

Plenary Session: Retail Competition – Framework and Regulations

Perspectives on Policy and Regulatory Framework

Presented by

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- Electricity Act, 2003 (EA 2003) Preamble: *An Act to consolidate the laws relating to generation, transmission, distribution, trading and use of electricity and generally for taking measures conducive to development of electricity industry, **promoting competition therein***
- Distribution companies manage businesses of two different natures:
 - Carriage / **Distribution business**
 - Content / **Retail supply business**
- **Open access is the principal method of competition in India.** Act recognizes Transmission and Distribution as two distinct activities and provides for multiple distribution licensees in the same area of supply. However, it did not provide for separate licenses for distribution and for supply
- **Issues** due to which open access has not taken off successfully in the Distribution sector:
 - Tariff Structures – high in-built cross-subsidies
 - Sub-optimal allocation of costs and losses between wheeling and retail supply functions due to lack of voltage wise data on cost and distribution losses
 - Possibility of existing distribution licensees losing their high-paying consumers
 - Lack of genuine choice - only large players can avail open access

Phase 1

Functional separation

Timeline: 1-2 yrs

Segregation of current discoms into distribution and retail supply companies

Activities: roles and responsibilities definition, allocation of financial losses, transfer of existing PPAs, standards of performance, USO, tariff determination mechanism, balance sheet segregation, HR planning

Phase 2

Preparation for competition

Timeline: 2-3 yrs post completion of Phase 1

Creation of conducive market for retail supply competition

Activities: allocation of AT&C losses, reduction of cross-subsidies, up-gradation of metering, consumer database etc

Phase 3

Onset of competition

Post completion of Phase 2, new retail supply companies would be given licenses

Activities: allocation of existing PPAs, consumer switching mechanism, procurement of new PPAs, balancing and settlement, tariff determination, provider of last resort

- Electricity distribution proposed to be a **delicensed activity**; allows two or more DISCOMs registered with SERC to supply electricity in designated area of supply either using its own distribution system or by using the distribution system of another DISCOM
- Key amendments proposed:
 - Addition – 24 A(1)- **Distribution Company**: Any company which fulfills the prescribed qualifications and has registered itself with the Appropriate Commission may supply electricity to consumers in its area of supply either using its own distribution system or using the distribution system of another distribution company
 - Deletion – Section 14(b) of EA 2003 (Grant of Licensee)

Proposed amendments aim to:

- Provide **choice** to customers to select supplier
- Allow entry of new players and bring **competition** in electricity distribution
- Improve **efficiency**, reduce costs and provide better services
- Drive innovation in service and bring **customer centricity** in utility operation

Scheme outlay : Rs 3,03,758 Crore

Time-period : 5 years, FY 2021-22 to FY 2025-26

Government Budgetary Support : Rs 97,631 Crore

Scheme Objectives

- ❖ Reduction of AT&C losses to pan-India levels of 12-15% by 2024-25
- ❖ Reduction of ACS-ARR gap to zero by 2024-25
- ❖ Improvement in the quality, reliability and affordability of power supply to consumers through a financially sustainable and operationally efficient distribution sector

Part A

Financial support for Prepaid Smart Metering & System Metering and up-gradation of the Distribution Infrastructure

- ❖ Conditional Financing Assistance
- ❖ Solarization of agricultural feeders
- ❖ Smart metering
- ❖ Leveraging technology

Part B

Training & Capacity Building and other Enabling & Supporting Activities

- ❖ Upscaling of smart grid knowledge centers into research incubation hubs
- ❖ Training and capacity building of professionals
- ❖ Support to novel business processes
- ❖ R&D into new technologies like AI
- ❖ Establishment of awards and incentives

Structural Reforms

Regulatory Reforms

Operational Reforms

RE Integration Reforms

Managerial Reforms

- Competition in distribution/supply is an important economic choice that needs to be carefully exercised
- Timing may be right in terms of supply availability, more acceptable T&D loss levels, etc. and the general move to get away from over-regulated structures
- International experience in introduction of retail competition is positive, but indicated need for attention to detail and careful transition management
- India is too large and diverse for a one-size-fits-all approach
- Detailed amendments and rules under the Act need to be framed to ensure smooth transition to new regime
- PPA allocation mechanism through Holdco to be kept simple and as per defined rules
- Service quality deviations to be penalized and proceeds to flow into USO fund. This will ensure better quality/reliability while simultaneously reducing the USO charge levels
- Need for structured resource planning by Discoms and move away from just power procurement
- Capacity building of Discoms in smart meter rollout and customer awareness around benefits of smart meters

Thank You

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