

**Open House discussion on Concept Paper webhosted on 28.06.2019 for Determination for transportation rate for CGD Network and Transportation rate for CNG**

1. Open House (“OH”) discussion on the concept paper for Determination for transportation rate for CGD Network and Transportation rate for CNG was held on 07.08.2019. Open house was chaired by Chairperson, Member (C&M) was also present. List of other participants is attached.
2. During the OH, points raised/discussed are as follows:
  - 2.1. ***Consumers/Customers/Marketeers Comments***
    - 2.1.1. Calculation of transportation tariff using Cost of Service (COS) method was preferred by *H-Energy Gas Marketing Pvt Ltd, India Gas Solutions Pvt Ltd and Reliance Industries Limited.*
    - 2.1.2. Gas consumers requested for swift policy implementation to enable them to source natural gas from multiple suppliers at competitive rates.
    - 2.1.3. Morbi Customers requested PNGRB to ensure unconstrained third-party access in natural gas trunk line from Dahej to Rajkot/ Morbi.
    - 2.1.4. Some of the Morbi customers suggested fixing of CGD network tariff at Rs 30/mmbtu while others suggested to Open the Morbi cluster at Rs 20/mmbtu (Set reserve price for transportation rate for CGD at Rs 20/mmbtu) & consider changes if needed at later stage.
    - 2.1.5. Access Code Regulations for City or Local Natural Gas Distribution Network sets minimum requirement of booking 10,000 SCMD as MDQ, which should be brought down to 2,000 SCMD. It also mandates supplying of 100 SCMD to domestic customers before requesting for second such booking, this condition should be dropped.
    - 2.1.6. Access code regulations also mandate declaration of capacity by authorized CGD entities 180 days before end of exclusivity. PNGRB is requested to

advise authorized CGD entities to declare such information ahead of the implementation of the proposed regulations. Also, availability of capacity in the CGD network to be webhosted and updated on fortnightly basis to help PNGRB monitor grievances.

- 2.1.7. Regulations should take care about the situation of hoarding of capacity by any entity.
- 2.1.8. It was suggested that once exclusivity is over, authorised CGD entity should automatically come under the purview of these regulations and provide network access to third party.
- 2.1.9. Cost of land, to be linked to government approved circle rate/ready reckoner rate. Further, it was also requested to provide rationale for considering 15% additional land limit allowed for online compressors.
- 2.1.10. Review period for tariff determination to be brought down to every financial year/every two years.
- 2.1.11. To start with, PNGRB should have provisional transportation rates based on normative capex, volume for each category of CGD entity rather than relying only on audited accounts of the CGD entities. Gold plating of Capex should be avoided.
- 2.1.12. As per variant 2 of option 2, wherein CGD entities are allowed to self-determine the reserve price to be used for bidding, customers were of the view that it will lead to counter claims and litigations.

## 2.2. ***CGD Entities Comments***

- 2.2.1. It was suggested to set up a focused group of industry experts to help the regulatory board and industry to understand the need, implications, basis, timing, process and phasing for introducing & operationalising unbundling and open access in CGD networks.

- 2.2.2. Presently there is cross subsidization between marketing and transportation function of CGD network as cost of transportation infrastructure is also compensated through marketing of Natural Gas. On this issue, Chairperson suggested CGD entities to come out with a suggestion to factor this in the tariff determination exercise.
- 2.2.3. CGD network would not become common carrier automatically upon expiry of exclusivity period as Board is required to declare the CGD network as common carrier. Further the Board was requested to take a view as the matter is subjudice.
- 2.2.4. Regulations need to be drafted in a manner to restrict cherry-picking of customers by third party shippers i.e. serving only high margin customers.
- 2.2.5. By opening infrastructurally developed CGD networks focus of other CGD entities might shift from the developing a new CGD network to access the readily available networks. PNGRB should take necessary steps to avoid this situation.
- 2.2.6. Some entities suggested using DCF method to determine transportation tariff instead of COS as it will levelise the tariff over the period of economic life.
- 2.2.7. Authorised entity should be compensated for not being allowed/able to supply the customer having requirement of less than 50,000 SCMD in its authorized GAs as is the case of customers of ONGC connected through dedicated lines.
- 2.2.8. Concept of minimum revenue assurance to the entity should be introduced in order to take care of debt repayments.
- 2.2.9. Calculation of tariff based on COS was preferred by *Gujarat Gas Limited, Pipeline Infrastructure Limited.*

2.2.10. For option 1 certain clarifications/suggestions were made:

- 2.2.10.1. It was suggested to define the formats for providing details of costs, assumptions for determining operating cost, methodology for calculation of depreciation and useful life for equipment.
  - 2.2.10.2. Entities also requested PNGRB to consider the return on capital employed instead of normative Debt and Equity separately.
  - 2.2.10.3. Details may be provided for methodology to be adopted for adjustment in transportation rates in case of variations in cost inflation, volume variation etc. for the past period.
  - 2.2.10.4. Cost of land should also include cost of ROU permissions and any payment required to be made to municipal/local statutory authorities.
  - 2.2.10.5. Minimum volume & capacity booking proposed to be shipped at entry/exit needs to be specified. Capacity booking should be applicable for a minimum period say six months.
  - 2.2.10.6. Tariff calculation under COS should also consider the allocated head office costs.
  - 2.2.10.7. Gas fuel costs and unaccounted gas loss should also be included in the normative operating costs.
- 2.2.11. For Option 2, Variant 1 certain clarifications/suggestions were made:
- 2.2.11.1. Same reserve price will not work for every GA. It should be either COS or a range of price.
  - 2.2.11.2. Competition between third party/marketeer to supply gas to customer should be based on gas molecules i.e. Gas Price and not on the basis of transportation rate.
  - 2.2.11.3. PNGRB to define the capacity to be kept as common carrier by the authorized entities. It is proposed that if the bidders are unable to utilise capacity booked

by them, it shall be considered on Ship-or-Pay basis. PNGRB to define the weightage of the bidding parameters.

2.2.12. Option 2, Variant 2 of concept paper was preferred by *Gujarat Gas Limited, GAIL Gas Limited*

2.2.13. For Option 2, Variant 2 certain clarifications/suggestions were made:

2.2.13.1. Bidder needs to specify volumes separately for PNG & CNG.

2.2.13.2. There should be no mandate to get the reserve price audited by the statutory auditors. The entity shall be self-certifying the reserve prices and any CA should be allowed to duly audit the same.

### 2.3. **Consultants Comments**

2.3.1. Option 1 of concept paper is preferred by *ICF Consulting India Pvt Ltd.* while Option 2, Variant 1 of concept paper is preferred by *Feedback Infra Private Ltd.*

2.3.2. Create a regime wherein access to all unutilised capacity is provided on the basis of 'use it or lose it' concept.

2.3.3. Authorised entity to prepare long term infrastructure plan to ensure that sufficient capacity is created over time, such plan to be approved by PNGRB.

2.3.4. Volume divisor to be used for calculation of transportation rate for CNG should be the volume of total CNG being transported by the authorised entity to the daughter/daughter booster stations & not the total CNG compressed.

2.3.5. Incentive mechanism may be introduced to allow returns for improvement in efficiency. Optimal price regulation takes form of price-cap regulation known as RPI-X, where RPI is measure of inflation while X denotes expected efficiency/ productivity gains (loss reduction).

2.3.6. Approved tariff should be the maximum allowable tariff with provision to allow authorised entity to charge lower tariff.

- 2.3.7. Provision for a new shipper to request capacity from existing CGD entity may be defined. Shipper should be able to request authorised entity for investment to create new capacity to service need of shipper if entire capacity is proposed to be booked.
- 2.3.8. Success of determining the transportation tariff will be contingent on the duration of applicability of transportation tariff as well as how gas exchange evolves. A web portal is required like in power market for bidding of transportation tariff.
- 2.3.9. An auction-based mechanism maximises producer surplus in an undersupplied market and maximises consumer surplus in oversupplied market. Auction is based on three parameters: Highness of transportation rate, highness of volumes per day & highness of number of days for which capacity is requested. Actual % assigned to these weights can create quite different results and therefore the auction design that will yield the correct economic result is hard to structure.
- 2.3.10. Entities seeking 3<sup>rd</sup> party access should also get APM gas for domestic PNG and CNG so as to compete with authorized CGD entity within a GA.
- 2.3.11. Return to be provided on regulated assets excluding assets utilised in marketing function. Benchmarking to be done to avoid gold plating of costs.

### **3. Way Forward:**

- 3.1. PNGRB will decide on the best suited option while finalizing the regulations containing guiding principles.
- 3.2. Regulations for tariff as well as access code will be drafted and webhosted for stakeholders' comments.
- 3.3. An Open House will be conducted to discuss the comments on said Regulations before finalization of Regulations.

3.4. Based on public comments, draft regulation will be submitted for Board approval.

4. Meeting concluded with a vote of thanks to the Chair.

### Participants list

S.No.	Name	Organisation	Designation
1	Ms. Vandana Sharma	PNGRB	Secretary
2	Mr. Rakesh Kumar Jain	PNGRB	Joint Adviser
3.	Mr. Ashutosh Kumar Atreya	PNGRB	Deputy Adviser
4.	Mr. Rakesh Kumar Shahi	PNGRB	Assistant Adviser
5.	Mr. Sameer Agrawal	PNGRB	Assistant Adviser
6.	Mr. Aman Anand	PNGRB	Assistant Consultant
7.	Mr. Mahesh Kundariya	Segam Tiles Pvt. Ltd.	Director
8.	Mr. Vijay Patel	Favourite Plus Tiles	Director
9.	Mr. Mansukh	Simpolo Ceramics	Director
10.	Mr. Balwant Soriya	Orinda Granito LLP	Commercial
11.	Mr. Ashok Bhai Bhimani	Ambani Vitrified Pvt. Ltd.	Director
12.	Mr. Nilesh Jetporia	Morbi Ceramic Assoc.	President
13.	Mr. Bhavesh	Varmora Granito Pvt. Ltd.	CMD
14.	Mr. Mukesh N.	Latigres Pvt. Ltd,	CMD
15.	Mr. Kishore	Landgrace Ceramic Pvt. Ltd.	CMD



16	Mr. Paresh Kundariya	Antique Marbonite Pvt. Ltd.	Director
17.	Mr. Manish Suujani	Morbi Ceramic Association	Secretary
18.	Mr. Kirit Patel	Morbi Sanitaryware Association	President
19.	Mr. Sanjay Pandita	RIL	V.P. Gas
20.	Mr. Hiten	H-Energy	Gas Marketing
21.	Ms. Seema Phatnani	IGS	Commercial Manager
22.	Mr. Gautham Babu Dasari	Shell	India Gas Advocacy & Regulatory Advisor
23.	Mr. Amit Wankhede	BP	GM
24.	Mr. C.R. Bakde	Sabarmati Gas Ltd.	Sr. Mgr (Com
25.	Mr. Milap Dholakia	Sabarmati Gas Ltd.	Manager (Law)
26.	Ms. Megha Priyadarshini	Mahanagar Gas Ltd.	A.M (Commercial)
27.	Mr. S. Santosh	MNGL	Dir (Com)
28.	Mr. Amol Hatti	MNGL	CM (BD)
29.	Mr. Bhashit Dholakia	Adani Gas Ltd.	Sr. V.P.
30.	Mr. Amit Mathur	IGL	AGM
31.	Ms. Charu	AGL	AGM-BD
32.	Mr. Harmeet Singh	AGL	Asso. Mgr.

33.	Mr. Mohit Raj	MGL	Manager-Comm. and BD
34.	Mr. Najaf Raza	IOCL	DGM (CGD)
35.	Mr. Neville Desai	GSPL (CGD)	Ass. Vice President
36.	Mr. Dilip Kumar	SGL (CGD)	President
37.	Mr. Gaurav	IOCL	CPJM
38.	Mr. Maqsood Shaikh	Gujarat Gas Ltd.	Executive VP
39.	Mr. Neeraj Pasricha	PIL	Sr. Lead
40.	Mr. U.K. Sinha	Gail Gas Ltd.	DGM
41.	Mr. A. Sinha	Gail Gas Ltd.	GM
42.	Mr. K.S.R. Prasad	AG&P	Head-JS
43.	Mr. H.S. Dole	IIFL Securities	VP
44.	Mr. Vijay Duggal	GRM H&E Pvt. Ltd.	Consultants
45.	Mr. Ankit Gupta	ICF	Manager
46.	Mr. R C Gupta	NR3A Consultancy	Partner
47.	Mr. Gurpreet Chugh	ICF	Managing Director
48.	Mr. Nalin Saurav	Deloitte	Manager
49.	Mr. Rajiv Bakhshi	GRM H&E Pvt. Ltd.	Consultants
50.	Mr. Ashwani Kumar Gumber	NR3A Consultancy LLP	Partner
51.	Mr. Saurabh Jain	Feedback Infra	Lead Consultant
52.	Mr. Piyush Joshi	Clarus Law	Partner
53.	Ms. Sumiti Yadav	Clarus Law	Partner

54.	Ms. Anisha Bhattacharya	Clarus Law	Associate
55.	Ms. Meghna Sengupta	Clarus Law	Associate
56.	Mr. Rahul Chouhan	SAM & Co.	Associate
57.	Mr. Naman Mittal	Shardul Amarchand Mangaldas & Co.	Associate
58.	Mr. Ravi Singh	IEX	Manager

