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Linking gas prices untenable

by UTTAM GUPTA

AFTER a gap of about 30 months, the government has once again raised the price of natural gas. It has decided in-principle to link basic price of domestic gas to international price linked to a basket of fuel oils and set the former at 55 per cent of the latter during 1997-98, 65 per cent in 1998-99 and 75 per cent during 1999-2000.

Thereafter, it proposes to examine the possibility of setting gas price at 100 per cent of fuel oils world market price.

On this basis, with effect from October 1, 1997, the basic price at land fall point or onshore gas has been increased from Rs 1,850 per thousand cubic metre (tcm) to Rs 2,150 per tcm applicable for quarter-ending December 31, 1997. However, after including royalty, central sales tax and local taxes - all levied on ad valorem basis - the increase in cost to users will be about Rs 380 per tcm.

For gas users in north-east region - hitherto enjoying a concessional price of Rs 1,000 per tcm - basic price is proposed to be set at 35 per cent of international basket of fuel oils in 1997-98, 45 per cent in 1998-99 and 55 per cent in 1999-2000. On this basis, revised price is Rs 1,200 per tcm. After including taxes and duties, effective increase works out to about Rs 220 per tcm.

The ball does not stop here. The basic price is set to increase progressively to reach Rs 2,850 per tcm by the year 1999-2000. Corresponding to this, after including royalty/taxes and transport charge, on-shore plants will be paying about Rs 3,500 per tcm and those along the HBJ, Rs 4,500 per tcm. These will be Rs 1,300/1,400 per tcm higher than existing level.

Ironically, while Shankar Committee wanted Rs 2,850 per tcm to be reached in five years from now, the government has decided to achieve this level in three years only. This is because price is linked to world market price of fuel oils.

The centre has not decided to allow any more naphtha allocation to independent power producers (IPPs) as well as new fertiliser projects. This will induce shifts to fuel oils specially for power and resultant increase in import demand leading to higher prices.

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Corresponding to basic price of Rs 2,850 per tcm, increase in production cost will be about Rs 780 per tonne for on-shore plant and Rs 850 per tonne for HBJ units. The additional burden on industry under this scenario will be almost touching about Rs 1,000 crore per annum.

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Under retention pricing and subsidy scheme (RPS), the above will lead to corresponding increase in subsidy. However, reimbursement of the same is likely to be delayed leading to liquidity problems.

The new structure of gas price is devoid of any valid reason not to talk of upholding principles of equality and justice. The linkages to price of fuel oil is illogical. In India, only 13 per cent of total N-capacity is based on fuel oils, against 50 per cent on gas.

Pricing of gas has to be on its own based on reasonable cost of production taking into account weighted average cost of gas from all fields.

Although the consumer is made to pay Rs 2,150-2,850 per tcm, the producer (ONGC) will receive only Rs 1,830 per tcm. The differential of Rs 320-1,020 per tcm will go to the gas pool account (GPA). This is tantamount to taxing the consumer even as the government seeks to camouflage this under a pricing policy which is flawed.

In regard to charge for transporting gas along HBJ, there is a strong case for reducing rather than increasing it. The ministry of petroleum and natural gas is on record having stated before the JPC that reasonable cost for transporting gas over a distance of 1,000 km was Rs 440 per tcm. Why then, the charge was kept at Rs 850 per tcm?

The JPC report also brings out that depreciation element, was included on the basis of 10 years life of pipeline against 25 years being international practice. 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 repaid GAIL owns pipeline at virtually no cost.

Reportedly, about Rs 2,000 crore has been spent on rehabilitation and augmentation of the pipeline. No doubt, this investment has to be service. Against this, however, one has also to consider that it can now carry 33 million cubic metres per day of gas against 18 mcmpd earlier. A reasonable calculation of cost on enhanced throughput should yield charge lower than Rs 850 per tcm.

Instead of venturing into steep increase in gas prices and setting pace for further increases, the government ought to have cared to look into various anomalies in existing structure - as pointed out by the JPC - and settled, at least, for maintaining existing price levels. While, giving a fair deal to consumers, these would also have fully covered reasonable cost of supplying gas.

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