



Public Consultation Document

(Ref: No. PNGRB/M(C)/92-Vol II dated 13, November 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:	Dukli-Maharajganj Natural Gas Pipeline (DMPL)
Acceptance of Central Government Authorisation:	Infra/PL/Exis/17/AGAR-DMPL/GAIL/01/14 dated 20.08.2014 & 09.01.2014
Capacity:	0.075 MMSCMD (including common carrier capacity of 0.019 MMSCMD)
Length:	5.2 km
Economic Life	24.03.2002 to 18.03.2027 (25 years)

1. Regulatory Framework

- 1.1. 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

- 2.1. PNGRB issued a provisional tariff order no. TO/07/2014 dated 22.10.2014 determining the provisional initial unit natural gas pipeline tariff under the provisions of the Tariff Regulations for DMPL of GAIL (available on PNGRB's website). 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	40.77	6.13

3. Order of Appellate Tribunal for Electricity (APTEL)

- 3.1. GAIL had challenged PNGRB's provisional tariff order in APTEL in IA no. 191 of 2015 and Appeal no. 115 of 2015 on various aspects of computation of tariff. APTEL in its order dated 02.12.2016 has directed PNGRB to determine the final tariff by 30.06.2017 (further extended by APTEL for 3 months from the date of appointment of complete Quorum of the PNGRB vide order dated 21.07.2017), in tune with APTEL's Order dated 29.05.2015 (in appeal no. 161 of 2013 & batch). APTEL has also stated that during the pendency of the proceedings before PNGRB, the provisional tariff already fixed shall continue to apply.

4. Tariff Filing by GAIL

4.1. PNGRB webhosted a Public consultation document for GAIL's DMPL on 07.09.2017 and comments were invited from the stakeholders on the consultation document within 21 days from the date of issue. GAIL in its comments on the document stated that "there are significant differences in the factual data since the PCD has not considered the latest tariff/data submission made by GAIL dated 13.01.2017." Subsequently, PNGRB asked GAIL to submit updated tariff filing with actual figures upto FY 16-17.

4.2. GAIL in its latest tariff filing 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	6.13
2018-19 to 2026-27	81.57

5. Details of tariff filing by GAIL

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

5.1. Economic Life of Pipeline

In the tariff filing, GAIL has considered economic life of the pipeline for a period of 25 years up to 23.03.2027.

5.2. Capital Expenditure (Capex)

GAIL, in its tariff submission, has considered total capex outgo of Rs. 952.90 lakh from 2008-09 till the end of the economic life of the pipeline in 2026-27. The head-wise breakup is as follows:

Particulars	(Rs. in Lakh)
Net block as on 30.09.2008	196.10
Actual capex outgo from 01.10.2008 to 31.03.2017	2.50
Net block of Common Corporate asset allocated as on 30.09.08	1.15
Common Corporate assets from 01.10.08 to 31.03.2017	10.72
Future capex outgo projections from 2017-18 to 2026-27	742.43
Common corporate assets from 2017-18 to 2026-27	0.00
Total	952.90

5.2.1. 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 Lakh)		
Tariff Filing	CA Certificate [^]	CA certificate*
196.10	152.45	196.10

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

[^] As per books of accounts

5.2.2. Actual capex outgo from FY 2008-09 to FY 2016-17

GAIL, in its tariff filing, has claimed total actual capex outgo (including CWIP, Land & ROU) of Rs. 2.50 Lakh from 01.10.2008 to 31.03.2017. Year-wise breakup of capex claimed in tariff filing duly certified as per CA certificates submitted by GAIL is as follows:

(Rs. in Lakh)		
Year	Tariff Filing	CA Certificate
2011-12	2.58	2.58
2012-13	2.36	2.36
2015-16	(2.44)	(2.44)
Total	2.50	2.50

It is also observed that:

- i. Capital Work in Progress (CWIP) is nil for all years in tariff filing as well as in all CA certificates.
- ii. Interest During Construction (IDC) is nil for all years in the CA certificates.

5.2.3. Net Block(NB) / Net Fixed Assets (NFA) of Common Corporate Assets as on 30.09.2008

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

(Rs. in Lakh)	
Tariff Filing	CA certificate
1.15	1.15

5.2.4. Common Corporate assets from 01.10.2008 to FY 16-17

GAIL, in its tariff filing, has claimed total actual common corporate capex outgo of Rs. 10.72 Lakh for the period from 01.10.2008 to 31.03.2017. Year-wise breakup of capex claimed in tariff filing and that certified in CA certificates submitted by GAIL is as follows:

(Rs. in Lakh)		
Year	Tariff Filing	CA Certificate
2008-09	(0.01)	(0.01)
2009-10	0.42	0.42
2010-11	0.03	0.03
2011-12	2.52	2.52
2012-13	2.27	2.27
2013-14	3.85	3.85
2014-15	5.50	5.50
2015-16	(3.70)	(3.70)
2016-17	(0.16)	(0.16)
Total	10.72	10.72

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.

It was 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. PNGRB in its letter dated 07.09.2015 asked GAIL to provide: (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.

5.2.5. Future Capex Outgo from FY 2017-18 to FY 2026-27

GAIL, in its tariff filing, has claimed total actual capex outgo of Rs. 742.43 Lakh. This amount includes (a) O&M capex of Rs. 387.02 Lakh and (b) PD capex of Rs. 355.41 Lakh, as discussed below.

a) O&M Capex: Under this head, GAIL has claimed Rs. 387.02 Lakh in the tariff filing. GAIL in its tariff filing has distributed its future capex into GAIL's DMPL and in Assam Regional Natural Gas Pipeline in the ratio of 5:55 respectively. However, GAIL has not provided any justification/basis for arriving at the ratio considered.

GAIL in its tariff submission has submitted future capex expenditure of Rs.50 lakh in FY 2017-18 and Rs.150 lakh 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".

b) PD Capex: Under this head, GAIL has claimed Rs. 355.41 Lakh in the tariff filing. The figures are escalated at 4.86% p.a. from FY 2017-18 onwards (total amount without escalation comes to Rs. 300 Lakh). GAIL has, however, not submitted any approvals by competent authority, LOA/PO etc.

5.2.6. Common corporate assets from FY 2008-09 to FY 2026-27

GAIL, in its tariff filing, has not claimed any common corporate assets during this period.

5.3. Operating Expenses (Opex)

GAIL in its tariff submission has claimed total opex of Rs. 2092.39 Lakh. 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 Lakh)
Actual opex outgo (01.10.08 to 31.03.17)	307.77
Future opex projections (2017-18 to 2026-27)	1,398.58
Actual common corporate expenses (01.11.08 to 31.03.17)	114.46
Future common corporate expenses (2017-18 to 2026-27)	271.59
Total	2,092.40

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

In its tariff filing, GAIL has claimed opex of Rs. 307.77 Lakh from 01.10.2008 to 31.03.2017. Year-wise breakup of opex claimed in tariff filing and that certified in CA certificates submitted by GAIL is as follows:

Financial Year	(Rs. in Lakh)	
	Tariff Filing	CA Certificates
(01.10.2008 to 31.03.2009)	7.56	7.56
2009-10	10.18	10.18
2010-11	15.58	15.58
2011-12	22.36	22.36
2012-13	27.71	27.71
2013-14	46.97	46.97
2014-15	48.72	48.72
2015-16	54.76	54.76
2016-17	73.93	70.33
Total	307.77	304.17

It is also observed that:

- i. CA certificates for opex states that the operating expenditure of DMPL and Assam Regional Natural Gas Pipeline (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.

- ii. Sum of total opex for DMPL and Agartala Network for FY 2015-16 & FY 2016-17 in the CA certificate does not reconcile with the trial balance.
- iii. GAIL in its tariff model has considered 35% projected increase in salary and wages w.e.f. 01.01.2017.
- iv. GAIL has not netted off miscellaneous income from opex in tariff filing as well as in CA certificate for all years.

5.3.2. Future opex projections from FY 2017-18 to FY 2026-27

In its tariff filing, GAIL has claimed a future opex of Rs. 1398.58 Lakh (Rs.1068.98 Lakh without escalation) from FY 2017-18 to FY 2026-27. This amount includes (a) PD future opex of Rs. 56.33 Lakh (Rs. 48.59 lakh without escalation); (b) Non-recurring future opex of Rs. 234.82 Lakh (Rs.174.95 Lakh without escalation); and (c) Other Opex of Rs. 1107.43 Lakh (Rs.845.44 Lakh without escalation). GAIL has considered annual escalation rate/inflation rate of 4.86% p.a. from FY 2017-18 onwards and has considered 357 operating days in the year FY 2026-27 i.e. upto the end of the economic life of the pipeline on 23.03.2027.

5.3.3. Actual common corporate expenses from Nov'08 to FY 2016-17

Actual expenses claimed by GAIL during this period are Rs. 114.46 Lakh. GAIL's in its tariff model has considered 35% projected increase in salary and wages w.e.f. 01.01.2017. 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. GAIL in its submission vide letter dated 18.09.2015 stated that while preparing for financial data in PNGRB format for FY 14-15, it is observed that some operating expenditure were inadvertently missed out in earlier certificates (CA Certificated dated 18.06.2015) provided for FY 08-09 to FY 13-14 for allocation of corporate common opex, the same is now considered in the revised CA certificate. For the remaining period i.e. from FY 14-15 to 16-17 CA certificates from single CA is submitted by GAIL and the amount considered by GAIL in its tariff filing for the mentioned period is matching with the CA certificate. Year-wise breakup of expenses claimed in tariff filing and that certified in CA certificates submitted by GAIL is tabulated in table below.

(Rs. in Lakh)

Financial Year	Tariff Filing	CA Certificate Dated 18.06.2015	CA Certificate dated 16.09.2015
2008-09 (Nov'08 to 31.03.09)	1.98	2.06	1.98
2009-10	6.91	7.08	6.91
2010-11	7.57	7.64	7.57
2011-12	5.97	5.55	5.97
2012-13	15.73	10.85	15.73
2013-14	16.00	15.60	16.00
TOTAL	54.16	48.78	54.16

Financial Year	Tariff Filing	CA Certificate
2014-15	23.07	23.07
2015-16	18.56	18.56
2016-17	18.67	17.97
TOTAL	60.30	59.60

Rationale for allocation of the actual expenses: Refer para mentioned in point no. 5.2.4 above.

5.3.4. Future common corporate expenses from FY 2017-18 to FY 2026-27

In addition to the above, GAIL has also claimed future common corporate expenses of Rs. 271.59 Lakh (Rs. 207.34 without escalation). 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. GAIL has considered 357 operating days in the year FY 2026-27 i.e. upto the end of the economic life of the pipeline on 23.03.2027.

5.4. 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. 70.58 Lakh from Nov'08 till the end of economic life during FY 2026-27. However, GAIL has not provided any CA certificate for unaccounted gas loss.

5.5. Volume Divisor

Year-wise capacities considered by GAIL in its tariff submission are as follows:

Financial Year	Capacity (in MMSCMD)
2008-09 to 2014-15	0.040
2015-16	0.043
2016-17 to 2026-27	0.05625

5.6. Working Capital

In the tariff filing, GAIL has considered total working capital of Rs. 49.27 Lakh calculated as sum of 30 days of opex and 18 days of revenue, in conformity with the Tariff Regulations.

5.7. **Number of Working Days**

GAIL has considered 124.77 operating days in FY 2008-09 i.e. from 20.11.08 to 31.03.2009, 345 operating days for all years from FY 2009-10 to FY 2025-26 and 337.44 operating days in FY 2026-27 i.e. from 01.04.2026 upto the end of economic life on 23.03.2027.

5.8. **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 at the end of the economic life of the pipeline. GAIL, in its tariff filing, has considered line pack of Rs. 0.01 Lakh as cash outflow in FY 2008-09.

5.9. **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.687.40 Lakh as on 23.03.2027.

5.10. **Return on Capital Employed**

As per Clause 2 of Schedule A of the Tariff Regulations, natural gas pipeline tariff shall be calculated based on the DCF methodology after considering the reasonable rate of return (i.e. “twelve percent post-tax” as per clause 3 to Schedule A) to be the projects internal rate of return.

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) is 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%

5.11. **Zonal Apportionment**

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

6. **Views of stakeholders sought**

- 6.1. 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 Dukli-Maharajganj Natural Gas Pipeline Network within 21 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.*

- 6.2. On the expiry of the period provided for stakeholders comments, the Board will hold an Open House to hear all the stakeholders on 12.12.2017 at 14:30 hrs at PNGRB office. Further process will be followed as per APTEL's Order in appeal no.161 of 2013 & batch dated 29.05.2015.

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