

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

Dear Sir,

Subject: Market and Price freedom for domestic natural gas

The government through various policy initiatives has announced marketing and pricing freedom for gas from DSF round blocks, OALP/HELP blocks, CBM and deep water, ultra-deep water & HPHT fields. However, the principle of intended freedom has not been realised on account of the guidelines on price discovery.

Industry believes that under 'price and market freedom', gas prices should be market determined vis-à-vis its competing alternate. It has been often argued that such price discovery guideline is to establish best price for the government share in the PSC. In this regard industry would once again like to reiterate that the contractor's interest is aligned with that of the government to ensure realisation of the best price, whose revenue is much more impacted if the discovered prices are lower.

On the contrary, the present guideline constrains the ability of the contractor to negotiate the best possible price for the gas produced. It is important to note that it is in this background that the recent price discovery process of new domestic gas production (e.g. CBM and ONGC East coast), the bidders have offered prices, which are more than 50% lower than price at which they are importing LNG resulting in artificially depressed domestic gas prices. This will act as deterrent to investment for much needed domestic exploration and development.

In addition to above, the low price of 85% of the gas being produced in India is also vitiating the atmosphere for price discovery process. The impact of this administered price through a formula is indirectly impacting PSC blocks/DSF blocks which were bid on the basis of a free price, without the challenges provided by subsidized or administered price. For example Policy framework issued by Gol on Marketing and Pricing Freedom for CBM gas indicates that in the event of market discovered price being less than the price notified by PPAC under the New Domestic Natural Gas Pricing Guidelines the royalty and Production Level Payment shall be paid on the basis of the price notified by PPAC. This framework has been kept to avoid revenue loss to the exchequer.

The Contractor should be allowed to first discover the gas prices as per the Gol's guidelines/formulas for new finds and establish a floor

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price/benchmark. Subsequently, if the Contractor can find buyer(s)/consumers willing to buy the gas at higher than the discovered price through bidding process, it should be allowed to sell gas at such negotiated higher price(s) which will also have potential of providing higher revenue to the exchequer. It is proposed that the Policy Framework for price discovery should be reviewed to address the issue.

Request for marketing freedom for existing gas:

Further as mentioned in the past, existing Domestic Gas price formula also requires modifications to serve Govt's twin objectives of raising revenue and promoting domestic E&P activity. India, being the net gas importer with no large gas reserves in place it would be fair only when the reference markets for price guidance should represent realities of a gas deficient market. Moreover, derived price cannot be termed as appropriate for severely supply constrained gas market like India which can aspire to meet its growing gas requirements through either imported LNG or discoveries expected out of incremental exploratory efforts. Further netting off USD 0.50 as a virtual charge towards transportation and treatment is unjustified. It may be stated that a way out could be that the price derived through the existing formula (without any deduction of USD 0.50 / MMBTU) could be termed as floor price so as to allow producers to negotiate a higher price for their produce. This will enable Govt to improve upon its share of royalty that it is entitled to under the existing regime and will also serve as an incentive for attracting investment for domestic exploration.

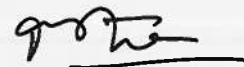
There is also a strong need to mandate all fertilizer, power plants and CGD to preferentially use domestic natural gas, as long as it is priced competitively compared to imported re-gasified LNG. These measures will encourage additional produce and use of domestic natural gas which will also bring in investment, skill development and will result in generation of more and more employment. This is in line with the Government objective of reducing import dependency and encourages "Make in India" drive.

In view of the above, we request you the following:

- Give a preferential status to new domestic produced natural gas vis-à-vis imported LNG. To achieve this, bidding process should not act as a barrier and suggestions indicated above may kindly be adopted.
- Review of gas price formula to incentivize domestically produced natural gas.

With regards,

Yours sincerely,



Dr. R.K. Malhotra
Director General