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SEI/MC/2020/PNGRB/PCD/06
10 August 2020

The Secretary,
Petroleum & Natural Gas Regulatory Board,
1st Floor, World Trade Centre,
Babar Road,
New Delhi - 110001

Subject: Comments on the proposed draft Petroleum and Natural Gas Regulatory Board (Gas Exchange) Regulations, 2020

Respected Madam,

This has reference to the public notice (Ref: PNGRB/Tech/35-GasEx/(1)/2020) soliciting views on the proposed draft Petroleum and Natural Gas Regulatory Board (Gas Exchange) Regulations, 2020.

We would like to compliment the efforts of the honourable Board in undertaking various initiatives aimed at developing competitive and deep gas markets in the country. The proposed regulation for establishing and operating Gas Exchanges is another welcome step in this direction. As some of the key pre-requisites are also being proposed to be implemented along with this regulation, we firmly believe that this initiative will support the development of Gas Exchanges, which will contribute significantly to achieving the objectives of the Government to develop a gas-based economy and increasing the share of gas in the primary energy mix to 15%. We have reviewed the draft regulation and have the following comments and suggestions for the consideration of the honourable Board:

Base Minimum Capital (BMC): The draft regulation proposed INR 50 Lakhs as the BMC requirement for any member. While the stipulated deposit seems to be in line with the circular issued by SEBI (CIR/MRD/DRMNP/ 36 /2012) for Trading Members and Brokers with Algorithmic trading facility in cash and derivatives segments, we would like to highlight that the said circular also prescribes lower BMC deposits for Proprietary (INR 10 Lakhs) and Trading Members (INR 15 Lakhs) without Algo facility. The honourable Board may consider different BMC deposits depending on the profiling of members (Proprietary or Trading members) and market segments (physical delivery or derivatives) commensurate with the risk exposure. As the development of the Gas Exchanges is in a very nascent stage in the country, the proposed amount of INR 50 Lakhs for all members may act as an entry barrier for small gas consumers/shippers. Hence, we recommend the BMC of INR 10 Lakhs and 15 Lakhs for Proprietary and Trading Members respectively in case of physical delivery trades. The Board may review the BMC amount periodically and revise the same in line with the actual performance of the Gas Exchanges.

Gas Exchange Transaction Charge: While the draft regulation proposed a ceiling on the members' service charge, there is no such stipulation for the transaction charge or other fees levied by an authorised Gas Exchange and/or clearing corporation. The Board may prescribe a ceiling for the transaction charge and other fees in line with the practices adopted in the Power sector and global Gas Exchanges. The Gas Exchanges may be permitted to offer discounts to members on a non-discriminatory basis for different products depending on the tenor and volume.



Settlement Guarantee Fund (SGF): The draft regulation proposed an initial contribution to SGF of INR 50 Crores by Gas Exchange at the time of authorisation or 5% of the cumulative gross revenues of the Gas Exchange of the preceding five years. The risk to the fund is a function of a variety of factors including trade volume, market volatility, capital adequacy of members, maximum settlement liability of members, history of defaults and the exposure covered by other safety measures employed by the Gas Exchange etc. Hence, the adequacy of SGF can't be set as an absolute figure or a fixed formula. The minimum required corpus to be contributed by the Gas Exchange or Clearing Corporation for meeting the contingencies arising out of default by members should be determined periodically (monthly/quarterly) based on appropriate stress tests for different product segments. So, the Board is requested to consider the minimum SGF corpus to be contributed by the Gas Exchange or Clearing Corporation to be the quantum determined based on the stress tests periodically or INR 50 crores, whichever is higher.

Delivery Procedure: As per the proposed draft regulation, the members with valid GTAs are permitted to participate at the Gas Exchange, and they may or may not have a CT Agreement at the time of placing bids. Such members without CT Agreements are advised to verify the availability of capacity on the Gas Bulletin Board before participating in the trades. The capacity for the executed trades would be automatically booked for the shipper, and the status of available capacity on the Gas Bulletin Board would be updated on a real-time basis. The National Gas Grid Management System (NGGMS) shall undertake nomination and scheduling for the executed based on the information provided by the Gas Exchange. In case of congestion in the pipelines, NGMMS shall adopt the curtailment sequence as specified in the Access Code (GTA-Operating Code) and an approved market splitting methodology will be considered for determination of market-clearing prices.

It is understood that the honourable Board will be proposing an amended Access Code with standardised GTA terms including the Operating Code and regulations for establishing NGGMS and National Gas Bulletin Board including the operational modalities. These pre-requisites are critical to facilitate the development of Gas Exchanges in the country which will contribute to achieving the dual objectives of promoting competitive markets and protecting the interest of consumers by fostering fair trade and competition amongst the entities. In this backdrop, we request to consider the following aspects while developing the requisite regulations:

- While the role of NGGMS is specified in the limited context of the Gas Exchange operations, we urge the honourable Board to develop the NGGMS as a full-fledged independent system operator. The NGGMS should be established as an independent entity on the lines of POSOCO to avoid potential conflicts of interests and enable all shippers to access pipeline capacity on fair and non-discriminatory terms. It should be the single nodal body for capacity booking, nomination & scheduling and imbalance management for all pipeline capacity including common and contract carrier. An independent System Operator coupled with Access Code reforms, such as offering different capacity products catering to the needs of different user segments including capacity booking on RE/Interruptible basis and rationalisation of system discipline penalties including providing various imbalance management services, will enable the customers to procure natural gas at the most competitive prices leading to the expansion of gas markets.
- As the draft regulation envisaged Intra-day, Day-ahead and Term-ahead products, it is expected that the Access Code would be amended to enable capacity booking, Nomination and Scheduling accordingly. Additionally, as the draft provided for capacity booking on a real-time basis by the NGGMS for executed trades, we request the Board to specify clear operational rules to provide a level-playing field for bi-lateral trades (request by any shipper) vis-à-vis Gas Exchange-based trades for capacity booking.



- If the Gas Exchange follows continuous bidding mechanism, then the capacity booking may be carried out on the First-come-first-serve basis for both the bi-lateral and Gas Exchange-based trades. The Gas Exchange should coordinate with NGGMS and clear any trade only subject to availability of capacity on a real-time basis.
- If the Gas Exchange follows auction-based bidding mechanism, then the capacity booking may be carried out on the First-come-first-serve basis for the bi-lateral trades until the closure of the auction time window on the Gas Exchange. The Gas Exchange should clear the collective trades only to the extent of availability of capacity as confirmed by the NGGMS. During this process, the capacity booking may be blocked for bi-lateral trades for a short time window, say 30 minutes, until the determination of capacity-constrained market clearing volume and prices for different products on the Gas Exchange.

Shareholding Pattern: While we support the proposed ceiling on the shareholding by the members and other investors of the Gas Exchange and/or Clearing Corporation to avoid a potential conflict of interest, the Board may consider a higher ceiling, say 25% in line with the Power Market Regulation, for promoters to improve the materiality and economic attractiveness leading to adequate investments for the development of Gas Exchanges.

Code of Conduct: While the draft proposed elaborate stipulations covering the code of conduct and code of ethics for Directors and key Management personnel, we request the honourable Board to consider stipulating a code of conduct for the Gas Exchange as an entity, on the lines of ICE Code of Business Conduct, covering various key aspects including anti-bribery, corruption and money laundering, gifts and hospitality, antitrust, trade compliance and potential conflict of interests. It may also be noted that only Trading and Clearing Members are excluded under various provisions to avoid conflict of interests. This restriction should be equally applicable for Proprietary Members.

Market Surveillance: The draft proposed modalities for establishing the market surveillance committee and key functions for monitoring the day-to-day transactions to ensure market integrity. Additionally, we recommend that the Gas Exchange should establish robust mechanisms and procedures to carry out stringent KYC checks on members and clients and procedures to initiate disciplinary actions (including suspension or termination) against the members which are proven to be in breach of the code of conduct. It is recommended to carry out a periodic audit on members/clients to minimise the probability of default and avoid Gas Exchange facilitating transactions with the members/clients who could potentially be involved in activities prohibited by Law. Similarly, we advise that due regard should be given in establishing protocols in the Byelaws to align with the international laws, especially where the beneficial ownership traverses beyond the Indian border and trade control risks are flagged by relevant authority on a particular member.

Insider Trading Policy: The proposed draft covers non-public price-sensitive information relating to outage of LNG terminals, compressors on the natural gas pipelines and plants of major customers. The list should include domestic gas producing fields including offshore/onshore pipelines which are integral to the production system.

We request the honourable Board to review and consider the above inputs while finalizing the regulation. We will be happy to provide any further information if required.

Your Sincerely,
For **Shell Energy India Private Limited**

Ashwani Dudeja
Director