

SYSTEM MODELING FOR SECURITY AND SUSTAINABILITY IN INDIAN ENERGY SECTOR: SELECT ISSUES

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SYSTEM MODELING FOR SECURITY AND SUSTAINABILITY IN INDIAN ENERGY SECTOR: SELECT ISSUES

by

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सत्यमेव जयते

सत्यमेव जयते नानृतं
सत्येन पन्था विततो देवयानः ।
येनाक्रमन्त्यृषयो ह्याप्तकामा
यत्र तत् सत्यस्य परमं निधानम् ॥६॥

Truth alone triumphs; not falsehood.
Through truth the divine path is spread out
by which the sages whose desires have been completely fulfilled,
reach where that supreme treasure of Truth resides.

On very personal and heart touching note,

This Ph.D. dissertation is dedicated to my parents, Shri Genda Lal Soni and Smt. Ram Dulari Soni who have faith and admiration for whatever I did and took great pain to show their affections.

All elder sisters, especially younger loving sister, Arti Soni, who spent her childhood love in my absence at hometown, felt unsheltered, unprotected and unknowingly forced me every time to go back to this Institute to complete the research work. All persons of my family including my wife Mrs. Rashmi Anand, their strong mental support, encouragement, and constant love have sustained me throughout Ph.D programme and without their positive attitude, this Ph.D. work was impossible.

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“But that's not enough: To maintain energy security, one needs a supply system that provides a buffer against shocks. It needs large, flexible markets. And it's important to acknowledge the fact that the entire energy supply chain needs to be protected”. Daniel Yergin

CERTIFICATE

This is to certify that the thesis entitled “**System Modeling for Security and Sustainability in Indian Energy Sector: Select Issues**” being submitted by **Mr. Vivek Soni** to the Department of Management Studies, Indian Institute of Technology Delhi for the award of the **Doctor of Philosophy** (Ph.D.) is a bonafide record of original work carried out by him. He has worked under our guidance and supervision and has fulfilled the requirements for the submission of the thesis, which has attained the requisite standard for a Ph.D. degree of the Institute. The research work and the results represented in this thesis have not been submitted to any other university or institute for the award of any Degree or Diploma.

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(Vivek Soni)

ABSTRACT

Energy security and sustainability in energy sector has become an essential supportive base for economy of almost all the nations including India. Meeting energy demand, and bridging gap between demand and supply through its planned capacity additions from various sources of energy, has become more critical and complex to provide adequate capacity infrastructure development in the country. Both side of energy security i.e. energy demand and energy supply need proper management where security ensures demand by effective fuel utilization, large scale capacity addition through execution of energy projects in the Indian energy sector. In the context of energy security, minimizing the gap between demand and supply side of issues is found as situation to deal with. After extensive literature review, the research study addresses the demand side issues using cointegration and causality analysis and is used to measure the sustainability in demand side. The analysis is addressing long term Causality between energy consumption and GDP. On applying co-integration test, it is found that two variables energy consumption and gross domestic product (GDP) are cointegrated of the order of one (i.e. $I \sim 1$). In Causality analysis (Johansen, 1988 and Klein, 1997), sustainability is shown to have a long run relationship between driving variables of energy demand (energy consumption kWh) with infrastructure development variable of GDP. Thereby, sustainability in the sector supports current deficit accounts of the country in a larger perspective.

Literature reviews show that there is need of optimal utilization of energy resources allocations. Effective decision making has become very important to prioritize capacity addition by various conventional sources like coal, gas, hydro, nuclear and non- conventional renewable energy. Each of these energy projects is very complex in nature and is becoming more multifaceted. Due to various reforms adopted in the energy sector where adverse situations of climate change phenomenon have been impacted by type of energy resources and environmental degradation linkages. Firstly, these projects are assessed based on a sustainable thinking approach of life cycle costing (LCC) (Dhillon, 1989). This cradle to grave approach of LCC gives decision makers, investors and policy makers not only a system level framework, but also opportunities to choosing sensitive variables for effective capacity addition. These variables impact each phase of life cycle of projects where all major cost components are converted in present value of the time. LCC provides system level holistic approach considering various costs which a decision maker can omit while performing decision analyses. The cost incurred against Renovation and Modernization (R&M) plan, (As per R&M Plan of CEA, Ministry of Power, Govt. of India, 2009) and costs incurred against measure for environmental protection (in lieu of EP Act, Govt. of India, 1986) are such investment components. It is found that LCC has been emerged as critical in analyses and has widely applications used in research for sustainable development.

Based on LCC analysis, comprehensive list of criteria influencing projects investment decision are identified and few of them have been considered for multi criteria decision making (MCDM) framework development. Few MCDM techniques such as AHP, ANP have been used in the

Indian context. In this research, contemporary MCDM techniques such as preference ranking organization method for enrichment (PROMETHEE) (Brans *et al.*, 1984) and with its hybrid applications with others MCDM approaches have been used. As noted, energy sector of the Indian economy is complex in nature and in order to deal with the subjectivity and to have more precise evolutions, the fuzzy set theory (FST) and fuzzy scale (Zadeh, 1977) are used. These are more specifically used for outranking the various energy projects and later compared with the energy options analysis of LCC. This study presents specific gaps between analyzing traditional approach of NPV versus LCC analysis identifying R&M, investment for environment protection etc. This comparison supports decision making as compared to the traditional approaches of project evaluation i.e. by using the net present value (NPV) concept. Myers (1984) pointed out that NPV modeling ignores the value of flexibility of real asset investment. Moreover, the study also considers investment decisions to add Coal based capacity addition based on Real Option Analysis (RoA) integrated with LCC financial modeling.

Issues such as preferences on alternatives or on the criteria of energy projects are often uncertain where investment decision becomes more difficult to assess correctly are dealt with application of grey system theory (GST) (Julong, 1982). The GST methodology is used to deal with uncertain information for investment purposes. In this research study, MCDM technique complex proportional assessment (COPRAS) is also used for comparison of energy project alternatives (Zavadskas *et al.*, 1994) in the Indian energy sector. COPRAS method assumes direct and proportional dependence of significance and priority of alternatives on a system of criteria (Ustinovichius *et al.*, 2007). While based on PROMETHEE outranking method for assessment of various projects such as Coal, Solar based projects should be continued. But in the precise scenarios of comparison with GST based COPRAS method (i.e. COPRAS-G), capacity addition based on renewable must be given priority to help in become country as a strong emerging nation over crossing the GDP. In additional, energy efficiency is studied as part of energy security and it is felt as back bone of Standards and Labeling (S&L) Scheme which promotes star rated energy efficient appliances to reduce the overall energy consumption. The research work is also focused on measuring the effectiveness of the S&L Scheme identifying enablers and ranking of various check tests laboratories which are engaged in testing of various energy efficient equipments and appliances as per the Indian and ISO Standards. This part of work is assessed using Interpretive Structure Modeling (ISM) and Analytical Hierarchy Process (AHP) approaches. In the later part of the research work, Indian energy sector has been also enquired and analyzed using development of SAP-LAP (Sushil, 2001) model for presenting situation of energy security and considering issues of sustainability.

This Ph.D. thesis is an attempt to improve the functionality of both Indian energy and power sectors and also to support decision making on investments issues related to various capital intensive energy projects. Thereby, the results from research work can synergies with pro-actions of investors, policy makers towards the present need to consider sustainable practices and also to help in adoption of effective measures to improve efficiency of the sector and thereby, Indian economy at large.

CONTENTS

	Page No.
<i>Certificate</i>	<i>i</i>
<i>Acknowledgements</i>	<i>ii</i>
<i>Abstract</i>	<i>iii</i>
<i>Contents</i>	<i>v</i>
<i>List of Tables</i>	<i>ix</i>
<i>List of Figures</i>	<i>xii</i>
<i>List of Graphs</i>	<i>xiii</i>
<i>Abbreviations</i>	<i>xiv</i>
<i>Unit of Measurement</i>	<i>xvi</i>
 CHAPTER 1: INTRODUCTION	 1-9
1.1 CAPACITY ADDITION CONCERNS FOR ENERGY SECTOR	1
1.2 ENERGY DEMAND AND SUPPLY SCENARIO	2
1.3 INVESTMENT DECISIONS	5
1.4 MOTIVATION OF RESEARCH	6
1.5 OBJECTIVES OF THE RESEARCH	7
1.6 SCOPE OF THE RESEARCH	8
1.7 ORGANIZATION OF THESIS	8
1.8 CONCLUDING REMARKS	9
 CHAPTER 2: LITERATURE REVIEW	 10-33
2.1 INTRODUCTION	10
2.2 REVIEW OF ENERGY SUPPLY CONCERNS	11
2.3 DEMAND SIDE OF SUSTAINABILITY	15
2.4 EVALUATION OF PRIORITY BASED CAPACITY ADDITIONS	20
2.4.1 Life Cycle Thinking Approach	20
2.4.2 Life Cycle Costing as Integrated Approach with Real Options Theory	22
2.4.3 MCDM Framework for Sustainable Capacity Addition	24
2.5 REVIEW ON ENERGY EFFICIENCY	29
2.6 SYSTEM BASED INQUIRY MODEL FOR ENERGY SECTOR	30
2.7 INSPIRATION OF RESEARCH	31
2.8 KNOWLEDGE GAPS	32
2.9 CONCLUDING REMARKS	33

CHAPTER 3: RESEARCH METHODOLOGY	34-41
3.1 INTRODUCTION	34
3.2 RESEARCH DESIGN	34
3.2.1 Phase 1: Quantitative Approach	36
3.2.2 Phase 2: Qualitative and Quantitative Approach	36
3.2.3 Phase 3: Case Study Approach	37
3.3 DATA COLLECTION	37
3.4 DATA ANALYSIS	38
3.5 RELEVANCE OF CONSOLIDATED METHODOLOGY	39
3.6 ETHICAL CONSIDERATION	40
3.7 CONCLUDING REMARKS	40
 CHAPTER 4: SUSTAINABILITY ASSESSMENT FRAMEWORK	 42-64
4.1 INTRODUCTION	42
4.1.1 Energy Demand and Gross Domestic Product (GDP)	43
4.1.2 GDP as Economic Indicator of Sustainable Growth	45
4.1.3 Linkages between Energy Consumption and GDP	46
4.2 ASSESSMENT METHODOLOGY	47
4.2.1 Analytical Framework	48
4.2.2 Methodological Steps	48
4.2.3 Nature and Sources of Data	52
4.3 CASUALITY ASSESSMENT IMPLEMENTATION	53
4.3.1 Preliminary Analysis and Lag Selection Criteria	53
4.3.2 Stationary Test	56
4.3.3 Cointegration Test	58
4.3.4 Granger Causality Test	59
4.3.5 Establishing Cointegrating Relationship & Fitting VECM	60
4.3.5.1 Unit Root Testing and Number of Lags	60
4.3.5.2 Cointegrating Relationship	61
4.3.5.3 Fitting VECM	62
4.3.5.4 Stability and White Noise Residuals Test	62
4.4 CONCLUDING REMARKS	64
 CHAPTER 5: LCC AND ROA: AN APPROACH FOR INVESTMENT DECISIONS	 65-88
5.1 INTRODUCTION	65
5.2 LIFE CYCLE COSTING AND ROA BASED INVESTMENT APPROACH	68
5.2.1 LCC Models	70

5.2.2 LCC for Investment Decisions	73
5.2.3 LCC as Methodology in the Context	74
5.2.4 Real Options Theory Based Approach	75
5.3 LCC–RoA BASED INTEGRATED APPROACH	76
5.3.1 Sources of Data	78
5.3.2 LCC Estimation and Assumptions	79
5.4 RESULT AND DISCUSSION	83
5.4.1 Results from Integrated Framework of LCC and RoA Analysis	85
5.5 CONCLUDING REMARKS	87
CHAPTER 6: MCDM FRAMEWORK FOR ENERGY SECURITY AND SUSTAINABILITY	89-138
6.1 INTRODUCTION	89
6.2 MCDM FRAMEWORK FOR SUSTAINABLE ENERGY SUPPLY	92
6.2.1 PROMETHEE Method	93
6.2.2 Grey System Theory Based MCDM Framework	93
6.3 OVERVIEW OF F-PROMETHEE AND COPRAS METHODS	95
6.3.1 (a) Brief Overview of Fuzzy Set Theory	95
6.3.2 (b) Boolean Algebra of Fuzzy Numbers and Yager Index	95
6.3.3 F-PROMETHEE Method	96
6.3.4 COPRAS-G Method	99
6.3.4.1 Common COPRAS Method	99
6.3.4.2 GST based COPRAS Method (COPRAS-G)	102
6.4 ENERGY PROJECTS PRIORTIZATION	106
6.4.1 Application of PROMETHEE Method in Fuzzy Environment	106
6.4.1.1 Criteria Selection	106
6.4.1.2 Criteria Weighting	111
6.4.1.3 Prioritization using F-PROMETHEE	112
6.4.2 Prioritization using Visual PROMETHEE	114
6.4.3 RESULTS	119
6.4.3.1 Results from F-PROMETHEE	119
6.4.3.2 Results from Visual PROMETHEE	120
6.4.4 Ranking of Energy Project using COPRAS-G method	124
6.4.4.1 Grey Criterion Selection	124
6.4.4.2 Grey Criteria Weighting	129
6.4.4.3 Orientation of Grey Criteria	130
6.4.4.4 Prioritization using COPRAS-G	131
6.4.4.5 Results from COPRAS Method	133

6.5	CONCLUDING REMARKS	136
CHAPTER 7: ENERGY EFFICIENCY ASSESSMENT		139-170
7.1	INTRODUCTION	139
7.2	ENERGY EFFICIENCY IN ENERGY SECURITY	139
	7.2.1 S&L Scheme and Energy-Efficient Household Appliances	142
7.3	MODELING ENERGY EFFICIENCY	145
7.4	INTREPRETIVE STRUCTURAL MODELING	146
	7.4.1 Steps Involved in the Development of ISM	147
	7.4.2 Interpretive Structural Modeling in Check Testing Covered under S&L Scheme	149
7.5	ANALYTICAL HIRERARCHY PROCESS	156
	7.5.1 The Basic Principal of AHP	157
	7.5.2 AHP in Check Testing under S&L Scheme	159
	7.5.3 Identification of Alternatives	159
	7.5.4 Identification of Criteria and Assumption	160
	7.5.5 Consistency Check Validity of Multiple Pair Wise Comparisons	161
7.6	RESULTS AND DISCUSSIONS	168
	7.6.1 Results from the ISM	168
	7.6.2 Results from the AHP	169
7.7	CONCLUDING REMARKS	170
CHAPTER 8: CASE STUDY		171-198
8.1	INTRODUCTION	171
8.2	SAP-LAP MODEL:AN OVERVIEW	172
8.3	SAP-LAP BASED CASE STUDY : A CASE OF INDIAN ENERGY SECTOR	174
	8.3.1 The SAP Context	174
	8.3.2 The LAP Elements	188
8.4	DISCUSSION	192
8.5	CONCLUDING REMARKS	197
CHAPTER 9: DISCUSSION AND CONCLUSION		199-205
9.1	SUMMARY OF RESEARCH WORK	199
9.2	MAJOR CONTRIBUTION	200
9.3	IMPLICATIONS OF RESEARCH	201
	9.3.1 For Academicians	201
	9.3.2 For Industry Practitioners	202

9.3.3 For Government and Policy Makers	203
9.4 LIMITATIONS AND FUTURE RESEARCH DIRECTIONS	203
9.5 CONCLUDING REMARKS	204
REFERENCES	206-227
APPENDIX A: Tariff Calculation for Thermal Energy Project	228-230
APPENDIX B: Project Financial Details	231-232
APPENDIX C: Fuzzy Synthetic Method for Criteria Weighting	233-234
APPENDIX D: Interpretive Logic-Knowledge Base (Ranking of Actors with respect to Process)	235-238
PUBLICATIONS FROM THESIS	239
PROFILE OF RESEARCHER	240

LIST OF TABLES

Table No.	Title	Page No.
Table: 1.1	Energy Mix in the Current Policy (Level 2) Scenario	4
Table 2.1	Energy Security Context worldwide and in the Indian Context	12
Table 2.2	Select List of Literature on Assessment of Causality in Energy Sector	17
Table 2.3	Classification and Summarization of MCDM Methodologies	26
Table 2.4	Paper related to PROMETHEE technique in Energy Sector	27
Table 2.5	List of Widely Listed Papers on COPRAS-G in Energy Sector	28
Table 4.1	Statistics of Time Series Variables	53
Table 4.2	Unit Root Test for Time Series Stationary	57
Table 4.3	Cointegration Test: Mackinnon p -Values	58
Table 4.4	Granger Causality Test	59
Table 4.5	Varsoc of Time Series Variables	61
Table 4.6	Eigen Value Stability Condition	63
Table 4.7	Skewness Test	63
Table 6.1	List of Criteria Selected for PROMETHEE Method	110
Table 6.2	Linguistic Scale of Triangular Fuzzy numbers (TFNs) and their Modulus (YI)	110
Table 6.3	Assignment of Relative Importance to Criteria Vs Criteria	111
Table 6.4	Alternative - Alternative (AA) Matrix, Positive, Negative and Net Flow Calculations	113
Table 6.5	Fuzzy Preference Index of Each Pair of Energy Project Alternatives	113
Table 6.6	Outranking Result from F- PROMETHEE	119
Table 6.7	Outranking Result from Visual PROMETHEE	121
Table 6.8	Categorization of Criteria Significance to the Energy Project Alternatives	122
Table 6.9(a)	Criteria for Comparing Energy Projects using COPRAS-G	126
Table 6.9(b)	Select List of Grey Criteria and Their Description for COPRAS-G Applications	127
Table 6.10	Linguistic Scale of Triangular Fuzzy Number and Their Modulus	129
Table 6.11	COPRAS-G: Decision Matrix 'M' for Assignment of Relative Importance to Criteria Vs Criteria	130
Table 6.12	Pessimistic Scenario of Prioritization of Energy Project Alternatives	132
Table 6.13	Optimistic Scenario of Prioritization of Energy Project Alternatives	132

Table 6.14	Realistic (Interval) Scenario of Prioritization of Energy Project Alternatives	132
Table 7.1	Identification of Various Factors Affecting Check Test	149
Table 7.2	Step I: Formation of Structural Self Interaction Matrix	150
Table 7.3	Step-I: Initial Binary Reachability Matrix	151
Table 7.4(a)	Step-II: Final Reachability Matrix	152
Table 7.4(b)	Step-II: Final Reachability Matrix with Transitivity	153
Table 7.5(a)	Step-III: Level Partitioning Matrix	154
Table 7.5(b)	Step-III: Level Partitioning Matrix	154
Table 7.5(c)	Step-III: Level Partitioning Matrix	154
Table 7.5(d)	Step-III: Level Partitioning Matrix	154
Table 7.6(a)	Matrix Formation for MICMAC Analysis	155
Table 7.7	The Saaty Scale	158
Table 7.8	Various Criteria Affecting the Performance of the Check Test Lab	160
Table 7.9	Various Criteria Affecting the Performance of the Check Test Lab	161
Table 7.10	Comparison Matrix of Criteria	162
Table 7.11	Comparison Matrix: Eigen Values and Consistency Measure	162
Table 7.12	Comparison Matrix of Criteria	163
Table 7.13	Normalized Pair wise Comparison Matrix of Ten Criteria	163
Table 7.14(a)	Pair wise Comparison Matrix of Three Alternative Labs With Respect to Technical capacity of the lab	164
Table 7.14(b)	Pair wise Comparison Matrix of Three Alternative Labs With Respect to Accuracy of lab Equipment	164
Table 7.14(c)	Pair wise Comparison Matrix of Three Alternative Labs With Respect to Compliance with the applicable standards	164
Table 7.14(d)	Pair wise Comparison Matrix of Three Alternative Labs With Respect to Manpower capabilities/Competency	165
Table 7.14(e)	Pair wise Comparison Matrix of Three Alternative Labs With Respect to Accuracy of the Reports	165
Table 7.14(f)	Pair wise Comparison Matrix of Three Alternative Labs With Respect to Time in preparation of the reports	165
Table 7.14(g)	Pair wise Comparison Matrix of Three Alternative Labs With Respect to Waiting time to conduct the test	166
Table 7.14(h)	Pair wise Comparison Matrix of Three Alternative Labs With Respect to Lab maintenance time period	166

Table 7.14(i)	Pair wise Comparison Matrix of Three Alternative Labs With Respect to Space constraint	166
Table 7.14(j)	Pair wise Comparison Matrix of Three Alternative Labs With Respect to NABL accreditation/Recognition in the market	167
Table 7.15	Calculation for selection of the laboratory with the highest score	167
Table 8.1	Framing Critical Questions: SAP Components	179
Table 8.2	Framing Critical Questions: LAP Components (Synthesis)	181
Table 8.5	Interpretive Matrix (Actors over Process)	186
Table 8.6	Binary Matrix (Actors over Process)	187
Table 8.7	Dominating Interaction Matrix (Actors over Process)	187
Table 8.8	Dominance Matrix: Ranking (Actors versus Process)	187
Table 8.9	Cross Interaction Matrix (Action versus Performance)	194
Table 8.10	Binary Matrix (Action versus Performance)	195
Table 8.11	Dominating Interaction Matrix (Action over Performance)	195
Table 8.12	Dominance Matrix: Ranking of Actions	195

LIST OF FIGURES

Figure No.	Title	Page no.
Figure 1.1	Overview of Capacity Addition from Various Sources of Energy Projects	2
Figure 1.2	Renewable Energy Projects Cumulative Achievements by Govt. of India (Sources: Ministry of Power, Govt. of India, 2015)	3
Figure 2.1	Perspective of Energy Security within the Indian Context	14
Figure 2.2	Energy Efficiency Targets for 11 th Five Year Plan	30
Figure 3.1	Research Design Flow Chart	35
Figure 4.1	Causality Testing Framework	54
Figure 5.1	Year Wise Funds Requirement for Investment in the Indian Power Sector	67
Figure 5.2	Funds Requirements Estimated in Various Five Year Plans	67
Figure 5.3	Factors Affecting Call Options Price	76
Figure 5.4	R&M Cost Incurred on Various Energy Projects	80
Figure 5.5	Costs Component as part of Total LCC Estimated (<i>Gas project</i>)	81
Figure 5.6	Costs Component as part of Total LCC Estimated (<i>Hydro project</i>)	81
Figure 5.7	Costs Component as part of Total LCC Estimated (<i>Solar project</i>)	82
Figure 5.8	Costs of Equipment in Thermal Energy Project (<i>Coal Project</i>)	82
Figure 5.9	Costs Component as part of Total LCC Estimated	83
Figure 5.10	Payoff Chart –Black Scholes Model of Coal base Project	85
Figure 5.11	Integrated framework for LCC-RoA Application	86
Figure 6.1	Weights of Various Criteria (in terms of %)	112
Figure 6.2	Fuzzy Flow Measure Vector Values (%)	114
Figure 6.3	Partial Ranking of Energy Projects (PROMETHEE I)	115
Figure 6.4	Complete Ranking of Energy Projects (PROMETHEE II)	116
Figure 6.5	PROMETHEE Diamond	116
Figure 6.6	PROMETHEE Network	117
Figure 6.7	GAIA Spider Web Representation of Energy Project Alternatives -108	118
Figure 6.8	U-V Graph of Project Alternatives Vs Criteria with Decision Axis	118
Figure 6.9	Ranking of Energy Alternatives in Different Scenario of COPRAS-G Analysis	134
Figure7.1	Energy Efficiency Targets Showing in Different Schemes and Initiatives	141

Figure 7.2	Development of Diagraph Showing Factors in Different Levels	156
Figure 8.1	Process of Energy Project Execution, Various Phases and Delay	182
Figure 8.2(a)	Various Cost Components of LCC model of Coal based Energy Project	183
Figure 8.2(b)	Various Cost Components of LCC model of Gas based Energy Project	183
Figure 8.3	Continuum Capacity Additions through Energy Projects	184
Figure 8.4	SAL-LAP framework of Indian Energy Security in the Context of Capacity Addition	193

LIST OF GRAPHS

Graph No.	Graph Name	Page No.
4.1(a)	Variable Trends at First Difference	55
4.1(b)	Cross-Correlation between the Variables at First Difference	56
4.2(a)	ACF of $\log GDP_t$	57
4.2(b)	ACF of $\log EC_t$	57
4.3	The VECM Specifications Imposes Unit Modulus	63

ABBREVIATIONS

ADF	Augmented Dickey Fuller
AERB	Atomic Energy Regulatory Board
AHP	Analytical Hierarchy Process
ANP	Analytical Network Process
BARC	Bhabha Atomic Research Centre
BEE	Bureau of Energy Efficiency
CEA	Central Electricity Authority
CERC	Central Electricity Regulatory Commission
CIM	Cross Interaction Matrix
COPRAS	Complex PRoportional Assessment
COPRAS-G	Grey Set Theory Based COPRAS
CPRI	Central Power Research Institute
CV	Calorific Value
DAE	Department of Atomic Energy, GOI
DCF	Discounted Cash Flow
EATWOS	Efficiency Analysis Technique with Output Satisfying
EE	Energy Efficiency
ELECTRE	ELimination and Choice Expressing Reality
F-AHP	Fuzzy Analytical Hierarchy Process
FDI	Foreign Direct Investment
F-PROMETHEE	Fuzzy PROMTEHEE
F-TISM	Fuzzy TISM
FY	Financial Year
GAIA	Graphical Analysis for Interactive Aid
GDM	Grey Decision Making
GDP	Gross Domestic Product
GHG	Green House Gases
GNP	Gross National Products
GOI	Government of India
GST	Grey System Theory
IEA	International Energy Agency
IEA	International Energy Agency
ISM	Interpretive Structural Modeling
LAP	Learning- Suggested Actions and Performance
LCC	Life Cycle Costing

LCM	Life Cycle Management
MCDM	Multicriteria Decision Making
MNRE	Ministry of New and Renewable Energy, GOI
MoC	Ministry of Coal, GOI
MoP	Ministry of Power, GOI
MoP	Ministry of Coal, GOI
MoPNG	Ministry of Petroleum and Natural Gas, GOI
MTOE	Million Tonnes of Oil Equivalent
MW	Megawatt
NCF	Net Cash Flow
NITI Aayog	National Institution for Transforming India, GOI
NPTI	National Power Training Institute
NPV	Net Present Value
O&M Cost	Operations and Maintenance Cost
OPEC	Organization of Petroleum Exporting Countries
PAT	Perform Achieve and Trade
PEST	Political, Economic, Social and Technological Factors
PP	Phillips Perron
PROMETHEE	Preference Ranking Organization METHod for Enrichment Evaluation
R&M Cost	Renovation and Modernization Cost
SAP	Situation, Actor and Process
SEB	State Electricity Boards
SIM	Self Interaction Matrices
SWOT	Strengths, Weaknesses, Opportunities and Threats
TFN	Triangular Fuzzy Number
TISM	Total Interpretive Structural Modeling
TISM	Total Interpretive Structural Modeling
TISM	Total Interpretive Structural Modeling
UN	United Nations
YoY	Year on Year

TECHNICAL ABBREVIATIONS

AT&C	Aggregate Technical & Commercial Losses
CC	Cooling Capacity
CEC	Comparative Energy Consumption
DC	Designated Consumers
EC	Energy Consumption
EE	Energy Efficiency
EER	Energy Efficiency Ratio (W/W)
EI	Energy Intensity
HVAC	Heating Ventilation & Air Conditioning Systems
J	Joules
kWh	Kilo Watt Hours
L	Litres
MT	Metric Tonnes
MTOE	Million Tonnes of Oil Equivalent
MW	Mega Watt
R&M	Renovation and Modernization
SHR	Station Heat Rate
TR	Tons of Refrigeration
VAR	Vector Auto-Regression
VECM	Vector Error Correction Model
W	Watts

UNIT OF MEASUREMENT

1 Lac	=	100 Thousand
10 Lac	=	1 Million
1 Crore	=	10 Million
100 Crore	=	1 Billion
1000 Crore	=	10 Billion
1 Percent	=	100 Basis Points
1kWh	=	3600 kilojoules