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Flaw in gas pricing

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THE erstwhile structure of gas pricing prior to October 1, 1997, suffered from serious anomalies which the new system has sought to overcome to some extent. Under the former, basic price to consumers of on-shore gas and off-shore gas at landfall point (hereafter referred to onshore/landfall) was Rs 1,850 per thousand cubic metre (MCM) linked to a range of calorific value (CV) i.e., 9,000-9,500 K cal. The price was based on cost of imported fuel oil (FO). Those drawing gas from HBJ pipeline were, in addition, paying transport charge of Rs 850 per MCM.

Out of the Rs 1,850 per MCM paid by the consumer, the producer i.e., ONGC/OIL, got Rs 1,500 per MCM, the balance Rs 350 per MCM went to Gas Pool Account (GPA). On producer price, royalty 10 per cent and Central Sales Tax (CST) 4 per cent added to Rs 216 per MCM. Invariably, users of on-shore/landfall gas get it at CV of about 9,000 K cal while, those along HBJ of about 8,500 K cal. The latter is lower primarily because of LPG extraction facilities owned by GAIL. The plants along the HBJ pipeline got rebate of Rs 93 per MCM.

Several distortions in the system are thus, quite apparent. First, price linkage to cost of FO was seriously flawed. Natural gas is not a replacement for FO. While, the latter is used primarily for heating, the former is recognised mainly for its chemical value and ideal for use in chemical/petrochemical industries including fertilisers. It gave room for manipulation while computing rebate thus putting users to unjustified loss.

While loss to users on account of shortfall in CV is on delivered cost at factory tap, computation of rebate was only on basic price plus royalty/CST. Thus, contribution to GPA, transport charge and sales tax were not compensated.

In respect of transport charge, no linkage to CV was specified.

Under new structure w.e.f October 1, 1997, basic price of gas has been fixed at Rs 2,150 per thousand cubic metre linked to CV of 10,000 K cal. The price, however, continues to be related to cost of imported FO, linkage being set at 55 per cent in 1997-98, 65 per cent during 1998-99 and 75 per cent during 1999-2000 and possibly 100 per cent, from 2000-01 onwards.

The basic price of Rs 2,150 plus royalty/CST Rs 259 minus rebate plus transport charge (relevant along HBJ) add up to delivered cost at factory tap. To plants onshore/landfall, this works out to about Rs 2,385 per MCM and to plants along HBJ about Rs 3,372 MCM.

Against these, net back to ONGC on supplies to onshore/landfall plants is Rs 1,559 per MCM (1800-241) and on supplies to HBJ plants Rs 1,452 per MCM (1800-348).

Thus, by linking price to a given CV — against a range earlier —the rebate factor is largely taken care, but, for the fact that on royalty/CST, for units along the HBJ, this is restricted to only 1000 K cal against actual shortfall of 1500 K cal. Further, rebate is now computed on consumer price — unlike producer price earlier — plus royalty and CST. However, transport charge and sales tax still remain uncovered.

The GAIL has also unjustifiably been given a steep increase in transport charge. Even at existing level i.e., Rs 850 per MCM, this was artificially inflated. The JPC, in fact, pointed out various aberrations — e.g. depreciation of pipeline taken as ten years against 25 years being international practice — leading to this. It suggested a reasonable charge of about Rs 466.4 per MCM for an average distance of 1,060 km for fertiliser plants along HBJ.

The reprieve to users is only temporary as big increases in basic price are in offing from 1998-99 onwards. Taking prevailing C&F landed cost of imported FO as basis, three years from now, this will be about Rs 4,000 per MCM on 100 per cent parity. The entire increase i.e., Rs 1,850 per thousand cubic metre, will go to GPA even as price to ONGC remain unchanged at Rs 1,800 per MCM. The system of gas pricing needs to be further rationalised/streamlined by (i) liking basic price to a CV somewhat closer to likely actuals, say, about 9,250 K cal to minimise variations and attendant complications in allowing rebate; (ii) computing rebate on delivered cost of gas at factory tap as loss to user is on total expenditure incurred; (iii) ONGC to pay rebate only on producer prices on remaining elements of delivered cost, concerned beneficiary to meet the liability to user (iv) GAIL to compensate ONGC for rebate on producer price on account of loss of CV on supplies to HBJ plants and (v) reasonable transport charges along HBJ as per JPC recommendation.