India Oil & Gas Daily

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Equity

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- **EGoM likely to be flooded with demand for gas**
  The meeting of the EGoM on Wednesday is likely to see a flood of demand for gas that far outstrips the supplies. While RIL has already stated that it cannot produce more than current 60 mmscmd of output from its eastern offshore KG-D6 fields, demands for 52.28 mmscmd gas have been placed during the current fiscal alone. Power ministry has sought 13 mmscmd of gas for plants commissioning in 2010-11 and another 8.75 mmscmd next year. Fertilizer ministry wants 1.1 mmscmd this year, 3.39 mmscmd next year, and 11.03 mmscmd in 2012-13. GAIL wants 0.75 mmscmd for its Pata plant. Refineries need over 35 mmscmd gas this fiscal while city gas distribution firms want 1.47 mmscmd in 2010-11 and 6 mmscmd in the next year. (Business Standard, 26th Jul)

- **Cairn may get more time to explore Rajasthan oil field**
  The govt. may give additional time to Cairn for exploring more oil and gas in its producing Rajasthan field provided the company agrees to pay levies in proportion to its stake in the asset. At present its 30% partner, ONGC, pays the entire royalty on crude from that section of the field where commercial production has already started. "Cairn has expressed interest in exploring the block. But exploration phase in the block has expired and the company has to take fresh govt. approvals," an official in DGH said. If Cairn declines to pay its share of royalty (20% of sale value) and cess (Rs2,500/tonne) on crude produced from future discoveries, the govt. may consider auctioning the remaining field beyond the area where oil has already been discovered, he said. (Economic Times, 27th Jul)

- **ONGC plans to invest US$5bn to develop gas fields to boost output by 60%**
  ONGC plans to spend US$5bn to develop gas fields to boost output by almost 60% in six years. It sought permission from the oil regulator on July 16 to invest in 9 gas discoveries off India's east coast to produce 35 mmscmd of gas by 2016. This follows the govt's decision in May to double the price at which ONGC sells gas.
  The producer of almost 25% of India's crude oil is starting new fields at home as output declined at aging areas off the west coast. (Economic Times, 27th Jul)

Daily Indicators

		26-Jul-10	23-Jul-10	Last week's avg
WTI	US$/bbl	79.0	78.7	77.6
Brent	US$/bbl	77.1	76.9	75.8
Indian Crude Basket	US$/bbl	74.9	75.2	74.3
S'pore GRM	US$/bbl	6.1	5.4	4.6
MS	US$/bbl	84.9	85.9	83.3
HSD	US$/bbl	86.8	87.6	85.5
LPG	US$/Ton	582.8	582.8	562.5
SKO	US$/bbl	87.5	88.4	86.5

Source: Reuters, Bloomberg

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

Industry News

Gas demand rises even as India loses out on cheap LNG
When the empowered group of ministers (EGoM) on natural gas sits to decide on the applicants seeking a pie of RIL's D6 gas, an important question that may remain unanswered is whether India has done enough to meet the domestic gas demand. The Ministry of Petroleum and Natural Gas has applications from power and fertiliser sectors that total to a significant 600 mmscmd of demand, of which 28 mmscmd alone is being sought by the Anil Ambani group for its four power plants. This demand is over and above the present requirement of 175 mmscmd against a supply of around 140 mmscmd. Internationally, natural gas prices have crashed due to the economic slowdown and availability of shale gas in the US market. Imported LNG in India is now available at a landed price of about US$5.5/mmbtu, making the differential between domestic and imported gas a comfortable $1 or so. Taking advantage of the global glut would have been ideal for India but it has not been able to stitch a new deal with even a stable gas partner like Qatar. (Business Standard, 27th Jul)

Company News

OIL's expenditure for 1QFY11: Monthly capex increasing but expenditure still falling well below targets for the year
OIL's monthly capital expenditures went up from Rs903.2m in May, 2010 to Rs1.7bn in June, 2010. Though the company has increased its monthly expenditure, it ended up spending a total of Rs3.5bn in the first quarter of 2010-11, which is only 7.88% of the Rs44.6bn targeted as capex for the year. Pertinently, the shortfall from planned expenditure remains high in exploratory and drilling activities in Assam and Arunachal Pradesh. As far as OIL's smaller projects are concerned, capex has not picked up by much. (Indianpetro, 26th Jul)

Bhatinda refinery can open up new avenues for HPCL
HPCL believes its Bhatinda refinery, scheduled to begin production in April 2011, could be an important gateway to Pakistan for supply of products. "If we have better relations with Pakistan in the near future, this refinery will be a money spinner because all it needs is a 100-km pipeline to be in Lahore. This part of Pakistan can be comfortably supplied products to meet its requirements," Mr Arun Balakrishnan, CMD of HPCL, said. Once that happens, capacity of the Bhatinda refinery can be doubled in no time from the present 9 MMTPA. Even if the Pakistan business plan does not quite materialise, demand in the northern region of India alone will ensure a substantial increase in capacity within 4-5 years of the refinery's commissioning. This is because there is a product pipeline coming in from Bhatinda to Bahadurgarh near Delhi, and another pipeline will take this beyond Kanpur. In short, the entire northern belt will be fed by this single refinery. (Business Line, 26th Jul)

Greenfield refinery in Maharashtra: HPCL to initiate land acquisition process
The land acquisition process for setting up a greenfield refinery in Maharashtra is expected to commence shortly with HPCL`s board of directors recently providing a go-ahead for taking over 3,000 acres of land. Two sites, Roha Mangaon and Lote Parshuram in Maharashtra, have been offered to HPCL by the Maharashtra Industrial Development Corporation (MIDC) for setting up the refinery. However, considering that these sites are located about 40-50 km away from the coast, HPCL is also looking at other sites available with the

government which are closer to the West Coast to ensure operational convenience for movement of products. A Pre-Feasibility Report (PFR) for the proposed refinery project has already been prepared. (Indianpetro, 26th Jul)

Appendix A-1

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