

Ref no: HEGMPL/OTM/2018/40

2<sup>nd</sup> November, 2018

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

**Sub: Comments on PCD - Provisional unit natural gas pipeline tariff under the provisions of the PNGRB (Determination of Natural Gas Pipeline Tariff) Regulations, 2008 for Jagdishpur Haldia Bokaro Dhamra Natural Gas Pipeline**

Dear Madam,

This is reference to PCD no. PNGRB/M(C)/209 webhosted on PNGRB website on 17<sup>th</sup> October, 2018 regarding Provisional unit natural gas pipeline tariff ("Provisional Tariff") under the provisions of the PNGRB (Determination of Natural Gas Pipeline Tariff) Regulations, 2008 (hereinafter referred as "Tariff Regulations") for Jagdishpur Haldia Bokaro Dhamra Natural Gas Pipeline (JHBDPL).

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

## 1. Economic Life of Pipeline

GAIL has considered 01.01.2019 as expected date of commissioning of JHBDPL and the economic life of the pipeline has been considered at 25 years from 01.01.2019 in the tariff filing model.

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;

H-Energy Gas Marketing Private Limited

Regd. Office: 514, Dalamal Towers, Nariman Point, Mumbai - 400 021, India

Communication Address: 12<sup>th</sup> Floor, Knowledge Park, Hiranandani Business Park, Powai, Mumbai - 400 076, India

T +91 22 2571 5100 F +91 22 2576 3777 W www.henergy.com

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(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 start from the date of PNGRB's acceptance of Central Government Authorization

## 2. Capital Expenditure (CAPEX)

In Capex calculation, GAIL has considered Escalation @ 5.02% for future capex of Rs 12,556.51 crores which needs to be justified with logical calculations. Further, Actual capex incurred from FY 2015-16 to FY 2017-18 has discrepancy and doesn't match with CA certificate submitted by GAIL. This anomaly also needs to be looked into.

## 3. Volume Divisor

The entity has provided year wise volume considered from FY 2018-19 to 2040-41 and onwards. The provisional capacity of JHBDPL as determined by PNGRB is 16 MMSCMD including 4 MMSCMD common carrier capacity.

Capacity determination for any pipeline network is must, as it substantiates the volume divisor which is an important component in tariff determination. Hence PNGRB may determine and approve the final capacity for JHBDPL at first instance as per the extant Capacity Determination Regulations before proceeding towards tariff determination. Further, this will also undergo change depending upon our observations made in point no. 1 as mentioned above related to "Economic life".

## 4. 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 54<sup>th</sup> 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.

## 5. Operating Expenses (Opex)

GAIL has considered 2.5% of CAPEX and same is derived from 1.25% of R & M cot, 0.25% for insurance and 1% for manpower/overhead. These percentage breakups has not been supported by CA certified historical data. Same needs to be matched and considered in line with historical data.

## 6. 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. 35.48 crore (phase I) for gas quantity of 14 MMSCM in 2018-19, additional line pack of Rs. 117.52 crore (phase II) for gas quantity of 46.38 MMSCM in 2020-21 and Rs. 30.58 crore for gas quantity of 11.15 MMSCM as line pack of Barauni Guwahati pipeline. 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.

## 7. 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.

## 8. Unaccounted Gas

The entity has considered unaccounted gas at 0.30% in the said pipeline which amounts to Rs. 1,330.21 crore during the 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.

## 9. 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.



Since the pipeline is yet to be commissioned and no gas has been delivered to customers, GCV of 9455 Kcal/SCM as considered by GAIL needs to be justified with details related to source of gas injected in the pipeline.

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**

**Cc:**  
**Chief General Manager (Mktg.-RA)**  
**GAIL (India) Limited,**  
GAIL Bhawan, 16, Bhikaiji Cama Place,  
**New Dehi-110066**