

Step On The Gas

*Lower prices essential
for growing economy*

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Gas pricing has emerged as one of the key concerns of India's energy policy. With a view to keeping carbon emissions under check, India should promote gas to meet its electricity needs. The ongoing debate on whether a company that has a gas field on lease from the government should be permitted to benefit from a sudden rise in international prices, should be viewed against the overall need to promote the use of gas. Gas should be sold to its principal users — producers of electricity and fertiliser — at below market rates in order to meet energy, environment and economic goals.

We need to cut down on carbon emissions caused by coal. However, there can be no compromise on electricity generation to fuel India's economic growth, which in turn will lift millions out of poverty. To the extent that subsidy costs do not overwhelm the budgets of governments, electricity must be sold at affordable prices to the subsidised groups so that production costs are kept low. Subsidies, whether for electricity or, say, for gas, can be minimised with improved targeting and better delivery.

India needs to double its electricity generation capacity over the next decade. With coal-fired plants, India has been unable to cope with growing demand and shortages. Besides, greater energy efficiency in coal-fired plants will not fully take care of the problem of carbon emissions. Most alternatives to coal are expensive, variable in supply or limited in availability.

For instance, nuclear energy will not be an important energy source for India, even with cost-efficient technology and assured uranium availability, which will take 20-30 years. We must hasten to exploit our limited hydro-electric resources. Nuclear and hydel power are non-polluting but cannot act as substitutes for coal, given the need to ramp up electricity generation in quick time. Wind power, another non-polluter, must have a reliable source of back-up supply when wind speeds are low.

Other energy options like biomass and solid waste could be useful for rural energy supply through small-scale local generation. Energy

from geo-thermals is not yet an established technology. Solar fuel cells are expensive and will take many years for large-scale use.

Gas is a clean fuel that can help increase electricity generation in the near future. Before it became known that recent gas discoveries will make future supplies comfortable, the prime minister suggested that domestic gas be largely used for fertiliser production and electricity generated mainly from coal. There are technologies to limit carbon



emissions, to capture and store them underground so that they do not pollute the atmosphere. Coal can be burnt more efficiently so that more electricity is available from the same quantity of coal. But all these processes raise the cost of electricity and many of the technologies are still under development.

Gas is available in the country in reasonable quantity and can be priced at levels affordable for fertiliser production and electricity generation, so that final users benefit from reason-

able prices. Selling gas at below market prices need not prevent a reasonable return to the gas leaseholder. Domestic investors can fund all exploration and production. Foreign direct investment is not necessary. Domestic investors will earn respectable but not windfall returns.

A rise in market prices of gas will bring extra royalties to the government, but it also leads to even higher subsidy bills payable to producers of fertiliser and electricity. Coal would then be the only realistic energy option, particularly as industry competitiveness requires that increases in electricity prices are moderate. There is therefore no substitute to pricing gas at levels that do not sharply raise electricity or fertiliser prices.

The gas producer must be allowed a sufficient return to pay for his exploration and production costs. Gas requirements for fertiliser production must come from royalties that government will get from private gas producers.

What are the supply and pricing options for gas? It can be imported by land from Iran, Tajikistan, Burma and Bangladesh; it can be imported by sea, re-gasified and supplied for use. Then there is domestic gas from offshore and new onshore fields. The first is yet to be agreed on and may be priced higher than fertiliser and electricity producers can afford. The second is already taking place for managing peak loads and achieves a better fuel mix for power plants to mitigate effects of global warming. For bulk use in base load generation it is too expensive.

Vested interests have persuaded government not to give the new gas regulator the power to determine gas tariffs. This must be corrected. Indeed, the gas and electricity regulators should be one body or sit together on tariff issues.

Market prices are a pipedream until gas prices come down substantially. High priced gas imported by land or sea can be used freely by captive power plants that wish to pay the price. Such gas must also create new markets for use in transport, domestic use and for petrochemicals.

Market prices for gas are volatile due to rising global demand and artificial shortages caused by war and terrorism. The resulting gas prices offer substantial windfall profits to gas producers. There is no reason to allow such windfall profits to domestic producers of gas.

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