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

Subject: Comments on the proposed Petroleum and Natural Gas Regulatory Board (Imbalance Management Services) Second Amendment Regulations, 2020

Respected Madam,

This has reference to the public notice (PNGRB/COM/2-NGPL Tariff (2)/2012(P-xxx)) soliciting views on the proposed Petroleum and Natural Gas Regulatory Board (Imbalance Management Services) Second Amendment Regulations, 2020.

The imbalance management services play an essential role in the maturation of the gas markets by facilitating the transitioning of the pipeline system balancing by the levy of ad hoc penalties on the erring Shippers to incentivizing to balance using the market-based mechanisms. Hence, we thank the honourable Board for providing the basic imbalance management services, which offer a win-win solution to both the marketers/Shippers and pipeline operators, i.e., the Shippers stand to benefit from minimizing the balancing costs and the Transporters could earn incremental revenue from offering the value-add services. Given the implicit relationship between the Imbalance Charges and the Imbalance Management Services, we request the honourable Board to review the current provisions while amending the Pipeline Access Code.

We note that globally (PNGRB Committee report) the imbalance penalties and the charges for management services are determined based on a few principles. The key ones include

- The imbalance charges shall be cost-reflective and the Transporters shall neither gain nor lose (The Principle of Neutrality) at a system level considering the actual costs incurred in balancing the system and the penalties/charges collected from the Shippers.
- The balancing actions shall be undertaken on a non-discriminatory basis, and the penalties shall be levied on all Shippers to prevent the impairment of reliable services.
- The balancing actions shall be consistent with the economic and efficient operation of the transmission network.

We have reviewed the proposed amendment in the context of the above general principles and proposed the following recommendations for the kind consideration of the honourable Board.

- 1) **Netting and Trading** of imbalances is merely a simple accounting exercise which involves the determination of the imbalance position on a cumulative basis across different GTA/CTs of a Shipper or across multiple Shippers. The Shippers neither incur any system balancing costs nor undertake any significant efforts for providing this basic service. In the US, the Transporters are mandated to permit netting and trading of imbalances by Shippers before levying any imbalance penalties (post availing the Imbalance Management Services). Additionally, the



Transporters are allowed to charge a fee only for the value-add services like parking and loaning etc., and not for the netting and trading.

- a. As per the draft (Article 2.5), the Transporters are permitted to charge an amount not exceeding 1.50 INR per MMBTU for the netting and trading services. As clarified above, the Transporters will only be incurring nominal administrative costs to provide this service and they may be permitted to charge only a nominal fee of 100 INR per day for any shipper to avail the netting and trading service. We would like to submit that there seems to be no rationale for linking this fee to capacity in MMBTU terms as the netting and trading neither involve any pipeline activity by the Transporters to manage the system imbalances nor changes the imbalance position of the system.
- 2) **Park and Loan Services:** The proposed tariff cap of 15 INR/MMBTU seems to be determined considering the current imbalance penalty rate of 50% of the transportation tariff. Such a high rate may potentially discourage the convergence of the Shippers and Transporters, and also limit the Shippers to use the service only for a few days (potentially not more than 2-3 days). The Parking service offers a short-term storage option which not only supports the development of the gas markets but also allows the Transporters to earn incremental revenue by optimally utilizing the pipeline system.
- a. The tariffs of Park and Loan services are typically determined based on the inventory costs (per day costs) and the service initiation charges (fixed and/or volume linked). We urge the honourable Board to set a tariff cap not more than 5 INR/MMBTU or 5% of the transportation tariff of the pipeline whichever is lower to incentivize the Shippers to use the service optimally.
 - b. Additionally, the honourable Board is urged to review the Pipeline Access Code to rationalize the current imbalance penalty rates and consider tranche-wise rates at different levels of imbalances not exceeding 20% of the transportation tariffs. In the US and EU markets, such penalties are levied on the Shippers only to the extent of the costs incurred by the Transporters to balance the system. However, in India, not only are such steep penalties levied without any linkage to the actual costs incurred by the Transporters, but these are also only levied upon open access Shippers as the integrated Transporters and their affiliates, who could also cause system imbalances like any other shipper, are self-exempted from such charges pending the implementation of the unbundling and the establishment of the independent transportation system operator. As a result, such steep imbalance penalties provide a significant cost advantage to the integrated transportation entities vis-à-vis third-party marketers. Hence, we request the honourable Board to address this while modifying the Pipeline Access Code to rationalize and levy cost-reflective imbalance charges on all Shippers in a non-discriminatory manner.
- 3) For the Netting and Trading services to work effectively, the Transporters will need to provide the imbalance positions of the Shippers on a timely basis. This is also critical for enabling the Shippers to cure the imbalances. Hence, we request the honourable Board to direct the Transporters to provide the imbalance information on a daily/real-time basis on their respective websites.

We request the honourable Board to review and consider the above inputs while finalizing the regulation. We will be happy to provide any further information if required.

Your Sincerely,
For **Shell Energy India Private Limited**

Nakul Raheja
Director