The Financial Express July 26, 1997

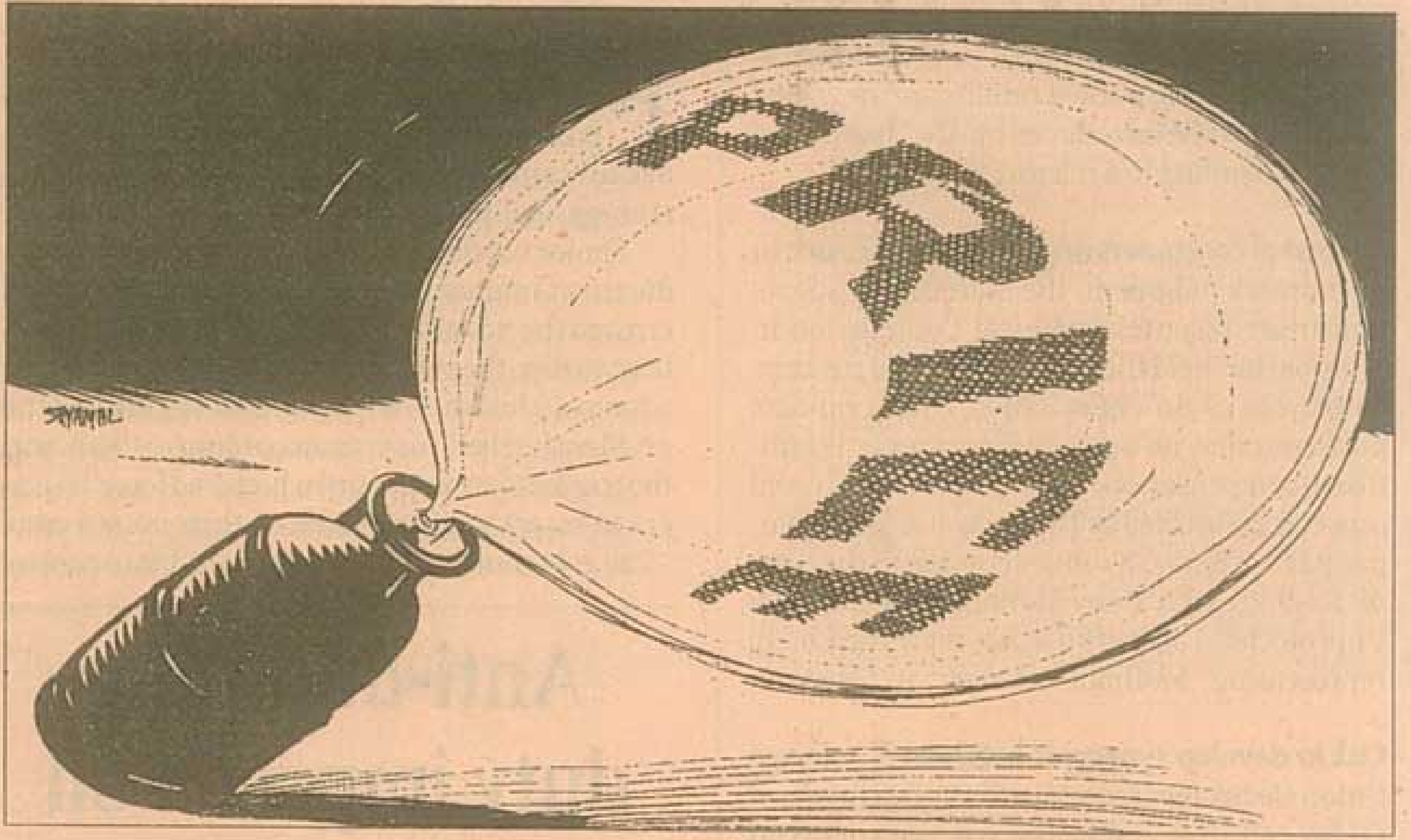
Gas-users suffer artificial costs

GAIL is being fattened on largesse culled by artificial hiking of user charges

by UTTAM GUPTA

THE government is reportedly contemplating a hike in the price of gas at a pace even faster than recommended by the Shankar Committee. Presently, the basic price of gas - last revised with effect from January 1, 1995 - is Rs 1,850 per thousand cubic metres (tmc) for off-shore gas at the landfall point and on-shore gas and Rs 2,700 per tmc for user industries located along the HBJ pipeline. The difference of Rs 850 per tmc is towards the cost of transportation.

The Shankar Committee has recommended a price of Rs 2,050 per tmc for landfall point/on-shore gas and Rs 3,200 per tmc along HBJ with effect from April 1, 1997. Thus, while the proposed increase in basic price is Rs 200 per tmc, the transport charge is sought to be raised from Rs 850 per tmc to Rs 1,150 per tmc. Thereafter, an increase of Rs 200 per tmc per annum successively for a period of four years is proposed. Thus, at the end of 2001-02, the prices will be Rs 2,850 per tmc for HBJ.



The Shankar proposal has been dubbed inadequate as it purportedly falls short of the need to push the gas prices to the international level in a much smaller time frame. The linkage sought with the international price of gas is illogical. No gas is being imported into India and its is unlikely to be so in the next five years at least. The Oman pipeline project was mooted but, it has now ben more or less shelved. The contemplated project for bringing gas from Iran is an embryonic stage.

A pertinent comparison may, however, be the prices that the user industries are being charged world-wide vis-a-vis the price charged to plants in India. Expressed in US dollars per million Btu (British thermal unit), the former is upto 1.0 in the Middle East, Indonesia and Bangladesh, 1.5 in USA and 1.8 in Russia (about 18 months ago, the price in Russia too was below 1.0).

Against these, in India, at the existing basic price and after including royalty 10 per cent, CST four per cent and sales tax, the cost of gas to plant located onshore is about Rs 2,300 per tmc and for plants along HBJ about Rs 3,000 per tmc. In terms of US dollar per million Btu, these translate to 1.92 and 2.5 respectively. (One million Btu = 30 cu mts of gas at calorific value of one cubic metre = 8,400 Kcal and US$1 = Rs 36).

Consequent to implementation of the Shankar Committee package, the price in India will be even higher thus widening the gap further. By, the year 2001-02, corresponding to the basic price of Rs 2,850 per tmc at landfall/onshore gas and Rs 4,000 per tmc for HBJ plants, the cost at the plant site will be about Rs 3,500 per tmc for the former and Rs 4,500 per tmc for the latter. The corresponding price in US dollars per million Btu will be 2.92 for landfall point/onshore plants and 3.75 for HBJ plants.

There are serious lacunae in the existing structure of gas price which does not reflect is true cost. With effect from January 1, 1992, the price to the consumer was fixed at rs 1,550 per tmc for off-shore gas landfall point/onshore gas - Rs 2,400 per tmc to users along HBJ - based on recommendations of the Kelkar Committee which were founded on an artificial principle ie., fuel oil equivalence.

To the producer, ie., the Oil and Natural Gas Corporation (ONGC), the government allowed a price of Rs 1,500 per tmc. This too, was distorted as it was based on the cost of production of gas from the South Bassein field and did not take into account the weighted average of the cost of gas from other sourced including the cost of gas flared. These distortions have, in fact, been pointed out by the Joint Parliamentary Committee (JPC) on fertiliser pricing, which recommended that gas prices should be fixed on a rational calculation of production cost based on total production. There are serious anomalies even in fixation of charge towards transportation along HBJ. In its deposition before the JPC, the ministry of petroleum and natural gas is on record having stated that the cost of transporting gas over a distance of 1,000 km through HBJ, is about rs 440 per tmc. On this basis and taking an average distance of 1,650 km for fertiliser plants located en route HBJ, the JPC concluded that the charge should be about Rs 466.4 per tmc. Against this, the charge of Rs 850 per tmc is highly inflated.

Reportedly, depreciation of pipeline for purpose of determining charge has been taken at 10 years as against an international norm of 25 years and the pipeline life in actual practice being as high as 50 years. This could be one major reason for artificially inflating transport charge. Against this backdrop, and now that pipeline is almost 10 years old with depreciation cost having been fully recovered, there is a strong case for reducing it.

> This is a clear-cut case of the government benefiting at the expense of the users of gas even as the producers also do not gain from the increase in gas price

Initially in the late 70's and the early 80's, while examining the comparative economics of setting up fertiliser plants onshore and moving finished product ie., urea to consumption centres - primary in the northern belt - vis-a-vis setting up of projects near consumption centres while supplying them gas through the pipeline, the government concluded that the latter was more cost effective. This, indeed, was the raison de etre for locating the six mega size ammonia/urea plants along HBJ's their commissioning more or less synchronising with the laying of the pipeline. The objective has been defeated by artificially inflating the charge. For instance, in respect of the National Fertilisers Limited (NFL), Bijapur plant, cost of moving urea by train loads upto this point currently is Rs 185 per tonne. Against this, the cost of transporting equivalent gas is much higher at Rs 510 per tonne (taking 600 cu mts needed for a tonne of urea). Consequent to the proposed increase in transport charge to Rs 1,150 per tmc, this will further go upto Rs 690 per tonne.

The inflated transport charge has led to heavy gains for Gas Authority of India (GAIL) at the cost of user industries. This is amply demonstrated by the former's pre-tax profit of about Rs 829 core ie., 40 per cent of networth during 1996-97. Increase in the transport charge as recommended by the Shankar Committee, will further add to GAIL's fat at the cost of aggravating the users' miseries. The government is also quietly making money at the expense of the user industries. In the existing structure of prices with effect from January 1, 1992, the difference of Rs 50 per tmc between the consumer price and the producer price was going to the Gas Pool Account (GPA). Then came increase of Rs 100 per tmc per annum for three years in successions. These increases also went to the GPA. Currently, thus with consumer price or Rs 1,850 per tmc and producer price of Rs 1,500 per tmc, the difference of Rs 350 per tmc is going to the GPA. As per the Shankar Committee formula with effect from April 1, 1997, while, thew consumers will pay Rs 2,050 per tmc, producers will get a realisation of Rs 1,850 per tmc. In other words, Rs 200 per tmc for four years will also go to the GPA. Thus, at the end of 2001-02, the contribution to the GPA will be Rs 1000 per tmc.

This is a clear cut case of the government benefiting at the expense of the users of gas even as the producers also do not gain from the increase in gas price. Instead of looking for various alibis to justify contemplated price hike - whether on the Shankar formula or even more - emphasis should be on eliminating various distortions in the existing structure of gas price if only to prevent further deterioration health of user industries like fertilisers and power and stop unjustified enrichment of the gas supplies/transporters and the government.

The author is chief economist of the Fertiliser Association of India.