WORKING ON ECONOMIC REVIVAL

# Pradhan Actively Monitoring 8,363 Oil & Gas Projects

## These projects worth ₹5.88 lakh crore have resumed since April 20

**Our Bureau**

**New Delhi:** Petroleum Minister Dharmendra Pradhan is actively monitoring 8,363 projects worth ₹5.88 lakh crore, which he said are creating a virtuous cycle of investment and helping revive economic growth in line with Prime Minister Narendra Modi's call for a self-reliant India.

These projects have resumed since April 20, maintaining all precautions and necessary protocols required during the pandemic. The pandemic had initially disrupted project activity, but Pradhan directed state firms to make sure that capital expenditure is quickly resumed to help accelerate economic activity.

"The petroleum sector has turned the crisis into an opportunity and is striving to work on mission mode to generate employment and revive growth. Oil and gas entities in their role as key actors are working on war footing and contributing to the green shoots of economic revival already visible through the backward and forward linkages of the oil and gas industry," an official said.

Pradhan said the prime minister's call for Atmanirbhar Bharat had become a 'clarion call' for public sector undertakings in the oil and gas sector. This is enhancing energy accessibility, creating new opportunities and generating a virtuous cycle of investments and strengthening the economy, Pradhan said in a tweet.

The minister has undertaken an in-depth review of all ongoing projects of oil and gas companies such as Oil and Natural Gas Corp, Indian Oil Corp, Bharat Petroleum Corp Ltd, Gail India Ltd. The ongoing projects involve refineries, city gas distribution, drilling, pipelines and other activities related to the oil and gas sector.

"With total anticipated cost of these projects is ₹5.88 lakh crore, these projects are expected to generate 33.8 crore man-days (direct as well as indirect) of employment. In FY 2020-21 ... employment of more than 2.2 crore man-days have already been generated through capital expenditure in the execution of these oil & gas projects, despite the Covid-19 pandemic," the official said.

The projects have led to a pay out of more than ₹3,000 crore to workers, the minister said in his tweet. State-run oil firms had already spent ₹37,872 crore in capex and opex, the minister said.

# Private investors' pipe dreams

**Indian and foreign investors have shown interest in the country's plans to expand its domestic gas pipeline network but remain worried about steel capacities at home and the complex pricing policies**

SUBHOMOY BHATTACHARJEE
New Delhi, 26 August

**THE LONG ROUTE**

| Operational pipelines | Under construction | Authorised for commissioning |
|---|---|---|
| 12,693.4 km | 6,942 km | 11,327 km |

The Hiranandani group's H-Energy plans to import gas from Russia to supply Bangladesh, though Myanmar next door is practically afloat on gas. But it is not H-Energy's fault for having signed a deal with Novatek, Russia' second-largest gas producer, in September last year. Eighty per cent of the gas from Myanmar's Shwe pipeline flows to China — even though India holds a stake in the pipeline.

The Shwe gas project is majority-held by South Korean Posco International (51 per cent) but India's ONGC Videsh and GAIL hold 25.5 per cent together. China has a major gas deficit, with almost three-fourths of its domestic demand being imported. India is also energy-starved but is better placed with an estimated long-run import dependence on gas of less than 50 per cent — all of it is imported via seas.

H-Energy has to feed Bangladesh with gas from Russia because work on the pipeline, which was slated to begin after India signed an agreement with Bangladesh and Myanmar in 2006, never took off.

Yet as India plans to double its pipeline network to 30,000 km, domestic companies, such as H-Energy, Jindal SAW, the Adani group and Essar, or foreign ones — Total, Tenaris SA, Europipe GMBH, TransCanada Corporation or CPW America — will look for certainty in the business.

This demands addressing two challenges: Ramping up domestic steel capacity and streamlining pricing.

Right now, as Sanjiv Singh, former chairman of Indian Oil (IOC), points out, "High-quality items such as super duplex alloy pipes are not easily available in India. Domestic manufacturers are still building capabilities."

Till those capacities come up, pipeline companies have to seek a government waiver each time to import pipes (from China, the most competitive manufacturer), a local manufacturing sourcing clause that predates Atmanirbhar Bharat.

> **To ensure transparency in price discovery, the government needs to hive off state-owned GAIL into two companies**

Tariffs and pricing are other question marks. In any year, the domestic sector regulator, Petroleum and Natural Gas Regulatory Board (PNGRB), spends a lot of time finalising tariffs for gas pipelines. In FY19, PNGRB issued six orders setting rates of return for just one gas pipeline — public sector GAIL's Gujarat Natural Gas Pipeline Network — based on difficult yardsticks such as net fixed assets, the volume of gas in the lines and the dates on which each phase of the project was completed. Hardly any tariff orders go uncontested since investors claim that the returns for their project are not captured adequately. All this litigation has a cascading impact: The completion dates for eight projects — about half of pipelines under construction — have been delayed, some by over six years. The spate of cases for such a young sector is surprising and almost comparable to the volumes in the much older power sector.

Gas prices, unlike oil, depends considerably on the cost of transportation, which accounts for about a third of the total cost, according to an estimate by Srijan Kanoi, LNG market pricing editor at S&P Global Platts. For gas from the GAIL-owned Hazira-Vijaipur-Jagdishpur pipeline originating in Gujarat, a buyer in New Delhi could be paying 10 to 15 per cent more than a buyer in Madhya Pradesh. Costs could be even higher in eastern India, which depends on imported LNG from western Indian ports. This profusion of "zonal" tariffs is what creates confusion and litigation.

Yet this is a sector ripe for the picking for private investors. Investments in the domestic gas sector are expected to be a $60-billion investment opportunity by 2024, according to the government's own projections. The lion's share is for building pipelines. India has tendered out projects to build 14,239 km of network.

India has also launched its first gas spot delivery market. Futures markets are, of course, still some way off. Seeing the potential, Total, the world's second-largest liquefied natural gas company, has bought a 37.4 per cent stake in Adani Gas, a city gas distribution utility.

Sixty per cent of gas demand in India is from fertiliser, power and city gas in descending order. Their share could rise to 70 per cent by 2030, mainly from the expansion of the city gas distribution networks. After the 10th and latest round of bids, the network is expected to cover 402 districts covering approximately 70 per cent of the country's population. All these investments would, however, depend on how fast and cheaply gas pipelines snake out across the country.

To ensure transparency in price discovery, the government needs to hive off state-owned GAIL into two companies, of which one will only build pipelines. This is necessary for private sector companies to get confidence that the trunk line operator will not also compete in the market for selling gas.

Though GAIL has built more than half of India's gas pipelines, it is also a major gas marketing company. It has bid for four of the 40 geographical areas for city gas in the latest auctions and is a joint venture partner in distribution companies in more than six more cities besides Delhi. Those collaborations were mandated by the central government and these authorisations scare private sector competition.

But given the scale of investment needed to build successive networks, a split balance sheet from its current $10 billion (total income) might be too thin to raise the resources to finance the construction of the lines. After an initial burst of confidence, the oil ministry is having second thoughts.

At the same time, petroleum and natural gas minister Dharmendra Pradhan has recently said he will change the model for building gas pipelines to eliminate zonal tariffs. His comments, however, mean the earlier plan for viability gap financing model of ₹10,500 crore offered in January to companies to build pipelines in the east and north-east could be off the table. The terms of this funding are rigorous; once the government offers viability gap funding, no changes in tariff are allowed.

One way or another, the government has to decide on this issue soon since raising the use of natural gas presents a strategic choice, given the government of India's emphasis on clean energy. In the absence of pricing reforms and expansion of steel capacity, the costs for investors laying the pipeline will be far higher than international benchmarks. This is why PNGRB signed, in September last year, an extensive cooperation agreement with the United States Trade and Development Agency to prepare a report to overhaul the gas pipeline business in India.

# Former IOC chief joins RIL 2 mths after retirement

Sanjay.Dutta@timesgroup.com

**New Delhi:** Nearly two months after retiring as chairman of India's largest oil refiner and fuel retailer IndianOil, **Sanjiv Singh** has moved to the state-run entity's arch-rival and the country's largest private sector oil company — Reliance Industries (RIL) — as group president and member of its O2C (oil-to-chemicals) business leadership team.

Singh, who retired on June 30, is the second head of a public sector oil & gas company allowed by the government to move to a private competitor before the mandatory one-year cooling-off period. In 2001, C R Prasad had moved to British Gas after retiring as CMD of state-run gas utility GAIL.

The former IOC chairman joins the list of his colleagues flocking to RIL after retirement. Sarthak Behuria, who was CMD of Bharat Petroleum before becoming IndianOil chairman in 2005, is a senior adviser at Jio-BP, RIL's fuel retail joint venture with BP. Former IndianOil director (refineries) R K Ghosh, ED Devangshu Roy and Bharat Petroleum's ex-director (refineries) B K Datta too are currently associated with RIL.