



ILLUSTRATION: BINAY SINHA

Bringing competition to gas marketing

Public-sector dominance in transmission and distribution is holding back competition, to the detriment of consumers and the economy

The current shortage of liquefied petroleum gas (LPG) in India, in the wake of the West Asian crisis, has brought into focus the need to expand the use of natural gas (NG), especially for household cooking.

India is import dependent on both NG and LPG, to the extent of about 50 per cent and 60 per cent of domestic consumption, respectively. The key difference that works in favour of NG is the relative ease in diversifying the import sources for NG (in form of liquefied natural gas), compared to LPG, where such diversification is limited.

Our dependence on oil and gas to meet domestic energy needs continues to be quite high, with their proportion in total energy remaining virtually at the same level over the last two decades.

Among fossil fuels, NG is the least polluting. To meet our commitment of achieving net-zero by 2070, a pragmatic approach would be to encourage the use of natural gas, co-mingled with coal gas and biogas (wherein India has tremendous untapped potential), as a transition fuel in the medium term.

Unfortunately, notwithstanding various claims and the government's goal of natural gas reaching 15 per cent of the total energy mix by 2030, the reality is that this proportion has reduced from about 7-8 per cent in 2000 to 5-6 per cent now.

While there are many issues to be addressed in the gas sector, this column focuses on the need to encourage competition in gas marketing in the country. Vertically integrated public-sector undertakings (PSUs), particularly GAIL, combining gas transmission and distribution operations, have dominated these businesses for decades. Gas infrastructure laying is a capital-intensive business with delayed returns. Also, as ensuring energy availability at affordable prices throughout the country is a necessity, investments may at times be required in unviable but socially desirable projects. Thus, in the initial stages of the gas sector's development, PSUs occupying the "commanding heights" was understandable.

However, considering the need for additional investments in the gas sector and, with a view to

encouraging more players to bring in competition, thereby benefiting consumers and improving operational efficiency, the government envisaged, more than two decades ago, introducing private sector participation in a phased manner. This objective is manifested in the Petroleum and Natural Gas Regulatory Board (PNGRB) Act, 2006. The Act, *inter alia*, mandates the unbundling of gas transmission and distribution activities.

The domestic natural gas sector scenario has changed quite a bit over time. For instance, from 2006 to 2024, gas consumption increased from about 85 million metric standard cubic metres per day (mmscmd) to over 188 mmscmd; total natural gas pipeline network expanded from 7,112 km to over 25,124 km; and the number of city gas distribution networks awarded grew from 33 to 307 geographical areas (GAs).

It is high time that PSUs vacated some space in gas transmission and distribution and allow private players to enter, with the regulator ensuring a level playing field. That brings us to the point as to what needs to be done. Let's first start with gas transmission.

Gas transmission: Vertically integrated entities oppose the unbundling of gas transmission and distribution. Their monopolistic power, coupled with opaque pricing practices, virtually shuts out the possibility of any new entrants in the transmission business.

One of the reasons put forth by PSUs against unbundling is that it would result in inadequate investment in commercially unviable pipeline projects, which may be necessary as public goods. This argument by PSUs is more about building a moat around their businesses. After all, from the perspective of commercial entities, some of which are even listed and answerable to public shareholders, how far can investments in unviable projects be justified? This is clearly an unsustainable proposition as a policy approach.

The right approach would be to financially support the socially desirable unviable projects through a transparent viability gap funding (VGF) scheme administered by the PNGRB. The scheme should be uniformly

available to all eligible entities. The VGF corpus could be established by levying a cess on transportation tariffs and by utilising funds collected through imbalance charges. In this backdrop, the following measures should be undertaken in a time-bound manner:

- PNGRB should strictly enforce the separation of marketing and transmission activities in vertically integrated entities into two different legal entities.

- An Independent System Operator (ISO) entity, without owning transmission infrastructure assets, should be set up as a neutral umpire to ensure the independent system operation of transportation activities. The ISO would be responsible for access to pipeline capacities on a common carrier and contract carrier basis.

Distribution: Although on paper, authorisations have been awarded for more than 300 GAs covering almost the whole country, much needs to be done for the gas to actually flow to households as piped natural gas (PNG) and to CNG stations, and industrial customers.

Authorisations for many GAs have been obtained by entities through aggressive bidding, with the aim of somehow getting the licence. Such entities later find it difficult to implement the work programme in a timely manner and meet obligations in accordance with the licence conditions.

Yet another issue is that CGD licensees are not honouring their commitments to adhere to the marketing and infrastructure exclusivity periods. According to the regulations and bidding conditions, marketing exclusivity is for 3/5/8 years, and infrastructure exclusivity is for 25 years.

At the end of the marketing exclusivity period, the incumbent entity has to allow potential new gas marketing entrants to use its infrastructure. Such exclusivity periods are already over for more than 80 GAs. However, enforcement is stalled, as many entities have gone to court.

As for infrastructure exclusivity, after it is over, potential new entities could be allowed to lay gas infrastructure in that licence area. In some GAs, even the infrastructure exclusivity period has ended, without sufficient clarity as to how this principle would be enforced. The following should be done:

- Strict monitoring and enforcement to ensure that each authorised entity complies with the obligations and commitments in accordance with the work programme. In cases of serious non-compliance, PNGRB may end the authorisation and rebid the GA or a part of the GA.

- Where marketing exclusivity period has ended, the infrastructure be made available for use by third parties on common or contract carrier basis. PNGRB must get court process expedited in these matters.

- Regulations should provide clarity about the procedure to be followed in cases where infrastructure exclusivity has ended, and the same should be enforced.

More importantly, the government and the regulator need to ponder why the gas marketing principles enshrined in the PNGRB Act have not been implemented despite this legislation being on the statute books for two decades.

(Disclosure: The author chaired a committee set up by PNGRB to suggest measures to promote competition and level playing field in gas transmission and distribution businesses. The committee gave its report in 2025. This column borrows from that report.)

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