Business Standard

Gas price on IGX double since April, households to feel impact soon

Domestic gas price to be revised upwards from October 1

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According to data compiled by the Indian Gas Exchange, the weighted average price of gas sale in April 2021 stood at $ 6.1 per mBtu.

The average price of natural gas on the Indian Gas Exchange (IGX) has more than doubled from April 2021 and is now trading at around $ 13.8 per million British thermal units (mBtu) in September 2021. This reflects strong demand for spot gas in the market that also saw prices rising on global cues.

According to data compiled by the Indian Gas Exchange, the weighted average price of gas sale in April 2021 stood at $ 6.1 per mBtu. The price has been on a steady rise every subsequent month and closed August 2021 at 12.5 per mBtu. It is expected that September prices, that are already higher than last month, will maintain the upward trajectory.

The maximum trade was registered during July 2021 at 398,550 mBtu. The weighted average price also reached double digits in this month and closed at $ 10.4 per mBtu. This coincided with a shortage of coal due to supply chain constraints and exerted pressure on power distribution companies that ended up buying power from gas-based power plants at a premium.

The volume of trade on IGX has also grown significantly compared to last financial year. The total volume traded in financial year 2020-21 stood at 193,700 mBtu. This has risen 489 per cent to 1,140,450 mBtu till September 2021 during financial year 2021-22.

While the gain in IGX volumes and price is substantial, it only impacts specific industries such as those in ceramic manufacturing. This is because more natural gas in India is sold at prices linked to the administered price mechanism. There too, an upward revision is expected from October 1 this year. According to ONGC and OIL officials, the gas price for them is likely to go up by 50 per cent. This will result in a 10 to 11 per cent increase in Compressed Natural Gas and Piped Natural Gas prices for consumers across the country as per a report by ICICI Securities.

At present, the domestic gas price is $1.79 per mBtu (million British thermal units). The maximum sale price that is allowed for gas produced from high pressure high temperature, deepwater, and ultra-deepwater areas (collectively called difficult discoveries) is $3.62 per mBtu. Since 2014, domestic gas prices have been determined by a formula that takes into account the weighted average of natural gas price at global gas hubs. The ceiling price of gas from difficult discoveries is linked to the landed price of alternative fuels. Both these prices move largely in the same direction. Domestic prices are calculated taking into account international prices, but with a three-month lag. This means the price for October-March 2022 will be determined based on global prices till June 30. According to an analysis by Care Ratings, 31 per cent of domestic natural gas is used by power sector, 27 per cent by fertilisers, and 19 per cent in the city gas distribution sector. India meets half of its natural gas requirements via domestic production, the rest is through imports.

Month	Weighted Average price in $/mBtu
Apr-21	6.1
May-21	6.8
Jun-21	7.1
Jul-21	10.4
Aug-21	12.5
Sep-21 (till Monday)	13.8

Note: $ rate considered as Rs 74