Secretary
Petroleum & Natural Gas Regulatory Board
First Floor, World Trade Centre,
Babar Road, New Delhi - 110 001

March 12, 2020

Madam,

This refers to PNGRB public notice dated 26th February, 2020 seeking public comments on PNGRB (Determination of Petroleum & Petroleum Products Pipeline Transportation Tariff) Amendment Regulations, 2020. Our comments on the proposed amendments are given below-

1. The proposed amendments are aimed at bringing permanency to the methodology for fixing petroleum product pipeline tariffs by benchmarking with alternate mode of transport, which in principle is aligned to the petroleum product pricing concept being historically followed. However, in this regard, we would like to highlight the following important points for the consideration of PNGRB:

a) A higher compensation was considered by PNGRB in these regulations by linking the notional rail freight over equivalent rail distance, which worked out to nearly 10-12% higher than the pipeline distance. The rationale was to incentivise greater utilisation of existing pipeline capacities and compensating for increasing O&M costs besides also capacity expansion.

b) By changing the tariff mechanism to Rail Freight over pipeline distance would hardly incentivize capacity expansion and meet the increasing O&M costs of such pipelines. At present the system for compensation to pipelines is applicable only to three product pipelines owned and operated by third party operators, viz. 2 LPG pipelines of GAIL and one product pipeline of Petronet MHB Ltd.

c) Once the principle of Common or Contract carrier gains traction for existing petroleum product pipelines, the tariff compensation to existing pipeline operators (i.e., those who are also moving
their own products) would also get majorly impacted once these tariffs are applied to third party volumes.

d) It may be seen that considering the vintage of existing product pipelines with mounting O&M costs and the need for capacity expansion or extension, the tariff compensation should be linked to rail distance rather than the proposed pipeline distance in line with the current practices, which have stabilized over last one decade.

e) Alternatively, applicable tariff to pipelines on third party volumes (i.e., other than the own capacity volumes) could be transparently discovered through the bid route with benchmark tariff becoming the floor by pipeline operators to allow for a fair compensation to the pipelines on incremental volumes (i.e. beyond the level of own capacity requirements).

f) Either of the above two approaches would ensure that the pipeline tariff would while being much lower than the alternative modes of transportation would ensure increased utilisation of existing pipeline capacity besides providing incentive for capacity expansion.

2. Ambiguity in Definition of Petroleum Product Pipeline & its impact on tariff settlements:

a) We would also like to point out on the apparent disconnect in the definition of petroleum or petroleum product pipeline as defined in the PNGRB Act, 2006 and the Regulations viz-a-viz the Authorizations issued by the PNGRB in case of existing product pipelines-

I. Applicability of Tariff as per Section 22 (2) (d) of the PNGRB Act, 2006:

(1) Subject to the provisions of this Act, the Board shall lay down, by regulations, the general principles governing the determination of the tariff rates for transportation of petroleum products by pipeline.
(2) For the purposes of sub-section (1), the Board shall be guided by the following, namely:

(a) the factors which may encourage competition, efficiency, economic use of the resources, good performance and optimum investments;

(b) safeguard the consumer interest and at the same time recovery of cost of transportation in a reasonable manner;

(c) the principles rewarding efficiency in performance;

(d) the connected infrastructure, such as compressors, pumps, metering units, storage and the like connected to the common carriers or contract carriers;

(e) benchmarking against a reference tariff calculated based on cost of service, internal rate of return, net present value or alternate mode of transport;

(f) policy of the Central Government applicable to common carrier, contract carrier and city or local distribution natural gas network.

II. Definition of Pipeline as per Regulation 2 (1) (i) of the Petroleum and Natural Gas Regulatory Board (Authorizing Entities to Lay, Build, Operate or Expand Petroleum and Petroleum Products Pipelines) Regulations, 2010.

"petroleum and petroleum products pipeline" means any pipeline including a branch or spur lines for transport of petroleum and petroleum products and includes all connected infrastructure such as pumps, metering units, storage facilities at originating, delivery, tap off points or terminal stations and the like connected to the common carriers or contract carriers including line balancing tanks and tankage required for unabsorbed interface, essential for operating a pipeline system but excluding pipelines, which are dedicated for supply of petroleum products to a specific consumer which are not for resale:

(vii) **Storage Tanks associated with the pipeline:** HPCL has confirmed that two interface tanks of total 1750 KL pump-able capacity are associated with the common usage Mundra-Delhi pipeline which are being used by MDPL pipeline operations regularly for storing interface product and subsequent online dosing.

b) Similar authorizations have also been issued for other petroleum product pipelines- the definition of pipeline as considered in these Authorizations are limited to at best the Line Balancing and/or Product interface tanks, which does not appear to be in line with the comprehensive definition contained in the PNGRB Act, 2006 & the aforesaid Regulations.

c) Therefore, the applicability of the tariff for a product pipeline becomes ambiguous, whether the same is only for use of pipeline excluding the connected storage infrastructure or also includes the compensation for use of all storage tanks & facilities that are connected to such pipelines.

d) We are of the view that once the common carrier principle gains traction in case of *petroleum* product pipelines, settlement of pipeline tariff for third party volumes would become a contentious issue.

e) We therefore request PNGRB to address the issue of ambiguity in the applicability of tariff to infrastructure associated with petroleum product pipelines.

Yours faithfully,

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Rajiv Bakhshi