



**India Gas Solutions Private Limited**  
(CIN - U40200MH2011PTC224011)

11th October 2019

Secretary,  
Petroleum and Natural Gas Regulatory Board  
First Floor, World Trade Centre,  
Babar Road, New Delhi – 110001

Kind Attn: Ms. Vandana Sharma

**Subject: Comments on PNGRB (Guiding Principles for Declaring City or Local Natural Gas Distribution Networks as Common Carrier or Contract Carrier) Regulations, 2019.**

We thank you for inviting stakeholder views and comments on the above-mentioned subject. The proposed Guiding Principles for Declaring City or Local Natural Gas Distribution Networks as Common Carrier or Contract Carrier is a welcome step to put in place a regulation that enables non-discriminatory open access on CGD network infrastructure after the end of marketing exclusivity period.

In the European Union, the city gas distribution networks operate on complete separation of network operations and marketing activities. The Distribution Network Operator (DNO) sets out the terms and conditions for non-discriminatory third-party access. The DNO is not engaged in the commodity supply to end customers and their allowed revenue is set by the regulator based on fixed return on regulated asset base with built-in incentives for efficiency.

A fundamental foundation block for ensuring success of common carrier model, is to ensure a level playing field between third party common carrier capacity users and authorized entity, with respect to allocation of domestic gas supply for supplies to CNG and PNG domestic consumers.

Experience from developed markets highlight that the ability to access any unutilized capacity on a non-discriminatory basis is the foundation for creation of a liquid trading market with no price distortions and transparent price discovery mechanism. Thus, these guiding principles will provide the framework for accessing the common carrier capacity

---

Regd. Off.: 71/73, 2nd North Avenue, Maker Maxity, Bandra-Kurla Complex, Bandra (E),

Mumbai 400051, Maharashtra, INDIA; Phone: +91-22-71777000

with no preferential rights to the owner of the network post the marketing exclusivity period. In this regard we submit the following points that must be given due consideration:

- 1) Section 7(1) states that minimum common carrier capacity of 20% of CGD network capacity shall be available to any other entity or customer (excluding the subsidiary or the affiliate of authorized entity). However, to ensure effective termination of market exclusivity period, this provision must be amended to create a regime to access all unutilized capacity on the lines of Use it or lose it principles in developed markets, with a defined time period in which the 100% capacity must be made open access. This will pave the way for increased competition and liquidity, expanding the maximum contestable market. Also, to start with, minimum capacity of 20% must be made available, and exception accorded under 7(1) should be only allowed for a defined short period of time.
- 2) Section 7(1) specifies bifurcation between contracts for more than one year and less than one year. For development of competitive markets, regulations should not specify the split and market participants should be able to decide the duration of the contract capacity. Further, consultation with customers and other stakeholders should be carried out to determine the timeframe and products that should be made available, etc. to access the common carrier capacity.
- 3) While the regulations provide safeguard against pre-reservation of common carrier capacity by the authorized entity, it allows that if any part of the common carrier capacity is not fully utilized, the authorized entity may use it for own requirement or contract the same for a period of one year or more. Any contracting of common carrier by authorized entity or its affiliates should not be allowed for a period of greater than one year, to ensure ongoing availability of the common carrier capacity especially in a market which is in initial stages of development.
- 4) Section 11, For all new connections, the authorized entity should mandatorily be required to expand the common carrier and offer standard and non-discriminatory terms for connection and include deterrents to avoid the authorized entity to refuse new connections.
- 5) In cases where the booking for capacity received on a particular day is more than the available common carrier capacity, Section 9 specifies pro-rata basis of allocation. We support this and the prorata allocation should be on a monthly/quarterly basis irrespective of duration of common carrier contracts.
- 6) In addition, to firm capacity, interruptible capacity products should be added where the firm capacity has already been either allocated or are constrained. For this, a separate discounted tariff should be allowed.
- 7) Section 12(2), With the expiry of marketing exclusivity, all CNG stations must have non-discriminatory and open access to the common carrier capacity. Post expiry of marketing exclusivity, there should be freedom to set up stations for technically capable entities. New CNG stations could be independent CNG/LCNG outlets on

standalone basis or collocated with new MS & HSD retail outlet or retrofitted in existing MS & HSD retail outlet. The authorized entity should have no role to play in the access to third party terminals in authorized area as these are not in the purview of infrastructure exclusivity.

- 8) PNGRB should encourage expansion of CNG network to drive the CNG penetration and conversions, for which the following two aspects must be taken into account:
- Pipeline connectivity along with compression infrastructure: Any third party seeking to open a CNG station should inform the authorized entity after it has secured the land. Authorized entity should be obligated to provide pipeline connectivity and the required compression capacity for the CNG station based on standard terms and conditions and approved tariffs.
  - Allocation of domestic gas: Allocation of domestic gas should be done on same terms as authorized entity to encourage CNG penetration in transportation. Authorized entity should only act as a transporter of gas.

Considering the above,

- a) The requirement of mutually agreed terms and conditions under Section 12.2 should be deleted and replaced by standard terms and conditions based on principles of non-discriminatory access and open competition. Any need for disclosing in advance, either location of new CNG station or overall marketing plan for the geographical area would jeopardize the competitiveness of the third party and may put authorized entity in unfairly advantageous position. Hence the condition in subsection (ii), requiring prior approval of PNGRB and public consultation on overall CNG station plan and locations, should be deleted.
- b) Provision should be made to prevent any unwarranted barriers to entry through denial or delay in setting up pipeline and compression capacity. The regulations should obligate the authorized entity to make available the compression capacity to meet the requirements of the third party CNG stations, including expanding the CNG compression capacity, where required. Dispute resolution mechanism should be set up to ensure speedy resolution of disputes regarding commissioning of new CNG stations and day to day operations.
- 9) Clause 12 (1) and 12 (2), should not be applicable to LNG and LCNG stations, as these do not utilize any of the infrastructure of the city gas distribution network. This will lead to further rapid expansion of the gas markets, by increasing the number of participants.

#### Clarification Points:

- 1) Clarity on the distinction between 'common carrier capacity' and 'contract carrier capacity'. Section 7(1) describes 20% as minimum open access common carrier

capacity; however, it also specifies a 10% ,10% split of less than and greater than one year. Contract carrier is defined as the extra capacity declared by the board. Request clarity on what will be the basis of assessing this, and does it have any linkage with greater than one-year capacity specified in section 7(1).

- 2) Section 7(5) is not clearly worded, while it appears that regulations cover a scenario where open access capacity falls below 20%, then capacity that is over and above authorized entities own requirement and not contracted out will be offered under open access conditions when contracts expire or by expanding capacity. This is a welcome step and needs to be worded clearly.

While the proposed rules to access capacity are formulated in a manner that is conducive to creating competition, effective non-discriminatory open access could help creation of a liquid market. In addition, it equally important that the tariffs charged for this access be reasonable, so as not to create any entry barriers. For IGS response on determination of CGD tariffs for common carrier capacity please refer to our letter dated 19<sup>th</sup> July 2019.

Let us know if you would like any additional information on the above.

Yours sincerely,



Utpal Maru

Chief Commercial Officer