To
The Secretary,
Petroleum and Natural Gas Regulatory Board
1st Floor, World Trade Centre,
Babar Road,
New Delhi – 110 001.

Kind Attention: Ms. Vandana Sharma.


Dear Madam,

Kindly refer to PNGRB Public Notice ref. no. PNGRB/COR/3-PPPL Tariff (1)/2012 dated 19/02/2020 on the proposed Petroleum & Natural Gas Regulatory Board (Determination of Petroleum and Petroleum Products Pipeline Transportation Tariff) Amendment Regulations, 2020 seeking views of all entities, experts and stakeholders in writing. In this context our representation on the proposed regulations are as follows:

Background:

Prior to formation of PNGRB and fixation of pipeline tariff, MOP & NG had directed all OMCs vide its directive No. P-20012/19/2003-PP dtd. 12/08/2003 to pay PMHBL pipeline tariff at the rate of 90% of the rail freight over the pipeline distance which is almost equivalent to 75% rail tariff on rail distance.

Also, PNGRB had earlier issued notification on draft regulations on “Determination of Petroleum or Petroleum Products Pipeline Tariff” on 10th August, 2009 wherein, vide our letter no. PMHBL/MD/2009-10 dtd. 31/08/2009, we had suggested alongwith OMCs to adopt benchmarking w.r.t alternate mode i.e. Railway transportation, which was the prevailing Industry practice in the product pricing. The Board appreciated the view point and after due deliberations notified the (Determination of Petroleum and Petroleum Products Pipeline Transportation Tariff) Regulations, 2010 in line with prevailing Industry tariff practice of 75% rail tariff on equivalent rail distance.

Initially PNGRB issued the tariff order for 2 years as a transitional measure w.e.f. 20.12.2010 and the transitional period subsequently extended for another 2 years w.e.f 20.12.2012 and accordingly the regulation 4 & 5 of PNGRB (Determination of Petroleum and Petroleum Products Pipeline Transportation Tariff) has been amended and tariff has been fixed at a level
of 75% except LPG where it is 100% on a train load basis for equivalent rail distance along the Petroleum & Petroleum Product Pipeline route. Same tariff structure is continued by PNGRB till 31/12/2019. Further order on the pipeline tariff is awaited from PNGRB.

In the meanwhile, during January 2018, PNGRB issued letter to the Entities to submit response for the review of Transportation Tariff of Petroleum Pipeline wherein, entities submitted their response including PMHBL vide its letter PMHBL/MD/17-18 dtd. 07/02/2018 again for consideration of benchmarking of pipeline tariff against alternative mode of transport i.e. railway at a level of 75% except LPG where it is 100% on a train load basis for equivalent rail distance along the Petroleum & Petroleum Product Pipeline route.

During September, 2018 an oil industry meeting was also called by PNGRB to discuss about the data with respect of volume and other parameters for computation of tariff, wherein oil industries including PMHBL represented that, PNGRB should consider tariff of benchmarking against alternative mode of transport i.e. railway at a level of 75% except LPG where it is 100% on a train load basis for equivalent rail distance along the Petroleum & Petroleum Product Pipeline route.

Proposed Notification by PNGRB:

Now, PNGRB vide Public Notice dated 19.02.2020 has notified the following draft regulation - 5 under Annexure-1 of said public notice & uploaded in its website for soliciting the views of all the entities, experts and stake holders and calling for an open house discussion on 24/03/2020 as follows:

Proposed Regulation 5:

“Petroleum and Petroleum Products pipeline transportation tariff shall be determined by benchmarking against alternate mode of transport i.e. rail, at a level of seventy-five per cent except LPG where it will be one hundred per cent, on a full train load basis for the actual pipeline distance.

Provided that the determination of the petroleum and petroleum product pipeline transportation tariff under these regulations shall be benchmarked against the base freight rate of goods tariff table of the railways as applicable on the date of coming into force of these Regulations and if such goods tariff table is revised, the Board may consider the benchmarking of the petroleum and petroleum products transportation tariff against such revision”.
Our Comments:

1. Rail Tariff at level of 75% for rail distance along the Pipeline route has been considered by PNGRB since last 10 years and accepted and followed by the Oil Industry post APM dismantling and hence the present practice which is market determined is an established practice & needs to be continued.

2. Railways are charging additionally around 25% as other charges besides the base freight, whereas Pipeline tariff has been considered @75% of only base freight & hence the effective rate for Pipeline Freight Charges against benchmarked rail freight is approx. 60% which is a very competitive rate with a discount of almost 40% against the alternate mode of transport by OMCs. Hence, further reduction of freight due to proposed amendment for consideration of pipeline distance in place of rail distance will defeat the concept of common carrier pipeline, wherein our only activity is transportation through Pipeline.

3. If PMHBL common carrier pipeline was not available, OMCs would have been transported the product through rail which would have attracted them 100% of rail tariff plus other components like busy season charges and developmental charges. Thus, OMCs are saving in logistic cost due to transportation of their product in PMHBL common carrier pipeline, which saves them at-least 40% as aforesaid.

4. Reduction in pipeline tariff from rail distance to pipeline distance is not spelt out by OMCs nor they have represented on this to PNGRB. It is also not an industry practice. Moreover, PNGRB has not spelt out any rationale to 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.

5. The proposed amendment does not elaborate the rationale behind it. The tariff structure usually is progressive. 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, we are providing transportation services to the OMCs at much economic rate.

6. When pipeline tariff is benchmarked against reference tariff of Railways, all components of the benchmark tariff should be taken into consideration for working out the pipeline tariff. The existing practice of fixing 75% of the Railway tariff for rail distance itself is onerous to entities operating common carrier. Thus, there is no need to go in for downward revision of tariffs.
7. Comments particularly with reference to PMHBL:

A table on comparison of tariff w.r.t. 75% Rail tariff on rail distance and pipeline distance is as given below:

<table>
<thead>
<tr>
<th>Source to Destination</th>
<th>Product</th>
<th>Rail Distance - Km</th>
<th>Pipeline Distance - Km</th>
<th>Rail tariff @ 75% of Rail distance</th>
<th>Rail tariff @ 75% pipeline distance</th>
<th>Difference - Rs.</th>
<th>% Reduction in tariff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mangalore to Hassan</td>
<td>MS/HSD</td>
<td>206</td>
<td>165</td>
<td>321.15</td>
<td>261.60</td>
<td>59.55</td>
<td>18.54%</td>
</tr>
<tr>
<td>Mangalore to Devagonthi</td>
<td>MS/HSD</td>
<td>466</td>
<td>363</td>
<td>622.73</td>
<td>501.53</td>
<td>121.21</td>
<td>19.46%</td>
</tr>
</tbody>
</table>

As can be seen from the above table, the proposed regulations by PNGRB will reduce the pipeline tariff by an average @19% which will impact immensely the revenue generation of the Company, which is solely dependent on revenue from this pipeline.

a. The Pipeline is passing through a difficult terrain (Ghat Section) at an altitude of 1127.53 Meters which is unique pipeline in India for which company incurred huge capex to build the infrastructure for reaching the product at Hassan & Devangonthi using high capacity pumps & allied facilities. The operating cost is very high due to high power consumption cost which is approx. @55% of the total revenue expenditure. Whereas railway has taken the plain route for crossing the ghat section with additional distance and pipeline distance is reduced to the extent of almost 55 K.M. since it is passing through the difficult ghat section. Any further reduction in tariff will affect the profitability of the company.

b. PMHBL was originally designed considering the pipeline transportation tariff prevailing there upon for investment & returns thereof. Current reality is that, PMHBL is already grossly under-utilized by OMCs which stands at merely 40% of its design capacity which is mainly due to duplication of Pipeline by OMCs and partial participation at both Hassan & Devangonthi. PMHBL is yet to generate required return on investment made by the Promoters M/s. ONGC & HPCL even after 17 years of its operation. Hence, proposed amendment shall have major dent in its profitability posing threats of organisation survival and its expansion.

c. Since last five years, there is no increase in rail tariff for petroleum products for so many reasons which are beyond commercial wisdom and more towards sociological aspect of Railways functioning. Whereas pipeline operations are commercial operations and one of the avowed considerations 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 and not downward revision as is contemplated in the proposed amendment.

d. PMHBL has lone business of transportation of petroleum products whose main lifeline is transportation tariff. Hence, such proposed amendment is not rationale for PMHBL.

e. As on date PMHBL is the only petroleum product pipeline in India which works on common carrier principle and OMCs are settling the pipeline tariff as per PNGRB order i.e. @ 75% of rail tariff on rail distance along the pipeline route. Thus, any reduction in tariff will only affect PMHBL’s profitability.

f. The Regulator should ensure sustainability and survival of the entity, particularly one which is solely depending on pipeline revenue.

Thus, the existing Oil Industry practice of Pipeline Product Tariff at 75% of rail tariff on rail distance gives a directional good discount to OMCs, covers project proponent’s risks, encourages Entity performance (and thereby further investments) for OMCs as well as common carrier pipeline operator. Hence, same may kindly be accepted and retained by the Board as the most appropriate and correct methodology of fixation of Tariffs and should be accordingly notified. The methodology of fixation of Tariffs as contained in the Draft Tariff Regulation is requested to be dropped.

In fact, PMHBL has requested PNGRB vide letter No - PMHBL/MD/12/11-12 dated 10.11.2011 to notify the pipeline tariff @ 75% of rail tariff on equivalent rail distance including the levies as charged by Railways to OMCs, which has not been considered by PNGRB.

Considering all the above viewpoints, we earnestly request PNGRB to retain at least the existing tariff regulation i.e. 75% of rail tariff on equivalent rail distance along the pipeline route and not to implement the proposed draft regulations as notified.

Thanking you,

Yours Truly,

M Selvakumar
Managing Director