

Energy price controls and market based workarounds in India

Written by AK

Monday, 23 April 2012 15:23

Energy price controls in India [are a significant factor slowing electrification, the provision of reliable power, and economic growth](#) :

"A complex system of subsidies and price controls has limited investment, particularly in resources like coal and natural gas. It has also created anomalies, like retail electricity prices that are lower than the cost of producing power, which lead to big losses at state-owned utilities. An unsettled debate about how much of its forests India should turn over to mining has also limited coal production.

"The power sector's problems have substantially contributed to a second year of slowing economic growth in India, to an estimated 7 percent this year, from nearly 10 percent in 2010. Businesses report that more frequent blackouts have forced them to lower production and spend significantly more on diesel fuel to run backup generators.

"...India has one of the world's largest reserves of coal but it has not been able to exploit it effectively, largely because a state-owned company, Coal India, controls 80 percent of production. The company has been hamstrung by political decisions like a policy that requires it to sell coal at a 70 percent discount to market prices.

"....India also appears to have a lot of cleaner-burning natural gas, but it has not fully exploited those reserves, either. Private firms have few incentives to do so because the government has capped the price of that fuel."

[A promising workaround for small scale users](#) :

"In October, Bangalore-based Simpa Networks Inc. installed a solar panel on Anand's whitewashed adobe house along with a small metal box in his living room to monitor electricity usage. The 25-year-old rice farmer, who goes by one name, purchases energy credits to unlock the system via his mobile phone on a pay-as-you-go model. When his balance runs low, Anand pays 50 rupees (\$1) -- money he would have otherwise spent on kerosene. Then

Energy price controls and market based workarounds in India

Written by AK

Monday, 23 April 2012 15:23

he receives a text message with a code to punch into the box, giving him about another week of electric light. When he pays off the full cost of the system in about three years, it will be unlocked and he will get free power. Before the solar panel arrived, Anand lit his home with kerosene lamps that streaked the walls with smoke and barely penetrated the darkness of the village, which lacks electrification. Twice a week, he trudged 45 minutes to a nearby town just to charge his phone. Electricity Revolution “Things are much easier now,” Anand says, describing how he used to go through 5 liters (1 gallon) of fuel a month, almost half of it bought from the black market at four times the price of government kerosene rations. “There was never enough.” Anand is on the crest of an electricity revolution that’s sweeping through power markets and threatening traditional utilities’ dominance of the world’s supply....In the developing world, they’re slashing costs in the process. Across India and Africa, startups and mobile phone companies are developing so-called microgrids, in which stand-alone generators power clusters of homes and businesses in places where electric utilities have never operated.”

HT [Tyler Cowen](#) .