

## Industry

7 June 2010 | 7 pages

# India Oil & Gas Daily

 Equity 
**7 Jun 2010**

- **Petrol, diesel, LPG price hike on the cards** — A ministerial panel may on Monday decide on raising petrol and diesel prices by up to Rs3.50 a litre and domestic LPG rates by Rs25-50 per cylinder, besides considering raising kerosene prices marginally. The Empowered Group of Ministers (EGoM), will meet on Monday afternoon to consider a Kirit Parikh Committee report that calls for freeing of petrol and diesel prices, besides a steep hike in LPG and kerosene rates to cut the subsidy bill. "Selling fuel at rates below their imported cost is unsustainable. If prices are not hiked, the govt will have to find ways to make up for the Rs723bn deficit arising from selling fuel below imported cost," an Oil Ministry official said. (Economic Times, 6th Jun)
- **Auto fuels may cost Rs3/ltr more** — Petrol and diesel prices could rise by up to Rs3/ltr as per a key proposal favouring free auto-fuel rates that awaits the approval of a panel of ministers meeting on Monday. If the EGoM passes the proposal, an important attempt to cut fuel subsidies significantly, it would be the third such price rise in nearly a year. The petroleum ministry had raised petrol prices by Rs4/ltr and diesel by Rs2/ltr on July 2, 2009, and finance minister Pranab Mukherjee had unexpectedly raised taxes on petroleum products in his February budget this year that made petrol costlier by Rs2.71 and diesel Rs2.55/ltr. (Economic Times, 5th Jun)
- **Deregulation of fuel prices unlikely** — Faced with opposition from key allies, the EGoM on fuels is unlikely to free up the motor fuel pricing regime when it meets on Monday but is almost certain to go for a marginal increase in prices of petrol and diesel with a view to reducing the amount of cash subsidy Govt has to dole out to state-run OMCs. Key members of ministerial panel under FM Pranab Mukherjee — railway minister Mamata Banerjee and agriculture minister Sharad Pawar — were opposed to the idea of allowing oil companies to set prices in line with global markets or raise fuel prices substantially. Fertiliser minister M K Alagiri is unlikely to support any steep rise in prices, as TN goes for assembly polls next year. (Times of India, 7th Jun)

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**Daily Indicators**

		4-Jun-10	3-Jun-10	Last week's avg
WTI	US\$/bbl	71.5	74.6	73.1
Brent	US\$/bbl	71.2	74.8	73.3
Indian Crude Basket	US\$/bbl	73.9	74.3	73.1
S'pore GRM	US\$/bbl	2.7	3.9	4.0
MS	US\$/bbl	83.4	83.1	81.7
HSD	US\$/bbl	85.2	85.1	83.9
LPG	US\$/Ton	665.5	665.5	650.3
SKO	US\$/bbl	86.4	86.0	85.0

Source: Reuters, Bloomberg

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

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## Industry News

### **Private fuel retailers to make positive margin on sales after deregulation**

Essar Oil, Reliance Industries, Shell Petroleum and MRPL have, at present, one wish in common — making positive margins on the sale of auto fuel and to scale up their fuel retail outlets. These companies are waiting for the government to take a final decision on deregulation of fuel prices, which would not only allow them to regain their market share in fuel retailing but also help them make a gross margin of Re1/ltr. “We had recommended that there should be total freeing of petrol prices, while in diesel, we welcome total decontrol, in a phased manner. The outcome of Monday's meeting will decide the pace of our ramp-up. Private players are not in the market due to government's fuel pricing policy” said an Essar Oil official. (Business Standard, 7th Jun)

### **Shell imports 2nd LNG cargo at \$5.2/mmBtu**

Shell has imported its second spot shipment of LNG this fiscal. Shell yesterday received a LNG cargo from Qatar at its Hazira import facility in Gujarat. QatarGas sold the shipment at about US\$5.2/mmBtu. This price is before levy of 5% customs duty, regasification charges, local taxes, and margins. The company had imported a cargo at US\$4.93/mmBtu in early April. Petronet LNG, the company that operates India's only other operational LNG import facility at Dahej, in Gujarat, has not imported any shipment from the spot market since December. The flooding of gas from RIL's KG fields, coupled with no spare capacity in GAIL India's pipeline network, had cramped out spot LNG purchases. (Business Standard, 4th Jun)

## Company News

### **RIL, Essar to get Cairn crude in June**

After the government allowed private refiners to buy crude from Cairn's fields in Rajasthan, the biggest onland discovery in two decades, Essar Oil and Reliance Industries will start routine processing of the oil from month-end when they expect to start receiving oil through a heated pipeline. Cairn has started pushing the waxy crude through its pipeline and the oil has reached its pumping station at Viramgam in Gujarat. If everything goes well, the oil is expected to reach by June 15 or so. (Times of India, 5th Jun)

### **RIL may power into nuclear energy business**

RIL may foray into nuclear energy after being freed from a non-compete agreement with the ADAG that barred it from investing in some businesses, including power. “RIL has indicated to the government that it is keen on generation and distribution of nuclear power,” a senior government official said. According to industry and official sources, RIL's nuclear plans are still at a preliminary stage. The company is believed to be in talks with US-based engineering, construction and project management firm Bechtel Corporation for a possible collaboration. According to sources, Bechtel has been asked by RIL to carry out a study on whether the nuclear business is feasible for the Indian company. (Economic Times, 7th Jun)

### **Dabhol-Bidadi gas pipeline to get going in July: GAIL**

Work on the 800-km pipeline to transport gas from the LNG terminal in Dabhol to Bidadi near Bangalore will commence in July this year. GAIL, which signed an MoU with the state government, will spend Rs20bn this year to lay the pipeline. “We have opened an office in Bangalore and have recruited a team of

60 officials to start work on the project. The work will simultaneously commence at 10 locations along the proposed route for the gas pipeline. We are very confident that the project will be completed by March 2012 and the gas available for end-users," Prabhat Singh, a senior executive of GAIL said. The gas pipeline has a capacity to carry 16 MMSCMD gas in the first phase. GAIL and Karnataka government intend to collaborate, and also invest and engage in implementing, operating and managing city gas distribution in the state. (Business Standard, 5th Jun)

**GSPC to start KG development drilling programme next month**

GSPC is preparing to kick-start its development drilling programme in the Krishna-Godavari offshore block KG-OSN-2001/3 by July 2010. A GSPC official said that the one-year term of the Chennai-based Aban offshore owned rig Deep Driller-1 (DD-1) is slated to begin next month. DD-1 is likely to have two six-month optional extensions and is likely to begin drilling from the KG-8 well. The rig, adept at handling high pressure and temperature conditions, is expected to arrive at the field in the next three to four weeks. The field development plan (FDP) envisages production of approximately 6-8 mmscmd. (Indianpetro, 6th Jun)

**ONGC's MN-OSN-2000/2 block: ONGC pitches for more profitable price**

ONGC has said that its MD-2A discovery in MN-OSN-2000/2 will yield a negative NPV on a projected price of US\$4.2/mmbtu when sunk costs of exploration of US\$142m is taken into account. In this context, the company has argued for a higher price of gas to justify continued investment in the block. However, the DGH has said that since Gas Initially In Place (GIIP) has been underestimated by ONGC in the discovery, the benchmark price is enough to make the project viable if accurate estimations are done. (Indianpetro, 6th Jun)

**Essar Oil to take FCCB route to raise US\$300m**

Essar Oil will raise \$300 million (around Rs13.96bn) by FCCBs to its promoter to part finance its expansion. The proceeds of the issue will finance the company's US\$1.7bn expansion plan that includes scaling up its Jamnagar refinery capacity by 25% to 375,000 barrels and increasing its complexity from 6.1 to 11.8 by next year. This round of fund infusion will take the promoters' contribution to nearly US\$900m for modernisation and expansion of the refinery. London-listed Essar Energy Holdings, the promoter of Essar Oil, raised US\$1.94bn through an initial share sale at London Stock Exchange. (Economic Times, 7th Jun)

## Appendix A-1

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