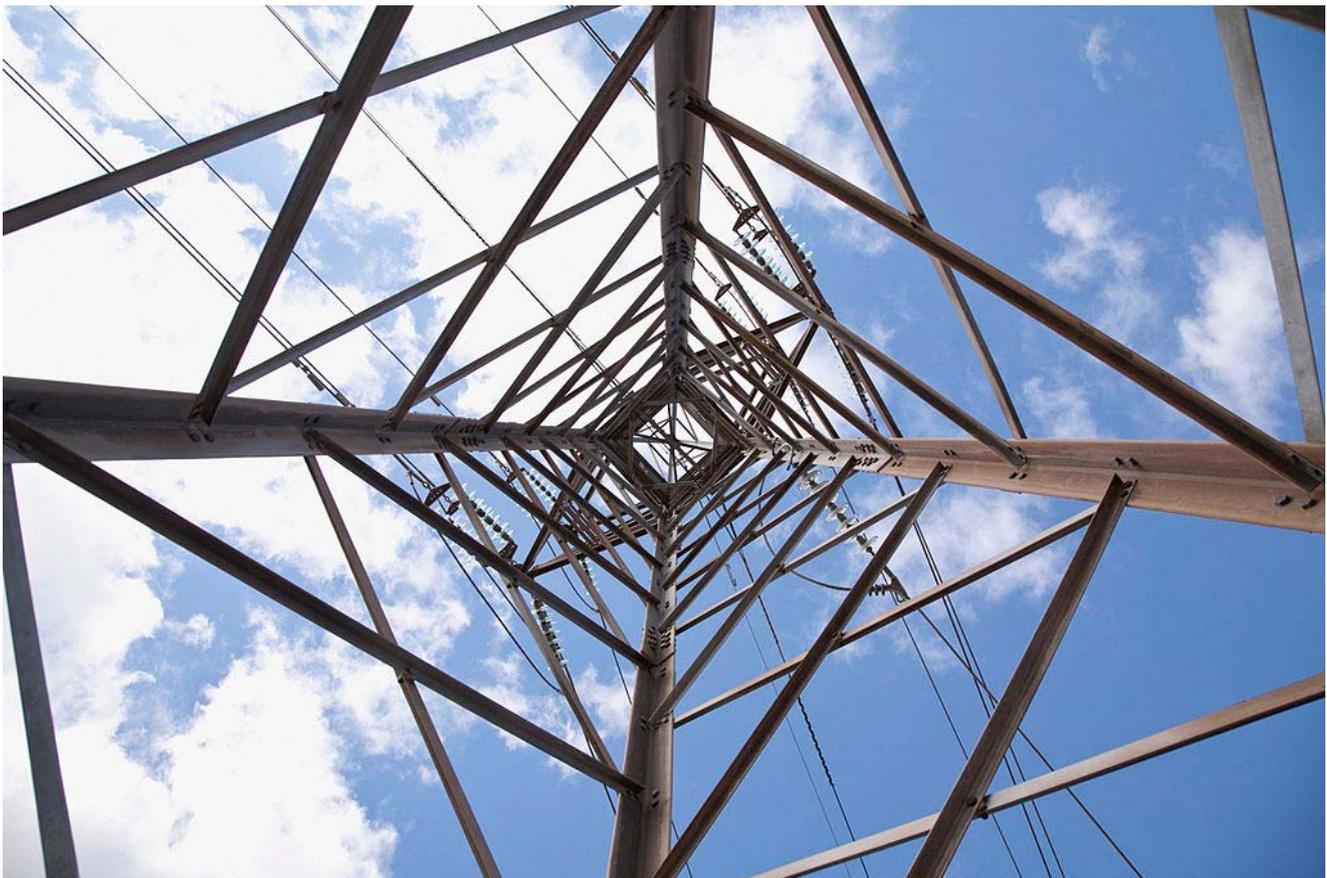


What plagues the Open Access market in power sector

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The power sector in India has undergone a plethora of reforms in the last decade. Introduction of competition has been one of the main aims of reform in the electricity sector in India. One of the most important steps taken towards achieving this was the introduction of open access in the Electricity Act, 2003, where large consumers have access to the transmission and distribution (T&D) network to obtain electricity from suppliers other than the local electricity distribution company (discom). The objective of open access was to provide opportunity to energy intensive industry and commercial establishments to source electricity directly from the market and manage costs to remain competitive. Open Access was to also improve the economic health of the Distribution Licensees by reducing power procurement at higher marginal cost so that the non-open access retail consumers of the Distribution Licensees would not get unduly burdened. Unfortunately, open access has not been so successful despite numerous steps to facilitate it.

It is very important to learn the lessons and make regulations conducive to creating win-win situation for both industry and Discoms. In win-lose game, any reform is not likely to be sustainable.

One of the challenges plaguing the open access market is that with prices of power plunging downward, the discoms lost the advantage of avoiding costly marginal power purchase. At the same time subsidised supply tariff did not catch up as envisaged leaving revenue gaps thus necessitating high cross subsidy charges. Further, there is always uncertainty about the future cross subsidy charges. There is an urgent need to rationalise tariffs as envisaged by tariff policy. This will pave the way for expanding this market without hurting the health of the discom.

Most recently, there has been another challenge that is creating problems for discoms. Large consumers in some states are frequently switching between the market and discom's regulated tariffs even on daily basis as power procurement on exchange has been enabled for open access consumers by allowing consumers to maintain their contract demand which is not reflective of fixed cost. Discoms have not been able to reduce their power purchase due to this frequent switching. Either the contract demand charges shall be made commensurate with fixed cost or discoms shall be allowed to lower the contract demand as per OA asked for at least three months or more. If not corrected, it will create volatility in the load which is to be served by the discom, thereby making power procurement planning difficult for them. It can even lead to stranded generation capacity.

The open access consumers tend to purchase only round-the-clock power on OA but continue to source expensive peak power component from the Discoms. This in fact makes Discom purchase power at higher marginal cost rather than reduce expensive marginal power procurement. It is contrary to what was envisaged. There is a need that Discoms do not have to pass this burden to other consumers. There is hence a need to rationalise different tariff-based TOD.

It will be prudent to consider some critical aspects which may help in ensuring balance between open access and regulated customers. In this regard, one way is separation of wires and supply which would create multiple choices for contestable consumers. The various suppliers can declare their rates on ToD/ time block basis and open access consumers can switch suppliers accordingly. Under such a scenario, the subsidy to low end categories of consumers would need to be directed and operationalized through the mechanism of collection of taxes and duties on consumption or assigning cheaper generators to the non-contestable consumers.

Multiple supply options could also be institutionalized by creating a platform for supply of power on open access wherein, even Discoms could participate as suppliers for open access consumers. In a way, this mechanism would ensure separation of wire and contents, possible under the present Act itself for open access consumers.

The Government of India's "Power for All" scheme promises continuous and uninterrupted power to all households and industries by March 2019. This means that India is about to face substantial increase in energy demand in the next few years, which will translate into higher demand for electricity. The availability of continuous power helps in sustaining economic activities and generating employment opportunities

for local people that lead to better income generation. It is imperative for the government to reassess its approach and work in synergy with the state governments to ensure that the objectives of open access are met.