

Natural Resources & Energy
 Oil & Gas
 Equity – India

India Natural Gas

Gas prices could levitate to USD7-10/mmbtu range

- ▶ **Media reports USD10/mmbtu delivered price for gas from Turkmenistan into India**
- ▶ **With domestic gas producers vying for higher gas price, the Turkmenistan gas price could provide a benchmark**
- ▶ **Domestic gas fields are viable at USD7/mmbtu and is an acceptable price for all consumer classes**

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Turkmenistan gas price could provide a viable benchmark. The supply from Turkmenistan is slated to commence in 2016-17 through a pipeline running via Afghanistan and Pakistan to India (TAPI pipeline). The supply chain looks very similar to a conventional E&P development except for potential transit fee to be paid to intermediate countries. Therefore, the gas price offered by the TAPI project has all the elements of an acceptable benchmark as long as the gas price is viable for major consumer categories like fertilizer and power producers. As per Economic Times, India is likely to purchase gas at USD7/mmbtu resulting in a delivered price of cUSD10/mmbtu post transit charges.

Allocation policy limits the scope for domestic gas price discovery. Gas allocation policy mandates the supply of domestic natural gas in order of priority, first to fertilizer sectors, followed by LPG extractor, existing power producers, and city distribution (CGD) in that order. Industrial consumers have the lowest priority. As a result, the price discovery has limitations as producers are unable to sell full quantity to the highest bidder if the bidder is not from the priority sector. Therefore, the benchmark price needs to be affordable to the priority sector consumers. See charts 1-4 for detailed gas demand-supply estimates.

The consuming industry does not view LNG as a fair benchmark for domestic gas. Due to significant additional capital cost required in both liquefaction and regasification terminals, LNG is not perceived as a right benchmark for domestic gas. However, in the absence of any other benchmark, a government appointed committee headed by Mr. Saumitra Chaudhuri has proposed the domestic price as an average of gas price in the US and Asian LNG prices which would tantamount to cUSD8-9/mmbtu given the current price levels.

USD7-8/mmbtu is acceptable to all consuming classes. Our estimates indicate that the power and fertilizer sectors form the class of consumer that will pay the least for natural gas (Table 3). Other consumer categories are largely liquid fuel substitutor and hence can afford higher gas price. We believe both urea and power producers can pay cUSD7/mmbtu based on HSBC long-term urea price and merchant power price in India, respectively.

Recent developments and other natural gas-related data

CBM price discovery facing regulatory uncertainty

Reliance Industries (RIL) recently sought bids for off-take from their coal-bed-methane (CBM) blocks located in the central part of India. As per our estimates, the peak production is likely to be around 3-4 mmscmd while the initial production could be below 0.5 mmscmd. RIL is also among bidders and has offered to purchase full quantity at USD12.31/mmbtu. As per press reports (Economic Times, 7 March 2012), consumers have offered up to USD13/mmbtu for the gas from the field. While there is not a firm allocation mechanism yet available for CBM blocks, we believe allocation policy valid for conventional fields is likely to be made applicable for CBM fields as well.

Natural gas price levels in the country

Table 1: Natural gas prices across India

Source	Producers	Gas Pricing (USD/mmbtu)
APM (Customers outside NE)	ONGC, OIL	4.2
APM (Customers in NE)	ONGC, OIL	2.52
PMT	ONGC, RIL, BG	5.65
PMT to RRVUNL	ONGC, RIL, BG	4.6
PMT to Torrent	ONGC, RIL, BG	4.75
Ravva to GAIL	Cairn, ONGC, Videocon, Marubeni	3.5
Ravva Satellite to GAIL	Cairn, ONGC, Videocon, Marubeni	4.3
CB/OS-2 to GPEC	Cairn, ONGC, Tata Petrodyne	4.75
CB/OS-2 to GSPC	Cairn, ONGC, Tata Petrodyne	5.5
CB/OS-2 to GTCL	Cairn, ONGC, Tata Petrodyne	6.22
Hazira (Niko) to GACL/GSPC	Niko, GSPL	4.612
Olpad (Niko) to GGCL	Niko, GSPL	5.5
Dholka to small consumer	Joshi Tech	INR79.43/mmbtu
North Balol (HOEC) to GSPC	HOEC, GSPC, Hermac	2.71
Palej (HOEC) to small consumer	HOEC, GSPC, ONGC	3.5
KG - D6	RIL, BP, Niko	4.2
Amguri to AGCL	Canoro, Assam Oil & Gas	INR3840/mcm
Amguri to GAIL	Canoro, Assam Oil & Gas	INR2304/mcm
C Fields	ONGC	5.25
Term LNG	PLNG	8.3
Spot LNG	PLNG, GSPC, GAIL	13-19

Source: Companies, GAIL, HSBC

Table 2: Natural gas price approved by the government for CBM players

Operator	Block Name	Region	Govt approved Price (USD/mmbtu)
GEECL	Raniganj South	West Bengal	6.8
Essar	RG (E)-CBM-2001/1	West Bengal	5.25

Source: Company, HSBC

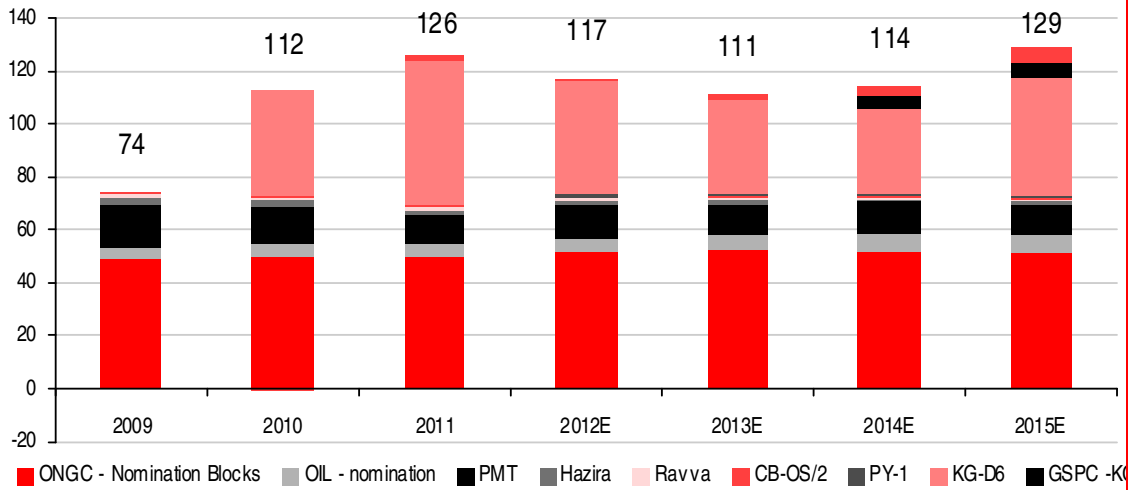
Table 3: Affordable gas price for various consumers

Sector	Affordable gas price
Urea	8
Merchant Power	7
Refinery/ Industries	19

Source: HSBC estimates

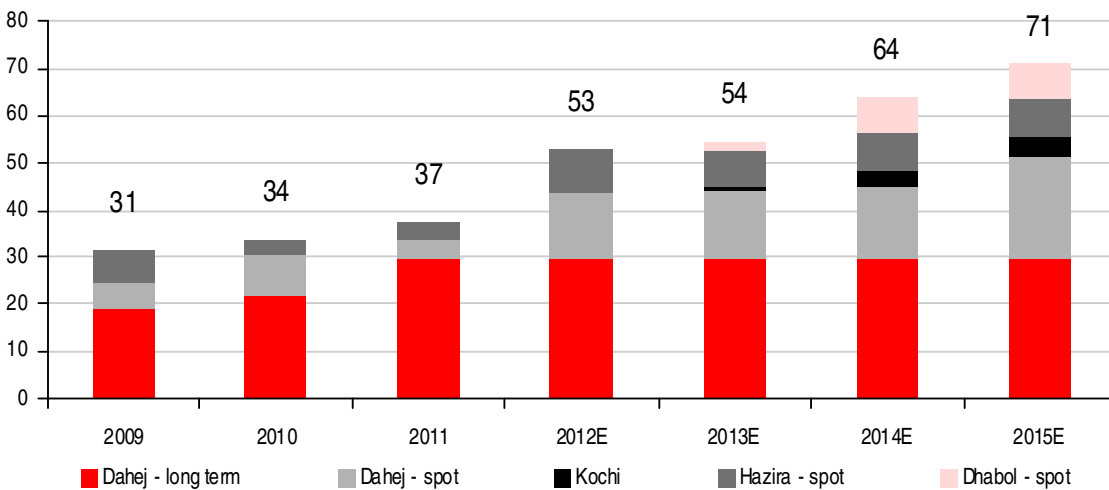
Natural gas demand and supply forecast

Chart 1: Domestic Gas supply (mmscmd)



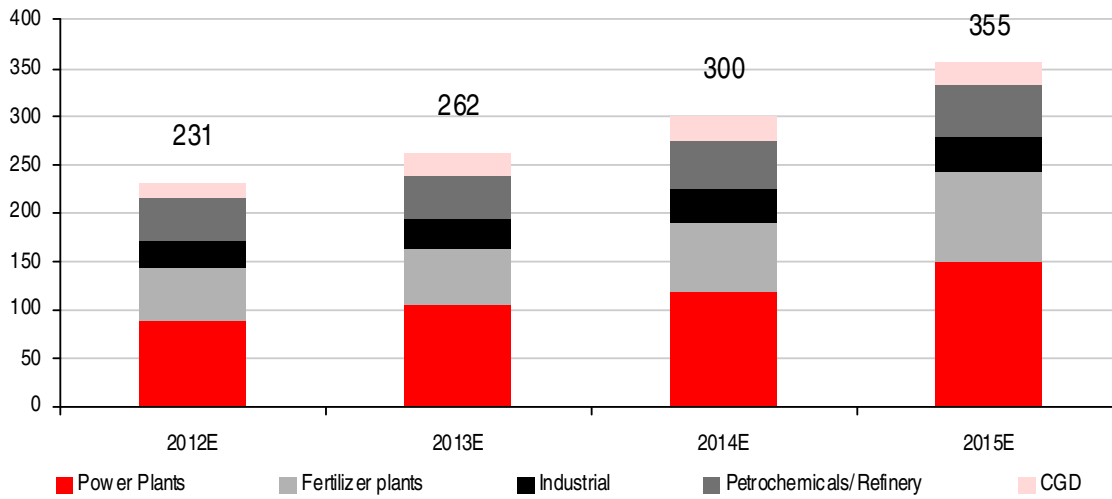
Source: HSBC estimates

Chart 2: India LNG supply (mmscmd)



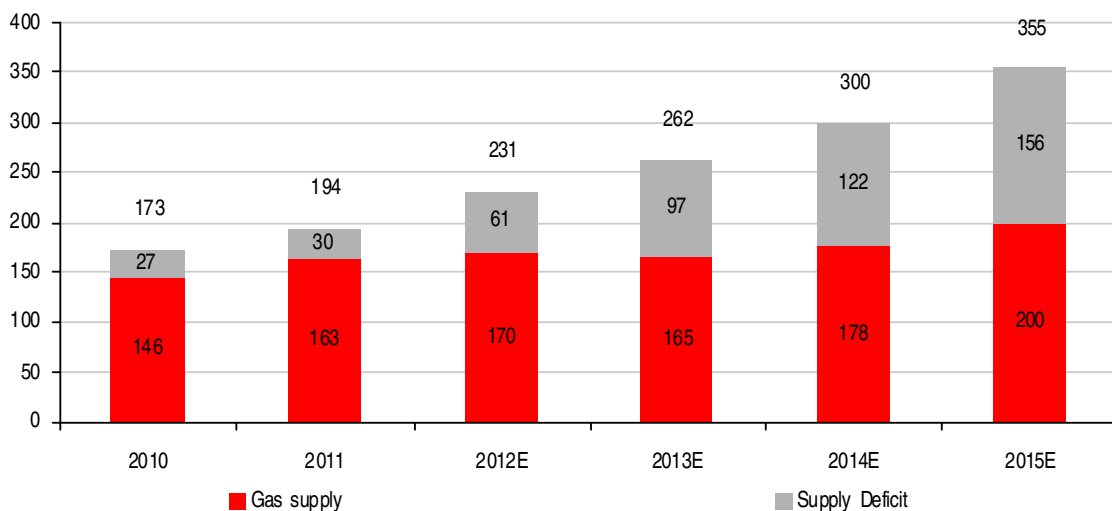
Source: HSBC estimates

Chart 3: India Gas demand (mmcmd)



Source: HSBC estimates

Chart 4: India Gas demand supply (mmcmd)



Source: HSBC estimates

Disclosure appendix

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