

Gas sales by Petronet LNG, GAIL dip by a quarter, firms to invoke force majeure with foreign cos

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FOLLOWING THE IMPOSITION of a national lockdown since March 22, sales of natural gas by Petronet LNG and Gail India have dropped by 20-25 million metric standard cubic meter per day (mmscmd) or around 25%, as consumption across power, fertiliser, refineries, and city gas distribution (CGD) sectors have fallen substantially.

Given the 21-day lockdown, the two firms may also face issues in lifting the contracted cargoes arriving at ports in the near future and ask foreign suppliers for rescheduling of the shipments.

The companies have already issued force majeure



notices to their suppliers, which may allow them to renegotiate the scheduling of cargoes over the coming weeks and months.

Petronet LNG managing director & CEO, Prabhat Singh told *FE*, "As per the relevant clause in the contracts we have issued force majeure notices to our suppliers following the complete lockdown situation

in the country. We will discuss with our suppliers in coming days on how to go about rescheduling of the cargoes."

Petronet LNG imports around 250 cargoes in a year and plans to import around 260-270 cargoes in FY21. Petronet's around 144 cargoes or 9 million tonne of LNG is tied on long term contract, while the balance is sourced from the spot market.

"Given the current situation we may have to reschedule some of the cargoes in the short term depending on the offtake from our clients," Singh said.

Gail India has also issued force majeure notices to its suppliers after it received such notices from its customers in the CGD, steel, glass, ceramics and power sector, a senior Gail India official told *FE*.

While, Petronet LNG saw its natural gas sales drop to 140 mmscmd from 160 mmscmd, GAIL India's supplies dropped to between 72-78 mmscmd from 98 mmscmd before the lockdown.

Of the 160 mmscmd that Petronet LNG supplies per day, fertiliser units consume 44 mmscmd, power companies consume 30 mmscmd, CGD consumes another 29 mmscmd, refineries 20 mmscmd, and petrochemicals consume 10 mmscmd, while miscellaneous consumes the rest.

A senior Gail India official said there is drop in consumption of power as the industrial demand has dropped. Similarly, the offtake of fertiliser has also slowed down creating problems of storage.



Use of clause by GAIL, IOC expected to end in disputes

The decision by several consumer companies to invoke the force majeure clause, in the wake of the Covid-19 crisis, is likely to end in disputes, according to experts. A majority of the players are of the opinion that a final decision on this should come from the government.

Consumers had opted for force majeure notices to gas marketers like GAIL, Indian Oil (IOC) and Gujarat State Petroleum Corporation (GSPC), after their commercial operations and factories were shut following the lockdown. After this, GAIL, too, had issued similar notices to its suppliers like ONGC, Oil India and Petronet.

IOC, too, has declared force majeure on crude purchases from four of its biggest suppliers — Saudi Arabia, Iraq, UAE and Kuwait — as refinery run rates have been cut down in view of the plummeting fuel demand. A senior executive from an oil firm said, “Whether Covid-19 will come under force majeure clause is disputable. It is not any act of god or unnatural circumstance. Consumers should have anticipated this commercial impact in advance.”

Force majeure is a part of contracts in India, which excuses companies from paying penalties for non-performance, in case of an unforeseen event outside their control.

“This will definitely open up a legal minefield. A lot will depend on how a contract has defined

force majeure. If invoked by one firm, it will have a ripple effect across the sector,” said Debasish Mishra, partner at Deloitte Touche Tohmatsu.

Following the lockdown, there was a huge drop in demand. According to reports, gas demand has dropped by 15-20 per cent due to the closure factories, excluding fertiliser, power and refineries. “The key question will be whether businesses or persons are directly impacted by the pandemic. Not all indirect effects of the pandemic will be treated as force majeure events,” said L Badri Narayanan, partner, Lakshmi-kumaran & Sridharan Attorneys.

An ONGC official said that the company has already cut gas production and some wells are shut. GAIL, too, is expected to see a 15-20 million standard cubic meter per day decline in marketing volumes, said an Emkay report.

A senior GAIL official said, “If the factories are shut down, how will we procure from ONGC, Petronet or Gazprom? If a product is not consumed, we will be facing storage difficulty too.”

This comes at a time when firms were facing the heat of lower domestic gas prices. The price of domestic natural gas was cut by 26 per cent on Wednesday for six months. “For ONGC only, the impact will be ₹5,000 crore while the impact on industry would be close to ₹8,000 crore,” said an ONGC source.

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