

Ref no: HEGMPL/OTM/2018/39

02nd November, 2018

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

30/7/18
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L-1848/JA(RKJ)
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Sub: Comments on PCD – 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.

- A) HVJ-GREP-DVPL [HVJ]
- B) DVPL/GREP Upgradation [HVJ Upgradation]

Dear Madam,

This is reference to Ref: No. PNGRB/M(C)/65-Vol-II webhosted on PNGRB website on 18.10.2018 on the subject matter

In this regard, we would like to submit our following comments/observations for your kind consideration please:

1. Economic Life of Pipeline

GAIL in the tariff filing has considered economic life of integrated network from 20.11.2008 to 26.03.2035, for HVJ from 20.11.2008 to 14.08.2022 and for HVJ Upgradation from 27.03.2010 to 26.03.2035.

In this regard reference is drawn towards clause 2 titled "Definitions" of Petroleum and Natural Gas Regulatory Board (Authorizing Entities to Lay, Build, Operate or Expand Natural Gas Pipelines) Regulations, 2008

This clause defines economic life as:

(e)"economic life" of natural gas pipeline shall be a period of twenty five years commencing from-

- (i) the date of grant of authorization to the entity by the Board in case an entity proposes to lay, build or expand a natural gas pipeline on or after the appointed day;
- (ii) the start-up date of the commencement of physical activities of

laying, building or expanding the natural gas pipeline in case an entity started up laying, building or expanding a natural gas pipeline before the appointed day and the entity has either an authorization from the Central Government before the appointed day or an authorization from the Board under these regulations.

Therefore, economic life should be in line with above definition and further Economic Life of Integrated pipeline as well as of individual pipelines as considered by GAIL would undergo change as per above philosophy.

Also, Economic Life needs to be elaborated further as the starting date of economic life period is not mentioned for all these pipelines and the foundation for considering that date as starting date.

2. Capital Expenditure (CAPEX)

GAIL, in its tariff submission, has considered total Capex outgo (Including CWIP & Corporate Capex, excluding Line Pack) for Integrated tariff filing till 26.03.2035, however in standalone filing of HVJ pipeline, the same is considered till 14.08.2022. This anomaly needs to be looked into because GAIL has considered different economic life namely first for defining the Economic life and secondly for calculation of future capex.

3. Inflation Rate

The WPI headline inflation is an appropriate assumption for the inflation rate in pipeline CAPEX and OPEX. Further, in previous tariff orders, PNGRB has considered the WPI inflation rate for pipeline tariff determination. As per the 54th round of Survey of Professional Forecasters on Macroeconomics Indicators report the WPI headline inflation is projected at average of 4.12% for Q2 2018-19 to Q2 2019-20 and hence in this case also the inflation rate should not be allowed more than 4.12%. Hence the entity's claim of total future capex and total Opex during the economic life of pipeline should be recalculated.

4. Line pack

As per the Attachment 2 to Schedule A, Clause 6, the line pack value of natural gas in natural gas pipeline tariff is considered as a non-depreciating fixed asset and the value remains fixed over the economic life of the project. Hence PNGRB may review the entity's consideration of line pack of Rs. 85.18 Crore as cash outflow (Rs.47.74 Crore as line pack for HVJ for 144.35 MMSCM as on 30.09.2008 and Rs.37.44 Crore as line pack for HVJ Upgradation for 38.62 MMSCM as on 31.03.2010). Further, this will also undergo change depending upon our observations made in point no. 1 as mentioned above related to "Economic life" and we also request that price of gas used for calculation of Line Pack may also be reviewed.

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5. No. of working days:

GAIL has considered 345 working days throughout the economic life of the pipeline considering 20 days plant shutdown. Regulation 14(3) of the *Petroleum and Natural Gas Regulatory Board (Access Code for Common Carrier or Contract Carrier Natural Gas Pipelines) Regulations, 2008* provides a provision for planned maintenance period not exceeding ten days in a year. Hence the no. of working days as considered by the entity should be in accordance with the extant Regulatory provisions.

6. Unaccounted Gas

The entity has considered unaccounted gas at 0.30% in the said pipeline which amounts to Rs.5563.94 Crore for Integrated Network (from 20.11.2008 to 26.03.2035), Rs.1121.69 Crore for HVJ Network (from 20.11.2008 to 14.08.2022), Rs.2642.68 Crore for HVJ-Upgradation Network (from 27.03.2010 to 26.03.2035) during the entire economic life of the pipeline.

Clause 5(2)(b) of Schedule A of Tariff Regulations provides provision to consider only System Use Gas (SUG) which is consumed in the natural gas pipeline as a fuel to operate the pipeline itself. Hence, the unaccounted gas as claimed by the entity should be excluded from the tariff determination as the same is not allowable by the extant Tariff Regulations.

7. Weighted Average Heat Value

As per Clause 6 of Schedule A of Tariff Regulations, the weighted average heat value of natural gas delivered to customers during the initial unit natural gas pipeline tariff period needs to be considered for SCMD to MMBTU conversion. GAIL has considered a, GCV of 9350.46 Kcal/SCM for HVJ, 9384.56 Kcal/SCM for HVJ Upgradation and 9367.51 Kcal/SCM for Integrated network for Year 2018-19 onwards which is basically the calorific value of Year 2017-18. Instead it should have been the average of historical value.

8. Terminal Value

This will undergo change depending upon our observations made in point no. 1 as mentioned above related to "Economic life".

9. Operating Expenses (Opex)

GAIL, in its tariff submission, for Integrated tariff filing has future Opex of HVJ till



26.03.2035, however in standalone filing the same is considered till 14.08.2022. This anomaly needs to be looked into because GAIL has considered different economic life namely first for defining the Economic life and secondly for calculation of future Opex

Further under Additional Compressor Fuel, Under this head, GAIL has claimed additional compressor fuel on account of additional fuel requirement in HVJ Upgradation network for running 75% of the total capacity from 2018-19 onwards. Also Gas price used for FY 2018-19 for this calculation is \$8.32 MMBTU (Landed Price) with annual escalation at 4.58%.

Here, the basic assumptions like network running on minimum 75% of the total capacity, price of gas and escalation should be supported by historical data along with future assumptions arrived on best endeavor basis. Price of gas used for calculation needs to be supported by long term tieups for price stability.

We request the Hon'ble Board to kindly consider the above mentioned comments while finalizing the provisional tariff for the said pipeline network.

Thank you.

Yours faithfully,

Hiren Mehta
General Manager - Marketing

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