GOVERNMENT OF INDIA
PETROLEUM AND NATURAL GAS
LOK SABHA

UNSTARRED QUESTION NO:1581
ANSWERED ON:22.03.2012
GAS PRICING FORMULA
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Will the Minister of PETROLEUM AND NATURAL GAS be pleased to state:

(a) whether the current gas pricing formula with ceiling at $4.2 per unit approved by Government for natural gas in 2007 is no longer viable when the Gas Authority of India Limited (GAIL) and Petronet LNG Limited (PLL) are paying upto $14 per unit for imported Liquefied Natural Gas (LNG) against $2.5 per unit paid by them upto 2008;

(b) if so, the concerns raised by Reliance Industries Limited (RIL) in this regard;

(c): the reaction of the Government thereto and the steps being taken to change the current gas pricing formula being produced by RIL in its KG D6 basin and bring uniformity in price between the indigenously produced natural gas and imported LNG;

(d): the reasons for less indigenous production of natural gas in the country and whether the lower price of natural gas is also one of the reasons for the same; and

(e): the likely increase in price of natural gas in the country if the demand to increase the price of indigenously produced natural gas is accepted and its likely adverse effect on the consumers?

Answer

MINISTER OF STATE IN THE MINISTRY OF PETROLEUM & NATURAL GAS (SHRI R.P.N. SINGH)

(a): International gas prices have no impact on either cost of production of domestic gas or viability of the entities producing domestic gas.

According to the PSC of the block KG-DWN-98/3 operated by the consortium of Reliance Industries Limited (RIL) and Niko Resource Limited

(NIKO), the Contractor submitted a price proposal for approval of the Government, which was considered by an Empowered Group of Ministers (EGOM). The EGOM has approved the price formula submitted by RIL with a few modifications based on which the current NELP gas produced from the block KG-DWN-98/3 works out to be US $ 4.2 per Million Metric British Thermal Unit (MMBTU) at crude price greater or equal to US $ 60 per barrel.
(b) and (c): On 6th September, 2010, Reliance Industries Limited (RIL) represented to this Ministry that they have an offer for purchase of gas at higher rate than the rate approved by the EGOM and they sought guidance and as to how to proceed as per the PSC. RIL was informed that EGOM has approved the above price for 5 years from the date of commencement of supply and RIL was instructed to comply with the price finalized by EGOM.

(d):Directorate General of Hydrocarbons (DGH) under this Ministry has reported that under Production Sharing Contract (PSC) regime, natural gas production was 20.046 Billion Cubic Meter (BCM) during (April,11-February,12) as compared to 24.675 BCM produced during (April,10-February,11) . This is mainly due to less gas production from D1 & D3 gas fields in the block KG-DWN-98/3 as compared to the production rates approved in Field Development Plan (FDP).The reasons for lower gas production from the above fields as stated by DGH are attributed to drilling of less number of development wells (producers) as compared to that envisaged in the Management Committee (MC) approved Addendum to Initial Development Plan (AIDP). In addition, six (6) out of eighteen (18) producing wells in D1 & D3 fields have ceased to produce gas due to water loading/sand ingress in wells. In case of MA field in the above block, one (1) oil/gas producing well out of six (6) oil/gas producing wells have also ceased to produce due to water loading in the well. Further, gas production has also declined from the other major gas producing fields under the PSC regime, such as Panna-Mukta, Mid & South Tapti, Ravva, CB-OS/2, PY-1 etc. due to reasons such as ageing and matured fields, early water and sand ingress in well-bores etc.

(e): Natural gas is used as a feedback and energy into manufacture of various products. In terms of gas allocation prirotiy Natural Gas is allocated to Fertilizer Sector, LPG, Power, CGD and other in that order. Any increase in price of gas will lead to corresponding increase in the final product prices. To the extent gas is consumed by the fertilizer sector and LPG sector, price rise directly affects the subsidy burden on the Government.