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# India's Gas Pricing Landscape

Understanding Gas Price Basics, Past Trends and How Consumers Can Manage Price Ups and Downs.

This presentation is for informational purposes only and does not represent the views of IndianOil.

# Gas Prices Are Determined by Market Structure, Not Just Supply–Demand



## Gas-on-Gas Competition (GOG)

Price discovered at liquid **trading hubs** based on supply–demand

US, Europe, Spot LNG



## Oil Price Escalation (OPE)

Price determined via **pre-agreed formula indexed to oil**, not re-negotiated each time

Asia LNG (India, Japan, Korea)



## Bilateral Monopoly (BIM)

Price set through **negotiation between dominant counterparties**, outside liquid benchmarks

Middle East, Russia pipeline trade



## Netback from Final Product (NET)

Gas price derived from **net realisation of final product**, after processing margins

Trinidad (petchem)



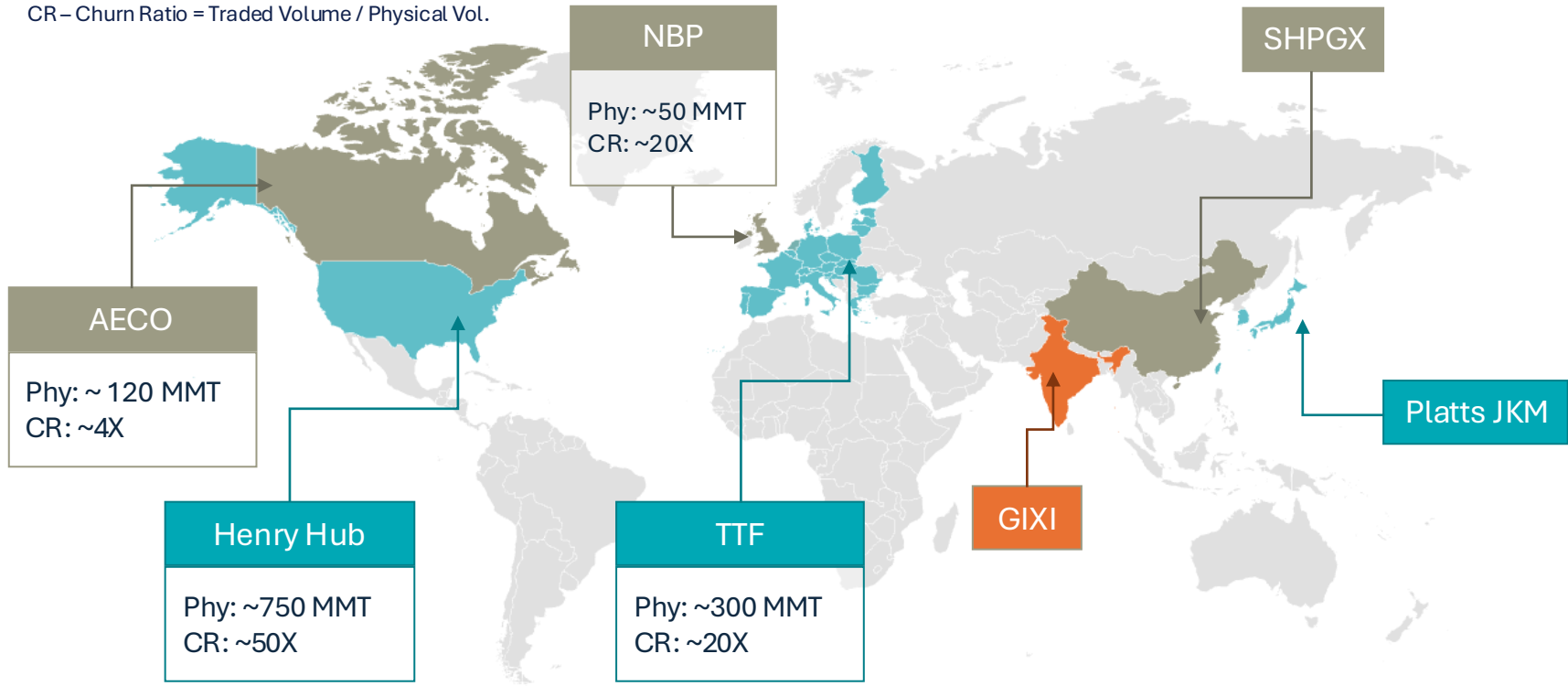
## Regulated Pricing

Price determined/approved by **Govt.** (cost-based, subsidised, or hybrid)

Middle East, China (domestic), Africa

# Gas-on-Gas Competition (GOG) – Major Hubs

CR – Churn Ratio = Traded Volume / Physical Vol.

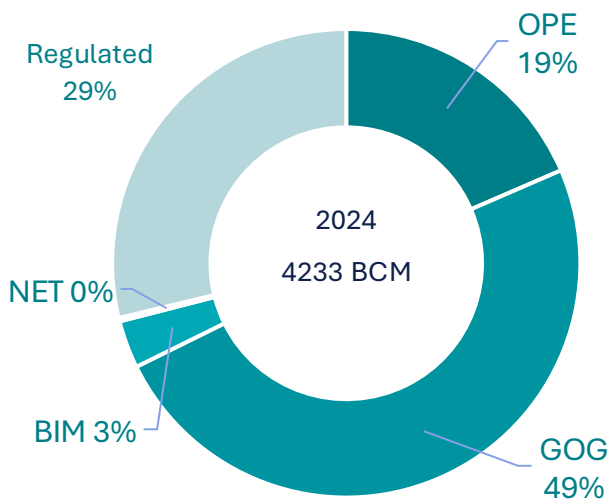


Indicative Numbers to visualize the size

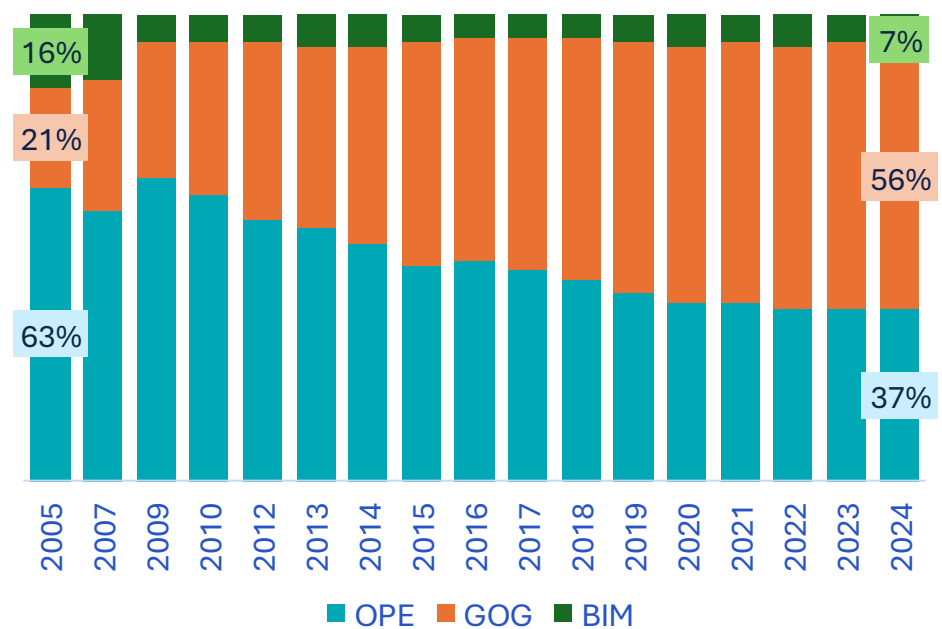
Churn  $\geq$  10x : Liquid / Mature Hub

# Gas-on-Gas Competition Now Dominates Global Pricing, While Imports Remain Hybrid..

Share of Gas Price linkages in World Consumption



Share of Gas Price linkages in Gas Imports

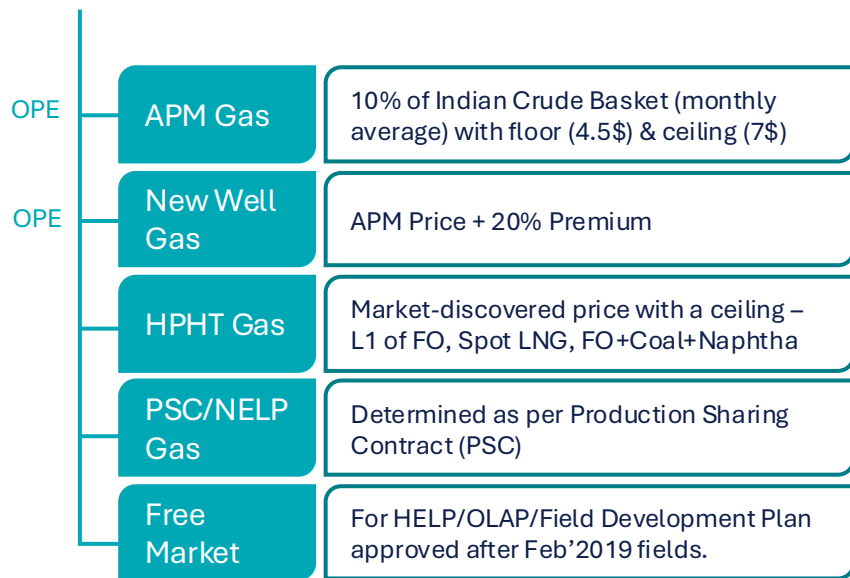


Source: The IGU Wholesale Gas Price Survey

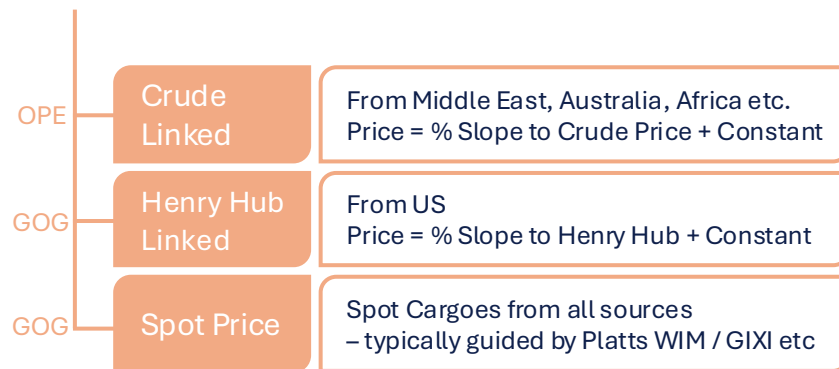
# India's Gas Pricing Landscape: A Dual System of Domestic Controls and Global Linkages...



## Domestic Gas



## Imported Gas



India's market is dominated by OPE

# The LNG Market Is Structurally Cyclical - Driven by Investment Lags and Supply Waves...



# Commodities Supercycle, Financial Crisis, and the Shale Paradigm Shift (2007–2011)

\$/MMBTU

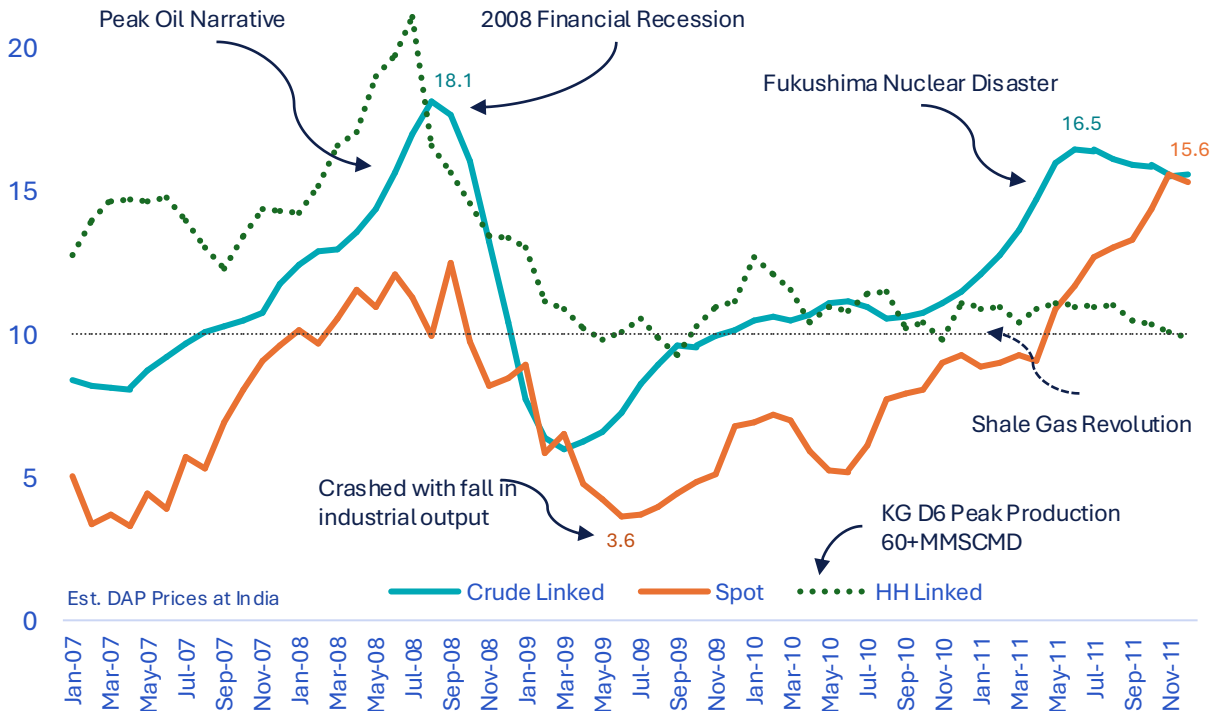
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Commodity Supercycle

Prices Collapse

Ind. Demand Return

Demand Shock



## EXPECTATION

- U.S. expected to face massive domestic gas deficits.
- U.S. Gas prices permanently tethered to high oil markers.
- U.S. to require massive regas terminals

## REALITY

- Horizontal drilling/fracking unlocked centuries of supply.
- Henry Hub broke from crude (\$3.3/mmbtu vs. \$110/bbl by end 2011).
- Regas terminals converted to Liquefaction.

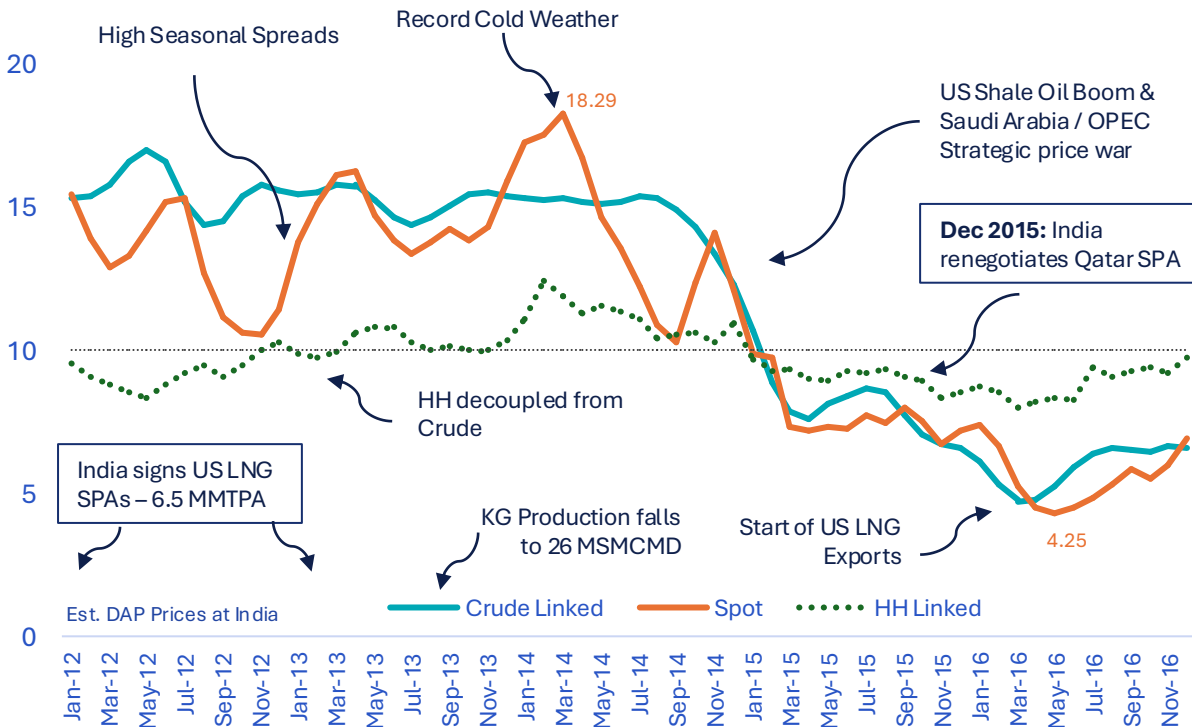
# Fukushima, the Asian Premium, and the Apex of Oil Indexation (2012–2016)

\$/MMBTU

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Price inelastic Japanese Demand from Nuclear S/Ds

Prices Collapse



## EXPECTATION

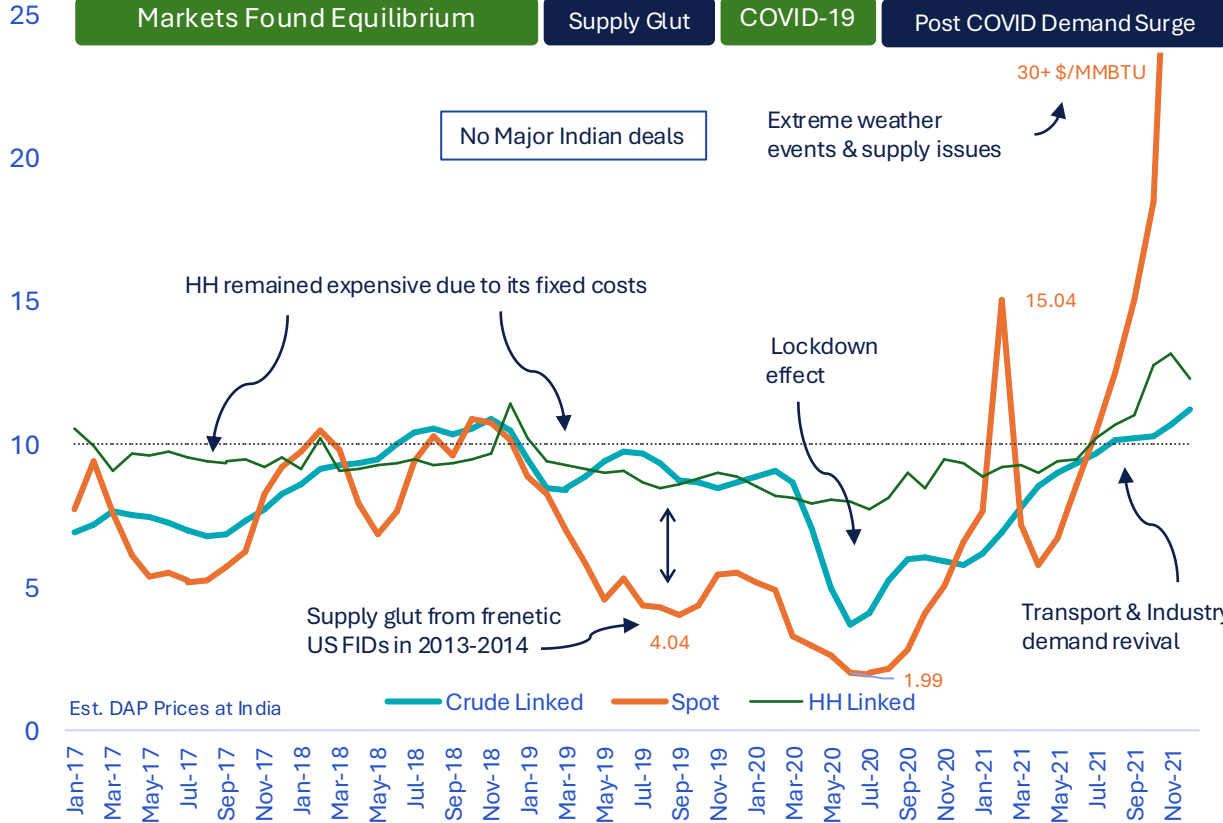
- \$100+ Oil and Asian Premium were permanent.
- Asian/Indian buyers viewed HH as a perpetual, low-cost discount to Oil.
- IEA projected gas overtaking coal, driven by China and declining nuclear power.

## REALITY

- The 2014 price crash violently inverted traditional pricing advantages.
- US contracts had a floor due to fixed tolling/freight costs
- By April 2016, HH-linked gas (~\$8s) cost **nearly double** spot LNG or crude-linked (~\$4s).

# The First Great Supply Wave, Coal-to-Gas Switching, and the Pandemic Shock (2017–2021)

\$/MMBTU



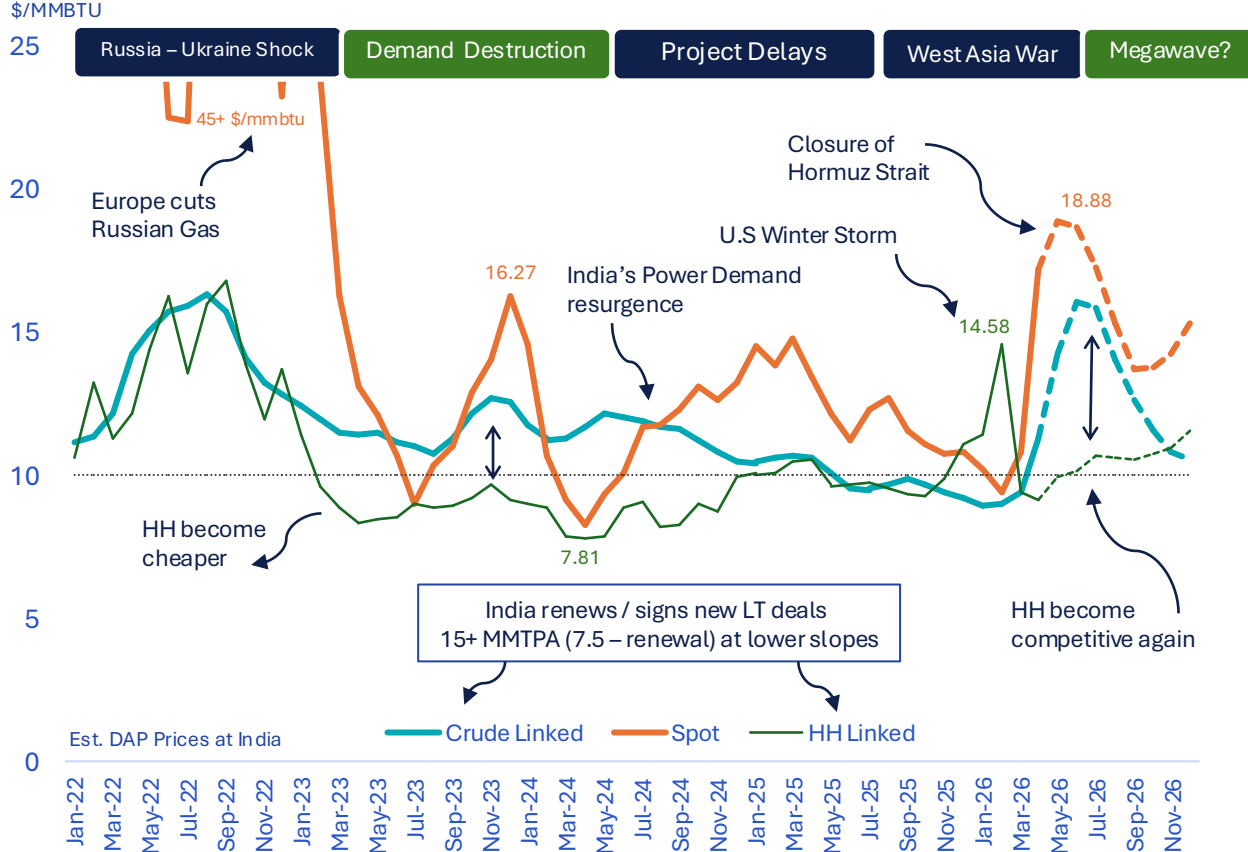
## EXPECTATION

- Analysts feared a 150 mtpa wave would crash the market.
- Post-2020, consensus saw a glut lasting until the mid-2020s.
- Forecasts saw Europe as a distressed residual sink
- Massive 25% cuts in investment viewed as necessary.

## REALITY

- China - coal-to-gas switching for air quality absorbed the supply.
- Low prices acted as a catalyst, creating demand
- Cancellation of next-gen projects in 2020 "baked in" a future shortage

# The European Pivot, Geopolitical Shocks, and the Approaching Megawave (2022–2026)



## EXPECTATION

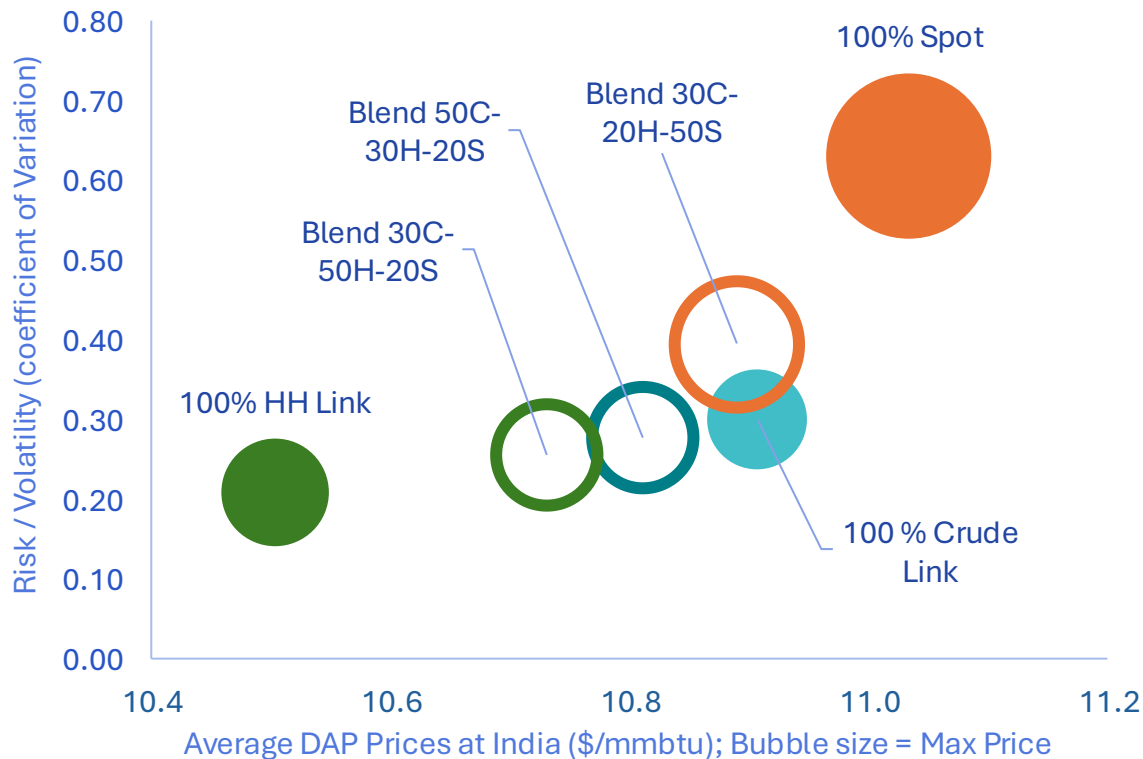
- Before 2022: Russia would remain primary pipeline exporter and become 2<sup>nd</sup> largest LNG supplier thru' 2030s
- 2026: low spot prices would automatically trigger a massive demand resurgence in Asia viz., India, Vietnam, and Pakistan and absorb supply wave.

## REALITY

- Russian Gas permanently removed from long term modeling
- Continuous volatility has shattered LNG's reputation
- Supply wave itself may be delayed due to West Asia war.

# Over the Long Term, Prices Converge but Risk Diverges Significantly

20-Year Horizon (2007 - 2026)

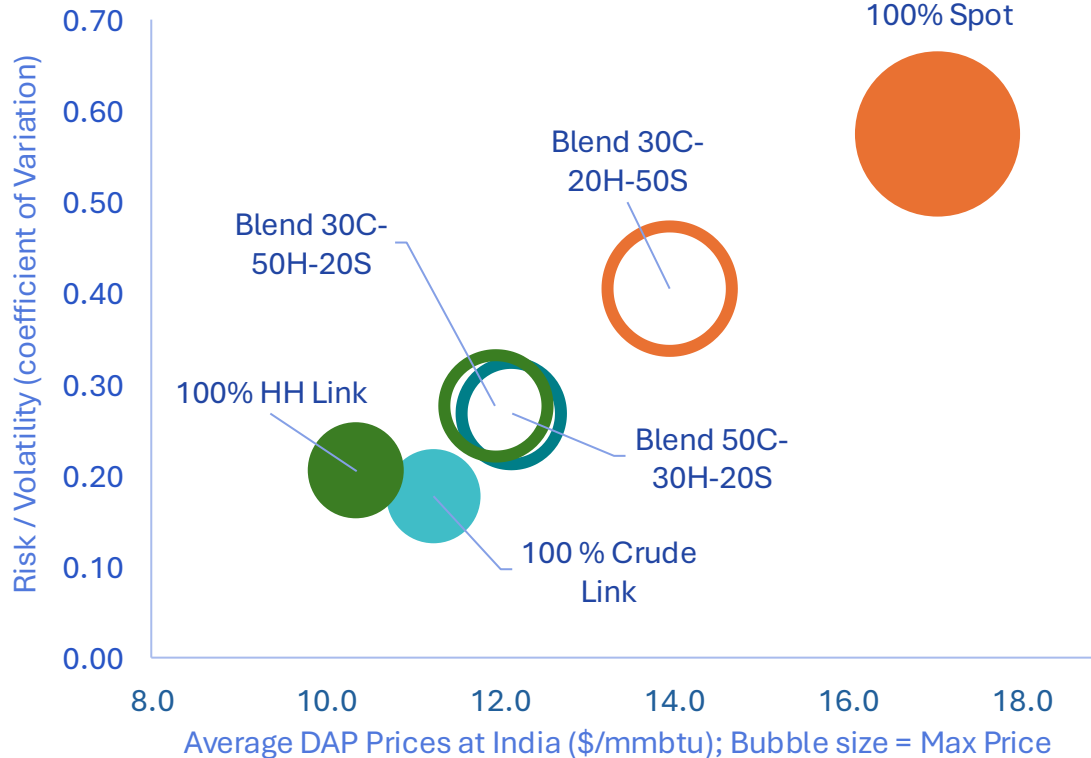


## Observations

- Average prices are largely similar across all strategies
- Volatility varies sharply (CV: 0.21 to 0.63)
- Spot exposure shows no structural cost advantage, but disproportionate risk
- Blended portfolios reduce volatility materially with minimal cost impact

# Recent Cycles Highlight Extreme Volatility and Divergence in Outcomes

5-Year Horizon (2021 - 2025)



## Observations

- Spot prices significantly higher due to recent shocks
- Extreme spike risk persists
- Crude-linked contracts demonstrate strong stability
- HH-linked remains cost-efficient with moderate volatility
- Blended portfolios effectively cap downside risk

# A hedged portfolio is the only methodology to survive the cyclicality.

Pricing Mechanism	Strategic Pros (Advantages)	Strategic Cons (Vulnerabilities)
Spot LNG	<b>High Alpha in Gluts:</b> Massive gains during oversupply (2016, 2020). Flexible & opportunistic.	<b>Black Swan Exposure:</b> Zero protection against geopolitical shocks; risk of catastrophic costs (2022).
Crude Linked	<b>Stable Baseload:</b> Predictable indexation; acts as a dampener against localized gas-market panic.	<b>Macro-Oil Risk:</b> Tied to oil booms and "Asian Premium" regardless of gas fundamentals.
Henry Hub Linked	<b>Geopolitical Hedge:</b> US shale is insulated from Eastern Hemisphere shocks; saved billions in 2022.	<b>High Floor:</b> Fixed tolling/freight makes it uncompetitive during deep global gluts.

## Strategic Recommendations

- Build a balanced "Triangle of Risk" by spreading exposure across **Oil-linked (Stability)**, **HH (Hedge)**, and **Spot (Opportunistic Value)**.
- Utilize the supply gluts to get lower slopes on crude-linked contracts and lower constants on HH agreements.
- Supplement physical contracts with Financial Hedging Tools to flatten price spikes, for predictability and margin protection.

***“Do not just chase the lowest price, secure most resilient mix”***

# Thank You

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