

Chapter 1

Energy Scenario

Learning Objectives

In this chapter you will learn about

-  Types of energy sources
-  Life of energy sources
-  Energy scenario in India
-  Energy vs economic growth
-  Energy policies, pricing and reforms
-  Linkage between energy use and environment
-  Need for energy conservation
-  Energy security and strategies for future



1. ENERGY SCENARIO

Commercial and non-commercial energy, Primary energy resources, Commercial energy production, Final energy consumption, Indian energy scenario, Sectoral energy consumption, Energy needs of growing economy, Energy intensity on purchasing power parity (PPP) basis, Long term energy scenario, Energy pricing, Energy security, Energy strategy for the future, Energy conservation and its importance

1.1 Introduction

Energy is one of the major inputs for the economic development of any country. In the case of the developing countries, the energy sector assumes critical importance in view of the ever-increasing energy needs, requiring huge investments to meet them.

The consumption of energy is increasing at a fast pace while available resources remain limited. The global need for energy is increasing on an average by about 2.4% every year. Out of the total amount of primary energy, over 85% comes from fossil fuels. The current consumption of fossil fuels, particularly oil, is not sustainable in the long term.

Energy consumption also has a significant impact on our natural environment. There is clear evidence that climate change is caused by human activity, mostly related to the use of energy.

Energy, that we use, can be classified into several types based on the following criteria:

- Primary energy and secondary energy
- Commercial and non commercial energy
- Renewable and non-renewable energy

1.2 Primary and Secondary Energy

Primary energy refers to all types of energy extracted or captured directly from natural resources. Primary energy can be further divided into two distinctive groups:

- Renewable (solar, wind, geothermal, tidal, biomass, hydel etc.)
- Non-renewable (fossil fuels: crude oil and its products, coal, natural gas, nuclear, etc.)

The primary energy content of all fuels is generally expressed in terms of toe (tonne of oil equivalent) and is based the following conversion factor.

One tonne of oil equivalent (toe) = 1×10^7 kcal = 11630 kWh = 41868 MJ

Primary energy sources are mostly converted in industrial utilities into secondary energy sources; for example coal, oil or gas converted into steam and electricity. Primary energy can also be used directly. Some energy sources have non-energy uses, for example coal or natural gas can be used as a feedstock in fertiliser plants. Primary energy is transformed in energy conversion process to more convenient forms of energy such as electricity, steam etc. These forms of energy are called secondary

energy. The major primary and secondary energy sources are shown in Figure 1.1.

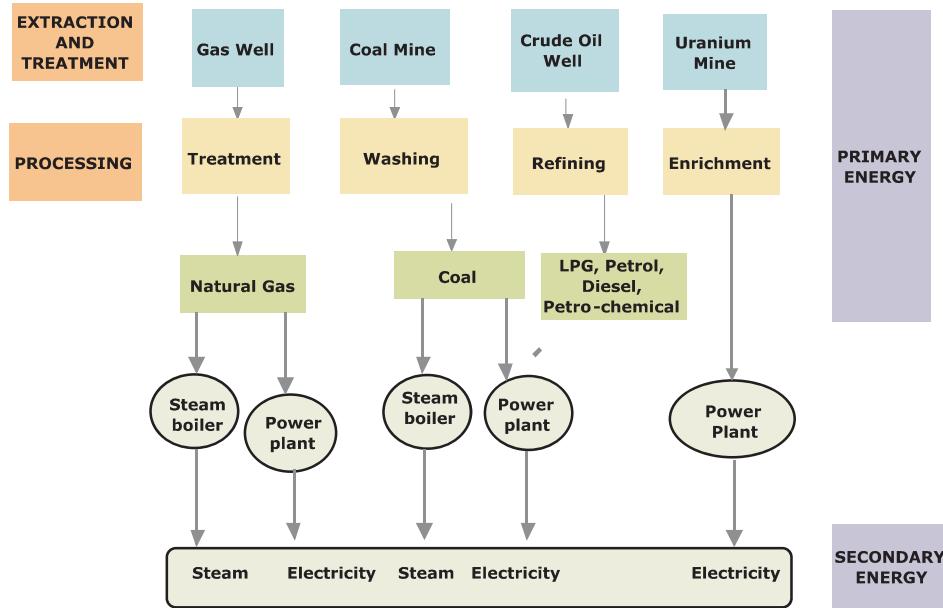


Figure 1.1 Major Primary and Secondary Energy Sources

1.3 Commercial Energy and Non Commercial Energy

Commercial Energy

Energy that is available in the market for a definite price is known as commercial energy. No matter what the method of energy production is, whether it is from fossil fuels, nuclear or renewable sources, any form of energy used for commercial purposes constitutes commercial energy.

By far, the most important forms of commercial energy are electricity, coal, refined petroleum products and natural gas. Commercial energy forms the basis of industrial, agricultural, transport and commercial development in the modern world. In the industrialized countries, commercial fuels are predominant sources of energy not only for industrial use, but also for many household needs.

Examples: Electricity, lignite, coal, oil, natural gas etc.

Non-Commercial Energy

Any kind of energy which is sourced within a community and its surrounding area, and which is not normally traded in the commercial market is termed as non-commercial energy.

Non-commercial energy sources include fuels such as firewood, cattle dung and agricultural wastes, which are traditionally gathered, and used mostly in rural households. These are also called as traditional fuels. Non-commercial energy is often ignored in compiling a country's energy statistics.

Examples: Firewood and agro waste in rural areas, solar energy for water heating, electricity generation, and for drying grain, fish and fruits; animal power for transport, threshing, lifting water for irrigation, crushing sugarcane etc.; wind energy for lifting water and electricity generation.

1.4 Renewable and Non-Renewable Energy

Renewable energy is the energy obtained from natural sources which are essentially inexhaustible. Examples of renewable resources include wind power, solar power, geothermal energy, tidal power and hydroelectric power (see Figure 1.2). The most important feature of renewable energy is that it can be harnessed without the release of harmful pollutants.

A non-renewable resource is a natural resource which cannot be produced, grown, replenished, or used on a scale which can sustain its consumption rate. These resources often exist in a fixed amount, or are consumed much faster than nature can create them. Natural resources such as coal, oil and natural gas take millions of years to form and cannot be replaced as fast as they are being consumed now. These resources will deplete with time.

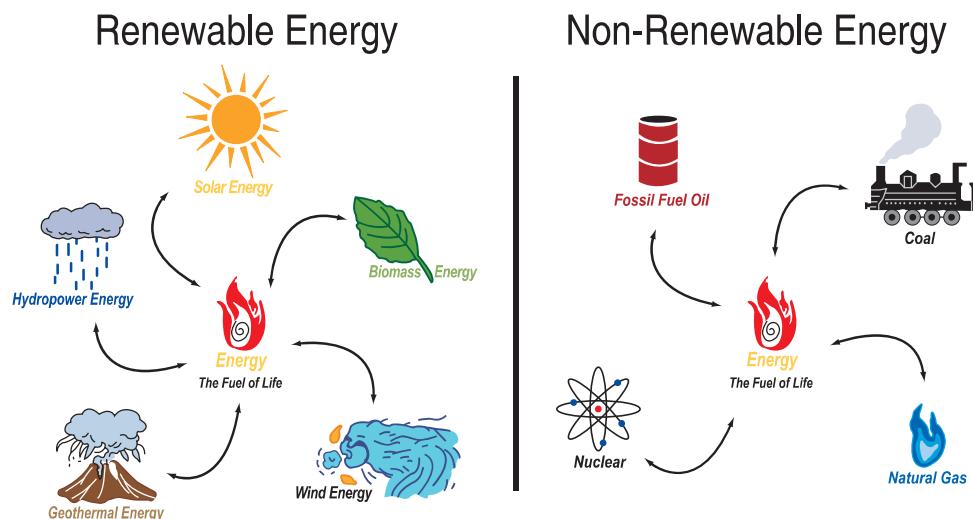


Figure 1.2 Renewable and Non-Renewable Energy

1.5 Global Primary Energy Reserves and Commercial Energy Production

Coal

Coal is the most abundant and geographically dispersed fossil fuel and exists as peat, brown coal (lignite), sub-bituminous, bituminous and anthracite (see Figure 1.3).

It has been estimated that there are around 892 billion tonnes of proven coal reserves worldwide. Proved coal reserves are shown for anthracite and bituminous (including brown coal) and sub-bituminous and lignite. There is enough coal to last around 113 years at current rates of production (Source: BP Statistical Review of World Energy, 2014).

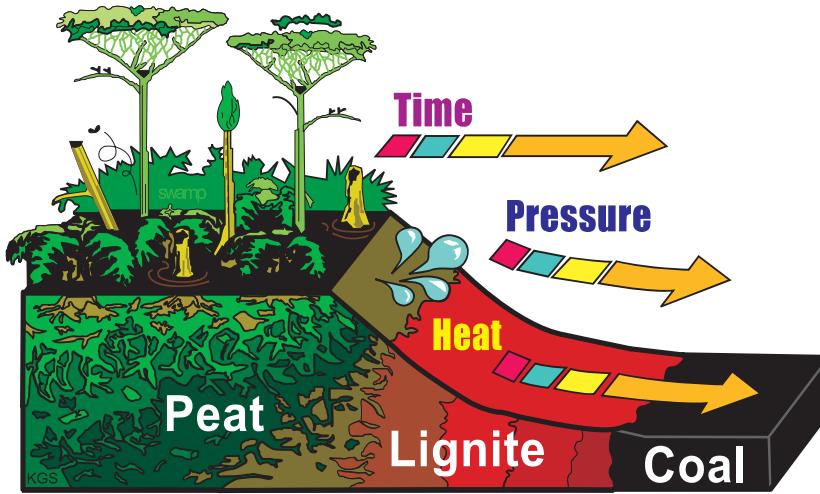


Figure 1.3 Formation of Coal

Reserves/Production (R/P) - If the reserves remaining at the end of the year are divided by the production in that year, the result is the length of time that the remaining reserves would last if production were to continue at that level.

Coal reserves are available in almost every country worldwide with recoverable reserves in around 75 countries. The largest coal reserves are available in the USA, followed by Russia, China, Australia and India (see Table 1.1).

Table 1.1 Proven Coal Reserves by Country by end of 2013

| Country | Million tonnes | Share of total, % | Reserve / Production (R/P in years) |
|--------------------|----------------|-------------------|-------------------------------------|
| US | 237295 | 26.6 | 266 |
| Russian Federation | 157010 | 17.6 | 452 |
| China | 114500 | 12.8 | 31 |
| Australia | 76400 | 8.6 | 160 |
| India | 60600 | 6.8 | 100 |
| Others | 245726 | 27.6 | |
| World | 891531 | 100 | 113 |

Source: BP Statistical Review of World Energy June 2014

Despite its poor environmental credentials, coal remains a crucial contributor to energy supply in many countries. Although countries in Europe, and to some extent North America, are trying to shift their consumption to alternative sources of energy, any reductions are more than offset by the large developing economies, primarily in Asia, which are powered by coal and have significant coal reserves. China alone now uses as much coal as the rest of the world.

The top coal producers are given in Table 1.2. Most of the demand for coal comes from power sector.

| Table 1.2 Top Coal Producers in Million Tonnes (by end of 2013) | | |
|--|-----------------------|--------------------------|
| Country | Million tonnes | Share of total, % |
| China | 3680.0 | 47.4 |
| US | 892.6 | 12.9 |
| Indonesia | 421.0 | 6.7 |
| Russian Federation | 374.1 | 4.3 |
| India | 605.1 | 5.9 |
| South Africa | 256.7 | 3.7 |
| Others | 1666.9 | 19.1 |
| World | 7896.4 | 100 |

Source: BP Statistical Review of World Energy June 2014

Oil

The global proven oil (crude oil) reserve was estimated to be 1687.9 billion barrels by the end of 2013. Almost, 48 % of the proven oil reserves are in the Middle East. Saudi Arabia has the largest share of the reserve with 15.8%. Top proven world oil reserves (in billion barrels) are given in Table 1.3.



Table 1.3 Proven World Oil Reserves by end of 2013

| Country | Billion tonnes | Billion barrels | Share of total, % | R/P years |
|---------------------|-----------------------|------------------------|--------------------------|------------------|
| Venezuela | 56.6 | 298.3 | 17.7 | > 100 |
| Saudi Arabia | 36.5 | 265.9 | 15.8 | 63.2 |
| Canada | 28.1 | 174.3 | 10.3 | > 100 |
| Iran | 21.6 | 157 | 9.3 | > 100 |
| Iraq | 20.2 | 150.0 | 8.9 | > 100 |
| India | 0.8 | 5.7 | 0.3 | 17.5 |
| Others | 74.4 | 636.7 | 37.7 | - |
| World | 238.2 | 1687.9 | 100 | 53.3 |

*Source: BP Statistical Review of World Energy June 2014
(1 barrel ≈ 160 litres)*

Saudi Arabia was the largest oil producer in the world (end of 2013) followed closely by Russian Federation and US. Although the United States ranks third in terms of oil production, it only ranks tenth in terms of proven oil reserves. The top oil producing countries in 2013 are given in Table 1.4. As against the top producing countries (end of 2013), India's share is 42 million tonnes and share of total is 1%.

Table 1.4 Top Oil Producing Countries by End of 2013

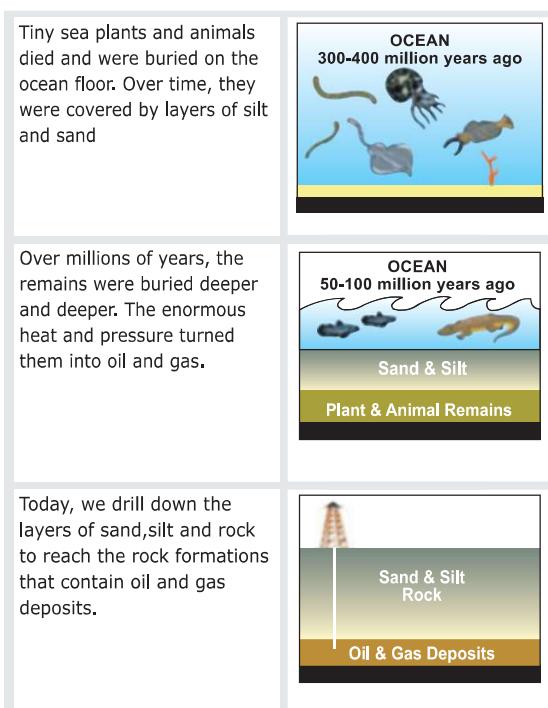
| Region | Million tonnes per year | Share of total, % |
|---------------------|-------------------------|-------------------|
| Saudi Arabia | 542.3 | 13.1 |
| Russia | 531.3 | 12.9 |
| US | 446.2 | 10.8 |
| China | 208.1 | 5.0 |
| Canada | 193 | 4.7 |
| Iran | 166.1 | 4.0 |
| Iraq | 153.2 | 3.7 |
| Nigeria | 111.3 | 2.7 |
| Others | 2351.5 | 43.1 |
| World | 4130.2 | 100 |

Source: BP Statistical Review of World Energy June 2014

If production continues at today's rate, many of the major producers such as US, Russia, China will have their oil fields largely depleted within a decade. At that point of time, world may have to depend mostly on Middle East for oil.

The Middle East overall reserves-to-production ratio for conventional oil (average of about 78 years) is much higher than that of non-Middle East countries.

Since unconventional oil resources, including oil shale, oil sands, extra heavy oil and natural bitumen are taken into account as oil, the global oil reserves will be four times larger than the current conventional reserves. Oil still remains the premier energy resource with a wide range of possible applications. Its main use however, will be shifting towards transport and the petrochemical sector. In future oil's position at the top of the energy ladder will face a strong challenge from other fuels such as natural gas.



Oil shale generally refers to any sedimentary rock that contains solid bituminous materials (called **kerogen**) that are released as petroleum-like liquids when the rock is heated in the chemical process of pyrolysis.

Oil sands (also known as Tar sands) are a combination of clay, sand, water, and **bitumen**, a heavy black viscous oil. Tar sands can be mined and processed to extract the oil-rich bitumen, which is then refined into oil.

Natural bitumen is the portion of petroleum that exists in the semi-solid or solid phase in natural deposits. In its natural state it usually contains sulphur, metals and other non-hydrocarbons.

Extra Heavy Oil is the portion of heavy oil having an API gravity of less than 10°.

Natural Gas

Natural gas is a gaseous fossil fuel consisting primarily of methane but also includes small quantities of ethane, propane, butane and pentane. Before natural gas can be used as a fuel, it undergoes extensive processing for removing almost all constituents except methane. It ranks third after crude oil and coal in terms of usage but has clearly gained in usage. Natural gas has been making a very significant contribution to world energy basket during the past three decades.

Natural gas resources are large, but, like oil, they are highly concentrated in a few countries and fields. The global proved gas reserve was estimated to be around 186 trillion cubic metres by the end of 2013. This is equal to around 55 years of current production. Iran has the largest share of the reserve followed by Russia and Qatar. India has only about 0.7% of global natural gas reserves. The global distribution of proved natural gas reserves is given in Table 1.5.

Table 1.5 Natural Gas Proven Reserves: Top Countries (by end of 2013)

| Country | Trillion cubic metres | Share of total, % | R/P (years) |
|---------------------|-----------------------|-------------------|-------------|
| Iran | 33.8 | 18.2 | > 100 |
| Russia | 31.3 | 16.8 | 51.7 |
| Qatar | 24.7 | 13.3 | > 100 |
| Turkmenistan | 17.5 | 9.4 | > 100 |
| US | 9.3 | 5 | 13.6 |
| Others | 69.1 | 37.3 | - |
| World | 185.7 | 100 | 55.1 |

Source: BP Statistical Review of World Energy June 2014

US is the world's largest natural gas consumer at around 22% followed by Russia at around 12%. Other top gas consuming countries include Iran, China, and Saudi Arabia. Natural gas is extensively used for power generation, transportation and heating buildings in most countries. It would require creation of adequate physical infrastructure to enable mass usage in energy hungry countries like India and China.

*At current R/P ratio, World oil and gas reserves are estimated at just 53 years and 55 years respectively.
Coal is likely to last for 113 years.*

Global Primary Energy Consumption

The global primary energy consumption at the end of 2014 was equivalent to **12730 Million tonnes oil equivalent**. The share of oil is the largest at 33% followed by coal and natural gas with 30% and 24% respectively. The demand for natural gas in future will increase as industrialized countries take strong action to cut CO₂ emissions. The Table 1.6 shows the breakup of various constituents of primary energy consumption (Million Tonnes of Oil Equivalent, Mtoe) worldwide.

Table 1.6 Global Primary Energy Consumption by Energy Source

| Oil | Natural gas | Coal | Nuclear Energy | Hydro-Power | Renewable Energy | Total, Mmtoe |
|--------|-------------|--------|----------------|-------------|------------------|--------------|
| 4185.1 | 3020.4 | 3826.7 | 563.2 | 855.8 | 279.3 | 12730.4 |
| 33% | 24% | 30% | 4% | 7% | 2% | |

Source: BP Statistical Review of World Energy June 2014

The primary energy consumptions for some of the developed and developing countries are shown in Table 1.7. It may be seen that India's absolute primary energy consumption is only about 4.7 % of the world, 26% of USA's and 21% of China's consumption.

Table-1.7 Primary Energy consumption at the end of 2013

| Country | Million tonnes of oil equivalent (Mtoe) | | | | | | | % of Share |
|--------------|---|---------------|---------------|----------------|--------------|------------------|----------------|------------|
| | Oil | Natural gas | Coal | Nuclear Energy | Hydro-Power | Renewable Energy | Total | |
| China | 507.4 | 145.5 | 1925.3 | 25 | 206.3 | 42.9 | 2852.4 | 22.4 |
| US | 831.0 | 671.0 | 455.7 | 187.9 | 61.5 | 58.6 | 2265.8 | 17.8 |
| Russia | 153.1 | 372.1 | 93.5 | 39.1 | 41 | 0.1 | 699 | 5.5 |
| India | 175.2 | 46.3 | 324.3 | 7.5 | 29.8 | 11.7 | 595.0 | 4.7 |
| Japan | 208.9 | 105.2 | 128.6 | 3.3 | 18.6 | 9.4 | 474.0 | 3.7 |
| Germany | 112.1 | 75.3 | 81.3 | 22.0 | 4.6 | 29.7 | 325.0 | 2.6 |
| Others | 2197.4 | 1198.3 | 818 | 278.4 | 494 | 126.9 | 5519.2 | 43.3 |
| World | 4185.1 | 3030.4 | 3826.7 | 563.2 | 855.8 | 279.3 | 12730.4 | 100 |

Source: BP Statistical Review of World Energy, June 2014

1.6 Final Energy Consumption

Final energy is the form of energy available to the end user following conversion from primary energy. Final Energy consumption, measured in Million tonnes of oil equivalent (Mtoe) is the sum of the energy consumption in the end-use sectors. Energy used for transformation and for own use by the energy producing industries are excluded. Thus, final consumption reflects energy delivered to the

consumers. Globally, industry consumes almost 50 % of final consumption, followed by Transportation (20 %), Residential (18%), and Commercial (12%) (Source: U.S. Energy Information Administration).

1.7 Indian Energy Scenario

The annual energy consumption in India is 595 Million tonnes oil equivalent compared with the world energy consumption of 12,730 Million tonnes oil equivalent in 2013.

Coal dominates the energy production mix in India, contributing to about 55% of the total primary energy production. Over the years (2008-2013), there has been a gradual increase in the share of natural gas in primary energy production and a small drop in share of oil in primary energy production. The share of commercial energy in total primary energy consumption is about 74% and share of non-commercial energy in total primary energy consumption is 26%. The primary energy consumption mix in India for 2008-09 is given in Table 1.8.

Table 1.8 Primary Commercial Energy Consumption Mix in India in 2013

| Energy Type | Mtoe | % share in total primary Energy Consumption |
|----------------------------------|-------|---|
| Oil | 175.2 | 29.5% |
| Natural Gas | 46.3 | 7.8% |
| Coal | 324.3 | 54.5% |
| Nuclear energy | 7.5 | 1.3% |
| Hydro Power | 29.8 | 5.0% |
| Renewable energy | 11.7 | 2.0% |
| Total Primary Energy consumption | 595 | 100.00 |

Source: BP Statistical Review of World Energy, June 2014

Energy Supply

Coal Sector

India has huge coal reserves of about 60.6 billion tonnes comprising of hard coal 56.10 billion tonnes (Anthracite and bituminous) and soft coal 4.5 billion tonnes (sub-bituminous and lignite). This amounts to about 6.8 % of the world reserves and it may last for about 100 years at the current Reserve to Production (R/P) ratio. Indian coal reserves are mainly confined to eastern and south central parts of the country. The State of Jharkhand, and Odisha account for almost 51% of the total coal reserves in the country as on 31st March 2013.

India is one of the largest producers of coal and lignite in the world. Majority of the coal (over 80%) is mined only upto 150 - 300 m depth with open cast mining and balance 20% of coal is mined from underground mines.

The production of coal (coking and non-coking coal) and lignite is shown in the following Table 1.9.

Table 1.9 Total Production of Coal (Qty in Million tonnes)

| Year | Coking coal | Non-coking coal | Coal Total | Lignite |
|---------|-------------|-----------------|------------|---------|
| 2012-13 | 51.582 | 504.82 | 556.402 | 46.453 |
| 2011-12 | 51.66 | 488.29 | 539.95 | 42.332 |
| 2010-11 | 49.547 | 483.147 | 532.694 | 48.95 |

Source: Coal Directory of India, 2012 – 2013: Coal Statistics

Most of these are high ash content coal (30-45%) and the calorific value in the range of 3000 kcal/kg to 4,500 kcal/kg. The power sector consumes about 75% of the coal produced. Using the high ash coal for the power sector is a challenge in terms of achieving efficiency of consumption and environmental management of the fly ash emissions.

The coal produced in the country is not sufficient to meet the present demand of power, steel and cement sectors which are expanding their capacities. To meet this increasing gap between demand and supply, higher calorific value and low ash content coal are being imported mainly from Australia, Indonesia and South Africa based on quality as well as cost considerations. Coking coal is imported by steel sector and coke manufacturers mainly on availability and quality considerations. Coastal based power stations and cement plants are also importing non-coking coal on considerations of transport logistics and commercial reasons. Main exporter of coal to India was Indonesia followed by Australia and South Africa.

Import of coal is sharply increasing since 2011 and about 145.785 million tonnes of coal (about 20 % of the annual coal requirement) were imported during the year 2012-2013. India's coal import over the period is shown in the Table 1.10.

Table 1.10 Total Import of Coal (Qty in Million tonnes)

| Year | Coking coal | Non-coking coal | Total |
|---------|-------------|-----------------|---------|
| 2012-13 | 35.557 | 110.228 | 145.785 |
| 2011-12 | 31.801 | 71.052 | 102.853 |
| 2010-11 | 19.484 | 49.434 | 68.918 |

The Government levies Clean Energy Cess or coal tax, on all the coal, peat and lignite mined within the country or imported since July 1, 2010. The Indian Government has announced the coal tax in order to generate funding for the research, development and deployment of cleaner and renewable energy technologies. A tax of Rs. 100 would be levied on every tonne of coal mined in the country as well as that imported from abroad.

However, with India already having committed (domestic commitment) to reduce its carbon intensity by 20 to 25 percent from 2005 levels by 2020, the strategy of using coal for large-scale rural electrification could hamper its efforts to achieve the carbon intensity reduction targets.

Oil Sector

India's oil reserves are estimated at 5.7 billion barrels (800 Million tonnes), which amount to only about 0.3% of the total world reserves. The main oil fields are located in the Bombay High, upper Assam, Cambay, and Krishna-Godavari basin.

Oil accounts for about 29 % of the country's primary energy consumption at the end of 2013. India's crude oil production was about 42 million metric tonnes as against the consumption of about 175.2 million metric tonnes. India's present reserve to production (R/P) ratio is only about 17.5 years.

Currently, India is the fourth largest oil-consuming country in the world. India imports over 75% of its crude oil needs, mainly from Gulf nations. In terms of sector wise petroleum products consumption, transport sector is the largest followed by domestic and industry sector.

Since the introduction of New Exploration Licensing Policy (NELP), oil and gas sector has been opened to private and foreign investments in order to bring new technologies and international best practices. During the year 2013-14 the import of crude oil was 189.238 MMT valued at Rs. 8,64,875 crores. Table 1.11 gives the crude oil import bill trend over the last few years.

| Table:1.11 The import bill of crude and petroleum products | | |
|---|---|-------------------------------|
| Year | Quantity (Million Metric Tonnes) | Import Bill (Rs Crore) |
| 2010-11 | 163.595 | 4,55,276 |
| 2011-12 | 171.729 | 6,72,220 |
| 2012-13 | 184.795 | 7,84,652 |
| 2013-14 | 189.238 | 8,64,875 |

Source: Ministry of Petroleum and Natural Gas

Natural Gas Sector

Natural gas has become the most preferred fuel due to its inherent environmentally benign nature, greater efficiency and cost effectiveness. It is also termed as the fuel of the 21st century. When natural gas is cooled to -161°C, it is transformed into Liquefied Natural Gas (LNG). This is done for ease of storage and transportation. Since liquefaction reduces the volume occupied by the natural gas by 600 times, LNG is transported in specially built ships with cryogenic tanks. Compressed Natural Gas (CNG) is made by compressing natural gas (which is mainly composed of methane [CH₄]) to less than 1% of the volume it occupies at standard atmospheric pressure. It is stored and distributed in hard containers of cylindrical or spherical shapes, at a pressure of 200–248 kg/cm². CNG can be used in

traditional petrol internal combustion engine vehicles that have been converted into bi-fuel vehicles (petrol/CNG).

India's gas reserves are estimated at 1.4 trillion cubic metres by end of 2013 which amounts to about 0.7% of the total World reserves. About 66 per cent of the country's production comes from offshore production, whereas the remaining 34 per cent comes from on-shore production. The bulk of onshore production comes from Assam, Gujarat, Andhra Pradesh. Under production sharing contracts, private parties have also started producing gas in some of the fields. India's present Reserves / Production (R/P) ratio is 40 years.

Natural gas accounts for only about 7.8 per cent of fuel consumption in India compared to the world average of about 24% in 2013. India's consumption of natural gas is 51.4 billion cubic metres as against the production of 33.7 billion cubic metres in 2013. India also imports natural gas in the form of LNG. LNG is received in terminals and regassified and then supplied as natural gas to the consumers. LNG projects are capital intensive.

Power generation and fertiliser industry dominate the natural gas consumption at 62%. Since gas now finds uses beyond conventional power and fertilizer sectors like automotive fuels, distributed power generation, industrial and domestic fuel, etc., the Indian Government is keen on increasing the availability of gas in the country.

A gas grid is being constructed across the country to meet the consumers' bulk and retail use. City gas supply is now covered only in a few major cities and is set to increase with India's gas infrastructure. More LNG terminals are also being developed to tap the global gas market.

The disadvantages with the use of natural gas are unpredictability in its price and uncertainty in its availability.

India's oil and gas reserves are estimated to last just 17.5 years and 40.2 years respectively at the current R/P ratio. Coal is likely to last for 100 years.

Electrical Energy Supply

The installed capacity of electric power stations in India is 2,38,743 MW as on February 2014, out of which 40195 MW is from Hydro-electric power plants, 163305 MW is from Thermal and 5780 MW from Nuclear and 29463 MW from Renewable Energy Sources. Refer Table 1.12.

The gross generation of power in the year 2013/14 was 881786 million kWh. India faces energy shortage of 3.8 % and peak shortage of 3.3% (Source: Ministry of Power)

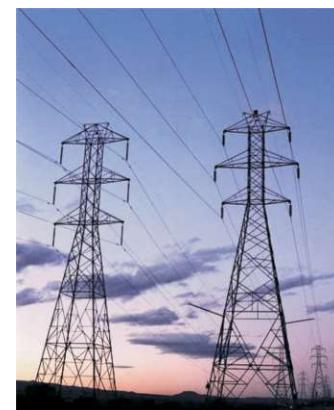


Table 1.12 Breakup of Installed Capacity by Energy Source

| Power Generation Route | Capacity (MW) | % |
|---|----------------------|--------------|
| Total Thermal | 1,63,304.99 | 68.4 |
| <i>Coal</i> | 1,40,723.39 | 58.9 |
| <i>Gas</i> | 21,381.85 | 9.0 |
| <i>Oil</i> | 1,199.75 | 0.5 |
| Hydro | 40,195.40 | 16.84 |
| Nuclear | 5,780.00 | 2.42 |
| Renewable energy sources (small hydro, wind, biomass and others) | 29,462.55 | 12.34 |
| Total | 2,38,742.94 | 100.0 |

Nuclear Power Supply

India currently operates 21 nuclear power units at seven locations.. The installed capacity of nuclear power plant is 5780 MW which comprises of Boiling Water Reactors and Pressurized Heavy Water Reactors. Projects are underway which can add further 6100 MW to the existing capacity. Currently, Nuclear power contributes to only about 2 per cent of the total installed capacity in India. Department of Atomic Energy plans to put up a total installed nuclear power capacity of 63,000 MW by the year 2032 in the country

India's ability to develop nuclear power is restricted as we do not have adequate supply of Uranium leading to poor operating load factor. The Uranium produced in India is 2-3 times costlier since Indian ores contain only about 0.1% Uranium compared to 12-13% in the Uranium ores mined abroad. The locally available Uranium can meet the requirement of only about 10,000 MW of nuclear power generation.

Hydro Power Supply

India is endowed with a vast and viable hydro potential for cleaner power generation. This amounts to economically viable hydro power capacity of over 84,000 MW at 60% load factor. Around 80% of this potential capacity has been identified in the Brahmaputra, Indus and Ganges basins. In addition, another 15,000 MW has been acknowledged as being potentially available in small hydro projects.

In addition to being a benign source of power, hydropower generation has the inherent ability for instantaneous starting, stopping and managing of load variations that will help in improving the reliability of the system. Hydro power also aids utilities in averaging their power procurement cost, as the generation cost reduces over time and most of the low cost power procurement of utilities comes from hydro sources. Unlike generation from fossil fuels, hydropower generation is independent of inflation.

The share of hydropower in the country's total generated units has steadily decreased over time and it stands at about 17% by 2013. In order to maintain a balance between hydro power and thermal power, the Ministry of Power has announced a policy for accelerated development of hydro power in the country. Development of small and mini hydro power at an accelerated pace is one of the tasks in the policy. The small and mini hydro projects have good potential to provide energy in remote and hilly areas where extension of grid system is uneconomical. To accelerate the development of hydro power, projects up to 25 MW have been brought under the domain of the Ministry of New and Renewable Energy (MNRE), while projects beyond 25 MW continue to remain under the of Ministry of Power.

1.8 Sector wise Energy Consumption in India

The major commercial energy consuming sectors in the country are shown in the Figure 1.4. The industrial sector consumes almost 44 % of the total commercial energy consumption followed by transport.

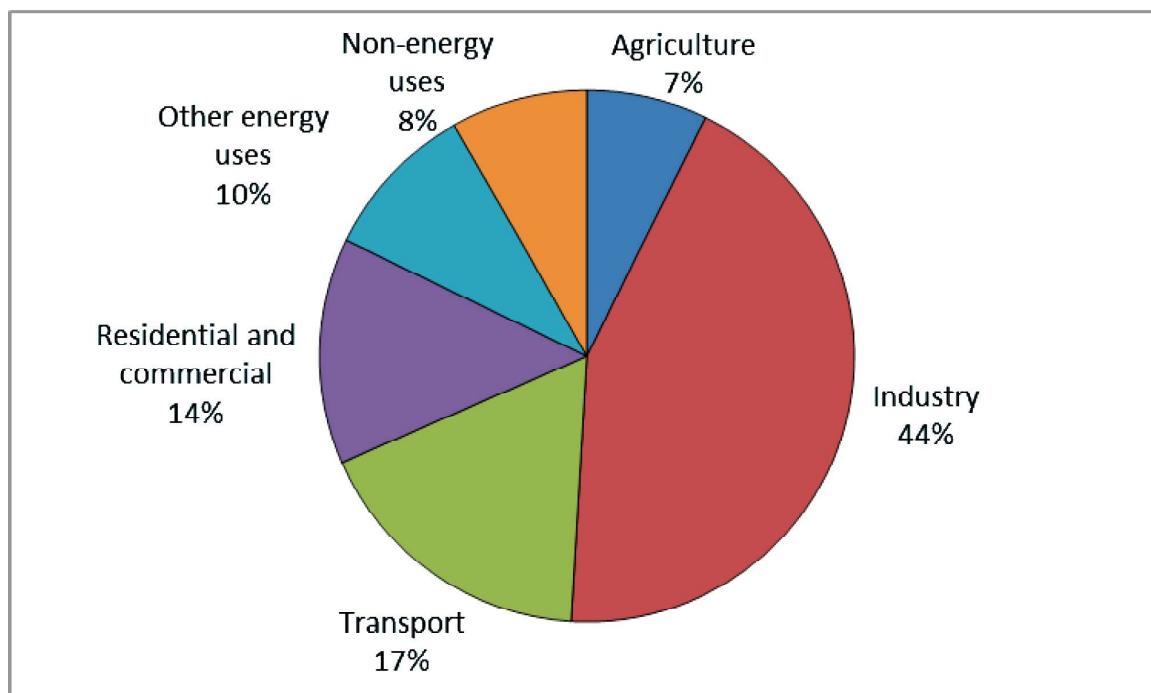


Figure 1.4 Sectorwise Energy Consumption
Source: TERI

Specific Energy Consumption (SEC) of the major industry sectors in India is much higher compared to global benchmarks (see Table 1.13). With ever increasing energy costs, it is more important to improve the energy efficiency of manufacturing processes in major industries and small enterprises.

Table 1.13 SEC in Selected Indian Industries against Global Benchmarks

| Industry | Specific Energy Consumption (SEC) in GJ/ tonne | |
|-----------------------------|--|-----------|
| | India | World |
| Iron & Steel | 25.5 –34.2 | 16.5-18.5 |
| Cement | 3.0-3.4 | 2.9-3.0 |
| Fertilizers(Urea) | 27.2-28.5 | 24.0-25.8 |
| Pulp & Paper | 31.0-51.0 | 25.0-30.0 |
| Chlor Alkali (Caustic Soda) | 7.8-8.6 | 7.1-7.5 |
| Aluminum | 75.6-83.2 | 70.5-73.0 |
| Sugar | 0.7-0.9 | 0.6-0.7 |

Source: Planning Commission, India Report

However, the efficiencies of many processes in the Indian cement, steel and aluminium industries have improved over the past 15 years. Continuous improvements in enhancing energy efficiency have helped to lower the country's overall energy intensity to a certain extent. In the cement sector for example, the specific energy consumption of the most efficient plants is now comparable to the best in the world. However, much of the Indian industrial output is derived from small and medium industries operated with inefficient equipment, where it has been difficult to implement efficiency improvements.

Transport sector

The energy consumption of this sector is growing at a rapid rate of 16% per annum which is next only to China. This sector almost consumes around 40% of the petroleum products.

By the end of the projection period i.e. 2030, out of the total transport energy demand, road vehicles would account for 86% followed by aviation at 9%. Railways, marine and others are expected to consume 5%.

Residential, Commercial, Services and Agricultural sector

There exists a wide difference between the consumption pattern of the rural and urban households. The rural households depend upon biomass to meet 85% of their cooking needs, while the urban households meet 56% of their cooking needs through LPG. Almost 70% of the population in India is rural household, which accounts for only 42% of the demand for oil, gas and electricity. The use of electricity is growing rapidly in the residential sector. Of the total electricity demand in the domestic sector, 70% is used for lighting purpose while the balance 30% is accounted for refrigeration, air conditioning and other electrical gadgets.

The energy consumption especially for commercial and services activities is expected to grow rapidly due to high growth rate in commercial establishments, hotels, shopping malls, IT parks and hospitality industry.

Gradual shift to mechanized farming has lead to a steep rise in agricultural energy consumption, both electricity and diesel. The electricity consumption in agriculture sector has increased at a much faster rate compared to other sectors during the last four decades

1.9 Energy Needs of Growing Economy

Economic growth is desirable for developing countries, and energy is essential for economic growth. However, the relationship between economic growth and increased energy demand is not always a straightforward linear one.

Massive investment in energy sector is required to deliver a sustained GDP growth rate of 8.0% till the year 2031- 2032. The requirements of energy sector are:

- Growth in primary energy supply by 3-4 times over current consumption
- Increase in electricity installed capacity by 6-7 times
- Increase in annual coal requirement by nearly 3 times over the current demand

As far as electricity consumption is concerned, India has reached a level of about 917 kiloWatt hour (kWh) per person per year (2012-13) as shown in Table 1.14. The comparable figure for Japan is 7848, for China 3298, for USA 13,246, for UK 6206, for Canada 16,473 and the world average is 2430 (Source: World Bank). Thus, India's per capita electricity consumption is much less than that of many countries and much less than the World average

Table 1.14 Growth of Per Capita Consumption (kWh)

| Particulars | 2010-11 | 2011-12 | 2012-13 |
|------------------------------|---------|---------|---------|
| Per Capita Consumption (kWh) | 819 | 884 | 917 |

Source: Growth of Electricity in India from 1947-2013: CEA Document

Requirement of coal, the dominant fuel in India's energy mix will need to expand to over 2 billion tonnes/annum based on domestic quality of coal given India's targeted GDP growth.

India's oil requirements also will increase at a significant rate. India already imports about 75% of its crude oil requirements which are likely to go up more than 90% in the near future as production in existing oil and gas fields are declining as a result of years of use.

The share of natural gas in the energy mix is expected to go upto 20-25% by the year 2030-32.

Nuclear power plant capacity targets as envisaged by the Department of Atomic Energy (DAE) are 20,000 MWe by 2020, 50,000 MWe by 2030 and 250,000 MWe of nuclear power by 2050.

1.10 Integrated Energy Policy

The power supply position prevailing in the country is characterized by persistent power shortages, unreliability and also high prices for industrial consumer. India depends on imported oil to an extent of about 75% and this raises energy security concerns.

Also consistency in policies governing each sector and consistency in pricing of different types of energy is lacking. There is a need for clarity in the direction which we must follow in aspects like energy security, addressing environmental concerns, energy conservation and Research and Development.

To achieve these objectives, Expert Committee has made a comprehensive review to make recommendations for integrated energy policy. The integrated energy policy is briefly covered in Chapter-2 of this book.

1.11 Energy Intensity on Purchasing Power Parity (PPP)

Energy intensity is the ratio between the gross inland consumption of energy and the gross domestic product (GDP) for a given calendar year. It measures the energy consumption of an economy and its overall energy efficiency.

The gross inland consumption of energy is a measure of the energy inputs to the economy, calculated by adding total domestic energy production plus energy imports minus energy exports plus net withdrawals from existing stocks.

The GDP figures are taken at constant prices to avoid the impact of the inflation, in relation to a base year (say 2000). Since gross inland consumption is measured in toe (tons of oil equivalent) and GDP in millions of US \$, this ratio is expressed in toe per million US \$.

$$EI = \frac{FC}{GDP}$$

Where:

EI = Energy intensity, national level, toe per million US \$

FC = Total final consumption, national level, toe

GDP= Gross domestic product, million US \$

A low energy intensity would indicate that the country has the right mix of industries sector wise. An economy dominated by heavy industrial production, for instance, is more likely to have higher energy intensity than the one where the service sector is dominant, even if the energy efficiencies of the two countries are identical. Likewise, a country that relies on trade to acquire (import) carbon-intensive goods will—when all other factors are equal—have lower energy intensity than the countries that manufacture the same goods for export.

Although, energy use generally increases as the economy grows, continuing improvement in the energy efficiency of the nation's economy and a shift to less energy-intensive activities are projected to keep the rate of energy consumption growth lower than the rate of GDP growth

What is Purchase Power Parity (PPP)?

An egg in India costs Rs.3/- whereas it costs 30 Yens/- (equivalent to Rs.15) in Japan. The PPP for an egg between Japan and India is 30 Yens to Rs.3 or 10 Yens to a rupee. In other words, for every rupee spent on egg in India, 10 Yens would have to be spent in Japan to obtain the same quality of egg.

Applying actual exchange rates of Yen to Rupee in this process would overestimate the GDP of Japan with high price levels relative to India with low price levels. The use of PPPs ensures that the GDP of all countries is valued at a uniform price level and thus reflects only differences in the actual volume of the economy. Adjustments are required to give a better picture than comparing gross domestic products (GDP) using market exchange rates.

A purchasing power parity (PPP) exchange rate equalizes the purchasing power of different currencies in their home countries for a given basket of goods. These special exchange rates are often used to compare the standards of living of two or more countries. In their simplest form, PPPs are price relatives that show the ratio of the prices in national currencies of the same good or service in different countries.

Simply, it means the purchasing power of country, after neutralizing the currency to global standards, thus giving a more correct picture of the country's purchasing power. PPP is a useful measure because, more often than not, the amount of goods a currency can purchase within two nations varies widely based on availability of goods, demand for the goods, and a number of other factors.

Taking into account PPP, the energy intensity is expressed as Energy Intensity (kgoe/US \$PPP GDP).

1.12 Long Term Energy Scenario for India

Coal

Apart from meeting the energy needs of the industry, coal is the predominant energy source for power production in India accounting for about 60% of the installed capacity. Energy demand in India is expected to increase heavily over the next 10-15 years. Coal will continue to remain the dominant fuel in the Indian economy.

Despite significant increases in the total installed generation capacity during the last decade, the gap between the electricity supply and demand continues to increase. The resulting shortfall has had a negative impact on the industrial output and economic growth.

The coal production stood at around 551.71 Million tonnes by the end of 2013. Indian coal is typically of poor quality and as such requires beneficiation to improve the quality. As domestic coal production is very unlikely to cope with increasing demand, coal imports are expected to increase drastically in future to satisfy the industrial and power generation requirements.

Oil

India's demand for petroleum products rose from 97.7 million tonnes in 2001-02 to around 175.2 million tonnes by 2013. Domestic crude oil production was 37.788 million metric tonnes (MMT) for the year 2013-14.

India's self sufficiency in oil has consistently declined from 60% in the 1950s to 25% currently. Same is expected to go down to 8% by 2020. About 90% of India's total oil demand by 2020 would have to be met by imports.

Natural Gas

In keeping with the world wide trend, the demand for natural gas in India has been on the increase. The production of natural gas which was negligible at the time of independence is now at the level of 35.407 Billion Cubic Meters. To meet the future requirements of natural gas, trans-national gas pipelines are being planned.

While gas pipeline projects would yield results only in long term, immediate relief can come in the form of LNG. Import of LNG will require special terminals to handle them at the ports. The constructions of such terminals have already started and some of them have been commissioned. The world trade in LNG is around 150 Billion Cubic Metres (BCM). Geographically, India is strategically located and is flanked by large gas reserves on both East and West. India is located relatively near to four of top five countries in terms of proven gas reserves viz. Iran, Qatar, Saudi Arabia and Abu Dhabi. The large natural gas market of India is a major attraction to the LNG exporting countries. In order to encourage gas imports, Government has kept import of LNG under Open General License (OGL) and permitted 100% Foreign Direct Investment (FDI)

Electricity

With India already reeling under peak demand and energy shortage, increasing economic growth is expected to put heavy pressure on the power sector. For sustaining the current economic growth rate, the capacity will have to be doubled every 10 years.

Accelerated Power Development & Reforms Programme was introduced by the Ministry of Power in 2002-03 in order to improve the power reliability at the distribution level and to achieve commercial viability of State Electricity Boards. The strategies include technical, commercial, financial and IT interventions to achieve the following objectives

- Targets towards the commercial viability of the utilities by reducing their Aggregate Technical & Commercial (AT&C) losses to 15%
- Improvement in quality, supply and reliability of supply
- Improved revenue collection and customer satisfaction

APDRP was later restructured as R-APDRP, the focus of which is on actual, demonstrable performance in terms of loss reduction.

1.13 Electricity Pricing in India

In terms of purchasing power parity, power tariffs in India for industries and commercial establishments are among the highest in the world. The average tariff on PPP basis in India is 30.8 cents/kWh, while it is 7.7 in US, 15.3 in Japan and 20.6 in China.

Consumer prices for electricity are currently set by State Electricity Regulatory Commissions on cost plus basis. Power tariffs are structured on the basis of industrial and commercial users cross subsidizing agricultural and domestic power consumption.

Electricity tariffs in India are structured in a relatively simple manner. While high tension consumers are charged based on both demand (kVA) and energy (kWh), the low-tension (LT) consumer pays only for the energy consumed (kWh) as per tariff system in most of the distribution companies. The price per kWh varies significantly across States as well as customer segments within a State.

The agricultural sector is supplied un-metered power in almost all states and the farmers pay a highly subsidized lump sum amount based on the declared horse power of their pumps. This leads to a zero marginal cost of power which promotes inefficient use and over exploitation of ground water. The domestic sector also has a range of subsidies based on the level of consumption including heavily subsidised power for the poorest segment wherein households pay a low lump sum monthly charge. With the rising cost of supply, the burden of these cross-subsidies has increased and is disproportionately loaded on the paying industrial, commercial and large household consumers.

Introduction of Availability Based Tariffs (ABT) and unscheduled interchange charges for power, introduced in 2003 for inter-state sale of power, have reduced voltage and frequency fluctuations.

What is ABT?

- It is a performance-based tariff system for the supply of electricity by generators owned and controlled by the central government
- It is also a new system of scheduling and dispatch, which requires both generators and beneficiaries to commit to day-ahead schedules.
- It is a system of rewards and penalties seeking to enforce day ahead pre-committed schedules, though variations are permitted if notified one and half hours in advance.
- The order emphasises prompt payment of dues. Non-payment of prescribed charges will be liable for appropriate action.

1.14 Energy Security

The basic aim of energy security for a nation is to reduce its dependency on the imported energy sources for its economic growth. Energy security is defined as “**The continuous availability of energy in varied forms in sufficient quantities at reasonable prices**”.

World Energy Assessment (UNDP 1999)

Energy security is a serious concern because India's energy needs are growing with rising income levels and a fast growing population. The dependence on imported energy is also increasing rapidly due to increasing energy needs. A special concern is that the import of oil is about 75% of total oil consumption. The domestic oil wells are all over 30 years old and the yield from these wells have started reducing. Oil demand is rising at a rate of about 5% every year leading to huge oil import bills. By 2020, it is projected that our oil imports would exceed 90% of the total consumption if the economic growth continues at the same pace as now.

Any disruption in energy supplies would be harmful to the country's economic growth, human survival and well being. For example, disruption in oil supply or increase in price of oil will force the farmers to reduce the use of pumps and tractors and this will lead to lower agricultural output which in turn may lead to lower employment.

India is dependent on Middle East- a region prone to disturbances and disruptions of oil supplies- for most of our oil imports. This calls for diversification of sources of oil imports. The need to deal with oil price fluctuations also necessitates measures to be taken to reduce the oil dependence of the economy, possibly through fiscal measures to reduce demand, and by developing alternatives to oil, such as natural gas and renewable energy.

Poor coal quality and high prices of domestic coal will drive the increase in coal imports from present level of 25%. The imports of gas and LNG (liquefied natural gas) are likely to increase in the coming years. Thus the energy import dependence implies vulnerability to external price shocks and supply fluctuations, which in turn threaten the energy security of the country.

Some of the strategies that can be used to meet future energy requirements include:

- Reducing energy requirements
 - Improving the efficiency of extraction of fossil fuels
 - Improving fuel efficiency of new coal-fired power plants by adopting new technology (i.e. super critical pulverized fuel fired boilers)
 - Adopting energy efficiency and demand side management
 - Promotion of public transport / mass transport (e.g. metro rail, light rail, monorail etc.) in urban areas
 - Developing renewable energy sources especially solar and wind
- Substituting imported oil/gas with domestic alternatives
 - Ethanol / Biodiesel as substitute for petrol / diesel
 - Biomass gasification for heat or power as alternative to gas / coal
 - Coal-to-oil technology as done in South Africa

- Diversifying energy supply sources
 - Mix of fuel comprising of coal, gas, nuclear, hydro and renewables with no dependence on any particular fuel
 - Sourcing oil / LNG from different countries
 - Importing gas through pipelines passing through countries who also benefit
- Expanding energy resource and developing alternative energy sources
 - Improved Oil Recovery (IOR) and Enhanced Oil Recovery (EOR) for improving exploitation of reserves
 - Recovery of oil and gas from abandoned or marginal fields
 - In-situ coal gasification
 - Capturing Coal Bed Methane (CBM) which escapes from coal seams during mining
 - Conversion of coal to oil
 - Gas to Liquid (GTL)
 - Stepping up exploration to find new reserves (only one-third of oil bearing area explored so far)
 - Equity oil, gas, coal from other countries
 - Setting up energy intensive units (i.e. fertilizer plants) abroad
 - New domestic sources (nuclear –fast breeder reactor, thorium reactors, gas hydrates etc.)
 - Promoting Community Biogas Plants
 - Energy plantations

1.15 Energy Conservation and its Importance

Coal and other fossil fuels, have taken hundreds of millions of years to form, are likely to deplete soon. In the last two hundred years, we have consumed 60% of all resources. For sustainable development, we need to adopt energy efficiency measures.

Today, 85% of India's primary energy comes from non-renewable and fossil sources (coal, oil, etc.). These reserves are continually diminishing with increasing consumption and will not exist for future generations (see Figure 1.5).

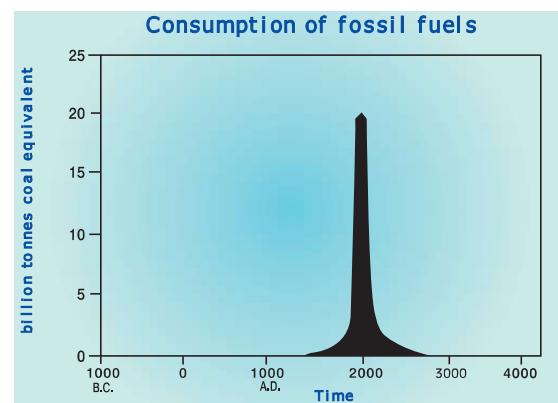


Figure 1.5 Consumption of Fossil Fuels

What is Energy Conservation?

Energy Conservation and Energy Efficiency are separate, but related concepts. Energy conservation is achieved when growth of energy consumption is reduced in physical terms. Energy Conservation can, therefore, is the result of several processes or developments, such as productivity increase or technological progress. On the other hand Energy efficiency is achieved when energy intensity in a specific product, process or area of production or consumption is reduced without affecting output, consumption or comfort levels. Promotion of energy efficiency will contribute to energy conservation and is therefore an integral part of energy conservation promotional policies.

Energy efficiency is often viewed as a resource option like coal, oil or natural gas. It provides additional economic value by preserving the resource base and reducing pollution. For example, replacing Incandescent lamps with LED's means will require 1/8th of the energy to light a room. Pollution levels also reduce by the same amount (refer Figure 1.6).

Nature sets some basic limits on how efficiently energy can be used, but in most cases our products and manufacturing processes are still a long way from operating at this theoretical limit. Very simply, energy efficiency means using less energy to perform the same function.

Although, energy efficiency has been in practice ever since the first oil crisis in 1973, it has today assumed even more importance because of being the most cost-effective and reliable means of mitigating the global climatic change. Recognition of that potential has led to high expectations for the reduction of future CO₂ emissions through more energy efficiency improvements than that achieved in the past. The industrial sector accounts for about 41 per cent of global primary energy demand and approximately the same share of CO₂ emissions. The benefits of Energy conservation for various players are given in Figure 1.7.



Figure 1.6 Energy Efficient Equipment

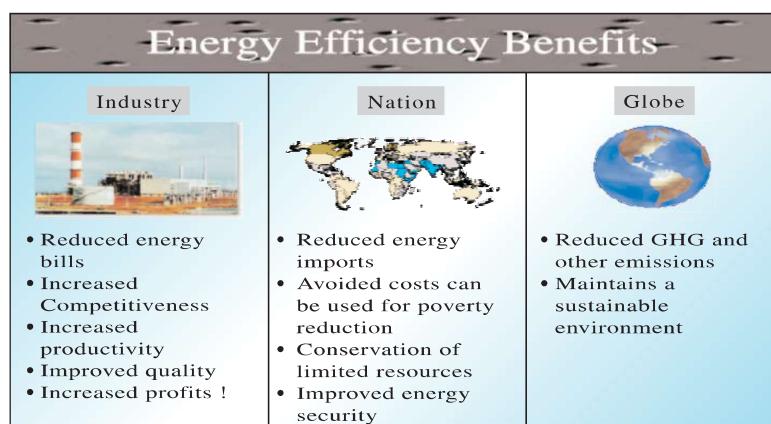


Figure 1.7 Energy Efficiency Benefits

| QUESTIONS | | | | |
|---------------------------------|---|--|---|---|
| Objective Type Questions | | | | |
| 1. | The Government of India levies Clean Energy Cess on which of the following: | | | |
| | a) Electricity | b) Coal | c) Diesel | d) Biodiesel |
| 2. | One tonne of oil equivalent is | | | |
| | a) 10,000 kcal | b) 1000 kcal | c) 1000 kg of oil | d) 10 Mcal |
| 3 | Which of the following is not a national mission under the Prime Minister's National Action Plan on Climatic Change | | | |
| | a) National solar mission | b) National mission for enhanced energy efficiency | c) National mission on CFC alternatives | d) National mission for green India |
| 4 | The country that accounts for largest energy consumption is | | | |
| | a) USA | b) Russia | c) China | d) India |
| 5. | Coal in our planet is expected to last for about | | | |
| | a) 45 years | b) 65 years | c) 200 years | d) 113 years |
| 6. | The major source of electrical power generation in India is | | | |
| | a) thermal | b) hydel | c) nuclear | d) wind |
| 7. | Which of the following with respect to fossil fuels is true? | | | |
| | a) R/P ratio is a constant once established | b) R/P varies every year with only changes in production | c) R/P ratio varies with only changes in reserves | d) R/P ratio varies every year with changes in both production and reserves |
| 8. | Nuclear energy development in India is constrained by | | | |
| | a) low % of Uranium in the ore | b) inadequate supply of Uranium | c) constraints in import of Uranium | d) all of the above |
| 9. | Availability based tariff is applicable to | | | |
| | a) oil | b) coal | c) natural gas | d) electricity |
| 10. | Energy intensity is the ratio of | | | |
| | a) fuel consumption / GDP | b) GDP/fuel consumption | c) GDP/energy consumption | d) energy consumption/GDP |
| Short Type Questions | | | | |
| S-1 | Write a short description about Availability Based Tariff (ABT) | | | |
| S-2 | Briefly explain ‘Renewable Purchase Obligation (RPO)’ and means by which this requirement can be met? | | | |

| | |
|----------------------------|---|
| S-3 | Give a short description about primary and secondary energy with examples |
| S-4 | Convert the following into tonnes of oil equivalent 10,000 kg of coal with a calorific value of 4000 kcal/kg 10 lac kWh |
| S-5 | What is meant by PPP? |
| Long Type Questions | |
| L-1 | Explain the difference between energy conservation and energy efficiency with a suitable example |
| L-2 | List five strategic measures for meeting energy security of a country. |

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