<u>FOR DECCAN HERALD</u>

<u>"Energy Crisis-Single Regulator A Must" by S L Rao</u>

<u>October 8 2014</u>

__The Supreme Court has now cancelled most of the coal blocks allocated to private parties, mainly by the last UPA governments. They were allocated in an apaque way. Though the Then Coal Secretary (Parakh) had recommended that they be auctioned, they were npt. Many of the allocated mines were kept fallow for many years, adding to the shortage of coal in the country and increasing imports, further adversely affecting the balance of payments deficit and the perception of Indian economy as being in decline.

The Energy Economy of the country has been grossly mal-administered and mismanaged for many years. The nationalization fo coal mines under Mrs Indira Gandhi resulted in poor technology being used, poor productivity in comparison with other counters, the emergence of a coal mafia that stole coal from mines in a large way, poor quality of coal with large boulders n it and damaging to expensive equipment like power turbines, and illegal earnings by politicians and bureaucrats. It was high time that this was stopped. The Supreme Court has done so and compelled government to think through what is the best course. That would of course be total denationalization and putting private investors to improve technology, production and productivity, while guaranteeing to meet supply contracts. A strong regulatory regime with powers to inspect technology, productivity, determine tariffs, ensure supplies, and punish poor managements, is essential.

In his courageous and detailed work "Gas Wars", Paranjoy Guha Thakurta and a colleague have shown the way in which another valuable natural resource, gas, has been exploited by private companies, politicians and bureaucrats. The absence of any full-fledged regulation added to the country's woes. After many years a Petroleum and Natural Gas Regulatory Board, was created. It was deliberately an emasculated regulator, with no powers over production, tariffs and supplies. Even its statutory powers to license pipe lines were notified only after favoured parties ahd been licensed

by government. On the wxploration and production the regulator was a government entitiy who allowed what appears to be "gold plating" of capital costs, thus considerably reducing the government 's share of profit. No proper distinction was made between pricing of liquefied natural gas that could eb transported and hence had markets, versus land and undersea gas that could be used only by those along the route of the pipe line carrying it. Announcements about gas reserves allowed considerable capital expenditures (at cost of government profits) only to be reneged later when capacities at great cost had been set up to use that gas. Little compettion was enabled in exploration. Government owned companies were at a disadvantage over others.

Thus the country in dire need of energy (electricity, coal and gas) for producing much needed power and fertilizer, was increasingly in short supply. This was compounded by the populist pricing policies followed by the UPA government. Petroleum and oil products (POL) were sold to consumers at prices determined by bureaucrats and politicians, despite an excellent set of recommendations by Dr Vijay Kelkar asking for administered prices to be given up and prices of petrel, diesel, cooking gas etc to be determined by demand and supply. Government ignored these recommendations. The result was a soaring cost of government subsidies on these products. This not only distorted consumption towards diesel, it subsidized the well off (major users of cooking gas. Along with other such below cost sales of goods and services (rail fares, fertilizers as examples), it pushed the fiscal deficit to astronomical levels, resulting in many years of rising inflation.

We need a sea change in our governance of fuels and power. No doubt all natural resources are the property of the nation. But their exploitation for production should not be with government. Government is a poor manager of enterprises, tends to overstaff, is backward in use of technology, encourages labour and staff indiscipline and corruption. Ideally these resources should be auctioned to the highest but technically qualified bidders. Their functuioning should be closely monitores so that the product is available as planned and supplied as contracted to different consumers. As more such are licensed through competitive budding, the competition will determine a price affordable by consumers and profitable to the licensors. An independent regulatory might momnitor all aspects.

There should be a single regulator for coal, gas and power, including renewable energy. The regulator must be responsible for allocating mines, fields and projects, monitoring technology and production, as well as supply contracts, and with full access to all cost and price records, avoid exploitation. This will ensure that prices do not become uneconomical, that supply contracts are met, that advanced technologies are used so that production and productivity are maximized. The availability of opportunities to bid for licenses in competition will attract more investors who will also know from the regulator as to what profitability the regulator would like to assure.

At the same time it must be ensured that the selection and appointment of the regulator is done in a transparent manner. It should not be confined as is the case with almost all regulators today, to retired bureaucrats. it must be open to othee professions and particularly to people who understand the interrelationships between these products and the economy and society as a whole and are not mere technicians.

At the same time the subsidy regime must be reformed so that government makes direct payments to the beneficiaries and they are not mixed up in pricing of products, and cross-subsidies.

Such a new and transparent system will be unattractive to politicians and bureaucrats who will lose the enormous opportunities they have enjoyed for many years for making unimaginable earnings by manipulating the system. It will lead to a considerable economic revival. (958)

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