Disparity in allocation of power between different states

What is the issue?

Disparity in allocation of power between different states leads to disparity in their economic growth.

Do all States get equal opportunities?

- **High income states –** Consider the six high income states (Maharashtra, Tamil Nadu, Gujarat, Karnataka, Andhra Pradesh and Telangana).
- They together account for
    - 56.4% of factories
    - 54.3% of the net value added to the country
- Their share in population is only 32.3%.
- But they have higher credit and financial accessibility (55% of total institutional credit and 56% of total industrial credit at the credit-deposit ratio.).
- **Low Income states -** Consider six LIS (Bihar, Jharkhand, U.P., M.P., Odisha, and Rajasthan).
- Their share in population is 43%.
- They have low accessibility to credit, low investments, low power availability and accessibility, and high energy costs. (only 15% of total institutional credit and barely 5% of total industrial credit)
- The maximum benefit of the Atmanirbhar package (₹20 lakh crore) also went to the HIS as they have a higher share in industry.
- The low-income States (LIS) are deprived on many fronts.

Does power allocation play any role in the disparity?

- As per Energy India Outlook 2021 electricity prices vary not just among end users, but also between states
- Different taxes and subsidy regimes leave consumers in some states paying five times more for their electricity than their counterparts in neighbouring states.
- Availability of adequate quality power at the cheapest rate attracts investments in a particular location.
- This investment is an important factor to start electricity-intensive industrial production.
- In general, the association between income and electricity consumption is direct.
- The HIS consume a higher proportion of electricity (50% of the total installed capacity of power).
- Thus, only 32% of the population used 50% of power.
- Contrary to this, six backward States got only 25% of the power though their share of the population is 43%.
- Also it is clear that the substantial proportion of the power cost incurred in HIS is borne by the LIS which buy those industrial products, as the input cost of power has already been included in the product’s price.
- Further, this situation justifies the fact that the final costs of power consumption are also borne by other States.

How can we achieve uniform economic growth by regulating electricity sector?

- **Eliminate price discrimination in the power sector –**
- Power-producing States have the advantage of cheap power. Especially hydel power is available at lower prices.
- This problem can be addressed by synchronising all the regional grids. This will help the transfer of energy (without compromising quality).
- The idea is of 'One Nation, One Grid, One Frequency'.
- This will pave the way for establishing a vibrant electricity market and facilitate the trading of power across regions through the adoption of the 'one tariff' policy.
- Without this states with higher power purchasing costs face the difficulty of making energy traffic competitive by paying high subsidies from already scarce resources.
- Thus, they are unable to attract investments.
- The Central Electricity Regulatory Commission is in the process of implementing a framework of the Market-Based Economic Dispatch and moving towards 'One Nation, One Grid, One Frequency, One Price'.
- **Inclusion of electricity under GST regime -** Apart from uniform cost, the power sector also needs uniformity in electricity duty charged by different States.
- The electricity duty should be redistributed among the States under the ambit of GST equally shared by the CGST and SGST.
- 100% CGST should be devolved among the States through the Fifteenth Finance Commission formula, without being shared with the Centre (as electricity duty is State subject).
- This decision will benefit the whole nation through rational tax devolution and, therefore, provide the opportunity to attain higher growth.

Reference

1. https://www.thehindu.com/opinion/op-ed/on-an-equal-footing/article6506816ece

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