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GSPL/COMM/2017/
17 February, 2017

Secretary
Petroleum and Natural Gas Regulatory Board
1st Floor, World Trade Centre
Babar Lane, Barakhamba Road
New Delhi – 110001

Subject: Public Consultation Document dated 27 Jan 2017 in respect of determination of final initial unit natural gas pipeline tariff for GSPL's Low Pressure Gujarat Gas Network

Ref:

- **(i) PNGRB/M(C)/43/Tariff GSPL Volume III dated 17.12.2014**
- **(ii) PNGRB/M(C)/43/Tariff GSPL Volume II dated 19.12.2014**
- **(iii) GSPL's Letter dated 06.01.2015**
- **(iv) PNGRB/M(C)/43/Tariff GSPL Volume III dated 20.01.2015**
- **(v) GSPL's Tariff submissions with letter ref: GSPL/COMM/2015 dated 03.02.2015**
- **(vi) PNGRB's Email dated 10.02.2015**
- **(vii) GSPL's Letter dated 24.02.2015**
- **(viii) PNGRB's Email dated 09.03.2015**
- **(ix) PNGRB/M(C)/43/Tariff GSPL Vol.III dated 13.03.2015**
- **(x) GSPL's Letter dated 17.03.2015**
- **(xi) GSPL's Letter dated 13.04.2015**
- **(xii) GSPL's Letter dated 02.06.2015**
- **(xiii) PNGRB/M(C)/43/Tariff GSPL Vol. III dated 30.06.2015**
- **(xiv) GSPL's Letter dated 21.07.2015**
- **(xv) PNGRB/M(C)/43/Tariff GSPL Vol. III dated 31.08.2016**
- **(xvi) GSPL's Letter dated 21.09.2016**
- **(xvii) PNGRB/M(C)/43/Tariff GSPL Vol. III dated 26.09.2016**
- **(xviii) GSPL's Letter dated 10.10.2016**
- **(xix) GSPL's letter dated 13.01.2017**
- **(xx) GSPL's Letter dated 3.02.2017**

Dear Madam,

This is in reference to the PNGRB's Public Consultation Document dated 27 Jan 2017 to determine the "Final Initial Unit Natural Gas Pipeline Tariff" under the provisions of the PNGRB (Determination of Natural Gas Pipeline Tariff) Regulations, 2008 for GSPL's Low Pressure Gujarat Gas Grid. In this regard, GSPL's point wise comments are as below:

(4.2) It is to be submitted that PNGRB vide its letter dated 19 Dec 2014 asked GSPL to submit updated tariff filing for LP network. Subsequently, GSPL submitted all the required information in its communications dated 3 Feb 2015, 24 Feb 2015, 17 March 2015, 13 April 2015, 2 June 2015 and 21 July 2015. Further, updated information vide letter dated 10 October 2016 for tariff was submitted to PNGRB in response to its letter dated 31 August 2016.

(5.2.1) With respect to bifurcation of assets into High Pressure Networks, Low Pressure Networks and other business assets, we would like to submit that the bifurcation of the assets has been done on actual basis.

Further, regarding the net block, GSPL has already submitted in its earlier submissions that as per PNGRB Tariff Regulations, Net Fixed Assets for the purpose of capital employed should be calculated by using rate of depreciation prescribed under Schedule XIV of Companies Act, 1956 on SLM basis. In compliance, GSPL submitted the net block vide letter dated 17 March 2015, considering the depreciation rate of 3.17% on SLM basis on the basis of 30 years of life for pipeline assets. However, since PNGRB required net block as on date of authorization matching with the books of accounts, without prejudice to the GSPL's contentions, GSPL vide its letter dated 13 April 2015 submitted the same.

We once again request PNGRB to consider the net block based on depreciated value of the pipeline assets @ 3.17% on the basis of economic life for 30 years, which would not only be in compliance with the regulations, but also ensure tariff calculations on equitable basis for the industry. Hence, GSPL requests PNGRB to consider its submission vide its letter dated 17 March 2015.

(5.2.2) GSPL once again reiterates that the bifurcation of total fixed assets / CWIP into High Pressure, Low Pressure and other business assets have been done on actual basis.

Further, regarding IDC in pre-commissioning period, since it is an actual cost incurred by the company during the construction period, which is also required to be capitalised as per Indian Accounting Standards, the IDC needs be included in net addition to fixed assets and Capital Work-in Progress.

GSPL has submitted multiple CA certificates based on audited accounts of each financial year. Further, GSPL also submitted consolidated certificate vide letter dated 13 January 2017. GSPL requests PNGRB to consider the same.

(5.2.3.(a)) Out of 3 projects for which capex of Rs. 16.44 cr has been claimed in 2016-17, two projects have already been awarded. The copy of purchase orders for these projects shall be submitted shortly.

Regarding the observation that GSPL has provided only an 'in-principle' approval for one of the projects, kindly note that projects under a capital expenditure plan are approved on an 'in-principle' basis. Total Project capital expenditure includes several sub components like Engineering contract, EPC Contracts, Third party Inspection contracts etc and these specific awards upon completion of pre-award activities are once again done by the respective authority [Board / Project Committee / MD] based on the delegation of authority as approved by the Board. As the individual contracts reach the award stage, the PO / WO are awarded. Therefore, the documents to substantiate to costs shall be submitted shortly.

(5.2.3.(b)) The basis of assumption of future capex of spurlines is given below:

i) The cost of laying pipeline (8"/12") is considered as Rs. 1.5 cr per km based on actual cost of pipeline implemented by GSPL.

ii) GSPL vide letter dated 13 January 2017 has provided the details on actual basis regarding the spur line laid in the period from 27 July 2012 [Date of authorization of GSPL network by PNGRB] to 31 December 2016. The yearly average length of spur line laid in the mentioned period is 66.49 Kms. Although in some years the length of spurlines undertaken could be more or less than above average length.

Accordingly on conservative basis, average 50 kms and 5 kms of spurlines have been considered for HP Network and LP Network respectively. Hence, GSPL requests PNGRB to consider the capex for 5 Kms of spur line per year as per GSPL's tariff proposal

iii) Inflation rate has been considered on the basis of CAGR of 11 years actual WPI inflation data, from the base year 2004-05 as reported on the website of Ministry of Commerce and Industry, Government of India.

(5.2.3.(c)) PNGRB seems to be comparing the latest tariff proposal submitted vide letter dated 10 October 2016 with the documents provided to substantiate earlier tariff proposal submitted in 2015. Therefore, the capital expenditure of the items mentioned under future capex – other assets may not match.

Further, we would like mention that expenditure included is only related to capital expenditure for the creation of pipeline related facilities including those required to comply with technical and safety requirement prescribed in PNGRB regulation. No operating expenses have been considered under the said head.

It is further submitted that out of total costs of Rs. 21.26 Crores, Rs. 6.05 Crores have already been incurred till FY 2015-16. For the remaining expenditure, detail regarding the documents to substantiate the costs has been provided vide letter dated 13 January 2017.

Regarding the observation that GSPL has provided only an 'in-principle' approval, kindly note that projects under a capital expenditure plan are approved on an 'in-principle' basis. Total Project capital expenditure includes several sub components like EPC Contracts, Contracts for SCADA, Telecom, Metering etc and these specific awards upon completion of pre-award activities are once again done by the respective authority [Board / Project Committee / MD] based on the delegation of authority as approved by the Board. As the individual contracts reach the award stage, the PO / WO are awarded.

(5.2.3.(d)) Over 25 years of economic life of pipeline, various modification activities are required to be carried on pipeline network to maintain the pipeline network, especially, as with passage of time the network becomes old and requires some overhaul / replacements.

Additionally, there are several pipeline related assets such as plant & machinery, communication equipments, office equipments, computers, vehicle etc. which have shorter useful life and which need to be replaced at end of their useful life. Similarly Software also is required to be upgraded at regular intervals.

Considering the above requirements relating to modifications and replacements, recurring capex of 1.26% of GFA has been considered.

Further, we would like mention that GSPL has not considered recurring capex of 1.26% on CWIP as inadvertently mentioned in Public Consultation Document

Assumption for working of recurring capex of 1.26% of GFA has already been provided in Tariff proposal submitted to PNGRB.

(5.3.1) The total operating expenditure of pipeline assets has been apportioned on pro-rata basis considering GFA of respective network, in line with all the previous tariff filing exercises carried out by PNGRB. GSPL requests PNGRB to consider the consolidated CA Certificate submitted vide letter dated 13 January 2017 in tariff calculation for the said purposes.

The provision for Doubtful debt / Bad Debt is normal operating expenditure. It may be noted that the same were taken into account while calculating the returns for the pipeline based on the PNGRB determined tariff. Further as per Indian accounting standard and as per Income tax law bad debts are also considered as business expenditure and allowed as deductions. Hence Bad debt/provision for Doubtful debts need to be considered as operating expenditure and denial of the same would reduce the return from the mandated return as per PNGRB regulations.

(5.3.2.(i)) Inflation rate has been considered on the basis of CAGR of 11 years actual WPI inflation data, from the base year 2004-05 as reported on the website of Ministry of Commerce and Industry, Government of India.

(5.3.2.(ii)) GSPL submits that the actual average consumption of spares as a percentage of GFA in the period from FY 2013-14 to FY 2015-16 is around 0.10%.

(5.3.2.(iii)) GSPL submits that in the period from FY 2013-14 to FY 2015-16, GSPL has on an average, one employee for every apprx. 9.65 Kms of pipeline for entire pipeline network. In view of the above, assumption of additional employee for every 8 Kms of pipeline is quite realistic and reasonable. As can be seen GSPL has much lower workforce as compared to other industry participants.

(5.3.2.(iv)) Additional increase in salary @ 10% p.a is towards annual increment of 3% and likely increase in % of DA every year. The average increase in % of DA during last 3 years is 11.67%. Accordingly increase @ 10% is realistic assumption.

Further, 25% additional increase in salaries in FY 2016 is on account of expected revision owing to implementation of 7th Pay Commission

(5.3.2.(v)) As PNGRB regulations recognize the expenditure related to SUG, GSPL submits that the same may be considered in tariff calculation.

(5.3.2.(vi)) GSPL has been using water tankers for meeting water requirement for various O&M activities at various stations. The actual expenses for water tanker have been clubbed in the Repair and Maintenance head.

(5.3.2.(vii)) GSPL has considered the actual per unit power rate of Rs. 8.10 / unit as on date of submission tariff. Inflation rate has been considered on the basis of CAGR of last 11 years actual WPI inflation data from the base year 2004-05 as reported on the website of Ministry of Commerce and Industry, Government of India.

(5.3.2.(viii)) Average Repair and Maintenance for pipelines as percentage of GFA in the period FY 2013-14 to FY 2015-16 is 0.96%. Hence, 0.75% of GFA for future years is a reasonable assumption.

(5.3.2.(ix)) In the period from FY 2013-14 to 2015-16, average administrative cost is 65% of the employee cost in the same period and with further increase in scale of operations, the same is likely to go up. Therefore, administrative expense as 100% of the employee cost is a reasonable assumption.

(5.3.2.(x)) Bank charges are towards charges to be paid to banks for Bank Guarantee etc.

(5.3.2.(xi)) It is submitted that Intelligent Pigging and Batch Pigging are very crucial from the maintenance perspective. Pigging provides valuable information about the parameters regarding the corrosion, rusting, leakage etc. Hence, pigging is mandatory to keep the system operational. Even the PNGRB (Technical Standards and Specifications Including Safety Standards for natural Gas Pipelines) Regulations, 2008, mandates the transporter to carry out the pigging exercise in timely manner to properly maintain the natural gas pipeline. Further, aerial survey is also required to be done at regular interval as part of maintenance activities.

(5.3.2.(xii)) Being a technical organisation, GSPL intends to invest in Research & Development activities related to the area of its operations and hence the assumption is taken.

(5.3.2.(xiii)) For specialized software, AMC charges are quite high. For example, we pay for SAP 22% AMC on License fee. Accordingly, GSPL considered software

AMC expense as 12.5% of the software capex which is a reasonable assumption.

(5.3.2.(xiv)) GSPL submits that 0.3% of the throughput as unaccounted gas / line loss is well within the industry standards in the country or even globally. Therefore, it is requested to kindly consider the actual unaccounted gas loss/line loss in the tariff calculation.

(5.3.2.(xv)) As per section 135 of Companies Act, 2013, the company is required to contribute to CSR activities equivalent to 2% of average profit of last years. Accordingly the same considered in tariff proposal

(5.3.2.(xvi)) As per PNGRB (Levy of Fee and Other Charges) Regulations, 2007, Authorised entity is required to pay 0.01% of revenue to PNGRB. Accordingly the said charges have been considered in tariff proposal.

(5.3.2.(xvii)) In the period from FY 2013-14 to 2015-16, average insurance expense is around 0.06% of GFA. As assets get older, and reinstatement value increases, the premiums are also expected to increase. Therefore, insurance expense as 0.1% of GFA is a reasonable assumption.

(6.3.2.(xix)) Actual ESOP compensation expenses have been considered from FY 2012-13 to 2015-16. No further ESOP expense has been considered from 2016-17 onwards.

(5.4) Transmission losses are inevitable for any gas transmission pipeline. In fact, PNGRB in its own Regulation 2(1)(u) of PNGRB (Access Code for Common Carrier or Contract Carrier Natural Gas Pipelines) Regulations, 2008 defines "transmission loss" as the quantity of gas which is unaccounted for whatsoever reason including blow down, venting or releases during regular operation and maintenance of the pipeline system or due to inaccuracy of custody meter.

Unaccounted Gas in natural gas transmission is an industry wide phenomenon. Meter installed at entry and exit points are found to register within the total uncertainty of ±0.25% to ±1%. Different measurement standards used by different gas suppliers and pipeline operators also leads to metering inaccuracy. Hence, unaccounted gas is not a consequence of inefficiency on part of the transporter but rather a phenomenon observed worldwide in the gas industry.

GSPL submits that 0.3% of the throughput as unaccounted gas is well within the industry standards in the country or even globally. Therefore, it is requested to kindly consider the actual unaccounted gas loss/line loss in the tariff calculation.

It is submitted that as per PNGRB (Determination of Natural Gas Pipeline) Regulations, 2008, tariff for a natural gas pipeline is fixed for 25 years of economic life. The said Regulations ensure 12% post tax return on capital employed during the economic life. Since, to operate a natural gas pipeline network effectively a transporter has to make anticipated / unanticipated expenses and also make investment to cater to new demand and replace older assets, it is submitted that any compromise on part of operating expenses may affect the operations of the pipeline. Further any non-availability of cash flows for capital expenditure may restrict the transporter's ability to cater to growing demand which may also hinder the objective of having a country wide gas grid in the long run. Therefore, PNGRB is requested to consider the clarifications / documents submitted by GSPL for final determination of tariff.

GSPL would like to submit that as per clause 2 (1) (e) of the PNGRB (Determination of Natural Gas Pipeline Tariff) Regulation, 2008, the initial unit natural gas pipeline tariff for Low Pressure Network had to be finalized prior to 31 March 2014. Since, the finalization of initial unit natural gas pipeline tariff has already got delayed, it is requested that PNGRB may consider GSPL's submissions and finalize the tariff at the earliest.

We shall be glad to provide any further information / clarification that may be required in order to expedite finalization of tariff.

With best regards,

Yours sincerely,

Ravindra Agrawal
Group ED (Gas Business)