



Tariff Order

Subject : Final Initial Unit Natural Gas Pipeline Tariff under the provisions of the Petroleum and Natural Gas Regulatory Board (Determination of Natural Gas Pipeline Tariff) Regulations, 2008

Name of entity : East West Pipeline Limited (“EWPLL”)
(Earlier Reliance Gas Transportation Infrastructure Limited)

Name of Pipeline : East West Natural Gas Pipeline (“EWNGPL”)

Ref No. :TO/17/2019

Dated :12th March, 2019

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1. Regulatory Framework

- 1.1. In terms of Section 22 of the PNGRB Act, 2006, the Board is entrusted with the responsibility of determining the natural gas pipeline tariff to be charged by the entities laying, building, operating or expanding a natural gas pipeline before the appointed day.
- 1.2. The methodology for determination of pipeline tariff has been specified in the relevant provisions of the PNGRB (Determination of Natural Gas Pipeline Tariff) Regulations, 2008 ("Tariff Regulations") notified on 20.11.2008. Under the provisions of these regulations, PNGRB is to determine the initial unit natural gas pipeline tariff on a provisional basis first ("provisional tariff") and then finalize the same ("final tariff") considering the actual costs and data at the end of the financial year on the basis of audited accounts. The transportation tariff is determined using the Discounted Cash Flow ("DCF") method, based on actual and projected pipeline Capital Expenditure ("Capex") and Operating expenditure ("Opex"), in line with provisions of Tariff Regulations, over the entire economic life of the pipeline thus arriving at a single levelized transportation tariff. If the length of the pipeline is more than 300 kms, the recovery of the transportation tariff is apportioned across such zones of 300 kms each resulting in zonal tariff, where the zonal tariff of a later zone is higher than that of an earlier zone.

2. Authorization and Capacity Determination:

- 2.1. PNGRB issued the final acceptance to the Central Government authorization for EWNGPL, under Regulation 17(1) of PNGRB (Authorizing Entities to Lay, Build, Operate or Expand Natural Gas Pipelines) Regulations, 2008 ("Authorization Regulations") vide letter dated 19.03.2013. The provisional capacity and length as per the acceptance letter was 85 MMSCMD (for 2009-10 including common carrier capacity of 21.25 MMSCMD) and 1460 kms, respectively. The length of the main trunk pipeline of EWNGPL is 1385 kms from Kakinada to Bharuch and 75 kms is the length of the spur lines. A total of

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11 compressor stations have been authorised by PNGRB on the EWNGPL pipeline. PNGRB had declared the capacity of EWNGPL vide letter dated 02.11.2012 as 85 MMSCMD (including System use gas), further, the final capacity assessment for the period 2010-11 and 2011-12 has been done vide letter dated 10.07.2014, capacity (including system use gas) declared is 85 and 95 MMSCMD, for FY 2010-11 and 2011-12, respectively.

2.2. Pipeline Infrastructure Private Limited (“PIPL”) vide letter dated 11.01.2019 has inter alia submitted as under:

“Both East West Pipeline Ltd and Pipeline Infrastructure Pvt Ltd (PIPL) filed a scheme of Arrangement (Scheme) with Hon’ble National Company Law Tribunals, Ahmedabad and Mumbai benches respectively (NCLT’s) for the transfer of pipeline business along with associated assets and liabilities as going concern from East West Pipeline to PIPL from 1st July 2018, being the appointed date.

The scheme has been sanctioned by NCLTs”.

2.3. PIPL has requested to formally issue the change of authorisation of EWPLL in favour of PIPL. The change of authorisation is yet to be done.

3. Provisional Tariff Order

3.1. PNGRB issued provisional tariff order no. TO/01/2010 dated 19.04.2010 of EWNGPL. Details of provisional tariff proposed by EWPLL and determined by PNGRB is as under:

Particulars	Rs. /MMBTU on GCV basis	
	Proposed by EWPLL	Determined by PNGRB
Levelized provisional tariff	55.91	52.23

3.2. The zonal apportionment of the provisional tariff as approved by PNGRB vide order dated 09.06.2010 is as under:

Particulars	Tariff (Rs. / MMBTU on GCV basis)
Zone-1	15.00

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Zone-2	42.00
Zone-3	53.69
Zone-4	58.75
Zone-5	60.94

4. Challenge in Appellate Tribunal for Electricity (APTEL) and in High Court

4.1. Challenge in APTEL

Final capacity declared by PNGRB for EWNGPL, for FY 2010-11 and 2011-12 has been challenged by EWPLL in APTEL vide appeal no.253 of 2014. APTEL vide order dated 08.07.2016 set aside PNGRB's declaration and remanded the matter to PNGRB and directed to pass a reasoned order within three months from the date of receipt of the order.

4.1.1. Pursuant to the APTEL directive, Board gave a personal hearing to EWPLL on 08.08.2016. On 30.08.2016, a public notice was issued as per proviso 2(d) of the Petroleum and Natural Gas Regulatory Board (Determining capacity of Petroleum, Petroleum products and Natural Gas Pipeline) Regulations, 2010 ("Capacity Regulations"), seeking comments, from public if any, on the declared capacity in Schedule "C", the report of the Capacity Assessment Group of PNGRB and comments received from EWPLL on the same. However, no comments were received during public consultation.

4.1.2. A hearing was granted to EWPLL on 17.10.2016 wherein, EWPLL sought a week's time to make the summarized written submission. EWPLL made its written submissions on 26.10.2016. Capacity Assessment Group had then submitted its response on the submissions of EWPLL on capacity assessment on 15.12.2016.

Subsequently, PNGRB vide order dated 30.12.2016 declared capacity of EWNGPL, for the period from 01.04.2010 to 31.03.2011 and 01.04.2011 to 31.03.2012 as 85 MMSCMD and 95 MMSCMD respectively. EWPLL challenged PNGRB's order dated 30.12.2016 at APTEL vide appeal no. 39 of 2017.

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4.1.3. Matter was listed in APTEL on 31.10.2018 against Appeal no 39 of 2017 and IA 94, 95 and 187 of 2017 and IA no's 975, 976 of 2018. Hon'ble APTEL, on 20.11.2018 passed the following order:

Quote

- a. The Petroleum and Natural Gas Regulatory Board is directed to use 85 MMSCMD as it appears in the acceptance to Central Government authorisation letter issued by the Board on 19.03.2013, for tariff determination of East West Pipeline of the Appellant for the years 2009-10, 2010-11, 2011-12, 2012-13, 2013-14, 2015-16, 2016-17 and 2017-18 pending adjudication and final disposal of Appeal no :97 of 2017 and IA no:94 of 2017 by this tribunal.
- b. We make it clear that we have not expressed any opinion on the merits of the Appeal no 97 of 2017 and IA no 94 of 2017.
IA no 976 of 2018 is disposed of in the aforesaid terms.

Unquote

It can be seen from the above that FY 2014-15 is missing from the years defined by Hon'ble APTEL. Further, Appeal no 97 of 2017 may be a typographical error, as it is Appeal no 39 of 2017 that has been preferred in Hon'ble APTEL. However, capacity of 85 MMSCMD is being taken for FY 2014-15 also, for final tariff determination.

4.2. Challenge in High Court

EWPLL had filed a writ petition in Hon'ble High Court of Delhi (W.P. (C) 3204/2014) seeking to direct PNGRB to determine the final tariff of EWNGPL, within a reasonable time frame laid down by Hon'ble Court. Hon'ble High Court of Delhi vide order dated 09.02.2015 directed respondent (PNGRB) to complete the exercise and fix the final tariffs within two months after the final disposal of the appeal no. 253 of 2014 by APTEL. Subsequently, Hon'ble High Court vide order dated 21.04.2017 granted the extension for a period of six months from the date of availability of the complete quorum of the Board, i.e. by 03.06.2018. In

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view of APTEL direction as mentioned at para 4.1.3 above, three months' time from the date of interim decision of APTEL i.e. 20.11.2018, was sought from the Hon'ble High Court, for determination of final tariff. Hon'ble High Court in its judgement dated 14.12.2018 has inter alia stated following:


“The final order fixing the tariff will be passed within a period of three months from the order passed by the APTEL, i.e. within the period of three months from 20.11.2018.” Accordingly, tariff needs to be fixed by 19.02.2019.

5. Details of Public Consultation exercise for determining final tariff:

5.1. EWPLL had submitted its initial tariff filing on 27.10.2017, based on levelized tariff w.e.f. 01.04.2009, subsequently, in response to PNGRB's letter dated 01.01.2018, EWPLL on 01.02.2018, submitted its filing considering already approved tariff from 01.04.2009 to 31.03.2017 and revised tariff proposal w.e.f. 01.04.2017. Based on tariff filing dated 01.02.2018, PNGRB issued a Public Consultation Document (“PCD”) on 04.05.2018, inviting comments/ views from all stakeholders within 15 days from the date of issue of PCD. In response, comments were received from H-Energy, GAIL, Gujarat State Petronet Ltd (“GSPL”) and the entity itself. The comments received were then forwarded to EWPLL on 01.06.2018, for its response, which was submitted by EWPLL on 15.06.2018.

Open house was conducted on 20.07.2018, wherein, GAIL, GSPL and EWPLL participated. Observations of Board, comments by entities and response of EWPLL have been dealt in the relevant para hereinafter.

5.2. In view of completion of FY 2017-18, PNGRB vide letter dated 28.09.2018 asked EWPLL to submit tariff filing based on actual data up to 2017-18. EWPLL submitted the updated tariff filing on 30.10.2018, the salient features of the tariff proposal submitted by EWPLL are as follows:



Tariff from 01.04.2009 to FY 2018-19 (Rs. MMBTU/GCV)	52.23
Final Tariff as per EWPLL (Rs. MMBTU/GCV) w.e.f. 01.04.2019	192.59
Economic life up to	31.03.2034
Number of working days in a year	345
Annual inflation rate	5.13%
Capex (Rs. in Crore)	18,307.37
Opex (Rs. in Crore)	39,369.01
Unaccounted gas loss (Rs. in Crore)	40.61
Average Working Capital (Rs. in Crore)	531.97
Line Pack (Rs. in Crore) in year of commissioning	92.49
Line Pack Decapitalisation in 12-13 and 13-14 (Rs. in Crore)	14.35
Line pack inflow in terminal year (Rs. in Crore)	78.14
Terminal Value (Rs. in Crore)	943.00

6. Important aspects of the verification of the tariff filing by EWPLL:

6.1. Economic Life of Pipeline:

EWPLL has considered economic life of 25 years from 01.04.2009 to 31.03.2034.

PNGRB's Ruling:

Economic life of EWNGPL has been considered 25 years from 01.04.2009 to 31.03.2034. This is in line with the economic life considered during approval of provisional tariff order and zonal apportionment.

6.2. Capex:

EWPLL in its updated tariff submission has claimed a total Capex of Rs.18,307.37 Crore under two heads viz actual Capex (Including Pre-Commissioning Cost) of Rs 16,347.96 Crore [excluding interest during construction ("IDC")] and future Capex of Rs 1,959.41 Crore (unescalated). EWPLL has considered inflation rate of 5.13% p.a. from FY 2018-19 onwards for projecting future Capex. Total Capex outgo is discussed under two heads viz actual Capex and future Capex.

6.2.1. Actual Capex outgo from 2006-07 to 2017-18 (including pre-commissioning Capex)

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EWPLL has claimed Capex outgo of Rs. 16,347.96 Crore (considering 1.8 % discount on actual Capex), as against actual Capex of Rs 16,648.48 Crore. In view of mismatch between the Capex considered in the tariff filing and that as per Schedule E of Annual Reports of the corresponding years, PNGRB vide letter dated 01.01.2018 asked EWPLL to reconcile the same. EWPLL vide letter dated 01.02.2018 inter alia submitted as under:

“In true sense of the DCF, RGTIL has considered actual cash flows during the construction period towards the EWPLL project for computation of tariff.

Thus, since the Capex considered for tariff is based on the cash flows to the project, the amounts are traceable to the cash flow statements of RGTIL appearing in the respective years Annual reports and to that extent there will be variation in the annual figures of GFA and cash flows.

It is also submitted that the cash outflows considered for tariff are lower than the FA added in the initial years of construction so to that extent there is direct benefit of discounted cash flows passed on to the customers in terms of lower tariff (compared to the tariff computed based on FA additions).”

6.2.1.1. The year-wise breakup of actual Capex incurred, Capex claimed in tariff submission and as certified by EWPLL is as follows: -

Year	Rs in Crore		
	Capex incurred	Capex Claimed	Capex Certified
2005-06			64
2006-07	*4,918.30	*4,829.77	4,854
2007-08	7,231.97	7,101.80	7,232
2008-09	2,691.96	2,643.50	2,692
2009-10	1,626.68	1,597.40	1,627
2010-11	215.14	211.27	215
2011-12	-15.67	-15.39	-48
2012-13	5.47	5.38	5
2013-14	5.28	5.18	5
2014-15	-56.17	-56.17	-56
2015-16	8.99	8.99	1

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Year	Capex incurred	Capex Claimed	Capex Certified
2016-17	12.32	12.32	6
2017-18	3.91	3.91	3.91
Total	16,648.18	16,347.96	16,601

*Includes Rs 64 Crore of FY 2005-06

6.2.1.2. Entity and Stakeholder's Comments

EWPLL (vide letter dated 18.05.2018):

It is submitted that during the provisional tariff determination, the estimated Capex for tariff determination has been submitted by EWPLL as Rs. 17,240 Cr. PNGRB assessed normative Capex at Rs. 16,378 Cr. by employing services of an internationally reputed consultant appointed through bidding.

Based on this, PNGRB reduced the estimated Capex normatively by 5% (i.e. by Rs.862 Cr) and considered the normative Capex of Rs. 16,378 Cr in the tariff computation based on which provisional tariff was approved.

The actual Capex (for tariff computation) as of 31st March 2017 is Rs. 16,645 Cr which is lower than the earlier estimates of Rs. 17,240 Cr.

Since the regulation stipulate to consider actual Capex or normative whichever is lower, it is requested consider the normative Capex of Rs. 16,378 Cr as considered in provisional tariff working by making the necessary adjustments from Actual Capex.

6.2.1.3. Following are observed from the tariff submission of EWPLL:

6.2.1.3.1. An amount of Rs.178.73 Crore is appearing under the head Inventories – Stores and Spares {(flowing from Schedule G (current assets))} in annual report of FY 2008-09 of EWPLL, the same has been considered as Capex outgo in the tariff submissions in FY 2008-09. In this regard, EWPLL vide email dated 10.01.2019, submitted as under:

- a. Upon completion and commissioning of the pipeline, several spares related with various equipment and left over / surplus pipes were available. These items were included in the project stage orders.

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- b. Since the same were available but not in use, the same were classified as inventory in the year of completion.
- c. From tariff perspective, since the computation needs to be done considering outflows towards the project, the expenses incurred for such leftover/surplus pipes and other spares need to be included in the outflows for tariff computation.
- 6.2.1.3.2. Capex considered in tariff filing has been arrived at by reducing actual Capex incurred by 1.8% from FY 06-07 to FY 13-14.
- 6.2.1.3.3. EWPLL was commissioned in FY 09-10, however, as per tariff filing cash flows on account of Capex are there even after 2009-10, therefore, EWPLL vide email dated 25.01.2019 was asked to provide the reasons for the same along with details. In this regard, EWPLL vide email dated 29.01.2019 submitted that current liabilities as of 31/03/2010 includes Rs.292.51 Crore towards EWPL project related expenses, a certificate in this regard has already submitted to PNGRB. The cash out flow on account of EWPLL project related capex after the FY 09-10 against the above-mentioned current liabilities have been incurred till FY 13-14.
- 6.2.1.3.4. EWPLL in its tariff submissions has reduced the Capex amounting to Rs.72.48 Crore, from Capex incurred during FY 09-10 to FY 12-13 pertaining to dedicated pipelines to Lanco Kondapalli and Rs.23.60 Crore from Capex incurred during FY 10-11 to FY 11-12 pertaining to BGL hook up charges.
- 6.2.1.3.5. During the approval of provisional tariff, PNGRB has assessed normative Capex for cost to completion of EWNGPL as Rs.16,378 Crore (including line pack). EWPLL has certified that they have incurred actual Capex of Rs.16,601 Crore, this amount includes a sum of Rs.178.73 Crore, appearing as inventory of stores and spares in current assets, in FY 08-09, therefore, the balance Capex certified amount is Rs.16,422.27 Crore. The balance certified Capex amount is higher by 0.544% than the approved normative Capex i.e. by Rs.44.27 Crore.

6.2.1.4. PNGRB's Ruling

Actual Capex outflow has been dealt as under:

6.2.1.4.1. A sum of Rs 178.73 Crore incurred on inventory of stores and spares shown in current assets has not been considered as same does not constitute part of capital employed in terms of Clause 1 of Attachment 2 to Schedule A of Tariff Regulation, accordingly, same has been reduced from the Capex for the FY 08-09.

6.2.1.4.2. The yearly actual Capex (including line pack) considered in tariff filing has been reduced by 0.544 % to arrive at the normative Capex, approved by Board during approval of provisional tariff. Based on above, year wise Capex considered in final tariff determination is as under:

Rs. Crore			
Year	Certified Capex	Considered in PNGRB	Completion Cost taken upto 2013-14
2005-06	64	63.65	
2006-07	4,854	4,827.59	4,891.25
2007-08	7,232	7,192.66	12,083.90
2008-09	2,692	2,499.60	14,583.50
2009-10	1,627	1,618.15	16,201.65
2010-11	215	213.83	16,415.48
2011-12	-48	-47.74	16,367.74
2012-13	5	4.97	16,372.72
2013-14	5	4.97	16,377.69
2014-15	-56	-56.00	
2015-16	1	1.00	
2016-17	6	6.00	
2017-18	3.91	3.91	
Total	16,600.91	16,332.59	

6.2.2. Future Capex from FY 2018-19 to FY 2033-34

EWPLL has claimed total future Capex outgo of Rs.1,959.41 Crore (unescalated) under the head maintenance Capex and future connectivity.

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6.2.2.1. Maintenance Capex

EWPLL has claimed a sum of Rs.1,259.41 Crore (unescalated), under this head, on account of Gas turbines and other machinery for midlife overhauling as well as replacement cost. PNGRB vide letter dated 01.01.2018 sought bifurcation between maintenance and replacement Capex and past records of major/minor overhauling. EWPLL in its reply dated 01.02.2018 stated as follows:

“Since there have been continual reduction in the volume transported, there is substantial reduction in the annual running number of hours of the equipment (key equipment like compressors, GTC etc.). Looking at the volume decline and projections in the past few years, the situation did not warrant incurring large expenditure in terms of equipment overhaul, upgradation etc, Hence, there are no past details of the same. However, the gas supply situation is expected to improve in next 2/3 years which will warrant efforts / expenditure on key equipment upkeep to ensure gas deliveries. It is submitted that though the tariff order dated 19.04.2010 mentioned about taking final view, the tariff regulations clearly provide estimating the capital and operating outflows over economic life. Also, the regulations clearly specify that capital employed include improvements, modification, expansion or replacement. Hence, it is reiterated that future Capex which is reasonable and justifiable should be allowed to be factored in tariff computation which will be fine-tuned with actuals when the tariff reviews take place at later date.”

6.2.2.1.1. Entity and Stakeholders' comments:

EWPLL vide letter dated 18.05.2018 has inter alia stated as under:

“Since these are non-routine O&M expenses, the same have been shown separately in the tariff proposal.

As mentioned above, the tariff regulations clearly provide for considering such expenses as Capex. However, the accounting of maintenance Capex shall be done in accordance with the standard norms.



It is submitted that since such expenses are reasonable and justifiable (cost sheets and OEM references have been submitted) the same should be allowed to be factored in tariff computation over and above the normal O&M expenses.”

H energy vide letter dated 18.05.2018 inter alia submitted as under:

“In view of low capacity utilization and no/limited improvement in gas supply situation at present, PNGRB may examine the maintenance and replacement future CAPEX.”

Response of EWPLL (letter dated 15.06.2018)

“The maintenance Capex submitted earlier had been reviewed in light of lower volumes and lower utilisation of compressors and Rs.1809 Crores has been worked out based on the actual running hours of equipment and the projected (normative) volumes considered for tariff computation.”

6.2.2.1.2. EWPLL vide mail dated 28.12.2018 has submitted that as submitted earlier, the maintenance Capex estimates have been arrived at based on technical manuals provided along with the equipment and discussions with the OEM vendors. Whenever need for such activities will arise, the same would be factored in the annual budget and carried out. As such there may not be a separate management approval obtained for such activities. Major part of such maintenance Capex will be carried out under the long-term contracts signed with key OEM vendors so there may not be separate PO against such activities.

6.2.2.1.3. EWPLL, vide email dated 10.01.2019 again has inter alia requested to allow consideration of the maintenance capex projected for the balance life of the pipeline as the same are reasonable and justifiable, which is as per the tariff regulations provisions.

6.2.2.1.4. **PNGRB's Ruling**

As per EWPLL's submissions, gas supply situation is expected to improve in next 2-3 years and which will warrant expenditure on maintenance Capex, considering that expenditure on maintenance Capex has not yet been firmed up and EWPLL has also not provided management approval and PO's/Work orders in support of

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Capex claimed, hence, during the current tariff determination exercise future maintenance Capex claimed by EWPLL is not being considered, however, the same will be reviewed/considered in the subsequent tariff reviews, in terms of extant Tariff Regulations.

6.2.2.2.Future Capex Connectivity

EWPLL in its tariff filing has proposed a sum of Rs.700 Crore as future Capex on account of connectivity Rs.400 Crore –for ONGC Odalveru and Rs.300 Crore-Petronet LNG Terminal in FY 2018-19 and 2019-20. EWPLL vide letter dated 01.02.2018 submitted in principle approval of their management for the proposed future Capex.

6.2.2.2.1. Entity and Stake holders' comments:

GSPL vide letter dated 19.05.2018 has inter alia stated as under:

Since new source connectivity shall have an impact on the capacity of the pipeline, expenditure related to new source connectivity and its impact on capacity should be considered simultaneously.

Moreover, with regards to EWPLL-PLL LNG terminal connectivity, EWPLL under clause 7.3.2 has itself mentioned that EWPLL is already connected (directly / indirectly) with RLNG terminal at PLL Dahej. In this regard, it be noted that RGTIL's EWPLL has interconnection with GSPL's High Pressure Gas Grid at Bhadbhut and GAIL's HVJ-DVPLGREP at Ankot and GAIL's DUPL at Maskhal. It may be noted that GSPL's High Pressure Gas Grid and GAIL's HVJ-DVPL-GREP & DUPL natural gas pipeline already have direct connectivity with PLL Terminal.

Hence, RLNG from PLL Dahej can be injected into EWPLL's pipeline through above interconnection points, thereby leading to capacity utilisation of EWPLL without incurring any additional capital expenditure for new source connectivity, along with protecting the interest of consumers.

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Accordingly, PNGRB may review considering the Capex of proposed EWPLL-PLL Dahej new source connectivity for tariff determination.

Response of EWPLL (letter dated 15.06.2018)

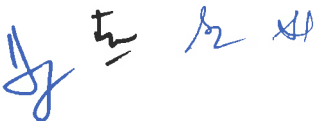
“It has been made clear in regulations that a technical increase in capacity on account of mere entry point addition shall not be considered in volume divisor determination, which was incorporated in regulations after requests of all transporters including GSPL.

It is submitted that subsequent to direct connectivity with PLL Dahej, the customer will have lower total cost of transportation which will result in lower landed cost of gas. If the logic of GSPL were to be considered, then if cross country network is connected to larger source, no additional common carrier pipeline should be connected. Neither the regulations provide for it, nor it is desirable. In the interest of all common cross-country pipeline networks”

6.2.2.2.2. EWPLL vide letter dated 14.12.2018 inter alia submitted the following with respect to future connectivity Capex:

“Instead of field specific connectivity from Odalveru, ONGCL is now interested to get the connectivity with EWPLL from their Mallavaram terminal at Kakinada, Andhra Pradesh which is approximately 1 km from EWPLL. ONGCL will bring gas from their Offshore Fields in East Coast of India to Mallavaram terminal. Under the revised scheme the length of pipeline required to be laid to connect EWPLL is substantially reduced and accordingly the expected future capex is also revised to Rs. 60 Crore from Rs. 400 Crore. Further, discussions between EWPLL and ONGCL are in advance stage for finalisation of above connectivity arrangements as well as a hook-up agreement to be executed between EWPLL and ONGCL for 11.5 MMSCMD gas flow.

Keeping in view the above developments it is expected that Rs. 60 Crore would be spent in FY 2019-20 itself by EWPLL. Therefore, PNGRB is requested to kindly consider the revised future capex of Rs. 60 Crore in the FY 2019-20.”



i.2.2.2.3. EWPLL vide mail dated 10.01.2019 inter alia made following submissions:

“The proposal envisages enabling entry of ONGC gas by creating pipeline arrangement which allow injection of gas from both sources i.e. GSPC and ONGC at the same TOP-14.

Thus, establishing ONGC connectivity is not creation of a new entry point in the EWPLL system but more akin to augmentation of the existing entry point.”

Further vide email dated 29.01.2019, EWPLL has provided a copy of MOU signed with ONGC for hooking up/connectivity.

i.2.2.2.4. PNGRB vide mail dated 13.02.2019, sought the cost breakup of Rs. 60 Crore, future connectivity from ONGC’s Mallavaram terminal at Kakinada and expected date of completion.

EWPL vide mail dated 15.0.2019 has inter alia submitted the following:

Sl. no	Description	Estimated Cost (Rs. Crore)
1	Land, ROU & Permissions	5.3
2	Line Pipe and other pipeline materials, M&R Station, Scada & Telecom	35.2
3	Mainline Construction	3.7
4	Engineering, Procurement and Construction Management & Pre-operatives	6.7
5	Contingency & Interest During Construction	9.1
6	Overall Project Cost (Rs. Crore)	60.0

As per understanding with ONGC above facility is to be made available in 18 months from the execution of hook-up agreement. Hook-up agreement is expected to be executed shortly.

i.2.2.2.5. PNGRB’s Ruling

- a) In terms of regulations 21 of Authorisation Regulations, authorisation from PNGRB is required for tie in connectivity, accordingly, the future expenditure amounting to Rs.300 Crore, on account of tie in connectivity with PLL Dahej is not being considered during the current tariff determination exercise.

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b) In view of submissions by EWPLL that ONGC connectivity is not creation of a new entry point in the EWPLL system but more akin to augmentation of the existing entry point, a sum of Rs.60 Crore is being considered, during current tariff determination exercise, however, in case any deviation with respect to extant regulations is observed then the impact of the Capex included shall be dealt with in the next tariff review.

6.3. Annual rate of inflation

EWPLL in its tariff submission has considered inflation @ 5.13 % p.a, on expenditure by considering Annual Average inflation rate of last 15 years.

6.3.1. Entity and Stake holders' comments

H-Energy vide letter dated 18.05.2018 has inter alia stated as under:

“The WPI headline inflation is an appropriate assumption for the escalation rate in pipeline CAPEX and OPEX, and PNGRB has also considered the WPI inflation previously for escalation rate projection in pipeline tariff determination. As per the 51th round of Survey of Professional Forecasters on Macroeconomics Indicators report, the WPI headline inflation is projected at average of 3.38% for Q4 2017-18 to Q4 2018-19 and hence in this case also the escalation rate should not be allowed more than 3.38%.”

EWPLL's response (letter dated 15.06.2018)

“Since the inflation rate is used to factor for cost escalation for a long-term future, the same should be based on long term historic performance. Considering the published forecast of one or two year will not be an appropriate judgement on long term cost escalation. Secondly, if implemented, the cost escalation would be applied differently for different pipelines depending on the year in which they came up for review (as for every instance there would be a different forecast). This would lead to differentiating treatment between pipelines for factoring future cost escalation. Hence, it would be better to apply a uniform escalation based on the long-term historic trend.”

6.3.2. PNGRB's Ruling

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The regulation provides for the substitution of the projections made over the economic life of the pipeline with the actual Capex/Opex on a prospective basis at the time of periodic tariff review. By substituting the provisional figures with the actuals, the entity is not put to any advantage/disadvantage over the economic life of the project. In effect, even if the adjustments are on a prospective basis considering the economic life of the project, the entity is still getting the benefit of prospective adjustments of the variations on account of the actual performance with respect to the Opex compared to the normative parameters identified under the tariff regulations.

In view of the above and to maintain consistency and uniformity PNGRB has been following a uniform basis for estimating the annual Opex inflation @4.50% p.a. (for future years) and this rate is being taken in the case of this pipeline also.

6.4. Opex

EWPLL has claimed a total Opex of Rs.39,369.01 Crore during the economic life of the pipeline, under two heads as actual Opex and future Opex.

EWPLL has claimed actual Opex of Rs.3,420.03 Crore for the period from FY 09-10 to FY 17-18 and future Opex of Rs.35,948.97 Crore from FY 18-19 to FY 33-34, on account of (i) Other Operative and administrative cost and (ii) natural Gas Operating Expenses {(including tariff not recovered on System Use Gas (SUG))}.

6.4.1. Year wise Operating and Administration expenses (including SUG, tariff not recovered on SUG volume) claimed in tariff filing is as follows:

(Rs Crore)			
Years	Other Operating & Administrative Costs	Natural Gas Operating Expenses (including tariff not recovered on SUG volume)	Total
2009-10	281.99	162.94	444.93
2010-11	263.15	288.90	552.05
2011-12	282.10	258.14	540.24
2012-13	286.85	178.00	464.85
2013-14	258.92	108.37	367.29

Years	Other Operating & Administrative Costs	Natural Gas Operating Expenses (including tariff not recovered on SUG volume)	Total
2014-15	227.99	119.73	347.72
2015-16	205.84	98.58	304.42
2016-17	130.82	71.53	202.35
2017-18	119.27	76.90	196.17
Total	2,056.93	1,363.10	3,420.03

6.4.1.1. Opex claimed in tariff filing being higher than the Opex appearing in the Annual Reports of the relevant year(s), therefore, PNGRB vide its letter dated 01.01.2018 had sought breakup of the year wise Opex claimed, duly supported by C.A certificate. Further, PNGRB also asked EWPLL to provide the C.A certificate for Opex, for the FY 2013-14 to FY 2016-17 (EWPLL had already provided C.A certificates from FY 2009-10 to FY 2012-13), pertaining to dedicated pipelines of Lanco Kondapalli.

6.4.1.2. EWPLL vide letter dated 01.02.2018 has stated as under:

“the operating expenses to be considered for tariff computation has been arrived at in accordance with Tariff Regulations which is explained in detail as follows.

1. Tariff regulations stipulate volume consideration based on percentage utilisation of capacity. The volume considered is multiplied with tariff to arrive at revenues to be considered for tariff computation.
2. Volume considered as divisor in the determination of unit natural gas pipeline tariff includes the System Use Gas volume consumed towards fuel / maintenance gas in the pipeline system, which is consumed by pipeline entity. Thus, there is loss of revenue in terms of tariff not recovered on the volume of SUG consumed by entity.
3. To compensate for this loss, the Tariff Regulations provide for incorporation of such tariff (not recovered on SUG volume) as a part of the total SUG cost to be considered in the operating expenses. Please refer sub-clause (2)(b) of clause 5 of Schedule A of Tariff Regulations which stipulates fuel (including the cost

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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).

4. Since such costs are to be considered / factored only for the purpose of tariff computation, to that extent there will be difference in the figures appearing as operating expenses in books and the same considered for tariff computation.
5. Further there are exclusions specified in tariff regulations schedule A clause 5 sub-clause (8).
6. The reconciliation of the operating expenses considered in the tariff computation with that appearing in the books duly certified by CA is submitted.”

6.4.1.3. EWPLL provided the Opex amount pertaining to Lanco Kondapalli dedicated pipeline for the period from FY 13-14 to FY 17-18.

6.4.1.4. Further, EWPLL vide email dated 12.04.2018, has also submitted the following basis for computation of actual operating costs.

“In the tariff computation, operating cost have been considered as follows.

For the past period, actual operating costs as reflected in books of accounts have been considered, after making due adjustments as stipulated in tariff regulations.

The operating costs (all except SUG costs) are projected based on internal estimates at current prices and based on the actual performance in the past years.

For FY 17-18 the Opex (other than SUG) has been considered as Rs.419 Crores

For comparative analysis, the actual operating costs (excl. SUG and after adjustments) for the year FY 09-10 Rs. 282 Crores were escalated using inflation rate of 5.13% (considered in tariff computation) and the estimated Opex (excl SUG) for FY 17-18 comes to Rs. 420 Crores.

Further, as a conservative analysis, instead of first year actual Opex, average Opex (excl. SUG and after adjustments) for the first 3 years (FY 09-10 to FY 11-12 during which actual volume were higher) which was Rs. 276 Crores was considered as Opex for FY 09-10, which after applying escalation using inflation factor of 5.13%, comes to Rs. 411 Crores.”

6.4.1.5.PNGRB vide letter/email dated 05.12.2018, 26.12.2018 and 02.01.2019, asked EWPLL to provide certain clarifications. EWPLL vide letter/email dated 14.12.2018, 28.12.2018 and 10.01.2019 has provided the clarifications. The queries and the clarifications are reproduced as below:

Query: A write up on the transmission charges of GSPL which have been netted off from operating cost of FY 2017-18.

Clarification: In the year FY 17-18, RIL and EWPLL have entered into agreement where in EWPLL has agreed to manage end to end transportation services for RIL's gas for the EWPLL section as well as GSPL section. EWPLL has in turn entered GTA with GSPL for transportation service from the injection point in GSPL till exit point at Jamnagar complex. For the same, GSPL charges the zone 2 tariff to EWPLL and RIL pays to EWPLL for the sum of both, zone 1 tariff for EWPLL and zone 2 tariff for GSPL. Since the same are not related with operating expenses of EWPLL, for the purpose of tariff computation, the same have been reduced from the operating expenses of FY 17-18.

Query: The Opex for 10-11 as depicted in Annual report of FY 11-12 (previous year figure) is Rs 481.97 Crore and that depicted in Annual report of FY 10-11 is Rs 483.35 Crore. Similarly, Opex- other expenses for FY 2015-16 as per Annual report of FY 2015-16 is Rs. 504.85 Crore and as per Annual Report 2016-17 (previous year figure) is Rs. 249.49 Crore. The reasons and reconciliation of the same.

Clarification: Part (a) - Difference in Opex for FY 10-11 in Annual Report (AR) FY 10-11 and Annual Report (AR) of FY 2011-12:

During FY 2011-12, revised Schedule VI was notified under Companies Act, 1956 due to which previous year's figures were reclassified / rearranged. Further, EWPLL (then RGTIL) has also demerged its investment division to RIHPL with effect from 1st February, 2012 under a scheme of amalgamation due to which figures of FY 2010-11 in AR 2010-11 are not comparable with the same shown in AR of FY 2011-12. These clarifications are covered under Note 2 and Note 25 of



the AR 2011-12. Further, EWPLL has provided the reconciliation of FY 2010-11 Opex as per AR 2010-11 and AR 2011-12.

Part (b) - Difference in Opex other expenses for FY 2015-16 in AR 2015-16 and AR 2016-17:

During FY 2016-17, Ind-AS was adopted. The accounts for FY 2015-16 were re-casted effect of which in the Opex-other expenses of FY 2015-16 of Rs. 505 Crore were revised to Rs.249 Crore after excluding forex difference of Rs.255 Crore.

Query: Year wise, head wise Opex allocated to dedicated pipelines and the basis of such allocation.

Clarification: EWPLL uses SAP system for accounting where in assets are identified as separate cost centres and costs attributed to the assets are booked in respective cost centres. The key cost elements of dedicated lines are repairs and maintenance, spares, consumables etc. Vide email dated 15.02.2019, EWPLL has provided year wise, head wise details of Opex allocated to dedicated pipelines.

Query: Reasons for adding back Electricity, Power and water amounting to Rs 30.37 Crore to Opex cost from FY 09-10 to FY 17-18.

Clarification: For presentation in the annual accounts statements and notes thereof, EWPLL has been showing the sum of electricity, power, fuel (which includes system use gas (SUG)) and water expenses as a single line item. But, for the purpose of tariff computation in the tariff model, it was necessary to present SUG expenses separately and rest all expenses were rolled in as 'other expenses' which were projected for future years using the inflation rate. Therefore, to compute all the other expenses, firstly the sum of electricity, power, fuel (which includes system use gas (SUG)) and water is deducted and electricity, power, and water costs (excluding fuel) are added back.

Query: Reasons for substantial reduction in Opex excluding SUG from Rs 281.99 Crore in FY 2009-10 to Rs 205.84 Crore in 2015-16 and Rs 119.27 Crore in 2017-18.

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Clarification: Since past few years, the gas supplies have been continually decreasing from the Eastern coast and have remained more or less same from the western coast, mainly from the HLPL RLNG terminal at Hazira. So, there have been complete change in the hydraulic flow pattern across the pipeline stretch. Due to decreasing supplies from the eastern coast, there has been continual reduction resources / equipment utilisation in the large part of the pipeline system from Andhra Pradesh to Maharashtra. Further, considering falling volumes and revenues, necessary optimisation of employees / resources across many pipelines, have been done with a view to reduce the operating expenses. The reduction in Opex has been primarily due to these reasons.

EWPLL further, submitted that since for tariff computation, higher of normative of actual volumes are considered, the operating expenses for the future years should be considered commensurate with the volume considered. The lowest operating expenses for lowest volumes should not be benchmark, while volume divisor is being taken at normative capacity of the pipeline.

Query: Non-recurring items included in Opex for FY 2017-18.

Clarification: Operating expenses considered in tariff computation for FY 17-18 and reflected in the books of accounts for FY 17-18 are of regular nature and there no nonrecurring expense.

Query: Details of miscellaneous income.

Clarification: Details of the other income as a part of the other operating income reflected in books of accounts, excluding deferred delivery service charges, is given below. Further, it is submitted that the same are towards the hook-up charges, interconnect charges from the parties and reflected in the books of accounts on accrual basis (with applicable service tax). However, the amount collected have already been netted, excluding taxes, in the tariff computation submitted by EWPLL in the year in which the same were collected, except for FY 2014 value of Rs. 8.28 Crore (out of Rs. 9.74 Crore, Rs. 1.46 Crore is toward BGL hook up charges already netted off in tariff computations) and FY 2018 value of

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Rs.10.0 Crore (out of Rs. 12.91 Crore, Rs. 2.91 Crore is toward BGL hook up charges already netted off in tariff computations), which you are requested to net-off in tariff computation in the respective year.

Rs. Crore

Year	Other Income-sub Head	Amount with tax	Amount net of Tax	Service Tax
2014	Others	10.94	9.74	1.20
2015	Others	3.27	2.91	0.36
2016	Others	3.27	2.91	0.36
2017	Others	3.27	2.91	0.36
2018	Others	13.27	12.91	0.36

Query: The details of Corporate Social Responsibility (CSR) expenses.

Clarification: No CSR expenses have been incurred therefore, not included in the operating expense.

Query: Details/write up on non-operating income i.e. investment advisory services, facilitation and other services, net gain on sale of current investments and sale of scrap.

Clarification: Above items are not arising out of a fixed asset included in the return on total capital employed or out of an expense considered as an operating cost for the purpose of tariff determination. These pertains to the services provided by investment division of the EWPLL or from the investment's activities.

Sale of scrap: This item pertains to the sale of leftover scrap/material.

6.4.1.6. PNGRB vide email dated 25.01.2019, again asked a detailed write up indicating the source of income as well as bank details of the activities of investment advisory services, facilitation and other services etc.

PIPL vide email dated 29.01.2019 submitted that EWPLL has started providing Investment Advisory services from the FY 2013-14. These services are provided by investment division of the EWPLL for facilitation of its clients (basically group companies) to obtain investment advice and arrange for investment of their funds. This can also be seen in the FY 2017-18 Annual Report Note 36 wherein

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investment divisions revenue, assets, which is current assets only and liabilities are separately mentioned. Similarly, in earlier years i.e. FY 2013-14 to FY 2016-17 also assets pertaining to Investment division is current assets only. Amount shown in Other Income under the Advisory/Facilitations services heads pertains to Income from such services. As submitted earlier income under these services are not arising out of a fixed asset included in the return on total capital employed or out of an expense considered as an operating cost for the purpose of tariff determination. Year wise details of the income from Investment division is as below:

Particulars	Rs. Crore				
	2013-14	2014-15	2015-16	2016-17	2017-18
Investment Advisory Services	27.00	34.81	117.18	30.10	36.57
Gain on Financial Assets	2.73	4.63	7.86	43.33	13.83
Total	29.73	39.44	125.64	73.43	50.40

EWPLL is investing surplus funds in Financial Assets and disinvest the same as and when required. These gains on Financial assets are on that account. At the financial year end these financial assets are shown at the NAV.

Investment activities are centralized at corporate level. These services mainly involve expenses towards salaries and other employee related costs. The expenses against these activities are very minuscule as can be seen from the Annual Report of FY 2011-12, note 25 i.e. Rs.13 Lakh per annum or from Annual Report of FY 2017-18 note 36 which is Rs. 21 Lakh per annum (Rs. 50.40 Crore -Rs.50.19 Crore). However, for the period i.e. FY 2012-13 to FY 2016-17 these expenses were not identified separately, based on the available data we may consider Rs.21 Lakh per annum.

Further, regarding the net gain on derivative transactions, EWPLL uses various derivative instruments such as interest currency swap, forwards and options to mitigate the risk of change in interest rate or exchange rate. Any gains or losses

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arising from changes in the fair value of derivatives are taken directly to statement of profit and loss.

6.4.1.7. On review of submissions by EWPLL, the following are observed:

6.4.1.7.1. An amount of Rs.23.71 Crore arising out of profit on sale of fixed assets/ profit on sale of assets held for disposal has been considered as Opex, in the tariff submission by EWPLL, as per details given below:

(Rs Crore)					
Particulars	13-14	14-15	15-16	16-17	17-18
Profit on Sale of Fixed Assets	1.19	17.11	0.14	1.98	0.09
Profit on Sale of Assets held for Disposal		-	-	0.95	2.24
Total	1.19	17.11	0.14	2.93	2.33

6.4.1.7.2. As per EWPLL's Annual report and head-wise groupings, there is a Non-Operating income on account of sale of scrap, insurance claims received etc. of Rs.86.04 Crore from FY 11-12 to FY 2017-18.

6.4.1.7.3. EWPLL has earned non-operating income amounting to Rs.318.04 Crore, on account of investment advisory services and facilitation and other services during FY 13-14 to FY 17-18 and Rs.328.44 Crore from FY 16-17 to FY 17-18, on account of net gain on derivative transactions.

6.4.1.8. PNGRB's Ruling

Actual Opex considered for determination of final tariff has been arrived as per the following:

6.4.1.8.1. A sum of Rs.109.75 Crore, out of which Rs.23.71 Crore pertaining to profit on sale of fixed assets/ profit on sale of assets held for disposal and Rs.86.04 Crore on account of sale of scrap, miscellaneous income, insurance claims received etc has been reduced from the Opex of respective years.

6.4.1.8.2. Based on EWPLL's submissions as per para 6.4.1.7 income from these services has not been netted off, however, a sum of Rs 21 Lakh p.a. for the has been netted off from the Opex from FY 12-13 to FY 17-18.

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6.4.1.8.3. Other Operating Income amounting to Rs.18.28 Crore, pertaining to FY 13-14 (Rs.8.28 Crore) and FY 17-18 (Rs.10 Crore) has been netted off from respective years.

Based on the above, the year wise actual Opex claimed and considered are as detailed below:

Rs. Crore		
Year	Opex Claimed	Opex Considered
09-10	281.99	281.99
10-11	263.15	263.15
11-12	282.10	268.45
12-13	286.85	280.72
13-14	258.92	216.55
14-15	227.99	193.12
15-16	205.84	198.59
16-17	130.82	121.68
17-18	119.27	103.39
Total	2,056.93	1927.64

6.4.2. Actual Natural Gas Operating (SUG) Cost including tariff unrecovered on SUG.

EWPLL has considered the following expenditure on SUG (including maintenance gas and unaccounted gas loss/gain) for the period from FY 09-10 to 17-18, which has been certified by Chartered Accountant. Year wise details of claim on account of SUG and tariff not recovered on SUG is as follows:

(Rs Crore)			
Year	SUG	Tariff not recovered on SUG	Total
2009-10	130.07	32.87	162.94
2010-11	230.58	58.32	288.90
2011-12	208.22	49.91	258.14
2012-13	146.78	31.22	178.00
2013-14	90.61	17.76	108.37
2014-15	101.33	18.40	119.73
2015-16	84.63	13.95	98.58

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2016-17	58.67	12.86	71.53
2017-18	63.29	13.61	76.90
Total	1,114.18	248.92	1,363.10

6.4.2.1. Entity and Stakeholders' Comments

GAIL (letter dated 18.05.2018)

SUG requirement may be considered in line with the volume divisor considered for tariff computation. Higher volume throughput will require higher compressor running hours and accordingly higher consumption. The same principle may be considered for past period and accordingly actual OPEX (based on the actual SUG consumption due to lower actual volume flow as compared to normative volume flow) may be adjusted based on higher normative SUG consumption. This may be considered on the tariff not recovered on SUG and value as considered in may be adjusted.

Response of EWPLL (letter dated 15.06.2018)

GAIL has in principle endorsed our stand that the operating expenses considered in tariff computation should be commensurate with the volumes considered. Accordingly, it would be appropriate to adjust the past actuals with the SUG quantities commensurate with actual volume rather than actual SUG quantities.

H energy (letter dated 18.05.2018)

System Use Gas (SUG) and Unaccounted Gas (UAG): As industry prudent practice, we request that SUG and UAG should be represented in terms of percentage rather than monetary terms for better understanding.

6.4.2.2. PNGRB's Ruling

As per Schedule A, Para 5 (2) (b) of Tariff Regulations, the cost of 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) is permitted. Therefore, the SUG cost (excluding unaccounted gas) and tariff unrecovered on SUG [based on certified SUG (including maintenance volume)

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in MMBTU submitted by EWPLL] from FY 2009-10 to FY 2017-18 of Rs.1,073.57 Crore and Rs.236.59 Crore respectively has been considered for final tariff determination.

6.4.3. Future Opex from FY 2018-19 to FY 2033-34

EWPLL in its tariff filing has claimed Rs.35,948.97 Crore as future Opex. The future Opex has been claimed by EWPLL under two heads viz. (i) Other operating and administration Costs (ii) Natural Gas operating expenses (Including tariff not recovered on SUG).

6.4.3.1. Other operating and administration Costs

EWPLL has considered Rs.10,543.04 Crore as Other Operating and administration expenses from FY 2018-19 to FY 2033-34.

PNGRB vide letter dated 01.01.2018 had sought justifications for the huge jump in future operating costs as compared to actual operating costs. EWPLL in its reply vide letter dated 01.02.2018 has inter alia stated as under:

“Since there has been downward trend in the gas production from the primary source of gas, the KG D6 block in the KG basin, there has been reduction in operating expenses.

As per tariff regulations, the volume to be considered in tariff computation is to be normative or actual whichever is higher.

Majority of Operating expenses in gas pipeline with compressors are variable expenses and are linked to the volume cater by the gas pipeline.

Accordingly, major difference in Operating expenses from FY 2017-18 onwards are due to the volume considered as divisor for these years for tariff determinations in terms of tariff regulations.”

6.4.3.1.1. Further vide email dated 12.04.2018, EWPLL has submitted the following:

In the tariff computation, operating cost have been considered as follows.

For the future period, operating costs commensurate with the normative volumes (as stipulated in tariff regulations) have been considered.

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The operating costs (all except SUG costs) are projected based on internal estimates at current prices and based on the actual performance in the past years. For FY 17-18 the Opex (other than SUG) has been considered as Rs.419 Crore.

6.4.3.1.2. EWPLL has subsequently, considered actual Opex for FY 17-18. Further, based on the reasoning provided above in para 6.4.3.1.1, future Opex for the FY 18-19 has been reworked as normative Opex as Rs.419 Crore and same is escalated the same by 5.13% p.a. for arriving at Opex for FY 19-20 to FY 33-34.

6.4.3.1.3. EWPLL again vide email dated 10.01.2019 has submitted as under:

- a. "In case of operating expenses, the regulations stipulate to consider lower of normative or actual. While the same would be true for the past period, the same cannot be applied for the future without due consideration to the volumes considered in the future period.
- b. You may appreciate currently in EWPLL gas flow is very low, however, as informed earlier there is going to be an improvement in gas flow volumes and it is expected that from 2020-21 onwards volume would be in the range of 45-50 MMSCMD over medium to long term.
- c. Reasons for current lower operating expenses have already explained vide communication dated 14th December,2018, however, now improvement in gas flows are expected as explained above, therefore, the operating cost would also be expected to be considerably higher than the current Opex. The same can also be demonstrated with the past pattern of operating cost when the flow of gas in EWPLL was in the range of 45-50 MMSCMD.
- d. It would be just and reasonable that the future operating expenses need to be estimated commensurate with the future volume. The expenses include SUG and all other expenses."

6.4.3.1.4. PNGRB's Ruling

Other Operating and Administrative costs being more like a fixed expenditure, and normally does not vary based on actual volume flow therefore, the same has been considered based on other operating and administrative cost for the FY 2017-

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18, by escalating the same at an inflation rate of 4.5% per annum, as against EWPLL claim of normative Opex. Accordingly, as against total claim of Rs.10,543.04 Crore Other operating expenditure, an amount of Rs.2,692.18 Crore has been considered from FY 18-19 to FY 33-34. However, the actual expenditure shall be reviewed/considered in next tariff review in terms of extant Tariff Regulations.

Year wise, Other Opex claimed by EWPLL and considered by PNGRB are as under:

Rs Crore		
Year	Claimed by EWPLL	Considered by PNGRB
2018-19	440.97	118.50
2019-20	463.59	123.83
2020-21	487.37	129.40
2021-22	512.38	135.23
2022-23	538.66	141.31
2023-24	566.29	147.67
2024-25	595.34	154.31
2025-26	625.89	161.26
2026-27	657.99	168.52
2027-28	691.75	176.10
2028-29	727.24	184.02
2029-30	764.54	192.30
2030-31	803.76	200.96
2031-32	845.00	210.00
2032-33	888.35	219.45
2033-34	933.92	229.33
Total	10543.04	2692.18

6.4.3.2.SUG consumption and tariff unrecovered on SUG

EWPL has claimed a sum of Rs.20,807.03 Crore as future SUG cost and Rs.4,598.90 Crore as tariff unrecovered on SUG. The basis of the cost of fuel for future SUG consumption as provided by EWPLL vide email dated 12.04.2018 is as under:

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Since gas supplies from current sources are quite unsure from a long-term perspective, EWPLL will have to source gas from other sources. Since there is marketing freedom, the prices are expected to be market linked. Hence, on a conservative side, SUG price has been considered benchmarked with expected RLNG price (at crude price of 55 \$/bl with a 14% linkage). The same has been derived based on market information, like PLL renegotiated Australia LNG Price is at 13.9% linkage, copy of news article is enclosed, LNG spot price Des West India is ~US \$ 9/MMBTU, copy of Platts LNG daily dated 17th October, 2017 is enclosed for reference. It may be noted that current crude price has remained above 60 \$/bl and is expected to remain in the range of 60-70 as per market reports.

6.4.3.2.1. PNGRB vide email dated 21.12.2018 sought actual SUG consumption quantity for FY 2017-18 and for FY 18-19 upto November 2018 as well as likely volume ramp up for future years from EWPLL. EWPLL vide mail dated 24.12.2018 has submitted the SUG consumption for FY 2017-18 is 0.24 MMSCMD (3207617 MMBTU) and SUG for FY 2018-19 (upto November, 2018) is 0.23 MMSCMD (2067452 MMBTU). Further, in respect of volume ramp up EWPLL has stated that presently, the gas flow in EWPL is in the range of 15-20 MMSCMD and it is expected that from 2020-21 onwards average gas transportation in EWPLL would be in the range of 45-50 MMSCMD over medium to long term.

6.4.3.2.2. PNGRB again vide email dated 26.12.2018 to EWPLL sought the SUG consumption figures from 19-20 onwards, based on likely volume ramp of 45-50 MMSCMD from 20-21. EWPLL vide mail dated 28.12.2018 has stated that the SUG consumption for FY 19-20 is likely to be of the similar level as per the current year FY 18-19 and last year FY 17-18. For the estimated volumes from FY 20-21 onwards, the SUG consumption is likely to be around 0.80 MMSCMD. EWPLL further submitted that the SUG consumption would vary with the volumes, gas pressure and the point of injection and off-take.

6.4.3.2.3. EWPLL in its tariff submissions has considered USD/INR exchange rate of Rs 64.81 with an annual escalation of 2.4% (based on historical long-term rupee devaluation). Subsequently, EWPLL vide email dated 10.01.19 has submitted to consider the current exchange rate of USD/INR i.e. Rs 70 with annual escalation of 2.4% to factor in rupee devaluation for the future period.

6.4.3.2.4. PIPL vide mail dated 05.02.2018 has enclosed the letter from RIL which inter alia states that gas availability from existing fields is expected to decline gradually and production is expected only upto Q4 CY 2019.

6.4.3.2.5. It is observed that during FY 2011-12, actual volume flow in EWNGPL was 52.5 MMSCMD and SUG consumption was 7970900 MMBTU (0.60 MMSCMD).

6.4.3.3. PNGRB's Ruling

In terms of sub clause 2(b) (fuel) of clause 5 (Operating Costs) of Schedule A of Tariff Regulations, 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) is to be considered as part of Opex. SUG cost and tariff not recovered thereon has been dealt as under:

6.4.3.3.1. The SUG consumption for FY 18-19 and FY 19-20 has been considered based on actual consumption for the period April 18-Nov 18 i.e. 0.23 MMSCMD (2067452 MMBTU) at the APM price applicable for the period from 01.04.2018 to 31.03.2019 and from 01.10.2018 to 31.03.2019 respectively, as declared by PPAC and inflation @4.5% thereon, for FY 2019-20.

6.4.3.3.2. SUG consumption from FY 20-21 till FY 33-34 has been considered as 0.57 MMSCMD, (which is in proportion to actual SUG consumption in FY 11-12 i.e. @ 0.60 MMSCMD viz a viz actual volume flow and likely volume flow provided by EWPLL) as against EWPLL claim of SUG @1.20 MMSCMD.

EWPLL has considered SUG cost based on delivered RLNG price of \$10.18 /MMBTU. In the absence of APM gas, the other alternative domestic gas price available for SUG consumption is the price for the gas to be produced from discoveries in Deepwater, Ultra Deepwater and High-Pressure High Temperature

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areas. Latest ceiling price applicable from 01.10.2018 is \$ 7.67/MMBTU (PPAC circular dated 28.09.2018). PNGRB vide e mail dated 15.02.2019 asked ONGC to provide average discount to ceiling price and marketing margin realized through bidding rounds of gas produced from discoveries in Deepwater, Ultra Deepwater and High Pressure-High Temperature areas. ONGC vide letter dated 21.02.2019 informed that ONGC has tied up Deepwater gas produced from S1-VA field through open tendering process at the weighted average discount of USD 1.072 MMBTU to applicable ceiling price. In terms of the notice inviting tender for gas sales, ONGC charges \$.20 MMBTU on GCV basis in addition to the gas price. Based on this, delivered price for this gas for EWNGPL works out to \$ 7.79/MMBTU {6.80MMBTU (\$7.67-1.07+0.20) + VAT@14.5% -\$ 0.99} and the same has been considered from FY 20-21 to FY 33-34 considering annual inflation @4.5% thereon.

6.4.3.3.3. USD/INR exchange rate has been considered as Rs.70 without considering exchange rate devaluation.

Based on the above, SUG expenditure Rs.8531.75 Crore and unrecovered tariff on SUG amounting to Rs.782.44 Crore from FY 18-19 to FY 2033-34 has been considered for determination of final tariff.

Year wise SUG expenditure and tariff unrecovered on SUG claimed by EWPLL and considered by PNGRB is as below:

Rs Crore

Year	Claimed by EWPLL		Considered by PNGRB	
	SUG Costs	Unrecovered Tariff	SUG Costs	Unrecovered Tariff
2018-19	1082.05	81.67	77.44	15.72
2019-20	1108.02	301.15	84.71	21.57
2020-21	1134.61	301.15	442.08	53.22
2021-22	1161.84	301.15	461.98	53.22
2022-23	1189.73	301.15	482.77	53.22
2023-24	1218.28	301.15	504.49	53.22
2024-25	1247.52	301.15	527.19	53.22

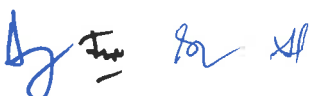
	Claimed by EWPLL		Considered by PNGRB	
2025-26	1277.46	301.15	550.92	53.22
2026-27	1308.12	301.15	575.71	53.22
2027-28	1339.52	301.15	601.62	53.22
2028-29	1371.66	301.15	628.69	53.22
2029-30	1404.58	301.15	656.98	53.22
2030-31	1438.29	301.15	686.54	53.22
2031-32	1472.81	301.15	717.44	53.22
2032-33	1508.16	301.15	749.72	53.22
2033-34	1544.36	301.15	783.46	53.22
Total	20807.03	4598.90	8531.75	782.44

6.5. Unaccounted Line Loss

6.5.1. As per EWPLL's submissions, "SUG cost includes unaccounted gas (loss/gain) which has been observed to be less than 0.1% of volume transported (average of last 8 years). As per the OEM specifications, the measuring equipment have an Uncertainty Limit of 0.5% for volume and 0.7% for energy measurement. RGTIL's current GTAs provide that in the event of measurement error >1%, the meter shall be calibrated."

6.5.2. EWPLL in its tariff submission has claimed a sum of Rs.40.61 Crore as Opex on account of unaccounted gas loss. PNGRB vide letter(s) dated 01.01.2018 and 05.12.2018 sought details of unaccounted gas gain/loss quantity and value including details of computation, duly certified. Further, vide letter dated 14.12.2018, EWPLL has submitted the year wise details of unaccounted gas loss included in tariff submissions. Further, EWPLL has not claimed any future Opex on account of unaccounted gas loss:

Year	Quantity in'000 MMTBU	Amount (Rs. Crore)
2009 - 10	329.6	7.41
2010 - 11	273.4	6.06
2011 - 12	1,162.50	27.08
2012 - 13	445.5	11.83
2013 - 14	-199.5	-5.45

By 

Year	Quantity in '000 MMTBU	Amount (Rs. Crore)
2014 - 15	-98	-2.58
2015 - 16	-101.2	-3.09
2016 - 17	-46.1	-1.17
2017 - 18	24.6	0.52
Total		40.61

6.5.3. PNGRB's Ruling

Clause 5 (2) (b) of Schedule A of the Tariff Regulations which details the items to be considered as operating costs for calculation of tariff allows only system use gas (SUG) as an operating cost of the pipeline viz:

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);

As may be observed from the above, the Tariff Regulations do provide for gas used in the pipeline but that is only cost of the SUG which the natural gas is consumed in the natural gas pipeline as a fuel to run the pipeline itself e.g. for running the compressors in the pipeline. The Tariff Regulations do not provide for any other gas consumed in the pipeline. Specifically, there is no concept of compensating any gas loss like "unaccounted gas".

The issue relating to unaccounted gas loss has been dealt in detail in earlier provisional initial unit natural gas pipeline tariff orders issued by the Board. Compensation for unaccounted gas loss is not allowable for the following reasons besides the fact that there is no specific provision in the Tariff Regulations for allowing unaccounted gas loss as the provision is only for SUG consumed in the natural gas pipeline. Accordingly, no unaccounted gas loss/line loss, positive or negative, has been considered in the determination of final tariff throughout the economic life of the pipeline:

- i. As per the pipeline design, the piping system is totally welded and leak proof. Hence, there is no scope for venting.

- ii. Measurement accuracy using meters based on modern technology is of high order. Hence, it is incorrect to assume a “loss” of gas because of metering inaccuracy and for that matter there could also be a “gain” if the so called “metering inaccuracy” leads to lower supply of gas.
- iii. Loading unaccounted gas costs to transportation tariff means placing a burden on the consumer for inefficiency of the pipeline operator.
- iv. It would result in building in the cost a ‘fugitive emission’, which is a Green House Gas (GHG) discharge many times higher than equivalent amount of carbon dioxide.
- v. There is no justification for providing tariff for gas that is not proven to be transported to the end consumer.
- vi. Regulators (like FERC in USA) have, in rulings held that allowing unaccounted gas leads to a situation where earnings may substantially exceed actual cost of service including a reasonable return on equity.

6.6. Volume Divisor

As per tariff submissions and information provided by EWPLL vide letter/email dated 01.01.2018, 07.01.2019 and 25.01.2019, year wise details of capacity, normative volume and volume divisor considered by EWPLL and contracted volume and actual volumes are as under:

Year	Capacity	Normative Volume	Volume Divisor	Contracted Quantity	Actual quantity (including ship or pay)
MMSCMD			'000 MMBTU		
2009-10	85.00	38.25	40.66	543561	528896.60
2010-11	70.00	36.75	58.60	722956	774788.70
2011-12	52.00	31.20	51.12	792132	682950.90
2012-13	45.00	30.38	34.53	820660	461664.50
2013-14	45.00	33.75	20.62	692049	279905.40
2014-15	56.00	42.00	42.00	352920	286204.80
2015-16	63.00	47.25	47.25	397342	268817.10
2016-17	62.00	46.50	46.50	397171	238113.40

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2017-18	62.00	46.50	46.50	429601	246100.11
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6.6.1. EWPL vide e mail dated 04.02.2019, stated that Hon'ble APTEL through order dated 20th November, 2018 under Appeal No 97 of 2017, have provided direction to use 85 MMSCMD capacity for tariff determination for the East-West Pipeline for the years 2009-10, 2010-11, 2011-12, 2012-13, 2013-14, 2015-16, 2016-17 & 2017-18. Due to this there will be change in the workings of the volume set-off related adjustment in the tariff calculations. Kindly consider the following updated volume denominator for the first five years of operations, after providing set off in terms of the regulations 10 of Schedule A of tariff determination regulations.

Parameters	09-10	10-11	11-12	12-13	13-14
Capacity (MMSCMD)	85.00	85.00	85.00	85.00	85.00
Normative Volumes	38.30	44.60	51.00	57.40	63.80
Actual Volumes (incl SOP and SUG vol)	42.80	61.90	54.20	36.40	21.90
Incremental Volume available for Set-off	4.60	17.20	3.20	0.00	0.00
Cumulative incremental vol	4.60	21.80	25.00	25.00	25.00
Shortfall volumes (lower than normative)	0.00	0.00	0.00	20.90	41.90
Volumes set-off	0.00	0.00	0.00	20.90	0.00
Volumes for DCF after set-off	38.30	44.60	51.00	57.40	63.80

6.6.2. Entity and Stakeholders Comments

GSPL vide letter dated 19.05.2018, inter alia submitted as under:

“As per the PNGRB Tariff Regulations, from sixth year onwards, minimum 75% of the declared capacity is to be considered in divisor. However, in actual the utilization of EWPLL is quite lower than 75%.

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It is submitted that there is no protection for the transporter against the lesser utilization of its pipeline due to factors outside of transporters control. Due to the same, transporter does not earn the reasonable return.

In view of the same, the Board may kindly review the regulation pertaining to volume divisor for Tariff Determination, in order to support the pipeline industry. It is requested that comments may be considered while determining the final tariff for EWPLL and subsequently applied in uniform manner for other natural gas pipelines as well”

EWPLL vide letter dated 15.06.2018 inter alia submitted as under:

“We strongly request that, considering the gas shortage prevailing in the country since many years and the underutilisation in almost all networks, the Board provide much needed support by adjusting the volume divisor to account for lower utilization for no fault of transporters, may be with a cap, for tariff determination”

6.6.3. Volume considered in provisional Tariff order

During the approval of provisional tariff for EWNGPL, based on EWPLL’s submissions, volume divisor higher than the normative volume divisor was considered, for the first five years. The year wise details of volume divisor considered for first five years are as under:

(MMSCMD)

Description	2009-10	2010-11	2011-12	2012-13	2013-14
Volumes as per regulations	36	42	48	54	60
Volumes considered	40	80	80	80	80

6.6.4. Extant Regulations

Volume to be considered from 01.04.2009 to 07.01.2016

As per sub-clause (1) of clause 6 of Schedule A of PNGRB (Determination of Natural Gas Pipeline Tariff) Regulations, 2008 in force during this period, the volumes of natural gas to be considered as divisor in the determination of the unit

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natural gas pipeline tariff over the economic life of the project shall be computed on a normative basis as indicated below

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 basis as indicated below:

The divisor for each of the first five years of operations of the natural gas pipeline shall be arrived by multiplying the applicable percentage utilization for the year, as per the basis indicated below, with the sum of the capacity requirement of the entity and the firm-up contracted capacity with other entities as specified under the Petroleum and Natural Gas Regulatory Board (Authorizing Entities to Lay, Build, Operate or Expand Natural Gas Pipeline) Regulations, 2008:-

Year of natural gas pipeline operations	Percentage utilization
First	60%
Second	70%
Third	80%
Fourth	90%
Fifth	100%

The divisor for the sixth and the subsequent years of operation of the natural gas pipeline shall be equal to:

One hundred percent of the sum of the capacity requirements of the entity and the firm-up contracted capacity with other entities as specified under the Petroleum and Natural Gas Regulatory Board (Authorizing Entities to Lay, Build, Operate or Expand Natural Gas Pipeline) Regulations, 2008; and

- a) The actual volume of natural gas transported on common carrier basis against the extra capacity as specified under the Petroleum and Natural Gas Regulatory Board (Authorizing Entities to Lay, Build, Operate or Expand Natural Gas Pipeline) Regulations, 2008 during the immediately preceding year of operation of the natural gas pipeline.



Volumes to be considered from 08.01.2016 onwards:

As per Clause 6 (1) (b) of the PNGRB [Amended Tariff Regulations effective from 08.01.2016], the divisor for the sixth and the subsequent years of operation of the natural gas pipeline shall be equal to the firmed up contract capacity and booked common carrier capacity or seventy five per cent of the capacity of natural gas pipeline as declared under the Petroleum and Natural Gas Regulatory Board (Determining Capacity of Petroleum, Petroleum Products and Natural Gas Pipeline) Regulations, 2010, whichever is higher. As the capacity of EWNGPL has been determined under the PNGRB (Determining capacity of Petroleum, Petroleum products and Natural Gas Pipeline) Regulations, 2010, capacity as mentioned in the authorization/ acceptance letter issued by PNGRB shall be used for tariff determination and. Further, since the Amended Tariff Regulations are notified on 08.01.2016, prorata volume divisor for 2015-16 was calculated as: 75% of total capacity plus actual common carrier volume from 01.04.2015 to 07.01.2016 (in accordance with the older Regulations which were in force during this period) and 75% of total capacity from 08.01.2016 to 31.03.2018 (in accordance with the Amended Tariff Regulations effective from 08.01.2016).

Adjustment in volumes variation:

Clause 10 (1) of Schedule A to Tariff regulations states that “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-

- (a) 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; or
- (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 the final unit natural gas pipeline tariff.

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Clause 10 (2) of Schedule A to Tariff Regulations, “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.”

6.6.5. PNGRB’s Ruling

The volume divisor has been arrived at based on the following:

6.6.5.1. Normative volume from FY 09-10 to FY 33-34 has been arrived at based on capacity of 85 MMSCMD, in terms of APTEL directive.

6.6.5.2. Based on normative volume and actual volume arrived at as per Para 6.6.5.1, volume adjustment for higher actual volumes transported during FY 09-10 to FY 11-12 has been considered in these years, as per details below:

	2009-10	2010-11	2011-12	2012-13	2013-14	Total
Actual Volumes	41.6	60.1	52.5	35.4	21.3	210.8
Set off available	0.0	0.0	0.0	22.0	42.5	64.5
Volume adjustment	-3.3	-15.5	-1.5	nil	nil	-20.3
Volumes after adjustment of volume credit	38.3	44.6	51.0	57.4	63.8	255.0
Normative Volumes	38.3	44.6	51.0	57.4	63.8	255.0

Based on above, volume divisor considered for final tariff determination is as follows:

Year	Volume Divisor MMSCMD
2009-10	38.25
2010-11	44.63
2011-12	51.00
2012-13	57.38
2013-14	63.75
2014-15 onwards	63.75

6.7. Line Pack

As per Annual report of FY 09-10 submitted by EWPLL, line pack as on 01.04.2009 was Rs.92.49 Crore and an amount of Rs.4.20 Crore and Rs.10.15 Crore was decapitalized in FY 12-13 and FY 13-14 respectively, due to a fall in volumes transported. Line pack is a part of normative Capex, for cost to completion of EWNGPL.

6.7.1. PNGRB's Ruling

Line pack is the value of gas which always remains in the pipeline and as per regulations, it is to be considered as cash outflow in the initial year and to be considered as cash inflow in the last year of the economic life of the pipeline. Assessment of the volume of natural gas required as line pack in the natural gas pipeline as and when commissioned shall as be specified in the relevant regulations for the technical standards and specifications, including safety standards. The line-pack value of natural gas in natural gas pipeline tariff shall be considered as a non-depreciating fixed asset and the value to remain fixed over the economic life of the project.


In view of above, line pack amounting to Rs.92.49 Crore has been considered as outflow in FY 2009-10 and line pack decapitalised in FY 12-13 and FY 13-14 i.e. Rs.4.20 Crore and Rs 10.15 Crore, respectively, has been considered as an inflow. Further, balance Rs.78.14 Crore has been considered as inflow at the end of the economic life of the pipeline in FY 2033-34.

6.8. Number of Working Days

EWPLL has considered 345 days of availability of pipeline by considering 20 days of planned maintenance activity as per Gas transport Agreement.

PNGRB's Ruling:

The issue of number of days to be considered for shut down and maintenance has been clearly specified in the clause 14 (3) of the Access code Regulations that the planned maintenance period shall not exceed 10 days in a year. On this basis, there



would be 355 working days for a pipeline in a financial year, accordingly, 355 working days has been considered.

6.9. Working Capital

The working capital considered by EWPLL is the sum of 30 days of Operating Cost and 18 days of receivables, average working capital considered by EWPLL during economic life of pipeline is Rs.531.97 Crore.

PNGRB's Ruling:

As per clause 4 of schedule A of Tariff Regulation, working capital is calculated as sum of 30 days of Opex (excluding depreciation) and 18 days of revenue (tariff receivables). After the adjustments made as detailed in various paras, average of working capital has been reworked and considered in determination of final tariff.

6.10. Terminal Value

EWPLL in its tariff filing has considered a sum of Rs.943 Crore as residual value of the assets by considering 5 % of asset value at the end of the economic life.

PNGRB vide letter dated 28.12.2018 asked EWPL to provide the terminal value based on applicable depreciation on all assets and then arrive at the terminal value to be considered in tariff submission (excluding IDC) as cash inflow at the end of the economic life of the pipeline. EWPLL, vide email dated 29.01.2019 submitted the revised residual value of Rs.1,387 Crore (including line pack). EWPLL has calculated revised residual value considering depreciation @10.34% from FY 09-10 to FY 13-14 and @4% for the remaining period for pipeline assets.

PNGRB's Ruling

Terminal Value is the sum of the residual value of the assets at the end of the economic life. It is considered as cash inflow at the end of economic life of the pipeline. The Capex claim made by EWPLL has been varied as discussed in para 6.2 above. Further, considering the economic life of pipeline assets as 30 years, terminal value has been recalculated as Rs.2,242 Crore for EWNGPL and considered in determination of final tariff.

6.11. Weighted average Heat Value

6.11.1. EWPLL in its tariff filing has considered the following weighted average heat value. EWPLL has stated that the quantities invoiced on NCV basis till 31st October 2014 and indicated on GCV basis by using a multiplication factor of 1.1

Year	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17 and 17-18	FY18-19 onwards
GCV (Btu / Scm)	35,732	36,290	36,630	36,778	37,092	37,493	37,608	37,770	37,770

6.11.2. Subsequently, vide letter dated 01.02.2018 and email dated 10.01.2019, EWPLL has submitted the following year wise weighted average gross calorific value, for EWNGPL:

Year	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18
GCV (Btu / Scm)	35825	36316	36639	36771	37092	37493	37608	37825	38821

EWPLL has also submitted the average GCV from 09-10 to 17-18 as 36837 btu/scm.

6.11.3. Weighted average gross heat value for the period FY 09-10 to FY 17-18 works out to 36865 btu/scm as against submission of EWPL of 36837 btu/scm.

6.11.4. PNGRB's Ruling

As per Clause 6 of Schedule A of Tariff Regulations, the volume of natural gas determined as per the regulations shall be converted into its energy equivalence in MMBTU terms for the purpose of determination of final initial unit natural gas pipeline tariff by considering the weighted average heat value of natural gas delivered to customers during the initial unit natural gas pipeline tariff period.

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Actual weighted average heat value for FY 09-10 to FY 17-18 and weighted average of actual heat values for this period i.e. 36865 btu/scm has been considered for FY 18-19 to FY 33-34. Details of weighted average gross heat value considered for final tariff determination are as under:

Year	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19 onwards
GCV (Btu / Scm)	35825	36316	36639	36771	37092	37493	37608	37825	38821	36865

6.12. Return on Capital Employed

EWPLL has considered following pre-tax rate of return in its tariff submissions:

Financial Year	06-07	07-08 to 09-10	10-11	11-12 & 12-13	13-14 & 14-15	15-16 to 17-18	18-19 onwards
Pre-tax rate of return	18.09%	18.18%	17.97%	17.76%	18.18%	18.35%	18.45%

6.12.1. Entity and Stakeholders Comments

GAIL (letter dated 18.05.2018) has stated as under:

Due to increase in effective Income Tax Rate as 34.944%, the pre-tax rate of return on total capital employed for period 01.04.2018 onwards to be 18.45%.”

Response of EWPLL (letter dated 15.06.2018)

We endorse the view of GAIL which essentially indicate that whenever there are changes in the effective tax rate for corporate assesses, the updated tax figure should be considered in tariff computation. In this instance the effective rate has been increased to 34.944% for FY 18-19 due to Health and Education Cess of 4%. Hence, this updated tax rate should be considered for grossing up the 12% return.

6.12.2. PNGRB's Ruling

Clause 2 of Schedule A of the Tariff Regulations mandates that natural gas pipeline tariff shall be calculated, based on the DCF methodology after considering the reasonable rate of return. In terms of clause 3 of Schedule A of the Tariff Regulations twelve percent post tax will be grossed-up by nominal rate

of income tax applicable for corporate assesses as per the provisions of Income Tax Act, 1961. The corporate income tax rate and pre-tax rate considered for determination of final tariff are as follows:

Financial Year	06-07	07-08 to 09-10	10-11	11-12 & 12-13	13-14 & 14-15	15-16 to 17-18	18-19 onwards
Income Tax Rate	33.66%	33.99%	33.22%	32.45%	33.99%	34.61%	34.94%
Pre-tax rate of return	18.09%	18.18%	17.97%	17.76%	18.18%	18.35%	18.45%

6.13. Zonal Apportionment

The length of the EWNGPL is 1460 kms, hence, the zonal apportionment of tariffs, based on the approved levelized tariff, in various zones is required to be submitted by EWPLL.

6.14. Tariff Review

In terms of clause 2 (1) (e) (i) of Tariff Regulations, the provisional tariff of EWNGPL was notified on 19.04.2010, which is being finalized now based on the actual data up to FY 2017-18.

In respect of tariff review, clause 2 (1) (h) of Tariff Regulations states as under:

“The review of the unit natural gas pipeline tariff after every five consecutive years by the Board with the first tariff review to be done after the end of five consecutive years after the end of the initial unit natural gas pipeline tariff period as specified under sub-section (e):

In view of the above provisions of Tariff Regulations, first tariff review was due on 01.04.2015. As the current tariff is being finalized now, therefore, next tariff review shall occur on 01.04.2020. Accordingly, EWPLL is advised to submit the data well in time to review the tariff and for issuance of tariff order. However, in terms of clause 9 (9) of Schedule A of Tariff regulations, tariff review can be done anytime between two tariff reviews.

7 Tariff Reconciliation

7.1 Based on the above, the final tariff for EWNGPL on a levelized basis is as under:

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(Rs/MMBTU on a GCV Basis)

S.No.	Particulars	Impact	Tariff
	Tariff Submitted		192.59
1	Inflation (Para 6.3)	0.49	192.10
2	Working days (Para 6.8)	11.22	180.88
3	Unaccounted Gas (Para 6.5)	0.51	180.37
4	Volume Divisor (Para 6.6)	86.48	93.89
5	Actual Capex (Para 6.2.1)	-0.58	94.48
6	Future Capex (Para 6.2.2)	2.83	91.65
7	System Use Gas (Para 6.4.2 and 6.4.3)	13.45	78.20
8	Working capital (Para 6.9)	-0.08	78.28
9	Terminal Value (Para 6.10)	0.27	78.00
10	Actual Opex (Para 6.4.1)	0.69	77.31
11	Future Opex (Para 6.4.3)	5.66	71.66
	Levelized final tariff		71.66

7.2 A comparison of levelized tariff submitted by EWPLL and tariff determined by PNGRB is given below:

(Rs/MMBTU on GCV Basis)

Particulars	Submitted by EWPLL	Determined by PNGRB
Tariff from 01.04.2009 to FY 2018-19	55.91	52.23
Tariff from 01.04.2019 onwards	192.59	71.66

7.3 Reconciliation between provisional tariff notified by PNGRB vide order no: TO/06/2010 dated 19.04.2010 and final tariff as determined under this order is as follows:

(Rs/MMBTU on GCV Basis)

S.No.	Particulars	Impact	Tariff
	Provisional Tariff		52.23
1	Capex (Para 6.2)	-0.34	51.89
2	Opex (Para 6.3 and Para 6.4)	-8.03	43.86
3	Volume (Para 6.6)	14.88	58.74
4	Working Capital (Para 6.9), Tax Rate (Para 6.12), Calorific Value (Para 6.11), etc.	-2.62	56.12
5	Prospective Implementation	15.54	71.66
	Final Levelized Tariff		71.66

8 Decision

- 8.1 The levelized final initial unit natural gas pipeline tariff of EWNGPL as per details given at para 7.2 shall be Rs.52.23/MMBTU on GCV basis w.e.f. 01.04.2009 to 31.03.2019 and Rs.71.66/MMBTU on GCV basis from 01.04.2019 onwards.
- 8.2 The above tariff has been worked out based on information provided by the entity and deliberations above. However, PNGRB intends to verify/audit the information provided for tariff determination and method of cost allocation, etc. by internal team of PNGRB or by an external agency. Accordingly, tariff as determined above will be subject to revision based on aforesaid verification/audit of the information, data, method of allocation, etc. submitted by the entity.
- 8.3 The length of EWNGPL is more than 300 kms and hence EWPLL would be required to give the apportionment of levelized tariff over all the tariff zones with calculations for approval of Board within 07 days of issue of tariff order.



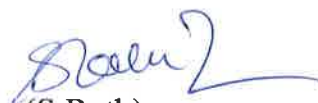
(D.K. Sarraf)
Chairperson



(Satpal Garg)
Member (C&M)



(Dr. S. S. Chahar)
Member (L)



(S. Rath)
Member (I&T)