

Indian gas demand to grow regardless of price hike

Andrew Walker / London



India's gas consumption is expected to increase over the coming years even though domestic prices will rise.

THE 13% INCREASE in India's domestic gas prices announced at the beginning of the month is unlikely to have a major impact on demand, experts have said.

The hike is India's first since it introduced a new pricing formula in late 2014, and the price of gas has fallen by around half since then. The price rise will last for the six-month period from October to April.

The fertiliser, power and petrochemicals sectors are the biggest consumers of gas in India. Gas prices for the fertiliser sector are regulated, meaning raising prices will have a limited effect on producers, according to Anupama Sen, senior research fellow at the Oxford Institute for Energy Studies.

"The gas price increase will imply a higher fertiliser subsidy bill, but given the relative price inelasticity of gas consumption in fertilisers it shouldn't impact demand in that sector," she told *Interfax Natural Gas Daily*.

The petrochemicals sector relies largely on imported LNG to meet demand, and the price hike will therefore also have a limited impact on costs for companies operating in the sector, said Lydia Powell, head of the Centre for Resources Management at the Observer Research Foundation.

"Most of the oil refiners are using LNG, and so an increase in domestic gas prices will not affect them," Powell said.

The greater use of LNG is causing state oil refiners to become more involved in India's LNG import infrastructure as demand for refined fuels is increasing. Sushant Gupta, research director for Asia refining at Wood Mackenzie, anticipates that India will need to add refining capacity at a much faster rate than in the past to meet demand for transport fuels.

By contrast to petrochemicals, the power sector relies much more heavily on domestically produced

gas, Powell said. However, regulated power prices make gas largely uncompetitive in comparison with coal and renewables, so an increase in price will not have a major impact there either.

"Gas use [for power generation] can be encouraged only by a mandate or through subsidies that can beat competition from coal," she said. Much of the country's gas-fired power plants remain idle because of a lack of affordable gas, and such facilities have lacked government support. "Gas has fallen in the crack between the competitiveness of coal for power generation in India and the heavy push on renewable energy using various forms of subsidies," Powell added.

Despite this, India's gas market is expected to grow at 7% per year by 2025 as new infrastructure is built and energy demand grows, according to Terence Ang, senior analyst for Asia gas and power at Woodmac.

Higher prices are more likely to affect city gas, which is distributed to households and to service stations for transport as CNG. Indraprastha Gas, a major player in the pipeline gas and CNG markets, hiked its prices for each fuel by 3% and 2% respectively in Delhi in response to the domestic increase, according to press reports.

Good news for upstream

The introduction of a higher domestic gas price is good for India's upstream producers, but it remains below the level that would attract foreign investors, according to Manek Narang, associate director of CARE Ratings.

"The price increase has been a respite for upstream entities, but if the pricing remains at its current levels I don't see much increase in private participation in the sector," he told *Interfax Natural Gas Daily*.

The government wants to reduce its dependence on imported gas by 10% by 2022 and will struggle to achieve this without increasing domestic gas prices. The government's Hydrocarbon Exploration and Licensing Policy aims to make upstream exploration more attractive: it allows companies to sell gas at market prices and will force industries to accommodate higher gas tariffs.

The policy will need to be expanded to allow marketing and pricing freedom for all gas produced in India – whether onshore or offshore and regardless of the age of the contract – to attract companies to invest in the country's upstream, according to Alay Patel, senior analyst for Asia upstream at Woodmac. ■

A gas-fired power plant in India. (Essar)



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