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Key energy imperatives before the government

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The growth of the Indian economy in recent years has placed increasing expectations on the energy sector which comprises of coal, petroleum and natural gas, hydroelectricity and non-conventional energy sources, all of which are facing challenges of performance. Energy sector is very complex in terms of structure, products , finance and performance.There has been improvement in most of the subsectors of the energy in the last few years in terms of operational performance, though there is scope of further improvement.

In the power sector generation capacity is 308,834 MW and there is strong emergence of renewable power as important source. In the petroleum and natural gas sector, domestic crude production has remained stagnant for quite some time around 37-38 million metric tonne and oil refining capacity has reached to 230.07 million tonnes per annum. At the end of financial year of 2016 petroleum production has reached to 231.28 million tonnes per annum and coal production has reached to 630.05 million tonnes per annum, an all time high. Power generation has reached 1107.39 BKwh in 2016. Energy requirement and energy availability has also registered a falling slope and peak demand is on a rising curve.

Power distribution system in India is a leaky bucket. The aggregate book losses of all the state power utilities Rs 63,355 crore in 2014-15. Few of the distribution utilities are profitable, though accumulated losses are on declining trend. The total outstanding loans for all utilities have increased substantially over the years. Overall AT &C losses of this sector remains to be around 24-25 %. Ministry of Energy has crafted a course of action to address these issues and revive the health of discoms, a welcome move by the state utilities. This financial restructuring plan is a comprehensive one with milestones built in. The initiative of the government for the implementation of solar and other renewable energy projects, will not only change the energy mix in the country, but also reduce dependency on fossil fuel. India has vast solar energy potential.

In the petroleum and natural gas sector, initiatives like: liberalization of FDI policy; introduction of Hydrocarbon Exploration Licensing Policy (HELP) with Revenue Sharing Contract instead of Production Sharing Contract; and extending Direct Benefit Transfer Scheme has benefitted the common man and helped the government to save substantial amount in subsidies.

The government needs to address a few critical issues related to the business of energy sector companies vis-a-vis cost of funds and developing of human resources. Refining companies have substantial loan exposure, if the cost of fund reduces they would save on the interest cost. While the government has linked the market price of crude oil with the product prices, there is still a scope to reduce duties and taxes on refinery products and sell fuel to the customer at lesser prices. Low cost of funds in case of power plants will decrease the fixed costs, leading to lesser tariff, encourage discoms to pursue long term Power Purchase Agreements helping both, the generating companies for better capacity utilization and for discoms, to provide power to larger number of consumers at a moderate tariff.

Distribution segment needs to manage its efficiency, reduce AT&C loss on a continuous basis; manage its customers account; raising and collection of bills timely. Also create a customer centric culture through orientation training of the employees. Discoms and Electricity Boards, being commercial entities, need to appreciate their people, who regulate, guide and drive all mechanical system and also the organization– needed to be cared for professional and personal growth. Power Finance Corporation can be the nodal agency to implement the management training system for discoms, while Government of India can provide financial support towards development of human resources in Discoms and in utilities. Oil companies perennially suffer from lower profitability. Historically, the culprit identified has been the cost of crude which remained high till a couple of years ago. These companies now need to look into their human resource development system de-novo keeping in view the competitive position and expectations by the stakeholders. Kelkar Committee Report has also stressed on this point. Along with technical inputs given in in-house systems employees should also be exposed to develop a wealth creating mindset.

Another critical area is the possible impact of goods and services tax on energy sector. Some experts feel the impact of the new taxation regime may have negative impact on the oil and gas sector. This is primarily for the reason five petroleum products -- crude, natural gas, Aviation Turbine Fuel, diesel and petrol -- are excluded from the coverage of GST for the initial years while the remaining petroleum products -- kerosense, naptha and Liquefied Petroleum Gas -- are covered within the coverage of goods and services tax. In the renewable sector also goods and services tax is likely to increase cost of setting up of renewable projects. In addition, when crude prices are going up and rupee is not appreciating external factors also likely to create negative impact on the sector. All these issues need to be addressed in the coming days to develop a vibrant energy sector.

About Ahindra Chakrabarti

Ahindra Chakrabarti joined as Professor at Great Lakes in 2013. Prior to this assignment, he was Director, International Management Institute Kolkata. He has taught at Management Development Institute between 1978-96; and at International Management Institute (IMI) New Delhi between 1996-2010. Dr. Chakrabarti holds a Master's Degree in Commerce from the University of Burdwan; LLB Degree from University of Delhi and PhD from the University of Burdwan.

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