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IF YOU HAVE travelled in a cab in the past 12 months, chances are that at some point, one of the drivers may have tried renegotiating the fare as well as demanded extra money for switching on the air conditioner. And if you have a school-going kid, chances are that you are paying at least 20 per cent more than last year for her school transport. If you are in-charge of the household budget, you've most likely complained about rising fruit and vegetable prices and north-bound costs of piped cooking gas. Lastly, if you are an entrepreneur with an interest in fertilisers or power, you would have seen your fuel bills balloon. All this point to the fact that people were greatly peeved due to a nearly 80 per cent spike in natural gas prices. The world's third-largest hydrocarbon consumer's relationship with the commodity can be summed up in two words: It's complicated.

In light of these distress signals, the government's approval of the Kirit Shantilal Parikh-led panel's recommendations on gas pricing, as well as the roll-out of a unified tariff for transmission infrastructure announced within days of each other, may have come at just the right time. The rise in prices of compressed natural gas (CNG) and piped natural gas (PNG) in India had not only impacted a large consumer base, but could have also derailed the government's plans to increase the share of gas in the country's energy mix to 15 per cent by 2030 (from 6.5 per cent now), in pursuit of its carbon emission goals. But why did the prices rise? They shot up due to slow restoration in supplies of domestically produced gas post-Covid-19, on top of a flawed pricing mechanism and geopolitics.

Before the recently announced reforms, India followed a somewhat complex gas pricing mechanism comprising both an administered price mechanism (APM) and a non-APM (or NAPM) one. This was based on a formula suggested by a six-member panel led by former RBI Governor C. Rangarajan, in December 2012. APM gas is sourced from domestic onshore gas fields allotted to public sector exploration and production (E&P) companies Oil and Natural Gas Corp. (ONGC) and Oil India Ltd (OIL) before 1999, and its price is determined by the Petroleum Planning & Analysis Cell (PPAC), of the Ministry of Petroleum and Natural Gas. NAPM gas is not subsidised and comes from onshore and offshore domestic gas fields as well as from overseas, as liquefied natural gas (LNG).

The growth in demand for CNG due to rising petrol and diesel prices and massive expansion in city gas distribution (CGD) infrastructure following bidding rounds 9, 10 and 11 conducted by the Petroleum and Natural Gas Regulatory Board (PNGRB) culminated in a huge shortfall of gas. Under the old mechanism, prices were revised every six months based on a formula linked to international gas trading hubs, whose price discovery mechanism had little to no bearing on India. "The price that was being set for APM gas was based on

DECODING THE REFORMS

- APM prices are to be 10 per cent of the Indian Crude Basket Price as defined by PPAC; done on a monthly basis on the last day of the month
- Gas produced by ONGC and OIL from legacy fields will be subject to floor and ceiling prices of \$4/MMBtu and \$6.5/MMBtu, respectively; to be maintained till FY25 and then increased by \$0.25/MMBtu each year
- Gas produced from new wells or well interventions in legacy fields of ONGC and OIL will have a premium of 20 per cent above APM prices; this gas will be allocated separately from APM gas for five years
- PPAC to prepare and maintain a portal for monitoring CNG and PNG consumer prices on a real-time basis, with inputs received from CGD entities

SOURCE MINISTRY OF PETROLEUM AND NATURAL GAS a formula that equated the weighted average producer price to Canada, the US, the EU and Russia. That varied widely as gas prices dramatically moved upwards and downwards. When the price of gas was $1.79 per MMBtu (metric million British thermal unit) about a year ago, it did not even cover the margins of the cost of production of ONGC and OIL, which is around $3-3.5 per MMBtu," says Parikh, also the Chairman of the New Delhi-based energy think tank, Integrated Research and Action for Development. Consequently, the public sector oil & gas majors had been incurring huge losses. When prices suddenly spiked to $6.5 per MMBtu last year, stakeholders' clamour for a simplified mechanism grew louder.

THE GEOPOLITICAL SITUATION further exacerbated the crisis. In the aftermath of the Russian military action in Ukraine, LNG supplies to India were disrupted. A subsidiary of the Russian energy major Gazprom, Gazprom Marketing and Trading Singapore, now a German company called Sefe Marketing and Trading, defaulted on supplying eight shiploads of LNG under a 20-year deal. "Total gas availability was never a constraint; it was only the price that was a hindrance. Since there was a disruption in supplies from long-term contracts, we were unable to secure supplies at the negotiated price," says Sandeep Kumar Gupta, Chairman & MD of Gas Authority of India Ltd (GAIL).

The government provisionally revised the guidelines for domestic gas supply to CNG for transport and PNG for domestic use, following a *Business Today* story in April last year. This was followed by the constitution of the Parikh Committee to recommend changes to the gas pricing mechanism in September. In its report submitted in November, the panel recommended a raft of pricing-related reforms. "One of the key recommendations made by the Committee was that the pricing of APM and NAPM gas should be changed from the existing index of four gas-producing countries' gas pricing to Brent crude. The Indian gas market may not have anything in common with the four indices being used to work out the half-yearly pricing of APM and non-APM gas," says Sanjay Kumar, MD of CGD firm Indraprastha Gas, a JV company of E&P firm Bharat Petroleum Corp. and GAIL.

Accepting the key recommendations of the Parikh Committee, the government approved the revised domestic pricing guidelines for gas produced from APM fields of ONGC, OIL, New Exploration Licensing Policy (NELP) blocks and pre-NELP blocks. The price of such natural gas will be 10 per cent of the monthly average of the Indian crude basket and will now be notified on a monthly basis. For the gas produced by ONGC and OIL from their pre-1999 or legacy fields, the APM price will be subject to a floor price of $4 per MMBtu and a ceiling price of $6.5 MMBtu for two years. With the new pricing mechanism having come into effect from April 8, CGD players have slashed prices of CNG and residential PNG by 8-11 per cent. "The new mechanism was required to ensure a fair price for both consumers and producers as otherwise, consumers would have

ASSESSING THE IMPACT

1
CGD FIRMS HAVE REDUCED CNG AND RESIDENTIAL PNG PRICES BY 8-11 PER CENT BASED ON NEW PRICING NORMS

2
THIS WILL STABILISE GAS PRICES AND SUSTAIN COMPETITION WITH ALTERNATIVE FUELS TO DRIVE DEMAND

3
GAS PRICES HAVE FLUCTUATED FROM A LOW OF $1.79/MMBTU IN 2021 TO A HIGH OF $8.57/MMBTU FOR H2FY23

4
FERTILISER AND POWER SECTOR COMPANIES TO ALSO SIGNIFICANTLY BENEFIT FROM THE MOVE

5
INTRODUCTION OF UNIFIED TARIFFS AND INCREASE IN TARIFF ZONES WILL HELP REDUCE THE TRANSMISSION COST OF NATURAL GAS

SOURCE CRISIL RATINGS, *BT* RESEARCH

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in India and would go a long way in promoting a cleaner alternative fuel in various parts of the country." Similarly, expansion in the use of PNG as a cooking fuel in urban clusters will ensure LPG cylinders are available for use in rural areas.

HOWEVER, THE GOVERNMENT did not take a decision on the panel's recommendation to deregulate prices of domestically produced gas by 2027. "This shows the government is in no mood to relent on ensuring natural gas's affordability," says a senior executive with a leading CGD, requesting anonymity. Parikh, meanwhile, asserts that price deregulation is a prerequisite to attracting investments in exploration. "There are so many contracts and agreements that [they] can't be changed overnight as that would lead to chaos in the market. Therefore, we had recommended moving to a total market-determined price within three years to help attract investors to gas exploration." Some market experts feel that by not addressing this point, potential investments in exploration may be affected. "Effectively, there is not much of an upside for producers to sufficiently incentivise high-risk capital investment and that means a further step away from the recommendations of the report," says Deepto Roy, Partner at law firm Shardul Amarchand Mangaldas & Co.

In another significant reform that will help reduce CNG and PNG prices, PNGRB has amended regulations governing the tariff mechanism for natural gas transmission pipelines. Under the new regulations, a unified tariff of ₹73.93 per MMBtu has been announced and the number of tariff zones has been increased to three from the previous two (up to 300 km used to be the first zone and beyond that was the second zone). Under the 'One Nation, One Grid, One Tariff', the first zone will cover a distance of 300 km from the gas source, the second would be at 300-1,200 km and the third beyond 1,200 km. Calling it a landmark measure, IIFL's Dole says it will help in strengthening pipeline infrastructure. Many operators who were earlier permitted to lay natural gas pipelines did not take up the projects as they would often not even get a 12 per cent post-tax return on their investment. "The tariff unification has been done to avoid multiplicity of transmission charges, improving transparency on transmission charges for consumers and improving the viability of new pipelines, which in the initial years may have lower utilisation. There is an element of cross-subsidisation but that should normalise in the long term," says Dole.

IGL's Kumar sees this as leading to higher consumption of natural gas in the country. "For IGL, the unified tariff is more than what it was earlier. We will be paying an additional ₹1 per cubic metre. And the benefit may come in the form of paying a lower tariff for gas sourced from KG Basin. A unified tariff will lead to equitable growth of the gas market in the country."

Following the roll-out of a unified tariff for transmission infrastructure, IGX has recommended the entry-exit tariff model to PNGRB. Under this model, tariff is delinked from several physical points of delivery to create a single national market comprising one virtual hub. "This will simplify the tariff for end consumers," says Mediratta. The EU, for instance, has moved to this mode to provide seamless gas flows.

Literally speaking, the sector may have finally hit the highway to growth. BT

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"When you have gas prices related to crude oil prices, you can be sure the domestic consumer will find PNG and CNG to be cheaper than LPG and diesel"

Kirit Shantilal Parikh
CHAIRMAN, INTEGRATED RESEARCH AND ACTION FOR DEVELOPMENT

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