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OVER THE BARREL: HOW TO BOOST THE ENERGY DRIVE

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The writer is the chairman of Brookings India and senior fellow, Brookings Institution.

India faces a variety of challenges related to energy and environment. Here are some initiatives that the next government could contemplate early on its term.

One, integrate energy and environment policy. The various ministries currently engaged with energy and the environment should be collapsed into one omnibus Ministry of Energy and Environment. This will perforate the current siloed approach to energy policy and enable the new government to view the sector through an integrated and holistic lens. It could more easily track and evaluate the systemic implications of changes in any one or more component variable. Secondly, an “Energy and Environment Security Act” should be passed at the earliest possible opportunity. The objective of such an act should be to bring energy and environment into the national narrative; to set out the road map for managing and mitigating the emergent challenge of balancing economic development and energy demands with the goal of environmental protection; and, to mobilise public support for the policy and regulatory changes required to hasten the transition to a non-fossil fuel based energy system. Finally, energy data is scattered across various government departments. This hinders policy and investment. The new government should establish an integrated energy data centre, whose data should be regularly updated and made available to all players on commercial terms.

Two, decarbonisation, demand management and efficiency should be the watchwords of the new government’s energy policy. In this context, the focus should be on generating electricity from solar and wind, incentivising electric vehicles, curtailing diesel consumption in agriculture, enforcing standards and emission norms, redesigning buildings and factories to make them carbon neutral and influencing behavioural change towards energy conservation. A multi-pronged thrust along these lines will weaken the current unhealthy relationship between economic growth, energy demand and the environment. Additionally, the “clean energy fund” which is currently funded through a cess on coal production and is managed by the ministry of finance should be augmented through the issuance of “green bonds” and a clean energy tax. This is to intensify research and development on clean energy technologies (battery storage, carbon capture and sequestration, hydrogen, coal gasification, modular nuclear reactors, etc.) and to fund the transmission and distribution infrastructure required for absorbing the flow of clean energy. Its loci of administration should be handed over to those with domain expertise. This to safeguard the funds from sequestration into the consolidated fund and to ensure that the conditions are created for incubating innovation, and forging international R&D and technology partnerships.

Three, energy diplomacy. The levers of energy and, in particular, oil policy, are today in the hands of autocratic leaders. This “personalisation” of energy politics would not have been an issue in the past when oil was traded mostly against long-term supply contracts. But today, against the backdrop of an integrated, liquid and fungible market characterised by short-term flexible supply deals, this is of relevance especially for import-dependent countries like India. The local actions of leaders now have global, supply-related ramifications. The new government

should, therefore, look to develop a specialised cadre of “energy diplomats.” It should contemplate lateral entrants at mid- and senior levels of government with relevant domain and international expertise. It should unshackle the energy public sector units from intrusive bureaucratic oversight to enable their management to respond with agility to unexpected market developments. And it should establish strong personal relations with the leaders of oil exporting states. At a crunch time, the latter could be the peg on which will hang India’s supply security.

Four, intensify exploration and enhance recovery. India’s unattractive geology is the reason why the various bidding rounds for private sector investment in oil and gas exploration have not been a success. The new government should not stop this effort but it should consider three changes to the current contract terms. One, it should replace the current revenue-sharing model with a production-sharing model for new exploration. Two, it should link investment in the marginal and smaller discovered fields with access to the domestic retail market and remove the condition that only companies that have invested Rs 2,000 crore will be eligible for a marketing licence. Three, it should contemplate bidding out Mumbai High and other major producing oil and gas fields to international players with proven enhanced oil recovery technologies. The current recovery rates of production from these fields are well below the global average.

Five, increase competition. Coal India Limited (CIL) is a major producer of coal but faces huge legacy issues (labour unions, mafia, politics and organisation) which constrain its ability to fully and efficiently harness the country’s indigenous coal reserves. These issues cannot be addressed without first redrawing the contours of India’s political economy. The new government cannot, understandably, tackle these issues early on in its tenure. It can, however, resurrect an earlier decision to allow private sector companies into commercial coal mining. The consequent pressure of competition will bear positively on the performance of CIL.

Six, natural gas. This has also not realised its full potential. Five early initiatives should be contemplated. First, Gas Authority of India Limited (GAIL) should be unbundled into a monopoly gas pipeline company. It should be divested of its upstream (production/ re-gassification of LNG) and downstream (petrochemicals) operations. These can be merged into one or more of the existing PSUs. Second, the “common access” principle must be fairly enforced. Every player, private or public, must have equal access to gas pipelines. Third, the price of gas should be determined on the basis of market and competitive principles. This principle should apply across the gas value chain, except pipeline transport tariffs which should be linked to return on capital. Fourth, a gas trading hub should be expeditiously established. Finally, special energy courts should be established to expedite adjudication of disputes and ensure sanctity of contracts. The latter have been major deterrents to investment in the energy sector.

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