

# **DHANANJAY V. JOSHI & ASSOCIATES**

## **COST ACCOUNTANTS**

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Ref: CC/076/2020-21

Date: 13<sup>th</sup> October, 2020

To,

Ms. Vandana Sharma Secretary,  
PNGRB

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

Respected Madam,

I am CMA Dr. Dhananjay V. Joshi. I am a senior partner of the firm M/s Dhananjay V. Joshi & Associates, Cost Accountants, a firm with standing of more than 40 years. We are also carrying out Cost audits of large PSUs and private companies in PNG industry.

We are expressing our views / comments on the draft regulations published by PNG Regulatory Board on 23<sup>rd</sup> Sept. 2020 on- Determination of Transportation Rate for CGD and Transportation Rate for CNG.

On behalf of our firm I would like to participate in the "Open House" to be conducted on 16<sup>th</sup> October, 2020 through Video Conferencing. Kindly send us the web link to join the "Open House".

We are providing our views/ comments on the draft Regulations. Kindly refer Annexure I.

Thanking You.

Sincerely Yours,

For Dhananjay V. Joshi And Associates,  
Cost Accountants



CMA Dr. Dhananjay V. Joshi  
Partner  
(Mobile : 9422001082)

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### Annexure I

#### VIEWS / COMMENTS ON THE DRAFT “PETROLEUM AND NATURAL GAS REGULATORY BOARD (DETERMINATION OF TRANSPORTATION RATE FOR CGD AND TRANSPORTATION RATE FOR CNG) REGULATIONS, 2020”.

Ref. No.	Views/ Comments
Schedule – Opening Para	The expression “normative level” shall be with reference to a level, which is both reasonable and justified in terms of incurrence of capital and operating expenditure required for laying, building, operating or expanding that CGD network. The words “Reasonable and Justified” are only qualitative in nature. The Petroleum and Natural Gas Regulatory Board (PNGRB) should specify the Industrial Norms or Standards, so that the certifying authority can understand whether the actual capital employed and operating expenses are in line with “Normative Level”.
1	Cost and Financial Data:- The weighted average transportation rate is to be computed considering latest available data of three preceding financial years. <b>The year which is “abnormal” should be excluded</b> and year earlier to that of three preceding years should be considered. The wording should be suitably amended.
3(3)	Historical cost of acquisition- Interest cost on loans capitalised needs to be excluded. As per the Accounting Standards, Borrowing Cost till the date of capitalisation always forms cost of acquisition. It is suggested that such cost should not be excluded.
3(3)	The Gross Fixed Assets shall be equal to their actual historical cost of acquisition or that normatively assessed by the Board, whichever is lower. Assessment by the Board brings subjectivity in the computation of Gross Fixed Assets. Hence it is suggested that the actual historical cost of acquisition should only be considered.
4(vi)	Administrative Overheads – This may be replaced with “Administrative Overheads Relating to Operations”. In cost accounting there is bifurcation of Administrative Overheads in two parts. 1. Administrative Overheads relating to production 2. Administrative Overheads (others) – subsequent to production. These overheads pertained to administrative overheads incurred for post-production activities. Similar concept can be brought in regulations to include only those administrative overheads which relate to operation of CGD network or CNG compression. This is as per the Generally Accepted Cost Accounting Principles (GACAP).
5(1) and (2)	Volumes to be considered in determination of transportation rate for CGD and CNG- Since Cost and Financial data is to be considered for three preceding financial years and then weighted average is to be determined (as suggested in para 1 above), the volumes should be considered for corresponding three years to decide the “Divisor”. Here again <b>the year which is “abnormal” should be</b>

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	<p><b>excluded</b> and year earlier to that of three preceding years should be considered. The wording should be suitably amended.</p>
Attachment 1 (d)	<p>Item B-2 General Administration should be replaced with “General Administration relating to operations”.</p>
Attachment 1(d)	<p>Three year’s Operating Cost Information should be given in the similar format as Attachment 1(e) i.e. Year 1, Year 2, Year 3 and Total for 3 years.</p>
Attachment 1(h)	<p>Format of Auditors Certificate – The format suggests that the certification is required from Chartered Accountant / Partner of firm of Chartered Accountant. It is suggested that the entire exercise revolves around “Cost”. The certification therefore must be done by Cost Accountant / Partner of firm of Cost Accountant. Under the provisions of The Companies Act, 2013, both Cost Accountants and Chartered Accountants are Statutory Auditors, since both are appointed under the provisions of The Companies Act, 2013 to carry out the Cost Audit and Financial Audit respectively. The Companies (Cost Records and Audit) Rules, 2014 specifically cover Petroleum products regulated by the Petroleum and Natural Gas Regulatory Board under the Petroleum and Natural Gas Regulatory Board Act, 2006. The Ministry of Corporate Affairs had notified the Cost Accounting Records (Petroleum Industry) Rules, 2011 which specifically provides for “Transportation of Petroleum Products through Petroleum Product Pipeline, Natural Gas Pipeline and City Gas Distribution Net Work (Proforma “I” of these erstwhile Rules)”. Majority of the companies are still using and compiling information in the prescribed Proforma of these Rules, which are most industry friendly and provide both quantitative and value information in a structured manner. The quantitative records and the reconciliation of quantities are very much at the heart of Cost Records audited only by Cost Accountants. The Cost Accountants carrying out the Cost Audit of PNG Companies are fully acquainted with the nature of business, the processes, the operations, the quantitative details, the financial accounts as well as the cost structure of various activities of PNG Companies. Most of the data required by the Regulations under consideration is validated, audited by the Cost Auditors and they don’t have to invent the wheels. Hence Practising Cost Accountants/ Firm of Cost Accountants will only be the preferred professionals to carry out these certifications under the Regulations. It is suggested that PNGRB should make necessary amendments in various Paras of the Notification to give effect to this suggestion.</p>