

**THROUGH EMAIL/HAND DELIVERY OF SCANNED COPY**

Ref: PL/JSP

15<sup>th</sup> June 2020

To  
Secretary  
Petroleum & Natural Gas Regulatory Board,  
1<sup>st</sup> Floor, World Trade Centre, Babar Road,  
New Delhi-110001

**Kind attention: Ms Vandana Sharma**

**Sub: Additional Views on proposed regulation on PNGRB (Determination of Petroleum and Petroleum Products Pipeline Transportation Tariff) Amendment Regulations, 2020 – post public hearing on 15.06.2020**

Madam,

At the outset we thank PNGRB for giving us patient hearing on the subject today. In pursuance to the request of Hon'ble Chairperson, PNGRB, we wish to make following additional submissions:

- 1) The PNGRB is mandated as per preamble to PNGRB Act ("Act") to "*...protect the interests of ... and entities engaged in specified activities*". Hence, while making any change in the tariff structure, the Operating entity's commercial interest is requested to be kept in mind, concurrent with application of suitable method specified under Sec.22 of the Act.
- 2) Regulation 4 of The Petroleum and Natural Gas Regulatory Board (Determination of Petroleum and Petroleum Products Pipeline Transportation Tariff) Regulations, **2010 ("Tariff Regulation")**, which was framed for the first time under the PNGRB Act ("Act"), stated that "*...tariff determined in accordance with the procedure specified as per regulation 5 shall be applicable as **transitional measure for a period of two years***". There was provision for further extension of transition period.

It be noted that the draft Tariff Regulation - “The Petroleum and Natural Gas Regulatory Board (Determination of Petroleum and Petroleum Products Pipeline Transportation Tariff) **Regulations, 2009** (“Draft Tariff Regulation”), was proposed on discounted cash flow method, which can provide 14% post tax Internal rate of return on investment over the life of the pipeline.

However, with respect to existing operating common carrier pipelines at the time of this draft tariff Regulation, the depreciated asset value was proposed to be taken as initial Investment. Industry objected toward this, as it will be highly skewed and does not recognize time value of earlier period investment. Further, under Discounted cash flow method, Depreciation is used for tax determination only and for cash flow evaluation, it is added back and thus has no role. The operating pipelines were not maintaining separate accounts earlier, hence Industry requested PNGRB, to adopt the post APM pricing practice of 75% of alternate Rail transportation rate as bench mark rate for these existing common carrier pipelines.

View current PNGRB proposal to remove this transitional measure provision, it is requested that –

- a) Benchmarking with Rail transportation rate be used only for existing common carrier pipelines which were operational prior to PNGRB Regulation,
  - b) The benchmarking is with respect to Rail transportation and thus the relevant rail distance used by railways only need to be used rather than proposed pipeline distance.
  - c) The other Railway charges like busy season surcharges, terminalling charges etc. be also included for true benchmarking, which request was long pending since first Regulation and is reflective for true benchmarking.
- 3) For the bid out pipelines, the bids from entities have been called for competitive year wise tariff and Annexure 14 to be submitted with IRR worked on Cash Flows for 25 years, for PNGRB Review and acceptance. For post 10 year bid out tariff, the tariffs need to be calculated on NPV principle without resorting to depreciated asset concept. The same principle is requested to be adopted for ongoing pipeline projects at the time of PNGRB Regulation formation (2009-10), which have become operational subsequently.
- 4) During the consultation process, one of the entities mentioned that the definition of “petroleum and petroleum products pipeline” given in Petroleum and Natural Gas Regulatory Board (Authorizing Entities to Lay, Build, Operate or Expand Petroleum and Petroleum Products Pipelines) Regulations, 2010 is very vast. It was suggested that PNGRB should clarify and take stand on the issue whether the

storage facilities so referred to in the said definition in the Regulation should also be extended to product storage facilities of Marketing Terminals & Refineries and make them part of tariff structure.

HPCL humbly submits that the submission of the said entity is not correct. The Marketing Storage terminal activities of product receipt and distribution by Coastal/Rail/ Road or Refinery produced product storages are separate activities and cannot form part the pipeline infrastructure or tariff. The “storage” referred is only those which the Pipeline company may need to establish for temporary storage within their battery limits ie Suction and Discharge manifolds of respective Pumping & TOP/ Receipt stations. This requirement is only in the context of Interface generated during pipeline transportation etc.. This aspect was already clarified earlier by PNGRB.

It may be noted that the stand alone common carrier pipeline entities PMHBL, GAIL, do not offer storage facility as part of the common carrier pipeline.

Hence we like to submit to PNGRB that there is no need to review this request, which creates severe distortion of the Act provisions and impinges on other activities of Refining and Marketing companies.

Our above submissions are in addition to our letter dated 13.03.2020 as also various other communications on the subject.

Thanking you,

Very truly yours,

**Sd./-**

**(J. S. Prasad)**

ED- Projects & Pipelines