Ref no: HEGMPL/OTM/MKT/2018/47

27th December, 2018

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

Sub: Comments on PCD: Review of tariff of K.G. Basin Natural Gas Pipeline Network

Dear Madam,

This is reference to Public Consultation Document No: PNGRB/M(C)/2010-Vol IV dated 20th December, 2018 ('PCD') seeking views on review of tariff of K.G. Basin Natural Gas Pipeline Network.

In this regard, comments/observations of H-Energy are enclosed as Annexure I for kind consideration of the Hon'ble Board.

Thank you.

Yours faithfully,

Hiren Mehta
General Manager - Marketing

CC:
Chief General Manager (Mktg- RA)
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ANNEXURE I

- The economic life considered in Final Initial Unit Natural Gas Pipeline Tariff Order dated 03rd March 2016 ('Final Tariff Order 2016') was till 11th February 2017 for K.G. Basin Natural Gas Pipeline Network while in the PCD for review of tariff for the same network in 2018, the entity has considered economic life till 11th February 2027.

We would like to draw the attention of the Hon'ble to the Regulation 2(1)(u) of PNGRB (Authorizing Entities to Lay, Build, Operate or Expand Natural Gas Pipelines) Regulations, 2008 -

...Provided that at the end of the aforesaid period of twenty five years extension of the period of economic life may be considered by the Board for a block of ten years at a time depending on the satisfactory compliance of the service obligations under these regulations and on such terms and conditions, as it may deem fit at that point in time.

Since the extension of economic life beyond 11th February 2017 for the said network is under consideration of the Board hence the Board may notify the extension of economic life at first stage before finalizing the tariff.

Further, as per the PNGRB Order dated 15th July 2015 with regard to Tatipaka incident at KG Basin wherein civil penalty of Rs. 20 Lakh was imposed on the entity due to non-compliance to various provisions of the PNGRB Regulations read with in conjunction with aforesaid Regulation 2(1)(ii), any extension in economic life is subject to satisfactory compliance of the service obligations under PNGRB Regulations. Accordingly, PNGRB is requested to notify final tariff beyond February 2017 only after completing the due diligence process for the extension of the economic life.

- As per the PNGRB communication dated 05th April 2013 mentioned in the PCD, the total length of the pipeline is 877.86 km however in Final Tariff Order 2016, the entity vide its letter dated 28th May 2013 has stated that total length of trunk line is 298 km (less than 300 km), the remaining pipelines of the 579 kms may be considered as spurlines. Accordingly, no zonal tariff is required.

For zonal tariff determination, only single zone has been considered by the entity taking into account 298 km trunk line. Clarification is required whether CAPEX and OPEX are based on length of 298 km trunk line or 877 km trunk including spurlines. If yes, in that case, zonal apportionment of levelized tariff is required.
Since the economic life of the said network has already ended, it is implicit that the entity has already recovered all investments made by them hence any extension of economic life should factor new CAPEX towards augmentation or laying of spurlines only including OPEX for the system. Further, in that case, the network tariff should lower down so as to pass on benefit to the end consumers (in this case most of the consumers are priority sectors viz. fertilizers, power and CGD etc).

Actual CAPEX outgo - There is spike in actual CAPEX w.e.f. FY 14-15 to FY 16-17 (there is increase in CAPEX from Rs. 32.4 cr in FY 13-14 to Rs. 251 cr in FY 16-17.

In future CAPEX projection, entity has considered KG basin pipeline replacement cost at the rate of Rs. 150.23 cr each year from FY 18-19 till 2027. Also the entity has considered conversion of non piggable to piggable pipeline at the rate of Rs. 143.80 cr each year from FY 18-19 till 2027. Clarification may be provided on following points -

- reason for spike in actual CAPEX from FY 14-15 to FY 16-17
- justification to be provided for future CAPEX and O&M CAPEX during the proposed extension of economic life
- spike in actual CAPEX from FY 14-15 to FY 16-17 is not in line with the common corporate assets for the same period, in fact it shows decline.

The entity has considered volume capacity of 12 mmmscmd from FY 17-18 onward. In future capex, the entity has considered various tie-in connectivity including APGDC interconnectivity, this will result in injection of gas (addition of new entry points) in turn which will result in augmentation of capacity. Hence the volume divisor of 12 mmmscmd from FY 17-18 onward is theoretically incorrect.