



**India Gas Solutions Private Limited**  
(CIN - U40200MH2011PTC224011)

10<sup>th</sup> August 2020

Secretary  
Petroleum and Natural Gas Regulatory Board  
1<sup>st</sup> Floor, World Trade Centre  
New Delhi - 110001

Dear Madam,

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

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

As evidenced in major gas markets, hub-based pricing mechanism can help to bring the required transparency in pricing of gas, attract gas supplies by addressing price distortions. Most of the major developed gas markets globally have a market (hub) based pricing for gas. We firmly believe that once India transitions to a hub based gas market, where the price for gas is discovered through a transparent market mechanism, this will lead to development of a robust gas market in India and provide the pricing basis for both domestic gas and imported LNG in the long term.

We fully support PNGRB’s initiatives towards development of competitive gas market in India, including the proposed Gas Exchange Regulation, which is a welcome first step in that direction.

However, for the gas exchange to be successful, the following steps also need to be taken in a timebound manner:

- 1. Provision of non-discriminatory Infrastructure Access** is critical to ensure that the traded transactions are executed without any discrimination or undue advantage to a dominant supplier, infrastructure owner or a gas buyer. A standalone transmission entity that is not involved in marketing is ideally placed to effectively play the role of an independent Transmission System Operator (TSO) for providing non-discriminatory infrastructure access. Therefore, market structure reform is needed where there is complete (financial, operational, legal, management and ownership) separation of

merchant and transportation functions into an arms-length, standalone entities. This will ensure end-consumers benefit through an equal access to all suppliers, which is essential.

2. **Creation of a single gas market** will play a large part in determining the success of a gas hub. The key reforms for development of a single gas market are:
  - a. **Implementing a unified tariff for all interconnected pipelines and/or transitioning to an entry-exit tariff system** – which will lead to higher consumption of gas by avoiding pancaking of pipeline tariffs; and
  - b. **Inclusion of natural gas into GST** – which will provide uniform taxation to encourage free trade of natural gas across the country without any tax anomalies and to remove incentive for off-market transactions/ delivered sales for taxation efficiency.

Taken together, these reforms will lead to development of gas market in India by enabling creation of a single gas hub, fostering liquidity and a deeper market enabling creation of an Indian benchmark price marker.

3. **Liquidity** is a key requirement which will determine the success of a gas hub. Putting in place policy and regulations to enable non-discriminatory infrastructure access and creation of a single gas market as described above, along with putting in place enabling provisions to encourage domestic gas producers and aggregators to transact gas at the gas hub will enable development of liquidity.
4. **Maintaining independence of the gas exchange** is critical to ensure confidence of market participants to trade at that exchange. The proposed regulation must ensure that no market participant (either directly or indirectly) should have any operational or management control of any authorised gas exchange. This can be ensured by mandating:
  - a. No Board representation for any market participant;
  - b. Cooling off period prior to appointing a person as key management personnel who was previously employed and or contracted by a market participant;

In addition to the above, our detailed comments are provided in the annexure attached herewith.

We shall be happy to discuss further on the issue.

Yours sincerely,



**Utpal Maru**  
**Chief Commercial Officer**

| Clause  | Proposed Suggestions  |
|---|---|
| General   | <ul style="list-style-type: none"> <li>No stakeholder consultation has been initiated on Access code. Therefore, we are not able to comment on numerous provisions of draft Gas Exchange Regulations which refer to Capacity Tranche Agreement, Gas Transportation Agreement, National Gas Grid Management Services, Gas Bulletin Board, Congestion in gas pipelines, Delivery Procedure and other related provisions.</li> </ul> |
| Clause 3 – Scope of regulations   | <ul style="list-style-type: none"> <li>Need enabling regulations to facilitate and operationalize secondary capacity trading.</li> </ul>  |
| Clause 5 - Approval / suspension of contracts                                 | <ul style="list-style-type: none"> <li>Exchange should be responsible for any liability arising out of such suspension to the market participants.</li> <li>Please provide greater clarity on the criteria for investigation, suspension among others.</li> </ul>   |
| Clause 6 - Principles of market and market design                             | <ul style="list-style-type: none"> <li>Suggest PNGRB to work with MOP&amp;NG to enable all producers/ aggregators to sell gas on the trading platform in a time bound manner.</li> <li>It would be important to clarify meaning of “social welfare maximization”.</li> <li>Market forces should determine member service charge. Regulations should not mandate floor / ceiling on any charges.</li> </ul>                        |
| Clause 7 – Obligation to seek authorization.                                  | <ul style="list-style-type: none"> <li>Important to understand what will be the treatment of an exchange established prior to notification of this Regulation?</li> </ul>   |
| Clause 10 - Documents and particulars for application                         | <ul style="list-style-type: none"> <li>Project report should also include detailed shareholding and risk management policy.</li> <li>Clearly highlight who is ultimately in control of the entity.</li> </ul>   |
| Clause 11 - Consideration of Grant of Authorisation                           | <ul style="list-style-type: none"> <li>Clearly prescribe a conflict of interest policy for shareholders and Directors.</li> </ul>   |
| Section 20/21 - Shareholding pattern of Gas Exchange and Clearing Corporation | <ul style="list-style-type: none"> <li>No gas pipeline / gas trading company / member can hold more than 5% of the paid-up equity share capital in the authorized gas exchange.</li> </ul>  |

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|   | <ul style="list-style-type: none"> <li>• No promoter can become a member of the gas exchange. If a member becomes promoter, then the member must reduce their equity to a maximum of 5% within a year.</li> <li>• Include requirement that 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 for a stipulated timeframe.</li> </ul> |
| Clause 24 –<br>Composition of board of directors                          | <ul style="list-style-type: none"> <li>• Board of Directors should not have any representation from trading member, clearing member or proprietary member or their associates or agents.</li> </ul>   |
| Clause 25/26<br>Conditions of appointment of Directors/ Managing Director | <ul style="list-style-type: none"> <li>• In addition to any trading member or clearing member or their affiliates, Managing Director and Independent Director should also not provide services to any proprietary member.</li> <li>• Managing Director should not be a trading member, clearing member or proprietary member.</li> </ul>  |
| Clause 34 - Risk management by the gas exchange                           | <ul style="list-style-type: none"> <li>• Review of risk management framework and process of the gas exchange should be on a quarterly basis to ensure compliance.</li> <li>• A risk management committee should periodically send report to Regulator.</li> </ul>   |
| Section 35 - Default remedy mechanism                                     | <ul style="list-style-type: none"> <li>• All members should have same rights and conditions and there should be no differential treatment of members. Thus, no priority should be given to settlement of transportation tariff and transportation charges, scheduling and system operation charges over any other market participant.</li> </ul>  |
| Clause 42 - Settlement Guarantee Fund                                     | <ul style="list-style-type: none"> <li>• Upon winding up/ withdrawal of PNGRB authorisation of Exchange members contribution should be refunded.</li> </ul>   |
| Clause 46 - Bye-laws and Rules  | <ul style="list-style-type: none"> <li>• Standardized GTA which will govern the transport of gas to and from the hub should be part of the Bye-laws and Rules.</li> </ul>   |
| Section 50 – Other circumstances requiring intervention                   | <ul style="list-style-type: none"> <li>• In the case of suspension of transaction activities by the PNGRB, the regulation must have provisions for indemnification/ liability apportionment.</li> </ul>   |