

India could struggle to deliver an effective gas hub

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India is pressing ahead with plans to create a hub to provide market prices for gas, but experts question whether it will be able to deliver in the near term.

The Hazira LNG terminal in Gujarat. (Hazira LNG and port)



INDIA PLANS TO establish a gas trading hub as soon as October, but price sensitivity and a lack of infrastructure mean the hub could struggle to accurately reflect market signals.

The Petroleum and Natural Gas Regulatory Board launched a tender last week to hire a consultant to advise the government on the regulatory changes needed to support a gas hub. The tender aims for the hub to be established by October.

The introduction of a competitive marketplace would require the government to end its cap on prices and the subsidies it provides to strategic industries, Manish Vaid, research fellow at the Observer Research Foundation, told *Interfax Natural Gas Daily*.

“Hub prices reflect the fundamental market conditions for natural gas, untying it to commodities such as oil-indexed prices or regulated prices set by the governments [...] But the decision [to step away from government-set prices] has political ramifications, given gas price sensitivity of sectors like power and fertilisers,” he said.

Anupama Sen, senior research fellow at the Oxford Institute for Energy Studies, suggested any state welfare or subsidies relating to gas would need to be separated from pricing.

“[The issue of affordability] can be resolved if pricing is based on market signals, and welfare goals are met separately from the pricing system, for example through targeted direct transfers,” she told *Interfax Natural Gas Daily*.

A competitive market environment generally leads to greater efficiency and lower prices for consumers, but the benefits of this will be muted by the fact domestic gas prices have been held artificially low, according to Sen. This means the introduction of market prices for gas will not necessarily lead to greater demand.

In fact, establishing a gas hub may have little impact in the short term if the experience of India’s power markets is any indication of what to expect. The lack of transmission infrastructure means only 10% of India’s power is traded on the markets set up in 2007-2008, with the rest purchased via bilateral power-purchase agreements.

“It’s a good step to try and commercialise the use of gas in the economy, but given that even in OECD countries such as the UK it took around a decade for liquid gas markets to fully develop, it’s unlikely that it will transform the sector in the short term,” Sen told *Interfax Natural Gas Daily*.

Infrastructure lacking

A lack of transmission infrastructure – which has been a major barrier to the functioning of the power networks – is also likely to affect the gas market, according to Sen. India has struggled to build new infrastructure through private investment. The government is now investing in gas infrastructure as a public good, but progress has been slow.

“This may constrain the offtake of gas and limit the participation of various players on a gas exchange,” Sen told *Interfax Natural Gas Daily*.

Vaid also considered infrastructure to be a barrier, and suggested the government needed to invest more in storage sites as well as pipelines to increase the efficiency of the gas trading hub.

“While gas grids, LNG terminals and city gas pipelines play an important role in developing a gas distribution network, the role of storage of natural gas is equally important to bridge the immediate demand-supply gap,” he said.

India hopes the hub will become an international price point like the Henry Hub in the United States and the NBP in the UK. However, this is unlikely to happen, according to Emma Richards, a senior oil and gas analyst at BMI Research.

“It’s hard to see an Indian gas hub becoming a benchmark for the wider region. It’s not connected to other markets and its own market fundamentals aren’t really reflective of Asia more broadly,” she said.

The gas hub is more likely to be used for pricing LNG supplies for India, as the country has struggled to secure cargoes at acceptable prices. Gail and Petronet have renegotiated the pricing within their LNG contracts as the fall in oil prices left them exposed to high prices. Prices under LNG supply agreements Gail signed with suppliers from the US are also too high. A domestic gas hub could act as a means of delivering more affordable LNG into the country. ■

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