

Comments of IndianOil on Public Notice dated 28.3.2018

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Date: 26/04/18 06:29 PM

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Comments on Public Notice dated 28.3.2018.pdf (1.6MB)

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21/8/18.

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Dear Sir

Please find attached comments of IndianOil on Public Notice dated 28.3.2018 seeking comments /views of stakeholders on the draft Regulations for registration for establishing and operating Liquefied Natural Gas (LNG) terminals.

Regards,

DAE (F)
DDL (cm)

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अस्वीकरण

यह संदेश इंडियन ऑयल मेसेजिंग गेटवे, भारत से भेजा गया है। इस इलेक्ट्रॉनिक संदेश में निहित जानकारी और इसके साथ कोई भी संलग्नक केवल प्रेषित व्यक्ति (याँ) के लिए ही है और इसमें स्वामित्व, गोपनीय या विशेषाधिकार प्राप्त जानकारी हो सकती है। यदि आप वांछित प्राप्तकर्ता नहीं हैं तो आपको इस ई-मेल को प्रसारित, वितरित या कॉपी नहीं करना चाहिए। कृपया इसकी सूचना तुरंत प्रेषक को दें और इस संदेश की सभी प्रतियां और सभी संलग्नक नष्ट कर दें।

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IndianOil

Subject: Comments of IndianOil on Public Notice dated 28.3.2018 seeking comments /views of stakeholders on the draft Regulations for registration for establishing and operating Liquefied Natural Gas (LNG) terminals.

1.0 Background

- 1.1 Petroleum and Natural Gas Regulatory Board (PNGRB) had vide notification dated 28.3.2018 published a draft regulations for registration for establishing and operating Liquefied Natural Gas (LNG) terminals.
- 1.2 The draft regulations are primarily for registration of any entity for establishing and operating LNG Terminal and providing 20% of its short term (less than 5 years contract) un-committed regasification capacity or 0.5 MMTPA whichever is higher as common carrier capacity.
- 1.3 IndianOil, being a serious player in Gas Business in India, is involved in developing a LNG terminal at Kamarajar Port in Tamil Nadu as well it is engaged in booking regasification capacity and /or equity participation in other upcoming terminals in India. IndianOil, therefore, is in a position of providing its observations on the draft regulations both as Owner as well as User of the LNG terminals.

2.0 IndianOil's Observations on draft regulations:

- 2.1 By introducing common carrier access for 10% of the facility (for a typical LNG terminal of 5.0 MMTPA capacity), the capacity utilization and the ensured returns on the investment would be restricted to 90% of the terminal capacity for the Terminal operator, there will be uncertainty on returns towards the capital cost for the 10% capacity. Therefore, creating additional 10% capacity above the planned capacity for open access system requires additional storage capacity of LNG tanks which increases the capital cost of the project, regas charges & consequently RLNG delivered price to the customer.
- 2.2 Similar draft regulations were also issued by PNGRB in 2009. Considering the same, all the upcoming LNG terminals (e.g. FSRU at Jafrabad, Ennore LNG Terminal, Dhamra LNG Terminal) have kept 0.5 MMTPA as un-contracted capacity in their terminal. However, as the regulations have not been finalized, these terminals have kept this uncontracted capacity for the users who have entered into long term contract. This capacity will be available to long term users in subsequent years as a Make-up capacity, which can be utilized to compensate the non-utilizations due to certain unforeseen events like Force Majeure, sudden reduction in demand, etc. Further, the long term users have first right of refusal for this uncontracted capacity. Such provision have played a major commercial role in finalizing the long term contracts for booking the regasification capacity. IndianOil, therefore, is of opinion that the LNG terminals, for which long term (>5 years) binding

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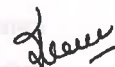
Agreements/Term Sheets for booking regasification capacity have been executed, should be exempted for providing common carrier capacity of 0.5 MMTPA.

- 2.3 Further, it is important to appreciate that an entity utilizes lot of resources, time and investment for setting up a typical LNG terminal ranging from Pre Project activities, attaining FID for the project and commissioning of the terminal. Thus, in view of this, infrastructure operating exclusivity of a minimum time period (10 years/15 years) should be provided to the terminal operator. The operator should have the exclusive right during the exclusivity period to operate the terminal according to its business requirement.
- 2.4 The validity of certificate of registration should be for minimum 30 years, instead of 25 years as proposed in draft regulations. This recommendation is in line with the existing Concession Period being offered by Major Ports to the Terminal Owners.
- 2.5 In case of default by any entity, time period for rectifying the fault can be increased to 3 months, instead of 1 month as proposed in draft regulations. As the suspension would affect the chain from upstream LNG supplier to downstream RLNG consumers, it is suggested that operation of terminal be maintained during the period of suspension.
- 2.6 The regulations, if applicable, should also be applicable to terminals for which the capacity expansion is underway which are already in operation before effectiveness of the regulation.
- 2.7 Regulations may be proposed by PNGRB considering the development of captive LNG Terminals/ small scale LNG terminals for exemption from common carrier access.

IndianOil has the apprehension that, after bringing these regulations, PNGRB may further regulate the regasification tariffs and may bring the third party access of LNG terminal on regulated or published tariffs. It may be noted that the regasification tariff for LNG Terminals is finalized considering investment, expected evacuation over the years and rate of return for a period of 25-30 years, etc. Thus, the regasification tariff would vary from one terminal to another terminal and therefore, PNGRB should not enforce regulated tariff.

3.0 Conclusion:

- 3.1 In view of above, it is therefore proposed to hold a general debate on the importance of LNG terminals in gas infrastructures in India and on how to regulate them. With this in mind, a Working Group consisting of the experts from LNG marketing companies, Terminal Operators, PNGRB and other stake holders should be constituted to study all these aspects and globally followed practices .



(S.K. Sharma)

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