

Standing Committee Report Summary

Economic Impact of Revision of Natural Gas Price

- The Standing Committee on Finance (Chairperson: Mr. Yashwant Sinha) submitted its 74th report on the economic impact of revision of natural gas price on August 7, 2013. The Committee chiefly examined the issue of declining supply of natural gas and the impact of a possible increase in price of natural gas due to a recently approved revision in the gas pricing formula.
- The Committee noted that gas production from the Krishna Godavari basin (KG basin) has decreased over the past two years causing the core sector of the economy dependent on gas to either use expensive imported gas or operate its plants at sub-optimal capacities.
- The Committee noted that the Ministry of Petroleum and Natural Gas sought explanation from the contractor for the KG-DWN-98/3 block for various failures under the Production Sharing Contract (PSC) with the government, including the contractor's failure to achieve that targeted production rate of gas.
- The Committee noted that serious challenges have arisen due to the tendency of contractors to manipulate investments and to control production. It suggested that a new PSC be evolved to do away with the incentives for such manipulation and control.
- The Committee advised the government to subject gas producers to closer regulation, especially on aspects of cost recovery and technical parameters related to production.
- The Committee observed that with the decline in production from the KG-D6 basin since 2010, the government imposed pro-rata cuts across sectors between July 2010 and March 2011 keeping in mind priorities. The supply to City Gas Distribution and the power sector became zero while the supply to the fertiliser sector remained unaffected.
- The Committee opined that the contractor responsible for supplying gas from the KG-D6 gas field should deliver the shortfall in supply at the original price and not be allowed to take advantage of a possible upward price revision.
- The Committee noted the government's approval, in June 2013, of a new gas pricing formula based on the recommendations of a committee headed by Dr. C. Rangarajan (Rangarajan Committee) and the government's decision to apply it with effect from April 1, 2014. The formula would yield the price based on international gas prices and the landed cost of imported gas. The Committee observed that the decision to replace the erstwhile market-determined pricing method was made with a view to incentivise production and investment in the KG basin.
- The Committee was apprised by the Ministry of Petroleum and Natural Gas that the cost of urea production will increase by Rs. 1384/Metric Tonne with every increase of USD 1 per Million British Thermal Unit (MMBTU) in gas prices. Expressing concerns about the adverse impact on different sectors of a possible price rise due to the implementation of the new formula, the Committee suggested that the government re-think elements of the formula and impose a cap on the price suggested by it.
- The Committee expressed the view that the government needs to do a thorough impact study of gas pricing on the core sectors of power, fertiliser, steel and small scale industry.
- The Committee felt that since gas pricing will have implications for power tariffs as well, state governments should be consulted on the matter.

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