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From FY26, Tariffs on Older Petroleum Product Pipelines to Rise 3.4% Annually

Tax to rise 17% from Aug; reform aimed at financial stability, boosting pipeline infra: PNGRB

Our Bureau

New Delhi: Tariffs on older petroleum product pipelines will rise 17% next month and 3.4% annually starting next fiscal to account for inflation and ensure reasonable returns to operators, according to the Petroleum and Natural Gas Regulatory Board (PNGRB).

PNGRB has issued a new tariff regulation, which will be effective August 1 and replace the one in force since December 2010. The new regulation will apply to all three types of product pipelines, including those operational before and after December 2010, as well as pipelines built following a competitive licencing bidding process.

"This reform aims to provide the financial stability and attractiveness needed to boost pipeline infrastructure growth in India," said Anil Kumar Jain, chairperson of PNGRB.

Pipelines operating before December 2010 will attract a tariff of 75% of basic railway freight for all petroleum products, except LPG for which it would be 100%. The benchmarking with rail freight is similar to the current regulation. The new regulation covers an annual escalation of 3.4% based on the trailing 10-year compound annual growth rate in wholesale price index (WPI). Since railway tariffs haven't been revised since 2018, a one-time escalation of 17% has been provided to account for five years' inflation. The new rate will be effective August 1, and it will be raised by 3.4% starting April 2025.

Despite a 17% hike in the railway-derived tariff for pre-PNGRB pipelines, the tariff will remain much lower than the other two sets of pipelines, said Pankaj Bhutani, head of commercial at PNGRB.

"The share of transport tariff in product price is barely 2-3% and so would have little impact on product prices. Second, most of the older pipelines are used for captive purposes and the tariff is only notional," he said.

During consultations for the new regulation, Reliance Industries had opposed the idea of an annual pipeline tariff escalation of 3.4%, according to the minutes of an open house posted on the PNGRB website. On the other hand, state-run gas distributor GAIL and state-run refiner Hindustan Petroleum Corporation Ltd—had sought annual escalation of 4.5% and 5%, respectively.

"Indian Railway freight runs on a macro-economic model and does not account for the costs incurred by pipeline entities. There is also no assured rate of return in railway tariff," said the regulator, justifying the escalation.

For product pipelines operational after December 2010, the tariff will be determined using the discounted cash flow method with 12% post-tax returns on capital employed over their economic life.

The new regulation will also impact pipelines whose tariffs for the first decade of operations were discovered in an auction. Tariffs of such pipelines from the 11th year onwards will be determined using the discounted cash flow method with 12% returns over the remaining economic life.

The Fine Print

New regulation will replace one in force since Dec 2010

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...EXCEPT LPG, FOR WHICH IT WOULD BE 100%

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