No. OGRA-6(2)-1(5)/2011

IN THE MATTER OF

SUI NORTHERN GAS PIPELINES LIMITED ESTIMATED REVENUE REQUIREMENT, FY 2012-13

UNDER

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

DECISION

May 18, 2012

Before:

Mr. Saeed Ahmad Khan, Chairman
Mr. Sabar Hussain, Vice Chairman / Member (Oil)

Executive Summary

Determination of Estimated Revenue Requirement (DERR) for FY 2012-13 in respect of Sui Northern Gas Pipelines Limited (SNGPL)

SNGPL (the petitioner) has sought decrease of Rs. 0.47 per MMBTU in the average prescribed price on annualized basis with effect from July 01, 2012. The said decrease is primarily owing to change in projected sale mix and increase in revenue at current prescribed prices, despite claiming substantial increase in cost of gas, T & D expenses, subsidy of Rs. 5,755 million on LPG Air-mix project, Rs. 12 Billion expenditure on distribution development and transmission pipeline projects worth Rs. 27 billion.

2. The Authority has made in depth analysis of the estimates and examined the petition in light of policy frame work and relevant rules so that only prudent, cost effective and economically efficient expenditure should be allowed. Accordingly, the net decrease has worked out to Rs. 47.52 per MMBTU, which translates into 10.37% decrease in consumer gas sale prices.

3. The Authority is of the firm view that below listed factors needs utmost consideration of the FG, in order to rationalize the consumer gas prices in public interest.

a. Extension of Distribution Development

It is a cause of grave concern that petitioner is undertaking Rs. 12 billion worth of distribution development projects alone on account of new towns and villages under the FG directives, while the gas reserves are rapidly depleting. OGRA, pursuant to policy of the Federal Government, has allowed the capitalization under this head, however it of the considered view that it will further add to the existing energy crisis wherein a large segment of the society is already suffering from gas curtailments, particularly in winter.

b. Fixation of Unaccounted for Gas level at 4.5%

The Authority, while taking into account the view point of stakeholders, interveners, the World Bank, FG and participants, and considering international regulatory practices with major discount to local operating conditions, has determined the UFG benchmark at 4.50%, on the basis of following factors:

(i) Leakages
(ii) Theft
(iii) Metering errors
(iv) All other factors

Accordingly, the new benchmark will go a long way in serving public interest while forcing the utilities to get their act together in controlling the sharply rising gas losses, which can only happen with the connivance of their officials.

c. LNG Pipeline Infrastructure Amounting Rs. 26 Billion

The Authority has approved LNG pipeline infrastructure in principle, since it firmly believes that the same is essential for bridging the energy demand supply gap. It however has been observed that said project (s) were also approved in FY 2010-11, however no progress has been achieved up till now. The LNG developers were supposed to bring the same in Pakistan by 2nd and 4th quarter of 2012, however, none of them are even close to achieving the basic target of financial closure. This Rs. 26 billion expenditure has therefore been pended for the time being. The Authority is however of the considered opinion that LNG cost must not be included in the cost of gas since the same would be detrimental to the public at large. LNG may therefore be provided directly by the LNG producers to the bulk end consumers like power and industrial sector.

d. LPG Air Mix Project

LPG Air-Mix project conceived for the industrial consumers of Kotlakhpat, Lahore claiming huge subsidy of Rs. 5,755 million has not been allowed since the Federal Government policy guideline are only meant for stand alone project and not the gas pipeline system. The Authority is of the view that cost of LPG Air-Mix must not be included in the cost of gas and the gas utilities Board of Directors must not be given the liberty to setup LPG projects, having considerable financial burden, as per their own desires since the same would lead to gold platting of assets while the captive consumers will be left at the mercy of the monopoly utilities.

e. Surcharge and Interest on Arrears of Gas Sales

The Authority has correctly treated the expected proceeds from this head as operating income, in accordance with the Federal Government policy guideline, tariff regime and the long standing procedures and practices adopted by OGRA and the previous regulator i.e; Directorate General (Gas) office, MP&NR, in the last two decades.

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1. Background

1.1. Sui Northern Gas Pipelines Limited (the petitioner) is a public limited company, incorporated in Pakistan, and listed on the stock exchanges at Karachi, Lahore and Islamabad. The petitioner is operating in the provinces of Khyber Pakhtunkhwa (KPK), Punjab and Azad Jammu & Kashmir (AJ&K) under the license granted by the Oil & Gas Regulatory Authority. It is engaged in the business of construction and operation of gas transmission and distribution pipelines, sale of natural gas and sale of gas condensate (as a by-product). In pursuance of policy of Government of Pakistan (GoP), the petitioner is planning to enter Liquefied Natural Gas (LNG) transportation business by providing access to its pipeline network for supplying Re-gasified LNG (RLNG) to the end consumers. The petitioner has also planned to undertake a project for supply of Air-Mix LPG to industrial consumers in Kot Lakhpat area, Lahore.

1.2. The petitioner filed a petition (the first petition) on December 01, 2011, under Section 8(1) of the Oil & Gas Regulatory Authority Ordinance, 2002 (the Ordinance) and Rule 4(2) of the Natural Gas Tariff Rules, 2002 (NGT Rules), for determination of its estimated revenue requirement for FY 2012-13 (the said year) at Rs. 272,711 million *(the amounts have been rounded off to the nearest million here and elsewhere in this document)*, estimated operating income at Rs. 264,838 million, and revenue shortfall at Rs. 7,873 million, translating into an increase of Rs. 13.16 per MMBTU in the current average prescribed prices.

1.3. Initial analysis of the Authority revealed an error regarding incorrect treatment of UFG disallowance in the first petition which resulted in overstatement of projected revenue requirement by Rs. 12,820 million. This mistake was then rectified by the petitioner through revised revenue requirement computation, bringing it down to Rs. 260,532 million resulting to a surplus of Rs. 4,306 million and translating into a decrease of Rs. 7.20 per MMBTU in existing average prescribed price. The said decrease has been anticipated mainly due to change in sale mix and increase in revenue at current prescribed prices, despite claiming huge subsidy of Rs. 5,755 million on LPG Air-mix project.

1.4. The petitioner submitted an amended petition (the petition) on March 22, 2012 in view of the latest trend of international oil prices during November, 2011 to March, 2012 and revised Rupee v/s US $ parity, thereby decreasing the surplus to Rs. 280 million after

meeting the revised revenue requirement of Rs. 264,558 million for the said year, through decrease in the average prescribed price by Rs. 0.47 per MMBTU with effect from July 01, 2012.

1.5. The petitioner's submission is summarized in the following statement of cost of service per MMBTU and compared with previous years:

Table 1: Comparison of Projected Cost of Service with Previous Years

Rs. per MMBTU

Particulars	FY 2010-11 FRR	FY 2011-12 RERR	FY 2012-13 The Petition
Units sold (BBTU)	**547,502**	**558,817**	**598,080**
Cost of gas sold	311.41	348.72	365.91
Transmission and distribution	8.00	8.16	23.88
Depreciation	13.98	15.68	20.85
Return on net average operating fixed assets	17.96	18.15	22.09
Prior Year Adjustment	-	5.51	-
LPG Air mix cost			9.62
Other Operating income	-7.72	-6.59	-6.12
Cost of service / Prescribed price	**343.63**	**389.62**	**436.23**
Current average prescribed price	343.63	389.62	436.70
Decrease requested in the average prescribed price (Rs/MMBTU).			**(0.47)**

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

1.7. A notice inviting interventions / comments on the petition from the consumers, general public and other interested / affected persons, was published in daily newspapers, namely: The Dawn (combined), Nawa-e-Waqt (combined), and Mashriq (Peshawar) on February 22, 2012. The Authority received four applications to intervene in the proceedings from the following persons / entities:

i) All Pakistan Textile Processing Mills Association (APTPMA).

ii) All Pakistan CNG Association (APCNGA).

iii) Mr. Ayub Hameed, House-Line Contractor, SNGPL, Faisalabad.

iv) Mr. Mehmood Elahi, Engineer, Faisalabad.

The Authority accepted all the above mentioned applications for intervention.

1.8. A notice intimating the date, time and place of the public hearing, was published in the daily newspapers, namely: Daily Dawn (combined), Nawa-e-Waqat (combined) and Mashriq (Peshawer) on April 02, 2012.

2. Salient Features of the Petition

2.1. The petitioner has made the following submissions:

2.1.1. The petitioner has claimed annual return at the rate of 17.5% of the net fixed assets in operation, before corporate income tax, interest, mark-up and other charges on debt, in accordance with the requirement of World Bank loan covenants and license condition No. 5.2.

2.1.2. The petitioner has projected a gross addition of Rs. 46,699 million in the fixed assets and ex-depreciation addition of Rs. 34,230 million, resulting in projected increase in the net operating fixed assets from Rs. 82,201 million determined in RERR for FY 2011-12 to Rs. 116,431 million during the said year. The petitioner has further claimed that after adjustment of deferred credits, the net average operating fixed assets eligible for return works out to Rs. 75,489 million, and the required return to Rs. 13,211 million.

2.1.3. The petitioner has projected the net operating revenues at Rs. 264,838 million, as detailed below (and compared with previous years):

Table 2: Comparison of Projected Operating Revenues with Previous Years

Rs. in million

Description	FY 2010-11	FY 2011-12	FY 2012-13	Increase / (Decrease) over RERR 2011-12	
	FRR	RERR	The Petition		
Net sales at current prescribed price	188,139	217,724	261,179	43,454	20%
Rental & Service Charges	1,126	1,331	1,200	(131)	-10%
Surcharge and Interest on arrears	-	-	-	-	-
Amortization of deferred credit	2,514	1,904	2,159	255	13%
Other operating income	586	450	300	(150)	-33%
Net Operating Revenues	**192,365**	**221,409**	**264,838**	**31,331**	**14%**

2.1.4. The petitioner has projected the net operating expenses at Rs. 251,347 million including cost on Air-mix LPG project amounting to Rs. 5,755 million, as detailed below (and compared with previous years):

Table 3: Comparison of Projected Operating Expenses with Previous Years

Rs. in million

Particulars	FY 2010-11 FRR	FY 2011-12 RERR	FY 2012-13 The Petition	Increase / (Decrease) over RERR	
Cost of gas sold	170,500	194,870	218,842	23,972	12%
UFG disallowance adjustment	(7,178)	(8,197)	(6,553)	1,644	-20%
Transmission and distribution	11,558	12,757	20,834	8,077	63%
Depreciation	7,654	8,761	12,469	3,708	42%
Prior Year Adjustment	-	3,078	-	(3,078)	-
LPG Air mix cost			5,755	5,755	-
Net Operating Expenses	**182,534**	**211,269**	**251,347**	**40,078**	19%

2.1.5. The petitioner has projected Weighted Average Cost of Gas (WACOG) for the said year at Rs. 328.69 per MMBTU, as against Rs. 308.95 per MMBTU provided in RERR for FY 2011-12. The petitioner has explained that cost of gas is linked with international prices of crude oil (Crude) and High Sulphur Fuel Oil (HSFO) per Gas Pricing Agreements (GPAs) executed between the producers and GoP.

2.1.6. The petitioner has projected Unaccounted for Gas (UFG) at 10% (71,146 MMSCF), for the said year. The petitioner has, however, calculated UFG disallowance for the said year at 7%, as allowed in RERR FY 2011-12.

2.1.7. The surplus in the projected revenue requirement after achieving 17.5% return on average net operating fixed assets is estimated at Rs. 280 million, requiring a decrease of Rs. 0.47 per MMBTU in the existing average prescribed price, as detailed below:

Table 4: Computation of Requested Increase in Average Prescribed Price

	Description	Rs. in million
A	Net operating revenues	264,838
B	Less: Net operating expenses including WPPF	251,347
C	Shortfall/ (excess) (A – B)	(13,491)
D	Return required @ 17.5% on net fixed assets in operation.	13,211
E	Total shortfall / (excess) in the revenue requirement (C + D)	(280)
F	Sales volume (BBTU)	598,080
	Decrease in the existing average prescribed price (Rs./MMBTU) (E / F * 1000)	**(0.47)**

3. Proceedings

3.1. The Hearing

3.2. A public hearing was held on April 26, 2012, at Lahore which was participated by the following:

Petitioner:

(i) Team led by Mr. Arif Hameed, Managing Director
(ii) Legal counsel, Mr. Mirza Mehmood Ahmad.

Interveners:

(i) Mr. Ghiyas Abdullah Paracha, Chairman, APCNGA
(ii) Sheikh Muhammad Ayub , Chairman, APTPMA
(iii) Mr. Mehmood Elahi Engineers, Sui Gas Contractor, Faisalabad

Participant:

(i) Mr. Ashraf Mehtab, Domestic Consumer
(ii) Mr. Ghulam Qadir Awan, Shareholder / Consumer

3.3. The list of representatives of the petitioner, general public/participants, who attended the public hearings in Lahore, is attached as ***appendix***.

3.4. The petitioner made submissions in detail with the help of multimedia presentation explaining the basis of its petition. The petitioner also responded to the comments, observations, objections, questions, and suggestions of the participants. The petitioner's legal counsel, during the hearing proceedings, submitted the following points for consideration of the Authority:

3.4.1. 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:

i. promoting and ensuring efficient practices
ii. protection of stakeholders' interests including consumers and licensee

3.4.2. 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 License).

3.4.3. 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.

3.4.4. 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 License for natural gas.

3.4.5. 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 License, prudent operation and

maintenance costs, depreciation, government levies and, if applicable, financial charges and cost of natural gas;

3.4.6. 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.

3.4.7. 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.

3.4.8. The counsel 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.

3.4.9. Long overdue process of financial rehabilitation of the petitioner enabling it to upgrade its old distribution / transmission system, undertake new gas import projects to bridge gas supply demand gap through import of gas viz trans-national gas pipeline, LNG import etc. These extremely essential plans to ensure sustainable gas supply to the consumers can only be possible if the financial health of the petitioner is stable.

3.4.10. Two very important factors of theft of gas and change in composition of sales mix have not been effectively considered by the Authority while setting the UFG benchmark. Also the relevant provisions of the Natural Gas Licensing Rules and

the license condition governing procedure for setting of UFG benchmark have not been taken into consideration by the Authority. The impact of heavy disallowance have resulted into significant reduction in guaranteed rate of return of 17% thus committing violation of applicable instrument. Therefore the UFG benchmark be maintained at 7.5% for next three years.

3.4.11. The Authority, under the law, has the jurisdiction to determine Revenue Requirement of a licensee only with reference to "regulated activities". In case of a licensee engaged in the business of distribution and transmission of natural gas, the position is even clearer. Sections 8 (1) and 8 (2) specifically relate to revenue requirement of a licensee of natural gas "engaged in transmission, distribution and the sale of natural gas to a retail customer of natural gas". This makes it clear that the Authority has no jurisdiction to even consider matters which do not fall within the "regulated activity" which, in the instant case, arise from distribution and transmission of natural gas. Since late payment surcharge and gain on construction contracts, do not arise from "regulated activity", therefore, the Authority has no jurisdiction to deal with the same or include them as part of revenue requirement of the petitioner. Therefore, any findings on the same are without jurisdiction hence of no legal effect.

3.4.12. LPS is a financial compensation against delayed payments from customers. Non-payment/delayed payment by customers results in financing activities requiring the petitioner to borrow additional funds to offset shortfalls in cash flow. Therefore LPS is not a principal operating activity but in fact a financing activity and thus cannot form part of operating income. Furthermore according to return-on-asset formula, interest is considered as non-operating expense while due to non-performance 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.

3.4.13. The Authority has actually been benchmarking the provision for doubtful debts at the level of FY 2006-07 without any consideration of increased number of disconnections and increased gas prices which ultimately affects increase in trade debts and ultimately impacts the provision for doubtful debts.

3.4.14. 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 irrespective of the fact that the petitioner has been claiming the provision pertaining to disconnected customers only.

3.4.15. It is requested that the Authority keeping in view its previous decisions as well as the continuous increase in the cost of gas devise a formula to assess the provision of doubtful debts. Keeping one factor fixed while all its variables are continuously changing cannot be justified. The Authority should devise a formula keeping in view all the underlined variables. The Authority is thus requested to consider the provision for doubtful debts at Rs. 200 million for disconnected consumers as included in petition for the said year.

3.5. The substantive points made by the interveners, representatives of general public, and participants during hearings are summarized below:

3.5.1. The legal counsel of the petitioner is making long assertions wherein it is claiming that UFG is increasing because of the factors beyond the control of the petitioner. The fact of the matter is that petitioner has failed to make any effective measure in respect of arresting the ever rising trend of UFG. The theft of gas in high pressure gas pipelines can take place only with the coalition of the petitioner's officers/ staff. It is a known fact that rampant corruption in the gas companies is particularly at staff level.

3.5.2. The gas companies are pressurizing OGRA increase the UFG to whopping 9% through various lobbying tactics. The Authority shall therefore only take decision in favor of gas consumer and not the stockbroker currently at the helm of the affairs of both the gas utilities.

3.5.3. It was highlighted that the stay orders in respect of increase of UFG from 4% to 7% and treatment of operating into non-operating income were issued from Lahore High Court on assurance of Mr. Imtiaz Qazi, the then Secretary, Petroleum & NR, to assure that the same will not result in increase in gas price. Interestingly, since then the gas prices have been raised on 3 different occasions, and same needs to be investigated. The petitioner must implement OGRA's decision in respect of various determinations otherwise there is no point in holding public hearings. The

gas companies are systematically eroding the authority of regulators through various unethical measures and illegal tactics.

3.5.4. License condition no. 35.1 of the petitioner's license clearly lists the load curtailment categories in order of priority, to which CNG is not a party. Hence three days shut down of CNG stations in Punjab is illegal. Reduction in UFG to the level of OGRA's allowed benchmark will make available sufficient gas to meet the requirements of CNG and domestic sector.

3.5.5. Engro fertilizer should not be provided gas from SNGPL system since the same was to be fed only from additional gas being made available from Qadirpur Gas field.

3.5.6. CNG sector is currently paying Rs. 748.87 per MMBTU for input price of gas which is much higher than the industrial consumer price of Rs. 494.86 per MMBTU.

3.5.7. The Federal Government (FG) has provided assurance to the CNG sector that it will be held at par with the industrial sector in respect of price but the same practice has been illegally abandoned and needs to be restored on immediate basis. The Authority while acting on illegal advice of MP&NR has increased the CNG input price from Rs. 651.80 per MMBTU to Rs. 748.87 per MMBTU, without holding any public hearing or consultative process, which is illegal and need to be reversed urgently. The same is also a gross violation of section 8 of the Ordinance. It was also highlighted that FG can only issue a policy advice that is not inconsistent with the Ordinance, which in principle was violated in April 04, 2012 CNG price notification.

3.5.8. FG has imposed different rates of Gas Infrastructure Development Cess (GIDC) for various consumers which is discriminatory and must be equalized for all. It was also highlighted that no GIDC shall be charged till such time the FG has some concrete viable gas import program in hand, which is currently not the case. It was demanded that the Authority must disallow Rs. 27 billion capital expenditure projected on LNG infrastructure development since the same is not likely to happen in FY 2012-13. It was further pointed out that basic policy document like LNG 3rd Party Access Rules are yet to be notified. Also, M/S Global Energy had projected that LNG import will materialize by 2nd quarter of 2012 while M/S

Engro had projected the same in 4th quarter of 2012. Interestingly, no significant development has been made by any of the LNG potential project proponents to date.

3.5.9. It was demanded that the utilities must install meters in every town since, at present, there is no proper mechanism for measurement of BTU/SCF billed to various CNG stations. A doubt was raised that the petitioner is artificially jacking up the level to reduce the UFG/ line losses while fleecing the CNG station owners in the meantime.

3.5.10. It was highlighted that 35-40% gas can be saved simply by introducing energy efficient home appliances and by various power/capital projects that generally operate at 25% energy efficiency. The petitioner is only interested in increasing the gas prices on an on going basis, without putting its own house in order, at the cost of public at large. The gas companies' officers are enjoying hefty salaries/benefits while they are unable to run and manage the company in an efficient manner and in the interest of people of this country.

3.5.11. It was highlighted that the gas company has hired over 350 new employees and constructed new office buildings in Bahawalpur, regardless of very fact that there is extreme shortage of gas and the energy prices have become unaffordable for poor people of this country. The petitioner must carry out its own belt-tightening and reduce its excessive expenditure in order to operate in a cost effective manner. The petitioner's performance is nothing but unsatisfactory which needs massive improvement. The petitioner is severely lagging behind in implementation of performance and service standards notified by OGRA while its domestic consumers in particular are raising lots of hue and cry.

3.5.12. Textile sector in Punjab is suffering since it is getting gas only 4 days a week and on a negligible pressure owing to which the industries are unable to operate. This is resulting in industries shifting from Punjab to Karachi owing to continuous availability of gas there. This discriminatory practice must be abolished and the entire country must be treated at par. It was also demanded that the petitioner must supply gas at appropriate pressure during the 4 day time period at the minimum, failing which there will be massive unemployment in Punjab.

3.5.13. The people living in poor neighborhood, in particular, are having very low gas pressure even in summer on which their families cannot even cook their food. Poor masses in this country, at the minimum, must be given sufficient gas so that they can cook their food. They cannot afford to run heater or geasers owing to the high gas prices. Poor domestic consumer does not get gas connection for several years while affluent rich people continue getting the same in no time.

3.5.14. It was objected that export oriented industries are getting gas on 12 months basis even though they have 09 months contract only, this practice needs to be abolished to maintain proper pressure in winters.

3.5.15. The expensive LPG & LNG must not be included in the WACOG and the same shall be diverted to power sector in order to ensure provision of gas at affordable rates to public at large, while protecting the competitiveness of the industry.

3.5.16. Company employees are involved in billion rupee theft wherein they have illegally extended gas to various towns and villages. These employees are also illegally billing such consumers on regular basis.

3.5.17. Industry & CNG stations of powerful politicians are not being shut down during load shedding, which is discriminatory.

3.5.18. An ex-employee of SNGPL, who is also shareholder of the company, demanded that 17.5% return on the assets must be ensured by OGRA in accordance with the loan covenants. UFG and HR benchmark penalties must not be deducted from guaranteed return. It was demanded that Authority should start issuance of marketing license for CNG stations under section 22 of the Ordinance.

3.6. The Authority has carefully considered all the submissions and argument of the parties made in writing and at the public hearings, and proceeds to make its determination.

4. Authority's Jurisdiction And Determination Process

4.1. The Authority is obligated to determine the revenue requirement /prescribed prices of the petitioner in accordance with Section 8(1) and 8(2) of the Ordinance and License condition no. 5.2 of its integrated License.

4.2. Section 8(1) of the Ordinance empowers the Authority to determine an estimate of the total revenue requirement of its licensees for a financial year, before its commencement,

in accordance with the NGT Rules, and on that basis, advise the FG, the prescribed price of natural gas for each category of retail consumers.

4.3. GoP, pursuant to Section 8(3) of the Ordinance, is legally empowered to advise the Authority for notification in the official gazette, the minimum charges and sale price for each category of retail consumers, deciding in this process, the extent of subsidy to be enjoyed or extra amount to be paid by various categories of consumers with respect to average cost of supply.

4.4. The Authority is obligated to abide by the sector specific policies of the FG while determining the prescribed prices for each category of consumers, which include the subsidy given to the domestic consumers and fertilizer feed-stock.

4.5. The decisions issued by the Authority have always been strictly in accordance with the relevant provisions of Law. All the statutory requirements are firmly complied with before issuing any Order and in this whole process the Authority, very meticulously, ensures that public service utilities prosper in an efficient manner. The Authority, since its inception had issued all of its determinations, after going through the process of transparent public hearings, while balancing the interest of all stakeholders, including general public, gas utilities, industrial consumers, etc. It is mainly because of the effective regulation by OGRA that the petitioner has been able to consistently expand its business while extending its services to a large number of consumers on yearly basis. The checks and balances implemented by the Authority to improve the quality of service to consumers and bring efficiency in the overall management of the company have proved to be beneficial for the whole nation in measurable terms.

4.6. The Authority observes with grave concern that despite extensive cooperation and prudent facilitation by OGRA in terms of providing necessary resources for all legitimate expenditures including system rehabilitation, expansion and advancement thereon, the petitioner has failed to introduce efficient practices to minimize inefficiency in its system. The doomsday scenario presented by the petitioner's legal counsel seems to be an effort towards compromising quality and efficiency of the system while giving away major relaxations through liberal decisions on various controversial items that have historically been strongly opposed by every stakeholder.

4.7. In view of above, the Authority strongly feels that there is a dire need that the petitioner show dynamism and take vigilant and cautious decisions to improve its financial

position as well as consumer service to make the company and its system work efficiently on the pattern of best international standards and benchmarks. Lack of motivation and commitment for performing better has brought the company to this brink otherwise the system in force has worked quite well within its parameters.

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

4.9. Well-head prices of gas are computed and notified per Section 6(2)(w) of the Ordinance, in accordance with the GPAs of the gas producers with the FG, on the basis of international Crude / HSFO prices. The well-head gas prices are notified as and when the respective applications from various gas producers are received, and are applicable on a retrospective basis i.e. January 01 and July 01 of each year. The filing of such applications with the Authority is contingent upon receipt of crude oil import data from the FG. The well-head cost of gas is the main component of the revenue requirement and is a pass through item under the current mechanism of determining prescribed prices.

4.10. The operating revenues, operating expenses and changes in asset base are scrutinized in depth, keeping in view the FG socio economic agenda and policy advices, in accordance with Rule 17(j) of NGT Rules.

5. Return to the Petitioner

5.1. The Authority is obligated under Section 7(1) of the Ordinance, to determine or approve tariff for regulated activities whose licenses provide for such determination or such approval, or where authorized by this Ordinance, subject to policy guidelines. ***License Condition No. 5.2*** of license granted to the petitioner, clearly states that ***the Authority shall determine total revenue requirement of the licensee to ensure that it achieves 17.5% 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 license.

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 ***License Condition No. 5.3*** of the license granted to the petitioner. The Authority had, therefore, developed a new tariff regime in the year 2005 through an independent international consultant M/s Economic Consulting Associates, which, in the course of legally mandatory consultation process, was forwarded to GoP for approval.

5.3. The stakeholders, in various public hearings, as well as the gas utilities had also suggested OGRA to conduct a fresh comprehensive study through experts on this issue since the previous study is outdated and also obtain public opinion, so that legal responsibility could be fulfilled, under section 6 (2) (t) of the OGRA Ordinance. The said section obligates the Authority to determine, in consultation with the FG and licensees for natural gas, a reasonable rate of return which may be earned by such licensee in undertaking of the regulated activities, keeping in view all the circumstances.

5.4. In view of above, OGRA had initiated the process to review the findings of ECA study. In this regard public hearings were also conducted where valuable and noteworthy input of all the stakeholders was obtained. The views of Federal Government were also solicited and the Authority observes that MP&NR is in favour of continuation of most part of the existing return on assets tariff regime, excluding however major amounts on account of non-operating incomes and UFG to the shareholders of the company, while undermining the interests of the public at large. MP&NR's comments seem to be in violation of existing tariff regime already approved by the ECC. Moreover, all efforts of MP&NR to get the new / amended tariff regime approved by the ECC have failed.

5.5. The Authority further notes that the subject tariff regime was proposed several years ago in 2005, which may have lost its utility for the most part, owing to continuous evolution in regulatory practices along with changes in financial dynamics, economic indicators as well as ground realities.

5.6. ***In view of the above, the Authority is of strong view that till such time a new study for development of tariff regime, duly considering modern techniques and concepts of regulation as well changing dynamics in Pakistan, is instituted, the existing tariff***

regime shall continue in totality, without adjustments that may adversely affect the consumers at large.

6. Operating Fixed Assets

6.1. Summary

6.1.1. The petitioner has projected a gross addition of Rs. 46,699 million in the fixed assets and ex-depreciation addition of Rs. 34,230 million, resulting in projected increase in net operating fixed assets from Rs. 82,201 million per RERR for FY 2011-12 to Rs. 116,431 million during the said year. After adjustment of deferred credits, the net average operating fixed assets eligible for return are projected at Rs. 75,489 million, and the required return at Rs. 13,211 million, as under:

Table 5: Computation of Projected Return on Operating Fixed Assets

Description	The Petition
Net operating fixed assets at beginning	82,201
Addition During the Year	46,699
Depreciation	(12,469)
Net Addition	34,230
Net operating fixed assets at closing	116,431
Sub Total	198,632
Average net assets (A)	**99,316**
Deferred credit at beginning	22,656
Deferred credit at closing	24,997
Sub Total	47,653
Average deferred credit (B)	**23,827**
Average net fixed assets (A-B)	**75,490**
Return required	17.5%
Amount of return requested by the petitioner	**13,211**

6.1.2. The details of projected deferred credits for the said year are compared with RERR for FY 2011-12 as under:

Table 6: Comparison of Projected Deferred Credits with previous Year

Rs. in million

Particulars	FY 2011-12	FY 2012-13
	RERR	The Petition
Balance as at July 01	20,560	22,656
Addition during the year	4,000	4,500
Sub-total	24,560	27,156
Amortization for the year	(1,904)	(2,159)
Un-amortized balance as at June 30	**22,656**	**24,997**

6.1.3. ***The Authority provisionally accepts estimated deferred credits opening balance at Rs. 22,656 million and closing balance at Rs. 24,997 million for the said year.***

6.1.4. Comparative analysis of projected additions in fixed assets with the previous years is as follows:

Table 7: Projected Addition in fixed assets compared with Previous Years

Rs. in million

Particulars	FY 2010-11	FY 2011-12	FY 2012-13	Inc./(Dec.) Over RERR	
	FRR	RERR	The Petition		
Transmission	1,739	1,863	27,185	25,322	1359%
Compression	349	315	553	238	75%
Distribution Development	8,927	10,801	16,296	5,495	51%
Plant, Machinery & Equipment and Other Assets	860	894	1,940	1,046	117%
Land & Building	-	-	304	304	0%
Telecommunication	32	-	-		
UFG assets		-	-	-	
Land Acquisition Advance	178	-	420	420	
Net addition in asset base	**12,085**	**13,873**	**46,699**	**32,826**	**236.61%**

6.1.5. The petitioner has provided further breakup of the above addition for the said year as under;

	Particulars	Rs. in million
1	Land	254
2	Building on freehold land	50
3	Transmission Mains	27,185
4	Compression System & Equipment	553
5a	Distribution System Mains	12,539
5b	Measuring & Regulating Assets	3,758
6	Intangible Assets (I.T related Expenditures)	420
	Sub-total	***44,759***
7	**Normal & Other Assets:-**	
7.1	Civil Construction	100
7.2	Telecommunication Equipments	17
7.3	Plant & Machinery	196
7.4	Rehabilitation of Transmission Lines	40
7.5	Tools & Equipment	459
7.6	Assests for New Regions	538
7.7	Motor Vehicles	300
7.8	Construction Equipment	150
7.9	Furniture & Fixture and	21
7.10	Office Equipment	21
7.11	Computer Hardware	99
	Sub-Total	1,940
	Total Addition For FY 2012-13	***46,699***

6.2. Transmission

6.2.1. The petitioner has projected Rs. 27,185 million on account of addition to transmission network during the said year, breakup of which is as follows:

Table 8: Additions to Transmission Network

NO.	DESCRIPTION	Rs. in million
Phase -I Development of Pipeline Infrastructure for Pipeline for Upcoming LNG Imports, Iran Gas & Anticipated Indigenous Supplies		
1	42" x 84.20 km Transmission Loop Line (i) V/A SV2-SV4 55.34 KM (ii) V/A SV 5- Qadirpur 28.86 Km	6,014
2	Up-gradation of existing coating plant	600
3	Machinery, construction equipment, spares and capital items/camping facility	8,712
4	SCADA	3
5	Equipment, tools and vehicles for transmission.	50
Sub-Total A		**15,379**
Phase -II Development of Pipeline Infrastructure for Pipeline for Upcoming LNG Imports, Iran Gas & Anticipated Indigenous Supplies		
6	42`` X 69 Km Loop line (i) Sawan- SV2 25.12 Km (ii) QV2- AC1X 43.98 Km	4,858
7	Additional Compression 15900 HP	2,265
8	Scada	5
9	Machinery, construction equipment, spares and capital items/camping facility	3,484
10	Equipment, tools and vehicles for transmission	40
Sub- Total B		**10,652**
Laying of 16" dia x 50 Km pipeline from Latif Gas field to Sawan.		
11	Material Cost	1,537
12	Construction Cost	289
13	Contigencies @ 5%	91
14	Others	391
Sub- Total C		**2,308**
	Half of C to be borne by SNGPL	1,154.09
Total A+B+C		**27,185**

6.2.2. The petitioner explained that it has projected to lay 42" dia, 153.20 Km long pipeline in two phases during the said year, in order to develop pipeline infrastructure for upcoming RLNG imports, import of gas from Iran and anticipated indigenous supplies. In the first phase, it has planned to lay 84.20 Km loop line along existing Sawan - Qadirpur segment to receive 329 MMCFD additional gas at Sawan point by SSGCL through swap arrangement. SNGPL's present capacity at Sawan point is 370 MMCFD which needs to be enhanced to 473 MMCFD to cater for additional gas from RLNG and indigenous sources. The petitioner has projected Rs. 15,379 million capital cost to complete the 1st phase in the shortest possible time. In the 2nd phase, the petitioner has planned to lay 42" dia 69 Km transmission loop line to accept 709 MMCFD additional supply of gas

from SSGCL and has estimated capital cost at Rs. 10,652 million comprising cost of pipeline and procurement of construction equipment & machinery.

6.2.3. The petitioner has pleaded that GoP is aggressively pursuing gas import projects to pave the ever rising demand supply gap causing unrest and massive riots in the country. OGRA has also issued licenses to LNG/RLNG developers and has allocated network capacities in order to receive additional volume of gas in the system. In this scenario, the petitioner has envisaged these projects for the said year in order to dovetail its arrangements with gas import projects which are under progress.

6.2.4. The Authority appreciates the efforts being undertaken to minimize the demand supply gap by exploring different avenues for more energy input, particularly in the current era of energy crises in the country. OGRA is also swiftly facilitating the FG efforts towards RLNG import to cope up the energy shortage.

6.2.5. The Authority, however, observes that according to the minutes of the meeting held on January 12, 2012 under the chairmanship of Secretary MP&NR, it was decided that the gas utilities will undertake infrastructure development projects only after the achievement of wet financial closure (first disbursement date) by the developers. It had further been decided that utility companies will start investing for their capacity enhancement only after receipt of performance bank guarantee from a reputable bank acceptable to OGRA and en-cashable in Pakistan.

6.2.6. The Authority notes that financial close, by the project developers, is yet to be achieved and also no performance bank guarantee has been submitted to date. ***The Authority, keeping in view the above mentioned position as well as significant financial impact on the revenue requirement, pends the inclusion of these projects worth Rs. 26,031 million for the time being. The same will be considered at the time of mid year review keeping in view the progress of the project at that time.***

6.2.7. The petitioner has projected to construct 16" 50 Km long transmission pipeline for transportation of Latif raw gas to Sawan plant for processing and injecting the same into transmission system. Currently, 50 MMCFD raw gas from Latif field is processed at Kandanwari plant and is shared equally between the utility companies, per the allocation made by ECC. Gas supply from Latif field is expected to further increase to 170 MMCFD by FY 2013. The Kandanwari field operator, in view of its expected increase in production of gas, have now decided to utilize the processing plant capacity to cater for its own enhanced production

rather than extending the service to Latif field, due to its capacity constraints. Considering the dire need of energy in the country, the petitioner & SSGCL has decided to extend the transmission line to transport Latif raw gas.

6.2.8. The Authority observes, that the ECC constituted committee, under the chairmanship of Deputy Chairman Planning Commission, has decided on December 21, 2011 that both the gas utilities should plead with M/s Latif Joint Venture to lay the proposed pipeline. The Authority is of considered view that the gas companies cannot pay the cost of gathering lines for Latif Field under the current petroleum policy and the same if done illegally will open a major pindora box, since similar fields will also wish to sell raw gas to utilities. Planning Commission along with MP&NR is also working on the proposal of open bidding for the construction of gathering pipelines, which OMV is refusing to deliver.

6.2.9. ***In view of the pending settlement between gas utilities and OMV, the Authority decides to defer the inclusion of the project and deducts Rs. 1,154 million from the rate base for the said year.***

6.3. Compression

6.3.1. The petitioner has projected Rs. 553 million on account of compression during the said year.

6.3.2. The petitioner has pleaded that compressor stations play a vital role in transmission of gas to the upcountry consumption centers at adequate pressure and flows. Currently, the petitioner is operating 11 compressor stations based on Solar & Saturn compressor packages of different models. The overhauling of turbine engines in the compression system is mandatory as per manufacturers' recommendation.

6.3.3. The Authority observes that overhauling of turbine engines is an essential operational requirement to ensure transmission of gas to the consumer centers at adequate pressure and flow.

6.3.4. ***In view of above, the Authority allows Rs. 553 million under the head compression for the said year.***

6.4. Distribution Development

6.4.1. The petitioner has projected an amount of Rs. 16,297 million for distribution development, breakup of which is as under:

Table 9: Detail of Additions to Distribution Development

Sr.#	Description	Rs. Million
1	Laying of Distribution Mains.	8,700
2	Laying of Distribution Mains at cost sharing basis	902
3	G.I. Pipe and fittings for new connections and rectification of old CMS	545
4	Construction of TBSs and DRSs	724
5	System Rehabilitation	620
6	C.P System	300
7	Spares of meters and regulators	50
8	LPG Air mix project	697
9	Installation of New Connections	2,396
10	Replacement of defective / undersized / 16 year old meters	1,112
11	Construction of SMSs for new towns/ modification/ up-grading of SMS	250
	Total	**16,297**

(i) Distribution Mains

6.4.2. The petitioner has projected Rs. 8,700 million for 4,650 Km extension in distribution network in order to supply gas to new towns & villages, in compliance of GoP's socio economic policies / agenda. The petitioner has confirmed that the projected distribution development capital expenditure on new towns and villages qualify for capitalization and inclusion in the rate base for the said year based on the decision of FG dated October 04, 2011.

6.4.3. The petitioner has estimated per Km cost of distribution network to increase from Rs. 1.28 million per FRR FY 2010-11 to Rs. 1.87 million per Km, due to hike in steel prices in the international market and escalation in labor and overhead costs.

6.4.4. The Authority observes that 46% increase in average per Km cost of laying distribution network over one year is grossly exaggerated and has therefore artificially inflated the overall capital expenditure in this respect. The Authority is of the considered view that petitioner should estimate its expenditures in a more logical and informed manner keeping in view its broad financial impact. A yearly increase of 20% over the average per KM cost of RERR 2011-12 will be sufficient to cater for the impact of hike in steel prices and other over heads.

6.4.5. ***The Authority therefore determines the expenditure for laying of main at Rs. 7,142 million as against Rs. 8,700 million claimed by the petitioner for the said year.***

(ii) Installation of New Connections

6.4.6. The petitioner has projected 253,400 new gas connections at an estimated amount of Rs. 2,396 million for the said year, as against 260,349 new connections provided at actual cost of Rs. 1,325 million during FY 2010-11.

6.4.7. The Authority observers that the petitioner has projected an average Rs. 9,455 per connection cost for the said year as against Rs. 5,089 per connection actual cost incurred during FY 2010-11. The increase of Rs. 4,366 (86%) in average per connection cost over two years is not justified. The Authority reiterates its observation that the petitioner should avoid unnecessarily exaggerating the cost estimates, rather the expenditures should be projected in a more logical and informed manner keeping in view its broad financial impact.

6.4.8. ***The Authority therefore allows Rs. 1,556 million for the said year on this account (i.e. by giving yearly 10% cumulative increase over average per connection cost of FY 2010-11 to cater for the impact of hike in price and other over heads).***

(iii) Construction of TBS and DRS

6.4.9. The petitioner has projected Rs. 724 million for TBS/DRS for the said year. Actual expenditure on this account in previous years is shown in table below:

Table 10: Year wise cost comparison of TBS / DRS

Rs. in million

Particulars	FY 2010-11	FY 2011-12	FY 2012-13
	FRR	RERR	The Petition
Regulatory Stations (TBS/DRSs)	178	214	724

6.4.10. The trend shows that the projected expenditure on construction of TBSs and DRSs is also considerably exaggerated when compared with actual expenditure in previous years. ***The Authority, keeping in view the historical trend, provisionally allows Rs. 256 million for the said year (i.e. 20% cumulative increase of two years over FRR FY 2010-11).***

(iv) Distributions Mains on cost sharing basis

6.4.11. The petitioner has projected Rs. 902 million for the said year for laying of distribution mains on cost sharing basis.

6.4.12. The Authority observes that the petitioner was asked to provide specific details of the said jobs to be undertaken during the said year. The petitioner however failed to provide the same. ***The Authority, therefore, pends the projected capitalization under this head for the said year***.

(v) GI Pipes & Fitting for New Connections

6.4.13. The petitioner has projected Rs. 545 million for provision of G.I. pipes and fittings to new consumers. The petitioner has argued that currently these pipes and fittings are provided by the consumers, which are sub-standard resulting in gas leakages.

6.4.14. The Authority appreciates the petitioner's concern to save the precious human lives and scarce natural resource by eradicating the leakages which normally erupt owing to poor quality of pipes and workmanship. The Authority, however, is of the opinion that this direct cost should continue to be recovered/borne by the beneficiary/ consumer. ***The Authority, in view of above, disallows Rs. 545 million claimed by the petitioner for the said year.***

(vi) Remaining items of Distribution Development

6.4.15. The petitioner, in respect of remaining items in the table no. 9 above, has projected Rs. 2,332 million during the said year for regular operational requirements, normal up-gradation, efficiency improvement, UFG control activities and cathodic protection of pipelines.

6.4.16. The Authority observes that the expenditures projected under these heads, particularly under "replacement of meters", "system rehabilitation", "CP system" are unavoidable since this investment is essentially required to maintain the system and curb the menace of continuously increasing UFG. ***Therefore the Authority allows the projected amount of Rs. 2,332 million for the said year.***

LPG Air-Mix Project

6.4.17. The petitioner has projected asset addition of Rs. 697 million in respect of supply of LPG Air-Mix at industrial estate, Kot Lakhpat, as a pilot project. The petitioner has pleaded that in view of the acute energy shortage in the country, the only available option that can be materialized in shortest possible time is to supply LPG Air-mix through pipeline. For the said project the petitioner has planned installation of LPG storage tanks, procurement of fire fighting system, civil work, acquisition of land, purchase of LPG bowzers and gas generators etc.

6.4.18. The Authority observes that supply of piped LPG Air-Mix to the industries of Kot Lakhpat, where natural gas is already being supplied by the petitioner through its network, is clear contradiction of the policy guidelines issued by the FG for such projects.

6.4.19. The Authority further observes that it has already registered its observations on inclusion of LPG Air-Mix, LNG and CNG based independent stand alone cost oriented capital intensive projects in the revenue requirement mechanism. OGRA fully appreciates the initiatives of the GoP to abridge the energy gap, however, it is of the consistent and considered view that all such projects should be carried out independently and based on full cost recovery mechanism rather than offering subsidy through burdening the existing natural gas consumers.

6.4.20. The Authority observes that ECC vide its case no. ECC-201/16/2007 dated December 27, 2007 had issued policy guidelines in respect of LPG Air-Mix, CNG or LNG based pipeline distribution projects undertaken by the petitioner and SSGCL. According to the said ECC decision the supply of piped LPG Air-Mix, LNG or CNG to retail consumers shall be made on specific directions of President, Prime Minister (PM), Cabinet or ECC of the Cabinet. Also, retail tariff applicable to these projects shall be same as that of natural gas being supplied through SSGCL & SNGPL. It was further decided that all expenditure incurred on installing, maintaining and operating these projects including cost of gas shall be included as permissible expenditure in the revenue requirements of respective gas companies. SSGCL & SNGPL have also been entitled to a rate of return equal to the rate of return applicable for gas operations.

6.4.21. Recently, MP&NR had proposed amendment in the above referred policy guidelines and suggested that the utilities shall be able to initiate projects relating

to LPG Air-Mix, CNG and LNG after approval of their board of directors. Also cost of LPG Air-Mix shall be included in uniform cost of gas formula in order to compute WACOG.

6.4.22. The Authority is of the consistent view that approval for all said projects should be obtained from President, PM, Cabinet or ECC of the Cabinet since these are capital intensive very expensive projects, having input, operating and capital costs far greater than in case of natural gas. Also subsidy is the subject of FG; therefore, any project requiring subsidy should be approved by it or any relevant competent forum.

6.4.23. The matter was discussed in the ECC meeting held on April 12, 2012 wherein the view point of OGRA was also considered. In the said meeting the ECC has formed a Committee under the chairmanship of Minister for Petroleum & Natural Recourses, comprising Secretary MP&NR, Secretary Finance, Secretary Economic Affairs Division and Deputy Chairman Planning Commission to review the matter in detail and submit a comprehensive report. The matter is still pending consideration of ECC at this time.

6.4.24. ***The Authority, in view of above discussion, disallows Rs. 697 million on this account for the said year.***

6.4.25. ***The Authority in view of above allows Rs. 11,286 million under the head Distribution Development for the said year as against Rs. 16,297 million claimed by the petitioner.***

6.5. Plant, Machinery & Equipment and other Assets

6.5.1. The petitioner has projected additions of Rs. 1,940 million on account of "Plant, Machinery & Equipment and Other Assets" for the said year, break-up of which is as follows:

Table 11: Detail of Additions to Plant, Machinery & Equipment and Other Assets

S. #	Description	Rs. Million
i	Civil Construction	100
ii	Telecommunication Equipments	17
iii	Plant & Machinery	196
iv	Rehabilitation of Transmission Lines	40
v	Tools & Equipment	459
vi	Assests for New Regions	538
vii	Motor Vehicles	300
viii	Construction Equipment	150
ix	Furniture & Fixture	21
x	Office Equipment	21
xi	Computer Hardware	99
	Total	**1,940**

i. ***Civil Construction***

6.5.2. The petitioner has projected Rs. 100 million under the head "Civil Construction" for the said year. The petitioner has explained that the said expenditure has been projected to meet contingencies in relation to civil construction during the financial year and is incurred only after the approval of Managing Director.

6.5.3. The Authority observes that the petitioner has already estimated capital expenditures on very high side viz-a-viz its proven capacity to undertake such projects. Also, the costs estimates seem sufficient enough to absorb any unprecedented price hikes or any other relevant contingency. In view of the petitioner's overall projected capital expenditure, the extent of the claimed expenditure to meet any further unforeseeable activities seems unjustified and irrational. ***The Authority therefore allows only 50% of the claimed amount and determines Rs. 50 million under the sub-head "Civil Construction" for the said year. The petitioner is further directed to minimize spending under these contingent heads.***

ii. ***Telecommunication Equipment***

6.5.4. The petitioner has projected Rs. 17 million on account of "Telecommunication Equipments" for the said year. The petitioner has pleaded that these equipments are essentially required for smooth operation of its microwave system, etc.

6.5.5. ***The Authority, considering the fact that operation, control and security of transmission system is dependent upon reliable telecommunication system, allows Rs. 17 million on this account for the said year.***

iii. ***Plant and Machinery***

6.5.6. The petitioner has projected Rs. 196 million on account of "Plant and Machinery" comprising Rs. 165 million for distribution, Rs. 29 million for transmission, and Rs. 2 million for head office during the said year.

6.5.7. The petitioner has elaborated that expenditure under "Plant & Machinery" comprises small scale rehabilitation works and procurement of some capital and number of small equipments frequently used for technical operation of its common serving departments, e.g equipments for security and firefighting, loose tools, soil resistivity meter, pipeline locator for corrosion control, cruising and tying equipments, sleeving, safety devices and protective layers etc.

6.5.8. The petitioner has further explained that out of Rs. 165 million for distribution, it has allocated Rs. 56 million for purchase of 60 drilling and stoppling machines of D5 and E5 types for different dias and 50 polyethylene tool kits during the said year. Further, Rs. 46 million has been projected for equipments pertaining to corrosion control.

6.5.9. The Authority observes that petitioner was repeatedly asked to provide the detailed justification for purchase of the above capital items, but it failed to provide the same. ***The Authority therefore disallows the expenditure amounting to Rs. 102 million projected for the procurement of items discussed in para 6.5.8 above and provisionally allows Rs. 94 million for the said year.***

iv. ***Rehabilitation of Transmission System***

6.5.10. The petitioner has projected Rs. 40 million on account of "Rehabilitation of Transmission System" for the said year on account of various repairs, renovations and noise reduction of the pipelines as per HSE policy.

6.5.11. The Authority observes that above said rehabilitation and repair jobs are necessary on periodical basis for safe and smooth functioning of the transmission system. ***Therefore, the projected expenditure under this head is allowed for the said year.***

v. ***Tools and Equipment***

6.5.12. The petitioner has projected Rs. 459 million on account of "Tools and Equipment" for the said year, break-up of which is as follows:

Table 12: Detail of Additions to Tools and Equipment

Sl. No.	Particulars	Rs. in million
1	Power Plant and Electrical Equipment	120
2	Meter guages and Meter Equipment and SMSs	210
3	CP Stations	59
4	Sundry Equipments	70
	Total:-	459

6.5.13. The petitioner has explained that equipments projected under this head are required for regular operational requirements.

6.5.14. The Authority observers that petitioner has grossly exaggerated the projected expenditure under the head "Power Plant & Equipment" when compared with the trend of actual expenditures during July-December, 2011 and FRR 2010-11. Out of Rs. 120 million projected on this account, the petitioner has projected Rs. 75 million on account of generator sets during the said year, whereas actual expenditure under this head during the current year is only Rs. 0.67 million. This position is also held for other expenditures forecasted for the said year under this head.

6.5.15. The Authority observes that, historically the petitioner has not been able to capitalize the budgeted amount under this sub-head. In fact the projection under this head is made on lump sum basis which has no substantial grounds to justify at the time of DERR.

6.5.16. ***The Authority, in view of above, provisionally allows Rs. 229 million .e; 50% of the claimed amount under this head for the said year.***

vi. ***Equipment for New Regions***

6.5.17. The petitioner has projected Rs. 538 million for the said year on account of capital assets required for establishment of new regions. The petitioner has elaborated that it has planned to establish three new regions and six sub-regions in order to provide efficient services and better administrative controls.

6.5.18. The Authority observes that matter of additional new regions has been exhaustively discussed in the succeeding paras 9.1.13 to 9.1.16 below, wherein the expenditure under this head has been allowed on provisional basis subject to submission of detailed report on the improvement in efficiency parameters. ***The corresponding capital expenditure amounting to Rs. 538 therefore is allowed on the same premise for the said year.***

vii. ***Motor Vehicles***

6.5.19. The petitioner has projected Rs. 300 million on account of purchase of motor vehicles during the said year. The petitioner has explained that vehicles are purchased for official as well as project use on centralized basis, as and when required and no separate budget with respect to different regions and functionaries is prepared by it. The petitioner has further explained that this procurement on centralized basis implies strict internal controls on purchase of new vehicles and ensures comprehensive assessment before release of budget under this head.

6.5.20. The Authority observes that the petitioner has not submitted detail of vehicles to be purchased and replaced during the said year. Also, it has not provided specific and concrete justification along with detailed breakup and need assessment of vehicles to be used in different departments. ***Therefore, the Authority provisionally allows 50% i.e. Rs. 150 million of the projected amount under the head "Vehicles" for the said year as against Rs. 300 million demanded by the petitioner.***

viii. ***Construction Equipment***

6.5.21. The petitioner has projected Rs. 150 million under the sub-head "construction equipment" for the said year, which includes Rs. 30 million for welding plants and Rs. 8 million for purchase of air compressors during the said year.

6.5.22. The Authority observes that no major project is likely to be executed during the said year. The petitioner can, therefore, obtain/ utilize the existing equipment spared from its giga projects undertaken last years. This will save the money and bring economy in the operating activities which are need of the time.

6.5.23. ***The Authority, in view of above, rejects the petitioner contention and disallows Rs. 150 million claimed under this head for the said year.***

ix. ***Furniture & Fixtures and Office Equipment***

6.5.24. The petitioner has projected Rs. 42 million under the sub-heads "Furniture & Fixture" and "Office Equipment" for the said year. The petitioner has allocated Rs. 21 million for "Furniture & Fixture" and Rs. 21 million for "Office Equipment" and explained that the requested capital items are for normal office use.

6.5.25. The Authority observes that the projected amount of Rs. 42 million under the above heads is reasonable when compared with the actual results for FY 2010-11. ***The same is, therefore, allowed for the said year.***

x. ***Computer Hardware***

6.5.26. The petitioner has projected Rs. 99 million under the sub-head "Computer Hardware" for the said year for procurement of two major IBM RISC based servers, twenty hand held units, new computers along with accessories and up-gradation of existing systems. The petitioner has further explained that there are also new projects and initiatives like biometric access control, online reporting of EVC & office productivity tools for collaboration, etc to be undertaken during the said year, which requires significant funds.

6.5.27. The Authority observes that projected expenditure under this head is reasonable keeping in view its widespread benefit to the petitioner's consumers located across 11 regions. Further, establishment of new regions also necessitate additional computers and accessories. ***The Authority therefore allows Rs. 99 million under this head for the said year.***

6.5.28. ***The Authority in view of above discussion allows Rs. 1,259 million under the head Plant, Machinery & Equipments and Other Assets for the said year.***

6.6. IT Related Expenditure

6.6.1. The petitioner has claimed Rs. 420 million capital expenditure incurred for the procurement of intangible assets viz Oracle Financial modules, up-gradation of existing modules, different software's, licenses, CC&B and its implementation cost etc, during July, 2006 to June, 2011. The petitioner has explained that these IT related assets had already been allowed by the Authority in FRR FY 2010-11, the same have however not been included in asset base for FY 2011-12 owing to its issuance before FRR 2010-11. The petitioner has, therefore, submitted that the asset base for FY 2011-12 also need to be adjusted on this account so that correct opening balance for the said year could be adopted in order to streamline the asset movement position.

6.6.2. The Authority agrees that IT related expenditure amounting to Rs. 420 million, incurred in previous years, has already been allowed in FRR FY 2010-11; however adjustment on this account is required in the asset base for FY 2011-12 as well as the said year. The Authority notes that the petitioner has not provided the yearly written down value of this asset so as to reflect correct value in the books of accounts.

6.6.3. ***In view of above, the Authority pends the said adjustment, till receipt of requisite details on this account.***

6.7. Land and Building

6.7.1. The petitioner has projected Rs. 304 million on account of "Land and Building" for the said year.

6.7.2. The petitioner has explained that Rs. 250 million has been projected for purchase of land for construction of building for Bahawalpur region, Rs. 50 million for construction of the said building and Rs. 4 million for acquisition of land for Right of Way (ROW).

6.7.3. The Authority observes that petitioner was time & again asked to provide detailed breakup, project schedule and need assessment etc; to construct the said building during said year. The petitioner however failed to provide the same to date; rather it has forwarded some vague estimates and insufficient justification which does not merit consideration. ***The Authority therefore pends the projected expenditure under this head till such time the petitioner submits detailed information on this account.***

6.8. Fixed Assets Determined by the Authority

6.8.1. The value of additions in assets claimed by the petitioner and provisionally allowed by the Authority for the said year is as under:

Table 13: Summary of Asset Additions Determined by the Authority.

				Rs. in million
Sr. #	**Particulars**	**Porjected Expenditure**	**Expenditure Disllowed**	**Expenditure Determined**
1	Land	254	254	-
2	Building on freehold land	50	50	-
3	Transmission Mains	27,185	27,185	-
4	Compression System & Equipment	553	-	553
5	Distribution System Mains	12,539	4,170	8,369
6	Measuring & Regulating Assets	3,758	840	2,918
7	Intangible Assets (I.T related Exp)	420	420	-
8	Plant & Machinery & Other Assets	1,940	681	1,259
Total Addition For FY 2012-13		**46,699**	**33,601**	**13,098**

6.8.2. Depreciation expense claimed by the petitioner comes down to Rs. 11,343 million as against 12,469 million claimed by the petitioner. Decrease in depreciation is consequence of adjustment on account of addition in assets for the said year, as discussed above.

6.8.3. ***In view of the above, the Authority provisionally determines the closing net operating fixed assets (net of deferred credit) for the said year at Rs. 59,252 million.***

7. Operating Revenues

7.1. Sales Volume

7.1.1. The petitioner has projected increase in number of consumers from 4,169,950 per RERR for FY 2011-12 to 4,423,350 during the said year, as follows:

Table 14: Comparison of Projected Number of Consumers with Previous Years

# of Consumers

Category	FY 2011-12	FY 2012-13	Growth over RERR	
	RERR	The Petition		
Domestic	4,101,111	4,351,111	250,000	6%
Commercial	61,569	64,569	3,000	5%
Industrial	7,270	7,670	400	6%
Total	**4,169,950**	**4,423,350**	**253,400**	**8%**

7.1.2. The sale volume for the said year has been projected at 598,080 BBTU, as against 558,817 BBTU provided in RERR for FY 2011-12, i.e.; an increase of 7%. Category-wise comparison with previous years is provided as under:

Table 15: Comparison of Sales Volume with Previous Years

Volume in BBTU

Category	FY 2010-11	2011-12	2012-13	Inc./ (Dec.) over RERR	
	FRR	RERR	The Petition		
Power	148,018	109,578	114,684	5,106	5 %
Cement	608	198	-	(198)	-
Fertilizer	39,846	53,030	69,947	16,917	32 %
General Industries	104,280	144,711	101,396	(43,315)	(30) %
CNG	82,945	60,365	119,794	59,429	98 %
Commercial	25,087	28,188	28,937	749	3 %
Domestic	146,718	162,747	163,321	574	.35 %
Total	**547,502**	**558,817**	**598,080**	**39,263**	7 %

7.1.3. The petitioner has explained that increased gas supply has been estimated in view of new discoveries from Badar, Nashpa, Marmzai, Sheikhan, Koonj, Mari Deep, Latif, Mehar and Kunar Pashaki fields. Also the existing producers have committed increased supplies during the said year from Kandhkot, Dakhani, Ratana, Manzalai, Nashpa, Makori and Maramzai fields. The petitioner has, therefore, projected 7% increase in gas sale volume for the said year as compared to RERR FY 2011-12.

7.1.4. The Authority observes that increase in gas supply at this critical time of severe energy crisis will surely reduce the demand supply gap which is adversely affecting the consumers. The petitioner however needs more concerted efforts to control the wastage of gas and explore new avenues to add more gas in its network for continuous supply at economical rates.

7.1.5. The petitioner has elaborated that CNG sector, in a short period of around one decade, has developed into a capital intensive large scale industry with a steady growth in its consumer base owing to continuous increase in CNG fitted vehicles. During RERR FY 2011-12, gas sale volume in this sector was expected to be reduced / rationalized to a larger extent, pursuant to prevalent FG gas load management policy. It has, however, been observed with concern that despite weekly load shedding for this sector, the actual volume sold during July-December, 2011 is 43,354 BBTU i.e; 72% of total projected volume for FY 2011-12. Accordingly, the petitioner has projected the gas sale to CNG sector for the said year to continue rising per the latest trend.

7.1.6. Further, the petitioner has submitted that due to increasing demand in various other categories of consumers, it has not projected any sales to cement sector which is last in priority as per gas allocation policy. The Gas Sale Agreements (GSAs) with cement plants are also executed on "as and when available" basis. The Authority in view of scarcity of gas supply agrees with the petitioner's projection under the category cement and accepts the same for the said year.

7.1.7. ***The Authority, in view of above, provisionally accepts the gas sale for the said year at 598,080 BBTU as projected by the petitioner.***

7.2. Sales Revenue at Existing Prescribed Prices

7.2.1. The petitioner has projected sales revenue for the said year, at existing prescribed prices, to increase by 20%, from Rs. 217,736 million provided in RERR for FY 2011-12 to Rs. 261,179 million. Category-wise comparison of sales revenue is given below:

Table 16: Comparison of Projected Sales Revenue with Previous Years

Rs. in million

Category	FY 2010-11	FY 2011-12	FY 2012-13	Inc./ (Dec.) over RERR	
	FRR	RERR	The Petition		
Power	59,769	57,995	65,859	7,864	14%
Cement	328	115	-	(115)	-
Fertilizer	6,248	8,402	13,955	5,553	66%
General Industries	39,505	65,922	50,206	(15,716)	-24%
CNG	42,156	36,131	78,130	42,000	116%
Commercial	11,715	15,721	17,372	1,651	11%
Domestic	25,426	33,451	35,656	2,206	7%
Total	**185,147**	**217,736**	**261,179**	**43,443**	**20%**

7.2.2. ***The petitioner has explained that increase in sales revenue, is due to increase in gas supply and change in sale mix as mentioned in para 7.1.3 to 7.1.7 above.***

7.2.3. The Authority observes that the petitioner has not adopted the existing prescribed prices, notified on March 1, 2012 while computing the category-wise sales revenue. ***Accordingly, the correct amount of sale revenue at existing prescribed prices is determined at Rs. 260,643 million for the said year.***

7.3. Other Operating Revenues

7.3.1. The petitioner has projected "other operating revenues" at Rs. 3,659 million during the said year as against Rs. 3,685 million according to RERR for FY 2011-12, showing a decrease of 1%. Comparison with previous years is given below:

Table 17: Comparison of Projected Other Operating Income with Previous Years

Rs. in million

Description	FY 2010-11	FY 2011-12	FY 2012-13	Increase / (Decrease) over RERR	
	FRR	RERR	The Petition		
Rental & Service Charges	1,126	1,331	1,200	(131)	-10%
Surcharge and Interest on arrears	-	-	-	-	-
Amortization of deferred credit	2,514	1,904	2,159	255	13%
Other operating income	586	450	300	(150)	-33%
Net Operating Revenues	**4,226**	**3,685**	**3,659**	**(26)**	**-1%**

(i) Rental & Service Charges

7.3.2. The petitioner has estimated income from "Rental & Service Charges" at Rs. 1,200 million as against Rs. 1,331 million determined by the Authority per RERR FY 2011-12. The petitioner has explained that income from "Rental & Service Charges" consist of meter rental, transmission of gas for third parties e.g. PPL and POL and other services for third parties.

7.3.3. The petitioner has elaborated that income from meter rental is a fixed amount received by consumers each month. Therefore, increase under this head is squarely correlated with number of consumers, which during the said year are increasing by 250,000. Accordingly, the income under this head computes to Rs. 1,190 million for the said year.

7.3.4. The petitioner has also projected Rs. 11 million under the head "income from transmission of gas for third parties i.e. PPL and POL" and elaborated that income under this head cannot be projected beyond a certain limit since such services are extended only to above companies at nominal charges for a specific quantity of

gas. Further, the petitioner has projected no income under the head "services for third parties" for the said year since it is contingent income and has no regular source.

7.3.5. The Authority observes that the income on account of rent on meters under the head "Rental and Service Charges" is a permanent source which grows with the increase in number of consumers. Besides this, income on account of other heads also follow an increasing trend, as the total income under this head increased from Rs. 916 million per FRR FY 2007-08 to Rs. 1,126 million in FRR FY 2010-11. Similar trend can also be observed in previous years. ***The Authority, therefore, keeping in view the established historical trend determines the income from "Rental and Service Charges" at the level of RERR FY 2011-12 at Rs. 1,331 million for the said year on provisional basis.***

(ii) Late Payment Surcharge (LPS)

7.3.6. The petitioner has treated income on account of "Surcharge and Interest on Arrears" amounting to Rs. 2,225 million as non-operating for the said year and contended that it has complied with the decision of honorable LHC wherein it has been decided to maintain the decision of the Authority per FRR FY 2009-10 dated October 15, 2010. LPS in the said order had been treated as non-operating income, being equitable to financial expenses which are not included as part of revenue requirement.

7.3.7. The Authority in its decision of FRR FY 2009-10, keeping in view the circumstances and financial condition of the petitioner prevalent at that particular time period, had allowed a one time treatment of the said revenue heads as non-operating while giving financial relief to the petitioner, so that it can operate as a going concern.

7.3.8. The Authority in its later determinations of RERR FY 2010-11 and DERR FY 2011-12 had treated the same revenue heads as operating as per previous decisions. The petitioner however challenged the Authority's said decisions in LHC by praying that it may be allowed the same treatment as granted by the Authority in FRR FY 2009-10. The LHC granted interim stay to the petitioner in RERR FY 2010-11 as well as in DERR FY 2011-12, and ordered the Authority to extend the same treatment on these revenue heads to the petitioner, as provided in FRR FY 2009-10.

7.3.9. The Authority, while determining the revenue requirements, has always kept a balance among divergent interests of various stakeholders, and had, therefore, keeping in view the dire consequences of the petitioner, granted one time relief in FY 2009-10. This relief did not result in any price hike either for the consumers. It is matter of utter grief that the said decision of OGRA, taken in the overall best national interest, is being used as a tool by the petitioner for seeking similar relief then onwards. The Authority observes with great concern that billions of rupees allowed to the petitioner based on the interim stay obtained by it from the LHC, could have otherwise benefited the consumers at large through lesser price hikes and economic stability.

7.3.10. Notwithstanding the above, OGRA is of the strong and consistent view that the treatment of the above discussed income heads should be decided as part of the study for development of new tariff regime. It is a universally accepted prudent practice that tariff regime is enforced in totality where the basic concepts of treatment of various revenue and expenditure items do not change in isolation. The Authority observes that recognition of LPS as non-operating in the existing tariff regime tantamount to implementation of new tariff regime in bits & pieces, which is illogical & uncalled for.

7.3.11. ***Accordingly, the Authority in view of the above discussion and decision recorded at para 5.6 above, decides to treat income on account of " Late Payment Surcharge and Interest on Arrears" amounting to Rs. 2,225 million as operating income for said year.***

(iii) Other Operating Income

7.3.12. The petitioner has projected Rs. 300 million under the head "Other Operating Income" for the said year. The petitioner has elaborated that income under this head comprises number of small and miscellaneous components which are estimated on lump sum basis, and no head wise break-up is provided with the petition at the time of DERR.

7.3.13. The Authority observes that income under this head always witnessed rising trend whereas petitioner is projecting the same on lower side compared with RERR FY 2011-12 and FRR FY 2010-11, which is not acceptable.

7.3.14. ***The Authority, in view of above decides to determines "other operating income" at Rs. 645 million for the said year i.e at the level of FRR FY 2010-11 plus 10% cumulative impact of growth over two years.***

7.3.15. ***In view of above, the Authority provisionally determines, for the said year, other operating revenues at Rs. 6,360 million as against Rs. 3,659 projected by the petitioner.***

8. Operating Expenses

8.1. Cost of Gas

8.1.1. The petitioner has projected cost of gas for the said year to increase from Rs. 194,870 million provided in RERR for FY 2011-12 to Rs. 218,842 million, based on its projections of international prices of crude and HSFO. Comparative analysis of projected cost of gas with previous years is given below:

Table 18: Comparison of Cost of Gas with Previous Years

FRR FY 2010-11		RERR FY 2011-12		The Petition	
BBTU	Rs. million	BBTU	Rs. million	BBTU	Rs. million
547,502	170,500	637,701	194,870	673,287	218,842

8.1.2. The well-head gas prices on the basis of which cost of gas is determined are indexed to the international prices of crude or HSFO per GPAs between the GoP and the producers and are notified semi-annually, effective on 1st July and 1st January. The international average prices of crude and HSFO during the immediately preceding period of December to May are used as the basis for calculating the estimated well-head gas prices for the period July to December, and similarly oil prices during the immediately preceding period of June to November are used to calculate the projected well-head gas prices for the period January to June.

8.1.3. The petitioner computed WACOG at Rs. 328.69 / MMBTU for the said year projecting international prices of HSFO & crude and PKR / US $ exchange rate as under:

Table 19: Estimates for Determination of WACOG per the Petition

Applicable for wellhead gas price for the period	Average FOB Oil prices for the period	Average FOB price of Crude Oil (US $ per BBL)	Average FOB price of HSFO (US $/ M.Ton)	Exchange Rate (Rs /US $)
Jul 12 to Dec 12	December 11 to May 12	119.02	729.94	92
Jan 13 to Jun 13	June 12 to November 12	128.11	767.9	93

8.1.4. The Authority has reworked the WACOG for the said year at Rs. 322.37 per MMBTU based on latest trend observed in the average prices of HSFO and Crude. Wellhead gas prices effective July to December, 2012 have been reworked on the basis of actual average prices of HSFO and Crude during the period December, 2011 to May 07, 2012, which comes to US $ 699.15 per metric ton and US $ 116.43 per barrel respectively. The same prices have been adopted for computation of wellhead gas prices for the period January to June, 2013.

8.1.5. ***Bases on above, the Authority provisionally determines cost of gas at Rs. 214,641 million for the said year. The petitioner is, however, directed to submit a review petition to the Authority latest by October 15, 2012 for review of its estimated revenue requirements as required under Section 8(2) of the Ordinance, keeping in view the actual and anticipated changes in international prices of crude and HSFO during the period May to November, 2012 and the trend of Rupee – Dollar exchange rate.***

8.2. Unaccounted for Gas (UFG)

8.2.1. The petitioner has projected UFG for the said year at 10% (71,146 MMCF), as follows:

Table 20: Comparison of UFG with Previous Year

		Volumes in MMCF
Particulars	**RERR FY 2011-12**	**FY 2012-13 (The Petition)**
Total Gas Purchases	673,037	720,836
Gas Internally Consumed	8,366	9,371
Gas Available for Sales	664,671	711,465
Gas Sales	597,528	640,318
UFG (MMCF)	67,143	71,147
UFG %	**10.10%**	**10.00%**

8.2.2. The petitioner has pleaded that the ground realities earlier accepted by the Authority in FRR FY 2009-10 have not been changed. The petitioner has, therefore, requested to fix UFG at the same level.

8.2.3. The Authority observes that legal counsel of the petitioner, in its submissions, has demanded UFG at 7.5% as against 7% claimed by the petitioner for the said year. The Authority notes this position and reiterates that two UFG levels being claimed reflect that the petitioner is not certain about the UFG level planned to be achieved and the demand is, therefore, groundless, illogical and without any supporting data or analysis. The petitioner is only putting in every effort to get a higher UFG allowance percentage, without doing any homework to substantiate its claim.

8.2.4. The Authority under provisions of Section 6 (2) (g) of the Ordinance, Rule(1)(m) and 17(1)(c) of the NGT Rules, licence condition no. 21.2 and 21.3 and in pursuance of National Security Council (NSC) decision dated 11-10-2000 fixes the UFG benchmarks for the gas utilities. The first UFG Benchmarks were fixed by the Authority in FY 2002-03 up to FY 2011-12.

8.2.5. The Authority has considered the submissions of the petitioner and its learned legal counsel and records the following observations in respect of relaxation of UFG benchmark:-

(a) Underground leakage rectification and replacement of corroded lines is the responsibility of the petitioner which can be controlled through proper monitoring and swift response in case of rectification of identified leakages, for which the Authority had always allowed considerable amounts on account of Repair and Maintenance etc, being the matter of foremost importance. The Authority is of the firm view that rectifying gas leakages is the core responsibility of the petitioner, to which any negligence is not entertainable, as gas leakages are clearly a controllable factor. Hence no leeway can be given on this account; particularly taking into account the very fact that majority of the pipeline network has been laid down during last 15 years. The stance of the petitioner in respect of aging of network is therefore not entertain able. The Authority further observes that quality of workmanship w.r.t installation of domestic meters and leakage rectification is an obligation of the petitioner as defined in its licence.

(b) Theft of gas has contributed towards increase of UFG, but the same shall have been curtailed after the promulgation of Criminal Amendment Act 2011. The petitioner had assured the FG, OGRA and the respective Parliamentary

Committees that this amendment will lead to reduction in gas theft upto 75%, which is simply not evident.

(c) Accurate billing and measurement is to be monitored by the petitioner at all times being its core responsibility including application of appropriate pressure and temperature factors.

(d) Shift of gas load from bulk sales to retail sale claimed by the company in its petition is not justified since allowance for leakages, theft of gas and measurement errors in the overall system of the company has already been allowed in the allowable percentage of UFG.

(e) After extensive consultation with the gas companies on the introduction of UFG targets, in its determinations of revenue requirement of gas companies for FY 2005-06, the Authority had directed the gas companies to reduce the UFG progressively to less than 4.5% by the end of FY 2011-12. It was expected that both the utilities would take all necessary measures to reduce the UFG e.g. controlling theft, leakages and other related factors. However, the record shows that the companies did not attach due priority to this important aspect of their work.

(f) According to a recent report of World Bank, UFG in Organization of Economic Cooperation and Development (OECD) countries is typically 1-2 percent. Every percent gas loss amounts to a loss of Rs. 1.75 billion for the gas utility. UFG is a major contributor to the gas availability crises in the country. The petitioner in its presentation during the public hearing had shown the high UFG percentage in few companies of USA, New Zealand and Australia on account of leakages, measurement error etc. which is not the case.

(g) August Supreme Court of Pakistan has also criticized the prevailing high UFG percentage.

(h) The consumers/interveners opposed the benchmark of 7% suggested by the company and proposed that the benchmark for FY 2012-12 should not be more than 4.5%.

(i) It is further highlighted that Titas Gas Transmission and Distribution Company Limited, Bangladesh had, however, initiated different action plans

to reduce overall system losses/UFG. With the continuous efforts, intensive vigilance, setting up task force etc. by the Titas Gas Transmission and Distribution Company Limited, the system losses which were 7.06% in FY 2004-05 had been brought to 0.8% during FY 2008-09 and the actual results for FY 2010-11 are in fact showing gain in the system.

(j) The following actions / measures are required to be taken by gas companies in addition to several others, to reduce UFG / losses:-

- Monitoring of area wise gas input-output and thereby fixing of responsibilities and accountability for system losses.
- Sealing, calibration and rectification / replacement of old domestic meters.
- The premises of industrial and disconnected consumers be inspected by special teams.
- The court cases be pursued vigorously.
- Looming corruption in the operation of the petitioner must be eradicated at all costs.

8.2.6 The petitioner has requested that UFG @ 7% be allowed for the said year, since UFG benchmarks earlier fixed by the Authority were till FY 2011-12. ***The Authority, while taking into account the view point of stakeholders, interveners, the World Bank, FG and participants, has now determined the UFG benchmark at 4.5% for the said year***, on the basis of following four factors:

i) Leakage is a controllable factor and it is running considerably higher than the acceptable levels. The company should decrease the same without further loss of time.

ii) Only small portion of theft is recovered by the gas company. The petitioner is required to expedite recovery of gas theft, keeping in view recently promulgated law. The same shall also act as deterrent for future theft.

iii) Metering errors are controllable factors and should be reduced considerably.

iv) 'Other' factors are also controllable and should be reduced considerably.

8.2.6. In view of the above, revised calculation of UFG and its disallowance based on revised WACOG per para 8.1.4 above, is as under;

Table 21: Adjustment on Account of UFG Targets set by OGRA for the said year

MMCF

Particulars		Per the Petition	Calculated by OGRA
Gas Purchases			
Metered gas purchased	A	720,836	720,836
Gas carried for PPL, POL and SSGCL	B	0	0
Gas Available for Sale	C=A+B	720,835	720,835
Gas Internally Consumed (Metered)	D	9,371	9,371
Transmission	a	**8,758**	**8,758**
(i) Compression		8,533	8,533
(ii) Residential Colonies		71	71
(ii) Coating Plant		154	154
Distribution	b	**613**	**613**
(i) Free Gas Facility		528	528
(ii) Co-Generation		84	84
Net Gas Available for Sale	E=C-D	711,464	711,464
Gas Sold (Billed)	F	640,318	640,318
UGF Volume	**G=E-F**	71,146	71,146
Projected UFG		10.00%	10.00%
		(G/E)X100	**(G/E)X100**
Working of Penalty			
UFG Target by OGRA		7%	4.50%
Allowed UFG Volume MMCF(4.5%*E)		49,802	32,016
Disallowance (G-H) MMCF		21,343	39,130
UFG Disallowance (Million Rs.)		**6,553**	**11,782**

8.2.7. ***Based on the above computation, the Authority provisionally deducts Rs. 11,782 million from the revenue requirement of the petitioner for the said year.***

9. Transmission and Distribution Cost

i. Summary

9.1.1. The petitioner has projected 68% increase in Transmission and Distribution (T&D) cost (including gas internally consumed), from Rs. 12,580 million per RERR FY 2011-12 million to Rs. 20,501 million for the said year, as detailed below:

Table 22: Comparison of Projected T & D Cost with Previous Years

Rs. in million

Particulars	FY 2011-12	FY 2012-13	Increase / (Decrease) Over RERR	
	RERR	The Petition	Rs.	%
Human Resource Cost	6,545	11,786	5,242	80 %
Cost of Reinstated Employees	278	288	10	4 %
Gas Internally Consumed	2,584	2,835	251	10 %
Stores and Spares Consumed	612	597	(15)	(2) %
Repair and Maintenance	941	1,495	554	59 %
Fuel and Power	219	244	25	11 %
Stationery, Telegram and Postage	147	163	16	11 %
Dispatch of gas bills	80	82	2	3 %
Rent, Rate, Electricity and Telephone	263	369	106	40 %
Traveling	179	221	42	24 %
Transport expenses	579	748	168	29 %
Insurance	166	183	17	10 %
Legal and Professional Services	47	92	46	98 %
Consultation for ISO 14001 & OHSAS 18000	4	4	-	0 %
Gas bills collection charges	307	326	20	6 %
Gathering charges of gas bills collection da	30	38	8	27 %
OGRA fee	102	160	58	57 %
Advertisement	72	102	30	42 %
Bank Charges	26	26	-	0 %
Uniforms & protective clothing's	18	28	10	58 %
Staff training and recruiting	8	25	17	228 %
Security expenses	278	379	101	36 %
SNG training insititute	11	13	1	12 %
Provision for doubtful debts	180	1,464	1,284	713 %
Sponsorship of chairs at University	7	7	-	0 %
5 Year special training programme	5	17	12	-
Budget for UFG control related activities	-	-	-	-
Out Sourcing of call centre complaints man	18	21	3	19 %
Stores spares written off	-	-	-	-
Cost of Gas Blown off	-	-	-	-
Contribution to Inter State Gas System Lim	191	220	28	15 %
Other expenses	89	145	57	64 %
LNG Project	-	202	202	0 %
Addition of New Regions	-	242		
Subtotal Expenses	**13,983**	**22,522**	**8,296**	**59%**
Allocated to fixed capital expenditures	(1,403)	(2,021)	(618)	44 %
Net T&D Expenses before Gas Internally Co	**12,580**	**20,501**	**7,920**	**63%**
Toal	**12,580**	**20,501**	**7,920**	**63%**

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

ii. Human Resource (HR) Cost

9.1.3. The petitioner has projected the HR benchmark cost to increase by 80%, from Rs. 6,545 million provided in RERR for FY 2011-12 to Rs. 11,786 million for the said year. The petitioner has computed the said year's HR benchmark cost at existing pattern, adopting SSGCL's per unit rates computed at actual results for FY 2011-12. The petitioner has pleaded that it has suffered due to low and discriminatory rates given to it in HR benchmark computation as compared to SSGCL despite the fact that both companies are operating in Pakistan under similar environment. The petitioner therefore argued to adopt uniform rate to provide level playing field for cost optimization.

9.1.4. The Authority observes that the HR cost benchmark, for both the gas utilities, was introduced in FY 2005-06 with a view to protect the interest of consumers by minimizing this cost up to acceptable limit and to induce the petitioner to strive for cost optimization by eliminating anomalies existing in different cadres, re-adjustment of sub-components and shedding of excess fat wherever present in the system. Accordingly, the benchmark applicable from FY 2008-09 to FY 2010-11 (existing benchmark) was set to cover both the dimensions of HR cost increase i.e.; increase in cost due to inflation/dearness and increase owing to extension in operating activities/parameters. The indexation mechanism to operating factors was rationalized to provide adequate funding to offset the lawful increase in HR cost on annual basis.

9.1.5. The detailed review of actual HR expenditure, under the umbrella of the benchmark, has hinted towards certain imbalances in the petitioner's policies to apportion the HR cost. In the initial years, a significant cushion of funding and a margin of savings were available to the petitioner to create a balance among the salaries of staff and executives and allow a reasonable increase in their salaries uniformly. The petitioner, however, lavished out major portion of HR benchmark towards increase in the payroll of executive cadre and kept CBA demand pending. Resultantly, in the third year under review, the petitioner was unable to negotiate with the CBA and accept even their legitimate demand. This has created massive frustration and sense of deprivation among workers which may likely emerge labor strike/wide protest against management while some staff representatives approached OGRA as last resort to their burning issue.

9.1.6. The Authority, in order to reduce the misery of sub-ordinate staff had already given an additional Rs. 1.7 billion relief in FY 2010-11 even though it is of the firm view that the shortfall emerged out owing to management unethical practices to jack up their own salaries at a sky rocketing pace, along-with a large number of new appointments without any logical need or rationale. The Authority, therefore feels that executive cadre salaries shall be rationalized in order to meet the shortfall pertaining to CBA and no other allowance on this account can be entertained by it.

9.1.7. The Authority also observes with grave concern that petitioner's efficiency indicators particularly UFG, recovery from defaulters, customer services etc; are continuously tumbling despite addition of a significant flock of reinstated employees, cost of which is borne by consumers. This slackness clearly spells out that petitioner has failed to effectively utilize and mobilize its workforce which in turn has created idle capacity and de-motivation among employees resulting in adverse impact on HR cost parameters, contrarily, the petitioner is continuously claiming whooping increase in HR cost benchmark.

9.1.8. The Authority, keeping in view the wide gap between demand, performance and actual spending pattern on this account, observes that major rationalization of this huge cost element is essentially required to ascertain an optimum level where a link could be directly established between efficiency and effective utilization while protecting the legitimate rights of the workforce. The Authority, therefore, has decided to conduct HR cost benchmark study by the experts mainly in public interest to get performance based HR benchmark. Accordingly, the process has been initiated.

9.1.9. ***The Authority, therefore, decides that the benchmark cost for the said year will be fixed after conducting a comprehensive and elaborate study in the matter. However, till the final outcome of the study, an increase of 10.80% is provisionally allowed over RERR for FY 2011-12. Final adjustment under this head will be made upon implementation of new benchmark under process.***

9.1.10. ***The Authority further directs the petitioner to assign priority to sub-ordinate issues and the salaries of the executives should not be boosted until the subordinate legitimate demands are duly met.***

9.1.11. ***In view of above, the Authority provisionally determines the HR Cost at Rs. 7,180 million (i.e Rs. 6,220 last year HR cost+10.8% inflationary adjustment+ Rs.***

289 projected cost for IAS). The Authority also observes that reinstated employees have now become part of regular manpower stream, therefore Rs. 288 million projected on this account is also allowed under this head. Accordingly, the total cost under this head comes to Rs. 7,468 million for the said year.

9.1.12. ***The petitioner is directed to provide, at the time of final revenue requirement, an unconditional (without "exception", "subject to" provisions), certificate by its statutory auditors to the effect that HR cost used for comparison with HR benchmark includes all regular, contractual and casual staff/labour.***

iii. Addition of New Regions/Sub- Regions

9.1.13. The petitioner has projected creation of three new regions and six sub-regions, in addition to existing eight regions across its area of operation in Punjab, KPK and AJ&K. Accordingly, the petitioner has claimed Rs. 242 million on this account, on centralized basis, and projected substantial increase under various other components of T&D cost for the said year owing to overheads and administrative costs attached with the new setup.

9.1.14. The petitioner has submitted that its Board of Directors had approved creation of two new regions (Bahawalpur & Abbotabad) and eleven sub-regions in 1990 to comply with Government directives to provide gas to new localities, better administration control and efficient services. The gas supply to new towns & villages in Punjab & KPK during last 5-10 years has increased manifolds, the petitioner, however, has not added proportionate regions/sub regions along with manpower strength and other allied requirements, in order to save the resources.

9.1.15. The petitioner has further elaborated that its business has expanded in far flung areas, which are approximately 100 to 350 Km away from regional offices, resultantly present system of command & control on the activities related to provision of gas connections, pipeline laying, customer services and UFG control, etc, has become overloaded and difficult to manage. Moreover, in view of extensive development and enhanced operational activities, particularly in these newly proposed regions, there is also a dire need to establish independent IT/MIS departments so as to ensure timely posting of new meter installations, replacements and meter readings for smooth and efficient function. The purpose of addition of new regions & sub-regions is also to extend best possible services to the valued customers at their door step.

9.1.16. ***In view of the justifications advanced by the petitioner, the Authority allows the projected expenditure claimed by the petitioner only on provisional and conditional basis subject to measurable achievements in respect of various key performance indicators over a years' time. The Authority will examine the same at the time of FRR for the said year and will allow only prudent expenditure grossly advantageous to consumers.***

iv. Stores and Spares Consumed

9.1.17. The petitioner has projected stores and spares consumed for the said year at Rs. 597 million as against Rs. 612 million provided in RERR for FY 2011-12. Historical comparison of stores and spares consumed is given below:

Table 23: Comparison of Projected Stores and Spares Consumed with Previous Years

Rs. in million

Particulars	FY 2010-11	FY 2011-12	FY 2012-13	increase/(decrease) Over RERR	
	FRR	RERR	The Petition	Rs.	%
Compression	111	146	125	(20)	-14%
Transmission	111	168	168	(1)	0%
Distribution	135	222	204	(18)	-8%
Others (incl H.O.)	1	9	22	13	151%
Freight & handling	45	67	78	11	16%
Total	**404**	**612**	**597**	**(15)**	**-2%**

9.1.18. The petitioner has claimed Rs. 22 million under sub-head "Others, including Head Office", due to addition of new regions and sub-regions and repair & maintenance of head office lifts.

9.1.19. The Authority observes that matter of addition of new regions and sub-regions has been exhaustively discussed above. Therefore, the same is allowed on provisional/conditional basis.

9.1.20. The petitioner has also projected Rs. 78 million under the sub-head "freight & handling as against Rs. 67 million provided in RERR FY 2011-12 i.e.; an increase of Rs. 11 million, owing to persistent increase in level of POL prices.

9.1.21. The Authority admits the fact that POL prices are steadily increasing due to international price trend. However, the projected expenditure under the head seems to be exaggerated when compared with actual expenditure for FY 2010-11

(Rs. 45 Million) and July-December, 2011, which are only Rs. 13 million. If this pretext is accepted that most of expenditures are booked in second half of the year, even then the actual expenditures for FY 2011-12 should be far less than the allowed level. The Authority also observes that expenditure under RERR FY 2011-12 was determined on the basis of RERR FY 2010-11 which were also on higher side. ***The Authority, therefore, restricts the expenditure for the said year at the level of RERR FY 2011-12 (i.e Rs. 67 million).***

9.1.22. ***In view of above, the Authority provisionally determines the total expenditure on stores and spares consumed for the said year at Rs. 586 million.***

v. Repair and Maintenance (R&M)

9.1.23. The petitioner has projected R&M expenditure at Rs. 1,495 million for the said year as against Rs. 941 million determined in RERR for FY 2011-12, i.e. an increase of 59% as under:-

Table 24: Comparison of Projected Repair and Maintenance with Previous Years

Rs. in million

Particulars	FY 2010-11	FY 2011-12	FY 2012-13	Increase/(decrease) Over RERR	
	FRR	RERR	The Petition	Rs.	%
Compression	14	24	27	3	14%
Transmission	124	304	429	125	41%
Distribution	352	432	702	270	62%
Others (incl H.O. & service deptt	148	181	337	156	86%
Total	**638**	**941**	**1,495**	**554**	**59%**

9.1.24. The petitioner has elaborated that increase of 41% under the sub-head "Transmission" is mainly due to disallowance of Rs. 79 million by the Authority in RERR FY 2011-12, otherwise there is only 10% increase. The increase under this head has been projected owing to hike in the prices of material (i.e; coaltar, enamel, primer) used for re-coating of transmission pipeline. The petitioner has further elaborated that age & size of transmission pipeline is progressively increasing which requires recoating owing to continuous process of underground corrosion.

9.1.25. The Authority supports the petitioner's initiatives for re-coating of transmission pipe to protect valuable assets and save the costly gas flowing round the clock at high pressure. The Authority however notes that increase of 41% over a period of one year seems to be high when compared with actual results for FY 2010-11

which are only Rs. 124 million. If this situation is admitted that activities during FRR FY 2010-11 could not be undertaken due to non availability of import material, even then the projected expenditure for the said year may not go beyond the level of RERR FY 2011-12 wherein the budget was generously provided to check gas losses. Therefore, expenditure under this head to the extent of RERR FY 2011-12 plus 20% to cater for inflation is adequate to execute the proposed R&M activities. ***The Authority, therefore, allows 20% increase over RERR FY 2011-12 to cater for inflation and other adjustments and determines the said expenditure at Rs. 365 million for the said year.***

9.1.26. The petitioner has projected Rs. 702 million under the head "Distribution" as against Rs. 432 million provided in RERR FY 2011-12. The petitioner has elaborated that exorbitant increase of 62% under this head is mainly due to significant disallowance during FY 2011-12 and enhanced leakage rectification of distribution network planned for the said year under UFG control related activities. Further, revision of ditching contracts and addition of three regions for the said year will require more funds to undertake same activities with higher pace.

9.1.27. The Authority observes that it has always supported UFG control related activities and allowed significant amount under this head in earlier determinations. In previous years, a significant amount under this head was allowed on the same premise of enhanced leakage rectification targets and revision of ditching contracts. UFG, however, is continuously showing rising trend in all previous financial years despite constant unrestricted budgetary support. This situation depicts that petitioner has not generated the requisite capacity to undertake its normal targets of rectification of leakages during a financial year. In view of this historical fact and analysis of results in last years wherein the allowed budget remained underutilized, a gigantic increase in projected expenditure seems to be unjustified.

9.1.28. ***The Authority, in view of above, allows Rs. 518 million provisionally under the sub-head distribution for the said year i.e.; at level of RERR FY 2011-12 plus 20% to cater for the impact of revised rates, enhanced activities and inflation. The Authority in principle however agrees that there should be no limit in R&M activities provided, these are carried out in accordance with objective oriented comprehensive plan leading to tangible improvements towards efficiency related***

benchmarks, otherwise the entire process tantamount to wastage of resources, which should not be loaded to the gas consumers who are already paying high cost.

9.1.29. The petitioner has projected Rs. 337 million under the sub head "others (Incl. Head office and service departments)" for the said year and elaborated that Rs. 156 million (86%) increase under this head is mainly due to addition of three new regions for which Rs. 67 million has been allocated. Also additional Rs. 44 million has been projected due to increase in rates of janitorial service, Rs. 24 million for repair & maintenance of computer and Rs. 21 million for office building/furniture, equipment including civil works.

9.1.30. The Authority observes that expenditure under this head comprises small components which are unavoidable, however overall 86% increase during the said year over RERR FY 2011-12, even after Rs. 67 million impact of new regions, is not justified and seems to be grossly exaggerated when compared with the actual results for July-December, 2011 which are only Rs. 57 million. ***The Authority, therefore, determines the expenditure under this head at Rs. 217 million i.e; at the level of RERR FY 2011-12 plus 20%, for the said year.***

9.1.31. ***The Authority, in view of the enhanced level of activities of the petitioner, determines repair and maintenance expenditure for the said year at Rs. 1,128 million as against Rs. 1,495 million claimed by the petitioner for the said year.***

vi. Rent, Rate, Electricity and Telephone

9.1.32. The petitioner has requested Rs. 369 million on account of rent, rate, electricity and telephone for the said year as compared to Rs. 263 million provided in RERR for FY 2011-12. Historical comparison is given below:

Table 25: Comparison of Rent, Rate, Electricity and Telephone with Previous Years.

Particulars	FY 2010-11	FY 2011-12	FY 2012-13	Inc/(Dec) over RERR	
	FRR	RERR	The Petition	Rs.	%
Rent	96	112	141	29	25%
Royalty/internet services	14	19	33	14	73%
Telephone	25	31	52	21	69%
Electricity	67	66	90	24	37%
Pakistan Railway (Line crossing charge	15	16	16	-	0%
Water Conservancy	2	3	4	1	38%
Vehicles rates and taxes	4	10	10	0	2%
Others	2	5	22	17	307%
Total	**226**	**263**	**369**	**106**	**40%**

9.1.33. The petitioner has projected Rs. 33 million under the head "Royalty/internet fee" and elaborated that increase of Rs. 14 million over RERR is due to extended demand of IT department for its existing and newly proposed regional offices, establishment of some additional sites and disaster recovery sites at Islamabad during the said year.

9.1.34. The Authority observes that the projected expenditure under this head seems to be unreasonably high when compared with the actual results for FY 2010-11 and RERR FY 2011-12 which are only Rs. 14 million and Rs. 19 million respectively. Further, actual expenditure during July-Dec, 2011 are only Rs. 5 million. The Authority also observes that there is perfect market competition among the internet service providers who are offering very attractive packages by charging nominal fee for their reliable and efficient services, if it is properly negotiated. ***The Authority therefore restricts the expenditure projected under the sub-head "Royalty/Service Charges" at the level of RERR i.e. Rs. 19*** million for the said year.

9.1.35. The petitioner has projected Rs. 52 million under the head "Telephone" as against Rs. 31 million provided in RERR FY 2011-12 (69% increase). The petitioner has pleaded that projected increase under this head is due to data SIMM charges installed in GPRS/GSM based EVC's at CMSs for the said year.

9.1.36. The Authority observes that petitioner has forwarded no detail to substantiate the projected expenditure under this head for the said year. Further, increase of Rs. 14 million under this head is not defendable when the market in communication sector is facing tough competition resulting in reduction in their charges day by day, even against unlimited range packages at GPRs and GSM with the advent of new technologies. The Authority notes that this cost can be brought down if given effective consideration. ***The Authority therefore determines the projected expenditure at Rs. 34 million i.e.; at the level of RERR plus 10% to cater for enhanced usage for the said year.***

9.1.37. The Authority observes that the petitioner has projected Rs. 22 million under the sub-head "others", which is a 307% increase (i.e; Rs. 17 million) over RERR FY 2010-11 owing to property, general tax and mortgage charges on the addition of new regions and sub-regions.

9.1.38. The Authority observes that the expenditure projected under this head seems to be grossly exaggerated when compared with the actual results in respect of existing

eight regions which remained at only Rs. 2.5 million during FY 2010-11. The Authority, in view of major variation in the available details, feels that the petitioner has committed an error to extrapolate the estimated expenditure under this head since the expenditure seems to be totally perfunctory and has no relevance with the historical trend. ***Accordingly, the Authority restricts the expenditure under this head at the level of RERR.***

9.1.39. ***Based on the above, the Authority determines the expenditure on account of rent, rate, electricity and telephone at Rs. 322 million for the said year.***

vii. Transport Expenses

9.1.40. The petitioner has projected transport expenses for the said year at Rs. 748 million as against Rs. 579 million provided in RERR for FY 2011-12, showing an increase of 29% as under:

Table 26: Comparison of Transport Expenses with Previous Years

Rs. in million

Particulars	FY 2010-11	FY 2011-12	FY 2012-13	Inc/(dec) Over RERR	
	FRR	RERR	The Petitio	Rs.	%
Compression	19	23	28	5	21%
Transmission	110	141	152	11	8%
Distribution	228	267	309	42	16%
Others (incl H.O. & service dept	125	148	259	111	75%
	482	**579**	**748**	**168**	**29%**

9.1.41. The petitioner has explained that the projected increase under the sub-head "others" is due to rise in fuel prices and increased activities on account of addition in regions and sub-regions. The petitioner has reckoned Rs. 44 million towards fuel price increase and has attributed Rs. 66 million towards addition of new regions /sub-regions.

9.1.42. The Authority observes that abnormal increase of 75% over RERR FY 2011-12 under this head of account of indirect /administrative cost is neither logical nor defendable, so as to economically operate the system.

9.1.43. The Authority, in view of above, allows normal increase of 20% over RERR FY 2011-12 keeping in view expected hike in POL prices and enhanced activities under this head for the said year.

9.1.44. ***Accordingly, the transport expenses for the said year are determined at Rs. 667 million.***

viii. Legal and Professional Charges

9.1.45. The petitioner has projected expenditure of Rs. 92 million on account of legal and professional charges for the said year as against Rs. 47 million provided in RERR for FY 2011-12, showing an increase of 98%. Historical comparison is given below:

Table 27: Detailed Comparison of Projected Legal & Professional Charges with Previous Years

Rs. in million

Particulars	FY 2010-11	FY 2011-12	FY 2012-13	Inc/(dec) Over RERR	
	FRR	RERR	The Petition	Rs.	%
Legal	37	18	52	34	184%
Professional	5	14	13	(1)	-10%
Tax	3	5	6	1	22%
Audit	4	4	7	3	59%
Software development charges	-	-	-	-	0%
Apprenticeship/Scholarship/Traini	3	3	13	10	333%
Others	2	3	3	-	0%
	55	**47**	**92**	**46**	**98%**

9.1.46. The petitioner has explained that 184% increase under the sub-head "legal" is due to increase in litigation/filing of recovery suits, increase in fees of advocates and ancillary expenses. Also with the implementation of judicial policy, according to which separate fee is required to be paid to local commission for recording evidence, legal expenses are estimated to increase tremendously.

9.1.47. The Authority observes that the petitioner was already allowed exorbitant increase under this head in RERR FY 2011-12 on the same grounds particularly for legal suits against the permanent defaulters to recover bad debts. The recoveries from the defaulters however have not exhibited satisfactory results.

9.1.48. The Authority observes that major chunk of the legal expenditure is being incurred on litigation against OGRA, while violating the public and consumer interest at large. This huge legal expenditure is the hallmark of the petitioner's plan to undermine the regulatory set up which was exclusively setup to protect the public and consumer interest.

9.1.49. ***The Authority, keeping in view the excessive spending in the last three years, decides to restrict it at the level of RERR for FY 2011-12 i.e. Rs. 18 million for the said year, along-with specific direction to keep the expenditure upto the allowed***

limit. Also the petitioner shall endeavor to reach out of courts settlement with OGRA and other GoP bodies instead of passing on huge legal fee burden to the public at large. No additional expenditure beyond Rs. 18 million will be entertained by the Authority at the time of FRR for the said year.

9.1.50. Under the sub head "Audit", the petitioner has projected 59% increase over RERR FY 2011-12 in order to cater for inflation. The Authority observes that projected increase of 59% increase over RERR is not reasonable even though amount is not material. ***The Authority therefore determines that same at Rs. 5 million for the said year.***

9.1.51. ***The Authority, therefore, determines that total expenditure on this account at Rs. 57 million for the said year as against Rs. 92 million claimed by the petitioner.***

ix. Advertisement

9.1.52. The petitioner has projected Rs. 102 million under this head for the said year as against Rs. 72 million provided in RERR for FY 2010-11, showing an increase of 42% as under:

Table 28: Comparison of Advertisement Expense with Previous Years

Rs. in million

Particulars	FY 2010-11	FY 2011-12	FY 2012-13	Inc/(dec) Over RERR	
	FRR	RERR	The Petition	Rs.	%
Advertisement	61	72	102	30	42%

9.1.53. The petitioner has reckoned Rs. 42 million for publication of notices, tenders, etc and Rs. 60 million for consumer education campaign through media for gas conservation costing Rs. 60 million as against Rs. 23 million provided in RERR FY 2011-12. The petitioner has explained that due to large operational area of the entity, it has to spend more money compared to the sister utility company.

9.1.54. The petitioner has further elaborated that due to ever increasing gap between demand and supply, extensive awareness campaign is required for all consumers of the company in order to address the low pressure complaints especially in winter when the usage of heaters and geysers increases manifold. Further, the petitioner has highlighted that SSGCL releases its campaign through Press Information Department (PID) on GoP rates, whereas SNGPL has not been

accepted as a Government Entity by All Pakistan Newspaper Society (APNS), therefore its advertisements do not cost the same. SNGPL has taken up the matter with APNS, but it has not changed its stance based on the reason that SNGPL is paying normal tariff of member publication since long therefore its status cannot be changed.

9.1.55. The Authority observes that it has always supported petitioner's consumer education campaign initiative in the wake of depleting gas reserves and had been providing a considerable sum on this account. The Authority observes that SSGCL and the petitioner possess the same legal status; therefore, petitioner's inability to explain its position points to negligence and lack of effective negotiation. The Authority therefore directs the petitioner to plead its case with APNS effectively in order to get same relaxation as that of SSGCL in order to economize its operation.

9.1.56. The Authority, in the larger interest of the consumers and considering the uniformity between the utilities on the same issue, determines ***expenditure on account of consumer education campaign, equivalent to that of SSGCL i.e. Rs. 23 million for the said year.***

9.1.57. ***The Authority, in view of the above, determines total amount of Rs. 65 million on account of advertisement expense as against Rs. 102 million claimed by the petitioner for the said year.***

x. Security Expenses

9.1.58. The petitioner has projected Rs. 379 million for the said year as against Rs. 278 million provided in RERR FY 2011-12 showing an increase of 36% as under:

Table 29: Comparison of Security Expense with Previous Years

Rs. in million

Sr. #	Particulars	FY 2010-11	FY 2011-12	FY 2012-13	Inc/(dec) Over RERR	
		FRR	RERR	The Petition	Rs.	%
1	Security expenses to security forces	134	213	237	24	11%
2	Security Guards	55	65	142	76	117%
	Total Security expenses	**190**	**278**	**379**	**101**	**36%**

9.1.59. The Petitioner has elaborated that increase under the sub-head "security expenses to security forces" is due to management's decision to replace casual chowkidars deployed at key installations with armed security guards of a private security

company to ensure maximum safety of network against threats from miscreants. The petitioner has explained the said replacement at new rates has substantial impact on the revenue requirement to the tune of Rs. 24 million additional expenditure. The petitioner has further explained that a significant portion of this expenditure also includes compensation to Shaheeds/Injured which is non-recurring and totally unexpected. The petitioner elaborated that during FY 2011-12, budgeted amount remains underutilized since no casualty/injury has happened during that year.

9.1.60. Under sub-head security guards, the petitioner has attributed whooping increase of 117% towards increase in wage rate of security guards owing to competitive bidding /PPRA rules. Also, three new regions have been approved by the management under which sub-area offices, customer service centers, and complaint centers will be established. Moreover, additional security measures are also required at various locations. Therefore, 15 security supervisors and 245 security guards in addition to existing strength are required. The petitioner has also explained that additional security guards will be deployed at all stores locations to safeguard/secure the company's material/assets to protect them from theft and financial loss.

9.1.61. The Authority observes that it has always appreciated the petitioner security arrangement and adopted rather generous approach to determine the expenditure under this head in order to protect valuable assets, precious lives and uninterrupted gas supply. During RERR FY 2011-12, the expenditure under this head had drastically increased on the same basis, keeping in view adverse law & order situation and increase in sabotage activities. However, actual expenditure under this head has remained less than the amount allowed in last completed financial years. The actual expenditure during FY 2010-11 and July-December, 2011 is only Rs. 189 million and Rs. 93 million respectively, which is far less than the approved level. This trend shows that the petitioner is either exaggerating its security requirement as compared to its real need or it has failed to ensure fool proof security arrangements for its key installations.

9.1.62. The Authority also observes that it does not intend to restrict the expenditure under this head at the cost of its core purpose; however, hypothetical figures cannot be allowed to unnecessarily burden gas consumers. ***The Authority, therefore, adopting rather a liberal approach, accepts the petitioner's claim under***

payment to security forces and for security guards, and determines the expenditure under this head at Rs.78 million i.e at the level of RERR FY 2011-12 plus 20% to cater for increase in wage rate at revised arrangements. Accordingly, the total expenditure under this head works out to Rs. 315 million for the said year.

xi. Provision for Doubtful Debts

9.1.63. The petitioner has projected provision for doubtful debts for the said year at Rs. 1,464 million. Historical comparison of provision for doubtful debts with previous years is provided below:

Table 30: Detailed Comparison of Projected Provision for Doubtful Debts

Rs. in million

Particulars	FY 2010-11	FY 2011-12	FY 2012-13	Inc/(dec) Over RERR FY 2011-12	
	FRR	RERR	The Petition	Rs.	%
Provision for doubtful debts	180	180	1,464	1,284	713%

9.1.64. The petitioner has elaborated that projected expenditure under this head is due to its policy which is based on number of consumers in domestic category and average sale price of natural gas. Since the price of natural gas has increased in RERR FY 2011-12 and number of consumers is also increasing consequent to shift of bulk to domestic consumers, the petitioner has projected higher provision than the level of FY 2011-12.

9.1.65. The Authority, in view of alarming increase in provision for doubtful debts, has repeatedly directed the petitioner in its various earlier determinations to make concerted efforts to curtail ever increasing provision for doubtful debts in order not to pass this avoidable cost to the consumers. Further, it has always allowed a significant amount under the head "Litigation" to expedite the recovery of outstanding amount thereby minimizing the risk factor on liquidity position which otherwise adversely impacts the consumers. The Authority, however, gravely feels that despite its full support / cooperation to the petitioner, the Company has entirely failed to provide tangible results in this respect. The petitioner's continuous default on this account points to lack of concerted efforts, comprehensive policy and effective pursuance for timely payment of gas bills. The Authority therefore had kept the expenditure under this head at the fixed level of

Rs. 180 million for last three years. The Authority reiterates its earlier directions that the expenditures due to petitioner's inefficiencies and slackness can not be passed on to the consumers.

9.1.66. ***In view of above, the Authority restricts the said expenditure at the level of RERR FY 2011-12 and provisionally fixes it at Rs. 180 million for the said year.***

xii. Contribution of ISGSL expenses

9.1.67. The petitioner has projected Rs. 219 million for the said year under this head as against Rs. 191 million per RERR FY 2011-12. The amount represents 49% share of the total expenditure of Rs. 447 million projected by ISGSL. The petitioner has explained that increase in contribution of ISGSL expenses is due to increase in gas import related activities and establishment expenses shared between the petitioner and SSGCL in view of service agreement signed between them. Under the agreement, SNGPL & SSGCL has to pick all the expenditure of ISGSL which in the instant petition have increased mainly due to "Traveling Expenses" and "Foreigners visit to Pakistan". The petitioner has further explained that said expenditure has been forecasted on higher side due to inflation, which is prevailing in double digits. Also the project related activities have enhanced as the gas import projects have reached at advanced stages.

9.1.68. The Authority observes that front end engineering design, feasibility study and route survey done by a consortium of China and Nespak in respect of IPI pipeline project is almost complete. Tender document for the procurement of 42" dia pipeline has been floated in electronic and print media this year. The projects are now over the research and survey stage and heading towards financial arrangement and financial close thereof.

9.1.69. The Authority also observes that FG has arranged long term capital funding for ISGSL during last couple of years. It has also imposed GIDC on gas consumers to finance such giga project in national interest. The Authority, therefore, in view of above developments observes that the expenditure now incurred by ISGCL is part of capitalization and which ISGSL shall match with its own business capital. The Authority therefore suggests that the petitioner should take up the matter with ISGSL and opt to convert its share of financing into loans or paid up capital. The Authority also observes that abrupt switch/change in financial arrangement,

mechanism currently injected by the gas utilities, may hamper the progress on national importance project and aggravate the energy crisis, which is undesired. ***The Authority therefore allows the expenditure amounting to Rs. 219 million as requested by the petitioner on provisional basis till such time the petitioner converts its funding to proprietary right.***

xiii. Other Expenses

9.1.70. The petitioner has projected Rs. 145 million for the said year under this account, including Rs. 51 million under the sub-head "Construction Equipment Operating Cost" and Rs. 33 million under the head "Sundries" for the said year. Comparative analysis of the above said expenses is provided below:

Table 31: Comparison of Other Expenses with Previous Years

Rs. in million

Sr. #	Particulars	FY 2009-10	FY 2010-11	FY 2011-12	Inc/(dec)	
		FRR	RERR	The Petition	Rs.	%
1	Construction equipment operating cost	27	30	51	21	70%
2	Sundries	12	15	33	18	114%
	Total	**39**	**45**	**84**	**39**	**85%**

9.1.71. The petitioner has explained that the projected increase of Rs. 21 million under the head "construction equipment operating cost" includes Rs. 7.26 million for 2 new proposed regions and 6 sub regions plus normal increase of 27% per annum. The petitioner has elaborated that cost of construction equipment used for repair and maintenance of transmission and distribution network has been projected on higher side in order to accommodate rising fuel price/consumption.

9.1.72. The Authority observes that normal increase up to 27% is grossly exaggerated when compared with actual results of July-December 2011 which are only Rs. 10 million. The Authority therefore decides that normal increase of 20% over RERR forming the total amount of Rs. 36 million under this head is adequate to cater for inflation and other adjustments.

9.1.73. The petitioner has explained that expenditure under the sub-head "sundries" comprises miscellaneous expenses in connection with meetings of Board of Directors & its sub-committees and also due to revised demand by other corporate entities (i.e PPL, SSGCL, etc) owing to various facilities provided by them on behalf of the petitioner.

9.1.74. The Authority agrees with the petitioner's submission; however projection of over 100% increase on RERR FY 2011-12 is not justified. The Authority also observes that the actual expenditure during July-December is only Rs. 5 million under this head. The Authority in view of above determines the expenses under this sub-head "sundries" at Rs. 18 million i.e. at the level of RERR plus 20% to cater for inflation & other adjustment as against Rs. 33 million claimed by the petitioner. ***Therefore, the total expenditure under the head "Other expenses" comes to Rs. 109 million as against Rs. 145 million claimed by the petitioner.***

xiv. LPG Air-Mix Project

9.1.75. The petitioner has projected huge subsidy of Rs. 5,755 million on account of its Air-Mix LPG project to be undertaken during the said year, first time at Kot Lakhpat industrial estate, Lahore. Therefore, the FG has directed both the gas utilities to explore alternate means of energy in order to ameliorate the gas crisis. Accordingly, the petitioner in view of time constraints has considered the Air-Mix LPG as viable option on short term basis for industrial consumers as well.

9.1.76. The petitioner has further elaborated that industrial sector in its area of operation has been severely affected resulting to unemployment and public protests at large. The petitioner, therefore, in order to avoid economic distortion, prioritized the industrial sector and selected industrial estate Kot Lakhpat for Air-Mix LPG pilot project having the estimated capacity of 10 MMCFD. After successful installation and commissioning, such projects will be extended at different locations with different capacity in order to add an aggregate of 100 MMCFD alternate sources thereby decreasing the demand supply gap which at present is spreading menace at large.

9.1.77. The Authority observes that FG in order to overcome the energy crisis had approved a detailed policy guideline for such Air-Mix LPG projects to be undertaken on standalone basis for retail consumers with the approval of President, PM or ECC of the Cabinet. The policy guideline also provides a systematic mechanism to treat expenditure incurred on such projects as part of revenue requirement. The Authority however observes that the proposed project is in violation of the policy guideline in vogue and hence cannot be allowed.

9.1.78. The matter of LPG Air-Mix has also been discussed in detail in the preceding paras, from 6.4.17 to 6.4.25 above.

9.1.79. ***In view of above, the Authority disallows subsidy of Rs. 5,755 million on LPG Air-Mix project for the said year.***

xv. Operating Cost for LNG Import Project

9.1.80. The petitioner has claimed Rs. 202 million as operating cost in respect of LNG project. The petitioner has elaborated that in order to expeditiously arrange the LNG /RLNG suppliers; MP&NR now intends to initiate competitive bidding via public tenders to be floated through gas utility companies. The gas utility companies will purchase RLNG from third parties under an integrated project structure whereby RLNG supplier will procure LNG, set up the terminal for storage and re gasification and deliver RLNG.

9.1.81. ***The Authority in view of deliberations at para. 6.2.4 to 6.2.6 above pends the operating cost on LNG project for the said year.***

xvi. Remaining Items of Transmission & Distribution Cost

9.1.82. The items of transmission and distribution cost, except those dealt with in sub-para ii to xvi are projected by the petitioner at Rs. 1,541 million as against Rs. 1,325 million according to RERR for FY 2011-12. The comparative analysis is given below:

Table 32: Remaining Items of Transmission and Distribution Expenses

			Rs. in million
Particulars	**FY 2010-11**	**FY 2011-12**	**FY 2012-13**
	FRR	**RERR**	**The Petition**
Cost of Reinstated Employees	579	278	288
Cost of Reinstated Employees	579	278	288
Fuel and Power	178	219	244
Stationery, Telegram and Postage	103	147	163
Dispatch of gas bills	67	80	82
Traveling	139	179	221
Insurance	175	166	183
Consultation for ISO 14001 & OHSAS 18000	2	4	4
Gas bills collection charges	283	307	326
Gathering charges of gas bills collection data	21	30	38
OGRA fee	168	102	160
Bank Charges	21	26	26
Uniforms & protective clothing's	13	18	29
Staff training and recruiting	3	8	25
SNG training insititute	8	11	13
Sponsorship of chairs at University	3	7	7
5 Year special training programme	15	5	17
Budget for UFG control related activities	2	-	-
Out Sourcing of call centre complaints management	13	18	20
Stores spares written off	2	-	-
Cost of Gas Blown off	102	-	-
Subtotal Expenses	**1,897**	**1,603**	**1,846**

9.1.83. ***The Authority observes that the remaining items of T&D expense have been reasonably projected by the petitioner and therefore, provisionally accepts the same, for the said year, at Rs.1, 846 million.***

xvii. Transmission & Distribution Cost Determined by Authority

9.1.84. In view of the examination in para ii to xvii above, the Authority provisionally determines operating cost for the said year at Rs. 13,906 million against Rs. 20,501 million claimed by the petitioner, as follows:

Table 33: Summary of T&D Cost Determined by the Authority

Rs. in million

Particulars	FY 2012-13		FY 2012-13
	The Petition	Proposed Disallowance	Amount Determined
Human Resource Cost	11,786	(4,606)	7,180
Cost of Reinstated Employees	288	-	288
Gas Internally Consumed	2,835	(55)	2,780
Stores and Spares Consumed	597	(11)	586
Repair and Maintenance	1,495	(367)	1,128
Fuel and Power	244	-	244
Stationery, Telegram and Postage	163	-	163
Dispatch of gas bills	82	-	82
Rent, Rate, Electricity and Telephone	369	(49)	320
Traveling	221	-	221
Transport expenses	748	(81)	667
Insurance	183	-	183
Legal and Professional Services	92	(35)	58
Consultation for ISO 14001 & OHSAS 18000	4	-	4
Gas bills collection charges	326	-	326
Gathering charges of gas bills collection data	38	-	38
OGRA fee	160	-	160
Advertisement	102	(37)	65
Bank Charges	26	-	26
Uniforms & protective clothing's	29	-	29
Staff training and recruiting	25	-	25
Security expenses	379	(64)	315
SNG training insititute	13	-	13
Provision for doubtful debts	1,464	(1,284)	180
Sponsorship of chairs at University	7	-	7
5 Year special training programme	17	-	17
Budget for UFG control related activities	-	-	-
Out Sourcing of call centre complaints management	20	-	20
Stores spares written off	-	-	-
Cost of Gas Blown off	-	-	-
Contribution to Inter State Gas System Limited	219	-	219
Other expenses	145	(34)	111
LNG Project	202	(202)	0
Addition of New Regions	242	-	242
Subtotal Expenses	**22,522**	**(6,825)**	**15,697**
Allocated to fixed capital expenditures	(2,021)	-	(2,021)
Net T&D Expenses before Gas Internally Consumed	**20,501**	**(6,825)**	**13,676**
Toal	**20,501**	**(6,825)**	**13,676**

9.2. Workers Profit Participation Fund (WPPF)

9.2.1. The petitioner has projected W.P.P.F at Rs. 333 million. The Authority accepts the same since for the said year. Any adjustment on this account is made at the time of FRR.

10. Decision

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

10.2. **determine estimated addition in fixed assets at Rs. 13,098 million and depreciation charge at Rs. 11,343 million;**

10.3. **determine the net average operating fixed assets (net of deferred credit) at Rs. 59,252 million as against Rs. 75,489 million claimed by the petitioner for the said year. Consequently, the return required by the petitioner on its assets is determined at Rs. 10,369 million;**

10.4. **determine sales revenue at current prescribed price at Rs. 260,643 million;**

10.5. **determine cost of gas at Rs. 214,641 million.**

10.6. **determine the UFG disallowance at Rs. 11,782 million;**

10.7. **determine T&D expenses at Rs. 10,897 million as against Rs. 17,666 million claimed by the petitioner;**

10.8. **determine GIC at Rs. 2,780 million as against Rs. 2,835 million claimed by the petitioner;**

10.9. **In exercise of its powers under the Ordinance and NGT Rules, the estimated revenue requirement for the said year is determined at Rs. 238,581 million as tabulated below :**

Table 34: Components of ERR for FY 2012-13 as Determined by the Authority.

Description	Demanded by the Petitioner	Determined by the Authority
Cost of Gas	218,842	214,641
Transmission & Distribution Cost	17,666	10,897
GIC	2,835	2,780
UFG Disallowance	(6,553)	(11,782)
Depreciation	12,469	11,343
Subsidy on LPG Air Mix porject	5,755	-
WPPF	333	333
Return on Assets	13,211	10,369
Total	**264,557**	**238,581**

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

10.11. **The petitioner's net operating income is estimated at Rs. 267,003 million as against revenue requirement of Rs. 238,581 million and thus there is a surplus of Rs. 28,422 million in its estimated revenue requirement for the said year. In order to adjust this surplus, the Authority hereby makes, on provisional basis, downward revision of 10.37% in the petitioners' average prescribed price for the said year (Annexure-A).**

10.12. **Provisional prescribed prices for each category of consumers for the said year, effective from July 1, 2012, are attached as Annexure-B. Decrease of 10.37 % (Rs. 47.52 per MMBTU) in the petitioner's average prescribed price has been worked out. Accordingly, it has been adjusted in all categories of consumers. Comparison between existing sales prices and revised prescribed prices is attached at Annexure-C. The prescribed prices determined by the Authority on provisional basis shall be subject to adjustment upon receipt of FG advice under Section 8(3) of the Ordinance, in respect of the sale price of gas for each category of retail consumers provided that the overall decrease in the average prescribed price remains unchanged so that the petitioner is able to achieve its total revenue requirement in accordance with Section 8(6)(f) of the Ordinance.**

10.13. **The Authority considers it important and essential to impress upon the petitioner that this provisional determination of estimated revenue requirement for the said year pre-supposes that the petitioner would, in any case, faithfully and with responsibility conduct its affairs in full compliance of**

the requirement of Rule17(1)(h) & Rule 17(1)(j) of the NGT Rules, as reproduced below:

Rule 17(1)(h)

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

Rule 17(1)(j)

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

11. Directions

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

11.2. **submit a separate petition on account of projected capitalization under "Transmission" pursuant to Rule (xviii) of Natural Gas Licensing Rules, 2002**.

11.3. **submit a review petition to the Authority latest by October 15, 2012 for review of its estimated revenue requirements as required under Section 8(2) of the Ordinance, keeping in view the actual and anticipated changes in international prices of crude and fuel Oil during the period May to November, 2012 and the trend of Rupee – Dollar exchange rate.**

11.4. **provide at the time of final revenue requirement, certificate by its statutory auditors to the effect that HR cost used for comparison with HR benchmark includes all regular, contractual and casual staff / labour.**

12. Public Critique, Views, Concerns, Suggestions

12.1. **The Authority has recorded critique, views, concerns and suggestions of the interveners and participants in para 3 above, including policy issues falling**

within the purview of the FG. The Authority considers it important to draw specific attention of the FG to the same for due consideration while taking decisions about categorization of consumers, tariff structure, subsidies, GDS and sale prices for various categories of the consumers.

Mr. Sabar Hussain
Vice Chairman /Member (Oil)

Mr. Saeed Ahmad Khan
(Chairman)

Islamabad,
May 18, 2012

A. Computation of Estimated Revenue Requirement for FY 2012-13

Million Rs.

	Particulars	DERR FY 2012-13 (The Petition)	Adjustments	Determined by the Auhtority
	Gas sales volume -MMCF	640,318	-	640,318
	BBTU	598,080	-	598,080
	Calorific Value	934	-	934
"A"	**Net Operating revenues**			
	Net sales at current prescribed price	261,179	(536)	260,643
	Rental & service charges	1,200	131	1,331
	Surcharge and interest on arrears	-	2,225	2,225
	Amortization of deferred credit	2,159	-	2,159
	Other operating income	300	345	645
	Total income "A"	**264,838**	**2,165**	**267,003**
"B"	**Less Expenses**			
	Cost of gas sold	218,842	(4,201)	214,641
	UFG (disallowance) / allowance	(6,553)	(5,229)	(11,782)
	Transmission and distribution cost	17,666	(6,769)	10,897
	Gas Internally Consumed	2,835	(55)	2,780
	Depreciation	12,469	(1,126)	11,343
	Workers Profit Participation Fund	333	-	333
	LPG Air Mix Cost	5,755	(5,755)	-
	Total expenses "B"	**251,347**	**(23,135)**	**228,211**
"C"	**Operating profit / (loss)(A - B)**	**13,491**	**25,300**	**38,792**
	Return required on net assets:			
	Net assets at begining	82,201	-	82,201
	Net assets at ending	116,430	(32,474)	83,956
		198,631	(32,474)	166,157
	Average fixed net assets (I)	**99,316**		**83,079**
	Deferred credit at begining	22,656	-	22,656
	Deferred credit at ending	24,997	-	24,997
		47,653		47,653
	Average net deferred credit (II)	**23,827**	**-**	**23,827**
"D"	**Average operating assets (I-II)**	**75,489**	**-**	**59,252**
	Return required on net assets	17.5%		17.5%
"E"	Amount of return required	13,211	(2,841)	10,369
"F"	**Excess /(shortfall) over return required**	**280.83**	**-**	**28,422**
"G"	**Average Increase/(Decrease) in Prescribed Price (Rs/MMBTU)**	**(0.47)**	**(47.05)**	**(47.52)**
"H"	**Revenue requirement**	**264,557**	**(25,977)**	**238,581**
"I"	**Average Prescribed Price (Rs/MMBTU)**	**436.23**	**(47.95)**	**388.28**

B. Provisional Prescribed Prices for FY 2012-13 w.e.f. July 1, 2012

		Existing Prescribed prices	Revised Prescribed Prices w.e.f. July 01, 2012
		Rupees per MMBTU	
CATEGORY			
(i) Domestic Sector			
a) Standalone meters			
(a) Upto 300 M^3 per month			
(i)	Up to 100 M^3 per month	122.95	110.20
(ii)	Over 100 – upto 300 M^3 per month	245.89	220.38
(iii)	Over 300 – upto 500 M^3 per month	1,035.34	927.94
(iii)	All over 500 M3 per month	1,302.46	1,167.35
b) *Mosques, churches, temples, madrassas, other Religious Places and Hostels attached thereto; Government and Semi-Government Offices and Hospitals, Government Guest Houses, Armed Forces Messes, Langars, Universities, Colleges, Schools and Private Educational institutions, Orphanages and other charitable institutions alongwith hotels and residential colonies to whom gas is supplied through bulk meters.*			
(a) Upto 300 M^3 per month			
(i)	Up to 100 M3 per month	122.95	110.20
(ii)	Over 100 – upto 300 M^3 per month	245.89	220.38
(b) Over 300 M^3 per month			
All off-takes at flate rate of		496.21	444.74
(ii) Commercial :			
All establishments registered as commercial units with local authorities or dealing in consumer items for direct commercial sale like cafes, bakries, milk shops, tea stalls, canteens, barber shops, laundries, places of entertainment like cinemas, clubs, theaters and private offices , clinics, maternity homes etc.			
All off-takes at flat rate of		600.19	537.93
(iii) Special Commercial (Roti Tandoors):			
(a) Upto 200 M^3 per month			
(i)	Up to 100 M3 per month	122.95	110.20
(ii)	Over 100 – upto 300 M^3 per month	245.89	220.38
(b) Over 300 M^3 per month			
All off-takes at flate rate of		600.19	537.93
(iv) Ice Factories:			
All off-takes at flat rate of		600.19	537.93
(v) Industrial Consumers:			
All consumers engaged in the processing of industrial raw material into value added finished products irrespective of the volume of gas consumed including hotel industry but excluding such industries for which a separate rate has been prescribed.			
All off-takes at flate rate of		494.86	443.53
(vi) Compressed Natural Gas (CNG) Stations:			
All off-takes at flate rate of		651.80	584.19

(vii) Cement Factories:

All off-takes at flate rate of	694.22	622.21

(viii) Fertilizer Factories:

(1) Pak American Fertilizer Company Limited, Daudkhel.

(a) **For gas used as feed stock for fertilizer**

All off-takes at flate rate of	116.27	104.21

(b) **For gas used as fuel for generation of electricity, steam and for usage of housing colonies.**

All off-takes at flate rate of	494.86	443.53

(2) Pak Arab Fertilizer Limited, Multan.

(a) **For gas used as feed stock for fertilizer**

All off-takes at flat rate of	116.27	104.21

(b) **For gas used as fuel for generation of electricity, steam and for usage of housing colonies.**

All off-takes at flate rate of	494.86	443.53

(3) Dawood Hercules Chemicals Limited, Chichoki Malian, Sheikhupura District.

(a) **For gas used as feed stock for fertilizer.**

All off-takes at flate rate of	116.27	104.21

(b) **For gas used as fuel for generation of electricity, steam and for usage of housing colonies.**

All off-takes at flate rate of	494.86	443.53

(4) Pak-China Fertilizer Limited/Hazara Phosphate Plant Limited, Haripur.

(a) **For gas used as feed stock for fertilizer.**

All off-takes at flate rate of	116.27	104.21

(b) **For gas used as fuel for generation of electricity, steam and for usage of housing colonies.**

All off-takes at flate rate of	494.86	443.53

(5) ENGRO Fertilizer Company Limited

(a) **For gas used as feed stock for fertilizer**

All off-takes at provisional flate rate of	60.67	60.67

(b) **For gas used as fuel for generation of electricity, steam and for usage of housing colonies.**

All off-takes at flate rate of	494.86	443.53

(ix) Power Stations:

(a) WAPDA's Power Stations and other electricity utility companies excluding WAPDA's Natural Gas Turbine Power Station, Nishatabad, Faisalabad.

All off-takes at flate rate of	480.86	430.98

(b) WAPDA's Natural Gas Turbine Power Station, Nishatabad, Faisalabad.

Commodity Charge

All off-takes at flate rate of	480.86	430.98
Fixed charge (Rupees per month).	390,000.00	390,000.00

(x) Liberty Power Limited's Gas Turbine Power Plant (Phase1) at Daharki:

All off-takes at flate rate of	1,267.35	1,450.85

(xi) Captive Power :

All off-takes at flate rate of	494.86	443.53

(xii) Independent Power Producers:

All off-takes at flate rate of	437.86	392.44

C. Comparison between Existing Sale Prices and Revised Prescribed Prices

	CATEGORY	Existing Sales Prices	Revised Prescribed Prices
		Rs. per MMBTU	
(i)	Domestic Consumers		
	a) **Standalone meters:**		
	(i) First slab (0 to 100 M^3 per month)	122.95	110.20
	(ii) 2nd slab (over 100-upto 300 M^3 per month)	245.89	220.38
	(iii) 3rd slab (over 300 – upto 500 M^3 per month)	1,035.34	927.94
	(iv) 4th slab (All over 500 M^3 per month)	1,302.46	1,167.35
	b) **Bulk Meters:**		
	(i) 1st slab (0 – 100 M^3 per month)	122.95	110.20
	(ii) 2nd slab (over 100-upto 300 M^3 per month)	245.89	220.38
	(III) 3rd slab (All over 300 M^3 per month)	496.21	444.74
(ii)	Commercial Consumers	600.19	537.93
(iii)	Special Commercial (Roti Tandoors)		
	(i) First slab (0 – 100 M^3 per month)	122.95	110.20
	(ii) 2nd slab (Over 100 – upto 300 M^3 per month)	245.89	220.38
	(III) 3rd slab (All over 300 M^3 per month)	600.19	537.93
(iv)	Ice Factories	600.19	537.93
(v)	Industrial Consumers	494.86	443.53
(vi)	Compressed Natural Gas (CNG)	748.87	584.19
(vii)	Cement Factories	694.22	622.21
(viii)	Fertilizer Factories		
(1)	Pak American Fertilizer Company Limited, Daudkhel		
	Feed stock	116.27	104.21
(2)	PakArab Fertilizer Limited, Multan		
	Feed stock	116.27	104.21
(3)	Dawood hercules Chemicals Limited, Chichoki Malian, Sheikhupura District		
	Feed stock	116.27	104.21
(4)	Pak-China Fertilizer Limited / Hazara Phosphate Plant Limited, Haripur.		
	Feed stock	116.27	104.21
(5)	ENGRO Fertilizer Company Limited		
	Feed stock	60.67	60.67
	(b) For gas used as fule for generation of electricity, steam and for usage of housing colonies		
	All off-takes at flate rate of	494.86	443.53
(ix)	Power Stations	480.86	430.98
(x)	Liberty Power Limited's Gas Turbine Power Plant (Phase-I	1,260.34	1,450.85
(xi)	Captive Power	494.86	443.53
(xii)	Independent Power Producers	437.86	392.44