



INDIA ENERGY SUBSIDY BRIEFING

A bimonthly review of developments in Indian energy subsidy policy and energy markets

Highlights

- The new Indian government led by Narendra Modi has continued to gradually increase diesel prices; a practice initiated by the previous government
- In his first Union Budget, delivered in early-July, Modi pledged to overhaul food and fuel subsidies to bring the budget deficit to 3 per cent of GDP by 2017, without providing details on how this would be done.
- The government is reportedly considering gradual increases to subsidised LPG prices based on the model currently used for diesel price increases
- A proposed new pricing formula for domestically produced natural gas prices has been shelved for three months while the new government evaluates its options
- Delhi has banned the sale of kerosene as it seeks to make the state “kerosene free”

The Modi government’s subsidy reform plans

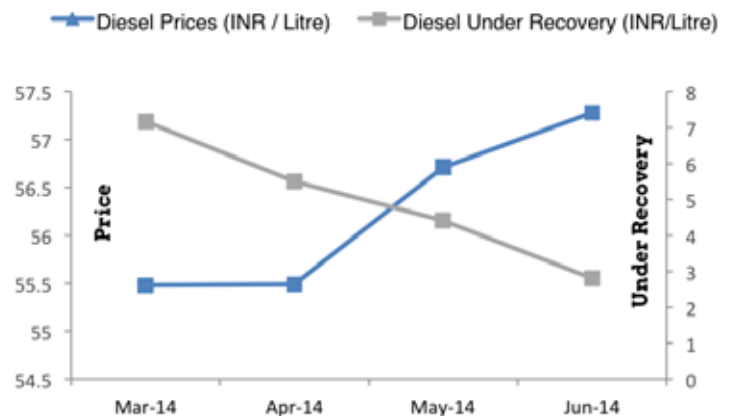
The specific plans of the new Indian Government, led by Prime Minister Narendra Modi, for energy subsidy reform and subsidy distribution are yet to be clearly articulated.

Following the Prime Minister’s request that all ministries present key issues in their portfolio, senior officials in the Ministry of Petroleum and Natural Gas (MPNG) recommended an immediate increase of Rs. 250 (US\$ 4.3) per cylinder of subsidised liquefied petroleum gas (LPG), which is used as a cooking fuel (Sidhartha, 2014). LPG prices have not changed since December 2013. MPNG was also reportedly critical of the previous government’s decision to raise the cap on subsidised LPG cylinders from 6 to 9 and then to 12 prior to the recent elections. It also criticised the recently suspended Direct Benefits Transfer Scheme (DBT) on LPG, a scheme launched in 2013 in which subsidies for LPG were deposited directly into consumers’ bank accounts (Business Standard, 2014).

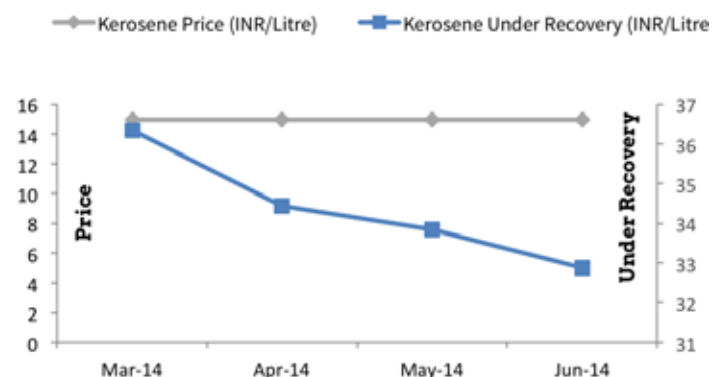
Under the new government structure, the Ministry of Petroleum and Natural Gas will be headed by the Minister of State, Dharmendra Pradhan. Mr. Pradhan is a Member of Parliament for the BJP. Mr. Pradhan has stated that energy self-reliance will be a key focus of his tenure (Mishra, 2014).

The first budget of the new government was released on 10 July 2014. The budget does not provide clear details of a plan for fuel subsidy reform, however does call for a reduction in fuel subsidy expenditure in order to narrow India’s budget deficit to 3 per cent of GDP by 2017 (Bloomberg, 2014). Meanwhile, the government anticipates that fuel subsidy expenditure in 2014-15 will fall from INR 855 billion (US\$14.2 billion) in 2013-14 to INR 635 billion (US\$10.5 billion). The budget anticipates this reduction in fuel subsidy expenditure without any detail on how it is likely to be achieved (LiveMint, 2014).

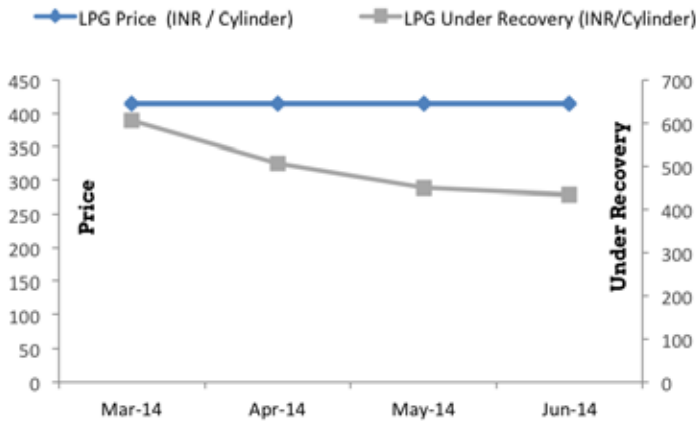
Diesel Price and Under Recovery



Kerosene Price and Under Recovery



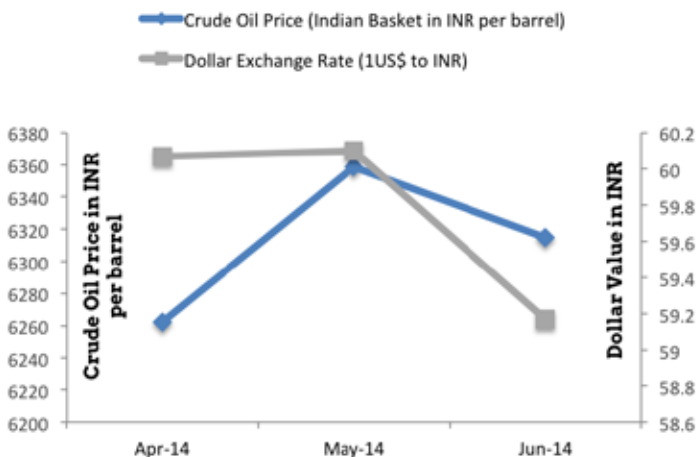
Subsidised LPG Price and Under Recovery



Diesel

After a two-month pause in price increases in the lead-up to national elections, diesel prices were raised by Rs. 1.09 per litre in May 2014. This marks a continuation of the policy to raise diesel prices by Rs. 0.5 per month per litre that was initiated in January 2013 by the previous Congress government (Times of India, 2014). Diesel now costs Rs 57.28 per litre in Delhi (Hindustan Times, 2014). The latest rise in diesel prices has brought under-recoveries (loss on sales) for diesel down to Rs. 2.8 per litre. However, continued price rises are not likely to lead to complete decontrol of diesel pricing. Because of a fear of diesel price-led inflation, MPNG reportedly plans to propose to Cabinet that some administrative controls over diesel pricing be retained, restricting state-owned Oil Marketing Companies from exercising full control of diesel pricing. Senior officials in the MPNG are expecting a clear policy on this issue from the new government in the coming weeks (Jacob, 2014).

Crude Oil Price and Dollar Value



Natural Gas

In late 2013, the previous Congress government announced plans to revise India's upstream gas pricing formula starting in April 2014. According to some estimates, this was likely to double upstream gas prices from \$4.2 to \$8.4 per BTU. However, this move was delayed because of national elections in April-May 2014. The new Government is in the process of deciding whether to implement the new pricing formula in its proposed form. The Minister of State for Petroleum and Natural Gas, Dharmendra Pradhan, said that any adjustments to gas pricing "will balance the urgency of reform with the interests of the poor" (Zee News, 2014). The new Minister for Power, Piyush Goyal, has criticised the revised gas pricing formula put forward by the previous government, saying that it will put additional pressure on power and fertiliser producers, who are already struggling in the context of low, subsidised end-user prices (Indian Express, 2014).

LPG and Kerosene

The government is reportedly considering raising the price of subsidised LPG and kerosene through incremental monthly increases, based on the recent approach taken to diesel pricing (India Today, 2014). As mentioned, MPNG has proposed an immediate increase of Rs. 250 to the price of subsidised LPG, as well as a reduction in the number of subsidised cylinders available to households. Meanwhile, since 2012, the Government of Delhi has been implementing the "Kerosene Free City Scheme" in which the government distributes free LPG connections, LPG filled cylinders and cooking gas stoves to poor residents. According to the Government of Delhi, the program will save Rs 2 billion (US\$ 34 million) per year in kerosene subsidies (The Hindu, 2014). Since the announcement in June 2014, any person in Delhi conducting trade in kerosene is liable for prosecution (Jain, 2014).

Electricity

The provisional Government of Delhi announced that it may re-introduce power subsidies for the urban poor. Until March 31, 2014, residents of Delhi consuming less than 400 kilowatt hours of electricity per month paid significantly subsidised electricity tariffs under a program supported by former Chief Minister of Delhi Arvind Kejriwal. Following the resignation of Mr Kejriwal as Chief Minister and the imposition of President's Rule in February 2014, funding for this program lapsed, leading to an increase in the two lowest block tariffs of approximately 50 per cent. A proposal will be submitted to reinstate the previous subsidy and make arrangements for funding this in the Delhi Government's 2014-15 budget (Times of India, 2014a).

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