No.: GAIL/ND/RA/PPPL-Tariff/2020/399724/2859

Date: 17.03.2020

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

Respected Madam,

Subject: Draft PNGRB (Determination of Petroleum and Petroleum Products Pipeline Transportation Tariff) Amendment Regulations, 2020

This has reference to the PNGRB Public Notice no.: PNGRB/COM/3-PPPL Tariff(1)/2012 dated 19.02.2020 soliciting views on the draft “PNGRB (Determination of Petroleum and Petroleum Products Pipeline Transportation Tariff) Amendment Regulations, 2020”.

2. In this regard, the views of GAIL are enclosed as Annexure-A.

Submitted please.

Yours Sincerely,

S. Kumar
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Encl: As above

It is seen that the subject draft PPPL Draft Tariff Amendment Regulations, 2020, intends to amend the following with respect to the extant PPPL Tariff Regulations:

(i) To do away with the provision of “Transitional Period”.
(ii) To replace the “equivalent rail distance” with “actual pipeline distance”.

In this regard, inputs / comments of GAIL are as under:

A. **Transitional Period:**

1. The provisions of PNGRB Act, 2006, treats all the common carriers / contract carriers, be it for transportation of petroleum, petroleum products or natural gas, at par with each other in terms of allowing access to them, or for determining the transportation rates/tariffs for them. For the purpose of laying down the transportation rates/tariffs, including the manner of determining such tariffs, the provisions of Section 22 of the Act are common for all of them. Particularly subsection 22(2)(b) provides for safeguarding the consumer interest and at the same time recovery of cost of transportation in a reasonable manner.

2. Accordingly, in the case of transportation of natural gas, as per Regulations, transportation tariff is being determined based on scrutiny of cost of transportation by PNGRB and based on Discounted Cash Flow (DCF) methodology.

3. In the case of transportation of petroleum & petroleum products also, as per the originally proposed regulations (proposed by PNGRB in July 2009), based on the scrutiny of cost of transportation by PNGRB and based on the DCF methodology, the tariffs were proposed to be determined and fixed by PNGRB. However, as a “Transitional Measure”, the actual Regulations as framed at that time (PPPL Tariff Regulations, 2010), had adopted a procedure of benchmarking against alternate mode of transport, that is, rail, thereby excluding the scrutiny of cost incurred in providing the transportation service through PPP Pipelines. Pursuant to the Transitional Period is being extended by the Board from time to time till the recent notification dated 19.02.2020. As such, the present tariff determination is being applied to only a few pipelines, including GAIL’s two LPG Pipelines i.e. JLPL and VSPL.

4. Meanwhile, vide Public Notice dated 03.09.2015 and 15.10.2015, it was stated that the Board is of the opinion that it is necessary to declare almost all the other existing Petroleum and Petroleum Product Pipelines of various entities as Common carriers / Contract carriers and the said declaration u/s 20 of the Act is awaited. Pursuant to the subject tariff regulations would have implications for these pipelines also.
5. Under these circumstances, it would be appropriate if the provision of Transitional Period is kept in the said Regulations till the time a full-fledged cost scrutiny based methodology is adopted by PNGRB for determination of transportation tariffs for all the PPPLs in the Country, in line with the provisions of the Act.

B. Equivalent Rail Distance Vs Pipeline Distance:

1. As provided u/s 22, recovery of cost of transportation in a reasonable manner, is an important guideline while determination and fixation of transportation tariffs. Guided by this principle, even while adopting the procedure of benchmarking against the alternate mode of transport, that is rail, specifically for LPG pipelines, one hundred per cent on a train load basis for equivalent rail distance along the pipeline route was adopted by the Board.

2. This was in the context of GAIL strongly advocating that in case of benchmarking, let the LPG Pipeline tariff be benchmarked with the Composite Railway Freight as against Base Railway Freight, based on cogent facts and justifications with necessary supporting data / evidence as follows:

- While Pipeline enables LPG transportation and re-delivery on a “door-to-door” basis i.e. right from the Source to the LPG Storage at Shipper’s TOPs, transportation of LPG by Rail rakes requires setting up of certain additional infrastructure / investments such as railway sidings at the receiving bottling plant, additional tankage and procurement of BTPGLN wagons to carry LPG etc., which is again highly capital intensive.

- Besides, Railways also charge other expenses associated with rail movement of LPG viz. manpower and placement / power charges for placement of wagons for loading and unloading of LPG.

- Therefore, additional capital expenditure to the tune of Rs. 120 crores to Rs. 140 crores per rail fed bottling plant is required for last-mile movement of LPG from nearest Railhead to the TOPs. Further, considering capital charge, depreciation and R/M on the above additional capital expenditure, there will be additional freight implication in the range of almost Rs.1.50/MT/Km to Rs.2.35/MT/Km over and above the Base Railway freight.

3. In recognition of the above, although such additional costs were not explicitly factored-in, but in the JLPL and VSPL Tariff Orders issued by PNGRB in 2012, it was specifically stated that the “equivalent rail distance” has been adopted as against the “pipeline distance”, and since the equivalent rail distance is generally higher than the pipeline distance, it would be appropriate to benchmark the same vis-à-vis only the base tariff as per the “Goods Tariff table” issued by Railways thereby excluding the impact of other elements like surcharges, additional charges and shunting notional charge etc.
4. Even under the principle of equivalent rail distance, in 2010, GAIL upfront suffered a revenue loss to the tune of almost Rs. 100 Crs. per annum in JLPL with tariff getting slashed by about 25% vis-à-vis the then prevailing tariff as per the formula fixed by the MoP&NG. Now, in case the principle of pipeline distance is adopted, then as per preliminary estimates, there could be a further reduction in revenue to the tune of almost Rs. 38 Crs. per annum in JLPL and about Rs. 19 Crs. per annum in VSPL.

5. In view of the above, while benchmarking against a reference tariff calculated based on an alternate mode of transport, i.e. rail, for reasons already explained, it is required to consider the elements like surcharges, additional charges and shunting notional charge etc., which are entailed in the rail mode, and it is absolutely essential to continue with the well-justified principle of considering equivalent rail distances rather than the actual pipelines distances.

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