

Gas prices: another revision on the cards?

Gas bills were always slated to be on the higher side after the government had announced an increase ranging from 10 percent to 143 percent in various slabs across domestic consumers categories. But the gas bills, in a lot of cases, in the last two months have been exponentially, not proportionately higher, leading to the Prime Minister himself taking notice and forming a fact finding committee on the matter.

According to reports, the Cabinet Committee on Energy may well tinker with the revised gas tariff slabs, in addition to other corrective measures. With improved gas supply during winters, largely due to LNG availability, most domestic consumers received uninterrupted gas supply. That coupled with the extended winters with lower average temperatures, meant more demand for heating purposes.

As a result, the percentage of domestic users in last three slabs, with higher revised rates, increased significantly. The slab up to 300 cubic meters, in peak winters usually constitutes 10-12 percent of consumers, but the share went up to as high as 20 percent these winters, impacting more households than earlier envisioned by the authorities. Worse still, the advantage of previous slabs does not apply in the revised scheme of things, exposing more consumers to the higher side of the tariffs.

To top it all off, the component of 'pressure factor' in the pricing formula acted mysteriously, especially for the consumers in the Northern region. The pressure factor is a tool used to control and account for any possible event of theft, in case consumers try and change the meter gauge. The component is said to have increased exponentially, defying logic, sending more consumers to the higher slab categories.

The government has reportedly decided to revise the lower slabs upwards, as they are cross subsidized, and somewhat reduce the impact on higher slabs. The episode goes on to show how demand projection is still found wanting at the highest levels. While the revised prices may well be the right move to make, given the changing circumstances, higher demand and improved supply, it will remain a politically tough decision.

Recall that the government had earlier boasted on how the gas price increase does not impact more than 80 percent of consumers by more than 12 percent on an average. Should there be an upward revision in lower slabs, expect hue and cry from all corners. That said, it may well lower the impact of gas prices in terms of CPI calculation – as the formula is wrongly based on simple averages. In case of the highest slab being offered a respite from the current 143 percent hike – expect a drastic downward revision in CPI impact on gas prices.

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