Domestic gas prices to be cut 18% to $1.97/mmbtu: Care Ratings

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Owing to the fall in global gas prices due to higher production and coronavirus-induced low demand, experts feel that the Union government will cut the price of domestic gas by a sharp 17.7% to $1.97 per million British thermal units (mmBtu). The new price will be effective for six months starting October 1.

If the prices are reduced, it would be the third straight cut after the government, in September 2019, lowered domestic natural gas prices by 12.5% to $3.23/mmBtu. Domestic gas price is linked to the weighted average price of four global benchmarks (US, UK, Canada and Russia). Spot US LNG prices have fallen more than 21% in the last six months to $1.5/mmBtu.

Fall in natural gas prices will be positive for the fertiliser and the city gas distribution companies, while it will a negative for oil producers as lower revenue will squeeze their profitability amid high production costs, analysts at Care Ratings said on Thursday in a webinar on gas prices. The agency had earlier noted that gross production of domestic natural gas will fall by 10.6% during FY21 as “no company would aggressively want to increase production or get into high risk projects with such a low gas price”.

The current price of $2.39/mmBtu for gas produced from local fields is even below the breakeven point for most fields. The average output cost of state-run Oil and Natural Gas Corporation (ONGC) — which produces about 65% of domestic crude oil — is around $3.7/mmBtu. The company is also grappling with under-recoveries stemming from low crude prices.

Indigenous natural gas production caters to about only 51% of the country’s requirements. Demand for natural gas in the domestic market is largely dependent on the fertiliser (28%), power (23%), city gas distribution entities (16%), refineries (12%) and petrochemicals (8%) industries. The country aims to increase the share of natural gas in its energy mix to 15% by 2030 from the current level of about 6%.