

PNGRB's Public Notice Dtd 29.06.2020 on Unified Tariff – Views/Comments from GAIL (I) Ltd.

- 1) As a concept, Unified tariff is aimed at rationalization of gas pipeline tariffs and it would aid equitable growth of the gas sector. While it is expected to boost capacity utilization of those pipelines currently having additive tariffs, it would improve the overall affordability of gas in distant parts of the country.
- 2) On 29.06.2020 PNGRB has web-hosted a public consultation document on a new methodology for fixing entity-wise Unified Tariff and has also proposed to simplify the present multiple zonal tariff structure into two-zone tariffs for the integrated natural gas pipeline systems.
- 3) It is seen that, inter-alia, the new methodology has proposed to treat **Volume Divisor** in a different manner for unified/integrated pipeline systems and there are serious anomalies in the way Volume Divisor has been proposed to be taken in this consultation document.

In respect of **Volume Divisor** some specific points which need the attention of PNGRB are:

- (i) Addition of Capacities: It has been proposed to add provisionally authorised capacities of all the constituent pipelines (including those pipelines that do not have any source of gas other than its upstream/feeder pipeline itself), and deduct the actual gas volumes transported in the second/subsequent pipelines. In this regard, the following are submitted:
 - a) PNGRB determines the Natural Gas Pipeline tariffs by considering certain normative capacity utilizations as volume divisors, which in most cases is much higher than the actual annual volume flows. Even if the actual utilisation increases and the same is higher than the normative volumes, then in any case, such higher actual volume is considered for tariff determination, thereby limiting the returns only upto 12% post-tax. Therefore, the present tariff architecture has an in-built mechanism to limit the returns in any case, but to penalize the pipelines if the actual volumes transported is lower than the normative capacity utilizations as considered in the tariff fixation.
 - b) Given this, the capacity of a pipeline with an independent gas source needs to be dealt with differently as compared to a pipeline which has a feed-in from another upstream gas pipeline as in the latter case, the total system capacity (of both pipelines) cannot exceed the capacity available in the upstream/feeder pipeline. In other words, adding up of two capacities would result in incorrect double counting and would further lead to reduction of returns to the transporters.
 - c) In order to allow realization of reasonable returns, the normative volume divisor for the unified/integrated pipeline systems should not be kept as proposed in the consultation document. Instead, considering the fact that the downstream pipelines (which do not have their own separate gas source) do not actually lead to any additional capacity to the integrated system (rather, they are like spur-lines only), it may be reasonable to deduct all such constituent pipeline capacities from the summative capacity of the volume divisor.
 - d) Further, since the normative utilization of the capacity is the basis for determining the divisor, therefore there is no further need to consider the actual volumes through subsequent pipelines (which do not have their own independent gas source) for provisionally considering the total system capacity. Or else, the provisional capacity may be submitted by the entities in line with the extant practice and the same shall be subject to determination and declaration of the final capacity of the authorized integrated pipeline systems by the Board in terms of the Capacity Determination Regulations, 2010.

(ii) Consideration of Declared / Revised Capacities:

As per the provisions of Clause 6(1) of the PNGRB (Determination of Natural Gas Pipeline Tariff) Regulations, 2008, normative percentage of the capacity of natural gas pipeline as declared under the PNGRB (Determining Capacity of Petroleum, Petroleum Products and Natural Gas Pipeline) Regulations, 2010, shall be considered. In case, capacity has not been declared as per capacity determination regulations, then capacity as mentioned in the authorization or acceptance letter issued by the Board shall be used for tariff determination and subsequently when the capacity as per capacity determination regulations is available, then this capacity shall be replaced with the capacity declared as per the capacity determination regulations at the time of next tariff review.

As per the terms and conditions specified in the authorization or acceptance letter issued by the Board also, the capacity of the pipeline is explicitly mentioned only as “provisional” system capacity and it shall be subject to determination and declaration of capacity as per capacity determination regulations.

Thus the regulatory framework while providing for consideration of provisional capacities in tariff calculations, has specifically stated that subsequently it is to be replaced with the declared capacities as per capacity determination regulations, once available.

In view of above, going back to provisional capacity would not be correct. Accordingly, wherever declared capacities are already available or revised capacities are already accepted by PNGRB, then the same has been considered by the Board.

Consistent with this regulatory framework, wherever declared capacities are already available or revised capacities are already accepted by PNGRB, then the same may be considered rather than considering the provisional capacities of pipelines as proposed in the consultation document.

Otherwise, some pipelines, including those pipelines which have increased the capacity, by say installation of new compressor systems subsequent to the issuance of authorization letter, may unduly get benefitted due to consideration of such old provisional capacities that are even lower than the subsequent actual/declared capacities by the Board.

(ii) Capacity Expansions Authorized u/r 12 to be Accounted Separately as per Regulations: Wherever capacity expansion of any constituent pipeline has already been authorized under regulation 12 of the Authorizing Regulations, then in line with the same, its applicable Capex, Opex and Volume Transported are to be accounted separately. Accordingly, such expanded capacity may not be added into the volume divisor of tariff computation of the integrated pipeline system.

(iii) Volume Ramp-up benefit to be Given for Constituent Pipelines: Considering the fact that pipeline capacity utilizations ramp-up only gradually, in present regulations also annual volume ramp-ups have been provided for, and accordingly, ramp-up upto 75% utilization by the 5th year of the pipeline operations is given in the present regulations. Pipeline entities in the country have been representing that the actual pipeline utilisations are much lower (i.e. actual volumes in new pipelines are even less than 10% of the pipeline capacity), and considering the same, the present 5-year volume ramp-up has been recently proposed to be amended to gradually increase up to 10-years, as per another public consultation exercise by PNGRB. In this situation, for the volume divisor of the unified/integrated pipeline system, the present consultation document has proposed to effectively deny the volume ramp-up benefit for all its new constituent pipelines. This will not only defy regulatory provision as given for individual pipelines, but it will be against the spirit of providing ramp-up benefits because no new constituent pipeline can achieve full normative utilization from its first year of operation itself. Therefore, volume ramp-up benefits need to be given for all constituent pipelines also. Else, it would result in further reduction of returns to pipeline entities.

- 4) Certain amendments have been proposed to be applied on a non-uniform and discriminatory basis. For example, only for Central Govt. authorized pipelines, capacities will be as per the basis of Capacity Determination Regulations, but for other pipelines, it will be as per Authorization Regulations. Such selective approach may be avoided. Furthermore, certain key parameters of tariff determination/application are also not kept uniform between (i) Integrated pipeline system and (ii) Other individual Natural Gas Pipelines. For example:
- (i) While the Integrated Pipeline system will have only two-zone tariff concept, other individual Natural Gas Pipelines coming under the purview of the same Tariff Determination Regulations will continue to have multiple zonal tariffs.
 - (ii) Also, while as per present regulations, Volume Ramp up benefit will be there for individual pipelines, it will effectively be not there for the new constituent pipelines of the Integrated Pipeline system.
 - (iii) Likewise, Tariff Review Period will be once in 5 years for individual pipelines, but for Integrated Pipeline system it will be every 3 years.

Such non-uniform approach may be avoided.

5. Alternative Approach w.r.t. Unified Tariff:

- (i) On 28.09.2017, PNGRB issued a Public Consultation Process with a document titled “INTEGRATED AUTHORISATION FOR UNIFIED/POOLED TARIFF” and solicited the views and comments of the stakeholders on the unification/integration of natural gas pipelines as one single integrated natural gas pipeline network. Its intent was to provide authorization or acceptance of authorization for the integrated natural gas pipeline system and fix unified/pooled tariff for the same. This public consultation process, including open house meeting, was concluded by PNGRB in 2018.
- (ii) Therefore, in line with the already concluded process, first step may be the issuance of the Revised Authorization / Acceptance of Authorization letter by PNGRB for the integrated pipeline system of an entity, with its provisional capacity mentioned as Summation of all the individual capacities as already provisionally accepted/ pursuantly declared by PNGRB, but with the deduction of all the downstream pipeline capacities that only use the capacity of the upstream pipeline. Or else, provisional capacity of the integrated system may be submitted by the entities in line with extant practice and the same shall be subject to determination and declaration of final capacity of the authorized integrated pipeline systems by the Board in terms of the Capacity Determination Regulations, 2010.
- (iii) Then is the fixation of the Unified Tariff for such unified/integrated natural gas pipeline system with minimal amendments in Tariff Regulations. That is, except for the amendment w.r.t two-zone tariff structure, all other specific aspects related to the computation of tariffs of respective natural gas pipeline systems (like NFA, Economic Life etc.) can be addressed through the respective Tariff Orders itself (in line with the Tariff Order of Integrated HVJ).
