

## Domestic Natural Gas for October 2018 –March 2019

1<sup>st</sup> October, 2018 | Industry Research

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### Overview

*The government has revised the domestic natural gas price as per the New Domestic Gas policy, 2014. The revised price will be prevalent from 1<sup>st</sup> October 2018 till 31<sup>st</sup> March 2019.*

*The gas price for locally produced fields has been revised to **\$3.36/mmBtu** from \$3.06/mmBtu resulting in a **9.8% increase** and the ceiling price for gas to be produced from difficult fields has been raised to **\$7.67/mmBtu** from \$6.78/mmBtu resulting in a **13.1% increase**.*

*This has been the third consecutive increase in the price of domestic natural gas.*

*CARE Ratings had predicted the price of domestic natural gas to be **\$3.43/mmBtu** for the October 2018-March 2019 period.*

### Impact on the Economy

#### Inflationary Impact

Crude petroleum and natural gas has a 2.46% weight and in that natural gas has a 0.46% weight. A 9.8% increase in the prices of natural gas will increase the WPI directly by 0.05% which is not very significant.

#### Corporate Margins and Investments

Upstream oil and gas exploration companies like ONGC, Oil India and Reliance Industries will benefit as higher gas prices will lead to higher earnings, due to improvement in per unit realisations in the natural gas segment. This augurs well as it encourages upstream companies to take up more exploration activities aiding in the country's aim to achieve reduction of oil and gas imports by 10% by 2022 as domestic.

India can expect more investments from foreign countries towards the upstream gas E&P sector.

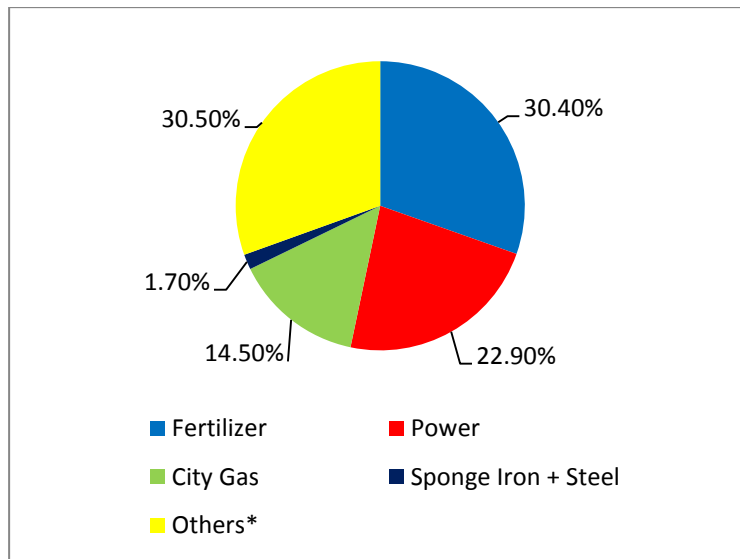
#### Impact on Industries

The real impact will be felt across the sectors where natural gas is used as a feedstock or for energy requirements.

The 9.8% rise in the natural gas price will result in the increase in the cost of manufacturing of urea and petrochemicals where natural gas is used as a feedstock. There will be a rise in the prices of CNG and PNG which will affect the consumers. Increase in price of Natural gas will

also affect the margins of the power sector and sponge iron industry where it used for the generation of energy.

**Chart 1: Sector- Wise Consumption Pattern**



Source: Ministry of Petroleum and Natural Gas

Others\* includes Refinery, Petrochemicals, LPG, IC and Manufacturing etc.

**Fertilizer Industry**

Natural gas is used a feedstock for the manufacturing of urea and out of 31 urea plants in India 28 use natural gas as a feedstock. Natural gas accounts for 80% of the raw material cost for urea manufacturing. The price of urea is controlled by the government and is fixed at \$5360/tonne. The government reimburses the fertilizer manufactures by the way of subsidies. The fertilizer subsidy for FY19 has been fixed at ₹70,090 crore out of which ₹44,989.50 is earmarked as the urea subsidy.

*As per our estimates a 9.8% increase in natural gas prices can potentially lead to a 7.8% increase in cost of production of urea, thus increasing the working capital intensity of the fertilizer manufacturers and also adding pressure on the fiscal spending of the government while disbursing the urea subsidy.*

**Power**

India is heavily dependent on coal fired power plants for power generator. Natural gas accounts for only 3%-4% of the total power generated thus the impact on the rise in price of natural gas will not be very significant.

**CGD Entities**

The CGD entities supply gas for industrial, domestic, commercial and transportation needs. Gas supplied to industrial, domestic and commercial customers is known as Piped Natural Gas (PNG), whereas gas dispensed through CNG refuelling stations to CNG vehicles (transportation) is known as Compressed Natural Gas (CNG).

*The 9.8% rise will impact the CNG and PNG consumers as CGD entities are a priority sector under the gas utilization policy which means their gas requirements will be wholly met by locally produced gas. CGD companies usually pass on*

*the increase in natural gas prices (which is an input cost for them) to their consumers which will commensurate in higher CNG and PNG prices.*

## Annexures

The domestic natural gas price is determined by the formula which has been decided according to the New Domestic Gas price formula, which considers the prices of natural gas in USA (Henry Hub), UK (New Balancing Point), Canada (Alberta Gas) and Russia (Russian Natural Gas). Prices of gas in these hubs are market linked.

**Table 1: Domestic Gas price (\$/mmBtu) on a Gross Calorific Value (GCV) basis**

	Domestic Natural Gas Price	% change (+/-)
1 <sup>st</sup> Nov'14 – 31 <sup>st</sup> Mar'15	5.05	-
1 <sup>st</sup> Apr'15 – 30 <sup>th</sup> Sep'15	4.66	-7.7%
1 <sup>st</sup> Oct'15 – 31 <sup>st</sup> Mar'16	3.82	-18.0%
1 <sup>st</sup> Apr'16 – 30 <sup>th</sup> Sep'16	3.06	-19.9%
1 <sup>st</sup> Oct'16 – 31 <sup>st</sup> Mar'17	2.5	-18.3%
1 <sup>st</sup> Apr'17 – 30 <sup>th</sup> Sep'17	2.48	-0.8%
1 <sup>st</sup> Oct'17 – 31 <sup>st</sup> Mar'18	2.89	16.5%
1 <sup>st</sup> Apr'18 – 30 <sup>th</sup> Sep'18	3.06	5.9%
1 <sup>st</sup> Oct'18 – 31 <sup>st</sup> Mar'19	3.36	9.8%

Source: PPAC

**Table 2: Domestic Gas price for gas produced from difficult fields (\$/mmBtu) on a Gross Calorific Value (GCV) basis**

	Ceiling Prices for Gas from HP-HT/Deep/Ultradeepwater	% change (+/-)
1 <sup>st</sup> Apr'16 – 30 <sup>th</sup> Sep'16	6.61	
1 <sup>st</sup> Oct'16 – 31 <sup>st</sup> Mar'17	5.30	-19.8%
1 <sup>st</sup> Apr'17 – 30 <sup>th</sup> Sep'17	5.56	4.9%
1 <sup>st</sup> Oct'17 – 31 <sup>st</sup> Mar'18	6.30	13.3%
1 <sup>st</sup> Apr'18 – 30 <sup>th</sup> Sep'18	6.78	7.6%
1 <sup>st</sup> Oct'18 – 31 <sup>st</sup> Mar'19	7.67	13.1%

Source: PPAC

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