

IN THE MATTER OF

**SUI SOUTHERN GAS COMPANY LIMITED
FINAL REVENUE REQUIREMENT, FY 2009-10**

UNDER

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

DECISION

September 24, 2010

Before:

**Mr. Tauqir Sadiq, Chairman
Mir Kamal Marri, Member (Finance)
Mr. Mansoor Muzaffar Ali, Member (Gas)**

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Written Interventions / Comments.



1. Background

- 1.1 Sui Southern Gas Company Limited (the petitioner) is a public limited company, incorporated in Pakistan, and listed on the stock exchanges at Karachi, Lahore and Islamabad. It is engaged in construction and operation of gas transmission and distribution pipelines, sale of natural gas, LPG Air-Mix, sale of gas condensate (as a by-product), and manufacture and sale of gas meters.
- 1.2 The petitioner filed a petition on August 13, 2010 under Section 8(2) of the Oil and Gas Regulatory Authority Ordinance, 2002 (the Ordinance) and Rule 4(3) of the Natural Gas Tariff Rules, 2002 (NGT Rules), for determination of its Final Revenue Requirement (FRR) for FY 2009-10 (the said year) on the basis of the accounts as initialed by its statutory auditors.
- 1.3 The petitioner submitted an amended petition (the petition) on August 31, 2010, since it had wrongly computed the Gas Development Surcharge in the petition dated August 13, 2010, thus adversely affecting the shortfall in revenue requirement for the said year.
- 1.4 The Authority, vide its Order dated November 19, 2009, had determined the petitioner's Revised Estimated Revenue Requirement for the said year (RERR) under Section 8(2) of the Ordinance at Rs. 120,575 million (the amounts have been rounded off to the nearest million here and elsewhere in this document) for estimated sale volume of 390,727 BBTU, and prescribed prices for various categories of consumers, on provisional basis, as shown in relevant columns of **Annexure-B**.
- 1.5 The petitioner has submitted the petition for determination of its FRR for the said year after incorporating the effect of actual changes in the wellhead gas prices, change in sales mix, other relevant factors in terms of Section 8(2) of the Ordinance and also has made some other claims. The petitioner, according to the petition, has worked out its FRR for the said year at Rs. 113,299 million for actual sale volume of 362,379 BBTU. Based on the provisional prescribed prices and actual sale mix, the petitioner has computed a shortfall in its revenue requirement of Rs. 10,067 million for the said year, thereby seeking increase of Rs. 27.78 per MMBTU in the average prescribed price. The petitioner has also requested for an additional amount of Rs. 37 million on account of its LPG Air-Mix project, increasing the shortfall to



Rs. 10,104 million and requested average increase in prescribed price to Rs. 27.88 per MMBTU.

1.6 The petitioner had also filed a review petition dated June 10, 2010 against Determination of Estimated Revenue Requirement for the said year, under Section 13 of the Ordinance. The Authority had fixed the case for pre-admission hearing on August 5, 2010, however the same was adjourned on the request of the petitioner. The petitioner has now requested to treat the said review petition as an integral part of the instant petition of FRR for the said year. The Authority, keeping in view the submissions made by the petitioner, accepts its request and treats the review petition as part of the petition.

1.7 The Authority issued notice of hearing on August 30, 2010 to the petitioner and following interveners and other interested parties:

- i) Federal Government (GoP),
- ii) Mr. Muhammad Arif Bilwani,
- iii) Mr. Abdul Sami Khan, Chairman CNG Dealers Association,
- iv) Mr. Ghiyas Abdullah Paracha, Central Chairman, All Pakistan CNG Association,
- v) Mr. Muhammad Nisar Shekhani, All Pakistan Textile Processing Mills Association,
- vi) Dr. Qazi Ahmed Kamal, Member Managing Committee, Karachi Chamber of Commerce & Industry,
- vii) Mr. Muhammad Naseem Khan, Secretary, SITE Association of Industry.

1.8 The hearing was held on September 16 & 17, 2010, at Islamabad.

2. Salient Features of the petition

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



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

Particulars	Rs. per MMBTU		
	FY 2008-09	FY 2009-10	
	FRR	RERR	The Petition
Units sold (BBTU)	356,442	390,727	362,379
Cost of gas sold	287.42	262.16	263.27
UFG adjustment per target	(7.59)	(3.43)	(1.23)
Transmission and distribution cost	21.63	15.06	27.73
Depreciation	7.45	7.79	7.79
Return on net average operating fixed assets	13.91	16.83	14.98
Other operating income	(19.59)	(19.75)	(11.37)
Subsidy for LPG Air-Mix Project	0.10	0.25	0.10
Previous Year Shortfall	-	9.94	-
Cost of service / prescribed price	303.33	288.84	301.29
Current average prescribed price	303.33	288.84	273.41
Increase requested in average prescribed price	-		27.88

2.2 The petitioner has made the following submissions:-

2.2.1 The petitioner has claimed the required annual return at Rs. 5,429 million, at the rate of 17% of the value of its average net operating fixed assets (net of deferred credit, LPG Air-Mix, & meter manufacturing plant) before corporate income taxes, and interest, mark-up and other charges on debt, per Licence condition No. 5.2 and covenants of the loan agreement between the petitioner and the Asian Development Bank (ADB).

2.2.2 The petitioner has claimed a gross addition of Rs. 5,381 million in the fixed assets, and net addition, ex-depreciation and deletion, of Rs. 2,199 million, resulting in claimed increase in the net operating fixed assets from Rs. 35,880 million in FY 2008-09 to Rs. 38,079 million during the said year. The petitioner has further claimed that, after adjustment of deferred credits and assets related to LPG Air-Mix project & meter manufacturing plant, the net average operating fixed assets eligible for return work out to Rs. 31,938 million, and the required return to Rs. 5,429 million.

2.2.3 The net operating revenues have been claimed at Rs. 103,196 million in the petition, as against Rs. 120,575 million determined in RERR, as detailed below:



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

Description	Rs. in Million				
	FY 2008-09	FY 2009-10		Increase / (Decrease) over RERR	
	FRR	RERR	The Petition		%
Net sales at current prescribed price	104,233	112,859	99,076	(13,783)	(12)
Meter rentals	552	586	576	(10)	(2)
Late payment surcharge	576	575		(575)	-
Amortization of deferred credit	298	401	327	(74)	(19)
Sale of gas condensate	504	313	145	(167)	(54)
Meter manufacturing profit	39	127		(127)	-
Gas transportation charges	18	568	33	(535)	(94)
Income from JJVL	4,599	4,722	2,313	(2,409)	(51)
Return on Govt Grants		223		(223)	(100)
Other operating income	397	201	725	524	261
Net Operating Revenues	111,216	120,575	103,196	(17,379)	(14)

2.2.4 The net operating expenses have been claimed at Rs. 107,833 million in the petition as compared to Rs. 110,018 million provided in RERR, as detailed below:

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

Description	Rs. in million				
	FY 2008-09	FY 2009-10		Increase / (Decrease) over RERR	
	FRR	RERR	The Petition		%
Cost of gas	102,448	102,432	95,405	(7,027)	(7)
Transmission and Distribution costs	5,275	5,740	9,078	3,338	58
UFG disallowance above allowable limit	(2,707)	(1,342)	(444)	898	(67)
Gas Internally Consumed (GIC)	141	148	120	(28)	(19)
Depreciation	2,657	3,042	2,822	(220)	(7)
Reclaimed items	(71)	-	138	-	-
Prior year adjustment on account of HCPC	-	(91)	-	-	-
Other Charges including WPPF	2,366	89	715	626	703
Net Operating Expenses	110,109	110,018	107,833	(2,414)	(2)

2.2.5 The Unaccounted for Gas (UFG) has been reported at 7.95% (35,010 MMCF) as against the upper and lower target of 5.50% and 4.50%, respectively, fixed by the Authority for the said year. The petitioner has requested to fix UFG target at 7.5% for three years, with the condition that disallowance should not be more than 20% of the profit before tax for the respective year.

2.2.6 The petitioner has claimed subsidy amounting to Rs. 37 million on account of LPG Air-Mix project, being undertaken by it in accordance with the directions of the GoP.



2.2.7 The net result of the petitioner's above mentioned claims is that a shortfall of Rs. 10,104 million has been computed including 17% return on average net operating fixed assets, which translates to an increase of Rs. 27.88 per MMBTU in the existing average prescribed price, as tabulated below:

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

	Particulars	Rs. in Million
A	Net operating revenues	103,196
	Less: Net operating expenses excluding ROA	107,833
	Subsidy LPG Air-Mix project	37
B	Total Expenses	107,870
C	Shortfall $\{(A) - (B)\}$	(4,674)
D	Return required @ 17% on net fixed assets in operation.	5,429
E	Total shortfall in the revenue requirement $\{(D) - (C)\}$	10,104
F	Sale volume (BBTU)	362,379
H	Increase requested in existing average prescribed price. Rs. / MMBTU (E/F*1000)	27.88

3. Proceedings

3.1 The petitioner was represented at the hearing by its team of senior executives led by Chairman Board of Directors, Mr. S. A. Jilani and Managing Director, Dr. Faizullah Abbasi along with their legal counsel Mirza Mehmood Ahmad, who were given full opportunity to present the petition. They made submissions in detail with the help of multimedia presentation. They also answered the questions raised by the members and officers of the Authority.

3.2 The following interveners / representatives of the interveners also attended the hearing:

- i) Mr. Abdul Sami Khan, Chairman CNG Dealers Association,
- ii) Mr. Malik Khuda Baksh, Chairman CNG Station Owners Association,
- iii) Mar. Zafar Elahi, Pakistan Petroleum Dealers Association,
- iv) Dr. Qazi Ahmed Kamal, Member Managing Committee, Karachi Chamber of Commerce & Industry,
- v) Mr. Ghiyas Abdullah Paracha, Central Chairman, All Pakistan CNG Association,
- vi) Mr. Hassan Mehmood, Financial Analyst, Directorate General (Gas)



3.3 The petitioner's legal counsel, during the hearing proceedings, submitted the following points for consideration of the Authority:

3.3.1 It is evident from the Ordinance that the Authority is meant to play the dual role of regulator, enabler and facilitator. In this context its specific functions mentioned under section 6 of the Ordinance include, inter alia:

- a) promoting and ensuring efficient practices
- b) protection of stakeholders' interests including consumers and licensee

3.3.2 It is clear from the above mentioned functions that the Authority's role as an enabler and facilitator is just as important as its role as a regulator and that it is required to protect all stakeholders including consumers and licensees i.e. the petitioner in this case. In fact, in this case, given the nature of the petitioner's undertaking, protecting the interest of the petitioner is synonymous with protecting the interest of the consumers through fair pricing and enabling the companies to ensure continuous supply of gas to them. This is evident from the fact that the main sphere of regulation to be done under the Ordinance by the Authority relates to determination of (i) tariff and (ii) total revenue requirement (Sections 7 & 8 of the Ordinance, Rule 17 of the NGT Rules and Condition 5 of the Licence).

3.3.3 Section 7 gives the Authority the power to determine/approve tariff for transmission, distribution and sale of natural gas. Under sub section (2), the criteria for approving tariff include provision of reasonable return **in order to attract investment** for improving activities as well as encouragement and reward for efficiency.

3.3.4 As regards determination of total revenue requirement, sub-section (6) of Section 8 requires such determination to ensure that a licensee i.e. the petitioner achieves the rate of return provided in its Licence for natural gas.

3.3.5 The criteria for determination of tariff under Section 7 has been provided in Rule 17 of the NGT Rules which in its relevant parts states as under:



Rule 17 (1)

- (c) tariffs should include a mechanism to allow licensees a benefit from and penalties for failure to achieve, benchmarks set by the Authority through yardstick regulation for, inter alia and without limiting the generality for such regulation, capacity utilization, operation and maintenance costs and unaccounted for natural gas;
- (d) tariffs should be determined in a manner which promotes **continued reasonable investment** in equipment, facilities and research and development for qualitative and quantitative improvement in the provision of regulated activities;
- (h) tariffs should generally be determined taking into account a rate of return as provided in the Licence, prudent operation and maintenance costs, depreciation, government levies and, if applicable, financial charges and cost of natural gas;

3.3.6 It is important to note that sub rule (2) of Rule 17 of NGT Rules makes it incumbent on the Authority to strike, as much as possible, a balance amongst the criteria specified in sub-rule 1 in order to optimize the benefits to all persons likely to be affected by the Authority's determination. This clearly means that the interest of the licensee i.e the petitioner is just as important a consideration in this regard as is the interest of the consumer or any other person.

3.3.7 The learned counsel further stated that the Authority must always ensure that the interests of all stakeholders are given equal weight and importance in arriving at any decision/determination. Through its determinations, the Authority must ensure that licensees are enabled to make investments on a continuing basis in their infrastructure and human capital so as to maintain as well as enhance their capabilities to service consumers. It must be emphasized right here that "price of gas" is merely one of the several components relevant to consumer interest and protection and cannot be considered as so paramount a consideration as to obviate all others. It is precisely in acknowledgement of this that sub rule (2) exists.

3.3.8 It is submitted that in all of its history the Authority has ignored the above mandates and guiding principles driving itself solely on a singular consideration i.e. pricing. The Authority has thus abandoned its role of an enabler and has in the process acted



to the detriment of the petitioner whose interest it was bound to protect under the law.

3.3.9 The consequence of the Authority's determination during the past eight years is that the petitioner today stands at the brink of financial collapse. Needless to add that if this actually happens it would irreparably harm the very class of stake holders that the Authority intends to protect i.e; the Consumers.

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

3.4.1 In accordance with the requirement of Rule 17 (g) of NGT Rules, the tariffs should be determined in a manner that protects consumers against monopolistic and oligopolistic pricing. On the contrary, consumer is not at all protected or given any kind of hope through the tariff determinations of OGRA.

3.4.2 Redundant approach of allowing 17% Return on Assets (ROA), implemented many decades ago, is totally out of context. Rule 17 (f) of NGT Rules, empowers the Authority to determine tariff, in consultation with licensee and Federal Government, on the basis of disparate regimes. Therefore, the Authority should take steps to determine the tariff on the basis of such tariff regime that can minimize the burden on consumers. The Authority should implement the new tariff regime designed by it, since it has already been considerably delayed for want of GoP approval. It has always been highlighted that delay in implementation of new tariff regime has adversely affected the minority shareholders.

3.4.3 Cost of reinstated Temporary Assignee's / over loaded workforce does not qualify as prudent operating cost of the petitioner as required under Rule 17(h) of the NGT Rules. The cost, if allowed, will un-necessarily burden the consumers. It was stressed that although the reinstatement has been done through Court Orders, the petitioner should have submitted appeal against the decision of the Court taking support of the NGT Rules.

3.4.4 The petitioner has repeatedly been agitating already settled issues such as income from JJVL, Meter Manufacturing Profit, sale of gas condensate, advertising income,



- notional income, and UFG targets. The Authority should restrain the petitioner from such act in accordance with Rule 20 of the NGT Rules.
- 3.4.5 Return on un-economical expansion of T&D network in remote areas, under political pressure, should be disallowed as it does not qualify the requirement of Rule 17(J) of NGT Rules.
- 3.4.6 The GoP must resolve the dispute with local people in gas producing areas to facilitate the gas producer to inject more gas in the system.
- 3.4.7 The issue of high wellhead gas price of Kadanwari field be resolved on immediate basis.
- 3.4.8 Supply of gas to fertilizer at subsidized rates by loading other gas consumers must be stopped and subsidy be allowed at the import stage.
- 3.4.9 Slab structure of domestic consumers is highly objectionable as higher slabs become applicable based on the clubbed gas consumption.
- 3.4.10 GoP must help recover Rs. 23 billion from KESC or stop the gas supply to the same.
- 3.4.11 In order to save the CNG industry no increase in gas price should be allowed to the petitioner and the inter-fuel differential of 50% be maintained.

4. Determination

- 4.1 After detailed scrutiny of the petition, and clarifications given by the petitioner before, during and after the hearing, the Authority determines as follows:

5. Return to Licensee

- 5.1 The Authority is obligated under Section 7(1) of the Ordinance, to determine or approve tariff for regulated activities whose Licences provide for such determination or such approval, or where authorized by this Ordinance, subject to policy guidelines. **Licence Condition No. 5.2** of Licence granted to the petitioner, clearly states that **the Authority shall determine** total revenue requirement of the licensee to ensure that it achieves 17% return on its average net fixed assets in operation for each financial year, subject to the efficiency related benchmarks adjustments. The Authority, accordingly, has been determining the



revenue requirement of the petitioner, providing the said return on net operating assets in accordance with the said provision of the Ordinance as well as the petitioner's Licence.

- 5.2 ***The Authority, may, however, in consultation with GoP*** and the licensee prescribe revised rate of return or a different basis for determination of return, pursuant to ***Licence Condition No. 5.3*** of the Licence granted to the petitioner. The Authority has developed a new tariff regime for regulated natural gas sector of Pakistan, which, in the course of legally mandatory consultation process, is pending with GoP. Pending its finalization, the Authority has decided, to follow the existing basis of 17% return on the average net operating fixed assets, in accordance with the Licence Condition No. 5.2.

6. Operating Fixed Assets

6.1 Summary

- 6.1.1 The petitioner has claimed a gross addition of Rs. 5,381 million in the fixed assets, and net addition, ex-depreciation and deletion, of Rs. 2,199 million, resulting in claimed increase in the net operating fixed assets from Rs. 35,880 million in FY 2008-09 to Rs. 38,079 million during the said year. The petitioner has further claimed that, after adjustment of deferred credits, and assets related to LPG Air-Mix project & meter manufacturing plant, the net average operating fixed assets eligible for return work out to Rs. 31,938 million, and the required return to Rs. 5,429 million, as tabulated below:



Table 5: Computation of Return on Assets per the Petition

Particulars	Rs. in million
Net operating fixed assets at beginning	35,880
Net operating fixed assets at closing	38,079
Sub-total:	73,959
Average net assets (A)	36,980
Meter manufacturing plant assets at beginning	51
Meter manufacturing plant assets at closing	41
Sub-total	92
Average net assets (B)	46
LPG Air-Mix assets at the beginning	80
LPG Air-Mix assets at the closing	75
Sub-total	155
Average net assets (C)	78
Deferred credit at beginning	4,847
Deferred credits at closing	4,989
Sub-total:	9,836
Average net deferred credit (D)	4,918
Average (A-B-C-D)	31,938
Return required on net operating fixed assets	17%
Amount of return requested by the petitioner	5,429

- 6.1.2 The Authority observes that the petitioner has excluded assets of meter manufacturing plant from the rate base for the said year, by reiterating its contention that the business is not a regulated activity.
- 6.1.3 ***The Authority, in view of the reasons recorded herein at para 10 below, allows the petitioner's claim in the matter for the said year.***
- 6.1.4 In view of above ***assets related to meter manufacturing plant are excluded from the rate base for the said year.***
- 6.1.5 The petitioner has also included Geographic Information System (GIS) related assets amounting to Rs. 8 million, net of depreciation, in the opening balance of the fixed assets for the said year. The petitioner has submitted that the Authority disallowed the expenditure with the direction that necessary cost may be met through the expected revenues from other agencies for external use of GIS. The petitioner contended that the system has been developed for internal use by it for carrying out the Licenced regulated activities, and, therefore, any expenditure incurred in this respect should be part of its revenue requirement. The petitioner has further asserted that disallowance made by the Authority at this stage will only jeopardize the whole investment. Correlation of GIS with future earnings from outside entities is not justified since there is no material development towards obtaining any outside



contract nor is there any Licence obligation to earn outside income for financing legitimate expenditure.

6.1.6 The Authority notes that the petitioner had repeatedly informed that a number of organizations have approached for use of GIS. The GIS, although developed for internal use by the petitioner, it can possibly generate reasonable amount of revenues. The Authority, therefore, directs the petitioner to expeditiously explore the potential for this income stream.

6.1.7 ***The Authority while acknowledging merit in the petitioner's submission decides to include all GIS related income and expenditure as part of revenue requirement and therefore allows GIS related assets as part of rate base.***

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

Table 6: Summarized Schedule of Additions Compared with RERR

Particulars	FY 2009-10		Rs. in Million	
	RERR	The Petition	Inc./(Dec.) over RERR	
				%
Land	57	4	(53)	(93)
Building	167	132	(34)	(21)
Transmission line	1,178	167	(1,011)	-86
Plant & machinery	263	97	(167)	-63
Gas distribution system	5,791	4,821	(970)	-17
Road, pavements and related infrastructure - ROW	238	-	(238)	(100)
Furniture, equipment including computers & allied equipment	105	50	(55)	-52
Computer software (Intangible)	52	1	(51)	-99
LPG Air-Mix	20	1	(20)	-96
Appliances loose tools & equipment	35	14	(21)	-59
Telecommunication system	73	17	(56)	-77
Vehicles	137	76	(62)	-45
Construction equipment & machine	304	0	(304)	-100
SCADA	115	1	(114)	(99)
Gross Addition	8,538	5,381	(3,156)	-37
Less: Assets related to Meter Manufacturing Business	-	3	3	0
Less: Assets related to LPG Air-Mix	20	1	(20)	-96
Net Addition	8,517	5,377	(3,140)	(37)

6.1.9 The petitioner has reported 37% decrease in the addition to fixed assets for the said



year. The petitioner has attributed this decrease to the severe financial crunch faced by it owing to which it failed to materialize its envisaged capital projects.

6.2 IT Related Expenditure

6.2.1 The petitioner has incurred Rs. 143 million in respect of IT related capital and revenue expenditure during the said year. The amount has been booked by the petitioner under various heads, break-up of which is as under:

Table 7: Detail of IT Related Expenditure per the Petition

Nature of Expenditure	Expenditure Type	Head of Account	Rs. in million
Capital	Computer and Ancillary Equipment	Furniture & Equipment	37
	Computer Software	Intangible Asset	1
		Sub-total:	38
Revenue	Software Maint. Charges	Repair & Maintenance	82
	Computer Rep. & Maintenance	Repair & Maintenance	23
		Sub-total:	105
		Total	143

6.2.2 *The Authority observes that the expenditure under this head seems to be reasonable and therefore allows it at Rs. 143 million for the said year.*

6.3 Fixed Assets Determined by the Authority

6.3.1 *The Authority, after due diligence and detailed examination of the submissions made by the petitioner, determines the gross additions in fixed assets at Rs. 5,377 million for the said year, and accordingly the closing net operating fixed assets for the said year are determined at Rs. 38,079 million.*

7. Operating Revenues

7.1 Sales Volume

7.1.1 Sales volume has decreased by 7%, from 390,727 BBTU determined in RERR to 362,379 BBTU in the petition. Category-wise comparison with previous year has been provided by the petitioner as under:



Table 8: Comparison of Category-wise gas Sales per the Petition with RERR and Previous Year

Category	FY 2008-09	FY 2009-10		Volume in BBTU	
	FRR	REER	Petition	Inc. / (Dec.) over RERR	%
Cement	4,122	3,876	1,797	(2,079)	(54)
CNG Stations	20,611	24,121	22,960	(1,161)	(5)
Captive Power	44,170	53,955	53,797	(158)	(0.29)
Commercial	9,115	10,973	9,428	(1,545)	(14)
Al-Tuwairqi Steel	-	12,637		(12,637)	(100)
DHA desalination plant	682	4,836	1,548	(3,288)	(68)
Domestic	62,296	69,828	69,167	(661)	(1)
Fertilizer - feedstock	21,450	23,230	21,705	(1,525)	(7)
General Industries	72,513	84,251	76,507	(7,744)	(9)
Habibullah Coastal Power	7,971	7,876	7,882	6	0.08
Power	113,512	95,143	97,587	2,444	3
Total:-	356,442	390,727	362,379	(28,348)	(7)

7.1.2 The petitioner has explained that gas sales volume has decreased by 7% mainly due to lesser off-takes from various gas fields. The petitioner further submitted that regular supply of gas from Daru, Sinjhoru, Pasaki Deep & Kunar Deep and TAY/ Dars gas fields was anticipated at the time of DERR for the said year, however, delay in gas supply from the same has contributed towards decrease in sales volume for the said year.

7.1.3 The petitioner has elaborated that 68% lesser sale to DHA desalination plant is due to closure of the said plant owing to technical reasons. Also reduction of 54% in gas consumed by the cement sector is due to transfer / shift of gas to power sector. The delay in start of commercial operations by Al-Tuwairqi steel has resulted in nil sales to this customer. The petitioner has also asserted that law and order situation, global recession and energy sector crisis have also resulted in lower gas sales to the various sectors of national economy.

7.1.4 ***In view of above, the Authority accepts the total sales volume at 362,379 BBTU for the said year.***

7.2 Sales Revenue at Existing Prescribed Prices

7.2.1 Sales revenue at existing prescribed prices claimed in the petition is Rs. 112,274 million. Category-wise comparison with RERR and previous year is given below;



Table 9: Comparison of Category-wise Sale Revenues per the Petition with RERR and Previous Year

Category	Rs. in million				
	FY 2008-09	FY 2009-10		Inc. / (Dec.) over RERR	
	FRR	RERR	The Petition	Rs.	%
Cement	1,807	1,763	858	(906)	(51)
Fertilizer - feedstock	1,403	2,242	2,117	(126)	(6)
CNG Stations	8,404	10,303	10,707	403	4
Captive Power	14,839	17,498	19,071	1,574	9
Habibullah Coastal Power	2,181	2,220	2,421	201	9
Commercial	3,539	4,312	4,111	(201)	(5)
Al- Tuqairqi Steel	-	4,098		(4,098)	-
DHA Desalination Plant	172	1,363	486	(877)	(64)
General Industries	24,231	27,323	27,143	(180)	(1)
Domestic	8,997	10,130	10,194	64	1
Power	38,566	31,776	35,166	3,390	11
Total:-	104,139	113,028	112,274	(755)	(1)

7.2.2 The Authority observes that reduction in sale revenue for the said year, as compared to RERR, is due to the reasons mentioned in paras 7.1.2 and 7.1.3 above.

7.2.3 **The Authority determines the sales revenue at existing prescribed prices at Rs. 112,274 million for the said year.**

7.3 Other Operating Income

i. Summary

7.3.1 The petitioner has claimed other operating income at Rs. 4,119 million in the petition as against Rs. 7,716 million provided in RERR. Detailed comparative breakup is appended below:

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

Description	Rs. in Million				
	FY 2008-09	FY 2009-10		Increase / (Decrease) over RERR	
	FRR	RERR	The Petition	Rs.	%
Meter rentals	552	586	576	(10)	(2)
Late payment surcharge	576	575		(575)	-
Amortization of deferred credit	298	401	327	(74)	(19)
Sale of gas condensate	504	313	145	(167)	(54)
Meter manufacturing profit	39	127		(127)	-
Gas transportation charges	18	568	33	(535)	(94)
Income from JJVL	4,600	4,722	2,313	(2,409)	(51)
Return on Govt Grants	-	223		(223)	-
Other operating income	397	201	725	524	261
Net Operating Revenues	6,983	7,716	4,119	(3,597)	(47)



ii. Meter Manufacturing Profit (MMP)

- 7.3.2 The petitioner has claimed MMP amounting to Rs. 89 million as non-operating income in the instant petition, however, the same were claimed at Rs. 127 million as operating income at the time of RERR for the said year.
- 7.3.3 The petitioner has submitted that the Authority has so far relied on the directive obtained by it under Section 47 of the Ordinance, which was issued to facilitate OGRA, in the absence of NGT Rules and the petitioner's Licence, etc, for determination of revenue requirement for FY 2001-02 and FY 2002-03. GoP directed to follow the existing tariff regime till such time an appropriate rate of return is determined by OGRA in consultation with it. Under this directive of GoP, OGRA is required to assess the revenue requirement per the ex- Price Determining Authority (PDA) practices and ADB covenants, provided these practices should be consistent with the Ordinance.
- 7.3.4 The petitioner has argued that OGRA was obligated to implement the directive with reference to ex-PDA practice subject to the consistency with the provisions of the Ordinance and Rules. It was contended that manufacturing of meters is a separate operation, even if no regulated activities are undertaken by the petitioner, the meter manufacturing will continue on stand alone basis. Moreover, MMP is a non-core business activity which is completely unrelated to and regardless of any of its regulated activities which require Licence under the provisions of the OGRA Ordinance. More so that OGRA has already accepted treatment of MMP as non operating income, being derived from the non regulated activities under the new tariff regime, approval whereof is awaited since October 2005.
- 7.3.5 The petitioner has contested that it should not be further penalized for the activities pending on part of other stakeholders in respect of implementation of new tariff regime. It was also highlighted that section 6(2)(t) of the Ordinance, only mandates the Authority to carry out the consultation with the GoP, and nowhere can it be construed that GoP's approval in this regard is essential.
- 7.3.6 Income from MMP is distinguishable from other incomes that may be derived from



meters itself, for example, meter rent. Meter rent may be ancillary to and the part of the regulated activities; hence, any income arising there from would constitute part of operating income. However, MMP has no nexus with the regulated activities and cannot be thus categorized as operating income.

7.3.7 *The Authority, in view of the reasons recorded herein at para 10 below, allows the petitioner's claim in the matter for the said year.*

iii. *Late Payment Surcharge*

7.3.8 The petitioner has claimed LPS amounting to Rs. 1,058 million as non-operating income in the instant petition, however, the same were claimed at Rs. 575 million as operating income at the time of RERR for the said year.

7.3.9 The petitioner has submitted that LPS is a non-regulated income as it is an interest income being financial compensation for delayed payment of gas dues by defaulting consumers. It was highlighted that delayed /non payment by the consumers results in financing activities requiring the company to borrow additional funds to offset shortfall in cash flow. LPS, therefore, is not an operating activity but in fact a financing activity and thus cannot form part of operating income.

7.3.10 According to ROA formula, interest is considered as non-operating expense while due to delayed / non-payment of the customers, the petitioner has to bear additional interest charges which are not compensated in the formula. If financial charges are to be treated as non-operating expense then by the same logic any compensation which would have the effect of offsetting the financial charges would have to be treated as financing activity, and therefore, non-operating income. It was also pointed out that in the proposed new tariff regime, the Authority already accepted the principle that LPS shall be treated as non operating income. However, the decision in this regard has been deferred till finalization of new tariff regime. The petitioner should not be allowed to suffer due to the inaction of other stakeholders and it is imperative that the Authority in accordance with its role under the Ordinance protect the petitioner till such time that the new tariff regime is in place.

7.3.11 The petitioner further argued that the Authority's stance that tariff regime is a package and has to be enforced in totality is not consistent with the Authority's



practices / approach of treating various items of revenue requirement, e.g. notional interest on IAS-19 provisions, imputed return on unutilized G&P grants, etc. The Authority expressed its independent point of view on these matters while treating them as operating incomes of the petitioner despite the fact that these were neither included in operating revenues under ADB loan covenants nor practiced by the Ex-PDA.

7.3.12 The petitioner has also highlighted that LPS is the only item on which it is at a complete disadvantage, since the costs associated with it i.e. financial charges, are not covered by the return formula while the petitioner has to forego the entire compensation arising out of LPS as operating income. Effectively, by not allowing the petitioner to retain the benefits of LPS, the Authority is putting the petitioner at double jeopardy. Since it is manifestly clear that LPS is a financing activity, as a matter of law and principle, it cannot and should not form part of operating income

7.3.13 ***The Authority, in view of the reasons recorded herein at para 10 below, allows the petitioner's claim in the matter for the said year.***

iv. Amortization of Deferred Credit

7.3.14 The petitioner has claimed Rs. 327 million as amortization of deferred credit for the said year as against Rs. 401 million determined per RERR, depicting a decrease of 19%. The petitioner explained that, in accordance with International Financial Reporting Interpretations Committee (IFRIC) -18, it has recognized new service connection charges amounting to Rs. 453 million as part of other income, as against the previous practice of treating it as part of deferred credit. This change in treatment has decreased the additions to deferred credit thereby reducing the amortization recognized on this account for the said year. ***The Authority, in view of above, accepts the amortization of deferred credit at Rs. 327 million for the said year.***

v. Sale of Gas Condensate

7.3.15 The petitioner has claimed income from sale of gas condensate at Rs. 145 million as against Rs. 313 million determined in RERR for the said year.

7.3.16 The petitioner has submitted that ex-PDA's practice of treating sale of gas condensate as operating income is inconsistent with the Ordinance, since condensate is defined as



crude oil & not natural gas under the provisions of the Ordinance; hence it is a non-operating income. Section 2(xvii) of the Ordinance defines natural gas as under:

“natural gas means hydrocarbons or mixture of hydrocarbons and other gases which at sixty degrees Fahrenheit and atmospheric pressure are in the gaseous state including gas from gas wells, gas produced with crude oil and residue gas and products resulting from the processing of gas) consisting primarily of methane, together with any other substance produced with such hydrocarbons”.

7.3.17 Under section 2(v) of the Ordinance crude oil including condensate is defined as under:

“crude oil” means all petroleum other than refined oil products and natural gas, and which at standard atmospheric conditions of pressure and temperature is in a fluid phase, including condensate”;

7.3.18 It is evident from the above definitions that condensate, after separation at Liquid Handling Facility (LHF), has to be in a way classified as crude oil under the provisions of the Ordinance.

7.3.19 It is submitted that there is no restriction on the petitioner in the Licence issued by the Authority on undertaking activities which are outside the scope of regulated activities as defined in the Ordinance, Rules and the Licence. The petitioner should, therefore, be allowed to retain the benefits derived out of such activities.

7.3.20 The petitioner has argued that LHF was provided to it free of cost by Badin field producer as per the terms of the agreement. Therefore, the Authority’s argument that LHF’s activity is financed through gas price mechanism is not justified. Moreover, transporting gas through the petitioner’s transmission network upto LHF facility does not disqualify condensate for separate treatment as crude oil.

7.3.21 The petitioner further clarified that the Authority’s stance in decision on FRR FY 2007-08 that the whole system, of which extraction of condensate from LHF plant is an off-shoot, has been financed over the years through gas price mechanism and that depreciation, other operating expenses and return related to this plant have always been claimed by the petitioner as part of revenue requirement, is not tenable in that the LHF was provided to the petitioner by Badin Field Producer without any charge. Therefore the Authority’s argument that LHF activity is financed through gas price



mechanism is not justified.

7.3.22 The petitioner has also requested the Authority to revisit its approach and consider segregation of non-regulated income from regulated income in tariff calculations. The petitioner has asserted to develop some rationale for allocating / apportioning expenditure from the common cost if any from such non-regulated income.

7.3.23 ***The Authority, in view of the reasons recorded herein at para 10 below, allows the petitioner's claim in the matter for the said year.***

vi. Gas Transportation Income

7.3.24 The petitioner has claimed gas transportation income at Rs. 33 million for the said year compared with Rs. 18 million determined in FRR for FY 2008-09. The petitioner has explained that gas transportation income is recovered on the basis of contractual arrangements / pipeline rental agreements with OGDCL for the use of 40 Km segments from Paish Bogi to Pirkoh, and also with SNGPL for use of Bhit, Zamzama and Hassan gas pipeline. The petitioner, at the time of finalization of accounts, recognizes these rental arrangements as leases in terms of IFRIC-4. In accordance with the requirements of IFRIC-4, the pipelines are recognized as net investment in finance leases and the related depreciation, operating cost and return are also reclassified and recorded as recoveries, in their respective heads. Based on above, Rs. 33 million has been recorded as gas transportation income as against total income of Rs. 543 million on this account for the said year.

7.3.25 ***The Authority accepts the gas transportation income at Rs. 33 million for the said year.***

vii. Royalty from Jamshoro Joint Venture Limited (JJVL)

7.3.26 The petitioner has requested that royalty from JJVL amounting to Rs. 2,594 million be treated as non-operating income. The petitioner has argued that it operates under a Licence for transmission, distribution and sale of natural gas (the regulated activities). It receives royalty from JJVL for making Badin gas available at its Liquefied Petroleum Gas (LPG) extraction plant at Hyderabad, which the Authority has treated as operating income. As per law, the Authority has erred in treating it as operating income since it does not arise from a regulated activity of the petitioner. The term



“regulated activity” is defined in section 2 (1) (xxxii) of the Ordinance as:

“... ‘regulated activity’ means an activity requiring a Licence...”

7.3.27 Since the Licence has been granted for transmission, distribution and sale of natural gas, accordingly these are the ‘regulated activities’ for the purposes of the Licence. Accordingly, operating income, in this context, refers to income derived out of the ‘regulated activities’ as envisaged by the Licence. Therefore any income derived out of the regulated activities, shall be deemed to be operating income, and conversely any income arising out of activities not forming part of regulated activities shall form part of non operating income.

7.3.28 LPG business is a separate regulated activity governed under section 23(2) of the Ordinance while the petitioner’s operations relate to natural gas. The Natural Gas Regulatory Authority (Licensing) Rules 2002 (the “Licensing Rules”), Rule 3 (2) of the Licensing Rules states:

“A licence may be restricted by the category of regulated activity...”

7.3.29 Natural gas and LPG are two different products both in terms of definition and chemical composition. Natural gas consists of hydrocarbons of methane whereas LPG consists of heavy hydrocarbons of butane and propane. One remains in gaseous form at 60 degrees and at atmospheric pressure, while the other can be liquefied on compression. The above is borne out from the Ordinance which states that:

“Liquefied petroleum gas (LPG) means hydrocarbons, mainly consisting of propane and butane mixed or unmixed whether with or without other gases which are vaporous at room temperature and pressure but can be liquefied on compression”

Whereas

“natural gas means hydrocarbons or mixture of hydrocarbons and other gases which at sixty degrees Fahrenheit and atmospheric pressure are in the gaseous state (including gas from gas wells, gas produced with crude oil and residue gas and products resulting from the processing of gas) consisting primarily of methane, together with any other substance produced with such hydrocarbons”

7.3.30 The petitioner has further submitted that it had the right to process LPG under its GSA with gas producer, prior to the commissioning of JJVL plant. As per the terms of agreement with JJVL, the royalty was payable to the petitioner from the target



- commissioning date of JJVL plant, irrespective of actual start of its commercial operations, and it will remain payable to it till the entire term of this agreement.
- 7.3.31 The petitioner is of the view that compensation amount is payable on account of reduction in calorific value of Composite Associated Gas Mixture (CAGM), while the royalty is payable against its right to process CAGM available at the facility.
- 7.3.32 The petitioner has further argued that the said pipeline was not laid to supply gas to JJVL plant therefore it should not be treated as an investment for recovery of royalty. Royalty income started accruing in the income stream of the petitioner without any incremental investment, after execution of agreement with JJVL, since gas was already available at plant location.
- 7.3.33 The Licence issued by the Authority does not impose any restriction on the petitioner to explore new business opportunities and undertake activities which are outside the scope of regulated activities as defined in the Ordinance, NGT Rules and the petitioner's Licence. The Licence, when addressing the issue of rate of return and tariff determination in condition 5.1, restricts itself only to the regulated activity.
- 7.3.34 A plain reading of the provisions of the Ordinance, which give direction as to scope and power of OGRA, reveals that the power of the Authority, with respect to any Licence, is limited to the 'regulated activities' only. Accordingly, any activity other than the 'regulated activity' would be outside the jurisdiction of the Authority, for the purposes of the Licence; hence any income derived from the same would not be operating income. The Licensing Rules and the NGT Rules also point in the same direction i.e. the powers of the Authority are restricted to regulated activities only.
- 7.3.35 ***The Authority, in view of the reasons recorded herein at para 10 below, allows the petitioner's claim in the matter for the said year.***

viii. Return on Unutilized Government Grants

- 7.3.36 The Authority, at the time of DERR for the said year, has deducted an amount of Rs. 223 million from the revenue shortfall computed on tentative basis @ 7.5% average return on 50% of yearly closing balances of un-utilized GoP grants during the period FY 2002-03 to FY 2007-08, subject to the provision of actual audited numbers by the



- petitioner.
- 7.3.37 The petitioner has stated that as the nature of this return is of “an interest on income”, it is expressly excluded from the definition of operating income in the ADB loan covenants. Hence, it should be excluded from the petitioner’s revenue requirement calculations.
- 7.3.38 The petitioner further submitted that notwithstanding its contentions, if the Authority’s stance is admitted with reference to return/interest on CoP grants, the benefit of deemed/notional income should be passed on to the fund provider i.e. Federal Government and the petitioner, but not to the consumers.
- 7.3.39 It has been contended that the Authority has adjusted this imputed income from Estimated Revenue Requirement without obtaining any policy guideline/directive from CoP. This is a clear deviation from practice of the then PDA as inclusion of return on this account was never made by Ex-PDA and is against the “Removal of Difficulties Order 2002”.
- 7.3.40 The petitioner is, therefore, of the view that in the absence of any specific policy guideline from CoP for the deviation from the practice of the then PDA, adding notional income is unjustified and un-lawful.
- 7.3.41 The petitioner highlighted that the spirit of section 6(2)(q) of the Ordinance dealing with protection of interests of all stakeholders including the consumers and the licensees would have been rightly fulfilled if expenses relating to holding of funds in sales tax refund claims, etc and short determination of cost of gas in FY 2008-09 had been allowed to it as it had to bear extra financial charges to arrange required funds.
- 7.3.42 In view of the above, the petitioner has requested the Authority to reconsider its decision by discharging its obligation to safeguard the interest of all stakeholders including the licensees and exclude Return on Un-utilized CoP Grants from tariff working.
- 7.3.43 The Authority notes that it is obvious that either the petitioner has used these surplus funds to offset borrowing cost or alternatively earned interest on the same. This actual / imputed income has not been earned by the petitioner in the normal course of its



business. It is extraordinary income related to Government's socio-economic policies, and its benefit should, in all fairness, go to the consumers at large, who pay the perpetual cost of operating uneconomic parts of the system in far flung areas. The Authority, therefore, is of considered opinion that this income be treated as "operating income" as the spirit of the current pricing mechanism requires.

7.3.44 ***In view of above, the Authority maintains its earlier decision and deducts an amount of Rs. 223 million from the revenue shortfall computed on tentative basis of 7.5% average return on 50% of the closing balances during the period FY 2002-03 to FY 2007-08, subject to the provision of actual audited numbers by it.***

ix. Other Income

7.3.45 The petitioner has claimed other income for the said year at Rs. 725 million as against Rs. 201 million in RERR. Detailed breakup with comparison is as under:

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

Particulars	Rs. in million				
	FY 2008-09	FY- 2009-10		Inc. / (Dec.) over RERR	
	FRR	RERR	The		%
Recoveries from consumers	45	30	33	3.20	11
Profit on disposal of fixed assets	(13)	20	5	(15.32)	(77)
Liquidated damages recovered	8	20	7	(13)	(65)
Income from sale of net investment in finance lease	214	-	205	205	
Income from sale of tender documents	1	1	1	0	35
Notional income on IAS 19 provision	105	117	-	(117)	(100)
Advertising Income	6	9	6	(3)	(37)
Income from new service connections	-	-	453	453	
Others	31	5	15	11	244
Total Other Income	397	201	725	524	261

7.3.46 The Authority observes that other income has been reported to increase by 261% over RERR for the said year. The increase is attributed mainly to the inclusion of Rs. 453 million on account of "Income from new service connections" as discussed in para 7.3.14 above. Also, Rs. 205 million has been included as part of other income in accordance with the requirement of IFRIC-4 on account of income from net investment in finance lease as explained in para 7.3.24 above.

a. Notional Income on IAS-19

7.3.47 The petitioner has claimed notional income on IAS-19 amounting to Rs. 120 million as



- non-operating income, and has excluded the same from other operating income offered for the said year. The petitioner has argued that the present treatment of notional interest income on IAS-19 provision was not practiced by Ex-PDA and the petitioner has disputed the practice adopted by the Authority. The petitioner submitted that in absence of any specific policy guideline from GoP for deviation from the practice of the then PDA and adding notional income in this regard is unjustified and unlawful. Further, the Income on IAS-19 provision is not justified as at the same time the Authority does not consider increased borrowing cost to be met through petitioner's return which has adversely affected its profitability.
- 7.3.48 The Authority notes that issue of treating notional income on IAS-19 provision as non-operating incomes has already been decided by the Authority in its various earlier determinations.
- 7.3.49 ***In view of the above, the Authority disagrees with the petitioner's contention and, therefore, maintains treatment of notional income on IAS -19 provision as operating income.***
- 7.3.50 ***In view of the above, the Authority determines other income at Rs. 845 million as against Rs. 725 million claimed by the petitioner for the said year.***
- 7.3.51 ***Keeping in view the discussion from para 7.3.1 to 7.3.50 above, the Authority determines the total other operating income at Rs. 4,462 million for the said year as against Rs. 4,119 million claimed by the petitioner, as detailed below:***



Table 12: Summary of Other Operating Income Determined by the Authority

S. No	Particulars	Rs. In million	
		Claimed by the Petitioner	Determined by the Authority
1	Meter rentals	576	576
2	Amortization of deferred credit	327	327
3	Sale of gas condensate	145	145
4	Gas transportation charges	33	33
5	Income from JJVL	2,313	2,313
6	Return on GoP grants		223
7	Other operating income		
	Notional Income on IAS 19	-	120
	Income from new service connections	453	453
	Income from sale of net investment in finance lease	205	205
	Remaining items of other operating income	67	67
	Total Operating Revenues	4,119	4,462

8. LPG Air-Mix Project

8.1 The petitioner has claimed subsidy of Rs. 37 million on account of its LPG Air-Mix project as against Rs. 97 million provisionally allowed in RERR for the said year. The breakup of subsidy for the said year is as under:

Table 13: Calculation of Subsidy for Air Mix LPG Project

Description	Rs. In Million
Net Sales Revenue	1
Cost of Gas	14
Gross Profit	(12)
Operating Cost	6
Depreciation	6
Meter Rent	(0.1)
Late Payment Surcharge	(0.1)
Amortisation of deferred credit	(0.4)
Financial Charges	-
Total Operating Cost	12
Shortfall in Revenue	(24)
Revenue Requirement	
Annual Natural Gas Sales Volume-	362,379
Shortfall-LPG Normal Operations	24
17% Return on Assets	13
Total Shortfall	37
Price Increase per MMBTU	0.10



8.2 The Authority observes that Economic Coordination Committee (ECC) vide its case no. ECC-201/16/2007 dated December 27, 2007 had issued a policy guidelines in respect of LPG Air-Mix, CNG or LNG based pipeline distribution projects undertaken by the petitioner and SNGPL.

8.3 ***In view of above, the Authority accepts the same & allows Rs. 37 million on account of LPG Air-Mix subsidy as part of revenue requirement for the said year.***

9. Operating Expenses

9.1 Cost Of Gas

9.1.1 The cost of gas per the petition is Rs. 95,405 million, compared with Rs. 102,432 million determined in RERR, lower by Rs. 7,027 million (8%).

9.1.2 The Authority had determined input cost of gas on the basis of combined weighted average cost of gas purchased by the petitioner and SNGPL at Rs. 238.71 per MMBTU in RERR in accordance with the agreement for equalization of cost of gas dated 22nd September, 2003, between these two companies. On the basis of their actual audited results, Weighted Average Cost Of Gas (WACOG) for the said year works out at Rs. 235.42 per MMBTU as under:

Table 14: Weighted Average Cost of Input Gas

Company	MMCF	BBTU	Rs in million	Rs./ MMBTU
SSGCL	428,541	407,185	107,076	262.97
SNGPL	660,940	618,789	134,458	217.29
Total	1,089,481	1,025,974	241,534	235.42

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

9.1.4 ***The Authority, in view of the above, accepts the cost of gas sold at Rs. 95,405 million for the said year.***



9.2 Unaccounted for Gas (UFG)

9.2.1 The petitioner has computed UFG at 7.95% (35,010 MMSCF) for the said year, as follows:

Table 15: Comparison of UFG per the Petition with RERR & Previous Year

Particulars	Volumes in MMCF		
	FY 2008-09	FY 2009-10	
	FRR	RERR	The Petition
Gas Purchases	422,387	450,338	439,341
Gas Sales	389,347	421,823	404,331
	33,040	28,515	35,010
UFG	33,040	28,515	35,010
UFG (%age of purchase)	7.82%	6.33%	7.95%

9.2.2 The petitioner has requested to fix UFG target at 7.5% for three years with the condition that disallowance should not be more than 20% of the profit before tax, otherwise the company may incur a loss of Rs. 2 billion for the first time in its history. Further, in order to encourage the petitioner to launch rehabilitation and development projects any savings below the target should be allowed to be retained by it.

9.2.3 The petitioner has submitted the following arguments in support of its above stated demand:

9.2.3.1 UFG is inevitable in any gas distribution/transmission system and was always allowed at actuals in the tariff structure by the then PDA i.e. the Director General (Gas), Ministry of Petroleum and Natural Resources.

9.2.3.2 It was expected that OGRA, when established in 2002, would undertake an extensive exercise based on ordinary prudence and would take into consideration expert opinion, consultation with licensees, in depth analysis and appreciation of ground realities as well as the existing socio-economic circumstances. The Authority, however did none of these and because all of its determinations and decisions did not adhere to the desired balance as stipulated in the Ordinance, the entire paradigm in which it has, and continues to operate is flawed.



9.2.3.3 The definition of UFG in Rule (1)(m) of the NGT Rules reads as follows:

“Unaccounted For Natural Gas means, in respect of a financial year, the difference between the total volume of metered gas received by a licensee during that financial year and the volume of natural gas metered as having been delivered by the licensee to its consumers excluding there from metered natural gas used for self consumption by the licensee for the purpose of its regulated activity; and such other quantity as may be allowed by the authority for use by the licensee in the operation and maintenance of its regulated activity.”

Rule 17 (c) provides as follows:

“tariffs should include a mechanism to allow licensees a benefit from and penalties for failure to achieve, benchmarks set by the authority through yardstick regulation for, inter alia, without limiting the generality of such regulation, capacity utilization, operation and maintenance cost and unaccounted for gas”

9.2.3.4 Whereas condition 21(1) of the Licence stipulates as under:

“The licensee shall take all possible steps to keep UFG within acceptable limits”
“The authority for this purpose in consultation with licensee and experts shall fix target of UFG for each financial year”
“The authority may fix target separately for each regulated activity”

9.2.3.5 An analysis of the above provisions clearly show the following:

- i) the benchmarks for UFG are to be set by the Authority through yardstick regulation.
- ii) the licensee is to take all possible steps to keep the UFG within acceptable limits.
- iii) the Authority has to fix targets for UFG in consultation with the licensee and experts.
- iv) the targets have to be fixed for each financial year

9.2.3.6 The requirement of yardstick regulation has never been fulfilled by the Authority. It has also not been considered that the licensee is only required to take steps that are within its control to keep UFG within “acceptable limits”. The “acceptable limits” connote that the targets must be such as to be achievable and acceptable to a prudent mind, which is only possible if they are set after taking into account objective realities such as the age of the system, the socio economic and political environment and commercial realities.



- 9.2.3.7 It is trite law that the word “consultation” wherever it occurs in the law or in provisions determining rights, duties and liabilities of parties, has to be construed as connoting meaningful and purposeful consultation and not just perfunctory and mechanical consultation. Consultation in this case is required to be done not just with a licensee but with experts also. The Authority has never consulted any experts for making its determinations. The purpose of a consultation is to reach an informed decision since the factors contributing to UFG are variable and keep changing. It is pertinent to mention that in a recent report, the World Bank has offered to help gas companies to reduce UFG to 6 % by FY 2012-13. It is strange that while a body like the World Bank expects no more than achieving the 6% mark in three years, the Authority has been insisting on a much lower mark i.e 5 % for FY 2009-10 and 4.63 % for FY 2010-11.
- 9.2.3.8 The provisions make it absolutely clear that targets have to be set on an annual basis which means that they have to be revised keeping all the applicable and relevant considerations in mind which are not static and may change in time. The Authority’s setting of benchmarks is nothing more than a mechanical exercise since it has never taken into account factors such as natural calamities or political unrest that have affected the licensees adversely and thus impacted their ability to meet benchmarks.
- 9.2.3.9 UFG target should be reviewed keeping in view the ground realities including size and age of network, rise in gas sale prices, change in sale mix, law & order situation, uneconomic expansion, etc, since these will adversely impact with irreparable losses, jeopardizing its whole operations as a going concern.
- 9.2.3.10 The Authority has not taken into account the size of the petitioner’s pipeline network and the fact that a substantial part of the petitioner’s network is more than 25 years old and some are even older than 55 years and the soil conditions are saline which make them more susceptible to corrosion. This is by no means a new network and allowance for leakages should have been far more than what was determined.
- 9.2.3.11 In FY 2001-2, when the benchmarks were first set, the actual UFG of the



petitioner was 8 % for a total of 1.6 million consumers and a net supply value of Rs. 28.516 billion. Today, the actual UFG is 7.9 % on a consumer base of 2.2 million and a net supply value of Rs. 112 billion. A 1% disallowance in 2002 translated into Rs. 219 million while today it translates into approximately Rs. 1 billion. Gas theft and pilferage has also drastically risen during the last few years as a consequence of rise in gas prices and the diminishing capacity of the general public to pay owing to rising inflation.

9.2.3.12 The Authority has failed to consider that over the last decade there has been a constant shift from bulk sales, where UFG is nil, towards retail. In FY 2003-04 the bulk-retail ratio was 54:46 which in FY 2009-10 has become 39:61. Since the petitioner has little control over the choice of consumer category and has to comply with the directives of the Federal Government for supply of gas to the domestic sector, especially in remote areas, the increase in UFG is inevitable and cannot be attributed to any inefficiency, imprudence or even willfulness on the petitioner's part. Therefore, penalizing the petitioner on this account would be against law and equity.

9.2.3.13 The high 'UFG' in remote areas like Balochistan and Interior Sindh was not given due weight by the Authority. It is almost impossible to control the UFG in these areas with the prevailing law and order situation and no improvement seems likely in the near future. The populace of these areas is mostly very poor and does not have the capacity to pay for basic utilities. Provision of gas to these areas is economically unviable for the petitioner, although the same would and should be a requirement of the State's social responsibility. Clause 13.1.2 of the Licence in fact directs the petitioner to provide gas to customers only if the same is technically and economically viable. The fact that the government in pursuance of its socio economic objectives requires the petitioner to continue to provide gas to economically unviable areas, which by no stretch of imagination can be a ground for burdening the petitioner with the consequences of the same. In the last few years there has been a huge increase in the numbers of new towns and villages added to the network of the petitioner, from 1,051 in year 2006 to 2,375 at present.



- 9.2.3.14 The Authority is well aware that in the recent public hearings held in Quetta, interveners have publicly stated that since gas is produced in Balochistan they will not pay any money for its utilization. Furthermore, in the present political environment in which the people in Balochistan are already agitating their grievances it cannot be expected that the petitioner will be able to control UFG or disconnect gas supply to any part of that province. It is to be noted that Balochistan's share in the total sales is 5 % while it contributes 25 % to the total UFG. Almost the same factors, even if not as predominant, prevail in certain areas of Sindh.
- 9.2.3.15 The Authority has consistently expected that the petitioner will control theft of natural gas without appreciating that no anti theft legislation exists at present. In fact, in recent orders, issued by magistrates in Sindh, FIRs registered by the petitioner against individuals involved in theft of gas have been quashed on the ground that no action can be taken against any person and that it is only the Authority which has the power under Section 29 of the Ordinance to initiate any criminal proceedings. This is another factor which admittedly is beyond the control of the Company and in the absence of effective anti theft legislation in place it is not possible to take totally effective measures to control theft.
- 9.2.3.16 In its determination of FY 2008-09 the Authority had indicated that it would undertake a comprehensive impact assessment study on UFG to refix the benchmarks. However, no such study has been done so far. If the study had been carried out in time it would have substantiated the Company's stance and would have enabled the regulator to reach an informed decision and revise the benchmark to a realistic and practical level.
- 9.2.3.17 The adverse financial impact of UFG disallowances from FY 2003-04 to FY 2008-09 has been more than Rs. 6 billion. This has resulted in reducing the effective return from 17 % in 2002-03 to less than 6 % in 2008-09. If the impact of financial charges and taxes is included, the return in fact becomes negative. If the targets are not revised prudently and in accordance with law as submitted above, further adjustment of Rs 2.9 Billion would have to be made in FY 2009-10. These



adjustments would not only erode the profits of the petitioner but would also make it impossible to make any further investment for maintaining the existing network or undertaking any rehabilitation programs. This would be in clear violation of the provisions of the Ordinance, Rules and Licence and would result in making it impossible for the petitioner to supply gas to consumers on sustainable basis (reference the arguments mentioned in para 3.3 above).

9.2.3.18 From the above discussion of facts and the applicable law it is evident that the petitioner has made all possible efforts to keep the UFG within acceptable limits and the reasons for which the UFG benchmarks have not been met have mostly been beyond its control. Moreover, the disallowances have actually eroded the petitioner's financial position thereby limiting its ability to raise funds at reasonable rates from the market and to take effective measure to control UFG. The fact is that the petitioner's success in maintaining the UFG at below 8% despite the above factors is highly commendable. It is again emphasized that if the UFG benchmarks are not revised to a minimum of 7.5% it will no longer be possible for the petitioner to even maintain the present level of UFG in future.

9.2.3.19 It should be appreciated that disallowances for UFG is a recent phenomenon as it should also be appreciated that it is internationally not a universal practice to penalize for disallowances. It has to be acknowledged therefore, that an organization of the size of the petitioner would take some time in acclimatizing with and adjusting to a new phenomenon such as this. It will be appreciated that the petitioner is not lacking in efforts but was financially constrained to fully implement its previous plans. It has now formulated a five year UFG reduction plan which is expected to keep the UFG close to 7 % till FY 2014-15. However, the plan can only be implemented if UFG targets are revised and kept at 7.5 %. The savings that will thus accrue to the petitioner will be utilized for implementation of the said plan. The plan referred to has been filed with the review petition.

9.2.4 The Authority observes that the petitioner has diverted 11,696 MMCF gas to SNGPL, per the GoP decision, to meet shortage in northern system particularly in winter months, and the same has been included in gas purchased and sold while computing



UFG disallowance & HR benchmark.

9.2.5 ***The Authority, in view of the reasons recorded herein at para 10 below, allows the petitioner's claim in the matter for the said year.***

9.3 Transmission & Distribution (T & D) Cost

i. Summary

9.3.1 The petitioner has claimed that the transmission and distribution cost has increased by 57% i.e. from Rs. 5,935 million provided in RERR to Rs. 9,198 million, as compared below:

Table 16: Comparison of T & D Cost per the Petition with RERR & Previous Year

Particulars	Rs. in million				
	FY 2008-09	FY 2009-10		Inc./ (Dec.) over RERR	
	FRR	RERR	The Petition	Rs.	%
Salaries, wages, and benefits (HR cost)	4,154	4,026	7,705	3,679	91
Stores, spares and supplies consumed	429	565	429	(136)	(24)
Material used on consumers installations	165	60	93	33	55
Electricity	73	120	92	(29)	(24)
Rent, rate and taxes	71	88	70	(18)	(21)
Legal and professional charges	20	59	57	(2)	(4)
Travelling	67	78	68	(10)	(13)
Insurance	64	79	72	(6)	(8)
Postage and revenue stamps	69	80	69	(11)	(13)
Repairs and maintenance	639	597	651	54	9
License and tariff regulation fee to OGRA	59	61	60	(1)	(1)
Meter reading by contractors	35	58	41	(17)	(30)
Collecting agent commission	0.26	5	-	(5)	(100)
Security expenses	180	224	192	(32)	(14)
Gas bills collection charges	138	149	145	(4)	(3)
Gas bills stubs processing charges	15	20	15	(5)	(24)
Provision for doubtful debts	146	146	146	(0)	(0)
Advertisement	38	45	35	(10)	(22)
Others	73	91	80	(11)	(12)
Sub-total expenses	6,435	6,550	10,019	3,469	53
Add: Project Cost					
Interstate Gas Company Limited (ISGSL)	37	130	41	(90)	(69)
Expenditure relating to LNG project	18	28	11	(17)	(60)
	6,490	6,709	10,071	3,362	50
Less: Recoveries / Allocations					
Recoveries / Refund of Services	1,065	926	869	(57)	(6)
	218		187	187	
Net T&D exp. before gas internally consumed	5,207	5,783	9,016	3,233	56
Add: Gas internally consumed					
Loss due to sabotage activity	141	148	120	(29)	(19)
	69	4	62	58	1,455
Total T&D expenditure	5,417	5,935	9,198	3,262	55

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



ii. Human Resource (HR) Cost

- 9.3.3 The petitioner has claimed HR benchmark cost for the said year at Rs. 7,679 million as against Rs. 4,026 million provided in RERR. The petitioner has again contended that HR benchmark cost should be allowed on the basis of 100% Consumer Price Index (CPI), instead of 50% set by the Authority. The petitioner has computed the HR cost on the pattern/parameters of the HR benchmark revised by the Authority during FY 2008-09, however, base year has been changed from FY 2007-08 to FY 2008-09. CPI at 11.73% has been taken considering 100% impact instead of 50% prescribed by the Authority.
- 9.3.4 The petitioner has argued that the Authority, at the time of FRR for FY 2008-09, decided the H.R benchmark cost formula for three years i.e. FY 2008-09 to FY 2010-11 without going into the consultative sessions.
- 9.3.5 The petitioner has informed that it has been able to conclude, after exhaustive negotiations with the Peoples Labour Union, last two Collective Bargaining Agreements (CBA), effective July, 2008 on a comparatively lower side curtailing / deferring the demands of the workers. The same has resulted in an increase of Rs. 257 million in the HR cost for FY 2008-09., which if not allowed will have to be borne by the petitioner. The petitioner has, therefore, requested to review HR bench mark, considering rolling base years i.e. FY 2008-09 for FY 2009-10 and FY 2009-10 for FY 2010-11 with 100% impact of CPI.
- 9.3.6 Also, the petitioner has requested to allow the impact of Rs. 2,018 million on account of Temporary Assignees (TA), re-instated per the Presidential Ordinance, 2009, outside the H.R benchmark Cost formula i.e. as a pass through item.
- 9.3.7 The Authority notes that it has already exhaustively discussed & decided the issue of HR cost benchmark. The Authority had determined the HR benchmark for a period of three years from FY 2008-09 to FY 2010-11. The said benchmark was finalized after the consultative sessions with both the gas utilities. The Authority had given due consideration to the submissions of both the gas utilities, and had determined an equitable HR cost benchmark after analyzing the data received from the petitioner as well as SNGPL.



9.3.8 The Authority per the decision in paras 9.3.35 & 9.3.36 in its determination of DERR for FY 2010-11 allows the cost of reinstated employees under the Presidential Ordinance, 2009.

9.3.9 ***In view of above, the Authority maintains its earlier decision and re-computes the HR cost benchmark at Annexure-D and allows Rs. 7,298 million (including IAS-19 & TAs) being the HR cost for the said year.***

iii. Material Used on Consumers Installations

9.3.10 The petitioner has claimed Rs. 93 million on account of material used on consumers installations, as against Rs. 60 million according to RERR, showing an increase of 55%.

9.3.11 The petitioner has submitted that the quantum of material & labour used on consumers installation depends upon the actual jobs handled during a period by the company per the request of its customers.

9.3.12 ***In view of above, the Authority accepts the petitioner's claim on account of material used on consumers installations at Rs. 93 million for the said year.***

iv. Legal & Professional Charges

9.3.13 The petitioner has claimed legal and professional charges for the said year at Rs. 57 million as against Rs. 59 million provided in RERR for the said year. Historical comparison of legal and professional charges is given below:

Table 17: Comparison of Legal & Professional Charges with Previous Years

Particulars	Rs. in million				
	FY 2008-09	FY 2009-10		Inc./ (Dec.) over RERR	
	FRR	RERR	The Petition	Rs.	%
Legal	4	16	32	16	99
Professional	15	43	25	(18)	(42)
Total	20	59	57	(2)	(4)

9.3.14 The petitioner has submitted that fees and charges for various legal cases, litigations, suo moto cases, writ petitions, quality assessment review, etc relating to Supreme & Higher Courts were paid. The petitioner has further argued that these cases are of non-recurring nature, and, therefore, could not have been envisaged at the beginning of the said year.



9.3.15 ***In view of above, the Authority accepts the petitioner's claim on account of legal & professional charges at Rs. 57 million for the said year.***

v. Remaining Items of T & D Cost

9.3.16 Expenditure on remaining items of T & D cost, which have not been discussed above, is Rs. 2,215 million as against Rs. 2,564 million provided in RERR, as detailed below:

Table 18: Summary of Remaining T & D Expenses per the Petition with RERR & Previous Year

Particulars	Rs. in million				
	FY 2008-09	FY 2009-10		Inc./(Dec.) over RERR	
	FRR	RERR	The Petition	Rs.	%
Stores, spares and supplies consumed	429	565	429	(136)	(24)
Electricity	73	120	92	(29)	(24)
Rent, rate and taxes	71	88	70	(18)	(21)
Travelling	67	78	68	(10)	(13)
Insurance	64	79	72	(6)	(8)
Postage and revenue stamps	69	80	68	(12)	(15)
Repairs and maintenance	639	597	651	54	9
License and tariff regulation fee to OGRA	59	61	60	(1)	(1)
Meter reading by contractors	35	58	41	(17)	(30)
Collecting agent commission	0.26	5	-	(5)	(100)
Security expenses	180	224	192	(32)	(14)
Gas bills collection charges	138	149	145	(4)	(3)
Gas bills stubs processing charges	15	20	15	(5)	(24)
Provision for doubtful debts	146	146	146	(0)	(0)
Advertisement	38	45	35	(10)	(22)
Others	73	91	80	(11)	(12)
Interstate Gas Systems Pvt Ltd.	37	130	41	(90)	(69)
Expenditure relating to LNG project	18	28	11	(17)	(60)
Total T&D expenditure	2,152	2,564	2,215	(348)	(14)

9.3.17 ***The Authority accepts the remaining items of T&D cost at Rs. 2,215 million.***

9.3.18 ***In view of the discussion in paras ii to iv above, the Authority determines the operating cost for the said year at Rs. 8,790 million as against Rs. 9,198 million claimed by the petitioner, as follows:***



Table 19: Summary of T & D Cost Determined by the Authority

Particulars	Rs. in million	
	Requested by the Petitioner	Determined by the Authority
Salaries, wages, and benefits (HR cost)	7,705	7,298
Material used on consumers installations	93	93
Legal & professional charges	57	57
Remaining Items of T & D Cost	2,215	2,215
Loss due to sabotgae activities	62	62
Sub-total expenses	10,132	9,725
Less: Recoveries / Allocations	1,055	1,055
Net T&D exp. before gas internally consumed	9,077	8,670
Add: Gas internally consumed	120	120
Total T&D Expenditure	9,198	8,790

9.4 Reclaimed Items

9.4.1 The petitioner has increased its revenue requirement for the said year by Rs. 138 million pertaining to the adjustments for FY 2006-07 to FY 2008-09, as detailed below:

Table 20: Details of Reclaimed Items per the Petition

Particulars	Year of Expenditure	Rs. in Million
A) IT Related Expenditure on GIS		
(i) Revenue Expenses		
Software Maintenance	FY2006-07 to FY 2008-09	7
(ii) Amortization	FY2006-07 to FY 2008-09	24
(iii) Return	FY2006-07 to FY 2008-09	4
Sub-Total		35
(B) Provision for doubtful debts on disconnected customers		103
TOTAL		138

9.4.2 The petitioner has claimed revenue expenditure of Rs. 35 million pertaining to IT (GIS) related capital & revenue expenditure, which was disallowed by the Authority in its determination of FRR for FY 2008-09 dated September 15, 2009.

9.4.3 **The Authority, per discussion in paras 6.1.6 and 6.1.7, includes Rs. 35 million in the revenue requirement for the said year.**



- 9.4.4 The petitioner has claimed Rs. 103 million under the head “Provision for Doubtful Debts” on account of disconnected consumers for the said year. The petitioner has submitted that it has continuously been making efforts to maximize recovery through a dedicated Recovery Cell established for this purpose and reduce the level of provision. The petitioner has been regularly reporting, in its Half-Yearly reports to the Authority, about various steps taken from time to time for recovery of gas bills dues.
- 9.4.5 The petitioner has argued that the Authority has previously been allowing provision for doubtful debts against disconnected customers only. However, now the Authority has changed its stance while restricting it to the level of Rs. 146 million ignoring ground realities. Increase in number of disconnections and increased gas prices affect the trade debts and ultimately impacts the provision for doubtful debts. The petitioner has, therefore, included Rs. 103 million on account of provision for doubtful debts as reclaimed items for the said year.
- 9.4.6 The petitioner has also submitted that disconnection of gas supply works as a deterrent for recovery of the dues and keeping trade debts level under control. Restricting the petitioner from resorting to disconnections would result in increase in trade debts impacting the Company’s liquidity position adversely.
- 9.4.7 The petitioner also argued that the Authority should take this matter on merit and not merely fix an absolute amount of provision for doubtful debts without consideration of other factors as discussed above. The Authority is thus requested to consider the provision for doubtful debts at Rs. 201 million for disconnected consumers as included in petition for FY 2009-10.
- 9.4.8 The Authority observes that it had already repeatedly directed the petitioner in its various earlier determinations to make concerted efforts to curtail the ever-increasing provision for doubtful debts in order not to pass this avoidable cost to the consumers. However, the estimated high level of provision for the said year points to continued lack of action to evolve effective mechanism to ensure timely recovery of bills. This cannot be allowed to continue.
- 9.4.9 ***In view of above, the Authority strongly reiterates its earlier direction that the petitioner should take all possible steps to curtail the provision for doubtful debts,***



and disallows Rs. 103 million on this account.

9.5 Workers Profit Participation Fund (W.P.P.F)

9.5.1 The petitioner has claimed Rs. 436 million on account of W.P.P.F for the said year.

9.5.2 ***Consequent upon the deduction / adjustments in the various components of revenue requirement as discussed above, W.P.P.F. is reduced by Rs. 65 million and determined at Rs. 371 million for the said year.***

10. Decision

10.1 The Authority, keeping in view the arguments submitted by the petitioner, scrutiny of the petition and considering all the other relevant circumstances in respect of matters discussed herein, is of the opinion that due to the compelling financial and operational reasons and difficulties faced by the petitioner, there is a dire need to provide financial relief to it and allow a certain amount of cash flow for it to remain a viable commercial entity and the same is in the ultimate interest of the consumers:-

10.1.1 The petitioner's return has been eroded to an extent (i.e; approximately 8% of average net operating fixed assets) wherein it no longer has the financial capacity or the requisite cash flow to service its debt, rehabilitate the damaged infrastructure, launch effective UFG control program, etc. If the impact of financial charges and taxes is included the return, in fact becomes negative. In case no immediate relief is provided by the Authority, there is a likelihood that the petitioner may fail in servicing its consumers which can lead to broad based collapse of the natural gas sector in the country.

10.1.2 The Authority is of the considered opinion that the petitioner, in the previous years, has failed to undertake appropriate measures to curtail the increasing trend of UFG and achieve the desired benchmark as set by the Authority, owing to lack of initiative and focus. The petitioner, now, for the first time has submitted a comprehensive UFG combat strategy which indicates that it is now serious in effectively combating this ever increasing menace.

10.1.3 The Authority observes that the petitioner will need to undertake heavy capital investments to meet the objectives stated in para 10.1.1 above, however its cash flow



- situation, which is extremely worry-some, does not permit the same. The petitioner is no longer in a position to continue borrowing from the banks. Even otherwise, obtaining further loans would not be in the interest of the consumers at large.
- 10.1.4 The Authority considering its statutory duty as provided in sub rule 2 of Rule 17 of NGT Rules which makes it incumbent upon it to strike a balance amongst the criteria specified in sub rule 1, and in order to optimize the benefits to all persons likely to be affected by the Authority's decision, has made certain allowances stated hereinafter.
- 10.1.5 The Authority is cognizant of the fact that it must ensure that licensee is capable of making investments on a continuing basis in its infrastructure and human capital so as to maintain as well as enhance its capabilities to service consumers. The Authority observes that the petitioner today stands at the brink of a financial collapse. Needless to add that if this actually happens, it would irreparably harm the very class of stake holders i.e; the Consumers, that the Authority has been protecting so far from being harmed.
- 10.1.6 The Authority recognizes that certain operating conditions, which were not prevalent in the previous years, have now emerged, including but not limited to change in bulk-retail sale ratio as well as the deteriorating law and order situation in Balochistan and Sindh, which must be taken into account now for the said year.
- 10.1.7 The Authority notes that health and survival of the petitioner as a going concern is of vital interest to the consumers, therefore, if the Authority, at this critical juncture, does not exercise its powers as mandated by the applicable Law, it will lead to disastrous consequences including the suspension and/or breakdown of supply of natural gas to the consumers. A vibrant and profitable Company is infact in the interest of all stakeholders, including GoP and the consumers.
- 10.1.8 The Authority observes that many of the submissions made by the petitioner during the hearing of the instant petition were, not earlier made by it at the time of DERR public hearing. The Authority, however, in view of the compelling reasons stated above decides for the said year, as follows:

10.1.8.1 allows UFG at 7%;



- 10.1.8.2 allows treatment of income from MMP, LPS, Royalty from JJVL and Sale of Gas Condensate as non-operating incomes;
- 10.2 The present decision shall have no bearing on the future determinations by the Authority, as it has been made specifically for this financial year. The future determinations shall be made based on the submissions of the petitioner, taking into account the circumstances prevailing at the relevant time as well as in consultation with all the stake holders.
- 10.3 In view of the detailed reasons recorded in earlier paras, the Authority recapitulates and decides to:
- 10.3.1 **determine addition in fixed assets at Rs. 5,377 million and depreciation charge at Rs. 2,822 million;**
- 10.3.2 **determine the average net operating fixed assets (net of deferred credits, MMP & LPG Air-Mix) at Rs. 31,938 million for the said year. Consequently, the return required by the petitioner on its average net operating fixed assets is determined at Rs. 5,429 million;**
- 10.3.3 **determine operating income at Rs. 4,462 million as against Rs. 4,119 million offered by the petitioner;**
- 10.3.4 **accept the cost of gas at Rs. 95,405 million;**
- 10.3.5 **determine the UFG disallowance at Rs. 934 million;**
- 10.3.6 **determine the T&D cost at Rs. 8,670 million as against Rs. 9,078 million claimed by the petitioner;**
- 10.3.7 **accept the GIC at Rs. 120 million;**
- 10.3.8 **determine W.P.P.F. at Rs. 371 million as against Rs. 436 million claimed by the petitioner; and**
- 10.3.9 **disallows Rs. 103 million on account of re-claimed items;**
- 10.4 ***In exercise of the powers under Section 8(2) of the Ordinance, the Authority determines the FRR of the petitioner for the said year at Rs. 112,245 million as against petitioner's claim of Rs. 113,299 million, as tabulated below:***



Table 21: Components of FRR for the Said Year as Determined by the Authority

			<i>Rs. in million</i>
S.No	Particulars	Claimed by the Petitioner	Determined by the Authority
1	Cost of gas	95,405	95,405
2	Adjustment of UFG per target	(444)	(934)
3	Transmission & distribution cost	9,078	8,670
5	Gas internally consumed	120	120
6	Depreciation	2,822	2,822
7	Other charges including WPPF	715	650
8	Reclaimed Items	138	35
9	Return on average net operating fixed assets	5,429	5,429
10	Additional revenue requirement for Air-Mix LPG Project	37	37
Total estimated revenue requirement		113,299	112,234

- 10.5 ***The petitioner's actual net operating income is Rs. 103,538 million and thus there is a shortfall of Rs. 8,695 million, vis-à-vis its revenue requirement of Rs. 112,234 million for the said year. To adjust this shortfall, the Authority hereby increases the average prescribed prices by Rs. 24 per MMBTU (Annexure-A). Revised prescribed prices for each category of retail consumers for FY 2009-10 are attached and marked Annexure-C. This increase in prescribed prices will, however, not entail any increase in consumer sale prices.***
- 10.6 ***In view of the above stated reasons and for the reason that the review petition filed by the petitioner, mentioned at para 1.6 above, has become infructuous due to flux of time, the same stands disposed-of by this Order.***

(Mansoor Muzaffar Ali)
Member (Gas)

(Mir Kamal Marri)
Member (Finance)

(Tauqir Sadiq)
Chairman

Islamabad,
September 24, 2010

A. Final Revenue Requirement for FY 2009-10

				<i>Rs. in Million</i>
Particulars		The Petition	Adjustment	Determined by OGRA
Gas sales volume -MMCF		388,828		388,828
BBTU		362,379		362,379
"A"	Net operating revenue			
	Gross sales net of general sales tax	112,274		112,274
Less:	Gas development surcharge- existing	9,237		9,237
	Gas sales net of GDS	103,036		103,036
	GDS deferral	3,960		3,960
	Net sales at current prescribed price	99,076		99,076
	Meter rentals	576		576
	Late payment surcharge	-	-	-
	Amortization of deferred credit	327		327
	Sale of gas condensate	145		145
	Meter manufacturing profit	-		-
	Gas transportation Income	33		33
	Revenue from JJVL	2,313		2,313
	Royalty income from JJVL	-		-
	Return on Govt. grants	-	223	223
	Other operating income	725	120	845
	Total Operating revenue "A"	103,196	343	103,538
"B"	Less: Operating expense			
	Cost of gas	95,405		95,405
	UFG Adjustment	(444)	(490)	(934)
	Transmission and distribution cost	9,078	(408)	8,670
	Gas internally consumed	120		120
	Depreciation	2,822		2,822
	W.P.P.F	436	(65)	371
	Other charges	278		278
	Reclaimed items	138	(103)	35
	Total operating expense "B"	107,833	(1,066)	106,767
"C"	Operating (Loss) (A-B)	(4,637)	(1,408)	(3,229)
Return required on net operating fixed assets:				
	Net operating fixed assets at beginning	35,880		35,880
	Net operating fixed assets at ending	38,079		38,079
		73,959		73,959
	Average net assets (I)	36,980		36,980
	LPG Air-Mix project asset at beginning	80		80
	LPG Air-Mix project asset at ending	75		75
		155		155
	Average net LPG Air-Mix project assets (II)	78		78
	Meter manu. plant at beginning	51		51
	Meter manu. plant asset at ending	41		41
		92		92
	Average net meter manu. plant (III)	46		46
	Deferred credit at beginning	4,847		4,847
	Deferred credit at ending	4,989		4,989
		9,836		9,836
	Average net deferred credit (IV)	4,918		4,918
"D"	Average (I-II-III-IV)	31,938		31,938
"E"	17% return required	5,429		5,429
"F"	Shortfall in return required (C-E) (gas operations)	10,067	(1,408)	8,658
"G"	Additional revenue requirement for LPG Air-Mix project	37		37
"H"	Total shortfall (F+G)	10,104	(1,408)	8,695
Increase required in average prescribed price effective July 01, 2009 (Rs. / MMBTU)				
		27.88	(3.89)	24.00
Total revenue requirement (B+E+G)		113,299		112,234
Average prescribed price (Rs. per MMBTU)		301.29	(3.89)	297.40

B. Prescribed Prices per RERR for FY 2009-10

CATEGORY				Prescribed Prices w.e.f. 01.07.2009	Prescribed Prices w.e.f. 01.01.2010
				Rs. per MMBTU	
(i)	Domestic Consumers				
	a) Standalone meters:				
	(a) Upto 200 M³ per month				
	(i)	0 – 50 M ³ per month		80.65	95.01
	(ii)	Over 50 – upto 100 M ³ per month		84.45	99.48
	(iii)	Over 100 – upto 200 M ³ per month		153.73	181.10
	(b) Over 200 M³ – upto 300 M³ per month				
	(i)	0 – 100 M ³ per month		84.45	99.48
	(ii)	Over 100 – upto 200 M ³ per month		153.73	181.10
	(iii)	Over 200 – upto 300 M ³ per month		325.48	383.42
	(c) Over 300 M³ – upto 400 M³ per month				
	(i)	0 – 200 M ³ per month		153.73	181.10
	(ii)	Over 200 – upto 300 M ³ per month		325.48	383.42
	(iii)	Over 300 – upto 400 M ³ per month		423.42	498.80
	(d) Over 400 M³ – upto 500 M³ per month				
	(i)	0 – 300 M ³ per month		325.48	383.42
	(ii)	Over 300 – upto 400 M ³ per month		423.42	498.80
	(iii)	Over 400 – upto 500 M ³ per month		550.44	648.43
	(e) Over 500 M³ per month				
	(i)	0 – 400 M ³ per month		423.42	498.80
	(ii)	Over 400 – upto 500 M ³ per month		550.44	648.43
	(iii)	All over 500 M ³ per month		730.17	860.15
	b) Bulk Meters:				
	<i>Mosques, churches, temples, madrassas, other religious places and hostels attached thereto, Government and semi-Government offices, hospitals, Government guest houses, Armed Forces messes, langars, universities, colleges, schools, private educational institutions, orphanages and other charitable institutions alongwith hostels and residential colonies to whom gas is supplied through bulk meters.</i>				
	(a) Upto 200 M³ per month				
	(i)	0 – 50 M ³ per month		80.65	95.01
	(ii)	Over 50 – upto 100 M ³ per month		84.45	99.48
	(iii)	Over 100 – upto 200 M ³ per month		153.73	181.10
	(b) Over 200 M³ per month				
	<i>All off takes at flat rate of</i>			325.48	383.42
(ii)	Commercial Consumers				
	<i>All establishments registered as commercial units with local authorities or dealing in consumer items for direct commercial sale like cafes, bakeries, milk shops, tea stalls, canteens, barber shops, laundries, places of entertainment like cinemas, clubs, theaters and private offices, clinics, maternity homes etc.</i>				
	<i>All off-takes at flat rate of</i>			381.15	399.61

(iii)	Special Commercial (Roti Tandoors)		
	(a) Upto 200 M³ per month		
	(i) 0 – 50 M ³ per month	80.65	95.01
	(ii) Over 50 – upto 100 M ³ per month	84.45	99.48
	(iii) Over 100 – upto 200 M ³ per month	153.73	181.10
	(b) Over 200 M³ – upto 300 M³ per month		
	(i) 0 – 100 M ³ per month	84.45	99.48
	(ii) Over 100 – upto 200 M ³ per month	153.73	181.10
	(iii) Over 200 – upto 300 M ³ per month	325.48	383.42
	(b) Over 300 M³ per month		
	<i>All off takes at flat rate of</i>	381.15	399.61
(iv)	Ice Factories		
	<i>All off-takes at flat rate of</i>	381.15	399.61
(v)	Industrial Consumers		
	<i>All consumers engaged in the processing of industrial raw material into value added finished products irrespective of the volume of gas consumed including hotel industry but excluding such industries for which a separate rate has been prescribed.</i>		
	<i>All off-takes at flat rate of</i>	314.26	329.48
(vi)	Captive Power		
	<i>All off-takes at flat rate of</i>	314.26	329.48
(vii)	Compressed Natural Gas (CNG)		
	<i>All off-takes at flat rate of</i>	393.42	427.15
(viii)	Cement		
	<i>All off-takes at flat rate of</i>	440.86	462.21
(ix)	Pakistan Steel		
	<i>All off-takes at flat rate of</i>	314.26	329.48
(x)	Fauji Fertilizer Bin Qasim Ltd.		
	(i) For gas used as feed-stock for Fertilizer (upto 60 MMCFD)	102.01	102.01
	(ii) Additional allocation (10 MMCFD) Provisional	56.70	56.70
	(iii) For gas used as fuel for generating steam and electricity and for usage in housing colonies for fertilizer factories.	314.26	329.48
(xi)	Power Stations		
	<i>All off-takes at flat rate of</i>	323.64	339.31
(xii)	Independent Power Producers		
	<i>All off-takes at flat rate of</i>	265.02	281.88

**C. Prescribed Prices Determined by the Authority for FY 2009-10**

CATEGORY		Revised Prescribed Prices w.e.f. 01.07.2009	Revised Prescribed Prices w.e.f. 01.01.2010
		Rs. per MMBTU	
(i)	Domestic Consumers		
	a) Standalone meters:		
	(a) Upto 200 M³ per month		
	(i) 0 – 50 M ³ per month	80.65	95.01
	(ii) Over 50 – upto 100 M ³ per month	84.45	99.48
	(iii) Over 100 – upto 200 M ³ per month	153.73	181.10
	(b) Over 200 M³ – upto 300 M³ per month		
	(i) 0 – 100 M ³ per month	84.45	99.48
	(ii) Over 100 – upto 200 M ³ per month	153.73	181.10
	(iii) Over 200 – upto 300 M ³ per month	325.48	383.42
	(c) Over 300 M³ – upto 400 M³ per month		
	(i) 0 – 200 M ³ per month	153.73	181.10
	(ii) Over 200 – upto 300 M ³ per month	325.48	383.42
	(iii) Over 300 – upto 400 M ³ per month	423.42	498.80
	(d) Over 400 M³ – upto 500 M³ per month		
	(i) 0 – 300 M ³ per month	325.48	383.42
	(ii) Over 300 – upto 400 M ³ per month	423.42	498.80
	(iii) Over 400 – upto 500 M ³ per month	550.44	648.43
	(e) Over 500 M³ per month		
	(i) 0 – 400 M ³ per month	423.42	498.80
	(ii) Over 400 – upto 500 M ³ per month	550.44	648.43
	(iii) All over 500 M ³ per month	730.17	860.15
	b) Bulk Meters:		
	<i>Mosques, churches, temples, madrassas, other religious places and hostels attached thereto, Government and semi-Government offices, hospitals, Government guest houses, Armed Forces messes, langars, universities, colleges, schools, private educational institutions, orphanages and other charitable institutions alongwith hostels and residential colonies to whom gas is supplied through bulk meters.</i>		
	(a) Upto 200 M³ per month		
	(i) 0 – 50 M ³ per month	80.65	95.01
	(ii) Over 50 – upto 100 M ³ per month	84.45	99.48
	(iii) Over 100 – upto 200 M ³ per month	153.73	181.10
	(b) Over 200 M³ per month		
	<i>All off takes at flat rate of</i>	325.48	383.42
(ii)	Commercial Consumers		
	<i>All establishments registered as commercial units with local authorities or dealing in consumer items for direct commercial sale like cafes, bakeries, milk shops, tea stalls, canteens, barber shops, laundries, places of entertainment like cinemas, clubs, theaters and private offices, clinics, maternity homes etc.</i>		
	<i>All off-takes at flat rate of</i>	393.33	461.15

(iii)	Special Commercial (Roti Tandoors)		
	(a) Upto 200 M³ per month		
	(i) 0 – 50 M ³ per month	80.65	95.01
	(ii) Over 50 – upto 100 M ³ per month	84.45	99.48
	(iii) Over 100 – upto 200 M ³ per month	153.73	181.10
	(b) Over 200 M³ – upto 300 M³ per month		
	(i) 0 – 100 M ³ per month	84.45	99.48
	(ii) Over 100 – upto 200 M ³ per month	153.73	181.10
	(iii) Over 200 – upto 300 M ³ per month	325.48	383.42
	(b) Over 300 M³ per month		
	<i>All off takes at flat rate of</i>	393.33	461.15
(iv)	Ice Factories		
	<i>All off-takes at flat rate of</i>	393.33	461.15
(v)	Industrial Consumers		
	<i>All consumers engaged in the processing of industrial raw material into value added finished products irrespective of the volume of gas consumed including hotel industry but excluding such industries for which a separate rate has been prescribed.</i>		
	<i>All off-takes at flat rate of</i>	324.30	380.22
(vi)	Captive Power		
	<i>All off-takes at flat rate of</i>	324.30	380.22
(vii)	Compressed Natural Gas (CNG)		
	<i>All off-takes at flat rate of</i>	427.15	492.93
(viii)	Cement		
	<i>All off-takes at flat rate of</i>	454.95	533.39
(ix)	Pakistan Steel		
	<i>All off-takes at flat rate of</i>	324.30	380.22
(x)	Fauji Fertilizer Bin Qasim Ltd.		
	(i) For gas used as feed-stock for Fertilizer (upto 60 MMCFD)	102.01	102.01
	(ii) Additional allocation (10 MMCFD) Provisional	56.70	58.49
	(iii) For gas used as fuel for generating steam and electricity and for usage in housing colonies for fertilizer factories.	324.30	380.22
(xi)	Power Stations		
	<i>All off-takes at flat rate of</i>	333.98	391.56
(xii)	Independent Power Producers		
	<i>All off-takes at flat rate of</i>	281.88	325.29



D. HR Benchmark Cost Determined by the Authority

Description	FY 2009-10	
	The Petition	Determined by OGRA
Total HR cost incl. IAS-19 & TA's Cost	7,730	7,730
Less:		
IAS-19	179	179
TAs Cost under Supreme Court	1,182	1,182
TA s' cost under Presidential Ordinance	2,018	2,018
Impact of CBA		
HR cost (actual by the licensee)	4,350	4,350
BASIS OF BENCHMARK		
No. of consumers (actual / projected by the licensee)	2,247,157	2,247,157
Sale Volume (MMCF) (")	400,524	400,524
T & D network (km) (")	40,078	40,078
Consumer Price Index (CPI) (")	11.73%	11.73%
Per unit cost factor (Sale volume base) (Rs.) (Base Year)	9.77	8.09
Per unit cost factor (T & D Network) (Rs.) (Base Year)	100.09	86.7402
Per unit cost factor (consumer base) (Rs.) (Base Year)	1,745	1,473
Based on number of consumers (60% weightage)	2,353	1,987
Based on sale volume (20% weightage)	783	648
Based on T & D network (20% weightage)	802	695
CPI adjustment @ 50% of previous year's benchmark HR cost	411	206
Benchmark HR Cost	4,350	3,536
Add: IAS -19 Provision and TAs cost	3,380	3,380
Total benchmark H.R. Cost	7,730	6,916
Actual HR Cost	7,679	7,679
Saving / (Excess)	51	(763)
Sharing of 50% of Saving / (Excess)	26	(382)
HR Cost Allowed	7,705	7,298

APPENDIX



FROM THE OFFICE OF
Shamim Ahmed Firpo
Member Managing Committee
Chairman
Public Sector Utilities, Power & Gas
Sub-Committee (2009-2010)
E-mail: public_util@karachichamber.com

PS/KESC/10/1127
Ramazan 26, 1431
September 15, 2010

Mr. Muhammad Yasin
Registrar,
Oil and Gas Regulatory Authority,
Tariq Chambers, Civic Centre,
Sector G-6,
Islamabad



Subject: SSGCL - Motion for review of Authority's Determination on Estimated Revenue Requirement for F.Y. 2010-11 Dated May 18, 2010 under rule of 16 of the Natural Gas Tariff Rules, 2002

Dear Sir,

Kindly refer to your letter No. OGRA-6(2)-2(1)/2010-Review, Dated August 30, 2010 on the subject cited above. In this regard, we are submitting our intervention details as below in the public hearing to be held on the subject case on September 16, 2010 at 11:30 a.m. at Oil & Gas Regulatory Authority, 54-Fazal-e-Haq Road, Islamabad.

SSGC's recent total revenue requirement petition is a proof of the systematic destruction of a monopoly in its designated region based on the policies of the government and the wishful thinking of the company. Granted there are some ground realities that can not be avoided by the company but the government in place of providing relief to the masses through enabling the company to lower its charges is resorting to implementation of policies that are putting the final nails in its coffin.

Some excerpts from the SRO.829 (1)/2002 encompassing the OGRA rules

SRO.829(1)/2002 states in section 17 (g) that

Tariffs should be determined in a manner that protects consumers against monopolistic and oligopolistic pricing

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FROM THE OFFICE OF
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It does not take much imagination that this aspect of the SRO is being fully flouted and the consumer is not at all protected or given any hope of any kind through the tariff determinations of OGRA. There are root causes that have been repeatedly presented in many hearings and the net result is nothing more than lip service by the authority or the future based promises of a workable solution.

One of the major problems of the whole system of the revenue generation is the 17% ROA that is guaranteed to the company inspite of any event or scenario.

Since the OGRA authorities are empowered under the SRO.829 (1)/2002 section 17(f) to evaluate all petitions under the criterion that

Tariffs should be determined on the basis of ROA however the authority after consultation with the licensees and the Federal Govt. determine the tariff on basis of other regimes

Why does not OGRA take this step towards the alleviation of misery of its consumers. Why must they be subjected to this draconian system of unjustifiable returns in today's day and age? By delaying this point OGRA is contributing towards the misery and the financial burden of the average lot of citizens of this country.

Section 17(h) of the same ordinance tells us

Tariffs should generally be determined taking into account a rate of return as provided in the licence, prudent operation and maintenance costs, depreciation, Govt. levies and if possible financial charges and cost of natural gas.

Now question is whether the inclusion of all the costs of the TA's reinstatement to the end user comes under prudent operation and maintenance costs? Should OGRA not tell the govt. that this is a gross misnomer and violates the SRO of its jurisdiction even? If this kind of exploitation continues then the result is very clear to be seen. One has to abide by the law of the land and the passing of this order has been done through a competent court of law but does the SSGC has no right to challenge this verdict with the backing of this above mentioned law on its side? Sacrificing the entire existence of the company in financial terms for the material benefit of over loaded workforce does not seem to be prudent decision by any stretch of imagination. Burdening of billions of rupees worth of funds on an already staggering company is nothing sane either in my opinion and this point alone is the breaking factor in the race for the increase in the base rate besides the 17% return aspect of the tariff regime being followed by OGRA blindly.

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The continuous flouting of OGRA decisions by the SSGC

The SSGC has now taken its right as to flout the decisions of OGRA for certain areas of its working. Previously it was the revenue heads that were being questioned such as JJVL, Meter rent income, sale of gas condensate, advertising income and notional income. OGRA makes a decision unabated and OGRA does not take any action in this regard I am putting forward a reference to the relevant law in this regard which is again from the same SRO as above under the section 20 of penalty and reads as

Any licensee who contravenes any provision of the ordinance, these rules or an order, determination, decision, direction or instruction of the authority shall be punishable with fine of one quarter of one percent of the annual turnover of the company or twenty million rupees whichever is less. In case of a continuous contravention, extra fine of one tenth of one percent of the annual turnover of the licensee or two million rupees whichever is less for every day during which this contravention takes place after the first contravention.

SSGC is for the last few petitions taking this line of action with regards to the fixing of the UFG limits and the debate over the settled issues of non revenue and revenue heads. Is it not time for OGRA to advise them of this law and restrain them from wasting the time of the people by this debate and settled decided issues every time they send up a petition? Since the law is there if this is keep on OGRA should act on this law and end this useless activity on behalf of SSGC. One more aspect of this law is that if the SSGC is unable to restrict its UFG to the designated levels of the losses that OGRA has determined then should this law be applied to it as this does conclude in a continuous contravention of the OGRA determination as it exists today?

Lastly we learn that from the SRO.829 (1)/2002 from section 17 (j) that *Only such capital expenditure be included in the rate base as is prudent cost effective and economically efficient*
How does OGRA meet this criteria? Does it have an effective mechanism to ascertain the feasibility study of all the development plans that SSGC submits to it? Does it have the authority to disallow the same for the propose and guide SSGC towards better results or all of the decisions are politically based and not economically viable? This is the rope pulling that is always going to go on with SSGC trying to increase its asset base in remote areas and increasing its domestic reach for political benefits of the govt. in place and thereby suffering on non feasible enterprises? Is there an approval mechanism in place in SSGC that prohibits such actions?



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The main reason of the request for price increase

The main report envisages a shortfall of Rs 9 billion approximately (annexure A1). In this shortfall the major chunk is again the effect of the TAs which is an approx. 90% increase compared with ERR of 2009-10. Much can be said about this unfortunate turn of events but it has been pointed out previously and this point alone is enough to break the camel's back so as to speak with no improvement in efficiency or output. Again the govt. alone is responsible for this state of affairs whereas there could have been a mechanism be put in place to take care of this burden as earlier the govt. of Pakistan has given the idea that SSGC would not be burdened by this directly.

UFG issue

The issue of UFG is again a glaring example of SSGC tendency to calculate on its own parameters without a heed to the OGRA guidelines as presented in table B-4.1 .Here the SSGC has on its own set up the UFG targets at 7.5% in blatant violation of the norms of OGRA and calculated the UFG charges which are substantially reduced as such if compared to the level of UFG approved by OGRA at 5% aprox comes to Rs 3 billion which is shown as Rs 444 million. OGRA should take note of this situation and ask the SSGC under whose orders was this calculation done and approved for presentation disregarding clear and past practices? In its decisions given by OGRA it has time and again emphasized that SSGC has failed over and over again with the usage of funds and facilities for the reduction of the UFG.

HR Benchmark

If we look at the HR cost (table B 5.2) we see that due to the reduced sales volume the cost per km of network has gone up and so has the cost per MCF of sales. This means that the whole network is becoming more costly to maintain and run. This is not a good sign for an expanding network and must be looked into. This point tells us regarding the issue of the feasibility of the expansion of the network which further makes the payments from the customers with the increase in an in efficient network.



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Revenue loss details

In the context of the sales of gas we are given the fact that (table B2.1) the 28178mmcf loss is the main reason in the loss of revenue in terms of gas sales. The loss in Tawqiri steel and the DHA desalination alone comes to 16000mmcf. The trouble is that the general industries are also consuming less gas to the tune of almost 8000mmcf. This is a very troubling issue and it means that the supply to the engine of growth is being hampered or the industry finds the usage of gas as unpractical or unfeasible for its production activities.

Meter manufacturing profit (table B 9.6)

It is interesting to note that 13% increase in the number of units of meters produced an increase of around 56% increase in the cost of labour which is totally unrealistic.

TA Details (table C 10.1)

It is very interesting to note that the average person which has been re instated with the Supreme Court order is getting as follows

Cost per sub ordinate staff reinstated as per Supreme Court order Rs.71430
TAs as per presidential order with 3 year back pay
Regular grade 51101
39934

This kind of payment schedule for the employees is quite amazing and is the real culprit and we at the end users are bearing the bill of this anomaly. Nearly Rs3.5.blm have been added to the dwindling reserves of SSGC in terms of its payouts by the over 2500 people inducted in the company.

General comments on the SSGC and its workings

The present set up of the presentation of SSGC is a recipe for disaster. What has been done is

- decrease in revenue
- increase in expenses



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- c) no austerity measures
- d) dwinling material of sale
- e) over dependence on banking finances
- f) increasing debtor amount that is unpaid

It is quite clear that it is a disaster in the making. *Sooner or later SSGC will go bankrupt* based on what options it exercises and when. Not only this there is a whole other aspect of the game such as the role of govt. in making sure that the SSGC does not prosper by the following actions and policies

- 1) volume reduction due to govt. negligence i.e. based on petty issues lying in court against local people the govt. does not make deals with them to let about 300mcf of gas in the mainstream usage. This bickering is causing the bleeding of raw material sources and the govt. does nothing but sits and sees the citizens pay through the nose. Manzalai is a success story with 2.4 TCF in a single gas field.
- 2) The Kohlu gas field is another deliberate govt lacking area. With reserves of 22 TCF with country's present reserves at 25TCF. However no progress is made as yet by the govt. on extraction of the reserves over a 2500 sq km area with aprox. \$80bln deposits with \$5 per mmbtu and 15.4 TCF.
- 3) Subsidy issues to the fertiliser is a major cause of the in equal pricing for the industry. Infact there is no subsidy but the average user pays for the cost of that subsidy at a higher rate. At times the fertiliser section is given gas at even lower than extraction value of the gas. This practice must stop and all the end users must get an even playing field
- 4) The issue of urea pricing can easily be handled by importing the finished product and giving subsidy directly at the import stage. This will not hamper the gas reserves and also solve the subsidy issue for the govt. Until this happens no amount of tariff increase will help the SSGC. as it must not sell more of the precious reserve to the lowest end of the price structure as per govt. direction.
- 5) Slab system of tariff structure that is in present usage is harassment source for the end users when they are given clubbed provisional bills for more than one month and thereby their bills change the slabs and end up many times higher than average value. The percentage of such people and end users can go as high as 25% according to some estimates.



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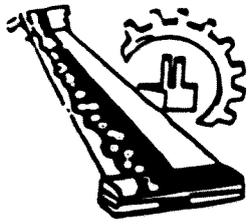
- 6) KESC owes Rs 23 billion to SSGC. The govt. is directly responsible for this state because it has politicized the whole circular debt and is the creation of the govt. itself. The govt. is already paying around Rs40bln as interest payments over the last created fund of Rs 300bln. The govt. must allow either SSGC to let that payment be received or let it cut off the supply to the KESC. Without such bold actions the financial health of SSGC will not improve by any amount.
- 7) The rates of Kandawari fields are too high and causes a disbalance in the whole pricing structure. It is requested to finalize this issue and facilitate the pricing mechanism.

The KCCI therefore rejects all upward tariff requests by SSGC as the previous lowering of the oil prices did not trickle down the benefits of the reduction to the masses as such and until that happens i.e. from a \$147 per barell price to \$47 with a mere 7% downward revision done by the govt. The dual debacle of loading the SSGC with thousands of people with full benefits and pay along with the 17% guaranteed rate of return are purely in the domain of the govt. and as such it is the responsibility of the govt. to take proper steps to resolve such bleeding of funds today and for the future.

Thanking you,

Sincerely,

Shamim Ahmed Firpo



ALI PAKISTAN TEXTILE PROCESSING MILLS ASSOCIATION

H-16, Textile Avenue, S.I.T.E., Karachi, Pakistan. Phone: (92-21) 32572884, 32566618
Fax : (92-21) 32566618 E-mail : aptpmak@cyber.net.pk Website: www.aptpma.com.pk

APTPMA-OGRA/MW/SEC-178
15th September, 2010

The Registrar
Oil & Gas Regulatory Authority
Tariq Chambers Civic Center, Sector G-6,
Islamabad.

Sub.: SUBMISSIONS ON PETITION AND REVIEW MOTION FILED BY
SSGCL

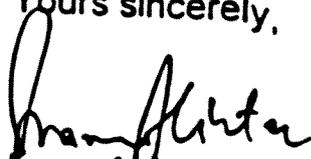
Dear Sir;

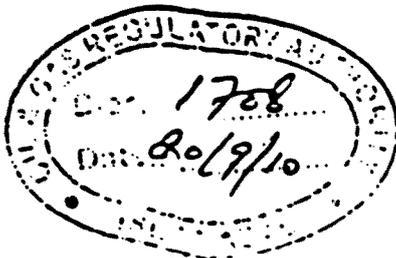
On the subject under reference, we are enclosing herewith comments by our representative for consideration of the Authority on issues discussed therein.

Kindly do the needful and oblige thereby. We will send a hard copy of the submissions by courier.

Thanking you and assuring you of our maximum support.

Yours sincerely,


Inam Akhtar
Secretary



SUBMISSIONS BEFORE OIL & GAS REGULATORY AUTHORITY (OGRA) ON PETITION FILED BY SSGCL'S PETITION FOR DETERMINATION OF TOTAL REVENUE REQUIREMENT FOR FY 2009-10 And MOTION FOR REVIEW OF AUTHORITY'S DETERMINATION ON ESTIMATED REVENUE REQUIREMENT FO FY 2010-11 DATED MAY 18, 2010 UNDER RULE 16 OF THE NATURAL GAS TARIFF RULES, 2002.

The undersigned is the Former Chairman of All Pakistan Textile Processing Mills Association, a representative body of all textile-processing units located throughout the country. Textile processing industry is a labor-intensive sector that consumes substantial quantum of gas (probably the highest by any sector) in the process of value addition to textiles. In fact gas enjoys the status of a "Raw Material" in textile processing. I also represent SITE Association of Industry, Karachi as Chairman of the Sub-Committee on Gas and Electricity.

SSGCL first submitted the Motion for Review pertaining to the Revenue Requirement for the financial year 2009-10 and then submitted the Petition for the Determination of the Total Revenue Requirements for financial year 2010-11. The basic debatable point or the pinching point in the "Petition" as well as the "Motion for Review" is the benchmark set by the Authority on "Allowable Un-accounted for Gas (UFG) for the Petitioner". The other issues that the Petitioner is fond of raising in every Petition or Review is the matter of income from Late Payment Surcharge (LPS), Meter Manufacturing Profit (MMP), Royalty from JJVL and the sale of condensates.

Let us analyze the merits and demerits of setting such a stringent benchmark for UFG by the Authority which, fortunately, were not set overnight. In fact, the allowable UFG percentage was gradually decreased over five years.

In fact, in Petition filed on 30th November 2006 by SSGCL for "Estimated Revenue Requirement, Financial year 2007-08", Annexure - E, the Petitioner says "*The Petition is based upon Company's 5 year UFG reduction plan target of 5.8% adjusted to effective UFG target of 5.5% prescribed by OGRA for FY 2007-08 in its Decision dated October 2005.... Without SSGC contention, we have adjusted **excess UFG of 0.25%** in P&L account as disallowable. In the next para, the Gas Company complains, "OGRA determined targets are unachievable in the short term due to the ground realities and **pervasive theft culture**".*

Historically, if we study the trend of "Unaccounted for Gas" (UFG) in the initial periods when the Authority had fixed the benchmark, we find the Determinations showing a downward trend as under:

2005-06	6.65%
2006-07	6.20%
2007-08	5.80%

Each time SSGCL paid penalty in lieu of not being able to achieve the prescribed benchmark. In 2007-08, the prescribed benchmark was 5.10% fixed by OGRA for the said year.

We believe the rationale or logic of such stringent benchmarks for UFG prescribed by the Authority should be lauded by one and all for the simple reason that such benchmarks are a result of careful study and exercise for **the benefit of the utility Company**. It is a safeguard against complacency. It keeps the Company alert and efficient. A contrasting case in point is that of the other utility, electricity, companies like KESC that show Transmission & Distribution (T&D) losses as high as 40% because NEPRA has set a benchmark of 25%!

On the other hand, we find that UFG percentage has taken a sudden and serious jump in the last couple of years although the then Managing Director of SSGCL in 2006-07 had assured the Authority that the Company shall adopt such practical measures as to curtail UFG to the minimum level and this they had achieved as shown in the results. Has the "pervasive theft culture" gained such momentum to result in UFG of **8.5%**? The answer is NO, a definite no. There are factors beyond the control of the Company and beyond your or our control. The factor of security, of law and order, has had a deep impact. It has deteriorated to such an extent that phenomenal rise in UFG over the prescribed 5.5% was but natural.

One may ask who is responsible for the Law and Order situation. The Government of course is the obvious answer. Yet, it is a supreme tragedy that the Government who is responsible for providing security in the country does not do so, stands to gain in the form of GDS from this deep malaise of the Gas Company,!

Time and again, we have taken exception to the Government skimming huge amounts in the form of GDS and treating the utility Company as an engine of revenue generation. In the instant instance, we find the government failing to discharge its duty of providing security but raking in more than Rs.3 billion in GDS only from penalty on UFG. We believe this is highly unfair. A just and responsible government would, in fact, compensate the Company for its inability to

discharge its responsibility which resulted in higher UFG. We totally support the contention of the Company when it says "*particularly on account of increased UFG consequent upon adverse law and order situation in Balochistan has made the Company's operation in Balochistan financially unviable*". It is also true that the shareholders should not be deprived simply because the government of the day cannot provide the needed security.

To add insult to injury, the Government has increased the Excise Duty on gas by nearly Rs.5 per MMBTU. The unreasonable pursuit of the Government to generate more and more revenue from this utility has led to economic distortions, lack of interest in investment and may even seriously hamper the efficiency and performance of the gas company. This is the right time for the Government to rise to the occasion and save SSGCL.

The Authority has discussed elaborately and decided the issues of LPS, MMP and Royalty from JJVL per para 10.24 of its Order on "Motion for Review of FRR, FY 2005-06 dated November 25, 2006.

Furthermore, in **Determination of Final Revenue Requirement of SSGCL Financial Year 2007-08 Dated September 23, 2008**, the Authority has extensively covered all the above issues in the following paragraphs:

7.3.4 The Authority observes that the whole system of which extraction of condensate from LHF plant is an off-shoot, has been financed over the years through gas price mechanism. Similarly, depreciation, other operating expenses and return related to this plant have always been claimed by the petitioner as part of revenue requirement.

The petitioner's latest stance defies logic.

7.3.5 In view of the above, the Authority disagrees with the petitioner's contention and, therefore, maintains treatment of sale of gas condensate as operating income and determines the same at Rs.631 million for the said year.

7.3.8 The Authority notes that the arguments advanced now by the petitioner are not new and mere repetition. The Authority has, time and again, reviewed and analyzed the submissions of the petitioner in its various earlier decisions and, therefore, decision of the Authority to treat Royalty from JJVL as operating income has reached finality.

7.3.9 In view of above, the Authority maintains its decision of treating royalty from JJVL amounting to Rs. 2,145 million, as operating income for the said year.

Motion for Review of FRR FY 2005-06.

The Authority gave its Decision in Para 10.2.6 as under:

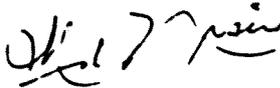
"In view of the above discussion, the Authority maintains its earlier decision of treating LPS, Meter Manufacturing and Royalty from JJVL as operating income for the said year. Consequently, the fixed assets will remain part of the assets base as discussed in para 6.1.2 of FRR 2005-06 dated September 25, 2006."

Having quoted these decisions, does the Petitioner expect the Authority to change its stance? It cannot!

The Authority is requested to scrutinize the weighted average cost of gas (WACOG) for the year, operating fixed assets, Transmission and Distribution Network, Income (including other income) and expenses in salary with particular reference to the Human Resource Cost and benchmark.

Finally, Sir, Gas is a prime mover of Pakistan's economy. It is therefore imperative that its use, allocation and prices should be managed with great care, expertise and broad vision. The industry, besides being constrained in operation due to a number of external and internal factors cannot afford any increase in gas prices.

Thanking you,



(Nisar Shekhani)

Karachi: 15th September 2010.