

**Annexure-1**

**General Observations:** PIL appreciates the pro-active steps initiated by PNGRB for the benefit of transportation entities, who were already struggling with underutilization issue and were further affected with the depletion in transportation volumes due to the COVID-19 pandemonium. Presently India is going through the development stage in terms of gas infrastructure as well as market. Therefore, policies need to be such which support the development of gas infrastructure and markets and are simple to implement. Keeping this objective in view, PIL’s suggestions on the proposed amendment as well as few additional suggestions are as below:-

S. No.	Proposed Provision of Regulation	Issues	PIL Suggestions
1	<p><b>Regulation 2, in sub-regulation (1), in place of clause (d), the following shall be substituted:-</b>            “(d) “capacity of natural gas pipeline” means the capacity of natural gas pipeline as originally authorized or accepted by the Board under the Petroleum and Natural Gas Regulatory Board (Authorizing Entities for Laying, Building, Operating or Expanding Natural Gas Pipelines) Regulations, 2008 or as subsequently amended under those regulations;”</p>	<ol style="list-style-type: none"> <li>In the proposed definition intent seems to delink the volume denominator for tariff working from the capacity regulations to avoid the frequent determination/variation in the capacity as mandated in capacity regulations. The clause is a welcome change. However, the last six words of the proposed definition provides “<i>or as subsequently amended under those regulations</i>”. This is adding to ambiguity and the Board needs to provide clarity on how the subsequent amendments will be done.</li> <li>In authorization regulations clause 5 explanation 2 (h) Explanation “<i>The capacity shall be approved by the Board as per the basis specified in the relevant regulations for determining the capacity of natural gas pipeline.</i>” This</li> </ol>	<p><b>Suggestions:</b></p> <ol style="list-style-type: none"> <li>It is suggested necessary provision may be created in Authorization/Tariff regulation to make it self-explanatory with regard to capacity working for tariff purposes. <b>For this purpose, the capacity stated in authorization/acceptance letter should be considered as authorized or accepted capacity. It is suggested to replace last six words “as subsequently amended under authorization/ acceptance letter issued by the board”.</b></li> <li>Also, it is suggested that different nomenclature can be used for capacity for the tariff regulations</li> </ol>

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		<p>provision may create circular reference as this refer back to capacity regulations.</p> <p>3. "Capacity of natural gas pipeline" is used in other regulations (i.e. Authorization, Capacity Regulations), this may create ambiguity, and hence there is a need to align these definitions.</p>	<p>and for the capacity regulations say Tariff Capacity and Access Capacity.</p>
2	<p><b>Clause 5, sub clause 8 of Schedule A, following clause shall be substituted, namely: -</b>  “(8) Miscellaneous income realizable from a fixed asset included in the capital employed or out of an expense considered as an operating cost, but not including interest income, profit or loss on sale or transfer of any fixed or other asset, shall be netted from the operating cost. Notwithstanding anything provided in any regulations, income realizable from imbalance management services under the relevant regulations of the Board shall also be netted from the operating cost for tariff computations.”</p>	<p><b>Issues:</b></p> <ol style="list-style-type: none"> <li>1.As per the tariff regulations the natural gas pipeline tariff shall be determined by considering a reasonable rate of return on normative level of <b>capital employed</b>. Therefore, any income earned from the assets included in the capital employed should be counted under the Revenue head.</li> <li>2. If, in any year Cumulative Actual revenue is higher than the cumulative revenue based on normative volume, the upside may be shared with the shippers through tariff reviews. Till the revenue reached that point, all income earned by the transporter from the capital employed should not be</li> </ol>	<p><b>Suggestions:</b> Clause 5, sub clause 8 of Schedule A should be deleted in toto and a common adjustment mechanism may be formulated to adjust any increase/decrease in actual revenue vis-à-vis the normative revenue on account of volume as well as other income over the economic life.</p>

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		<p>adjusted in any manner against any other parameter of tariff.</p> <p>3. Any attempt to consider income earned from the capital employed as miscellaneous income to be adjusted against the operating cost is not justified. This would amount to reducing the operating cost which would result in reduction in tariff.</p> <p>4. Even as per accounting standards Income from Imbalance Management services is considered as part of Revenues from Operations. In fact, on which the transporter is paying Other Charges to PNGRB. Therefore, considering this under miscellaneous income may please be deleted.</p> <p>5. Imbalance Management Service in the gas transportation business can play an important role in market development therefore such practice should be promoted. This has been proved helpful to the shipper for mitigating their risk of penalties. Proposed provision would amount to disincentivizing transporters from providing such services.</p>	

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3	<p><b>sub clause (1) (a) of clause 6 of Schedule A, following clause shall be substituted, namely: -</b></p> <p><b>(1)</b> The volumes of natural gas to be considered as divisor in the determination of the unit natural gas pipeline tariff over the economic life of the project shall be computed on a normative or actual basis, whichever is higher. Volume on normative basis shall be calculated as indicated below:-</p> <p><b>(a)</b> The divisor for various years of operations of the natural gas pipeline shall be arrived by multiplying the applicable percentage utilization for the year, as per the table below, with seventy five per cent of the capacity of natural gas pipeline :-</p> <table border="1" data-bbox="145 1023 672 1369"> <thead> <tr> <th>Year of natural gas pipeline Operations Utilization</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>First</td> <td>30%</td> </tr> <tr> <td>Second</td> <td>35%</td> </tr> <tr> <td>Third</td> <td>40%</td> </tr> <tr> <td>Fourth</td> <td>45%</td> </tr> <tr> <td>Fifth</td> <td>50%</td> </tr> </tbody> </table>	Year of natural gas pipeline Operations Utilization	Percentage	First	30%	Second	35%	Third	40%	Fourth	45%	Fifth	50%	<p><b>Issues:</b></p> <p>1. We appreciate this proposal, since this is much required comfort in view of the huge capacity under-utilization being faced by the Pipeline entities.</p>	<p><b>Suggestions:</b> We understand that the proposed volume build up would be applied from the first year of starting of economic life on non-discriminatory basis for all pipelines i.e. in case of PIL pipeline, the proposed volume build up will be considered in place of volumes considered for final tariff of PIL pipeline tariff.</p>
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	Sixth 60% Seventh 70% Eight 80% Ninth 90% Tenth and subsequent years 100%		
4	Sub clause (1) (b) and (1) (c) and (1) (d) of clause 6 of Schedule A, stands deleted.	<b>Issue:</b> 1. While we understand that in view of the proposed amendment in capacity definition under tariff regulations, these provisions will be redundant and hence proposed to be deleted.  2. Provision under Sub Clause 1(d) was incorporated on the request of the transporters as any addition of new source was leading to increase in capacity and consequent reduction in tariff, thus defeating the whole objective of adding new sources to mitigate the under recoveries.  3. Scenario is same now therefore, policy needs to be such that efforts of transporter to add new sources should not be detrimental to the pipeline entities.	<b>Suggestions:</b> 1. It is suggested that to incentivize and motivate the transporter to add the all possible new sources of gas, a provision may be added to address the issue of impact on tariff due to addition of new sources. It is suggested that, in case any entity claims additional capital expenditure of more than a threshold limit (e.g. lower of Rs. 100 cr or 3% of the initial capital cost of the Pipeline towards tie-in/extension/expansion), in any of the following years subsequent to accepting/authorizing the capacity by the Board, then such entity has to demonstrate the

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			<p>impact of such capital expenditure on the Capacity.</p> <p>2. Only after passing the above check, accepted/authorized capacity of the pipeline may be modified and the authorization/acceptance letter be amended accordingly. This way we can close the loop of authorize/accepted capacity for the tariff working purposes.</p>
5	<p><b>in clause 6 of Schedule A, following sub-clause 3 shall be inserted, namely:-</b>  <b>(3)</b> Notwithstanding anything provided in any regulations, 350 working days shall be considered in a year for the purpose of tariff Determination under these regulations.”</p>	<p><b>Issue:</b></p> <ol style="list-style-type: none"> <li>1. Proposed proposal is appreciated since this was the requirement of most of the shippers for long time.</li> <li>2. Including the working days provisions in the tariff regulations would bring clarity in tariff workings.</li> <li>3. Un-till now 355 working days are being considered by Board based on the Access Code provision of maximum 10 days planned maintenance period.</li> </ol>	<p><b>Suggestions:</b></p> <p>Board may like to amend the access code to align with the proposed amendment. .</p>

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6	<p>for clause 7 of Schedule A, following clause shall be substituted, namely: -</p> <p>7. Economic Life Notwithstanding anything provided in any regulations, economic life of the pipeline shall be considered as thirty years for the purpose of tariff determination under these regulations. <b><u>Any replacement of the pipeline, either in full or in part before the completion of the aforesaid economic life, shall be considered for tariff determination if prior approval of the Board has been obtained for such replacement.</u></b> In case, the natural gas pipeline has been authorized for more than thirty years or its authorisation has been subsequently extended beyond thirty years or is in operation beyond thirty years, the DCF model for the tariff computation would be made for the entire period of authorization or operation till the next tariff review, including the extended period.”</p>	<p><b>Issue :</b></p> <ol style="list-style-type: none"> <li>1. In Principle PIL is in agreement with the proposal, however, second sentence of the clause states that prior approval of Board is required in case of any replacement of the pipeline, full or in part. By pipeline we understand the Board means the main pipeline only and not the associated facilities/equipment.</li> <li>2. Associated facilities/equipment can have economic life lesser than the pipeline economic life which needs to be replaced in normal course of O&amp;M activities of the pipeline. Any such activity should be allowed without any prior approvals.</li> </ol>	<p><b>Suggestion:</b></p> <p>Board is requested to elaborate/clarify the same in the definition.</p>
7	<p><b>Clause 8 of Schedule A, the following sub-clauses shall be substituted, namely: -</b></p> <p><b>(1)</b> The entity shall submit for the Board’s approval within such time as</p>	<p><b>Issue:</b></p>	<p><b>Suggestions:</b></p> <ol style="list-style-type: none"> <li>1. Zonal apportionment of the unit natural gas pipeline tariff may be done by the Board in</li> </ol>

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	<p>may be fixed by the Board, the calculations in respect of apportioning of the unit natural gas pipeline tariff over all the tariff zones during the economic life of the project in the form specified under regulation 5, by following the methodology as specified under sub-regulations (a), (b) and (c) regulation 7 of the Petroleum and Natural Gas Regulatory Board (Authorizing Entities to Laying, Building, Operating or Expanding Natural Gas Pipelines) Regulations, 2008 except that:-</p> <p><b>(a)</b> there shall be no requirement of bidding while following such methodology;</p> <p><b>(b)</b> No weightage shall apply to such apportionment of the unit natural gas pipeline tariff over different tariff zones; and</p> <p><b>(c)</b> The entity shall use its own numbers in determining such appointment.</p> <p><b>(2)</b> In case the entity fails to submit the information within such time, the Board may apportion the unit natural gas pipeline tariff over various tariff zones</p>	<p>1. Any loss of revenue due to variation in the zonal volumes are on account of transporter, therefore, such apportionment should be done by entity.</p> <p>2. In the regulations there is two stage volume risk passed on to the transporter (i) firstly while working out the tariff, normative volumes are considered and (ii) then in zonal apportionment also once volumes are apportioned the risk is with the transporter. Such two stage volume risk is not an appropriate provision.</p>	<p>consultation with the entity and any over or under recovery should be adjusted during the next review.</p> <p>2. There should be annual truing up mechanism to address changes in the zonal volumes.</p>

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	<p>as per the last zonal tariff apportionment in respect of that pipeline or in any other manner as may be deemed fit by the Board.</p> <p><b>(3)</b> No adjustment shall be made by the entity with the customers for any overachievement or underachievement in the recovery of the natural gas pipeline tariff by the entity due to the volumes actually transported in different tariff zones being different than the volumes considered by the entity for apportioning the unit natural gas pipeline tariff for each of the tariff for zones during-</p> <p><b>(a)</b> the period of initial unit natural gas pipeline tariff;</p> <p><b>(b)</b> the first five and consecutive years after the end of the initial unit natural gas pipeline tariff; and</p> <p><b>(c)</b> The period between any two consecutive tariff reviews.”</p>		
8	<p><b>In schedule A, after clause 10, following clause shall be inserted, namely:-</b></p> <p><b>11.</b> Escalation in Tariff:</p> <p>The DCF model for tariff computation shall provide for an annual increase in</p>	<p><b>Issues:</b></p> <p>It is a good concept; however, same % of escalation may not fit all the pipelines.</p>	<p><b>Suggestions:</b></p> <p>It would be appropriate to allow entity to submit the escalation tariff as well as the % of escalation, which PNGRB can review and approve for each network.</p>

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	<p>levelised tariff at the rate of XX%. Accordingly, zonal tariff would also increase year-by-year at the same rate.”</p> <p>[Suggestions of the stakeholders on rate of increase “XX%” as above would be discussed in the open house meeting]</p>		
A	<p><b>Existing Clause in the Tariff Regulations:</b></p> <p>In sub clause (2) (b) of clause 5 in Schedule A, (b) fuel (including the cost of natural gas and the natural gas pipeline tariff not recovered on the volume of system-use natural gas consumed in the natural gas pipeline);</p> <p><b>Views/comments of stakeholders are required for amending the above sub clause (2) (b) of clause 5 in Schedule A as per alternative formulation as under;</b></p> <p>fuel (including the cost of system-use natural gas and pipeline tariff thereon, relevant to the volumes considered as divisor for tariff determination);”</p>	<p><b>Issues:</b></p> <p>Presently there is disparity in the regulatory provisions w.r.t. the fuel cost and the volume considered as divisor for the tariff workings. Volume is on normative basis whereas SUG is on actual basis. Therefore, it would be appropriate and balance treatment if both the linked parameters are considered on same principle.</p>	<p><b>Suggestions:</b></p> <ol style="list-style-type: none"> <li>1. Fuel cost for each year should be considered based on the normative quantity of fuel as required for transporting the gas commensurate with the volume denominator for the respective year.</li> <li>2. <b>Basis of Normative:</b> normative quantity of fuel would be worked out considering the configuration of the pipeline hydraulics /flow of the pipeline. Provided, in case actual fuel quantity is higher than the normative quantity, the same may be allowed only after prudence check by the Board.</li> </ol>

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			<p>3. Further, it is submitted that all the operating expenses should also be considered on normative basis in synchronization with the volume denominator.</p> <p>4. The main clause of Operating Cost(clause 5) under Schedule A provides lower of normative or actual, this provision also needs to be amended to consider normative cost.</p>
B	<p><b>Suggestions of the stakeholders are sought regarding exclusion</b> of provisions of regulation 12 and regulation 21 of Petroleum and Natural Gas Regulatory Board (Authorizing Entities to Lay, Build, Operate or Expand Natural Gas Pipelines) Regulations, 2008 for the purpose of determination of tariff in respect of 'cost-plus' natural gas pipelines (except in case of Jagdishpur-Haldia-Bokaro-Dhamra-Barauni-Guwahati pipeline, where the pipeline has already been allowed for capacity expansion based on the acceptance of applicability of Regulation 12 by pipeline</p>	<p><b>Issue :</b></p> <p>1. There is a separate Tariff regulations for the pipelines Authorized under regulation 17, 18 or 19 and there are sufficient provision therein to address the tariff related issues including tariff review mechanism to review capital cost and the volume.</p> <p>2. Therefore, any benefit beyond the allowed rate of return gets passed on to the shippers automatically by way of tariff reviews.</p>	<p><b>Suggestions:</b></p> <p>1. For Pipelines which are covered under the tariff regulations, should be excluded from the Tariff related provisions from the other regulations including regulations 12 and 21.</p> <p>2. Appropriate changes may be made in the regulations to exclude the interconnectivity between two pipelines from the purview of extension/expansion/tie in provisions.</p>

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	<p>entity) and also on whether or not to treat interconnection between two natural gas pipelines as extension/expansion/ tie in.</p>	<p>3. However, in case of bid out pipeline, there is no provision to review their tariffs in case of any changes.</p> <p>4. Accordingly, provision under the clause 12 and 21 of the Authorisation Regulations are provided to address tariff related issues for bid out pipelines and therefore,</p> <p>5. These provision should be applicable only for pipelines which are not covered under the tariff determination regulations.</p> <p>6. Pipeline which are approved as single project should be dealt independently w.r.t. extension/expansion.</p> <p>7. Inter-connection between the two pipelines is to facilitate wider distribution of gas and to cover a large customer base, therefore should be promoted without any procedural delays. This intent has been correctly captured in clause 11 of Access code regulations, which provides that inter-connections shall be provided by entity subject to operational and technically feasibility and in case any entity denies then they have to inform the Board.</p>	

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		<p>8. Further, inter-connectivity should not be looked into from the extension/expansion/tie-in point of view and should be promoted.</p>	
C	<p><b>Adjustment of Volume variation:</b></p> <p><b>Existing clause in the Tariff Regulations:</b></p> <p>In sub clause (1) and sub clause (2) of clause 10 in Schedule A,</p> <p>(1) Adjustment shall be carried out in the final unit natural gas pipeline tariff determined under sub-clause (5) of clause 9 on a year-to-year basis by the entity with the customers considering actual volumes in any of the first five years of natural gas pipeline operation when-</p> <p><b>(a)</b> the actual volumes are higher than the normative volume considered as divisors for determination of final unit natural gas pipeline tariff on the basis</p>	<p><b>Issues:</b></p> <ol style="list-style-type: none"> <li>1. Gas pipeline is regulated activity with all possible checks and balances to ensure that pipeline entity should not earn more than the allowed rate of return.</li> <li>2. Therefore, it is also appropriate that any revenue earned by the pipeline entity should be pooled together on cumulative basis and any upside /downside should be adjusted over the economic life without any complications.</li> <li>3. Therefore, it is a good initiative to allow adjustment of upside over longer period.</li> <li>4. It would be more appropriate to allow accumulation of upside of volume as well its adjustment to be carry forward ( upside as well as downside volumes) and allowed to adjust from the first year of economic life till the end of the economic life. This will provide sufficient opportunity</li> </ol>	<p><b>Suggestions:</b></p> <ol style="list-style-type: none"> <li>1. It is suggested to have simple mechanism of volume adjustments on the following principle over the economic life without restricting the accumulation of volume in the first 10 years.</li> <li>2. Board may maintain a cumulative account of actual volumes transported in the pipeline</li> <li>3. At every tariff review if the cumulative actual volume is higher than the cumulative normative then the benefit of the same would be passed on to the shippers.</li> <li>4. If in next review the cumulative actual is lower than the normative then the downside would be adjusted with the volume of benefit already passed on to the shippers.</li> </ol>

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	<p>specified in item (a) of sub-clause (1) of clause 6; or</p> <p><b>(b)</b> the actual volumes are higher than the normative volume considered as divisors for determination of the final unit natural gas pipeline tariff on the basis specified in item (a) of sub-clause (1) of clause 6 but are lower than that considered for determination of final unit natural gas pipeline tariff.</p> <p>(2) When the actual volumes are lower than the normative volumes in any of the first five years of natural gas pipeline operations, a set-off of the impact of such lower volumes shall be permitted. Such set-off shall be allowed only to the extent of impact of higher actual volumes passed on in any of the first five years and the balance set-off, if any, shall be carried over to subsequent years, but not beyond the first five years of natural gas Pipeline operation, to be allowed for adjustment only in case there are higher actual volumes.”</p>	<p>to transporter to earn the allowed return at the same time pass on the benefits of extra revenue to shippers.</p>	<p>5. For adjustment of volume, first year in which higher volume than normative is considered for tariff calculations would be adjusted first, to the extent of higher volumes then the normative and same sequence would be followed for the adjustments of volume.</p>

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	<p><b>Option on which comments/discussion is sought:</b></p> <p>In sub clause (1) and sub clause (2) of clause 10 in Schedule A, suggestions of stakeholders are invited on increasing the period of five years to ten years and to make the same available to the entity on a rolling basis over the economic life of the pipeline. The same would be discussed during the open house meeting.</p>		
<b>Additional Suggestions</b>			
<b>1</b>	<p><b>Discounts and Adjustment of Discount on non-discriminatory basis.</b></p>	<p><b>Issue:</b></p> <ol style="list-style-type: none"> <li>1. In view of the COVID situation, the Shippers may need some time to recover from the impact and during such time they may need some comfort on account of gas affordability.</li> <li>2. As has happened in the past, to support the shippers in general or in a particular sector, Government Authorities may mandate the transporters to provide the discounts in tariff to the customers to address the affordability issue.</li> </ol>	<p><b>Suggestions:</b></p> <p>It is suggested that, Board may provide provision that in case any directions from Government Authorities in view of the COVID or for any other reasons, then pipeline entity can give such discount based on consent from Board. Further, a provision may also be built-in to get the discounted amount recovered through the adjustment in tariff during the tariff review exercise.</p>

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		<p>3. Presently as per the regulations transporter entity has to charge <b><i>“the Tariff”</i></b> as fixed by the regulator and there is no provision to provide discounts and the adjustments of such under recoveries in the future tariffs.</p> <p>4. Therefore, in case Govt. issues any policy guidelines directly or through PNGRB, it is submitted that necessary adjustment provision during future tariff reviews should be provided, as the transporters are also as severely impacted by COVID 19 pandemonium. Such adjustments in future tariff may not result in a very insignificant increase in the tariff when applied for all the users of the pipeline.</p>	
2	<p><b>Provision of FM days in tariff calculations</b></p>	<p><b>Issues :</b></p> <p>1. All entities during this COVID issue have faced the FM like situation wherein utilization of booked transportation capacity has been reduced drastically with no fault of transporter or entity who has booked the capacity. PIL has</p>	<p><b>Suggestions:</b></p> <p>1. In view of the current COVID-19 situation, it is suggested to provide relaxation for the effected period to be appropriately factored while considering the volume denominator during tariff review.</p>

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		<p>faced volume reduction to the extent of ~ 30% due to this COVID-19 impact.</p> <p>2. There needs to be a regulatory mechanism to reduce volumes for working out tariff which could not be transported due to such situations for this financial year 2020-21.</p>	<p>2. Further, it is requested to introduce a concept under the review mechanism, to adjust the volume of gas which could not be transported due to FM or due to constraints which are beyond the control of both transporter and shipper and impact of such adjustment should be passed on in the tariff prospectively.</p>
3	<p><b>Unaccounted Gas</b></p>	<p><b>Issue:</b></p> <p>1. In gas pipeline industry occurrence of un-accounted gas is a globally recognized feature.</p> <p>2. Un-accounted gas in the pipeline occurs due to the difference in the metering of multiple entry / exit points quantities/ measurement differences between the meters, venting of gas during routine maintenance activities.</p> <p>3. Due to above reasons there are gas losses in the system, whereas under the Gas Transportation Agreement transporter is obliged to deliver the quantity at Exit point equivalent to quantity received at entry point without</p>	<p><b>Suggestions:</b></p> <p>Since such un-accounted gas is an essential element of pipeline operations and maintenance, unaccounted gas based on reasonable and justifiable assessment should be allowed. The quantity can be benchmarked based on some normative value e.g. as a percentage of gas transported by pipeline based on pipeline industry data.</p>

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		<p>deducting any quantity on these account resulting into to unrecoverable cost to the transporter.</p> <p>4. This is the very long pending request of gas pipeline transporters</p> <p>5. Though not defined explicitly, the tariff regulations do provide 'consumables' as a part of operating expenses and the gas loss unaccounted is deemed to be consumed during the operations and maintenance activities.</p>	
4	<p><b>Tariff working over shorter Period</b></p>	<p><b>Issues:</b></p> <p>1. As per the provisions of the tariff regulations, tariff is worked out based on Discounted Flow Method considering outflows and inflows for the period of 25 years.</p> <p>2. This 25 years period being long, there is always uncertainties with regard to the inputs that goes into the calculations.</p> <p>3. Further, in the DCF, it is difficult to monitor each component of the tariff separately.</p>	<p><b>Suggestions:</b></p> <p>It is suggested that the Method of computation of tariff may be reviewed and a shorter period tariff method be developed wherein each component can be separately monitored by the Board. For example, Cost of Service Method as being followed in Power sector for the transmission of Power.</p>