Ms. Vandana Sharma
Secretary,
Petroleum and Natural Gas Regulatory Board (PNGRB)
1st Floor, World Trade Centre
Babar Road
New Delhi- 110001

Sub: Views on GAIL’s tariff filing for the Dadri Bawana Nangal Natural gas Pipeline Network (DBNPL) and Chainsa Jhajjar Hisar Natural Gas Pipeline (CJHPL)

Ref.:
1. PNGRB Public Consultation Document No. PNGRB/COM/2-NGPL Tariff (3)/2010 dated 02.08.2019

Respected Madam,

With reference to above, please find attached herewith GSPL’s views at Annexure-I for your kind perusal.

Thanking You,

Yours Sincerely

Ravindra Agrawal
Group ED (Gas Business)
Views on Public Consultation Document (PCD) on Dadri Bawana Nangal Natural Gas Pipeline (DBNPL) and Chainsa Jhajjar Hisar Natural Gas Pipeline (CJHPL)

A. Combined Tariff for Integrated HVJ, DBNPL and CJHPL

1. Proposal for integration of Integrated HVJ, DBNPL and CJHPL would further burden the existing customers of HVJ-DVPL-GREP

The very objective specified in PCD for having combined tariff of integrated HVJ, DBNPL and CJHPL is to avoid issue of additive tariff.

In this regard, it may be noted that guidance provided to PNGRB u/s 22 of PNGRB Act, 2006 for determining the transportation tariff of a common or contract carrier does not prescribe any objective “to avoid issue of additive tariff”.

Further, it may be noted that integrating tariff of HVJ, DBNPL and CJHPL would lead to cross subsidization of cost of development among multiple natural gas pipelines thereby promoting inefficiency (which may have higher capacity than required or higher Capex), a factor which is discouraged u/s 22 (2)(a) of PNGRB Act, 2006.

Hence, in accordance with guidance provided u/s 22 of PNGRB Act, 2006 to PNGRB for determining tariff, proposed combined tariff for Integrated HVJ, DBNPL and CJHPL should not be considered.

Further, it may be seen from GSPL’s observation attached at Annexure-A on past decision that Integration had actually affected existing customer of HVJ-DVPL-GREP with higher transportation tariff.

The proposed integration would further burden HVJ-DVPL-GREP customers with higher tariff by inclusion of capex & opex of underutilised natural gas pipelines, i.e. DBNPL and CJHPL.

However, if PNGRB decides otherwise, i.e. in favour for integration of Tariff for HVJ, DBNPL and CJHPL to avoid additive Tariff, the following may be considered:

- The said principle should be applied uniformly to integrate tariff of all natural gas pipelines operating in India.

- Since PNGRB has proposed to avoid additive tariff to reduce tariff burden on customers located farther from source, it shall be applicable to all set of customers that may be located on pipeline owned by entities other than GAIL.

- If the current proposal is pursued on standalone basis, it would be serving interest of those customers located on GAIL’s network and in certain Geographical Areas only.

Moreover, we request Hon’ble Board that pending finalization of amended regulations for integrated tariff, PNGRB may kindly postpone the integration of DBNPL & CJHPL with integrated HVJ.
In our view, we suggest that there is a need to review this issue of additive tariff on a comprehensive basis and a wide public consultation (as was earlier carried out by PNGRB for Integrated Authorisation for unified/pooled tariff) be carried out, so that other stakeholders are not adversely impacted (unintentionally).

B. Consideration of Integration would deter new investment

Any decision to consider integration of HVJ, DBNPL and CJHPL would affect the competitiveness of already bid out pipelines like MBPL and BJSPL or even Dadri-Panipat natural gas pipeline.

Further, Integration of tariff for above pipelines shall set precedent for more such proposals from the same entity in future and this will jeopardise the participation of other entities for development of natural gas pipelines, as such unexpected regulatory changes would make any new bid out pipeline unviable.

Also, such kind of regulatory uncertainty and change of regulations which may be beneficial for limited to certain set of customers or existing entity may take away level playing field being provided by PNGRB and it may further deter private and non-private entities investing in pipeline development.

C. Dadri-Bawana-Nangal Natural Gas Pipeline (DBNPL)

i. Development of pipeline connectivity currently being carried out from DBNPL to HPCL-Mittal Energy Limited (HMEL) by GAIL is unauthorised

Hon’ble Ministry of Petroleum and Natural Gas (“MoPNG”) vide a letter dated 11th July, 2007 read with MoPNG public notice dated 3rd April, 2007 has issued Grant of Authorisation to GAIL for DBNPL for length of approx. 610 kms (inclusive of trunk pipeline & Spur line).

The total length of route of trunk pipeline i.e. Dadri - Bawana (tap-off)- Yamunangar-Ludhiana of DBNPL is 336 kms and remaining length of DBNPL i.e. 274 kms was authorised as a Spur-line. The said spur line length is inclusive of Dohraha IP 4 - Bhatinda RT Spur line (24” X 124 kms), which has been developed and commissioned by GAIL and said HMEL spur connectivity (24” X 40.25 kms) is an extension of existing spur line.

In accordance with Regulation 2(h) of PNGRB (Authorizing Entities to Lay, Build, Operate or Expand Natural Gas Pipelines) Regulation, 2008, (hereinafter “Authorization Regulation”) the length of Tariff Zone of DBNPL shall be 10 % of Trunk pipeline length, 336 kms i.e. 33.6 kms or 50 kms, whichever is less.

Hence, length of Tariff zone of DBNPL shall be 33.6 kms, and for laying of any spur line beyond the said tariff corridor, authorisation of PNGRB u/r 21 (3) of PNGRB Authorisation Regulation is required.

Since, HMEL spur-line connectivity (24” X 40.25 kms) falls outside the Tariff Zone of length of 33.6 kms from surface of Trunk pipeline of DBNPL, PNGRB is requested to consider the cost only after issuance of Grant of Authorisation of the said HMEL spur line connectivity as per extant PNGRB Regulations.

However, if PNGRB decides otherwise i.e. without PNGRB’s Grant of Authorisation,
- Authorised entity is allowed to lay spur line outside the Tariff Zone of natural gas pipeline, and
- Cost of spur line laid outside the tariff zone of natural gas pipeline is considered for tariff determination.

then PNGRB should provide similar dispensation to other natural gas pipeline operators in India.

ii. To exclude Capex & Opex of un-authorised Spur lines including Spur-line to Haridwar, Dehradun and Rishikesh laid outside the Tariff Zone of DBNPL

MoPNG vide letter dated 11th July, 2007 read with MoPNG public notice dated 3rd April, 2007 has issued Grant of Authorisation to GAIL for DBNPL for length of Approx. 610 kms (inclusive of trunk pipeline & Spur line).

Subsequently, APTEL in appeal no. 254 of 2014 vide its order dated 22nd September, 2017 has set aside the PNGRB Letter of acceptance dated 15.02.2011 issued for DBNPL.

Hence, as per information available in public domain, presently there is no authorisation issued to GAIL for laying Spur lines to Haridwar, Dehradun and Rishikesh which falls outside the tariff zone of DBNPL Trunk pipeline.

Accordingly, GAIL may be requested to provide details of authorisation for the said spur lines or PNGRB may exclude Capex & Opex of all spur lines laid outside tariff zone of DBNPL including to Haridwar, Dehradun and Rishikesh.

However, if PNGRB decides otherwise i.e. without PNGRB Grant of Authorisation,

- Cost of spur line laid outside the tariff zone of natural gas pipeline and its Opex is considered for tariff determination.

then PNGRB should provide similar dispensation to other natural gas pipeline operators in India.

iii. Details of Last Mile Connectivity (LMC) to customers of DBNPL

GAIL has claimed Rs. 283.53 Crs. towards LMC under Project Development (PD) capex, however, the details of such LMC to customers has not been provided in PCD.

GAIL may be asked to provide break-up of PD capex towards LMC to other customers to ascertain if development of such connectivity is in-line with the PNGRB Authorization Regulation.

Further, PNGRB is requested to frame guiding principles to deal with similar request by various pipeline operators for inclusion in Tariff determination.

iv. Hike in Common Corporate Opex in FY 2012-13 for DBNPL

GAIL in its Tariff filling has considered Rs. 33.01 Crs. as a Common Corporate Opex for FY 2012-13, which is an increase by 2400% from previous FY’s Common Corporate Opex.

PNGRB may seek justification of such steep hike in Common Corporate Opex for DBNPL, as considered by GAIL.
D. Chainsa Jhajjar Hisar Natural Gas Pipeline (CJHPL)

i. No authorisation of Central Government / PNGRB for capacity expansion of CJHPL by installing Compressor Station at Chainsa forming part of CJHPL

MoPNG vide letter dated 6th July, 2007 read with MoPNG public notice dated 3rd April, 2007 has issued Grant of Authorisation to GAIL for CJHPL.

The said authorisation by the Central Government does not include installation of compressor station at Chainsa. Further, PNGRB's letter for acceptance to Central Government Authorisation dated 13th December, 2010 does not specify for installation of compressor station at Chainsa forming part of CJHPL. However, GAIL has installed and commissioned compressor Station at Chainsa on 01.08.2013 as a part of CJHPL.

The capacity of resized CJHPL approved by PNGRB vide letter dated 12.06.2019 by excluding compressor station at Chainsa is 10.32 MMSCMD.

Therefore, by installation of Compressor Station at Chainsa the expansion of capacity of CJHPL is 1.68 MMSCMD, which is more than the 10% of capacity of resized CJHPL i.e. 10.32 MMSCMD.

Hence, for expansion of capacity by installation of compressor station at Chainsa forming CJHPL, Tariff methodology as prescribed under Regulation 12 (2) of PNGRB Authorisation Regulations shall be applicable.

However, PNGRB may kindly review applicability of Regulation 12 (2) on non-bid out pipeline as any expansion of capacity is also considered in denominator for Tariff Determination.

Even otherwise, it is suggested to frame guidelines / rules for Regulation 12 (2) to bring in certainty about methodology to be followed under the Regulations and to avoid ambiguity in interpretation of the said Regulations. This shall also incentivize investment by entities for expansion of pipeline.

Further, PNGRB may ascertain the requirement of investment to install compressor station at Chainsa for capacity augmentation as the actual volume requirement / flow is below the design capacity of CJHPL i.e. 10.32 MMSCMD.

ii. Phase wise capacity built-up of CJHPL considered in volume divisor

GAIL under paragraph 2.5 has considered volume divisor, based on phase wise commissioning of CJHPL.

GSPL supports GAIL’s said submission considering phase wise capacity and ramp up for each phase.

In view of the above, PNGRB is requested to consider GAIL’s said proposal and implement the said principle of considering phase wise capacity built-up as volume divisor uniformly for tariff determination of other natural gas pipelines in the country.
iii. Resizing of CJHPL

It appears, PNGRB has allowed resizing of Sultanpur-Jhaijar pipeline sections from 36" to 12" and Jhaijar-Hisar pipeline section from 20" to 12".

PNGRB in this regard, is requested to share complete details of procedure followed for allowing resizing of pipeline sections of CJHPL, along with details of justifications provided and regulations & principles adhered to.

Further, PNGRB is requested to frame guideline / procedure for allowing resizing of natural gas pipeline so that similar approach may be followed by PNGRB for other natural gas pipeline.

iv. Time extension for commissioning of CJHPL

It may be noted that Central Government has authorised CJHPL in year 2007 and the same is not yet completed even after more than 12 years of grant of authorisation by Central Government.

PNGRB, in this regard, is requested to clarify the regulatory position for permitting such delays in development of CJHPL and allowing time extension granted for completion of CJHPL, especially since GIGL is already progressing with the development of its network in the region.

E. Miscellaneous

(i) Purchase Order (P.O.) for consideration of future capex

PNGRB in various earlier Tariff Orders has adopted the principle of considering P.O. issued by the authorised entity to consider future capex for tariff determination.

For considering future capex of Rs. 840.20 Crs and Rs. 541.43 Crs for DBNPL and CJHPL respectively for Tariff Determination, GAIL may be asked to provide supporting documents, including Purchase Orders placed.

However, since the Regulation on tariff determination prescribes adoption of normative capex and opex and subsequent triuing of the same. PNGRB may review the need for P.O. for expenditure that is for projects to be implemented beyond 12-18 months. This would be setting a precedent and similar approach may also be followed for other pipelines.

(ii) There is a huge variation in capex, opex and capacity proposed by GAIL for Final Initial unit natural gas pipeline tariff and proposed tariff review of Initial unit natural gas pipeline tariff for CJHPL and DBNPL, PNGRB may review the same.

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GSPL's observation on past tariff integration of GAIL’s HVJ-DVPL-GREP and DVPL-GREP-Up gradation pipelines

i. PNGRB vide its Tariff Order (TO) dated 4th June, 2019 has decided for Tariff integration of GAIL’s HVJ-DVPL-GREP and DVPL-GREP-Up gradation into a single Integrated HVJ network with its economic life as year **March, 2035.**

   a. In view of the above decision of the Hon'ble Board, the economic life of HVJ-GREP-DVPL stands revised and extended to **March, 2035.**

ii. However, for determination of separate Tariff of HVJ-GREP-DVPL which had worked out **Rs. 43.67 / MMBTU** considering economic life as **August, 2032** i.e. **short by 2.7 years of economic life, against approved economic life of March, 2035.**

iii. Further, it may be noted that owing to moderation in terms of economic life (10-year extension) carried out by the Hon'ble Board in HVJ-GREP-DVPL Tariff determination, Tariff has been drastically reduced **by Rs 58.41 / MMBTU** (refer to Sr. no. 1 of Table at paragraph 7.1 (a) of TO).

iv. Accordingly, considering economic life as March, 2035 as approved by the Hon’ble Board, the individual tariff of HVJ-GREP-DVPL may worked out to be **approx. Rs. 27.90 MMBTU.**

v. Hence, the comparative tariff of HVJ-GREP-DVPL, DVPL-GREP Up-gradation and integrated HVJ considering economic life as **March, 2035** fixed by the Hon’ble Board should have been represented as below:

<table>
<thead>
<tr>
<th>Pipeline</th>
<th>HVJ-GREP-DVPL</th>
<th>DVPL-GREP Up-gradation</th>
<th>Integrated HVJ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Levelized final Tariff</td>
<td>~ 27.90</td>
<td>56.67</td>
<td>41.11</td>
</tr>
</tbody>
</table>

(Rs./MMBTU on GCV basis)

vi. It may be seen from above table that decision of integration of HVJ network taken by the Hon’ble Board in its referred Tariff Order has actually increased tariff for existing HVJ-GREP-DVPL customers by **47% i.e. from approx. Rs 27.90 / MMBTU to Rs. 41.11 / MMBTU.**

vii. Hence, it may be seen from above, that the decision of Tariff integration of GAIL’s pipelines taken by PNGRB has actually led to increase in **Transmission cost for the existing customers utilising the transportation service of HVJ-GREP-DVPL network with higher transportation tariff.**