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STANDING COMMITTEE ON FINANCE
(2012-13)

FIFTEENTH LOK SABHA

MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)

'ECONOMIC IMPACT OF REVISION OF NATURAL GAS PRICE'

SEVENTY FOURTH REPORT

LOK SABHA SECRETARIAT
NEW DELHI

August, 2013, Sravana, 1935 (Saka)

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Presented to Lok Sabha on 7 August, 2013

Laid in Rajya Sabha on 7 August, 2013

सत्यमेव जयते

LOK SABHA SECRETARIAT
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31. Dr. Yogendra P. Trivedi

SECRETARIAT

1. Shri A.K. Singh - Joint Secretary
2. Shri Ramkumar Suryanarayanan - Additional Director
3. Shri Kulmohan Singh Arora - Under Secretary

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* *Nominated as Member of the Standing Committee on Finance w.e.f 13th December, 2012*

** *Dr. Kavuru Sambasiva Rao, MP ceased to be the Member of the Committee w.e.f 17.06.2013 consequent upon his induction to the Union Council of Ministers*

INTRODUCTION

I, the Chairman of the Standing Committee on Finance, having been authorized by the Committee, present this Seventy-fourth report on the subject 'Economic Impact of Revision of Natural Gas Price'.

2. The Committee took evidence of the representatives of the Ministry of Finance (Departments of Revenue, Economic Affairs and Expenditure), Ministry of Petroleum and Natural Gas, Ministry of Power, Ministry of Steel and Department of Fertilizer at their sittings held on 9 November, 2012 and 7 June, 2013**.**

3. The Committee, at their sittings held on 19 July, 2013 and 26 July, 2013 considered and adopted the draft report and authorized the Chairman to finalise the same and present it to the Parliament.

4. The Committee wish to express their thanks to the officials of the Ministry of Finance (Departments of Revenue, Economic Affairs and Expenditure), Ministry of Petroleum and Natural Gas, Ministry of Power, Ministry of Steel and Department of Fertilizer for appearing before the Committee and furnishing the requisite material and information which were desired in connection with the examination of the subject.

5. For facility of reference, the observations/recommendations of the Committee have been printed in thick type in the body of the Report.

New Delhi;
<u>02 August, 2013</u>
11 Sravana, 1935 (Saka)

YASHWANT SINHA,
Chairman,
Standing Committee on Finance.

Part I

Report on Economic Impact of Revision of Natural Gas Price

I. INTRODUCTORY

1.1 As per the Twelfth Five-Year Plan document of Planning Commission, India is the fourth largest consumer of energy in the world after USA, China and Russia but it is not endowed with abundant energy resources. It must, therefore, meet its development needs by using all available domestic resources of coal, uranium, oil, gas hydro and other renewable resources, and supplementing domestic production by imports. Meeting the energy needs for achieving 8 per cent to 9 per cent economic growth and fulfilling the energy requirements of a vast population at affordable prices therefore presents a major challenge. It calls for a sustained effort at increasing energy efficiency to contain the growth in demand for energy while increasing domestic production as much as possible to keep import dependence at a reasonable level.

1.2 As per Economic Survey 2012-13, the average natural gas production in the year 2011-12 was 130 Million Metric Standard Cubic Metre Per Day (MMSCMD) which was about 9 per cent lower than the previous year mainly due to lower production from the KG D6 deep-water block. The projected natural gas production in 2012-13 is about 117.8 MMSCMD, which is again about 9 per cent lower than production in the previous year. Natural Gas production during April- November 2012-13 was 28.05 billion cubic metre (BCM) as compared to 32.28 BCM during the same period of the previous year.

Exploration of Domestic Oil and Gas

1.3 The New Exploration and Licensing Policy (NELP) was adopted in 1999. India has an estimated sedimentary area of 3.14 million sq. km, comprising 26 sedimentary basins. Prior to adoption of the NELP, only 11 per cent of Indian sedimentary basins were under exploration. Since the operationalization of the NELP in 1999, the government has awarded an area of 47.3 per cent of Indian sedimentary basin for exploration. So far, 117 oil and gas discoveries have been made in 39 NELP blocks. As on April 2012, about 737 MMT of oil equivalent hydrocarbon reserves have been added under the NELP. The investment made by Indian and foreign companies until April 2012 was of the order of US$ 20.2 billion, of which US $12.1 billion was on hydrocarbon exploration and US$ 8.1 billion on development of discoveries. With a view to further accelerating the pace of exploration, in the ninth round of the NELP (NELP-IX), 34 exploration blocks were offered. These include 8 deep-water blocks, 7 shallow-water blocks, 11 on-land blocks, and 8 Type-S on-land blocks. Nineteen production-sharing contracts have already been signed with the awardees. A total of 254 production-sharing contracts have been signed under the NELP so far.

Gas pricing

1.4 Before 1987, gas prices were fixed by ONGC and Oil India (OIL). But from January-end 1987, the government took over the role of regulating prices on a cost-plus basis. The last revision under the administered price mechanism was effected in July 2005. When the Government started to bid out oil and gas blocks under the New Exploration and Licensing Policy (NELP), it decided to opt for market-determined rates for gas. The producer enjoyed marketing freedom but needed to get the pricing formula approved through "arm's length pricing". In 2006, the first controversy began when the contractor, allocated the KG D6 basin, invited bids from users and arrived at a price of $4.32 per million metric British thermal units. Subsequently, the matter was referred to an empowered group of ministers, which agreed on a price of $4.20 a unit after suggesting a few changes to the contractor's formula, including elements to do away with price volatility. Against the target of 62.1 million metric standard cubic metres a day (mmscmd) in 2010-2011 the contractor produced 55.89 mmscmd from the KG-D6 basin. In 2011-12, the contractor produced 42.65 mmscmd against the targt of 70.38 mmscmd and in the last fiscal, production at 27 mmscmd was way short of the 86.73 mmscmd target. Currently, this basin is turning out around 14.01 mmscmd as opposed to the target of over 86 mmscmd. With a view to incentivising investment and production in gas basin, in June, 2013 the Cabinet Committee on Economic Affairs (CCEA) approved a new formula, which is based on the recommendations of a committee headed by C. Rangarajan, Chairman of the Economic Advisory Council to the Prime Minister. This Committee outlined the principles and model for gas pricing making use of various benchmark market prices to estimate the arms length price for gas, which the Government is contractually committed to adopt under the Production Sharing Contract (PSC). The formula suggested would yield the price with a three-month lag, using the benchmark market prices over the preceding twelve months. The Government has decided to apply this formula with effect from April 1, 2014.

1.5 Keeping in the view the fact that pricing of petroleum products, especially natural gas has severe repercussions not only on core sectors of the economy but also on the fundamental health and outlook of the Indian economy, the Committee decided to examine the subject 'Economic Impact of Revision of Natural Gas Price'. The succeeding paragraphs of this report deal with the impact of low production of natural gas and the new gas price on the various sectors of the economy.

II. Impact of low gas production on economy and its various sectors

Impact on power sector:

2.1 On question of impact of low production of gas on power sector, the Ministry of power in their post evidence replies have stated as under:

> "At present, Gas based installed capacity in the country is operating at very low average PLF (24%) as the production of KG D6 gas has nose-dived. Total installed capacity of 56 gas based power plants in the country is 18,713 MW with total requirement of 72.34 MMSCMD to operate at 70% / 75% PLF. Against this requirement, the actual gas available / consumed by these power plants during the month of April, 2013 was 35.64 MMSCMD only (comprising of 24.84 MMSCMD APM Gas, 7.03 MMSCMD Non APM Gas 1.84 MMSCMD Long Term RLNG & 2.23 MMSCMD Spot RLNG). The average PLF as on April 2013 of these power plants is 36%, taking 4.07 MMSCMD of RLNG. The operation of the existing gas power plants at very low PLF is neither technically feasible nor commercially viable. The non-availability of adequate gas to existing power plants results in huge loss of generation."

Impact of decline in gas production in KG-D6 on fertilizer/power production

2.2 On being asked about the impact of decline in gas production in KG-D6 on fertilizer/power and steel sectors, the respective Ministries/Departments have furnished the following replies:

Reply of Ministry of Petroleum and Natural Gas:

> "The production from KGD6 started only in April 2009 and reached its peak level of 61 MMSCMD in March 2010. The priority sectors including power were supplied full contracted quantity of KG-D6 gas till the decline started in April 2010. To deal with this decline pro-rata cuts were imposed across all sectors between July 2010 and March 2011. The production of KG-D6 gas continued to decline and hence, MoP&NG enforced a priority cut in the following order - Non-core sector, CGD, Power, LPG and Fertilizer. In October 2011, supply to CGD became zero as production continued to decline. The further decline in production hit the power sector from November 2011 & by March-2013 the supply to power sector from KG-D6 became zero. Being the highest priority sector, the fertilizer sector is getting supplies of KG-D6 gas as per their requirement against the signed GSPAs and has, so far, remained unaffected due to reduction in supply of KG-D6 gas.
>
> The production from KG-D6 has reduced to such an extent that supply to power sector from KG-D6 has become zero since March, 2013. This has resulted in significant gas based capacity getting stranded or operating at sub-optimal level which is techno-commercially unviable. At present, the installed capacity of gas based power plants in the country is 18,713 MW having a total requirement of 72 MMSCMD of gas to operate at 70% to 75% PLF (75% PLF for projects of Andhra Pradesh and 70% PLF for others, with projects in Rajasthan and North-East requiring more gas to operate due to low calorific value of gas available). Against this requirement, the actual supply to these power plants in March, 2013 was about 27 MMSCMD. This is just sufficient to operate these power plants at an average PLF of about 29%. 13 power plants with capacity of 4904 MW, with high dependence an investment of Rs. 40,000 crore which are at risk of becoming non-performing assets, due to non-availability of indigenous natural gas.
>
> Due to fall in production of KG-D6 gas steel sector is getting Zero supply. However, Regasified Liquefied Natural Gas (R-LNG) can meet such shortfall in supply. SME sector does not have any firm allocation of KG-D6 gas but they are getting supplies from other domestic sources and are also procuring R-LNG to meet their requirement."

Reply of Department of Fertilizers:

E-GoM in its meeting on 28.05.2008, taking into consideration, that the production from KG D6 was expected to commence from September 2008 and would initially be about 25 MMSCMD and further expected to gradually increase to 40 MMSCMD by March 2009, decided that the gas would be supplied in the order of priority and the first priority was accorded to "existing gas based urea plants. Approximately, 15.5 MMSCD of gas is available from KG D6 Basin for fertilizer sector. However, there has not been any reduction in the production of urea due to the decline in gas production in KG D6 Basin.

Reply of Ministry of Steel

> "There are three Gas based sponge iron units in the country, viz. M/s Essar Steel based in Hazira, Gujrat (capacity 7 mtpa), M/s JSW Ispat Limited based in Dolvi, Maharashtra (capacity 1.6 mtpa) and M/s Welspun Maxsteel Limited based in Salav, Maharashtra (capacity 1.7 mtpa). These units were based in Western Coast, far away from other raw material sources, based on assumption of easy availability of natural gas. Natural gas is used by these units as a feedstock, i.e. basic raw material for reduction of iron ore into hot metal and not as a fuel. Therefore, natural gas cannot be replaced by these units with any other material, as technologically, these plants are designed to use natural gas only as a reductant. In addition to the above plants/ units, SAIL is working to install a steel plant based on Gas based Iron making technologies of 1.5 MTPA capacity and downstream facilities at its steel unit at Jagdishpur, Distt. Sultanpur, Uttar Pradesh. A number of pellet plants based on natural gas are also upcoming during the 12th Five Year Plan period. Due to non availability of natural gas to existing units, there is under utilization of already created capacity of over 10 million tonnes per annum by the Essar steel, JSW Ispat Ltd. and Welspun Maxsteel Ltd.
>
> Any curtailment of natural gas to the existing plant and non availability of gas for the upcoming plants will not only result in reduced production of sponge iron/ steel, but may also adversely affect financial viability of these units, which in turn, may have an adverse impact on investment in downstream steel industry. As natural gas is used as basic input in steel plants, top priority should be accorded to provide natural gas to steel plants at competitive market rates. Steel sector particularly the gas based sponge iron and steel production will be affected by increase in price of natural gas. Any rise in gas prices will result in an increase of the prices of the end products i.e. steel/ sponge iron."

2.3 When asked in respect of reduced production of gas from KG-D6, will the contractor supply equivalent amount of gas after 31.03.2014 at the old price of $4.2/mmBTU, the Ministry of petroleum and natural gas in their written replies have stated as under:

"EGOM has approved natural gas price formula for a period of 5 years from the date of commencement of commercial production. The formula is not finalized on the basis of volume of gas to be sold at a particular price".

2.4 On question of action taken by the Government against contractor for non-performance i.e. low production of gas, the Ministry of P&NG in their post evidence replies stated as under:

"(i) Currently, gas is being produced from D1 & D3 fields and oil/gas is being produced from D-26 (MA) field in the block KG-DWN-98/3 operated by the consortium of Reliance Industries Limited (RIL) and NIKO Resources Limited (NEKO). The commercial oil production from MA field and gas production from D1 & D3 fields commenced on 17.09.2008 and on 01.04.2009 respectively.

(ii) There has been decline of oil and gas production from D1, D3 & MA fields by the contractor vis-à-vis approved target in the Field Development Plan (FDP) of the contractor. The details are given below:

Year	**Natural Gas (D1, D3 & MA)**		**Oil and condensate (MA)**	
	Planned Production as per approved FDP (MMSCMD)	**Actual Production (MMSCMD)**	**Planned Production as per approved FDP *(BOPD)***	**Actual Production *(BOPD)***
2008-09	2.52	0.37	20097.70	5171.01
2009-10	33.83	41.38	34041	10926.72
2010-11	62.10	55.89	28684.50	23927.5
2011-12	70.38	42.655	20890	15481.6
2012-13	86.73	26.18	13562.2	9073.7

Note: Current natural gas production is about 14.73 MMSCMD and crude oil production is about 6324 bopd.

(iii) The average gas production from the block KG-DWN-98/3block has decreased from 55.89 Million Metric Standard Cubic Meter Per Day (MMSCMD) in 2010-11 to about 14.73 MMSCMD in 2013-14. The Directorate General of Hydrocarbons (DGH) under this Ministry had asked the contractor through correspondence dated 16.12.2010, 11.1.2011, 15.2.2011, 10.3.2011, 29.3.2011, 5.4.2011 and 26.4.2011 to take suitable steps to drill, complete and put on production more gas wells in D1 & D3 gas fields as well as to adopt appropriate remedial measures such as wells intervention in D1, D3 & MA fields to revive the sick wells in order to increase the gas production from the block. In the Management Committee (MC) meeting held on 17.3.2011, the contractor was apprised of his failure to adhere to the AIDP with respect to D1 & D3 fields and directed to implement components of AIDP fully. The Contractor had been asked to drill, complete and connect more producer wells and undertake appropriate remedial measures to revive the sick wells in D1, D3 and MA fields in this block.

(iv) This Ministry took cognizance of facts regarding various failures of the contractor under the PSC given below and issued notice to the contractor on 2nd May, 2012:-

- The contractor has failed to implement the development plan i.e. the Amended Initial Development Plan (AIDP). The contractor had made capital expenditure for creating gas production, transportation and processing facilities for a **peak production rate of 80 MMSCMD** whereas the contractor failed to adequately utilize the facilities so created to achieve the targets with respect to the gas production rate as approved in the AIDP.

- Underutilization of the assets/facilities developed for production/extraction of gas as per the AIDP, leading to accumulation of surplus assets and excess capacity with the contractor.

- As per approved IDP as amended by AIDP, the contractor was required to drill, connect and put on stream 22 wells by 01.04.2011 with an envisaged production rate of 61.88 MMSCMD and 31 wells by 01.04.2012 with an envisaged production rate of 80 MMSCMD; whereas the contractor has completed the drilling of only 18 wells and even out of these 18 wells, only 12 wells are in operation.

- The contractor has drilled 2 wells in Year 2 (2010-11) and another 2 wells in Year 3 (2011-12) but has not connected to the stream, thereby resulting in less production. The contractor has indicated that the above wells will be completed and connected to the stream only by mid 2013-14 i.e. Year 5, which is a clear non-compliance of the AIDP.

- While the contractor has failed to comply with the AIDP, the contractor recovered cost which he is not entitled to recover under the PSC. In terms of PSC provisions, the contractor shall be entitled to recover Contract Costs out of a percentage of the total value of petroleum produced and saved from the Contact Area.

- Clause 3.2 of the Accounting Procedure under PSC deals with costs and expenses which shall not be recoverable or allowable for cost recovery and profit sharing purpose under the PSC. The contractor has been informed that the following cumulative cost (which are provisional and subject to verification and finalization by the Government) for the respective years is inadmissible:-

  (i) For 2010-11: USD 457,000,000,

  (ii) For 2011-12: USD 1,005,000,000

The contractor has initiated Arbitration Proceedings disputing the contents of the above notice and appointed Justice Mr. S.P. Bharucha former Chief Justice of India as their Arbitrator. Government has appointed Justice Mr. V.N. Khare, former Chief Justice of India. The two Arbitrators are yet to appoint a third Arbitrator.

EGoM has so far allocated 63.172 MMSCMD of KG-D6 gas on firm basis but availability during May, 2013 has dropped to 15.01 MMSCMD. In view of declining availability of KG D6 gas, this Ministry has enforced a priority cut in the following order - Non-core sector, CGD, Power, LPG and Fertilizer which was implemented from May 2011."

III. Impact of Gas price rise on economy

3.1 When asked as to what will be the impact of rise in gas price on prices of fertilizers and MSP of wheat/rice/sugar and hence, on inflation, the Ministries/ Department of fertilizers, Planning Commission and P&NG in their post evidence replies responded as under:

"There is a direct impact of rise in gas price on the prices of fertilizers as increase in the price of gas by Rs.1.00 per MMBTU results in the increase of the cost of production of urea by Rs.24.893. Therefore, the additional liability of subsidy towards domestic urea would be Rs.24.893/MT of urea approximately. Eg. On an average in India around 24.893 MMBTU of natural gas is required to produce one MT urea. If gas price increase by $1/MMBTU, then per MT increase in production cost of urea will be 24.9*1*55=Rs.1369.5/MT. Therefore, an increase of USD 1/MMBTU translates to enhanced cost of production of about (55*24.9=1369) Rs.1369/MT of urea. Increasing gas price by USD 1/MMBTU translates into enhanced cost of almost Rs.2465.1 crores for 18MMT of urea produce by gas based units per annum (1*24.9*55*180/100=2465.1 crores/annum). The same will be proportionately increase for 5 MMT (1*28*55*50/1000=770 crores/annum) of urea by converting into gas based plant, which is being produced presently by naphtha/FO/LSHS during 2013-14.

Planning Commission:

It is estimated by Association of Power Producers and Central Electricity Authority (CEA) that 90 MMSCMD gas is required to operate 24,000 MW capacity at 75% PLF. The gas supply currently is only 27 MMSCMD (February, 2013) resulting shortfall of 63 MMSCMD. The new plants of about 8700 MW capacity are already stranded and are likely to become NPA if gas is not made available.

As regards steel sector, the 12th Plan Document has made a demand estimate for steel/ sponge iron in the rage of 6 MMSCMD in 2011-12 to 8 MMSCMD in 2016-17. The allocation to this sector will depend on EGOM's decision based on availability of gas from KGD-6.

Ministry of Petroleum and Natural Gas:

The cost of urea production will increase by Rs.1384 /MT with every increase of $1/MMBTU in gas prices.

6.34 Giga Calories (GCal) is the weighted average energy required for production of 1 MT of urea.

[The above calculation is based on the assumption that the energy requirement for production of 1 MT of Urea is 6.34 GCal = 25.16 MMBTU & 1 USD= Rs.55.]"

IV Cost of production of Gas

4.1 On question of cost of production of gas in India, the Ministry of Petroleum & Natural Gas in their post evidence replies stated as under:

"Average cost of crude oil & natural gas production varies from company to company depending upon age/size/type of the reservoir, location of reservoir, operating cost, financing cost, depreciation, depletion & amortization applicable and accounting policy followed by various E&P companies as well as taxes and duties levied by the Government. The cost incurred on unsuccessful exploration works also has to be apportioned.

The average cost of production of ONGC and OIL is about US$ 3.59/mmbtu and US$ 3.06/mmbtu respectively for the financial year 2011-12.

The cost of production of oil and gas in deep water and ultra deep water is likely to be higher than the cost on land and shallow water".

4.2 When asked about the cost of production in KG-D6, the Ministry of Petroleum & Natural Gas in their post evidence replies stated as under :

"Cost of production for the block is reported in audited accounts for the block. The expenditure incurred by the contractors is audited by independent auditors under the Production Sharing Contracts (PSCs) which provides for auditing of the actual expenditures by different set of auditors; firstly, by the Management Committee (MC) appointed auditors, secondly, by the Government appointed auditors. Comptroller & Auditor General of India (C&AG) has audited the accounts of KG-D6 Block on request of Government of India.

Higher Gas price will lead to increase in royalty and profit payable to Government of India (GoI) as per provisions of Production Sharing Contract. Royalty payment on gas production is 10% of well head price.

In deep water, 5% royalty is payable for first 7 years and thereafter 10% royalty is payable.

In this case, 5% of increase in the revenue arising out of a higher gas price will be payable to Government of India (GoI) as Royalty for first 7 years. In addition, at the present profit sharing rates, about 10% of increased revenue will be allocated for profit sharing between GoI and Contractor, with the balance for cost recovery. Out of this only 10% (i.e. 1% of additional revenue) will be payable to GoI as its share and rest 90% (i.e. 9% of additional revenue) will be payable to the contractor".

4.3 The Planning Commission have submitted that they have not made any assessment on cost of production in KGD-6 basin.

V Comparison of Global gas production, availability and pricing

5.1 On being enquired about the global scenario in gas availability and pricing, the Ministry of P&NG furnished the following details:

"As per BP Statistical review 2013: The comparison of gas production & consumption in the world, Asia Pacific, Iran, Middle East, Vietnam & India are as under:

Comparison of Natural Gas production:

Region/ country	Production during 2012 (MMSCMD)	% of world production
World	9216.22	100.00%
Asia Pacific	1343.04	14.57%
Middle East (Excluding Iran)	1062.75	11.53%
Iran	439.73	4.77%
Vietnam	25.76	0.28%
India	110.16	1.20%

Comparison of Natural Gas consumption:

Region/ country	Consumption during 2012 (MMSCMD)	% of world consumption
World	9080.56	100.00%
Asia Pacific	1712.20	18.86%
Middle East (Excluding Iran)	700.52	7.71%
Iran	427.64	4.71%
Vietnam	25.76	0.28%

India	149.47	1.65%

The average Gas price in major countries/ Gas Hubs during 2012 is an under:

($/MMBTU)

Japan (cif)	European Union (cif)	UK (Heren NBP Index)	US (Henry Hub)	Canada (Alberta)
16.75	11.03	9.46	2.76	2.27

In many Middle Eastern countries gas has historically been considered a free good as high oil prices have boosted national oil company and state revenues across the region. As a result gas prices in the Middle East, especially Iran &Saudi Arabia are generally very low."

5.2 When asked that in Qatar, gas price is <$1 mmBTU, why don't we plan to set up a urea manufacturing plant there and import urea manufactured therein, instead of seeking to import high cost R-LNG, the Department of Fertilizer in a written reply stated as under:

"In pursuance of the visit of Prime Minister of India to Qatar in November 2008, the second meeting of the High Level Monitoring Mechanism between the State of Qatar and the Republic of India was held in Doha on November 14, 2009 the DOF has been pursuing Qatar for:

a) Setting up of Urea/Ammonia Plant in Joint Venture in Qatar in pursuance of MoU signed between QAFCO and IFFCO on Feb. 24, 2009,
b) Participation of QAFCO or Qatar Oil Co. in the revival of closed fertilizer plants in India as an investment opportunity,
c) Possibility of setting up joint venture of fertilizers anywhere in the world with participation from both sides,
d) Long-term imports of Urea from Qatar to India on an agreed formula.

Despite the best efforts of the department of fertilizers the matter could not be proceeded beyond the first meeting of HLMM which was held on 14th January, 2011. Even as decided the first meeting OF HLMM the second meeting of Joint Working Group (JWG) could not be held so far.

Moreover, during IFA conference at Chicago from 18th to 22nd May, 2013, a meeting held between delegation led by Secretary(Fertilizers) and Ali Ahmed Al-anadi, Director (Mktg.) and Robert W F Chouffot, Executive Director of Muntajat, a Government owned company of Kingdom of Qatar. Muntajat is responsible for marketing of 80% of all chemicals and fertilizers produced by Qatar. Qatar produces 6 to 7 million tonnes of Urea-Ammonia a year. They don't participate in Indian tenders but have been supplying Urea to Indian companies. Presently, DOF is looking for possibility of long-term supply arrangements for Urea with Muntajat, Government owned company of Qatar for which an expression of Interest restricted to only the manufacturers of Urea currently under consideration. However, Department of Fertilizers will consider only such offer which will be from Government of Qatar for a Government to Government agreement for a long term supply of Urea under a formula based pricing with discount mechanism. In this connection, the said company of Qatar assured that they will send an offer to Indian Government soon. The response from the said company is awaited".

VI Taxes on Natural Gas

6.1 On being enquired about taxing of natural gas, the Ministries/Departments of P&NG and Revenue have furnished the following replies:

Reply of Ministry of Petroleum and Natural Gas:

'The various applicable taxes on gas are as below:

Custom duty @ 5% on imported R-LNG

Value added tax/ Central sales tax as applicable on sale of Natural Gas.

Service Tax @ 12.36% is applicable on the pipeline transportation tariff

On CNG excise duty of 14.42% is applicable.

There has been a demand from Gas importers to provide declared good status to imported R-LNG which will reduce the price of R-LNG"

Reply of Department of Revenue:

"With regard to direct taxes, sub- section (9) of section 80-IB of the Income- tax Act, 1961 provides for hundred percent deduction in respect of profits and gains derived from commercial production of mineral oil and natural gas. The deduction is available for seven consecutives assessment years for the following:-

(i) In North- Eastern Region, for commercial production of mineral oil if production commenced before 01.04.1997;

(ii) In any part of India, for commercial production of mineral oil if production commenced on or after 01.4.1997. However, this benefit is not available in respect of production of mineral oil from a block licensed under a contract awarded after the 31st day of March, 2011 under the New Exploration Licensing Policy.

(iii) For refining of mineral oil on or after 1.10.1998 but not later than 31.03.2012;

(iv) For **commercial production of natural gas** in blocks licensed under NELP-VIII on or after 01.04.2009; &

(v) For **commercial production of natural gas** in blocks licensed under NELP-IV for Coal Bed Methane blocks on or after 01.04.2009.

Apart from the tax incentive discussed above, all other production and refining activities in the mineral oil and natural gas sector are subject to income –tax. The profit linked incentive has been practically sunset.

Moreover, in reply to a query regarding exemption of natural gas from excise duty and the revenue foregone on this account, the Ministry of Finance(DoR) has stated following details:

- Excise duty is levied on excisable goods which are produced or manufactured in India i.e. the taxable event is production or manufacture of excisable goods.
- Excise duty is normally not levied on goods naturally produced. Hence, natural gas attracted Nil rate of excise duty in the First Schedule to the Central Excise Tariff Act, 1985 itself upto 2001.
- In the Budget 2001-02, it was decided to levy excise duty on compressed natural gas (CNG). Accordingly, a Chapter Note was inserted in Chapter 27 of the said Schedule to the effect that the process of compression of natural gas for the purpose of marketing it as CNG for use as a fuel would amount to manufacture. Since natural gas and CNG falls under same tariff line, in order to operationalise the duty on CNG, the rate of duty in the said Schedule was made as 16% and the Nil rate of duty on natural gas was retained through notification.
- In view of the above, it may be noted that all along natural gas attracted Nil rate of excise duty. Hence, revenue foregone is not quantifiable".

VII Revenue Loss to the Government

7.1 On the question of revenue loss to the Government due to decline in gas production in KG-D6 block, the Ministry of Petroleum & Natural Gas and Finance in their post evidence replies stated as under:

<u>Reply of Ministry of Petroleum and Natural Gas:</u>

"The Contractor has submitted the following reasons for less gas production as compared to AIDP of D1 and D3 fields:

i. Substantial variance in Reservoir Behavior and Character has been observed vis-à-vis the prediction, and there seem to be reservoir constraints in achieving the gas production rates.
ii. Pressure decline is several times higher than originally envisaged.
iii. Early water production in some of the wells was not predicted in initial reservoir simulations, though overall field water production is small.

The revenue loss to the Government is to the extent of royalty and profit payable on difference of projected and actual production of oil and gas. The royalty on production of crude oil and natural gas comes to US$432 million in the block KG-DWN-98/3 as on 1.4.2012 and profit of US$86.13 million. The year-wise profit paid to Government on oil/condensate and gas production in KG-D6 block and royalty paid on sale of gas from this block is as under:

(in US$ Million)

Year	Royalty on Production of Gas	GOI Profit Petroleum
2008-09	-	0.51
2009-10	93.15	22.80
2010-11	138.60	34.98
2011-12	104.27	27.84
Total	**336.02**	**86.13**

<u>Reply of Department of Revenue</u>:

The revenue foregone for F.Y. 2010-11, 2011-12 and 2012-13 on account of section 80-IB is tabulated as under:

	* Revenue forgone (in Rs. Crore), on account of Section 80-IB (9) of the Income- tax Act, 1961- Deduction of profits of industrial undertakings derived from production of mineral oil and Natural Gas.	
	<u>CORPORATES</u>	
	Financial Year	Quantum
1.	2010-11	3626
2.	2011-12	7999.0
3.	2012-13(estimated	8817.0

* The figures have been taken from the Receipts Budget for the year 2012-13 and 2013-14. This does not include any tax collected on account of Minimum Alternate Tax (MAT)."

Role of Petroleum Regulator

7.2 On being enquired about the role and utility of Petroleum Regulator, the Ministry of Petroleum & Natural Gas furnished the following reply:

"Govt. of India has enacted the Petroleum and Natural Gas Regulatory Board Act 2006, under which the Petroleum & Natural Gas Regulatory Board (PNGRB), has been established. The functions of the Board are as follows:

(a) protect the interest of consumers by fostering fair trade and competition amongst the entities;

(b) register entities to-

(i) market notified petroleum and petroleum products and, subject to the contractual obligations of the Central Government, natural gas;

(ii) establish and operate liquefied natural gas terminals;

(iii) establish storage facilities for petroleum, petroleum products or natural gas exceeding such capacity as may be specified by regulations;

(c) authorise entities to-

(i) lay, build, operate or expand a common carrier or contract carrier;

(ii) lay, build, operate or expand city or local natural gas distribution network;

(d) declare pipelines as common carrier or contract carrier;

(e) regulate, by regulations,-

(i) access to common carrier or contract carrier so as to ensure fair trade and competition amongst entities and for that purpose specify pipeline access code;

(ii) transportation rates for common carrier or contract carrier;

(iii) access to city or local natural gas distribution network so as to ensure fair trade and competition amongst entities as per pipeline access code;

(f) in respect of notified petroleum, petroleum products and natural gas-

(i) ensure adequate availability;

(ii) ensure display of information about the maximum retail prices fixed by the entity for consumers at retail outlets;

(iii) monitor prices and take corrective measures to prevent restrictive trade practice by the entities;

(iv) secure equitable distribution for petroleum and petroleum products;

(v) provide, by regulations, and enforce, retail service obligations for retail outlets and marketing service obligations for entities;

(vi)monitor transportation rates and take corrective action to prevent restrictive trade practice by the entities;

(g) levy fees and other charges as determined by regulations;

(h) maintain a data bank of information on activities relating to petroleum, petroleum products."

PART-II

OBSERVATIONS / RECOMMENDATIONS

1. The Committee believe that natural gas is a national resource and a public asset; and therefore any discourse on its pricing policy should reflect this principle so that it is used for the larger national good and not for profiteering. In the present economic situation with rampant inflation and a slowdown of the economy, any increase in gas prices will have a derailing effect on the economy generally and the downstream core sectors of fertilizer, power and steel, in particular. The Committee note that with gas production from the KG basin fields falling drastically in the last couple of years due to what the contractor claimed were "technical problem", the core sector of the economy dependent on gas as fuel was forced to either use expensive imported gas or operate their plants at sub-optimal capacities. As production from KG-D6 gas basin continued to decline since April 2010, pro-rata cuts were imposed by Government across all sectors between July 2010 and March 2011; in October 2011, supply to City Gas Distribution (CGD) from this basin became zero and by March 2013, the supply to power sector also became zero. However, fertilizer sector was getting its supplies as per priority fixed by Government. The reduction in gas supplies resulted in several gas-based power plants in the Country getting stranded and becoming NPA. The shortfall in production also resulted in zero supply for the steel sector. As regards the impact of gas price increase on priority sectors, the Ministry have admitted that there would be a direct impact on the prices of fertilizers, as increase in the price of gas by $ 1 per MMBTU results in the increase in cost of production of urea by a huge Rs. 1384 per MT. It is thus

evident that gas pricing has serious repercussions for the economy as a whole, which warrants careful deliberations and prudent decisions.

2. The Committee would thus like to bring into focus the following critical issues and areas of concern arising out of the government's decision to revise sharply the natural gas price.

(i) Deploying the single instrument of price to achieve the multiple objectives of incentivizing domestic gas exploration and production on the supply side and meeting the huge unmet demand for gas at reasonable cost. In this regard, doubts have been raised as to whether a large rise in gas price would at all attract additional investment from home or abroad and relax the supply side constraint. Despite raising the domestic well-head price by almost 300% during the period beginning 2005 till date (from as low as $1.79/MMBTU to $4.20/MMBTU), private investments in the sector and the country's gas output have actually dropped.

(ii) To meet serious challenges that have arisen due to the tendency of contractors to manipulate the investment multiple parameter and controlling production, which adversely affected supply.

(iii) To frame a long-term vision based on geo-political developments in the energy sector.

(iv) To conduct a scientific cost study in the gas basins warranting / justifying a higher price. It cannot be a mechanism only leading to windfall / super-normal profits to entities, thereby putting the cost of private profit on society.

(v) The rationale for dollar- denominated gas pricing when the revenues are all in rupee and the country has a chronic adverse exchange rate.

(vi) Any fixing of input price at a lower level than output price will mean a bloating of subsidies; is the government prepared for a disproportionately higher subsidy outgo in successive budgets for the fertilizer and power sectors and whether this has been factored in the 12th Plan. The extent of its inflationary impact needs to be considered.

(vii) The need for consultations with the State governments in this process, as they may have to significantly increase power tariffs to cover the higher costs or drastically raise their subsidy expenditure. The impact on state budgets should be key determinant as well.

(viii) The need to consider views of concerned Ministries, Planning Commission , Industry and experts before arriving at the decision.

(ix) The counter-productive effect of such large increases in price by forcing consumers of gas to divert to less cleaner fuels, thereby stultifying the gas pricing policy itself.

3. The Committee are constrained to note that no due diligence was done before arriving at the decision to revise gas price. Neither was any cost or impact study done in this regard. in this context, the Committee would recommend that the following aspects should be taken into account as an integral part of any gas pricing mechanism, which has huge impact on various sectors of the economy:

(i) At this juncture of our economic development, transitioning from a regulated to a fully market-based system should be staggered.

(ii) The Government needs to rethink certain elements in the pricing formula suggested by the Rangarajan panel, which only serves to push the Indian gas price higher than it ought to be. A more realistic

price formulation better suited to our current priorities may be evolved.

(iii) Secondly, there should be a cap on the suggested price under the formula and for this purpose, there should be a ceiling price. It cannot be the case that gas producers will be allowed to reap unlimited gains in the event of upswing in global prices at the expense of core sectors of the economy.

(iv) The Government should also subject gas producers to closer regulation, especially on aspects of cost recovery and technical parameters related to production. A comprehensive technical study on cost estimates of gas production should be conducted for this purpose.

(v) The Government must ensure that the contractor responsible for delivering the major chunk of gas from KG-D6 gas field supplies, delivers the shortfall he still owes as per the Agreement at the old price of $4.2/ MMBtu, rather than getting the benefit of the new price for previous commitments.

(vi) The important recommendation of the Rangarajan panel of moving to a revenue-sharing arrangement with gas producers should be considered. A new Production Sharing Contract (PSC) model should be evolved that will do away with incentives to control production and manipulating investments, while assuring reasonable returns to the producers.

(vii) The government needs to do a thorough impact study of gas pricing on different sectors of the economy, particularly the core sectors of power, fertilizer, steel and small scale industry specially those effected by pollution control laws/orders. The quantum of subsidy required to compensate these sectors should be precisely arrived at over the medium term. Similarly, the extent of 'revenue loss or

foregone' should also be quantified over this period in order to grasp fully the implications of the price revision on the Union Budget.

(viii) As gas pricing will have implications for power tariffs as well, State governments also need to be consulted and taken on board. Instead of hurrying with decisions carrying wider import and ramifications for the country as a whole, broader consultative process involving all stakeholders should be put in place.

(x) Divergence in views within the government cannot be ignored on such a major issue and therefore, the valid concerns expressed by key economic Ministries of the government like power, fertilizer and steel should be duly addressed before finalizing the policy.

In the light of the concerns enunciated above, the Committee would strongly recommend the Government to review forthwith its decision to raise gas prices and come out with fresh pricing which is more balanced and holistic and closely related to the audited cost of production and a reasonable return on the capital invested.

New Delhi;	**YASHWANT SINHA,**
02 August, 2013	**Chairman,**
11 Sravana, 1935 (Saka)	**Standing Committee on Finance.**

NOTE OF DISSENT

Sanjay Nirupam, MP(LS)
02/08/2013

I hereby state the reasons for my note of dissent as follows:-

A. Report adopted in undue haste

For no apparently justifiable reason the report was adopted in undue haste despite the fact that it is to be implemented with effect only from April, 2014.

B. Inadequate deliberations

To arrive at a conclusion that the Government of India must review its decision required comprehensive deliberations whereas the decision was rushed through. In fact, detailed discussions with Oil producing companies both Private and Public as well as the Ministries of Petroleum, Power and Fertilizers and Chemicals was necessary but the same did not happen. It is pertinent to note that even ONGC, though a Public Sector undertaking and the biggest Stakeholder in the Hydro Carbon Sector, was not invited to give their views.

C. Rangarajan Committee

The decision of the Government was largely based on the recommendations of the Dr. Rangarajan Committee appointed by the Government to carry out an in-depth study on the subject. It was therefore imperative for the Committee to invite Dr. Rangarajan to give us an insight into the reasons for recommending the proposed Gas price revision. However, the same was not done.

D. Investment

As suggested in the title "Economic impact of recent Gas Price Revision", the committee should have taken into account the feasibility of domestic and foreign investment in the exploration sector of Natural Gas in India. However due consideration was not given to this crucial aspect despite specific mention in the Dr. Rangarajan

Committee Report that investors would opt for other destinations if the Gas price was not revised and made realistic.

E. Import

The fertilizer sector is largely dependent on imported LNG which is adversely affecting our Current Account Balance. Therefore while arriving at conclusions on the economic impact of the Gas Price Revision it was necessary to understand whether the Gas Price Revision will lower the import of Gas and consequently save precious foreign exchange for the Country. This aspect was also given a miss.

In addition to the above mentioned inadequacies in the report I hereby submit a statement of justification in support of my dissent to the Report:

> 1. In Para No. 1 of Page 1, the report states "It calls for sustained effort at increasing energy efficiency to contain the growth in demand for energy while increasing domestic production as much as possible to keep import dependence at a reasonable level". Further in the later part of the same Para, the reports states "As per Economic Survey 2012-13, the average natural gas production in the year 2011-12 was 130 Million Metric Standard Cubic Meter Per Day (MMSCMD) which was about 9 per cent lower than the previous year mainly due to lower production for the KG D6 deep-water block. The projected natural gas production in 2012-13 is about 117.8 MMSCMD, which is again about 9 per cent lower than production in the previous year. Natural Gas production during April-November 2012-13 was 28.05 billion cubic meters (BCM) as compared to 32.28 BCM during the same period of the previous year".

It is evident that the concerns of the Government of India on increase in production of Natural Gas are based on the fact that production of Natural Gas in India is on the decline at the rate of 9% per annum and to take steps towards reduction in the quantum of import of Gas. The Committee did not take into account the aspect of domestic availability of Gas & dependence on import, thereby hurting the overall economic interests of the country.

2. In Para 3 on Page No. 1 the reports lauds NELP which is aimed at enhancing production of Gas in India. The Committee selectively ignored the aspect related to Gas pricing. NELP has advocated that explorers must be given free market prices in the production of Gas in India to increase efficiency in the use of Gas and enable

consumers to buy Gas at prices that suited them. The Report has conveniently ignored this aspect of NELP and instead has taken a skewed view to demand that the Government of India revise its decision.

3. In Para 2 of Page 2 the Committee states “Dr. Rangarajan Committee outlined the principles and model for gas pricing making use of various benchmark market prices to estimate the arms length price for gas, which the Government is contractually committed to adopt under the Production Sharing Contract (PSC). The formula suggested would yield the price with a three month lag, using the benchmark market prices over the preceding twelve months. The Government has decided to aplly this formula with effect from April, 2014”. The Committee has chosen not to deal with this aspect even though the decision of the Government was based on the objectives set out in the Dr. Rangarajan Committee Report. On the contrary the observations of the Committee are at variance with this objective and are contrary to the letter and spirit of the Dr. Rangarajan Committee Report for no logical reasons.

4. Power Ministry

In Para 3 of Page 3 the Ministry of Power has stated “At present Gas based installed capacity in the country is operating at very low average PLF (24%) as the production of KG D6 gas has nose-dived. Total installed capacity of 56 gas based power plants in the country is 18,713 MW with total requirement of 72.34 MMSCMD to operate at 70% / 75% PLF> Against this requirement, the actual gas available / consumed by these power plants during the month of April, 2013 was 35.64 MMSCMD only (comprising of 24.84 MMSCMD APM Gas, 7.03 MMSCMD Non APM Gas 1.84 MMSCMD Long Term RLNG & 2.23 MMSCMD Spot RLNG). The average PLF as on April 2013 of these power plants is 36%, taking 4.07 MMSCMD of RLNG. The operation of the existing gas power plants at very low PLF is neither technically feasible nor commercially viable. The non-availablity of adequate gas to existing power plants results in huge loss of generation”. It is evident from the statement of Power Ministry Officials that their greater concern is the availability of Gas rather than the price.

5. Petroleum Ministry

On Para 3 of Page 4 the Ministry of Petroleum has admitted that 13 Power Plants with the capacity of 4904 MW, with high dependence an investment of Rs. 40,000/- crores which are at risk of becoming NPA due to non-availability of indigenous Natural Gas. It may be noted that the emphasis of both the Ministry of Power and the Ministry of Petroleum is on availability of Gas.

6. Fertilizer Ministry

All the fertilizer units in India were started before the NELP regime. As a matter of policy the Government gives priority to the fertilizer sector as far as Gas supply is concerned. However due to sharp decline in Gas production the sector is largely dependent upon import of LNG. Initially Gas Price Revision may result in increase in prices of urea but in the long run with increased production of domestic Gas, the fertilizer sector will be benefited due to reduction in import. At present, the cost of import of gas at the rate of 12 USD MMSCMD will subsequently come down to 8 USD MMSCMD. In the long run cheaper Gas will be available in the domestic market.

7. NELP & Production Sharing Contracts

Determination of Gas pricing in India is done in accordance with the provisions of Production Sharing Contracts signed between the Government of India and the Contractor which is based on the guidelines of National Exploration Licensing Policy (NELP) 1999. It seems that the Committee has not gone into the details of Production Sharing Contract or provisions of NELP before arriving at its conclusion with regard to natural gas price mechanism. Going through the provisions of one production sharing contract one can find that the gas price should be determined by the market. One provision says, the contractors shall endeavor to sell all natural gas produced and saved from the contract area at arms length prices to the benefit of parties to the contract. In another provision PSC says that, Gas which is sold or disposed or otherwise, then in accordance with earlier paragraphs shall be valued on the basis of competitive arms lengths sales. Now, the question is what is the meaning of arms length sales. In one provision of PSC it clearly states that, arms length sales " means sales made freely in the open market in freely convertible currencies between, willing and unwilling sellers and buyers and in which buyers and sellers have no contractual or other relationship, directly or indirectly or any common or joint interest as is reasonably likely to influence selling prices and shall, inter alia, exclude sales (whether direct or indirect, through brokers or otherwise) involving Affilates, sales between Companies which are Parties to this Contract, sales between government and government-owned entities, counter traders, restricted or distress sales, sales involving barter arrangement and generally any transactions motivated in whole or in part by considerations other than normal commercial practices. Hence, by asking from the Government to review the decision of gas price revision does not appear to be without prejudice on part of committee.

OBSERVATIONS / RECOMMENDATIONS

In Clause 1, the Committee concludes “That in the present economic situation with rampant inflation and slowdown of the economy, any increase in gas prices will have a derailing effect on the economy generally and the downstream core sectors of fertilizer, power and steel in particular committee has not considered the increasing import price of Gas in the absence of adequate availability of domestic gas production”.

In Clause 2 (i) the Committee has expressed doubts on incentivising domestic gas exploration through price rise “Despite raising the domestic well-head price by almost 300% during the period 2005 till date (from as low as $1.79/MMBTU to $4.20/MMBTU), investments in the sector and the country’s gas output have actually dropped”. The Committee’s main concern KG D6 started only in 2009 which proves that the doubts expressed are unfounded. The Committee in Clause 2 (iii) has asked GOI to frame long term vision based on Geopolitical Development in the energy sector. Before coming to conclusions it is apparent that the Committee itself has not studied the details of this aspect. Clause 2 (iv) is misplaced because neither the provisions of NELP with regard to Gas price and provisions of production-sharing contract have been studied.
Clause 2(vi) is similarly misplaced because it deals with the aspects of subsidy burden on the Government without dealing with the repercussion of increasing import prices of LNG which is affecting Indian economy more devastatingly. I would like to present a brief picture of the import of LNG in India and its impact on Indian economy. Currently LNG being imported to India by the core sector is approx 15 MMSCMD. By 2015-16 the core sector in India will require the import of LNG to the tune of 114 MMSCMD. The price of LNG in the international market is USD 14 / MMBTU. It translates into annual subsidy to the tune of 20 Billion US Dollar at current exchange rate; the total subsidy bill will go up to the tune of Rs. 120,000 Crores. Thus, the higher subsidy outgo is expected on account of the lower availability of Domestic Natural Gas.

Clause 2 (vii) the committee had expressed its concern on impact on State Governments with regards to the Power tariff. While report itself accepts in first para of observations / recommendations “By March, 2013, the supply to power sector also became zero" and "the reduction in Gas supply will render several exploratory companies into NPAs". In the absence of any operating Gas based power plant in any states, no states governments is required to be consulted.

Clause 2 (viii) asks the government to consider views of the concerned Ministries, Power Companies, Industry and Experts before arriving at a decision while ironically the committee has not taken into account the views of Power companies, Industry and Experts in the sector.

Clause 3 of report says Government has "Not done any due diligence before arriving at a decision to raise Gas price". Committee further says "Neither was any cost or impact study done in this regard". This is absurd because the committee itself did not consider the views of important stakeholders and experts.

Clause 3 (i) while asking the Government to take a decision on Price Revision in a staggered manner, the Committee itself failed to note that as per production sharing contract and provisions of NELP price revision exercise was not undertaken for a period of 5 years.

The Gas Prices in India have always had a cap and were never at par with International Prices. Despite this, it is imperative to review the prices in keeping with the fluctuations of International Prices. This is precisely what the Government of India has done.

It is evident from the report that the committee itself has not done any comprehensive technical study on the cost estimate of Gas prices before arriving at conclusions.

In view of the aforestated reasons, it is my firm belief that before the Committee asks the Government to review its decision on Gas Price Revision, the Committee must look at the entire picture for which purpose it is necessary to once again interact with different Stakeholders before adopting this half-baked report. It is also apparent that if the Gas Price Revision is scuttled, the interests of our country's economy will be damaged in a big way and the only purpose that will be served is that windfall gains will accrue to the importers of Gas.

Sd/
(SANJAY NIRUPAM)

NOTE OF DISSENT

Dharmendra Yadav, MP (LS)
2/08/2013

Sir, the Committee has accepted the draft on the subject “Economic Impact of revision of Natural Gas price”. I have few objections in this draft which I will mention further. It is my request that my views should also be included in the report along-with the recommendations of the Committee.

There is a huge need of natural gas in our country. We are importing maximum quantum of gas and doing domestic production also to meet the demand.

We should formulate a policy to increase domestic production and to reduce the dependency on import so that we can become self dependent in the important sector like natural gas and can save foreign currency by decreasing the import.

Recommendations made by Committee will effect domestic production also. Although, it is also a fact that at present also, imported natural gas is very costly in comparison to domestic produced natural gas. Moreover, Government of India is also not getting any tax from import. Domestic production will give tax and other benefits to the Government.

An estimation should be done on the impact on Government subsidy that how much subsidy is increased by using imported gas in comparison to domestic production.

Sd/
(DHARMENDRA YADAV)

Naresh Agrawal, MP (RS)
02/08/2013

NOTE OF DISSENT

The Country needs more oil and gas if the economy has to grow. Increasing imports are pushing the economy down a fiscal cliff which can soon end India's dreams' of being the global leader of the 21st Century.

Any policy regime for increasing domestic exploration and production has to be made for the long term and the New Exploration Licensing Policy was no exception. It was approved by the United Front Government led by Prime Minister Deve Gowda in 1997. The first Round of Bidding was announced by Prime Minister Atal Bihar Vajpayee in 1999. Subsequently 8 rounds of bidding have taken place during the NDA as well as the UPA I and UPA II regimes.

The consistency with which different Governments have followed NELP demonstrates to the world that India is not a banana republic and follows the rule of law. Policies and contracts (PSCs) signed by one regime are honoured and implemented by their succeeding regimes, even when the political alignments change. This is something that India can justifiably be proud of.

NELP as a policy did away with the Administered Pricing Mechanism whereby the Government fixed the price for Oil & Gas to be produced in India. Under the profit sharing terms of NELP, Oil & Gas prices had to be market based and derived on the basis of arms length sales in the country. Oil and Gas prices were thus to be determined by demand and supply based on international benchmarks and not by inefficient cost of production methods.

Under the Investment Multiple (IM) based profit sharing model adopted for NELP, the share of all the Parties of the PSC (including the Government) is dependent on the Contractor selling Oil & Gas at the best prevailing arms-length price in the market.

The price proposed by a Contractor has to be approved by the Government to ensure that the proposed price is a true arms-length price. The current gas price of $

4.2 per MMBTU was approved in 2007 and is valid until March 2014. That period ending in a few months, the Government is contractually bound to approve a new price.

Price approval is required well in advance because no Contractor will make capital investment or commit operating expenditure to produce unless the sale price is known. The current price for KG D6 was also approved in October 2007, well before production was due to commence in April 2009. Similarly, the Government is bound to approve the April 2014 prices well in time. It is something contractual which cannot await the political cycle of regime change!

As far as the approval given on June 27, 2013 by CCEA is concerned, NELP PSCs having promised arm-length prices, domestic producers have serious contention with the price approved by the basis of the Dr. Rangarajan Formula. A market price is determined by the market, not by the Government or the CCEA. Market price is the commitment made under the terms of the NELP PSC to all Contractors whether ONGC, OIL, Cairn or RIL and BP. Those contractual terms have to be honoured.

The only purpose of Government approval under PSC is to ensure that no party transfers revenues to affiliates and interested parties by transfer pricing. The Contractor having been prevented from doing this (through the rejection of the $ 2.34 / MMBTU price proposed in 2006) the Government must equally desist from the temptation to force sales at sub market prices to entities subsidized and supported by it.

Unfortunately, certain vested interests are now arguing that the function of approval by Government should be used by it to 'fix' low gas prices so that the subsidy burden of the Government is contained. That is the subversion of a signed Contract entered into by the Government of India. Government does not have the authority to 'fix or administer Oil & Gas prices under NELP.

The Government introduced NELP to incentivise Oil & Gas production by allowing market related Oil & Gas prices for attracting investments and technology in E&P.

Subsidies are macro-economic concerns. It is counterproductive to allow them to affect the production of domestic natural gas by artificially suppressing gas prices to reduce the subsidy burden.

Realizing this simple economic fact, the Government, though carrying a far higher burden on account of subsidies given on liquid petroleum products like LPG, Kerosene and Diesel, did not ask Contractors like BG, Cairn, GEO Petrol, GSPC< Hardy, HOEC, NIKO, ONGC, RIL, etc. to sell crude oil produced under the PSCs at a hefty discount to international prices. Domestic crude oil produced under PSCs continues to be sold at international prices and the Government bears the subsidy burden on LPG, Kerosene and Diesel.

Let us not forget that out of the 110 discoveries announced under NELP, only 6 are under production. Why? Because Contractors and DGH have not been able to approve plans to develop discoveries which are not viable at a gas price of $ 4.2/MMBTU.

Following the CCEA approval, new production will come because (i) many of the existing discoveries made by various contractors such as GSPC, ONCG and others become viable at the new price' (ii) companies are willing to take higher risks and conduct more exploration to establish more reserves of gas.

The CCEA decision does not revise the price of gas form RIL's KG D6 Block along but implements a uniform price for all domestic gas. The bulk of this gas (70%) is produced by PSUs such as ONGC & Oil and not by RIL.

For all the talk about benefits being passed to RIL, the fact is that KG D6 Block with a mere 15% share in total domestic production, will not be the biggest beneficiary. Not only that 70% of all domestic gas is being produced by ONGC and OIL, but also RIL is in no position to boost domestic production and its share in the near future.

RIL, even if it implements its new development plans immediately, does not see new gas flow until 2017-18. This means that, beyond the 15% share (which is declining) it has in domestic production, it does not really benefit from the new price for the next five years. The anticipated increase in production during this period comes mostly because gas finds of GSPC and ONGC become viable and begin producing. So how does one substantiate the absurd claim that the price increase is only to benefit RIL?

On the demand side, it must be noted that by 2015-16, the total requirement of gas from the power and fertilizer sectors along would be around 169 MMSCMD. If domestic supplies to these sectors remain at the current 55 MMSCMD, the balance demand will have to be met through imported LNG. By fixing artificially low prices for domestically produced gas, most of India's remaining reserves will never be produced and unabated imports will continue, resulting in even higher subsidies.

Let us not forget that imports mean no royalty, no profit share and no taxes for the country. So unlike in the case of domestic production, subsidies cannot be offset by any revenue inflows. To this add precious savings in foreign exchange resulting form lower imports. The choice is to allow GSPC, ONGC, OIL RIL/BP and others to produce more domestic gas at Dr. Rangarajan's formula price or import the same gas at over $ 13.

Sd/-

(NARESH AGRAWAL)

NOTE OF DISSENT

Dr. Yogendra P. Trivedi, MP (RS)
29.07.2013

While I accept it fully that our committee are fully entitled to look into the subject and infact should look into the subject but I strongly feel that before coming to a mature conclusion we should study this complicated subject more thoroughly. In particular I suggest that we should consider the following:

1. This is very complicated issue and if properly handled our country can become self sufficient in oil reducing our dependence on huge imports causing a drain on our economy. The pricing of oil and natural gas from our fields whether on shore or offshore requires to be properly understood. The exploration of oil is a highly risky and uncertain job and we need huge Foreign Capital inflow to help us in the job. To make such foreign investment sufficiently attractive for them. We have to give them proper incentive. The pricing therefore will have to take in to consideration this aspects and the prevalent international price.

2. We must allow the people involved in the process to come and depose before us and explain their stand. After duly examining them and the officers of Ministry for Petroleum we can arrive at our own decision and convey it to the relevant ministry.

Thus, even though I do believe in our right to offer our opinion on Gas pricing. I only suggest that we should not come to a hastily conclusion without hearing all the parties involved in the process.

Sd/-

(Dr. Y.P. TRIVEDI)

MINUTES OF THE FOURTH SITTING OF THE STANDING COMMITTEE ON FINANCE (2012-13)

The Committee sat on Friday, the 9th November, 2012 from 1100 hrs to 1530 hrs.

PRESENT

Shri Yashwant Sinha – Chairman

MEMBERS

LOK SABHA

2. Dr. Baliram
3. Shri Nishikant Dubey
4. Shri Gurudas Dasgupta
5. Shri Bhartruhari Mahtab
6. Dr. Chinta Mohan
7. Shri Prem Das Rai
8. Shri S.S. Ramasubbu
9. Shri Adv. A. Sampath
10. Shri Thakur Anurag Singh
11. Dr. M. Thambidurai
12. Shri Shivkumar Udasi

RAJYA SABHA

13. Shri Naresh Agrawal
14. Shri Rajeev Chandrasekhar
15. Smt. Renuka Chowdhury
16. Shri Piyush Goyal
17. Shri Satish Chandra Misra
18. Shri P. Rajeeve
19. Shri Praveen Rashtrapal

SECRETARIAT

1. Shri A. K. Singh – Joint Secretary
2. Shri Ramkumar Suryanarayanan – Additional Director
3. Shri Sanjay Sethi – Under Secretary
4. Shri Kulmohan Singh Arora – Under Secretary

Part I

(1100 hrs. to 1330 hrs.)

WITNESSES

MINISTRY OF FINANCE

Shri R.S. Gujral, Finance Secretary

DEPARTMENT OF REVENUE

1. Shri Sumit Bose, Revenue Secretary
2. Smt. Rashmi Verma, Additional Secretary

Central Board of Excise & Customs (CBEC)

1. Smt. Praveen Mahajan, Chairperson
2. Smt. Shiela Sangwan, Member (Budget)
3. Shri P.K. Mohanty, Joint Secretary (TRU-I)
4. Shri V.K. Garg, Joint Secretary (TRU –II)

Central Board of Direct Taxes (CBDT)

1. Shri S.S. Rana, Member (P&V), CBDT
2. Shri Sunil Gupta, Joint Secretary (TPL –II)

Department of Economic Affairs

Shri Arvind Mayaram, Secretary

Department of Expenditure

Dr. Saurabh Garg, Joint Secretary (PF. II)

Ministry of Petroleum and Natural Gas

1. Shri P.K. Singh, Director
2. Shri S.P. Gupta, Director, PPAC

2. The Finance Secretary briefed the Committee on the subjects '(i) 'Mechanism for revenue realisation from the sale of petroleum products' and (ii) 'Taxation issues relating to PPP Projects'. Members subsequently sought clarifications from the witnesses, which included issues like contribution of Central and State taxes in the pricing of petroleum products, impact of rationalization of petroleum products on their cost structure, difference between landed cost of crude and the final price being charged to the consumers, element of tax on tax, lack of transparency in the concept of under- recovery, etc.

3. Members also raised queries over the issues of loss in revenue due to constricted production of natural gas from the KG basin and its effect particularly on power and fertilizer sectors,

4. Questions were also raised on the issue of cost based price regulation in PPP's like airports, hydrocarbons, ports, cross subsidy model, escalated estimates on PPP projects, etc. The Chairman directed the representatives of the Ministry of Finance to furnish replies to the points raised by the Members during the discussion within ten days.

The witnesses then withdrew.

Part II

(1400 hrs. to 1530 hrs.)

WITNESSES

5.	XX	XX	XX	XX
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6.	XX	XX	XX	XX
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A verbatim record of the proceedings was kept.

The witnesses then withdrew.

The Committee then adjourned.

MINUTES OF THE EIGHTEENTH SITTING OF THE STANDING COMMITTEE ON FINANCE (2012-13)

The Committee sat on Friday, the 7th June, 2013 from 1100 hrs to 1345 hrs.

PRESENT

Shri Yashwant Sinha – Chairman

LOK SABHA

2. Shri Nishikant Dubey
3. Shri Gurudas Dasgupta
4. Shri S.S. Ramasubbu
5. Dr. Kavuru Sambasiva Rao
6. Adv. A. Sampath
7. Dr. M. Thambidurai

RAJYA SABHA

8. Shri Naresh Agrawal
9. Smt. Renuka Chowdhury
10. Dr. Mahendra Prasad

SECRETARIAT

1. Shri Ramkumar Suryanarayanan – Additional Director
2. Shri Kulmohan Singh Arora – Under Secretary

WITNESSES

Ministry of Finance

1. Shri Sumit Bose, Secretary (Revenue)
2. Ms. Praveen Mahajan, Chairperson – CBEC
3. Ms. Sudha Sharma, Chairperson – CBDT
4. Shri M.L. Meena, Joint Secretary (Revenue)
5. Ms. Pragya Sahay Saxena, Joint Secretary (TPL-I)
6. Ms. Sharmila Chavali, Joint Secretary (Economic Affairs)

Ministry of Planning

1. Ms. Sindhushree Khullar, Secretary
2. Shri Anil Kumar Jain, Adviser (Energy)
3. Dr. S.C. Sharma, OSD (Petroleum)

Ministry of Petroleum & Natural Gas

Shri P.K. Singh, Joint Secretary (IC&GP)

Ministry of Power

Shri I.C.P. Keshar, Joint Secretary (Thermal)

Ministry of Chemical & Fertilizer

Shri Vijay Ranjan Singh, Director (Fertilizer), Deptt. of Fertilizer

2. With an objective of preventing undue enrichment of few entities at the cost of nation's natural resources especially petroleum products including natural gas, the Committee resuming its deliberations initiated in November, 2012 on the subject took oral evidence of the Ministry of Finance (Department of Revenue); Ministries of Planning; Petroleum & Natural Gas and Chemical & Fertilizer on the subject 'Revenue loss/implications arising out of pricing of petroleum products including natural gas'. The major issues discussed broadly included quantum of revenue loss, alternatives to production practices, pricing of natural gas, underrecoveries and the effect on various sectors such as power and fertilizer due to declining production of natural gas especially from KG-basin. The Chairman directed the representatives to furnish written replies to the points raised by the Members during the discussion within a period of ten days and also suggested Ministry of Finance to co-ordinate with other representing Ministries/Departments.

A verbatim record of the proceedings was kept.

The witnesses then withdrew.

The Committee then adjourned.

MINUTES OF THE TWENTIETH SITTING OF THE STANDING COMMITTEE ON FINANCE (2012-13)

The Committee sat on Friday, the 19th July, 2013 from 1100 hrs to 1330 hrs.

PRESENT

Shri Yashwant Sinha – Chairman

LOK SABHA

2. Shri Nishikant Dubey
3. Shri Gurudas Dasgupta
4. Shri Deepender Singh Hooda
5. Shri Chandrakant Khaire
6. Shri Bhartruhari Mahtab
7. Shri Sanjay Brijkishorlal Nirupam
8. Shri S.S. Ramasubbu
9. Shri Adv. A. Sampath
10. Dr. M. Thambidurai
11. Shri Shivkumar Udasi

RAJYA SABHA

12. Shri Naresh Agrawal
13. Smt. Renuka Chowdhury
14. Shri Piyush Goyal
15. Shri Satish Chandra Misra
16. Dr. Mahendra Prasad
17. Shri Ravi Shankar Prasad
18. Shri P. Rajeeve

SECRETARIAT

1. Shri A.K. Singh – Joint Secretary
2. Shri Ramkumar Suryanarayanan – Additional Director
3. Shri Sanjay Sethi – Deputy Secretary

2. XX XX XX XX

XX XX XX XX

3. The Committee then took up for consideration draft report on the subject 'Economic impact of revision of Natural Gas Price'. One of the Members raised the issue that the

subject matter of the draft report did not fall within the jurisdiction of the Committee. Some Members also pointed out that they did not get enough time to go through the draft report as it was received late. Another point raised was that views of experts/Secretary, Ministry of Petroleum and Natural Gas should be heard before finalising the Report. They, therefore, wanted to postpone the consideration for adoption. The Chairman invited the Members to express their views on each of the points raised. After hearing the views of all the Members, the Chairman drew attention of the members to the fact that the Committee had already held two meetings on 9th November, 2012 and 7th June, 2013. The Chairman furhter drew attention of the Members to his opening remarks at the sitting of the Committee held on 7th June, 2013 mentioning about the expansion of scope of examination of the subject by the Committee. The Chairman also stated that the draft report was prepared on the basis of facts furnished by the Ministry. He, therefore, ruled that the subject matter was well within the jurisdiction of the Committee. The Committee then decided to defer consideration of the draft report to their next sitting to be held on 26th July, 2013 so that the members would get enough time to go through the draft report.

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WITNESS

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A verbatim record of the proceedings was kept.

The witness then withdrew.

The Committee then adjourned.

MINUTES OF THE TWENTY-FIRST SITTING OF THE STANDING COMMITTEE ON FINANCE (2012-13)

The Committee sat on Friday, the 26th July, 2013 from 1100 hrs to 1515 hrs.

PRESENT

Shri Yashwant Sinha – Chairman

LOK SABHA

2. Dr. Baliram
3. Shri Nishikant Dubey
4. Shri Gurudas Dasgupta
5. Shri Deepender Singh Hooda
6. Shri Chandrakant Khaire
7. Shri Bhartruhari Mahtab
8. Dr. Chinta Mohan
9. Shri Sanjay Brijkishorlal Nirupam
10. Shr Prem Das Rai
11. Shri Adv. A. Sampath
12. Dr. M. Thambidurai
13. Shri Shivkumar Udasi
14. Shri Dharmendra Yadav

RAJYA SABHA

15. Shri Naresh Agrawal
16. Smt. Renuka Chowdhury
17. Shri Piyush Goyal
18. Shri Satish Chandra Misra
19. Dr. Mahendra Prasad
20. Shri P. Rajeeve
21. Shri Praveen Rashtrapal

SECRETARIAT

1.	Shri A.K. Singh	–	Joint Secretary
2.	Shri Ramkumar Suryanarayanan	–	Additional Director
3.	Shri Sanjay Sethi	–	Deputy Secretary
4.	Shri Kulmohan Singh Arora	–	Under Secretary

Part I

(1100 hrs. to 1420 hrs.)

WITNESSES

2.	XX	XX	XX	XX
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Part II

(1420 hrs. to 1515 hrs.)

3. The Committee took up draft report on the subject 'Economic Impact of Revision of Natural Gas Price' for consideration and adoption. Some Members sought clarification and opinion of the Hon'ble Chairman as to whether the subject of the draft report comes under the jurisdiction of the Standing Committee on Finance, since there is a separate Departmentally related Standing Committee on Petroleum and Natural Gas which can deal and discuss elaborately on their subject. Some Members also desired to hear the views of some other stakeholders before considering the draft report on the subject.

4. While emphasizing the Committee's mandate to examine and report upon subject under their designated jurisdiction other than those originally selected by the Committee, the Hon'ble Chairman drew the attention of the Members to Rule 276 of Rules of Procedure and Conduct of Business in Lok Sabha, which reads as under:

> " A Committee may, if it thinks fit, make a special report on any matter that arises or comes to light in the course of its work which it may consider necessary to bring to the notice of the Speaker or the House, notwithstanding that such matter is not directly connected with, or does not fall within or is not incidental to, its terms of reference'.

5. The Chairman also clarified that in the meeting held on 7 June, 2013, all the concerned Departments were represented and given an opportunity to express their views on the subject. Written submissions were also obtained from them. On the issue of jurisdiction, the Hon'ble Chairman further clarified that three Committees of Parliament are examining different aspects of natural gas production and pricing. The Standing Committee on

Petroleum and Natural Gas is examining the methodology of pricing including Production Sharing Contracts (PSCs) as well as gas utilisation policy. The Public Accounts Committee (PAC) is examining the related C&AG Report, which is their mandate. The Standing Committee on Finance has been primarily examining the overall impact of gas pricing on economy and the Union Budget. Thus, there is absolutely no jurisdictional overlap or conflict involved and the Committee was well within its rights to present a report on this subject.

6. The Committee accepted the above ruling of the Chairman on the jurisdiction and scope of the Committee to consider the draft report and accordingly decided to adopt the draft report with minor modifications as suggested by Members. The Committee also authorised the Chairman to finalise the Report in the light of the modifications suggested and present to Parliament in the forthcoming Monsoon Session.

7. Some Members, namely, Shri Sanjay Nirupam, MP, Shri Dharmendra Yadav, MP and Shri Naresh Agrawal, MP requested that their dissent notes be attached to the report which was accepted by the Chairman, who further informed that these dissent notes should be submitted to him latest by 2 August, 2013.

The Committee then adjourned.