



Energy Subsidy Briefing

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Energy pricing features in election campaigning

Several political parties are campaigning on energy subsidies in the run up to national elections, to be held from April to May 2014. The regional political party All India Anna Dravida Munnetra Kazhagam (AIADMK¹) has promised to further increase the quota of subsidised LPG cylinders and freeze prices for domestic oil and gas. It would also withdraw the authority given to Oil Marketing Companies (OMCs) to determine the price of petrol and diesel (NewsTrack India, 2014).

Meanwhile, former Delhi Chief Minister Arvind Kejriwal's political party, Aam Aadmi Party (AAP), has made gas pricing an issue for the upcoming national elections. AAP has accused other political parties of collaborating with gas companies to raise prices, and has also recently registered a criminal case against Reliance head Mukesh Ambani and the Minister of Petroleum and Natural Gas, Veerappa Moily, over natural gas pricing policy (Indian Express, 2014).

However, contrary to AAP's complaint that Reliance, a private company, will be the biggest winner from the government's decision to raise gas prices in April of this year, reports indicate that state-run exploration companies, like ONGC, have more to gain. Reliance produces only 10 per cent of India's natural gas, with other state-owned companies producing a much larger share. ONGC also has older fields which have already recovered their initial development cost (Economic Times, 2014).

Power Ministry recommends subsidizing gas-based power plants

The Ministry of Power circulated a draft note in February 2014 to the Cabinet Committee on Economic Affairs that recommends subsidising the price of electricity generated from gas-based power plants. With gas prices set to rise on April 1st under a new pricing mechanism, gas-based power is expected to increase to Rs 6-7 per unit from the current Rs 3.5-5. The note estimates that this subsidy would amount to Rs 20 billion (US\$ 0.3 billion) for 2014-15 (Chowdhury, 2014).

Prices for subsidized LPG are lowered

Shortly after last month's decision to increase the quota of subsidised cylinders available to households from 9 to 12, the government cut the price of non-subsidised cylinder by Rs 107. That brings the cost of a non-subsidised 14.5 kg cylinder to Rs 1,134, down from Rs 1,241, in Delhi. Non-subsidised cylinders had increased by Rs 220 per cylinder in January 2014. The price reduction is due to lower international oil prices, according to the oil marketing company (OMC), Indian Oil Corporation (Indian Express, 2014a).

¹ All India Anna Dravida Munnetra Kazhagam (AIADMK) is a political party in the state of Tamil Nadu and currently in power there.



Incremental increases to diesel prices continue

Diesel prices were increased by 50 paise in late January 2014, marking the 13th price increase since January 2013. Even after price adjustments, OMCs' under recovery is Rs 7.4 per litre, according to Indian Oil Corp, the nation's largest fuel retailer (Indian Express, 2014a).

Finance Ministry approves payments to OMCs for losses

The Finance Ministry sanctioned Rs 100 billion (US\$ 1.67 billion) in payments to OMCs for under-recoveries incurred between October and December 2013. For the same period, the OMCs claim to have lost Rs 397.25 billion from selling under-priced diesel, kerosene and cooking gas (LPG). The payment from the government will only partially compensate OMCs for their losses, while upstream oil companies will also share the burden (Economic Times, 2014a).

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