



NATURAL GAS REGULATORY STRUCTURES

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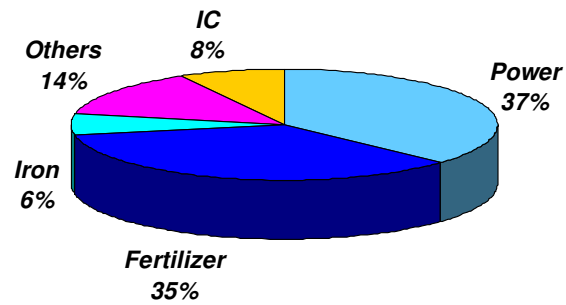
7th Petro India 2008



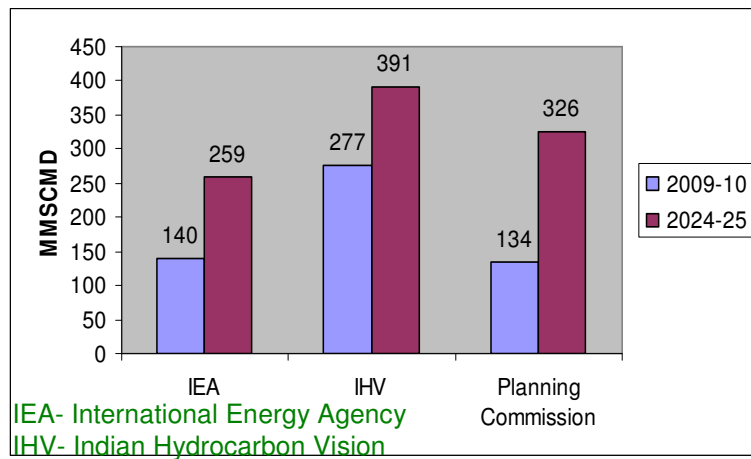
21st CENTURY-SHIFTING FOCUS ON NATURAL GAS

- NATURAL GAS SHARE TO INCREASE
- ASIAN MARKET – DRIVERS FOR GROWTH
- INDIA AND CHINA ARE THE FASTEST GROWING MARKETS.
- POWER, FERTILIZER, DOMESTIC AND TRANSPORT SECTORS TO DRIVE THE GROWTH
- REGULATION FOR NATURAL GAS REQUIRED IN DEVELOPING MARKETS.

SHARE OF NATURAL GAS IN INDIA

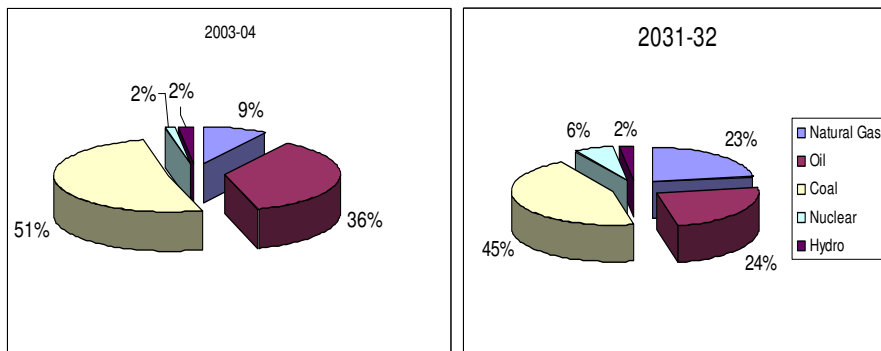


INDIA'S POTENTIAL DEMAND OF GAS



SHARE OF NATURAL GAS IN INDIA'S ENERGY BASKET

IN INDIA THE SHARE OF NATURAL GAS IS GOING TO INCREASE FROM 9% TO ALMOST 23% IN NEXT 25 YEARS.



DEREGULATION PROCESS

BASIC REFORM PROCESS ENVISAGES THE FOLLOWING:

1. Privatization (to bring in efficiency and competition)
2. Vertical integration (common ownership of facilities) with no. of suppliers
3. Restrictive entry – with good corporate governance for healthy industry structure.
4. Performance based regulation: Penalty or incentive policy
5. Unbundling of services so as to Increase number of options and reduction in total cost.



PROBLEMS OF INDIAN GAS SECTOR

- FEWER PLAYERS SPECIALLY ON THE SUPPLY SIDE
- LACK OF PRICE DISCOVERY
- PRICE SENSITIVITY NECESSITATING DIFFERENTIATING PRICING
- LACK OF A GOOD DISTRIBUTION GRID
- LACK OF STORAGE AND SUFFICIENT REGASSIFICATION FACILITIES.
- INADEQUATE PLAYING FIELD FOR THE PRIVATE SECTOR



WORLD GAS STRUCTURES

- LARGE VOLUME OF GAS TRADED
- LARGE NUMBER OF SUPPLIERS
- COMMON/CONTACT CARRIER CONCEPT
- COMPETITIVE MARKET PRICE DUE TO LARGE TRADE
- DOMESTIC AND ELECTRICITY ARE MAJOR CONSUMERS
- HIGHEST SAFETY STANDARDS TO AVOID ANY RISKS



PRICE DISCOVERY IN US MARKETS

- NYMEX set up an advisory committee for Natural Gas futures contracts which ultimately resulted in the world's first Natural Gas futures contract in April 1990 for delivery at Henry Hub in Louisiana.
- In 1992 options contract was developed which is a unilateral contract that gives the buyer the right to buy or sell a specified quantity of commodity at a specific price within a specified period of time, regardless of the prevailing market price of that commodity.
- With the Henry Hub futures contract the Eastern Market was covered but the Western market was left uncovered. In 1995, Kansas City Board of Trade launched the Western Natural Gas Contract with delivery point in Waha Hub in Texas.
- This was followed by NYMEX launching the Pernian futures contract in May 1996 for delivery on El Paso Natural Gas system in West Texas followed by another contract in Sept 1996 for delivery in NOVA's pipeline system in Alberta, Canada.



OIL AND GAS REGULATORY ACT IN INDIA

FUNCTIONS:

- PROTECT THE INTEREST OF CONSUMERS BY FOSTERING FAIR TRADE AND COMPETITION AMONG ENTITIES.
- IN LINE WITH OTHER REGULATORY LAWS, REGISTER ENTITIES TO CARRY OUT THEIR FUNCTIONS IN STORAGE AND MARKETING OF PETROLEUM PRODUCTS AND NATURAL GAS.
- REGULATE PIPELINES AND OTHER MODES OF TRANSPORTATION INCLUDING CONSIDERING PIPELINES AS "COMMON/CONTRACT CARRIERS".



REGISTRATION OF ENTITIES

- Parties engaged in marketing of any notified petroleum products and natural gas.
- Parties establishing and operating LNG terminals.
- Parties building, operating or expanding common carrier or contract carrier pipelines.
- Parties laying, building, operating or expanding a city natural gas distribution network.



ADVANTAGES OF REGULATORY ACT

- ATTRACT LARGER INVESTMENT IN NATURAL GAS.
- BRING ABOUT GREATER COMPETITION IN AREA OF NATURAL GAS TRANSMISSION.
- BRING ABOUT UNIFORM RULES IN THE NATURAL GAS INDUSTRY.
- ESTABLISH OPERATING RULES IN THE NATURAL GAS INDUSTRY
- LEVEL PLAYING FIELD FOR THE PUBLIC AND PRIVATE SECTOR.
- CREATE CITY GAS DISTRIBUTION NETWORKS.



SUMMARY

- Initiative has been taken by the Government to regulate the Gas industry.
- Expect benefits for the consumers in terms of competition and fair tariffs.
- But a lot is still desired to be done to bring about the basic infrastructure and create a “market” for proper buyer/ seller benefits.
- National Grid of pipelines needs to be developed rather quickly as part of this “market”.



THANK YOU