Ref: MKTG/PL/OPNS/RR

To
Secretary
Petroleum & Natural Gas Regulatory Board,
1st Floor, World Trade Centre, Babar Road,
New Delhi-110001

Kind attention: Ms Vandana Sharma

Sub: Views on proposed regulation on PNGRB (Determination of Petroleum and Petroleum Products Pipeline Transportation Tariff) Amendment Regulations, 2020

Madam,

This has reference to public notice ref. no. PNGRB/COM/3-PPPL Tariff(1)/2012 dated 19.02.2020 seeking views on proposed regulation on PNGRB (Determination of Petroleum and Petroleum Products Pipeline Transportation Tariff) Amendment Regulations, 2020.

We have examined the aforesaid amendment and wish to bring our following views and objections to the same and with a request to consider them in the best interest of stakeholders:

1. In para 1 of the amended regulation 5, the pipeline tariff is determined considering actual pipeline length in place of rail distance. In most of the cases actual Pipeline length is shorter than the Rail distance, since the pipeline always trails through difficult terrain/mountain, etc. to ensure shortest distance, whereas the rail trails through obligatory points hence, longer distance. Insisting on fixing tariff on actual pipeline length will affect the tariff of the pipeline. Petroleum Product Pipeline tariff working is based on most economic alternate cost of transportation of petroleum product which is by Rail. Therefore, alternate transport cost needs to be determined on Rail distance rather than Pipeline distance. This method is in line with Section 22(2)(e) of the PNGRB Act viz. “Bench Marking against a reference tariff calculated based on alternate mode of transport” and accepted and followed by the industry post APM dismantling.

2. In para 2 of the amended regulation 5, the pipeline tariff is benchmarked against the base freight rate of goods tariff table of the railway. However, we would like to highlight that Railways is charging additional charges viz. Busy Season Surcharge (15%) and Development Charges (5%) on base freight rates for goods being transported by Railways. In this regard, we would also request PNGRB to kindly
refer our letters dated 01.11.2012, 06.09.2013, 26.08.2014, 29.05.2017 and 29.01.2020 wherein we had requested to consider rail tariff including additional charges being levied by Railways. Also, we would like to mention that in absence of a pipeline, OMCs would have been transporting the product through Railways which would have attracted base tariff and additional charges as mentioned above. Hence, we suggest that benchmarking the pipeline tariff with these additional charges above base freight to ensure appropriate and comparative benchmarking.

3. Following observations may also be reviewed by PNGRB:

a. The draft regulation did not specify the need or referred any industry request for change to Pipeline distance. Moreover, PNGRB has not spelt out any rationale for this change in the tariff structure which has got a potential of putting the Entity in financial loss, particularly, the entity which is acting purely as transporter of petroleum product through pipeline.

b. The cost pricing of product, by marketing companies, at TOPs is RTP plus 75% of Rail freight for equivalent Rail distance. Thus the tariff benchmarking is consistent with industry cost pricing and there is no need to reduce it as is envisaged in the amendment. In fact, it requires progressive upward revision. Reduction in the existing tariff structure, if any, has to have sufficient backup necessitating such change. We do not see any industry demand and/or complaint requesting such reduction in tariff and in fact, with the present tariff structure, Entities like us are providing transportation services to the OMCs at much economic rate.

c. Rail freights are maintained low with CAGR of 3.62% in last one decade. India’s WPI during this period is 156.2 (CAGR of 4.6%). PNGRB has been approving bid prices with 5% annual inflation. Thus benchmarking with low inflation Rail freight & taking reference of lower pipeline distance is against the investing entity interest and is one sided. Pipeline operations are commercial operations and one of the avowed consideration of fixation of tariff is to ensure recovery of cost of transportation to the entity laying the pipeline in a reasonable manner. The stagnant rail tariff, which are benchmark for pipeline tariff, has resulted in maintaining pipeline tariff constant although the operational expenses of running the pipeline are increasing year by year considerably. In fact, the tariff should see upward revision keeping in view the increasing operational expenditure and not downward revision as is contemplated in the proposed amendment.

d. PNGRB is not providing any guarantee for pipeline utilization by customers and risk of capacity underutilization are grossly kept uncovered.
e. Pipeline project investments are capital intensive & frequent mid-course correction by Regulator does not provide policy consistency to protect the investments. The Regulator should ensure sustainability and survival of the entity, particularly one which is solely depending on pipeline revenue.

f. The pipelines bid under new EOI route and new LPG pipelines are required to be excluded from this Regulation. PNGRB has already reviewed the Annexure 14 submitted along with the bid and approved the tariffs. In case of new LPG lines, the benchmarking is with respect to alternate Road tariff. Suitable review can thus be held within ambit of Annexure 14 declared parameters & reference to alternate Road tariff for new LPG pipelines commissioned after PNGRB Board function.

For the reasons mentioned above, we are of the view that pipeline tariff shall be benchmarked against railway freight rate including additional charges as charged by Railways and there is no need to benchmark pipeline tariff by Pipeline Distance. We look forward for PNGRB’s kind consideration of our viewpoints.

Thanking you,

Very truly yours,

J S Prasad
ED – Projects & Pipelines