India's energy sector needs USD 120 - 150 billion over next 5 years to fuel economy: KPMG Report

India to exhaust extractable coal reserves in next 45 years; Only 10.6% of installed electricity capacity in private sector; India has the world's lowest per capita Natural Gas consumption; Theft, pilferage, non collection result in losses of over USD 6b p.a.; Increase in Railway share in freight and mass transportation in cities can contribute in major energy savings

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India's power and upstream energy sectors such as coal, oil & gas need investments to the tune of USD 120 - 150 billion over the next five years, as per the report released by KPMG. The report titled 'India Energy Outlook 2007', underlines the recent efforts by the Government of India in recognizing the need for private participation and ensuring that policies to promote investments are being implemented. Private participation in coal mining for captive use, in oil & gas exploration and in the power sector is already seeing significant progress. It is also expected that private participation in nuclear energy would be allowed as and when the Indo-US Nuclear deal goes through.

By world standards, India's current level of energy consumption is very low. For the year 2004 - 05, the total annual energy consumption for India is estimated at 572 Mtoe (million tons oil equivalent) and the per capita consumption at 531 kgoe (kilograms oil equivalent). However with a targeted GDP growth rate of over 8%, and an estimated energy elasticity of 0.80, the energy requirements of the country are expected to grow at over 6.4% p.a. over the medium to long term. This implies a four-fold increase in India's energy requirement over the next 25 years, which is a significant challenge for the country.

Commenting on the study, Mr. Arvind Mahajan, Executive Director, Advisory and Head Energy, Infrastructure and Government, KPMG said, 'The general theme of private participation and competition has advanced in the past one year with some concrete examples on the ground to substantiate it. Looking ahead, the Atomic Energy Act is expected to be modified shortly allowing private participation and anticipating this many large Indian and International players have started discussions for possible tie-ups.'

Along with private participation, there is a move to bring in market mechanisms in the energy sector under an independent regulatory oversight. A gradual approach is important till the supply side position improves and more players enter the sector so that markets can work effectively.

The Government is seen as making efforts to broaden the supply base both internally and externally. It is intended to diversify the fuel basket by increasing shares of Natural Gas, Hydro and even Nuclear Energy. At the same time, both Government and private sector companies are looking to acquire equity in energy assets abroad as seen in recent examples in the oil & gas and coal sectors.

The report also states that energy transport infrastructure such as ports, railways, pipelines and power transmission networks need significant investments.

Tariff reform in the energy sector and distribution reform in the power sector are two important steps that need to be successfully carried out. Tariff reform to phase out subsidies or to target them effectively and distribution reforms to bring efficiency in the power sector are vital. Steps have been taken in this direction with mixed results. Going forward, this is an important area to manage.

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