



Public Consultation Document

(Ref: No. PNGRB/M(C)/108-Vol-II dated 21.09.2017)

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 [GAIL]

Name of Pipeline: Dahej-Uran-Panvel-Dhabol Natural Gas Pipeline Network [DUPL-DPPL]

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.
- 1.2. The methodology for determination of pipeline tariff has been specified in the relevant provisions of the Petroleum and Natural Gas Regulatory Board (Determination of Natural Gas Pipeline Tariff) Regulations, 2008 (hereinafter referred to as “Tariff Regulations”) notified on 20.11.2008. Under the provisions of these regulations, PNGRB is to determine the initial unit natural gas pipeline tariff on a provisional basis first and then finalize the same considering the actual costs and data at the end of the financial year on the basis of audited accounts. The transportation tariff is determined using the Discounted Cash Flow (DCF) method using actual and projected pipeline capex and opex costs (in line with provisions of Tariff Regulations) over the entire economic life (25 years) of the pipeline thus arriving at a single levelized transportation tariff. If the length of the pipeline is more than 300 km, the recovery of the transportation tariff is apportioned across such zones of 300 km each resulting in zonal tariff where the zonal tariff of a later zone is higher than that of an earlier zone.

2. Provisional Transportation Tariff Orders

- 2.1. PNGRB issued the final terms and conditions for acceptance of Central Government Authorization for GAIL’s Dahej-Uran-Panvel-Dhabol Natural Gas Pipeline Network [DUPL-DPPL] vide communication dated 10.05.2010 as modified vide letter dated 05.01.2011, under Regulation 17(1) of the Petroleum and Natural Gas Regulatory Board (Authorizing Entities to Lay, Build, Operate or Expand Natural Gas Pipelines) Regulations, 2008. The final capacity and length

as per the acceptance letter is 19.9 MMSCMD (including common carrier capacity of 4.98 MMSCMD) and 744 kms respectively.

- 2.2. PNGRB issued a provisional tariff order no. TO/01/2011 dated 25th February, 2011, determining the provisional initial unit natural gas pipeline tariff under the provisions of the Tariff Regulations for DUPL-DPPL 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	40.16	24.49

PNGRB also issued Zonal Tariff Apportionment of provisional initial unit natural gas pipeline tariff for DUPL-DPPL pipeline vide tariff order TO/02/2011 dated 04.05.2011. Zone-wise tariff notified by Board are as follows:

Particulars	Provisional Zonal Tariff approved by PNGRB (Rs. / MMBTU on GCV basis)
Zone 1	24.41
Zone 2	24.65

3. Final tariff filing correspondences

- 3.1. GAIL vide letter dated 29.04.15, 29.05.15, 16.07.15 has provided actual financial data upto FY 13-14 and other relevant future data for period from FY 14-15 onwards in response to Board's letter dated 23.03.15 and 11.05.15. Further, GAIL vide its letter dated 11.08.17 in response to Board's letter dated 19.07.17 and 03.08.17 provided actual financial data upto FY 16-17 and future data for period from FY 17-18 onwards till the economic life of the pipeline.
- 3.2. GAIL vide letter dated 29.05.2015 has submitted:-

- a) Attachment 1, 1(a)-1(j) as per Schedule A of Tariff Regulation.
- b) Audited copies of Trial balance for the year 2008-09 to 2013-14 of Business Area -3120 (Mumbai Books) have already been submitted to PNGRB along with Tariff submission of Mumbai regional NG Pipeline Networks vide letter dated 29.04.2015.
- c) Details of future CAPEX considered and supporting documents till date for the same.
- d) List of customers of the pipeline and the current tariff being charged.

GAIL vide letter dated 16.07.2015 stated that it has submitted:

- a) Certificate from HOD of site finance, certifying that the trial balances submitted are the final trial balances which have been taken into consideration in the preparation of audited balance sheet of GAIL.
- b) Copy of CA certificate for Opening Gross Block of the pipeline as on 01.04.2008 depreciation for the year 08-09 and net block of the pipeline as on 31.03.2009 as per the format of PNGRB in respect of Mumbai Regional Network and DUPL-DPPL.
- c) Copy of CA certificate for details of additions to Fixed Assets [excluding Interest during Construction (IDC)] from 09-10 to 13-14 duly reconciled with trial balances of DUPL and Mumbai regional network for the respective years in respect of Mumbai regional network and DUPL-DPPL.
- d) Copy of CA certificate for Capital Work-in-Progress (CWIP) [excluding Interest during Construction (IDC)] from 08-09 to 13-14. GAIL stated that as per CA certificates submitted by site finance with respect to Net Addition to fixed assets and CWIP, there is no IDC figures from FY 08-09 to FY 13-14.

- e) Original CA certified copies of operating expenditure from 01.04.2008 to 30.09.2008, 01.10.2008-31.03.2009 to FY 2013-14.
- f) GAIL has considered Rs.157.53 Cr as future capex in its tariff model for DUPL NGPL network. Out of this total future capex, supporting documents of PE Capex of Rs.21.05 Cr and PD Capex in respect of Last Mile Connectivity of Rs.48.50 Cr was already submitted as mentioned in GAIL letter dated 29.05.2015. Now supporting documents of O&M future capex of 87.98 Cr towards various O&M capital expenditures over remaining economic life of the pipeline network are being submitted, along with proper linkage to each supporting document. These supporting documents consist of various purchase requisitions, letter of acceptances, purchase orders provided by the concerned department.
- g) Copy of audited trial balance of Hazira unit (BA-3011) for the FY 2008-09 to 13-14.
- h) Details of unaccounted gas expenditure data from 08-09 onwards as appearing in the audited books of accounts of GAIL duly certified by CA have already submitted to PNGRB vide letter dated 29.06.2015.
- i) Detailed justification of non-recurring Capex and Opex data from 2008-09 onwards of all natural gas pipeline of GAIL have already submitted to PNGRB vide letter dated 29.06.2015.
- j) Details and value of last-mile connectivity, added by GAIL in DUPL-DPPL network from 09-10 onwards duly certified by CA.

As per CA Certificate, GAIL had incurred an expenditure of Rs. 303.39 Cr (approx.) during the FY 2008-09 to 2014-15 towards last mile connectivity across DUPL-DPPL network, i.e. an average of Rs. 43.34 Cr per year. We considered an amount of Rs. 48.50 Cr for future capex in respect of Last Mile Connectivity in our tariff submission, which is much lower than pervious

yearly average. Detailed justification with respect to future capex of Rs. 48.50 Cr along with actual figures of Last Mile Connectivity added in the previous year across DUPL-DPPL network is placed.

- k) GAIL submitted that it has tied up huge volumes of gas from international markets viz. USA, Russia, Australia, etc. apart from that time to time GAIL is sourcing LNG through mid-term & short term LNG Contract, which shall come to India in the coming years and accordingly, Last Mile Connectivity expenditure in the coming years shall further increase in order to ensure evacuation of these gases, therefore, PNGRB is requested to consider projected future CAPEX while determining tariff for GAIL's pipeline networks.

3.3. PNGRB vide its letter dated 19.07.2017 requested GAIL to submit updated tariff filing for DUPL-DPPL upto FY 16-17. GAIL vide letter dated 31.07.2017 requested for time extension of 15 days for submission of final tariff, which was accepted by PNGRB vide its letter dated 03.08.2017.

3.4. GAIL vide letter dated 11.08.2017 submitted the following :-

- a) Copy of Trial Balance of DUPL-DPPL network duly certified by CA for the FY 2014-15, 15-16 and 16-17 for Mumbai unit (BA-3120) & Hazira unit (BA-3011).
- b) Copy of Certificate from HOD of site finance, certifying that these trial balances submitted are final trial balances which have been taken into consideration in the preparation of audited balance sheet of GAIL.
- c) Original CA certified copies of Mumbai unit (BA-3120) for Gross Block, Accumulated Depreciation, Net Block, Net Addition/deletion to Gross Block, Net addition/deletion to CWIP and Operating Expenditures for the FY 2014-15, 2015-16 and 2016-17 in respect of DUPL-DPPL Network.

- d) Copy of CA certified copies of Hazira unit (BA -3011) for Gross Block, Accumulated Depreciation, Net Block, Net Addition/deletion to Gross Block, Net addition/deletion to CWIP and Operating Expenditures for the FY 2014-15 and 2015-16.
- e) Original CA certified copies of Hazira unit (BA 3011) for Gross Block, Accumulated Depreciation, Net Block, Net Addition/deletion to Gross Block, Net addition/deletion to CWIP and Operating Expenditures for the FY 2016-17
- f) CA certificate for allocation of Corporate Common CAPEX and OPEX for FY 14-15 and 15-16. Original Copy of CA certificate for allocation of Corporate Common CAPEX and OPEX for FY 2016-17.
- g) Supporting documents consisting copies of Letter of Acceptance, Letter of Indent, budgetary quotation, internal approved note sheet, write up, etc. are provided by the concerned departments in respect of Future Capex considered while computing the updated final tariff of the above cited pipelines.
- h) List of customers on DUPL-DPPL networks.

3.5. GAIL in its submission has computed the following tariff:

Final tariff submitted by GAIL as per letter dated 11.08.2017 and in its tariff filing (tariff model in excel sheet)

Financial Year	Rs./MMBTU (GCV basis)
20.11.2008 to 2017-18	24.49
2018-19 to 10.07.2032	86.22

4. Details of final 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, the economic life has been taken at 25 operating years starting from 11.07.2007.

4.2. **Trial Balance**

In its tariff submission GAIL has submitted trial balance of two business area (i.e. 3011- Hazira, 3120-Mumbai). On analyzing the trial balance it is found that total of Gross block and CWIP for FY 11-12 and 12-13 pertaining to DUPL-DPPL and other pipeline for Business Area 3120 (Mumbai) are not matching with the CA certificates submitted. However, there is a compensating error in both the years.

4.3. **Capital Expenditure (Capex)**

GAIL, in its tariff submission, has considered total capex outgo of Rs. 3,521.46 Cr (including freehold land and ROU) from 30.09.2008 till the end of the economic life of the pipeline in year 2032-33. The head-wise breakup is as follows:

Particulars	(Rs. in Cr)
Net block as on 30.09.2008	1609.01
CWIP as on 30.09.2008*	349.86
Net block of Common Corporate asset allocated as on 30.09.08	2.13
Actual capex outgo from 01.10.2008 to FY 16-17	392.42
Future capex outgo projections from FY 17-18 to 32-33	1,140.42
Common corporate assets allocated from 01.10.08 to FY 16-17	27.62
Total	3,521.46

*CA Certificate pending

a) **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
1609.01	1608.27

b) **Actual capex outgo from 01.10.2008 to FY 2016-17**

GAIL, in its tariff filing, has claimed total actual capex outgo (including CWIP, Land & ROU) of Rs.392.42 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
01.10.2008-31.03.2009	94.81	94.81*
2009-10	29.80	29.80
2010-11	44.69	44.69
2011-12	47.11	47.11
2012-13	43.61	43.61
2013-14	19.31	19.31
2014-15	18.03	18.03
2015-16	93.47	93.47
2016-17	1.60	1.60
Total	392.42	392.42

*CA Certificate for CWIP is pending

It is also observed that Interest During Construction (IDC) is nil for all years in the CA certificates.

c) Future Capex Outgo from FY 17-18 to FY 32-33

GAIL, in its tariff filing, has claimed total future capex outgo of Rs.1140.42 Cr. This amount includes (a) O&M capex of Rs. 375.24 Cr, (b) PD capex of Rs. 697.10 Cr and (c) PE Capex of Rs.68.08 Cr as discussed below.

- (i) **O&M Capex:** Under this head, GAIL has claimed Rs. 375.24 Cr in the tariff filing with escalation @4.91 % p.a. from FY 2017-18 onwards. To support these claims, GAIL has submitted year wise future expenditure projection upto FY 2032-33. The figures are escalated at 4.91% p.a. from FY 17-18 onwards (total amount without escalation comes to Rs. 268.14 Cr). GAIL has submitted the future expenditure under various heads i.e. civil, electrical, fire & safety, gailtel, instrumentation and mechanical.

- (ii) **PD Capex:** Under this head, GAIL has claimed Rs. 697.10 Cr from FY 2017-18 to FY 2032-33 in the tariff filing for future last mile connectivities (LMC) in the pipeline network. The figures are escalated at 4.91% p.a. from FY 17-18 onwards (total amount without escalation comes to Rs. 460 Cr). In support GAIL has provided CA certificate for past period from FY 08-09 to FY 14-15 for LMC added across DUPL-DPPL network. GAIL also stated that considering the CA certificate average capital investment per year towards LNG to various customers of DUPL-DPPL network works out approximately as Rs.42.53.
- (iii) **PE Capex:** Under this head, GAIL has claimed future capex of Rs.68.08 Cr (Rs.64.89 without escalation) to be incurred in FY 17-18. Amount is proposed to be incurred on two LMC customers. GAIL has submitted the approvals of the expenditure to be incurred on the two LMC's.

d) Common corporate assets as on 30.09.08 and from 01.10.08 to FY 16-17

GAIL, in its tariff filing, has claimed Net block of Common Corporate asset of Rs.2.13 Cr as on 30.09.08 and Rs. 27.62 Cr as common corporate assets from 01.10.08 to FY 16-17. No future common corporate asset has been claimed by GAIL. Year wise common corporate asset allocated to the DUPL-DPPL pipeline are as follows:

Year	Rs. in Cr		
	Additions to capex Claimed	CA certificate for capex as on	Addition to CAPEX
30-09-2008		3.65	
31-03-2009	-0.01	3.64	-0.01
2009-2010	0.11	3.75	0.11
2010-2011	9.21	12.96	9.21
2011-2012	21.67	34.63	21.67
2012-2013	6.02	40.65	6.02
2013-2014	-6.45	34.2	-6.45
2014-2015	-7.05	27.15	-7.05

2015-2016	-0.71	26.44	-0.71
2016-17	4.83	31.27	4.83
TOTAL	27.62		27.62

With regards to mechanism for allocation of common corporate assets GAIL has stated that-GAIL 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 in its response to the clarifications sought by PNGRB 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.

4.4. Operating Expenses (Opex)

GAIL in its tariff submission has furnished CA Certificate for opex considered in tariff filing. GAIL has not considered certain items appearing in trial balance in its tariff filing. However, details of items not considered in tariff filing w.r.t. opex considered has not been submitted. Further, GAIL in its tariff submission has claimed total opex of Rs. 5,375.27 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 (01.10.2008 to 16-17)	575.73
Actual common corporate expenses (Nov'08 to FY 16-17)	356.81
Future opex projections (FY 17-18 to 10.07.2032)	3,261.85
Future common corporate expenses (FY 17-18 to 10.07.2032)	1,180.88
Total	5,375.27

a) Actual Opex Outgo from FY 2008-09 to FY 2016-17

In its tariff filing, GAIL has claimed actual opex of Rs.575.73 Cr from 01.10.2008 to FY 16-17. Year-wise breakup of opex claimed in tariff filing and that certified in CA certificates submitted by GAIL are as follows:

(Rs. in Cr)		
Financial Year	Tariff Filing	CA Certificates
2008-09 (01.10.2008 to 31.03.2009)	15.76	10.53
2009-10	15.85	15.85
2010-11	52.58	52.58
2011-12	65.87	65.87
2012-13	80.42	80.42
2013-14	80.10	80.10
2014-15	91.39	91.39
2015-16	53.44	53.43
2016-17	120.33	117.12
Total	575.73	567.28

b) Future opex projections from FY 2017-18 to 10.07.2032

In its tariff filing, GAIL has claimed future opex of Rs. 3,261.85 Cr from FY 2017-18 to 10.07.2032 under different heads which are detailed below:

- i. **Future Opex:** GAIL has claimed Rs. 2,999.20 Cr under this head. Further on analyzing the GAIL's tariff model, it has been observed that GAIL during calendar year 2017 i.e. 3 months from FY 16-17 and 9 months of FY 17-18, has considered 35% increase in salary and wages. GAIL has also considered annual escalation of 4.91% from FY 17-18 onwards.
- ii. PE future opex:- GAIL in its submission has claimed of Rs. 34.07 Cr as PE future opex.
- iii. O&M future opex: GAIL under this head claimed amount of Rs. 95.55 Cr (without escalation Rs.61.86 Cr).
- iv. PD future opex: GAIL under this head claimed amount of Rs.133.03 Cr.

c) Actual common corporate expenses from FY2008-09 to FY2016-17

Actual expenses claimed by GAIL during this period are Rs. 356.81 Cr. 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 different CA firms 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 single CA certificate is submitted

by GAIL and the amount considered by GAIL in its tariff filing for the mentioned period is matching with the CA certificate.

Rs. in Cr

Financial Year	Tariff Filing	CA Certificate Dated 18.06.2015	CA Certificate dated 16.09.2015
Nov'09-March'09	3.64	3.79	3.64
2009-10	10.82	11.08	10.82
2010-11	40.49	40.91	40.49
2011-12	41.83	38.91	41.83
2012-13	88.63	61.15	88.63
2013-14	49.45	48.23	49.45
TOTAL	234.86	204.07	234.86

Rs. in Cr

Financial Year	Tariff Filing	CA Certificate
2014-15	37.81	37.81
2015-16	38.16	38.16
2016-17	45.97	45.97
TOTAL	121.94	121.94

Rationale for allocation of the actual expenses: With regards to mechanism for allocation of common corporate expenses GAIL has stated that-GAIL 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 in its response to the clarifications sought by PNGRB 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.

d) Future common corporate expenses from FY2017-18 to FY2032-33

In addition to the above, GAIL has also claimed future common corporate expenses of Rs. 1,180.88 Cr. Further on analyzing the GAIL's tariff model, it has been observed that GAIL during calendar year 2017 i.e. 3 months from FY 16-17 and 9 months of FY 17-18, has considered 35% increase in salary and wages. In the tariff filing, expenses claimed in each year are calculated by escalating previous year expenses by 4.91% p.a. from FY 17-18 onwards.

4.5. Unaccounted Gas Loss

GAIL has claimed 0.30% of the throughput as unaccounted gas loss amounting to Rs. 1239.53 Cr, as a cost to be recovered through the transportation tariff. GAIL has submitted year wise CA Certificate for amount towards unaccounted gas data for 15-16 & 16-17 which is included in the actual opex mentioned above. As per CA certificate amount of Rs.0.01 Cr allocated towards unaccounted gas pertains

to FY 15-16 and Rs.1.76 Cr to FY 16-17. It has not submitted any CA certificate for Unaccounted Actual Gas loss for the period up to FY 2014-15 in respect of DUPL - DPPL

4.6. **Volume Divisor**

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

Financial Year	Capacity (in MMSCMD)
2008-09	1.53
2009-10	8.50
2010-11	13.23
2011-12	14.33
2012-13	11.80
2013-14	8.76
2014-15	7.75
2015-16	13.58
2016-17	14.93
2017-18 to 2032-33	14.93

4.7. **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 net basis and converted the Net heat value into Gross heat value by dividing Net heat value by 0.9.

4.8. **Working Capital**

In the tariff filing, GAIL has considered total working capital of Rs.124.24 Cr calculated as sum of 30 days of opex and 18 days of revenue, in conformity with the Tariff Regulations.

4.9. **Number of Working Days**

GAIL has considered 132 operating days in FY 2008-09, 345 operating days for all years from FY 2009-10 to FY 2031-32 and 101 days for FY 2032-33.

4.10. **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. 21.22 Cr as cash outflow in FY 2008-09.

4.11. **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. 1,594.51 Cr as on 10.07.2032.

4.12. **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. Zonal Apportionment

Since the length of the DUPL-DPPL network of GAIL exceeds 300 km, the apportionment of the levelized tariffs is required to be undertaken post finalization of the tariff.

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 Dahej-Uran-Panvel-Dhabol Natural Gas Pipeline Network 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.
Email : secretary@pngrb.gov.in*

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