

**GOVERNMENT OF INDIA
PETROLEUM AND NATURAL GAS
LOK SABHA**

STARRED QUESTION NO:120

ANSWERED ON:03.03.2011

FIXATION OF PRICES OF NATURAL GAS

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Will the Minister of PETROLEUM AND NATURAL GAS be pleased to state:

- (a) the mechanism in place for fixing the prices of natural gas;
- (b) whether the Government has revised the Administered Price Mechanism (APM) of natural gas in the country;
- (c) if so, the details thereof and the reasons therefor;
- (d) whether any consultation was undertaken with the oil companies in the wake of revision in the prices of natural gas;
- (e) if so, the details thereof; and
- (f) the likely impact of this revision?

Answer

MINISTER OF PETROLEUM & NATURAL GAS (SHRI S. JAIPAL REDDY)

- (a) to (f) A statement is laid on the Table of the House.

STATEMENT REFERRED TO EN REPLY TO PARTS (a) TO (f) OF LOK SABHA STARRED QUESTION NO. 120 TO BE ANSWERED ON 3RD MARCH, 2011 REGARDING FIXATION OF PRICES AND NATURAL GAS

(a) There are broadly two pricing regimes for gas in the country - gas priced under Administered Pricing Mechanism (APM) and non-APM or free market gas. The price of APM gas is decided by the Government. As regards non-APM/free market gas, this could also be broadly divided into two categories, namely, (i) imported Liquefied Natural Gas (LNG), and (ii) domestically produced gas from New Exploration Licensing Policy (NELP) and pre-NELP fields. The price of LNG imported under term contracts is governed by the Sale & Purchase Agreement (SPA) between the LNG seller & the buyer and the spot LNG cargoes are purchased on mutually agreed commercial terms. As regards NELP & pre-NELP gas, its pricing is governed by the terms of the Production Sharing Contract (PSC) signed between the Government & the Contractor.

(b) to (e) The National Oil Companies (NOCs), viz., ONGC & OIL, have been continuously requesting the Government that the price of APM gas should be increased to be in parity with the market price, since they were incurring significant under-recoveries in their gas business at the pre-revised price. To make it financially viable for the NOCs to increase gas production, Government has increased the price of APM gas w.e.f. June 2010, to US \$ 4.2 per million british thermal unit (mmbtu) inclusive of royalty to bring the APM gas price in line with the price of gas produced from NELP fields. As regards customers in the North-East, 40% of the price of gas is being paid as subsidy by the Union Government.

(f) The impact of increase in APM gas price on the various sectors is not expected to be substantial. In the power sector, APM gas based power generation is a small component of the total power production in the country. Price of subsidized fertilizers is regulated and the increase in fertilizers subsidy due to increase in APM price is expected to be less than the increase in Central Government's revenue generation from the increase in APM gas price.