



ICRA

# GAS UTILITY SECTOR

**Kirit Parikh Committee norms on gas pricing removes the overhang of high gas prices for the consumers and would benefit CGD entities in the near to medium term**

**DECEMBER 2022**





## Click to Provide Feedback

*KPC recommends lowering the near-term price of APM gas to US\$ 6.5/mmbtu; it would offer the near-medium term benefit to city gas companies.*

*Guaranteed floor price of US\$4/mmbtu for the APM gas provides a big relief to domestic producers as they had to produce gas below the cost of production for quite a long time.*



- For H2 FY2023, the APM price was increased from US\$6.1 to US\$8.6/mmbtu. Due to higher gas prices, the conversion momentum and profit margins for CGD companies have been impacted. The cost of inputs/fuel in fertiliser industry has also increased, consequently impacting the Government subsidy burden.



- In view of an elevated gas prices, there was a need for a review of the pricing formula. Hence, the Government had constituted the Kirit Parikh Committee to relook into the pricing mechanism of domestic APM gas keeping the interest of both producers and consumers in mind.



- The KPC submitted its report on November 30, 2022 and has recommended a dynamic ceiling and a fixed floor (US\$4/mmbtu) for current gas production. The first ceiling has been set at US\$6.5/mmbtu. The ceiling is to be raised by US\$0.5/mmbtu annually.



- The panel also has recommended liberalisation of APM price from Jan 2027 and linking the price to ~10% of oil price slope. For HPHT gas, the panel recommended the removal of the current ceiling price but only from Jan 2026 (so that most current HPHT contracts are not impacted).



- The benefit of the decrease in APM gas price is to be passed on to consumers. Hence, the margin of CGDs may not increase as a result of this reduction.



- Inclusion of natural gas under GST would reduce the incidence of stranded taxes. Overall, the recommendations of the Kirit Parikh Committee on gas pricing are pragmatic and balanced taking in view the interests of both consumers and producers of gas.

An ongoing European crises, the geo-political situation and other factors have contributed to unprecedented increase in international prices of LNG. The coupling of domestic gas prices to the international hubs has led to drastic increase in domestic gas prices (>375% increase from H2 FY2021 to H2 FY2023).



The increased prices have led to surge in the price of CNG. Overall expansion of CGD sector, which has been the first priority of Government since 2014, has also been impacted due to higher gas prices. CNG price increases have impacted the competitiveness of the fuel vis-à-vis alternate fuels like MS and HSD.



The Government's vision is to achieve a share of the natural gas in the energy basket to 15% by the year 2030 from the existing 6.3%. This would imply multi-fold increase in India's gas consumption. Therefore, the domestic gas production would need to be supported.

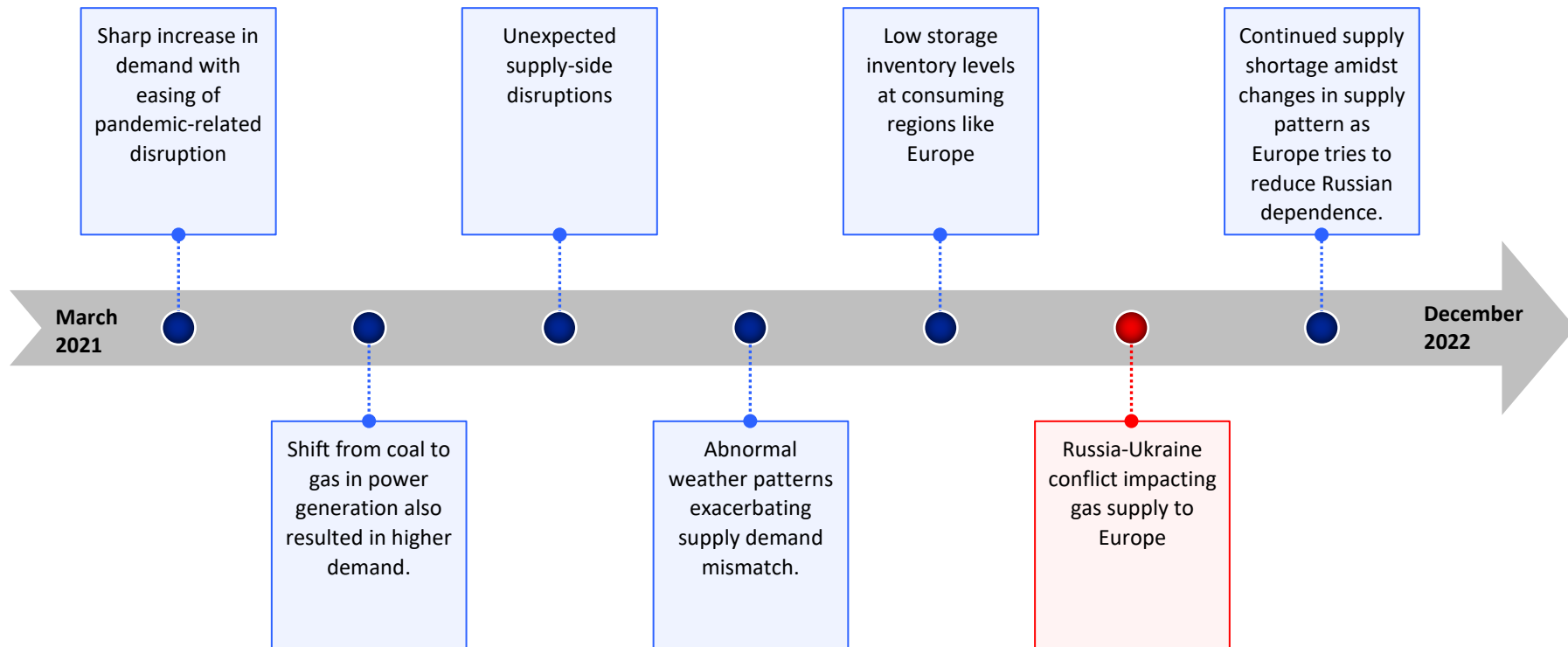


Depending on large imports exposes the country to geo-political uncertainty. Further, the Indian gas market is now relatively more mature and has more sellers and buyers. The infrastructure is better established with pipelines/ LNG terminals/ CGD network and trading platforms across India.



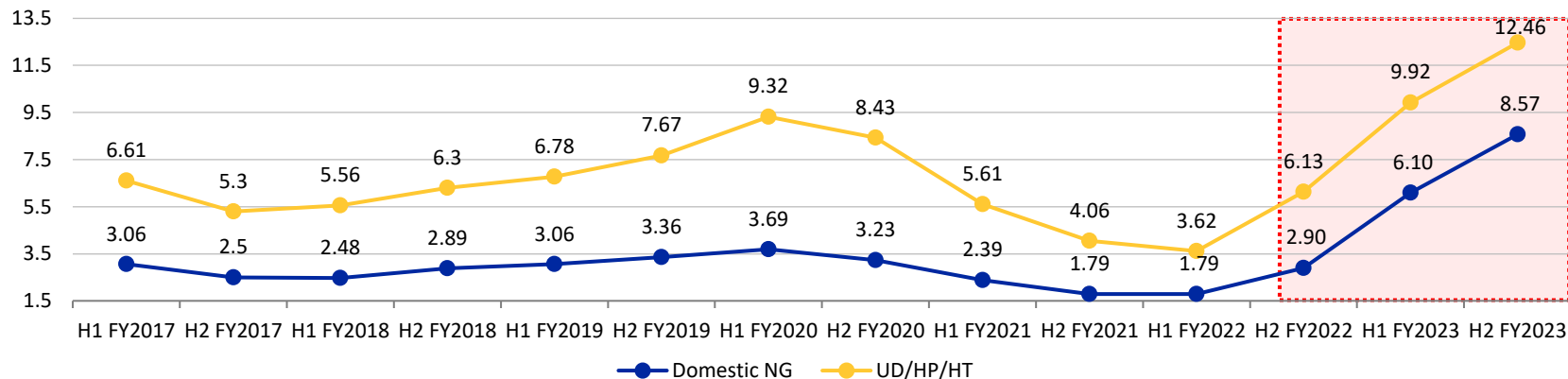
In view of an elevated gas prices and its adverse impact on consumers, there was a need for a review of the pricing formula. Hence, the Government had constituted the Kirit Parikh Committee to relook into the pricing mechanism of domestic APM gas keeping the interest of both producers and consumers in mind.

# Reasons for increase in natural gas prices



# Domestic gas prices have witnessed sharp increase in the last three revisions

Exhibit: Trend in domestic gas prices (\$/mmbtu) GCV basis



- The domestic gas price has increased by 40% to \$8.57/mmbtu (GCV basis) during H2 FY2023 from \$6.1/mmbtu in H1 FY2023 .
- The domestic gas price increase was driven by a significant run-up in the prices of gas at the global gas hubs.
- The ceiling on gas price has been announced at \$12.46/mmbtu (GCV basis) for H2 FY2023, up from \$9.92/mmbtu (GCV basis) for H1 FY2023.
- Since H1 FY2022, domestic gas prices have increased by 379%, while UD/HP/HT gas ceiling prices have risen by 244%.

MOPNG has set up a committee under Mr. Kirit Parikh to review the gas pricing formula to ensure a fair price to the end consumers. The committee has submitted its recommendations to the Ministry on November 30, 2022.

# Recommendations of Kirit Parikh Committee – Key Highlights



## Pricing – short term

- For APM gas, a floor price (US\$4/mmbtu) and a ceiling price (initially US\$6.5/mmbtu) for current gas production from the APM fields of ONGC and OINL. Further, it has recommended annual US\$0.5/mmbtu increase in ceiling price.
- In addition to the floor and ceiling and pricing mentioned above, a 20% premium for production from a new well or well intervention in nominated fields. It has also suggested marketing freedom for this incremental gas.



## Pricing – Long term

- Liberalisation of APM price from Jan 2027, by removing floor/ceiling, and linking the price to ~10% of the crude oil price slope.
- For HPHT gas, removal of current ceiling price but from Jan 2026 (so that most of current HPHT contracts are not impacted).



## Allocation

- The committee has retained priority for CNG and domestic PNG. However, it has also recommended that the Government develop a staggered plan for exiting priority allocation on the lines of exit from the crude oil allocation, which has been done from October 1, 2022 onwards.



## Others

- The benefit of the decrease in APM gas price is to be passed on to consumers. The Government may advise PPAC to maintain a portal for monitoring of consumer prices with detailed break-up.
- The committee has also recommended bringing gas under the GST regime. Further, till the time the GST regime is implemented, the Government may consider moderating the Central Excise duty rate on CNG to reduce the burden of higher natural gas costs on the consumers.

# Existing gas pricing formula Vs. KPC recommendations

Currently, the domestic APM gas price is determined based on following formula

$$P = \frac{VHH*PHH+VAC*PAC+VNBP*PNBP+VR*PR}{VHH+VAC+VNBP+VR}$$

## Where:

- VHH = Total annual volume of natural gas consumed in USA & Mexico
- VAC = Total annual volume of natural gas consumed in Canada
- VNBP = Total annual volume of natural gas consumed in EU and FSU, excluding Russia
- VR = Total annual volume of natural gas consumed in Russia
- PHH and PNBP are the annual average of daily prices at Henry Hub (HH) and National Balancing Point (NBP) less the transportation and treatment charges.
- PAC and PR are the annual average of monthly prices at Alberta Hub and Russia respectively less the transportation and treatment charges.

US\$/mmbtu	Current prices	KPC recommendations	
		Short term prices	Price deregulation in Longer term#
APM	8.57	4-6.5*	from January 1, 2027
Difficult fields	12.46	Unchanged	from January 1, 2026

Source: ICRA Research and Industry Sources

\*floor price of US\$ 4.0/mmbtu and ceiling price of US\$ 6.5/mmbtu and rise by US\$ 0.5/mmbtu annually till deregulated

#linking the price to ~10% of crude oil price slope.



## Consumers

- The lowering of the APM gas prices would offer benefit to city gas companies in the near to medium term. Over the longer term, deregulation and free market pricing of APM could raise their gas costs.
- From the consumer's perspective lower gas prices are a positive. The reduction in gas price should result in a cut in CNG and PNG (domestic) prices by the CGD players and would improve the conversion economics for the end consumers, thereby stimulating demand.
- Lower domestic gas prices would also reduce the GoI's subsidy burden for the fertiliser sector. Also, lower domestic gas prices would lead to a more competitive cost of generation for the domestic gas-based power generation projects.



## Producers

- The floor and ceiling prices provide healthy gas realization to Upstream producers with graded increases over the next 5 years moving to full decontrol of from January 1, 2027.
- Additionally, removal of the cap on prices for difficult fields from January 1, 2026, provides impetus for development of challenging fields.

**Inclusion of natural gas under GST would reduce the incidence of stranded taxes. Overall, the recommendations of the Kirit Parikh Committee on gas pricing are pragmatic and balanced taking in view the interests of both consumers and producers of gas.**





**Click to Provide Feedback**



# ICRA Analytical Contact Details



**Sabyasachi Majumdar**

*Senior Vice-President*

**Prashant Vasisht**

*Vice-President*

**Sai Krishna**

*Vice -President*



sabyasachi@icraindia.com

prashant.vasisht@icraindia.com

Sai.krishna@icraindia.com



0124- 4545 304

0124 – 4545 322

0022 6114 3400





ICRA

## Analytical Contact Details



**Kushal Shah**

*Analyst*



Kushal.shah@icraindia.com



079 – 4027 1527





ICRA

## Business Development/Media Contact Details



**L. Shivakumar**

*Executive Vice-President*

**Jayanta Chatterjee**

*Executive Vice-President*

**Naznin Prodhani**

*Head Media & Communications*



shivakumar@icraindia.com

jayantac@icraindia.com

communications@icraindia.com



022- 6114 3406

080 – 4332 6401

0124 – 4545 860





***© Copyright, 2022 ICRA Limited. All Rights Reserved.***

All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies, while publishing or otherwise disseminating other reports may have presented data, analyses and/or opinions that may be inconsistent with the data, analyses and/or opinions in this publication. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.



ICRA

**Thank You!**