

FICCI Representation on Reforms required for a transition to Gas Based Economy

Prudent To Align Domestic Gas Prices on Import Parity Basis As In The Case of Crude

NEW DELHI, 19 January 2017: Indian economy is poised to grow five-fold by the year 2040. Hydrocarbons will continue to play an important role in this growth story. This is also important that we increase our domestic oil and gas production to reduce overdependence on oil imports.

While delivering the inaugural address at PETROTECH 2016 , the Hon'ble Prime Minister Modi stated that "I have to set a target to reduce import dependence by ten percent by 2022. This will have to be achieved during a period of increasing oil consumption". He also stated that his government accords high priority to move towards a Gas Based Economy and efforts should be made to increase domestic production.

There is a need to increase the share of natural gas from current level of 7% closer to the global average of 24%. Promoting gas is not only beneficial for the environment but will also give fillip to domestic E&P activity and attract greater investment. While analysts are predicting a golden future for the gas sector globally, development of the gas industry in the country is being stymied by current distortions in the pricing of gas.

FICCI has given a representation In this regard to Shri Dharmendra Pradhan, Minister of State (I/C) for Petroleum and Natural Gas, Govt. of India yesterday on reforms required for a transition to a Gas Based Economy.

FICCI has stated in the letter that pricing of domestically produced gas is significantly lower than the levels that are necessary to give domestic gas producers fair return to cover their risk capital involved in E&P business. The current gas (notified) price at USD 2.50 / MMBTU is considerably lower than the prevalent oil prices (it works out to about USD 15 per barrel in oil equivalent terms). The recent surge in spot LNG prices has given an ample indication that period of ultra-low energy prices are about to be over.

Prevalent gas prices in India are grossly inadequate to cover operating expenses in some cases. FICCI has suggested that it would therefore be prudent to align domestic prices on an import parity basis, as in the case of crude oil. Also, there is a need to relook at the rationale for the level at which ceiling gets fixed. This is also to be noted that a large part of domestic gas production comes from matured gas fields and further investments are needed to keep them in working and productive conditions. The investment becomes unproductive at present pricing.

FICCI has been for long arguing that in the national interest and in the interest of ensuring energy security, offering remunerative natural gas prices to the domestic gas explorers and producers is the need of the hour. Such a price regime will bring in the much-required

technology and risk capital to tap nearly 2/3rd of the unexplored resources, majorly lying in the deep and ultra-deep basins.

This will also help in realising the vision of the Hon'ble Prime Minister of a speedy transition to a Gas Based Economy.

FICCI MEDIA DIVISION

Encl: Scanned copy of the FICCI Representation



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16 January, 2017

Shri Dharmendra Pradhan
Hon'ble Minister of State (I/C) for Petroleum and Natural Gas
Govt. of India
New Delhi

Dear Hon'ble Minister,

Sub: Reform Agenda to usher into a Gas Based Economy

As you are aware, while delivering the Inaugural Address at the recently held PETROTECH 2016, the Hon'ble Prime Minister mentioned that the Indian Economy is poised to grow fivefold by 2040, and will account for one fourth of the incremental energy demand between 2013 and 2040. He further alluded to the fact that hydrocarbons will continue to play an important role to fuel this growth trajectory.

However he also cautioned that the current scenario of high import dependence was not sustainable in the long run and stated ***"We need to increase our domestic oil and gas production and reduce import dependence. I have set a target to reduce import dependence by ten percent by 2022. This will have to be achieved during a period of increasing oil consumption"***. He also stated that his government accords high priority to move towards a Gas Based Economy and efforts should be made to increase domestic production and create import infrastructure to cater to the burgeoning domestic demand.

While coal and oil will account for a major share in India's primary energy consumption there is a need to increase the share of Natural Gas from current levels of 7% closer to the global average of 24%. Promoting gas as a preferred fuel is not only good for the environment, it will also give fillip to domestic E&P activity and attract greater investment which will help in realising full hydrocarbon potential of the country. ***While analysts are predicting a golden future for the gas sector worldwide, development of the gas industry in India is being stymied by current distortions in the pricing of gas.***

The price of domestic natural gas was revised by MoPNG vide Gazette notification "New Domestic Natural Gas Pricing Guidelines, 2014" dated 25th October, 2014 based on the guidelines the price of domestic gas has been notified at USD 2.50/MMBTU. We would, however, like to state that pricing of domestically produced gas at present is significantly lower than the levels that are necessary to give domestic gas producers fair return to cover their risk capital involved in E&P business.

Current gas price at USD 2.50/ MMBTU works out to about USD 15 per barrel in oil equivalent terms. This is considerably lower than the prevalent oil prices, in energy equivalent terms, which though soft are still hovering around USD 55/bbl level.

Though the recent surge in spot LNG prices which has taken these prices to ~USD 9/MMBTU may not sustain, it is clear that the period of ultra-low energy prices may have just been over. It is therefore paradoxical that gas prices in India, notwithstanding it being a net importer of oil and gas are among the lower than even the gas surplus regions.

It may be noted that the guidelines link the gas price of domestically produced gas with international markers i.e. Henry Hub, National Balancing Point, Alberta Hub and Russian domestic market, which are mostly gas surplus regions. The reference hubs are therefore not relevant for gas pricing from Indian Context. Besides, USD 0.50/MMBTU is being deducted from the above prices towards the cost of transportation and treatment though, domestic producers are bearing the processing cost downstream to make pipeline quality gas. This deduction of USD 0.50/MMBTU is not justified as most of the gas traded in India is sold by producers after the same has been processed.

It may be stated that a large part of the domestic gas production comes from the matured producing fields. Average cost of production of these mature fields in 2015 range from USD 6/MMBTU upwards excluding duties, taxes and royalty. These fields which have been producing for a long time, require large scale interventions comprising of work-overs, infill wells, substitute wells, facility life extension maintenance etc. to arrest decline or stabilize production.

Prevalent gas prices are grossly inadequate to cover operating expenses in case of some of these fields. The cost of these interventions is significant in these cases, hence in case the prices of gas produced from these fields are not high enough to pay for these high costs, remaining gas that can still be technically produced, will remain unproduced as further investments will be unviable. ***It would therefore be prudent to align domestic gas prices on an import parity basis, as is followed in the case of crude.***

As regards the pricing guidelines for Deepwater, Ultra-Deepwater and HPHT fields, also it may be stated that there is need to relook at the rationale for the level at which ceiling gets fixed. Due to the various constituents of the pricing formula the gas price ceiling ends up being pulled down by one or the other element, and as such the formula derived ceiling for gas price for gas from Deepwater, Ultra-Deepwater, HPHT fields at USD 5.30 /MMBTU is again too low and is not commensurate with the cost and risk profile of these fields.

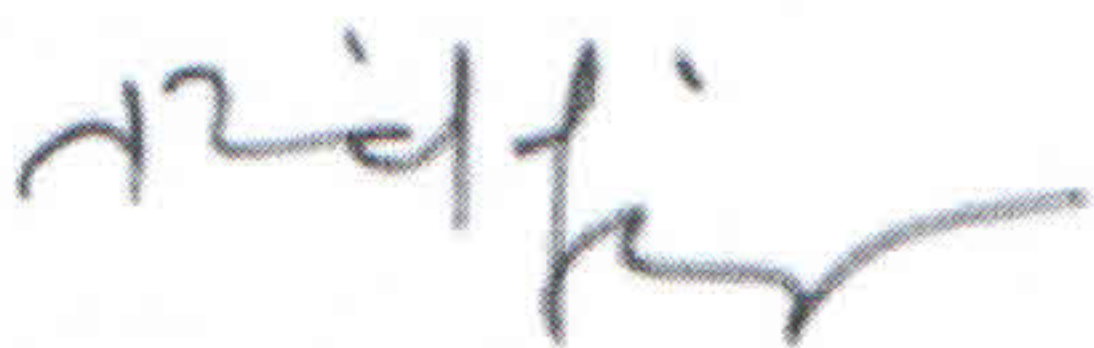
Import of resources from abroad in such large proportion is ***not only impinging on our energy security, but alternately support the economies and create employment in the export markets, thereby negating the objective of the "Make in India" initiative championed by the Hon'ble Prime Minister.***

FICCI has been for long arguing that in the supreme national interest and in the interest of ensuring India's Energy Security, offering remunerative natural gas prices to the domestic gas explorers and producers is the need of the hour. Such a pricing regime will bring in the ***much-required technology and risk capital from the energy majors to tap nearly 2/3rd of the unexplored resources, majority lying in the deep and ultra-deep water frontier basins. This will also assist in realising the vision of the Hon'ble Prime Minister of a speedy transitioning to a Gas Based Economy.***

Thanking you,

With best regards,

Yours sincerely,



A Didar Singh

Cc to:

- 1- Mr. Arun Jaitley, Hon'ble Minister of Finance, Govt of India
- 2- Mr. Nripendra Mishra, Principal Secretary to PM, Govt of India
- 3- Shri Amitabh Kant, CEO, Niti Aayog