Fostering competition in Gas Markets

Broadly speaking, in the case of gas pipeline projects, one needs to aim at achieving:

1. Maximum possible sized pipeline
2. Minimum possible tariff

The selection criterion accordingly needs to be designed. As regards CGD networks, in addition to the requirement of an optimal sized network with minimum tariff, the other criteria could be:

1. Maximum possible coverage of domestic PNG and CNG
2. Quickest possible capital investment
3. Widest possible geographical spread of the network.

The bidding criteria for selecting an appropriate entity for a CGD project could be devised accordingly.

While one would like to have as many entities as possible to participate in the bidding process for selecting an entity for the development of gas pipeline projects or city gas distribution networks in the country, the issue of gas tie-up seems to be restricting such a competition.

Gas pipeline projects are highly capital-intensive projects with large economies of scale. Generally speaking, worldwide the gas pipeline projects operate on contract carrier basis, i.e., the capacity is tied up on long-term basis. Such projects are not likely to obtain financial closure unless a significant portion of the capacity has been booked under legally binding contracts. Thus, whether one prescribes the gas tie-up/ capacity booking as a pre-requisite for applying for an authorization or prescribes it as a monitorable activity post authorization, any entity not having a proper gas tie-up/ capacity booking is likely to hit the road block sooner or later.
The present gas availability scenario in the country as well as the projected availability in the short to medium term is well known to every-one. Considering the extremely tight global LNG supply situation and taking into account that only Dahej up gradation and Kochi terminal are likely to come up by the end of the 11th Plan besides possibilities of some merchant sales from Hazira and Dabhol terminals, the contribution of incremental LNG supplies to the total incremental gas supplies in the country is not likely to be significant in the short to medium term.

As regards trans-national pipelines, the possibility of any gas imports by the end of the 11th Plan appears remote. This leaves us with the situation where the significant contributor to the gas availability is likely to be production from the KG Basin. Here also, the definitive projections are available only in respect of RIL. GSPC and ONGC are yet to announce their definite gas production schedules. In such a scenario, it appears that a single entity may own a significantly large proportion of incremental gas likely to be available in the country in the next 3-5 years.

The absence of the option of multiple sourcing for the shippers/ marketers of gas is likely to thwart the competition in developing both gas pipelines and CGD networks, and the different activities along the whole chain, right from gas production to marketing may be controlled by producers only, either by themselves or through their affiliates.

In fact, a pre-requisite for developing competitive gas markets is to have an independent shipping/ marketing activity along the gas value chain with active participation by several entities, which is completely absent in the country.

Further, competition at the consumer-end resulting in quality service and reasonable prices would emanate only from a competitive bidding scenario with several bidders aggressively bidding for licenses for both natural gas pipelines and CGD Networks, which would ultimately result in creation of a segmented gas market in the country.

While a producer has a complete choice in deciding the exact point where the recovery of economic rent for natural gas field from its fields shall take place, a non-producer has no such level playing option. This may seriously impair participation by non-producers in the bidding process, which may impair the development of segregated gas markets in the country.

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