Issues with Power Subsidy

Why in news?

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Despite higher financial burden to the state from the subsidised electricity supply to the farmers, it is inevitable.

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Why is there a demand for reducing electricity subsidy in agriculture?

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- There has been a sharp growth in electricity use in the agriculture sector, especially since the 1980s, with consumption rising from 8% of total consumption in 1969 to 17% in 2016.
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- This is supplied either free or at subsidised rates, and a large part of it is not metered.
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- This subsidised electricity supply to agriculture has effects on –
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1. Increased cross-subsidy burden on industrial and commercial consumers
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2. Massive financial outgo from the State government as direct subsidy
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3. Deteriorating financial health of the electricity distribution companies (discoms).
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4. Unrestrained exploitation of groundwater.
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- Thus, a major push of power sector reforms has been towards the elimination

of subsidies and increasing tariffs for agricultural consumers.
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- However, there are strong linkages between electricity, water and agriculture.
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What is the importance of electricity to agriculture?

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- All of the electricity supplied to agriculture is used for pumping water, mostly groundwater, for irrigation.
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- Nearly 85% of pumping energy used in agriculture comes from electricity, the rest being mainly from diesel.
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- The net area irrigated by groundwater increased seven-fold from 5.98 million ha in 1950-51 to 42.44 million ha in 2013-14.
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- In the same period, canal irrigated area rose only two-fold, from 8.29 million ha to 16.28 million ha.
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What are the concerns?

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- **Estimating consumption** - Most of the power supplied to agriculture is un-metered.
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- Hence estimates of electricity consumption have been problematic in almost all the States, with inaccuracies and over-estimation.
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- This implies subsidy requirements have been over-estimated, effectively cross-subsiding theft and discoms' inefficiencies under the guise of agricultural consumption.
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- **Higher subsidy burden** - Poor power procurement planning, inefficiencies in operations and loss due to cross-subsidising consumers affects financial

capacities of discoms.
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- Apart from agricultural subsidy, subsidy to other categories like domestic and even industrial users has been increasing.
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- Often, subsidy release from State governments gets delayed or falls short of requirements.
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- **Skewed cropping pattern** - Data from various States show that the link between excessive extraction of groundwater and electricity subsidy is not straightforward.
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- Cheap electricity is only an enabler rather than driver for excessive groundwater extraction.
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- Rather, cropping patterns, especially water-intensive crops in areas that are not agro-climatically suitable, are a major driver for the demand for groundwater.
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- Such skewed cropping patterns are a result of better prices and assured procurement.
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- Hence, it is doubtful if metering and raising tariff will address groundwater over-extraction.
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- Also, rationing of power supply by limiting the hours of supply or restricting the number of connections has often been met by farmers installing higher capacity pumps or more pumps.
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- Feeder separation has reduced the hours of supply and reportedly improved the quality of supply, but has not improved estimation and has affected water markets in several cases.
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- **Impacts income** - Raising tariffs is likely to have significant impact on farmers' incomes, which are already being squeezed.
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- This is in spite of electricity cost being a small portion of the total input costs.
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- Thus, the first steps to improve the quality of service should be taken by discoms, before raising tariffs.

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- Else, revenue is unlikely to improve in spite of tariff hikes.
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What should be done?

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- While agriculture subsidy has put a burden on State finances, it has played a crucial role in enabling and sustaining agriculture.
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- Since groundwater irrigation gives control of the timing and quantity to the farmers, it has been the preferred mode of irrigation.
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- In future too, groundwater, and in turn electricity will remain crucial for agricultural growth and by implication for livelihoods and food security in the country.
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- Thus, the problems related to it cannot be addressed by the electricity sector alone.
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- It calls for a comprehensive study of the interlinked electricity, water and agriculture sectors with a pro-farmer perspective.
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- Estimation of agricultural consumption should be carried out using more rigorous and accurate methods.
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- The quantum of subsidy should be backed by a clear rationale arrived through studies.
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- Finally, ideas to address specific parts of the problem need to be designed using a holistic approach and be tried out as pilot programmes.
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- These include –
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1. Solar plants of 1-2 MW capacity at the feeder level
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2. Community driven regulation of groundwater extraction
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3. Allocating a fixed quota of subsidised power and water to each farmer
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4. A procurement and price regime to encourage a shift towards an appropriate cropping pattern.
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Source: Business Line

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