

# BRIEFING NOTE

## India Energy Subsidy • January 2018

### Highlights

- Draft National Energy Policy proposes alignment of domestic energy prices with international rates
- Rise in crude oil price will increase subsidy burden to the exchequer
- Government to discontinue increase in monthly subsidized domestic liquefied petroleum gas price
- Electricity, natural gas and petroleum products may be included in the new unified tax mechanism, the Goods and Services Tax
- States to be legally obliged to provide 24X7 power for all by March 2019 and provide electricity subsidies only through direct benefit transfer
- Competition driving prices of solar and wind energy in India

### Draft national energy policy proposes aligning domestic energy prices with international rates

The National Institute for Transforming India (NITI Aayog) released the draft National Energy Policy (NEP) in June 2017, proposing aligning energy prices with international rates. If the cabinet approves the proposal, energy prices across sectors would become market-driven and subsidies would be limited to identified beneficiaries via direct benefit transfer (DBT). Senior officials explained that the policy does not support subsidies at the production and distribution levels, because they distort the energy sector (ET Energy World, 2017a).

### With increasing crude oil price, subsidy burden likely to increase

The ministries of finance and oil are expecting an increase in subsidy outlay for 2017/18 and 2018/19 on account of rising crude oil price. Union Budget 2018/19 is likely to assume an average crude oil price of USD 65 a barrel, as compared to USD 55 a barrel for 2017/18. For 2017/18, subsidies had been budgeted (at an oil price of USD 55 a barrel) at INR 25,000 crore (USD 3.9 billion<sup>1</sup>). Medium-term expenditure framework projects the 2018/19 oil subsidy at INR 18,000 crore (USD 2.8 billion); however, this is expected to increase to INR 25,000 crore (USD 3.9 billion) (at an oil price of USD 65 per barrel) (Business Standard, 2017b).

<sup>1</sup> An exchange rate of USD 1 equivalent to INR 64.08 has been used.



## GST council proposes to bring electricity, gas and petroleum products under GST

In a significant widening of the tax base of the Goods and Services Tax (GST), the central and state governments are discussing bringing electricity and petroleum products under the ambit of the GST. It is believed that if petroleum products are brought under the GST regime, they would be subject to the highest tax rate prevalent at that time. States would be given the liberty to levy a GST cess on it—a special tax whose revenues go into a fund that compensates states for losses related to state taxes being absorbed by the GST. The government is hopeful that the GST will succeed like the value-added tax (VAT) and that states will stop seeking compensation from the central government after 2–3 years (ET Energy World, 2017b).

Currently, different petroleum products are taxed differently across states. There is huge variance in the VAT on petroleum products: in Delhi, for example, the VAT applicable on diesel is 16.75 per cent, while in Mumbai it is 28.51 per cent. Including petroleum products under GST will bring uniformity in taxes (MoneyControl, 2017).

In the case of electricity, states are charging different electricity duties levied on consumers. These can be as high as 25 to 30 per cent in a few states, but the average is about 8 per cent. On the one hand, states collect a considerable amount from the excise duty; on the other hand, they also give subsidies to distribution utilities to keep electricity prices low. Including electricity under GST would increase transparency in the sector (The Economic Times, 2017a).

### Electricity

Minister of Power R.K. Singh announced that all states will be legally obliged to provide 24/7 power for all by March 2019. He stated that they have also committed to 100 per cent metering of electricity supply with 90 per cent prepaid meters and direct benefit transfer (DBT) of subsidies for electricity consumers. For any load shedding, except in cases of technical issues or any natural calamity, there will be penalties. Further, states have agreed to reduce distribution losses to 15 per cent and cross-subsidies to no more than 20 per cent (the difference between highest and lowest tariff) by January 2019. For any losses above 15 per cent, the consumers will not be liable to pay.

With respect to telecom service, consumers will be able to choose their service providers for supplying electricity after a proposed amendment to the existing Electricity Act is approved. States will set up their own roadmap for separation of carriage and content in power sector. However, no deadline has been proposed for the same (ET Energy World, 2017c).

The Ministry of Power sanctioned projects worth INR 69,475 crore (USD 10.8 billion) under two flagship schemes, Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY) with projects totalling INR 42,565 crore (USD 6.6 billion) and Integrated Power Development Scheme (IPDS) totalling INR 26,910 crore (USD 4.2 billion) for providing quality and reliable 24/7 power supply in the urban areas (ET Energy World 2017d).

### Liquefied Petroleum Gas

#### Price

From July 2016, the government directed oil marketing companies (OMCs) to revise subsidized domestic LPG prices every month by INR 2 per cylinder (USD 0.03) (excluding VAT). In July 2017, the increase in price was raised to INR 4 (USD 0.06) per cylinder, until subsidies were eliminated or March 2018. On November 1, the price of subsidized liquefied petroleum gas (LPG) was raised by INR 4.50 (USD 0.07) per cylinder to INR 495.69 (USD 7.74). After hiking the cooking gas LPG price by INR 76.5 (USD 1.19) in 19 installments in 17 months, national oil companies skipped the monthly revision of subsidized LPG in December 2017, ahead of elections in Gujarat. On December 1, however, the non-subsidized or market-priced LPG rates were raised by INR 5 (USD 0.08) per cylinder to INR 747 (USD 11.66) a bottle. The price of non-subsidized LPG has moved in tandem with costs since December 2013 (The Times of India, 2017).

However, the government has now withdrawn its decision to raise LPG prices every month, as it was resulting in reduced rates of consumption. This impact was directly in conflict with government efforts to increase LPG connections for the poor under Pradhan Mantri Ujjwala Yojana (PMUY) (The Economic Times, 2017b).

On January 18, 2018, the GST Council reduced the tax rate for LPG cylinders for supply to household domestic consumers from 18 per cent to 5 per cent. The new tax rate will be effective from January 25, 2018 (LiveMint, 2018)

## Targeting

The government has estimated that the Pratyaksh Hanstantrit Labh (PAHAL)<sup>2</sup> scheme has resulted in the elimination of 36 million fake connections and savings of nearly INR 30,000 crore (USD 4.68 billion) in cooking gas subsidies over the past three financial years. It is proposing to add another exclusion criterion for accessing the LPG subsidy. In 2016, the government excluded those with an annual income of more than INR 10 lakh (USD 0.016 million). It is now planning to strike car owners off the subsidy registry. By adopting such a filter, the government wants to reduce subsidies and aim them only at citizens with the lowest incomes (Business Standard, 2017a).

## Kerosene

With the government's ongoing flagship energy schemes, Pradhan Mantri Ujjwala Yojana (PMUY) and Saubhagya, set to meet their targets of at least 95 per cent penetration of LPG into households and 100 per cent electrification in the next two years, respectively, the kerosene subsidy is likely to be phased out by 2020.

Further, the kerosene subsidy is expected to decline by 40 per cent from INR 7,595 crore (USD 1.18 billion) in 2016/17 to INR 4,500 crore (USD 0.7 billion) in 2017/18. As per data from the ministry's Petroleum Planning and Analysis Cell (PPAC), kerosene consumption fell 33.7 per cent for the period April to October from the same period last year on account of reduced allocation to states and voluntary surrender of the Public Distribution System quota by a few states (Business Standard, 2017c).

### GSI's Recent Activities

On December 1, 2017, IISD's GSI, the Overseas Development Institute (ODI) and ICF India launched the study *India's Energy Transition: Mapping Subsidies to Fossil Fuels and Clean Energy in India*: see the Executive Summary [here](#) and the full report [here](#).

Key messages from the report are also summarized and paired with infographics on a [landing page](#) dedicated to subsidies in India, available on the GSI website.

This report maps out the context, magnitude, trends and impacts of India's energy subsidies. The aim of the study is to enhance transparency and dialogue on energy choices in India and assist in tracking the shift in government support from fossil fuels to renewables, in line with the country's goals of increasing access to low-carbon and energy-efficient services.

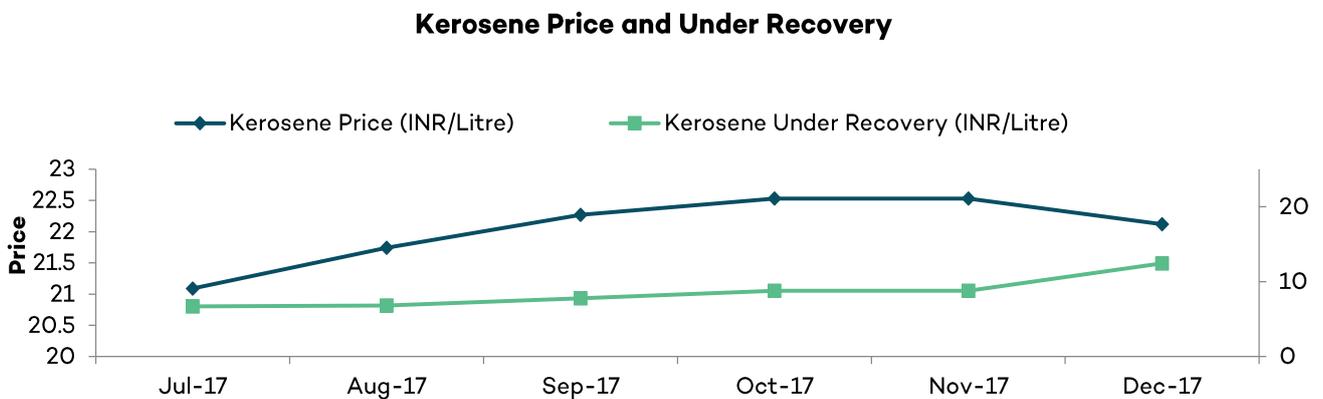
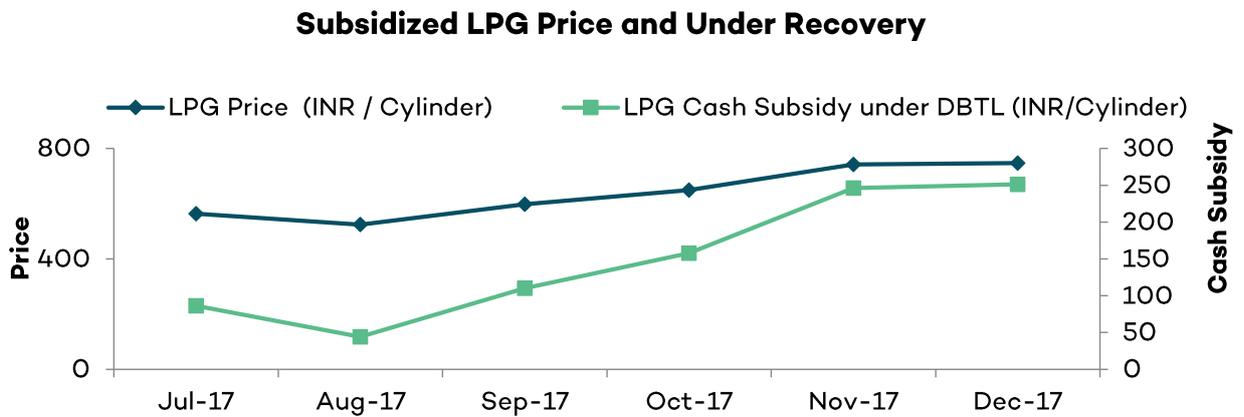
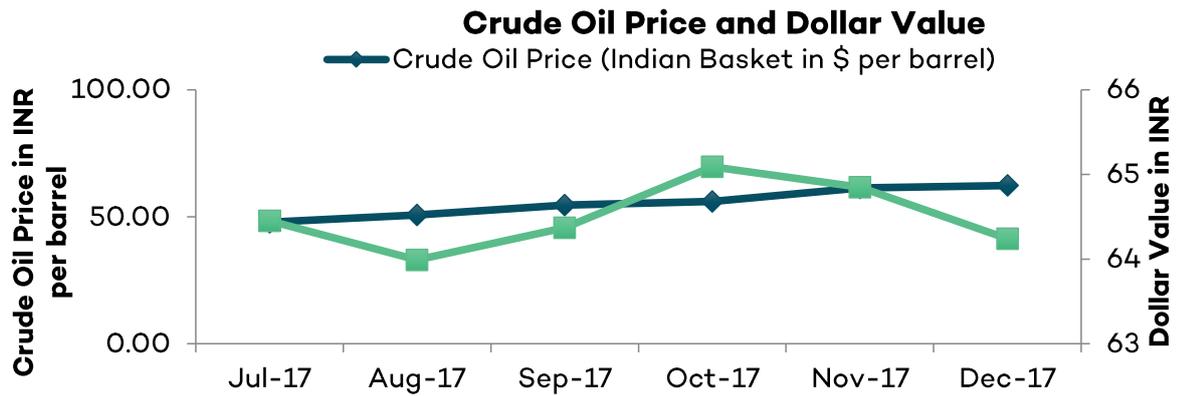


<sup>2</sup> The PAHAL scheme was formally launched as Direct Benefit Transfer Scheme for LPG subsidy in 2013 in 291 districts under the aegis of Union Ministry of Petroleum and Natural Gas. It was modified and christened as PAHAL in November 2014 and was launched in 54 districts. Later it was extended nationwide on January 1, 2015. Under the scheme, subsidized LPG cylinders are sold at market rates and consumers are entitled to receive an LPG subsidy directly into their bank accounts.

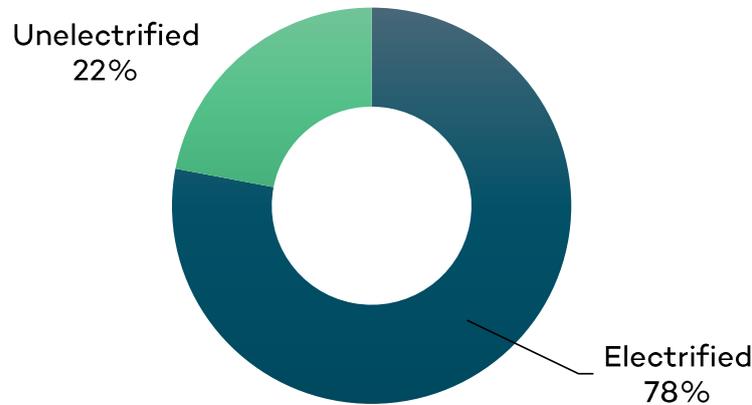
## Renewables

The 500 MW reverse auctions conducted by Gujarat Urja Vikas Nigam Limited (GUVNL) on December 21, 2017 witnessed a new low in wind power tariffs. The price dropped to INR 2.43 per kWh (USD 0.04) from INR 2.64 per kWh (USD 0.04) and INR 3.46 per kWh (USD 0.05) in wind auctions conducted by Solar Energy Corporation of India (SECI) in October and February 2017, respectively. There has been a steep decline of approximately 30 per cent in the tariff over the last 10 months (ET Energy World, 2017e).

## Indicators



## Household Electrification Status - Jan 2018



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