Ref no: HEGMPL/OTM/MKT/2019/16

June 20, 2019

To,
The Secretary
Petroleum and Natural Gas Regulatory Board
First Floor, World Trade Centre
Babar Road, New Delhi - 110001

Sub: Comments on Public Consultation Document: Tariff Review for Dabhol Bangalore Natural Gas Pipeline

Dear Madam,

This is reference to Public Consultation Document No: PNGRB/M(C)/73-Vol IV dated June 3, 2019 (‘PCD’) seeking views on review of tariff of Dabhol Bangalore Natural Gas Pipeline (DBPL).

In this regard, comments/observations of H-Energy are enclosed as Annexure I for your kind consideration.

Thank you.

Yours faithfully,

Hiren Mehta
General Manager - Marketing

CC:
Chief General Manager (Mktg- RA)
GAIL (India) Limited
GAIL Bhawan, 16, R.K. Puram
Bhikaji Cama Place, New Delhi, Delhi 110066
ANNEXURE I

Observations on Tariff Review

Tariff review is carried out by the Board in terms of Regulation 2(1)(h) of PNGRB (Determination of Natural Gas Pipeline Tariff) Regulations, 2008 (hereinafter referred as Tariff Regulations). It is also a stated fact that any finalization or review of the same is to carried out only after considering the actual costs and data at the end of the financial year on the basis of audited accounts.

Accordingly, a combined reading of Regulations 2(1)(e), 2(1)(h), 9(9) and 9(10) of Tariff Regulations and the above stated fact, it is observed that the entity has submitted actual data up to FY 2017-18 only while the actual data of the last year i.e. FY 2018-19 forming the block of 5 consecutive financial years have not been submitted by GAIL despite PNGRB’s letter dated 08.05.2019 asking for the same.

Hence, before proceeding towards the review of tariff for any natural gas pipeline including this DBPL, without placing complete information(s) in public domain is neither reasonable nor desirable. Therefore, the Hon’ble Board may ask the entity to furnish the complete data on the subject pipeline and then webhost the same for stakeholders comment before proceeding with the Tariff review process.

However, as a responsible stakeholder and in the larger interest of end consumers and considering that determination of natural gas pipeline tariff being a time bound exercise, H-Energy is submitting its views points on the PCD.

1. Economic Life of Pipeline

GAIL has considered economic life considering date of commissioning as 18.02.2013 which is applicable till the end of economic life (i.e. 17.02.2038) in the tariff filing.

Since, the said pipeline was Central Government Authorization (MoP&NG granted authorization to GAIL for DBPL on July 2, 2007) economic life of natural gas pipeline should be a period of twenty five years commencing from the start-up date of the commencement of physical activities of laying, building or expanding the natural gas pipeline as per Regulation 2(1)(e)(ii) of Tariff Regulations not from the date of commissioning of DBPL i.e. February 2, 2013. Further as evident from the PCD, the entity has considered Capex outgo from FY 2009-10, the economic life should be considered from economic life from FY 2009-10 to FY 2033-34.

2. GAIL has sought Levelized Tariff from 01.04.2018 onwards of Rs 71.65 (Rs MMBTU/GCV). However the same should be applicable from 01.04.2019 based on actual data for FY 2018-19 as per Regulations 2(1)(e), 2(1)(h), 9(9) and 9(10) of Tariff Regulations. PNGRB may clarify if the revision in tariff is allowed from retrospective period under relevant Regulations.
3. Capital Expenditure (CAPEX)

- GAIL has claimed a total CAPEX outgo excluding IDC of Rs 2,541.95 Crore from FY 2009-10 to FY 2017-18 out of which Rs 2537.75 Crore is Site CAPEX and Rs 4.20 Crore as Corporate Assets.
  - PNGRB may scrutinize whether the entity has included marketing related assets in the common corporate assets and has allocated the same to natural gas transmission business as the same are not allowed in extant Tariff Regulations.

- The basis of Future CAPEX projections for Rs 1,306.88 Crore from FY 2018-19 till FY 2037-38 is not clear.
  - PNGRB had granted authorization for DBPL in November 2011 and the same was commissioned in 2013. Majority of the gas customers along the route of the pipeline have already been connected.

- PE Capex: GAIL has claimed total Future Capex of Rs. 352.68 Crore for additional connectivity to KFCL Yelanka, Binani Glass Goa, Murudeshwar ceramics Ltd – Sira Bidadi etc from FY 2018-19 till the end of economic life i.e., 2037-38 in its tariff filing. It is pertinent to mention here is that GAIL has visualized additional connectivity till 2037-38, hence in that case, customer connectivity details should also be made available to the Board or in case GAIL has assumed a thumb rule then the same should not be allowed by the Board.

- PD (LMC): It may be noted that the entity has considered the Future PD CAPEX of Rs 459.83 Crore based on account of LMC from FY 2018-19 till FY 2037-38. As the entity has already claimed future capex for additional connectivity, we fail to understand for which LMC such huge amount has been considered. The Hon'ble Board is requested to ask and verify details of such LMCs from the entity.

- O&M Capex: GAIL has claimed an exorbitant total Future Capex of Rs. 494.37 Crore, for Pigging-IL of DBP, CP Integrity Survey, Installation of PIDS/Pipeline Leak Detection system, Development of RGMC Building including Cost of Land etc from FY 2018-19 till the end of economic life i.e. 2037-38 which requires examination and verification by PNGRB. Also PNGRB should ensure that the above O&M Capex should also match with year on year actual O&M Capex in larger interest of the pipeline integrity and safety rather than a possible tool for tariff revision.
4. **OPEX Outgo**

GAIL has claimed total OPEX of Rs 199.47 Crore from 2012-13 till FY 202-13 to FY 2017-18 which included common corporate expenses Rs 17.94 Crore.

- Further, the entity has considered exorbitant amount of future Opex of Rs 2972.52 Crore from 2018-19 till FY 2037-38. The assumptions under this head shall have a significant impact on the tariff proposed by GAIL. The same may be examined and verified by PNGRB.

- Considering the economic life up to FY 2038 and inflation rate of 4.58% over FY 2017-18, the total Future Opex would be ~Rs. 2065 Crore. However the economic life should be considered up to FY 2033-2034 and hence Opex would not be greater than ~ Rs. 1500 Crore.

- Also the entity has considered annual Opex of 2.5% of the capex incurred on the account of additional connectivity to few industrial customers and capex on account of LMC which is further inflated at 4.58%. Since this capex is not justified by the entity, the inflated opex claimed by entity is also not justified and clear. **Opex projected by GAIL is nearly double than what it should be.**

- As regards, common corporate expenses, yet again, PNGRB may examine whether the entity has excluded all direct, indirect and allocated common cost beyond transportation of natural gas pipeline as the extant Tariff Regulations does not provide provision for inclusion of the same in the tariff calculations.

5. **Volume Divisor**

As per the PPAC report (April 2018), the average flow in DBPL was merely 1.27 MMSCMD with percentage capacity utilization of 8% for FY 2017-18. The design capacity of DBPL is 16 MMSCMD of which 4 MMSCMD is the common carrier capacity. Since the entity has projected a huge Future Capex including new connectivity and LMC, this means that YoY volume should also increase in line with YoY increase in Future Capex which is currently not evident. The same may be examined and verified by PNGRB.

6. **Unaccounted Gas**

The entity has considered 0.3% of the throughput as unaccounted gas loss, as a cost to be recovered through transportation tariff. While we support that reasonable losses may be considered in tariff determination, there is no provision in the Regulations for the same. Clause 5(2)(b) of Schedule A of Tariff Regulations provides provision to consider only System Use Gas (SUG) which is consumed in the natural gas pipeline as a fuel to operate the pipeline itself. Hence, until the Regulations are amended, we propose that the unaccounted gas as claimed by the entity should be excluded from the tariff determination as the same is not allowable by the extant Tariff Regulations.
7. **No. of Working Days**

As per the PCD, GAIL has stated that it has considered 355 working days for a pipeline in one financial year while 345 operating days in a year. Regulation 14(3) of the PNGRB (Access Code for Common Carrier or Contract Carrier Natural Gas Pipelines) Regulations, 2008 provides a provision for planned maintenance period not exceeding ten days in a year. Hence the no. of working days as considered by the entity should be in accordance with the extant Regulatory provisions and no coining of new term operating days should take place.