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## Halder & Associates: DOWNSTREAM SECTOR AND NATURAL GAS MARKET IN INDIA



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The Government of India (GOI) has been supporting natural gas as one of the cleanest fossil fuel with carbon emission comparatively less than coal and oil. The share of natural gas consumption currently is only 6.2% of the total energy consumption, of which almost 50 percent is met through imported gas. GOI plans to more than double the rate to 15% by 2030 and proposes to invest over USD 60 billion in the natural gas sector to develop the downstream infrastructure.

### Domestic Production

GOI to encourage domestic production of oil and gas (O&G) has introduced the Open Acreage Licensing Policy (OALP). Under OALP, investors are allowed to submit EoI for blocks of their choice based on data available in the National Data Repository. GOI has already completed 4 rounds of OALP bids. Mostly, PSUs have shown interest in these blocks. One of the reasons could be the change of profit-sharing model to revenue sharing model. Under this

model, GOI takes a share of revenue from the first earning from the block without allowing cost recovery. Further, with the fall in the global price for O&G, investors have become more cautious while investing, especially when cheaper fuel is available elsewhere.

### **Imported LNG**

To overcome shortage in domestic production of natural gas, GOI is encouraging procurement of imported LNG. Recently, in September 2019, Petronet LNG Limited (PLL) signed a MoU with a US natural gas company, Tellurian Inc pursuant to which PLL has committed to invest USD 2.5 billion in Tellurian's proposed Driftwood LNG export terminal in the US, in exchange for the rights to 5 million metric tons of LNG per year over 40 years.

GOI is also supporting setting up of new LNG terminals for supply of imported gas. There are 6 operational LNG terminals in India, 3 at Dahej Hazira and Mundra in Gujarat, 2 in Kochi, Kerala and 1 in Ennore, Tamil Nadu. Dhamra LNG terminal in Odisha is also being set up. The GOI also plans to set up bio-CNG (compressed natural gas) plants and allied infrastructure at a cost of USD 1 billion to promote the use of clean fuel.

### **City Gas Distribution (CGD) network**

CGD currently contributes around 17.57 percent of the total natural gas consumption in India. It has the highest compound annual growth rate amongst all sectors. Petroleum and Natural Gas Regulatory Board (PNGRB) has authorized 229 geographical areas covering 406 districts across India for development of CGD network. Once completed, CGD network will cover around 70% of India's population and 53% of its area.

### **Draft CGD Policy**

In January 2020, GOI prepared a draft policy for CGD (Draft CGD Policy), which will allow every State to come up with their own CGD policies. The Draft CGD Policy proposes to setup a suitable single-window clearance mechanism, which has been long requested by the bidders. The sector offers investment opportunity of over USD 50 billion.

Under Domestic Gas Utilization Policy, GOI has allocated domestic gas, which is cheaper than imported gas, to meet the requirements of PNG and CNG in the CGD sector. Further, Public Utility Status has granted to CGD Projects by the Ministry of Labour and Employment, which means workers cannot go on strike as per labour laws.

### **Downstream Infrastructure**

GOI has enacted Petroleum and Natural Gas Regulatory Board (PNGRB) Act, 2006 to ensure planned development of the downstream infrastructures. Interested parties are allowed to apply to, or PNGRB, suo moto, can invite

proposals for the development of natural gas pipeline and CGD network. PNGRB continuously monitors these projects, post-authorization to ensure timely completion, and post-commissioning to ensure compliance and prevent restrictive trade practice.

India has operational natural gas pipeline infrastructure of 16,370 km. Apart from that, PNGRB has authorized pipelines that are at various stages of execution. GAIL is executing Jagdishpur-Haldia-Bokaro-Dhamra Pipeline of length 2,655 km and Barauni-Guwahati Pipeline of length 729 km under Pradhan Mantri Urja Ganga Project to connect Eastern India. GOI has been proactively supporting the development of a National Gas Grid in the country.

### **Open Access**

The law requires pipelines to be operated on an open-access basis. Making it obligatory on the transporter to allocate certain capacity in the pipeline as a common carrier to be made available to third parties on open access and non-discriminatory basis. Common carrier concept has also been introduced in the CGD network, post exclusivity period, under the law.

In order to ensure compliance, PNGRB mandates all transporters to declare entry and exit point-wise design and available capacity of each natural gas pipeline and host the same on their web site. Further, the network tariff for such common carrier capacity is determined by PNGRB.

### **Unbundling**

Any entity which is operating both in the transportation and marketing of natural gas is required to unbundle its services. This includes both accounting and legal separation of such activities. Further, affiliates are required to follow a certain code of conduct and have an arm's length business relationship. This is to ensure independent decision making and prevent any restrictive trade practice.

### **Issues and Concerns**

The existing downstream infrastructure is far from adequate. The National Gas Grid is an ambitious plan but has not been implemented in a planned manner. The Kochi LNG terminal project was delayed due to the lack of LNG supply contracts. Further, it is underutilized due to the lack of necessary pipeline infrastructure. 15 LNG terminals were cleared since 2000, but only 6 LNG terminals are operational today. Shell and Engie abandoned the floating storage and regasification unit project at Kakinada, Andhra Pradesh, in 2017. The development of CGD projects is often delayed due to failure to obtain clearances in time, or non-availability of gas.

## Conclusion

The above problems are not new to any developing economy, moving to a natural gas-based economy. PNGRB has been taking corrective measures against restrictive trade practice and enacting relevant regulations and guidelines to ensure a competitive market for downstream players. Once the National Gas Grid is in place and the market matures, under the supervision of PNGRB, the remaining issues should also be resolved.

## About the Author

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Sushmita has over 14 years of experience in advising on oil & gas projects and has worked with leading law firms and multinational oil & gas companies in India. She has extensively advised on upstream and downstream oil & gas sector. On the upstream sector, she has advised, amongst others, on Production Sharing Contract, Joint Operating Agreement, Joint Bidding Agreement, and Area of Mutual Interest Agreement. On the downstream sector, she has advised, amongst others, on Gas Sale Agreement, Gas Transmission Agreement, LNG terminal, and regulatory issues.

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