Reforms in power industry

What is the issue?

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The latest auction of a solar park delivered yet another record low price, power cuts are rare even with peak summer demand, and retail tariffs grew only slightly in the recent years.

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How is the government reforming the power sector?

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- The big ticket reforms of the government, from coal and gas auctions to repackaging utilities' debt, have paid off.
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- The ambitious targets and the furious pace set now to implement rural electrification, roof-top solar, use of LED lamps and energy efficient appliances has attracted new suppliers and driven down costs.
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- Infrastructure deficit is scarcely mentioned these days.
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- Foreign investors are returning in clean technology and transmission, and exploring other areas too.
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- Successful public sector companies, such as EESL, are venturing out, even to developed nations, to monetise their experiences.
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- The sector's earlier structural reforms includes unbundling, independent regulation, and competitive bidding, aided in tripling power generation capacity, from 100 GW at the time of the Electricity Act 2003 to over 325 GW now.
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- The unbundled transmission companies, though not truly independent yet, are allowing competition and consumer choice.
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- Larger States with multiple distribution companies are able to deliver network improvements quicker and more equitably.

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What are the persisting problems?

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- The power sector, as a whole, loses money of about 21 per cent on every kWh sold, totalling $16 billion a year which is borne eventually by tax payers.
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- On top of this, an exodus of large consumers, such as railways and commercial establishments to captive sources, is depriving utilities of the surplus they need to support smaller consumers.
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- The growth of renewable energy is starting to strain the grid at a regional level; already, 28 per cent of generation capacity in the Southern Region is based on renewables.
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- The positives for a consumer, such as surplus capacity and low tariffs, are a negative for producers, and poor returns will discourage future investment.
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- The government will have to use the newly gained confidence to lay foundation for the next stage of reforms.
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- Distribution reforms are the final frontier.
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- In the past, distribution reforms implied privatisation and tariff hikes.
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- This is no longer true: private participation has evolved into many collaborative forms, from a niche service provider to a complete franchisee.
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- Utilities can now drive cost reduction by deploying a variety of automated technologies, from the grid sub-stations to behind-the-meter.
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- Governments have always adapted reforms with an eye on the payoff — social, economic, and political.
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- Rural electrification is a good example, in situations reversing migration to urban centres got reversed.
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- Electric mobility can be another area where State utilities can add an entire new class of customers and acquire storage distributed across the city, besides saving billions in oil imports and air pollution.
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- Distribution reforms and competition can spur innovation and give customers a choice of what to buy.
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Source: Business Line

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