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Ms. Vandana Sharma
Secretary

Petroleum and Natural Gas Regulatory Board
1st Floor, World Trade Centre
New Delhi - 110001

Dear Madam,

Sub.: Views/comments on the draft “Petroleum and Natural Gas Regulatory Board (Gas Exchange) Regulations, 2020”

We thank you for inviting stakeholder comments on the draft “Petroleum and Natural Gas Regulatory Board (Gas Exchange) Regulations, 2020”.

Development of a truly competitive gas market is necessary to meet the government’s stated objective of increasing the share of gas in the primary energy mix to 15%. This requires putting in place a regulatory and policy framework enabling creation of a market structure which fosters competition. We therefore fully support PNGRB’s initiatives towards development of a competitive gas market in India, including the proposed Gas Exchange Regulations.

The successful operation of a gas exchange will have multiple benefits: it will enable development of market-based price discovery mechanism to incentivize investment in E&P, develop a gas price index for India which can be a price marker for both imported LNG and domestic gas (reflective of the Indian gas market), encourage supply competition, provide increased market access and flexibility to customers and lead to the expansion of Indian gas market.

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Our comments on the proposed regulation are provided in three sections:

Section 1: pre-requisite regulatory and market structure reforms for Gas Exchange requires a holistic approach to be successful -

- **Fair, transparent and non-discriminatory access to pipeline infrastructure is a must to ensure low price of gas cascades to the consumer:** consumers should have the choice to source gas at most competitive rates from multiple suppliers. This requires that all market participants should have access pipelines in a fair, transparent and non-discriminatory manner. It thus becomes imperative to implement, in letter and spirit, the separation of content (merchant) from carriage (transportation) functions into independent, standalone entities with separate ownership to ensure end-consumers benefit through an equal access to all suppliers.
- **Independent Transmission System Operator (TSO):** creation of an independent TSO is a key requirement to ensure access to transportation capacity in a fair, transparent and non-discriminatory manner to all market participants on standard terms and conditions and duration to match the commodity contracts traded on the gas exchange.
- **Creation of liquidity at the exchange:** liquidity is a measure of ease of trading volumes without causing volatile price movements and is a key requirement for the successful development of a gas trading platform and a robust price marker. Creation of such liquidity requires large volumes and depth in the market. Further, price discovered through such trades should be considered as competitive discovered price for all gas production with marketing and pricing freedom.
- **Transparency of Information:** accurate, timely and reliable data in a transparent and non-discriminatory manner builds market confidence. Real-time data of traded volumes and prices must be disseminated quickly to all market participants. This will ensure that trade transactions are based on real and reliable data which is fair for both sellers and buyers. Price discovery should be done transparently so that the price at which gas is traded is publicly known. Closing bid-offer, back up or down pricing and daily price fluctuations should be transparently shared.

Information on energy consumption, pipeline data on physical flows, capacity availability (and timing of capacity booking), exchange information on volumes and prices are some key data that needs to be provided. An electronic bulletin board containing the required data must be mandated by the regulation.

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- **Uniform Tariff regime:** development of a uniform tariff regime either through a unified tariff for all interconnected pipelines and/or transitioning to an entry-exit tariff system will encourage consumption of gas by avoiding additive tariffs and eventually lead to consolidating and increasing liquidity via development of a single hub location. We believe such an integrated tariff system should be implemented in one go rather than going through any sub-optimal solution.
- **Inclusion of natural gas in Good & Services Tax (GST):** inclusion of natural gas in GST is imperative to ensure free trade of gas across the country and avoid tax anomalies due to state specific taxes which distort free movement and proper price discovery. Non-inclusion of natural gas in the GST would likely lead to state specific trades on the exchange and inhibit liquidity creation.

Section 2: Governance and independence of Gas Exchange

- The proposed Regulations must ensure the independence of the Gas Exchange by ensuring that no market participant (either directly or through affiliates/related parties) has any operational or management influence or control of the Gas Exchange. Further, in line with international practice, no member (either directly or through affiliates/related parties) should be:
 - designated as a promoter
 - provided a representation the Board of Directors
- The provisions of the Regulations should be fair and non-discriminatory to all participants in the gas exchange. To this end, in case of default by any member, all market participants should be treated on equal footing when clearing dues as per the default remedy mechanism.
- Lastly, it is vital to ensure that any existing and functional gas exchange, before the date of enactment of the proposed Regulations, is brought under the purview of and regulated under these Regulations.

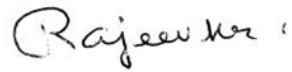
Section 3: Detailed clause wise comments

- Our detailed clause wise comments to the proposed Regulations are provided in Annexure 1.
- Need to review all other referenced regulations: the proposed Gas Exchange regulation has several references to Access Code, National Gas Grid Management Services (NGGMS), Gas Transportation Agreement, Gas Bulletin Board -regulations for which are yet to be notified. We will be able to provide final comments on the proposed Gas Exchange Regulations once the referenced regulations are notified after consultation with industry stakeholders.

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We shall be happy to discuss further on the issue.

Yours sincerely,

A handwritten signature in black ink that reads "Rajeev Kumar". The signature is written in a cursive style with a large initial 'R'.

Rajeev Kumar
Director – Regulatory Affairs & Business Development

encl.: Annexure 1 - clause wise comments on draft Gas Exchange Regulations

Annexure 1: Clause wise comments on draft Gas Exchange Regulations

Clause	Proposed Suggestions
Access Code related clauses	Comments on draft Gas Exchange Regulations would be premature / piecemeal as Access Code and provisions thereof aren't part of stakeholder consultations. This is imperative as key elements like Capacity Tranche Agreement, Gas Transportation Agreement, National Gas Grid Management Services, Gas Bulletin Board are all set to be defined in the Access Code.
2. (1) nnn	<ul style="list-style-type: none"> Given that the Upstream works on the principle of unincorporated joint venture, PSC/RSC Contractor should be allowed to become a member. PSC/RSC Contractor should be suitably defined, constituting of all the companies to the Contract.
3.1 (b)	<ul style="list-style-type: none"> Envisages secondary trading of pipeline capacity contracts. Regulation for secondary capacity trading must be in place to make it operational.
3.1 (e)	<ul style="list-style-type: none"> We suggest this clause should also cover financial products / derivative contracts.
5.1	<ul style="list-style-type: none"> Requires gas exchange to provide information as required in Access Code – Please clarify what information as Access Code has not been notified yet. Second Para of the clause mentions “Provided further that a gas exchange is not required to obtain any approval under these regulations”. It needs to be clarified under what conditions would an exchange not be required to obtain approval under these regulations. Lastly, it is vital to ensure that any existing and functional gas exchange before the date of enactment of the proposed regulation is brought under the purview of and regulated under this regulation.
5.2 (3)	<ul style="list-style-type: none"> Provides PNGRB right to suspend transactions at the exchange. Need to ensure that the exchange will be responsible for any liability arising out of such suspension to the market participants. More clarity on the criteria for investigation, suspension etc would be useful – probably market abuse related.
6.1	<ul style="list-style-type: none"> Liquidity is a measure of ease of trading volumes without causing volatile price movements and is a key requirement for the successful development of a gas trading platform and a robust price marker. Creation of such liquidity requires large volumes and depth in the market. Further, price discovered through such trades should be considered as competitive discovered price for all gas production with marketing and pricing freedom.
6.2.a.i.	<ul style="list-style-type: none"> The sentence stating that “The economic principle of social welfare maximization and to create buyer and seller surplus simultaneously during price discovery.” need to be reviewed to avoid any ambiguity and future misinterpretation. There should be absolutely no restriction without regard to price discovery process and to discover the true market price.
6.2.a.iii.	<ul style="list-style-type: none"> Requires Regulation pertaining to Access Code and NGGMS to be notified prior to commenting.

Clause	Proposed Suggestions
6.b	<ul style="list-style-type: none"> Provisions in Access Code pertaining to Capacity Tranche Agreement, Gas Transportation Agreement, National Gas Grid Management Services, Gas Bulletin Board would be key to comment on the Delivery Procedure.
6.c.vii	<ul style="list-style-type: none"> Provides for ceiling on Member Service Charge. Recommend that there be no ceiling and let it be decided by market forces. In any event, the Member's client could trade gas directly on the Exchange in gas the Member Service Charge is deemed too high.
7	<ul style="list-style-type: none"> What will be the treatment of an exchange established prior to notification of this Regulation?
10.c 10.2	<ul style="list-style-type: none"> Project report should also include detailed shareholding and risk management policy. Should seek enough information to see who ultimately is in control of the entity
11.2.c	<ul style="list-style-type: none"> A clear conflict of interest policy for shareholders and Directors must be prescribed.
18.1	<ul style="list-style-type: none"> We request the Hon'ble Board to provide the basis for adopting INR 25 Crores net worth requirement. Further, the net worth requirement must be dynamic and linked to risk exposure.
19	<ul style="list-style-type: none"> There shall be a clear demarcation between ownership, management / operations and participation in trading.
20	<ul style="list-style-type: none"> No gas pipeline / gas trading company / member can hold more than 5% of the paid-up equity share capital in the authorized gas exchange. No promoter can become a member of the gas exchange. If a member becomes promoter of a gas exchange, then the member must reduce their equity to a maximum of 5% in accordance with clause 20 a. within a year.
22	<ul style="list-style-type: none"> A person who is employed or contracted by any Member (or its affiliate or associate or its parent) cannot become a key management personnel of a gas exchange. A cooling off period must be considered for retired personnel of a member prior to them becoming key management personnel of an authorized gas exchange.
24.6	<ul style="list-style-type: none"> Per international best practices, no trading member, clearing member or proprietary member or their associates or agents shall be on board of directors of any authorized gas exchange or clearing corporation.
25.4	<ul style="list-style-type: none"> Must also include proprietary member.
26.4.b	<ul style="list-style-type: none"> Must also include proprietary member.
31 & 34	<ul style="list-style-type: none"> Risk management committee will constantly monitor all potential risk in the Exchange. Review the risk management framework and process of the gas exchange on a quarterly basis. A risk management committee will periodically send report to Regulator.

Clause	Proposed Suggestions
35.2	<ul style="list-style-type: none"> • The clause provides for precedence of payment of transportation tariffs and transportation charges and scheduling and system operation charges. The payments due to Seller/ Buyer must be pari-passu to the above. • Order for utilization of funds to clear defaulter dues – the contribution of all non-defaulting Members to the Settlement Guarantee Fund must be accessed after the Reserves of the Exchange.
37	<ul style="list-style-type: none"> • How does the Delivery Procedure work if different pipelines do not have the same access rules? The two sets of legislation need to be aligned.
42	<ul style="list-style-type: none"> • There should be provision of refund of Member contribution towards the Settlement Guarantee Fund upon winding up/ withdrawal of PNGRB authorisation of Exchange.
46	<ul style="list-style-type: none"> • Bye-Laws of Gas Exchange must also include standardized GTA which will govern the transport of gas to and from the hub.
47.3	<ul style="list-style-type: none"> • Should also include Proprietary Member.
48	<ul style="list-style-type: none"> • Should also include Proprietary Member.
50	<ul style="list-style-type: none"> • The regulation must include provisions for indemnification/ liability apportionment in the case of suspension of transaction activities by the PNGRB.