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Ease trad ing of power

By: **SL Rao** | **April 27, 2015**

India has developed infrastructure (railways, power, water, telecommunications, coal, oil & gas, etc) under state ownership and control. We have, with state ownership, control and management, inculcated in the public mind that infrastructure services are a right. It is expected that they would be made available to all, for below-cost charges, or even for free. In this process, governments have lost enormous sums, and have reached a stage when they do not have resources to maintain, renovate and expand the infrastructure for these services to be universally available. Railway passenger fares are kept low while the goods traffic pays more, resulting in a terrible financial condition for the Railways, with the government having to provide funds. Electricity undertakings have accumulated huge losses. Their unserviced borrowings have made balance sheets of nationalised banks unhealthy. State-owned telecom enterprises (BSNL, MTNL and ITI) are either sick or in a terminal decline. Nationalised coal mining, thus far, has had no competition and shows healthy profits by exploiting buyers. The short point is that government operations have proven to be inefficient, technologically-backward, unreliable on supply commitments, with the added burden of poor quality.

All infrastructure services require huge investments. In some cases, they become natural monopolies. Practically, no investor can even try to set up additional transmission lines (for electricity, oil or gas) between the same destinations as the existing government-owned operators influence policies and prevent entry.

In electricity, state ownership and control, biased and thoughtless regulation by the government, and statutory regulators and short-sighted political decisions have made the entire energy sector inefficient and unreliable, and have put huge burdens on nationalised banks that lent to power projects. The arrogance of monopoly and size makes state-owned operators even harass and impose their views on friendly and potentially major energy-supplying neighbours such as Bhutan and Nepal.

No one today wants to significantly add to the national electricity generation capacity. It is a sure way to lose even the invested capital. All providers are under mounting pressure to hold on to existing tariffs, irrespective of the costs. Rising payment dues, primarily from state-owned distribution enterprises, make business operations challenging for generators. Add to that the pressure from populist politics—the latest example is Delhi chief minister Arvind Kejriwal's promise to distribute the regulatory assets of discoms to consumers. These amount to around R30,000 crore and are due to the discoms. These are regulator-approved expenditures that are not allowed to be passed on through tariff hikes.

It is the property of the private distribution companies. Their appropriation by the government for distribution to consumers would be outright theft.

State governments have tied up so much capital and lost so much money in electricity that they are in no position to invest in new plants and are even unable to maintain and renovate their existing ones. The sour experience with Enron has scared private foreign investors against investing in electricity in India. The Enron episode had a mixed bag of players: a devious investor (Enron), a corrupt state government (Maharashtra), and a confused central government intent on getting foreign investment at any cost into electricity. The ultimate result was that the Indian government now owns an unviable asset, bears huge losses, is unable to operate the plant at full load, and can find no one to take it over.

State government liabilities, too, are huge. Losses are mounting each year and are funded by from the states' budgets, adversely affecting all other expenditure. The Centre has had two schemes to advance funds to states towards these losses, provided they take steps to stem the bleeding in the future. As a result, even though the Centre gave the funds, losses continued as state governments took none of the required actions to reform their power sector. Losses from electricity in states are due to selling below-cost, gross indiscipline, inefficiencies in generation and distribution, large-scale power theft, excessive expenditure, and zero accountability.

There are many changes that are essential for the power sector to regain health. Ideally, governments should move out of distribution altogether and the whole sector should be under truly independent regulation. Governments must also be penalised for interference or not performing their duties. All these demand many changes to the existing Electricity Act—more than what is provided for in the amendments that are now out for public feedback.

The feeble attempts to reduce electricity shortages through trading have been hindered by inadequate transmission investments by the dominant state undertaking, the Power Grid Corporation, and the reluctance of private investors to invest in a big way in transmission. Hence the sad situation, where surplus power is unused in eastern India and transmission bottlenecks prevent its use in the power-hungry southern states. This demands that transmission be opened up to private investment and the same treatment, as available to the Power Grid Corporation, on thorny issues such as forest clearance, land acquisition, etc, be accorded to the private investor.

Trading has, despite bottlenecks, brought power prices down and improved availability. But much more investment is required in transmission and distribution. Carriage and content have to be separated. This is an important feature in the proposed amendments. The carrier space is prone to natural monopolising and must be tightly regulated for tariff, non-discriminatory access, etc. There must be many suppliers competing for customers. The load dispatch function, at all levels, must be a not-for-profit neutral function, owned by all stakeholders and managed independently. Open access—free trading between consumers and suppliers located anywhere—must be made easy and be subject only to transmission capacities. The trading of power, especially for short-term purposes, must be freely allowed on the Exchange. Even long-term trading can be brought on to the Exchange. Users should be able to sell any surplus in their long-term purchases via the Exchange. This could also apply to committed transmission capacities of which some turn out to be surplus to requirements. Of course, the regulator should be alert to prevent gaming and misuse. The Exchange should also be used for trading in coal, especially imported coal. Renewable energy certificates could be used to balance renewable energy obligations. With a properly functioning market that is transparently run with tight regulation, trading could transform the supply-demand equilibrium for energy.

The amendments to the Electricity Act must also make the selection and remuneration of regulators more transparent and competitive. Governments should not be allowed to interfere in regulatory decisions. Regulators who do not enforce the law must be pulled up. The provision to reserve payment to discoms through regulatory assets should be abolished. Cross-subsidies also should be ended. Any subsidy must be promptly reimbursed by governments. Better still, the subsidy could be directly transferred to identified beneficiaries. Regulators must be made accountable and come under the supervision of the high courts or appellate tribunals.

The amendments must also lay down penalties for government departments and officials who do not implement their commitments on time—for example, for ultra mega power projects or public-private partnership projects. Power is only one sector—similar exercises could be usefully done for other infrastructure sector as well.

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