

## Natural gas — II

# Serious flaws in price computation

**T**HE view taken in 1988 by the Advisory Board on Perspective Planning on Natural Gas triggered off a drastically different thinking in the Government. The Board sought to justify the use of gas in power generation in terms of the projected deficit in the availability of power, and the problems in the transportation of coal as well as its deteriorating quality. It did not, however, address the fundamental issue of the best economic value for gas which was the main concern of the Lovraj Kumar and Satish Chandran Committees and on the basis of which the use of gas in the manufacture of fertilisers was assigned first priority.

Whether it is the projected deficit in power or problems in transportation of coal or its quality, these issues are extraneous to the core issue in the context of formulating priorities. The problem has arisen mainly because without setting its own house in order, the power sector is trying to ride roughshod into the other man's land.

There is scope for augmenting power availability through the speedy completion of ongoing thermal/hydel power generation projects, improvement in the plant load factor (PLF) of existing plants and reduction of transmission and distribution (T&D) losses. The T&D losses alone constitute about 25 per cent and if only these could be brought down to a practical minimum, much of the projected deficit in the availability of power could be reduced.

Concerned action on these fronts which is long overdue, can provide an effective answer to the problem of projected deficit in power availability vis-a-vis demand. This would also automatically obviate the need for the power sector to stake its totally unwarranted and unjustified claim for a precious resource such as natural gas which.

Notwithstanding the above and if the authorities acquiesce and allocate gas to power as top priority, this would be seriously detrimental to the national economic interest as it would not only generate less value for gas, but would also, jeopardise growth of core industries such as fertilisers.

There is also a mistaken notion that since, technically, the gestation period for a gas-based power plant is shorter than that for a thermal counterpart, fresh capacities can be created in a similar time frame. This is a myth. In this context, it is pertinent to note that about 10,000 MW of additional power capacity from gas was contemplated during the 8th Five Year Plan. With the Plan period almost coming to an end, not even a single MW of additional capacity has seen the light of the day.

We have abundant reserves of coal in the country. Besides, the technology for generation of power from coal is fairly advanced. This provides an ideal combination for boosting

The pricing of natural gas suffers from serious anomalies which have been brought out in the report of the Joint Parliamentary Committee on Fertiliser Pricing. The slogan, 'fertilisers can be imported while power cannot', has deflected attention from the key question of where the maximum economic value for gas lies. The perception is seriously flawed as it assumes that we have a surfeit of foreign exchange and import of fertilisers on a large scale will be possible. This is totally misleading considering the serious balance of payments problem,

says Uttam Gupta.

power production on a scale required to meet the projected deficit. In sharp contrast, the coal gasification technology for fertiliser production is yet to establish its commercial viability. This would also be clear from the persistent low capacity utilisation rates of the two coal-based plant at Ramagundam and Talcher even 15 years after their commissioning. From this angle also, giving gas to fertilisers would be the optimal choice.

The slogan coined in some quarters that 'fertilisers can be imported while power cannot', has contributed, in its own way, to deflecting the attention from the core issues, i. e. where the maximum economic value for gas lies. The perception is seriously flawed as it assumes that we have a surfeit of foreign exchange and import of fertilisers on a large scale will be possible. This is totally misleading against the backdrop of the serious balance of payment problem.

In fact, already, after the comparatively comfortable position of the last two years, i. e., 1993-94 and 1994-95, there are clear indications of a crisis in the making. The trade deficit during the current year, 1995-96, is expected to be about \$ 4 billions up from \$ 2 billions in 1994-95. Whereas the inflow of foreign exchange on account of foreign institutional investment (FIIs) and GDRs issued by Indian companies abroad, are likely to decline substantially, the liabilities on account of debt servicing payments will increase sharply. The resultant scarcity of foreign exchange will render fertiliser imports on a large scale virtually impossible.

If, for whatever reasons, the authorities decide that something must be imported, why must it be fertilisers, which is a valued-added item? In fact, it is much more economical to import raw materials like fuel oil or LSHS or even better quality coal and use it for power generation (for which it is best suited and gives maximum efficiency unlike fertilisers where gas is the most preferred feedstock).

At the prevailing international price, im-

porting a tonne of urea will cost US \$ 200 per tonne C&F. Considering that one tonne urea contains about 6 million K. Cal. of energy, the corresponding value for 10 million K. Cal. will be about \$ 333. In sharp contrast, importing this much energy through fuel oil (1 tonne fuel oil contains about 10 mk. cal.) would cost only about \$ 106 per tonne.

It has also to be considered that import of urea on a large scale would run into serious problems on account of the bottlenecks in handling at the ports and transporting the material to various destination points, predominantly to the northern parts of the country which are highly deficit areas. In fact, recently, because of the shortage in availability of railway wagons, there have not only been serious problems in moving the imported material, but the majority of the plants located in Northern India had also to be closed due to the resultant inability to move the product. Such problems will assume unmanageable dimensions in the event of India increasing its dependence on import of fertilisers consequent to denial of gas supplies to the domestic industry.

On the pricing front also, recent years have witnessed a systematic attempt to jack up the prices. Up to the end of January 1987, fertiliser plants were paying between Rs. 310-340 per 1000 cubic metres of gas as per the long-term contractual agreements with the gas supplying organisations. With effect from February 1987, as part of the Government pricing policy, these were fixed at Rs. 1,400 per 1000 cubic meter for gas at landfall point and for on-shore gas and Rs. 2,250 per 1000 cubic metres of gas supplied along the HBJ pipeline. The differential of Rs. 850 per 1000 cubic metres was towards the cost of transporting the gas through the pipeline. On a landed cost basis, which includes various taxes and duties and royalty on gas, this was tantamount to an increase of almost 400 per cent at one go; in the case of GSFC for instance, the price rose from Rs. 310 per 1000 cubic metres to Rs. 1,743 per 1000 cubic metres.

Subsequently, based on the recommendations of the Kelkar Committee, the Government increased the gas price at the landfall point to Rs. 1,550 per 1000 cubic metres from January 1992, Rs. 1,650 per 1000 cubic metres from January 1993 and further to Rs. 1,750 per 1000 cubic metres from January 1994. For plants served by the HBJ pipeline, the prices were correspondingly raised to Rs. 2,400 per 1000 cubic metres from January 1992, Rs. 2,500 per 1000 cubic metres from January 1993 and to Rs. 2,600 per 1000 cubic metres from January 1994.

While these are the prices to the users, under the system, a separate price is being allowed to the producers at Rs. 1,500 per 1000 cubic metres; the differential between the price paid by the consumer on the one hand and the producers' realisation, is deposited with the Gas Pool Account (GPA), which in turn, is expected to support future exploration and development in the gas sector. In fixing the producers price, the Government has followed the cost of production approach providing for a pro-tax return of 25 per cent.

The price computation on this basis, however, suffers from serious anomalies which have been brought out in the report of the Joint Parliamentary Committee on Fertiliser Pricing (JPC). In this connection, the JPC has observed that "the price of natural gas supplied to the fertiliser industry does not seem to reflect its true cost. About 22 per cent of the total gas produced is flared by ONGC for want of facilities and the cost of gas so flared during the two-year period i. e., 1989-90 and 1990-91 alone amounted as much as nearly Rs. 1,800 cores. For determining the consumer price of natural gas, the cost of imported furnace oil is taken as the basis which has no relation to the actual cost of production. Similarly, the producer price of gas is reportedly based on the cost of production of gas from the South Bassein field. This does not take into account the weighed average of the cost of gas from other sources including the cost of gas flared".

The charges towards transportation of gas through the HBJ Pipeline, too, have been artificially inflated. Whereas at full potential, the pipeline is designed to carry 33 mcmd, the capital servicing charges and other fixed cost elements have been distributed over a throughput of only 18 mcmd. Besides, the depreciation element is built into the overall charges, assuming only 10 years of life of the pipeline as against the standard international practice of 25 years, the actual life of similar pipelines being much longer at about 50 years. Some of these irregularities have been pointed out by the JPC too.

(To be continued)

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