A Citizens' Guide to Energy Subsidies in India

Introducing the Citizens' Guide

- Explaining energy subsidies to the common man
- Comprehensive and structured overview of subsidies on petroleum products and electricity
- The document aims to spread awareness and interest
- Joint project of TERI and IISD-GSI

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Overview of India's Energy Subsidies

What is an Energy Subsidy?

- The IEA defines subsidies as:-

  *"Any government action that concerns primarily the energy sector that **lowers the cost of energy production**, **raises the price received by** energy **producers** or **lowers the price paid by** energy **consumers**"*

- Subsidies can broadly be classified as:-
  - **Producer subsidies**: Lowers costs of production and/or raises price received by producers
  - **Consumer subsidies**: Lowers price paid by consumers

Examples of Energy Subsidies

Direct financial transfers

- Grants to consumers and/or producers
- Low-interest or preferential loans
- Government loan guarantees

Preferential tax treatment

- Tax credits
- Tax rebates
- Exemptions on royalties, duties or tariffs
- Reduced tax rates
- Deferred tax liabilities
- Accelerated depreciation

Trade restrictions

- Tariffs
- Import quotas
- Non-tariff trade barriers

Energy-related services at discounted rates

- Energy infrastructure
- Public research and development

Regulation of energy sector

- Demand guarantees
- Mandated deployment rates
- Price controls
- Environmental regulations
- Market-access restrictions

Objectives and Criticisms

Objectives

- Improve access and affordability
- Shielding consumers from price volatility
- Supporting energy intensive activities

Criticisms

- Increase in fiscal burden of government
- Inefficient consumption
- Adverse ecological impact

Petroleum Product Subsidies

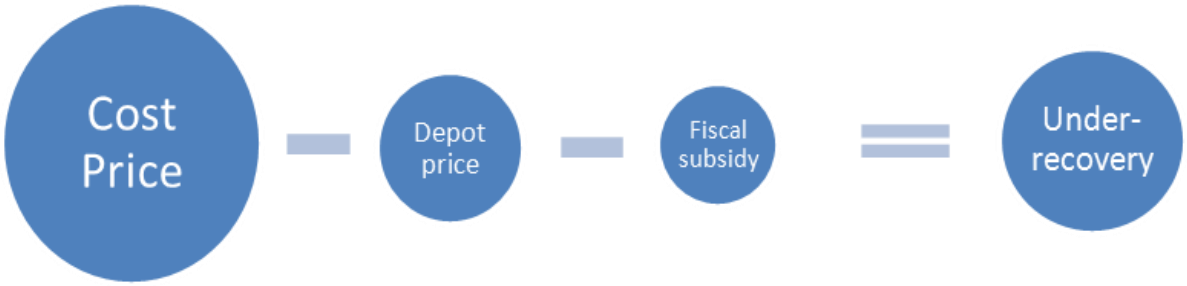
Petroleum Product Subsidies

- Prices of diesel, domestic LPG and PDS kerosene are regulated by the government
- Petrol deregulated but approval still needed
- Fiscal subsidy is provided on PDS Kerosene and LPG
- Under-recoveries incurred by oil marketing companies and shared by upstream sector
- Government's share in under-recovery burden:
  - In the form of Oil Bonds between 2006-07 and 2009-10
  - Cash assistance since 2010-11

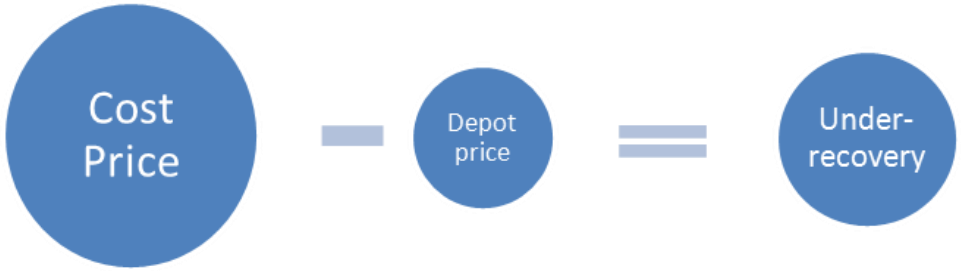
What are Under-Recoveries?

The difference between the cost price and the regulated price at which petroleum products are finally sold by the OMCs to the retailers after accounting for the subsidy paid by the government

PDS Kerosene and Domestic LPG



Diesel



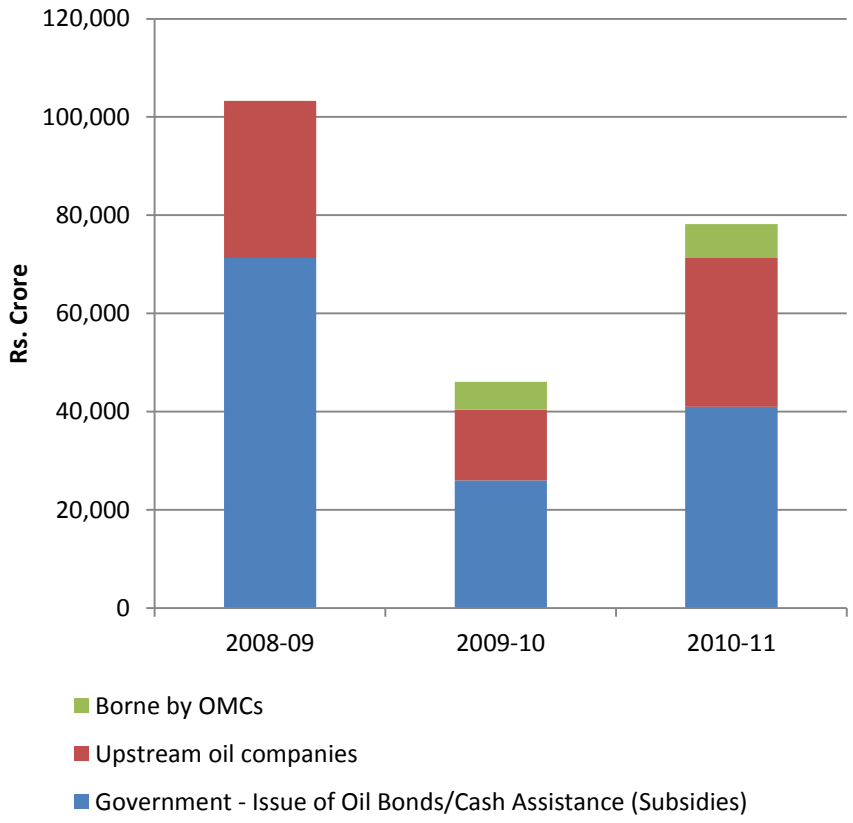
Subsidies, Under-recoveries and Compensation

Fiscal Subsidy (2010-11)		Under-recoveries (2010-11)	
PDS Kerosene	Rs 931 crore	Domestic LPG	Rs 21,772 crore
		PDS Kerosene	Rs 19,484 crore
Domestic LPG	Rs 1,974 crore	Petrol	Rs 2,227 crore
		Diesel	Rs 34,706 crore
Total	**Rs 2,904 crore**	**Total**	**Rs 78,190 crore**

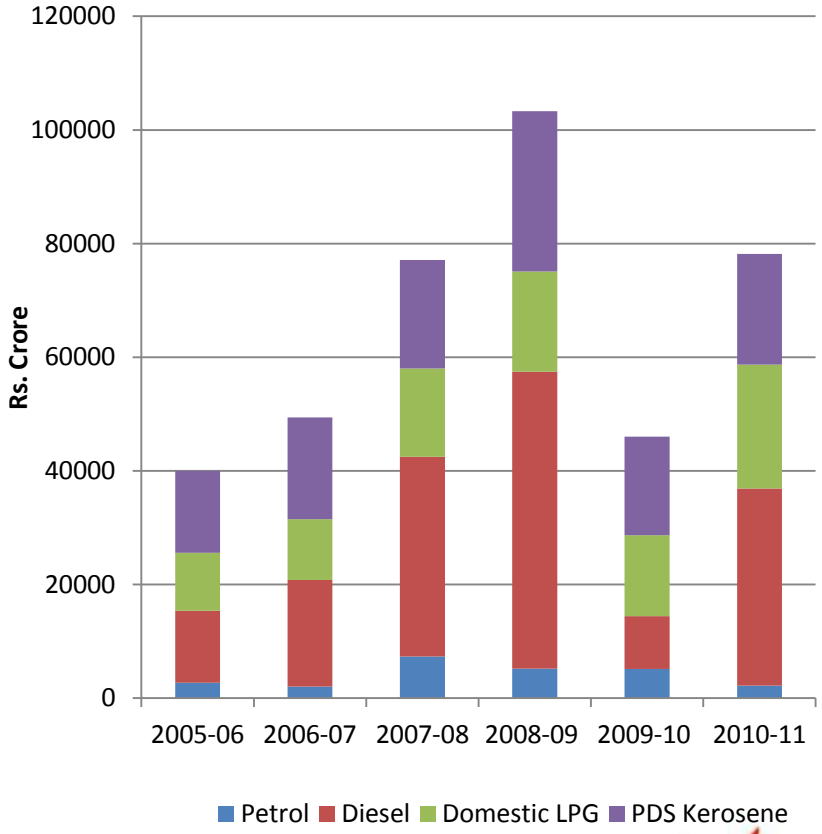
Total Under-recoveries (2010-11)	Rs 78,190 crore
Cash assistance from govt	Rs 41,000 crore
Upstream assistance	Rs 30,297 crore
Borne by OMCs	Rs 6,893 crore

Petroleum Product Subsidies

Sharing of Under-Recoveries



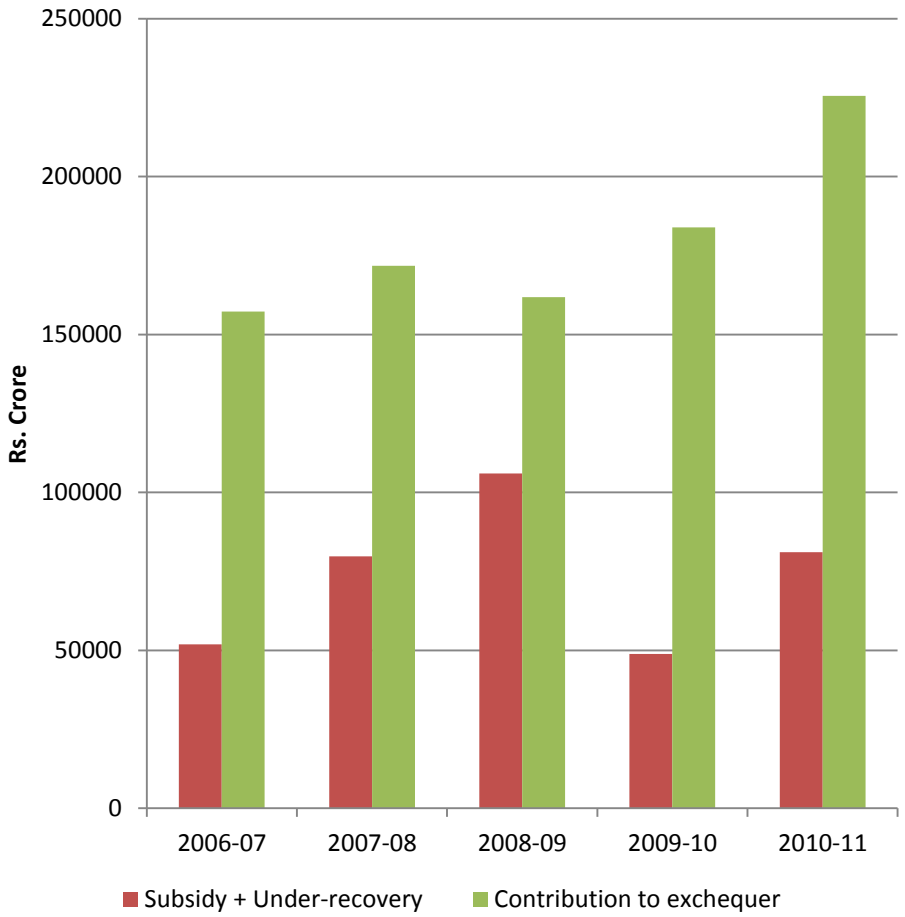
Trend of Under-Recoveries



Taxes and Subsidies

- Total Under-recoveries + Subsidies in 2010-11 was Rs. 81,094 crore
- Total contribution of petroleum sector to central and state exchequer in 2010-11 was Rs. 225,494 crore (and sales tax was Rs. 78,689)
- The total contribution to exchequer comprises of:

  customs duty, excise duty, cess and royalty, dividend, corporate tax, tax on dividend, profit petroleum and others (including service tax) paid to the central government, and sales tax, royalties, dividends, octroi duties (including electricity duty), entry tax
- Different tax structures for different products:
  - Tax forms only a small component **of** price build-up of PDS kerosene and domestic LPG



Electricity Subsidies

Electricity Subsidies

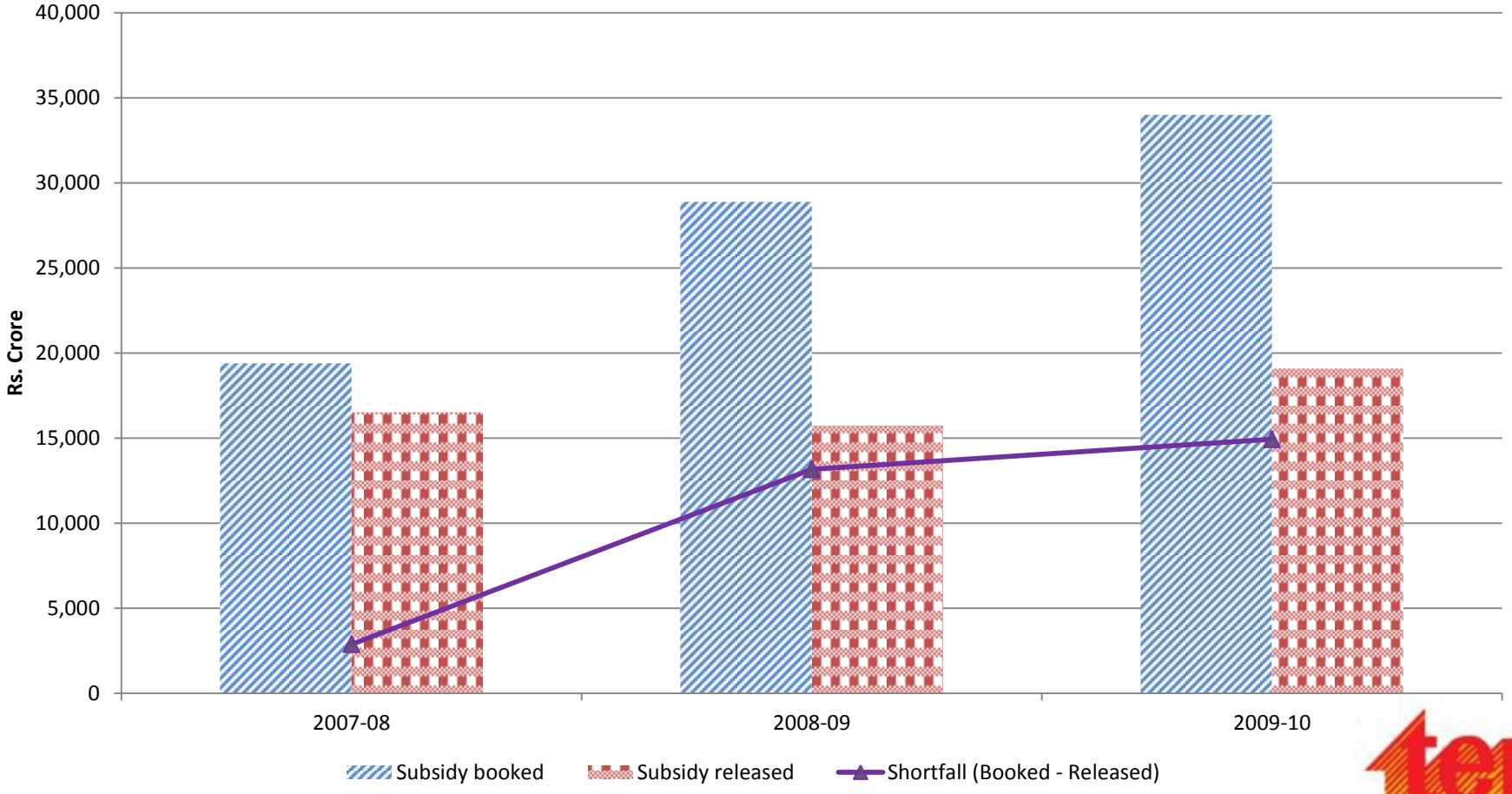
- Provided by the state governments
- Tariff rates differ among states and between (and within) consumer categories in each state
- Five broad consumer categories: Domestic, agricultural, commercial, industry and railways
- Each category divided into sub-categories on the basis of consumption levels
- Subsidy is given for:
  - Residential, agriculture and interstate sales of electricity
  - Capital subsidies are also provided
- Cost recovery of electricity companies at 75.74%

Process of Provision

- State electricity utilities compute tariff rates on the basis of sales forecast and revenue required
- The utilities approach state governments for vetting of the tariff rates
- Final approval provided by the electricity regulatory commissions
- Approved rates are often lower than those requested by the utility companies

Quantum of Electricity Subsidies

- Subsidies Booked – Subsidies Released



Are Energy Subsidies Good for Indian Citizens?

Impact on Economy

- Subsidies impose a large fiscal burden on government finances
  - Central government finances for petroleum product subsidy
  - State government and state electricity companies' finances for electricity subsidy
- Rising fiscal deficit
- Diversion and misuse of PDS kerosene, domestic LPG and diesel

Impact on the Sectors

- Impact on the petroleum sector
  - Shared by upstream and downstream companies
  - Affecting the fundamentals of marketing companies
  - Adversely affecting private participation in the marketing of fuel
- Impact on the electricity sector
  - Adversely affect the financial position of electricity discoms
  - Cross subsidisation of domestic and farm sector by charging higher tariff to industrial sector

Impact on Poor

- Kerosene is a major source of lighting
  - 43%* rural households
  - An inefficient source of lighting
- Electricity
  - Subsidised for residential and agriculture sectors
  - Provided free of cost to rural households and farmers in many states
- LPG
  - Limited use in rural areas (11.4%*)
  - Significant use in urban areas (65%*)
  - Higher benefit to more well-off households
- Diesel used in freight and road transport and therefore affects the final prices of most goods

* Census (2011)

Environment and Health Impacts

- Excessive usage of fossil fuels contributes to Green House Gas emissions
- Wasteful usage of electricity – adverse impact on fossil fuels and depletion of water table
- Unequal pricing of automotive fuels – leading to a shift towards diesel based personal vehicles

Reform Efforts

- Petrol prices decontrolled in June 2010
  - Approval of government still needed
- Reform efforts for LPG
  - Increasing penetration through RGGLVY
  - Regular checks and monitoring to check diversion of domestic LPG cylinders
- Announcement of direct transfer of subsidies to curb leakages
  - Pilots of linking the scheme with Aadhaar platform in Mysore (for LPG) and Alwar (for kerosene)
- Direct payment for petroleum subsidies from the budget rather than issuing of oil bonds

Sources of Information

- Data on Production, Consumption, Prices, Taxes and Subsidies
  - Petroleum Planning and Analysis Cell
  - Ministry of Petroleum and Natural Gas
  - Central Electricity Authority
  - State Electricity Regulatory Commissions

- General Information on the Macroeconomic Variables
  - Reserve Bank of India
  - Economic Survey of India
  - Planning Commission

- International Information
  - BP Statistical Review
  - International Energy Agency
  - Department of Energy, United States

Thank You