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(भारत सरकार का उपक्रम – महारत्न कंपनी)
GAIL (India) Limited
(A Government of India Undertaking - A Maharatna Company)

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GAIL/RA/PNGRB/DBPL PCD/275027/2019/2418 03.07.2019

1097/84/2019

To
Secretary,
PNGRB, 1st Floor,
World Trade Centre,
Barakhamba Road, Babar Lane,
New Delhi – 110001

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8/7
JA(RKJ)

Respected Madam,

Subject: **PNGRB Public Consultation Document (PCD) on Tariff Review of Dabhol-Bangalore Natural Gas Pipeline (DBPL)**

This has reference the PNGRB PCD Ref. No.: PNGRB/M(C)/73-Vol IV dated 03.06.2019 on Tariff Review of the subject pipeline soliciting GAIL's response on the comments of other stakeholders.

In this regard, the response of GAIL is enclosed as **ANNEXURE –A**.

Submitted please.

Thanking you,

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Yours sincerely,

S. Kumar.
Kumar Shanker
Chief General Manager (Mktg.-RA)
Email: kumarshanker@gail.co.in

AA(HK)

Encl: A/a

ANNEXURE-A

GAIL's Response to Public Comments Received on

PCD Ref. No.: PNGRB/M(C)/73-Vol IV dated 03.06.2019 on Tariff Review of DBPL

1. M/s IOCL:

(i) **Clause 4.2.1 - Actual Capex Outgo:** Variation in Capex outgo for the period from 2009-10 to 2013-14 is due to interest during construction (IDC) component. As per clause no. 4 of Attachment 2 to Schedule A of tariff regulation and subsequent amendment dated 08.01.2016, GAIL has considered Capex outgo with IDC.

(ii) **Clause 4.2.2- Future Capex Projections**

PD Future Capex: Calculation of PD future capex for LMCs is based on the past actual average expenditure incurred on LMCs.

Project Execution Capex: In line with the regulatory framework which provides for return on the total capital employed over the economic life of the pipeline by considering all the future expected cash flows.

Future O&M capex:
O&M Capex claimed in earlier tariff filing was mainly on account of procurement of measuring equipments, tools/tackles, leak detection systems, standardization/upgradation of SV stations etc.

However, going forward, Pigging-ILI of 30"/24"/18" pipelines, CP Integrity survey, AC Interference Survey, development of Regional Gas Management Centre (RGMC), surveillance of the pipeline system (namely PIDS/Pipeline Leak Detection, procurement/installation of pressure let-down systems and procurement/ development of office/storage infrastructure are the major activities to be carried out over the balance economic life which shall entail substantially higher capex. Accordingly, projected O&M capex figures are significantly higher than that claimed earlier.

(iii) **Clause 4.3: Line Pack**: As per the provisions of Tariff Regulations, the value of Line Pack has been considered based on the gas quantity and gas price prevailing at the time of commissioning of the pipeline. The same value has also been considered as Inflow in the last year of economic life as a non-depreciating asset.

However, in the updated tariff submission, line pack quantity was inadvertently considered from FY 2015-16 to FY 2021-22. PNGRB is requested to ignore this line pack quantity and its value while determining the updated tariff.

(iv) **Opex and Opex Projections:** Increase in Opex during FY 15-16 and FY 2017-18 in comparison to previous years is mainly on account of increase in salary/wages & allowances due to added manpower and wage revision, consumable items and R&M expenditure. In this regard, actual opex expenditure details incurred in the past, duly certified, have been submitted. This actual level of past Opex is escalated with annual inflation rates for future years. In addition, considering more connectivities to customers in future, additional opex for the same @ 2.5% the estimated additional capex for the same has also been projected.

Inflation rate: Inflation rate has been submitted based on long term compounded annual growth rate (CAGR) for wholesale price index (WPI) as published by Government of India.

(v) **Clause 4.8: Volume Divisor:** Volume divisor in our updated tariff submission has been considered as per clause No.6 of Schedule A of Tariff Regulation and subsequent amendment dated 08.01.2016.

(vi) **Terminal Value:** In accordance with the regulatory provisions, the terminal value has been calculated based on the economic life considered for the tariff filing.

2. M/s H-Energy:

The tariff filing of DBPL, with updated data upto FY 2018-19, has been submitted by GAIL to PNGRB.

(i) **Economic Life of Pipeline:** As per attachment 1(g), 1(h) and 1(i) of Schedule A of PNGRB Tariff Determination Regulations, the economic life of a pipeline system has been considered for 25 years starting from the commissioning of the pipeline.

In PNGRB's Tariff Orders the economic life of pipelines are considered from the date of commissioning of the pipeline system and this is being uniformly followed by PNGRB for all pipelines. The same has been adopted in this tariff filing also.

(ii) **Tariff Applicability:** GAIL vide letter dated 25.06.2019 has made the updated tariff filing with updated actual data upto 2018-19. Now, as per the provisions of the amended PNGRB Tariff Regulations notified on 27.05.2019, the tariff determined by PNGRB shall be applicable from the 1st day of the month following the month in which the tariff order is issued by PNGRB.

(iii) **Capital Expenditure (CAPEX)**

Corporate Common Assets: Based on the methodology already adopted and considered by PNGRB for final tariff determination the Integrated HVJ system.

Project Execution Capex: In line with the regulatory framework which provides for return on the total capital employed over the economic life of the pipeline by considering all the future expected cash flows.

PD (LMC) Capex: Last Mile Connectivities (LMCs) are connectivities to potential customers which are envisaged throughout the entire economic life of the pipeline. PD Capex based on the average actual LMC expenditure incurred in the past has been considered for tariff determination and the same has also been accepted by PNGRB in earlier orders

O&M Capex: In DBPL, going forward, in order to maintain the integrity/health of the pipeline and to ensure safe and uninterrupted operations as mandated by the PNGRB Technical Standards Regulations, activities like Pigging-ILI of 30"/24"/18" pipelines, CP Integrity survey, AC Interference Survey, surveillance of the pipeline systems are the major activities to be carried out over the balance economic life. In addition, RGMC, which serves as the monitoring and control centre, is very critical for the smooth operation of the pipeline system. Future O&M Capex claimed is on these accounts.

(iv) **Opex projections:** With gradual ageing of pipelines, the maintenance activities (*both in terms of frequency & quantum*) increases, resulting in higher expenditure.

(v) **Volume Divisor:** As per extant NG Pipeline Tariff Regulations dated 08.01.2016, the volume divisor for the sixth and the subsequent years of operation shall be equal to the firmed up contract capacity and booked common carrier capacity or 75% of the pipeline capacity, whichever is higher. As the normative pipeline capacity (*i.e. 75% of the pipeline capacity)* is way higher than the actual contractual quantities, the normative pipeline capacity from 6^{th} year onwards has been considered for tariff computation, with no YoY increase in volumes.

(vi) **Unaccounted Gas:** Extant regulatory framework (Access Code) recognizes "Transmission Loss" as certain quantity of gas that would remain unaccounted due to reasons including blow downs, venting or releases during regular operation and maintenance of the pipeline system or due to inaccuracy of custody meter. Even though there is no explicit regulation in the PNGRB Tariff Regulations for non-consideration of unaccounted gas in tariff determination, it has been the request from industry, including GAIL, that Unaccounted Gas Loss may be considered on a uniform and normative basis for all pipeline operators. Hence, unaccounted gas, at a normative basis of 0.3% has been claimed in the tariff calculations.

(vii) **No. of Working Days:** Extant regulatory framework, in the context of planned maintenance works for a pipeline facility, has provided for 10 days/year. However other upstream/downstream facilities connected to a pipeline (LNG facilities, Fertilizer Plants, Power Plants, LPG Plants etc.) do require planned/unplanned maintenance which may independently occur as per their respective maintenance schedules. In fact, various downstream customers (viz. fertilizer plants, refineries) connected to GAIL's pipelines have taken annual planned shutdown ranging from 20 days to even 55 days. In view of the same, and in line with past practices, a reasonable 20 days *(10 days for pipeline and 10 days for all other connected facilities)* has been considered by GAIL as totally allowable maintenance period (i.e. 345 Working Days in a year) in the tariff calculations.

3. **M/s Gujarat Gas Limited:**

(i) **Capex:** Capex outgo in FY 2015-16 & 2016-17 is negative as some assets have been transferred to other business area in FY 2015-16 and some assets were decapitalized as per requirement of Ind-AS in the FY 2016-17.

(ii) **Future Capex:** Extant regulatory framework allows return on the total capital employed over the pipeline economic life by considering all future expected cash flows. The proposed connectivities are not part of any GA authorized to CGD entity.

(iii) **Line Pack:** As per the provisions of Tariff Regulations, the value of Line Pack has been considered based on the gas quantity and gas price prevailing at the time of commissioning of pipeline. The same value has also been considered as Inflow in the last year of economic life as a non-depreciating asset.

(iv) **Common Corporate Expense Allocation:** Based on the methodology already adopted and considered by PNGRB for final tariff determination the Integrated HVJ system.

(v) **Future Opex projections:** Because of ageing of pipelines, the maintenance activities (frequency & quantum) increases resulting in higher expenditure over the later part of the pipeline's economic life as compared to the earlier phase.

4. **M/s PIPL**

Clause 4.5 Unaccounted Gas: The comments provided by M/s PIPL are in support of the position taken by GAIL on Unaccounted Gas for determining the natural gas pipeline tariff to which GAIL agrees.

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