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August 10, 2020

Shri D. K. Sarraf
Chairperson
Petroleum & Natural Gas Regulatory Board
Government of India

Subject: Industry inputs on the draft "Petroleum and Natural Gas Regulatory Board (Gas Exchange) Regulations, 2020"

Dear Shri Sarraf,

Greetings from US India Strategic Partnership Forum (USISPF)!

As you may be aware, USISPF is a non-profit organization focused on strengthening business relations between the U.S. and India along with enhancing the U.S.-India strategic relationship. On behalf of our Board, and our member companies, I want to congratulate PNGRB on the reform-oriented approach that has been taken in the oil and gas sector in India. Please know that USISPF and its members are always available to lend you and your administration any form of support.

As per the draft "Petroleum and Natural Gas Regulatory Board (Gas Exchange) Regulations, 2020", we wish to submit for the PNGRB's consideration inputs from the industry on the same. You will find detailed inputs in the Annexure attached with this letter.

Please note that USISPF has developed these inputs after detailed deliberations with the key players and stakeholders of the oil and gas industry in India. We believe that these inputs will be crucial in ensuring the gas exchange to be a fair, transparent, robust and efficient platform for the oil and gas sector.

We would welcome a discussion on these inputs between the PNGRB and the industry, should that be of use. If you or your team needs further information or clarification on these suggestions, please reach out to my colleague Mr. Siddharth Aryan, Director of Energy and Infrastructure Division at USISPF, on +91 95601 91291 or saryan@usispf.org.

Thank you in advance for your consideration of this representation.

Sincerely,

A handwritten signature in black ink, appearing to read "Mukesh Aghi".

Dr. Mukesh Aghi
President & CEO
US-India Strategic Partnership Forum

Annexure

Oil and Gas Industry Inputs on draft “Petroleum and Natural Gas Regulatory Board (Gas Exchange) Regulations, 2020”

- Development of a truly competitive gas market is a must to meet the government’s stated objective to increase 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. The proposed Petroleum and Natural Gas Regulatory Board (Gas Exchange) Regulations, 2020 is a welcome step in that direction.
- For Gas Exchange to be successful it needs pre-requisite regulatory and market structure reforms. It is imperative to take a holistic approach.
- The industry recommends that the consumers could have the choice to source gas at most competitive rates from multiple suppliers, which requires all market participants can access pipelines in a fair, transparent and non-discriminatory manner. It thus becomes important to implement, in letter and spirit, the separation of content (merchant) from carriage (transportation) functions into an arms-length, standalone entities with ownership separation to ensure end-consumers benefits through an equal access to all suppliers.
- The industry recommends the creation of an independent TSO is a key requirement to ensure access to transportation capacity in a fair, transparent and nondiscriminatory to all market participants on standard terms and conditions and duration to match the commodity contracts traded on the gas exchange. While the draft regulation envisaged National Gas Grid Management Services (NGGMS) to undertake nomination and scheduling of gas on all pipeline networks, it is advised to create NGGMS as a full-fledged independent system operator and suitably amend the Pipeline Access Code to facilitate pipeline access on fair and non-discriminatory terms pending separation of marketing and transportation businesses of integrated pipeline entities.
- It is the industry’s suggestion to create 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 may require 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.
- The industry believes that accurate, timely and reliable data in a transparent and nondiscriminatory manner builds market confidence. Real-time data of traded

volumes and prices to 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 the industry recommends to be provided. As proposed in the draft regulation, it is advised to establish an electronic bulletin board containing the required data could be mandated by the regulation.
- It is the industry's recommendation to develop of a uniform tariff regime either through a unified tariff for all interconnected pipelines and/or transitioning to an entry-exit tariff system as this can 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 integrated tariff system could be implemented in one go rather than going through any sub optimal solution.
- It is industry's strong recommendation to include natural gas in Good & Services Tax (GST): Inclusion of natural gas in GST is important to ensure free trade of gas across the country and avoid tax anomalies due to state specific taxes which distorts 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.
- In addition to the recommendations, the industry think that it is important to also put in place an enabling Governance framework with independence of Gas Exchange.
- Regulations can ensure 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 Board is requested not to relax the proposed provisions on the applicable ceilings on the shares potentially held by different market players and the provisions to avoid conflict of interest.

- The industry recommends that the provisions of the regulations are fair and nondiscriminatory to all participants in the gas exchange. To this end, in case of default by any member, all market participants are to be treated on equal footing when clearing dues as per the default remedy mechanism. Additionally, the Board is requested to consider inclusion of a robust 'Code of Conduct' in the bye-laws of the exchanges and mandate periodic audit of members and clients (KYC) to ensure timely

update of their risk profiles, while stipulating margin requirements, to minimise the probability of the default.

- **Base Minimum Capital (BMC):** The draft regulation proposed INR 50 Lakhs as the BMC requirement for any member. The Board is requested to consider a range of BMC deposits depending on the profiling of members (Proprietary or Trading members) and market segments (physical delivery or derivatives) commensurate with the risk exposure in line with the SEBI regulations (INR 10 lakhs to INR 50 Lakhs). As the development of the gas exchanges is in a very nascent stage in the country, the proposed amount of INR 50 Lakhs may act as an entry barrier for small gas consumers/shippers. Considering this, it is proposed to consider the BMC of INR 10 Lakhs for Proprietary and Trading Members in case of physical delivery trades.
- **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. It is recommended to prescribe a ceiling for the fees and charges in line with the practices adopted by CERC and global gas exchanges. The Board may consider specifying different ceilings for different products depending on the tenor and volume. The exchange and/or clearing corporation may be permitted to offer discounts to the ceiling to the members on non-discriminatory basis.

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