

## 'There should be no controls on setting up LNG import terminals'

Importing LNG to meet the growing domestic for fuel is not an option but a necessity, feels **D.M.Desai**, CEO of Ethical Energy Petrochem Strategies

The demand for gas in India is known to be driven by the supplies. Even at current demand level almost 30 per cent of gas is required to be imported. All the projections available for most optimistic indigenous gas production are far less than the projected demand. Hence, gas imports are unavoidable. The option of cross-border pipeline for imports of gas has been pursued for long and current geopolitical situation does not give confidence in possibilities of such imports materializing in near future.

Thus, if gas supplies in India are to be augmented, to fulfill projected demand for meeting emission reduction targets, large scale LNG imports have to be planned.

### Challenges

Though there is a very large demand potential for LNG imports, and therefore a strong business potential, there are a few challenges which need to be addressed in gas market for LNG business to grow to its potential. These are:

- Gas pricing confusion discourages long term contracts.
- Lack of infrastructure in terms of number of LNG terminals.
- Limited gas pipeline network limits demand potential because of limited reach to potential demand centres.
- It takes very long time in developing conventional land based LNG receiving terminals.



- Desire of large gas importers to import LNG directly but not having access to LNG import infrastructure.
- Unpredictable and selective intervention of Government in gas markets to regulate gas allocation and pricing does not inspire confidence in investors. Now there are talks about regulating LNG terminals which raises serious concerns about its future prospects.
- Abuse of regulatory regime by players leading to litigations and making regulator ineffective. Further, the idea of regulating grant of permissions for development of 'distribution networks' through a central agency is impractical and not conducive to its rapid development.
- There is a lack of a holistic energy sector policy with a clear focus on achieving emission reduction targets. Unless appropriate 'carbon price' is charged there is no way to promote use of cleaner fuels such as gas in power sector and without

large scale use of gas in power, emission reduction targets are impossible to achieve.

### Opportunities

Strategies are all about converting challenges into opportunities. Some of the opportunities we see for LNG business, in particular, and gas business, in general, are as follows:

- There is potential for developing many more LNG import terminals. There is a very strong case for development of FSRU projects due to inherent advantages of FSRU in terms of speed of implementation, cost, flexibility etc. Concept of 'Tolling terminal' is a very promising business model whereby many prospective buyers will have opportunity to consider LNG imports on their own.
- There is an urgent need to develop national gas grid to provide access to potential gas demand centres across the length and breadth of the country. This needs to be planned with a long term strategic view of the gas markets and needs to act as a bridge between all the major supply centres, all major demand centres and all the pipeline networks already laid and/or planned to be laid. This is required to be planned and implemented on 'pan-India' basis. Such an infrastructure would address the evacuation issues faced by LNG terminal developers and, also, help in developing a mature gas market by ensuring competition amongst various buyers and sellers of gas.
- Till the time pipeline infrastructure is developed as mentioned above,

there is need to develop quick ‘Virtual pipeline’ connectivities between demand and supply centres of gas. This can be achieved by developing LNG transport business in following areas:

- LNG transport by road tankers
- LNG transport by rail (This is a huge potential as there is vast rail infrastructure already available in India)
- LNG movement along coastline by-‘hub and spoke model’ wherein small ports along the coastline can be developed as spokes using small LNG ships to transport LNG.
- There is huge potential for use of gas as automotive fuel. A large scale initiative to develop nationwide infrastructure for dispensing LNG and LCNG would give rise to a huge demand for gas in automobiles as people will see nationwide availability and the automobile manufacturers will start offering large number of gas based vehicles as OEMs.
- City gas distribution has large potential. It is possible to plan 300-400 towns/cities to have distribution network based on gas supplies through existing/planned pipeline infrastructure and also through virtual

pipeline network discussed above.

- There is a potential to develop online trade of gas, to be settled based on physical delivery rather than cash settlement, to develop a transparent price discovery mechanism in Indian market. One of the options is that such a trade platform is planned for delivery mechanisms along the national gas grid. This will go a long way in developing a matured gas market.
- Singapore is developing a large ‘Tolling terminal’ which is expected to be operational in 2013. This terminal is, also, going to have specific jetties to load small LNG ships. Proximity of Singapore to east coast of India with large number of small ports and potential gas consumers along coastline offers a unique business opportunity to hire storage capacity at Singapore LNG terminal and bring LNG to east coast of India by loading small LNG ships at Singapore.

### Enabling policy initiatives needed

In order to realize full potential of LNG business, we think following policy initiatives from Government would help

creating the right business environment:

- The government should liberalise the gas sector by withdrawing from its current role of allocation and pricing of gas. There should be no controls on development of LNG import terminals.
- A national gas grid should be developed on a pan-India basis as basic enabling infrastructure for promotion of gas industry. The entity entrusted with this infrastructure development should have no other business interest in entire gas value chain. This could also be developed on PPP model.
- Government should introduce the concept of minimum gas based power purchase obligation (GPO) for all utilities and consumers, on the lines of renewable purchase obligation mechanism. Introduction of GPO and related GEC trading mechanism will go a long way in creating the right market environment for investment in gas based power generation.
- Government should also think in terms of evolving the corporate tax structure linked to emission intensity of industry so as to provide incentives for use environment friendly fuels like gas.
- The Regulations in terms of authorizing ‘Distribution network’ development needs to be modified and the Regulator’s role should be only to frame standard guidelines for design, installation, operations and maintenance of such networks which are required to be followed. Grant of authorization needs to be decentralized at local body level (say municipalities and or gram panchayats) subject to the standards to be followed as per the Regulator’s guidelines. This is the only way to promote large scale development of distribution networks, simultaneously, across the country. 📌



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