



Gujarat State Petronet Ltd.

GSPL Bhavan, South Wing (Ground Floor), E-18,
GIDC Electronic Estate, Nr. K-7 Circle, Sector-26,
Gandhinagar - 382028.

Tel.: +91-79-23268515, 79-66701610

E-mail : ravindra@gspc.in

Website : www.gspcgroup.com

Ravindra Agrawal
Group Executive Director
(Gas Business)

GSPL/COMM/2020/
Date: 9th November 2020

The Secretary

Petroleum and Natural Regulatory Board
1st Floor, World Trade Centre
Babar Road
New Delhi – 110001

Subject: Views / Comments of the Stakeholders on the amendments to PNGRB (Imbalance Management Services) Regulations 2016

Ref: PNGRB Public Notice PNGRB/COM/2-NGPL/Tariff (2)/2012 (P-xxx)dated 17.10.2020

Respected Madam,

We refer to the above Public Notice through which the Hon'ble Board has proposed amendment to the PNGRB (Imbalance Management Services) Regulations, 2016. We appreciate the initiative of PNGRB which will help the gas customers to manage their imbalances more effectively.

We have reviewed the draft proposed amendment and have prepared detailed comments which are attached with this letter.

One of the major concerns for a transporter entity is the proposed treatment of Imbalance Management Fees. As per existing regulations, the Deferred Delivery Service revenue is allowed to be retained by the transporter entity over and above the transportation tariff for the pipeline. The current proposal fails to incentivise the transporter entity for providing such value added services. By considering 50% of the amounts accrued to the transporter through IMS in miscellaneous income for determination of tariff and balance 50% to be deposited in escrow account maintained by the Board, the entities will be in an unfavourable position as compared to the current regulation. We therefore request the Hon'ble Board not to consider the IMS fees in tariff determination and to allow the entities to retain the entire Imbalance Management Fees over and above the revenue derived through transportation tariff.

We hope that Hon'ble Board shall find our comments / suggestions useful in finalising the PNGRB (IMS) Regulations, 2020.

With Best Regards,

Yours Sincerely,

Ravindra Agrawal
Group ED (Gas Business)

Comments on
PNGRB (Imbalance Management Services) Second Amendment Regulations 2020

1. The initiative of PNGRB to propose draft PNGRB (IMS) Second Amendment Regulations is in the right spirit for the further development of gas markets and to help the customers to minimise their costs related to imbalance management. GSPL supports this initiative, including the setting up of Industry Committee to study and recommend to PNGRB, the services that can be further considered under the gamut of Imbalance Management Services.
2. We have framed our comments on the draft Regulations in different parts :
 - A. Comments on the Draft Regulations
 - B. Changes to Other regulations
 - C. Other suggestions

A. Comments on the Draft Regulations

- (1) **4(1)(a) Para 3** : *Provided further that natural gas parked but not withdrawn within the agreed period shall be treated to have created a positive imbalance and dealt with in accordance with Petroleum and Natural Gas Regulatory Board (Access Code for Common Carrier or Contract Carrier Natural Gas Pipelines) Regulations, 2008*

The entity and the customer should be free to mutually agree to further extend the time schedule for withdrawal of parked gas by the customer. Any imbalance in the system should be cured based on the Agreement between transporter and the shipper

- (2) We believe that Regulations should give freedom to the transporter to decide on which of the Imbalance Management Services it wishes to offer to its customers. It is requested to appropriately modify the regulations.
- (3) It is requested to consider increasing the maximum cap on the rate of Netting and Trading Services from currently propose Rs.1.5/MMBTU
- (4) It is requested to include the exemption of the IMS of the transporter from the Affiliate code of conduct regulations for sake of clarity.
- (5) For pure transportation Companies, like GSPL, which do not purchase / sale gas, use of the market price of gas used by its affiliate for sale / purchase may be permitted for Cashing out operations.
- (6) It is requested that the Cashing out execution mechanism may be included in the Draft Amendment Regulations.
- (7) There will be tax implications on account of Parking, Lending and Trading services as it is something similar to bartering / loaning activity. As per Gujarat VAT law, VAT will become applicable on activities similar to bartering / loaning. We request that entities should remain tax neutral and should have tax indemnity so as to be encouraged to provide the services.

- a. Accordingly, in this regard, we request the Hon'ble Board to clearly spell out the mechanism of execution, including the invoicing mechanism so as to understand the actual impact of tax on the entity and the customer.
 - b. Further, Netting services will mean actually sale and purchase of gas. It needs to be examined whether it would be appropriate to set any limits on purchase / sale price of gas in such cases, including during cashing out operations.
- (8) The transporter should be allowed to settle the positive and negative imbalances outside of tolerance limits beyond D+X days through Cash out Mechanism instead of referring it as per PNGRB Access Code regulations. The imbalance charges should become applicable only if within D+X days, the shipper has not availed any IMS to bring his imbalance (which is beyond the tolerance limits) to within tolerance limits. This provision will actually encourage the Shipper to avail IMS immediately and at the same time maintain discipline in the system to the extent the same is within control. Draft Regulations in current form offers little incentive to the Transporter to consider offering the services with additional time and efforts.
- (9) **Draft Regulation 4 (5):** Since the objective of providing IMS services is to help the shippers to mitigate their imbalance in cost effective manner, inclusion of 50% of IMS Fees in determination of tariff will lead to lack of interest amongst the entities in providing such services. The entities will have to spend both efforts and money in providing these services. The draft amendment regulations infact undo the existing regulations wherein Deferred Delivery Service revenue was over and above the revenue derived through transportation tariff. If the IMS revenue is accounted for in tariff determination, the objective of development of gas markets through use of VAS would be defeated. There is no incentive to a Pipeline Operator to provide such VAS by incurring cost and time.

To support this point, if a shipper 1 has availed parking service and immediately thereafter there is a request for capacity in the pipeline which is denied to the new shipper 2 because it is not available due to IMS being availed by Shipper 1, the transporter will have to forego its transportation revenue at the cost of providing such value added parking service as it cannot withdraw from its commitment to provide service at short notice. In such case, it would amount to a double blow to the Pipeline operator – lesser revenue and 50% IMS revenue to be deposited in escrow account.

The provision of depositing 50% of the revenue in the escrow Account maintained by the Board should also be removed. The entities will not earn any extraordinary profits as can be seen from the revenue earned by the entity in providing Deferred Delivery Services over the last three years. The market will determine the cost of these services within the cap of Rs. 15/MMBTU for IMS Fees. This will also encourage competition amongst competing pipelines in providing IMS at affordable cost and not necessarily at the ceiling fixed by PNGRB.

The intent of these regulations is to encourage the transporters to provide value added services to the shippers.

Accordingly, the existing practice of entity retaining the entire amount received from Imbalance Management Services (DDS) over and above the transportation tariff of the

pipeline should be retained without diluting any portion of it in order to make these services attractive to both the providers and end users.

B. Changes to Other regulations

- (1) **13(8) System Indiscipline & Charges – Access Code for Common Carrier & Contract Carrier Regulations:** *It shall be the responsibility of the defaulting shipper to cure imbalances beyond the permissible limit caused by it in transporter's pipeline and in case, the defaulting shipper is unable to cure such imbalances within a period of fifteen days, then, the transporter shall have the right to adjust daily-nominated quantity of such shipper to mitigate such imbalances to ensure safety and integrity of pipeline system.*

The above time limit of 15 days to the shipper to correct the imbalances or else the transporter's right to adjust daily nominated quantity of such shipper will restrict the duration of the mutual agreement for providing P&L services and levy of charges by transporter in case of imbalance within +10%/-5%.

It is proposed to replace 13(8) of the Access Code regulations with the following text:

It shall be the responsibility of the defaulting shipper to cure imbalances beyond the permissible limit caused by it in transporter's pipeline and in case, the defaulting shipper is unable to cure such imbalances within X Days (wherein X will be applied on Non-discriminatory basis by the transporter), then, the transporter shall have the right to treat the imbalance beyond the permissible limit through Cash Out treatment to mitigate such imbalances to ensure safety and integrity of pipeline system unless the shipper has availed Imbalance Management Service to manage the imbalance. Otherwise till such X days, Imbalance Management Services fees for the cumulative imbalance will be payable by the Shipper and Imbalance beyond the permissible limits will be cashed out after X days. For the balance imbalance in the system attributed to the Shipper, he can avail IMS Services till the validity of the Agreement.

- (2) Clause 2(iv) : (1) Subject to availability of pipeline capacity and without affecting the services to any shipper, transporter shall provide the following imbalance management services to a shipper to manage transportation imbalances – **GSPL suggests that the underlined portion may be deleted as it is already a part of Clause 4(2) of existing regulations**

C. Other suggestions

- (3) The gas price adjustment will come into picture in case of Cash Out situation. Such Cash Out will be resorted to when the shipper fails to settle its imbalance either through availing IMS or managing through entry and exit MDQ. Thus Cash Out is probably the last resort for the transporter to manage Imbalance and hence a higher 20% maximum cap should be included in regulations to deter shippers from creating imbalances and make them settle at the earliest. Accordingly, Parked Quantity should be settled at 80% of lowest Market Price of Gas and loaned quantity should be settled at 120% of the highest market price of the gas.

(4) Reference Annexure 3a

In the example in Annexure 3a, there is daily addition to parked quantities. The Hon'ble Board needs to clarify whether Parking is to be treated on daily basis and whether transporter has to enter into separate Agreement with every Shipper / customer for such services. The example needs to be further elaborated by considering quantities for Entry MDQ, SQ and Exit MDQ. This will help in clarifying when Parking / Lending mechanism triggers. From the example shared in Annexure 3a, it appears that the Parking service will be unlike DDS Service where separate Agreement is signed with those who wish to avail these services.

(5) Annexure 3c

The netting charges to Transporter by Shipper A includes the Imbalance Charges of Rs. 1000. Imbalance Charges, if retained, should only be applied if the Customer has not availed any IMS during D+X days and his imbalance is beyond the tolerance limits. Instead of the Imbalance Charges, the following charge should have been applied.

Plant X – Parking Charges - $200 \times 5 = 1000$

Plant Y – Lending Charges – $300 \times 5 = 1500$

Netting Charges to Transporter = $200 \times 0.5 + 200 \times 0.5 = 200$

Total Payout of Shipper A = 2700 (1000+1500+200) and not 1200.

Similarly calculation should be modified for Netting in different zones:

Further, there is a vast difference between Parking / Lending Charges and Netting/Trading Charges considered in the example. In order to ensure all services are equally attractive, the price gap between these two services should be left to the discretion of Pipeline entity with a ceiling rate.

Similarly for Trading services, instead of direct application of Imbalance Charges, first parking / lending charges should be applied.

(6) Annexure 3e – OBA

Netting amount to MN Transporter should be Rs. 65 and not Rs. 30 because 65 quantity has been netted off on MN Transporter network. Further instead of Rs. 350 towards Imbalance Charges, it should have been $100 \times 5 =$ Rs. 500 towards parking charges as one day charges are to be recovered for settlement done on T+1 day.