Reforming the Power Sector

What is the issue?

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- With GST regime in place, Indian economic integration is emerging.
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- As a next logical step, the Centre must assess the potentials of the power sector to take forward the federalism fostered by the GST reform.
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What are the challenges in the power sector?

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- India has made commendable strides in increasing generation and transmission capacity over the years.
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- Power is now available to many more poor Indians, the quality of supply has improved, and Power for All seems within reach.
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- Despite easing many short-run structural constraints by these developments, the power still encounters many challenges.
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- There is the stranded assets and NPA problem in the financial side.
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- Moreover, the thermal power faces considerable threat and competition from the emerging renewables.
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- Uncertainty due to withdrawal from and renegotiation on long-term contracts are witnessed increasingly.
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- On the distribution side, the perennial problem of the inefficiency of distribution companies (discoms) exists.
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- Subsidisation and cross-subsidisation are widely prevalent in the Indian power sector.
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- This undermines the competitiveness of Indian manufacturing as normally the industries face elevated electricity prices and bears the brunt of such policies.
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- On market structure, restrictions continue on choice for consumers, industrial users, the discoms and the power exchanges.
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- There is complexity with tariff schedule, as prevalent among states so as to aid certain sectors, which is in violation of the-one-market-one-price principle.
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What is the role of centre and states?

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- **State** - In practice, many of the issues in electricity-tariff-setting, regulation, and implementation are regulated by the states.
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- Naturally, states should take on the responsibility of addressing the challenges discussed above.
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- However, states practise trade protectionism that shields their discoms and their policies from the challenge of competition.
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- This is given the fact that several state distribution companies are keen to protect their monopolistic position.
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- This also drives them to levy diverse tariffs and drive up the cost of power for industries that attempt to purchase power from the open markets.
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- It is also employed as a means of sustaining the subsidy and cross-subsidy policies and in turn ensuring monopoly.
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- **Centre** - It is the central government that is paying for the problems in PSBs due to heavy borrowing from the power generators.
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- The financial viability of discoms also affects the Centre directly and indirectly, as discoms too had borrowed from PSBs.
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- Discoms' debts were taken over by state governments, and hereto state government bonds are seen to be implicitly guaranteed by the Centre.
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- Clearly, the Centre has financial implications on all these commitments and certainly has a critical role in ensuring the financial viability of the sector.
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- As a result of all these, the Centre has an existential stake in ensuring that there is one market for power within India, which currently does not exist.
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- The fragmentation into many markets in the power sector is indeed creating many challenges.
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What lies before the centre?

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- A single market for power will boost competition and encourage state discoms to be more efficient.
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- The centre could bring state electricity regulators together to build capacity and opportunities for mutual learning.
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- This will also share the responsibilities of tackling the challenges by integrated policy making.
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- Centre can incentivise competitive reform by highlighting and rewarding best practices.
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- It can consider fostering policies in the collective interest; say by bringing electricity into the scope of the GST.
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- On the institutional front, the Centre can think of a council as a forum for fostering cooperative and competitive federalism as in the case of the GST Council.
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Source: Business Standard

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