Record Note of Open House Discussion on draft Amendment to Petroleum and Natural Gas Regulatory Board (Determination of Petroleum and Petroleum Product Pipeline Transportation Tariff) Regulations, 2010

Date & Time of Open House	15.06.2020 at 15:00 hrs

1. An Open House ("OH") discussion with stakeholders was held on 15.06.2020 through video conferencing on draft regulations to amend Petroleum and Natural Gas Regulatory Board (Determination of Petroleum and Petroleum Product Pipeline Transportation Tariff) Regulation, 2010. The Open House discussion was chaired by Chairperson, PNGRB and attended by Member and other officials from PNGRB. List of participants is attached as **Annexure I**.

2. During the OH discussion, Chairperson asked entities to explain their comments on the draft regulations and highlight additional comments, if any. The entities reiterated most of their comments which were submitted in writing.

3. HPCL brought out the following issues: -

i. From the proposed amendments, two things which have come out, a) transitional part has been removed and b) reference has been changed from rail distance to pipeline distance.

ii. Prima facie amended tariff regulations are not justified as it will reduce revenue by 15% to 20% since pipeline is normally laid using shortest route, as compared to Railway distance.

iii. The pipeline transportation tariff is benchmarked to only base freight rate of Railways whereas additional charges viz. busy season charges (15%) and Development Charges (5%) on base fright rates are also charged by Railways. Since these Other Charges go up to 20%, our request is to include the same in base freight.

iv. In last ten years the rail transportation charges are almost stagnant i.e. having very low CAGR, therefore there is need for some kind of escalation mechanism so that the increasing O&M cost of pipeline is recovered.

v. HPCL further stated that they do not see any rationale/ justification behind the changes in the regulations from transitional to permanent and from rail distance to pipeline distance.

vi. Determination of tariff if applied to new pipelines which are bid out will impact severely the investment returns.

In this regard, PNGRB clarified that the proposed tariff will not be applicable to bid out pipelines. However, in case of any confusion in the draft regulations, PNGRB will review the same for requisite clarification.

vii. The amended tariff Regulations will not be viable for LPG pipelines.

viii. For new pipelines, tariff benchmarked to rail freight should be applied after 10 years whereas for first 10 years, it should be benchmarked to road tariff.

4. Petronet MHB brought out the following issues:

i Pipeline Tariff has been benchmarked to 75% of only rail base freight that works out to 60% of total rail freight as Railways also collect other charges of the order of 20% of base freight. Further, reduction of freight due to proposed amendment of considering pipeline distance in place of rail distance will defeat the concept of common carrier, particularly for those entities which have only single activity of pipeline transportation.

ii PNGRB has not spelt out any rationale to this change in tariff structure which will reduce the revenue by approximately 20% and has got a potential of putting the entity in financial loss, particularly, the entity which is acting purely as transporter of petroleum product through pipeline.

iii We do not see any industry demand and/or complaint requesting reduction in tariff, in fact we are providing transportation services to the OMCs at much economic rate.

iv Their Pipeline is passing through a difficult terrain (Ghat section) at an altitude of 1127.53 Meters for which company incurred huge capex to build the infrastructure. The operating cost is very high due to high power consumption cost which is approx. @ 55% of the total revenue expenditure. Railway has taken plain route for crossing the Ghat section with additional distance whereas pipeline has been laid on shortest possible route reducing the distance to the extent of almost 55 Km. Any reduction in tariff will adversely affect the profitability of the company.

v Since last 5 years there is no increase in railway tariff as Railways has socio-economic considerations also whereas companies run purely commercial operations. The regulator should ensure recovery of cost of entity laying the pipeline for sustainability and survival of the entity, particularly one which is solely depending on pipeline revenue.

5. Indian Oil Corporation Limited supported the comments from HPCL and Petronet MHB.

6. Comment of GAIL (India) Limited is as under: -

i Railway is charging surcharges, additional charges and shunting notional charges etc whereas the pipeline transportation is on door to door basis. In 2012 PNGRB adopted the rail distance as against pipeline distance as the pipeline distance is lower than the rail distance. Further, for transportation through Railways, entities have to create other facilities also.
Therefore, the proposal using pipeline distance for tariff determination will impact revenue generation by pipeline entity.

7. Comments of GRM Hospitality and Consultants Pvt. Ltd (GRM):-

i. The proposed amendment is actually impacting only pure transporters, OMCs who are transporting their own product will not get impacted till those pipelines have been declared as common or contract carrier and available for open access. By this, revenue of GAIL and Petronet MHB will get impacted.

ii. As per PNGRB Act, definition of Petroleum Product Pipeline is very vast. Pipeline as considered in the Authorizations given are limited to at best the Line Balancing and/ or Product interface tanks, which does not appear to be in line with the comprehensive definition contained in the PNGRB Act, 2006 & the aforesaid Regulations.

Therefore, the applicability of the tariff for a product pipeline becomes ambiguous, whether the same is only for use of pipeline excluding the connected storage infrastructure or also includes the compensation for use of all storage tanks & facilities that are connected to such pipelines.

Response from HPCL: Storage should not be included in the pipeline for tariff purpose as it is totally different and includes facilities for receipt, store and despatch. These facilities/ activities may not have been envisaged in the Act. The Act just talks about use of pipeline as common carrier by one or more entity.

PNGRB's comments: PNGRB asked HPCL to submit a rejoinder by email to what GRM has mentioned. Comments of GRM is available in PNGRB's website, so HPCL may send their additional comments in next two working days.

The meeting ended with a vote of thanks to the Chair.

***

Annexure 1

List of Participant

S. No.	Name	Designation, Organization
1	Ms. Vandana Sharma	Secretary, PNGRB
2	Mr. Pankaj Bhutani	Joint Adviser, PNGRB
3	Mr. Ankur Jain	Assistant Advisor, PNGRB
4	Mr. Vineet Kumar Saxena	Consultant, PNGRB
5	Miss Neha Jain	Assistant Consultant, PNGRB
6	Mr. Chandan Das	Petronet MHB Limited
7	Mr. C Ramakrishnan	Petronet MHB Limited
8	Mr. J S Prasad	ED-P&P, HPCL
9	Mr. K Subramanian	HPCL
10	Mr. Rajendra Lade	HPCL
11	Mr. P S Murthy	HPCL
12	Mr. Rajeev Ranjan	HPCL
13	Mr. Avinash Kansal	HPCL
14	Mr. SS Sawant	CGM Project System, IOCL
15	Mr. Sachin Agarwal	GM LPG operation, IOCL
16	Mr. M S Ali	DGM Finance, IOCL
17	Mr. Vijay Duggal	GRM Hospitality and Consultants Pvt Ltd
18	Mr. Rajiv Bakhshi	GRM Hospitality and Consultants Pvt Ltd
19	Mr. R Kannan	GAIL India Limited
20	Mr. Rajiv Agarwal	GAIL India Limited
21	Mr. Atul Kumar Soni	GAIL India Limited
22	Mr. Joy Banerjee	GAIL India Limited
23	Mr. S S Bhadouria	GAIL India Limited
24	Mr. A B Roy	GAIL India Limited