

CAN THE NEW ELECTRICITY POLICY REJUVENATE THE AILING POWER SECTOR?

Almost after two years of the passing of Electricity Act 2003, the government of India released a new National Electricity Policy in 2005. While the purpose was to adopt policy measures in line with the requirements of the new Electricity Act, the new policy is also expected to lift the power sector in the country as a whole in the coming years. Policy framework for corporatising the power sector is, thus, in place and the stage is set to welcome the private players in this crucial sector. But, whether this policy be able to revolutionise the power sector, as was experienced in case of Telecommunication sector in the country, remains to be seen.

ONE of the stumbling blocks to the road of rapid industrialisation in India is the yawning gap between the demand and availability of electricity in the country. Even in highly developed States like Maharashtra, availability of power is a serious problem. Industries in most parts of the country have to shut down during the peak demand hours. As against the total installed capacity of 1,00,000 MW of electricity, the peak load demand is as high as 1,75,000 MW, as per one estimate.

In addition, almost 44 per cent of the total households, mostly rural, in the country are without a domestic electricity connection. In absolute terms, this translates into almost 500 million people without access to electricity. Even in the places where the electrical connections are there, electricity is supplied for less than 12 hours a day and the quality of supply is very poor. The problems of low voltage, prolonged faults and lack of adherence to the safety are faced by the domestic consumers in most parts of the country.

The losses in this sector are very high. In most of the States, the Transmission and Distribution losses are more than 25 per cent. In addition, there are very high commercial losses, as either the supply is not properly metered or the metered supply is either not billed or such bills are not paid by the consumers. Then, there is the political menace of using the carrot of free supply in agriculture sector to attract rural votes.

Till recently, the power sector in India had been a State-owned monopoly. Under the system that prevailed after independence, the growth of demand for power has been outstripping the growth of availability. There have been inadequacies in generation, transmission and distribution. The ailments of public sector had got entrenched in this sector deeply and the evils like overstaffing, functional

inefficiencies, lack of accountability, political and bureaucratic interference, cross subsidisation, lack of commercial approach and poor financial management had become prominent.

In 2001, the Union government required all the State governments to set up the Electricity Regulatory Commissions to determine the electricity tariffs for all categories of consumers, including the domestic, commercial, agricultural and industrial users. In addition, the government of India also entered into memoranda of understanding with many SEBs, for accelerating the power sector reforms and to achieve the parameters of improvements in quality of supply, strengthening of the existing infrastructure, energy auditing, reducing of the T&D losses to the prescribed levels and to come out of red in a specified period of time.

Almost at the same time, the Union Ministry of Power contemplated to create a legislative framework to segregate the three basic functions of the SEBs—generation, transmission and distribution—and corporatise the SEBs after that. The aim was to create three distinct profit centres and make each profit centre productive. It was also thought appropriate to encourage private capital in generation and distribution of electricity. It was under this background that the Electricity Act 2003 was enacted and made applicable with effect from June 10, 2003. The new National Electricity Policy has been framed under the said Act.

Pragmatic Features

NATIONAL Electricity Policy has certain forward-looking provisions. The aims of this policy is to improve efficiency in the power sector of the country; to make electricity available to all the households in next five years; make power available on demand by the year 2012; increase per capita availability of electricity to over 1000 units by the year 2012; ensure financial turnaround and commercial viability of power sector, and protect the interests of the consumers. The Policy recognises electricity as an essential requirement in all facets of our life. It is also recognised that quality supply of electricity is very crucial to sustained growth of industries and its global competitiveness.

In the field of generation, the Policy aims at achieving the need-based capacity addition of 1,00,000 MW during the period 2002-12. In creating the new generation capacities,

appropriate technology would be considered in association with the private sector. 50,000 MW hydro initiative has already been launched and if the newly planned capacities in hydro-power were created as per the targets, it would add a clean, renewable and clean source of energy and would also restore the thermal-hydro balance. In the thermal sector, efforts would be made to utilise huge reserves of lignite in the States of Tamil Nadu, Rajasthan and Gujarat. Possibilities would also be explored to encourage the use of gas as a fuel for generation of electricity.

The Policy also lays emphasis on nuclear power and non-conventional energy sources. It recognises the need to create additional nuclear power generation capacities in the public sector, as well as in public-private partnership. Non-conventional energy sources, like small hydro, wind and bio-mass, are also to be exploited. In line with the provisions in the Electricity Policy 2003, the Policy also underlines the importance and need for allowing captive generation. It also seeks to strengthen the Transmission system in the country. To match the new creation of capacities in generation, the Policy lays down that special mechanism would be created to encourage private investment in transmission sector also, so that the power generated is easily handled and evacuated.

Special emphasis has been laid on Distribution. Existing commercial losses and thefts in distribution of electricity are to be checked by adopting effective measures. Healthy competition in distribution of electricity is to be generated by encouraging the private sector to take up this important activity. The regulatory framework at the national level, as well as the regulatory commissions created in all the States, would ensure efficiency in distribution, healthy competition and reduction in system losses.

The new Policy is against the current system of cross-subsidisation of electricity tariff and proposes to have a transparent and targeted system of providing the subsidies in the power sector. Optimum use of IT tools in consumer services, trading of electricity, plugging the T&D losses, commercial operations, etc. is envisaged. Energy conservation is yet another area targeted. Demand side management and energy audit are two important means outlined by the Policy to conserve the precious energy. Environment issues have also been tackled. Training and HRD among the employees in the power sector have been identified as two important aspects which need constant attention of the power utilities. Finally, the need to protect the interests of the consumers and to maintain quality standards has been emphasised.

Prospects

CLOSE on the heels of the new Electricity Policy, the government of India also launched a new scheme of rural electrification to ensure that the left out households get electricity connection by the targeted date in the Policy. Power Minister P.M. Sayeed maintains that the Policy has taken care of all the concerns, including providing electricity to the weaker sections. He also said that the Policy had been

prepared after consulting the State governments, Left parties and other stakeholders.

The Minister is also confident that the country would be able to manage the required colossal investment of Rs 9 lakh crore in this important sector.

However, the power sector scenario in the country remains hazy. Many States like Maharashtra, Punjab, Tamil Nadu, West Bengal and Himachal Pradesh are yet to segregate three core activities of Generation, Transmission and Distribution and the State Electricity Boards are still continuing as such in at least eight States. As per the provisions in the Act, these States are seeking extension from the Union government to continue in their existing form. Even in the States like Orissa, Haryana, Delhi and Andhra Pradesh, where the said three functions were segregated, the results have not been very encouraging. The tariff rates have gone up and the amount of subsidy to be dished out by the government has also increased. Losses have not come down as expected and the efficiency levels of the newly formed utilities have not gone up appreciably.

The State-owned utilities have to continue undertaking the social responsibility of providing electricity in the difficult segments and lay the infrastructure like low-tension lines, as well as high-tension lines. As a result, most of the efforts may continue to come from the State-owned utilities in the decades to come, as the private sector would come with the primary aim of making profit for themselves, rather than having a true service provider's attitude.

More than any other sector, the Power sector needs to be reformed in the country. The corporatisation of the telecommunication sector in India has been a success story in India and the process of reforms unleashed in this sector began to yield results in almost a decade.

The task is Herculean and the problems are many. There is need on part of the government to stick to its guns and undo all the pressure from the trade unions, Left parties and other interested groups to delay the power sector reforms. It is already very late. If the country is to emerge as a major economic power on the globe, the power sector has to reform itself to enable the country to have an edge over others.

Current Affairs & Backgrounders

*Comprehensive Notes on Current Affairs with
Exhaustive Backgrounders*

2005 Edition
(Revised & Updated)

A Prestigious Publication of:

KHANNA BROTHERS (Publishers)

126, Industrial Area—I, CHANDIGARH