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GSPL/COMM/2020/

Date: 01.06.2020

Ravindra Agrawal
Group Executive Director
(Gas Business)

The Secretary

Petroleum and Natural Regulatory Board
1st Floor
World Trade Centre
Babar Road
New Delhi – 110001

Subject: Suggestions / Views / Comments of the Stakeholders on the proposed draft amendment to Tariff Regulations referred below

Ref: PNGRB Public Notice PNGRB/COM/2-NGPL/Tariff(3)/2019 Vol-II dated 29.4.2020

Respected Madam,

At the outset we express our sincere thanks to the Hon'ble Board for initiating the process of reforms in the tariff regulations, which were long overdue.

We have reviewed the draft proposed amendment and have prepared detailed comments which are attached with this letter.

One of the key reforms which requires to be taken up at this stage by the Hon'ble Board pertains to equitable treatment of the bid out pipelines and the cost plus pipelines and issues associated with the process of award and other operational matters so that participants continue to take interest in developing new infrastructure. We would request your Office to take up these matters also in the current amendment process.

We have given our views on these draft proposed amendments while welcoming the initiative as the first step towards holistic reforms. We hope you will find our comments constructive to support overall growth of pipeline infrastructure in the country.

With Best Regards,

Yours Sincerely,

Ravindra Agrawal
Group ED (Gas Business)

GSPL Comments on Tariff Amendment Regulations

1. Regulation 2(1)(d) – Substitution - “capacity of natural gas pipeline”

GSPL Comments: GSPL supports the amendment proposed by the Hon’ble Board

2. Insertion of new Regulation 2(1)(ea) : Definition of Imbalance Management services

GSPL Comments: GSPL supports the amendment proposed by the Hon’ble Board

3. Schedule A, Clause 5(8) : Substitution of Clause 5(8) on Miscellaneous Income

GSPL Comments

- a) Imbalance Management Services & Overrun amount is deposited at the end of every quarter with PNGRB Escrow account.
 - a. Only DDS revenue is **retained** by the Company.
- b) Accordingly, GSPL requests that at the time of netting off the Imbalance Management revenue (for the purposes of Opex), only the DDS revenue should be included, otherwise it would be disadvantageous to the Transporter.

4. Schedule A, Clause 6(1) : Substitution of Clause 6(1) on Volume Divisor

Amendment proposed by PNGRB : 1(a) Ramp up starts with 30% of capacity utilization in Year 1 and goes up to 100% in Year 10

Reference to firmed up contract capacity and booked common carrier capacity removed
Divisor for 10th & subsequent years shall be 75% of pipeline capacity

GSPL Comments :

- a) Most of the operating pipelines have completed more than 10 years of operation like GSPL HP, GSPL LP, HVJ, K G Basin, Mumbai Regional pipeline, Gujarat Regional, Cauvery Basin, Dukli Maharajgang, ANGPL, etc., and accordingly, there will be no impact on account of the proposed changes, unless the regulations are implemented retrospectively.
- b) The proposed provision shall benefit few natural gas pipelines like DBPL, KKMBPL and Jagdishpur Haldia natural gas pipeline.
- c) Reforms to the said provision shall also incentivize various pipelines to expand the capacities.
 - **It is suggested that if a cost plus pipeline is expanding its capacity, the said expanded capacity shall be subject to ramp up of capacity as proposed above, as the entity would take several years to reach 75% capacity utilization of expanded capacity.**

Amendment proposed by PNGRB : Deletion of 1 (d) – New source connectivity

GSPL Comments :

- d) With regards to clause on new source connectivity, it may be noted that the same was included to facilitate providing connectivity to new gas sources as it seeks to avoid any increase in design capacity of the pipeline for tariff purpose.

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| <ul style="list-style-type: none">• If the above clause is removed in its entirety, the capacity additions between 01.04.2015 to 31.03.2020 shall also be impacted• We request that the clause should not be deleted to avoid interpretation risk. |
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5. Schedule A, Clause 6 : Insertion of Sub clause 3 - Working Days

GSPL Comments: GSPL supports the amendment proposed by the Hon'ble Board

6. Schedule A, Clause 7 : Substitution of Clause 7 - Economic Life

GSPL Comments

- a) GSPL supports the amendment proposed by the Hon'ble Board
- b) GSPL requests to have clarity with regards to whether "Replacement of Pipeline" also includes replacement due to (a) change in design class (parameters), (b) change in diameter as the same may lead to change in capacity.

7. Schedule A, Clause 8 : Substitution of Clause 8 – Procedure for apportioning of unit natural gas Pipeline tariff over the tariff zones

GSPL Comments

- a) GSPL requests the Hon'ble Board to provide **30 days** for submission of the same.
- b) Further, on the issue of Zonal Apportionment, the Hon'ble Board is requested to bring clarity in regulations on zoning with respect Point of Injection or Point of Origin
- c) Board may also allow **bid out pipelines to adjust their zonal tariffs while maintaining levelized tariff.**

8. Schedule A : Insertion of new Clause 11 - Escalation in Tariff

GSPL Comments

- a) The intent to have gradual increase in tariff, year on year, shall help consumers only on cost plus pipelines.
- b) Proposed amendment in tariff regulations may allow cost plus pipelines to change tariff in near term and that may change the competitive position of bid out pipelines vis-à-vis cost plus pipelines, cost plus pipelines also have flexibility in zonal tariff determination.
 - PNGRB is requested to take holistic view regarding tariff regulations to ensure level playing field is maintained while addressing concerns of bid out and cost plus pipelines, as bid out pipelines have higher degree of business risk.

Suggestions / Comments / Views of Stakeholders with regards to issues in Annexure 2

A. Schedule A : Regulation 5 (2)(b) : Fuel Cost

GSPL Comments

- a) GSPL supports the amendment proposed by the Hon'ble Board.
- b) GSPL further requests that transmission losses (which includes LUAG) up to a maximum of 0.3% of transported volumes should also be considered as cost.
- c) It is noteworthy that Access Code brought out by PNGRB recognizes Line Losses for gas transmission in pipelines.

B. (a) Exclusion of Clause 12 & Clause 21 of Authorisation Regulations -Expansion in Capacity of Natural Gas Pipelines / Provisions regarding tie-in connectivity or extension of natural gas pipeline or laying of spur-lines

GSPL Comments

- a) GSPL supports the amendment proposed by the Hon'ble Board
- b) Since these regulations have significant bearing on tariff determination they should be deleted from Authorisation Regulation.
- c) New terminals / new sources are being developed and it is critical to provide connectivity to these gas sources, in a timely manner, so that gas from these sources would flow through the extensive gas network in place and also through the network being developed across the country.
- d) For transmission of gas from new sources (typically, terminals), new capacities are required to be developed (as some of the pipelines are operating at full capacities) and this expansion in pipeline capacity necessitates **due incentive to pipeline developers**, as the same would lead to development of new gas markets in the Country and help in moving towards a gas based economy.
- e) Regulations are required to incentivize the pipeline developer to expand the capacity to carry gas from new upcoming gas sources, like LNG terminals & new domestic gas fields to the newer markets, which requires substantial investment.
- f) The original intent of applicability of Regulation 12(2) of Authorization Regulations to **only bid-out pipelines** was in view of the fact that bid-out pipelines are having a fixed tariff over the economic life. However, vide amendment in August 2014, the said **provision was made applicable to non bid-out pipelines, where the tariff is already determined based on capex and capacity and adjustments in tariffs are made periodically** based on those parameters, unlike bid-out pipelines wherein tariff remains constant at bid out levels.

- g) Accordingly, it is suggested that a more efficient way of developing infrastructure by cost plus pipelines is by allowing grossing up capex, as that way the developer would be inclined to take partial risk of investment.
- h) Hence, considering need for development of pipeline infrastructure in India and to incentivize pipeline transporters to expand the capacity once the capacity utilisation exceeds 75% consistently, **the Hon'ble Board may consider allowing the developer to (a) gross up the capex of expansion and (b) allowing for built-up of volumes for over a period of 10 years for expanded capacity.**

(b) Suggestions of the stakeholders are sought on whether or not to treat interconnection between two natural gas pipelines as extension / expansion / tie in

GSPL Comments

- a) GSPL supports that interconnection between **two natural gas pipelines shall not be** treated as extension / expansion / tie in for the purposes of tariff determination.
- b) Further, GSPL requests Hon'ble Board that Source connectivity shall not be considered as extension / expansion / tie in for the purposes of tariff determination.
- c) GSPL is connected to all the gas supply sources in Gujarat, domestic and LNG Terminals, thereby giving its customers the flexibility to source gas from allotted fields / competitive sources / sellers. Moreover, Gujarat assumes a special importance in LNG import infrastructure, by virtue of being home to almost over 90% of total LNG imports in India.
- d) GSPL has been receiving requests from upcoming terminals / field operators for establishing connectivity with GSPL grid and it is expected that these sources shall come online by 2021-22. However, the extant regulatory provisions deter a pipeline developer from connecting to new gas sources.
- e) In order develop new gas markets in the Country and shift to gas based economy, this issue needs to be addressed by amending the regulations which incentivize the pipeline transporters (like GSPL) to establish pipeline connectivity, to new upcoming gas sources like LNG terminals & new domestic gas fields, which requires substantial investment. **GSPL suggests that new source connectivity shall not be considered as an expansion / extension of pipeline network for the purposes of tariff determination.**

C. Adjustment of Volume Variation

GSPL Comments

- a) GSPL supports the amendment proposed by the Hon'ble Board
- b) GSPL suggests that similar to Electricity sector, mechanism of truing up may be deliberated upon for inclusion in tariff regulations.

- Under CERC regulations: (a) Tariff is fixed based on sum of capacities allocated to Long Term and Medium Term open access (b) Tariff is reviewed annually (c) Truing up is allowed and is done annually and (d) Volume risk not loaded on to Transmission Company

D. Other suggestions

- For Opex**, it is humbly requested to consider Opex as per Industry benchmarks and provide incentive for the entities operating at lower cost.
- It is suggested that Force Majeure events such as COVID-19 shall be accepted as non revenue days by Hon'ble Board while computing the tariff.

c. Stability/Long Term Continuity in Regulations

- During the course of bidding of cross country pipelines in 2009-2010, few bidders enquired about the applicable tariff for the spurline beyond tariff zone of 50kms and it was clarified that the same would be based on actual distance between spurline and origination of trunk pipeline.
- However, PNGRB vide amendment regulation dated 08.08.2014, amended Regulations 21 (3) of Authorisation Regulations regarding Spurlines to change the reference of admissible tariff to applicable tariff of the tariff zone from which the tap-off for the spurline is taken.
 - It is critical for bid-out pipelines that regulations affecting revenues are not amended, so that bid revenues are protected.
- It can be seen that in some of the tenders for bid out pipelines, the participation of the bidders was either one or two:

Name of Pipeline	Name of bidder(s)
Srikakulam Angul Natural Gas pipeline	GAIL
Kanai Chhata (East Medinipur District, West Bengal) - Shrirampur (Nadia District, West Bengal)	H-Energy & RMTL
Jaigarh (District-Ratnagiri, Maharashtra) - Panjim (District-North Goa, Goa) - Karwar (District-Uttara Kannada, Karnataka) - Udupi (District-Udupi, Karnataka) - Mangalore (District-Dakshin Kannada, Karnataka)	H-Energy & RMTL

As an entity involved in developing and successfully operating pipelines since last two decades, we believe that the uncertainties surrounding regulation change, demand assessment issues, minimal / no flexibility in case of any unforeseen circumstances, including due to change in law, are some of the key reasons for lower participation.

- In light of the above, GSPL submits that amendments to tariff determination regulations should be holistic, and need to include cost plus and bid out pipelines.
- Considering the need for development of a Pan India Gas grid which shall help India achieve its goal of becoming a gas based economy, it is suggested that **Bid out pipelines shall be allowed to become cost plus after 10 years of operations.**