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## Gas 'reforms' show just how twisted Indian policy is

Only *babus* could argue 'pricing' & 'marketing' freedom were distinct, and even now this doesn't apply to everyone

**P**ETROLEUM MINISTER DHARMENDRA Pradhan was happy to announce the 'natural gas marketing reforms' that the Cabinet Committee on Economic Affairs cleared on Wednesday, but, more than anything else, this just reinforces how twisted India's policies are, how reforms are mostly made in a piecemeal manner; that, of course, is the main reason why they don't deliver as much as hoped. Indeed, even after Wednesday's reforms, over 70% of India's natural gas production doesn't get the benefit of the new marketing freedom given. The reason for not freeing up prices of all natural gas, as in the past, is that if gas prices rise, so will the costs of fertiliser and electricity; but unless existing producers like ONGC are able to earn more from the gas they produce, how are they going to get the resources to invest in exploring/extracting more gas? And until that happens, the bulk of India's gas needs—right now, this is around 60%—will continue to be met through imports that cost more than locally produced gas.

What really takes the cake, of course, is the distinction between what is called 'pricing' and 'marketing' freedom. For those not well versed in bureaucratese, both mean the same thing; that firms producing natural gas are free to sell their output at the market price. Apparently not, since India has four or five types of prices. There are the 'domestic price guidelines'—this used to be called Administered Price Mechanism (APM) earlier—and gas produced under this is sold at \$1.79 per mmBtu; the costs of production, though, are significantly higher. Since keeping gas prices low dissuaded new investment, in 2016, the government raised the prices but only for new discoveries and that too, for gas produced in the deep or ultra-deep waters or high-temperature-high-pressure areas; if the gas was produced onshore, it didn't get the higher price. In addition, there are imported prices that are around \$5-7 per mmBtu. And after Wednesday's reforms, there will be a price for gas that is, for instance, found onshore or in relatively shallow waters; this price will be market-determined.

In the past, while producers like Cairn India had 'pricing' freedom, they did not have 'marketing' freedom! This meant a Cairn could go to, say, an IOC or a Tata Power—this distinction between 'pricing' and 'marketing' freedom applies to crude oil as well—and say it wanted the market price for its natural gas, say \$6-7 per mmBtu. But since Cairn was not allowed to sell to anyone—Wednesday's reforms allow this for natural gas, not for crude oil—IOC or Tata Power would most likely turn it down and decide what price it would pay. Indeed, a report from the government's Petroleum Pricing and Analysis Cell (PPAC) had pointed out that ONGC could earn \$10 more per barrel if it could sell its crude to refineries that were more sophisticated than those of the PSUs to whom it supplies today. In the case of Cairn India, having 'pricing' but not 'marketing' freedom has meant it has to sell its crude at a lower price to not just PSUs, but even to private sector refiners like Reliance Industries.

Apart from the fact that the 'marketing' freedom has not been extended to crude oil—and to existing natural gas production—another policy that makes little sense is the 20% ad valorem cess applied on crude oil. The latest CAG report talks of how the government has collected ₹1.2 lakh crore under the Oil Industry Development Board cess so far, but none of this has been used for the development of the sector. If prime minister Modi really wants India's petroleum imports to fall from 77% in FY14 to 67% in FY22—it has risen in the last six years thanks to unfriendly government policy—he needs to ensure the sector is completely freed instead of today's piecemeal changes, and that includes a substantial reduction in the government levies on the sector.

## ANALYST CORNER

# ONGC may gain from gas price moves; reiterate 'buy'

### ICICI SECURITIES

**A COMMITTEE HAS** been set up to suggest changes to the prevailing price formula under which gas price fell to US\$2/mmbtu in H2FY21.

As per press reports, it may propose US\$1/mmbtu discount to JKM spot LNG as the floor price. We are optimistic that a floor price would soon be introduced, at which ONGC would make money (its average production cost is US\$3.7/mmbtu).

Floor price may be US\$4.2/mmbtu, which ONGC has asked for since FY17, or linked to JKM spot LNG.

Reports also suggest that the government may gradually deregulate price of nomination acreage (APM) gas over not more than six years.

This may be the road map for uniform market-determined price for all gas produced in India, which the oil minister has often talked of.

The government on October 7 approved the procedure to be followed to ensure price of deregulated gas was truly market-determined.

We expect gains for ONGC in the near term from the imminent revision in

gas price formula and in the medium term from gas price deregulation. Reiterate BUY.

In FY97-FY10, price of ONGC's APM gas was ₹2,250-3,200/mscm (US\$1.3-2.2/mmbtu). In Jun'10, it was hiked to the same level as the price of gas from NELP block KG D6, which was US\$4.2/mmbtu. From Nov'14, it was linked to price in the US, Russia, Canada and UK. Price under this formula was US\$4.2-5.6/mmbtu in the first 17 months, but US\$2.0-4.1/mmbtu thereafter.

The government deregulated the price of gas produced from deepwater fields post-January'16, coal bed methane, incremental output from North-East post-Jul'18 and under development plans approved after February'19.

This will ensure that price of ONGC's incremental gas output will be market-determined. We expect a floor price of US\$4.2/mmbtu, or that linked to JKM spot LNG (US\$4.2-4.6/mmbtu in FY22-FY26E if US\$1/mmbtu discount to JKM) to be soon introduced for APM gas followed eventually by phased deregulation over the next few years.

# Church of England exits Exxon citing 'emission violations'

## BLOOMBERG

October 8

The Church of England Pensions Board has sold all its holdings of Exxon Mobil Corp. because the oil giant failed to set goals to reduce emissions produced by its customers.

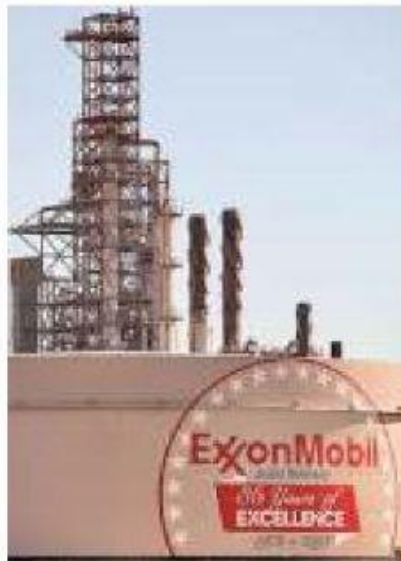
The divestment was completed this week. The proceeds went to an index that aligns with the objectives of the Paris climate agreement, said a spokesperson for the board. Exxon isn't included in the FTSE TPI Climate Transition Index because it hasn't set targets for Scope 3 emissions that are generated when customers burn fossil fuels.

Exxon failed to meet the index criteria which embeds the latest

assessment by the Transition Pathway Initiative (TPI), and as a result the board is disinvested from Exxon, said a spokesperson for the Church of England Pensions Board, which manages funds in excess of £2.8 billion (\$3.6 billion) for retired clergy and others who have worked or served for the church.

Companies with more than 40 per cent of total emissions generated by customers or suppliers need to set a goal to reduce

these Scope 3 emissions, if their climate plan is to align with United Nations goals. Exxon doesn't disclose its Scope 3 emissions and, thus, doesn't set targets to reduce them.



# Hitachi ABB wins ₹100-cr order from HPCL refinery

HITACHI ABB POWER Grids India on Thursday said it has bagged an order worth over ₹100 crore from HPCL Rajasthan Refinery (HRRL). The project will strengthen mission-critical power infrastructure at HRRL's Barmer refinery, it said.

## Oil India begins exploration in Andaman sea

Oil India, the nation's second-biggest state-owned oil producer, on Thursday said it has started exploring for oil and gas in the Andaman sea. OIL said it has begun acquiring seismic data on the shallow water blocks AN-OSHP-2018/1 and AN-OSHP-2018/2, which the company had won in the third round of open acreage licensing policy. The results of the seismic survey would help the firm decide on drilling of wells on the block that could yield oil and gas.

**PTI**

## Oil India begins seismic survey in Andaman Offshore

### OUR BUREAU

New Delhi, October 8

Oil India Ltd (OIL) has begun its offshore operations in Andaman Shallow Waters with the deployment of a multi-purpose seismic data acquisition vessel SW Vespucci on Thursday. A company statement said that exploration efforts in Andaman Offshore are being resumed after a long time.

The vessel has been deployed for the acquisition of 2D seismic data in blocks that OIL has bagged during the third Open Acreage Licensing Policy (OALP) Bid round. These blocks are AN-OSHP-2018/1 and AN-OSHP-2018/2.

Chairman and Managing Director at OIL, Sushil Chandra Mishra said, "The company has drawn up plans to intensify its exploration efforts in the country and increase exploration capital expenditure in the coming years."

He further stated that the data acquisition in Mahanadi on-land blocks in the state of Odisha would begin shortly, and the exploration drilling campaign in its OALP blocks would commence during 2021-2022. OIL plans to carry out drilling at 66 wells in OALP blocks in the next 3-4 years.



**OPEC, in  
major shift,  
says oil  
demand to  
plateau in late  
2030s**



# Closing on week without change in petrol, diesel prices

**New Delhi:** Diesel and petrol prices remained unchanged on Thursday closing on a week without any revision in the retail price of the two petroleum products.

Petrol and diesel prices saw a lot of volatility in the months of July, August and September when prices moved up and down at frequent intervals with diesel prices witnessing fall lately.

With no change in petrol and fiscal prices on Thursday, the fuel prices have not been revised for sixth consecutive day. In fact, Petrol prices have remained steady for last 16 days.

**IANIS**

# OIL begins exploration in Andaman sea

**NEW DELHI:** Oil India Ltd, the nation's second-biggest state-owned oil producer, on Thursday said it has started exploring for oil and gas in the Andaman sea.

OIL said it has begun acquiring seismic data on the shallow water blocks AN-OSHP-2018/1 and AN-OSHP-2018/2, which the company had won in the third round of open acreage licensing policy.

The results of the seismic survey would help the firm decide on drilling of wells on the block that could yield oil and gas. The firm has "deployment of a state-of-the-art multi-purpose seismic data acquisition vessel 'SW Vespucci' for the acquisition of 8,400 line-kilometre of 2D seismic data," OIL said in a statement. "The exploration efforts in Andaman offshore are being resumed after a long period of time," it said.

OIL was the first company to commence 2D and 3D seismic data acquisition in any onshore open acreage licensing policy (OALP) block in the country. It is also the first company to complete the committed seismic work programme in an onshore OLAP block. This, OIL said, was in line with the vision of Prime Minister for an Aatmanirbhar Bharat by raising domestic exploration and pro-



**Sushil Chandra Mishra CMD OIL**

duction to cut dependence on imports for oil and gas needs.

OIL Chairman and Managing Director Sushil Chandra Mishra said the company has drawn up plans to intensify its exploration efforts in the country and increase exploration capex in the coming years.

The data acquisition in Mahanadi onland blocks in Odisha would begin shortly and the exploration drilling campaign in its OALP blocks would commence during 2021-22, he said.

OIL plans to carry out about 15,000 line-kilometre of 2D and 4,000 square kilometres of 3D seismic as well as drill 66 wells in OALP blocks in the next 3-4 years.

OIL was awarded 21 blocks spread over Assam and Assam Arakan basin, Rajasthan, Mahanadi Onland, Andaman and Kerala-Konkan offshore basins.

This consolidated the firm's position as the leading operator in the North-East with a total acreage area of 17,000 sq km, the statement said. **MPOST**