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(भारत सरकार का उपक्रम - महारत्न कंपनी)

GAIL (India) Limited

(A Government of India Undertaking - A Maharatna Company)

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GAIL//RA/HVJ/PCD/352283/2018/2228

L-1880/JA(RKS)
14/11/18
JA(RKS)

13.11.2018

To,
The Secretary,
Petroleum and Natural Gas Regulatory Board,
1st Floor, World Trade Centre,
Babar Road, New Delhi - 110001

14/11/18
De (AKR)
AA (AS)

Respected Madam,

Subject: Public Consultation Document (PCD) on Final Tariff Determination for GAIL's HVJ-GREP- DVPL /DVPL-GREP Upgradation System

This has reference to PNGRB PCD Ref: No. PNGRB/M(C)/65-Vol-II dated 18.10.2018 in respect of the Final Tariff Determination for GAIL's HVJ-GREP-DVPL/DVPL-GREP Upgradation System, soliciting GAIL's response on the comments of other stakeholders.

2. In this regard, the response of GAIL is enclosed as ANNEXURE-A.

Submitted please.

Thanking you,

Yours sincerely,

S. Kumar .

(Kumar Shanker)

Chief General Manager (Mktg.-RA)

E-mail: kumarshanker@gail.co.in

Encl:A/a

GAIL's Response to Public Comments received on

PNGRB PCD Ref: No. PNGRB/M(C)/65-Vol-II dated 18.10.2018 on Final Tariff of HVJ System

1. M/s IOCL

(i) Unaccounted Gas:

PNGRB's Access Code Regulations explicitly states that "Transmission Loss would include the quantity of gas which is unaccounted for due to whatsoever reason including blow downs, venting or releases during regular pipeline operation or due to inaccuracy of custody meter". There is no specific regulation in the PNGRB Tariff Regulations which indicates that unaccounted gas should not be considered in tariff determination. Hence, since extant regulatory framework explicitly recognize that certain quantity of gas would remain unaccounted due to blow downs, venting or metering inaccuracies etc., and therefore, unaccounted gas has been included in the tariff calculations submitted by GAIL.

In fact, it is observed that M/s IOCL for its Dadri-Panipat NG Pipeline, had also considered unaccounted gas in their final tariff submission to PNGRB. Keeping in view the industry submissions, it has been GAIL's consistent view that Unaccounted Gas Loss to be considered on a uniform and normative basis for all natural gas pipeline operators.

(ii) Number of Working Days:

There is no extant specific regulation under the Tariff Regulation which states that the number of operating days of a natural gas pipeline shall be considered as 355. Extant regulatory framework, in the context of planned maintenance works for a pipeline facility, has provided for 10 days/year. However that does not automatically imply that there should not be any separate provision for allowing maintenance works of other upstream/downstream facilities connected to a pipeline (LNG facilities, Fertilizer Plants, Power Plants, LPG Plants etc.), which may independently occur as per their respective maintenance schedules. In fact, various downstream customers (viz. fertilizer plants, refineries) connected to GAIL's pipelines have taken annual planned shutdown ranging from 20 days to even 55 days. In view of the same, and in line with past practices, a reasonable 20 days (10 days for pipeline and 10 days for all other connected facilities) has been considered by GAIL as totally allowable maintenance period (i.e. 345 Working Days in a year) in the tariff calculations.

(iii) Volume Divisor:

The capacity of HVJ-GREP-DVPL Pipeline up to March 2012 has been declared and approved by PNGRB as 53 MMSCMD {which also includes the system use gas (SUG) of 1.22 MMSCMD} vide PNGRB letter No. MI/NGPL/GGG/Capacity/GAIL dated 14.11.2012, and not 57.3 MMSCMD.

Also, as Clause 5 (2) (b) of Schedule A to Tariff Regulations provides for considering the natural gas pipeline tariff not recovered on System Use Gas as part of the OPEX therefore, the SUG quantity of 1.22 MMSCMD has been reduced from the said capacity of 53 MMSCMD and likewise, the SUG of 1.3 MMSCMD has also been reduced from the DVPL/GREP Upgradation Capacity.

Further, as per sub-clause (1) of clause 6 of Schedule-A of Tariff Regulations, the volumes to be taken are normative volumes or actual whichever is higher. Normative volumes to be considered are 60% to 100% of 75% of pipeline capacity for first five years of operation and 75% of capacity of pipeline thereafter. Further, the volume divisor for the sixth and the subsequent years of operation shall be equal to the firmed up contract capacity and booked common carrier capacity or 75% of the pipeline capacity, whichever is higher. As the normative pipeline capacity (i.e. 75% of the pipeline capacity) is higher than the contractual quantities, the volume projections remain constant in terms of the extant regulations.

2. M/s H-Energy

(i) Economic Life:

As per Attachment 1(g), 1(h) and 1(i) of Schedule A of PNGRB Tariff Determination Regulations, the economic life of a pipeline system has been considered for 25 years starting from the commissioning of the pipeline.

In line with the above, even PNGRB's Tariff Order dated 19.04.2010 has considered the economic life of HVJ-GREP-DVPL and DVPL/GREP Upgradation from the date of commissioning of the pipeline system and this is being uniformly followed by PNGRB for all pipelines. The same has been adopted in this tariff filing.

(ii) CAPEX :

The CAPEX outgo has been provided based on the economic life considered for the tariff filing.

(iii) Inflation:

The inflation rate has been considered based on long term compounded annual growth rate (CAGR) for wholesale price index (WPI) as published by Government of India.

The disclaimer on the report of Survey of Professional Forecasters on Macroeconomics Indicators published by RBI clearly states that *"The results presented here represent the views of the respondent forecasters and in no way reflect the views or forecasts of the Reserve Bank"*.

(iv) Line Pack:

As per the provisions of Tariff Regulations, the value of Line Pack has been considered based on the gas quantity and gas price prevailing at the time of commissioning of pipeline. The same value has also been considered as Inflow in the last year of economic life as a non-depreciating asset.

(iv) Number of Working Days and Unaccounted Gas:

The responses have been provided in Para 1(i) & 1(ii).

(iv) Terminal Value:

The terminal value has been calculated based on the economic life considered for the tariff filing.

(v) Heat Value:

Latest gas composition/heat value is generally considered more relevant and accordingly, the same is considered for the balance economic life, which shall be subject to true-up, in the next tariff review.

(vi) OPEX:

OPEX is considered based on the economic life considered for the pipeline. The additional compressor fuel quantity considered is equal to the fuel consumption required to enable gas flow of at least 75% of design capacity, in line with the DVPL/GREP Upgradation DFR Report. The gas Price of US \$8.32/MMBTU is based on the actual gas price during the year 2017-18.

3. M/s GSPL

(i) Compressor Station at Jhabua and Vijaipur :

In this regard, GAIL had submitted the complete details of DVPL-GREP Upgradation system, which included laying of pipelines and installation of the subject compressors while submitting the Schedule-H information to PNGRB. The same was duly considered and accepted by PNGRB while issuing the Terms & Conditions letter No. Infra/PL/Exis/17/DVPL-GREP-UPGR/GAIL/01/10 dated 14th February, 2011.

However, in the case of GSPL, it appears that their compressors at Gana were not part of their authorization. Also, unlike GSPL's case, the subject compressors have already been considered in the Provisional Tariff Order for the HVJ/Upgradation. Hence, these two cases may not be comparable.

Further, the capacity of the Upgradation system is 54 MMSCMD after installation of the compressors at Jhabua and Vijaipur, whereas without these compressors, the capacity of the upgraded system shall reduce substantially.

(ii) Economic Life:

The economic life has been considered in line with economic life already considered in the provisional tariff order.

(iii) Volume Divisor:

a) Volume Divisor for HVJ is decreasing while increasing in Upgradation:

It is submitted that, from the very beginning, GAIL has maintained the position that the HVJ-GREP-DVPL and the DVPL-GREP upgradation is an integrated pipeline network and operationally, it is not possible to separate it. This was also accepted by PNGRB. In the tariff order dated 19.04.2010 (Para 3.2), it has been stated that "*there is no contention on the two pipelines operating as a common network*"

As regards tariff and contractual capacity bookings, the said Para states that ".....it has been decided that for the purpose of tariff and related contractual obligations the Upgradation will be treated separately and the provisional initial unit natural gas pipeline tariff for the upgradation shall be determined separately".

Furthermore, Para 4.18 states that "*the rate of Rs.53 per mmbtu in respect of the DVPL/GREP Upgradation will be applicable only for the volumes contracted by new customers and incremental volumes contracted by existing customers*".

Subsequently, PNGRB, in the HVJ Upgradation's Terms & Conditions letter dated 14.02.2011, under Para No.2 has stated that "*as indicated by you, the Upgradation project has been taken as an integral part of HVJ-GREP-DVPL*". Also, in Annexure -1 of the said letter, under the head Design Capacity, it has been stated that "*Over all system capacity of HVJ-GREP-DVPL after capacity augmentation is likely to be 111.3 MMSCMD (57.3+ 54). The system capacity for DVPL-GREP Upgradation is 54 MMSCMD*".

In compliance with the above, contractual bookings for all the volumes contracted by new customers and incremental volumes contracted by existing customers are done @ Rs.53.65/MMBtu (with applicable zonal apportionments).

In this regard, GAIL has been time and again submitting to PNGRB for issuing a single tariff for the integrated HVJ system.

b) JHPL Volume:

The anticipated volume to JHBDPL from HVJ Network has already been considered in the volume divisor for the HVJ system and the resultant volume (including JHPL volumes) is not exceeding the normative volumes of 75% of the pipeline capacity.

c) VAPPL Volume:

Vijaipur-Auriya-Phulpur (VAPPL) is a spur-line of the DVPL-GREP Upgradation. Accordingly, volumes flowing through VAPPL have been accounted while computing the volume divisor.

d) Exclusion of Compressor Fuel:

As Clause 5 (2) (b) of Schedule A to Tariff Regulations provides for considering the natural gas pipeline tariff not recovered on System Use Gas (SUG) as part of the OPEX. In line with the extant Regulatory Provision, gas used for running compressors being SUG, the same has been netted off for computing volume divisor.

e) Phase-Wise Capacity:

Sl.9 of Attachment 1(j) of Schedule A of PNGRB Tariff Regulations states that "*Implementation period of the Project in Phases to be provided*". So extant regulatory framework, under Tariff Regulations, provides for consideration of project implementation in phases.

It is submitted that out of the 54 MMSCMD capacity created in HVJ-DVPL Upgradation, 11 MMSCMD capacity was created in 42" existing DVPL-I by installation of compressor at Jhabua and Vijaipur for both DVPL-I & II pipelines and additional 43 MMSCMD capacity was created by laying of 48" pipeline from Dahej to Vijaipur with installation of additional compressors at Jhabua & Vijaipur. Further, 48" VDPL pipeline and new compressor at Kailaras & Chhainsa were installed to evacuate 54 MMSCMD additional gas from Vijaipur to Dadri.

This phase-wise commissioning was also mentioned in the PNGRB Acceptance dated 14.02.2011 for the DVPL-GREP Upgradation.

Accordingly, GAIL has also made its tariff submission considering the capacity Upgradation in two phases. It is also reasonable to consider the Capex/Opex as well as the corresponding volume divisor in a phased manner as such phase-wise project implementation has been done in DVPL-GREP Upgradation.

f) Integrated Tariff:

As detailed out under Para (iii)(a) above, it has been the consistent submission by GAIL that PNGRB may issue a single tariff for the integrated HVJ system.

g) Other Observations:

Modification Capex (Rs. 33.92 Cr.): PNGRB Tariff Regulations (Clause 4(3) of Schedule A and Clause 2 of Attachment 2 to Schedule –A) explicitly state that cost incurred in improvement/modifications shall be considered. In the instant case, the modification is being done for improving the operational flexibility and efficiency of the pipeline system. As per extant regulatory framework, prior approval of PNGRB is required in case of capacity expansion beyond 10 % or spur-lines beyond tariff zone. The said modification does not fall in this category.

Increase in Opex: The HVJ system entails eight (08) compressor stations. The total opex is based on actual historical and projected anticipated future expenditure over the economic life considering inflation @4.58%.

4. M/s GACL, GSFC, GNFC, FAI

It is observed that the views expressed are in the nature of the apprehension about the potential impact based on the tariff filed by GAIL and not on the tariff filing methodology itself.

It is submitted that the final tariff determined/fixed by PNGRB as per the notified regulatory framework shall strike a balance between ensuring the stipulated returns to the entity while safeguarding consumers' interest at the same time.

5. M/s EWPL:

The views provided supports the position taken by GAIL on various parameters (like, phase wise Volume Divisor, UAG, additional Fuel etc.) for determining the natural gas pipeline tariff to which GAIL agrees.
