THE ECONOMIC TIMES

13 JUNE 1998 VOLUME 38 NO 87

Unfair vantage in urea

Uttam Gupta

THE high-powered Fertilizers Pricing Policy Review Committee has recommended a normative referral price (NRP) (ex-works price) of Rs 6,050 per tonne for all existing gas based plants w.e.f. January 1, 1998.

Of the 15 gas-based plants currently in operation, eight are along the HBJ pipeline and seven are located on-shore/at landfall point. In former category, while three were commissioned almost 10 years ago and have, therefore, more or less fully serviced their own capital, five have been set up in recent years entailing much higher level of investment and are therefore, saddled with high burden of capital related charges (CRC).

Due to location along HBJ, apart from basic price i.e., Rs 2,411 per thousand cubic metre, royalty 10 per cent, central sales tax (CST) 4 per cent and sales tax, they have to pay transport charges, currently Rs 1,150 per thousand cubic metre (MCM).

On this basis, cost of gas delivered at factory tap works out to about Rs 3,630 per MCM at CV of 8,500 K Cal or Rs 425 per million K Cal.

These plants suffer from another handicap. As per government directive, they are denied gas supply to the extent required for running captive power and steam generation plants. In fact, back in 1985, the department of fertilisers had directed all plants along the HBJ to build multi-fuel facility.

GAIL actually started restricting supply of gas w.e.f. October 1, 1993, to exclude fuel requirement for steam and power. During 1996-97 for instance, supply was only 1.35 million cubic metre per day (mcmpd) as against about 1.75 mcmpd required to run plant at optimum load.

These plants are thus forced to use costlier naphtha to the extent of at least 25 per cent. At factory gate, cost of naphtha works out to about Rs 820 per million K Cal. So effective cost of energy increases sharply to about Rs 524 per million K Cal (425 x 0.75 + 820 x 0.25).

All plants located onshore/landfall point except one are old/almost fully depreciated and consequently, entail small burden of CRC. They do not also have to incur transport cost. The cost of gas delivered at factory tap works out to about Rs 2,750 per MCM at CV 9,250 K Cal or about Rs 300 per million K Cal. These plants also do not face short supply of gas.

The recommended NRP of Rs 6,050 per tonne includes Rs 2,400 per tonne towards energy cost, Rs 884 per tonne other operating cost (conversion cost, bagging, marketing cost and working capital) (OOC) and Rs 2,766 per tonne towards CRC. The reasonable actuals of these three broad components are, however, different and vary from unit to unit depending on plant vintage and location.

The plants along HBJ pay for energy at an effective rate of Rs 524 per million K Cal. Taking average energy consumption of about 6 million K Cal needed for producing a tonne of urea, energy cost is about Rs 3,144 per tonne. This exceeds the provision under NRP by Rs 744 per tonne.

Such huge shortfall would not only seriously affect the viability of these plants, but also, push them into an unprecedented liquidity crisis from the day one.

For vintage plants along HBJ pipeline (there are three), their under-recovery in energy cost of about Rs 744 per tonne — i.e., same as for newly commissioned units — is likely to be more or less off set by corresponding gain under CRC. However, they would still be worse off to the extent of under-recovery under OOC.

For plants located on-shore/at landfall point, energy cost is about Rs 1,800 per tonne. This is lower than provision by Rs 600 per tonne. In respect of CRC and OOC as well there will be significant gain.

Clearly, adoption of NRP will yield handsome dividends for these plants.

The committee's recommendation for uniform price for all gas-based plants would thus give unintended gains to those located on-shore/landfall point.

And, all this is unrelated to the efficiency factor. The former's loss arises mainly due to recent vintage and resultant higher burden of CRC, use of high cost hydrocarbon i.e., naphtha due to short supply of gas and transport charges along HBJ. The gain of the latter is due to lower CRC, low energy cost and no transport charges.

The government should refrain from implementing the committee's recommendation regarding uniform NRP for all gas-based plants as it not only militates against health and growth of industry, but would also lead to serious inter-plant distortions.