



# New Natural Gas Policy Gets Nod

Move to give marketing freedom to fields that already have pricing freedom

## Our Bureau

New Delhi: The government has approved a new natural gas policy, giving marketing freedom to fields that already have pricing freedom, and allowing an affiliate of a producer to bid for gas in an auction.

The cabinet took the decision on Wednesday. The new policy will help Vedanta as its prolific Rajasthan block has only pricing freedom. With GAIL being the sole gas buyer nominated by the government for the Rajasthan block, Vedanta had found it hard to negotiate an optimal price. ET first reported in January that the government was considering such a proposal.

The government decision to allow a producer's affiliate to bid for natural gas in an auction comes following similar demand by private producers such as Reliance Industries. Existing production sharing contracts barred affiliates due to conflict of interest.

Participation of affiliates will "facilitate and promote more competition in marketing of gas," an official statement said. "However, rebidding will have to be done in case only affiliates participate, and there are no other bidders."

Producers themselves can't participate in auction though their affiliates can, oil minister Dharmendra Pradhan said.

A policy debate on who can participate in an auction to sell gas has raged for about three years after Reliance Industries

**Marketing Freedom**

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- Move follows similar demand by private producers
- Existing production sharing contracts barred affiliates due to conflict of interest

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**DHARMENDRA PRADHAN, OIL MINISTER**

sold all gas from its coal bed methane field in Madhya Pradesh to itself in an open auction. The auction, held in September 2017 for gas to be produced until March 2021, prompted an inquiry by the government. ET first reported in November 2017 that the oil ministry had found that Reliance violated the government policy by selling gas to itself. The government, however, didn't cancel the sale of RIL gas.

To bring in transparency and avoid conflict of interest, the government also toyed with the idea of letting the Directorate

General of Hydrocarbons (DGH) conduct all gas auctions and permitting everyone including the producer and its affiliate to participate in it but finally didn't go ahead with it.

The DGH will now issue auction guidelines, pick a panel of e-auction platforms from which a producer can pick one for its gas sale, Pradhan said.

"These reforms will prove to be another milestone in moving towards a gas-based economy by encouraging investments," the official statement said.



# CCEA clears e-bidding mechanism for transparent discovery of gas price

## OUR BUREAU

New Delhi, October 7


In a step to further free India's gas market, the Cabinet Committee on Economic Affairs has given its nod for a methodology to determine the fuel price in future discoveries.

Briefing newsmen after the CCEA meeting, Minister for Petroleum and Natural Gas Dharmendra Pradhan said the Cabinet has approved 'Natural Gas Marketing Reforms' that aim to prescribe a standard e-bidding procedure to discover the market price of gas through a transparent, competitive process.

### Bringing uniformity

According to Pradhan, this will bring uniformity to the bidding process across various contractual regimes and policies to avoid ambiguity.

Pradhan, however, clarified

<b>One country, many prices</b>	
\$/mBtu	
Under administered price mechanism	
<b>1.79</b>	
Under joint ventures and production sharing contracts	Spot LNG
<b>4.5-5.5</b>	<b>5</b>
	Long-term RLNG
	<b>7.4</b>

mBtu - million British thermal units

that the current gas pricing formula will continue to be in force for production from existing discoveries awarded under the nomination regime. The price ceiling under the present gas price formula will also continue. "The new e-bidding process will govern discoveries which came on stream from February 2019 onwards," he said. Essentially, the

new regime will be applicable to producers from the areas offered under the Open Acreage Licensing Policy (OALP) rounds. In this regime, producers have complete marketing and pricing freedom.

For the industry, which was looking for clarity, this lays out the broad framework of the pricing freedom. Pradhan clarified that producers cannot participate in the bidding process, but affiliate companies can. However, a re-bidding will have to be done if only affiliates participate. The platform will be worked out by the Directorate General of Hydrocarbons.

The gas demand is directly proportionate to supply. Today, the demand is 155 mmscmd (million standard cubic metre per day), of which GAIL (India) sells 108 mmscmd.

# Govt allows Reliance, others to sell gas to affiliate firms

**NEW DELHI:** In a major boost to firms such as Reliance Industries, the government on Wednesday allowed affiliate companies to buy gas produced from non-regulated fields as part of giving complete marketing freedom.

The government between 2016 and 2019 gave pricing freedom for all fields except those given to state-owned Oil and Natural Gas Corp (ONGC) and Oil India Ltd (OIL) on a nomination basis.

But, there were restrictions on marketing including a ban on affiliates of producers buying the fuel and in some cases, a state nominee being mandated to offtake the gas. This restricted competition kept prices artificially low.

The Cabinet Committee on Economic Affairs (CCEA), headed by Prime Minister Narendra Modi, approved natural gas marketing reforms, Oil Minister Dharmendra Pradhan told reporters here. There will be no change in the price of gas sold by ONGC and OIL from fields given to them on a nomination basis. The rate at \$1.79 per million British thermal unit is half of the production cost.

He said the CCEA approved a standard procedure for discovering the price of gas through a transparent and competitive e-bidding as also "permitting affiliates to participate in the bidding process for the sale of gas".



Complete marketing freedom has been provided where production sharing contracts (PSCs) already provide for pricing freedom. This would benefit firms such as Vedanta-owned Cairn and Focus Energy who can now sell fuel to anyone and not necessarily to state-owned GAIL. "This will add 40 million standard cubic metres per day of production from Krishna-Godavari basin and other areas to the current output of 84 mmscmd," Pradhan said.

He said the ban on producers buying their own gas will continue to prevent manipulations.

But, their affiliates can participate in the auction for the discovery of price and buying the gas, he said.

Last year, Reliance and its partner BP had bid out 5 mmscmd of new gas from their KG-D6 block to firms such as Essar and GSPC.

Reliance and BP were keen to buy the gas but rules did not allow. Now, India Gas Solutions Pvt Ltd, an equal joint venture of Reliance and BP, will be allowed to bid and buy the gas.

"The objective of the pol-

icy is to prescribe a standard procedure to discover the market price of gas to be sold in the market by gas producers, through a transparent and competitive process," he said.

He added that it permits affiliates to participate in the bidding process for the sale of gas and allows marketing freedom to certain field development plans (FDPs) where PSCs already provide pricing freedom. Pradhan said the policy aims to provide a standard procedure for the sale of natural gas in a transparent and competitive manner to discover market price by issuing guidelines for sale by the contractor through e-bidding.

"This will bring uniformity in the bidding process across the various contractual regimes and policies to avoid ambiguity and contribute towards ease of doing business," he said.

He, however, said re-bidding will be done in case only the affiliates participate in the auction. "These reforms will build on a series of transformative reforms rolled out by the government in the past several years," he said.

In February 2019, the government gave ONGC and Reliance Industries pricing and marketing freedom for yet-to-be-developed discoveries and agreed to levy a lesser royalty in case of state-owned firms raising production from existing fields.





# Ban on selling gas to affiliates lifted

Cabinet approval for gas reforms is a huge boost for private gas producers such as Reliance Industries and Cairn

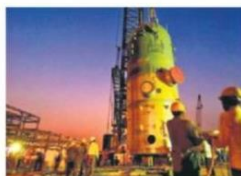
**JONATHAN ANANDA** @ New Delhi

THE Cabinet on Wednesday gave a massive shot in the arm for private natural gas firms such as Reliance Industries and Vedanta-owned Cairn India.

The Cabinet Committee on Economic Affairs (CCEA) headed by Prime Minister Narendra Modi decided to set in place a common e-bidding system for gas sales and lift the ban on selling gas to affiliate companies. Gas producers themselves, however, continue to be banned from buying gas from their own fields. The CCEA has also extended complete marketing freedom for gas blocks where "Production Sharing Contracts

already provide pricing freedom".

As currently structured, the gas marketing system is focused on keeping prices low. A senior gas industry executive who spoke on condition of anonymity said that while pricing freedom had been extended to gas fields in 2016 and 2019—except for those operated by state-owned ONGC Ltd and Oil India Ltd on a nomination basis—prices remain lower than "natural market levels". "The ban removed much of the competition, so prices stay low... many affiliates owned by upstream companies could not buy gas from their parents... effective market was smaller," he said.



A case in point is Reliance Industries and British oil major BP Plc, whose gas marketing joint venture—India Gas Solutions Pvt Ltd. (IGSPL)—has been unable to buy gas from fields owned by RIL and BP, such as the KG-D6 assets. While the ban on selling to affiliates has been lifted, other safe-

guards on price manipulation remain. According to oil minister Dharmendra Pradhan, if only affiliates participate in a particular auction, then re-bidding will be mandatory.

The decision to extend marketing freedom to fields where PSCs allow pricing freedom is also advantageous to firms such as Cairn, and Focus Energy, who operate several fields. Both will now be able to sell gas to anyone, unlike earlier when they could only sell to state-owned GAIL India.

According to Pradhan, "this will add 40 million standard cubic metres per day of production from K-G basin and other areas to the current output of

84 mmscmd", and "will bring uniformity in the bidding process across the various contractual regimes and policies".

The question of who can bid for gas auctions has raged on for a while, especially after September 2017, when Reliance sold all the gas produced in its Madhya Pradesh coal bed methane field to itself. An enquiry was begun but did not result in a licence cancellation.

The e-bidding platform lessens the scope for such controversy. The Directorate General of Hydrocarbons will now notify guidelines for the e-auctions and shortlist a panel of e-bidding platforms which may be used by the gas producers.