No. OGRA-6(2)-1(2)/2012-DTRR

IN THE MATTER OF

SUI NORTHERN GAS PIPELINES LIMITED
FINAL REVENUE REQUIREMENT, FY 2011-12

UNDER

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

DECISION

February 1, 2013

Before:

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

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1. Background

1.1. Sui Northern Gas Pipelines Limited (the petitioner) is a public limited company, incorporated in Pakistan, and listed on the stock exchanges at Karachi, Lahore and Islamabad. The petitioner is operating in the provinces of Punjab, Khyber Pakhtunkhwa (KPK) and Azad Jammu & Kashmir (AJ&K) under the license granted by Oil & Gas Regulatory Authority. 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).

1.2. The petitioner filed a petition on August 13, 2012 under Section 8(2) of the Oil & Gas Regulatory Authority Ordinance, 2002 (the Ordinance) and Rule 4(3) of the Natural Gas Tariff Rules, 2002 (NGT Rules), for determination of its Final Revenue Requirement (FRR) for FY 2011-12 (the said year) on the basis of accounts, as initialed by its statutory auditors.

1.3. The petitioner has submitted the petition for determination of its FRR for the said year after incorporating the effect of actual changes in the wellhead gas prices, sale mix and other relevant factors in terms of Section 8(2) of the Ordinance. The petitioner has claimed Unaccounted for Gas (UFG) at 7% and has not included Late Payment Surcharge (LPS) as operating income in line with interim relief granted by Honorable Lahore High Court, Lahore. The petitioner has also included Rs. 638 million (the amounts have been rounded off to the nearest million here and elsewhere in this document) exchange loss due to variation in Dollar vs. Rupee parity on account of payment of cost of gas. Accordingly, the petitioner has worked out its FRR for the said year at Rs. 226,947 million for actual sale volume of 558,175 BBTU. Based on the provisional prescribed prices and actual sale mix, the petitioner has computed a shortfall of Rs. 2,216 million for the said year thereby seeking increase in the average prescribed price by Rs. 3.97 per MMBTU.

1.4. The Authority, vide its order dated November 24, 2011, had determined the petitioner's Review of Estimated Revenue Requirement (RERR) for the said year under Section 8(2) of the Ordinance at Rs. 221,410 million for estimated sale volume of 558,817 BBTU.

1.5. The Authority issued notice of hearing on September 19, 2011 to the petitioner and the following interveners and related parties:

a) Federal Government (FG/GoP) - GoP.

b) Mr. Zubair Ansari, Secretary, All Pakistan Textiles Processing Mills Association, Faisalabad.

c) Mr. Rashid Mehmood, Secretary General, All Pakistan CNG Association, Rawalpindi.

d) Mr. Hussain Pervaiz (Engr./Lawyer), Islamabad.

e) Mr. Mehmood Elahi, Sui Gas Contractor, Faisalabad.

1.6. The hearing was held at OGRA office on September 24, 2012.

2. Salient Features of the Petition

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

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

Rs. Per MMBTU

Particulars	FY 2010-11	FY 2011-12	
	FRR	RERR	FRR (The Petition)
Units sold (BBTU)	**547,502**	**558,817**	**558,175**
Cost of gas sold	311.41	348.72	347.84
Transmission and distribution cost	8.00	8.16	24.37
Depreciation	13.98	15.68	14.81
Return on net average operating fixed assets	17.96	18.15	18.91
Prior Year Adjustment FRR 2010-11	-	5.51	-
LPS due from Govt. prior to June 30, 2009	0.00	0.00	0.66
Other Operating income	(7.72)	(6.59)	(6.57)
Cost of service / Prescribed price	**343.63**	**389.62**	**400.02**
Current average prescribed price	343.63	389.62	396.05
Increase requested in the average prescribed price.	**-**	**-**	**3.97**

2.2. The petitioner has made the following submissions:

2.2.1. Annual return has been claimed at the rate of 17.5% of the value of its average net operating fixed assets (net of deferred credit) before corporate income taxes, and interest, mark-up and other charges on debt, per license condition no. 5.2 and as guaranteed by the GoP under the covenants of the loan agreement between the petitioner and the World Bank.

2.2.2. Gross addition in fixed assets during the said year has been claimed at Rs. 13,299 million and net addition, after accounting for deletion and depreciation, at Rs. 4,944 million, resulting in claimed increase in net operating fixed assets from Rs. 76,469 million in FY 2010-11 to Rs. 81,413 million for the said year. After adjustment of

deferred credit, the average value of operating fixed assets eligible for return works out to Rs. 60,307 million and the required return at Rs. 10,554 million.

2.2.3. Total operating revenues have been claimed at Rs. 224,731 million in the petition, as against Rs. 221,410 million in RERR, as detailed below:

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

Rs. in million

Description	FY 2010-11	FY 2011-12		Increase / (Decrease) over RERR	
	FRR	RERR	FRR (The Petition)		
Net sales at current prescribed price	188,140	217,725	221,066	3,341	2%
Rental & Service Charges	1,126	1,331	1,346	15	1%
Surcharge and Interest on arrears	-	-	-	-	-
Amortization of deferred credit	2,514	1,904	2,257	353	19%
Other operating income	586	450	62	(388)	-86%
Net Operating Revenues	**192,366**	**221,410**	**224,731**	**3,321**	**1%**

2.2.4. Net operating expenses have been claimed at Rs. 216,393 million in the petition as compared to Rs. 211,269 million provided in RERR, as detailed below:

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

Rs. in million

Description	FY 2010-11	FY 2011-12		Increase / (Decrease) over RERR	
	FRR	RERR	FRR (The Petition)		
Cost of gas	170,500	194,870	194,157	(713)	0%
Transmission and Distribution costs	9,575	9,750	12,720	2,970	30%
UFG disallowance above allowable limit	(7,178)	(8,197)	(2,347)	5,850	-71%
Gas Internally Consumed (GIC)	1,878	2,555	2,094	(461)	-18%
Depreciation	7,654	8,761	8,265	(496)	-6%
Prior Year Adjustment FRR 2010-11	-	3,078	-	(3,078)	
LPS due from Govt. prior to June 30, 2009	-	-	366	366	
Other Charges including WPPF	105	452	1,138	686	152%
Net Operating Expenses	**182,533**	**211,269**	**216,393**	**5,124**	**2%**

2.2.5. UFG has been reported at 8.21% (55,378 MMSCF) and UFG disallowance has been claimed at 7%, as against the upper & lower target of 5.0% and 4.25% respectively, fixed by the Authority for the said year.

2.2.6. Net result of the petitioner's above mentioned claims is that there is a shortfall of Rs. 2,216 million after allowing 17.5% return on average net operating assets, which translates to an increase of Rs. 3.97 per MMBTU in the existing average prescribed price, as tabulated below:

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

	Description	Rs. in million
A	Net operating revenues	224,731
B	Less: Net operating expenses including WPPF	216,393
C	Shortfall/ (excess) (A – B)	(8,338)
D	Return required @ 17.5% on net fixed assets in operation.	10,554
E	Total shortfall /(excess) in the revenue requirement (C + D)	2,216
F	Sales volume (BBTU)	558,175
Increase in the existing average prescribed price (Rs./MMBTU) (E/ F * 1000)		**3.97**

3. Proceedings

3.1. The petitioner was represented at the hearing by a team of senior executives led by its Managing Director, Mr. Arif Hameed, who were given full opportunity to present the petition. They made submissions in detail with the help of multimedia presentation. They also answered the questions raised by Chairman, Members and officers of the Authority.

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

i) Mr. Ghiyas Abdullah Paracha, Chairman, All Pakistan CNG Association.

ii) Mr. Mehmood Elahi, Sui Gas Contractor, Faisalabad.

4. Determination

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

5. Return to Licensee

5.1. The Authority is obligated under Section 7(1) of the Ordinance, to determine or approve tariff for regulated activities whose 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 ***Licence Condition No. 5.3*** of the Licence granted to the petitioner. The Authority had, therefore, developed a new tariff regime for regulated natural gas sector of Pakistan, which, in the course of legally mandatory consultation process, was forwarded to GoP for approval. The proposed tariff regime was similar to the existing tariff regime however; it had been designed to operate on market based rate of return and excludes some activities from the ambit of "regulated activities", presently carried out by the gas utilities. The Federal Govt., during said year, forwarded its comments wherein he was pretty much opting to adhere with existing tariff regime since it had suggested to fix the return of gas utilities at a floor of 13.5% and cap of 17.5%, as against market based variable rate of return proposed in tariff study. Also, it suggested no return in respect of Govt. funded projects undertaken by utilities. The Authority, however, of the view that study was conducted a long time ago and may have lost its utility for most of the part owing to continuous evolution in regulatory best practices. Therefore, a fresh study on tariff regime in total including rate of return should be instituted

5.3. ***In view of the above situation, the Authority has decided, to follow the existing basis of 17.5% return on the average net operating fixed assets while treating various income and expenditure heads per the exiting regime, in accordance with the Licence Condition No. 5.2.***

6. Operating Fixed Assets

6.1. Summary

6.1.1. Gross addition in fixed assets during the said year has been claimed at Rs. 13,299 million and net addition, after accounting for deletion and depreciation, at Rs. 4,944 million, increasing the net operating fixed assets from Rs. 76,469 million in FY 2010-11 to Rs. 81,413 million. After adjustment of deferred credit, the average value of operating fixed assets has been claimed at Rs. 60,307 million and the required return at Rs. 10,554 million. The computation of return on fixed assets tabulated below:-

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

Rs. in million

Description	The Petition
Net operating fixed assets at beginning	76,469
Addition During the Year	13,299
Deletion in Assets	(108)
Depreciation	(8,247)
Net Addition	4,944
Net operating fixed assets at closing	81,413
Sub Total	157,882
Average net assets (A)	**78,941**
Deferred credit at beginning	18,288
Deferred credit at closing	18,979
Sub Total	37,267
Average deferred credit (B)	**18,634**
Average net fixed assets (A-B)	**60,307**
Return required	17.5%
Amount of return requested by the petitioner	**10,554**

6.1.2. Comparative analysis of additions in fixed assets with RERR and the previous year is as follows:

Table 6: Summarized Schedule of Additions in assets Compared with RERR & Previous Year

Rs. in million

Particulars	FY 2010-11	FY 2011-12		Inc./(Dec.) Over RERR	
	FRR	RERR	The Petition		
Transmission	1,739	1,863	712	(1,151)	-62%
Compression	349	315	793	478	152%
Distribution Development	8,927	10,801	10,398	(403)	-4%
Plant, Machinery & Equipment and Other Assets	892	894	859	(35)	-4%
Buildings on freehold land	-	-	257	257	100%
UFG assets		-		-	-
Land & Land Acquisition Advance	178	-	243	243	-
Intengible Assets	-	-	37	-	-
Net addition in asset base	**12,085**	**13,873**	**13,299**	**(611)**	**-4.40%**

6.1.3. The petitioner has provided further breakdown of major items of additions as detailed below:

Table 7: Detailed Schedule of Additions per the petition

	Particulars	Rs. in million
1	Land & Advances for Land	243
2	Building on freehold land	257
3	Transmission Mains	712
4	Compression System & Equipment	793
5a	Distribution System Mains	7,711
5b	Measuring & Regulating Assets	2,687
6	Intangible Assets	37
	Sub-total	***12,440***
7	**Normal & Other Assets:-**	
7.1	Telecommunication Equipments & Scada	49
7.2	Plant & Machinery	160
7.3	Tools & Equipment	9
7.4	Motor Vehicles	260
7.5	Construction Equipment	226
7.6	Furniture & Fixture	7
7.7	Office equipment	9
7.8	Computer Hardware	138
	Sub-Total	859
	Total Addition For FY 2011-12	***13,299***

6.2. Transmission

6.2.1. The petitioner has claimed Rs. 712 million on account of capitalization of "Transmission" for the said year.

6.2.2. The petitioner has elaborated that it has capitalized number of smaller projects which included 10" dia c leg at Sawan crossing to Pindori line and 12" dia shahwali- Rojan Line thereby increasing the transmission network by approximately 30 kilometers. The petitioner has also claimed that it has completed different jobs pertaining to CP system, SMS and connecting lines which are an integral part of transmission network.

6.2.3. The Authority observes that capitalization claimed under "transmission" during the said year comprises small projects which are essentially required to operate the system smoothly.

6.2.4. ***The Authority, in view of above, allows Rs. 712 million as capitalization of transmission network for the said year.***

6.3. Compression System

6.3.1. The petitioner has claimed Rs. 793 million on account of capitalization under the head "Compression", as against Rs. 498 million provided in RERR for the said year. Petitioner has explained that Rs. 248 million has been incurred on account of

overhauling of turbine engines in compression stations, while Rs. 546 million pertains to capitalization of left over work of rehabilitation of compressor package, which were earlier approved by the Authority. The main chunk of such projects has already been capitalized during previous years. A small portion of the same correlated with the current transmission extension has been completed this year.

6.3.2. The Authority observes that overhauling of turbine engines in the compression stations is mandatory requirement to ensure uninterrupted gas supply to its consumers. Also the claimed capitalization on account of left over works is the part of main projects, the blanket approval of the same was granted earlier. ***The Authority, in view of above, allows Rs. 793 million under the head "Compression" for the said year as claimed by the petitioner.***

6.4. Distribution Development

6.4.1. The petitioner has claimed Rs. 10,398 million on account of capitalization of "Distribution Development" as against Rs. 10,801 million provided in RERR for the said year. Details of which are provided below:

Table 8: Detailed Schedule of Addition in Distribution Development per the petition

Sr.#	Description	Rs. Million
1	Laying of Distribution Mains.	5,827
2	Laying of Distribution Mains at cost sharing basis	645
3	Installation of New Connections	2,807
4	Replacement of undersized meters	856
5	Construction of TBS and DRS	263
Total		**10,398**

6.4.2. The petitioner has stated that it has initially projected Rs. 15,589 million for about 5,000 Km extension in distribution network, connections to new towns & villages and up-gradation of CMS/SMSs for the said year at the time of DERR. The Authority, however, allowed Rs. 10,801 million keeping in view historical capitalization trend and the petitioner's capacity to undertake such projects in the said year.

6.4.3. The petitioner has elaborated that it has undertaken the projects on fast track basis to follow the FG socio economic agenda and generated requisite capacity to complete the

projected capitalization targets within the given timelines. Accordingly, it has extended distribution network by 6,092 Km and incurred Rs. 10, 398 million for the said year.

6.4.4. The Authority observes that actual capitalization claimed under "Distribution Development" during said year has remained within the allowed limits. The Authority therefore allows the same i.e; Rs. 10,398 million as addition in fixed assets for the said year.

6.5. Building on Freehold Land

6.5.1. The petitioner has claimed Rs. 257 million on account of building on free hold land as against Rs. 120 million allowed in DERR for the said year. The petitioner has explained that expenditure under this head comprises miscellaneous civil works and unforeseen expansion of buildings for customer facilitation/mobile stores/security points. The Authority accepts the petitioner's contention and allows the same as sought by the petitioner.

6.5.2. The Authority, therefore, observes that petitioner has claimed Rs. 243 million addition in "Land" and advance for land acquisition" and Rs. 37 million addition on account of intangible assets for the said year. The requested capitalization is allowed in accordance with the previous practice.

6.6. Normal & Other Assets

6.6.1. The petitioner has claimed Rs. 859 million under the head "Normal & other assets" as against Rs. 649 million provided in RERR for the said year. The petitioner explained that capital expenditure under this head remained within the allowed limits except minor variation in some heads wherein projected amount was disallowed at the time of DERR for the said year.

6.6.2. ***The Authority, in view of above, agrees with petitioner's contention and allows Rs. 859 million as sought by the petitioner.***

6.6.3. ***In view of the above, the Authority determines the addition in fixed assets during said year at Rs. 13,299. After adjustment of depreciation and deletion, net addition comes to Rs. 4,944 million and the closing net operating fixed assets for the said year are determined at Rs. 81,413 million.***

7. Operating Revenues

7.1. Sales Volume

7.1.1. The sales volume has dropped to 558,175 BBTU, witnessing a decrease of 0.11% for the said year, as against 558,817 BBTU per RERR. Category-wise comparison with previous year has been provided by the petitioner as under:

Table 9: Comparison of Category-wise Sales Volume per the petition with RERR & Previous Year

Volume in BBTU

Category	FY 2010-11	2011-12		Inc./ (Dec.) over RERR	
	FRR	RERR	FRR		
Power	148,018	109,578	145,463	35,885	33 %
Cement	608	198	929	731	369%
Fertilizer	39,846	53,030	31,344	(21,686)	(41) %
General Industries	104,280	144,711	103,136	(41,575)	(29) %
CNG	82,945	60,365	84,511	24,146	40 %
Commercial	25,087	28,188	27,718	(470)	(2) %
Domestic	146,718	162,747	165,074	2,327	1.43 %
Total	**547,502**	**558,817**	**558,175**	**(642)**	(.11) %

7.1.2. The petitioner has explained that gas sale volume has slightly reduced owing to enhanced pilferage/non- consumers and large scale disaster to gas network, during the said year.

7.1.3. The petitioner elaborated that FG, during the winter of said year, implemented new gas load management policy wherein domestic sector was given the first priority. Resultantly, the actual results deviated from RERR and were almost similar to the trend observed in FRR 2010-11.

7.1.4. ***In view of the justifications advanced by the petitioner, the Authority accepts the sales volume at 558,175 BBTU for the said year.***

7.2. Sales Revenue at Existing Prescribed Prices

7.2.1. Sales revenue at existing prescribed prices has increased to Rs. 221,066 million for the said year as compared to Rs. 217,724 million per RERR. Category-wise comparison with RERR and previous year is given below:

Table 10: Comparison of Category-wise Sales Revenue per the petition with RERR & Previous Year

Rs. in million

Category	FY 2010-11	FY 2011-12		Inc./ (Dec.) over RERR	
	FRR	RERR	FRR		
Power	59,769	57,698	70,901	13,203	23%
Cement	328	109	528	419	-
Fertilizer	6,248	8,178	5,375	(2,803)	-34%
General Industries	39,505	64,943	44,252	(20,691)	-32%
CNG	42,156	35,567	50,137	14,570	41%
Commercial	11,708	15,272	14,780	(492)	-3%
Domestic	25,426	35,957	35,092	(865)	-2%
Total	**185,140**	**217,724**	**221,066**	**3,342**	**2%**

7.2.2. The Authority observes that increase in gas sale revenue, despite decrease in sale volumes, is due to increase in sale to CNG sector which is highly paying sector among all categories of consumers.

7.2.3. ***In view of above, the Authority accepts the sale revenue at prescribed prices at Rs. 221,066 million as claimed by petitioner for the said year.***

7.3. Other Operating Income

i. Summary

7.3.1. The petitioner has claimed other operating income at Rs. 3,665 million for the said year as against Rs. 3,685 million per RERR. Item-wise comparison is as under:

Table 11: Comparison of Other Operating Income per the petition with RERR & Previous Year

Rs. in million

Description	FY 2010-11	FY 2011-12		Increase / (Decrease) over RERR 2011-12	
	FRR	RERR	FRR		
Rental & Service Charges	1,126	1,331	1,346	15	1%
Late Payment Surcharge	-	-	-	-	-
Amortization of deferred credit	2,514	1,904	2,257	353	19%
Other operating income	586	450	62	(388)	-86%
Net Operating Revenues	**4,226**	**3,685**	**3,665**	**(20)**	**-1%**

ii. *Late Payment Surcharge (LPS)*

7.3.2. The petitioner has claimed LPS (Rs. 2,297 million) as non-operating income in the instant petition; however, the same was determined at Rs. 1,650 million as operating income at the time of DERR for the said year.

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

7.3.4. The petitioner has further elaborated that according to the stay order of the Honorable LHC, it has been clearly directed that the treatment of late payment surcharge will continue as non-operating, as allowed by the Authority in FRR FY 2009-10, till final decision is announced by the Court.

7.3.5. The Authority in view of the discussion at para 5.3 above has been following the existing basis of 17.5% return on the average net operating fixed assets while treating various income and expenditure heads per the exiting regime, in accordance with the License Condition No. 5.2.

7.3.6. The Authority, however, notes that the revenue requirement for the said year is subjudice and interim stay in the matter for the said year is in field. Also, the court proceedings are under progress. ***Till such time, the court decision in this regard is announced, the Authority, in accordance with the interim relief granted by the Honorable LHC, decides to treat LPS as non-operating for the said year on provisional basis, subject to review upon the final decision of the LHC. However on the announcement of final judgment by the LHC, this order of the Authority may be altered, amended or rescinded accordingly.***

iii. ***Other Operating Income:***

7.3.7. The petitioner has claimed Rs. 62 million on account of other operating income as against Rs. 586 million per FRR FY 2010-11, detailed as under;

Table 12: Comparison of Other Operating Income per the petition with RERR & Previous Year

Rs. in million

Description	FRR FY 2010-11			FRR FY 2011-12 (The petition)		
	Operating	Non-Operating	Total	Operating	Non-Operating	Total
Gain on initial recognition of financial liabilities	-	-	-	-	105	105
Net gain on sale of fixed assets	9		9	12		12
Gain on coating of pipeline for SSGC	259	259	517	-	-	-
Insurance claim	2		2	1		1
Sale of tender documents	2		2	1		1
Sale of Scrap	60		60	47		47
Credit balance written back				-	112	112
Liquidated damages recovered	100	100	200	-	62	62
Gain on construction contracts	129	129	258	-	0.11	0.11
Bad debts recoveries	14	-	14	-	26	26
Take or pay Income from industrial consumers		630	630	-		-
Miscellaneous	11	-	11		3	3
Net Operating Revenues	**586**	**1,118**	**1,704**	**62**	**203**	**265**

7.3.8. The petitioner has submitted that it has not undertaken new EPC contracts during the said year; therefore a nominal income on account of gain on construction contracts has been booked for the said year. Also, income on account of coating of pipeline is casual job, which is not undertaken on regular basis. During the said year, no activity on this account has been carried out; therefore, no income has been earned on this score as well. Further, the petitioner has reiterated its earlier claim that gain on construction contract is not regulated activity; therefore, same should not be made part of tariff computation.

7.3.9. The Authority observes that matter of gain on construction contract has already been exhaustively discussed in earlier determinations. ***Therefore, 50% of the income on this account is treated as operating income in accordance with the Authority's earlier decisions, though the amount involve is not so material in the instant petition.***

7.3.10. The petitioner has claimed income on account of gain on financial liabilities, bad debts recoveries, credit balance written back and liquidity damages as Non- operating incomes for the said year. The Authority observes that petitioner has not advanced any concrete reasons and plausible justifications to substantiate its claim. Also, the treatment of above incomes as non operating is not equitable and fair since the expense incurred on same heads are part of tariff mechanism and earned only due to regulated activities. Cost on account of provision for doubtful debts, post retirement obligation and W.P.P.F in each petition is claimed as operating expense, therefore, income from the same heads should be included as operating income in instant petition.

7.3.11. ***The Authority, in view of that above, determines the other operating income at Rs. 234 million for the said year.***

8. Operating Expenses

8.1. Cost of Gas

8.1.1. The cost of gas per petition is Rs. 194,157 million(net of GIC), compared with Rs. 194,870 million determined in RERR, lower by Rs. 713 million (0.4%).

8.1.2. The Authority had determined input cost of gas on the basis of combined weighted average cost of gas purchased by the petitioner and SSGCL at Rs. 308.95 per MMBTU in RERR in accordance with the agreement for equalization of cost of gas dated 22nd September, 2003, between these two companies. On the basis of their actual audited

results, weighted average of input cost of gas for the said year works out at Rs. 307.34 per MMBTU as under:

Table 13: Weighted Average Cost of Input Gas

Company	MCF	MMBTU	Rs. in Million	Rs./MMBtu
SNGPL	682,688,756	640,141,760	164,723	257.32
SSGCL	406,551,304	387,158,378	151,013	390.05
	1,089,240,060	**1,027,300,138**	**315,735**	**307.34**

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

8.1.4. ***In view of the above, the Authority determines cost of gas sold for the said year at Rs. 194,157 million.***

8.2. Unaccounted for Gas

8.2.1. The petitioner has reported UFG at 8.21% (55,378 MMSCF) for the said year, as follows:

Table 14: Comparison of UFG per the petition with RERR & Previous Year

Volumes in MMCF

Particulars	FRR FY 2010-11	RERR FY 2011-12	FY 2011-12 (The Petition)
Total Gas Purchases	673,037	678,929	682,413
Gas Internally Consumed	7,802	8,826	7,662
Gas Available for Sales	665,235	670,103	674,751
Gas Sales	590,644	594,947	619,373
UFG (MMCF)	74,591	75,156	55,378
UFG %	**11.21%**	**11.22%**	**8.21%**

8.2.2. The petitioner has requested to fix UFG target at 7% in line with the decision of the Authority in FRR FY 2009-10 and honorable LHC stay order on the petitioner's RERR for the said year.

8.2.3. The petitioner has also included unmeasured gas volume (7,541 MMCF) on account of minimum billing, pilferage by non- consumers (11,172 MMCF) and unbilled volume (3,377 MMCF) due to law & order situation in KPK (Gurguri/Kohat), as part of UFG for the said year. The petitioner has elaborated that it has no control over these three issues which are continuously contributing towards high UFG.

8.2.4. The petitioner, during the hearing, focused its arguments on the above issues. It has also submitted that UFG target should be reviewed keeping in view the ground

realities including size and age of network, rise in gas sale prices, change in sale mix, high UFG in certain areas e.g. KPK and South Punjab, uneconomic expansion, etc, since these will adversely impact the petitioner's profitability and jeopardize its viability as a going concern.

8.2.5. The petitioner pleaded that "Unmeasured gas" evolves due to inherent limitation in measurement and minimum billing formula. Various studies and researches have been carried out by different universities which have come up with the result that bill of any domestic consumer could not be less than 40 M^3 in a month. Accordingly, petitioner requested to accept the scientific observations/limitations and consider the volume for minimum billing at the same rate for the purpose of calculation of UFG since the same is unavoidable.

8.2.6. The petitioner stated that high 'UFG' in remote areas like KPK and Interior Punjab was not given due weightage by the Authority. It is almost impossible to control the UFG in these areas with the prevailing law and order situation and no improvement seems in the near future. Provision of gas to these areas is financially unviable for the petitioner, although the same would and should be a requirement of the State's social responsibility. During the past few years KPK has not only been politically volatile but is also facing a serious law and order situation which has made it impossible for the petitioner to control UFG in that province. The officers of the petitioner have been continuously facing death threats, which is creating a feeling of deep insecurity amongst company personnel which has resulted in requests for transfers in many cases.

8.2.7. The petitioner stressed on theft by non consumers, which is a major, area of concern, contributing substantially towards UFG. This is new phenomena of gas theft wherein pilferers tap the distribution network from different points to use illegally. It is difficult to identify such leakages and even more problematic to recover the dues from such culprits owing to legal impediments. The petitioner further stated that it is of utmost importance to appreciate that these non consumers have been detected and disconnected inspite of violence against staff of the petitioner who continued to perform their duties regardless of peril to their lives. The petitioner further stated that after enactment of "Criminal Law Amendment Act 2011", gas theft has now become a crime. Accordingly, the petitioner is taking concerted efforts to recover the gas loss through effective court proceedings; however, same will take time since the law has been promulgated in recent past.

8.2.8. The Authority observes that Federal Govt. vide its letter dated September 27,2012 advised OGRA to allow minimum billing volumes (equivalent to 40 m^3 per month) and volume of gas detected by gas utilities from non consumers as deemed sale for the purpose of UFG calculation of the two gas utility companies. Afterward, a meeting was also held in the Ministry of Petroleum and Natural Resources (MP&NR) wherein MP&NR argued that pilfered volume by non-consumers as claimed by the petitioner has been detected, measured and action has been initiated against the culprits. Therefore, same may be treated as "deemed sale volume" for the purpose of UFG calculation. MP&NR, likewise, stated that unbilled volume on account of law & order situation in KPK (gurguri /kohat) is beyond the control of gas companies and minimum billing is unavoidable keeping in view inherent measurement limitations. Therefore, it may be also considered as deemed sale volume for UFG computation.

8.2.9. The Authority observes that it has been of the considered view that all the un-metered gas sale volume pilfered is attributed as "UFG", therefore same could not be allowed as deemed sale volume. Further, Authority observes that percentage losses allowed to the gas companies in terms of UFG target covers the gas losses on account of theft, leakages, measurement errors etc. The petitioner is therefore, obligated to keep their losses within limits defined. No further adjustment on this account be provided to gas companies. The Authority further observes that pilferage by non consumers may be controlled by increasing vigilance on its network through modern techniques/equipments. Also, the cost of volume lost can be recovered by effective legal proceedings.

8.2.10. The Authority also notes that MP&NR has taken up the matter with the Federal Cabinet on the request of petitioner companies. Federal Cabinet, in its meeting held on October 11, 2012, in the matter of issuance of policy guideline to OGRA under Section 21 of the Ordinance, wherein it decided to allow volume on account of law and order affected areas, pilferage by non consumers and minimum billing as "deemed sale volume" for the purpose of UFG calculation subject to cap (upper limit) to be determined by MP&NR in consultation with OGRA. In this regard, a series of meetings were held to determine/fix cap against petitioner's claim, however, the matter is still unresolved. Resultantly, the instant petition remained pended.

8.2.11. The Authority also notes that gas utilities have been pressing hard for issuance of FRR for the said year. They repeatedly requested to issue the determination since the entities being the listed companies have to comply with some statutory obligations as required by Securities & Exchange Commission of Pakistan (SECP). The petitioner also asserted that non finalization of annual accounts is not only resulting in default of statutory provision of SECP but also adversely affecting the interest of its shareholders.

8.2.12. The Authority notes that decision in respect of FRR for the said year has been pending with OGRA only due to non-finalization of deemed sale volume for the purpose of UFG calculation, and the same fact is known to the gas utilities as well the Federal Government. The Authority however, keeping in view the requests by the petitioner, decides to finalize the determination for the said year without further loss of time enabling petitioner to meet its legal / statutory requirements.

8.2.13. Regarding deemed sale volume, the Authority observes that volume against law & order affected areas and the volume pilfered by non consumers is exceptionally high when compared with the historical trend. *The* ***Authority has now decided to fix the same at the level of previous year i.e; FY 2010-11. The Authority is of the view that petitioner must reduce the pilfered volume by enhancing the vigilance on gas network and by proceeding the court cases against the gas pilferers as per provision of Criminal Amendment Act 2011. The pilfered volume by non consumers shall be reconciled on yearly basis and the volume not realized will be reversed for the purpose of UFG calculations.*** The Authority also notes that this mechanism is not ultimate solution to this issue; therefore the petitioner shall reflect a prominent decrease in the coming three years. ***Accordingly, gas volume of 2,136 MMCF against law & order affected areas and 6,607 MMCF volume pilfered detected against non consumers is treated as deemed sale volume for the purpose of UFG calculation. The Authority, however, disallows the petitioner's claim on account of un-metered gas as part of minimum billing on the rationale that the same is unmeasured and also arises due to petitioner own equipment fault, which is not justified to allow.***

8.2.14. The Authority further observes that the petitioner has wrongly included the gas volume of 19 MMCF as Gas Internally Consumed (GIC), which actually has consumed in capitalization of fixed asset. Accordingly the actual UFG comes to 10.20 % (68,842 MMCF).

8.2.15. Till such time the court final decision in this regard is announced, the Authority, in accordance with the interim relief granted by LHC determines the UFG disallowance

over and above 7% at Rs. 6,225 million. However, on the announcement of final judgment by the Court, this order of the Authority may be altered, amended or rescinded accordingly. Further, after accounting for the unadjusted gas volume of 263 MMCF as pointed out during UFG audit for FY 2007-08, the total disallowance on account of UFG for the said year works out to Rs. 6,269 million as under:-

Table 15: Calculation of UFG Disallowance

		Volume in MMCF	MMCF AS PER OGRA Determination
	Gas Purchases		
	Metered Gas Purchased	683,184.00	683,184.00
	Gas taken out / put into	(276.00)	(276.00)
	Gas Carried for PPL, POL and SSGCL	(495.00)	(495.00)
A	**Net Purchases**	682,413.00	682,413.00
	Gas sold and internally consumed		
	(i) Compression	6,403.00	6,403.00
	(ii) Residential Colonies	112.00	112.00
	(iii) Coating Plant	104.00	104.00
	(iv) Ruptures/Sabotage	65.00	65.00
	(v) Other Usage	19.00	-
	Gas Used in the Transmission System	***6,703.00***	***6,684.00***
	(i) Free Gas Facility	518.00	518.00
	(ii) Co-Generation	116.00	116.00
	(iii) Sabotage	227.00	227.00
	(iv) Purging	98.00	-
	Gas Used in the Distribution System	***959.00***	***861.00***
B	**Total GIC**	**7,662.00**	**7,545.00**
C	**Gas Available for Sale**	**674,751.00**	**674,868.00**
	Gas Sales		
	Gas Sold (Billed)	600,299.00	600,299.00
	Unrecovered pilferage volume reversed	(3,016.00)	(3,016.00)
	Un-billed volume due to law & order in KPK (Gurguri/kohat)	3,377.00	2,136.00
	Under measured volume in respect of min cases/domestic	7,541.00	-
	Pilfered volume detected against non consumers	11,172.00	6,607
D	**Total Gas Sale Volume**	**619,373.00**	**606,026.00**
E	**UFG Volume (C-D)**	**55,378.00**	**68,842.00**
	UFG %age (E/A)*100	8.21%	10.20%
	Working Of Penalty	7%	7%
	Gas Purchases/Available for Sales (MMCF)	674,751.00	674,868.00
	UFG at 7%	47,232.57	47,240.76
	UFG Disallowance	8,145.43	21,601.24
	Avg. Cost Of Purchases Rs. Per MCF	288.19	288.19
	Disallowance in Million Rs.	2,347.43	6,225.26
	Adjustment on account of FY 2007-08	-	44.00
	Total UFG Disallowance	-	**6,269**

8.3. Transmission and Distribution Cost

i. Summary

8.3.1. The transmission and distribution cost is higher by 16% i.e. from Rs. 12,728 million per RERR to Rs. 14,814 million per the petition, as compared below:

Table 16: Comparison of T & D Cost with RERR and Previous Year

Rs. in million

Particulars	FY 2010-11	FY 2011-12		Increase / (Decrease) Over RERR	
	FRR	RERR	The Petition	Rs.	%
Human Resource Cost	6,477	6,693	8,438	1,745	26 %
Cost of Reinstated Employees	579	278	269	(9)	(3) %
Gas Internally Consumed	1,878	2,584	2,094	(490)	(19) %
Stores and Spares Consumed	404	612	365	(247)	(40) %
Repair and Maintenance	638	941	866	(75)	(8) %
Fuel and Power	178	219	185	(34)	(15) %
Stationery, Telegram and Postage	103	147	104	(43)	(29) %
Dispatch of gas bills	67	80	74	(6)	(7) %
Rent, Rate, Electricity and Telephone	226	263	246	(17)	(6) %
Traveling	139	179	152	(27)	(15) %
Transport expenses	482	579	613	33	6 %
Insurance	175	166	147	(19)	(11) %
Legal and Professional Services	55	47	63	16	35 %
Consultation for ISO 14001 & OHSAS 18000	2	4	3	(1)	(31) %
Gas bills collection charges	283	307	302	(4)	(1) %
Gathering charges of gas bills collection da	21	30	27	(3)	(10) %
OGRA fee	168	102	102	1	1 %
Advertisement	61	72	65	(6)	(9) %
Bank Charges	21	26	12	(15)	(55) %
Uniforms & protective clothing's	13	18	12	(6)	(32) %
Staff training and recruiting	3	8	28	20	266 %
Security expenses	190	278	268	(10)	(4) %
SNG training insititute	8	11	8	(3)	(27) %
Provision for doubtful debts	180	180	1,738	1,558	866 %
Sponsorship of chairs at University	3	7	5	(2)	(25) %
5 Year special training programme	15	5	8	3	-
Budget for UFG control related activities	2	-	5	5	-
Out Sourcing of call centre complaints man	13	18	24	7	37 %
Provision for Stores spares written off	2	-	26	26	-
Cost of Gas Blown off	102	-	90	90	-
Contribution to Inter State Gas System Lim	59	191	55	(136)	(71) %
Other expenses	66	89	92	3	3 %
Subtotal Expenses	**12,612**	**14,131**	**16,486**	**2,355**	**17%**
Allocated to fixed capital expenditures	(1,528)	(1,403)	(1,672)	(269)	19 %
Net T&D Expenses before Gas Internally Co	**11,084**	**12,728**	**14,814**	**2,086**	**16%**
Toal	**11,084**	**12,728**	**14,814**	**2,086**	**16%**

8.3.2. Various components of operating cost are discussed in detail in the following paras.

ii. Human Resource Cost

8.3.3. The petitioner has claimed an increase of 26% on account of HR cost for the said year, from Rs. 6,693 million provided in RERR to Rs. 8,438 million (including impact of IAS-19) per the petition.

8.3.4. The petitioner has submitted that the Authority vide para. No. 8.3.9 of its decision dated May 24, 2011, directed the petitioner to submit proposals for review of existing HR benchmark within one month of issuance of the above order. The Authority further directed that the proposals should encompass reward and penalty mechanism along with incentive based performance evaluation, primarily focusing towards efficiency improvement and UFG reduction. Accordingly, the proposals were submitted. The Authority also in RERR FY 2011-12 agreed to review the HR benchmark on the basis of information provided by the companies and decided to start the consultative process in this regard.

8.3.5. The petitioner has further submitted that it has thoroughly examined the effects of various options on the existing benchmark criteria. With minimal change in basic structure, the petitioner has requested to reconsider the revision of the HR benchmark , taking into account the following suggestions:

i. 100% CPI should be allowed instead of 50% since it is the right of every employee, with no other change, to take same level of salary he was drawing last year. 50% salary actually decreases his buying power.

ii. CPI should be applied on the rates given for other three basis/factors for calculation i.e sales, network and consumers instead of being looked at in isolation as present formula. Applying rate separately creates an anomaly in which due to less decrease in sale volume percentage, actual increase allowed to the company is less than the separately calculated CPI amount.

iii. There should be a minimum increase in each basis/factor every year, even if in actual those bases remain unchanged or decrease.

iv. Same rates be given to both companies for initial year and from next year due to the rapidly increasing inflationary trend and other market conditions, the concept of base year should be abolished. Each previous year should be base year for the calculation of next year's benchmark i.e. rolling base year.

8.3.6. In the hearing dated September 24, 2012, the petitioner also contended that SNGPL is performing better to serve its consumers and taking serious efforts to optimize the HR cost. Accordingly, its number of employee per consumer and per T& D network is higher than its sister gas utility i.e; SSGCL. The petitioner has requested to adopt uniform base rate in order to provide level playing field for both the companies. The petitioner has also clarified that it has never created anomaly in the allocation of funds for increase in salary of executives and subordinates. The petitioner's

representative & Union president submitted that CBA agreement FY 2011-13 with the management is under negotiation, impact of the same is around Rs. 1.8 billion.

8.3.7. The Authority observes that it has decided to review the existing HR benchmark effective FY 2011-12 and has sought fresh proposals from the gas utilities during said year. Accordingly, the Authority, in order to have the experience of other multinational companies and experts, has engaged the services of the consultants to carry out the study on HR of the both gas utilities and suggest benchmark effective from the said year. The said study is now in progress.

8.3.8. ***The Authority, in the meantime, has decided to extend the existing HR cost benchmark for one year on the base cost of FY 2010-11 provisionally till such time HR study is completed. This approximately provides additional amount of Rs. 800 million to increase the salaries of all employees. Accordingly, HR benchmark cost computes to Rs. 7,281 million (ie; Rs. 6981+300 IAS cost), as per Annex-C. Cost of reinstated employees is also included therein since the same are now part of regular strength of the petitioner. Accordingly, the revised benchmark, after the completion of study, will account for the total cost of HR related cost.***

8.3.9. ***The Authority further observes that the petitioner as well as Union representative, during the hearing proceedings, pleaded that the sub-ordinates staff is facing serious financial hardships since CBA agreement is pending effective July 1, 2011 owing to paucity of funds. CBA representative pointed out that their perks and privileges are far less than its sister utility company and other public sector entities in the country. The petitioner team supported the CBA arguments and also requested to allow the amount claimed on this ground to offset the HR cost.***

8.3.10. ***In view of above, the Authority, in order to reduce the misery of sub-ordinate staff, has decided to allow an additional amount of Rs. 1,000 million on provisional basis over the above amount in order to meet the legitimate demand of subordinate staff (CBA) as per agreement. Final adjustment on this account however will be made in accordance with the recommendations of said study. The Authority further directs the petitioner to utilize total additional amount towards settlement of CBA demand. Salaries of the executives should not be boosted until the subordinate legitimate demands are duly met.***

8.3.11. ***In view of above HR cost including reinstated employees works out to Rs. 8,281 for the said year.***

iii. Provision for Doubtful Debts.

8.3.12. The petitioner has claimed the provision for doubtful debts for the said year at Rs. 1,738 million as against Rs. 180 million provided in RERR, showing an increase of 866%. Historical comparison of provision for doubtful debt is as under:

Table 17: Comparison of Provision for Doubtful Debts with RERR & Previous Year

Rs. in million

Particulars	FY 2010-11	FY 2011-12		Inc/(dec) Over RERR	
	FRR	RERR	The Petition (FRR)	Rs.	%
Provision for doubtful debts	180	180	1,738	1,558	866%

8.3.13. The Authority observes that the petitioner had been repeatedly directed through its various earlier determinations to make concerted efforts to curtail this ever increasing expenditure in order not to pass this avoidable cost to consumers. The petitioner has also spent a significant amount on outsourcing of bill recovery mechanism as well as litigation proceedings on account of recovery of dues from the defaulters. Commensurate impact in terms of decrease in provisioning has, however, never been observed. This status quo strengthens the Authority findings that petitioner has not carried out concerted efforts to control this cost and the fundamental flaws exists in petitioner's own management policies and recovery mechanism resulting to inefficiencies in various areas particularly on this account. This cost of management inefficiencies therefore should not be passed on to consumers.

8.3.14. The Authority also observes that in the gas utility business, value of gas supply to all the category of consumers including domestic consumers is backed/secured by adequate amount of security deposit taken at the time of grant of connection. In case of CNG, commercial and industrial consumers, this security deposit is even adjustable on continuous basis with respect to current amount of bills. Therefore, loss to company on account of default by these consumers is totally out of question. The risk of doubt of debt may only arise for domestic consumers if recoverable amount exceeds the amount of security deposits paid by them.

8.3.15. The Authority also observes that it has always provided a reasonable limit on this account to protect the petitioner from the loss of default from domestic consumers. The utilities in power sector operating in Pakistan claim this expenditure up to the extent of actual debt/receivable written off, which in the case of petitioner is far less than amount allowed by the Authority in respect of provision for doubtful debt in last many years. The Authority notes that petitioner mechanism to compute the

provision for doubt for debt is not correct since it takes in to account only the age of unpaid bills and treats the entire unrecoverable amount over one year as bad debt. The provision should have based on the age of disconnection which is correlated with recovery system. Further, 100% rate of bad debt for over one year unpaid bills/disconnection is too high and illogical.

8.3.16. ***In view of above, the Authority restricts the provision for doubtful debts at Rs. 180 million as allowed in RERR for the said year.***

iv. Remaining Items of Transmission & Distribution Cost

8.3.17. The items of transmission and distribution cost, except those dealt with in para's 8.3.3 to 8.3.15 above, are claimed by the petitioner at Rs. 4,638 million as against Rs. 5,855 million provided in RERR, showing decrease of 21%. The comparative analysis is given below:

Table 18: Remaining Items of Transmission & Distribution Cost

Rs. in million

Particulars	FY 2010-11	FY 2011-12		Increase / (Decrease) Over RERR	
	FRR	RERR	The Petition	Rs.	%
Cost of Reinstated Employees	579	278	269	(9)	(3) %
Gas Internally Consumed	1,878	2,584	2,094	(490)	(19) %
Stores and Spares Consumed	404	612	365	(247)	(40) %
Repair and Maintenance	638	941	866	(75)	(8) %
Fuel and Power	178	219	185	(34)	(15) %
Stationery, Telegram and Postage	103	147	104	(43)	(29) %
Dispatch of gas bills	67	80	74	(6)	(7) %
Rent, Rate, Electricity and Telephone	226	263	246	(17)	(6) %
Traveling	139	179	152	(27)	(15) %
Transport expenses	482	579	613	33	6 %
Insurance	175	166	147	(19)	(11) %
Legal and Professional Services	55	47	63	16	35 %
Consultation for ISO 14001 & OHSAS 18000	2	4	3	(1)	(31) %
Gas bills collection charges	283	307	302	(4)	(1) %
Gathering charges of gas bills collection da	21	30	27	(3)	(10) %
OGRA fee	168	102	102	1	1 %
Advertisement	61	72	65	(6)	(9) %
Bank Charges	21	26	12	(15)	(55) %
Uniforms & protective clothing's	13	18	12	(6)	(32) %
Staff training and recruiting	3	8	28	20	266 %
Security expenses	190	278	268	(10)	(4) %
SNG training insititute	8	11	8	(3)	(27) %
Sponsorship of chairs at University	3	7	5	(2)	(25) %
5 Year special training programme	15	5	8	3	68 %
Budget for UFG control related activities	2	-	5	5	
Out Sourcing of call centre complaints man	13	18	24	7	37 %
Provision for Stores spares written off	2	-	26	26	
Cost of Gas Blown off	102	-	90	90	
Contribution to Inter State Gas System Lim	59	191	55	(136)	(71) %
Other expenses	66	89	92	3	3 %
Subtotal Expenses	**5,954**	**7,258**	**6,310**	**(948)**	**-13%**
Allocated to fixed capital expenditures	(1,528)	(1,403)	(1,672)	(269)	19 %
Net T&D Expenses before Gas Internally Co	**4,427**	**5,855**	**4,638**	**(1,217)**	**-21%**

8.3.18. The petitioner has reported the saving in almost all the expenditure heads cited above, except few expense heads where nominal increase has been observed.

8.3.19. Saving in GIC is due to lesser consumption of gas in compressors during the said year.

8.3.20. 40% saving in "Stores, Spares & Supplies consumed" is due to decrease in compression activities owing to diversion of gas from northern part thereby decreasing the compression from south. Further, various metering equipments have not been consumed during the said year due to their unavailability. This has resulted decrease in stores consumed for the said year.

8.3.21. Saving in "Repair & Maintenance" activities is due to non availability of recoating material, which was to be imported from abroad during the said year. Resultantly, it could not undertake the repair & maintenance activities and meet the targets.

8.3.22. The Authority observes with grave concerns that petitioner is not undertaking the requisite repair & maintenance activities owing to inordinate delay in receipt of material. Resultantly, UFG is continuously rising.

8.3.23. The petitioner has explained that 35% increase in legal expenses is due to increased activity in following up legal suits filed by or against the company. Also, fee of advocates and ancillary expenses have contributed towards increased expenditure during the said year.

8.3.24. ***Expenditure under the remaining items of T&D cost seems to be reasonable, the Authority, therefore, allows the same and determines it at Rs. 4,638 million.***

8.3.25. ***Based on the above, the Authority determines total transmission and distribution cost for the said year at Rs. 12,830 million, as against Rs. 14,814 million claimed by the petitioner.***

8.4. Other Operating Expenses

8.4.1. The petitioner has claimed Rs. 1,138 million for the said year on account of other operating expenses, detail as under;

Table 19: Other Operating Expenses

Sr. #	Particulars	Rs. in million
i	Workers Profit Participation Fund	451
ii	Exchange Loss	638
iii	value	46
iv	Donations	2.9
	Total	**1,138**

8.4.2. The petitioner has claimed WPPF at Rs. 451 million for the said year. However, due to adjustments in the components of revenue requirement as discussed above, WPPF is recalculated and allowed at Rs. 269 million.

8.4.3. Regarding exchange loss, the petitioner has claimed Rs. 638 million under this head due to payment to the producers on account of cost of gas, during the said year. The Authority observes that the exchange loss has primarily occurred due to payment to foreign gas producers and is an unavoidable expenditure, duly vetted from initialed accounts. ***Therefore, the same is allowed for the said year.***

8.4.4. Regarding loss on initial recognition of financial assets at fair value, the Authority observes that gain from the same account is part of pricing mechanism***, therefore, claimed expense from the same is allowed for the said year.***

8.4.5. The petitioner has claimed Rs. 2.9 million on account of donation to different organizations during the said year.

8.4.6. The Authority reiterates its stance that it is already allowing adequate amount under the head "sponsorship of chairs to universities" as part of revenuer requirement since many year. Any further amount on this account at the cost of consumes is therefore out of place. ***The same therefore should be paid out of profits of the company. Accordingly, the amount claimed under this head is disallowed for the said year.***

8.4.7. In view of above, ***the Authority allows Rs. 953 million as other operating expenses for the said year.***

8.5. LPS of Govt. consumer prior June 30,2009

8.5.1. The petitioner has claimed Rs. 366 million as operating expense for the said year on account of LPS of Govt. consumer prior June, 2009. The petitioner has elaborated that income on this account was booked on accrual basis, the same, however, has not been realized. The petitioner therefore has claimed the same as operating expense for the said year.

8.5.2. The Authority observes that loss of revenue due to petitioner's inefficiency can not be passed on to the consumers. The petitioner should take up the matter at highest forum and amicably settle the issue.

8.5.3. ***In view of above, the Authority, disallows the expenditure claimed under the head LPS of Govt. consumer prior June 30, 2009, for the said year.***

9. Decision

9.1.1. 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:

(i) determines the other operating income at Rs. 234 million;

(ii) net addition in fixed assets at Rs. 4,944 million;

(iii) allow closing balance of fixed assets at Rs. 81,413 million;

(iv) accept cost of gas at Rs. 194,157 million;

(v) allow UFG at 7% based on which disallowance works out to Rs.6,269 million;

(vi) allows T&D cost at Rs. 10,736 million as against Rs. 12,720 million claimed by the petitioner;

(vii) accept the GIC at Rs.2,094 million;

(viii) determines the other operating expenses including WPPF at Rs. 953 million as against Rs. 1,138 million claimed by the petitioner;

9.1.2. ***In exercise of its powers under Section 8(2) of the Ordinance, the Authority determines the FRR for the said year at Rs. 220,490 million as against petitioner's claim of Rs. 226,947 million, as tabulated below:***

Table 20: Components of FRR for FY 2011-12 as Determined by the Authority

Rs. in Million

Description	Demanded by the Petitioner	Determined by the Authority
Cost of Gas	194,157	194,157
Transmission & Distribution Cost	12,720	10,736
GIC	2,094	2,094
UFG Disallowance	(2,347)	(6,269)
Depreciation	8,265	8,265
Other Expenses Incl. WPPF	1,138	953
LPS of Govt. consumer prior June 30,2009	366	-
Total Operating Expenses	**216,393**	**209,936**
Add: Return on Fixed Assets	10,554	10,554
Total Revenue Requirement	**226,947**	**220,490**

9.1.3. ***The petitioner's actual net operating income is Rs. 224,903 million and thus there is a surplus of Rs. 4,413 million viz a viz its revenue requirement of Rs 220,490 million for the said year. In order to adjust it, the Authority hereby revises the average prescribed price downward by Rs. 7.91 per MMBTU (Annex. A). Average prescribed price for all consumers comes to Rs. 388.14 per MMBtu. Revised prescribed prices for***

each category of retail consumers for FY 2011-12 based on applicable gas sale prices fixed by FG are attached and marked Annex-B.

Sabar Hussain
(Vice Chairman/(Member Oil)

Saeed Ahmad Khan
(Chairman)

Islamabad, February 1, 2013

A. Final Revenue Requirement for FY 2011-12

Million Rs.

	Particulars	FRR FY 2011-12 (The Petition)	Adjustments	Determined by the Authority
	Gas sales volume -MMCF	597,056	-	597,056
	BBTU	558,175	-	558,175
	Calorific Value	935	-	935
"A"	**Net Operating revenues**			
	Net sales at current prescribed price	221,066	-	221,066
	Rental & service charges	1,346	-	1,346
	Surcharge and interest on arrears	-	-	-
	Amortization of deferred credit	2,257	-	2,257
	Other operating income	62	172	234
	Total income "A"	**224,731**	**172**	**224,903**
"B"	**Less Expenses**			
	Cost of gas sold	194,157	-	194,157
	UFG (disallowance) / allowance	(2,347)	(3,922)	(6,269)
	Transmission and distribution cost	12,720	(1,984)	10,736
	Gas Internally Consumed	2,094	-	2,094
	Depreciation	8,265	-	8,265
	Other Expenses Incl. WPPF	1,138	(185)	953
	LPS of Govt. consumer prior June 30,2009	366	(366)	-
	Total expenses "B"	**216,393**	**(6,457)**	**209,936**
"C"	**Operating profit/ (loss)(A - B)**	**8,338**	**6,629**	**14,967**
	Return required on net assets:			
	Net assets at begining	76,469	-	76,469
	Net assets at ending	81,413	-	81,413
		157,882	-	157,882
	Average fixed net assets (I)	**78,941**		**78,941**
	Deferred credit at begining	18,288	-	18,288
	Deferred credit at ending	18,979	-	18,979
		37,267		37,267
	Average net deferred credit (II)	**18,634**	**-**	**18,634**
"D"	**Average operating assets (I-II)**	**60,307**	**-**	**60,307**
	Return required on net assets	17.5%		17.5%
"E"	Amount of return required	10,554	-	10,554
"F"	**Excess /(shortfall) over return required**	**(2,216)**	**6,629**	**4,413**
"G"	**Average Increase/(Decrease) in Prescribed Price (Rs/MMBTU)**	**3.97**	**(11.88)**	**(7.91)**
"H"	**Revenue requirement**	**226,947**	**6,457**	**220,490**
"I"	**Average Prescribed Price (Rs/MMBTU)**	**400.02**	**(11.88)**	**388.14**

B. Prescribed Prices Determined FY 2011-12

Cagetory		Avg. Prescribed Price	Category wise Prescribed Prices adjusted based on applicable Sale Prices		
		W.e.f 01.07.2011	W.e.f 01.07.2011	W.e.f 07.08.2011	W.e.f 01.01.2012
		Rupees per MMBTU			
(i) Domestic Sector					
a) Standalone meters					
(i)	upto 100 M^3 per month	388.14	95.00	107.87	122.95
(ii)	Over 100 – upto 300 M^3 per month	388.14	190.00	215.74	245.89
(iii)	Over 300 – upto 500 M^3 per month	388.14	800.00	908.39	1,035.34
(iv)	All over 500 M^3 per month	388.14	1,006.40	1,142.75	1,302.46
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 along-with Hostels and Residential Colonies to whom gas is supplied through bulk meters.*					
(a) Upto 300 M^3 per month					
(i)	Upto 100 M^3 per month	388.14	95.00	107.87	122.95
(ii)	Over 100 – upto 300 M^3 per month	388.14	190.00	215.74	245.89
(b) Over 300 M^3 per month					
All off-takes at flate rate of		388.14	383.42	435.37	496.21
(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		388.14	452.19	468.41	585.22
(iii) Special Commercial (Roti Tandoors):					
(a) Upto 300 M^3 per month					
(i)	Upto 100 M^3 per month	388.14	95.00	107.87	122.95
(ii)	Over 100 – upto 300 M^3 per month	388.14	190.00	215.74	245.89
(b) Over 300 M^3 per month					
All off-takes at flate rate of		388.14	452.19	468.41	585.22
(iv) Ice Factories:					
All off-takes at flat rate of		388.14	452.19	468.41	585.22
(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		388.14	372.83	386.64	482.52

(vi) Compressed Natural Gas (CNG) Stations:

All off-takes at flate rate of	388.14	491.08	509.26	635.54

(vii) Cement Factories:

All off-takes at flate rate of	388.14	523.04	542.40	676.90

(viii) Fertilizer Factories:

(1) Pak American Fertilizer Company Limited, Daudkhel.

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

All off-takes at flat rate of	388.14	99.47	99.47	113.37

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

All off-takes at flate rate of	388.14	372.83	386.64	482.52

(2) Pak Arab Fertilizer Limited, Multan.

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

All off-takes at flat rate of	388.14	99.47	99.47	113.37

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

All off-takes at flate rate of	388.14	372.83	386.64	482.52

(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	388.14	99.47	99.47	113.37

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

All off-takes at flate rate of	388.14	372.83	386.64	482.52

(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	388.14	99.47	99.47	113.37

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

All off-takes at flate rate of	388.14	372.83	386.64	482.52

(5) ENGRO Fertilizer Company Limited

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

All off-takes at provisional flate rate of	388.14	59.29	59.59	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	388.14	372.83	386.64	482.52

(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	388.14	383.97	398.18	468.87

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

Commodity Charge

All off-takes at flate rate of	388.14	383.97	398.18	468.87
Fixed charge (Rupees per month).	390,000	390,000	390,000	390,000

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

All off-takes at flate rate of	388.14	990.97	1,228.90	1,235.74

(xi) Captive Power :

All off-takes at flate rate of	388.14	372.83	386.64	482.52

(xii) Independent Power Producers:

All off-takes at flate rate of	388.14	324.07	336.07	426.94

C. HR Cost Benchmark FY 2011-12

Million Rs

Description	FY 2010-11 (Base Year)	FY 2011-12 Per petitioner	FY 2011-12 Per OGRA Benchmark
HR cost Actual	6,220	7,028	7,028
Cost of Reinstated Employees			
HR cost	6,220	7,028	7,028
BASIS OF BENCHMARK			
T & D Network (km)	89,441	96,655	96,655
Total No. of consumers	3,964,530	4,219,279	4,219,279
Sale Volume (MMCF)	581,935	597,056	597,056
CPI		11.01%	11.01%
Base Rate			
Per unit cost factor (T & D Network) (Rs.) (Base Year) - Rs/km	69,543	117,390	69,543
Per unit cost factor (consumer base) (Rs.) (Base Year) - Rs/Consumer	1,569	2,104	1,569
Per unit cost factor (Sale volume base) (Rs.) (Base Year) - Rs/MMCF	10,688	13,830	10,688
Indexation Factors			
Increase based on CPI	50%	50%	50%
Increase on account of increase in T & D Network	20%	20%	20%
Increase on account of increase in consumers	60%	60%	60%
Increase on account of sale volume	20%	20%	20%
Base Rate			
Increase based on 50% CPI	-	-	342
Increase on account of increase in T & D Network (20% weightage) (Rs. mil)	1,244	2,269	1,344
Increase on account of increase in consumers (60% weightage) (Rs. mil)	3,732	5,326	3,972
Increase on account of sale volume (20% weightage) (Rs. mil)	1,244	1,651	1,276
Benchmark HR Cost	**6,220**	**9,247**	**6,935**
50% saving/excess	-	(1,110)	47
Total benchmark H.R. Cost allowed (After Adjustment of 50% Excess/(saving))	**6,220**	**8,138**	**6,981**
Add: IAS -19 Provision	473	300	300
Total HR Cost allowed including (IAS -19 Provision)	**6,693**	**8,438**	**7,281**