New Electricity Guidelines for South Asia

What is the issue?

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- The Union Ministry of Power issued a memo that set the rules for the flow of electricity across South Asian borders.
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- The new electricity guidelines are seen as a first step towards creating a true regional market.
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How has energy cooperation been?

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- In the early 2000s, India tried with the SAARC countries for cross-border energy flows.
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- It began to gain steam with substantial power trade agreements between India and Bhutan (2006) and Bangladesh (2010).
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- These were driven by India’s need for affordable power to fuel quickened growth in a recently liberalised economy.
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What happened thereafter?

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- The SAARC Framework Agreement for Energy Cooperation and the India-Nepal Power Trade Agreement were signed in 2014.
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- These agreements imposed only few restrictions on trade.
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- But it formulated an institutional structure to allow private sector

participation and to facilitate market rationality in electricity commerce.
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- The new government aimed for a seamless SAARC power grid, for power transmission within SAARC countries.
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- E.g. offshore wind projects set up in Sri Lanka’s coastal borders to power Pakistan or Nepal
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- But later, in 2016, the Union Ministry of Power released certain guidelines.
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- It imposed a slew of major restrictions on who could engage in cross-border electricity trade.
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- They seemed to be a reaction to perceptions of increased Chinese investment and influence in the energy sectors of South Asian neighbours.
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What were the concerns in 2016 guidelines?

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- The guidelines prevented anyone other than Indian generators in the neighbouring country from selling power to India.
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- So, many privately held companies, particularly in Nepal, that had hoped to trade with India were excluded.
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- In restricting access to the vast Indian market, the economic rationale for Nepali hydropower built for export was lost.
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- The requirement that the exporting generation companies to be majority owned by an Indian entity worried Bhutan.
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- This created friction in joint ventures between India and Bhutan.
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- Bhutan was also concerned about the limited access to India’s main electricity spot markets.
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- Here, Bhutan could have been well placed to profit from evening peaks in demand.

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- Bangladesh sensed an opportunity to partially address its power crisis with imports from Bhutan and Nepal routed through Indian territory.
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- But the guidelines complicated this by giving India disproportionate control over such trade.
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How are the new guidelines?

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- **Liberal** - A liberal trading regime is in India’s national interest.
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- So the new guidelines resolve the above issues and make the governance of electricity trade less restrictive.
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- The concern that India was enabling the incursion of foreign influence into neighbouring power sectors was addressed.
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- India now recognises that economic interdependency created by such arrangements have the political benefit of positioning India as a stable development partner.
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- **Greener grid** - As India transitions to a power grid dominated by renewables, regional trade could prove useful in maintaining grid stability.
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- A wider pool of generation sources, particularly hydropower from the Himalayas, is instrumental for a greener grid.
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- Nepal and Bhutan have also, for long, recognised the potential of sustainable use of vast hydropower reserves for their prosperity.
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What is the significance?

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- The new guidelines could create a true regional market and lead South Asian electricity trade in progressive directions.
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- Generators across the subcontinent could now compete to deliver low-cost,

green energy to consumers.
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- The new guidelines also, for the first time, allow tripartite trading arrangements.
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- Power generated in a country is routed over the territory of a neighbour to be consumed in a third.
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- Since this would soften the hard borders of South Asia, it is essentially a political vision too.
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- This is a crucial move towards the evolution of complex, multi-country market arrangements.
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- Such markets require the construction of regional institutions that absorb the politics and manage the technicalities of electricity trade.
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- Going ahead, South Asian nations might have to build joint, independent regional institutions that offer clear and stable rules.
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- In an atmosphere of regional mistrust, the new rules are a rare and recent example of political pragmatism.
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Source: The Hindu

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