU)				367,806
Cost of gas sold			240,788	240,788
Operating Cost	7,412	11,183	42,852	61,447
Depriciation	3,011	19,055	460	22,526
Return on Assets	2,698	22,619	117	25,434
Subsidy for LPG Air-Mix Projects	-	411		411
UFG Adjustment			(750)	(750)
Other Operating Income	(882)	(2,967)	(13,919)	(17,768)
Total Revenue Requirement (A)	12,239	50,301	269,548	332,088
Sales Revenue at Current Prescribed Price (B)			200,009	200,009
Shortfall in Revenue Requirement for FY 2022-23	12,239	50,301	69,539	(132,079)
Current average prescribed price (Rs./ MMBTU)				543.79
Previous year Revenue Shortfall (upto RERR FY 2020-21)				(431,073)
Average Prescribed Price (Rs./ MMBTU) w.e.f July 01, 2022 Including previous year shortfall				2,074.90

1.6 The Authority admitted the petition on March 11, 2022 under Rule 5 of NGT Rules, as a prima facie case for evaluation and consideration by the Authority.

1.7 Accordingly, a Public Hearing Notice was published in the leading newspapers on March 20, 2022 under Rule 7 of NGTR, 2002 inviting interventions/ comments on the petition from the consumers, stakeholder and the general public and holding Public Hearings on 30-03-2022 and 01-04-2022 at Lahore and Peshawar, respectively. Further, comments/suggestions and participation of the 12 concerned parties were also solicited. In response thereto, the Authority received interventions requests from:

i) *All Pakistan Textile Processing Mills Association (APTPMA)*
ii) *Mr. Mahboob Elahi, Consultant, Energy and Regulatory Affairs*

2. Salient Features of the Petition

2.1. Following submissions have been made in the petition:

2.1.1. The petitioner has claimed annual return at the rate of 16.60% of the net regulated fixed assets.

2.1.2. The petitioner has claimed segregated depreciation expense on NG and RLNG sales activities for the said year.

2.1.3. The petitioner has projected Rs. 411 million against LPG Air Mix project.

2.1.4. The petitioner has projected the operating revenues at Rs. 217,777 million as per the following table:

Table2: Comparison of Projected Operating Revenues with Previous Years

Rs. In Million

Description	FY 2019-20	FY 2020-21	FY 21-22	FY 2022-23	Incr/(Decr) over RERR	
	FRR	FRR	RERR	The Petition		
Sale at current prescribed price	184,257	175,261	186,924	200,009	13,085	7%
Meter rental and service charges	2,140	3,694	4,100	4,320	220	5%
Late payment surcharge and interest on arrears	7,614	6,847	9,348	7,549	(1,799)	-19%
Amorization of deffered credit	2,369	2,426	3,660	3,089	(571)	-16%
Transportation income	-	760	450	760	310	69%
TPA imbalance charge	-	-	-	-	-	
Other operating income	1,986	1,860	1,894	2,050	156	8%
Net Operating Revenues	**198,366**	**190,848**	**206,376**	**217,777**	11,401	**6%**

2.1.5. The petitioner has projected the net operating expenses at Rs. 324,011 million, as detailed below and compared with previous years:

Table3: Comparison of Projected Operating Expenses with Previous Years

Rs. In Million

Description	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Inc/(Dec) over RERR	%age
	FRR	FRR	RERR	The Petition		
Cost of gas	196,826	179,682	183,333	240,788	**57,455**	**31%**
UFG Adjustment	(11,742)	(3,092)	(4,196)	(750)	**3,446**	**-82%**
Transmission & distribution Cost	25,404	29,346	14,644	28,729	**14,085**	**96%**
Depreciation	15,255	16,355	14,731	22,526	**7,795**	**53%**
Late Payment Surcharge (Payable) & Cost of short term borrowing	1,020	698	875	32,718	**31,843**	**3639%**
Total operating cost including cost of gas	**227,657**	**224,202**	**209,387**	**324,011**	**114,624**	**55%**

2.1.6. The petitioner has projected its indigenous Weighted Average Cost of Gas (WACOG) for the said year at Rs. 581.17/MMCF. The cost of gas is linked with international prices of crude oil (Crude) and High Sulphur Fuel Oil (HSFO) as per Gas Pricing Agreements (GPAs) executed between the producers and GoP.

2.1.7. The petitioner has requested partial recovery of price differential amount Rs. 33,950 million against diversion of RLNG volume to domestic and commercial consumers.

2.1.8. The petitioner has projected UFG at 8.24%. The petitioner has, however, restricted its UFG adjustment to Rs. 750 million as per Rule 20(1) of NGT Rules for the said year.

2.1.9. The petitioner has claimed previous years' revenue shortfall upto FY 2021-22 at Rs. 431,073 million. Accordingly, the petitioner has projected an average increase in prescribed price at Rs. 1,531.11 per MMBTU, as detailed below:

Table 4: Computation of the requested increase in Average Prescribed Price

	Description	Rs in Million
A	Net operating revenues	217,777
B	Net operating expenses including WPPF	324,011
C	Shortfall (B-A)	106,234
D	Return required @ 16.60% on net fixed assets in operation	25,434
E	Shortfall in revenue requirement (D+C)	131,668
F	Previous year Revenue shortfall upto FY 2021-22	431,073
G	Total Revenue Shortfall (E+F)	562,741
H	Addl Revenue Requirement for LPG Air mix	411
I	Sales volume (BBTU)	367,806
Increase in the average prescribed price (Rs/MMBTU) (H/I*1000)		1,531.11

3. Proceedings

3.1. Public hearings were held at Lahore and Peshawar on March 30, 2022 and April 01, 2022 respectively, participated by the following;

Public Hearing at Lahore on March 30, 2022

i) Petitioner's team led by Ali Javaid Hamdani, Managing Director.

Interveners / Participants:

i) Ghayas Abdullah Paracha, Chairman, All Pakistan CNG Association
ii) Mr. Owais Mir, Chief Executive Officer, DCA
iii) Capt. (R) Raja Shuja Anwar, All Pakistan CNG Association
iv) Sheikh Muhammad Ayub, Former Chairman, APTMA
v) Mr. Mehboob Elahi, Consultant, Energy & Regulatory Affairs

Public Hearing at Peshawar on April 01, 2022

i) Petitioner's team led by Ali Javaid Hamdani, Managing Director

Interveners / Participants:

i) Mr. Fazal Moqeem Khan, Chairman, KPK, All Pakistan CNG Association
ii) Mr. Pervaiz Khan Khattak, KPCCI, FPCCI & Focal Person APCNG Association
iii) Mr. Hafeez Ullah Khan, All Pakistan CNG Association
iv) Mr. Muhammad Kamran, All Pakistan CNG Association
v) Mr. Azam Khan, Four Star CNG, Mardan
vi) Engr. Aurangzeb Khan, Cooperative CNG Association
vii) Mr. Iftikharullah Khan, KPTMA
viii) Mr. Rafiq Ahmed Khan, Textile Sector
ix) Agha Razi Haider, Haidri CNG, Peshawar

3.2. The petitioner has made submissions in detail with the help of a multimedia presentation explaining the basis of its petition. The petitioner has responded to key issues framed by the Authority in both public hearings. The petitioner also responded to the comments, observations, objections and questions of the participants as well as the Authority. The main points of the petitioner are summarized below:

3.2.1 The petitioner has requested to allow impact of sale/diversion of RLNG molecules to domestic and commercial sectors at the beginning of the year in line with the ECC policy guidelines as its deferment at year end may cause litigation and disruption in gas supply chain.

3.2.2 The petitioner has also argued that its claim on account Transmission & Distribution costs allocation of Rs. 27,008 million for the said year is prudent and justified as company's operations are intact owing to replacement of indigenous molecules with RLNG.

3.2.3 Regarding LPS payments of Rs. 31,658 million to gas creditors, the petitioner has apprised that this is a contractual obligation of the company which it is bound to pay to gas producers under its relevant terms of its gas sale agreement. It was, therefore, requested to allow the impact on annual basis as its one-time adjustment shall abruptly change the price and impact the consumers.

3.2.4 The petitioner has also explained that its claim of Rs. 35,780 million for proposed expansion of 8,205 KM is prudent and for benefit of public at large. The proposed expansion projections are in line with the schemes already approved by the FG. The petitioner agreed that the company's exclusivity had ended in FY 2010, however, it has never objected to the laying of new network by any third party.

3.2.5 The petitioner has highlighted that it has demonstrated major UFG reduction during last couple of years and achieved the targets given to it by the FG. The proposed expenditure is required for implementation of KMIs, replacement of corroded lines, identification and rectification of underground and above ground leakages. It was argued that continuous allowance of expenditure by the Authority is required for sustainability of UFG at current level.

3.2.6 The petitioner has explained that establishment/upgradation of CSC Kamalia to Sub region at total cost of Rs. 98 million and Nankana city to Sub Region at total cost of Rs.105 million is essential as use of mobile applications of SNGPL in rural and semi urban areas is relatively low and distance of these localities from the main regions is 133 KM and 60 KM respectively. It is also a fact that Nankana city has turned into a major tourist and religious destination and as a source of generating goodwill, soft image and foreign exchange for the country.

3.2.7 The petitioner has requested to recalculate its UFG adjustment on its respective indigenous/local weighted average cost of gas in line with the license condition's 21.3. Moreover, Economic Coordination Committee had already dismantled the WACOG since FY 2018.

3.2.8 The petitioner has submitted that HR Benchmark formula has been devised without any consultation with the Sui companies as the benchmark allowed in the present formula is almost at the level of 2019-20 despite the fact that the country is facing highest inflationary period. The petitioner requested to devise new HR Benchmark formula for upcoming years on a consultative basis and till it is devised the existing benchmark be made flexible to absorb inflationary pressures or allow 12-13% annual increase.

3.2.9 The petitioner requested to allow adjustment of volumes retained by SSGC and RLNG diversion volumes upfront so that the cost of supply may be recovered on monthly basis. The petitioner urged to determine the cost of supply after adjustment of SSGC held volumes, RLNG diverted volumes and incorporation of cost of GIC used in SSGC system.

3.3. The substantive points made by the interveners during the hearings pertaining to the instant petition as well as policy matters are summarized below:

3.4.1 APTPMA representative apprised that textile printing and processing is a value addition/export sectors. These sectors provide the country with valuable foreign exchange. Company's request for increase in gas prices was opposed as it would affect the competitiveness of their products in the international market.

3.4.2 It was demanded by CNG Association that ECC decision regarding RLNG as ring fenced mechanism be implemented in true letter and spirit. Diversion of RLNG molecules to domestic and commercial was vehemently objected, being low paying category as well as effecting its RLNG supplies.

3.4.3 It was also requested to abandon the cross subsidy mechanism in natural gas sale price.

3.4.4 It was demanded that the petitioner's request for laying of pipeline in KPK may not be allowed to petitioner as the cost per consumer in KPK is on higher side as compared to Punjab.

3.4.5 It was highlighted by an Energy Expert that shortfall of the company is consistently increasing owing to insufficient gas price revision by FG. This shall lead to Company's insolvency as receivables/payables from PSO/PLL and other gas producer companies are consistently rising. It was urged that matter on previous years' revenue shortfall be resolved by the FG.

3.4.6 In KPK, it was complained by CNG sector that FBR is issuing notices to CNG consumers for non-provision of withholding tax certificates. It was informed that the petitioner is deducting the same but not providing the requisite certificate. It was demanded that the tax deduction certificates be issued by the petitioner to the CNG consumers to avoid any legal action from FBR.

3.4.7 It was highlighted that CNG sector is facing low pressure issues and faulty volumes are charged. It was demanded that petitioner be directed to resolve their issues.

3.4.8 The representative of Sarhad Chamber of Commerce demanded that CNG is high paying sector and gas should have allocated to CNG sector instead of domestic sector which is highly subsidized. This would also help to reduce the shortfall of the petitioner.

3.4.9 It was demanded that UFG of the company should be reduced to a minimum extent.

3.4.10 It was demanded that inefficiencies of petitioner be not shifted to industrial consumers including CNG.

3.4.11 It was urged that third party shipper be encouraged as it would reduce burden on general consumer through additional revenues and manage the energy supply constraints.

3.4.12 It was demanded that the petitioner should put in concerted efforts to reduce UFG to 4-5% as per international standards of the industry.

3.4.13 It was demanded that petitioner's request for increase in price be rejected by the Authority. It was further demanded that laying of new pipeline be not allowed owing to depleting gas reserves.

4. Authority's Jurisdiction and Determination Process

4.1. The Authority is obligated to determine the total revenue requirement of the licensee under Section 8(1) of the Ordinance for a particular year after going through the due process of law. This primarily involves scrutiny of the petition, in-depth analysis of the estimates, the examination of operating and capital items, issuances of the notices to receive the valuable input/comments of all stakeholders, the opportunity of a public hearing and then determination of the total revenue requirement as per mandate under the legal framework. The Authority further notes that it has been able to curtail the petitioner's uneconomical costs to a greater extent through the introduction of efficiency benchmark and effective scrutiny and diligence. Accordingly, the Authority decision surely strikes a balance among the divergent interests of all stakeholders. Total revenue requirement of the licensee determined by OGRA under Section 8(1) or 8(2) of the Ordinance is sent to FG to seek the advice regarding revision in sale price in respect of various categories of natural gas consumers.

4.2. Section 8(3) of the Ordinance empowers the FG to fix the consumer sale prices so as to ensure that revenue requirement determined by OGRA is fully met and advise OGRA the revision in gas sale prices and minimum charges in respect of natural gas retail consumers for notification in the official gazette. Accordingly, FG, keeping in view economic indicators, policy considerations in terms of uniform pricing across the country, Gas Development Surcharge and the inter category subsidies, etc. advises the gas sales prices and minimum charges for each retail category to OGRA. The same is notified in the official gazette.

4.3. 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. The Authority, in the instant determination as well as previous decision, has already referred as the matter of previous year's shortfall to FG for an appropriate policy decision through which MoE needs to devise a mechanism for direct disbursement to sui companies without affecting the revenue requirement exercise and process for future determinations under the instant amendments. Any inclusion of previous years' shortfall by FG, after latest amendments, shall not only jack up the price significantly for all categories of consumers but also attract litigation in various courts. It is appropriate that the said legislation should only account for the future price adjustment on prospective basis.

4.1. 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. Resultantly, there shall be no situation of unmet revenue requirement. This shall provide a level playing field for all concerned and avoid the situation of revenue shortfall.

4.2. ***Various income & expenditure heads have been included as part of the prescribed price in the light of latest tariff regime implemented since FY 2018-19.***

5. Operating Fixed Assets

5.1. Summary of Additions During the Year

5.1.1. The petitioner, in the instant petition segregated its indigenous and RLNG business into transmission, distribution and sales activities. The petitioner has projected separately gross addition and claimed depreciation expenses against the operating fixed assets for the said year. Summary of the additions in assets claimed by the petitioner in the instant petition is as under;

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Sr. No.	Particulars	Petition FY 2022-23 (Rs. Million)											
		Distribution			Transmission			Sales			Total		
		Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total
1	Land freehold	–	–	–	25	15	40	–	–	–	25	15	40
2	Building on Freehold land	423	–	423	–	–	–	–	–	–	423	–	423
3	Transmission Mains	–	–	–	1460	–	1460	–	–	–	1460	–	1460
4	Compression	–	–	–	481	–	481	–	–	–	481	–	481
5	Distribution Mains	44462	6013	50474	–	–	–	–	–	–	44462	6013	50474
6	Measuring and Regulating	7868	338	8205	–	–	–	–	–	–	7868	338	8205
	Sub Total	**52752**	**6350**	**59102**	**1966**	**15**	**1981**	–	–	–	**54718**	**6365**	**61083**
7	Telecommunication Equipment	–	–	–	50	–	50	–	–	–	50	–	50
8	Plant & Machinery	1047	–	1047	615	–	615	64	–	64	1727	–	1727
9	Tools & Equipment	115	–	115	5	–	5	0	–	0	120	–	120
10	Construction Equipment	363	–	363	7	–	7	–	–	–	370	–	370
11	Motor Vehicles	300	–	300	–	–	–	–	–	–	300	–	300
12	Furniture & Fixture	50	–	50	–	–	–	–	–	–	50	–	50
13	Office Equipment	–	–	–	–	–	–	60	–	60	60	–	60
14	Computer Hardware	–	–	–	30	–	30	745	–	745	775	–	775
15	Computer System Software / Intangible Assets	–	–	–	5	–	5	360	–	360	365	–	365
16	SCADA System	–	–	–	–	–	–	–	–	–	–	–	–
	Sub Total	**1875**	–	**1875**	**712**	–	**712**	**1229**	–	**1229**	**3817**	–	**3817**
	Grand Total	**54627**	**6350**	**60977**	**2678**	**15**	**2693**	**1229**	–	**1229**	**58535**	**6365**	**64900**

5.2. Land Freehold

5.2.1. The petitioner has projected Rs. 40 million in respect of land freehold relating to transmission activities for the said year. The petitioner has submitted that out of the total projected amount, Rs. 25 million is for purchase of land required for modification of SMSs whereas, remaining projected amount of Rs. 15 million is for purchase of land outside N5 Okara repeater station for protection of buried pipelines relating to Phase-II of LNG infrastructure project from third-party threat. ***The Authority, keeping in view the submissions of the petitioner and operational requirements, principally allows Rs. 40 million under the head for the said year. However, the amount allowed in respect of RLNG system shall be treated under ring fenced mechanism as per policy of GOP regarding RLNG/ECC decision.***

5.3. Building on Freehold Land:

5.3.1. The petitioner has projected Rs. 423 million pertaining to distribution activities.

5.4. Regular Capital Expenditure:

5.4.1.1. The petitioner has projected Rs. 300 million in respect of various construction works mainly relating to drainage system at Gujranwala, construction of first floor at RMS Islamabad, shifting of fire hydrant room at Abbottabad, demolishing of stores & its construction at regional office Gujranwala, construction of store at transmission HQ Faisalabad, replacement of sewerage & water supply lines, construction of office building at Manga & shed at Faisalabad, construction of boundary walls at RMS Islamabad, construction of HSE department at regional office Faisalabad, 02 Nos. meter halls at

Regional Meter Workshop Multan etc. The petitioner has explained that the budget is essentially required for emergency situation, security & storage purposes, maintenance works and to bring improvements at different regional offices. ***Keeping in view the justifications provided by the petitioner and the ability of the petitioner to execute such jobs, the Authority provisionally allows Rs. 123 million in respect of regular capital expenditure relating to building on freehold land.***

5.5. Power Generation and HVAC System at Head Office:

5.5.1.1. The petitioner has projected Rs. 123 million in respect of replacement of Power Generation & Heating Ventilation and Air Conditioning (HVAC) System at Head Office and apprised that the project has been approved in the 583rd meeting of the Board of Directors (BOD) held on 08.02.2022 at the estimated budget of Rs. 580 million. The petitioner has explained that out of the total projected amount, Rs. 556 million relates to replacement of HVAC at company's owned plot adjacent to head office building along with construction of five storey building covering three floors for office space, ground floor for lobby and basement for equipment. The projected amount also includes Rs. 24 million for award of contract for stage II & III of the project to M/s NESPAK for preparation of detail engineering, project specification, tender documents, contract supervision, execution consultancy & resident supervision.

5.5.1.2. The petitioner has stated that the current system was installed thirty-three (33) years ago and has outlived its useful economic life. The petitioner while highlighting the increase in requirement of electric power and air conditioning has added that a Hazard and Operability Analysis (HAZOP) study was carried out by a reputed third-party, which declared the installed system as a potential hazard due to presence of high-pressure equipment (150 Psig).

5.5.1.3. The Authority notes that as per the agenda of the petitioner's Finance and Procurement (F&P) Committee of its 325th meeting, estimated capital expenditures amounting to Rs. 521 million for the said project were recommended. The estimated cost for the project was later on revised/ increased to Rs. 556 million as per recommendations of F&P Committee in its subsequent 326th meeting. The petitioner in respect of increase in estimates by Rs. 35 million has apprised that as pointed out by F&PC, BOD has directed to include the estimated amount of Rs. 35 million to explore the possibilities for energy conservation like installation of solar panels as green building initiatives and reduction in electricity generation cost. Subsequently, project was approved by BOD of the petitioner with additional amount of Rs. 35 million.

5.5.1.4. ***In view of the foregoing and keeping in view the operational requirement, the Authority principally allows capital expenditure of Rs. 556 million along with Rs. 24 million for award of contract for stage II & III of the project as approved by the petitioner's BOD. Moreover, any prudently incurred expenses shall be considered at the time of FRR for the said year provided the same is within the amount per ERR petition.***

5.5.2. The summary of capitalization allowed by the Authority is as under;

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BUILDING ON FREE HOLD LAND (Rs. In Millions)																									
No	Description	Petition												Allowed											
		Distribution			Transmission			Sales			Total			Distribution			Transmission			Sales			Total		
		Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total
1	Regular Capital Expenditure	300	-	300	-	-	-	-	-	-	300	-	300	123	-	123	-	-	-	-	-	-	123	-	123
2	Power Generation and HVAC System at Head Office	123	-	123	-	-	-	-	-	-	123	-	123	-	-	-	-	-	-	-	-	-	-	-	-
	Total	423	-	423	-	-	-	-	-	-	423	-	423	123	-	123	-	-	-	-	-	-	123	-	123

5.6. Transmission Mains:

5.6.1. The petitioner has projected Rs. 1,460 million in respect of transmission mains as per following sub-heads;

5.6.2. Cathodic Protection:

5.6.2.1. The petitioner has projected Rs. 510 million for installation of 54 Nos. of Cathodic Protection (CP) stations and renovation/ relocation of ground beds at 130 Nos. of CP stations. The petitioner has explained that currently a total of 1,865 CP stations have been installed on its distribution (1,683) and transmission (182) network whereas unit cost of construction of new CP station is Rs. 3 million while that of renovation is Rs. 2.7 million. The petitioner has highlighted that construction/renovation of CP station involves 70% (approx.) procurement of imported material whose prices are directly affected by increase / fluctuations in USD to PKR currency exchange rate and remaining 30 % cost incurred for execution of site work from third party/ contractors. The petitioner has further submitted that the projection has been based on the escalation in material cost, de-valuation of Pak rupees and increase in execution cost.

5.6.2.2. The Authority notes that petitioner has been able to install at an average of around 34 Nos and renovate around 78 Nos CP stations during last four-year years. Moreover, the Authority observes that cathodic protection is important for 24/7 maintenance & mitigation process of underground pipeline against corrosion and is an essential operational requirement. ***The Authority, keeping in view the submissions of the petitioner and ability of petitioner to execute such projects, provisionally allows Rs. 313 million in respect of CP system for the said year.***

5.7. Construction / Upgradation/ Purchase of Land for SMSs:

5.7.1.1. The petitioner has projected Rs. 400 million for construction/ upgradation/ purchase of land for SMSs. The petitioner has apprised that the budget is proposed for purchase of land/upgradation/ construction of SMSs in respect of ongoing/ new distribution development schemes and is essentially required for commissioning and capitalization of newly laid distribution network. The petitioner has explained that currently eight (08) jobs are in hand out of which 6 Nos. of jobs relates to modification of SMS to cater for anticipated load whereas, remaining 2 Nos. of jobs involve construction of new SMSs. The petitioner has also added that land for any new schemes approved during the current year will also be procured from the budget proposed under the head. The Authority observes that budget amounting to Rs. 887 million has remained un-utilized in respect of previous years and actual capitalization remained on lower side. Moreover, the

Authority notes that the petitioner has been able to capitalize only Rs. 128 million in respect of construction of SMS during FY 2020-21 that further indicates that physical and financial capacity of company are not accounted for by the petitioner while projecting exaggerated figures at ERR stage. ***In view of the foregoing and keeping in view the operational requirement, the Authority provisionally allows the projected amount in principle for construction of SMSs with specific directions to execute incomplete/ earlier approved tasks during the said year.***

5.8. Rehabilitation of Transmission System/ Upgradation of SMS:

5.8.1.1. The petitioner has projected Rs. 550 million under the head that includes Rs. 342 million for rehabilitation of transmission system and Rs. 208 million for upgradation of SMSs. The petitioner has submitted that rehabilitation of transmission system is required for carrying out jobs such as lowering of lines, construction of retaining walls, civil protective works for protection against erosion due to rain and replacement of defective equipment at different valve assemblies (V/A) and SMSs. Moreover, the petitioner has further stated that projected budget for modification/ upgradation of SMSs is required for 5 Nos. jobs at various SMSs that include installation of filter separators, upgradation of regulation facility and upgradation of measuring & regulating equipment to cater for enhanced gas load. ***In view of the submissions of the petitioner and keeping in view the actual performance of petitioner in previous years on this account, the Authority provisionally allows Rs. 187 million on account of rehabilitation of transmission system/ upgradation of SMS for the said year***

5.8.2. The summary of capitalization allowed by the Authority is as under;

TRANSMISSION (Rs. In Millions)

No.	Description	Petition												Allowed											
		Distribution			Transmission			Sales			Total			Distribution			Transmission			Sales			Total		
		Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total
1	Cathodic Protection System (CP System)	-	-	-	510	-	510	-	-	-	510	-	510	-	-	-	313	-	313	-	-	-	313	-	313
2	Construction / Upgradation /Purchase of Land for SMS	-	-	-	400	-	400	-	-	-	400	-	400	-	-	-	-	-	-	-	-	-	-	-	-
3	Rehabilitation of Transmission System (Modification / upgrations of SMSs etc.)	-	-	-	550	-	550	-	-	-	550	-	550	-	-	-	187	-	187	-	-	-	187	-	187
	Total	-	-	-	1460	-	1460	-	-	-	1460	-	1460	-	-	-	499	-	499	-	-	-	499	-	499

5.9. Compression:

5.9.1. The petitioner has projected Rs. 481 million as second tranche in respect of compression overhauling project to be executed during FY 2021-22 to FY 2025-26. The Authority notes that the petitioner vide its RERR 2021-22 had requested for approval of the whole project in principle, however, the Authority pended the decision in respect of approving the project as a whole with the directions to the petitioner that approval for such project be submitted upon completion of earlier approved compression overhaul project.

5.9.2. In addition to above, the petitioner vide letter dated 25.03.2022 while providing the reasons for delay in completion of annual targets against earlier approved compressor overhaul project for FY 2016-21 has added that overhaul project against the budget of particular year takes approximately two years to complete the work as the procurement

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process of spare parts takes about 16 to 18 months. The petitioner has also provided the status of first tranche i.e., 2021-22 of the said project and confirmed that subsequent to initiation of due process, spares will be received during FY 2022-23 and accordingly, overhauling target will be achieved within due date. The petitioner further added that delayed overhauling activity may drastically impact the availability of turbine engines in the field and ultimately affecting the operation of compressor. Accordingly, the petitioner has requested the Authority to accord approval of 5 years overhauling gas compressors project (FY 2021-22 to 2025-26) to avoid delays in spares procurement and overhauling process.

5.9.3. The Authority notes that compressor overhaul projects are significant to maintain system balance especially under the prevailing situation of gas demand & supply gap throughout the country and anticipated future supplies, specifically in respect of RLNG from southern sources. ***In view of the foregoing and keeping in view the operational requirement, the Authority provisionally allows the compression overhauling project for FY 2021-22 to 2025-26 in principle with the directions to the petitioner to enhance its efforts to complete earlier approved compression overhauling project during FY 2021-22. Moreover, any prudently incurred expenses shall be considered at the time of FRR for the said year provided the same is within the amount per ERR petition. In addition, the petitioner is required to comply with the following:***

i. ***The cost incurred on the project shall be certified by the Company's external auditor including a certificate to the effect that all materials and equipments have been procured in a competitive and transparent manner in line with PPRA Rules.***

ii. ***A comprehensive progress report indicating the executed project activities be submitted at the time FRR of the respective year. Moreover, on completion of the project, overall report on implementation status is also required to be submitted to Authority.***

iii. ***The petitioner shall project separate budget w.r.t. overhauling compressor project in its respective petitions for revenue requirement, as per implementation schedule/ progress.***

5.10. Distribution Development:

5.10.1. The petitioner has projected Rs. 50,474 million in respect of distribution development as per following sub-heads.

5.11. Laying of Distribution Mains:

5.11.1.1. The petitioner has projected Rs. 35,760 million for laying of 8,205 KMs of distribution lines as per details given below;

Breakup of Distribution Lines				
Head	KMs	Cost (Rs. In Million)		
		Normal	RLNG	Total
Anticipated Scheme	6,000	25,000		25,000
Augmentation	290	2,900		2,900
Combing Mains	300	860		860
Cost Recovery Jobs	1,615	1,400	5,600	7,000
Total	8,205	30,160	5,600	35,760

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5.11.1.2. The petitioner has submitted that Rs. 25 billion has been proposed for laying of 6,000 KM network in FY 2022-23, which will be executed subject to GoP directions regarding moratorium. The petitioner has highlighted that an amount of Rs. 42.093 billion was proposed for laying of 11,500 kms network in the ERR 2021-22 which was principally approved by OGRA in its decision dated 17.08.2021, with caveat of availability of additional indigenous gas. The petitioner has further stated that subsequent to OGRA decision, the Government while taking cognizance of wide gap in gas supply and demand has imposed moratorium on expansion in domestic gas network, therefore, work on all gas schemes in pipeline or approved are on halt unless the issues of gas availability and price distortion are addressed. The petitioner has apprised that budget for new towns and villages is being proposed for FY 2022-23 as back-up plan to meet the budgetary requirements in case of waiver of moratorium by the GoP.

5.11.1.3. The petitioner while providing the overall details of approved/ pending schemes has added that any new schemes approved and prioritized by the government shall also be adjusted from the same allocated budget. Moreover, the petitioner has also mentioned that the policy guidelines have also been solicited from GoP, Ministry of Energy (Petroleum Division) to prioritize the schemes for implementation, being prerogative of the Government.

5.11.1.4. The petitioner has also projected Rs. 2,900 million in respect of laying of 290 KMs of distribution mains against system augmentation and Rs. 860 million for laying of 300 Kms of combing mains. In addition, Rs. 7,000 million has been projected against laying of 1,615 KMs of distribution mains on cost sharing basis that includes Rs. 1,400 million for laying of 323 Km mains for indigenous system and Rs. 5,600 million for laying of 1,292 Km mains against RLNG system.

5.11.1.5. The Authority hereby refers to its earlier decision dt 17.08.2021 in the matter of DERR FY 2021-22 and reiterates that petitioner must submit rational and doable proposal/ budget before the Authority and being a public utility company should ensure cost effectiveness and prudence in expenditures. In Distribution Development head only, an amount of Rs. 15.8 billion has remained unutilized though the same was computed after rationalizing/ reducing exaggerated claim of petitioner.

5.11.1.6. Moreover, the petitioner must follow good corporate governance processes and practices by ensuring transparency in its functions whereby the Authority has repeatedly directed the petitioner to develop computerized data, clearly showing progress of ongoing & pending gas development schemes/ application for gas connections and providing complete details. However, the same is still required to be implemented in true letter and spirit. The Authority also notes that the petitioner has tendency of executing multiple distribution development projects in parallel leaving old schemes/ works unattended that leads to theft and compromising pipeline integrity. The petitioner appears to intentionally delay implementation of computerized database to hold its discretion in execution of projects.

5.11.1.7. It is observed that the Authority while keeping in view the current energy crises prevailing in the country and considering all aspects, has already devised a proper framework in DERR 2021-22, for execution of distribution development projects. The Authority notes that the petitioner has not submitted proper compliance on the conditions of the said framework till date.

5.11.1.8. In addition, the Authority vide its earlier decisions has given its consistent stance that petitioner no more holds exclusive rights to operate in its franchise area post 30th June 2010 and has also referred the matter to FG for policy guidelines so as to encourage competition, increase investment & opportunities in sector. The said policy guidelines are still awaited.

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5.11.1.9. ***In view of the facts mentioned above, the Authority while directing the petitioner to take up the matter with FG for issuance of requisite policy guidelines relating to distribution development, principally allows laying of distribution mains subject to compliance of conditions as per framework devised by the Authority vide DERR 2021-22 [Para 5.17.6].***

5.11.1.10. ***However, in respect of distribution mains relating to cost recovery jobs, the Authority allows Rs. 7,000 million as projected by the petitioner and directs to ensure compliance of conditions as per framework devised by the Authority vide DERR 2021-22 [Para 5.17.6]. Moreover, the petitioner shall not be entitled to rate of return on the said capitalization and the amount allowed against RLNG shall also be treated under RLNG ring fenced mechanism.***

5.12. System Rehabilitation:

5.12.1.1. The petitioner has projected Rs. 4,790 million for replacement of underground network/ system rehabilitation. The petitioner has submitted that gas leakages are one of the important UFG contributing factors and efforts have been enhanced against leakage control through increased replacement of leaking underground network. The petitioner has added that the target for FY 2022-23 has been set at 1,278 KMs and amount in this respect has been projected through escalation against unit construction rates, pertaining to current FY 2021-22. ***The Authority, keeping in view the operational requirement has rationalized the projected amount in line with the ability of the petitioner to execute such jobs and provisionally allows Rs. 745 million under the head for the said year.***

5.13. Service Lines for New Connections (Domestic and Ring Fenced):

5.13.1.1. The petitioner in respect of service lines has projected Rs. 3,548 million for provision of 400,000 domestic connections relating to indigenous system and Rs. 413 million for installation of 2,800 commercial & 250 industrial connections under RLNG ring fenced mechanism.

5.13.1.2. The Authority observes that the petitioner has tendency of projecting exaggerated figures at ERR stage without considering its actual physical/ financial capacity and also has never been able to achieve the targets in respect of installation of domestic gas connections as demanded by it. The pendency of more than 3.5 million connections substantiates the slow/ delayed progress of the petitioner on this account. Moreover, the Authority notes that the petitioner has not provided the breakup of projected Nos. of connections in terms of installation on existing network and the connections that shall be installed against new schemes.

5.13.1.3. ***In view of the above and keeping in view the submission of the petitioner related to distribution development budget of new towns and villages, the Authority principally allows installation of gas connections subject to compliance of conditions as per framework devised by the Authority vide DERR 2021-22 (Para 5.17.6).***

5.13.1.4. ***In addition to above, the Authority provisionally allows Rs. 413 million for 2,800 commercials and 250 industrial connections and this amount is ring fenced a per the policy of the GoP regarding RLNG/ ECC decision.***

5.14. UFG Control Activities:

5.14.1.1. The petitioner has projected Rs. 768 million for rectification and identification of underground leakages. The projected amount includes Rs. 603 million for underground leakage rectification and Rs. 165 million for underground leakage identification using laser leak detection equipment. The petitioner has submitted that around 45,000 Km network will have to be surveyed to identify the estimated number of 53,500 leak points during the said year

5.14.1.2. The Authority observes that leakage identification and replacement is a key activity to control gas losses and required to be carried out, as a major operational responsibility of the petitioner. Moreover, the Authority has always emphasized that realistic target, keeping in view the ability to undertake such tasks should be estimated to avoid unnecessary cost impacts on the consumers. ***In view of the foregoing and keeping in view past performance of the petitioner, the Authority provisionally allows Rs. 284 million under the head of UFG control activities for the said year. Moreover, the Authority further directs the petitioner to primarily focus on high UFG prone areas and submit region wise volumetric leakage reduction achieved due to said activity at the time of FRR for the said year.***

5.14.2. **Augmentation/ Bifurcation of Gas Network of Islamabad & Rawalpindi Regions:**

5.14.2.1. The petitioner has projected Rs. 2,961 million for augmentation/ bifurcation of gas network of Islamabad & Rawalpindi regions and added that BOD accorded approval of the project in its 583rd meeting held on 08-02-2022. The petitioner has explained that Islamabad and Rawalpindi are being supplied gas through SMS Rawat (50 MMCFD), SMS Ranyal (150 MMCFD) and SMS Naugazi (100 MMCFD) with a distribution network of around 20,000 KM that was laid 40 years ago, serving around 650,000 consumers. The petitioner has explained that operation of this network at higher pressure to address low pressure issues, makes the system vulnerable to any unsafe situation. Moreover, the petitioner has also apprised that list of low-pressure areas in the twin cities is only going to expand unless remedial measures are taken.

5.14.2.2. The petitioner has stated that detailed site surveys and comprehensive analysis/ simulation studies have been conducted to plan the bifurcation of distribution networks of both the cities and to alleviate low pressure issues during peak winter season. As per plan, following distribution mains have been proposed;

Sr No.	Line Description	Diameter (inch)	Approximate Length (KM)	Cost (Rs. Million)
1	Commissioner Office to Convention Centre, Srinagar Highway	24	11	1,050
2	Serena Hotel to Trail-3 Parking	24	4.5	407
3	PTA HQ to HBL Tower	10	0.85	19
4	SMS Bara Kahu to Athal Chowk	16	15	775
5	SMS Ranyal to RS Siham	18	13.65	711
Total			**45**	**2,961**
Tentative Completion period is 1.5 years				

5.14.2.3. The petitioner added that construction of new distribution supply mains shall facilitate efficient supply of gas to deprived tail end consumers, improve measurement accuracy, ease of operation, simpler load reconciliation etc. Moreover, the petitioner also highlighted that multiple feed points and supply mains shall help to operate the gas distribution network on low pressure. ***The Authority keeping in view the justification***

provided by the petitioner and operational requirement provisionally allows the said project in principle with the directions to complete the same during the said year. However, any prudently incurred expenses shall be considered at the time of FRR for the said year provided the same is within the estimated amount. Moreover, the petitioner must ensure that implementation of this project shall resolve all low-pressure issues being faced in Rawalpindi and Islamabad.

5.15. Segmentation of Looped SMSs:

5.15.1.1. The petitioner has projected Rs. 2,235 million for Phase-2 of segmentation of looped SMSs.

5.15.1.2. The petitioner has submitted that Phase-I of the project amounting to Rs. 1,866 million was approved by OGRA in principle through ERR FY 2021-22 and so far, 7.3 Km of different diameter network has been laid. Moreover, the petitioner has apprised that different activities including material procurement, issuance of job numbers, approval of NOCs for road cut has been initiated and currently, site work pertaining to Phase- I is underway against those cases in which required NOCs for road cuts have been granted by different external agencies.

5.15.1.3. The petitioner has requested the Authority to accord approval against Phase-2 of the project so that material procurement is initiated, since it takes considerable time for delivery of larger diameter pipe, valves and fittings etc. The region wise summary of Phase-2 of the project is as follows;

Region	**Number of SMS Clusters**	**Total Number of SMSs in Cluster**	**Estimated Cost of Segmentation/ De-looping (Rs. Million)**
Lahore	1	3	1,246.79
Peshawar	2	9	126.53
Sialkot	1	3	835.43
Islamabad	1	2	0.50
Mardan	1	2	-
Rawalpindi	1	3	0.20
Multan	1	2	25.81
Total	**8**	**24**	**2,235.26**

5.15.1.4. The Authority notes that isolation of looped SMSs will be beneficial in optimum operation of gas network, reducing leakages and segregation of different areas for better operation of the system. ***In view of foregoing, the Authority keeping in view the operational requirement and justification provided by the petitioner allows Phase-2 of the project in principle with the directions to complete the phase-2 of the project during the said year. However, any prudently incurred expenses shall be considered at the time of FRR for the said year provided the same is within the estimated amount.***

5.15.2. The summary of capitalization allowed by the Authority under the head is as follows;

No.	Description	DISTRIBUTION DEVELOPMENT (Rs. In Millions)																							
		Petition												Allowed											
		Distribution			Transmission			Sales			Total			Distribution			Transmission			Sales			Total		
		Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total
1	Laying of Distribution Mains (New Town)	25000	-	25000	-	-	-	-	-	-	25000	-	25000	-	-	-	-	-	-	-	-	-	-	-	-
2	Laying of Distribution Mains (Combing Mains)	860	-	860	-	-	-	-	-	-	860	-	860	-	-	-	-	-	-	-	-	-	-	-	-
3	Laying of Distribution Mains (Cost Sharing Basis)	1400	5600	7000	-	-	-	-	-	-	1400	5600	7000	1400	5600	7000	-	-	-	-	-	-	1400	5600	7000
4	Laying of Distribution Mains (System Augmentation/ H.O)	2900	-	2900	-	-	-	-	-	-	2900	-	2900	-	-	-	-	-	-	-	-	-	-	-	-
5	System Rehabilitation	4790	-	4790	-	-	-	-	-	-	4790	-	4790	745	-	745	-	-	-	-	-	-	745	-	745
6	Service Lines Domestic	3548	-	3548	-	-	-	-	-	-	3548	-	3548	-	-	-	-	-	-	-	-	-	-	-	-
7	Service Lines Industrial/commercial (Ring Fenced)	-	413	413	-	-	-	-	-	-	-	413	413	-	413	413	-	-	-	-	-	-	-	413	413
8	Underground Leakage Rectification	603	-	603	-	-	-	-	-	-	603	-	603	284	-	284	-	-	-	-	-	-	284	-	284
9	Underground Leakage Identification (Laser Leak)	165	-	165	-	-	-	-	-	-	165	-	165		-		-	-	-	-	-	-		-	
10	Augmentation / Bifurcation of Gas Network of Islamabad & Rawalpindi Regions	2961	-	2961	-	-	-	-	-	-	2961	-	2961	-	-	-	-	-	-	-	-	-	-	-	-
11	Segmentation of Looped SMS Cluster (Phase-2)	2235	-	2235	-	-	-	-	-	-	2235	-	2235	-	-	-	-	-	-	-	-	-	-	-	-
	Grand Total	44462	6013	50474	-	-	-	-	-	-	44462	6013	50474	2429	6013	8442	-	-	-	-	-	-	2429	6013	8442

5.16. Measuring & Regulating:

5.16.1. The petitioner has projected Rs. 8,205 million in respect of measuring and regulating as per following sub-heads;

5.16.2. **Installation of New Connections:**

5.16.2.1. The petitioner has projected Rs. 2,902.5 million for installation of 400,000 domestic connections in respect of indigenous system and Rs. 337.5 million for installation of 2,800 commercial & 250 industrial connections under ring-fenced mechanism.

5.16.2.2. ***As discussed earlier, the Authority principally allows installation of gas connections subject to compliance of conditions as per framework devised by the Authority vide DERR 2021-22 (Para 5.17.6).***

5.16.2.3. ***The Authority also provisionally allows the projected amount of Rs. 337.5 million for 2,800 commercials and 250 industrial connections under ring-fenced mechanism as per the policy of the GOP regarding RLNG/ ECC decision.***

5.16.3. **Construction of TBSs and DRSs:**

5.16.3.1. The petitioner has projected Rs. 660 million for construction of TBSs/ DRSs and modification of existing DRSs in respect of 250 jobs. The petitioner has submitted that budget has been projected for commissioning of already sanctioned/laid lines as well as for pending schemes approved under GOP directives against which 6,000 kms network has been proposed for FY 2022-23.

5.16.3.2. The Authority observes that expenditure amounting to Rs. 1,432 million has remained unutilized in respect of previous years though it has already been allowed to the petitioner in respective years as part of estimated prescribed prices. The Authority, however, notes that installation of TBS is essential for commissioning of already laid network and to address low pressure problem under the prevailing energy crises in the country. ***Accordingly, the Authority keeping in view the operational requirement allows in principle the construction/ modification of TBS/ DRS and actual expense incurred will be considered at the time of FRR for the said year provided the same is within the amount per ERR petition. The Authority further directs the petitioner to execute incomplete/ earlier approved jobs in respect of previous years on priority.***

5.16.4. **Replacement of Old Meters:**

5.16.4.1. The petitioner has projected Rs. 3,900 million for replacement of 909,828 defective/undersized/ old meters (Industrial/ Commercial/ Domestic). The petitioner plans to replace 900,000 domestic, 5,250 commercials and 1,078 industrial meters along with 3,500 electronic volume correctors (EVCs) during the said year.

5.16.4.2. The Authority observes that the petitioner has tendency of projecting exaggerated figures at ERR stage without considering its actual physical and financial capacity. The Authority further notes that the petitioner annually replaces at an average around 600,000 old/ defective/ undersized meters.

5.16.4.3. The Authority, however notes that the activity is essential for ensuring measurement accuracy and detection of gas theft cases through replacement of suspected, tampered, defective and scheduled replacement of meters. Moreover, under the provisions of OGRA Natural Gas Measurement (Technical Standards) Regulations, 2019, the periodic accuracy of gas meter is to be checked atleast once in 15 years in case of domestic consumers, at least once in 5 years in case of commercial consumers and once in two years in case of industrial consumers

5.16.4.4. ***In view of the above and considering the importance of accurate measurement and billing, the Authority provisionally allows Rs. 2,590 million in respect of replacement of old/ defective/ under sized meters for the said year***

5.16.5. TBSs Installation on Operational Grounds:

5.16.5.1. The petitioner has projected Rs. 65 million for installation of TBSs to meet the operational requirements for segmentation of areas to identify the UFG prone areas.

5.16.5.2. The Authority observes that the installation of TBS/ DRS has already been discussed under the respective head of construction of TBS. ***In view of the foregoing, the Authority, does not allow any amount in respect of installation of TBSs on operational grounds.***

5.16.6. Installation of Cyber Locks on All Industrial Connections:

5.16.6.1. The petitioner has projected Rs. 340 million for installation of 3,968 Nos of cyber locks on all industrial connections as approved by its BOD.

5.16.6.2. The petitioner has explained that the conventional technology used to restrict unauthorized access to CMS was to secure the CMS by installing master locks accessible through master key and lately locks having unique keys are being used. However, it was experienced over the years that consumers either damage the installed locks or manage to get duplicate keys for which expertise are easily available in open market. The petitioner has added that in order to restrict authorized access to CMSs and to further augment efforts against gas theft, 200 Cyber Locks have recently been installed at around 200 tampering prone Industrial Consumers, during current financial year having following key features:

i. Programmable lock/key

ii. Key is enabled to access CMS only for a limited time, after which it is automatically disabled.

iii. Key can be configured only for a specific CMS and will remain disabled for other CMSs.

iv. The data from the Cyber key is retrievable to ascertain its usage etc.

5.16.6.3. The petitioner has stated that no tampering attempt along with damage to lock has been reported in respect of premises where cyber locks were installed. Accordingly, the petitioner in view of the satisfactory results intends to install cyber locks on all industrial CMSs. ***In view of the foregoing and keeping in view operational requirement,***

the Authority allows the installation of cyber locks on industrial connections in principle provided the same is within amount per ERR petition.

5.16.7. The summary of capitalization allowed by the Authority under the head is as follows;

No.	Description	MEASURING & REGULATING (Rs. In Millions)																							
		Petition												Allowed											
		Distribution			Transmission			Sales			Total			Distribution			Transmission			Sales			Total		
		Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total
1	New Domestic Connections	2903	-	2903	-	-	-	-	-	-	2903	-	2903	-	-	-	-	-	-	-	-	-	-	-	-
2	Industrial/ Commercial Connections CMS (Ring Fenced)	-	338	338	-	-	-	-	-	-	-	338	338	-	338	338	-	-	-	-	-	-	-	338	338
3	Construction of TBSs/DRSs (250)	660	-	660	-	-	-	-	-	-	660	-	660	-	-	-	-	-	-	-	-	-	-	-	-
4	Replacement of Old Meters (909,828)	3900	-	3900	-	-	-	-	-	-	3900	-	3900	2590	-	2590	-	-	-	-	-	-	2590	-	2590
5	Installation of TBS on Operational Grounds	65	-	65	-	-	-	-	-	-	65	-	65	-	-	-	-	-	-	-	-	-	-	-	-
6	Installation of Cyber Locks at all Industrial Connections	340	-	340	-	-	-	-	-	-	340	-	340	-	-	-	-	-	-	-	-	-	-	-	-
	Grand Total	7868	338	8205	-	-	-	-	-	-	7868	338	8205	2590	338	2927	-	-	-	-	-	-	2590	338	2927

5.17. Plant & Machinery, Equipment and Other Assets:

5.17.1. The petitioner in respect of Plant & Machinery, equipment & other assets has projected Rs. 3,817 million that includes Rs. 1,875 for distribution, Rs. 712 million for transmission and Rs. 1,229 million relating to sales activities respectively, as per following sub-heads;

5.17.2. Telecommunication Equipment:

5.17.2.1. The petitioner has projected Rs. 50 million in respect of telecommunication equipment relating to transmission activities. The amount has been projected for procurement of digital device communicators, data radio links, walkie talkie sets and other telecommunication equipment. The Authority observes that advanced and reliable telecommunication system is essential for effective control and security of transmission and distribution system. ***The Authority, keeping in view the operational requirement for day-to-day activities provisionally allows Rs. 50 million on this account for the said year as projected by the petitioner.***

5.17.3. Plant & Machinery:

5.17.3.1. The petitioner has projected Rs. 1,727 million under the head for the said year. The petitioner in respect of regular budget of Rs. 1,015 million has projected Rs. 335 million for distribution, Rs. 615 million against transmission and Rs. 64 million against sales activities respectively. The petitioner submitted that budget is required for procurement of power plant equipment, CP Equipment, HVAC equipment, firefighting equipment, metering equipment, electrical equipment, workshop plant equipment and testing/ survey equipment etc. ***In view of the foregoing, the Authority keeping in view the operational requirement required for day-to-day activities and ability of the petitioner to execute such jobs provisionally allows regular budget of Rs. 343 million in respect of plant and machinery for the said year.***

5.17.3.2. The petitioner has also projected Rs. 457 million for replacement of power generation and HVAC at its Head office building in Lahore. As discussed under the respective head, ***the Authority principally allows capital expenditure of Rs. 556 million along with Rs. 24 million for award for award of contract for stage II & III of the project as approved by the petitioner's BOD. Moreover, any prudently incurred expenses shall be considered at the time of FRR for the said year provided the same is within the amount per ERR petition.***

5.17.3.3. The petitioner has projected Rs. 140 million for upgradation of customer service centers (CSCs) to sub-regions, complaint centers (CCs) to CSCs and creation of a CC. Details of the proposed upgradations/ creation is as follows;

Sr No.	Region	Company Office	Current Setup	Proposed Setup	Current Consumers	Prospective Consumers	Rs. in Million	Nearest CSC/ CC/ Sub Region (Mention name and KM)
1	Faisalabad	Shorkot	CC	CSC	13520	5112	12	Faisalabad Regional office = 139 KM Sub Regional office Jhang = 78 KM CC Pir Mahal = 24 KM
2		Kamalia	CSC	Sub Region	23583	9758	45.3	Faisalabad Regional office = 133 KM Sub Regional office Jhang = 71 KM CSC Toba Tek Singh = 35 KM
3	Mardan	Timergara	CC	CSC	9415	25000	10.3	Mardan Regional office = 120 KM Sub Regional office Swat = 100 KM CSC Batkhela = 60 KM
4	Lahore	Kot Radha Kishan	CC	CSC	7259	9973	10.1	Sub Regional office Johar Town = 45 KM Sub Regional office Sundar = 20 KM CSC Chunian = 29 KM
5	Multan	Jalalpur Pirwala	CC	CSC	9103	4010	11.8	Multan Regional office = 100 KM Sub Regional office Shujabad = 54 KM CC Dunyapur = 78 KM
6	Sargodha	Silanwali	Nil	CC	11393	5000	1.6	Sargodha Regional office = 41 KM CC Shahpur = 70 KM CC Bhagtanwala = 64 KM
7	Sheikhupura	Nanakana City	CSC	Sub Region	66584	35000	48.5	Sheikhupura Regional office = 60 KM CC Manawala = 25 KM CC Panwan = 30 KM

5.17.3.4. The requests of the petitioner in respect of proposed setups as mentioned above have been analyzed considering current consumer density viz-a-viz prospective number of consumers and keeping in view the existing/ nearby company's offices/ setup. The Authority observes that by adopting proper resource planning, current/ prospective nos. of consumer density of aforementioned localities can be catered efficiently from the existing/ nearby setup of the company. ***Accordingly, the Authority keeping in view the existing setups, consumer density and distance of the proposed setup from the nearest company's offices, does not allow any amount for upgradation of CSC/ CC along with creation of CC as requested by the petitioner. However, the petitioner may re-enforce its existing setups to facilitate the consumers.***

5.17.3.5. The petitioner has projected Rs. 115 million for replacement/ upgradation of power plant for its coating plant at Uch sharif and apprised that the project has been approved by BOD for execution during said year. The petitioner has submitted that there is no standby arrangement for WAPDA and the dedicated gas generators are 24 years old, therefore, frequent breakdowns cause delays in production and wastage of material consequently increasing the coating cost. The petitioner has requested that in view of the issues faced, replacement of the old gensets is essentially required. ***In view of the justification provided by the petitioner and operational requirement, the Authority provisionally allows the project amounting to Rs. 115 million in principle. However, any prudently incurred expenses shall be considered at the time of FRR for the said year provided the same is within the estimated amount.***

5.17.4. **Tools and Equipment:**

5.17.4.1. The petitioner has projected Rs. 120 million under the head for procurement of different electrical and mechanical tools i.e., drill machines, grinders, welder's equipment, fitter's equipment etc. The petitioner out of the total amount has projected Rs. 115 million against distribution, Rs. 5 million against transmission and Rs. 15,000 against sales activities. ***The Authority, keeping in view the operational requirements and capitalization trends allows Rs. 30 million under the head for the said year.***

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5.17.5. **Construction Equipment:**

5.17.5.1. The petitioner has projected Rs. 370 million under the head for procurement of different construction equipment such as air compressors, portable gensets, dewatering pumps, jack hammers etc. The petitioner out of the total amount has projected Rs. 363 million against distribution and Rs. 7 million against transmission activities. ***The Authority, keeping in view the operational requirement and capitalization trend provisionally allows Rs. 252 million under the head for the said year.***

5.17.6. **Motor Vehicles:**

5.17.6.1. The petitioner has projected Rs. 300 million for purchase of motor vehicles relating to distribution activities. The petitioner has submitted that its BODs while reviewing departmental vehicle need analysis in its 559th meeting held on 12-09-2020 has approved company operational vehicles policy in which maximum number of operational vehicles for each department has been capped. The petitioner also added that misuse of operational vehicles has been categorized as gross misconduct and procurement of new operational vehicles has been limited to standard makes without fancy & luxury features and only in white colour.

5.17.6.2. The Authority notes that petitioner is a public service company whose costs/ expenditures are picked/ borne by the consumers/ public. Moreover, the GOP has advised to implement austerity measures at all levels so as to avoid unnecessary expenditure and bring economy in overall operations. On the contrary, it is observed that the petitioner expends significant amount every year on vehicles alone. In view of the foregoing, the Authority ***curtails the projected amount to Rs. 100 million and allows the same in principle for operational vehicles only.***

5.17.7. **Furniture and Fixture:**

5.17.7.1. The petitioner in respect of distribution activities has projected an amount of Rs. 50 million for purchase of furniture and fixture filling cabinets, office tables, chairs, Almirahs, Racks, Mess Bedroom sets, Computer Tables etc. required to meet the company wide requirements. ***The Authority keeping in view the operational requirement provisionally allows Rs. 50 million in respect of regular budget of furniture and fixture for the said year.***

5.17.8. **Office / Security equipment:**

5.17.8.1. The petitioner has projected an amount of Rs. 60 million for purchase of office/ security equipment relating to sales activities. The projected amount mainly includes Rs. 4.6 million for replacement of biometric machines at head office that have outlived their useful life and Rs. 55 million for biometric System for Sub Regional Offices that includes biometric machines, CCTV Cameras, UPS and IT Equipment.

5.17.8.2. The petitioner in respect of biometric machines at sub regional offices has submitted that special request for sanction in FY-2019-20 was approved by Management but its budget was not allowed by OGRA. Moreover, the petitioner has submitted that budgetary amounts have been revised in comparison to earlier projection to cover the inflationary impact and current market prices of the equipment since the prices of these equipment have increased considerably during the intermediary period of more than two years. The petitioner has explained that the backbone behind the operation of every organization is its workforce and attendance management is essential for the smooth functioning. The petitioner also added that biometrics technology shall ensure accountability of employees by keeping accurate, reliable and transparent track of their attendance.

5.17.8.3. The Authority notes that the petitioner has provided region wise details of already installed biometric machines along with the proposed locations where new biometric machines shall be installed. Moreover, the petitioner has also confirmed that the new machines will be installed at its sub-regional offices only, where no biometric system is in place. ***In view of the fresh justification provided by the petitioner, the Authority while reconsidering its earlier decision principally allows the projected amount of Rs. 55 million in respect of installation of biometric machines at sub-regional offices and any prudently incurred expenses in this respect shall be considered at the time of FRR for the said year provided the same is within the amount per ERR petition. Moreover, the Authority allows projections of Rs. 4.65 million made by the petitioner relating to biometric machines at head office that have outlived their useful life along with water pump installation etc.***

5.17.9. **Computer Hardware:**

5.17.9.1. The petitioner in respect of regular budget has projected an amount of Rs. 425 million for purchase of equipment relating to computer hardware that includes Rs. 30 million for transmission and Rs. 395 million for sales activities respectively. The projections have been made for purchase of computer hardware equipment like printers, scanners, laptop etc., that have outlived their useful lives and Rs. 30 million has been projected for server machine, which caters data transaction requirement. ***Keeping in view the past trends, the Authority provisionally allows Rs. 258 million in respect of regular budget of computer hardware for the said year.***

5.17.9.2. In addition to above, the petitioner has projected Rs. 350 million for replacement and upgradation of IT data center and has apprised that the project has also been approved by its BOD. The petitioner has submitted that existing servers and storage were acquired in 2013, through a special budget approved by the BOD in its 395th meeting held on 26-09-2012. The petitioner further added that since these are reaching completion of their useful life, replacement / upgradation of the equipment is essential for smooth operations of the IT systems; 12 additional database licenses are required to meet the current business requirements. ***The Authority keeping in view the justification provided by the petitioner and operational requirement, allows the projected amount in principle in respect of upgradation/ replacement of IT data center.***

5.17.10. **Computer Software:**

5.17.10.1. The petitioner has projected an amount of Rs. 320 million in respect of regular budget of computer system software/ intangible assets, out which Rs. 5 million is for transmission and Rs. 315 million is for sales activities respectively. The amount projected under regular budget relates to ERP licenses, backup & recovery system for oracle, CC&B licenses, SSL certificate, project activities etc. ***Keeping in view the operational requirement, the Authority provisionally allows Rs. 129 million in respect of computer software/ intangible assets as projected by the petitioner.***

5.17.10.2. In addition to above, the petitioner has projected Rs. 45 million for replacement and upgradation of IT data center. ***As discussed earlier, the Authority keeping in view the justification provided by the petitioner and operational requirement, allows the projected amount in principle in respect of upgradation/ replacement of IT data center.***

5.17.11. The details of additions in plant, machinery & equipment and other assets allowed by the Authority are tabulated below:

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DETAILS OF PLANT, MACHINERY EQUIPMENT AND OTHER ASSETS (Rs. In Millions)

No.	Description	Petition												Allowed											
		Distribution			Transmission			Sales			Total			Distribution			Transmission			Sales			Total		
		Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total
1	Telecommunication Equipment	-	-	-	50	-	50	-	-	-	50	-	50	-	-	-	50	-	50	-	-	-	50	-	50
2	Plant & Machinery	1047	-	1047	615	-	615	64	-	64	1727	-	1727	113	-	113	208	-	208	22	-	22	343	-	343
3	Tools & Equipment	115	-	115	5	-	5	0	-	0	120	-	120	29	-	29	1	-	1	0	-	0	30	-	30
4	Construction Equipment	363	-	363	7	-	7	-	-	-	370	-	370	247	-	247	5	-	5	-	-	-	252	-	252
5	Motor Vehicles	300	-	300	-	-	-	-	-	-	300	-	300	-	-	-	-	-	-	-	-	-	-	-	-
6	Furniture & Fixture	50	-	50	-	-	-	-	-	-	50	-	50	50	-	50	-	-	-	-	-	-	50	-	50
7	Office Equipment	-	-	-	-	-	-	60	-	60	60	-	60	-	-	-	-	-	-	5	-	5	5	-	5
8	Computer Hardware	-	-	-	30	-	30	745	-	745	775	-	775	-	-	-	18	-	18	239	-	239	258	-	258
9	Computer System Software / Intangible Assets)	-	-	-	5	-	5	360	-	360	365	-	365	-	-	-	2	-	2	127	-	127	129	-	129
10	SCADA	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Grand Total	1875	-	1875	712	-	712	1229	-	1229	3817	-	3817	439	-	439	284	-	284	393	-	393	1115	-	1115

5.18. Summary of Assets Addition Allowed by the Authority:

Sr. No.	Particulars	Allowed FY 2022-23 (Rs. Million)											
		Distribution			Transmission			Sales			Total		
		Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total	Normal	RLNG	Total
1	Land freehold	–	–	–	–	–	–	–	–	–	–	–	–
2	Building on Freehold land	123	–	123	–	–	–	–	–	–	123	–	123
3	Transmission Mains	–	–	–	499	–	499	–	–	–	499	–	499
4	Compression	–	–	–	–	–	–	–	–	–	–	–	–
5	Distribution Mains	2429	6013	8442	–	–	–	–	–	–	2429	6013	8442
6	Measuring and Regulating	2590	338	2927	–	–	–	–	–	–	2590	338	2927
	Sub Total	**5142**	**6350**	**11492**	**499**	**–**	**499**	**–**	**–**	**–**	**5641**	**6350**	**11991**
7	Telecommunication Equipment	–	–	–	50	–	50	–	–	–	50	–	50
8	Plant & Machinery	113	–	113	208	–	208	22	–	22	343	–	343
9	Tools & Equipment	29	–	29	1	–	1	0	–	0	30	–	30
10	Construction Equipment	247	–	247	5	–	5	–	–	–	252	–	252
11	Motor Vehicles	–	–	–	–	–	–	–	–	–	–	–	–
12	Furniture & Fixture	50	–	50	–	–	–	–	–	–	50	–	50
13	Office Equipment	–	–	–	–	–	–	5	–	5	5	–	5
14	Computer Hardware	–	–	–	18	–	18	239	–	239	258	–	258
15	Computer System Software / Intangible Assets	–	–	–	2	–	2	127	–	127	129	–	129
16	SCADA System	–	–	–	–	–	–	–	–	–	–	–	–
	Sub Total	**439**	**–**	**439**	**284**	**–**	**284**	**393**	**–**	**393**	**1115**	**–**	**1115**
	Grand Total	**5581**	**6350**	**11931**	**783**	**–**	**783**	**393**	**–**	**393**	**6757**	**6350**	**13107**

5.19. LPG Air Mix Gilgit

5.10.1 The petitioner has projected an amount of Rs. 353 million in respect of LPG Air Mix Plant at Gilgit. ***The Authority observes that explicit decision in respect of LPG Air Mix plant at Gilgit has already been issued by the Authority vide RERR FY 2021-22, therefore, any prudent expenses on this project shall be considered at the time of FRR for the respective year, provided that the petitioner has complied with decision of the Authority regarding extension in construction license.***

5.10.2 ***Keeping in view of the above, the petitioner demanded Rs. 411 million under subsidy of LPG Airmix plant operating cost for the said shall be considered subject to actualization at the time of FRR.***

5.20. Revalidation of Carry Forward Budgets

5.11.1 The petitioner has submitted following budget to the Authority for revalidation in FY 2022-23;

Sr. No.	Description	Amount (Rs. Million)
1	Special Projects	20,280
2.	Distribution Development	24,640
3.	Regular Capital Expenditure	2,281
Total		47,201

5.11.2 The petitioner has submitted that budget has been sanctioned for procurement of various equipment and various works which are in progress and will be completed in due course of time owing to fulfilment of different regulatory requirements and need to comply with existing business environment. The petitioner has also provided the breakdown of above revalidation budget into distribution activity amounting to Rs. 34,615 million, transmission activity amounting to Rs. 12,321 million and sales activity amounting to Rs. 264 million.

5.11.3 The Authority also notes that the petitioner has tendency of executing multiple projects in parallel leaving jobs unattended that also adversely affect the integrity of the asset. Moreover, the Authority has always stressed that work once started should not remain unattended and should be completed on priority. Moreover, the petitioner should always account for its financial / physical capability while projecting exaggerated figures at ERR stage.

5.11.4 In addition to above, the Authority has its consistent stance regarding revalidation of carried forward budgets that has been discussed extensively in the earlier decisions of the Authority. ***In view of the foregoing and in case of budgets mentioned above, the actualized amount shall be analyzed and considered at the time of respective FRR petition, provided the same are within estimated amount and are in accordance with the decision of the Authority.***

5.21. Depreciation and ROA

5.11.5 ***Keeping in view of above, the Authority decides to allow depreciation Rs. 18,342 million for the said year, based on uniform economic useful life of assets for both sui gas companies etc. Consequently, ROA is computed Rs. 16,526 million based on net average operating assets for the said year.***

6. Operating Revenues

i. Sales Volume

6.1. The petitioner has submitted that sale volume for the said year has been projected at 367,806 BBTU, including estimated diversion of 62,432 MMBTU RLNG volumes to domestic gas sector, in the petition as against 310,325 BBTU per RERR for FY 2021-22, thereby projecting an increase of 19%. Category-wise comparison with previous years has been provided as under:

Table 5: Comparison of Projected Gas Sales Volume with Previous Years

BBTU

Category	FY 2019-20	FY 2020-21	2021-22	FY 2022-23	Incr/(Decr) over	
	FRR	FRR	RERR	The Petition	RERR	
Domestic	209,969	204,235	167,452	225,402	57,950	35%
Bulk Domestic	13,707	12,691	13,540	13,757	217	2%
Fertiizer (Fuel & Feed)	31,782	32,033	33,428	33,698	270	1%
Power including IPPs	23,957	20,335	42,820	37,277	(5,543)	-13%
Commercial	13,138	12,343	14,782	16,473	1,691	11%
Gen. Industry	9,141	8,954	11,129	6,307	(4,822)	-43%
CNG	21,906	19,205	14,450	16,292	1,842	13%
Zero Rated	21,096	26,256	9,805	15,524	5,719	58%
Cement	139	105	6	-	(6)	-100%
Sp. Commercial	2,937	2,888	2,912	3,077	165	6%
Grand Total	347,771	339,046	310,325	367,806	57,481	19%

6.2. The petitioner has explained that gas sales volumes have been envisaged based on projections by E&P companies gas productions. The petitioner has attributed the reduction in estimated gas sales volume to the Power/IPP sector and General Industries owing to the reduction of supplies from the dedicated gas fields. Further, the petitioner has projected nil volume for cement sector for the said year owing to diversion at RLNG supplies.

6.3. Regarding 35% increase of gas sales volume over RERR FY 2021-22 in case of domestic sector, the petitioner has informed that RLNG shall be sold to domestic sector as per earlier FG's decision. Regarding allocation to the rest of the consumers, major projection has been made under zero rated sector, being high priority sector as per GoP policy under gas load management.

6.4. The Authority notes that the petitioner has projected RLNG volumes to the tune of 62,432 BBTU diverted to domestic consumers at the beginning of the financial year without providing any tenable basis. The Authority further notes that these volumes have again not been included in UFG computations by Company, meaning thereby that no loss shall be incurred while transmitting RLNG into the distribution system. This consistent change in stance is contradictory to the position otherwise taken by the company and therefore raise serious questions on company's stance especially w.r.t UFG. Moreover, actual RLNG diversion/sold volumes in the past does not commensurate with the petitoner's current years' projections.

6.5. Notwithstanding to the above, latest amendments in OGRA's Ordinance have been notified in official gazette which declares RLNG as natural gas instead of petroleum product as was being done in the past. This changed scenario definitely requires fresh policy guideline from the FG so that implementation of amended bill be executed by OGRA. The Authority further notes that MoE is already contemplating different scenarios in this respect so as to work out a practical solution with the intent to devise a long term strategy to resolve energy crisis. Till the formulation of such policy, after

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concurrence of all stakeholders, by FG, the Authority decides to pend the inclusion of RLNG volumes in revenues requirement calculations.

6.6. ***In view of above, the Authority decides to exclude all the volumes projected in respect of RLNG diversion (i.e. purchases & sales) from the instant revenue requirement determinations. Any adjustment, if required, shall be considered based on FG's decision in the said matter.***

6.7. ***In view of the above, the Authority allows gas sale volumes at 305,374 BBTU on provisional basis for the said year.***

ii. *Sales Revenue at Existing Prescribed Prices*

6.8. The petitioner has projected revenue at existing prescribed prices for the said year at Rs. 200,009 million, including additional revenue Rs. 20,470 million from RLNG volume diverted to domestic consumer, as against Rs. 186,924 million from RERR FY 2021-22. Category-wise comparison of sales revenue at prescribed price is given below:

Table 6: Comparison of Projected Sales Revenue with Previous Years

Rs. in Million

Category	FY 2019-20 FRR	FY 2020-21 FRR	FY 2021-22 RERR 2021-22	2022-23 The Petition	Incr/(Decr) over RERR	
Power including IPPs	23,461	18,815	43,465	36,965	(6,500)	-15%
Fertilizer (Fuel & Feed)	5,686	5,783	10,164	7,500	(2,664)	-26%
Cement	176	138	8	-	(8)	-100%
Gen. Industry	9,152	9,442	11,715	6,647	(5,068)	-43%
CNG	28,139	26,125	19,810	22,336	2,526	13%
Commercial	19,359	18,133	21,085	23,278	2,193	10%
Domestic	70,900	65,066	56,838	79,542	22,704	40%
Bulk Domestic	10,747	10,084	10,643	10,731	88	1%
Zero Rated	16,637	21,675	13,197	13,011	(186)	-1%
Grand Total:	184,257	175,261	186,924	200,009	13,085	7%

6.9. The petitioner has submitted that gas sales revenue in respect of various categories of consumers is in accordance with the projected sales volume on the basis of justifications advanced in paras 6.2 and 6.3.

6.10. ***In view of above, the Authority includes gas sales revenues at Rs. 179,539 million for the said year as against 305,374 BBTU estimated volume for the said year.***

iii. *Other Operating Income*

6.11. The petitioner has projected "other operating income" at Rs. 17,768 million during the said year as against Rs. 19,452 million per in RERR for FY 2021-22, showing decrease of 9%. Comparison of projected other operating income with previous years is given below:

Table 7: Comparison of Projected Other Operating Income with Previous Year

Rs. In Million

Description	FY 2019-20 FRR	FY 2020-21 FRR	FY 2021-22 RERR	FY 2022-23 The Petition	Incr/(Decr) over RERR	
Meter rental and service charges	2,140	3,694	4,100	4,320	220	5%
Late payment surcharge and interest on arrears	7,614	6,847	9,348	7,549	(1,799)	-19%
Amorization of deffered credit	2,369	2,426	3,660	3,089	(571)	-16%
Transportation income		760	450	760	310	69%
Other operating income	1,986	1,860	1,894	2,050	156	8%
Net Operating Revenues	14,109	15,587	19,452	17,768	(1,684)	-9%

6.12. The petitioner has stated that major reduction is anticipated under LPS surcharges since major consumers have been shifted to RLNG; therefore, the petitioner projected reduction in LPS income by 1,799 million for the said year. Further, the petitioner has projected slight increase in transportation income from M/s Pak Arab Fertilizer Company Ltd. against gas transportation services for the said year.

6.13. ***Keeping in view of the above, the Authority provisionally accepts the operating incomes at Rs. 17,768 million for the said year.***

7. Operating Expenses

i. Cost of Gas Sold

7.1. The petitioner has projected cost of gas sold for the said year at Rs. 240,788 million, i.e. including financial impact of Rs. 33,950 million against diversion of RLNG volume to domestic consumers, based on estimated purchases as well as anticipated projections for international prices of crude and HSFO.

7.2. 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 semi-annually, effective on 1st July and 1st January. 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.

7.3. The petitioner claimed local/indigenous cost of gas at Rs. 581.17/MMCF for the said year. The petitioner's cost of gas is based on the following assumptions/pricing parameters:

Table 8: SNGPL's WACOG Parameters

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, 2022	December 2021 to May 2022	75.000	600.000	180
January to June, 2023	June 2022 to November, 2022	80.0000	600.000	185

7.4. 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.

7.5. The Authority has reworked the parameters for computation of WACOG for the said year based on latest trend observed in the average prices of HSFO and Crude. Wellhead gas prices effective July to December, 2022 have been reworked on the basis of actual average prices of HSFO and Crude during the period December, 2021 to May 30, 2022. The same prices have been adopted for computation of wellhead gas prices for the period January-June-2023 with 3% reduction. Any adjustment based on actual international prices shall be reviewed / considered at the time of RERR for the said year. Therefore, keeping in view of the trend of international oil prices and US$ currency exchange rate and other related factor, revised parameters for computation of cost of gas at the petitioner system is as below:

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Table 9: Revised parameters

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, 2022	December 2021 to May 2022	99.3237	558.6076	199.3619
January to June, 2023	June 2022 to November, 2022	89.4670	503.2997	199.3619

7.6. Regarding inclusion of RLNG diversion cost of Rs. 33,950 million as part of cost of gas sold, the Authority per its decision in para 6.6 decides to exclude the RLNG volumes & the corresponding cost, from the calculations of revenue requirement.

7.7. Based on above, the Authority provisionally determines cost of gas at Rs. 235,644 million excluding GIC ***(at respective indigenous WACOG of Rs. 662.11/MMCF)*** for the said year. The petitioner is, however, directed to submit a review petition to the Authority latest by October 15, 2022 for review of its estimated revenue requirements as required under Section 8(2) of the Ordinance, keeping in view the actual and anticipated changes in international prices of crude and HSFO for rest of the period and the trend of Rupee – Dollar exchange rate.

ii. Indigenous Gas Diversion to RLNG consumers

7.8. The petitioner has submitted that it has anticipated the swapping of RLNG gas volume to indigenous consumers owing to increased demand and depleting of local reserves, in the light of diversion/sale in the past. Accordingly, it has projected 62,432 BBTU volume of RLNG to be diverted to domestic and commercial consumers at projected cost of Rs. 33,950 million, calculated based on average sale price of domestic and commercial consumers Rs. 543.79/MMBTU.

7.9. The Authority, in the light of discussion & decision in preceding paras 6.4, 6.7 and 7.6 ***decides to pend the decision on this account and accordingly Rs. 33,950 million claimed on account of RLNG diversion is excluded from the revenue requirement calculations for the said year. Any adjustment, based on FG's policy shall be considered, if required, in subsequent determinations.***

iii. Gas Internally Consumed (GIC)

7.10. The petitioner has claimed GIC against compression activity for the said year at Rs. 1,011 million as per following detail;

Table 10: GIC Volume Claimed in the Petition:

Indigenous Gas				
Particulars	MMCF	MMBTU	Avg. cost price	M/Rs.
Transmission System				
Compressors	1,739	1,627,503	621	1,010.868
Coating Plant	109	102,101	621	63.417
Residential Colonies	74	69,273	621	43.027
Sub total	1,923	1,798,878		1,117.312
Distribution System				
Free Gas Facility	536	501,348	621	311.395
Co-Generation	87	81,053	621	50.343
Sub total	622	582,401		361.738
GIC Indigenous	2,545	2,381,278		1,479.050

7.11. The petitioner has allocated, 109 MMCF on account of 'Coating plant', 74 MMCF for 'Residential Colonies' and 536 MMCF from 'Free gas facilities', to the capitalization for the said year. The Authority based on the historical trend provisionally calculates GIC for indigenous system at 1,184 MMCF against claimed volume of 1,739 MMCF and 3,874 MMCF against claimed volume of 4,755 MMCF in case of RLNG system. The volumes calculated in respect of GIC are subject to actualization at the time of respective FRR.

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7.12. In addition to above, the petitioner in respect of RLNG system has also included 1,991 MMCF as GIC at SSGC system to compute the net RLNG received in Transmission system of the petitioner. The petitioner submitted that RLNG received at FSRU and enters into petitioner system after passing through the SSGC system, accordingly GIC @ 0.5% for SSGC system has been assumed to compute the net gas received in Transmission system of the petitioner. The Authority observes that the claim of the petitioner in respect of GIC volume at SSGC system is not appropriate at this stage. However, any volume in this respect shall be considered by the Authority at FRR stage based on actual figures along with prudent justification.

7.13. The petitioner has also projected 36,500 MMCF @ 100 MMCFD on account of volume to be retained by SSGC for its sale to K-Electric in FY 2022-23. The petitioner added that volume being retained by SSGC is as per advice of GOP enabling K-electric to produce electricity to mitigate the electricity load shedding in Karachi. Keeping in view the operational requirement and justification provided by the petitioner, the same is being allowed on provisional basis subject to actualization at the time of FRR.

7.14. ***In view of the above, the Authority, taking into account the revised cost of gas at the petitioner's system, calculates the GIC at Rs. 784 million based on 1,184 MMCF (i.e.@662.11/MMCF) for the said year.***

iv. **Unaccounted for Gas (UFG):**

7.15. The petitioner has projected UFG at 8.24% (29,536 MMCF) for the said year. The petitioner has however restricted its UFG adjustment to Rs. 750 million as per Rule 20(1) of NGT Rules.

7.16. The Authority observes that UFG benchmark at the rate of 5% was implemented for five (05) years with effect from FY 2017-18, based on the study conducted by M/s KPMG Taseer Hadi & Co. Chartered Accountants (KPMG) during 2016-17. Moreover, an allowance of 2.6% was built on account of local challenging conditions which was further linked to implementation/ progress of 30 Nos. KMIs. The local challenging conditions mainly included law & order situations & theft/ non-consumers issues. The KMIs were designed, in thorough consultation with Gas companies so as to devise a plan of action that is practically implementable and effective to control the reasons contributing toward UFG. Accordingly, multiple activities comprising rehabilitation, replacement, leak survey, segmentation, theft recoveries etc., formed a multi-pronged strategy covering all areas and aspects of utilities operations that could possibly help in reducing UFG. For the purpose, capital as well as operating expenditures were also allowed to the petitioner to undertake such jobs.

7.17. The Authority is appreciative of the fact that the petitioner in respect of implementation of various KMIs has consistently claimed 100 % achievement and has rather agitated in case its allowance is reduced to around 70-80% by OGRA after thorough technical and financial analysis. The result of the above initiatives is reflected through decrease in UFG reported by the company and leads to the conclusion that focused and determined efforts along with commitment, always deliver positive results, which in this case can be referred as UFG% down to single digit after a decade or more. This commitment and serious effort was desired and expected from the petitioner for the past many years, not only by the Regulator but by the GoP as well as Public Representatives. It is therefore, urged that petitioner must bring its UFG to internationally accepted levels in coming years.

7.18. Moreover, in respect of law & order affected areas that are prone to theft, leakages, data / meter errors, non-recovery of gas bills etc., the petitioner has claimed to have made significant progress in carrying out the system rehabilitation works specifically in oil & gas producing districts of Khyber Pakhtunkhwa, which had been contributing significantly in UFG of the company. In view of the foregoing the Authority is of the view that the ground realities in respect of uncontrollable factors are no more relevant and situation is rather favourable and supportive for the petitioner including law and order situation.

7.19. In addition to above, the Authority notes that the natural gas market has proceeded towards liberalization, thereby making headway for segregation of regulated activities of transmission, distribution and sales as against the conventional approach of integrated scheme of natural gas supply business. In the same analogy the petitioner also submits segregated asset schedule in terms of transmission, distribution and sales activities and maintains separate accounts as well. Accordingly, the transportation tariff of both the segments is also calculated separately for each of the regulated activity.

7.20. It is further observed that in transmission network losses have mostly remained around 0.5 % in case of both the gas utilities for network of 9,625 KM of the petitioner and 4,143 KM of SSGCL, however, losses in the distribution segment of petitioner's network have always remained high. In this respect the Authority has always been encouraging the petitioner to take remedial, practical steps to identify the problem areas that mainly exist in the distribution network and improve its state of affairs as well, so as to arrest the increasing trend of UFG in distribution network.

7.21. In this regard, the petitioner appears to be taking certain measures that seem to be aligned towards reduction in UFG as per the directions of the Regulator as well as FG. OGRA is of the strong opinion that effective policies and practical steps to arrest this menace of national loss of UFG must be devised on a long-term basis to achieve the desired results. Therefore, continuity of such policies and their effective implementation is need of the hour to facilitate efficient operation of distribution network.

7.22. In view of the above discussions, the Authority concludes that in all fairness, UFG be also segregated in terms of transmission and distribution network and therefore, allowable loss for the transmission network is provisionally calculated at 0.36% based on the length of network and in case of distribution segment, the allowable losses have been provisionally calculated at 6.25 %, subject to following:

7.22.1. Findings of the ongoing UFG Audit by OGRA to determine actual UFG of gas companies in respect of indigenous as well as imported RLNG.

7.22.2. Policy guidelines from Federal Government in respect of recent amendment in OGRA Ordinance i.e., Oil and Gas Regulatory Authority (Amendment) Act, 2022 dated 3rd March, 2022.

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Table 11: UFG Sheet

Transmission System	ERR FY 2022-23			
	As per petition		As calculated	
	Indigenous gas (UFG)	RLNG to be Supplied to Transmission and Distribution consumers	Indigenous gas (UFG)	RLNG to be Supplied to Transmission and Distribution consumers
(Gas Received) in Transmission Indigenous	MMCF		MMCF	
RLNG received at FSRU	358,445		358,445	
Retainage		438,000		
Retained by SSGC		(3,285)		438,000
GIC at SSGC System		(36,500)		(3,285)
Net Gas Received in Trans. System of SNGPL		(1,991)		(36,500)
Gas used in operation of Tran. Sys. RLNG	358,445	396,224	358,445	398,215
Gas used in operation of Tran. Sys. (Indigenous gas)				
(i) Compression	(1,923)	(4,755)	(1,367)	(3,874)
(ii) Residential Colonies	(1,739)	(4,755)	(1,184)	(3,874)
(ii) Coating Plant	(74)	-	(74)	-
Gas Available in Transmission System	(109)	-	(109)	-
Gas passed to Dist. System and sold to PFC consumers	356,522	391,469	357,078	394,341
Gas passed to Distribution system through SMS	87,600	215,228	87,600	215,228
Loss in Tansmission System	267,130	174,260	267,130	174,260
% Loss or Gain in Transmission Sytem	1,792	1,981	2,348	4,853
UFG Allowed (%) (Transmission)	0.50%	0.50%		
Allowed UFG Volume (MMCF)			0.36%	
Invalid Claim (MMCF)			1290	
			1058	

Distribution System	ERR FY 2022-23			
	As per petition		As calculated	
	Indigenous gas (UFG)	RLNG to be Supplied to Transmission and Distribution consumers	Indigenous gas (UFG)	RLNG to be Supplied to Transmission and Distribution consumers
	MMCF		MMCF	
Gas Received in Dist. System (Through SMS)				
Gas internally consumed in Distribution System (GIC)	267,130	174,260	267,130	174,260
(i) Free Gas Facility	(622)	-	(622)	-
(ii) Co-Generation	(536)	-	(536)	-
(Gas available for Sale in Dist. Sytem)	(87)	-	(87)	-
Gas Sold	266,507	174,260	266,507	174,260
Gas Delivered (Net Gas Sold)-(RLNG sales includes Diversion)				
Loss in Distribution System	238,764	158,625	238,764	158,625
% age Loss in Distribution Sytem	27,744	15,635	27,744	15,635
UFG Allowed (%) (Distribution)	10.39%	8.97%		
Allowed UFG Volume (MMCF)			6.25%	
Invalid Claim (MMCF)			16696	
			11048	

7.23. The Authority further takes cognizance that effective 3rd March 2022, OGRA Ordinance has been amended to redefine LNG/RLNG as natural gas and brought under the ambit of OGRA Ordinance, which was previously treated as "Petroleum" under Petroleum Products (Petroleum Levy) Ordinance, 1961. Hence in line with the latest amendment in OGRA Ordinance, ring fencing of RLNG does not remain valid as distinction between RLNG and natural gas has been abolished. In view thereof, UFG shall be same in both cases.

7.24. ***In view of the computation as per above table, the Authority provisionally allows UFG adjustment at Rs. 8,806 million (Rs. 727.40/MMCF at national WACOG) for the said year.***

8. Transmission and Distribution Cost (T&D)

8.1. The petitioner has claimed Rs. 44,595 million against gross T&D cost, excluding GIC, for the said year, with an increase of 70% while comparing the same with last year RERR for FY 2021-22. Further, the petitioner apportioned these expenses under three sub-heads of natural gas activities i.e. Transmission, Distribution and Selling segments. Comparison of T&D with previous years is as under:

Table 12: Comparison of Projected T & D Cost with Previous Years

Rs. in million

Sr#	Description	FY 2019-20	FY 2020-21	FY 2021-22	FY 2021-22	Transmission	Distribution	Sales	Total	Diff. Inc/(Dec) over	
		FRR	FRR	RERR	Actual 6 months	The Petition FY 2022-23				Inc/(Dec)	%age
1	HR Cost	16,597	14,586	16,996	12,239	6,908	12,631	10,195	29,734	12,738	75%
2	Stores & spares consumed	484	616	880	463	726	735	25	1,486	606	69%
3	Repairs & maintenance of system	1,519	1,473	1,294	784	355	1,496	276	2,127	833	64%
4	Stationery, telegrams and postage	190	191	239	143	21	49	201	270	31	13%
5	Rent, rates, royalty, electricity and telephones	553	646	619	326	245	341	243	830	211	34%
6	Travelling expenses	162	128	163	66	73	66	60	199	36	22%
7	Transport expenses	920	920	975	597	321	775	205	1,301	326	33%
8	Insurance	245	269	279	244	85	156	96	338	59	21%
9	Fuel & Power	469	626	516	319	272	296	-	567	51	10%
10	Legal and Professional services	196	253	204	173	100	186	112	398	194	95%
11	ISO 14001 & OHSAS Certification	4	5	9		3	6	3	12	3	33%
12	Advertisement & publicity	198	190	208	96	11	20	204	235	27	13%
13	Protective clothing & Supplies	53	70	59	30	9	91	10	110	51	86%
14	Staff Recruiting expenses/ Staff Training & executives	44	23	35	18	25	45	28	98	63	180%
15	Security expenses	1,018	1,240	1,760	784	2,099	246	151	2,496	736	42%
16	Sponsorship of Chairs for Universities	8	-	-		2	4	2	8	8	
17	Outsourcing of Call Centre	26	19	30	15	-	-	40	40	10	33%
18	Sports cell expenses / Annual Sports	36	43	48	27	30	55	34	119	71	148%
19	OGRA fee	290	528	371	125	-	-	379	379	8	2%
20	Bank Charges	9	5	10		3	5	3	11	1	5%
21	Facilities Provided by other companies	10	9	14		4	7	4	15	1	7%
22	Board Meeting and directors expenses	57	37	61	29	19	35	21	75	14	23%
23	Corporate Social Responsibility	-	8	12	13	5	9	6	20	8	67%
24	Other expenses	184	181	205		80	189	80	349	144	70%
25	Gas Bills Collection Charges	533	557	660	276	-	-	666	666	6	1%
26	KMI Implementation Plan / UFG Control Activities	947	983	662	515	-	1,444	-	1,444	782	118%
27	Gathering charges of collection data	41	40	65	32	-	-	65	65	-	0%
28	Dispatch of Gas Bills	133	136	165	70	-	-	180	180	15	9%
29	Cost of gas blown off	375	201								
30	Provision for doubtful debts	1,243	1,413	-		-	-	1,433	1,433	1,433	
31	Quality Assurance Program					33	58	-	91	91	
32	**Gross Operating Budget**	26,544	25,396	26,539		11,429	18,941	14,724	45,095	18,556	70%
33	Allocation to CWIP (Others)	(320)	(344)	(319)		-	(436)	(64)	(500)	(181)	57%
35	**Net Operating Budget**	26,224	25,052	26,220		11,429	18,506	14,660	44,595	18,375	70%

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

i. Human Resource (HR) Cost

8.3. The petitioner has claimed gross HR cost at Rs. 33,734 million, with impact of CBA Rs. 4,312 million, for the said year as against Rs. 16,996 million allowed at RERR FY 2021-22 showing an increase of 98% for the said year. The petitioner has segregated HR cost under subheads of transmission, distribution and selling activities. Besides above, the petitioner has allocated Rs. 4,000 million to CWIP for the said year.

8.4. The petitioner has demanded 24% increase in "executive's salaries" over actual spending during FY 2020-21, thereby claiming 12% annual increase for FY 2021-22 & FY 2022-23 based on annual increment and half CPI. The petitioner has further remanded 37% and 89% increases over actual spending during FY 2020-21 against the subheads of "retirement benefits" and "other expenses" including long service awards, insurance, CFC petrol, Tea Coffee, club membership and others expenses. Moreover, 9% increase has been envisaged in Executive staff medical expense due to escalation of medicine prices.

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8.5. In the case of subordinate staff, 23% increase in "wages" has been envisaged over FY 2020-21, mainly due to finalization of CBA agreement for FY 2019-21. Moreover, 73% increase has been claimed against "overtime" over actual spending during FY 2020-21 i.e. Rs. 1,372 million per the petition as against Rs. 794 million in FY 2020-21. The petitioner has stated that it has already implemented strict controls and allowing overtime on need basis only due to which reduction in expenses is evident in actual cost during FY 2020-21. Moreover, this cost also remain on the lower side due to Covid-19 situation wherein office attendance was limited and operations was managed through work from home policy. For "badly/casual labour", the petitioner has demanded 23% increase while comparing with actual expenses for FY 2020-21 as around 17% increase in minimum wage rate has been announced by the GoP during last year. Similarly, for "medical expenses" of subordinate staff, the petitioner has demanded 10% increase over FY 2020-21 due to escalation of medicine prices. Other claims include "10-C bonus (i.e. Rs. 1,372 million), "free gas facility (i.e. Rs. 331 million)" and "other expenses (i.e. Rs. 281 million)"

8.6. The petitioner, during the public hearing as well as in a later meeting on HR cost has emphasized that human resource is an important asset for any organization. Total workforce strength includes 7,000 staff and 1,500 executives for managing 150,000 Km of T&D network and serving 7.4 million consumers for its geographical spread comprising KPK, GB, AJK and Punjab regions. In order to service these areas, fair and adequate amount is required for operational requirement and to keep their morale high, in the wake of inflationary impact and shortage of staff where around 30% work force is deficient in the company. The company has showed its apprehension that in the revised benchmark, the company shall not able to hire required numbers of manpower due to non-availability of cushion in HR benchmark cost, despite huge expansion in network coupled with increased consumers base. Moreover, its HR cost is below the market norms prevalent in the oil and gas sector locally and internationally.

8.7. The petitioner has argued that new HR benchmark was revised without any consultation with the stakeholders and specially using/opting equal weightage to all the parameters is not rational and needs to be revisited. Further, exclusion of CPI financial impact from benchmark is not equitable and fair. The petitioner has requested to allow impact of CBA over and above HR benchmark cost.

8.8. The Authority notes that it had devised revised HR benchmark parameters effective for FY 2021-22 after careful consideration and extensive analysis based on the data provided by the petitioner, and decided to keep all primary operating parameters at equal proportion. The Authority, considering the revised business dynamics and demand supply constraints, is of the firm view that all these factors are important and their activities are interconnected to a greater extent. Allowance of additional weightage to any operating parameter may distort the intent of this benchmarking. Therefore, with the revision of the basis through giving equal weightage to all parameters, new HR benchmark formula has now become more fair for both gas utilities as well as natural gas consumers.

8.9. Regarding allowance of CPI as benchmark formula, the Authority notes that unprecedented increases made in the salaries of executives and staff leaves no reason to consider petitioner's stance. Moreover, it is not mandatory either in private or government sector that CPI must be allowed on yearly basis in any case.

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8.10. The Authority reiterates that the broader productivity linked benchmark was implemented by OGRA with the intent to allow management to run its business affairs in a prudent and rational manner. However, the regulator's rational approach to allow the management to take reasonable, fair and equitable and prudent decisions has grossly exploited by the senior management in its favour despite warning by the Regulator. The inbuilt factors in the benchmark to regulate the manpower strength had been used by the management to increase their salary structure while managing its operations through recruitment of contractual and causal/badli staff. The table indicating historical trend of operating parameters with manpower strength and HR cost is as under;

Table 13: Comparative analysis of SNGPL's HR benchmark

Particulars	FRR FY 2014-15	FRR FY 2015-16	FRR FY 2016-17	FRR FY 2017-18	FRR FY 2018-19	FRR FY 2019-20	FRR FY 2020-21
Operating Parameters:							
Sales (MMCF)	467,449	544,615	615,009	670,649	759,164	649,946	711,399
T&D (KM)	107,670	111,798	119,659	131,694	139,555	145,476	152,463
No. of Consumers	5,054,256	5,315,885	5,736,589	6,341,508	6,771,919	7,043,147	7,415,435
CPI	4.53%	2.86%	4.16%	3.92%	7.34%	10.74%	8.90%
HR Cost Allowed	**10,274**	**11,034**	**12,145**	**13,656**	**15,144**	**16,294**	**17,929**
		7%	**10%**	**12%**	**11%**	**8%**	**10%**
IAS cost	152	903	690	1,306	782	274	528
Total HR Cost	10,426	11,937	12,835	14,962	15,926	16,568	18,457
		14%	8%	17%	6%	4%	11%
Manpower Strength:							
Executives	1,381	1,530	1,507	1,484	1,461	1,609	1,561
		11%	-2%	-2%	-2%	10%	-3%
Subordinates	7,688	7,717	7,677	7,580	7,420	7,281	7,146
		0%	-1%	-1%	-2%	-2%	-2%
	9,069	**9,247**	**9,184**	**9,064**	**8,881**	**8,890**	**8,707**
Casual/Badli:		**2%**	**-1%**	**-1%**	**-2%**	**0%**	**-2%**
Total	**2,880**	**2,843**	**3,360**	**3,821**	**3,460**	**3,396**	**3,365**
		-1%	**18%**	**14%**	**-9%**	**-2%**	**-1%**

8.11. The above table reveals that the petitioner deliberately ignored hiring of much needed yearly manpower requirement under staff and executives, despite the employee turnover either due to retirement/leaving. The petitioner didn't hire as per requirement, despite sufficient amount available under HR benchmark formula. ***In view of the same, additional budget for HR requirement is unjustified and irrational. The petitioner is directed to efficiently manage its operations in terms of manpower induction while rationalizing its annual increases, done by it in the past where it minced the amount in its salaries increases while entirely ignoring its increasing manpower requirement.***

8.12. ***In view of above, the Authority finds no valid reasons to review its HR benchmark formula. Accordingly, HR cost is provisionally allowed at Rs. Rs. 19,554 million including IAS-19, as per Annexure-C on the basis of revised cost and operating parameters in the light of actual numbers for FY 2020-21.*** However, the same shall be actualized based on the activities undertaken in respect of each parameters during the said year. The Authority further reiterates its directions to rationalize extremely wide scales ranging over a length of service of 110 years (based on 5% annual increments) which is impractical by all stretch of the imagination and unparalleled with any public sector body. This rationalization shall not only end the disparity among the employees of different pay scales in subordinates and executives cadre but also incentivize and motivate the employees in first three grades of both cadres. The petitioner is further directed to manage its operational and administrative matters (i.e. revision of initial pay scales upto grade III for executives & subordinates), additional hiring of manpower, CBA) on first priority by utilizing the additional amounts through OGRA's allowed funds.

8.13. ***The petitioner is further directed to submit, at the time of FRR, HR certificate duly signed by its statutory auditors that HR cost assigned to T&D cost is relevant for the operating activities, based on fair allocations and comprises only the salaries of its regular employees. No cost on account of daily wages, casual/temporary labour, badly etc.; is included therein.***

ii. Repair & Maintenance Expenses

8.14. The petitioner has projected Repair & Maintenance expenses for the said year at Rs. 2,127 million as against Rs. 1,294 million allowed in RERR 2021-22 and Rs. 1,473 million in FRR (petition) for FY 2020-21. The petitioner has apportioned the cost under Transmission, Distribution and Selling activities. Historical comparison of Repair &Maintenance is given below:

(Rs. in million)

Particulars	FRR FY 2019-20	FRR FY 2020-21	RERR FY 2021-22	Actual six months FY 2021-22	The Petition FY 2022-23	(Inc/Dec) over RERR 2021-22	
Compression	17	13	18	3	21	3	17%
Transmission	44	31	63	39	152	89	143%
Distribution	861	827	765	386	1,161	396	52%
Others (incl H.O. & service depts.)	597	602	449	155	793	344	77%
Total	1,519	1,473	1,294	583	2,127	833	64%

8.15. The petitioner has attributed the increase mainly due to inflation and revision in minimum wage rate that has impact of 17%. The petitioner further has explained that reduction in the budget will affect the on critical repairs & maintenance activities relating compression, distribution and transmission. The Authority observes that the petitioner has been advancing similar justification since many years, however, year wise actualization does not commensurate with the projections made in respect of transmission, distribution and others (H.O. & service departments).

8.16. ***As per trend analysis and the justifications advanced by the petitioner, the Authority provisionally allows Rs. 16 million in respect of Compression, Rs. 38 million in respect of Transmission, Rs. 831million in respect of Distribution and Rs. 563 million in respect of Others (incl. H.O, Service depts., computer software & hardware repairs and maintenance.*** The table below summarizes the decision of the Authority;

Rs. Million

Description	Petition FY 2022-23	Allowed
Compression	21	16
Transmission	152	38
Distribution	1,161	831
Others (incl H.O. & service depts	793	563
	2,127	1,448

8.17. ***In view of the above, the Authority determines the expenses under the head "Repair & Maintenance" at Rs. 1,448 million for the said year as tabulated above.***

Rs. in Million

	Transmission	Distribution	Selling	Total
Demanded	355	1,496	276	2,127
Allowed	242	1,018	188	1,448

iii. Stores, spares and supplies consumed

8.18. The petitioner has claimed Rs. 1,486 million under the head "Stores & Spares consumed" as against Rs. 880 million allowed at RERR FY 2021-22, thereby projecting an increase of 69% for said year. Historical comparison is given below:

Table 13: Comparison of Projected Store Spares and supplies consumed with Previous Years

(Rs. In million)

Particulars	FRR FY 2019-20	FRR FY 2020-21	RERR FY 2021-22	Actual six months FY 2021-22	The Petition FY 2022-23	(Inc/Dec) over RERR 2021-22	
Compression	126	155	253	59	252	(1)	0%
Transmission	145	194	322	171	453	131	41%
Distribution	154	189	218	212	696	478	220%
Others (incl H.O.)	5	7	4	5	5	1	14%
Freight & handling	55	73	83	16	80	(3)	-3%
Total	484	616	880	463	1,486	606	69%

8.19. The petitioner has submitted that 69% increase has been envisaged owing to anticipated material expenditure for routine operations as well as augmentation of transmission network and allied installations for Special Economic Zones etc. Furthermore, it is pertinent to mention that actual expenses during last two financial years remain on the lower side to due to limited repair and maintenance activities in pandemic situation.

8.20. The petitioner has stated that budget is sought to maintain essential store stock along-with other indispensable items to ensure routine operations. The petitioner has argued that these item are mostly imported and therefore, its prices are highly sensitive owing devaluation of Pakistani rupee and inflation. Moreover, exorbitant increase of around 200% in the prices of raw material e.g. steel has been witnessed. Similarly, prices of lube oil have increased by around 138% – 210%, and the same is likely to follow an upward trend in view of current geopolitical scenario.

8.21. The petitioner has also informed that material portion of recoating of T. lines amounting to Rs. 125 million has been re-grouped under the sub-head of transmission claimed earlier under repairs and maintenance. Under the subhead of Distribution, the petitioner stated that the impact of recoveries from consumers upto Rs. 200-250 million approximately on account of GI fittings has been discontinued as per Authority's directions due to which the expenditure under this subhead will increase by said amount.

8.22. The Authority observes that the petitioner has been advancing similar justification in terms of inflationary impact since past, however, year-end actualization does not support Company's estimated budget request at the beginning of the financial year. Historical trend as provided in table above also supports the Authority's observation. Accordingly, projecting 69% increase over RERR FY 2021-22 without citing any concrete justification is not allowed.

8.23. The Authority further observes that the petitioner is charging Rs. 744 to domestic consumers on account of GI fittings in addition to service charges with the contention that GI fittings are not part of service line thus claiming short recovery of Rs. 200-250 million on account of GI fittings after Authority's decision on the basis of notification relating to fixed and variable charges. The Authority notes that company is not entitled to charge an amount for supply of gas as well as for provision of services over and above the Authority's decisions and notifications. Any such excessive charging by the petitioner shall tantamount to punitive measures as provided in Law.

8.24. ***In view of above, the Authority decides to fix "stores, spares & consumed" at the level of RERR for FY 2021-22 i.e. Rs. 880 million subject to the actualization at the time of FRR for the said year, as tabulated below:***

			Rs. in Million	
	Transmission	Distribution	Selling	Total
Demanded	726	735	25	1,486
Allowed	430	435	15	880

iv. Rent, Rate, Electricity, and Taxes

8.25. The petitioner has claimed Rs. 830 million under the head "Rent, Rate, Electricity and Taxes" as against Rs. 619 million allowed in RERR FY 2021-22, thereby projecting 34% increase for the said year. Historical comparison is given below:

Table 14: Comparison of Projected Rent, Rate, Electricity and Taxes with Previous Years

Particulars	FRR FY 2019-20	FRR FY 2020-21	RERR FY 2021-22	Actual six months FY 2021-22	The Petition FY 2022-23	(Inc/Dec) over RERR 2021-22 (Rs. In million)	
Rent	270	299	299	159	360	61	20%
Royalty/ Internet services	41	47	49	19	52	3	6%
Telephone	41	37	48	21	46	(2)	-4%
Electricity	177	183	195	106	258	63	32%
Pakistan Railway (line crossing charges)		51	-	-	66	66	#DIV/0!
Water Conservancy	6	4	6	2	6	-	0%
Vehicles rates and taxes	18	23	15	11	41	26	173%
Others		2	7	9	1	(6)	-86%
Total	553	646	619	327	830	211	34%

8.26. Under the sub-head "Rent", the petitioner has submitted that its current agreements with landlords stand at Rs. 360 million. Therefore, additional 20% expected annual increase under Rent expenses has been demanded by the petitioner for the said year.

8.27. The petitioner submitted that two additional offices were hired at Karak and Lahore at the cost of Rs. 4 million each. The petitioner has highlighted that it has been successfully able to reduce the rental cost by Rs. 20 million per annum over previous rates against few hired premises through its continuous efforts and extensive negotiation. This reduction is expected to cover half of the rise of remaining premises, resulting in total rise existing premises remain within 5% range. On an overall basis, after addition of the new premises, annual rent shall rise by approx. 7-8 % over last year actual expenditure.

8.28. The Authority appreciates the petitioner's efforts for successful negotiations for reduction in rent rates. However, projecting 20% over a period of one year is not justified. ***The Authority considering the extensive efforts for curtailment of rent, decides to allow 50% over RERR FY 2021-22 & allows Rs. 330 million for the said year.***

8.29. Under the sub-head "Electricity" the petitioner has projected Rs. 258 million as compared to Rs. 195 million allowed per RERR for FY 2021-22. The petitioner has explained that actual expense made during FY 2019-20 & FY 2020-21 is not reflecting true representation owing to Covid-19 pandemic. The petitioner has emphasized that electricity tariffs were gradually increased by 26.88%, 11.11% and 7% in January 2019, March 21, and December 2021 respectively by NEPRA. The petitioner has submitted that increase in oil prices would lead to fuel price adjustment, resulting increase in electricity tariff due to international geo-political situation, therefore, adequate and sufficient amount under this head be allowed.

8.30. ***The Authority, based on the above justification, decides to allow 10% increase over year RERR for FY 2021-22 i.e. Rs. 215 million against Electricity Expenses for the said year.***

8.31. Regarding Pakistan Railways (line crossing charges) Projected amount Rs. 66 million, ***the Authority decides to pend the same subject to its actualization/realization of actual expenses at year end with the direction to amicably negotiate the charges at a reasonable level.***

8.32. Regarding vehicles taxes, the petitioner has submitted that the toll taxes have increased significantly as compared to the preceding years. Resultantly projected expense would likely be increased. ***The Authority, keeping in view the same, decides to fix at Rs. 23 million i.e. at the level of FRR-FY 2019-20, for the said year. Regarding rest of the items, the Authority accepts the petitioner's claim and allows the same for the said year.***

8.33. ***In view of above, the Authority decides to allow "rent, rate, electricity & taxes" at Rs. 673 million on provisional basis for the said year; subject to the actualization at year end, as tabulated below:***

			Rs. in Million	
	Transmission	Distribution	Selling	Total
Demanded	245	341	243	829
Allowed	199	277	197	673

v. Traveling Expenses

8.34. The petitioner has claimed Rs. 199 million on account of "Traveling Expenses" for the said year, thereby projecting an increase of 22% over RERR FY 2021-22. Historical comparison is given below:

Table 15: Comparison of Projected Traveling Expenses with Previous Years

						(Rs. in million)	
Particulars	FRR FY 2019-20	FRR FY 2020-21	RERR FY 2021-22	Actual six months FY 2021-22	The Petition FY 2022-23	(Inc/Dec) over RERR 2021-22	
Executives	89	60	91	36	102	11	12%
Subordinates	60	58	60	25	78	18	30%
Conveyance (official)	11	10	10	4	18	8	80%
Travelling Directors/ Govt. officials	1	1	2	1	1	(1)	-40%
Total	163	128	163	66	199	36	22%

8.35. The petitioner explained that, in the last couple of years, the operations of the Company were adversely affected due to COVID-19 and major activities were either reduced to limited staff or through staff rotation policy during pandemic situation and resultantly the expenses remain lesser than anticipated. Now the petitioner has projected this year cost based on actual expense incurred during FY 2018-19 i.e. Rs.

194 million, before Covid-19 pandemic broke out; and requested to the same being adequate/desirable.

8.36. The Authority observes that the petitioner is fully capable enough to curtail the expenditure under this head, irrespective whether the situation is critical or normal. Keeping in view of petitioner's capacity and efforts, the Authority reiterates its directions to adopt economic & cost efficient measures and conserve the resources through improvisation and adopting new Techniques including IT-based applications, video conferencing, etc.

8.37. ***In view of the same, the Authority decides to fix travelling expenses at Rs. 163 million for the said year as tabulated below:***

			Rs. in Million	
	Transmission	Distribution	Selling	Total
Demanded	73	66	60	199
Allowed	60	54	49	163

vi. Transport Expenses

8.38. The petitioner has claimed transport expenses for the said year at Rs. 1,300 million as against Rs. 980 million provided in RERR for FY 2021-22 projecting an increase of 33% for the said year. Historical comparison of transport expense is as under:

Table 16: Comparison of Projected Transport Expenses with Previous Years

						(Rs. In million)	
Particulars	FRR FY 2019-20	FRR FY 2020-21	RERR FY 2021-22	Actual six months FY 2021-22	The Petition FY 2022-23	(Inc/Dec) over RERR 2021-22	
Compression	25	20	17	9	27	10	59%
Transmission	184	181	143	107	260	117	82%
Distribution	469	519	605	308	710	105	17%
Others (incl HO & service depts.)	242	260	215	173	303	88	41%
Total	920	980	980	597	1,300	320	33%

8.39. The petitioner has submitted that it is anticipating upward revision in fuel prices based on the recent increase of around 30% during last year. In addition to the above, an additional amount of Rs. 40-50 million has been claimed on account of expected revision in hiring charges of vehicles.

8.40. The petitioner has submitted that its actual expense of Rs. 920 million for FY 2019-20 remained understated due to COVID-19 as against actual expenditure of Rs. 1,007 million incurred during FY 2018-19. The petitioner has, therefore, requested an increase of 5% over the actual expenses made during FY 2018-19, owing to anticipated increase on account of petrol prices and revision in hiring charges of vehicles. Further, the petitioner has requested an additional amount Rs. 25-30 million annually (for 2 years) on account of travelling expense against the activity of scanning of whole network.

8.41. The Authority notes that the petitioner has been projecting 59% and 82% increases against the sub-head of Compression & Transmission respectively over RERR FY 2021-22 without citing any concrete reasons. ***In view of the non-convincing justification and the historical expenditure in past, the Authority decides to fix transport expense at Rs. 1,007 million for the said year, as tabulated below:***

			Rs. in Million	
	Transmission	Distribution	Selling	Total
Demanded	321	775	205	1,300
Allowed	249	600	159	1,007

vii. Insurance Expenses

8.42. The petitioner has claimed Insurance expenses at Rs. 338 million as against Rs. 279 million provided in RERR for FY 2021-22 projecting an increase of 21% for the said year. Historical comparison is given below:

Table 17: Comparison of Projected Insurance Expenses with Previous Years

						(Rs. In million)	
Particulars	FRR FY 2019-20	FRR FY 2020-21	RERR FY 2021-22	Actual six months FY 2021-22	The Petition FY 2022-23	(Inc/Dec) over RERR 2021-22	
Third party	2	3	3	2	3	-	0%
Fire risk	167	174	174	165	233	59	34%
Fidelity / cash in transit	-	3	3	-	3	(1)	-17%
Motor vehicles	66	85	90	70	90	-	0%
Miscellaneous	10	6	9	6	9	-	0%
Total	245	270	279	243	338	59	21%

8.43. The petitioner has submitted that major increase in insurance expense is under Fire Risk, in the backdrop of projected increase in the expected capitalization of assets during the said year.

8.1.1 The Authority observes that huge increase of 34% in fire risk expense against 3% increase in assets from last year i.e. Rs. 11,594 million, seems exaggerated and without any valid justification. Further, any expected increase in risk should be corroborative with the devise of risk management / aversion and should not be linked merely with additional capitalization of assets. ***Accordingly, the same increase is not tenable and hence is disallowed against the sub-head of fire risk and is fixed at the level of RERR for FY 2021-22 i.e. Rs. 174 million.***

8.1.2 ***In view of above, the Authority decides to fix "Insurance Expense" at Rs. 279 million on provisional basis subject to the actualization at year end, as per table below:***

			Rs. in Million	
	Transmission	Distribution	Selling	Total
Demanded	85	156	96	338
Allowed	70	129	79	279

viii. Legal and Professional Charges

8.44. The petitioner has claimed Rs. 398 million on account of "Legal and Professional Charges" for the said year as against Rs. 204 million provided in RERR for FY 2021-22 projecting an increase of 95%. Historical comparison is given below:

Table 18: Comparison of Projected Legal & Professional Charges with Previous Years

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(Rs. In million)

Particulars	FRR FY 2019-20	FRR FY 2020-21	RERR FY 2021-22	Actual six months FY 2021-22	The Petition FY 2022-23	(Inc/Dec) over RERR 2021-22	
Legal Expenses	145	182	145	151	300	155	107%
Professional Charges	18	47	22	10	56	34	155%
Tax	14	8	8	7	16	8	100%
Audit	8	5	10	1	11	1	10%
Apprenticeship/Scholarship	8	9	15	2	12	(3)	-20%
Others	3	1	4	1	3	(1)	-25%
Total	196	253	204	172	398	194	95%

8.45. Regarding the sub-head "Legal", the petitioner has submitted that litigation against the company has increased significantly over the years due to arbitration matters, gas theft cases, LNG contracts, revision in gas tariffs, increase in number of consumers and other legal matters. The petitioner is, therefore, constrained to pursue each and every file, complaint or suit lead to Court fee, payment to lawyer's professional fee, proclamation charges, payment to local Commission for recording of evidence in every case, lead to huge cost under this head. In addition, IPP's as well as suppliers and contractors are continuously invoking arbitration clauses of the agreements/tender documents/purchase orders and in some cases they also approach to the Court of Law for redresses of their grievances.

8.46. Regarding 19% increase under the sub-head of professional charges, the petitioner has submitted that based on recent revision in RLNG sales tax from 17% to 12% and surge in RLNG price has accelerated accumulation of input sales tax on purchase of RLNG. The tax consultant is required to be hired to recover stuck amount from FBR. Proposed amount of Rs. 56 million under the head of "Professional" also include inflationary impact of two years in cost of services rendered by the consultants. In addition to the above, external Auditors are also engaged in various special assignments for certification of expenditure upon OGRA direction.

8.47. Regarding legal charges, the Authority observes that the petitioner has come up with similar generic justifications several times in the past. The interveners, in the past and also recently, have criticized the petitioner such significant over spending under this head. The Authority is of the considered view that the petitioner should avoid unnecessary litigation with the view to curtail legal expenses. The Authority, during public hearing also directed petitioner to reduce litigation, being one of the indication of good corporate governance. In view of the same, the management needs to take serious note of the said state of affairs and formulate a commercially viable policy regarding litigation expenses so as to reduce the number of legal cases to a bare minimum level. *Regarding international arbitration, the Authority reiterates its direction to the petitioner to ensure compliance of all agreed terms and avoid any breach thereof, since the same shall eventually result in spending of imprudent costs of litigation and shall be considered by the Authority at the time of FRR purely on merits and touchstone prudence.*

8.48. ***In view of above, the Authority decides to fix Legal expense at Rs. 182 million for the said year, with the direction to reduce legal expenses by minimizing undue litigation with the stakeholders. Rest of the expenses have been reasonably projected by the petitioner and are accepted by the Authority.***

8.49. ***In view of the above, the Authority determines the expenses under the head "Legal and Professional Charges" at Rs. 280 million for the said year, as tabulated below:***

			Rs. in Million	
	Transmission	Distribution	Selling	Total
Demanded	100	186	112	398
Allowed	70	131	79	280

ix. Provision for doubtful debts

8.50. The petitioner has projected under this head "Provision for doubtful debts" for the said year at Rs. 1,433 million, as against nil amount over RERR FY 2021-22. Historical comparison is given below:

Table 19: Comparison of Provision of doubtful debts with Previous Years

					(Rs. In million)	
Particulars	FRR FY 2019-20	FRR FY 2020-21	RERR FY 2021-22	The Petition FY 2022-23	(Inc/Dec) over RERR 2021-22	
Provision of doubtful debts	1,243	728	-	1,433	705	97%
Total	1,243	728	-	1,433	705	97%

8.51. The petitioner has claimed provision for doubtful debts against disconnected consumers at Rs. 1,433 million excluding Expected Credit Loss (ECL) for the said year.

8.52. The petitioner has been repeatedly advised by the Authority to increase internal control systems, management practices and recoveries. Unfortunately, increasing trend of disconnected consumers shows a dismal situation, whereby instead of increasing recoveries, doubtful debts are being increased which does not reflect good corporate governance measures being taken by the petitioner. ***In view thereof, the Authority is constrained to disallow the claimed amount on this account until the petitioner demonstrates and physically achieve efficiency in terms of reduction in litigation cases and further piling up of disconnected consumers.***

x. Security Expenses

8.53. The petitioner has claimed Rs. 2,496 million under this head for the said year as against Rs. 1,853 million per the RERR FY 2021-22 projecting an increase of 35% for the said year. Historical comparison is given below:

Table 20: Comparison of Projected Security Expense with Previous Years

						(Rs. In million)	
Particulars	FRR FY 2019-20	FRR FY 2020-21	RERR FY 2021-22	Actual six months FY 2021-22	The Petition FY 2022-23	(Inc/Dec) over RERR 2021-22	
Security forces	670	876	1,413	371	1,965	552	39%
Security guards	348	364	440	415	531	91	21%
Total	1,018	1,240	1,853	786	2,496	643	35%

8.54. Under the sub-head of "Security forces", the petitioner has demanded 39% increase over RERR FY 2021-22 and has submitted that no extraordinary increase has been envisaged against existing contracts and only impact of expected annual revision of contracts and increase in minimum wage rates by Federal/Provincial Governments has been incorporated in above claim. The petitioner has also included Rs. 360 million for Shahbaz Rangers for which service agreement is under negotiation. The petitioner has also informed that agreement with Pakistan Ranger Sindh could not be finalized in FY 2021-22 and therefore, the same has again been projected during the said year.

8.55. Regarding security guards, the petitioner has informed that w.e.f July, 2021, 17% increase in minimum wage rate has been announced by provincial governments. Similarly, increase of 15% in minimum wages rates is expected from July, 2022 due to high inflation. Moreover, 7 to 8% increase in number of guards has been envisaged due to deterioration in law & order situation and security threat alerts. In view of the same, the petitioner has requested to allow entire amount of Rs. 2,496 million for the said year.

8.56. The Authority notes that the petitioner has been consistently allowed reasonable increases under the head of security expenses, based on following grounds:

- Increase allowed on account of revision in rates of security guards from Rs. 20,423 to Rs. 23,898 per guard per month (FY 2019-20).
- Cost on account of deployment of Shahbaz Rangers at Qadirpur-Sawan segment (FY 2020-21).
- Rs. 360 million allowed on account of Sawan-Qadirpur-ACIX for its security arrangement during FY 2021-22, along with inflationary impact. Security guard salaries was increased by 3,138/month in compliance of FG announcement of minimum salary/wages.

8.57. The Authority, considering revised agreements and deployment of Shahbaz Rangers at Sawan Qadirpur, had already allowed sufficient funds during FY 2020-21 and FY 2021-22, therefore, claiming additional amount on similar premise defies logic and hence is disallowed. ***The Authority, taking into consideration the already allowed funds to petitioner, and actual expenditure in the past upto December, 2021, decides to fix it at the level of RERR FY 2021-22 i.e. Rs. 1,853 million for the said year subject to the actualization as per table below:***

			Rs. in Million	
	Transmission	Distribution	Selling	Total
Demanded	2,099	246	151	2,496
Allowed	1,558	183	112	1,853

***xi.* UFG Control Activities**

8.58. The petitioner has projected an operational expense of Rs. 1,444 million on account of UFG Control Activities for ensuring implementation of KMIs that cover different Leakage Control, Theft Control and Measurement Error Control Programs etc. The Authority notes that it undertook a UFG study for determining UFG Benchmarks of the gas companies through a consultant of international repute vis M/s KPMG Taseer Hadi & Co. Chartered Accountants (KPMG) and in light of the said study, UFG benchmark was fixed at 5 % whereas, 2.6 % local condition allowance was linked with the implementation of 30 KMIs for the period of five years i.e. from 2016-17 till 2021-22. The Authority notes that the validity of the study has expired, however, activities as per KMIs are essential to increase network visibility, carry out rehabilitation, curtail theft and improve recoveries and cannot be ignored.

8.59. ***In view of the foregoing and keeping in view operational requirement, the Authority allows Rs. 722 million under this head against the amount projected by the petitioner.***

***xii.* Protective supplies & Clothing**

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8.60. The petitioner has claimed Rs. 110 million under this head "Protective supplies & Clothing" for the said year as against Rs. 59 million per the RERR FY 2021-22 projecting an increase of 86% for the said year. Historical comparison is given below:

Table 21: Comparison of Projected Protective supplies & Clothing with Previous Years

(Rs. In million)

Particulars	FRR FY 2019-20	FRR FY 2020-21	RERR FY 2021-22	Actual six months FY 2021-22	The Petition FY 2022-23	(Inc/Dec) over RERR 2021-22	
Protective supplies/ Clothing	53	70	59	30	110	51	86%
Total	53	70	59	30	110	51	86%

8.61. The petitioner has submitted that it has diversified workforce and their field staffs are exposed to various hazards during operational activities at their workplace. Moreover, it has strong commitment as per Company's HSE Policy for provision of adequate quantity of Personal Protective Equipment (PPE's) / Protective Clothing to its employees to perform Distribution and Transmission operational activities. The petitioner stated that devaluation of Pak rupee has badly effected prices of PPEs, as huge hike in prices around 17% is witnessed while comparing the same with the last year expenditure. The petitioner has argued that after carefully assessing the annual requirement for optimal utilization of resources, safety shoes (one pair per year) and uniform (two per year) for which an amount of Rs. 35 million has been proposed against entitled employees.

8.62. The Authority observes that it has always allowed justified and rationale cost to the petitioner on account of HSE standards so as to ensure operational activities without hazards. However, projecting gigantic increase of 86% over a period of one year is not justified. ***In view of the same, the Authority, considering the operational requirement as well as petitioner's capacity to manage the said expense during one year, decides to allow protective supplies and clothing at Rs. 77 million on provisional basis subject to the actualization at year end, as per table below:***

Rs. in Million

	Transmission	Distribution	Selling	Total
Demanded	9	91	10	110
Allowed	6	64	7	77

xiii. **Staff training and recruiting expenses**

8.63. The petitioner has claimed Rs. 98 million under the head of "staff training & recruiting expenses" for the said year as against Rs. 35 million allowed per the RERR FY 2021-22 projecting an increase of 280%. Historical comparison is given below:

Table 22: Comparison of Projected Staff training and recruiting expenses with Previous Years

(Rs. In million)

Particulars	FRR FY 2019-20	FRR FY 2020-21	RERR FY 2021-22	The Petition 2022-23	(Inc/Dec) over RERR 2021-22	
Staff recruiting expenses	4	-	-	28	28	
Staff Training, SNGTI/EDP	40	23	35	70	35	200%
Total	44	23	35	98	63	280%

8.64. The petitioner has stated that the Rs. 28 million has been projected for hiring for conducting recruitment test against the vacant positions of executives and

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subordinates. Regarding the training staff training, out of Rs. 70 million, Rs. 13 million for local Training, Rs, 27 million for Sui Northern Gas Pipelines Training Institution (SNGTI) & Rs. 30 million for Executive Development Program has been envisaged during the said year.

8.65. Regarding training expenditure, the Authority notes that such huge expenditure has been projected Rs. 70 million under sub-heads SNGTI & EDP, for which no concrete justification has been provided. Further, local and in-house training should be initiated by the petitioner to save cost and benefit the maximum number of employees. ***In view of the above, the Authority decides to maintain "Staff Training & Recruitment expenses" at Rs. 23 million for the said year, as per table below;***

			Rs. in Million	
	Transmission	Distribution	Selling	Total
Demanded	25	45	28	98
Allowed	6	11	7	23

xiv. Sponsorship of chairs at Universities

8.66. The petitioner has claimed Rs. 10 million under this head "Sponsorship of Chair at Universities" for the said year.

8.67. The petitioner has informed that Punjab university and UET Lahore and Peshawar is the prime beneficiaries of sponsorship and Rs. 3.33 million each is paid to these educational institutions every year for conducting research activities related to Gas Engineering and alternate energy.

8.68. The Authority notes that matter in respect of "Sponsorship of Chair at universities" has already been discussed and decided in the past. The Authority is of the firm view that the tariff regime for the natural gas sector is now in place where clear criteria has been provided for Corporate Support Responsibility (CSR) related activities has been provided. Therefore, the sponsorship of chair in these developed cities does not fall under the said criteria. The Authority appreciates the company's initiative for supporting the universities in the field of research, but the same be met from its profits. ***Accordingly, the Authority decides to disallow the same from the revenue requirement determination.***

xv. Outsourcing of Call Centre for Complaints Management

8.69. The petitioner has claimed Rs. 40 million under this head "Outsourcing of Call Centre for Complaints Management" for the said year as against Rs. 30 million per the RERR FY 2021-22 projecting an increase of 33%. Historical comparison is given below:

Table 23: Comparison of Projected Outsourcing of Call Centre expense with Previous Years:

					(Rs. In million)	
Particulars	FRR FY 2019-20	FRR FY 2020-21	RERR FY 2021-22	The Petition FY 2022-23	(Inc/Dec) over RERR 2021-22	
Outsourcing of Call Centre for Complaints Management	26	19	30	40	10	33%
Total	26	19	30	40	10	33%

8.70. The petitioner has submitted that current contract of "Call Center Services" with M/s OVEX TECH is expiring on 30-06-2022. Accordingly, tendering process is underway for awarded of new contract. The petitioner has argued that revenue budget requirement for call center services shall increase keeping in view the current inflation wave in anticipation of the new contract. Evaluation of Technical proposals by interested parties for new contract (2022-24) has been finalized and financial bids for next contract are expected to be opened soon.

8.71. ***The Authority, keeping in view of the inflationary impact, decides to allow 10% increase over RERR FY 2021-22 and fixes the expenditure at Rs. 33 million, subject to the actualization at year end as per table below;***

			Rs. in Million	
	Transmission	Distribution	Selling	Total
Demanded	-	-	40	40
Allowed	0	0	33	33

xvi. Corporate Social Responsibility (CSR) and sports related activities

8.72. The petitioner has projected Rs. 119 million under the head of "Sports related activities" as against Rs. 36 million per the RERR FY 2021-22 projecting an increase of 231%. Whereas, the petitioner has claimed Rs. 20 million under "CSR" activities for the said year as against Rs. 8 million per the RERR FY 2021-22 projecting an increase of 150%. Historical comparison is given below:

Table 25: Comparison of Sports activities and Corporate Social Responsibility

					(Rs. In million)	
Particulars	FRR FY 2019-20	FRR FY 2020-21	RERR FY 2021-22	The Petition FY 2022-23	(Inc/Dec) over RERR 2021-22	
Sports related activities and Annual Sports	37	43	36	119	83	231%
Corporate Social Responsibility		8	8	20	12	150%
Total	37	51	44	139	95	216%

8.73. Under the head, "Sports related activities", the petitioner has submitted that it's Sports Cell is currently organizing Annual Sports for employees and is managing 08 professional Sports including Badminton, Hockey, Football, Kabaddi, Tennis, Squash, Sport Climbing and Mountaineering in different events at National and International level.

8.74. The petitioner has argued that most of the population has now been vaccinated against Covid-19 and almost all the restrictions on sports activities have been withdrawn, therefore, it has been envisaged more sports activities during the said year. Moreover, the petitioner informed that its employees are being offered high salaries and permanent jobs in order to tempt its top performing players by other government departments. In this situation, it is getting difficult for the petitioner to retain its top performers to maintain our prominent track record in the field of Sports.

8.75. The Authority appreciates the initiatives being taken by the petitioner to encourage sports activities for staff and outside players, but claiming 231% increase over a period of one year is not prudent.

8.76. ***In view of above, the Authority decides to restrict the expenditure Rs. 43 million to cater for inflation to conduct sports related activities during the said year.***

8.77. The petitioner has claimed Rs. 10 million on account CSR activities for the said year. The petitioner has stated that CSR activities are carried out in accordance with the its policy to improve the quality of life of the communities under developed / under privileged / gas producing areas with priority to community residing in 15 Km radius of gas field by allocating resources from the CSR budget in the fields of Health, Education and Environment.

8.78. The Authority notes that the criteria for CSR activities has been provided. The petitioner is encouraged to incur/spend the same in the light of parameters set in tariff regime for CSR activities and shall submit a certificate to this effect at the time of FRR. Any additional spending by company for activities falling outside tariff regime, will be met from its own profit in the larger national interest.

8.79. ***The Authority, per the criteria set in tariff regime for natural gas sector, decides to allow 50% of the claim and allows Rs. 10 million on provisional basis subject to the actualization at year end.***

			Rs. in Million	
	Transmission	Distribution	Selling	Total
Demanded	35	64	40	139
Allowed	13	24	15	53

xvii. Quality Assurance Programme

8.80. The petitioner has claimed Rs. 91 million under this head "Quality Assurance Programme" for the said year as against nil amount in the past.

8.81. The petitioner has stated that in compliance of OGRA's License Condition No. 28, the company had arranged technical audit of its operations in FY 2018-19 wherein it was pointed out by the Third party auditors that "QA role is not seen as very effective or as it supposed to be, since currently, it is in surveillance role limited to Projects. Later on, it was also advised by the board of Directors of the Company to present a detailed Quality Assurance plan covering technical works including metering Workshops etc. in addition to the development works" Previously, scope of Quality Assurance Department was limited to the selected activities of Distribution & Project departments whereas, after approval of Quality Assurance Program "QAP" the scope of the department had been enhanced to all the Engineering departments including Customer services. Currently, "QAP" has been partially implemented at Distribution (material procurement), Metering & Customer Services under the available T&D cost approved by the authority because these activities pertained to Distribution.

8.82. The Authority notes with concern that the petitioner suddenly realized the need of Quality Assurance, whereas Q.A is already in-built function of every department, either being exercised job and responsibility through designed check and control measures, benchmark, procedure, international best practices, modernization and through implementing new technologies. Therefore, the Authority cannot allow operating cost under such head through building new department in the existing T&D cost heads.

8.83. ***In view of the same, the Authority decides to disallow entire amount and directs the petitioner to manage it through its own manpower/resources.***

xviii. Other Expenses

8.84. The petitioner has projected Rs. 374 million in head "Others" for the said year under this account, as per table below;

Table 26: Comparison of projected "Other Expenses" with Previous Years

Particulars	FRR FY 2019-20	FRR FY 2020-21	RERR FY 2021-22	The Petitions 2022-23	(Inc/Dec) over RERR 2021-22 (Rs. In million)	
Construction equipment operating cost	146	146	146	235	89	61%
Subscriptions	3	4	4	5	1	25%
Newspapers, books & periodicals	3	3	7	7	-	0%
Board meetings & directors' expenses	57	37	61	75	14	23%
Stock exchange fee	3	4	4	5	1	13%
Entertainment expenses	6	6	12	9	(3)	-25%
Outside services employed - govt./ local authority	-	2	-	5	5	
Sundries	10	6	19	20	1	5%
CNIC verification	8	10	13	13	-	0%
	236	218	266	374	108	40%

8.85. The petitioner under the sub-head "construction equipment operating cost", has projected Rs. 235 million for FY 2022-23 as against Rs. 146 million allowed per the RERR FY 2021-22 projecting an increase of 61% under this head of account for the said year. The petitioner further submitted that average petrol /diesel prices have increased drastically (30%) as compared to the preceding year; Current petrol rate Rs. 150/Liter and Diesel Rs. 144/Liter as compared to LY's average petrol rate Rs. 106/Liter and average diesel rate Rs. 109/liter. The increase mainly due to fuel prices which increased significantly (30%) as compared average petrol/diesel prices in preceding years.

8.86. The Authority observes that projecting 61% increase under the head of construction equipment operating cost is beyond any reasonable justification. The Authority directs the petitioner to control the expenditure within tolerable limit and actively monitor expense in this head. ***In view of the same, the Authority decides to fix Rs. 161 million i.e. 10% over RERR FY 2021-22 against the "construction equipment operating cost" for the said year.***

8.87. The petitioner has claimed Rs. 75 million under this head "Board Meeting and directors' expenses" for the said year as against Rs. 61 million per the RERR FY 2021-22 projecting an increase of 23%.

8.88. Regarding "Board meeting and Director Expenses", the petitioner has submitted that the law provides that business of a company shall be managed by the Board of Director. Hence SNGPL's BoD while performing its fiduciary duty may meet as frequently as required to exercise the powers vested in it and no fetters can be placed in this context. Further, in compliance with Listed Companies (Code of Corporate Governance) Regulations, 2019 various sub committees of Board of Directors have been constituted by the Board. As regards to Director's remuneration, Rule 19(2) of the Public Sector Companies (Corporate Governance) Rules-2013 inter alia provides that Directors' remuneration packages shall encourage value creation within the company, and shall align their interests with those of the company and levels of remuneration shall be sufficient to attract and retain the directors needed to run the company successfully. Keeping in view the above, foreseeing the number of expected BoD meetings and its Committee meetings to address the challenges/ issues faced, the petitioner has requested to allow estimated budget Rs. 75 million for the said year without any disallowance to meet the requisite expenses.

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8.89. The Authority notes with serious concern that exorbitant projection Rs. 75 million has been made under this head of account, as estimated three (3) BoD meetings on each fortnight with projected Rs. 3 million expense per meeting is beyond any stretch of imagination. The Authority directs the petitioner to set exemplary conduct and further economize spending under this head. ***In view of the same, the Authority decides to fix Rs. 61 million against the "Board Meeting and directors' expenses" for the said year.***

8.90. ***Further, the Authority accepts other expenses being within tolerable limit. In view of the above, the Authority decides to maintain "other expenses" at Rs. 286 million with the directions to incur the expenses judiciously.***

			Rs. in Million	
	Transmission	Distribution	Selling	Total
Demanded	99	224	101	424
Allowed	67	151	68	286

xix. Remaining T&D Expenses not discussed above

8.91. The Authority observes that the remaining expenses Rs. 2,400 million for the said year not discussed above have been either under the allowed limits or have allowed based on the proper justification by the petitioner, as under:

Table 27: Summary of Remaining T&D Expenses

					Rs. in million	
Sr #	Description	Transmission	Distribution	Selling	Total	As allowed
1	Stationery, telegrams and postage	21	49	201	270	270
2	Fuel & Power	272	296	-	567	567
3	Advertisement & publicity	11	20	204	235	235
4	ISO 14001 & OHSAS Certification	3	6	3	12	12
5	OGRA fee	-	-	379	379	379
6	Bank Charges	3	5	3	11	11
7	Facilities Provided by other companies	4	7	4	15	15
8	Gas Bills Collection Charges	-	-	666	666	666
9	Gathering charges of collection data	-	-	65	65	65
10	Dispatch of Gas Bills	-	-	180	180	180
11	Total	313	381	1,706	2,400	2,400

xx. Transmission & Distribution Cost Determined by the Authority

8.92. In view of above discussion, the Authority decides consolidated T&D expenses as under;

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Table 28: Transmission & Distribution Cost Determined by the Authority

Rs.in million

Sr #	Description	RERR 2021-22	The Petition FY 2022-23 Total	Transmission	Distribution	Selling	Total	Difference inc/(dec)
				As determined by OGRA				
1	HR Cost	16,996	29,734	4,004	9,343	6,207	19,554	(10,180)
2	Stores & spares consumed	880	1,486	430	435	15	880	(606)
3	Repairs & maintenance of system	1,294	2,127	305	965	178	1,448	(679)
4	Rent, rates, royalty, electricity and telephones	619	830	199	277	197	673	(157)
5	Travelling expenses	163	199	60	54	49	163	(36)
6	Transport expenses	975	1,301	249	600	159	1,007	(293)
7	Insurance	279	338	70	129	79	278	(60)
9	Legal and Professional services	204	398	70	131	79	280	(118)
11	Protective clothing & Supplies	59	110	6	64	7	77	(33)
12	Staff Recruiting expenses	-	28	-	-	-	-	(28)
13	Staff Training Expenses	35	70	6	11	7	23	(47)
14	Security expenses	1,760	2,496	1,558	183	112	1,853	(643)
15	Sponsorship of Chairs for Universities	-	8	-	-	-	-	(8)
16	Outsourcing of Call Centre		40	-	-	33	33	(7)
17	Sports cell expenses / Annual Sports	48	119	9	21	14	43	(76)
18	Board Meeting and directors expenses	61	75	15	28	17	61	(14)
19	Corporate Social Responsibility	12	20	3	5	3	10	(10)
20	**Other expenses**	205	349	52	122	51	225	(124)
21	KMI Implementation Plan / UFG Control Activities	662	1,444	148	345	229	722	(722)
22	Provision for doubtful debts	-	1,433	-	-	-	-	(1,433)
23	Quality Assurance Program	-	91	-	-	-	-	(91)
24	Other Remaining T&D Cost	2,311	2,400				2,400	-
25	**Gross Operating Budget**	**26,563**	**45,095**	**7,183**	**12,712**	**7,436**	**29,730**	**(15,365)**
27	Allocation to CWIP (Others)	(319)	(500)				(500)	-
28	Net Operating Budget	**26,244**	**44,595**	**7,183**	**12,712**	**7,436**	**29,230**	**(15,365)**
29	Allocation to RLNG Segment @ 50%	12,219					14,615	
30	Net Operating Budget charged to NG	14,025					14,615	

9.1 Late Payment Surcharge in respect of gas supplier and Finance Cost of Working Capital

9.1.1 The petitioner claimed Rs. 31,658 million on account of LPS in respect of gas suppliers for the said year. Further, the petitioner demanded Rs. 1,060 million against financing cost of working capital.

9.1.2 The Authority observes that matter in respect of LPS payable has been exhaustively discussed & decided in its determination of FRRs i.e. FY 2018-19 & MFR FY 2018-19 and FY 2019-20. The Authority is of the firm view that payables along with LPS in respect of state owned entities is a matter of 'circular debt' and burden of payment cannot be shifted to general consumers till the final settlement by GoP. ***In view of the same, the Authority decides to pend the entire LPS payment Rs. 31,658 million for the said year, and reiterates its directions to take up the matter with the Ministry of Energy for amicable settlement.***

9.1.3 ***The Authority, however, allows the cost of short term borrowing amounting to Rs. 1,060 million on provisional basis subject to the actualization at year end that shall be considered to the touchstone prudence and rationale.***

9.2 Worker Profit Participation Fund (WPPF)/ Punjab Worker Welfare Fund (PWWF)

9.2.1 The petitioner claimed collective amount Rs. 1,538 million against & PWWF& PWWF for the said year. The petitioner stated that the both WPPF and PWWF Act, are applicable and applicable on companies operating in Pakistan. Accordingly, the petitioner has projected WPPF @ 5% on estimated profit, while PWWF @ 2% on the estimated profit for the said year.

9.2.2 ***In view of above, WPPF/PWWF is re-calculated at Rs. 550 million on provisional basis subject to the actualization at year end, based on the final outcome of the honorable Court as the matter is sub-judice.***

10 Cumulative revenue shortfall pertaining to previous years'

10.1 The petitioner has claimed Rs. 431,073 million on account of cumulative revenue shortfall pertaining to previous years upto FY 2021-22. The petitioner has claimed projected shortfall of Rs. 92,617 million for as per RERR FY 2021-22. The petitioner has submitted that inadequate revision/increase in gas prices is mainly attributable to those past years' shortfall, therefore requested to incorporate cumulative revenue shortfall as part of instant decision.

10.2 The Authority notes that determinations for RERR for FY 2021-22 has been issued and cumulative previous year's shortfall is tabulated as under;

Description	Rs. in million
Shortfall upto FY 2018-19	167,091
Shortfall of FY 2019-20 (As per Motion for Review against DFRR FY 2019-20)	37,755
Shortfall of FY 2020-21	38,939
Shortfall of FY 2021-22 (As per RERR FY 2021-22)	21,109
Total Cumulative Previous Year Shortfall upto FY 2021-22	**264,894**

10.3 ***The Authority has not included the same as part of instant revenue requirement decision and directs the petitioner to take up the matter with FG for an appropriate policy decision in the light of its earlier directions on this account.***

11 RLNG Cost of Service

11.1 The petitioner has claimed Rs. 161,816 million (Rs. 490.18/MMBTU) on account of RLNG cost of supply for the said year on projected RLNG sales volume 330,114 MMBTU. In the said RLNG cost of supply, the petitioner claimed upfront recovery of RLNG price differential Rs. 109,163 million (i.e. at Rs. 330.68/MMBTU) against estimated diverted RLNG volume 62,432 MMBTU to domestic/indigenous consumers. The computation of Transportation charges is made as under:

Table 29: RLNG's Cost of Service FY 2022-23 as Claimed by the Petitioner

Particulars	
Quantitative Data	
RLNG Input	*BBTU*
Retainage / gas used in FSRU @ 0.75%	459,900
Retained by SSGC	(3,449)
GIC - SSGCL network @ 0.5%	(38,325)
GIC - SNGPL network @ 1.2%	(2,091)
UFG @ 4.5%	(4,992)
RLNG (Diverted to)/taken from System Gas	(18,497)
Net RLNG sold	(62,432)
	330,114
Cost Components	
Amortization of Deferred Credit	*Million Rs.*
Depreciation	(581)
Return on Assets	2,410
HR and other relevant costs allocated to RLNG	6,384
Gas Internally Consumed SNGPL	18,598
Gas Internally Consumed SSGC	11,444
Transportation charges payable to SSGC	4,792
Finance cost for working capital	7,117
WPPF	2,159
Total Rs. In Million	330
Rs/ MMBTU	52,653
Diversion of RLNG towards Indigenous Gas Consumer	159.50
Impact of Diversion of RLNG to Indigenous Gas conserms to be charged to RLNG consumer Rs. In Million	109,163
Impact of Diversion of RLNG to Indigenous Gas conserms to be charged to RLNG consumer Rs./MMBTU	330.68
RLNG cost of service FY 2022-23 (Rs/ MMBTU)	490.18

11.2 The petitioner has requested that RLNG cost of supply should be based on actual throughput volumes so as to ensure the entire recovery. The petitioner has also requested to exclude RLNG diverted volumes as well as the volume retained by SSGCL for the purpose of computation of cost of RLNG service as the same is not available for its consumers.

11.3 The petitioner has pointed out that RLNG segment has reached 50% of entire sales volume, therefore, the petitioner allocated proportionate T&D cost amounting to Rs. 18,598 million to RLNG cost of service/business on the basis of projected sales volume. The petitioner also excluded SSGCL GIC volume 2091 MMBTU, along with its cost recovery under from its RLNG cost of service. The petitioner also claimed financing cost of working capital.

11.4 The Authority notes that matter of computation of RLNG cost of the petitioner has reached finality as part of its decisions of RERR for FY 2021-22 & MFR FRR FY 2019-20. Moreover, the Authority based on historical trend of LPS income, decides to include average LPS amount to Rs. 3,063 million on provisional basis, subject to actualization at the year end. In the light thereof, RLNG cost of service is re-calculated as per table below;

Table 30: RLNG Cost of Service Allowed FY 2022-23

Particulars	The Petition	As Allowed
Quantitative Data	*BBTU*	*BBTU*
RLNG Input	459,900	459,900
Retainage / gas used in FSRU @ 0.75%	(3,449)	(3,449)
Retained by SSGC	(38,325)	(38,325)
GIC - SSGCL network @ 0.5%	(2,091)	-
GIC - SNGPL network @ 1.2%	(4,992)	4,068
UFG @ 4.5%	(18,497)	(18,497)
RLNG (Diverted to)/taken from System Gas	(62,432)	-
Net RLNG sold	330,114	403,697
Cost Components	*Million Rs.*	*Million Rs.*
Amortization of Deferred Credit	(581)	(581)
LPS Income		(3,063)
Depreciation	2,410	2,183
Return on Assets	6,384	6,246
HR and other relevant costs allocated to RLNG	18,598	14,615
Gas Internally Consumed SNGPL	11,444	9,324
Gas Internally Consumed SSGC	4,792	-
Transportation charges payable to SSGC	7,117	9,313
Finance cost for working capital	2,159	-
WPPF	330	330
Total Rs. in Million	**52,653**	**38,367**
Rs/ MMBTU	**159.50**	**95.04**
Diversion of RLNG towards Indigenous Gas Consumer		
Impact of Diversion of RLNG to Indigenous Gas conserms to be charged to RLNG consumer Rs. in Million	109,163	-
RLNG cost of service FY 2022-23 (Rs/ MMBTU)	**490.18**	**95.04**

11.5 The Authority observes that the supply of RLNG is a ring-fenced activity as per the prevalent policy guidelines of the FG. Accordingly, tariff adjustment as per the instant determination shall be restricted to the extent of determination relating to the natural gas revenue requirement of gas companies. However, above cost of service for RLNG activity is determined through this Order and shall be recovered through RLNG price from its consumer in accordance with existing policy guidelines of FG.

12 Determination

12.1 ***In exercise of its powers under Section 8(1) of the Ordinance, the Authority determines the ERR for the said year at Rs. 278,715 million as against petitioner's claim of Rs. 349,856 million, as tabulated below:***

Table 31: Components of ERR for FY 2022-23 as allowed

Million Rs.

Particulars	Claimed by the peitioner	As allowed
Cost of gas sold	240,788	235,644
UFG (disallownce) / allowance	(750)	(8,806)
Transmission and distribution cost	27,240	15,675
Gas internally consumed	1,011	784
Depreciation	22,526	18,342
Late Payment Surcharge (Payable)	31,658	-
Workers Profit Participation Fund	1,538	550
Return on assets	25,434	16,526
Additional revenue requirement for LPG Air-Mix Projects	411	-
Total Revenue Requirement (excluding Previous year shortfall)	**349,856**	**278,715**

12.2 The provisionally allowed expenses are subject to adjustments on the basis of review under section 8(2) of the Ordinance, and later after scrutiny of auditors initialed accounts of the petitioner for the said year, provided these expenses are substantiated with appropriate justification and analysis in the form acceptable to the Authority.

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

Rule 17(1)(h)

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

Rule 17(1)(j)

> *"only such capital expenditure should be included in the rate base as is **prudent, cost effective** and **economically efficient;**"*

12.4 In view of above, the petitioner's total operating income is estimated at Rs. 197,307 million as against the revenue requirement of Rs. 278,715 million and thus there is a shortfall of Rs. 81,408 million in its estimated revenue requirement for the said year. In order to adjust this shortfall, the Authority hereby makes, on provisional basis, upward revision 45.34% (Rs. 266.59 per MMBTU) in the prescribed price, thereby determining the average prescribed price at Rs. 854.52/MMBTU for the said year (**Annexure-A**). Out of increase of Rs. 266.59/MMBTU, Rs.240.74/MMBTU (i.e. 91%) is on account of cost of gas i.e. a natural pass through item.

12.5 Provisional prescribed prices against each category of consumers for the said year, effective from July 1, 2022, are attached as **Annexure-B** in comparison with existing sale price.

12.6 The revised provisional prescribed prices are subject to re-adjustment 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 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."

12.7 The Authority, however, notes that latest amendment in OGRA's Act has recently notified in official gazette after receiving assent of the President of Pakistan which requires that FG shall ensure adequate and timely gas price revision within the stipulated time period. The latest amendments in relevant legal provisions of Section 8(3) & (4) are reproduced below;

Section 8(3) of the Ordinance

The Federal Government shall, within forty days of the advice referred to in sub-sections (1) and (2), advise the Authority of minimum charges and the sale price for each category of retail consumer for natural gas for notification in the official Gazette by the Authority of the prescribed price as determined in sub-sections (1) and (2), the minimum charges and the sale prices for each category of retail consumers for natural gas.

Federal Government shall ensure that the sale prices so advised are not less than the revenue requirement determined by the Authority.

Section 8(4) of the Ordinance

*If the FG fails to advise the Authority within the time specified in sub-section (3), **the category wise prescribed prices so determined by the Authority under sub-section (1) and (2), as the case may be, shall be notified by the Authority as the category wise sale prices.***

12.8 ***The Authority, considering the FG's stance in respect of sale price revisions, had not included any financial impact relating to previous years' shortfall as part of the instant determinations as decided in para 10.3 above. Regarding inclusion of previous year shortfall, the Authority through this Order refers the matter to FG for appropriate policy decision.***

13. Public Critique, Views, Concerns, Suggestions

13.1 The Authority has recorded critique, views, concerns, and suggestions of the interveners and participants given in chapter 3 above. The Authority, keeping in view the vehemently requests by the interveners, considers it important to draw specific attention of the FG regarding policy issues as included in chapter 3 above for due consideration.

14. General Directions

14.1 In addition to the directions issued by the Authority in its previous determinations, the petitioner is further directed to: -

i) ***submit a review petition to the Authority latest by October 15, 2022, for review of its estimated revenue requirements as required under Section 8(2)***

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of the Ordinance, keeping in view the actual and anticipated changes in international prices of crude and HSFO during the period June to November 2022 and the trend of Rupee-Dollar exchange rate.

ii) Board of Directors is requested to take effective measures to reduce cost of service by effectively monitoring of all input costs.

iii) rationalize its extremely wide scales ranging over a length of the service of 110 years (based on 5% annual increments), which is impractical by all stretch of the imagination and unparalleled with any public sector body. Moroever, all operational and administrative matters (i.e. revision of initial pay scales upto grade III for executives & subordinates), additional hiring of manpower and CBA shall be assigned first priority in utilizing the additional amounts through OGRA's allowed funds. In this respect, Board of Directors may immediately initiate a comprehensive review of the pay scales especially for middle and senior management and bring it in line with other public sector companies of energy sector.

iv) expedite the recovery from defaulting consumers and curtail ever-increasing expenses under the provision for doubtful debt, litigation cases and cost relating thereto.

v) Regarding international arbitration, the petitioner to ensure compliance of all agreed terms and avoid any breach thereof, since the same shall eventually result in spending of imprudent costs of litigation and shall be considered by the Authority at the time of FRR purely on merits and touchstone prudence.

vi) All the relevant contentions of the intervener as summarized in chapter 3 of this order be carefully noted and complied/addressed in letter & spirit under the ambit of the regulatory framework.

Zain-ul Abideen Qureshi
(Member Oil)

Muhammad Arif
(Member Gas)

Masroor Khan
(Chairman)

The Islamabad, June , 2022

REGISTRAR
Oil & Gas Regulatory Authority
Islamabad

A. Computation of Estimated Revenue Requirement for FY 2022-23

Million Rs.

	Particulars	The Petition	Adjustment	As allowed
	Gas sales volume -MMCF	385,823	(59,459)	326,364
	BBTU	367,806	(62,432)	305,374
"A"	**Net Operating revenues**			
	Net sales at current prescribed price	200,009	(20,470)	179,539
	Rental & service charges	4,320	-	4,320
	Late Payment Surcharge and interest on arrears	7,549	-	7,549
	Amortization of deferred credit	3,089	-	3,089
	Transportation Income	760	-	760
	Other operating income	2,050	-	2,050
	Total income "A"	**217,777**	(20,470)	**197,307**
"B"	**Less Expenses**			
	Cost of gas sold	240,788	(5,144)	235,644
	UFG (disallownce) / allowance	(750)	(8,056)	(8,806)
	HR cost Incl. T& D cost, net of capital allocation	25,997	(11,382)	14,615
	Gas internally consumed	1,011	(227)	784
	Depreciation	22,526	(4,184)	18,342
	Late Payment Surcharge (Payable)	31,658	(31,658)	-
	Finance cost for working capital	1,060	-	1,060
	Operating expense of Sub-region,CSC and CCs	183	(183)	-
	Workers Profit Participation Fund	1,538	(988)	550
	Total expenses "B"	**324,011**	(61,821)	**262,189**
"C"	**Operating profit / (loss)(A - B)**	**(106,234)**	41,351	**(64,883)**
	Return required on net assets:			
	Net assets at begining	155,700	(29,913)	125,787
	Net assets at ending	191,708	(77,415)	114,293
		347,408	(107,328)	*240,080*
	Average fixed net assets (I)	**173,704**	(53,664)	**120,040**
	Deferred credit at begining	20,819	-	20,819
	Deferred credit at ending	20,155	-	20,155
		40,974	-	**40,974**
	Average net deferred credit (II)	**20,487**	-	**20,487**
"D"	**Average operating assets (I-II)**	**153,217**	(53,664)	**99,553**
	Return required on net assets	16.60%	-	16.60%
"E"	Amount of return required	25,434	(8,908)	16,526
"F"	(Excess) / Shortfall FY 2022-23 - gas operations	**131,668**	(50,259)	**81,408**
"G"	Additional revenue requirement for LPG Air-Mix Projects	411	(411)	-
"H"	(Excess) /shortfall FY 2022-23 without previous years shortfall	**132,079**	(50,670)	**81,408**
	Average Inc/(Dec) in Prescribed Price FY 2022-23 (Rs/MMBTU)	**359.10**	(93)	**266.59**
"I"	**Total Revenue requirement FY 2022-23**	**349,856**	(71,141)	**278,715**
"K"	**Average Prescribed Price (PP) FY 2022-23(Rs./MMBTU)**	**902.89**	(48.37)	**854.52**

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B. Existing Category-wise Sale Price & Provisional Prescribed Prices for FY 2022-23

	Particulars	Existing Sales Price	Average Prescribed Price FY 2022-23
		Rs/MMBTU	
(I)	Domestic Consumers:		
	a) Standalone meters		
	b) Mosques, churches, temples, madrassas, other Religious Places and Hostels attached thereto;		
	Upto 0.5 hm³ per month	121.00	854.52
	Upto 1 hm3 per month	300.00	854.52
	Upto 2 hm3 per month	553.00	854.52
	Upto 3 hm3 per month	738.00	854.52
	Upto 4 hm3 per month	1,107.00	854.52
	Above 4 hm3 per month	1,460.00	854.52
	The billing mechasism will be revised so that the benefit of one previous / preceding slab is availble to domestic consumer (residentail use).		
	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.		
(II)	Special Commercial Consumers (Roti Tandoors)		
	Upto 0.5 hm³ per month	110.00	854.52
	Upto 1 hm3 per month	110.00	854.52
	Upto 2 hm3 per month	220.00	854.52
	Upto 3 hm3 per month	220.00	854.52
	Above 3 hm3 per month	700.00	854.52
(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 including hotel industry, malls, places of entertainment like cinemas, clubs, theaters and private offices, corporate firms, etc.		
	All off-takes at flat rate of		
(IV)	Ice Factories:		
	All off-takes at flat rate of	1,283.00	854.52
(V)	General Industrial:	1,283.00	854.52
	All consumers engaged in the processing of industrial raw material into value added finished products irrespective of the volume of gas consumed but excluding such industries for which a separate rate has been prescribed.		
	All off-takes at flat rate of		
(VII)	Export Oriented (General Industry)		
	All off-takes at flat rate of	1,054.00	854.52
(VIII)	Export Oriented (Captive)		
	All off-takes at flat rate of	819.00	854.52
(IX)	Captive Power:	852.00	854.52
	Captive Power plant/unit means an industrial undertaking/unit carrying out the activity of power production (with or without co-generation) for self-consumption and/or for sale of surplus power to a Distribution Company or bulk-power consumer.		
	All off-takes at flat rate of		
(X)	Compressed Natural Gas (CNG):		
(a)	CNG (Region-I):	1,087.00	854.52
	All off-takes at flat rate of		
(XI)	Cement Factories:		
	All off-takes at flat rate of	1,371.00	854.52
(XII)	Fertilizer Companies:	1,277.00	854.52
(i)	*Pak American Fertilizer Company Limited, Daudkhel*		
(a)	For gas used as feed stock for fertilizer		
	All off-takes at flat rate of		
(b)	For gas used as fuel for generation of electricity, steam and for usage of housing colonies.	302.00	854.52
	All off-takes at flat rate of		
(ii)	Pak Arab Fertilizer Limited, Multan.	1,023.00	854.52
(a)	For gas used as feed stock for fertilizer		
	All off-takes at flat rate of		
(b)	For gas used as fuel for generation of electricity, steam and for usage of housing colonies.	302.00	854.52
	All off-takes at flate rate of		
(iii)	Dawood Hercules Chemicals Limited, Chichoki Malian, Sheikhupura District.	1,023.00	854.52
(a)	For gas used as feed stock for fertilizer.		
	All off-takes at flate rate of		
(b)	For gas used as fuel for generation of electricity, steam and for usage of housing colonies.	302.00	854.52
	All off-takes at flate rate of		
(vi)	*Pak-China Fertilizer Limited, Haripur*	1,023.00	854.52
(a)	For gas used as feed stock for fertilizer.		
	All off-takes at flate rate of		
(b)	For gas used as fuel for generation of electricity, steam and for usage of housing colonies.	302.00	854.52
	All off-takes at flate rate of		
(v)	*Hazara Phosphate Plant Limited, Haripur.*	1,023.00	854.52
(a)	For gas used as feed stock for fertilizer.		
	All off-takes at flate rate of		
(b)	For gas used as fuel for generation of electricity, steam and for usage of housing colonies.	302.00	854.52
	All off-takes at flate rate of		
(vi)	*ENGRO Fertilizer Company Limited*	1,023.00	854.52
(a)	For gas used as feed stock for fertilizer		
	All off-takes at flate rate of		
(b)	For gas used as fuel for generation of electricity, steam and for usage of housing colonies. US$	0.70	0.70
	All off-takes at flate rate of		
(XIII)	Power Stations:	1,023.00	854.52
(a)	WAPDA's Power Stations and other electricity utility companies excluding WAPDA's Natural Gas Turbine Power Station, Nishatabad, Faisalabad.		
	All off-takes at flate rate of		
(b)	WAPDA's Natural Gas Turbine Power Station, Nishatabad, Faisalabad	857.00	854.52
	All off-takes at flate rate of		
(XV)	Independent Power Producers:	857.00	854.52
	All off-takes at flate rate of	857.00	854.52

C. HR Benchmark Computation FY 2022-23

			Million Rs.
	Particulars	**FY 2021-22**	**FY 2022-23**
	Base Cost	17,929	18,266
	T & D network (Km)	159,049	167,254
	Number of Consumers (No.)	7,718,485	8,121,535
	Sales Volume (MMCF)	691,701	677,258
	Unit Rate (Rs,/unit)		
	T&D network (Rs./Km)	117,596	114,844
	No. of Consumers (Rs./Consumer)	2,418	2,367
	Sale Volume (Rs./MMCF)	25,202	26,407
	HR Cost Build-up (Million Rs)		
33%	T & D network (Km) 33%	6,234	6,403
33%	Number of Consumers (No.) 33%	6,221	6,407
33%	Sales Volume (MMCF)-33%	5,811	5,961
	HR Benchmark Cost	**18,266**	**18,771**
	IAS-19		783
	HR Benchmark Cost incl. IAS-19		**19,554**

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