

GAIL to Buy Entire Produce from Essar Oil's Raniganj East CBM Block

State-run firm wins rights to buy up to 2.3 mmscmd of CBM from Essar at a crude-linked price for 15 yrs

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New Delhi: GAIL India will buy the entire produce for the next 15 years from Essar Oil's coal bed methane (CBM) block of Raniganj East in West Bengal.

The state-run gas firm outbid three rivals to win the rights to buy up to 2.3 million metric standard cubic metres per day (mmscmd) of CBM from Essar at a crude-linked price which works out to \$6.492 per million metric British thermal unit (mmBtu) on gross calorific value basis at an oil price of \$60 per barrel, according to the auction details available on Essar's website. GAIL confirmed it had won the auction.

The prices are to be revised every month and are linked to trailing three-month average price of crude oil. The price discovered in Essar's auction is similar to what Reliance Industries received in its

CBM auction last year.

At \$60 a barrel of crude, other bids translated into a price of \$6.382 per unit from Matrix Fertilizers and Chemicals, \$8.582 from Graphite India and \$5.215 from Positron Energy.

Despite a higher bid of \$8.582 per unit, Graphite India lost out to GAIL as Essar decided a winner based on 'total revenue maximisation' formula, people aware of the matter said.

Graphite India had bid for a minimum of .025 mmscmd and maximum of .05 mmscmd of gas, which could have resulted in a revenue of \$5.53 million for Essar. But GAIL had sought a minimum of .050 mmscmd and a maximum of 2.3 mmscmd, the entire peak volume on offer, which could translate into a revenue of \$192.59 million.

Supply of gas to GAIL will begin soon, the people said. Essar's Raniganj block currently produces 1 mmscmd of gas and is expected to raise output to 2.3 mmscmd by 2020-21.

Last year, the government had given CBM producers the freedom to sell gas at arm's length price in the domestic market through a transparent and competitive bidding process. This prompted Reliance Industries, another CBM producer, to hold auctions last year.

Natural gas produced from conventional fields in India is governed by a pricing formula set by the government. The price is revised every six months and is \$2.89 per mmBtu at present.

Essar has spent ₹4,000 crore in developing the Raniganj East CBM block so far. The company has nearly 350 completed CBM wells and put in place large gas and water handling infrastructure in its block.



GAIL It registered a 28% increase in Profit after Tax (PAT) in the third quarter of Financial Year 2017-18, as against the corresponding quarter in last fiscal, mainly due to the better performance by Liquid Hydrocarbon (LHC), Gas Marketing & Transmission Segments. The Company's PAT for the quarter ending 31st Dec. 2017 rose to Rs. 1,262 crore from Rs. 983 crore in the corresponding quarter of the last fiscal. Profit before Tax (PBT) for the third quarter increased by 25% to Rs. 1,858 crores against Rs. 1,484 crore in the corresponding quarter of the last fiscal. B C Tripathi, CMD said "All the segments have registered physical growth as compared to previous year, which is reflected in both the top line and the bottom line of the company..."



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GAIL to buy CBM from Essar at \$8 per unit

SHINE JACOB

New Delhi, 14 February

State-run GAIL (India) has won a contract for buying coal-bed methane (CBM) gas produced from Essar Oil's Raniganj block in West Bengal. The gas will be supplied based on the three-month daily average price of Brent crude oil, which works out to around \$8 per million British thermal unit

(mBtu) now.

Based on current prices, the 15-year contract will be around ₹7 billion on an annual basis.

This comes a few months after Reliance Industries (RIL), which began commercial production of CBM from its two blocks in Madhya Pradesh, started buying CBM at around \$7.8 mBtu.

Essar's price is more than double the price of domestic

natural gas set by the government till March 2018, which is \$2.89 per mBtu. Great Eastern Energy and Oil and Natural Gas Corporation are the only CBM producers other than RIL and Essar.

GAIL has outbid other contenders like Matix Fertilisers, Graphite India and Positron Energy to buy CBM gas from Essar Oil and Gas Exploration and Production.

"GAIL won the bid offering to pay gas prices that will be linked to the three months' daily average price of Brent crude," confirmed a source. This is a favourable price compared to the current imported liquefied natural gas price of \$11.5 per mBtu.

In March last year, the government had allowed marketing and pricing freedom to CBM producers. At present, CBM is being sold at prices ranging from \$3.4-15.5 per unit in the country. Many CBM players were not producing due to lack of clarity over pricing till then.

Essar has invested about ₹40 billion so far in the Raniganj East CBM block towards drilling wells, setting up supply infrastructure and laying customer pipelines to Durgapur and nearby industrial areas. The block has 348 completed CBM wells, alongside gas and water handling capacity. The company had recently stated that it was planning to drill more than 500 wells in line with the block's field development plan. The company aims to increase the production from 1 mscmd (million standard cubic metres per day) to 2.3 mscmd soon.

In FY17, India produced 564.6 mscm of CBM, up 43 per cent compared to 392.9 mscm India produced in FY16. CBM is the natural gas stored in coal seams. Data available with the Directorate General of Hydrocarbons says India has the fifth-largest proven coal reserves in the world and, hence, its CBM potential is high.

At present, Essar owns CBM rights for five blocks — including Raniganj in West Bengal, Talcher and Ib Valley in Odisha, Sohagpur in Madhya Pradesh, and Rajmahal in Jharkhand. Looking into the production numbers of FY17, Raniganj East block by Essar is the largest producer of CBM in India with 385 mscm, followed by Raniganj South field by GEECL at 169.6 mscm and Sohagpur West by RIL at 6.3 mscm.