



Sabarmati Gas Ltd.
(A Joint Venture of GSPC & BPCL)

No: SGL/PNGRB/2019-20

Oct 11, 2019

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

Subject: Comments on "Guiding principles for Declaring City or Local Natural Gas Distribution Network as Common Carrier or Contract Carrier) Regulations, 2019"

Ref.:1) PNGRB Public Notice no Public Notice No: PNGRB/AUTH/7-MIS (3)/2015 dated Aug 22, 2019

Dear Madam,

We welcome the opportunity to respond to the public notice for comments on the Draft Guiding Principle for Declaring City Gas Distribution as Common or Contract Carrier Regulations, 2019 ("Draft Regulations").

It is right that the PNGRB continues to strive to promote competition, avoid infructuous investment and to ensure adequate availability of natural gas through continuous development of City Gas Distribution Networks ("CGD Networks") and a key part to this relates to precise drafting of regulations themselves to avoid unintended consequences.

Kindly note below our observations on the Draft Regulations:

1. It is of concern that Associate or Subsidiary have been excluded from participation in common carrier capacity under Regulation 7 r/w Regulation 8 of the proposed Draft Regulations. Whilst the objective of the draft regulation is to promote competition and ensure adequate availability of natural gas in the Geographical area, excluding the Associate or Subsidiary from common carrier capacity amounts to reducing competition. Moreover, the exclusion also results in penalizing both the Authorized entity and the Associate for effecting separation in their marketing and distribution business. While in case of Natural Gas pipelines, Guiding Principle for Declaring Natural Gas Pipelines as Common/ Contract Carrier Regulations, 2009 does not discriminate between Associate and Third Party shipper, the Draft Regulations discriminate against the Associate without any basis. It should be noted that Associate should be allowed booking in common/ contract carrier capacity on a non-discriminatory basis.

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2. The concept on interim arrangement envisaged in Draft Regulation 6 prior to declaration of a CGD Network as Common Carrier would run contrary to the fundamental principle that the Act as the Act does not envisage any such powers to have been vested with the Hon'ble Board prior to declaration as to Common Carrier.
3. The definition of Contract Carrier Capacity envisages that after considering the Own Use Requirement, the Board shall determine the Common Carrier Capacity. It is submitted that having termed 20% Capacity as Common Carrier Capacity, the Board may not further determine and bifurcate the balance 80% capacity as to how much shall be available for Own Use and how much for Contract Carrier.
4. The bifurcation of the total 20% Common Carrier Capacity introduced in Regulation 7 is contradictory to the principle of contract carrier which is defined to mean any arrangement for more than one year. Common Carrier Capacity should be defined as 20% of the network capacity without any further bifurcation.
5. The assignment of capacity by shipper as envisaged under regulation 8(2) will be highly counter-productive to the interests of the end consumers and will encourage speculative capacity bookings. Such flexibility to the shippers may not be afforded.
6. The requirement of common carrier capacity transportation to suraksha hose and compressor point of CNG stations provided under Regulation 9(1)(i) and (iii) needs to be reconsidered. There is superficial attraction in simply replicating common carrier capacity transportation to domestic consumers, but it seems at odds with the intention of delivering smooth supply to domestic consumers. Authorized entity provides connections to domestic consumers on beneficial basis without charging on real commercial considerations. Third party shipper would mean transportation tariff rate should be linked to infrastructure, i.e. cost of construction, leading to increased price to the consumers.
7. Removing CNG Stations from the infrastructure exclusivity, as proposed under regulation 9(1)(iii) and Regulation 12 is not only a cause of commercial concern but also runs contrary to the PNGRB Act which considers CNG Stations as part of infrastructure and hence squarely covered by infrastructure exclusivity. The CNG Stations are important part of commercial considerations of setting up a CGD Entity and infrastructure exclusivity on the aspect of CNG Stations is a very fundamental and legitimate expectation on CGD Entities. Hence CNG Stations should not be arbitrarily carved out separately from CGD Network for the purpose of infrastructure exclusivity merely on expiry of marketing exclusivity. There is no inter-link between marketing exclusivity and setting up of CNG Stations.

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Also, the concept where a third party may book capacity in CGD Entity's network so as to cater to CNG demand within the Geographic Area authorized to CGD Entity and pay compression charges etc. in addition to network tariff would also run contrary to legitimate commercial expectations of CGD Entities who have made such huge capital investments based on the exclusivity as to CNG segment. Further, such a concept may not at all be practically implementable also.

Further, as CNG stations are part of CGD Infrastructure and are covered under infrastructure exclusivity, no third party can set up CNG /LNG stations in the authorized area.

8. The consequential modifications made in PNGRB (Access Code for City or Local Natural Gas Distribution Networks) Regulations, 2011 and in PNGRB (Exclusivity for City or Local Natural Gas Distribution Network) Regulations by Regulation 13 of Draft Regulations are unhelpful and contrary to the provisions of the PNGRB Act as they include apparent removal of infrastructure exclusivity from CNG stations. Any modification in the infrastructure exclusivity would, as already mentioned, lead to complexity in the tariff charges and further amount to phasing out infrastructure exclusivity of CGD Network before the prescribed period.

We hope that the Honorable Board shall take cognizance of the observations/ comments being provided by SGL and shall draft a robust regulation for the overall development of the CGD business.

Thanking You,

Yours sincerely,
For Sabarmati Gas Limited


C R Bakde
Sr Manager (Com)

