Can't let Kejriwal prevent govt from taking right call

Given how gas-starved India is, and how quickly demand is growing, the government has no option but to rapidly scale up gas availability. The 22,000MW of gas-based power that India has operates at 22% levels due to lack of gas availability, and if prime minister Narendra Modi's dream of gas grids is to make any headway—it is cheaper to buy CNG for cooking gas than it is to buy LPG once the subsidies are factored in—India will need a lot more gas. While the current shortfall is estimated at 74 mmscmd—if the gas-based power plants are to run at a 75% plant load factor—this is projected to rise to 117 mmscmd by 2019 when 27,000MW of gas-based power capacity will be on stream; once you take into account other needs, such as city-gas, the shortage rises even more. Sadly, with the NDA government refusing to accept the C Rangarajan formula for hiking gas prices to $8.4 per mmBtu—and the Kelkar one for ultimately moving to market prices—all new exploration activity has come to a halt as the current price of $5.61 per mmBtu is simply not viable. According to a study by consultants IHS Cera, while India is quite gas rich (it has 53 trillion cubic feet of reserves), most of this is in the deep seas and is not viable at prices of under $10 per mmBtu. Considering the option is to import it at average prices of $12, even this price seems a good one—and the import option also has implications for India's current account deficit.

While the government will deny it has been pressured into its current stand by Aam Aadmi Party chief Arvind Kejriwal, it remains true that Kejriwal had made the gas price hike—when the UPA was going ahead with it—an election issue and a potent one since he was arguing gas prices were being raised to primarily benefit Reliance Industries Limited. Though this was not true since, apart from the higher revenues ONGC and the government would get—each $1 increase gives the government $550 million more by way of taxes, royalties and increased profit shares—the country would save on valuable forex, the government did well to break up the gas pricing in the manner it did. So, a rate of $5.61 per mmBtu was fixed as compared to the then $4.2, and a premium was to be given for gas in the deepwaters. Well, as FE

reported on Monday, private oilcos have come up with a formula for this premium, based on the price of various alternative fuels and with a suitable discount factor. At current prices of oil, that works out a final price of around $5.7 per mmBtu. Comparing this with the current $5.61 is unfair since the $5.61 price is itself based on older data and will be revised downwards from April 1. Whether the new formula is adopted or a version of the Rangarajan price is used, the good thing is that the Directorate General of Hydrocarbons (DGH) which is the technical body entrusted with the job has, in turn, hired a globally reputed consultant to advise it. While the DGH has to submit its report by January 20, given the Delhi elections are on February 7, it is to be hoped gas pricing doesn’t fall victim to election propaganda.