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CNG price may go up on input supply cut

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The government has slashed by up to 20 per cent the supplies of cheaper domestically produced natural gas to city retailers -- a move that may result in Rs 4-6 per kg hike in the price of CNG sold to automobiles, unless excise duty on the fuel is cut, sources said.

Natural gas pumped from below the ground and from under the seabed from sites ranging from the Arabian Sea to Bay of Bengal within India is the raw material that is turned into CNG for sale to automobiles and piped cooking gas to households.

Production from legacy fields, whose price is regulated by the government and which are used to feed city gas retailers, has been falling by up to 5 per cent annually due to natural decline that has set in. This has led to supply cuts to city gas retailers, four sources in know of the matter said.

While the input gas for piped cooking gas that households get is protected, the government has cut supply of raw material for CNG. Gas from legacy fields used to meet 90 per cent of the demand for CNG in May 2023 and has progressively fallen. The supply was cut to just 50.75 per cent of the CNG demand beginning October 16 from 67.74 per cent last month, they said.

City gas retailers are forced to buy imported and costlier liquefied natural gas (LNG) to make up for the shortfall, which will lead to a hike in CNG prices that varies from Rs 4-6/kg.

The gas from legacy fields is priced at USD 6.50 per million British thermal unit (mmBtu) as against imported LNG that costs USD 11-12 per mmBtu.

For now, the retailers have not raised CNG rates as they are engaged with the Ministry of Petroleum and Natural Gas to find a solution, sources said.

One of the options is for the government to cut excise duty on CNG. Currently, the central government levies a 14 per cent excise duty on CNG, which translates into Rs 14-15 per kg. If this is cut, the retailers will not have to pass on the increased cost to consumers, they said.

CNG price hike is also a political issue since Maharashtra goes to the polls next month and elections are also due in Delhi soon. Delhi and Mumbai are among the biggest CNG markets in the country.

Sources said the gas supplies to city gas retailers had to be cut after the government decided to restore fuel to ONGC-promoted OPaL petrochemical plant in Dahej, Gujarat.

The plant was originally allocated 4.12 million standard cubic meters per day of domestically produced natural gas. However, the allocation for various reasons was cut to 1.95 mmscmd and during Covid was halved.

Lack of promised domestic gas was the main reason for OPaL running into losses, sources said, adding that the government has now approved a package to revive the unit. This package includes promoter Oil and Natural Gas Corporation (ONGC) infusing additional Rs 10,501 crore as equity and the unit being made available domestically produced natural gas.

The Union Cabinet approved the allocation of 3.44 mmscmd of domestic gas -- mostly coming from new wells of ONGC. This led to lesser gas being available for city gas retailers.

Girish Kadam, Senior Vice President & Group Head - Corporate Ratings, Icra Ltd, said, "The APM gas allocation has been reduced for the CGD sector by 20 per cent of the current domestic gas consumption by the sector. The reduction in APM allocation will have to be replaced by more expensive HPHT gas or (imported) LNG, which will push the overall gas costs for the sector."

To maintain contribution margins at existing levels, CNG prices will have to be increased about Rs 5-5.5 per kg.

Indraprastha Gas Ltd, which retails CNG in the national capital, and Mumbai-based Mahanagar Gas Ltd in regulatory filings stated that supplies of domestically produced gas, which was available at a capped rate half of the imported price, has been cut.

"The company gets domestic gas allocation for meeting the requirement of CNG sales volumes at the pricing fixed by the government (presently at USD 6.5 per million British thermal unit). Based on communication received by the company from GAIL (India) Ltd (the nodal agency for domestic gas allocation), this is to inform that there has been a major reduction in domestic gas allocation to the company effective from October 16, 2024," IGL said in a filing.

The revised domestic gas allocation to IGL is about 21 per cent less than previous allocation, "which will have an adverse impact on profitability of the company", it said, adding that it is in discussions with key stakeholders to minimise the impact.Separately, MGL said as per Policy Guideline dated August 10, 2022, issued by the Ministry of Petroleum and Natural Gas, domestically produced Administrative Price Mechanisms (APM) natural gas is to be allocated to city gas distribution (CGD) companies for priority segments, specifically domestic piped natural gas and CNG (transport).

The policy states that the supply of domestic gas to CGD entities will be made only up to the quantity available and allocated to GAIL (India) limited for these segments.

"...The company is exploring options of sourcing gas through domestically produced high pressure high temperature (HPHT) gas, new well/well intervention gas (NWG) from ONGC and benchmark-linked long-term gas contracts, so as to continue to provide gas to its customers with price stability," MGL added.

Adani Total Gas Ltd -- the other significant city gas retailer -- in its filing said the APM priced domestic gas allocation to the company has been reduced by about 16 per cent, effective October 16, 2024, compared to the earlier allocation.

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"While the company shall take all steps needed to optimise the profitability, it may however be noted that pending the resolution, there would be an adverse impact on the profitability of the company," it said. WITH AGENCY INPUTS