

Feature

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India needs an overarching policy to support its plans to increase the share of natural gas in the energy mix and replace conventional fuels for household use as well as industrial utilities.



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India's energy sector is poised for accelerated growth and is fast becoming one of the most attractive global energy markets. To support this growth, the government must continue to review its existing policy parameters to create a favorable and investor-friendly regulatory framework. Some of the steps taken by the government under the leadership of Prime Minister Modi are already in the right direction. Programs like Ease of Doing Business (EODB) and the singularly biggest tax reform measure, GST, are shaping India's economic environment and opening the economy to foreign investment and participation.

Energy policy settings

India needs an overarching policy to support its plans to increase the share of natural gas in the energy mix and replace conventional fuels for household use as well as industrial utilities. The 2017 Draft National Energy Policy once finalized will shape the energy regulatory and policy environment and boost the sector's attractiveness to global industries.

Policies should also be developed to restructure the way transmission network system is regulated. For example, the government could assume more responsibility for pipeline development and tariffs could be fixed by the regulator, depending on the quality of fuel transmitted.

Last year's budget was a testimony to the government's vision to make India a gas-based economy, as the customs duty on LNG was slashed by half, reducing the cost of importing the fuel. This resulted in lowering the cost of urea, petrochemical production and other users of natural gas. Importing LNG for power generation for public distribution was already fully exempted from duty, boosting the market for natural gas and inching us closer to a becoming clean energy market. With this year's budget, we hope the government will consider reducing the customs duty on all LNG imports to zero to support further development of the gas market in India.

Inclusion of natural gas under the GST purview is important as it will remove the anomaly of the high tax impact without the scope of input tax credit, which essentially leaves fuel sale susceptible to high costs that, in turn, could suppress demand growth. Natural gas being cleanest fossil fuel, in view of it not being part of the GST regime, makes it more expensive than other dirtier fuels. It is imperative that it be brought into the GST which will help remove the differential VAT in different states and move us one step closer to creating an ambitious gas hub.

Supporting infrastructure development

India plans to move to a sustainable gas-based economy by boosting domestic gas production and importing larger volumes of LNG. However, the challenge remains in distribution, not least the lack of well-functioning gas supply chain infrastructure. This infrastructure gap means many industrial clusters outside major metropolitan centers have inadequate access to gas or are unable to access gas at an affordable and sustainable cost. This is stunting the growth of the gas-to-power energy sector and could potentially disrupt India's economic growth rate. One way the government can help these energy-starved industrial clusters is to incentivize energy solutions providers with equitable policies that will reward them for introducing innovative infrastructure solutions to bridge the supply-demand gap.

With high unmet demand, the time is right for a more innovative approach to LNG distribution. Natural gas is now more available, affordable and competitive than liquid fuels, making ideal for efficient power generation. Coupled with the diminishing attractiveness of coal-fired generation due to environmental considerations and the availability of new proven technologies, there is a two-three-year window for developing commercially viable LNG import terminals to serve the distributed energy requirements of these underserved, off-grid demand centers.

Establishing a gas hub

The Ministry of Petroleum and Natural Gas's ambitions to develop a gas trading platform are commendable. As a first step, the Government needs to introduce a concrete roadmap for the establishment of the hub commensurate with regulatory support that will enable tariff determination based on the market reality.

Conclusion

Upcoming LNG terminal projects, surging demand for natural gas and the cost-effectiveness of LNG compared to alternative fuels are among the major factors anticipated to positively influence India's LNG market over the next decade. The government's revised guidelines on "Gas Allocation Policy" to prioritize natural gas supply to end-user segments including City Gas Distribution for households, the transport and fertilizers sectors (urea plants), power plants and industrial sector will also play an important role in growing our gas economy. An efficient, well-functioning supply chain that is scaled to match demand will increasingly become part of India's LNG import and distribution networks.

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