



## Press Release

### **“NCAER’s Gas Price Pooling Policy Study for the power sector indicates net positive benefits to the economy, but also reflects difficult fiscal choices”**

**New Delhi, Friday 20 February, 2015**

NCAER, the National Council of Applied Economic Research, has conducted a timely study evaluating the benefits and costs of pooling the price of domestic and imported natural gas for the power sector. The research study was sponsored by GMR Energy Limited. The proposed gas price pooling policy would pool the existing limited supply of domestic gas with imported Regasified LNG to help operationalise the some 16,100 MW of stranded, gas-based, power plants to start operating from their current zero percent plant load factor (PLF) to either a 30% or 40% PLF. The price of pooled natural gas will be greater than the domestic price, and hence the cost of power production will increase. However, the selling price of electricity has been administratively capped at Rs 5.50 per kwh, so the gap between the selling price and production cost would lead to a revenue shortfall for gas-based power plants.

This revenue shortfall is proposed to be partially borne by the government as subsidies and tax concessions, and partially borne by the interlinked sectors taking cuts in their revenues. Hence, the gas price pooling policy also includes a waiver of the 12.5% VAT/ CST and other levies on natural gas by the states, customs duty exemption for R-LNG, a 50% cut in pipeline tariff, 50% cut in R-LNG regasification charges, and a 75% cut in marketing margins by the Gas Authority of India (GAIL), which is the designated gas pool operator.

The proposed Gas Price Pooling Policy is complex and leads to a chain of events: potential gains to interlinked sectors as well as potential losses to interlinked sectors. The NCAER Study gives a composite picture of the total gains and total losses to all sectors due to these interlinkages, as well as of the fiscal costs to the government of this policy.

In addition, the NCAER Gas Price Pooling Study captures the macroeconomic impact of the increased power generation and its multiplier effects as a result of greater availability of gas and computes the net impact of the proposed policy. These simulations have been done under different scenarios, including plants operating at 30% PLF, 40% PLF and 50% PLF, and with and without the additional availability of domestic gas.

Without first considering the impact on economic growth, the NCAER Study finds that if plants were to operate at 30% PLF in a scenario in which some domestic gas is available and the rest is imported, the total revenue shortfall for the gas-based power plants in 2015-16 would be Rs 10,165 crores. This shortfall is projected to be divided as follows: Rs 4,531 crore in subsidies borne by the central government, Rs 3,162 crore tax revenue loss due to tax concessions (VAT/CST/ Customs), and Rs 2,472 crore revenue losses to be borne by other sectors taking cuts in regasification charges, pipeline tariffs and marketing margins. However, if no domestic gas is available, and 100 percent of the gas is imported, the revenue shortfall would be some 50 percent higher at Rs 15,270 crores.

With higher capacity utilizations and in a scenario where domestic gas is available, the revenue shortfalls are higher at Rs 15,255 crores and Rs 22,423 crores at 40% and 50% PLF in 2015-16. These revenue shortfalls would also be apportioned as subsidies, tax concessions and revenue cuts as per policy guidelines.

Turning to the overall growth impact of the policy, the increased power generated as a result of the policy will have positive growth multiplier effects due to its forward and backward linkages. NCAER's input-output and computable general equilibrium models were used to compute these multiplier effects to assess the change in the economy's GDP, employment, and fiscal parameters. Much would depend on the PLF achieved by the new capacity.

The NCAER Study finds that the gas price pooling policy would lead to an increase in GDP of 0.50% (or Rs 69,431 crores) with a PLF of 30%, 0.70% (or Rs 96,107) with a PLF of 40%, and 0.88% (or Rs 1,22,783 crores) with a PLF of 50%. The increase in employment in 2015-16 is 0.31% or 13 lakh new jobs with a 30% PLF, 0.43% or 18 lakh new jobs with a 40% PLF, and 0.61% or 23 lakh new jobs with a 50% PLF. The details for all other years are in the NCAER Report.

The NCAER Study finally calculates the net impact of the proposed Gas Price Pooling policy by taking into account its benefits from higher GDP and its costs, which include fiscal costs and costs to other sectors. For instance, in 2015-16, in the scenario that some domestic gas is available, the net benefits are projected at 0.43% of GDP or Rs 59,266 crores with 30% PLF, 0.59% of GDP or Rs 80,852 crore with 40% PLF, and 0.74% of GDP or Rs 1,02,438 crores with 50% PLF.

Dr Indira Iyer, Senior Fellow and team leader of this study at NCAER, noted that:

*“Globally, there is a strong correlation between economic growth and energy consumption, and India is no exception. This NCAER Study builds on larger and more detailed studies at NCAER examining the energy sector in India and the policies that impact energy production. We have examined the potential benefits and fiscal costs of the gas price pooling policy under various scenarios. Simulations suggest that this policy will yield positive net benefits as long as policymakers build suitable safeguards into this policy to not pick up and pay for the inefficiencies of the public and private sectors over a long time period, or to bail out companies for a period more than strictly necessary. How the policy envisages ending the subsidy on gas for power production is as important as how it responds to the logic of starting the subsidy.”*

For a summary of the study and to download it, please visit [www.ncaer.org](http://www.ncaer.org).

## **About NCAER**

NCAER, the National Council of Applied Economic Research, is India's oldest and largest independent economic think-tank, set up in 1956 at the behest of Prime Minister Jawaharlal Nehru to inform policy choices for both the public and private sectors. Over nearly six decades, NCAER has served the nation well with its rich offering of applied policy research, unique data sets, evaluations, and policy inputs to central and state governments, corporate India, the media, and informed citizens. It is one of a few independent think-tanks world-wide that combines rigorous economic analysis and policy outreach with data collection capabilities, particularly for large-scale household surveys. NCAER is currently led by its Director-General, Dr Shekhar Shah, and governed by an independent Governing Body chaired by Mr Nandan M. Nilekani.

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