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'Bring DGH out of PetroMin's ambit; pricing freedom for new discoveries'

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NEW DELHI, FEBRUARY 7

AN INTER-MINISTERIAL Committee (IMC), set up by Prime Minister Narendra Modi, has sounded out the need for the Directorate General of Hydrocarbons (DGH) to be brought out of the ambit of the Petroleum Ministry and made an independent regulator.

While recommending more autonomy for the DGH, the IMC has suggested that the "government may examine whether an independent upstream regulator is to be created at this stage" to improve the ease of doing business in oil and gas sector. The DGH, established in 1993, continues to be under the administrative control of the ministry even though it is entrusted with responsibilities of implementing all exploration licenses, monitoring contracts for discovered fields and exploration blocks, promoting investments and overseeing all exploration and production activities.

The panel has said that in case the government decides against creating a regulator, the DGH's authority should be "strengthened" as the quasi-regulator to ensure compliance of all terms and conditions of all approvals; to issue standard operation procedures (SOPs); and, act as a single interface between various departments and authorities for processing approvals and clearances.

In such a scenario, it has proposed that "an empowered mechanism consisting of representatives of concerned ministries and departments under the Cabinet Secretariat be constituted to coordinate and streamline the grant of approvals and clearances" thereby gnawing at the Petroleum Ministry's authority. It has also recommended that "checklist and guidelines be developed to reduce discretion" while putting in place SOPs for all approvals that would be logged on to an e-portal and processed thereunder without any interference of the government.

Disputes, if any, should also be taken away from the Petroleum Ministry's purview by creating a "committee of eminent persons/experts" for mediation of disputes between contracting parties and the government.

NATURAL GAS REFORMS

- Marketing and Pricing freedom for all new natural gas discoveries whose field development plan is approved for the first time after the new policy is notified
- Old fields under the administered pricing regime be encouraged to produce more gas by giving 10 percent discount on the royalty on volumes beyond the approved production profile

This panel could also serve as a forum to "facilitate an open dialogue among the contracting parties on the same lines as presently practiced in the United Kingdom and Norway". In order to avoid an additional layer of litigation, each party to the contract would have to agree in writing that "the decision of dispute resolution committee would be acceptable to them and that they will not initiate further arbitration or litigation".

These changes are easily implementable as Section 8 of the Oilfields Regulation and Development Act of 1948 allows the government to offload any of its power exercised under the ORDA to an officer or authority as specified in its gazette notification.

The committee's recommendations were accepted by the Petroleum Ministry end-January. However, it has to be translated into a Cabinet note for the Centre's approval before initiating an act to make the DGH a regulator. The committee, created by the PM at a review of oil and gas sector last October, is headed by Niti Aayog CEO Amitabh Kant. It was asked to delve on steps to improve oil and gas production from uncharted basins and producing fields discovered by national oil firms.

It comprises Cabinet Secretary P K Sinha; Aayog Vice Chairman Rajiv Kumar; Petroleum Secretary M M Kutty; DGH Director General V P Joy and ONGC Chairman and MD Shashi Shanker.

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Page No. 2, Size:(4.60)cms X (14.75)cms.

PM begins visit of 3 northeast states today

EXPRESS NEWS SERVICE
GUWAHATI, FEBRUARY 7

PRIME MINISTER Narendra Modi will begin his two-day visit to Assam, Arunachal Pradesh and Tripura on Friday even as the Northeast continues to witness protests against the Citizenship (Amendment) Bill, 2016.

Modi, who will arrive in Guwahati Friday evening, will Saturday inaugurate multiple infrastructural projects and address a public rally in Assam, besides visiting Arunachal Pradesh and Tripura.

The PM will Saturday lay the foundation for an ambitious airport at Hollongi in Arunachal Pradesh. In Guwahati, he will lay the foundation for a bridge connecting Guwahati and North Guwahati over the Brahmaputra river, for Numaligarh Refinery Ltd's bio-diesel refinery and the Barauni-Guwahati gas pipeline. He will address public rallies in Changsari, around 30 km from Guwahati, and Agartala in Tripura.

Modi's visit comes as the BJP faces stiff protests in Northeastern states over the Bill.

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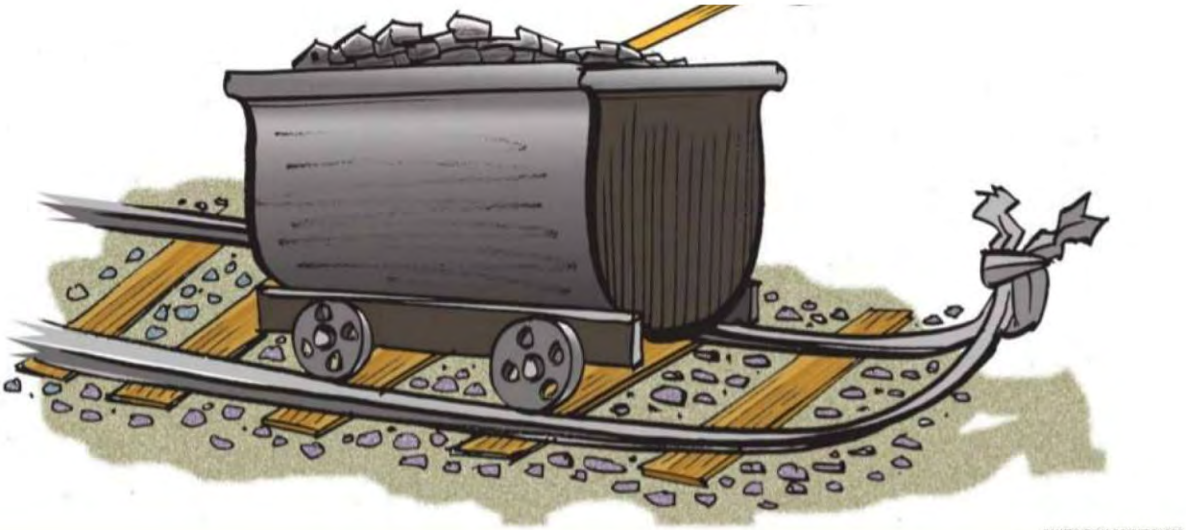

ILLUSTRATION: ROHNIT PHORE

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INDIA'S MOST WANTED FUEL

For now, coal needs to keep burning

Despite the emphasis on renewables, coal remains critical for electricity generation. CEA officials have mentioned that new coal-based generation capacity is essential for increased base-load demand and grid stabilisation. The push towards electrification cannot be achieved without coal, and industrial demand for power and coal will increase as economic activity grows

THE *GILETS JAUNES* (yellow vests) movement in France started last year in response to rising taxes on petrol and diesel, which were proposed by the government in a bid to reduce the dependence on fossil fuels and promote renewables. Petrol and diesel affect a large section of the population in France that resides outside of its major cities. Similarly, Bharat Bandh was organised in September 2018 by the opposition parties with rising fuel prices on its agenda. What these two events show is that, be it a developed country like France or a developing one like India, fossil fuels at large are still very important despite the push towards renewables. While petrol and diesel prices impact consumers directly, India is plagued by concerns around another fossil fuel, i.e. coal.

The government's regulatory push towards renewable energy is loud and clear in the form of targeted subsidies and incentive mechanisms in place to promote renewables. The government targets to increase the renewable capacity to 175GW in FY22 and 275GW in FY27 from the current 70GW. In terms of electricity generation, this translates into a target of increasing share of renewables in power generation from the current 8%, to 19% in FY22 and 23% in FY27. However, coal helps meet around 45% of India's energy needs. Power sector is the single major consumer of coal, and 79% of our electricity generation is accounted for by fossil fuels, primarily coal. The intermittent and unreliable nature of renewable power makes it a complementary, and not a primary source of electricity. Unlike coal, renewables cannot serve the base-load demand.

Even though coal minister Piyush Goyal claims no shortage of coal in the country, the Central Electricity Authority (CEA) reports that seven thermal power plants (9,202MW of generation capacity) had either critical or supercritical coal stocks as on January 21. Despite India being the fourth-largest producer of coal in the world, the country has been importing almost 200 million tonnes of coal every year since FY15, of which non-coking coal imports are almost 80%. Non-coking coal imports in the last five fiscal years averaged 154.6 million tonnes, as compared to 62.3 million tonnes in the preceding five years. Non-coking coal is used primarily for power generation, whereas coking coal is primarily used in the production of steel.

The supply of coal has been plagued by below-target production by Coal India Ltd (CIL) and the shortage of railway infrastructure for transportation of coal. Over the years, it has become far too common for our power plants to reach critical levels of coal stocks. The factors inhibiting coal production in India are deep-rooted, including delays in land acquisition, and environment and forest clearances. Most of the clearances and acquisitions are done at the state level by multiple authorities before they reach the Centre for clearance, which is a time-consuming process. The average amount of time to get a mining lease in India is 5-6 years, compared to 1-2 years in Canada and Australia due to a single-window clearance mechanism. Limited availability of rakes is another perennial issue that constrains coal transport from pitheads to consumers.

There is a dire need for government departments—including CIL and Indian Railways—to address the issue of coal availability in the country

The shortage of coal has also hit the industry hard. Industry accounts for nearly 40% of the power demand in India. Non-power sector industries (such as steel, cement, aluminium) usually set up captive power plants (CPPs) to secure steady and uninterrupted power that is not available from the grid, and 60% of all CPPs in India currently are coal-based and they fall under the non-power sector. Coal supply to CPPs has not kept pace with the demand since the last three fiscal years, and this fiscal is no better. The government's move to prioritise availability of coal for the power sector has led to shortage of coal for non-power sector industries. In terms of rake allocation, too, the non-power sector has been at a disadvantage. Industry estimates suggest that in the last one year less than 10% of the rakes have been allotted to the non-power sector. At least 20% of the CIL rake dispatches need to be allocated to the non-power sector, so as to enable them to work normally. Further, the PSU non-power sector gets preference over the private sector. The cumulative rake backlog for the non-power sector has only been increasing every month. Yes, coal can be transported via road, too, but transportation of coal via road has its own challenges. Every rake that goes on to a road translates into 200 trucks of 10 meters each. Transporting coal by road is also costlier and will only further add to pollution and emissions.

Last month, CIL decided to allocate 25% of its planned production to the non-power sector. Assuming CIL's production at 680 million tonnes, the non-power sector would get around 170 million tonnes of coal. This is insufficient to meet the demand by the non-power sector for domestic coal, which is around 223 million tonnes, as mentioned by the Coal Controller. CIL has been missing its production target year after year. It has also pushed back its target of 1 billion tonnes by a couple of years, originally planned for FY20. Under such circumstances, the only alternative with the non-power sector is to either import coal or operate below the optimal level—and this alters the entire economics of the business. In addition, transportation of imported coal too remains constrained by poor availability of rakes.

India's electricity intensity of GDP is rising (10.7GWh per ₹1 billion of GDP during FY13-17 from 9.9GWh in the preceding five years). This is bound to rise as India electrifies more and more of its households, income levels increase, and people move to urban areas. Under the Pradhan Mantri Sahaj Bijli Har Ghar Yojana, launched in September 2017, electrification has picked up steam. Since October 2017, over 2 crore households have been electrified, leaving only 6.5 lakh households left to be electrified. Many surveys on the real effectiveness of the scheme have found the power supply to be substandard, with frequent cuts and fluctuating voltage. The government has promised uninterrupted power supply by end-March 2019.

News reports suggest that CEA has identified new potential sites for thermal power plants. CEA officials have mentioned that new coal-based generation capacity is essential for increased base-load demand and grid stabilisation. The push towards electrification cannot be achieved without coal. Additionally, industrial demand for power and coal will also increase as the economic activity grows. Bear in mind that the non-power industries currently deprived of coal are also our core industries. Power consumption by industrial user has already slowed down in the last couple of years due to industrial sector slowdown. Power shortage will only add fuel to fire. Despite the emphasis on renewables, coal remains critical for electricity generation. There is a dire need for the various government departments—including CIL and Indian Railways—to address the issue of coal availability in the country. For now, coal will need to keep burning.