

Directors' Dialogue Series

FOCUS:
Oil & Gas Sector

Theme

Directors' Strategy & Direction for Sustainability amid Pandemic

OCTOBER 8, 2020
New Delhi

Institute of Directors (IOD) organised the Inaugural Edition of the '**Directors' Dialogue Series**' on October 08, 2020 with a special focus on the **Oil & Gas Sector**. The theme for this edition was '**Directors' Strategy & Direction for Sustainability amid Pandemic**'. The Silver Partners for this event were **Petronet LNG Limited, Indian Oil Corporation Limited, Indraprastha Gas Limited and Bharat Petroleum Corporation Limited**.

It was attended by around 350 participants comprising a niche group of senior leaders, directors, board members, C-suite executives and industry experts from across the country and from countries across globe including Japan, Singapore, UK, UAE, Finland, Qatar, Saudi Arabia, Spain and India. The event was hosted online via IOD's licensed Cisco Webex account, and also streamed live on Facebook.

Mr. Pradeep Chaturvedi, Vice President, Institute of Directors, India, commenced the webinar with his '**Opening Remarks**'. He highlighted the importance of digitalization in this fast moving world. He shared the goal of the Hon'ble Prime Minister, Mr. Narendra Modi on using resilient technologies. He further mentioned the four D's i.e. **Digitization, Decentralization, Decarbonization and Deception** which are critical for the growth of our economy. The Oil and Gas sector, which is one of the critical sectors in the growth of Indian economy, has also been affected by the 4 D's. Over the last six months, many oil companies have looked into the decentralization and decarbonization aspects. Further, the disruptions in supply chains are a big challenge. In this Directors' Dialogue Series, we will unfold how the sector took care of it by using disruptive technologies and strategies adopted to streamline the sector in these hard times.

Lt. Gen. J. S. Ahluwalia, PVSM (Retd.), President, Institute of Directors, India, in his '**Welcome Address**' introduced the concept and motivation behind this series of webinars and threw light on the theme to IOD members, global associates, honoured speakers and guests. The Oil and Gas industry is amongst the six core industries in India and is a major factor for the growth being witnessed in the Indian economy today. The natural gas and

petroleum sector, which is inclusive of refining, transportation, and marketing of these products, contributes about 15% to India's GDP. He stated that Covid-19 pandemic has been unrelenting threat to our health and economy. The emerging new normal has witnessed a major shift in the response from the government and consumers. This situation calls for resilient and agile leadership with transformational sustainability. A collaborative approach is required to successfully navigate through this turbulent economic scenario. Good governance and sustainability are the major drivers of economic growth. Covid-19 has also disturbed the current supply chains for the oil and gas industry through the recent geopolitical tensions, trade restrictions and nationalist policies. We need to expose the current structural flaws and explore a shorter, resilient and flexible supply chain for the future. Costs are inherent whenever supply chains are decoupled. Recently, the Union Cabinet has announced a new e-bidding platform to promote market price discovery of natural gas produced from fields across a number of contractual regimes, where producers already have pricing freedom. The move would help boost incentives for gas producers to invest more in boosting natural gas production from new discoveries. He mentioned that these '*Director's Dialogue Series*' focusing on the sectors responsible for major contribution in GDP, will be a great platform for the policy makers and the leading companies' boards to get insight on the boardroom dynamics and sectoral changes.

The next session was a Panel Discussion, Chaired by **Mr. A. K. Tiwari**, Director (Finance), GAIL (India) Limited.

The other distinguished Speakers for the panel discussion were:

- i. Dr. Ashutosh Karnatak**
Member (Technical), Appellate Tribunal for Electricity
- ii. Dr. (Ms.) Alka Mittal**
Director (HR), Oil & Natural Gas Corporation Limited
- iii. Mr. A. K. Singh**
Director (Marketing) and Additional Charge Director (Refineries), Bharat Petroleum Corporation Limited

KEYNOTE ADDRESS



Mr. Tarun Kapoor, IAS
Secretary,
Ministry of Petroleum
and Natural Gas
Govt. of India

DISTINGUISHED SPEAKERS



Mr. A. K. Tiwari
Director (Finance)
GAIL (India) Limited



Dr. Ashutosh Karnatak
Member (Technical)
Appellate Tribunal
for Electricity



Dr. (Ms.) Alka Mittal
Director (HR)
Oil & Natural Gas
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Mr. A. K. Singh
Director (Marketing) and
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Director (Refineries)
Bharat Petroleum
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Ms. Vartika Shukla
Director (Technical)
Engineers India
Limited (EIL)



Mr. A. K. Jana
Managing Director
Indraprastha Gas Limited



Mr. Arun Balakrishnan
Chairman-Bengaluru
Region, IOB, India founder
Chairman, HPCL-Mittal
Energy (HMEL) &
former Chairman & MD, HPCL

iv. **Ms. Vartika Shukla**

Director (Technical), Engineers India Limited

v. **Mr. A. K. Jana**

Managing Director, Indraprastha Gas Limited

Mr. Tiwari briefly touched upon the opportunities and challenges presently being faced by oil and gas sector. The whole world is passing through energy transition and we have also seen evolution of the different forms of energy which has been invented at different parts of the world. The world is in a dynamic mood for technological disruption in the area of oil gas or renewables. The OPEC and non-OPEC producing nations, international community and the consumers are feeling the urgency of restoring sustainable oil market stability in a collective manner. The push and pull of the energy mix is being felt in the world for energy transition and India is not exception to that. The global population is estimated to increase from 7.3 billion to 9.2 billion by 2040 and the additional 1.8 billion people

will mainly come from developing countries including India and China, the two countries which pose the largest energy demand. In the long run, the economic growth will be driven by two factors, namely:

- (i) Technological development, and
- (ii) Demographical trends which will change the energy demand and energy transition.

The energy demand in the developed and other energy exporting countries is saturated and further growth is not expected. Now, the problem lies for developing and energy importing as well as the consuming countries.

There is a continuous innovation in the technology for exploration and production enhancement in the energy efficiency carbon emission technology which is being adopted the developing countries, mainly India is flooded with these innovations.

Confusion for the right Energy Mix; Need for consistent Energy Policy

The confusion exists in the adoption of various invented technology under dynamic energy transition scenario. These technologies have impacted the energy market in the following ways:

- The gas price reduced from US \$4 to US \$2 at present.
- The solar power tariff in India has reduced from Rs. 9 in 2011 to Rs. 2 at present.

In the process of energy transition and to meet the energy poverty in India, confusion exists among policy makers to adopt the consistent energy policy. Among the pool of various energy like coal, natural gas, solar, wind and other renewables, many assets created are becoming standard and some are becoming redundant for solar wind and power plants from the transport behaviour.

This pandemic has given many opportunities for safety and self-reliance and the Boards have to be very strategic, particularly in decision making for energy transition.

Dr. Karnatak praised IOD for selecting the discussion topic, when most of the organizations are struggling to maintain their profitable level. He mentioned that all projects comes bearing uncertainties and ambiguities and we must know how to control the unknown and known problems. He said that organization is an abstract noun, a combination of common noun (leader) and proper noun (employees). A sustainable organization depends on the three parameters:

- i. **Performance** (includes - physical performance financial performance and social performance)
- ii. **Health** (includes - healthy direction, leadership, culture, accountability, decision making capability, competence, motivation, innovation and learning)
- iii. **Perception** (what perception people carry for your organization)

Everything has a life cycle with the elements of *Start, Growth, Maturity* and *Decay*. We need to ensure that the organization does not decay. During this pandemic, organizations can take the following measures:

- i. Review their strategies (shift from long-term to short-term strategies)
- ii. 4 Ps instead of 3 Ps – **Profit, Process, People** and **Planet**.

Inclusion of Process: It is a challenge for the Boards to have a profitable organisation, to sustain the profits and further to reduce the expenditures. Recently, GAIL did a project, with the primary idea of identifying areas where the cost can be reduced and it led to a saving of around Rs. 300 to 500 crores. Other companies may also take up such practices by re-arranging and re-investing their capital efficiently.

- iii. Establishing Governance for all the KPIs - Boards should not be agenda based and be rather KPI based. All the departments KPIs should be discussed and governed
- iv. Safety and Security - The first agenda in a board meeting should be the safety and security of the organization. In case of hydrocarbon facilities, health of the pipeline and plant at component level should be monitored via safety audit every quarter or every six months.

At present, India has 1670 on-going central sector infrastructure projects. 432 projects out of 1,670 projects costing Rs. 150 crores and above are facing cost overruns worth Rs. 4.29 lakh crore, equivalent to half of import bills of oil bill. This calls for a control on on-going and upcoming projects.

Timely closure of contracts, up-skilling workforce and feedback from stakeholders for improvement and perception are the key elements for a successful completion of projects.

He said we have to take care of our planet and recommended adoption of carbon neutral boards and participation in family plantation drive to offset the carbon footprints. Covid-19 has given organizations the opportunity to introspect and retrospect of what they have, where they stand and what can be done to achieve growth. Certainly this pandemic is a blessing in disguise!

Mr. Singh spoke on the strategies for refinery expansion and oil sustainability in the country. He commenced his address by highlighting that at present, 'we have too many plates spinning, too fast'.

In September, the petroleum product growth was only (-6)% in comparison to last year's 94-95% and gasoline has also grown, last month in comparison to September, 2019. The pandemic has impacted the geographies at different levels; the developed areas including national highways, urban areas are impacted more in comparison to developing areas which includes state highways and rural areas.

As per the DPS Group, the population growth and economic growth of the country will continue and energy by oil will continue to grow at least up to 2030, albeit not at 7-8% but maybe much lesser level. The picture remains the same in both global and Indian context. All will grow at different growth rates and will coexist.

On the question posed on strategies for refinery - Refinery is a global business and it will grow. Refineries have to be left cautious unless we find the right mix. Exploration is not turning out to be a great business anymore.

We have been in the mobility business and as long as customer comes on the road, we have the opportunity to run the business. The pandemic led to a massive cost reduction exercise and disinvestment but PSUs have to manage the changes efficiently. Gradually, people will migrate toward gas and people will market depreciation per year.

Dr. Mittal praised IOD for being the stalwart in promoting good corporate governance in the boardrooms and launching 'Directors' Dialogue Series' with a webinar exclusively focused on 'Oil and Gas sector'. She shared her experience working through the pandemic, having regular executive committee meetings with the boards and the management, and addressing the ground issues. Witnessing our people's spirit of service even in these hard times while working remotely, strengthened our resolve to continue the operations.

She shared the three major pillars of corporate governance:

- i. Existence of transparency in the dealings of a company and its reporting.
- ii. Accountability at each and every level, right up to the board level
- iii. Sense of responsibility – Both Social responsibility and Corporate responsibility

She shared her experience that when she joined ONGC in 1985, ONGC was planning energy strategies plan for 2010, and now in 2020, planning for 2040. In these tough times, when boards are virtually connected, the discussions are becoming more transparent and the recording of board meetings brings a sense of responsibility amongst each board member.

Ms. Shukla spoke on the key challenges for the technology adoption and to have right energy mix in the country, considering the price sensibility by the consumer. These unprecedented times have led to a lot of unprecedented innovations, both in terms of the way we communicate and the way we take decisions. The efficacy of the introduction of digital platform, which would have taken years, has probably advanced and is very rapidly and very willingly accepted.

The future of the energy sector is dependent on two elements:

- i. **Affordable energy & Clean energy with a Sustained Energy source** - The world population is expected to be about 2 billion plus by 2050 and with it comes the aspiration of developing nations, like India, wherein it is the right of every citizen to be provided with affordable energy & clean energy with a sustained energy source.

'Carbon Cost', an important deciding factor - Today, the cost of carbon may be low in many regions of the world due to the existing trading mechanism, but as we progress, the cost of carbon will be a very significant factor to the adoption of technologies, therefore we will have to frame our strategies on investments in R&Ds, bringing technology via joint venture with other nations, or other areas.

- ii. **Policies framework** – Policies need to be worked around the technological changes happening in the energy sector. The climate and sustainability are an integral part of any corporate and therefore, we have to responsibly incorporate technological development into the future. There could be two scenarios when we bring in new technologies:

- a. The new technology may have a lower return but helps in lowering the carbon footprint.
- b. Focus on the renewables by amalgamating them with new technologies.

There is room for all kinds of energy and therefore, we have to predict the future, with the right mix of energy, diversified consumer choice and varied cost.

Government support in the form of subsidies or pricing policy will be required in venturing and succeeding in the renewables. The recent policy of gas pricing is a step in right direction. We see penetration of EVS into the market by giving subsidies for two-wheelers and three-wheelers. We would like to see how it will respond in the four wheeler market. The essence is basically to reduce the pollution from the cities and shift from coal to renewables.

She also touched upon **Biofuel**, an area with regulated policy framework i.e. *Pradhan Mantri JI-VAN Yojana* which has also seen an investment in the 2G ethanol plant.

She also spoke on **Green Hydrogen** technologies, which at present are not competitive but in future; we are likely to see green hydrogen use in the energy mix. It could be in form of the fuel cells or just hydrogen along with other options.

She concluded by saying that while the energy industry sees a growth in the oil and petroleum sector per se, we have to be prepared and ready for adoption of these newer technologies in the renewable area.

Mr. Jana mentioned that IGL, being an essential service sector comes with a great responsibility. When the world was at halt because of Covid-19 outbreak, we were serving 14 lakh Indian houses and maintained continuous kitchen gas supply. We also ensured proper working of nearly 500 CNG stations in case of emergency. Our work requires, close contact with customer and site visits, which led to 75 cases of corona amongst our employees, totalling nearly 325 at corporate office.

We carried out a study on two fronts:

- i. **How organization is supposed to be work during the pandemic?**
- ii. **To study the behaviour of the customer after the pandemic.**

We took the following measures for ensuring a congenial work environment with the help of technology.

First, we segregated our workforce in two categories –

- a) Who can work virtually?
- b) Who is required in person?

Second, we ensured the workforce had the required infrastructure to be connected virtually, like desktops, cameras, etc.

Third, we equipped our workforce, visiting homes, with PPE kits to maintain social distancing and eliminate customer's hesitation.

We observed following shift in customer behaviour:

We understood that the customer will be apprehensive in getting LPG cylinders delivery and its installation because of the fear of corona. This hesitation will result in customers opting for Piped Natural Gas (PNG) connections. IGL, in Delhi have only 9 lakh connections. Now, we have planned that in the next three years, we will cover around 90 lakhs houses with PNG connection, which is contactless and ensures uninterrupted supply.

People prefer using their own vehicle rather than car pool, taking cabs or public transport. As a result, people will be looking for a car which is economical, and so we had a series of meeting with the car manufacturers like Maruti and Hyundai to see the demand for new cars and used cars. Pre-Covid, there were 3,000-4,000 car getting converted. We had a target in October and onwards, of having around 10,000 cars so with that we are trying to put back our business online and today i can tell you that around 90% volume has been raised and in the Quarter 3 probably, we will have normal business.

At board level, we increased the frequency of board meetings so that the actions can be taken timely.

The panel discussion was followed by an interactive **Q&A** session, moderated by **Mr. Tiwari**.

Mr. Tarun Kapoor, IAS, Secretary, Ministry of Petroleum and Natural Gas, Govt. of India delivered his '**Guest of Honour Keynote Address**'.

He appreciated the discussion carried out by the panel. He mentioned that during this Covid time, energy sector is an essential service and therefore, the requirement of energy stayed unaffected. While we witnessed a drop in the demand for petrol and diesel during lockdown, it immediately resumed to normal. In fact, demand for petrol is even more than the normal level and LPG demand never went down because of the continuous domestic requirement. Even electricity demand was always there and continuous supply was ensured. It can be concluded that the people working in the energy sector have to perform, irrespective of the situation. In India, energy sector has performed very well during this pandemic time, there were no delay in the services or complaints in regard to shortage or disruption.

During the pandemic, earnings of people went down, and therefore, the right energy price has to be maintained with quality.

Energy transition is a way forward. Gradually, people are getting more conscious about their choices and would want to see more renewable and sustainable energy. Especially in countries like India, one of the largest democracies in the world, government conforms to the changing requirements of people and if people

want to move towards clean energy, then that is bound to happen.

Energy transition is a gradual process. At present, we are mainly dependent on coal energy. A move to make India a gas based economy, i.e., a cleaner energy source which is easy to transit, will be seen in the coming years. The production of domestic gas will also increase tremendously and it will require laying a proper infrastructure of distribution network in the country. In the next 3-5 years, the energy scenario in the country is bound to change and natural gas will become available so freely.

In the first stage of energy transition, we will be able to blend compress biogas and hydrogen, an even cleaner form of energy than natural gas. Then we can move to renewable energy forms like solar and wind. All these various forms of energy are bound to come in, and so is electric mobility. It may take some time and therefore, people have to be prepared.

We are close to 100% penetration in providing LPG or natural gas to the households. Next, we will see a shift from fossil fuels to the renewable forms of energy. *That is the way the world is going to transit.*

It is good to see the oil companies which are reliant on fossil fuels now will also transit to renewable energy forms. He concluded by saying, *'The energy transition has begun, but it will pick up the pace.'*

Mr. Arun Balakrishnan, Chairman-Bengaluru Region, IOD, India; founder Chairman, HPCL-Mittal Energy (HMEL) & former Chairman & Managing Director, HPCL delivered the '**Concluding Address**'.

The pandemic has accelerated the changes inevitably, in our lives and the rapid progress of e-commerce and communications technology has changed the way we live. The oil industry is one of the most affected sectors during the pandemic. Elon Musk, CEO of Tesla bringing 'biscuit tin' batteries with features like fast charging, low cost maintenance and a range of over 500 kms, will bring more traction in the Electric Vehicles (EV) segment. These kinds of technological developments in the EV segment will lead to a decrease in demand for petroleum & diesel to a great extent.

How will the companies look in the next decade? Will we be able to produce super fuels that will not pollute the planet? *The Stone Age did not end with the shortage of stones, but because other materials or elements were found by the mankind.* The same can happen with oil companies, they have to efficiently manage the energy transition and redefine the business.

He concluded by referring to an article published in Harvard Business Review, which said 'Every major industry was once a growth industry, but there is a decline in their growth not because the market is saturated but because there has been a failure of management.' The organizations must keep reinventing and adopting the new technologies.

Mr. Ashok Kapur, IAS (Retd.), Director General, Institute of Directors, India delivered a 'Vote of Thanks' by placing special thanks to Mr. Tarun Kapoor, fellow panellists for fuelling the session with constructive ideas and solutions for a sustainable future and all the participants and our Silver Partners for this event – Petronet LNG Limited, Indian Oil Corporation Limited, Indraprastha Gas Limited and Bharat Petroleum Corporation Limited. He reiterated Mr. Kapoor's statement that '*Energy transition is there to happen and we need to work towards it*'. He

also announced IOD's main global event, 2020 "Annual Directors' Conclave" which was held virtually on October 28-29, 2020.

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Silver Partners



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