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Shri K. D. Tripathi
Secretary
Ministry of Petroleum & Natural Gas
Shastri Bhawan
New Delhi - 110 001

Sub.: Price Review of Natural Gas Produced Domestically from Existing Field

Respected Sir,

We are writing with reference to the pricing guidelines for domestically produced gas. At the outset, we would like to acknowledge various progressive steps undertaken over the last two years by the Government for enhancing domestic E&P Sector. While these steps will yield positive outcomes in midterm, we would like to highlight the critical aspect of gas pricing from producing fields that is having an adverse impact in near term for all domestic gas producers. The price of domestic natural gas was revised by MoPN&G vide Gazette notification "New Domestic Natural Gas Pricing Guidelines, 2014" dated 25th Oct'14. It may be noted that the guideline links the gas price of domestically produced gas with international markers i.e. Henry Hub, National Balancing Point, Alberta Hub and Russian domestic market, which are mostly gas surplus regions. This was done during high oil price scenario in 2014. Besides, $ 0.50/MMBTU is being deducted from the above prices towards the cost of transportation and treatment though, domestic producers are bearing the processing cost downstream to make pipeline quality gas.

Based on these guidelines, the gas prices for various periods were notified. As per current notification, the gas price has come down to $2.50/mmbtu, which works out to be $13-14 per barrel in oil equivalent terms whereas oil price today is in the range of $50-55 per barrel. It is paradoxical that the current price of gas is also much lower than the average prevailing Henry Hub (a marker for gas surplus region) price of $ 3.1/mmbtu in the fourth quarter of 2016. As you would appreciate, the landed price of gas in India for Henry Hub based supply source would be in the range of $8-9/mmbtu. The domestic gas price based on the pricing guideline 2014 is expected to go down further as shown in the graph attached as Annexure I.

A substantial part of the domestic gas production comes from the matured producing fields. As per IHS data the average cost of production of these mature fields in 2015 range from $12/boe to $15/boe ($ 2.3-2.5/mmbtu) excluding duties, taxes and royalty, which makes the break-even price much higher. One of the PSUs

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has informed that cost of production excluding state levies for 2015-16 was \$ 3.40/mmbtu. Hence, the current price regime is not remunerative and acts as disincentive to current gas producers. These fields also require large scale interventions comprising of work overs, infill wells, substitute wells, compression facility, life extension maintenance, recycling of gas etc. to arrest decline or stabilize production. These interventions have significant expenditure attached to them and hence in the current gas price scenario, such expenditures are unviable. It may be noted that the revision in price of natural gas was done with linkage to international price to incentivise investment in the E&P sector so that domestic production is maximised and all commercial discovered reserves are developed expeditiously. On the contrary, the present price formula, which yields an artificially low price for domestic gas producers in all market scenarios, has resulted in the following:

- Revenues from most of the gas fields barely cover operating expenses despite significant cost cutting measures adopted by industry.
- It is likely that the activities to sustain production and increase recovery may suffer due to high cost and low price along with associated risks.
- Difficulty in adoption of new technology to sustain production through infill drilling (short radius, horizontal etc.) fracturing etc. will be adversely affected.
- The low domestic gas price makes capital availability scarce for high value investments in the exploration and development
- A number of developments in the onland and shallow water discoveries will become unviable.
- Accretion of future gas reserves will suffer in the absence of risk capital with E&P companies to work in existing and frontier area for exploration.

During Urja Sangam held on 27 Mar'15, Hon'ble Prime Minister envisaged a reduction in energy import by at least 10% by 2022. The Committee set up to follow on the call of Hon'ble Prime Minister to draw road map to reduce import dependency in energy has accordingly recommended special consideration to Gas in view of environmental concerns and its role in replacing MS/ HSD/ LPG consumption. The committee has specifically recognized need for requisite policy changes, infrastructure development plans.

We, therefore, feel that in this low price regime, to remain competitive & attract investments, it is imperative for our country to align natural gas prices to remunerative levels. We further believe that to develop Indian gas sector, marketing and pricing freedom that Government has provided for HELP and DSF should be extended for existing gas production in line with NELP Policy and PSC. This step will provide long term and sustainable solution for domestic gas production by unlocking the true potential of domestic gas as well as remove the price distortion in the market for its development. In the process, this will help towards fulfilling India's gas vision of increasing gas in India's energy mix from around 6.5% now to 15% by 2030.

We, therefore, request the government to extend the same price freedom as provided in HELP and DSF developments to other areas. The present global low price scenario provide excellent window of opportunity for India to transition to market based gas pricing. It provides an opportunity to completely deregulate Gas markets in country (similar to crude oil, Diesel and Petrol).

As an immediate step till the final review is taken of the above recommendation, the government is requested to at least revise the floor price of natural gas to around $4.2 per mmbtu with immediate effect within the guidelines of existing pricing mechanism.

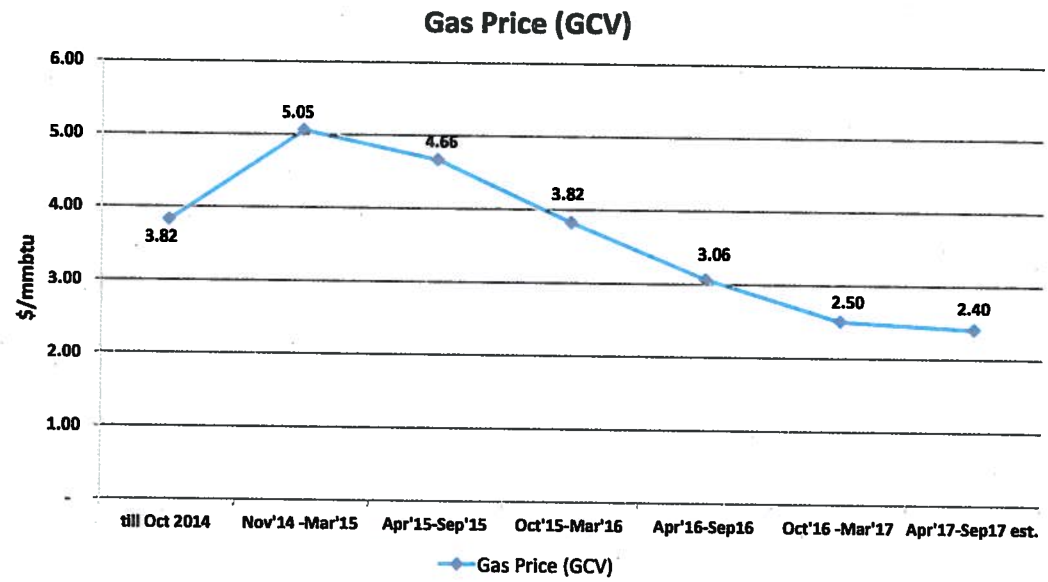
Thanking you,

Yours faithfully,

Dr. R. K. Malhotra
Director General

Encl.: as above

Annexure I


Gas Price (GCV)
6.00
5.00
4.00
3.00
2.00
1.00
-
$/mmbtu
3.82
5.05
4.66
3.82
3.06
2.50
2.40
till Oct 2014
Nov'14 -Mar'15
Apr'15-Sep'15
Oct'15-Mar'16
Apr'16-Sep16
Oct'16 -Mar'17
Apr'17-Sep17 est.
Gas Price (GCV)