

Guidelines on Swapping of Natural Gas

Definition¹

“**Swapping**” of natural gas is an arrangement whereby a party, hereinafter referred to as the ‘first party’ supplies gas to a ‘second party’, at a location sought for by the second party, “in exchange for” the second party agreeing to indemnify the first party from any additional financial liability, on account of supplying (directly or through transporter(s)), an energy equivalent quantity of gas to the first party or first party's representative at another location.

Guidelines

- (a) All concerned parties (suppliers, consumers and transporters) to a potential swap transaction should co-operate to arrive at a cost-effective swap arrangement.
- (b) The operationalization of swapping should be such that all the parties involved are revenue-neutral over the entire length of the pipeline, with respect to contracts between these parties existing prior to the swapping arrangements.

¹ The reasons to set up such a transaction could be non-availability of gas in the absence of such a swap, as the customer is unable to access RLNG due to uni-directional flow of gas in the pipeline to which he is connected, or where rich gas may need to be swapped for supply to a LPG plant with lean gas intended for a power plant or where it is required for delivery of gas available at a single location to multiple premises of a customer which may not be on the same gas network/pipeline as the gas source. This list of situations is not exhaustive but only illustrative.

- (c) The rights and obligations of the parties involved, as set out under their contracts (GSA; GTA etc.) existing prior to any swapping arrangements should normally continue unchanged unless otherwise agreed to by the parties. However, fresh GTA may be signed between the contacting parties for the actual gas swapped based on the contractual path and attendant tariff in accordance with the PNGRB guidelines.
- (d) Any swapping of gas would conform to the extant tariff and other applicable/relevant regulation of PNGRB and any dispute regarding the same shall be agitated before the PNGRB.
- (e) Any present or future additional cost or tax incidence on account of such swapping arrangement shall be borne by the second party (or the beneficiary customer), as the arrangement shall be put in place for its benefit.
- (f) If so required (by any party to the swap), the second party (beneficiary customer) would provide an indemnity bond to the first party (supplier of gas) and the transporter(s) or to any other party enabling the swap to ensure that they are not exposed to any statutory/tax claims out of such swapping arrangement.
- (g) The allocation(s) of the gas to an allottee (if it has been allotted gas by the Government) and the consequent quantity of actual supply to the allottee should not change on account of the swapping arrangements (the allottee can either be the second party (beneficiary of the swap) or a party enabling the swap).
- (h) Full and separate account of the gas swapping transaction shall be maintained by all the parties concerned in terms of end usage of the gas if

the gas involved in swapping is allocated by the Government. This account shall be kept and produced before the Government, if required.

- (i) Swapping arrangements must ensure revenue neutrality but ideally aim for cost effectiveness, to the extent feasible.
- (j) It shall not be open to any entity responsible for transportation of gas to deny swapping of gas if the swapping is technically feasible. In case technical reasons prevent such swapping, such denial shall have to be issued in writing by the entity denying it and must contain technically verifiable details justifying the denial.
- (k) For any gas swap transaction complying with these guidelines, parties do not have to approach the Ministry of Petroleum and Natural Gas for approval.
- (l) Government reserves the right to issue any modifications in guidelines from time to time.