

India Must Take Advantage of Low Prices

GAIL's boss believes the country is staring at a historic opportunity.

By ASHISH GUPTA and ANJALI KAPOOR GABA

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HUWAN CHANDRA TRIPATHI, 56, IS ONE of the founder employees of the erstwhile Gas Authority of India Ltd. (now GAIL), the state-owned gas processing and distribution company. Now Tripathi is serving his second term as the chairman and managing director of the company. A mechanical engineer from the National Institute of Technology, Allahabad, he has been involved in some of the company's most prestigious projects, such as the 3,397 km Hazira-Vijaipur-Jagdishpur pipeline and the more

recent Dahej-Dabhol pipeline. At 49, he became the youngest head of a Navaratna company and has been credited with turning GAIL into an aggressive gas marketing and transmission company. Here, he tells *Fortune India* why the time is ripe for gas to be assessed separately from other traditional fuels, what regulation is needed in order to ensure fair play in a difficult business, and what the government needs to do to build robust power supply. Edited excerpts:

GAIL has a 'Plan 2011-2020', according to which the company wants to emerge as an integrated hydrocarbon major. How are you approaching this?

Gas is one of the most benign fuels available today, and GAIL as a public sector undertaking has a major role to play to help it reach the end consumer. We believe that gas prices are at favourable levels (in June 2014 gas price was nearly \$20 per mmbtu (million British thermal units), falling to less than \$6 at the time we went to press), and it is time for India to take advantage. We already have huge infrastructure in the country and now it is up to the stakeholders to create an ecosystem where gas can become the preferred fuel, from both a cost and an environmental point of view.

We have planned 3,000 km of additional pipelines, [notably] in Kerala, Bihar, and Uttar Pradesh. New LNG terminals are being built on the east coast; the existing LNG terminals have spare capacity and are under expansion. Our second petrochemical plant near Kanpur is now running at 40% to 50% capacity and will be ramped up to 100% by the end of May. The Assam gas cracker project (a joint venture led by GAIL) has been commissioned and is under way. So, with domestic and international sources and expanded pipelines, we will be able to meet the demand.

The [public] transport sector is a major opportunity for gas. You are aware of the pollution crisis. It took China a decade [to understand the damage], but India can learn fast. We must immediately ban polluting fuels in major towns. Even if we improve the quality of liquid fuel, gas will be [a cleaner alternative].

When you talk of becoming an integrated player, does that mean you will enter the refining space?

No, we are not getting into refining. When I say "integrated", I mean in the context of supply, transportation, and distribution of gas and other value-added products like petrochemicals.



BHUWAN CHANDRA TRIPATHI,
chairman and managing director, GAIL

Depressed domestic gas volumes and prices are a big concern. How is it impacting GAIL?

Lower prices are good for a consumer. But for a producer it is obviously a big challenge. The production of all the domestic companies has gone down drastically, which has led to under-utilisation of capacity. Pipelines that were running at 75% have come down to 45%. Power plants are stranded, and due to low gas prices, upstream companies are hesitant to invest. However, international prices are low, so we can import. Today 40% of the demand is met through imports.

GAIL is the designated procurer of regasified LNG for stranded power plants. What are your views on the government's attempts to infuse life into these projects, and what more can be done?

It is a good scheme by the power ministry and GAIL, but how long it will work is a question. We have given 50% discount on our tariff and 75% discount on marketing margins, and the government has waived the customs duty on imported LNG. If there is a shortfall, there is support from the Power System Development Fund. This is helping make power available to the power distribution companies at Rs 4 to Rs 4.5. Some of the power plants are able to service their interest payment and sometimes even their debt. To that extent it is a start.



But we need policy reform. If we agree gas-based power is cleaner, why do we compare power produced by coal with power produced by gas? Why don't we have some premium for gas? The public can pay a little extra for [cleaner power]. Take Delhi. We have a coal-based power plant here and a gas-based power plant. You are running a coal plant in the heart of the city when you have an efficient gas-based one available. And a city like Delhi can afford clean power. Here some policy directive is required.

Today, with low gas prices and coal being transported from the eastern coast to the centre, the prices are by and large the same. Even if gas is a bit more expensive, transporting coal is choking the railways, you are polluting the city. Add the cost of all that, and coal will be costlier than gas.

The crash in crude prices led to a peculiar situation: Spot LNG prices became lower than long-term prices. How did you tackle that?

It is a problem that had never before happened in the history of LNG, which is almost 40 years. Wherever we have contracts we are trying to enforce them. We are also trying to renegotiate our long-term contracts. It is not easy, but there are buyer-seller relations and we have been successful at places. While spot is at a discount today, one event and it will shoot. There is no certainty or reliability of supply in spot. For any power

GAIL believes that the gas industry in India has adequate built-up infrastructure to make gas the preferred fuel from both a cost and an environmental point of view.

plant or fertiliser plant, or any city, you need a certain base supply. Long-term contract, while it is costlier than spot, gives you stability.

You made losses with petrochemicals this time.

We made a loss but it was not a cash loss. It was because of factors like depreciation and interest. And that too because of the extra cost during commissioning, extra feedstock prices, and high LNG prices. Now LNG prices have come down.

We will examine all these aspects at the new petrochemical unit. We will

also consider whether we should go for ethane-based or naphtha-based petrochemicals because once the prices of petrol go up, these prices will follow suit. Once we sort these things out, the existing plant will again start giving us profits.

If renewable energy takes centre stage, how will it impact the conventional players?

I believe the thrust on renewables is required, but to what extent they will meet the demand in the immediate future is a question. If renewables become more economical, coal will be hit first, before oil or gas. But history shows that there are many challenges with renewables. Earlier Europe was against coal, but now they are guzzling coal because of low prices and a bad economy. The pace at which renewables grow will depend on technology and how fast prices come down.

The Petroleum and Natural Gas Regulatory Board says city gas distributors should not have exclusive distribution rights. Your take?

Forget about city gas, let's say there is a pipeline. If you want to buy capacity, I am giving it to you immediately. But I have invested on day one to build that capacity. If you give me assured returns on my investment, I have no issue. But there is no assured return on the pipeline. The whole structure, the way the board has developed the regulation, is self-defeating, and that is why even after eight years of its existence, there isn't a single pipeline authorised by it. With city gas as well, all the thriving projects are the ones that were authorised before.

If someone has invested and you give them assured return, I have no problem with open access to all. But today, for example, Indraprastha Gas has set up so many CNG stations in Delhi and they are running at 30% capacity. Is IGL getting assured returns of at least 60%? On the one hand you are not giving assurance and on the other you want open access. Why will anyone invest money? I am totally for competition, but please give assured returns to the city gas player for the infrastructure it has created.

How is the shale gas business faring?

Till last year we made an investment of about Rs 175 crore and made a profit of Rs 130 crore. (GAIL entered the shale business in September 2011.) This year we are yet to close accounts, but things are definitely bad. We have cut down investments. We are also negotiating with our service providers, and they have reduced costs. But whether it makes sense to invest at the current price is something we can't decide today. I don't think this year we will be in a position to announce profit out of shale.

How are you improving safety of the pipelines after the fire in Andhra Pradesh two years ago?

The nature of the commodity is such that it is explosive, so safety is a concern. That said, we have taken a host of steps. We got all our standard operating procedures audited by international auditors once again. We strengthened our national and regional gas management centres for communication and control. We are now going for further automation so that we can remotely control all the pipelines. We are also investing in new technology to gauge the strength of our pipeline. At the inlet point of a pipeline

“If we agree gas-based power is cleaner, why do we compare power produced by coal with power produced by gas?”

we are mandating strict quality control measures. On the 10th of every month, each area in-charge, generally the deputy general manager or manager, will spend half a day only on safety-related issues reported that month. He will send a report which will be reviewed by two directors by the 20th. And by the 25th, they are supposed to inform the board, the subcommittee of the board, and the chairman. All security guards now have GPS devices. Old pipelines are being refurbished with an investment of Rs 3,000 crore over the next two years.

What are the next steps GAIL is taking with regard to the Tamil Nadu pipeline controversy after the Supreme Court quashed the state's opposition to it?

We have written to the state government. We are not against farmers. We are ready to pay the required compensation, even a little higher if needed. We will not damage any permanent establishment of any farmer—this is a commitment we have given. And after the pipeline is laid, we will give back the land to the farmer in the exact condition in which it was given to us. They can do all their cultivation there. The only restriction is that they cannot build a permanent structure over the pipeline. ■

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