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Unified gas pipeline tariff to deepen the market

SUMMARY
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- PNGRB targets unified gas pipeline tariff from Apr'23; adherence to proposed timeline a key monitorable
- Transition to new framework to be revenue-neutral for transmission operators, but added flexibility for pipeline ramp-up beneficial
- Potential negative implications for MAHGL as it began providing for tariff on its Uran-Trombay pipeline only from Jul'21

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Daily macro indicators

Indicator	20-Nov	21-Nov	Chg (%)
US 10Y yield (%)	3.83	3.83	0bps
India 10Y yield (%)	7.31	7.32	1bps
USD/INR	81.70	81.85	(0.2)
Brent Crude (US\$/bbl)	87.6	87.5	(0.2)
Dow	33,746	33,700	(0.1)
Hang Seng	17,993	17,656	(1.9)
Sensex	61,663	61,145	(0.8)
India FII (US\$ mn)	17-Nov	18-Nov	Chg (\$ mn)
FII-D	64.1	48.1	(16.0)
FII-E	193.9	33.3	(160.6)

Source: Bank of Baroda Economics Research

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Unified tariff proposed from Apr'23: Petroleum and Natural Gas Regulatory Board (PNGRB) notified the unified natural gas pipeline tariff on 18 Nov 2022, to be followed by submission of tariff proposals by transmission operators, a public consultation process, and its approval by the regulator. With this being the first round of consultation under the new regime, adherence to the proposed timeline is a key factor to watch.

Potential to widen gas usage: The framework proposes three tariff levels – Zone 1 tariff at 33.75% of Zone 3 tariff for a distance up to 300km and Zone 2 tariff at 75% for 300-1,200km. This will replace additional tariffs for distant consumers using multiple pipelines, thereby reducing their cost disadvantage, and help deepen gas consumption in India.

Favourable changes for transmission operators: While transition to a unified tariff is targeted to be revenue-neutral for transmission operators and key provisions such as a 12% post tax return and flexibility to manage the capital structure have been retained, we note several favourable changes to the existing pipeline tariff framework.

Flexible ramp-up period beneficial: The new guidelines provide for a flexible ramp-up period, which will improve returns on new pipelines and is targeted at raising gas consumption in distant geographic areas. Ramp-up to a normative utilisation level is now allowed over 10 years (vs. 5 years earlier), with a slower gradient starting from 30% in Year 1 (vs. 60% earlier), ramping up to 50% in Year 5 (vs. 100%) and reaching 100% only by Year 10. Operators are also allowed to offset higher-than-normative volumes with below-normal volumes on a cumulative basis during tariff reviews.

Other positive changes: (a) Gradual annual tariff escalation, (b) permitted transmission loss at 0.1%, (c) use of lower corporate tax rate for tariff determination only prospectively, (d) no tariff change for five years even if a new gas source is added for a pipeline.

Implications for MAHGL: MAHGL began provisioning for tariff on the Uran-Trombay pipeline (newly included in the national grid) only from Jul'21 and could face negative implications from the new unified framework.



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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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