



**Sabarmati Gas Ltd.**  
(A Joint Venture of GSPC & BPCL)

SGL/PNGRB/2020-21

Date: 14-10-2020

To,  
The secretary,  
Petroleum & Natural Gas Regulatory Board,  
1<sup>st</sup> Floor, World trade Center,  
Babar Road, New Delhi-110001

Subject: - Comments pursuant to Public Notice No: PNGRB/COM/1-CGD Tariff(1)/2015 dated 23.09.2020.

Reference: -

1. Public Notice No: PNGRB/COM/1-CGD Tariff(1)/2015 dated 23.09.2020.
2. Draft Regulations titled PNGRB (Determination of Transportation Rate for CGD and Transportation Rate for CNG) Regulations, 2020 ("**Draft Tariff Regulations**")

Respected Madam,

This has reference to the Public Notice No: PNGRB/COM/1-CGD Tariff(1)/2015 dated 23.09.2020 inviting comments on the Draft Tariff Regulations. On behalf of Sabarmati Gas Limited, kindly consider the following aspects in this regard:

- A. The regulatory scheme envisaged under the PNGRB Act is that the Hon'ble Board is entrusted with primary objective of orderly development of City and Local Natural Gas Distribution Networks in the Country as also orderly development of Natural Gas Pipeline Network amongst other things. Being fully aware of the huge capital investments required to be made for developing CGD Network, it has been envisaged in Section 20(4) of the PNGRB Act to provide for "exclusivity" for the entities undertaking the orderly development of CGD Networks in their respective authorized GA.
- B. The rationale for granting network exclusivity as well as marketing exclusivity is narrated in the Schedule A to the CGD Exclusivity Regulations according to which the period of marketing exclusivity is stated to be dependent on the natural gas demand build up in the relevant Geographical Area which in turn would depend on various factors such as level of industrial activity in the area, vehicular population, consumer preferences etc. thus, one of the major factors envisaged for allowing marketing exclusivity to the CGD Entities is to see that until the relevant geographic market has achieved a certain level of maturity, the marketing exclusivity ought to be continued so that the entity is able to fully take benefit of the exclusivity so granted.
- C. The Hon'ble board would acknowledge the fact that natural gas as a fuel is still an alternate fuel to traditional solid, liquid gaseous fuel and new emerging technologies like

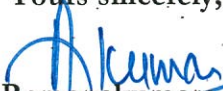
electric vehicles and hydrogen as automotive fuel are further pushing downwards the share of natural gas (or even PNG / CNG for that matter) in the overall energy mix of India. Further, invariably price of natural gas is benchmarked with alternate fuels to be competitive in market.

- D. The customers have the flexibility to switch amongst various fuels as per his economics. This fact makes establishing capital intensive CGD network even more challenging. Until and unless CGD companies foresee any viable return on capital employed any investment in establishment in network expansion would be very challenging. We would like to highlight that before 9<sup>th</sup> and 10<sup>th</sup> round CGD network authorization covered mere 18.29% of population of India covering only 10.38% of geographical area of India.
- E. The above fact is a glaring example of how still at current level of reach of natural gas to public, the natural gas market is not a matured market. There needs to be greater acceptance of natural gas as a fuel so as to bring e desired level of maturity in the NGP and CGD segments. To make natural gas a preferable fuel, Government of India through Ministry of Petroleum and Natural Gas, Director General of Hydrocarbon and the Hon'ble board is devising many policies to increase natural gas share in India's energy consumption from 6.2% to 15% till 2030.
- F. Therefore, the Hon'ble board would kindly see that the very rationale of allowing marketing exclusivity and differing opening up of CGD Segment for common carried use as envisaged in the CGD Exclusivity Regulations has yet not been fully achieved and at current market stage, the opening of CGD network as common carrier on mere expiry of the exclusivity period would not be fruitful in achieving the broader objective of the orderly development of CGD Network in the country.

In the above backdrop and while stressing the need for re-looking at the concept of declaring CGD Network as common carrier merely upon expiry of exclusivity period and rather consider such opening up only when the rationale of having a matured natural gas market in place is fully achieved, we submit our comments on the Draft Tariff Regulations in the Annexure – A attached to this letter.

We request the Hon'ble Board to kindly consider the same.

Yours sincerely,

  
A. Ramanakumara,  
Managing Director



**Annexure – A**  
**Comments on the Draft Tariff Regulations**

- A. The Draft Tariff Regulations envisage that there shall be a separate transportation rate for CGD and a separate transportation rate for CNG. However, the PNGRB Act does not envisage two separate transportation rates as per the definition contained in Section 2(zn) of the PNGRB Act. The PNGRB Act thus envisages a single transportation rate to be applicable for the CGD. Further, such approach would also run contrary to the Judgment dated 01/07/2015 of the Hon'ble Supreme Court of India in Civil Appeal 4910 of 2015. The provisions in this regard may therefore suitably reviewed by the Hon'ble Board.
- B. The proposal contained in the Draft Tariff Regulations for providing a separate transportation rate for CNG is also indicative of intention that any third party entity other than the authorized entity for relevant GA may also establish CNG Stations in the GA authorized to an authorized entity and the authorized entity will merely facilitate moving of gas to such CNG Station of an unauthorized entity. If that is the intent, it may be noted that the same will be glaringly ultra vires the PNGRB Act which provides for CNG Station to be part of CGD Network and thus the CNG Stations would form part of the network exclusivity and not the marketing exclusivity. The provisions in this regard may therefore suitably reviewed by the Hon'ble Board.
- C. As far as the applicability of the Draft Tariff Regulations is concerned, Regulation 3 provides for applicability of the Regulations immediately at the end of the marketing exclusivity period while the obligations for determining transportation rate under Regulation 4(1) arises only upon declaration of an authorized entity as common carrier or contract carrier. It may therefore be clarified in Regulation 3 that the transportation rate that may be determined by the authorized entity under Regulation 4 would apply only prospectively and not retrospectively with effect from the end of marketing exclusivity period.
- D. The provisions contained in Regulation 4(3) requiring the authorized entity to disclose the interactive spreadsheet calculation model raises serious issues of confidentiality of commercially sensitive data and is required to be re-visited.
- E. The provisions contained in Regulation 4(4) which allows filing of complaints to the Hon'ble Board by any entity results into effectively a third party intervention in an exercise which is otherwise the commercial prerogative of the authorized entity subject to supervision by the Hon'ble Board. Such provisions also need to be re-visited also in light of the multiplicity of litigations that it will give rise to.
- F. As far the Schedule is concerned, we have following submissions to make:

Schedule Clause	Remarks
2	The post- tax Rate of Return (RoR) has been reduced to twelve percent (12%) on capital employed whereas as per the earlier tariff regulation it was 14%. The CGD business is highly capital intensive with volatile demand and hence requires higher remuneration than a Natural gas pipeline.

(3)(1) (b)	Cost of CNG dispensers and other equipments associated for operation of CNG station should be considered in calculation of Net fixed asset for determination of the transportation rate for CNG.
(3) (1) (C) Attachment 2.	Rate for determining value of line pack volume should be calculated by considering rate of gas in last invoice of the authorized entity at the end of the financial year.
(3)(1) (d)	Interest free Refundable security deposit collected by CGD entity should be not be netted against last mile connectivity (LMC) expenditure.
3 (3)	Loans are taken to finance capital establishment of CGD network. Interest on loan should be taken into consideration in calculating gross fixed asset.
4, Operating cost	Operating cost should include all the financial cost incurred for a fixed asset or for any other operating cost as per audited accounts prepared as per prevailing Accounting Standard from time to time and not limited to expenses related to BG/LC to various gas suppliers' transporters. (e.g Interest on Lease Liability as per IND AS 116)
4 (2) (viii) (a)	Residual value of 5% for pipelines should not be considered. Depreciation should be considered on full value of pipelines.
4 (2) (viii) (b)	Useful life of compressors should be at least 15 years.
4 (2) (ix) (b)	Revenue from income realized from transportation rates for CGD and CNG or sale or transfer of fixed asset should not be netted from operating cost.
Land Lease Charges	Authorized entity pays lease on whole land and not on part of land used for siting CNG compressors. 100% land leased under CNG station should be considered operating cost of the transportation rate for CNG.
Cost to company	Any cost to the company should be accounted in operating cost as per accounting standards.
Audited data	Data of only preceding year should be considered for deriving transportation rate and compression charges.
Default charges	Default in existing contracts of gas purchase or transportation by authorized entity due to open excess should be part of operating cost for the authorized entity.
Bank Security	Third party should provide bank security against transportation services.