



Petroleum & Natural Gas Regulatory Board

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To

The Editor,
Financial Express
New Delhi.

Sir,

This is with reference to the news item which appeared in Financial Express of 4th November, 2010 under the heading "Gas pipeline tariff policy to skew industrialization" concluding that the Zonal Tariff System notified by PNGRB in place of the postalised tariff system would lead to "more geographical imbalances in the country's industrial development" and could seal the fate of city gas distribution projects in such places.

2. I would have normally ignored such a news item as Financial Express and the correspondent are certainly entitled to their own point of view. However, certain factual errors and questionable conclusions giving an entirely erroneous picture of the whole issue needs to be corrected.

3. First of all, the tariff system was not introduced recently as mentioned by the correspondent. The Board has to go through a structured system of wide consultations with all stakeholders and the general public by putting the draft regulations in the public domain for comments and having Open Houses with all those who submit comments. The regulations are finalized and notified only after taking into consideration all the points of view of all the stakeholders including the consumers. This lengthy process was followed in finalizing the PNGRB (Authorizing Entities to Lay, Build, Operate or Expand Natural Gas Pipelines) Regulations, 2008 notified on 6th May, 2008 in which the concept of Zonal Tariff was introduced. The tariff determination has been done in accordance with this system on the basis of the proposals submitted by the concerned entities. In adopting the tariff system, the Board has taken in to account the interest of the consumers as well as the need for facilitating the rapid expansion of the natural gas infrastructure in the country.

4. As the news item mentions, the policy of freight equalization earlier followed by Government of India has long been abandoned as it had no economical rationale. Such a policy would lead to resource-rich States in Eastern and Central India subsidizing the more developed States in other parts of the country as was happening when the freight equalization policy was in force.

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5. It is puzzling as to on what basis the unnamed analyst and the correspondent came to a conclusion that the tariff system would cause more geographical imbalances in the country's industrial development. First of all, transportation tariff determined by the Board as per the formula in the tariff determination regulations for pipelines which either existed or approved prior to the constitution of the Board or decided through the bid process for other pipelines where the successful bidder is granted authorization, forms a small percentage of the total price of gas delivered to a consumer. The just concluded bidding process for 3 major pipelines viz. Mallavaram-Bhopal-Vijaipur-Bhilwara, Mehsana- Bhatinda and Bhatinda – Jammu-Srinagar saw stiff competition and aggressive bidding. Rather than leading to the concentration of industries in the first zone, the transporters are obviously confident of viability of the pipelines linked to an emerging national grid and allowing gas from Kakinada on the East Coast to be transported right up to Srinagar. It is relevant to mention here that the bids for pipelines are decided mainly on the basis of the lowness of the proposed tariff in the first zone and lowness of incremental rate for the subsequent zones carrying a weight of 70%.

6. As far as CGD entities are concerned, the Board has already chalked out the ambitious program of covering more than 200 GAs in the next three years for which it would be bidding out 7-8 GAs in every bidding round on a regular basis. Going by the large number of bid documents sold for the 3rd and the 4th rounds for which bids have been invited for 16 GAs (140 so far), it is obvious that there is going to be stiff competition in the bidding for these GAs. The maximum numbers of bid documents have been sold for the GAs located in North India well away from the sources of gas.

7. One would have expected a responsible economic newspaper as Financial Express not to have created such a misleading impression about a critical sector as Petroleum & Natural Gas based on one personal opinion flogging an outdated concept.

Yours faithfully,


(L. Mansingh)
Chairperson