India Gas Solutions
A RIL and BP joint venture

India Gas Solutions Private Limited
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Secretary
Petroleum and Natural Gas Regulatory Board
1st Floor, World Trade Centre
New Delhi - 110001

Dear Madam,

Sub.: Comments on proposed amendment to the Petroleum and Natural Gas Regulatory Board (Determination of Natural Gas Tariff) Regulations 2008 ("NGPL Tariff Regulations")

We thank you for providing us with an opportunity to review and provide our comments and views on the proposed amendment to the NGPL Tariff Regulations.

As we understand from your previous consultation on the same subject, the key objectives outlined for determination of Unified Tariff of Integrated Pipeline System are:

- Encourage the consumption of Natural Gas, efficiency and economic use of the resources;
- Safeguard the overall consumer interest;
- Secure equitable distribution of Natural Gas; and
- Minimize the impact of additive transportation tariffs vis-à-vis tariff determined on a combined basis.

We fully support the stated objectives and believe that development of a truly competitive gas market will support the government's objective to increase the gas share in the primary energy mix.

The ultimate objective of government policy and regulation must be to ensure that the benefit of those policies and regulations flow through to the end-consumers. This can be achieved only by institutionalizing a market structure that fosters competition among suppliers.

However, piecemeal implementation of policy such as the proposed amendment to the NGPL Tariff Regulations for determining Unified Tariff of Integrated Pipeline System owned at entity level runs the risk of being counterproductive to the stated objectives, as, it will reduce competition and create barriers to entry. We believe that in order to realize the stated objectives, a holistic approach must be taken which includes **development of a gas hub**, application of the **tariff uniformly to all interconnected pipelines in the country** and **inclusion of natural gas into the GST** to avoid market distortions. This must also be accompanied by the required regulatory and market structure changes including **unbundling of the existing bundled merchant and transportation entity** to ensure a truly fair, transparent and non-discriminatory infrastructure access regime for the development of a truly competitive gas market.

International practice is to move towards virtual interconnections points instead of physical interconnection points with different tariffs, aimed at eliminating multiple connections between two market areas to facilitate flexible hub-to-hub trading for shippers. As an example, the European Commission in the recital (4) of the EU regulation 2017/459 (NC CAM), states: *“Bringing about effective competition between suppliers from inside and outside the Union requires that they are able to flexibly use the existing transmission systems to ship their gas according to price signals. Only a well-functioning network of interconnected transmission grids, offering equal access conditions to all, allows gas to flow freely across the Union. That in turn attracts more suppliers, increasing liquidity at the trading hubs and contributing to efficient price discovery mechanisms and consequently fair gas prices that are based on the principle of demand and supply”*.

In order to meet the stated objectives, the following needs to be addressed while implementing the proposed amendment to the NGPL Tariff Regulations:

1. **Ensure that unification of tariff is done for all interconnected pipeline systems instead of entity level tariff unification** – the current proposal of determining Unified Tariff at entity level for two entities will lead to market distortions and does not meet the objective of minimizing impact of additive tariffs. As a first step, we recommend unification of tariff must be done for all interconnected pipelines covered under the tariff regulations. In phase 2, bid-out pipelines, which are interconnected, should be integrated into a Unified Tariff regime. after development of an appropriate mechanism for their inclusion.

2. **Ensure a competitive gas market environment:** As mentioned above, a key requirement is unbundling of content (commodity) from carriage (transportation). If the proposed amendment to the NGPL tariff Regulations precedes the unbundling (accounting, operational, legal, management & ownership) of content from carriage, it must be ensured that Unified Tariff for Integrated Pipeline System does not lead to additional advantage to any existing entity.

3. **Ensure new domestic production is not disadvantaged**: It is important for India to continue to attract investment in exploration and investment to increase domestic production. As most of the new gas production is expected from the KG basin, this will have competitive disadvantage vis-a-vis LNG under the current proposal. Hence, it is important to ensure that pipelines transporting gas from key domestic gas sources are included in the unified tariff.

4. **Provide mechanism to avoid increased tariffs to existing consumers proximate to the source of gas**: While proposed amendment provides apportioning the Unified Tariff into two zones (with Zone 1 being first 300 kms from the point of injection and the remaining length of pipeline being Zone 2) with a proviso that Zone 2 tariff shall be no lower than Zone 1 tariff, it may adversely impact existing consumers who are proximate and connected to a source of gas via a single pipeline – as the authorized unified tariff may be higher than the applicable tariff of the single pipeline. A mechanism to safeguard against such unintended consequence of end consumers seeking to lay dedicated pipelines, resulting in sub-optimal pipeline capacity utilization, must be included in the proposed amendment to the NGPL Tariff Regulation. As an example, the proposed amendment

could stipulate that the Zone 1 tariff must be lower by a pre-determined amount (expressed in %) compared to the Zone 2 tariff.

5. **Provide any market participant right to request combination of tariff of two or more pipelines**: The proposed amendment must allow any market participant (producer, marketer, transporter or consumer) to request combination of tariff of any interconnected pipelines. PNGRB should evaluate these requests and if such request meets one or more of the key objectives stated above, then it must authorize a combined tariff of the requested pipelines within a stipulated timeframe.

6. **Provide clear policy framework for development of new pipelines**: A clear policy framework for development of new pipelines must be formulated to ensure continued expansion of the network. To incentivize competition for future pipeline development, bids can be invited under the Unified Tariff principle and a new license may be awarded based on lowest bids received for capital and operating expenditure. Alternatively, future pipeline development can be through a single national transportation entity "Transco". As multiple pipeline owners become a part of the pool, an independent "Transco" will be required to manage operational issues and ensure seamless interconnectivity.

7. **Appropriate mechanism for tariff setting and review:** Appropriately designed tariffs can provide signals to market participants on the need for additional investment and provide incentives for users to use the network efficiently. In case the proposed Unified Tariff mechanism is adopted, the following points need due consideration before tariff finalization:

   - Appropriate benchmarking of all capital and operational costs with trunk pipeline costs in mature markets e.g. US, Spain.
   - The assured rate of return must be commensurately adjusted considering the prevailing interest and inflation rate environment.
   - The economic life of the pipelines should be recalibrated considering global and Indian pipeline operational history and the fact that future repairs and maintenance to ensure life extension will be included in the cost base while computing tariff.
   - The number of operational days need to be re-assessed based on actual shut-down history of the existing pipelines and the benchmark.

We shall be happy to discuss further on the issue.

Yours sincerely,

Utpal Maru
Chief Commercial Officer