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Why renewable energy is so vital for India

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Petroleum prices have always been a contentious issue in India. Historically, political expediency overrode economic considerations. The central government has some compelling reasons not to interfere with market forces, which are currently being affected by global factors.

India imported 256.32 million metric tonnes of crude oil and petroleum products in 2017-18, for which it paid ₹6.53 trillion. India's import dependence in crude oil is over 80 per cent. The Indian basket of crude oil represents a derived basket comprising of sour grade (Oman and Dubai average) and sweet grade (Brent dated) of crude oil processed in Indian refineries in the ratio of 72:28 in 2016-17. The price of the Indian crude oil basket was $106.85 per barrel (1 barrel = 159 litres) in May 2014. It declined to $39.88 per barrel in April 2016, and has gradually increased since then and is around $78 per barrel now.

It is important that we look into the tax structure and petroleum prices. On September 3, 2018, the prices of diesel and petrol in New Delhi were ₹71.15 and ₹79.15 respectively (rounded off). With every one-dollar increase in the international price of crude oil, the cost of petrol and diesel in India increases by ₹0.50 per litre, while a fall in the exchange rate of the rupee against the US dollar increases the cost of petrol and diesel by ₹0.65 per litre.

To reduce our dependence on imported oil, we need to generate more energy from coal and lignite, and also focus on electricity generation from hydro, wind and solar

The revenue generated by taxes on petroleum products is vital for both central as well as state governments — the total contribution to the central and state exchequer was ₹4.93 trillion in 2017-18.

It is important to remember that 42 per cent of the basic excise duty collection at the Centre is given to state governments for infrastructure and welfare programmes and 60 per cent of the remaining 58 per cent is spent on centrally sponsored welfare schemes in the states. The total amount transferred to the states is thus 76.8 per cent (42+34.8). Every one-rupee reduction in central duty leads to a loss of about ₹140 billion to the central exchequer.

Earlier, under the Administered Price Mechanism (APM), when petrol and diesel prices were not market-linked and prices were being modulated, the steep increase in international prices of oil exerted severe pressure on the oil marketing companies (OMCs). The retail prices of these commodities were kept below cost, resulting in large under-recoveries for OMCs. Between 2004-05 and 2013-14, total under-recoveries amounted to ₹8.53 trillion and there were significant subsidies.

Subsidies for these under recoveries during the period 2004-08, when international crude prices were increasing rapidly, proved grossly insufficient. Since the fiscal position of the government was already precarious, it could not increase the subsidy to this sector. The UPA government then resorted to issuance of "oil bonds" to the OMCs. These interest-bearing oil bonds were not even reflected in the balance sheet of the UPA Government, resulting in artificial measurement of the burgeoning fiscal deficit.

Between 2005-06 and 2009-10, oil bonds worth ₹1.42 trillion were issued by the government, with a rate of interest ranging from 7.33 per cent to 8.4 per cent per annum, repayable up to 2024-25 by successive governments. Oil companies have either sold these bonds or used them as collateral to raise cash. OMCs have sold oil bonds worth ₹1.25 trillion and had to bear a loss of around ₹50 billion in selling these bonds at discounted rates, because the bond market did not have much appetite for these bonds.

So far the government has repaid around ₹700 billion to the holders of these bonds. Of this amount, only about ₹100 billion has gone into repayment of the principal component and the rest towards the interest obligation. The outstanding principal amount on these bonds is thus ₹1.3 trillion. Most of these bonds will mature by 2024-25, imposing a heavy burden on current as well future governments.

An important part of the solution to the problem will have to be a focus on alternative energy sources. In 2015-16, coal and lignite accounted for 46.28 per cent of India's energy consumption; crude petroleum for 34.48 per cent; electricity from hydro, nuclear and other renewable sources of energy for 12.75 per cent; and natural gas for 6.49 per cent.

Therefore the policy of the NDA government is to move towards renewable sources of energy. But one cannot readily switch between them and other sources of energy. To make our economy less dependent on oil will be a long-drawn-out process, which can be accelerated by supportive government policies. The Modi government is working on this long-term solution.

It is evident than in order to reduce our dependence on imported oil, we need to generate more energy from coal and lignite, which we have in abundance, and also focus on electricity generation from hydro and other renewable sources such as wind and solar. Since the government is focussed on having one GWh of installed solar capacity by 2022, we will see an increase in its share in the source-wise energy consumption in the years ahead. Until then economic prudence should override political expediency.

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