

India Energy Subsidy Briefing • July 2019

Highlights

- As a result of high crude oil prices in late 2018, the government announced a reduction in excise duty for oil and gas that is expected to result in foregone revenue of INR 10,500 crore (USD 1.6 billion) in fiscal year (FY) 2019. Increasing connections to liquefied petroleum gas (LPG) cooking cylinders drives up gas subsidies.
- The Central Government launched programs to support solar power, including KUSUM and Phase-II of the Grid Connected Rooftop Solar Programme.
- India approved an INR 10,000 crore (USD 1.4 billion) electric vehicle (EV) incentive scheme through Phase-II of the FAME program.
- The Supreme Court ruled in favour of financially stressed coal-fired power stations, giving them more time before their debts will be foreclosed. While the government supported the ruling, analysts fear greater uncertainty over the future of these assets.
- The Central Electricity Regulatory Commission (CERC) announcements on the pass-through of costs are expected to further distress electricity distribution companies (DISCOMs), which faced combined losses of INR 24,000 (USD 3.4 billion) in the first nine months of FY 2019.

Oil Price: Central government reduces fuel excise causing foregone revenue of INR 10,500 crore

In the face of high international oil prices in October 2018, the Central Government reduced the excise duty on gasoline and diesel by INR 1.5 per litre and ordered oil marketing companies (OMCs) to cut their margin by INR 1 per litre, leading to a combined price reduction of INR 2.5 per litre. The reduction in excise duty was forecast to reduce Central Government revenues by INR 10,500 crore (USD 1.6 billion) in FY 2019 and was aimed at reducing retail prices (Press Trust of India, 2018b). A forthcoming brief in July 2019 by the Global Subsidies Initiative (GSI) will examine the excise and OMC margin reduction in detail.



Solar Power: Government launches schemes to promote solar pumps and rooftop solar; CERC announces change in law for safeguard duty

In February 2019, the Central Government announced INR 46,000 crore (USD 6.44 billion) in funding by 2022 for two schemes to promote solar photovoltaic uptake in the country. Phase-II of the Grid Connected Rooftop Solar Programme will receive INR 11,814 crore (USD 1.66 billion) to add cumulative capacity of 40,000 MW from rooftop solar projects by 2022. The program includes a performance-based incentive for DISCOMs and is expected to generate 9.39 lakh jobs (Press Information Bureau, 2019a). The Kisan Urja Suraksha Evam Utthan Mahaabhiyan (KUSUM) has been launched to transition the agriculture sector's electricity consumption, which currently accounts for 17 per cent of the country's demand, to solar. The scheme will receive INR 34,442 crore to add 25,720 MW of solar capacity, while reducing oil import dependency and the burden of the agricultural electricity subsidy. KUSUM has three components (Kumar, 2019):

1. 10,000 MW of decentralized ground mounted grid-connected renewable power plants for agricultural irrigation
2. Installation of 17.50 lakh standalone solar-powered agriculture pumps
3. Transition of 10 lakh existing grid-connected agriculture pumps to solar.

Electric Vehicles: Cabinet announces new funding for domestic electric and hybrid vehicles

On February 2019, the Cabinet announced INR 10,000 crore (USD 1.4 billion) from FY 2020 to FY 2022 for Phase-II of the Faster Adoption and Manufacturing of (Hybrid &) Electric Vehicles in India (FAME) scheme (Press Information Bureau, 2019b). It expands from the first phase, which provided INR 895 crore (USD 12.53 million), mostly for demand incentives that supported the purchase of 2.6 lakh electric and hybrid vehicles (Press Information Bureau, 2018). EVs are expected to be a key mandate of the new government, supported by policies and subsidies in several states (Poojary, 2019). Delhi has set a target of 25 per cent of new vehicles in 2023 to be battery-powered EVs (Transport Department, 2019). The state-level programs target:

- Concessions on value-added tax, road taxes, registration charges and parking fees
- Public charging infrastructure and reduced electricity tariffs
- Domestic production, job creation and attracting private investment
- Research and development and setting up incubation centres.

GSI will be releasing a publication looking at subsidies for EVs and conventional transport in July 2019.

Stressed Power Assets: Supreme Court rules in favour of power producers, strikes down Reserve Bank of India (RBI) circular

On April 2, 2019, the Supreme Court struck down the February 2018 RBI circular demanding stricter action against defaults by thermal power plants (Chatterjee & Lele, 2019). This decision concludes a legal battle that began when the association of independent power producers (IPPs) protested the RBI circular, claiming that the financial stress is a special circumstance triggered by multiple changes to the business environment, including non-payment by DISCOMs and coal supply agreements not being kept. Previously, the government identified 34 plants of over 40 GW that were stressed (Ministry of Power & Standing Committee on Energy, 2018).

The Supreme Court ruling followed Cabinet decisions on March 7, 2019, that provided several measures to relieve the stressed assets, including (BQ Desk, 2019):



- Granting secured coal supply for short-term power purchase agreements (PPAs)
- Allowing existing coal supply agreements to continue to be used, even in cases of termination of PPAs due to payment default by DISCOMs
- Non-cancellation of existing fuel supply and PPAs in case the plants undergo insolvency proceedings
- A nodal agency to purchase power in bulk and auctions for coal supply agreements at regular intervals.

The RBI has followed the ruling with a revised circular with much less stringent requirements that have been welcome by the IPPs and the lenders (Sarita Singh, 2019).

Tariff Hike Pass-Through: CERC allows pass-through of production cost increase to consumers

CERC announced in May 2019 that the safeguard duty imposed on imported solar panels can be categorized as a change in law. This implies that the increased costs can be passed through to DISCOMs by hiking tariffs in the PPA. This order came after two subsidiaries of ACME Solar filed petitions against three DISCOMs in Rajasthan and the Solar Energy Corporation of India (Sudheer Singh, 2019). Earlier, in April 2019, CERC had allowed Adani Power's Mundra plant to pass through its increased costs to its customer, the Gujarat DISCOM, GUVNL. The increase in cost arose due to the change in regulations in Indonesia, the source of the plant's coal (Press Trust of India, 2019a).

These announcements are expected to aggravate the financial distress of DISCOMs. They faced INR 24,000 crore (USD 3.4 billion) in losses in the first nine months of FY 2019 (R. K. Singh, 2019). DISCOMs have been unable to pass on these costs to their end users in the form of increased tariffs due to political pressures and have been struggling to collect the due payments. The regulatory bottlenecks and financial hurdles faced by DISCOMs are expected to worsen as cost pass-throughs are announced for plants upgraded to meet the new emission regulations (Press Trust of India, 2018a). This is studied in an upcoming GSI issue brief.

Price Trends

- **Crude oil:** Following the 2018 annual high of USD 80.54 per barrel in November, the Indian basket of crude oil prices dropped to a low of USD 58.16 in January 2019 before rising again to USD 70.74 in June 2019 (Petroleum Planning & Analysis Cell, 2019b). This dip was reflected in the level of national subsidies for LPG and kerosene.
- **LPG:** As the international crude oil prices dipped, the LPG subsidy in the form of Pratyaksh Hanstantrit Labh (PAHAL) direct benefit transfer (DBT-L) was reduced from INR 434 per 14.2 kg cylinder in November 2018 to INR 165 in February 2019 before increasing again to INR 240 in June 2019.¹ This implies that the consumer cost after subsidies dropped from INR 505 per 14.2 kg cylinder in November 2018 to INR 496 in May 2019 (IndianOil, 2019a; Petroleum Planning & Analysis Cell, 2018). In the same period, under the Pradhan Mantri Ujjwala Yojana (PMUY) scheme, the number of connections has expanded from 56 million to 72 million (Petroleum Planning & Analysis Cell, 2019a). As a result, even if the subsidies to individual cylinders have reduced, the net subsidies under DBT-L have grown rapidly and reached INR 25,700 crore (USD 3.6 billion) within nine months of FY 2019 as compared to INR 20,880 crore (USD 2.9 billion) in all of FY 2018 (Petroleum Planning & Analysis Cell, 2019c).

GSI'S Recent Activities

The International Institute for Sustainable Development (IISD)'s GSI has released three policy briefs under the [India](#) Energy Transition series. The first two were in partnership with the Council on Energy, Environment and Water (CEEW) and the third was in collaboration with the Overseas Development Institute (ODI). The findings

¹ Subsidies calculated for the Delhi market.

from these briefs were discussed in a joint IISD-CEEW workshop held in New Delhi in February 2019. The released reports were:

- *Subsidies for Fossil Fuels and Renewable Energy, 2018 Update*: The brief builds on the energy subsidies inventory built in 2017 by IISD in partnership with the ODI and ICF Ltd. A new subsidy category on electric vehicles was added to the existing ones on coal, renewables, oil and gas, and electricity transmission and distribution. The brief highlights key subsidy trends and their implications for India’s energy future.
- *The Impact of the Goods and Services Tax on Solar Photovoltaic and Coal Power Costs*: A life-cycle cost assessment was made for coal and solar power in India to identify the change in costs after the major tax reform of 2017. It identified that support for coal power had gone up, with prices falling by 1.6 per cent, while support for solar fell, with prices increasing by 6 per cent.
- *Stranded coal power assets, workers and energy subsidies*: This brief looked at the drivers, including subsidies, that led to the INR 1.7 lakh crore of stressed thermal assets and how they may play out in the future. It also considers the implications for the affected communities and suggests broad proposals from international literature on “just transition.”

In May 2019, IISD and the GSI, in collaboration with The Energy and Resource Institute, released a policy action plan titled *Policy Approaches for a Kerosene to Solar Subsidy Swap in India*. This report shares a plan for India to swap kerosene subsidies for off-grid solar subsidies through a six-step implementation plan with the end goal of clean and reliable power for all in India. This report adds to IISD’s international work on promoting fossil fuel to clean energy subsidy swaps.

Indicators

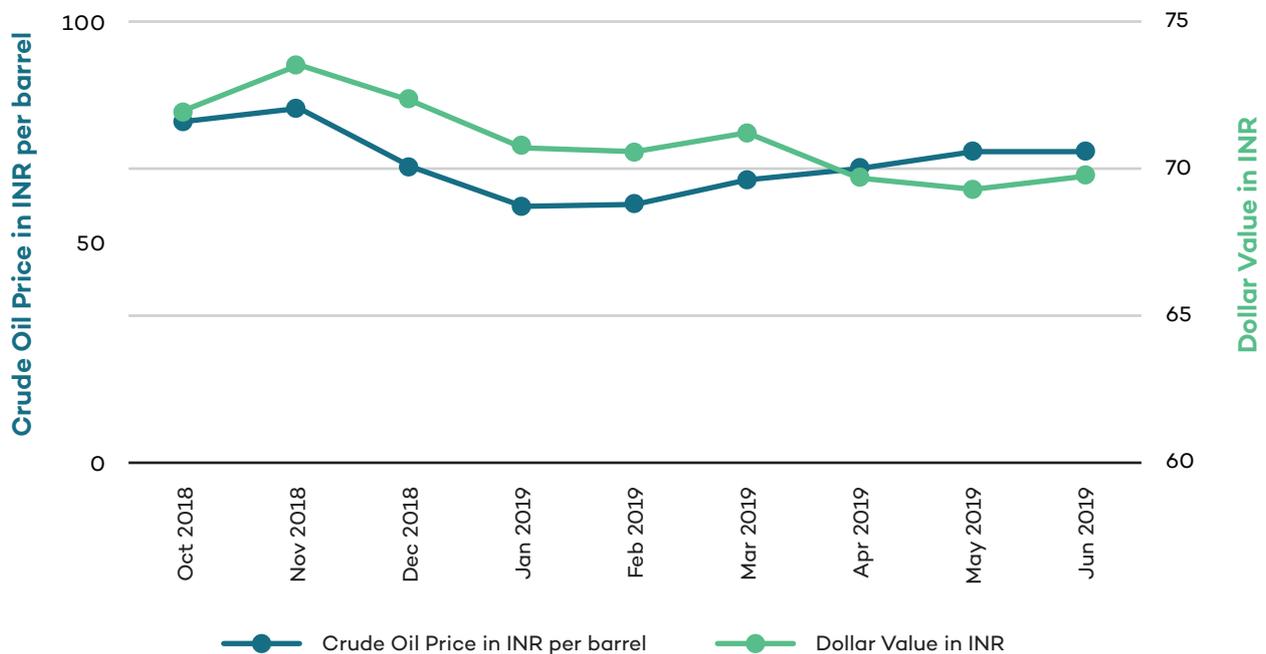


Figure 1. Crude oil price of Indian basket and currency exchange rate

Source: Petroleum Planning & Analysis Cell, 2019b

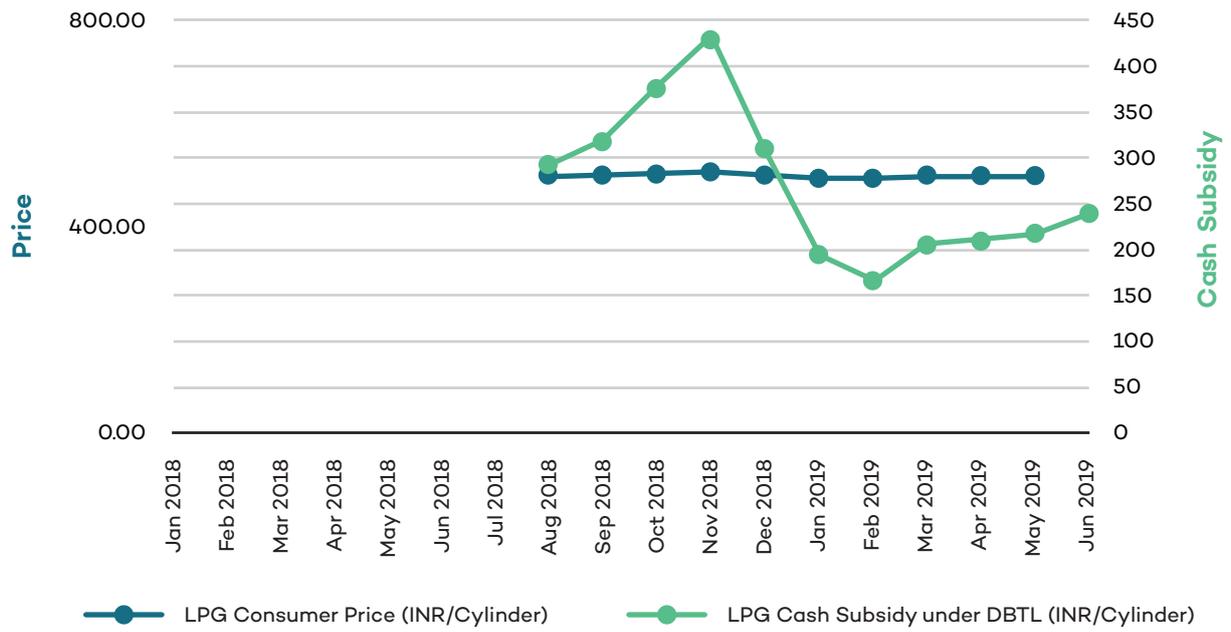


Figure 2. LPG subsidy and end user price

Source: IndianOil, 2019a; Petroleum Planning & Analysis Cell, 2019b

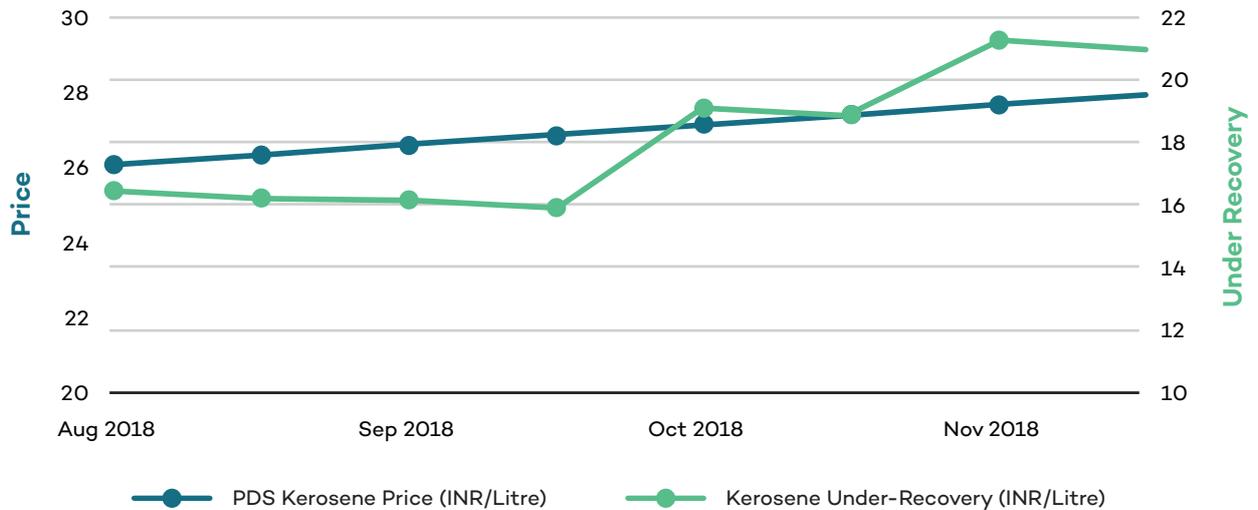


Figure 3. Kerosene price and under-recovery

Source: IndianOil, 2019b; Petroleum Planning & Analysis Cell, 2019b



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Global Subsidies Initiative (GSI)

The IISD Global Subsidies Initiative (GSI) supports international processes, national governments and civil society organizations to align subsidies with sustainable development. GSI does this by promoting transparency on the nature and size of subsidies; evaluating the economic, social and environmental impacts of subsidies; and, where necessary, advising on how inefficient and wasteful subsidies can best be reformed. GSI is headquartered in Geneva, Switzerland, and works with partners located around the world. Its principal funders have included the governments of Denmark, Finland, New Zealand, Norway, Sweden, Switzerland and the United Kingdom, as well as the KR Foundation.

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