

ADAG feels gas pricing by RIL arbitrary

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Questioning the gas pricing formula by RIL for its Krishna Godavari basin, Anil Ambani's group on Sunday asked the government to come out with a pricing and allocation policy saying that arbitrary high prices will hurt the power and fertiliser producers. "When the users are subjected to regulation, how can the single gas supplier (RIL) is not regulated, the production sharing contract between the gas producers and the government stipulates that pricing and utilisation policy should be in place but there is none," Anil Ambani group company Reliance Energy Director J P Chalsani told media here.

Contrary to other regulated sectors where capital expenditure and tariff are defined, how RIL's capital expenditure was approved in a non-transparent manner, Chalsani wondered and said that high capital cost by gas producer would only lead to lower returns for the government and high prices for the end users. Chalsani's comments coincide with the

on-going exercise in the government for fixing the price of natural gas and the formula by RIL, which seeks to sell gas at up to \$4.58 per million British thermal unit at the land-fall point at Kakinada in Andhra Pradesh. After detailed discussions, the Committee of Secretaries has sent its recommendations to the Petroleum Ministry, amid reports of

inter-ministerial differences on the issue, for further action and a decision is expected to be announced soon.

The suggestion by the Anil Ambani Group that arbitrary high prices of Natural Gas will hurt Power and Fertiliser sectors has been contested by many experts who feel that the goalpost cannot be shifted after the terms have been settled while allocating gas field for exploration by the ministry.

When E&P was controlled and under the cost plus fixed return regime the E&P sector could not take off as no one was willing to deploy risk capital in which all the costs incurred in blocks/ wells that did not achieve commerciality is only borne by operator while on striking hydrocarbon the proceeds are shared with govt which pockets the larger

share by the virtue of the "quantum of govt take" being the criterion for award of block.

Further, power based on standard equip and technology available widely. Deep water is a frontier technology with operations and technology akin to exploring the moon/space. Reservoir risk is huge and has hurt the biggest companies as geology 3 km under sea level may differ widely and is specific to that operation only.

Despite this difference and relative simplicity of power sector, private investments are dismal, though tall statements are made of the thousands of megawatt plans even though the existing capacity may not cross 1000 MW.

Small companies with negligible existing capacity and no capacity addition in the past decade are laughably claiming that gas price could affect investment in this area.

Reliance sources added that the serious power companies Tata, AES and Torrent have indicated their extreme satisfaction with price and are ready to pay a substantial premium. Some companies that have never ever executed any large project will keep finding reasons to hide their incompetence.

Despite the regulation that is much touted the consumer are forced to bear costs resulting from poor and careless decision of power companies as was the case recently in which power companies are making the consumer bear the take or pay charges resulting from the poorly planned power offtake commitments.

In contrast the E&P activity in India is moving at great pace and serious investments and money has already been spent on the ground. Perhaps these upstream companies should be invited by the govt to set up even the power projects so that power sector finally wakes up.

On the issue of arbitrary capital cost, the DGH official commented that it seems that REL is not aware that there is a procurement process manual that is comprehensive with extensive procedures and checks and balances on the costing. Any amount that is extravagant or could have been managed prudently will not be approved for cost recovery. The official added that RIL has categorically welcomed any verification or auditing by the govt and CAG or others as they have innovatively finalised the inputs at the lowest

cost/unit basis anywhere in the world. Hence again this is a bogey that should be dismissed.

On the issue of PSC stipulating policy on pricing and allocation, a senior official of the MoPNG commented that the contract required the price to be based on prevailing policy if any and the process of approving / validating the operators price the govt could delegate this function to the regulator when created for the purpose and the operating part is "delegate" clearly establishing the unconditional right of the govt to ensure that

market determined rates are obtained. Even in the current instance, RIL's submission will be assessed as que per que the pricing committee recommendations.

On the allocation of gas the govt is very keen to implement the same as soon as possible as gas is a national asset that one can allot to another due to non commercial and internal family arrangements. Recently DGH has asked the govt to track the RNRL court case and take appropriate steps as RIL can only sell its portion of the cost and profit gas and any contract to sell the portion of govt's gas and that of Niko is infructious and cannot pass legal scrutiny and for his purpose govt has added this clause to

the PSC.

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