

# CGD Forum Update



A New Voice for India's  
Natural Gas Industry

April 2013

## CGD FORUM'S FIRST MEETING

# A Step in the Right Direction



In a historic first, the recently established Natural Gas Society (NGS) initiated steps to bring key players in the City Gas Distribution (CGD) industry together on a common platform through the CGD Forum. The Forum, a focus area of NSG, is aimed at creating a consensus on issues that constrain the growth of the CGD industry and at lobbying for policy change to provide an impetus to the development of this industry.

The first-ever meeting of the CGD Forum of NGS was held on March 14, 2013 in New Delhi. It was hosted by Mr. Prabhat Singh, Director (Marketing), GAIL (India) Limited, and attended by representatives of eight industry players apart from NGS and GAIL officials.

In his opening remarks, Director (Marketing), GAIL, welcomed NGS' initiative to pioneer the CGD Forum as the CGD sector was one of the most dynamic within the natural gas industry in the country today. He expressed satisfaction that several companies operating in the CGD sector had come together to discuss and deliberate on issues of common interest to them. He emphasised that such

## HIGHLIGHTS

### The meeting was chaired by:

- **Mr. Prabhat Singh**, Director (Marketing)

### Issues presented by

- **Mr. J. Wason**, Chief Executive Officer (CEO), GAIL Gas Limited
- **Mr. M. Ravindran**, Managing Director (MD), Indraprastha Gas Limited (IGL)
- **Mr. R. Sharma**, CEO, Adani Energy
- **Mr. V. C. Chittoda**, MD, Mahanagar Gas Limited (MGL)
- **Mr. M. C. Deogam**, MD, Tripura Natural Gas Company Limited (TNGCL)
- **Mr. C. D. Joshi**, MD, Green Gas Limited
- **Mr. Rajesh Wagle**, MGL
- **Mr. Durgesh**, Chief Manager (Projects), Sabarmati Gas
- **Mr. Vivek Joshi**, Executive Director, NGS

**"IMMEDIATE ACTION REQUIRED IS TO HAVE A COHESIVE VOICE"**  
– Rajesh Vedvyas

**"SUCH COLLABORATION IS IMPERATIVE FOR THE GROWTH OF THE SECTOR"**  
– Prabhat Singh

**"THE OBJECTIVE OF THE FORUM IS TO LOOK AT LONG TERM AT LONG TERM GROWTH AND PROSPERITY OF THE SECTOR."**  
– Rajiv Mathur



## SPECIAL WORKING GROUP SET UP

It was decided to set up a working group led by CEO, Adani Gas with MD, IGL as the Co-Chair and CEO, GAIL Gas and MD, MGL as members. It was agreed that one more official from these organisations shall be nominated to work on the various issues identified during the meeting.

The working group will work initially on following areas:

1. Study on Long-term Growth of the CGD Sector
2. Safety (CNG Cylinder Issue)
3. Skill Development

collaboration was imperative for the growth of the sector.

He suggested that the meeting should identify a few priority issues, so that approach papers with possible solutions and timelines for implementation may be developed on each issue by expert groups; the NGS could take up these issues with the concerned stakeholders.

ED, NGS, welcomed the participants and made a presentation on the NGS, highlighting its objectives, structure and operations, emphasising that the CGD Forum was an area of critical focus for the NGS. He added that CGD companies, through their membership of NGS, could find place in the Governing Council as well as the Management Committee of the Society. He announced that, within the CGD Forum, Expert Committees would be set up on specific issues such as Safety, Skill Development, Taxes & Levies, Regulations, etc. He urged the participating companies to become members of the NGS at the earliest.

It was also agreed that, in order to give impetus to the initiative, a CGD Forum would be held every month initially. CEO, Adani Energy proposed that the next meeting could be held in Ahmedabad.

## DELIBERATIONS

# Issues of Concern

NGS had requested CGD companies to send information on pertinent issues for discussion at the meeting. The meeting focussed on issues sent in by participating companies.

**Mr. Rajiv Sharma, Adani Energy, referred to:**

**Safety of Cylinders:** The onus of ensuring and certifying the safety of CNG cylinders lies with the concerned CGD company. This is a legacy of the law formed for industrial gas cylinders which was later extended to LPG cylinders and then to CNG cylinders. However, there are practical difficulties in inspection and testing of CNG cylinders which are fitted into vehicles.

There are multiple agencies such as the Automotive Research Association of India (ARAI) and IIPM that approve the kits. These agencies approve only the emissions and there is no precise certification of the kits per se. The Petroleum and Explosives Safety Organisation (PESO) is an executive/enforcement body with no authority to formulate rules or amend laws. It holds the CGD company responsible for any adverse incident.

World-wide NGV norms for safety are increasingly being followed, while India follows NZS standards which are gradually being phased out from other markets. NGV norms require a CNG cylinder to be tested once after which it is certified for a 15-year use, and then scrapped. There are studies to show that intermediate testing actually compromises the safety of cylinder by increasing the chances of failure due to fatigue. However, Indian standards require testing, including hydro testing, every five years.

We suggest that relevant ministries such as the Ministry of Petroleum & Natural Gas (MoP&NG), Ministry of Heavy Industries and Ministry of Surface Transport need to be convinced to amend rules





in line with global practices so that they are more pragmatic.

**Excise:** Excise was introduced for the first time in 2001 and, in 2003, the word 'transport' was dropped from the Circular, which went unnoticed. According to present provisions, every CNG outlet is treated as a different 'factory' and separate registration is required for each. This implies that each CGD company operating in a particular city requires multiple excise licenses since the law does not permit single license. There are several grey areas in this provision and every company is trying to overcome the problem in its own way.

**Sales Tax/VAT:** Different tax rates are applied on the same product even within the same state.

**Property Tax:** Property tax is charged by local authorities and since they are empowered to decide the quantum of property tax, they demand exorbitant amounts. There is no clarity on what should or should not be done. It was suggested that a law in line with the one for laying OFC cables could be introduced to ensure a single rate of taxation.

**Urban Land for CNG Stations:** When Master Plans for various towns and cities are developed, no provision is made for CNG infrastructure. Hence, private land acquired, which is a time-consuming process. Setting up a single CNG station requires 23 permissions. Therefore, a single window clearance system should be sought for setting up CNG stations.

**Conflicting Regulatory Bodies:** There are multiple regulatory agencies working at variance with each other in the sector. These include the Petroleum and Natural Gas Regulatory Board (PNGRB), CCI, Oil Industry Safety Directorate (OISD) and PESO.

**Third party damage:** Despite sharing of pipeline maps, plans and routes with various utilities, there are a large number of incidents of gas escapes in the CNG network. There is no provision for demanding compensation for such damage caused by a third party.

**PNGRB Regulations:** Present PNGRB regulations do not encourage investment; they should be such that they promote investment and facilitate growth of the industry.

**Central UP Gas Limited (CUGL) sent in the following**

**ing points:**

- Top priority of CGD sector is gas allocation from KG D-6 by MoP&NG.
- CNG has been classified under excise as a manufacturing activity attracting an excise of 14.42 percent which is not applicable in natural gas.
- Long delays in obtaining forest, environment and highway clearances for laying of pipelines
- Development of CNG corridor across the country.
- Advantage for setoff of entry tax has been provided to oil products and natural gas whereas this is not applicable to PNG and CNG being sold by CGDs in UP.
- Natural gas is covered under schedule-4 of UPVAT Act and therefore the benefit of input Tax credit is not available which is being provided in other states like Gujarat, Maharashtra, Haryana, Delhi, Madhya Pradesh, etc.
- CNG and PNG should be notified as declared goods under GST.
- Local state and district level approvals involve long delays and high ROU/RR charges.

**Mr. C. D. Joshi, MD, Green Gas Limited** said that since the company was Lucknow-based, it had lobbied with the UP Government to get the rates of various taxes such as Excise, VAT, etc., reduced. It is expected that such a provision may be brought in during the Budget to be presented next year.

RR charges levied by local authorities are very high, approximately Rs. 1 crore per km of pipeline.

**Mr. M. Ravindran, MD, IGL** referred to the period of exclusivity as decided by the regulator as an important issue as also the safety standards fixed by the Transport Department, CCOE, etc., have several lacunae. In addition, many vehicles operating in Delhi are not properly registered with the Transport Department.

The Government, he said, was contemplating bringing the Auto Policy into effect in 2015 when Euro V norms for liquid and hybrid transport fuels are likely to be introduced. CNG is presently not included in the scope of this proposed Auto Policy. CNG does not figure in the road map of Ministry of Heavy Industries.





# Interaction

During the interactions which followed, various speakers gave their comments and suggestions on various issues including those raised by the speakers. Some of these were:

**ED, NGS:** The Society of Indian Automobile Manufacturers (SIAM), for the first time, has agreed to partner with the ANGVA 2013 being organised in India. SIAM has given to understand that most LCV and heavy vehicle manufacturers have the requisite technology for CNG vehicles but are awaiting an enabling market environment to roll out their products. There is a 'Gaseous Fuels' group within SIAM which is headed by Maruti which is keen to partner with NGS to make presentations to various central and state government authorities to further the cause of the CGD sector.

**CEO, GAIL Gas:** Regulatory bodies are looking for ideas. The CGD Forum should come up with different ideas on regulatory issues and present them to the regulator.

**Director (Marketing), GAIL:** The following issues should be taken up by CGD Forum on priority:

- **Safety:** Globally accepted latest standards need to be applicable in India. A paper should be developed which can then be debated upon and an action plan evolved to mobilise all stakeholders within a timeline. Thoughts need to be channelised to identify the correct agency.
- **Skill Development:** PNGRB plans to roll out CGD in over 200 cities, and an estimated 30,000 to 40,000 skilled persons would be required every year over a period of 10 years to cater to the requirement of skilled manpower for this sector. Using their Corporate Social Responsibility budget, companies should collaborate with Industrial Training Institutes (ITIs) along the pipeline route, in villages, to create a pool of skilled people from which requisite manpower could be drawn as and when required by the contractors.
- **Growth:** Factors that inhibit CGD industry growth including valuation, authorisation, licensing need to be identified. Suggestions on proliferation in a transparent manner are required. Collaboration with SIAM and other like-minded organisations could be promoted to develop CNG corridors. There needs to be some provisions within the Act that people who have transportation pipeline passing through a region can set up CNG stations without waiting for a 'Geographical Area' to be advertised. Education of stakeholders is required in this

regard. The CNG station could be operated for three-four years and then transferred to the CGD entity authorised for that Geographical Area. More OEMs could convert to CNG vehicles. The process of how CGD is being auctioned needs to be looked at.

- **Tax issues:** One tax issue may be identified out of the entire gamut of tax issues so as to make the outcome of this Forum more tangible.

- **A paper to dispel notions** on "Euro V is better than gas" could be developed.

**ED (Mktg.)-II, GAIL:** Tariff calculation by the regulator is an important issue. The immediate action required is to generate a cohesive voice as at present there is no consultative voice for PNGRB from within the industry. Another issue is the period of exclusivity as any rigid view in this regard goes against the business model. An enabling environment is a must for the sector to evolve and grow.

**MD, MGL:** Some important issues include safety, and threat from liquid fuels. Efforts should be made to highlight the advantage of natural gas ('Green Longevity'). CGD should be made a sustainable business with the price levels and a premium could be charged for the environmental benefit of the fuel. Local authorities are charging unreasonable levies on the construction work including charges under the 'Mining' Act.

**CEO, Adani Energy:** Adani has developed a suitable syllabi of CGD skills which the ITIs have accepted. The students could be made to pass a qualification test conducted by an industry recognised institute or NGS and all CGD companies could then decide to hire persons (through contractors) who have passed the qualification test.

**Mr. Rajeev Mathur, ED (Mktg.)-I, GAIL:** The objective of the CGD Forum is to look at long term growth and prosperity of the sector and we need to bring in learnings from elsewhere in the world so as to develop steps to achieve this objective. We in India are trying to achieve in terms of regulation, in a period of five or 10 years, which other countries with mature gas markets have done in several decades.

**Chief Manager (Projects), Sabarmati Gas:** Issues of exclusivity of pipelines, availability of cheap gas, long duration required for taking permissions and environmental clearances are critical.

**Director (Marketing), GAIL:** A model needs to be developed on making CGD viable even with high gas prices. An environmental premium could be charged on the natural gas. We could debate that exclusivity is not required as a business case, however, as a Forum, we could still lobby for it since it would be more beneficial for the CGD companies.

