Reforming Electricity Sector

Why in news?

The Centre's proposal for reform of power tariff policy is of a piece with the recent proposal to amend the Electricity Act 2003.

What does this proposal mean?

- This proposal was announced as part of the stimulus package following the pandemic.
- Put together, they erode the concurrent status accorded to electricity in the Constitution.
- If implemented, they will weaken the control of States over an industry supplying a basic human necessity such as electricity,
- If implemented, the Centre may choke distribution companies (DISCOM) and jeopardise the country's energy security.

What are the DISCOM troubles?

- These proposals have to be seen in the context of a continuing centralisation of control over the sector.
- The main impact of the centralisation in the last 25 years has been to **drive up the cost of power purchase** to 80% of the total costs of State DISCOMs.
- At the core of DISCOM woes is the **two-part tariff policy**, mandated by the Ministry of Power in the 1990s at the command of the World Bank.
- As more private developers came forward to invest in generation, DISCOMs were required to sign long-term power purchase agreements (PPA).
- The PPAs will have commitments to pay a fixed cost to the power generator, irrespective of whether the State draws the power or not, and a variable charge for fuel when it does.

What were the estimates?

- The PPAs signed by DISCOMs were based on projection of power demand estimated by the Central Electricity Authority (CEA), a central agency.
- The 18th Electric Power Survey (EPS) overestimated peak electricity demand for 2019-2020 by 70 GW.
- The 19th EPS published in 2017, by 25 GW, both pre-Covid 19.
- In the event, DISCOMs locked into long-term contracts end up servicing

perpetual fixed costs for power not drawn.

- NTPC Limited's Kudgi (Karnataka) alone received Rs. 4,800 crore as idle fixed costs during 2018-19, operating at a plant load factor of only 22%.
- Due to the CEA's overestimates, the all-India plant load factor of coal power plants is at an abysmal 56% even before COVID-19.

What is the factor of renewable energy?

- **Must run** - From 2010, solar and wind power plants were declared as "must-run".
- This required DISCOMs to absorb all renewable power as long as there was sun or wind, in excess of mandatory renewable purchase obligations.
- This means backing down thermal generation to accommodate all available green power, entailing further idle fixed costs payable on account of two-part tariff PPAs.
- **Power demand peaks** - In the absence of viable storage, every megawatt of renewable power requires twice as much spinning reserves to keep lights on after sunset.
- DISCOMs have had to integrate large volumes of infirm power, mostly from solar and wind energy plants.
- These plants enjoy must-run status irrespective of their high tariffs even as the demand growth envisaged in the 18th EPS failed to materialise.
- **Renewable energy target** - In 2015, the Centre announced an ambitious target of 175 gigawatts of renewable power by 2022.
- It offered a slew of concessions to renewable energy developers, and aggravating the burden of DISCOMs.

What are the proposals in the Electricity Bill 2020?

- **Sub-franchisees** - The amendment proposes sub-franchisees, presumably private, in an attempt to usher in markets through the back door.
- Going by past privatisation experiments, private sub-franchisees may cherry-pick the more profitable segments of the DISCOM's jurisdiction.
- The Bill 2020 is silent on whether a private sub-franchisee would be required to buy the expensive power from the DISCOM or procure cheaper power directly from power exchanges.
- If it is the first, the gains from the move are doubtful since the room for efficiency improvements is rather restricted in the already profitable regions attractive to sub-franchisees.
- If it is the second, DISCOMs will then be saddled with costly power purchase from locked-in PPAs and fewer profitable areas from which to recover it.
- **Renewable power developers** - The amendment proposes even greater concessions to renewable power developers impacting the viability of

DISCOMs even more.

- **Eliminating Cross-subsidies** - The amendment seeks to eliminate the cross-subsidies in retail power tariff.
- This means each consumer category would be charged what it costs to service that category.
- Rural consumers requiring long lines and numerous step-down transformers and the attendant higher line losses will pay the steepest tariffs.
- The proposed amendments envisage that State governments will directly subsidise whichever category they want to, through direct benefit transfers (DBT).
- There is a case for reducing the steep cross-subsidies in electricity.
- But eliminating them, when State governments are already struggling with direct power subsidies is bound to be ruinous to their finances.
- **Appointments** - State regulators will henceforth be appointed by a central selection committee.
- The composition of this committee jeopardises the regulatory autonomy and independence and also the concurrent status of the electricity sector.
- **Centralised Authority** - The establishment of a centralised Electricity Contract Enforcement Authority is a prolem.
- Its members and chairman will again be selected by the same selection committee referred to above.
- The power to adjudicate upon disputes relating to contracts will be taken away from State Electricity Regulatory Commissions and vested in this new authority, apparently to protect the sanctity of contracts.
- The States will be saddled with high-priced PPAs and idling fixed costshave no room for manoeuvre.
- The Electricity Bill 2020 will shift the burden imposed by the policies of the Centre onto the States, with serious consequences for the nation’s energy security.

Source: The Hindu