PNGRB Final Regulations

PNGRB Final Regulations for Open Access and Unified Tariff: Positive

Will take 1-2 months more for effective date for Unified tariff and Open Access. Will see more equitable and increased consumption of gas post these regulations.

Open Access Regulations: Final Draft

The much awaited discussion around the common carrier policy for CGD companies (where CGD companies had to declare minimum 20% of their capacity where marketing exclusivity is over as common carrier) has come to an end as PNGRB has come out with a final Draft. The final draft suggests that PNGRB has paid attention to the comments received, however, a few points of discontent might still remain. While the new draft is still better than the proposed draft, possibility of it getting challenged in courts is there. We believe that these regulations will be seen as a relief for CGD players, especially IGL and MAHGL.

Key Highlights:

- Removal of Sec 6 which allowed cancellation of market exclusivity in part/full
- Capacity declaration has been set as a minimum of 20%
- Exisiting OMC/dealer outlets will not be able to shift to Open Access
- Transportation rate framework remain unchanged based on cost of service method.
- CGD operator shall absorb SUG (System use gas) and LUAG (lost & unaccounted gas), and shall not pass on any liability on this account to the third-party.
- PNGRB has kept most of the draft proposal unchanged except providing clarification on CNG stations run by OMC/franchise.

Positives:

- The final regulation says that "In case the authorised entity is unable to install the additional compression facilities due to technical constraints, the authorised CGD entity shall accordingly inform the third-party in writing along with the reasons within a period of forty-five days from the date of request for such additional compressor facilities". In the draft proposal, it was mentioned that the third party would have the right to install additional compressor if the authorized entity cannot.
- They most talked about issue of CNG station run by OMC is addressed and is in favour of the authorized entity. The final regulation says "in the interest of creation of additional infrastructure, CNG or L-CNG stations existing on the date of notification of these regulations run by dealers and franchises of authorised entities (including CNG or L-CNG stations run by companies engaged in retailing of liquid petroleum products on their retail outlets) shall not be considered as third party shipper for the purpose of allowing access in CNG or LCNG stations." As per our understanding CNG stations with franchisee/OMC's (as on the date of notification) will not be considered as third party for allowing access.

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Any additional capacity expansion at existing premise will also not be considered as third-party. Setting up of CNG compressor at new petrol-diesel pump will be considered as third-party. This clarifies most of the street concerns of competition from OMC's where major volumes could go to them and impact margins of CGD companies. In case of CGD's like IGL and MAHGL approx. 55%-60% of the CNG stations are with OMC's which are the major volume drivers for them.

Negatives:

- Authorized entities had objected to use of 'maximum quantity of gas flow' as benchmark for capacity determination which is not considered.
- CGD operator shall absorb SUG and LUAG could be marginally negative as any SUG/LUAG due to network related issues will be cost to the CGD operator.
- The recent talks between OMC's and CGD operators regarding increase in commission for CGD operators running CNG stations with OMC's. If this commission increase it will limit margin expansion of CGD players.

DART View:

We believe that the final draft is gentle than the proposed draft and will be beneficial for CGD companies although it will create competition. Clarification regarding existing CNG stations with OMC's was in favour of authorized entity which is a major positive for IGL/MAHGL.

Gujarat Gas can face competition as 70% of their volumes are from industrial customers. Possibility of competition in highest volume generating areas like Morbi (approx. 70-75%) as they are very price sensitive. We believe impact will be minimal to 20% of capacity. However, volumes are the major determinant for them and currently they are flowing 11.5 mmscmd of volumes (higher than Pre Covid) levels.

We remain positive on the CGD space with Preference of order: Gujarat Gas (Buy), IGL (Accumulate) and MAHGL (Accumulate).

PNGRB's Unified Tariff structure:

PNGRB has simplified the country's gas pipeline tariff structure to make gas more affordable for distant users and to attract investment for building gas infrastructure. Unified tariff structure for over a dozen pipelines that form the National Gas Grid will lead to a 20-30% rise in transportation charges paid by users near the source but a reduction for consumers in the hinterland.

Key Highlights:

- Unified Tariff structure is released for over a dozen pipelines
- Blended unified tariff using current volume will end up being Rs. 57/mmbtu
- Tariff will be reset annually and not fortnightly
- PNGRB has notified a two-zone tariff structure - Zone-1 will be 300-km from the source of gas (gas field or LNG import terminal) and Zone-II will be beyond that.
- Customers upto 300 km will only pay 40% of the unified tariffs for the second zone.
- Entire Increase in Tariffs will happen on Day of the Effective Date

Pipelines part of unified tariff plan:

- GAIL India Ltd-operated Hazira-Vijaipur-Jagdishpur (HVJ) and its supplementary Dahej-Vijaipur line and Dahej (in Gujarat) to Uran-Dabhol-Panvel (in Maharashtra) pipeline.
- Line from Jagdishpur in Uttar Pradesh to Haldia in West Bengal, Bokaro in Jharkhand and Dhamra in Odisha (called the Pradhan Mantri Urja Ganga) and Dadri (Uttar Pradesh) to Bawana-Nalga and Dabhol-Bangalore pipeline.
- Reliance Industries subsidiary operated Shahdol-Phulpur line from its CBM block in Madhya Pradesh to Uttar Pradesh as also its formerly owned East-East pipeline from Kakinada in Andhra Pradesh to Baruch in Gujarat.
- GSPL's proposed Mehsana in Gujarat to Bhatinda in Punjab and onwards to Jammu/Srinagar as well as Mallavaram-Bhopal-Bhilwara-Vijaipur lines.
- IOC's Dadri-Panipat pipeline

DART View:

The new tariff structure would help create a single gas market in the country by attracting investment to complete the gas grid and make it more easily accessible. It will be neutral for pipeline of GAIL and GSPL's pipeline in Gujarat but will be beneficial for GSPL's Mehsana-Bhatinda pipeline. This will attract more volumes for the pipelines which are far off.

Our Order of Preference : GSPL (Buy), GAIL (Accumulate)

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

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