Friday, September 20, 2013
Issue Number: 2243

Fee Arrangements for Transporting Natural Gas through Pipelines

The Downstream Oil and Gas Supervisory Agency ("**BPH Migas**") has issued Regulation No. 08 of 2013 on Fee Arrangements for Transporting Natural Gas Through Pipelines ("**2013 Regulation**"). The 2013 Regulation provides guidance on calculating the appropriate fees that can be charged for the use of pipeline networks to transporting natural gas.

A preliminary point for understanding the 2013 Regulation's regime is that there are two types of pipelines used to transport natural gas, namely transmission pipelines and distribution pipelines.

Transmission pipelines transport natural gas from an exploration site to a distribution center or consumers and also connect natural gas supply sources (Art. 1 (3), 2013 Regulation). These pipelines are managed or operated by business entities that hold a Business License to Transport Natural Gas Through Pipelines and have been granted a Special Right for Natural Gas Transportation by BPH Migas ("**Transporters**") (Art. 1 (5) and (19), 2013 Regulation).[1]

Distribution pipelines, on the other hand, transport natural gas from transmission pipelines to consumers or other distribution pipelines (Art. 1 (6), 2013 Regulation).

Prior to the 2013 Regulation, these matter was regulated under BPH Migas Regulation No. 16/P/BPHMIGAS/VII/2008 on Determination of the Fees for Natural Gas Transportation Through Pipelines ("**2008 Regulation**").

The 2013 Regulation is in relevant to Transporters and business entities that utilize transmission and distribution pipeline networks to transport their natural gas ("**Shippers**", Art. 1 (20), 2013 Regulation).

Proposing and Determining Fees

Transporters are obliged to submit and make a presentation on proposed fees to BPH Migas (Art. 4, 2013 Regulation). Afterwards, BPH Migas will verify whether the fee has been calculated based on the appropriate methodology. In determining the fee, BPH Migas must taking into account the interests of both transporters and shippers (Art. 6 (1) (2), 2013 Regulation).

Types of Fees

Fees for the transportation of natural gas through transmission pipelines may be arranged using the following three methodologies: Postage Stamp System, Distance System, and Entry-Exit System (Art. 8 (1), 2013 Regulation).

Under the Postage Stamp System, a single fee will be arranged for transporting natural gas from any receipt point to any delivery point, regardless of distance (Art. 8 (2), 2013 Regulation). Under the Distance System, the fee will be determined based on the distance between receipt and delivery points (Art. 8 (3), 2013 Regulation).

Under the Entry-Exit System, there are two types of fee arrangements (Art. 8 (4)-(6), 2013 Regulation):

a. Entry fee approach, under which the fee will be arranged based on the usage of pipelines to transport natural gas from an exploration site to a certain entry point on the pipeline network; and

b. Exit fee approach under which the fee will be arranged based on the usage of pipelines to transport natural gas from any entry point until it reaches an exit point that is in the same zone and administrative area.

Previously, the 2008 Regulation only regulated the Postage Stamp System and the Distance System (Art. 8 (1), 2008 Regulation).

Fees for natural gas transportation through distribution pipelines will be arranged according to the Zone System method (Art. 9 (1), 2013 Regulation). Under this system, a single fee will be arranged for every category of pipe pressure- high, medium, or low, regardless of location as long as the service is provided in the same distribution network area (Art. 9 (2) (3), 2013 Regulation).

Fee Calculation

BPH Migas determines the fee calculation formula for transportation of natural gas through transmission pipelines as follows (Art. 12 (1), 2013 Regulation):[2]

$$\text{Tariff} = \frac{\text{(cost of service)}}{\text{(volume of natural gas streamed through the pipe)}}$$

The cost of service incorporates two variables (Art. 12 (2), 2013 Regulation): 1) all costs that are paid by the Transporter in transporting the natural gas by pipelines;[3] and 2) the reasonable profit derived from investment on natural gas transportation facilities.[4]

The 2013 Regulation sets out a differing fee calculation for transporting natural gas through facilities that have been fully depreciated. The fee will be determined based on operational and maintenance costs, taxes, administrative and general costs, and a reasonable management fee which is a maximum of 10% of the total operational costs and the economic value of the facility from the previous fiscal year (Art. 20 (1) (2), 2013 Regulation).

The fee calculation formula for transporting natural gas through fully depreciated facilities is (Art. 20 (3), 2013 Regulation):

$$\text{Tariff} \leq \frac{110\%\,(\text{operational cost} + \text{taxes})}{\text{volume of natural gas streamed through pipelines}}$$

The 2008 Regulation did not stipulate the abovementioned calculation formula.

Fee Adjustments

Fees may be adjusted if one of the following conditions is satisfied (Art. 22 (1)-(2), 2013 Regulation):

1. Significant changes to the cost of services or the volume of natural gas streamed through pipelines and facilities; or
2. Significant change to operational costs, taxes, and the volume of natural gas streamed through pipelines and facilities that have been fully depreciated.

Adjustments may be proposed by Shipper, Transporters, or BPH Migas. BPH Migas will form a committee to determine whether or not the adjustment is approved (Arts. 24 (1) and 25 (4), 2013 Regulation).

The 2013 Regulation repeals and replaces the 2008 Regulation.

The 2013 Regulation has been in force since 19 August 2013. RS

[1] Special Right for Transporting Natural Gas is regulated under BPH Migas Regulation No. 19/P/BPH Migas/XI/2010 on the Grant of Special Rights of Transportation and Business for Natural Gas Through Pipelines.

[2] The volume of natural gas is calculated based on a certain volume of natural gas or based on Daily Contract Quantity which is 90% of the daily steamed natural gas (Article 19, 2013 Regulation).

[3] These costs are operational costs, maintenance costs, administration and general costs,[3] depreciation costs, insurance costs, risk mitigation costs, income tax, and other type of taxes (Art. 12 (3), 2013 Regulation)

[4] Details on the calculation of a reasonable investment profit is provided under Articles 12 (4), 13, 14, and 15, 2013 Regulation.

Source :

Website Hukumonline

http://en.hukumonline.com/pages/lt523c0c3134ef1/fee-arrangements-for-transporting-natural-gas-through-pipelines