July 27, 2020

To,

Secretary
Petroleum & Natural Gas Regulatory Board (PNGRB)
First Floor, World Trade Centre,
Babar Road, New Delhi - 110001

Our Reference : ICF/PNGRB/2020

Subject : Stakeholders comments on the proposed draft amendment reference : PNGRB/COM/2-NGPL/Tariff (3)/2019 Vol-II.

This is in reference to the public notice dated 29th June, 2020 bearing reference number PNGRB/COM/2-NGPL/Tariff (3)/2019 Vol-II on proposed amendment on the Petroleum and Natural Gas Regulatory Board (Determination of Natural Gas Pipeline Tariff) Regulations, 2008 ("NGPL Tariff Regulations").

In this regard our comments to the proposed amendments are as follows:

1. Pipeline tariffs should reflect the true costs of transportation. These include the fixed costs and the variable costs. The central problem of pipeline tariff design is how to allocate the fixed costs in a way that (1) generates sufficient revenues for the pipeline so it can ensure adequate and uninterrupted gas supply and attract capital, (2) protect the interests of consumers to receive fairly priced service, and (3) promote competitive markets.
2. Distance, whether by kilometer or zone or by entry and exit charges, is a way to allocate the capital costs to reflect the costs of pipeline construction: the longer a pipeline is the more it will cost to build and operate.
3. Understanding the costs of gas transportation is a critical element in developing pipeline tariffs. To this end, unbundling the sale of gas from the transportation function will provide a clearer and more accurate picture of the true costs of the pipelines
4. In other markets, unified tariffs, also known as postage stamp tariffs, are applied to network style pipeline systems, where suppliers can enter the pipeline at many locations. Often the consuming markets withdraw gas from many locations on the network as well. In such systems there is no obvious linear directional gas flow, rather these systems are characterized by flows in multiple directions at once. Developing distance-based tariffs for such systems is impossible, thus the unified or postage stamp tariff is an easier and simpler way to recover costs.
5. A unified tariff charges shippers anywhere on the system the same rate for gas delivery, whether the shipper transports the gas 50 km or 500 km. In a linear pipeline, i.e., one that is not a network, this tariff design will tend to cause shippers closer to the points of supply to pay more than they would have based on costs alone.
6. A uniform tariff for India must treat the several gas pipeline systems across India as a single network. Thus, the tariff must reflect the total system costs and the total system capacity and throughput. This is a large task, given the variety of pipelines and markets. Moreover, the PNGRB will have to develop a methodology for adjusting the tariff to reflect changes in markets and costs. This is an imposing problem without an easy solution.
7. How a unified tariff policy would be applied to pipelines of different ownership raises a number of legal as well as practical issues.

8. There should not be carve outs for gas pipelines that have bid based tariffs. This would complicate and defeat the purpose of a unified tariff and could distort how markets develop.
9. PNGRB will have to rethink how it authorizes pipelines under a unified tariff. PNGRB should rethink authorizations in any case to examine whether the current process serves the guiding principles well.
10. If we intend to allow individual companies to develop pipelines, as opposed to a single nationalized pipeline system, the companies ought to propose their own tariff design consistent with the principles enumerated in item #1.

Thanking You

Yours sincerely,

Leonard Crook & Ankit Gupta
ICF