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India Gas Reforms — a Step Too Far?

India plans to unleash a new wave of reforms designed to raise gas' share of the primary energy mix to 15% by 2030 from 6% now. They include establishing a gas trading hub by December, splitting the marketing and distribution businesses of state-owned pipeline giant Gail India, and ordering LNG terminals to open a fifth of their capacity to third parties. The reforms are all part of moves to lower emissions by boosting use of gas in preference to coal, which — as in China — could help tighten global LNG markets (p2). But to hit the target, analysts say the government would also have to offer more incentives to domestic explorers and producers, build more infrastructure, and ensure LNG imports are affordable (WGI Oct.11'17).

The reforms are being overseen by the Petroleum and Natural Gas Regulatory Board (PNGRB), the downstream regulator. Chairman Dinesh Sarraf said the aim is to "establish a transparent and vibrant gas market," and his priority will be the gas trading hub, which officials believe will narrow the gap between domestic and international gas prices. PNGRB is now seeking a consultant to develop a regulatory framework for the exchange.

Imports are more expensive than locally produced gas, whose price is based on a weighted average of US Henry Hub, Canadian Alberta Hub and UK National Balancing Point prices, as well as Russian domestic tariffs. Most Indian production is priced at just $3.06 per million Btu, less than half of spot LNG prices today (p9). The chairman of state-owned Oil and Natural Gas Corp. (ONGC), Shashi Shanker, believes a market-based pricing system would help explorers. Analysts are less convinced. A hub would provide market signals for scaling up gas' role in the economy, but would take time to develop as liquidity is lacking. India now produces about 32.5 billion cubic meters per year (3.14 billion cubic feet per day) of gas and imports 26.3 Bcm/yr (2.5 Bcf/d). Crucial sectors like city gas distribution, power and fertilizers get priority access to domestic production, with little left for trading, while two-thirds of LNG imports are brought in under long-term contracts.

Emma Richards, senior oil and gas analyst at BMI Research, said hubs can support price discovery if markets operate free of government interference. For the Indian exchange to work, New Delhi needs to liberalize domestic prices, but that would have political ramifications as cheaper local gas feeds industries like fertilizer and power where rates are capped to shield consumers. And while LNG can play a bigger role, consumers in the world's fourth-largest LNG market are extremely price-sensitive and gas has to compete with cheaper coal. Indian LNG imports inched up just 1.2% in 2017 to 19.2 million tons, with GIIGNL, the international group of LNG importers, blaming this on stronger spot and oil-indexed term prices. At the current pace of reform, Richards reckons the 15% target will be missed.

A director at Petronet LNG, India's largest LNG importer, told *World Gas Intelligence* there will never be a perfect time to launch a hub, but the government could boost liquidity by mandating that any new gas coming on stream will be traded. Domestic output is set to jump to 51.1 Bcm/yr over the next five years, back to its level in 2011, with ONGC and Reliance Industries spending billions of dollars on offshore east coast blocks after the government liberalized pricing and marketing for gas produced from difficult deepwater acreage. LNG imports may also increase, depending on prices, with regasification capacity set to rise from 30 million tons/yr now once several land-based and floating storage and regasification units are built (WGI Mar.7'18).

Success meeting the gas target will hinge on resolving other problems, including lack of pipeline infrastructure in the south and east, Anupama Sen, senior research fellow at the Oxford Institute of Energy Studies, said. But government plans to increase the pipeline network to 30,000 kilometers (19,000 miles) from 16,500 km have run into problems. Farmers are unwilling to grant pipeline access, while Gail and other developers are dragging their feet as the existing network, concentrated in the north and west, operates at only 40% of capacity.

Gail owns two-thirds of the network, and the government wants to unbundle it to ensure it focuses only on laying pipelines and allowing third-party access to broaden the consumer base. Its marketing unit will be hived off into a separate entity. PNGRB is considering a new tariff system to make pipelines profitable. Nicholas Browne, director of Asia-Pacific gas and LNG research at consultancy Wood Mackenzie, said improved network access will help boost gas demand, but not by a huge amount. If the government is serious about raising gas' share of the mix, his recipe would be to expand retail distribution networks to make gas available to more industrial, residential and commercial users, provide further incentives for domestic production, subsidize use of gas and LNG in power, and complete transnational gas pipelines from Turkmenistan and Iran via Pakistan. But political risk is complicating the import plans. ■

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