

Setting up of LNG stations in India will not require authorization from PNGRB/Government

09 June 2020 | by Sushmita Haldar



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Petroleum and Natural Gas Regulatory Board

The Petroleum and Natural Gas Regulatory Board (**PNGRB**) was set up by the Government of India (**GOI**) as the downstream regulator. Since its incorporation, PNGRB has been actively undertaking the role of protecting the interest of consumers by fostering fair trade and competition amongst the entities. PNGRB derives its power from the PNGRB Act 2006, which gives broad power to the board to regulate, among others, pipeline infrastructure, including city gas distribution (**CGD**) networks. However, the journey of PNGRB has not been without controversy; in the past, the Supreme Court had to strike down regulations under which PNGRB attempted to regulate marketing margin for CGD entities as being ultra-virus the PNGRB Act. Since then, PNGRB has been cautious in exercising its power. The PNGRB Act has also received criticism for lacking clarity with respect to the power of the PNGRB to regulate many aspects of the downstream sector, namely, consumer interest and commercial relationship between entities other than transportation tariff.

Recent Development

Recently, operators of LNG terminals have been seeking clarification from the PNGRB on setting up LNG station, given the broad definition of CGD network provided under the PNGRB Act. The law requires authorization from the PNGRB for setting up of CGD network, which has been defined to include, among others, transporting natural gas to domestic, industrial, or commercial premises and CNG stations situated in a specified geographical area (**GA**). CGD entities are the authorized entities to transport natural gas to retail consumers and the definition of natural gas includes LNG. Hence the questions, are CGD entities alone be allowed to set up LNG stations, and do other entities proposing to set up LNG stations require authorization from the PNGRB? PNGRB, in response to queries, analysed the definition of CGD network, natural gas and CNG station to find that the definition CNG station is limited to the sale of CNG, and CNG is limited to gas compressed to the pressure ranging from 200 to 250 bars in the gaseous state. Whereas, LNG is available only in liquid form and is not required to be kept at any defined pressure and is dispensed to vehicles only in liquid form, unlike CNG, which is dispensed in a gaseous state.

PNGRB Clarification

PNGRB clarified that the law has extensively covered CNG stations and even the mode of granting authorisation to an entity that is desirous of establishing or operating a CGD network, which is essential for establishing or setting up a CNG station. But there is no provision under the PNGRB Act, which states that the LNG station can only be set up by an entity that has been authorized for developing a CGD network. Accordingly, PNGRB has clarified that any entity can set up a LNG station in any GA or anywhere else, even if it is not the authorized entity for that GA. However, such entity will be required to comply with other provisions of the PNGRB Act and regulations enacted by the PNGRB, including Technical Standards and Specifications.

New Opportunities

With the push from GOI to use CNG and LNG as an alternative to diesel and petrol until automakers develop efficient and affordable electric vehicles, this clarification will allow the LNG terminal operators, such as Petronel LNG Limited and Shell, who were looking for opportunities to sell LNG to retail customers, to open LNG stations. GAIL, the country's largest gas marketer, is already in talks with ExxonMobil, Mitsui, and fleet owners to build a network of LNG stations along the country's 6,000 K.M. long golden quadrilateral expressway. This clarification by PNGRB would open up opportunities for public sector undertakings and private retailers to enter the retail LNG market.

About the Author

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Sushmita has over 14 years of experience in advising on oil & gas projects and has worked with leading law firms and multinational oil & gas companies in India. She has extensively advised on upstream and downstream oil & gas sector. On the upstream sector, she has advised, amongst others, on Production Sharing Contract, Joint Operating Agreement, Joint Bidding Agreement, and Area of Mutual Interest Agreement. On the downstream sector, she has advised, amongst others, on Gas Sale Agreement, Gas Transmission Agreement, LNG terminal, and regulatory issues.

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