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(Formerly known as Hazira LNG Private Limited)

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Subject: Comments on the draft Guiding Principles for Declaring City or Local Natural Gas Distribution Networks as Common Carrier or Contract Carrier

Respected Madam,

This has reference to the public notice (ref: No: PNGRB/AUTH/7-MIS(3)/2015) soliciting views on the proposed Guiding Principles for Declaring City or Local Natural Gas Distribution Networks as Common Carrier or Contract Carrier.

We appreciate the concerted efforts of the honorable Board to enable the consumers to procure natural gas at the most competitive rates from multiple gas suppliers through enabling regulations facilitating third-party access to the CGD GAs where the allowed exemption period from the purview of Common/Contract carrier has expired. While the proposed regulation addresses many pertinent aspects facilitating third-party access, we would like to bring to your notice a few key issues and necessary amendments which are critical for protecting the interests of the consumers by fostering fair trade and competition among various entities including marketers and CGD network developers.

- 1) Article 7.1 of the draft regulation permits utilization of the unused Common/Contract Carrier capacity, out of the stipulated capacity of 20%, by the CGD network operator. We propose that a similar reciprocal option should be provided to the third-party shippers for utilizing the unused portion of the remaining 80% of the capacity if required by third-party shippers. Additionally, we also request that capacity booking under these scenarios should be permitted only on a reasonable endeavors basis to avoid the potential risk of blocking capacity by entering into firm contracts and thereby hindering the customers from procuring gas from the most competitive supplier.
 - a. Article 10 of the draft regulation mandates declaration of the capacity used for its own requirement and the capacity allocated on a firm basis for verification by the Board on monthly basis. We propose that the actual utilization of the total capacity by the CGD network operator and third-party shippers should be updated on the website of the CGD entity on daily-basis to ensure that there are no sub-optimal gas procurement decisions by customers due to the lack of timely information on available capacity.
- 2) Article 9.1 of the draft regulation provides for the allocation of Common Carrier capacity to third-party shippers on a pro-rata basis if the demand exceeds available common carrier capacity. However, Article 5.5 of the CGD Access Code provides for the allocation of capacity based on the product of the sum of the entry points MDQ and the period of capacity booking. The CGD Access Code regulation may be amended to align with the provisions of the draft regulation.



- 3) Article 11 of the draft regulation allows the laying of pipeline infrastructure by any entity to sell gas to consumers in an area that is not connected to the CGD network if the network operator does not convey its intention to connect the said customer within the stipulated timeline. While this is an enabling provision for the development of pipeline network to increase the availability of gas, this Article could be misinterpreted to hinder customers from procuring LNG by trucks from third-party marketers.
- a. The PNGRB Act and the existing CGD regulations authorize network developers to develop gas pipeline network and the associated equipment which is required for transporting natural gas from a bulk supply high pressure transmission main to the medium pressure distribution grid and subsequently to the service pipes supplying natural gas to domestic, industrial or commercial premises and CNG stations. The transportation of natural gas in other modes such as by truck-mounted cascades in gaseous form or by truck-mounted cryogenic tanks in the liquid form i.e., LNG is neither addressed under the PNGRB Act nor covered under the authorizations issued to the CGD network developers. Additionally, the PNGRB Act only envisages exemption of the CGD network from the purview of Common/Contract carrier for a few years, and the Act doesn't inhibit the right of the customer to procure natural gas from third-party marketers availing other modes of transport. So, we request the honorable Board to explicitly clarify that all categories of customer(s) are at liberty to procure LNG by trucks from third-party marketers (without having to access the CGD network) and the draft regulations covers only those entities or persons who intend to market natural gas to customers by laying the necessary interconnecting pipelines from the existing CGD network to the customer.
- 4) Article 12.1 of the draft regulation permits setting up of CNG stations by third-party entities in the areas where the CGD network has come under the purview of Common/Contract carrier and acknowledges that the CNG stations are outside the purview of the 'infrastructure exclusivity'. However, it seeks to lay a constraint on such entities to receive gas only through the CGD network of the authorized entity. Imposition of such obligation appears to be restrictive and deprives the option of procuring CNG by cascades from third-party marketers without having to access the CGD network. Additionally, depending on the distance between the CGD network of the authorized entity and the CNG station of the third-party, it may be economically more attractive to receive natural gas through truck-mounted cascades or by pipelines connecting to the near-by CGD networks of other operators. The objective of increasing supply of natural gas can only be achieved by promoting competition amongst all gas suppliers enabling customers to procure gas at the most competitive price.
- 5) Article 12.4 of the draft regulation provides for setting up of LCNG Stations by any third-party and procurement of LNG from any marketer subject to the registration of such LCNG stations with the Board considering the LCNG stations as storage facilities of LNG. We request the honorable Board to introduce a similar clause enabling setting up LNG storage facilities within the premises of the commercial and industrial customers who are interested in procuring LNG from third-party marketers by trucks to meet their captive demand.
- 6) Article 5.4 of Access Code for City or Local Natural Gas Distribution Networks) Regulations, 2011 mandates supply of 100 SCMD to domestic customers prior to seeking capacity allocation for supplying gas to other segments. This condition is against the spirit of the PNGRB Act as it leads to cross-subsidization of regulated transportation/distribution activity and unregulated marketing activity. Additionally, the CGD authorized entities are currently allocated domestic gas to meet the 100% requirement of domestic PNG customers and continue to hold a significant competitive advantage as third-party marketers will have to rely on RLNG or market-priced domestic gas. We urge the honorable Board to drop this provision as by way of charging a common transportation rate for all segments of customers, irrespective of the actual cost of LMC to reach



the respective segments adequately factors in cross subsidization of domestic PNG by other segments. Further cross subsidization is unwarranted.

- 7) Article 5.4 of Access Code for City or Local Natural Gas Distribution Networks) Regulations, 2011 sets 10,000 SCMD as the minimum MDQ for third-party marketers. We propose to decrease this limit to 2,000 SCMD to considering the average requirement of commercial and industrial customers.

We request the honorable Board to consider the above issues while finalizing the draft regulation enabling gas-on-gas competition which would favorably impact inter-fuel competition leading to higher penetration gas which is in line with the Government of India's aspiration of increasing the share of natural gas to 15% in the overall energy mix. We will be happy to provide any further information if required.

Your Sincerely,

For **Shell Energy India Private Limited**

Ashwani Dudeja

Director and Chief Commercial Officer

