

1.6 Indian Energy Scenario

Coal dominates the energy mix in India, contributing to 55% of the total primary energy production. Over the years, there has been a marked increase in the share of natural gas in primary energy production from 10% in 1994 to 13% in 1999. There has been a decline in the share of oil in primary energy production from 20% to 17% during the same period.

Energy Supply

Coal Supply

India has huge coal reserves, at least 84,396 million tonnes of proven recoverable reserves (at the end of 2003). This amounts to almost 8.6% of the world reserves and it may last for about 230 years at the current Reserve to Production (R/P) ratio. In contrast, the world's proven coal reserves are expected to last only for 192 years at the current R/P ratio.

Reserves/Production (R/P) ratio- 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.

India is the fourth largest producer of coal and lignite in the world. Coal production is concentrated in these states (Andhra Pradesh, Uttar Pradesh, Bihar, Madhya Pradesh, Maharashtra, Orissa, Jharkhand, West Bengal).

Oil Supply

Oil accounts for about 36 % of India's total energy consumption. India today is one of the top ten oil-guzzling nations in the world and will soon overtake Korea as the third largest consumer of oil in Asia after China and Japan. The country's annual crude oil production is peaked at about 32 million tonne as against the current peak demand of about 110 million tonne. In the current scenario, India's oil consumption by end of 2007 is expected to reach 136 million tonne(MT), of which domestic production will be only 34 MT. India will have to pay an oil bill of roughly \$50 billion, assuming a weighted average price of \$50 per barrel of crude. In 2003-04, against total export of \$64 billion, oil imports accounted for \$21 billion. India imports 70% of its crude needs mainly from gulf nations. The majority of India's roughly 5.4 billion barrels in oil reserves are located in the Bombay High, upper Assam, Cambay, Krishna-Godavari. In terms of sector wise petroleum product consumption, transport accounts for 42% followed by domestic and industry with 24% and 24% respectively. India spent more than Rs.1,10,000 crore on oil imports at the end of 2004.

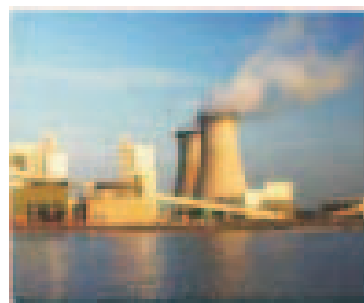
The ever rising import bill		
Year	Quantity (MMT)	Value (Rs Crore)
1996-97	33.90	18,337
1997-98	34.49	15,872
1998-99	39.81	19,907
1999-00	57.80	40,028
2000-01	74.10	65,932
2001-02	84.90	80,116
2002-03	90	85,042
2003-04	95	93,159
*2004-05	100	1,30,000
* Estimated		
Source: Ministry of Petroleum and Natural Gas		

Natural Gas Supply

Natural gas accounts for about 8.9 per cent of energy consumption in the country. The current demand for natural gas is about 96 million cubic metres per day (mcmd) as against availability of 67 mcmd. By 2007, the demand is expected to be around 200 mcmd. Natural gas reserves are estimated at 660 billion cubic meters.

Electrical Energy Supply

The all India installed capacity of electric power generating stations under utilities was 1,12,581 MW as on 31st May 2004, consisting of 28,860 MW- hydro, 77,931 MW - thermal and 2,720 MW- nuclear and 1,869 MW- wind (Ministry of Power). The gross generation of power in the year 2002-2003 stood at 531 billion units (kWh).



Nuclear Power Supply

Nuclear Power contributes to about 2.4 per cent of electricity generated in India. India has ten nuclear power reactors at five nuclear power stations producing electricity. More nuclear reactors have also been approved for construction.

Hydro Power Supply

India is endowed with a vast and viable hydro potential for power generation of which only 15% has been harnessed so far. The share of hydropower in the country's total generated units has steadily decreased and it presently stands at 25% as on 31st May 2004. It is assessed that exploitable potential at 60% load factor is 84,000 MW.

Final Energy Consumption

Final energy consumption is the actual energy demand at the user end. This is the difference between primary energy consumption and the losses that takes place in transport, transmission & distribution and refinement. The actual final energy consumption (past and projected) is given in Table 1.2.

TABLE 1.2 DEMAND FOR COMMERCIAL ENERGY FOR FINAL CONSUMPTION (BAU SCENARIO)					
Source	Units	1994-95	2001-02	2006-07	2011-12
Electricity	Billion Units	289.36	480.08	712.67	1067.88
Coal	Million Tonnes	76.67	109.01	134.99	173.47
Lignite	Million Tonnes	4.85	11.69	16.02	19.70
Natural Gas	Million Cubic Meters	9880	15730	18291	20853
Oil Products	Million Tonnes	63.55	99.89	139.95	196.47
Source: Planning Commission <i>BAU: Business As Usual</i>					

Sector Wise Energy Consumption in India

The major commercial energy consuming sectors in the country are classified as shown in the Figure 1.5. As seen from the figure, industry remains the biggest consumer of commercial energy and its share in the overall consumption is 49%. (Reference year: 1999/2000)

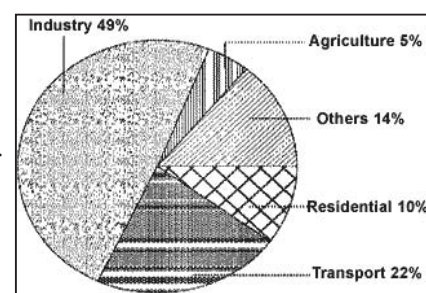


Figure 1.5 Sector Wise Energy Consumption (1999-2000)

1.7 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. For example, under present conditions, 6% increase in India's Gross Domestic Product (GDP) would impose an increased demand of 9 % on its energy sector.

In this context, the ratio of energy demand to GDP is a useful indicator. A high ratio reflects energy dependence and a strong influence of energy on GDP growth. The developed countries, by focusing on energy efficiency and lower energy-intensive routes, maintain their energy to GDP ratios at values of less than 1. The ratios for developing countries are much higher.

India's Energy Needs

The plan outlay vis-à-vis share of energy is given in Figure 1.6. As seen from the Figure, 18.0% of the total five-year plan outlay is spent on the energy sector.

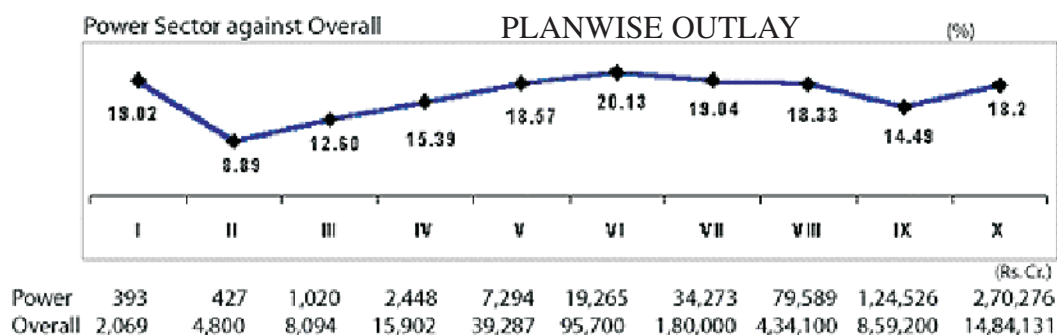


Figure 1.6 Expenditure Towards Energy Sector

Per Capita Energy Consumption

The per capita energy consumption (see Figure 1.7) is too low for India as compared to developed countries. It is just 4% of USA and 20% of the world average. The per capita consumption is likely to grow in India with growth in economy thus increasing the energy demand.

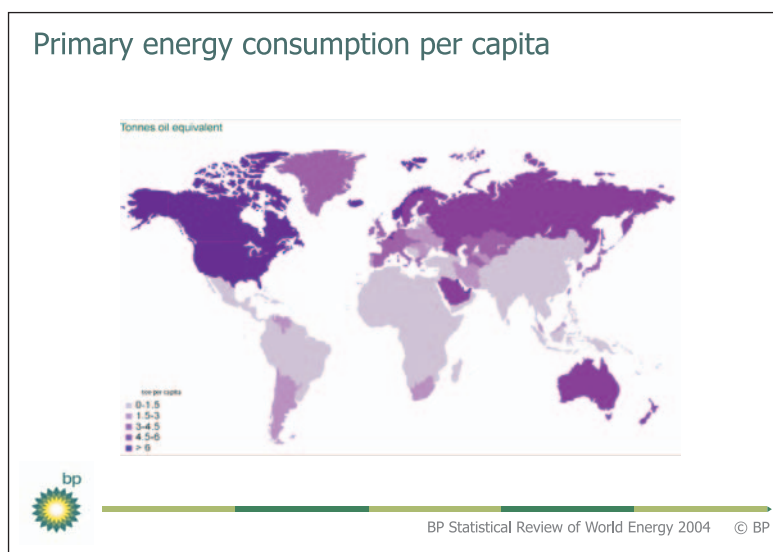


Figure 1.7 Per Capita Energy Consumption

Energy Intensity

Energy intensity is energy consumption per unit of GDP. Energy intensity indicates the development stage of the country. India's energy intensity is 3.7 times of Japan, 1.55 times of USA, 1.47 times of Asia and 1.5 times of World average.

1.8 Long Term Energy Scenario for India

Coal

Coal is the predominant energy source for power production in India, generating approximately 70% of total domestic electricity. Energy demand in India is expected to increase over the next 10-15 years; although new oil and gas plants are planned, coal is expected to remain the dominant fuel for power generation. Despite significant increases in total installed capacity during the last decade, the gap between electricity supply and demand continues to increase. The resulting shortfall has had a negative impact on industrial output and economic growth. However, to meet expected future demand, indigenous coal production will have to be greatly expanded. Production currently stands at around 290 Million tonnes per year, but coal demand is expected to more than double by 2010. Indian coal is typically of poor quality and as such requires to be beneficiated to improve the quality; Coal imports will also need to increase dramatically to satisfy industrial and power generation requirements.

Oil

India's demand for petroleum products is likely to rise from 97.7 million tonnes in 2001-02 to around 139.95 million tonnes in 2006-07, according to projections of the Tenth Five-Year Plan. The plan document puts compound annual growth rate (CAGR) at 3.6 % during the plan period. Domestic crude oil production is likely to rise marginally from 32.03 million tonnes in 2001-02 to 33.97 million tonnes by the end of the 10th plan period (2006-07). India's self sufficiency in oil has consistently declined from 60% in the 50s to 30% currently. Same is expect-

ed to go down to 8% by 2020. As shown in the figure 1.8, around 92% of India's total oil demand by 2020 has to be met by imports.

Natural Gas

India's natural gas production is likely to rise from 86.56 million cmpd in 2002-03 to 103.08 million cmpd in 2006-07. It is mainly based on the strength of a more than doubling of production by private operators to 38.25 mm cmpd.

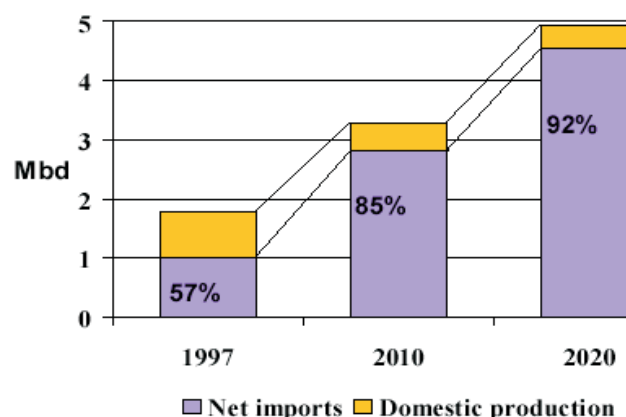


Figure 1.8 India's Oil Balance

Electricity

India currently has a peak demand shortage of around 14% and an energy deficit of 8.4%. Keeping this in view and to maintain a GDP (gross domestic product) growth of 8% to 10%, the Government of India has very prudently set a target of 215,804 MW power generation capacity by March 2012 from the level of 100,010 MW as on March 2001, that is a capacity addition of 115,794 MW in the next 11 years (Table 1.3). In the area of nuclear power the objective is to achieve 20,000 MW of nuclear generation capacity by the year 2020.

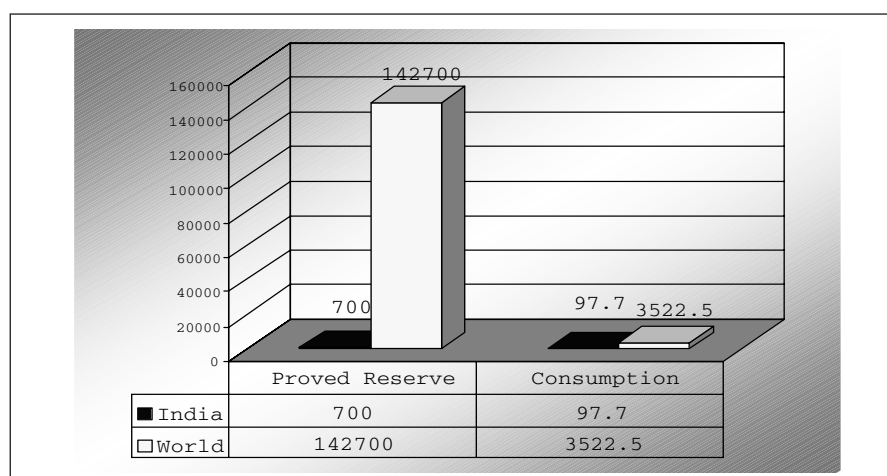


Figure 1.9 Proven Oil Reserve/Consumption (in Million Tonnes)
India Vs World (At End 2002)

TABLE 1.3 INDIA'S PERSPECTIVE PLAN FOR POWER FOR ZERO DEFICIT POWER BY 2011/12 (SOURCE TENTH AND ELEVENTH FIVE-YEAR PLAN PROJECTIONS)

	Thermal (Coal) (MW)	Gas / LNG / Diesel (MW)	Nuclear (MW)	Hydro (MW)	Total(MW)
Installed capacity as on March 2001	61,157	Gas: 10,153 Diesel: 864	2720	25,116	100,010
Additional capacity (2001-2012)	53,333	20,408	9380	32,673	115,794
Total capacity as on March 2012	114,490 (53.0%)	31,425 (14.6%)	12,100 (5.6%)	57,789 (26.8%)	215,804

1.9 Energy Pricing in India

Price of energy does not reflect true cost to society. The basic assumption underlying efficiency of market place does not hold in our economy, since energy prices are undervalued and energy wastages are not taken seriously. Pricing practices in India like many other developing countries are influenced by political, social and economic compulsions at the state and central level. More often than not, this has been the foundation for energy sector policies in India. The Indian energy sector offers many examples of cross subsidies e.g., diesel, LPG and kerosene being subsidised by petrol, petroleum products for industrial usage and industrial, and commercial consumers of electricity subsidising the agricultural and domestic consumers.

Coal

Grade wise basic price of coal at the pithead excluding statutory levies for run-of-mine (ROM) coal are fixed by Coal India Ltd from time to time. The pithead price of coal in India compares favourably with price of imported coal. In spite of this, industries still import coal due its higher calorific value and low ash content.

Oil

As part of the energy sector reforms, the government has attempted to bring prices for many of the petroleum products (naphtha, furnace oil, LSHS, LDO and bitumen) in line with international prices. The most important achievement has been the linking of diesel prices to international prices and a reduction in subsidy. However, LPG and kerosene, consumed mainly by domestic sectors, continue to be heavily subsidised. Subsidies and cross-subsidies have resulted in serious distortions in prices, as they do not reflect economic costs in many cases.

Natural Gas

The government has been the sole authority for fixing the price of natural gas in the country. It has also been taking decisions on the allocation of gas to various competing consumers. The gas prices varies from Rs 5 to Rs.15 per cubic metre.

Electricity

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 electricity boards. The price per kWh varies significantly across States as well as customer segments within a State. Tariffs in India have been modified to consider the time of usage and voltage level of supply. In addition to the base tariffs, some State Electricity Boards have additional recovery from customers in form of fuel surcharges, electricity duties and taxes. For example, for an industrial consumer the demand charges may vary from Rs. 150 to Rs. 300 per kVA, whereas the energy charges may vary anywhere between Rs. 2 to Rs. 5 per kWh. As for the tariff adjustment mechanism, even when some States have regulatory commissions for tariff review, the decisions to effect changes are still political and there is no automatic adjustment mechanism, which can ensure recovery of costs for the electricity boards.

1.10 Energy Sector Reforms

Since the initiation of economic reforms in India in 1991, there has been a growing acceptance of the need for deepening these reforms in several sectors of the economy, which were essentially in the hands of the government for several decades. It is now been realized that if substance has to be provided to macroeconomic policy reform, then it must be based on reforms that concern the functioning of several critical sectors of the economy, among which the infrastructure sectors in general and the energy sector in particular, are paramount.

Coal

The government has recognized the need for new coal policy initiatives and for rationalization of the legal and regulatory framework that would govern the future development of this industry. One of the key reforms is that the government has allowed importing of coal to meet our requirements. Private sector has been allowed to extract coal for captive use only. Further reforms are contemplated for which the Coal Mines Nationalization Act needs to be amended for which the Bill is awaiting approval of the Parliament.

The ultimate objective of some of the ongoing measures and others under consideration is to see that a competitive environment is created for the functioning of various entities in this industry. This would not only bring about gains in efficiency but also effect cost reduction, which would consequently ensure supply of coal on a larger scale at lower prices. Competition would also have the desirable effect of bringing in new technology, for which there is an urgent and overdue need since the coal industry has suffered a prolonged period of stagnation in technological innovation.

Oil and Natural Gas

Since 1993, private investors have been allowed to import and market liquefied petroleum gas (LPG) and kerosene freely; private investment is also been allowed in lubricants, which are not subject to price controls. Prices for naphtha and some other fuels have been liberalized. In 1997 the government introduced the New Exploration Licensing Policy (NELP) in an effort to promote investment in the exploration and production of domestic oil and gas. In addition, the refining sector has been opened to private and foreign investors in order to reduce imports of refined products and to encourage investment in downstream pipelines. Attractive terms are being offered to investors for the construction of liquefied natural gas (LNG) import facilities.

Electricity

Following the enactment of the Electricity Regulatory Commission Legislation, the Central Electricity Regulatory Commission (CERC) was set up, with the main objective of regulating the Central power generation utilities. State level regulatory bodies have also been set up to set tariffs and promote competition. Private investments in power generation were also allowed. The State SEBs were asked to switch over to separate Generation, Transmission and Distribution corporations. There are plans to link all SEB grids and form a unified national power grid.

Electricity Act, 2003

The government has enacted Electricity Act, 2003 which seeks to bring about a qualitative transformation of the electricity sector. The Act seeks to create liberal framework of develop-

ment for the power sector by distancing Government from regulation. It replaces the three existing legislations, namely, Indian Electricity Act, 1910, the Electricity (Supply) Act, 1948 and the Electricity Regulatory Commissions Act, 1998. The objectives of the Act are "to consolidate the laws relating to generation, transmission, distribution, trading and use of electricity and generally for taking measures conducive to development of electricity industry, promoting competition therein, protecting interest of consumers and supply of electricity to all areas, rationalization of electricity tariff, ensuring transparent policies regarding subsidies, promotion of efficient and environmentally benign policies, constitution of Central Electricity Authority, Regulatory Commissions and establishment of Appellate Tribunal and for matters connected therewith or incidental thereto."

The salient features of the Electricity Act, 2003 are:

- i) The Central Government to prepare a National Electricity Policy in consultation with State Governments. (Section 3)
- ii) Thrust to complete the rural electrification and provide for management of rural distribution by Panchayats, Cooperative Societies, non-Government organisations, franchisees etc. (Sections 4, 5 & 6)
- iii) Provision for licence free generation and distribution in the rural areas. (Section 14)
- iv) Generation being delicensed and captive generation being freely permitted. Hydro projects would, however, need clearance from the Central Electricity Authority. (Sections 7, 8 & 9)
- v) Transmission Utility at the Central as well as State level, to be a Government company - with responsibility for planned and coordinated development of transmission network. (Sections 38 & 39)
- vi) Provision for private licensees in transmission and entry in distribution through an independent network, (Section 14)
- vii) Open access in transmission from the outset. (Sections 38-40)
- viii) Open access in distribution to be introduced in phases with surcharge for current level of cross subsidy to be gradually phased out along with cross subsidies and obligation to supply. SERCs to frame regulations within one year regarding phasing of open access. (Section 42)
- ix) Distribution licensees would be free to undertake generation and generating companies would be free to take up distribution businesses. (Sections 7, 12)
- x) The State Electricity Regulatory Commission is a mandatory requirement. (Section 82)
- xi) Provision for payment of subsidy through budget. (Section 65)
- xii) Trading, a distinct activity is being recognised with the safeguard of the Regulatory Commissions being authorised to fix ceilings on trading margins, if necessary. (Sections 12, 79 & 86)
- xiii) Provision for reorganisation or continuance of SEBs. (Sections 131 & 172)
- xiv) Metering of all electricity supplied made mandatory. (Section 55)
- xv) An Appellate Tribunal to hear appeals against the decision of the CERC and SERCs. (Section 111)
- xvi) Provisions relating to theft of electricity made more stringent. (Section 135-150)
- xvii) Provisions safeguarding consumer interests. (Sections 57-59, 166) Ombudsman scheme (Section 42) for consumers grievance redressal.