

## General Observations

1. PIL appreciates the continuous efforts of PNGRB to evolve regulations addressing the requirements of the Gas Industry in the country.
2. PNGRB's proposal of Unified Tariff also seems to be a step towards its efforts to rationalize tariff to develop competitive gas market scenario and providing access to gas for customers located far away from the source .
3. In past also PNGRB has brought this concept for deliberation amongst the stakeholders and both the times, most of the industry players unanimously recommended for the pan-India unification of tariff as against entity level unified tariff.
4. In PIL's view, integration should be done on pan-India level covering all connected pipelines. This will create level playing field for all stakeholders including gas traders and transporter and will provide equal opportunities to producers and importers to reach all markets and customers to source gas from any of the connected sources.
5. The tariff amendment proposal in its current form is creating special provisions for tariff determination of integrated network by replacing the existing tariff determination provisions for all the Individual pipelines. Board should determine the tariff for each pipeline based on the tariff principles uniformly as per current practice. Then based on the authorized tariff and the projected volumes of each pipeline, a total revenue requirement should be determined for each pipeline. Based on revenue requirement and volumes of all the integrated pipelines, Unified tariff can be worked out for the integrated network. In this manner all the parameters of the tariff for each pipeline can be considered on non-discriminatory manner without making any entity/network specific changes, which will discriminate one entity from the other .
6. The above method can be implemented without any adverse direct/indirect tax implications, by providing necessary guidelines/procedures for implementation are developed and put in place in regulations.
7. PIL's detailed views/suggestions on the proposal are as below:

S.No	Proposal	Issues	Suggestions
1	<p>a. in regulation 3(Applicability Provision ), after sub-regulation (3), the following sub-regulation shall be inserted</p> <p>“(4) laying, building, operating or expanding an Integrated Natural Gas Pipeline System.”</p>	<p>i.)PNGRB Act provides for determination of Tariff, under the regulations for the transportation tariffs for Contract Carrier or Common Carrier or City or Local Gas Distribution Network following the principles enumerated under section 22 of the Act.</p> <p>ii.) As such integration of contract carrier and common carrier and determination of its tariff on combined basis is not envisaged and may be inconsistent with the provisions of the PNGRB Act.</p>	<p>In PIL’s opinion amendment of PNGRB Act would be required to bring the Integrated Network under section 22 of the PNGRB Act to enable PNGRB to incorporate the suggested amendment in the regulation 3 of the tariff regulations.</p>
2	<p>4A. Determination of Unified Tariff in respect of Integrated Natural Gas Pipeline System The Board may, either on the application of an entity authorized to lay, build, operate or expand more than one interconnected natural gas pipelines to which these regulations apply or <b>on its own</b>, determine by order the unified tariff in respect of its entire integrated natural gas pipeline system in accordance with the provisions of these regulations;</p> <p>Provided that any such application made by the entity shall cover all its present and future interconnected natural gas pipelines to that integrated natural gas pipeline system, and such application once made shall not be withdrawn.</p> <p>“Integrated Natural Gas Pipeline System” of an entity means all the interconnected natural gas</p>	<p>i.) The proposed definition and applicability (when read in conjunction with schedule B part 1) is for two specific entities. In our view, regulations framed should be universal in nature rather than specifically for one or two entities. This may not be consistent with the PNGRB Act. Moreover, any entity/area specific regulation and policies are not in the interest of development of gas infrastructure and may serve only short-term goal.</p> <p>ii.) <b>Undue advantage to Integrated Entity:</b> Proposal will result in undue benefit to the entity covered under integrated network. The said entity will have more opportunities for utilization than the entities not part of integrated network.</p>	<p>i.) Unified Tariff should be worked out at pan India level including all pipelines without any linkage to the ownership.</p> <p>ii.) This will provide fair and equal opportunities of utilization to all the pipelines across the country without any distinction among entities and will also be in line with the objective of the PNGRB Act.</p> <p>iii.) Unification of all connected pipelines would provide freedom to customers to choose gas seller irrespective of the location of the gas source at same tariff and similarly gas marketers will have equitable, non-discriminatory and level playing market conditions which will help in</p>

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	<p>pipelines to which these regulations apply. The list, of such integrated natural gas pipeline systems and the natural gas pipelines constituting each such system, is given in the Part 1 of Schedule B.</p> <p>“Unified Tariff” means the unit rate of tariff for the Integrated Natural Gas Pipeline System (excluding statutory taxes and levies) in rupees per million British Thermal Units (Rs. /MMBTU) for transportation of natural gas.</p>	<p>iii.) Entity level integration of pipeline will be detrimental for the network like PIL pipeline, with most of the customers located on interconnected networks of GAIL /GSPL . PIL pipeline is vital link to connect the upcoming domestic sources with the demand centers in west and north. With envisaged network and tariff integration of pipelines of these two entities, the customers will have a Incentive to source gas from the directly connected sources of integrated network, since sourcing of gas from eastern/southern coast will result in additional tariff . This will give undue advantage to integrated pipeline at the cost of reduced capacity utilization for pipelines which are not part of this integration.</p> <p>iv.) <u>The issue of Pancaking of tariff will remain</u>, particularly for transportation of gas from the domestic gas sources at east coast, which would be playing important contribution in the overall gas demand.</p> <p>v.) For most of the customers entity level integration would results in <u>higher tariff than the current tariff</u>. Country level unification of tariff will give them an options to source gas at cheaper tariff than the current one for the domestic gas.</p> <p>vi.) <b>Shift of Customers:</b> Presently more than 30% gas in the country is consumed by</p>	<p>development of the competitive gas infrastructure grid.</p> <p>iv.) There may be certain areas of concerns in implementing Unified Tariff on pan India basis like revenue sharing, taxes, legalities, etc. However, these can be addressed through detailed discussions and efforts of all the stakeholders. Power Sector is one such exemplary case.</p> <p>v.) It is suggested that task force may be constituted immediately to compile different action points to roll out pan India Unified Tariff.</p>

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		<p>the customers in Gujarat and they have multiple options to transport gas through more than one transporter. Entity level integration will force the customer to choose single integrated network and will thus create a non-level playing field for any other existing or future pipeline.</p> <p>vii.) <b>Investor's Confidence:</b> Investors waiting to invest in the sector will always look for regulatory and other sectoral policies, which are impartial, fair and do not discriminate among similar players in the gas infrastructure. The proposed amendment will create discrimination amongst the similar players and benefit those having more than one pipeline. This will shake the confidence of the <u>investors</u></p> <p>viii.) <b>Limited Future Players:</b> Proposed amendment would not only impact the confidence of the current investors but will also impact the potential investors in gas infrastructure as the entities with the existing pipeline will have undue advantage in their favour. This will restrict the number of investors for future pipelines and may <u>create anti-competitive atmosphere.</u></p>	
3	Determination of provisional initial unit natural gas pipeline tariff shall not apply for the integrated natural gas pipeline systems.	i.) Any change in treatment of tariff parameter for certain entities would result in discriminatory rules for the similar pipelines.	i.) Tariff unification should be done without altering the tariff determination mechanism for individual pipelines. Tariff unification should be limited to

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		ii.) Unification of tariff should be done keeping the individual pipeline identity intact as authorized by the PNGRB.	determining a unified tariff for the customers without modifying underlying tariff principles for respective pipelines.
4	<p><b>Volumes to be considered in determination of the Unified Tariff.</b></p> <p>Schedule B Part 2 3.1 Capacity of the integrated natural gas pipeline system to be considered for the purpose of determination of the Unified Tariff shall be the summation of the capacities of constituent natural gas pipelines, as specified under the Petroleum and Natural Gas Regulatory Board (Authorizing Entities for Laying, Building, Operating or Expanding Natural Gas Pipelines) Regulations, 2008; <u>provided that the actual quantity of natural gas transported through more than one such pipelines shall be deducted in respect of the second and subsequent pipelines.</u></p> <p>3.2 Provided further that the capacity of natural gas pipeline is respect of entity authorized by the Central Government for laying, building, operating or expanding natural gas pipelines before the appointed day shall be as approved by the Board as per the basis specified in the relevant regulations for determining the capacity of natural gas pipeline.</p>	<p>i.) Proposed method of deriving capacity of integrated gas pipeline system of interconnected pipelines as a special case is not only at significant variance with existing regulatory framework but is also discriminatory vis a vis similar gas pipelines of other entities.</p> <p>ii.) As submitted earlier, any unification of tariff should not result in different treatment on account of any parameter just because entity owns more than one pipeline.</p> <p>iii.) Each pipeline project was authorized on its own merits and needs to justify its own feasibility as per the prevalent regulations. PNGRB has also authorized Pipelines accordingly. Therefore, tariff and the required revenue from each pipeline should remain unaffected by unification of tariff.</p> <p>iv.) <b>Irrational Method</b> : Proposed method of reducing actual volume flowing through the second and subsequent pipeline from sum of capacities of pipelines will lead to a situation wherein higher capacity utilization of second and subsequent pipelines in future will reduce the capacity of overall system leading to upward revision of tariff during future tariff reviews.</p>	i) It is suggested to continue with the current practice of capacity determination for all the individual pipelines covered under the tariff regulations.

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5	For the purpose of apportioning Unified Tariff among tariff zones, there shall be two zones. The first tariff zone shall be of three hundred kilometers from the point of injection and the remaining length of the pipeline shall be the second zone. Such apportionment among the two tariff zones shall be proposed by the entity and approved by the Order of the Board, in such a way that the tariff for the second zone shall not be lower than that of the first zone.	i.) As requested above, the proposed amendment in regulation for zonal apportionment should be applicable for all pipelines rather than creating a special provision for selected set of pipelines.	i.) Two zone tariff with suggested flexibility for fixing zones should be applicable <u>for all the pipelines</u> .
6	The Net Fixed Assets of the constituent natural gas pipelines of the integrated natural gas pipeline system as on the date of determination of the first Unified Tariff shall be considered for determination of the Unified Tariff. The discounted cash flow (DCF) would be computed for a period of 25 years from such date. The net financial impact of the difference between the assumptions made in the past tariff determinations of the constituent pipelines and the actual data till the date of application of first Unified Tariff shall be adjusted in the DCF working of the first Unified Tariff. Any remaining unadjusted amount shall be adjusted in the DCF working of the subsequent Unified Tariff (s).	i.) Board is requested to clarify the basis of NFA, books or tariff model. ii.) Working out tariff for 25 years which amounts to assuming a fresh economic life of 25 years for all the pipeline in integrated network. This may amount to working out tariff for the period much beyond the existing authorization period granted of constituent pipelines for period	i.) As suggested above, unification of tariff can be done after following the current methodology of tariff working for constituent pipelines. There would be no need to work out new NFA for Unified tariff and current tariff can be taken as basis for working out Unified Tariff to be charged to customer.
7	For determining the Unified Tariff for an integrated natural gas pipeline system, first year of operation will be assumed to be the date of commissioning of the oldest		i) As suggested above, continue with the current practice of individual pipeline wise tariff working to avoid any discrimination.

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	constituent natural gas pipeline for <u>the purpose of the ramp-up under para 6 of Schedule A.</u> "		
<b>Issued for Discussions Under Annexure -2 of Public Notice</b>			
1	The proposed amendment in this public notice may be read along with the proposed amendment in NGPL Tariff Regulations webhosted on PNGRB website on 29.04.2020. As pipeline capacity is planned to be linked to authorized capacity as amended from time to time, we seek your suggestion on how to calculate capacity of Integrated Natural Gas Pipeline System.	i.) Tinkering with any tariff working parameter for tariff unification will lead to multiple issues.	i.) It is suggested to follow the principle of integration of tariff of individual pipeline rather than integrating pipelines and reworking tariff after modifying the tariff parameters.
2	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.	i. Bid out pipelines have been awarded under the terms and conditions of the bid and give 70% weightage to tariff as the main bid criteria. After the award of the bid, tampering with the tariff numbers already approved by the Board will not only have legal complications but will also not be commercially justified. ii. Any change in parameters post award is against the bidders who lost the bid, bidding based on different parameters	i. PNGRB should integrate tariff for all interconnected pipelines covered under the tariff regulations as a first step of Unified Tariff. ii. It is suggested not to tamper with the tariff of already Bid out pipelines.
3	Whether while determining the Unified Tariff, pipelines of subsidiary companies can be included in the Integrated Natural Gas Pipeline	i.) In our view, entire concept of entity specific regulation is not in line with spirit and mandate of PNGRB Act and the same is applicable for subsidiary companies also.	i. Integration principle should not be linked to the ownership and should be applied in fair and equal manner for all the pipelines.

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	System or not and any legal difficulty envisaged therein.		
4	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.	i.) Any tariff working principle under the tariff regulations should be applied non-discriminatorily for all the pipelines covered under the regulations including the zonal tariff concept. ii.) Modifying any material bid condition after the award of bid is not appropriate.	i.) Zonal tariff concept should be applied uniformly on all pipelines covered under the tariff regulations. ii.) Any material condition of the bid after the award of the bid should be avoided.
5	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.	i.) As per the present regulations, volume risk due to zonal apportionment is with the transporter, therefore, it would be appropriate to give freedom to transporter to decide the zonal tariff for all pipelines covered under tariff regulations. ii.) Gas market is experiencing a shift in the tenure of contracts as 3-5 years are the new long term period and customers are keeping certain percentage of their gas requirement on short term only. Therefore, apportioning volumes beyond a year or so is only on broad assumptions with high probability of variation. Therefore, transporter should also have flexibility to review these zonal tariffs.	i.) PIL suggests to give unrestricted freedom to <u>all the entities</u> under the tariff regulations to decide the zonal tariff including the review of the same.