

GRM Hospitality And Consultants Private Limited

CIN: U74999DL2017PTC320100

GST: GSTIN: 07AAGCG9035N1Z4

Regd. Office: D-25, Kalkaji, New Delhi-110 019

Office: 1285-P, Sector 46, Gurugram, Haryana – 122 003

Secretary
Petroleum And Natural Gas Regulatory Board
First floor, World trade Centre
Babar Road
New Delhi- 110 001

Dated: July 26, 2020

Madam,

Subject: Comments on Public Notice dated June 29, 2020

This has reference to the public notice dated June 29, 2020 on the proposed amendments in PNGRB (Determination of Natural Gas pipeline Tariff) Regulations, 2008.

Our comments are as under-

1) Non-discriminatory application of proposed amendments in Regulations-

a) Certain proposed amendments are being applied on a non-standardized & non-uniform basis. For example, in respect of pipelines authorized under Regulation 17 of Natural Gas authorization Regulations and authorized as per Section 42 of the PNGRB Act, 2006, the capacities to be considered for Volume divisor shall be as per the provisions contained in the Capacity Determination Regulations. However, in case of pipelines authorized under Regulation 18 of the Natural Gas Authorization Regulations, the capacity would be construed as per Authorization letters already issued.

b) Certain key parameters of tariff recovery principles have not been kept uniform-

i) Tariff Recovery System:

Two Zones for integrated pipeline system is proposed at Zone 1 of 300 Kms & Zone 2 and Multiple Zones (of 300 Km each) in case of Other DCF non-integrated pipelines may lead to distortion in tariffs.

ii) Periodicity of applicability of tariffs:

Tariff applicability period of 3 years and 5 years respectively for integrated & non-integrated pipelines is discriminatory.

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Our Views

These non-uniform approaches may lead to creating different classes of pipelines under the Unified Tariff mechanism, which cannot be the intention of the unification principle.

The tariff review period should be 3 years for all pipelines so to ensure changes are carried out well in time to ensure recovery of costs and returns are in sync with the tariff recovered from consumers. However, entities must ensure adherence to the cost data submission timelines and PNGRB should also promptly approve tariff revision proposals.

2) Issues in Annexure-2 of the Document seeking Public Consultation on Unified tariffs by PNGRB

We have considered the issues mentioned in Annexure-2 of the said document on which PNGRB has sought comments.

- a) Whether integration should be considered only for cost-plus pipelines or Bid out Pipelines can also be included for the purpose of Unified Tariff and suggest proposed methodology for including bid out pipelines and any legal difficulty envisaged therein.

Our Views

Uniform natural gas pipeline tariff mechanism is one of the methodology to make delivered price of gas affordable across the country by avoiding tariff pancaking (as the current tariff mechanism becomes additive as it is linked to multiple tariff zones across interconnected pipelines). This can be achieved provided the application is non-discriminatory across all consumers/ pipelines in the country irrespective of the ownership and the mode of authorization (i.e., applicability to both DCF tariff and bid out tariff pipelines).

We support integration for all pipelines, whether cost plus or Bid out, irrespective of ownership if the true benefits of rationalisation of tariff structure are to be achieved. It needs to be appreciated that tariff pancaking can only be avoided if all pipelines are inter-connected and the Uniform tariff structure is also extended to Bid-out pipelines as otherwise existing inter connected pipelines under different ownerships would still see tariff pancaking. We feel that in line with the Govt.'s initiative to push gas consumption in the primary energy mix to 15% by 2030 from the existing 6.2%, the concept of Netback pricing would be of prime importance. A switch to natural gas usage would only be incentivized if the end gas price is affordable with reference to the existing fuel linkage. Therefore, on a netback basis, the concept of economic consumer pricing would need to have

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sourcing efficiency, but this has a limited impact as India would continue to be net importer of hydrocarbons. Therefore, the cost of gas transportation by pipelines would need to be optimum from a consumer standpoint. Currently with low LNG prices, a consumer may still be able to afford a large increase in pipeline transportation cost, the same may adversely impact the consumer fuel economics at high levels of gas prices (more so for LNG). It is important that consumer must not get dis-incentivized to switch to or continue with gas linkage on account of high pipeline tariffs. A moderate increase in uniform tariff versus existing tariff would ensure higher pipeline capacity utilization, which is beneficial to all stakeholders.

PNGRB should take the lead in operationalisation of an all India Pooling mechanism which should aim at either being self-sustaining or with deficits being financed through Govt. contribution. In addition, we also believe that a nation-wide integration of all pipelines, similar to the current National Electricity Grid would help in achieving a National Gas Grid, which is a critically important requirement from national perspectives of i) energy security ii) averaging the impact of the cost of new infrastructure while ensuring the load on tariffs on existing customers on the anchor load pipelines is optimum.

As regards the legal difficulties, reference can be drawn to the Government policy guidelines dated 20/12/2006, which the Board is mandated to follow under the PNGRB Act, 2006. Govt. can be requested to amend its policy document to facilitate introduction of the concept of the Unified Tariff for Natural Gas Pipelines, which is in the public interest. Based on this policy change by the Govt. PNGRB can make corresponding amendments in both the Regulations on Authorization and Tariff Determination for Natural Gas Pipelines so as to ensure a seamless implementation.

There are judicial precedents to support the above viewpoint- example, revision in bid out power tariff for Sasan Super critical thermal power station was upheld by the Hon'ble Supreme Court. This is also borne out by an international practice, to quote, the US FERC treatment for grandfathering the gas pipeline tariff systems for the pipelines in existence before the FERC provisions came into effect. However, detailed modalities need to be developed in consultation with all players.

- b) Consequent to the change in NGPL Tariff Regulations, what changes may be required in the corresponding related provisions of other NGPL Regulations. Comments are also sought from the stakeholder for the corresponding changes in the other regulations with reasons along with the proposed draft amendment.

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Our Views

Since tariff would be pooled and not discovered through competitive bidding, the bidding criteria for future natural gas pipelines would need to be re-visited. Emphasis can shift to capacity creation given the base Unified Tariff.

Therefore, bids can be called for the capacity of the proposed pipelines under bidding in future at the given Uniform Tariff for Natural Gas Pipelines to ensure that there is least impact on the Uniform Tariff post-commissioning on the one hand besides realistic bidding for capacity.

We are also of the view that the authorization regulations should be amended to introduce the concept of Unified Pipeline System.

- c) Whether while determining the Unified Tariff, pipelines of subsidiary companies can be included in the Integrated Natural Gas Pipeline System or not and any legal difficulty envisaged therein.

Our Views

Since we support integration of all pipelines including bid-out pipelines, JV pipelines integrated into the system can continue to retain their separate legal identity and the impact on the tariff revenues would be dealt with in the same manner as is being currently dealt with.

- d) Whether two-Zone tariff concept may also be applied to other pipelines i.e. cost-plus pipelines other than Integrated Natural Gas Pipeline System. Further, whether to include bid out pipelines also without changing total revenue from the pipeline, which are not part of the Integrated Natural Gas Pipeline System, and any legal difficulty expected therein.

Our Views

We are of the view that the proposed two-zone concept may not be an optimum solution as compared to the existing zoning concept (four-to-five zones), which provides the right economic signals. While integrating bid-out pipelines under uniform tariff mechanism, we support the proposal to freeze the total revenue of such pipelines as was originally conceived at the time of bidding thereby ensuring that volume risk is not transferred to consumers. Since the original bidding parameters are not being disturbed, and the changes will be carried out through amendment in regulations facilitated through changes in the policy guidelines of the Govt., we do not foresee any legal difficulties.

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- e) Whether PNGRB should give unrestricted freedom to the entity to decide zone wise tariff or it should be within certain specified parameters as per regulations.

Our Views

We are of the view that PNGRB needs to assume the responsibility for fixing the Zone-wise Unified Tariffs for all Natural Gas pipelines to discourage pipeline-to-pipeline competition and carry necessary amendments in the regulations providing specified parameters to ensure uniformity in its application rather than leaving it for the entities to decide the percentage increase in the Zonal Tariffs.

Yours faithfully,



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