



Ref. No. - FIPI/9
September 27, 2017

Shri K D Tripathi
Secretary
Ministry of Petroleum & Natural Gas
Shastri Bhawan
New Delhi - 110001

Sub: Price Review of Natural Gas Produced Domestically from Existing Fields

Dear Sir,

We are writing this letter on behalf of the Industry pursuant to our letter FIPI/9 dated March 17, 2017 and various representations on the important issue of Price for Gas Produced Domestically from Existing Fields. As mentioned, the depressed prices are a serious concern for the domestic producers as it is impeding investments to sustain and grow the domestic gas production in line with Prime Minister's vision to reduce import dependence. We are enclosing the copy of the letter.

While the domestic producers are suffering on account of low price at the range of \$2.5-3/mmbtu, which is grossly insufficient to cover production expenditure and investments, India continues to import nearly half of gas consumption at \$6-8/mmbtu. You would appreciate that the current gas price of existing production is one of the lowest globally even lower than some of the gas surplus regions. This low price of 85% of the gas being produced in India is also vitiating the atmosphere for free price discovery for DSF round and CBM blocks, who have been provided with complete price and market freedom to encourage the sector. Recent experiences have shown that consumers are focusing their bids on the basis of current suppressed price of gas rather than the alternate available to them.

We earnestly request you to kindly consider our request on priority for price review of domestically produced gas before the next price revision due on 1st October 2017.

Thanking you,

Yours faithfully

Dr R. K. Malhotra
Director General

Encl: as above

Federation of Indian Petroleum Industry

FIPI



REF: FIPI/9
MARCH 17, 2017

Shri K.D. Tripathi
Secretary
Ministry of Petroleum & Natural Gas
Shastri Bhawan,
New Delhi - 110 001

Subject: Price Review of Natural Gas Produced Domestically from Existing Field

Respected Sir,

At the outset, I would like to express our gratitude to the MoP&NG as well as Govt. of India for giving nod to the pricing freedom for Coal Bed Methane. Such positive steps will go a long way in realizing the vision of our Hon'ble Prime Minister to reduce the oil & gas import dependency by 10% and will also give push towards the gas based economy.

However, we would like to further request you to kindly address the issue of domestic gas price as it is deeply depressed and is a matter of serious concern for domestic gas producers. This price scenario is working as a deterrent for new investments in the existing producing fields to maximize the gas production.

The domestic natural gas price was revised by MoP&NG vide Gazette notification "New Domestic Natural Gas Pricing Guidelines, 2014" dated 25th Oct'14 with a view to incentivise domestic gas producers. However, based on such guidelines the price of gas for the period from 1st October 2016 to 31st March 2017 has been around USD 2.50/Mmbtu for existing production and is likely to be in the same range, which is even lower than prices reflected on Henry Hub (Indicator for a surplus gas economy). As you are aware, India imports over 50% of its gas consumption (as per the recent PPAC data) which includes import of 38% for priority sectors namely Fertiliser, Power and City Gas and we are paying significantly higher price for such gas imports. The domestic gas price, which on the other hand is significantly lower than imported gas price, is causing revenue stress on the domestic gas producers who are faced with negative cash flow from the gas fields. The domestic gas price is even below the cost of production.

In view of the above, we strongly recommend that the marketing freedom and market pricing that Government has provided under HELP and DSF Polices and now to CBM Blocks is extended to the gas production from the existing fields. This step of granting marketing and pricing freedom will provide long term and sustainable solution for augmenting domestic gas production besides accretion of reserves in immediate context.

Federation of Indian Petroleum Industry

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- Russian gas price data is not easily available in the public domain. Further, the information is available in Rouble/ scm and there is no source, which provide gas price of Russia in \$/MMBtu. Hence, the process of calculation of Russian domestic gas price becomes very arbitrary and opaque.
- To consider three months lag rather than present one year lag with review of price every quarter to reflect present market condition. It may be noted that it is for this reason 5 years average was brought down to 3 months for the term contract of PLL with RasGas recently.

We once again request you to address this urgent and critical issue of domestic gas price from existing producing fields. Such a move will help increase domestic production thereby reducing import dependence to some extent.

Thanking you,

Yours faithfully,



Dr R.K. Malhotra
Director General



Ref. No.: PF/9
December 29, 2016

Shri K. D. Tripathi
Secretary
Ministry of Petroleum & Natural Gas
Shastri Bhawan
New Delhi - 110 001

Sub.: Price Review of Natural Gas Produced Domestically from Existing Field

Respected Sir,

We are writing with reference to the pricing guidelines for domestically produced gas. At the outset, we would like to acknowledge various progressive steps undertaken over the last two years by the Government for enhancing domestic E&P Sector. While these steps will yield positive outcomes in midterm, we would like to highlight the critical aspect of gas pricing from producing fields that is having an adverse impact in near term for all domestic gas producers. The price of domestic natural gas was revised by MoPN&G vide Gazette notification "New Domestic Natural Gas Pricing Guidelines, 2014" dated 25th Oct'14. It may be noted that the guideline links 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. This was done during high oil price scenario in 2014. Besides, \$ 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.

Based on these guidelines, the gas prices for various periods were notified. As per current notification, the gas price has come down to \$2.50/mmbtu, which works out to be \$13-14 per barrel in oil equivalent terms whereas oil price today is in the range of \$50-55 per barrel. It is paradoxical that the current price of gas is also much lower than the average prevailing Henry Hub (a marker for gas surplus region) price of \$ 3.1/mmbtu in the fourth quarter of 2016. As you would appreciate, the landed price of gas in India for Henry Hub based supply source would be in the range of \$8-9/mmbtu. The domestic gas price based on the pricing guideline 2014 is expected to go down further as shown in the graph attached as Annexure I.

A substantial part of the domestic gas production comes from the matured producing fields. As per IHS data the average cost of production of these mature fields in 2015 range from \$12/boe to \$15/boe (\$ 2.3-2.5/mmbtu) excluding duties, taxes and royalty, which makes the break-even price much higher. One of the PSUs

remunerative levels. We further believe that to develop Indian gas sector, marketing and pricing freedom that Government has provided for HELP and DSF should be extended for existing gas production in line with NELP Policy and PSC. This step will provide long term and sustainable solution for domestic gas production by unlocking the true potential of domestic gas as well as remove the price distortion in the market for its development. In the process, this will help towards fulfilling India's gas vision of increasing gas in India's energy mix from around 6.5% now to 15% by 2030.

We, therefore, request the government to extend the same price freedom as provided in HELP and DSF developments to other areas. The present global low price scenario provide excellent window of opportunity for India to transition to market based gas pricing. It provides an opportunity to completely deregulate Gas markets in country (similar to crude oil, Diesel and Petrol).

As an immediate step till the final review is taken of the above recommendation, the government is requested to at least revise the floor price of natural gas to around \$4.2 per mmbtu with immediate effect within the guidelines of existing pricing mechanism.

Thanking you,

Yours faithfully,



Dr. R. K. Malhotra
Director General

Encl.: as above