



# NATURAL GAS SOCIETY

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To,  
The Secretary,  
Petroleum and Natural Gas Regulatory Board,  
1<sup>st</sup> Floor, World Trade Centre,  
Babar Road,  
New Delhi:-110001.

## **SUBJECT: COMMENTS ON COMMITTEE REPORT FOR ALTERNATE MODELS OF BIDDING CRITERIA FOR DEVELOPMENT OF CGD NETWORK**

Respected Madam,

PNGRB had solicited views and comments on **Committee Report for Alternate Models of Bidding criteria for Development of CGD Network** vide its **Public Notice No: Infra/CGD/Bidding Criteria** dated **05th October 2017**.

In view of the above, Natural Gas Society (NGS) is submitting the following for your kind consideration:-

1. The Committee's report on 'Alternate Models of Bidding Criteria for Development of CGD Network' is a much needed exercise and NGS welcomes it. NGS respects the dignity of the Committee and appreciates the positive intentions and efforts of PNGRB & MoPNG.
2. The Committees' recommendations (changes) on most of the parameters are in a positive direction and the recommendation on the exclusivity period for marketing is definitely an improvement although given the long pay-back period, an increase of 5 more years (i.e. a total of 15 years) would have been greatly welcomed. With regard to CAPEX, an increase weightage is a step in right direction but the rational for the non-inclusion of certain costs

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in the CAPEX for instance 'land, building, movable assets, dispensers, etc' has not been explained. Also the devising of the mechanism for benchmarking of CAPEX on a normalized basis has not been explained. In the case of bid-bond also there appears to be no specific reference to the 'Additional Bid Bond'. Since there is almost nil probability of a tie, it is assumed that it is no longer required to be given along with the bid ('Additional Bid Bond' and the subsequent 'Performance Bond' cause great financial stress to the entities and these entities tend to get highly leveraged thus limiting their capacity to bid for new cities, especially in view of increased weightage to CAPEX).

3. Regarding the **Recommendation for increase in gas consumption in CGD**, various important issues have been listed. However there are certain, we feel, very significant areas where adequate attention and action would not only increase the speed of response of bidders but also facilitate faster implementation of the spread of CGD in the country.
4. Some of these issues (which need serious rethinking) have been highlighted by NGS at various forums, and we once again take this opportunity, to highlight three significant areas for your kind consideration:-
  - i. **Availability of basic data of cities being bid** : For every city that is being put-up for bidding by PNGRB, each bidder needs to undertake detailed feasibility report (DFR). For this bidders need to incur unnecessary expenditure. Data collections and analysis (especially when one organization seeks to bid for multiple cities requires considerable time) and can lead to delays and request for extensions.

Even on earlier occasions, NGS had suggested that 'Basic Data Report', if not 'Detailed Feasibility Study' for all the cities could be generated by PNGRB and provided to the prospective bidders (at a cost, if necessary; although this if undertaken by PNGRB could easily be absorbed by it given the surplus available with it). This would enable all bidders to carry out swift feasibility study and also reduce the overall industry cost in the process.

NGS would be more than willing to partner with PNGRB in this matter. NGS is a not-for-profit society of the natural gas industry with special focus on CGD and can therefore be a low cost resource for this exercise. As we have said earlier this would





not only ensure saving in time and cost for bidders but will also ensure least delay for any.

- ii. **Infrastructure financing and tax breaks** : The most important bidding criteria for the CGD network is CAPEX. Even assuming, a low average CAPEX of INR 100 crores (although we know that it can go upto INR 400 crs and more), then to develop CGD network in 50 GAs, one would require about INR 5000 crores. This is a significant amount to be invested with the additional aspect of long pay-back periods. Therefore, it is important to develop an adequate infrastructure financing mechanism for this sector.

A relaxation/exemption from taxes and levies (this aspect of inclusion in GST and uniformity of taxes is also included in the recommendation of the committee) will be of help. However, given the desired pace of growth, the investment requirements will keep on increasing with the increase in number of cities and therefore any special infrastructure finance fund would be of great help in expediting the penetration of CGD networks.

- iii. **Selection of cities (GA)** : Growth of CGD network will be highly challenging without the support of local governments. Lack of support and facilitation at the local level and by local governments can seriously impact the progress in implementation of CGD networks. Therefore, may be it is time now to relook at the manner in which identification of cities for CGD networks is being done.

NGS feels that the following could be an alternate model for selection of cities:

- Identification of cities based on proximity to trunk pipelines.
- Prioritization of cities based on potential to attract bids (using the basic data reports to be compiled as we have referred to above).
- Circulating the list to state and local governments and inviting their offers for introducing CGD networks in the identified cities (In a similar manner as adopted for the selection of smart cities). The local governments can be asked to propose the extent of facilitation that they would provide for launch of CGD network in their area. This could be, for example, willingness to mandate the public transport on CNG, low taxes, declaration of Subsidized-LPG-free zones



ban the use of polluting fuels in industries (Petcoke, coal, fuel oil, diesel generators, etc)

There is enough justification to seek such concessions or promotional support from local governments for CGD as the government is providing priority allocation of domestic lower priced gas for CGD. This exercise of selection of cities could be done by PNGRB or MoPNG.

NGS is of the view that this model for selection of cities will not only increase the response of bidders but will also substantially increase the attractiveness of the cities for bidding and ensure the support of local governments leading to a much faster spread of CGD networks.

We would like to thank PNGRB for this opportunity to offer our comments on the subject and would be available to the Regulatory Board for any further association in this subject.

Thanks & regards,

  
(Vivek Joshi)

Executive Director

