

7<sup>th</sup> Petro India – NG Policy & Regulatory Issues  
USO in O&G Sector – India experience  
September 2008

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**Ambit of USO**

Monitoring Service Standards

PNGRB Regulations

Access & Affordability Related Obligations

Imperfections induced

Summary

Ambit of USO

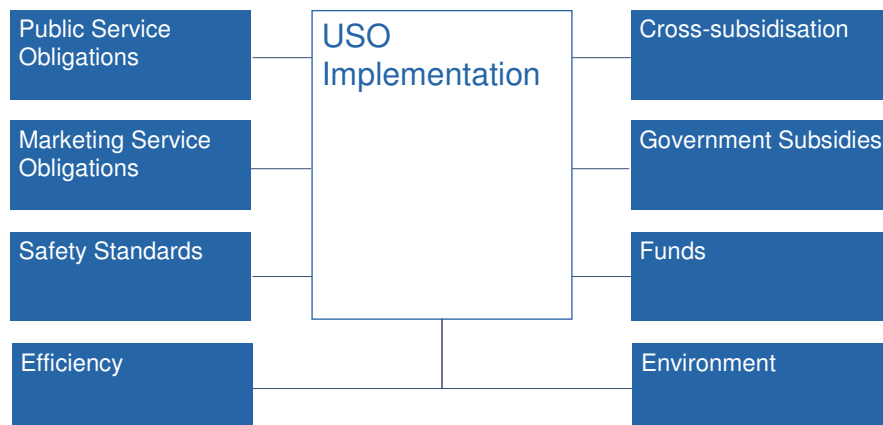
Notion of allowing private companies to provide services that have a public nature, spawned the public interest concept.

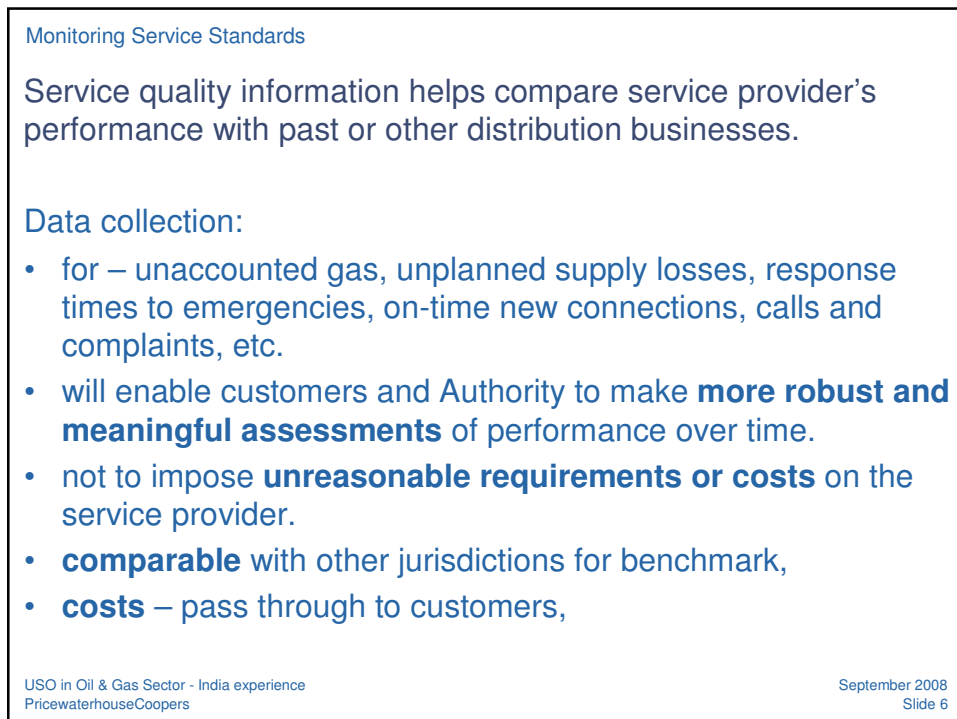
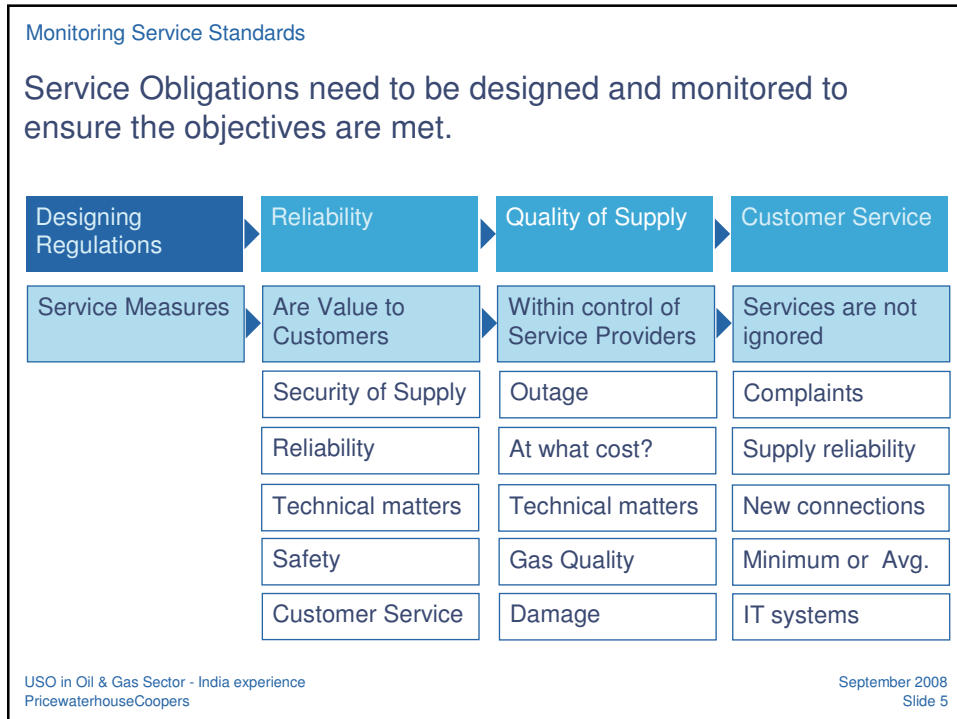
USO Design and implementation:

- Service usage pattern is not uniform amongst the consumers;
- Some are large consumers; some others are low on usage;
- Variations also exist between urban and rural;
- Although the latter in both cases fetch low revenue, they have high cost of provisioning;
- In absence of obligations, service providers would cherry-pick;
- Quality, Safety and Price regulation to meet minimum levels.

Ambit of USO

Those standards revolve around fundamental service concerns regarding price/cost, efficiency, adequate service, and safety.





## PNGRB Regulations

The Regulatory legislation enacted in April 2006 provides for marketing service obligations for petroleum and gas suppliers.

The Regulatory Board is expected to make notification(s) around Marketing Service Obligations (MSO) and regulate them.

*The PNGRB Act 2006*

Section 2(w) "marketing service obligations" means obligations –

- i. to set up marketing infrastructure and retail outlets in remote areas in respect of notified petroleum and petroleum products;
- ii. to maintain minimum stock of notified petroleum and petroleum products;
- iii. of a local distribution entity to supply natural gas to the consumers; and
- iv. such other obligations as may be provided by regulations.

## PNGRB Regulations

Regulations for Service Obligations notified by PNGRB in regulations around Authorizing Entities cover some areas.

- Obtaining statutory permits, clearances and approvals & ensuring their validity;
- Providing assurance of gas supply to customers;
- Charging approved tariff from the end customers;
- Appropriate systems and procedures for safe operation;
- Complete disclosure of information on delivered price & tariff;
- Services and database to be maintained by the entity;
- Ensuring confidentiality of customer information;
- Establishing systems and procedures for addressing customer complaints.

PNGRB Regulations

Quality of Service Standards notified by PNGRB supplement the Regulations on Service Obligations.

System upkeep & customer classification
Request for connection
Metering and Billing
Disconnection of Supply
Network Interruptions
Emergency Response Handling, Customer handling
Information disclosure and customer awareness
Maintain Database



PNGRB Regulations

Service Obligations and Standards need to cover all aspects and the notified regulations need review to cover them.

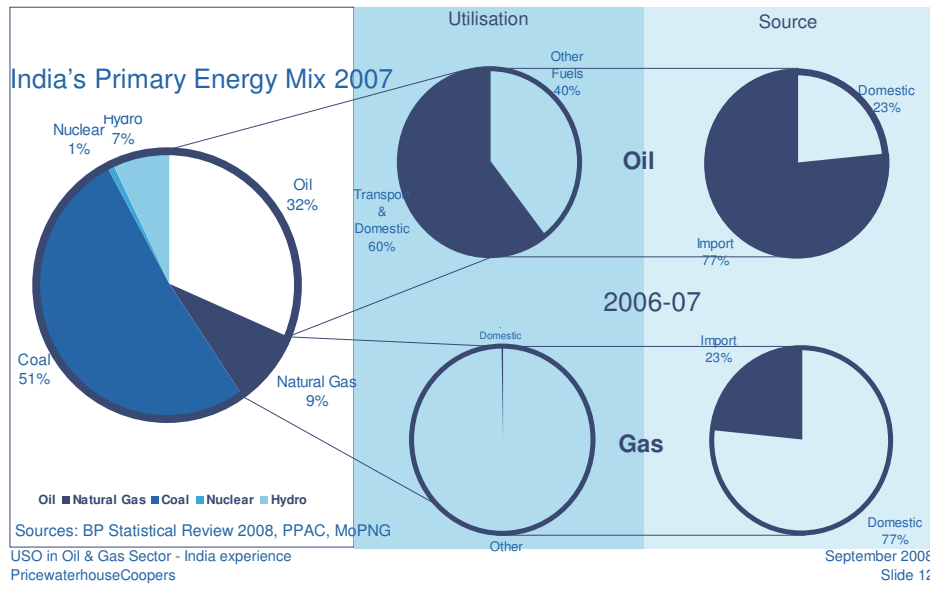
SERVICE ACCESS OBLIGATIONS		
S. No	OBLIGATIONS	Whether the existing regulations in the gas sector encompass the obligations?
1	Low-income consumers	No
2	Right to be connected (territorial aspects and islands)	No
3	Service commercial quality (customer service)	Yes
4	Billing transparency	Yes
SECURITY OF SUPPLY OBLIGATIONS		
S. No	OBLIGATIONS	Whether the existing regulations in the gas sector encompass the obligations?
1	Service technical quality (supply outages)	Yes
2	Last resort service	No
3	Emergency response (Earthquakes and floods)	Yes

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- Access & Affordability Related Obligations**
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Affordability Related Obligations

Hydrocarbon import dependence has bearing on USO aspects.



Affordability Related Obligations

With the broad objective of meeting USO, the GoI has released policies and acts covering various aspects.

Issues addressed in Petroleum Products' sector:

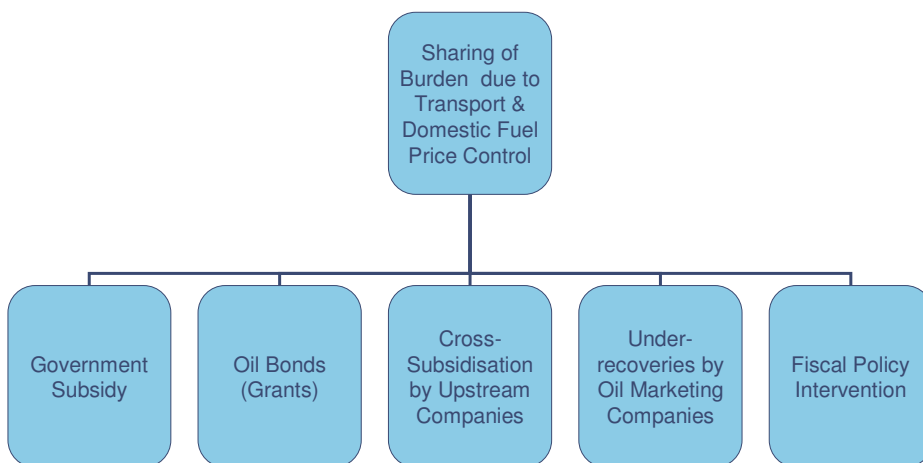
- Retailing of petroleum products in remote/far-flung and low service areas;
- Freight Subsidy for far-flung areas;
- Transport fuels price control; protect from crude price volatility;
- Domestic fuels price control; to make them affordable;

Issues addressed in Gas sector:

- Gas price control for power and fertiliser sector (APM);
- Price cap on NELP PSC Gas.

Affordability Related Obligations

The Government is to ensure equitable distribution of the severe burden of oil price hike amongst various stakeholders.



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### Imperfections induced

Initiatives by GoI towards USO in Transport Fuels have created unintended imperfections in market; proving difficult to correct.

**1** Remote & Far-flung Area Service Obligation

- Reluctance of Private Sector
- Tendency to grab attractive spaces
- Unable to attract investments

**2** Price Control & Subsidy for Domestic Fuels

- Leakage of Subsidy
- Adulteration
- Financial ill-health of NOCs
- Fiscal & Trade imbalance
- Poor incentive for private sector

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## Summary

### Summary

- Strong provisions already in place for USO in petroleum product sector;
- Gas sector USO to refine as market develops;
- Regulatory Board would play a major role in enforcing USO;
- Reporting by operators will need to be made effective;
- Gas access restricted to Urban Area will not be socially affordable;
- Targeting subsidies at poor and needy is imperative;
- Petroleum sector will play most important role in achieving social equity in the India's developing economy.

Thank you

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