Can't hike gas prices without other changes

The oil ministry, going by its presentation to the Prime Minister's Office last week, is seriously worried about investors who have bid for exploration blocks but are unable to work them due to lack of clearances for years, now suing it for damages. According to the presentation (http://goo.gl/mkr5M), of the 249 blocks awarded under NELP, 73 are facing such problems—the ministry took 73 of these up with the defence ministry and 28 were cleared. And if this wasn't bad enough, Business Standard reported Niko Resources, one of the firms producing gas, is selling its gas at $7 per mmBtu though this has not been cleared by the petroleum ministry which has been holding Reliance down to a $4.2 price even though the company has been asking for a revision to market levels for a long time. While the government would like Niko to lower its price, the firm is clear it is well within its rights.

The problem the government faces is a simple one: if it allows RIL and others to charge market prices—and there is little doubt this will make exploration a more attractive business—this raises costs at the downstream end. A one dollar hike in gas prices implies retail level electricity tariffs need to be raised by around 65 paise—any failure to do so will only hike losses in the power sector which, right now, are in the region of R2 lakh crore. Higher gas prices will also mean higher losses in the fertiliser sector where, again, sub-market prices are charged. At the end of the day, you can't free up flows in one part of a pipe without freeing them up all along the pipe—else, the area of the pipe which is not freed up tends to burst.