

### Rangarajan Committee Report and Its Impact Analysis

As per media report, the Rangarajan committee has recommended domestic natural gas price to about \$8.1mnbtu (Million metric British thermal unit) from \$4.2 mnbtu. The committee recommends cost plus profit mechanism rather than market expectation of import parity mechanism. This move will not only be benefited of gas produces companies but also prevent the deterioration of Govt.'s fiscal position.

**Gas Exploration Companies :** This would be immediately positive move for gas production companies like Reliance, ONGC & OIL. Increase the price of gas would not only boost profitability of existing gas field companies but also improve the visibility of new gas exploration and hence volume. But Reliance might be disappointed from this discussion as the company demanded for import parity mechanism.

#### Impact Analysis :

> **Reliance :** Every 10% increased in gas price would result in increased 1.2% increased in earnings

> **ONGC :** Gas production constitutes 45% of total production and contributed 25% revenue. Hence 10% increased in gas price would increase of 3.5% earnings.

> **OIL :** Gas constitutes 40% of total production and contributed 12% in revenue. Hence 10% increased in gas price would result of 2.5% increase in earnings.

> **Gas Transmission Companies :** If domestic production rise in long run followed by lucrative gas prices then it would be positive for transmission companies like GAIL, Gujarat Gas, IGL, GSPL etc. But increased in gas prices would be negative for city gas distribution companies like IGL. Increased gas price would be result of higher input cost and hit the margin unless the companies have pricing power to pass cost to end customer. Again increased in gas price would negative for gas based petrochemical companies. But we believe GAIL (gas based petrochemical company in our tracking universe) would have limited impact as the revenue from Petrochem segment contributed 8% in total.

> **Gas Importers Companies :** Increased the gas price would reduce the differences of domestic gas price and import price. This would increase the affordability of gas consumer to absorb high gas prices. However if the increase in domestic gas supply followed by lucrative price increase is greater than unmet demand of power and fertilizer then it could be negative impact on volume and margin of LNG importers like Petronet LNG.

> **Government Fiscal Deficit :** Our analysis suggested that every US\$1/mmbtu increased in price gas sold to power and fertilizer companies could result of net increase in Government subsidy burden of US\$1.2bn unless the power and fertilizer companies would not have pricing power to pass end customers. Both power and fertilizer companies are sensitive and we donot believe government to reduce subsidy burden on immediate basis. Hence government will do some balancing act in our view.

#### Some of the key recommendation

##### > Revenue sharing model :

**Now :** Private Companies recover all their costs from oil & gas revenue before giving government its share in the contractor's revenue.

**Proposed :** Do away with cost recovery model. Contractors to share the revenue with the government. Share to be determined through competitive bidding.

> **Contract Implementation : Now :** Joint committee comprising government and private representative look into the issues relating to approval of budget and procurement.

**Proposed :** Joint committee to only monitor and control technical aspects. Secretary level inter ministerial committee to suggest policy solutions. Expand mandate of the existing empowered committees of secretaries for issue involving condonation of delay on the part of the contractor.

> **Audit : Now :** Contractors perceive close scrutiny of the cost by the government and auditors as interference in commercial decision making.

**Proposed :** Authority of CAG to directly audit blocks will be unquestionable. CAG to perform audit within two years of the fiscal under audit.

> **Gas pricing mechanism : Now :** No single gas price at present. The range of prices has significant spread, making it difficult to determine government's share.

**Proposed :** Estimation of an unbiased arm's length price based on an average of two prices according to the formula specified in new policy.

> **Other key proposals : Tax holiday:** - Tax holiday for those involved in drilling offshore oilfield at the depth of more than 1500m. **Now :** Seven years , **Proposed :** 10 years . **Extension:** - Time frame for exploration of frontier, deep water and ultra deep water oilfield. **Now :** Eight years , **Proposed :** 10 years