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India Gas Solutions Private Limited
(CIN - U40200MH2011PTC224011)

17 August, 2019

Ms. Vandana Sharma
Secretary
Petroleum and Natural Gas Regulatory Board
1st Floor, World Trade Centre
New Delhi - 110001

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 for providing us with an opportunity to review and provide our comments and views on the proposed amendment to the Petroleum and Natural Gas Regulatory Board (Determination of Natural Gas Tariff) Regulations 2008 ("Tariff Regulations").

As we understand, the key objectives outlined for determination of transportation tariff on a combined basis for two or more interconnected pipelines are:

- Encourage the consumption of Natural Gas, efficiency and economic use of the resources;
- Safeguard the overall consumer interest;
- Secure equitable distribution of Natural Gas; and
- Minimize the impact of additive transportation tariffs vis-à-vis tariff determined on a combined basis.

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.

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; and
- End-consumers having 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.

It is therefore essential that the proposed amendment to the Tariff Regulations must be supplemented by the development of a gas hub, inclusion of natural gas in to GST and required regulatory and market structure changes.

International practice is to move towards virtual interconnections points instead of physical interconnection points with different tariffs, aimed at eliminating multiple connections between two market areas to facilitate flexible hub-to-hub trading for shippers. As an example, the European Commission in the recital (4) of the EU regulation 2017/459 (NC CAM), states: *"Bringing about effective competition between suppliers from inside and outside the Union requires that they are able to flexibly use the existing transmission systems to ship their gas according to price signals. Only a well-functioning network of interconnected transmission grids, offering equal access conditions to all, allows gas to flow freely across the Union. That in turn attracts more suppliers, increasing liquidity at the trading hubs and contributing to efficient price discovery mechanisms and consequently fair gas prices that are based on the principle of demand and supply"*.

The following will need to be addressed while implementing the proposed amendment:

- 1. Ensure a competitive gas market environment:** As mentioned above, a key requirement is unbundling of content (commodity) from carriage (transportation). If the proposed amendment precedes the unbundling (accounting, legal, management & ownership) of content from carriage, it must be ensured that combining tariffs of two or more pipelines does not result in providing unfair advantage to the existing bundled incumbent entity.
- 2. Ensure domestic gas sources are not disadvantaged vis-à-vis LNG:** While combining tariff of any two or more pipelines, such a combination should not disadvantage key domestic gas sources vis-à-vis LNG. This can be achieved by ensuring that pipelines transporting gas from key domestic gas sources are included in the combined tariff.
- 3. Provide any market participant right to request combination of tariff of two or more pipelines:** The proposed amendment must allow any market participant (producer, marketer, transporter or consumer) to request combination of tariff of any interconnected pipelines. PNGRB should evaluate these requests and if such request meets one or more of the key objectives stated above, then it must authorize a combined tariff of the requested pipelines within a stipulated timeframe.
- 4. Provide mechanism to avoid increased tariffs to existing consumers proximate to the source of gas:** While proposed amendment provides for zonal tariffs, it may adversely impact existing consumers who are proximate and connected to a source of gas via a single pipeline – as the authorized combined tariff may be higher than the applicable tariff of the single pipeline. A mechanism to safeguard against the unintended consequence of end consumers seeking to lay dedicated pipelines, resulting in sub-optimal pipeline capacity utilization, must be included in the proposed Tariff Regulation amendment. As an example, the proposed amendment could stipulate that an existing consumer within a stipulated distance from a gas source on a pipeline whose tariff is combined with any other pipeline(s) would continue to pay the lower of the combined tariff or the existing tariff of the single pipeline.

5. Provide clarity on mechanism for combination of tariff of bid out pipelines: We request the PNGRB to provide clarity on:

- Will the proposed Tariff Regulation amendment also apply to bid out pipelines?
- If yes, what would be the mechanism for computing combining tariff including bid out pipelines.

We shall be happy to discuss further on the issue.

Yours sincerely,



Utpal Maru
Chief Commercial Officer