

Gas pricing

The new government decides on a policy of wait and watch on raising gas prices. BY RICHHA MISHRA

Natural gas supply in India

Source	Quantity (mmscmd) 2011-12	Quantity (mmscmd) 2013-14	Current price (\$/mmbtu)
APM (from nomination fields)	50.70	47.18	4.2
Non-APM (from nomination fields)	7.45	9.12	4.2 to 5.0
New Exploration Licensing Policy	42.40	13.53	4.2
Other domestic joint venture gas	14.11	9.85	3.5 to 5.73
Re-gasified LNG (long-term and spot)	39.60	41.11	6.97 to 17.44
Coal bed methane	0.202	0.34	5.1 to 6.79
Total	154.462	121.13	

APM: administered price mechanism; mmbtu: million metric British thermal units
mmscmd: million metric standard cubic metres per day



"Gas price politics" is one of the reasons cited for the defeat of the Congress-led United Progressive Alliance government in the recent general election, and the Bharatiya Janata Party-led national Democratic Alliance government is playing it safe. It has deferred by three months the decision to increase the price, which was to come into effect from July 1.

Today, everyone talks about "gas price", comparing it with liquefied natural gas (LNG) or imported gas price and throwing up two-digit figures as the ideal price. "It is not fair to compare domestically produced gas price at well head with LNG rates," said Narendra Taneja, national convener of the BJP's energy cell.

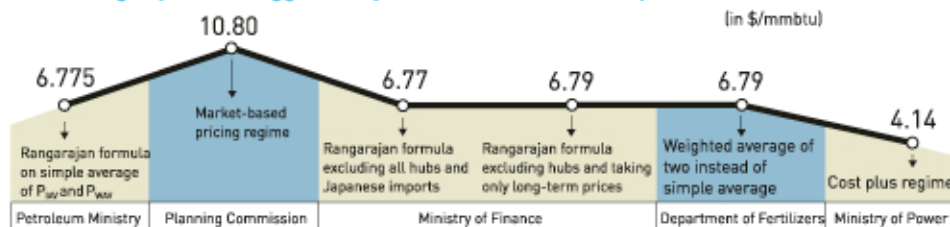
[Well head price is the cost of natural gas at the mouth of the well. It excludes transport and delivery costs. For LNG, besides the well head price, liquefaction, transportation and re-gasification costs are taken into account to arrive at the price.]

GLOBAL PRICES

The current global average price at well head is around \$4.7 a unit [gas is measured in million British thermal units]. Taxes and levies amount to about \$2/unit. The average LNG price is over \$12/unit and the consumer gets it at around \$14-15/unit.

Taneja said India was working on a price at the "well head" based on a

Indicative gas price as suggested by various stakeholders (April to June 2013)

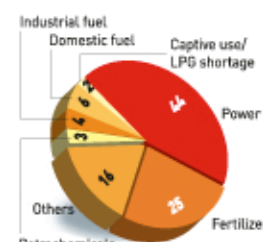


P_{WCI} : Producer's netback price for Indian imports; P_{WAV} : World average producer's netback price



* LNG imports of Reliance Industries not included

Sectorwise gas consumption in India (2011-12)



sound and transparent policy, which would be a win-win for all stakeholders, including companies. He said India should consider determining the price of domestically produced gas in rupee instead of dollar.

THE HIKE IMPACT

So why did the Narendra Modi government defer the decision on implementing the new price?

A price hike will result in fertilizers, electricity, piped natural gas (domestic cooking) and compressed natural gas (transportation) becoming more expensive, which will directly impact its vote bank. But, if it chooses to insulate the public from an

increase, there will be a substantial increase in the subsidy burden on these sectors.

Also, there is uncertainty over the two public interest litigation petitions against the price hike in the Supreme Court, and the unresolved arbitration issue with Reliance Industries-BP-Niko Resources.

Besides, there were differences of opinion over the formula suggested by the C. Rangarajan Committee, which formed the basis of Gas Pricing Guidelines, 2014. It was felt that the guidelines, which were to be notified initially from April 1, but were deferred owing to the Election Commission's directive, did not comply with the requirement in the production-sharing contract that gas be valued on the basis of competitive arm's length sales in the region.

Playing it safe, the Modi government deferred the decision, stating that having just assumed office, it will be most appropriate that the whole issue is re-examined comprehensively.

India has commissioned 15,340 km of natural gas pipeline, with a capacity of 395 mmscmd, across the country as part of national gas grid.

Cost of production (including levies)

Field	Type	Cost (\$/mmbtu) (2012-13)
Tapti	Offshore	2.47
Hazira	Onland & Offshore	2.78
KG-D6	Deepwater	3.00
Surat block	Onland & Offshore	4.80
RJ-ON6	Onland	2.43
Nomination blocks of ONGC	Onland & Offshore	3.63
Nomination blocks of Oil India Ltd.	Onland	3.20

For KG-D6 block, unit cost of production has been calculated amortising the capital cost on recoverable reserves.

Projected rise in prices/subsidy per one-dollar hike in gas price

Urea
Rs.3,155 crore a year
(at the current production of 23 million tonnes a year)
Rs.1,370/tonne

Power
Rs.0.45 per unit

North-East subsidy
Rs.134 crore

Compressed natural gas in Delhi
Rs.2.81 per kg

Piped natural gas
Rs.1.89/standard cubic metre