

PetroFed comments on draft “Policy for Development of Natural Gas Transmission Pipelines and City or Local Natural Gas Distribution Networks”

Para Reference	Description of Draft Gas Policy
I.	OBJECTIVE
1.1	<i>The natural gas sector is at the threshold of rapid growth in the country. With increased exploration efforts under NELP, large scale discoveries of gas in the East Coast, commissioning of the LNG import terminals in the West Coast, projected upcoming LNG terminals and the Government’s initiatives in importing natural gas through transnational pipelines, there is an imminent need to provide a policy framework for the future growth of the pipeline infrastructure in the country with a view to facilitating the evolvement of a nation-wide gas grid and the growth of city or local gas distribution networks.</i>
	No Comments
1.2	<i>The objective of the policy is to promote investment from public as well as private sector in natural gas transmission and city or local natural gas distribution networks, to facilitate open access for all players to the pipeline network on a non-discriminatory basis, promote competition among entities thereby avoiding any abuse of the dominant position by any entity, and secure the consumer interest in terms of gas availability and reasonable tariff for natural gas transmission pipelines and city or local natural gas distribution networks.</i>

Para Reference	Description of Draft Gas Policy
	Policy framework should provide for fiscal stability.
1.3	<i>The Petroleum & Natural Gas Regulatory Board Act, 2006 (herein after referred to as the Act) provides the legal framework for the development of the natural gas transmission pipelines and city or local gas distribution networks. This policy may be read in conjunction with the provisions in the Act and the rules and regulations framed there under. Unless otherwise stated, the various terms and phrases used in this policy will have the same meaning as stated in the Act and the rules and regulations framed thereunder.</i>
	It is inferred that Central Government is empowered by the Act vide clause 42(2) to make such policies. The second sentence of this para 1.3, therefore, could be amended to read.... “This policy is issued pursuant to clause 42(2) of the Act and the Rules...”
2	APPLICABILITY
2.1 2.1.1 2.1.2	<i>This policy will apply to all natural gas transmission pipelines and city or local natural gas distribution networks except for the following: Pipelines for supplying gas to a specific consumer; Upstream pipelines.</i>
	<ul style="list-style-type: none"> ▪ The exclusion of “specific consumer” pipelines from the purview of this policy (as in the case of Act also), needs to

Para Reference	Description of Draft Gas Policy
	<p>qualify that, if such pipeline infrastructure is put to commercial usage for carrying gas of other than specific consumer, prior permission from the Board would be required to carry others' gas and if such permission is granted the pipeline operations would thereafter be regulated by the Board. This is because captive pipelines will be out of the purview of the act and will not be subject to regulations.</p> <ul style="list-style-type: none"> ▪ Definition of "specific consumer" pipeline must lay a precondition that the pipelines are owned by that "specific consumer"
	<p>International Experience</p> <p>Mexico</p> <ul style="list-style-type: none"> ▪ Pursuant to the Natural Gas Regulations, natural gas pipeline transportation services are subject to a federal permit granted by the Energy Regulatory Commission (CRE). ▪ There are two types of natural gas transportation permits: open access and self-use. Open access transportation permits are granted to those transmission systems that will serve very much like a utility: they are compelled to grant open access on a not unduly discriminatory basis, to any user that requests the service, provided there is available capacity in the system and the parties reach an agreement on the subject matter, as provided under the General Terms of Service approved by the CRE (GTS).

Para Reference	Description of Draft Gas Policy
	<ul style="list-style-type: none"> ▪ For obvious reasons, open access transportation permit holders are heavily regulated and supervised by the CRE. Self-use transportation permits, on the other hand, are exclusively granted to end users or a group of end users organised in a consumption club company, whose transmission systems will not be providing open access services. ▪ There are no restrictions in terms of length and width of the pipeline or the capacity of the system, or the number of end users that can form part of a self-use gas consumption club company. <p><i>Source: Energy Regulatory Commission, PwC Analysis</i></p> <p>Ireland</p> <ul style="list-style-type: none"> ▪ Section 39A(1) of the 1976 Act (as amended by the Gas (Interim) Regulation Act 2002 (the “2002 Act”)) provides that a person, including National Gas Company (BGE), shall not without the consent of the Commission for Energy Regulation (the “CER”), construct a pipeline (other than an upstream pipeline) on, over or under the surface of land or of any seabed that it situated in the territorial seas of the Irish State or a designated area (as defined under the Continental Shelf Act 1968). <p><i>Source: PwC Analysis</i></p> <p>United Kingdom</p> <ul style="list-style-type: none"> ▪ Offshore infrastructure is generally constructed, owned and operated by private companies - in most

Para Reference	Description of Draft Gas Policy
	<p>circumstances, by licensees developing offshore natural gas fields.</p> <ul style="list-style-type: none"> ▪ The principal legislation applying in relation to the construction and operation of offshore infrastructure is the Petroleum Act 1998. The terms of the applicable production licence and field development programme approved by the DTI will also regulate, to a large extent, the construction and operation of offshore infrastructure. <p><i>Source: PwC Analysis</i></p>
2.2	<p><i>The Petroleum & Natural Gas Regulatory Board established under the Petroleum & Natural Gas Regulatory Board Act, 2006 (hereinafter referred to as the Board) shall ensure selection of an entity to lay, build, operate or expand a natural gas transmission pipeline or a city of local natural gas distribution network in a transparent and objective manner with a view to facilitating investments in the sector and protecting the interests of the consumers.</i></p>
	<ul style="list-style-type: none"> ▪ This is in accordance with Section 15(3) of the Act. ▪ Selection of entity to be based on a transparent and objective competitive process to determine the entity.
3	<p>CATEGORIZATION OF PIPELINES</p>
(i)	<p><i>The natural gas pipelines are categorized as follows: -</i></p> <p>Low-pressure pipelines - <i>All pipelines developed for transportation of natural gas at operating pressure upto the level, as notified by the Board from time to time.</i></p>

Para Reference	Description of Draft Gas Policy
	<ul style="list-style-type: none"> ▪ Introduction of category called “Low Pressure Pipelines” is not required. This category is neither defined in the Act nor used in the draft Policy, except in definition of Transmission pipelines, wherein its usage is again avoidable. ▪ If this means pipelines carrying gas at lower pressures than “Medium Pressure” (as defined in the the Act), then pipelines of this type, used typically for internal distribution at users’ end, should not need authorization as per the provisions of the Act. Nor would these pipelines be used for commercial transportation of gas and be allowed to be charged tariff and therefore not be regulated and sought or given third party access on commercial basis. ▪ Only the terminology as used in Act be used in the Policy to avoid any lack of clarity or conflict of terminology. ▪ Further, explanation to Section 2 clause (i) of the Act requires Central Government to notify pressure levels to be considered as ‘high pressure’ and ‘medium pressure’.
	<p>International Experience</p> <p>Romania</p> <ul style="list-style-type: none"> ▪ Natural gas national transport system is the natural gas transport system under high pressure regime, over 6 Bars,

Para Reference	Description of Draft Gas Policy
	<p>made up of trunk pipelines, as well as of all the installation, equipment and due facilities, that ensure the taking over of natural gas extracted from operations parameters or that from the import and its transport for to be delivered to the distributors, direct consumers, export and/or storage.</p> <ul style="list-style-type: none"> ▪ Natural gas distribution activity consists of feeding a system of more final consumers in an area, connected by some distribution pipelines under pressure regime of no more than 6 Bars. <p><i>Source: Law on Natural Gas Regulations, The Parliament of Romania, PwC Analysis</i></p> <p>Spain</p> <ul style="list-style-type: none"> ▪ Transmission is regarded as a regulated activity under the Hydrocarbon Law. The activity is carried out by entities which transmit gas through the primary and secondary pipeline networks. ▪ The primary transmission network consists mainly of high-pressure pipelines (ie, those pipelines with a pressure greater than 60 bar) and compressor stations. The secondary transmission network consists of lower pressure pipelines (ie, those pipelines with a pressure of between 16 and 60 bar). <p><i>Source: The Hydrocarbon Sector law 34/1998, PwC Analysis</i></p>
(ii)	<p>Upstream pipelines - Pipelines constructed and/or operated as part of gas production project which are used to carry natural gas from one or more than one such projects to processing plants or terminals or final coastal landing terminals, laid and operated by</p>

Para Reference	Description of Draft Gas Policy
	<i>the producer or his designated agency. Upstream pipelines also include transnational pipelines and/or sub-sea pipelines from other countries up to the Indian border.</i>
	<ul style="list-style-type: none"> ▪ Upstream pipelines should also include gas pipelines within the boundaries of LNG terminal.
(iii)	<p><i>Pipelines laid to supply natural gas to a specific consumer</i> - <i>Pipelines laid to supply gas only to a specific captive consumer at any pressure.</i></p>
	<p>Definition of “specific consumer” pipeline must lay a precondition that the pipelines are owned by that “specific consumer” to ensure that the pipeline is not allowed to be built by any other entity than the consumer.</p>
(iv)	<p><i>Transmission pipelines</i> - <i>All pipelines authorized by the Board from time to time and other than low pressure pipelines, city or local natural gas distribution networks, upstream pipelines and captive pipelines.</i></p>
	<p>Reference to “low pressure” pipelines here is avoidable.</p>
4.	GRANT OF AUTHORIZATION
4.1	<p><i>No transmission pipeline or the city or local gas distribution network will be laid, built, operated or expanded without the authorization by the Board.</i></p> <p><i>Provided that such an authorization for transmission pipeline shall be granted to any entity only if the design pipeline capacity is at least 33% more than the capacity requirements of the concerned entity plus the firmed up contracted capacity (termed as total</i></p>

Para Reference	Description of Draft Gas Policy
	<p data-bbox="359 378 1997 540"><i>capacity) and this extra capacity is available for use on common carrier basis by any third party on open access and non-discriminatory basis at transportation rates laid down by the Board. The capacity available under "open access" common carrier basis will be allocated on the principle of 'first come first serve' basis.</i></p> <ul data-bbox="359 570 2039 1312" style="list-style-type: none"> <li data-bbox="359 570 2039 670">▪ Second para under Clause 4.1 lays down a precondition that pipeline must have "design capacity" of more than 33% more than the capacity requirement of the entity. <li data-bbox="359 699 1224 735">▪ The term "design capacity" needs to be defined explicitly. <li data-bbox="359 764 2039 927">▪ Also the draft implies that the pipeline laying entity would have its gas quantity to carry, which goes against the spirit of clause 21(1) of Act in which it is envisaged that over a finite period all transmission entities would separate themselves from producing or gas trading entities. <li data-bbox="359 956 2039 1118">▪ A compulsory 33% (or for that matter any such margin defined) would be arbitrary in nature and may lead to stranded assets exposing the developer to market risk. It is also possible that cost of stranded capacity may outstrip the infrastructure benefit. <li data-bbox="359 1148 2039 1312">▪ It may please be noted that the developers are very much willing to create these additional capacities. They would, however, be compelled to pass on the additional tariff owing to this extra capacity to the available gas shippers than waiting to load on the speculated additional shippers.

Para Reference	Description of Draft Gas Policy
	<ul style="list-style-type: none"> ▪ This provision may also tend the anchor shippers, if any, to understate their requirements initially and as the market develops, utilize the “extra capacity” planned. ▪ This extra capacity is suggested by the draft to be made available on “common carrier” basis. This again is not a practical provision since such a large capacity would not be utilized if does not facilitate “take or pay” contracts. ▪ The last sentence in “clause 4.1” is contradictory to the extent that it allows “first come first serve” criteria to be applied for granting access to shippers, despite the pipeline to be on “common carrier” by which it is supposed to be allowing access to the extent of pro-rated to all interested shippers irrespective of their timing of request. “First Come First Serve” is desired and hence “common carrier” term be please deleted. The term “contract carriage” be used to allow “first come first serve” criteria. ▪ The phrase “capacity requirements of the concerned entity plus the firmed up contracted capacity”, may please be replaced with ‘quantity established after an “open season” ▪ Extra capacity may please be finalized by the regulator based on potential of gas availability in future, potential of development of additional pipeline infrastructure on the same route and the potential for market development and/or expansion on the route, rather than by arbitrary percentage.

Para Reference	Description of Draft Gas Policy
	<p>Clarifications by MoPNG</p> <ul style="list-style-type: none"> ▪ It was clarified in the MoPNG meeting on the 2nd June 2006 that this requirement is prescribed owing to the policy of MoF for any industry segment to be given “Infrastructure Status”. It was also stated that the 33% requirement could undergo change by the time policy is promulgated.
	<p>International Experience</p> <p>USA</p> <ul style="list-style-type: none"> ▪ In order to build new pipelines, or expand existing infrastructures, pipeline companies must show to FERC how the new or expanded pipeline will serve the public interest, that it is economically feasible, and that it does not have significant environmental impacts. The certification of new pipeline developments is required under Section 7 of the Natural Gas Act. ▪ Prospective applicants will be required to provide to FERC detailed information on project design, how capacity will be allocated, proposed rates, terms and conditions for service, and identities of any affiliates involved in the production of natural gas in Alaska. In addition, the Commission will require that information provided to one potential shipper be made available to all others. <p><i>Source: FERC, PwC Analysis</i></p>

Para Reference	Description of Draft Gas Policy
	<p>Itlay</p> <ul style="list-style-type: none"> ▪ Itlay provides “public utility status of infrastructure” to Gas transportation network on the basis that they allow access to other end users. The transportation and dispatching of gas is considered to be in the public interest and companies which carry out these activities must connect all end users to their network upon request. ▪ The Letta Decree contains a declaration of the “public utility” status of infrastructural works for the development of the gas network and, as a consequence, companies have the right to expropriate the necessary land to lay pipelines and infrastructures. <p><i>Source: PwC Analysis</i></p>
4.2	<p><i>If any issue arises relating to the transmission pipeline access, capacity booking or the transportation tariff, the entities may approach the Board who may pass such orders as deemed appropriate and fair on the facts of the case based on the provisions of the Act and the regulations.</i></p> <p>This is in accordance with Section 24 (2) of the Act.</p>
4.3	<p><i>The entity authorized to lay, build, operate or expand a city or local gas distribution network will need to follow the market service obligations as may be prescribed by the Board in accordance with the provisions of the Act.. The Board may decide on the period of exclusivity to lay, build, operate or expand a city or local gas distribution network in accordance with its regulations in a</i></p>

Para Reference	Description of Draft Gas Policy
	<i>transparent manner while protecting the consumer interest.</i>
	This is in accordance with Section 11 (f) (v) of the Act.
4.4	<i>Keeping in view the long term plan for the development of the natural gas sector and in public interest, the Central Government may, suo motu, form an opinion about the need for building a transmission pipeline or a city or local distribution network on/in a particular route/geographical area. In that case, the Central Government may suggest to the Board to invite applications from the interested parties in a transparent and objective manner in accordance with the provisions under the Act and as per the procedure prescribed under the regulations.</i>
	No Comments
5	BANK GUARANTEE
5.1	<i>The entity proposing to lay, build, operate or expand a transmission pipeline will be required to furnish to the Board an irrevocable bank guarantee of an amount equivalent to 2% of the project cost, or Rs. 20 Crores, whichever is lower, as a guarantee for commissioning the pipeline project as per the approved time schedule and the outer time limit specified by the Board. A similar bank guarantee of 10% or Rs.5 Crores, whichever is lower, shall be required to be furnished for the city or local gas distribution network. This bank guarantee will be deposited by the selected entity before the issue of authorization. The Board will review the progress of projects periodically with the authorized entities to satisfy itself that the conditions of authorization and milestones</i>

Para Reference	Description of Draft Gas Policy
	<p><i>given in the project report are being fully complied with. If the project is delayed beyond the stipulated period or the milestones and/or any other condition of authorization are not adhered to, the Bank Guarantee of the authorized entity may be forfeited and the authorization cancelled. The Central Government also reserves the right to withdraw the ROU from such an entity and make the same available to any other entity authorized by the Board.</i></p>
	<ul style="list-style-type: none"> ▪ This provision does not consider scope for reasons beyond control of entity like floods, strikes and other natural calamities, delay in getting statutory approvals etc. which could have delayed in achieving milestones. ▪ A reasonable opportunity of being heard be given to entity. ▪ Board may consider reasons beyond control of entity like floods, strikes and other natural calamities, delay in getting statutory approvals etc. before forfeiting Bank Guarantee.
5.2	<p><i>The bank guarantee will be discharged on commissioning of the pipeline/city or local gas distribution network within the time period specified by the Board and satisfactory compliance of the conditions stated in the authorization.</i></p> <p>No Comments</p>
6.	CONDITION UNDER ROU ACQUISITION
6.1	<p><i>The ROU acquisition for any transmission pipeline/city or local gas distribution project under the Petroleum Pipeline (Acquisition of Right of User in Land) Act, 1962 will only be considered by the Central Government after authorization for the</i></p>

Para Reference	Description of Draft Gas Policy
<p>(i)</p> <p>(ii)</p>	<p><i>same has been granted by the Board. The ROU acquisition may be subject to such conditions as may be deemed fit by the Central Government in the public interest. Such conditions may, inter alia, include the following:</i></p> <p><i>Sharing of portions of acquired ROU falling in forest areas, wild-life/marine sanctuaries/parks, prohibited/restricted areas, etc., with other parties.</i></p> <p><i>In case the route/alignment of the pipeline crosses another pipeline route/alignment, the, points of crossing would be decided by mutual agreement between the parties, failing which the matter will be referred to the Board whose decision will be final.</i></p> <ul style="list-style-type: none"> ▪ This leads to increase the total time required to obtain approvals as both the process can be done simultaneously. ▪ Authorisation should not be made conditional to ROU. ▪ If authorization is made to a different entity the ROUs should allowed to be transferred on reimbursement of costs.
	<p>International Experience</p> <p>France</p> <ul style="list-style-type: none"> ▪ A company, having received the authorisation from the minister for energy as regards the construction of transportation pipeline or a storage facility, does not need to obtain the rights to construct on the land concerned. The grant of this right is contained in the authorisation itself.

Para Reference	Description of Draft Gas Policy
	<p data-bbox="363 378 653 410"><i>Source: PwC Analysis</i></p> <p data-bbox="363 443 489 475">Belgium</p> <ul data-bbox="363 508 2032 1055" style="list-style-type: none"> <li data-bbox="363 508 2032 995">▪ The permit for gas transport entails permission to build and operate all necessary transport facilities. The holder of a permit is entitled to conduct all works necessary on public property. The King can declare the construction of a transport facility on private property of public interest. This entitles the operator to construct and operate the facilities on such property. The occupation of public domain or private property does not lead to conveyance, but constitutes a legal easement of public interest prohibiting any act which may harm the facility or its operation. The owner of the private land encumbered with such an easement can ask the operator to purchase his land. If the owner and the operator cannot come to an agreement to sell the land amicably or when the operator asks so, he can be empowered by the King to expropriate the land. <li data-bbox="363 1019 699 1055">▪ <i>Source: PwC Analysis</i>
7	<i>UNBUNDLING OF OPERATIONS</i>
7.1	<p data-bbox="363 1153 2011 1320"><i>Any entity desirous of applying for building, operating or expanding common or contact carrier transmission pipelines will have to give an undertaking that if such an entity has business interests in related areas of gas marketing or city or local gas distribution network or has a related entity (e.g., a parent company, group company, company under the same management,</i></p>

Para Reference	Description of Draft Gas Policy
	<p><i>company, subsidiary or affiliated in any way to create a pecuniary interest) with business interests in such areas, it will ensure an arm's length relationship between transmission activity and these activities or between itself and the related entity as the case may be. Under such conditions, an Affiliate: Code of Conduct between the authorized and related entities or between the transmission activity and other activities of the authorized entity, as formulated by the Board Under the regulations will have to be followed. Any existing entity engaged in transmission activity, which has business interests in related areas of gas marketing or city or local gas distribution network, will follow a similar Affiliate Code of Conduct. The Board will have the right to enquire about the managerial structure/ownership pattern and accounts of the authorized entity and related entities determine that such a relationship is actually at arms length. For this purpose, the Authorized entity shall produce relevant records/documents in respect of itself as well as the related entities for examination by the Board, as and when called for.</i></p> <ul style="list-style-type: none"> ▪ Entity should not be authorised for laying transmission pipelines unless it follows Affiliate Code of conduct. ▪ Policy should lay broad contours of Affiliate code of conduct in terms of ownership separation, accounting separation, legal separation, functional separation & physical separation. ▪ Legal view may please be obtained to ensure that it does not contradict to Section 21 of Act.
	International Experience

Para Reference	Description of Draft Gas Policy
	<ul style="list-style-type: none"> ▪ The Code of Conduct is the document that describes the procedures put in place by a transmission business to implement and enforce the separation of its transmission and supply activities. Each transmission entity that is subject to regulation will be required to prepare such a code. It is envisaged that these codes will be prepared as part of a process of consultation between the regulatory commission and the regulated transmission entity with provision for the participation of other interested parties (for example, producers, eligible consumers, and UGDs) in the consultation process. ▪ A typical Code of Conduct document will include the following elements: <ul style="list-style-type: none"> ○ An Explanatory Note: This will set out the requirement for the document with reference to the specific transmission entity. ○ Definitions: This will set out precise descriptions of the relevant parties and activities that will be referred to in the code. ○ Objectives and Principles: This section includes the transmission entity’s commitment to provide nondiscriminatory access to all eligible and suitably qualified applicants. A key feature of this commitment will comprise the principles governing the management of information flows and the access to information. ○ Management of information flows and the access to information: The transmission entity will receive commercially confidential information from applicants for a transmission-only service. The transmission

Para Reference	Description of Draft Gas Policy																										
	<p>activity has an incentive to pass this information on to its affiliated supply activity. For example, it will find out who, among its customers currently receiving a bundled service, is planning to contract for a gas supply from another supplier. This will allow its affiliated supply activity to target these customers and entice them to remain as customers. This would provide the affiliated supply activity with an unfair advantage relative to other suppliers.</p> <p><i>Source: World Bank - China: Economic regulation of long - distance transmission and urban gas distribution, April 2002</i></p> <p>Belgium</p> <ul style="list-style-type: none"> Vertically integrated gas companies must ensure that the management of their transportation activities has managerial and decision-making independence from the management of their supply activities (so called ‘management bundling’). These management unbundling requirements are detailed in the Royal Decree of April 4, 2003 (The Code of Good Conduct). <p><i>Source: PwC Analysis</i></p> <p><i>Unbundling of Gas industry in various countries</i></p> <table border="1" data-bbox="363 1208 2039 1338"> <thead> <tr> <th></th> <th colspan="2">Unbundling Method</th> <th colspan="2">Published Accounts</th> <th colspan="2">Separate Corporate Identity</th> <th colspan="2">Separate HQ Location</th> </tr> <tr> <th>Countries</th> <th>TSO</th> <th>DSO</th> <th>TSO</th> <th>DSO</th> <th>TSO</th> <th>DSO</th> <th>TSO</th> <th>DSO</th> </tr> </thead> </table>										Unbundling Method		Published Accounts		Separate Corporate Identity		Separate HQ Location		Countries	TSO	DSO	TSO	DSO	TSO	DSO	TSO	DSO
	Unbundling Method		Published Accounts		Separate Corporate Identity		Separate HQ Location																				
Countries	TSO	DSO	TSO	DSO	TSO	DSO	TSO	DSO																			

Para Reference	Description of Draft Gas Policy									
	Bangladesh	N	N	N	N	N	N	N	N	
	China	N	N	N	N	N	N	N	N	
	Hongkong	Financial	Financial	N	N	N	N	N	N	
	Malaysia	N	N	N	N	N	N	N	N	
	Singapore	Own	Own	Y	Y	Y	Y	Y	Y	
	Australia (Victoria)	Own	Own	Y	Y	Y	Y	Y	Y	
	Belgium	Legal	Legal	Y	N	Y	Y	N	N	
	Germany	Financial	Financial	N	N	N	N	N	N	
	France	Financial	Financial	N	N	N	N	N	N	
	Italy	Legal	Legal	Y	Y	Y	N	Y	N	
	Sweden	Financial	Financial	Y	Y	N	N	N	N	
	UK	Own	Own	Y	Y	Y	Y	Y	Y	
	N- No, Y - Yes, TSO - Transmission System Operator, DSO - Distribution System Operator									
	<i>Source: The World Bank - Oil & Gas sector review workshop, 2003</i>									
7.2	<p><i>In the long run and with the maturing of gas markets, it is envisaged that the authorized entities will have transportation of natural gas as their sole business activity and will not have any business interests in the gas marketing or city or local gas distribution networks. Thus, the Board may intervene at an appropriate stage later to ensure unbundling of transportation activity from other activities of the entity.</i></p> <p>No Comments</p>									

Para Reference	Description of Draft Gas Policy
7.3.	<i>The purpose of this policy is to ensure that pipeline ownership does not provide any competitive advantage to any gas seller while establishing an efficient gas grid with open access for all the players on a non discriminatory basis.</i>
	No Comments
8.	<i>GAS GRID CONNECTIVITY</i>
8.1	<p><i>Gas Grid connectivity is with a view to harmonizing the operations and providing inter-connectivity to different transmission pipelines. For the development of the gas sector in India, including the establishment of Gas Grid with open market access for all players on a non-discriminatory basis, a comprehensive set of technical requirements and safety standards as well as a code for gas grid connectivity, to be developed by the Board, is necessary to ensure operational compatibility. Adherence to such standards and codes will be an integral condition of Authorization for transmission pipelines as well as city or local natural gas distribution networks. The Board may refuse access to the gas grid on technical considerations.</i></p>
	<ul style="list-style-type: none"> ▪ Access to Gas Grid should be as per the Pipeline Access Code which will be specified under Section 11 (e) (i) of the Act. The code should also contained detailed circumstances under which access may be refused due to technical considerations.

Para Reference	Description of Draft Gas Policy
	<p data-bbox="359 378 722 410">International Experience</p> <p data-bbox="359 443 489 475">Belgium</p> <ul data-bbox="359 508 2032 1060" style="list-style-type: none"> <li data-bbox="359 508 2032 1060">▪ Belgium has opted for a system of regulated third-party access. Eligible clients and gas suppliers have the right to access the transportation network by paying a fixed tariff approved by the CREG. The gas transportation undertaking will be entitled legally to refuse to grant access to its grid in the event of lack of capacity, if access would prevent proper compliance with public service obligations it is entrusted with, or if the operator seeking access does not meet the applicable technical requirements that are set on the basis of the Code of Good Conduct. The Code requires the gas transportation undertaking to define, inter alia, the minimum technical requirements for connection to the transportation grid, together with operational rules governing the management of energy flows on the network, taking into account exchanges with other interconnected systems and balancing requirements. It also allows the gas transportation undertaking to take the necessary steps to maintain or restore balance in the grid. <p data-bbox="359 1084 653 1117"><i>Source: PwC Analysis</i></p> <p data-bbox="359 1149 474 1182">Canada</p> <ul data-bbox="359 1214 2032 1320" style="list-style-type: none"> <li data-bbox="359 1214 2032 1320">▪ Access to Canadian gas transmission and distribution systems is gained through private contracts formed between the pipeline company and the gas owner. Although such contracts may provide for firm or interruptible service, all

Para Reference	Description of Draft Gas Policy
	<p>pipelines are operated on an open access and non-discriminatory basis. The National Energy Board Act provides that all pipelines are common carriers and pipeline owners have an obligation to receive, transport and deliver all gas offered for transmission through the pipeline.</p> <ul style="list-style-type: none"> ▪ The Act also prohibits unjust discrimination in tolls, service or facilities against any person or locality. Where excess capacity exists along a pipeline, it is allocated through a queuing system or ‘open season’ procedure. <p><i>Source: PwC Analysis</i></p> <p>France</p> <ul style="list-style-type: none"> ▪ The French authorities have made the choice of a regulated access to the transmission grid. ▪ Article 2 of the Gas Law provides that ‘eligible customers’ and suppliers or their agents have a right to access natural gas transmission networks under conditions provided for in agreements with the operator concerned. ▪ Once concluded, the contract for access should be transmitted to the Energy Regulation Commission (CRE). ▪ Any refusal to conclude such a contract by a network or infrastructure operator has to be substantiated and notified to the applicant and to the CRE. ▪ The criteria for refusal may only be based on considerations relating to: (i) lack of capacities or technical reasons relating to the integrity and security of the grid; (ii) privileged access decided by the minister for energy in order to

Para Reference	Description of Draft Gas Policy
	<p>ensure compliance with public service obligations; or (iii) the fact that the system operator faces financial and economic difficulties due to on-going long term 'take-or pay' supply agreements.</p> <p><i>Source: PwC Analysis</i></p> <p>Kazakhstan</p> <ul style="list-style-type: none"> ▪ In accordance with the general provisions of the Petroleum Law and the Rules, a transport company shall provide free access to the gas transportation system suppliers at any time, and execute a contract for gas transportation subject to (i) the availability of surplus capacity for the transportation of a declared volume of gas in the gas transport system from the point of connection to the place of gas extraction during the entire period of its supply; and (ii) the conformity of quality of the supplied gas to the standards and specifications accepted, unless otherwise established by international treaties. <p><i>Source: PwC Analysis</i></p> <p>China</p> <ul style="list-style-type: none"> ▪ Construction and operation of a natural gas transportation pipeline or storage facility requires approval by the National Development and Reform Commission (NDRC), the Ministry of Land & Resources (MOLR) and the state environmental protection administration.

Para Reference	Description of Draft Gas Policy
	<ul style="list-style-type: none"> ▪ Access to a gas transportation system is a matter for commercial negotiation between the relevant parties and depends on whether there is extra capacity to accommodate any new throughput. ▪ Such access is usually subject to the approval by the National Development & Reform Commission (NDRC) or its local branch (depending on the investment scale of the system), after its consultation with other relevant governmental authorities (such as environmental authorities and technological supervision authorities). ▪ Balancing, adjustment of gas qualities are usually specified in the approval documents by the NDRC. <p><i>Source: PwC Analysis</i></p> <p>Spain</p> <ul style="list-style-type: none"> ▪ Transportation companies can refuse access to their networks in certain circumstances, such as: (i) lack of capacity in the network; (ii) inability to meet prior supply commitments; and (iii) serious financial difficulties. <p><i>Source: PwC Analysis</i></p>
8.2	<p><i>Whenever the Board deems it necessary or expedient, it may set up a Committee of transporters of gas to advise on the managerial and operational aspects of the transmission pipelines. However, such advice will not be binding on the Board.</i></p>
	<p>No Comments</p>
9.	<p>TRANSPORTATION TARIFF</p>

Para Reference	Description of Draft Gas Policy
	<i>The transportation tariffs of the common or contract carrier transmission pipelines or city or local natural gas distribution network as also the manner of determining such tariffs will be laid down by the Board as per the provisions under the Act and the regulations.</i>
	This is in accordance to Section 22 (1) of the Act.
10	TECHNICAL & HSE STANDARDS
	<i>The Central Government/Board, in consultation with the Oil Industry Safety Directorate (OISD), shall review the existing rules & standards, their applicability and develop a comprehensive set of technical & HSE standards in respect of natural gas transmission & distribution pipelines and city or local natural gas distribution network. These standards shall cover technical & HSE parameters in design, laying, operation & maintenance of natural gas transmission & distribution pipelines and city gas distribution networks including associated facilities & equipment considering inter alia gas grid connectivity issues. The Board shall lay down the standards as per Section 11 (i) of the Act to ensure seamless development of natural gas transmission & distribution infrastructure in the country.</i>
	No Comments
11.	STATUTORY CLEARANCES
	<i>The authorized entities will be required to obtain various statutory clearances including the environmental clearance for laying,</i>

Para Reference	Description of Draft Gas Policy
	<i>building, operating or expanding a transmission pipeline or a city or local gas distribution network.</i>
	No Comments
12.	<i>ROLE OF STATE GOVERNMENTS</i>
12.1	<i>The State Governments have a paramount role in facilitating speedy and timely completion and operation of transmission pipeline and city or local natural gas distribution network projects by ensuring various statutory and other clearances on a fast track basis. The Central Government shall take up the matter with the State Governments accordingly.</i>
	No Comments
12.2	<i>The State Governments shall prepare their plans for developing the city or local gas distribution networks wherein they shall prioritize the cities or local areas to be taken up for setting up gas distribution networks. While prioritizing such cities or local areas, they may be guided by environmental concerns, domestic & industrial fuel requirements, etc.</i>
	Natural Gas is Central Subject as per the Constitution. The role of State Government in prioritising cities or local areas to be taken up for setting up gas distribution networks is not clear as the priorities and investment decisions will be market determined.
13.	<i>FOREIGN DIRECT INVESTMENT POLICY</i>
	<i>The need for attracting the Foreign Direct Investment (FDI) in the infrastructure sector has been recognized as one of the</i>

Para Reference	Description of Draft Gas Policy
	<i>important drivers of the economic growth of our country. The Central Government has been making all efforts to invite and facilitate FDI to complement and supplement the domestic investment. FDI upto 100% is permitted in the laying of natural gas pipelines under the automatic approval route.</i>
	No Comments
14.	<i>GAS TRANSMISSION PIPELINES TO HAVE INFRASTRUCTURE STATUS (to be finalized in consultation with MoF)</i>
	<i>Gas transmission pipelines are important infrastructure projects which enable the availability of gas to the various industrial units, including those in the crucial power and fertilizer sectors, in various parts of the country. Considering that the gas transmission pipelines are envisaged to have extra capacity available for use on common carrier basis by any third party on open access and non-discriminatory basis, as brought out under para 4.1 above, such pipelines would come in the category of public infrastructure and would get infrastructure status and incentives available in terms of Section 10 (23G) and 80 IA of the Income Tax Act.</i>
	Section 10(23G) has been deleted from Income Tax Act with effect from April 1, 2006.
15.	<i>NATIONAL GAS ADVISORY BODY (NGAB)</i>
	<i>To promote and develop the transmission pipeline network and the city or local gas distribution networks in the country, there</i>

Para Reference	Description of Draft Gas Policy
	<p><i>shall be a "National Gas Advisory Body" (NGAB) for giving advice to the Central Government on the subject. The Secretary, Ministry of Petroleum and Natural Gas (MOP&NG) shall be the Chairman of NGAB and it will comprise representatives from the major gas consuming Ministries/Departments, State Governments, oil and gas industry, consumer organizations and industrial chambers/associations/expert bodies. The MOP&NG may notify the constitution of the NGAB from time to time. The advice of the NGAB shall not be binding on the Central Government.</i></p>
	<p>No Comments</p>
16.	LONG TERM PLAN
	<p><i>With a view to facilitating the creation of a National Gas Grid and growth in the development of the city. or local natural gas distribution networks, the Central Government may prepare a long-term perspective plan for creating gas pipeline network in consultation with the Board, State Governments, oil & gas industry, gas consuming industries and other stake-holders. The perspective plan will take into account the projected availability of gas /LNG from different sources, the demand centres and the need for Central Government intervention, if any, in making gas available to the consumers in different locations in the country. The long-term Plan will be kept in view by the Board, while authorizing/approving new gas pipelines or city or local natural gas distribution networks. The Central Government may review the perspective plan from time to time and modify the same appropriately.</i></p>

Para Reference	Description of Draft Gas Policy
	No Comments
17	MISCELLANEOUS
17.1	<i>Regulatory reforms permit and encourage market forces to enhance competition and produce a more competitive and efficient industry structure. While there is growing recognition that competition can reduce the need for regulation, in most industries there exist some areas of monopoly where the benefits of regulation potentially outweigh the cost.</i>
	The above statement is not in nature of policy directive and may be deleted.
17.2	<i>The Central Government/Board would make all efforts for achieving the aims and objectives of this policy for coordinated development of Pipeline and city or local natural gas distribution networks/infrastructure across the country.</i>
	The above statement is not in nature of policy directive and may be deleted.
17.3	<i>This policy will supercede any other policy prevailing on the subject.</i>
	No Comments