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Methane Recovery

The national coal bed methane (CBM) demonstration projects at Moonidih and Sudamdih mines of **Bharat Coking Coal Ltd (BCCL)** are expected to result in CBM recovery and commercial utilisation by this year.

The projects are being set up jointly by the Centre, Global Environment Facilities (GEF) and UNDP in the active coal mining areas at an estimated cost of about Rs 770 million.

Oil and Natural Gas Corporation (ONGC), which is involved in the implementation of the projects, has been entrusted with the responsibility of undertaking the operation and maintenance of both the units.

Apart from the demonstration projects, **Coal India Ltd (CIL)** has entered into an agreement with ONGC for collaborative exploration and exploitation of CBM through an 'unincorporated' joint venture.

While the Centre has since approved allotment of Jharia Block (85 sq km) and Raniganj Block (316 sq km) to the CIL – ONGC consortium, CIL and ONGC will have to enter into contract as per the Union Government's policy for CBM. A contract between the Centre and CIL-ONGC joint venture has recently been initialised.

ONGC to Lease Fields

Oil and Natural Gas Corporation (ONGC) has decided to lease out 19 of its 93 small oil and gas fields estimated to contain up to 200 million tonnes of oil and 132 billion cubic metres of gas for seven years.

So far, 46 companies have indicated interest in the 19 smaller fields on offer and the first order will come into effect by March 2003.

According to the broad terms of contract, while ONGC will not have any equity participation in the fields, it will retain the ownership of the fields and marketing rights of the hydrocarbons output.

The corporation is expecting a minimum of around US$ 5 per barrel. While both ONGC and the bidding company can mutually decide to renew the contract after the seven-year period, the private partner will be free to exit after an assessment period of two years from the date of award of the contract.

ONGC will then be free to recover the cost of the unfinished work programme promised by the private firm at the time of awarding of the contract.

The contract will contain bonus and penalty clauses and the bidding companies will have to mention a floor price below which they will have the

" India has the capability of producing two to three per cent of world's oil and gas production with a sedimentary basin region of around 5.37 per cent in the coming few years. There is ample geological evidence that India's hydrocarbon reserves of oil and gas can dramatically increase two to three times to around 32 million tonnes, up by 18 per cent…

In fact, blocks D4 and D8 may also yield hydrocarbons. Data collected from Mahanadi Deep Water too appears very encouraging. The east coast of India has the potential to match or surpass the west coast's production...

Under the 10th Plan period, India plans to increase its gas production by 30 per cent with new discoveries taking place all over the country."

Dr. Avinash Chandra, Director-General of Hydrocarbons, India.

right to stop production.

The main parameters of bid evaluation are:

- technical capability, including introduction of cutting-edge technology
- work programme
- hydrocarbon recovery and
- financial muscle in terms of bottom line and backing from financial institutions.

Indigenous Crude Exports - Lifting of Ban

Oil and Natural Gas Corporation (ONGC) has sought lifting of ban on indigenous crude oil export.

According to ONGC, crude oil is a trade-able commodity and its export does not have any security implications. It is expecting an increase of about 1 MMT in crude oil production this fiscal.

The corporation is close to signing a pricing pact with the refiners of its crude, benchmarked to West African bonny light crude.

It is negotiating a two year contract (2002-04) with the state-owned oil refiners - **Indian Oil Corporation (IOC)**, **Bharat Petroleum Corporation Ltd (BPCL)** and **Hindustan Petroleum Corporation Ltd (HPCL)** – for close to 25 MMT of crude (the quantity the company produced in 2001-02).

After de-regulation of the oil sector in April 2002, ONGC crude was freed from state price controls and indexed to the global oil markets.

The corporation, which had begun charging the refiners US$ 22 a barrel beginning April 1, 2002 on an interim basis pending finalisation of pricing agreement, will get the price with retrospective effect.

OVL's Vietnam Field

ONGC Videsh Ltd (OVL) is seeking to regain operatorship of an offshore gas block in Vietnam, which started gas production last month.

After signing the farm out agreement (FOA) and assignment agreement on October 1, 1992, OVL requested **PetroVietnam (PV)** to approve assignment of operatorship to **British Petroleum (BP)** till the end of exploration Phase-II or as long as **BP/Statoil** would undertake work at their sole cost and risk, whichever was earlier.

The Vietnamese State Committee for Cooperation and Investment (SCCI), while according its approval for assigning 45 per cent interest to BP/Statoil, approved assignment of operatorship to BP up to the termination of the license. OVL, which is the largest shareholder with 45 per cent stake in the Nam Com Son Project, is expected to get US$ 60 million in revenue annually as its share in gas sales.

OVL in Syria, Libya & Iran

ONGC Videsh Ltd (OVL) has been awarded an exploration block in Syria, in consortium with the US-based exploration firm **IPR**. OVL, which has a 60 per cent stake in the consortium, may farm out 10 per cent stake to **Oil India Ltd (OIL)** at a later stage.

The deal for two exploration blocks – 188 and 189 – in Libya is likely to be signed by month-end. The consortium (OVL – 49 per cent and **Tbao** – 51 per cent) plans to invest US$ 35 million in exploration of the two blocks.

Marking India's first step in exploration in the Iranian oil sector, a consortium of Indian companies has signed a contract in Tehran to carry out exploration in the Farsi Block located in the Persian Gulf.

The consortium consists of OVL and **Indian Oil Corporation (IOC)** with 40 per cent each, and OIL with 20 per cent of the equity.

Drilling in Sunderbans Delta

Oil and Natural Gas Corporation Ltd (ONGC) will start drilling in the Sunderbans delta area, in the southern part of West Bengal, close to Bay of Bengal, from April next year. Data for the 600 sq km of the 6,700 sq km block, WB-OSN-2002/1, has been collected and interpreted and the location for drilling firmed up.

The operation will cost Rs 100-200 million, depending upon the number of drillings required and will be completed within three months. The operation is crucial to the Bengal basin and success in the area will lead to a re-look at all the past drillings where ONGC had not had encouraging results despite sinking 45 wells.

The corporation commissioned an USA-based consultant, John Kingston, to reassess the area and has now zeroed in on the Contai terrace belt where it will drill at Govindapur in East Midnapur district.

Recent Gas Finds

In a move aimed at exploiting the natural gas find in the Krishna-Godavari basin to the maximum, the Andhra Pradesh Government has constituted a five-member high-powered expert committee headed by Mr T L Sankar.

The expert committee is expected to recommend measures for rapid and full utilisation of the gas find. Other members of the committee include Dr S Varadarajan, Dr KV Raghavan, Mr M Gopalakrishna, with Dr J C Mohanty as its convener. To take stock of emerging opportunities and challenges the committee will take into consideration suggestions and advice from industrialists and experts in the sector.

NELP-IV

The Minister of Petroleum & Natural Gas, Ram Naik, stated that the significant hydrocarbon discoveries made recently in the country have greatly enhanced the prospects of finding more oil and gas reserves. These finds will render the fourth round of offering blocks under the New Exploration Licensing Policy (NELP-IV) more attractive for investors – NELP-IV is likely to be announced in April 2003.

Referring to the acceleration in efforts towards increasing self-reliance in oil and gas, Naik said that in three NELP rounds, 47 production-sharing contracts (PSCs) have been signed since the year 2000. With the approval for awarding 23 more blocks, 70 blocks stand awarded in less than three years, as against 22 in the previous 10 years.

Policy for Petro Pipelines

The government has announced the much-awaited policy for laying petroleum product pipelines in the country on a common carrier principle, opening the sector for private players.

The decision, aimed at boosting the pipeline sector, will increase the product transportation to 45 per cent in the next two to three years from the current 32 per cent. Companies and investors will have complete freedom in respect of the pipelines originating from refineries or meant for captive use of companies for which right of user (ROU) will be unconditional. The new pipelines will have to provide at least 25 per cent extra capacity for other users.

The petroleum product pipeline policy guidelines entails usage of the existing product pipelines by owners for their own products and the common carrier principle will apply to only excess capacity in these pipelines. However, all future product pipeline capacities built will have to be shared with the industry.

According to the notification, for pipelines exceeding 300 km in length and those originating from a port location, grant of ROU will be subject to fulfillment of certain conditions. These include provisions like: oil companies/investors interested in laying a product pipeline originating from a refinery or a port will be required to publish the proposal inviting other interested companies to take capacity in the pipeline.

The pipeline tariff will be subject to control orders or regulations that may be issued by the government under the appropriate law in force. A policy for gas pipelines will be announced in next three months. The guidelines will, however, not apply to for crude oil pipelines.

When natural gas was discovered during 1980 by **Oil and Natural Gas Corporation (ONGC)**, the then government had constituted the Dr Bhanu Prasad Committee to go into the details of utilisation, besides encouraging ONGC to intensify exploration activity from two rigs to six rigs. Demand for the natural gas in the state is continuously outstripping supply.

Andhra Pradesh is the first state to set up a gas-based power project under **AP Gas Power Corporation** with investment from the user industry. Subsequently, in the private sector **GVK** and **Spectrum** have set up gas-based power projects in the state.

Meanwhile, the mini-power units in the state, which have yet to receive gas quota, are banking on the **Reliance** find. **Lanco Power** has already entered into sale agreements with the company.

Tech Transfer

While setting up the US$ 540 million–2.5 MMTPA LNG–terminal at Hazira, **Shell** is finding it difficult to convince the Union Government to allow its subsidiaries, **Hazira LNG Ltd** and **Hazira Port Private Ltd**, pay royalty of E16.08 million for technology transfer, without a detailed appraisal of the project. The proposal entails payment of money as licence fee to **Shell Gas BV**, enabling the Indian companies to use the technology and related intellectual property rights for developing the port and LNG terminals. The technology to be licensed includes

- detailed plans for implementation of the port project, including contracting strategy
- design packages
- technical documents containing general project information
- design information
- design and engineering specifications
- major equipment specifications
- health, safety and environment methodology and controls and, operational implementation plan.

The **Foreign Investment Promotion Board (FIPB)**, before which the proposal is lying, had asked the Ministry of Petroleum & Natural Gas (MoPNG) to offer its comment on the issue. Later, MoPNG indicated that it was not in a position to comment on the reasonableness of the proposed payments without a detailed appraisal of the project.

Further, MoPNG maintained such payments are based on commercial considerations. In fact, the ministry even approached Shell's competitor in India, **Petronet LNG Ltd**, which was of the opinion that the training cost for operation and maintenance should not be more than 0.06-0.07 per cent of the capital cost of the project.

However, the board observed that evaluation by a competitor cannot be considered and directed the administrative ministry to have the proposal evaluated by an independent body.

Kakinada LNG Project

GAIL India Ltd will pick up 25 per cent equity in the Rs 194 billion Kakinada LNG import project in Andhra Pradesh. The Kakinada LNG Project is promoted by a consortium led by **Indian Oil Corporation (IOC)** and includes **BP Amoco**, **Petroliam Nasional Berhad (Petronas)** of Malaysia and **Cocanada Port Company**, a special purpose vehicle of the Singapore-based **International Sea Ports Ltd (ISPL)**, operating the Kakinada Port.

The 2.5 million tonne per annum capacity project will help meet the huge gas deficit in the southern and eastern region.

Partners in **Kakinada Indian Oil LNG Consortium (KIOLC)** will be executing a joint collaboration agreement soon to implement the project on a 'fast track' basis. It plans to offer a gas supply contract including price, to all potential customers in Andhra Pradesh and other states. Along with IOC, **Oil and Natural Gas Corporation (ONGC)** and **Bharat Petroleum Corporation Ltd (BPCL)**, GAIL holds 12.5 per cent stake in **Petronet LNG Ltd** which is executing 5 million-tonne-capacity LNG import terminal at Dahej (Gujarat) and planning another 2.5 million tonne terminal at Kochi in Kerala.

The project consists of development of port facilities, G terminal, pipeline network, marketing and distribution of re-gassified LNG and a LNG-based 1,000 MW power plant.

Dahej LNG Terminal

The country's first LNG import terminal at Dahej in Gujarat is 70 per cent complete and is expected to receive gas in the first quarter of 2004. The 5 million tonne per annum capacity terminal is expected to be ready by December 2003.

Natural gas, imported from Qatar in the form of LNG and re-gassified at Dahej, will be available for commercial use by March 2004. Supply of re-gassified LNG will be made through HBJ pipeline to Gujarat, Maharashtra, Rajasthan, Uttar Pradesh, Delhi and Haryana. **GAIL India Ltd** is constructing the Dahej-Uran gas pipeline to feed Maharashtra markets.

Petronet LNG Ltd (PLL) - an equal joint venture company of four national oil companies - **Indian Oil Corporation (IOC)**, **GAIL**, **Oil and Natural Gas Corporation (ONGC)** and **Bharat Petroleum Corporation Ltd (BPCL)** – has signed a sale purchase agreement (SPA) with Qatar's **RasGas.**

This will facilitate the import of 7.5 MMTPA of LNG for its re-gassification terminals coming up at Dahej in Gujarat and Kochi (2.5 million tonnes) in Kerala on free-on- board (FOB) basis for a period of 25 years. **Mitsui OSK Lines** and state-run **Shipping Corporation of India (SCI)** hold 34.21 per cent each in the special purpose vehicle (SPV) set up for executing the LNG shipping project for **Petronet**. **NYKK Line** and **K Line** will hold 21.08 per cent and 10.5 per cent of the remaining equity in the SPV.

PLL has signed shipping time charter agreement with the consortium led by Mitsui OSK Lines of Japan for importing 5 MMT of LNG from Qatar to Dahej for which two ships each having capacity of 138,000 cu m are required. Mitsui OSK had awarded the construction of the two ships to **Daewoo Shipping and Marine Engineering Company**. The first LNG ship named 'Disha' will be delivered by year-end. The second ship will be ready by December 2004. The two ships will cost US$ 370 million.

Concerned about the new gas discoveries replacing costlier LNG, RasGas has agreed to scale down the price at which it will sell LNG to India, provided New Delhi reciprocates by giving fiscal breaks to the sector.

The threat of **Reliance Industries Ltd (RIL)** swaying prime customers with promise of cheaper gas from its world-class discovery in Krishna Godavari Basin forced RasGas to agree to a minimum 50 cents cut in the delivered cost of LNG.

The government, on its part, will bring down sales tax on LNG to a uniform 4 per cent from the current 24 per cent and slash customs duty to zero from the present 5 per cent.

Gas Pricing Issue

The government has decided to form a fresh group of ministers (GoM) to consider the policy of fixation of natural gas prices. The decision to constitute the GoM was taken after ministries of power and fertilisers opposed the petroleum ministry's proposal to raise gas prices from the current level of Rs 2,850 per mcm to Rs 4,300 per mcm from January 1, 2003.

The GoM comprises Planning Commission deputy chairman KC Pant, Chemicals and Fertiliser Minister Sukhdev Singh Dhindsa, Power Minister Anant Geete, Petroleum Minister Ram Naik and Disinvestment Minister Arun Shourie.

Gas deregulation is already running behind the September 1997 government decision that progressively linked gas prices with international prices of a basket of fuel oils with 100 per cent import parity from 2000-01. At that time, a floor price of Rs 2,150 per mcm and a ceiling price of Rs 2,850 per mcm was fixed.

In a note to the cabinet, the petroleum ministry had proposed gradual increase in natural gas prices beginning January 2003, for complete deregulation by October 2003. It proposed that the ceiling on gas prices be raised from the level of Rs 2,850 per mcm to Rs 4,300 per mcm from January 1, 2003.

Further, gas prices were to be linked to 100 per cent fuel oil parity from April 1, 2003 and the price ceiling raised to Rs 5,800 per mcm. According to the cabinet note, deregulation of gas prices was proposed from October 1, 2003 so that market forces could determine the real price.

However as chief ministers of various states including Delhi, Andhra Pradesh, Goa, Rajasthan, Madhya Pradesh and Haryana opposed increase in gas prices, the Prime Minister decided to constitute the GoM to examine the issue and submit a report to the cabinet.

The petroleum ministry's proposal had stated that consumer price should include royalty in a manner such that the final price would not exceed the international oil price after the deregulation. It was seeking revision in prices to avoid an anomalous situation where LNG prices were substantially higher than domestic gas.

A pooled gas price mechanism - by combining natural gas and LNG prices - to keep average prices low has also been proposed. Besides, gas price increase will ensure that the anomaly of private gas producers getting international prices and public producers a subsidised price is removed. In terms of import parity, the current natural gas prices are about 48-50 per cent of fuel oil parity.

Natural Gas Shortage

The Indian fertiliser industry will face serious shortage of natural gas in the next five years in spite of the recent gas finds in the country. As a result of this the gap between demand and supply of fertiliser in the country will widen significantly.

As per government data, in 2003-04, there will be a shortage of 3.2 MMT of urea and 1.1 MMT of di-ammonium phosphate (DAP) in case of a 90 per cent capacity utilisation.

The shortage will touch 1 MMT of urea and 0.3 MMT of DAP in 2003-04 with 100 per cent capacity utilisation. Similarly in 2004-05, there will be a deficiency of 3.8 MMT of urea and 1.6 MMT of di-ammonium phosphate with a 90 per cent capacity utilisation owing to non-availability of natural gas. With the demand supply-discrepancy, India will also have to import huge quantities of urea for short and medium term requirements.

As the new gas finds in the country will fructify only after a few years, the industry must focus on joint venture projects abroad immediately for easy and cheap availability of feedstock.

Till now most overseas joint venture projects have been for the manufacture of phosphoric acid. Meanwhile, India is already looking at setting up a fertiliser project in Iran as a joint venture with an Iranian company.

LPG Price Hike Rider for Subsidy Scheme

Increase in price of domestic LPG (cooking gas) by Rs 40 a cylinder (in two equal installments) has been set as a pre-condition by the finance ministry before finalising the subsidy scheme for LPG and public distribution scheme (PDS) kerosene.

The petroleum ministry has been seeking an expeditious clearance of the subsidy scheme for LPG and kerosene for public distribution, announced in this year's Budget. The petroleum ministry has also suggested reduction of excise duty rates on domestic LPG and PDS kerosene.

However the finance ministry has made it clear to the nodal ministry that the differential between cost price and issue price of LPG and kerosene would be met from subsidy/duty adjustments only after a hike is implemented in the prices of LPG and PDS kerosene.

Issues related to subsidy scheme and excise duty rates on kerosene and LPG were discussed in detail at a recent meeting of petroleum and finance ministry officials, chaired by Dr Vijay Kelkar, advisor to the finance minister.

The two ministries were able to strike a consensus on some of the key issues relating to subsidy calculations on domestic LPG and PDS kerosene. These include pricing period, valuation of stock losses, tariff of **GAIL India Ltd**'s LPG pipeline, difference between the transportation cost of actual import of LPG and the notional freight allowed in the price build-up on the domestic production of LPG.

Decisions taken in the meeting:

- Pricing period would be the average of the product prices for the year 2001-02 and the month of March 2002
- The countervailing duty/excise duty component in the product price would not be considered in subsidy calculations
- The actual tariff of the pipeline paid by the oil marketing companies would be considered in the subsidy workings
- For actual imports of LPG, the difference between the transportation cost of import of LPG as per Transchart and the notional freight allowed in the cost price build-up of the domestic production of LPG would be allowed for computation of subsidy
- Lighterage costs would be considered for the ports at which lighterage costs are actually incurred in subsidy workings.

Under the subsidy scheme announced in the Budget this year, a flat amount of Rs 45 billion was earmarked to compensate the oil marketing companies for their under-recovery in the sale of LPG and kerosene.

The subsidy was fixed in April when the global crude price was US$ 21 per barrel. However, crude oil price in the past few months averaged around US$ 28 a barrel and per tonne LPG prices have moved up from US$ 200 in March to US$ 300 in September.

As international prices have moved up, the oil companies should have changed prices of both the products in the past few months.

Oil companies are incurring losses to the tune of around Rs 2 billion per month for holding on to the February prices of LPG and kerosene.

Integrated LNG Policy

The next month Cabinet is likely to consider an 'Integrated LNG Policy' that seeks to put imported fuel at par with domestically produced gas through big tax incentives.The policy, mooted by the petroleum ministry, seeks abolition of 5 per cent customs duty on imported gas and a uniform 4 per cent sales tax on LNG throughout the country.

Besides proposing a tax holiday till 2010, the policy recommends zero customs duty on capital goods and equipment for LNG facilities. It also suggests giving infrastructure status to LNG projects. Without the tax breaks, re-gassified LNG would cost between US$ 5 to 6 per million BTU at the customers' end, as against import parity price of domestic natural gas of less than US$ 4 per million BTU.

The revised policy favours unrestricted import of gas and transportation through common carrier pipelines, with tariff laid down by the regulator. It also desists from fixing ceiling on quantity or price of imported LNG or re-gassified LNG.

As indicated by the finance ministry in its comments on the proposed LNG policy circulated by the petroleum ministry, the Union Budget for 2003-04 may provide for a 10-year tax holiday for the LNG business. Since this will entail amendment to the existing tax laws, the issue will be taken up as a part of the Budget exercise. The finance ministry has indicated that the tax holiday proposal could go through, as various players in the LNG chain already enjoy certain tax benefits.

The finance ministry, however, did not agree to a zero Customs duty on capital goods imports for construction of LNG terminals at par with power projects, and the inclusion of sales of LNG or re-gassified LNG in the list of declared goods.

Gujarat Gas Leakage

The Gujarat Pollution Control Board (GPCB) has served notice under the Air Pollution Act to the subsidiary of multinational energy major **British Gas – Gujarat Gas Company Ltd (GGCL)** – following the detection of gas leakage from its pipelines in Surat. The company has been asked to repair pipeline network to prevent further emission of gas and get its pipelines examined from an external agency.

A GGCL spokesperson refused to comment on the issue except to state that they had not received any notice from the GPCB.

Claiming that the GPCB team has not been able to pin-point any source of the leak, he said that this is a common phenomena during winter months and with a number of telecom companies in the process of digging there is a possibility that the pipelines might have got damaged.

In fact, GPCB is contemplating serving a warning to the telecom companies and Surat Municipal Corporation to adopt safety measures while carrying out their work.

Gasohol Launched

On the January 1, 2003, the Minister of Petroleum and Natural Gas, Ram Naik, commissioned the national launch of ethanol-blended petrol (gasohol) in Mumbai.

Though the pricing has not been finalised, it is expected that gasohol will be cheaper than ordinary petrol by around Re 1 to Rs 1.50. It will not attract additional excise duties.

Oil marketing companies, **Indian Oil Corporation (IOC)**, **Hindustan Petroleum Corporation Ltd (HPCL)** and **Bharat Petroleum Corporation Ltd (HPCL)** will purchase ethanol from sugar companies, which make the alcohol from sugarcane molasses, at Rs 17,000 per kilolitre.

Supply of 5 per cent ethanol-blended petrol has begun in parts of Andhra Pradesh, Maharashtra, Punjab and Uttar Pradesh and these states will be fully covered by June.

States like Goa, Gujarat, Haryana, Karnataka and Tamil Nadu and the union territories of Chandigarh, Daman Diu, Dadra Nagar Haveli and Pondicherry will be also covered as a part of the first phase of ethanol introduction.

The remaining states, where the production of sugar cane is comparatively low, will be covered in the second phase.

Auto LPG Sales

Indian Oil Corporation (IOC) has launched sales of automobile LPG in Chennai and has put up four more LPG vending machines – Auto LPG Dispensing Stations (ALDS).

Automobile owners in Chennai will have the opportunity to use a cheaper, cleaner fuel at the rate of Rs 19.56 per litre.

While the petroleum ministry had wanted the oil PSUs to put up 228 auto LPG stations all over the country, IOC has put up 116.

The corporation will install 61 by the end of the current financial year, and the rest in the following year.

The consumption of LPG is approximately 10 per cent more than petrol for equivalent mileage. Consumers will need to buy Autogas worth Rs 21.52 to get the same mileage as a litre of petrol, which costs Rs 31.35.

Haldia Petrochemicals

Haldia Petrochemicals Limited (HPL) has agreed to **GAIL India Ltd's** demand for a board level position in the company. It has agreed to involve GAIL in its various decision-making committees i.e. legal, audit and sourcing. The companies also agreed to co-operate in areas of information technology, and research and development in the future. The companies signed a memorandum of understanding (MoU) which also includes GAIL's expression of interest to buy into HPL as an equity partner in the future, subject to due diligence and financial restructuring.

This move is expected to facilitate GAIL's equity investment in HPL. GAIL has also announced a strategic marketing alliance with HPL for marketing of petrochemical products. Under it, GAIL will market 35,000 MTPA of polypropylene produced by HPL in export/domestic market and there will be product swap of 40,000 MTPA of polyethylene for marketing by HPL in the domestic market. HPL may assign (legal transfer of a right) the agreement/MoU to some banks to raise funds upfront for the cash-strapped company.

However, GAIL's equity participation in HPL is subject to the completion of a due diligence study by its technical, financial and legal consultants, after the completion of financial restructuring package proposed by HPL's lead lender **Industrial Development Bank of India (IDBI)**.

Besides carrying out the financial due diligence study, **Ernst and Young** has also been given the task of estimating a fair value of HPL's equity to provide a basis for GAIL's equity participation in the petrochemical company. The corporation's team is currently working with Ernst and Young and HPL's financial consultant **Lazard India**.

The financial consultants have recommended a host of additions in the restructuring framework already under discussions between HPL and IDBI.

Suggestions include:

- A principal and interest moratorium for a period of three to four years
- 40-50 per cent of the outstanding principal to have a repayment schedule from fourth to 15th year
- Rest of the principal converted into a zero coupon bond/debt repayable at the end of repayment period either as bullet repayment or equal repayment spread over two to three years or alternately write-off of 15 to 20 per cent of principal.

The restructuring guidelines prepared by HPL in consultation with IDBI call for reduction of debt-equity ratio, working capital ratios and managing debt services coverage ratio (DSCR) to desirable levels. Further, the guidelines include reduction in interest rate, maximal use of foreign currency loans, rescheduling of repayment requirements, securing favourable credit for naphtha supplies and attracting fresh equity in the company.

Parallel LPG Marketing

Parallel LPG dealers have asked the government to provide a 'level playing field' by allowing them to avail LPG from state-run firms like **Oil and Natural Gas Corporation (ONGC)** and **GAIL India Ltd** at a subsidised rate. As of now they have no other option but to buy LPG from **Reliance Industries Ltd (RIL)** for bottling which results in arm-twisting and over payment. The dealers also want the government to put an end to the commercial use of household LPG cylinders, which would result in Rs 300 billion of savings to the State exchequer.

TERI Document for Energy Strategy

To throw light on the energy situation in India and set the ball rolling, Tata Energy Research Institute (TERI) has brought out a report based on the premise that the integrated energy strategy for a country is not about numbers and predetermined targets but about the establishment of institutional links and incorporation of social and security goals. This aims at providing clean affordable energy for all.

The report indicates the need for mapping all energy resources within the country and the technology choices available. It also aims at exploiting opportunities arising out of international agreements and asks for opening up of energy markets.

Strategic Oil Reserves

The government is planning to build storage tanks in Rajkot, Mangalore and Visakhapatnam to stock 5 million tonnes of crude to meet contingency needs.

The stockpile, which would be sufficient to meet the country's crude requirement for 15 days, would cost about Rs 52 billion.

The plan is to achieve a 45-day cover in stages in three years. The government has also asked state-owned **Indian Oil Corporation (IOC), Hindustan Petroleum Corporation Ltd (HPCL)** and **Bharat Petroleum Corporation Ltd (BPCL)** to stock their present tanks of both crude and petroleum products to capacity to meet any emergency arising out of the war in Iraq.

Currently, the total crude storage capacity with domestic refineries is 5.7 million tonnes (19 days). While creating a special purpose vehicle (SPV) with equity contribution from all domestic refineries to meet the capital cost could finance the contingency reserves; the operating cost was to be mopped up through a cess on petroleum products. The carrying cost of 5 million tonnes of crude will be about Rs 5.2 billion per annum.

Consumers of some petroleum products will have to bear the cost of the proposed 15-day reserve stock of petroleum as and when it is created.

A cess will be levied on some petroleum products to fund the cost of storing supply of petroleum reserves.

The oil giant IOC has submitted a proposal to the government to create this storage. Together with another company, IOC Tanking - a joint venture between IOC and Oil Tanking of Germany – the corporation will construct and operate the storage facilities.

Disinvestment of HPCL & BPCL

The government will sell its shares in **Bharat Petroleum Corporation Ltd (BPCL)** through the public offer route while **Hindustan Petroleum Corporation Ltd (HPCL)** will be privatised through strategic sale.

The government will ensure that disinvestment does not result in creation of private monopolies. It will address this crucial aspect of disinvestment, raised by Defence Minister George Fernandes, and Petroleum Minister Ram Naik, through the enactment of Competition Bill, 2002.

The Opposition in Rajya Sabha has challenged the legality of disinvestment in HPCL and BPCL without bringing the necessary legislation to amend the Act of Parliament by which they were set up.

The government, however, has not set a time frame for divestment in these two firms as the modalities on the quantum of strategic sale and public offer will now have to be finalised and submitted to the Cabinet Committee on Disinvestment (CCD) for approval. The decision is seen as a partial victory for those opposed to the strategic sale of government equity in the two state-owned oil majors.

This has forced the Ministry of Disinvestment (MoD) to adopt the middle path and agree to sale of shares through public offer in BPCL and strategic sale in HPCL, climbing down from its earlier stand of strategic sale in both the oil companies.

The concern raised by those opposed to the strategic sale of oil companies had, in September, led the CCD to announce a three-month moratorium on taking a view on disinvestment in these companies, which ended on December 7.

VAT.NET

The Central Government has finally decided to introduce Value Added Tax (VAT) from March 31, 2003. Under the VAT tax regime, the demand to use IT at all levels will be much higher: from registration to filing and realisation to resolution of appeals.

The Central Sales Tax (CST), which is an origin-based tax when a commodity is sold in another state, will continue for the moment before being phased out by 2005. **Pricewaterhouse Coopers India (PwC)** through its VAT.NET, is addressing the changes in the state government's requirement for the new tax environment.

It has been developed on the Microsoft.NET technology framework. VAT.NET is portal-based application software.

It has a three-tier architecture with database server, application and front level presentation layer. PwC's application software will take care of the existing IT systems that the commercial tax department has.

The Centre has decided to give in to the states' demand for levying an entry tax on their transition to the VAT regime from April 1, 2003. This will be over and above the 100 per cent compensation to be extended to states for losses incurred in the first year post-VAT. The dual benefits are being extended to ensure that implementation of VAT is not postponed again.

Delhi, Madhya Pradesh, Maharashtra, Punjab, Karnataka, Uttar Pradesh and West Bengal are among the states that plan to levy the entry tax.

Retail Bonanza

Post the administered price mechanism (APM) regime, oil companies are gearing up to meet challenges in an increasingly competitive retail petroproduct marketing arena. They are adopting innovative marketing techniques to woo customers across the country by offering vehicle owners a totally new experience at petrol pumps.

The focus is on highways petrol pumps where state of the art facilities will be offered and hospitals, web store, internet cafes, et al – a one-stop solution for all customer needs will be available.

The number of total petroleum retail outlets is projected to increase from the current 18,000 to 26,000 over the next few years. This spurt in growth of the retail business is going to put pressure on the profit margins of the companies and revenues per outlet, forcing the industry players to adopt new strategies for survival.

All the petroleum retailers in the country have embarked upon a strategy of brand building over the last 1-2 years. Initiatives have ranged from

improving the 'look and feel' of outlets, to developing a common identity across outlets and its constituents.

The petro-majors are also planning highway truck stops with expansion of modern highway infrastructure, emergence of state of the art long-distance fuelling and service facilities.

Interestingly, companies like **Indian Oil Corporation (IOC)** are also going in for local and multinational alliances. Large-scale investment and training is currently being considered by oil companies to offer world standards in retailing petro-products in India.

Biofuels

SuTRA or Sustainable Transformation of Rural Areas, an arm of Indian Institute of Science - Bangalore (IISc)'s Department of Mechanical Engineering, is now at the forefront of generating a draft national policy and action plan to promote the use of non-edible vegetable oils as biofuels. For six years, they worked with the humble *pongamia* oil and showed how the poor man's fuel could light up villages, pump safe water through pipes into rural homes, run village enterprises and irrigate parched fields in the countryside.

According to Dr Udipi Shrinivasa of IISc, who is the Chief Programme Executive for SuTRA, non-edible oils such as *pongamia* can easily be substituted for hydrocarbons and save the country millions of rupees in foreign exchange. According to him "Potential exists to produce about 200 million tonnes a year of non-edible oils that can be used as biofuel, compared to our import of 60 million tonnes of crude imports".

SuTRA was recently asked by the Union Minister of State for Rural Development, Mr Anna Saheb Patil, to come up with a one-year action plan and provide inputs for a draft national policy on promoting biofuels.

SuTRA, along with the Bangalore-based Samagra Vikas Trust and BAIF Institute of Rural Development, Tiptur, is organising a national seminar on 'Non-edible Oils as Biofuel' on February 1 and 2. The seminar will discuss the mechanism and policy changes needed to make biofuels a way of life in India. Some 150 scientists, voluntary organisations, policy makers and entrepreneurs will be participating.

In Brief

- Oil industry's contribution to the central revenue exchequer has gone up by Rs. 100 billion, this fiscal due to imposition of a higher cess on crude and introduction of a specific duty of Rs 6 per litre on petrol. The revenue contribution, which comprises 33.3 per cent of the total revenue kitty, is likely to be higher by an additional Rs 30 billion on account of the sharp spurt in international crude prices.
- Natural gas production from Tapti offshore field, where **British Oil** and gas major **BG Group**, **Oil and Natural Gas Corporation (IOC)** and **Reliance Industries Ltd (RIL)** are partners, holds the potential to more than double its current output of 5.4 million standard cubic metres per day.
- After ten months of bickering, the operatorship issue of Panna, Mukta and Tapti oil and gas fields appears to be heading for a resolution with the British oil and gas major **BG Group** proposing involvement of Indian partners in the award of multi-million dollar contracts. BG, which took over interim operatorship of the fields after buying **Enron's** 30 per cent stake, has also promised transparency and greater participation of Indian partners in decision making.
- **Mahanagar Gas Ltd**, a **GAIL India Ltd** and **British Gas** joint venture, plans to add another 17 compressed natural gas outlets in Mumbai by March 2003. This will take the number of gas stations in the natural gas-starved city to 55 outlets. The company plans to set up a wide network of 55 CNG stations across the city with 204 dispensing units with a compression capacity of 545,000 kg per day by March 2003.
- **Indian Oil Corporation (IOC)'s** high-end fuel 'Premium' petrol and 'Super Diesel' will be launched in 25 cities across the country.
- **Oil and Natural Gas Corporation (ONGC)** is taking up the development of G-1 offshore field in Krishna-Godavari basin, D-1 exploration block in offshore Mumbai and the recent oil and gas field east of gigantic Vasai gas field, at an investment of Rs. 5 billion. The three fields together will give an incremental 150 million tonnes of oil and oil equivalent gas reserves that are expected to go on production in two-and-half years time..
- **Oil and Natural Gas Corporation (ONGC)** has said it might stop its crude oil supply to **Indian Oil Corporation (IOC)** Koyali refinery and divert all its Gujarat oil to **Mangalore Refineries and Petrochemicals Ltd (MRPL)**, the Karnataka-based company that would become shortly an ONGC subsidiary.
- With the international prices of LPG moving up by more than US$ 30 a tonne in the past three months, domestic oil marketing companies are making a concerted attempt to press the government for raising the domestic prices of subsidised LPG. The companies said since the last price revision in February, the cost of an LPG cylinder had gone up by Rs 120 because of the increase in international prices, which have moved up from US$ 295 a tonne in October to US$ 315 in November and are now US$ 327.

We take this opportunity to wish our readers **happiness, peace and prosperity** in the year ahead.

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