



Review of Gas Pricing Formula

For Prelims: Current Mechanism of Gas Pricing Formula, Russia-Ukraine, Inflation

For Mains: Review of Gas Pricing Formula

Why in News?

The Ministry of Petroleum and Natural Gas has set up a committee under noted energy expert Kirit Parikh to review the current **pricing formula for domestically-produced gas**.

What is the Need to revisit the Gas-Pricing Formula?

▪ High Prices:

- Local gas **prices are at a record high due to the surge in global prices** because of the ongoing [Russia-Ukraine conflict](#) and are expected to rise further.
- Skyrocketing global natural gas prices lifting energy and industrial costs and derailing the efforts to contain inflation are raising concerns.
 - The country has been battling inflation above the Reserve Bank of India's tolerance band of 2%-6% for seven consecutive months.

▪ Current Formula is Myopic:

- The current formula is "myopic" and **does not incentivise gas producers**.
- In India, gas penetration in its energy mix is 6% as against a global average of 23%.
- The objective is to improve this number to 15% over the next few years.

▪ Underpricing Penalizes the Producers:

- India's gas price is determined at an average price of LNG imports into India and benchmark global gas rates.
- India is simply underpricing a scarce resource.
- At current prices, the producer is penalised and somehow the consumer trumps the producer.

What is the Scenario of Gas Market in India?

- Total consumption in India is 175 million standard cubic meters a day (MMSCMD).
 - Of this 93 MMSCMD is **met through domestic production and 82 MMSCMD through LNG imports**. Gas consumption is directly linked to supply availability.
- Of natural gas consumed in the country, **almost 50% is imported LNG**.
- Fertiliser sector is the **largest consumer of gas**, accounting for a third of the consumption, followed by city gas distribution or CGD (23%), power (13%), refineries (8%) and petrochemicals (2%).
- The industry fears that the **world's third largest energy consumer could see its natural gas consumption decline** from the current levels if LNG (imported gas) prices in the international market continue to rule in the range of **USD 45 an mmBtu (Metric Million British Thermal Unit)**.

What is the Current Gas Pricing in India?

▪ About:

- **Gas priced under APM (Administered Price Mechanism)** is set by the Government of India.
 - **Under this system**, the oil and gas sector are controlled at four stages viz. **production, refining, distribution and marketing.**
- **Non-APM or Free Market Gas** is further divided into two categories, namely, **domestically produced gas from Joint Venture fields and imported LNG.**
 - The **pricing of JV gas** is governed in terms of the **PSC (Production Sharing Contract)** provisions.
 - While the **price of LNG** under term contracts is governed by the **SPA (Sale and Purchase Agreement)** between the **LNG seller and the buyer**, the spot cargoes are purchased on mutually agreeable commercial terms.
- Further, there **is differential pricing existing for different sectors.** Subsidized sectors such as power and fertilizer get **relatively less prices as compared to other sectors.**
- Also, **region specific pricing exists in the country** with North Eastern states getting gas at relatively cheaper prices as compared to other parts of the country.
 - Pricing of a major share of gas supplies in the Indian market is **controlled and is not market driven as government approval is required before changing** the price.

▪ Issues:

- Controlled pricing may result in disincentivizing investments in the sector in terms of limited participation from foreign players, who have access to technology, much required in deep-water E&P activities.
- Also, controlled pricing **hampers the competitiveness of consumer sectors** (power/ fertilizer/ domestic) to compete with global energy markets as it leads to low investments in energy efficiency on the demand side.

Way Forward

- As multiple pricing regimes exist in the country, **pooling of gas from different sources has been deliberated** by the policy makers.
- A sectoral pool was being considered with separate pools of power and fertilizer customers. Separate pools **were considered in view of avoiding cross subsidies** between the customer groups and related administrative issues arising.
- **Rangarajan Committee** has suggested a **uniform gas-pricing**, at 'unbiased arms-length'.
- The formula of domestic gas pricing should be 12-month trailing average of volume-weighted average at well-head (on net-back basis) for gas imports and volume-weighted average of US Henry Hub, UK NBP and Japanese Crude Cocktail prices.

Source: HT

PDF Reference URL: <https://www.drishtias.com/printpdf/review-of-gas-pricing-formula>