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from the RINGSIDE

Energy is an eternal delight

William Blake said that “Energy is eternal delight”. Indeed, overtime, progress has become equal to energy. That is why the future of India’s energy policy is central to our growth aspirations. Delineating a policy which deals with long-term demand and supply of energy, considers different energy modes, examines the economics of alternative fuels, promotes energy efficiency as well as R&D has been a long felt need. In short the imperatives for an Integrated Energy Policy.

It is to the credit of the Prime Minister that recognising this he commissioned a Group of Experts. The recent Kirit Parikh Report on Integrated Energy Policy contains credible recommendations which cover the broad contours of these intricate issues. Given their complexity, there are neither perfect nor permanent answers. Assumptions can always go wrong and changing technology paradigms alter the prognosis significantly.

What does the report say? Our per capita energy consumption is one of the lowest in the world; a 520 kg of oil equivalent (kgoe) a person compared to 1090 kgoe in China and a global average of 1688 kgoe. Fortunately, in terms of efficiency, we are better than the global average but far worse than Brazil, Japan or the UK. Projected rates of 8-10 per cent growth would dramatically increase energy demand; their assured availability, as well as affordability, will greatly determine growth outcomes.

Since coal remains the dominant energy input, enhancing coal sector efficiency is critical. While price de-control has improved productivity, the coal policy remains cluttered with too many restrictions. Coal blocks held by Coal India which cannot be brought into near-term production should be made available to joint-ventures or private sector. Even if political consensus eludes the amendment of the Coal Nationalisation Act, 1973 (pending for a long time), much greater private participation must be encouraged. Innovative approaches on prospecting will enhance proven reserves.

The Coal Ministry for too long has been driven by a populist mentality; more than a fair share of ministers from eastern India have concentrated on petty rent seeking and patronage than addressing the long-term needs of the sector. The reform of the power sector got a big push with the enactment of the Electricity Act, 2003. Nonetheless, the Accelerated Power Development Reform Programme (APDRP) for upgrading the distribution system, minimising transmission and distribution losses, improved metering, assigning responsibility for realisation of user charges needs sustained action. Phasing in of open access to enlarge consumer options by separating the wire business (carriage) from the energy business (content) would certainly help.

The cost of power in India is said to be the highest in the world and needs reduction through productivity improvement, rationalising internal rates of return and

availability of long-term debt at competitive prices.

Rationalising inter se fuel pricing is not easy. While increasing application of market-driven principles is the obvious direction, the absence of well-developed market and their serious imperfections therefore need an orderly transition path. Fostering energy efficiency through fiscal regulatory and other instruments based on the principle—that a negawatt produced by reducing energy needs saves more than a megawatt generated—must be a priority concern. Pursuing hydel options to realise the potential of 150,000 MW will help a better balance between peak and base load.

Nuclear energy holds great potential; the recent breakthrough with the US and its beneficial consequences on the Nuclear Suppliers' Group would help improve our civil nuclear energy programme. We can increase nuclear energy to a maximum of say a 20-fold increase by 2032 to meet 5-6 per cent of our energy needs.

Renewable energy needs a push. Fiscal measures, concerted R&D policy and the recommendation of converting the Indian Renewable Energy Development Agency into a national refinancing institution are worthwhile. The socio-economic needs of the poor to mitigate the drudgery of gathering fuel wood, agricultural waste and animal dung can be ameliorated through improved techniques, including their easier availability through village cooperatives. The costs coupled with an estimated Rs 9,800-crore programme for free electricity of 30 units per month and a Rs 34,000-crore annual subsidy for cylinders would need credible funding.

Finally, the report suggests a National Energy Fund by levying a cess of 0.1 per cent on companies with over Rs 100 crore of annual turnover, in the field of primary and secondary energy which will yield 500-600 crores a year as well as starting several technology Missions on coal, in situ gasification and carbon sequestration; solar technologies for thermal and photovoltaic, bio-fuel such as ethanol as well as biogas and wind gasification. These have merit.

There are four unresolved issues. First and foremost, fragmentation of responsibility. We need a Ministry of Energy which can oversee power, coal, gas and non-conventional energy. This should be placed under the charge of a senior minister with ministers of state for four departments. A co-ordinative body under the Prime Minister is helpful but is no substitute for a Ministry of Energy to evolve, adapt and implement an Integrated Energy Policy. Second, regulatory issues and their harmonisation remain serious concerns. Commonality of approach to determine optimal fuel pricing needs symmetry even while we have independent regulators for power, hydrocarbons and hopefully coal. Third, the socially vulnerable need subsidy. Any mechanism for cross-subsidy in a country where power is already expensive would be counter-productive. So also the imposition of a cess to fund R&D. The practice of proliferating sector-specific cesses mitigates against canons of financial propriety. Both these are legitimate obligations and should be funded directly from the Budget.

Finally, the issue of appropriate economic costing remains an overarching challenge. Till conventional energy is charged at economic cost, market incentives for alternative energy sources will remain weak. So would the urge to economise on wasteful use of energy. Energy pricing is a global concern. It is so for India too. The political economy of implementing an Integrated Energy Policy needs to address the centrality of this challenge.

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