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Unified gas pipeline tariff to deepen the market

- **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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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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