THE FINANCIAL EXPRESS COLUMNISTS

N K SINGH

Saturday , February 18, 2006

TODAY'S COLUMNIST

The elusive goal of energy security

Energy issues are in sharp focus. The 'State of the Union' address by President Bush, preceded by former president Clinton's remarks in Davos, are being interpreted as America's growing unease with both the economics and politics of energy management. The recent visit of the US under secretary for energy resulted in better delineation of Indo-US energy partnership.

The Observer Research Foundation (ORF) in a conclave on 'Major challenges for India's energy security' brought together Indian and foreign experts, as well as policymakers for wide ranging interactions. Montek, who inaugurated the conclave, appropriately observed that discussions on energy security can only be meaningful in the context of energy policies and succinctly commented on our key concerns. The centrality of the pricing issue and balancing the need to let markets decide while protecting the consumers from excessive volatility remains a difficult challenge. The modalities of such protection through income transfers, or keeping prices low by calibrating subsidies, or merely doing so for a target group do not offer clear acceptable options. In the presentations made by Robert Mabro, president of the Oxford Institute of Energy Studies, Paul Bradley, Paul Stevens and others seemed to converge on two issues—a prognosis that oil prices in the medium term will remain high, above $58; and the need to use energy more efficiently, diversify risks through better demand and supply management and look for alternative fuels.

It is believed that the current 'supply constraints' are the result of investment adequacies and given leads and lags, policy design must factor persistent price volatility. In his interventions, Xia Yishan, director of the Energy Research Centre, China, confessed enhanced competition to foreclose global energy supplies, but did not, per se, perceive it to be unhealthy. George Andersen, former Canadian deputy minister of natural resources, suggested an international coalition of interest on energy, particularly coal. Opec must engage in dialogue with major users, but putting aside differences may not be easy. Similarly, despite large coal resources, the contours of global cooperation and sharing of technologies need an energetic group to act as a trigger. The interaction encouraged RK Mishra, chairman, ORF to announce an annual energy conference, as well as an India energy report; improved database will make discussions more informed.

One of the immediate provocations for the ORF conference was the Kirit Parikh report on 'Integrated Energy Policy.' The report touches on many complex issues, but understandably, doesn't have answers on many of them. A credible inter se fuel pricing policy, regulatory harmonisation, depoliticising tariff or reflecting likely outcomes of huge R&D investments elsewhere in non-conventional energy— both by public and private institutions, remain difficult. Besides, ownership for implementing its daunting recommendations needs clearer delineation.

Thus, improving power availability will remain our principal challenge even while we improve energy efficiency, seek alternatives, diversify supply sources and intensify domestic exploration.

The Prime Minister has more than once recognised the importance of power reforms. The proposed meeting of chief ministers would be more purposive after the elections in several states. Of course, this provides only a window of opportunity before the state elections next year.

• Improving power availability will be our key challenge in the foreseeable future
• There is no alternative to distribution reforms, aimed at faster deregulation
• Credible reforms in power must go in tandem with those in coal, oil and gas

Since 73% of power generation comes from coal, reform of this sector is critical. The woes of coalition politics stymied the recent opportunity to induct a younger talented minister for this sector. Action must include amendment of the Coal Mines Nationalisation Act to facilitate private participation, its removal from the essential commodities list, enhancing private participation, spinning off profitable coal companies as independent corporate entities, and an independent regulatory authority for allocation, exploitation and price determination.

Pursuing the daunting agenda on power reforms needs both tact and patience. While the central regulator has made a credible beginning, faster adoption of open access, minimising the wide variations on cross-subsidy surcharge, rationalising trading margins, instituting multi-year tariffs are some areas where further action is necessary. Power reforms by way of operationalising the Electricity Act, 2003, the announcement of a Tariff and Electricity Policy, renewed emphasis on privatisation of distribution, improved audit of T&D losses and fostering large investment proposals constitute worthwhile progress—given federal complexities. Nonetheless, the financial performance of the state power sector remains a major concern, where the rate of return at -28.1% in 2005-06 is only marginally lower than what it was five years ago at -32.8%; or losses of Rs 22,013 crore last year somewhat higher than what it was in 2002-03!

There is no alternative to pursuing distribution reforms with renewed vigour aimed at faster deregulation, even while protecting the genuine poor through a combination of measures. We know this is a long haul and there are no magic answers. Power reforms must proceed in tandem with reform of coal, oil and gas—both on pricing and regulatory issues. However, neither these nor perceived market imperfections can become a ruse for tardy power reforms. Illustratively, neither open access, creating larger volumes for power trading or faster distribution privatisation remain convenient slogans; tokenism is no substitute to a credible roadmap.

In the end, energy security implies mitigation of risks. While this encompasses efficient demand management, diversifying both sources and forms of energy, it must be underpinned with credible sector reforms. For too long, these reforms have been caught in the quagmire of debilitating electoral politics. This more than anything else makes energy security an elusive goal.