

View: It is the time for more reforms in the Indian power sector

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India is the world's third-largest consumer of electricity and a power-surplus nation with an installed generating capacity of 390 GW. With an ambitious target of providing 24x7 electricity to all households by 2022, India's power sector has witnessed remarkable successes - providing connections to about 3 crore consumers under the Pradhan Mantri Sahaj Bijli Har Ghar Yojana (Saubhagya), promoting energy-efficient LED (light-emitting diode) lighting across households, and expanding cleaner sources of energy in the country's overall energy mix.

India has emerged as a leader in renewable energy (RE), crossing 100 GW of installed RE generation capacity recently, launching the International Solar Alliance (ISA), and promoting the concept of a transnational grid through the 'One Sun, One World, One Grid' (OSOWOG) initiative. At the recent COP26 climate summit in Glasgow, India set itself an ambitious target of installing 500 GW of non-fossil fuel capacity by 2030. Despite these noticeable successes, however, one big challenge in the power sector remains unresolved, which, if left unaddressed, could derail the sector's reform process and wipe out the gains made with sustained efforts by GoI in the last few years.

India will need an efficient energy chain, power delivery and a regulatory regime that can ensure an adequate flow of investments as well as returns for investors. Bottlenecks, if any, need to be removed through sectoral reforms. The weakest link in this chain today is electricity distribution. This remains financially ailing and inefficient. Power tariffs often do not reflect costs. Transmission loss at 22% is three times the global average, and mounting losses of distribution companies (discoms) to the tune of ₹90,000 crore are some of the biggest woes. These result in a cascading effect on the power sector down the line.

According to the Payment Ratification and Analysis in Power procurement for bringing Transparency in Invoicing of generators (PRAAPTI) portal, as of October 2021, distribution companies owe ₹1,16,127 crore to power-generating companies for both conventional energy and RE. It is important to resolve this drag and the proposed Electricity (Amendment) Bill (EAB) 2021 that is listed for this winter session of Parliament. The Bill proposes for the delicensing of the distribution sector, thus promoting competition and providing choice to consumers as in the case of telecom service providers. It also proposes other measures to bring transparency and accountability in the power sector.

For instance, a key provision in the EAB is the introduction of direct benefit transfer (DBT) to consumers in place of subsidies being paid to the discoms in lieu of subsidised power supply. The subsidy component in India's electricity transmission and distribution is estimated to be ₹1.3 lakh crore, and DBT will make distribution cash flows healthier. The EAB also proposes restrictions on cross-subsidy across various consumer categories to a maximum of 20% of the cost of supply. It, thereby, limits the aggregate technical and commercial (AT&C) losses to be accounted for in tariff determination with a cap of 15%. The Bill further aims to strengthen the appellate tribunal for electricity to ensure speedy and timely resolution of commercial and tariff-related disputes so that the payments to discoms do not get stuck.

Power sector reforms had started off with generation, allowing a larger play to private players. Distribution reforms as proposed in the EAB can now bring benefits like choice and competitive pricing for the consumer. Take rooftop solar. Despite all its inherent benefits, rooftop solar segment has shown relatively slow progress. It needs state-level support and rationalisation of cross-subsidy in tariff, especially in the consumer segment. Delicensing can be a win-win for both consumer and commercial establishments.

The industry has been advocating one more reform measure for some time - bringing the power sector under the goods and services tax (GST). While a consensus seems to be building up that this move will not only help reduce the cost of power but also result in huge savings for consumers in terms of lower tariffs, the idea has not moved beyond the discussions stage.

A bunch of reform measures in the shape of the EAB is ready for legislation, and will go a long way to make India's power sector as competitive as some of the developed nations. Many vital national missions like Aatmanirbhar Bharat will also be served better if we can make power more affordable, especially for commercial and industrial (C&I) consumers. The EAB can be transformational. Its languishing for months has affected investors' confidence, impacting the sector's reforms. It is the time for action.

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