



Public Consultation Document

(Ref: No. PNGRB/M(C)/10-Vol-II dated 07.11.2017)

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:	GAIL (India) Limited
Name of Pipeline:	Agartala Regional Natural Gas Pipeline (ARNGPL)
Acceptance of Central Government Authorisation:	Infra/PL/Exis/17/AGAR-REG/GAIL/01/10 dated 13.10.2010 & Infra/PL/Exis/17/AGAR-REG-AMEND/GAIL/01/12 dated 13.02.2012
Capacity:	2.00 MMSCMD (including common carrier capacity of 0.50 MMSCMD)
Length:	55.40 km
Economic Life	1997-98 to 25.12.2022 (25 years)

1. Regulatory Framework

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.

2. Provisional Transportation Tariff Orders

PNGRB issued a provisional tariff order no. TO/06/2012 dated 01.05.2012 determining the provisional initial unit natural gas pipeline tariff of ARNGPL. The provisional transportation tariff as proposed by GAIL and as determined by PNGRB are as follows:

Particulars	Provisional Tariff proposed by GAIL (Rs. / MMBTU on GCV basis)	Provisional Tariff determined by PNGRB (Rs. / MMBTU on GCV basis)
Levelized Provisional Transportation Tariff	11.51	5.80

3. Tariff filing submitted by GAIL

In response to PNGRB's letter dated 18.08.2017, GAIL vide letter its letter dated 21.09.2017 submitted its updated tariff filing with actual data upto 2016-17. GAIL in its updated tariff filing vide letter dated 21.09.2017 has submitted the following tariff:

Final tariff submitted by GAIL in its tariff filing (tariff model in excel sheet)

Financial Year	Rs./MMBTU (GCV basis)
2008-09 to 2017-18	5.80
2018-19 to 2022-23	76.40

4. Details of Tariff Filing submitted by GAIL

The various aspects of final tariff filing submitted by GAIL are as follows:

4.1. Economic Life of Pipeline

In the tariff filing, GAIL has considered economic life of the pipeline for a period of 25 years up to 25.12.2022

4.2. Capital Expenditure (Capex)

GAIL, in its tariff submission, has considered total capex outgo of Rs. 81.57 Cr from 2008-09 till the end of the economic life of the pipeline in 2022-23. The head-wise breakup is as follows:

Particulars	(Rs. in Cr)
Net block as on 30.09.2008	36.23
CWIP as on 30.09.2008	0.00
Net block of Common Corporate asset allocated as on 30.09.08	0.49
Actual capex outgo from 01.10.2008 to FY 16-17	2.05
Future capex outgo projections from FY 17-18 to 22-23	40.67
Common corporate assets allocated from 01.10.08 to FY 16-17	2.13
Total	81.57

4.2.1. Net Block (NB) / Net Fixed Assets (NFA) as on 30.09.2008

NFA as on 30.09.2008 as per tariff filing and CA certificates submitted by GAIL is as follows:

(Rs. in Cr.)		
Tariff Filing*	CA Certificate^	CA Certificate*
36.23	19.26	36.23

* Recalculated by considering depreciation @ 3.17% since inception on pipeline assets capitalized before 01.04.2005.

^ As per books of accounts.

4.2.2. GAIL in its tariff filing has considered Nil CWIP as on 30.09.2008.

4.2.3. Actual capex outgo from FY2008-09 to FY2016-17

GAIL, in its tariff filing, has claimed total actual capex outgo (including CWIP, Land & ROU) of Rs. 2.05 Cr.

Year-wise breakup of capex claimed in tariff filing and that certified in CA certificates submitted by GAIL is as follows:

(Rs. in Cr)

Year	Tariff Filing	CA Certificate
2008-09	(0.26)	(0.26)
2009-10	(0.09)	(0.09)
2010-11	0.56	0.56
2011-12	0.35	0.35
2012-13	0.56	0.56
2013-14	1.25	2.42
2014-15	0.11	(1.06)
2015-16	(0.72)	(0.72)
2016-17	0.29	0.29
Total	2.05	2.05

There is difference in CA Certificate of additions to CWIP and additions to CWIP claimed by GAIL in its tariff filing in the FY 2013-14 and 2014-15.

4.2.4. Future Capex Outgo from FY 2017-18 to FY 2022-23

GAIL, in its tariff filing, has claimed total future capex outgo of Rs. 40.67 Cr under the head O&M Capex. GAIL in its tariff filing has distributed its future capex into GAIL's Dukli Maharajganj Pipeline (DMPL) and in ARNGPL in the ratio of 5:55 respectively. However, GAIL has not provided any justification/basis for arriving at the ratio considered. The figures are escalated at 4.86% p.a. from FY 17-18 onwards (total amount without escalation comes to Rs. 37.29 Cr).

GAIL in its tariff submission has submitted future capex expenditure of Rs.5.77 Cr in FY 2017-18 and Rs. 18.14 Cr in FY 2018-19 towards “Shifting of City Gate Station including Laying of Pipeline for TNGCL Maharajganj”. However, GAIL has not submitted any approval for shifting of city gate station including laying of pipeline for TNGCL Maharajganj”.

4.2.5. Common corporate assets from FY 2008-09 to FY 2016-17

GAIL, in its tariff filing, has Rs.2.13 Cr as common corporate assets from 01.10.2008 to FY 2016-17.

Rs. in Cr		
Year	Tariff Filing	CA Certificate
2008-09	(0.00)	(0.00)
2009-10	0.30	0.30
2010-11	(0.16)	(0.16)
2011-12	0.77	0.77
2012-13	1.19	1.19
2013-14	0.57	0.57
2014-15	0.80	0.80
2015-16	(1.72)	(1.72)
2016-17	0.38	0.38
Total	2.13	2.13

With regards to mechanism for allocation of common corporate assets GAIL has stated that it has 8 offices/work centers and 11 zonal marketing offices providing services to whole company. There are many capital expenditure and operating expenditure incurred to build, maintain and operate these offices and bifurcated them among all business segments of the company on the basis of total gross block of respective business segments. Capex and Opex allocated to business segment i.e. NG Transmission is then allocated to all the pipelines

including dedicated pipelines on the basis of actual throughput in that particular pipeline system in the corresponding previous year.

PNGRB in its letter dated 07.09.2015 sought clarifications on the allocation of corporate common expenses that GAIL had submitted on 23.06.2015. It was also observed that GAIL had included marketing related expenses in the common corporate expenditure and has allocated it to NG transmission business which is not in line with PNGRB Regulations. GAIL was asked: (a) rationale of allocation of the expenses to all business segments on the basis of gross block, (b) bifurcation of these expenses (excluding all marketing and finance related expenses) into direct and indirect expenses certified by CA, (c) reconciliation of indirect expenses (excluding all marketing and finance related expenses) with un-allocable expenses appearing in the business segment information in annual report of GAIL certified by CA.

GAIL vide its letter dated 18.09.2015, has responded to the clarifications sought by PNGRB, wherein it has reiterated the same rationale allocation for common corporate expenses and has not submitted the bifurcation into direct and indirect expenses and reconciliation of indirect expenses with un-allocable expenses. GAIL further stated that as corporate marketing department is providing services to Gas Transmission and all other business segments also, therefore all common expenses including marketing related expenses are allocated to all business segment.

4.3. **Operating Expenses (Opex)**

GAIL in its tariff submission vide letter dated 21.09.2017 has claimed total opex of Rs. 279.50 Cr. Head-wise breakup of opex considered by

GAIL in its tariff submission for the entire economic life of the pipeline as follows:

Particulars	(Rs. in Cr)
Actual opex outgo (01.10.08 to FY 2016-17)	75.99
Future opex projections (2017-18 till end of economic life in FY 2022-23)	135.52
Actual common corporate expenses 01.11.08-FY 2016-17	34.99
Future common corporate expenses FY 17-18 to end of economic life in FY 2022-23	32.99
Total	279.50

4.3.1. Actual Opex Outgo from FY 2008-09 to FY 2016-17

In its tariff filing, GAIL has claimed opex of Rs. 75.99 Cr from 01.10.2008 to FY 2016-17. Year-wise breakup of opex claimed in tariff filing and that certified in CA certificates submitted by GAIL is as follows:

(Rs. in Cr)		
Financial Year	Tariff Filing	CA Certificates
(01.10.2008 to 31.03.2009)	3.35	3.35
2009-10	4.85	4.85
2010-11	6.30	6.30
2011-12	8.02	8.02
2012-13	7.87	7.87
2013-14	8.93	8.93
2014-15	9.36	9.36
2015-16	11.23	11.23
2016-17	16.08	15.30
Total	75.99	75.21

CA certificates for opex states that the operating expenditure of DMPL and ARNGPL accounted under business area 3160 and the allocation of total operating expenditure under business area 3160 has been made on the basis of supply in mmbtu during the previous financial year in DMPL and ARNGPL in the relevant financial year.

It is also observed that:

- i. Sum of total opex for ARNGPL and DMPL for FY2015-16 &2016-17 in the CA certificate does not reconcile with the Trial Balance.
- ii. GAIL has not netted off miscellaneous income from opex in tariff filing as well as in CA certificate for all years.
- iii. GAIL's in its tariff model has considered 35% projected increase in salary and wages w.e.f. 01.01.2017.

4.3.2. Future opex projections from FY 2017-18 to FY 2022-23

In its tariff filing, GAIL has claimed a future opex of Rs.135.52 Cr from FY 2017-18 to the end of economic life in FY 2022-23. This amount includes (a) O&M Non-recurring future opex of Rs. 10.94 Cr; and (b) Other opex of Rs. 124.58 Cr. GAIL has considered annual escalation rate/inflation rate of 4.86 % p.a. from FY 17-18 onwards and has considered 269 operating days in the year FY 2022-23 i.e. upto the end of economic life of the pipeline on 25.12.2022. GAIL's in its tariff model has considered 35% projected increase in salary and wages w.e.f. 01.01.2017.

4.3.3. Actual common corporate expenses from FY 2008-09 to FY 2016-17

Actual expenses claimed by GAIL during this period are Rs. 34.99 Cr. GAIL's in its tariff model has considered 35% projected increase in salary and wages w.e.f. 01.01.2017. Year-wise breakup of expenses claimed in tariff filing and that certified in CA certificates submitted by GAIL is tabulated in table below. GAIL has submitted two CA certificates from two distinct CA's on the bifurcation of common corporate expenses amongst all natural gas pipelines for period from

Nov 09 to FY 13-14. However, the figures in these two CA certificates do not reconcile. For the remaining period i.e. from FY 14-15 to 16-17 figures considered in tariff filing and CA certificate are matching.

(Rs. in Cr)

Financial Year	Tariff Filing	CA Certificate Dated 18.06.2015	CA Certificate dated 16.09.2015
(01.10.08 to 31.03.2009)	0.85	0.88	0.85
2009-10	3.30	3.38	3.30
2010-11	3.08	3.11	3.08
2011-12	2.12	1.98	2.12
2012-13	6.42	4.43	6.42
2013-14	5.08	4.96	5.08
Total	20.85	18.74	20.85

(Rs. in Cr)

Financial Year	Tariff Filing	CA Certificate
2014-15	6.01	6.01
2015-16	3.74	3.74
2016-17	4.39	4.22
Total	14.14	13.97

Rationale for allocation of the actual expenses: Refer para mentioned in point no. 4.2.5 above.

4.3.4. Future common corporate expenses from FY2017-18 to FY2022-23

In addition to the above, GAIL has also claimed future common corporate expenses of Rs. 32.99 Cr. In the tariff filing, expenses claimed in each year are calculated by escalating previous year expenses by 4.86% p.a. GAIL's in its tariff model has considered 35% projected increase in salary and wages w.e.f. 01.01.2017. Year wise future common corporate expenses considered by GAIL in its tariff submission are as follows:

4.4. **Unaccounted Gas Loss**

GAIL has considered 0.30% of the throughput as unaccounted gas loss, as a cost to be recovered through the transportation tariff. It has claimed a total unaccounted gas loss of Rs. 14.23 Cr from FY 2008-09 till the end of economic life during FY 2022-23. However, GAIL has not provided any CA certificate for unaccounted gas loss.

4.5. **Volume Divisor**

Year-wise capacity considered by GAIL in its tariff submission is as follows:

Financial Year	Capacity (in MMSCMD)
2008-09	1.06
2009-10	0.94
2010-11	0.95
2011-12	0.95
2012-13	0.80
2013-14	0.83
2014-15	0.80
2015-16	1.02
2016-17 to 2022-23	1.50

4.6. **Weighted Average Heat Value:**

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. GAIL, in its tariff submission has submitted weighted average heat value on gross basis for period from 20.11.08 to FY 2013-14 and for period from FY

2014-15 to 2016-17 converted the Net heat value into Gross heat value by dividing Net heat value by 0.9.

4.7. **Working Capital**

In the tariff filing, GAIL has considered total working capital of Rs. 10.40 Cr, calculated as sum of 30 days of operating expenditure and 18 days of revenue.

4.8. **Number of Working Days**

GAIL has considered 124.76 operating days in FY 2008-09 i.e. from 20.11.2008 to 31.03.2009, 345 operating days for all years from FY 2009-10 to 2021-22 and 254.26 days operating days in FY 2022-23 i.e. upto 25.12.2022 (end of economic life).

4.9. **Line Pack**

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. GAIL, in its tariff filing, has considered line pack of Rs. 0.03 Cr as cash outflow in FY 2008-09.

4.10. **Terminal Value**

Terminal Value is the sum of the residual value of the NFA, working capital and line pack and is cash inflow at the end of economic life of the pipeline. The terminal value submitted by GAIL in its tariff filing is Rs.62.63 Cr as on 25.12.2022.

4.11. **Return on Capital Employed**

In terms of tariff regulation, the pre-tax rate of return on capital employed shall be computed by grossing-up twelve percent by the

nominal rate of income tax applicable for corporate assesses. Rates of corporate income tax applicable each year to GAIL and subsequent computation of pre-tax rate of return (as submitted by GAIL) are as follows:

Financial Year	2008-09 & 2009-10	2010-11	2011-12 & 2012-13	2013-14 & 2014-15	2015-16 onwards
Income Tax Rate	33.99%	33.22%	32.45%	33.99%	34.61%
Pre-tax rate of return	18.18%	17.97%	17.76%	18.18%	18.35%

4.12. **Zonal Apportionment**

Since the length of the ARNGPL of GAIL does not exceed 300 km, the apportionment of the levelized tariffs is not required to be undertaken.

5. **Views of stakeholders sought**

- 5.1. Determination of the final initial unit natural gas pipeline tariff is a time bound exercise. PNGRB solicits the views in writing of stakeholders on GAIL's tariff filing for the ARNGPL within 15 days of the issue of this document at the following address:

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

(Vandana Sharma)
Secretary
For and on behalf of the Board