



October 14, 2020

**To**  
**The Secretary,**  
Petroleum & Natural Gas Regulatory Board,  
1<sup>st</sup> Floor, World Trade Centre,  
Babar Road,  
New Delhi – 110001

**Subject : Views / Comments on draft "PNGRB (Determination of Transportation Rate for CGD and Transportation Rate for CNG) Regulations, 2020"**

**Ref. : PNGRB Public Notice No.: PNGRB/COM/1-CGD Tariff (1)/2015 regarding the abovementioned draft regulations**

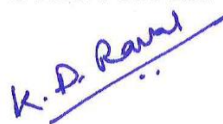
Dear Madam,

With reference to the abovementioned subject and referred public notice of PNGRB, comments from Adani Gas Ltd (AGL) on the key aspects / factors related with rate determination methodology are enclosed herewith as **Annexure 1** to this letter.

Further to the above, the clause-wise detailed comments on the draft regulations are enclosed herewith as **Annexure 2** to this letter.

We thank the Hon'ble Board in anticipation of favorable consideration of our suggestions.

Yours sincerely,  
For Adani Gas Ltd.

  
(Authorized Signatory)



Encl: As above

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**Comments on Key aspects / factors on Rate Determination Methodology**

**1. Cost of Service (COS) Methodology:**

- AGL supports the proposed methodology of COS for computation of rates for CGD and CNG.
- In our opinion, COS is a better suited and convenient method for computation of rates mainly in the cases where there are variations in the underlying parameters and the rate computation needs to be carried out considering a shorter period.

**2. Rate of Return:**

- In the CGD business, there are no long term contracts, there is extra effort required to take care of receivables, there is additional long term commitment made for connecting maximum domestic PNG customers and establishing network in all charge areas, customer contracts may not have Minimum Guaranteed Offtake (MGO) provision, there is always the dynamics of alternative fuel competition as well as more recently the emerging fuels like EV, LNG-liquid, H-CNG, CBG etc. Further, the regulatory framework also requires CGD entity adhere to stipulated service obligations and to create more extra capacity in case there is capacity constraint in future. Thus, the CGD business is carried with higher obligations and customer sensitivity, leading to higher risk perception & returns expectation.
- Hence, it is suggested to keep the return level as stipulated in the earlier CGD tariff regulation at post-tax 14% ROCE.

**3. Normative assessment:**

- CGD networks being specific to the needs of the geography being served (pipeline connectivity, crossings, STPL, spread of customers, mix of customers, CNG/PNG adoption by communities etc.) it is submitted that it is not possible to generalize and arrive at 'normative level' for expenses (both capex and opex). Further, the rates of land, ROU, permissions, services, resources cost etc. would change significantly depending on the type of city, region, rural landscape and so on. Entity may have better efficiency due to project management expertise and/or benefit of higher scale of operations which does not imply the same to be used as benchmark for other entities who would have different capex / opex profile owing to aforementioned differences. Similarly, the operating expenditure also depends on various parameters, such as type and age of equipment, usage, segment volumes etc. which will be different for GA to GA and there is no single measure to bring the same to a normative level. It is

submitted that the assessment of normative level and benchmarking using yardstick/s without any due consideration of these GA specific nuances may not be appropriate and may lead to erroneous results.

- It is submitted that CGD network development is generally done with a very long-term perspective and assessing the reasonable and justifiable level of expenditure at any juncture of the project, would not be appropriate, given the benefit of hindsight.
- Based on the above, it is requested that if Hon'ble Board wishes to provide for normative assessment, the same should be holistic and objective with defined parameters agreed upfront, rather than subjective which will be prejudicial to the interests of the entities as each GA is unique as explained above. The Board may consider forming a focused group to evaluate such parameters and recommend normative assessment approach. Or otherwise, Hon'ble Board may drop the requirement of normative assessment and consider the actual expenses (capex and opex) based on entity submission, duly supported by CA certificate.

#### 4. Self-determination of rates:

- The Act and the regulatory framework provide for regulation of transportation rates by PNGRB. Relevant excerpts of Sec 22 of PNGRB Act are given below.

*22(1): Subject to the provisions of this Act, the Board shall lay down, by regulations, the transportation tariffs for common carriers or contract carriers or city or local natural gas distribution network and the manner of determining such tariffs.*

- The above provisions of PNGRB Act clearly provides for Board's power to lay down by regulation and manner of determining transportation tariff but it may kindly be considered by Hon'ble Board whether such powers include only Board to determine the tariff or it may be delegated to entities to self-determine the tariff. It is submitted that such delegation may lead to multifarious avoidable disputes on issue of determination of transportation tariff. In order to have uniformity it is submitted that the transportation tariff may be determined by Board to avoid any unnecessary disputes between the parties.
- The CGD entity would submit the details of rate computation workings and other relevant financial details to Hon'ble Board and Board should determine and declare the transportation tariffs.

#### 5. Periodicity of rate determination:

- As per the proposed draft, the rate determination is annual and there will be a process of webhosting and intervention of PNGRB if situation warrants so. The proposal requires frequent rate computation which will put undue pressure &



lead to operational issues and may be financial implications on the CGD entity for compliance. Frequent rate changes may not be in the interest of all stakeholders.

- Instead the rate determination should be done for 3 to 5 years and rate change to take effect in the next period rate determination with an option to the entity to submit revised rate proposal basis change in critical input parameters having material commercial impact.

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**Regulation-wise Comments on the Draft CGD Rate Regulations**

1. Regulation 4(2):

- It is suggested that a period of at least 180 days should be given to an entity for determination of tariff for the first time, given the complex nature of the process and mechanics surrounding the same including certification from auditors.

2. Regulation 7:

- Besides repealing the earlier regulations, the application of the provisions including the sub-regulations is unclear.

3. Clause 1 of Schedule: Cost & Financial data

- It is proposed that the rate determination would be done considering all technical, financial data based on audited accounts. Since the rate determination is for future period, it needs to be specified in what manner the past audited data will be utilized for rate determination of future period.
- The objective behind seeking last 3 years' data is also unclear. Seeking last 3 year data (bifurcated in to CGD and CNG related details for each GA) would be cumbersome activity and with very limited relevance. Seeking last 1 year data would be appropriate as the same would be more useful from projections point of view.
- Further, for the past period, the relevant cost details may not have been segregated & booked as stipulated in the draft regulations and hence would have to be apportioned on fair and transparent basis as deemed appropriate by the entity. The same should be allowed.
- Since the issue whether CNG stations are part of CGD network or not, is sub-judice, CGD entities may have clubbed all these costs as a part of network cost and bifurcation of the same (for both capex and opex) for the past period would be very difficult.

- It is also suggested that there should be flexibility provided to CGD entity to provide certification from any CA firm (e.g. statutory auditor, cost auditor or any other CA firm).

4. Clause 4 of Schedule:

- In the case of gas pipeline tariff computation also there have been issues related with no explicit mention about natural gas as an expenses item (mentioned only SUG). Since gas consumption and loss is intrinsic to the nature of the distribution business, the same needs to be clearly specified to avoid any issues in future.
- The electricity regulations for distribution specify cost of power purchased including the T&D losses and commercial losses, wheeling charges, etc.
- It is suggested to clearly specify natural gas as one of the consumables and also include LUAG which is a critical expense item.

5. Clause 4 of Schedule:

- In Opex, it is proposed to net-off miscellaneous income realizable from the assets forming part of regulated asset base.
- The CGD business involves multiple services along with marketing / retailing and the fact that the rate determined is to be charged to only 20% of the capacity. Hence, the requirement to 'net off' the miscellaneous income seems unwarranted.
- Further, the depreciation is proposed to be derived as per the basis, considering 5% residual value. This being Cost of Service methodology, the depreciation is factored in computation to take care of 'recovery of capital employed'. The cost incurred in setting up the network is practically sunk cost with hardly any cost recovery at the end of useful life. Thus, there should not be deduction of 5% while computing the depreciation to be considered for rate computation. Further, at any time in the due course of business, there will be replacement, upgradation in assets including deletion, which would get captured automatically in the depreciation sheet.
- It is suggested to align the pipeline depreciation with the economic life of 25 years.

6. Clause 3&4 of Schedule:

- For the Cost of land beyond 15% extra, based on approved drawings, are proposed to be excluded.
- It is submitted that the rate determination is to be done for the CGD networks which are operational since many years and retrieving such engineering drawing, cost details, that too land parcel-wise, would be extremely difficult.
- It is requested to take due cognizance of the fact that the land use is meant only for CGD network requirement and there is no merit / materiality in the proposed exclusion and hence needs to be dropped.

7. Attachment 1:

- Depreciation details need to be reconciled with balance sheet as well as depreciation in books and that considered as per the basis given in regulations.
- Since the details are to be submitted for particular GA and many entities have multiple GA in same entity, it would not be possible to reconcile details at balance sheet level. It is suggested that certification from CA as regards to the correctness of the details should be considered.
- It would be very difficult to recast the asset value and depreciation thereof to reconcile with books and the basis provided as per the basis given in regulations.

8. Attachment 1(a,b):

- The format requires land details to be given including rate in Rs/sq mt or feet.
- Land pricing has its own city specific as well as area specific nuances and will have huge variance. The pricing would be completely different if the land tie-up is done on long term lease basis. Such details are confidential and not in the interest of entity to declare and make it public. Aggregating the land value and dividing by the area to arrive at the average value would be of little relevance and very cumbersome for entities.
- In the same manner, segregation and computation of land in to land that is required, plus 15% as supported by drawings and additional land to be

excluded, would be very difficult and would cause difficulties that would hamper the process of time-based rate determination and declaration as envisaged in regulations. It is suggested that the land value, as available in the books, should be considered in rate computation.

9. Attachment 1 (d):

- The format should clearly specify gas cost including SUG and LUAG.
- It is unclear when the opex, capex & volume are to be based on actuals, then what is required to be submitted with respect to assumptions / calculations as stipulated in the notes.
- It may not be possible to provide rate / quantity details of fuel / utility / consumables etc. as proposed in draft regulations.

10. Attachment 1 (e,f,g):

- As per the format, details sought for year 1 / 2 / 3. It is unclear what is meant by year 1 / 2 / 3 – Financial Year or 1 Oct to 30 Sept period.
- It is also unclear whether COS methodology is to be applied for capex, opex, volume for next three years (FY or Oct-Sept) and charged for the next year.

11. Attachment 2: Treatment of Fixed Assets

- Fixed asset declared as commissioned but not deployed in operations of the CGD network are proposed to be excluded. It is submitted that the assets which have been made ready but might not be put to use due to various reasons including receipt of permissions, consents etc. Since the investment has been made and the assets have been made ready (commissioned) the same should be included.
- Line pack is stipulated to be fixed and non-deprecating asset. It submitted that the line pack quantity and value would undergo change over the years as the network develops further and there will be additions to the line pack whenever necessary. Accordingly, its valuation would change every year. This is a practical aspect of the distribution business hence should be allowed.





- Security Deposit: It is submitted that the security deposit is not to be construed as source of fund but a protection that takes care of any damage, theft of the equipment / LMC in the customer premises. There is hardly any salvage value of equipment in case of any disconnection. Hence, it is submitted not to exclude the security deposit value in rate computation.

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