

# The gas in gas pricing

Competitive markets are a pre-requisite for freeing gas prices

The Ashok Chawla committee on allocation of natural resources has proposed that gas should preferably be used in applications such as transport and cooking rather than for power and fertilisers (disclosure: Prayas Energy Group provided some inputs to the committee on this issue). This will also enable gas pricing to be freed as these applications can afford higher gas prices than the power and fertiliser sectors. For example, even if landfall gas prices reach current import prices of \$12/mmbtu (domestic gas prices are currently between \$4.2 and \$5.25/mmbtu), the pre-tax CNG price would be about ₹32/kg. This is equivalent to about ₹23/litre pre-tax for petrol/diesel, which is lower than the current pre-tax prices of ₹25.3/litre for subsidised diesel and ₹30/litre for petrol. In contrast, competitive bidding for power projects has shown that base-load power even from imported coal is mostly cheaper than gas-fired power even at current gas prices.

Usage of gas for transport and cooking would also enhance our energy security as it would reduce our oil consumption, about 90% of which is imported. In addition, it would lead to lower subsidies (on diesel and perhaps LPG), increased investor interest in exploring the Indian basin due to greater gas price expectation, and greater profit shares for the government from increased prices. Therefore, the proposal

has many positives. However, as always, the devil lurks in the details. In this case, those details are issues such as the market structure for gas, gas transmission and distribution infrastructure, existing gas-based plants and gas availability. The Chawla committee report mentions these but they have not received as much media attention as the proposal to free gas prices.

The gas market in India is highly concentrated with just a handful of players such as ONGC, RIL and GAIL dominating the sector. There is also significant vertical integration or 'bundling' with the same companies having interests across production, transmission and distribution. Further, pipelines are not fully 'open-access', i.e., shippers or marketers are at the mercy of pipeline companies to transmit their gas. As a result, there is practically no independent gas marketer in India today. Such a concentrated and integrated market is obviously not conducive to freeing gas prices. In contrast, the US has about 6,000 natural gas producers, 150 pipeline companies, 250 marketers and over 1,000 distribution companies. Therefore, the government (and the Petroleum and Natural Gas Regulatory Board (PNGRB)—the regulator) must actively work towards creating a competitive gas market by taking steps such as: (a) mandating and enforcing

'unbundling' in the sector, (b) moving towards full open-access pipelines, and (c) facilitating competition among marketers through measures such as taking its profit share in kind and transparently auctioning it in small lots and mandating similar steps for LNG as well as domestic gas.

Another issue that needs addressing is the lack of gas transportation and distribution infrastructure and hence a national market for gas. CNG

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will become a preferred fuel for transport only if it is reliably available across the country, and PNG must reach homes for it to be used in cooking. The PNGRB has initiated the process of auctioning out pipelines and city gas networks, but it needs to be expedited—both for new pipelines to be auctioned and old pipelines authorised by the government.

The proposed market transformation must also deal with existing arrangements and contracts, particularly for power and fertiliser plants. As gas is a useful fuel for intermediate (not base) load power, existing gas-fired plants could be given a direct and transparent subsidy up to a limited quantity of gas corresponding to a low plant load factor (PLF), say 40%, consistent with intermediate or peaking loads, beyond which they pay full market prices. Similar incentives could be

offered to efficient combined heating and power or tri-generation plants and existing fertiliser plants.

Prices of gas are likely to remain high if there is increasing reliance on LNG and domestic supply does not improve. Domestic supply of natural gas can be increased by attracting greater exploration interest through offering a fair, transparent and attractive regime that respects contracts. Another potential option to boost domestic gas supply is shale gas of which India may have significant reserves. But this requires careful policy formulation as shale gas extraction has huge associated risks such as potential ground water contamination and requiring access to private land—both of which are rightly sensitive issues. Another option that has not got as much attention as it should is international pipelines, since India is situated reasonably close to some gas-rich regions. If associated geo-political issues can be overcome, they offer good potential of gas imports cheaper than LNG.

Therefore, while the general idea of freeing gas prices and using it to replace oil is welcome, such a transition requires careful navigation and resolution of many issues. If not, it could well turn out that the cure is worse than the disease.

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