



BRIEFING NOTE

India Energy Subsidy • September 2016

Highlights

- A new scheme (*Ujjwala*) is being rolled out to provide free liquefied petroleum gas (LPG) connections for women from certain poor households.
- A new pricing policy for kerosene is aiming to reform kerosene prices through small monthly price hikes through April 2017.
- The DBT-K cash transfer scheme for kerosene is currently stalled by operational challenges.
- The deadline for the UDAY scheme to help debt-ridden distribution companies has been extended.

Fuel Subsidies Scenario Planning

India's Chief Economic Advisor (CEA), Arvind Subramanian, has submitted a report to the Ministry of Finance on planning for a rise in oil prices. The CEA recommends that the government maintain the current excise duties and tax structure for petrol and diesel until oil prices reach USD 65 per barrel. Prices above that level should trigger a 50/50 burden-sharing mechanism. Under this proposal, the higher prices would be equally absorbed by government and consumers through increases in retail prices and reductions in the excise duty. The government increased excise duties on petrol and diesel nine times during the oil slump of 2014 and 2015 to raise revenue to meet fiscal deficit targets ("Govt may leave," 2016).

Fuels Under the Goods and Services Tax (GST)

The federal government is considering applying a good and services tax (GST) to petroleum products in consultation with state governments. The GST, which would be managed by the central government, would replace state-level value added taxes and bring a uniform tax rate across the country. State governments are currently charging different tax rates for petroleum products, and so retail prices vary across the country. However, state governments, which receive sizeable revenue from petroleum product taxes, may not agree to hand over management of these taxes to the federal government ("Govt mulling ways," 2016).

Boost to Renewable Energy Projects

The state-owned Power Financing Corporation (PFC) and Rural Electricity Corporation (REC) have been asked to decrease their interest rates and reduce the loan disbursement periods. The Power Minister, Piyush Goyal, has asked these companies to give increase financing to renewable energy projects and business activity by 100 per cent by 2019 (Singh, 2016).

LPG

Free LPG Connections Targeting Women From Low-Income Households

Pradhan Mantri Ujjwala Yojana is a scheme that aims to provide 50 million free LPG connections to women from low-income households by 2019. Launched on May 1, 2016, the scheme has a budget of Rs 8,000 crore (~USD 1.1 billion) for three years. Since its launch date, 1.7 million LPG connections have been allocated to women from poor households. The scheme is currently operational in 487 districts in 17 states (GoI, 2016, July 25).

LPG Coverage Targets & Increasing Supply to Rural Areas

In the budget session of Parliament, the Minister of Petroleum confirmed that the government is aiming to increase national LPG coverage to 75 per cent, with one distributor in each block by 2019¹ (GoI, 2016, May 11).

The government is also trying to scale up supply of LPG in rural areas by changing the rules for LPG distributorships. In the LPG supply chain, LPG distributors are the link between consumers and the three oil marketing companies. Four categories of distributors have been created (rural, urban, peri-urban and hilly areas). Eligibility of individuals to become distributors have been relaxed on some metrics such as age, education, floor space, security deposit etc. Further, 33 per cent of the LPG distributorships will be reserved for women. Under these revised rules, the government is aiming to

set up 10,000 LPG distributors in new locations to improve LPG supply in rural areas (GoI, 2016, June 3).

Give it Up Campaign Reaches 10 Million Participants

Begun in March 2015, the campaign encourages well-off consumers to “give up” their LPG subsidy to enable a poor household to receive a free LPG connection. According to the Central Government, the campaign has reached its target of 10 million LPG connection holders giving up their subsidy since its inception. In return, by May 1, 2016, six million LPG connections have been given free to low-income households (GoI, 2016, April 22).

Savings From LPG Cash Transfer, Pahal

The CAG (Comptroller Auditor General) of India will soon table a report on the extent of subsidy expenditure savings from the Pahal cash transfer program in the on-going parliament session. The report finds that savings from the Give it Up campaign and LPG subsidy cash transfers add up to less than Rs 2,000 crore (USD 0.3 billion) over FY 2014-15 and FY 2015-16—far less than the government’s claim of Rs 22,000 crore (USD 3.29 billion) (Joseph, 2016).

NATURAL GAS

Gas is 6.5 per cent of India’s Energy Basket

The Minister of Petroleum has communicated that the government plans to introduce new steps to increase the percentage of gas within the country’s energy supply basket. These steps range from introduction of a new Hydrocarbon Exploration and Licensing Policy (HELP), auctioning of 67 small fields through international competitive bidding, and pricing freedom for new gas production conditional on location of production (GoI, 2016, July 18).

¹ Administratively, several blocks aggregate to form a district, and districts aggregate to form a state. As per Census 2010, India has 5564 blocks and 593 districts.

KEROSENE

New Policy for Kerosene Pricing Reform

In July, the government initiated a policy to gradually reform subsidized kerosene prices. This policy, similar to gradual diesel pricing reform undertaken in 2013 and 2014, allows for monthly price hikes of Rs 0.25 per litre for subsidised kerosene. Oil marketing companies will increase prices directly when selling subsidized kerosene to state distribution agencies (for further sale through the public distribution system). It is expected that this process of reform will save the government approximately 1,100 crore (USD 160 million) in FY 2016-17. The consumption of subsidized kerosene has been falling over the last few years, owing to reduced state allocations, increasing electrification rates and increased coverage of LPG (Shyam & Vyas, 2016).

DBT (Direct Benefits Transfer) for Kerosene

The Government planned to launch the DBT for kerosene scheme, a cash transfer program for the distribution of subsidized kerosene like that currently operating for LPG, in April 2016, with the scheme to be piloted in 33 districts spread over nine states. Under this program, consumers pay the market price of kerosene upon purchase and are subsequently transferred the subsidy amount to bank accounts (GoI, 2016, April 25). However, there have been delays in the implementation of the scheme, as states are experiencing administrative challenges such as a lack of digitized data of beneficiaries, linking of *Aadhaar* numbers and lacking financial inclusion among some beneficiaries.

Chandigarh Becomes Another Kerosene-Free City

Starting on April 1, 2016, Chandigarh became a kerosene-free city. The city has implemented the Delhi kerosene-free model by distributing LPG connections to poor households, enabling them to transition from kerosene to LPG for cooking (GoI, 2016, April 1). In the new fiscal year, the city has now stopped selling subsidized kerosene through the public distribution system.

ELECTRICITY

Delhi Approves Electricity Subsidies

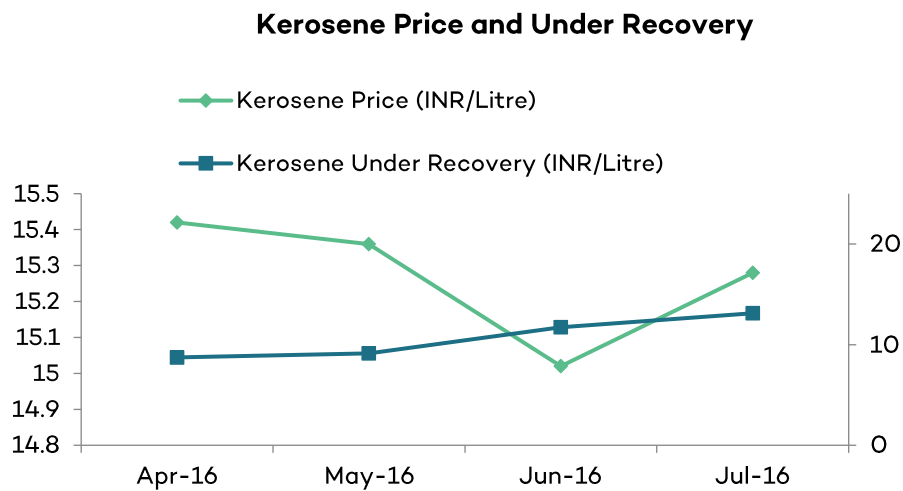
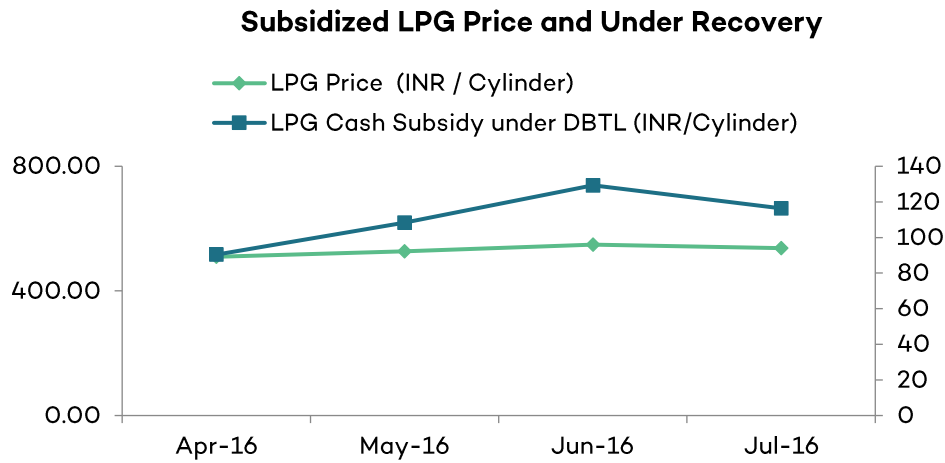
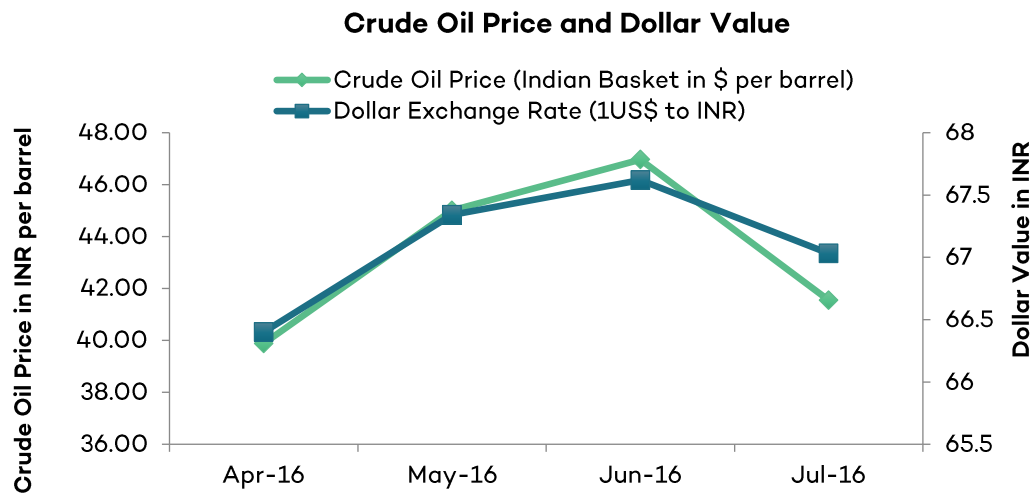
The government of the capital city of Delhi approved electricity subsidies for households that consume fewer than 400 kilowatt hours of electricity per month. The scheme reduces 50 per cent of the tariff for such consumers and will benefit 3.6 million consumers—or approximately 90 per cent of bill-paying customers (PTI, 2016).

Introduction of New Electricity Subsidies for Backward Areas in Maharashtra

The state government of Maharashtra has approved electricity subsidies for four regions in the state. The subsidy period will from April 1, 2016 until March 2019 and will then be subjected to a review. The subsidy will be available for various industries from these four regions (Mahamalkari, 2016).

UDAY Scheme

To ease the debt that has severely impacted the finances of numerous distribution companies, the Government launched the *Ujjwal Discom Assurance Yojana* (UDAY) in November 2015. Under this scheme, state governments must assume up to 75 per cent of their respective distribution company's debt and issue sovereign bonds to pay back creditors. To date, 19 states have given their approval to the scheme and, of these, 10 states have signed MoUs with the central government. The deadline to sign up for the scheme has been extended till March 31, 2017 ("Cabinet extends," 2016).



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