

Emerging Landscape and New Set of Opportunities, Challenges and Risks involved in CGD Business in India

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Abstracts

PNGRB seem to have finally made a come back from the drawingboard stage and comeup with the revised set of regulations and bidding parameters which will be soon put to test in the upcoming round 4 CGD bidding, covering 14 districts from different states of the country: Uttar Pradesh, Maharashtra, Andhra Pradesh, Kerala, Karnataka, Haryana, Punjab and UTs.

Although the existing CGD entities are facing the pressure of input gas price, shortfalls in gas availability, non-uniform tax regime, etc. and had been battling with legal disputes, policy bottlenecks, gas supply constraints and regulatory inaccuracies, these CGD entities have managed to take on these challenges and register a steady growth in the business. In January 2013, the total natural gas consumption of the country was 127 MMSCMD. Of this, the natural gas consumption by CGD was 14 MMSCMD, nearly 11% of the overall gas consumption by various segments. All the same, the sector seems to have managed to carry the burden of high cost imported natural gas, since the CGD gas basket consisted of around 52% imported natural gas and remaining share consisted of domestic gas through tapered supply as per EGoM allocation. Further, based on plans of PNGRB to roll-out around 300 cities and towns across various states for City Gas Distribution network development, the total natural gas demand from CNG and CGD sector, according to the report "Vision 2030" by industry group to PNGRB, is expected to reach 85.6 MMSCMD in 2029-30 at a CAGR of 11% from 2013. Also, assuming a typical CGD project investment of around INR 250 – 300 Crore (it may be higher for district level geographical areas, clubbed with inflation), the overall investment in CGD sector may be in a tune of around USD 12 – 15 Bn (at 60 INR/USD) on a conservative estimate basis.

While largely the key facilitating aspects for CGD business are Gas Availability and Economic incentive to the end-use, the key drivers for CGD business in India include: Domestic Gas at low cost and adequate supply, GDP, Gas supply infrastructure, rationalization of primary fuel prices & subsidy removal, environmental tightness and Enabling policy & regulatory framework. In terms of domestic gas, one thing has emerged quite clearly that the days of cheap domestic natural gas may soon be over (based on the recent Rangarajan Committee report; readers may subscribe to the recently published report, "Impact of Gas Price Hike on Stakeholders and Industries across the gas Value Chain" by Infralnsights). The availability of domestic gas and its allocation to CGD is a matter of time when any ramp-up or new discovery is announced and commercially sold. The GDP growth estimates by RBI hover at around 5% in 2013-14, with inflation continuing to be a major challenge. The investments in natural gas pipelines are expected to be sluggish but steady owing to the coming up of new RLNG/FSRU terminals along the coast. There seems to be a positive tone set for market selling price of alternate fuels like LPG and HSD which are progressing towards a recovery from the subsidy regime; a move that will give a positive impetus to PNG and CNG margins of CGD projects.

After the debatable and much disputed results in the Round 1, Round 2 and Round 3 of PNGRB CGD Bidding, and question on PNGRB's authority over setting network tariff, the regulator had cancelled the Round 4 bidding consisting of around 8 cities. With glaring uncertainties in the regulatory & policy framework, the ministry (through its nominated agencies) had gone to the drawingboard stage and carried out solicitations from the stakeholders with an aim to come-out with a fool proof policy and regulatory framework that may benefit the end-user and also facilitate the development of gas infrastructure in the country. Outcomes, such as: proposed de-linking of CNG business from CGD's purview, removal of marketing exclusivity, commitment to a Minimum Work Programme as against weightage given to number of household connections and pipeline inch-kilometer, etc have been both, welcomed and opposed by the stakeholders. With the Round 4 CGD Bidding scheduled to happen in February 2014, the stakeholders are busy weighing the opportunities, risks and challenges and churning out strategies to milk the prospects in CGD business.

Infralnsights closely monitors the Oil & Gas sector and has come up with reports and articles addressing the key issues, challenges and opportunities in the sector. Infralnsights is yet again pleased to come up with a thorough analysis of the CGD Sector in India. Infralnsights has also included a preliminary analysis of the identified geographical areas in the upcoming Round 4 CGD bidding based on changes in the policy & regulatory framework, natural gas demand-supply scenario, evolving natural

gas pricing scenario, reforms in alternate fuel pricing, end-user demand profile, etc.

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