

GAIL's Response to Public Comments Received onPCD Ref. : PNGRB/COM/2-NGPL Tariff (3)/2010 dated 02.08.2019 on CJHPL-DBNPL Tariff Review

M/s IOCL:

A view has been expressed that DBNPL and CJHPL are separate pipeline projects constructed at different timelines and serve separate geographical areas and customers, hence, principally, tariffs of all DBNPL and CJHPL cannot be combined with HVJ Tariff.

Typically, any large/cross country natural gas pipeline project may also be constructed at different timelines, serving separate geographical areas and different customers and still the tariff for the same are not necessarily determined and fixed separately for separate timelines or for different geographical areas/customers. Hence, such a rationale against combining of tariffs may not be principally correct.

1. Impact on IOCL's gas business

- a) One of the key objectives of determining tariffs on a combined basis is that it will lead to a more rationalized transportation tariff, increase tariff affordability for far off customers, aid network expansion and lead to a more level playing field for widespread CGD entities. Furthermore, the levelized tariff number in the Public Consultation Document (PCD) is only indicative and the final tariff shall be subject to verifications/approvals by PNGRB in terms of the Tariff Determination Regulations. In GAIL's view, larger consumer interest would be better served through such tariff rationalization.
- b) As regards tariff numbers, the final zonal tariffs determined by PNGRB would be applicable on a non-discriminatory basis along the applicable contractual path.
- c) If the combined tariff of DBNPL & CJHPL with HVJ is lower than the combined tariff of GSPL & MBPL, then it will be beneficial for customers, which is a welcome step. Even today, the existing additive tariffs for DBNPL with HVJ and CJHPL with HVJ are in any case lower than the additive tariff of MBPL with GSPL. In view of the above, the rationale that combining of tariffs would affect the viability of MBPL and BJSPL seems contradictory and against the primary objective of *protecting customer interest* as per Section 22(2) of the PNGRB Act.

2. Impact on IOCL as a customer

The overall objective of tariff rationalization is to secure equitable distribution of gas, encourage gas consumption, minimize the impact of additive tariff vis-à-vis the combined tariff and safeguard consumer interest. In case of any specific customer, whether the tariff increases or decreases may not be the right basis for arriving at a decision in respect of combined tariff. When the HVJ tariff got rationalized, there was a tariff reduction for erstwhile DVPL/GREP upgradation *Zone 3* and *Zone 4* customers including IOCL, who is a Shipper as well as a customer. So, in the larger interest, tariff rationalization is desirable.

Comments on option-I

1) **Clause 2.2.1 - Actual Capex Outgo: DBNPL and CJHPL**

Variation in Capex outgo for the period from 01.10.2008 to 2014-15 is due to interest during construction (IDC) component. In line with the provisions under clause no. 4 of Attachment 2 to Schedule A of the PNGRB Tariff Regulations and the subsequent amendment dated 08.01.2016, GAIL has submitted Capex outgo with IDC.

2) **Clause 2.2.2- Future Capex**

➤ DBNPL

Future LMC Capex: PD capex for LMCs projected for the entire economic life of DBNPL is based on the past actual average expenditure incurred on LMCs and this basis has been accepted by PNGRB in earlier tariff orders also.

Future O&M Capex: Higher O&M Capex projections are mainly on account of technology upgradation (USM meters), ILI of pipelines last done in 2012, leak detection systems and integration of CCTV with Local Control Room (LCR) and integration of LCR with Central Control Room (CCR) at Bhatinda/Dadri.

➤ CJHPL

Future LMC Capex: PD capex for LMCs projected for the entire economic life of CJHPL is based on the past actual average expenditure incurred on LMCs and this basis has been accepted by PNGRB in earlier tariff orders also.

Future O&M Capex: Increase in O&M Capex is mainly on account of surveillance of the pipeline system (namely PIDS/Pipeline Leak Detection, procurement/installation of pressure let-down systems) and procurement/ development of office/storage infrastructure as the Sultanpur-Jhajjar-Hissar section gets completed.

3) **Clause 2.3.1 : Actual Opex**

➤ DBNPL and CJHPL

Common Corporate Capex allocation has been done by adopting the methodology accepted by PNGRB in the Final Tariff of the Integrated HVJ system.

4) **Clause 2.3.2: Future Opex**

➤ DBNPL and CJHPL

Projected Opex on account of future pay revisions till the end of economic life have been included based on past experience.

The inflation rate has been considered based on long term compounded annual growth rate (CAGR) for wholesale price index (WPI) as published by Government of India.

Replacement/ upgradation of assets under O&M Opex are mainly on account of certain non-recurring expenditures that may be incurred during the economic life of the pipeline so as to comply with pipeline system integrity requirement.

5) **Clause 2.5 (Volume Divisor)**

➤ DBNPL

As per the extant regulatory provisions, phase-wise capacity has been considered as per Sl.9 of Attachment 1(j) of Schedule A of PNGRB NGPL Tariff Determination Regulations and the volume divisor has been considered as per clause No. 6 of Schedule A of Tariff Regulation and its subsequent amendment dated 08.01.2016.

➤ CJHPL

The CJHPL tariff has been calculated by considering the Capex/Opex incurred for creating the present capacity of CJHPL (i.e. 12 MMSCMD). Accordingly, the normative volume divisor also has been considered as per clause No. 6 of Schedule A of Tariff Regulation and its subsequent amendment dated 08.01.2016.

6) **Clause 2.8: Line Pack:**

➤ DBNPL and CJHPL

As per the provisions of Tariff Regulations, the value of Line Pack has been considered based on the gas quantity and gas price prevailing at the time of commissioning of the pipeline. The same value has also been considered as Inflow in the last year of economic life as a non-depreciating asset.

M/s GSPL:

A. Combined Tariff for Integrated HVJ, DBNPL and CJHPL

1. As per GSPL, Integrated HVJ, DBNPL and CJHPL would further burden the existing customers of HVJ-GREP-DVPL.

- a) *As per GSPL, Section 22 of PNGRB Act, 2006, does not prescribe any objective “to avoid issue of additive tariff”. Hence, in accordance with guidance provided u/s 22 of the Act, the subject combined tariff should not be considered by PNGRB.*

As per the provisions of the PNGRB Act, 2006 {Ref sub-section 20(5)}, “*securing equitable distribution*” is one of the objectives for declaring a pipeline as a common/contract carrier. Section 22 of the Act, which deals with the laying down of transportation tariffs for common/contract carriers and the manner of determination of such tariffs by PNGRB, shall also be subject to the provisions of the Act. Hence, “*securing equitable distribution*” is one of the objectives while determining the tariffs by PNGRB. Furthermore, safeguarding the consumer interest and at the same time recovery of cost of transportation in a reasonable manner is also another guiding factor while determining the tariffs by PNGRB. Thus PNGRB is empowered to take all such steps that the Board deems it necessary to meet the overall objectives as set out in the Act while determining the transportation tariffs. Hence, the above averment is incorrect.

- b) GSPL has observed that the Board’s past decision on Integrated HVJ tariff had actually affected existing customers of HVJ-DVPL-GREP and the proposed integration of DBNPL, CJHPL will further burden the existing customers. However, all the customers of erstwhile HVJ-Upgradation have been much more benefitted by the Board’s decision on the Integrated HVJ tariff. Further, the proposed combined tariff would further benefit the DBNPL and CJHPL consumers as the PCD at Para 2.11(1) has clearly brought out the fact that the combined tariffs of DBNPL/CJHPL with Integrated HVJ would be substantially lower than the applicable standalone additive tariffs if the DBNPL and CJHPL tariffs are computed separately.
- c) As regards the suggestion of integrating tariffs of all natural gas pipelines operating in the country, PNGRB may like to take a view on the same. Insofar as GAIL’s views are concerned, GAIL has always supported unification and rationalisation of transportation tariffs.

B. Consideration of Integration would deter new investment and affect competitiveness of MBPL, BJSPL and DPPL.

- a) Even without the proposed combined tariffs, the existing additive tariffs for DBNPL, CJHPL are lower than the effective applicable additive tariffs for MBPL, BJSPL.
- b) In any case, MBPL or BJSPL have not been constructed or commissioned yet by GSPL as per the terms & conditions of its authorization (*these pipelines, as authorized to M/s GSPL on 07.07.2011 were required to be commissioned latest by 07.07.2014*). Therefore these authorizations are liable to be cancelled as per the provisions of the Section 23 of the PNGRB Act.
- c) Therefore, raising objections against determination of tariffs on a combined basis for DBNPL, CJHPL (which will greatly benefit the customers in Punjab, Haryana) on the aforesaid ground by M/s GSPL is unwarranted.

C. Dadri-Bawana-Nangal Natural Gas Pipeline (DBNPL)

- i. Development of pipeline connectivity currently being carried out from DBNPL to HPCL-Mittal Energy Limited (HMEL) by GAIL is unauthorised.**

Bhatinda spurline is an explicit part of the Annexure-1 of the PNGRB Acceptance of Central Govt. Authorization dated 15.02.2011 for DBNPL. The connectivity to HMEL is a part of the Bhatinda spurline.

Further, GAIL, during the provisional tariff filing in 2011, had submitted the approval of GAIL's Board for laying the connectivity to HMEL Bhatinda (*refer Para 3.7.1 of PNGRB Tariff Order dated 12.07.2012*) and the PNGRB Tariff Order dated 12.07.2012, at Para 3.10 has also recorded that “ *keeping in view that PNGRB has already recognized the said spurlines in its acceptance of central government authorization, the capex of the same will be considered in determining the tariff for the DBNPL later on when GAIL will submit the supportive documentation to substantiate the capex and schedule....*”

In view of the fact that the Bhatinda spurline is already an integral part of the PNGRB Acceptance of Central Govt. Authorization dated 15.02.2011 for DBNPL and already considered by PNGRB in its earlier tariff order, the connectivity to HMEL is a part of the Bhatinda spurline already authorized to GAIL.

- ii. To exclude Capex & Opex of un-authorised Spur lines including Spur-line to Haridwar, Dehradun and Rishikesh laid outside the Tariff Zone of DBNPL**

Haridwar, Dehradun and Rishikesh spurlines are explicit parts of the Annexure-1 of the PNGRB Acceptance of Central Govt. Authorization dated 15.02.2011 for DBNPL.

The reference to APTEL order dated 22.09.2017 in appeal no. 254 of 2014 was in respect of the spur-line to Amritsar, which has no bearing on the present tariff determination.

- iii. Details of Last Mile Connectivity (LMC) to customers of DBNPL**

Based on the past actual expenditure (*i.e. of about Rs. 31 Cr. /year*) from April 2013 to March 2019, an estimated amount of Rs. 20 Cr. /year from 2019-20 to 2023-24 and Rs. 10 Cr. / year from 2024-25 to 2034-35 has been considered as LMC PD future capex over the entire economic life of DBNPL, which has also been accepted by PNGRB in earlier tariff orders.

- iv. Hike in Common Corporate Opex in FY 2012-13 for DBNPL**

Common Corporate Opex is allocated on the basis of Gross Block. Increase in allocation of Common Corp Opex in FY 2012-13 compared to FY 2011-12 is higher due to significant additions to Gross Block on account of higher capitalization.

D. Chainsa-Jhajjar-Hissar Natural Gas Pipeline (CJHPL)

i. No authorization of Central Government/PNGRB for capacity expansion of CJHPL by installing Compressor Station at Chainsa forming part of CJHPL

The compressors at Chainsa are explicitly included as integral part of Annexure-1 of PNGRB Acceptance of Central Govt. Authorization for DVPL/GREP Upgradation dated 14.02.2011. The averment that these compressors are a part of CJHPL is incorrect.

ii. Phase wise capacity built-up of CJHPL considered in volume divisor

GAIL has always supported the principle of considering phase-wise capacity build-up of pipeline projects in volume divisor computation, in line with the provision under Sl. No. 9 of Attachment 1(j) of PNGRB Tariff Determination Regulations.

iii. Resizing of CJHPL

In respect of the above, the Board, vide letter dated 12.06.2019, by correctly taking cognizance the current demand scenario, has conveyed its acceptance for resizing of CJHPL, but, has not diluted the related contractual obligations. Accordingly, there has been no violation of any regulatory principle in this matter.

iv. Time extension for commissioning of CJHPL

PNGRB, in the context of CGDs awarded in Haryana in the 9th and 10th rounds of CGD Bidding, vide letter dated 12.06.2019, conveyed the Board's approval for extension of completion schedule of the Sultanpur-Jhajjar – Hissar pipeline section. Out of a total network length of 455 km (*as per the PNGRB Final Acceptance dated 13.12.2010*), a total length of ~ 310 km of pipelines is already commissioned with gas being supplied to customers.

GAIL does not want to comment on the *non-commissioning of a single inch of pipeline and non-creation of even 0.01 MMSCMD capacity* in the Mallavaram-Bhilwara-Vijaipur NGPL (2042 km, 76.25 MMSCMD), Mehsana-Bhatinda NGPL (2052 km, 77.11 MMSCMD) and Bhatinda - Jammu- Srinagar NGPL (725 km, 42.42 MMSCMD) even after 8 years from their date of grant of authorization by PNGRB (i.e. July 2011).

E. Miscellaneous

(i) Purchase Order (P.O.) for consideration of future capex

Future PE Capex documents have been provided. Future PD LMC Capex is based on the past average actual expenditure, which has been accepted by PNGRB. Future O&M non-recurring Capex is estimated for complying with statutory/integrity requirements and technology upgradations.

(ii) Huge variation in capex, opex and capacity proposed for review of Final Tariff Determination of CJHPL and DBNPL

The Project Execution (PE) capex in CJHPL is mainly on account of execution of the Sultanpur-Jhajjar-Hissar section. As regards DBNPL, the PE capex is mainly on account of execution of the Haridwar-Rishikesh-Dehradun section and providing last mile connectivities in Haridwar and Punjab, the details of which have been submitted to PNGRB.

M/s PIL:

- 1. In respect of combined tariff for HVJ, DBNPL and CJHPL, it is suggested that the impact of combining of network on other regulations like capacity regulations with regard to declaring capacity of the combined network, declaring the point of origin for the combined network in Authorisation regulations for deciding the Zones, etc. may be reviewed.**

The impact of combining of DBNPL and CHPL may have no impact on the regulations as the capacity of the combined system shall be computed as per the extant regulatory provisions on Capacity Determination. Further, as DBNPL and CJHPL have no independent source and are entirely dependent on the Integrated HVJ as the gas source, thereby using the capacity of the Integrated HVJ system, accordingly, the total capacity of the integrated HVJ system may be the capacity of the combined system for the purposes of combined tariff.

As regards the point of origin of the combined network for deciding zones, the origin of the Integrated HVJ system i.e. Hazira/Dahej may be considered as the point of origin and accordingly, zones may be decided based on the extant regulatory provisions.

From: Corporate Regulatory Affairs group (निगमित विनियामक मामला ग्रुप)
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Subject: RE: PCD on combining CJHPL and DBNPL Tariff

Dear Ma'am,

ref 27/8 A Decl (Twe)

This has reference to the PNGRB PCD Ref. No.: PNGRB/COM/2-NGPL Tariff (3)/2010 dated 02.08.2019 on Tariff Review for combining the tariffs of CJHPL and DBNPL.

In furtherance to the views submitted by GAIL, we would like to submit that customers in DBNPL and CJHPL (*Nestle India Pvt. Ltd., Asahi India Glass, Hindustan Glass.*) have also expressed their support for combining the tariffs of CJHPL and DBNPL with the integrated HVJ, which may also be considered by PNGRB.

ref 27/8
AA (Mktg)
H/K
27/8/19

Thanks & Regards,
Regulatory Affairs Group,
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