

# Gas-run cities in the pipeline

If the government's plans bear fruit, half the urban population and 60% vehicular traffic will have easy access to clean fuel, says **Rajeev Jayaswal**

**T**HE government has set the target: half of the country's urban population and 60% of our effective vehicular traffic must have an easy and affordable access to clean fuel through city gas pipelines. As per an industry estimate, 86.7 lakh domestic consumers and 25,000 commercial consumers are expected to switch over to natural gas. All eyes are set on the petroleum ministry which is expected to announce a Policy for Natural Gas Pipelines & City or Local Natural Gas Distribution Networks.

Oil majors such as Gail (India), Exxon Mobile, BG, Shell and Reliance Industries are anxiously awaiting the government to announce the rules of the game before they jump into an area which makes tremendous business sense. Market leader Gail (India) has prepared a roadmap for entering major towns and cities. The timeline is 2009 and identified cities include Agra, Kanpur, Lucknow, Faridabad, Pune, Patna, Varanasi, Ahmedabad, Sholapur, Hyderabad, Bangalore, Chennai, Kolkata, Bareilly, Rajahmundry, Vijaywada, Vadodara, Navi Mumbai, Thane, Gurgaon, Noida, Allahabad, Jhansi, Mathura, Gwalior, Indore, Ujjain, Rajkot, Surendranagar, Kota and Kochi.

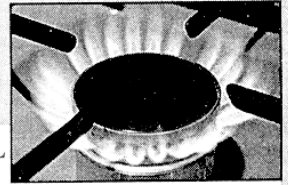
According to an estimate, each of the cities have a revenue potential between Rs 7,000 crore and Rs 8,000 crore. However, investment in pipeline infrastructure is capital intensive. "Approximate cost of a city gas project is Rs 500 crore, where there is an estimated demand of 1 MMSCMD," an expert said.

Even as city gas pipeline projects are capital intensive, it has a distinct advantage for consumers, claims ministry of petroleum & natural gas. "On an energy-equivalent basis, natural gas costs an average of 68% less than petrol and about 38% cheaper than diesel in Delhi," an official in the ministry said.

Besides the cost, natural gas has various benefits compared to other conventional fuel. It is a clean-burning fuel that reduces vehicle maintenance such as extended interval of oil change and standard spark plugs last longer. Natural gas, unlike liquid fuels, cannot be siphoned from a vehicle. Fuel theft is an ongoing concern of commercial operators using petrol and diesel.

As large-scale investments are required in city gas projects, the government may favour developing pipeline networks on a common carrier principle and allow exclusive rights for the developer for the initial years. "The fear of monopolistic situation is ill-founded as the regulator will be monitoring the pricing of gas. Consumer interest will be protected by the government. The proposed policy will incentivise investors and protect consumer interest. The policy has been drawn after a thorough study of international experience," a senior official in petroleum ministry said.

According to a study, in China, a gas distribution company has 30-year distribution and supply monopolies with access to all consumers. In Brazil, local distribution companies have exclusivity for the concession period in a pre-



## INTERNATIONAL EXPERIENCE

Country	License/Concession Period	Distribution Exclusivity
<b>China</b>	30-50 years	30 years
<b>Brazil</b>	30 yrs, extendable by 20 years	12 yrs for bulk consumers and 30 yrs for domestic consumers
<b>France</b>	30 yrs, extendable	Phased competition is underway
<b>Argentina</b>	35 yrs, extendable by 10 years	Limited to 2,150 km

defined area. The concession period in Brazil is consumer-specific. While concession period for very large consumers including thermo-electric customers is 12 years without volume restrictions, the period is 30 years for residential and commercial consumers.

Similarly, the concession period in France is 30 years which can be extended. In Argentina and Germany, the licence is given for 35 years, extendable by 10 years, and 20 years (renewable) respectively. For gas distribution, Argentina has, however, limited exclusivity on the basis of geography. Distribution exclusivity in the country is in an area of 2,150 sq km.

In the US, there was a monopoly for distribution and supply till 1978. The country formulated Natural Gas Policy in 1978, which introduced competition on the supply side. Even when competition was introduced, consumers demonstrated inertia in exercising choice. According to the study, only 7.5% residential consumers had switched their suppliers in 2002 in the highly-competitive market like New York.

**THE ECONOMIC TIMES CHENNAI**  
FRIDAY 20 OCTOBER 2006

Indian Government plans to make clean fuel available to majority of Indian population and 60% of vehicles