Analysis of City Gas Distribution project

Why in news?

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The Prime Minister has laid the foundation for the ninth bidding for city gas distribution (CGD) projects recently.

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What are city gas distribution networks?

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- India’s natural gas consumption presently stands at 6.2% of its primary energy consumption and it has been targeted as 15% by 2020.
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- Natural gas in India is either produced domestically or imported as LNG.
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- It is produced in Assam, Bombay High, Krishna Godavari basin and the Cauvery basin.
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- Government of India has put thrust to promote the usage of natural gas as a fuel/feedstock across the country to move towards a gas based economy.
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- Accordingly, development of CGD networks has been focused to increase the availability of cleaner cooking fuel (i.e. PNG) and transportation fuel (i.e. CNG) to the citizens of the country.
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- The expansion of CGD network will also benefit industrial and commercial units by ensuring the uninterrupted supply of natural gas.
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- Under the gas allocation policy, city gas enjoys the first priority in the allocation of cheap domestic gas to consumers, while the gas from fertiliser sector enjoys the second priority.
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What are the advantages?

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- With the expansion of city gas distribution(CGD) projects, it is expected that 200 lakh households will have piped gas connectivity very soon.
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- Natural gas, predominantly methane, is a cheap and environment-friendly fuel with a very low emission of particulate matter.
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- Natural Gas (as CNG) is cheaper by 60% as compared with petrol and 45 % with respect to diesel.
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- Providing gas linkage to domestic households, the automobile sector, and small and major industries will play a major role in elevating the social status of the people.
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- The additional savings from fuel bills can be invested into productive areas such as education of children, which will pave way for a faster socio-economic development.
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What are the concerns with CGD networks?

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- **Price control** - The CGD business model is currently based on the supply of cheap domestic gas which is both inherently flawed and unsustainable.
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- The price of gas produced domestically is controlled through an administered pricing mechanism (APM) by the government and is about 65-70% lower than the imported LNG price.
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- This establishes a huge spread between input prices (controlled by government) and output prices (market price), thereby enabling CGD entities to make large profits in a non-transparent manner.
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- **Opportunity costs** - Natural gas enjoys the opportunity cost of alternative fuels like petrol and diesel.
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- Opportunity cost is the "cost" incurred by not enjoying the benefit associated with the alternative choice.
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- Thus, CGD entities by bidding on natural gas gets a better return than

investing on other fuels, thus affording a hefty profit margin for them.
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- **Bidding** - The availability of cheap gas has also led to irresponsible bidding, with bidders bidding zero or nominal tariffs in earlier rounds.
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- This was done with the expectation that all costs will be recovered through huge profits that they will get as a result of low input and high output prices.
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- However, as cheap domestic gas sources dry up, bidders will be faced with serious problems of cost recovery, thereby affecting viability and sustainability of the CGD system.
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- This will pave the way for legal disputes, contract re-negotiations, higher non-performing assets and supply disruptions.
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- These issues can be taken care of if the business model is based on sourcing natural gas at market prices by removing APM mechanism.
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- This will provide a more solid foundation for the expansion of the CGD network in the country.
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What should be done?

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- Energy consumption in India is growing at 4.2% per annum, which is the fastest among major economies of the world.
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- However, India’s domestic production of natural gas is low and its import dependency stands at 45.6%.
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- Thus, increasing production, developing the delivery infrastructure like terminals, stations and pipelines, along with giving priority for CGD allocation is necessary to ensure availability.
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- India will also have to embark on a balanced approach to develop indigenous gas resources through deeper drilling techniques and large scale import tie-ups.
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- A shift to a gas-based economy should ensure both availability and affordability and India has still a long way to go for transforming the economy to a gas-based one.

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Source: Business Line

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