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**Rajeev Kumar**

Director - Regulatory Affairs & Upstream Business Development

**BP Exploration (Alpha) Limited**

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18 August, 2019

**Ms. Vandana Sharma**

Secretary

Petroleum and Natural Gas Regulatory Board

1<sup>st</sup> Floor, World Trade Centre

New Delhi - 110001

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Dear Madam,

**Sub.: Comments on proposed amendment to the Petroleum and Natural Gas Regulatory Board (Determination of Natural Gas Tariff) Regulations 2008**

We thank you providing us with an opportunity to provide our views on the proposed amendment to the Petroleum and Natural Gas Regulatory Board (Determination of Natural Gas Tariff) Regulations 2008 ("Tariff Regulations"). We have reviewed the proposed amendment and hereby provide our comments based on BP's experience as a participant in the development and evolution of gas markets globally.

As we understand, the key objective is to transition to a mature tariff system providing access to customers located at geographically disadvantaged locations, which will provide a platform for the development of a competitive gas market. In this regards, we believe the Government is taking a wholistic approach which includes development of a gas hub, application of the proposed Unified/ Pooled tariff policy framework uniformly to all pipelines in the country to avoid market distortions, transparent and non-discriminatory infrastructure access regime for the development of truly competitive gas market.



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We firmly believe that development of a truly competitive gas market will support the government's objective to increase the gas share in the primary energy mix.

As you would recall, we have provided our views on the PNGRB's proposal for Unified/Pooled Tariff vide our letter dated 10th of November 2017. The intent behind the proposed amendment to allow combination of tariff of two or more pipelines is similar to the previous proposal of Unified/ Pooled Tariff. In this regard, we would like to reiterate our views set out in above mentioned letter (with emphasis on the need to creating an appropriate market structure) and is attached herewith for easy reference.

The ultimate objective of government policy and regulation must be to ensure that the benefit of those policies and regulations should flow through to the end-consumers in the form of lower gas tariffs and prices. To achieve this objective, the proposed amendment to the Determination of Natural Gas Tariff Regulations 2008 to allow combining tariff of two or more interconnected pipelines must be associated with the development of a gas hub, inclusion of natural gas in GST and setting up of required regulatory and market structure as outlined in the attached letter.

In addition to the above, while combining tariff of any two or more interconnected pipelines, the pipeline(s) transporting gas from key sources of gas on the East coast of India (which will commence production in 2020) must be included in the combined tariff, to ensure that domestically produced gas can be made available to all key markets in India and does not get disadvantaged vis-à-vis imports.

We shall be happy to discuss further on the issue or make a brief presentation, if required.

Yours sincerely,

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**Rajeev Kumar**  
**Director - Regulatory Affairs & Upstream Business Development**

Encl: a/a

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10 November 2017  
Ms. Vandana Sharma  
Secretary  
Petroleum and Natural Gas Regulatory Board  
1<sup>st</sup> Floor, World Trade Centre  
New Delhi - 110001

Dear Madam,

**Sub.: Comments on the integrated authorization for Unified/Pooled Tariff**

We thank you for inviting stakeholders' views and comments on "Integrated Authorization for Unified/Pooled Tariff" proposing various options on pipeline unification. We have reviewed these options as described in the consultation paper and hereby provide our comments based on BP's experience as a participant in the development and evolution of gas markets globally.

As we understand, the key objectives outlined for moving from the existing zonal, stand-alone and additive methodology of tariff determination to the proposed Unified/ Pooled Tariff for inter-connected cross-country pipelines are:

- Transition to a mature tariff system providing access to customers located at geographically disadvantaged locations;
- Avoid cascading of transportation tariffs for areas distant from sources of gas, resulting in improved competitiveness and enable expansion of markets for natural gas;
- Provide a platform for the development of a competitive gas market.

We fully support the stated objectives and firmly believe that development of a truly competitive gas market will support the government's objective to increase the gas share in the primary energy mix.

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However, piecemeal implementation of policy such as the proposed Unified/Pooled tariff of inter-connected cross-country pipelines owned by a single entity runs the risk of being counter-productive and may defeat the government's objective to develop a competitive gas market. We believe that in order to realize the stated objectives, a holistic approach must be taken. This includes development of a gas hub; application of the proposed Unified/Pooled tariff policy framework uniformly to all pipelines in the country to avoid market distortions and accompanied by the required regulatory and market structure changes such as unbundling of the existing bundled merchant and transportation entity – all these steps will ensure a truly fair, transparent and non-discriminatory infrastructure access regime for the development of a competitive gas market.

To achieve these, the following will need to be addressed:

1. **Inclusion of all existing cross-country and bid-out pipelines:** The principle of regulated Unified/Pooled tariff must be mandated for all inter-connected cross-country pipelines and bid-out pipelines of all entities. If it is restricted to a single entity, it will result in market distortions providing unfair advantage to that entity and goes against the objective of development of a competitive gas market. An appropriate mechanism needs to be worked out to ensure the inclusion of bid-out pipelines.

The complexities of operationalization (including cost and revenue sharing mechanism among multiple entities) can be overcome as PNGRB will have access to historical and projected capital and operating expenditure data of all entities allowing the PNGRB to compute and notify a Unified/Pooled Tariff after factoring in the allowable rate of return.

2. **Inclusion of all regional pipelines:** To encourage last mile access within the states, all regional networks connected to the inter-connected cross-country pipelines should be encouraged to be included in the proposed Unified/Pooled tariff. This will provide a level playing field for all the domestic supply or LNG by providing equal access to all the connected markets at uniform tariff levels.
3. **Provide clear policy framework for development of new pipelines:** A clear policy framework for development of new pipelines must be formulated to ensure continued expansion of the network. To incentivize competition for future pipeline development, bids can be invited under the Unified/Pooled Tariff principle and a new license may be awarded based on lowest bids received for capital and operating expenditure. Alternatively, future pipeline development can be through a single national transportation entity "Transco". As multiple pipeline owners become a part of the pool, an independent "Transco" will be required to manage operational issues and ensure seamless interconnectivity.

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4. **Instituting appropriate market structure:** The ultimate objective of government policy and regulation must be to ensure that the benefit of those policies and regulations should flow through to the end-consumers in the form of lower gas tariffs and prices. This can be achieved only by putting in place a market structure that fosters competition among suppliers. This can only be ensured by:

- Implementing a truly fair, transparent and non-discriminatory open access to pipeline infrastructure.
- Full unbundling of merchant and transportation functions into arms-length standalone entities to ensure end-consumers have equal access to all other suppliers at identical and standard terms and conditions for gas transportation.
- End-consumers should have the flexibility to change entry and exit points on the network, subject capacity availability and on payment of incremental tariff (if any) without levy of ship or pay charges.

The proposed Unified/ Pooled tariff mechanism based on principle of trueing-up/adjustment of any under-utilization or over-utilization of pipeline capacity versus forecasted utilization will ensure that the pipeline company will earn assured return on capital and the volume risk is transferred to the end-consumer. It therefore follows that the pipeline entity should not receive any additional advantage by remaining a bundled merchant and transportation entity.

5. **Appropriate mechanism for tariff setting and review:** Appropriately designed tariffs can provide signals to market participants on the need for additional investment and provide incentives for users to use the network efficiently. In case the proposed Unified/Pooled Tariff mechanism is adopted, the following points need due consideration before tariff finalization:

- Appropriate monitoring/oversight and international benchmarking of all capital and operational costs with trunk pipeline costs in mature markets of US, Spain, etc., to rule out any gold-plating of costs to seek higher returns.
- The assured rate of return must be commensurately adjusted considering the prevailing interest and inflation rate environment and the transfer of volume risk to the end-consumer.
- The economic life of the pipelines should be recalibrated considering global and Indian pipeline operational history and the fact that future repairs and maintenance to ensure life extension will be included in the cost base while computing tariff.
- The number of operational days need to be re-assessed based on actual shut-down history of the existing pipelines.

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**6. Other considerations for ensuring overall market development:**

- Pooled/Unified Tariff of pipelines belonging to a single entity may create inadvertent incentive for consumption of LNG versus Domestic Gas based on the geographical location of source of supply/consumer resulting in adverse impact on E&P activity. Adequate precautions must be taken to avoid such unintended consequences.
- Power is a highly price sensitive sector. Socialization of costs for the proposed Unified/ Pooled Tariff will result into higher transportation tariffs for power producers near to the source of gas (e.g. Andhra Pradesh/ Gujarat), making it unviable for them to consume gas. Consideration must be given to judicious variation in tariff to provide concessional rates for such power plants to ensure their viability for encouraging clean energy.

We shall be happy to discuss further on the issue or make a brief presentation, if required.

Yours sincerely,

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**Rajeev Kumar**

**Director - Regulatory Affairs & Upstream Business Development**