

Equities

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India Oil & Gas Daily

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Saurabh Handa

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- **Enforcing dual pricing of diesel to be difficult, say oil marketing cos** — Any move to sell diesel at higher prices to large cars and at subsidized rates to trucks would be difficult to implement and create a black market for the fuel officials at state-run oil firms said. "Dual pricing for diesel is just not feasible right now because it is impossible to monitor the actual end-use of diesel sold to luxury vehicles or trucks deployed in the agricultural value chain," said PK Goyal, director, finance, IOC. S Varadarajan, a director at BPCL, agreed. "Across fuel retail outlets only 10-15% of the bulk of diesel sales is consumed by passenger vehicles. So this move towards dual pricing is surprising, especially as execution would be a major operational issue at the pump level," he said. Another official said that unless a proper marker system is introduced at fuel stations, dual pricing would lead to rampant black-marketing. (ET, 8th Aug)
- **Indian oil cos may gain from fall in crude** — The global uncertainty after the US could lead to a fall in the prices of crude oil, which could turn out to be a blessing for the OMCs in India, especially the PSUs. Over the last few days, mainly after the US data showed its economy was slowing again, the stocks of Indian Oil, BPCL, HPCL have gained. "Its very difficult to predict crude oil prices but India will be quite comfortable with crude oil prices hovering around US\$90/bbl," said R K Singh, CMD, BPCL. However, for the April-June quarter, OMCs are expected to pose losses, mainly because of the high crude oil prices during those months. These firms are still selling diesel, kerosene and cooking gas below market prices. (Times of India, 8th Aug)
- **Compensation of Rs150bn may fail to save OMCs from sinking into red** — State-run Indian Oil, BPCL, and HPCL may sink into red in the first quarter of this year, despite Rs150bn compensation from the gov't to sell diesel, kerosene, and LPG below market rates. "The OMCs will be forced to absorb an under-recovery of more than Rs140bn in the first quarter despite gov't's assistance. Their net profit would be negative this quarter," one of the officials said. Out of Rs435bn combined revenue losses in the quarter, the OMCs have received Rs145bn as help from the upstream companies. After factoring in the gov't's compensation of Rs150bn, companies are left with an unmet gap of Rs140bn. (ET, 6th Aug)

Daily Indicators

| | | 5-Aug-11 | 4-Aug-11 | Last week's avg |
|---------------------|----------|----------|----------|-----------------|
| WTI | US\$/bbl | 86.9 | 86.6 | 90.8 |
| Brent | US\$/bbl | 109.8 | 107.4 | 112.3 |
| Indian Crude Basket | US\$/bbl | 105.0 | 107.6 | 109.8 |
| S'pore GRM | US\$/bbl | 9.1 | 11.4 | 9.1 |
| Gasoline | US\$/bbl | 118.6 | 122.4 | 124.6 |
| Diesel | US\$/bbl | 120.1 | 126.5 | 127.1 |
| LPG | US\$/Ton | 835.0 | 835.0 | 835.0 |
| Kerosene | US\$/bbl | 121.3 | 127.7 | 128.4 |

Source: Reuters, Bloomberg

 See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Industry News

House panel slams oil cos, DGH over output slippage

A Parliamentary panel has asked the gov't to penalise oil and gas companies like ONGC, Oil India, and Reliance Industries which have defaulted on some of their hydrocarbon production targets. The panel, which tabled its report in Parliament last week, strongly criticised the companies and the Director General of Hydrocarbons (DGH), the upstream regulator, which, according to it, "has not effectively monitored and took timely action to ensure that approved targets are adhered to by the private companies." "In case of repeated shortfall, some penal action may be considered against the defaulter companies," the committee told the gov't. The panel noted that Reliance Industries could not achieve its gas production target in 2010-11 due to the fewer wells drilled in the D1 and D3 fields in the KG-D6 block. The panel was also told that ONGC's crude output was below the targeted 25.42 MMT last fiscal because of the ageing oilfields. (Financial Express, 8th Aug)

CBM producers will have to adhere to gov't norms

Reliance Industries, Essar Energy, and Great Eastern Energy Corporation (GEECL), involved in CBM E&P, would now have to adhere to gov't guidelines on selling the gas. Besides, the companies would have to stick to a supplier list from the oil ministry, power, and chemicals and fertilizer ministries. The petroleum ministry has circulated a note on this to the companies. By the ministries' priority list, these companies will supply gas to the fertiliser sector, bottling plants of LPG and power companies, in that order. "The CBM policy is similar to the gov't's gas utilisation policy of 2007, wherein the power regarding allocation and pricing rests with the gov't," said a senior executive from one of the CBM producing companies. Only CBM operators producing less than 500,000 scmd of gas from their blocks would be allowed to ignore the priority list. According to the gov't directive, to fix a price, CBM operators would need to carry out an open price discovery exercise and invite bids from priority sector customers. (Business Standard, 8th Aug)

Industry sales performance review (June, 2011): Petroleum sales decline by 0.4%

The Indian oil industry registered a negative growth of 0.4% in the sales of petroleum products in domestic markets during the month of June, 2011, as compared to sales achieved during the corresponding month of the previous financial year, 2010-11. Total petroleum sales during the month (June, 2011) were pegged at 10,803.7 TMT as opposed to 10,848.4 TMT during June, 2010. Petrol (MS) sales registered a growth of only 0.5% during June, 2011, over the corresponding period in the previous year, bringing the cumulative all India growth for the April-June, 2011, period to a sober 5.3%. With total all India sales volume of 5,338.8 TMT, HSD (diesel) sales registered a 2.8% growth for June 2011. LPG sales during June, 2011, grew at 9.7%, a rate lower than the cumulative growth of 10.5% during the three-month period of April-June 2011. (Indianpetro, 7th Aug)

Industry sales performance review (June, 2011): CNG sales jump 16.2%

CNG sales during June, 2011, grew at 16.2%, a rate higher than the cumulative growth of 14.4% during the three-month period of April-June 2011. A total of 123.4 TMT of gas was sold during the month as against 106.2 TMT during the same month in the previous year. The cumulative growth for the three-month period (April-June 2011) was, however, a tad lower at 14.4% than the month's figure of 16.2%. During the quarter (April-June 2011), 373.8 TMT of gas was sold as against 326.6 TMT in the corresponding quarter of the previous year. The highest sales were recorded in Delhi at 49.4 TMT during the month which was 13.7% higher than the last year's figure of 43.4 TMT. Delhi was followed by Gujarat and Maharashtra at

31.7 TMT and 30 TMT, respectively. The sales were up in these two states by 26.8% and 11.2% as compared with the last year's figures. (Indianpetro, 7th Aug)

Industry sales performance review (June, 2011): Inland pipelines utilize 85% of their capacity

The inland product pipelines transported a total of 4,278.6 TMT of crude and LPG during June, 2011, as against the total monthly capacity of 5,025.2 TMT. In other words, it means that the pipelines utilized 85.14% of their total capacity. The Mundra-Delhi pipeline was the star performer during the month, which utilised 143.9% of its capacity. The other pipelines which transported more than their capacity -- in descending order -- were Haldia-Mourigram-Chitragung-Rajbandh (HMRPL) (142.6% utilisation), Haldia-Rajbandh-Barauni pipeline (110%), Panipat-Rewari pipeline (105%), Jamnagar-Loni LPG pipeline (102.4%), Panipat-Bhatinda pipeline (101.5%) and Mumbai-Pune-Solapur (MPPL) (100.9%). (Indianpetro, 7th Aug)

Unauthorized CGD networks face PNGRB scrutiny and an uncertain future

Companies which have been caught in the middle of the skirmish between the petroleum ministry and PNGRB over the issue of whether they were authorized or not by the petroleum ministry to conduct their City Gas Distribution (CGD) business before the writ of the PNGRB came into effect continue to face an uncertain future. Some of the entities are now trying to get their authorizations from the PNGRB, after the petroleum ministry refused to back their cases for pre-authorization, but clearly the situation is not turning out in their favour: Adani Energy (Jaipur, Udaipur, Faridabad), Haryana City Gas (Gurgaon, Bhiwadi), GSPC (29 areas in Gujarat), GGAS (company's application for setting up CGD projects in Surat, Bharuch, Valsad, Navsari and Union Territory of Daman & Diu, are still "under process"). (Indianpetro, 7th Aug)

Gas supply to industrial units: Gujarat Gas claims there was no foul play

Gujarat Gas has countered allegations made by the Surat-based South Gujarat Textile Processors Association (SGTPA) of discriminatory treatment in the pricing and supply of gas to industrial consumers in the region by the company. In reply, GGAS has argued that it has been procuring R-LNG at international market determined prices from available sources both on a medium and long term basis. This, the company insists, will be one of the key factors contributing to the periodic price revision in the future. However, these revisions, the company claims, are in accordance with the gas sales contract signed with its customers. (Indianpetro, 7th Aug)

Company News

Output in KG-D6 continues to slide (week ending July 31, 2011): Two wells shut down on high water cut, one more temporarily down

The average gas production in the period between July 25-31 was about 46 mmscmd. Of this, 38.4 mmscmd was produced from the D1 and D3 fields and another 7.6 mmscmd was produced from the MA field. Out of the 22 wells approved in the Phase-I of the field development plan, 18 wells, have been drilled and completed so far. During the period under consideration, 16 wells were put on production as two wells (B2 and B13) were kept closed due to high water cut. Another well, A-6, was temporarily shut down on July 31, 2011, for operational reasons. Average oil production from the MA field was at 14.5 kbpd. During the week, increased water production was observed in the wells. Around 7.6 mmscmd of associated rich gas was transported to the onshore terminal. (Indianpetro, 7th Aug)

DoC for RIL's D-33 discovery

RIL has requested the oil ministry to call for a Management Committee (MC) meeting to review a proposal on Declaration of Commerciality (DoC) in respect of a discovery – dubbed Dhirubhai-33 – made in its exploration block GS-OSN-2000/1. As per RIL, the DGH has already given its nod for the meeting. The DGH had earlier sought necessary clarifications on information related to the discovery and had subsequently sent a draft management committee resolution (MCR) to the operator. Following which, the operator had appealed for making certain changes in the MCR and had incorporated some of its own views in the resolution. The Operating Committee had given its approval to the resolution on May 5, 2010. (Indianpetro, 7th Aug)

Reliance's July Fuel Exports at 1.3 MMT, Ship Data Show

Reliance Industries exported at least 1.3 MMT of oil products last month, shipping data show. In June, the company's oil-product exports were at least 1.6 MMT. Reliance exported the products from its Jamnagar facility in western India to destinations including the U.S., Brazil, Singapore and the Middle East. Reliance exported at least 443,000 tons of gasoil, or diesel, in July, with about 61% of that going to Brazil. (Bloomberg, 8th Aug)

HPCL's Bhatinda refinery may start by year-end

The 9 MMTPA Bhatinda oil refinery is now expected to be commissioned between Oct and Dec this year, as work on the HPCL-Mittal Energy (HMEL) promoted project is on the verge of completion. "We are expecting the commissioning of the oil refinery in Oct and Dec this year, as the work is almost complete," a company official said. Earlier, the company had projected that the refinery would be operational in the month of June and July this year. The company has already imported the first consignment of crude oil from Gulf countries, which is being supplied through its 1,014-km-long pipeline laid between Gujarat's Mundra port and Bathinda. "The crude oil is expected any day at the plant site which will be used for the refinery's trial run," he said. (Business Standard, 5th Aug)

MRPL to get two Aug Iran oil cargoes

MRPL will get at least two August cargoes from Iran, two sources familiar with the issue said, after it restarted payments through a Turkish bank following a seven-month gap. "The first cargo must have been loaded and sailed from an Iranian port by now while the second will be loaded soon," said one of the sources. "On the basis of the payment received, NIOC has so far agreed to give two August cargoes," another source said. MRPL, Iran's top Indian client, usually buys about 150 kbpd of oil from Tehran in six to seven cargoes each month for its 236 kbpd refinery in southern India. (ET, 5th Aug)

Decision on Tripura-Assam transmission line soon

The North Eastern Regional Power Committee (NERPC) will meet next month to decide on a high-power transmission line from the Palatana power project in south Tripura to Bongaigaon in Assam, officials said. The 726-MW gas-based power project of ONGC-Tripura Power Corporation (OTPC) would start generation by February next year for distribution to north eastern and other states for which a 650-km transmission line for hook up with the national power grid in Bongaigaon was necessary. (Business Line, 6th Aug)

GPCB tells ONGC to fix gas leakages in Olpad

Gujarat Pollution Control Board officials have slapped a notice on the ONGC days after gas was found oozing out of ground in Olpad town. Sources said the gas was methane, which is inflammable. Just a few months ago, hot water spurting out of ground at many places in Olpad town had left the residents in panic. The water

gushed out from defunct borewells and even houses. Several government and private agencies visited the spots and offered explanations but the mystery continued. Even today, the phenomenon continues at many places. Now, inflammable gas coming out of ground in Dadanagar area for the past few days has once again left locals on the edge. Geologists and a GPCB team visited the spot on Saturday and took stock of the situation. GPCB officials held meetings with ONGC and NAICO, which have reservoirs in Olpad town. (Indian Express, 7th Aug)

Appendix A-1

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|---|------------------------|-------------|-------------|------------------------|-------------|-------------|
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