The 'business as usual' hurting Indian power sector

India aspires to achieve double digit economic growth in order to lift vast sections of its population out of poverty while at the same time creating a modern, diversified industrial and services base. One of the most formidable challenges it faces is that of an infrastructure deficit.

Sporadic and confused legislative and administrative changes have ensured that far from adequate investments are being made in the power sector in India. This lack of legislative and administrative clarity had led to a rapidly growing deficit in India's ever-increasing demands for energy (especially that for electricity), thus seriously hampering the long-term growth of the economy.

The installed capacity of power in India today is in the range of 1,45,000 megawatt (MW), servicing a population of around 1.2 billion. Compare that with China where the installed capacity is 8,00,000 MW for a similar population base. And this is when the installed capacities in both countries was 1,400 MW in 1947-48!

Radical changes came about with the Electricity Act of 2003. The Act provisioned for 'non-discriminatory open access' for generating companies and for different licensees in transmission/distribution/trading and also pushed for the creation of a power market through traders, market-makers and power exchanges. In addition, the Act also provided consumers with a choice: they could choose between various suppliers of electricity.

Open access

While the Act envisages opening up of the power sector by way of light regulation, to date not a single open access has been granted under section 42(2).

Over-regulation has resulted in delays, while unimaginative market design, capping price of power, ineffective enforcement, lack of skilled manpower and a host of other problems have made regulatory uncertainty a new risk.

The Act mandated that the State Electricity Regulatory Commissions (SERCs) introduce 'open access' latest by January 2009. However, very few SERCs have taken this mandate seriously and a review suggests that they are far from ready.

The Act does not clearly define how the command control structure of the power sector is going to be open to free market principles, allowing new non-government players to freely participate in a market driven by competition from a certain date.

The transition from a command structure to a market structure remains a serious issue. Who will drive this change, when, and to what extent? This transition is being further compromised by the fact that many states do not have regulatory commissions and neither have they unbundled their electricity utilities. Contrary to the mandate of the Act, no serious attempt is being made to make systems transparent and accountable as a result of which they are incurring large transmission and distribution losses.

States need to understand that continuing to run an electricity utility in a 'business as usual' mode results in annual losses running into thousands of crores of rupees. Furthermore, the lack of

transparency and accountability results in a dwindling flow of investment into the infrastructure sector, thereby completely bankrupting the weakened power sector.

The Act has remained largely on paper. Its mandate has been thwarted, curtailed and suppressed for political and bureaucratic considerations. Consumer choice is a distant dream; open access for consumers has not really taken off. The privatisation of distribution companies is on hold and the creation of a deep debt, equity and a power market is at a nascent state.

India does not have a long-term fuel policy for its energy security. Existing coal mining capacity has reached a saturation point due to a number of reasons: high ash content, lack of investment, etc.

Gas finds

The country has not really had very large gas discoveries for many years except recent finds from the Krishna-Godavari (KG) basin, which have already been allocated by the government even before the flow of gas has started. On the west coast of India, other than the already discovered and saturated sources of gas, the merchant LNG terminal is importing gas at spot rates which makes long-term planning for power projects difficult due to the volatility in fuel pricing.

The most promising way forward for the country is nuclear power. India must follow France's footsteps and add about 300–400 GW of nuclear capacity if it is to see sustainable prosperity. This will reduce, and possibly eliminate, India's dependence on fossil fuel and reduce its carbon footprint. The signing of the necessary agreements with France and the US has paved the way for the addition of huge capacities in nuclear power on an emergency basis.

If the state is successful in generating a substantial amount of nuclear power, with the cost of production not exceeding 50-60 paise, the government will be in a position to subsidise all major activities of the economy, such as agriculture and mineral-based industries, by giving them free power and charging taxes on their value-added goods.

Keeping in mind the magnitude of our emergent requirements to create a robust and sustainable economy, we need to implement reforms right now rather than wait to be rudely jolted out of our complacency.