Electricity (Amendment) Bill - Reviving the Power Sector

Why in news?

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

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What is the Bill about?

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- The Bill proposes changes to the 2003 Electricity Act.
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- The changes are intended to increase reliability and reduce risk in the power sector.
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- In particular, the problem of failing on power purchase agreements (PPAs) is being taken up.
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What does it address?

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- PPA is a contract between the one who generates electricity and one which is looking to purchase it.
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- PPAs are sometimes broken or renegotiated by distribution companies (discoms).
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- This has led to changes in the cash flow of power plants, rendering them unprofitable.
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- In some cases, this has led to investments in generation turning into non-performing assets.
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- This is, in turn, contributing to the ongoing bad loans crisis in public sector banks.
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What are the key changes made?

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

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

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

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What lies ahead?

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- Certainly, there is no substitute for the political resolve to rationalise tariffs.

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- Yet there are other alternatives for medium-term stability which though depend on sustainable pricing in the long run.

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- The Rural Electrification Corporation that depends on lending to the power sector is not so much at risk.

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- This is because they benefit from an escrow structure in which they are assured of access to their borrowers' revenue.

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- Something similar might have to be worked out by the Reserve Bank of India for the generation companies.

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- This is essential if the power sector is to revive in spite of the discoms' ill health.

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Source: Business Standard

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