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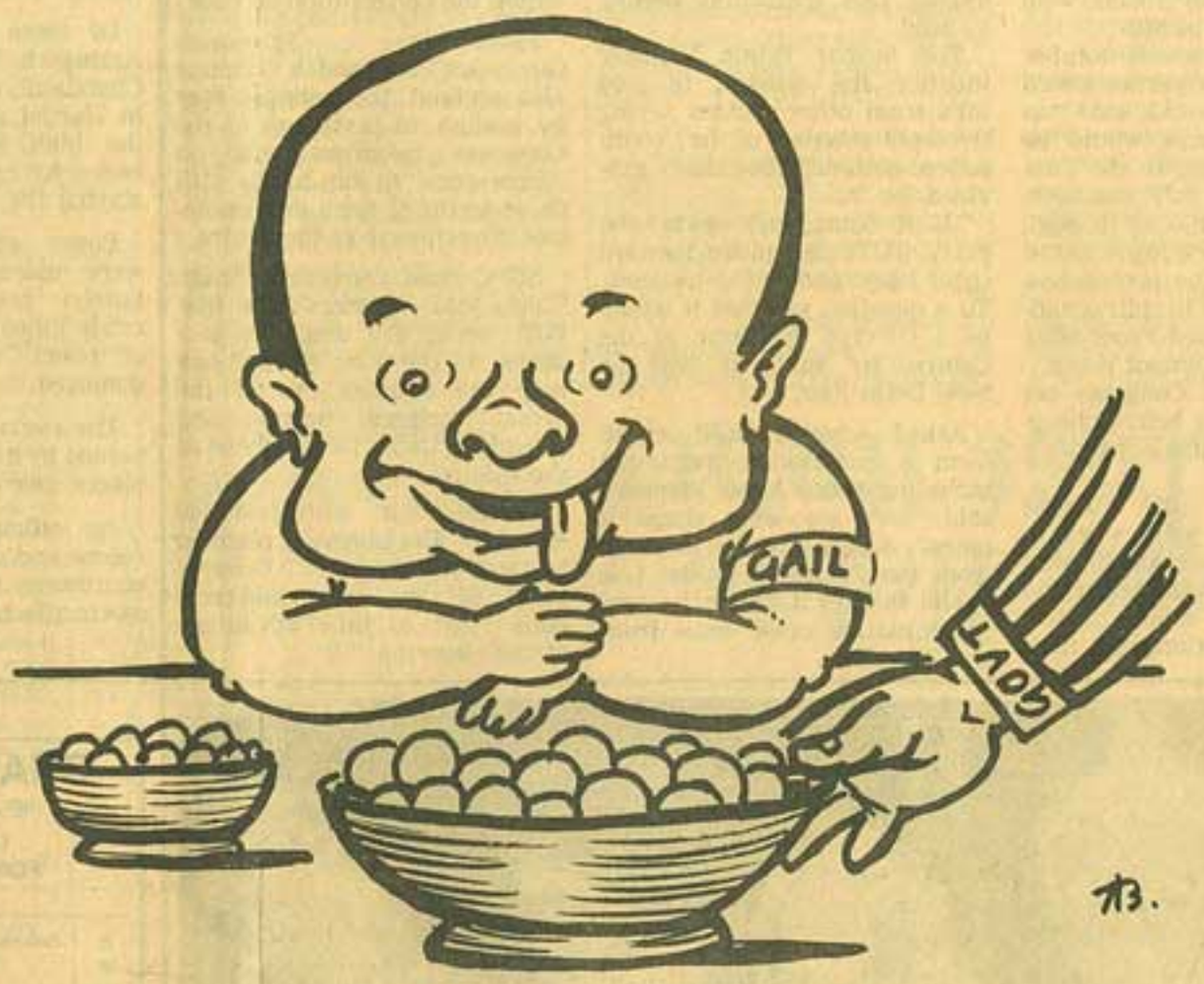
An unjust enrichment

The entire economy should not be neglected to carve out a bed of roses for GAIL, says **Uttam Gupta**



DUE to recent turbulence in the international stock markets, the government may have been forced to call off GAIL's maiden GDR issue of US $700 million. There can be no doubt that it had gone out of the way to make it a grand success.

In an attempt to give a further boost to GAIL's already high profitability level — during 1996-97, it posted pre-tax profit of Rs 830 crore and about the same level during April-September 1997 — the transportation charge for carrying gas through the HBJ pipeline has been increased from existing Rs 1850 per thousand cubic metre to Rs 2150 per thousand cubic metre.

The basic price of gas has also been increased from the existing Rs 1850 per thousand cubic metre to Rs 2150 per thousand cubic metre.

The latter is, however, linked to calorific value (CV) of 10,000 k cal as against former linked to CV of 9000- 9500 k cal.

The users along HBJ pipeline get gas at CV of 8500 k cal. After adjusting for the shortfall, effective increase in basic price to these users works out to about Rs 60 per thousand cubic metre.

Due to increase in basic price alone thus, the users would not have been affected much. However, increase in transport charge by about 35 per cent has compounded the overall additional burden to Rs 360 per thousand cubic metre. On delivered basis, i e at factory tap — after including royalty (10 per cent), CST (4 per cent) and sales tax (varies from state to state, but on an average about 5 per cent) — total increase will be about Rs 410 per thousand cubic metre.

There are six mega size ammonia/urea plants along HBJ pipeline, i e those of NFL (Bijapur), IFFCO (Aonla), Indo Gulf (Jagdishpur), Tata Chemicals (Babrela), Chambal Fertilisers (Gadepan) and Oswal Chemicals (Shahajahanpur), apart from two recently commissioned expansion projects at Bijapur and Aonla. Additionally, there are a couple of power plants also drawing gas from HBJ pipeline.

Consequent to steep increase in cost of gas, the cost of production of urea at these plants will increase by about Rs 250 per tonne of which about Rs 190 per tonne is accounted for by increase in transport charge alone.

Together with an increase of about Rs 300 per tonne on account of steep increase in price of naphtha/fuel oil w e f September 2, 1997 — these are used for running captive power and steam generation facilities — the incremental burden on the plants is Rs 550 per tonne. The cost of generating one KWH of power would go up by about 11 paise, of which three-fourth is due to increase in transport charge.

The clientele of both fertilisers and power are a huge ocean of poor, i e millions of farmers, poor consumers of foodgrains and users of electricity. Consequently, it is not easy to pass on additional cost by way of corresponding increase in selling price/power tariff. Hence, these have to be absorbed by increase in subsidy as in the case of fertilisers, or higher losses of state electricity boards (SEBs), in turn, having to be supported by government.

Having caused increase in subsidy through its own actions, the government then starts cribbing about it on grounds of consequential effect on fiscal deficit. There is also a natural tendency to put the blame for rise in subsidy on the concerned sector, in this case, the fertiliser industry.

Instead of passing on the buck, why doesn't the government face issues squarely? In the instant case, crux of the problem is steep increase in transport charge along HBJ pipeline.

It is this that has raised fertiliser subsidy and may even contribute to increasing losses of SEBs. The fundamental question we must therefore, ask is whether the increased was justified. In this context, let us recapitulate a few basic facts. The HBJ pipeline stretching over a distance of about 1700 km, i e from Hazira to Jagdishpur was commissioned in 1987 at an investment cost of about Rs 1700 crore. The carrying capacity of pipeline was 18 million cubic metre per day (MCMPD).

With these basics and related parameters, i e financing pattern, return on equity, interest rate and capacity utilisation, ministry of petroleum and natural gas (MPNG) would have worked out reasonable cost of transporting gas.

In its deposition before the Joint Parliamentary Committee on Fertiliser Pricing (JPC), the MPNG had stated that this was Rs 440 per thousand cubic metre for a distance of 1000 km.

On this basis, JPC concluded that for an average distance of 1060 km for fertiliser plants located along HBJ, reasonable charge should have been about Rs 466.4 per thousand cubic metre.

Against this, charge was fixed at Rs 850 per thousand cubic metre, i e about 80 per cent higher. The JPC recommended that the government should consider bringing this down to a reasonable level.

The JPC report also brings out that depreciation element — this constitutes major share of total cost — was included on the basis of 10 years as against 25 years being international practice and pipelines' normal life of 50 years.

In view of this, now that pipeline has completed almost 10 years, there should be no liability on this account. With loans having been fully rapid, GAIL owns the pipeline at virtually no cost.

Reportedly, about Rs 2000 crore has been spent on rehabilitation and augmentation of the pipeline. No doubt, this investment has to be serviced.

Against this, however, one has also to consider that it can now carry 33 MCMPD of gas against 18 MCMPD earlier. A reasonable calculation of cost on enhanced throughput should yield charge lower than Rs 850 per thousand cubic metre.

Far from reducing, not only has the rate been increased to Rs 1150 per thousand cubic metre, but the relevant notification provides for increase in transportation charge by 1 per cent for every 10 per cent increase in consumer price index. This will further boost gains to GAIL at the expense of user industries.

The GAIL has also been pampered in yet another way. This is by linking transport charge to CV of 8500 k cal. At Hazira, where it takes delivery of gas from ONGC, CV is about 9000 k cal. En route HBJ pipeline, LPG is extracted from gas which results in reduction in its CV to about 8500 k cal by the time it is supplied to users. Thus, while GAIL gets a bonus, it is not required to compensate for resultant shortfall in CV.

Continued health and growth of the user industries, fertilisers and power are as much vital to the health of the overall economy.

This should not be jeopardised in a bid to carve out a bed of roses for GAIL. The government should not only withdraw the recent increase in charge for transporting gas along HBJ pipeline, but also consider further lowering it in line with the recommendations of the JPC.