

Electricity (Amendment) Bill - Reviving the Power Sector

Why in news?

\n\n

The Electricity (Amendment) Bill is expected to come up for passage by Parliament in the Winter Session.

\n\n

What is the Bill about?

\n\n

\n

- The Bill proposes changes to the 2003 Electricity Act.

\n

- The changes are intended to increase reliability and reduce risk in the power sector.

\n

- In particular, the problem of failing on power purchase agreements (PPAs) is being taken up.

\n

\n\n

What does it address?

\n\n

\n

- PPA is a contract between the one who generates electricity and one which is looking to purchase it.

\n

- PPAs are sometimes broken or renegotiated by distribution companies (discoms).

\n

- This has led to changes in the cash flow of power plants, rendering them unprofitable.

\n

- In some cases, this has led to investments in generation turning into non-performing assets.

\n

- This is, in turn, contributing to the ongoing bad loans crisis in public sector banks.

\n

\n\n

What are the key changes made?

\n\n

- \n
- The draft amendments suggest penalties for failing to honour PPAs.
- \n
- It prescribes up to Rs 10 million a day, and the suspension or even cancellation of a licence.
- \n
- It is also proposed that cross subsidisation of power be phased out.
- \n
- Cross-subsidisation refers to discoms charging higher prices from certain users to make up for under-charging others.
- \n
- E.g. cross subsidies of household consumers by industrial purchasers of power
- \n

\n\n

What is the rationale?

\n\n

- \n
- In India, consumers are not often charged the amount that their power actually costs.
- \n
- Given this, the interventions in favour of generation or distribution companies always end up at greater cost down the line.
- \n
- Even the UDAY scheme is no exception to this rule.
- \n
- But addressing this is more a political call and hence the problems in the power sector are primarily political.
- \n
- So making pricing system fairer, more rational, and more predictable is crucial to develop a sustainable power sector.
- \n
- Essentially, the idea behind the Bill is that ending cross subsidies would rationalise power consumption and pricing.

\n

- It will force an increase in the tariffs that are charged to lower-end households and to farmers.

\n

\n\n

What lies ahead?

\n\n

\n

- Certainly, there is no substitute for the political resolve to rationalise tariffs.
- Yet there are other alternatives for medium-term stability which though depend on sustainable pricing in the long run.
- The Rural Electrification Corporation that depends on lending to the power sector is not so much at risk.
- This is because they benefit from an escrow structure in which they are assured of access to their borrowers' revenue.
- Something similar might have to be worked out by the Reserve Bank of India for the generation companies.
- This is essential if the power sector is to revive in spite of the discoms' ill health.

\n

\n\n

\n\n

Source: Business Standard

\n

