Case No. OGRA-6(2)-2(4)/2013

IN THE MATTER OF

SUI SOUTHERN GAS COMPANY LIMITED REVIEW PETITION FOR ESTIMATED REVENUE REQUIREMENT, FY 2013-14

UNDER

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

DECISION ON

JUNE 27, 2014

Before:
Mr. Saeed Ahmad Khan, Chairman
Mr. Sabar Hussain, Vice Chairman / Member (Oil)
Mr. Aamir Naseem, Member (Gas)

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Written submissions of the interveners

1. Background

1.1. Sui Southern Gas Company Limited (the petitioner) is a public limited company, incorporated in Pakistan, and listed on the Karachi, Lahore and Islamabad stock exchanges. The petitioner is operating in the provinces of Sindh and Balochistan under the license granted by the Oil & Gas Regulatory Authority. It is engaged in construction and operation of gas transmission and distribution pipelines, sale of natural gas, Air-mix LPG, condensate and manufacture and sale of gas meters. The petitioner has also entered into agreement with Jamshoro Joint Venture Limited (JJVL) for the sale of LPG and condensate / Natural Gas Liquefied.

1.2. The petitioner had filed a petition under Section 8(1) of the Oil and Gas Regulatory Authority Ordinance, 2002 (the Ordinance) for determination of Estimated Revenue Requirement (ERR) for FY 2013-14 (said year) on December 31, 2012. The Authority, vide its decision dated June 01, 2013 determined a surplus of Rs. 4,599 million (the amounts have been rounded off to the nearest million here and elsewhere in this document) translating into a decrease of Rs. 12.12 / MMBTU in average prescribed price w.e.f July 01, 2013.

1.3. Being aggrieved by the determination, the petitioner challenged issues of Unaccounted for Gas (UFG) and non-operating income in Sindh High Court (SHC). The honorable Court granted interim relief to petitioner and directed OGRA to determine revenue requirement for the said year, as per the final revenue requirement determination for FY 2009-10. The Authority, accordingly, allowed UFG at 7% and treated Late Payment Surcharge (LPS), Meter Manufacturing Profit (MMP), Royalty from JJVL, and income from sale of gas condensate as non-operating incomes, revising the revenue requirement to Rs. 171,828 million translating into an increase of Rs. 9.47 per MMBTU in average prescribed price for the said year.

2. Petition

2.1. The petitioner has submitted this review petition on October 14, 2013 (the petition), under Section 8(2) of the Ordinance, incorporating in the ERR, the effect of changes in the projected Weighted Average Cost of Gas (WACOG) for the said year taking into account the latest actual oil prices in the international market, devaluation of rupee against US $, revised projection of gas purchase volume based on actual gas availability (purchases) and latest indications.

2.2. Earlier, petitioner had submitted a review motion on June 29, 2013 under Rule 16 of Natural Gas Tariff Rules, 2002 (NGT Rules) against determination of ERR for said year.

The Authority observes that the said petition is under its consideration, and decision in the matter has not yet been announced. The Authority also observes that petitioner has included all its claims per the said motion for review in instant petition as well, along-with request to treat review motion as part of instant petition. The Authority, in view of request of petitioner, decides to treat said review motion as part of instant petition.

2.3. Consequent upon enhanced cost of gas mainly due to continuous devaluation of rupee against US$, items discussed in the instant petition and earlier motion for review, the petitioner has projected a shortfall in ERR of Rs. 14,444 million and has sought immediate relief pursuant to Rule 5(7) of Natural Gas Tariff Rules, 2002 (NGT Rules, 2002) to compensate for sharp increase in cost of gas and other components of the petition.

2.4. The petitioner has projected an increase of Rs. 41.26 per MMBTU w.e.f July 01, 2013 based on following claims for said year:

i. Projected Weighted Average Cost of Gas (WACOG) at Rs. 368.77 per MMBTU taking into account latest actual/estimated oil prices in international market, devaluation of rupee against US $, revised projection of gas purchase volume of TAY/DARS, Jhal Magsi, Zarghoon and Mehar / Mubarak Gas fields.

ii. UFG at 7%.

iii. Exclusion of notional income on IAS – 19 and advertising income from tariff working.

2.5. The petitioner has submitted that FRR for FY 2012-13 is already under consideration of the Authority. It has, therefore, requested to include revenue shortfall as determined by the Authority for FRR FY 2012-13 in the revenue requirement for the said year. This increase will be over and above the average prescribed increase claimed by the petitioner, effective July 01, 2013.

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

3. Proceedings

3.1. A notice inviting interventions / comments from consumers, general public and other interested / affected persons, and intimating time and place of the public hearing, was

published on December 28 & 29, 2013. The Authority received applications to intervene in the proceedings from the following persons / entities:

(i) Malik Khuda Buksh, Chairman CNG Stations Owners Association,
(ii) Abdul Sami Khan, Chairman, CNG Dealers Association,
(iii) Dr. Qazi Ahmed Kamal, Advisor Karachi Chamber of Commerce, Karachi,
(iv) Mr. Tariq Ali Shah, Director, Energy Department, Government of Sindh,
(v) Mr. Arif Bilwani, Consumer,
(vi) Mr. Shabbir Suleman Jee, Chairman, All Pakistan CNG Association.

3.2. Written submissions were also received from some of the interveners, which are appended to this order.

3.3. The Authority admitted all the above intervention requests.

3.4. The Authority held public hearing at Karachi on January 22, 2014, during which following persons addressed the Authority:

Petitioner:

(i) SSGCL's team led by Mr. Zuhair Siddiqui, Managing Director, the petitioner.
(ii) Legal counsel, Mr. Mirza Mehmood Ahmad.

Interveners / Participants:

(i) Mr. Malik Khuda Buksh, Chairman CNG Stations Owners Association,
(ii) Mr. Abdul Sami Khan, Chairman, CNG Dealers Association,
(iii) Dr. Qazi Ahmed Kamal, Advisor Karachi Chamber of Commerce, Karachi,
(iv) Mr. Tariq Ali Shah, Director, Energy Department, Government of Sindh,
(v) Mr. Arif Bilwani, Consumer,
(vi) Mr. Shabbir Suleman Jee, Chairman, All Pakistan CNG Association,

3.5. The petitioner was provided opportunity to present its petition. The petitioner made submissions in detail with help of multi-media presentation. Thereafter, the above interveners / participants addressed the Authority.

4. Interveners' / Participants' Views

4.1. The substantive points made by the interveners / participants are summarized below, and the copy of written submissions are placed as Appendix:

(i) In an energy deficient country such as Pakistan, gas worth over $2 billion in terms of import of furnace oil is leaked or stolen due to high UFG i.e. about 10% of both utilities. This gas leakage translates into 1.9 BCF, which if controlled can reduce the shortage and fulfill the gas demand. In simpler terms, the control of UFG is the key to survival of the country's industrial strength.

(ii) UFG benchmark set as performance criteria for Sui companies operating in Pakistan, since a practicable and realistic UFG benchmark is the prerequisite for measuring and rewarding / incentivising for efficiency and imposing penalty in case of non-performance. UFG benchmarks introduced by OGRA were reset in the light of ground realities, rather than alluding to USA / EUROPEAN standards, which have been developed under different conditions.

(iii) OGRA has set UFG target at 4.5% for the year 2013-14, while the international practice is of limiting the UFG to under 2-3%. The company's performance in terms of controlling UFG is condemnable, and common man is being made to pay for all these inefficiencies.

(iv) The interveners criticized that the Federal Cabinet has already allowed the gas losses arising out of gas theft by non consumers and non recovery of gas bills and system losses in areas hit by adverse security conditions to be billed to the honest gas bill paying citizens. The total worth of this decision is around Rs 10 billion. The illogical and politically motivated decisions of the extension of the system to far flung areas with limited revenues and deteriorating lines is also contributing to the UFG. Rs. 15 billion has been lost by SSGC alone in one year based on high UFG.

(v) OGRA has been allowing sufficient spending on system augmentation along with maintenance and repair of the system for several years as and when demanded,

therefore, the responsibility of the deteriorating lines, leaking pipes and ageing network lies on the SSGCL alone. The key problem is the delay in response time as well as late rectification of leakages and improper monitoring. Also, issues of sticky meters, under recording meters and various other meter related issues also contribute to the line losses.

(vi) Addition of one gas connection exposes the system to up to 12 leaking points. The high domestic growth rates i.e. around 250,000 connections per year increases the leakage chances. As a rule of thumb with every 1,000 kilometers of distribution network, the UFG increases by 0.002 % due to underground leakages and aging of network. OGRA set UFG with extensive consultation with all stake holders and experts, which improved till 2005 after which it started to deteriorate.

(vii) OGRA can not protect the interests of all stake holders including the consumers by allowing UFG at 7%.

(viii) Planning commission has pointed out that the entire country suffers a colossal loss of Rs 350 billion due to high UFG. The gas losses result in usage of expensive alternate imported fuel such as furnace oil. This is five times larger than the combined losses of the WAPDA system. The gas companies are guaranteed to be paid 17% on assets even if they make losses. Around 700 MMCFD of gas could be put back in the system if this is controlled reducing the current shortfall by half. One percent loss of the UFG translates into around 45 MMCFD or Rs 5 billion but the value loss in the economic chain is higher than Rs 300 billion per annum if calculated on the basis of increased production loss. The petitioner has attempted to improve its losses but still it is not clear about its actions.

(ix) US natural gas prices have fallen below $2 per MMBTU which is around one sixth the price of gas Pakistan has agreed to pay to Iran. The exploration of shale gas has created a huge new supply which made the gas abundant and has reduced the prices. In Pakistan, gas prices have doubled due the fact that the oil prices have been doubled. Pakistan buys crude oil from Middle Eastern sources at a reduced price and on credit but quotes the New York and London prices for gas calculations.

(x) Gas utilities have sought the tariff increase to finance parliamentarians' schemes in their respective constituencies, which is a violation of rules. According to rules, gas

utilities cannot launch new schemes if they have failed to provide gas to existing consumers.

(xi) It is testimony of the fact that at present, 90 per cent gas schemes are in the pipeline under the directives of Prime Minister. Parliamentarians from different political parties had criticized OGRA for stopping work on their schemes in National Assembly Standing Committee on Petroleum and Natural Resources meeting. Upon this strong criticism, the Petroleum Ministry succumbed to the pressure and had also written a letter to OGRA to allow work on those schemes, which are being started under the Prime Minister's directive. If OGRA permits gas companies to continue work on new schemes, it will be in violation of rules related to licensees and inflation-hit consumers will have to face an additional burden. Gas utilities have already high UFG levels and any further extension in pipelines will lead to increase in UFG, which will ultimately lead to economic distortion of the country.

(xii) For the first time in history, the country is experiencing prolonged gas outages in the summer season. Further, in the face of acute shortages, an expansion of the transmission and distribution network will ultimately reduce gas supply to all existing consumers and will also lead to economic distortion of the country.

(xiii) Government is directly responsible for the shortage of gas. There is 300 MMCFD additional gas supplies, which could not be brought into the system owing to its various pending litigations with GoP. There is ample gas present in the system that can be tapped and supplied, if the Government is serious to resolve these issues. For example; the Manzalai field has reserves of 2.4 TCF. The entire gas reserve of the country is 25 TCF. Similarly, Kohlu gas field holds an estimated reserve of 25 TCF which are a little less than the present reserves of Pakistan at 29 TCF. There are countless such fields awaiting the exploration. The main hurdle is the law and order situation of the areas which are the sole responsibility of the Government. The GoP must resolve the dispute with local people in gas producing areas to facilitate the gas producer to inject more gas in the system. Also, circular debt is another hindrance for the local companies for further exploration.

(xiv) Slab system of tariff structure is necessary to be simplified and overhauled. The whole system needs to be revamped. The system turns against the customers when the petitioner sends them provisional as well as clubbed bills for more than one month,

thereby changing the slab and bill high. Almost 25% of customers were receiving inflated and provisional bills.

(xv) The system of costing is totally speculative and we pay the cost of this speculations

(xvi) The cost of domestic gas is linked to the international price of Crude and HSFO and consequently the payments to producers are dollar based. The depreciation of the rupee has direct effect on the price of gas as well. The existing pricing system of cost of gas needs to be totally revamped in order to provide the national resource at affordable price. The linkage of indigenous gas with international oil prices is irrational and unjustified. Increase in oil prices is resulting in windfall gains for gas exploration companies as there is no increase in their cost structure, their fields having been in production for quite some time. The annual accounts of the gas exploration companies are showing phenomenal growth in profits mainly due to lacunae in well-head pricing formula. The Authority must intervene in public interest, and reduce the well head prices to provide relief to consumers at large. 88% to 90% of the cost of supply is wellhead gas price that is decided by GoP, and OGRA only controls remaining 10-12% cost. It was, therefore, protested that participation in the public hearing for this small proportion tariff determination is only wastage of time.

(xvii) It was pointed out that pitfall of the present system of calculating wellhead gas tariffs are speculative owing to fluctuation in foreign currency and linkages of indigenous gas with international oil prices. This has been resulting in windfall gains of E&P companies due to the lacunae in wellhead pricing formula.

(xviii) GoP is the majority shareholder of the petitioner company, and thus shares its profits. Therefore, GoP should relinquish its share of revenues and protect the gas consumers against the projected increase in price.

(xix) Rupee dollar parity is the responsibility of the government which makes monetary and fiscal policy. The average consumers can not be asked to pay for the failure of the Government.

(xx) 31% increase allowed by the Authority, at the time of determination of ERR for FY 2008-09, was based on the price of crude oil at US $ 147 per barrel. Later on the international oil prices decreased significantly, but the impact of this decrease was not passed on to the consumers. This indicates unwillingness of the concerned authority to pass on the benefit to the people.

(xxi) Subsidy for use of gas as fertilizer feed-stock, at the cost of the industry, should be abolished. GoP should give direct subsidy to domestic and fertilizer consumers, through budget allocation, instead of the prevalent cross-subsidy mechanism of gas pricing.

(xxii) Tariffs should be determined in a manner that protects consumers from monopolistic and oligopolistic pricing.

(xxiii) Tariffs should be determined taking into account a rate of return as provided in the license, prudent maintenance and operation costs, depreciation, govt. levies and if applicable financial charges and natural gas cost.

(xxiv) Only such capital expenditure should be included in the rate base as is prudent, cost effective economically efficient.

(xxv) The petitioner has been reducing the gas sales volume and increasing the T&D cost to unsustainable levels. This will question the viability of the company.

(xxvi) OGRA in consultation with licensees should specify and review standards for the equipment and materials to be used in undertaking any regulated activity. Poor quality of gas pipes are the major cause of increase in line losses as well as leakages.

(xxvii) It was demanded that OGRA be made to work as per its mandate and its obligation to the industry and reverse its stance on the betterment of the utility company alone.

(xxviii) The Government must put at least one member of the KCCI on the panel of OGRA in a capacity of voting rights on any issues that are being finalized rather than only a figurehead .

(xxix) The wastage of gas through UFG should be taken to task with iron hands and the mere imposition of penalty will not bring back the dollars spent on the import of the fuel.

(xxx) New tariff structure should be immediately put in place with the advice of the stake holders.

(xxxi) Concessionary rates to domestic & commercial consumers may be discontinued and increased so as to end unnecessary wastage of natural gas at their end. On the other side, power sector may be provided natural gas at reduced tariff for the cheap production of electricity, which may lead to control inflation.

(xxxii) CNG sector vehemently criticized the load management plan implemented by MP&NR. It was urged to revise the gas supplies to captive power plants in view of the judgment of Supreme Court dated December 10, 2013.

5. Authority's Jurisdiction, Determination Process and Discussion about Related Points

5.1. The applications and petitions, in light of relevant legal provisions, are evaluated in depth by financial/technical experts. In the process, public notices are issued and all stakeholders are provided full opportunity to intervene / comment upon issues pertaining to determination of revenue requirement, in writing and at public hearings. The Authority gives full consideration to observations, and comments of all stakeholders while determining revenue requirement and prescribed prices. *As regards policy matters, since Federal Government (FG) is legally competent Authority, policy-related pleas, reservations and sentiments of the stakeholders are brought to its specific attention for consideration before deciding retail prices for various categories of consumers. Accordingly, the tariff / prescribed prices determined by the Authority are also aligned with the policies of the Federal Government with respect to minimizing economic distortions and alternate fuel prices as required under rule 17(1)(a) of the NGT Rules.*

5.2. The overall function of tariff determination / revenue requirement as well as its scheme and evaluation criteria, is explicitly provided in the legal framework as defined in the OGRA Ordinance, NGT Rules and the respective licenses for regulated activities. Therefore, all the legal instruments are to be read together to understand the mechanism established to carry out the function prescribed under the Ordinance.

5.3. The Authority notes with concern that the petitioner has been continuously agitating that guaranteed return of 17% is not being provided to it as effectively it is getting much lower rate of return and has been referring to some legal provisions in isolation. Presumably, the petitioner has been pleading that it is entitled for guaranteed return irrespective of control of gas loses/theft, operational efficiency and effectiveness of capital expenditure incurred to undertake the regulated activities. The Authority, in view of discussions in succeeding paras, holds that the petitioner's understanding is contrary to the legal scope:-.

5.4. The Ordinance defines the role in terms of powers and functions as well as jurisdiction of OGRA, while the guiding principles, including detailed mechanism to carry out the

statutory functions, are provided in the Rules and more specifically in the respective license issued under the Ordinance. Accordingly, OGRA Ordinance, under section 7, empowers the Authority to determine tariff for regulated activities **whose licenses provides for such determination**. Section 7 further elaborates that the criteria for tariff determination shall be prescribed in the rules and **in the terms and conditions of each license** (emphasis added). It is evident from the legal framework that power to determine tariff is derived from the Ordinance and mechanism including guidelines for such determination is provided in the **NGT Rules and petitioner's license**. Accordingly, Rule 17 of NGT Rules provides detailed tariff evaluation criteria and more specifically yardstick regulation as stipulated in Rules 17(c) , reproduced as under:-

> "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 of such regulation, capacity utilization, operation and maintenance costs and unaccounted for natural gas;"

5.5. The rate of return allowed to the licensee is provided in Rule 17(g), reproduced below:-

> "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;" (emphasis added)

5.6. The legal framework now refers to the license of the petitioner in respect of return allowed to it and efficiency benchmarks. For this purpose, condition 5 of the said license is referred that specifically deals with "Rate of Return and Tariff Determination" allowed to the petitioner. Condition 5.2 states as under:-

> "**Subject to such adjustments as required under condition 21 or other efficiency related benchmarks fixed by the Authority from time to time in accordance with the rules**, the Authority shall determine total revenue requirement of the Licensee to ensure it achieves 17% return on the value of its average net fixed assets in operation for each financial year……." (emphasis added)

5.7. As referred above, it is relevant to mention that condition 21 pertains to UFG targets to be fixed by OGRA while it also clarifies that if the licensee fails to meet the UFG target the loss on that account shall be borne by the Licensee and **shall not form part of its total revenue requirement**.

5.8. It is clear from the above that OGRA has been allowing entitled return to the petitioner as well as inducing it to operate in an efficient manner, as required under the relevant provisions of the law. Tariff petitions have been evaluated in line with the evaluation criteria as provided in the Rules. Accordingly, OGRA maintains that essence of law is to allow the return to licensees in undertaking the regulated activities subject to efficiency benchmarks. OGRA is of the firm view that legal framework is very explicit and provides for improvement in terms of efficiency as well as reasonable returns. The tariff mechanism in place provides reasonable returns and accounts for all prudent and justified capital and revenue expenditure to attract investment of quantitative and qualitative improvement of regulated activities, as required under section 7 of the Ordinance.

5.9. Moreover, section 7(2)(a) of the Ordinance obligates OGRA to protect consumer against monopolistic and oligopolistic pricing. The Authority observes that practically the petitioner enjoys risk free business with captured consumers, guaranteed return and no market competition in the gas distribution sector exists that urges petitioner to reduce their inefficiencies and improve customer service up to the satisfaction of consumers. It is only the effective regulation by OGRA, which places a check and balance among divergent interests of all stakeholder whereby only economically efficient and cost effective prudent expenses are passed on to consumers. Resultantly, natural gas prices as still maintained at an affordable level for all sectors of economy.

5.10. In view of above, it is established that Authority is performing its statutory function strictly in accordance with the applicable laws. The Authority gives full consideration to all reasonable demands/requests of the petitioner received through public hearings and else and provides remedies as per Ordinance and Rules. If felt appropriate, the issues from policy angles are also referred to Federal Govt. for provision of guideline under Section 21 of OGRA Ordinance. As such, there is no lacuna or anomaly in the regulations that put the petitioner at disadvantage. 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 is lacking to introduce efficient practices to minimize inefficiency in its system. It is mainly due to gas losses/UFG and operational inefficiencies whereby it could not retain the return allowed to it. Conversely, the petitioner can get the return more than the guaranteed limits if it performs better than the targets provided in the efficiency benchmarks.

5.11. 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. Continuous rise in UFG and lack of quality services has brought the company to this brink otherwise the system in force has worked quite well within its parameters.

5.12. ***The instant determination of the Authority is based on the existing tariff regime in place. In view of the same, the Authority allows 17% 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 till the new tariff regime is implemented.***

6. Operating Fixed Assets

6.1. The petitioner has requested to allow projected capital expenditure of Rs. 12,152 million as against Rs. 9,297 million provided in DERR for said year in respect of following items:-

6.2. Compressors:

6.2.1. The petitioner has stated that the projected amount for Control System Modification of Two DR-990 Gas Turbine Driven Compressor – Shikarpur for PLC based system installations commissioned in 1999. It comprises of two sub-systems. The Authority allowed only 50% amount, however, the proposed modification is a bundle package and cannot be completed with partial 50% amount allowed by the Authority. The petitioner has already placed order for the above and actual capitalization on this account may increase owing to further deterioration in Rupee exchange parity. The petitioner has, therefore, requested that an expenditure of Rs. 120 million on Compressor Modification be allowed against already approved amount of Rs. 60 million.

6.2.2. ***The Authority observes that the petitioner has been capitalizing varying amounts during the past in this head, but during FY 2011-12 and till filing of***

ERR 2013-14, no amount has been capitalized. The Authority, therefore, maintains its earlier stance on the amount allowed under the said head and shall review the same at the time of FRR for the said year. The petitioner is also advised to project realistic figures in ERR since they have impact on gas consumer price.

6.3. Plant & Machinery:

6.3.1. The petitioner has requested for addition in plant and machinery amounting to Rs. 858 million, excluding Rs. 181 millions for NGEP. Out of the projected expenditure of Rs. 858 million, Rs. 265 million has been projected for UFG reduction activities, Rs. 343 million for overcoming the problems of power outages/load shedding, having direct nexus over quality of service to consumers and Rs. 250 million for other operational requirements. Further, the petitioner has reiterated that proposed addition will not only improve its operational efficiency but will also enable it to perform better within the laid down parameters of performance & service standards. Beside above the most important aspect i.e. majority of these assets have been projected for better implementation of the UFG reduction plan. Therefore keeping in view the facts stated above the petitioner has requested to allow Rs. 858 million as addition to Plant & Machinery and related depreciation and return.

6.3.2. In DERR FY 2013-14, the Authority observed that the petitioner has been capitalizing much smaller amounts as against the projections made by it (average capitalization for five years from 2006-07 to 2010-11 is 21 %). The Authority allowed 30% of the projected revenue in DERR FY 2011-12. The petitioner however capitalized only 16% in the said head during that year. Further, Rs. 181 million has been allowed for NGEP.

6.3.3. ***It is also observed that Rs. 265 million has been projected separately by the petitioner for UFG reduction activities. Since no NGEP activity has been started in the said year*** so ***far therefore, Rs. 265 million projected separately by the petitioner for UFG reduction activities are being allowed.***

6.3.4. ***Based on the above, the Authority provisionally allows Rs. 703 million under the said year. Further, the petitioner is advised to immediately initiate the NGEP related activities for which amount has already been allowed for UFG reduction.***

6.4. Gas Distribution System

6.4.1. The petitioner has mentioned that major disallowance by the Authority for NGEP capital expenditure is on account of NGEP – Rehabilitation Mains (Rs. 2,414 million)

/services (Rs. 24 million), Rs. 2,438 or 76% of the amount projected for Re-habilitation. The petitioner has argued that the reason for this massive disallowance is not specifically given by the Authority.

6.4.2. The partial disallowance of cost can hamper the work flow and achievement of physical targets that have been agreed upon with the World Bank and GoP and approved at the level of ECNEC, Ministry. This would also hinder the implementation of NGEP Rehabilitation of leaking pipelines which would in return halt the reduction in UFG planned for the FY under discussion. Therefore, UFG losses will increase because of physical and commercial losses of gas due to old network pipeline systems. This will disturb the targets set for achieving the level of UFG and will cause a dent in the petitioner's efforts to augment Transmission and Distribution network access and to reduce UFG costs in the tariff.

6.4.3. The petitioner stated that planned target for rehabilitation of leaking pipelines for the said year is 1250 km. In consideration of the importance of the project in improving the company's transmission and distribution system as well as its role in reducing UFG losses, the petitioner has requested to allow at least a 50% implementation of the project i.e. 625 km. at a cost of Rs. 1,595 million.

6.4.4. In DERR 2013-14, keeping in view the progress of laying distribution mains during the last three years and by applying cost incurred in FY 2011-12 with 20% inflation, the Authority allowed Rs. 2,080 million for laying 1201 KMs out of projections of Rs.4,838 million for laying 2000 KMs distribution mains including services of existing areas. The petitioner laid down 1381 KMs distribution mains during 2010-11, 1081 KMs during 2011-12 and 1661 KMs during 2012-13. The Authority has already allowed 1201 KMs distribution mains to be laid by the petitioner in DERR 2013-14. On similar grounds, the Authority allowed Rs. 752 million out of projected Rs. 3190 million for rehabilitation of 497 KMs of distribution mains and services in DERR 2013-14. The request/justifications provided by the petitioner in Motion for Review FY 2013-14 for allowance of disallowed amount under NGEP for UFG reduction seem to be illogical since no NGEP activity has been started by the petitioner in FY 2013-14 so far. This also shows lack of commitment at the part of the petitioner for UFG reduction.

6.4.5. ***The Authority maintains its earlier stance on the amount allowed under the said head. However, on confirmation that the NGEP has been successfully initiated by the petitioner, the allowance of the remaining amount under NGEP shall be reconsidered by the Authority.***

6.5. Furniture, Equipments including Computers & Allied Equipments

Computers & Allied Equipments

6.5.1. The petitioner has stated that computers & allied equipments are among essential requirements of the petitioner vis-à-vis operational efficiency, better services to the consumers, company's ability to perform as per the performance & service standards laid down by the Authority. The Authority is requested that capital outlay on Computer & Allied Equipment amounting to Rs 204 million may please be allowed against already approved amount of Rs 102 million.

6.5.2. ***In DERR 2013-14, the amount of Rs. 102 millions already allowed by the Authority i.e. 50% of the projected revenue of Rs. 204 millions for computer and allies equipments on the basis of trend analysis is sufficient for the petitioner.***

Security Equipments

6.5.3. The petitioner has stated that due to prevailing law and order situation in the country, SSGC continuously beef up security of its employee, buildings and installations. In recent past many incidents have taken place on SSGC's installations. The proposed expenditure is required for many locations to increase security measures. Authority is therefore requested to kindly allow Rs 48 million against already allowed amount of Rs 24 million (50%).

6.5.4. ***The Authority, in view of the historical trend has already allowed Rs. 24 million*** for ***security equipments which are well enough to cater security measures. The Authority also maintains its earlier stance vis-à-vis amount Rs. 57 millions allowed under the remaining heads of Furniture and Office Equipments. The petitioner is advised to project realistic figures in ERR since they have impact on gas consumer price.***

6.6. SCADA & Telecommunication System

6.6.1. The petitioner has stated that SCADA system is the backbone of Transmission System and plays vital role in surveillance and monitoring of Gas Transmission Pipeline. Due to its sensitive nature it is required to upgrade old outdated SCADA System on 12" diax344Km Quetta Pipeline (QPL) and comply with Pakistan Telecommunication Authority (PTA) and Frequency Board directives to vacate 1.7 – 1.9 MHz frequency band and the petitioner is working to revamp Telecom and SCADA System from Shikarpur to Quetta Terminal via Sibbi. The SCADA system deployed in SSGC is monitoring 129

different sites in Sindh and Balochistan comprising all major gas producers, bulk consumers and off takes from transmission network. Subsequently an additional tool of GMAS (Gas Measurement and Accounting System) is also in operation for logging gas parameters, audits and further more system balancing. SCADA upgradation will not only help in effective monitoring of Transmission pipeline but also help in monitoring and reducing UFG menace. The Authority is therefore requested to kindly allow the expenditure of Rs 430 million on this head.

SCADA

6.6.2. The Authority observes that petitioner has been capitalizing varying amount under the said head. During FY 2012-13 the company has only able to capitalize Rs. 123.5 million, this is more or less 20% of the projections. Also, the amount capitalized in the said head during last three years i.e. FY 2009-10 to FY 2011-12 was negligible. In view of the same, the Authority decided to allow 50% of the projected / claimed amount i.e. Rs. 215 million.

6.6.3. ***In view of above, the Authority maintains its earlier stance on the amount allowed under the said head.***

Telecommunication

6.6.4. The Authority notes that the actual expense that the petitioner has been able to capitalize in the last four years from FY 2008-09 to FY 2011-12 was 25%, and 39% during last six years from FY 2006-07 to FY 2011-12. The petitioner was allowed 39% of the projections i.e Rs. 140 millions in the said head, which is well justified to meet the petitioner's requirement.

6.6.5. ***In view of the same, the Authority maintains its earlier stance on the amount allowed under the said head, which shall be reviewed at the time of FRR for the said year. The petitioner is advised to project realistic figures in ERR since they have impact on gas consumer price.***

6.7. Appliances, Loose Tools & Equipments

6.7.1. The petitioner has stated that tools are small value items which are required for its smooth operations. In order to reduce UFG, the petitioner has launched 5-year UFG reduction plan. Tools are required for maintenance as well as existing teams for network

maintenance, repair of leaking network etc. Since life of tools are very short replacement is required frequently.

6.7.2. The petitioner has, therefore, requested the Authority to allow expenditure of Rs. 241 million against allowed 29% i.e. Rs 70 million.

6.7.3. The Authority notes that the projection of the petitioner in this head is very exorbitant with reference to amount capitalized in previous years. The petitioner was allowed Rs. 26 Million in DERR for 2012-13 against projected amount of Rs 105 Million, which is 25%. The petitioner has capitalized 36% during FY 2011-12 against projected amount of Rs 94 million. Further, the historical analysis shows that, the average amount being capitalized during four years form FY 2007-08 to FY 2011-12 remained 36 % of the projections. ***The Authority maintains its earlier stance on the amount allowed under the said head. The petitioner is advised to project realistic figures in ERR since they have impact on gas consumer price.***

6.8. Vehicles

6.8.1. The petitioner has stated that the Authority has disallowed an amount of Rs. 424 million out of Rs.564 million projected towards capitalization of motor vehicles, and only 25% i.e. Rs. 140 million has been allowed excluding NGEP related vehicles. 79% of 564 millions i.e. 447 million (470 vehicles out of 541) pertains to operational activities and only 21% i.e. 117 million (71 vehicles out of 541) pertains to non-operational activities. Out of Rs. 447 million operational vehicles (470 numbers), 278 vehicles have been projected for addition, while 192 vehicles have been kept for replacement of old and redundant vehicles which have become unviable and uneconomical to run. Out of 71 non-operational vehicles (Rs. 117 million), 30 are replacement of old uneconomical vehicles while 41 vehicles are budgeted for already promoted/expected promotees as DGMs/GMs since allocated cars are purchased by outgoing/retiring executives as per service rules, additional cars have been budgeted for prospective promotees. The Authority has already allowed Rs. 140 million in its DERR for the said year against requested amount Rs. 564 million. The Authority is kindly requested to allow at least operational vehicles amounting to Rs. 447 million for the said year.

6.8.2. The Authority observes that it has already allowed Rs. 313 million (including 173 million for NGEP related vehicles) on the basis of the amount allowed in FY 2012-13 under the said head, which are well enough to cater the operational activities of the petitioner. ***The Authority maintains its earlier stance on the amount allowed under the said head.***

The petitioner is advised to project realistic figures in ERR since they have impact on gas consumer price.

6.9. Construction Equipment & Vehicles

6.9.1. The petitioner has stated that the petitioner has continuously been undertaking pipeline construction activities, sub-merged crossings, Right of Way development, purging of pipeline etc. and construction machinery plays a vital role in completing these field jobs along-with UFG reduction plan in which construction machinery is essentially required during rehabilitation activities for combating the UFG menace. Emergency Response teams also utilize Construction Machinery in case of Terrorism and Sabotage activities on pipelines which are on increasing trend. The concerned department of the petitioner has revisited the expenditure on this head and reduced the projected items previously; most of them are required to replace the items who have completed their useful lives and have become out-dated. The Authority is requested that capital outlay on Construction Machinery amounting to Rs. 300 million may please be allowed against already approved amount of Rs. 180 million.

6.9.2. The Authority observes that during the previous three years from FY 2009-10 to FY 2011-12, the petitioner has capitalized only Rs. 0.5 millions out of projected Rs. 1276 millions under this head. However, keeping in view of the importance of construction equipments and vehicles and for smooth operational activities, the Authority has already allowed Rs. 180 million (30% of projections) in the said head. In DERR 2013-14, it was also observed by the Authority that the petitioner projections have remained very high as compared to actual expenses made on this account.

6.9.3. ***The*** Authority ***maintains its earlier stance on the amount allowed under the said head. The petitioner is further advised to project realistic figures in ERR since they have impact on gas consumer price.***

6.10. Assets relating to LPG Air Mix Projects

6.10.1. The petitioner has stated that the Authority has disallowed the assets claimed and operating expenditure (including subsidy) relating to LPG Air Mix Projects taking stance that no marketing license has been issued to the petitioner due to various short comings including Explosive License from Chief Inspector Explosive and unsatisfactory Third-Party Inspection. The breakup of LPG air-mix assets except Gwader is as under:

	LPG air-mix projects	Assets disallowed
		Rs. in million
1	Noshki	41
2	Kot Ghulam Muhammad (KGM)	38
3	Surab	30
		109

6.10.2. In its determination dated 1 June 2013 under paragraph 6.6.54, the Authority has noted that only Gwadar Air Mix LPG project is operational, whereas, no marketing license has been issued. Also, the Authority has granted provisional permission to operate the plants of Noshki & Kot Ghulam Mohammed which have expired in March, 2012 and the petitioner has been requesting for the extension of the same since then.

6.10.3. The petitioner has solicited OGRA's decision review on the following grounds:

Noshki & Surab:

6.10.4. The petitioner has informed that all mandatory requirements are accomplished for Noshki and Surab LPG. The petitioner has further anticipated the issuance of formal licenses by the Authority, since all requisite formalities for the said plants have been completed. The petitioner has, therefore, requested to allow the assets and subsidy pertaining to Noshki & Surab air-mix LPG for the said year.

Kot Ghulam Muhammad

6.10.5. The plant is in operation since 2011 under Authority's Provisional Permission. The latest 3rd Party Re-Inspection of the plant had been carried out in November, 2012 by M/s ENAR. The petitioner has informed that it has fulfilled all mandatory requirements i.e. inspection of the plant, NOC of local Government NOC of EPA- Sindh etc except the license from Chief Inspector of Explosives.

6.10.6. The petitioner has taken up the matter of the license on Form "O" from Chief Inspector of Explosives in line with the practice adopted in case of Noshki and Surab plants owing to the fact that underlying issue is the same i.e. safety distance. The petitioner has also taken up the matter with Ministry of Industries.

6.10.7. However, the appeal has been rejected on 31st May 2013. Therefore, Review Appeal has been submitted on 08th June 2013 to the Secretary to Ministry of Industries and production Islamabad, regarding grant of License on Form 'O' on the basis of the following:

a) Third Party Inspector (M/s URS Inspection- approved by Ministry of Industries) inspected the plant and gave the satisfactory report.

b) LPG Air Mix Plants at Noshki, Surab and Kot Ghulam have been designed /installed/commissioned and tested by the same company i.e. M/s Ely (USA) with identical specifications.

c) Highlighting above, the appeals for grant of Explosive License on Form O for LPG Air Mix Plants at Noshki and Surab earlier have been approved on similar ground.

6.10.8. Keeping in view the above and the fact that already 2,498 customers have been connected to these plants in line with socio-political objectives of GoP, the Authority is requested to allow the projected capitalization of Rs.109 million and subsidy of Rs. 213 million in respect of Surab, Noshki & Kot Ghulam Muhammad for the said year. This amount is over and above the already allowed amount of Rs. 24 million under project capitalization and Rs. 65 million under subsidy with respect to Gwadar LPG Air-mix projects only.

6.10.9. ***The Authority in its DERR 2013-14 disallowed the amount projected against 3 projects namely Noshki, Kot Ghulam Muhammad and Surab due to various shortcomings including Explosive License from CIE and un-satisfactory Third Party Inspection report. The Authority notes that it has issued the licenses for Noshki and Sohrab to the*** petitioner ***on completion of the requisite formalities therefore, capital expenditures of Rs. 41 millions projected by the petitioner for Noshki and Rs. 30 million for Sorab are allowed by the Authority. Regarding Kot Ghulam Muhammad, NOC from CIE is still not acquired by the petitioner, therefore, Rs. 38 million claimed for this project are not allowed.***

6.10.10.***Accordingly, the Authority provisionally determines subsidy for air-mix LPG projects at Rs. 172 million on account of Gwader, Noshki & Surab for the said year.***

7. Fixed Assets Determined by the Authority

7.1. The Authority provisionally determines the addition to assets at Rs. 9,633 million as against the petitioner's claimed of Rs. 12,152 million for the said year.

7.2. ***Depreciation expense claimed by the petitioner comes down by Rs. 163 million to Rs. 4,954 million as a consequence of reduction in additions to fixed assets for the said year, as discussed above.***

7.3. ***In view of the above, the Authority provisionally determines closing operating fixed assets for the said year at Rs. 79,638 million duly taking into account the adjustment referred in above paras.***

8. Operating Revenues

8.1. The Authority notes that the petitioner has not revised US$ exchange rate in the instant petition in line with the claim made under Weighted Average Cost of Gas (WACOG) calculations. On the contrarily, the petitioner has kept the income from sale of gas condensate, income from LPG & NGL and revenue from JJVL at the level of DERR for the said year, and has not escalated these dollar based incomes with the increased US$ / rupee parity.

8.2. ***The Authority, on the basis of revised US $ / rupee parity as discussed in para 9.1.4 below, recalculates these incomes, and provisionally determines sale of gas condensate (Rs. 60 million) and income from LPG & NGL (Rs. 2,341 million) for the said year. The Authority also notes that revenue requirement for the said year is subjudice and interim stay in the matter is in field. Therefore, Authority, in accordance with interim relief granted by the honourable SHC, decides to treat LPS, MMP, Royalty from JJVL & income from of sale of condensate as non-operating for the said year on provisional basis, subject to final decision of SHC. However, on the announcement of final judgment by the respective High Court, this order of the Authority may be altered, amended or rescinded accordingly.***

8.3. Notional Income on IAS-19 Provision & Advertising Income

8.3.1. The petitioner has requested to treat notional income on IAS-19 provision (Rs. 286 million) and advertising income (Rs. 6 million) as non-regulated activities, as it has contended that the same is not directly related to its core business of transmission, distribution and sale of natural gas.

8.3.2. The petitioner has asserted that present treatment of notional interest income on IAS-19 provision was not practiced by Ex-Price Determining Authority. The petitioner is, therefore, of view that the Authority should have sought specific policy guidelines from GoP on this matter, since in the absence of any directive, adding notional income by the Authority is unjustified and unlawful. The petitioner has requested to re-consider its decision and exclude notional income on IAS-19 provision from tariff working.

8.3.3. The petitioner, in respect of advertising income, has argued that technically it is not its obligation to generate such extra income. Printing and delivery of gas bills is necessary for sales of gas to its customers. Therefore, expenditure on this activity is genuinely an operating expense. Income on account of advertising through bills is generated by extra efforts of petitioner's staff, therefore, benefit should be passed on to it as well. Other utilities like, KESC, KW&SB and PTCL also adopted SSGCL's concept of capturing advertisement on utility bills.

8.3.4. The Authority observes that the petitioner has actually been trying to capture its captive consumer by not exploring such new avenues. The petitioner, in larger national interest, should make extensive efforts to generate more incomes, instead of relying and agitating for guaranteed rate of return. Such lethargic & inefficient practices are against and in total contradiction with the regulatory regime followed internationally.

8.3.5. ***The Authority further observes that the arguments of petitioner, in respect of notional income on IAS-19 provision and advertising income, are mere repetition, and the Authority has already taken those into account while determining DERR for said year. The Authority, therefore, maintains its decision on this account.***

9. Operating Expenditure

9.1. Cost of Gas

9.1.1. The petitioner has projected WACOG to increase to Rs. 368.77 per MMBTU as against Rs. 345.27 per MMBTU, projected at time of determination of ERR for the said year, based on following parameters:

(i) Actual gas purchases for July and August, 2013 and estimates for September, 2013 to June, 2014.

(ii) US $ exchange rate for payment of monthly invoices of gas producers has been assumed at Rs. 105 for period July-December, 2013 and Rs. 110 for the period January-June, 2014.

(iii) In accordance with provisions of existing GPAs between producers and GoP, the petitioner has adopted actual monthly average rates of HSFO and Curde oil Dec., 2012 to September 2013 and prices for the period October 2013 to November 2013 have been estimated without escalation.

9.1.2. On the basis of above parameters, petitioner has estimated average C & F prices of crude oil and HSFO for December, 2012 to May, 2013 at US $ 108.65 per barrel and US $ 620.07 per ton respectively. For the period June to November, 2013 average C&F prices of crude oil and HSFO have been assumed at US$ 601.05 per ton and US $ 109.95 per barrel.

9.1.3. The Authority observes that well-head prices of gas for all fields in Pakistan are computed in accordance with GPAs and/or provisional pricing parameters, available on record, and are notified in exercise of powers vested in it under the Ordinance.

9.1.4. The Authority notes that the actual average C&F prices for the period June to November, 2013 of crude oil and HSFO are close to the petitioner's projections. However, on the basis of actual US $ exchange rate of Rs. 106 on 2nd January, 2014, ***the Authority determines that WACOG at Rs. 362.09 per MMBTU as against Rs. 368.77 per MMBTU projected by the petitioner for the said year***.

9.1.5. ***Based on the above the Authority, provisionally determines cost of gas sold at Rs. 141,945 million as against Rs. 144,564 million claimed by the petitioner for said year.***

9.1.6. ***The Authority in view of the revised WACOG in para 9.1.4 above, provisionally determines Gas Internally Consumed at Rs. 188 million for the said year.***

9.2. Un-accounted for Gas (UFG)

9.2.1. The petitioner has projected UFG at 8.66% (35,249 MMCF) for the said year. The petitioner has computed UFG disallowance at 7% (i.e. Rs. 2,366 million) in line with interim stay granted by the SHC.

9.2.2. The Authority notes that there is calculation error of 2 MMCF in gas sales volumes. ***The Authority, while adjusting the same, decides to determine UFG volume at 35,247 MMCF.***

9.2.3. ***The Authority further notes that there is an interim stay granted by SHC in respect of UFG. Therefore, the Authority in line with the said stay and the decision in para 9.1.4, re-calculates UFG disallowance at 7% i.e. Rs. 2,323 million on provisional basis, subject to final decision of SHC. However, on the announcement of final judgment by the respective High Court, this order of the Authority may be altered, amended or rescinded accordingly.***

9.3. Transmission & Distribution Cost:-

9.3.1. Human Resource (HR) Cost

9.3.1.1. The petitioner has claimed Rs. 9,617 million on account of HR cost for the said year as against Rs. 8,226 million determined in ERR for the said year.

9.3.1.2. The petitioner has submitted that the Authority initiated HR Benchmark Study through a consultant. The consultant has also agreed / recommended that there is a need to compensate the employees in a manner that allows meeting or maintaining the existing level of salaries and purchasing power in view of continuous hyperinflation. Also, inflationary impact shall be allowed to the extent of 100% Consumer Price Index (CPI) on the preceding year's salary in line with the human age and medicine costs.

9.3.1.3. In view of above, the petitioner has requested to allow Rs. 9,617 million for the said year, keeping in view actual inflationary trends, increased average age per employee, rising medical cost of the company, etc in last two years.

9.3.1.4. The Authority observes that it had allowed a reasonable increase of 17% over FY 2012-13, enabling petitioner to meet its legitimate demand of employees. The Authority, however, notes that progress and performance of the gas utilities towards meeting certain efficiency related benchmarks is continuously debilitating despite attractive salary packages. The Authority is of the firm view that major rationalization in this respect is essentially required in order to directly establish linkage between efficiency and effective utilization of workforce.

9.3.1.5. The Authority, with the intent to obtain expertise of other corporate entities, had engaged the services of independent expert to carry out HR benchmark study in respect of both gas utilities. Accordingly, the consultant submitted its draft report,

which suffered number of deficiencies. It totally failed to assume rationale basis to compute the HR cost. The same was also vehemently criticized by all stakeholders. Accordingly, contract has been terminated and the Authority is deliberating on the matter. ***In the meantime, the Authority has decided to maintain the HR cost at the level of DERR FY 2013-14. i.e. Rs. 8,226 million for the said year. Any adjustment, if required, will be accounted for at the time of actualization of accounts of the said year.***

9.3.2. **Legal Charges**

9.3.2.1. The petitioner has requested to allow legal charges at Rs. 60 million as against the Authority's determination of Rs. 30 million for the said year.

9.3.2.2. The petitioner, in response to Authority's directions for utilizing its own legal department for handling legal matters filed in different courts, has explained that company's own department deals cases relating to session courts/lower courts etc. However, high profile issues e.g. CESS, JJVL, CNG and suo moto, where the petitioner is not a direct party, needs expertise of sophisticated nature. Therefore, external law firms, where panel of experts/lawyers who are well conversant of the subject are hired, for which they charge higher fee.

9.3.2.3. The petitioner has argued that safeguarding its interest on various forums/courts of law is its legal/constitutional right, and the required amount is justified. It has, therefore, requested to allow Rs. 60 million, considering the nature and increase in number of cases.

9.3.2.4. The Authority notes with serious concern that petitioner has been spending excessively for those cases where it is not a direct party. The petitioner is a public service utility and enjoys monopoly status; it should therefore adopt a rather considerate and prudent approach while spending.

9.3.2.5. ***The Authority reiterates its directions in respect of controlling cost in respect legal cases, and maintains its decision to determine the said expenditure at Rs. 30 million for the said year.***

9.3.3. **Repair & Maintenance**

9.3.3.1. The petitioner has requested to allow Rs. 1,748 million as against Rs. 1,408 million allowed by the Authority on account of repair & maintenance for the said year. The petitioner has asserted that repair and maintenance is an operational requirement required on daily basis to upkeep existing assets, including vehicles

and IT related equipment, whether owned or rented. Overall increase under the said head is owing to substantial increase in the expenditure incurred on account of coating and wrapping of pipeline related to NGEP, otherwise there is no significant increase more than inflation.

9.3.3.2. In view of above, the petitioner has urged the Authority to review its decision for reducing repair and maintenance and requested to allow Rs. 1,748 millions for the said head.

9.3.3.3. The breakup submitted by the petitioner is as under:-

Table 1: **Breakup of Repair & Maintenance**

Sr. no.	Particulars	Rs. in million
1	Transmission	104.5
2	Distribution	1,251
3	Compression	3
4	Others	389
	Total	**1,748**

9.3.3.4. The Authority notes that major increase is being made under the sub-head of "Distribution". Out of Rs. 1,748 millions, Rs. 1,067 millions has been projected for NGEP program by the petitioner, and the same had been allowed by the Authority. Remaining Rs. 681 millions is for transmission, compression and other such activities as claimed by the petitioner. The Authority had allowed Rs. 1,408 million (80% 0f projection), wherein Rs. 1,067 million was given for NGEP related expenditures, and Rs. 340 million for rest of the activities are sufficient to cater the tasks under this head.

9.3.3.5. ***In view of above, the Authority decides to maintain its earlier stance on the amount allowed i.e. Rs. 1,408 million under the said head, which shall be reviewed at the time of FRR for the said year.***

10. Revenue Shortfall of FY 2012-13

10.1. The petitioner has submitted that Authority's determination on Final Revenue Requirement (FRR) for FY 2012-13 is still awaited. The petitioner has, therefore, requested to include the revenue shortfall amounting to Rs. 20,744 million claimed in its petition for FRR of FY 2012-13 as part of the revenue requirement for the said year.

10.2. ***The Authority accepts the petitioner's request in this respect. In view of the same, the Authority decides to allow a provisional amount of Rs. 13,000 million in tariff***

calculation for said year subject to adjustment, if any, on issuance of decision on FRR for FY 2012-13.

11. Workers Profit Participation Fund (WPPF)

11.1. The petitioner has claimed WPPF at Rs. 625 million. The Authority accepts the same for the said year. Any adjustment on this account is made at the time of FRR for the said year.

12. Determination

12.1. The Authority, after taking into consideration points raised by interveners, clarifications provided by petitioner, scrutiny of petition and available record, provisionally determines the shortfall in estimated revenue requirement for said year at Rs. 22,328 million (***Annexure-I***).Accordingly, average prescribed price for the said year is provisionally determined at Rs. 498.62 / MMBTU (***Annexure – II***). The breakup of average prescribed price allowed by the Authority is as under:

Table 2: **Breakup of Average Prescribed Price Increase Allowed by the Authority**

		Rs. / MMBTU
Particulars	**FY 2013-14**	
	The Petition	**Determined by the Authority**
Units sold (BBTU)	**350,075**	**350,075**
Cost of gas sold	412.95	405.47
UFG disallowance	(6.76)	(6.63)
Transmission and distribution cost	38.81	33.77
Depreciation	14.62	14.15
Return on net average operating fixed assets	34.34	33.77
Other operating income	(18.65)	(19.54)
Revenue Shortfall of FY 2012-13	-	37.13
Subsidy for LPG Air-Mix Project	0.79	0.49
Cost of service / prescribed price	476.11	498.62
Current average prescribed price	434.84	434.84
Increase / (Decrease) requested in average prescribed price	**41.26**	**63.78**

12.2. The Authority notes that there is no cushion available to absorb this shortfall during the said year. In view of the same, the Authority decides to adjust the entire shortfall amounting to Rs. 22,328 million forth coming determination.

13. Public Critique, Views, Concerns, Suggestions

13.1. The Authority has recorded concerns of interveners and participants in para 4 above, which include matters relating to policy and do not fall under the purview of Authority

but affect the consumers. Specific attention of GoP is drawn to these issues for consideration and necessary action.

Aamir Naseem
Member (Gas)

Sabar Hussain
Vice Chairman/Member (Oil)

Saeed Ahmed Khan
Chairman

Islamabad,
June 27, 2014

ANNEXURE - I

I. Computation of Review of Estimated Revenue Requirement for FY 2013-14

Rs. in Million

	Particulars	The Petition	Adjustment	Determined by Authority
Gas sales volume -MMCF		368,914		368,914
	BBTU	350,075		350,075
"A"	Net Operating Revenues			
	Net sales at current prescribed price	152,226		152,226
	Gas transportation charges	10		10
	Income from Sale of LPG / NGL (Bobi)	2,329	12	2,341
	Revenue from JJVL excluding Royalty	2,406	0	2,406
	Meter rentals	693		693
	Amortization of deferred credit	421		421
	*Sale of gas condensate	54	5	60
	*Royalty income from JJVL	-	-	-
	*Late payment surcharge (LPS)	-	-	-
	*Meter manufacturing profit (MMP)	-	-	-
	Other operating income	616	292	908
	Total Operating Revenue "A"	158,756	310	159,065
"B"	Less: Operating Expenses			
	Cost of gas	144,564	(2,619)	141,945
	UFG Adjustment	(2,366)	44	(2,323)
	Transmission and distribution cost	12,742	(1,761)	10,982
	Gas internally consumed	191	(3)	188
	Depreciation	5,117	(163)	4,954
	Other charges	27	-	27
	W.P.P.F	625	-	625
	Total Operating Expenses "B"	160,901	(4,502)	156,398
"C"	Operating profit (A-B)	(2,145)	4,812	2,667
Return required on net operating fixed assets:				
Net operating fixed assets at beginning		75,182	-	75,182
Net operating fixed assets at ending		81,994	(2,356)	79,638
		157,176	(2,356)	154,820
Average net assets (I)		78,588	(1,178)	77,410
Meter manu. Plant asset at beginning		286	-	286
Meter manu. Plant asset at ending		374	-	374
		660	-	660
Average net assets (II)		330	-	330
Net LPG air mix project asset at beginning		768	-	768
Net LPG air mix project asset at ending		844	(37)	806
		1,612	(37)	1,575
Average net assets (III)		806	(19)	787
Deferred credit at beginning		6,759		6,759
Deferred credit at ending		6,727		6,727
		13,486	-	13,486
Average net deferred credit (IV)		6,743	-	6,743
"D" Average (I-II-III-IV)		70,709	(1,159)	69,549
"E" 17% return required		12,021	(197)	11,823
"F" Shortfall in return required (E-C) (Gas Operations)		14,166	(5,009)	9,156
"G"	Additional revenue requirement for Air-Mix LPG Project	278	(106)	172
"H"	Shortfall / (Surplus) (F+G)	14,444	(5,116)	9,328
Increase in average prescribed price effective (Rs. / MMBTU)		41.26	(14.61)	26.65
"I"	Revenue shortfall of FY 2012-13	**	13,000	13,000
Total Shortfall / (Surplus) (H+I)		14,444	7,884	22,328
Increase in average prescribed price effective (Rs. / MMBTU)		41.26	22.52	63.78
Estimated revenue requirement (B+E+G+I)		173,199	8,194	181,394
Average Prescribed Price (Rs. per MMBTU)		476.10	22.52	498.62

***The petitioner has claimed LPS, MMP, Sale of Gas Condensate (net of non-operating income) and Royalty Income from JJVL as non-operating in the line with the interim stay granted by Sindh High Court.**

****The petitioner has claimed Rs. 20,744 milllion over and above the requested increase of Rs. 41.26/MMBTU.**

II. Provisional Prescribed Prices for FY 2013-14 ANNEXURE - II

				Rs. per MMBTU
(i)		**Domestic Sector:**		
		a) Standalone meters:		
		b) Mosques, churches, temples, madrassas, other Religious Places and Hostels attached thereto;		
		(i)	Upto 100 M^3 per month	498.62
		(ii)	Over 100 – upto 300 M^3 per month	498.62
		(iii)	Over 300 – upto 500 M^3 per month	498.62
		(iv)	All over 500 M^3 per month	498.62
		c) 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	498.62
		(ii)	Over 100 – upto 300 M^3 per month	498.62
		(b) Over 300 M^3 per month		
		All off takes at flat rate of		498.62
(ii)		**Commercial:**		
		All establishments registered as commercial units with local authorities or dealing in consumer items for direct commercial sale like cafes, bakeries, milk shops, tea stalls, canteens, barber shops, laundries, places of entertainment like cinemas, clubs, theatres and private offices, clinics, maternity homes, etc.		
		All off-takes at flat rate of		498.62
(iii)		**Special Commercial (Roti Tandoors):**		
		(a) Upto 300 M^3 per month		
		(i)	Upto 100 M^3 per month	498.62
		(ii)	Over 100 – upto 300 M^3 per month	498.62
		(b) Over 300 M^3 per month		
		All off takes at flat rate of		498.62
(iv)		**Ice Factories:**		
		All off-takes at flat rate of		498.62
(v)		**Industrial:**		
		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 flat rate of		498.62
(vi)		**Captive Power:**		
		All off-takes at flat rate of		498.62
(vii)		**Compressed Natural Gas (CNG):**		
		All off-takes at flat rate of		498.62
(viii)		**Cement:**		
		All off-takes at flat rate of		498.62
(ix)		**Pakistan Steel:**		
		All off-takes at flat rate of		498.62
(x)		**Fauji Fertilizer Bin Qasim Ltd.:**		
	(i)	*For gas used as feed-stock for Fertilizer (upto 60 MMCFD)*		498.62
	(ii)	*Additional allocation (10 MMCFD) (Provisional)*		498.62
	(iii)	*For gas used as fuel for generating steam and electricity and for usage in housing colonies for fertilizer factories.*		498.62
(xi)		**Power Stations:**		
		All off-takes at flat rate of		498.62
(xii)		**Independent Power Producers:**		
		All off-takes at flat rate of		498.62